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A Place to Call Home: Financing Affordable Housing in Rural America

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Residents of these homes in Placerville, California constructed their own houses through the USDA's Mutual Self-Help Housing Program.

This is the second of two consecutive issues of *Community Developments* focusing on rural America and the role of banks in strengthening rural communities. Our Fall 2002 issue highlighted rural economic development initiatives. In this issue we look at how banks, community development organizations, state and federal agencies and others can partner to bring the benefits of affordable housing to more low- and moderate-income rural Americans.

Rural America at the beginning of the 21st century is a complex place — a patchwork of people, places, and trends. Agriculture, although still vitally important, has long since ceased to be the mainstay of the rural economy. Today seven of every eight nonmetropolitan counties rely primarily on manufacturing and services for employment. Increasingly, people in rural America commute to their jobs, just like suburban residents.

And the line between "suburban" and "rural" is constantly blurring. Metropolitan sprawl coupled with the continuing de-urbanization of manufacturing has created an impetus for rural growth. According to the Economic Research Service of the U.S. Department of Agriculture, nonmetro population grew by more than 10 percent from 1990-2000, versus 3 percent from 1980-1990.

People of Hispanic and Asian origins accounted for much of that growth. The Hispanic population in nonmetro areas grew by 70 percent during the 1990s, and the rural Asian population grew by 32 percent. In contrast, the non-Hispanic white nonmetro population increased by only 9 percent. Many rural counties, particularly in the Midwest and Great Plains, would have experienced substantial population losses without the influx of new Hispanic residents, who have helped revitalize many small towns.

But rural growth brings challenges as well as opportunities. Increased demand for housing — particularly in communities within commuting distance of rapidly expanding metropolitan areas — has driven housing prices skyward. From 1989-1999, the median price of owner-occupied homes increased by 59 percent in nonmetro areas, compared to 39 percent in metro areas.

Particularly for large numbers of lower-income rural renters – who are disproportionately minority – rising home prices have become a major barrier to the acquisition of equity and wealth that home ownership facilitates. While the U.S. homeownership rate nationwide rose to nearly 68 percent in 2000, the rates for African-Americans and Hispanics lagged far behind, well below 50 percent.

The challenge facing home financiers and home builders in the years ahead is underscored by demographic projections. It's estimated that in this century nearly 60 percent of all first-time home buyers will be young minorities and immigrants. They will need a lot of help — including innovative financing and bank-supported financial literacy initiatives.

A solid foundation

Fortunately we have a solid foundation to build on. Rural housing trends over the past three decades have been largely positive. More rural Americans live in safe, decent housing than at any time in our history.

The 1970 Census counted more than 2.2 million nonmetro households with inadequate plumbing. By 2000 that number had dropped to about 200,000. There were similar improvements in other quality indicators: the number of nonmetro households with incomplete kitchens dropped from 1.3 million to fewer than 200,000, and the number of overcrowded nonmetro households dropped from 1.8 million to about 725,000.

Today only an estimated 2 percent of nonmetro households live in severely substandard housing. Indeed, the relatively old problem of housing inadequacy has been surpassed in importance by the relatively new problem of housing affordability.

Here, too, however, there is much good news, and you'll find it throughout this issue of *Community Developments*.

As we noted in our Fall 2002 issue, many banks serving rural areas have come to appreciate the importance of active, ongoing outreach to the unbanked — that is, households more likely to rely on fringe financial service providers than on banks, either because they assume they can't qualify for conventional credit or because they're simply uncomfortable with banks (especially where there are language barriers). Culturally sensitive outreach is just as important to the development of affordable housing as it is to other bank services.

Equally important is the concept of partnership. A bank interested in financing affordable rural housing at manageable risk and with a reasonable expectation of profit will quickly discover the value of partnering with state and federal housing agencies, national affordable-housing networks, and local community development organizations.

It's hard to exaggerate the importance of these rural assets. There are, for example, some 1,700 community development organizations working in rural areas. Many have been in operation for decades. They know their communities' housing needs, they know how to package public and private financial resources, and they know how to help lower-income residents become financially savvy. A strong community development organization can open doors, stretch a bank's staff resources, and accelerate its affordable-housing learning curve. And national networks of rural organizations can help leverage local resources and expertise.

The success stories profiled in this issue demonstrate that creative partnerships between banks and community organizations can bring the cost of a mortgage within the reach of a single mother earning a very modest salary. They can help a farmworker family move into an affordable new rental unit even in an area impacted by rapidly escalating housing costs. They can help lower-income rural families become financially literate and build assets for a down payment on a home though user-friendly tools such as Individual Development Accounts.

Leveraging local resources

And these partnerships can leverage governmental resources by tapping into programs, such as USDA's Section 502 Leveraged Lending Program and the federal Low Income Housing Tax Credit Program. These and many other successful partnership strategies — some targeted to increasing affordable homeownership, others to improving the stock of affordable rental housing — are described in this issue. In addition to helping banks meet their Community Reinvestment Act responsibilities, these partnerships offer important advantages. They help keep banks' risks within bounds, while at the same time helping banks to improve their competitive positions by reaching out to new customers and communities.

While no one should underestimate the challenges involved in meeting the banking needs of rural America, it's clear that there are abundant opportunities as well. Just as our Fall 2002 issue demonstrated that banks and their partners are doing much to stimulate rural economies, this issue shows how affordable housing is being brought within the reach of many rural Americans.

For any bank interested in strengthening its commitment to serving rural communities, these two issues of *Community Developments* constitute an invaluable how-to primer. I also urge you to take advantage of the many web site links provided in these pages, as well as the electronic edition of *Community Developments* and our Rural Community Development Banking Resource Directory: **www.occ.treas.gov/cdd/resource.htm**. There you can access information in greater breadth and depth than is possible here.

Rural America has always been a place of opportunity. My hope is that, after familiarizing yourself with the success stories profiled here, your first thought will be: *"We can do that. Let's get started."*

At a Glance

Single-Family Rural Housing Resources

USDA Mutual Self-Help Housing Program is used primarily to help very low- and low-income households construct their own homes. The program is targeted to families who are unable to buy clean, safe housing through conventional methods. Families participating in a mutual self-help project perform approximately 65 percent of the labor on each other's homes under qualified supervision. The savings from the reduction in labor costs allows otherwise ineligible families to own their homes.

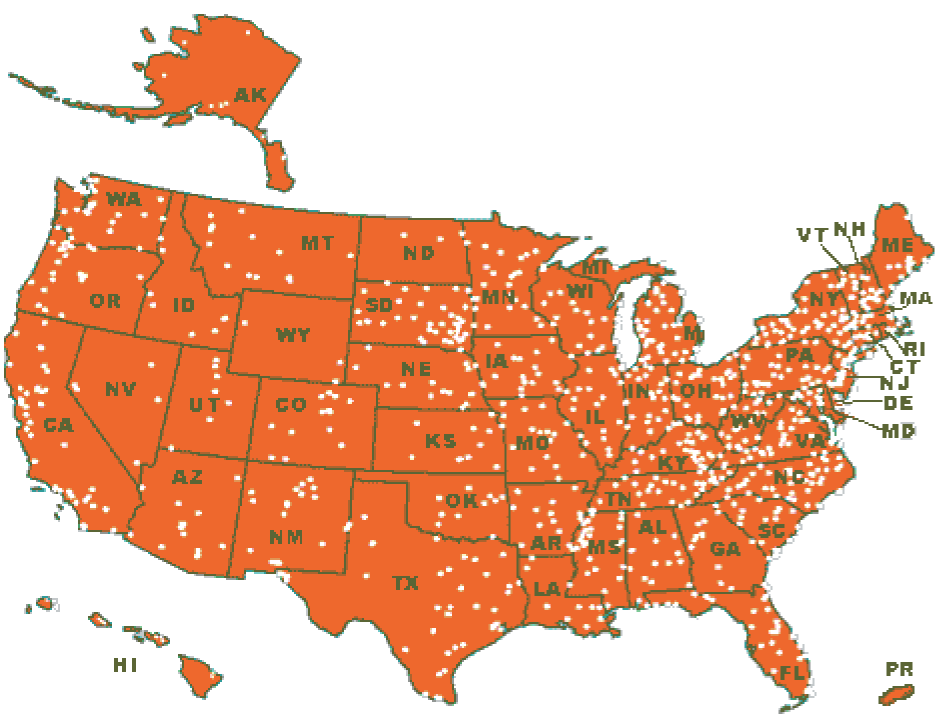
USDA Section 502 Rural Leveraged Lending Program involves private lenders providing a first mortgage and USDA Rural Development providing a second mortgage to assist rural borrowers who may not have the income or necessary down payment for a conventional mortgage. The second mortgage amount and interest rate varies depending on the borrower's ability to pay (typically the second mortgage is more than 50 percent of the purchase price and avoids the need for mortgage insurance).

USDA Section 502 Home Loan Guarantee Program involves USDA Rural Development providing a guarantee on loans made by financial institutions (up to 100 percent loan-to-value ratios). The borrower works directly with the lender and makes payments to that lender. Under the program, a borrower may borrow up to 100 percent of the appraised value of the home, eliminating the need for a down payment.

FHA 203k Purchase/Rehabilitation Program is not strictly a rural program, but provides mortgage insurance that enables homebuyers and homeowners throughout the country to finance both the purchase (or refinancing) of a house and the cost of its rehabilitation through a single mortgage. FHA-approved lenders make these insured loans and supervise the rehabilitation.

How a Bank Can Find a Rural CDC Partner

This issue of *Community Developments*, as well as our Fall 2002 edition, identify numerous examples of banks partnering with community-based organizations to promote economic development, finance single- and multi-family housing construction and rehabilitation, and conduct homebuyer and financial literacy training – just to name a few. The Urban Institute estimates there are 1,700 Community Development Corporations (CDCs) operating in rural America. This map, developed by the National Congress for Community Economic Development, shows where many of these CDCs are headquartered. A detailed listing of the rural CDCs, the activities in which they are engaged, the areas they serve, and how they may be reached is available at www.ruralamerica.org/directory.htm



RURAL LISC supports 76 CDCs across the country. Visit http://www.ruralisc.org/partners/profiles.htm for more information.

NEIGHBORHOOD REINVESTMENT CORPORATION supports 66 Rural NeighborWorks organizations. A complete list is available at http://www.nw.org/network/nationalinitiatives/ruralhousing/ruralnwolist.htm

HOUSING ASSISTANCE COUNCIL (HAC) has four regional offices that can direct a bank to rural CDCs operating in their service area. Visit HAC's website to obtain contact information for your regional office http://www.ruralhome.org/addresses1.htm