

Remarks
by
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at
Bridging The Affordability Gap Workshop
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Good morning and welcome. It's a real pleasure to be here to open this first rural home lending partnership workshop. This is an area I care deeply about – and I know you do too. Together we can make a real difference in housing rural Americans. I want to thank all the Rural Home Loan Partnership partners, and particularly the Rural Housing Service of the U.S. Department of Agriculture and Rural LISC, for developing this partnership and this workshop.

One of the strategic goals of the Office of Thrift Supervision (OTS) is to improve the availability of financial services throughout the United States by encouraging safe and sound lending, investment, and services in those areas of greatest need. This goal is the foundation on which our community affairs program – and our participation in this partnership – is based.

During this past century, our country has shifted from rural to urban, with over two-thirds of the U.S. population now residing within major metropolitan areas. Yet roughly 20 percent of the population – some 54 million people – live in the non-metropolitan areas that constitute over half of the nation's geography.

One of the major challenges in non-metropolitan areas is the availability of adequate affordable housing for lower income families. While government programs offer considerable help, many communities either are not aware of how to access them, or when communities do know of these programs, they lack the expertise to leverage them or to maximize their effectiveness in resolving housing needs.

Further, local developers and lenders are often reluctant to make use of the programs due to the administrative burden associated with them—they don't seem to get much bang for the buck. That's why we're sponsoring this workshop, to help you learn about ways in which each of you – working together – can help provide homeownership opportunities for low income residents in rural communities.

Why is this important? Because we must deal with:

- housing and other economic needs that are clearly recognizable;

- demographics that are disturbing; and
- an historic unavailability of credit.

Let's start by looking at the demographics of rural communities. The 54 million people living in the 2,300 counties classified as "non-metropolitan" have the following characteristics:

1. 88 percent of the households are white, but one in five of all African-American and Hispanic households are in rural areas.
2. 57 percent of American Indians and 9 percent of Asian/Pacific Islanders live in rural areas as well.¹
3. As we look across the country, we recognize that there are concentrations of:
 - a. Hispanic farm workers in rural Texas, New Mexico, Colorado, and California;
 - b. African Americans in the historic "Old South;" and
 - c. American Indians on current and former reservations.

The one generalization that we can make about many rural areas is that they contain a lot of poor people. For example, of the just over half of the Mississippi population that was rural in 1990, about a quarter of that group are below the poverty level. In Louisiana, about a third of the population are rural, and over a fifth of that are very poor. The numbers in Kentucky are similar to those in Mississippi, and in West Virginia, where about two-thirds of the population are rural, about a fifth are very poor.²

But beyond poverty per se lies the challenge of inadequate housing. While a total lack of indoor plumbing – the heart of the Census definition of physically substandard – seems to be relatively rare, 25 percent of rural households have a major housing problem, whether it be high cost, physical deficiencies, or overcrowding. Among certain subpopulations, of course, the percentage is substantially higher.³

So what we have thus far is a population of mainly whites, many African-Americans and Hispanics, as well as a smaller number of American Indians and Asian Pacific Islanders, that is heavily poor and overburdened by high home maintenance expenses, often for housing in substandard condition.

In dealing with housing and other needs in rural communities, we must recognize that there are myriad other factors at work, such as predominance of low paying jobs and unskilled labor, compounded by illiteracy or a minimally educated population.

Further, we know that housing isn't the ultimate solution or the only solution, although it is clearly a step. Adequate housing:

- a. provides a decent place to raise a family

¹ Speak-up for Rural America, p. 3.

² Belden, Joseph N. and Wiener, p. 32.

³ Ibid., p. 20.

- b. increases and encourages economic growth,
- c. and serves as a stabilizing factor in all communities.

Solving these problems requires the efforts of many, including, of course, financial institutions. But the size, capacity and number of financial institutions serving rural communities create special problems for aspiring homeowners, for homeowners seeking to upgrade homes they already own, and for institutions seeking to do business in rural areas.

The single most prevalent problem affecting the availability of credit is the small number of institutions and the small size of those institutions.

In the thrift industry, roughly one-third of all financial institutions serve non-metropolitan areas. The average size of these institutions, however, is \$138 million.

Many financial institutions located in remote areas have insufficient technical capacity to evaluate risk and to undertake complex transactions.

Their challenges are compounded by the need to serve a community that is handicapped by inadequate income levels and marginal creditworthiness in relation to traditional mortgage lending standards. Though the trend is beginning to change, when faced with persistent low incomes and poor credit histories, rural lenders have historically favored conservative investments in safe government securities rather than local lending.⁴

Low population density and remoteness create additional lending problems. Remoteness is at the heart of several barriers to the ability of lending institutions to effectively evaluate risk and undertake complex transactions.⁵

Absent other factors, remoteness encourages a lack of competition which can result in higher costs for mortgage credit when compared to urban areas, and low population density compromises the ability of institutions to pool loans and achieve economies of scale, which translates into higher transaction costs as well.

Moreover, low population and limited sales negatively impact appraisals. A lack of comparables in sparsely populated areas, and urban-derived appraisal standards that do not adequately translate to non-metropolitan communities, result in the unavailability of an appraisal or in rural appraisals that often bear little relation to the cost of building or rehabilitating a home.

⁴ Office of the Comptroller of the Currency , *1992 National Bank Community Development Survey Report*. Washington, D.C., 1993.

⁵ Belden and Wiener, p. 139.

Another concern is the limited capacity of institutions serving rural areas. Over 80 percent of all American financial institutions have assets of less than \$250 million, but more than 93 percent of those headquartered in rural areas are that small.

Institutions with the ability to provide a full range of services usually serve upscale non-metropolitan communities such as retirement enclaves. That places the major responsibility for serving rural areas on small community institutions.

What types of lending are these institutions doing? Well, many are not long-term mortgage lenders. If they are doing mortgage lending, most are not able to reach lower income families with the conventional products they offer, and many are not experienced in non-traditional lending products, such as those needed by poor communities or in using the secondary market to lay off unfamiliar products.

In many underserved rural areas, there is also an absence of surrogate or alternative delivery systems to fill the void. Historically, much of the gap was filled by the Rural Housing Service and other public sector programs. However, public sector funds have been cut, and programs now require much greater leveraging of private sector funds. Community Development Corporations (CDCs) have stepped in to help fill the void in three primary ways:

1. by providing much-needed training to potential and existing homeowners, increasing opportunities to buy houses and decreasing the probability of foreclosure;
2. by coming to the table armed with subsidies from a variety of governmental and nongovernmental sources that facilitate affordable housing opportunities; and
3. by having a very strong national network they can leverage for deal-making purposes.

Financial institutions need to recognize that CDCs, though relatively new in rural communities,⁶ are translating the expertise they gained in urban markets to non-metropolitan areas and are significant players in the affordable housing market.

Insurance companies and other locally based institutions that are now entering the thrift business are another possibility for expanding credit availability and reducing cost. These institutions have an existing agency structure in remote communities that can enable them to start marketing mortgages with minimal startup costs.

We know that each of you is doing a considerable amount, but the point is that even with the best intentions, we often can't succeed alone. Rural problems require collaborative solutions. Providing affordable housing for low income residents is a problem that cannot be resolved by any *single* group in this room, or in the housing industry.

⁶ Speak-up for Rural America, *Unharvested Bounty*, p.6.

What each of you brings to the table are resources that make it possible for a collaborative effort to work, and enable you to provide housing opportunities for our most needy families.

You have both a critical role and a viable one in this process, as will become quite evident as we proceed through today's session. We urge you to keep an open mind; to explore these partnership opportunities; to talk with one another; and then see if there is a way to make things happen in your area.

You can make this work if you want to.

These programs will enhance the overall well-being of your communities and bring tangible long-term benefits to your organizations and your institutions.

There are also several roles for regulators:

1. We can make sure that financial institutions -- and those working with them -- are encouraged to do business in rural areas and that lenders are not impeded by unnecessary regulatory barriers or burdens.
2. We can lend our support to such efforts -- consistent with our mission and with safety and soundness, and make every effort to ensure that CRA provides incentives and the flexibility to address problems unique to rural areas and unique to the kinds of institutions that can be serving rural communities.
3. We can encourage institutions to reach low and moderate income households, not only within, but also outside of their assessment areas.
4. And finally, there are opportunities in rural lending for institutions to use alternative product delivery systems outside the traditional brick and mortar branch structure. Where such lending occurs, we will provide assistance to our examiners in evaluating these and other products for CRA credit purposes, but we hope that CRA won't be your only motivation.

Thank you for taking part in this workshop. Your presence here tells us that you have an open mind and that you are interested in hearing about new and innovative ways to serve a very distinct housing need. We look forward to working with you in any way we can.

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