Carsey Report: Predatory Mortgage Lending Is Prevalent In Rural Communities

Rural Minorities More Likely To Take Out Higher-Cost Loans

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DURHAM, N.H. -- Predatory mortgage lending, which can trap borrowers in a cycle of high interest payments and abusive fees and can ultimately devastate their financial futures, is prevalent in rural areas, a new policy brief from the Carsey Institute at the University of New Hampshire finds. The report, “Subprime and Predatory Lending in Rural America: Mortgage lending practices that can trap low-income rural people,” also finds that rural minorities are more likely than rural whites to take out higher-cost mortgage loans.

The subprime mortgage market is where people who may not qualify for conventional credit borrow. Subprime lending plays an important role in access to credit and is booming across the nation, but at the same time, abusive, predatory practices have been flourishing in a subset of this market.

“Lacking access to many lending options, rural residents are susceptible to a range of predatory financial institutions and products that charge excessive fees and diminish their ability to save and build wealth,” said Cynthia “Mil” Duncan, director of the Carsey Institute. “Predatory lending hurts not only individual borrowers, but it can have significant impact on rural children, families, and communities through increased foreclosures and vacant housing units.”

Analyzing the most recent Home Mortgage Disclosure Act (HMDA) data, the report finds that 17.4 percent of mortgage loan originations in rural areas were classified as High APR Loans (HALs), defined as loans with interest rates at least three percentage points higher than that of comparable U.S. Treasury securities. This is slightly higher than the national rate of 15 percent. Closer analysis of these data indicates that HALs are concentrated in rural areas with chronic poverty and, often, a high percentage of minorities.

“Predatory lending has been called red-lining in reverse,” says report co-author Theresa Singleton, director of research and information at the Housing Assistance Council of Washington, D.C. “Just as some poor and minority communities were once denied access to credit, those same communities are being flooded with loan products that often strip equity and diminish wealth.” A case study of predatory lending in Maine, which accompanies the report, showed that as many as many as 15 percent of borrowers qualified for cheaper loans than they actually got.

Rates of high APR lending are higher in the central and southern regions of the country, particularly in Persistent Poverty Counties – those counties that have had poverty rates of 20 percent or more for the last three decades.

Racial and ethnic minorities in rural America received a disproportionate share of HALs. In rural areas, nearly one-third of all Latino and Native American borrowers and almost half of all African-American borrowers received HALs, compared to less than 17 percent of rural non-Hispanic white borrowers. Counties across the Mississippi Delta region and counties with Native American reservations and poor Hispanic communities have higher concentration of HALs.

Further, HALs are widespread in purchasing manufactured housing, a key component of the rural housing market. Among rural residents who took out a real estate loan to purchase their manufactured homes, half received HALs.

“A home is the most valuable asset for most low-income rural residents, as it is for most Americans,” says co-author Carla Dickstein, senior vice president for research and policy development at Coastal Enterprises, Inc., of Maine. “To protect the benefits of homeownership, national and state officials should adopt and enforce policies that better regulate subprime lending terms, monitor lending and real estate practices, and educate and protect borrowers.”

Dickstein authored a case study – “The Persistence of Predatory Lending: A Case Study from Maine” – that accompanies the policy brief.

The policy brief can be downloaded at www.carseyinstitute.unh.edu.

The Carsey Institute at the University of New Hampshire conducts research and analysis on the challenges facing families and communities in New Hampshire, New England, and the nation. The Carsey Institute sponsors independent, interdisciplinary research that documents trends and conditions affecting families and communities, providing valuable information and analysis to policymakers, practitioners, the media, and the general public. Through this work, the Carsey Institute contributes to public dialogue on policies that encourage social mobility and sustain healthy, equitable communities.

The Carsey Institute was established in May 2002 with a generous gift from UNH alumna and noted television producer Marcy Carsey.