Mortgages in Rural Areas May Be Getting Harder to Find

May 13, 2013 - When Congress passed Dodd-Frank Financial Reform, a large portion of the bill was devoted to mortgages. The bill outlawed certain lending practices - like balloon payments - and modified others. But Congress did make exceptions in the bill for areas that were considered underserved or "rural", and instructed the CFPB to write new rules defining these areas. Now there is a proposed definition for rural areas that could make it difficult for a lot of community banks to lend, and impossible for consumers/farmers to borrow.

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The Independent Community Bankers of America (ICBA) recently conducted a survey of its members to find out if their lending standards complied with the proposed "rural" definition. Community Banks are the only lenders Congress carved out an exception for in rural areas. And CFPB rule limits those banks to making 500 or fewer loans and have a $2 Billion asset cap. It also uses a system known as "urban influence codes" to determine if an area is really rural. Based on the responses received, there is large gap between the CFPB's definition & restrictions, and real world lending practices.

The survey results showed that 44% of the community banks that consider themselves to serve rural areas, don't qualify as "rural" under the proposed definition.

Furthermore, because other restrictions (such as the number of loans that particular banks make or amount of assets they control), 54% of the respondents wouldn't qualify for the exemption.

This presents a real problem for farms, businesses and individual borrowers in these areas. It means less money will be available to borrow and that there will be significantly fewer sources from which to borrow. In the end, that will translate to significantly higher charges for borrowers.

There is a real push on in the banking community to have the CFPB expand its definition. Bankers are also pushing to have the CFPB create an appeals process so that if they don't fall under the current definition of serving a "rural" community, they can get a legal exemption.

The real problem with the way that the CFPB is setting its definition is that urban influence codes are quite rigid. In a large county, it stands to reason that some areas may be heavily industrialized while other areas are simply wide-open-spaces. Yet, simply by looking at the urban influence code the CFPB could be saying that those wide-open-spaces arenâ€™t rural.

Unless a change is made, everyone in the United States could be negatively affected. If farmers can't get credit when then need it, some farms will go out of business. Others that do gain access to credit will be forced to pay more for it. Those costs will be passed on the consumers everywhere each time they sit down to eat.

ACCESS urges the CFPB to adopt a definition that has some flexibility in it.

byJim Malmberg
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