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Rural subprime borrowers are hit, but most rural property is not
By Curtis Seltzer

BLUE GRASS, Va.—Here's the story in most American cities—existing-home sales are down, pending home sales down, new home sales down and average home prices down. Adjustable interest rates are up, delinquent mortgages up, foreclosures up. The loans that are the source of this mess were made by big banks and mortgage companies to individuals who barely qualified for them on terms that do-si-doed with disaster.

As long as the loan originators could flip them to large investors, their high risks were shipped upstream to yield-focused folks who forgot that all the little people downstream were paddling for their lives to keep everyone afloat. The situation in rural America is both the same and…different. Where big lenders operated, subprime loans were made—resulting in the same pattern of delinquencies and defaults on high-interest loans to border-line borrowers. While Cleveland's Cuyahoga County had more than 13,600 foreclosures in 2006 with 10,000 vacant structures, Geoff Dutton and Doug Haddix of The Columbus Dispatch reported as early as February, 2006 that "…subprime lending and foreclosures are even more pronounced in rural areas" of Ohio.

In Hardin County, a farming area northwest of Columbus, they found high default rates, linked to subprime mortgages embedded with very high interest rates, prepayment penalties and adjustable interest that could rise but not fall below the introductory rate.
Tom Robertson of Minnesota Public Radio reported in August that foreclosures outside of the seven-county Minneapolis-metro area were projected to rise to 8,700 in 2007, up from 2,700 in 2005. A study from the Greater Minnesota Housing Fund showed that counties outside this metro area were being hardest hit.

The Center for American Progress reported this spring that the percentage of rural mortgage loan originations classified as high-interest loans (17.4 percent) exceeded both the urban percentage (15.5 percent) and the national percentage (15.6 percent).
Rural subprime borrowers were 20 percent more likely than urban borrowers to have loans with prepayment penalties. In 500 rural counties, one-third or more of mortgage originations involved high-interest loans. These counties tended to have high-poverty rates and high minority populations. But where subprime rural borrowers found alternatives to predatory lenders, they are getting by.

USDA Farm Service Agency (FSA) low-income loans for single-family houses in West Virginia, for example, showed only eight in foreclosure. No West Virginia farms with FSA loans for low-income borrowers were in foreclosure. Only 13 FSA single-family house loans are in foreclosure in Virginia, and no FSA farm loans were listed. In Mississippi, only 33 FSA single-family loans are currently in foreclosure, along with two farms with these FSA loans. Mississippi's overall mortgage delinquency rate of 10.64 percent is the highest in the country. The same is true in Minnesota where only six FSA single-family loans are in foreclosure and one farm has been acquired.

California has nine single-family FSA loans in foreclosure and three FSA farms.

Locally owned rural banks that knew their properties, kept mortgages in their own portfolios and did not beguile their customers into unfavorable adjustable rates and prepayment penalties appear to have escaped the subprime crash. The same is generally true of the federal farm credit associations, lending cooperatives that finance farms, farming and rural housing. But the biggest difference between urban and rural areas is that the price of rural property continues to appreciate. "I've not seen any effect on rural land prices of the subprime lending crisis," said Steve Saltman, head of www.landandfarm.com, a major online site for selling rural real estate. "Timberland prices remain very strong," he said. "Land [involved with operating farms] is not part of the subprime overleveraging. But these are not subprime markets."

The one sector of rural property that is vulnerable to softer prices and slower sales is low-price, single-family residences on small lots that are caught in foreclosure.

Those rural Americans who are being foreclosed will have difficulty finding alternative housing. And their foreclosed properties will sit vacant until lenders and borrowers find terms that work for both sides over time.

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