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Housing Assistance Council

We help build homes and communities across rural America.

Statement for the Record of Lance George,
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U.S. House Committee on Financial Services
Subcommittee on Housing, Community Development, and Insurance
"Persistent Poverty in America: Addressing Chronic Disinvestment in Colonias, the U.S. Territories, and the Southern Blackbelt"
November 15, 2022

Introduction

Chairman Cleaver, Ranking Member Hill, and members of the Subcommittee, greetings and thank you for this opportunity to testify on persistent poverty in rural America, specifically the colonias, the Black Belt, and the U.S. territories. My name is Lance George, and I am the Director of Research and Information at the Housing Assistance Council (HAC).

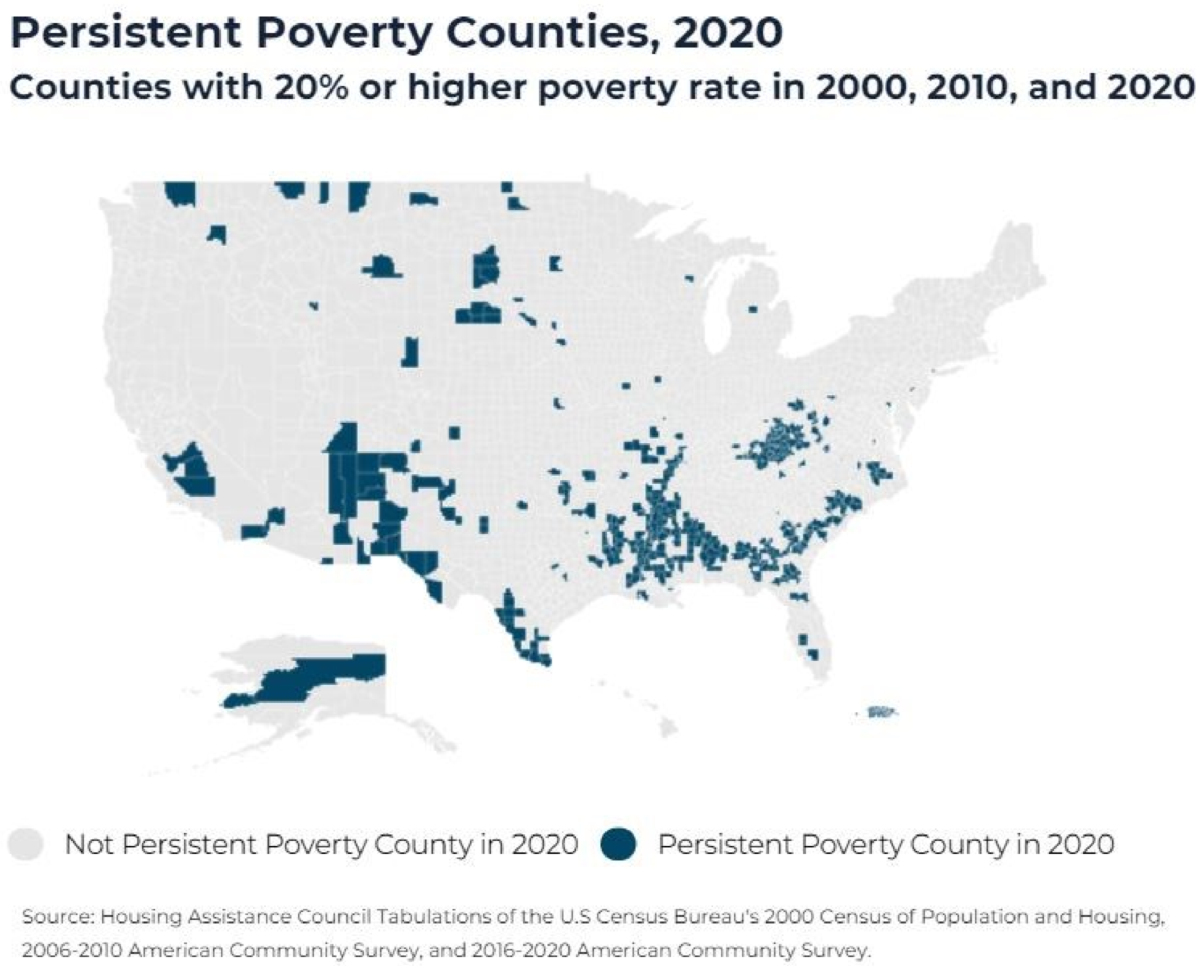
HAC helps build homes and communities across rural America. Founded in 1971, headquartered in Washington, D.C. and working in all 50 states, HAC is a national nonprofit and a certified community development financial institution (CDFI). We are dedicated to helping local rural organizations build affordable homes and vibrant communities. We provide below-market financing, technical assistance, training, and information services. HAC has a specific focus on high-needs rural regions and areas of persistent poverty, including rural Appalachia, Native American communities, the Mississippi Delta and southern Black Belt, farmworker communities and the Southwest border colonias. To learn more, please visit www.ruralhome.org.

HAC also produces robust research on rural housing, demographics, and poverty, with leading public and private sector institutions relying on HAC's research and analysis to shape policy. We are independent, non-partisan and regularly respond to Congressional committees and Member offices with the research and information needed to make informed policy decisions. If you need to know how a new program or policy could impact America's smallest towns, please don't hesitate to call on us. It is an honor to be here in this capacity today, on a panel with so many distinguished experts.

Persistent Poverty Landscape

The issue of poverty is complex, but it is much more than an abstract condition for the over 37 million Americans who face daily struggles with food insecurity, access to health care, and search for basic shelter. Poverty is often imagined as an urban issue in the national discourse, but some of the country's deepest and most persistent poverty can be found in rural areas. Identified as "Persistent Poverty Counties," these communities are generally rural, isolated geographically, lack resources and economic opportunities, and suffer from decades of disinvestment and double-digit poverty rates.

Persistently poor counties are classified as having poverty rates of 20 percent or more for three consecutive decades. Using this metric, HAC estimates there were 377 persistently poor counties in 2020 using data from the Census Bureau's 2016-2020 American Community Survey, the 2006-2010 American Community Survey, and the 2000 Decennial Census of Population and Housing.[1] For the first time, HAC also calculated persistent poverty status for Puerto Rico. All 78 of Puerto Rico's Municipios (county equivalents) were classified as having persistent poverty status as of the 2020 data. With the island territory included, there are a total of 455 Persistent Poverty Counties.[2] The map below shows Persistent Poverty Counties in 2020 in blue.

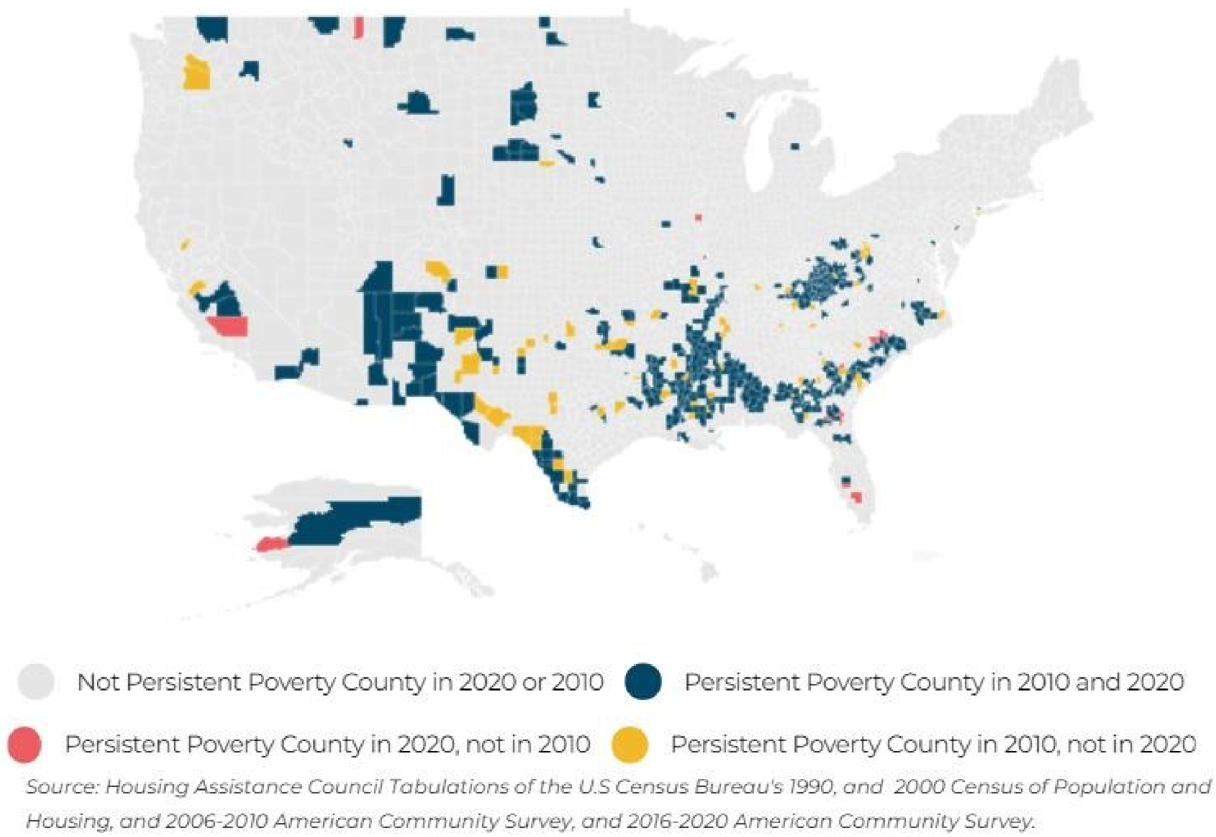


Between 2010 and 2020 the overall number of Persistent Poverty Counties declined, but some counties were added to the list. The number of Persistent Poverty Counties declined from 433 in 2010 to 377 using the 2020 data. Overall, 70 counties moved off the persistent poverty list while 13 counties that were not classified as having persistent poverty in 2010 reached that threshold in 2020. Three-hundred and sixty-three counties were classified as persistently poor in both 2010 and 2020. One of the initial findings from the new analysis is the continuation of many counties

[1] Housing Assistance Council, Rural Research Brief, "The Persistence of Poverty in Rural America," April 2022, https://ruralhome.org/wp-content/uploads/2022/04/rural-research-brief-persistent-poverty-2021.pdf.
[2] Ibid.

classified with persistent poverty status. Approximately 78 percent of Persistent Poverty Counties in 2020 have been in this status consistently since 1980. The map below shows the change in Persistent Poverty Counties from 2010 to 2020. Yellow counties are those that left the Persistent Poverty County list in 2020 and the pink counties are those that were newly added.

Change in Persistent Poverty Counties, 2010 - 2020



One of the consistent features of many Persistent Poverty Counties is their clustering within several rural geographic regions that have a large footprint over the United States. Persistent Poverty Counties make up one-tenth of all U.S. counties, or county equivalents, and 15 percent of the U.S. landmass. They are concentrated in rural regions, including the Mississippi Delta or Black Belt, central Appalachia, and Native lands. Sixty percent of people living in Persistent Poverty Counties are people of color and 42 percent of Persistent Poverty Counties have majority populations of color.[3]

In terms of rural and urban communities, approximately 81 percent of Persistent Poverty Counties are located outside of OMB defined metropolitan areas, a geography often used as a proxy for rural areas. Overall, there are 1.7 million people experiencing poverty in rural Persistent Poverty Counties. While the vast majority of these counties are rural, most of the population in poverty in Persistent Poverty Counties are located in metropolitan areas. Of the 4.6

[3] Partners for Rural Transformation, "Persistent Poverty in America," accessed November 9, 2022, https://www.ruraltransformation.org/persistent-poverty/.

million persons with below poverty incomes in these areas, nearly 3 million, or 64 percent, live in metropolitan areas. This incongruity is partially explained by the existence of several high-population Persistent Poverty Counties such as Bronx County, NY, Philadelphia County, PA, Baltimore City, MD, St. Louis County, MO, and Hidalgo County, TX. These five generally urbanized counties alone have approximately 1.2 million residents in poverty.

One highly visible impact of this economic distress can be seen in these areas' housing conditions. The incidence of housing units lacking adequate plumbing is twice the national rate, and over 380,000 households in Persistent Poverty Counties live in crowded conditions. Additionally, while housing costs are relatively low in many of these communities, more than half of Persistent Poverty County renters encounter affordability problems and are considered housing cost burdened (defined as paying more than 30 percent of income in rent).[4]

Mortgage and housing finance are similarly unbalanced in persistently poor communities. Mortgage activity including applications and loan originations are substantially low in many Persistent Poverty Counties. Likewise, more than one-quarter of mortgage applications were denied in these communities – more than six percentage points higher than the national rate. And when loans are made in persistently poor communities, they tend to have higher interest rates. The level of 'high-cost mortgages[5]' in these counties is two-thirds higher than the rate than for all mortgage loans in the United States.[6]

Colonias

In the United States, the term "colonias" has been applied generally to unincorporated communities located in California, Arizona, New Mexico, and Texas along the U.S.-Mexico border that are characterized by high poverty rates and substandard living conditions. In practical terms, colonias are defined primarily by what they lack, such as potable drinking water, water and wastewater systems, paved streets, and conventional mortgage financing.

Despite being categorized together, colonias vary extensively within the border region, from small clusters of homes located near agricultural employment opportunities to established communities whose residents commute to nearby urban centers.[7] The U.S. poverty rate is an estimated 15 percent, while the aggregate colonias poverty rate (using HAC's definition of colonias, which we will discuss later in this testimony) is nearly twice that national rate at 27 percent. Colonias have varied histories. Some emerged in the last 50 years, but others have been in existence since the 19th century. The unmet need for affordable housing was a key factor

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[4] Housing Assistance Council tabulations of the U.S. Census Bureau's 2016-2020 American Community Survey.
[5] A higher-priced mortgage loan is defined by the Consumer Financial Protection Bureau as a consumer credit transaction secured by the consumer's principal dwelling with an annual percentage rate that exceeds the average prime offer rate for a comparable transaction as of the date the interest rate is set by 1.5 or more percentage points for loans secured by a first lien on a dwelling, or by 3.5 or more percentage points for loans secured by a subordinate lien on a dwelling. *(Home Mortgage Disclosure Act /Section 226.35(a) of Truth in Lending Act (Regulation Z)*)
[6] Housing Assistance Council tabulations of Consumer Financial Protection Bureau 2021 Home Mortgage Disclosure Act data.
[7] Guillermina G. Núñez-Mchiri, "The Political Ecology of the *Colonias* on the U.S.-Mexico Border: Human-Environmental Challenges and Community Responses in Southern New Mexico," *Journal of Rural Social Sciences* 24, no. 1 (2009): 67-91, 70, https://egrove.olemiss.edu/jrss/vol24/iss1/5/.

driving the demand for homes in colonia developments in both recent and historic colonias.[8] Various other factors led colonia development within each border state. The increased visibility of colonias in Texas, however, tends to guide common perceptions and even government policy based on the situations of colonias found there.[9]

Colonias largely resulted from lax land regulations.[10] For much of the 20th century, county governments lacked the power to regulate the subdivision of land that lies outside the jurisdiction of city governments. Without these controls in place, landowners were able to subdivide and sell their property through a range of methods without the necessary infrastructure.[11]

Also impacting the proliferation of colonias, particularly in Texas, was the contract for deed system. Through a contract for deed, the buyer makes payments directly to the developer while the land title remains with the developer until the amount is paid in full. These arrangements often involve high interest rates, and many are not recorded with the county clerk.[12] If even one payment is missed, the developer may foreclose on a property and the buyer loses his or her entire investment.[13]

A variety of settlements have been designated colonias in Arizona, California, and New Mexico, including those on Native American lands, in old mining towns, and in retirement communities. Colonias in Arizona, California, and New Mexico are generally older than those found in Texas.[14] In Arizona, "wildcat" subdivisions emerged in the 1950s and differ in several ways from patterns for Texas's colonias. Many New Mexico colonias have been in existence since the mid-1800s, and all California colonias were developed prior to 1929, when subdivision laws went into effect in that state.[15] Additionally, New Mexico's historic settlements are experiencing new fringe growth in the form of illegal subdivisions similar to those created in Texas under contract for deed arrangements.[16]

Colonias have substantially lower rates of conventional mortgage lending compared to nearly any market in the border region or nationwide. To make lending activity comparisons, HAC

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[8] Federal Reserve Bank of Dallas, *Texas Colonias: A Thumbnail Sketch of the Conditions, Issues, Challenges and Opportunities* (Dallas: Federal Reserve Bank of Dallas, n.d.), https://www.dallasfed.org/~/media/documents/cd/pubs/colonias.pdf.

[9] Vinit Mukhija and Paavo Monkkonen, "Federal Colonias Policy in California: Too Broad and Too Narrow," *Housing Policy Debate* 17, no. 4 (2006): 755-780, 756, https://www.tandfonline.com/doi/abs/10.1080/10511482.2006.9521589.

[10] Angela Donelson and Esperanza Holguin, "Homestead Subdivision/Colonias and Land Market Dynamics in Arizona and New Mexico," *Memoria of a Research Workshop: Irregular Settlement and Self-Help Housing in the United States* (Cambridge, MA: Lincoln Institute of Land Policy, 2001), 39-41, https://www.researchgate.net/publication/283151396_Memoria_of_a_Research_Workshop_Irregular_Settlement_and_Self-Help_Housing_in_the_United_States.

[11] Jean W. Parcher and Delbert G. Humberson, "CHIPS: A New Way to Monitor Colonias Along the United States-Mexico Border," U.S. Geological Survey Open-File Report 2007–1230, https://pubs.usgs.gov/of/2007/1230/pdf/OFR2007-1230.pdf.

[12] Federal Reserve Bank of Dallas, *Texas Colonias.*

[13] Parcher and Humberson, "CHIPS."

[14] Donelson and Holguin, "Homestead Subdivision," 39-41; Mukhija and Monkkonen, "Federal Colonias Policy in California," 757.

[15] Núñez-Mchiri, "Political Ecology," 70; Mukhija and Monkkonen, "Federal Colonias Policy in California," 766.

[16] Donelson and Holguin, "Homestead Subdivision," 39-41.

analyzed lending activity as the number of loan originations per thousand owner-occupied homes. The amount of lending in colonias – using owner-occupied units to standardize the measure – is half the rate of the larger U.S.-Mexico border region. Loan activity is nearly three times lower in rural colonias compared to the larger border region, according to Home Mortgage Disclosure Act (HMDA) data.

Additionally, manufactured homes are an important part of housing in both the border region as a whole and colonias in particular. A review of HMDA data finds that loans involving manufactured homes represent a relatively large share of lending in rural areas in general and are even more prevalent in colonias. Approximately 15 percent of all home loan originations in rural colonias involved a manufactured home, which is more than twice the percentage for rural areas in general.

To address the poverty and lack of infrastructure present in communities along the border and to target funding to these areas, several federal agencies and policymakers have developed geography-based definitions of colonias over time. These governmental definitions vary, and the criteria of what exactly constitutes a colonia continues to be challenging.

In 2020, HAC developed the concept of "Colonias Investment Areas" to improve comprehensive understanding and definition of colonias for the purpose of home mortgage finance.[17] The ultimate goal of this research was to create a usable and programmatic definition of colonias so that mortgage and finance resources may be more efficiently directed to these often overlooked and long-struggling communities.

The Colonias Investment Areas concept relies primarily on the U.S. Census Bureau's census tract designation as the geographic unit of analysis. Census tracts are small, relatively permanent statistical subdivisions of a county or equivalent entity. The approach to developing Colonias Investment Areas and determining which census tracts contain colonias involved six basic processes:

1. Identification: Create a universal list of officially recognized colonias from existing lists of colonias established by federal, state, tribal, or local governments.
2. Location: Geolocate the recognized colonias records on a map, using census blocks.
3. Aggregation: Aggregate the identified census blocks into tracts.
4. Compilation: Consolidate disparate data into one uniform Colonias Investment Area database.
5. Exploration: Conduct preliminary analyses to better understand basic social, economic, housing, and mortgage finance elements of the constructed Colonias Investment Areas and compare them to larger regional and national dynamics.
6. Feedback: Obtain expert and stakeholder feedback on the concept of Colonias Investment Areas.

The map below shows in brown what areas are captured by HAC's Colonias Investment Area definition.

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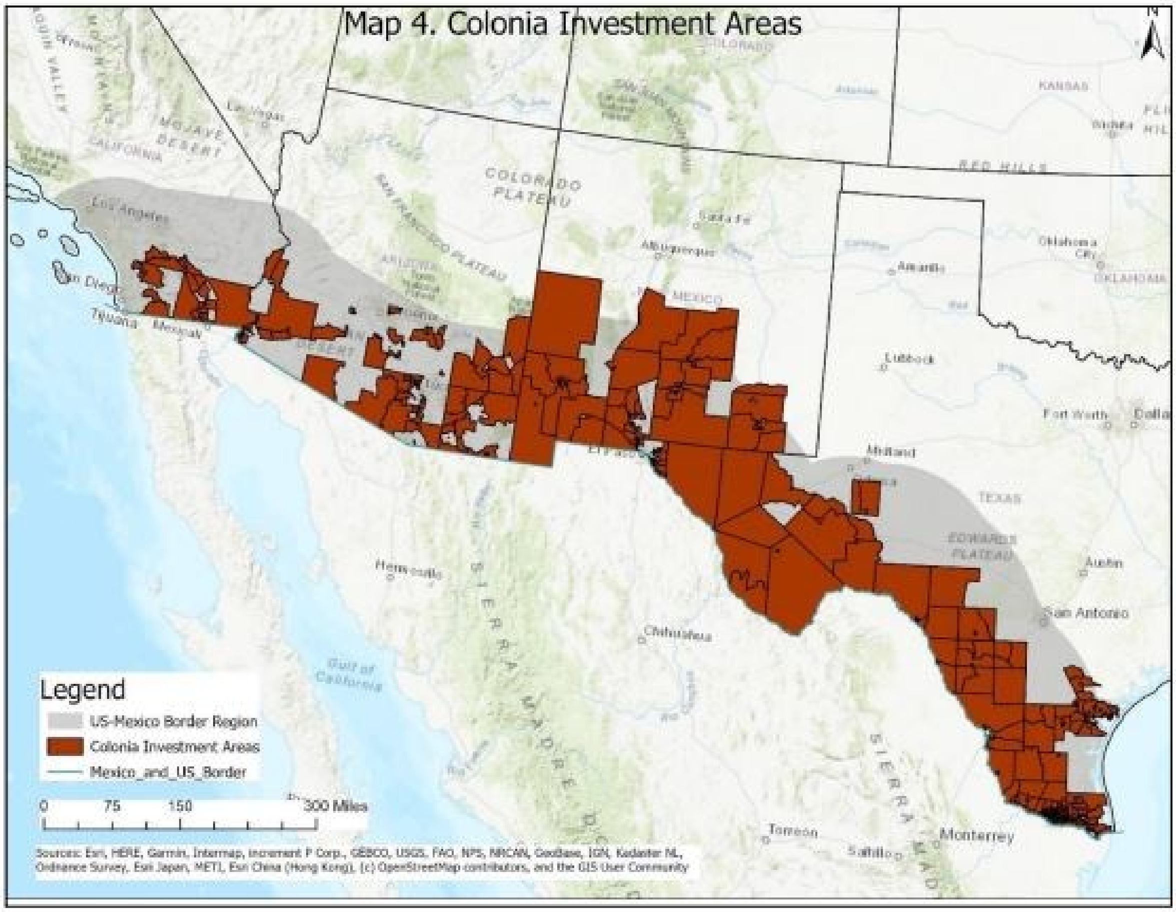
[17] Housing Assistance Council, *Colonias Investment Areas: Working Toward a Better Understanding of Colonia Communities for Mortgage Access and Finance* (Washington, DC: Fannie Mae, 2020), https://ruralhome.org/reports/understanding-the-colonias-investment-areas/.

The Federal Housing Finance Agency (FHFA) has proposed to adopt a new definition of "colonia census tracts"[18] that is modeled after HAC's Colonias Investment Areas definition – a move which we applaud. We support the streamlining of this definition across federal programs.



Southern Black Belt

The Southeastern region of the United States has been shaped by rich and unique geographies, cultures, and social and economic systems over the past several hundred years. For generations, the land has provided a way of life that has meant different things to different people. For some, these resources have brought economic prosperity and for others, economic exploitation. The result is a land of two distinct cultures: one reflecting the interests and needs of the haves and one for the have-nots. It is a region that still bears the legacy of a deep racial divide and clearly illustrates the irony of extreme poverty in a land of abundant riches.

A significant challenge to housing wealth in the Southeast region is the issue of heirs' properties. Because Black families were excluded from federal, financial, legal, and housing systems, some

[18] Federal Housing Finance Agency, "Enterprise Duty to Serve Underserved Markets Amendments," Notice of Proposed Rulemaking, *Federal Register* 87, no. 192 (October 5, 2022), 60331-60338, https://www.federalregister.gov/d/2022-21404.

developed their own methods of generational land control that did not include established wills or other means of estate transfer through the legal system. An heirs' property occurs when the owner of a property dies without a will. The rights to the property transfer to the deceased's heirs over generations. Residents of heirs' properties are unable to access legal and financial systems because they do not hold clear legal title. They are also ineligible for insurance and disaster recovery aid. These properties can be vulnerable to exploitation from development corporations.

The path toward identifying and resolving issues with heirs' properties must include systemic changes and individualized assistance. While one-on-one aid to assist families in clearing their titles is essential, meaningful and sustainable change must include policy improvements and allowances for residents of heirs' properties to access emergent capital and services. The path towards resolving this issue begins with opportunities to identify and provide aid to heirs' property owners. Various organizations and researchers have identified regional methodologies for estimating the magnitude of heirs' properties. HAC, in collaboration with partners, is conducting a substantial effort to help better understand this long overlooked issue and solutions for remedying it.

U.S. Territories

Rural areas comprise 97 percent of the nation's land mass and are spread across a vast and diverse set of communities. These areas include homes and populations in often overlooked U.S. territories. It is also often difficult to assess housing and economic conditions in these territories due to limited and infrequent updated public data. Several entities and agencies provide quality data on demographics and federal resources. Good examples include data collection and presentation by the U.S. Census Bureau and USDA's Rural Development agency.

Throughout HAC's history, we have provided both technical assistance and lending in the U.S. territories. Following the 2020 Census, for the first time, HAC calculated persistent poverty status for Puerto Rico. As mentioned earlier, all 78 of Puerto Rico's Municipios (county equivalents) were classified as having persistent poverty status as of the 2020 data. One ongoing example of HAC's work in the territories, and of the innovation and vibrancy inherent to these communities, is the reimagining of the Frederiksted Fish Market in the U.S. Virgin Islands. This creative placemaking project is funded through the Citizens' Institute on Rural Design (CIRD), a leadership initiative of the National Endowment for the Arts. HAC is working with Clean Sweep Frederiksted, a community economic development nonprofit focused on Frederiksted's historic district, to design a fish market concept that meets the practical needs of local fishers while recognizing the historical significance of a gathering space that has been a focal point of the community's deepest sorrows and greatest triumphs for generations.[19]

HAC encourages the Subcommittee to investigate and help advance data collection and information in the territories so that entities at all levels can better understand the often-unique dynamics there and develop strategies and solutions appropriate for these communities and their residents.

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[19] Citizens' Institute on Rural Design, "Fish Market Revitalization in Frederiksted, VI," accessed November 10, 2022, https://www.rural-design.org/workshops/frederiksted-vi.

Challenges and Opportunities in Addressing Persistent Poverty

Persistently poor rural communities all face unique regional and local challenges and have unique local assets, strengths, and opportunities. To combat geographic inequality and its attendant downsides, HAC recommends proactively considering geographic factors in federal policymaking. In our experience, and given the persistent poverty landscape outlined above, there are two critical factors necessary to build equity in persistently poor rural places: local organizational capacity and access to capital. Additionally, tailoring of federal resources and improving the reliably and availability of rural data would improve equity for Persistent Poverty Counties.

Capacity Building

Federal investment in capacity building launched almost every successful local and regional housing organization that we know today. However, very few of those local organizations are in rural regions. Fewer still work in areas of persistent rural poverty. The power of capacity building in rural communities cannot be overstated. Rural communities often have small and part-time local governments, inadequate philanthropic support and a shortage of the specialists needed to navigate the complexities of federal programs and modern housing finance. Targeted capacity building through training and technical assistance is how local organizations learn skills, tap information, and gain the wherewithal to do what they know needs to be done. Rural places need increased capacity building investment in order to compete for government and philanthropic resources. Without deeply embedded, high-capacity local organizations, available federal funding and other capital will never evenly flow to persistently poor rural communities.

Access to Capital

In recent decades, many rural regions have been stripped of their economic engines, financial establishments, and anchor institutions. Persistently poor areas are often characterized by a history of extractive industry. The result is that Persistent Poverty Counties face a dire lack of access to capital. Without access to financial services and capital, individuals cannot access safe credit and financial literacy resources, businesses cannot grow and serve the needs of their communities, and ultimately the communities' economies cannot thrive. The banking industry has undergone considerable consolidation, with the number of lenders insured by the Federal Deposit Insurance Corporation (FDIC) dropping from approximately 15,000 in 1990 to fewer than 5,000 in 2022. There are around 150 rural counties that have one or no bank branches to serve their residents. Building access to capital in underserved rural regions is critical for the equity and long-term viability of rural communities.

HAC supports systems such as the Community Reinvestment Act and Duty to Serve requirements, which encourage traditional lenders to meet local needs, and we also support provision of alternative financing options. For example, community development financial institutions (CDFIs) are private, mission-focused financial institutions that offer responsible, affordable lending to low-income, unbanked and underserved people and communities. For more than 30 years, CDFIs have had a proven track record of making an impact in the most high-needs rural regions. As banks have consolidated and pulled back from serving the deepest pockets of poverty, CDFIs have stepped into the breach and are working in rural regions and Tribal areas across the country to address the financial services needs of otherwise unbanked communities.

Tailoring of Federal Programs

Often, federal housing programs are not well-suited to function in the rural, persistent poverty context. Capacity challenges make it difficult for rural places to compete for funding with larger metropolitan areas. Additionally, available data on rural areas is often partial and inaccurate, making it difficult to define the true need. Public and private funding naturally flows to the highest capacity, simplest to serve communities, so HAC encourages proactive consideration of persistently poor communities in the federal policymaking process. Tools like Congressman Clyburn's "10-20-30" formula,[20] which would direct 10 percent of funding for specific federal programs to Persistent Poverty Counties, can help level the playing field.

One specific policy that could have positive impacts for persistently poor rural communities is the creation of a program to improve manufactured housing opportunities. Manufactured homes are a too often overlooked and unfairly maligned component of our nation's housing stock. The physical quality of manufactured housing has improved substantially in recent years and continues to progress due to responsible regulation and advances in technology. However, the basic systems by which these homes are sold, financed, managed, and insured are still often problematic and in need of improvement to ensure that manufactured homes are a reliable affordable housing option for sometimes vulnerable populations.

There are approximately 6.7 million occupied manufactured homes in the United States, comprising about 6 percent of the nation's housing stock. More than half of all manufactured homes are located in rural areas around the country and manufactured homes make up 13 percent of all occupied homes in rural and small-town communities.[21] Although the demographics of manufactured housing are changing, lower-income households still occupy the majority of this stock. Underserved and persistently poor populations like farmworkers and those living in Native American communities also disproportionately utilize manufactured homes as a source of affordable housing.

HAC supports the creation of a manufactured housing program and has been glad to see the bipartisan support for this issue in the House Fiscal Year 2023 Transportation-HUD appropriations bill.

[20] Congressman James E. Clyburn, "10|20|30 Persistent Poverty Formula," accessed November 10, 2022, https://clyburn.house.gov/10-20-30-amendment.
[21] Housing Assistance Council, Rural Research Brief, "Manufactured Housing in Rural America," July 2020, https://ruralhome.org/wp-content/uploads/2021/05/Manufactured_Housing_RRB.pdf.

Data Reliability

A lack of available data to conduct assessments on the effectiveness of a particular program or regulation in persistently poor rural places is a constant challenge – obscuring the realities of rural needs and corresponding federal responses. Without that data access, the scape of informed stakeholder engagement is limited.

For example, the 2020 Home Mortgage Disclosure Act (HMDA) final rule[22] gutted housing data collection in rural communities, especially those that are already underserved by traditional financial services. The Consumer Financial Protection Bureau (CFPB) increased the threshold for reporting data about closed-end mortgage loans, allowing institutions originating fewer than 100 closed-end mortgage loans in either of the two preceding calendar years to not report such data effective July 1, 2020. It has also raised the threshold for reporting data about open-end lines of credit to 200 open-end lines of credit effective January 1, 2022, upon the expiration of the previous, temporary threshold of 500 open-end lines of credit. This regulation will have a disparate impact on rural areas, which rely disproportionately on small financial institutions, and will also limit data availability for stakeholder engagement.

Since the 1980s, HAC has prepared a research publication titled *Taking Stock* every ten years following the release of decennial Census data. In the next few months, HAC will be releasing our newest iteration of this publication looking at rural people, poverty, and housing trends from the 2020 Census. We look forward to sharing this resource with the Subcommittee when it becomes available.

Conclusion

Persistent poverty is a too-little-discussed condition in our country, and HAC appreciates the Subcommittee's interest in this topic. It is something that has been core to our mission for the last five decades. HAC looks forward to continuing our work with Congress and the federal agencies to support the Subcommittee's efforts. Thank you again for the opportunity to testify today.

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[22] Bureau of Consumer Financial Protection, "Home Mortgage Disclosure (Regulation C)," *Federal Register* 85 no. 92 (May 12, 2020), 28364-28407, https://www.govinfo.gov/content/pkg/FR-2020-05-12/pdf/2020-08409.pdf.