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An Overview of Rural Credit Markets

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SUMMARY

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Andrew P. Scott, Coordinator
Analyst in Financial Economics

The financial industry has a substantial presence in metropolitan centers such as New York City, Chicago, and San Francisco, and one could argue these areas enjoy access to a range of financial services. However, in the United States, a significant portion of the population lives in rural areas, and access to financial services—specifically credit products—varies compared to that in urban areas.

One reason for this variation is that the demographics and economics of rural areas differ from those of urban areas in a number of ways. For example, people in rural areas are statistically more likely to be older and have lower incomes relative to urban communities. Further, local rural economies tend to be less diversified in terms of number and types of industries present, making them more susceptible to economic shocks. In some cases, these differences can affect interactions with credit markets and access to credit in rural areas and urban areas.

One difference is the demand for certain financial products. For example, many homes in both rural and urban areas are financed with mortgages offered by banks or nonbank lenders. However, in part because housing is relatively cheaper in rural areas, homeownership rates are higher, and the proportion of homes with an outstanding mortgage is lower. In addition, different financing tools are required for structures such as manufactured homes, over half of which are found in rural areas, comprising roughly 15% of rural households. Manufactured homes can be financed without a mortgage using a special type of loan called a *chattel loan*. These loans are used to finance residential structures attached to land and can carry different terms and pricing structures and lack the same protections as consumer mortgages. Another example can be found in agricultural credit markets. Many rural businesses are tied to agricultural industries, and some lenders specialize in providing loans to farmers and other agricultural businesses, which depend on that funding to support seasonal crop yields. Another potential difference is access to some financial services. For example, while most U.S. households have bank accounts, the ability to use a bank in rural areas can be more limited than it might be in urban areas by factors such as geographic proximity to a physical branch or access to broadband for use of internet banking services.

Federal agencies dedicated to increasing the availability of credit to small businesses and potential homeowners have established a range of programs and policies geared toward rural areas. Typically, the federal government provides low-cost loans, loan guarantees, or capital to rural borrowers or intermediaries through these programs. In some circumstances, the federal government has set up government-sponsored enterprises to facilitate credit to agricultural business. As a whole, the federal government (and thus, ultimately, taxpayers) takes on financial risk to support these programs, even if some of the programs earn positive income in a typical year.

Native American communities, many of which exist in mostly rural parts of the United States, have historically had among the highest poverty rates in the nation, particularly on tribal reservations or trust land. Credit access is broadly underdeveloped in Native American communities, which constrains economic development. The federal government supports economic development in tribal nations through various development, community development, and housing programs.

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Introduction

Financial services in rural areas can be very similar to those of urban consumers, but in some cases the interactions between rural consumers and credit markets can differ. These differences are in part due to variation in the demographic, geographic, and economic conditions in some rural areas. For example, access to credit in rural areas can be limited by geographic distance and lack of auxiliary services such as widespread broadband coverage. In some cases, policymakers have also developed programs specifically for rural consumers and economies.

Several congressional committees have an interest in rural financial services. For example, the Senate Committee on Banking, Housing, and Urban Affairs and the House Committee on Financial Services have recently held hearings that discussed aspects of the rural financial system.[1] Additionally, the Senate Committee on Agriculture, Nutrition, and Forestry and the House Committee on Agriculture routinely examine a range of financial and economic issues pertinent to farming and other agricultural business. Additionally, roughly every five years, a package of legislation known as the "farm bill" expires, and a new version may be debated and is typically enacted. The farm bill contains numerous provisions, some of which pertain to financial services and rural development issues discussed in more detail below. The most recent farm bill, P.L. 115-334, was enacted in 2018 and expires in 2023.[2]

This report provides an overview of rural credit markets and key federal programs that support credit in rural areas. The term *rural* is not a well-defined concept across the range of financial services policy issues; for the purposes of this report, statistical claims will generally rely on U.S. Census Bureau distinctions, and policy discussions will defer to federal agency determinations for rural programs.[3] Broadly, it will illustrate that some consumer and commercial credit markets operate in ways similar to urban markets but that others, such as housing and agricultural credit markets, rely upon specific federal programs that support access to credit to meet demand for funding. The report is organized into four sections:

1. An overview of rural and economic conditions;
2. A discussion of rural consumer financial services, with a focus on consumer banking and housing finance;
3. A discussion of rural commercial financial services, with a focus on farm credit and small business lending programs; and
4. An overview of key credit issues in Native American communities.

[1] For example, in April 2021, the Senate Committee on Banking, Housing, and Urban Affairs held a hearing that examined access to financial services in rural economies. Additionally, the House Committee on Financial Services held a hearing on large bank oversight, which touched on bank branching in rural areas, in May 2021. See Senate Committee on Banking, Housing, and Urban Affairs, "An Economy That Works for Everyone: Investing in Rural Communities," April 20, 2021, https://www.banking.senate.gov/hearings/an-economy-that-works-for-everyone-investing-in-rural-communities.

[2] More information on the 2018 farm bill can be found at CRS Report R45984, *2018 Farm Bill (P.L. 115-334) Primer Series: A Guide to Omnibus Farm and Food Legislation*, by Mark A. McMinimy.

[3] Different agencies define *rural* differently. The U.S. Census Bureau defines *rural* as any population, housing, or territory not in an urban area. Urban areas consist of two types of geographies: (1) urbanized areas, which have a population of 50,000 or more; and (2) urban clusters, which have a population of at least 2,500 and less than 50,000. According to this designation, *rural* and *nonmetro* are not synonymous, and over 50% of people living in rural areas are also within a metro area. For more information, see U.S. Census Bureau, *Rural America*, https://mtgis-portal.geo.census.gov/arcgis/apps/MapSeries/index.html?appid=49cd4bc9c8eb444ab51218c1d5001ef6.

Rural Economic and Financial Overview

Rural areas face many financial services policy issues that are distinct from the overall country because of differences in the economic characteristics of rural America. Understanding these differences, many of which are described below and in **Table 1**, may shed some light on the potentially different overall demand that rural consumers may have for credit products and the willingness of financial institutions to supply them.

Table 1. Select Characteristics of Rural Areas Compared to Entire United States

Selected Social and Economic Characteristics	Rural Areas	United States
Median Age	43.6	38.1
Race		
White	87.6%	72.5%
Black or African American	6.0%	12.7%
American Indian and Alaska Natives	1.7%	0.8%
Asian	1.1%	5.5%
Native Hawaiian and Other Pacific Islander	0.1%	0.2%
Hispanic or Latino Ethnicity*	6.8%	18%
Educational Attainment		
High School Graduate or Higher	88.3%	88.0%
Bachelor's Degree or Higher	23.5%	32.1%
Labor Force Participation Rate	58.7%	63.4%
Employed	55.7%	59.6%
Unemployed	2.8%	3.4%
Median Household Income	$61,215	$62,843
Percentage of Families Whose Income in the Past 12 Months Is Below the Poverty Level	8.1%	9.5%

Source: U.S. Census Bureau, *2019 American Community Survey*, five-year estimates, Tables DP02, DP03, and DP05.

Notes: The data in this table are aggregate numbers that describe rural America as a whole. However, it should be noted that rural America is not uniform. For example, the poverty rate in rural America over the 2015-2019 period was lower than in the country as a whole despite significant localized poverty—poverty rates in the rural South and on American Indian Reservations were higher than the country average.

*As defined by the Census Bureau, Hispanic or Latino individuals can be any race.

As described in **Table 1**, rural areas are different from the United States as a whole in certain ways that may affect access to and participation in credit markets. First, income is a key determinant of creditworthiness. Rural America has a lower median household income than the national average. But the national average masks regional differences. The rural South had a median household income of $46,891 over the 2015-2019 period, and the median household income on American Indian Reservation and Trust Land (much of which is located within rural areas) was even lower at $39,117. Likewise, while the poverty rate was lower for rural America compared to the country as a whole, certain regions experienced significantly higher poverty rates than the national average; the poverty rates in the rural South and on Reservations were 10.2% and 20.5%, respectively, compared to the national average of 9.5% over the 2015-2019 period. In addition, rural populations tend to be older and participate in the labor force at a lower rate, which suggests that more borrowers may be exiting the workforce for retirement or are already on a fixed income.

Second, there is less economic diversification in localized areas. Rural areas as a whole vary in the industries employing rural residents, but some localized areas are more heavily reliant on certain industries, such as farming, mining, and manufacturing. Consequently, certain communities face greater sensitivity to trends in agriculture prices or energy prices or the performance of primary industry domiciled in the area.[4] Economic shocks in areas with lower economic diversification can lead to quicker contractions of credit and financial strains on small, local financial institutions, making access to loans potentially more difficult at times when it is needed most.

Further, despite the population of rural areas increasing as a whole in recent years,[5] between 2010 and 2018, over 70% of rural counties lost population.[6] The population loss has occurred across states but more significantly so in the Eastern United States.[7] Net outmigration, falling birth rates, and an aging population have all contributed to the localized population losses.[8] Shrinking areas may find it difficult to attract new financial institutions.

Rural America additionally has some demographic differences from the United States as a whole. Although certain demographic differences—including age, race, and national origin, among others—cannot legally be used as determinants of creditworthiness of individuals,[9] Congress is nevertheless concerned about access to credit for low-income, minority, and other traditionally underserved populations. As shown in **Table 1**, rural America has a higher percentage of White and American Indian and Alaska Natives individuals and a lower percentage of Black, Hispanic, and Asian individuals than does the country as a whole. Rural America additionally has an older population on average[10] and contains fewer college graduates, which may affect demand for different types of financial products and financial literacy.

Rural areas also have somewhat different financial characteristics than does the country as a whole:

- **Higher homeownership rate.** The homeownership rate is higher in rural areas (81.6%) compared to the country as a whole (64%) for 2015-2019.[11] Although more rural homeowners would, therefore, be able to build wealth and access credit markets using their homes as collateral, rural homes tend to have lower

[4] U.S. Department of Agriculture (USDA) Economic Research Service (ERS), *Rural Economy*, https://www.ers.usda.gov/data-products/ag-and-food-statistics-charting-the-essentials/rural-economy/.

[5] As measured by the Census Bureau, rural America as a whole increased in population by over 3% between the five-year periods ending in 2015 and 2019.

[6] Christopher J. Raslavich et al., *FDIC Community Banking Study*, Federal Deposit Insurance Corporation (FDIC), December 2020, p. 39, https://www.fdic.gov/resources/community-banking/report/2020/2020-cbi-study-full.pdf.

[7] ERS, *Rural Economy*. Note that ERS defines *rural* differently than the Census Bureau does, and therefore results may differ between the two sources.

[8] ERS, *Population and Migration Overview*, https://www.ers.usda.gov/topics/rural-economy-population/population-migration/.

[9] The Economic Credit and Opportunity Act (15 U.S.C. §§1691 et seq.) prohibits credit discrimination on the basis of race, religion, national origin, sex, marital status, or age.

[10] The percentage of the population 65 years and older was 18.9% in rural America as compared to 15.6% nationwide over the five-year period from 2015 to 2019, according to the Census Bureau's 2019 American Community Survey.

[11] U.S. Census Bureau, *2019 American Community Survey*, five-year estimates, Table DP04.

values, and thus smaller amounts can potentially be borrowed against them, on average.

- **Fewer financial services providers located nearby.** Some rural areas are not in physical proximity to many or any financial services providers. For example, in a study of census tracts, the Bank Policy Institute found that 9.9% of rural Americans lived in *banking deserts*—areas without a nearby bank branch—compared to 1.7% of urban Americans in 2017.[12] A Federal Reserve research note found that at least 25% of rural households were at least 50 miles from their nearest bank branches in 2016.[13] This could result in less credit, less competition, and a smaller range of financial products being readily available to these households and businesses.
- **Proportionately more small financial institutions.** Rural consumers and businesses are more likely to live in areas where large financial institutions are not located. This may limit the availability of credit and range of financial services offered.[14]
- **Some rural businesses may lack access to capital markets.** Large and innovative companies are more likely to be located in metropolitan areas, as are nonbank financial firms that specialize in serving them. Together, these firms, whether large or small, form local economic clusters that allow them, among other things, to access nonbank credit through bond markets, private equity, venture capital, and other nontraditional sources. These forms of financing have grown in recent years and can expand access to credit and provide more flexible financing to businesses. Thus, rural businesses—particularly small rural businesses—may be more dependent on traditional bank loans to finance operations and may have less access to nonbank credit on more favorable terms.[15] Further, smaller business may seek smaller loans, which are not as profitable for lenders to make.[16]
- **Less use of—or access to—technology.** An alternative to physical proximity to banks and other financial institutions is access to mobile banking and payments.

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[12] 11.4% of Americans living in "mixed" Census tracts lived in banking deserts. For this study, the Bank Policy Institute defined *banking deserts* "as a geographic area with no bank branch within 2 miles of the center of a census tract in an urban area, within 5 miles in a mixed area or within 10 miles in a rural area." If a desert was defined as 10 miles for all types of tracts, fewer urban and mixed residents would live in banking deserts. Francisco Covas, *Some Facts About Bank Branches and LMI Customers*, April 4, 2019, https://bpi.com/some-facts-about-bank-branches-and-lmi-customers/.

[13] David Benson, Serafin Grundl and Richard Windle, "How Do Rural and Urban Retail Banking Customers Differ?," *FEDS Notes*, June 12, 2020, https://www.federalreserve.gov/econres/notes/feds-notes/how-do-rural-and-urban-retail-banking-customers-differ-20200612.htm.

[14] According to the FDIC, "In all, community banks were almost three times more likely than noncommunity institutions to locate their offices in a nonmetro area in 2011, and were four times more likely to operate offices in rural counties.… In 2011, there were 629 U.S. counties, with just over 6 million in population, where community banks operated offices, but where no noncommunity banking offices were present. Three-quarters of these counties were rural." The FDIC's definition of *community banks* is based on size and business model. FDIC, *FDIC Community Banking Study*, December 2012, p. 3-5, https://www.fdic.gov/resources/community-banking/report/2012/2012-cbi-study-3.pdf.

[15] Matthew McKenna, "Rural America Is Ripe with Potential, Starving for Capital," *The Hill*, July 28, 2018, https://thehill.com/opinion/finance/399210-rural-america-is-ripe-with-potential-starving-for-capital.

[16] For more on small business credit needs, see CRS Report R45878, *Small Business Credit Markets and Selected Policy Issues*, by Darryl E. Getter.

> A Federal Reserve research note found that fewer rural households used online banking or used the internet to find information on borrowing and saving.[17] This may reflect a lack of technology accessible to rural customers and used by rural financial institutions. According to the Federal Communications Commission, 83% of the rural population had access to broadband compared to 96% of the U.S. population, and 91% had access to faster 4G mobile compared to 97% of the U.S. population at the end of 2019.[18] According to Pew, fewer rural adults had access to smartphones (71% versus 83%), tablets, and computers in 2019.[19] Likewise, rural financial firms may be less likely to offer digital products. According to the Federal Deposit Insurance Corporation, rural community banks surveyed were disproportionately low technology adopters.[20]

As a result of these demographic and economic differences, to some extent, rural businesses and consumers demand different financial products and have access to different financial services than does the rest of the country. In some financial markets, a different set of institutions or products have arisen over time to serve these unique needs, as will be discussed in more detail below. In other markets, the federal government has intervened to try to compensate where these differences are perceived to result in a lack of access to credit and financial services.

Rural Consumer Financial Services

Housing Finance in Rural Areas

As shown in **Table 2**, more than one-fifth of all housing units in the United States (about 21%) are located in areas designated by Census Bureau as rural. Housing in rural areas differs in several ways from housing in the nation as a whole. While there are multifamily units[21] in rural areas, single-family detached housing accounts for a larger share of the housing stock in rural areas than in the United States as a whole. Manufactured housing is also more prevalent—56% of all manufactured homes in the United States are located in rural areas. The homeownership rate is notably higher in rural areas, and housing costs for both renters and owners are significantly lower, with a larger share of owners owning their homes without a mortgage. Although lower housing prices and costs would be expected to translate into lower housing cost burdens for rural owners and renters compared to the nation as a whole, over 25% of rural mortgage borrowers and over 40% of rural renters pay 30% or more of their incomes toward their housing costs.[22]

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[17] Benson, Grundl and Windle, "How Do Rural and Urban Retail Banking Customers Differ?"

[18] Federal Communications Commission, "Fourteenth Broadband Deployment Report," Appendix A, p. 57, https://docs.fcc.gov/public/attachments/FCC-21-18A1.pdf. *Broadband* is defined as 25/3 mbps and faster; *4G* is defined as 10/3 mbps. For more information, see CRS Report R46613, *The Digital Divide: What Is It, Where Is It, and Federal Assistance Programs*, by Colby Leigh Rachfal.

[19] Andrew Perrin, *Digital Gap Between Rural and Nonrural America Persists*, Pew Research Center, May 31, 2019, https://www.pewresearch.org/fact-tank/2019/05/31/digital-gap-between-rural-and-nonrural-america-persists/.

[20] Raslavich et al., *FDIC Community Banking Study*, p. 6-16.

[21] *Multifamily housing* is generally defined as housing with five or more separate housing units.

[22] While a variety of measures are used to determine the burden of living costs, one measure of cost burden that is generally accepted is 30% of income for housing costs; this has been used by the Department of Housing and Urban Development (HUD) and others for some time. For more on housing affordability measures, see HUD USER, "Rental Burdens: Rethinking Affordability Measures," https://www.huduser.gov/portal/pdredge/pdr_edge_featd_article_092214.html#:~:text=HUD%20defines%20cost%2Dburdened%20families,of%20one's%20income%20on%20rent.

Table 2. Select Characteristics of Housing in Rural Areas Compared to Entire United States

Selected Housing Characteristics	Rural Areas	United States
Total housing units	29,163,765	137,428,986
Share single-family detached	77.3%	61.6%
Share manufactured housing	16.3%	6.2%
Owner-occupied units	19,152,308	77,274,381
Homeownership rate	81.6%	64.0%
Share with a mortgage	54.6%	62.7%
Median home value (owner-occupied, $)	$172,200	$217,500
Share cost-burdened (owners with a mortgage, 30%+ income toward housing costs)	25.8%	27.8%
Renter-occupied units	4,315,153	43,481,667
Renter rate	18.4%	36.0%
Median monthly renter costs ($)	$789	$1,062
Share cost-burdened (30%+ income toward housing costs)	41.8%	49.6%

Source: U.S. Census Bureau, *2019 American Community Survey*, five-year estimates, Table DP04. *Rural* as defined by U.S. Census.

Mortgages are the prevalent financing tool for homeowners, and the same types of federal support—including federal loan guarantees and secondary market support from government-sponsored enterprises (GSEs)[23]—support mortgage lending in rural areas as in other areas.[24] However, the differences in rural housing markets may impact rural mortgage lending.[25] For example, lower incomes and lower rates of employment may affect the ability of prospective homebuyers to obtain mortgages. Fewer financial services companies offering mortgages and other factors may impact mortgage availability and costs;[26] furthermore, smaller community banks and credit unions make up a larger share of mortgage lending in rural areas, increasing the importance of these types of institutions in such areas.[27] In addition, other features of rural areas may present certain challenges for mortgage finance, such as difficulties obtaining accurate appraisals when there are few comparable home sales in an area.[28]

[23] There are a number of GSEs discussed in this report. The housing GSEs are Fannie Mae, Freddie Mac, and the Federal Home Loan Bank Board and were set up by Congress to support liquidity in the mortgage markets. Later in this report, the Farm Credit System—a GSE set up to support credit intermediation in the farming industry—is discussed.

[24] For more on mortgage finance, see CRS Report R42995, *An Overview of the Housing Finance System in the United States*, by Katie Jones, Darryl E. Getter, and Andrew P. Scott.

[25] For example, see Nuno Mota, *Rural Mortgage Lending Over the Last Decade*, Fannie Mae Economic and Strategic Research Department, 2016, https://www.fanniemae.com/sites/g/files/koqyhd191/files/migrated-files/resources/file/research/datanotes/pdf/working-paper-102716.pdf; and a discussion of challenges related to housing markets in rural areas in Freddie Mac's 2018-2021 Duty to Serve Plan, including page RH2 and pages RH5-RH7, at Freddie Mac, "Duty to Serve," https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/FreddieMacDTSPlan_2018-2021.pdf.

[26] Freddie Mac, "Duty to Serve," p. RH6.

[27] Michael Calhoun, Tom Feltner, and Peter Smith, *Supporting Mortgage Lending in Rural Communities*, Brookings Institution, January 2018, pp. 8-9, https://www.brookings.edu/wp-content/uploads/2018/01/es_2018_01_10_rural_housing_report.pdf.

[28] Freddie Mac, "Duty to Serve," p. RH6.

Rural homebuyers can obtain mortgages through any of the channels available to homebuyers in general, including mortgages insured by the Federal Housing Administration (FHA) or Department of Veterans Affairs, conforming mortgages to be purchased by the Federal National Mortgage Association (known as Fannie Mae) or Federal Home Loan Mortgage Corporation (known as Freddie Mac), and mortgages that may be held in a financial institution's own portfolio. Similarly, developers of multifamily housing in rural areas can access commercial real estate loans—including those insured by FHA or backed by Fannie Mae or Freddie Mac—and those developing affordable housing in rural areas can access government subsidy programs—such as the Low Income Housing Tax Credit program—to the extent they are available. There are, however, certain federal mortgage and subsidy programs targeted specifically to rural areas. In addition, certain types of specialized housing finance, such as financing manufactured homes or housing on tribal lands, are of greater relevance in rural areas. This section briefly discusses certain programs and activities related to housing finance that are targeted to rural areas or that may be of particular interest for rural areas.

USDA Rural Housing Service

While rural communities and their residents may benefit from any federal housing program, the USDA's Rural Housing Service (RHS) administers a number of federal housing programs specifically for rural communities. These programs are generally designed to support housing for low-income households in rural areas and are referred to by the section of the Housing Act of 1949 (Title V of P.L. 81-171; 42 U.S.C. §§1471 et seq.) under which they are authorized. The definitions of *rural* and *rural area* for the purposes of USDA rural housing programs are different than those used by the Census Bureau and are established in statute based on population thresholds and other characteristics, such as being "rural in character" or having a "serious lack of mortgage credit for lower and moderate income families."[29]

Over the years, some have questioned whether separate mortgage programs for rural areas are necessary or whether there are efficiencies to be gained by having the Department of Housing and Urban Development (HUD) administer these programs rather than RHS, given the similarities between certain RHS and HUD programs.[30] Rural housing advocates, meanwhile, have argued that the rural housing programs help to address specific needs in rural areas not addressed by other programs and that RHS is better equipped than HUD is to focus on rural needs and deliver services in rural areas.[31]

Single-Family Programs

Two RHS mortgage programs, in particular, support homeownership for certain rural households.

1. **Section 502 Direct Loan Program.**[32] Through this program, USDA makes loans directly to low- and very-low-income borrowers in rural areas to purchase, build, rehabilitate, improve, or relocate homes. Among other requirements, eligible

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[29] See 42 U.S.C. §1490.

[30] For example, see the Trump Administration's *Delivering Government Solutions in the 21st Century Reform Plan and Reorganization Recommendations*, p. 35, https://www.whitehouse.gov/wp-content/uploads/2018/06/Government-Reform-and-Reorg-Plan.pdf.

[31] See, for example, Leslie Strauss, "Why Keep Rural Housing Programs at USDA?," *Shelterforce*, July 18, 2012, https://shelterforce.org/2012/07/18/why_keep_rural_housing_programs_at_usda/.

[32] For more information on Section 502 Direct Loans, see USDA's website at https://www.rd.usda.gov/programs-services/single-family-housing-direct-home-loans.

borrowers must be without decent, safe, and sanitary housing and must be unable to obtain mortgage financing from other sources with terms and conditions that the borrower could be reasonably expected to meet. Some borrowers may qualify for payment subsidies to make payments more affordable.

2. **Section 502 Guaranteed Loan Program.**[33] Through this program, USDA guarantees eligible mortgages made by private lenders to eligible low- and moderate-income households (up to 115% of area median income) to purchase, build, rehabilitate, improve, or relocate homes.

The share of Section 502 loans issued through the guaranteed program has significantly increased over time relative to the direct program.[34] In FY2020, there were about 138,000 guaranteed loans originated compared to about 6,000 direct loans.[35] The direct loan program serves a lower-income population than the guaranteed loan program does and has a higher cost to the federal government.

The RHS mortgage programs are relatively small, and most mortgages made in rural areas are not RHS mortgages. For example, based on data from the Home Mortgage Disclosure Act, about 71% of mortgages originated in rural and small town areas in 2017 were conventional (non-government-insured) loans. Fourteen percent were insured by FHA, 10% were guaranteed by the Department of Veterans Affairs, and 5% were RHS loans.[36]

In addition to the mortgage programs, RHS also administers certain other single-family housing programs. These include loans and grants to finance home repairs for eligible very-low-income households (Section 504); loans to purchase and develop housing sites (Section 524), including site loans for housing constructed through self-help homeownership programs (Section 523); and grants to provide technical assistance in support of self-help homeownership programs.[37] Self-help homeownership programs are programs through which participants contribute their own labor to the construction of their homes.

Multifamily and Farm Labor Housing Programs

In addition to single family programs, RHS administers programs to subsidize the financing of affordable multifamily housing in rural areas.

- **Section 515 Multifamily Housing Direct Loans.**[38] This program offers direct loans to finance the development or redevelopment of rental housing for low-income individuals and families in rural areas. The loans are typically subsidized

[33] For more information on Section 502 Guaranteed Home Loans, see USDA's website at https://www.rd.usda.gov/programs-services/single-family-housing-guaranteed-loan-program.

[34] Housing Assistance Council, *USDA Rural Housing Program Historic Activity Report*, pp. 5 and 7, http://ruralhome.org/storage/documents/rd_obligations/historic/Historic.pdf.

[35] Housing Assistance Council, *USDA Rural Development Housing Activity, September—Fiscal Year 2020, Monthly Obligation Report*, p. 1, http://ruralhome.org/storage/documents/rd_obligations/fy2020/CombinedSepFY20.pdf.

[36] See the Housing Assistance Council's tabulations of Home Mortgage Disclosure Act data at http://www.ruraldataportal.org/search.aspx, by selecting "Housing Finance Data" and "Loan Type."

[37] For more information on RHS single-family housing programs, see https://www.rd.usda.gov/programs-services/all-programs/single-family-housing-programs.

[38] For more information on Section 515 Direct Loans, see https://www.rd.usda.gov/programs-services/multifamily-housing-direct-loans.

to a 1% interest rate, and borrowers are required to charge rents that are affordable to low-income tenants.

- **Section 538 Multifamily Housing Guaranteed Loans.**[39] This program offers federal loan guarantees—covering up to 90% of the loan amount—to eligible borrowers who are building or preserving affordable rural rental housing. Units financed with Section 538 loans are subject to rent caps and tenant income eligibility requirements.
- **Section 514/516 Farm Labor Loans and Grants.**[40] Section 514 offers direct loans for the development of housing on-farm (typically single family housing) and off-farm (multifamily housing) for farm laborers. Section 516 grants are offered to Section 514 multifamily loan recipients to further subsidize development costs. Like Section 515, Section 514 loans are generally subsidized to a 1% interest rate.
- **Section 521 Rural Rental Assistance.**[41] Section 521 rural rental assistance is available to further subsidize the rents of eligible residents of Section 515 and Section 514 properties. Tenants pay 30% of their income toward their rents, and the rental assistance subsidizes tenants' remaining rental and utility costs.

Currently, there are roughly 370,000 households living in 12,831 Section 515 properties and 14,548 households living in a total of 517 Section 514/516 farm labor housing properties. Within those properties, about 268,916 households receive Section 521 rental assistance.[42]

Attention has been paid in recent years to preserving USDA-assisted affordable housing units as they age or reach mortgage maturity. Since FY2011, for example, all funding for new Section 515 loans has gone to refinancing existing Section 515 properties rather than the development of new units. The quality and availability of housing for farm laborers, especially migrant and seasonal farm laborers, is of perennial policy interest. The farm labor housing program statute was recently amended to expand eligibility that had previously been limited to citizens and permanent residents to include temporary agricultural workers.[43]

Fannie Mae and Freddie Mac "Duty to Serve" Requirements

In 2008, in recognition of challenges related to mortgage liquidity and access to capital in certain types of markets, Congress established "Duty to Serve" (DTS) requirements for the GSEs Fannie Mae and Freddie Mac.[44] These requirements direct each GSE to develop three-year plans detailing activities that they will undertake to increase access to the secondary mortgage market

[39] For more information on Section 538 Guaranteed Loans, see https://www.rd.usda.gov/programs-services/multifamily-housing-loan-guarantees.

[40] For more information on Farm Labor Housing, see https://www.rd.usda.gov/programs-services/farm-labor-housing-direct-loans-grants.

[41] For more information on Rural Rental Assistance, see https://www.rd.usda.gov/programs-services/multi-family-housing-rental-assistance.

[42] These data are taken from USDA's Multi-Family Housing Annual Fair Housing Occupancy Reports at https://www.rd.usda.gov/sites/default/files/RDUL-Occupancy.pdf. These reports do not include data on Section 538 properties.

[43] Eligibility was expanded by P.L. 115-141.

[44] For more on Fannie Mae, Freddie Mac, and "Duty to Serve," see CRS Report R46746, *Fannie Mae and Freddie Mac: Recent Administrative Developments*, by Darryl E. Getter.

for mortgages benefitting low- and moderate-income households in three specified underserved markets, two of which are rural housing and manufactured housing.[45]

The regulations implementing the DTS requirements specify the types of activities for which the GSEs can receive DTS credit. For the rural underserved market,[46] they can receive credit for activities related to housing in high-needs rural regions, housing for high-needs rural populations, financing by small financial institutions in rural areas, and small multifamily rental properties in rural areas, as well as additional activities approved by the Federal Housing Finance Agency (FHFA) director.[47] *High-needs rural regions* is defined as Middle Appalachia, the Lower Mississippi Delta, colonias,[48] and rural tracts in persistent poverty counties, while *high-needs rural populations* is defined as members of federally recognized Indian tribes located in Indian areas or agricultural workers, respectively, in rural areas.[49] For the manufactured housing underserved market, discussed more below, the GSEs can receive credit for activities related to manufactured homes titled as real property; manufactured homes titled as personal property (chattel loans); manufactured housing communities owned by governmental entities, nonprofits, or residents; and manufactured housing communities with certain tenant protections for manufactured homeowners who rent home sites in the community, as well as other activities approved by the FHFA director.[50]

Fannie Mae's and Freddie Mac's DTS plans detail specific activities they plan to undertake in each of these areas, and FHFA annually evaluates their performance.[51]

Manufactured Housing and Chattel Lending

Manufactured housing is more common in rural areas than in the United States as a whole.[52] Manufactured homes, on average, are more affordable than site-built homes[53] and can be placed on land owned by the homeowner or on rented land.[54] Many manufactured homes are located in

[45] 12 U.S.C. §4565. For more information, see the Federal Housing Finance Agency (FHFA) website at https://www.fhfa.gov/PolicyProgramsResearch/Programs/Pages/Duty-to-Serve.aspx.

[46] For the purposes of the DTS requirements, FHFA defined *rural area* to mean census tracts outside of metropolitan statistical areas (MSAs), as defined by the Office of Management and Budget, or census tracts in MSAs that are "outside of the metropolitan statistical area's Urbanized Areas as designated by the USDA Rural-Urban Commuting Area (RUCA) Code #1, and outside of tracts with a housing density of over 64 housing units per square mile for USDA's RUCA Code #2." See 24 C.F.R. §1282.1 and FHFA, "Duty to Serve Markets," https://www.fhfa.gov/PolicyProgramsResearch/Programs/Pages/Duty-to-Serve-Markets.aspx.

[47] 12 C.F.R. §1282.35.

[48] While specific definitions can vary, in general, colonias are residential communities in the United States located close to the border with Mexico that lack certain basic infrastructure, such as water or sewer facilities.

[49] 12 C.F.R. §1282.1.

[50] 12 C.F.R. §1282.33.

[51] Each GSE's DTS plan and additional materials are available on FHFA's DTS website at https://www.fhfa.gov/PolicyProgramsResearch/Programs/Pages/Duty-to-Serve.aspx.

[52] *Manufactured housing* is the term used to describe homes constructed in a factory setting in accordance with HUD's Manufactured Housing Construction and Safety Standards (sometimes called the HUD Code) and transported to the home site on a permanent chassis. The HUD Code took effect in June 1976 and is the building code with which manufactured homes must comply, rather than the local building codes that apply to site-built homes. Similar homes that were built prior to the HUD Code are generally referred to as "mobile homes."

[53] Housing Assistance Council, *Manufactured Housing in Rural America*, Rural Research Brief, July 2020, p. 02, https://ruralhome.org/wp-content/uploads/2021/05/Manufactured_Housing_RRB.pdf.

[54] Consumer Financial Protection Bureau (CFPB), *Manufactured Housing Finance: New Insights from the Home Mortgage Disclosure Act Data*, May 2021, pp. 33-36, https://files.consumerfinance.gov/f/documents/

manufactured home communities where homeowners pay lot rents for the site on which their homes are situated.[55]

Manufactured homes can generally be financed in two main ways. Manufactured homes can be financed using a traditional mortgage—including mortgages insured by a federal agency or eligible for purchase by Fannie Mae or Freddie Mac—if certain conditions are met, including that the home must be titled as real property, and the mortgage encumbers both the home and the land to which it is attached. Alternatively, manufactured homes can be financed using chattel loans—that is, personal property loans that encumber only the home itself and not the land. Compared to mortgages, chattel loans are generally thought to carry higher interest rates and have fewer consumer protections.[56] While most chattel loans are obtained by borrowers who do not own the land where their homes are sited and thus cannot title their homes as real property and qualify for a mortgage, a non-trivial share of borrowers who do own the land have chattel financing.[57] Such manufactured homeowners may choose chattel loans for various reasons, including, among other things, lower upfront costs or not wanting to encumber the land.[58]

Federal support for financing chattel loans is limited. Through its Title I program, FHA is to insure personal property loans for a manufactured home, a lot, or a home and lot in combination,[59] though the program is relatively small.[60] As part of their DTS requirements, Fannie Mae and Freddie Mac are pursuing a variety of activities related to manufactured housing finance.[61] While these activities had included proposed chattel loan pilot programs, both GSEs have encountered challenges in pursuing these pilots and have not included chattel loan activities in their draft DTS plans for 2022-2024.[62]

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cfpb_manufactured-housing-finance-new-insights-hmda_report_2021-05.pdf.

[55] The hybrid model of owning a manufactured home and renting the land on which it is sited has implications for owners, including more limited potential for building wealth through homeownership and challenges related to the costs and difficulties of moving a manufactured home once it is placed. Given the costs of moving a home that has been sited, owners may have difficulty relocating in the case of rent increases, changes in community amenities or services, or community closures. See, for example, Housing Assistance Council, *Manufactured Housing in Rural America*.

[56] For example, see Laurie Goodman and Bhargavi Ganesh, *Challenges to Obtaining Manufactured Home Financing*, Urban Institute Housing Finance Policy Center, June 2018, https://www.urban.org/sites/default/files/publication/98687/challenges_to_obtaining_manufactured_home_financing_0.pdf; Nick Bourke and Rachel Siegel, *Protections for Owners of Manufactured Homes Are Uncertain, Especially During Pandemic*, Pew, September 11, 2020, https://www.pewtrusts.org/en/research-and-analysis/articles/2020/09/11/protections-for-owners-of-manufactured-homes-are-uncertain-especially-during-pandemic; and CFPB, *Manufactured-Housing Consumer Finance in the United States*, September 2014, pp. 6 and 24, https://files.consumerfinance.gov/f/201409_cfpb_report_manufactured-housing.pdf.

[57] CFPB, *Manufactured Housing Finance: New Insights from the Home Mortgage Disclosure Act Data*, p. 48.

[58] CFPB, *Manufactured Housing Finance: New Insights from the Home Mortgage Disclosure Act Data*, pp. 33-43; and CFPB, *Manufactured-Housing Consumer Finance in the United States*, pp. 23-35.

[59] The Title I program for manufactured homes is authorized at 12 U.S.C. §1703 and regulations are at 24 C.F.R. Part 201. For more information, see HUD's website at https://www.hud.gov/program_offices/housing/sfh/title.

[60] As of April 2021, HUD was currently insuring about 9,500 Title I manufactured home loans. See FHA, *FHA Single Family Production Report*, April 2021 Credit Risk Report, p. 4, https://www.hud.gov/sites/dfiles/Housing/images/FHAProdReport_Apr2021.pdf. For data on new Title I manufactured home loans insured in recent years, see FHA, *Annual Management Report Fiscal Year 2020*, p. 14, https://www.hud.gov/sites/dfiles/Housing/documents/FHAFY2020ANNUALMGMNTRPT.pdf.

[61] For more information on Fannie Mae's and Freddie Mac's planned DTS activities related to manufactured housing, and their progress on those activities, see FHFA's Duty to Serve Quarterly and Annual Reports at https://www.fhfa.gov/PolicyProgramsResearch/Programs/Pages/DTS-2020-Enterprise-Quarterly-and-Annual-Reports.aspx.

[62] See Freddie Mac's draft Duty to Serve Underserved Markets Plan for 2022-2024, p. MH6, https://www.fhfa.gov/

Retail Banking and Alternative Credit

In the United States, robust consumer credit markets allow most consumers to access financial services and credit products to meet their needs in traditional financial markets. However, some consumers—including some who live in rural areas—can sometimes find it more difficult to get their first bank accounts, establish a credit history, and gain access to affordable credit. Safe and affordable financial services are an important tool for most American households to help them avoid financial hardship and build assets over the course of their lives.[63]

While urban areas have a higher percentage of unbanked households, rural households were more likely to be unbanked than suburban households (6.2% of rural households vs. 3.7% of suburban households).[64] For consumers living in rural areas, not having high-speed internet or living further from bank branches may make it more difficult to access banking services. For example, online and mobile banking has grown more popular in recent years. In 2019, over half of all households accessed their bank accounts primarily through online or mobile banking.[65] However, rural consumers are less likely than other consumers to use online banking or use the internet to find borrowing or savings information.[66]

Banking Deserts

Bank access may also have a geographic component, as some observers are concerned that *banking deserts*—areas without bank branches nearby—exist in certain communities. For example, a recent Federal Reserve study identified counties that were deeply affected by bank branch closures, which it defined as counties that had 10 or fewer branches and lost at least 50% of those branches from 2012 to 2017.[67] The study identified 44 counties (out of a total of over 3,100 counties examined) that met that criteria, of which 39 are rural.

The degree to which banking deserts is a growing concern for American customers is up for debate. For example, while the counties noted above were deeply affected by bank branch closures, this represents just over 1% of counties in the United States. Further, as an alternative method of measuring banking deserts, the Bank Policy Institute analyzed bank regulatory data to

PolicyProgramsResearch/Programs/Documents/FRE-2022-24-proposed-UMP.pdf; Fannie Mae's draft Duty to Serve Underserved Markets Plan for 2022-2024, p. 18, https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/FNM-2022-24-proposed-UMP.pdf; and FHFA, *Annual Housing Report, January 1, 2019-December 31, 2019*, October 30, 2020, p. 19, https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/Annual-Housing-Report-2020.pdf.

[63] For more background on disparities in access to financial products and services, see CRS Testimony TE10060, *How Invidious Discrimination Works and Hurts: An Examination of Lending Discrimination and Its Long-Term Economic Impacts on Borrowers of Color*, by Cheryl R. Cooper. For more background on financial inclusion and credit access policy issues, see CRS Report R45979, *Financial Inclusion and Credit Access Policy Issues*, by Cheryl R. Cooper.

[64] FDIC, *How America Banks: Household Use of Banking and Financial Services*, 2019 FDIC Survey, October 2020, p. 2, https://www.fdic.gov/analysis/household-survey/2019report.pdf. The FDIC defines *rural* as households that do not reside in a metropolitan statistical area, as defined by the Office of Management and Budget. For more background on access to bank account policy issues, see CRS In Focus IF11631, *Financial Inclusion: Access to Bank Accounts*, by Cheryl R. Cooper.

[65] FDIC, *How America Banks*, p. 4.

[66] Benson, Grundl, and Windle, *How Do Rural and Urban Retail Banking Customers Differ?*

[67] The study notes that this definition omits "many areas of the country that struggle with access to financial services, including many rural and tribal communities." Federal Reserve, *Perspectives from Main Street: Bank Branch Access in Rural Communities*, 2019, https://www.federalreserve.gov/publications/november-2019-bank-branch-access-in-rural-communities.htm. A list of deeply affected counties is available at https://www.federalreserve.gov/publications/november-2019-bank-branch-access-in-rural-communities-accessible.htm#xfigure1-countiesdeeplyaffectedbyban-a0aa696d.

determine branch presence in low-income, low-to-moderate-income, and minority communities in 2017 using census tracts, which provides a finer level of detail than county data.[68] This study found that the percentage of the population living in banking deserts declined slightly between 2010 and 2017, with a relatively larger decline among residents living in banking deserts in rural tracts.

Branch offices are important to many consumers, even as mobile and online banking have become more popular. For example, most banked households visit bank branches regularly, and over a quarter of banked households visit 10 or more times in a year, as of 2019.[69] Older and rural households were more likely to visit bank branches than were other banked households.[70] However, in the past decade, the number of bank branch offices has declined in the United States due to many causes, such as bank consolidations and the rise of online banking.[71] Some argue that this has left some communities without any nearby bank branches, particularly in lower-income, non-urban areas, making it more difficult to access quality banking services.[72] In affected communities, consumers are more likely to report increased costs and reduced convenience in accessing financial services.[73] Community banks and credit unions are often viewed as essential to addressing banking deserts.[74] Community banks in rural areas with depopulation trends might find it more challenging to continue to operate profitably in the future, although strong performance on agricultural loans has supported these banks in recent years.[75] Also, it remains to be seen whether the Coronavirus Disease 2019 (COVID-19) pandemic will have long-lasting effects on the role of branches in banking access.

Another concern some have raised is the absence of large banks in rural areas. While large banks are often characterized by a nationwide presence, CRS analyzed branch location data for the six largest banks from S&P Global and found one branch (Wells Fargo, Madison County, FL) located in any of the counties identified by the Fed as deeply affected. The location of the six banks' branches and the deeply affected counties are shown in **Figure 1**.

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[68] Francisco Covas, *Some Facts About Bank Branches and LMI Customers*, Bank Policy Institute, April 4, 2019, https://bpi.com/some-facts-about-bank-branches-and-lmi-customers/. The Bank Policy Institute uses Community Reinvestment Act definitions for *low-income, low-to-moderate-income*, and *minority*.

[69] FDIC, *How America Banks*, p. 23.

[70] FDIC, *How America Banks*, p. 24.

[71] For more information on bank consolidation trends, see CRS Report R46699, *Banking Policy Issues in the 117th Congress*, coordinated by David W. Perkins; and CRS Insight IN11062, *BB&T and SunTrust: The Latest Proposed Merger in a Long-Term Trend of Banking Industry Consolidation*, by David W. Perkins.

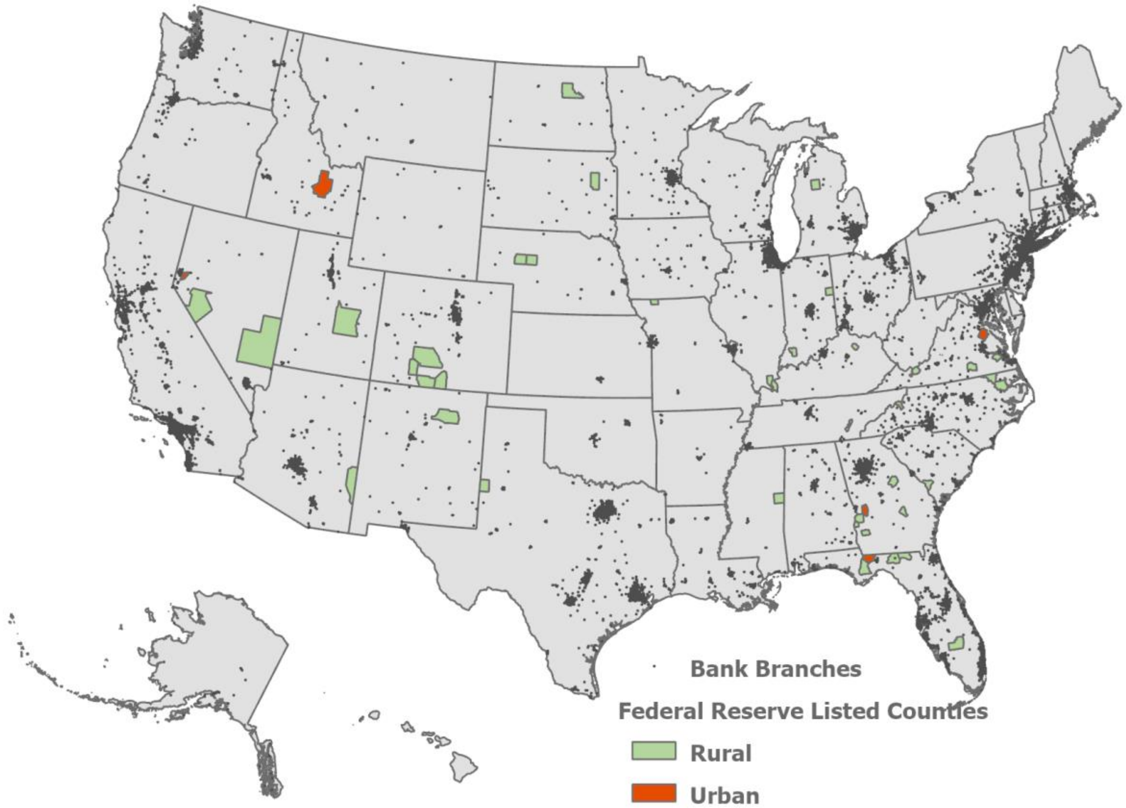
[72] Drew Dahl and Michelle Franke, *"Banking Deserts" Become a Concern as Branches Dry Up*, Federal Reserve Bank of St. Louis, July 25, 2017, https://www.stlouisfed.org/publications/regional-economist/second-quarter-2017/banking-deserts-become-a-concern-as-branches-dry-up; Donald Morgan, Maxim Pinkovskiy, and Bryan Yang, *Banking Deserts, Branch Closings, and Soft Information*, Federal Reserve Bank of New York, March 7, 2016, https://libertystreeteconomics.newyorkfed.org/2016/03/banking-deserts-branch-closings-and-soft-information.html; and Covas, *Some Facts About Bank Branches and LMI Customers*.

[73] Board of Governors of the Federal Reserve System, *Perspectives from Main Street: Bank Branch Access in Rural Communities*, p. 2.

[74] For more information, see CRS In Focus IF11631, *Financial Inclusion: Access to Bank Accounts*, by Cheryl R. Cooper.

[75] Raslavich et al., *FDIC Community Banking Study*, p. 39.

Figure 1. Bank Branches of the Six Largest Banks in Affected Counties



Source: CRS analysis of Bank Policy Institute and Federal Reserve data.

Other Credit Issues Facing Rural Communities

In addition, rural households might find it more challenging than other U.S. populations to enter the credit reporting system and develop credit records, making it more difficult for these households to obtain affordable credit products.[76] Credit invisibility, or not having a credit record at the three nationwide credit reporting agencies, is higher in rural areas[77] (about 15% in rural areas versus about 11% in the U.S. population)[78] and in areas where fewer households have high-speed internet.[79] In addition, credit-invisible consumers in rural areas are less likely to enter the credit reporting system through a credit card than credit-invisible consumers in other parts of the country.[80] Possibly for these reasons, rural households were less likely to use bank credit (such as

[76] For background on the credit reporting system, see CRS Report R44125, *Consumer Credit Reporting, Credit Bureaus, Credit Scoring, and Related Policy Issues*, by Cheryl R. Cooper and Darryl E. Getter.

[77] See Kenneth P. Brevoort et al., *Data Point: The Geography of Credit Invisibility*, CFPB, September 2018, pp. 10-11, https://www.consumerfinance.gov/data-research/research-reports/data-point-geography-credit-invisibility/.

[78] Brevoort et al., *Data Point: The Geography of Credit Invisibility*, p. 11; and Kenneth P. Brevoort, Philipp Grimm, and Michelle Kambara, *Data Point: Credit Invisibles*, CFPB, May 2015, p. 6, http://files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf.

[79] The highest rates of credit invisibility for consumers over 25 years old are in rural areas, and these rates do not vary much based on neighborhood income. See Brevoort et al., *Data Point: The Geography of Credit Invisibility*, pp. 11-12, 20.

[80] Brevoort et al., *Data Point: The Geography of Credit Invisibility*, p. 13.

credit cards) and more likely to use nonbank credit products than were suburban and urban households.[81]

Nonbank credit products that rural consumers are more likely to use include rent-to-own services, payday loans, auto title loans, pawn shop loans, and tax refund anticipation loans.[82] Households may use these types of financial products and services outside of the banking system by choice or due to a lack of understanding other financial options or lack of access to traditional institutions and poor credit history. While products outside the banking sector may better suit some households' needs, many of these products are regulated at the state level and so might differ in the level of consumer protections or other benefits that banks provide.[83] Some argue that these products are more expensive and are more likely than bank products to lead to debt traps.[84] Bank credit under certain circumstances may be less expensive for borrowers if, for example, they have good credit histories. For other consumers, nonbank credit financial products might better serve their needs due to fee structure or less stringent underwriting.[85]

Agricultural and Commercial Financial Services

This section discusses lending to two general sectors of the rural economy: farming businesses and nonfarm businesses. While these businesses have access to traditional forms of credit and federal support, such as commercial lending or Small Business Administration (SBA) loans, the discussion below focuses largely on federal programs specifically set up to support farms and businesses in rural areas and mentions traditional programs for context where necessary.

Farm and Other Agricultural Lending Programs

Several types of lenders make loans to farmers. Some are government entities or have a statutory mandate to serve agriculture, and others are private financial institutions such as commercial banks and insurance companies.[86]

USDA Farm Service Agency (FSA)

The Farm Service Agency (FSA) is housed under USDA and makes direct farm ownership loans and operating loans to family-sized farms that are unable to obtain credit elsewhere. FSA also

[81] FDIC, *How America Banks*, pp. 9, 49-51.

[82] FDIC, *How America Banks*, p. 8.

[83] For example, small-dollar credit from banks and nonbanks demonstrates how products are potentially regulated differently. For more, see CRS Report R44868, *Short-Term, Small-Dollar Lending: Policy Issues and Implications*, by Darryl E. Getter.

[84] Consumer groups often raise concerns regarding the affordability of small-dollar loans. Some borrowers may fall into *debt traps*, situations where borrowers repeatedly roll over existing loans into new loans and find it difficult to repay outstanding balances.

[85] The extent to which borrowers' financial situations would be helped or harmed by using expensive credit or having limited access to credit is widely debated. Credit is an important way households pay for unexpected expenses and compensate for emergencies, such as a car or home repair, a medical expense, or a pay cut. Research suggests that access to this type of short-term credit can help households during short-term emergencies, yet unsustainable debt can harm households. See CFPB, "Payday, Vehicle Title, and Certain High-Cost Installment Loans," 84 *Federal Register* 4292-4294, February 14, 2019; and CFPB, "Payday, Vehicle Title, and Certain High-Cost Installment Loans," 82 *Federal Register* 54842-54846, November 17, 2017.

[86] For more information on agricultural lending, see CRS Report R46768, *Agricultural Credit: Institutions and Issues*, by Jim Monke.

guarantees timely payment of principal and interest on qualified loans that are made by commercial banks and the Farm Credit System (FCS). Farm bills have modified FSA's permanent authority in Title 7, Sections 1921 et seq., of the *United States Code*. At the end of FY2019, FSA had a portfolio of $12 billion of direct loans to 87,000 borrowers and loan guarantees of $16 billion for 39,000 borrowers.[87] FSA direct loans are about 3% of the market for farm debt, and loan guarantees cover about another 5% of the market.[88]

Farm Credit System and Farmer Mac

There are two GSEs in farm loan markets: the FCS and Farmer Mac. The Farm Credit Administration, a federal agency, regulates the farm GSEs.[89]

Congress established the FCS in 1916 to provide a dependable and affordable source of credit to rural areas at a time when commercial lenders avoided farm loans. At the end of FY2020, the FCS had a total portfolio of $315 billion of loans, including over $190 billion of farm loans.[90] The FCS holds about 43% of total farm debt. The FCS is not a government agency, nor is it guaranteed by the U.S. government; it is a network of over 70 borrower-owned lending institutions operating as a GSE. It is a for-profit lender with a statutory mandate to serve agriculture. Funds are raised through the sale of bonds in capital markets, and these funds are used to make loans to eligible creditworthy borrowers.[91] The FCS is unique among the GSEs because it is a retail lender making loans directly to farmers and thus is in direct competition with commercial banks. Because of this direct competition for creditworthy borrowers, the FCS and commercial banks often have an adversarial relationship in the policy realm. Commercial banks have asserted unfair competition from the FCS for borrowers because of tax advantages that can lower the relative cost of funds from the FCS.[92] The FCS counters by citing its statutory mandate (and limitations) to serve agricultural borrowers in good times and bad times.[93] Both the FCS and commercial banks support FSA's loan programs, as FSA offers guarantees that these lenders use and tends to serve farmers who otherwise may not be able to obtain credit.

[87] Direct farm ownership (real estate) loans are limited to $600,000 per borrower, direct operating loans to $400,000, and microloans in each category to $50,000. Guaranteed loans may be up to $1,776,000 and are adjusted for inflation. In addition, direct emergency loans are available for disasters. For more, see FSA, "Farm Loan Program," http://www.fsa.usda.gov/dafl; and FSA, "Farm Loan Programs Loan Servicing Data," https://www.fsa.usda.gov/programs-and-services/farm-loan-programs/program-data.

[88] FSA is subject to appropriations. During FY2021, an appropriation of $68 million in budget authority (plus $307 million for salaries and expenses) is supporting $9.9 billion of new direct loans and guarantees. For more, see CRS Report R45974, *Agriculture and Related Agencies: FY2020 Appropriations*; and USDA's farm sector balance sheet at https://www.ers.usda.gov/data-products/farm-income-and-wealth-statistics.

[89] For more information, see CRS In Focus IF10767, *Farm Credit Administration and Its Board Members*, by Jim Monke.

[90] Federal Farm Credit Banks Funding Corporation, "2020 Annual Information Statement of the Farm Credit System," March 2021.

[91] Statutes and oversight by the House and Senate Agriculture Committees determine the scope of FCS activity (Farm Credit Act of 1971, as amended; 12 U.S.C. §§2001 et seq.). Benefits such as tax exemptions are also provided. Eligibility is limited to farmers, certain farm-related agribusinesses, rural homeowners in towns under 2,500 population, and cooperatives. For more, see CRS Report RS21278, *Farm Credit System*, by Jim Monke.

[92] For example, American Bankers Association, letter to House and Senate Agriculture Committees, February 2, 2015, https://www.aba.com/-/media/documents/letters-to-congress-and-regulators/lettersenateagcommrefcs-oversight020215.pdf?rev=8bf6631e18604164971ec9867e7c5516.

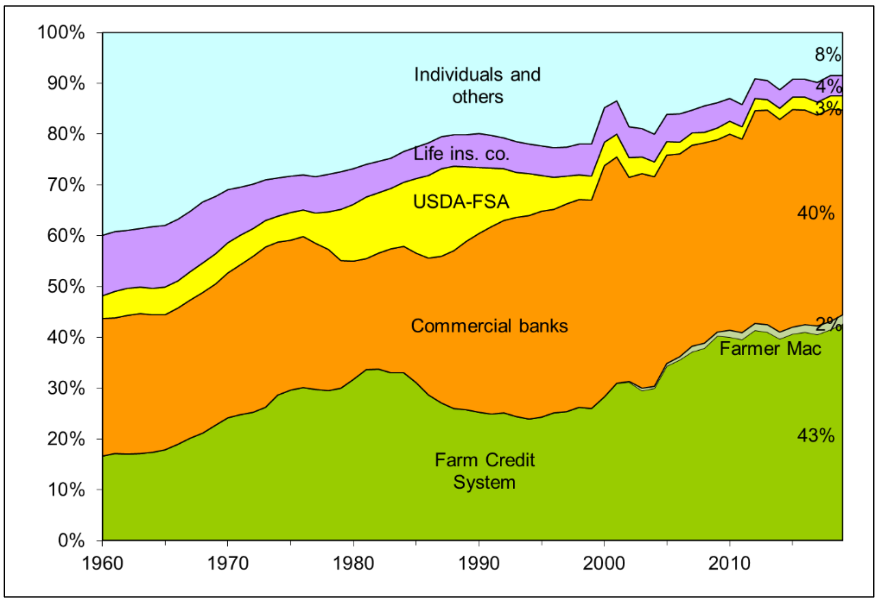
[93] For example, Farm Credit Council, letter to House and Senate Agriculture Committees, February 5, 2015, http://www.fccouncil.com/files/FCC_Letters_in_Response_to_ABA_5Feb2015.pdf.

Farmer Mac is a separate GSE that provides a secondary market for agricultural loans. It purchases mortgages from private lenders as well as loans guaranteed by USDA and from lenders organized as cooperatives to finance utilities in rural areas, and it guarantees mortgage-backed securities that are bought by investors.[94] Some consider it related to the FCS because the Farm Credit Administration is its regulator and it was created by the same legislation, but it is financially and organizationally a separate entity.

Composition of Farm Loans

Farm debt totaled around $432 billion at the end of 2020, around two-thirds of which is real estate debt. As is seen in **Figure 2**, the FCS and commercial banks are the largest providers of farm debt with 43% and 40%, respectively, of total farm debt outstanding, and the FCS's share of farm debt has been growing since the 1990s. The FCS is the largest lender for real estate loans (47%), and commercial banks are the largest lender for non-real-estate loans (46%).

Figure 2. Market Shares, by Lender, of Total Farm Debt, 1960-2019



Source: CRS, using USDA Economic Research Service (ERS) year-end data, as of February 5, 2021.

Notes: Shares in the graph are for direct loans. Guarantees issued on other lenders' loans are not shown. FSA issued guarantees on about 5% of farm loans that are not shown separately but are included in the shares of commercial banks and the Farm Credit System. ERS began publishing data on Farmer Mac in 2002.

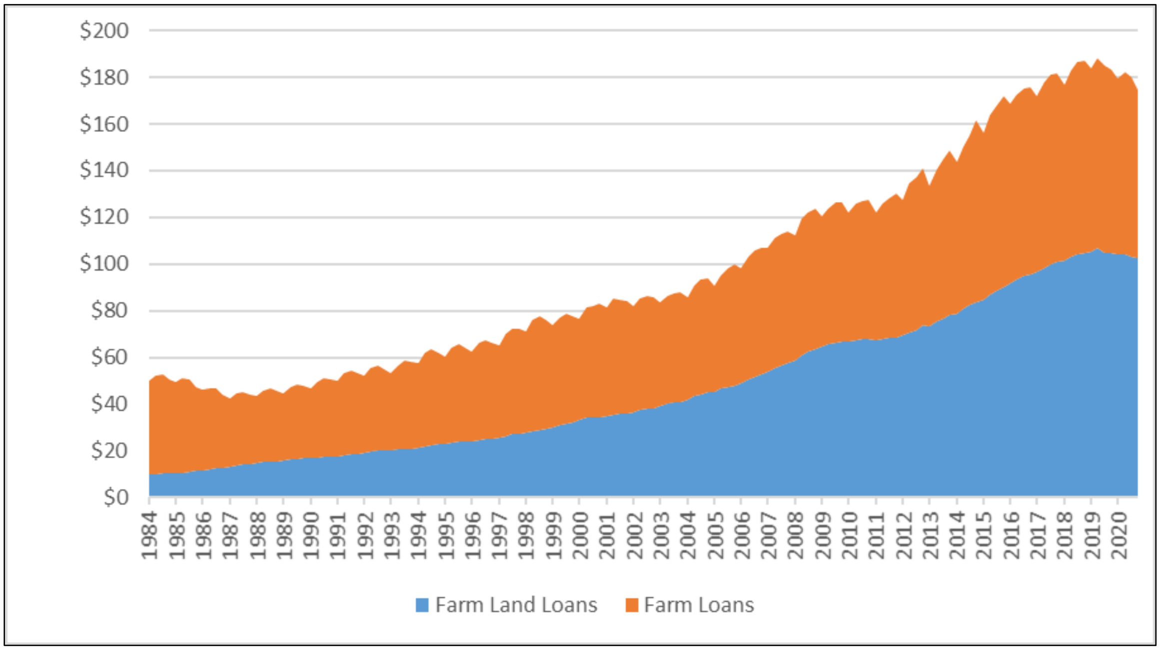
Commercial Bank Lending to Farms

While the FCS has become increasingly important in recent years, **Figure 2** shows that commercial bank lending is an important source of credit for farms. Commercial lending to agricultural borrowers can generally be broken into real estate and non-real-estate loans. Total bank lending peaked at $187 billion at the end of 2018, as shown in **Figure 3**. At the end of 2020, total farm lending by commercial banks totaled almost $175 billion, with roughly $103 billion (59%) of that coming from farmland real estate loans.

[94] For more information, see FCA, "About Farmer Mac," https://www.fca.gov/farmer-mac-oversight/about-farmer-mac; and CRS In Focus IF11595, *Farmer Mac and Its Board Members*, by Jim Monke.

Figure 3. Bank Lending to Farms

Loans to Farms and for Farm Real Estate ($ billions)



Source: Federal Reserve Bank of St. Louis, Federal Reserve Economic Database, June 22, 2021, https://fred.stlouisfed.org/series/QBPBSTASFRMLN; and Federal Reserve Bank of St. Louis, Federal Reserve Economic Database, June 22, 2021, https://fred.stlouisfed.org/series/QBPBSTASLNREALFRMLND, June 22, 2021.

Non-real-estate farm loans have generally grown since the 1980s and peaked in 2018 at $82.3 billion. Subsequently, loan volumes have trended down to $71.8 billion at the end of 2020.[95] In addition, loans to finance agricultural production among commercial banks rose steadily from 1989 to 2019, peaking at $78.2 billion in the third quarter of 2019. Since then, it has trended downward and sits at $64.7 billion as of the first quarter of 2021. Among commercial banks, the downward trend in lending to the agricultural industry at the end of 2020 largely resulted from improved economic conditions, high crop prices, and federal support from various pandemic relief programs, which limited farms' need for funding.[96]

Rural Commercial Lending Programs

Small businesses contribute to nearly half the U.S. gross domestic product, and small businesses play a particularly important role in the nonfarm rural economy.[97] The Federal Reserve Small Business Credit Survey provides an annual snapshot of several small business performance metrics and financing conditions.[98] The 2021 report surveyed over 9,000 firms and found that 84

[95] Federal Reserve Bank of St. Louis, Federal Reserve Economic Database, June 22, 2021, https://fred.stlouisfed.org/series/QBPBSTASFRMLN.

[96] Cortney Cowley and Ty Kreitman, Federal Reserve Bank of Kansas City, "Farm Lending Pullback Continues," March 23, 2021, https://www.kansascityfed.org/agriculture/agfinance-updates/farm-lending-pullback-continues/.

[97] SBA, "Small Business GDP, 1998-2014," December 19, 2018, https://advocacy.sba.gov/2018/12/19/advocacy-releases-small-business-gdp-1998-2014/.

[98] The surveys conducted by the Federal Reserve Banks can be found at https://www.fedsmallbusiness.org/survey.

percent of employer firms are in urban areas.[99] In 2017, the Federal Reserve banks that produce the report published analysis specifically on businesses in rural areas, analyzing their financing needs and condition.[100] The survey found that, compared to small businesses in urban areas, rural firms were:

- older, more stable, and less likely to apply for financing;
- less constrained by credit risk and financial challenges; and
- more dependent on smaller banking institutions.

A 2019 report[101] by the SBA on rural businesses stated that since 2000, growth in the number of businesses in rural counties (7.2%) lagged metropolitan counties (30.9%). Further, most growth in rural counties happened in a few western states, with the highest growth happening in New Mexico, Oregon, Hawaii, Utah, and California. As noted earlier in this report, rural economies can also be less economically diverse, which suggests they may be more vulnerable to local economic shocks.

Federal programs set up to help small businesses, as well as other agencies set up to help agricultural business, have specific programs in place that provide credit to businesses in rural areas and are detailed below.

Small Business Administration Agricultural Programs

The SBA administers several types of programs to support small businesses in rural areas, including loan guarantee and venture capital programs to enhance small business access to capital; federal contracting programs to increase small business opportunities; direct loan programs for businesses, homeowners, and renters to assist their recovery from natural disasters; and small business management and technical assistance training programs to assist business formation and expansion. Many of these programs are targeted toward agricultural businesses.

Historically, Congress prevented most agricultural businesses from accessing the SBA's lending and training programs as part of an effort to limit duplication of the agency's activities with other federal agencies.[102] However, in 1976, Congress created an exception to this directive by allowing the SBA to provide loans and training assistance to "agricultural enterprises."[103] Agricultural enterprises are defined as "small business concerns" (meeting SBA's size and other eligibility

[99] Federal Reserve System, "Small Business Credit Survey: Report on Employer Firms," 2021, p. 31, https://www.fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/2021/2021-sbcs-employer-firms-report.

[100] Federal Reserve Bank of Richmond, "Report on Rural Employer Firms," December 2017, https://www.richmondfed.org/-/media/richmondfedorg/community_development/resource_centers/small_business/pdf/credit_survey/sbcs_report_rural_employer_firms_2016.pdf.

[101] Daniel Wilmoth, "Small Business Facts: Growth in Number of Rural Establishments," December 2019, https://cdn.advocacy.sba.gov/wp-content/uploads/2020/02/04111621/Rural-Business-Growth-Fact-Sheet1.pdf.

[102] These provisions are contained within 15 U.S.C. §647.

[103] See P.L. 94-305, An Act to amend the Small Business Act and Small Business Investment Act of 1958; and 15 U.S.C. §647(b).

standards[104]) that are engaged in the production of food and fiber, ranching, raising of livestock, aquaculture, and all other farming and agricultural-related industries.[105]

The SBA's ability to provide disaster loans to agricultural businesses is limited to small agricultural cooperatives, small nurseries affected by a drought disaster declared by the Secretary of Agriculture, and small aquaculture businesses. Also, the SBA's ability to provide business loans to agricultural businesses is generally limited to "agricultural enterprises" that are unable to secure financing on reasonable terms elsewhere.[106] As discussed in the text box below, Congress expressly authorized the SBA to provide financial assistance to a broader range of agricultural businesses for the SBA's Paycheck Protection Program and Economic Injury Disaster Loan program during the COVID-19 pandemic.

Given that USDA and the SBA both offer programs and services to agricultural businesses, the two agencies have, from time to time, entered into memoranda of understanding to facilitate inter-agency cooperation. For example, in 2018, USDA and the SBA signed a memorandum of understanding to convene interagency working groups to address capital access and investment in rural America and ways to assist rural businesses.[107]

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[104] See CRS Report R40860, *Small Business Size Standards: A Historical Analysis of Contemporary Issues*, by Robert Jay Dilger.

Of note, P.L. 99-272, the Consolidated Omnibus Budget Reconciliation Act of 1985 (Title XVIII—Small Business Programs), made it easier for agricultural enterprises to be considered small by specifying that all agricultural industries would be considered small if they had no more than $500,000 in average annual gross receipts over the previous three years. In 2000, P.L. 106-554, the Consolidated Appropriations Act, 2001 (Appendix I—the Small Business Reauthorization Act of 2000), increased that threshold to no more than $750,000 in average annual gross receipts. In 2016, P.L. 114-328, the National Defense Authorization Act for Fiscal Year 2017, directed the SBA to establish size standards for agricultural enterprises in the same manner as other industries and include them in the required five-year rolling review process mandated by P.L. 111-240, the Small Business Jobs Act of 2010. In 2019, the SBA increased the size standard threshold for most agricultural enterprises to no more than $1 million in average annual receipts to account for inflation. See SBA, "Small Business Size Standards: Adjustment of Monetary-Based Size Standards for Inflation," 84 *Federal Register* 34261-34281, July 18, 2019. The SBA has proposed increasing these thresholds further; see SBA, "Small Business Size Standards: Agriculture, Forestry, Fishing and Hunting; Mining, Quarrying, and Oil and Gas Extraction; Utilities; Construction," 85 *Federal Register* 62239-62266, October 2, 2020.

[105] P.L. 94-305 ("An Act to amend the Small Business Act and Small Business Investment Act of 1958 to provide additional assistance under such Acts, to create a pollution control financing program for small business, and for other purposes"). Additionally, Congress specified in conference report language that these agricultural businesses should continue to utilize USDA's programs and services, but if "satisfactory financial assistance is not available" there, agricultural small businesses "shall not be excluded" from seeking SBA business loans and training assistance. See U.S. Congress, House Committee of Conference, *Small Business Act and Small Business Investment Act*, conference report to accompany S. 2498, 94th Cong., 2nd sess., May 10, 1976, H.Rept. 94-1115 (Washington: GPO, 1976), p. 14.

[106] Also known as the "credit unavailable elsewhere" requirement, this provision requires the SBA to direct and conduct oversight of the methods used by lenders to determine whether a borrower is able to obtain credit elsewhere on reasonable terms. See 15 U.S.C. §636(a)(1)(A)(i). The SBA currently requires lenders to identify, discuss, and retain in each credit file the specific credit weaknesses that substantiate this requirement. See SBA, "7(a) Loan Program Clarification—Credit Unavailable Elsewhere Requirement," SBA Information Notice, 5000-1376, March 25, 2016, https://www.sba.gov/document/information-notice-5000-1376-7a-loan-program-clarification-credit-unavailable-elsewhere-requirement.

[107] USDA and SBA, *Memorandum of Understanding Relative to Cooperation and Coordination on Obligations of Shared Concern*, April 4, 2018, https://www.usda.gov/sites/default/files/documents/usda-sba-mou.pdf.

SBA Paycheck Protection Program[108]

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act; P.L. 116-136) provided $349 billion for a new, SBA Paycheck Protection Program (PPP). The American Rescue Plan Act of 2021 (P.L. 117-2), among other provisions, increased the PPP authorization amount to $813.7 billion and provided $53.6 billion for SBA program enhancements. The PPP Extension Act of 2021 (P.L. 117-6) extended the acceptance of PPP applications through May 31, 2021, and authorized the SBA to process any pending applications submitted on or before that date through June 30, 2021. These loans were provided by private lenders approved by the SBA for businesses affected by COVID-19. These loans are 100% guaranteed by the SBA, have a maximum term of either two or five years depending on when the loan was issued, carry a 1% interest rate, and are forgivable if the borrower uses the loan proceeds for eligible expenses (e.g., payroll, business rent, mortgage obligations, or utilities) and meets other criteria (e.g., wage and employment retention).[109]

PPP loans were available to any business that meets general loan eligibility criteria (e.g., criteria related to the applicant's criminal history, current exclusion from participation in federal programs, bankruptcy status, certification that the proceeds are needed due to current economic uncertainty to support ongoing operations) and meets the SBA's small business size standards. In addition, any business and certain nonprofit organizations, such as 501(c)(3) nonprofit organizations and 501(c)(19) veterans organizations, were also generally eligible if they have (1) 500 or fewer employees or (2) meet the SBA's size standard if more than 500 employees are eligible.

SBA PPP guidance notes that, in addition to having 500 or fewer employees, agricultural producers, farmers, and ranchers were eligible for the PPP if the business fits within its revenue-based industry size standard, which, for most agricultural enterprises, is average annual receipts of no more than $1 million.[110] Additionally, they could qualify for PPP loans if their businesses meet SBA's "alternative size standard," which is currently (1) maximum net worth of not more than $15 million and (2) the business's average net income after federal income taxes (excluding any carry-over losses) for the two full fiscal years before the date of the application is not more than $5 million.[111]

As of May 31, 2021, firms in agriculture, forestry, fishing, and hunting have received 523,884 PPP loans totaling over $10.0 billion, or about 4.5% of the total number of PPP loans approved (over 11.1 million loans) and about 1.2% of the total amount (nearly $800 billion) that has been approved.[112]

SBA Disaster Loan Program[113]

The SBA administers several types of loans through its Disaster Loan Program to help businesses, private nonprofit organizations, and households recover from federally certified disasters. The

[108] For additional information and analysis of the Paycheck Protection Program, see CRS Report R46284, *COVID-19 Relief Assistance to Small Businesses: Issues and Policy Options*, by Robert Jay Dilger, Bruce R. Lindsay, and Sean Lowry.

[109] PPP loans issued prior to June 5, 2020, have a maturity of two years. Loans issued after June 5, 2020, have a maturity of five years.

[110] PPP loan amounts issued in 2020 were based on farmers' net income after deductions and expenses. Because of the amount of depreciation farmers claim on equipment, this amount was either negative or relatively low for many farmers. P.L. 116-260, the Consolidated Appropriations Act, 2021 (Title III—Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act), allowed farmers that report income or expenses on a Schedule F or equivalent successor schedule to use gross income instead of net profit when calculating 2021 PPP loan amounts.

[111] See SBA, "Paycheck Protection Program Loans: Frequently Asked Questions (FAQs)," April 6, 2021, https://www.sba.gov/document/support-faq-ppp-borrowers-lenders.

The SBA's alternative size standard was created by P.L. 111-240, the Small Business Jobs Act, and remains in force until the SBA adopts a different alternative size standard. The SBA has announced that it anticipates that it will propose an alternative size standard later in 2021. See SBA, "Semiannual Regulatory Agenda," 86 *Federal Register* 16973, March 31, 2021.

[112] SBA, "Paycheck Protection Program (PPP) Report: Approvals through May 31, 2021," https://www.sba.gov/document/report-paycheck-protection-program-weekly-reports-2021.

[113] For additional information and analysis of the SBA Disaster Loan Program, see CRS Report R44412, *SBA Disaster Loan Program: Frequently Asked Questions*, by Bruce R. Lindsay.

SBA's Disaster Loan Program includes Economic Injury Disaster Loans (EIDLs) which provide up to $2 million for working capital expenses (including fixed debts, payroll, accounts payable, and other bills) that cannot be met as a direct result of the disaster.

SBA Disaster Loans and the COVID-19 Pandemic

P.L. 116-123, the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020, among other provisions, made economic injury from COVID-19 an eligible EIDL expense.

As mentioned, agricultural enterprises (other than agricultural cooperatives, aquaculture enterprises, and eligible nurseries) have not been eligible for SBA disaster assistance since 1985. The CARES Act, however, expanded COVID-19-related SBA EIDL eligibility to include businesses with 500 or fewer employees, sole proprietorships (with or without employees), independent contractors, cooperatives, employee-owned businesses, tribal businesses, and agricultural enterprises with 500 or fewer employees.[114] The CARES Act does not supplant the Small Business Act's prohibition on the duplication of programs and services offered by other federal agencies. Rather, the CARES Act expanded eligibility to include agricultural enterprises with 500 or fewer employees for COVID-19-related EIDLs. These businesses remain ineligible for EIDL assistance for other federally declared disasters (such as hurricanes or wildfires).

SBA COVID-19 EIDLs have loan terms of up to 30 years with 3.75% interest for small businesses and 2.75% interest for private nonprofit organizations. Due to unprecedented demand, the SBA lowered the maximum COVID-19 EIDL loan amount from $2 million to $500,000 on March 16, 2020; lowered it further to six months of economic injury up to $150,000 on May 3, 2020; and increased it to 24 months of economic injury up to $500,000 on April 6, 2021.[115]

As of April 29, 2021, SBA has approved 118,979 EIDL applications for $6.9 billion for the industries of "agriculture, forestry, fishing and hunting."[116] In addition to expanding eligibility, the CARES Act included loan deferrals and established an "Emergency EIDL Grant program" (also referred to as an "EIDL advance") to provide applicants with advance payments of up to $10,000.[117] The advance payment did not have to be repaid, even if the borrower was later denied the EIDL. Due to high demand, the SBA limited the advance to $1,000 per employee, up to the statutory cap of $10,000.[118] The Emergency EIDL grant could be used to keep employees on payroll; pay for sick leave; meet increased production costs due to supply chain disruptions; or pay business obligations, including debts, rent, and mortgage payments.[119]

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[114] EIDL eligibility includes small agricultural cooperatives, small aquaculture businesses, and nurseries deriving more than 50% of their annual receipts from the production of nursery or other agricultural products. For more information, see CRS Insight IN11357, *COVID-19-Related Loan Assistance for Agricultural Enterprises*, by Robert Jay Dilger, Bruce R. Lindsay, and Sean Lowry.

[115] SBA, Office of Inspector General, "Inspection of Small Business Administration's Initial Disaster Assistance Response to the Coronavirus Pandemic," October 28, 2020, https://www.sba.gov/document/report-21-02-inspection-small-business-administrations-initial-disaster-assistance-response-coronavirus-pandemic; and SBA, "SBA to Increase Lending Limit for COVID-19 Economic Injury Disaster Loans," March 24, 2021, https://www.sba.gov/article/2021/mar/24/sba-increase-lending-limit-covid-19-economic-injury-disaster-loans.

[116] Based on email provided on April 29, 2021, by SBA Office of Congressional and Legislative Affairs.

[117] The SBA stopped accepting COVID-19-related EIDL and Emergency EIDL Advance Payment grant applications on April 15, 2021, because the SBA was approaching its disaster loan assistance credit subsidy limit.

[118] For an overview of the SBA EIDL Emergency Grants, see CRS Insight IN11370, *SBA EIDL and Emergency EIDL Grants for COVID-19*, by Bruce R. Lindsay. For data on SBA EIDL Emergency Grants, see CRS Insight IN11379, *SBA EIDL and Emergency EIDL Grants: Data by State*, by Bruce R. Lindsay and Maura Mullins.

[119] The American Rescue Plan Act of 2021 (P.L. 117-2) established a "Targeted EIDL Advance." The Targeted EIDL Advance is a payment of the difference between the amount the small business received and the $10,000 maximum. Eligible businesses that received previous advances in amounts less than $10,000 are prioritized for the Targeted EIDL Advance. Second priority entities are those that applied for EIDL advances before December 27, 2020, but did not receive them because funding was exhausted in mid-July 2020. Eligible businesses must be located in low-income communities as defined by Section 45D(e) of the Internal Revenue Code; suffered greater than 30 percent economic loss over an eight-week period since March 2, 2020, compared to the previous year; and have 300 or fewer employees. Most agricultural enterprises, however, are not eligible for the Targeted EIDL Advance. Rather, the Targeted EIDL Advance is limited to aquaculture businesses, agricultural cooperatives, and retail nurseries. See SBA, *FAQ Regarding Targeted EIDL Advance*, April 27, 2021, p. 7, https://www.sba.gov/document/support-faq-regarding-targeted-eidl-

USDA Rural Business Support

USDA's Rural Business-Cooperative Service (RBCS) administers a number of programs that provide financing or technical assistance to businesses in eligible rural areas, including direct loan or loan guarantee programs, grant programs, technical assistance programs, and a venture capital program. Congress reauthorizes these programs in periodic farm bills, most recently in the 2018 farm bill (P.L. 115-334). Eligible rural areas vary by program, but for all programs discussed below, an eligible rural area is an area with a population of 50,000 or fewer inhabitants and not contiguous to an urbanized area with a population of greater than 50,000. Some RBCS programs provide support similar to SBA programs. However, RBCS targets its assistance specifically to businesses in rural areas, in part because small businesses in rural areas that are in need of credit can face difficulty competing for loans, including SBA assistance, with small businesses in suburban or urban areas. This is due to a number of factors, including fewer customers spread across larger geographic areas, and other rural financial characteristics mentioned earlier in this report (see "Rural Economic and Financial Overview"). Selected RBCS credit and venture capital programs are described below.

Business and Industry Loan Guarantee Program

The Business and Industry Loan Guarantee Program guarantees loans made by private lenders to eligible entities to support business formation or expansion in rural areas.[120] Eligible lenders include federal- and state-chartered banks, credit unions, savings and loan associations, and Farm Credit institutions. Eligible loan borrowers include Indian tribes, public entities, individuals, and for-profit or nonprofit entities, including corporations and cooperatives. Program regulations set the maximum guarantee at 90% of the eligible guaranteed loan loss, but RBCS typically sets a maximum guarantee of 80% in annual Federal Register notices.[121] The maximum loan amount eligible for a guarantee is $25 million, with limited exceptions for loans for agricultural processing. Interest rates are negotiated between the lender and borrower, and the maximum loan term is 40 years.[122]

advance.

[120] For additional information, see RBCS, "Business and Industry Loan Guarantees," https://www.rd.usda.gov/programs-services/business-industry-loan-guarantees.

[121] See USDA, "OneRD Annual Notice of Guarantee Fee Rates, Periodic Retention Fee Rates, Loan Guarantee Percentage and Fee for Issuance of the Loan Note Guarantee Prior to Construction Completion for Fiscal Year 2022," 86 *Federal Register* 35262, July 2, 2021, https://www.federalregister.gov/documents/2021/07/02/2021-14193/onerd-annual-notice-of-guarantee-fee-rates-periodic-retention-fee-rates-loan-guarantee-percentage.

[122] 7 C.F.R. §5001.

Recent Funding for Business and Industry Loan Guarantee Program

Congress funds the Business and Industry Loan Guarantee Program in annual Agriculture appropriations acts. Congress provided authority to guarantee up to $1.3 billion in loans per year in FY2020 and FY2021. In March 2020, Congress included supplemental funding to support $1 billion in Business and Industry Loan Guarantees in the CARES Act (P.L. 116-136). This funding was to remain available until September 15, 2021, or until fully obligated, whichever came first. RBCS established separate requirements for the CARES Act loan guarantees, which are similar to the traditional loan guarantees but differ in a few ways. The CARES Act loan guarantees may be used only for working capital to prevent, prepare for, or respond to the effects of the COVID-19 pandemic. The maximum loan guarantee is 90% of the eligible guaranteed loan loss, and the maximum loan term is 10 years.[123] In its FY2022 budget request, the Biden Administration proposed an additional $500 million in budget authority for the program.[124] Congress has not adopted this proposal to date.

Rural Business Investment Program

The Rural Business Investment Program (RBIP) authorizes the creation of Rural Business Investment Companies (RBICs) to increase access to capital for *smaller enterprises*[125] in rural areas.[126] RBICs authorized under the program are essentially rural venture capital funds comprised of at least $5 million in private equity capital. The RBIP may establish *leveraged* RBICs—RBICs created with the support of federal capital—or *non-leveraged* RBICs—RBICs created without the support of federal capital.[127] A leveraged RBIC raises private capital and then requests federal capital from USDA to supplement (leverage) that private capital. USDA provides federal capital to the RBIC in the form of guaranteeing debentures the RBIC issues.[128] When the RBIC makes profits on its investments, it repays the federal capital to USDA.

Eligible applicants for the RBIP include newly formed for-profit entities or newly formed subsidiaries of for-profit entities. The applicant must have private capital of at least $5 million, and the management team must have experience in community development financing or venture capital financing.[129] Once approved and licensed as an RBIC, the entity must invest at least 75% of its funds in rural areas with a population of 50,000 or fewer and at least 50% of its funds in smaller enterprises. An RBIC may make up to 10% of its investments in urban areas with a

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[123] For additional information, see RBCS, "Business and Industry CARES Act Program," https://www.rd.usda.gov/programs-services/business-and-industry-cares-act-program.

[124] USDA, "2022 USDA Explanatory Notes—Rural Business-Cooperative Service," p. 13, https://www.usda.gov/sites/default/files/documents/32RBS2022Notes.pdf.

[125] A *smaller enterprise* is defined as an enterprise with a net financial value of not more than $6 million in net worth with annual revenue of not more than $2 million. See 7 U.S.C. §2009cc(15).

[126] For additional information, see RBCS, "Rural Business Investment Program," https://www.rd.usda.gov/programs-services/rural-business-investment-program.

[127] Many banks view non-leveraged RBICs as means to obtain higher returns on their investments than banks could obtain from traditional loans, because investments in RBICs are exempt from federal regulations that restrict banks' direct investments in private companies. Therefore, some venture capitalists form non-leveraged RBICs to increase their likelihood of obtaining investments from these banks.

[128] RBCS defines *debenture* for the purposes of the RBIP as "a debt obligation issued by RBICs … and held or guaranteed by the Agency." The RBIP limits the maximum amount of leverage for an RBIC to the lesser of 200% of the RBIC's *leverageable capital* or $105 million. See 7 C.F.R. §4290.1150. *Leverageable capital* is defined as private capital excluding non-cash assets and unfunded commitments. See 7 C.F.R. §4290.50.

[129] 7 U.S.C. §2009cc-3 and §2009cc-8. Statute authorizes USDA to approve an application if the applicant has private capital of more than $2.5 million but provides a viable business plan with a reasonable timetable for achieving private capital of $5 million.

population of 150,000 or greater. The RBIP also authorizes USDA to make grants to RBICs or other entities to provide operational assistance to smaller enterprises financed by an RBIC.[130]

Congress first established the RBIP in the Farm Security and Rural Investment Act of 2002 (P.L. 107-171, §6029), which provided mandatory funding of "such sums as necessary" for the cost of guaranteeing $280 million in debentures and mandatory funding of $44 million for program grants. Mandatory funding was to remain available until expended. In the Consolidated Appropriations Act, 2005 (P.L. 108-447, Division A, Title VII, §753), Congress provided $10 million in discretionary appropriations for the RBIP. However, the Deficit Reduction Act of 2005 (P.L. 109-171) terminated the authorization of funding for RBIP starting in FY2007 and rescinded any unobligated prior year funds. Subsequent farm bills have reauthorized the program, most recently the 2018 farm bill, which also authorized discretionary funding of $20 million per year for FY2019-FY2023. However, Congress has not appropriated funding for leveraging RBICs or for program grants since FY2005. RBCS established one leveraged RBIC under the RBIP prior to the rescission of program funds. Since then, RBCS has certified nine non-leveraged RBICs.[131]

Revolving Loan Fund Programs

RBCS administers multiple programs that allow loan borrowers to establish revolving loan funds (RLFs) to provide assistance to small businesses in rural areas. Under these programs, RBCS makes a loan to an intermediary, which uses the loan funds to establish an RLF. The intermediary uses the RLF to make loans to small businesses or other ultimate recipients for business formation and expansion or economic development projects in rural areas. As the ultimate recipients repay their loans, the intermediary uses the funds from these repayments to make new loans (i.e., revolves the funds). The three RBCS RLF programs are summarized below.

- **Intermediary Relending Program.** RBCS makes loans at 1% interest to local intermediaries, which establish RLFs.[132] Eligible intermediaries include nonprofit organizations, federally recognized tribes, cooperatives, and public agencies. Eligible ultimate recipients include public or private organizations or individuals. Ultimate recipients may use loans for a variety of business formation and expansion costs—including for land, facilities, or equipment—start-up costs, and feasibility studies. RBCS may loan an intermediary up to $2 million initially and up to $1 million at a time thereafter, but the intermediary's total aggregate debt to RBCS may not exceed $15 million. Intermediaries may loan ultimate recipients the lesser of $250,000 or 75% of the project cost.
- **Rural Economic Development Loan and Grant Program.** RBCS makes loans at 0% interest[133] to local utilities, which then establish RLFs.[134] Eligible intermediaries include current and former borrowers of USDA rural electric and

[130] 7 U.S.C. §2009cc-7 and §2009cc-8.

[131] For a list of certified RBICs, see USDA, "Rural Business Incorporated Company (RBIC) Program: List of Fully Certified RBICs," https://www.rd.usda.gov/sites/default/files/USDA_RD_CertifiedRBICs.pdf.

[132] For additional information, see RBCS, "Intermediary Relending Program," https://www.rd.usda.gov/programs-services/intermediary-relending-program.

[133] RBCS refers to these loans as grants that must be repaid to RBCS when the RLF is terminated. Because the term *grant* typically refers to an award that does not require repayment, these awards are referred to as 0% interest loans in this section for clarity. See 7 C.F.R. §4280.3 and RBCS, "Rural Economic Development Loan and Grant Program," https://www.rd.usda.gov/programs-services/rural-economic-development-loan-grant-program.

[134] For additional information, see RBCS, "Rural Economic Development Loan and Grant Program," https://www.rd.usda.gov/programs-services/rural-economic-development-loan-grant-program.

telecommunications loans. Eligible ultimate recipients include public bodies and other nonprofit entities and certain for-profit entities. Ultimate recipients may use loans for economic development projects, including business incubators, feasibility studies, facilities and equipment to provide medical care, and facilities and equipment to provide education or training to local entities on economic development. RBCS sets the maximum loan amount for loans to intermediaries annually. The maximum loan amount for FY2021 was $300,000.[135] Statute and program regulations do not specify maximum loan amounts from the intermediary to the ultimate recipients. Intermediaries and ultimate recipients must provide matching funds equal to 20% of the loan amount and project cost, respectively. This program also authorizes intermediaries to make pass-through loans to ultimate recipients rather than establishing RLFs.

- **Rural Microentrepreneur Assistance Program.** RBCS makes loans to intermediaries, which establish RLFs.[136] Loans from RBCS to the intermediary have an interest rate of 1%-2%, depending on how long the intermediary has participated in the program. Eligible intermediaries include Indian tribes, nonprofit entities, and public institutions of higher education. Eligible ultimate recipients include businesses located in rural areas and having 10 or fewer full-time equivalent employees. Ultimate recipients may use loans for business expenses including working capital, debt refinancing, purchasing equipment and supplies, and improving real estate. The maximum loan amount from RBCS to the intermediary is $500,000. RBCS may make multiple loans to the same intermediary, but the intermediary's total aggregate debt to RBCS may not exceed $2.5 million. Intermediaries may loan ultimate recipients the lesser of $50,000 or 75% of the project cost. The program also authorizes RBCS to make grants of up to $205,000 to intermediaries to provide technical assistance to small businesses in rural areas.

Credit in Native American Communities

Many Native American communities in the United States, such as the American Indian and Alaskan Native populations, are located in rural areas and face many of the same issues with access to financial services as discussed above. This section provides an overview of the issues and programs specifically impacting Native American communities, which have historically had among the highest poverty rates in the nation,[137] particularly on tribal reservations or trust land—much of it rural. American Indians and Alaska Natives living in tribal areas also experience higher rates of physically substandard or overcrowded housing than does the population as a whole.[138] In addition, various factors present challenges for mortgage lending in tribal areas,

[135] RBCS, "Notice of Solicitation of Applications for Inviting Applications for the Rural Economic Development Loan and Grant Programs for Fiscal Year 2021," 85 *Federal Register* 57816, https://www.federalregister.gov/documents/2020/09/15/2020-20251/notice-of-solicitation-of-applications-for-inviting-applications-for-the-rural-economic-development.

[136] For additional information, see RBCS, "Rural Microentrepreneur Assistance Program," https://www.rd.usda.gov/programs-services/rural-microentrepreneur-assistance-program.

[137] Northwestern University, *What Drives Native American Poverty?*, Institute for Policy Research, February 24, 2020, https://www.ipr.northwestern.edu/news/2020/redbird-what-drives-native-american-poverty.html.

[138] Nancy Pindus et al., *Housing Needs of American Indians and Alaska Natives in Tribal Areas*, prepared for HUD, January 2017, pp. xviii-xxii, https://www.huduser.gov/portal/sites/default/files/pdf/HNAIHousingNeeds.pdf.

including the legal status of trust land.[139] More broadly, credit access and financial literacy, which can promote individual economic opportunity and drive economic development in communities, are broadly underdeveloped in Native American communities.

The lack of access to capital and credit is a major constraint on economic development in Native American communities. A 2015 study of Indian consumer credit, consistent with preceding literature, showed lower credit access and penetration and that credit files within Indian reservations are more likely to lack credit risk scores.[140] In particular, the study found that the use of credit, especially mortgages, is low on reservations. However, the authors also found that certain other forms of credit, particularly auto loans, are somewhat more prevalent and that there was significant variation across different tribal lands.

A 2016 University of Arizona report commissioned by the Department of the Treasury's Community Development Financial Institutions Fund (CDFI Fund)[141] examined credit access in tribal communities.[142] An earlier 2001 report had shown that Native lands are "not generally served by a variety of financial institutions," which perpetuates and exacerbates challenges with capital access and economic development.[143] The 2016 report, however, highlighted the improving banking landscape based on the growth of Native Community Development Financial Institutions (which Treasury calls Native CDFIs),[144] which provide a variety of credit and financial services to tribal citizens. The report suggested that the proliferation of Native CDFIs is in part attributable to increased self-determination and autonomy among tribal governments.[145] But the report also noted that numerous challenges, including Native CDFI capitalization and data-driven performance management, remain major impediments to credit access on Indian lands.

The Federal Reserve Bank of Minneapolis's Center for Indian Country Development maintains a data visualization tool that maps the headquarter locations and asset sizes of banks and credit unions owned by, and CDFIs primarily serving, American Indian, Alaska Native, and Native Hawaiian individuals and communities (see **Figure 4**).

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[139] David Listokin et al., *Mortgage Lending on Tribal Land*, prepared for HUD, January 2017, https://www.huduser.gov/portal/sites/default/files/pdf/NAHSG-Lending.pdf.

[140] Valentina Dimitrova-Grajzl et al., "Consumer Credit on American Indian Reservations," *Economic Systems*, vol. 39, no. 3 (September 2015), pp. 518-540.

[141] For more information on the CDFI Fund, see CRS Report R42770, *Community Development Financial Institutions (CDFI) Fund: Programs and Policy Issues*, by Sean Lowry.

[142] Miriam Jorgensen, *Access to Capital and Credit in Native Communities*, Native Nations Institute, University of Arizona, 2016, http://nni.arizona.edu/application/files/6315/2822/4505/Accessing_Capital_and_Credit_in_Native_Communities.pdf.

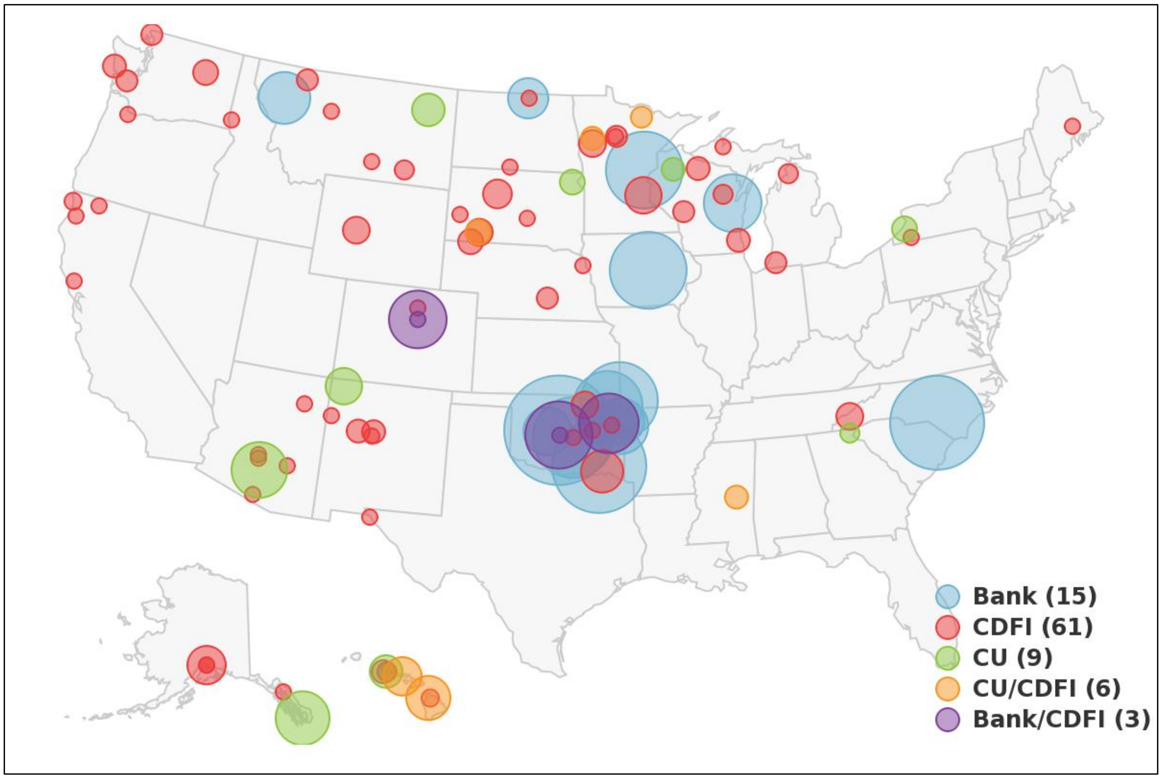
[143] CDFI Fund, *The Report of the Native American Lending Study*, November 2001, https://www.cdfifund.gov/sites/cdfi/files/documents/2001_nacta_lending_study.pdf.

[144] According to the 2016 report, a CDFI provides credit and financial services to underserved markets. The Treasury Department defines a Native CDFI as a CDFI that focuses at least 50 percent of its business activities on American Indians, Alaska Natives, or Native Hawaiians.

[145] For more information on trends in federal-tribal relations, see CRS Report R46647, *Tribal Land and Ownership Statuses: Overview and Selected Issues for Congress*, by Tana Fitzpatrick.

Figure 4. Mapping Native American Financial Institutions

By Financial Institution Type



Source: Federal Reserve Bank of Minneapolis, https://www.minneapolisfed.org/indiancountry/resources/mapping-native-banks.

Notes: Legend and colors coded to financial institution type. Circle size indicates asset size. "CU" = credit union.

The visualization shows an array of Native CDFIs and other financial institutions across the United States, with evidence of clustering in the Midwest and Southwest areas of the continental United States and in Alaska and Hawaii. However, it does also suggest potential gaps in availability and access, as Hawaii, Oklahoma, and South Dakota each contain more certified Native CDFIs than does any other U.S. state.

Federal Programs to Promote Native Credit Access

The federal government supports economic development in tribal nations through various rural development, community development, and housing programs. Some of these programs have explicit or ancillary roles with regard to credit access.

Principally, the CDFI Fund's Native American CDFI Assistance (NACA) program provides capitalization through financial assistance awards to designated Native CDFIs. NACA awards are made in the form of loans, grants, equity investments, deposits, and credit union shares. The NACA program also provides technical assistance grants to Native CDFIs, emerging Native CDFIs, and sponsoring entities (a financial entity that might be sponsoring the development of a

Native CDFI) to increase the capacity of these institutions to serve Native American communities.[146]

USDA's Rural Development (USDA-RD) agency offers a wide variety of both targeted and broad-based programs to facilitate community and economic development in primarily rural tribal areas.[147] These programs include funding for community facilities, business and industry loan guarantees, broadband deployment, and provision of basic infrastructure, among others. A number of these programs have relevance to credit access, including a number of loan and loan guarantee, technical assistance, and housing programs. For example, USDA-RD's Intermediary Relending Program provides low-interest loans to local lenders to re-lend to businesses to support local economic development.[148]

Case Study: 502 Direct Native CDFI Relending Pilot Program

The establishment and popularity of a USDA-RD pilot program for American Indian beneficiaries highlights both the issue of credit access in Native American communities and the role that Native CDFIs can play in increasing access and awareness. In 2018, USDA-RD established a pilot program based on the Single Family Housing Direct Loan program, also known as the Section 502 Direct Loan Program,[149] to provide direct mortgage loans to Native beneficiaries. The pilot program, known as the 502 Direct Native CDFI Relending Pilot Program, used two Native CDFIs in South Dakota as intermediaries to re-lend funds as a way of increasing participation among eligible low-income families on tribal lands in the Dakotas. USDA-RD lent $800,000 to each of two native CDFIs in South Dakota, Mazaska Owecaso Otipit Financial and Four Bands Community Fund, to relend to eligible homebuyers for mortgages on South Dakota and some North Dakota tribal lands. Each CDFI also contributed $200,000 for the mortgages, bringing the total pilot program's capitalization to $2 million.

A February 2020 progress report on the Native CDBG Relending Pilot Program by the South Dakota Native Homeownership Coalition,[150] of which both CDFIs are members, noted that deployment of the funds began in October 2019, and by February 2020 approximately 50% of the loan capital had been deployed, resulting in eight new homeowners. Of the program, coalition leadership noted that it was "more than was deployed in the previous nine years prior to the start of the program."[151] The progress report reported eight pilot loans deployed as of February 2020 with an average amount of $97,951 and reported consistent demand.

In August 2020, the South Dakota congressional delegation sent a letter to USDA leadership requesting the pilot's continuation.[152] The letter noted that "the Native CDFIs have deployed nearly $2 million in mortgage capital [or approximately the entirety of the pilot's total capitalization] to eligible 502 borrowers in less than a year, more than three times the amount of capital deployed to the same reservations in the previous nine years." The letter also says that the Native CDFIs "estimate that there is demand for more than $3 million worth of 502 direct loans should additional funding be provided."

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[146] CDFI Fund, *Native Initiatives*, https://www.cdfifund.gov/programs-training/programs/native-initiatives.

[147] USDA-RD, *Programs and Services for Tribes*, https://www.rd.usda.gov/programs-services/programs-services-tribes.

[148] USDA-RD, *Intermediary Relending Program*, https://www.rd.usda.gov/programs-services/intermediary-relending-program.

[149] USDA-RD, *Single Family Housing Direct Home Loans*, https://www.rd.usda.gov/programs-services/single-family-housing-direct-home-loans.

[150] South Dakota Native Homeownership Coalition, *Progress Report: 502 Direct Native CDFI Relending Pilot Program*, February 2020, https://www.sdnativehomeownershipcoalition.org/2019/wp-content/uploads/2020/03/502-Success-Report_v2.pdf.

[151] South Dakota Native Homeownership Coalition, *Pilot Program Increases Rates of Mortgage Lending on South Dakota's Reservations*, accessed July 20, 2021, https://www.sdnativehomeownershipcoalition.org/news/pilot-program-increases-rates-of-mortgage-lending-on-south-dakotas-reservations/.

[152] Letter from John Thune, Senator, M. Michael Rounds, Senator, and Dusty Johnson, Member of Congress, to Sonny Perdue, Secretary of Agriculture, August 4, 2020, https://www.sdnativehomeownershipcoalition.org/2019/wp-content/uploads/2019/10/SD-Delegation-Letter-re-502-Relending-Pilot-August-4-2020.pdf.

HUD's Indian Community Development Block Grant Program also provides flexible competitive funding for both economic and community development purposes as well as urgent needs.[153] These funds can be used for a variety of purposes, including lending, subsidies, and revolving loan programs.[154] Other federal economic development programs provide tribal entities with access to funding from the Economic Development Administration as well as federal regional commissions and authorities, which serve specific geographic jurisdictions, and may also be used for capitalization or sub-lending activities. In addition, certain federal programs specifically support housing in tribal areas.[155] These include HUD's Indian Housing Block Grant, which provides formula funding to tribes for affordable housing activities,[156] and the Section 184 program, through which HUD guarantees mortgages made by private lenders to tribal members in eligible areas.[157]

[153] For more information, see CRS In Focus IF11749, *The Indian Community Development Block Grant (ICDBG) Program: An Overview*, by Michael H. Cecire.

[154] HUD, *Indian Community Block Grant Awards*, https://www.hud.gov/sites/documents/ICDBG_SUMMARIES.PDF.

[155] Native Hawaiians, though they are not generally included in federal programs that serve American Indian and Alaskan Native communities, also experience higher rates of many housing problems. HUD's Native Hawaiian Housing Block Grant and Section 184A programs provide funding and mortgage guarantees, respectively, to address housing needs of Native Hawaiians eligible to reside on the Hawaiian Home Lands. See Kristen Corey et al., *Housing Needs of Native Hawaiians*, prepared for HUD, May 2017, pp. xv-xvii, https://www.huduser.gov/portal/sites/default/files/pdf/HNNH.pdf.

[156] For more information on the Indian Housing Block Grant and related programs, see CRS Report R43307, *The Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA): Background and Funding*, by Katie Jones.

[157] For more information, see HUD, "Section 184 Indian Home Loan Guarantee Program," https://www.hud.gov/program_offices/public_indian_housing/ih/homeownership/184.

Author Information

Andrew P. Scott, Coordinator
Analyst in Financial Economics

Alyssa R. Casey
Analyst in Agricultural Policy

Michael H. Cecire
Analyst in Intergovernmental Relations and Economic Development Policy

Cheryl R. Cooper
Analyst in Financial Economics

Robert Jay Dilger
Senior Specialist in American National Government

Katie Jones
Analyst in Housing Policy

Marc Labonte
Specialist in Macroeconomic Policy

Bruce R. Lindsay
Specialist in American National Government

Maggie McCarty
Specialist in Housing Policy

Jim Monke
Specialist in Agricultural Policy

Lida R. Weinstock
Analyst in Macroeconomic Policy

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