

**Colonias Investment Areas:**

# Working Toward a Better Understanding of Colonia Communities for Mortgage Access and Finance

Housing Assistance Council  
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Executive Summary



Fannie Mae®





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

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

The Housing Assistance Council developed the concept of “Colonias Investment Areas” to improve understanding and build a comprehensive definition of colonias for the purpose of housing finance. The ultimate goal of this research was to create a usable and programmatic definition of colonias so that mortgage and finance resources may be more efficiently directed to these often overlooked and long-struggling communities.

[Read the full report ►](#)

## **Additional resources and information**

[2020 Colonias Investment Areas Data File](#)

[Colonias Investment Areas Visualization Tool and Map](#)



# Why Reinvestigate Colonias Definitions Now?

The Housing and Economic Recovery (HERA) Act of 2008 mandates that Fannie Mae and Freddie Mac have a “Duty to Serve” three traditionally underserved markets, including rural housing. The final Duty to Serve rule<sup>1</sup> promulgated by the Federal Housing Finance Agency (FHFA) provides guidance on how to define rural areas and high-needs rural regions in order to increase Government-Sponsored Enterprise<sup>2</sup> (GSE) Duty to Serve-eligible activities.

For some of the high-needs rural regions and populations identified in the regulation, including Middle Appalachia, the Lower Mississippi Delta, Native American lands, farmworkers, and persistent poverty areas, FHFA provided relatively detailed definitions for targeting and assessment under the rule. Guidance for the colonias definition, on the other hand, did not include detailed lists of colonia communities.

After considering the comments and the varying definitions of a colonia, FHFA determined that broadening the proposed definition of a colonia could encourage Enterprise support for colonias, as defined by federal, state, tribal, or local programs. Therefore, FHFA set forth Section 1282.1 of the final Duty to Serve rule defining a colonia as:

“[A]n identifiable community that meets the definition of a colonia under a federal, state, tribal, or local program.”

In its 2016 Duty to Serve Final Rule, FHFA noted it wouldn’t be able to provide a data file that lists all census tracts eligible under the Final Rule’s definition of “colonia,” as it did for the other high-needs rural regions. To address the data challenges that exist in specifically identifying the census tracts that contain colonias, FHFA encouraged the Enterprises to collect and share granular data with researchers, lenders, and housing providers regarding GSE purchases of loans that are made under any HUD or USDA programs that serve a colonia, are eligible for Duty to Serve credit under this Regulatory Activity (provided they’re located in a “rural area” as defined in the final rule), and are for very low-, low-, or moderate-income households as defined under the Duty to Serve rule. This study uses these FHFA Final Rule comments to guide our efforts at identifying Colonias Investment Areas. The Colonias Investment Areas definition is not the same as the definition of colonias in FHFA’s Duty to Serve regulation.

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<sup>1</sup> FHFA Enterprise Duty to Serve Underserved Markets Final Rule, including definitions: [fhfa.gov/SupervisionRegulation/Rules/Pages/Enterprise-Duty-to-Serve-Underserved-Markets-Final-Rule.aspx](https://www.fhfa.gov/SupervisionRegulation/Rules/Pages/Enterprise-Duty-to-Serve-Underserved-Markets-Final-Rule.aspx). Throughout this report, tables and figures relying on the term “rural” shall be using the definition of “rural area” as defined in the Duty to Serve Final Rule.

<sup>2</sup> Fannie Mae and Freddie Mac.



# Research Considerations and Methodology

**Colonias are not monolithic.** Despite being categorized together, colonias vary extensively within the border region, from small clusters of homes located near agricultural employment opportunities to established communities in and near urban centers. Most importantly, this study reinforces important structural differences on how colonias were originally defined and comprised in each of the four border states of Texas, New Mexico, Arizona, and California. An important element of the Colonias Investment Area development included analysis and attention at the individual state level.

**Census tracts are the building blocks for Colonias Investment Areas.** The Colonias Investment Areas concept primarily relies on the U.S. Census Bureau's census tract designation as its geographic unit of analysis. While there are pros and cons with any unit of geography, sub-county units of geography are often more precise and uniform indicators of rurality than counties. In addition, tracts align with already established Duty to Serve criteria as a unit of measurement, and the use of tracts allows for market analysis as well as future assessment of mortgage lending activity.

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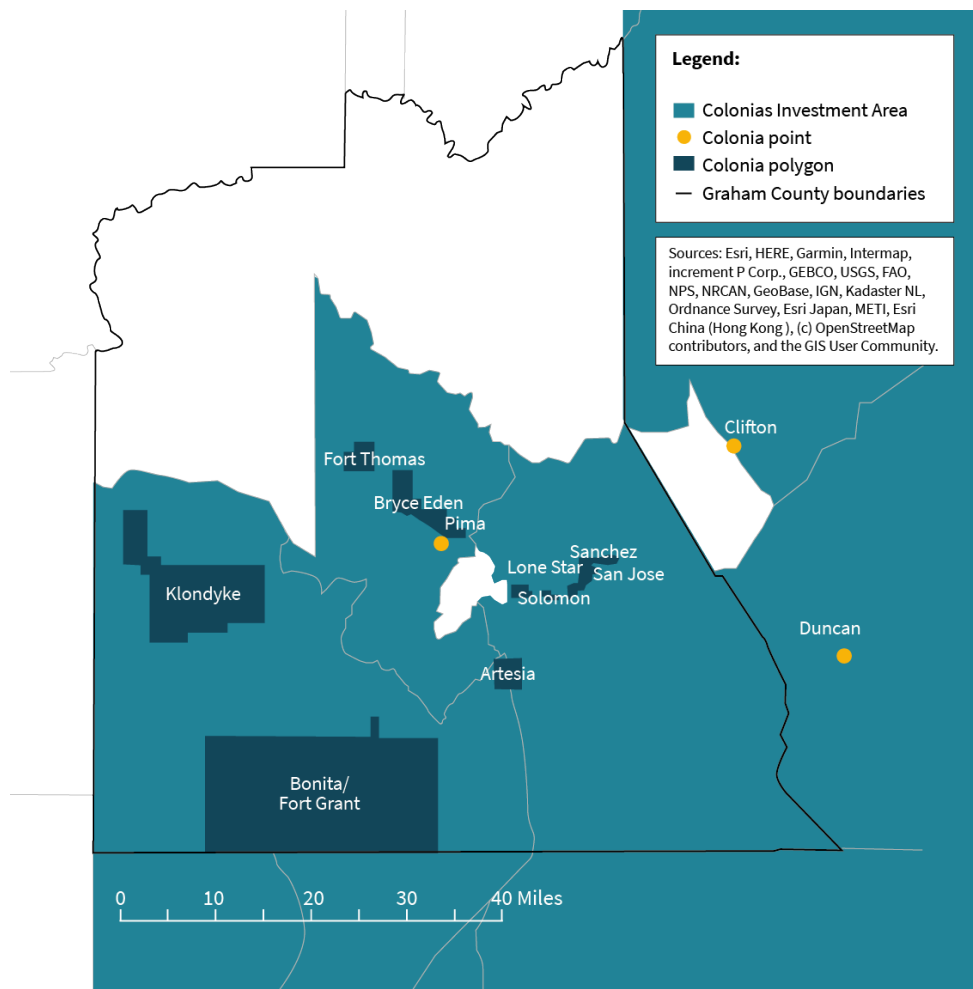
**Colonias Investment Areas were constructed through a data-driven process that focused on unique elements of these communities.** The approach to develop Colonias Investment Areas and determine which census tracts contain colonias involved six basic processes:

<b>1</b> Identification of publicly recognized colonias.	<b>2</b> Geolocation of colonias for mapping and geospatial analysis.	<b>3</b> Aggregation of individual colonias into Colonias Investment Areas.
<b>4</b> Compilation of state-level data into a comprehensive and enhanced database.	<b>5</b> Exploration of social, economic, housing, and mortgage finance characteristics for Colonias Investment Areas.	<b>6</b> Collection of expert and stakeholder feedback on concept of Colonias Investment Areas.





## Geolocation allowed for mapping in places like Graham County, Arizona



Source: HAC Tabulations of public colonia data.



# Research Findings

## There are 446 distinct Colonias Investment Areas.

The identified Colonias Investment Areas comprise approximately 6% of the U.S.-Mexico border region's census tracts. Overall, Colonias Investment Areas contain about 2.5 million people across four states.

## Colonias Investment Areas are in rural and urban communities.

Approximately half of Colonias Investment Areas are in rural census tracts, yet a substantial number of Colonias Investment Areas are in what would be considered suburban or even urban tracts — especially in Texas.

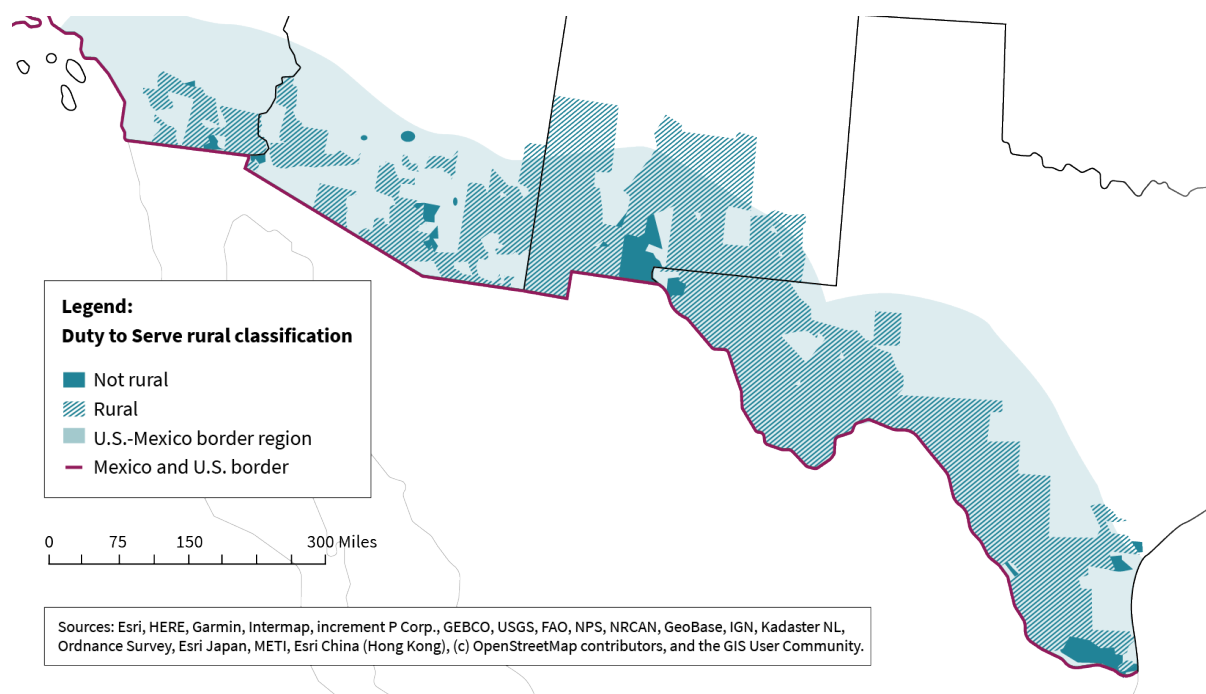
## Colonias Investment Area measures

Border states	Census tracts			
	Total		Rural	
	U.S.-Mexico border region	Colonias Investment Areas	U.S.-Mexico border region	Colonias Investment Areas
Arizona	1,377	94	138	54
California	4,311	23	125	16
New Mexico	107	58	72	41
Texas	1,205	271	267	102
<b>Total</b>	<b>7,000</b>	<b>446</b>	<b>602</b>	<b>213</b>

Source: HAC tabulations of publicly Available colonia data.



## Colonias Investment Areas by Duty to Serve rural classification



**Rural Colonias Investment Areas have the greatest needs.** While economic, housing, and mortgage access deficits are generally present in any colonia regardless of location, these conditions are consistently more acute in rural Colonias Investment Areas, especially in elements of current mortgage activity and investment.



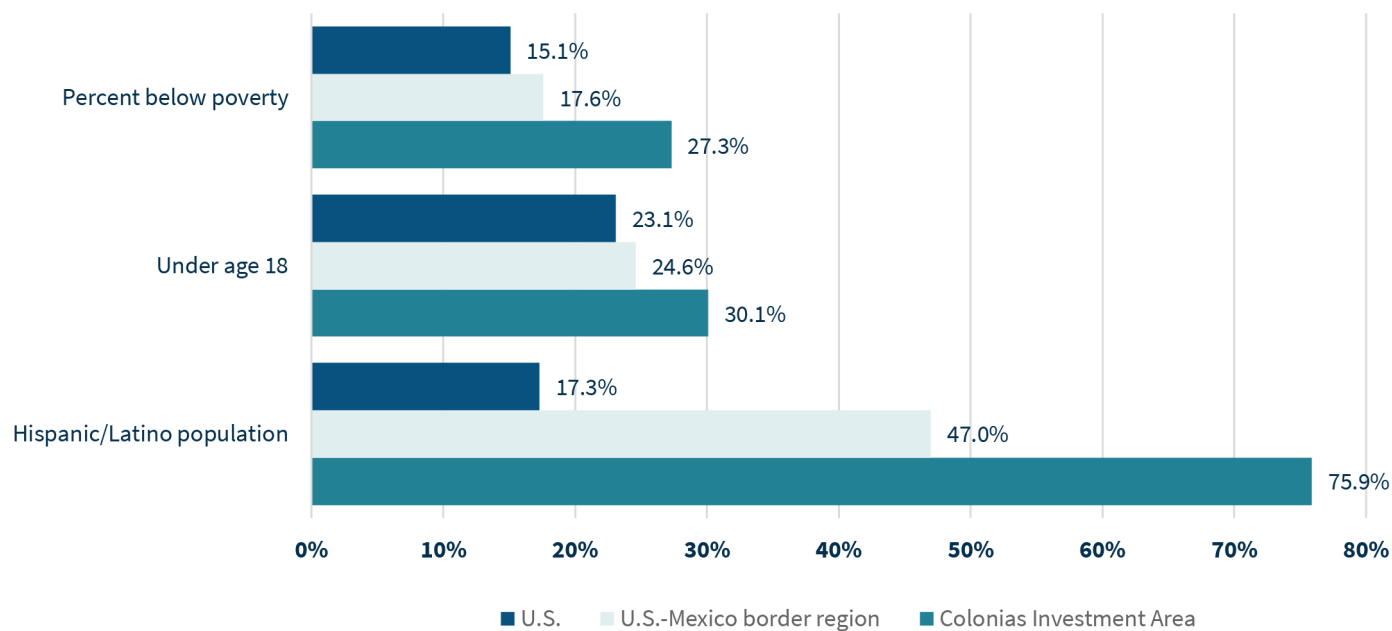
**Most — but not all — Colonias Investment Areas are in Texas.** Texas is home to 61% of all Colonias Investment Areas. While 33 different counties in Texas have at least one colonia, these communities are largely concentrated in a few areas — notably the lower Rio Grande Valley. Still, each of the four border states contain a substantial number of Colonias Investment Areas. The relatively broad coverage of these communities, despite different demographic and housing characteristics, indicates that colonias are not solely in Texas.



**Colonias Investment Areas are some of the most impoverished markets in the nation.** Incomes are low across the border region, and wages are depressed as a result of the proximity to low-wage workers in border areas of Mexico. The U.S. poverty rate is an estimated 15%, while the aggregate Colonias Investment Area poverty rate is nearly twice that national rate at 27%. The research findings overwhelmingly indicate that Colonias Investment Areas experience some of the greatest challenges and needs in the region, as well as the nation, and are therefore appropriately targeted as an underserved market.



## Select demographic characteristics



Source: HAC tabulations of the U.S. Census Bureau's 2013 – 2017 American Community Survey.



### Housing conditions play a central role in the recognition and designation of colonias.

In many colonias, the substandard conditions are largely the result of an old, deteriorating housing stock, while the newer colonias contain homes that lack basic infrastructure. Households living in Colonias Investment Areas are primarily homeowners.



### Nonconventional financing dynamics lead to an asymmetric financing system in Colonias Investment Areas.

Many border residents use informal or nonconventional financing mechanisms to obtain homeownership. This is an indication of the gap in traditional financing available to low-income and immigrant populations. In some cases, there may be few conventional financial institutions in remote rural areas. Another likely contributor is the large immigrant population, which may be unfamiliar with services offered by banks or simply unsure of such arrangements.



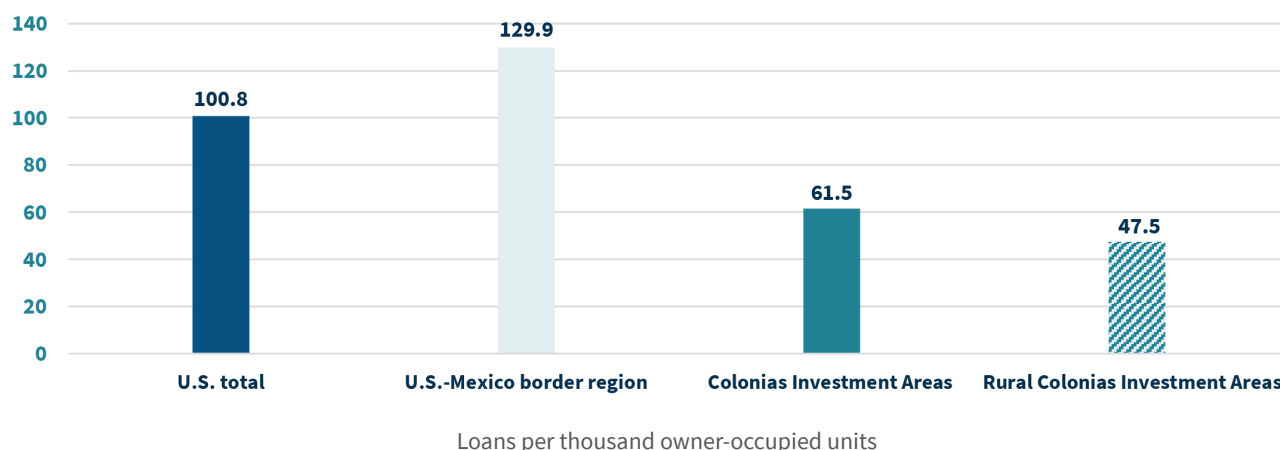
### There is a dearth of mortgage lending activity in Colonias Investment Areas.

Colonias Investment Areas have substantially lower rates of conventional mortgage lending compared to nearly any market in the border region or nationwide. To make lending activity comparisons, the analysis explored lending activity as the number of loan originations per thousand owner-occupied homes. The amount of lending in Colonias Investment Areas — using owner-occupied units to standardize the measure — is half the rate of the larger U.S.-Mexico border region. Loan activity is nearly three times lower in rural Colonias Investment Areas compared to the larger border region, according to Home Mortgage Disclosure Act (HMDA) data.





## Ratio of home loans to owner-occupied units



Source: HAC tabulations of the U.S. Census Bureau's 2013 – 2017 American Community Survey and FFIEC's 2017 Home Mortgage Disclosure Act (HMDA) data.

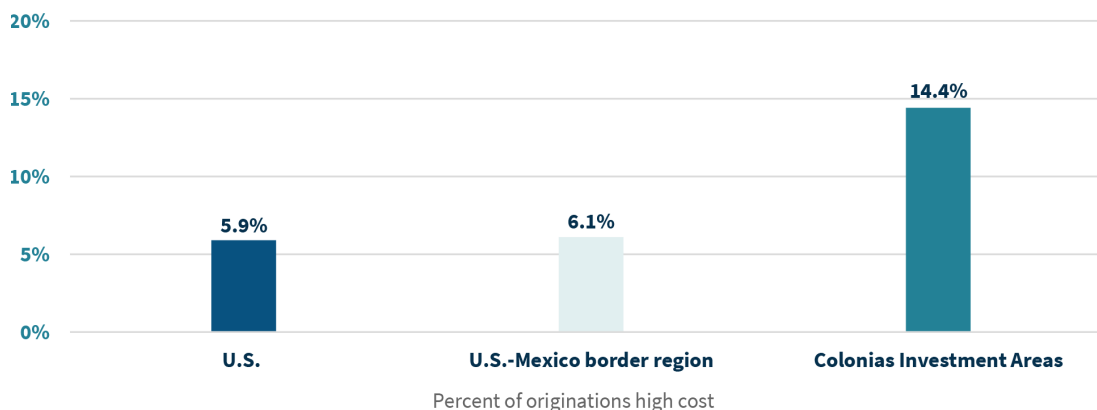
### Manufactured home lending is highly prevalent in Colonias Investment Areas.

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

### High-cost lending is common in Colonias Investment Areas.

For each border state, high-cost (or high interest rate) lending is more common in Colonias Investment Areas than in non-Colonias Investment Areas. These levels of high interest rate lending are yet another indicator of extreme deficiency in access to conventional mortgage finance. It is important to note that, per HAC's analysis of HMDA data, while homeownership is generally high in these markets, a portion of these households may have home or land financing elements that charge high fees or include usury terms and fees.

## High-cost loans by region



Source: HAC tabulations of the FFIEC's 2017 Home Mortgage Disclosure Act (HMDA) data.



**Colonias Investment Areas originate fewer conventional loans and rely more on government-backed mortgage resources.**

Colonias Investment Areas have a much smaller share of conventional loans. In the U.S. and larger border region, about three-quarters of originations were conventional loans, but for Colonias Investment Areas it was slightly more than 50%. The difference was made up by higher shares of FHA-, VA-, and USDA-guaranteed loans.

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## Conclusion

The goal of Colonias Investment Areas is to inform and enhance access to conventional mortgage finance in colonias communities and the border region. While no geographic designation is perfect, extensive research, analysis, testing, and stakeholder feedback reinforce Colonias Investment Areas as a reliable way to target home mortgage resources and finance access to long-overlooked border colonia communities.