# Rural Homeownership Challenges: A Perspective from Eastern Kentucky

A **Consumer Federation of America** Report

Sharon Cornelissen, PhD
Katie McCann

Consumer Federation of America

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# Executive Summary

This report looks at today's housing crisis in rural areas, with a focus on low-income homeownership. It relies on a case study of Perry County and surrounding areas in Eastern Kentucky, which is a low-income rural area in the Appalachian Mountains that has historically relied on coal mining jobs. Drawing on in-depth interviews and on-site observations, it highlights distinct challenges to low-income homeownership and promising policy solutions for rural communities. While rural communities vary widely across the United States and Perry County is not representative of all these places, this up-close study helps us better understand common rural housing challenges, why they have emerged, and how residents and communities are responding.

## Main findings:

1. ***Eastern Kentucky's housing stock needs significant repairs:*** Much of the rural housing stock in Eastern Kentucky is of inadequate quality. Homebuyers face a "rural housing gap" of homes-for-sale that are affordable but do not need extensive repairs.
2. ***Many homes are family-owned and sold or rented informally:*** Heirs property is widespread in Eastern Kentucky and many properties are owned by multiple family members. Homes are often sold through word-of-mouth or Facebook. These arrangements do not appear in official housing market data and informality can complicate people's ability to find and finance housing.
3. ***A lack of buildable land limits new housing development:*** Few new homes have been built in Eastern Kentucky over the last decade, despite demand for affordable and adequate homes. This supply shortfall is shaped by the shortage of local housing developers and of flat, buildable land in this mountainous rural area.
4. ***Existing housing finance options do not meet local needs:*** A mismatch persists between mortgage finance and local needs. Lower-income homebuyers face barriers to securing mortgages due to low credit scores and low incomes and because most mortgages do not cover home repair costs.
5. ***Climate disasters threaten rural homes and are increasing costs for homeowners:*** Rural places are increasingly vulnerable to climate disasters. In 2022 Eastern Kentucky faced a devastating flash flood that destroyed over 9000 homes, many of them outside of FEMA flood zones. The region saw another disastrous flooding event in February 2025. The rising costs of home and flood insurance present a challenge for low-income homeowners, as insurance takes up a growing share of housing costs.

Perry County offers us important lessons to understand how residents and communities experience a rural housing crisis today. To keep rural homeownership accessible, sustainable, and a means of building intergenerational wealth for families and communities, the report offers the following policy recommendations:

1. ***Government-Insured Lending Programs Should Expand or Make Program Improvements to Better Meet Rural Needs:*** The Federal Housing Administration (FHA), Veterans Affairs (VA), and Fannie Mae and Freddie Mac should make improvements to their mortgage products so that these underused programs are more usable to homebuyers.
2. ***Congress Should Pass New Tax Credits to Facilitate Home Repairs and Rehabilitation:*** Congress should pass the "Neighborhood Homes Investment Act," a federal tax credit with extensive bipartisan support, that can help finance the gap between renovation costs and the relatively low appraised value of homes in disinvested rural communities.
3. ***State Housing Finance Agencies (HFAs) and Federal Home Loan Banks (FHLBs) Should Increase Their Participation in Rural Lending:*** State Housing Finance Agencies are uniquely positioned to invest in rural housing. The "Affordable Housing Bond Enhancement Act," first introduced in 2023 by Senator Cortez Masto, is a great blueprint for expanding affordable homes and homeownership opportunities in rural communities. Federal Home Loan Banks are also well-positioned to step up their investments in rural housing.

# Introduction

Americans nationwide face a housing affordability crisis. However, media and research have mostly focused on the challenges facing renters and homebuyers in large, expensive cities such as Washington D.C., New York City, and Los Angeles. But *one in five* Americans live in rural areas, and these families face distinct housing challenges.[1] Even in these traditionally more affordable places, families face growing cost burdens and are often unable to find adequate, low-cost homes.

This report looks at the rural housing crisis facing homeowners and homebuyers using the case study of Eastern Kentucky, focusing specifically on Perry County and surrounding areas. Drawing on extensive interviews and on-site observations, it answers two questions:

- *What does our housing crisis look like for homebuyers and homeowners in rural America?*
- *What policy solutions can resolve financing and housing stock constraints unique to rural places such as Eastern Kentucky?*

Although our study is mainly focused on low-income homeownership, renters also face unique challenges in rural Kentucky and beyond. These are exacerbated by a state-wide lack of rental protections.[2] While rental unaffordability undermines renters' ability to save for a downpayment and scant housing code enforcement worsens the low quality of the housing stock, they remain outside the scope of this report.[3] We further narrowed our focus on homeownership of site-built properties, given the quite distinct challenges of financing and land ownership associated with manufactured housing.[4] Manufactured housing remains a significant part of the affordable housing stock in rural areas, including in Eastern Kentucky.

## Data and Methods

This report relies on qualitative data, including in-depth interviews with local experts, stakeholders, and residents and on-site observations in Eastern Kentucky. Specifically, it uses the research methods of ethnography, which is an approach to study communities and social processes through local observations and in-depth interviews.[5] Unlike quantitative research, which draws its strength from documenting broad trends, the strength of qualitative research is to better understand *how* housing markets work locally, what processes hide behind the numbers, and how residents respond and make sense of these conditions.[6]

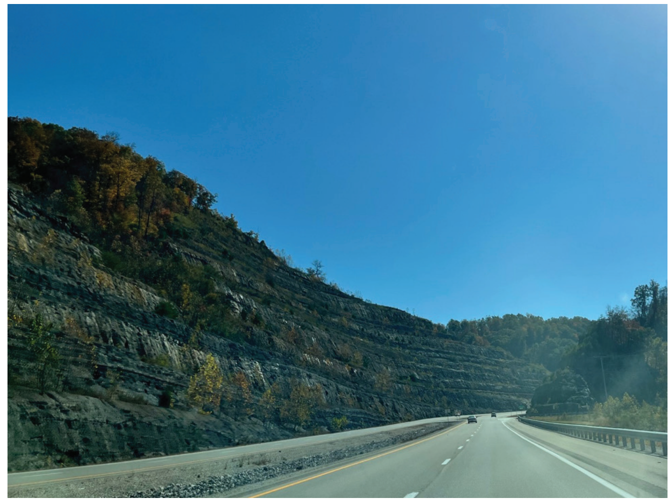
For this report, researcher Sharon Cornelissen visited Kentucky for ten days from October 20 until October 29, 2024, spending most time in the town of Hazard, Perry County, and surrounding counties in Eastern Kentucky. This report relies on extensive notes on local observations, including in-depth conversations with 17 residents and housing stakeholders. A list of participating organizations can be found at the end of this report.

This report also built on previous research on Eastern Kentucky, including the 2024 Consumer Federation of America report "Homes Too Cheap for a Mortgage"[7] and a total of 20 qualitative interviews with credit unions, CDFIs, and housing organizations throughout the country. To complement qualitative observations on local mortgage finance, we analyzed Home Mortgage Disclosure Act (HMDA) data on Eastern Kentucky counties.

# Eastern Kentucky: A Quick Introduction

Driving about two hours from the city of Lexington to Hazard in Eastern Kentucky, a landscape of sloping green fields and horse farms near Lexington slowly and then suddenly makes way for the rugged Appalachian Mountains. Roads zigzag through these mountains, where they follow streams and riverbeds in narrow valleys. Small towns are found in these same river-carved valleys, which offer some of the few spaces that are flat enough to build houses in mountains. But many Eastern Kentuckians live more isolated, in mobile homes and stick-built houses in what locals call *"hollers,"* the narrow valleys right besides creeks and the road.

Closer to central Kentucky, the mountains start out smaller and are covered by a kaleidoscope of



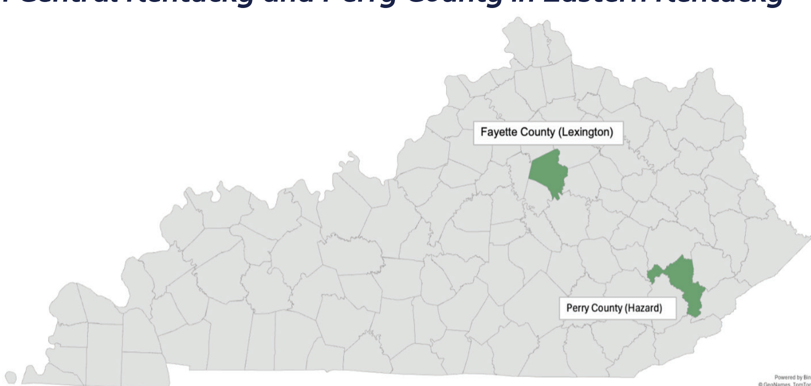
trees. Logging companies have long harvested and exported the forests of Kentucky and lumber remains an important local industry. Closer to mountain towns such as Jackson and Hazard, more mountains have been strip-mined for coal. Their black underbelly exposed, they look like layered cakes of black rock with flat tops and few trees.

Locals recount a long history of corporate exploitation in this region, from logging and coal mining to pharmaceutical companies capitalizing on the chronic pain of coal mine country to sell addictive opioids. Again and again, residents have seen outsiders come in to exploit local resources, only to export the wealth elsewhere.[8] Coal mining has especially imprinted Eastern Kentucky's psyche and landscape. Devon, a homeowner in Hindman, Knott County, and legal aid lawyer explained how coal mining was entwined with his family history:

> My family has lived in Eastern Kentucky since the Civil War. And from that time until literally my mom's generation, everyone who was a male and working age was a coal miner. My great-grandfather started mining coal when he was six years old. He never made *actual U.S. currency* until the National Labor Relations Act was passed in the '30s. So you're talking about a man who, for the first 20 to 30 years of his life, made only company money.[9]

Coal jobs dwindled in recent generations even as many strip mines still lay bare.[10] Coal mine employment in Eastern Kentucky peaked at over 65,000 jobs around 1950, but less than 6,000 jobs remain today.[11] Poverty levels soared due to a diminishing number of stable, well-paying jobs and the region was left behind as one of the poorest places in the United States. As Kimberly, a resident in her twenties who lived in Knox County in a rent-to-own she took over from her first cousin, put it: "The only *Big Jobs* here are in the mines or medical."

***Figure 1: Lexington in Central Kentucky and Perry County in Eastern Kentucky***




*Source:* Map made in Microsoft Excel, 2025.

This history of betrayal by outsiders persisted as a strong distrust of federal initiative and institutions. One housing advocate in Hazard described that "people in Eastern Kentucky have traditionally sort of bought into, and I guess accepted that anyone around them is just waiting to screw them over." In fact, several housing advocates advised me to not bring up federal policy in Eastern Kentucky at all. State-level stakeholders were also critical of federal programs: noting that federal dollars were inflexible, not guaranteed, took forever, and often had application requirements that mismatched rural situations.


*Source:* Mining company town and homes near Hazard, 1940, Library of Congress

Due to limited local economic opportunity, this region has seen depopulation.[12] Several young people expressed a desire to move to Lexington or Louisville as places with more opportunity. Erin was a resident in his twenties who lived for free in a dilapidated, moldy apartment owned by his granddad outside of Hazard, about which he said: "the smell gets worse at the end of the day." In Hazard he worked from one grant-based, underpaid job to the next, currently making around $1,200 a month. But he was hoping to save up enough money to move to Lexington, so he could use his degree and "have a career." Even among those who stayed in Perry County, many young people went on shopping and eating trips to Lexington or Tennessee over the weekend. Young resident Kimberly noted: "the food here sucks, just Dollar Stores, fast food, the Walmart." There were long lines at the Hazard gas station on Friday evening and downtown Hazard – a hub for workers during the week – was deserted by Saturday.

In July of 2022, Eastern Kentucky experienced historic flooding which damaged or destroyed almost 9,000 homes.[13] Weather experts concluded that this was a "thousand-year flood," meaning the likelihood of this level of flooding is 1 in 1,000 in any year.[14] Homes built in the flood-prone valleys, the only flat land available for construction, were no match for the overnight flash flood. The flood's destruction exacerbated the challenge of affordable housing available, and the issues posed by the dilapidated and aging housing stock.

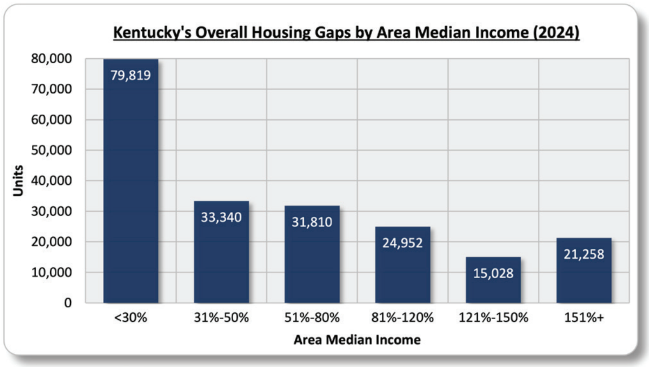
Eastern Kentucky has long been considered one of the more affordable places to live across the country.[15] But even here, housing costs have risen steeply over the last few years, as Kentucky faces a shortage of adequate, affordable housing. To understand the challenges and opportunities for rural homeownership, the next section will look at the quality of the housing stock, the role of informal housing markets, and barriers to affordable home building in Eastern Kentucky. Later sections also review the type of mortgage products that are available and whether they fit the distinct needs and situations of everyday Kentuckians. Finally, this report considers the impacts of natural disasters and how the rising costs of home and flood insurance are adding new financial burdens for low-income homeowners. Overall, this report uses experiences from Eastern Kentucky to offer insight into rural homeownership challenges and housing policy solutions.

# Findings

## Eastern Kentucky's Housing Shortage

The nation is grappling with a severe housing supply crisis and rural areas like Eastern Kentucky are no exception. A recent report by the Kentucky Housing Corporation estimated a statewide housing shortage of 206,000 units for both renters and homeowners.[16] Among renters, this shortage disproportionately impacts lower-income renters. But for potential homeowners, Kentuckians of all income levels struggle to find options in their budgets. As housing costs continue to rise and economic opportunities in this area remain scarce, the statewide housing shortage is expected to rise to 287,000 units by 2029.[17]

***Figure 2: Kentucky Faces a Shortage of For-Sale Housing Across All Incomes***




*Source:* Kentucky Housing Corporation, "Housing Supply Gap analysis"

This reality of a housing shortage may seem surprising in a rural region with many vacant homes. Given this widespread vacancy, one may expect that there are *too many homes.* Instead, Kentucky residents struggle to find adequate, affordable homes. Many existing homes in Eastern Kentucky are older and unsafe or inadequate after facing many years of neglect and disrepair. This is especially true of the many manufactured homes that can be found scattered alongside the roads in the narrow valleys or hollers. Some seem scattered haphazardly on small family lots, where the oldest home may be abandoned, while other houses are held together by a bare thread. These homes may lack running water, have no heating, and have leaking roofs or windows. Research from the University of Kentucky shows that more than 1 in 8 homes in the state (13.2 percent) have at least one of four housing problems – overcrowding, high housing costs, lack of kitchen facilities, and lack of plumbing facilities.[18] These inadequate homes aggravate health problems that are endemic to this blue-collar region. And for older adults who are forced to age in place, these homes offer little financial security and are hard to adapt for accessibility needs.

Many vacant and older homes in the region are prohibitively expensive to fix up. Rebekah, a born-and-raised Hazard resident in her twenties, and her husband Zach had been looking for a house to buy. Currently they were renting her former grandparents' home, which was now owned by the family, in downtown Hazard. The house was old, with "single-paned windows, no insulation" and expensive and hard to heat in the winter. It was uncomfortable, Rebekah said: "I don't think I want to buy it, given how many issues it has." One time these newlyweds found a piece of land in a good location and priced attractively, only to find it had many title issues: "I didn't want to go track down 20+ heirs *all over Florida*." They found few homes that were both affordable and livable. Rebekah found that houses on the market were either "250K or total gut job." Adrienne, a State-wide housing advocate, had had a similar homebuying experience, as she noted a shortage of suitable homes anywhere between "$30,000 and $300,000." She found that the $30,000 houses all needed an enormous amount of work, and the $300,000 houses were hundreds of thousands of dollars above her budget. As this rural area experienced a housing shortage of homes that were both affordable and adequate, housing vacancies co-existed with a dire shortage of homes.

## Heirs' Property and Family-Owned Homes

Many of these dilapidated and vacant homes were not owned by individuals but had been inherited and were owned by families. To understand rural housing markets, it is important to understand that family-owned and heirs' property is widespread.[19] Heirs' property in rural areas also faces different challenges from that in urban areas: as property taxes are often exceedingly low and as there is low demand by investors, tax lien sales and foreclosures of rural heirs' properties are uncommon relative to their urban counterparts.[20] Nonetheless, the wealth-building potential of these properties remains locked up as long as ownership is dispersed among many heirs.[21]

Rebekah's family at least found a temporary use for their grandparents' home, even if it was uncomfortable and inadequate as a rental. But many homes in Eastern Kentucky fall into severe disrepair after older owners pass away. Kimberly's family still owned the "same little holler" where her dad and seven siblings grew up and where she spent much time with her "Meemaw and Papaw" – even though no one lived there anymore today.

Even as families may not have a use for the property, many do not wish to sell the land. Amid poverty, many residents hold fast to family-owned land. This desire to hold onto properties stems in part from family sentimentality and in part from the region's traditional belief that land ownership represents the most secure form of wealth: a belief shaped by the region's long history of outsiders' exploitation and poverty. Devon, a legal aid lawyer in Hazard, explained the reluctance to sell effectively abandoned properties: "that is vacant housing that could be used for someone, but is not, because it's all [the family] ever had in the world – is that *little house.*" And if one of these properties does become available, the purchasing process comes with the challenge of tracking down dozens of heirs to clear the property title.

## Informality in Lower-Income Rural Housing Markets

The counterpart to this family-owned property is the widespread incidence of informal housing transactions. Homes in Eastern Kentucky, especially those that are affordable, are commonly transacted within family and friend networks. This means that many rentals and homes-for-sale will never show up on popular real estate sites like Zillow or Realtor.com: researchers should be careful to draw conclusions based on formal housing market data only. For residents, informality complicated and slowed down housing transactions, as they had to rely on word-of-mouth and family to even find out about homes to buy or rent. Rebekah believed that houses *only* end up on Zillow because they were $250,000 plus homes or because owners had tried everywhere else already: starting by calling family and friends and putting it on Facebook. Indeed, Knott and Perry County had a bustling Facebook group called "Homes for Rent, Sale, or Land Contract."[22] Devon, a legal aid lawyer who recently bought a home in Hindman after selling his home in Louisville, said it took a long time to find a house: "finding a place to live here is so hard, *truly*, so hard." He noted that informality was a big part of this difficulty:

> A lot of times too, especially around here for some reason, in the counties around Perry, the way the property was mostly bought and sold is: some guy would come over and say, "you ever thought about selling that house?" "Well, yeah, I probably would." "What do you want for it?" You know, and it's like, that's how the deal is done. There's no Realtor. There's no posting. It's just, you know, see if you can give me the money, and I'll sell it to you.

Other times people in his network would send him vague leads: "My cousin is selling his house. Here's a picture I took as I drove by." This informal market further complicates people's ability to find an adequate home to rent or buy.

There exists a feedback loop between informality and the inadequacy of housing. After all, inadequate, dilapidated homes are often ineligible for many formal housing institutions – from mortgage access to homeowners' insurance.[23] The existence of informal channels still allowed these homes to exchange hands or be rented out informally through family connections. Informality can also complicate people's ability to find out about homes for sale or rent, drawing out a housing search or having people give up before they find an adequate home. Indeed, the housing shortage in rural places such as Eastern Kentucky is aggravated as turnover is generally low too – once homeowners buy a home, they may never move again – making it hard for new homebuyers to find a house.

## Barriers to Building Affordable Housing

Given this rural housing gap of homes-for-sale that are both high-quality and affordable in Eastern Kentucky, you might expect that local developers are keen to jump into this housing supply gap. However, several barriers prevent new, affordable homes from being built.

Perhaps most surprisingly, again and again local experts highlighted *the lack of land*. While land availability is often cited as an issue in urban housing development, we rarely think of it as a bottleneck in rural areas. If an outsider looked at a road map of the sparsely populated counties around Perry County, they may naively conclude that there is plenty of undeveloped land. But a topographic map makes clear that the issue is not sheer land area but the lack of buildable land that is both flat and safe from flooding.

***Figure 3: A Lack of Flat, Buildable Land around Perry County***


*Source:* ArcGIS map, using Digital Elevation Model[24]

Located in the Appalachian Mountains, towns in Eastern Kentucky are surrounded by steep mountain cliffs – it is extremely expensive to run water and sewerage on these hills and hard to build at scale on such uneven terrain. The flat land that exists is mostly located in low-lying valleys and hollers alongside creeks and the road and is prone to flooding – since the 2022 flood in Eastern Kentucky, much of this land is now designated as a FEMA flood zone.[25] As the final section on climate vulnerability will discuss, this new FEMA designation means that many homeowners are now required to pay for flood insurance, worsening local affordability.

In Eastern Kentucky, land ownership also continues to be concentrated in the hands of a few large owners.[26] Mining companies still hold large swaths of land, including the rights to minerals underneath the land. Even if many mines have become dormant, owners are often reluctant to sell: one reason is that holding on to the land – or selling it to smaller mining companies – is a way to avoid costly environmental remediations. Land owned by mining companies includes large mountaintops that have been flattened into extended plateaus by strip-mining activities. Ownership of low-lying land in the hollers is more scattered and owned piecemeal by families, often inherited as heirs' property. Even if it lies empty, it is rarely put up for sale.

The lack of local construction companies and skilled labor shortages further limit new home building. Many small housing developers went out of business in the wake of the 2008 financial crisis and the industry has become consolidated into fewer, large housing construction companies.[27] As elsewhere, in Eastern Kentucky too, these developers find they can make most profits by building high-end housing. One of the state-level housing advocates called the kind of housing usually built by developers: *"McMansions on top of reclaimed strip mines."*

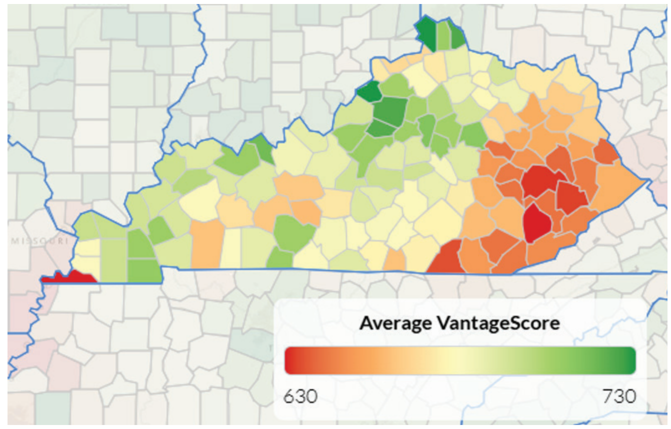
## A Mismatch Between Housing Finance and Local Needs

With so few new homes being built in this rural area, most homebuyers will have to find a home from the aging and often inadequate housing stock. To do so, they are served by a range of lenders and mortgage products. Research by the Federal Reserve System found that Perry County housed 10 bank branches and that relatively few rural tracts in Kentucky qualified as a banking desert.[28] Most local banks are small community banks, though many no longer offer mortgages, may only offer limited mortgage products, or rarely advertise this service on their website. As elsewhere in the country, residents also turn to online mortgage brokers and companies to find financing.

Local lenders said that most home purchase loans made in rural Eastern Kentucky would be either United States Department of Agriculture (USDA) home loans or Federal Housing Administration (FHA) loans. However, our analysis of Home Mortgage Disclosure Act (HMDA) data for Perry County and surrounding counties found that conventional mortgages remained common – and in fact, they made up the highest shares of loans among both regular mortgages and "small" mortgages below $150,000.[29]

However, a mismatch persists between offered mortgage products and the financial situations of most Eastern Kentuckians.[30] Many households in this rural community face economic precarity. With so few high-paying jobs left in this region, locals often cycle between unsteady, low-paying jobs and joblessness. When Kimberly spoke about local jobs, for example, her colleague made a point of noting that Kimberly and her husband "*both* have jobs," meaning that it was remarkable within this community. To make ends meet, residents often rely on credit card debt and payday loans. For example, the town of Hazard houses no less than eight check-cashing storefronts with names such as "Speedy Cash" and "Jiffy Cash."[31] While Hazard has plenty of banks and is not a lending desert, it also is a "payday oasis." This abundance of exploitative, high-interest payday storefronts indicates that many residents have difficulty accessing conventional, lower-interest credit. Indeed, in August 2021, 44 percent of households in Perry County had any type of debt in collections, compared to 28 percent of households nationwide. And at that time the median credit score in Perry County was 652, well below the United States median of 709.[32] With such low incomes and low credit scores, it was hard for many Eastern Kentuckians to qualify for a mortgage.

***Figure 4: Many Eastern Kentuckians have Low Credit Scores***




*Source:* Map from VantageScore.[33]

A second mismatch exists between mortgages and the state of the housing stock. Most existing homes, especially those that are most affordable to first-time homebuyers, come with extensive repair needs that are difficult to finance. For example, the VP of Mortgage Lending at First Federal Savings and Loans Bank at Hazard explained their typical portfolio mortgage, which requires a minimum credit score of 660, a 20 percent down payment (or 10 percent with a second mortgage financing another 10 percent), no private mortgage insurance, and a maximum 40 percent debt-to-income ratio. Most of the mortgages this local bank originated were "small:" he recounted doing a mortgage loan recently for as low as $16,000. But when asked whether he often saw issues with outstanding repair needs on homes that people tried to buy, he said:

> Folks ask for that quite a bit. Like I want to buy the house for $50,000, but then I'll need $20,000 more to fix it up. We *can't really*, on a purchase, we won't really do that. You can come back. You know, maybe you buy it now. Then you come back a year later, and maybe you can do a home [repair loan], you know [. . .] build up a little equity and maybe put a little sweat equity in there, and, you know, you've raised your value a little bit.

While this bank does not require an inspection, the loan amount needs to be covered by the appraised value of the home: an appraisal that leaves little to no room for home repair needs. But without such rehab mortgages, a large chunk of the rural housing stock is inaccessible

*Table 1: Overview of Common Mortgage Products in Rural Communities*

| | USDA (Section 502 Direct Loan Program) | FHA | Conventional portfolio |
|---|---|---|---|
| *Downpayment* | 0% | 3.5% | 20% (or 10% financed with piggyback loan, 20-year fixed) |
| *Minimum Credit Score* | No credit score requirements | A minimum of 580 (or 500 with 10% down) | 660 |
| *Loan Term* | Up to 38 years for very low income applicants | 30 years | 30 years |
| *Interest Rate* | Subsidized for low-income borrowers. Can be as low as 1% | Market rate | Market rate + loan level price adjustments based on risk-factors |
| *Finance home repairs?* | Section 504 Home Repair program (only for specific, existing, low-income home-owners) | FHA 203(k) rehab mortgage | Limited options: restricted by appraised value. |

to first-time homebuyers. This is especially true of the most affordable homes that are usually fixer-uppers. As a result, these homes stay vacant and fall into further disrepair. Or buyers instead rely on financing alternatives that offer few protections, such as sellers' financing, and in Kimberly's case, a "rent to own" arrangement.[34]

This mismatch between the housing stock and financing is an issue in many rural communities, not only because homes are often older, inherited through the family, or marked by historical poverty, but also because of relatively low home values in these communities. Previous researchers have also called this the *"valuation gap,"* which is the gap between the relatively high costs of home repairs and the low appraised value of fixed-up homes.

## Climate Disasters and the 2022 Flooding

The 2022 Eastern Kentucky flash flood and the destruction it wrought continues to impact local housing conditions. The Ohio River Valley Institute issued a report on the flood damage in Eastern Kentucky which found that 60 percent of the households damaged had annual incomes of $30,000 or less.[37] The report estimated that rebuilding the approximately 9,000 homes damaged in the floods would require between $450 and $940 million.

Most of the affected households were located outside of designated FEMA flood zones, as this event was considered a once-in-1000-year event. As a result, virtually all affected residents lacked flood insurance. This trend is not unique to Eastern Kentucky. Recent research by the Consumer Financial Protection Bureau analyzed flood risk data from across the country and found that compared to coastal homeowners, inland households at risk of flooding are much more likely to be underinsured due to inaccurate flood maps created by FEMA. These households have lower incomes than their coastal counterparts and are less likely to be able to recover financially from flood damage.[38]

Without flood insurance, victims have had to rely on FEMA payouts, HUD and Kentucky State disaster-relief funding, and philanthropic help. FEMA recovery payouts have been largely insufficient for households to repair and rebuild their homes. One housing advocate lamented that flood victims have "had to spend a large portion of what they had to pass on, to make their house livable again after a catastrophic event." For these families, the flood shifted their financial goals from overcoming generational poverty to the urgent struggle for basic housing.

In the aftermath of this crisis, FEMA has been redrawing flood maps to reflect updated risk. Any properties with mortgages that lie in the high-risk zones of these maps are required to buy flood insurance.[39] With the maps changing, many homeowners in Eastern Kentucky are receiving letters informing them of their new obligation to acquire this costly insurance. A loan officer at a local bank in Hazard noted that "there are a lot of older people in the region who live on fixed incomes. They may have a home payment of $400 a month left and now have to add $200 a month in flood insurance." The growing costs of flood and home insurance puts a disproportionate burden on lower-income homeowners, as insurance premiums make up a growing share of their housing payments. Low-income homeowners without a mortgage may also opt to go uninsured, given these high costs, and so run the risk of going from homeowner to homeless if another disaster strikes.[40]

In February 2025 after historical rain and snow oversaturated local riverways and soil, hundreds of homes in the town of Hazard and surrounding valleys flooded once again, and at least 14 people died in Kentucky.[41] This is a sobering reminder that due to the worsening effects of climate change, natural disasters and floods will occur more frequently. The disproportionate impact of natural disasters on low-income families is well-documented and the negative effects can be long-lasting.[42] Over two years after the 2022 flood, many Eastern Kentuckians remain in temporary or inadequate housing.[43] With the ever-increasing likelihood of flooding and heavy winds, many of the nation's rural areas need more resilient housing solutions.

## New Housing Development: Mountaintop Communities

While many challenges remain to help more rural Kentuckians stay and become homeowners, the state has also seen hopeful new developments: one great example is "mountaintop communities." The aftermath of the devastating 2022 flood spurred the planning for these communities, which are built on the flattened mountaintops of former strip mines. This rare, high-ground flat land is ideal for building homes at scale, which are safe against flooding.[44]

Governor Andy Beshear purchased these parcels of land with philanthropic funds from the Team Eastern Kentucky Flood Relief Fund and federal U.S. Department of Housing and Urban Development funds through the Community Development Block Grant Disaster Recovery (CDBG-DR) program.[45] These parcels of high-ground land were not for sale when the state developed the plans for these communities: the governor used his political capital to pressure the wealthy individuals and corporations who owned the land to sell or donate their properties. A large part of this philanthropic, state, and federal funding will be dedicated to creating the necessary infrastructure for large housing developments. Roads, utility lines, and water management systems are costly, but necessary, precursors to sustainable development. Seven of these high-ground communities, totaling around 600 homes, have been planned by the state to alleviate the severe housing need after the floods.[46] The vast majority of these homes are planned to be two-to-three-bedroom starter homes, which will alleviate the rural housing gap in housing that is both affordable and adequate.

One of these mountaintop communities is the "Blue Sky" subdivision near the Hazard airport in Perry County. In October 2024, a construction crew was working on the foundations and septic systems of three new homes: eventually, up to 100 homes will emerge in this new section. The construction lead on site, Richard, estimated that total development costs including land for each of these homes was around $170,000, though he noted that even a few years ago it was much lower at $120,000. The flooding had also pushed up the land values of safer havens

in Eastern Kentucky, especially mountaintops. Local nonprofits such as the Housing Development Alliance help flood survivors qualify for deep subsidies to offset these costs, meaning that many homeowners only end up with a monthly payment of around $300 – most of it going towards home insurance and taxes. This new construction offers a sense of hope and security for residents who lost their homes in the historic flooding. It also shows that with sufficient political willpower, it is possible for local and state governments to move the needle on local, affordable housing needs.

## Policy Recommendations

The housing crisis is national issue. But depending on location, this crisis will feel and look very differently. The United States is home to vastly different housing markets, anywhere from suburban Phoenix and downtown Boston to Appalachian Kentucky. While researchers often rely on large datasets to understand housing, construction, and pricing trends, these numbers only tell a part of the story. This type of analysis often misses informal housing markets or small-scale lending programs, and while offering broad description of trends, it is also less equipped to explain *why* these trends have emerged and *how* residents make sense and respond to housing challenges. This report relied on ethnographic research and interviews to take a deep dive into rural homeownership in Eastern Kentucky. While this region and its history is unique, this report has drawn on these in-depth insights to help us better understand homeownership challenges common to rural America.

To keep rural homeownership affordable and sustainable, we need to tailor our policy solutions to these local market dynamics and rural needs. This report offers three key policy recommendations:

1. ***Government-Insured Lending Programs Should Expand or Make Program Improvements to Better Meet Rural Needs.***

Many lenders served the Hazard area in Eastern Kentucky, but the mortgage options that they offered did not always match local needs. Many residents faced lower incomes and lower credit scores than needed to qualify for a mortgage. Moreover, especially the most affordable homes often had extensive repair needs that are hard to finance. To address this issue, government-insured programs and Fannie Mae and Freddie Mac should improve on and expand their mortgage offerings that include rehab and repair funding.

The Federal Housing Administration (FHA) has recently made great improvements to their 203(k) program, a mortgage that allows buyers to finance both a home purchase and major renovations. In 2024 FHA raised the cap for rehabilitation costs from $35,000 to $75,000 and extended the timeline for making these repairs to 12 months.[47] While these changes make this rehab mortgage more usable, other issues persistent that prevent more buyers from using it. Realtors and lenders remain less familiar and less able to advice homebuyers on these mortgages: even HUD's own home page still shows outdated information on 203(k).[48] And especially in rural areas, homebuyers may find it challenging to find the FHA consultant and licensed contractors to do the work. This rehab mortgage does not allow for financing off-the-books contractors and do-it-yourself repairs – both common strategies that lower-income homeowners use to save money and build sweat equity. While meant to protect homebuyers and lenders, these requirements add red tape that make it in practice unusable for many homebuyers, especially lower-income and first-time homebuyers.

### 2. *Congress Should Pass New Tax Credits to Facilitate Home Repairs and Rehabilitation.*

Congress should pass the "Neighborhood Homes Investment Act," a federal tax credit with extensive bipartisan support, that can help finance the gap between renovation costs and the relatively low appraised value of homes in disinvested rural communities. Structured after the highly successful Low Income Housing Tax Credit (LIHTC) program for rental housing, his homeowner tax credit would give developers and homeowners up to $100,000 in tax credits, to help bridge the gap between rehab costs and resale value. This would help preserve our rural affordable housing stock, while supporting sustainable and affordable homeownership.

In poor rural areas such as Eastern Kentucky, the gap between the cost of repairs and the appraised value of a renovated home especially looms large. Earlier this report discussed the "rural housing gap" of homes-for-sale that are affordable, yet do not need extensive repairs. Kentucky, like most places across the country, faces an extensive housing supply shortage. To address this gap, it is not enough to build new homes, but it is also essential to rehabilitate and maintain our existing affordable housing stock.

### 3. *State Housing Finance Agencies (HFAs) and Federal Home Loan Banks (FHLBs) Should Increase Their Participation in Rural Lending.*

Housing is key for local economic development, such as the need for housing local workers and ability to build community wealth through homeownership. As a result, states should prioritize investing in housing construction including in rural communities. They can do so by relying on strong local non-profit networks, affordable housing developers, Federal Home Loan Bank investments and lending, as well as state Housing Finance Agencies (HFAs) to put the funds to work on the ground.

State Housing Finance Agencies are uniquely positioned to invest in rural housing, such as by leveraging tax-exempt state-issued Housing Bonds to invest in housing construction. The "Affordable Housing Bond Enhancement Act," first introduced in 2023 by Senator Cortez Masto, is a great blueprint for expanding the effectiveness and scope of Housing Bonds and to expand affordable homes and homeownership opportunities in rural communities.

The regional Federal Home Loan Banks are also well-positioned to step up their investments in rural housing. A promising blueprint includes their Mortgage Purchase Programs (MPPs), which offers an alternative secondary market to Fannie Mae and Freddie Mac, important especially for smaller lenders. To address the mismatch between housing finance and local needs in rural areas such as Eastern Kentucky, Federal Home Loan Banks should expand their MPP to also accept small mortgages, deeply affordable mortgages, and rehab mortgages: this would allow them to expand liquidity for community banks, small credit unions, and community development financial institutions (CDFIs) doing mortgage origination, and help better serve underserved regions and borrowers. Finally, this report also recommends that Federal Home Loan Banks use their voluntary affordable housing contributions to invest in housing in rural areas directly. Voluntary dollars can be invested directly into a revolving loan fund, to offer interest-free loans to aid in rural housing construction, disaster resiliency, and hard-to-finance mortgage needs.

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***Brass Construction LLC of Hazard***

***Fahe***

***First Federal Savings and Loan of Hazard***

***Homeless and Housing Coalition of Kentucky***

***Housing Development Alliance***

***Kentucky Center for Economic Policy***

***Kentucky Housing Corporation***

***Kentucky Housing Task Force of the Kentucky General Assembly***

***People's Bank and Trust of Hazard***

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All photos in this report were made by co-author Sharon Cornelissen in October 2024.


## Contacts:


Sharon Cornelissen PhD | Director of Housing
scornelissen@consumerfed.org

Katie McCann | Administrative and Advocacy Associate
kmccann@consumerfed.org


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