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ABSTRACT

In 1971, a U.S. Census of Housing surveyed the financing of homeowners and rental properties, including characteristics of mortgages, properties, and homeowners. Data were obtained on places located outside Standard Metropolitan Statistical Areas (SMSA) and in places of less than 10,000 population, and on rural areas located outside SMSA's. These area classifications were considered as being close approximations to the "rural area" defined in the 1949 Housing Act. Areas classified as SMSA's were considered proxies for urban areas. To determine rural-urban differences, a comparative analysis was made of data contained in the survey on credit terms and usage in SMSA's, in non-SMSA's, and in places of less than 10,000 population and rural areas located within the non-SMSA counties. Analysis showed home buyers in rural areas paid higher interest rates on conventional mortgages, had shorter repayment periods, and had fewer choices of lenders. Yet, credit conditions did improve during the 1960's in rural areas. Savings and loan associations, the major home mortgage lenders, became more active in rural areas. They held 35 percent of the first mortgages in 1971 as compared with 23 percent in 1960. Expansion of activities by Federal agencies in rural areas tended to narrow the gap between the percentage of loans guaranteed and insured in rural areas as compared to metro areas. (Author/NQ)

DIFFERENCES IN HOUSING CREDIT TERMS AND USAGE BETWEEN METRO AND NONMETRO AREAS IN THE UNITED STATES

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DIFFERENCES IN HOUSING CREDIT TERMS AND USAGE BETWEEN METRO AND NONMETRO AREAS IN THE UNITED STATES, 1971. By Hughes H. Spurlock, Economic Development Division, Economic Research Service, U.S. Department of Agriculture. Agricultural Economic Report No. 305.

ABSTRACT

Analysis of 1971 census data on existing mortgages shows home buyers in rural areas paid higher interest rates on conventional mortgages and had shorter repayment periods than did their urban counterparts. They also had fewer choices of lenders. Even so, it appears credit conditions did improve during the 1960's in rural areas. Savings and loan associations, the major home mortgage lenders, became more active in rural areas. They held 35 percent of the first mortgages in 1971 as compared with 23 percent in 1960. Also, Federal agencies, particularly Farmers Home Administration, expanded activities in rural areas. This expansion tended to narrow the gap between the percentage of loans guaranteed and insured in rural areas as compared to metro areas.

KEY WORDS: Housing, Financing, Rural housing, Metro, Nonmetro, Credit, Mortgages, Census

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CONTENTS

HIGHLIGHTS

The latest Census of Housing survey shows that credit terms on one-unit property mortgages were higher and credit usage was smaller in nonmetro than in metro areas in 1970. Also, the more rural portion of nonmetro areas had higher credit terms and less credit usage than the remainder of nonmetro areas.

On conventional loans, the median interest rate was 6.6 percent in nonmetro areas compared to 6.0 percent in metro areas. Terms of loans were shorter for borrowers located outside metro areas; the median was 19.4 years in the more rural sections, 20.3 in nonmetro areas as a whole, and 25.3 inside metro areas. In nonmetro regions, about half of the owners of one-unit properties had a mortgage at the time of the census survey, compared with approximately two-thirds in metro areas. For those properties acquired from 1965-71, the percent mortgaged at the time of purchase was 71 percent in the rural nonmetro sectors, 74 percent in nonmetro areas, and 87 percent in metro areas.

Fewer mortgages were insured by a Federal agency in nonmetro than in metro areas. In 1971, only 24 percent of the loans in the rural portion of nonmetro regions and 27 percent of the loans in nonmetro areas were guaranteed or insured by a Federal agency. In comparison, 42 percent of the loans in metro areas were guaranteed or insured.

Loan terms and interest rates on loans guaranteed by Federal agencies were not significantly different between nonmetro and metro areas.

Few owners with a mortgage had incomes less than $4,000 in 1970. This was true in nonmetro as well as metro areas. Seven percent of the owners had incomes less than $4,000 in nonmetro areas, compared to 3.6 percent in metro areas.

The purchase price-income ratio was conservative in both nonmetro and metro areas. The median ratio of income to purchase price on all mortgaged properties purchased from 1967 to 1971 was 1.6 times annual income in 1969. The ratio was slightly lower in nonmetro areas.

Loan delinquency rates were higher in nonmetro areas. The proportion delinquent four payments or more in nonmetro rural sectors was 1.8 percent as compared with about 1 percent inside metro areas.

It appears credit terms in rural areas have been improving when compared to metro areas. Studies in 1960 showed a marked lack of credit institutions in rural areas. In 1971, this situation appeared to be changing and improving as savings and loan associations, which specialize in long-term home mortgages, moved ahead of commercial banks as the leading source of home mortgage credit for rural borrowers. S&L's held about 35 percent of the first mortgages on one-unit, homeowner properties in 1971 compared to 23 percent in 1960. Rural borrowers' reliance on individuals for home mortgages dropped sharply from 21 percent in 1960 to less than 11 percent in 1971. Also, Federal agencies, particularly FmHA, have become more active in rural areas providing more home mortgage loans to low- and moderate-income families unable to obtain credit elsewhere.

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DIFFERENCES IN HOUSING CREDIT TERMS AND USAGE BETWEEN METRO AND NONMETRO AREAS IN THE UNITED STATES, 1971

by

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INTRODUCTION

Constructing, remodeling, and financing homes are basically private sector activities in the United States. Thus, public policy has been directed toward helping the private sector serve as large a part of the total need as possible. Governmental help has been focused on assisting and improving the role of private credit in financing home building and improvements.

The importance of mortgage credit in financing the constructing, remodeling, and marketing of housing is demonstrated by the expansion of credit during the 1960's when construction costs increased markedly. American families owed about $303 billion in home mortgage debt in 1971, compared to $144 billion a decade earlier (8, 9). 1/

Adequate mortgage credit is basic to home construction and improvement. Studies have shown rural families have not, in the past, obtained private mortgage credit on as favorable terms as have their urban counterparts (4, 6, 11, 13). This may have generated the higher incidence of substandard housing in rural areas (1, 2). Information is needed on the extent to which this credit inequality still persists between rural and urban areas to help administrators and policymakers evaluate current programs and plan new ones.

There are many definitions of a rural area. Title V of the Housing Act of 1949 carries the most appropriate for making rural-urban housing credit comparisons. This Act, as amended, defines "rural" or "rural areas" as being open country, or any place, town, village, or city which is not part of or associated with an urban area and which has a population not in excess of 10,000, if it is rural in character, or has a population in excess of 10,000 but not in excess of 20,000 and (a) is not located within a Standard Metropolitan Statistical Area (SMSA) 2/ and (b) has a serious lack of mortgage

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1/ Underscored numerals in parenthesis refer to references on page 21.

2/ An SMSA, as defined at the time of the 1970 Census, generally consisted of a county or group of contiguous counties containing at least one city of 50,000 inhabitants or more, or twin cities with a combined population of at least 50,000. In the New England States, SMSA's consist of towns and cities instead of counties.

credit, as determined by the Secretary of Agriculture and the Secretary of Housing and Urban Development. The section of the definition dealing with places from 10,000 to 20,000 population was added by the Housing Act of 1974.

In 1971, a U.S. Census of Housing surveyed the financing of homeowner and rental properties, including characteristics of mortgages, properties, and homeowners (9). Data on the particular size rural place as defined in the Housing Act were not provided. But data were obtained on places located outside SMSA's and in places of less than 10,000 population, and on rural areas located outside SMSA's. These area classifications are considered as being close approximations to the "rural area" defined in the 1949 Housing Act. Also, areas classified as SMSA's are considered proxies for urban areas. Therefore, to determine if there were rural-urban differences, a comparative analysis was made of data contained in the census survey on credit terms and usage in SMSA's, in non-SMSA's, and in places of less than 10,000 population and rural areas located within the non-SMSA counties (9). Data used applies to first mortgages on one-unit homeowner properties and exclude farm housing.

SMALLER PROPORTION OF RURAL PROPERTIES HAD A MORTGAGE

In non-SMSA's, about half of the owners of one-unit properties had a mortgage at the time the census survey was made, compared to approximately two-thirds in SMSA's. Only 47 percent of the homeowners in places of under 10,000 population had a mortgage (table 1).

For those properties acquired in 1965-1971, the percent mortgaged at the time of purchase was 74 percent for non-SMSA's, and 71 percent for places with less than 10,000 population, compared to 87 percent for SMSA's (table 2).

RATE OF INTEREST ON HOME MORTGAGES HIGHER IN RURAL AREAS

The interest rate affects borrowers in major ways. In considering a loan, lenders take into account the applicant's income and may use a "thumb rule" that loan payments, of which interest is a large item, should not exceed 20 to 25

Table 1--Mortgage status of one-unit, homeowner properties, by location of properties, 1971

Mortgage status	Location of properties: SMSA's	Non-SMSA's	Less than 10,000 and rural in non-SMSA's
Mortgaged	66.2	49.5	47.1
Not mortgaged	33.8	50.5	52.9

Source: (9).

Table 2--Mortgage status of one-unit, homeowner properties for selected years in which properties were acquired, by location of properties, 1971

Year property acquired	Location of properties					
	SMSA's		Non-SMSA's		Less than 10,000 and rural in non-SMSA's	
	Mortgaged	Not mortgaged	Mortgaged	Not mortgaged	Mortgaged	Not mortgaged
	Percent					
1969 to 1971	88	12	78	22	75	25
1967 and 1968	88	12	72	28	70	30
1965 and 1966	86	14	70	30	69	31
Total, 1965 to 1971	87	13	74	26	71	29

Source: (9).

percent of household income. High interest rates increase monthly payments and often result in the lender having to turn do . the loan application because of the applicant's insufficient income.

The interest rate on conventional home mortgages is higher in rural areas than in urban areas. On conventional loans, the median interest rate was 6.6 percent in both non-SMSA's and in places with less than 10,000 population as compared with 6.0 percent in SMSA areas in 1971 (table 3). 3/ 4/

Table 3--Median interest rate on various types of first mortgage loans on one-unit homeowner properties, by location of properties, 1971

Type of first mortgage loan	Location of properties		
	SMSA's	Non-SMSA's	Less than 10,000 and rural in non-SMSA's
	Median interest rate		
FHA-insured loans	5.8	5.7	5.7
VA-guaranteed loans	5.4	5.5	5.5
Conventional loans	6.0	6.6	6.6

Source: (9).

On government-backed loans, rates were about the same in both SMSA's and non-SMSA's. However, a smaller proportion of rural loans were government backed.

A distribution of first mortgages outstanding in 1971 by interest rate paid shows slightly more than 27 percent of homeowners located in non-SMSA's and about 25 percent of those located in places of less than 10,000 population were paying less than 6 percent interest. In comparison, about 45 percent of owners living inside SMSA's were paying less than 6 percent interest (table 4).

YEARS TO REPAY THE LOAN SHORTER IN RURAL AREAS

The length of the mortgage life, together with the interest rate, largely determine the amount of monthly payments on amortized mortgages. Years-to-

3/ The median is the middle value in a distribution, i.e., the median divides the distribution into two equal parts; one-half of the cases fall below the median and one-half of the cases exceed the median.

4/ Included in conventional mortgages are housing loans made directly by the Federal Housing Administration (FHA), the Veterans' Administration (VA), the Farmers Home Administration (FmHA, U.S. Dept. of Agr.), or any other Federal, State, or local government agency as the lender.

Table 4--Distribution of first mortgage loans on one-unit homeowner properties, by interest rates paid and by location of properties, 1971

Interest rate	Location of properties: SMSA's	Non-SMSA's	Less than 10,000 and rural in non-SMSA's
		Percent	
Less than 6 percent	44.7	27.1	24.6
6 percent	21.0	26.9	27.0
More than 6 percent	34.3	46.0	48.4

Source: (9).

maturity are shorter on loans on properties located outside SMSA's. The median was 20.3 years for home buyers outside of SMSA's and 19.4 years for places of less than 10,000 and rural compared with 25.5 years for inside-SMSA locations (table 5). About 25 percent of home mortgage loans in non-SMSA's and 28 percent of those in places of less than 10,000 and rural were for less than 12 years, compared with 7.8 percent in SMSA's.

Rural borrowers who obtained the government-insured and/or guaranteed loans received longer maturity terms than did conventional borrowers (table 6). There was only a slight difference between the terms on government-backed mortgages by location of properties.

LOAN-TO-PRICE RATIO SIMILAR IN RURAL AND URBAN AREAS

Differences in the amount of downpayment needed to purchase a home in one area as compared to another may cause differences in the use of home mortgage credit. Credit studies in the early 1960's showed that the downpayment requirement in rural areas was higher than in urban areas (5, 6, 11, 12, 13). For all first mortgages existing on one-unit properties in 1971, there was no significant difference in the loan-to-price ratio between rural and urban areas (table 7). For non-SMSA's, places of less than 10,000 population, and inside SMSA's, the median ratio was about 85 percent.

HIGHER PERCENTAGE OF RURAL MORTGAGES HELD BY THE MORTGAGE ORIGINATOR

Originating, then selling mortgages, whether done by mortgage companies, commercial banks, real estate dealers, or others enables local areas to tap outside pools of credit. This practice helps mortgage funds to flow from one sector to another. The direction of the flow may indicate better investment

Table 5—Distribution of first mortgage loans on one-unit, homeowner properties, by years-to-maturity of loans and by location of properties, 1971

Years-to-maturity of first mortgages	Location of properties		
	SMSA's	Non-SMSA's	Less than 10,000 and rural in non-SMSA's
	Percent		
Less than 12 years	7.8	24.5	28.1
13 to 22 years	26.8	36.9	36.5
23 years or more	63.5	36.4	32.8
No stated term	1.9	2.2	2.6
	Years		
Median	25.5	20.3	19.4

Source: (9).

Table 6—The median years-to-maturity of various types of loans on one-unit, homeowner properties, by location of properties, 1971

Type of first mortgage loan	Location of properties			
	United States	SMSA's	Non-SMSA's	Less than 10,000 and rural in non-SMSA's
	Median years-to-maturity			
FHA-insured loans	29.3	29.4	28.8	28.7
VA-guaranteed loans	29.4	29.5	28.4	28.0
Conventional loans	21.1	22.2	18.2	17.8

Source: (9).

Table 7—Distribution of one-unit, homeowner properties, by loan-price ratios and by location of properties, 1971

Loan-price ratios	SMSA's	Non-SMSA's	Less than 10,000 and rural in non-SMSA's
		Percent	
Less than 50 percent	5.3	5.6	5.9
50 to 59 percent	5.4	5.2	5.7
60 to 69 percent	10.4	10.4	10.4
70 to 79 percent	18.2	16.0	16.7
80 to 89 percent	20.1	19.4	18.7
90 to 94 percent	11.9	11.5	10.7
95 to 99 percent	14.9	12.7	11.7
100 percent	13.8	19.2	20.2
		Ratio	
Median	85.0	86.0	85.0

Source: (9).

opportunities. There is some evidence that urban credit institutions make more use of this practice.

In areas outside of SMSA's and places of less than 10,000 population, 78 percent of the mortgages were held by the originator. In comparison, of the mortgages held on properties located inside of SMSA's, 67.5 percent were held by the originator (table 8).

WHO HOLDS THE MORTGAGES?

The mortgage holder is the firm, organization, institution, or person with a legal right to interest and principal due on the mortgage. A holder acquires the mortgage by originating the mortgage directly with the borrower or by purchase from someone else. While the holder may or may not have originated the mortgage, the holder is the permanent source of the mortgage funds.

Holders of mortgages are not evenly located throughout the Nation. Nor do they have the same proportion of their funds invested in residential real estate. A distribution of first mortgage holders indicates a marked difference in the types of lenders servicing borrowers in non-SMSA's compared to SMSA's (table 9). Commercial banks held 23.6 percent of the mortgages in non-SMSA's and 14.5 percent in SMSA's. Mutual savings banks held 8.2 percent of the loans in non-SMSA's compared to 16.0 percent in SMSA's. Savings and loan associations (S&L's) held

Table 8--Distribution of one-unit, homeowner properties by holder's method of acquiring mortgages and by location of properties, 1971

Holder method of acquiring first mortgage	Location of properties		
	Inside SMSA's	Outside SMSA's	Less than 10,000 and rural in non-SMSA's
		Percent	
Originated by holder	67.6	78.2	79.0
Purchased from present servicer	22.6	14.6	13.7
Purchased from someone else	8.4	5.6	5.5
Not reported	1.4	1.6	1.8

Source: (9).

about the same percentage of loans in both areas. Life insurance companies were much more active in SMSA's than in non-SMSA's. Direct lending by Federal agencies was more pronounced in non-SMSA's than in SMSA's.

There are marked differences in the loan terms on existing mortgages held by the principal lenders between non-SMSA's and SMSA's. The median interest rates on loans held by commercial banks and S&L's were markedly higher in non-SMSA's than in SMSA's. Also, the period to repay was longer in SMSA's than in non-SMSA's. The loan-price ratios differ by type of lender, but not by location. Commercial banks lent a smaller proportion of the purchase price than did any other lender (table 10).

Because of the marked differences in loan terms of mortgages held by different institutional lenders and differences in their location, a more detailed analysis of each type of lender was made. 5/

Commercial Banks or Trust Companies

Commercial banks are the most widespread type of lending institution in the country. About 98 percent of the counties had banks with deposits in 1972 (table 11). Those counties showing no bank deposits were mostly classified as 100 percent rural.

Commercial banks engage in a wide range of lending activities, including: the handling of commercial and industrial loans, checking accounts, personal

5/ Descriptions of mortgage holders were taken or abstracted from (9).

loans, savings accounts, time deposits, and residential loans. With many other calls for credit, home mortgage loans may make up only a small part of the bank's business.

Nearly 26 percent of the home mortgage debt against properties located in places of less than 10,000 and rural located outside SMSA's was held by commercial banks (see table 9). In non-SMSA's, banks held 23.6 percent of the number of loans. In SMSA's, however, the percentage was much smaller--14.5 percent. In summary, rural households depend more heavily on commercial banks for home mortgage loans than do their urban counterparts. However, commercial banks in

Table 9--Distribution of one-unit, homeowner properties, by type of mortgage holder and by location of properties, 1971

Type of mortgage holder	Location of properties		
	SMSA's	Non-SMSA's	Less than 10,000 and rural in non-SMSA's
	Percent		
Commercial bank or trust company	14.5	23.6	25.8
Mutual savings bank	16.0	8.2	8.0
Savings and loan association	38.3	36.6	34.9
Life insurance company	11.7	5.7	3.6
Mortgage company	1.2	1.6	2.0
Federal agency	2.6	7.7 1/	9.3 1/
Federal National Mortgage Association	5.4	2.7	1.9
Individual or individual's estate	5.9	10.1	10.8
Other	4.4	3.8	3.7

Source: (9).

1/ Holder is mainly FmHA.

Table 10--Median interest rate, terms, and loan-price ratios for mortgages on one-unit, homeowner properties, by type of mortgage holders and by location of properties, 1971

Holder of first mortgage	Location of properties					
	SMSA's			Non-SMSA's		
	Median interest rate	Median terms	Loan-price ratio	Median interest rate	Median terms	Loan-price ratio
	Percent	Years	Median	Percent	Years	Median
Commercial bank or trust company	6.0	22.2	79	6.7	13.6	78
Mutual savings bank	5.6	28.2	86	6.0	25.8	86
Savings and loan association	6.0	24.6	80	6.7	20.4	82
Life insurance company	5.5	27.1	83	5.4	26.6	86
Mortgage company	7.0	28.4	96	6.0	10.5	96
Federal agency	5.9	29.7	96	5.2	27.7	97
Federal National Mortgage Association	6.0	30	97	6.0	30	98
Real estate or construction company	6.7	23.9	95	---	---	---
Individual or individual's estate	6.0	15.9	88	6.0	12.2	91
Other	5.7	27.2	87	6.0	15.2	85

Source: (9).

Table 11--Distribution of counties by per capita bank deposits and by percent of the county population that was rural, 1970

Item	Percent of county population that was rural						Total
	100.0	75.1 to 99.9	50.1 to 75.0	25.1 to 50.0	25.0 to 0.1	0.0	
Number of counties 1/	888	306	952	643	289	19	3,097
Per capita bank deposits in banks in each county 2/							
	Percent of counties						
None	6.4	0.3	0.5	0.3	0.0	5.3	2.1
$1 to $499	4.7	2.0	.7	0.5	1.0	0.0	2.0
$500 to $999	22.2	24.8	16.3	8.7	8.3	0.0	16.4
$1,000 to $1,499	23.5	31.7	31.7	27.7	23.2	0.0	27.5
$1,500 to $1,999	18.8	22.2	26.1	34.2	28.0	5.3	25.3
$2,000 to $2,499	12.7	14.4	15.0	19.3	18.7	5.3	15.5
$2,500 to $4,999	11.4	4.6	9.7	9.3	20.1	68.3	10.9
$5,000 and over	0.3	---	---	---	0.7	15.8	0.3

Source: (10).

1/ Number of counties listed differs from those listed in (10) because independent cities in Virginia were combined with original counties and four divisions in Alaska were combined with other divisions.

2/ Total deposits cover all banks in the United States, commercial and mutual savings. In addition to time deposits, they include demand, interbank, and governmental deposits of individuals, partnerships, and corporations. Deposits in branch banks are listed in the county where the branch is located.

1970 held a smaller percentage of home loans in rural areas than in 1960. In 1960, commercial banks held 34 percent of the first mortgage loans in rural areas (3).

A lending institution in strong financial position must have a prosperous resource base from which to obtain large amounts of investment funds. This base is often weaker in rural areas compared to more prosperous urban locations. Per capita bank deposits increased as the proportion that the county was urban increased, rising from $1,415 in all rural counties to $7,855 in all urban counties. Per capita time deposits paralleled demand deposits but were much smaller amounts. Per capita time deposits varied from $748 in all rural counties to $3,276 in all urban counties (table 12).

Commercial banks and individuals are the only source of nongovernmental mortgage credit close at hand in many of the more rural counties. Often the rural banks are small and have alternative investment opportunities other than to invest in long-term residential mortgages which have low liquidity. This may account for the markedly higher mortgage terms in rural as compared with urban areas.

Savings and Loan Associations

S&L's are the leading source of home mortgage credit in both urban and rural locations; their percent of all mortgages held is increasing. S&L's held 23 percent of the first mortgages on one-unit, homeowner properties located in rural counties in 1960 (3). In 1970, they held about 35 percent of the mortgages in places of less than 10,000 population and rural in non-SMSA's. S&L's are slightly more active in urban areas than in rural, holding about 38 percent of the home mortgages in SMSA's locations in 1970.

The lack of access to S&L's, which specialize in long-term residential home mortgages, is a drawback to those rural borrowers without this type of lender nearby. S&L's are not nearly so widely disbursed over the country as are commercial banks. About half of the counties did not show deposits in S&L associations headquartered within their borders in 1970 (table 13).

Mortgages held by S&L's in SMSA's had lower interest rates and longer amortization than did mortgages held by such associations in non-SMSA's. This may be caused by lower per capita deposits in rural than in urban counties.

Average per capita deposits in S&L's did not increase as much as did bank deposits when the percent of population classified as urban increased. Per capita deposits ranged from $298 in 100 percent rural counties to $1,171 in the totally urban counties.

Mutual Savings Banks

Mutual savings banks, located principally in the New England States, New York, and Pennsylvania, accept savings deposits only. These banks held about 16 percent of the mortgages in SMSA's. They held 8.2 percent of the mortgages in non-SMSA's and 8 percent in places less than 10,000 and rural located in non-SMSA's. These banks were offering about the same mortgage terms in both rural and urban areas.

Table 12--Average per capita bank deposits, time deposits, and S&L deposits, by percent of county population that was rural, 1970

Type of deposit	Percent of county population that was rural						Total
	100.0	75.1 to 99.9	50.1 to 75.0	25.1 to 50.0	25.0 to 0.1	0.0	
	Dollars						
Bank deposits 1/	1,415	1,412	1,575	1,698	2,286	7,855	2,494
Bank time deposits 1/	748	812	887	934	1,103	3,276	1,206
S&L deposits 2/	299	322	491	587	864	1,171	782

Source: (10).

1/ Includes deposits in all commercial and mutual savings banks by individuals, partnerships, and corporations. Bank deposits in branch banks are reported in the county where the branch is located.
2/ Deposits are reported in the county in which headquarters of association is located.

Table 13--Distribution of counties by per capita deposits in S&L's and by percent of the county population that was rural, 1970

Item	Percent of county population that was rural						Total
	100.0	75.1 to 99.9	50.1 to 75.0	25.1 to 50.0	25.0 to 0.1	0.0	
Number of counties 1/	888	306	952	643	289	19	3,097
Per capita deposits in savings and loan associations in each county:							
	Percent of counties						
None 2/	94.2	57.2	38.5	19.7	6.6	10.5	49.3
$1 to $99	1.1	6.5	4.0	2.8	3.8	5.3	3.2
$100 to $199	1.2	8.8	8.9	7.3	6.6	5.3	6.1
$200 to $299	0.6	10.5	9.7	8.7	5.2	0.0	6.5
$300 to $399	0.8	6.5	8.0	9.2	9.7	0.0	6.1
$400 to $499	0.7	2.6	7.1	11.0	7.6	0.0	5.7
$500 to $749	0.6	4.2	13.8	18.5	21.4	10.5	10.7
$750 to $999	0.6	1.6	4.5	11.2	17.6	26.2	5.8
$1,000 to $1,249	0.1	0.7	2.4	5.6	9.3	5.3	2.9
$1,250 to $1,499	0.0	0.7	1.5	3.0	4.2	5.3	1.5
$1,500 and over	0.1	0.6	1.6	3.0	8.0	31.6	2.2

Source: (10).

1/ Number of counties listed differs from those listed in (10) because independent cities in Virginia were combined with original counties and four divisions in Alaska were combined with other divisions.
2/ The amount of deposits in S&L's in each county was based on county headquarters of associations. In States with branch banking, deposits may have been located in a branch in another county.

Life Insurance Companies

Life insurance companies held 11 percent of the mortgages in SMSA's, only 3.6 percent of the debt against properties located in places of less than 10,000 and rural, and 5.7 percent in non-SMSA's as a whole. Although life insurance companies are not playing a major role in financing housing in rural areas, they appear to be offering about the same loan terms in both rural and urban areas.

Mortgage Companies

Mortgage companies are primarily originators of mortgages which they sell. Mortgages held by such companies represent those recently made and not yet sold as well as those in which mortgage companies had invested their own funds. Consequently, the percentage of mortgages held was not large in either SMSA's, or non-SMSA's and places of less than 10,000 and rural, ranging between 1 and 2 percent of the total.

Individuals

The individual or individual's estate mortgage category (see table 10) excludes individual's estates being administered as trust accounts by commercial banks. Such bank-administered accounts are shown under the "other" category.

The individual mortgage fund provider is about twice as important in rural as in urban areas. In areas of less than 10,000 population and rural, 10.8 percent of the mortgages were held by either an individual or an individual's estate as compared with 5.9 percent in SMSA's. The percent of loans held by individuals in rural areas has apparently decreased markedly in recent years. In 1960, individuals held 21 percent of the mortgages in rural counties (3).

Some of this type of mortgage credit exists because of the lack of adequate sources of credit within the area. The seller is forced to offer credit or not sell. In other instances, the seller may want the mortgage as an investment. The interest rate and years-to-maturity were not much different between non-SMSA's and SMSA's. The median number of years to maturity of the mortgage was considerably less than that offered by other lenders--15 years or less.

Federal Agencies

The Government National Mortgage Association (GNMA) purchases mortgages insured by FHA or guaranteed or insured by VA on specified types of housing--mainly housing for low and moderate income families, cooperative projects, and other special purpose housing for which regular mortgage-market financing is inadequate. GNMA also holds mortgages acquired from the Federal National Mortgage Association (FNMA) as a result of assuming that agency's management and liquidation functions (see FNMA description below).

FHA becomes the holder of (1) mortgages made in connection with the sale of properties acquired by FHA from lenders, or (2) mortgages assigned by lenders to FHA as a result of irremediable borrower default of FHA-insured mortgages.

The Department of Housing and Urban Development (HUD) is the holder of record for mortgages made under Section 202 of the Housing Act of 1959, Senior Citizen's Housing, direct loans, and those made in connection with sales of residential properties previously owned by other Federal agencies.

VA holds mortgages made under its direct loan program and mortgages made in connection with the sale of properties acquired by VA from lenders because of insoluble borrower defaults.

FNMA, also known as "Fanny Mae," is a Government-sponsored organization which buys and sells FHA-insured, VA-guaranteed, and (recently) conventional mortgages to improve distribution of mortgage funds and to encourage the construction of housing.

FmHA has the major responsibility for Federally-assisted housing programs for low and moderate income rural families. It has a wide range of housing programs such as ownership loans, rural rental loans, farm labor housing loans, and housing repair loans. 6/

FEWER MORTGAGES INSURED BY A FEDERAL AGENCY IN RURAL AREAS

Fewer mortgages were insured or guaranteed by a Federal agency in nonmetro compared to metro areas. In 1971, only 24 percent of the loans in the rural portion of non-SMSA's were insured or guaranteed by a Federal agency. In comparison, 42 percent of the loans in SMSA's were guaranteed or insured (table 14).

Lenders differ markedly between rural and metro areas in their use of federally-insured mortgages. Commercial banks insured 12 percent of their loans to borrowers in rural areas compared to 37 percent inside SMSA's. S&L's insured 9 percent of their loans in rural areas compared to 21 percent in SMSA areas. Life insurance companies insured 77 percent of their loans in rural areas, but only 63 percent in areas within SMSA's.

Because of the extreme variation between lenders, the mix of major lenders explains part of the nonmetro and metro differences. For example, commercial banks, S&L's, and individuals combined held more than 70 percent of the loans on properties outside of SMSA's, and 71.5 percent of the mortgages in places of less than 10,000 population located outside SMSA's. The same three types of lenders held 58.7 percent of the mortgages on properties located inside SMSA's. Of the mortgages held by this group of lenders, 11.6 percent were insured or guaranteed by VA or FHA on properties located outside SMSA's. For areas of 10,000 population and rural, the percent insured or guaranteed dropped to 8.5 percent. But inside SMSA's, 23.0 percent of these mortgages were insured or guaranteed.

6/ Because FmHA-held mortgages were too few to be tabulated separately, such mortgages were included under conventional mortgages.

AMOUNT OF FIRST MORTGAGE SMALLER IN RURAL AREAS

Mortgages are smaller in rural areas. About 47 percent of the mortgages on properties located outside of SMSA's and nearly 50 percent located in places of less than 10,000 population and rural were for under $10,000 (table 15). For properties located inside SMSA's, only about 25 percent were smaller than $10,000. Properties inside SMSA's showed a median of $13,500 compared to $10,400 for non-SMSA's. In areas of less than 10,000 and rural, the median was $10,000. The smaller size of mortgages reflects lower valued properties in rural areas.

Table 14--Percent of loans insured by VA and FHA on first mortgage, one-unit homeowner properties, by types of mortgage holders and by location of properties, 1971

Type of mortgage holder	Location of properties: SMSA's — Percent of total loans insured by VA & FHA	Location of properties: Non-SMSA's — Percent of total loans insured by VA & FHA	Location of properties: Less than 10,000 and rural in non-SMSA's — Percent of total loans insured by VA & FHA
Commercial bank or trust company	37.4	16.1	11.8
Mutual savings bank	64.2	45.8	39.3
Savings and loan association	21.4	11.8	8.8
Life insurance company	62.8	73.3	77.1
Mortgage company	67.9	17.4	12.9
Federal agency	67.4 1/	12.0 2/	6.4 2/
Other 3/	45.2	25.2	14.8
Total	41.7	27.4	24.0

Source: (9).

1/ The difference between this number and 100 percent is the portion of direct loans held mainly by FHA and VA.

2/ The difference between these numbers and 100 percent is the portion of loans mainly held by FmHA.

3/ Includes retirement funds; State and local governments or private pension system; nonprofit organizations; insurance companies; trust accounts administered by a bank; and holders who do not fit in the specified categories.

BORROWERS' INCOMES LOWER IN RURAL AREAS

The median income of owners in non-SMSA's was $10,700 compared to $12,600 in SMSA's (table 16). Median incomes in the more rural section of non-SMSA's ($10,300) were slightly lower than in non-SMSA's.

Very few owners with a mortgage on their properties had an income below $4,000 in 1970. This was true in non-SMSA's as well as SMSA's. Seven percent of the owners had incomes of less than $4,000 in non-SMSA's compared to 3.6 percent in SMSA's.

PURCHASE PRICE-INCOME RATIO CONSERVATIVE IN RURAL AND URBAN AREAS

The purchase price-income ratio is conservative in both urban and rural areas. The ratio of the purchase price to annual household income provides a rough guide as to the amount a family can afford to invest in housing. A widely used thumb rule is that the purchase price should not exceed 2.5 times annual income. But, the median ratio of income to purchase price on all U.S. mortgaged home properties purchased from 1967 to 1971 was 1.6 times annual income (table 17). The ratio in non-SMSA's was slightly lower than in SMSA's.

Only 14 percent of the borrowers purchased a home valued more than 2.5 times their incomes. The percentage who purchased a home valued more than 2.5 times their incomes was lower in non-SMSA's than in SMSA's.

Table 15--Distribution of the amounts of first mortgage loans on one-unit, homeowner properties, by location of properties, 1971

Amount of first mortgage loan	Location of properties: SMSA's	Non-SMSA's	Less than 10,000 and rural in non-SMSA's
		Percent	
Less than $5,000	4.2	14.5	16.9
$5,000 to $7,499	8.2	15.7	16.6
$7,500 to $9,999	12.8	16.6	16.0
$10,000 to $12,499	17.7	17.6	17.0
$12,500 to $14,999	16.4	12.6	12.3
$15,000 to $17,499	13.7	9.3	8.9
$17,500 to $19,999	8.7	4.9	4.4
$20,000 to $24,999	10.4	5.4	4.7
$25,000 to $29,000	4.3	2.0	2.0
$30,000 or more	3.6	1.3	1.2
		Dollars	
Median	13,500	10,400	10,000

Source. (9).

However, a single year of income has limitations for measuring ability to pay and capacity for qualifying for a loan. Household income may be abnormally higher for the year in which the data were obtained. Also, incomes may have increased from 1967 to 1970. Nor does it take into account other assets that may serve as security for the loan or savings adequate for a large downpayment.

LOAN DELINQUENCY RATES LOW IN RURAL AND URBAN AREAS

Of the first mortgages on one-unit homeowner properties located inside SMSA's, 3.8 percent were delinquent one to three payments. Less than 1 percent were delinquent on four payments or more. This compares with the higher figure of 5.1 percent of the borrowers located in non-SMSA's being delinquent one to three payments, and with 1.7 percent being delinquent by four payments or more (table 18).

It appears most loans made in SMSA's as well as non-SMSA's are being repaid on schedule. The slightly higher delinquency rate in non-SMSA's than in SMSA's may reflect greater variations in monthly incomes in rural than in urban areas.

The small percentage of delinquencies may reflect conservative lending practices and careful screening of applicants. Also, the low delinquency rate among all borrowers may indicate the prosperous condition of the economy at the time the data were obtained.

Table 16--Distribution of household incomes of borrowers who own mortgaged one-unit properties, by location of properties, 1971

Distribution of household incomes of borrowers in 1970 1/	Location of properties		
	SMSA's	Non-SMSA's	Less than 10,000 and rural in non-SMSA's
		Percent	
Less than $4,000	3.6	7.0	7.9
$4,000 to $5,999	5.0	8.5	9.5
$6,000 to $7,999	8.5	13.0	13.5
$8,000 to $9,999	11.6	16.1	16.3
$10,000 to $12,499	20.6	20.8	19.8
$12,500 to $14,999	14.8	12.2	12.1
$15,000 to $19,999	19.5	14.2	13.5
$20,000 to $24,999	8.5	4.2	4.1
$25,000 or more	7.9	3.9	3.3
		Dollars	
Median	12,600	10,700	10,300

Source: (9).

1/ Respondents were asked to report on annual figures for the past 12-month period. It is believed that, in most cases, income for 1970 was reported.

Table 17--Distribution of one-unit, homeowner properties, by purchase price-income ratios and by location of properties, 1971

Purchase price-income ratio	Location of properties		
	SMSA's	Non-SMSA's	Less than 10,000 and rural in non-SMSA's
	Percent		
Less than 1.0	10.6	20.5	20.6
1.0 to 1.4	29.6	28.1	27.4
1.5 to 1.9	29.0	25.6	25.0
2.0 to 2.4	15.3	13.0	13.2
2.5 to 2.9	7.4	6.2	6.6
3.0 to 3.4	3.5	2.2	2.6
3.5 to 3.9	1.3	1.2	1.5
4.0 or more	3.3	3.2	3.1
	Ratio		
Median	1.6	1.5	1.5

Source: (9).

Note: Properties acquired by purchase, 1967 to 1971.

Table 18--Distribution of one-unit, homeowner properties, by current status of mortgage and by location of properties, 1971

Current status of first mortgage payments	Location of properties		
	SMSA's	Non-SMSA's	Less than 10,000 and rural in non-SMSA's
	Percent		
Current or ahead of schedule	95.3	93.2	92.8
Delinquent 1 to 3 payments	3.8	5.1	5.4
Delinquent 4 payments or more	.9	1.7	1.8

Source: (9).

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