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# Financing Rural Homes In Missouri

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## PREFACE

This study was made cooperatively by the Missouri Agricultural Experiment Station and the Farm Production Economics Division, Economic Research Service, U. S. Department of Agriculture. Project leaders were Fred L. Garlock, Leader, Farm Credit Studies, Farm Production Economics Division; and Frank Miller, Professor, Department of Agricultural Economics, University of Missouri. The authors express appreciation to them; to J. Wendell McKinsey, Chairman, Department of Agricultural Economics; and Norman J. Wall, Chief, Agricultural Finance Branch, Farm Production Economics Division for providing administrative leadership for the work. Also, appreciation is expressed to V. James Rhodes, Professor, Department of Agricultural Economics; to the many respondents, and others who gave assistance in the work.

The study's main objectives were to determine the characteristics of rural housing credit in selected areas of Missouri, and to explore ways of improving the housing credit system in rural areas. To do this, information was obtained from home mortgage lenders, real estate brokers, and others. It is hoped that the findings will provide a better understanding of rural housing credit and contribute to improvements in the system of financing rural homes.

# Financing Rural Homes In Missouri

DORWIN WILLIAMS,\* LAWRENCE A. JONES,\* AND FRANK MILLER\*\*

## INTRODUCTION

In declaration of policy in the Housing Act of 1949, Congress reflected the national awareness that the general welfare and security of the nation and the health and living standards of its people are related to favorable housing conditions. The Act indicates further that construction of sound housing is important in achieving a prosperous and expanding economy. The credit system will play a vital role in this endeavor as credit is the lifeblood of the construction industry.

### Need for Study

In Missouri, according to the 1960 Census of Housing, only 45 percent of the rural homes, compared to 77 percent of the urban homes, are sound in construction and have all of the plumbing facilities needed.<sup>1</sup> Considerable expenditure for improvements and construction will be required to raise the level of rural housing to a desirable standard. Credit will play an important part. For some time there has been a belief that the housing credit situation in rural areas and small towns is tighter than in most urban areas. Studies sponsored by the Housing and Home Finance Agency have given further evidence of this situation.<sup>2</sup> More detailed information is needed concerning the characteristics of the housing credit that is available in rural areas, and how the more ample credit facilities in larger places can be extended to rural communities.

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<sup>1</sup>/ U. S. Bureau of the Census, U. S. Census of Housing; 1960; Vol. 1 I, States and Small Areas, Missouri, Final Report HC (1) -27. (Washington: Government Printing Office, 1962), p. 27-5.

<sup>2</sup>/ J. H. Yeager, Rural Housing--Situation, Needs, and Financing, Agricultural Experiment Station of Auburn University, Auburn, Ala., 1962.



## Objectives of the Study

The objectives of the study were: (1) to determine the general characteristics of credit for rural housing in selected areas of Missouri with respect to cost, terms, and availability; (2) to compare these characteristics with those of credit for urban housing; (3) to ascertain the reason for differences in cost, terms, and availability of credit; and (4) to explore ways to improve the rural housing credit situation.

## Method of Study

The data were obtained from two separate areas in Missouri. One included some large towns. The other area was predominately rural with no towns larger than 2,500 population; it was located a considerable distance from any large urban center.

Within each survey area, lenders, real estate dealers, and other individuals were interviewed regarding sources of mortgage credit, its relative availability, its cost and adequacy with respect to maturities, and loan-to-value ratios. Information was obtained that revealed the efforts and experiences of local lenders in selling loans to or cooperating in other ways with lenders and financial institutions outside the area under study.

Another phase of the field work included interviews in larger towns and cities, both in and outside the study areas, with officials of city correspondent banks, mortgage companies, savings and loan associations, and life insurance companies. The purpose was to determine their practices and attitudes toward making loans in small towns and rural areas and to reveal any difficulties they had experienced.

## The Study Areas

The areas contain six counties each (Figure 1). Area I (central Missouri) is a mixed rural-urban section which lies between St. Louis and Kansas City. Located within it are Jefferson City, the state capital, and Columbia, the state's main educational center. It has eight towns or cities with populations of more than 2,500; the six largest average 17,560 in population. Area I contains 3,548 square miles.

Area II (north Missouri) is a rural area containing no town with as many as 2,500 people. The six largest towns had an average population of 1,552. Area II contains 2,887 square miles.

Population: In 1960, Area I (central) had a population of 178, 773, about 62 percent of which was urban. The median age was 32.6 years, and the median number of school years completed for those 25 years old and over was 9.9 years (Table I).

Area II (north) had a population of 39, 626, all of which was classified as rural. The median age of the population was about 8 years

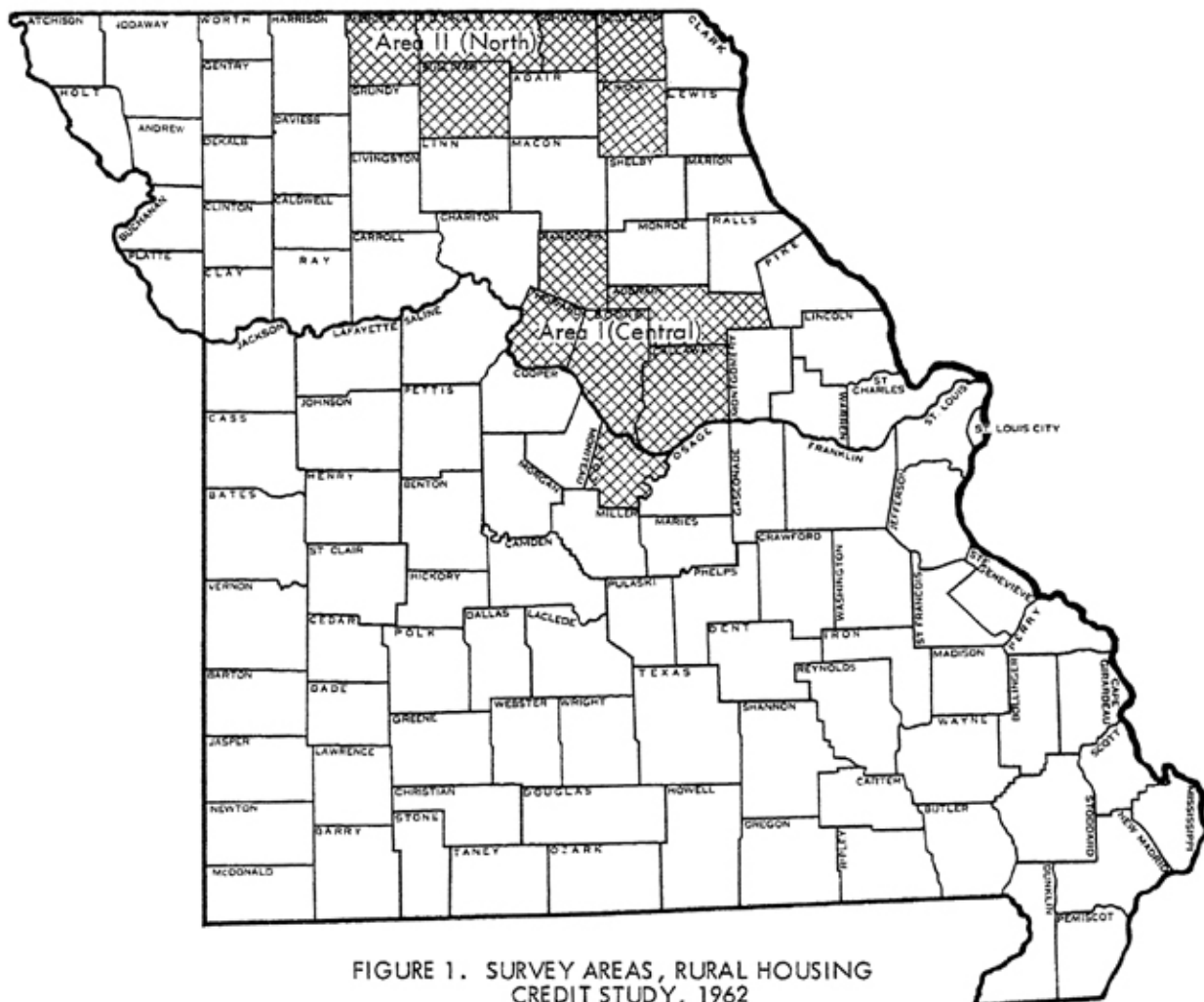


FIGURE 1. SURVEY AREAS, RURAL HOUSING CREDIT STUDY, 1962

older than that of Area I, and the median number of school years completed was slightly less.

Employment and Income: In 1960, approximately 37 percent of the total population in Area I (central) was employed. White collar occupations were dominant. The average median net income of all families was \$4,518 in Area I (Table 1). For all rural families ( farm and nonfarm) this average was \$3,906; for farm families alone, it was \$3,433.

In Area II (north), approximately 35 percent of the total population was employed; mainly in agriculture. The average median net income of all families (farm and rural nonfarm) was \$2,697; for farm families it was \$2,463.

The farm operator level of living index indicates the relative economic position of farm families by counties. In 1959, the average index for counties in Area I (central) was 103; for Area II (north) it was 95, and for Missouri as a whole it was 93. The relative position of Area II had declined between 1950 and 1959.<sup>3</sup>

3/ U. S. Department of Agriculture, Economic Research Service, Economic and Statistical Analysis Division, Statistical Bulletin No. 321: Farm Operator Level-of-Living Indexes for Counties of the United States, 1950 and 1959. (Washington: GPO, 1962), pp. 5-6; 29; and 42-43.

TABLE 1 - SOCIAL AND ECONOMIC CHARACTERISTICS, 1960\*

Item	Unit	Central Missouri (Area I)	Northern Missouri (Area II)
Total population, 1960	number	178,773	39,626
Change 1950-1960	percent	+7.8	-18.1
Proportion urban	percent	62.4	None
Proportion rural nonfarm	percent	21.7	46.6
Proportion farm	percent	15.9	53.4
Places over 2,500 population	number	8	None
Median age of population	years	32.6	40.5
Median school years completed	years	9.9	9.2
Population employed 1960	percent	37.1	34.8
Proportion employed in			
Agriculture	percent	11.6	46.6
Construction	percent	6.5	5.5
Manufacturing	percent	14.5	4.8
White collar occupations	percent	38.5	25.8
Median family income			
All families	dollars	4,518	2,697
Rural (farm and nonfarm)	dollars	3,906	2,697
Farm	dollars	3,433	2,463

**Note:** The medians for the study areas are simple averages of the medians for the component counties.

\*Data were compiled from these sources: (1) U.S. Bureau of the Census, U.S. Census of Population: 1960, Missouri, Final Report, PC (1) -27C, (Washington: Government Printing Office, 1962). (2) U.S. Bureau of the Census, County and City Data Book, 1962, (Washington: Government Printing Office, 1962).

**Financial Institutions:** Area I (central) had 30 commercial banks; each county had more than one. This area also contained 11 savings and loan associations. One of the largest associations in the United States had a branch office in the area but made loans only in the largest city. Each county in Area I had at least one savings and loan association.

Area II (north) contained 14 commercial banks. Two counties had only 1 bank each; all other counties had more than 1. This area had only 1 small savings and loan association. It was state chartered, and was not a member of the Federal Home Loan Bank Board or Federal Savings and Loan Insurance Corporation.

**Housing:** Of the 57,781 housing units in Area I (central), 60 percent were classified as urban, 25 percent as rural nonfarm, and 15 percent as farm units. Sixty-four percent of all homes (urban and rural), 45 percent of the rural nonfarm, and 47 percent of the occupied farm homes were classified as sound and equipped with plumbing. The median value of all owner-occupied nonfarm housing units was \$9,233; for rural nonfarm homes, it was \$6,500.

In Area II (north), 58 percent of the 16,293 housing units were classified as rural nonfarm, and 42 percent as occupied farm units. About

36 percent were classed as sound and equipped with plumbing; 37 percent of rural nonfarm, and 34 percent of occupied farm units were so classified. The median value of owner-occupied nonfarm housing units was \$5,300. Northern Missouri had a much smaller percentage of homes built since 1949 than had central Missouri (Table 2).

TABLE 2 - HOUSING CHARACTERISTICS, 1960\*

Item	Unit	Central Missouri (Area I)	Northern Missouri (Area II)
Total number housing units	number	57,781	16,293
Urban	percent	60.5	0.0
Rural nonfarm	percent	24.6	57.8
Occupied farm	percent	14.9	42.2
Homes built 1950 or later			
All houses	percent	22.7	8.4
Rural nonfarm	percent	24.1	9.8
Farm	percent	13.2	6.4
Houses sound with all plumbing			
All houses	percent	64.2	36.1
Rural nonfarm	percent	44.7	37.3
Farm	percent	47.0	34.5
Median value, owner occupied			
All nonfarm	dollars	9,233	5,300
Rural nonfarm	dollars	6,500	5,300

\*Data compiled from the U.S. Bureau of the Census, U.S. Census of Housing: 1960, Vol. I, States and Small Areas, Missouri. Final Report HC (1)-27, (Washington: Government Printing Office, 1962).

Note: For additional data on rural housing by U.S. economic subregions see U.S. Census of Housing: 1960. Volume VI, Rural Housing. (Washington: Government Printing Office, 1963).

### COMMERCIAL BANKS

Each of the counties in the two areas had at least one bank. The six central counties, however, were better supplied than the northern section, having 30 banks and \$250 million in deposits, an average of more than \$8 million per bank. In contrast, the six northern counties had 14 banks with \$39 million in deposits, for an average of less than \$3 million per bank.

Half of the banks in the central area were in places of over 2,500 population, including six banks in the cities of Columbia and Jefferson City. Most of the banks in this section were urban oriented. Only a fifth of their loans outstanding at the end of 1962 were to farmers. Residential loans accounted for about a fifth of their total loans. All except two city banks and one small town bank had made home loans in rural towns and communities in 1962.

## Residential Lending Activity

Twenty-three banks in the central area reported making 325 rural home loans in 1962, averaging about 14 loans per bank. Slightly less than half of the rural loans were in small towns. The rest were about equally divided between farm and nonfarm home loans. Some that were classed as rural nonfarm were probably in communities outside such cities as Columbia and Jefferson City and actually were more urban than rural. Rural home loans made by the central area banks averaged \$4,187.

In the study area of northern Missouri all of the banks were in rural towns. Loans to farmers accounted for more than 60 percent of their total outstanding loans at the end of 1962. In the aggregate, home loans to nonfarm people were small, amounting to less than 10 percent of the total outstanding. One small bank made no home loans in 1962 because none had been requested. All of the other 13 had made home loans, averaging 16 per bank for a total of 214. Home loans averaged \$3,287, or \$900 lower than those in central Missouri.

Loan Refusals: The reasons for turning down requests for home loans in small towns and rural communities were frequently the same in both survey areas--"applicant wanted too long a term" and "applicant's equity or downpayment was too small" (Table 3). The proportion

TABLE 3 - COMMERCIAL BANKS' REASONS FOR RURAL HOME LOAN REFUSALS, 1962

Reasons for Loan Refusals	Number of Banks			
	Central Missouri (Area I)		Northern Missouri (Area II)	
	Indicated as a Factor	Considered Most Important	Indicated as a Factor	Considered Most Important
"Loaned up" for such loans.	8	5	1	-
Loan exceeded bank's loan limit.	4	1	1	1
Bank had more profitable alternatives	-	-	2	1
Applicant wanted -				
Too long a term.	15	8	8	3
Too large a loan.	4	1	1	-
Too low an interest rate.	1	1	1	-
Applicant's income low or uncertain	5	1	3	2
Applicant's equity or downpayment too small.	16	7	8	4
Applicant's credit rating.	4	-	2	-
Property unacceptable.	2	1	-	-
General area poor or declining.	2	1	-	-
-----				
Number of banks responding to this question	*	26	*	11

\*Banks usually indicated more than one reason as being a factor.

of requests refused was somewhat higher in central than in northern Missouri, 44 percent compared to 35 percent. Five of the central area banks, four of which were located in the larger towns and cities, said they were "loaned up" on rural loans. This response may indicate a policy preference for other types of loans. One banker said he could get all of the residential loans he wanted within the city and did not go outside. However, he was interested in farm loans.

Attitudes Toward the Current Volume of Loans: Of the 27 banks giving information in the central survey area only eight indicated any desire to increase their lending on rural and small town homes (Table 4). Six did not want any loans or already had too many. The remaining 13 felt they had about the right number.

TABLE 4 - COMMERCIAL BANKS' ATTITUDES CONCERNING THEIR VOLUME OF CONVENTIONAL LOANS ON RURAL HOMES, 1962

Attitudes Expressed	Number of Banks	
	Central Missouri (Area I)	Northern Missouri (Area II)
Have about right amount.	13	7
Have too many.	3	1
Would like to increase.	8	6
Do not want any.	3	-
-----		
Total responses	27	14

In northern Missouri 7 of the 14 banks reported having about the right amount of home loans. Only one had too many. Six banks wanted to increase home mortgage lending. This indicates a somewhat greater interest in increasing rural home loans by the northern banks than by those in central Missouri. Of course, all of the northern banks were located in rural towns. Despite the greater interest of these rural banks, their other loan commitments prevent them from extending much long-term housing credit out of their own limited resources. Less than 10 percent of their loans were residential.

Lending Practices for Town and Country Homes: Most banks making home loans in rural towns and communities reported few differences in lending practices between small towns and those made in the countryside. Those mentioning differences indicated a more cautious attitude toward loans outside of town. One banker required the location to be accessible to town and a job. His out-of-town limit was 10 miles. Another banker said it was difficult to determine the value of properties in rural areas. Several thought they could be more liberal in town because town borrowers were more steadily employed. Also, they knew the people in town better. The tighter lending policy did not apply to farms but mainly to rural nonfarm residences on small



acres. One banker said that many of these individual homes scattered about the country were in a kind of "no man's land" with respect to ability to get home financing.

Type of Financing: In both survey areas nearly all of the rural home loans made by banks in rural communities were of the conventional type. The only FHA-insured loans were 33 Title I home improvement loans made in central Missouri. Banks in this area also made 2 VA-guaranteed loans. All were conventional home loans in northern Missouri except one VA loan which was being made as a special favor to a professional person to attract his services to the community.

Data compiled by the Federal Reserve Board and the Federal Deposit Insurance Corporation showed that on June 30, 1961, conventional loans accounted for 95 percent of the amount of all residential loans held by banks in the six-county area of north Missouri, and for 75 percent of all residential loans in central Missouri.

Banks generally did not want to make FHA-insured or VA-guaranteed loans (Table 5). "Too long a term," "interest rates too low," and

TABLE 5 - COMMERCIAL BANKS' ATTITUDES REGARDING THEIR CURRENT VOLUME OF FHA INSURED AND VA GUARANTEED HOME LOANS, 1962

Attitudes Expressed	Number of Banks		
	Central Missouri (Area I)		Northern Missouri (Area II)
	Rural Loans	City* Loans	Rural Loans
Have about the right amount	-	2	-
Have too many	-	-	-
Would like to increase	1	-	-
Do not want any	25	9	14
<b>Total responses</b>	<b>26</b>	<b>11</b>	<b>14</b>

Note: The term "FHA" as used above refers to the Federal Housing Administration. A few banks in each area indicated they were interested in starting to make, or increasing their present number of Farmers Home Administration insured farm ownership loans, and Title I Federal Housing Administration home improvement loans. Proceeds from the latter may be used to construct farm service buildings as well as to improve homes.

\*This question applicable only to banks located in towns with population of 2,500 or more.

"too much time and effort to close them" were the main objections. They indicated that improvement in these conditions would be necessary to get them to solicit this type of loan. Some mentioned that only a drop in demand for conventional loans and/or a rise in deposits would cause them to seek FHA-VA loans.

The only governmentally underwritten loans in which banks showed much interest were "farm ownership" loans insured by the Farmers Home Administration which may be used to construct or improve farm homes, and Title I home improvement loans insured by the Federal Housing Administration. Title I loans are short-term contracts and may yield a return of about 9 percent, compared with 5 1/4 percent permitted under the regular FHA program (sec. 203). Farm-ownership loans insured by the Farmers Home Administration yield the banker a 4 to 4 1/4 percent return and do not involve any processing and servicing expense.<sup>4</sup> The loans will be redeemed by the Farmers Home Administration in accordance with its repurchase agreements.

**Construction Loans:** That relatively few new homes are being constructed in some rural areas may be due partly to the unavailability of "construction" loans. These are short-term loans that are usually made under the close supervision and control of a local lender to assure the completion of the home with the available loan funds. After completion and payment of all labor and material bills the loan is frequently refinanced on a longer term basis by the bank itself, a savings and loan association, or a life insurance company.

Five of the 25 banks reporting in Area I and four of the 14 reporting in rural Area II did not make construction loans to prospective owners. Eleven and nine banks, respectively, in the two areas did not make construction loans to builders. Banks not making construction loans tended to be the smaller ones that apparently did not have the personnel to handle the extra work. Some of the rural banks indicated that there was little demand in their communities by either prospective home owners or builders for construction loans.

**Loan Terms:** Information was obtained from the banks concerning usual maturity, loan-to-value ratio, and interest rate on conventional home loans (Table 6). Central Missouri banks located in towns with populations of more than 2,500 reported separately for rural loans and for loans made in their city. There were no towns of more than 2,500 population in the other Area.

The greatest difference between the survey areas in home mortgage lending by banks and between rural and urban loans within the same area was in the length of maturity. Loans as a percentage of property values also differed some; differences in interest rates were minor.

The "usual" maturity on rural loans made by banks in northern Missouri was very short, averaging only 4.9 years. Rural loans in central Missouri averaged 6.9 years. In this central area some of the loans were made by relatively large banks and on rural properties on the fringes of cities. The "usual" maturity on urban loans in the central area was 8.5 years. Maximum maturities on rural home loans averaged 10.0 years in the central area, and 7.7 years in the northern area. For urban homes in Area I, the maximum was 13.9 years.

<sup>4/</sup> Rate was 4 1/2 percent on 3-year repurchase agreements until January 1963. Currently, it is 4 1/4 percent with a 3-year repurchase agreement, 4-3/8 percent with a 6-year repurchase agreement, and 4 1/2 percent with a 10-year repurchase agreement.



TABLE 6 - MATURITIES, PERCENTAGES OF LOAN TO VALUE, AND INTEREST RATES ON CONVENTIONAL HOME LOANS MADE BY COMMERCIAL BANKS, 1962

Home Loan Terms	Unit	Averages for Reporting Banks in		
		Rural Loans	City Loans	Rural Loans
		Central Missouri (Area I)		Northern Missouri (Area II)
Usual maturity*	years	6.9	8.5	4.9
Percentage of principal usually repaid before maturity	percent	93.1	95.3	72.9
Maximum maturity*	years	10.0	13.9	7.7
Percentage of principal usually repaid before maturity	percent	98.2	97.1	87.5
Usual loan/appraised value	percent	57.8	61.4	54.7
Maximum loan/appraised value	percent	67.5	67.8	65.4
Usual appraised/market value	percent	99.4	99.0	97.3
Usual interest rate**	percent	6.1	6.1	6.2

Note: The number of banks responding varied with the item. City loan data pertain only to banks located in towns with a population of 2,500 or more.

\*Banks reporting that their home loans were payable on demand were omitted from the calculation.

\*\*Most banks in each survey area reported that their "usual" rate was 6 percent. No bank reported a lower rate than this.

National data collected in 1960 showed median maturities for first mortgage home loans held by commercial banks and trust companies as follows: FHA-insured, 23 years; VA-guaranteed, 22 years; and conventional loans, 9 years. The median term for all three types of loans was 17 years.<sup>5</sup>

The basic character of commercial banks is such as to make them look more to short-term than to long-term loans. Banks need a relatively high degree of liquidity because of unpredictable changes in deposits and the recurring needs of their communities for credit to finance current operations. A loan portfolio heavily laden with long-term investments may not release funds rapidly enough to meet the needs of the community for operating credits. These considerations, together with the higher rates possible on shorter term loans, discourage bankers from committing any large portion of their resources to long-term real estate contracts.

Conventional loans made by banks usually were conservative in relation to values. The "usual" loan/value percentage was most con-

<sup>5/</sup> U. S. Bureau of the Census. U. S. Census of Housing, 1960. Vol. V. Residential Finance, Part I, Homeowner Properties. (Washington: Government Printing Office, 1963), Chapter 1, Tables 5, 6, 7, and 8.

servative for rural home loans, averaging 57.8 percent in Area I (central), and 54.7 in Area II (northern). For urban home loans in Area I, the usual loan averaged 61.4 percent of the value. The "maximum" loan/value percentages for rural home loans averaged 67.5 percent in Area I, and 65.4 percent in Area II. For urban home loans in Area I, the maximum loan/value ratios averaged 67.8 percent. Recent estimates for the United States show banks' average loan/value percentages at about 62 percent (Appendix Table 1). Practically all of the banks indicated that they usually appraised the property at 100 percent of its market value.

It was rather common to hear comments by lenders and real estate brokers that young married couples usually were difficult to serve as their cash reserves were low. A high loan/value percentage was necessary for them.

Interest rates did not vary greatly between survey areas. The "usual" interest rates on conventional home loans averaged 6.1 percent in Area I, and 6.2 percent in Area II. In Area I, there appeared to be no difference between urban and rural loans in the "usual" interest rate charged. Most bankers indicated 6 percent was the "usual" interest rate. No bank reported a lower rate.

For rural home loans in Area I, 22 of the responding bankers gave 6 percent as the "usual" interest rate, and four banks indicated between 6 and 7 percent. One banker said he usually charged 7 or 8 percent on loans of less than \$1,000.

In northern Missouri eight bankers reported "usual" interest rates of 6 percent. Two reported 6 to 7 percent, one "at least 6," and two, 7 percent. One of the latter raised the rate from 6 to 7 percent during 1962. On real estate loans, interest usually was charged on the unpaid balance only, and was not deducted in advance.

Data from a sampling of specific rural home loans made by some of the banks showed characteristics that most bankers gave as being representative of the "usual" interest rates, maturities, and loan-to-value ratios (Table 7).

Loan Repayment Experience: One reason why lenders might turn down a large number of loans or make them for short maturities and in conservative amounts would be excessive collection difficulties and foreclosures. This was not a very important reason in the two areas studied in Missouri. All of the bankers reported that experience on loans in small towns and rural areas was good. Banks in central Missouri that loaned both in rural areas and larger towns and cities indicated little difference between them in loan experience. Careful screening of applicants and conservative loan terms probably accounted for this good experience.

#### Relationships Between Lenders

The banks were asked about their experiences and practices in cooperating with other lenders in home loan activities. A summary of

TABLE 7 - DATA ON A SAMPLING OF SPECIFIC RURAL HOME LOANS MADE BY COMMERCIAL BANKS, 1962

Purpose of Loans	Unit	Averages for Reporting Banks in	
		Central Missouri (Area I)	Northern Missouri (Area II)
<u>Purchase of Homes*</u>	number	22	22
Amount	dollars	4,861	4,748
Maturity**	months	70.9	69.7
Loan/price ratio	percent	60.8	62.5
Loan/appraisal ratio	percent	63.0	62.7
Interest rate	percent	6.0	6.1
<u>Home Improvements</u>	number	16	13
Amount	dollars	3,029	2,512
Maturity**	months	51.6	38.0
Interest rate	percent	6.1	6.2
<u>Home Construction</u>	number	8	7
Amount	dollars	5,959	4,171
Maturity**	months	72.8	40.0
Loan/value ratio***	percent	47.3	40.1
Interest rate	percent	6.1	6.1
<u>Refinancing</u>	number	4	4
Amount	dollars	2,067	5,621
Maturity	months	42.0	96.0
Interest rate	percent	6.0	6.2
<u>Other</u>	number	8	3
Amount	dollars	2,687	8,333
Maturity**	months	54.0	64.0
Interest rate	percent	6.1	6.0

Note: In Area I, 14 banks gave information on 58 specific loans, and in Area II, 11 banks gave data on 49 loans which had been made in the preceding 12 months.

\*One loan in Area I, and six loans in Area II were for purchase of new homes; the rest were for used homes.

\*\*When computing the average maturities, loans which were payable on demand were omitted. This procedure eliminated the following number of loans: Area I--8 loans for purchase, 5 for improvement, 2 for construction, and 6 loans for "Other" purposes. Area II--1 loan for home improvement and 1 for construction.

\*\*\*In computing the loan/value ratio; "value" is the average of amounts reported for cost and appraisal. Frequently, other property owned by the borrower was also pledged as additional collateral.

the questions asked, and the responses given is presented in Table 8. A majority of the banks in each survey area indicated that lenders other than the bank made home loans in the area during the year. However, the percentage of negative answers was much higher in Area II (north) than in Area I (central). The other lenders mentioned most frequently were commercial banks and savings and loan associations.

Most of the banks in each survey area indicated that they referred housing loans that they could not handle to other lenders, usually

TABLE 8 - COOPERATIVE RELATIONSHIPS AMONG COMMERCIAL BANKS AND OTHER LENDERS REGARDING HOME LOAN ACTIVITIES, 1962

Questions	Number of Banks Responding in			
	Central Missouri (Area I)		Northern Missouri (Area II)	
	Yes	No	Yes	No
Did lenders other than your bank make rural home mortgage loans in your area in the past year?	24	3	9	5
Do you usually refer applicants for housing loans that you cannot handle to any of these other lenders?	23	4	9	5
Do other lenders refer rural home loan applicants to you?	4*	23	0	14
Have you participated in the VHMC Program of HHFA?	0	27	0	14
Do you make home loans for, or sell home loans to, other lenders?	2	25	0	14
Does your bank buy rural home mortgage loans made by other lenders?	1	26	0	14
Does your bank make rural home mortgage loans from trust funds?	1	26	0	14
Could your bank make more good home loans if other lenders would buy them from you?	9	18	3	11
Is your bank in position to service any loans that you originate for others?	9	18	2	12

\*Usually answers were "occasionally" or "very few" and that the loans were not made anyway.

savings and loan associations or the Farmers Home Administration, and occasionally to other banks. No bank reported special arrangements with other lenders in regard to home loan referrals. Very few thought that other lenders referred home loans to them, and usually indicated they turned down that type of applicant.

No bank was participating in the Voluntary Home Mortgage Credit Program (VHMCP) of the Housing and Home Finance Agency. Very little activity was reported in buying, selling, or originating rural home loans for other lenders.

One-third of the banks in Area I (central), and a slightly smaller proportion of those in Area II (north), thought they could make more good home loans if other lenders would buy them. They indicated that they were in position to service loans that others might buy from them. In general, however, small country bankers did not seem strongly interested in obtaining assistance from city banks for rural home loans.

**City Correspondent Banks:** Five city banks (some located within, and some outside of the survey areas) that served as correspondents for small banks were contacted to learn whether or not they purchased rural home mortgage loans. Apparently they had not purchased any from country banks in the survey areas during the past year, and did not seem interested in doing so. Usually, they indicated that if this was done it would be as a special favor for a bank customer who needed temporary assistance.

City bankers gave several reasons for not purchasing or participating in rural home loans: (1) more profitable uses for loan funds in other places or in other types of loans, (2) high costs because of the small size and small number of these loans and the distance involved, (3) lax loan standards and procedures by some rural bankers, (4) a feeling that some of the small towns were deteriorating, and (5) a reluctance to spread loans over too wide a territory. These city banks indicated more interest in participating with small town banks in large commercial or industrial loans than in home loans. Also, it was pointed out that the small town banker usually needs the most help with large loans.

One city bank official thought housing credit in some small towns was tight because the local banks were loaned up to their limit on livestock and farm operations. Some small country banks confirmed that they made practically no real estate loans, preferring livestock or other short-term farm loans.

## SAVINGS AND LOAN ASSOCIATIONS

In central Missouri (Area I), as in the Nation as a whole, savings and loan associations were the most important source of home loans. However, they ranked second to commercial banks in rural home lending in both survey areas. Savings and loan associations usually are



located in the larger towns and cities. Their lending was mainly in urban or urban fringe areas, and within county-seat towns in the rural counties.

Most savings and loan associations interviewed had experienced large increases in their savings accounts in recent years and funds were ample for the type of loans which they wished to make. Some felt that they had an excess of funds.

The lending policies of savings and loan associations differ from those of commercial banks in several respects. Nearly all of the former's loans are for housing purposes and are secured by home mortgages, whereas commercial banks make loans for many other purposes. In rural areas, short-term farm operating loans, secured by a chattel mortgage or by the borrower's personal note, represent an important type of bank business. Savings and loan associations make long-term, low-equity home loans, while banks usually prefer shorter term loans. Some of the larger, more aggressive savings and loan associations are branching out and making loans over a larger area than commercial banks.

Information was obtained from 12 savings and loan associations in Area I (central Missouri). Eleven were home offices and one was a large branch office. Of the 11 locally based associations, four had branch offices or loan agents in other towns, some of which were outside Area I. One association had representatives in 12 other towns, the farthest of which was about 60 miles away. These offices usually were operated by a local real estate or insurance agent.

In the north Missouri area there was only one savings and loan association. It was a very small organization and it did not make loans outside its home town. It was reported to be "practically a closed corporation" which did not solicit savings accounts except when more funds were needed to make loans which it desired to make locally.

Several savings and loan associations located outside the area were making city and suburban loans in central Missouri. No data were obtained from them. However, information was obtained from four outside associations that had made rural home loans in one of the survey areas during 1962. Usually real estate brokers had acted as agents for them. An official of one of the associations mentioned that his firm had advertised its services recently in a weekly newspaper published in one of the north Missouri county seat towns. Three of these four "outside" associations were fairly large and quite active.

The smallest of the four "outside" associations was located in a small town about 50 miles from Area I (central Missouri). It had made loans in two Area I counties during 1962. A local real estate broker had acted as agent. One "outside" association operating in a large area of northwest Missouri reported making loans in one county in Area II, about 60 miles from its home office. Another "outside" association was located in a county adjoining Area II. It made loans in the county seat towns of three Area II counties. Recently, it had advertised for loans

in a fourth county seat town but had made no loans there at the time of the interview. These county seat towns were within a 30 mile radius of the association. An official said that it would not loan in small rural villages. The fourth "outside" association, was in a county which adjoined both survey areas. It reported making loans within a 100 mile radius; which would include all counties in both survey areas.

Officials of the four associations felt that they had an excess of loan funds available for the type of loans which they wished to make. Apparently, outlying rural areas are reached last and withdrawn from first in the course of the ebb and flow of loan fund supplies.

### Assets

Savings and loan associations have experienced a phenomenal increase in assets during recent years. Some of the respondents had more than tripled their assets in less than a decade.

Assets averaged about \$5.5 million for the 11 associations with home offices in Area I and 7.8 million for the four "outside" associations. The association in Area II had assets of \$512,532 in 1962. Real estate loans accounted for 84 percent, 93 percent, and 80 percent of the total assets of Area I, Area II, and the "outside" associations, respectively.

### Residential Lending Activity

The 12 associations located in central Missouri estimated that in 1962 they had made a total of 1,489 loans, of which 154 (or 10.3 percent) were in rural areas. Seventy-three of these loans were in small towns, 56 were for rural nonfarm homes in the open country, and 25 were for farm homes. These rural loans averaged \$8,915 each. The association in Area II made all 40 of its loans in the small town where it was located. The loans averaged \$2,500 each. The four "outside" associations reported making a total of 1,037 loans, of which 78 were for rural homes in the survey areas. It is estimated that approximately one-fifth of these 78 loans were in Area I (central) and four-fifths in Area II (north). Nearly all of the rural home loans were in small towns. The loans averaged \$7,842 each. For the Nation as a whole, conventional loans made by savings and loan associations were much larger, averaging \$15,732 for purchases of new homes and \$12,226 for existing homes (Appendix Table 1).

In the areas studied, more loans were made for the purchase of used homes than for any other single purpose (Table 9). Next in importance were loans for the purchase of new houses. (One association official classified houses as new if they were well-kept and less than 5 years old). Savings and loan associations made relatively few construction loans in rural areas. It was mentioned that more work and risk were involved with construction loans than with loans for purchase of existing homes.

TABLE 9 - PURPOSES OF RURAL HOME LOANS MADE BY SAVINGS AND LOAN ASSOCIATIONS, 1962

Purpose of Loans	Percentage of Loans Made by		
	Central Missouri (Area I) Assns.	Northern Missouri (Area II) Assns.	"Outside"* Assns.
Construction of new houses	15.1	8.0	13.7
Purchase of new houses	17.6	--	28.8
Purchase of used houses	43.6	16.0	47.5
Repairs and improvements	2.9	32.0	5.0
Refinancing	16.4	12.0	5.0
Other	4.4	32.0	--
Total	100.0	100.0	100.0

Note: These are averages of the percentages estimated by the respondents. They include eight associations in Area I, one in Area II, and four "Outside" associations.

\*The term "outside" associations refers to four savings and loan associations located outside the survey areas but which had made loans there.

Lending Practices and Experiences. Rural home loans generally were the conventional type; however, two of the 12 associations in Area I (central) reported making some FHA-insured or VA-guaranteed loans. The association in Area II made conventional loans only. Of the four "outside" associations, three reported making some FHA-VA home loans in rural communities. Most associations were not interested in making more FHA-VA loans, but some indicated that they might be more active in soliciting them if higher interest rates were permitted (Table 10). Only about one-third of the associations wanted to increase their conventional home loans in rural areas (Table 11).

In Area I, three of the 12 associations had a policy of not lending outside of their own towns (each of which had a population of more than 2,500). Most of the other nine associations indicated that they turned down more loans or were more conservative in valuing properties outside of town than in town because values and marketability were frequently uncertain. The association in Area II indicated that most people knew that it would not make loans outside its town, and few people made requests.

Of the four "outside" associations, one said that there was "no difference to speak of" between lending within and outside of towns. Two said there was no difference except that they used lower values in their appraisals of property located in the open country. One of these mentioned that "property outside of town with little or no acreage has



TABLE 10 - SAVINGS AND LOAN ASSOCIATIONS' ATTITUDES TOWARD MAKING FHA-VA HOME LOANS IN RURAL AREAS AND IN THEIR CITIES, 1962

Attitudes Expressed	Number of Savings and Loan Associations in			
	Central Missouri (Area I)		"Outside" ** Areas	
	Rural Loans	City Loans	Rural Loans	City Loans
Have about the right amount.	2	2	1	1
Have too many.	-	-	-	-
Would like to increase	1	2	2	2
Do not want any. **	5	4	1	1
No report.	4	4	-	-
Total	12	12	4	4

\*Refers to four savings and loan associations which were located outside the survey areas, but which reported making some loans there.

\*\*The association in Area II (north) reported that it did not want FHA or VA loans.

TABLE 11 - SAVINGS AND LOAN ASSOCIATIONS' ATTITUDES CONCERNING THEIR CURRENT VOLUME OF CONVENTIONAL LOANS ON RURAL HOMES, 1962

Attitudes Expressed	Number of Savings and Loan Associations in		
	Central Missouri (Area I)	Northern Missouri (Area II)	"Outside" Areas
Have about the right amount.	4	1	2
Have too many.	-	-	-
Would like to increase.	4	-	2
Do not want any.	4	-	-
Total Responses	12	1	4

less value than property in small towns." One savings and loan officer remarked that "the value of older homes in small towns is decreasing rather rapidly, and few new homes are being built because of inadequate incomes."

The associations reported that their loan repayment experience had been good. None reported they had found any difference among urban areas, small towns, and open country. No special problems were indicated.

The main factors in loan refusals by savings and loan associations were "applicant's income low or uncertain" and "applicant's equity or downpayment too small" (Table 12).

TABLE 12 - SAVINGS AND LOAN ASSOCIATIONS' REASONS FOR RURAL HOME LOAN REFUSALS, 1962

Reasons	Number of Savings and Loan Associations in			
	Central Missouri (Area I)		"Outside Areas"	
	Indicated as a Factor	Considered Most Important	Indicated as a Factor	Considered Most Important
Local demand uses all loan funds.*	3	2	-	-
More profitable loans elsewhere.	-	-	-	-
Loans too costly to make and service.	1	1	-	-
No experience or facilities for handling such loans.	-	-	-	-
Applicant wanted:				
Too large a loan.	2	-	3	-
Too low an interest rate.	-	-	-	-
Applicant's income low or uncertain.	7	1	4	2
Applicant's equity or downpayment too small	8	4	3	1
Applicant's credit rating.	5	1	2	-
Property unacceptable.	4	-	3	-
General area poor or declining.	2	-	4	1
-----				
Number of associations responding*	-	9	-	4

\*The only factor indicated by the association in Area II (north) was that "local demand uses all loan funds."

Loan Terms: The "usual" maturity of conventional rural home loans made by savings and loan associations averaged 15.8 years in Area I (central) and 11.6 years in Area II (north). The average was 15.5 years for loans made in these areas by "outside" associations (Table 13). In their own cities, maturities averaged 18.9 years for Area I associations, and 16.3 years for loans made by "outside" associations. Savings and loan associations in the United States as a whole made loans with longer terms, averaging 23.7 years for new houses and 20.0 years for loans financing transfers of existing homes (Appendix Table 1).

Home loans made by savings and loan associations in rural towns and communities averaged 71.4 percent of appraised value in Area I and

TABLE 13 - MATURITIES, LOANS/VALUE PERCENTAGES, AND INTEREST RATES ON CONVENTIONAL HOME LOANS MADE BY SAVINGS AND LOAN ASSOCIATIONS, 1962

Home Loan Terms	Unit	Averages for Savings and Loan Associations in				
		Central Missouri (Area I)		Northern Missouri (Area II)	"Outside" Areas	
		Rural Loans	City Loans	Rural Loans*	Rural Loans	City Loans
Usual maturity	years	15.8	18.9	11.6	15.5	16.3
Actual repayment schedule	years	15.8	18.9	11.6	14.5	15.3
Maximum maturity	years	18.1	21.3	11.6	21.3	21.3
Actual repayment schedule	years	18.1	21.3	11.6	19.3	19.3
Usual loan/appraised value	percent	71.4	76.4	70.0	72.0	72.0
Maximum loan/appraised value	percent	75.0	80.6	80.0	77.5	82.5
Usual appraised/market value	percent	98.4	98.4	100.0	93.8	93.8
Usual interest rate	percent	6.4	6.3	6.0	6.5	6.5
-----						
Associations responding	number	8		1	4	

\*The association in Area II (north) was located in a town with less than 2,500 population, and made loans in that town only.

70.0 percent in Area II. The average was 72.0 percent for loans made in the areas by associations located outside of the areas. Loans relative to values averaged 5 percent higher in town than outside of town in Area I (central). The "outside" associations reported little difference between rural areas and their cities in amounts loaned. For the Nation as a whole, loan-to-price ratios averaged 76.0 percent for new home purchase loans and 74.1 percent for purchase of existing homes (Appendix Table 1).

The "usual" interest rates charged on conventional rural home loans averaged 6.4 percent for associations in Area I and 6.5 percent for the "outside" associations. The association in Area II, which loaned only within the town, reported that it usually charged 6.0 percent. For Area I associations, the usual rate on city loans averaged one-tenth of one percent lower than that on rural loans; however, the "outside" associations reported no difference in rates. The rates on conventional loans in the United States in March, 1963, averaged 6.0 and 6.14 percent for new and existing home purchases, respectively (Appendix Table 1).

### **Relationships Between Lenders**

Most savings and loan associations indicated that they usually referred applicants for housing loans that they could not handle to other lenders (Table 14). As a rule, these were other savings and loan associations, commercial banks, and the Farmers Home Administration. Most of the associations indicated that other lenders referred loan applicants to them. Referrals were mainly from banks and occasionally from other savings and loan associations. The number and the percentage that resulted in loans varied widely among savings and loan associations. Apparently, relationships with bankers and other lenders were good, but no formal arrangements or understandings existed regarding referrals.

Two associations had sold some home loans during the past year. One sold FHA-VA loans to a buyer in St. Louis; the other sold some conventional loans to a mutual casualty insurance company located in its city. These were not rural home loans.

Only one association reported that it bought or participated in rural home mortgage loans made by other lenders. In this case, a few government insured loans were bought from mortgage brokers. This association had accepted about one-half of the rural home loans or participations offered to it during the past year. No association was participating in the Voluntary Home Mortgage Credit Program (VHMCP) of the Housing and Home Finance Agency which was set up to assist in areas where credit was short.

Sources of Additional Loan Funds: The associations were asked where they would get additional funds, assuming they wanted to increase their volume of home loans. The source most frequently mentioned was borrowing from the Federal Home Loan Bank (one-half

TABLE 14 - COOPERATIVE RELATIONSHIPS AMONG SAVINGS AND LOAN ASSOCIATIONS AND OTHER LENDERS REGARDING HOME LOAN ACTIVITIES, 1962

	Number of Responses by Savings and Loan Associations in					
	Central Missouri (Area I)		Northern Missouri (Area II)		"Outside" Areas	
	Yes	No	Yes	No	Yes	No
Do you usually refer applicants for housing loans that you cannot handle to other lenders?	8	4	1	-	3	1
Do other lenders refer applicants, or applications, for rural home loans to you?	7	5	1	-	3	1
Have you participated in the VHMC Program of HHFA?	-	12	-	1	-	4
Do other lenders buy or participate in loans that you make?	2	10	-	1	-	4
Does your association buy or participate in rural home mortgage loans made by other lenders?	-	12	-	1	1	3
During the past year have you sold to FNMA or other buyers any:						
FHA or VA loans?	1	11	-	1	-	4
Conventional loans?	1	11	-	1	-	4
During the past year have you borrowed from the Home Loan Bank?	8	4	-	1	2	2

of the associations had borrowed from it during the past year). The second most frequently mentioned source was increasing savings through more advertising and promotion. Four associations indicated that they could get temporary loans from local commercial banks. Four others reported that they already had ample or excess funds (Table 15). Generally, it appeared that the savings and loan associations had a substantial supply of funds available for the type of loans they wished to make.

TABLE 15 - SAVINGS AND LOAN ASSOCIATIONS' SOURCES OF ADDITIONAL LOAN FUNDS, 1962

Sources	Number of Times Mentioned by		
	Central Missouri (Area I) Associations	Northern Missouri (Area II) Associations	"Outside" Associations
Federal Home Loan Bank	9	-	2
Local commercial bank	3	1	-
Sell loans	1	-	-
Try to increase savings	7	-	1
Have ample or excess funds	2	-	2

Note: Most associations indicated more than one potential source of additional loan funds.

#### OTHER PRIVATE LENDERS

Some other private lenders which are potential sources of credit for rural housing are insurance companies, mortgage companies, lumber companies, and individuals who loan their own funds. Information concerning the activities of these lenders is presented in the following sections.

##### Insurance Companies

In both survey areas, real estate brokers were serving as loan agents for major life insurance companies. However, their loans in rural areas were mainly for purchase of farmland. Real estate dealers and others sometimes mentioned that insurance companies provided credit for farm homes. If the insurance company already held a mortgage on the farm, sometimes it would increase the amount and provide funds for improving the existing farm house or for constructing a new one.

Lending procedures and experiences were discussed with two mortgage loan inspectors for one of the largest life insurance companies in the Nation. Their territories covered large areas of central and northern Missouri, and included some counties in both survey areas. They made home loans in cities, and also indicated that they would loan in small towns (with no population minimum). They were quite selective in regard to small town loans, and did not appear to be soliciting them. They pointed out that it was more profitable to spend time on a large farm loan than on investigating the possibility of making a small home loan in a village. They were not interested at



all in rural nonfarm home loans. (Rural nonfarm homes were mentioned by some other lenders and real estate dealers as being a "no man's land" in the field of mortgage lending. They are outside the major interest of both farm real estate lenders and of those who want to make town residential loans.)

These loan inspectors indicated that their company would make FHA-VA home loans, but preferred the conventional type. The maximum maturity of their conventional loans was 30 years. The usual loan/value ratio was  $66\frac{2}{3}$  percent; the maximum was 75 percent. The interest rate on conventional home loans was from  $\frac{1}{2}$  to  $\frac{3}{4}$  of 1 percent higher than that charged on FHA-insured home loans.

One of the inspectors reported that during 1955-56 his company had made a considerable number of home loans under the VHMCP Program, some of which were in small towns within the survey areas. He quit participating in the program in 1956 because more local money became available and the Veterans Administration could again make VA-direct loans. Except for one FHA-insured loan, all of his home loans under this program were VA-guaranteed. This was the only respondent in the survey areas who mentioned having participated in the VHMCP Program of the Housing and Home Finance Agency.

In addition to the information above, data were obtained from a relatively small life insurance company whose home office was located in Area I (central). It operated in Missouri only, and had total assets of about \$5,000,000. Mortgage loans represented approximately one-fifth of its total assets and bonds, more than two-fifths.

Personnel in the company's home office indicated that its home loans were mainly in the home county, but some had been made in southern Missouri. For loans outside of town, it preferred new homes located on a good road. Approximately 15 percent of its home loans were in rural areas. Most of the contracts were for 15 years, with an interest rate of 6 percent. Usual maturities and interest rates were the same for rural as for urban home loans. The limit for their loan/value ratio was 75 percent, but they preferred to stay at  $66\frac{2}{3}$  percent of a "conservative" appraisal.

Their loans averaged between \$10,000 and \$15,000, with no minimum as to size. The company would make conventional loans only. Home loans were not solicited, but the company would consider increasing the amount of this type of credit by a small percentage. The loans were usually placed as the result of an inquiry or a builder telling the applicant to contact them. No bank had tried to sell them home loans.

Information obtained on the home loan activity of other insurance companies within the survey areas included the following items: A savings and loan association in one of the larger Area I cities reported selling some conventional loans (on urban homes) to an insurance company. The insurance company belonged to a national farmers' organization and had a state office in the same city in which the savings and loan association was located.

A real estate agency located in one of the largest cities in Area I (central) acted as loan agent for a large life insurance company, and a mortgage company. All of the activity was in urban property. The agency was not interested in loans in rural areas.

A real estate dealer in another Area I city reported that he acted as agent for insurance companies that would make loans on homes in his county but would make only farm loans in the surrounding counties.

In general, it appeared that insurance companies were interested in making large farm real estate loans and urban home loans, but were highly selective when making home loans in small towns. They had little interest in loans on residential property in the open country.

### Mortgage Companies

Mortgage companies operate mainly as originators of home mortgages that are usually sold to life insurance companies. No mortgage companies had home offices in either of the survey areas. Although a few located in Kansas City, St. Joseph, and St. Louis were mentioned occasionally, it did not appear that they had been active, particularly in the rural sections.

A real estate agency in an Area I city reported that it acted as loan agent for a mortgage company as well as for a life insurance company and for savings and loan associations. However, the agency had not placed or arranged any rural housing loans during the past year. Members of the firm were not interested in such loans as they had plenty of business in their city.

In this same city, a bank reported making home loans for a mortgage company in Kansas City but they were city loans.

The only other lender that reported dealing with mortgage companies was a savings and loan association. This association was not located within the survey areas, but reported making some loans in Area II. A few FHA-VA loans on rural homes had been purchased from mortgage brokers within the past year.

A mortgage company in Kansas City reported having no loans in towns of less than 2,500 population in any of the survey counties. The correspondence contained the following statement:

"Most of the companies we represent are major life insurance companies, and they have been unwilling to consider mortgages in these communities except through the VHMCP Program, which has been dormant for some little time."

This mortgage company was contacted because it was mentioned as having some business outstanding in the survey areas.

Representatives of two large city correspondent banks in St. Louis indicated that a mortgage company in that area may have had some dealings in the survey areas. This company had also been mentioned by a banker in central Missouri. When contacted, the company reported no loans in the survey areas, although it apparently had been active in central Missouri a few years ago. Information given by this company



concerning its activities in other areas was as follows: Its rural home loans were limited to southeastern Missouri. As a rule the loans were on homes within the corporate limits of small towns, but some open country mortgages were taken if they were good. The company made loans and sold them to both life insurance companies and banks. The banks bought mortgage company loans from outside their areas and even from within their own areas in instances where they were not set up to negotiate such loans themselves. The company made and sold conventional loans as well as FHA-VA loans. It seemed to like FHA-insured loans in rural towns and did not think FHA regulations were too restrictive.

Usually the loan terms were not quite as favorable in rural towns as in cities. On conventional contracts the loan/value ratio in small towns was 66 to 70 percent; in cities the maximum was 75 percent. Interest rates ranged from 5 3/4 to 6 1/2 percent, with the higher rate often in rural places. Maturities ranged from 15 to 20 years with the shorter term usually in rural areas. Other factors that determined these conditions were size of loan, age and location of property, and rating of the borrower.

This mortgage company serviced loans sold to others at an annual charge of 1/2 of 1 percent. Experience with home loans in small towns was excellent, the same as elsewhere.

#### Private Individuals

Most communities have a few people with money of their own to lend. Some invest in home mortgage loans. Lending agencies and licensed real estate brokers frequently mentioned "private individuals" as being the source of a few home loans. It appeared that the loan terms and interest rates generally were comparable to those of country banks.

A small town real estate broker provided with his own funds the financing for some of his sales. Usually one-third of his rural home sales were financed by a local savings and loan association, and two-thirds with his own funds. Both he and the association made 6 percent loans and loaned up to 80 percent of value. The loans were conventional and amortized over about 12 years.

#### Lumber and Building Supply Companies

Retail lumberyards are an integral part of the home construction industry. However, it appeared that the credit they offered for housing purposes was limited mainly to charge accounts. When asked if they financed major home improvements or new home construction, the answer usually was, "we don't intend to," or "not if we know it beforehand." Occasionally they were forced into longer term credit when a customer ran out of funds before the job was completed, or when a customer ran into financial difficulties after building supplies had been furnished him.

Lumberyard managers in small towns know many of their customers personally. They extend open-book credit for materials, but expect to receive periodic payments on the account, or to be paid in full when the job is finished. In the case of construction of new house, the customer is usually expected to get financing elsewhere. The lumberyard then provides building materials and receives weekly or monthly payments from the lender as the work progresses.

Usually, lumberyards charge no interest on customer accounts, at least not until the job is completed. Two yards reported charging 1 percent per month on accounts after a period of 90 days. One yard reported charging 6 percent on the account after one year.

One company in Area II (north) had a few branch yards in surrounding small towns. No interest was charged on materials furnished for improvements and repairs, but 5 percent was charged on the cost of new homes built for customers. If a customer owned a building site and had \$1,000 cash, the firm would furnish carpenters and materials and build a \$10,000 house for him. A mortgage for five years was usually taken by the company. As a rule, monthly payments were required until the debt could be refinanced through some other lender. The company had been forced to do some home financing because of the low loan/value ratios of lenders. Seven new homes had been built during the past year.

In an Iowa study of farm home construction, it was found that only one out of ten lumberyards contracted to build farm houses.<sup>6</sup> Approximately the same proportion of the yards in Missouri reported building new houses during 1962.

Approximately two-thirds of the lumberyards whose interviews were made in Area I (central) indicated that they had made FHA Title I home improvement loans. In Area II (north) only one of nine yards had made this type of loan. In both survey areas, managers said that their yards had arranged for home improvement loans for customers through credit syndicates in St. Louis. One estimated the effective rate of interest to be "at least 10 or 12 percent," another estimated it at 12 to 13 percent.

Each of the branch yard managers of one lumber company operating throughout central Missouri reported making FHA Title I home improvement loans. Practically all of them were made through a credit corporation in St. Louis with which a prior arrangement apparently had been made.

The managers of lumberyards in Area II (north) generally indicated a somewhat tighter credit situation than did managers in Area I (central). However, at least half of those who were interviewed in Area II said that credit conditions had been improved by the Farmers Home Administration and the recent activities of a few outside savings and loan associations.

<sup>6</sup>/ Edna Douglas, *The Retail Lumber Establishment and Farm Dwelling Construction in Iowa*, Iowa State University, Agricultural Experiment Station Research Bulletin 415, 1954, p. 72.

## NONPRIVATE LENDING AGENCIES

Farmers cooperative agencies that provide some credit for farm housing include the Federal Land Bank Associations (FLBA), and Production Credit Associations (PCA). Federal Government agencies through which rural housing loans may be obtained are the Veterans Administration (VA), and the Farmers Home Administration (FHA).

## FLBA and PCA

These cooperative agencies were important sources of farm credit in both survey areas. The Federal Land Bank Associations make long-term loans for the purchase and improvement of farm real estate. The PCAs are important sources of short-or intermediate-term farm operating credit; they also provide some farm housing credit.

Table 16 presents a summary of information obtained from FLBA and PCA managers concerning loans for construction of new farm homes during 1962. The FLBA loans were for larger amounts. They

TABLE 16 - FARM CREDIT COOPERATIVES' LOANS FOR NEW FARM HOME CONSTRUCTION, 1962

	Fed. Land Bank Assns.	Prod. Credit Assns.
Averages for Area I		
No. of Loans	8	1
Amount	\$9433	\$2000*
Maturity (years)	29.4	4.0
Interest	5.5%	6.0%
Averages for Area II		
No. of Loans	4	2
Amount	\$5400	\$5250
Maturity (years)	20	5
Interest	5.5%	6.5%

Note: The above amounts represent only the average amount per loan, and not the total cost of the new house. In some cases, the borrower used some materials salvaged from the previous dwelling, did part, or all, of the labor himself, or had some funds of his own to cover a part of the total cost.

\*The total cost of construction was estimated at \$6,000.

had lower interest rates and were for much longer terms than were PCA loans. The PCAs specialize in farm operating credit; their maximum loan term is seven years. The FLBAs specialize in longer term farm real estate loans with maturities up to 35 years. Some PCA representatives indicated that for most farmers seven years was too short a period in which to pay off a large loan such as would be required to build a new home. However, farmers in strong financial positions sometimes use a short-term PCA loan for this purpose. For

example, the manager of one of the PCAs serving Area I reported that \$10,000 had been loaned to a farmer for building a new house. The farmer had a net worth of \$172,000 and there was a possibility that he would pay off the loan within 1 year. The manager estimated that they had 25 outstanding loans for new homes. However, none of these had been made in the study area counties during 1962. This association had 2,300 members and covered 14 central Missouri counties, five of which were in Area I.

In addition to issuing loans for construction of new homes, the FLBA finances farm dwellings on farms purchased with FLBA real estate loans.

Each of the two PCAs serving counties in Area I charged 6 percent on all loans. The two PCAs serving counties in Area II charged 6 1/2 percent. Each of the areas was served by three FLBAs. All of these reported charging 5 1/2 percent interest on their loans.

#### Veterans Administration

This agency makes two types of home mortgage loans: guaranteed loans through private lenders, and direct loans where eligible veterans cannot obtain guaranteed loans from private sources. The veteran receives favorable terms on these loans regarding downpayment, length of maturity, and interest rate. All counties in the survey areas were eligible for direct lending. However, direct loans are limited because they depend on Federal appropriation of funds. It was reported that considerable time was usually required to obtain a direct loan and most lenders did not like to make the guaranteed loans. Use of the Veterans loans will diminish as the number of eligible veterans decreases.

The Veterans Administration made a total of 188 guaranteed and direct home loans in the survey areas during 1962. About 93 percent were in Area I. It is believed that a majority were made on homes located in or around the larger towns and cities. The total number was divided equally between the guaranteed and direct types (94 of each). Of a total of 94 guaranteed loans, 87 were made by savings and loan associations (Table 17).

TABLE 17 - VETERANS ADMINISTRATION HOME LOANS, 1962

Type of Loan and Lender	Number of Loans Made in	
	Central Missouri (Area I)	Northern Missouri (Area II)
Guaranteed loans:		
Banks	6	0
Savings & Loan Associations	81	6
Other lenders	1	0
Total	88	6
VA-direct loans	87	7
-----		
Total guaranteed and direct	175	13

Note: For Area I (central) a breakdown of total home loans into urban and rural was not available, however, it is believed that a majority of them were in urban areas. In Area II (north) all loans were for rural homes.

Source: Veterans Administration's Regional Office.

### Farmers Home Administration

The Rural Housing (RH) loan program of the Farmers Home Administration, U. S. Department of Agriculture (FHA-USDA), which started in 1949, was active in both survey areas. Until 1961, FHA-USDA could make loans only to persons who could qualify as farm owners. In 1961, the program was broadened to include nonfarm residents in the open country and in towns of less than 2,500 population. This was a significant development in rural housing credit. In September, 1962, this program was further broadened to include special provisions for elderly people 62 years of age and older who live in rural areas. People in all towns in Area II were eligible for RH-direct loans as each town had a population of less than 2,500.

The RH loans discussed above are made directly from funds appropriated by Congress. In addition, FHA-USDA can make insured loans to farmers for housing purposes under its Farm Ownership (FO) loan program. Residents of small towns are eligible for RH-direct loans only; farmers are eligible for either RH-direct or FO-insured loans. The FHA-USDA county supervisors indicated that if the home loan applicant could qualify as a farmer, he was usually given the FO-insured loan rather than an RH-direct loan which would have to come from the limited appropriation. All loans made in small towns, as well as those for rural nonfarm homes, had to be the RH-direct type.



In the survey areas, the FHA-USDA county supervisors reported that usually commercial banks (some located in, and others outside their county), and individuals purchased the FO-insured loans. The loans were placed by either the county supervisor or the FHA-USDA State office. Of the 31 commercial banks in the survey areas that gave information on this item, 18 indicated that at some time in the past they had purchased one or more Farm Ownership insured loans through Farmers Home Administration.

In the survey areas, Farmers Home Administration made 50 new home construction loans during 1962. Thirty-two of these were direct loans, and 18 were the insured type (Table 18). In addition to these

TABLE 18 - FARMERS HOME ADMINISTRATION'S RURAL HOME CONSTRUCTION LOANS, 1962

	Area I	Area II	Missouri
<b>RH - Direct Loans*</b>			
No. Loans Made	22	10	878
Average Amount per Loan	\$9,755	\$10,327	\$8,674
<b>FO - Insured Loans**</b>			
No. Loans Made	8	10	182
Average Amount per Loan	\$10,327	\$12,150	\$9,250
<b>Total Housing Loans</b>			
No. Loans Made	30	20	1,060
Average Amount per Loan	\$9,907	\$12,358	\$8,773

Source: Farmers Home Administration, State Office, Columbia, Missouri.

\*The maximum maturity of Rural Housing direct loans is 33 years. The interest rate is 4 percent per year on the unpaid principal.

\*\*The maximum maturity of Farm Ownership insured loans is 40 years. The interest rate is 5 percent.

50 construction loans, about this number of major home improvement loans were made during 1962, based on estimates by FHA-USDA county supervisors. In addition to loans for home improvement and new home construction, loans can be made for farm service buildings under either the RH-direct or FO-insured programs.

The RH-direct home loans have a maximum maturity of 33 years, and an interest rate of 4 percent per year on the unpaid balance. The FO-insured loans have a maximum maturity of 40 years. The borrower pays 5 percent interest; the private lender receives up to 4 1/2 percent, and FHA-USDA retains the remainder for originating, servicing, and insuring the loan.

In Missouri, borrowers have furnished an average of about 5 percent of the total construction costs and owned their building sites in qualifying for RH loans for home construction. Under the program's special provisions which became effective in September 1962, elderly people

are also able to obtain credit to buy a building site, and are given other credit advantages.

Estimates by FHA-USDA county supervisors of the time required between application and closing of the home loans ranged from 4 to 16 weeks, and averaged about 10 weeks. As a rule, the main difficulty encountered was that of borrowers getting together firm plans and cost estimates for the construction.

### REAL ESTATE BROKERS

Fifty real estate brokers were interviewed in the survey counties. Thirty-seven were in Area I and 13 in Area II.

Of the 37 dealers in Area I, 22 reported that they had sold one or more rural homes within the past year. Of the 13 in Area II, nine had made home sales. The volume per broker was generally low. In several instances only one or two rural homes had been sold. Three dealers expressed the opinion that at least half of the homes in small towns and villages were sold without the services of a real estate broker. One dealer in a town of 1,500 population estimated that 15 homes were sold per year, and that at least half did not use a real estate agent. Many of the brokers dealt mainly in farm real estate, and acted as loan agents for life insurance companies. Others had a combination real estate and insurance business. Some were retired; others had another regular job and sold real estate as a sideline.

The dealers who had made sales of rural homes within the past year were asked to give information on the various financial arrangements involved (Table 19). They estimated the percentage of rural home sales in which buyers paid cash. These averaged 29.5 percent in Area I and 10.2 percent in Area II. Most of these cash sales were made to retired farmers who had sold their land and were buying homes in small towns. Apparently, few young couples could pay cash.

Real estate brokers in Area I estimated that they arranged the financing for an average of about 60 percent of the sales in which credit was involved. In Area II this was 35 percent. Usually, these arrangements were with savings and loan associations. In a few cases real estate brokers arranged loans with private individuals. One licensed broker operated a real estate and insurance agency next door to a bank of which he was president. He was the only dealer who arranged bank financing for his clients.

Buyers who made their own financial arrangements nearly always got loans from banks or savings and loan associations.

The real estate dealers were asked to give the usual maturities, interest rates and loan/value ratios for loans which they had arranged for their clients. Averages of their estimates are shown in Table 20. Loans made by savings and loan associations had the longest maturities and the highest loan/value ratios. The maturities of bank loans, as estimated by three real estate brokers in Area I, averaged 6.7 years which was somewhat shorter than loans made by individuals. Loans

TABLE 19 - HOME BUYERS' FINANCIAL ARRANGEMENTS WHEN PURCHASING RURAL HOMES THROUGH REAL ESTATE DEALERS, 1962

Questions Dealers Were Asked	Percent of Sales in	
	Central Missouri (Area I)	Northern Missouri (Area II)
In what percent of your sales of rural homes during the past year was:		
(a) The full purchase price paid in cash?	29.5	10.2
(b) There financing by either existing or new credit?	70.5	89.8
Total	100.0	100.0
In what percentage of the sales where credit was involved:		
(a) Was financing by seller or existing mortgage?	20.6	6.7
(b) Did you arrange financing?	59.6	35.5
(c) Was financing from lender to whom you referred buyer?	--	10.0
(d) Was new financing arranged solely by buyer?	19.8	47.8
Total	100.0	100.0

payable on demand were excluded from this calculation. The interest rates charged by the three types of lenders did not vary by more than one-half of one percent. Two real estate brokers in Area I reported that one savings and loan association charged 8 percent on some of its rural home loans. They indicated that they had not arranged loans with, or referred loans to, this association within the past year. For this reason, their information was not included in the above calculations.

Real estate brokers usually performed such services as arranging for proper deeds, abstracts, and the other paperwork necessary for closing the loan. They frequently made collections for lenders. Their collection experience had been good. No special problems in this regard were reported.

Real estate brokers who reported sales of rural homes within the past year were asked whether or not they had arranged FHA or VA



TABLE 20 - REAL ESTATE BROKERS' ESTIMATES OF THE USUAL LOAN TERMS FOR RURAL HOME LOANS OBTAINED BY THEIR CLIENTS FROM VARIOUS LENDERS, 1962

	Maturity (Years)	Interest Rate (Percent)	Loan/Value Ratio (Percent)
Averages for Banks			
Area I	6.7*	6.1	54.0
Area II	8.3	6.3	50.0
Averages for Savings and Loan Associations			
Area I	16.0	6.5	73.9
Area II	17.3	6.0	77.5
Averages for Individuals			
Area I	7.5	6.4	67.8
Area II	8.3	6.5	73.5

Note: These are for conventional loans, which was the type that real estate brokers practically always indicated that the lenders preferred. The above averages are based on the following number of estimates: Area I--four estimates for banks, nine for savings and loan associations, and five estimates for individual lenders; Area II--three estimates for banks, four for savings and loan associations, and two estimates for individual lenders.

\*One report of "payable on demand" was omitted, therefore, this is the average of three estimates.

loans, and if so, what their experiences had been. Fifteen dealers in Area I and six in Area II had arranged or tried to arrange these types of loans. A common complaint dealt with the time involved for approval. The lack of proper utilities to meet standards for some rural homes was mentioned as a complicating factor. One elderly broker summed up his experience in this way: "The results were satisfactory as long as the local bank continued to make VA-guaranteed loans, but the bank no longer makes them, and VA-direct loans require a considerable amount of time." An official in a large real estate agency in an Area I city said that his firm was having many inquiries about FHA loans, but that no FHA funds were available because the savings and loan associations would not accept the 5 1/4 percent interest rate. His complaint on VA loans was that it took too long to obtain them.

In regard to the availability of conventional home loan funds, about 44 percent of the real estate brokers in each survey area described the situation as being "tight." Other opinions, in the order of frequency, were "moderate in supply," "ample," and "not available" (Table 21).

TABLE 21 - REAL ESTATE DEALERS' OPINIONS REGARDING THE GENERAL AVAILABILITY OF CONVENTIONAL HOME MORTGAGE MONEY IN RELATION TO DEMAND FOR SUCH FUNDS AT CURRENT INTEREST RATES, 1962

	Percent Giving the Response on Various Types of Loans					
	Small Towns		Rural-Nonfarm Homes			Average
	New Homes	Older Homes	New Homes	Older Homes	Farm Homes**	
Area I						
Ample	21.6	18.9	17.6	17.1	33.3	21.6
Moderage	40.6	32.4	26.5	25.7	33.4	31.8
Tight	32.4	46.0	55.9	54.3	33.3	44.3
N.A.*	5.4	2.7	--	2.9	--	2.3
Total	100.0	100.0	100.0	100.0	100.0	100.0
Area II						
Ample	23.0	23.1	20.0	20.0	7.7	18.6
Moderate	38.5	15.4	40.0	10.0	38.5	28.8
Tight	38.5	53.8	30.0	50.0	46.1	44.1
N.A.*	--	7.7	10.0	20.0	7.7	8.5
Total	100.0	100.0	100.0	100.0	100.0	100.0

\*Not Available

\*\*For new construction and major improvements.

## SUMMARY OF FINDINGS

In both survey areas, the availability of credit was considered "moderate" or "ample" for qualified applicants who wanted to buy homes within the small towns and were satisfied with 50 to 60 percent loans to be repaid in about 5 years. Both insured and conventional credit was scarce for those who needed long term, high percentage loans or who wanted to buy or build a nonfarm home outside of town.

Most loans made in small towns and rural areas were conventional loans. Lenders object to making FHA-insured or VA-guaranteed loans because "interest rate is too low," "term is too long," and "too much extra time and effort (red tape) are involved." In addition, some rural homes do not meet FHA-VA specifications.

The two rural areas of Missouri depend largely on financing that commercial banks can provide. Banks were more numerous and made more rural home loans in those areas during 1962 than any other type of lender. Rural home loans of banks averaged about \$4,200 in central Missouri and \$3,300 in the northern area. Maturities averaged 6.9 and 4.9 years in the two areas, respectively. Loans as a percentage of value averaged 58 percent and 55 percent, and interest rates 6.1 and 6.2 percent, respectively.

Loans of savings and loan associations were next in importance in financing rural houses. Rural loans made by savings and loan associations in the central area averaged \$8,915, or 71 percent of appraised value; they averaged 15.8 years in maturity and had an average interest rate of 6.4 percent. The average loan made by the small association in northern Missouri was for \$2,500 or 70 percent of value and for a term of 11.6 years. It had an interest rate of 6 percent. The four "outside" savings and loan associations made loans in the survey areas that averaged \$7,800 or 72 percent of value, 15.5 years in maturity, and had interest rates averaging 6.5 percent.

The lending activity of commercial banks and savings and loan associations indicates that terms and conditions of housing credit are less favorable for the more rural area of northern Missouri than for central Missouri which includes larger towns and cities and more financial institutions.

Life insurance companies had local agents that accepted applications for farm loans in both areas. However, they made very few rural housing loans. Mortgage companies that initiated loans for life insurance companies and other investors also made few if any housing loans during 1962 in the rural areas surveyed. Individuals were the source of a few home loans in most communities. The interest rates, maturities, and loan-to-value ratios varied widely on these loans.

One lumber and supply company in northern Missouri built and financed seven homes during 1962. But such companies usually limited their financing activity to that of providing open-book credit during the construction period. Occasionally they took applications for FHA Title I, or for conventional, home improvement loans. Usually, home

builders were expected to arrange financing with banks or other lenders before construction began.

Federal land bank and production credit associations (FLBA and PCA) provided some credit for farm housing in both survey areas. FLBAs made several long-term, low interest rate loans for construction of farm houses. The PCAs also made a few directly for this purpose, but their main contribution to farm housing credit was in the form of farm operating loans, portions of which were used for home improvements.

The Farmers Home Administration was quite active in making home loans in the two rural areas. Of the 50 new home construction loans made by FHA-USDA during 1962, 32 were direct, and 18 were insured. An additional 50 loans were estimated to have been made by FHA-USDA for major home improvements.

Lenders within the two areas cooperated very little with each other or with outside lenders in providing for the home financing needs of their communities. Cooperation consisted mainly of referring loan applicants to one another. There was practically no activity in buying, selling, or joint participation in rural home loans. No lender reported participating during 1962 in the Voluntary Home Mortgage Credit Program of HHFA. Local banks, S&LAs, or other possible agents expressed little interest in originating or servicing loans for outside lenders; outside lenders were not particularly interested in acquiring home loans in rural areas. City banks only rarely purchased home loans from their small county correspondent banks, and when they did so it was as a special favor.

One quite prevalent arrangement was that between savings and loan associations and real estate brokers. In both areas there were brokers who acted as agents in accepting loan applications for S&LAs. However, relatively few rural home loans were made through such arrangements.

## Conclusions

This study indicates (1) that rural areas have access to relatively few sources of home mortgage financing, (2) that amounts and terms of housing credit are less favorable in rural areas than in larger towns and cities, and (3) that rural facilities for tapping the credit resources of larger institutions in the larger places are inadequate.

There are several reasons for this situation. First, in many rural communities the only financial institution is the local bank. Its resources usually are too small, and the calls upon it too many, to permit it to tie up its funds in long-term housing loans. Outside lenders with greater resources are not strongly attracted by housing loans in rural areas because lending risks frequently are greater for homes in rural areas than for homes in larger towns and cities. In some sections industry and jobs are moving to urban areas and rural communities are shrinking. Often incomes are lower and employment less certain in

rural towns. Risks of this kind cause lenders to be cautious, particularly in considering long-term loans.

Many rural homes, especially those outside of town and scattered about the countryside, are less saleable than those in larger places. Distances, isolation, poor roads, lack of public utilities and community facilities, and lower construction standards are some of the reasons. This also causes lenders to be cautious as they must look to the sale of the mortgaged security to recover their investment in event a loan becomes delinquent and foreclosure is necessary.

But lending risks do not fully account for the inadequate credit and credit facilities in rural areas. Lenders extending credit over wide areas indicated that experience on loans was good in both rural and urban localities. Although conservative lending is partly the reason for this favorable experience, lenders could undoubtedly make many more sound loans in rural areas than they do.

Aside from risks, the reason why lenders, particularly large institutions located in cities, are not attracted to rural areas is the less profitable business, compared to housing loans in urban communities. Loans (and interest return) on rural homes are small but they cost as much or more to make and service as do large urban loans. Rural homes are frequently scattered, require more travel for appraisal, and are of many different sizes, shapes, and locations. It is often difficult to determine values. And the total volume of loan business available in any one locality is small.

The small volume of business has particularly affected the availability of FHA-insured and VA-guaranteed loans. Many bankers and other lenders feel that there are too few such loans to make the extra time and effort of initiating them worthwhile. Similarly, loans for the construction of new homes are few, mainly because small rural lenders usually do not have the personnel to provide the supervision and controls needed in administering such loans.

### PROPOSALS

Improving credit available from private lenders for home owners in rural areas depends partly on reducing risks, lowering lending costs, and otherwise making housing loans more attractive to lenders. It also depends on local initiative in contacting outside lending institutions and arranging more adequate credit. Further, there needs to be a greater recognition by civic and financial leaders in rural communities of the importance of adequate housing credit to community growth and improvement. Rural residents themselves frequently need guidance as to what are desirable home locations and acceptable construction standards.

Reducing lending risks on rural nonfarm and small town properties may involve making the smaller towns and surrounding countryside better places in which to live and work. Also it may involve improving



the skills of rural people and increasing the opportunities for employment so that better housing can be afforded.

A needed step in getting more long-term, low downpayment housing loans to rural areas is for local lenders to develop better and closer arrangements with lenders outside the community such as life insurance companies, savings and loan associations, and eastern mutual savings banks. Rural banks cannot tie up much of their funds in long-term loans but they appear to be the logical institutions to assume the key role of arranging for outside lenders to extend long-term housing credit in their communities. There is at least one bank in every county.

Procedures need to be developed for this purpose. Lending policies and loan servicing arrangements need to be developed and improved. In some instances higher interest rates may be required to attract outside credit. The study showed relatively little difference in rates among areas. Increases in rates may be justified at times to compensate for higher costs and higher potential risks. Periodic assembling of blocks of loan applications, perhaps in cooperation with neighboring banks, might provide large lenders with the volume of business they like. The efforts that bankers go to in developing these procedures and improving channels of credit may pay good dividends in additional business.

Some savings and loan associations may be in a position to make direct loans in rural areas as well as to acquire them through commercial banks. These associations are specialized home lenders and most of them have a large supply of funds. The more aggressive savings and loan associations interviewed in the study were making rural loans some distance away, occasionally through local real estate dealers or other agents. This business was profitable for them; other associations could undoubtedly have as good success if they sought rural loans.

Further study needs to be made of the problems mentioned by rural lenders in making FHA-VA loans. Possibly better procedures could be worked out with governmental officials to reduce the "red tape" and time in closing such loans. Also, more effort should be made to encourage lenders to cooperate in the loan insurance and guarantee programs. The Voluntary Home Mortgage Credit Program of the Housing and Home Finance Agency should be strengthened. FHA-VA loans are usually salable in the secondary markets and when sold can bring funds to small towns and rural areas.

Even though much might be accomplished by such measures, there will be continued need for the housing loan programs of the Farmers Home Administration, particularly for financing the construction of new rural homes. The contributions of that agency to the improvement of rural housing could be extended greatly by authorizing it to make insured loans for nonfarm rural housing. This procedure would enable the Farmers Home Administration to attract private capital to the financing of rural housing.



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APPENDIX TABLE 1 - CHARACTERISTICS OF CONVENTIONAL FIRST MORTGAGE LOANS ORIGINATED ON SINGLE FAMILY HOMES IN THE UNITED STATES, BY TYPE OF LENDER, MARCH 1963

Item	Unit	Averages for Lending Institutions					
		All Lenders	Savings and Loan Associations	Life Insurance Companies	Mortgage Companies	Commercial Banks	Mutual Savings Banks
<u>New Home Purchase Loans</u>							
Purchase price	dollars	22,500	20,700	28,100	25,300	22,400	22,300
Loan/price ratio	percent	73.4	76.0	70.1	73.1	61.8	69.2
Term	years	24.0	23.7	26.3	26.0	16.6	25.0
Interest rate	percent	5.86	6.00	5.55	5.72	5.75	5.60
Fees and charges	percent	.70	.87	.19	.79	.24	.33
<u>Existing Home Purchase Loans</u>							
Purchase price	dollars	17,300	16,500	26,700	27,800	16,900	19,900
Loan/price ratio	percent	71.2	74.1	67.4	70.0	62.1	66.8
Term	years	19.2	20.0	24.1	21.9	14.1	21.1
Interest rate	percent	6.04	6.14	5.59	5.82	5.89	5.61
Fees and charges	percent	.64	.82	.24	.61	.21	.21

Note: Loans not covered by this survey: (1) with maturities of less than 5 or more than 40 years, (2) for homes priced at \$100,000 or more, (3) acquired by purchase, (4) representing junior liens, (5) unamortized, (6) insured or guaranteed by a government agency, (7) for interim financing of new construction.

Source: Federal Home Loan Bank Board, Operating Analysis Division, Home Mortgage Interest Rates and Terms, March 1963, (Washington: FHLBB, May 1963).

APPENDIX TABLE 2 - NUMBER OF RESPONDENTS, RURAL HOUSING CREDIT STUDY, SAMPLE AREAS, MISSOURI, 1962

Type of Respondent	Number Interviewed in	
	Central Missouri (Area I)	Northern Missouri (Area II)
Commercial banks	27	14
Savings and loan associations*	12	1
Real estate brokers	37	13

Note: In addition to the respondents listed above, other respondents included five city correspondent banks (two in Area I and three in St. Louis), two mortgage companies, and representatives of two life insurance companies. Also lumberyard managers, FHA county supervisors, FLBA and PCA personnel, and VA regional offices serving survey areas were contacted.

\*Four associations not located in either survey area, but which made some rural housing loans in these areas were contacted also.