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A Profile of Rural Home Buyers and Builders and Their Use of Housing Credit

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Missouri Agricultural Experiment Station
in cooperation with
Farm Production Economics Division
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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. The bulletin is a report on University of Missouri Department of Agricultural Economics research project 559, The Credit System and Adequacy of Housing in Rural Areas.

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INTRODUCTION

Rural housing in general has been below urban housing in quality. Inadequate credit was thought to be one of the causes since rural housing lay outside the main interests of both farm real estate lenders and urban mortgage investors. Federal Housing Administration (FHA) insured loans and Veterans Administration (VA) guaranteed loans, which have helped to provide long-term, low-equity financing for urban housing, have been difficult to obtain in rural areas. This difficulty has been due in part to rural lenders' preference for conventional-type loans which they believed were less complicated and more profitable, and partly to failure of rural homes to meet FHA or VA standards. Also, small country banks, the main financial institutions in rural communities, find it necessary to invest most of their funds in short- or intermediate-term loans and are limited as to the amount of long-term real estate loans they can carry.

In most cases, families require credit in order to improve the quality of their housing. If adequate credit is not available, housing improvements must be postponed or foregone. Public agencies have sponsored research and special programs of assistance in an attempt to fill rural gaps in the housing credit system. These programs include direct loans to veterans by the VA, operation of the Voluntary Home Mortgage Credit Program (VHMCP) through facilities of the Housing and Home Finance Agency (HHFA),[1] and the rural housing loan programs of the Farmers Administration (FHA-USDA).

To help meet the need for more information about rural housing credit problems, the Economic Research Service, U.S. Department of Agriculture and the Missouri Agricultural Experiment Station initiated cooperative research in this field. The initial study dealt mainly with the home loan policies and prac-

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[1] *Rural Home Financing Through the Voluntary Home Mortgage Credit Program.* Lawrence A. Jones. U.S. Dept. of Agr., Econ. Res. Serv., ERS-270. July, 1966. Legislative authority for this program expired in October, 1965. HHFA is now the U.S. Dept. of Housing and Urban Development.

tices of private lending agencies in selected areas of Missouri.[2] The findings indicated that it was difficult to obtain long-term, low-equity home loans in many rural communities. Few lenders were interested in making FHA insured or VA guaranteed loans; nor were they participating in the VHMC Program for referring loan requests to outside lenders. The initial study further indicated that the Rural Housing (RH) loan program of the Farmers Home Administration (FHA-USDA) was probably the most significant new development in the field of rural housing credit.

Objectives

Main objectives of the study reported in this publication were to provide further information on how rural people meet their housing needs, and the role of the FHA-USDA programs in providing housing credit assistance. To meet the objectives, information was needed on FHA-USDA borrowers, and from individuals who had recently bought or built rural homes without financial assistance from the FHA-USDA programs.

The Study Areas

Data on FHA-USDA borrowers were obtained in the two areas in Missouri that had been selected for the initial study. Area I, consisting of six counties in the central part of the state, is a mixed urban-rural section containing some large towns or cities. Area II, consisting of six counties in northern Missouri, is entirely rural, having no town with a population as large as 2,500 (Fig. 1). The survey of individuals who had recently bought or built rural homes without FHA-USDA assistance was confined to the completely rural counties (Area II).

Area I (central Missouri) has grown in population since 1950, and approximately 60 percent of the people are classified as urban. Nonagricultural occupations provide most of the employment. The larger towns and cities are relatively well supplied with commercial banks and savings and loan associations.

Area II (northern Missouri) declined in population between 1950 and 1960, typifying many rural sections in this respect. Agriculture provides most of the employment, and all of the people are classified as either "rural farm" or "rural nonfarm." Elderly people, many of whom are retired farmers or widows, comprise a relatively large proportion of the population. Private financial institutions consist almost entirely of small country banks of which there are at least one in each county. (Further information on the study areas is presented in Missouri Agricultural Experiment Station Research Bulletin 857.)

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[2] *Financing Rural Homes in Missouri,* Dorwin Williams, Lawrence A. Jones, and Frank Miller; Mo. Agr. Expt. Sta. Res. Bul. 857, April, 1964.

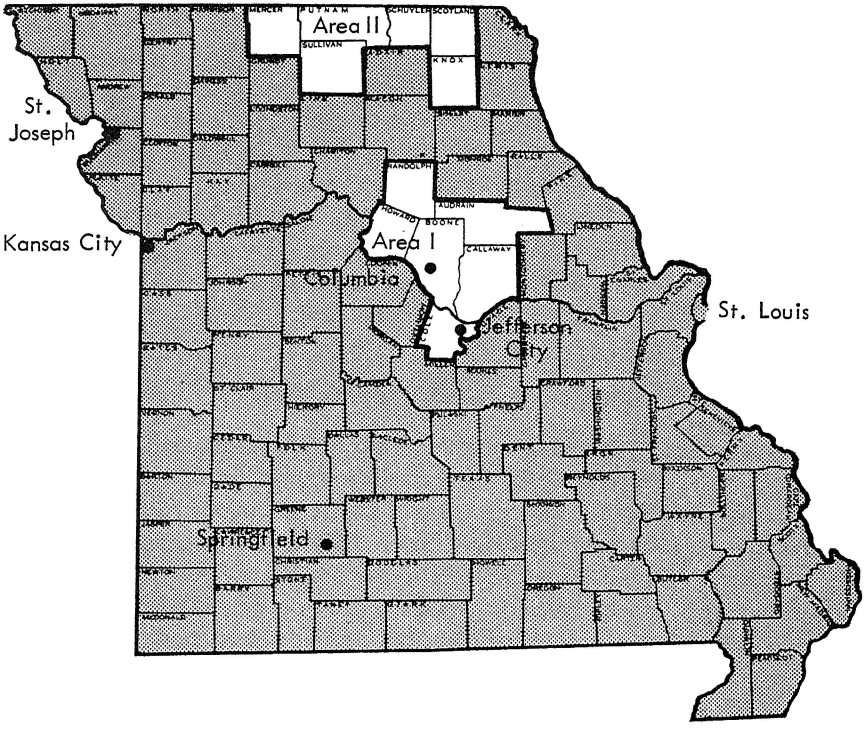

Figure 1. The Rural Housing Survey Areas of Missouri, 1964

METHODS

The data were gathered in the spring of 1964, and pertained mainly to housing activities in 1963 and early 1964.

For the segment of the study dealing with the FHA-USDA loan activities, information was obtained from the county supervisors on 84 of their most recent borrowers who had obtained loans to build new homes. This part of the study covered all 12 counties. Data were obtained concerning the borrowers' personal characteristics, income, housing situation, and their home loans. These FHA-USDA loans had been made between late 1962 and early 1964.

The segment of the study dealing with rural home buyers and builders who had not used FHA-USDA financing was confined to the six northern rural counties (Area II). A list of approximately 25 of the most recent non-FHA-USDA home buyers was obtained from the county recording and abstracting office in each county. These nonfarm homes had been bought in 1963 and early 1964,

and were located on sites containing not more than 40 acres. Attempts to locate and interview these home buyers in Area II resulted in approximately 120 usable questionnaires.[3]

Lists of people who had recently built new farm or nonfarm homes in Area II were obtained from county agricultural Extension agents, lumberyard managers, and others with knowledge of home construction activity in these counties. While most of the homes had been built in 1963 and early 1964, some had been built earlier. Eighty questionnaires were obtained by interviewing people in Area II who had recently built new homes without financial assistance from the FHA-USDA.

NON-FHA-USDA RESPONDENTS

In the spring of 1964, data concerning personal characteristics, income, housing situations, and use of credit were obtained from respondents in the six northern rural counties (Area II) who had recently built or bought rural homes without financial assistance from the FHA-USDA. This information was needed for a more complete understanding of the participants and activities of lenders in the housing market of a rural area. For analysis, the non-FHA-USDA respondents were grouped into buyers and builders; with liens and without liens; farmers and nonfarmers. The findings are presented in the following sections.

Personal Characteristics and Income of the Non-FHA-USDA Respondents

Personal characteristics such as occupation, age, and number in household are likely to be related to an individual's housing problem and to how he attempts to solve it. Table 1 gives a comparison among groups of respondents in these characteristics.

Occupations: Agriculture is the main industry in the survey area. However, most of the housing transactions were made by nonfarmers during the period studied. Approximately three-fourths of the respondents who had built new homes were nonfarmers, and about one-fourth were farmers. Nearly all of the respondents who had bought homes were nonfarmers. A few farmers had bought homes in the small towns for various reasons.

The nonfarm buyers and builders represented a wide range of occupations, including professional people, businessmen, white collar workers, tradesmen, laborers, widows, retired, and disabled persons. Many of the retired people and elderly widows formerly lived on farms in the area but had decided to sell or rent them and move closer to town.

[3] Some financial data on the home purchases could be obtained from the county recording lists. Other data could be obtained only from the buyers, however, not all of them could be interviewed. Therefore, the number of observations reported for buyers varies somewhat between tables, depending on whether that particular item of data could be obtained from the county recording lists, or only from the buyer.

TABLE 1--NON-FHA-USDA: PERSONAL CHARACTERISTICS OF RESPONDENTS WHO HAD RECENTLY BUILT OR BOUGHT RURAL HOMES, SURVEY AREA OF NORTHERN MISSOURI, 1964

Item	Unit	Home Builders			Home Buyers 1/			All Groups
		With Lien	No Lien	Total	With Lien	No Lien	Total	
Occupation: 2/								
Farmers	Number	15	6	21	3	2	5	26
Nonfarmers	Number	26	33	59	69	48	117	176
Total	Number	41	39	80	72	50	122	202
Age								
Farmers	Yrs. (Av.)	46.7	44.8	46.2	43.0	62.0	50.6	47.0
Nonfarmers	Yrs. (Av.)	44.6	57.3	51.7	43.1	67.5	53.1	52.6
All	Yrs. (Av.)	45.4	55.4	50.3	43.1	67.3	53.0	51.9
Number in Household:								
Farmers	No. (Av.)	3.9	4.5	4.1	3.0	2.5	2.8	3.8
Nonfarmers	No. (Av.)	3.8	2.6	3.1	3.5	2.2	3.0	3.0
All	No. (Av.)	3.8	2.9	3.4	3.5	2.2	3.0	3.1

1/ The sample of home buyers was limited to those whose places contained 40 acres or less, thus eliminating farm units. However, farmers who bought homes in town were included.

2/ The "nonfarm" category includes widows, retired, and disabled people as well as those actively employed in a nonfarm occupation.

Age of Respondents: The proportion of elderly people among the rural population in Missouri is relatively high. The respondents in the study reflected this situation. Those who had built new homes averaged approximately 50 years of age while the ages of those who had bought homes averaged 53 years.

Number in Household: The non-FHA-USDA respondents had an average of 3.1 members in their households. For home builders it was 3.4 compared with 3.0 for home buyers. For nonfarm respondents the average number per household was 3.0 compared with 3.8 for farmers. In general, the respondents with liens on their homes tended to be younger and have more members per household than those who had not required credit.

Family Income: The non-FHA-USDA respondents were asked to indicate their family incomes for 1963 (before taxes). Table 2 shows responses for those

TABLE 2--NON-FHA-USDA: ANNUAL FAMILY INCOME IN 1963 FOR RESPONDENTS WHO HAD RECENTLY BOUGHT HOMES, SURVEY AREA OF NORTHERN MISSOURI, 1964

Annual Income	Number of Buyers		
	With Lien	No Lien	Total
Less than $2,000	10	14	24
$2,000 - $2,999	9	11	20
$3,000 - $3,999	16	11	27
$4,000 - $4,999	7	6	13
$5,000 - $5,999	3	3	6
$6,000 - $6,999	7	1	8
$7,000 - $7,999	10	1	11
$8,000 - $8,999	2	--	2
$9,000 - $9,999	1	--	1
$10,000 & over	7	3	10
Total	72	50	122
Median Income	$4,000-$4,999	$3,000	$3,000-$3,999

who bought homes and Table 3, for those who built new ones. Respondents who had built new homes had a median income of $5,000 to $5,999 compared with a median income of $3,000 to $3,999 for those who had recently bought homes. The group with the highest median income ($6,000 to $6,999) was the group who had built new homes with liens. Within this group the nonfarm re-

TABLE 3--NON-FHA-USDA: ANNUAL FAMILY INCOME IN 1963 FOR RESPONDENTS WHO HAD RECENTLY BUILT NEW HOMES, SURVEY AREA OF NORTHERN MISSOURI, 1964

Annual Income	Number of Builders						Grand Total
	With Lien			Without Lien			
	Farm	Nonfarm	Total	Farm	Nonfarm	Total	
Less than $2,000	-	-	-	-	4	4	4
$2,000 - $2,999	2	1	3	-	4	4	7
$3,000 - $3,999	2	3	5	2	6	8	13
$4,000 - $4,999	3	1	4	1	3	4	8
$5,000 - $5,999	2	4	6	1	4	5	11
$6,000 - $6,999	1	6	7	-	4	4	11
$7,000 - $7,999	-	6	6	2	2	4	10
$8,000 - $8,999	1	2	3	-	-	-	3
$9,000 - $9,999	1	1	2	-	-	-	2
$10,000 and over	3	2	5	-	6	6	11
Total	15	26	41	6	33	39	80
Median Incomes	$5,000-$5,999	$6,000-$6,999	$6,000-$6,999	$5,000	$4,000-$4,999	$4,000-$4,999	$5,000-$5,999

spondents had a higher median income than the farm respondents—$6,000 to $6,999 compared with $5,000 to $5,999. The lowest median income was for those who had bought homes without the use of credit. Half of these people had less than $3,000 family income for 1963. This apparent paradox is explained by the fact that many of the latter group were retired farmers or widows whose retirement income was low, but who had accumulated enough savings to buy a modest home without the use of credit.

Current Housing Situation of the Non-FHA-USDA Respondents

Information regarding location, size, cost, method of constructing the new dwellings, and age of homes recently purchased was obtained. The respondents were also asked about their reasons for making the recent change in housing. The findings are presented in the following sections.

Location: All of the homes in the northern survey counties (Area II) were classified as rural since none were in towns with populations as large as 2,500. Within this broad classification, however, there were two sub-groups: rural-farm and rural nonfarm. Rural nonfarm homes are those located in small towns or in the open country on small acreages. Relatively few of the latter type were found in the survey area. Most of the respondents' homes were located in town, or on farms (Table 4). Rural nonfarm homes located on small acreages apparently are

TABLE 4--NON-FHA-USDA: LOCATION OF HOMES AND SIZE OF ACREAGE, SURVEY AREA OF NORTHERN MISSOURI, 1964

	Number of Homes						
	Constructed			Purchased			
	With Lien	No Lien	Total	With Lien	No Lien	Total	All Groups
Location:							
In town 1/	23	32	55	67	47	114	169
Out of town 2/	18	7	25	5	3	8	33
Total	41	39	80	72	50	122	202
Land Acreage:							
40 acres or less	26	33	59	72	50	122	181
Over 40 acres 2/	15	6	21	--	--	---	21
Total	41	39	80	72	50	122	202

1/ Includes small villages.

2/ Includes 21 newly constructed farm homes. The sample of purchased homes was confined to places containing not more than 40 acres.

more common in areas surrounding larger towns or cities where there are nonfarm employment opportunities. Many of the non-FHA-USDA respondents were elderly retired people who wanted a home and a small lot in town because they felt they were no longer able to care for an acreage in the country.

Reasons for Making a Change in Housing: The non-FHA-USDA respondents were asked their reasons for having recently built or bought their present homes. Their responses are presented in Tables 5 and 6. For those who had recently built new homes the most important single reason was that their previous dwelling was beyond repair. The second most frequent reason was their families had outgrown their previous home.

For those who had recently bought homes, the most frequent reason was that they had retired from farming and wanted a different home. Many were elderly widows who wanted a small place in town. Another major reason was dissatisfaction with renting. Some indicated that they had recently moved into the area from elsewhere. This reason probably would be more common in an urban or resort area than in these largely agricultural communities. Other reasons for changes included death in the family, health, and investment opportunities.

Age of Dwellings Purchased: According to the 1960 U.S. Census of Housing, approximately 80 percent of the rural nonfarm housing units in the northern survey counties (Area II) were 30 years old or more. For the State as a whole about half of the rural nonfarm housing units fell in this age category. In the sample of homes recently purchased in Area II, one-fifth were less than five years old, and about three-fifths were 25 years old or older (Table 7). Several of the homes were around 50 years old and some were older. Although the average and median ages of the dwellings purchased were rather high, a greater than proportionate number was in the newer group, perhaps indicating that there was a somewhat stronger market for the newer homes.

Method of Constructing New Dwellings: Various methods of constructing the new dwellings were used (Table 8). Of these, however, that of the owner directly hiring carpenters and other workers was the most common. Other houses were built on contract where the owner paid a lump sum for all labor and material. In some cases the homes were built entirely with labor provided by the owner, including family help. One-fourth of the houses were built by a combination of the above methods. The owner usually hired or contracted some of the work and did part of it himself. Some type of wood or wood product was the material most frequently used for exterior construction (siding).

Size and Cost of Dwellings: The newly constructed dwellings had an average of 1,340 square feet of floor space (excluding garages and unfinished basements). The average construction cost per square foot was $11.40, making a total cost of $15,247 for labor and materials (Table 9). This amount did not include

TABLE 5--NON-FHA-USDA: REASONS FOR BUILDING NEW DWELLINGS, SURVEY AREA OF NORTHERN MISSOURI, 1964

Reason	Number of Builders						Grand total
	With Lien			No Lien			
	Farm	Nonfarm	Total	Farm	Nonfarm	Total	
Old home beyond repairing or remodeling.	6	8	14	3	1	4	18
Family outgrew previous home.	3	2	5	2	3	5	10
Retired from farming and wanted new home.	-	1	1	-	6	6	7
Moved into area from outside this community.	-	5	5	-	2	2	7
Renting unsatisfactory.	2	1	3	-	4	4	7
All other reasons.	4	9	13	1	17	18	31
Total	15	26	41	6	33	39	80

TABLE 6--NON-FHA-USDA: REASONS FOR BUYING HOMES, SURVEY AREA OF NORTHERN MISSOURI, 1964

Reason	Number of Buyers		
	With Lien	No Lien	Total
Retired from farming and wanted different home	4	32	36
Renting unsatisfactory	24	2	26
Moved into area from outside this community	12	3	15
Family outgrew previous home	5	-	5
All other reasons	27	13	40
Total	72	50	122

TABLE 7--NON-FHA-USDA: AGE OF DWELLINGS PURCHASED, SURVEY AREA OF NORTHERN MISSOURI, 1964

Age of Dwelling (years)	Percentage of Dwellings		
	With Lien	No Lien	Total
Less than 5	19.4	20.8	20.0
5 to 9	5.5	4.2	5.0
10 to 14	4.2	10.4	6.7
15 to 19	1.4	2.1	1.6
20 to 24	4.2	6.2	5.0
25 and over	65.3	56.3	61.7
Total	100.0	100.0	100.0
Median (years)	37.5	30.0	35.0
Mean (years)	32.8	30.9	32.1

Note: The respondents were asked to indicate the age of their present dwelling within the above class intervals; if it was 25 years or more they were to estimate its actual age. For computing averages, the mid-points of the class intervals up to 25 years were used, and for those 25 years of age and over the specific estimated ages were used.

TABLE 8--NON-FHA-USDA: METHOD OF CONSTRUCTING NEW RURAL DWELLINGS, SURVEY AREA OF NORTHERN MISSOURI, 1964

Method of Construction	Number of Dwellings						
	With Lien			No Lien			Grand Total
	Farm	Nonfarm	Total	Farm	Nonfarm	Total	
Hired workers	3	7	10	3	19	22	32
Contractor	4	5	9	1	3	4	13
Owner himself	5	3	8	-	6	6	14
Combination 1/	3	11	14	2	5	7	21
Total	15	26	41	6	33	39	80

1/ Includes cases where the owner hired or contracted some of the work done, and did part of it himself.

TABLE 9--NON-FHA-USDA: AVERAGE SIZE AND COST OF LABOR AND MATERIALS FOR CONSTRUCTING NEW DWELLINGS, SURVEY AREA OF NORTHERN MISSOURI, 1964

Item	Unit	Average Per Dwelling						
		With Lien			No Lien			Grand total
		Farm	Nonfarm	Total	Farm	Nonfarm	Total	
Floor space 1/	(sq. ft.)	1,402	1,427	1,418	1,236	1,261	1,257	1,340
Cost per sq. ft.	(dollar)	$11.37	10.87	11.05	8.22	12.41	11.77	$11.40
Total cost	(dollar)	$15,941	15,511	15,668	10,160	15,649	14,805	$15,247
Number	(dwellings)	15	26	41	6	33	39	80

1/ Excluding garages and unfinished basements.

the cost of the building site. In cases where the owner furnished some of his own labor, used some salvaged materials, or obtained new materials at wholesale prices, his estimate of what the costs would have been without these advantages was used.

The average construction cost ranged from a low of $10,160 for farm homes with no lien to $15,941 for farm houses with lien. The former tended to be somewhat smaller and cost less per square foot than others. Apparently these farmers either preferred to hold down their housing expenditures, or could not or did not wish to obtain credit for larger, more expensive homes. There was relatively little difference in average costs between nonfarm homes with liens ($15,511) and those without liens ($15,649). For the homes built entirely by hired labor, materials accounted for approximately 70 percent, and labor 30 percent of total construction cost.

Most of the newly constructed homes had either five or six rooms plus bath. All had running water. Approximately two-thirds of them had garages and about half had basements.

The purchased homes usually cost less than the new, owner-built homes, perhaps mainly because they were older (Table 10). Their purchase prices averaged $6,816, including sites ranging in size from small lots in town up to 40 acres in the country. The purchased homes had an average of 1,132 square feet of floor space. Most of them had either five or six rooms, and about 85 percent had plumbing and baths. These recently purchased homes were probably somewhat more modern than the average in the area since most buyers undoubtedly sought the better-kept homes with modern conveniences.

TABLE 10--NON-FHA-USDA: AVERAGE SIZE AND PRICE OF RURAL HOMES PURCHASED, SURVEY AREA OF NORTHERN MISSOURI, 1964

Item	Unit	Average per Dwelling		
		With Lien	No Lien	Total
Floor space 1/	sq. ft.	1,197	1,038	1,132
Purchase price 2/	dollars	$7,216	$6,254	$6,816

1/ Excludes garages and unfinished basements.

2/ Includes the costs of the dwellings and their sites ranging in size from small lots in town up to 40 acres in the country. Places containing over 40 acres were excluded from the sample of purchased homes.

Comparison of homes purchased with liens and those without liens showed that the former tended to be somewhat larger and higher priced than the latter which were financed solely from the buyers' own funds. However, size of home purchased, its price, number of members in the household, age of buyer, and

his financial situation are likely to be interrelated. For example, an elderly retired farm couple with no other members in their household, probably would want a small place with little upkeep, and would likely have enough funds from their farm sale to pay for it.

Financing the Housing Changes (Non-FHA-USDA Respondents)

Information related to financial arrangements made by the respondents who had recently bought or built rural homes in the survey area without financial assistance from the Farmers Home Administration is presented in the following sections. Included are sources of their home loans, credit terms, and other financial data.

Approximately 45 percent of the non-FHA-USDA respondents had been able to buy or build their present homes without use of mortgage loans. Temporary financing or credit accounts were used in some cases as a supplementary source of funds during the construction periods. Many had recently sold farms or other real estate which provided enough funds for their housing changes.

Loan Sources (excluding the FHA-USDA): Approximately 55 percent of the non-FHA-USDA respondents had obtained home loans. For home buyers it was approximately 60 percent, and for builders, about 50 percent. The percentage of these loans made by various types of lenders is shown in Table 11. All of the loans made by Federal Land Banks and insurance companies were for farm homes, while all those made by savings and loan associations and lumber companies

TABLE 11--NON-FHA-USDA: SOURCES OF LOANS FOR BUILDING AND BUYING RURAL HOMES WITH LIENS, SURVEY AREA OF NORTHERN MISSOURI, 1964

	Percentage of Loans		
Type of Lender	New Home Construction	Home Purchase	Total
Commercial Bank	24.4	42.5	36.7
Savings and Loan Association	17.0	24.2	21.9
Private Individual[1/]	12.2	26.4	21.9
Veterans Administration	9.8	6.9	7.8
Federal Land Bank	19.5	--	6.3
Lumber Company	9.8	--	3.1
Insurance Company	7.3	--	2.3
Total	100.0	100.0	100.0

1/ Including the seller of the property.

were for nonfarm homes. The other lenders' loans were for both farm and nonfarm homes.

Local commercial banks made more loans than any other type of lender, accounting for nearly 37 percent of the total number. Savings and loan associations and private individuals (including the seller of the property) each accounted for about one-fifth of all loans. The Veterans Administration ranked next, providing loans for both farm and nonfarm home construction, and for buying homes. Federal Land Banks and insurance companies were the main sources of loans for constructing new farm dwellings. The Federal Land Banks provided about half of all loans made for this purpose, and insurance companies, one-fifth.

Although commercial banks made a larger total number of housing loans than any other type of lender, savings and loan associations provided the largest amount of funds. Their loans were usually for larger amounts. On the basis of total number of loans made, commercial banks ranked first, with savings and loan associations and individuals tied for second place. But, ranked according to total amount of funds loaned, savings and loan associations were first, banks second, and individuals third.

Size of Loans and Loan/Value Ratios: The loans for constructing new farm dwellings were usually for larger amounts than the other types of home loans studied. They averaged $11,886, excluding the portions of five loans which exceeded construction costs of the dwellings. (These portions of the loan funds were used for other purposes, mainly to help finance farmland purchases). Home construction loans made by insurance companies were the largest, averaging $17,833. Those made by Federal Land Banks, which were the main source of farm home loans, averaged $10,286 (Table 12).

TABLE 12--NON-FHA-USDA: SIZE OF LOANS AND LOAN/COST RATIOS FOR CONSTRUCTING NEW FARM DWELLINGS, BY TYPE OF LENDER, SURVEY AREA OF NORTHERN MISSOURI, 1964

Type of Lender	No. of Loans	Amount of Loan	Loan/Cost Ratio (%)
		Average	
Federal Land Bank	8	$10,286	77.0
Insurance Company	3	17,833	89.9
Individuals	2	11,750	74.4
Commercial Bank	1	8,000	26.7
Veterans Administration	1	11,000	100.0
Total	15	$11,886	74.6

Note: Excludes the portions of five loans which exceeded construction cost.

The loans for constructing new farm dwellings usually covered a higher percentage of cost than those for constructing nonfarm homes. Their average loan/cost ratio was approximately 75 percent. Lenders could make loans for a higher percentage of the costs of constructing farm dwellings and still have a margin of security since the mortgage usually included a rather large farm acreage as well as the new dwelling. On the other hand, loan security for a nonfarm home usually consisted of a house and lot only.

Loans for constructing new non-farm homes averaged $7,900 (Table 13). This amount represented approximately 50 percent of construction cost. Borrowers had to make up the difference between the amount of their loans and cost of construction with other resources, mainly their own funds and family labor. In addition to their contribution to construction cost, borrowers usually owned building sites. However, VA loans sometimes covered land costs and cash costs of construction while the borrower contributed some of his own labor.

TABLE 13--NON-FHA-USDA: SIZE OF LOANS AND LOAN/COST RATIOS FOR CONSTRUCTING NEW NONFARM DWELLINGS, BY TYPE OF LENDER, SURVEY AREA OF NORTHERN MISSOURI, 1964

Type of Lender	No. of Loans	Amount of Loan	Loan/Cost 1/ Ratio (%)
		Average	
Commercial Bank	9	$ 6,244	51.8
S & L Association	7	10,043	43.5
Lumber Co.	4	7,224	50.0
Individual	3	4,167	58.2
VA 2/	3	12,500	69.4
Total	26	$ 7,900	50.9

1/ Includes costs for labor and material, but not building site.

2/ The VA borrowers' contribution consisted mainly of their own labor.

Loans for purchasing homes tended to be smaller than those for building homes, but covered a higher percentage of cost. This is explained partly by the lower cost of the homes purchased, and perhaps partly by some lenders' feelings that there was less risk involved in buying an existing house than in building one. The home purchase loans averaged $5,466, which covered approximately 76 percent of the purchase price (Table 14). The loan/price ratios varied among types of lenders and also among individual borrowers. Apparently lenders differ in their lending policies, and borrowers do not have uniform needs. Some borrowers had almost enough money of their own to buy a home, and needed only a small loan.

TABLE 14--NON-FHA-USDA: SIZE OF LOANS AND LOAN/PRICE RATIOS FOR PURCHASING HOMES, BY TYPE OF LENDER, SURVEY AREA OF NORTHERN MISSOURI, 1964

Type of Lender	No. of Loans	Amount of Loan	Loan/Price Ratio (%)
		Average	
Commercial Bank	37	$3,997	67.6
Individual	23	3,986	74.4
S & L Associations	21	8,533	79.2
VA	6	9,467	95.3
Total	87	$5,466	75.7

In general, home purchase loans made by the Veterans Administration and savings and loan associations had higher loan/price ratios than those made by banks or individuals (many of whom were the sellers). Occasionally, when a loan was to be for a relatively high percentage of the value of the house, lenders required that additional collateral be pledged. A few of the home sales (less than 5 percent) involved second mortgages which were held by individuals, frequently the sellers.

Loan Maturities: The terms-to-maturity of the loans varied widely among types of lenders and among borrowers. The main reasons were differences in the policies of lenders and needs of borrowers. Loans for constructing new farm dwellings usually had longer maturities than the other types. Of the 15 farm home construction loans, 11 had maturities of 20 years or longer (Table 15).

TABLE 15--NON-FHA-USDA: TERM TO MATURITY OF LOANS FOR CONSTRUCTING NEW FARM HOMES, BY TYPE OF LENDER, SURVEY AREA OF NORTHERN MISSOURI, 1964

Type of Lender	Term to Maturity (years)					
	Unspecified	10-14	15-19	20-24	25-29	30 & over
			Number of Loans			
Federal Land Bank				5	-	3
Insurance Companies			1	1	1	
Individual		2				
Commercial Bank	1					
Veterans Administration						1
Total	1	2	1	6	1	4

Eight of these were Federal Land Bank loans.

For loans to construct nonfarm dwellings, maturities tended to be much shorter (Table 16). Only one-fifth, mainly VA loans, were for 20 years or longer. One-half of the total of 26 loans for constructing nonfarm homes had maturities of less than 10 years.

TABLE 16--NON-FHA-USDA: TERM TO MATURITY OF LOANS FOR CONSTRUCTING RURAL NONFARM HOMES, BY TYPE OF LENDER, SURVEY AREA OF NORTHERN MISSOURI, 1964

Type of Lender	Term to Maturity (years)					
	Unspecified	5-9	10-14	15-19	20-24	25-29
	Number of Loans					
Commercial Bank	3	2	2	1	1	
Savings & Loan Assns.		1	3	2	1	
Lumber Company		4				
Individuals	2	1				
Veterans Administration					2	1
Total	5	8	5	3	4	1

Loans for purchasing nonfarm homes also tended to have relatively short maturities (Table 17). Almost three-fifths were for less than 10 years. Nearly

TABLE 17--NON-FHA-USDA: TERM TO MATURITY OF LOANS FOR PURCHASING RURAL NON-FARM HOMES, BY TYPE OF LENDER, SURVEY AREA OF NORTHERN MISSOURI, 1964

Type of Lender	Term to Maturity (years)					
	Under 5 1/	5-9	10-14	15-19	20-24	25-29
	Number of Loans					
Commercial Bank	19	14	3	-	1	-
Individual 2/	9	8	4	2	-	-
Savings & Loan Assns.	-	-	10	5	5	1
Veterans Administration	-	-	-	1	1	4
Total	28	22	17	8	7	5

1/ Includes loans with unspecified maturities as well as those with specific maturities of less than five years.

2/ Including the seller of the property.

one-third were for less than five years, including several with indefinite or unspecified maturities. All of these shorter term loans were made by commercial banks or individuals. Frequently, the borrowers indicated that their short-term loans were renewable, but some expected to pay them off soon, pending sale of other property. Practically all loans made by savings and loan associations had maturities longer than 10 years, and most of the VA loans had maturities of 25 years or longer.

Most of the long-term loans were amortized so the payments required would liquidate them by maturity. Many of the shorter term loans reportedly were renewable. Nonfarmers usually made monthly payments on their loans while farmers made theirs annually. The payments usually did not include amounts for taxes or insurance, except in the case of VA loans and a few made by savings and loan associations.

Interest Rates and Other Credit Information: Interest rates on the non-FHA-USDA home loans varied among lenders and individual borrowers. The most common rate was 6 percent for all lenders except the VA and lumber companies. Their rates were 5¼ and 5 percent, respectively. Approximately 55 percent of all loans carried the 6 percent rate; about 26 percent had a higher rate; and 19 percent were lower. Approximately 95 percent of all loans had interest rates between 5 and 7 percent. The higher rates were mostly for the smaller, shorter-term home purchase loans.

Loans for constructing farm dwellings tended to have lower interest rates than the other types of loans. For example, only one of them exceeded 6 percent while eight were lower than this rate. Of the loans for constructing nonfarm homes, only one had an interest rate lower than 6 percent while three were higher than this. The lower rates on loans to build farm homes probably was due to a combination of factors, including their relatively large size, long term, high security, and type of lender (mainly Federal Land Banks).

Loans for purchasing homes usually were smaller and tended to have somewhat higher rates than those for building new homes. Although 6 percent was their most common rate, several small home purchase loans had been made by banks for 7 percent, and by savings and loan associations for 6½ percent. Of the loans made by individuals, few had rates higher than 6 percent while several were lower.[4]

Other types of credit information obtained from the borrowers included that relating to contacts with other lenders. Approximately 13 percent of the borrowers who built farm homes had inquired about loans from other lenders in addition to the ones who made their loans. For borrowers who built nonfarm homes and those who bought homes, this was about 20 percent and 12 percent,

[4] The interest rates discussed above reflected those charged in the northern rural counties (Area II) during 1963 and early 1964, mainly. Since that time credit in general, and for housing in particular, tightened throughout the Nation.

respectively. Most of the borrowers had not shopped around for their housing loans. However, there were relatively few alternative sources in their communities. The reasons why borrowers who made inquiry had not obtained loans from other lenders usually involved dissatisfaction with some features of the contract rather than outright rejections of their applications.

People who desired loans but could not obtain them from any conventional lender or from the Veterans Administration were out of the scope in this part of the study in Area II. However, many of these people undoubtedly turned to the FHA-USDA for assistance and therefore are covered in the following segment.

THE FHA-USDA BORROWERS AND THEIR HOME LOANS

The following part of the study deals with FHA-USDA borrowers who had recently built new homes, and covers six counties in central Missouri (Area I), as well as the six northern Missouri survey counties (Area II).

The FHA-USDA was making two main types of loans for rural housing when the survey was made in the spring of 1964. These were designated as RH (Rural Housing) and FO (Farm Ownership) loans. RH loans were made directly from funds appropriated by Congress, and could be made to either farm or rural nonfarm applicants for purposes related to housing only. On the other hand, FO loans could be made to farmers only for farm purposes including farm housing. The FO loans were insured by the FHA-USDA and sold to investors. Farmers were usually given FO instead of RH loans since funds for the latter had to come directly from the limited appropriation. The following information deals with both RH and FO borrowers whose loans were for constructing new rural dwellings.

Personal Characteristics and Income of the FHA-USDA Borrowers

Occupations: The RH borrowers were mostly nonfarmers, however, a few were farmers and retired people (Table 18). All FO borrowers were farmers since FO loans could not be made to other occupational groups.

Many occupations were represented among the nonfarm borrowers, including white-collar workers. In the northern rural counties (Area II) where there were relatively few other sources of home loans, the borrowers included more professional-type people than was the case in central Missouri (Area I) where there were more potential sources of credit.

Age of Borrowers and Number in Households: Typically, farmers are older, and have larger families than most other occupational groups. As shown in Tables 19 and 20, this was the case among the FHA-USDA borrowers. Those who obtained FO loans (all farmers) were older and had larger families than RH borrowers, who were mostly nonfarmers. FO borrowers' households aver-

TABLE 18--RH BORROWERS: OCCUPATIONS OF RH BORROWERS, SURVEY AREAS IN MISSOURI, 1964

Occupation	Area I (Central Missouri)	Area II (Northern Missouri)
	Number of RH Borrowers	
Farmer	1	2
Non-farm	35	20
Retired	1	1
Total	37	23

Note: All FO borrowers were farmers.

TABLE 19--RH BORROWERS: AGE OF BORROWERS AND NUMBER IN HOUSEHOLD, SURVEY AREAS OF MISSOURI, 1964

Age Group (years)	Area I (Central Missouri)	Area II (Northern Missouri)
	Number of RH Borrowers	
Under 25	6	1
25-29	15	5
30-34	5	9
35-39	3	2
40-44	3	2
45-49	3	-
50-54	1	2
55-59	-	1
60-64	-	-
65 & over	1	1
Total	37	23
Average Age	32.2	36.2
Average No. in Household	3.9	3.4

TABLE 20--FO BORROWERS: AGE OF BORROWERS AND NUMBER IN HOUSEHOLD, SURVEY AREAS OF MISSOURI, 1964

Age Group (Years)	Area I (Central Missouri)	Area II (Northern Missouri)
	Number of FO Borrowers	
Under 25	-	-
25-29	1	1
30-34	3	2
35-39	4	3
40-44	1	2
45-49	1	2
50-54	3	-
55-59	1	-
60-64	-	-
65 & over	-	-
Total	14	10
Average Age	41.1	38.4
Average No. In Household	4.6	4.5

aged approximately 23 percent more members than did those of the RH borrowers. Approximately 77 percent of the RH borrowers and 58 percent of the FO borrowers were 39 years of age or younger.

Family Income (1963)[5]*:* Family income is an indication of financial condition and has a bearing on debt repayment capacity and loan security. The median family income for the RH borrowers in Area I (central Missouri) was in the $5,000-$5,999 range and in Area II (northern Missouri) it was $6,000-$6,999 (Table 21). For the FO borrowers, the median income was $5,000-$5,999 in both survey areas (Table 22). Most of the RH borrowers had nonfarm earnings only while most FO borrowers had both off-farm and farm income.

[5] The analysis is based on actual income and expense data or estimates contained in the borrowers' loan records, pertaining to 1963 or as near that year as was available. Family income was the sum of the husband and wife's off-farm earnings plus cash farm receipts, minus cash farm or other business operating expenses. This income computation did not take into account depreciation of equipment, appreciation or depreciation in the value of inventories and real estate, nor a capital charge on investment. Interest charges on borrowed capital were deducted, however, since these were included in cash operating expenses.

TABLE 21--RH BORROWERS: ESTIMATED ANNUAL FAMILY INCOME IN 1963 FOR RH BORROWERS, SURVEY AREAS OF MISSOURI, 1964*

Annual Income Class (Dollars)	Area I (Central Missouri)	Area II (Northern Missouri)
	Number of RH Borrowers	
Under 2,000	-	-
2,000 - 2,999	1	1
3,000 - 3,999	1	6
4,000 - 4,999	8	1
5,000 - 5,999	12	3
6,000 - 6,999	12	6
7,000 - 7,999	2	5
8,000 - 8,999	1	-
9,000 - 9,999	-	1
10,000 & over	-	-
Total	37	23
Median Income	$5,000 - $5,999	$6,000 - $6,999

*See footnote on page 24 for explanation of computation.

TABLE 22--FO BORROWERS: ESTIMATED ANNUAL FAMILY INCOME IN 1963 FOR FO BORROWERS, SURVEY AREAS OF MISSOURI, 1964*

Annual Income Class (Dollars)	Area I (Central Missouri)	Area II (Northern Missouri)
	Number of FO Borrowers	
Under $2,000	1	-
2,000 - 2,999	1	1
3,000 - 3,999	2	3
4,000 - 4,999	2	-
5,000 - 5,999	4	2
6,000 - 6,999	-	-
7,000 - 7,999	2	-
8,000 - 8,999	1	1
9,000 - 9,999	-	-
10,000 & over	1	3
Total	14	10
Median Income	$5,000 - $5,999	$5,000 - $5,999

*See footnote on page 24 for explanation of computation.

Current Housing Situation of the FHA-USDA Borrowers

An FHA-USDA borrower's housing had to be considered inadequate before he could qualify for an FHA-USDA loan. The location, cost, size, type, and methods of constructing borrowers' new homes were studied to obtain knowledge of their present housing situation. Information regarding these items is presented in the following sections and tables.

Location: All of the homes built by FO borrowers (farmers) were in the open country, but more than half of the RH borrowers' homes were in town. The location varied considerably, however, between the two survey areas. In Area I (central Missouri) most of the RH borrowers' homes were located out of town on small acreages, but in Area II (northern Missouri) most were in town. This situation perhaps is best explained by other differences: Area I had some rather large towns (ineligible for FHA-USDA loans) which provided off-farm employment for the surrounding rural residents, but Area II had no large towns and relatively few off-farm jobs. Most of its residents were either farmers living out in the country, or nonfarmers living in towns small enough to meet FHA-USDA loan eligibility requirements.

Building sites for new RH financed homes ranged in size from town lots, containing a fraction of an acre, to a few fairly large farm acreages. Almost half of all RH homes were built on sites containing less than one acre. However, the proportions were reversed between the two survey areas; in Area I (central Missouri) most of the homes were located out of town on sites containing more than one acre, while in Area II (northern Missouri) most were built on town lots containing less than an acre.

Method and Type of Construction: The homes were constructed under various types of business arangements, including contracts, hired carpenters, the owner himself, and combinations of these methods (Table 23). The FHA-USDA county supervisors provided counseling and supervision for their borrowers during the construction period. Frequently the borrower and his family did part of the work, but used hired labor or a contractor for most of it. A few borrowers built their houses themselves, hiring no labor at all. Borrowers with some building experience and available time, such as unemployed or part-time carpenters, realized considerable savings by doing part or all of the work themselves. However, some county supervisors thought that the contract method was advantageous where the borrrower had little experience in carpentry or in purchasing building materials.

Of the three major types of home construction (conventional, precut, and prefabricated), the conventional-type was most common, accounting for approximately 86 percent of all homes. The remainder were classified as precut. Some type of wood or wood product was the material most frequently used for the exterior (siding). Brick ranked next, but was confined almost entirely to Area I (central Missouri).

TABLE 23--RH AND FO DWELLINGS: METHOD OF CONSTRUCTING NEW HOMES, BY TYPE OF BUILDER, SURVEY AREAS OF MISSOURI, 1964

Type of Builder	Area I (Central Missouri)	Area II (Northern Missouri)
	Number of Homes	
RH Homes:		
Contractor	16	5
Hired Carpenters	4	9
Owner	4	-
Combination[1]	13	9
Total RH	37	23
FO Homes:		
Contractor	6	4
Hired Carpenters	1	3
Owner	-	-
Combination[1]	7	3
Total FO	14	10
Grand total	51	33

[1] Includes homes which the owner helped to build, but also used some hired labor or contract work.

Size of Homes and Cost of Labor and Materials: Typically, the homes were one-story structures with five or six rooms, a bath, basement, and garage. Those in Area I (central Missouri) had an average of 1,201 square feet of floor space, cost $10.13 per square foot, which made a total construction cost of $12,166 for labor and materials (Table 24). In Area II (northern Missouri) the homes averaged 1,254 square feet of floor space which cost $10.15 per square foot, making their total construction cost $12,728. Where the borrower did part or all of the work himself, the FHA-USDA county supervisor estimated what the cost would have been if the labor had been hired. For homes built entirely by hired labor, materials accounted for an average of approximately 70 percent of their construction cost and labor 30 percent.

TABLE 24--RH AND FO DWELLINGS: AVERAGE SIZE AND COST OF LABOR AND MATERIALS FOR CONSTRUCTING NEW DWELLINGS, SURVEY AREAS OF MISSOURI 1964

Item	Unit	Average per Dwelling Area I (Central Missouri)	Area II (Northern Missouri)
RH homes:			
Floor space 1/	sq. ft.	1,203	1,253
Cost per sq. ft.	dollar	10.07	10.39
Total cost 2/	dollar	12,114	13,019
Number	dwelling	37	23
FO homes:			
Floor space 1/	sq. ft.	1,193	1,256
Cost per sq. ft.	dollar	10.27	9.60
Total cost 2/	dollar	12,252	12,058
Number	dwelling	14	10
All homes:			
Floor space 1/	sq. ft.	1,201	1,254
Cost per sq. ft.	dollar	10.13	10.15
Total cost 2/	dollar	12,166	12,728
Number	dwelling	51	33

1/ Excluding garages and unfinished basements.

2/ Includes cost of labor and material, but not building site. In cases where the owner furnished some of his own labor or used some salvaged materials, the FHA County Supervisor's estimate of what the cost would have been without these advantages was used.

Loan Data and Other Credit Information for the FHA-USDA Borrowers

Information concerning the size of the RH and FO loans, their maturities, repayment schedules, and other credit items are presented in the following sections.

Amount and Use of the Loan Funds: The RH loans for home construction averaged $11,258 in Area I (central Missouri), and $11,890 in Area II (northern Missouri) which was approximately 95 percent of the total cash expenditure. (Total cash expenditure included cost of hired labor, building materials, water systems, fees, and in one case the purchase of a building site for a senior citizen). The borrowers contributed about 5 percent of the total cash expenditure in addition to furnishing the land and in some cases part of the labor. The value of the

land varied widely depending largely on the size of the building site. It ranged from a few hundred dollars for a small lot up to several thousand dollars for farm acreages.

FO loans were obtained to buy additional farmland, refinance farm debts, or make farm improvements as well as to build new farm dwellings. The total cash expenditure for all items averaged $18,490 in Area I (central Missouri), and $22,503 in Area II (northern Missouri). The FO loans averaged $16,595 in Area I and $20,186 in Area II. The difference between the total cash expenditure and the amount of the loan represented an average cash contribution by the FO borrowers of approximately 10 percent.

Loan Security: Most of the loans were secured by a first mortgage (deed of trust) on the borrower's house and land. Of the 60 RH loans, 54 were secured by first mortgages, and six by second mortgages. The latter usually involved places having an acreage rather than those with just a lot or building site. Of the 24 FO loans, 20 were secured by first, and four by second mortgages. In some cases, the FHA-USDA held both first and second mortgages on the farm real estate.

While the FHA-USDA loans for new home construction can be made for 100 percent of the appraised "normal" value of the security, this valuation usually was somewhat below total cost of the property or its current market value. The appraised value usually was about 80 to 85 percent of current market value. Therefore, a loan for 100 percent of the appraised normal value probably would not cover the total cost of the property. Any difference was made up by the borrower providing part of the cash costs of construction, and/or part of the work, in addition to furnishing the building site. It was indicated that the loan/value ratios tended to run higher for homes conveniently located in thriving communities than for those in less desirable market locations.

Loan Maturities and Repayment Schedules: The FHA-USDA loans usually had a long term-to-maturity and a low interest rate, resulting in moderate sized, periodic payments which usually were set up on a monthly basis except for farmers who paid annually. RH loans had a maximum maturity of 33 years, and a 4-percent interest rate. FO loans had a maximum maturity of 40 years, and an interest rate of 5 percent.

The RH loans examined in this study had an average maturity of approximately 31 years, with 70 percent carrying the maximum maturity of 33 years. Most of the RH borrowers made monthly payments—principal plus interest—which averaged approximately $57, totaling about $684 yearly. Nearly all of the FO loans carried the maximum maturity of 40 years, and their payments—principal plus interest—average approximately $1,200 per year.

Other Credit Contacts: Practically all of the FO borrowers in both survey areas and most of the RH borrowers in Area I (central Missouri) had applied

for loans from other lenders. These included commercial banks, savings and loan associations, and Federal Land Banks, mainly (Table 25). About half of the RH borrowers in Area II (northern Missouri) had not filed loan applications with another lender. In these cases, the FHA-USDA county supervisor knew of no other lender in his area who was interested in making that type of loan, or knew that the applicant could not meet the equity or term-to-maturity requirements of other lenders.

TABLE 25--RH AND FO LOAN REJECTIONS: SOURCE OF LOAN REJECTIONS, BY TYPE OF LENDER, SURVEY AREAS OF MISSOURI, 1964

	Percentage of Rejections			
	Area I (Central Missouri)		Area II (Northern Missouri)	
Type of Lender	RH	FO	RH	FO
Commercial Bank	37.8	26.3	27.3	25.0
Savings & Loan Association	35.5	5.3	72.7	--
Federal Land Bank	17.8	47.4	--	50.0
Private Individual	8.9	10.5	--	16.7
Insurance Company	--	10.5	--	8.3
Total	100.0	100.0	100.0	100.0

Note: Some applicants had rejections from more than one lender; others had applied only to FHA-USDA.

A variety of reasons were given for the other lenders' refusals to make loans, but the one most frequently cited was "applicant's equity too low and lacked other collateral." This accounted for about three-fifths of all the reasons given. The next most frequent reason was "applicant's income too low." Savings and loan associations frequently declined to make loans on homes located in outlying rural areas. Other reasons were that the lender did not wish to make this type of loan, or could not afford adequate terms. "Shortage of loan funds" was given as a reason in a few cases. (Additional information on lenders' attitudes toward making rural home loans is presented in Missouri Agricultural Experiment Station Research Bulletin 847.)

Source of Funds for FO-insured Loans: The FO-insured loans were purchased by various types of investors located throughout the United States. Commercial banks, however, including several that were located in the area where the loan originated, had purchased more loans than any other type of investor (Table 26). Various types of trust funds such as union funds and private trust funds had

TABLE 26--FO LOANS: SOURCE OF FUNDS FOR FO-INSURED LOANS, SURVEY AREAS OF MISSOURI, 1964

Type of Investor	Percentage of Loans Purchased	
	Area I (Central Missouri)	Area II (Northern Missouri)
Local:		
Commercial Bank	21.4	20.0
Within State:		
Commercial Bank	21.4	10.0
Out of State:		
Commercial Bank	14.3	30.0
Trust Fund 1/	7.2	20.0
Other 2/	35.7	20.0
Total	100.0	100.0

1/ Includes union funds and private trust funds.

2/ Includes mainly loans made from the FHA-USDA insurance fund which subsequently would be sold to investors.

been used to purchase some of the loans. Several loans had been made from the FHA-USDA insurance fund and subsequently were to be sold to investors.[6]

Comparison of the Characteristics of FHA-USDA and Non-FHA-USDA Rural Home Financing in the Survey Areas

A summary of selected personal, housing, and home financing characteristics for all respondents who acquired rural homes covered in this report are shown in Table 27. The data are shown by survey area and by two major sources of financing—FHA-USDA and non-FHA-USDA. The FHA-USDA loans are further shown by their two main types: RH (rural housing) and FO (farm ownership).

Differences within the FHA-USDA group appeared to be related more to type of loan (RH versus FO) than to location (Area I versus Area II). The differences were mainly in these respects: In both survey areas the FO borrowers (all farmers)on an average were older, had larger families, and obtained larger loans than did RH borrowers (mainly nonfarmers). Typically, farmers are older

[6] At the time of this survey, only FO loans could be insured and sold to investors; RH loans were made directly from funds borrowed from the U.S. Treasury as authorized by Congress. Since passage of the Housing and Urban Development Act of 1965, RH loans can be insured and sold to investors. This new procedure is a means of attracting more private funds for housing in rural areas, as suggested in an earlier study (Mo. Agr. Expt. Sta. Res. Bul. 857, *op. cit., p. 42*).

TABLE 27--A SUMMARY OF SELECTED CHARACTERISTICS OF RURAL HOME FINANCING IN THE SURVEY AREAS OF CENTRAL AND NORTHERN MISSOURI, 1964

	Area I FHA-USDA 1/		Area II FHA-USDA 1/		Area II Non-FHA-USDA					
					With liens			No liens		
					Home builders			Home builders		
	RH loans	FO loans	RH loans	FO loans	Nonfarm	Farm-owners	Home buyers 2/	Nonfarm	Farm-owners	Home buyers 2/
Average age of borrower	32.2	41.1	36.2	38.4	44.6	46.7	43.1	57.3	44.8	67.3
Size of family	3.9	4.6	3.4	4.5	3.8	3.9	3.5	2.6	4.5	2.2
Median family income ($000)	5-6	5-6	6-7	5-6	6-7	5-6	4-5	4-5	5	3
House size (sq. ft.)	1,203	1,193	1,253	1,256	1,427	1,402	1,197	1,261	1,236	1,038
Cost per sq. ft.	$10.07	$10.27	$10.39	$9.60	$10.87	$11.37	$6.03	$12.41	$8.22	$6.03
House cost	$12,114	$12,252	$13,019	$12,058	$15,511	$15,941	3/ $7,216	$15,649	$10,160	3/ $6,254
Total expenditures	---	$18,490		$22,503			---	---	---	---
Loan	$11,258	$16,595	$11,890	$20,186	$7,900	$11,886	$5,466	---	---	---
Loan cost (expenditure) ratio------percent	93	90	91	90	51	75	76	---	---	---
Loan repayment term--------years	4/ 31	5/ 40	4/ 31	5/ 40	6/ 9-10	6/ 20-24	5-9	---	---	---
Interest rate-percent	4	5	4	5	7/ 6	7/ 5 3/4	7/ 6	---	---	---

TABLE 27--continued

	Area I FHA-USDA 1/		Area II FHA-USDA 1/		Area II Non-FHA-USDA: With liens, Home builders			Area II Non-FHA-USDA: No liens, Home builders		
	RH loans	FO loans	RH loans	FO loans	Nonfarm	Farm-owners	Home buyers 2/	Nonfarm	Farm-owners	Home buyers 2/
Number of respondents:										
Farmers	1	14	2	10	---	15	3	---	6	2
Nonfarmers	36	---	21	---	26	---	69	33	---	48
Total	37	14	23	10	26	15	72	33	6	50

1/ FHA-USDA housing loans in the survey included only loans made for home construction. FHA-USDA loans for purchase of previously occupied homes at the time of the survey were limited to senior citizens 62 years of age or over. Only four such loans had been made in the survey areas. In November 1966 the authorization of the Farmers Home Administration was changed to permit loans to all eligible applicants to purchase new rural homes not previously occupied. 2/ Number of farm buyers inadequate to show separately. There were 3 with liens and 2 without liens. 3/ Includes the cost of the dwellings and cost of sites. 4/ Average term for rural housing loans in the two areas. 5/ Nearly all of the FO loans carried the maximum maturity of 40 years. 6/ Median. 7/ Median rate shown--95 percent of all non-FHA-USDA loans carried interest rate of 5-7 percent.

and have larger families than most other occupational groups. The FO loans were larger because they usually included funds for other farm purposes as well as for housing while the RH loans were for housing purposes only.

In Area II, in which all the people are classified as either "rural farm" or "rural nonfarm," the survey included non-FHA-USDA housing loans as well as FHA-USDA housing loans. The FHA-USDA made loans to younger people, for significantly larger amounts relative to equity, and for longer repayment periods than did most non-FHA-USDA sources of credit. The average age of the FHA-USDA RH borrower was 36.2 years compared with an average age of 44.6 years for the comparable nonfarm non-FHA-USDA borrower. Practically this same age differential by source of credit appeared also between the farm borrowers. The FHA-USDA program made it possible for more people to become homeowners at an early age before they had accumulated substantial savings.

The role of FHA-USDA in providing rural housing assistance was also noted in the difference in equity requirements by the two types of lenders. The average RH and FO borrower in Area II had only about 7-10 percent equity in his house compared with the non-FHA-USDA borrower equity of 49 percent for the nonfarm borrower and 25 percent equity for the farmowner borrower. In other words, for the Area II borrowers covered by the survey, the average nonfarm home builder had between $7,000 and $8,000 available cash to build the average nonfarm home financed by non-FHA-USDA lenders compared with only about $1,000 available by FHA-USDA borrowers to build a house costing only $2,500 less—a $13,000 home compared with a non-FHA-USDA financed $15,500 home. The higher cost of the non-FHA-USDA financed home was due to the construction of a larger house—about 1,400 sq. ft. compared with about 1,200 sq. ft. for the FHA-USDA financed house—and a slightly higher per square foot cost of construction by about 5 percent.

The third characteristic of the loans by the two types of lenders which differed significantly by source of credit was the repayment period. The average repayment period for the RH loans was 31 years with most of the FO loans written for the maximum of 40 years. The median repayment period for the non-FHA-USDA construction loans was about 10 years for nonfarm homes and 20-24 years for farm homes. Eight of the 15 loans for the latter were made by Federal Land Banks.

The comparison of the characteristics other than interest rates of FHA-USDA and non-FHA-USDA lenders in which the major characteristics are differerent indicated that the FHA-USDA was reaching a group of home builders in the surveyed area that could not qualify for loans from non-FHA-USDA lenders. In so doing, the FHA-USDA is improving the housing accommodations of a segment of the population not currently being reached by conventional home mortgage lenders.

The interest rates on the FHA-USDA loans were 4.00 percent for RH loans and 5.00 percent for FO loans compared with the median rate of 6.00 percent

for home loans for non-FHA-USDA loans to home buyers and nonfarm home builders and a median rate of 5.75 percent for farm home builders. The lower FHA-USDA rates helped keep repayment schedules within reach of those families who had not accumulated sufficient savings to qualify for non-FHA-USDA loans and are significant in helping the Farmers Home Administration play its role in providing low income rural families with the means to improve their housing and standard of living.

Many of the houses obtained without loans in the area surveyed were secured by retired people, mainly elderly farm couples or widows. This is reflected in an average age of 57 years of such individuals for the nonfarm home builders and 67 years for those who bought homes compared with group averages of 36 years to 47 years for those individuals acquiring homes in Area II with loans from all sources. The median family income of these individuals was $3,000 for home buyers and $4,000-$5,000 for the nonfarm home builders. This high average age and low income suggests that these individuals may not have been eligible for conventional loans. However, the analysis of owners of these homes reveals that 14 of the 50 home buyers without liens (Table 2) had incomes of $4,000-$4,999 or more, and that 12 of the 33 nonfarm home builders without liens had incomes of $6,000-$6,999 or more (Table 3). These incomes compare with the median incomes of $4,000-$4,999 for home buyers with liens and $6,000 to $6,999 for home builders with liens. Thus, from an income standpoint many of those acquiring homes without liens would have been eligible for loans—non-FHA-USDA or FHA-USDA. Those with an adequate credit base perhaps could have secured better living accommodations if they had taken advantage of the available credit facilities—FHA-USDA or non-FHA-USDA, if they had so desired.

Other Types of Housing Assistance Provided by the Farmers Home Administration

In addition to the RH and FO loans for constructing new dwellings that were discussed in the previous sections, the FHA-USDA provided other types of housing assistance in the survey areas. They included RH and FO loans for home improvements, RH loans to elderly people for home purchase, loans for senior citizen rental housing, and, in hardship cases, grants for home repairs or improvements. Information on these items is presented in the following sections.

Loans for Home Improvement or Purchase: Loans of both the RH and FO type were made for home improvements as well as for new home construction. These loans were used for various types of home improvements such as central heating systems, remodeling, modernizing kitchens, adding bedrooms, bathrooms, water systems, new siding, or roofing. The loans usually covered practically all of the cash expenditures required for the job.

Under the Senior Citizens Housing Act of 1962, people who were 62 years of age or older could obtain RH loans to purchase previously occupied dwellings as well as to construct or improve dwellings. This feature of the FHA-USDA

housing program was relatively new at the time this survey was made, however, four home purchase loans had been made to elderly people in the survey areas. The amounts ranged from $4,500 to $7,300 and covered practically the full purchase price of the homes.

Loans for Senior Citizen Rental Housing: The Senior Citizens Housing Act of 1962 authorized the FHA-USDA to make loans for rental housing for elderly people in rural areas. These loans could be made to individuals or groups to help meet the needs in their communities. Although this program was relatively new, most of the FHA-USDA county supervisors had received inquiries about it from potential borrowers, and a few loans already had been made in the survey areas. The projects were for occupants 62 years of age or over who were capable of caring for themselves, and had to be conveniently located in relation to shopping facilities and medical services. Loan applications for nursing-type homes could not be approved.

In Area I (central Missouri) an FHA-USDA county supervisor was planning to make a loan to construct a small apartment building. It would contain four rental units and cost $18,000 to $20,000. The developer was a local real estate agent living in the small town where the apartment was to be built.

In Area II (northern Missouri) a total of five borrowers had obtained, or were planning to obtain, construction loans for rental housing. These developers were private individuals who lived in the local communities. The projects were apartment buildings with four to six rental units per building. The estimated cost per rental unit was $4,500 to $5,000. Typically, a rental unit would consist of three unfurnished rooms, plus bathroom, and would rent for around $50 per month. The occupants paid for all utilities except water.

Grants for Rural Housing: In hardship cases, grants of up to $1,000 could be made by the FHA-USDA for essential home repairs and improvements. The number of grants made has varied considerably. One FHA-USDA county supervisor had approved forty grants since the Fall of 1962. A member of his family worked in the county welfare office, and was aware of hardship cases. The next highest number was six. None were reported in most of the counties.

Most of the grants were made to elderly people for plumbing and bathrooms in their homes. In many cases these water faciilties were made possible by newly established rural water districts sponsored by the FHA-USDA. It was pointed out that elderly pensioners could usually pay a small monthly water bill but some could not meet the initial cost of installing a water system.

It would seem that as a last resort a dire circumstance could always be reached with a grant, but a county supervisor pointed out a housing problem (visible from his office window) that he had not been able to alleviate even by this method. An old lady and her young grandson were living in a hovel that had no basis for repair or improvement. Because of the poor condition of the structure, a grant could not be made. He thought a small house trailer would

improve their plight, but grant funds could not be used to purchase mobile homes.

Barriers to Rural Housing Improvements

The FHA-USDA county supervisors were asked what they thought were the main barriers to further improvement in rural housing in their communities. Their comments relating to farm housing frequently included such factors as inadequate resources (farm or equity too small), preference for other types of investment (usually additional land), and fear of debt.

Barriers to improvement of rural nonfarm housing frequently were thought to involve a lack or resources, or inadequate financing except for that provided by the FHA-USDA. They felt that in a poverty situation a family's economic condition would have to improve before it could be reached with any type of housing loan. Other factors mentioned as possible barriers included lack of knowledge, high cost of construction, and a shortage of skilled workmen in some areas. Another problem mentioned was that of borrowers frequently having difficulty in providing building plans and cost estimates for the projects they had in mind.[7]

Some of the supervisors thought that periodic allocation of funds for RH loans had caused a stop-and-go situation which hindered their lending operation. When word got out that they were out of funds, potential applicants stopped coming in to inquire about loans. This problem should be alleviated by the 1965 authorization to make and sell insured RH loans.

Most of the county supervisors thought the quality of rural housing in their areas was improving and that their FHA-USDA housing loan programs were contributing factors. It was also pointed out that FHA-USDA sponsorship of rural community water systems was providing a better water supply which was adding to the quality and convenience of many rural homes.

New Developments in Rural Housing Loan Programs of Farmers Home Administration

Recently some significant developments have affected the rural housing loan programs administered by the FHA-USDA. They include the provisions in the Housing and Urban Development Act of 1965, the Rural Water and Sewer Systems Act of 1965, and the Demonstration Cities and Metropolitan Development Act of 1966. Brief summaries of the provisions that affect rural housing are presented in the following sections.[8]

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[7] This problem, however, should now be alleviated since personnel of the University of Missouri Extension Service and the State FHA-USDA office have developed several basic house plans which are available at county university extension centers and the offices of county FHA supervisors throughout the State.

[8] For a further discussion of developments in the FHA-USDA rural housing programs prior to 1966 see: Williams, Dorwin. "New Developments in the Rural Housing Credit Programs of the Farmers Home Administration," *Agricultural Finance Review,* Vol. 27, October, 1966.

The Housing And Urban Development Act Of 1965: This legislation broadened the provisions for rural housing as follows: (1) defined rural areas to include towns of not more than 5,500 (instead of 2,500) population that are rural in character; (2) permitted the FHA-USDA to make loans to any qualified rural resident to buy a previously occupied home or building site. (Previously, loans for these purposes could be made only to persons 62 years of age or over); (3) authorized the FHA-USDA to make insured as well as direct RH loans. (Previously, RH loans to rural families could only be made directly from Federal funds. Now they can be insured by the FHA-USDA and sold to investors.); (4) reduced the interest rate on direct senior citizen nonprofit rental housing loans from 3½ to 3 percent; and (5) authorized greater financial assistance for improving housing for domestic farmworkers.

The Rural Water and Sewer Systems Act—1965: Prior to passage of this law (PL 89-240), the FHA-USDA could make loans only to finance water systems in the open country and in rural towns of not more than 2,500 population. The new law contains the following provisions: (1) authorizes assistance to rural towns of up to 5,500 population; (2) provides financial assistance for rural waste disposal systems; (3) authorizes grants of up to 50 percent of construction costs of these systems; (4) increases the maximum size of loan; and (5) authorizes grants for developing rural water and sewage system plans.

In many rural communities, modern water and waste disposal systems are prerequisites for further improvements in the quality of housing. The new law puts such systems within reach of more rural communities and should stimulate their development.

The Demonstration Cities And Metropolitan Development Act—1966: This law further broadened the rural housing loan authority of the Farmers Home Administration, and made it possible for more rural families to qualify for housing assistance. It makes more mortgage credit available in rural areas by removing the $300 million annual ceiling on new loans insured by the FHA-USDA. Other changes authorize: (1) Loans to purchase new rural homes not previously occupied. (Before, individuals had to build a house, or buy a previously occupied dwelling); (2) loans to qualified low-income rural families on the basis of a co-signer. (Previously, this procedure could be used only for borrowers who were 62 years of age or over); (3) assistance in refinancing of debts under certain conditions when it is necessary in order for a rural family to retain ownership of its home; and (4) financial assistance for constructing rental housing for low and moderate-income rural families of all age groups. (Previously, rental housing financed by the FHA-USDA had to be occupied by rural people who were 62 years of age or older).

The Farmers Home Administration reported a record use of its rural housing credit in fiscal year 1967. More than 48,000 families throughout the United States used $442 million.

SUMMARY AND CONCLUSIONS

The relatively low quality of rural housing, compared to urban housing, and inadequate credit in many rural areas have been of public concern for some time. This study has been part of an effort to provide further information on how rural people meet their housing needs, and the role of the Farmers Home Administration (FHA-USDA) credit programs in providing assistance. For the study, data were obtained in six completely rural counties in northern Missouri (Area II) from people who had built or bought rural homes without FHA-USDA assistance during 1963 and early 1964. Data were also obtained on borrowers who had used FHA-USDA rural home construction loans in six central Missouri counties (Area I), and in the six northern counties (Area II) during 1963 and early 1964.

The non-FHA-USDA respondents in the northern rural counties (Area II) consisted of 120 people who had recently bought rural homes, and 80 who had built new homes. Approximately 60 percent of the buyers and about 50 percent of the builders had obtained loans; the others had been able to finance their housing changes without the use of credit.

Many of the non-FHA-USDA home buyers were retired farmers or their widows who had sold their farms and bought homes in small towns near-by. Nearly three-fourths of the people who had bought homes without loans were 60 years of age or older. This group of respondents also tended to have the lowest family incomes; for half of them it was less than $3,000 per year. Among the non-FHA-USDA respondents, the highest median family income ($6,000 to 6,999) was for the nonfarm group who had built new homes with loans.

The main single source of the non-FHA-USDA respondents' own funds came from the sale of farms or other real estate. In general, more of their loans had come from local commercial banks than any other single type of lender. However, for farm home construction, Federal Land Banks were the main type of lender. Savings and loan associations and private individuals (including the seller of the home) were also major sources of loans, especially for home purchases. Although commercial banks had made a larger number of loans than any other type of lender, savings and loan associations ranked first in the amount of funds loaned since their loans were usually for larger amounts. The Veterans Administration ranked fourth in the number of loans made.

The size of the non-FHA-USDA loans varied widely, ranging from an average of about $12,000 for constructing new farm homes, to approximately $5,500 for home purchase loans. Loans for constructing new nonfarm homes averaged $7,900. The loans for building new farm homes and for buying nonfarm homes covered about 75 percent of their cost. For constructing new nonfarm homes this loan/cost ratio was only about 50 percent. The loan/value ratios varied considerably, however, depending partly on the type of lender and on the needs of the

borrower. Apparently some borrowers had nearly enough funds of their own, and needed only small loans.

The terms-to-maturity of the non-FHA-USDA loans varied widely among types of lenders and individual borrowers. Most loans made by commercial banks were for less than 10 years, and many were for less than five years. Some borrowers planned to pay off their short-term loans soon, pending sale of other property. Others reported that their short-term loans were renewable. Loans made by savings and loan associations, Federal Land Banks, and the VA usually had relatively long terms-to-maturity.

The most common interest rate on these non-FHA-USDA loans was 6 percent. Practically all of them had an interest rate between 5 and 7 percent. The higher rates were usually for the smaller, short-term home purchase loans. Most of the non-FHA-USDA respondents had not inquired about loans from any lender other than the one who made their loan. This lack of "shopping around" for credit was probably because there were relatively few alternative sources of credit in these rural communities, and the borrowers perhaps knew their most likely source before making application for credit.

For the part of the study dealing with the rural home loan program of the Farmers Home Administration (FHA-USDA), information was obtained from the county supervisors in 12 Missouri counties. The data pertained to 84 of their borrowers who had obtained loans to build new rural homes during 1963 and early 1964. Of this total of 84 loans, 51 had been made in Area I (central Missouri), and 33 in Area II (northern Missouri). These FHA-USDA borrowers included both rural nonfarm and farm families. Of the two main types of FHA-USDA loans, farmers were usually given the FO-insured (Farm Ownership) type, and nonfarmers received RH-direct (Rural Housing) loans. The main reason given for other lenders' turndowns of the FHA-USDA borrowers' loan requests was "applicant's equity too low, and lacked other collateral."

One of the distinguishing characteristics of the FHA-USDA borrowers, particularly the RH borrowers, was their relatively young age. Approximately 77 percent of the RH borrowers and 58 percent of the FO borrowers were 39 years of age or younger. The median annual family income for all FO borrowers was $5,000 to $5,999 in both survey areas; for RH borrowers (mainly rural nonfarmers) it was $5,000 to $5,999 in Area I, and $6,000 to $6,999 in Area II.

The RH loans for new home construction averaged $11,258 in Area I, and $11,890 in Area II, covering about 95 percent of total cash expenditures for hired labor and materials. The RH borrowers provided about 5 percent of the cash expenditures, the building sites, and frequently some family labor.

The FO loans usually were used to buy additional farm land, refinance farm debts, or make farm improvements as well as to build new farm dwellings. The total cash expenditures for all items averaged $18,490 per borrower in Area I, and $22,503 in Area II. The FO loans averaged $16,595 in Area I, and $20,186

in Area II. The difference between the total cash expenditure and the amount of the loan represented an average cash contribution by the FO borrowers of about 10 percent.

Most of the FHA-USDA loans carried the maximum maturities which were 33 years for RH, and 40 years for FO loans. The interest rate on RH loans was 4 percent, and for FO loans, 5 percent. Repayment schedules were usually set up on a monthly basis for nonfarmers, and on an annual basis for farmers.

Loan security for the FHA-USDA loans usually consisted of a first mortgage (deed of trust) on the borrowers' real estate. While FHA-USDA loans can be made for 100 percent of the appraised "normal" value of the security, this valuation was usually below total cost of the property or its current market value. It was estimated that the appraised value usually was about 80 to 85 percent of current market value.

In addition to loans for new home construction, the FHA-USDA provided other types of credit assistance for rural housing, including RH and FO loans for home repairs and improvements. Also, a few loans had been made to senior citizens (people 62 years of age or over) for purchasing previously occupied homes, and to local individuals for building senior citizen rental housing projects. The FHA-USDA was also assisting in establishing water systems in rural communities which made further improvements in housing possible.

This study indicated that the FHA-USDA rural housing loan programs were playing a significant role in providing credit assistance to rural people in the study areas of Missouri. Many of their borrowers were young couples who, although not in the "poverty class," could not obtain from conventional lenders in their communities, the long-term, low-equity home loans they needed. The FHA-USDA county supervisors also provided these borrowers more counseling and supervision than could most other lenders. The home loan repayment experience of the FHA-USDA in general has been good, indicating there are good risks among low-equity borrowers when provided with loan repayment schedules that meet their capabilities.

Recently, some significant new developments have greatly broadened the rural housing loan programs of the FHA-USDA. They include the Housing and Urban Development Act of 1965, the Rural Water and Sewer Systems Act in 1965, and the Demonstration Cities and Metropolitan Development Act in 1966. Under the new authorizations, the Farmers Home Administration can provide assistance to more people for meeting more types of rural housing needs than was possible under former laws and regulations.

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