Availability of rural housing credit in Montana

by Robert L Sargent

A thesis submitted to the Graduate Faculty in partial fulfillment of the requirements for the degree of MASTER OF SCIENCE in Agricultural Economics
Montana State University

Abstract:
The primary objective of this research was to determine terms, conditions, and sources of housing credit available to people living in rural areas in Montana.

Lake, Rosebud, and Chouteau Counties were the areas of concentrated study. Lenders whose service areas included these counties were interviewed as well as a sample of individuals within the counties.

Commercial banks and savings and loan associations were found to be the principal sources of housing loan funds in rural areas. Both preferred conventional loans. This was the only type of loan granted by savings and loan associations, and it was the predominant type granted by small town banks. City banks relied mostly on FHA insured loans for purchase or construction of homes in rural areas. They used conventional loans for improvement and refinancing. Repayment terms were shortest and interest rates highest1 of any loan type considered.

No VA guaranteed loans had been made in the areas surveyed in the twelve months preceding the interviews. VA direct loans are an important source of housing credit, but the agency often encounters difficulties as a result of inadequate funds.

The Farmers Home Administration has assisted in supplying credit for farm housing. Recently (October, 1961) it was authorized to extend its Rural Housing loans to eligible individuals in small towns and on rural nonfarm tracts. Demands for the loans in the first year were heavy. Through its Senior Citizens loans the agency also makes long term, low interest credit available to persons over 65 who wish to reside in rural areas.

Individuals were found to be important sources of home purchase credit and, to a limited degree, credit for construction and home improvement.

Proposals that can be suggested as a result of this study include: 1. Increase the effectiveness of VHMCP; ; ¦ 2. Cooperative working agreements between small town banks and savings and loan associations; 3. Extension of correspondent relationships between small town and city banks to include housing credit; 4. Utilization of insured lenders and increased interest rates on Rural Housing loans by the Farmers Home Administration; 5. A slight increase in FHA-VA interest rates in outlying areas.

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Approved:

Head, Major Department

Chairman, Examining Committee

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Any errors or omissions in this study are the responsibility of the author.

TABLE OF CONTENTS

Chapter | Page

LIST OF TABLES

LIST OF FIGURES

ABSTRACT

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ABBREVIATIONS USED

FHA	Federal Housing Administration
HHFA	Housing and Home Finance Agency
VHMCP	Voluntary Home Mortgage Credit Program
PHA	Public Housing Administration
FNMA	Federal National Mortgage Administration
VA	Veterans Administration
FHADA	Farmers Home Administration, Department of Agriculture
PCA	Production Credit Association
FLBA	Federal Land Bank Association
BIA	Bureau of Indian Affairs
S&LA	Savings and Loan Association

CHAPTER I

INTRODUCTION

The National Housing Policy of the United States, as stated in the Housing Act of 1949, has as one of its major goals "a decent home and a suitable living environment for every American family." It also states that "private enterprise shall be encouraged to serve as large a part of the total need as it can" and that "governmental assistance shall be utilized where feasible to enable private enterprise to serve more of the total need."[1] This paper assumes the foregoing as an acceptable goal.

Review of Literature

A study which provided background information for this project was made in the Southeastern Cotton Belt region by Auburn University. The area included in the Auburn study comprised a sample universe from the four states of Mississippi, Alabama, Georgia, and South Carolina. It also included a "control" sample of three counties in Eastern Colorado and three counties in Northwestern Missouri.[2]

The findings of the Auburn study are

1. Individuals placed purchase of non-housing, non-business items ahead of housing improvements. Credit was also more readily available for these items.

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[1]Housing and Home Finance Agency, Capital Funds for Housing in the United States, p. 1.

[2]Yeager, J.H., Rural Housing Situation, Needs, and Financing, Agricultural Experiment Station, Auburn University, Auburn, Alabama, May, 1962.

2. There is a more highly developed framework for financing urban than rural housing, and various governmental housing programs have had little effect on housing in rural areas. Home financing in the rural sectors is done primarily with conventional loans requiring relatively high down payments and short repayment periods.

3. Many rural residents are not aware of housing needs and how to meet these needs effectively through use of credit.

Prior to 1934, all institutional housing credit was handled through conventional loans, loans not made by or insured by the Government. These loans were advanced predominantly by savings and loan associations and life insurance companies. Commercial banks and mutual savings banks also handled some housing credit. Conventional loans, at that time, were usually made in amounts of not more than 50 percent to 60 percent of the appraised value of the property.[3] The term of the loans varied from three to twenty-five years. State statutes and lenders' policies tended to restrict the amount of loans. Most states have amended their laws so that the present statutory limits fall in the 70 to 80 percent range.[4] (Montana's limit is 70 percent.)[5]

The government entered the housing picture with the National Housing Act of June 27, 1934.[6] This act created the Federal Housing Administration (FHA). This legislation was designed to serve the two-fold purpose of

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[3]Federal Housing Administration, First Annual Report, 74th Congress, 1st. Session, House Document No. 88.

[4]Boehmler, Erwin W. (ed.), Financial Institutions, Rev. Ed., pp. 355 and 453.

[5]Information obtained from Empire Savings and Loan Association, Bozeman Branch, Bozeman, Montana.

[6]Federal Housing Administration, op. cit.

giving a seriously depressed economy a "shot in the arm," and of improving housing needs of the citizenry. It received broad acceptance from the start as evidenced by the fact that 72,658 loans in the amount of $30,450,583 were approved in its first six months of operation.[7] The FHA then, as now, did not advance cash for the loan, but instead insured loans made by private lending institutions. The FHA was unique in establishing the practice of insuring "character" loans, i.e., little or no down payment required if the applicant was approved as a good credit risk. A large share of the mortgages insured by FHA are in urban areas. This is where funds are most readily available. Also, except in certain approved areas, loans (Section 203 i) in small towns or on the outskirts of larger towns are limited to not over $9,000.[8]

The Congress has created other agencies to deal with specific housing needs since 1934. Some of these include the National Housing Agency, predecessor of the Housing and Home Finance Agency (HHFA), established in 1942;[9] the Voluntary Home Mortgage Credit Program (VHMCP) in 1954;[10] the Public Housing Administration (PHA) in 1937;[11] the Federal National Mortgage Administration (FNMA) in 1934;[12] the Veterans Administration (VA)

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[7]*Ibid.*

[8]Massman, A.J., Montana Director, Federal Housing Administration, Address to Farmers Home Administration meeting, September, 1962.

[9]Housing and Home Finance Agency, *15th Annual Report*, p. 24.

[10]*Ibid.*, p. 34.

[11]*Ibid.*, p. 201.

[12]*Ibid.*, p. 241.

in 1944.[13] The Farmers Home Administration (FHADA) was created as a successor to the Farm Security Administration in 1946.[14] It makes loans for farm housing as well as for non-farm housing in rural communities (towns of 2,500 or less population).

The HHFA is responsible for carrying out certain operating functions in the areas of (1) urban renewal coordination, (2) urban studies, (3) low-income housing demonstration, (4) urban mass transportation, (5) farm housing research, (6) community disposition, (7) defense planning, (8) international housing, and (9) inspections and investigations. The HHFA coordinates and directs the activities of the Federal Housing Administration, Public Housing Administration, Federal National Mortgage Association, Community Facilities Administration, and Urban Renewal Administration. It also provides some of the staff and machinery for operations of the VHMCP.[15]

The VHMCP is a joint industry-government endeavor which seeks to transfer credit from areas that have surplus funds to those areas that have a shortage of housing funds. The Auburn study indicates this program could prove the answer to the rural housing dilemma if it were more thoroughly understood by local credit agencies.[16]

The Veterans Administration makes direct and guaranteed loans to eligible veterans in all areas if funds are available. The direct loans

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[13]Yeager, op. cit., p. 51.

[14]Information obtained from Montana State Office, Farmers Home Administration, Bozeman, Montana; Murray, William G. and Nelson, Aaron G., Agricultural Finance, p. 440.

[15]Housing and Home Finance Agency, 15th Annual Report, Index.

[16]Yeager, op. cit., p. 51

are made from funds advanced by Congress. The guaranteed loans receive their funds from private lenders with the VA acting as guarantor.[17]

FNMA purchases FHA insured and VA guaranteed mortgages from primary holders as the market demands and then sells them to other holders as they become available.

To date there has been no systematic attempt to determine housing credit needs in small towns and rural areas of Montana. Experience of the Farmers Home Administration in 1961-62, however, indicates that there is a lack of adequate credit for non-farm housing in these areas. This agency was authorized to make loans for building of new houses or improvement of existing dwellings in these areas by the Housing Act of 1961. This became effective in the field October 15, 1961. From then until November 1, 1962, 253 applications for loans on non-farm tracts in Montana were received.[18]

The Research Problem

The areas of primary concern in this project are the small towns (2,500 or less population) and rural nonfarm tracts--all considered rural nonfarm--and the farms. Selected characteristics (Table 13) compiled from 1960 Housing Census indicate that these areas enjoy less of the comforts and conveniences of home living than do their urban neighbors. These statistics indicate that 54 percent of the urban homes in Montana are owned by their occupants, as compared with 49 percent of the rural nonfarm homes and 79 percent of the farm homes. Significantly, nearly 12 percent of the rural

[17]Housing and Home Finance Agency, 15th Annual Report, Index.

[18]Information obtained from Montana State Office, Farmers Home Administration, Bozeman, Montana.

nonfarm homes not occupied by owners are vacant year round as compared with about 7 percent of such urban homes. This is cause for considerable concern, but it was not investigated within the limitations of this study. Of the rural homes, 27 percent were listed as in dilapidated or deteriorating condition, as compared to 18 percent of such homes in the urban areas. Only 76 percent of the rural group have hot and cold water piped inside the structure as compared with 96 percent in the cities. Exclusive toilets and bathing facilities show similar ratios.

The plan of this study was to determine the role of credit, or lack of it, in influencing these apparent deficiencies. It seemed reasonable to assume that rural residents would have as much desire to own a home of their own equipped with such conveniences as hot and cold running water and bathrooms as would their city cousins.

Objectives

The objectives of this study were as follows:

1. To determine availability of credit for housing in rural areas of Montana. Rural areas are considered as including farms and towns of 2,500 population or less as determined by the 1960 census.

2. To find the sources to which people in these areas go to secure their credit needs.

3. To try to find the factors lenders consider in granting or refusing credit for housing wants and needs in Montana's rural areas.

4. To appraise the effectiveness of our present credit system in meeting housing credit needs in Montana's rural areas.

Hypothesis

The primary hypothesis was that credit for housing is not as readily available in comparable amounts, rates, and terms in rural areas as it is in urban areas.

It was further hypothesized that this disparity was due to (a) lack of interest in and use of the various federal programs by private lenders, and (b) failure of the agencies charged with meeting housing needs to recognize the nature of rural housing problems and to adapt programs to fit repayment ability of rural residents.

The Procedure

As a means of determining the extent that credit or the lack of it influences the apparent housing deficiencies in Montana, three counties were selected in which study would be concentrated. These counties were Rosebud, Chouteau, and Lake. They were judged as quite representative of the sections of Montana in which they are located. For data on the housing situation in these counties and the state see Tables 14-17.

Rosebud County, in southeastern Montana, is primarily devoted to raising of livestock, but a substantial amount of income comes from irrigated farms in the Yellowstone Valley where the principal cash crop is sugar beets. Credit is available in the larger cities of Miles City and Billings in nearby counties, as well as in Forsyth, the county seat of Rosebud.

The north central portion of the state was represented in this sample by Chouteau County. The economy here depends heavily on dryland wheat and barley. Some cattle are also raised. Fort Benton, the county seat, is the largest town in the county, but additional sources of credit for housing are in Great Falls and Havre, located in adjoining counties.

Lumbering, irrigated farming, and recreational activities are the principal enterprises in Lake County, in the northwestern section of Montana. Three banks in the three principal towns of the county are available as sources of credit. Other home mortgage lenders are located in Missoula and Kalispell.

Gallatin County was used for the testing of lender schedules. Data from these schedules is included in the discussion of lenders in Chapter II.

Schedules were prepared by the Farm Production Economics Division of the Economic Research Service for contacting lenders. These schedules were revised to fit local conditions after pretesting in Gallatin County. Included among the lenders were banks serving the sample counties, representatives of life insurance companies, savings and loan associations, Federal land bank associations, production credit associations, and Farmers Home Administration. Real estate agents and lumber yards in the survey areas were also contacted. They were asked, among other things, who are some of the sources of credit in their areas. In addition, representative lenders outside the sample counties were contacted to determine the extent of the credit they extended on a statewide basis as well as in the survey areas.

Individuals also extend some housing credit, but there was no attempt to contact them.

Approximately a 2.2 percent sample of household units in the survey areas was taken as a further check on availability of housing credit. Personal interviews were used to determine the tenure status, financial position, and efforts that householders had made to obtain credit.

CHAPTER II

PRACTICES AND EXPERIENCE OF LENDERS

The principal sources of residential housing credit in Montana are its 122 commercial banks and 18 savings and loan (sometimes called building and loan) associations. Other lenders which contribute to housing credit include about 15 life insurance companies, 23 local offices of the Farmers Home Administration, 11 production credit associations, 11 Federal land bank associations, and numerous individuals. The Public Employees' Retirement Fund and the Teachers' Retirement Fund serve as further sources of money for residential housing, but they rely on other institutional lenders including banks and real estate agencies to originate and service the loans that they buy. The above lenders are the possible sources of residential home mortgage credit in the small towns and rural areas in Montana to which this study was confined. The contributions of the various lenders are considered in this and subsequent sections.

Banks

Twenty-eight of the banks that serve Montana are located in nine cities with a population in excess of 10,000. These 28 banks, out of the total of 122 for the state, carried slightly less than 61 percent of the deposits and 61 percent of the total loans and discounts as of December 31, 1962.[1] They are situated in nine counties.

[1]Abstract of reports of Condition of Montana State Banks, National Banks, Trust Companies, December 28, 1962, No. 187; and information from the Federal Reserve Branch Bank, Helena, Montana.

In addition, 29 banks are located in cities of 2,500 to 10,000 population. They are in 17 additional counties. These 29 banks carry 24 percent of the total state bank deposits and 23 percent of the loans and discounts. Since they are located in the principal trading centers in their respective areas, these and the larger city banks actually serve customers in several counties surrounding their respective cities.

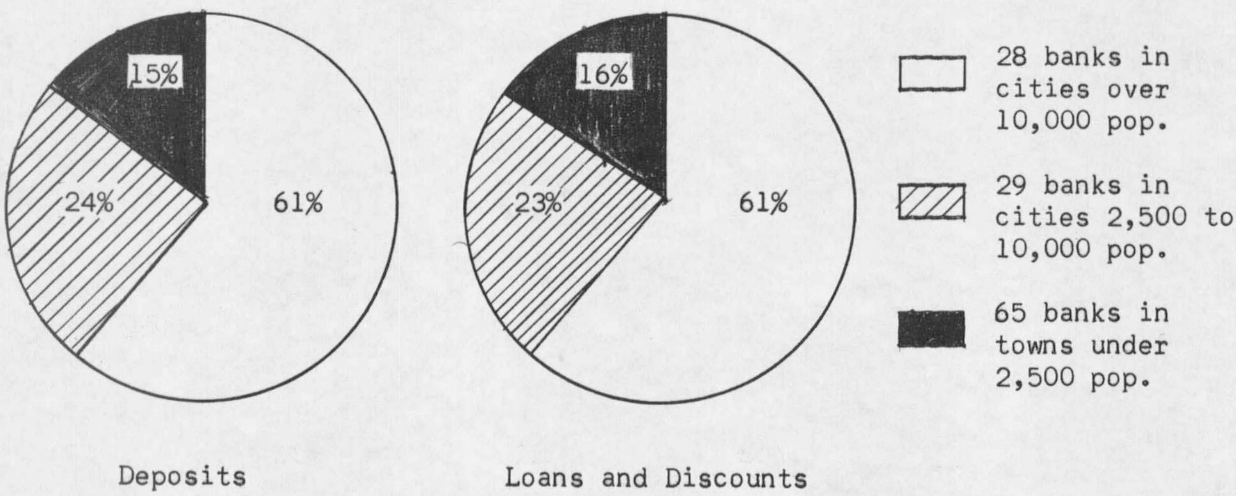


Figure 1. The Proportion of Deposits and of Loans and Discounts Carried by 28 Large City Banks, 29 Small City Banks, and 65 Small Town Banks in Montana

The remaining 65 banks are located in small towns (under 2,500 population) scattered throughout the state. They carry a little over 15 percent of the deposits and about 16 percent of the loans and discounts in the state banking system. The small town banks usually confine their lending to the county in which the bank is located. Two of Montana's 56 counties have no banks within their borders.

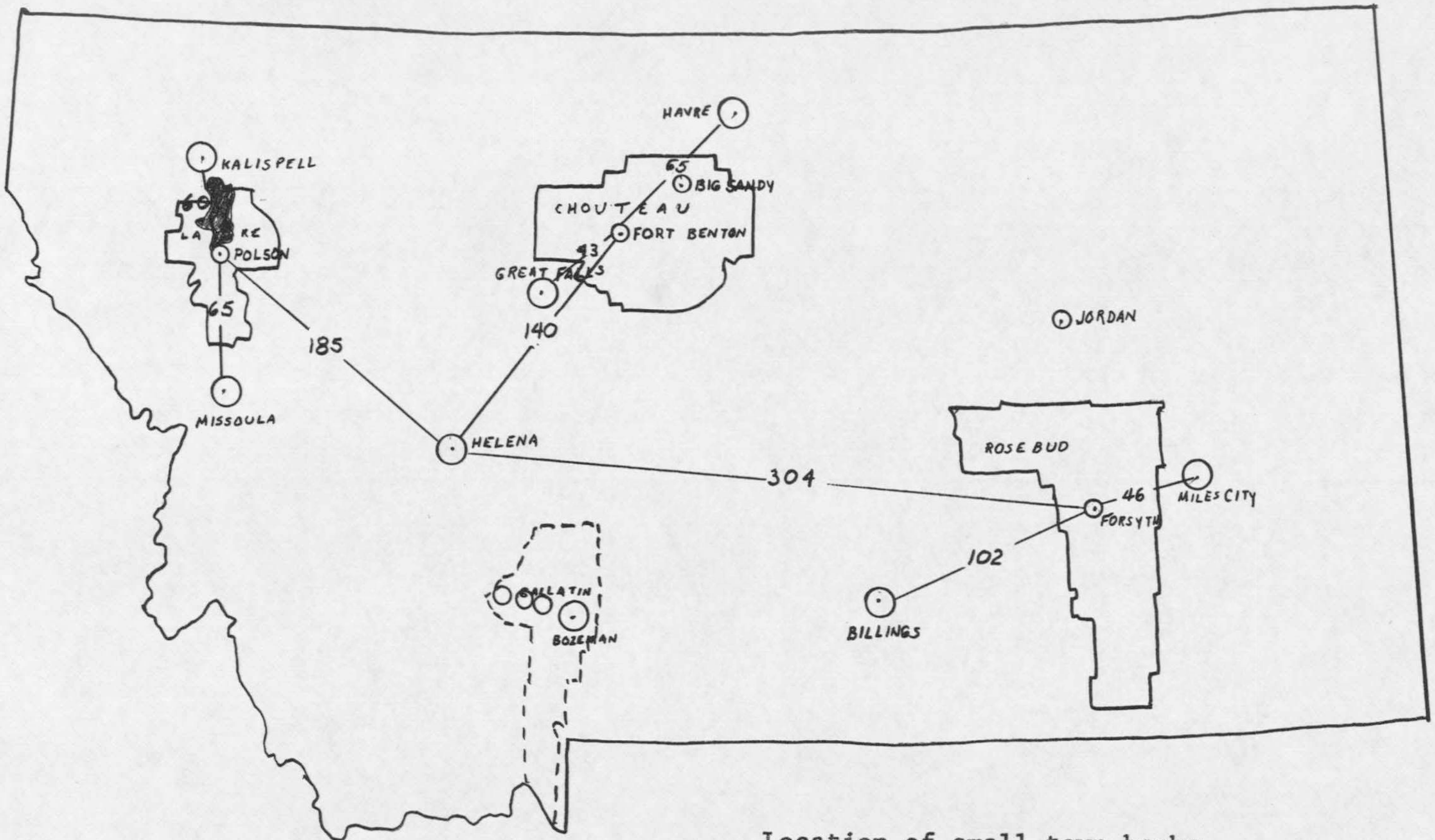
In this study, 26 of the banks in Montana were contacted (Figure 2). They included ten of thirteen banks in the sample counties (seven of these banks were in small towns). One other small town bank in an adjoining county was included in the sample. The remaining fifteen banks were located outside the sample counties in cities of over 2,500 population that serve as trade centers.

The banks sampled included some of the smallest in the state as well as the largest ones. Five of the 18 city banks contacted were found to make no residential loans in the sample counties nor in rural areas in their immediate proximity, so interviews were terminated at this point. These banks are not considered in any of the following discussions.

Of those from whom schedules were taken, five more city banks were found which did not make loans in small towns, but they indicated they do make loans outside the incorporated city limits. These banks considered areas outside suburban boundaries which included small acreages with the dwelling units as being in rural areas. Thirteen schedules then were taken from city banks and eight from small town banks. These were all included in the sample and the following discussion. Other small town banks in adjoining counties have little effect on the housing loan situation in the sample counties.

The banks surveyed made a total of 1,848 housing loans in the past twelve months. Of these, 288 were made in small towns and rural areas, mostly but not entirely in the sample counties (Figure 3). Of the latter, 197 (65%) were made in small towns. Eighty-four (42%) of the loans made in the small towns were FHA-insured or VA-guaranteed. Of the total of 288 loans, 204 were conventional loans.

M O N T A N A



Location of small town banks

Location of city banks

Figure 2. Location of Banks Included in Study in Relation to Survey Counties.

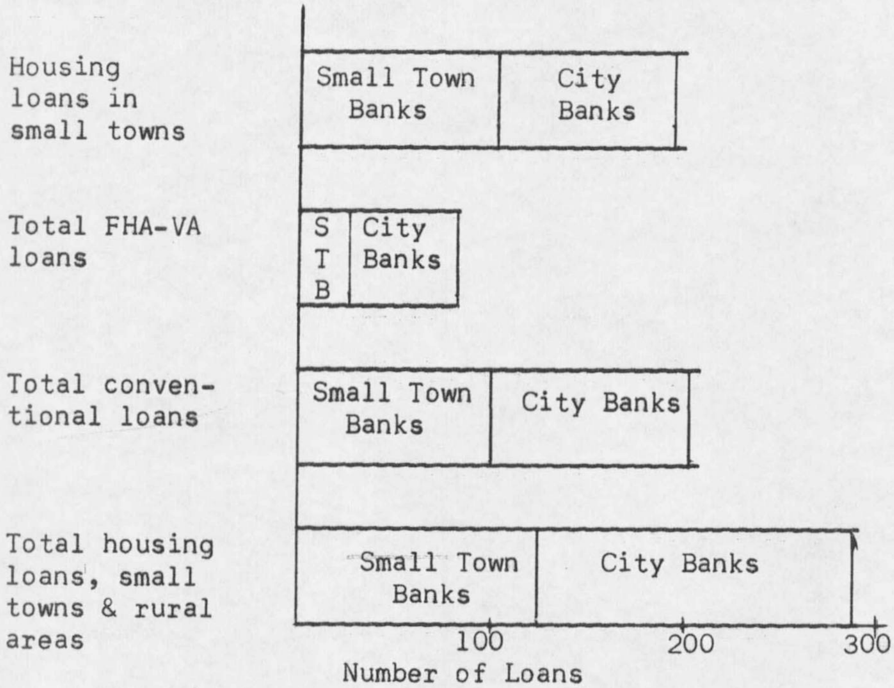


Figure 3. Comparison of Housing Loans Made in Small Towns and Rural Areas by 8 Small Town and 13 City Banks in the Twelve Months Preceding Interviews, (1962-63)

Conventional Loans

In this study conventional loans include all home mortgage loans not made directly by or insured by the Government. They were definitely preferred by all but one of the banks that were interviewed. Nearly 71 percent of the loans made by banks in the small towns and rural areas of the sample counties were conventional.

All of the banks interviewed had made conventional loans in rural areas in the past twelve months. Two-thirds of the city banks made conventional loans in small towns. All of the banks in the smaller towns make loans in their towns. Eight of the banks (five small town and three city) said they do not make conventional housing loans in non-farm areas outside of towns.

Bankers were asked if more good home loans could be made in small towns and rural areas if outlets with other lenders were available. Only four answered affirmatively. Three of these already had contact with other lenders. This response is not compatible with the reaction to a query in regard to availability of conventional home mortgage money (Table 1). Here nine of the 21 respondents said credit was "tight" for new construction and eight said the same was true for purchase of used homes. Two-thirds of the bankers said mortgage credit was ample for major improvement. If more lenders were available, credit for these purposes would probably be easier. Varying reactions on availability of housing credit could not be limited to certain areas. Replies of "ample" or "moderate" credit were confined largely to the predominantly wheat growing areas. Some of the banks in this area mentioned having adequate funds for all loans they could place. This may indicate that availability of funds for conventional home mortgages is about as diverse as is Montana's agriculture.

TABLE 1. BANKERS RESPONSES ON AVAILABILITY OF CONVENTIONAL HOME MORTGAGE CREDIT IN SMALL TOWNS AND RURAL AREAS IN MONTANA AT CURRENT INTEREST RATE, 1962-63

Use of Credit	Bankers' Responses		
	Ample	Moderate	Tight
	No.	No.	No.
For new construction	8	3	9
For purchase of used homes	7	4	8
For major improvements	12	2	5

FHA-Insured and VA-Guaranteed Loans

As an alternative to the traditional conventional loans, banks can make loans which are insured by the Federal Housing Administration or guaranteed by the Veterans Administration. Distinctive features of these two programs are considered here in turn.

FHA insured loans. The Federal Housing Administration has several programs under which it insures advances for housing by banks and other private lenders. The two which have principal impact in the small towns and rural areas are the Title I (Section 2, of the National Housing Act) Improvement loans and Title II (Section 203) Home Mortgage loans. Title I loans may be unsecured to a maximum amount of $3,500 and a maturity of not more than five years. They may be used for repair, alteration or improvement of residential property. The Housing Act of 1961, however, authorized the extension of Section 203 (k) loans for major improvements of up to $10,000 repayable in not more than 20 years. Section 203 (k) loans must be secured by mortgages on the property to be improved.[2]

Loans made under Title II (Section 203 of the National Housing Act) provide insurance by the FHA for the lender advancing the loan. These loans may be for purchase of existing structures or for new construction of homes for one to four families. Minimum down payments are 3 percent of the first $15,000 plus 10 percent of the next $5,000 and 25 percent of the remainder

[2]Housing and Home Finance Agency, 15th Annual Report, p. 52; United States Savings & Loan League, Savings and Loan Fact Book, p. 115; Kent, Raymond P., Money and Banking, 4th Edition, p. 759.

with a maximum mortgage of $25,000 on one family houses. Maximum maturities are 35 years. The loans are secured by mortgages on the property that is built or purchased. These loans are limited to approved areas. Mortgage insurance is available under Section 203 (i) for the construction and purchase of single family units in outlying areas including small towns and farms not eligible for Section 203 loans. Section 203 (i) loans may not exceed $9,000.[3] This amount is inadequate to buy or build a new home in Montana.

FHA Home Mortgage loans are often discounted as a means of increasing the yield to the lender.[4]

<u>VA-guaranteed loans</u>. VA guarantees or insurance may be made on loans to veterans for the construction, purchase, repair or improvement of homes to be occupied by them. Very little if any down payment is required; the current interest rate is 5.25 percent and repayment may be scheduled up to 30 years. VA loans may not be insured in excess of $26,666.[5]

Only eight (four small town and four city) banks that were interviewed had made FHA or VA loans in the areas of concern. These loans were all in small towns.

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[3]Housing and Home Finance Agency, <u>15th Annual Report</u>, p. 105; United States Savings & Loan League, <u>op</u>. <u>cit</u>., p. 114; Kent, <u>op</u>. <u>cit</u>., p. 759-61.

[4]"The discount is the difference between the outstanding balance on the mortgage loan and the lower price at which FNMA purchases the mortgage. This discount is generally passed on to the builder or other seller of the property. Regulations do not permit it to be collected from the homebuyer." Housing and Home Finance Agency, <u>Capital Funds for Housing</u>, p. 4. (Author's note: Selling prices are often increased to cover the discount.)

[5]Kent, <u>op</u>. <u>cit</u>., p. 768.

Bankers were asked what their principal objections were to utilizing FHA insurance or VA guarantees in the small towns and rural areas. The larger banks (those with deposits in excess of $12 million) mentioned the need for more stability of income and jobs in rural areas and the inconvenience of appraising and servicing loans on rural property as reasons for not making FHA or VA loans in these areas. The smaller banks brought up several factors in addition to these, i.e.:[6]

1. Too much red tape;

2. Too low an interest rate;

3. Inadequate personnel to keep up with changes, need a specialist;

4. Need additional available sources of funds;

5. Would go into rural areas if loans could be made on the same rates and terms as in cities; (This evidently refers to section 203 (i) loans.)

6. Would like to get away from discounting loans; (This refers to point discounts.)

7. Need an increase in deposits;

8. Adequate demand for all available funds in the form of conventional loans;

9. No satisfactory secondary outlet. FNMA wants only discounted loans which result in a higher down payment because of a higher selling price. (Again, indicates reluctance to use discount. As quoted, applied to FNMA but results of study show it would apply equally to other secondary sources.)

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[6]Factors listed here are direct quotes from schedules, author's comments in parentheses.

From the foregoing it is evident that a lack of interest in and/or a lack of knowledge or understanding of FHA-VA loans by the smaller banks are the principal reasons for not making them. Some of the larger banks have a policy against making housing loans in outlying small towns and rural areas. They often have correspondent relationships for other type loans with the small town banks that serve these areas. They sometimes expressed a fear that these relationships might be hurt if they appeared to be competing through the granting of conventional or government insured loans in the small towns.

Comparison of Bank Policies Toward Housing Loans

There are substantial differences in the policies of small town banks and city banks toward loans in the small towns and rural areas. In this section these differences are brought out through a rural-urban comparison, housing loans to time deposit ratios, and housing loans to total loans ratios.

Rural-urban comparison. Regardless of whether city banks or small town banks are considered, urban buyers are in a somewhat more favorable position relative to credit conditions than are buyers in small towns and rural areas (Table 2).

The advantages accruing to urban buyers may be summarized as follows:

1. On the average urban buyers have a five to ten year longer repayment period.

2. Urban buyers receive a substantially larger loan in relation to appraised values (64.5 percent as compared to approximately 50 percent).

3. The appraised-to-market-value ratio is slightly in favor of the urban buyers (95.4 percent as compared to approximately 90 percent).

4. Urban buyers get more favorable interest rates (6.24 percent compared to 6.52 percent for rural buyers).

TABLE 2. CHARACTERISTICS OF CONVENTIONAL HOME MORTGAGE LOANS MADE BY BANKS IN SMALL TOWNS AND CITIES BY TYPE OF AREA IN WHICH LOANS ARE MADE

Characteristic	Average of 12 City Banks			Average of 8 Small Town Banks	
	Small Town	Rural	Bank's City	Rural	Bank's Town
	Years	Years	Years	Years	Years
Usual maturity of mortgage note	10	9.1	15.58	5.33	6.25
	Percent	Percent	Percent	Percent	Percent
Usual loan to appraised value	50.6	51.5	64.5	46.7	51.9
Usual appraised to market value	90.6	87.2	95.4	93.3	87.2
Usual interest rate	6.43	6.47	6.24	6.67	6.63

Housing loans to time deposit ratios. Conversations with bankers indicated that many of them base total amounts of loans for housing on their volume of time deposits. Information revealed in the "Call" reports of the banks interviewed yields a rather interesting comparison of bank policies on housing loans as a percentage of time deposits (Figure 4).

The city banks devoted the equivalent of 36 percent of their time deposits to residential loans compared to 21.3 percent by the small town banks. The proportions used for conventional housing loans were nearly identical but city banks invested nearly 2-1/2 times as much in FHA-VA loans as the small town banks. A good share of the heavier investment by city banks was in loans on urban property.

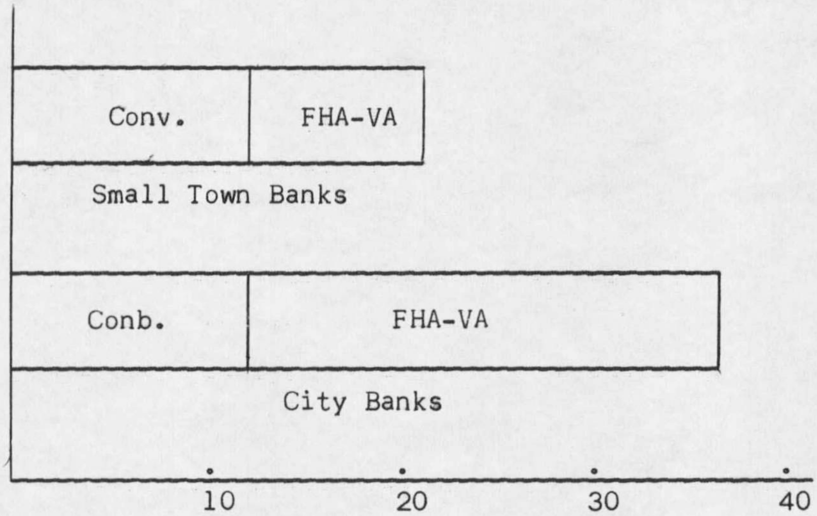


Figure 4. Percentage of Time Deposits Invested in Conventional and FHA-VA Loans by City Banks and Small Town Banks in the Sample

Further detail of individual bank policies relating to the percentage of time deposits invested in conventional and FHA-VA loans is presented in Table 3.

TABLE 3. PERCENT OF TIME DEPOSITS INVESTED IN CONVENTIONAL AND FHA-VA LOANS FOR HOUSING, SELECTED BANKS, MONTANA, 1962-63

Loans as a Percentage of Time Deposits	City Banks			Small Town Banks		
	Total	Conv.	FHA-VA	Total	Conv.	FHA-VA
Percent	No.	No.	No.	No.	No.	No.
0 to 4	-	-	1	-	1	3
5 to 9	-	3	1	-	1	4
10 to 14	1	6	-	1	2	-
15 to 19	-	3	2	2	1	1
20 to 24	-	1	2	3	1	-
25 to 29	3	-	3	-	1	-
30 to 39	3	-	2	1	-	-
40 to 49	4	-	2	1	1	-
50 to 59	1	-	-	-	-	-
60 to 65	1	-	-	-	-	-

All but one of the city banks invested 25 percent or more of their time deposits in housing loans (conventional & FHA-VA). Only one-fourth of the small town banks had 25 percent or more so invested. The greater clustering of conventional loans among the city banks over a relatively narrow range (5 to 24 percent) indicates more clearly defined policies toward these loans. A large difference in policy appears when FHA-VA loans are considered. All but two of the city banks had from 15 to 42 percent of their time deposits invested in these loans while only one of the small town banks had invested more than 10 percent. Two of the small town banks carried no FHA or VA loans.

<u>Housing loans to total loans ratios</u>. Further evidence of the differing policies between small town banks and city banks can be obtained by comparing the proportion of their total loans that are devoted to housing loans (Figure 5). This points up a definite tendency on the part of small town banks to devote a larger proportion of their loans to non-housing purposes.

Similar contrasts are revealed if the ratio of conventional housing loans to total housing loans in considered (Figure 6).

This reflects a much stronger preference by small town banks for conventional housing loans. As was mentioned earlier, conventional loans require a much higher down payment. Thus if the small town resident depends on his local bank for his housing credit, he will probably need a substantial equity to get financing. Further, the terms are much shorter and the interest rates are likely to be higher than on FHA-VA loans (See Table 2, page 19).

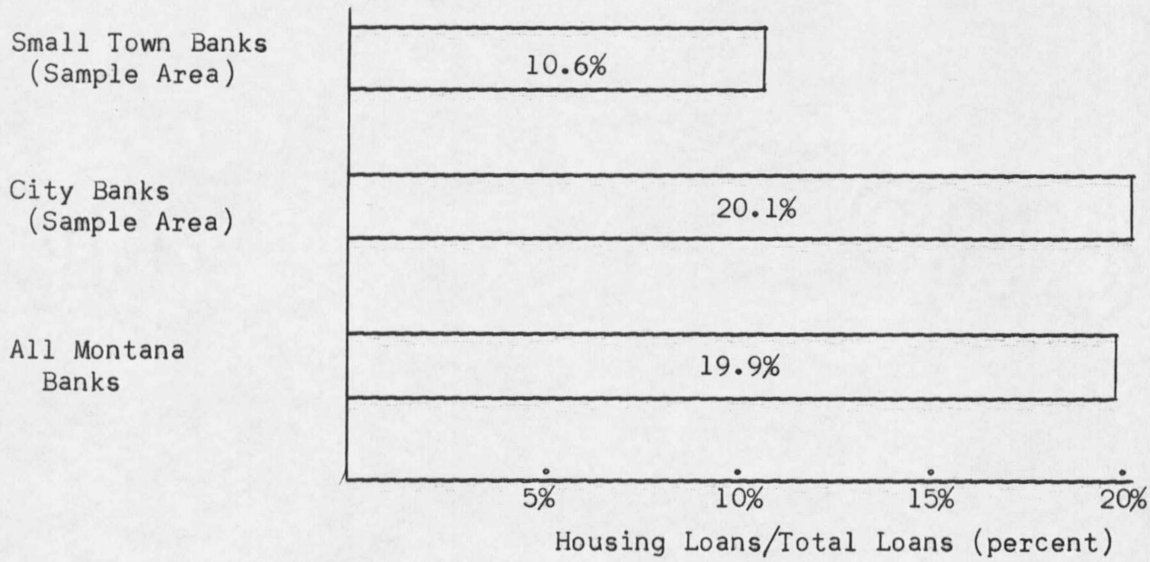


Figure 5. Ratio of Housing Loans to Total Loans for all Banks in Montana and for those Serving the Sample Counties (December, 1962)

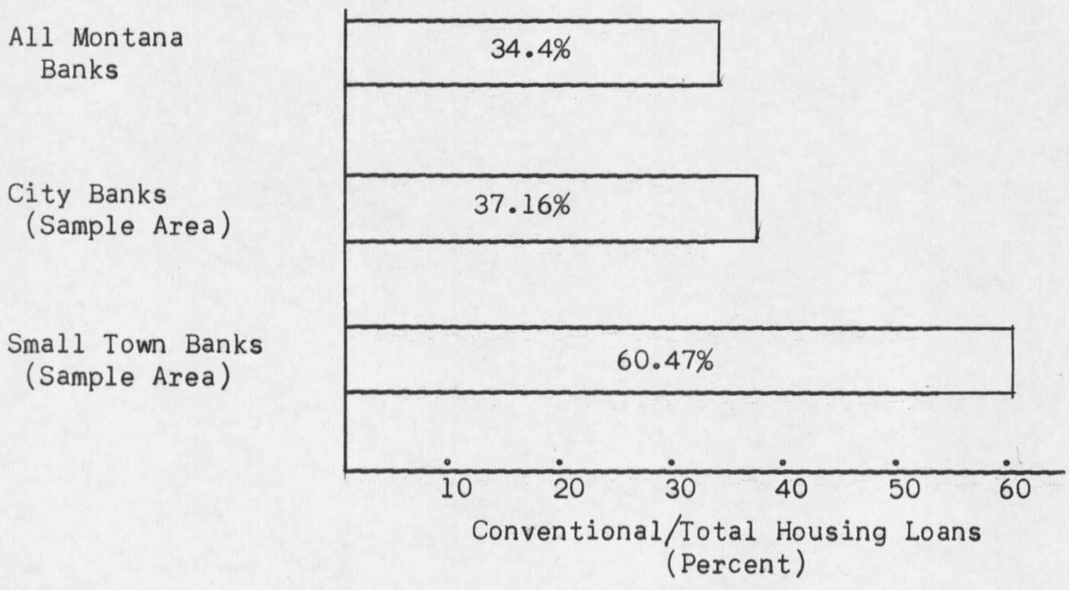


Figure 6. Ratio of Conventional Loans to Total Housing Loans for All Banks in Sample Counties

Home Loan Volume

Three of the city banks and three of the small town banks expressed an interest in expanding their conventional home loan volume in the small towns and rural areas. This compared with four city banks and four small town banks who would like to expand their FHA-VA loan volume in these areas. Nine of the 13 city banks interviewed said they would like to expand government insured loan volume in their cities.

Construction Loans

Thirteen (two-thirds) of the twenty-one banks said they made house construction loans to prospective owners, but only one-third of them indicated they make such loans to builders in small towns and rural areas. Assuming banks are the only source of credit, this indicates a need for substantial financing in the form of down payments by the owner or a very strong asset position by the builder if new homes are to be constructed. If neither of the above is available, some other interim financing such as a loan from an individual or credit from a lumber yard or other materials supplier appears to be the only alternative.

Loans in Participation with Other Lenders

Deposit limitations restrict the number of loans that banks can make on their own account. For this reason many of them make and sell home mortgage loans to other lenders. All but four of the city banks said they have such arrangements. Significantly, however, only one of the small town banks sold loans that it had made. Those banks which use this procedure find it a means of providing an additional service to their communities. It also serves as a source of additional revenue to the bank in the form of a servicing fee.

Banks sell loans mainly to life insurance companies, the Public Employees' Retirement Fund, and the Teacher's Retirement Fund. In all cases where the banks do sell loans, they as the originator continue to service them. The loans are sold without recourse so that the banks are not liable in the event of a loan default.

Life insurance companies. Bankers interviewed indicated that life insurance companies are quite selective and often restrict the loans they purchase to the larger cities. Banks are the principal agents that process loans for sale to life insurance companies in Montana.

The retirement funds. The Montana Legislature established the Teachers' Retirement System and the Public Employees' Retirement System in 1937. It specified that some of the funds collected for these systems were to be invested in government-insured housing loans. This investment must be made within the state borders. Activities in the early years were very limited while a cash reserve was being built up, but since World War II both funds have made substantial investments in FHA insured and VA guaranteed loans.

As of June 30, 1963, the Teachers' Retirement System had $12.2 million invested in FHA-VA loans in 45 of the state's 56 counties. On the same date the Public Employees' Retirement System had $14.7 million invested in FHA-VA loans in 47 counties.

Both systems buy only existing government-backed loans from regular institutional lenders--primarily commercial banks, but they have agreements with some savings and loan associations and real estate companies. Those lenders with whom they have agreements initiate and close the loans and continue to service them after sale to the retirement funds. All loans are submitted to an investment committee for review before they are purchased by either of the systems.

The Voluntary Home Mortgage Credit Program. The VHMCP is a joint industry-government endeavor which seeks to transfer credit from areas that have surplus funds to those areas which have a shortage of housing funds. It handles only FHA-VA loans.

For all practical purposes, there has been no participation by the banks interviewed in this program. Many bankers were not aware of what the program is. Those that have participated mentioned that they felt the loan standards were abnormally high if they were helping an applicant get a loan and very low if they considered making or buying loans themselves. Several of the larger banks said they had participated several years ago, but were not pleased with these dealings and had discontinued further participation.

Statistics prepared by the VHMCP reveal that 365 loans were placed in Montana during the five-year period 1955 to 1961. Of these loans, 198 were placed in just three of Montana's 56 counties. Twenty-four loans were placed in the sample counties. This was slightly less than one-third of the applications from these counties. In the period January, 1960, to September, 1961, 107 loans were placed, but 75 of these were in just two counties. Statistics reveal that the program has been ineffective for the state as a whole. During the 1955-61 period, 1502 loan applications failed to result in loans. This could partly account for banks' apathy toward the program.

Briefly, small town banks do not utilize outside sources of credit to an extent comparable with that of their counterparts in the cities. They have very limited association with life insurance companies or with the retirement funds. They are reluctant to utilize FHA insurance or VA guarantees and hence are unable to sell loans made to the retirement funds and often times can not sell to insurance companies either. Neither the small town nor the city banks participate actively in VHMCP.

Reasons for Loan Rejections

An effort was made to determine the number of and reasons for refusals to grant loans to rural and small town applicants. Banks contacted stated that on the average they turned down roughly 44 percent of the total housing loan requests from these areas. The reasons listed for rejecting loans are summarized in the following discussion.

Failure of applicants to meet bank standards. Low or uncertain income was the most often mentioned reason in this category. The applicant's equity or down payment being too small and unacceptable property were also listed as important reasons for rejection. A rather poor or declining area and an unsatisfactory credit rating were also mentioned, but were not considered as important as the other reasons listed above.

Bank policy and availability of funds. Urban demand using all available funds or being loaned up for such loans were most often mentioned, as reasons for rejection in this category. High cost of making and servicing loans in rural areas and no experience or facilities for handling such loans were deemed of significance by some of the banks (three in each case). They said that "other loans being more profitable" was not an important reason for rejection of loans.

Request of applicant for unacceptable conditions. A desire by the applicant for too low an interest rate or too long repayment terms was not considered an important reason for rejection of loans by any of the banks in the sample.

The foregoing indicates that banks regard insufficient down payment or equity and inadequate income as being primary reasons for refusal to grant loans for housing in rural areas. The fact that many of the rural areas are declining caused some of the banks to place quite definite limits on their activities in these areas. Conversations with the bankers tended to place more emphasis on bank policy than was evident in the schedules taken. The lack of importance associated with interest rates and terms of loans suggests that people are usually willing to accept the conditions granted by the lender if they can get the loan rather than to inquire further. In other words, they may not actively shop for credit.

Review of Loans Made

Each respondent was asked for data relative to some loans made in rural areas during the past 12 months. The data for 69 such loans are summarized in Table 4.

Comparing the conventional home loans made by the banks in this sample with those which are backed by the government, we find

1. Slightly over two-thirds of these loans were conventional.
2. All of the insured loans and nearly three-fourths of the conventional loans were set up for amortized monthly payments.
3. Proportionately, insured loans were used much more heavily for purchase or construction of the home (86 percent of the insured loans were for these purposes as compared with only 55 percent of

TABLE 4. SELECTED CHARACTERISTICS OF A SAMPLE OF VARIOUS TYPE LOANS MADE BY 21 COMMERCIAL BANKS IN MONTANA IN A 12-MONTH PERIOD, 1962-63

Characteristic		Conventional	FHA	VA	Total
Total housing loans	No.	47	19	3	69
Method of payment:					
Straight monthly	No.	2			2
Straight yearly	No.	9			9
Amortized monthly	No.	34	19	3	56
Amortized yearly	No.	2			2
Purpose of loan:					
Construct new home	No.	10	7		17
Buy new home	No.	2	5	1	8
Buy used home	No.	14	4	2	20
Improve home	No.	14	1		15
Refinancing	No.	13	2		15
Distance from bank:					
Under 10 miles	No.	31	10	1	42
11 to 50 miles	No.	9	4	1	14
51 to 100 miles	No.	7	1	1	9
Over 100 miles	No.		4		4
Location:					
Farm	No.	3			3
Rural nonfarm	No.	14	1	1	16
Small town	No.	30	18	2	50
Loans held by bank	No.	47	10		57
Loans sold to others	No.		9	3	12
Loans to purchase or construct:					
Total loans	No.	26	16	3	45
Average amount of loan	Dollars	9,177	12,487	15,000	10,742
Average appraised value	Dollars	19,004	14,550	15,767	17,121
Average maturity	Years	8.58	23.12	25.00	14.84
Average interest rate	Percent	6.42	5.25	5.25	5.93
Loans to improve or refinance:					
Total loans	No.	21	3		24
Average amount of loan	Dollars	5,486	8,733		5,892
Average appraised value	Dollars	12,839	11,933		12,710
Average maturity	Years	5.38	19.00		7.08
Average interest rate	Percent	6.57	5.25		6.41

the conventional loans). Conventional loans were utilized much more heavily for improvement and refinancing. Over one-half of the conventional loans involved money for these purposes compared with only 14 percent of the insured loans. (There is some duplication in this portion of the table as some of the loans were advanced for more than one purpose.)

4. Forty-two of the loans were made within 10 miles of the bank, but 13 of the loans were over 50 miles from the bank. (It should be pointed out that the sample of five loans from each bank was not proportionate to the total number made by each. One lender had made over one-fifth of the 288 total loans reported. Most of the loans of that bank were at a distance of 50 to over 400 miles from the bank.)

5. With two exceptions, conventional loans were utilized on <u>all</u> of the nonfarm tracts and farms. They comprised 60 percent of the loans in the small towns. This perhaps points up the limited use of the government insured loans.

6. The banks held in their portfolios all of the conventional loans and nearly one-half of the insured loans that they made. Here again we encounter the distortion mentioned in (4) above as that lender sold a rather heavy proportion of the loans made. The higher yield (1-1/4 percent) of the conventional loans probably partly accounts for all of these loans being held by the original lender. A further reason is that many of the lenders who purchase loans from the banks restrict their purchases to loans which have government backing.

7. When loans to purchase or construct a home are considered, the sample revealed a substantial difference in conventional and FHA-VA loans. Conventional loans averaged about 48 percent of the appraised value compared with 86 percent and 95 percent, respectively for FHA insured and VA guaranteed loans. The average maturity of conventional loans (8.58 years) was slightly more than 1/3 as long as the FHA-VA loans. Interest rates were nearly 1-1/4 percent greater.

8. Conventional loans were the predominant source of mortgage funds for home improvement or refinancing. Loans for these purposes tended to average somewhat less than purchase or construction loans and there was a shorter repayment period. The loan-to-appraised value ratio averaged 43 percent for conventional loans compared with 73 percent for FHA insured loans.

Summary of Bank Lending for Housing in Small Towns and Rural Areas

The local bank furnishes about one-half of the housing credit supplied by all banks which is used in the small towns and rural areas of our sample. Over 55 percent of the total money they had loaned for housing purposes was in the form of conventional loans. The recipients of these loans need higher down payments and higher monthly payments due to the loans having a shorter maturity and a lower loan-to-value ratio than government backed loans. They also carry a higher interest rate.

Small town bankers had only limited knowledge of, or interest in, FHA insured and VA guaranteed loans. Two of them had none of these loans in their portfolios. Only one of the small town banks carried the equivalent of more than 10 percent of their time deposits in FHA-VA loans.

The small town banks in our sample did not participate actively with other lenders as a means of siphoning additional housing credit into their towns. This is apparently true statewide as only 7 of 65 small town banks have agreements with the retirement systems.

City banks in the sample furnished about one-half of the housing credit supplied by banks. They did not furnish such credit in proportion to the loans and deposits they handle in the aggregate. They tend to favor the urban areas in their home cities over the outlying rural sections as the recipients of home mortgage money. Some of the city bankers indicated a feeling that they should be more active in the rural housing lending area. They expressed a fear, however, that if such activity were increased, they might damage correspondent relations they have with small town banks on other type loans. A system of branch banking (presently prohibited in Montana) would eliminate this barrier.

The city banks are much more likely to participate with life insurance companies and the Montana retirement funds as outlets for loans that the bank cannot carry in its own portfolio. The life insurance companies to whom they sell, however, often restrict their purchases to loans in the cities. The retirement funds, and often the life insurance companies, limit their purchases to FHA-VA loans.

The housing needs of people in Montana's small towns and rural areas is of secondary importance to the banks to whom they go for credit. The small town banks are usually more interested in their agricultural production type loans. City banks favor loans within the urban areas. Rural residents are quite likely to be limited to conventional housing loans which result in shorter terms, relatively higher down payments or equity and a higher interest rate than is found with government backed loans.

Savings and Loan Associations

There are 18 savings and loan associations headquartered in Montana. Twelve of them are located in cities of 10,000 or more population in just six counties. Only one is in a town of 2,500 or less. Thirteen of Montana's 56 counties have access to an association or the branch of an association within the county.

Montana associations, with average assets of $9 million, are somewhat smaller than the U.S. average of $14.8 million. They also appear to be more conservative. Their ratio of first mortgage loans to savings capital is 93 percent compared to 98 percent for the U.S. as a whole.

The Sample

The ten associations which were interviewed in this study included the larger more active ones in the state. All were located in cities of 8,000 or more population (Figure 7). As can be seen, except for Gallatin County where a branch is operating, none of them were in sample counties. The information obtained from this branch is also included in the following discussion.

Lending Activities

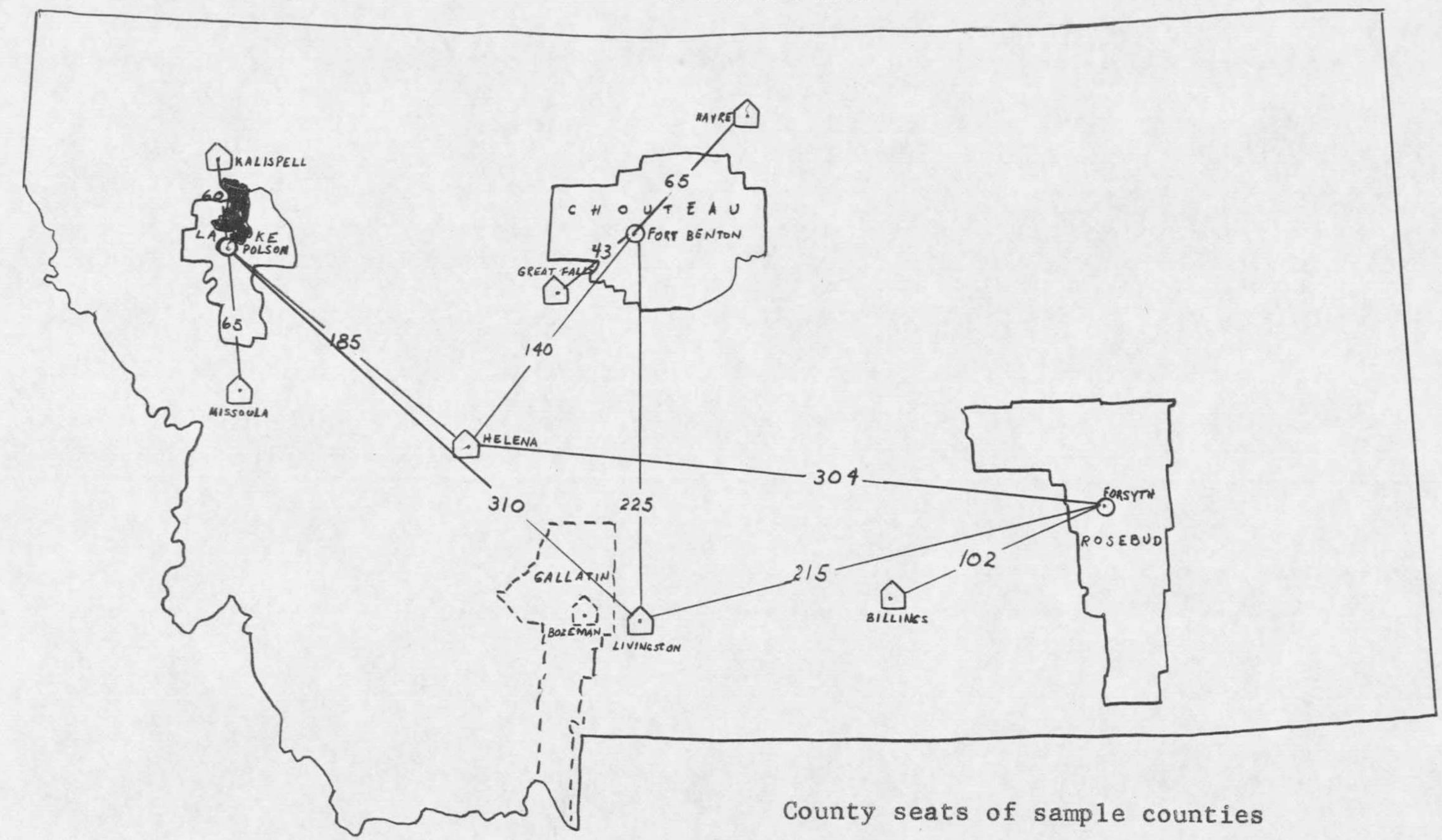
The associations contacted generally limited their lending activities to urban areas, usually the cities in which they were located. They had made an average of 241 home mortgage loans per association during the 12 months' period preceding the interview. Only 13 percent of the loans had been made in small towns and rural areas. One association, with 198 home loans in these areas, was very active in the non-urban home lending field; another had made 40 of these loans; but the other eight had made 26 or less such. Four of the associations had made less than 10 loans each in rural areas.

Conventional Loans

Savings and loan associations have historically shown a decided preference for conventional loans. Those which are operating in Montana are no exception. All loans made in the small towns and rural areas in the 12 months preceding the interviews were conventional.

Basic policies toward loans in the rural areas are somewhat different from loans in the cities (Table 5). All factors considered here favor the

MONTANA



County seats of sample counties

Location of savings and loan associations contacted

Figure 7. Location of Associations Included in Study in Relation to Survey Counties.

urban borrower. He had the advantages of longer repayment terms, higher appraisals and slightly lower interest as well as a broader selection of associations from which he can borrow. Repayment terms at 13.5 years in the rural areas were, nevertheless, somewhat longer than those offered by other lenders on conventional loans.

TABLE 5. GENERAL CHARACTERISTICS OF CONVENTIONAL LOANS BY SAVINGS AND LOAN ASSOCIATIONS IN MONTANA

	Urban Areas	Rural Areas	Small Towns
	Yrs.	Yrs.	Yrs.
Usual maturity of the mortgage note	17.3	13.5	13.4
Maximum maturity of the mortgage note	23.2	20.0	21.9
	Pct.	Pct.	Pct.
Usual loan/appraised value	69.7	67.9	67.3
Maximum loan/appraised value	79.1	68.8	76.9
Usual appraised/market value	90.5	87.5	88.3
Usual interest rate	6.3	6.4	6.3

Six of the associations expressed an interest in expanding their conventional home loans in rural areas. They are not, however, taking active steps to increase them. They generally restrict loans to small towns where public water and sewage facilities are available.

The failure of associations to be more active in the rural home lending field could not be attributed to a lack of funds as most of them were confronted, rather, with finding what they considered good outlets for savings on hand. Only three had borrowed from the Federal Home Loan Bank in the past year. Although higher costs of making and servicing loans in outlying areas was cited as being a reason for not making loans there, three associations that were quite active in these areas did not feel this argument was valid. These three felt there was no significant difference in the making and servicing costs. Some of the savings and loan associations were also concerned with the possibility of getting into poor or declining communities. They believed homes in the small places were likely to be less marketable than in the cities.

FHA-VA Loans

As was noted in the preceding section, none of the associations had made FHA-VA loans in rural sections during the last 12 months. This tendency carries over to the cities but not to the extent it does in the rural areas. As can be noted in Figure 8, five savings and loan associations expressed interest in maintaining or expanding FHA-VA loan volume in the cities, compared with only two in the rural areas.

Too low an interest rate and a dislike for discounts were often listed as objections to FHA-VA loans. Other objections considered were paper work, delays and fees involved in closing these loans. Savings and loan associations felt their conventional loans gave the borrower very nearly the same net terms, but they could be handled more expeditiously. They conceded higher down payments are involved in the conventionals, but indicated that they felt this provided more incentive for the borrower to maintain the loan in good standing.

Most associations have ample loan funds available, there is a need in rural areas, and many such loans could be underwritten by the government. Since this is the situation, much could be done for the benefit of all--borrowers and lenders alike--if lending activities were increased in this sector.

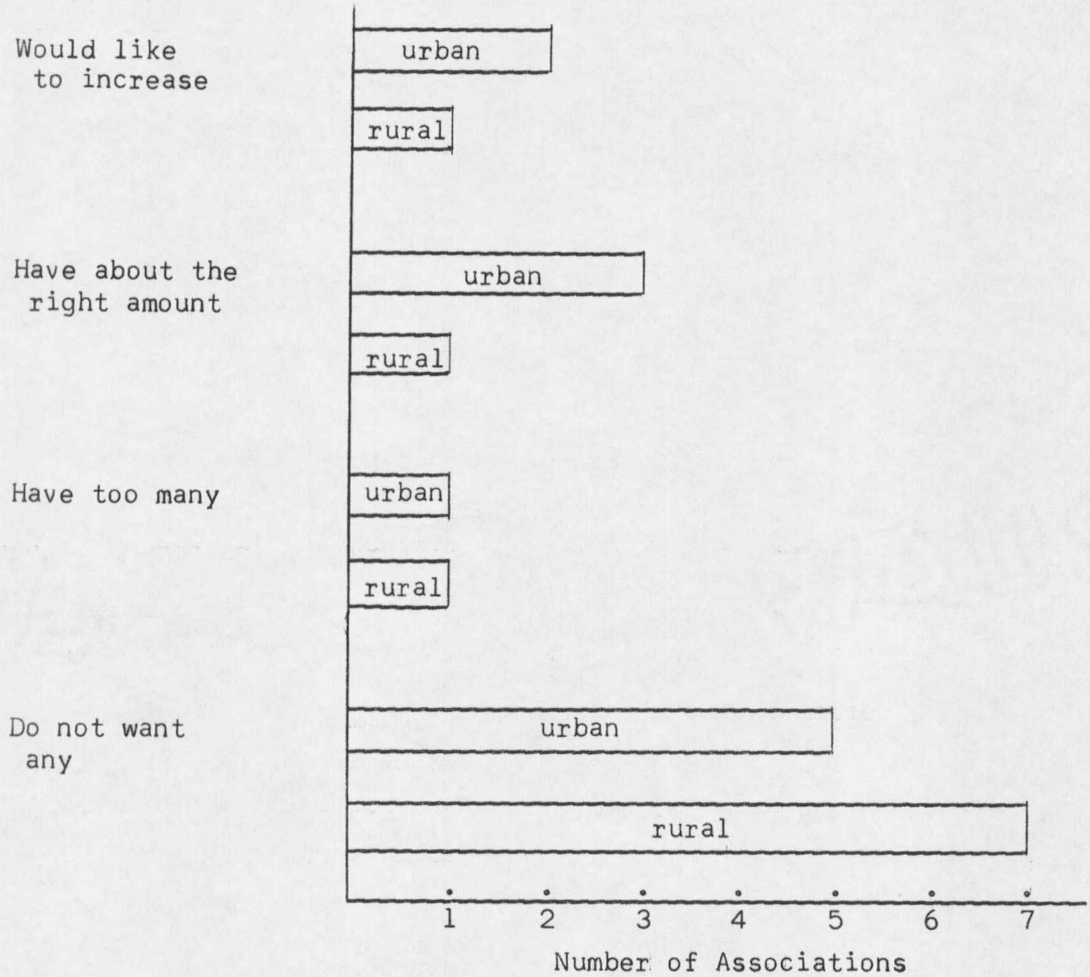


Figure 8. Comparison of How Associations Feel About Current Volume of FHA-VA Loans in Urban and in Rural Areas

General Rural Lending Experience

Collection experience on small town home loans was usually regarded as being about the same as on urban loans. One association reported poorer experience but attributed this to considerable unemployment in the lumbering industry in recent years. This further indicates, or perhaps <u>is</u> because, associations are very selective of rural loans. Those savings and loan associations that have been quite active in this field, however, agreed that there was no perceptible difference in collection experience in the two areas.

All of the associations that loan in small towns make construction loans to prospective owners. This is definitely the preferred way of making construction loans, but six said they make them to builders if they are virtually certain of a sale. This practically limits these loans to prospective owners.

Twelve percent of the loans made in the preceding 12 months by the savings and loan associations were for construction purposes. This compares with 6 percent for purchase of new homes, 19 percent for purchase of used houses, 4 percent for repairs and improvements, and 58 percent for refinancing. Much of the refinancing was undoubtedly to obtain more extended repayment terms. It points up the importance of longer terms for the average borrower.

Savings and loan associations in Montana act almost entirely independently of other commercial lenders. They rarely buy loans that are originated by other lenders and likewise seldom sell to others. They refer applicants from the rural sections to other lenders. Referrals to commercial banks were most frequently listed; other savings and loan associations, the Farmers Home Administration, life insurance companies, Federal land banks, and production credit associations followed in order of frequency of referral. Conversely, they receive applicants that other lenders have referred to them. Lumber yards also make some referrals. Associations did not feel that such referrals often result in loans, but, rather, these applicants were often considered high risk cases that no lender wants.

Considerations in Refusing Loans

The associations contacted estimated they refuse loans to about 50 percent of the applicants from the rural places, compared with about one third from the cities and urban areas. The reasons listed for rejecting loans in the small towns and rural areas in order of their frequency were

1. Association policy and availability of funds. Included in this category was high cost of making and servicing loans, no experience in handling such loans and urban demand uses all loan funds.

2. Applications did not meet association standards. Low equity or down payment and a poor credit rating were most often mentioned as reasons for rejection in this category. Low or uncertain income, a generally poor or declining area, unacceptable property and fear of difficulty in reselling in the event of foreclosure were other considerations that led to loan rejection.

3. Request of applicant for too low an interest rate. This appeared to be of very little significance.

The inclusion of high cost of making and servicing loans in rural areas does not have strong validity because those associations which were making such loans did not find this a significant factor. There is a slight additional appraising and loan closing cost, but this could surely be handled either through normal operations or through a slight additional charge to cover such expense. Low equity or inadequate down payment to cover the difference between total cost of the house or improvement and the amount of the loan was noted as a frequent reason for rejection. Requests of applicants for too long a term or too low interest was not revealed as an important reason for loan rejection. The implication was that if a loan could be made satisfactory in other respects, applicants accepted the rates and terms offered.

In summary, there are relatively few savings and loan associations in Montana. Nearly all of them are headquartered in cities and largely confine their operations to the city in which they are located. There is very limited interest in the rural areas even near their headquarters. Large portions of Montana, particularly the eastern half, have virtually no access to this source of credit within a reasonable distance.

Although the maturities and loan-to-value ratios of savings and loan associations are more liberal than those of conventional loans of other lenders, they are still substantially less in the rural than in the urban areas. They are also less than on government backed loans. The associations make virtually no FHA-VA loans in the rural areas. Most associations have ample funds for lending.

If arrangements could be made with some of the small town banks to make and service loans in rural sections for savings and loan associations, it could mean good business for both lenders involved as well as for the state as a whole.

Other Lenders

Insurance Companies

In contacts with banks, realtors and directly with agents, 15 life insurance companies were found to be most active in making loans in Montana. Two had company paid representatives, but the rest utilized banks, realtors, or others as agents.

Eight of the insurance companies limit their loans to cities (usually upward of 10,000 population). Three restrict their lending activities to farms. One confines its activities in rural areas mainly to 7 percent conventional loans, but agents mentioned three that take FHA-VA loans where they appear to have a reasonable chance of paying out. They have made several loans in small towns in the western part of the state including towns in Lake County, but had no loans in the other two counties.

Agents representing the other four companies advised, and the banks contacted confirmed, that these companies receive many referrals. Minimum loans are usually from $5,500 to $7,000 with 3 to 4 percent discounts and maturities of 25 to 30 years. They use the FHA appraisal as the basis for the loan.

The local, small town banks had few tie-ins with insurance companies. Prospective borrowers in more remote areas found it necessary to visit the larger cities to arrange for life insurance company loans. Quite reasonably, many just do not expose themselves to this additional hurdle. Loan minimums undoubtedly stop some other prospective loans.

<u>Lumber Yards and Real Estate Offices</u>

Six lumber yards and seven real estate offices in Lake, Rosebud, and Chouteau Counties were contacted to determine their reactions to the adequacy of credit for purchase, construction, and/or remodeling in their areas. They were generally of the opinion that credit for construction or purchase was quite tight. They felt that if the prospective borrower could deliver about one-third equity he could usually obtain a loan. Individuals often served as the sources of loans where available equity was less than required by institutional lenders.

These sources were mainly of the opinion that ample funds were available, primarily through FHA Title I loans, for remodeling. If substantial remodeling were needed, it could be handled on a piece-meal basis through successive Title I loans. Several of the lumber yards were of the opinion that much of the remodeling is done by the borrowers themselves and often gets to be a rather long "dragged-out" process. They felt this was not a satisfactory way of getting the job done. This observation tends to be borne out by the sample of individuals.

Production Credit Associations and Federal Land Bank Associations

Production credit associations and Federal land bank associations make loans for remodeling, purchase, or construction of homes, but usually restrict such loans to farm borrowers. The PCA's depend primarily on chattels as security for their loans, but occasionally take a second mortgage on real estate. Their loans are usually made on a 12-month renewable term and they presently charge 6 percent interest. PCA's have legal authority to make 7 year loans.

Federal land bank associations utilize real estate as security for their loans. Historically, their loans have been restricted to commerical farms, but recently they have extended loans to small part-time farming tracts if there is enough farm income to pay taxes and insurance. They normally can loan up to 40 to 45 percent of the present market value of these. Loans by FLBA can be made for up to 35 years maturity and the present interest rate is 5-1/2 percent. Loans on farms in Montana are usually limited to 35 to 45 percent of the present market values. Those contacted mentioned very few loans for housing purposes.

Veterans Administration

The Veterans Administration said it had made practically no guaranteed loans in Montana during the past year. This confirms the lack of interest by private lenders in VA loans. VA did make 272 direct loans in towns and cities exclusive of Great Falls, Billings, and Missoula. Twenty-five of these were on farms or nonfarm tracts. The bulk of the VA loans were in the Butte-Anaconda-Deer Lodge area and in an area northwest of Kalispell. These areas are outside of the sample counties.

The VA indicated that its rate of turndowns on direct loans was considerably higher in rural than in urban areas. It attributed this primarily to less careful screening by brokers in these areas. Other reasons for rejection of loans included:

1. Applicant's income too low or uncertain;
2. Applicant had a poor credit rating;
3. Appraisal was too low.

Appraisals are reduced in poor or declining areas and on properties that have a low score of acceptability. There is normally a three to eight-month waiting period for applicants from the time the application is received until it can be processed. The wait includes time involved in investigation of the applicant and arranging for loan funds.

Farmers Home Administration

The Farmers Home Administration, an agency of the Department of Agriculture, has made loans for the construction or remodeling of farm homes for several years. Legislation passed in 1961 permitted the agency to make Rural Housing loans in non-farm areas including towns of up to 2,500 population. About $1.4 million of direct Rural Housing loans were made to 150 individuals during fiscal 1963 in Montana.[7] In addition, as of July 1, 1963, there was about $1 million backlog of applications due in part to a shortage of funds. As a means of extending the direct money to help as many applicants as possible, about one-fourth of the housing loans on farms were processed as insured farm ownership loans.[8]

To be eligible for a Rural Housing loan an applicant must

1. Be the owner of a farm or nonfarm tract . . .

2. Be without sufficient resources to provide on his own account the necessary housing . . . and be unable to secure the necessary credit from other sources . . .

3. Be a citizen of the United States

4. Have income sufficient to meet his operating and family living expenses . . . and payments on debts . . .

5. Possess the character, ability, and experience to carry out undertakings required . . .

6. Have training or farming experience where success depends on farming operations . . .

7. Possess legal capacity to incur the obligations of the loan.[9]

The Rural Housing loan program is primarily for construction or remodeling and, as was noted previously, is limited to land owners except

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[7]Direct loans are made from funds appropriated annually by the Congress. They are prorated to the states. Montana State Office, Farmers Home Administration, Bozeman, Montana.

[8]Insured farm ownership (FO) loans utilize funds advanced by a private lender and insured by the FHA. They are restricted to tracts that are recognized in the community as a farm rather than as a rural residence. Montana State Office, Farmers Home Administration, Bozeman, Montana.

[9]United States Department of Agriculture, Farmers Home Administration, FHA Instruction 444.1 IV A 1-7 (4/19/63).

in the case of senior citizens. This does not provide any relief for the younger rural residents who wish to buy modest older homes in rural non-farm areas.

The Rural Housing program is unique among institutional lenders, however, in that junior mortgage loans constitute a significant portion of the lending activity. Junior liens may be taken if the applicant can show he has a mortgagable interest in the property and has sufficient income to make the required payments and other expenses. The Farmers Home Administration has never had to foreclose on a junior mortgage in Montana.

Rural Housing loans mature over periods up to 33 years and bear 4 percent interest.

Loans may be made to Senior Citizens under special authorizations of the Senior Citizens Housing Act of 1962. These loans may be used for the purchase of existing dwellings and the land constituting a minimum adequate site, or to buy a minimum adequate site and construct a dwelling thereon. Such loans are restricted to senior citizens who are 62 years of age or over who reside in rural areas.[10]

The Senior Citizens Act of 1962 also enabled the Farmers Home Administration to make Senior Citizens Rental Housing loans. These loans can be made to corporate, private, or non-corporate borrowers for the purpose of erecting apartment type housing for the elderly. Senior Citizens Rental Housing loans involve funds advanced by private lenders and insured by the Farmers Home Administration. The interest rate on insured loans is 5-3/4

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[10] _Ibid._, VI B (4/19/63).

percent, the maximum term 40 years, and $100,000 is the maximum that can be loaned to any one borrower. Direct funds are also available. Direct loans may be amortized over periods up to 50 years at 3-1/2 percent interest. The maximum of any direct loan is $200,000. Direct loans are restricted to private non-profit corporations or to consumer cooperatives. Normally the income level of occupants cannot exceed $6000 per year. Profit and income restrictions do not apply to insured loans.

Summary of Other Lenders

Life insurance companies have quite limited interest in providing housing credit in the rural non-farm sections of Montana. Very few companies are active in this field and applicants must often travel great distances to submit applications for such loans.

The PCA's and FLBA's limit most of their housing loans to farm real estate and to applicants who are directly involved in farming. They, as well as some of the insurance companies, meet an important part of the housing needs of farmers.

Two government agencies, the Veterans Administration and the Farmers Home Administration, can and do do much to meet the housing credit needs of rural residents, farm and non-farm alike, but the activities of both are seriously hampered by limited funds. The VA has been unable to attract private capital under its loan guarantee provisions partly as a result of insufficient interest yield. The Farmers Home Administration has no provision at present to utilize private funds under its Rural Housing program. The Farmers Home Administration cannot assist younger people in non-farm rural areas to purchase existing dwellings, but instead can make loans to such applicants only for the construction or remodeling of homes. They have demonstrated the feasibility of a junior mortgage program that other lenders tend to avoid.

Individuals

Individuals play in important role in the home lending field in Montana. Their activities are probably greatest in the purchase of homes. Sales are often made on purchase contracts (sometimes called contracts for deed) where the seller agrees to carry the loan. This alternative is often used when the buyer has inadequate equity to qualify for a loan from some institutional lender or when the property, for one reason or another, does not meet lender standards.

Other individuals with available funds make loans through banks and realtors--sometimes on a direct and sometimes on an indirect basis. In the other phase of this study individuals, including relatives, were found to have granted nearly 25 percent of the housing loans in the small towns.

CHAPTER III

EXPERIENCE OF INDIVIDUALS

Individual home occupants were contacted in Rosebud, Lake, and Chouteau Counties to ascertain the general housing situation. As a result of these interviews it was possible to determine the approximate rate of ownership, the number who had utilized credit to become home owners, and efforts they had made to obtain such credit. In addition information was acquired relative to age, education levels, and net worth as these factors are often considered by lenders in the granting or refinancing of loans.

This sample (about 2.3 percent in small towns and 1.9 percent of the farms) served as a basis for determining general patterns.

The Small Town Sample

Interviews were conducted with 119 family units in the small towns of the sample counties. The towns included the county seat and one other town in each of the counties. Schedules were taken from these six towns in proportion to their populations.

Tenancy Status

The sample yielded a high rate of home ownership (79.8 percent compared with 64.5 percent in the census). It also indicated that small town residents move to other homes within their towns or from one town to another. Nearly 65 percent had lived in their present house less than 10 years (Figure 9). This was especially true of tenants who, on the average, had lived in the present house for only 1-1/2 years. Nearly all of the tenants (21 of 24) were employed by someone else. Their income was mainly in the form of wages and salaries. Nearly half of the tenants were less than 40 years old, compared with less than one-third of the total sample who were this age. Significantly only two of the tenants in the sample were over 65, whereas one-fourth of the total sample was in this age bracket.

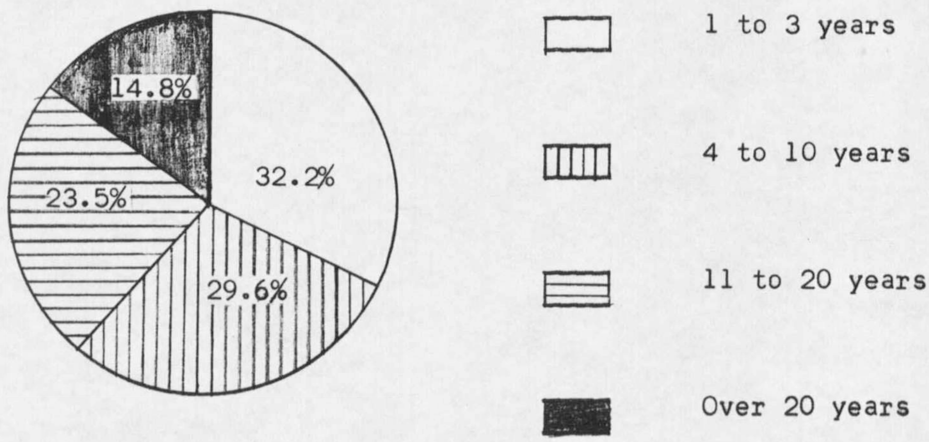

Figure 9. Length of Time Residents of Small Towns in Sample Counties Had Lived in House They Were Living in at Time of Interview, 1962-63.

Housing Facilities Available

The sample presented a somewhat brighter picture of available facilities than was found in the census. The characteristics considered are summarized in Table 6. They tend to conflict somewhat with similar characteristics abstracted from the census in Tables 13 through 16. This can be partly accounted for in the high vacancy rate revealed in the census tables. There is a strong liklihood that the vacant houses are primarily those which lack modern facilities. There was no attempt to include vacant houses in the sample.

TABLE 6. SELECTED CHARACTERISTICS OF RESPONDENTS RELATING TO FACILITIES AVAILABLE AND AGE OF HOMES OF SMALL TOWN HOUSING SAMPLE IN MONTANA

Characteristic	Rosebud	Chouteau	Lake	Total Sample	
	No.	No.	No.	No.	Pct.
Total number in sample	30	23	66	119	100.00
Electricity	29	23	65	117	98.32
Telephone	26	22	62	110	92.44
Plumbing facilities:					
Hot and cold water inside	30	23	65	118	99.16
No piped water inside	0	0	1	1	.84
Flush toilet inside	30	23	65	118	99.16
No inside toilet	0	0	1	1	.84
Heating facilities:					
Central heat	23	18	25	66	57.39
Floor furnace	0	4	6	10	8.70
Space heater	7	1	29	37	32.17
Indv. room heaters	0	0	2	2	1.74
Fuel:					
Coal and wood	2	0	14	16	13.22
Natural gas	28	0	0	28	23.14
Propane	0	3	4	7	5.79
Oil	0	20	40	60	49.59
Electricity	0	0	10	10	8.26
Sewage facilities:					
Public sewer	29	21	63	113	94.96
Septic tank	1	2	2	5	4.20
Neither	0	0	1	1	.84
Age of house:					
5 years or less	5	2	6	13	10.92
6 to 10 years	4	1	5	10	8.40
11 to 20 years	3	6	23	32	26.89
Over 20 years	18	14	32	64	53.78

Over 90 percent of the residents interviewed in small towns enjoy the benefits of electricity and telephone, hot and cold running water, inside toilets, and public sewers. On the other hand, slightly less than 60 percent have central heat; 50 percent use oil, a rather expensive fuel; and 15 percent use wood and coal for fuel.

Nearly 54 percent of the sample live in homes that are over twenty years old. Even though these homes are provided with modern facilities there is likely a need for further substantial remodeling on many of them. Much of the vacancy revealed in the census is undoubtedly among the older homes.

No attempt was made to appraise the general condition of the homes from which the sample was obtained. Comparative purchase prices and values listed on the schedules indicated that there was a wide divergence in general condition of the homes involved. Discussions with the interviewer further verified this conclusion.

Remodeling, Purchase, or Construction in the Past Ten Years

One of the principal reasons for interviewing individuals was to determine whether people in the rural sections are actually getting housing credit they feel they need. It was hoped information so obtained would verify the findings in the lender portion of the study. Individuals were questioned to find how many had remodeled, purchased, or constructed homes in the past ten years. They were also asked whether they had borrowed money to do this and if so where. The results are summarized in Table 7.

TABLE 7. HOME PURCHASES AND IMPROVEMENTS AND USE OF CREDIT BY RESIDENTS OF RURAL TOWNS DURING 1953-62 PERIOD, SELECTED COUNTIES, MONTANA

Characteristic	Rosebud	Chouteau	Lake	Total Sample	
	No.	No.	No.	No.	Pct.
Total in sample	30	23	66	119	100.0
Remodeled home	10	6	6	22	18.5
Purchased home	4	6	15	25	21.0
Constructed home	7	2	8	17	14.3
Remodeled and purchased	0	0	8	8	6.7
Borrowed money	13	5	24	42	58.3*
Did not borrow	8	9	13	30	41.7*
Source of credit:					
Conventional:					
Local bank	3	2	4	9	21.4**
Outside bank	4	0	1	5	11.9**
Savings & loan	0	0	6	6	14.3**
Insurance co.	0	0	1	1	2.4**
Insured:					
Local bank	0	1	0	1	2.4**
Outside bank	2	0	1	3	7.1**
Insurance co.	1	0	1	2	4.8**
Other:					
VA, direct	0	0	3	3	7.1**
Bureau of Indian Affairs	0	0	1	1	2.4**
Credit Union	1	0	0	1	2.4**
Relatives	1	0	1	2	4.8**
Individuals	1	2	5	8	19.0**
Repayment, in years:					
Up to 5 years	6	1	5	12	31.6
6 to 10 years	2	2	6	10	26.3
11 to 20 years	2	2	8	12	31.6
Over 20 years	1	0	3	4	10.5
No answer	2	0	2	4	

* Percent who remodeled, purchased, or constructed who borrowed and who did not borrow.

** Percent of total loans by each lender.

Slightly over 60 percent of the people interviewed had bought, built, or remodeled their present residence in the past ten years. Remodeling and/or purchase was most often involved, but 14 percent of them had constructed new homes. The proportions within the survey counties who did one or another of these jobs is quite even, varying from 70 percent in Rosebud County to 56 percent in Lake County.

Fifty-eight percent of those who acquired or improved their housing borrowed money to do it. There was considerable variation between counties; only 36 percent of the Chouteau County sample borrowed money for housing compared with 62 percent and 65 percent respectively in Rosebud and Lake Counties. All people interviewed were also asked if they had been turned down on applications for housing loans. Seven responded that they had been, but six of these had subsequently gotten loans from other sources. The seventh had obtained part of what he needed, too, and was still trying for the balance. The local bank was listed as the source of the rejection in six of the seven cases. The sources where they finally obtained loans included VA direct, out-or-town banks (FHA insured), savings and loan associations, and individuals.

Local banks play in important role as the source of home mortgage credit. They granted nearly one-fourth of the loans. When it is considered that an additional 15 percent of the applicants were refused loans from this source, their role in the community assumes increasing importance. No attempt was made to ascertain whether other prospective applicants had been referred to other sources by their banks without an outright rejection, but it seems reasonable that such may have been the case. Significantly only one loan by a local bank was FHA insured.

Savings and loan associations were an important source of credit in Lake County, but none of the samples in the other two counties had used their services.

Out-of-town banks carried nearly 20 percent of the loans, and individuals and relatives carried about 24 percent. Other sources included insurance companies, Veterans Administration direct, a credit union, and the Bureau of Indian Affairs.

Nearly 58 percent of those who obtained credit were given ten years or less in which to repay their loans. Only 10.5 percent were granted terms in excess of 20 years. This is discussed more fully in the following section.

Repayment Rates and Terms by Loan Types

Loans received by individuals were divided into three categories--government direct or insured loans, conventional loans by private institutional lenders, and loans by individuals. The average repayment term in years and the interest rate charged in these categories is outlined in Table 8.

Government direct and insured loans. None of the people in the small town sample had received loans from the Farmers Home Administration nor loans guaranteed by the Veterans Administration. Several had gotten direct VA loans and Federal Housing Administration insured loans. One had a loan from the Bureau of Indian Affairs. Construction of a new home or purchase of a new or used home were involved in all of the loans that were backed by the government.

TABLE 8. AVERAGE YEARS TO REPAY AND INTEREST RATE CHARGED BY VARIOUS LENDERS BY COUNTIES AND BY TOTAL SAMPLE, SMALL TOWNS IN MONTANA

	Rosebud		Chouteau		Lake		Sample Average	
	Years	Int.	Years	Int.	Years	Int.	Years	Int.
Direct and government insured loans:								
VA, direct	-	-	-	-	21.7	4.58	21.7	4.58
FHA, insured	17.0	5.75	20.0	5.75	25.0	5.50	20.2	5.67
B.I.A.	-	-	-	-	10.0	-	10.0	-
Average	17.0	5.75	20.0	5.75	20.8	4.95	19.6	5.31
Conventional loans:								
Local banks	3.0	6.00	8.5	6.50	5.0	6.50	5.1	6.38
Out-of-town banks	4.7	6.50	-	-	1.0	8.00	3.8	7.00
Savings & loan assn.	-	-	-	-	15.7	6.00	15.7	6.00
Insurance companies	-	-	-	-	5.0	5.50	5.0	5.50
Credit union	1.0	6.00	-	-	-	-	1.0	6.00
Average	3.6	6.20	8.5	6.50	10.0	6.29	7.7	6.29
Individuals	20.0	5.00	10.5	5.00	11.6	3.40	12.4	4.00
Average, all lenders							11.7	5.53

Loans in the governmental category were the only ones which had terms exceeding 20 years. Even though some of the loans involved a shorter term than this (6 years was the shortest), the average for the group was 19.6 years. Interest rates charged were, on the average, less than those charged on conventional loans, but more than was charged by individuals.

City banks outside the sample counties had advanced the money for three of the six FHA insured loans; two involved advances by insurance companies and one was by a local bank. All of the FHA insured loans by out-of-the-county lenders were for construction of new homes.

Conventional loans. Local and out-of-town commercial banks, savings and loan associations, insurance companies, and a credit union advanced the money for loans included in this category. Over half of the 21 loans involved remodeling, but in four of these situations purchase was also involved. Remodeling loans averaged only $2425, so in many cases likely did not involve a mortgage. Less than 1/4 of the conventional loans were for construction of new homes. Eleven loans were for purchase or remodeling. Substantial equities or down payments were required with all of the conventional loans.

The repayment period given by local banks ranged from 3 to 8.5 years for an average of 5.1 years. Out-of-town banks gave even shorter terms for an average of 3.75 years. The maximum term of any of the conventional loans by banks was 10 years. Interest rates, at averages of 6.375 percent and 7 percent by local and out-of-town banks respectively, were the highest charged by any class of lender.

Conventional loans advanced by savings and loan associations averaged 15-2/3 years at 6 percent interest. As a lender group they came the nearest to offering rates and terms comparable to loans in the government category. The maximum term given by savings and loan associations to any borrower in the sample was 20 years.

The fact that only one conventional loan was advanced by an insurance company and one by a credit union indicates that these are not important sources of conventional home mortgage credit in Montana's small towns.

Borrowers who had conventional loans were charged, on the average, the highest interest rates and were granted the shortest repayment period of any of the categories considered.

Loans by individuals. Former owners, other individuals, and relatives supplied the housing credit for one-fifth of those who borrowed. Former owners were involved in half of these cases; these situations, of course, were all for purchase of existing homes. Individuals are important sources of credit for purchase of used homes, but, based on this sample, they do not contribute much to new construction or remodeling. Only one case of each was found.

Interest rates granted by individuals tend to be less than those in either of the other categories considered. They are also subject to greater variation ranging from a no-interest loan from a relative to 6 percent on a contract with a former owner. Likewise, the terms given varied considerably--from one year to twenty years. The average term was nearly twelve and one-half years.

Considering the foregoing categories, government backed loans and conventional loans by savings and loan associations are the most important sources of credit for new construction in small towns. These are also important lenders for purchase of existing homes, but banks and individuals, particularly former owners, also make substantial contributions for home purchase. Advances for remodeling are most often granted by banks; the local bank is frequently the source of remodeling credit. Interest rates given by individuals average lowest, followed by those of government backed loans and conventional loans. FHA-VA borrowers have the longest repayment terms.

Methods of Repayment

By far the largest proportion of the loans considered were set up for repayment on an amortized monthly payment basis. Methods of repayment used in their order of frequency were

1. Equal amortized monthly payments (80 percent),
2. Equal principal and yearly interest paid annually (15 percent),
3. Interest for whole period added on and paid monthly (2.5 percent),
4. Equal amortized yearly payments (2.5 percent).

The method of repayment utilized coincided with the way income was received, i.e., if the borrower received monthly income, repayment was made in monthly installments, etc. Loans to farmers tended to be on an annual basis.

Plans to Remodel, Construct, or Purchase

All respondents were asked if they planned to remodel, construct, or purchase in the future. Thirteen advised they planned to remodel within the next two years. Seven more said they planned to remodel, but it would be done in 1965 or later.

Seven of the people interviewed indicated they planned to build new homes in the next two years, and two said they planned to buy existing structures.

Plans for financing such work were quite vague, in most instances. This indicates that very little thought had been devoted to this crucial area. Twelve of the twenty-nine indicated they did not plan to finance the work. About one-half of these were in a $3000 to $5000 income bracket and had relatively low net worths, so it is a bit difficult to see how very extensive work could be done without credit. Nevertheless, it does point to a continuing need for home mortgage credit in Montana's small towns.

Age and Education Levels, Gross Income, and Net Worth

Net worth and present and prospective income are important factors which are considered by lenders in the granting of loans. Since age and education levels are important functions of prospective income, respondents were questioned concerning these four items. These characteristics are summarized in Table 9.

The ages of men and women in the sample permit some interesting observations when compared with the Auburn study. A significantly larger proportion of Montana's household heads are in the 65 and older group (26 percent compared with 19, 14, and 24 percent respectively for the Southeastern states, Eastern Colorado, and Northwest Missouri).[1] Montana's ratio in the less than 40 age bracket is not much different than the Auburn study. This would indicate a relative shortage of people in their prime working years in Montana. Dr. Kraenzel[2] has pointed up the relative decline in Montana's 20 to 64 age group in rural areas over the 40-year period 1920 to 1960. There was a decrease in this group as a proportion of total state population in three of the four decades; it was 10.2 percent in the last one. During the same decade those 65 and older increased 17.3 percent.

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[1]Yeager, op. cit.

[2]Kraenzel, Carl F., "Some Montana Population Facts and Myths," Department of Rural Sociology, Montana State College, unpublished paper for Montana Academy of Science, Spring, 1963.

TABLE 9. AGES AND EDUCATION LEVELS OF HOUSEHOLD HEADS AND SPOUSES AND NET WORTH OF FAMILIES (SMALL TOWNS), SAMPLE COUNTIES, MONTANA, 1962-63.

Characteristic		Rosebud	Chouteau	Lake	Total Sample
Total family units	No.	30	23	66	119
Men	No.	26	17	53	96
Women	No.	29	22	63	114
Age of men:					
Less than 40	Pct.	26.9	35.3	28.3	29.2
40 to 64	Pct.	34.6	35.3	52.8	44.8
65 or over	Pct.	38.5	29.4	18.9	26.0
Average age-men	Yrs.	52.4	51.1	48.0	49.7
Age of women:					
Less than 40	Pct.	34.5	45.4	39.7	39.5
40 to 64	Pct.	37.9	27.3	39.7	36.8
65 or over	Pct.	27.6	27.3	20.6	23.7
Average age-women	Yrs.	50.3	48.8	47.7	48.6
Education, men:					
No schooling	Pct.	0	0	1.9	1.0
1 - 6 grades	Pct.	11.5	0	13.2	10.4
7 - 12 grades	Pct.	69.3	94.1	49.1	62.6
13 or more	Pct.	19.2	5.9	35.8	26.0
Average-men	Yrs.	10.1	10.7	10.9	10.7
Education, women:					
No schooling	Pct.	0	0	1.6	.9
1 - 6 grades	Pct.	3.4	0	4.8	3.5
7 - 12 grades	Pct.	79.4	63	69.8	71.0
13 or more	Pct.	17.2	36.4	23.8	24.6
Average-women	Yrs.	11.5	12.0	11.3	11.5
Net worth:					
Less than $5000	Pct.	17.2	21.7	29.7	25.0
$5000 - $9999	Pct.	13.8	8.7	12.5	12.1
$10,000 - $19,999	Pct.	41.4	4.3	26.6	25.9
$20,000 - $49,999	Pct.	24.1	30.4	21.9	24.1
Over $50,000	Pct.	3.4	34.8	9.4	12.9
Average net worth	Dol.	19,783	54,148	20,445	26,852

The principal inference to be derived from the foregoing is that Montana's small towns provide a home for retired people and some employment opportunities for young people, but a rather substantial number of the middle aged (40 to 64 years) seek employment elsewhere. The younger people have often not worked long enough to acquire a substantial equity or down payment for home purchase, but with growing families there is a serious need on their part for adequate housing. Furthermore, home ownership and the ties associated with it could cause some of them to seek additional opportunity through industrial development of the town rather than to leave to obtain advancement.

Lake County has employment opportunities with its lumber industry and here there is a much higher proportion of household heads in the 40 to 64 age group (52.8 percent compared with 34.6 percent and 35.3 percent in Rosebud and Chouteau counties respectively). The difference is almost certainly directly associated with industrial employment opportunities as there are virtually no such alternatives in the rural sections of Montana east of the mountains.

The education levels of the men and women who were contacted compare very favorably with those of the Auburn study. A considerably greater number of the people in Montana had had some college work. Those with six years or less of schooling were restricted entirely to the 65 and older age group. The relatively high educational attainment indicates that if opportunities are available, borrowers should be in a better position to repay loans. Higher income is a direct function of higher educational achievement.

Nearly all of the small town residents in the lowest income bracket were retired. It is understandable that private lenders are reluctant to loan to people in this age and income bracket. The Senior Citizens loan program of the Farmers Home Administration, when it is more generally known and if it is adequately funded, should provide the housing credit needed by the elderly.

Twenty-five percent of the small town residents in the sample had net worths of $5000 or less. These people would likely be unable to provide the equity or down payment required by the conventional lenders for substantial remodeling or for purchase or construction of a home. Many, however, would be able to pay off a loan if they were granted reasonable terms. An example is found in one of the schedules. A man with prospects of good income settled in one of the towns immediately after completing school. He bought an $8500 home and immediately put $2000 into remodeling. He had no money to pay down, but the former owner agreed to take a $4500 second mortgage after the buyer got a $6000 loan from an institutional lender. This points out the difficulties young people in small towns encounter in trying to get credit to acquire a home of their own. This man now estimates his gross income at $20,000 per year and has reduced the institutional lender's debt to $2,200 and the debt to the former owner to $1,500 in just four years.

While 25 percent of the people interviewed had a relatively low net worth, 63 percent were found to have net worths of $10,000 or more. The high rate of home ownership and, in most cases, the substantial equity needed to buy a home account in part for the high average net worth that was found.

Summary of Small Town Sample

Residents of small towns in the survey counties were found to have a high rate of home ownership. Over half of the homes were over 20 years old but most (90 percent or more) were equipped with conveniences such as hot and cold running water, electricity, telephone, and indoor toilet facilities. About 60 percent of the homes had been remodeled, purchased, or constructed in the past ten years.

Loans that had government backing, loans from individuals, and loans from savings and loan associations were the most frequently used sources of credit for purchase of used homes or for construction of new homes. These sources also granted the longest repayment terms to borrowers.

Small towns provided homes and employment for young household heads (under 40 years) who were gaining experience, and homes for the elderly (65 and over). The proportion of residents 40 to 64 years old, however, was substantially less than was found in the Auburn study, particularly in the two eastern counties where there is little, if any, industrial opportunity.

Young people, often with attendant low net worths, encountered difficulty meeting the equity or down payment requirements of institutional lenders. Much of the purchase credit used by the younger small town residents was advanced by individuals. Forty-six percent of the tenants were under 40 compared with only 29 percent of the total sample.

Incomes of $3000 and less per year were largely confined to individuals on retirement incomes. Institutional lenders are often reluctant to loan to applicants of advanced years with low incomes, but the Senior Citizens loan program of the Farmers Home Administration should provide the credit needed. The program is not as yet well known and may be subject to some difficulty in being adequately funded. If these difficulties are overcome, housing for this age group should not be a serious problem.

The Farm Sample

The rate of ownership at 81.6 percent in the sample was the same as was found in the census. Two of the renters rented buildings only and depended on off-farm income. The farm group was much less mobile than was the small town group (Figure 10). The reduced mobility of the farm group as compared with residents of small towns carried over to the tenants. Farm tenants, on the average, have lived in the same house for 4-3/4 years.

Housing Facilities Available

Nearly all (98 percent) of the farmers interviewed had electricity and a little over three-fourths of them had telephones (Table 10). Eighty-five percent of them had hot and cold running water in the house, and eighty-one percent had flush toilets. It was not explored in the interviews, but it is quite possible that some of the farmers who did not have running water have a problem of an inadequate water supply to develop.

The method of heating farm homes was primarily by central heat or by space heaters (47.9 percent and 43.7 percent respectively). The others depended on floor furnaces or individual room heaters. Coal and wood was the