HOUSING CREDIT: A Rural-Urban Comparison

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ABSTRACT

Home mortgage credit is less available in rural areas than in urban. The major reason is the limited number of savings and loans (S&L's) operating in rural areas. Banks are the major source of housing credit in rural areas whereas S&L's are most active in metro areas. In 1975, the per capita amount of housing loans held by banks, S&L's, and Farmers Home Administration (FmHA) was about $498 in rural areas and $1,590 in metro areas. FmHA loans amounted to $169 in rural areas and $7 in metro areas; FmHA thus helped to reduce the lending differential between the two areas. Loans guaranteed by the Federal Housing Administration and the Veterans' Administration were more prevalent in metro areas than in rural.

Keywords: Housing, credit, financing rural housing, metro areas, nonmetro areas, credit mortgages, banks, savings and loan associations, Farmers Home Administration, home mortgages, loans.

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HIGHLIGHTS

In 1975, there was much less home mortgage credit available in rural areas than in urban areas, as shown by outstanding loans on one- to four-family dwellings held by commercial banks, savings and loan associations (S&L's), and Farmers Home Administration (FmHA). Those three sources of funds held outstanding housing loans averaging $498 per capita in rural counties and $1,590 per capita in the large metropolitan counties. About one-half of that difference might be due to differences in household incomes and the cost of housing; the remainder seems to reflect credit supply differences.

A major reason for the difference in the amount of outstanding housing loans between rural and metropolitan areas is the virtual absence of S&L's in rural counties. Of the 856 rural counties in the Nation, 805 did not have an S&L nor a branch office within their borders. In contrast, there were several S&L's in each metropolitan area. Outstanding housing loans of S&L's on single-family homes averaged only $49 per capita in the most rural areas compared with $1,213 per capita in the large metropolitan counties in 1975. Bank lending showed a much smaller difference--$280 in the rural areas and $371 in the more metropolitan counties.

The proportion of housing loans guaranteed or insured by the Veterans' Administration and Federal Housing Administration differed significantly between rural and metropolitan areas. In 1975, in the large metropolitan areas, 17.4 percent of the outstanding loans on one- to four-family units were guaranteed or insured compared with 2.1 percent in the rural counties, where other private credit sources are less active.

FmHA has made more loans in rural counties than in urban. Outstanding FmHA loans per capita on single-family units were $169 in the most rural counties and only $7 in the larger metropolitan counties in 1975. In rural counties, FmHA held 34 percent of the outstanding housing loans compared with about 0.4 percent in the larger metro counties. FmHA's activity would have to be vastly expanded in the more rural counties if credit availability were to be equalized.

Between 1972 and 1975, the change in the percentage of loans to assets indicates that changes in U.S. monetary policy affected mainly the big city banks. In big cities, the loan-asset percentages rose in 1973 and 1974 and then declined in 1975 to about the same level as 1972. As monetary policy tightened, banks' customers shifted away from demand to time and savings deposits and banks reduced their holdings of Government securities. In the nonmetro areas, the loan-asset ratios rose during the 4-year period, probably in response to changing farm income.

Housing Credit: A Rural-Urban Comparison

Hughes H. Spurlock and Ronald Bird

INTRODUCTION

Home mortgage credit is normally less available and on terms less favorable in rural areas than urban. That is probably due to the relative scarcity of lending institutions and loanable funds in rural areas.

The primary objective of this study was to compare the differences in the loan activity of major private lending institutions that supply loan funds for constructing, purchasing, and repairing homes in rural and urban areas; the study also determined the extent that the Farmers Home Administration (FmHA) was able to supplement private funds in meeting the needs for home mortgage credit in rural areas. As a secondary objective, the study assessed the impact of U.S. monetary policy on the assets and liabilities of home mortgage credit institutions serving rural and urban areas.

The study focused on rural areas and used data furnished by commercial banks and savings and loan associations (S&L's) for December 31 of the years 1972 through 1975. FmHA data are for loans outstanding on June 30, 1975. Data for commercial banks were obtained from the Federal Reserve Board; for S&L's, from the Federal Home Loan Bank Board (FHLBB) and other sources; and for the FmHA, from FmHA records. These years were selected because they portrayed marked changes in economic conditions and monetary policy.

A study of home mortgage credit in Kentucky in 1976 1/ indicated that neither commercial banks nor S&L's made many housing loans outside the borders of the county in which they are located. Officers in both types of institutions indicated that they felt more secure making local loans because they knew their customers better and property values were easier to determine. Some also felt that legal problems, should they arise, were more easily resolved within the county. Similar lender attitudes and behavior are probably prevalent throughout the country.

In this study, data for the banks and S&L's were summarized to point out differences in the availability of home mortgage credit between urban and rural counties. The data were analyzed on the basis of urbanization and rurality of counties. The counties were divided into four groups, those in a standard metropolitan statistical area (SMSA) with at least 1 million population, SMSA counties with a population between 50,000 and 999,999, nonmetro counties with a city population of 2,500 to 49,999, and totally rural counties with no city population of more than 2,500.

In States where branch banking is widely practiced, the data are reported from the county where the bank's headquarters is located rather than from the county where

1/ Hughes H. Spurlock, Home Mortgage Credit Terms: A Comparison of Two Selected Areas in Metro and Rural Kentucky, 1975, Econ. Res. Serv., U.S. Dept. of Agr., AER-362, Feb. 1977.

the branch offices are located. To eliminate this problem, data from States that allow substantial intercounty branch banking were deleted from the study. Accordingly, data from 2,322 of 3,097 U.S. counties were analyzed. The same counties were included in analyzing data from the FHLBB, the Federal Reserve, and the FmHA except as otherwise noted.

COMMERCIAL BANKS

Nationwide, in 1975, there were approximately 15,000 commercial banks and more than twice that number of branch offices. Banks were widely distributed; only 39 counties in the United States did not have a bank and 36 of these were rural counties. Banks are the most prevalent type of lending institution in the country and the leading source of financing for a wide range of economic activity.

In rural areas, banks are located in the county seat, or in other population centers, often well removed from other credit institutions. Such banks are often small and have limited lending capabilities, yet they are requested to supply a diverse array of credit needs. Rural banks rely mainly on deposits from the local citizens for their loan funds although they can obtain funds from other banks and through linkage to a number of other agencies as well. Local banks have the capacity to increase loanable funds through borrowing from other banks or the Federal Reserve, but historically, rural banks have made only limited use of these sources.

In conducting their business, banks are required to maintain a cash reserve requirement to protect depositors and to maintain sufficient liquidity for daily transactions; they also need to earn a profit for their stockholders. Because of those factors, rural banks are often not in a position to handle a large volume of requests for home mortgage credit. Housing loans need to be long term, with low down payments, and at competitive rates of interest. Banks can tie up only so much of their loanable funds in this type of loan and still serve their many other customers. Despite that, rural people rely more heavily on local banks for home loans than do their urban counterparts. In 1970, commercial banks or trust companies located in rural areas held about 26 percent of mortgages on one-unit homeowner property compared with less than 15 percent for such properties for banks in urban locations. 2/

Commercial Bank Assets

Rural banks held a smaller proportion of their assets in cash and deposits in other banks than did urban banks. Part of this difference may be due to lower cash reserve requirements for the smaller banks. Rural banks held 9.4 percent of their total assets in cash and deposits in other banks in 1975 compared with 15.3 percent for the larger metro banks (table 1). Conceivably, therefore, banks in the rural counties could have had higher loan-asset ratios. Instead, however, rural banks had a larger proportion of their assets in Government securities. Perhaps this occurred because some States permit banks that are not members of the Federal Reserve System to substitute Government securities for a portion of their cash reserve requirements. 3/ The smaller banks apparently have taken advantage of this investment opportunity. In 1975, rural banks held 12.8 percent of their total assets in U.S. securities compared with 7.5 percent for the big city banks. This practice, however, reduces the amount of funds available for loans.

2/ U.S. Census of Housing, Residential Finance, Vol. 5, 1970.
3/ R. Alton Gilbert and Jean M. Lovati, "Bank Reserve Requirements and Their Enforcement. A Comparison Across States," Review, Federal Reserve Bank of St. Louis, March 1978.

Table 1--Types of assets held by urban and rural banks, December 31, 1975

(Counties with limited and no branch banking)

Type of asset	Metro counties 1/		Nonmetro counties 1/		Total 6/
	Over 1 million SMSA 2/	50,000 to 1 million SMSA 3/	2,500 to 50,000 city pop. 4/	All rural pop. 5/	
	Percent				
Cash and due from banks	15.3	13.1	10.2	9.4	13.7
U.S. securities	7.5	9.6	11.0	12.8	8.8
Obligations of State & political subdivisions	9.1	13.0	14.4	13.7	11.1
Federal funds sold and securities purchased 7/	3.9	4.9	3.8	4.5	4.1
Loans	52.9	50.6	51.0	49.2	51.9
Other holdings	11.3	8.8	9.6	10.4	10.4

1/ An SMSA, as defined at the time of the 1970 census, generally consisted of a county or group of contiguous counties containing at least one city of 50,000 inhabitants or more, or twin cities with a combined population of at least 50,000. In the New England States, SMSA's consist of towns and cities instead of counties. Metro refers to SMSA counties and nonmetro to other counties.
2/ Includes 132 counties.
3/ Includes 309 counties.
4/ Includes 1,230 counties.
5/ Includes 651 counties.
6/ Includes 2,322 counties.
7/ Under agreement to resell; Federal Government is not involved in these transactions.

Large city banks had about double the amount of per capita assets as that shown for rural banks (table 2). As mentioned previously, banks serving rural people are often small and their lower volume of assets per capita underscores their limitation in financing capital investments. Since small banks have more difficulty than larger lending insititutions in marketing their debt instruments, smaller banks are more likely to operate largely on deposits received from the service areas. Correspondent banks are most likely to be used to handle requests for big loans that the local bank cannot make or prefers not to.

Of the total bank assets in the study area, only a small percentage was held by banks located in totally rural counties (table 3)--less than 3 percent in 1975. About 79 percent of the assets were held by banks in metropolitan areas and 21 percent by banks serving nonmetropolitan areas.

Commercial Bank Liabilities

Rural banks are more dependent upon local residents for their funds than are metropolitan banks. About 88 percent of the total liabilities of rural banks were represented by demand deposits plus time and saving deposits, whereas big city banks obtained only two-thirds of their funds from these sources (table 4).

Table 2--Value per capita of various types of assets held by urban and rural banks, December 31, 1975 1/

(Counties with limited and no branch banking)

Type of asset	Metro counties 2/		Nonmetro counties 2/		Average 7/
	Over 1 million SMSA 3/	50,000 to 1 million SMSA 4/	2,500 to 50,000 city pop. 5/	All rural pop. 6/	
			Dollars		
Cash and due from banks	1,044	489	362	310	668
U.S. securities	514	360	388	422	430
Obligations of State and political subdivisions	621	486	510	454	544
Federal funds sold and securities purchased 8/	268	183	136	149	203
Loans	3,612	1,896	1,807	1,626	2,538
Other holdings	775	330	341	342	509
Total assets	6,834	3,744	3,544	3,303	4,892

1/ Value of per capita assets equals total assets divided by total population in area.
2/ See table 1 for definitions of SMSA, metro, and nonmetro.
3/ Includes 132 counties.
4/ Includes 309 counties.
5/ Includes 1,230 counties.
6/ Includes 651 counties.
7/ Includes 2,322 counties.
8/ Under agreement to resell; Federal Government is not involved in these transactions.

Table 3--Proportion of assets held by urban and rural banks, December 31, 1975

(Counties with limited and no branch banking)

Type of asset	Metro counties 1/		Nonmetro counties 1/		Total 6/
	Over 1 million SMSA 2/	50,000 to 1 million SMSA 3/	2,500 to 50,000 city pop. 4/	All rural pop. 5/	
			Percent		
Cash and due from banks	61.5	22.9	13.9	1.7	100.0
U.S. securities	47.0	26.2	23.2	3.6	100.0
Obligations of State and political subdivisions	44.9	27.9	24.1	3.1	100.0
Federal funds sold and securities purchased 7/	51.9	28.1	17.3	2.7	100.0
Loans	55.9	23.4	18.3	2.4	100.0
Other holdings	60.0	20.3	17.2	2.5	100.0
Total assets	55.0	23.9	18.6	2.5	100.0

1/ See table 1 for definitions of SMSA, metro, and nonmetro.
2/ Includes 132 counties.
3/ Includes 309 counties.
4/ Includes 1,230 counties.
5/ Includes 651 counties.
6/ Includes 2,322 counties.
7/ Under agreement to resell; Federal Government is not involved in these transactions.

Table 4--Types of liabilities held by urban and rural banks, December 31, 1975

(Counties with limited and no branch banking)

Type of liability	Metro counties 1/		Nonmetro counties 1/		Total 6/
	Over 1 million SMSA 2/	50,000 to 1 million SMSA 3/	2,500 to 50,000 city pop. 4/	All rural pop. 5/	
	Percent				
Demand deposits 7/	27.8	29.4	29.5	31.8	28.6
Time and savings deposits 7/	36.8	47.0	56.0	55.9	43.3
Deposits of State and political subdivisions 8/	5.4	10.6	9.3	9.1	7.5
Deposits of commercial banks	10.4	4.1	0.6	0.2	6.8
Federal funds purchased and securities sold 9/	8.6	4.2	0.8	0.3	5.9
Other liabilities	11.0	4.7	3.8	2.7	7.9

1/ See table 1 for definitions of SMSA, metro, and nonmetro.
2/ Includes 132 counties.
3/ Includes 309 counties.
4/ Includes 1,230 counties.
5/ Includes 651 counties.
6/ Includes 2,322 counties.
7/ Individuals, partnerships, and corporations.
8/ Demand and time.
9/ Under agreement to repurchase; Federal Government is not involved in these transactions.

Time and savings deposits were the major sources of funds for rural banks; about 56 percent of their liabilities came from these sources in 1975, while big city banks obtained only 37 percent of their funds from these sources. Rural banks obtained only 0.2 percent of their funds from deposits of other commercial banks whereas large city banks obtained more than 10 percent of their funds from this source. As the counties increased in population, the banks within them were able to make greater use of nondeposit banking funds.

Types of Commercial Bank Loans

The capacity of a financial institution to make additional loans depends on the institution's ability to increase loanable funds, particularly deposits. Deposits, in turn, are based on the economic strength of the area and the ability of the lending institution to attract deposits.

Rural banks had a slightly smaller proportion of their total assets loaned out than did banks serving large metropolitan areas (table 1). But rural banks had a larger proportion of their loans invested in housing--17.6 percent as compared with 11.5 percent (table 5). Big city banks loaned mainly to commercial and industrial firms whereas rural banks loaned most heavily to farmers.

Table 5--Types of loans held by urban and rural banks, December 31, 1975

(Counties with limited and no branch banking)

Type of loan	Metro counties 1/		Nonmetro counties 1/		Total 6/
	Over 1 million SMSA 2/	50,000 to 1 million SMSA 3/	2,500 to 50,000 city pop. 4/	All rural pop. 5/	
			Percent		
Housing	11.5	20.5	23.0	17.6	15.7
Real estate secured by farmland	0.2	1.1	5.1	8.6	1.5
Other real estate secured by residential property	7.9	11.5	8.8	5.9	8.9
To farmers	0.5	2.9	15.8	33.0	4.7
To individuals	14.2	27.3	24.4	18.9	19.2
To financial institutions and dealers in securities	17.6	3.9	1.1	0.6	11.0
Commercial and industrial	44.7	30.7	20.6	14.4	36.3
Other	3.4	2.1	1.2	1.0	2.7

1/ See table 1 for definitions of SMSA, metro, and nonmetro.
2/ Includes 132 counties.
3/ Includes 309 counties.
4/ Includes 1,230 counties.
5/ Includes 651 counties.
6/ Includes 2,322 counties.

Guaranteed and Insured Mortgages

There were noticeable differences in the ways that big city banks and rural banks used Government-guaranteed or insured mortgages (table 6). Rural banks in 1975 had less than 4 percent of their housing loans in federally insured or guaranteed loans compared with 11 percent for large metro banks. Less than 1 percent of rural banks' loans were guaranteed by the Veterans Administration (VA) compared with about 5 percent for metro banks. Thus, borrowers from rural banks made less use of programs backed by the Federal Housing Administration and VA for home financing than did metro borrowers. It is not known what proportion of the conventional mortgages were insured by private mortgage insurance companies. Insured mortgages by private mortgage insurance companies have rebounded from their severe setback suffered in the 1930's and are reportedly playing an increasing role in home mortgage insurance nationally.

Table 6--Housing loans on one- to four-unit dwellings insured or guaranteed by FHA or VA, held by urban and rural banks, December 31, 1975

(Counties with limited and no branch banking)

Type of housing loan	Metro counties 1/		Nonmetro counties 1/		Total 6/
	Over 1 million SMSA 2/	50,000 to 1 million SMSA 3/	2,500 to 50,000 city pop. 4/	All rural pop. 5/	
			Percent		
Insured by FHA	6.6	4.2	2.7	2.9	4.7
Guaranteed by VA	4.8	3.4	1.2	0.5	3.3
Not insured or guaranteed by FHA or VA	88.6	92.4	96.1	96.6	92.0

1/ See table 1 for definitions of SMSA, metro, and nonmetro.
2/ Includes 132 counties.
3/ Includes 309 counties.
4/ Includes 1,230 counties.
5/ Includes 651 counties.
6/ Includes 2,322 counties.

SAVINGS AND LOAN ASSOCIATIONS

S&L's are by far the most important source of home mortgage credit for families placing a mortgage to purchase a home. S&L's make long term, amortized mortgages, with relatively reasonable down payments and competitive interest rates compared with commercial banks. They specialize in making, purchasing, and holding residential loans. Home buyers tend to look to the S&L's, where they are accessible, for home mortgage credit.

In 1975, 45.8 percent of the mortgage debt outstanding on homes of one to four units was held by S&L's (table 7). This percentage held almost constant during the 1972-75 period. The bulk of S&L housing loans are made for the purchase of single-family homes--about 75 percent of their outstanding loans in 1975 were for this purpose. Loans in rural areas were more apt to be used for this purpose than in urban areas (table 8) since there is very little multiple-unit housing in rural locations.

Like banks, S&L's locate in population centers, but there are far fewer S&L's. At the end of 1975, there were 4,964 S&L's in the Nation (all 50 States, the District of Columbia, Puerto Rico, and Guam), with 10,441 branches. Although S&L's are located in every State, they are not evenly distributed; six States have more than one-half of all S&L assets in the Nation. 4/

Nor are S&L's evenly distributed among the counties. About one-half of all U.S. counties had no S&L located within their boundaries in 1975. Rural counties in particular lack this type of lending institution; of the 856 rural counties in the study, 805 had neither an S&L nor a branch office. Nevertheless, S&L's are expanding into many rural places. Branching and changes in regulations governing S&L's have helped to expand their lending areas.

4/ United League of Savings Association, 1976 Savings and Loan Fact Book, Chicago, Ill.

Table 7--Mortgage debt outstanding on one- to four-unit dwellings, by holder, December 31, 1972-75

Type of holder	1972	1973	1974	1975
		Percent		
Commercial banks 1/	15.3	16.3	16.6	15.6
Mutual savings banks	12.4	11.7	10.9	10.2
Savings and loan associations	44.8	45.0	44.8	45.8
Life insurance companies	6.0	4.9	4.2	3.6
Government National Mortgage Association 2/	2.1	2.2	3.0	4.5
Farmers Home Administration 2/	1.4	1.5	1.7	1.9
Federal Housing and Veterans' Administrations	0.6	0.5	0.5	0.4
Federal National Mortgage Association	4.7	4.9	5.3	5.2
Federal land banks	3/	3/	0.1	0.1
Federal Home Loan Mortgage Corporation 2/	0.6	0.7	1.1	1.2
Individuals and other 4/	12.1	12.3	11.8	11.5

1/ Includes loans held by nondeposit trust companies, but not bank trust departments.
2/ Includes outstanding principal balances of mortgage-backed securities in mortgage pools or trusts.
3/ Negligible.
4/ Other holders include mortgage companies, real estate investment trusts, State and local credit agencies, State and local retirement funds, uninsured pension funds, credit unions, and U.S. agencies for which amounts are small or separate data are not readily available.

Source: Board of Governors of the Federal Reserve System, Federal Reserve Bulletin, April 1977.

Table 8--Housing loans for various types of dwellings held by urban and rural savings and loan associations, December 31, 1975

(Counties with limited and no branch banking)

Type of dwelling	Metro counties 1/		Nonmetro counties 1/		Total 6/
	Over 1 million SMSA 2/	50,000 to 1 million SMSA 3/	2,500 to 50,000 city pop. 4/	All rural pop. 5/	
			Percent		
Single family	73.0	74.8	78.4	85.1	74.6
Two to four families	5.9	4.0	2.8	1.9	4.7
Over four families	8.9	6.8	4.2	2.6	7.4
Mobile homes	0.5	0.9	1.1	0.3	0.8
Other loans	11.7	13.5	13.5	10.1	12.5

1/ See table 1 for definitions of SMSA, metro and nonmetro.
2/ Includes 132 counties.
3/ Includes 309 counties.
4/ Includes 1,230 counties.
5/ Includes 651 counties.
6/ Includes 2,322 counties.

S&L Assets

Roughly 73 percent of S&L portfolios consisted of housing loans (table 9); S&L's serving urban and rural areas were quite similar in this respect. There is, however, a vast difference in the value of per capita housing loans held by S&L's serving rural areas compared with those in urban locations (table 10). In 1975, housing loans held by rural S&L's were $52 per capita compared with $1,456 for S&L's in the large metro counties. S&L's provided only small amounts of housing loans in the most rural counties. Of all the housing loans outstanding, only about 0.2 percent were in the most rural counties (table 11). More than one-half of S&L housing loans were held by S&L's in major metro counties.

Table 9--Types of assets held by urban and rural savings and loans associations, December 31, 1975
(Counties with limited and no branch banking)

Type of asset	Metro counties 1/		Nonmetro counties 1/		Total 6/
	Over 1 million SMSA 2/	50,000 to 1 million SMSA 3/	2,500 to 50,000 city pop. 4/	All rural pop. 5/	
	Percent				
Cash and investments	10.4	10.1	9.9	11.9	10.2
Housing loans	73.3	72.5	72.8	73.7	72.9
Other loans	9.7	11.3	11.4	8.3	10.4
Other assets	6.6	6.1	5.9	6.1	6.5

1/ See table 1 for definitions of SMSA, metro, and nonmetro.
2/ Includes 132 counties.
3/ Includes 309 counties.
4/ Includes 1,230 counties.
5/ Includes 651 counties.
6/ Includes 2,322 counties.

S&L Liabilities

S&L's serving rural counties had a much higher proportion of their deposits in the form of accounts that pay interest rates higher than the regular passbook rate. Such deposits are less likely to fluctuate sharply and afford more reliable deposits for long term loans (table 12). There was also a marked difference in the extent that nonmetro S&L's made use of FHLBB advances compared with metro S&L's. FHLBB advances stood at about $21 billion in 1975 5/, but only a negligible amount went to rural counties.

Guaranteed and Insured Mortgages

S&L's serving rural counties made much less use of Government loan insurance and guarantees than S&L's operating in metro locations (table 13). In the most rural locations, less than 5 percent of S&L loans were insured or guaranteed by the Government for purchases of single-family homes compared with 16 percent in major metro counties.

5/ 1976 Savings and Loan Fact Book, op. cit.

Table 10--Value per capita of various types of assets held by urban and rural savings and loan associations, December 31, 1975

(Counties with limited and no branch banking)

Type of asset	Metro counties 1/		Nonmetro counties 1/		Total 6/
	Over 1 million SMSA 2/	50,000 to 1 million SMSA 3/	2,500 to 50,000 city pop. 4/	All rural pop. 5/	
	Dollars				
Cash and investments	207	150	107	8	156
Housing loans	1,456	1,081	783	52	1,114
Other loans	192	168	122	6	160
Other assets	132	93	64	5	97

1/ See table 1 for definitions of SMSA, metro, and nonmetro.
2/ Includes 132 counties.
3/ Inclues 309 counties.
4/ Includes 1,230 counties.
5/ Includes 651 counties.
6/ Includes 2,322 counties.

Table 11--Proportion of assets held by urban and rural savings and loan associations, December 31, 1975

(Counties with limited and no branch banking)

Total of asset	Metro counties 1/		Nonmetro counties 1/		Total 6/
	Over 1 million SMSA 2/	50,000 to 1 million SMSA 3/	2,500 to 50,000 city pop. 4/	All rural pop. 5/	
	Percent				
Cash and investments	52.2	30.0	17.6	0.2	100.0
Housing loans	51.4	30.3	18.1	0.2	100.0
Other loans	47.3	32.9	19.7	0.1	100.0
Other assets	53.3	29.8	16.7	0.2	100.0
Total assets	51.2	30.5	18.1	0.2	100.0

1/ See table 1 for definitions of SMSA, metro, and nonmetro.
2/ Includes 132 counties.
3/ Includes 309 counties.
4/ Includes 1,230 counties.
5/ Includes 651 counties.
6/ Includes 2,322 counties.

Table 12--Types of liabilities held by urban and rural savings and loan associations, December 31, 1975

(Counties with limited and no branch banking)

Type of liability	Metro counties 1/		Nonmetro counties 1/		Total 6/
	Over 1 million SMSA 2/	50,000 to 1 million SMSA 3/	2,500 to 50,000 city pop. 4/	All rural pop. 5/	
	Percent				
Accounts earning more than regular rate	44.0	50.6	57.9	54.2	48.6
Accounts earning at or below regular rate	40.0	34.9	30.1	36.5	36.7
FHLBB advances due in 1 year or less	1.9	1.4	1.2	0.4	1.6
FHLBB advances due in more than 1 year	3.6	2.8	1.8	0.6	3.0
Other liabilities	10.5	10.3	9.0	8.3	10.1

1/ See table 1 for definitions of SMSA, metro, and nonmetro.
2/ Includes 132 counties.
3/ Includes 309 counties.
4/ Includes 1,230 counties.
5/ Includes 651 counties.
6/ Includes 2,322 counties.

Table 13--Housing loans insured or guaranteed by FHA or VA held by urban and rural savings and loan associations, December 31, 1975

(Counties with limited and no branch banking)

Type of loan	Metro counties 1/		Nonmetro counties 1/		Total 6/
	Over 1 million SMSA 2/	50,000 to 1 million SMSA 3/	2,500 to 50,000 city pop. 4/	All rural pop. 5/	
	Percent				
Single-family, guaranteed by VA	9.0	7.3	5.0	2.4	7.7
Single-family, insured by FHA	7.2	6.4	4.5	1.8	6.5
Single-family, conventional mortgage	66.5	72.7	81.2	90.5	71.1
Other housing insured by FHA	0.9	0.6	0.2	--	0.6
Other housing, conventional mortgage	15.8	11.9	7.8	5.0	13.2
Mobile homes	0.6	1.1	1.3	0.3	0.9

-- = negligible.
1/ See table 1 for definitions of SMSA, metro, and nonmetro.
2/ Includes 132 counties.
3/ Includes 309 counties.
4/ Includes 1,230 counties.
5/ Includes 651 counties.
6/ Includes 2,322 counties.

Historically, housing credit has been in short supply in rural areas. To help fill this gap, Congress authorized a rural housing program under the auspices of the FmHA. The agency administers the program through 1,785 county offices, 250 district offices, and 42 State offices. In June 1975, the value of FmHA's outstanding housing loans for homeownership totaled about $9 billion.

FmHA housing loans are intended to supplement, not to compete with, private lenders. FmHA loans are restricted to low- and moderate-income households living in rural areas and cannot be used to finance home purchases or improvements that could otherwise be financed with loans from the private sector. To be eligible, the applicant must be unable to improve his housing through his own resources or by using credit from private sources on terms and conditions he could be reasonably expected to meet.

The designated FmHA service areas have been expanded a number of times to include areas with larger populations. The most recent change permits FmHA to place loans in towns with a population up to 20,000 provided that the location is not within an SMSA and the location has a serious lack of home mortgage credit as determined by the Secretary of Agriculture and the Secretary of Housing and Urban Development (HUD).

Geographical Locations

Of the FmHA housing loans outstanding on June 30, 1975, three-fourths were in nonmetro counties (table 14). Loans in metro counties were made to families living in rural parts of counties that were included in SMSA's. On a per capita basis also (table 15), most FmHA housing loans were placed in the 2,463 nonmetro counties. Regionally, FmHA housing loans were concentrated most heavily in the South, especially in its rural areas. In the South, the per capita loan in rural areas was $213 compared with $9 in the large metro counties (table 15). Further discussion of FmHA housing loans is restricted to counties that limit branch banking or forbid it entirely, unless otherwise indicated.

Supplemental Role of FmHA Credit

There was a marked difference in the amount of per capita housing loans outstanding held by the three lender groups (banks, S&L's, and FmHA) between the most rural and the urban counties in 1975 (table 16). Per capita housing loans totaled about $498 in the most rural counties and $1,590 in the larger metro counties.

Part of the difference can be attributed to differences in the demand for loans, since incomes and housing values are lower in smaller cities and rural areas. The data show that household incomes and housing values in the smaller metro and more urbanized nonmetro counties were somewhat below those in the larger metro counties and outstanding housing loans per capita were also lower by roughly the same proportion (table 17). But for the more rural counties, such loans averaged less than one-third of the large-metro figure even though income and housing values were fully two-thirds of their metro counterparts'. While other factors might narrow this ratio somewhat, such a large difference in the ratios indicates that the relative use of housing credit is far lower in rural than in more urban counties.

A large amount of the difference between rural and urban areas in the amount of per capita housing loans arises from the relative absence of S&L activities in the most rural areas. Per capita lending by S&L's totaled about $49 in the most rural counties compared with $1,213 in the large metro counties. The absence of S&L lending activity in rural areas reflects the virtual absence of S&L offices in the most rural counties.

Table 14--Outstanding loans held by Farmers Home Administration in urban and rural areas by region, June 30, 1975

Type of area	Number of counties	North-east	North-central	South	West	Total
	No. 2/	Percent				
Metro 1/						
SMSA over 1 million population	175	14.4	7.6	2.4	6.2	5.6
SMSA under 1 million population	436	28.0	17.6	17.1	22.9	19.3
Nonmetro 1/						
City population 2,500 to 50,000	1,807	53.2	58.6	62.5	61.4	60.3
Rural--no city population of 2,500	856	4.4	16.2	18.0	9.5	14.8

1/ See table 1 for definitions of SMSA, metro, and nonmetro.
2/ Includes all counties except those in Alaska.

Table 15--Value per capita of outstanding housing loans held by Farmers Home Administration in urban and rural areas by region, June 30, 1975 1/

Type of area	Number of counties	North-east	North-central	South	West	Total
	No. 2/	Percent				
Metro 3/						
SMSA over 1 million	175	5	7	9	4	6
SMSA under 1 million	436	20	23	29	28	26
Nonmetro 3/						
City population 2,500 to 50,000	1,607	82	73	123	111	101
Rural--no city population of 2,500	856	204	136	213	126	177
Total	3,074	21	35	69	32	42

1/ Value of per capita loan equals total FmHA loans divided by total population in area.
2/ Includes all counties except those in Alaska.
3/ See table 1 for definitions of SMSA, metro, and nonmetro.

Table 16--Value per capita of housing loans on single-family dwellings with conventional loans and loans guaranteed or insured by FHA, VA, and FmHA, December 31, 1975 1/

(Counties with limited and no branch banking)

Item	Metro counties 2/		Nonmetro counties 2/		Total 7/
	Over 1 million SMSA 3/	50,000 to 1 million SMSA 4/	2,500 to 50,000 city pop. 5/	All rural pop. 6/	
	Dollars				
Commercial banks 8/					
Conventional	307	292	337	234	307
FHA (insured)	23	13	9	7	15
VA (guaranteed)	17	11	4	1	11
Mobile homes	24	52	52	38	41
Total	371	368	402	280	374
Savings and loans 9/					
Conventional	968	786	636	47	792
FHA (insured)	106	69	35	1	72
VA (guaranteed)	130	79	39	1	86
Mobile homes	9	11	10	--	10
Total	1,213	945	720	49	960
Banks, savings and loans, and FmHA					
Conventional	1,275	1,078	972	281	1,099
FHA (insured)	128	82	44	8	87
VA (guaranteed)	147	90	43	2	97
FmHA (direct) 10/	7	22	88	169	39
Mobile homes	33	63	65	38	51
Total	1,590	1,335	1,212	498	1,373

-- = Negligible.
1/ Value of per capita loan equals total for each lender divided by total population in area.
2/ See table 1 for definitions of SMSA, metro, and nonmetro.
3/ Includes 132 counties.
4/ Includes 309 counties.
5/ Includes 1,230 counties.
6/ Includes 651 counties.
7/ Includes 2,322 counties.
8/ Outstanding loans on 1- to 4-family units, December 31, 1975.
9/ Outstanding loans on single-family units, December 31, 1975.
10/ Outstanding loans on single-family units, June 30, 1975.

Table 17--Loans, household incomes, and values of single-family units by county population, 1975

Type of county	Outstanding housing loans per capita		Household income 1/		Single-family units 2/	
	Median value	Percent of SMSA, 1 million and over	Median value	Percent of SMSA, 1 million and over	Median value	Percent of SMSA, 1 million and over
	Dollars	Percent	Dollars	Percent	Dollars	Percent
Nonmetro rural counties	498	31.3	10,400	67.1	22,800	67.7
Nonmetro city population 2,500 to 50,000	1,212	76.3	11,100	76.1	24,200	71.8
Metro--SMSA to 1 million population	1,335	84.0	14,800	95.5	29,700	88.2
Metro--SMSA, 1 million population and over	1,590	100.0	15,500	100.0	33,700	100.0

1/ Incomes for owner-occupied units derived from 1975 Annual Housing Survey, U.S. Department of Commerce and U.S. Department of Housing and Urban Development, April 1977.
2/ For one-family homes on less than 10 acres. Derived from 1975 Annual Housing Survey.

Home mortgage lending by banks, as shown by per capita lending, did not show so wide a difference between areas. Outstanding per capita loans varied from $280 in the most rural counties to $402 in the more urban nonmetro counties. In the rural counties, banks were the leading source of housing funds. FmHA's lending activity has been greater in the more rural counties. Its lending activity increased per capita housing loans by about $169 in the more rural counties and $88 in the larger nonmetro counties. Despite FmHA's activities, there is still a substantial difference in per capita housing funds between rural and urban areas.

Government-Assisted Housing Loans

Of the housing loans outstanding on December 31, 1975, 16 percent had been assisted by Federal agencies. The figure varied from 36 percent in the rural counties to 17.8 percent in the major metro counties (table 18).

Loans insured or guaranteed by FHA and VA were almost completely absent from the most rural counties. In 1975, those two agencies insured or guaranteed about 2 percent of the housing loans in the most rural counties compared with about 17 percent in the major metro counties. The percentage of the loans insured or guaranteed declined as the counties became more rural in nature. The reason for that difference was not ascertained in this study. Many of the larger credit institutions have loan officers who specialize in handling FHA and VA loans. Because of the low volume of such loans, smaller institutions cannot afford such a specialist. Another factor is due to distance; builders in many rural areas would be subject to inspection delays, which would increase their costs, if they used an FHA or VA loan.

In helping to fill the shortfall in FHA- and VA-insured loans, FmHA loan activity was greater per capita in the more rural counties. For all counties, however, FmHA loans accounted for less than 3 percent of housing loans.

EFFECTS OF MONETARY RESTRAINTS ON HOUSING CREDIT IN RURAL AREAS

Attempting to promote steady and sustainable economic growth and to control inflation, the Federal Reserve Board sometimes imposes monetary restraints. One of the most visible effects of tightening monetary policy is an increase in interest rates. During periods of "tight money," lenders also tend to favor loans with shorter terms and higher down payments. Long term and short term interest rates for the period under review, 1972-75, are shown in figure 1. The change in interest rates indicates a relatively loose monetary policy in 1972, a tightening during 1973 and 1974, and a relaxation in 1975.

Since a tight monetary policy is intended to counter overly rapid expansion and inflation, it is typically employed during a period of strong demand for bank loans. Its effect is to reduce the rate of growth of bank deposits. But banks continue to try to meet their borrowers' loan demands in the face of reduced deposits growth by reducing their holdings of Government securities or by borrowing from other financial institutions or the Federal Reserve. Thus, the ratio of bank loans to assets increases during periods of monetary restraint and declines as economic activity is slowed, loan demands subside, and monetary policy is eased. Therefore, the loan-asset ratios of banks affected by changes in monetary policy should show an increase in 1973 and 1974 and a reduction in 1975.

Commercial Banks

Composition of Bank Assets, 1972-75

Changes in the U.S. monetary policy affected mainly the big city banks and, to a lesser extent, banks in the smaller metro areas. The loan asset ratios of those banks rose in 1973 and 1974 but declined, in 1975, to about the same level as in 1972 (table

Table 18--Distribution of loans by type of mortgage assistance on family units in urban and rural areas, December 31, 1975

(Counties with limited and no branch banking)

Type of mortgage assistance	Metro counties 1/		Nonmetro counties 1/		Total 6/
	Over 1 million SMSA 2/	50,000 to 1 million SMSA 3/	2,500 to 50,000 city pop. 4/	All rural pop. 5/	
	Percent				
None	82.2	85.4	85.5	64.0	83.7
Government assisted	17.8	14.6	14.5	36.0	16.3
FHA 7/	8.1	6.3	3.7	1.6	6.4
VA 8/	9.3	6.7	3.6	.5	7.1
FmHA 9/	0.4	1.6	7.2	33.9	2.8

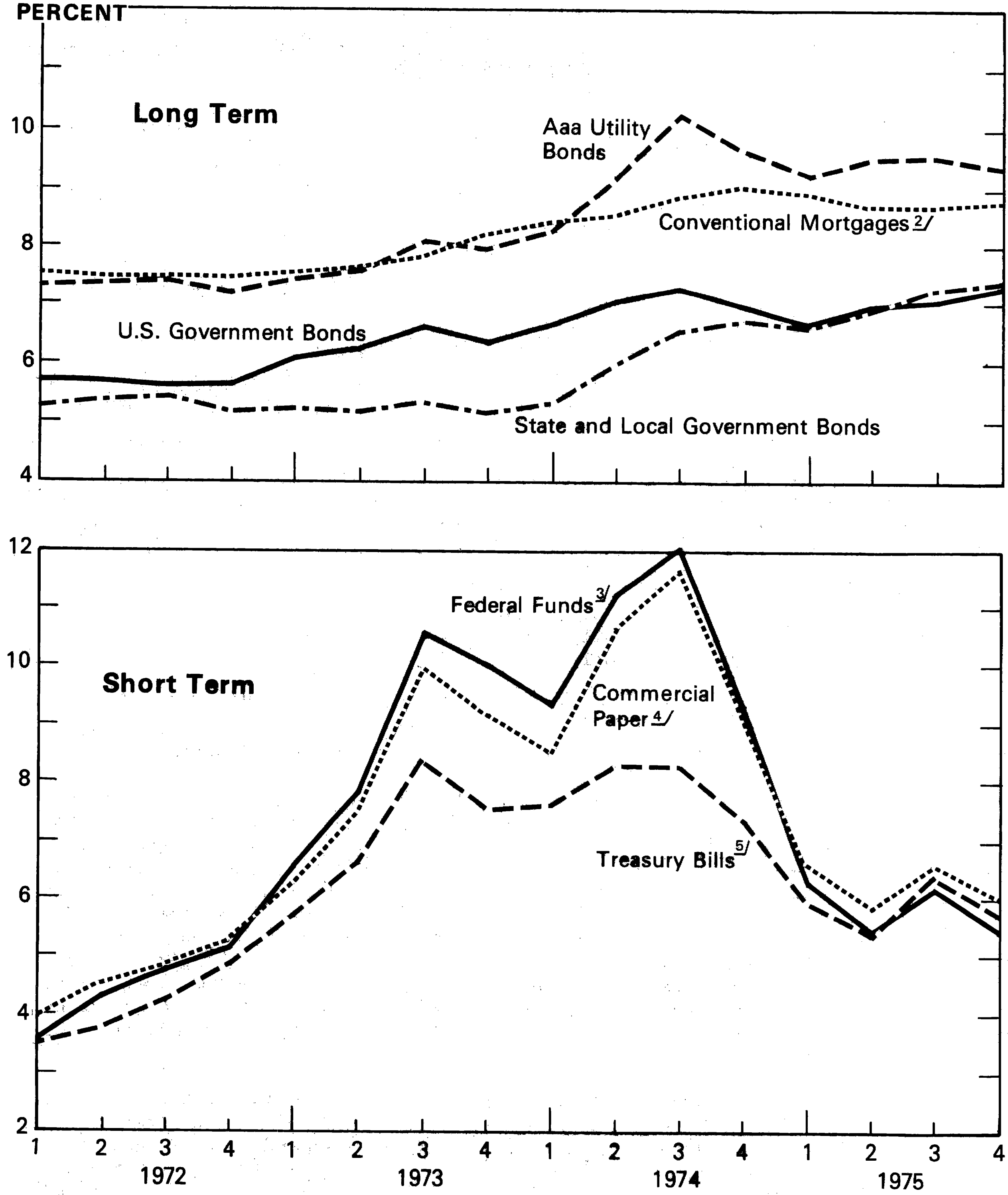
1/ See table 1 for definitions of SMSA, metro, and nonmetro.
2/ Includes 132 counties.
3/ Includes 309 counties.
4/ Includes 1,230 counties.
5/ Includes 651 counties.
6/ Includes 2,322 counties.
7/ Outstanding loans on 1- to 4-family units, December 31, 1975.
8/ Outstanding loans on single-family units, December 31, 1975.
9/ Outstanding loans on single-family units, June 30, 1975.

19). For nonmetro banks, however, the loan-asset ratio rose during the entire 3-year period, perhaps primarily in response to developments in the farming sector.

Gross and net farm income and the cost of farm production varied widely during 1972-75, reflecting higher prices for farm products and farm production inputs. That affected both the loans and deposits of banks serving farming areas. Increased net farm income led to an increase in deposits while the rise in farm operating expenses increased the demand for farm loans. Also, high prices received for farm products in 1973-74 led farmers to expand their operations by borrowing to purchase land, farm machinery, and other production requirements. As will be shown later, business and housing loans at the rural banks rose even faster than farm loans during 1973-75, and a significant part of this expansion is probably also related to the increased agricultural activity and income. On balance, loan demands increased faster than rural banking resources, causing the loan-asset ratio of rural banks to rise gradually over the entire 3-year period.

During years in which loan demand was strong relative to growth of bank resources, banks reduced their relative holdings of U.S. securities. The shift away from U.S. securities occurred in all locations but was greatest in the rural counties and least pronounced in major metro counties. In the rural counties, banks held 17.4 percent of their assets in U.S. securities in 1972; this percentage declined to 11.5 percent in 1974, before increasing slightly in 1975. In the larger metro counties, banks held 7.0 percent of their assets in U.S. securities in 1972; this percentage declined to 4.5 percent in 1974, then increased sharply in 1975 to 7.5 percent. The pattern was similar in the smaller metro counties.

U.S. INTEREST RATES PER ANNUM[1/]



1/ Money market rates. 2/ Contract rate of interest on new home purchases. 3/ Quarters are averages for 3 component months. 4/ Prime commercial paper, 90-119 days. 5/ Market yield on 3-months treasury bills.

Source: *Federal Reserve Bulletin,* January issues, 1973, 1974, 1975 and 1976.

Figure 1

Table 19--Types of assets held by urban and rural commercial banks, December 31, 1975

(Counties with limited and no branch banking)

Location and type of asset	1972	1973	1974	1975
	Percent			
Nonmetro--rural counties 1/ 2/				
Cash and cash due from banks	10.7	10.2	9.8	9.4
U.S. securities	17.4	13.9	11.5	12.8
Obligations of State & political subdivisions	11.9	12.3	13.6	13.7
Federal funds and securities purchased 3/	5.4	6.6	6.5	4.5
Other loans	46.1	47.0	48.4	49.2
Other holdings	8.5	10.1	10.2	10.4
Nonmetro--city population of 2,500-50,000 1/ 4/				
Cash and cash due from banks	11.0	10.9	10.6	10.2
U.S. securities	13.9	10.9	9.1	11.0
Obligations of State & political subdivisions	13.5	13.7	14.4	14.4
Federal funds and securities purchased 3/	4.5	5.0	5.2	3.8
Other loans	49.0	50.6	51.3	51.0
Other holdings	8.1	8.9	9.4	9.6
Metro--SMSA, to 1 million population 1/ 5/				
Cash and cash due from banks	13.8	13.6	13.7	13.1
U.S. securities	10.3	7.9	6.7	9.6
Obligations of State & political subdivisions	14.1	13.3	13.5	13.0
Federal funds and securities purchased 3/	4.3	5.1	5.7	4.9
Other loans	50.0	52.3	52.2	50.6
Other holdings	7.5	7.8	8.2	8.8
Metro--SMSA, 1 million population and over 1/ 6/				
Cash and cash due from banks	18.2	16.1	15.9	15.3
U.S. securities	7.0	5.2	4.5	7.5
Obligations of State & political subdivisions	10.7	9.5	8.8	9.1
Federal funds and securities purchased 3/	3.1	3.7	3.7	3.9
Other loans	52.4	55.6	55.9	52.9
Other holdings	8.6	9.9	11.2	11.3

1/ See table 1 for definitions of SMSA, metro, and nonmetro.
2/ Includes 651 counties.
3/ Under agreement to resell; Federal Government is not involved in these transactions.
4/ Includes 1,230 counties.
5/ Includes 309 counties.
6/ Includes 132 counties.

A less pronounced change in the composition of bank assets occurred in the proportion held in cash and due from banks, which declined slightly in most areas. In the major metro counties, however, the shift was significant--a decline from 18 to 15 percent between 1972 and 1975. In the rural counties, the decline was about 1 percent.

Composition of Bank Liabilities, 1972-75

In metro areas, the shift in the ratio of time and savings deposits to total liabilities followed the same pattern as the loan-asset ratio. That is, as monetary policy tightened, growth in demand deposits slowed sharply and these banks raised more of their funds by selling time certificates of deposits (table 20). When the monetary policy was relaxed in 1975, the relative importance of demand deposits rose.

In rural counties, the growth of demand deposits slowed sharply when net farm income turned downward in 1974. But significant growth in time deposits continued as did the long term trend toward greater importance of time deposits.

As previously mentioned, the data also show that rural banks rely heavily on funds generated locally--demand plus time and savings deposits. Metro banks have much more diversified sources of funds. In 1975, the categories "Deposits of commercial banks" and "Federal funds purchased and securities sold" accounted for more than 19 percent of funds of banks in the large metro counties, but for rural banks these sources contributed negligible amounts.

There was a noticeable consistency in the percent of total bank loans allotted to each category of borrowers in both nonmetro and metro counties in 1972-75 (table 21). Changing monetary policy did not seem to affect appreciably the percentage of bank loans going to the different types of borrowers. Housing loans as a percent of total loans edged up by only about 1 percent in nonmetro counties and increased less than 1 percent in metro counties.

Government-Insured Mortgages, 1972-75

Mortgages are insured by Government agencies to reduce the lenders' risk in making the loan and to make the mortgage easier to sell. In 1972-75, there was a clear movement on the part of the commercial banks away from Government-insured and guaranteed mortgages (table 22). In rural counties, the percentage of housing loans insured by FHA dropped from 6 percent in 1972 to less than 3 percent in 1975. Apparently, conventional loans were more profitable.

It should be noted that in 1972-75, Government-insured and guaranteed loans played a lesser role in rural than in urban home financing. Other studies have shown this to be true for earlier years. Rural banks are apparently less willing to accept Government-backed housing loans, with their longer terms and lower down payments, than loans from conventional sources. Rural borrowers have thus been placed at a relative disadvantage in obtaining Government-backed bank loans.

Savings and Loan Associations

S&L's in the large metro areas, like metro banks, were markedly affected by the changes in monetary policy between 1972 and 1975; S&L's in rural areas were affected only slightly. The effect was shown by the metro S&L's borrowing heavily from the FHLBB as monetary policy tightened, while the rural S&L's borrowing decreased. The difference may reflect the impact of rising farm incomes in the rural sector which offset the effect of monetary restraints.

Table 20--Types of liabilities held by urban and rural banks, December 31, 1975

(Counties with limited and no branch banking)

Location and type of liability	1972	1973	1974	1975
	Percent			
Nonmetro--rural counties 1/ 2/				
Demand deposits 3/	36.8	36.9	33.8	31.8
Time and savings deposits 3/	50.1	50.6	53.2	55.9
Deposits of State and political subdivisions 4/	9.6	9.4	9.6	9.1
Deposits of commercial banks	0.2	0.2	0.1	0.2
Federal funds purchased and securities sold 5/	0.1	0.1	0.2	0.3
Other liabilities	3.2	2.8	3.1	2.7
Nonmetro--city population of 2,500-50,000 1/ 6/				
Demand deposits 3/	33.7	33.2	30.9	29.5
Time and savings deposits 3/	51.4	51.8	53.6	56.0
Deposits of State and political subdivisions 4/	9.5	9.6	9.8	9.3
Deposits of commercial banks	0.7	0.6	0.6	0.6
Federal funds purchased and securities sold 5/	0.4	0.7	0.8	0.8
Other liabilities	4.3	4.1	4.3	3.8
Metro--SMSA to 1 million population 1/ 7/				
Demand deposits 3/	33.2	31.5	29.8	29.4
Time and savings deposits 3/	42.5	43.2	44.6	47.0
Deposits of State and political subdivisions 4/	11.1	11.3	11.3	10.6
Deposits of commercial banks	4.3	4.0	4.2	4.1
Federal funds purchased and securities sold 5/	3.3	4.5	5.1	4.2
Other liabilities	5.6	5.5	5.0	4.7
Metro--SMSA 1 million population and over 1/ 8/				
Demand deposits 3/	32.6	29.2	26.8	27.8
Time and savings deposits 3/	32.9	34.1	35.9	36.8
Deposits of State and political subdivisions 4/	6.3	6.1	6.0	5.4
Deposits of commercial banks	9.4	9.8	11.2	10.4
Federal funds purchased and securities sold 5/	7.5	9.1	8.3	8.6
Other liabilities	11.3	11.7	11.8	11.0

1/ See table for definitions of SMSA, metro, and nonmetro.
2/ Includes 651 counties.
3/ Individuals, partnerships, and corporations.
4/ Demand and time.
5/ Under agreement to repurchase; Federal Government is not involved in these transactions.
6/ Includes 1,230 counties.
7/ Includes 309 counties.
8/ Includes 132 counties.

Table 21--Types of loans held by urban and rural banks, December 31, 1975

(Counties with limited and no branch banking)

Location and type of loan	1972	1973	1974	1975
		Percent		
Nonmetro--rural counties 1/ 2/				
Housing	16.3	17.0	17.4	17.6
Real estate secured by farmland	9.0	8.8	8.6	8.6
Real estate secured by nonfarm, nonrural property	5.5	5.8	5.9	5.9
To farmers	33.6	33.2	32.9	33.0
To individuals	20.0	19.7	19.1	18.9
To financial institutions and dealers in securities	1.0	0.7	0.7	0.6
Commercial and industrial	13.6	13.8	14.4	14.4
Other	1.0	1.0	1.0	1.0
Nonmetro--city population of 2,500-50,000 1/ 3/				
Housing	21.6	22.3	22.8	23.0
Real estate secured by farmland	5.4	5.3	5.3	5.1
Real estate secured by nonfarm, nonrural property	8.3	8.7	8.8	8.8
To farmers	15.6	15.6	15.4	15.8
To individuals	25.7	25.1	24.3	24.4
To financial institutions and dealers in securities	1.6	1.3	1.1	1.1
Commercial and industrial	20.6	20.4	21.1	20.6
Other	1.2	1.3	1.2	1.2
Metro--SMSA to 1 million population 1/ 4/				
Housing	19.6	20.2	20.4	20.5
Real estate secured by farmland	1.1	1.1	1.1	1.1
Real estate secured by nonfarm, nonrural property	10.2	10.8	11.2	11.5
To farmers	3.1	3.3	3.0	2.9
To individuals	28.3	27.9	27.1	27.3
To financial institutions and dealers in securities	5.4	4.6	4.2	3.9
Commercial and industrial	30.1	30.0	30.8	30.7
Other	2.2	2.1	2.2	2.1
Metro--SMSA 1 million population 1/5/				
Housing	11.4	11.4	11.1	11.5
Real estate secured by farmland	0.2	0.2	0.2	0.2
Real estate secured by nonfarm, nonrural property	7.0	7.1	6.9	7.9
To farmers	0.5	0.6	0.5	0.5
To individuals	15.8	14.6	13.2	14.2
To financial institutions and dealers in securities	19.9	19.6	18.6	17.6
Commercial and industrial	42.0	42.8	46.0	44.7
Other	3.2	3.7	3.5	3.4

1/ See table 1 for definitions of SMSA, metro, and nonmetro.
2/ Includes 651 counties.
3/ Includes 1,230 counties.
4/ Includes 309 counties.
5/ Includes 132 counties.

Table 22--Housing loans on 1- to 4-family units insured or guaranteed by FHA or VA, held by urban and rural banks, December 31, 1972-75

(Counties with limited and no branch banking)

Location and type of housing loan	1972	1973	1974	1975
		Percent		
Nonmetro--rural counties 1/ 2/				
Insured by FHA	6.4	4.4	3.8	2.9
Guaranteed by VA	0.8	0.6	0.5	0.5
Conventional	92.8	95.0	95.7	96.6
Nonmetro--city population of 2,500-50,000 1/ 3/				
Insured by FHA	4.9	3.5	3.2	2.7
Guaranteed by VA	1.8	1.5	1.2	1.2
Conventional	93.3	95.0	95.6	96.1
Metro--SMSA to 1 million population 1/ 4/				
Insured by FHA	7.3	5.6	4.8	4.2
Guaranteed by VA	4.3	3.6	3.4	3.4
Conventional	88.4	90.8	91.8	92.4
Metro--SMSA 1 million population and over 1/ 5/				
Insured by FHA	11.6	8.9	7.2	6.6
Guaranteed by VA	7.4	6.2	5.3	4.8
Conventional	81.0	84.9	87.5	88.6

1/ See table 1 for definitions of SMSA, metro, and nonmetro.
2/ Includes 651 counties.
3/ Includes 1,230 counties.
4/ Includes 309 counties.
5/ Includes 132 counties.

Composition of S&L Assets, 1972-75

S&L's serving the more rural counties carried a slightly higher percentage of their assets in cash and investments that were eligible for liquidity than did the more urban S&L's (table 23). Rural S&L's were thus less completely loaned up to capacity. The ratio of housing loans to total assets declined by about 3 percentage points in both nonmetro and metro counties during 1972-75.

Composition of S&L Liabilities, 1972-75

Compared with metro S&L's, rural S&L's have a considerably larger percent of their deposits in the form of accounts earning more than regular passbook rate (table 24). Since such accounts carry a higher rate of return to the depositors, rural S&L's may be paying their depositors more for the use of their funds than are urban S&L's. That could result in a higher interest rate paid by rural borrowers, but no data on this matter were collected.

Table 23--Types of assets held by urban and rural savings and loan associations December 31, 1975

(Counties with limited and no branch banking)

Location and type of asset	1972	1973	1974	1975
	Percent			
Nonmetro--rural counties 1/ 2/				
Cash and investments	11.2	10.7	11.6	11.9
Housing loans	76.9	76.0	77.2	73.7
Other loans	7.9	8.5	6.3	8.3
Other assets	4.0	4.8	4.9	6.1
Nonmetro--city population of 2,500-50,000 1/ 3/				
Cash and investments	10.4	9.5	9.4	9.9
Housing loans	75.1	75.3	74.6	72.8
Other loans	10.3	10.7	11.0	11.4
Other assets	4.2	4.5	5.0	5.9
Metro--SMSA to 1 million 1/ 4/				
Cash and investments	10.2	8.7	8.8	10.1
Housing loans	75.2	75.7	74.8	72.5
Other loans	10.1	10.8	11.0	11.3
Other assets	4.5	4.8	5.4	6.1
Metro--SMSA 1 million and over 1/ 5/				
Cash and investments	9.9	8.9	9.2	10.4
Housing loans	77.1	77.6	76.1	73.3
Other loans	8.7	8.9	9.3	9.7
Other assets	4.3	4.6	5.4	6.6

1/ See table 1 for definitions of SMSA, metro, and nonmetro.
2/ Includes 651 counties.
3/ Includes 1,230 counties.
4/ Includes 309 counties.
5/ Includes 132 counties.

During the period 1972-75, there was a marked shift in all areas from accounts earning at or below regular passbook rate to accounts earning more than regular rate. Depositors with S&L's apparently preferred the certificate of deposit which tied up funds for a longer period, but paid a higher interest rate. S&L's in the more rural counties increased the percentage of their deposits in accounts earning more than regular rate from 45.2 percent in 1972 to 54.2 percent in 1975. In major metro counties, the increase was from 38.4 percent in 1972 to 44.0 percent in 1975. Depositors of nonmetro S&L's showed a persistently greater preference for the higher yielding account throughout the period under review.

A significant difference in the manner of operation of rural and urban S&L's was shown by their uses of FHLBB advances. In general, rural S&L's used FHLBB advances less than urban S&L's. As a result, monetary policy affected the rural S&L's little. In 1973 and 1974, when "tight money" policies were in effect, S&L's serving the more rural counties had 1.7 and 1.2 percent of their funds from FHLBB advances, as compared with 1.6 percent in 1972 and 1.0 in 1975. By contrast, S&L's serving the major metro

Table 24--Types of liabilities held by urban and rural savings and loan associations, December 31, 1975

(Counties with limited and no branch banking)

Location and type of liability	1972	1973	1974	1975
		Percent		
Nonmetro--rural counties 1/ 2/				
Accounts earning more than regular rate	45.2	47.1	51.8	54.2
Accounts earning at or below regular rate	42.3	41.2	37.9	36.5
FHLBB advances due in 1 year or less	0.9	1.1	0.3	0.4
FHLBB advances due in more than 1 year	0.7	0.6	0.9	0.6
Other liabilities	10.7	10.0	9.1	8.3
Nonmetro--city 2,500-50,000 population 1/ 3/				
Accounts earning more than regular rate	50.4	52.4	55.7	57.9
Accounts earning at or below regular rate	37.0	35.1	31.6	30.1
FHLBB advances due in 1 year or less	1.3	1.5	1.2	1.2
FHLBB advances due in more than 1 year	1.0	1.3	2.3	1.8
Other liabilities	10.3	9.7	9.2	9.0
Metro--SMSA to 1 million population 1/ 4/				
Accounts earning more than regular rate	43.6	45.9	48.2	50.6
Accounts earning at or below regular rate	42.3	38.9	35.6	34.9
FHLBB advances due in 1 year or less	1.4	1.7	1.6	1.4
FHLBB advances due in more than 1 year	1.3	2.7	4.3	2.8
Other liabilities	11.4	10.8	10.3	10.3
Metro--SMSA 1 million and over 1/ 5/				
Accounts earning more than regular rate	38.4	40.7	42.1	44.0
Accounts earning at or below regular rate	46.7	42.6	39.6	40.0
FHLBB advances due in 1 year or less	2.0	3.0	2.4	1.9
FHLBB advances due in more than 1 year	1.4	2.9	5.0	3.6
Other liabilities	11.5	10.8	10.9	10.5

1/ See table 1 for definitions of SMSA, metro, and nonmetro.
2/ Includes 651 counties.
3/ Includes 1,230 counties.
4/ Includes 309 counties.
5/ Includes 132 counties.

counties were markedly affected by the changes in monetary policy. Metro S&L's showed 5.9 and 7.4 percent of their liabilities as FHLBB advances in 1973 and 1974, compared with 3.4 and 5.5 percent in 1972 and 1975, respectively. This pattern corresponds closely to the changes shown in the loan-asset ratio of metro banks, which were also affected by the changes in monetary policy.

Government-Insured Mortgages

In general, S&L's obtain Government insurance on a higher percentage of their loans than do banks. As with banks, however, Government-insured loans are more common in urban than in rural areas (table 25). In 1972, 6 percent of single-family housing loans advanced by rural S&L's were insured by FHA or VA; by 1975, the figure had declined to 4 percent. In the major metro counties, by contrast, the figure was 20 percent in 1972 and declined to 16 percent in 1975.

Table 25--Housing loans insured or guaranteed by FHA or VA by urban and rural savings and loan associations, December 31, 1972-75

(Counties with limited and no branch banking)

Location and type of mortgage held	1972	1973	1974	1975
		Percent		
Nonmetro--rural counties 1/ 2/				
Single-family, guaranteed by VA	3.3	3.0	2.2	2.4
Single-family, insured by FHA	2.7	2.2	1.8	1.8
Single-family, conventional mortgage	88.9	89.7	89.2	90.5
Other housing insured by FHA	0.1	0.0	0.0	0.0
Other housing, conventional mortgage	4.0	4.2	6.3	5.0
Mobile homes	1.0	0.9	0.5	0.3
Nonmetro--city population of 2,500-50,000 1/ 3/				
Single-family, guaranteed by VA	5.6	5.4	5.3	5.0
Single-family, insured by FHA	6.8	5.8	5.2	4.5
Single-family, conventional mortgage	78.3	79.2	79.8	81.2
Other housing insured by FHA	0.4	0.3	0.3	0.2
Other housing, conventional mortgage	7.6	7.9	7.9	7.8
Mobile homes	1.3	1.4	1.5	1.3
Metro--SMSA to 1 million 1/ 4/				
Single-family, guaranteed by VA	8.1	7.7	7.6	7.3
Single-family, insured by FHA	8.9	7.7	7.1	6.4
Single-family, conventional mortgage	68.0	70.0	71.2	72.7
Other housing insured by FHA	0.9	0.7	0.6	0.6
Other housing, conventional mortgage	13.1	12.7	12.3	11.9
Mobile homes	1.1	1.2	1.2	1.1
Metro--SMSA 1 million and over 1/ 5/				
Single-family, guaranteed by VA	9.9	9.6	9.4	9.0
Single-family, insured by FHA	9.9	8.7	8.1	7.2
Single-family, conventional mortgage	60.6	62.8	64.1	66.5
Other housing insured by FHA	1.1	1.1	1.0	0.9
Other housing, conventional mortgage	17.9	17.2	16.8	15.8
Mobile homes	0.6	0.6	0.6	0.6

1/ See table 1 for definitions of SMSA, metro, and nonmetro.
2/ Includes 651 counties.
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