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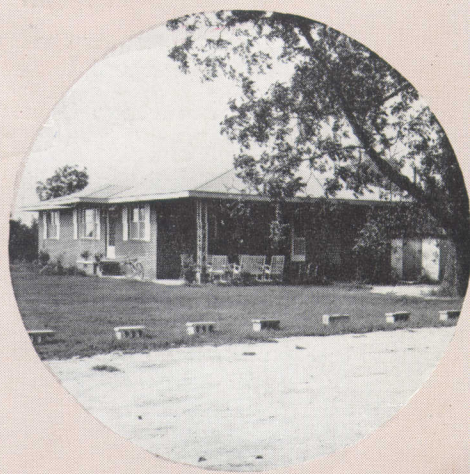
Rural Housing Situation and Needs



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RURAL HOUSING SITUATION AND NEEDS*

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SPECTACULAR CHANGES have occurred in rural areas since World War II. The number of full-time farmers has declined while part-time farmers and non-farm rural residents have become more numerous. Although there has been a general decline in the proportion of total population living in rural areas, the greatest change has been in the way rural people make their living and where they work. Much of the rural population is rapidly acquiring characteristics similar to those of the urban sector.

Occupations of rural people have become more diversified and their incomes have increased. Many choose to live in rural areas even though they must travel considerable distances to work.

Greater dependence on non-farm sources of income has helped narrow the gap in incomes and standards of living between rural and urban residents in the Southeast. However, rural housing in the Southeast is still substandard as compared with urban housing and rural housing in certain other areas of the United States.

Rural residents have serious housing problems. How to meet their housing needs is the major problem. Difficulties in financing home purchase, construction, or improvement appeared to be obstacles to solving housing problems. Therefore, a research study

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** Resigned.

*** The authors acknowledge the cooperation of all the rural residents and representatives of lending institutions who supplied the basic information on which this study is based.

was undertaken to find out the housing needs and financing problems faced by rural residents. Data were obtained from a sample of rural residents and lenders in Alabama, Georgia, Mississippi, and South Carolina.

PHASES of STUDY

The study was divided into two phases. Phase one dealt with the extent to which lenders were making housing loans to rural residents and their policies and practices in making loans for purchase, construction, and improvement of rural houses.[1]

Phase two of the study was concerned with the housing situation, needs, and desires of rural residents. It attempted to find out the extent to which rural people used various sources of housing credit, including their reluctance or inability to use credit facilities. This bulletin presents information from phase two.

Sampling Procedure

A sample of 665 rural residents supplied basic data for the study, Figure 1. The sampling process consisted of selecting 20 out of 305 counties. Each county had a probability of entering the sample based on the proportion that number of rural dwelling

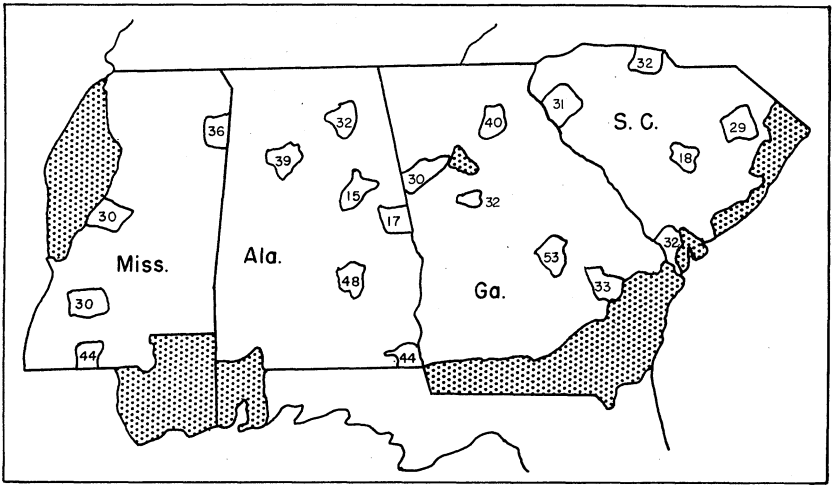

FIG. 1. Location of the 665 rural resident households in the sample are shown on the map. Shaded areas of the four states were excluded from the sample.

[1] A companion report entitled "Financing Rural Homes," published as Auburn University Agricultural Experiment Station Bulletin 333, presents information from the lender phase of the study.

units in the county was to the total in the 4-state area in 1950. Certain counties in each state were excluded prior to drawing the sample. Exclusions were made because such counties were composed largely of urban residents or because the population and agricultural characteristics of these counties were not representative of the Old Cotton Belt Area.

After sample counties were selected, segments within counties were drawn by a random unbiased method. Residents within the sample segments were interviewed by trained enumerators in the spring and early summer of 1959. Either husband or wife was interviewed in husband-wife households. In others, data were obtained from the person considered by members of the household to be the head. Only occupants of single family or single household dwelling units were interviewed.

THE HOUSES

Almost three-fifths of the houses in the sample were located in open country. Twenty per cent were in fringe areas near urban places of 2,500 to 50,000 population; 15 per cent were in towns of less than 2,500 population; and 5 per cent were in developing open country areas.

Forty-eight per cent of the houses were on paved roads. Thirty per cent were on all-weather improved dirt roads, and 22 per cent were on unimproved dirt roads.

Observations of 3,570 houses in the sample segment areas showed 10 per cent to be vacant in the spring of 1959. Two out of every five vacant houses were classified as unsuitable for occupancy.

Age

In many cases, age of house is a rough indicator of general housing conditions. Age alone, however, does not measure the adequacy or structural soundness of a house.

More than a third of the houses in the sample were built prior to 1930, as shown below:

Year house built	*Percentage of houses*
1929 or earlier	36
1930-39	10
1940-49	16
1950-54	10
Since 1954	13
Not ascertained	15
TOTAL	100

Size

Average floor space in the sample of houses was 1,038 square feet. Size of houses ranged from 156 to 3,800 square feet.

Distribution of average number of square feet per person in the household was as follows:

Number of persons in household	*Square feet per person, average*
1	1,066
2	504
3	344
4	256
5	226
6	200
7	136
8	119
9 and over	99
AVERAGE	253

Ninety-six per cent of the houses were single-story units.

How Acquired

Fifty-seven per cent of the rural residents owned the houses they occupied. Thirty per cent rented and the remainder lived in houses rent free. Of the owners, 47 per cent purchased, 41 per cent built, and 12 per cent inherited the houses they occupied in 1959. The major reason given for building or buying a house was to get a more desirable location.

More than a third of those who built houses did the construction with members of their household and hired labor that assisted with the plumbing and wiring. Seventeen per cent of the construction was done by members of the household only, 19 per cent by hired workers only, and the remaining 29 per cent by contractors.

FACILITIES and CONVENIENCES

Most rural residences had electricity, but only two out of five had telephones, Table 1. Forty per cent had no piped running water inside or outside the house. As a result, toilet, bath, and washing facilities were limited.

Those without piped water carried water an average distance of 100 feet. About three-fourths carried water 50 feet or less, but 9 per cent carried it 350 feet or more. For a few families, the source of water was more than 1,000 feet from the house. Dug

TABLE 1. PERCENTAGE OF HOUSES WITH VARIOUS FACILITIES AND CONVENIENCES AS REPORTED BY 665 RURAL RESIDENTS, SOUTHEASTERN U.S., 1959

Facility or convenience	Proportion of houses
	Per cent
Electricity	96
Telephone	39
Water supply and facilities	
Hot and cold piped water inside	43
Only cold piped water inside	14
Piped water outside	3
No piped water	40
Hot water heater	43
Kitchen sink	58
Installed tub or shower	43
Washing machine	64
Toilet facilities	
Flush toilet	44
Privy, outhouse	50
No toilet	6
Refrigeration facilities	
Electric or gas refrigerator	87
Ice box	7
None	6
Cooking fuel used	
Electricity	47
Wood or coal	29
Natural or bottled gas	22
Kerosene or fuel oil	2

and drilled wells were almost of equal importance as sources of water. Twenty-four per cent obtained water from a city or town distribution system.

CHARACTERISTICS of RURAL RESIDENTS

The sample of rural residents consisted of the following occupational groups: full-time farmers, 17 per cent; part-time farmers, 10 per cent; farm laborers, 9 per cent; other occupations (non-farm), 48 per cent; and retired, unemployed, or disabled, 16 per cent. More than 60 per cent of those in the non-farm occupation group were operative or kindred workers, craftsmen, foremen, or non-farm laborers. Less than 20 per cent were in managerial, professional, or technical occupational classifications.

Average distance traveled by those who commuted to work was 23 miles. Sixteen per cent traveled more than 40 miles and 7 per cent more than 75 miles per day. The greatest distance reported was 112 miles.

Formal Education

Years of formal education completed by heads of households were as follows:

Years of formal education	*Percentage of heads of households*
None	2
1-6	42
7-12	47
Over 12	9
TOTAL	100

Level of formal education was closely related to several factors. Net income and net worth of heads of households increased as educational level increased. However, average number of persons in the household decreased as years of formal education of the head of household increased. Owners generally had completed more grades of school than renters. Sixty-eight per cent of the residents who occupied houses rent free had completed less than seven grades.

Age of Head of Household

Forty-seven per cent of the heads of households were 50 years old or over. Only 30 per cent were younger than 40. Average age was 49 years. Those in the non-farm occupational group averaged 10 years younger than those in the farm groups.

The relatively large percentage in older age groups was influenced by the number of retired heads of households in the sample. In most cases, size of households of older and retired residents was relatively small.

Size of Households

Size of non-white households, which made up 30 per cent of the sample, averaged 5.1 persons. Households of white residents averaged 3.7 persons. Twenty-one per cent of all households included more than 5 persons. Average size household for all residents was 4.1 persons.

Net Income and Net Worth

The average annual net income of heads of households was $2,374, Table 2. In 41 per cent of the cases, both husband and wife were employed. Income from this dual employment, along with work by certain other members of the family, raised the av-

TABLE 2. AVERAGE ANNUAL NET INCOME AND NET WORTH OF HEADS OF HOUSEHOLDS, RURAL RESIDENTS, SOUTHEASTERN U.S., 1959

Occupational group	Average net worth		Average annual net income	
	Number reporting	Amount	Number reporting	Amount
	Number	*Dollars*	*Number*	*Dollars*
Full-time farmer	94	10,801	107	1,810
Part-time farmer	54	14,694	64	2,771
Farm laborer	55	259	56	844
Other occupation (non-farm)	248	7,369	303	3,217
No occupation (retired, disabled, or unemployed)	90	11,002	100	1,035
TOTAL OR AVERAGE	542	8,584	631	2,374

erage family net income to $2,973. Net incomes of heads of households employed in non-farm occupations were the highest of any group. Part-time farmers also earned a higher average net income than did full-time farmers.

Average net worth (the difference in value of things owned and amount owed to others) was highest for part-time farmers and lowest for farm laborers.

Not all rural residents had outstanding debts. Only 24 per cent

TABLE 3. PERCENTAGE REPORTING AND AVERAGE AMOUNT OF REAL ESTATE AND NON-REAL ESTATE LIABILITIES, 665 RURAL RESIDENTS, SOUTHEASTERN U.S., 1959

Classification	Real estate liabilities		Non-real estate liabilities	
	Proportion reporting	Average amount	Proportion reporting	Average amount
	Per cent	*Dollars*	*Per cent*	*Dollars*
Occupational group				
Full-time farmer	24	927	39	255
Part-time farmer	9	762	37	463
Farm laborer	0	----	50	129
Other occupation (non-farm)	10	856	46	490
No occupation (retired, disabled, or unemployed)	0	----	19	171
Net income of head of household				
Less than $1,000	4	1,150	45	206
$1,000-$1,999	8	1,805	59	250
$2,000-$2,999	21	2,302	61	431
$3,000-$4,999	26	3,791	62	708
$5,000 and over	39	6,274	40	1,406
Tenure				
Renter	2	3,820	58	378
Owner	27	3,760	47	603
Rent free	2	4,250	58	258

of the full-time farmers, 9 per cent of the part-time farmers, and 10 per cent of those in non-farm occupations had outstanding liabilities on real estate. However, the non-farm group had the highest proportion of non-real estate liabilities, Table 3. The average amount of non-real estate liabilities was greatest for part-time farmers and non-farmers.

As net income of heads of households increased, both real estate and non-real estate liabilities increased. Also, the percentage with real estate liabilities increased with income. On the other hand, the ratio of outstanding real estate and non-real estate indebtedness to net income decreased as income increased.

HOUSING CONDITIONS and NEEDS

The 1950 Census of Housing reported more than a third of all occupied dwelling units in the Southeast as dilapidated. This meant that a serious deficiency in structure or condition existed, maintenance was neglected, or that original construction was inadequate to provide shelter and protection against the elements and to afford safety for the occupants.

Housing Score

To make comparisons among groups and to indicate general housing conditions, a housing scoring system was devised. The score included facilities, floor space in relationship to number of persons occupying the house, and condition of the exterior of the house. Kind and condition of foundation, siding, and roof could account for a maximum of 52 points; floor space relative to persons in the household, 34 points; and facilities, 14 points. Thus, the maximum score was 100. Details of the scoring system are presented in the Appendix.

Only 14 out of 100 points were assigned to facilities. The reason for not giving more weight to facilities was that, in general, facilities are more easily acquired and financed than is addition of space or improvement or renovation of a structural part of the house.

Selected houses in the Chambers County, Alabama, sample areas and their respective housing scores are shown in Figures 2 through 5.

Rural residents in the non-farm occupational group had a higher average housing score than did other groups, Table 4. Owners also had a higher average score than did renters or resi-

FIG. 2. This dilapidated house scored 34 points out of a possible 100. It had 900 square feet of foor space and was occupied by nine persons when the study was made. The family vacated the house shortly after the survey was made.

FIG. 3. Score for this house was 40 out of a possible 100 points. The house was deficient in all modern facilities except electricity.

FIG. 4. Shown here is a rural home that had been remodeled since 1951. With a score of 82 points, this house rated much higher than many in the survey.

FIG. 5. Occupied by two persons, this house had 1,200 square feet of floor space and was equipped with modern facilities. It scored 90 points.

TABLE 4. RELATIONSHIP OF HOUSING SCORE TO OCCUPATION, TENURE, RACE, NUMBER OF PERSONS IN HOUSEHOLD, EDUCATION, AND NET INCOME OF HEAD OF HOUSEHOLD, 665 RURAL RESIDENTS, SOUTHEASTERN U.S., 1959

Classification	Average housing score
Occupational group	
Full-time farmer	64
Part-time farmer	64
Farm laborer	39
Other occupation (non-farm)	70
No occupation (retired, disabled, or unemployed)	64
Tenure	
Owner	73
Renter	62
Rent free	52
Race	
White	70
Non-white	30
Number of persons in household	
2 or less	72
3-5	69
6-8	58
9 or more	47
Formal education of head of household	
No schooling	47
1-6 grades	54
7-12 grades	71
More than 12 grades	87
Net income of head of household	
Less than $1,000	57
$1,000-$1,999	62
$2,000-$2,999	67
$3,000-$4,999	76
$5,000 and over	84

dents who occupied their houses rent free. Average housing scores increased as net income of heads of households increased and as number of persons in households decreased.

Housing Deficiencies

A majority of the rural residents, both owners and renters, recognized and reported housing deficiencies. Others, however, failed to recognize deficiencies. The housing situation in the Southeast is partially the result of failure to recognize needs and to take necessary action to overcome housing deficiencies.

Deficiencies reported were varied. Twenty per cent of the respondents rated the exterior condition of the house as the most

TABLE 5. PERCENTAGE DISTRIBUTION OF THREE MOST SERIOUS HOUSING DEFICIENCIES REPORTED BY 523 RURAL RESIDENTS, SOUTHEASTERN U.S., 1959

Deficiency	Rating of deficiency		
	1st	2nd	3rd
	Per cent	*Per cent*	*Per cent*
Exterior of house	20	13	19
Space for sleeping	15	11	4
Bathroom	15	4	2
Space for storage, preparation, and service of food	14	20	21
Space for clothing storage	11	26	22
Water system	6	2	0
Space for laundry work	5	7	15
Space for leisure, play, and hospitality	5	7	9
Interior of house	3	4	4
Heating system	2	1	1
Space for sewing	0	1	2
Other	4	4	1
TOTAL	100	100	100

serious deficiency, Table 5. Space for sleeping and bath facilities were each rated the most serious deficiency by 15 per cent of the respondents.

Of the rural residents recognizing and reporting housing deficiencies, an average of 28 per cent planned to correct the most serious deficiencies within 3 years. About 20 per cent each planned to correct the second and third most serious deficiencies within 3 years.

Although deficiencies in the exterior of houses were rated most serious, a larger percentage of rural residents planned corrections in the interior than exterior. Deficiencies and plans for correction were reported by owners and tenants. Inclusion of tenants resulted in relatively low percentages of those who planned corrections. The percentage of 523 rural residents who planned to correct most serious deficiencies within 3 years is shown below:

Correction planned	*Percentage planning correction*
Interior of house	50
Bathroom	47
Install running water system	39
Improve heating system	33
Exterior of house	31
Space for storage, preparation, and service of food	30
Space for laundry work	17
Space for clothing storage	17
Space for sleeping	13
Space for leisure, play, and hospitality	7
Other	50

Satisfaction with House

Although a large percentage of rural residents reported housing deficiencies, 67 per cent said they were satisfied with their houses. A larger percentage of owners than renters were satisfied. With exception of farm laborers, more than 60 per cent of all occupational groups were satisfied with their houses. As net income of heads of households increased and as number of persons in the household decreased, the percentage satisfied with their houses increased. Housing scores, as calculated, were closely correlated with the percentage expressing satisfaction with their present house.

It is believed that the large percentage expressing satisfaction with their houses, even though deficiencies were prevalent, stemmed from the belief that improvements were not attainable. Therefore, they were content with existing housing conditions.

Housing vs. Non-Housing Needs

Rural residents were asked to describe what they considered to be their most urgently needed expenditure of funds. Only 31 per cent said expenditures for housing were most urgent. Six per cent reported business expenditures, primarily for farm investment and operation, and 41 per cent reported non-housing, non-business items as most urgently needed. The non-housing non-business items included automobiles, boats, and appliances.

Apparently, rural residents felt that expenditures for non-housing items gave more total satisfaction and prestige than housing expenditures. Also, financing of automobiles, boats, and appliances was no doubt easier to obtain than that for housing.

Plans for Purchase or Construction of Houses

All residents were asked if they planned to build or buy a house. Only 9 per cent planned to build and 2 per cent planned to buy a house. Three out of five who planned to build said they would do so within 3 years. Houses planned in most cases included six to seven rooms.

Of the rural residents planning to build houses, 70 per cent said they would build in a rural area (open country). Twelve per cent planned to build in a town of less than 2,500 population and 14 per cent in a city of 2,500 to 50,000 population. None of the rural residents planned to build in a city of over 50,000 population.

REMODELING of HOUSES

More than 28 per cent of the rural resident owners had remodeled their houses since 1950. Remodeling was defined to include any basic change in floor plan or an expenditure of $300 or more on the house. The housing score as calculated was somewhat higher for those that had done some remodeling than for others.

Changes Made

Addition of space was the most prevalent kind of remodeling. This involved addition of a room or enlarging an existing one. Besides the addition of space, interior improvements were carried out by 34 per cent and exterior improvements by 17 per cent of the rural resident owners. Examples of these changes included putting sheetrock on interior walls, new siding on the outside, new flooring, a new roof, and installing plumbing and water facilities. Many respondents had made more than one kind of improvement.

Several owners reported that the addition of space overcame some of their housing problems. This group indicated that future changes would be made to fill other needs.

A larger proportion of rural resident owners in non-farm occupations remodeled their houses than did any other occupational group, Table 6. However, average expenditures for remodeling were less for non-farmers than for full-time or part-time farmers. There was little difference in average net income between families in the group that remodeled their houses and those that did not.

TABLE 6. NUMBER AND PERCENTAGE OF RURAL RESIDENT OWNERS WHO HAD REMODELED HOUSES SINCE JANUARY 1, 1951, AND AVERAGE AMOUNT SPENT, SOUTHEASTERN U.S., 1959

Occupational group	Remodeled since January 1, 1951		Average amount spent for remodeling
	Houses	Proportion	
	Number	*Per cent*	*Dollars*
Full-time farmer	12	18	1,514
Part-time farmer	16	31	1,140
Other occupation (non-farm)	109	58	1,059
No occupation (retired, disabled, or unemployed)	16	25	638
TOTAL OR AVERAGE	153	41	1,056

Only 30 per cent of the remodeling work was done by contractors. The remaining 70 per cent was accomplished by members of the household, hired workers, or neighbors with whom work was "swapped." Work by members of the household and neighbors reduced the total dollar cost as reported in Table 6.

Financing of Remodeling

Less than two-fifths of the rural resident owners who remodeled their houses borrowed funds to finance the cost. Of those who borrowed, 48 per cent obtained funds from commercial banks, 17 per cent from savings and loan associations, and 10 per cent from individuals. The remaining 25 per cent borrowed from various other sources.

In 41 per cent of the cases improvement or remodeling loans were unsecured. Fifty-nine per cent of the loans had some pledged security, usually a first or second mortgage. Also included as secured loans were those in which a promissory note was signed, many times with a co-signer in addition to the borrower.

The most common rate of interest paid on remodeling loans was 6 per cent per year. Annual interest rates ranged from 4.5 to 8 per cent. A third of the respondents who borrowed for remodeling did not know the rate of interest paid.

Time for repayment of remodeling loans ranged from 5 months to 20 years, the most frequent period being 3 years. Eighty-five per cent of the loans were scheduled for monthly and 15 per cent for annual payments. Almost half the loans obtained since 1950 had been repaid when the data were obtained. None of the rural residents with remodeling loans outstanding were behind in payments and 4 per cent were ahead of scheduled payments.

Plans for Future Remodeling

Plans for remodeling their houses within the next 3 years were reported by 27 per cent of the owners. As size of household increased, a larger proportion of heads of households planned to remodel houses within 3 years. Age of head of households was associated closely with number in the household. This, along with the fact that many heads of relatively small households were retired or disabled, influenced plans for making changes or remodeling of houses.

FINANCING of HOUSES BUILT or BOUGHT

Forty-one per cent of the rural resident owners in the sample bought or built the houses they occupied after 1950. Of these residents, 57 per cent borrowed funds to build or buy. The remaining 43 per cent did not borrow.

Terms of a first mortgage loan for financing a house determine to a large extent whether an individual can obtain and repay a loan without serious financial strain. Data presented in this section, primarily on terms of loans, are based on information from 87 rural residents who borrowed funds to finance houses built or bought since 1950.

Sources of Loans

Savings and loan associations were the source of loans for 37 per cent of the rural residents. Sixteen per cent borrowed from commercial banks, 5 per cent from life insurance companies, and 5 per cent from mortgage or realty companies. Individuals or relatives were sources of funds in 16 per cent of the cases. Seven per cent obtained loans from governmental agencies and 14 per cent from various other sources. In only one case was a second mortgage used in financing. However, almost 20 per cent stated that refinancing was involved when the housing loan was obtained.

"Knew lender personally" was the major reason given for borrowing from the stated lender. Reasons reported were as follows:

Reason for choosing lender	*Percentage reporting*
Knew lender personally	23
Lower interest rate	10
Longer repayment period	10
Had borrowed previously from lender	8
Quick service	7
Low down payment	6
Other	36
TOTAL	100

Three-fifths of the borrowers contacted only one lender to obtain the loan. The remaining borrowers contacted two to four lenders prior to getting a loan.

Shell home builders have become important sources of credit for rural homes in the last few years. Such homes are either built as "shells" that are not completed inside or as completed houses. Monthly payments are increased when the house is com-

pleted or when materials are furnished by the shell builder for completing the interior.

Shell houses were generally financed on a 5-year monthly payment schedule. Cost of houses, depending on size, design, and features ranged from $1,500 to $5,000. Based on limited observations, the true annual interest rate paid was found to be 10 to 12 per cent. Shell home builders apparently felt that relatively high interest rates and short repayment periods were justified because of risk incurred. No down payment as such was generally required. However, the buyer had to own the land on which the shell home was to be built. The builder took a first mortgage on the land and house.

Some buyers of shell homes indicated that they had trouble obtaining funds from commercial lenders for completing the house. Most lenders would not finance the cost of completing shell homes on a second mortgage basis.

It is estimated that the cost of completing shell homes amounted to almost as much as the shell. Therefore, the loan-to-value ratio on a house completed by the buyer is not as great as that for the shell only.

Interest Rates Paid

Interest charged on a loan for $10,000 at a 5 per cent rate amortized monthly over a 20-year period amounts to more than half the principal amount of the loan. Therefore, interest rate paid should be a major factor in determining the source of borrowed housing funds.

Of the owners who reported borrowing funds to build or buy houses since 1950, the most common interest rates paid were from 5.1 to 7 per cent annually. Thirty-five per cent paid less than 5.1 per cent interest and only 2 per cent paid more than 7 per cent.

Down Payment

The percentage of appraised value a lender is willing to lend on a house affects the amount of down payment required. Most lenders made no difference between the percentage of appraised value loaned on houses in urban and rural areas; however, many lenders appraise houses in rural areas at lower values than comparable houses in urban areas. This practice made it necessary for rural residents to make a larger down payment than urban residents.

TABLE 7. AVERAGE SIZE OF LOANS AND DOWN PAYMENTS ACCORDING TO USE OF FUNDS, RURAL RESIDENTS, SOUTHEASTERN U.S., 1951-1959

Purpose for which loan was obtained	Residents reporting	Average size of loan	Average down payment	Loan as percentage of cost	Down payment as percentage of loan
	No.	*Dol.*	*Dol.*	*Pct.*	*Pct.*
To purchase farm land and house together	9	5,167	3,957	56	77
To build house on farm land already acquired	10	3,634	2,512	59	69
To purchase small acreage with house	34	4,624	2,335	66	50
To build house on lot or small acreage already acquired	32	5,338	1,790	75	34
AVERAGE OR TOTAL	85	4,834	2,347	67	49

Of the rural residents who obtained home loans, the average size loan was $4,834, Table 7. This was 67 per cent of the average cost of the houses bought or built. Average loans varied from 56 to 75 per cent of average total cost. Down payment averaged 49 per cent of the loan obtained. Down payment as a percentage of loan was highest when farm land was purchased with a house on it and was lowest when funds were borrowed to build a house on a small acreage or lot.

Interviews with representatives of lending institutions indicated that the percentage of appraised value loaned was greater in rural areas when farm land was a part of the security given. However, data in Table 7 show that rural residents who borrowed to build houses on lots or small acreages obtained loans that averaged 75 per cent of cost, whereas those borrowing to purchase farm land and a house together obtained loans that averaged only 56 per cent of cost.

It is possible that rural residents who owned farms on which the houses were built could make larger down payments and did not need to borrow as large a percentage of the cost of their houses as did those who built on small acreages or lots. Data for rural residents covered the period since 1950 and lenders reported on their policies and practices during 1958 and 1959.

Closing Costs

Closing costs include such items as fees for title checks, credit reports, title insurance, origination fees, recording fees, taxes, and

TABLE 8. AVERAGE CLOSING COSTS FOR $10,000 CONVENTIONAL, FHA-INSURED, AND VA-GUARANTEED LOANS, BY TYPE OF LENDER, SOUTHEASTERN U.S., 1959

Type of lender	Conventional loan		FHA-insured loan		VA-guaranteed loan	
	Lenders reporting	Closing costs	Lenders reporting	Closing costs	Lenders reporting	Closing costs
	No.	*Dol.*	*No.*	*Dol.*	*No.*	*Dol.*
Commercial banks	31	102	6	250	2	248
Life insurance companies	17	214	11	333	4	290
Savings and loan associations	33	188	6	354	3	300
TOTAL OR AVERAGE	81	160	23	317	9	284

insurance for a year or other stated period. The amount required as a closing cost sometimes prevents a resident from acquiring a house.

Data obtained from lenders indicated that closing costs for conventional loans were less than those for FHA-insured or VA-guaranteed loans, Table 8. Commercial banks charged less for closing housing loans than did other types of commercial lenders.

Amount and Frequency of Payments

Eighty per cent of the housing loans were repaid on a monthly basis, 10 per cent annually, and only 3 per cent semi-annually. The remaining 7 per cent obtained funds from relatives and had no set time for making payments or period in which the loans must be repaid.

For those repaying loans on a monthly basis, the average payment was $56. Semi-annual payments averaged $450 and annual payments $627. The percentage distribution of housing payments on a monthly basis regardless of payment period was as follows:

Monthly payment	*Percentage of loans*
$20 or less	6
21-35	20
36-50	28
51-75	22
76 or more	24
TOTAL	100

Length of Loans

The original time period for repayment of first mortgage housing loans ranged from 1 to 25 years, with the average being 10

years. The largest proportion of all loans was for less than 6 years, as shown below:

Length of loan, years	*Percentage of loans*
Less than 6	33
6-10	24
11-15	21
16-20	18
21 and over	4
TOTAL	100

COMPARISON of CREDIT AVAILABLE for RURAL and URBAN HOUSING

The procedure or framework for the flow of housing investment funds is quite different for urban compared with rural areas. To a large extent in rural areas, funds are obtained directly from the lender by the rural resident. In urban areas, realtors, construction lenders, and development builders are instrumental in arranging financing for the buyer. They promote construction, sale, and financing of houses.

In many instances in urban areas, the development builder acquires land and subdivides it into lots. Houses are built and a realtor sells them. Prior to construction, commitments may be obtained for FHA insurance or a VA guarantee on mortgages. Commitments may also be obtained from lenders, such as bankers, savings and loan associations, insurance companies, and others, to supply mortgage funds. Insurance and guarantee programs have been effective in inducing lenders to invest in urban residential mortgages in the past.

A vast majority of government-insured mortgages has been on urban houses. Rural houses have been financed by funds obtained under conventional-type mortgages. Terms under which FHA and VA loans are made are more liberal than are those for conventional loans because of government backing.

Section 203(i) of the National Housing Act gives the Federal Housing Administration authority to insure loans on homes in remote areas and on farms of 5 acres or more adjacent to a public highway. In 1958, less than 1 per cent of all applications received by the Federal Housing Administration Office in Alabama were in towns of less than 2,500 population. The Voluntary Home Mortgage Credit Program and the Certified Agency Program were also initiated to aid in the flow of mortgage funds to small towns and remote areas, but they have been relatively unsuccessful.

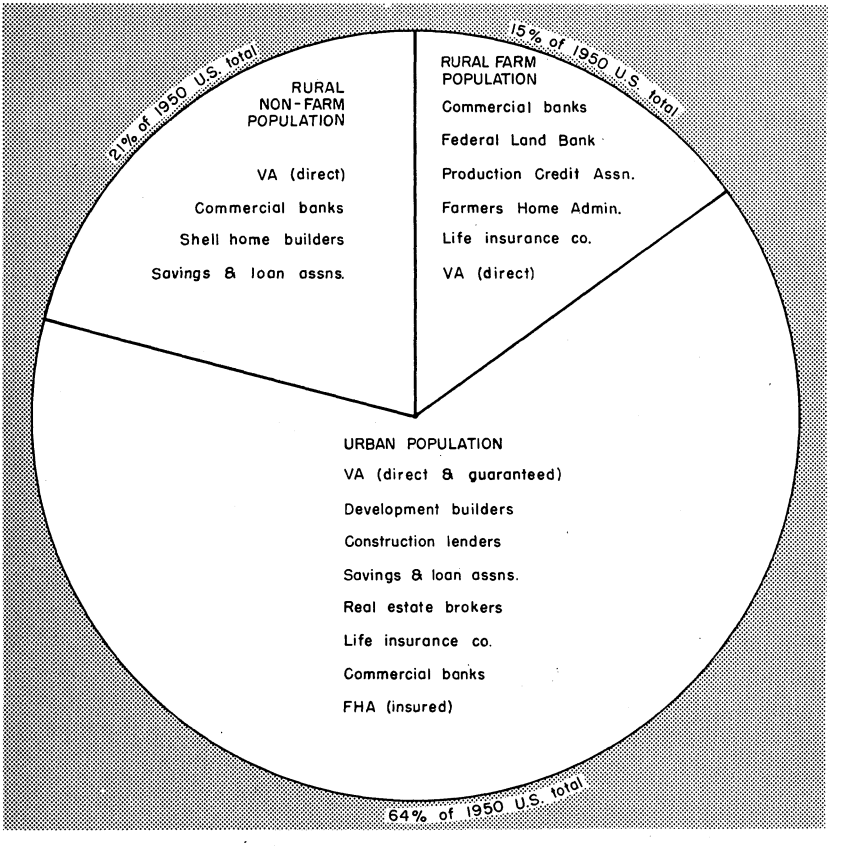

FIG. 6. Sources of housing credit that are available to urban, rural farm, and rural non-farm residents are shown by the graph. Also shown is the proportion that each population segment was of total population in 1950.

Most legislation intended to facilitate rural housing improvement has been aimed at farmers, yet farmers are now in the minority in the Southeast. Rural non-farm residents and part-time farmers have received little consideration.

The Farmers Home Administration supplies credit to farmers who have resources for successful farming but are unable to borrow on reasonable terms from other lenders. Appropriated funds are used to make housing loans and, in addition, the Farmers Home Administration will insure loans made by commercial lenders. Only 3 per cent of the commercial banks and none of the insurance companies or savings and loan associations in the sample made any loans insured by the Farmers Home Administration in

1958-59. Farmers Home Administration housing loans made with appropriated funds vary in availability to rural residents depending on the definition of a farm used. This definition is changed from time to time.

Federal Land Bank Associations also provide credit for housing to farmers. They do not serve the rural non-farm sector.

The Veterans Administration, besides guaranteeing loans made by commercial lenders, also makes direct loans with appropriated funds. In 1958-59, VA State Offices in the four Southeastern States made an average of 600 real estate loans, all of which were for homes. Over half of these were made to residents in rural areas.

The various sources of home mortgage funds available to urban, rural non-farm, and rural farm residents are presented in Figure 6.

SUMMARY and CONCLUSIONS

To most people, the term "rural resident" conveys the picture of a farmer. A few years ago this was a valid conception. Today, however, it is grossly incorrect to think of all rural residents as farmers. The sample of rural residents in four Southeastern States disclosed that almost half were employed in non-farm occupations.

Changes in occupations have resulted from rapid industrialization in the Southeast. Increases in incomes of rural residents have permitted improvements in housing. Although some improvements have been made, housing deficiencies still exist. Major deficiencies center in lack of adequate space, water and associated facilities, and poor exterior condition of houses.

Based on the assumption that one can afford a house that costs 2½ times his annual net income, low cost houses ($5,000 to $9,000) could be purchased and paid for by many rural non-farm residents. The shell home industry has recognized this fact and is attempting to meet demand for houses in this price range. Shell homes have gained popularity in rural areas because purchasers can acquire houses with small down payments. The swiftness with which the shells are completed and the minimum amount of "red tape" involved in expediting transfers of ownership also appeal to rural residents.

Although housing deficiencies exist, purchase of non-housing,

non-business items, such as television sets, boats, appliances, and automobiles, was placed ahead of housing improvements. Apparently, rural residents felt that such items gave more total satisfaction than expenditure of funds for housing. Also, credit was easier to obtain for the purchase of durable consumer goods than for housing improvements. Once the demand for these items is more nearly satisfied, there will likely be an increase in expenditures to improve houses.

The existing framework for financing houses in urban areas is more highly developed and is more adequate than is that for rural areas. Operation of various governmental housing programs coupled with activities of development builders and real estate brokers has facilitated home construction and purchase in urban areas. These have had little effect on housing in rural areas.

In view of the increasing number of rural non-farm people with higher incomes, lenders should seriously consider making adjustments in their lending policies that would make housing credit available to rural people. It is essential, however, that housing loans in rural areas be made on a sound economic basis. Greater risk because of lower resale potential in case of default on payments or mortgage foreclosure could be compensated for by charging higher interest rates. Also, legal statutes under which many lending institutions (farm and city oriented) operate could be changed to allow them to better serve rural non-farm residents.

Many rural residents are not aware of housing needs and how to meet these needs effectively through the use of credit. It is recommended that educational programs and efforts by governmental and private agencies be devoted to increasing the rural resident's knowledge of wise and effective use of credit.

Each individual housing situation is different. The policies and practices of lending institutions vary. Because of this, there is not "one best source" of housing credit for all rural residents. Alternative sources of credit should be considered when planning housing improvements.

APPENDIX

Calculation of Housing Score

Following is a brief explanation of how the housing score was calculated and the relative weight given to each component of the score. Each house included in the sample was scored. As an illustration, scoring of an actual house in the sample is discussed and points are entered on the score form on pages 28-29.

Blank spaces are provided for calculation of the score for your residence to compare with the distribution of scores for the sample. Find the 10 per cent group in which your house scores compared to the distribution for the sample of houses.

A total score of 100 points is possible. Maximum score for facilities is 14 points; for floor space relative to number of persons in the household, 34 points; and for the exterior components of the house and their condition, 52 points.

It is recognized that the scoring method presented has limitations in terms of representing housing adequacy. Many factors that possibly should be considered are not included. The relative weighting of components might be questioned. Most weight was given to the exterior components of foundation, siding, and roof since these units represent a substantial part of the total cost of a house. There was an overall correlation in the housing score and actual housing situations based on inspection of houses in several of the sample segments.

The actual house scored, as an example, had electricity, a flush toilet, and hot and cold running water inside. Therefore, a score of 14 points for facilities was recorded.

There were four persons in the household. The house had 891 square feet of floor space. Thus, the space score amounted to 24 points.

Exterior components of the house were as follows: Masonry piers as a foundation with no noticeable defects, painted wood siding with only one defect (had some loose and/or rotted materials), and composition roofing with no defects. Based on these observations the exterior components scored 38 points.

The total housing score was 76 points out of a possible 100. This house ranked in the fourth group (decile) from the highest 10 per cent of houses in the study.

It is suggested that you score your house on the basis of points indicated in the score form. Compare the total score for your

house with the scores for houses in rural areas included in the study. If the score for your house is between 89 and 100, it falls within the top 10 per cent of houses in the study. If the score is 65, your house compares with those in the sixth 10 per cent group from the top. Average score for all houses in the study was 67 points. Distribution of scores of the 665 houses in the study are given below:

Decile number (groups with 10 per cent of houses)	*Range of housing score*
1	89-100
2	85- 88
3	81- 84
4	75- 80
5	69- 74
6	63- 68
7	55- 62
8	50- 54
9	40- 49
10	Less than 40

Method of Calculating Housing Score

Item	Assigned points	Score: Example	Score: Your house
A. FACILITIES			
Electricity		2	
Yes	2		
No	0		
Toilet facilities		4	
Flush toilet	4		
Privy, outhouse, or chemical toilet	2		
No toilet	0		
Water facilities		8	
Hot and cold running water inside	8		
Only cold running water inside	6		
Only piped water outside of house	4		
Carry water 100 feet or less	2		
Carry water over 100 feet	0		
SUB-TOTAL FOR FACILITIES		14	
B. FLOOR SPACE RELATIVE TO NUMBER IN HOUSEHOLD			

Number of persons in household				
0-2	3-5	6-8	9 or more	
Square feet of floor space				
340 or less	590 or less	870 or less	1,270 or less	4
341 - 590	591 - 870	871 - 1,270	1,271 - 1,660	14
591 - 870	871 - 1,270	1,271 - 1,660	1,661 - 2,180	24
871 or more	1,271 or more	1,661 or more	2,181 or more	34

SUB-TOTAL FOR SPACE		24	

C. EXTERIOR

Kind of foundation		6	
Continuous masonry	8		
Rock or masonary piers	6		
Continuous wood	4		
Wood posts	2		
Condition of foundation[1]		8	
No noticeable defects	8		
One defect	6		
Two defects	4		
Three or more defects	2		
Kind of siding		4	
Brick or stone	12		
Concrete block or stucco	10		
Asbestos siding	8		
Composition siding	6		
Wood painted	4		
Wood never painted	2		
Condition of siding[1]		6	
No noticeable defects	8		
One defect	6		
Two defects	4		
Three or more defects	2		
Kind of roof		10	
Asbestos, tile, or slate	12		
Composition or asphalt shingles	10		
Sheet metal, tin, or aluminum	8		
Composition roll roofing	6		
Tar paper	2		
Condition of roof		4	
No noticeable defects, does not leak	4		
Has holes or missing materials, leaks	0		
SUB-TOTAL FOR EXTERIOR		38	
GRAND TOTAL		76	

[1] Defects include loose or rotted materials, holes and/or missing materials, and substantial sagging or warping.