opportunities and the high percentage of mobile homes in rural areas. Mobile homes account for 15 percent of owner-occupied units in nonmetropolitan areas, compared with only 6 percent in metropolitan areas. Mobile homes are starter homes for many rural households because of their affordability and the availability of dealer financing. The homeownership rate, exclusive of mobile homes, is approximately equal in metropolitan and nonmetropolitan areas indicating that nonmetropolitan households who buy mobile homes are the counterparts of metropolitan households who live in rental housing.

Furthermore, it is not surprising that studies that focus on fixed-rate home purchase mortgages lead to the conclusion that credit terms in rural areas do not differ significantly from credit terms in urban areas.[43] Properties that meet the underwriting criteria for fixed-rate mortgages are similar to urban properties that meet these criteria. Many rural properties, however, do not satisfy the criteria designed for mortgages underwritten in urban areas.

The Center for Community Change Study (''Location, Location, Location'', 1990) suggests that financing of housing in rural areas is made difficult by underwriting standards designed for urban areas: ''Interviews with bankers and realtors indicate that federal mortgage assistance programs and secondary market underwriting criteria continue to be geared to an urban market with a fire hydrant on every block and hard surface roads throughout.'' Moreover, the Center for Community Change reports that in many remote areas and areas with high concentrations of minorities and low-income households, a number of barriers prevent borrowers from accessing mortgage credit. These barriers include lower lender participation in federal mortgage assistance programs, lack of financial expertise among rural lenders, lack of private mortgage insurance, and a decreasing number of lending institutions located in rural communities as a result of the savings and loan crisis of the 1980s.

Housing Assistance Council Study. The connection between high-minority, low-income populations and poor access to mortgage credit was examined in a 1995 study conducted by the Housing Assistance Council (HAC) for HUD. HAC focused on the impact of alternative combinations of HUD's proxies of underserved areas—minority concentration and median income. The HAC study reiterated the difficulty of establishing an underserved areas definition that balances the priority of targeting those areas with the most severe credit problems with the priority of including enough areas so that the GSEs could build an infrastructure to facilitate and stimulate mortgage lending in rural areas. HAC suggested that the income criteria be high enough to include persistent poverty areas with low minority concentrations.

USDA's Economic Research Service. ''Rural Conditions and Trends'', a periodic research publication, shows that urban proximity is important: Economic conditions and housing problems tend to be worse in counties most remote from metropolitan areas or smaller cities.[44] In particular, counties with ''persistent low-income,'' which are disproportionately more rural and remote, have had little recent economic activity, stagnation in real family income during the 1980s, and continue to have the highest incidence of housing lacking complete plumbing. These high poverty counties are concentrated in Appalachia and in areas with high proportions of minority residents.

The ICF Study. Prepared for the Federal Housing Finance Board, this 1993 study examines the effect of the Federal Home Loan Bank System (FHLBS) District Banks on the housing financing system in rural areas. The study concluded that nonmetropolitan commercial banks and savings and loans are more likely than their metropolitan counterparts to hold loans in portfolio than to participate in the secondary market. Banks and savings and loans are the largest holders of fixed-rate mortgages in nonmetropolitan communities. In metropolitan areas, however, conventional mortgages are more often held or securitized by GSEs. Membership in the FHLBS is beneficial to commercial banks, savings and loans, and thrifts because the Bank System can provide them with capital, in the form of advances secured by the portfolio loans, to originate additional mortgage loans.[45] The importance of the FHLBS to rural lenders suggests that increased access to the secondary market would also be important for rural lenders.

RFS Analysis. HUD's analysis of the Residential Finance Survey shows that 17 percent of all mortgages originated between 1989 and 1991 were in nonmetropolitan areas. This percentage is consistent with the overall percentage of owner-occupied units in nonmetropolitan areas, especially after taking into account the lower mobility of nonmetropolitan residents and the fact that more households use cash and other non-bank sources to finance home purchases.[46]

Nonmetropolitan households are less likely to hold FHA mortgages than their metropolitan counterparts. According to RFS data, FHA's share of mortgages originated in nonmetropolitan areas is approximately half its share of mortgages in metropolitan areas. In part, the lower FHA share is attributable to the presence of the Rural Housing and Community Development Service (formerly the Farmers Home Administration) in nonmetropolitan areas. According to RFS data, the RHCDS 502 Direct Loan Program accounted for 5 percent of rural home purchase mortgages between 1989 and 1991.[47] The funds for this program, however, have been dwindling from $1.8 billion dollars in 1994 to $900 million in 1995. In 1991, the RHCDS created the 502 Guaranteed Rural Housing Loan Program, which guarantees losses up to 90 percent of the loan amount on 100-percent loan-to-value loans. The borrower's income cannot exceed 115% of county median income to qualify for these loans. Having to hold a 30-year fixed-rate mortgage in portfolio and being subject to recourse on the loan prevents many lenders from participating in the program.

According to the RFS, conventional mortgages held by financial institutions differ in metropolitan and nonmetropolitan areas. First, fewer nonmetropolitan mortgages are privately insured—16 percent of mortgages in nonmetropolitan areas are insured compared to 22 percent of mortgages in metropolitan areas.[48] Second,

[43] The ICF study also concludes that credit terms do not differ significantly between metropolitan and nonmetropolitan mortgages but their focus is only on fixed-rate and adjustable rate conventional mortgages.

[44] *Rural Conditions and Trends*, Volume 4, No. 3, Fall 1993, a special 1990 census issue, documents differences among counties in population, education, employment, income, poverty, and housing.

[45] ICF Incorporated, ''Effect of Federal Home Loan Bank System District Banks on the Housing Finance System in Rural Areas,'' p.30.

[46] Using 1989 AHS data, ICF reports that the mobility rate of nonmetropolitan owners is 18 percent lower than the mobility rate of metropolitan owners. Data from the Residential Finance Survey show that 10 percent of metropolitan households and 18 percent of nonmetropolitan households use cash to acquire their homes.

[47] This Program offers 100-percent loan-to-value (including closing costs) fixed-rate mortgages for 30 years at subsidized interest rates; it is targeted to rural households at 80 percent of area median income or less. To make Program funds go further, the RHCDS created the Rural Direct Leveraging Program where the lender and the RHCDS each make a 50-percent loan-to-value loan.

[48] According to the Center for Community Change study, the higher percentage of uninsured conventional mortgages could imply that

Continued