nonmetropolitan households rely more on short-term loans with balloon payments than their metropolitan counterparts.⁴⁹ Finally, the mortgage term for conventional fixed-rate mortgages is shorter for nonmetropolitan households.⁵⁰

Rural Forums. In addition to examining available research, HUD convened three forums on rural housing

nonmetropolitan residents make higher down payments than metro residents because private market insurance is unavailable.

⁴⁹ In nonmetropolitan areas with fewer than 10,000 people, for example, 63 percent of conventional mortgages are fixed-rate, 16 percent are short-term with balloon payments, and 21 percent are adjustable rate mortgages. In nonmetropolitan areas with more than 10,000 people, 68 percent of conventional mortgages are fixed rate, 11 percent are short-term with balloon payments, and 20 percent are adjustable rate. In metro areas, however, 75 percent are fixed-rate, 5 percent are short-term balloons, and 19 percent are adjustable rate.

50 In metro areas, 72 percent of fixed-rate mortgages have mortgage terms greater than 20 years, compared with only 33 percent in nonmetropolitan communities with less than 10,000 population and 59 percent in nonmetropolitan communities with more than 10,000 population. A similar story can be told for adjustable rate mortgages although the differential in percentages between metro and nonmetropolitan is not as pronounced. In particular, nonmetropolitan areas with more than 10,000 people have similar terms as metro areas. Nonmetropolitan areas with fewer than 10,000 people have shorter mortgage terms than other in nonmetropolitan and metropolitan areas.

issues with rural lenders, rural housing groups, housing industry organizations, the Department of Agriculture's Economic Research Service and Rural **Housing and Community Development** Service, the Congressional Budget Office, and the GSEs, which focused on the unique nature of mortgage lending and the role of the secondary market in rural areas. Participants agreed that some of the difficulty associated with financing housing in rural areas results from inappropriate underwriting and appraisal standards, inadequate resources, and the lack of access to government programs and secondary mortgage funds.

Participants emphasized that mortgage lending in rural areas is very different from lending in urban areas. The heterogeneity of housing types, nontraditional and often seasonal incomes of rural borrowers, and lack of credit history for many rural borrowers make underwriting in rural areas difficult for urban-oriented lenders. Appraisers may lack comparable sales or must rely on comparables over one year old or in a nearby town in order to determine a property's value.

Participation of rural lenders in the secondary market is limited. The low volume of loans originated by rural lenders serving smaller nonmetropolitan communities makes this business less

profitable, and thus less attractive, to the secondary marketing firms.⁵¹ Rural lenders are more likely to make shortterm loans, 3-to-5 year balloons or adjustable rate mortgages, and hold them in portfolio. Many rural lenders do not participate in federal housing programs because they do not want to deal with the "red tape" of government or they are unaware of how the programs work and do not have the resources necessary to train staff. Moreover, some small rural banks may not be equipped to do the kind of laborintensive loans that are required to qualify low-income borrowers.

Larger financial institutions, which do have experience with government programs and the secondary market, target more urbanized nonmetropolitan communities because of the higher demand for loans and lower costs of business. These lenders concentrate on loans with larger loan amounts and lower servicing costs, focus less on remote areas, and originate loans that are more easily sold to the secondary market.

⁵¹Twenty-nine percent of commercial banks (including the branches of banks headquartered elsewhere) are community banks. Fifty percent of these banks are in towns with 2,500 or fewer residents. The average community bank has only \$50 million in assets.