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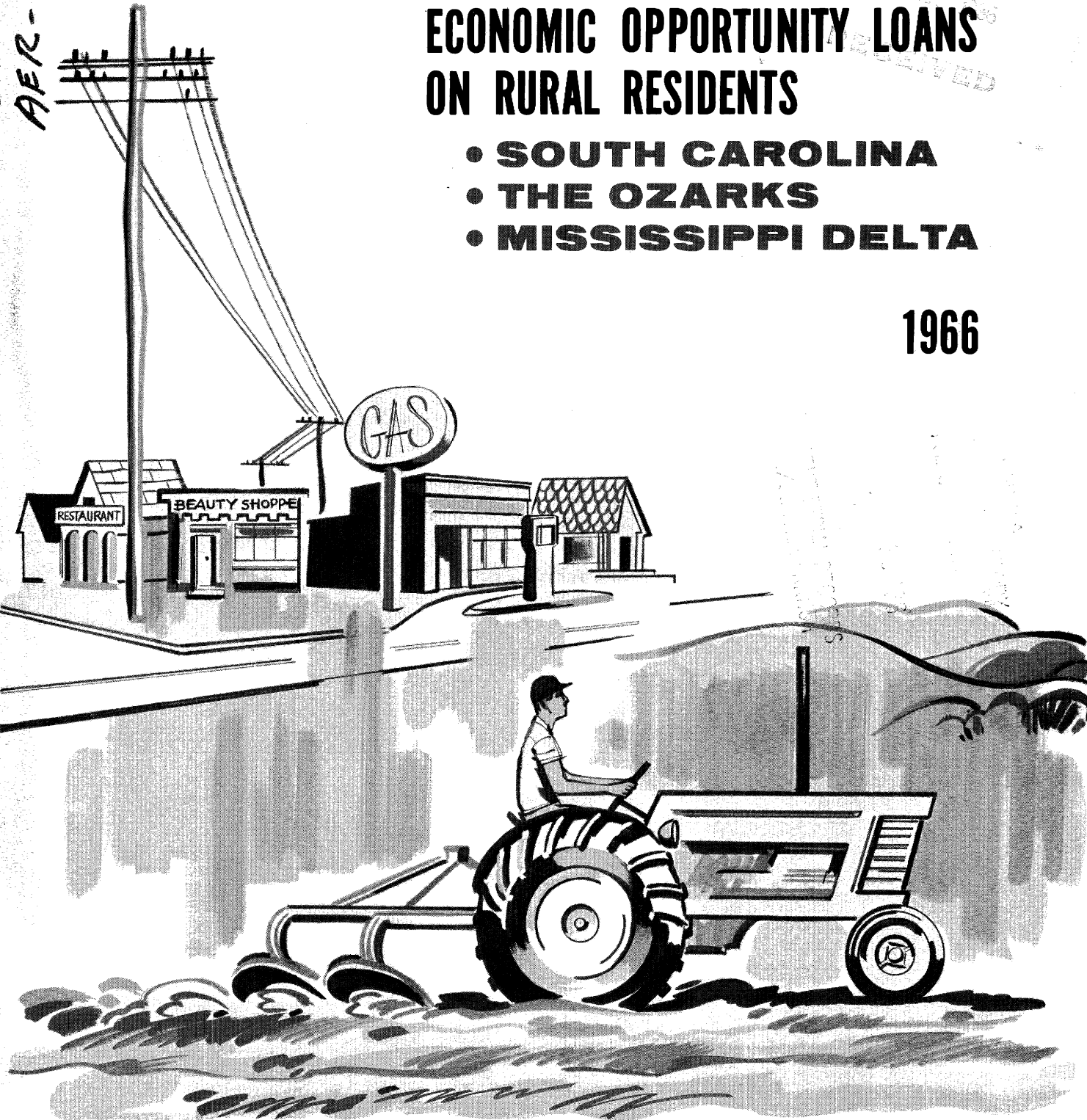
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IMPACT OF ECONOMIC OPPORTUNITY LOANS ON RURAL RESIDENTS

- SOUTH CAROLINA
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SUMMARY AND RECOMMENDATIONS

The Farmers Home Administration had made Economic Opportunity loans to 44,478 families throughout the United States by February 29, 1968. Total funds loaned since the program was initiated in January 1965 exceeded \$86 million and averaged \$1,935 per borrower. The large number of borrowers was still less than 1 percent of the number of all rural households reporting incomes of less than \$3,000 in 1959.

Among 359 EO borrowers in selected areas of South Carolina, the Ozarks, and the Mississippi Delta, the average loan size was \$1,718. One-seventh were for less than \$1,000, and one-fourth were for \$2,500--the maximum then allowed. Forty percent of the borrowers thought their initial loan was too small. Sixty percent reported that they were planning to expand their business and expressed a need for an additional EO loan. Additional loan funds desired totaled \$385,515, an amount equal to 63 percent of the original loan funds received by all the borrowers.

For the average borrower, net cash family income had increased about \$200 during the first year after the loans were made. Three of every five borrowers indicated that their income had increased. But for many borrowers, the business being financed was still so new that little or none of the expected income response had yet been achieved.

The initial increase in income was about one-third as large as had been planned for the first year of the loans. However, borrowers expected a further increase averaging \$400 in the year following the survey. If achieved, net cash incomes will have increased from \$1,769 in the year before the loan to \$2,375 about 2 years later. Full income response from the loans can be determined only after the businesses being financed have been fully developed.

The EO loans generally were made to families in the lower income levels. At \$1,767, net cash income of the borrower families averaged approximately \$1,000 less than for all rural households studied. Nearly one-fourth of the borrowers had prior annual incomes of less than \$1,000. When family income was related to family size, income deprivation was considerably more prevalent among the borrowers than among all rural households.

Family living expenditures were expected to average about \$1,300 in the first year after the loans were made, with food accounting for half of the total. Health expenditures were estimated at \$100. Only 60 percent of the borrowers had a family health insurance policy, and only 44 percent reported any life insurance.

Borrowers generally had limited potential for gainful employment outside the home community. Four-fifths were at least 40 years of age; one-fourth were 60 or older. Less than half of the borrowers had completed as much as 8 years of school, and only 12 percent had finished high school.

Most borrowers expressed a willingness to take special training to improve their income-earning abilities, but the majority were not interested in moving to a new community to accept a better paying job.

About two-thirds of the loans were for farming purposes: developing and improving land, repairing and constructing buildings, adding a new enterprise to the operation of the farm, paying operating expenses, and refinancing debts. Nonagricultural loans were used for developing a wide range of nonfarm enterprises. The most prominent use of loan funds was for purchasing machinery and equipment.

Use of loan funds to refinance debts was sometimes necessary if the borrower was to retain possession of his income-producing assets. Also, under the liberal repayment terms of the EO loans, the refinancing of debts generally resulted in a reduction in the size of annual payments, permitting the borrower to use more of his existing income for family living purposes.

Since receiving their loans, more than half of the borrowers had encountered a major problem in developing the business being financed. The most common problems reported were poor quality of land or other resources, too few paying customers, unfavorable weather, lack of labor, poor health, and a shortage of capital. Few of the borrowers thought that road conditions or the location of their business hampered the success of their business venture.

Payments made on the loans were larger than the amount that was thus far due. Delinquency was more prevalent among nonagricultural borrowers than agricultural, although higher incomes were generally expected among the nonagricultural borrowers.

Recommendations for future EO loan operations include consideration of the following:

* The total number of borrowers throughout the United States--44,478--is less than 1 percent of the number of all rural households reporting incomes under \$3,000 in 1959. Considerable expansion of the program would be necessary if it is to play a more prominent role in overall efforts to resolve the problem of poverty in America.

* Within the limitation of loan funds available to FHA, some priority might be given to providing present borrowers with needed additional funds to better assist them in making the adjustment away from their earlier poverty position.

* Heavy workloads of FHA personnel restrict the amount of supervision that the borrowers are receiving. Expansion in the number of EO and other loans administered by FHA suggests a need for more supervisory staff if borrowers are to receive the considerable amount of supervisory assistance in the development and operation of their business that is essential to the success of many of the EO loans.

* In view of the low risk-bearing position of most borrowers, and family concerns about repayment in the event of disability or death, EO loans might include some form of insurance to cover the borrowers' unpaid balance.

* Nearly three-fourths of all rural households in the three study areas reported no knowledge of the EO loan program, indicating a need to expand efforts in promoting public awareness of the program.

* Home production of more of the foods required for family consumption can contribute to improved nutritional levels and reduce cash family living costs of the borrowers--provided they have access to suitable land, buildings, and equipment and a supply of unused family labor.

IMPACT OF ECONOMIC OPPORTUNITY LOANS ON RURAL RESIDENTS:
SOUTH CAROLINA, THE OZARKS, MISSISSIPPI DELTA, 1966

by

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INTRODUCTION

Throughout rural America, many low-income families have been unable to achieve a level of living considered acceptable in present day society. While some rural residents have the potential to compete successfully for jobs in other types of employment or in other geographic areas, many live in areas where local employment opportunities are limited, they lack the training required for other employment, or they are unable to compete for better paying jobs because of age or health. In addition, many are ill-prepared to make the social and economic adjustment from a rural to an urban society. To a considerable extent, therefore, much of the low-income rural problem consists of families who are largely "boxed-in." That is, they lack ready access to alternative means through which they can significantly improve their income and level of living.

One way to help such families improve their income position is to provide them with sufficient capital to develop a small business or enterprise suitable to their skills and offering some potential for increased income. To the extent that the low income of many rural families is in part a result of their limited training and skills, successful development of a small business or enterprise is also likely to require provision of considerable training in technical and management skills.

Many of the rural families with low incomes are unable to obtain the necessary financial assistance through normal credit channels. Efforts to improve their income-earning position through financial assistance involve special problems seldom encountered in the operation of typical credit programs.

In 1966, the present study was initiated to evaluate the potential success of supervised credit as a means of helping resolve the low-income problem of rural America. This study was centered on an evaluation of the small-enterprise loan program created under Title III (A) of the Economic Opportunity Act of 1964 and administered by the Farmers Home Administration (FHA) of the U.S. Department of Agriculture. The general objectives of the study were: (1) to determine the effect that the early lending activities through this program have had upon income and attitudes of borrower families, (2) to determine the nature of problems influencing the success or failure of such a program, and (3) to suggest possible actions which might overcome such problems, thereby enhancing the success of this approach in the overall effort to reduce the prevalence of rural poverty.

ECONOMIC OPPORTUNITY LOAN PROGRAM

In the Economic Opportunity Act of 1964, Congress provided for the creation of a special loan program designed to help low-income rural families achieve higher incomes and improved levels of living. The Act provides for making loans to low-income rural families where such loans (1) "have a reasonable possibility of effecting a permanent increase in the income of such families," and (2) there is a reasonable assurance of repayment of the loan. 1/

The loans made under this Act are subject to the following terms and conditions:

1. Repayment is scheduled on the basis of ability to repay, with a maximum maturity not to exceed 15 years.
2. Size of loan was initially limited to \$2,500 in the aggregate to any family. In 1966, this limit was changed, permitting an aggregate indebtedness of not more than \$3,500 at any one time. 2/
3. Interest rate was established at 4 1/8 percent a year on the unpaid balance.
4. Authorized uses of loan funds:
 - (a) To acquire or improve real estate or to reduce encumbrances or erect improvements thereon,
 - (b) To operate or improve the operation of farms not larger than family sized,
 - (c) To permit the borrower to participate in cooperative associations, and
 - (d) To finance nonagricultural enterprises which will enable low-income rural families to supplement their income.
5. Credit is not otherwise available on reasonable terms from private sources or other Federal, State, or local programs.
6. The amount of the loan, together with other funds available, must be adequate to assure completion of the project or achievement of the purposes for which the loan is made.

1/ Title III (A), Economic Opportunity Act of 1964. Cooperative loans were also authorized under this title, but analysis of the cooperative loan activities is not included as a part of this study. By Feb. 29, 1968, however, the Farmers Home Administration had made loans to 1,057 rural cooperatives.

2/ The analysis of individual loans in the present study is limited to a sample of borrowers who received their initial loan prior to the change in loan limitation from \$2,500 to \$3,500. However, some of these borrowers have received subsequent loans since the loan limitation was changed, increasing their indebtedness above the initial limit of \$2,500.

The terms specified in the Act make clear that the financial assistance extended is expected to be repaid and that the program is not to be viewed as one of direct welfare. Thus, many low-income rural families may not qualify for a loan and may have to seek assistance elsewhere. Included in such a category would be: (1) families unable to propose a small business or enterprise which is suited to their interests and skills and has reasonable prospects for financial success; (2) families in which the breadwinner lacks the basic technical or managerial skills to succeed in a business, even though the nature of the business might otherwise offer some potential for success in the general locality; (3) those not interested in developing a family-type business, preferring to derive their income through employment by others; (4) families restricted because of age or poor health from actively working a small business, and (5) those who have demonstrated a ne'er-do-well attitude, have acquired a poor credit reputation, or are known to be indolent or untrustworthy, thereby negating the potential success of any business undertaking by them and the repayment of any loan that might be made.

METHOD OF STUDY

A general analysis of the overall scope of the EO loan program was based on data provided by the Farmers Home Administration. To obtain more detailed information on the early impact that the loans were having on borrowers and to determine the nature of problems influencing the success of this approach to solution of the low-income rural problem, an intensive study of individual loans was made in three selected areas: 3/

1. South Carolina--a 10-county area in the northeast coastal plain of South Carolina;
2. Ozarks--27 counties randomly selected from the Ozark region, including parts of Missouri, Arkansas, and Oklahoma; and
3. Mississippi Delta--an 11-county area in western Mississippi.

In each of the counties selected for study, information was compiled from local FHA records about all borrowers and rejected applicants. An interview of borrowers was then conducted to supplement the data available from FHA records and to obtain information on the impact that the loans had in the first 6 to 18 months after they were made. All individual borrowers and rejected applicants in the sample counties as of January 1, 1966, were included in the study.

Information was also obtained from a survey of rural households throughout the three areas. These economic development surveys, conducted in separate but

3/ A study has also been made of EO loans to lobstermen in Maine, as an example of the applicability of the program to a largely homogeneous group of borrowers. The results of this study are published in Effects of Economic Opportunity Loans on Lobster Fishermen in Maine, 1965-67, AER No. 136, Economic Research Service, U.S. Department of Agriculture, 1968.

related studies, were made of a sample of approximately 2 percent of all rural households in the study areas. ^{4/} While a broad range of information on the rural population was obtained through these surveys, information included in this report consists only of (1) selected characteristics used in comparing the EO loan borrowers and rejected applicants to the general populace in the respective rural areas, and (2) information obtained in response to specific questions included in the questionnaire for purposes of this study.

Throughout this report, the surveys of rural households are referred to as the typology surveys.

NATIONAL SCOPE OF THE PROGRAM

As of February 29, 1968, EO loans had been made to 44,478 individual borrowers. Total loan funds were \$86,070,223--an average of \$1,935 per borrower, slightly more than one-half of the maximum allowed. Loan size varied considerably among States, ranging from an average of \$1,565 in Delaware to \$3,072 in Nevada.

Subsequent loans received by the borrowers numbered 7,598 and were made to one-sixth of all loan recipients. Total loans processed, initial and subsequent, were 52,076.

Loan activity has varied considerably throughout the country (table 1). Puerto Rico alone accounted for 4,602 borrowers, or 10.3 percent of all loans. Among the 50 States, the number of borrowers ranged from 3,538 in Mississippi and 1,333 in Alabama to 10 in Connecticut and 7 in Rhode Island. On a regional basis, loan activity was relatively high in the South, with 25,153 loans having been made in 14 Southern and Southeastern States. Nearly 60 percent of all borrowers were located in this region.

In some States, a high concentration of loan activity in somewhat restricted areas accounts for many of the loans that were made in that State. Examples of the more prominent areas of concentrated loan activity, in addition to Puerto Rico, are a three-county area in Maine that accounted for about two-thirds of all loans in that State, and two peninsular counties in Virginia in which more than one-half of the State's loans were made. Other States containing areas of relatively concentrated loan activity are Arizona, Florida, North Dakota, and South Carolina. In such areas of unusually heavy loan activity, the EO loan program appears to be particularly well suited to certain types of businesses or enterprises common to the area, accounting for the large demand for loans.

^{4/} In the Mississippi Delta, the sample of EO loan borrowers was restricted to an 11-county area in western Mississippi, but the typology sample consisted of rural families from 16 counties selected throughout the 39 counties of the Mississippi Delta, including parts of 4 States--Mississippi, Louisiana, Arkansas, and Missouri. Comparison of the data from the 2 samples is appropriate, however, inasmuch as the data for the portion of the typology sample in Mississippi were generally consistent with the data for the entire typology sample.

Table 1.--EO borrowers through February 29, 1968, as percentage of all rural poor in 1959, by State

State <u>1/</u>	Low-income rural families, 1959 <u>2/</u>	EO borrowers, Jan. 1965 through Feb. 1968 <u>3/</u>	Borrowers as % of low-income rural families
	Number	Number	Percent
Alabama	180,497	1,333	0.73
Alaska	4,801	529	11.01
Arizona	23,657	416	1.75
Arkansas	148,253	2,220	1.49
California	103,343	706	.68
Colorado	31,910	216	.67
Connecticut	12,364	10	.08
Delaware	8,932	28	.31
Florida	112,039	1,632	1.45
Georgia	187,141	1,729	.92
Hawaii	4,365	72	1.64
Idaho	21,094	180	.85
Illinois	134,958	1,066	.78
Indiana	103,594	408	.39
Iowa	122,508	456	.37
Kansas	69,918	276	.39
Kentucky	204,997	2,325	1.13
Louisiana	133,337	1,221	.91
Maine	32,833	1,081	3.29
Maryland	45,354	172	.37
Massachusetts	23,619	29	.12
Michigan	108,215	362	.33
Minnesota	115,671	946	.81
Mississippi	187,115	3,538	1.89
Missouri	169,102	864	.51
Montana	20,500	177	.86
Nebraska	64,942	631	.97
Nevada	3,315	86	2.59
New Hampshire	11,283	56	.49
New Jersey	27,837	294	1.05
New Mexico	26,743	1,256	4.69
New York	104,805	754	.71
North Carolina	283,962	2,458	.86
North Dakota	35,726	761	2.13
Ohio	138,240	176	.12

Continued--

Table 1.--EO borrowers through February 29, 1968, as percentage of all rural poor in 1959, by State--Con.

State <u>1/</u>	Low-income rural families, 1959 <u>2/</u>	EO borrowers, Jan. 1965 through Feb. 1968 <u>3/</u>	Borrowers as % of low-income rural families
	<u>Number</u>	<u>Number</u>	<u>Percent</u>
Oklahoma	98,982	586	.59
Oregon	36,502	171	.46
Pennsylvania	168,551	606	.35
Rhode Island	4,916	7	.14
South Carolina	141,278	1,182	.83
South Dakota	44,680	527	1.17
Tennessee	210,109	1,925	.91
Texas	261,435	2,284	.87
Utah	10,397	304	2.92
Vermont	15,759	89	.56
Virginia	162,194	875	.53
Washington	44,199	125	.28
West Virginia	110,887	1,845	1.66
Wisconsin	98,425	597	.60
Wyoming	7,305	288	3.94
Puerto Rico	211,216	4,602	2.17
Virgin Islands	1,535	1	.06
Total	4,635,340	44,478	.95

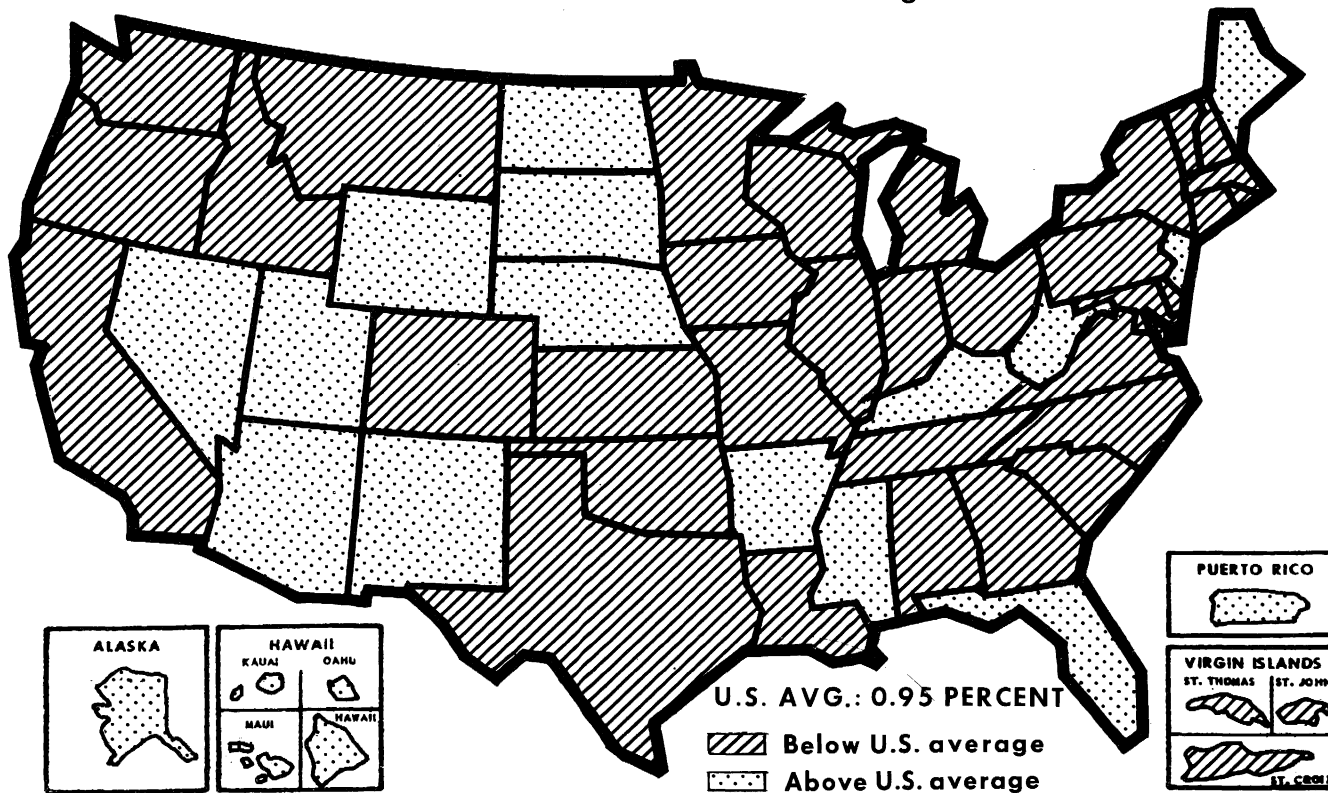
1/ Including Puerto Rico and Virgin Islands.

2/ Rural families with less than \$3,000 income in 1959; 1960 Census of Population data.

3/ Farmers Home Administration data.

EO BORROWERS AS PERCENTAGE OF RURAL POOR

States Relative to U.S. Average



BORROWERS INCLUDE ALL THOSE RECEIVING LOANS FROM INCEPTION OF PROGRAM TO FEBRUARY 29, 1968.
 LOW-INCOME FAMILIES CONSIST OF THOSE RURAL FAMILIES WITH LESS THAN \$3,000 INCOME IN 1959.

The number of loans is generally highest in those areas of highest concentration of low-income rural families. Deviations from this general situation are apparent, however, in several instances. At the extremes, the ratio of loans to numbers of low-income rural families was high in Alaska, New Mexico, Wyoming, and Maine and low in Ohio and Rhode Island.

On a national basis, the total of nearly 45,000 rural loans made between January 1965--when the program was initiated--and February 29, 1968, is indicative of a concerted effort to assist a large number of poverty families throughout the country. Even so, the number of borrowers who received loans is equal to less than 1 percent of the total number of rural families having incomes of less than \$3,000 in 1959. Although the number of such low-income rural families may have declined somewhat since 1959, these data suggest that the rural loan program would need to be greatly expanded if it is to reach as many as one-tenth of all poor families in rural America. The extent to which this program is expanded in the future, however, will depend on the impact that the loans are having on improving the income and level of living of borrowers and on the degree of priority that is placed on this program in the overall effort to resolve the problem of rural poverty.

OUTREACH OF THE EO LOAN PROGRAM

To determine how effective the EO individual loan program has been in reaching the low-income segment of the rural population, a comparison was made of selected characteristics between the EO loan borrowers and rejected applicants and the heads of all rural households in each of the areas studied.

Age

Among the three areas, no consistent differences are apparent in the age distribution of EO borrowers and that of household heads of all rural families (table 2). In South Carolina and the Mississippi Delta, borrowers averaged slightly older (by 2.1 and 1.8 years, respectively) than all rural household heads. In the Ozarks, however, the borrowers tended to be somewhat younger than the general sample of the rural population.

About 84 percent of all borrowers in the three areas were at least 40 years of age; about 27 percent were 60 years old or older. Among all rural families, fewer of the household heads--75 percent--were 40 years of age or older, but more--37 percent--were at least 60 years old.

Education

The educational level of the borrowers was somewhat lower than that of the heads of all rural households in each of the three areas (table 3). The most prominent difference is observed in the Mississippi Delta, where borrowers averaged 5.5 years of schooling, compared with 7.3 years among heads of all rural households. Overall, 45 percent of the household heads had completed less than 8 years of school, significantly less than the 53 percent of all borrowers having so limited an education. The percentage of household heads having 12 years or more of schooling was 20.5 among all rural families but only 12.0 among EO loan borrowers.

Table 2.--Age distribution of heads of households, typology sample, and EO loan borrowers and rejected applicants, study areas, 1966

Age	South Carolina			Ozarks			Mississippi Delta		
	Per- sons	% of total	Median age	Per- sons	% of total	Median age	Per- sons	% of total	Median age
	No.	Pct.	Years	No.	Pct.	Years	No.	Pct.	Years
Typology:									
Under 25	54	5.4		52	3.7		47	3.8	
25 - 39	247	24.6		260	18.4		249	20.3	
40 - 59	436	43.5		484	34.2		475	38.7	
60 and over	265	26.5		617	43.7		457	37.2	
Total reporting	1,002	100.0	49.2	1,413	100.0	56.3	1,228 ^{1/}	100.0	53.2
EO loan:									
<u>Borrowers</u>									
Under 25	0	0.0		1	.8		2	2.2	
25 - 39	21	16.1		30	23.3		11	12.1	
40 - 59	78	59.5		74	57.3		42	46.1	
60 and over	32	24.4		24	18.6		36	39.6	
Total reporting	131	100.0	51.3	129	100.0	49.0	91	100.0	55.0
<u>Rejected Applicants</u>									
Under 25	0	0.0		0	0.0		0	0.0	
25 - 39	5	10.0		9	21.4		2	50.0	
40 - 59	30	60.0		26	61.9		1	25.0	
60 and over	15	30.0		7	16.7		1	25.0	
Total reporting	50	100.0	53.3	42	100.0	49.2	4	100.0	2/

^{1/} Age not reported for 21 household heads.

^{2/} Median not computed due to small number in sample.

Table 3.--Education of heads of households, typology sample, and of EO borrowers and rejected applicants, study areas, 1966

Years of school completed	South Carolina			Ozarks			Mississippi Delta		
	Per-sons	% of total	Median age	Per-sons	% of total	Median age	Per-sons	% of total	Median age
	No.	Pct.	Years	No.	Pct.	Years	No.	Pct.	Years
Typology:									
0 - 4	286	28.5		185	13.1		393	31.5	
5 - 7	244	24.4		252	17.8		307	24.6	
8	110	11.0		376	26.6		184	14.7	
9 - 11	161	16.1		229	16.2		183	14.6	
Finished H.S.	135	13.5		249	17.6		126	10.1	
Some College	42	4.2		60	4.3		26	2.1	
Finished College	23	2.3		62	4.4		30	2.4	
Total reporting:	1,002	100.0	7.6	1,413	100.0	8.7	1,249	100.0	7.3
EO loan:									
<u>Borrowers</u>									
0 - 4	39	29.7		16	11.9		42	46.1	
5 - 7	43	32.8		27	20.2		22	24.2	
8	9	6.9		39	29.1		8	8.8	
9 - 11	28	21.4		30	22.4		10	11.0	
Finished H.S.	6	4.6		18	13.4		5	5.5	
Some College	2	1.5		3	2.2		2	2.2	
Finished College	4	3.1		1	.8		2	2.2	
Total reporting:	131	100.0	6.8	134	100.0	8.6	91	100.0	5.5
<u>Rejected Applicants:</u>									
0 - 4	15	30.0		4	9.5		1	25.0	
5 - 7	19	38.0		9	21.5		1	25.0	
8	3	6.0		7	16.7		1	25.0	
9 - 11	9	18.0		8	19.0		0	----	
Finished H.S.	4	8.0		8	19.0		1	25.0	
Some College	0	0.0		4	9.5		0	----	
Finished College	0	0.0		2	4.8		0	----	
Total reporting:	50	100.0	6.6	42	100.0	9.4	4	100.0	<u>1/</u>

1/ Median not computed due to small number in sample.

Among the three areas, educational attainment was highest in the Ozarks and lowest in the Mississippi Delta.

Race

Marked differences exist in the racial composition of the rural population in the three study areas. In both South Carolina and the Mississippi Delta, nearly one-half of all rural households were nonwhite, compared with only 2 percent in the Ozarks (table 4).

Table 4.--Race of heads of households, typology sample, and of EO borrowers and rejected applicants, study areas, 1966

Region and race	Typology		EO loan--			
	Persons:% of total		Borrowers		Rejected applicants	
	Number	Percent	Number	Percent	Number	Percent
South Carolina:						
White	549	54.8	30	22.9	16	32.0
Nonwhite	453	45.2	101	77.1	34	68.0
Total reporting	1,002	100.0	131	100.0	50	100.0
Ozarks:						
White	1,387 ^{1/}	98.2	121 ^{2/}	90.3	30	88.2
Nonwhite	26	1.8	13	9.7	4	11.8
Total reporting	1,413	100.0	134	100.0	34	100.0
Mississippi Delta:						
White	655	52.4	22	24.2	3	75.0
Nonwhite	594	47.6	69	75.8	1	25.0
Total reporting	1,249	100.0	91	100.0	4	100.0

^{1/} Includes 37 American Indians, 2.6 percent of typology sample.

^{2/} Includes 2 American Indians, 1.5 percent of EO borrower sample.

In each of the three study areas, nonwhite families were more prevalent among EO borrowers than among the total rural population. In South Carolina and the Delta, over 75 percent of the loans were to nonwhite borrowers, although less than 50 percent of all rural households were nonwhite. In the Ozarks, about 10 percent of the EO loan borrowers were nonwhite, compared with 2 percent of all rural families.

The division of loans between white and nonwhite borrowers was generally consistent with the racial distribution of low-income families. Of all rural households reporting incomes of less than \$3,000, 46.7 percent were nonwhite; of the EO loan borrowers, 51.4 percent were nonwhite.

A comparison of racial distribution of applicants whose request for a loan was rejected shows that the rate of rejection did not vary greatly among the

white and nonwhite applicants (table 4). In the three areas, 49 percent of all loans recipients were white, compared with 56 percent of all rejected applicants.

Family Size

The number of persons per household averaged 4.6 among EO loan borrowers in the three areas, one person more than for all rural households. In South Carolina and the Ozarks, the families of EO loan borrowers averaged at least one person larger than all rural families in the respective rural areas. No difference existed in family size among borrowers and all rural households in the Mississippi Delta (table 5).

Table 5.--Distribution of families by size, typology sample and EO borrowers and rejected applicants, study areas, 1966

Number of persons in family	South Carolina			Ozarks			Mississippi Delta		
	Per- sons	% of total	Median size of family	Per- sons	% of total	Median size of family	Per- sons	% of total	Median size of family
	No.	Pct.	No.	No.	Pct.	No.	No.	Pct.	No.
Typology:									
One	76	7.6		209	14.8		142	11.4	
Two	201	20.0		513	36.3		349	27.9	
Three	166	16.5		228	16.1		185	14.8	
Four	160	16.0		173	12.2		165	13.2	
Five	130	13.0		147	10.4		112	9.0	
Six	80	8.0		70	5.0		86	6.9	
Seven or more	189	18.9		73	5.2		210	16.8	
Total reporting:	1,002	100.0	4.4	1,413	100.0	3.0	1,249	100.0	3.7
EO loan:									
<u>Borrowers</u>									
One	6	4.6		7	5.2		6	6.6	
Two	24	18.3		42	31.4		23	25.3	
Three	14	10.7		14	10.5		23	25.3	
Four	11	8.4		15	11.2		8	8.8	
Five	24	18.3		14	10.4		6	6.6	
Six	17	13.0		16	11.9		8	8.8	
Seven or more	35	26.7		26	19.4		17	18.6	
Total reporting:	131	100.0	5.4	134	100.0	4.3	91	100.0	3.7
<u>Rejected applicants</u>									
One	0	0.0		1	2.4		1	25.0	
Two	7	14.0		11	26.2		1	25.0	
Three	12	24.0		6	14.3		0	0.0	
Four	5	10.0		7	16.6		1	25.0	
Five	9	18.0		2	4.8		0	0.0	
Six	1	2.0		4	9.5		0	0.0	
Seven or more	16	32.0		11	26.2		1	25.0	
Total reporting:	50	100.0	5.1	42	100.0	4.4	4	100.0	1/

1/ Median not computed because of small number in sample.

Among the three areas, considerable differences are observed in family size, ranging among rural households from 3.0 persons per family in the Ozarks to 4.4 in South Carolina. Among borrowers, family size varied from 3.7 in the Delta to 5.4 in South Carolina.

Family Income

In general, the EO loans were made to families having low family incomes (table 6). The median net cash family income of the EO loan borrowers for the

Table 6.--Net cash family income in year before survey, typology households and EO borrowers and rejected applicants, 1966 study

Net family income <u>1/</u>	<u>South Carolina</u>			<u>Ozarks</u>			<u>Mississippi Delta</u> <u>2/</u>		
	Per-: % of	: Median	: Per-: % of	: Median	: Per-: % of	: Median	: Per-: % of	: Median	
	sons: total:	income	sons: total:	income	sons: total:	income	sons: total:	income	
	<u>No.</u>	<u>Pct.</u>	<u>Dol.</u>	<u>No.</u>	<u>Pct.</u>	<u>Dol.</u>	<u>No.</u>	<u>Pct.</u>	<u>Dol.</u>
Typology:									
Less than \$1,000	: 166	16.6		97	6.9		252	21.8	
\$1,000-\$1,999	: 205	20.6		293	20.9		330	28.6	
\$2,000-\$2,999	: 177	17.6		214	15.2		195	16.9	
\$3,000-\$4,999	: 184	18.4		332	23.6		156	13.5	
\$5,000-\$7,499	: 137	13.7		279	19.9		102	8.8	
\$7,500-\$9,999	: 62	6.2		94	6.7		43	3.7	
\$10,000 and over	: 71	7.1		96	6.8		78	6.7	
Total reporting	: 1,002	100.0	2,734	1,405	100.0	3,297	1,156	100.0	1,988
EO loan:									
<u>Borrowers</u>									
Less than \$1,000	: 29	22.0		12	9.0		43	47.2	
\$1,000-\$1,999	: 49	37.3		34	25.4		19	20.9	
\$2,000-\$2,999	: 31	23.7		36	26.8		16	17.6	
\$3,000-\$4,999	: 15	11.5		39	29.1		3	3.3	
\$5,000-\$7,499	: 4	3.1		13	9.7		9	9.9	
\$7,500-\$9,999	: 3	2.3		0	0.0		1	1.1	
\$10,000 and over	: 0	0.0		0	0.0		0	0.0	
Total reporting	: 131	100.0	1,745	134	100.0	2,581	91	100.0	1,129
<u>Rejected applicants</u>									
Less than \$1,000	: 15	31.2		4	9.5		---	---	
\$1,000-\$1,999	: 14	29.2		8	19.0		---	---	
\$2,000-\$2,999	: 4	8.3		13	31.1		---	---	
\$3,000-\$4,999	: 8	16.7		9	21.4		---	---	
\$5,000-\$7,499	: 5	10.4		8	19.0		---	---	
\$7,500-\$9,999	: 2	4.2		0	0.0		---	---	
\$10,000 and over	: 0	0.0		0	0.0		---	---	
Total reporting	: 48	100.0	1,644	42	100.0	2,692	---	---	---

1/ All family income less farm and nonfarm business expenses.

2/ Data for rejected applicants in the Mississippi Delta are omitted because of the small number of rejections.

year before the survey ranged from \$1,129 in the Delta and \$1,745 in South Carolina to \$2,581 in the Ozarks. In the three study areas, the median income of borrowers was approximately \$800 less than that of all rural households. There was little difference in the incomes of loan recipients and rejected applicants.

For the year prior to the survey, 82 percent of the EO loan borrowers in South Carolina had a net cash income of less than \$3,000, whereas 55 percent of all rural households reported incomes this low. In the Ozarks, 61 percent of the borrowers and 43 percent of all rural households were in this income group. And in the Mississippi Delta, 86 percent of the borrowers and 61 percent of all rural households had incomes below \$3,000.

Many of the EO loans were made to families in the lowest income strata of the population. For the three study areas, 24 percent of the borrowers and 15 percent of all rural households had incomes of less than \$1,000. Incomes of less than \$2,000 were reported by 52 percent of the borrowers and 38 percent of all rural households.

Although the data in table 6 show that 8 percent of the borrowers had incomes above \$5,000, these data reflect the increases in incomes that had occurred in the year or more since the loans were made. For the average borrower, annual income at the time of the survey was about \$200 higher than in the year before the loans. 6/

Prior to receiving their loans, the borrowers reported to their FHA supervisor net cash incomes for the previous year as follows:

	<u>Percent</u>
Less than \$1,000.....	20.4
\$1,000 to \$1,999.....	42.0
\$2,000 to \$2,999.....	25.8
\$3,000 to \$3,999.....	9.0
\$4,000 to \$4,999.....	2.5
\$5,000 to \$5,999.....	.3
Total	100.0

Income Deprivation

Although income alone can serve as an approximate measure of a family's level of living, various other factors influence the adequacy of a family's income in providing for a satisfactory level of living. In this study, income has been related to family size for the purpose of measuring and comparing the

6/ Validity of a comparison of the income data of borrowers for the year prior to the loan with the income of all rural household in the year prior to the survey is limited inasmuch as the time periods do not coincide and different methods were used in compiling the two sets of income data.

extent of income deprivation among the households being studied. ^{7/} The net cash income and household size criteria of each of the income-deprivation classes are as follows: ^{8/}

<u>Seriously deprived:</u>	Less than \$1,000, two or more persons; \$1,000 to \$1,999, five or more persons; \$2,000 to \$2,999, nine or more persons.
<u>Deprived:</u>	Less than \$1,000, one person; \$1,000 to \$1,999, two, three or four persons; \$2,000 to \$2,999, four through eight persons; \$3,000 to \$4,999, eight or more persons.
<u>Marginal:</u>	\$1,000 to \$1,999, one person; \$2,000 to \$2,999, two or three persons; \$3,000 to \$4,999, four through seven persons; \$5,000 to \$7,499, nine or more persons.
<u>Probably not deprived:</u>	\$2,000 to \$2,999, one person; \$3,000 to \$4,999, two or three persons; \$5,000 to \$7,499, four through eight persons; \$7,500 to \$9,999, six persons or more; \$10,000, 9 persons or more.
<u>Definitely not deprived:</u>	\$3,000 to \$4,999, one person; \$5,000 to \$7,499, one to three persons; \$7,500 to \$9,999, one to five persons; \$10,000 and over, one to eight persons.

The application of these measurements to data gathered in this study provides a basis for determining what income segment of the rural population is receiving assistance through the EO loan program. The data presented in table 7 show that for the year prior to the survey, income deprivation was considerably more prevalent among borrowers than among the general sample of rural households, even though the average borrower had by that time had his loan for more than a year. ^{9/} Overall, 38.5 percent of the borrowers were in the seriously deprived category, compared with 17.5 percent of all rural households. Those families in the deprived and seriously deprived classifications totaled 66.3 percent of all borrowers and 41.8 percent of all rural households.

^{7/} For such an analysis to be broadened to provide a measurement of poverty, adjustments would also have to be made to allow for value of goods produced and consumed by the family; variations in quality of housing; and differences in household expenditures for taxes, transportation, health, rent, clothing, education, and other costs arising due to the particular circumstances of the individual families and the variations that occur among localities and areas.

^{8/} The criteria used in this study were developed by the Human Resources Branch, Economic Development Division, ERS.

^{9/} Data presented in table 7 are based on annual income reported for the year prior to the survey in order to permit comparable time comparison of the typology and EO loan samples. Income data for borrowers for the year prior to receiving their loans, in addition to covering a different time period, also were compiled in a somewhat different manner.

Table 7.--Relative income deprivation, typology sample and EO borrowers and rejected applicants, study areas, 1966

Deprivation	Typology		EO loan--			
			Borrowers 1/		Rejected applicants 2/	
	Persons:	% of total:	Persons:	% of total:	Persons:	% of total:
	Number	Percent	Number	Percent	Number	Percent
South Carolina:						
Seriously deprived	: 244	24.4	65	49.6	24	50.0
Deprived	: 244	24.4	34	26.0	9	18.8
Marginal	: 166	16.5	20	15.3	7	14.6
Probably not de- prived	: 165	16.4	10	7.6	4	8.3
Definitely not de- prived	: 183	18.3	2	1.5	4	8.3
Total reporting	: 1,002	100.0	131	100.0	48	100.0
Ozarks:						
Seriously deprived	: 64	4.6	24	17.9	8	19.1
Deprived	: 284	20.2	44	32.9	13	30.9
Marginal	: 398	28.3	39	29.1	9	21.4
Probably not de- prived	: 321	22.8	22	16.4	8	19.1
Definitely not de- prived	: 338	24.1	5	3.5	4	9.5
Total reporting	: 1,405	3/ 100.0	134	100.0	42	100.0
Mississippi Delta:						
Seriously deprived	: 319	27.6	49	53.8	---	---
Deprived	: 333	28.9	20	22.0	---	---
Marginal	: 189	16.3	10	11.0	---	---
Probably not de- prived	: 139	12.0	7	7.7	---	---
Definitely not de- prived	: 176	15.2	5	5.5	---	---
Total reporting	: 1,156	100.0	91	100.0	---	---

1/ Data at time of survey reflects income improvements that occurred over the time the borrowers had their loan.

2/ Data for rejected applicants in the Mississippi Delta are omitted because of the small number of rejections.

3/ 8 respondents did not report income. See text for definition of income-deprivation classes by size of family and income.

Pronounced differences existed in the seriousness of income deprivation of families between the three study areas. In the Ozarks, 51 percent of the borrowers and 25 percent of the rural households were in the deprived and seriously deprived categories, compared with 76 and 56 percent, respectively, in the Mississippi Delta. No allowances have been made, however, for any differences that might exist in the costs of living among the three areas.

Based on income reported by the borrowers for the year prior to applying for their loans, 82.3 percent of all borrowers were in the deprived or seriously deprived income classifications when the EO loans were made. An additional 13.2 percent were in the marginal group, and 4.2 percent were classed as probably not deprived. Only one borrower had a prior income sufficiently high to be classed as definitely not deprived; however, the earlier source of income was no longer available to this borrower, and the loan was made for the purpose of helping him develop a business as a substitute income source.

Public Awareness of Program

Rural families were questioned in mid-1966 about their knowledge of the EO loan program and the means by which they had originally learned about it. Among the three study areas, one-fourth to one-third of the rural families indicated a general awareness of the program; nearly three-fourths reported no knowledge of the program (table 8).

Table 8.--Knowledge of EO loan program, typology sample, study areas, 1966

Aware of program	: <u>South Carolina 1/</u> :		<u>Ozarks</u>		: <u>Mississippi Delta</u>	
	: Families reporting:	: Percentage of total:	: Families reporting:	: Percentage of total:	: Families reporting:	: Percentage of total:
	: <u>No.</u>	: <u>Pct.</u>	: <u>No.</u>	: <u>Pct.</u>	: <u>No.</u>	: <u>Pct.</u>
Yes	: 181	: 24.4	: 515	: 36.4	: 315	: 25.2
No	: 562	: 75.6	: 898	: 63.6	: 934	: 74.8
Total reporting:	: 743	: 100.0	: 1,413	: 100.0	: 1,249	: 100.0

1/ Information not requested of 258 families in South Carolina survey.

Among families who acknowledged a general awareness, the most frequently mentioned sources of information were television and radio (table 9). Some others indicated having learned of the program from their friends and neighbors. Less prominent sources reported were FHA personnel, the Agricultural Extension Service, and farm magazines. Among the three areas, considerable difference existed in the prominence of various sources from which rural families learned of the EO loan program. Television was the most prominent in South Carolina, newspapers were most prominent in the Ozarks, and friends and neighbors were most frequently cited in the Mississippi Delta as the first source of knowledge about the program.

Table 9.--Source of initial information about EO loan program, typology sample and EO borrowers, study areas, 1966

Study group and source of information	:South Carolina 1/:		Ozarks		:Mississippi Delta	
	: Persons	: % of	: Persons	: % of	: Persons	: % of
	: reporting:	: total	: reporting:	: total	: reporting:	: total
	<u>No.</u>	<u>Pct.</u>	<u>No.</u>	<u>Pct.</u>	<u>No.</u>	<u>Pct.</u>
Typology sample:						
White:						
Television		40.1		---		13.9
Radio		5.4		---		8.7
Newspaper		24.1		---		21.4
FHA Supervisor		4.5		---		10.4
Extension service		7.1		---		5.2
Neighbor		13.4		---		28.8
Other		5.4		---		11.6
Total	112	100.0	<u>2/</u>	---	173	100.0
Nonwhite:						
Television		21.8		---		33.8
Radio		20.3		---		26.8
Newspaper		13.0		---		4.9
FHA Supervisor		11.6		---		3.5
Extension service		20.3		---		2.8
Neighbor		7.2		---		17.6
Other		5.8		---		10.6
Total	69	100.0	<u>2/</u>	---	142	100.0
Total sample:						
Television		33.2		22.5		22.9
Radio		11.0		11.3		16.8
Newspaper		19.9		30.5		14.0
FHA Supervisor		7.2		5.8		7.3
Extension service		12.2		2.9		4.1
Neighbor		11.0		16.1		23.8
Other		5.5		10.9		11.1
Total	181	100.0	515	100.0	315	100.0
EO loan borrowers:						
Television		---		4.5		0.0
Radio		---		6.0		1.1
Newspaper		---		23.0		5.5
FHA Supervisor		---		23.0		33.0
Extension service		---		1.5		4.4
Neighbor		---		23.9		33.0
Other		---		17.2		23.0
Total	<u>3/</u>	---	134	100.0	91	100.0

1/ Information on knowledge of program and source of information not obtained from 258 families in typology sample or from 84 EO borrowers.

2/ Data by race omitted due to small number of nonwhite households in sample.

3/ Not asked of borrowers in South Carolina.

Similarly, marked difference existed among white and nonwhite families as to the prominence of the various means by which rural families learned of the program. In South Carolina, informational efforts through television appear to have been more successful among the white than the nonwhite families. The situation was reversed in the Delta, however, where television and radio were far more common sources of information for the nonwhite than the white. Newspapers were more frequently mentioned by the white than the nonwhite in both areas.

A comparison between borrowers and nonborrowers of the original sources of information about the EO loan program shows that borrowers more frequently had learned of the program from FHA personnel and from neighbors. This suggests that such sources were more effective than television, radio, and other communication media in motivating qualified families to apply for assistance. In the South Carolina study area, over one-third of the 134 loans made during the period studied were to families who had sometime previously had a loan with the Farmers Home Administration. To a considerable degree, therefore, the EO loan program had its initial appeal to persons already familiar with the Farmers Home Administration.

CHARACTERISTICS OF BORROWERS

Numerous factors, in addition to age, education, family size, and income, help to describe and explain the relatively low level of living among the EO loan borrowers. The characteristics generally prevailing reflect the "boxed-in" nature of the borrowers and restrict the ease with which increases in income and improvements in living can be readily achieved.

Prior Experience and Training

To the extent that an applicant has had earlier experience, it can be expected that he has already acquired some of the basic knowledge essential to the development and operation of the business being financed by the EO loan. Where the prior experience is somewhat limited in nature, if not in time, the applicant is less likely to have acquired the knowledge and skills--both technological and managerial--with which to develop and operate the proposed business successfully. Even though an applicant may have worked for others in a similar business for many years, he nonetheless may require close supervision, at least initially, after he receives his EO loan.

Two-thirds of all borrowers reported having more than 10 year's experience in the business or enterprise financed by their EO loan (table 10). About one-fourth reported prior experience of 5 years or less. One in nine indicated no previous experience.

Eighty-five percent of the borrowers stated that they had not had any formal training that specifically helped them in developing and operating the business or enterprise financed by their EO loan (app. table 1). For many of those reporting some formal training, the amount and nature appear to have been limited. The most frequently reported sources of such training were programs or courses offered by government, apprenticeship training, and formal schooling (app. table 2).

Table 10.--Borrowers' previous experience in type of business or enterprise financed by EO loan, study areas, 1966

Number of years	South Carolina		Ozarks		Mississippi Delta	
	Persons	% of total	Persons	% of total	Persons	% of total
	No.	Pct.	No.	Pct.	No.	Pct.
None	12	9.8	19	14.2	6	9.7
1 or less	4	3.3			1	1.6
2 to 5	17	13.8	14	10.4	8	12.9
6 to 10	8	6.5	17	12.7	5	8.1
Over 10 years	82	66.6	84	62.7	42	67.7
Total reporting ^{1/}	123	100.0	134	100.0	62	100.0

^{1/} Amount of prior experience was not reported by 6 borrowers in South Carolina and 29 borrowers in the Mississippi Delta.

Attitude Toward Moving and Special Training

Sixty-one percent of the EO loan borrowers stated they would not be willing to move to a different community to accept a better paying job, 27 percent expressed a willingness to move, and 12 percent were undecided (app. table 3). Although actual decisions might differ if the borrowers were to make a firm decision as a result of a specific job offer elsewhere, the attitudes expressed reflect a hesitancy on the part of the borrowers to migrate to a different community for the purpose of increasing their income.

While most borrowers were disinterested in moving away from their home community, they were receptive to taking special training that would help them improve their income while continuing to live in the same area. Six of every ten borrowers expressed a willingness to take special training, if given free, as a means of improving their income earning abilities (table 11).

Participation in Community Organizations

Most borrowers reported occasional if not regular attendance at church services and church-related activities, but few were active in any other groups or organizations in their community (table 12). The limited participation in such groups restricts the possibility of working directly through local organizations, other than churches, to foster public knowledge of the EO or other programs. It also reflects a lack of participation of low-income families in organizational efforts to improve their community and to resolve employment and income problems.

Table 11.--Special training in past and willingness to take special training in future if given free, EO borrowers, study areas, 1966

Item	South Carolina		Ozarks		Mississippi Delta	
	Borrow-	Pct. of	Borrow-	Pct. of	Borrow-	Pct. of
	ers	total	ers	total	ers	total
	No.	Pct.	No.	Pct.	No.	Pct.
Special training in past:						
Yes	25 ^{1/}	19.7	31	23.1	16	17.6
No	106	80.3	103	76.9	75	82.4
Total reporting	131	100.0	134	100.0	91	100.0
Would take special training if free:						
Yes	92	69.9	76	56.7	61	67.0
No	39	29.3	19	14.2	27	29.7
Undecided	0	.8	39	29.1	3	3.3
Total reporting	131	100.0	134	100.0	91	100.0

^{1/}Includes 1 borrower who was currently enrolled in a training program.

Table 12.--Family participation in selected organizations and activities, EO borrowers, study areas, 1966

Area and Item ^{1/}	Frequency of participation							
	South Carolina				Ozarks			
	Regular:	Often:	Seldom:	Never	Regular:	Often:	Seldom:	Never
	-----Percent-----							
Church services	83.2	7.6	8.4	0.8	32.8	8.2	39.6	19.4
Church groups	65.6	3.1	1.5	29.8	6.0	2.2	3.0	88.8
Civic groups	35.9	1.5	0.8	61.8	3.0	0.8	2.2	94.0
Labor unions	0.8	---	---	99.2	0.8	0.8	0.8	97.6
Cooperatives ^{2/}	---	0.8	0.8	98.4	0.8	3.0	1.5	94.7
Political parties	---	0.8	1.5	97.7	0.8	---	0.8	98.4

^{1/} Number of borrowers reporting: 131 in South Carolina and 134 in Ozarks. Similar information was not requested of borrowers in the Mississippi Delta.

^{2/} Includes farm organizations other than cooperatives.

Financial Status

Prior to receiving their loans, the EO borrowers provided FHA with estimates of the value of all assets owned and a statement of all debts owed. Total value of property owned by 359 borrowers in the three study areas was estimated at \$1,840,000, including real estate, chattels, and personal property. Outstanding debts totaled \$675,000.

Per borrower, total assets averaged \$5,123, and outstanding debts averaged \$1,880. Net worth of the average borrower, therefore, was \$3,243 prior to receiving his loan. Equity in total assets was 63 percent.

Value of property owned was considerably higher among borrowers in the Mississippi Delta and the Ozarks than in South Carolina (table 13), mainly because of larger land holdings in the Ozarks and higher per acre values of land

Table 13.--Financial status of EO borrowers prior to receiving loan, by type of loan, 1966 study

Item	Borrowers	Property owned	Debts owed	Net worth	Equity in total assets
	No.	Dol.	Dol.	Dol.	Pct.
South Carolina:					
Agricultural	78	4,408	1,599	2,809	63.7
Nonagricultural	56	3,490	1,292	2,198	63.0
All borrowers	134	4,024	1,470	2,554	63.5
Ozarks:					
Agricultural	94	5,665	2,455	3,210	56.6
Nonagricultural	40	5,400	2,605	2,795	51.8
All borrowers	134	5,586	2,500	3,086	55.3
Mississippi Delta					
Agricultural	63	5,511	1,460	4,051	73.5
Nonagricultural	28	7,288	1,820	5,468	75.0
All borrowers	91	6,058	1,571	4,487	74.1

in the Delta. Average size of debts was notably higher in the Ozarks than in the other two areas. Average net worth of borrowers ranged from \$4,487 in the Delta, to \$3,086 in the Ozarks and \$2,554 in South Carolina.

Considerable difference in equity existed among the three areas. In the Ozarks, debts were equal to nearly one-half of the total value of the borrowers' assets. In contrast, indebtedness by borrowers in the Delta constituted only 26 percent of the value of their assets.

In general, those applicants who received an EO loan for agricultural purposes reported a higher value of property owned than did the nonagricultural borrowers, primarily because the agricultural borrowers were already farming

and commonly in possession of some land, buildings, machinery, and livestock prior to receiving their loan. Some nonagricultural borrowers reported a relatively high value of total assets either because of ownership of residential property or because of investments in farming, although the EO loan was not used to develop their farming operation.

For most borrowers, a major part of their limited assets were used primarily for family living purposes and thus were not of an income-producing nature.

Housing Conditions

Less than one-half of all EO loan borrowers had running water in their homes, and less than one-third had both hot and cold running water (table 14).

Table 14.--Selected housing characteristics, EO borrowers, study areas, 1966

Housing characteristics:	: <u>South Carolina</u> :		: <u>Ozarks</u> :		: <u>Mississippi Delta</u> :	
	House- : : holds	% of : : total	House- : : holds	% of : : total	House- : : holds	% of : : total
	: : <u>No.</u>	: : <u>Pct.</u>	: : <u>No.</u>	: : <u>Pct.</u>	: : <u>No.</u>	: : <u>Pct.</u>
Running water in home:						
Hot and cold	: 30	: 22.9	: 57	: 42.5	: 24	: 27.3
Cold only	: 21	: 16.0	: 17	: 12.7	: 8	: 9.1
No running water:						
Inside hand pump	: 2	: 1.5	: -	: -	: -	: -
Outside hand pump	: 68	: 51.9	: 50	: 37.3	: 10	: 11.4
Well	: 8	: 6.1	: 9	: 6.7	: 31	: 35.2
Neighbor	: 0	: -	: -	: -	: 11	: 12.5
Spring or creek	: 1	: .8	: -	: -	: -	: -
Other	: 1	: .8	: 1	: .8	: 4	: 4.5
Total	: 131	: 100.0	: 134	: 100.0	: 88	: 100.0
Toilet facilities:						
Flush system	: 32	: 25.4	: 59	: 44.0	: 24	: 27.3
Out house	: 91	: 72.2	: 75	: 56.0	: 63	: 71.6
Chemical	: 0	: 0.0	: -	: -	: -	: -
None	: 3	: 2.4	: -	: -	: 1	: 1.1
Total	: 126	: 100.0	: 134	: 100.0	: 88	: 100.0
Bathtub or shower:						
Yes	: 35	: 26.9	: 60	: 44.8	: 24	: 27.3
No	: 95	: 73.1	: 74	: 55.2	: 64	: 72.7
Total	: 130	: 100.0	: 134	: 100.0	: 88	: 100.0
Central heating:						
Yes	: 3	: 2.3	: 5	: 3.7	: -	: -
No	: 127	: 97.7	: 129	: 96.3	: 88	: 100.0
Total	: 130	: 100.0	: 134	: 100.0	: 88	: 100.0

Over one-third of all the families relied on an outside hand pump for water. Two-thirds of the borrowers had neither a bathtub or a shower in their homes.

One-third of the families had a flush toilet system in their homes. Most of the remainder had an outhouse as their only sanitary facility.

Only 2 percent of all borrowers reported having central heating in their homes. The absence of central heating is largely explained by the relatively mild winters of the areas studied, resulting in greater use of the limited income for other amenities.

In the two areas where information was obtained on household equipment, three-fourths or more of the borrowers had a washing machine, television, radio, an electric or gas stove and refrigerator, and a car or truck (app. table 4). About one-half had a sewing machine and a deep freeze. Only one-fourth had a telephone.

Among the three areas, housing characteristics were significantly better in the Ozarks than in the other two areas. More than 40 percent of the Ozark families had both hot and cold running water, a bathtub or shower, and a flush toilet system in their homes. In comparison, about one-fourth of the Delta and South Carolina borrowers had such facilities.

Family Living Expenses

As estimated by the EO loan borrowers when their loan was initially made, cash family-living expenses for the first year of the loan were expected to average \$1,302 (table 15). This amounted to 32 percent of the expected gross income and 55 percent of the income remaining after payment of business operating expenses.

Table 15.--Major cash family living expenses planned for first year after receiving loan, EO borrowers, 1966 study

Expenses	: <u>South Carolina 1/</u>		: <u>Ozarks 2/</u>		: <u>Mississippi Delta 3/</u>	
	: Average : : amount	: % of : total	: Average : : amount	: % of : total	: Average : : amount	: % of : total
	: <u>Dol.</u>	: <u>Pct.</u>	: <u>Dol.</u>	: <u>Pct.</u>	: <u>Dol.</u>	: <u>Pct.</u>
Food	: 597	: 46.4	: 743	: 51.8	: 526	: 46.3
Clothing	: 204	: 15.9	: 180	: 12.6	: 159	: 14.0
Health	: 96	: 7.5	: 130	: 9.1	: 65	: 5.7
School, church, and recreation	: 132	: 10.2	: 102	: 7.1	: 91	: 8.0
Other	: 257	: 20.0	: 279	: 19.4	: 295	: 26.0
Total	: 1,286	: 100.0	: 1,434	: 100.0	: 1,136	: 100.0

1/ 132 borrowers reporting.

2/ 131 borrowers reporting.

3/ 91 borrowers reporting.

Food purchases were expected to average \$633, or 49 percent of the total cash living expenses. Planned expenditures for clothing averaged \$184; health \$101; and school, church, and recreation \$110. More than one-third of all borrowers planned expenditures of less than \$50 for all medical and dental care, including health and hospitalization insurance.

Life and Health Insurance

Nearly 60 percent of all EO loan borrowers reported in 1966 that they carried no health insurance, and 48 percent reported no life insurance. Of those borrowers having any life insurance, nearly three-fourths had coverage of less than \$1,000 (app. table 5).

The limited financial resources of most low-income families place them in a low risk-bearing position. The absence of sufficient life and health insurance as a safeguard against disability or death within the family contributes to the hesitancy of many low-income families to go into debt. If low-cost loan insurance covering the outstanding amount of the debt were to be provided with all EO loans, family concerns about repayment in the event of disability or death might be alleviated and low-income families might avail themselves more fully of the services offered through the EO loan program.

Prior Use of Available Credit

One-half of the borrowers reported that they had tried to obtain a loan elsewhere in the 2 years prior to receiving their EO loan. ^{10/} Of those who stated that they had not attempted to obtain credit elsewhere, about one-third reported that they had not then felt a need to borrow. Others had desired a loan but had not actively sought credit from other sources because (1) interest rates and related loan costs were high and repayment terms would be too difficult to meet, or (2) they believed that they could not obtain a loan from other credit sources if they tried.

Of those who had applied for a loan from other sources, about one-half were successful, even though the size of the loan obtained was frequently restricted and repayment terms were difficult to meet. The average size of prior loans from other sources ranged from \$544 in the Mississippi Delta to about \$850 in South Carolina and the Ozarks (table 16). These loans averaged less than one-half the size of the EO loans the borrowers later received. Because of the short-term repayment period commonly applicable to credit from other sources, annual repayment on such loans was frequently higher than annual payments required on EO loans.

The most prevalent sources of earlier credit were commercial banks, other lending programs administered by FHA, Production Credit Associations, and individuals.

^{10/} Not including regular open accounts and store credit.

Table 16.--Borrowers' use of credit in 2 years prior to receiving EO loan, 1966 study

Item	South Carolina		Ozarks		Mississippi Delta	
	Borrow-	% of	Borrow-	% of	Borrow-	% of
	ers	total	ers	total	ers	total
	No.	Pct.	No.	Pct.	No.	Pct.
Tried elsewhere in past 2 years:						
Yes	51	40.5	68	50.7	46	50.5
No	75	59.5	66	49.3	45	49.5
Total reporting	126	100.0	134	100.0	91	100.0
Received loan elsewhere:						
Yes <u>1/</u>	36	28.6	37	27.6	34	37.4
No - rejected	90	71.4	<u>2/36</u>	26.9	12	13.2
No - didn't try			61	45.5	45	49.4
Total reporting	126	100.0	134	100.0	91	100.0
Source of prior credit received:						
Farmers Home Administration	11	31.4	0	0.0	8	23.5
Commercial banks	8	22.9	28	75.7	16	47.1
Production Credit Association	5	14.3	1	2.7	3	8.8
Personal finance companies	4	11.4	0	0.0	0	0.0
Individuals	3	8.6	1	2.7	5	14.7
Other <u>3/</u>	4	11.4	7	18.9	2	5.9
Total reporting	35	100.0	37	100.0	34	100.0
Amount of credit received: <u>4/</u>						
\$500 or less	18	56.4	18	50.0	18	58.1
\$501 - \$1,000	8	25.0	12	33.3	8	25.8
\$1,001 - \$2,000	2	6.2	6	16.7	5	16.1
\$2,001 - \$3,000	2	6.2			--	--
Over \$3,000	2	6.2			--	--
Total reporting	32	100.0	36	100.0	31	100.0
Reason for not seeking a loan elsewhere: <u>5/</u>						
No need to borrow	--	--	31	47.0	12	24.5
Interest rate and payments too high	--	--	14	21.2	23	46.9
Would not have received loan anyway	--	--	9	13.6	9	18.4
Other	--	--	12	18.2	5	10.2
Total reporting	--	--	66	100.0	49	100.0

1/ Major purposes for which loans were used, in order of prominence, were to operate farm, refinance existing debts, and pay family living costs. Less common purposes were to build a home and to buy land.

2/ In the Ozarks, 31 EO borrowers indicated that prior credit refusals were largely from commercial banks (68 percent); other refusals were from the Small Business Administration, merchants and dealers, PCA, and FHA.

3/ Includes Small Business Administration, saving and loan associations, and insurance companies.

4/ Average size of loan: South Carolina, \$844; Ozarks, \$856; Mississippi Delta, \$544.

5/ Not asked of borrowers in South Carolina.

Farm Size and Tenure

Farm size among agricultural borrowers generally was well below what is usually considered necessary for an efficient family farm. Prior to receiving their EO loans, two-thirds of all agricultural borrowers were operating farms of less than 50 acres (table 17). About one-fourth of all farms had less than 20 acres, but 12 percent had 100 or more; some were as large as 200 acres. Average size of all farms was 55 acres.

Table 17.--Farm size and tenure among EO agricultural borrowers, year before loan, 1966 study

Item	South Carolina			Ozarks 1/			Mississippi Delta		
	Bor- row- ers	% of total	Avg. size of farm	Bor- row- ers	% of total	Avg. size of farm	Bor- row- ers	% of total	Avg. size of farm
	No.	Pct.	Acres	No.	Pct.	Acres	No.	Pct.	Acres
Acres in farm:									
Less than 10	12	15.4		5	5.4		7	11.1	
10 - 19	19	24.8		7	7.5		12	19.0	
20 - 49	35	44.8		31	33.3		26	41.3	
50 - 99	10	12.8		25	26.9		15	23.8	
100 - 199	2	2.6		17	18.3		1	1.6	
200 or more	0	0.0		8	8.6		2	3.2	
Total reporting	78	100.0		93	100.0		63	100.0	
Tenure status:									
Owner	38	48.7	25	62	66.7	67	44	69.9	44
Part-owner	32	41.0	40	17	18.3	172	6	9.5	68
Renter	8	10.3	22	14	15.0	72	13	20.6	40
Total reporting	78	100.0	31	93	100.0	81	63	100.0	46

1/ Includes 2 borrowers having combination farm and nonfarm loans.

The data on farm size overstate the operational size of the farms inasmuch as a considerable amount of the land was poorly suited for agricultural production--thus restricting the income potential from farming. In addition, nearly 30 percent of all land was rented, reducing the income to the farm operator.

Nearly two-thirds of all agricultural borrowers owned all the land they operated, one-fourth owned part and rented part of their farmland, and one-eighth rented their entire farm. Farm size averaged 49 acres among owners, 75 acres among part owners and 50 acres among renters (table 17). By race, land ownership was somewhat less common among nonwhite than white borrowers in the three areas studied; 30 percent of the white borrowers and 46 percent of the nonwhite borrowers rented part or all of their land.

IMPACT OF LOANS

An accurate and complete evaluation of the effectiveness of the EO loans can be made only after the full impact from the loans has materialized. While some borrowers may be expected to achieve the full income effect from their loans fairly quickly, others will experience considerable delay between the time the loan funds are expended and full income responses are realized.

In this study, measurement of the impact of the EO loans is restricted to an analysis of the income response achieved within the first 6 to 18 months after the loans were made, the future expectations of the borrowers, the record of loan repayment, and the general attitude of the borrowers toward the EO loan program and toward their prospects for future success. To obtain an appraisal of the full impact of the EO loans would necessitate a repeat survey of the borrowers at a later date.

Income information used in this study for the year prior to the loan was that reported to FHA by the borrowers when they applied for their initial loan. Operationally, this income and expense information serves as a basis for determining whether the applicant's income is below poverty levels and thus whether he meets the income eligibility requirement. If an applicant's prior income is clearly below poverty levels, it is to be expected that the FHA supervisor would devote little time and effort in making certain these data are precisely correct. From an analytical viewpoint, however, any lack of preciseness compounds the problem of measuring the income response from the loans.

The income and expense data that were obtained from the borrowers when they were surveyed in 1966 pose similar problems concerning accuracy, even though some borrowers had been keeping at least partial records since receiving their loans. Further, inasmuch as the income effects of a loan are not immediately achieved once the loan is made, income and expense data for a full year would tend to understate the changes that had been accruing over the year. To overcome these obstacles, borrowers were asked in 1966 how much their income and expenses had changed, weekly or monthly, since receiving their loans. An annual rate of income response was then computed.

The income and expense information, while less precise than would be desirable, permits measurement of the approximate income responses thus far achieved by the borrowers. Greater precision would have been possible if all borrowers had maintained complete income and expense records--both before and after receiving their loans. In the absence of such records, the estimates of income and expenses were provided by the borrowers on the basis of recall.

Gross Cash Income

Gross cash income for the year before the loans were received averaged \$2,560 for all borrowers in the three study areas. Gross income for the first year after the loans were made had been expected to average \$3,815--an amount \$1,255, or 49.0 percent, higher than in the year prior to the loan.

For a typical year after the businesses or enterprises being financed with the EO loan were fully developed, gross incomes had been expected to average \$4,651--\$2,091, or 81.6 percent, above the annual gross income before the loans were made.

Among the three areas, gross income before the loans averaged slightly lower in South Carolina than in the other two areas (table 18). Increases expected in gross income in both South Carolina and the Ozarks were significantly larger than those in the Mississippi Delta. By type of loan, nonagricultural borrowers generally reported a higher gross income than agricultural borrowers for the year before the loan except in the Mississippi Delta. In all three areas, however, the increases expected in both the plan year and in a typical year were far larger for the nonagricultural borrowers.

Actual changes in gross income estimated by the borrowers after having their loans for 6 to 18 months averaged \$430, approximately one-third as large as the increase planned for the first year of the loans. Slightly more than one-half of the borrowers indicated an increase in actual gross income. However, 45 percent reported no apparent change, and 2 percent stated that their gross income had declined--at least temporarily--since receiving their loans. Of those borrowers estimating a change in gross income, nearly 20 percent reported increases of less than \$200, and 30 percent showed increases of \$1,000 or more. Seven borrowers reported gross income increases of more than \$4,000.

Net Cash Family Income

The usefulness of gross income data as a measure of the income available for family living purposes has two major limitations. First, it overstates the income available for family living because a part of the income must be used to pay business operating expenses. Second, ease of comparison between families is restricted because of the variability of operating expenses among businesses and among operators of similar businesses. With the subtraction of cash operating expenses from gross income, these two restrictions are largely overcome. The figure thus derived, net cash family income, serves as a more suitable measure of the income available to the family for meeting living costs and for adding to savings.

Planned increase--For all borrowers in the three study areas, net cash income in the year before the loans averaged \$1,769, approximately two-thirds of the reported gross income (table 19). According to plans developed by the borrowers and the FHA supervisor, net income had been expected to increase by an average of nearly \$600 in the first year after the loans were made. By the time the business being financed was fully developed, a further increase in net income of \$550 had been planned. Average net cash family income in a typical year thus was expected to average \$2,895, assuming plans were carried out completely. The expected changes would amount to an average increase of 64 percent in a typical year. Slightly more than one-half of the total increase planned was expected in the first year of the loan.

Among the three areas, net cash family incomes in the year before the loans were lowest in the Mississippi Delta and highest in the Ozarks. Planned increases in income in South Carolina and the Delta were significantly larger than those planned with the Ozarks borrowers.

Table 18.--Average gross cash family income prior to loan and increases planned, EO agricultural and non-agricultural loan borrowers, 1966 study

Gross cash income	Agricultural borrowers			Nonagricultural borrowers			All borrowers		
	Total	Increase from		Total	Increase from		Total	Increase from	
		Amount	Percentage change		Amount	Percentage change		Amount	Percentage change
	Dol.	Dol.	Pct.	Dol.	Dol.	Pct.	Dol.	Dol.	Pct.
South Carolina:									
Year before loan	2,210	--	--	2,820	--	--	2,474	--	--
Planned:									
First year	3,220	1,010	45.7	4,930	2,110	74.8	3,911	1,437	58.1
Typical year	3,840	1,630	73.8	6,030	3,210	113.8	4,725	2,251	91.0
Actual <u>1/</u>	--	--	--	--	--	--	2,765	291	11.8
Ozarks:									
Year before loan	2,380	--	--	3,210	--	--	2,615	--	--
Planned:									
First year	3,220	840	35.3	5,860	2,650	82.6	4,015	1,400	53.5
Typical year	4,090	1,710	71.8	7,180	3,970	123.7	5,030	2,415	92.4
Actual <u>1/</u>	--	--	--	--	--	--	3,192	577	22.1
Mississippi Delta:									
Year before loan	2,562	--	--	2,104	--	--	2,608	--	--
Planned:									
First year	3,028	466	18.2	4,820	2,716	129.1	3,384	776	29.8
Typical year	3,567	1,005	39.2	5,803	3,699	175.8	3,986	1,378	52.8
Actual <u>1/</u>	--	--	--	--	--	--	2,997	389	14.9

1/ Annual income based on weekly or monthly increase from time prior to receiving loan to time of survey in mid-1966.

Table 19.--Average net cash family income, planned and actual, EO borrowers, 1966 study

Net cash family income <u>1/</u>	South Carolina			Ozarks			Mississippi Delta			All areas		
	: Income change:			: Income change:			: Income change:			: Income change		
	: from year :			: from year :			: from year :			: from year		
	: Total: before loan :			: Total: before loan :			: Total: before loan :			: Total: before loan		
	: income:	: Per-:	: income:	: Per-:	: income:	: Per-:	: income:	: Per-:	: income:	: Per-:	: income:	: Per-:
	: Amount:	: cent-:	: Amount:	: cent-:	: Amount:	: cent-:	: Amount:	: cent-:	: Amount:	: cent-:	: Amount:	: cent-:
	:	: age :	:	: age :	:	: age :	:	: age :	:	: age :	:	: age :
	<u>Dol.</u>	<u>Dol.</u>	<u>Pct.</u>	<u>Dol.</u>	<u>Dol.</u>	<u>Pct.</u>	<u>Dol.</u>	<u>Dol.</u>	<u>Pct.</u>	<u>Dol.</u>	<u>Dol.</u>	<u>Pct.</u>
Year before loan	:1,692	--	--	1,963	--	--	1,592	--	--	1,769	--	--
Planned for:	:	:	:	:	:	:	:	:	:	:	:	:
First year after loan	:2,452	760	44.9	2,488	525	26.7	2,045	453	28.4	2,361	592	33.6
Typical year	:2,965	1,273	75.2	3,090	1,127	57.4	2,510	918	56.7	2,895	1,126	63.8
Actual <u>2/</u> , first year after loan	:1,839	147	8.7	2,205	242	12.3	1,800	208	12.2	1,968	199	11.3
Expected, year after survey	:2,211	519	30.7	2,749	786	40.0	2,054	462	28.1	2,375	606	34.3

1/ Gross cash family income minus cash business operating expenses.

2/ Estimated by borrowers when surveyed in mid-1966.

By type of loan, larger increases in net income were expected of the non-agricultural loans, particularly in the Ozark area. Income-increases planned for the first year averaged \$854 for nonagricultural borrowers and \$456 for agricultural borrowers. These amount to increases of 42 and 28 percent, respectively. For a typical year, the total increase in net cash income was expected to be \$1,329 (70 percent increase) for nonagricultural borrowers, compared with \$968 (60 percent increase) for agricultural borrowers.

Actual responses.--Based on estimates made by the EO loan borrowers in mid-1966, net cash family income had increased about \$200 since the loans had been made. The largest increases--averaging \$242--were reported among the borrowers in the Ozarks, and the smallest--\$147--in South Carolina (table 19).

Actual increases were about one-third of the amount that had been planned, suggesting that income potentials from the loans had been overestimated or that many borrowers had not succeeded in developing their businesses or enterprises as rapidly as had been planned. It should be kept in mind, however, that in the absence of complete income and expense records kept by the borrowers (both before and after the loans were made), the income response estimates are only approximate. The increases indicated are likely to understate the true impact of the loans because some borrowers may not have been aware of modest increases in income and because no allowance has been made for improvements of a noncash nature.

The borrowers were generally optimistic about future prospects of the business financed with their loans, expecting further increases in net income averaging more than \$400 in the year following the survey. If these expectations are achieved, the total increase in net cash income would average \$606, raising net income from \$1,769 before the loan to \$2,375 after having the loans 2 years or more. Although such an increase would not be sufficient to raise average income above poverty levels, it would facilitate a significant improvement in the borrowers' level of living.

Implications for Long-Term Impact

While the actual increase in the borrowers' net income in the first year (\$199) is only slightly larger than the loan payments for that year, the average increase expected in the year following the survey (\$606) is between four and five times the size of the average annual payment due on the loan. After allowing for scheduled payments, therefore, the average borrower, at the time of the survey, expected that in the following year his cash available for family living purposes would be about \$475 higher than in the year before he received the loan.

Based on the assumption that the borrowers achieve and maintain the increases in income expected in the year following the survey, the average loan will have contributed to increases in net cash income totaling \$2,623 during the first 5 years of the loan. The total increase would be 1½ times as large as the amount of the initial loan.

Expanded to all borrowers in the study, the aggregate increases in income over the first 5 years would exceed \$930,000, largely resulting from the increase in productivity achieved as a consequence of the 356 loans. Such increases would amount to an annual return on the use of the loan funds of approximately 30 percent. The relatively low return of 12 percent in the first year would

be offset by a return of 35 percent in succeeding years after the income potentials have begun to materialize. The interest rate of 4 1/8 percent a year on the unpaid balance of the loan should be kept in mind here. And it should not be construed that all of the increase in income is to be credited as a return to capital. Instead, the loan funds, along with the supervision extended, serves somewhat as a catalyst in helping the borrower achieve more productive use of his labor, skills, and other resources.

Repayment Status of Borrowers

The repayment record of borrowers is one criterion frequently used in appraising the success of a loan program. Not only can it be used as an indicator of the financial soundness of the overall program, but also it reflects, to some degree, the success of the individual loans. It is likely, of course, that some of the less successful borrowers might undergo considerable personal hardship to avoid being delinquent on their loans. Similarly, others might fail to meet their payments even though the income impact of the loan has been considerable.

In South Carolina, one-third of the EO borrowers were delinquent on their loans after having them 1 to 2 years. In both Mississippi and the Ozarks, less than one-sixth of the borrowers were behind schedule, and one-fifth or more of the borrowers were ahead of schedule (table 20).

Table 20.--Repayment status of EO borrowers by type of loan, study areas, 1966

Repayment status	Agricultural loans		Nonagricultural loans		All loans	
	Borrowers	% of total	Borrowers	% of total	Borrowers	% of total
	No.	Pct.	No.	Pct.	No.	Pct.
South Carolina:						
Ahead of schedule	15	19.2	12	21.4	27	20.1
Current	45	57.7	18	32.1	63	47.1
Behind schedule	18	23.1	26	46.5	44	32.8
Total	78	100.0	56	100.0	134	100.0
Ozarks:						
Ahead of schedule	33	36.3	15	36.6	1/ 49	36.6
Current	52	57.1	13	31.7	1/ 66	49.2
Behind schedule	6	6.6	13	31.7	19	14.2
Total	91	100.0	41	100.0	134	100.0
Mississippi Delta:						
Ahead of schedule	13	19.7	5	20.0	18	19.8
Current	44	66.7	17	68.0	61	67.0
Behind schedule	9	13.6	3	12.0	12	13.2
Total	66	100.0	25	100.0	91	100.0

1/ Includes one borrower with combination agricultural-nonagricultural loan.

Overall, about 25 percent of the borrowers were ahead of schedule, and 20 percent were delinquent. In many cases, however, the amount that the borrower was ahead of or behind his scheduled payments was nominal. Total payments due and total payments made in the three areas, including prepayments from the sale of business property and refunds of unused loan funds, were as follows:

	<u>Date of records</u>	<u>Amount due</u>	<u>Amount paid</u>
South Carolina	3/31/67	\$31,387	\$29,849
Ozarks	1/31/67	30,280	44,218
Mississippi Delta	1/31/67	28,127	43,196

The differences among the three areas in repayment status of loans no doubt reflect differences in the types of enterprises being financed--both farm and nonfarm--as well as differences in economic, social, and climatic conditions that influence the success of those enterprises.

By type of loan, the rate of delinquency was considerably higher among non-agricultural borrowers than agricultural borrowers, even though higher incomes were generally expected among the nonagricultural borrowers. Possible reasons are: (1) as more of the nonagricultural loans are for starting a new enterprise or business, the element of risk may be greater than in the case of agricultural loans, which generally enhance an existing business; and (2) considerable time may elapse before much income is realized from businesses or enterprises being newly started, even though future income potentials may be high.

No consistent differences in delinquency rates were apparent between white and nonwhite borrowers.

Borrowers' Attitude and Outlook

During the conduct of the survey of EO loan borrowers, interviewers recorded their general impression of:

1. The borrower's attitude toward FHA,
2. His general attitude and outlook toward the future, and
3. The effectiveness of the EO loan in improving the borrowers' income.

These impressions are summarized in tables 21, 22, and 23. With few exceptions, the borrowers appeared to have formed a favorable attitude toward FHA. Some borrowers having a high regard for this agency had stated that the EO loan program was the only governmental program that has demonstrated any real concern about them or was sincerely endeavoring to help them.

Nine-tenths of the borrowers appeared to have a wholesome outlook toward the future and were exerting considerable personal effort to improve their income situation. The general enthusiasm and outlook of the borrowers appear to have been considerably enhanced as a consequence of the loan. This was generally true even for those borrowers whose income responses had thus far been negligible.

In the opinion of the interviewers, about one-fourth of the borrowers in South Carolina, over one-half in the Ozarks, and more than two-thirds in the Mississippi Delta had made at least a modest improvement in their income since receiving their loan. The majority of the other borrowers, while not yet

Table 21.--Interviewers' evaluations of EO borrowers' general attitude toward
FHA, study areas, 1966

Attitude	: South Carolina :		: Ozarks :		: Mississippi Delta :	
	: Borrow-	: % of	: Borrow-	: % of	: Borrow-	: % of
	: ers	: total	: ers	: total	: ers	: total
	: <u>No.</u>	: <u>Pct.</u>	: <u>No.</u>	: <u>Pct.</u>	: <u>No.</u>	: <u>Pct.</u>
Very good, highly favorable	: 24	: 18.6	: 48	: 35.8	: 73	: 80.2
Good, favorable	: 86	: 66.6	: 74	: 55.2	: 8	: 8.8
Complacent, neither good or bad	: 12	: 9.3	: 6	: 4.5	: 2	: 2.2
Somewhat unfavorable	: 4	: 3.1	: 4	: 3.0	: 3	: 3.3
Bad, low opinion of FHA	: 2	: 1.6	: 2	: 1.5	: 4	: 4.4
No answer	: 1	: .8	: 0	: 0	: 1	: 1.1
Total	: 129	: 100.0	: 134	: 100.0	: 91	: 100.0

Table 22.--Interviewers' evaluations of EO borrowers' general attitude and outlook toward the future, study areas, 1966

Attitude and outlook	: South Carolina :		: Ozarks :		: Mississippi Delta :	
	: Borrow-	: % of	: Borrow-	: % of	: Borrow-	: % of
	: ers	: total	: ers	: total	: ers	: total
	: <u>No.</u>	: <u>Pct.</u>	: <u>No.</u>	: <u>Pct.</u>	: <u>No.</u>	: <u>Pct.</u>
Very good, highly enthusiastic, working hard to improve situation	: 12	: 9.3	: 68	: 50.7	: 18	: 19.8
Fairly good, hopeful, at least trying to better himself	: 105	: 81.4	: 53	: 39.6	: 71	: 78.0
Resigned, sees little prospect for a better future, making little real effort to improve himself	: 11	: 8.5	: 13	: 9.7	: 2	: 2.2
No answer	: 1	: .8	: 0	: 0	: 0	: 0
Total	: 129	: 100.0	: 134	: 100.0	: 91	: 100.0

Table 23.--Interviewers' impressions of effectiveness of EO loan in improving borrowers' income, study areas, 1966

Effectiveness	South Carolina		Ozarks		Mississippi Delta	
	Borrow-	% of	Borrow-	% of	Borrow-	% of
	ers	total	ers	total	ers	total
	No.	Pct.	No.	Pct.	No.	Pct.
Very effective, considerable improvement	15	11.6	40	29.9	7	7.7
Making at least a modest improvement	17	13.2	34	25.4	<u>1</u> /59	64.8
Hope of some improvement, little apparent sign of it to date	71	55.0	42	31.3	18	19.8
Little possibility of income improvement	19	14.7	5	3.7	7	7.7
Loan no help in improving income	6	4.7	2	1.5	0	0
Loan not of nature to generate income <u>2</u> /	1	.8	11	8.2	0	0
Total	129	100.0	134	100.0	91	100.0

1/ Income appears to have increased, but living conditions remain unchanged.

2/ Loans primarily for (1) housing improvements such as installing a water system or putting in a bath, thus contributing directly to an improved level of living, or (2) refinancing of debts and reducing annual payments, thereby freeing more of existing income for family living purposes.

experiencing any apparent increase in income, were expected to do so in the future. Borrowers in the three study areas who were expected to make little or no income improvement as a consequence of their loans accounted for 8 to 19 percent of the total loans made.

While the impressions received by the interviewers during the course of their visits with the borrowers are highly subjective, they nevertheless permit the conclusion that in a majority of cases, the borrowers have experienced a considerable uplift in enthusiasm as a consequence of FHA's assistance and are highly appreciative of the help received. These elements might well be expected to enhance the borrowers success in the business venture being pursued with the EO loan and in subsequent courses of action which they might take.

FACTORS AFFECTING SUCCESS OF THE LOANS

Many factors influence the success or failure of the business pursuits of any individual. Included among these are age, education, size of family, health, the type of business being pursued, physical and financial assets, and other characteristics discussed in preceding sections of this report. Some important factors directly affecting the success of the EO loans are size of loan, adequacy of loan funds, problems encountered by borrowers in the development of their business or enterprise, and amount and quality of supervisory advice and assistance received. Criteria used in the process of determining the eligibility of applicants also influence the effectiveness of the EO loan program.

Size of Loans and Use of Loan Funds

The average size of the EO loans was \$1,527 in the Mississippi Delta, \$1,753 in South Carolina, and \$1,812 in the Ozarks (table 24). About one of every seven loans was for less than \$1,000. One of every four was for \$2,500, the maximum available at the time these loans were made. No significant differences were observed in the size of loans between the white and nonwhite borrowers or between agricultural and nonagricultural loans.

Table 24.--Size of EO loans, 1966 study

Size of loan	: <u>South Carolina</u> :		: <u>Ozarks</u> :		: <u>Mississippi Delta</u>	
	: Loans:	: % of total	: Loans:	: % of total	: Loans:	: % of total
	: <u>No.</u>	: <u>Pct.</u>	: <u>No.</u>	: <u>Pct.</u>	: <u>No.</u>	: <u>Pct.</u>
Under \$500	: 10	: 7.5	: 6	: 4.5	: 8	: 8.8
\$500 to \$999	: 19	: 14.2	: 13	: 9.7	: 22	: 24.1
\$1,000 to \$1,499	: 21	: 15.7	: 19	: 14.2	: 14	: 15.4
\$1,500 to \$1,999	: 13	: 9.7	: 28	: 20.9	: 12	: 13.2
\$2,000 to \$2,499	: 37	: 27.5	: 26	: 19.4	: 14	: 15.4
\$2,500	: 34	: 25.4	: 42	: 31.3	: 21	: 23.1
Total	: 134	: 100.0	: 134	: 100.0	: 91	: 100.0
	:		:		:	
	:	<u>Dollars</u>	:	<u>Dollars</u>	:	<u>Dollars</u>
Total funds borrowed ^{1/}	: 1/	234,950	:	242,820	:	138,920
Average loan	:	1,753	:	1,812	:	1,527
	:		:		:	

^{1/} Excludes 11 subsequent loans made prior to the survey, 1 each in South Carolina and the Ozarks and 9 in the Mississippi Delta.

Considerably more than one-half of the EO loans were made for farming purposes, varying from 58.2 percent in South Carolina to 69.2 percent in the Delta (app. table 6). Nonfarm businesses financed by the loans represented a wide variety of enterprises, including cosmetology and barber shops, dressmaking, service stations, fishing worm production and sales, restaurants, and door-to-door sales.

Loans to farmers were made for the purpose of developing and improving their existing land and buildings, adding a new enterprise to the operation of their farms, meeting operating expenses of the farm business, and in some cases, re-financing existing debts on their land.

Forty percent of all the loans were for the primary purpose of starting a new business or adding a new enterprise to an existing business. The other 60 percent were for purposes of developing and operating a business or enterprise already in existence (app. table 6).

Specific uses of loan funds.--For all EO loans in the three areas, funds obtained were to be used for the following purposes:

	<u>Percent</u>
Purchase of machinery and equipment.....	24.8
Refinancing debts.....	20.4
Construction and repair of buildings.....	15.4
Purchase of livestock.....	14.6
Other real estate improvements.....	9.9
Purchase of real estate.....	7.3
Operating expenses of business.....	5.0
Other.....	<u>2.6</u>
Total.....	100.0

Among loans for nonfarm businesses or enterprises, 54 percent of the funds were earmarked for the purchase of machinery and equipment, and 27 percent were for constructing and repairing buildings. Among the loans to farmers, only 9 percent of the funds were specified for the purchase of machinery and equipment, while 22 percent were for purchasing livestock, 29 percent for refinancing debts, and 23 percent for purchase or improvement of real estate (app. table 7).

Considerable variation existed between the three areas in the uses made of EO loan funds (app. table 8). For example, more than one-third of all funds in South Carolina were for refinancing debts; in the Ozarks, only 7 percent were for this purpose. In the Ozarks, 29 percent of all funds were for purchasing livestock, compared with 10 percent in the Mississippi Delta and 2 percent in South Carolina.

Refinancing old debts.--Most of the funds obtained by the EO loan borrowers were for purposes contributing directly to the development of a business or enterprise, thereby increasing the borrower's productivity and improving his income-earning potential. The major exception was the use of funds for refinancing old debts. However, the use of funds for this purpose appears to be consistent with the broad objectives of the program.

In some cases, loan funds used for refinancing debts permitted the borrower to retain possession of his income-earning resources and thus to continue his existing means of earning a living. If old debts had not been refinanced, the borrower may have been faced with foreclosure on his income-producing property. Had this happened, he would have had to search for other means of earning an income or, possibly, to turn to welfare programs for assistance.

More commonly, funds used for refinancing debts, while not contributing directly to an increase in income, have permitted borrowers to retain more of their existing income for living purposes, thus contributing to an improved level of living. As the credit previously being used by such families was normally short-term in nature, annual payments were relatively high. With the liberal repayment terms of the EO loan program, the refinancing of such debts reduces the amount of annual payments, leaving more of the family's income available for other uses.

One-fourth of all borrowers used part of their loan funds for refinancing debts. Among these borrowers, the average amount used for this purpose was \$1,407--two-thirds of all loan funds they received.

Problems in Developing Businesses or Enterprises

Borrowers were asked if, since they received their loans, they had encountered any major problems in developing the business or enterprise financed by the loan funds. In both South Carolina and the Mississippi Delta, about one-half of the borrowers reported having faced a major problem, and in the Ozarks, about two-thirds (app. table 9). The balance of the borrowers in each of the areas either had faced no problem of consequence or, at least, whatever problems they did face were not viewed by them as major. It is quite likely, however, that difficulties not viewed by an individual borrower as being important might be regarded by outside observers as ones that seriously hampered the successful development of the enterprise being financed.

In the opinion of the borrowers, the problems most commonly encountered in developing their business were:

1. Poor quality of land or other resources at their disposal;
2. Too few paying customers;
3. Natural catastrophe, such as floods and droughts (particularly in South Carolina); and
4. Lack of labor, either within the family or from outside the family (app. table 10).

Problems less frequently mentioned were poor health of the borrower or his family, too little capital, restrictions imposed by FHA on the use of funds, and poor location of business. Some of the borrowers viewed with disfavor a regulation requiring the placing of loan funds in a joint checking account until funds were dispersed in a manner acceptable to both the borrower and the FHA supervisor. Some borrowers strongly favored a relaxation of this practice so that loan funds might be expended without their having to obtain prior approval of the FHA supervisor. If this were done, however, loan funds might be used by some borrowers for unauthorized or unproductive purposes, and the supervisory effectiveness of FHA personnel might be considerably reduced.

Assistance in Solving Problems

Borrowers who reported that they had encountered major problems in operating their business were asked whether they had received much, some, little, or no assistance from the FHA supervisor in overcoming these problems. Over 40 percent of the Ozark borrowers indicated that much help was received from the

supervisors; less than one-third indicated that little or no help was received (table 25). In the Mississippi Delta, by contrast, about nine-tenths of the borrowers with major problems reported receiving little or no help from the supervisors; only 10 percent reported some or much help.

Table 25.--Amount of assistance received from FHA supervisor in solving major problems encountered, EO borrowers, 1966 study

Amount of assistance <u>1/</u>	South Carolina		Ozarks		Mississippi Delta	
	Borrow-	% of	Borrow-	% of	Borrow-	% of
	ers	total	ers	total	ers	total
	No.	Pct.	No.	Pct.	No.	Pct.
Much	13	20.3	39	43.4	1	2.1
Some	15	23.4	23	25.6	4	8.5
Little	10	15.6	6	6.6	3	6.4
None	26	40.7	22	24.4	39	83.0
Total reporting	64	100.0	90	100.0	47	100.0

1/ Reported by borrowers.

About one-third of the borrowers reporting a major problem indicated that they had received help from sources other than FHA in solving that problem (table 26). By far the most prevalent sources of such advice and assistance were friends and neighbors. Only six borrowers in the three areas reported having sought and obtained help from relatives, merchants, dealers, and salesmen.

Table 26.--Prominence of sources, other than FHA, of assistance in solving major problems, EO borrowers, 1966 study

Source	South Carolina		Ozarks		Mississippi Delta	
	Borrow-	% of	Borrow-	% of	Borrow-	% of
	ers	total	ers	total	ers	total
	No.	Pct.	No.	Pct.	No.	Pct.
Friends and neighbors	13	59.1	23	50.0	5	55.6
Family	4	18.2	3	6.5	2	22.2
Government agencies ^{1/}	3	13.6	3	6.5	0	0
Merchants, dealers, salesmen	2	9.1	7	15.2	0	0
Other	0	0.0	10	21.8	2	22.2
Total reporting	22	100.0	46	100.0	9	100.0

1/ Other than FHA.

These responses of the borrowers are of a subjective nature and may not reflect the true efforts of the FHA supervisors to assist borrowers in developing their businesses. In some instances, the borrower may not have accepted the suggestions made to him and thus may have felt that he had received little help from the supervisor in solving his particular problem. It is also possible that in some instances, the supervisors either did not view the indicated problem as of major importance, or they may not have been aware that a particular problem existed.

Adequacy of Size of EO Loan

When borrowers were asked if their initial loan had been sufficiently large to meet their needs, about 60 percent of all borrowers in the three areas replied that it had been (table 27). About 40 percent indicated that the loan funds received had been too small.

Table 27.--EO borrowers' opinion on adequacy of size of loan received, study areas, 1966

Loan size	: South Carolina		: Ozarks		: Mississippi Delta	
	: Borrow-	: % of	: Borrow-	: % of	: Borrow-	: % of
	: ers	: total	: ers	: total	: ers	: total
	: <u>No.</u>	: <u>Pct.</u>	: <u>No.</u>	: <u>Pct.</u>	: <u>No.</u>	: <u>Pct.</u>
Adequate	: 83	: 67.0	: 75	: 56.0	: 55	: 60.4
Too small	: 38	: 30.6	: 59	: 44.0	: 36	: 39.6
Undecided	: 3	: 2.4	: 0	: 0.0	: 0	: 0.0
Total reporting	: 124	: 100.0	: 134	: 100.0	: 91	: 100.0

Major reasons for the limitation of loan size below the amount the borrowers considered desirable were:

1. The legal limit on the size of loans, then set at \$2,500, did not permit the extension of more funds.
2. Some of the purposes for which loan funds had been desired, such as home improvements, paying family living costs, and refinancing debts other than those on real estate, were not permissible under existing regulations.
3. In the view of the FHA supervisor or the county committee,^{11/} additional funds would not sufficiently enhance the success of the business being financed to justify increasing the size of the loan.
4. Purposes for which loan funds were to be used proved more costly than had been anticipated.

^{11/} 3-man committee in each county assisting in the operation of credit programs administered by FHA.

Also, over the year or more since the borrowers had received their loans, some had realized that they had originally underestimated the amount of loan funds required to meet their business needs.

Borrower Plans for Business Expansion

More than one-half of the borrowers in the three areas reported that they planned to expand the size of the business or enterprise financed by their EO loan (app. table 11). An additional 11 percent were undecided about future plans. Nearly one-third (32 percent) indicated no desire to expand their business beyond its present size. The desire to expand was most frequently reported among borrowers in the Ozarks (69 percent).

Reasons given by borrowers for not being interested in further business expansion differed somewhat among the three areas, but those most commonly reported were:

1. Present size of business and debt was as large as the borrower felt he could handle (33 percent),
2. Business was already large enough to meet family needs (16 percent),
3. Borrower disliked being in debt and planned to pay off present loan before expanding (14 percent),
4. Business was considered unprofitable by the borrower (13 percent), and
5. The borrower preferred to see full results of present operation before considering possibility of expanding (8 percent).

Additional Loans Desired

Nearly 60 percent of all borrowers indicated a desire for another FHA loan within the coming 2 years (app. table 12).

Estimates were made by 181 borrowers of the additional loan funds needed. These totaled \$385,515 and averaged \$2,130 per borrower. Of these borrowers, 39 percent estimated requirements of less than \$1,000; 33 percent, from \$1,001 to \$2,500; 21 percent, from \$2,501 to \$5,000; and 7 percent, \$5,000 or more (table 28).

The most commonly reported needs for additional funds were:

1. To buy machinery and equipment--19 percent;
2. To construct or improve buildings, including houses--19 percent;
3. To pay operating expenses--19 percent; and
4. To purchase or improve real estate--14 percent (app. table 13).

Table 28.--Amount of additional loan funds desired, EO borrowers, study areas, 1966

Item	:South Carolina:		Ozarks		:Mississippi Delta	
	: Borrow-	: % of:	:Borrow-:	:% of:	:Borrow-:	: % of
	ers	:total:	ers	:total:	ers	: total
	<u>No.</u>	<u>Pct.</u>	<u>No.</u>	<u>Pct.</u>	<u>No.</u>	<u>Pct.</u>
Size of additional loan needed:						
\$500 or less	12	15.8	2	3.1	6	9.7
\$501 to \$1,000	19	25.0	6	9.4	25	40.3
\$1,001 to \$1,500	10	13.2	5	7.8	9	14.5
\$1,501 to \$2,500	12	15.8	14	21.9	10	16.2
\$2,501 to \$3,500	9	11.8	17	26.5	1	1.6
\$3,501 to \$5,000	4	5.3	6	9.4	1	1.6
Over \$5,000	1	1.3	1/9	14.1	3	4.8
No amount estimated	9	11.8	5	7.8	7	11.3
Total reporting	2/76	100.0	64	100.0	62	100.0
		<u>Dollars</u>		<u>Dollars</u>		<u>Dollars</u>
Total, additional funds need-		103,700		204,015		77,800
ed						
Average size of additional						
loan needed		1,364		3,458		1,441

1/ Includes 4 borrowers desiring additional loans of \$10,000 or more.

2/ Omits 6 borrowers wanting another loan who made no estimate of amount needed.

For many borrowers, the additional financial assistance desired might need to be met through other credit programs administered by FHA or through other credit organizations. This would be essential in all instances when the proposed use of funds is not authorized in the EO loan program or when the total indebtedness exceeds the presently authorized limit of \$3,500.

Location of Business

Borrowers were asked how far their business was located from an asphalt or other hard-surfaced road and whether they felt that road conditions restricted income possibilities from the business being financed with EO loan funds. Nearly nine-tenths of the borrowers in South Carolina are located within 1 mile of a hard-surfaced road (table 29). In the Delta, two-thirds had such ready access to good roads, while in the Ozarks, only half of the borrowers were within a mile of a hard-surfaced road.

Among the three areas, 14 percent of the borrowers were of the opinion that their income was hampered by poor road conditions (app. table 14). Most borrowers, therefore, were of the opinion that the success of the business financed by their EO loan was not seriously restricted by road conditions. It is possible, however, that poor road conditions may have ruled out some possible business alternatives which the borrower might have otherwise considered. When the

Table 29.--Distance of business from asphalt or other hard-surfaced roads, EO borrowers, study areas, 1966

Distance	South Carolina		Ozarks		Mississippi Delta	
	Borrow-	% of	Borrow-	% of	Borrow-	% of
	ers	total	ers	total	ers	total
	<u>No.</u>	<u>Pct.</u>	<u>No.</u>	<u>Pct.</u>	<u>No.</u>	<u>Pct.</u>
On or near hard-surfaced road	67	51.9	41	30.6	61	67.0
Up to 1 mile	47	36.4	25	18.7		
One to 6 miles	9	7.0	<u>1</u> /48	35.8	30	33.0
Over 6 miles	2	1.6	<u>2</u> /20	14.9	0	0.0
No answer	4	3.1	0	0.0	0	0.0
Total reporting	129	100.0	134	100.0	91	100.0

1/ 1 to 5 miles.

2/ Over 5 miles.

success of a particular business depends upon attracting customers to the location of that business, roads that restrict the ease of travel may have a detrimental effect on the success of that business.

Borrowers in the Ozarks and the Mississippi Delta were also asked whether they felt the location of their business hampered its success. Nearly 10 percent of them indicated that their location did have a detrimental effect on the success of their business (app. table 15). Commonly suggested reasons for this view were that they were too remote from good markets for their products and that there were too few customers in the immediate area for the products or services they provided.

Supervision

The success of the EO loan program in helping qualified families increase their income and level of living is dependent on both (1) the provision of necessary funds, and (2) the extension of supervisory assistance to ensure that the borrowers use their personal, physical, and financial resources as productively as possible.

Do FHA personnel have the necessary capabilities to provide the required supervisory assistance to the EO borrowers, considering the wide range of business endeavors for which loans are being made? In earlier years of the agency, FHA's loan activities were primarily with farmers. Considerable emphasis was then placed on all FHA personnel having a high degree of technical competence in agriculture. With the addition of the EO loan program, as well as other programs not restricted to loans for agricultural production, maintaining a

staff with a high degree of technical competence in so broad a range of agricultural and nonagricultural businesses is certain to be more difficult.

In an appraisal of the capabilities of FHA's supervisory staff, attention must first be focused on the following question: What type of supervisory assistance should be expected of FHA personnel? It appears that their primary function is to provide basic supervision to borrowers in financial and business management, directing them to other sources whenever the technical information required lies outside the FHA supervisor's personal knowledge. An FHA supervisor with a strong background in management training, even if that training was oriented toward management of agricultural enterprises, should be able to provide the necessary guidance in managing nonagricultural enterprises. Even so, the supervisory task will be large, considering the limited background of most EO borrowers in business and financial management.

Supervisory visits.--The number of necessary visits will vary considerably among borrowers. Those with limited experience or knowledge of the particular business they are developing may require frequent supervisory visits. Borrowers judged to have considerable technical knowledge and business acumen may require only an occasional visit. In most cases, however, it would seem that fairly frequent visits would be desirable, at least within the first year of the loan.

Borrowers were asked how many times they had been visited by FHA supervisors since they had received their loan. About three-fourths reported three or more visits by the supervisor (table 30). More than one in five indicated six or more visits; less than one of every eight reported no more than one visit.

Table 30.--Number of visits by FHA supervisors since EO loan was obtained, borrowers, 1966 study 1/

Number of visits <u>2/</u>	South Carolina		Ozarks		Mississippi Delta	
	Borrow- ers	% of total	Borrow- ers	% of total	Borrow- ers	% of total
	No.	Pct.	No.	Pct.	No.	Pct.
None	3	2.3	9	6.7	1	1.1
One	4	3.1	9	6.7	7	7.7
Two	13	10.1	30	22.4	17	18.7
Three	22	17.1	27	20.1	18	19.8
Four or five	43	33.3	29	21.7	19	20.9
Six or more	43	33.3	30	22.4	29	31.8
No answer	1	.8	--	--	--	--
Total	129	100.0	134	100.0	91	100.0

1/ At time of the survey, the average borrower had had his loan about 12 months.

2/ Reported by borrowers.

No attempt was made in this study to appraise the qualitative aspects of supervisory visits. On some occasions, a brief visit may be all that is necessary to provide the essential supervision. On other occasions, longer visits may be required where extensive supervision is necessary. Brief visits by the borrower to the county FHA office or even casual meetings on the street may provide the supervisor with an opportunity to check on matters of key importance, although the borrower may not regard such contacts as supervisory visits.

Help received in selected activities.--Borrowers were also asked for their opinion of the amount of help they had received from their FHA supervisor in five selected areas of activity. A summary of their responses shows that borrowers most frequently received help in keeping family financial records, in making necessary purchases, and in the general activity of home management (table 31). The latter particularly reflects the efforts of home management supervisors in some of the counties in the study.

Table 31.--EO borrowers' opinion of amount of help received from FHA personnel in selected activities, since receiving their loan, 1966 study

Activity	Amount of supervision received by borrowers in--											
	South Carolina 1/				Ozarks 2/				Mississippi Delta 3/			
	Much	Some	Little	None	Much	Some	Little	None	Much	Some	Little	None
	-----Percent-----											
Keeping record books	32.8	20.0	12.8	34.4	25.4	25.4	11.9	37.3	0.0	13.2	20.9	65.9
Making purchases	15.1	22.2	11.1	51.6	11.9	17.2	14.9	36.0	4.4	25.3	5.5	64.8
Marketing produce or services	.8	1.6	7.9	89.6	3.7	8.2	14.9	73.2	0.0	2.2	2.2	95.6
Getting more business	3.2	6.3	4.8	85.7	3.7	9.0	8.2	79.1	0.0	3.3	3.3	93.4
Home management	22.2	14.3	9.5	54.0	5.2	19.4	9.0	66.4	0.0	2.2	1.1	96.7

- 1/ 129 borrowers.
- 2/ 134 borrowers.
- 3/ 95 borrowers.

Overall, the amount of supervision received in each of the areas of activity appears fairly limited, as viewed by the borrowers. It is likely, however, that their views somewhat understate the amount and quality of supervision extended. First, in activities where the borrower is already doing well, little or no supervision may be required. Thus, the borrower would quite naturally report that little or no help was extended. Second, to the extent that people are inclined to view many of their actions as self-initiated, they may not give

proper credit to others for having prompted their decision to take such actions. Third, if the borrower has rejected the supervisors suggestions, he may not think that much assistance has been extended to him. Fourth, the borrower simply may not have remembered and reported all of the supervisory visits with FHA personnel.

Restrictions to Providing Supervision

If it were determined how much supervisory assistance was necessary to the success of all EO loans, the next action would be to provide the necessary staff--both in number and quality--to provide the required supervision. Unless an adequate staff is available to meet all supervisory needs, the available time must be allocated among borrowers so that the most urgent supervisory needs can be met, even though it is not possible to give as much supervision as is needed to many of the loans.

Inasmuch as implementation of the EO loan program is but one of the responsibilities of the Farmers Home Administration, it is not appropriate to look only at the number of EO loans being made and serviced when an appraisal is made of the adequacy of supervision being extended. All other lending activities and other job requirements must be included, as each requires part of the supervisors' time.

Data were obtained in each of the county FHA office units on (1) the number of each type of loan on record and requiring servicing (table 32), and (2) the

Table 32.--Number of active FHA loans by type, 1966 study areas 1/

Item	South Carolina <u>2/</u>	Ozarks <u>3/</u>
	-----Number-----	
Type of loan:		
Farm ownership	743	1,647
Operating	675	1,111
Emergency	470	87
Economic opportunity:		
Individual	257	422
Cooperative	8	2
Rural housing	1,387	2,426
Water association	--	48
Soil and water	32	79
Other <u>4/</u>	16	14
All types	3,588	5,836
No. of Supervisory staff		
members	29	46
Loans per staff member	124	127

1/ Data not compiled for Mississippi Delta study area.

2/ Mar. 31, 1967 3/ Feb. 28, 1967

4/ Includes grants for comprehensive plans, water and waste disposal systems, association loans and grants, watershed loans and advances, rural renewal loans, resource conservation and development loans, timber development loans, and senior citizen rental housing loans.

number of new loans made, by type, over the preceding 12-month period (app. table 17). For the two areas for which full information is available, the average caseload per supervisor was 126 loans, and the number of new loans made in the preceding year averaged 52.

No attempt has been made to determine the amount of time required to make or service each of the different types of loans. If it is assumed, however, that each borrower was to be visited five times a year and that each visit would require a minimum time of 2 hours, at least 157 workdays would be required only in supervising present borrowers. Further, if 8 hours were required in processing each new loan, the time required during the year in making new loans would equal 52 days. The total time required to make new loans and supervise old ones would then total 207 days. Inasmuch as there are about 200 workdays available per year, the time of one supervisor would be fully occupied in making and supervising present loans. Additional supervisory staff would be required for informing the public about the EO and other loan programs, working with applicants whose loan requests are later rejected, holding local staff and county committee meetings, and participating in other activities such as the Technical Action Panels.

It must be emphasized that the time elements proposed above are only rough estimates. The time required in both making new loans and supervising existing ones will vary considerable by the type of loan. For example, processing of an application for a farm ownership or a rural housing loan may require far more time than one for an EO loan. The time required for processing a community facilities loan is likely to be far in excess of that required for most individual loans.

As case loads continue to grow, either additional supervisory staff must be added or present personnel must spend less time on making and supervising each loan or on their other job responsibilities. A reduction in needed supervision can be expected to result in a lower level of success by borrowers in achieving the potential impact from their EO loans.

Throughout the areas studied, therefore, it appears that in view of the overall volume of FHA's lending activity and the increasing number of loans being made and serviced (largely EO loans), additional staff is required if sufficient supervision is to be given to borrowers. Further study would be necessary to accurately determine the required increase in supervisory staff.

Production of Food for Home Consumption

For many low-income rural families, increased production of vegetables, fruits, and livestock products can serve as an effective means of improving their level of living. Not only can such efforts reduce the cash outlay for food, but they can also contribute to an improved level of nutrition.

In 1966, one-fourth of all EO borrowers in South Carolina and the Mississippi Delta reported that they were not growing any of the garden produce consumed in their homes. ^{12/} One-half of the borrowers were growing as much as

^{12/} Similar information was not obtained from the EO loan borrowers in the Ozarks.

one-fourth of their vegetable needs. Similarly, while 40 percent of the borrowers were not producing any of the meat consumed by their families, one-third reported that they were producing at least one-half of their family meat requirements.

Nearly two-thirds of the borrowers in South Carolina reported that since they received their loans, FHA personnel had encouraged them to expand their gardening efforts. In the Ozarks and the Mississippi Delta, less than one-half of the borrowers recalled having received such advice (app. table 16). Some borrowers indicated that although they had attempted to expand their gardening activities since receiving their loans, unfavorable weather had largely stymied their efforts.

While those borrowers who have suitable land, buildings, and equipment, and an abundant supply of unused family labor should be encouraged to increase their gardening efforts, not all borrowers can be expected to benefit by producing large quantities of food stuffs needed for home consumption. For some families, home produced foods, particularly livestock products, may prove to be more costly than purchased foods. If sizable cash outlays are required for buildings, equipment, and machinery, or if all feed supplies and other inputs must be purchased, high costs of production may discourage any efforts to produce food-stuffs for home use. Or, if such activities will result in the diversion of efforts from other income endeavors, the financial success of those endeavors may be jeopardized.

County Committee

In the operation of the EO loan program, FHA supervisors utilize the services of a three-man county committee set up to provide assistance in the operation of other credit programs administered by FHA. In the EO loan program, the committee's major function is to determine the eligibility of each EO loan applicant. It also provides guidance to the supervisor in the overall operation of the program.

County supervisors were consistent in the view that their committees were of considerable help to them in the operation of the EO loan program. Frequently, one or more of the committee members has had personal contact with an applicant or otherwise has information concerning his trustworthiness and dependability, his managerial ability, and his likelihood of succeeding in the proposed business venture. Such information simplifies the task of the county supervisor in working out and appraising loan possibilities with the applicant.

In the survey areas having a mixed racial composition, county committees frequently included one nonwhite member. Supervisors reported that the inclusion of both white and nonwhite members on the committee enhances its overall contribution. Similarly, the inclusion in several counties of both white and nonwhite persons on the supervisory staff facilitates the work with applicants and borrowers of both races.

Although regulations require that all members of the county committee be farmers, this does not appear to seriously restrict the functioning of the committees in regard to the EO loan program. However, the contributions made concerning applications for loans for nonfarm purposes--in both the EO and other

credit programs--might be enhanced if the committee included one or more nonfarm members. Alternatively, consideration might be given to increasing the size of the present committee or of constituting a separate committee to better serve this need.

Inasmuch as compensation to committee members amounts to only \$10 per meeting plus reimbursement for travel to and from the meeting, individuals willing to serve on the committees seldom, if ever, do so for monetary gain. To the contrary, it appears that attendance at meetings frequently disrupts the committeemen in their pursuance of personal business. Nonetheless, FHA supervisors indicated that they seldom encounter difficulty in locating capable public-minded individuals willing to serve on the committee.

REJECTION OF APPLICANTS

The determination of an applicant's eligibility for a loan is based on four major considerations: (1) the applicant's income is within the limits of poverty, broadly defined; (2) he is unable to obtain suitable credit elsewhere; (3) the proposed use of funds is for authorized purposes, and (4) the loan requested offers a reasonable likelihood both of enhancing the borrower's income and of being repaid.

A review of county office records indicates that the most prevalent reason for the rejection of applicants was the lack of evidence to indicate that the proposed use of the requested funds would enhance the applicant's income. 13/ In some of these cases, the business or enterprise proposed by the applicant was considered to be financially unsound or the applicant lacked access to the physical resources required in the proposed business or enterprise. More frequently, the rejections were based not so much on the nature of the business or enterprise, but on personal characteristics of the applicant and his reputation within the community. Included in the latter were such considerations as honesty, reliability, willingness to work, record of previous debt experience, and undesirable personal traits such as drunkenness.

Some applications were rejected because the applicant's income was above poverty limits, other lenders were willing to extend the needed funds, or the purpose for which the loan was wanted was not authorized, such as refinancing unsecured debts or purchasing an automobile or other consumer items for personal use.

13/ Many of the applications for EO loans did not reach the point where formal action was taken as to eligibility. Most of these applications were withdrawn by the applicant, for such reasons as the following: (1) he simply decided not to go into debt, (2) he learned that purposes for which he wanted to use funds were not authorized, (3) he was unable to propose a business or enterprise offering reasonable prospects of financial success, (4) he abandoned the idea of an EO loan, electing to pursue other employment and income opportunities, or (5) he obtained credit elsewhere. In some instances, EO loan applicants were channeled into other FHA credit programs which might better meet the needs of the applicant.

The characteristic most frequently noted in the records as a major reason for rejection was that the applicant was regarded a poor credit risk--commonly because of undesirable personal traits.

While rejection on such a basis may result in screening out some applicants who possibly might be helped to improve their income, loans made to high-risk applicants would doubtless contribute to a higher rate of delinquency and a poorer record of recovery of loans in the future.

If it is intended that this program be financially sound and have a low rate of delinquency and a minimum of "bad debts," careful screening of applicants is essential. Following this policy, however, large numbers of low-income rural families will not qualify for assistance. Many such families can be expected to be among the most seriously impoverished.

If major priority is to be placed on extending loans to those families living in the most serious poverty conditions, less attention should be focused on probability of repayment. However, income improvements resulting from the loans will be lower and the financial soundness of the program less favorable. Also, a disservice may be performed to an applicant if his request for a loan is approved when there is little indication that it would effect an increase in his income.

Appendix table 1.--Borrowers with formal training that helped in operating enterprise financed by EO loan, study areas, 1966

Formal training	South Carolina		Ozarks		Mississippi Delta	
	Persons	% of total	Persons	% of total	Persons	% of total
	No.	Pct.	No.	Pct.	No.	Pct.
None	100	77.5	104	77.6	68	74.7
Some	15	11.6	28	20.9	5	5.5
No answer	14	10.9	2	1.5	18	19.8
Total reporting	129	100.0	134	100.0	91	100.0

Appendix table 2.--Type of formal training reported by EO borrowers, 1966 study

Type of training	South Carolina		Ozarks		Mississippi Delta	
	Persons	% of total	Persons	% of total	Persons	% of total
	No.	Pct.	No.	Pct.	No.	Pct.
Apprenticeship training	5	33.3	4	14.3	2	40.0
Programs or courses offered by government	3	20.1	11	39.2	2	40.0
Special course or program by industry	2	13.3	1	3.6	1	20.0
Veterans training program	1	6.7	4	14.3	0	0.0
Formal schooling	2	13.3	7	25.0	0	0.0
Other or not specified	2	13.3	1	3.6	0	0.0
Total	15	100.0	28	100.0	5	100.0

Appendix table 3.--Attitude of EO borrowers toward moving to different community for higher paying job, study areas, 1966

Attitude	South Carolina <u>1/</u>	Ozarks <u>2/</u>	Mississippi Delta <u>3/</u>
	-----Percent-----		
Willing to move:			
Yes	32.1	19.4	30.8
No	63.4	53.7	68.1
Don't know	4.5	26.9	1.1
Total	100.0	100.0	100.0

1/ 131 reporting

2/ 134 reporting

3/ 91 reporting

Appendix table 4.--Ownership of selected home equipment by EO borrowers, study areas, 1966 1/

Item	South Carolina		Mississippi Delta	
	Persons	% of total	Persons	% of total
	<u>No.</u>	<u>Pct.</u>	<u>No.</u>	<u>Pct.</u>
Equipment owned:				
Washing machine	91	69.5	71	78.0
Telephone	36	27.5	22	24.2
Television	107	81.7	70	76.9
Radio	101	77.1	70	76.9
Electric or gas refrigerator	115	87.8	82	90.1
Electric or gas stove	100	76.3	71	78.0
Sewing machine	57	43.5	46	50.5
Deep freeze	70	53.4	53	58.2
Car or truck	110	84.0	73	80.2
Borrowers reporting	131	---	91	---

1/ Not asked of borrowers in the Ozarks.

Appendix table 5.--Frequency of life and health insurance among EO loan borrowers, study areas, 1966

Amount	South Carolina		Ozarks		Mississippi Delta	
	Persons	% of total	Persons	% of total	Persons	% of total
	No.	Pct.	No.	Pct.	No.	Pct.
Health insurance:						
None	68	56.2	81	60.4	52	57.1
Some	53	43.8	53	39.6	39	42.9
Total reporting	121	100.0	134	100.0	91	100.0
Life insurance:						
None	33	25.4	71	54.0	68	74.7
Less than \$1,000	49	37.7	63	47.0	18	19.8
\$1,000 - \$4,999	42	32.3	--	--	3	3.3
Over \$5,000	6	4.6	--	--	2	2.2
Total reporting	130	100.0	134	100.0	91	100.0

Appendix table 6.--Nature of enterprises financed by EO loans, 1966 study

Item	South Carolina		Ozarks		Mississippi Delta	
	Enter-prise	% of total	Enter-prise	% of total	Enter-prise	% of total
	No.	Pct.	No.	Pct.	No.	Pct.
Type of enterprise:						
Farm	78	58.2	91	67.9	63	69.2
Nonfarm	56	41.8	40	29.9	28	30.8
Combination	0	0.0	3	2.2	0	0.0
Total reporting	134	100.0	134	100.0	91	100.0
Age of enterprise:						
New	30	23.3	77	57.5	37	40.7
Old	99	76.7	57	42.5	54	59.3
Total reporting	129	100.0	134	100.0	91	100.0

Appendix table 7.--Planned use of EO loan funds, 359 loans, 1966 study

Use of funds	Agricultural loans		Nonagricultural loans		All loans	
	Amount	Percent-age	Amount	Percent-age	Amount	Percent-age
	<u>Dol.</u>	<u>Pct.</u>	<u>Dol.</u>	<u>Pct.</u>	<u>Dol.</u>	<u>Pct.</u>
Purchase of livestock	88,380	22.4	460	.2	88,840	14.6
Purchase of machinery and equipment	34,510	8.8	116,080	54.3	150,590	24.8
Pay operating expenses	24,270	6.2	6,310	3.0	30,580	5.0
Construct or repair buildings	35,410	9.0	58,020	27.2	93,430	15.4
Other real estate improvements	53,720	13.6	6,550	3.1	60,270	9.9
Purchase real estate	35,110	8.9	9,120	4.3	44,230	7.3
Refinance debts	114,560	29.0	9,270	4.3	123,830	20.4
Other	8,170	2.1	7,760	3.6	15,930	2.6
Total	394,130	100.0	213,570	100.0	607,700	100.0

Appendix table 8.--Planned use of EO loan funds by geographic area, 1966 study 1/

Use of funds	:Agricultural loans:		:Nonagricultural loans:		:All loans	
	: Amount	: Percent-	: Amount	: Percent-	: Amount	: Percent-
	: : : Dol.	: age : : Pct.	: : : Dol.	: age : : Pct.	: : : Dol.	: age : : Pct.
South Carolina:						
Purchase livestock	: 5,220	3.5	---	0.0	5,220	2.2
Purchase machinery and equipment	: 6,180	4.2	47,330	55.8	53,510	23.0
Pay operating expenses	: 5,760	3.9	4,890	5.8	10,650	4.6
Construct or repair buildings	: 9,990	6.8	20,630	24.4	30,620	13.2
Other real estate improvements	: 18,660	12.6	2,890	3.4	21,550	9.3
Purchase real estate	: 20,050	13.6	5,170	6.1	25,220	10.8
Refinance debts	: 78,970	53.5	3,670	4.3	82,640	35.6
Other	: 2,840	1.9	200	.2	3,040	1.3
Total	: 147,670 <u>2/</u>	100.0	84,780	100.0	232,450	100.0
Ozarks:						
Purchase livestock	: 70,970	41.7	300	0.4	71,270	29.1
Purchase machinery and equipment	: 18,300	10.7	46,990	63.0	65,290	26.6
Pay operating expenses	: 5,180	3.0	1,100	1.5	6,280	2.6
Construct and repair buildings	: 20,620	12.1	15,170	20.3	35,790	14.6
Other real estate improvements	: 24,610	14.5	1,560	2.1	26,170	10.7
Purchase real estate	: 15,060	8.8	0	0.0	15,060	6.1
Refinance debts	: 13,020	7.6	3,280	4.4	16,300	6.6
Other	: 2,760	1.6	6,210	8.3	8,970	3.7
Total	: 170,520	100.0	74,610	100.0	245,130	100.0
Mississippi Delta:						
Purchase livestock	: 12,190	16.1	160	.3	12,350	9.5
Purchase machinery and equipment	: 10,030	13.2	21,760	40.1	31,790	24.4
Pay operating expenses	: 13,330	17.6	320	.6	13,650	10.5
Construct or repair buildings	: 4,800	6.3	22,220	41.0	27,020	20.8
Other real estate improvements	: 10,450	13.8	2,100	3.9	12,550	9.7
Purchase real estate	: 0	0	3,950	7.3	3,950	3.0
Refinance debts	: 22,570	29.6	2,320	4.3	24,890	19.1
Other	: 2,570	3.4	1,350	2.5	3,920	3.0
Total	: 75,940	100.0	54,180	100.0	130,120	100.0

1/ Fund analysis based on 77 agricultural and 56 nonagricultural loans in South Carolina, 94 agricultural and 40 nonagricultural loans in the Ozarks, and 62 agricultural and 30 nonagricultural loans in the Mississippi Delta. Combination agricultural and nonagricultural loans included in group where major portion of funds was used.

2/ Data on use of funds not available for one \$2,500 loan.

Appendix table 9.--Borrowers' recognition of major problems in developing enterprise financed by EO loans, study areas, 1966

Major problems recognized	South Carolina		Ozarks		Mississippi Delta	
	Borrowers	% of total	Borrowers	% of total	Borrowers	% of total
	No.	Pct.	No.	Pct.	No.	Pct.
One or more	70	54.3	90	67.2	47	51.6
None serious	59	45.7	44	32.8	44	48.4
Total reporting	129	100.0	134	100.0	91	100.0

Appendix table 10.--Nature of recognized problems, EO loan borrowers, study areas, 1966

Problem	South Carolina		Ozarks		Mississippi Delta	
	Persons	% of total	Persons	% of total	Persons	% of total
	No.	Pct.	No.	Pct.	No.	Pct.
Poor quality of land or other resources	6	8.6	---	---	1/27	57.5
Poor location of business	1	1.4	1	1.1	5	10.6
Poor health, handicapped	2	2.9	7	7.8	2	4.3
Lack of labor	7	10.0	8	8.9	5	10.6
Too few or too poor customers	15	21.4	5	5.5	5	10.6
Natural catastrophe	12	17.2	7	7.8	3	6.4
Business too slow in developing	3	4.3	4	4.4	0	0.0
Too little capital (money)	8	11.4	---	---	---	0.0
FHA restrictions on use of funds	2	2.9	4	4.4	0	0.0
Other; problem not specified	14	19.9	54	60.1	0	0.0
Total	70	100.0	90	100.0	47	100.0

1/ Includes borrowers reporting difficulty in locating needed supplies, materials or parts.

Appendix table 11.--Plans for expansion of enterprise financed by EO loan borrowers, study areas, 1966

Item	South Carolina		Ozarks		Mississippi Delta	
	Persons	% of total	Persons	% of total	Persons	% of total
	No.	Pct.	No.	Pct.	No.	Pct.
Yes, wants to expand	55	42.6	93	69.4	55	60.4
No, does not care to expand	57	44.2	36	26.9	20	22.0
Undecided	17	13.2	5	3.7	16	17.6
Total reporting	129	100.0	134	100.0	91	100.0

Note: Expansion plans as indicated by borrowers after having their loans for at least 1 year.

Appendix table 12.--Additional loans desired from FHA in next 2 years, EO borrowers, study areas, 1966

Item	South Carolina		Ozarks		Mississippi Delta	
	Persons	% of total	Persons	% of total	Persons	% of total
	No.	Pct.	No.	Pct.	No.	Pct.
No additional loan needed	22	17.9	51	38.1	10	11.0
Undecided	25	20.3	19	14.2	19	20.9
Additional loan desired	76	61.8	64	47.7	62	68.1
Total reporting	123	100.0	134	100.0	91	100.0

Appendix table 13.--Major purpose for which additional funds were desired, borrowers reporting EO loans as too small, study areas, 1966

Purpose	South Carolina		Ozarks		Mississippi Delta	
	Per-sons	% of total	Per-sons	% of total	Per-sons	% of total
	No.	Pct.	No.	Pct.	No.	Pct.
To pay operating expenses	11	33.3	4	6.8	14	39.0
To buy machinery and equipment	5	15.2	20	33.9	7	19.4
To refinance debts	4	12.1	3	5.1	1	2.8
To buy livestock	3	9.1	9	15.2	0	0.0
To construct farm buildings	3	9.1	3	5.1	0	0.0
To repair or improve house	2	6.1	9	15.2	7	19.4
To improve land	2	6.1	6	10.2	4	11.1
To buy land	1	3.0	4	6.8	0	0.0
To meet living costs	1	3.0	1	1.7	3	8.3
Other	1	3.0	0	0.0	0	0.0
Total reporting	33	100.0	59	100.0	36	100.0

Appendix table 14.--Borrowers' opinion of effect of road condition on income from enterprise financed by EO loan, study areas, 1966

Effect on Income <u>1/</u>	South Carolina		Ozarks		Mississippi Delta	
	Per-sons	% of total	Per-sons	% of total	Per-sons	% of total
	No.	Pct.	No.	Pct.	No.	Pct.
No detrimental effect	106	82.2	112	83.6	80	87.9
Income hampered	19	14.7	22	16.4	9	9.9
No opinion	4	3.1	--	--	2	2.2
Total reporting	129	100.0	134	100.0	91	100.0

1/ Detrimental effect of roads most commonly due to difficulty of borrower in getting in and out in bad weather and in bringing in needed supplies or transporting produce to market. In the Ozarks, poor, rough roads that discourage customers and seriously hamper success of the EO-financed enterprise was reported by 6 borrowers.

Appendix table 15.--Impact of location on successful development of enterprise financed by EO loan, borrowers, study areas, 1966 1/

Impact	Ozarks		Mississippi Delta	
	Persons	% of total	Persons	% of total
	No.	Pct.	No.	Pct.
No detrimental effect	123	91.8	84	92.3
Location restricts income <u>2/</u>	11	8.2	7	7.7
Total reporting	134	100.0	91	100.0

1/ Not asked of borrowers in South Carolina.

2/ Most commonly due to being too far from good market. Other factors were too few customers in areas and needed supplies not locally available.

Appendix table 16.--EO borrowers who reported receiving encouragement to produce a home garden, study areas, 1966

Item	South Carolina <u>1/</u>		Ozarks		Mississippi Delta	
	Per-sons	% of total	Per-sons	% of total	Per-sons	% of total
	No.	Pct.	No.	Pct.	No.	Pct.
Yes	83	64.3	59	44.0	42	46.2
No	38	29.5	75	56.0	46	50.5
No answer	8	6.2	0	0	3	3.3
Total reporting	129	100.0	134	100.0	91	100.0

1/ In South Carolina, 48.8 percent of borrowers reported they were producing more garden products for home use since receiving the loan. Of the 62 who reported no increase in gardening, 13 indicated they were already producing all garden products needed and 8 reported that unfavorable weather stymied their efforts at growing more vegetables.

Appendix table 17.--Number of FHA loans made, by type, during 12-month period, study areas

Item	South Carolina <u>1</u>	Ozarks <u>2</u>	Mississippi Delta <u>3</u>
	-----Number-----		
Type of loan:			
Farm ownership	118	260	51
Operating loans	706	570	505
Emergency loans	570	70	200
Economic opportunity:			
Individual	113	266	103
Cooperative	5	1	12
Rural housing	316	877	565
Water association	0	34	15
Soil and water	2	14	9
Other <u>4</u>	9	2	0
All types	1,839	2,094	1,460
No. of Supervisory staff members	29	46	25
Loans per staff member	63	46	58

1/ 12 months ending Mar. 31, 1967.

2/ 12 months ending Feb. 28, 1967.

3/ 12 months ending June 30, 1967.

4/ Includes grants for comprehensive plans, water and waste disposal systems, association loans and grants, watershed loans and advances, rural renewal loans, resource conservation and development loans, timber development loans, and senior citizen rental housing loans.