Loans to Buy Farm Real Estate

DEBT SECURED BY MORTGAGES on farm real estate totaled about $9.8 billion at the beginning of 1957, and commercial banks held about one-seventh of this total. Some loans secured by real estate do not finance the purchase of farm land, and some loans to buy farm land are not secured by real estate mortgages. This article describes all types of loans made by banks to finance the purchase of farm land.

The Agricultural Loan Survey made last year provides information about the characteristics of bank loans on farm real estate held by various groups of banks. The results show, for example, that about three-fifths of all such loans were advanced for the purchase of real estate, and the remainder provided funds for refinancing debts, helping to finance equipment and improvements, and for operating needs.

During World War II and the years immediately following, farm commodity prices and farm income advanced to high levels and, reflecting shortages of farm machinery and other goods, farmers utilized their larger incomes to retire debt and to accumulate liquid financial assets. The amount of mortgage credit utilized to finance farm transfers was small in the years just before 1947, although a relatively large number of farms were sold. Many sales were cash transactions, and some other transactions were financed through the use of short-term loans not secured by real estate. Down payments on credit sales were relatively large, and repayments on outstanding loans to finance purchase of land were at a high level.

After 1947, a rapid advance in farm real estate values and declines in down payments on purchases and in "prepayments" on outstanding loans more than offset the effects of a smaller number of farm transfers. In addition, farm real estate was used increasingly to provide security for loans to finance expenditures other than land purchase. The result has been a doubling of farm mortgage debt in the past 10 years. The amount outstanding has remained quite small relative to the value of farm real estate, which has increased about 55 per cent. The debt secured by real estate mortgages currently amounts to 9.2 per cent of the value of farm real estate compared with 7.2 per cent in 1947.

Banks experienced rapid expansion in farm real estate loans relative to other lenders in the early postwar years when the average size of loan was small and many loans were written with relatively short maturities. After World War II commercial banks held nearly 11 per cent of the farm mortgage debt. By 1949, however, the por-

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NOTE.—This is the fourth of a series of articles reporting the findings of the Agricultural Loan Survey made in 1956 by the Federal Reserve System. The first article was published in the Federal Reserve BULLETIN for November 1956, and the second in the BULLETIN for January 1957. The third article appears on p. 125 of this issue.

The present article was written by William McD. Herr of the Federal Reserve Bank of Chicago. Data for the Survey are from a sample of about 1,600 insured commercial banks in all major areas of the United States. Nonmember banks as well as member banks of the Federal Reserve System reported in the Survey.

tion exceeded 16 per cent. In subsequent years, as the size of loans increased in response to rising land values and smaller down payments, and more of the purchasers of farm land sought loans with long-term maturities, other lenders provided relatively larger amounts of the farm mortgage funds and the banks' share of the mortgage debt declined to 14 per cent by 1957.

MORTGAGE LOANS VS. LOANS TO BUY LAND

Of the $5 billion of agricultural loans outstanding at the nation's commercial banks at mid-1956, $1.4 billion were secured by mortgages on farm real estate. While this category of loan is usually thought of as arising from transfers of ownership of farm land, the mid-1956 Survey showed that only 56 per cent was for that purpose. Nineteen per cent of the amount outstanding was used to finance investments of an intermediate-term nature such as improving land and buildings and buying machinery. Twelve per cent was for the purpose of consolidating and refinancing debts, and the remainder was mainly to finance current operations. At the time of the previous Survey in mid-1947, about 30 per cent of the proceeds from bank loans outstanding secured by farm mortgages was estimated to be for purposes other than to buy land.

In addition to the $775 million of farm mortgage debt that was used to help finance the purchase of farm land, $108 million of nonmortgage loans outstanding at commercial banks on June 30, 1956 was used to buy farm land (Table 1). In total, 205,000 borrowers had 216,000 loans amounting to $883 million outstanding at banks to finance the purchase of farm real estate. This amounted to about one-sixth of the total agricultural credit granted by the nation's commercial banks. Exactly comparable data are not available from the previous nationwide survey of agricultural loans. However, it is estimated that commercial bank loans outstanding at mid-1947 to finance purchases of farm real estate

TABLE 1

FARM REAL ESTATE LOANS, JUNE 30, 1956, BY FEDERAL RESERVE DISTRICT

[Loans outstanding at insured commercial banks]

Federal Reserve district	Loans secured by farm real estate[1]			Loans to buy farm real estate		
	All purposes (In millions of dollars)	To buy farm real estate		Total (In millions of dollars)	Not secured by mortgage on farm real estate	
		In millions of dollars	As a percentage of all loans secured by real estate		In millions of dollars	As a percentage of total loans to buy farm real estate
All districts	1,377	775	56	883	108	12
Boston	30	16	54	17	1	7
New York	54	35	65	38	3	8
Philadelphia	68	50	74	56	6	10
Cleveland	144	98	68	108	10	9
Richmond	129	64	50	69	5	7
Atlanta	147	54	37	57	3	5
Chicago	255	176	69	199	23	12
St. Louis	162	92	57	101	9	9
Minneapolis	78	39	49	50	11	23
Kansas City	81	46	57	64	18	29
Dallas	56	21	37	23	3	11
San Francisco	175	85	49	102	17	16

[1] Includes loans insured or guaranteed by U. S. Government.

NOTE.—Details may not add to totals because of rounding.

totaled about $570 million or about one-fourth of the total bank credit outstanding to farmers at that time.

SMALL SIZE OF LOANS

An important characteristic of bank financing of farm real estate is the relatively small size of loan as compared with average farm values and with the average size of loan made by other lenders. The average size of bank loan made to buy farm real estate in the first half of 1956 was $4,300 compared with the average value of all United States farms of about $21,500 (Table 2). While data are not strictly comparable, it is estimated that farm mortgage loans recorded in the same period by insurance companies averaged $16,700 and loans closed by Federal Land Banks averaged $8,700. The average for all lenders was about $7,900.

Less than 15 per cent of the number of loans to buy farm real estate outstanding at banks in mid-1956 had an original size that was equivalent to at least half the value of the average farm. According to estimates of the United States Department of Agriculture, loans to finance farm land purchases have averaged about 60 per cent of the sale value of farms in recent years. It appears, therefore, that the bulk of bank loans to finance farm real estate purchases consists of loans for small portions of the sales value and for transfers involving small farms and parcels of land to be incorporated into other farms.

TABLE 2
ORIGINAL SIZE OF LOANS RELATED TO AVERAGE VALUE OF ALL FARMS BY FEDERAL RESERVE DISTRICT

[Loans to buy farm real estate outstanding at insured commercial banks, June 30, 1956]

Federal Reserve district	Average value per farm[1]	Average size of loans to buy farm real estate made during first half of 1956[2]	Average size of loan as a percentage of average farm value
All districts	$21,500	$ 4,300	20
Boston	$16,000	$ 6,600	41
New York	18,000	4,000	22
Philadelphia	18,000	6,100	34
Cleveland	18,000	4,500	25
Richmond	10,000	3,300	33
Atlanta	11,000	2,900	26
Chicago	30,000	5,400	18
St. Louis	12,000	3,400	28
Minneapolis	24,000	3,000	13
Kansas City	31,000	5,000	16
Dallas	30,000	3,900	13
San Francisco	52,000	10,900	21

[1] Estimated from U. S. Department of Agriculture data for Mar. 1, 1956.
[2] Size when originally made or (if renewed) when last renewed.

Non-real-estate farm loans, typically smaller and carrying shorter maturities than real estate loans, usually have a high priority for country banks' loanable funds, and in some areas the legal maximum size loan that a country bank can make is smaller than the amount required to finance the transfer of commercial farms. Moreover, it may not be considered prudent to lend a large part of the bank's deposits on long-term obligations. The bulk of the large and long-term loans to buy land are made by insurance companies, Federal Land Banks, individuals and, to a lesser extent, the larger commercial banks.

BORROWER CHARACTERISTICS

About one-tenth of all farm borrowers at banks in mid-1956 had loans to buy farm land. Nearly one-half of the borrowers were located in three adjacent Federal Reserve districts—Cleveland, Chicago, and St. Louis. These districts include about one-third of the nation's farms. In the Boston, Philadelphia, and Cleveland Districts from one-fifth to one-fourth of all agricultural borrowers at banks had loans to buy land while in Western districts the portion dropped to about 5 per cent.

Net worth. About one-third of all borrowers with bank loans to buy farm land in mid-1956 also had loans for other purposes

at the same bank. The corresponding percentage was 25 per cent in the lower net worth groups (less than $10,000), and ranged between 35 and 40 per cent in the higher net worth groups.

The average outstanding bank debt was much larger for borrowers with loans to buy land than for farm borrowers not having bank loans to buy land—$5,300 as compared with $1,900. Even within similar net worth groups, the total bank debt of borrowers having loans to buy land averaged two to three times larger than the debt of other farm borrowers (Table 3). These differences might not appear so great if data were available concerning the debt held by other lenders. The scope of the Survey was limited to obtaining the total debt of each farm borrower to the reporting bank.

Large banks served a greater proportion of farm borrowers with large net worths and credit requirements than did small banks. The average size of outstanding loan to buy land was $6,300 at banks with deposits of $10 million or more compared with $3,200 in banks with deposits of less than $3 million.

TABLE 3

FARM BORROWERS AND AVERAGE AMOUNT OF BANK DEBT, JUNE 30, 1956
BY NET WORTH

Net worth of borrower	Borrowers with loans to buy farm land		Borrowers without loans to buy farm land	
	Percentage distribution	Average size of debt	Percentage distribution	Average size of debt
All net worths	100	$ 5,320	100	$ 1,920
Under $3,000	4	1,387	14	511
$3,000–$9,999	30	2,570	33	1,016
$10,000–$24,999	39	4,388	30	1,763
$25,000–$99,999	22	7,878	16	3,746
$100,000 and over	3	29,092	2	14,816
Not reported[1]	2	5,668	5	843

[1] For purchased notes where the bank did not know the characteristics of the borrower, data on net worth were not required.

Age. Within the same net worth group, bank loans to buy land were larger among the younger borrowers than among the older ones. This was due in part to the fact that older farmers probably made larger down payments in relation to the value of the land bought than did the less established operators, and many of them purchased land earlier when values were lower and have made more repayments. Age distribution was virtually the same for bank borrowers with loans to buy farm real estate as for non-real-estate borrowers. However, about 15 per cent of the borrowers were under 35 years of age, compared with 10 per cent of all owner-operators as shown by the 1954 Census of Agriculture. Those 45 or more years of age, constituting 68 per cent of all owner-operators, made up less than one-half of the borrowers with real estate loans.

Part-time operation. About one-fifth of the borrowers with loans to buy farm real estate were part-time farmers.[1] While not exactly comparable, the 1954 Census classifies 15 per cent of all farmers as part-time operators. Part-time farmers accounted for a somewhat larger portion of the borrowers to buy farm land than of farm borrowers with non-real-estate loans. Size of debt and net worth averaged smaller for part-time farmers than for full-time farmers.

Type of farm. Borrowers with farms classified by the reporting banks as general[2] made up more than half of all bor-

[1] The Survey defined part-time farmers as those who earned one-third or more of their incomes from off-farm sources.

[2] General farms were defined as those from which less than half of the income came from a single product.

rowers with loans to buy land. Dairy farmers were next in importance. Together these two types of borrowers accounted for 70 per cent of all borrowers with loans to buy land, compared with less than 60 per cent of borrowers with no loans to buy land.

The relatively greater frequency of loans to buy land among these two types of farmers is in part due to the fact that they have a more stable flow of income over the year. As a result, probably, a smaller portion of farmers on general and dairy farms need operating credit than do farmers on other types of farms such as meat-animal, cotton, and cash grain, where income is likely to come irregularly during the year. In areas, such as the Northeast, where dairy and general farms make up a large portion of all farms, country banks are often able to go further in accommodating the demand for longer term credit than in areas where other types of farms predominate.

For most types of farms run by farmers of similar net worth, the size of loan to buy farm real estate was about the same, but it was typically smaller for cotton and general farms.

LOAN CHARACTERISTICS

Loans to buy farm land were nearly three times larger, on the average, than other farm loans outstanding at banks in mid-1956. Thirty-nine per cent of the 216,000 loans to buy land had an original size of $5,000 or more (Table 4). In comparison, only about 5 per cent of the non-real-estate loans outstanding had an original size of $5,000 or more. Because loans to buy farm land are typically large relative to annual farm income, their characteristics, such as security, maturity, and repayment method, are different from those of loans for other purposes.

Security. More than 80 per cent of the credit outstanding to buy farm land was secured by real estate mortgages and only about 5 per cent was unsecured in the sense that it had no specific endorsement, mortgage, or Government guarantee. In contrast, 25 per cent of the dollar amount of farm loans for non-real-estate purposes was unsecured.

The portion of credit to buy land secured by real estate mortgages was about the same in all net worth groups except that for

TABLE 4

ORIGINAL SIZE OF LOANS TO BUY FARM LAND, JUNE 30, 1956, BY FEDERAL RESERVE DISTRICT

[Percentage distribution of number outstanding at insured commercial banks within districts]

Federal Reserve district	Number of loans (In thousands)	All loans	Under $1,000	$1,000–$4,999	$5,000–$9,999	$10,000 and over
All districts	216	100	10	51	26	13
Boston	4	100	7	51	26	15
New York	9	100	6	47	34	12
Philadelphia	11	100	5	46	30	19
Cleveland	27	100	7	49	30	14
Richmond	19	100	17	53	21	10
Atlanta	18	100	20	63	11	7
Chicago	44	100	4	45	34	18
St. Louis	35	100	13	64	17	7
Minneapolis	17	100	20	54	20	6
Kansas City	13	100	10	49	29	13
Dallas	7	100	15	57	20	9
San Francisco	11	100	5	29	38	28

NOTE.—Details may not add to totals because of rounding.

TABLE 5

NET WORTH OF BORROWER RELATED TO SECURITY FOR LOANS TO BUY FARM LAND, JUNE 30, 1956

[Percentage distribution of amount outstanding at insured commercial banks]

Net worth of borrower	Amount of loans (In millions of dollars)	All loans	Unsecured	Endorsed	Secured by: Chattel mortgage	Farm real estate mortgage	Govt. guarantee	Other or not reported
All net worths	883	100	6	1	4	82	5	1
Under $3,000	10	100	4	3	4	79	10	(1)
$3,000–$9,999	141	100	1	2	2	82	13	(1)
$10,000–$24,999	305	100	2	1	4	89	4	(1)
$25,000–$99,999	285	100	8	2	4	85	1	1
$100,000 and over	123	100	17	(1)	7	69	1	5
Not reported[2]	20	100	(1)	(1)	.....	43	57	.....

[1] Less than 0.5 per cent.
[2] See Table 3, note 1.

NOTE.—Details may not add to totals because of rounding.

$100,000 or more (Table 5). For this group of borrowers loans secured by real estate mortgages accounted for 69 per cent of the dollar amount outstanding, unsecured loans for 17 per cent, and the remaining portion was secured by chattels, endorsements, or Government guarantee. Eighty-five per cent of the dollar amount of unsecured credit was advanced to borrowers with net worths of $25,000 or more.

Security characteristics of loans to buy land did not vary greatly by Federal Reserve district. In all districts, 65 per cent or more of the loans were secured by real estate mortgages. Unsecured notes and those secured by chattels were most frequent in Western districts where the net worths of borrowers averaged larger than in other parts of the country.

About 5 per cent of the dollar amount outstanding to buy farm real estate was guaranteed by Government agencies—Farmers Home Administration and Veterans Administration. There was, of course, a tendency for this credit to be concentrated among borrowers of small net worths (less than $10,000), but at most it was less than 20 per cent of the dollar amount of credit borrowed by this group at banks. While the number of borrowers with Government guaranteed loans to buy farm land was relatively small even among low net worth groups, guaranteed loans were substantially larger and had longer maturities than nonguaranteed bank loans. Guaranteed loans averaged $4,900 in outstanding amount compared with $1,900 for nonguaranteed loans in the net worth group of less than $10,000.

Maturity. Loans to buy land have substantially longer maturities than other kinds of farm loans. Over 40 per cent of the dollar amount and 34 per cent of the number of loans outstanding to buy farm land had maturities of six years or more (Table 6). Nevertheless, 32 per cent of the credit outstanding to buy land was due on demand or had maturities of one year or less. While demand loans averaged $5,550 in original size and loans with maturities of from one month to one year averaged $3,500, those with maturities of six years or more averaged $7,000 in original size.

The term of loans to buy farm land varied substantially among Federal Reserve districts. In the Philadelphia and Boston Districts, 37 and 41 per cent, respectively, of the credit outstanding was due on de-

TABLE 6

MATURITY OF LOANS TO BUY FARM LAND, JUNE 30, 1956, BY FEDERAL RESERVE DISTRICT [1]

[Percentage of amount outstanding at insured commercial banks within districts]

Federal Reserve district	Amount of loans (In millions of dollars)	All maturities	Demand	1–6 months	9–12 months	15 months-5 years	6 years and over
All districts	883	100	8	11	13	26	42
Boston	17	100	41	8	5	6	40
New York	38	100	14	6	2	13	65
Philadelphia	56	100	37	18	4	8	32
Cleveland	108	100	17	9	7	20	48
Richmond	69	100	9	21	23	15	32
Atlanta	57	100	2	12	36	32	18
Chicago	199	100	1	6	4	35	54
St. Louis	101	100	5	12	28	30	26
Minneapolis	50	100	5	10	9	42	34
Kansas City	64	100	2	22	11	42	23
Dallas	23	100	5	9	22	20	44
San Francisco	102	100	1	8	11	18	63

[1] Loans are classified under the nearest maturity listed—for example, 7-month loans are included with 1–6-month loans.

NOTE.—Details may not add to totals because of rounding.

mand. Four Northeastern districts accounted for more than three-fourths of the dollar amount of demand loans. While demand notes may seem to imply loans of relatively short duration, nearly 45 per cent of the demand credit had been made or last renewed prior to 1955, or over one and one-half years before the date of the Survey. A similar proportion of the outstanding amount of loans with stated maturities had also been made prior to 1955. Apparently the effective term of demand notes approximated that of loans with stated maturities.

Short maturities—one year or less—accounted for 24 per cent of all credit outstanding to buy land. In the Richmond and Atlanta Districts over half of the number of loans outstanding carried maturities of one year or less.

The maturity distribution of loans to buy farm land was virtually the same in mid-1956 as that shown by the mid-1947 Survey. In both 1956 and 1947 about 8 per cent of the number of loans outstanding had maturities exceeding 10 years, even though loan sizes increased and changes in the National Banking Act in 1955 permitted national banks to extend credit on farm real estate for periods of 20 instead of 10 years. At the other extreme of the maturity distribution, 38 per cent of the number of loans outstanding in mid-1956 and 1947 were due on demand or carried maturities of one year or less.

Size of loan was a major factor determining maturities of loans to buy land. For example, about 80 per cent of the loans under $1,000 were due in one year or less, and only 8 per cent had maturities of six years or more. On the other hand, 50 per cent of the loans of $5,000 or more had terms of six years or longer. While there was some tendency for loans to the largest borrowers (net worths of $100,000 or more) to have shorter maturities than loans of similar size to borrowers with smaller net worths, longer maturities for the lowest net worth borrowers were not always apparent.

Repayment method. More than two-fifths of the number of loans to buy land were scheduled for lump-sum payment. Single-payment loans, which accounted for more

TABLE 7

MATURITY RELATED TO REPAYMENT METHOD OF BANK LOANS TO BUY FARM LAND, JUNE 30, 1956

[Loans outstanding at insured commerical banks]

Maturity[1]	Number of loans (In thousands)	Repayment method (Percentage distribution of number of loans within maturity groups)			Average original size of loan	
		Total	Single-payment	Instalment	Single-payment	Instalment
All maturities	216	100	42	58	$4,104	$6,116
Demand[2]	17	100	100	.....	5,550	.....
1–6 months	30	100	86	14	3,313	4,160
9–12 months	36	100	80	20	3,527	3,757
15 months–5 years	59	100	26	74	4,456	5,122
6 years and over	74	100	6	94	5,656	7,099

[1] Loans are classified under the nearest maturity listed—for example, 7-month loans are included with 1–6-month loans.

[2] All demand loans were classified as single-payment loans for purposes of the Survey because of the nature of the legal contract.

than 80 per cent of the loans with terms of one year or less, averaged about $2,000 smaller than instalment loans. On the other hand, instalment loans accounted for more than 75 per cent of the loans due in over one year (Table 7).

A comparison of original and outstanding size of single-payment loans by date made indicates that a substantial number of these loans are in effect repaid in instalments. Of the single-payment notes outstanding in mid-1956 and made (or last renewed) prior to 1955, 29 per cent of the original amount had been repaid. This compares with repayment of 38 per cent of the original amount for instalment notes to buy farm land outstanding over one and one-half years as of June 30, 1956. In general, however, loans to buy land that are scheduled to be paid in a lump sum are of shorter maturity and relatively few have been outstanding for more than one and one-half years. In fact, about one-half of the number of such loans outstanding were made during the first half of 1956 and, like instalment loans made during the same six-month period, a relatively small portion of the principal had been repaid.

About 95 per cent of the instalment loans (which tend to be the larger loans with longer maturities) and 70 per cent of the single-payment loans were secured by farm real estate mortgages.

Renewed loans. Thirty-one per cent of the loans to buy land had been renewed. The number renewed tended to be relatively larger in Federal Reserve districts that typically have short loan maturities. In the Philadelphia Federal Reserve District, nearly one-half of the loans had been renewed, and in the Richmond, Atlanta, and St. Louis Districts the portion was about 45 per cent. Lending policies and practices probably account for a part of the nominally short-term loans to buy land and the resulting large proportions of renewals in some areas.

Planned renewals—those with an agreement between the two parties at the time the loan was made—accounted for more than 80 per cent of all loans renewed. Unplanned renewals accounted for less than 20 per cent of the total number of loans renewed, although the portion ranged as high as 58 per cent in the Dallas District where drought had been prevalent. In contrast, less than 15 per cent of all renewals

were unplanned in the New York, Philadelphia, and Richmond Districts.

Interest rates. Interest rates on bank loans to buy farm real estate averaged 5.2 per cent in mid-1956. While data do not permit precise comparisons, this is probably between one-quarter and one-half percentage point higher than in 1947. Interest rates increased about the same on most other types of farm loans made by banks.

Rates on loans to buy farm land tended to be higher in Western and Southern Federal Reserve districts and lower in Northeast and North Central districts. Interest rates averaged about 4.9 per cent on loans of $10,000 or more and 6.5 per cent on loans of less than $1,000.

Lower interest rates on loans of the same size were obtained by borrowers in the larger net worth groups than by borrowers with smaller financial resources. Government guaranteed loans, which formed a considerable portion of the larger loans to borrowers in the smaller net worth groups, also carried lower rates than other loans to borrowers in these groups.

TABLE 8

INTEREST RATES ON LOANS TO BUY FARM LAND, JUNE 30, 1956
BY NET WORTH OF BORROWER AND ORIGINAL SIZE OF LOAN

[Average annual rate at insured commercial banks, in per cent]

Net worth of borrower	All loans	Size of note[1]				
		Under $500	$500–$999	$1,000–$4,999	$5,000–$9,999	$10,000 and over
All net worths	5.2	7.0	6.3	5.7	5.1	4.9
Under $3,000	6.1	7.9	7.1	6.3	(2)	(2)
$3,000–$9,999	5.5	6.8	6.3	5.9	4.9	4.5
$10,000–$24,999	5.3	6.4	6.1	5.7	5.2	5.2
$25,000–$99,999	5.1	(2)	6.1	5.6	5.2	5.0
$100,000 and over	4.9	(2)	(2)	5.3	5.1	4.9

[1] When originally made or (if renewed) when last renewed.

[2] Too few for significant average.