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FARM REAL ESTATE DEBT has increased in each year since 1945. In early 1957 it is estimated to total 9.7 billion dollars, more than double the 1946 amount.

Data from life insurance companies and from member banks of the Federal Reserve System indicate that farm mortgage debt has continued to increase in early 1957 though at a slower rate than the 2 per cent gain registered in the first quarter of 1956. Together, these two lenders hold about 40 per cent of the farm mortgage debt (insurance companies account for 25 per cent of the total and banks 15 per cent), while the land bank system holds 16 per cent, the Farmers' Home Administration, 3 per cent, and individuals and other miscellaneous lenders account for the remaining 41 per cent of the long-term debt.

Despite the substantial increase in recent years and prospects for a further gain in 1957, the mortgage debt level is conservative as judged by past standards.

Currently, the mortgage debt is equal to about one-third of total annual cash receipts from farm marketings; interest payments are equal to less than 2 per cent of the total cash farm income. In several years during the 1920's and 1930's, when mortgage debt did assume burdensome proportions, the amount outstanding surpassed cash receipts and interest payments amounted to as much as 7 per cent of farm income.

Significant also in the mortgage debt picture are the proportion of farms mortgaged and the ratio of the debt to the value of the mortgaged farms.

A report issued jointly by the Departments of Agriculture and Commerce estimates that in 1956, 35 per cent of the owner-operator farms in the U. S. were mortgaged. This is a higher portion than the approximately 30 per cent in 1945 and 1950, but it is a much smaller proportion of the owner-operator farms than in the decade prior to the war. Data show that from 42 to 45 per cent of owner-operator farms were mortgaged in the years 1930, 1935 and 1940.

In District states virtually the same picture exists. While the proportion of owner-operator farms mortgaged is somewhat above the early postwar years, it is considerably smaller than in 1940.

	Per cent of owner-operator farms mortgaged		
	1956	1950	1940
Illinois	29	27	43
Indiana	38	36	51
Iowa	42	39	63
Michigan	36	33	49
Wisconsin	45	42	60

The average ratio of debt to the value of mortgaged farms is also considerably lower than in 1940. Whereas the mortgage debt averaged about 25 per cent of the value of mortgaged farms in both 1950 and 1956, in 1940 the ratio was 41 per cent. Ratios of about this magnitude were also indicated for District states, except Wisconsin.

	Farm mortgage debt – per cent of value of mortgaged farms, 1956
Illinois	21
Indiana	22
Iowa	24
Michigan	28
Wisconsin	37

Average ratios of debt to farm value changed very little or declined somewhat in most states between 1950 and 1956. In part, this reflects the fact that farm mortgage debts and real estate values increased by the same relative amount in recent years. In Wisconsin, however, farm mortgage debt increased 32 per cent since 1950 while land values rose by less than 15 per cent. As a result, the average ratio of debt to farm value in Wisconsin increased from 34 per cent in 1950 to 37 per cent in 1956.

Further evidence of the quality of the farm mortgage debt is the high level of repayments and small number of foreclosures. Repayments on farm real estate loans in the latter half of 1956 compared favorably with the high rates of repayments in other recent years, and data from life insurance companies indicate that repayments were running about 5 per cent above year ago in the early months of 1957. Higher levels of farm income beginning in late 1956 and so far in 1957 no doubt played some part in maintaining repayments.

Despite the improved levels of income and the lower demand for mortgage credit experienced by some lenders, farm mortgage debt is likely to increase in the year ahead though by a smaller amount than the 8-10 per cent gains of recent years. There is a strong demand for mortgage credit to finance the purchase of land for farm enlargement purposes; a larger proportion of the real estate transfers are credit-financed; and mortgage credit is being used increasingly to finance expenditures for purposes other than the purchase of land.

Research Department