

281.9
F313

Federal Reserve Bank of Chicago - -

October 11, 1957



Number 426

FARM MORTGAGE DEBT is still headed upward but the rise has slowed materially. Estimated at \$10.3 billion at midyear, outstanding loans secured by mortgages on farm real estate showed a gain of about 4 per cent in the first half of 1957, compared with about 6 per cent in the first half of last year. The increase in the full year, 1956, amounted to 9 per cent.

The current level of farm mortgage debt is getting close to the previous record of 10.8 billion in 1923. However, the debt total is equal to only about 9 per cent of the current total value of farm real estate. Compared with the value of the mortgaged farms the current debt amounts to about 25 per cent of the total value of such farms. This compares with 30 per cent in 1945 and 42 per cent in 1940.

One factor contributing to current strength in land values is the limited number of farms offered for sale. Voluntary sales of farm land were at a lower rate during 1956 than at any time since 1953. The number of such sales averaged 31 farms per thousand for the U. S. In the Corn Belt states, the number of voluntary transfers declined 3 per cent from the preceding year but in the lake states (including Michigan and Wisconsin) transfers showed a small increase, amounting to 2 per cent.

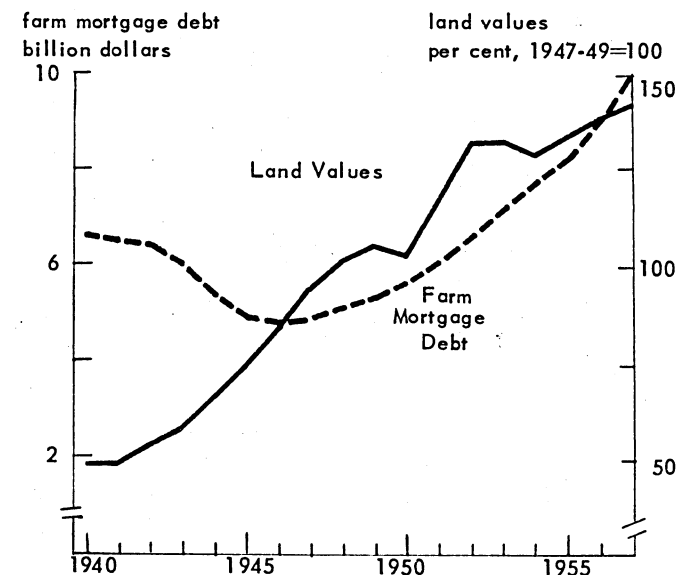
CREDIT plays a somewhat more important role in financing purchases of farm land than in other recent years. An estimated 70 per cent of all purchases were financed with some form of credit in the year ending in March 1957.

The more frequent use of sales contracts accounted for the larger proportion of credit sales. The proportion of sales financed with mortgages declined. Contract sales have shown a steady growth in recent years and accounted for about 30 per cent of all credit-financed transfers last year.

Sales contracts are most widely used in the central Corn Belt and western states where they account for about a third and one-half, respectively, of the credit sales of farm land.

Farm mortgage loans are often used to finance expenditures other than the purchase of farm real estate. Prior to the recent advance in interest rates on mortgage loans, a large proportion of the borrowed funds were used to refinance outstanding debt, buildings and other farm improvements, and, occasionally, livestock and machinery. In recent months, however, a much larger proportion of the funds have been used to finance real estate purchases. Thus, even though the rate of growth in farm mortgage debt has slowed materially, the amount of credit used to finance purchases of farm land may still be on the uptrend.

The total farm mortgage debt as of January 1, 1957, and increases over year-earlier for District states follow:



The recent slowing in the mortgage debt rise reflects the deterrent effects on borrowers of higher interest rates and closing costs (these have materially reduced the demand for "add-on" loans to previously outstanding mortgages) a somewhat smaller number of sales of farms, reduced demand for loans to refinance outstanding debt and higher farm income especially in livestock areas. Interest rates on farm mortgages have advanced following increases in other sectors of the credit market. The general rise in rates reflects the strong over-all demand for credit; rates on farm mortgages have had to advance if this sector was to obtain a reasonable share of the total credit available. A minimum rate of 5-1/2 per cent has become more or less standard on new loans for a number of the major lenders.

THE DEMAND for farm land remains very strong. Prices of farm real estate have continued to rise and a recent nationwide survey conducted by the USDA indicated a rather general expectation that land values would increase further. This expectation was more widespread than it was a year earlier.

	million dollars	per cent increase
Illinois	407	10
Indiana	338	9
Iowa	729	9
Michigan	261	10
Wisconsin	399	6

Research Department