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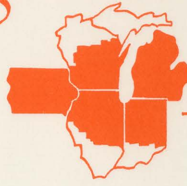
Agricultural Letter



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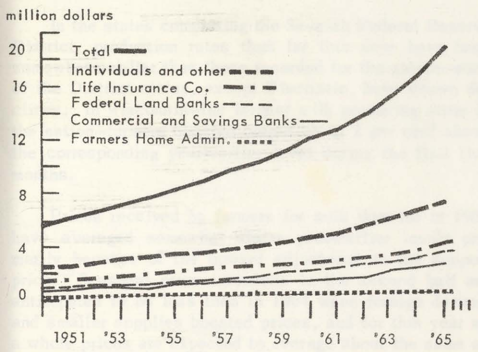
FARM MORTGAGE DEBT advanced about 12 per cent during 1964 after a similar rise in the previous year, boosting the total outstanding to an estimated $18.9 billion as of January 1, 1965. All major lenders showed substantial gains.

Debt secured by farm real estate increased further in the first few months of 1965, continuing the persistent upward trend over the preceding several years and the rather sharp rise during the past four years. The volume of mortgage loans closed by Federal land banks in the first quarter rose about two-fifths from the corresponding year-earlier period. New lending by life insurance companies showed a somewhat less pronounced rise during the first quarter but still well above a year ago.

Farm Mortgage Debt Continues to Increase



The increase in new lending boosted the total amount of real estate debt outstanding at Federal land banks as of the end of March about 14 per cent from the year-earlier level and life insurance companies increased their holdings of farm mortgages about 13 per cent. The amount outstanding at the Farmers Home Administration, while accounting for only about 3 per cent of all farm mortgage debt, was about 12 per cent higher than a year earlier.

Rising land values, as in other recent years, contributed to the increases. The debt growth also reflects larger loan size, an increase in the proportion of farm transfers that are credit financed and probably more liberal loan policies.

To some, this rise in farm mortgage debt is a danger signal, possibly foreshadowing the dark days of the Twenties. Others, however, point to the much higher value of farm real estate today compared with that during years prior to 1920. The value of farmland and buildings is currently estimated at about $159 billion compared with about $66 billion 45 years ago. Mortgage debt is currently about 11 per cent of the total value, while it was 13 per cent in 1920 and rose to over 20 per cent later that decade. In addition, net farm income rose from less than $10 billion in 1920 to nearly $13 billion in 1964.

Furthermore, despite drought conditions in some areas and lower prices for some farm commodities in 1964, major lenders indicated that repayments of principal on farm mortgage loans were on schedule in most areas. Insurance companies' principal repayments in 1964 were equal to about 11 per cent of the total principal indebtedness—relatively high as compared with the 20-year or longer maturities for which many farm mortgages are written.

Foreclosures and delinquencies of interest payments, also, remain at very low levels. Insurance companies reported on March 31 that loans in process of foreclosure averaged only 1 out of about 3,000 loans, and only 2 out of 1,000 were behind on interest payments. These ratios are about the same as a year earlier.

These data would appear to indicate that the farm mortgage debt condition is relatively strong. Why, then the concern about the current rise in farm mortgage debt? The answer is that the situation could change and has changed before quite dramatically. Following the peak of $66 billion in 1920, farmland values fell to $48 billion in 1929. Net farm income dropped from about $9 billion in 1920 to just over $6 billion in the late Twenties.

When reversals in income and values of real estate take place, a given amount of debt becomes more difficult to repay. For example, farm real estate debt amounted to over 20 per cent of the value during the late Twenties. Interest charges amounted to nearly one-tenth of net farm income. Distress farm sales jumped to nearly 20 per 1,000 from less than 5 per 1,000 prior to the 1920s .

The foregoing is not to suggest that the situation which prevailed during the Twenties is about to reoccur. To the contrary, indications are that mortgage debt can, and is likely to, expand further without becoming burdensome to most farmers as capital needs of agriculture continue to grow in the years ahead. But, an important problem of agricultural lenders, as in other years, is that of being sure that credit is not granted to farmers whose earning potential is severely limited by inadequate farms or inefficient management.

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