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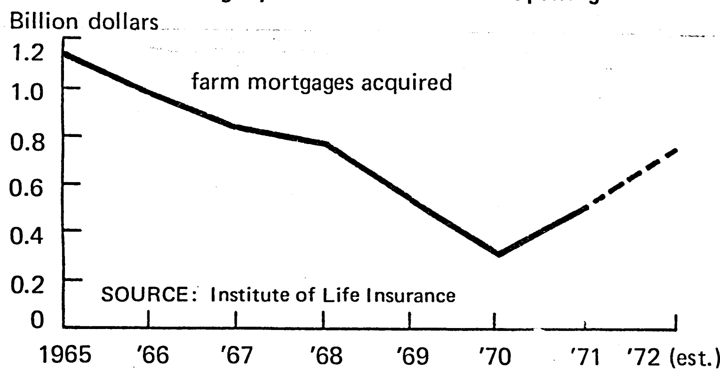
FARM MORTGAGE LENDING by life insurance companies is gaining momentum in 1972. New farm mortgages acquired by insurance companies during the first half totaled about $336 million—a 47 percent increase over a year ago. Life insurance companies' annual investment in farm mortgages had been declining sharply prior to 1971, with new mortgage acquisitions dropping from a peak of $1,149 million in 1965 to only $314 million in 1970. But in 1971, new farm mortgage acquisitions rebounded to $503 million, and the surge in the first half of this year, along with a 69 percent increase in future commitments, indicates life insurance companies have further stepped up their farm mortgage lending in 1972.

Farm Lending by Insurance Firms on Upswing



The increase in farm mortgages acquired by life insurance companies, however, does not appear to signal any shift in these firms' basic investment policies that have been geared to an inflationary economy. Farm mortgages and other long-term "fixed" assets continued to decline as a share of the total investment portfolio, while equity-type and short-term investments have increased. Farm mortgages declined to only 2.4 percent of total investments held by life insurance companies at mid-1972, compared to 3 percent in 1965. Holdings of common stocks, on the other hand, have risen to 8.3 percent of total investments, compared to 5.7 percent in 1965. Although farm mortgage lending has increased sharply the past year and a half, such investments, which have relatively short commitment periods, appear to be primarily a "residual" use for surplus funds. Indeed, increased cash flow of life insurance companies has probably contributed most to the turnaround in farm mortgage lending by these companies.

Income to life insurance companies began accelerating in 1971, rising to $54.2 billion—more than 10 percent above the previous year. Payments to beneficiaries, policyholders, and annuitants increased, too, but at less than half the rate of increase in income. Cash flow was further augmented by a slowing in the rate of increase in low interest loans to policyholders. Life insurance companies are required to make these loans from funds that would otherwise be invested. The amount of policy loans more than doubled in the six years prior to 1971, reflecting a growing disparity between the guaranteed rate on such loans and the market rates of interest during that period. But in 1971, the net increase in policy loans slowed to $1 billion, less than half the increase of the previous year.

A general decline in interest rates, along with an easing of national credit conditions, accompanied the increase in cash available for investment at life insurance companies. During late 1969 and early 1970, high-grade corporate bonds, including short-term commercial paper, returned yields of 9 percent or more. Even higher rates were available on commercial and industrial mortgages. In addition to high rates, loans for apartment complexes and shopping centers often carried a claim against equity, such as a percent of gross rental receipts or sales. Farm mortgages seldom contained such provisions.

Demand for farm mortgages during this period was slack at all lenders, as borrowers hesitated to make long-term obligations at historically high rates. Furthermore, usury laws in many important agricultural states prevented insurance firms from lending at prevailing market rates, even if some farm borrowers were willing and able to pay such rates.

A reversal in monetary and economic conditions in 1970-71 brought all interest rates down from their 1969-70 peaks. But farm mortgage rates did not drop as far or as rapidly as other rates. At midyear, the average rate on new farm mortgage commitments by life insurance companies at 8.3 percent compared favorably with returns of less than 7.5 percent on industrial bonds and less than 5 percent on short-term commercial paper.

Life insurance companies' share of farm real estate debt outstanding is likely to continue to erode as it has over the past several years, despite the recent increases in new farm mortgage lending. As recently as 1967, life insurance companies still ranked as the leading farm mortgage lender, with over 37 percent of total farm real estate debt outstanding at institutional lenders. At the start of 1972, their share had declined to 31 percent. Federal Land Banks, a farmer cooperative specializing in real estate lending, ranked first with 44 percent of outstandings.

Through the first half of 1972, the increase in new farm mortgage loans by life insurance companies, although large compared to recent years, was just about offset by repayments so that total farm mortgage holdings inched up only $14 million from a year earlier. This compares to an $852 million increase in farm mortgages outstanding at Federal Land Banks. Thus, life insurance companies continue to play an important but gradually diminishing role as sources of farm real estate credit.

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