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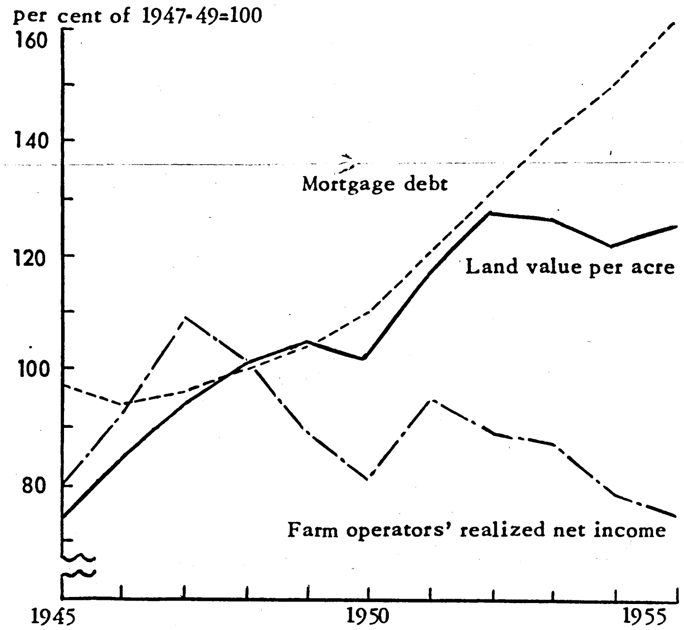
FARM MORTGAGE DEBT of U.S. farmers increased by 7 per cent during 1954. The USDA estimated that loans secured by farm real estate reached 8.2 billion dollars on January 1, 1955--over 70 per cent above the amount outstanding just after the end of World War II and 25 per cent higher than the prewar total.

FARM MORTGAGE DEBT, LAND VALUES AND INCOME



A number of factors are involved in the persistent rise of farm real estate debt. U.S. farm land values, after declining about 5 per cent from their 1952 high, have returned to near-peak levels that are over 45 per cent above those at the close of World War II. And despite some decline in the number of farm transfers, the proportion of sales that require financing has increased. Currently, over 60 per cent of the real estate transactions are estimated to be credit financed while 10 years earlier only about 40 per cent of the sales required mortgage financing.

Other factors contributing to the rise in farm mortgage debt are the shift toward larger farms which tends to boost the average size of loan and a contraction in the amount of cash available for down payments.

A final impetus to the expansion of long-term farm debts has come from the growing use of loans secured by farm mortgages for financing machinery, farm improvements and herd replacements that require intermediate-term credit.

Through the first half of 1955 no substantial change in the pace of the expansion of farm mortgage debt was apparent. And as most of the above factors are still exerting their influence, farm mortgage debt is expected to increase further. Many observers, however, anticipate little change in land values from current levels.

Despite the drop in farm prices and income, major lenders indicate that principal repayments on farm mortgage loans continued to be satisfactory in most areas during 1954 and early 1955. Reports of repayment difficulties have largely been confined to areas suffering from loss of crops due to drouth or other weather hazards.

Farm mortgage money to date has generally been available at favorable terms and rates. The average interest rate on the outstanding farm mortgage debt on January 1, 1955, was estimated to be 4.8 per cent compared with 4.7 per cent a year earlier. However, it appears that lenders have been somewhat more selective with regard to both borrowers and security.

THE INSURED FARM OWNERSHIP LOAN program of the Farmers' Home Administration has recently been altered in order to encourage greater lender participation. The aim of the FHA program is to provide funds to farmers unable to obtain credit through the usual commercial channels at reasonable rates and terms. As soon as the borrower makes sufficient progress to meet commercial credit standards in his community, he is required to refinance his FHA loan through regular lending institutions.

On July 1, 1955, about 83 million dollars of insured farm ownership loans were outstanding. Improvement and enlargement of the loan program will provide additional aid for tenants and others acquiring farms and will provide a source of funds for expanding the size of business of many "low production" units.

Some of the changes designed to make the FHA farm ownership loans a more attractive investment include: (1) The Government is now designated the mortgagee for the loan. As a result the loans will no longer be classified as real estate loans and hence will not be subject to limitations governing the amount of real estate paper a lender may hold. (2) Assignment of the loan is made easier. (3) Some duties formerly required of the lender have been eliminated. Interest rates are currently 4½ per cent--the lender receives 3½ per cent and the FHA receives 1 per cent for maintenance of the insurance fund and to cover administrative expenses.

Additional insured loan programs designed to serve other aims could also enter the agricultural finance picture. One likely example might be a finance program designed to aid young people gain a start in farming.

Research Department