Life Insurance Company Farm Lending During the 1980's: Evolution or Revolution

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Casual comparison of statistics for the early-1980's and the beginning of the 1990's suggest a rather uneventful decade for life insurance company lending to agriculture. The industry began 1980 with a 14.0 percent market share of farm real estate debt and ended 1991 with a 12.6 percent share--virtually unchanged (figure 1). Outstanding volume did decline during the period from $12.9 billion to $10 billion, but that decline is only slightly greater than the 19 percent drop in total outstanding farm real estate debt (including operator household) for the period. Even measures of loan portfolio stress, such as loan delinquency rates, while somewhat higher at the end of the period, are not indicative of the changes that the insurance industry experienced during the decade.

Like other lenders serving U.S. agriculture, life insurance company response to mounting farm loan defaults arising from the 1980's "farm financial crisis" was varied. Some companies terminated lending altogether, while others consolidated their farm loan portfolios. Regardless of the response, the lending practices and policies of all companies were shaped by the decade's events. This paper examines the current role of life insurance companies in providing agricultural capital in the wake of financial turmoil of the past decade. Past and present farm mortgage lending policies, industry structure, and the industry's likely future role in providing capital to the sector are examined.

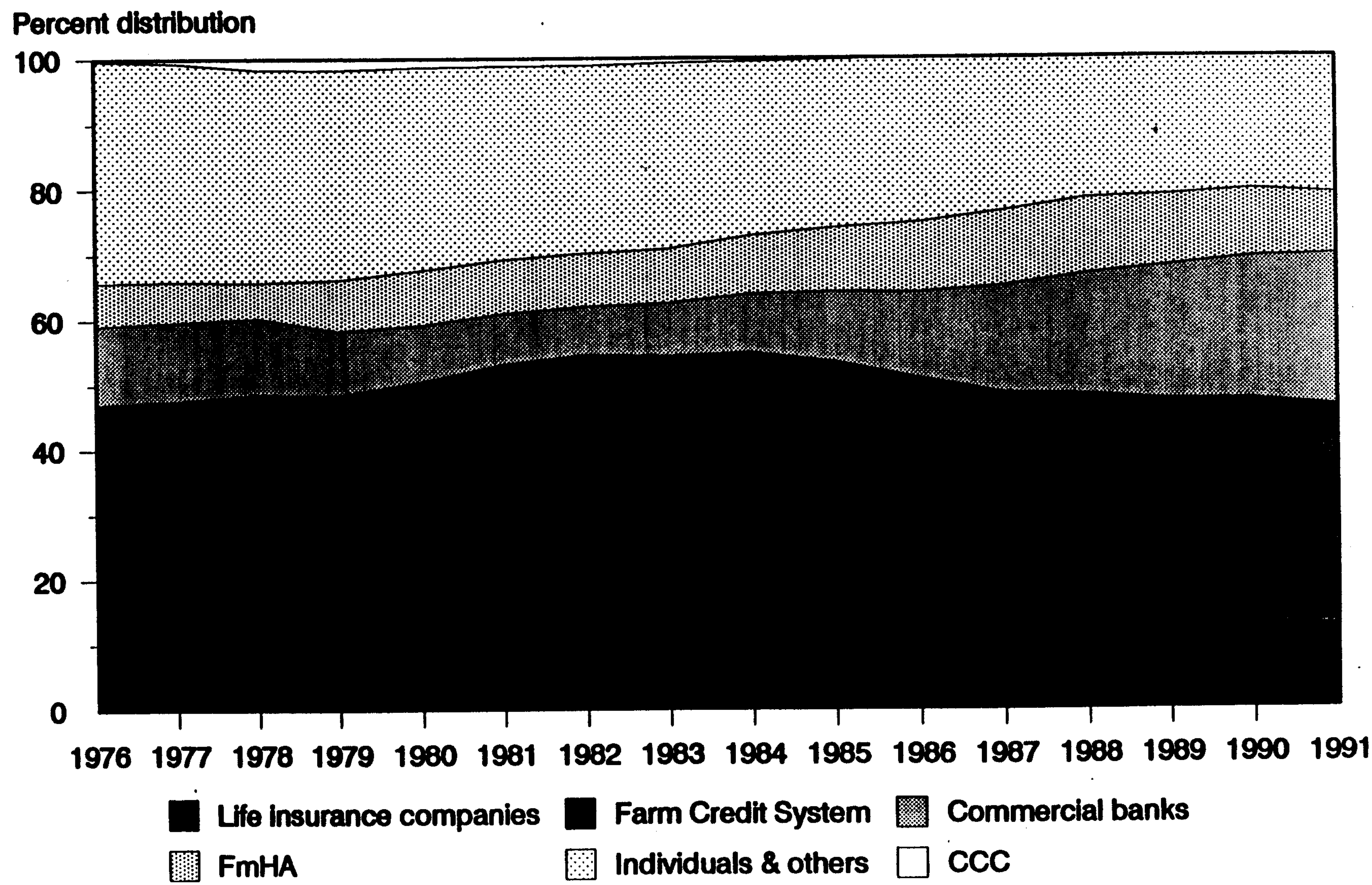
The Decade of Financial Stress

Life insurance companies entered 1980 following a year in which industry annual farm mortgage origination volume reached $2.8 billion, having grown steadily during most of the previous decade. Loan volume hit $13 billion just a couple years later. Loan defaults and foreclosures were up some in the late 1970's and early 1980's, but not far out of line with historical experience. Some insurance companies were very aggressive lenders in the 1970's farmland boom and at least one company entered the farm mortgage market to be a major player.[1]

Like many other lenders, insurance lending standards used during the farmland boom often failed to properly evaluate the debt servicing capacity of the borrowing entity. Instead, lending standards often relied heavily on collateral value to ensure loan repayment. Even here, lax appraisal standards and liberal collateral valuation ultimately became costly for the industry when farmland prices plummeted. As the farm financial problems of the 1980's

[1]Aetna Life Insurance reentered the farm loan market in 1977 and exited in 1984.

Figure 1. Distribution of farm real estate debt, including operator households



played out, life insurance company farm loan portfolios were hit hard by foreclosures and principal write-offs, as many leveraged operations could not meet their financial obligations. In some Midwestern states, farmland collateral values fell 50 percent.

Unlike other lenders, insurance company farm loans are almost exclusively secured by real estate mortgages used to finance real estate purchases, improvements, or refinancings. Therefore, insurance companies were spared initially from some of the early loan problems confronting lenders holding nonreal estate farm debt. This is because borrowers tend to strive hardest to keep land based loans current. But by the end of 1983 annual insurance lending volume had contracted to $600 million and defaulting loans began plaguing the industry. Most insurance company farm loan portfolios experienced severe default problems during the ensuing years.

Some statistics suggest that insurance company loan portfolios experienced greater financial stress than either Federal Land Banks (FLB's) or commercial banks. Delinquency rates on outstanding farm mortgage volume rose from 2 percent at the beginning of 1980 to a peak of 17 percent at 1986 yearend (table 1).[2] During the same period, foreclosures rose from under 0.2 percent of outstanding volume to 7.3 percent. The market value of property acquired through foreclosure hit $1.6 billion one year later, an amount equivalent to over 15 percent of the industry's outstanding farm mortgage volume at the time. These measures of farm loan portfolio stress equal or exceed those of the Farm Credit System (FCS), whose financial perils received much publicity and ultimately resulted in a $1.26 billion capital infusion from the Federal Government.

Statistics for individual companies were often worse than suggested by industry averages. One company reported a delinquency rate of 33 percent at the end of 1986. Several others reported rates exceeding 20 percent. Except for one, all of the companies still actively lending today had delinquency rates below the industry average at yearend 1986.

Like other farm lenders, insurance companies restructured many nonperforming loans during the decade, either voluntarily or through requirements of the bankruptcy court. In general, most companies tried to avoid foreclosure if a workable debt restructuring plan could be constructed. After peaking in 1986-87, the financial stress of insurance company loan portfolios did abate, but stress remains elevated relative to the past. The delinquency rate on life insurance company farm loans in the first half of 1992 hovered around 5.5 percent.[3]

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[2] A delinquent farm mortgage has interest payments in arrears more than 90 days or is in the process of foreclosure.

[3]Comparable delinquency rates for FCS farm loans is 5.3 percent and 2.4 percent for commercial bank nonreal estate farm loans.

Table 1. Life insurance company farm lending statistics, 1976-91 1/

	Outstanding volume	Origination volume	Acquired property	Delinquency rate 2/	Foreclosure rate 3/
		---Million dollars---		---Percent---	
1976	7,400	1,510	NA	2.07	.37
1977	8,819	2,373	NA	1.16	.08
1978	10,478	2,748	NA	2.59	.20
1979	12,165	2,806	NA	1.45	.19
1980	12,928	1,654	NA	2.00	.15
1981	13,074	1,108	NA	3.69	.44
1982	12,805	695	NA	6.40	1.33
1983	12,717	1,109	NA	8.27	2.79
1984	12,443	1,003	NA	9.58	2.33
1985	11,836	1,070	692	15.06	4.35
1986	10,940	1,219	1,442	17.01	7.26
1987	9,896	1,097	1,619	14.31	6.60
1988	9,592	1,424	1,226	8.87	3.92
1989	9,598	1,399	1,110	4.74	2.24
1990	10,186	1,833	569	4.22	.95
1991	10,029	1,526	471	3.84	.99

NA=Not available.
1/ Yearend data.
2/ Delinquent loans including loans in the process of foreclosure. A farm loan is delinquent when interest payments are 90 days in arrears.
3/ Rates calculated as the percent of loans outstanding at the beginning of the year.
Source: (3).

Companies Terminate Lending

The events of the 1980's concentrated farm mortgage assets within the industry. The number of companies active in the conventional farm mortgage market dwindled from 12 in 1980 to 6 at the beginning of 1992, with most companies departing in 1986 (table 2). Mutual Benefit Life Insurance Company was the last to terminate farm lending when it went into receivership in 1991. Some companies that terminated lending still service existing customers or provide purchase money mortgages to finance the sale of land acquired through foreclosure. One company still offers agribusiness credit, but no longer serves the

Table 2--Farm real estate loans held by life insurance companies, January 1, 1980 and January 1, 1992

Company	Share of total loans: January 1, 1980[1]	Share of total loans: January 1, 1992[2]	Current farm loan market status[3]
1. Metropolitan Life	12.148	18.684	Active
2. Travelers	13.649	13.972	Active
3. Prudential	17.941	16.338	Active
4. Equitable (U.S.)	15.777	19.114	Active
5. John Hancock	15.026	18.089	Active
6. MONY	3.090	3.872	Active
7. Aetna	3.251	0.869	Inactive
8. Mutual Benefit	2.682	4.155	Inactive[4]
9. CIGNA	5.874	2.285	Inactive
10. Northwestern	3.495	.906	Inactive
11. Phoenix Mutual[5]	1.272	.074	Inactive
12. Connecticut Mutual	4.093	1.313	Inactive
13. Kansas City	0.997	.140	Inactive
14. Equitable (Iowa)	.140	.002	Inactive
15. American Amicable	.069	.011	Inactive
16. Business Men's	.065	.002	Inactive
17. Southwestern	.027	.007	Inactive
18. Principal Mutual[6]	.015	0	Inactive
19. Midland National	.004	0	Inactive
20. Great Southern	----[7]	0	Inactive
21. Northwestern National	.384	.113	Inactive
Total	100.0	100.0	NA

NA = Not applicable. [1]Data obtained from published annual statements of the life insurance companies. The reported total was $11,895,118,000 which is 97.629 percent of the $12,184,000,000 held on December 31, 1979 as reported by the American Council of Life Insurance in their annual Life Insurance Fact Book. [2]Based on contacts with the individual companies. The reported total was $10,735,567,000 or 113.940 percent of the $9,459,524,000 for December 31, 1991 as reported by the American Council of Life insurance in their Investment Bulletin: Quarterly Survey of Mortgage Loan Delinquencies and Foreclosures, No. 1174, dated March 3, 1992. [3]"Active" = Participates as an active farm mortgage lender; "Inactive" = Permanently out of the market. [4]Mutual Benefit went into receivership on 7-15-91 and its future as an active farm mortgage lender is uncertain. [5]Merged with Home Life Insurance in 1992. [6]Formerly Bankers Life Insurance Company. [7]Negligible.

conventional farm mortgage market.[4] Presumably some of these companies could reenter the farm mortgage market with relative ease.

The 6 remaining companies specializing in farm lending (Metropolitan Life Insurance Company, The Travelers, Prudential Insurance Company of America, Equitable Agri-Business, John Hancock Financial Services, and Mutual of New York) represent a small subset of the total number of insurance companies. The loss of 6 companies occurred during a period when the total number of life insurance companies rose 8 percent and stood at 2,105 at the beginning of 1992. This is not true of industry total assets since this small subset of insurance companies hold higher than average industry levels of total assets.

Large Companies Dominate

Companies still active in farm lending are among the largest life insurance companies. For example, Prudential and Metropolitan both command assets of over $100 billion. The industry-wide average of per company total assets at 1991 yearend was only $737 million. Companies terminating farm lending during the decade were firms with small- to medium-sized farm loan portfolios. These companies had an average farm loan portfolio of $400 million at the beginning of 1980. This occurrence is not necessarily true of their total asset size, however, as large companies, such as Aetna Life, terminated new lending activity during the decade.

The five largest companies active today dominated insurance farm lending prior to 1980. These companies now hold over 86 percent of the industry's farm mortgage assets, up from 74 percent in 1980. Individual farm loan portfolios for these companies range from $1 to $2 billion or between 15 and 21 percent of the industry's total portfolio. By comparison, the largest farmland secured loan portfolio of a commercial bank was $267 million (Bank of America) and that of a district Farm Credit Bank was $5.5 billion (Agribank) at the start of 1992.[5]

The share of total industry farm mortgage assets held by the departing companies declined from 20.7 percent to 9.6 percent during the period and continues to shrink. One departing company, Phoenix Mutual Life, terminated farm lending in 1986 after making its first farm mortgage in Hancock County, Illinois in 1861. Most of its remaining farm loan portfolio was sold to The Travelers in 1992 after a merger with Home Life Insurance. The new company, Phoenix Home Mutual Life Insurance, retained the small remaining distressed portion of the farm loan portfolio.

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[4]This company, CIGNA Investments, is not included as one of the remaining six companies.

[5]This amount represents the combined farm real estate portfolio for the Farm Credit Banks of St. Paul and St. Louis, which merged to create AgriBank on May 1, 1992.

Farm Mortgage Assets Decline

Farm mortgage assets now represent a relatively inconspicuous portion of the industry's total asset base. As expected from declining farm mortgage volume, these assets as percentage of total industry assets dropped sharply during the decade from 2.7 percent in 1980 to 0.6 percent at the end of 1991 (figure 2). Total assets for the industry during the period grew from $479 billion to $1,551 billion, a real growth rate of 96 percent. For the larger remaining companies, their investment in agricultural mortgages is higher, generally around 2 percent of total assets.

With insurance companies divesting their farm mortgage assets, fewer companies participating in the market, and the myriad of competing investment products on the market today it is not surprising how unimportant farm mortgages have become to the industry's overall investment base. Many alternative investments have superior historical performance information and frequently do not require the specialized personnel and collection structure that farm mortgages do.

Insurance company investing in all types of real estate mortgages (farm and nonfarm) did not keep pace with growth in the industry's total asset base during the 1980's. As a percentage of total industry assets, mortgage assets actually declined from 27.4 percent at the end of 1980 to 17.1 percent in 1991. However, total mortgage assets did rise to $265 billion at 1991 yearend, a 25 percent real increase.

If the pace at which companies were investing in mortgages/loans or directly in real estate was not keeping pace with total asset growth, what were companies investing in during the last decade? Life insurance companies chose to invest heavily in government and corporate securities, which now account for 68 percent of the industry's total asset base.

Shift to Commercial Real Estate

The 25 percent real increase in mortgage assets was fueled by commercial real estate lending.[6] Inflating commercial real estate values during the 1970's and 1980's made commercial real estate lending appear to be a safe and profitable long-term investment for the industry.

As the industry focused on commercial real estate loans, farm mortgages as a percentage of total mortgages declined from 9.9 percent in 1980 to 3.9 percent in 1991, while 1-4 family homes and multi-family homes declined from 28.3 percent to 15.3 percent (figure 3). Commercial real estate share rose from 61.6 to 80.8 percent. This trend toward specialization in commercial real estate began prior to 1980; at the beginning of 1970,

[6]Commercial real estate includes office, retail, industrial, hotel and motels, and mixed use classifications.

Figure 2. Distribution of life insurance industry assets

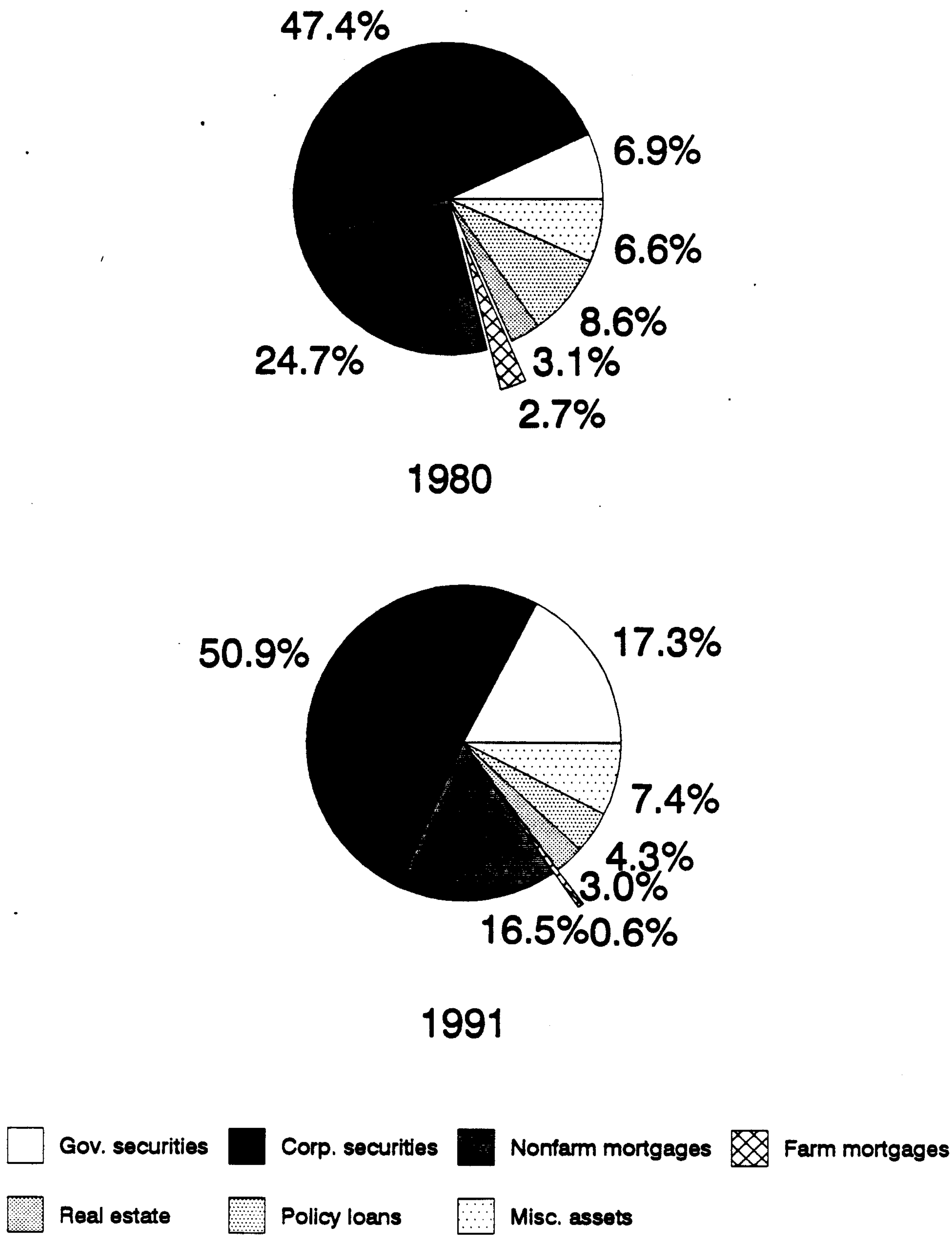
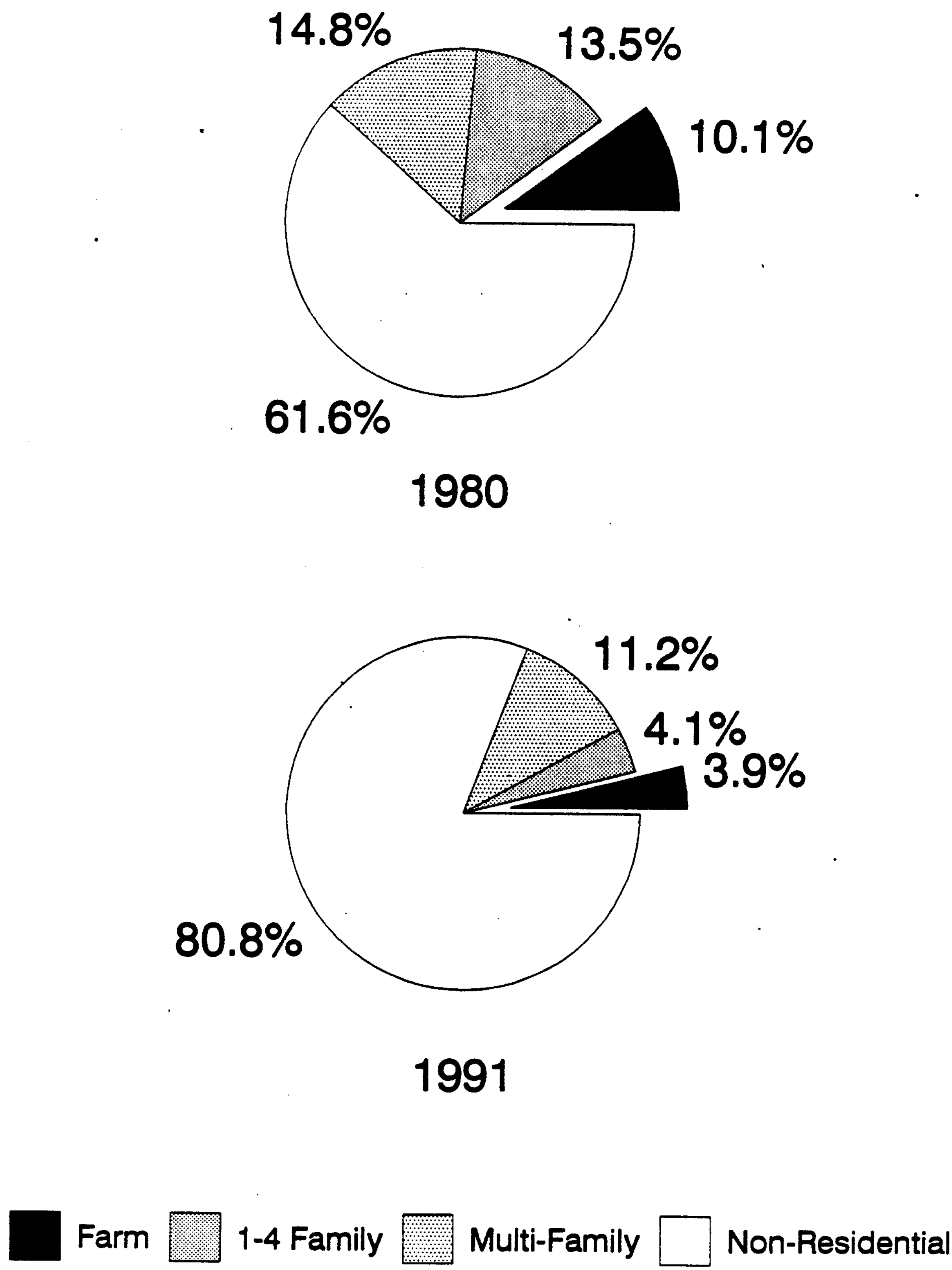


Figure 3. Distribution of life insurance industry mortgage assets



commercial real estate mortgages accounted for only a third of total mortgage assets. In 1920, farm mortgages made up half of all mortgage assets and 16 percent of the industry's total assets.

Defaulting commercial real estate loans are a growing problem for some of the 6 remaining companies investing in farm mortgages. One major player, The Travelers, encountered financial problems largely resulting from losses in commercial real estate loans. At mid-1992, the delinquency rate for the industry's commercial real estate portfolio hit a record 7.3 percent. Future increases in commercial real estate delinquencies and foreclosures are possible, which may encourage some companies to diversify their mortgage portfolios by adding farm mortgages. Conversely, others speculate that commercial real estate problems could place all mortgage investments under closer scrutiny.

Direct Farm Real Estate Investments Rise

Direct investment in farm real estate rose to $2.4 billion or 6 percent of the $39.9 billion industry's total direct real estate investment at the beginning of 1990. This $2.4 billion is an enormous increase from the start of the decade when direct investment in farm real estate stood at just $241 million (During this period nominal farmland values actually dropped from $737 an acre to $668 an acre.). However, much of direct investment increase results from the accumulation of property through foreclosure and default and not from separate investment decisions.

Companies acquired billions of dollars worth of farm properties during the 1980's and some are still disposing of this property. There is a wide variation in policies toward property disposal. Some companies have retained choice acquired properties as direct investments, while others have aggressively sold properties as they were acquired. Several companies acquired farm management firms during the decade to assist them in disposing and managing the newly acquired real estate. At the beginning of 1992, the market value of outstanding acquired property stood at $412 million, down from a peak of $1.6 billion in 1988.

Farm real estate directly held as an investment by insurance companies is heavily concentrated in Washington and California. These two states account for 25 percent of total direct investment, but only 10 percent of the U.S. total value of farmland and buildings. The remaining holdings tend to be clustered in Texas and states in the Delta, Southeast, and Corn Belt regions. The only regions lacking significant holdings are the Northeast and Appalachia. The presence of cotton, rice, and orchard farms explain much of the ownership in the Delta region and Texas, timber in the Southeast and Washington, and a diverse agricultural base explains much of California's holdings. Because holdings include real estate acquired through foreclosure, land ownership patterns are influenced by regional acquisition rates.

Farm Mortgage Portfolio Composition Changes

The composition of insurance company farm mortgage portfolios changed as lending policies were altered during the past decade. It is difficult to characterize the policies of the 6 remaining companies because each has chosen a somewhat different investing strategy. But common to most companies are polices which increase the average loan size. In real terms, outstanding average loan size increased 29.6 percent and stood at $330,880 at the end of 1991 (table 3). As recently as 1988, the average loan size was $220,872. At the same time, the average outstanding FLB loan was only $73,799 and was trending down. Since 1980, insurance company loan numbers plummeted 63 percent from 90,348 to just 25,589. These trends are also evident among nonfarm mortgages held by insurance companies.

For all practical purposes, life insurance companies are no longer players in the market for farm mortgages under $150,000 and are relatively minor players for mortgages under $500,000. Among the remaining 6 companies, at least three companies have stated minimum new farm loans sizes of $500,000 or greater. Even companies making smaller loans prefer to make larger loans, if possible. One company recently reported an average size for new farm loans at just under $1 million. For corn belt farmers, this implies that most insurance companies are not in the market for mortgages on less than 200 acres.[7]

Insurance companies prefer larger loans because they provide a greater return over fixed originating costs. Many insurance companies also do not have the originating network necessary to compete effectively in the market for smaller loans, especially in certain geographic regions. Even the largest companies have only a handful of regional offices. And life insurance companies face less competition for large loans from small local banks which often can not accommodate larger loan requests due to regulatory loan limits.

Companies still issuing loans under $500,000 often do so to accommodate existing customers or do so through correspondent relationships with other originators. Gross mortgage flow data from an American Council of Life Insurance (ACLI) survey indicates that mortgage purchases by the industry are rising. From 1988 to 1991, the survey shows that annual loan volume purchased from other farm mortgage originators increased from $0 to $196 million. Much of this might be attributable to Prudential Life Insurance, which has established correspondent originating relationships with small banks. Correspondent relationships have been used by insurance companies in the past.

Agribusiness and Timber Assets Grow

Another common policy development in the last few years has been a greater emphasis on agribusiness and commercial timber loans and less on conventional farm loans. This too

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[7]This assumes life insurance companies require a 35 percent downpayment, a $150,000 loan minimum, and an average per acre value of farmland of $1,158.

Table 3--Life insurance company nonagricultural and agricultural average mortgage loan sizes in current and constant dollars and as percentage changes, selected years, 1960-91.

Year[1]	Nonagricultural loans: Current dollars	Nonagricultural loans: Constant dollars 1987=100	Agricultural loans: Current dollars	Agricultural loans: Constant dollars 1987=100
		Dollars		
1960	13,163	50,627	14,121	54,312
1970	27,695	78,903	32,905	93,746
1980	102,720	143,264	139,761	194,925
1990	699,853	619,888	285,234	252,643
1991	833,940	712,769	330,880	282,803
		Percentage change		
1960-70	110.4	55.9	133.0	72.6
1970-80	270.9	81.6	324.7	107.9
1980-90	581.3	332.7	104.1	29.6

[1]December 31.
Source: (2).

contributes to higher average loan size because these firms generally have greater capital needs. The ACLI's Investment Bulletin provides survey data on the type of the farm enterprise being served by insurance mortgages. These survey data suggest that as much as 29 percent of outstanding farm mortgages at the end of 1991 went to agribusiness and timber enterprises as opposed to conventional farm enterprises.[8]

This 29 percent share has been rising recently, suggesting that companies continue to invest heavily in these assets. At least two companies allocate as much as 40 percent of their farm lending to agribusiness and/or timber purposes. The net result of the greater emphasis on agribusiness and timber loans is that future life insurance company lending to family-sized farm producers will shrink.

[8]Major farm enterprise data have been published since 1988. Roughly two-thirds of the total industry volume is broken down by loan purpose in the survey. Agribusiness loans are defined as those to entities that derive over 50 percent of their gross sales from production of a product that adds value to an agricultural commodity or forest product; a loan is defined as a timber loan if more than 50 percent of the security backing the loan is attributable to a commercial timber crop.

Lending Policies More Conservative

Insurance companies, like other farm lenders, now have more stringent lending standards than before the mid-1980's. Maximum loan-to-value ratios are now between 60 and 70 percent and debt service requirements are higher than the past. Shorter-term interest rate and loan maturity commitments are now commonly used, but fixed interest rate contracts for up to 15 years are still offered by some companies.

Competition for high quality farm borrowers is keen. Most of the 6 companies indicate that they would like more business, but are having trouble finding loans that meet their lending standards. In general, loan demand is flat to down in 1992. Some expect that today's low interest rates will spur lending as farmers refinance high cost debt and step up capital purchases.

Geographical Concentration of Loan Portfolio Continues

Farm mortgage holdings by insurance companies continued to shift away from the Corn Belt to the Southeast and Pacific Coast during the 1980's. The Corn Belt's share of total outstanding industry mortgage volume declined from 23.5 percent to 16.4 percent and the share captured by the Pacific region increased to 33.7 percent from 19.3 percent (table 4). In 1960, the Corn Belt accounted for 31 percent of industry farm loans, while Pacific States accounted for only 9.3 percent. California has the largest concentration of life insurance loans. Insurance companies invest very little in the Northeast, Lake, and Appalachian regions.

In the Northeast, Lake States, Corn Belt, Northern and Southern Plains, and Appalachia, insurance companies are becoming, or already are, an irrelevant factor in farm mortgage lending. Table 5 indicates that the industry's share of total farm real estate debt declined in all but three regions during the 1980's. This occurrence continues a trend dating back prior to 1960. Contrasting this trend is the Pacific region, where insurance companies held 30 percent of the total farm real estate debt at 1990 yearend, up from 22 percent at 1980 yearend. In a few States, insurance outstanding volume still equals that of the FCS, which is the Nation's largest farm mortgage holder with a 34 percent market share.

Policies emphasizing larger specialty, agribusiness, and timber enterprises might explain some of the rapid departure of life insurance companies from financing Midwest agriculture and the rise in Pacific and Southeast lending. If the industry continues to concentrate its lending geographically, default risks inherent with a less diverse loan portfolio will likely rise. Geographical concentration also is significant to Farmer Mac participation because underwriting standards require that pools be geographically diverse.

Table 4--Life insurance company farm real estate loans outstanding (including operator households), by farm production region, December 31, selected years, 1960-90

Farm region	1960	1970	1980	1990
	Thousand dollars			
Northeast	49,589	38,500	108,700	56,900
Lake States	201,605	287,500	684,900	327,700
Corn Belt	923,801	1,281,300	3,031,500	1,667,500
Northern Plains	304,718	586,900	1,340,200	658,900
Appalachian	140,949	196,700	440,700	442,100
Southeast	137,096	332,100	873,800	1,091,400
Delta States	215,899	597,700	1,123,400	775,200
Southern Plains	387,241	755,600	1,211,200	744,900
Mountain	335,932	702,000	1,619,100	989,300
Pacific	277,779	832,000	2,494,300	3,432,400
United States	2,974,609	5,610,300	12,927,800	10,186,300
	Percentage distribution			
Northeast	1.7	0.7	0.8	0.6
Lake States	6.8	5.1	5.3	3.2
Corn Belt	31.1	22.8	23.5	16.4
Northern Plains	10.2	10.5	10.4	6.5
Appalachian	4.7	3.5	3.4	4.3
Southeast	4.6	5.9	6.8	10.7
Delta States	7.3	10.7	8.7	7.6
Southern Plains	13.0	13.5	9.4	7.3
Mountain	11.3	12.5	12.5	9.7
Pacific	9.3	14.8	19.3	33.7
United States	100.0	100.0	100.0	100.0

Note: Northeast = CT, DE, ME, MD, MA, NH, NJ, NY, PA, RI, VT. Lake States = MI, MN, WI. Corn Belt = IL, IN, IA, MO, OH. Northern Plains = KS, ND, NE, SD. Appalachian = KY, NC, TN, VA, WV. Southeast = AL, FL, GA, SC. Delta States = AR, LA, MS. Southern Plains = OK, TX. Mountain = AZ, CO, ID, MT, NV, NM, UT, WY. Pacific = AK, CA, HI, OR, WA.

Source: (4).

Table 5--Market share of life insurance company real estate loans (including operator households) as a percentage of total real estate loans, by farm production region, selected years, 1960-90

Farm region	1960	1970	1980	1990
		Percent		
Northeast	6.8	2.5	2.4	1.4
Lake States	14.3	9.6	6.6	4.3
Corn Belt	32.1	18.5	12.5	9.6
Northern Plains	26.0	17.5	12.2	7.7
Appalachian	16.6	9.3	6.3	7.3
Southeast	18.3	17.3	13.1	18.9
Delta States	31.1	31.8	20.9	19.5
Southern Plains	30.0	24.1	15.2	11.1
Mountain	27.1	23.2	17.7	14.6
Pacific	15.0	22.8	22.0	30.0
United States	23.1	18.4	13.3	13.0

Note: Northeast = CT, DE, ME, MD, MA, NH, NJ, NY, PA, RI, VT. Lake States = MI, MN, WI. Corn Belt = IL, IN, IA, MO, OH. Northern Plains = KS, ND, NE, SD. Appalachian = KY, NC, TN, VA, WV. Southeast = AL, FL, GA, SC. Delta States = AR, LA, MS. Southern Plains = OK, TX. Mountain = AZ, CO, ID, MT, NV, NM, UT, WY. Pacific = AK, CA, HI, OR, WA.

Source: (4).

Life Insurance Leads Farmer Mac Development

Life insurance companies have taken an early lead in utilizing the Farmer Mac secondary market for agricultural mortgages. Farmer Mac has been slow to develop since it was first authorized by Congress in 1987, but in December 1991 John Hancock Mutual Life Insurance Company became the first pooler to obtain a Farmer Mac guarantee.[9] The $112 million

[9]The Federally sponsored enterprise was authorized by the Agricultural Credit Act of 1987 and subsequently modified by the Food, Agriculture, Conservation and Trade Act of 1990 and its Technical Amendments Act of 1991.

mortgage pool was assembled from its existing portfolio (seasoned mortgages), with John Hancock keeping the securities in portfolio.[10]

After this initial pool, life insurance companies have participated in the other Farmer Mac pools. The Travelers Insurance Company originated $233.4 million in loans for a pool that was brought to market by Chemical Securities, Prudential Agricultural Credit assembled a $237.9 million pool, and Equitable Agribusiness formed a $87.9 million pool. Two of these pools utilized Farmer Mac's linked portfolio strategy where Farmer Mac buys the guaranteed portion of the pool by issuing securities that match the maturity of underlying loans. The Equitable pool was the first public offering of Farmer Mac guaranteed mortgage backed securities. Three of the 5 Farmer Mac certified poolers are life insurance companies (John Hancock, Prudential, Equitable).

Despite early involvement in Farmer Mac, future insurance industry participation is cloudy. The primary reason is that under current investment policies, the insurance industry will not generate much volume for the market. Two companies that accounted for nearly 50 percent of the industry's 1991 loan origination volume have shown little interest in Farmer Mac. This coupled with the fact that some volume will not meet Farmer Mac underwriting standards implies that only 2 or 3 mortgage pools of $200 million each is likely as long as origination volume remains in the current $1.5 to 2.0 billion range. Companies could elect to securitize more seasoned mortgages, boosting their presence in the market, but this provides only temporary volume.

Concluding Comments

Life insurance company lending to agriculture was greatly affected by the farm financial problems of the 1980's. Defaults among life insurance company mortgages were among the highest of any farm lender. As a result of high loan losses, 6 small- to medium-sized companies terminated their farm lending operations. Departing companies had some of the most distressed loan portfolios in the industry. Farm lending was sharply curtailed during the decade with outstanding farm mortgage volume held by the industry dropping over 20 percent from its peak and now represents an inconspicuous amount of the total life insurance industry's asset base.

The six remaining companies account for 90 percent of the industry's farm mortgages and can be characterized as having both large total assets and large farm mortgage portfolios. They now have a greater preference to finance agribusiness, timber and specialty enterprise than in the past and have virtually left the small and medium farm mortgage market, particularly in some regions. Several companies will not make new agricultural loans below

[10]Amount stated is gross loan pool including the 10 percent subordinated participation interest.

$500,000. These new preferences have shifted more life insurance lending out of the midwest to the Southeast and the West Coast. In large areas of the Midwest, insurance companies are virtually absent from the conventional farm mortgage market. As significant as some these findings are, many of these trends were established before the 1980's, with the decade's financial problems merely accelerating them.

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