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SOME FACTS ON FARM MORTGAGE FORECLOSURES IN MINNESOTA

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In the last ten years, but particularly during the last five years, many farm mortgages have been foreclosed in Minnesota and titles to a great number of farms have passed into the hands of creditors. A number of factors may be included as causes for this condition, but generally speaking, the great rise in prices during 1917-1920 and the decline following which caused a sharp decrease in farm incomes, is the principal explanation for failures among farmers. With their incomes declining, interest payments heavy, and taxes increasing, many farmers found it impossible to meet financial obligations.

A study was made of 527 representative Minnesota farms which are owned by a mortgage loan institution as a result of foreclosures. On most of these farms financial statements were available for the date when the loan was made and also when it was foreclosed. Over eighty per cent of these loans were made during the years 1917-1922 and most of them were foreclosed during the years 1924-1930. Between the time the loan was made and when it was foreclosed the average assets of these farmers decreased 45 per cent and the average liabilities increased 22 per cent. In Table 1, the farms are classified by districts and figures relating to assets and liabilities given.

Table 1. A Comparison of Financial Statements of Farms When the Loan Was Made and When the Loan Was Foreclosed
Figures are average per farm.

District	When loan was made			When loan was foreclosed		
	Total Assets	Total Liabilities	Ratio of Liabilities to Assets	Total Assets	Total Liabilities	Ratio of Liabilities to Assets
N. W. Minn.	$15,491	$6,106	39%	$7,612	$8,886	117%
N. E. Minn.	6,840	2,378	35	3,657	3,160	86
Cent. Minn.	14,608	6,668	46	8,742	8,096	93
S. W. Minn.	25,140	13,858	55	14,984	14,570	97
S. E. Minn.	29,491	14,461	49	19,017	15,729	83
All Farms	16,084	7,305	45	9,304	8,936	96

The decline in farm incomes has resulted in a fall in farm real estate values. In fact the great reduction in assets shown in the table above is due mainly to the decline in real estate values. The farms included were appraised when the loans were made and again when they were foreclosed, and during this period they declined 41 per cent in value from an average of $13,227 to $7,808 per farm. The decline in real estate values by districts is shown in Table 2. Since the time of

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foreclosure land values have gone down farther; and if these farms were appraised today, the values would be lower than at the time of foreclosure.

Table 2. Appraised Value of Land and Buildings When the Loan Was Made and When the Loan was Foreclosed

District	Average value per farm		Average value per acre	
	When loan was made	When foreclosed	When loan was made	When foreclosed
N. W. Minn.	$12,587	$6,496	$60.71	$31.33
N. E. Minn.	5,630	3,364	37.20	22.23
Central Minn.	11,928	7,989	75.24	50.39
S. W. Minn.	21,055	12,952	122.65	75.45
S. E. Minn.	24,323	15,270	138.52	86.97
All farms	12,227	7,808	74.40	43.92

While many farmers have failed in recent years the facts are that others have been able to meet financial obligations although in many cases they have done so by curtailing expenditures both in the home and in the farm business. Even when many farmers fail, others are making a success of farming. Why should this be true? A number of factors must be considered in attempting to answer this question and only a few can be mentioned in this short discussion.

For the purpose of throwing some light on this problem a comparison was made between the foreclosed farms studied and Minnesota farms on which the loans were in good standing. Three such farms were selected at random in each county for each foreclosed farm. This is not to be construed to indicate the ratio between the number of foreclosed and good loans but was merely used as a method of obtaining an adequate measure. Information regarding each farm was obtained from the application for loan, the appraiser's reports, and correspondence concerning the loans. On the basis of this information an analysis was made of foreclosed farms and farms where the owners had met the financial obligations. A few of these comparisons follow.

In the first place it was found that at the time the loan was made the farmers who later failed had larger debts and a higher ratio of liabilities to assets. They had a heavier burden of interest payments;and,without any apparent opportunities for greater income their chances of success were less than the farmers with smaller debts. Table 3, shows the assets and liabilities at the time when the loan was made for foreclosed farms and farms having non-delinquent loans.

Table 3. Financial Statement When the Loan Was Made for Foreclosed Farms and Farms with Loans in Good Standing

Average per farm

District	Foreclosed Farms			Farms with Good Loans		
	Total Assets	Total Liabilities	Ratio of Liabilities to Assets	Total Assets	Total Liabilities	Ratio of Liabilities to Assets
N. W. Minn.	$15,501	$5,994	38.7%	$13,573	$4,355	32.1%
N. E. Minn.	6,650	2,270	34.1	6,734	1,790	26.6
Central Minn.	15,947	6,700	42.0	15,179	4,940	32.5
S. W. Minn.	24,441	12,620	51.6	24,400	10,250	42.0
S. E. Minn.	28,155	12,020	42.9	22,515	8,020	35.6

The farmers used on the average about 82 per cent of the funds borrowed to pay existing debts. This percentage does not vary greatly between the foreclosed and other loans. However, the loan per farm and the ratio of the amount of the loan to the appraised value of land and buildings was larger on the foreclosed farms. This is shown in Table 4.

Table 4. Average Amount of Loans and Ratio of Loans to Appraised Value of Land and Buildings

	Foreclosed Farms		Farms with Good Loans	
District	Amount of Loan	Ratio	Amount of Loan	Ratio
N. W. Minn.	$5,022	40%	$3,734	33%
N. E. Minn.	2,142	38	1,764	32
Central Minn.	5,434	40	4,394	34
S. W. Minn.	8,602	42	7,810	38
S. E. Minn.	9,892	42	6,974	37

The question that logically follows is "Why is indebtedness greater on the foreclosed farms?" This cannot be answered definitely on the basis of data available, but a few points may be noted. The foreclosed farms on the average were larger farms, and we would expect a larger debt on these farms for that reason. However, this is only a partial explanation. If a greater proportion of the foreclosed farms were purchased during the period of high land values, 1917-1921, than of the farms having good loans, we would expect a greater indebtedness per farm in the first group. The facts are that 35% of the foreclosed farms, omitting farms inherited and homesteaded, were purchased during the years of high values compared to 28 per cent for the other farms. However, the total average indebtedness per farm was $279 less on the foreclosed farms purchased during 1917-1921 than on foreclosed farms purchased during other years, in most cases prior to 1917. In other words, there are other causes for heavy indebtedness besides the purchase of high priced land some of which undoubtedly are explained by poor management. The successful farmer uses credit wisely, that is, for production purposes, while the farmer who is a poor manager is likely to have comparatively large expenditures, many of them from borrowed money, and a relatively low income.

Another difference between foreclosed farms and the farms on which the loans were in good standing is that the former tend to be larger farms from the standpoint of acres of land. This is true for all districts of the state as shown in Table 5. As a rule the larger farm has possibilities for greater income than the smaller farm in periods of profitable prices. The risks, however, are greater and during periods of low prices like in recent years the chances of failure also are greater. In Northwestern Minnesota larger acreage has been associated with grain farming, and grain was relatively more important among farm enterprises on foreclosed farms than on other farms where livestock enterprises, which have been more profitable than grain, were more important. In Northeastern Minnesota the average acreage for foreclosed farms was 151 acres compared to 114 acres on farms with good loans, but the cultivated acres per farm were 36 and 37 respectively. On foreclosed farms in the latter region, therefore, the farmers were carrying much unproductive land on which they were paying taxes and interest but receiving no income. Their chances for success would have been much better on a smaller acreage.

Table 5. A Comparison of Size of Foreclosed Farms and Farms with Good Loans

District	Foreclosed Farms		Farms with Good Loans	
	Total Acres	Cultivated Acres	Total Acres	Cultivated Acres
N. W. Minn.	208	141	175	118
N. E. Minn.	151	36	114	37
Central Minn.	157	91	142	77
S. W. Minn.	169	114	158	118
S. E. Minn.	176	126	137	97

Generally speaking the foreclosed farms were not as well equipped as the farms having good loans. The value of buildings, both houses and barns, averaged less on the foreclosed farms. The investment in machinery was also less and livestock production less important. It is quite evident that the farms with good loans on the whole represent a farm business of better balance than the foreclosed farms. Table 6, gives the average value of buildings, livestock, and machinery on the two groups of farms at the time the loan was made.

Table 6. Average Value of Buildings, Machinery, and Livestock on Foreclosed Farms and Farms with Good Loans

District	Value of all Buildings per Farm		Value of Machinery per 100 Acres		Value of Livestock per 100 Acres	
	Foreclosed Farms	Other Farms	Foreclosed Farms	Other Farms	Foreclosed Farms	Other Farms
N. W. Minn.	$2,190	$3,000	$540	$630	$815	$900
N. E. Minn.	1,260	1,910	260	450	535	750
Central Minn.	3,120	3,920	540	850	1,100	1,120
S. W. Minn.	3,510	4,210	730	945	1,595	1,800
S. E. Minn.	4,520	4,670	780	925	1,800	1,940

The experiences of Minnesota farmers in the last decade referred to in the preceding discussion illustrate the difficulties and hardships which arise as a result of a changing general price level. Many of the farm debts were contracted during the period of inflation in 1917-1920. At that time prices generally were high and the purchasing power of the dollar low. Prices have declined greatly since that time until at present the general price level is about fifty per cent below the period of inflation. Today when the farmer pays interest he makes the payment in dollars having nearly twice as much purchasing power as the dollars he received when he went into debt during the period of inflation. It takes a much larger amount of farm products to pay interest and principal on the debt than it did a few years ago. In other words, the burden of debt has increased greatly as a result of the price decline. An effective plan of stabilizing the general price level would prevent many hardships among farmers which arise out of general price changes.

If it were possible to stabilize the general price level to some degree at least, there still would be many difficulties arising because of the uncertainty of agricultural production. Production of crops and livestock is subject to natural forces, and there will be years of favorable and unfavorable conditions. For this reason agriculture as a business must be viewed from the long time point of view. Conservative practices must be adopted;and,in years of favorable income, preparation must be made to maintain the business during years when losses occur. This can be done by paying debts or setting aside reserves during good years rather than using the funds for purposes which may be unproductive.

MINNESOTA FARM PRICES FOR JULY 1931
Prepared by D.D. Kittredge and A.E.Erickson

The index number of Minnesota farm prices for the month of July 1931 was 58.1. When the average of farm prices of the three Julys of 1924-25-26 is represented by 100, the indexes for July of each year from 1924 to date are as follows:

July	1924	- 84.8
"	1925	-107.3
"	1926	-107.4
"	1927	- 97.8
"	1928	-110.3
"	1929	-109.5
"	1930	- 82.5*
"	1931	- 58.1

*Preliminary

The price index of 58.1 for the past month is the net result of decreases in the prices of farm products in July 1931 over the average of July 1924-25-26 weighted according to their relative importance. These decreases ranged from approximately 68 per cent to 2. The products ranked according to the size of their percentage decreases in this comparison are shown in the following list:

Principal Farm Products which Showed Price Decreases
in July 1931 when Compared with the Average Prices
in July 1924-25-26
(listed in descending order of percentage change)

Decreases: Rye, wheat, barley, oats, lambs-sheep, corn, eggs, butterfat, hogs, flax, calves, chickens, hay, milk, cattle, potatoes.

Although the Minnesota index for July 1931 does not measure price changes from June 1931, a comparison of month to month changes in price has been made. The increases range from 46 per cent to 5, and the decreases from 11 per cent to 4. The products ranked according to the size of their percentage increases or decreases in July 1931 over June 1931 are shown in the following list:

Principal Farm Products which Showed Price Increases and Decreases
in July 1931 when Compared with June 1931
(listed in descending order of percentage change)

Increases: Potatoes, flax, eggs, chickens, corn, hogs, oats, milk, hay, butterfat.

Decreases: Wheat, calves, lambs-sheep, cattle.

No Change: Barley, rye.