AGRICULTURAL EXTENSION DIVISION
UNIVERSITY OF MINNESOTA

F. W. Peck, Director

MINNESOTA FARM BUSINESS NOTES

No. 123 February 20, 1933

Prepared by the Division of Agricultural Economics
University Farm, St. Paul, Minnesota

FARM DEBT PROBLEMS

Prepared by E. C. Johnson

One of the most important problems confronting agriculture today is the problem of farm debts. Most farmers find it very difficult and some farmers find it impossible to meet payments on debts under present conditions of low prices for farm products. The situation has become very serious and many farmers will lose their farms unless adjustments are made in their debts or other relief provided.

Many of our difficulties today trace back to the period of inflation in land values of 1917-20 when there was a great increase in the debts on farms. According to the estimates of the United States Department of Agriculture, the total farm mortgage debt in Minnesota which was 146 million dollars in 1910 had increased to 455 million dollars by 1920. In 1920, the mortgage debt was equal to 14 per cent of the value of all farm real estate in Minnesota but this was an inflated value based on abnormally high prices for farm products. Following 1920, prices of farm products and land values declined but the debt increased. In 1930, the mortgage debt was 530 million dollars which was 25 per cent of the census values of all Minnesota farm real estate. The interest obligation figured at $5\frac{1}{2}$ per cent interest was equal to 7 per cent of the gross sales of farm products in 1920, 9 per cent in 1930, but in 1932 with prices at extremely low levels, it was about 16 per cent of gross sales. If the interest due on other farm debts is added, it is apparent that nearly one-fourth of the gross sales were needed to meet interest obligations. On some individual farms, interest was equal to all income. (See Tables 1 and 2.)

Table 1

Ratio of Total Mortgage Debt to Value of All Farm Land and Buildings in Minnesota

Year	Estimated farm mortgage debt (total)	Census value of land and buildings	Ratio of debt to value of all farm real estate
1910	$146,160,000	$1,262,441,426	12%
1920	455,540,000	3,301,168,325	14
1925	553,784,000	2,393,741,745	23
1930	530,025,000	2,125,003,278	25

Published in furtherance of Agricultural Extension Act of May 8, 1914, F. W. Peck, Director, Agricultural Extension Division, Department of Agriculture, University of Minnesota, cooperating with U.S. Department of Agriculture.

Table 2

Ratio of Interest on Farm Mortgage Debt to Gross Sales of Farm Products in Minnesota

Year	Interest on mortgage debt at 5½%	Gross sales of products	Per cent of gross sales
1910	$8,038,800	$165,860,607	5%
1920	25,054,700	379,230,509	7
1925	30,458,120	395,217,696	8
1930	29,151,370	331,504,326	9
1932	27,500,000	170,000,000	16

The changes in the average debt per mortgaged farm are given in Table 3 for various agricultural regions in Minnesota. At present this debt is two to three times greater than in 1910. Comparatively few farms are being sold under present conditions, but in many sections the farms that are sold go at prices near or below 1910 levels of land values.

Table 3

Farm Mortgage Debt on Farms Operated by Owners in Minnesota (U.S. Census)

District	Per cent of farms mortgaged			Average debt per mortgaged farm			Ratio of debt to value of land & buildings on mort. farms		
	1910	1920	1930	1910	1920	1930	1910	1920	1930
Northwestern	59	67	61	$1533	$3635	$3649	25%	28%	48%
Northeastern	31	55	49	491	1081	1354	20	25	32
East central	49	59	58	963	2694	2938	24	29	42
West central	54	69	60	2188	5379	5704	25	26	46
Southwestern	53	61	62	2837	7749	8443	25	26	47
Southeastern	37	48	51	2187	5435	5677	28	30	45
Minnesota	46	56	56	1864	4419	4734	26	27	45

In Table 4, a comparison is made of average mortgage debts per acre in 1930 and average sale values of farm land in 1910 and 1911. If we assume that the sale values of 1910 and 1911 are values which may represent the capitalization of income from the land over a period of years in the future, then it becomes evident that the average debts against the farms today, especially if other debts are added to the mortgage debts, are nearly equal to the value of the mortgaged farms. This means that on many farms the debts exceed a conservative valuation of the real estate, that owners have no equity and the creditors' security is worth less than the loan.

Table 4

A Comparison of Average Mortgage Debt per Acre on Mortgaged Farms in Minnesota in 1930 and Average Sale Values of Farm Real Estate in 1910-1911

Districts	Average debt per acre, 1930	Average sale value of farms, 1910-11
Northwestern	$18	$24
Northeastern	12	11
East central	24	24
West central	31	39
Southwestern	47	57
Southeastern	46	58
Minnesota	33	41

A great many proposals have been offered to solve the present acute situation with regard to farm debts. A brief discussion of some of these proposals follows.

1. The general moratorium - One proposal is that a moratorium be declared on farm debts. This would have the advantage from the standpoint of the debtor that it would make it possible for him to hold his farm without meeting payments of interest on the debts and meanwhile allow him to make adjustments which seem necessary. However, this is a blanket remedy which has many disadvantages and in final analysis is unsound. Many farmers can pay financial obligations and should do so. It must be remembered that many creditors of farmers obtained their funds by selling bonds like the Federal Land Banks and the banks must meet interest payments on bonds or become insolvent. Savings banks loaned the funds of their depositors. If interest is not paid on loans, depositors cannot be paid. The moratorium or force to prevent foreclosures will injure the credit rating of farmers which in the past has been high. This would make it more difficult for all farmers to obtain credit. In Minnesota, it is estimated that about 40 per cent of the farmers operating their own farms are free from debt and a fairly large group have only moderate debts which can be paid. These groups would be injured by finding it more difficult to obtain credit in the future if a moratorium were declared.

2. Debt adjustment - In making adjustments in debts, each case must be handled separately because each case is a distinct problem. Farmers who can pay interest on debts should do so. However, with prices low, many cannot pay financial obligations and included in this group are efficient farmers on good farms. It would be a mistake to foreclose the loans of efficient farmers and force them off their farms or change them from a status of owners to tenants. In most such cases, it will be advantageous to both debtor and creditor if they agree upon some plan of adjustment which will enable the farmer to hold his farm and work out of a difficult situation. Adjustments may take the form of reduction in principal; reduction in interest; paying creditors the share of the crop that usually goes to the landlord, the creditor to pay taxes and have the rest as interest; deeding the farm to the creditor and the debtor renting it with the opportunity of buying or purchasing it on a crop payment plan. Suggestions on debt adjustment are given in Minnesota Special Bulletin 157.

3. Refinancing by the U. S. government - Many measures have been introduced in Congress dealing with the problem of refinancing agriculture. The great problem is to reduce the debts on farms and proper legislation should make it possible to refinance some of the indebtedness of agriculture in such a manner that the total debt will be reduced. While not all creditors are willing or have the legal right to reduce loans, there are many who would be willing to scale down the principal if the balance would be paid in cash. Government funds for farm mortgage loans would enable many farmers to refinance and reduce their debts to a point where they could be carried and ownership of the farms retained.

Some measures provide for refinancing all farm debts by the government at a low rate of interest, $1\frac{1}{2}$ to 3 per cent. Such plans are open to objection because even tho the rates were reduced many farmers would still have difficulty paying interest and the principal would not be reduced. Also, it would mean that the government by borrowing and financing at such a low rate would take a loss and would be permanently in the mortgage loan business. It would also prevent liquidation of loans in some regions where agriculture cannot be carried on with profit even in normal times. In the latter regions, it is likely that any aid given should be direct relief and not loans which keep the farmer in debt. Instead of an arbitrarily low rate, it would seem desirable to refinance at a fair market rate of interest and efforts made to reduce the principal of loans. The following suggestions are offered as general principles for a program of refinancing of farm debts.

a. All agencies under federal direction for extending credit to farmers should be placed under the supervision of one agency. The experience of the Federal Farm Loan Board would probably make it the logical agency to supervise the loan program. Uniting the agencies under one central board should result in a more unified program for agricultural finance, prevent competition between agencies and reduce expense.

b. Refinancing of farm mortgage loans should be done thru the Federal Land Banks. In these banks, we have efficient machinery for farm mortgage financing which was set up not for profit but for the mutual benefit of farmers who are borrowers and stockholders. Joint Stock Land Banks should be voluntarily liquidated and their sound assets transferred to the Federal Land Banks.

c. The capital structure of the Federal Land Banks should be strengthened by the United States government purchasing additional stock in the Federal Land Banks. Provision should also be made for the government to purchase at par bonds of the Federal Land Banks so that funds will be available for mortgage loans. Loans should be adequately secured by first mortgages on farms and made on the amortization basis.

d. An emergency government fund might be provided for second mortgage loans on farms on which farmers have reasonable assurance of being able to meet financial obligations if prices of farm products show some recovery. These loans should be made by some agency other than the Federal Land Banks, probably by the Regional Agricultural Credit Corporations which might be set up as more or less permanent institutions with broadened powers to cooperate with the Federal Land Banks in a program of refinancing.

e. It appears desirable to establish county credit councils in all agricultural counties to hear cases of debtors and creditors and suggest adjustments. These councils should be composed of people in the communities who understand the problems and are unbiased in their opinion. Such councils might be appointed by federal judges and given a small amount of financial aid by the federal government to cover incidental expenses.

MINNESOTA FARM PRICES FOR JANUARY 1933

Prepared by Adena E. Erickson

The index number of Minnesota farm prices for the month of January 1933 was 34.6. When the average of farm prices of the three Januarys of 1924-25-26 is represented by 100, the indexes for January of each year from 1924 to date are as follows:

January	1924	- 85.5
"	1925	- 101.6
"	1926	- 112.6
"	1927	- 112.4
"	1928	- 99.5
"	1929	- 101.2
"	1930	- 99.6*
"	1931	- 72.4*
"	1932	- 48.2*
"	1933	- 34.6*

* Preliminary

The price index of 34.6 for the past month is the net result of increases and decreases in the prices of farm products in January 1933 over the average of January 1924-25-26 weighted according to their relative importance.

Average Farm Prices Used in Computing the Minnesota Farm Price Index, January 15, 1933 with Comparisons*

	Jan.15, 1933	Dec.15, 1932	Jan.15, 1932	Av. Jan. 1924-25-26	% Jan.15, 1933 is of Dec. 15, 1932	% Jan.15, 1933 is of Jan. 15, 1932	% Jan.15, 1933 is of Jan. 15, 1924-25-26
Wheat	$.35	$.33	$.55	$1.46	106	64	24
Corn	.14	.14	.36	.69	100	39	20
Oats	.10	.10	.21	.40	100	48	25
Barley	.17	.18	.35	.64	94	49	27
Rye	.21	.19	.33	.98	111	64	21
Flax	.96	.86	1.19	2.59	112	81	37
Potatoes	.23	.22	.31	.77	105	74	30
Hogs	2.45	2.50	3.30	8.63	98	74	28
Cattle	3.20	3.30	4.10	5.41	97	78	59
Calves	3.50	3.50	5.00	8.25	100	70	42
Lambs-sheep	4.19	4.21	4.54	11.85	100	92	35
Chickens	.070	.070	.110	.158	100	64	44
Eggs	.19	.27	.13	.35	70	146	55
Butterfat	.20	.22	.24	.47	91	83	43
Hay	5.68	5.85	9.02	11.38	97	63	50
Milk	1.02	1.15	1.39	2.24	89	73	46

*Except for milk, these are the average prices for Minnesota as reported by the United States Department of Agriculture.