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Agricultural Letter

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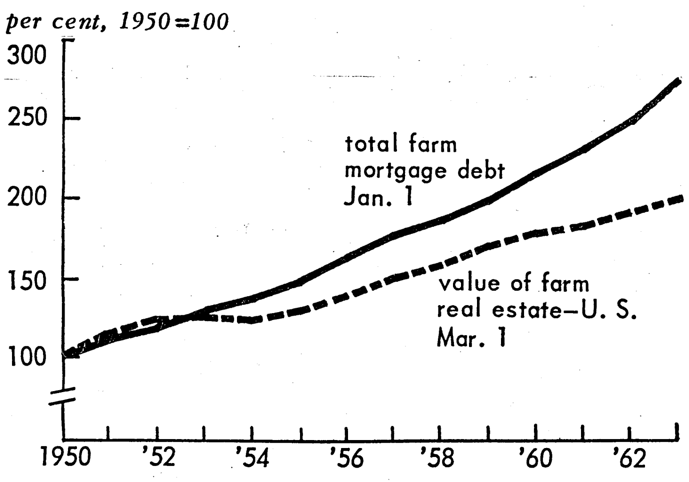
FARM MORTGAGE DEBT jumped $1.5 billion or 11 per cent during 1962 to a record $15.4 billion on January 1, 1963—the sharpest year-to-year increase in many years. Credit secured by farm real estate has risen more or less steadily during the postwar period. During the past five years, the annual increase averaged somewhat less than $1 billion and about $600 million in the five years prior to that.

Estimates for the first six months of 1963 indicate that real estate loans held by major institutional lenders have been increasing at a rate comparable to that of last year. New loans rather than additions to mortgages already in existence have been primarily responsible for the continued rise in debt secured by farm real estate in 1963.

The volume of mortgage loans made by life insurance companies has trended upward since 1959 and in the second quarter of this year, averaged about one-third above loans in the same quarter of 1962. New lending by Federal Land Banks posted a less pronounced rise—about one-tenth. The Farmers Home Administration boosted its new lending to a level nearly 30 per cent above the second quarter a year ago.

Despite substantial increases in recent years and prospects for a further rise this year, the mortgage debt level does not appear to be burdensome as judged by past experience. Nonetheless, the current debt level is less conservative than it was during the previous decade.

Mortgage Debt and Land Values Move Higher



Currently, the average ratio of the value of farmland and buildings to mortgage debt is about 9 to 1. While the ratio of debt to real estate has been creeping steadily higher during the past decade, it is still considerably below the ratios established in the early Forties. Mortgage debt amounted to more than 20 per cent of the value of farm real estate in 1940.

Appraisal of the relationship between debt and the value of farmland and buildings should take into account the fact that only 37 per cent of the nation's farmland was mortgaged at the end of 1960. Furthermore, much of the farmland that was used to secure debt carried only small mortgages.

The relatively large proportion of land free of mortgages and the small amount of debt carried by a good portion of encumbered land have permitted many farmers to obtain mortgage loans without becoming excessively indebted.

Further evidence of farm mortgage debt soundness is offered by the high level of repayments and the small number of foreclosures. Despite the slight drop in farm commodity prices and farm income during 1963, major lenders indicate that repayment of principal on farm mortgage loans continues to be on schedule in most areas. Insurance companies and the Federal Land Banks each reported repayments slightly ahead of last year and the Farmers Home Administration reported repayments about equal to year earlier. Reports of delinquencies have largely been confined to areas suffering from loss of crops resulting from adverse weather conditions and some specialized cattle feeding areas.

Foreclosures and delinquencies of interest payments remain at very low levels. Insurance companies reported on June 30 that loans in process of foreclosure averaged only 1 out of 3,000 loans, and only 2 out of 1,000 were behind on interest payments. The ratio of foreclosures to loans outstanding was slightly lower than a year ago while the delinquencies-loan ratio was about the same as the low level of last year.

Rising capital needs of farmers, resulting from increased cost and general efforts to step up efficiency and to adjust farm operations to changing conditions, probably will continue to exert upward pressure on the amount of borrowed funds utilized by farm operators.

It is important, however, that agricultural credit be used primarily to boost efficiency or expand volume production, thereby helping to raise or maintain individual farm income and not merely to augment current income which could easily lead to financial difficulties.

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FARM BUSINESS CONDITIONS

SEPTEMBER 1963, WITH COMPARISONS

ITEMS	1963		1962
	September	August	September
PRICES:			
Received by farmers (1957-59=100)	100	100	103
Paid by farmers (1957 59=100)	106	106	105
Parity price ratio (1910-14=100)	77	78	81
Wholesale, all commodities (1957-59=100)	100	100	101
Paid by consumers (1957-59=100)	107	107	106
Wheat, No. 2 red winter, Chicago (dol. per bu.)	1.97	1.83	2.07
Corn, No. 2 yellow, Chicago (dol. per bu.)	1.36	1.33	1.13
Oats, No. 2 white, Chicago (dol. per bu.)	0.71	0.68	0.68
Soybeans, No. 1 yellow, Chicago (dol. per bu.)	2.67	2.57	2.45
Hogs, barrows and gilts, Chicago (dol. per cwt.)	16.05	17.65	19.01
Beef steers, choice grade, Chicago (dol. per cwt.)	23.94	24.60	29.85
Milk, wholesale, U. S. (dol. per cwt.)	4.26	4.07	4.22
Butterfat, local markets, U. S. (dol. per lb.)	0.58	0.58	0.58
Chickens, local markets, U. S. (dol. per lb.)	0.13	0.14	0.15
Eggs, local markets, U. S. (dol. per doz.)	0.36	0.33	0.36
Milk cows, U. S. (dol. per head)	216	216	220
Farm labor, U. S. (dol. per week without board)	--	51.00[a]	--
Factory labor, U. S. (dol. earned per week)	99.88	98.42	97.44
PRODUCTION:			
Industrial, physical volume (1957-59=100)	126	126	120
Farm marketings, physical volume (1947-49=100)	155	138	155
INCOME PAYMENTS:			
Total personal income, U. S. (annual rate, bil. of dol.)	466	465	446
Cash farm income, U. S.[1] (annual rate, bil. of dol.)	--	36.6	37.1
EMPLOYMENT:			
Farm (millions)	5.3	5.5	5.6
Nonagricultural (millions)	64.2	65.1	63.1
FINANCIAL (District member banks):			
Demand deposits:			
Agricultural banks (1957-59=100)	108	104	104
Nonagricultural banks (1957-59=100)	106	102	102
Time deposits:			
Agricultural banks (1957-59=100)	161	159	142
Nonagricultural banks (1957-59=100)	173	172	150

[1] *Based on estimated monthly income.*

[a] July

Compiled from official sources by the Research Department, Federal Reserve Bank of Chicago.