THE FARM MORTGAGE CREDIT SITUATION IN KANSAS, 1929 to 1935

by

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INTRODUCTION

The Agricultural Problem

The disappearance of free land after the turn of the century, and the development of a more intensified and mechanized agriculture brought an increase in the credit requirements of Kansas farmers. Many farmers increased their land holdings on a credit basis in the years of high prices, giving little thought to the ultimate necessity of repayment of the loan. One ever-living characteristic of the Kansas farmer is his hope of a bumper crop next year, in spite of all his adversities of the past and present. Seemingly, much of the present distress of American agriculture arises from the fact that many farms were purchased at the peak of land prices just previous to 1920. In the depression of agricultural prices soon after 1920, in many cases the mortgage indebtedness amounted to as much or more than the value of the land, so the farmer's equity in the land was completely or nearly wiped out by the decreased earning power of the land. One big problem in American agriculture is to work out some way to avoid increased buying of land on credit in years of high price levels, and to encourage the transfer of property in periods of low prices.

The peak in land prices in Kansas was reached in 1920, while the peak in mortgage indebtedness was not reaches until 1925.

Table 1. Ratio of farm mortgage debt to total land and building valuation in Kansas.

Year	Farm mortgage debt[1]	Total land and[2] building valuation	Ratio of debt to total valuation
1910	$163,770,000	$1,737,556,172	9.4
1920	295,870,000	2,830,063,918	10.4
1925	482,596,000	2,197,951,619	22.0
1928	447,586,000	2,131,362,000	20.7
1930	487,122,000[3]	2,281,101,631	21.4
1935		1,478,659,428	

[1]U.S.D.A. Tech. Bul. 288 (3)
[2]Fifteenth Census of the U.S., and 1935 Ag. Census.
[3]Farm Credit Administration, p. 45, table 14 (26)

It seems likely that this increase in mortgage indebtedness since 1920 can be attributed to the refunding of short-term loans, combined with some increase in mortgage indebtedness that was necessary to meet current expenses. The period, 1920 to 1932 was one of decreasing farm price levels, with a drastic decline in prices of farm products from 1930 to 1932. Many farmers found their mortgage indebtedness so great that the interest and principal payments were amounting to more than the earning capacity of their farms at the then-existing price level. The period of this study has been one in which there was need for readjusting agricultural indebtedness through refinancing, lowering of interest rates, and granting moratoriums on mortgage payments.

Farm Land Valuation in Kansas

In 1860, the earliest year for which records are available, 3.4 per cent of the land area of Kansas was in farms, there being 10,400 farms with an average size of 171 acres, and an average valuation of $1,179 (table 2). The next decade, ending in 1870, found 10.8 per cent of the land area of Kansas in farms, and the number of farms increased to 38,202, with an average value of $1,892. The next decade had the largest increase in land put into farms for any one period, an increase of 30.1 per cent, making a total of 40.9 per cent, or approximately 21,500,000 acres in farms, with the number of farms increased more than 100,000, and the value practically doubled. During the decade ending in 1890, nearly 10 million acres of land were added to that already in farms, and the number of farms increased approximately 28,000, and land values doubled. During the next ten years, 11 million acres of

Table 2. Acreage and value of land in Kansas farms, 1860 to 1935[1]
(Total land area of state, 52,335,360 acres)

Year	Land in farms by acres	Percent of land in farms	Number of farms	Average size of farm in acres	Value of land and buildings	Average value per farm
1860	1,778,400	3.4	10,400	171.0	$ 12,261,600	$ 1,179
1870	5,656,879	10.8	38,202	148.0	72,278,184	1,892
1880	21,417,468	40.9	138,561	154.6	235,138,017	1,697
1890	30,214,456	57.7	166,617	181.3	559,666,503	3,359
1900	41,662,970	79.6	173,098	240.7	643,578,364	3,718
1910	43,384,799	82.9	177,841	244.0	1,737,556,172	9,770
1920	45,425,179	86.8	165,286	274.8	2,830,063,918	17,122
1925	43,729,129	84.0	165,879	263.6	2,197,951,619	13,250
1930	46,975,647	89.5	166,042	282.9	2,281,101,631	13,738
1935	48,009,770	91.9	174,589	275.0	1,478,659,428	8,469

1. Data obtained from the fourteenth and fifteenth census of the United States, and the 1935 agricultural census.

land were put into farms, but the number of farms increased less than 7,000, and the valuation increased only $350 per farm. From 1900 to 1910, the increase in Kansas farm land amounted to 2,500,000 acres, the number of farms increased 4,800, and the valuation almost tripled. During the next decade there was an increase of a little more than two million acres in farm land, a decrease of approximately 12,500 in the number of farms, and an increase in valuation of nearly 100 per cent. The next decade saw an additional 1,500,000 acres put into farm land, and almost one thousand farms added to the total, with a decrease in valuation per farm of $3,800. The period of this study, 1929 to 1935, showed an addition of slightly more than one million acres of farm land, an increase in the number of farms of 8,500, and a decrease in the valuation per farm of $5,300, making the 1935 valuation about half that of 1920.

The value of Kansas farm real estate in 1930 was $2,2 81,000,000, while in 1935 it was $1,478,000,000, a decrease of nearly 45 per cent in five years (table 2). In 1925 the value of farm land and buildings was $2,280,000,000 while the farm mortgage indebtedness was $482,000,000, or 22 per cent of the total land value. The situation is brought out by a comparison of these figures with those for 1910. when the land valuation was $1,737,000,000, and the farm mortgage indebtedness was $163,500,000, or 9.4 per cent of the farm land value. (Table 2 and table 3.) By dividing the state into type-of-farming sections, Howe (1) was able to show the trends in value characteristic of the various regions. He divided the state into six farm sections: the corn belt, the general farming belt, the blue-stem belt, the eastern wheat belt, the western wheat belt, and the western grazing region. The data covered a period of 19 years, during which time the corn belt area maintained the highest selling value per acre, with the general farming area lagging approximately $20 an acre behind the corn belt in price. The first four regions named all reached a peak in land values in 1920, and then receded, while the western wheat belt and the western grazing region showed a small but continuous increase in value to 1920, and then only a slight recession through 1928. Land values in the two western regions were much lower than in the other sections of the state throughout the period. The low land values and the frequent crop failures in the two western regions undoubtedly account for the fact that lending agencies were not active in seeking to make loans in this territory. However, the steadily rising land values in recent years have attracted some of the agencies to these areas.

Table 3. Calculated selling value of farm land in Kansas by farming sections[1]

Year	Corn belt	General farming	Blue-stem belt	Eastern wheat belt	Western wheat belt	Western grazing region
1910	$ 63.41	$46.86	$35.33	$44.36	$17.60	$ 9.32
1911	66.39	48.28	37.59	46.66	17.88	9.77
1912	68.88	51.94	37.31	47.32	16.99	9.31
1913	71.11	50.24	39.04	49.07	16.25	9.60
1914	71.97	51.25	43.27	47.47	15.81	9.40
1915	71.10	52.65	37.45	49.19	15.92	10.03
1916	70.98	52.16	39.44	48.97	17.78	10.97
1917	75.24	55.14	43.05	52.02	20.08	12.66
1918	79.68	56.65	47.18	55.46	20.37	12.39
1919	87.44	69.64	55.17	69.73	25.20	14.70
1920	103.64	81.24	63.65	71.44	29.07	18.13
1921	99.45	78.49	62.70	67.35	28.14	16.88
1922	89.72	69.08	53.30	61.51	25.41	16.96
1923	84.62	65.60	51.16	58.37	25.79	15.49
1924	81.96	54.54	52.16	53.74	27.19	13.83
1925	75.44	57.69	47.34	58.25	27.66	15.07
1926	82.16	56.70	49.27	56.33	28.80	15.61
1927	78.35	57.11	48.51	59.37	27.48	18.22
1928	75.11	54.48	45.38	58.66	26.51	17.48

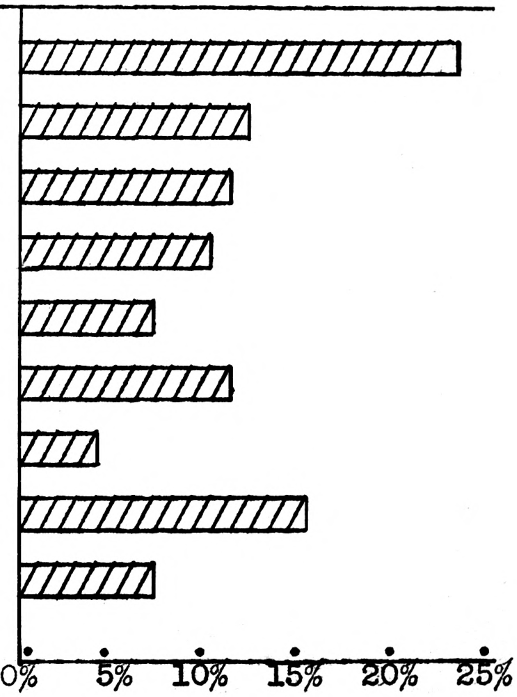
1. Kansas Circular 156. Farm land values in Kansas. Table 2. (1).

Lending Agencies

The volume of farm mortgages held by the various agencies supplying such credit naturally varies with the activity of these agencies in making new loans. In 1928 the distribution of farm real estate mortgages in the United States was divided among nine types of lending agencies. Wickens (3) lists them, giving the percentage held by each agency. (Figure 1.) It was in the decade 1920 to 1930, a period of decreasing land values, and at a time when commercial banks and individuals were withdrawing from the field, that the insurance companies became more active as a lending agency in the farm mortgage field, substantially increasing their mortgage holdings and taking the lead over other agencies in supplying the needed funds for farm mortgage credit. The holdings of insurance companies operating in the state of Kansas reached the sum of more than 170 million dollars in 1930. The stock market crash of 1929 caused a spurt in real estate investments during the next year. This was particularly in evidence in the Middle West. The crisis in agricultural credit was reached in 1932 when the farm purchasing power reached a low of 65 (4). This

Figure 1. Farm mortgages held in the United States by class of lenders, Jan. 1, 1928.[1]

Class of Lenders	Percent
Insurance companies	22.9
Federal Land Banks	12.1
Commercial banks	10.8
Mortgage companies	10.4
Joint stock land banks	7.0
Retired farmers	10.6
Active farmers	3.6
Other individuals	15.4
Other agencies	7.2



1. U.S.D.A. Tech. Bul. 288, page 21, fig. 3.

lead by the insurance companies has now been relinquished to the Federal Land Bank which, since the passage of the Emergency Farm Loan Act of 1933, has increased its mortgage holdings from $37,024,350 Dec. 31, 1932 to $94,500,000 Dec. 31, 1935. In addition, on the latter date, there were Land Bank Commissioner loans of practically 44 million dollars outstanding. For the United States as a whole, Dec. 31, 1935, the combined Federal Land Bank and Land Bank Commissioner loans amounted to almost $2,867,000,000, compared with $1,116,000,000 outstanding Federal Land Bank loans Dec. 31, 1932.

Basic Requirements to be Met by Farm Mortgage Credit Agencies

The financing of farming operations is one of the basic functions of the farm operator today. Since three-fourths of a farmer's investment is in land and buildings, farm mortgages are the primary source of security for agricultural credit transactions. There are six fundamental principles for satisfactory credit facilities. First, the purpose of the loan should be for production only. The returns should repay the money borrowed, pay interest and other costs, and leave a profit for the borrower. Second, the term of the loan should conform to the productive life of the proposed investment. Third, arrangement for payment of interest and principal at a time when it is convenient to pay. That is, at a time of year when money is coming in. Fourth, amortization of the debt should be provided for, with specified principal payments to be made annually or semi-annually. Fifth, an equitable rate of interest should be charged. Sixth, long-term loans should be financed at some period other than at a peak of the commodity price cycle.

The extent to which the farm mortgage credit agencies conform to these six principles determines their adequacy to supply the demands for farm mortgage credit in Kansas.

SCOPE OF THIS STUDY

The main objective of this study was to supply the need for information on farm mortgage credit agencies in Kansas by presenting available facts on, first, the agencies supplying such credit during the period 1929 to 1935; second, the lending policies of these agencies; and third, the changes that have taken place in these agencies as evidenced by revision of lending policy, making funds avail able indirectly through purchase of farm mortgage bonds, and by withdrawal from the field. An effort was made to determine whether existing agencies meet the requirements of the changing needs of farm mortgage credit in Kansas.

The study has undertaken to continue some preliminary work done by Howe (2) in 1931 and 1932, to bring up to date the data obtained, and to analyze the material in relation to the aims stated.

Following the methods of most other surveys of farm mortgage credit, this study considered the following agencies as sources of credit: insurance companies, mortgage companies, commercial banks, Federal Land Banks, retired farmers, active farmers, other individuals and other agencies. It was realized that a complete and comprehensive study of all of the above agencies could not be made because of limitations of time and because of lack of data. The agencies on which the most complete data seemed to be obtainable were insurance companies, mortgage companies and trust companies through which the insurance companies place most of their funds, and the Federal Land Bank of Wichita. Therefore, the study was confined to the activities of the insurance companies and the Federal Land Bank as primary agencies, and mortgage and trust companies as secondary agencies furnishing farm mortgage credit in

Kansas. Since joint stock land banks are being liquidated as part of the policy adopted by the Farm Credit Administration, they cannot be considered as a future source of mortgage credit. Owing to the fact that activities of the Federal Land Banks have been described at length in a number of publications, it was believed advisable to place emphasis in this study upon the insurance and mortgage companies. Insofar as was possible, holdings of commercial banks were also determined.

The period, 1929 to 1935, was selected for this study because it was a period in which there was much examination and discussion of the farm mortgage problem, and because during this time the passage of the Emergency Farm Credit Act of 1933 brought about sweeping changes in the policy of farm mortgage institutions, aimed at reducing the burden of farm mortgage debt. During this period the farm mortgage debt reached an all-time peak, and the level of farm commodity prices reached its lowest point.

MATERIALS AND METHODS

Information in this study was obtained from data collected in 1931 and 1932 and in 1936 from the office of the Commissioner of Insurance at Topeka, the Farm Credit Administration at Wichita, and officers and agents of other institutions included in the study. Further data for each of these periods were obtained by sending out two sets of questionnaires, one set to insurance companies and the other to mortgage and trust companies, to secure information first-hand as to their policies and practices in making farm loans. The data for the years 1929 to 1932 inclusive were collected by Howe (2), those for the years 1933 to 1935 inclusive were collected by the writer.

Data on the mortgage and insurance companies covered the following points: location and type of agency, areas to which credit was extended, amount of credit furnished, interest rates and other charges, ratio of loans to land values, terms of loans and method of repayment, method of making loans, purpose of loans, foreclosures and farm real estate owned.

REVIEW OF LITERATURE

There has been a great deal of interest shown in the agricultural credit problems of the American farmer, and considerable has been written on the various phases of the agricultural credit situation. The Bureau of Agricultural Economics of the United States Department of Agriculture has conducted several studies covering the situation for the United States as a whole, while many of the state experiment stations have studied conditions in their own states. However, no specific study of the farm mortgage situation has been published for the state of Kansas.

Several text books have been written in the field of farm mortgage credit in recent years. Sparks (5) develops the story of agricultural credit from early colonial times down to the present. In a foreword, Carver says, "Dr. Sparks has performed a notable service by presenting in outline the whole story of the ways by which capital has been induced to flow to the farms of the United States. ...This is the first time the whole field has been covered."

Wright (6) stresses the fact that the farm mortgage is the natural method of advancing from tenancy to farm ownership. He says that the purposes of long-term agricultural credit are, to purchase land and equipment, and to make permanent improvements. High interest rates have been one of the drawbacks of farm credit in the past.

Lee (7) discusses farm credit institutions and economic principles which govern farm credit practices.

Eliot (8) discusses the development of the institutions which furnish farm credit, and the legislative attempts to attain more favorable agricultural credit with specific reference to agricultural credit as it is related to our banking system. Eliot concludes that low farm incomes have made the farm debt a crushing burden. The credit problem, she says, should not be made an issue for political administration, either directly from the government or through boards appointed by governmental powers.

Wickens (3) has probably made the most exhaustive study of farm mortgage credit problems completed to date. His study covers the period 1910 to 1928.

According to Wickens, the farm mortgage financing problem in general consists of adapting financial facilities and practices to the effective establishment and operation of economic farm units. It is natural, he says, for farm mortgages to be the dominating source of farm credit, since three-fourths of farm property in the United States is made up of land and buildings. Approximately one-third of the net return from all farm land and buildings in the United States was required to meet payment of principal and interest on the farm mortgage debt in 1925. The farm mortgage debt has increased greatly in the past 20 years, because of higher price levels, higher cost of farm implements, and the refunding of short-term into long-term credit. This increase was largely made possible by improved lending facilities, such as the federal farm loan system, and also by lowering interest rates in many sections of the country.

A dependable supply of credit should be available at reasonable cost when the security offered is adequate. The term of a mortgage loan should be sufficiently long to accomplish its purpose, and the method of payment should be that which is best adapted to the borrower's needs. Much improvement is still required in this respect. Wickens points out that the past decade has found the relative importance of individuals and commercial banks, as sources of farm mortgage credit, to be declining. A pronounced increase in lending agencies specializing on long-term loans is evidenced. There is a tendency for the various agencies making loans on farm real estate to concentrate their loans in the four geographical divisions centering on the Mississippi valley, where higher land values and heavier demands have permitted larger individual loans. In 1928, fully 60 per cent of the farm mortgage debt was in the Middle West. In the North Central states, foreclosures seem to be delayed longer than in any other region. The agencies apparently hope for a gradual debt liquidation to make it possible to leave the farms in the hands of the owners. Changes in interest rates on farm mortgages apparently lag as much as a year behind changes in short-term rates and bond yields, in both rising and declining price periods. It would be well for farmers having the need of mortgage credit, to watch the trends in rates on the short-term money market, for indications of the probable course of farm mortgage rates. In the past, Wickens says, a great many of the farmers' mortgage problems have been caused by the necessity of adjusting old debts. It would be good management on the part of the farmer if he were able to do his financing on a basis of 30 to 40 year periods. It has long been the policy of most lending agencies to maintain a loan limit of 50 per cent of the current land value, making it dangerous to lend during periods of high prices.

West (9) in 1929, found that long-term loans should be financed during periods of low interest rates, and that, if possible, the loans should be made on an amortized plan. He says that, with the commercialization of agriculture, more credit for California farmers was necessary. Due to improvement in transportation, storage, refrigeration, and marketing methods, the market period and market area of perishable commodities has been extended. California agriculture has become mechanized to a large degree, land has increased in value, and thus a larger capital investment is required for the farmer. Cheaper interest rates have been brought about by better business methods of the farmers, cheaper banking has been brought about through the activity of the Federal Reserve and Farm Loan systems.

Weaver (10) says that the modern farmer as a business man has capital requirements similar to those of any other business man. She found that farm interest rates compare favorably with business rates, while commissions, although lower than formerly, are still higher than for other types of business. The number of farm mortgages has increased in Nebraska so that now, nearly all of the farms changing hands must be mortgaged, and generally the majority of farms change hands at least once in a generation. The chief needs of the farmer, in respect to credit, are the need for lengthening the period of the loan, and the need to adopt methods of payment suited to the ability of the farmer to pay. These changes could be made by increasing the use of the Federal Farm Loan system, or by adjustments in the methods used by private lending agencies.

The farm land and debt situation in Iowa is discussed by Murray and Brown (11). Corporate owned land amounted to 10 per cent of the 34 million acres of farm land in Iowa in 1935, and more than 50 per cent of this was held by insurance companies, with deposit banks ranking next. The farm mortgage debt in Iowa, Jan. 1, 1935, was $1, 925,000,000, of which 40 per cent was held by insurance companies, 26 per cent was held by the Farm Credit Administration, and

12 per cent held by banks. In 1934, 43 per cent of the farms were mortgaged. These authors say that, in 1934, of all the foreclosures in Iowa, 67 per cent were made by insurance companies. Their study discloses that the majority of land sales occur in years of high land prices. In 1934, only 28 land purchases were recorded in Storey county, as compared with 516 in 1920. The policy needed is to encourage farmers to purchase land at low prices, and to pay off mortgages in good times.

In another study, Murray (12) says that the great increase in federal lending activities in recent years brings up the question of how far the Farm Credit Administration will go in taking over mortgages in the United States, and what the future policy of the government will be in subsidizing farm mortgage credit. For, Murray says, "Underlying the unprecedented lending program of the Farm Credit Administration since 1933 is the possibility that this organization is running into danger of becoming the creditor of too many farmers." Three courses of action are suggested by Murray: first, to turn the system over to the farmer-borrowers, making it truly cooperative; second, the government might retire half-way, reestablish certain cooperative features, but exercise sufficient supervision to insure the soundness of the system and stand ready to provide emergency credit if necessary; and third, to allow the federal system to become firmly intrenched as a government agency, with few cooperative features, and containing important government subsidies.

In conclusion, Murray says that the farm mortgage history of the past several years points definitely toward continued governmental sponsorship. Insofar as this sponsorship continues, much will depend upon the leadership in the Farm Credit Administration.

An unusually large number of studies of the farm mortgage credit problems have been made in South Dakota. Among the first undertaken was the work of Lundy (13, 14, 15, 16, 17), who made studies of five counties in South Dakota, apparently with the intention of making additional studies of other counties. He concludes that long-term, amortized loans are desirable, with payments arranged to coincide with the time of the farmer's receipt of income, and with larger payments in good years. He advocates that no long-term loans be made in periods of inflation, and stresses the need of greater stability in land prices.

Steele (18) gives data on farm realestate owned and farm mortgages held by life insurance companies in South Dakota, on Dec. 31, 1932. He shows by charts, tables, and maps, the amounts of mortgages that were delinquent more than three months on principal, interest, or tax payment, and the number of farms and the acreage sold during that year.

In another circular, (19), Steele gives the number of farm foreclosures made in the years 1913, 1918, 1929, and 1932, giving acreages and values involved.

Steele and Johnson (20) give facts and figures concerning the development of the farm mortgage situation in South Dakota. The data were compiled from the 1930 census, county records, records of state departments, and from correspondence with lending agencies.

Young (21) discusses the development of the agricultural crisis of 1933, and names as contributing factors to the weakness of the farm credit position, the following: first, too great participation in the farm mortgage business by commercial banks and other agencies qualified primarily to operate in the short-term credit field; second, a general policy by credit agencies to write mortgages for too short a term, without provision for retirement of the debt; third, little or no legal machinery to make possible cooperation between debtor and creditor, short of foreclosure; and fourth, lack of information in the hands of farmers concerning the basis of credit, the uses of credit, and the general problems associated with farm financial operations.

Valgren (22) says that the mortgage, like tenancy, forms a rung in the "agricultural ladder" which leads to farm ownership. There is a direct relationship between the size of the mortgage and the purchase price of the farm. Farm mortgages which result in investment in productive improvements and equipment are an indication of progress, not regression.

Gile and Black (23) show the changes that took place in the period 1890 to 1925, in Minnesota, in land prices, in the size and number of farms, the distribution of mortgage indebtedness, interest rates, and in sources of both long and short-term credit. They discuss the reasons why banks have failed, and the changes in banking laws relative to the agricultural situation.

DISCUSSION

Mortgage Companies

In the first survey, Howe (2) obtained facts regarding the amounts of farm mortgage loans and lending policies in Kansas in 1931 and 1932 from 21 mortgage companies. Their gross volume held was $101,235,585. The amount held by different companies in 1931 showed a wide variation, ranging from less than one-half million dollars to more than 20 million dollars. The 21 companies reported that $81,466,800, or about 80.5 per cent of their farm mortgages were sold to life insurance companies. The other 19.5 per cent were sold to other investors. No mortgage certificates were issued against any of the mortgages held. Some of the mortgage companies sold practically all of their mortgages to insurance companies. Fourteen mortgage companies sold more than half of their volume to insurance companies.

In the second survey, replies were received from 19 mortgage companies having a gross volume of $60,583,736, Dec.31, 1935. The volume of business done varied from $275,000 to 30 million dollars, or more. Of this amount, $42,050,901, approximately 69 per cent, were sold to life insurance companies. The remaining 31 per cent were sold to private investors and savings banks. One company sold practically none to life insurance companies, one dealt exclusively with them, 13 sold 50 per cent or more to them. One company reported that it was liquidating its business and not making any new loans, but stated that it had, in the past, sold its farm mortgages exclusively to private investors. Only one mortgage certificate, for \$1000, secured by a farm mortgage loan, was reported sold.

A comparison of the two surveys, (table 4, A and B), shows a drastic reduction in volume of business done. In the second survey nearly 50 per cent fewer mortgages were reported sold to insurance companies. The reduction in volume sold to such companies was approximately 40 million dollars, while the reduction in amount sold to other investors had decreased approximately two million dollars. This indicates that the outlet for farm mortgage loans had been sharply curtailed during the intervening period between the two surveys. This fact becomes even more evident in the discussion of insurance companies.

<u>Territory Served</u>. In the earlier study, a wide divergence in the size of territory covered by the various farm mortgage companies was found. As would be expected, the larger companies were found to make loans over a wider area than the smaller companies. Loans were made over the entire state by only one company. One company made loans only in the eastern three-fourths of the state, and two others made loans over the eastern two-thirds of the state. However, one of these latter did not make loans in the southeastern part of the state. One other company made

loans over approximately two-thirds of the state, excepting the extreme western and southeastern parts. The most of the companies made loans in selected areas, ranging from five to 15 counties. It was found to be the general practice of the smaller companies to make loans only in the county in which the company was located, or in adjoining counties. The area comprising central Kansas, from the Nebraska line to the Oklahoma line, and northeastern Kansas, was found to be well supplied with farm mortgage agencies. Southeastern Kansas was better supplied than the western one-third of the state, which was poorly covered, excepting that the northwestern counties were slightly more adequately supplied than were those of the southwestern part.

There has been little change in the policy regarding territory covered by the different mortgage companies, as shown by the comparison of the two surveys. Fifteen of the 19 companies were making loans in 1935 in selected areas, varying from three to 15 counties. Two indicated that they made loans over the entire state, one made loans only in counties adjacent to the county in which the company was located. The largest company operating in the state reported that it made loans in the entire state, except in the western three tiers of counties. This survey indicates that the central and eastern part of the state is best supplied with farm mortgage credit agencies. The western one-third of the state is not well supplied.

Methods Used in Making Loans. In the first survey, it was found that there were three methods used in making loans: (1) making loans directly between main office and the borrower, (2) making loans indirectly through the agent of the lending company, (3) making loans through the borrower's agent. Most of the loans of the larger companies were made through agents, while the smaller companies made most of their loans directly to the borrower. One-third of the companies said that they made practically all of their loans directly. Two others made loans through the borrower's agent. One made 90 per cent of its loans directly, two made 75 per cent of their loans directly, and one made 66.6, and one 50 per cent of its loans directly. Seven of the companies reporting made more than one-half of their loans through agents. These varied from 90 to 75 per cent of their total loans.

In the 1935 survey, all of those who answered made loans either directly to the borrower or through their own agents to the borrower. Six companies made 50 per cent or more of their loans through agents, nine companies made all of their loans directly to the borrower, and four made

Table 4A. Gross volume of farm mortgages in Kansas owned by mortgage and trust companies, and methods of disposal of these mortgages, 1931[1]

Mortgage company or trust company	Gross volume of farm mortgages in Kansas	Volume of mortgages sold to insurance companies	Volume of mortgages sold to other investors	Volume of mortgages pledged against mortgage certificates
MORTGAGE COMPANIES				
A	32,000,000	26,000,000	6,000,000	
B	20,000,000	18,000,000	2,000,000	
C	10,871,550	10,871,550		
D	9,649,200	7,234,900	2,412,300	
E	8,000,000	6,800,000	1,200,000	
F	4,000,000	3,800,000	200,000	
G	2,000,000	1,800,000	200,000	
H	2,000,000	1,750,000	350,000	
I	2,000,000		2,000,000	
J	2,000,000	1,000,000	1,000,000	
K	2,000,000	1,200,000	800,000	
L	1,500,000	450,000	1,050,000	
M	1,156,700	922,200	234,500	
N	875,000	75,000	800,000	
O	862,800	480,400	341,900	
P	701,935	219,700	482,235	
Q	658,250	481,650	176,600	
R	350,000	75,000	275,000	
S	210,150	106,400	103,750	
T	200,000		180,000	
U	200,000	200,000		
TOTAL	101,235,585	81,466,800	19,806,285	
TRUST COMPANIES				
A	25,000,000	20,000,000	5,000,000	
B	10,554,181	9,926,471.95	422,167.24	
C	5,000,000	200,000	4,800,000	150,000
D	4,500,000	3,000,000	1,315,000	185,000
E	2,695,596	539,119.20	1,886,987.20	269,559.60
F	1,700,000	50,000	1,535,000	
G	350,000	297,500	35,000	17,500
H	244,529	233,240	11,289	
I	140,000		35,500	
TOTAL	50,184,306	34,246,331.15	15,040,943.44	622,059.60

1. Unpublished manuscript by Harold Howe, Kansas Agricultural Experiment Station.

Table 4B. Gross volume of farm mortgages in Kansas owned by mortgage and trust companies, and methods of disposal of these mortgages, 1935[1]

Mortgage company or trust company[2]	Gross volume of farm mortgages in Kansas	Volume of mortgages sold to insurance companies	Volume of mortgages sold to other investors	Volume of mortgages pledged against mortgage certificates
M O R T G A G E C O M P A N I E S				
A	480,000	432,000	48,000	
B	302,165	31,650	270,515	
C	3,500,000	3,220,000	280,000	
D	35,000,000	20,000,000	15,000,000	
E	1,000,000	25,000	975,000	
F	493,879	274,977	218,900	
G	1,800,000	750,000	1,050,000	
H	500,000	200,000	300,000	
I	1,500,000	1,500,000		
J	8,000,000	6,400,000	1,600,000	
K	600,000	500,000	100,000	
L	753,000	671,000	82,000	
M	4,080,752	4,037,000	43,500	
N	Liquidating			
O	30,700	15,500	15,200	
P	468,240	239,440	195,250	
Q	275,000	28,000	247,000	
R	1,800,000	1,500,000	300,000	
S	393,890	236,334	157,564	
TOTAL	60,583,736	42,050,901	18,532,835	
T R U S T C O M P A N I E S				
A	650,000		583,750	66,250
B	115,806	84,647	31,159	
C	20,000,000	15,000,000	4,800,000	200,000
D	143,350	129,015	14,335	
TOTAL	20,909,156	15,213,662	5,429,244	266,250

1. Data obtained from questionnaires sent to mortgage and trust companies.

2. The designations of companies in this table do not represent the identical companies designated by the same letters in Table 4A.

90 per cent or more of their loans directly. The tendency, especially of the smaller companies which make loans in selected areas, seems to be toward the direct method. However, the largest company operating in the state transacts 85 per cent of its business through agents.

Ratio of Loans to Value of Land. The practice of mortgage companies regarding maximum percentage loaned on value of land, exclusive of buildings, was uniform for both periods covered by the study. In 1931 and 1932, of the 21 companies reporting, 19 loaned a maximum of between 40 and 50 per cent of the land value. Nine of these loaned 40 per cent, seven loaned 50 per cent, one loaned 40 to 50 per cent, and the others loaned 45 to 50 per cent. Two other companies reported that it was their policy to lend one-third to one-half of the land value.

In 1935, of the 19 companies reporting, 16 loaned between 40 and 50 per cent of the land value. Nine of these loaned 50 per cent, four loaned 40 per cent, two loaned 40 to 50 per cent, and one loaned 45 to 50 per cent. Two companies loaned 30 to 35 per cent, and one loaned up to 60 per cent. These figures indicate a tendency to increase slightly the ratio of loans to land value. This increase is probably due to lower land values.

In the earlier survey it was found that there was less uniformity in loans on buildings than there was in loans on land. Nine companies stated that they made no loans on buildings, but most of these indicated that the presence of buildings, and their type and condition, influenced the amount which they would lend on land. Three companies loaned as much as 10 per cent of the value of buildings, three loaned up to 20 per cent, one loaned 25, one loaned 20 to 40, and one loaned 40 percent of the value of buildings. In 1935, eight companies indicated that they did not lend on buildings, but did consider the kind and condition of buildings on land on which they made loans. Six companies loaned 10 per cent of the value of buildings. Two reported that they loaned 33 and 40 per cent, respectively, of the value of buildings. This indicates little change in policy, although perhaps the companies are more conservative in the second report.

Terms of Loans. The five-year term for loans still seems to be the most popular with mortgage companies. In 1931 and 1932, five years was the most usual length of term for farm mortgage loans. Of the 21 companies reporting, 10 stated that five years was the length of term on the majority of the loans that they made. Five of them reported that their loans were for five to seven-year terms, six companies reported five, seven, and ten-year loans, with few of the ten-year loans being made. In the later study, it was found that, of the 19 companies answering the questionaire, 15 loaned for a five-year term, one loaned for five to seven years, two loaned for five, seven, and ten-year periods, and one loaned only for seven years. This indicates an increasing tendency toward the five-year term as a standard policy.

Methods of Repayment. To determine what plan was used for the repayment of loans, the mortgage companies were asked if amortization, annual reduction, or lump-sum payment plans were used. The answers to the earlier questionaire revealed that none of the companies was using a strictly amortized plan of payment. Twelve used both straight and annual reduction payment plans, three made only straight loans, and six were using the annual reduction plan only. Their answers also indicated that those using both the straight and annual reduction plan usually made straight loans for lump-sum payment at the termination of the loan.

The answers to the second questionaire showed that 12 of the 19 companies used the annual reduction plan, in some form, varying from two to 10 per cent annual reduction. One used a plan of $100 reduction each year. Five companies made both annual reduction and straight loans. one gave an option of paying $100 on the principal each year. These reports indicate that, while the mortgage companies have not adopted the amortization plan, they are beginning to realize the advisability of having the mortgage reduced through annual payments.

Interest Rates and Commission Charged. In 1932, the most usual charge on farm loans by mortgage companies was 5.5 per cent, plus one per cent commission each year. Four companies made loans for 5 per cent, plus commission; 11 charged 6 per cent, plus commission; two charged 6.5 per cent plus commission. In only five cases was the commission other than one per cent. One company charged 1.5 per cent commission, three charged from one to 1.5 per cent, and one charged one-half of one per cent commission. Rates and commissions, especially rates, were higher in the western part of the state. The desirability of the loan, and the margin of security, played an important part in determining the rate charged. In some cases a discount on the commission was given for payment of cash. For example, one company collected four per cent cash commission on a five-year loan, or one per cent for each year of the life of the loan, if not paid in cash.

The 1935 study found that some significant changes had taken place in the interest rates and commission charged by farm mortgage companies making farm mortgage loans in Kansas (table 5). Four companies were making loans at rates varying from 4.5 per cent to 5 per cent, seven companies were making loans at 5 per cent, four loaned at 5 and 6 per cent, two loaned at 6 per cent, and one loaned at 6.5 per cent. These data indicate a decrease of one-half of one per cent, that is, from 5.5 to 5 per cent in the modal rate group. Three companies charged up to one per cent commission, one charged one per cent to two per cent, one charged one-half of one per cent, and one stated that no commission was charged. Three companies charged from three to four per cent cash commission. The answers indicated a tendency to include service charges in the interest rate, making the rate of the loan net to the borrower.

Trust Companies

In the earlier survey, replies were received from nine trust companies, representing a large per cent of the farm mortgage holdings of trust companies doing business in Kansas. Their total volume (table 4 A) was $50,184,306. Three of these companies had a volume of business less than one million dollars, four had a volume of five to ten million dollars, two had a volume of ten million dollars or more. Of the total volume of farm mortgage

Table 5. Distribution of rate of interest charged by mortgage and trust companies, 1931-1935[1]

	Number charging interest at the rate of						
	$4\frac{1}{2}$ - 5 percent	5 percent	$5\frac{1}{2}$ percent	5 - 6 percent	$5\frac{1}{2}$ - 6 percent	6 percent	6 - $6\frac{1}{2}$ percent
Mortgage companies							
1931 - 1932		2	8	2	6	3	
1935 - 1936	4	7		4		2	1
Trust companies							
1931 - 1932				3	4	1	1
1935 - 1936	1			2			

1. Source: Questionnaires sent to mortgage and trust companies.

loans made by the nine companies, $34,246,331, or approximately 68 per cent, were sold to insurance companies. There were $15,040,943, or approximately 30 per cent, sold to other investors. There were $622,000, or approximately one per cent of the farm mortgages pledged against mortgage certificates which were sold to investors. Seven of the nine companies reported that their loans were made in definite, selected areas only, while two reported general lending programs throughout the state. One company did not make loans in the 11 counties in the southeastern part of the state. The largest company made loans mostly through agents, but smaller companies dealt directly.

The maximum loaned on value of land, exclusive of buildings, was 50 per cent. Five of the nine companies reported this figure. One loaned 50 per cent on land including value of buildings, and two made no loans larger than 40 per cent of the appraised value of the land. Four companies said they did not lend on farm buildings, and one made loans of 10 per cent to 15 per cent. Eight of the nine companies said that the term of their loans was five years. One company made five, seven, and ten-year loans. One company gave the additional information that the life of the majority of their loans was about 15 years, meaning that its loans were usually renewed twice. There was considerable difference in the plans of repayment used by the different companies, the most common plans being lump-sum payments, and annual reductions. Most of the companies indicated that part, and in some cases all, of their loans could be paid on any interest bearing date. The answers regarding interest rates and commission charges showed a definite similarity in the policies of the different companies. The interest rate charged varied from 5 to 6.5 per cent. Four companies indicated that they charged 5.5 to 6.5 per cent. The commission usually charged was one per cent, but in some cases 1.5 or 2 per cent commission was charged. One company stated that 20 per cent of the commission would be discounted if the commission was paid in cash.

In 1936, only four trust companies replied to the questionnaire. These companies had a gross volume of farm mortgages of $20,260,000 (table 4 B). One company stated that it had withdrawn from the farm mortgage field, but had outstanding $66,000 in farm mortgage certificates secured by farm mortgage loans, and $580,000 in farm mortgages sold to private individuals. The three other companies sold 75, 85, and 90 per cent, respectively, of their volume of business to insurance companies, and from 10 to 20 per cent to other investors. One company stated that it had $200,000 in mortgage certificates outstanding, secured by farm mortgage loans. The term of loans was for five years in all three cases, excepting that the largest company made some seven-year loans. All three companies loaned up to 50 per cent of the land value, and the two smaller companies loaned 20 per cent of the value of the buildings. The large company made no loans on buildings. All three made loans in selected areas only. The two smaller companies indicated that all of their mortgage business was in the farm loan field, while the large company stated that only 25 per cent of its mortgage business was in farm mortgages.

It was disappointing that so few answers were received. If the policies of these three companies can be considered as representative of that of other trust companies in the state, the only material change which has taken place since 1931 is a slight reduction in interest rates charged. Failure of the other trust companies to answer may possibly indicate that they are not now active in the field, but there is not sufficient basis for such an inference. Trust companies in general follow the same practices as the mortgage companies, but are usually a little more conservative in valuation of property. The larger trust companies should be able to offer an amortization plan, since they are usually seeking long-term investments.

Insurance Companies

In the earlier survey it was found that farm mortgage credit in Kansas was furnished by several different classes of insurance companies. The distribution of loans by classes of insurance companies, for the years 1921, 1930, and 1931, is shown in table 6. Approximately 88 per cent was furnished by life insurance companies whose offices were outside the state. The 17 Kansas life insurance companies furnished six per cent, ten fraternal insurance companies furnished 4.5 per cent, and 18 Kansas mutual fire insurance companies furnished one-half of one per cent. These figures show plainly the importance of life insurance agencies in the field of farm mortgage credit, as compared to other types of insurance companies.

The amount loaned and the amount repaid, for each class of insurance company, for the years 1930 and 1931, are shown by table 7. Approximately $2,200,000 more was loaned in 1930 than was repaid. Approximately $150,000 more was loaned in 1931 than was repaid. In 1931, there was $7,200,000 less loaned than in 1930. The only group

Table 6. Amount of unpaid farm real estate loans in Kansas by classes of insurance companies for years ending December 31, 1929, 1930, and 1931[1]

Insurance companies	Year ending Dec. 31, 1929	Year ending Dec. 31, 1930	Percent increase or decrease 1930 over 1929	Year ending Dec. 31, 1931	Percent increase or decrease 1931 over 1930
All Classes	168,966,703	170,564,705	+ .9	166,226,792	- 2.5
Foreign Life	145,126,684	146,604,955	+ 1.0	146,204,976	- .3
Fraternals	11,196,127	10,905,506	- 2.6	7,406,881	-24.4
Kansas Life	9,716,434	10,138,463	+ 4.3	10,199,308	+ .6
Kansas Mutual Fire	1,298,739	1,484,623	+14.3	1,156,926	-22.0
Kansas Stock Fire	447,999	522,301	+14.3	249,514	-52.2
Casualty	536,601	440,100	-17.9	435,650	- 1.0
U. S. Stock Fire	582,083	406,938	-30.0	448,507	+10.2
Burial Association	32,169	32,016	- .5	19,458	-39.2
Reciprocal	19,200	19,300	+ .5	13,500	-30.0
Foreign Mutual Fire	10,500	10,500	.0	9,700	- 7.6
Crop Insurance	---	---	---	5,000	---
Assessment	---	---	---	39,390	---
Mutual Hails	---	---	---	37,980	---

1. Table taken from unpublished manuscript by Harold Howe, Kansas Agricultural Experiment Station. Reports on amount of unpaid loans December 31, 1930 were obtained in sets of figures furnished by office of Commissioner of Insurance in 1931 and again in 1932. These two sets of figures did not agree for the year 1930, but the figures obtained in 1931 were used for this table. The figures for foreign insurance companies agreed, but the errors were in other companies' reports. The report on Fraternal Aid Union accounts for a large part of difference. Evidence supports the correctness of figures collected in 1931.

showing any increase in amount loaned in 1931 was the group which furnished only one per cent of the gross volume. The total unpaid loans held by insurance companies in Kansas, Dec. 31, 1931, amounted to $166,226,792. This amount was a 2.5 per cent decrease in total volume of Kansas farm mortgages owned by insurance companies from the previous year, in which year the insurance companies reached an all-time peak of $170,564,705 in Kansas farm mortgage holdings.

Data for the years, 1933 and 1935, showed that insurance companies other than life insurance companies had changed their method of reporting mortgages held, so that both city and farm property were included under one heading, making it impractical to attempt to segregate figures on farm property. Since only six per cent of farm mortgages held by insurance companies in 1931 had been held by such agencies, it was felt that data on life insurance companies only would be sufficient for use in this study. These data showed that 61 life insurance companies held farm mortgages amounting to $78,232,624, Dec. 31, 1935. There was a decline (table 8) in the number of farm mortgages held by life insurance companies since 1930, amounting to $78,510,794, or slightly more than

Table 7. Amount loaned and amount of loans repaid on farm real estate for each class of insurance company, 1930 and 1931[1]

Insurance companies	Amount loaned 1930	Amount repaid 1930	Amount loaned 1931	Amount repaid 1931
All Classes	20,843,146	18,685,211	13,639,259	13,373,246
Foreign Life	17,392,238	15,696,524	11,219,499	11,631,202
Fraternals	1,239,144	1,397,516	679,220	677,113
Kansas Life	1,619,399	1,207,371	945,951	858,891
Kansas Mutual Fire	395,347	163,562	126,860	67,979
Kansas Stock Fire	110,385	39,584	14,998	21,499
Casualty	26,500	106,000	56,150	23,890
U. S. Stock Fire	43,831	71,700	28,101	61,858
Burial Association	14,200	1,053	15,244	352
Reciprocal	2,000	1,900	---	---
Foreign Mutual Fire	---	---	7,200	5,000
Assessment	---	---	---	16,175
Mutual Hail	---	---	27,400	1,570

1. Data obtained from office of Commissioner of Insurance, Topeka, Kansas. This table taken from unpublished manuscript by Harold Howe, Kansas Agricultural Experiment Station.

Table 8. Amount of unpaid farm mortgage loans in Kansas held by life insurance companies[1]

Class of company	1929	1930	1931	1932	1933	1934	1935
All	154,843,118	156,743,418	156,404,284	143,618,219	131,887,474	97,771,696	78,232,624
Kansas	9,716,434	10,138,463	10,199,308	10,035,460	9,550,454	6,284,252	5,106,908
Foreign	145,126,684	146,604,955	146,204,976	133,582,859	122,337,020	92,507,914	73,125,716

1. Data obtained from office of Commissioner of Insurance, Topeka, Kansas.

50 per cent.

In 1933, the amount loaned by life insurance companies was $3,759,932, or only approximately one-sixth as much as was loaned in 1930 (table 9). The amount loaned in 1935 was $7,155,925, which was an increase of $3,395,993, or 90 per cent more than was loaned in 1933. The amount repaid in 1933 was $14,547,684, a little more than four times as much as was loaned. In 1935, the amount repaid was $27,681,226, or 62 per cent more than was loaned in that year. The 61 life insurance companies, in 1935, owned 197 million dollars in farm mortgage bonds, or 15 per cent of the total amount of these bonds outstanding, Dec. 31, 1935, which indicated that insurance companies were furnishing farm mortgage loan funds indirectly. Fitzgerald (24) states that Federal Farm Mortgage bonds, held by the Northwestern Mutual Life Insurance Company, represented bonds accepted as payments on refinanced loans. These bonds were being held as an investment. It is possible that the holdings of the other companies in Federal Farm Mortgage bonds also represented payments on refinanced loans.

The insurance companies were asked if they acquired farm mortgages directly from the borrowers, or if they made farm loans through mortgage and trust companies,

Table 9. Amount loaned and amount repaid on farm real estate for each class of life insurance company[1]

Class of company	1930 Amount loaned	1930 Amount repaid	1931 Amount loaned	1931 Amount repaid	1933 Amount loaned	1933 Amount repaid	1935 Amount loaned	1935 Amount repaid
All	19,011,637	16,903,895	12,165,450	12,490,093	3,759,932	14,547,684	7,155,925	27,681,226
Kansas	1,619,399	1,207,371	945,951	858,891	194,274	665,087	526,922	1,684,710
Foreign	17,392,238	15,696,524	11,219,499	11,631,202	3,565,658	13,882,597	6,629,003	24,996,516

1. Data obtained from office of Commissioner of Insurance, Topeka, Kansas.

located in this, or adjoining, states. In the first survey, the questionnaires were sent to 119 companies, representing all types of insurance companies holding farm mortgages in the state of Kansas. Replies were received from 80 of these companies, representing 67 per cent of those addressed. There were included 17 Kansas life insurance companies, 12 of which replied, and 55 out-of-state life insurance companies, 40 of which replied. Those which replied represented approximately 94 per cent of all the farm mortgages in the state, Dec. 31, 1930. The answers showed that 78 per cent of all farm mortgages held by insurance companies were made indirectly, 16 per cent were made directly, and six per cent were made by agencies which used both methods. However, a number of the companies which made loans in both ways stated that the most of their loans were made indirectly. In the first survey there was considerable variation in the indirect methods used in making loans. Some companies closely supervised loans according to a form. Loans were solicited by a correspondent who submitted applications to the main office for approval. If approved, the papers were drawn directly to the insurance company on its own form. Other insurance companies purchased loans by assignment from local farm mortgage companies. Others had correspondents under exclusive contract. Many companies operated a farm loan division to supervise the making of farm mortgage loans. It was found to be the common practice for mortgage companies to service loans which they had sold to insurance companies. That is, the mortgage companies collected interest and principal payments, looked after taxes, insurance, and any other details necessary in connection with the loans.

The companies making direct loans also had varying practices. Some had financial correspondents who were employees of the insurance company, in charge of certain districts. Local agents in the district submitted applications to this district supervisor who had the security inspected, and sent his recommendation and report to the home office. On approval of the loan by the home office, the loan was closed by the correspondent. This plan is not in common use by the insurance companies. Other companies were found to be dependent upon their local agents for applications for loans. Some of the smaller companies were dependent upon applications made directly to the home office by the borrower. One company made long-term loans, using the amortization plan of payment. Of the companies reporting, 20 per cent stated that they were not then (fall, 1931) making farm mortgage loans. Both large and small companies made this statement. Some stated that they had not made loans for several years, others had not been making loans for from one year to 18 months. Some of them said that they were ready to resume lending on farm real estate when conditions improved.

In the second survey, the questionnaire was sent to 61 life insurance companies, asking the same questions as in the previous survey. Replies were received from 41 companies, 67 per cent of those circularized. Of these replies, eight were received from the 15 Kansas companies addressed, and 33 were received from the 46 foreign companies addressed. Of these, 11 made loans directly to the borrower, 17 made loans indirectly, eight made loans in both ways, and five did not indicate the method through which they made their funds available. Table 10 shows the distribution and the method used in making loans for both periods. The answers to the second questionnaire indicated a tendency for life insurance companies to make more of their loans by the direct method. Several of them volunteered the information that they were establishing their own financial agents, and intended to close the majority of their loans through their own farm mortgage departments, using these financial agents as intermediaries. Of the 41 companies replying to the questionnaire, 18 indicated

Table 10. Methods of making loans by classes of life insurance companies[1]

Classes of insurance companies	December 31, 1931			December 31, 1935		
	Indirect	Direct	Both methods	Indirect	Direct	Both methods
Kansas Life	4	5	3	2	3	3
Foreign Life	34	5	1	15	8	5
Total	38	10	4	17	11	8

1. Data obtained from replies to questionnaires.

that they were not now making loans in Kansas. Several of them stated, however, that they would resume making loans when they felt that conditions would warrant reentering the field. One large company stated that it was aggressively developing its farm loan business in Kansas, offering attractive interest rates and liberal terms. This company deals with the borrower through its district agents. Several of the companies said that they maintained farm servicing organizations, usually under the supervision of the farm loan department of the company. The value of such service has become apparent to the different companies during this period in which a large number of farms have come into their possession through foreclosure or inability of the borrower to meet his obligations.

Farm real estate owned, as reported to the Commissioner of Insurance of Kansas, includes foreclosed farms subject to redemption, The value of farm real estate (table 10) owned by insurance companies, Dec. 31, 1930, was $3,685,292. Life insurance companies held $3,489,854, or 90.4 per cent of the total. The figures for 1931 showed a total for all companies of $5,680,564. Life insurance companies held $5,152,462, or 90.6 per cent of the total. This was an increase of 53 per cent in corporate holdings of insurance companies in one year, indicating the plight

Table 11. Amount of farm real estate owned by classes of life insurance companies for years ending December 31, 1930, 1931, 1933, and 1935[1]

Class of company	1930	1931	Percent increase 1931 over 1930	1933	1935	Percent increase 1935 over 1933
Kansas Life	584,730	1,017,570	74	1,357,986	2,425,459	72
Foreign Life	2,905,124	4,134,892	42	9,837,853	21,601,854	120
Total	3,489,854	5,152,462	47	11,195,839	24,027,313	115

1. Data obtained from office of Commissioner of Insurance, Topeka, Kansas.

in which the farmer-borrower was finding himself.

Farm real estate owned, Dec. 31, 1933, by life insurance companies (table 11) was $11,385,217, or an increase of 120 per cent for the two-year period. The farm real estate owned Dec. 31, 1935, was $24,027,313, or an increase of 111 per cent for that two-year period. The real estate owned by life insurance companies in 1935 was 37 per cent of the amount of outstanding mortgages, as compared to 2.1 per cent on Dec. 31, 1930. The Kansas Moratorium Act, March 4, 1933, extended the period of redemption on foreclosed farm real estate for one year, and in 1934 it was revised, and extended for one more year.

In the light of the six principles laid down for measurement of the adequacy of agencies furnishing farm mortgage credit in Kansas, it seems that life insurance companies are beginning to give some thought to these things, but that as yet, little adaptation has been made. The use of the mortgage funds is not definitely limited to productive purposes, although some of the application blanks for loans do request information as to the use of the money. The average term of the loan, five years, is not long enough to cover the productive life of the proposed investment. No effort is made to have payment of interest and principal fall on a date when the farmer has money available. Few of the loans are being made on a long-term amortization plan. Most loans closed, however, call for some reduction in principal each year. It is usually understood that a loan may be renewed at the end of the period. There is a definite trend toward reduction in interest rates charged on loans. Loans made by insurance companies are made on the basis of land values at the time of application, regardless of price levels. However, many insurance companies withdraw from the field during periods of low prices.

Commercial Banks

Since the passage of the Bank Deposit Insurance Act, all banks are required to file statements which make available records of farm mortgages held, beginning with the year, 1934. These records (25) show that $7,384,000 of bank funds were invested in farm mortgage loans on Dec. 31, 1934. There is an estimated figure for 1920 of $33,400,000 (22). These figures substantiate the belief that commercial banks on the whole were not investing in the long-term credit field, and have been liquidating their farm mortgage holdings for some time.

The Federal Land Banks

In 1929, the Federal Land Bank held farm mortgages in Kansas of $32,920,000, as compared with holdings of insurance companies of $168,966,703, or approximately five times as much. While the farm mortgage holdings of the insurance companies continued to increase by approximately $1,600,000 in 1930, the Federal Land Bank holdings decreased $500,000. The curtailment in lending activity of the Federal Land Bank was due to the difficulty in obtaining money to lend. According to the provisions of the Federal Farm Loan Act, the maximum interest chargable on land bank loans was six per cent, but the investing public was reluctant to buy the low interest-bearing bonds which would have made it possible to offer mortgage loans at six per cent or lower.

By the close of 1931, farm mortgage holdings of insurance companies had also declined, and there was serious need for changes in the policies of lending agencies to meet a critical farm credit situation. The difficulties in farm credit were not limited to Kansas. As a remedy for this nation-wide situation, the Emergency Farm Credit Act of 1933 was passed, making it possible for the Federal Land Banks to offer the needed credit. Under the leadership of the Farm Credit Administration, the lending policy of the Federal Land Banks was changed. Interest rates were decreased, farms were appraised on the basis of their earning power during a period of normal prices, and payments on principal were deferred until July 1, 1938. Credit was furnished cooperatively, with the expectation that eventually all the stock in the Federal Land Banks would be in the hands of farmer-borrowers. As had been the policy of the Federal Land Bank, loans were made on an amortization plan of repayment. They were made for productive purposes only, and for a long period of time. Land Bank Commissioner loans allowed farmers to borrow up to 75 per cent of the value of their property, and made it possible to use second mortgage security for commissioner loans, thus offering credit to many farmers who otherwise would have been unable to borrow.

Farm mortgage holdings of the Federal Land Banks immediately increased after this change in policy. Dec. 31, 1933 there were outstanding 9,692 loans, amounting to $34,631,264, an increase of approximately $2,250,000 more than in 1931. The figures for 1935 show an increase of almost sixty million dollars. The loans outstanding then numbered 25,626, amounting to $94,406,959. In addition, there were Land Bank Commissioner loans amounting to $43,883,787. Life insurance companies for this period showed a decrease of $44,104,396. The farm mortgage holdings of the federal credit agencies, including the

Land Bank Commissioner loans, in Kansas, increased more than 100 million dollars in the two-year period. It should be borne in mind, however, that a large per cent of these loans, (90 per cent of those by federal credit agencies in the United States as a whole in 1935) were made for refinancing loans already in force. This fact gives evidence that the new policy of the Federal Land Banks furnished loans on a basis which appeals to farmers and satisfies their requirements. The terms which the policy of the Federal Land Banks embodies coincides with the six criteria which have been set down as basic principles of adequate farm mortgage credit. Under the Federal Farm Loan system, loans are made for productive purposes only, it is possible to arrange interest and principal payments at times convenient to the borrower, payment of the loan is arranged on an amortization plan, interest rates are cheaper than those of any other agency furnishing such credit in Kansas, and finally, the funds for these loans were made available during a period of low prices.

Kansas farm real estate owned by the Federal Land Bank of Wichita, Dec. 31, 1931, consisted of 42 farms, taken on foreclosures amounting to $267,793. By Dec. 31, 1933, this had increased to 89 farms, amounting to $618,355.

By Dec. 31, 1935, Kansas farm real estate owned by the Federal Land Bank of Wichita totaled 123 farms, taken on foreclosures amounting to $922,509.

SUMMARY

The majority of insurance companies furnishing farm mortgage credit in Kansas were located outside the state of Kansas. The majority of the mortgage companies furnishing such credit were located within the state.

Most of the mortgage companies dealt exclusively in farm mortgage loans, selling their mortgages to insurance companies and private individuals.

The farm mortgage business of trust companies varied from one-fourth to all of their mortgage business.

The majority of the companies preferred to make loans in the eastern two-thirds of the state, excepting the extreme southeast portion. The western one-third of the state was least adequately oovered by these lending agencies. Most of the mortgage companies indicated that they made loans in selected areas, including from five to 15 counties each.

In 1930, life insurance companies held more than 156 million dollars in mortgages, which had been reduced to 78 million dollars by 1935. Life insurance companies relinquished their lead in the amount of farm mortgage loan funds furnished during the period of this study.

Of the farm mortgages held by insurance companies, 94 per cent were held by life insurance companies.

The modal rate of interest charged by insurance companies and mortgage companies in 1931 was 5.5 per cent. In 1935, it was five per cent. In 1931, the commission charged varied from one to two per cent in most instances. In 1935, the commission charged varied from one-half of one per cent to one per cent in the majority of cases. The average reduction in interest and commission charged was one-half of one per cent.

The common practice of insurance and mortgage companies was to lend 40 to 50 per cent of the valuation of the land. The amount loaned on buildings was found to vary greatly. Some of the trust companies loaned 50 per cent of the value of the land, but as a rule, they did not lend on building values.

The five-year term was found to be the most common with mortgage and trust companies. A few loans were made for a shorter or longer period. The repayment plans varied. In 1931, the majority of the companies favored straight loans. In 1935, the majority favored the annual reduction plan of repayment.

The tendency was to make more loans direct to the borrower than through agents.

No facts were secured on the policy of insurance, mortgage, or trust companies in making limitations as to purpose for which the loans might be used.

Foreclosed farm real estate held by insurance companies increased from three million dollars to 24 million dollars during the period of this study. Life insurance companies tend to hold their acquired real estate until it can be sold at a price that will return their investment, and pay accumulated charges.

The Federal Land Bank of Wichita supplied farm mortgage credit to the entire state. In 1929 it held approximately 33 million dollars in farm mortgage loans in Kansas. In 1935 it held $94,500,000 in farm mortgage loans. Land Bank Commissioner loans, Dec. 31, 1935, a amounted to approximately 44 million dollars.

The interest rate on Federal Land Bank loans is the lowest of any agency offering farm mortgage credit. The total costs of securing Federal Land Bank loans amount to 1.5 up to 1.75 per cent.

Long-term amortized loans, varying from 20 to 36 years, are the usual plan of the Federal Land Bank. The term of Land Bank Commissioner loans is usually 13 years.

The amount usually loaned by the Federal Land Bank is 50 per cent of the appraised agricultural value of the land, and 20 per cent of the permanent, insurable, value of the buildings to the farm, figured on the basis of a normal price level.

Loans from the Farm Credit Administration are, as a rule, for productive purposes, or to refinance existing loans made for productive purposes. They are made through national farm loan associations, when there is an active association in the territory. If not, loans are made directly through the bank, at one-half of one per cent additional interest.

The real estate holdings of the Federal Land Bank have increased. The Federal Land Bank owned, in 1931, 42 farms in Kansas, with an investment of $267,793. In 1935, they owned 123 farms, with an investment of $922,509. There is a tendency for the Federal Land Bank to push the sale of the real estate they have acquired.

CONCLUSION

In the light of the facts that have been presented here, regarding the farm mortgage credit situation in Kansas, and the changes that have taken place during the years, 1929 to 1935, the following conclusions may reasonably be made as to the progress, or lack of progress, which has been made by lending agencies in adapting their policies to the six basic principles that have been set down as necessary for adequate farm mortgage credit facilities in Kansas.

1. The purpose of the loan. There was no evidence found to indicate that insurance or mortgage companies made any limitations as to the purpose for which the loan was used. It is a fact, that the returns which the farmer has received on his investments during this period, in a great many cases, have not been adequate to repay the money borrowed, or even the interest and other costs. Certainly, there has not been a profit left for many borrowers. The Federal Land Bank has made loans for productive purposes. They have endeavored to make loans in amounts which could be repaid, including interest and cost, and leave the borrower a profit.

2. The term of the loan. Insurance companies have made no progress toward making the term of their loans coincide with the productive life of the proposed investment. The Federal Land Bank has met this point by making long-term loans, taking into account the fact that eight or ten years are required for a turn-over of the farmer's capital.

3. Arrangement for payment of interest and principal.

No agency has made progress toward the realization of the principle that interest and principal payments should fall at a time of year when money is coming in to the farmer. All interest and principal payment dates fall at regular intervals, in six and 12 month periods, following the completion of the loan.

4. Amortization of debts. The Federal Land Bank met this requirement by furnishing long-term, amortized loans. Insurance companies and mortgage companies have made some progress in this direction. In the majority of their loans provision is made for annual payments on the principal, but they have not adopted a complete amortization plan.

5. Equitable rate of interest. The low interest rates charged by the Federal Land Bank, since the passage of the Emergency Farm Loan Act of 1933, have been instrumental in lowering the interest rates charged by other agencies. It may be said that all agencies have made progress toward an equitable interest charge.

6. Financing long-term loans. Long-term loans have not been financed during periods of low levels in land and commodity prices, rather than during periods of inflated values, by insurance and mortgage companies. Their policy has been to make loans based on current price levels, rather than on normal appraised value of the land. In fact,

there has been a definite tendency for these agencies to withdraw from the field during periods of low prices. The Federal Land Bank has largely fulfilled this requirement. Their loans are based on the normal earning capacity of the land.

Thus far, most of the progress toward improvement in facilities for furnishing farm mortgage credit in Kansas has been made by the Federal Land Bank, of the Farm Credit Administration. Other agencies are beginning to adapt their policies to the changing needs for farm credit. To rebuild their farm mortgage business in the state, it will be necessary for them to provide credit on the basis which has been demonstrated to be more adequate. It will be necessary for all lending agencies to realize that it is to the benefit of the lending agency, as well as the borrower, to strive to make loans on a basis whereby repayment is reasonably easy, charges are fair, and foreclosures are less frequently necessary.

The progress that has been made thus far can be quickly undone by disregarding changes in economic conditions, or by failure of the agencies to keep in mind the requirements of the borrower. To further this progress education is needed, to acquaint the borrower and the personnel of the lending agency with their mutual interests and needs, and additional legislation may be needed.

There is a place in the farm mortgage field in Kansas for all of the agencies. In fact, no one agency can adequately fulfill the need for long-term credit. Without further legislation, it is possible that the Federal Land Bank will be handicapped in periods of inflation, as it has been handicapped in the past, during such periods, by being unable to market low-interest bearing bonds. The next few years should show whether lending agencies will continue to progress toward the provision of adequate farm mortgage credit facilities in Kansas.

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