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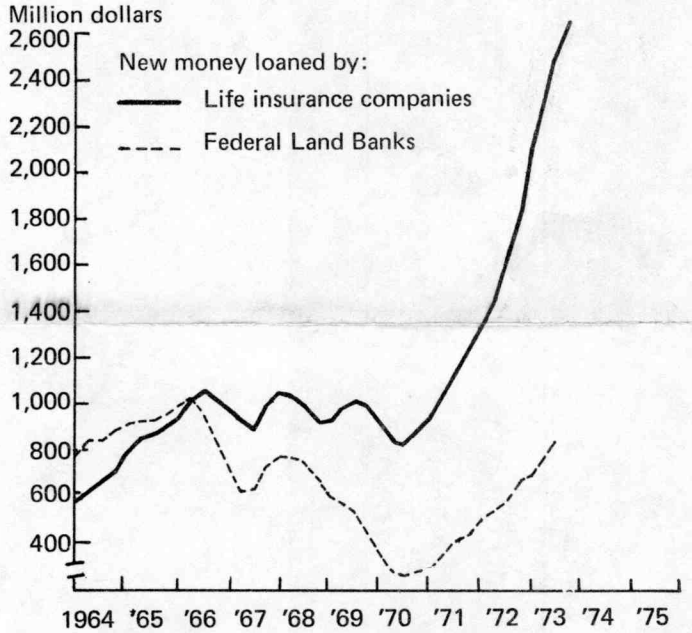
FARM REAL ESTATE LENDING was up sharply in 1973 and the trend is likely to continue in 1974. According to the U. S. Department of Agriculture, farm real estate debt totaled $39.5 billion as of January 1, 1974, up 14 percent from a year earlier. All major financial institutions active in the farm mortgage market recorded increases in farm real estate lending last year. While information on seller financing—the largest source of farm real estate credit—is not available, preliminary indications suggest that seller financing increased at a rate proportionate to the financial institutions.

Federal Land Banks (FLBs) recorded the most impressive gains in farm real estate lending during 1973. At the national level, new money loaned was up 50 percent, and despite record repayments 1973 outstandings were over one-fifth larger than a year earlier as of December 31, 1973. (FLBs are the largest institutional source of farm mortgage funds.) Farm mortgage funds extended by FLBs operating in Seventh District states grew at a slower pace. New money loaned in district states was up 43 percent, but outstandings grew only 10 percent, less than half the increase at the national level. The slower increase in outstandings largely reflects the higher-than-average farm income levels in most district states and the attendant higher repayments on existing mortgages.

Farm Mortgage Lending Jumps Sharply



The sharp expansion in FLB farm real estate credit apparently reflects a number of factors. The Farm Credit Act of 1971 gave FLBs the authority to expand loan limits from 65 percent of normal market value to 85 percent of current market value. This change has significantly reduced the required downpayments for many borrowers. Around three-fifths of the loans made are reportedly above the old 65 percent level. Although interest rates vary widely between institutions, time periods, and geographic areas, FLBs generally offered somewhat lower interest rates on mortgages during most of 1973. Furthermore, FLBs offer a variable interest rate on mortgages, an attractive feature when rates are high relative to historical levels.

Life insurance companies and commercial banks also recorded increases in farm mortgage extensions. Life insurance outstandings were 6 percent larger than a year earlier at the end of 1973. The performance of life insurance companies in the farm mortgage area is noteworthy in that 1973 marks the first time since 1968 that life insurance companies have maintained farm mortgages in their portfolios at the same level for two consecutive years. Farm mortgages outstanding declined from 3.1 percent of total life insurance assets in 1968 to 2.4 percent in 1972 and held at that level in 1973. Seventh District member banks increased outstanding farm real estate loans by 12 percent during 1973, double the increase recorded the previous year.

The increase in institutional farm real estate lending during 1973 is impressive in view of the tighter credit conditions that prevailed, especially in the second half. During the 1969-70 credit crunch, life insurance funds were drastically curtailed, and new money loaned for farm mortgages was cut to a fraction of the 1968 level. New loans by commercial banks and FLBs also dropped to the point where growth in outstandings was virtually halted.

The 1973 increase in farm mortgage lending permitted farmland buyers to finance a higher proportion of the purchase price. Over 85 percent of all farmland purchases were credit-financed in 1973, and the average ratio of debt to purchase price climbed to 78 percent in early 1973 before dropping back to 75 percent in the fall. Both ratios reached record highs during 1973 and reflect the optimism shared by borrowers and lenders alike about the income-producing ability of farmland and also the potential for additional gains in farmland value.

The U. S. Department of Agriculture recently estimated that outstanding farm real estate debt may grow over 15 percent during 1974 and total $45.5 billion by the end of the year. Preliminary indications are that lending activities in early 1974 have continued near the expanded 1973 pace. Of course, fulfilling this projection hinges largely on the course of farm commodity prices and, in turn, on farmland values in general and overall credit conditions during the remainder of the year.

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