CHAPTER FOUR—JANUARY, 1933

The Iowa Farm Mortgage Problem

BY WILLIAM G. MURRAY AND RONALD C. BENTLEY

FARM MORTGAGE DEBT THEN AND NOW

On Dec. 31, 1889, the farm mortgage debt in Iowa was $149,457,000.[1] On Oct. 15, 1932, the debt stood at $1,082,882,000. Although prices of farm products were practically the same in both years,[2] the debt was over seven times as large in 1932. This contrast sets forth the pressing problem of farm mortgage debts.

In order to see the debt problem in its proper light, it is necessary to review the changes in the farm mortgage situation for some years back. To provide this perspective, a survey was made of 13 townships located in six widely separated counties in Iowa (fig. 6). The data gathered included all farm mortgage transactions, as recorded in county offices, pertaining to the period Jan. 1, 1915, to Oct. 15, 1932. Various tests have indicated that the 13 townships selected in this study are representative of the state as a whole.

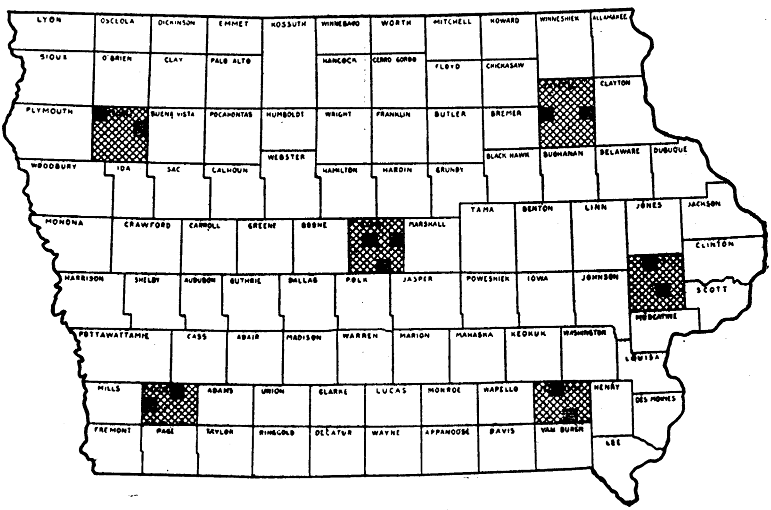

Fig. 6. Thirteen townships were included in the farm mortgage survey.

OUTSTANDING MORTGAGE DEBT

Debt Burden Increases

The ease with which the farm mortgage debt was increased with rising prices for farm products, and the difficulty which was experienced in reducing the debt with falling prices, constitute the outstanding characteristics of the last 18 years. This is pictured in fig. 7, showing the index of prices of farm products and the index of mortgage debt.

The price index and the debt index went up rapidly in the years 1915-1919. In 1920, prices started to decline but the debt continued to increase, in fact the debt rose more in this year than in any of the preceding years. Much of this debt increase was contracted in late 1919 when prices were high, but was not recorded until March, 1920. (March is the common month for transfer of land and the recording of mortgages connected with land purchases.) According to table XIX, a total of over 400 million dollars in mortgage debt was added to the outstanding total in 1920. This addition is almost as large an amount as the outstanding total in 1914.

TABLE XIX. ESTIMATED FARM MORTGAGE DEBT IN IOWA AND PERCENTAGE OF 1914 TOTAL, 1914-1932[3]

Year as of Dec. 31	State total*	Percentage of 1914
1914	$ 570,396,000	100
1915	685,114,000	120
1916	760,961,000	133
1917	865,190,000	152
1918	961,071,000	168
1919	1,069,541,000	188
1920	1,499,577,000	263
1921	1,609,744,000	282
1922	1,597,390,000	280
1923	1,618,477,000	284
1924	1,604,907,000	281
1925	1,531,192,000	268
1926	1,470,511,000	258
1927	1,394,246,000	244
1928	1,348,480,000	236
1929	1,310,631,000	230
1930	1,265,456,000	222
1931	1,197,074,000	210
1932**	1,082,882,000	190

*Ratio, value of farm land in 13 townships to value of farm land of state 1:111.
**Oct. 15, 1932.

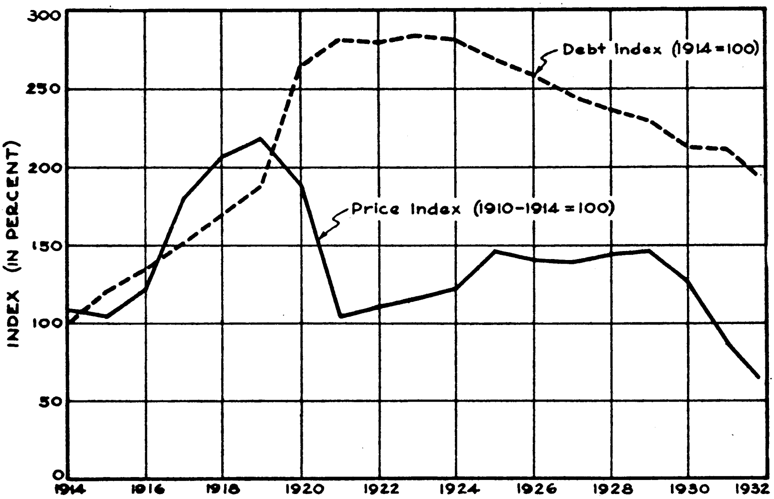

Fig. 7. Indexes of outstanding farm mortgage debt and prices of farm products.

After 1920, debts continued to increase while prices of farm products declined. A good many creditors found themselves holding unsecured notes and to protect themselves these creditors obtained second or third mortgages. The increase in the debt brought about by such mortgages more than offset the decrease caused by foreclosures and other forced sales in the years 1921-1923.

Debt Decline Begins

The increase in the price level of farm product prices in 1925 was insufficient to keep the huge farm mortgage debt of that year intact. Owners of farms had been using up resources outside the farm to keep taxes and interest paid. Furthermore, pressure was placed on the land to make it produce more in order that the fixed charges could be met. Both of these sources of reserve could not last indefinitely. Hence, foreclosure, assignment of the land to the mortgage holder, or a scaling down of the debt occurred.

Debt reduction proceeded gradually from 1925 through 1930. The liquidation that did take place was carried out in individual cases without attracting much attention. A slight improvement in prices kept the majority of mortgages in good standing.

The precipitous drop in prices in 1931 and 1932 brings the debt issue to a critical stage. Cash reserves have been depleted. Banks have failed in many instances, tying up deposits and calling for payment of assessments by stockholders. The land has been farmed intensively, with a larger acreage in corn than a soil maintenance program would justify. To keep a mortgage debt almost twice that of 1914 in good standing is the difficult task that many farm owners are facing as the year 1933 begins.

To what extent have changes in the outstanding debt arisen from mortgaging more or less land, or from borrowing more or less dollars per acre? Evidence on this is presented in table XX.

TABLE XX. MORTGAGE DATA FOR 13 TOWNSHIPS AND DEBT PER ACRE ESTIMATED FOR THE STATE 1915-1932[3]

Year as of Dec. 31	13-township data			Estimated debt per acre of land mortgaged in state*
	Total debt	Percent of land mortgaged	Debt per acre of land mtg.	
1915	$ 6,172,200	38	$ 56	$ 54
1916	6,855,500	39	60	57
1917	7,794,500	42	65	62
1918	8,658,300	42	70	67
1919	9,635,500	42	80	77
1920	13,509,700	47	100	96
1921	14,502,200	48	104	100
1922	14,390,900	49	102	98
1923	14,580,600	50	100	96
1924	14,458,624	51	98	94
1925	13,794,524	50	95	91
1926	13,247,845	50	91	87
1927	12,560,771	49	89	85
1928	12,148,470	49	85	81
1929	11,807,488	49	84	80
1930	11,400,508	48	81	78
1931	10,784,453	48	78	75
1932**	9,755,696	45	74	71

*Ratio, average debt in 13 townships to State average, 116:111.
**October 15, 1932.

What portion of the mortgage debt is owed by owner-operators and what portion by non-operating owners is not accurately known. In the 13-township investigation a 50-50 division of the debt between owner-operated and tenant-operated land is indicated. Although less of the tenant-operated land was mortgaged, that which was mortgaged carried a heavier debt per acre.

PERCENTAGE OF LAND MORTGAGED

In 1914 the land mortgaged constituted 38 percent of all farm land; in 1920, 47 percent. Although the placing of mortgages on 9 percent of the land previously clear increased the debt, the increase from this factor was small. Likewise, the decrease in land mortgaged from 51 percent in 1924 to 45 in 1932, although significant in itself, is not important in accounting for the reduction of debt that occurred.

These figures showing the percentage of land mortgaged in the 13 townships were found to be representative of the state average and hence can be used as a reliable index of changes in the percentage of land mortgaged in Iowa during the 18-year period.

The fact that over one-half the land is clear of mortgage debt merits emphasis. In discussions of mortgage difficulties, the tendency is to forget the situation on farms without mortgages. This is particularly unwise because it leaves the majority of farm owners out of the picture. When consideration turns to owner-operators only, however, a slightly different situation is faced. In this case, the majority have mortgages on their land. According to the Federal Census of 1930, 58 percent of the owner-operators had mortgages outstanding on their land.

DEBT PER ACRE OF MORTGAGED LAND

The debt load on mortgaged farms fluctuated more than the percentage of land covered by mortgages. (Table XX.)

In the 13 townships the average debt in 1914 was $56 an acre and in 1919, $80. In the year 1920, the debt jumped to $100 an acre, a change twice as large as in any other year. The decline which set in after 1921, though it has been slow, has been continuous, bringing the debt per acre down to $74 an acre in 1932. Despite this decrease, however, the debt is still heavier than at the end of 1918, when it was $70 an acre.

State estimates of debt per acre, as shown in table XX, are slightly below the township figures. This follows from the lower value of land and buildings in the state as a whole.

DEBT PER ACRE ON INDIVIDUAL FARMS

A record of land mortgaged and debt per acre fails to indicate the distribution of debt on individual farms. How representative is the average debt of $104 an acre in 1921 and $74 in 1932? The evidence presented in fig. 8 and table XXI is designed to answer this question specifically.

In 1921 the average debt of $104 was not a typical condition on mortgaged farms. A mortgage of $51 to $75 an acre was more representative. Of significance was the group of 98 farms with a debt of over $200 an acre.

An entirely different situation appears in 1932. At this time the average of $74 comes close to being the typical case. Moreover, in contrast with 1921, the high debt cases have been eliminated and the majority of cases come in the groups, $26 to $100. This is a direct result of the decline in junior mortgages. When a second mortgage was foreclosed, the second mortgage holder taking title, the first mortgage continued in good standing, hence a reduction in debt per acre resulted but the acreage mortgaged remained the same.

TABLE XXI. CLASSIFICATION OF FARMS BY DEBT PER ACRE OF LAND MORTGAGED IN 13 TOWNSHIPS

Debt per acre	Number of farms		Percent	
	Dec. 31, 1921	Oct. 15, 1932	1921	1932
$ 0-$ 25	51	85	4.8	8.3
26- 50	169	234	15.9	22.9
51- 75	224	269	21.1	26.3
76- 100	180	280	16.9	27.4
101- 125	111	68	10.4	6.7
126- 150	111	53	10.4	5.2
151- 175	76	13	7.1	1.3
176- 200	44	5	4.1	.5
201- 225	40	7	3.8	.7
226- 250	23	2	2.2	.2
251 or more	35	5	3.3	.5
Total	1,064	1,021	100%	100%

The small number of farms with a mortgage debt of 0 to $25 is striking. Since half the land was clear of mortgage both in 1921 and 1932, it seems strange that the majority of farms that are mortgaged should be mortgaged for more than $26 per acre. Even in 1932, 69 percent of the farms were mortgaged for more than $50 an acre.

An explanation of this situation is to be found in the large number of land purchase mortgages contracted during the years 1915-1920.

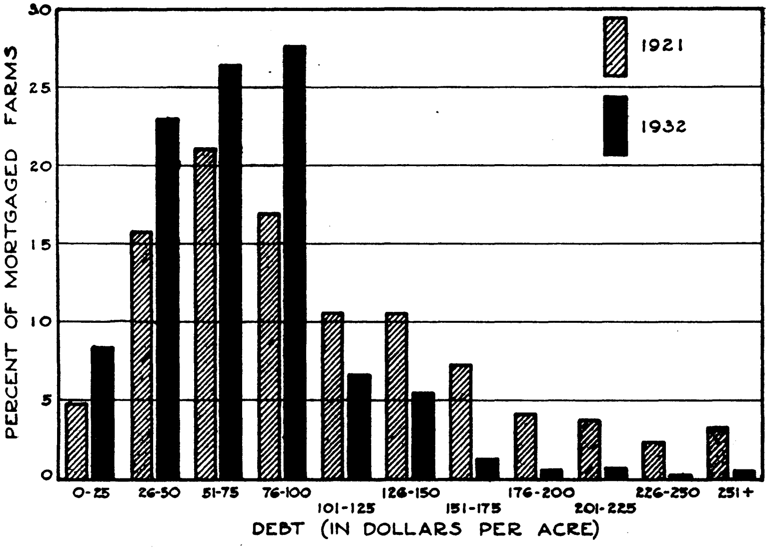

Fig. 8. Classification of farms by debt per acre on Dec. 31, 1921, and Oct. 15, 1932.

FIRST AND JUNIOR MORTGAGE DEBT

Although marked changes have been noted in the total debt, still wider fluctuations are uncovered when the total debt is divided into first and junior mortgages (table XXII). In this case junior mortgages show the most activity. Junior mortgages include second, third and fourth mortgages; in other words, all mortgages not first mortgages. In the years 1915 to 1921, the junior mortgage total increased almost fourfold while first mortgages were doubling. In the succeeding years, junior mortgages declined to a figure only slightly above that of 1915, while first mortgages declined only a relatively small amount. How small this drop in first mortgages has been can be seen by comparing the increase in 1920 with the reduction since 1923. The net rise in the one year 1920 is almost equal to the total reduction taking place in the nine years following 1923. In spite of this nine year reduction, the first mortgage debt on Oct. 15, 1932, was still higher than in 1919. Junior mortgage indebtedness in 1932, on the other hand, was approximately one-half of that in 1919.

Junior mortgages, most of which are second mortgages, gained ground over first mortgages in the early years only to lose all

TABLE XXII. OUTSTANDING DEBT CLASSIFIED BY NATURE OF LIEN FOR THE 13 TOWNSHIPS, 1915-1932

Year as of Dec. 31	Mortgage debt			Percentage of 1915	
	First mortgage	Junior mortgage	Total	First mt'g.	Junior mt'g.
1915	$ 5,476,800	$ 695,400	$ 6,172,200	100%	100%
1916	5,977,000	878.500	6,855,500	109	126
1917	6,789,600	1,004,900	7,794,500	124	145
1918	7,534,300	1,124,000	8,658,300	138	162
1919	8,142,400	1,493,100	9,635,500	149	215
1920	11,141,700	2,368,000	13,509,700	203	341
1921	11,793,200	2,709,000	14,502,200	215	390
1922	11,865.800	2,525,100	14,390,900	217	363
1923	12,201,900	2,378,700	14,580,600	223	342
1924	12,155,700	2,302,924	14,458,624	222	331
1925	11,900,600	1,893,924	13,794,524	217	272
1926	11,530,964	1,716,881	13,247,845	211	247
1927	11,087,914	1,472,857	12,560,771	202	212
1928	10,859,619	1,288,851	12,148,470	198	185
1929	10,713.467	1,094,021	11,807,488	196	157
1930	10,357,400	1,043,108	11,400,508	189	150
1931	9,864.001	920,452	10,784.453	180	132
1932*	8,982,452	773,244	9,755,696	164	111

*Oct. 15, 1932.

that was gained and more in the years that followed. In 1915 junior loans comprised 11 percent of all loans. By 1921, the percentage had risen to 19. When it is considered that second mortgages are generally smaller in amount than first mortgages, it is evident that in 1920 second mortgage financing had assumed an important place as a means of obtaining credit on land. In 1932, however, the tables were reversed. At this time, junior mortgages could claim scarcely 8 percent of the total outstanding. Moreover, at the rate the junior loans were being reduced, their disappearance would only be a matter of 6 or 7 years.

Transition to First Mortgage Liquidation

While the decade, 1921-1930, was the period of junior mortgage liquidation, the decade starting with 1931 appears to be headed toward a liquidation of first mortgage debt. Evidence of this is furnished by the record of debt reduction in 1932, amounting to $882,000 of first mortgages in the 13 townships, and an estimate of $98,000,000 of first mortgages for the state. Even at the rate of reduction established in 1932, however, four years would be required to bring the first mortgage total down to that of 1915.

In addition to this, it must be remembered that the debt of 1915 was supported by a much higher price level than that existing in 1932.

PURPOSE OF LOANS

Purchase of land and renewal of land purchase loans account for the majority of mortgage loans in all but a few years. As is set forth in table XXIII, land purchase was the chief reason for borrowing in the years 1915 to 1920. In the year 1920, over 4 million dollars of mortgage credit was borrowed directly for the purchase of land mortgaged in the 13 townships.

In the years following 1920, renewal of the land purchase mortgages originating in the 1915-20 period assumed the dominant role. This was a natural consequence of the fact that the common term of mortgage is and was 5 years. With farm income at low levels after 1920, little opportunity existed to pay off a mortgage in 5 years. As a consequence, the majority of the land purchase mortgages given in the years 1917-20 were renewed or extended in the decade 1921-30.

TABLE XXIII. NEW LOANS CLASSIFIED BY PURPOSE IN 13 TOWNSHIPS, 1915-1932

Year	Land purchase	Renewal land purchase	Miscellaneous	Total
1915	$ 845,800	$ 364,000	$ 558,900	$1,768,700
1916	899,400	639,900	383,900	1,922,300
1917	1,156,300	848,600	546,600	2,551,500
1918	1,356,100	366,400	298,100	2,020,600
1919	1,444,300	406,600	317,700	2,168,600
1920	4,111,800	683,100	894,500	5,689,400
1921	695,800	848,900	1,002,200	2,546,900
1922	249,000	1,197,000	651,200	2,097,200
1923	403,500	1,501,000	834,200	2,738,700
1924	343,700	919,100	746,524	2,009,324
1925	389,700	1,192,400	468,000	2,050,100
1926	434,521	738,771	645,066	1,818,358
1927	513,000	466,487	354,070	1,333,557
1928	233,300	701,250	748,177	1,682,727
1929	153,050	383,410	555,465	1,091,925
1930	154,294	502,200	521,657	1,178,151
1931	124,800	316,005	541,622	982,427
1932*	57,970	146,273	223,576	427,819

*To Oct. 15, 1932.

The debt problem of 1933, therefore, can be traced directly to the land purchase activity of the 1917-20 period. In these years prices of farm products were moving up rapidly. This, in turn, brought increased returns from farming because costs did not rise as rapidly as prices. Larger profits stimulated a demand for land, resulting in higher prices for land. Frequent purchases of high priced land led to larger mortgages to complete the transactions. This, in short, was the cause of the mortgage debt increase.

FORCED SALES AND DEBT REDUCTION

While the purchase of land accounted for the major portion of the debt increase in the period 1915-20, forced sales and renewal mortgages are the chief reasons for payment of mortgages in the years of debt decline, 1922-32 (table XXIV). Forced sales, including foreclosure of mortgages and assignment of land to mortgage holders, did not enter the picture until 1922. Even then they did not bulk large until 1926 and 1927. This may seem peculiar because prices of farm products had recovered somewhat in these later years from the low level of 1921-22. The explanation lies in the fact that owners of heavily mortgaged

TABLE XXIV. LOANS PAID, CLASSIFIED BY REASON FOR PAYMENT, 13 TOWNSHIPS, 1915-1932

Year	Renewal	Sale of land	Forced sales	Misc.	Total
1915	$ 494,300	$ 83,600	$ 2,400	$154,900	$ 735,200
1916	770,900	281,800	....	186,300	1,239,000
1917	952,100	369,700	2,000	288,700	1,612,500
1918	475,400	369,300	800	311,400	1,156,900
1919	592,900	361,600	3,600	233,300	1,191,400
1920	743,100	624,100	....	447,600	1,814,800
1921	947,800	221,300	77,100	308,200	1,554,400
1922	1,465,200	209,700	331,300	202,300	2,208,500
1923	1,610,800	333,100	228,700	326,400	2,553,000
1924	1,250,300	314,900	307,200	258,800	2,131,200
1925	1,546,500	341,800	371,100	454,900	2,714,300
1926	932,950	113,900	909,064	408,723	2,364,637
1927	618,672	79,552	782,571	539,836	2,020,631
1928	1,253,645	33,344	431,474	366,342	2,084,805
1929	729,231	71,125	265,643	374,908	1,440,907
1930	753,453	97,500	358,696	367,482	1,577,131
1931	619,496	33,670	629,824	315,492	1,598,482
1932*	251,561	74,000	959,135	157,280	1,435,682

*To Oct. 15, 1932.

land held on as long as they could by using all available resources. But with the failure of prices to return to the 1919 level, liquidation through foreclosure or assignment was inevitable. Cases of this kind were out of the way in 1928 and 1929 so that with a slight improvement in prices, few forced sales were registered. With the price drop in 1931 and 1932, forced sales shot up again reaching in 1932 the largest total on record. This recent price decline has been so drastic it has started to affect first mortgages. Previous to 1931 forced sales were restricted principally to junior mortgages.

TABLE XXV. CLASSIFICATION OF FORCED SALES IN 13 TOWNSHIPS, 1928-1932

Year	Foreclosure	Cancelled by foreclosure of prior lien	Assignments too mortgage holders	Total
1928	$261,482	$74,992	$ 95,000	$431,474
1929	120,745	36,235	108,663	265,643
1930	91,000	37,396	230,300	358,696
1931	234,136	67,118	338.570	629,824
1932	454,841	77,094	427,200	959,135

Mortgages are cancelled through forced sales generally in three ways. The first method is by foreclosure of the mortgage in question, the second by a junior mortgage holder failing to redeem when a prior mortgage is foreclosed, and the third by the assignment of the land to the holder of the mortgage. A classification of forced sales for the last 5 years by these three methods shows foreclosures and assignments as of equal importance (table XXV). The total of junior mortgage cancellations through foreclosure of prior liens is not a large item in any one of the 5 years, although it does explain a small part of the debt reduction.

DISTRIBUTION OF DEBT BY LENDERS

In any consideration of policy respecting mortgage debt, the distribution of the total among the various lenders is a matter of prime importance. This follows particularly because lenders differ in their method of handling delinquent loans. An insurance company, for instance, has an entirely different financial setup than that of a deposit bank; and both of these institutions are as foreign to the federal land bank as they are to each other.

Insurance companies on Oct. 15, 1932, were the largest holders of farm mortgages in the state with 42 percent of the total, according to the 13-township figures. This percentage represents 450 million dollars of the total estimated for the state (see table XIX). On December 31, 1931, the estimated amount on the basis of the 13 townships was 481 million dollars, a close approximation to the total of 476 million obtained for that date by adding together the reports of all insurance companies.

TABLE XXVI. PERCENTAGE DISTRIBUTION OF OUTSTANDING DEBT BY LENDERS, 13 TOWNSHIPS

Year as of Dec. 31	Private investors	Insurance companies	Deposit banks	Mt'g. co. Misc.	Land banks	Total
1915	54	22	20	4	0	100%
1920	61	20	14	3	2	100
1925	43	32	15	3	7	100
1930	32	39	15	2	12	100
1932*	27	42	16	3	12	100

*To. Oct. 15, 1932.

Private investors come second to insurance companies with 27 percent, or approximately 299 million dollars of outstanding mortgages on Oct. 15, 1932. Deposit banks, according to the 13-township study, are third in the list of lenders with 16 percent or 171 million dollars of the outstanding total for 1932.

Land banks held 12 percent of the loans in the 13 townships as of Oct. 15, 1932. This percentage when applied to the state gives a total of $132,000,000, an amount probably slightly under the actual figure for the state because the Federal Farm Loan Board reported outstanding loans on Dec. 31, 1931, of $157,549,444.[4] On the same date, the estimate based on the 13 townships was $146,043,000.

The comparatively large amount of mortgages held by private investors and deposit banks deserves special mention because little has been known concerning the holdings of these lenders. Together these two groups of lenders at the close of 1932 account for over 40 percent of the mortgages outstanding in the state. Obviously, therefore, any remedial measures dealing with the

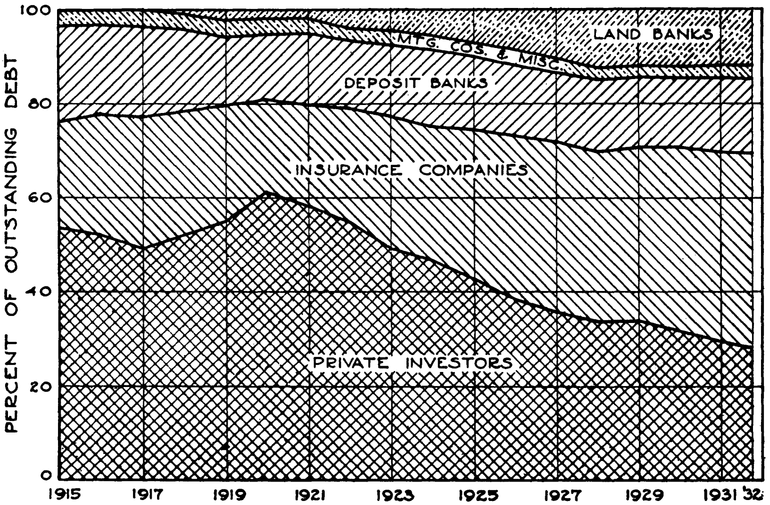

Fig. 9. Percentage distribution of debt by lenders for the 13 townships (1915 to Oct. 15, 1932).

mortgage situation should include, besides the insurance companies and land banks, these other two important groups of lenders.

An indication of the changes in position of lenders is furnished by fig. 9 and table XXVI. These show for the last 10 years a declining percentage of mortgages in the hands of private investors and an increasing proportion being held by insurance companies and land banks. Deposit banks and mortgage companies show little change in the same period. A fact clearly set forth is that private investors furnished the major portion of the huge increase in the mortgage debt which took place in the years 1915-1920. When these original land purchase loans came due anywhere from 3 to 10 years later, insurance companies and land banks were on the scene to make the renewal loans.

SOURCES OF DATA

1. Holmes, George K., and Lord, John S. Report on Real Estate Mortgages at the Eleventh Census: 1890. Census Office, Department of Interior, Washington, D. C. 1895, p. 729. Total reported includes all debt in force on acres in Iowa.

2. Blackburn, D. W. The Trend of Prices for Farm Products in Story County, Iowa, 1870-1930. Unpublished Thesis, Library, Iowa State College, Ames, Iowa, 1931.

3. In obtaining state estimates, figures for the 13 townships were used as a base. Although the six counties including the 13 townships had practically the same proportion of tenants to owner operators as the entire state, the value of land and buildings in the 13 townships was slightly above the state average. The ratio of farm land area in the 13 townships to that in the state as a whole is 1:116; of value of land and buildings on farms, 1:111. State figures were taken from Federal Census of 1930.

4. Fifteenth Annual Report of the Federal Farm Loan Board, year ended Dec. 31, 1931, 72d Congress, 1st Session, House Document No. 36, p. 127.