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Farm Real Estate Mortgage Loans in Hyde County, South Dakota, 1910 - 1930

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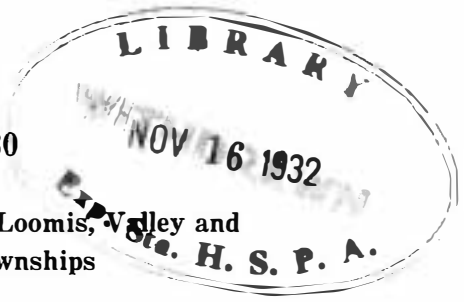
Circular 4 March, 1932

Farm Real Estate Mortgage Loans

in

Hyde County, South Dakota



1910–1930

With Special Reference to Loomis, Valley and Spring Lake Townships

Agricultural Economics Department
Agricultural Experiment Station
South Dakota State College
of Agriculture and Mechanic Arts
Brookings, South Dakota

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Acknowledgment

The author wishes to acknowledge the receipt of valuable suggestions and criticism from Professor Sherman E. Johnson, under whose supervision this study was made. Acknowledgment is also made of valuable assistance received from abstractors and county officials who made the information available.

Farm Real Estate Mortgage Loans
In Hyde County, South Dakota

With special reference to Loomis, Valley and Spring Lake Townships[1]

by
Gabriel Lundy

Department of Agricultural Economics

Purpose and Method of Study

Purpose of the Study.—The purpose of this study has been to obtain a picture of the farm mortgage situation in that part of the state where Hyde County is located. The procuring of information in regard to present and past conditions of the farm land indebtedness situation is a necessary preliminary to an understanding of the mortgage credit problems involved. It is also a prerequisite to any constructive measures for the improvement of rural credit conditions as they apply to loans secured by mortgages on land and its permanent improvements. For this purpose information has been assembled on the amount of indebtedness, the acreage incumbered, the cost of funds, length of term, source of funds, debt per acre, delinquencies and foreclosures as well as the influence of land purchases on indebtedness.

Location of Area Studied.—Hyde County in the west central portion of the east river country (Fig. 1) was selected as being quite representa-

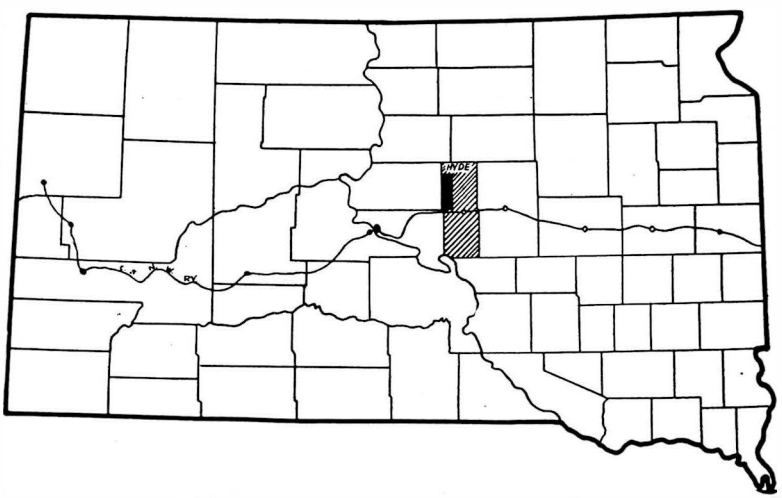

Figure 1.—Map of South Dakota showing location of area studied in Hyde county.

[1] Townships 113, 114 and 115, of Range 73.

tive of the farming land in that region. The three townships of Loomis, Valley and Spring Lake extending north of the Chicago and Northwestern railroad along the western boundary of Hyde County were likewise selected because conditions there seemed typical of this general region.

Source of Information Used.—The information on which this report is based has been procured from public records in the office of the register of deeds at Highmore, the county seat. Brief abstracts were procured of the necessary information contained in all documents recorded since 1905 and earlier which affected the title to every piece of land in the three townships. The information thus procured covers all transfers of title since 1905, and gives a complete list of all mortgage loans in force against these lands from 1910 to 1930. This material has been worked up and tabulated for the years 1910, 1915, 1920, 1925 and 1930.

Limitations of the Information Used.—The source of the information and the form in which it is available from that source imposes certain limitations on this study. For this reason it may be well to mention some of the advantages and disadvantages of the county records as sources of information in research work of this kind. Other possible sources of information on farm mortgage credit are the borrowers, the lenders and the farm mortgage bankers or other middlemen who act as loan agents. One advantage of the county records is that information on all mortgage loans are available at one place. The other sources of information are scattered. The county records are also usually more explicit and definite as to the information they contain than the corresponding information which one could expect to procure from borrowers. The latter may have no written records at hand and may have forgotten the details even though they might be perfectly willing to give the information. Hence considerations of both economy and accuracy dictate the use of county records for such information as they contain. But the advantages are not all on the side of the county records by any means. These records may fail to give all the desired information either because the recorded document did not recite the details or because the document has not ben recorded at all. For instance, it may be desired to determine the sale prices of land in the area studied, but if the recorded documents hide the price paid with the stock phrase "one dollar and other valuable considerations" the information is useless. In such cases the buyers and sellers are the best sources of information if they will give it. Another deficiency in the county records as a source of material for study occurs in cases where the mortgage has been paid and a release or satisfaction of the mortgage has been issued by the lender but not recorded by the borrower or any one else. In such instances the borrowers and lenders must be solicited for information. In the case of many old loans long delinquent, however, it has been found either difficult or impossible to find people who knew if or when the mortgage was paid and satisfied. There seems to be considerable evidence of neglect to record mortgage releases. Another important type of information not revealed by the public records at the county seat has to do with the purpose of the transaction. Why was the farm sold? Why was it mortgaged? Why was it mortgaged to this agency rather than to another? How was the money expended? What is the size of farm and what are the sources of income from which these mortgage payments must be met? The answers to these questions and to others equally pertinent can not be found in the county records of deeds and

mortgages. But as previously mentioned there are certain advantges in connection with procuring mortgage information from the records in the office of the county register of deeds. Within the limitations indicated much useful and reliable information is available in convenient form.

Total Indebtedness: Changes in Amount and in the Relative Volume of Loans of Different Ranks

As previously mentioned the mortgage information has been tabulated for every fifth year from 1910 to 1930 inclusive. The total indebtedness and the amount in loans of the different ranks are given in Table 1 and are also shown graphically in Figure 2. It appears that the area included in this study experienced somewhat of a boom about 1910. According to the census reports the land in farms in Hyde County increased 126 per cent between 1900 and 1910. As a result the total indebtedness of $324,757 in the latter year is relatively large. The succeeding years were not so favorable for expansion and by 1915 the volume of indebtedness on farm land had been reduced to $294,416. The period of war and post-war inflation culminating in 1920 resulted in a total indebtedness of $546,-676 in the three townships for that year. By 1925 this amount had been reduced to $431,646. A further reduction down to $303,630 had been ac-

TABLE 1. Total mortgage indebtedness, and amount represented by loans of each rank[1] every fifth year, 1910 to 1930 inclusive.

Year	Total Mortgage Indebtedness	Sum of First Mortgages	Sum of Second Mortgages	Sum of Third Mortgages
1910	$324,757	$261,618	$ 49,694	$13,445[2]
1915	294,416	253,404	31,639	9,373
1920	546,676	418,933	109,264	18,479
1925	431,646	338,960	77,910	14,776[3]
1930	303,630	258,327	44,941	362

[1] Unless otherwise noted all tables will refer to the same three townships in Hyde county.
[2] Includes $5,485 in loans ranking below third.
[3] Includes $2,000 in fourth mortgages.

complished by 1930. Later on it will be shown that much of this reduction can be accounted for by foreclosures. In addition to the reduction by foreclosures it is evident that many pieces of mortgaged land have been cleared of incumbrance by means of voluntary transfer of the title to the lender. Table 2 shows what percentage of the total indebtedness was embodied in loans of the different ranks. Figure 3 presents the same information in chart form. The first-mortgage loans have constituted between 76.6 per cent and 86.1 per cent of the total debt. Apparently the junior-mortgage loans have fluctuated proportionately more in volume than have the first-mortgage loans. This is indicated by computation of the amounts given in Table 1. Thus between 1915 and 1920 second-mortgage loans increased 245 per cent in amount whereas first-mortgage loans increased only 65 per cent in amount. Decreases have also come more rapidly in the case of junior-mortgage loans. Some of the reasons for this may be that during periods of rising land values in certain cases it may be

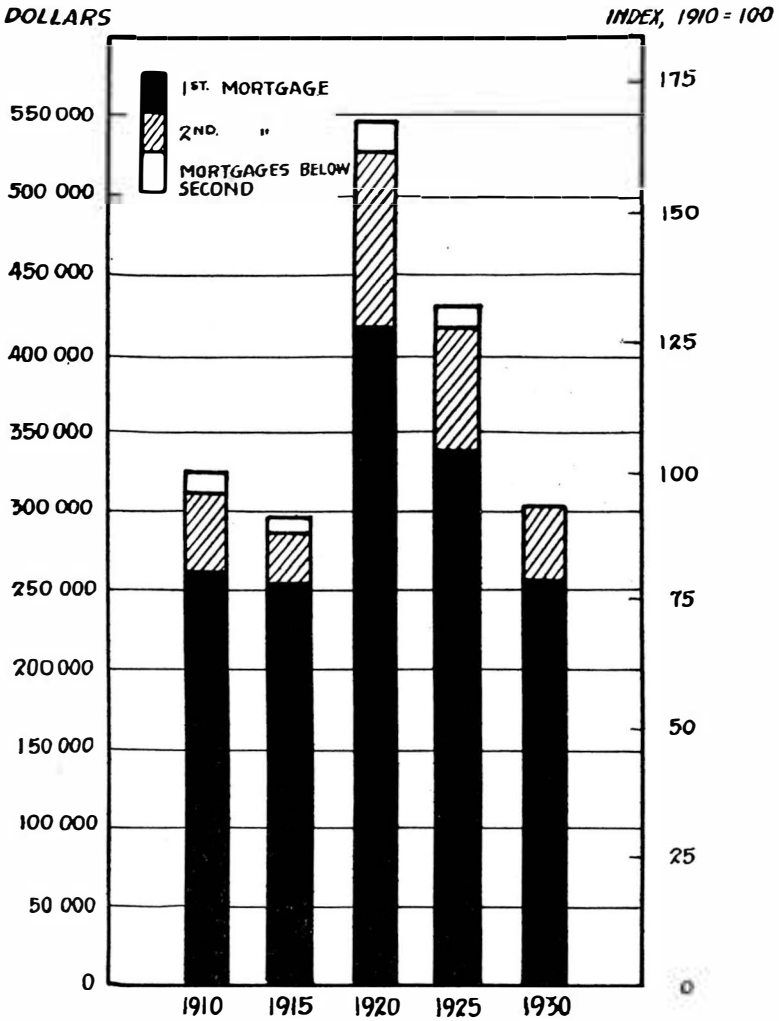

Figure 2.—Total amount of mortgage indebtedness, index of change, and amount of mortgages of each rank, 1910-1930.[1] (Based on Tables 1 and 3.)

[1]Unless otherwise noted all later figures in this circular will refer to the same three townships in Hyde County.

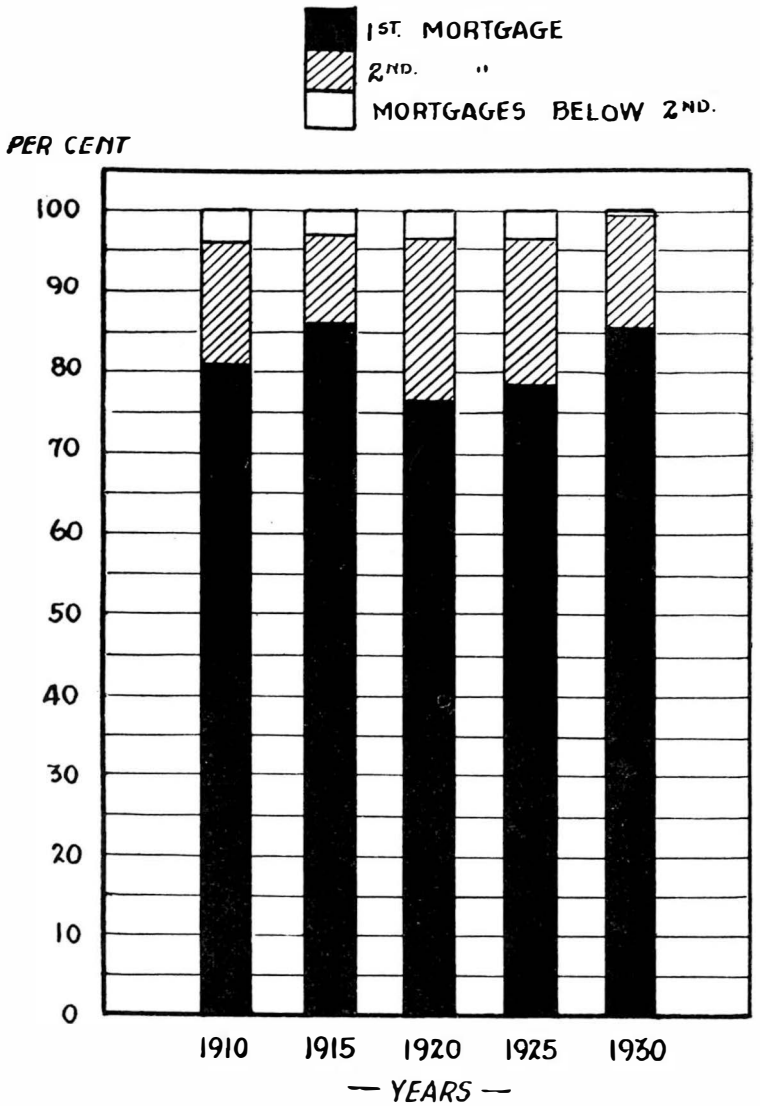

Figure 3.—Percentage of total indebtedness represented by mortgages of different rank, 1910-1930. (Based on Table 2.)

easier to get a second-mortgage loan than to increase the first-mortgage loan on the land. In periods of declining farm incomes the land values may not justify both mortgages. If foreclosure becomes necessary the second mortgage can be foreclosed without eliminating the first mortgage, but a foreclosure of the first mortgage also clears the land of the second-mortgage loan. This possibility would naturally tend to induce holders of junior mortgages to demand payment or at least reduction of their loan. Table 3 presents an index of changes in total indebtedness. Taking the

TABLE 2. Percentage of the total farm real estate mortgage indebtedness represented by loans of each rank every fifth year, 1910 to 1930.

Year	Total Mortgage Indebtedness	Percentage in First Mortgages	Percentage in Second Mortgages	Percentage in Third Mortgages
1910	$324,757	80.6	15.3	4.1[1]
1915	294,416	86.1	10.7	3.2
1920	546.676	76.6	20.0	3.4
1925	431,646	78.5	18.1	3.4[2]
1930	303,630	85.1	14.8	.1

[1] Includes 1.7 per cent in mortgages below third.
[2] Includes 0.4 per cent in fourth mortgages.

TABLE 3. Total mortgage indebtedness and index of change in amount of indebtedness, every fifth year, 1910 to 1930

Year	Index of Change in Total Indebtedness	Total Mortgage Indebtedness
	1910 equals 100%	
1910	100	$324,757
1915	91	294,416
1920	168	546,676
1925	133	431,646
1930	93	303.630

TABLE 4. Percentage increase or decrease in total farm land mortgage indebtedness during four successive five-year periods, or two successive ten-year periods[1], 1910 to 1930 (Based on Table 1.)

Period	Percentage Change in Total Indebtedness	
	Increase	Decrease
1910 to 1915		9.3
1915 to 1920	85.7	
1920 to 1925		21.0
1925 to 1930		29.7
1910 to 1920	68.3	
1920 to 1930		44.5

[1] In each case the indebtedness figure for the end of the previous period is considered as 100 per cent.

1910 amount as 100 per cent the index was 91 in 1915, 168 in 1920, 133 in 1925 and by 1930 was down to 93 per cent of the amount in 1910. It is evident from these figures and from Table 4 that the volume of indebtedness can be increased much more rapidly than it can be reduced. Obviously it is the part of wisdom to be especially conservative in the mortgaging of the farm during periods of high prices.

Area Mortgaged and Debt per Acre

Acreage Under Mortgage.—A larger acreage of the farm land in these three townships was incumbered with mortagages in 1910 than in any of the other years studied with the exception of the year 1920. Table 5 and Figure 4 show 35,560 acres mortgaged in 1910, 30,640 in 1915, and 35,880 in 1920. It will be noted that, unlike the increase in the amount of indebtedness in dollars, the increase from 1910 to 1920 in the acreage incumbered was negligible. By 1925 the incumbered acreage was reduced to 31,080 and in 1930 only 24,160 acres were mortgaged. The 1930 index of indebtedness is only 7 per cent below 1910, but the 1930 index of incumbered acreage is 32 per cent below that of 1910. Declining farm incomes with relatively high mortgage debts per acre resulting in foreclosures and voluntary transfers of title from borrower to lender may account for this reduction in acreage covered by mortgage. Comparison of the indexes of change in Tables 3 and 5 show clearly the differences in trend between the volume of indebtedness and the incumbered acreage. The proportion of the total acreage which was mortgaged was about 56 per cent in 1910 and 1920, about 49 per cent in 1915 and 1925, but by 1930 this had been reduced to 38 per cent of the total area of privately owned land in the three townships.[1] It may be possible that with the high cash expenses, low prices and reduced income in the latter year, the returns from some of this land fell below the sum of expenses and fixed charges.

Average Debt Per Acre.—The indebtedness per acre of mortgaged land, (Table 7 and Fig. 5) rose from $9.13 in 1910 to $9.61 in 1915 and reached a peak of $15.24 in 1920. The decline following 1920 was not as rapid as the previous increase, the debt per acre being $13.89 in 1925 and $12.57 in 1930. Considering the cash expenses of production in comparison with the low prices received, especially for grain, the 1930 debt per acre was a much heavier burden on the farmer than the 1910 per-acre debt.

[1] The percentage in 1910 would be 57.2 per cent if the 1,040 acres patented during the next four years were deducted. This has been included in order to leave these percentages on the same base and hence comparable. There is some public land in the three townships in addition to the school land in sections 16 and 36.

TABLE 5. Area mortgaged, and the percentage which such incumbered acreage is of all land[1], every fifth year, 1910 to 1930.

Year	Acres Mortgaged	Index of Change in Mortgaged Acreage	Percentage of all Land Covered by Mortgage
		1910 equals 100%	
1910	35,560	100	56.3
1915	30,640	86	48.5
1920	35,880	101	56.8
1925	31,080	87	49.2
1930	24,160	68	38.2

[1] Sections 16 and 36, being school land, are not included in the total for "all land." "All land" is taken as 63,223 acres privately owned land in townships 113, 114 and 115, of range 73. If the 1,040 acres of public land patented between 1910 and 1915 were deducted the 1910 percentage would be 57.2.

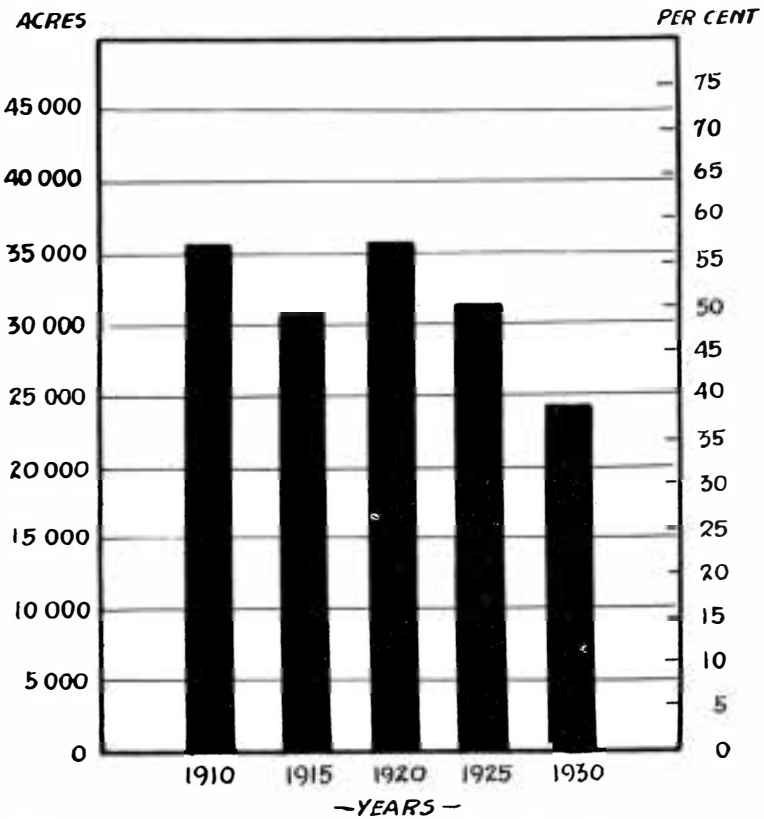

Figure 4.—Acreage mortgaged and percentage of all land[1] covered by mortgage every fifth year, 1910-1930. (Based on Table 5.)

[1] "All land" is taken as 63,223 acres privately owned.

TABLE 6. Percentage increase or decrease in incumbered acreage during four successive five-year periods, or during two successive ten-year periods,[1] 1910 to 1930.
(Based on Table 5.)

Period	Percentage Change in Area Mortgaged	
	Increase	Decrease
1910 to 1915		13.8
1915 to 1920	17.1	
1920 to 1925		13.4
1925 to 1930		22.3
1910 to 1920	.9	
1920 to 1930		32.7

[1] In each case the incumbered acreage figure for the end of the previous period is taken as 100 per cent.

TABLE 7. Average indebtedness per acre of mortgaged land and index of debt per acre every fifth year, 1910 to 1930
(Based on Tables 1 and 5)

Year	Average Total Debt Per Acre	Index of Change in Total Debt Per Acre	Average First Mortgage Debt Per Acre	Index of Change in First Mortgage Debt per Acre
		1910 equals100%		1910 equals 100%
1910	$ 9.13	100	$ 7.36	100
1915	9.61	105	8.27	112
1920	15.24	167	11.68	159
1925	13.89	152	10.91	148
1930	12.57	138	10.69	145

Mortgage Indebtedness and Income.—The index of average prices received for wheat by South Dakota farmers[1] may not be a good indicator of the farm income in this area, but it is possible that a larger share of the income has come from grain than from livestock. With the index of wheat prices on a 1910 base of 100 the 1915 index is also 100. The indexes for area mortgaged, total indebtedness and debt per acre in 1915 were 86, 91 and 105 respectively. By 1920 the index of wheat prices stood at 159. The index of area mortgaged had increased to 101, but the indexes of total indebtedness and of debt per acre had reached 168 and 167 respectively. During the next five years the wheat price index declined and stood at 143 in 1925. As indicated in Tables 3, 5 and 7, the indexes of total indebtedness, area mortgaged, and debt per acre also declined. In 1930 the index numbers were as follows: wheat price 61, area mortgaged 68, total indebtedness 93, and debt per acre 138. Since the reduction in mortgaged indebtedness was partly due to foreclosures, it seems that the farmers went into debt during good times and reduced their debts during hard times. But only part of the repayments were voluntary. The low prices for cash grains, primarily wheat, in 1930 made it difficult for

[1] The index of average prices received for wheat by South Dakota farmers, as well as the index of cattle prices, is based on computations made by Professor R. E. Post of the Agricultural Economics Department, South Dakota State College.

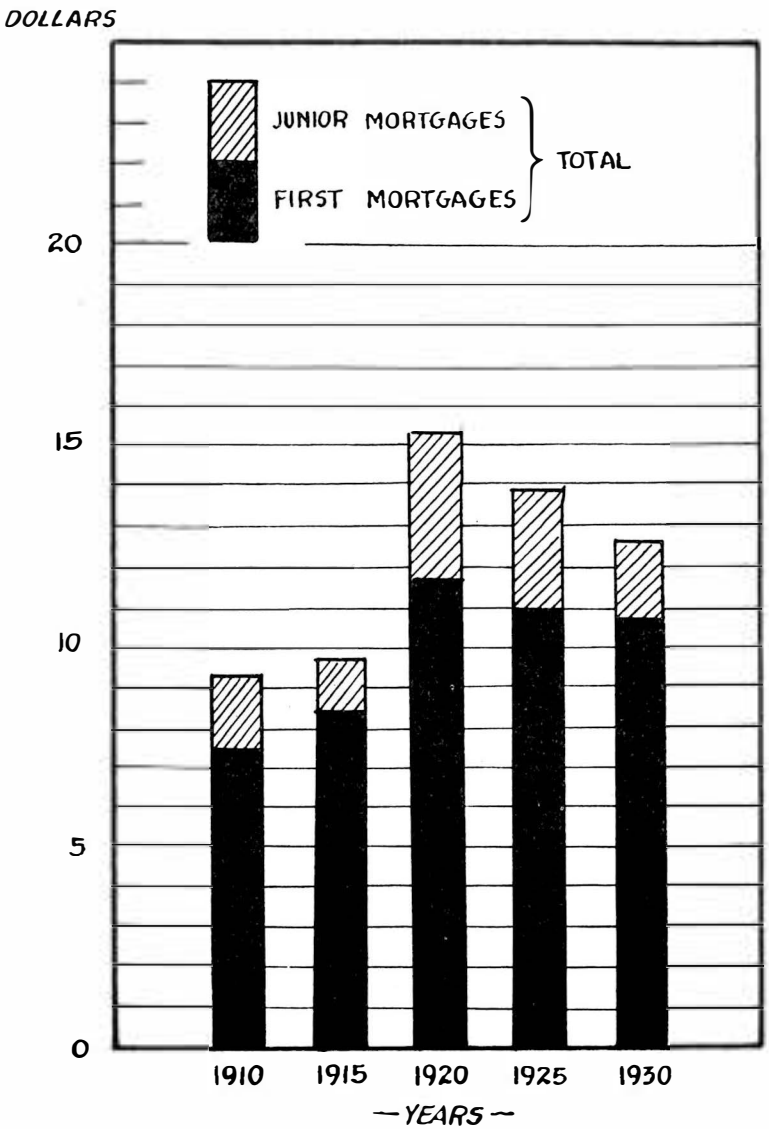

Figure 5.—Average debt per acre of mortgaged land both as to first mortgage loans and total loans, every fifth year, 1910-1930. (Based on Table 7)

the grain farmers to meet their obligations. In so far as farm income in this area is dependent on receipts from cattle, conditions were better, because the index of the South Dakota farm prices of cattle in 1930 was considerably higher than the index of wheat prices. Disregarding the index of cattle prices as an indicator of farm income, it is seen that the

TABLE 8. Percentage increase or decrease in the average farm land mortgage debt per acre of incumbered land during four successive five-year periods or two successive ten-year periods[1], 1910 to 1930.
(Based on Table 7.)

Period	Percentage Change in Debt Per Acre	
	Increase	Decrease
1910 to 1915	5.3	
1915 to 1920	58.6	
1920 to 1925		8.9
1925 to 1930		9.5
1910 to 1920	66.9	
1920 to 1930		17.5

[1] In each case the debt per acre figure for the end of the previous period is taken as 100%.

total debt and the debt per acre rose faster than the price of wheat from 1915 to 1920. But apparently during the next ten years it was not possible to reduce the total debt and the debt per acre as rapidly as the income from wheat declined.

Foreclosures

The Amount of Foreclosures.—As previously indicated foreclosures have been a material cause in the reduction of the total indebtedness. According to data in Table 9 and Figure 6 foreclosures during the five years of 1911 to 1915 inclusive amounted to $12,155. This is 3.7 per cent of the total indebtedness in the three townships in 1910, but it is over 40 per cent of the reduction in total indebtedness from 1910 to 1915. In addition a $2,880 first mortgage and a $180 second mortgage were foreclosed, but redeemed. The period from 1916 to 1920 inclusive was one of rising prices on farm products, and relatively prosperous farm conditions. As a consequence only $7,210 in mortgages were foreclosed during that five-year period. This includes $3,100 in first mortgages and a $60 second mortgage which were redeemed. However, the lands seem to have been lost to the original owners, and hence these are counted as foreclosures. This small amount of foreclosures, 2.4 per cent of the total debt, had no material effect on the tendency toward higher indebtedness. Following 1920, however, foreclosures materially contributed to the reduction of the indebtedness. From 1921 to 1925 inclusive foreclosures amounted to $66,988. This is 12.3 per cent of the total debt in 1920, and constitutes over 58 per cent of the reduction in total indebtedness from 1920 to 1925. Foreclosures during the next five years, 1926 to 1930 inclusive, were of smaller volume both as a total amount and as a percentage of the debt, constituting 9.7 per cent of the 1925 indebtedness. Nevertheless the fore-

closures accounted for over 32 per cent of the reduction in total indebtedness during these five years. The foreclosure figures by ten-year periods show $19,365 between 1911 and 1920 inclusive. This is 6 per cent of the 1910 indebtedness. A big increase occurred during the next ten years from 1921 to 1930 inclusive. Foreclosures amounted to $108,845 during this period, and this is almost 20 per cent of the large total debt in 1920.

TABLE 9. Amount of farm real estate mortgage loans foreclosed upon during four successive five-year periods and for two successive ten-year periods, with ratio of volume of foreclosures to total indebtedness[1] at beginning of each period.

Periods	Total Amount of Foreclosures	Total Debt at Beginning of Period[1]	Ratio of Foreclosures To Total Debt
	Dollars	Dollars	Per Cent
1911 to 1915 inclusive	12,155	324,757	3.7
1916 to 1920 inclusive	7,210[2]	294,416	2.4
1921 to 1925 inclusive	66,988	546,676	12.3
1926 to 1930 inclusive	41,857	431,646	9.7
1911 to 1920 inclusive	19,365	324,757	6.0
1921 to 1930 inclusive	108,845	546,676	19.9

[1] The "total indebtedness at beginning of period" is the amount of indebtedness the previous year: 1910 indebtedness for the 1911 to 1915 period, etc.

[2] Includes only eight foreclosures; $3,160 in loans was redeemed, but title to land passed to other owners.

TABLE 10. Distribution of the volume of foreclosures according to the rank of the mortgages foreclosed during four successive five-year periods from 1911 to 1930 inclusive.

Period	First Mortgages Foreclosed		Second Mortgages Foreclosed	
	Amount	Percentage	Amount	Percentage
1911 to 1915	$11,580[1]	95.3	$ 575[2]	4.7[2]
1916 to 1920	6,150[3]	85.3	1,060[4]	14.7
1921 to 1925	46,886	70.0	20,102	30.0
1926 to 1930	41,782	99.8	75	.2

[1] In addition $2,880 first mortgages and $180 third mortgages were foreclosed, but redeemed.

[2] Includes $180 third mortgage, 1.2%, on 160 acres.

[3] $3,100 on 480 acres was redeemed, but land was lost to the owners.

[4] $60 on 160 acres was redeemed, but land was lost to the owners.

As previously mentioned second-mortgage loans increased more rapidly than first mortgages during the five years preceding 1920. A comparison of the data in Tables 1 and 10 and in Figure 6 indicate that second mortgages were relatively more subject to foreclosure during the next five-year period. During 1921 to 1925 inclusive 11 per cent of the 1920 first-mortgage indebtedness was forclosed while 18 per cent of the debt represented by second mortgages was eliminated by foreclosure during this post-war deflation period.

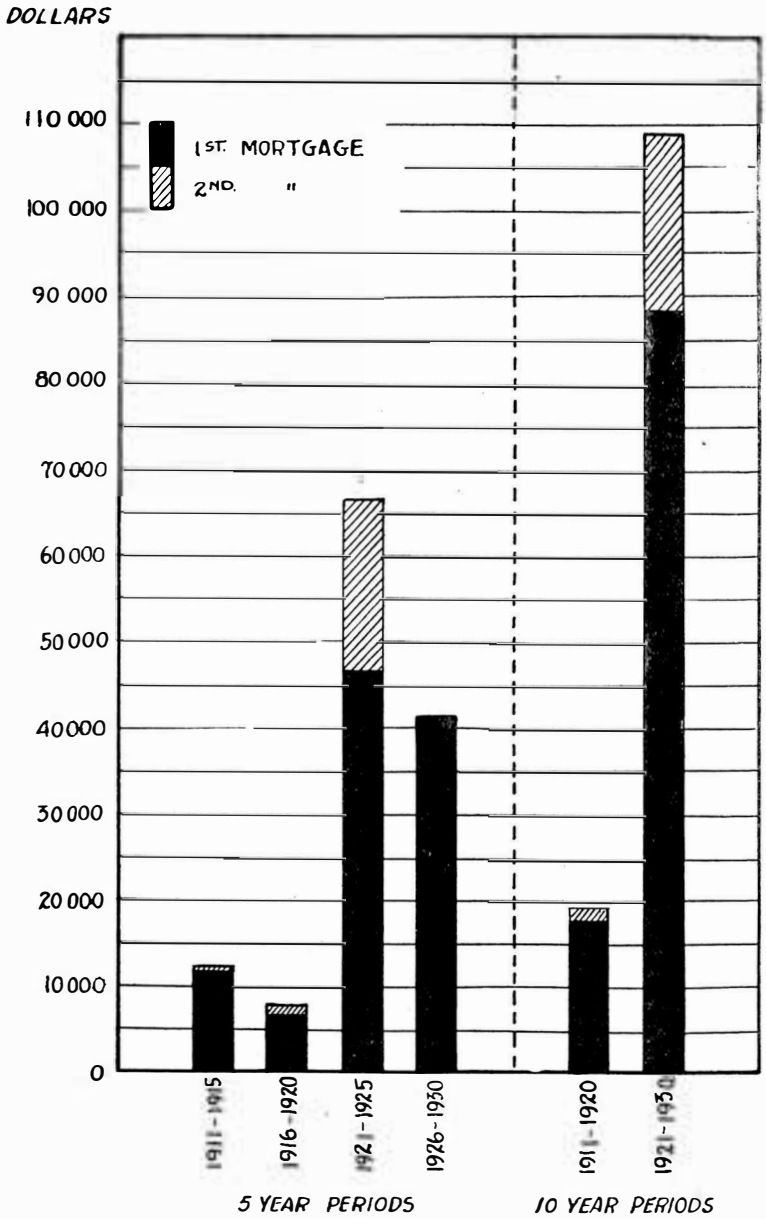

Figure 6.—Amount of mortgage loans foreclosed during successive five-year periods and successive ten-year periods. (Based on Tables 9 and 10.)

Acreage Foreclosed on.—Table 11 and Figure 7 show the acreage involved in foreclosure proceedings. Excluding 480 acres which were redeemed, only 1,200 acres were foreclosed on during 1911 to 1915 inclusive. This is 3.4 per cent of the acreage incumbered in 1910. During 1916 to 1920 inclusive 1,280 acres were foreclosed upon but 640 acres were redeemed. The redeemed land seems to have been lost to the original owners, however, and hence these are counted as foreclosures. This makes a loss to owners of 4.2 per cent of the acreage subject to mortgage in 1915. During the ten years following 1920 there appear to have been no redemptions, and foreclosures increased. During 1921 to 1925 inclusive 5,560 acres were lost through foreclosures. This is 15.5 per cent of the incumbered acreage in 1920. From 1926 to 1930 inclusive, 3,920 acres passed into the hands of mortgagees by means of foreclosures. This constitutes 12.6 per cent of the area under mortgage in 1925. Making the comparisons by ten-year periods it is found that from 1911 to 1920 inclusive mortgagors suffered a loss of 2,480 acres through foreclosure proceedings. This is 7.0 per cent of the 35,560 acres incumbered in 1910. The bulk of the foreclosures during the twenty years under consideration came in the ten-year period from 1921 to 1930 inclusive. During this period the owners of mortgaged land lost 9,480 acres by foreclosures. This constitutes 26.4 per cent of the acreage under mortgage in 1920. Since the incumbered acreage in 1920, 35,880 acres, is only 320 acres larger than the acreage covered by mortgage in 1910, it is seen that relatively, as well as in actual acreage, foreclosures during the second ten-year period were almost four times as extensive as during the ten years prior to 1920.

TABLE 11. Acreage of land involved in mortgage foreclosure during four successive five-year periods and for two successive ten-year periods, and the percentage which the acreage foreclosed during each period is of the total acreage incumbered[1] at the beginning of the period, 1911 to 1930 inclusive.

Periods	Total Acres in Foreclosures[2]	Total Incumbered Acreage at Beginning of Period[1]	Per Cent of Incumbered Acreage Foreclosed on
1911 to 1915 inclusive	1,200	35,560	3.4
1916 to 1920 inclusive	1,280[3]	30,640	4.2
1921 to 1925 inclusive	5,560[4]	35,880	15.5
1926 to 1930 inclusive	3,920	31,080	12.6
1911 to 1920 inclusive	2,480	35,560	7.0
1921 to 1930 inclusive	9,480[4]	35,880	26.4

[1] The "total incumbered acreage at beginning of period" refers to the previous year: The incumbered acreage in 1910 is used with the 1911–1915 period, etc.

[2] The figure for "total acres in foreclosures" may represent double counting of some land in case a piece of land has been foreclosed on twice.

[3] Includes 640 acres redeemed, but land was lost to original owners.

[4] 160 acres foreclosed on twice.

Some Causes of Foreclosures.—The large number of foreclosures were undoubtedly brought on by the war inflation and the succeeding deflation. The rising prices encouraged the assumption of mortgages and other obligations in larger volume based on the higher price level. It may also have stimulated speculative investments in land in the hope of profiting

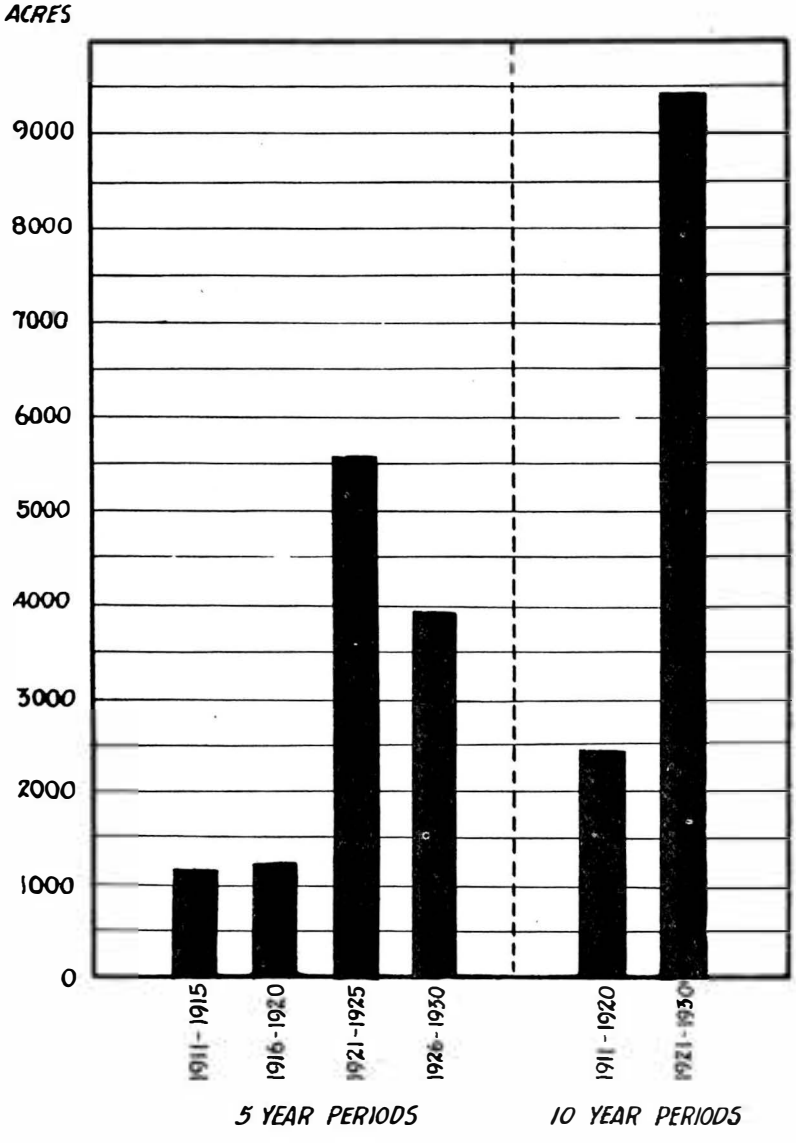

Figure 7.—Acreage lost by owners through foreclosure of mortgages during four successive five-year periods, or two successive ten-year periods. (Based on Table 11.)

from anticapted continually rising prices and land values. Long time debts assumed under these conditions resulted in hardship and loss during the succeeding period of declining prices. The trouble is neither with high prices nor low prices, but with alternating periods of rising and falling price levels. Such instability in the price level is especially harmful to farm owners because of their relatively large fixed investment, often made with borrowed capital. In the absence of means to stabilize the price level it would seem desirable for the individual to base his estimate of land values on a long time average of the earning power of land. Temporarily high prices during an inflation period would not then result in land purchases at exhorbitant prices. Neither would the mortgages of one year exceed the value of the land in a succeeding period. If in addition to such a conservative valuation policy farm loans would be written so as to provide for larger payments on the debt during years of high income the farm industry could hope to attain a higher degree of stability and prosperity.

Precautions the Individual Can Take.—The individual farmer acting alone can not, however, materially influence the price of land. Neither can he stabilize other prices or the price level. But this does not mean that the individual is entirely unable to protect himself against the harmful effects of the periodic rise and fall of the price level. The prospective buyer of land should consider whether land prices are high or low in relation to the long-time earning power of the land. This would involve a consideration of the price of farm products and the expenses of production, not only for the current year but for a period of years. The United States Department of Agriculture and state colleges and agricultural experiment stations usually publish figures and graphs which show the cyclical changes in the price of single commodities and of groups of commodities. From such information the farmer can judge whether prices are above or below the average long-time movement of such prices as have a bearing on land values. When land prices have been going up considerably for some time and speculative buying and selling of lands is frequent it is not a good time to invest in land for farming purposes. That is the time to sell, if one wants to quit farming. Land should be purchased for farming purposes when the indicators discussed above show that land prices are low. Care should be also used not to incur large expenditures for improvements during periods of high prices. This would be especially true if such expenditures necessitate borrowing. During years when the farm income is large it would be wise to make larger than usual repayments on the existing farm indebtedness in order to reduce the burden of debt payments in lean years.

Debt Per Acre on Foreclosed Land.—A comparison of the debt per acre on the land subject to foreclosure and on the non-foreclosed mortgaged land was attempted. The foreclosures during any one year usually were too few to make reliable comparisons. This made it desirable to take the average debt per acre on all foreclosures during successive five-year periods, from 1911 to 1930 inclusive. All the debt on such foreclosed land at the time of foreclosure was then compared with the average total debt per acre of non-foreclosed land as given in Table 7. Valid comparisons are made difficult by the fact that foreclosures are spread over five-year periods, while the indebtedness figures on non-foreclosed land are as of every fifth year,and the average debt per acre on all lands was changing

from time to time. In order to overcome this difficulty to some extent, the debt per acre on lands foreclosed on during each period was compared with the average of the debt per acre of non-foreclosed land at the beginning and end of each period. That is, the sum of the debts per acre in 1910 and in 1915, for example, was divided by two and this average figure compared with the debt per acre on lands foreclosed during the 1911-1915 period, etc. Even this does not make the indebtedness figures for the two classes of land perfectly comparable. Furthermore, the volume of foreclosures during the first two five-year periods, as indicated in Table 9, was too small to give dependable averages. The results must therefore be taken with some caution. But compared as indicated above they show the following: For the 1911 to 1915 period the debt per acre on foreclosed land was 24 per cent higher than on non-foreclosed mortgaged land. For the 1920 to 1925 period the total debt per acre on foreclosed land at the time of foreclosure was 25 per cent higher than the debt per acre on non-foreclosed land. In the 1925-1930 period the debt per acre on foreclosed land was 47 per cent higher than on non-foreclosed land under mortgage. This may be what one would expect in most cases, but the indications in this comparison are based on too few observations to make the findings anything like conclusive. The method of comparison used is also open to question. The period from 1916 to 1920 inclusive shows a relationship exactly the inverse of results for the other three periods. Using the debt per acre on non-foreclosed incumbered land as a base of 100, the index of indebtedness per acre on the foreclosed land was only 67. The volume of foreclosures during this period was small, only eight foreclosures amounting to $7,210 on 1,280 acres, and all came from 1916 to May, 1918 inclusive. This was a period of rapidly rising land prices, especially during 1918, 1919 and 1920. On non-forclosed land the debt per acre was $9.61 in 1915 and $15.24 in 1920. It is thus possible that since all the foreclosures took place during the first half of the period the foreclosures did not include any mortgages for larger amounts per acre based on the higher loan limits in the last half of the period. This, however, does not explain the whole difference because even the 1915 debt per acre on non-foreclosed land of $9.61 is higher than the debt per acre of $8.39 on lands foreclosed upon. It must be understood that the debt per acre of foreclosed land at the time of foreclosures includes all loans on such land at the time of foreclosure, and not simply the loans actually forclosed upon.

While the results here arrived at are not conclusive, it might be possible in some larger studies to determine whether for any given area a certain debt per acre at given costs for loans might be more than the land could carry. But the problem is complicated by individual differences in the producing capacity of lands, differences in managerial ability of farmers and other factors.

Delinquency

Definition of Delinquency as Used Here.—A condition of delinquency usually must precede actual foreclosure. For this reason delinquency statistics may be considered reliable distress signals. A loan may be delinquent either as to payments on principal or as to payment of interest due. In this discussion a loan has been considered delinquent when past

due as to principal and not satisfied or released of record, in cases where inquiry has not revealed extension by mutual agreement between mortgagor and mortgagee or assignee. Amortization loans have been considered delinquent when one or more amortization installment payments were past due and unpaid. No consideration has been given to interest payments because no records are available.

Amount and Percentage of Delinquency.—Table 12 gives the amount of first mortgage loans delinquent every fifth year from 1910 to 1930, and also indicates what percentage this was of the total amount of first mortgage loans. Junior mortgage delinquencies are similarly shown in Table 13. In some cases the number of second mortgages was too small to make a significant comparison between these two classes of loans. Table

TABLE 12. Amount of first mortgage farm real estate loans delinquent[1] as to principal, and the percentage of the total first mortgage indebtedness which was delinquent at the end of years indicated, 1910 to 1930.

Year	Total First Mortgage Loans Delinquent[1]		First Mortgages Delinquent up to 30 Days	First Mortgages Delinquent 31 Days to 6 Months	First Mortgages Delinquent Over 6 Months to One Year	First Mortgages Delinquent Over One Year	Sum of Mortgages of Unknown Length Delinquency
	Amount Delinquent	Per Cent of Outstanding First Mortgage Debt Delinquent					
1910	$ 21,147	8	$ 3,719	$ 7,450	$ 1,225	$ 8,753	$ -
1915	99,064	39	10,850	4,676	26,100	57,438	-
1920	72,681	17	2,400	2,800	2,900	56,228	8,353
1925	175,016	52	2,200	23,932	33,421	76,625	38,838
1930	91,275	30	-	12,500	8,400	50,955	19,420

[1] Included among "total first mortgage loans delinquent" are all loans past due and unpaid of record in cases where inquiry has not shown extension by agreement between borrower and lender. Delinquent amortization payments, chiefly Rural Credit loans, are also included in the left hand column, and then listed in a column at the right for delinquencies of unknown length or duration.

Table 13. Amount of Junior mortgage loans delinquent[1] as to principal, and the percentage of the total junior mortgage indebtedness which was delinquent at the end of the years indicated, 1910 to 1930

Year	Junior Mortgages Delinquent		Junior Mortgages Delinquent up to 30 Days	Junior Mortgages Delinquent 31 Days to 6 Months	Junior Mortgages Delinquent Over 6 Months to One Year	Junior Mortgages Delinquent Over One Year
	Amt. Delinquent	Per Cent of Outstanding Junior Mortgage Debt Delinquent				
1910	$18,640	30	$500	$16,310	$ 730	$ 1,100
1915	12,253	30	-	339	1,480	10,434
1920	19,551	15	150	15,271	-	4,130
1925	60,008	65	-	250	12,812	46,946
1930	18,515	41	-	-	-	18,515

[1] A mortgage past due and not satisfied of record is counted delinquent in cases where inquiry has not shown extension by agreement between borrower and lender.

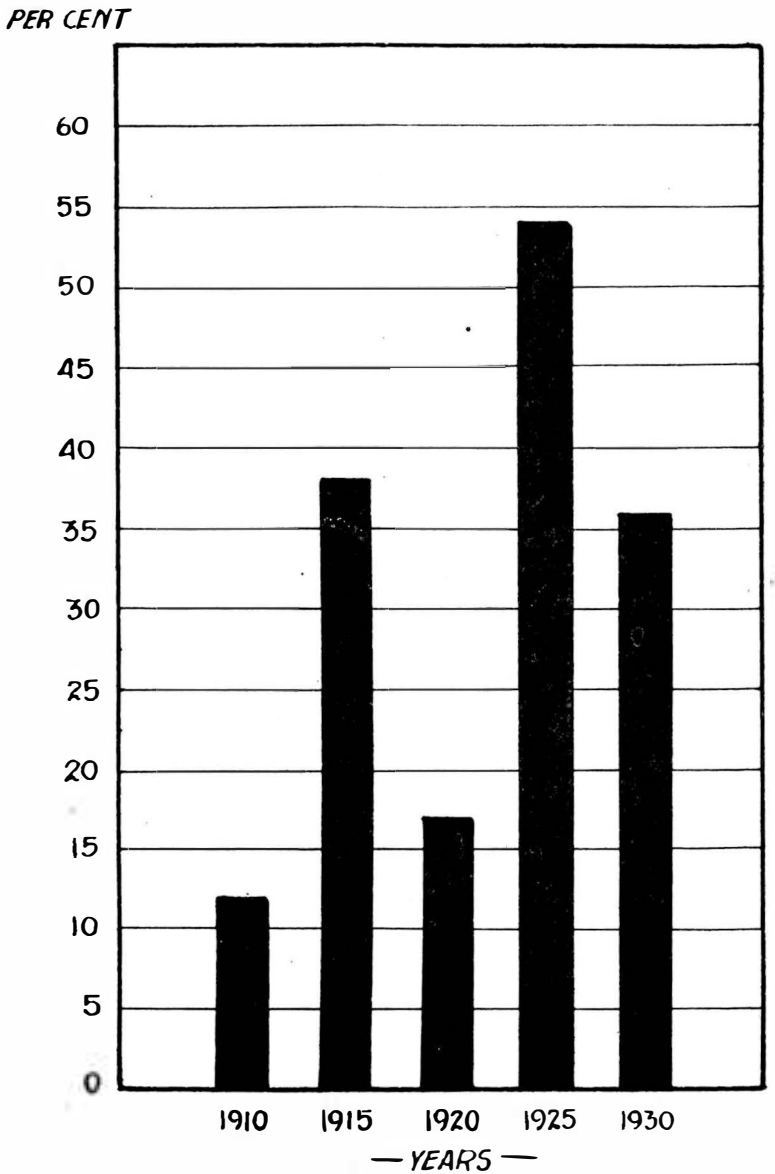

Figure 8.—Percentage of total debt delinquent at the end of the years indicated, 1910-1930. (Based on Table 14.)

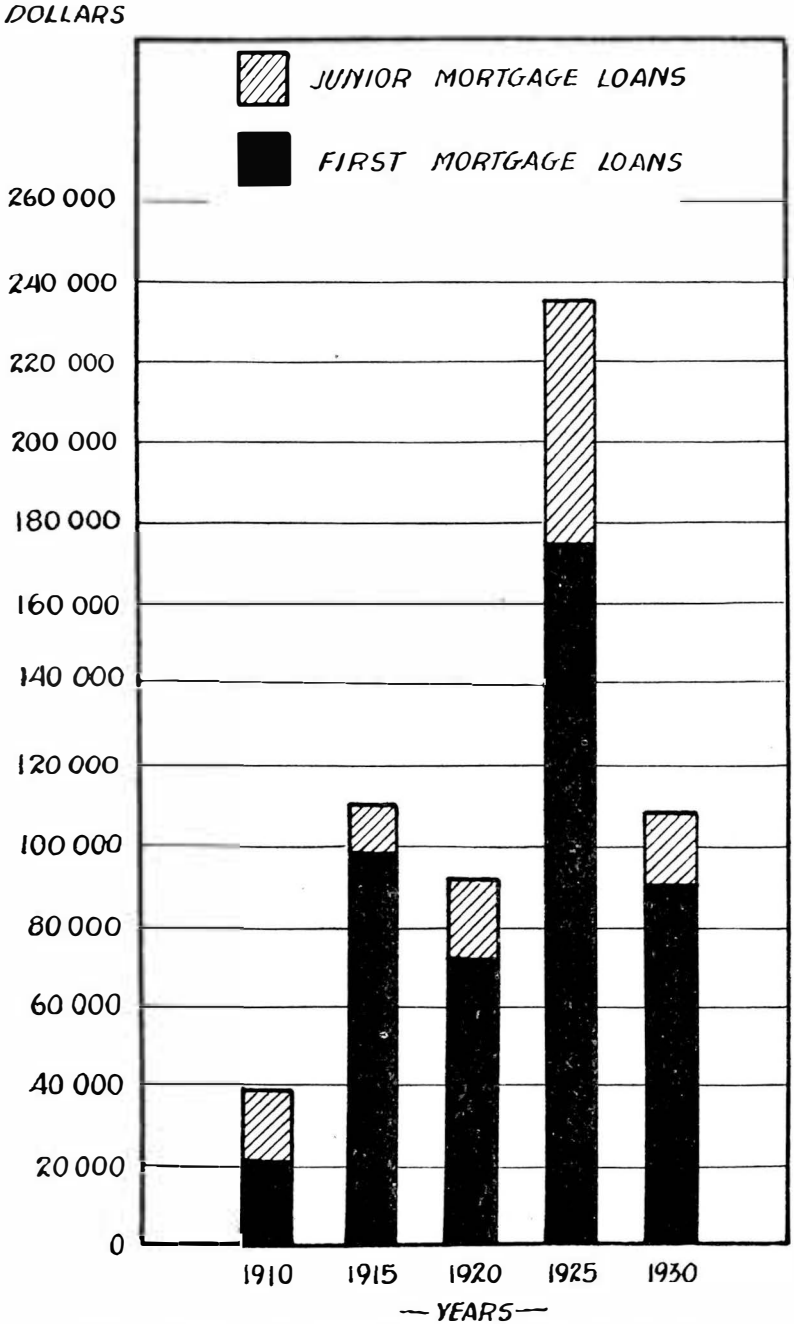

Figure 9.—Amount of first mortgage and junior mortgage delinquent loans every fifth year, 1910-1930. (Based on Tables 12 and 14.)

14 presents the delinquency statistics of all loans irrespective of the rank of the mortgage. Figure 8 gives a graphic view of the percentage of all indebtedness which was delinquent. Figure 9 shows the amount delinquent. In 1910 $39,787 of loans were delinquent as to principal. This is 12 per cent of all loans on record for that year. During the next five years there was a marked increase in the amount of delinquent loans. The sum of the delinquent mortgages in 1915 was $111,317, or 38 per cent of the total debt in that year. The rising prices of farm products during the years immediately preceding 1920 reduced the amount of delinquency only to $92,232. But since the total indebtedness during that year was much larger the perecentage of delinquency dropped to 17 per cent of the total real estate mortgage indebtedness. The farmers having incurred large debts on the basis of the high 1920 price level, and then later encountering lower prices for their products, some increase in delinquency is to be

TABLE 14. Total amount of farm real estate mortgage loans of all ranks delinquent[1] as to principal, and the percentage of the total mortgage indebtedness which was delinquent every fifth year, 1910 to 1930.

Year	Delinquent Mortgages of all Ranks		Sum of Mortgages Delinquent up to 30 Days	Sum of Mortgages Delinquent 31 Days to 6 Months	Sum of Mortgages Delinquent Over 6 Months to One Year	Sum of Mortgages Delinquent Over One Year	Sum of Mortgages Delinquent of Unknown Duration
	Amount Delinquent	Per Cent of Total Mortgage Debt Delinquent					
1910	$ 39,787	12	$ 4,219	$23,760	$ 1,955	$ 9,853	$ -
1915	111,317	38	10,850	5,015	27,580	67,872	-
1920	92,232	17	2,550	18,071	2,900	60,358	8,353
1925	235,024	54	2,200	24,182	46,233	123,575	38,838
1930	109,790	36	-	12,500	8,400	69,470	19,420

[1] A mortgage past due and not satisfied of record is counted delinquent in cases where inquiry has not shown extension by agreement between borrower and lender. In the totals in the left hand column, headed "Amount Delinquent" are also included some delinquent amortization loans, chiefly Rural Credit loans, which have been listed in the extreme right hand column for delinquencies of unknown length or duration.

expected for 1925. The amount that year reached the large sum of $235,-024, which constituted 54 per cent of the total 1925 indebtedness. The 1930 delinquency was $109,790 or 36 per cent of that year's indebtedness.

Duration of Delinquency.—Inspection of the delinquency tables previously mentioned will show that the total amounts delinquent have been classified in sub groups showing the duration of the delinquency. It will be noted that for the years 1915 to 1930 large sums were delinquent over one year and up to ten years, and small amounts were delinquent even longer. There may be some error in these figures, but considerable effort has been put forth to make them accurate. Numerous mortgages appeared on the records as being in force against the land, although from one to several years past due. In order to determine which of these loans actually were in force, and unpaid but delinquent, about 125 letters of inquiry were sent out. Mortgagors, mortgagees and assignees were solicited for information. Postmasters, bankers, loan agents, the register

of deeds, county treasurer and auditor were requested to furnish information as to the whereabouts of owners and others who might possess information in regard to the various lands and loans in question. As a result of replies received it was found that some of the loans had been paid, but that the satisfaction had not been recorded. In some cases the mortgage had, in effect, been wiped out by a transfer of title from the borrower to the lender, but neither satisfaction of mortgage nor deed had been recorded. Many others were long past due, unpaid and delinquent both of record and in fact. In some cases no one could be found who knew anything about the case, or the private documents or record books could not be found by those who were presumed to have access to such documentary evidence. The informants heard from were scattered all the way from the Atlantic to the Pacific. In spite of the efforts put forth there are undoubtedly still some errors in these figures of delinquencies of long duration. The data of delinquencies in the right hand column, of Table 14, headed "unknown" refer chiefly to South Dakota Rural Credit amortization loans. In cases where one or more amortization payments of a loan were past due as of the end of the year indicated the whole unpaid remainder of the loan has been listed as delinquent, but the duration of the delinquency is not known.

Recording Documents.—The preceding discussion of the delinquency records indicates the need for greater care in recording documents affecting the title to land. The borrower who has paid his loan and received the "satisfaction of mortgage" is the only one who directly benefits from placing that document on record, yet he may take it home, lay it aside, and forget it or lose it. For this reason it might be well to require the mortgagee to record the release, but let him collect the recording fee from the borrower. With respect to deeds and other documents as well, greater care and accuracy in stating the facts and promptness in recording would be desirable so as to improve the county records, both as to the kind and trustworthiness of the data they contain.

Prevention of Delinquency.—Another lesson to be drawn from the delinquency data is that more consideration might well be given by borrowers and lenders to the problem of dating the payment of interest and principal to coincide with the time of year when the farm income is expected. Delinquency in connection with an obligation to pay money is usually considered by investors as an indication that something is not as it should be. Investors will try to avoid a type of security in connection with which there is a high percentage of delinquency. For this reason high delinquency in farm land mortgage loans will tend to restrict the volume of funds seeking such investment and raise the rate of interest. This is a handicap to the farming industry. In so far as delinquency results from the operation of economic forces beyond the control of the individual farmer there may be nothing he can do about it. In so far, however, as delinquency is due to untimely maturity and interest paying dates the farmer usually can do something about it. No mortgage should be made or renewed without making provision for the payment of interest and principal at a time of year when funds are expected to be available.

Acreage With Delinquent Loans.—Delinquency can also be studied from the point of view of the land involved. This phase of the subject is presented in Table 15 and in Figure 10. The loans on 4,400 acres, or 12.4

per cent of the mortgaged acreage, were delinquent in 1910. By 1915 the delinquent area had increased to 11,360 acres or 37.1 per cent of the total incumbered acreage. The percentage reduction in delinquency from 1915 to 1920 was not as great in the case of the land as in the case of the amount of loans. The 8,960 acres having delinquent loans in 1920 constituted 25 per cent of the acreage then incumbered. But only 17 per cent of the amount of loans was delinquent that year. In 1925, 56.6 per cent of the mortgaged land was covered by delinquent loans. This was 17,600 acres. In 1930 the volume of delinquent loans was 36 per cent of all loans, but delinquent land was 46.4 per cent of all mortgaged land. The loans on 11,200 acres were past due and unpaid in that year. The percentages of land and of loans that are delinquent do not necessarily correspond because the debt per acre is not the same on all pieces of land. Furthermore, in case of two or more concurrent mortgages on a piece of land all these mortgages may not be delinquent at any one time, but all land on which even one mortgage is delinquent must be listed as delinquent.

Delinquency as a Foreclosure Signal.—Delinquency is undoubtedly an indication of distress but it may not be an accurate indicator of impending foreclosures. The ratio of debt to value of land will also have to be considered before arriving at a decision as to the degree of danger of loss of the land through foreclosure. Although individual cases may vary it may be safe to say that this ratio will be wide during periods of rising prices and narrow during periods of declining prices, such as followed 1920. In other words, with rising prices the farmer's equity in the land will increase in relation to the mortgage on it. Under these circumstances the mortgagee would not need to hestitate to forclose on a delinquent loan. He could then reasonably hope that the land could be sold for at least sufficient to cover the amount of the mortgage and costs of foreclosure. On the other hand, if prices are falling, land values may be declining but mortgages usually can not be reduced proportionately. In fact, the value of the land may fall so low as to leave the farmer no equity in the land. This may induce delinquency, but the lender may not be impelled to foreclose unless this is the lesser of two evils. During such periods the mortgagees are likely to try to encourage the owner to pay taxes and interest on the promise of extension of the mortgage, and the amount of delinquency may be large in relation to the amount of foreclosures. Thus in 1925, 54 per cent of the amount of farm land loans were delinquent, but only 9.7 per cent of the amount of loans in force in 1925 were foreclosed during the five years of 1926 to 1930 inclusive. Usually lenders will not foreclose if prospects are that the borrower will be able to pay if given some additional time.

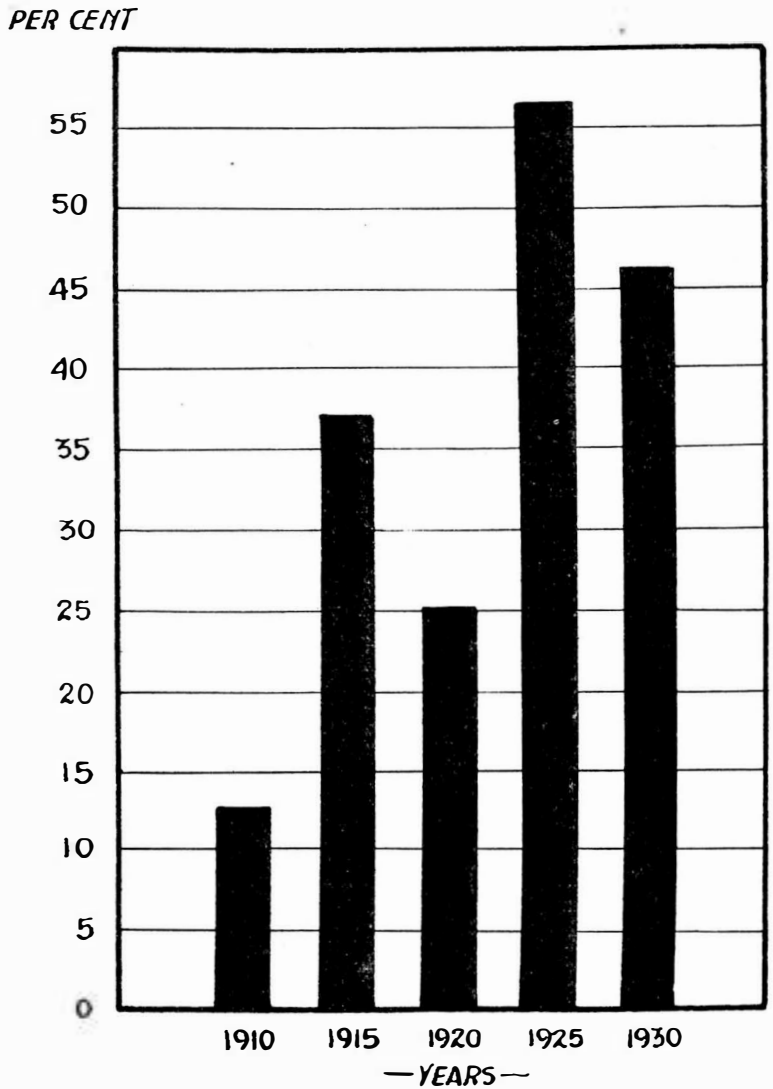

Figure 10.—Percentage of all mortgaged acreage on which principal of loan was delinquent, 1910-1930. (Based on Table 15.)

TABLE 15. Percentage of the mortgaged acreage on which principal was delinquent, every fifth year, 1910 to 1930.

Year	Acreage on Which Loan Was Past Due and Unpaid	Total Mortgaged Acreage	Per Cent of Mortgaged Acreage Delinquent
1910	4,400	35,560	12.4
1915	11,360	30,640	37.1
1920	8,960	35,880	25.0
1925	17,600	31,080	56.6
1930	11,200	24,160	46.4

Classification of Mortgaged Land and Loans as to Debt per Acre

Percentages of Debt and of Mortgaged Acreage in Each Class.—The average debt per acre has been discussed earlier in this report, but an average is not always a satisfactory description of conditions. It may hide as much as it reveals. In Table 16 an attempt has been made to classify the loans and the mortgaged land on the basis of the debt per acre. Figure 11 shows the same information graphically. The classes vary by $10.00. In 1910, it is seen, 47.7 per cent of all indebtedness was on land that was mortgaged in amounts up to $10.00 per acre. In other words, the sum of all the loans which amounted to not over $10.00 of debt per acre accounted for almost one-half (47.7%) of the $324,757 total indebtedness in 1910. The average debt per acre in this class was $6.23 per acre. Almost 70 per cent of the mortgaged land fell in this class that year. That is, 70 per cent of the incumbered land was mortgaged for $10.00 or less per acre. The next class, between $10.01 and $20.00, averaged $13.02 debt per acre. In this class was found 37.5 per cent of the total debt and 26.2 per cent of the mortgaged land in 1910. The next two classes from $20.01 to $30.00 and from $30.01 to $40.00 contain only 9.9 per cent of the indebtedness between them and 3.3 per cent of the incumbered land. Then there is an unusual case averaging $98.75 debt per acre and containing 4.9 per cent of the amount of loans and .5 per cent of the mortgaged land. Figure 11 shows at a glance what percentage or proportion of the debt and of the mortgaged land fell in the different classes during each one of the years studied. The distribution of the indebtedness in 1915 was very much like that in 1910. During the former year 85.2 per cent of the total indebtedness and 96.2 per cent of the mortgaged land fell in the first two classes up to $20.00 per acre. In 1915 the first two indebtedness classes accounted for 82.8 per cent of the debt and 95.1 per cent of the incumbered land. In other words the higher indebtedness groups in 1915 accounted for only 2.4 per cent more of the debt and 1.1 per cent more of the land under mortgage.

Higher Debts After the War.—By 1920 the first two classes, up to $20.00 per acre, held only 57.1 per cent of the total indebtedness and 82.3 per cent of the land covered by mortgage. More significant perhaps is the fact that whereas in the earlier years a higher percentage of both debt and mortgaged land fell in the lowest class, by 1920 the shift to larger

TABLE 16. Distribution of the total farm real estate mortgage indebtedness according to the amount of debt per acre of incumbered land, every fifth year, 1910 to 1930

Classes of Indebtedness Per Acre	Average debt per mortgaged acre, per cent of total indebtedness and per cent of mortgaged land falling in each indebtedness class.														
	1910			1915			1920			1925			1930		
	Average Debt Per Acre	Per Cent of Total Debt	Per Cent of Mortgaged Land	Average Debt Per Acre	Per Cent of Total Debt	Per Cent of Mortgaged Land	Average Debt Per Acre	Per Cent of Total Debt	Per Cent of Mortgaged Land	Average Debt Per Acre	Per Cent of Total Debt	Per Cent of Mortgaged Land	Average Debt Per Acre	Per Cent of Total Debt	Per Cent of Mortgaged Land
$ 0.01 to $ 10.	$ 6.23	47.7	69.9	$ 6.48	45.1	66.9	$7 .02	20.2	43.9	$ 6.95	22.6	45.3	$ 6.89	32.0	58.3
$10.01 to $ 20.	13.02	37.5	26.3	12.85	37.7	28.2	14.69	36.9	38.4	14.74	41.3	38.9	13.56	30.4	28.2
$20.01 to $ 30.	23.22	5.7	2.2	21.28	6.9	3.1	23.34	16.4	10.7	23.89	15.3	8.9	24.94	17.7	8.9
$30.01 to $ 40.	34.18	4.2	1.1	38.21	4.2	1.0	37.92	5.5	2.2	33.66	10.6	4.3	37.50	2.0	.7
$40.01 to $ 50.	-- --			41.64	1.1	.3	49.57	2.9	.9	-- --			46.75	2.5	.6
$50.01 to $ 60.	-- --			-- --			53.12	9.3	2.6	53.18	7.9	2.1	52.71	8.3	2.0
$60.01 to $ 70.	-- --			-- --			-- --			62.73	2.3	.5	67.95	7.1	1.2
$70.01 to $ 80.	-- --			-- --			-- --			-- --			-- --		
$80.01 to $ 90.	-- --			-- --			-- --			-- --			-- --		
$90.01 to $100.	98.75	4.9	.5	92.50	5.0	.5	98.63	8.8	1.3	-- --			-- --		

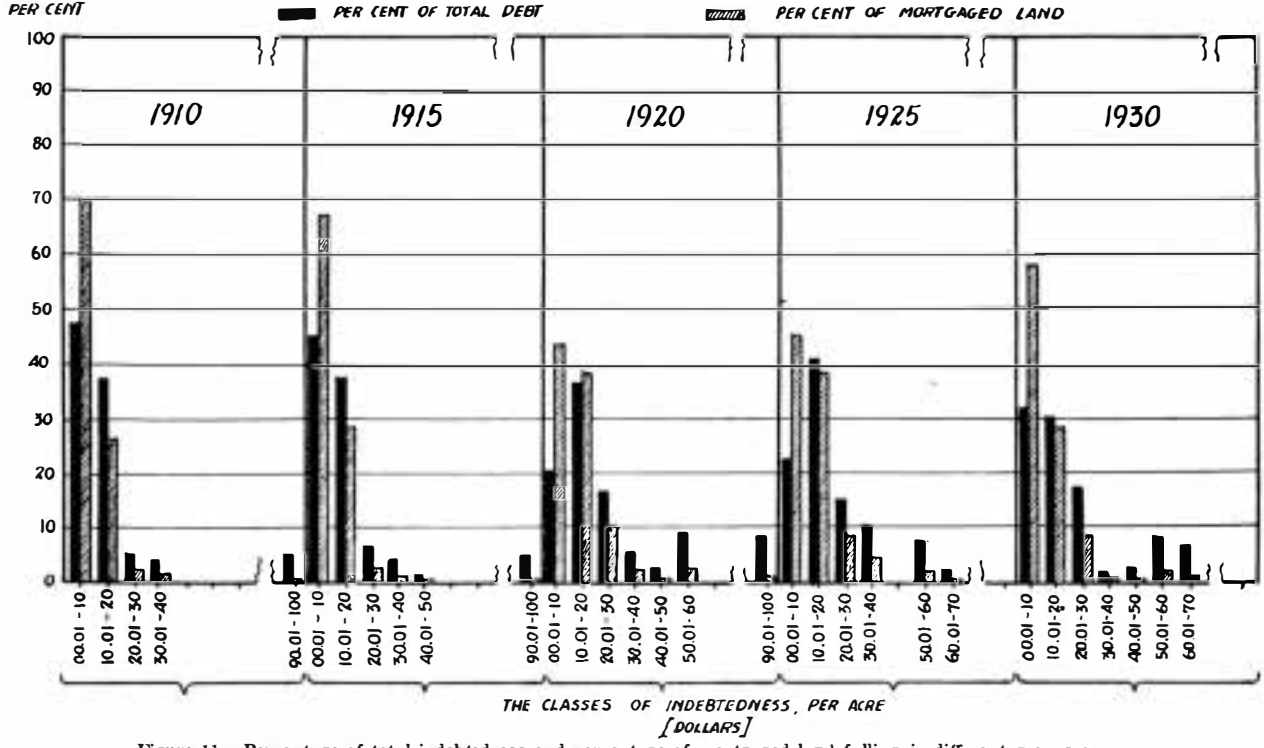

Figure 11.—Percentage of total indebtedness and percentage of mortgaged land falling in different groups or classes of indicated indebtedness per acre, 1910-1930. (Based on Table 16.)

loans per acre placed almost twice as much of the total debt in the second class as in the first. Furthermore, almost 43 per cent of the total debt was in indebtedness classes running from $20.01 per acre and up. Naturally a smaller percentage of the incumbered land is found in these upper classes. Because, with higher indebtedness per acre, less land is required for a given amount of loans. In 1925 as in 1920 the modal class, or the class containing the highest percentage of the debt, was the $10.01 to $20.00 class. But the concentration in this class was even greater in 1925 than in 1920. In the earlier year 36.9 per cent of the debt was in the $10.01 to $20.00 class. In 1925, 41.3 per cent of the indebtedness was in that class. Even with the elimination in 1925 of the freak case of near $100.00 debt per acre, over 36 per cent of the indebtedness was found in the classes above $20.00 per acre. Less than 16 per cent of the mortgaged land was in these higher classes. By 1930, as in 1910 and 1915, the modal class is again the class of $0.01 to $10.00 debt per acre. The next higher class, however, is a close second. These two classes account for 62.4 per cent of the debt and 86.5 per cent of the mortgaged land in 1930. The tendency, apparently, has been to grant lower loans per acre and the old loans of larger amounts per acre have been reduced. But it is a slow and difficult process, in periods of low prices, to liquidate the large loans placed in periods of inflation. Almost 38 per cent of the total debt in 1930 was still on land that was mortgaged for over $20.00 per acre. This is a very high indebtedness when it is considered that the 1930 census valuation for farm land in these three townships was only about $17.79 per acre.

Source of Funds

The sources of funds for farm mortgages have been classified as insurance companies, savings banks, commercial banks, individuals, the Federal Land Bank, South Dakota school fund[1], South Dakota Rural Credit[2], mortgage bankers and miscellaneous. It may be mentioned that savings banks here include trust companies, that commercial banks are largely local banks either at the present or the former home of the borrower, and that South Dakota school fund loans are from school funds handled through the office of the county treasurer. The class "mortgage bankers" includes local loan agents as well as other farm mortgage bankers. The loans held by them are only those which, at the time, had not been assigned to insurance companies and other corporate, institutional and individual investors. Finally those that could not be classified conveniently otherwise are listed as miscellaneous.

Sources of First-Mortgage Funds.—With respect to first-mortgage loans it will be seen from both Table 17 and Figure 12 that by far the largest volume of loans came from individuals during all the years considered. This source accounted for 63.2 per cent of all the funds outstanding in 1910, 57.0 per cent in 1915, 59.7 per cent in 1920, 57.4 per cent in

[1] The loans from the South Dakota school fund are handled by the county treasurer of each county. The term has been predominantly five years or less, but in some cases renewals or extensions have been made on the loan records of the county treasurer without recording such changes in the office of the Register of Deeds.

[2] The loans placed by the South Dakota Rural Credit have been on the 30-year amortization plan.

1925 and 53.0 per cent in 1930. The only other important source is the state of South Dakota. Combining the loans from the school fund and the Rural Credit Loans, 14 per cent of the funds for the outstanding first mortgages came from this source in 1920. This was increased to 28.9 per cent in 1925 and 29.9 per cent in 1930. Insurance companies furnished about 8 and 9 per cent respectively in 1910 and 1915, and only about one per cent during the other years. This is in marked contrast to conditions in the older eastern part of the state. In Brookings County, for instance, insurance companies had replaced individuals as the chief source of funds by 1925. Both the nature of their business and the legal restrictions surrounding their investment policies compel insurance companies to place their loans in the older, well established farming areas.

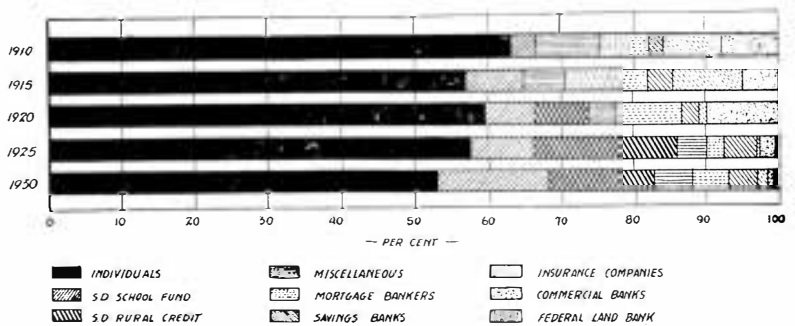

Figure 12.—Percentage of first-mortgage funds coming from various sources, 1910-1930. (Based on Table 17.)

TABLE 17. Source of first-mortgage funds: Amount and percentage of total coming from each source, every fifth year, 1910 to 1930.

Source of Funds	1910		1915		1920		1925		1930	
	Amount	Pct.	Amount	Pct.	Amount	Pct.	Amount	Pct.	Amount	Pct.
Insurance Companies	$21,245	8.1	$ 24,458	9.7	$ 5,800	1.4	$ 1,000	.3	$ 3,600	1.4
Savings Banks	5,200	2.0	8,730	3.4	9,500	2.3	15,400	4.5	10,250	4.0
Commercial Banks	19,960	7.6	12,700	5.0	41,046	9.8	7,400	2.2	2,150	.8
Individuals	165,232	63.2	144,417	57.0	250,199	59.7	194,562	57.4	136,921	53.0
Federal Land Bank	–	–	–	–	–	–	1,800	.5	1,800	.7
South Dakota School Fund	9,100	3.5	19,750	7.8	27,950	6.7	30,200	8.9	39,200	15.2
South Dakota Rural Credit	–	–	–	–	30,686	7.3	67,616	20.0	37,856	14.7
Mortgage Bankers	18,188	6.9	29,200	11.5	38,020	9.1	7,420	2.2	12,750	4.9
Miscellaneous	22,690	8.7	14,149	5.6	15,732	3.7	13,532	4.0	13,800	5.3

Sources of Second-Mortgage Funds.—Second-mortgage loans have fewer sources, as indicated by Table 18 and in Figure 13. The $2000 listed under insurance companies in Table 18 is only technically a second mort-

gage, because the same company also held the first mortgage on this and other land. Figure 13 makes it evident that individuals, commercial banks, and mortgage bankers have furnished the bulk of second-mortgage funds. It is undoubtedly true that almost all of these lending agencies were local individuals and firms. This is to be expected. On account of the greater risk in extending credit on second mortgages local people are in better position to estimate the risk involved, supervise the use of the credit, and make collection at the opportune time. Then also second mortgages on land have been taken by local creditors as additional security on other, short time, loans that were either unsecured or insufficiently secured.

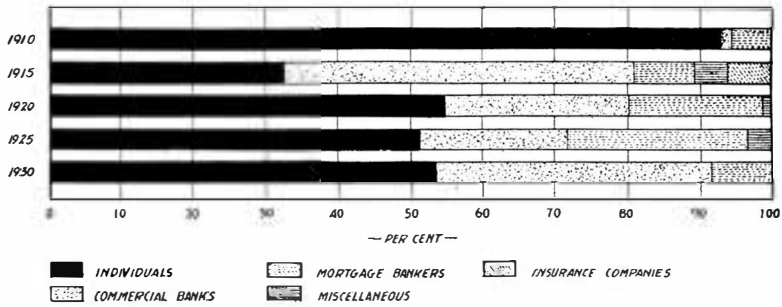

Figure 13.—Percentage of second mortgage funds coming from various sources, 1910-1930. (Based on Table 18.)

TABLE 18. Source of second mortgage funds: Amount and percentage coming from each source, every fifth year, 1910 to 1930.

Source of Funds	1910		1915		1920		1925		1930	
	Amount	Pct.	Amount	Pct.	Amount	Pct.	Amount	Pct.	Amount	Pct.
Insurance Companies	$ –	–	$ 2,000	6.3	$ –	–	$ –	–	$ –	–
Commercial Banks	800	1.6	15,267	48.2	27,799	25.4	16,280	20.9	17,146	38.2
Individuals	46,154	92.9	10,271	32.5	59,792	54.7	39,877	51.2	23,917	53.2
Mortgage Bankers	2,740	5.5	2,646	8.4	20,413	18.7	19,243	24.7	3,878	8.6
Miscellaneous	–	–	1,455	4.6	1,260	1.2	2,510	3.2	–	–

Cost of Funds

The Average Interest Rate on all First-Mortgage Loans in Force at Specified Times.—The principal item of cost in connection with farm land mortgage loans is the interest that has to be paid. The commission that must be paid in connection with some loans may add materially to the total cost. Other costs may include abstract charges, recording fees, and time spent in procuring and completing the loan. It is obvious that short term loans requiring frequent renewals may involve more of certain of these cost items than would long term loans, like the Federal Land Bank

amortization loans where these may be available. The average rates of interest on all first- and second-mortgage loans in force for the years studied are indicated in Table 19. The average on first mortgages seems to have ranged close to six and one-quarter per cent up to 1920. It was 6 per cent in 1925 and also in 1930. It must be understood that the averages given in this table refer to all mortgages of the specified rank in force during the years indicated. This means that many of these mortgages, in fact most of them, were made and recorded anywhere from one to several years earlier than the year indicated. Hence, data in this table do not refer to the average rate charged for new loans or for renewals during the years specified.

Loan Commissions.—The commission on first-mortgage loans averaged from 1.17 per cent to 2.5 per cent per year. This would seem to indicate a total interest cost of between 7 and 8 per cent. However, the number of commissions on record were few, as indicated in the table. For this reason these averages may not be reliable. It must be understood, of course, that the only commissions included in this investigation are such as were given in the form of commission mortgages and recorded. No record is available of the amount and frequency of cash commission. But that cash commissions have been paid seems beyond doubt. The commission seems a necessary part of loan costs where loans are placed through mortgage bankers or loan agents and assigned to others. The loan agents and the mortgage bankers will not render this service without compensation.

The Interest Rate on Second Mortgages.—There were no records of commission mortgages in connection with second-mortgage loans. The rate of interest on second mortgages, as indicated in Table 19, has risen from 6½ per cent in 1910 to 8 per cent in 1930. These average rates may not be absolutely accurate for larger areas on account of the smaller number of second-mortgage loans. A cause of the rather low rate on second mortgages relative to the rate on first-mortgage loans in the earlier years may be the inclusion of commission mortgages in this group. Such commisssion mortgages often were made out at only a moderate rate of interest. Second mortgages may also include mortgages given not for second-mortgage loans, but as additional security on pre-existing loans. Because of the greater risk second-mortgage loans usually draw a higher rate of interest than do first-mortgage loans.

TABLE 19. Cost of first- and second-mortgage funds: The rate of interest and commission, as averages of mortgage loans in force, every fifth year, 1910 to 1930.

Year	First Mortgages				Second Mortgages	
	Rate of Interest		Rate of Commission		Rate of Interest	
	Per Cent	No. of Observations	Per Cent	No. of Observations	Per Cent	No. of Observations
1910	6.3	192	2.5	1	6.5	38
1915	6.2	152	1.6	19	7.0	24
1920	6.3	175	1.3	9	7.3	32
1925	6.0	159	1.2	6	7.6	31
1930	6.0	116	1.8	3	8.0	13

Frequency Distribution of Interest Rates on First-Mortgage Loans Current at Specified Periods.—A better indicator of what the prevailing interest rates on first mortgages were at different periods is found in Table 20 and in Figure 14. Here we are considering not the average interest rate on all first mortgages on record and outstanding against the land at any given time, but the rates that were charged on new or renewal loans during each period considered. In other words consideration is now directed to the current rate of interest on first-mortgage loans made and recorded each year. However, in order to include a sufficiently large number of loans to make the averages more reliable a 24-month period was included for each year enumerated. These 24-month periods include six months of the previous year and six months of the following year, except that for 1930 only the 18 months preceding December 31, 1930 are included in that period.

Table 20 indicates both the number of mortgages and the percentage of the mortgages that fall in each interest rate class for the different periods. Figure 14 shows at a glance what the prevailing rate has been. During the years 1910, 1920 and 1930 between 70 per cent and 80 per cent of all first-mortgage loans placed during those periods drew six per cent interest. In 1925, 63 per cent of the loans were made at 6 per cent interest. In 1915 a somewhat higher average rate prevailed. Only 49 per cent of the loans were made at 6 per cent that year and 28 per cent of the first-mortgage loans drew 7 per cent interest. A few loans have been made for as high as 8, 10, and 12 per cent interest.

Second-Mortgage Interest Rates.—As indicated in Table 21, second-mortgage loans have carried a higher rate of interest, but the total number of such loans has been relatively small.

TABLE 20. Frequency distribution of the interest rate of first mortgages *recorded* during various periods[1] from 1910 to 1930.

Percentage Rate of Interest	1910		1915		1920		1925		1930	
	Number of Mortgages	Per Cent of Mortgages	Number of Mortgages	Per Cent of Mortgages	Number of Mortgages	Per Cent of Mortgages	Number of Mortgages	Per Cent of Mortgages	Number of Mortgages	Per Cent of Mortgages[2]
5	7	7	1	3	7	10	3	8	1	
5¼	–	–	–	–	–	–	1	3	–	
5½	2	2	–	–	7	10	1	3	–	
6	76	76	19	49	49	71	23	63	11	
6½	1	1	4	10	–	–	3	8	–	
7	4	4	11	28	3	4	2	6	1	
8	5	5	4	10	3	4	1	3	1	
10	4	4	–	–	1	1	2	6	–	
12	1	1	–	–	–	–	–	–	–	

[1] The periods mentioned in the title of this table refer to periods of 24 months each including 6 months before and 6 months after the years specified at the top of the columns, except that for 1930 the period covers only the 18 months prior to December 31.

[2] Percentages not given because the cases are too few in number.

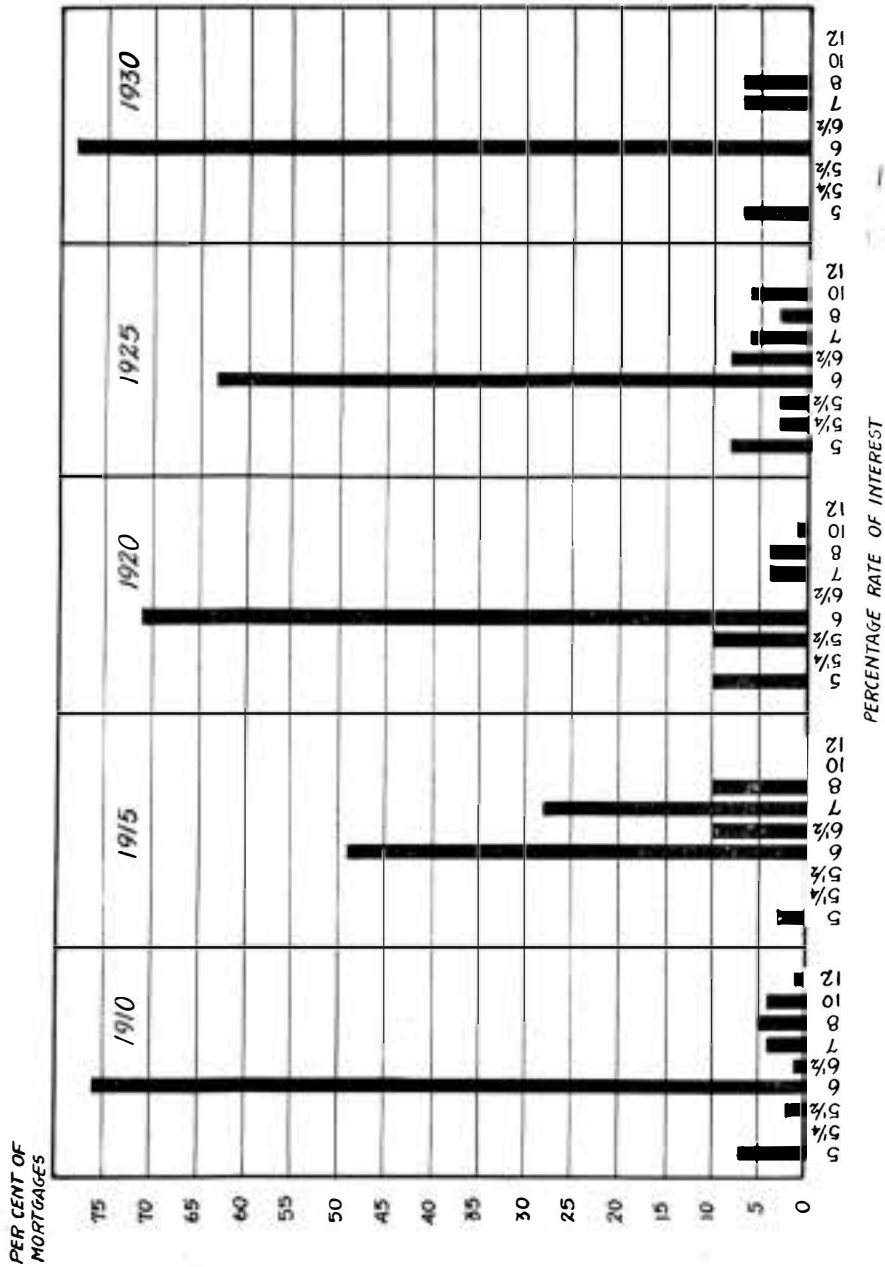

Figure 14.—Percentage of first mortgages drawing various rates of interest at different periods,[1] 1910-1930. (Based on Table 20.)

[1] The years refer to periods of 24 months each, including 6 months before and 6 months after the year specified, with the exception that the last period covers only the 18 months ending with Dec. 31, 1930.

Length of Term

Short Term or Long Term Loans?—There naturally are two sides to the question of how long the term of a loan ought to be. Should it be a one year loan, a loan for five years or one running for a term of from 20 to 35 years? The borrower will consider his present and prospective needs for the money as well as his prospective ability to repay the loan with interest. The needs and desires of the borrower may not be in harmony with the interests of the lender. A long term loan when interest rates are low may be what the borrower wants. It will relieve him of the cost and worry of frequent renewals. The lender on the other hand may wish to be in position to demand full or partial repayment in a few years. Thus, he may favor a short term loan in order to be able to protect his interest better by frequent check-up of the conditions surounding the value of the property on which he holds a mortgage. This may be very important to the lender during periods of falling prices and declining land values. The prevailing length of term of farm land loans may be the result of conscious efforts by both lenders and borrowers to come to some agreement on a subject where their interests conflict. It is not likely that borrowers in a capital deficit area will be in a position to dictate either the length of term of farm loans or the interest rate such loans will draw. Another factor even more important in determining the length of term than that of bargaining between borrower and lender is custom. It is more than likely that the five-year term is most frequently specified in loan agreements simply because that is the term that has been used most frequently. A reconsideration of all the factors surrounding our farm loan problems might be desirable, in order to replace custom with deliberate choice based on full knowledge of conditions and purposes.

The Average Length of Term of All First and Second-Mortgage Loans in Force at Specified Times.—The average lengths of term of all first and second mortgages in force every fifth year from 1910 to 1930 inclusive are given in Table 22. Of course, among all the loans in force or on record at any one time some are old, some are new and others have run about half of the term. With respect to only first-mortgage loans on record the average term was 4.5 years in 1910 and 4.8 years in 1915. The average terms in 1920, 1925 and 1930 were 5.0, 4.7 and 4.5 years respectively. The lengths of the average terms for 1920, 1925 and 1930 are based on all first mortgage loans, with the exception of one 35-year Federal Land Bank loan in 1925 and 1930, and some 30-year Rural Credit loans. The Rural Credit loans numbered 9 in 1920, 20 in 1925 and 13 in 1930. The Federal Land Bank loan as well as the Rural Credit loans were all on the amortization plan and have been omitted in computing the above averages. The same table shows that with the exception of the year 1915, when the average was 4.5 years, the terms of the second-mortgage loans have averaged close to 3.5 years in length. It is obvious that the mortgagee in the case of a second-mortgage loan often would prefer a loan of shorter term than the length of term on the first mortgage. The owner of a second mortgage assumes not only the risk of not receiving the payments on his own loan, but also faces the hazard of loss through foreclosure by the holder of the first mortgage. The shorter term on second mortgages can therefore be considered by the lender as a necessary precautionary measure.

TABLE 21. Frequency distribution of the interest rate of first mortgages *recorded* during various periods[1] from 1910 to 1930.

Percentage Rate of Interest	1910		1915		1920		1925		1930	
	Number of Mortgages	Per Cent of Mortgages	Number of Mortgages	Per Cent of Mortgages	Number of Mortgages	Per Cent of Mortgages	Number of Mortgages	Per Cent of Mortgages	Number of Mortgages	Per Cent of Mortgages
6	21	72	1		11	65	1		None Recorded	
7	2	7	1		–		1			
8	5	17	–		1	6	4			
9	1	4	1		–		–			
10	–		2		5	29	4			

[1] The periods mentioned in the title of this table refer to periods of 24 months each, including 6 months before and 6 months after the years specified at the top of the columns.

Frequency Distribution of Length of Term of Loans Current at Different Periods.—As previously mentioned an average of all the cases involved may not be a good measure of the prevailing or customary term of loan. Thus in Table 22 all the loans of 30-year and 35-year term had to be eliminated in order to arrive at an average that would be somewhat accurately descriptive of the length of term of most of the other loans. In order to overcome this difficulty and in order to see what changes have taken place from time to time in the length of term for which loans have been made this question has been attacked from another angle in Table 23. This table is similar to Table 20 in that the mortgages considered are only those that were actually made or renewed and recorded during the periods specified. In order to obtain a larger and more reliable sample the periods are of 24 months each instead of only one year, and include the last six months of the year before and the first six months of the year following the years specified at the head of the columns. For the year 1930, however, the period covers only 18 months immediately preceding De-

TABLE 22. Length of term of all first-mortgage loans and all second-mortgage loans on record, as averages, every fifth year, 1910 to 1930.

Year	First Mortgages Length of Term		Second Mortgages Length of Term	
	Years	Number of Observations	Years	Number of Observations
1910	4.5	188	3.3	38
1915	4.8	150	4.5	33
1920	5.0[1]	144	3.7	42
1925	4.7[1]	137	3.3	34
1930	4.5[1]	102	3.5	10

[1] All Rural Credit loans with 30-year terms and the Federal Land Bank 35-year loan have been excluded in making up these averages.

cember 31. Table 23 and Figure 15 make it clear that the five-year term was the one most frequently employed by borrowers and lenders on first mortgages during the years 1910, 1915, 1920 and 1925. Between 70 per cent and 79 per cent of all first-mortgage loans were made for that length of term. During the deflation period, as indicated by the data for 1925 and 1930, first-mortgage loans of even shorter term were resorted to. In 1925, 16 per cent of the first-mortgage loans were for only one year. However, the total number of loans recorded for that period is small. In 1930 there was proportionately even greater use made of short term first-mortgage loans. One-year loans made up 21 per cent of all the loans; 43 per cent were for three years and only 29 per cent were for five years. Because of the small number of loans recorded in these three townships during the 18 months from July, 1929 to December, 1930 inclusive, it may not be safe to conclude that the same precentage distribution of loan terms would also apply to larger areas. It is to be expected, nevertheless, that lenders will prefer short-term loans during periods of declining land values. Only two 30-year loans were recorded in the 1920 period, and no other Rural Credit loans were recorded during the other periods considered in this table. Only one Federal Land Bank 35-year loan was recorded in these years and that was placed in the 1925 period.

TABLE 23. Frequency distribution of the interest rate of first mortgages *recorded* during various periods[1], from 1910 to 1930.

Length of Term in Years	1910		1915		1920		1925		1930	
	Number of Mortgages	Per Cent of Mortgages	Number of Mortgages	Per Cent of Mortgages	Number of Mortgages	Per Cent of Mortgages	Number of Mortgages	Per Cent of Mortgages	Number of Mortgages	Per Cent of Mortgages
*	9	9	3	8	5	7	6	16	3	21
†	3	3	–	–	–	–	3	8	1	7
3	13	13	4	11	1	1	1	3	6	43
4	3	3	–	–	–	–	–	–	–	–
5	70	71	31	79	53	78	26	70	4	29
6	1	1	–	–	4	6	–	–	–	–
7	–	–	–	–	1	1	–	–	–	–
8	–	–	–	–	1	1	–	–	–	–
10	–	–	1	2	2	3	–	–	–	–
30	–	–	–	–	2	3	–	–	–	–
35	–	–	–	–	–	–	1	3	–	–

[1] The periods mentioned in the title of this table refer to periods of 24 months each, including 6 months before and 6 months after the years specified at the top of the columns, except that for the year 1930 the period covers only the 18 months prior to December 31.

* One year or less.

† Between one and two years.

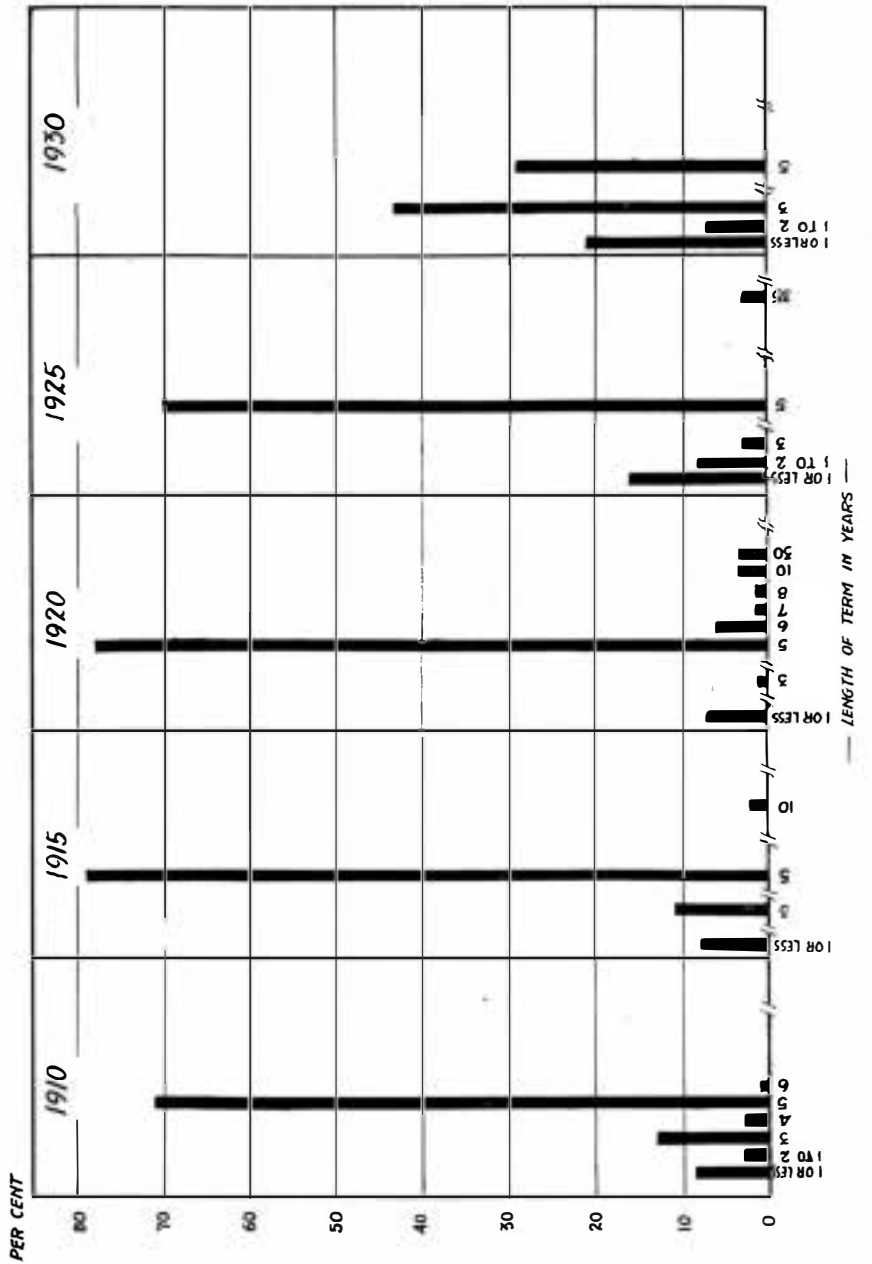

Figure 15.—Proportion of first mortgages falling in various term groups during different periods,[1] from 1910-1930. (Based on Table 23.)

[1] The years refer to periods of 24 months each, including 6 months before and 6 months after the specified year, except that for 1930 the period covers only the 18 months prior to December 31.

Term of Second Mortgages.—Current second mortgages for the different years or periods are considered in the same manner in Table 24. A much smaller number of second-mortgage loans was recorded during these periods, and that makes the perecentages in this table less reliable. It is seen, however, that a much smaller percentage of the loans were made for five years than was the case with first mortgages. Shorter terms are usually associated with loans of greater risk. Three, two and especially one-year second-mortgage loans were quite common during these periods. This would be expected in so far as second mortgages are given as additional security on existing short term loans.

Term and Rates on Loans from Different Sources

First-Mortgage Rates.—The term and the interest rate on the outstanding loans can also be considered from the point of view of the term stipulated and the interest charged by the different lending agencies. Table 25 gives the average interest rate and the average term of all loans from each source listed for the years 1910, 1915, 1920, 1925 and 1930. The loans considered here are not current loans, but all first-mortgage loans both old and new which were outstanding, or on record, for the years mentioned. If this table be studied in connection with Figure 12 and Table 17 it will be seen that the averages for loans from individuals are based on a much larger number of loans and consequently are more significant than the averages of term or interest rates on loans from other sources. The second largest source in 1910 was insurance companies. In 1915 the mortgage bankers ranked second, and for 1920, 1925 and 1930 the South Dakota school loans and the South Dakota Rural Credit Bureau taken together was the second largest source of funds. This is mentioned for the reason that in

TABLE 24. Frequency distribution of the interest rate of first mortgages *recorded* during various periods[1] from 1910 to 1930.

Length of Term in Years	1910		1915		1920		1925		1930	
	Number of Mortgages	Per Cent of Mortgages	Number of Mortgages	Per Cent of Mortgages	Number of Mortgages	Per Cent of Mortgages	Number of Mortgages	Per Cent of Mortgages	Number of Mortgages	Per Cent of Mortgages
*	7	24	2	17	9	50	5	50	None Recorded	
†	6	21	–	–	–	–	2	20		
3	6	21	3	25	–	–	1	10		
4	–	–	–	–	1	6	–	–		
5	10	34	7	58	8	44	2	20		

[1] The periods mentioned in the title of this table refer to periods of 24 months each, including 6 months before and 6 months after the years specified at the top of the columns, except that for the year 1930 the period covers only the 18 months prior to December 31.

* One year or less.

† Between one and two years.

some cases the loans are so few that the average may not be reliable. Thus, in 1925 the average rate on insurance company loans is given as 8 per cent interest. This is not likely to be indicative of what insurance companies charged on their loans because this rate for 1925 is based on only one loan, the rate on which very probably is much higher than the average of insurance company loans. There was also just one Federal Land Bank loan. Aside from individuals and South Dakota sources, the loans from almost all other sources were thirteen or less in number. Apparently South Dakota school fund loans, with an average rate of 5.4 per cent, drew the lowest rate of interest in 1910. The rates from the other sources were six per cent or higher. The average rate from mortgage bankers was 8 per cent. This is the highest for that year. In 1915 also the South Dakota school fund loans led with the lowest interest rate. This rate of 5 per cent is more than one per cent lower than the average rate on loans from the other sources for that year. For 1920 we have some South Dakota Rural Credit loans averaging 5.5 per cent interest, but the South Dakota school fund loans drawing only 5 per cent were the cheapest that year and also during 1925 and 1930. With the exception of the one Federal Land Bank loan at 5.25 per cent and the Rural Credit loans averaging 5.9 per cent interest the loans from all the other sources had average rates of six per cent or more, with a few at 8 per cent interest. These are the average rates that were received by the different lending agencies. As previously mentioned, however, it is more than likely that a commission had to be paid in connection with loans from almost all sources except those directly from local individuals, from the Federal Land Bank,

TABLE 25. The average interest[1] rate and the average length of term in years, of outstanding[2] first-mortgage loans from various sources, every fifth year, 1910 to 1930.

Sources of Funds	1910		1915		1920		1925		1930	
	Int.	Term	Int.	Term	Int.	Term	Int.	Term	Int.	Term
Insurance Companies	6.1	3.8	6.4	5.0	6.5	5.0	*	*	*	*
Savings Banks	6.0	5.0	6.1	5.8	6.0	5.0	6.6	4.3	6.2	4.3
Commercial Banks	6.6	6.0	6.2	4.0	6.6	4.3	6.6	3.0	*	*
Individuals	6.1	4.3	6.2	4.8	6.7	5.1	6.1	5.1	6.2	4.9
Federal Land Bank	–	–	–	–	–	–	*	*	*	*
South Dakota School Fund	5.4	4.9	5.0	4.9	5.0	3.7	5.0	5.0	5.0	5.0
South Dakota Rural Credit	–	–	–	–	5.5	30.0	5.9	30.0	5.9	30.0
Mortgage Bankers	8.0	2.8	6.5	4.7	6.5	4.6	6.4	4.8	6.6	4.2
Miscellaneous	6.0	4.1	6.5	4.6	6.0	5.0	6.2	4.7	6.1	4.3

[1] In addition to the interest cost the borrower usually is required to pay a commission averaging about 1 per cent except in case of loans from the Federal Land Bank, South Dakota and some local loans.

[2] The mortgages considered here include all such as were outstanding, that is, in force during the years specified. Naturally most of these mortgages had been made and recorded prior to the years mentioned.

* Averages omitted because based on only one or two observations they would not be reliable.

South Dakota school fund, and the South Dakota Rural Credit Board. The commission charged should be considered in making comparison of costs from the various sources.

First-Mortgage Term by Source of Funds.—The average term of most of the loans from the various sources have ranged between four and five years. A few have been less than three years in length and a very few have been over five years long. The exceptions are the 30-year Rural Credit loans and the one 35.5-year Federal Land Bank loan. Because of such few loans from some sources it is hardly justifiable to draw any conclusions from the small differences in the length of term of loans from the various lending agencies.

Second Mortgages.—The second-mortgage loans, Table 26, are fewer, and almost all from commercial banks, individuals and mortgage bankers. As previously mentioned the one insurance company loan in 1915 was only technically a second mortgage, because the same company also held the first mortgage. The interest rate has ranged higher and the term shorter than on first-mortgage loans. The rate has ranged from 6 per cent to over 9 per cent and the term has ranged from less than one year to six years. Individuals seem to have furnished second-mortgage loans at the lowest interest rates and for the longest term. However, the number of loans from certain sources for some years is too small to make valid comparisons.

TABLE 26. The average interest rate and the average length of term in years, of outstanding[1] second-mortgage loans from various sources, every fifth year, 1910 to 1930.

Sources of Funds	1910		1915		1920		1925		1930	
	Int.	Term	Int.	Term	Int.	Term	Int.	Term	Int.	Term
Commercial Banks	6.0	3.0	7.2	4.1	8.0	0.9	9.2	1.4	*	*
Individuals	6.4	3.5	6.6	4.9	6.4	4.7	6.9	4.3	*	*
Mortgage Bankers	*	*	7.0	4.4	9.4	3.2	8.0	3.0	*	*
Miscellaneous	–	–	*	*	*	*	*	*	–	–

[1] The mortgages considered here include all such as were outstanding, that is, in force, during the years specified.

* The number of observations are too few to give reliable averages.

Amounts Loaned per Acre by Different Agencies

The amount loaned per acre on first mortgages by the different lending agencies is shown in Table 27. This refers to all first-mortgage loans in force for the indicated years, both old and new, and not simply current loans. The number of loans from some sources is small. Except for loans from individuals for all the years considered, loans from the South Dakota school fund for every year but 1910, Rural Credit loans for 1920, and loans from mortgage bankers for 1910, 1915 and 1920, every other figure given is an average based on 13 or fewer loans. There was only one Federal Land Bank loan, and in 1925 there was only one loan from an

insurance company. For this reason some of the averages of the amounts loaned per acre may not be representative. In order to attain some degree of significance, however, in the figures for the average amounts loaned per acre by the different agencies all the averages based on less than five loans have been omitted from Table 27. In addition the 1910 averages for savings banks and the South Dakota school fund have been deleted because based on small loans, which may not have been representative. Because of the smallness of many of the samples some caution is needed in making comparisons of the amount loaned per acre by the different agencies. The South Dakota school fund loans were the most conservative or averaged the smallest loans per acre for all the years studied. The average amount loaned per acre has increased from $3.55 in 1910 to $7.42 per acre in 1930. Loans per acre from individuals show an increase from $7.90 in 1910 to $14.28 in 1920, a decline to $11.83 in 1925 and an increase to $12.58 per acre in 1930. The average amount loaned per acre by mortagage bankers increased from $5.41 in 1910 to $10.63 in 1930. Omitting the unusual average for 1930, insurance company loans per acre have been conservative and have declined rather than increased since 1910. For 1920, loans by commercial banks, largely local banks, and loans by individuals showed the highest amounts per acre. Rural Credit loans have averaged much more per acre than loans from South Dakota school funds, but do not seem to have been much out of line with loans from commercial banks, individuals and the one Federal Land Bank loan. The 1930 average of the Rural Credit loans was down to $10.75 per acre, based on thirteen loans.

TABLE 27. Average amount loaned per acre on first mortgages by various agencies, as indicated by outstanding[1] mortgages for the years specified, 1910 to 1930.

Source of Funds	1910 Loans Per Acre	1915 Loans Per Acre	1920 Loans Per Acre	1925 Loans Per Acre	1930 Loans Per Acre
Insurance Companies	$7.38	$6.65	$ 7.25	$ *	$ *
Savings Banks	*	*	*	9.63	9.15
Commercial Banks	9.24	9.92	15.55	*	*
Individuals	7.90	9.92	14.28	11.83	12.58
Federal Land Bank	–	–	–	*	*
South Dakota School Fund	*	4.75	6.47	6.99	7.42
South Dakota Rural Credit	–	–	11.28	12.61	10.75
Mortgage Bankers	5.41	6.29	7.20	7.76	10.63
Miscellaneous	9.45	8.42	9.83	9.40	8.63

[1] The mortgages here considered include all such as were outstanding, that is, in force during the years specified. Naturally many of these had been recorded earlier than the year listed.

* The number or the amount of loans in each of these cases is too small to give a reliable average.

Land Values and Ratio of Debt to Value

Some General Principles Involved.—A knowledge of land values is necessary in order to judge whether the indebtedness per acre is relatively high or low. This is predicated on the assumption that land values

are based on the earning power or income from the land. A debt of ten, twenty-five, fifty, seventy-five or one-hundred dollars per acre does not mean anything of itself except in relation to the average income to be expected from each acre of land. The question of the relationship between the size of the debt and the value of the land is of importance not only to the borrower but also to the lender. To the borrower the land value represents potential earning power out of which to pay the interest and the principal of the loan. To the investor in a farm mortgage the value of the land represents not only the source of payments but also the ultimate security in case foreclosure should become necessary. The size of loan a piece of land can safely carry will naturally depend on the income that can be expected from that land. If the constant net income is $2.50 per acre and if this is capitalized at five per cent interest the value of the land would be about $50.00 per acre. If both the net income and the interest rate were constant the problem of determining how much can safely be loaned per acre of land would be simplified. However, since these factors are not stable, but change from time to time, land values will change and the security behind the land loan will fluctuate. For these reasons conservative money lenders will not lend more than fifty per cent of the conservative value of the land plus a small percentage of the insured value of the buildings on the farm. In most cases this is considered the upper limit and the loans may be closer to one-third of the value of the land.

Sources of Information Employed.—Because of this intimate relationship between the size of the loan and the value of the land on which it is placed some attempts were made to determine the land values in the three townships in Hyde County covered in this study. Two sources of information were available. These are the records of sales as found in the office of the Register of Deeds at the county seat, Highmore, and the United States census reports. Neither one gives continuous information for the entire period we are considering. The census enumerations have been made only for 1910, 1920 and 1930. The census reports do not cover the years 1915 and 1925. Furthermore, and what is more important, the census reports for the years 1910 and 1920 do not give township data. The smallest civil division reported on separately is the county. In other words, the census land values for 1910 and 1920 refer to the average value of land and buildings for the entire county. It is only for 1930 that the census statistics report such values on the basis of the township as a unit. There is thus no continuous series of census values for the three townships during the period considered. County values are reported for the end of every decade, but there is no assurance that all areas of the county have developed at the same rate, nor is there any reason to believe that the averages for the three townships at any one time would be the same as the averages for the entire county. The information in the county records is equally defective. Prior to 1920 a large proportion of the deeds recorded specified the consideration or sale price. From this it has been possible to determine the land values in the three townships as of 1910 and 1920. Unfortunately, during the 1930 period the sale price was hidden behind the stock phrase "one dollar and other valuable considerations." In 1930 this method of hiding the actual sale price was used in all but two deeds. For this reason it was impossible to get a continuous series of land values based on sales during the entire period covered by this

study. The census reports of the average land values for the entire county are available for 1910, 1920 and 1930. For the three townships the average sale prices will be used for the years 1910 and 1920, and then for the year 1930 the average township values as reported by the census will be employed.

How the Land Values Were Determined.—Table 28 presents these values. In order to have a sufficient number of sales to obtain a reliable average a three-year period is covered in each case. The average sale price for 1910 is based on the sales in these three townships during the years 1908, 1909 and 1910. Similarly the 1920 sale values are based on the sales in the three townships during the three-year period of 1918 to 1920 inclusive. An explanation may also be in order in regard to how the average census value for the three townships was arrived at. The Census for 1930 combines the figures for Spring Lake township with that of township 109, range 73, a fractional township thirty miles south of Spring Lake, in the Crow Creek Indian Reservation. In order to determine the acreage and values for Spring Lake township alone, inquiry was made through Hyde county officials. Reports were that there was 1,520 acres in farms in township 109, range 73 and that values per acre there were one-fourth of those in Spring Lake. This acreage and value was deducted from the combined acreages and values for the two townships in order to arrive at the separate acreages and values for Spring Lake township. The values considered in this discussion are the average values per acre of land and buildings.

Land Values in the Area Studied.—Considering the township values per acre as given in Table 28, we see that the average value per acre in the three townships was $19.08 in 1910 and $25.70 per acre in 1920. These values, as previously explained, are based respectively on sales during the three-year periods of 1908 to 1910 inclusive and 1918 to 1920 inclusive. The average value per acre in these three townships in 1930 was $17.79. This is the township census value. Using these per acre values and calling the 1910 value 100, the index was 135 in 1920 and 93 in 1930. In other words the average value per acre in 1920 was 35 per cent above the value in 1910, and the average value in 1930 was 7 per cent below the 1910 value.

TABLE 28. Land values per acre as indicated by sales[1] or by United States census reports[2], 1910, 1920 and 1930.

Year	Values Per Acre	
	Sale Price in 3 Townships	Census Value for County
1910	$19.08	$34.08
1920	25.70	43.15
1930	17.79[3]	19.69

[1] Sale values for 1910 are based on sales during 1908-1910 inclusive; for 1920 sale values are based on sales during 1918 to 1920 inclusive. During 1928-1930 inclusive there were only two sales giving the price paid.

[2] These census values cover land and buildings; census values by townships were given only in the 1930 census report.

[3] This is not the average sale price, but the 1930 census value per acre for the three townships, because of too few sales giving the price paid.

However, the census value for 1930 may not be directly comparable with the previous sale values. If we consider county census values per acre we find an increase from $34.08 per acre in 1910 to $43.15 per acre in 1920, and then a decline to $19.69 in 1930. On an index basis of 100 for 1910 the 1920 index was 127 and the 1930 index 58, showing an increase of 27 per cent during the first ten years, and then a decline to 42 per cent below the 1910 value. Both township and county values per acre show a considerable increase from 1910 to 1920 followed by an even greater decrease in values during the succeeding ten years. It is obvious that land purchased on time payment, or mortgages incurred on the basis of the 1920 inflated land values must in many cases have resulted in unbearable debt burdens. The large volume of foreclosures in recent years also bear evidence of this condition.

The Ratio of Debt to Value.—Table 29 indicates the ratio of debt to value per acre. The amounts of debt per acre are taken from Table 7, average total debt per acre, and values per acre are from Table 28. With reference to the three townships the ratio was 48 per cent in 1910. In other words the indebtedness per acre in 1910 was equal to 48 per cent of the average value per acre of land and buildings. This ratio would be considered within the margin of safe lending if the value of buildings is not excessive. In 1920 the ratio was 59 per cent debt to 100 per cent value. With sharply declining prices of farm products the income from land and the value of land usually drop faster than mortgages can be paid off from the reduced income. The high ratio of debt to value in 1930, 71 per cent, is undoubtedly a consequence of the decline in prices for agricultural products. The source of the income with which to pay off the mortgages has been reduced and as a result the land given as security for the mortgage loans has declined greatly in value. The debt per acre was smaller in 1930 than in 1920, but land values declined even more. Whereas land values rose 35 per cent from 1910 to 1920, debts rose 67 per cent, on a basis of debts per acre of mortgaged land. Then following 1920 the debt per acre was reduced by not quite 18 per cent during the next ten years but land values fell almost 31 per cent during the same period. Apparently during periods of rising prices on agricultural products land values will rise, and the indebtedness will be increased not only on the basis of the enlarged current income from the land but on the basis of an anticipated continually rising future income. Then when the expected magnified future income not only does not materialize but on the contrary a severe decline in income engulfs the agricultural areas intense economic difficulties and foreclosures are inevitable. One remedy for this difficulty as previously indicated must be a sounder basis for evaluating land. Other remedies would be greater conservatism about going into debt during periods of high prices, and provision for making larger payments on the mortgage during the years of larger income. The census ratio of debt to value for the owner operated farms in the entire county, shown in Table 29, may not be comparable to the township values for all land in farms and buildings. The ratio for the county does, however, show the same general upward trend. This ratio was 17 in 1910, rose to 28 in 1920 and in 1930 was up to 39.

TABLE 29. The ratio of debt to value per acre, 1910, 1920 and 1930.
(Based in part on Tables 7 and 28)

Year	Ratio of Debt to Sale Price in 3 Townships[2]	Census Ratio[1] of Debt to Value for County
1910	48	17
1920	59	28
1930	71[3]	39

[1] The census ratio of debt to value applies only to owner operated farms.

[2] Sale prices are for 1908-1910 inclusive and 1918-1920 inclusive, but indebtedness is for 1910 and 1920 respectively, as found in this study. The debt per acre is based on column 1 of table 7 of this study. Census figures by townships are not given in earlier census reports. Only two sales giving the price paid were recorded for these three townships during 1928–1930 inclusive.

[3] This is the ratio of debt to the 1930 census value per acre for the three townships.

Land Purchases and Indebtedness

General Remarks on Farm Indebtedness.—The relationship between the purchase of a farm or some farm land and the debt on that land may have a bearing on various interpretations frequently made of the farm indebtedness situation. It is to be expected in most cases that the seller of farm land is less in need of mortgaging the land than is the buyer. There are exceptions, of course. A man may sell his farm because his income from it is less than the sum of operating expenses and fixed obligations, or he may sell to avoid a foreclosure. In both cases the buyer may be in position to pay enough in cash to reduce the total debt on the land. In most cases, however, it seems true that the buyer of farm land can pay only part of the purchase price in cash, and must give a mortgage for the remainder. Under these conditions the sale results in larger mortgage indebtedness. There is also a continual shift of ownership from old farmers who retire to younger farmers who are just becoming farm owners. Here also the normal expectation is an enlargement of the mortgage debt. Under such conditions the increase in indebtedness may not be harmful. In fact it may be socially beneficial if the young farmer can increase his income and improve his social position by becoming a farm owner. This is said simply to emphasize the fact that mortgage indebtedness in and of itself alone is neither good nor bad. Most of us prefer to be out of debt, but if borrowing money and enlarging our operations will enable us to increase our income and our net worth it may be wise to go into debt. In other words, this problem should be judged on the results.

Definition of "Sale of Land," for this Study.—An attempt has been made in this study to classify all the land in the three townships as to whether sold or not sold during certain periods, and then comparing the debt per acre on each class at the end of such period. It may be well here to mention some of the problems in classifying the land. The ordinary kind of transfer of title which is expected to increase the mortgage indebtedness on the land is an outright purchase by a prospective farmer. Hence foreclosures were omitted. If the money lender or mortgagee forecloses that wipes the mortgage off the land. Neither are redemptions included,

although cases are on record where the mortgage was increased after the redemption. Transfers of title between members of the same family have also been excluded from the category "sale of land" as used here. The reason being that the transfer of title from father to son, for example, is not likely to involve payment of the full market price as between strangers. It may be a gift or an inheritance. Transfers to heirs by probate court were excluded for the same reason. Although, in general, this basis of classification seems reasonable the results are not always as expected. Young people who inherit unincumbered land may be less reluctant to mortgage the land than were the older folks. Thus a loan may be placed on the land, not to pay for it but in order to improve the buildings, etc., or even to buy a car.

Percentage of "Land Sold."—The results of the comparison of indebtedness on land sold and lands not sold as defined above are presented in Tables 30 and 31, and partly in Figure 16. The first column under each one of the two classes of land in each table shows what percentage of all the land was sold and what percentage was not sold during the different periods considered. The classification refers only to the period indicated; no consideration is given to whether the land was sold or was not sold during other periods. During 1911 to 1915 inclusive 73 per cent of the land was not sold and only 27 per cent of the land did change ownership. Between 1916 and 1920 inclusive there was more activity in land sales and 40 per cent of the land was sold. Consequently 60 per cent was not sold. The next five-year period, 1921–1925, saw only 20 per cent of the land change hands and 80 per cent remained unsold. The most inactive five-year period during these 20 years was from 1926 to 1930 inclusive. Eighty-five per cent of the land remained in the hands of the same owners or was transferred by other means than by straight sale during these five years, and only 15 per cent was sold. By 10-year periods, 50 per cent of the land was sold during the 1911–1920 period, and only 31 per cent was transferred during the 1921–1930 period. The 15-year period, 1911–1925, shows 57 per cent of the land sold, while during the 20-year period, 1911–1930, 62 per cent of the land was sold. All percentages of sale quoted in this discussion are based on the definition of sale previously made. It is obvious, of course, that the longer the period the higher the percentage of land sold, other factors being equal. The frequency of sale may be influenced by the economic conditions and the stability of the rural population. Rising prices seem to have stimulated land sales.

Sales and Indebtedness by Five-Year Periods.—The two classes of land, land sold, and land not sold, were compared as to the percentage of the land in each class that was incumbered. The relative proportion of each class of land covered by mortgage is given in Figure 16 as well as in Table 30. Figure 16 shows that, with the exception of the 1921–1925 period, each succeeding five-year period from 1911 to 1930 records a reduction from 41 to 36 in the percentage of the land not sold which was mortgaged. The contrary tendency during the 1921–1925 period, when 45 per cent was mortgaged, may be due to declining farm incomes making it necessary for these owners to mortgage their farms to provide funds for meeting their obligations. Conceivably unsecured debts which had to be paid were taken care of by mortgaging more land. Of the lands which had been sold during the 1911–1915 period 65 per cent was incumbered at

the end of the period. The increased activity in land sales during the 1916–1920 period boosted this percentage of mortgaged land up to 80 per cent. This five-year period shows the greatest difference between the two classes of land. Of the sold land more than twice as high a percentage was mortgaged as was the case with the land not sold. Declining land sales during the next two five-year periods reduced the percentage of sold land which was mortgaged to 59 per cent in 1925 and 50 per cent in 1930. At the end of all these periods the land that had been sold during the period registered a larger proportion under mortgage.

Comparison by Longer Periods.—Comparing these two classes of land by ten-year periods, from 1911 to 1920, and then from 1921 to 1930, the percentages mortgaged in 1920 were 36 for land not sold and 77 for sold land. In 1930 the percentage of incumbered land in the not sold class had declined to 34 per cent, only two per cent below the 1920 figure, but coincident with a decline in land sales during this second ten-year period, sold lands were mortgaged only up to 45 per cent of their total area in 1930, as compared with 77 per cent in 1920. At the end of the 15-year period, 1911–1925, 30 per cent of the land not sold and 62 per cent of sold land were under mortgage. About the smallest percentage of mortgaged land in each class is found at the end of the 20-year period, 1911–1930, with 25 per cent of the unsold land and 48 per cent of the sold land being incumbered. Other things being equal, the longer the period the smaller one would expect the proportion of incumbered land to be. This would seem to be true for both classes of land. With respect to lands not sold the reason for this would be that the longer the land has been in the possession of one farmer the more likely he is to have reduced the mortgage indebtedness brought on by purchase of the land or construction of improvements on it. As to lands sold, the longer the period considered the more land is included the sale or purchase of which occurred a long time ago, and the longer since the land was purchased the more likely is the mortgage debt to have been paid off.

Debt Per Acre on Land Sold and on Land not Sold.—The figures for the debt per acre, in Table 31, do not so uniformly point toward one conclu-

TABLE 30. Percentage of all land which has been either sold or not sold during given periods, and comparison between these classes as to the percentage of each class covered by mortgage, 1910 to 1930.

Periods Covered	Length of Period in Years	Lands Not Sold		Lands Sold	
		Per Cent of All Land	Percentage Mortgaged	Per Cent of All Land	Percentage Mortgaged
1911–1915	5	73.2	40.7	26.8	65.0
1916–1920	5	59.9	38.8	40.1	80.3
1921–1925	5	79.8	45.1	20.2	58.8
1926–1930	5	84.7	35.5	15.3	49.8
1911–1920	10	49.8	35.5	50.2	77.1
1921–1930	10	68.9	34.0	31.1	44.9
1911–1925	15	42.7	30.0	57.3	62.4
1911–1930	20	38.2	25.0	61.8	48.3

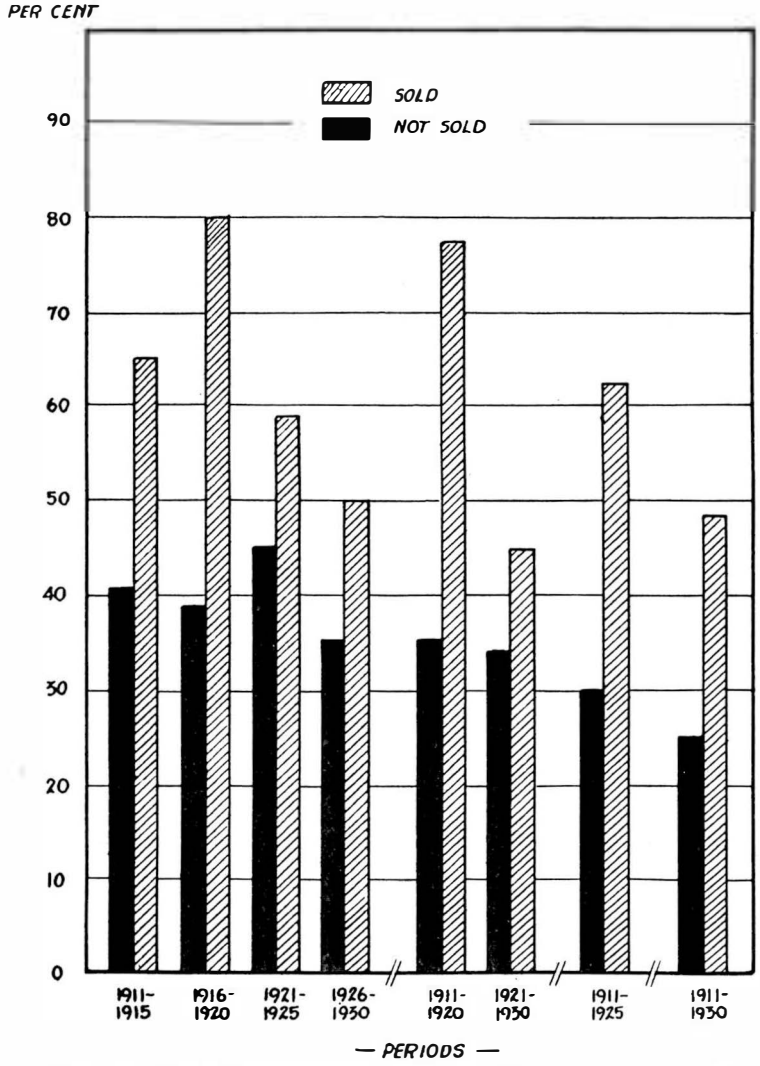

Figure 16.—Comparison of lands that have been sold and lands not sold during given periods as to percentage of such land covered by mortgage at the end of each period. Three townships, Hyde county, South Dakota. (Based on Table 30.)

sion as does the data for the percentages of each class of land mortgaged. At the end of both the 1911–1915 period and the 1916–1920 period the debt per acre on sold land which was mortgaged was higher than on the mortgaged land which had not been sold during each such period. At the end of these two periods the mortgage incumbered unsold land was indebted to the extent of respectively $9.22 and $9.88 per acre, while the incumbered sold land was mortgaged for $10.13 and $18.86 respectively in 1915 and 1920. This relationship was reversed at the end of the next two five-year periods. At the end of the 1921–1925 period the debt per acre of land not sold but mortgaged was $14.17, and on the land that had been sold and also was mortgaged the per acre debt was $12.75. The debt per acre at the end of the 1926–1930 period was $13.22 on land unsold but mortgaged, and only $8.92 on the sold and mortgaged land.

At Times Higher Debt on Land Not Sold.—How to account for the larger debt per acre on the unsold land which was mortgaged is not a simple matter. A few reasons may be found in the previously explained method of classifying the land. Various transfers which have not been classified as sales nevertheless did result in increased mortgage indebtedness on the land. Even though there was no need to mortgage the land in order to pay the former owner, the coming into possession of unincumbered land or land mortgaged for only a small amount per acre furnished an opportunity to pledge the land for a loan or for a larger loan. Another, and possibly more important, reason is to be found in the fact that each five-year period is considered independently by itself and not with reference to how the land was classified in the previous period. Land sold in 1920 but not during 1921–1925 is classed in the latter period as not sold. This method of classification in connection with the changed economic conditions after 1920 may give some clue to the cause of the higher debt per acre of mortgaged land not sold, than on sold and mortgaged land. The period of high land sale activity was the 1916—1920 period. During this period 40 per cent of all the land was sold. During the next five years only 20 per cent of all land was sold. Much land that was sold at high prices in the 1916–1920 period would fall in the class of not sold but mortgaged land in the next two periods, and would tend to raise the average debt per acre of such land, because of old, large mortgages based on the former inflated land values. Some such were found. In Figure 11 are shown some cases of between $50 and $70 debt per acre, and the records do not show any sales of these farms during the 10 years from 1921 to 1930 inclusive. Some of these had been sold in 1920 or earlier. These extreme cases falling in the class of unsold but mortgaged land contributes to the existence of the higher debt per acre on the not sold but mortgaged land than on the sold and mortgaged land, at the end of the 1921–1925 period and again at the end of the 1926–1930 period. On the other hand the land that was purchased after the deflation set in could be mortgaged, if at all, only for smaller amounts per acre, due to lower land values. This may partly account for the smaller debt per acre on sold and mortgaged land during the deflation period. The same situation appears in the two ten-year periods, likewise shown in Table 31. The not sold but mortgaged land was incumbered to the extent of $7.53 per acre at the end of the 1911–1920 period, while the sold and mortgaged class of land carried a debt of $18.19 per acre. During the ten-year period from 1921 to 1930 inclusive, as previously discussed, the unsold land became more heavily mortgaged, and in 1930

that class carried $13.78 debt per acre of mortgaged land. The sold and incumbered land was mortgaged for an average of $10.20. The causes for this shift have already been suggested.

Exceptional Cases.—At the end of the 15-year period, 1911–1925, a smaller proportion of all the land remained unsold, but 30 per cent of this land was mortgaged for $10.85 per acre. Sixty-two per cent of the sold land was incumbered to the amount of $14.75 per acre. A similar result would be expected at the end of a 20-year period. Thus at the end of the 20-year period, 1911–1930, one would naturally expect the sold land to show not only a higher percentage of land under mortgage, but that such incumbered land would be more heavily mortgaged than the mortgaged land which had not been sold. A debt per acre as large as on the mortgaged and sold land at the end of the 1916–1920 period could not, however, be expected. One reason being that the large mortgages were placed ten or more years earlier than 1930, and some of them had been reduced at the end of the ten years of deflation. Another reason for the lower debt on the mortgaged and sold land at the end of the 1911–1930 period than at the end of the 1916–1920 period is that the longer period includes land that had not been sold for almost 20 years, and consequently some of the mortgages would be expected to be reduced. But on incumbered land that had not been sold during these 20 years it would seem reasonable to expect smaller debts than on the incumbered sold land. The contrary result at the end of the 1911–1930 period seems to be due to a few cases of unusually high indebtedness per acre in 1930, falling in the unsold class. Of these exceptionally large loans there was in all $45,889 on 800 acres classed as not sold, and $8,434 on 160 acres classed as sold. These extreme cases caused a higher average debt on the not sold but mortgaged land than on the sold and mortgaged land. The amounts being respectively $12.89 and $11.46 per acre. The elimination of these relatively few unusual cases of extremely high debt per acre would reduce the debt per acre on the unsold class to considerably less than the debt on the mortgaged land that had been sold during the period. Because the existence of these extreme cases seems to give a result contrary to what might be expected, it is likely

TABLE 31. Percentage of all land which has been either sold or not sold during given periods, and comparison between these two classes as to the debt per acre of mortgaged land in each class, 1910 to 1930.

Periods Covered	Length of Period in Years	Lands Not Sold		Lands Sold	
		Per Cent of All Land	Debt Per Acre of Mortgaged Land	Per Cent of All Land	Debt Per Acre of Mortgaged Land
1911–1915	5	73.2	$ 9.22	26.8	$10.13
1916–1920	5	59.9	9.88	40.1	18.86
1921–1925	5	79.8	14.17	20.2	12.75
1926–1930	5	84.7	13.22	15.3	8.92
1911–1920	10	49.8	7.53	51.2	18.19
1921–1930	10	68.9	13.78	31.1	10.20
1911–1925	15	42.7	10.85	57.3	14.75
1911–1930	20	38.2	12.89	61.8	11.46

that the data on the comparative debt per acre of these two classes of land is less significant than are the respective percentages of mortgaged land in the two categories of land not sold and land sold. These percentages show consistently, for all periods, a higher proportion of acreage mortgaged in the class of sold land. This would seem to indicate that one cause of the large farm real estate mortgage indebtedness is to be found in the frequency of land sales.

Conclusions

Effect of the War on Farmers.—The most striking conclusion of the study is perhaps the evidence of how farmers have suffered from the excessive inflation and deflation resulting from the World War. This is part of the price which farmers have paid for our participation in the war. High war prices stimulated a speculative rise in land values which induced excessive borrowing and mortgaging of farm land. The succeeding precipitous decline in prices of farm products brought heavy financial loss to most farmers. A smaller but considerable number of farmers lost their mortgaged land through foreclosure and sheriff's sale. It is possible that the present generation of farmers will not again witness such gigantic price upheavals after we recover from the present depression. It is too soon, however, to expect freedom from the evils of fluctuating prices. Attempts should be made to stabilize our entire economic structure, but this is beyond the power of the individual to accomplish.

The problem of farmers in the area is to work out of an unpleasant and difficult situation brought on by somewhat too liberal borrowing for expansion during the period of war inflation. People in every line of business and industry committed the same mistake at that time. However, there is perhaps some justification for the feeling that the economic suffering brought on by this expansion is unmerited, in spite of the teachings of history in regard to inflation and deflation accompanying previous wars. The proper national and individual course to pursue for the future may be obvious, but that does not simplify the problem of making recommendations that will help the individual farmer out of his present difficulty.

Individual Adjustments.—In some cases the consideration agreed upon and the debt assumed, as a result of purchasing farm land at an inflated price, have been reduced by mutual agreement between buyer and seller in harmony with the more recent knowledge of the trend of land values. Many other cases are not so simple. It may be impossible to relieve the burden of some debtors without injuring some innocent third parties. And it is not always the debtors alone who have suffered losses. Many a creditor who extended the requested loan may have failed to receive his payments on interest and principal. Not only that, but he may have found later that the land he unwillingly acquired by foreclosure could not be sold for as much as the amount of the original loan. The immediate task for each farmer is to make the best possible arrangement with his creditors. What that best arrangement may be will depend on the size and kind of loan together with the size and type of farm, and, perhaps most important of all, the abilities of the borrower as a farmer and as a business manager.

Conservative Borrowing in the Future.—Looking toward the future, naturally, the aim should be to avoid the mistakes which were made in the

past. Many difficulties, of course, are due to economic forces beyond the individual's control. The individual farmer, however, can take certain precautions to moderate the severity of the consequences of some of these, like the effects of fluctuating prices. No long time investments should be made when prices are abnormally high. This is especially true if the investment must be made with borrowed funds. The purchase of land and the making of extensive durable improvements, etc., the returns from which can be expected to repay the original investment with interest only over a period of several years, if made with borrowed funds, should be made only when prices are relatively low in relation to expected returns. In this connection the calculations of expected income should not be made on the basis of only one or a few years. The previously suggested information on prices and price levels should be consulted to determine what is a fair, average expectation for a period of years. A conservative use of borrowed money often would prevent the loss of the farmer's accumulated savings through foreclosure brought on by inability to make the required payments on borrowed funds. Not only would the farmer benefit by avoiding losses, but conservative loans would be safer and eventually more attractive to investors. As a consequence more investors would be in the market for farm mortgages and this would result in lower farm mortgage interest rates. It is not to be expected that investors who have the choice of several kinds of investment securities should wish to place their funds in mortgages on farm land in an area where delinquencies and foreclosures have been as prevalent as they have been since the post-war deflation of 1921 in the area covered by this study. Loans coming largely from individuals, and the high interest rate charged indicate the small offering of outside funds for farm loans in this area. An interest rate, including commission, of seven per cent or more is too much to pay on a large farm loan, especially when prices on farm products are low. By this is simply meant that the burden on the borrower may be more than his income can stand. It does not mean that the lender is receiving an exhorbitantly large reward for making the loan. Judging by the volume of delinquencies and foreclosures it is easily possible that the interest rate has been too low to compensate the lenders for all expense and risk of loss involved. If this be true then one of the means of improvement for the future must be the not painless method of reducing debts or increasing the security back of the loan in order to attract loans at a lower rate of interest.

Suggested Method of Repayment of Future Loans.—It is not only the size of the loan and the interest rate that makes it difficult to meet the payment on the mortgage. With respect to future loans, the method of repayment should also be considered. As far as the available information indicated, most of the loans provided for repayment in a lump sum at maturity. Few mortgages provided for installment payments. Only one Federal Land bank loan and the South Dakota Rural Credit loans were on the amortization plan. A large mortgage loan on the farm can not ordinarily be repaid from the farm income in three to five years. It may take almost a lifetime to pay off such a debt. If this be true it seems inexpedient and unwise to promise to repay it in five years or less. The loan should be of a size commensurate with safety, the interest rate would then be lower than now because of the lower risk involved. The payments of interest and repayments on the principal should be on an annual or semi-annual basis over a period of years sufficiently long to assure full repayment of the

loan in all normal cases. This would eliminate the uncertainty and expense of frequent renewals. Naturally such long time loans should, and most of them do, provide the privilege of repayment in full after the first few years. In addition the farmer borrower should insist that the payments be made to fall due at such a time of the year as the income from the farm can be expected to be available to meet the payments. Furthermore provision should be made for making larger repayments on the loan during years of higher income, in order to avoid the possibility of delinquency during years of low income. This may be even more essential with respect to annual installments on the amortization loan than with regard to yearly interest payments on other loans, especially if the loan is to be amortized over a relatively short period of years. Twenty years may be a short period. Such amortization payments, covering a partial repayment of the principal as well as interest, may be so large as to become a burden during "poor" years. Either some inducement might have to be offered the borrower to pay more when his income is good or else the lender might have to enforce this provision. Some arrangement for making larger payments during good years would seem to be highly desirable. Had such a plan been in operation during the "boom" years of 1918, 1919 and 1920 it might have restricted the expansion of the mortgage indebtedness, and should have reduced the high percentage of delinquency and foreclosures that followed. Comparing the amortization plan of repayment with the usual plan requiring payment of the full amount at maturity, it would seem that the former offers a better prospect of eventual reduction of the farm debt. Most of us find it easy to spend money that is available and not absolutely required for some specific purpose. The amortization plan would permit and induce a gradual and systematic reduction of the debt. But such long term loans can not be attracted except in connection with a more accurate and conservative basis of evaluating the land, so as to avoid the placing of such excessively large loans during "prosperity" periods that they have to be foreclosed on during the succeeding period of depression.

Proper Use of Credit Beneficial.—The high frequency of sale, or transfer of title to land, in a relatively new farming region is perhaps unavoidable. And since the evidence in this study points to a higher proportion of such land being under mortgage than was the case with land that had not been sold, it may be fair to conclude that part of the indebtedness is a normal result of changes in ownership, and not necessarily an indication of unsatisfactory financial progress. The purchase of a farm at inflated prices and with borrowed money is, of course, undesirable, but with the development of a permanent type of agriculture, and the adoption of improved farm mortgage practices there is reason to believe that the normal use of farm mortgage credit should be beneficial rather than harmful.