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Farm Mortgage Experience of Life Insurance Companies Lending in South Dakota (supplement to circular 7)

H. A. Steele

South Dakota State University

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Circular 16

February, 1934

Farm Mortgage Experience of Life Insurance Companies Lending in South Dakota

(Supplement to Circular 7)

By Harry A. Steele

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

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Farm Mortgage Experience of Life Insurance Companies Lending in South Dakota

(Supplement to Circular 7)

By Harry A. Steele

Introduction

Purpose.—This circular is the second report on the farm mortgage experience of life insurance companies and is intended to supplement and bring up-to-date information contained in South Dakota Experiment Station Circular 7. Since life insurance companies are the most important source of farm mortgage credit in South Dakota, it is important that information on their experience be made available.¹ This information should be valuable both as a basis for a future loaning policy and as a background for the solution of South Dakota's present serious farm mortgage problem.

Method of Study.—The data for the study were taken from schedules "A" and "B" of the annual statement of the life insurance companies lending in South Dakota. Statements for 36 companies were filed with the Commissioner of Insurance, Pierre, South Dakota. Data for two companies were obtained from the Minnesota Department of Insurance, and three companies reported the information direct. Figures were not available for two companies which were included in the report last year. The holdings of these two companies are relatively small, however, and their omission does not seriously affect the comparability of the figures.

The individual delinquent mortgages were not listed separately as they were in the 1931 schedules, but they were reported as totals for each company. Consequently, information on interest rates, length of terms, etc., for delinquent mortgages was not available.

Farm Mortgages Outstanding

Farm Mortgages Held December 31, 1932.—For the 41 companies on which information was available, Table 1 shows the amount of farm mort-

1. South Dakota Experiment Station Circular 9, Page 41, Table XVII.

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TABLE 1.—Farm mortgages owned December 31, in 1931 and 1932, amount loaned and amount received as payments on mortgages during year by 41 life insurance companies lending in South Dakota.*

Company Number	Farm Mtgs. Owned Dec. 31 1931		Payments Rec'd on Mtgs. During Yr.†		Farm Mortgages Owned Dec. 31, 1932	
	Amt. Loaned	During Yr.	During Yr.†	Number	Amount	
1	\$ 12,705,933	\$ 212,909	\$ 573,351	1,802	\$12,345,491	
3	13,594,513	801,650	2,198,321	2,146	12,177,839	
4	1,453,964	32,523	186,392	259	1,300,097	
6	2,358,856	54,649	195,446	272	2,218,059	
7	3,892,666	115,206	739,423	503	3,267,849	
8	253,274	0	15,200	24	238,074	
9	8,016	437	2,017	1	6,436	
10	1,990,881	37,595	16,370	238	2,011,906	
12	13,073,655	372,415	1,903,523	1,889	11,536,575	
13	101,550	535	200	14	101,885	
14	16,893,203	617,931	1,787,470	2,588	14,923,664	
15	5,270,673	92,600	491,328	928	4,871,945	
16	8,784,997	1,291,655	1,773,602	1,603	8,303,050	
17	8,787,372	86,075	855,381	1,531	8,018,066	
18	7,145,430	309,085	1,208,115	1,073	6,246,400	
19	888,850	8,000	31,200	260	805,650	
20	2,794,781	16,000	429,675	338	2,381,109	
22	45,775	0	525	7	45,250	
23	87,996	3,813	20,921	8	70,893	
24	703,038	5,400	70,200	190	639,238	
28	24,500	0	1,200	6	23,300	
29	1,159,710	60,954	81,413	210	1,139,251	
30	4,500	380	0	1	4,880	
31	424,873	6,000	53,500	60	377,373	
32	84,686	4,015	17,713	19	70,989	
33	44,300	75	0	5	44,375	
35	15,700	0	0	10	15,700	
36	52,000	0	0	3	52,000	
37	32,624	0	4,224	5	28,400	
38	3,000	0	0	1	3,000	
39	27,000	0	15,000	3	12,000	
42	77,650	0	4,350	11	73,300	
44	152,813	11,240	11,200	18	152,853	
45	81,854	4,353	15,421	19	70,786	
Total 34 companies	\$102,130,036	\$4,146,531	\$12,698,884	16,045	\$93,577,683	
7 other companies‡	1,432,318	32,280	284,550		1,180,048	
GRAND TOTAL	\$103,562,354	\$4,178,811	\$12,983,434		\$94,757,731	

* Figures were not available for two companies included in last year's report.

† Payments received on mortgages include real estate acquired.

‡ Do not report number of mortgages.

gages outstanding December 31, 1931; the amount outstanding December 31, 1932, and the amount loaned and collected during the year. The 41 companies reported \$103,562,354 in outstanding farm mortgages on December 31, 1931, and \$94,757,731 on December 31, 1932. Loans during the year amounted to \$4,178,811 and payments on account amounted to \$12,983,434. The net decrease in outstanding mortgages during the year was \$8,804,623. How much of the amount loaned was new loans and how much renewal of old loans was not reported. Neither could it be determined how many of the payments received were actual payments and how much of the amount was the result of foreclosures. However, it is quite likely that the acquisition of real estate accounted for a large share of the net decrease in outstanding mortgages (Table 3). This being the case it would appear probable that renewals of old loans make up a large portion of the amount loaned during the year and that a large portion of the balance paid on account (after foreclosures are deducted) is merely an offset of renewals. It is not likely in view of conditions in South Dakota that much cash was either collected or loaned out.

Thirty-four companies reported both the number and amount of loans outstanding December 31, 1932. These companies reported 16,045 loans

outstanding for a total principal of \$93,577,683. The average amount per loan was \$5,332. The average amount per loan for 36 companies on December 31, 1931, was \$6,031.

Farm Mortgages Held 1919-1932.—Sixteen of the life insurance companies that hold farm mortgages in South Dakota file their schedules with the New York Insurance Department. Figures are available on mortgages held by these companies over a period of years from the New York Insurance Reports.

TABLE 2.—Farm mortgages held in South Dakota by sixteen life insurance companies.*

Year ending December 31	Farm Mortgages Held	Index of Farm Mortgages Held 1925 = 100%
1914	\$ 22,818,367	24.1
1919	39,822,733	42.0
1920	50,470,695	53.3
1921	59,741,173	63.1
1922	68,613,063	72.4
1923	81,911,259	86.5
1924	90,740,075	95.8
1925	94,723,977	100.0
1926	100,900,410	106.5
1927	104,406,312	110.2
1928	104,007,442	109.8
1929	102,878,238	108.6
1930	98,367,369	103.8
1931	95,715,433	101.0
1932	87,818,786	92.7

* New York Insurance Reports, Part 11, Life Insurance, 1914, 1919-1931. Figures for 1932 from annual statements of companies. Index numbers of mortgages held computed from the table.

The farm mortgage holdings of these 16 companies for the years 1914, 1919-1932 are shown in Table 2. The holdings of the above companies comprised about 90 per cent of the total farm mortgages held by life insurance companies in South Dakota at the end of 1932. These companies increased their investment in farm mortgages every year up to 1928. The most rapid increase occurred in the years prior to 1924. The farm mortgage investment reached its peak in 1927 and since that time has been declining. A decrease from 1927 to 1932 of not quite 16 per cent is indicated. The investment of these 16 companies in farm mortgages at the end of 1932 was at the lowest figure since 1923.

Farm Real Estate Owned

Year Acquired.—In Table 3 the farm real estate owned at the end of 1932 by life insurance companies lending in South Dakota is classified by the year in which it was acquired. The number of tracts² acquired, the acreage, and the actual cost³ is given from 1924 to 1932. Since there have

2. Because of the fact that many farmers mortgage only a part of their farms, the units of real estate owned by life insurance companies do not in all cases consist of a complete farm. It seems desirable, therefore, to refer to these holdings as tracts rather than as independent farms.

3. Actual cost of real estate to the life insurance companies includes the amount unpaid on the mortgage including delinquent interest, and all cost of acquiring title. If title is acquired by foreclosure, the cost includes the amount expended for taxes, repairs, and improvements prior to the date on which the company acquired the title.

been some sales, this does not represent the total amount acquired each year, but does represent the total amount acquired minus the sales that have been made up to December 31, 1932.

TABLE 3.—Farm real estate acquired by life insurance companies 1924-1932 and owned December 31, 1932

Year Acquired	No. of Tracts	Acreage	Actual Cost	Acres per Tract	Cost per Acre
1932*	1,116	271,033	\$8,914,967	243	\$33
1931	472	117,640	3,891,644	249	33
1930	364	101,953	3,594,121	280	35
1929	258	59,191	2,095,745	229	35
1928	227	72,008	2,815,061	317	39
1927	107	24,418	1,014,734	228	42
1926	81	20,539	947,995	254	46
1925	65	17,249	726,367	265	42
1924	28	8,852	386,761	316	44
Year not given†	56	12,919	566,807	—	—

* Information on real estate acquired was not available for two companies.

† Includes 4 tracts acquired before 1924.

The number of sales made each year have been small on account of the condition of the land market and the unwillingness of the companies to sacrifice their holdings. Because the number of sales have been so small, the figures in Table 3 do give a very good indication of the amount of farm real estate acquired each year.

The number of tracts acquired each year from 1924 to 1932, and still owned December 31, 1932, is shown in Figure 1 which is based on Table 3. There has been an increase every year in the number of tracts acquired. Approximately 57 per cent of the tracts owned December 31, 1932 were acquired in the two years 1931 and 1932. The largest acquisition in any one year was 1,116 tracts in 1932, or about 40 per cent of the total number owned at the end of 1932.

The acreage acquired has increased every year except in 1929. About 55 per cent of the total acreage owned on December 31, 1932, was acquired in the two years 1931 and 1932. The largest acreage acquired in any one year was 271,033 acres in 1932, or about 38 per cent of the total held.

The actual cost of the real estate acquired has also increased every year except for 1929 and the largest cost incurred in any one year was also in 1932. The average cost per acre was \$33 in 1932, the same as in 1931, but \$13 less than in 1926.⁴

Farm Real Estate Owned December 31, 1932.—At the end of 1932, life insurance companies owned 2,773 tracts of farm land in South Dakota, representing a total of 705,802 acres, and acquired at a cost of \$24,954,202 (Table 4). The holdings at the end of 1932 represented an increase over the holdings a year earlier of 67 per cent in number of tracts, 62 per cent in acreage, and of about 55 per cent in cost.

4. See South Dakota Experiment Station Circular 7, Page 11.

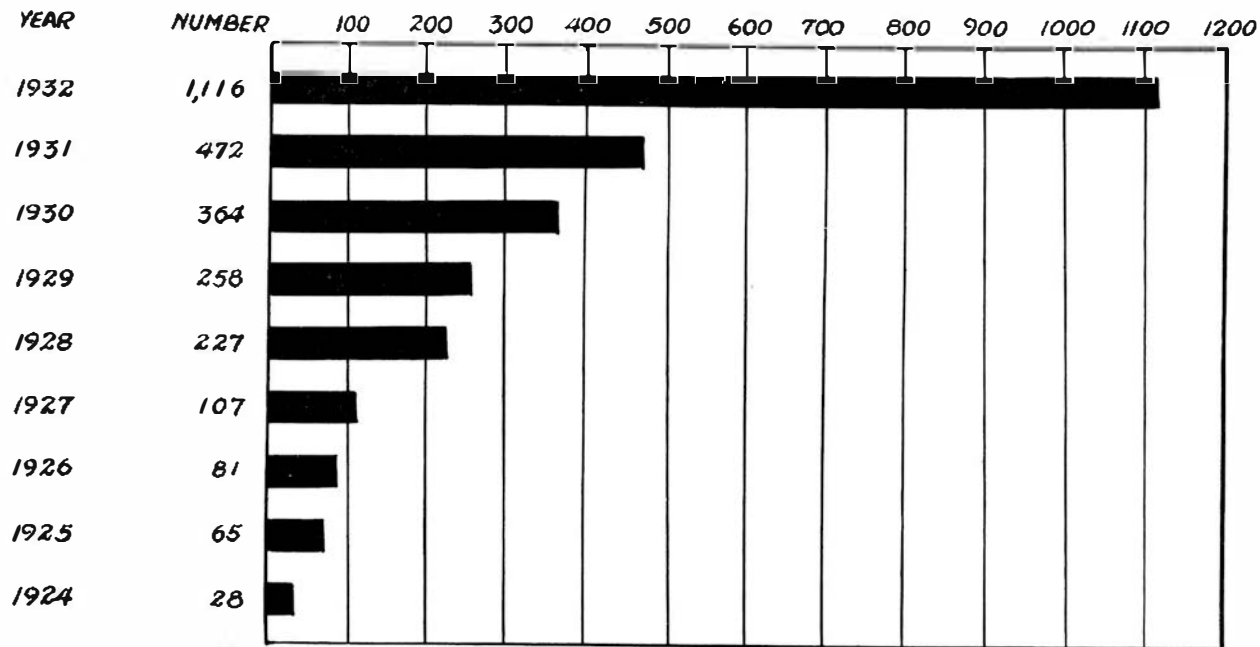


Fig. 1—Number of tracts of land acquired each year, 1924-1932, by life insurance companies and held December 31, 1932*

* Four tracts were acquired before 1924 and the year acquired was not reported for 51 tracts.

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TABLE 1.—Farm real estate owned in South Dakota by life insurance companies.
December 31, 1932

County	No. of Tracts	Acres	Actual Cost	Acres Owned per 1,000 assessed acres*
TOTAL	2,773	705,802	\$24,954,202	18.8
Armstrong	0	0	0	0
Aurora	8	1,820	67,021	4.2
Beadle	104	29,612	1,011,163	38.5
Bennett	0	0	0	0
Bon Homme	13	2,991	154,804	8.4
Brookings	127	26,428	1,371,533	52.8
Brown	317	91,877	2,784,023	87.9
Brule	11	2,848	90,435	5.7
Buffalo	1	391	11,641	1.9
Butte	2	480	5,181	0.5
Campbell	4	1,160	16,421	2.6
Charles Mix	34	8,795	294,510	18.3
Clark	229	57,384	2,088,542	98.0
Clay	8	1,190	72,897	4.8
Codington	182	43,158	1,608,043	101.9
Corson	27	7,924	120,192	11.6
Custer	3	1,016	13,744	1.8
Davison	16	3,935	183,617	14.6
Day	115	27,314	905,987	43.2
Deuel	189	44,298	1,599,559	111.4
Dewey	12	2,580	38,427	5.3
Douglas	4	1,307	58,654	4.8
Edmunds	38	10,032	187,224	15.2
Fall River	3	2,480	50,352	2.8
Faulk	27	7,114	114,060	12.3
Grant	74	15,635	533,001	37.0
Gregory	86	44,631	1,808,452	83.8
Hankson	0	0	0	0
Hamlin	89	22,537	955,288	70.6
Hand	22	7,376	164,312	8.7
Hanson	23	5,829	287,335	21.4
Harding	5	720	3,518	0.6
Hughes	6	1,440	26,643	3.5
Hutchinson	12	3,709	151,473	7.1
Hyde	2	320	5,016	0.7
Jackson	25	1,160	15,251	2.5
Jerauld	25	3,189	414,660	25.5
Jones	0	0	0	0
Kingsbury	114	25,613	1,092,690	50.5
Lake	67	13,110	695,333	37.1
Lawrence	0	0	0	0
Lincoln	10	1,903	101,850	5.2
Lyman	4	1,997	32,895	2.2
McCook	47	9,374	457,035	25.9
McPherson	45	10,258	195,867	16.6
Marshall	70	13,678	414,353	30.6
Meade	2	560	11,296	0.4
Mellette	2	497	30,970	1.2
Miner	37	9,024	391,814	26.8
Minnehaha	22	3,988	236,221	7.9
Moody	62	12,685	673,733	38.8
Pennington	0	0	0	0
Perkins	11	2,040	21,139	1.3
Potter	10	3,080	62,831	6.6
Roberts	98	21,067	663,805	34.6
Sanborn	20	4,222	172,346	12.1
Shannon	0	0	0	0
Spink	190	49,687	1,461,273	64.5
Stanley	3	480	4,499	0.6
Sully	9	3,600	113,048	6.5
Todd	2	760	13,479	2.6
Tripp	62	19,048	654,277	23.6
Turner	32	5,331	326,336	13.6
Union	18	2,771	170,592	9.2
Walworth	12	2,678	41,765	6.7
Washabaugh	0	0	0	0
Washington	0	0	0	0
Yankton	5	1,220	78,908	3.9
Ziebach	1	160	2,862	0.3

* Acres of farm land assessed in 1932 taken from the annual report of the Division of Taxation for 1932.

The companies own land in all but five of the 64 organized counties, and in one of the five unorganized counties. The distribution of real estate acquired in 1932 varied considerably from county to county, some counties not showing much of an increase over 1931 and others showing an increase of over 100 per cent. But in general the distribution of real estate owned at the end of 1932 followed about the same general tendency as at the end of 1931. Figure 2 shows that the heaviest concentration is in the northeastern section of the state, which was also true in 1931. Another point of heavy concentration is in Gregory county in the south-central section of the state. In nine counties, the companies owned over 5 per cent of the 1932 assessed acreage in the county. These counties were Deuel, Codington, Clark, Brown, Gregory, Hamlin, Spink, Brookings, and Kingsbury (Table 4).⁵ In 20 counties the holdings ranged from 1 to 5 per cent of the 1932 assessed acreage and in the rest of the 60 counties the holdings were less than 1 per cent of the assessed acreage.

The distribution by counties of the total cost to the companies of real estate owned at the end of 1932 is shown in Figure 3. The cost follows about the same general tendency as the acreage except that there is a heavier concentration in the southeastern counties on account of the higher cost of the land per acre.

The total cost to the companies of real estate acquired in Brown and Clark counties was over \$2,000,000 per county. In Beadle, Brookings, Codington, Deuel, Gregory, Kingsbury, and Spink counties, the cost ranged from \$1,000,000 to \$2,000,000 per county. In seven counties the cost ranged from \$500,000 to \$1,000,000 per county. In the rest of the 60 counties the cost was less than \$500,000 per county.

The average cost per tract of real estate owned December 31, 1932, was about \$9,000. This was over \$3,100 larger than the average mortgage outstanding on the same date. A considerable portion of this difference is due to foreclosure costs and delinquencies. It is probable, however, that the difference also can be partly accounted for by the reduction in the average amount loaned in more recent years and by repayments of part of the outstanding loans.

Delinquent Farm Mortgages

Thirty-nine companies reported complete information on farm mortgages delinquent over three months as to principal, interest, or taxes on December 31, 1932. These companies reported \$51,119,180 as the total principal delinquent. This represented 66.8 per cent of the total farm mortgages held by these companies at the end of 1932 (Table 5). At the end of 1931, 43 companies reported 29.4 per cent of their investment in

5. Fifty acres per 1,000 assessed acres equals 5 per cent of the assessed acreage. The per 1,000 figure is used to facilitate reading.

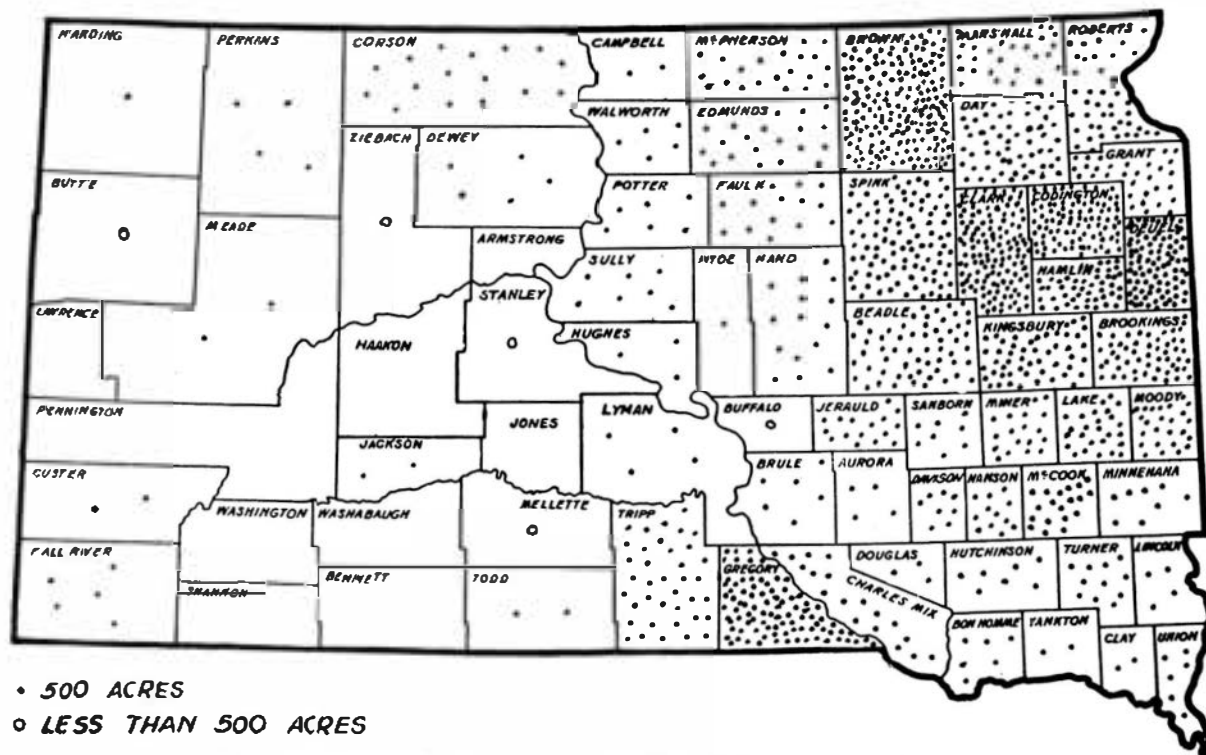


Fig. 2—Farm real estate owned December 31, 1932 by life insurance companies lending in South Dakota

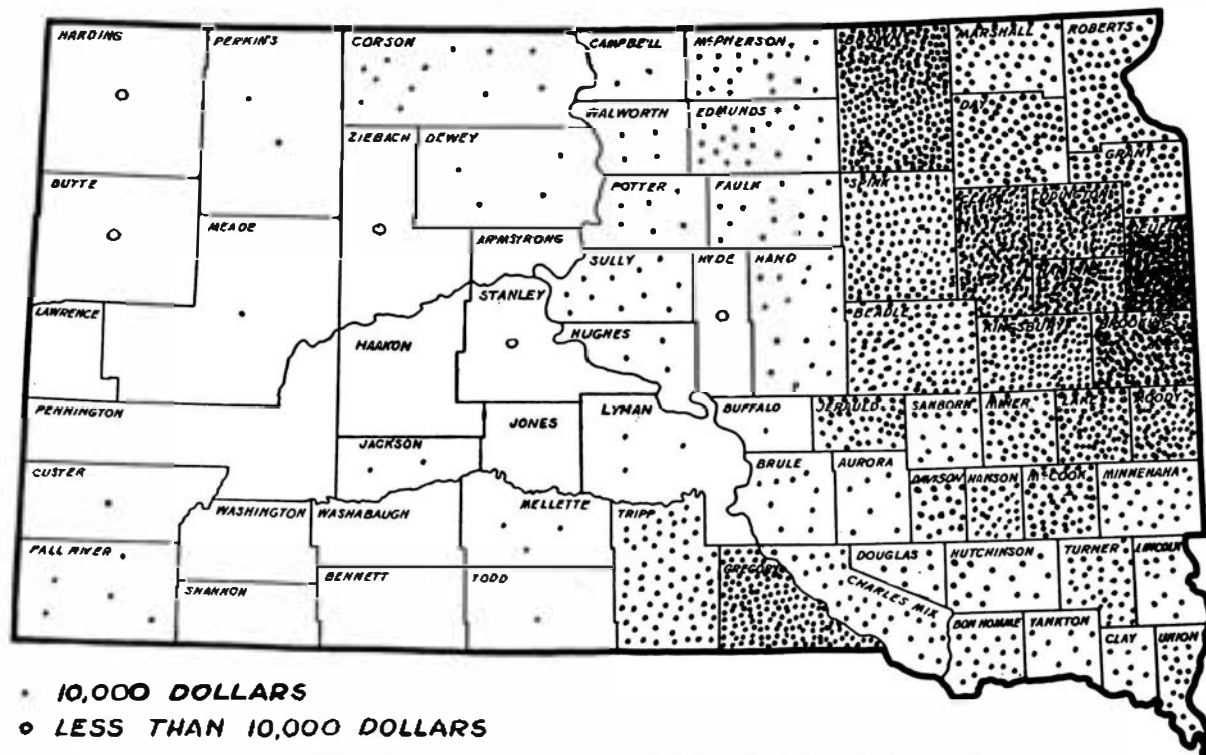


Fig. 3—Actual cost of farm real estate owned December 31, 1932 by life insurance companies lending in South Dakota

TABLE 5.—Delinquent farm mortgages held by life insurance companies, December 31, 1930, 1931, and 1932

Year	No of Companies*	Total principal	Principal delinquent		Principal in foreclosure	
			Amount	Per cent	Amount	Per cent
1930	26	\$106,219,860	\$ 9,527,766	9.0	\$1,889,506	1.9
1931	43	106,075,490	31,173,800	29.4	8,585,404	8.1
1932	39	76,579,568	51,119,180	66.8	9,460,151	12.4

* Number of companies for which complete information was available.

farm mortgages delinquent and at the end of 1930, 26 companies reported 9.0 per cent of their investment in farm mortgages delinquent. This is a very rapid increase in the percentage of delinquency and indicates the increasing difficulty of farmers of South Dakota in meeting their obligations.

The reports of the 39 companies at the end of 1932 indicate that a portion of these loans are not badly in arrears. The companies are probably handling these loans as leniently as possible and are giving the good farmers every chance to work out. However, many farmers are in such a bad financial condition that it will be next to impossible for them ever to work out of their present situation. The result is that in many cases the only solution is for the insurance companies to foreclose on the farm. Many farmers also abandon their farms, forcing the companies to foreclose to protect their interests.

Another indication of the leniency of the companies is that while the percentage of delinquency increased from 29.4 per cent at the end of 1931 to 66.8 per cent at the end of 1932 (an increase of 127 per cent), the percentage of principal in foreclosure increased from 8.1 per cent to 12.4 per cent (an increase of 53 per cent). If the companies had continued to foreclose in the same relationship to their delinquent mortgages in 1932 as they did in 1931, it would have meant over \$20,000,000 in process of foreclosure at the end of 1932. As it is, it can probably be safely forecast that the companies will acquire more real estate in 1933 than they did in 1932. Unless a substantial increase in prices occurs with a good crop in 1934, many farmers will find themselves unable to carry their debt burden.

Refinancing by federal agencies may prove to be a solution, but the extent of help from this source is still uncertain. Higher prices would ease the farmers' debt and tax burden but they would have to come in such a way that the farmer could show a return above his operating costs. In other words, if a rise were to occur first in prices of the things the farmer buys and later in the prices of things he sells, many farmers would be bankrupt before any benefits would be felt.

The individual companies varied considerably in the percentage of their mortgages delinquent as shown in Table 6. The percentage of loans delinquent ranged from zero to 100 per cent. Although the average percentage of delinquency was 66.8 per cent, the class of highest frequency was from 70.1 to 80 per cent. Most of the extreme variations are reported by companies with small holdings.

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TABLE 6.—Number of life insurance companies having different percentages of their farm mortgage loans delinquent, December 31, 1932

Percent delinquent	No. of companies
0.1—10	1
10.1—20	0
20.1—30	0
30.1—40	2
40.1—50	5
50.1—60	4
60.1—70	8
70.1—80	11
80.1—90	6
90.1—100	6
TOTAL*	38

* Two companies had no delinquent loans and information on delinquent loans was not available for two companies.

The individual companies also varied considerably in the percentage of their mortgages in process of foreclosure as shown in Table 7. Here again, most of the extreme variations are reported by companies with small holdings.

TABLE 7.—Number of life insurance companies having different percentages of their farm mortgage loans in process of foreclosure December 31, 1932

Percent in process of foreclosure	No. of companies
0.1	7
10.1—20	12
20.1—30	3
30.1—40	3
40.1—50	2
Over 50	3
TOTAL*	30

* Nine companies did not have any loans in process of foreclosure and information on loans in process of foreclosure was not available for four companies.

Farm Real Estate Sold and Prospects for Disposal of Land Held

Farm Real Estate Sold.—Of the 41 companies for which information was available on sales made during 1932, only 15 reported sales. The other 26 companies made no sales during 1932. These 15 companies reported a total of 59 sales during 1932 (Table 8). Of this total number of sales, 28 were outright sales and 31 were sales under contract for deed.

Twenty of the outright sales were cancellation of sale contracts by one company. The farms sold in this manner had evidently been under sale contract for some time and the balance of the payments was settled either by cash or mortgage.

The common practice when farms are sold under sale contract is for the company to retain title to the land. Twenty-seven tracts consisting of 6,938 acres sold under contract in 1932 were handled in this way. This means that there were only 32 sales made in 1932 in which the title to the property actually changed hands.

TABLE 8.—Farm real estate sold by life insurance companies in 1932

County	Total sales		Outright sales		Sales contracts*	
	Number	Acres	Number	Acres	Number	Acres
TOTAL	59	14,079	23	6,745	31	7,334
Beadle	2	644	2	644		
Brookings	3	506	1	160	2	346
Brown	9	2,235	5	1,278	4	957
Buffalo	1	249			1	249
Charles Mix	1	482	1	482		
Clark	4	1,272	4	952	2	320
Codington	3	1,532	5	1,116	3	436
Corson	1	160			1	160
Davison	1	157	1	157		
Day	3	551			3	551
Gregory	2	680	2	680		
Jerauld	1	160			1	160
Kingsbury	2	320	2	320		
Lake	1	160			1	160
Marshall	1	118			1	118
Meade	2	1,880			2	1,880
Minnehaha	1	160	1	160		
Pennington	3	624			3	624
Roberts	3	280			3	280
Spink	1	320	1	320		
Stanley	1	160	1	160		
Tripp	1	160			1	160
Turner	3	636	3	636		
Union	3	613			3	613

* All but four tracts (consisting of 306 acres) sold under contract were listed as real estate owned, December 31, 1932

Prospects for Disposal of Land Held.—The sale of 32 tracts of land during 1932 compared with the net acquisition of 1,116 tracts in that year indicate that the companies are not having much success in disposing of their farm land. The fact that over 66 per cent of the principal invested in mortgages at the end of 1932 was delinquent and that over 12 per cent of the principal was in process of foreclosure, points to a prospectively larger acquisition of farm land in 1933 than was acquired in 1932. The poor crops of this year (1933) and the continued low prices of farm products makes it very probable that unless there is a change in the method of handling delinquency, there will be a considerable number of foreclosures in 1934.

The low prices of farm commodities in relation to goods bought and costs incurred, and the unfavorable crop yields of recent years have not only caused lenders to foreclose on considerable farm land but have also prevented the "unwilling owners" from selling the land for what they have invested in it. Land values have followed the decline in farm income. Prospective buyers have had their savings depleted or have been prevented from accumulating savings. Lack of credit for purchase of land and the fact that tenancy is more remunerative than ownership in many areas have discouraged prospective owners from purchasing farm land.

The 705,800 acres of farm land owned by life insurance companies is only a part of the land in the hands of "unwilling owners." Practically every lending agency has acquired more or less land.⁶ The greatest share of this property is for sale at the figure invested in it and much of it at

6. See South Dakota Experiment Station Circular 9.

lower figures. The situation then is that there is a large amount of land for sale but at prices which under present conditions are too high in relation to farm income. It will be impossible to sell the land in any appreciable amounts until either farm income has increased or the prices at which the land is held is reduced, and even then there will be the problem of credit for land purchases since it is obvious that active farmers will not be able to accumulate the purchase price at once. It is evident that it will be several years before the land in the hands of "unwilling owners" can be transferred to active farmers.