

Readjusting Montana's Agriculture
VIII · Tax Delinquency and
Mortgage Foreclosures

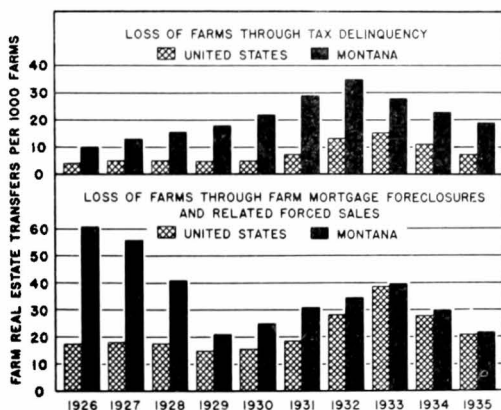
Readjusting Montana's Agriculture

VIII. Tax Delinquency and Mortgage Foreclosures

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TREND OF TAX DEEDS AND MORTGAGE FORECLOSURES IN MONTANA AND THE UNITED STATES

MONTANA STATE COLLEGE
 AGRICULTURAL EXPERIMENT STATION
 BOZEMAN, MONTANA

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Readjusting Montana's Agriculture

VIII. Tax Delinquency and Mortgage Foreclosures

More than 40 per cent (21 million acres) of the agricultural land on the tax rolls of Montana was delinquent in current tax payments at the beginning of 1934, approximately one-fourth of the total (nearly 13 million acres) was delinquent three years or more and about one-tenth (nearly 5 million acres) was delinquent five years or more.¹ The land holdings of county governments, obtained through tax deed, increased by 4,731 per cent during the last decade, or from 52,292 acres in 1925 to 2,526,349 acres in 1934. Farm real estate mortgage indebtedness totaled about \$130,000,000 in 1930 and mortgage foreclosures were numerous until debt moratoria and governmental spending and lending relieved the situation. The land holdings of the Federal Land Bank of Spokane in Montana increased 516 per cent, from 119,586 acres in 1925 to 736,253 acres in 1934.

Such extensive tax delinquency and mortgage foreclosure is indeed just cause for alarm. Not only is it tragic for a great many individuals to lose their homes and life savings, but it causes general social instability by threatening the collapse of local governmental units and challenges the institution of private property itself. Heavy farm tax delinquency and mortgage foreclosures are incriminating evidence of certain fundamental maladjustments which must be corrected before a prosperous agriculture can be secured and maintained. The purpose of this bulletin is therefore to show: (1) The amount and trend of farm tax delinquency and mortgage foreclosures in Montana, (2) the principal causes of such conditions and trends, and (3) some measures or adjustments necessary to reduce delinquency and foreclosure to a minimum.

EXTENT AND GROWTH OF TAX DELINQUENCY

Amount and distribution of delinquency.—The extent of farm tax delinquency may be measured by the proportion of: (1) The acreage of agricultural lands delinquent, (2) the number of farm properties delinquent, (3) the total assessed value of farm land and

¹Chapter 125 of the 1933 Session Laws extends the time for taking tax deeds by the county to four years and if the taxpayer redeems one year's delinquency, the time is extended an additional year, but in no case shall the extension of time to redeem be in excess of five years. Prior to the passage of this law, tax deeds could be taken after three years of delinquency.

buildings delinquent, and (4) the total farm taxes levied delinquent. On the basis of any one of these criteria, farm tax delinquency averaged approximately 40 per cent in Montana in 1934. That is to say, about 2 out of every 5 owners of agricultural land did not pay their taxes when due, and 2 out of every 5 acres of agricultural land, \$2 out of every \$5 of assessed valuation, and \$2 out of every \$5 of farm taxes levied were delinquent².

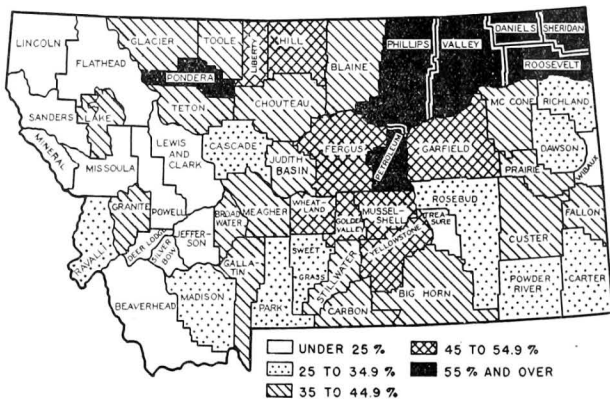


Figure 1.—Percentage of lands in Montana counties delinquent in current tax levies at the beginning of 1934.

This delinquency is not distributed evenly over the state, however. Seven counties had more than 55 per cent of their agricultural lands delinquent in current levies at the beginning of 1934, while 12 had less than 25 per cent delinquent (see figure 1). Note that the counties with heaviest delinquency are concentrated largely in the northeastern and central portions of the state, and those with the lightest in the older settled western third of the state. Sheridan County had the largest current delinquency (73 per cent) and Missoula County the lowest (12 per cent).

²The data relating specifically to farm real estate delinquency were secured for 31 of the 56 counties through a Federal Civil Works Administration project sponsored cooperatively by the Bureau of Agricultural Economics, United States Department of Agriculture, and the Montana Agricultural Experiment Station. Data for the remainder of the counties were obtained through a State Emergency Relief project sponsored by the Department of Agricultural Economics, Montana Experiment Station.

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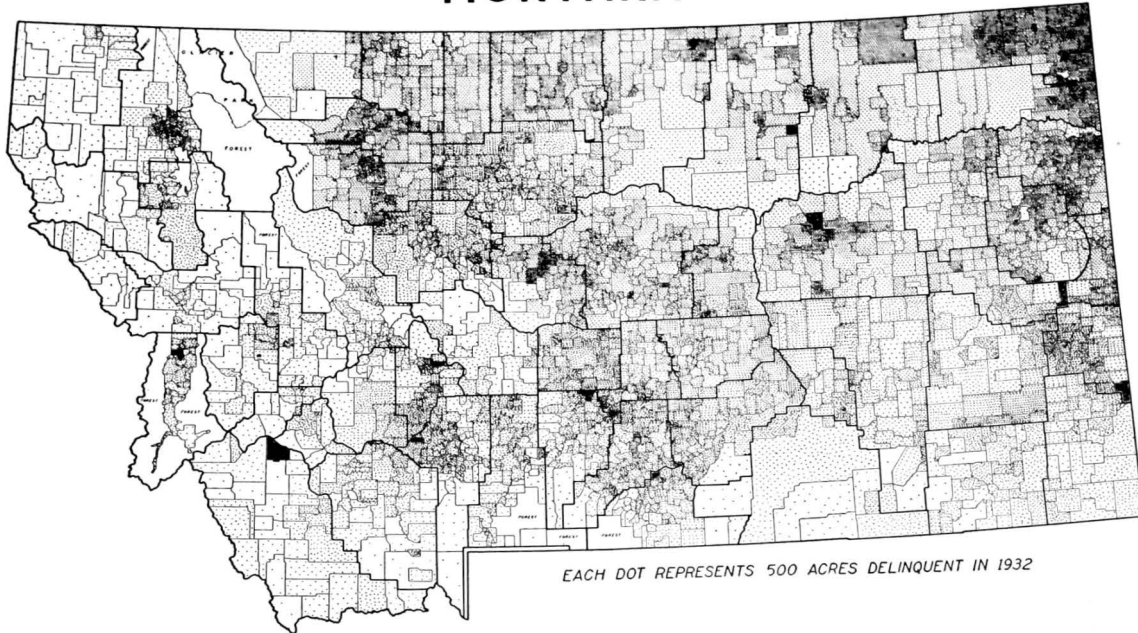


Figure 2.—Distribution of lands in Montana upon which the 1932 tax levies were delinquent.

A more detailed picture of the acreage upon which the 1932 farm tax levies were delinquent is shown in figure 2. (General price and business indices reached their lowest point during the current depression in 1932.) Note the concentration of delinquency in the northeastern and central portions of the state. Maps showing the number of owners and the amount of farm taxes delinquent are very similar to figure 2.

Trends in delinquency.—The amount of agricultural land in Montana delinquent in current tax payments increased from 8,013,000 acres or 15 per cent of the total in 1928 to 21,705,000 acres or 42 per cent of the total in 1932, and declined slightly to 21,063,000 acres in 1933. The annual increase in delinquency from 1928 to 1932 was fairly uniform during each of these five years. The same general

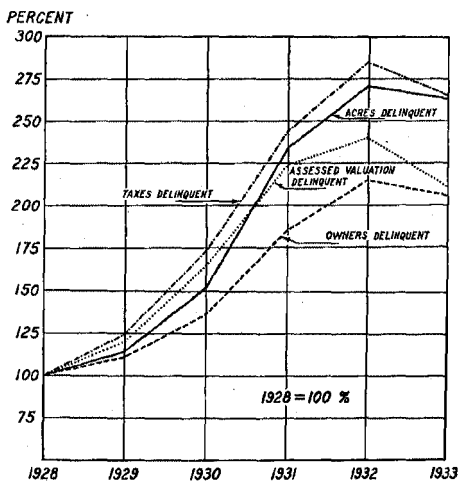


Figure 3.—Trend of tax delinquency in Montana, by various indices, 1928-1933.

trend occurred in the number of owners delinquent, the assessed value of farm real estate delinquent, and the amount of farm real estate taxes delinquent (see figure 3). However, as will be noted from this figure, the number of owners and the assessed valuation of farm land and buildings delinquent did not increase as much as

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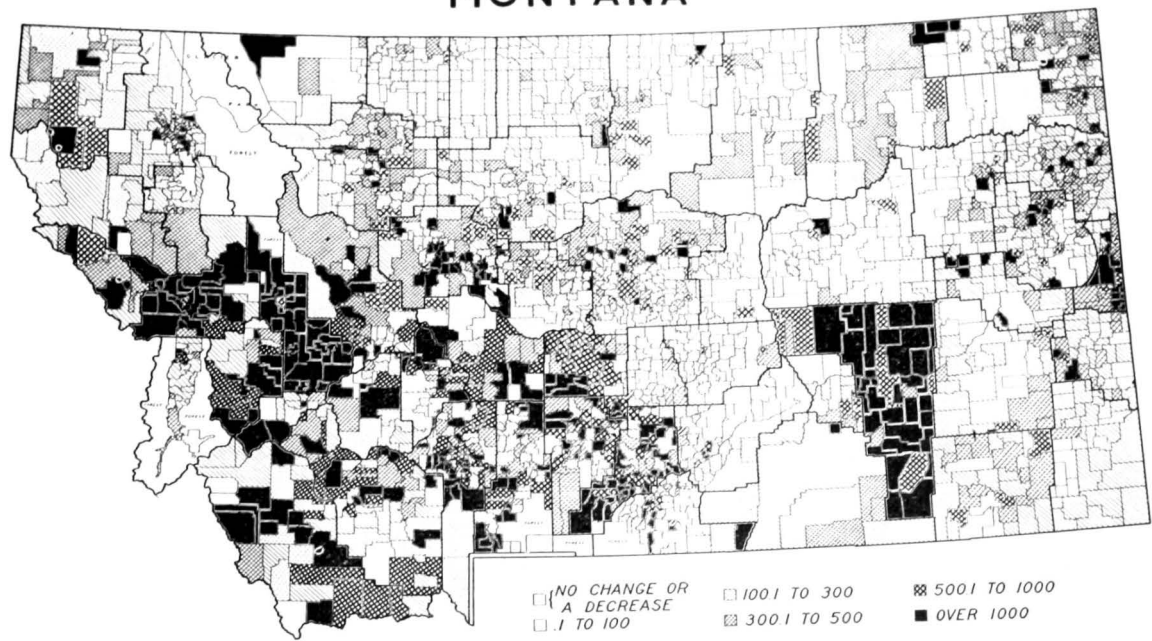


Figure 4.—Percentage increase between 1928 and 1932 in number of acres of land delinquent in current tax payments

the farm acreage and the amount of farm taxes delinquent. The amount of assessed valuation delinquent decreased relatively faster from 1932 to 1933 than the other three measures of delinquency.

These changes have not occurred uniformly over the state. In general, the areas having a relatively small amount of farm tax delinquency in 1928 showed the largest percentage increase from 1928 to 1932 (see figure 4 and compare it with figures 1 and 2). A picture showing the areas where delinquency is relatively heaviest, very similar to that in figure 4, is obtained when either the percentage increase in the number of owners or the amount of farm taxes delinquent is plotted. In each case Rosebud County in the eastern half of the state and Lewis and Clark County in the western half, show the largest percentage increase (over 1000 per cent) in farm tax delinquency from 1928 to 1932. Note in figure 4 the comparatively large increase in the livestock farming areas (the southeastern and southwestern corners). However, these areas showed the smallest relative acreage delinquent in 1928 (see figure 5) and were still comparatively low in 1932 (see figure 2), whereas the dry farming areas showed a comparatively heavy acreage delinquent in 1928.

Of the 2221 school districts in the state making tax levies, 133 or 6 per cent had no increase in acreage delinquent from 1928 to 1932 and some had an actual decrease, while 376 districts or 17 per cent had an increase of more than 1000 per cent (an increase of more than ten times during the five years). Some of these districts had an increase in acres delinquent of as much as 13,000 per cent during these five years.

The extent to which delinquent farm real estate taxes have remained unpaid or accumulated from 1928 to 1934 is shown by school districts in figure 6. Note the large amount of unpaid farm taxes which have accumulated in the northeastern corner of the state (accumulations exceeding a tenth of the taxable valuation) where severe drought, hail and insect pest ravages, and low wheat prices have had their effect in causing continued tax delinquency. Unpaid farm taxes are also concentrated in the central and south-central portions of the state where drought in recent years has caused extremely low crop yields. In contrast, the strictly livestock producing or range country areas had a very small amount of unpaid farm taxes.

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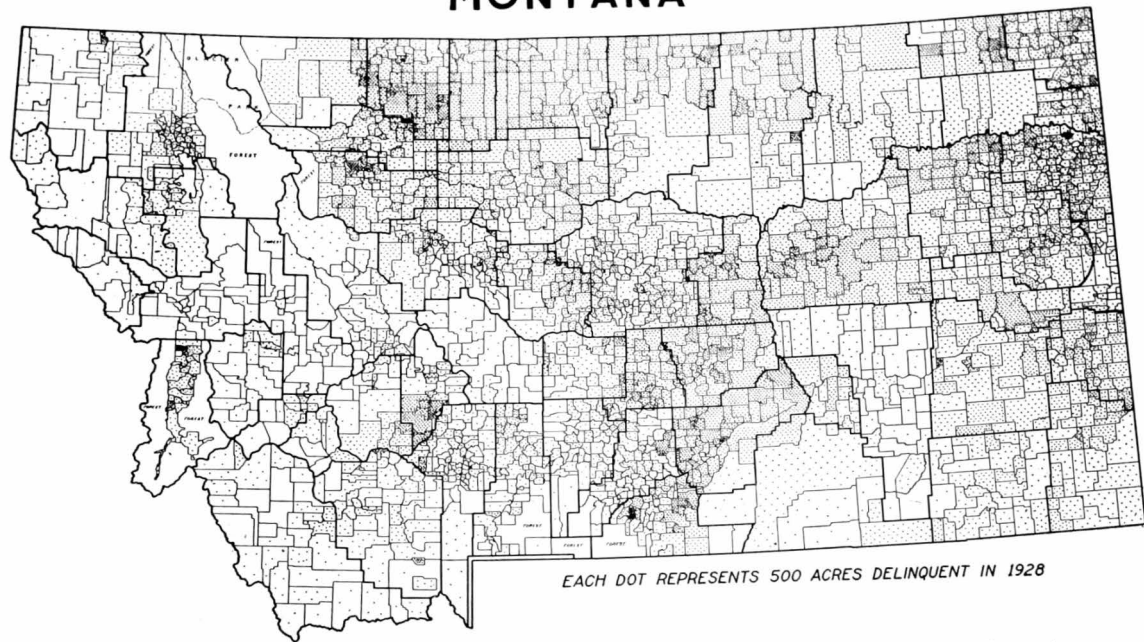


Figure 5.—Distribution of lands in Montana upon which the 1928 tax levies were delinquent

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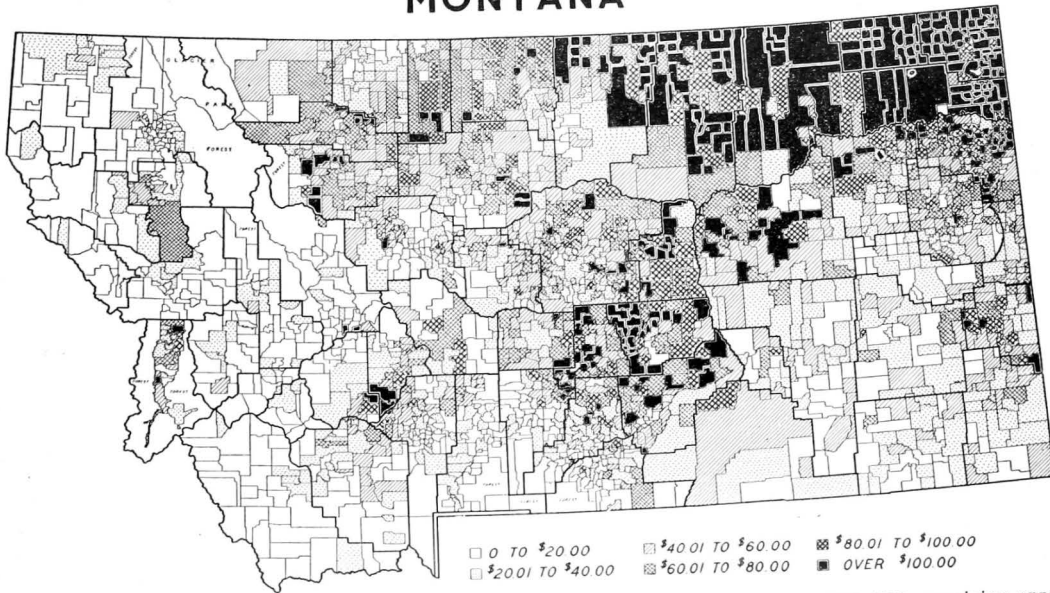


Figure 6.—Accumulated taxes per \$1,000 of taxable valuation on lands in Montana, 1928-1933, remaining unpaid on March 1, 1934.

A total of 280 school districts in the state or 13 per cent of the total, had unpaid farm taxes which had accumulated to more than \$100 per \$1000 taxable valuation from the beginning of 1928 to March 1, 1934, 18 of these having accumulations exceeding \$200 per \$1000 taxable value or 20 per cent of their taxable valuation. On the other hand, 600 districts or 27 per cent had total unpaid farm taxes of less than \$20 per \$1000 (2 per cent) of taxable valuation which had accumulated during the period.

CAUSES OF TAX DELINQUENCY

The principal causes of farm tax delinquency in Montana may be grouped under three main headings: (1) the depression, (2) the drought, and (3) the improper use of land, or what may be termed "land use maladjustment." The human element, of course, is always an important factor in tax delinquency. Taxes frequently become delinquent because of the carelessness, indifference, improvidence, or misfortune of the individual taxpayer. Additional factors tending to increase delinquency are a failure to adjust taxes properly to the principle of ability to pay, because of overemphasis on general property taxes, a lax and inefficient collection system, and a faulty assessment, resulting in great disparities of tax burdens between different holdings.

Delinquency due to the depression.—The decline in agricultural prices and consequent lower farm incomes accompanying the general business depression beginning in 1929 is undoubtedly an important factor accounting for the increase in delinquency during the period 1928 to 1933. The average gross cash income of Montana farmers from crops and livestock combined declined from an index of 130 (using 1924 — 1926=100) in 1928 to 24.2 in 1932. On the other hand, farm taxes declined very little during this same period, falling from an index of 102 to 91. Thus while the farmer's gross cash income in 1932 shrank by more than three-fourths from its 1924-1926 average, his taxes shrank but a little more than one-tenth¹. Under such conditions when taxes take an increasingly large share of the income from farm property or, as is sometimes the case, take even more than the current income, there is little incentive to retain ownership if no remedy is in sight.

¹See Montana Agricultural Experiment Station Bulletin 286, "Montana Farm Taxes," pp. 16 and 44.

In spite of the fact that depression factors are important contributing causes to the present situation, they are not the sole factors. If they were, the farm tax situation would correspond in its inception, duration, and severity to the depression years 1929-1933. The fact that in 1928 more than 15 per cent of the total agricultural land of the state and more than 30,000 properties were delinquent in tax payments, is evidence that considerable delinquency existed during the period of national prosperity which reached its climax in 1928. The percentage of privately owned land delinquent in 1928 varied from 3 to 41 per cent in the different counties of the state. Figure 7 shows the extent of farm tax delinquency in Musselshell County during the five years 1923-1927. It is further evidence that the general business depression was not the only, nor necessarily the most important factor in the present farm tax delinquency situation.

Delinquency due to the drought.—The annual precipitation in the state averaged only 13.5 inches during the 5-year period 1929-1933, compared with 15.5 inches for the preceding 5-year period. From 1906 to 1916 inclusive, the period of heaviest settlement in Montana, there was a relatively high annual precipitation, the average during these 11 years being nearly 18 inches. Undoubtedly the low rainfall during recent years, and the consequent lower yields, combined with the low prices of the depression, have decreased the taxpaying ability of Montana farmers. However, the fact that considerable farm tax delinquency occurred during a period of slightly better than average rainfall (1923-1928) is evidence that drought is only one of several causes of delinquency⁴. It is a contributing cause, and combined with insect ravages, hail, and the low prices of the depression, accounts for a part, but not all, of the increase in farm tax delinquency from 1928 to 1933.

Delinquency due to improper land use.—Discrepancies in the adjustment of agricultural practices and local government to the natural factors which control the agricultural productivity of land, are a fundamental cause of farm tax delinquency in Montana. If land is not utilized in accordance with its natural adaptabilities and limitations, the resulting returns available to pay taxes may be so reduced that the land cannot support the tax burdens necessary to operate the established governmental organization and community matters.

⁴The annual precipitation in Montana for the years 1895 to 1934, inclusive, averaged 15.38 inches, while the annual precipitation during the five years 1924-1928 averaged 15.51 inches.

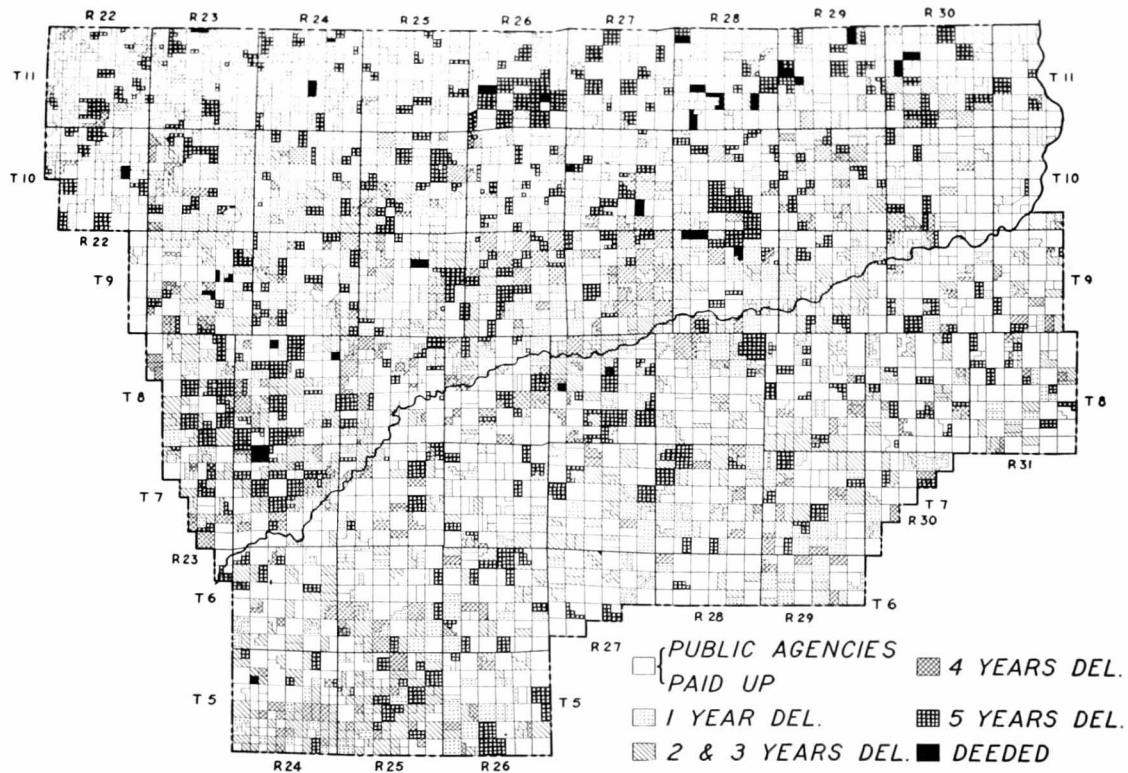


Figure 7.—Farm tax delinquency in Musselshell County, 1923-27

Data now available indicate that this is the case in many parts of Montana. Drought and low prices during depression merely emphasize the more permanent effects of maladjustments in land use.

One of the most important evidences that farm organization and farming practices are not harmonized with the natural abilities and limitations of the lands is the size of farm operating units. The significance of the ownership pattern to existing land use problems in Montana has been pointed out elsewhere⁵. Montana lands have been split up into many small inefficient units by homesteaders, investors, and speculators. That these small units do not return the same proportionate income for the payment of taxes and other costs is evidenced by an analysis of the comparative delinquency of large and small holdings in nonirrigated areas. This analysis indicates that a larger proportion of the smaller than of the larger properties is tax delinquent⁶. In the case of holdings under 260 acres each, which comprised approximately one-sixth of the total farms in the analysis, these small holdings accounted for nearly half of the total farms delinquent in tax payments for five years or more. Holdings of over 500 acres each comprised more than half of the total farms in the sample, but accounted for only 6 per cent of the total farms delinquent for five years. Very similar results were obtained for tax deeded lands. On an acreage basis the farms under 260 acres in size comprised less than 5 per cent of the total acreage in the sample, but accounted for more than 20 per cent of the total acreage delinquent for five years or more. Farms over 500 acres in size comprised over 85 per cent of the total acreage but accounted for less than 15 per cent of the total acreage delinquent five years or more.

Another characteristic of the land ownership pattern in Montana—absentee ownership—is an important factor in the farm tax delinquency situation. In the analysis referred to above a definite relationship was found to exist between the type of ownership and the extent of delinquency. In each county in the sample the land owned by individuals residing outside the state showed a much higher proportion of tax deeds and delinquencies than resident and corporate-owned lands. These data indicate that, other things being equal, the

⁵See Montana Agricultural Experiment Station Bulletin 310. "Readjusting Montana's Agriculture: IV, Land Ownership and Tenure."

⁶See Smith, Norman A., "An Analysis of the Causes of Tax Delinquency in Montana." Unpublished Bachelor's thesis, Montana State College, June, 1935. The analysis includes the five counties of Custer, Sheridan, Teton, Valley, and Wheatland.

lower the proportion of ownership by nonresident individuals the more likely is the agricultural community to be permanent and prosperous. The high percentage of nonresident ownership in many sections of Montana, combined with the large number of small tracts into which the land has been divided through homesteading, settlement, and speculation, makes for inefficient farm operating units and uncertainty in range control. This encourages severe overgrazing and misuse of the state's land resources, leading in turn to increased tax delinquency.

In addition to the above factors, there are certain areas in the state where the costs of supporting public institutions and services such as schools, roads, and county government are so heavy, that tax levies are far out of line with the taxpaying ability of the lands. In such areas heavy tax delinquency results from these disproportionate tax burdens.

MEASURES TO REDUCE TAX DELINQUENCY

Planned land use and control.—The preceding data indicate that in order to reduce materially the amount of farm tax delinquency resulting from a failure to harmonize farming practices with the natural characteristics of the land, the ownership pattern must be changed. The number of small, uneconomical parcels must be reduced in order that more of the farm units may be of such size as to make possible economical organization and operation. A previous bulletin in this series pointed out four ways in which the present difficulties resulting from a faulty ownership and utilization pattern are being corrected. The common purpose of these four methods is to simplify the ownership and use pattern by reducing the number of holdings, particularly absentee holdings, and thus to increase the average size of the operating units or to facilitate the establishment of efficient farm and ranch units through leasing on a more sound and permanent basis.

Reorganization of local government.—The changes which are coming in the land use pattern of Montana either by planned group action or the crude law of the "survival of the fittest," will make possible many important changes in local government. These changes should result in reducing tax burdens for the support of schools, roads, and other local governmental services, and thus help to reduce

¹Montana Experiment Station Bulletin 310, "Land Ownership and Tenure."

farm tax delinquency. Studies show that reorganization of local government in Montana at the present time would reduce taxes appreciably. In the case of county government certain recommended changes to establish more centralized direction and coordination, such as consolidation of certain offices or adoption of some modification of the county manager plan, would increase efficiency and reduce the costs of rendering county services⁸. Studies show that large savings are possible by a planned reorganization of the financing of Montana schools which now take about half of the farm taxes. In one county studied it was found that a planned reorganization of all the grade schools, by completely ignoring present school district boundaries and moving school houses to the center of pupil groups they should serve, would have reduced total grade school costs for that county by 18 per cent, and in no case would any child be more than three miles from a school⁹.

By the use of transportation still larger savings could be made. Such savings in school costs will come very slowly if at all, unless the hundreds of school district units are eliminated and more centralized administration and responsibility are secured.

Our present systems of county government and of small school districts are the result of the expansion which occurred under the stimulus of the settlement and development period. The complete solution of farm tax delinquency involves a reorganization of local government to make it more adaptable to modern changing conditions which are and will be quite different from those which existed in the horse and buggy days, and which largely determined the form which local government has taken.

Adjustments in the tax system.—One of the most important causes of Montana farm tax delinquency is the tax system itself. Local governments in Montana rely largely on the general property tax to secure revenue to meet their expenses. This tax accounts for more than four-fifths of the tax revenue of Montana's state and local governments¹⁰. Not only does this heavy reliance upon general property taxes place a relatively large tax burden on farmers and home

⁸See Montana Experiment Station Bulletin 298, "Montana County Organization, Services, and Costs," April, 1935.

⁹See Montana Experiment Station Bulletin 307, "Financing Montana Schools," December, 1935.

¹⁰See Montana Experiment Station Bulletin 286, "Montana Farm Taxes," March, 1934.

owners, but the taxes are comparatively inflexible so that the burden is especially heavy when income is low. Adjusting annual real estate tax levies to changes in the general level of prices, changing the tax system by broadening the tax base, that is by shifting some of the tax burden to other forms of property and income, and supporting functions like roads and schools by a combination of local, state, and federal taxes rather than by local assessments alone, should assist in harmonizing taxes with the principles of benefits received and ability to pay. Such changes would do much to reduce farm tax delinquency.

To summarize—farm tax delinquency is caused by many factors. Even in the best years some, and often considerable, delinquency occurs. Delinquency is heavier during business depressions when prices are low and during drought periods when yields fall, and a combination of depression and drought causes very heavy delinquency. But over and above these factors is a more permanent and fundamental cause—the failure to adjust agricultural practices to the natural factors determining the productivity and taxpaying ability of the land. The adjustments necessary to secure the proper farm organization and utilization practices will probably never be made so promptly and completely that no maladjustments will exist. A lag occurs between the time such adjustments are needed and the time they are made. But present efforts to plan the use and control of land, together with the reorganizations in local governments and the tax system indicated above, are designed to reduce these maladjustments, in part at least, and thus correspondingly decrease delinquency.

EXTENT AND GROWTH OF MORTGAGE INDEBTEDNESS

Amount and distribution of indebtedness.—More than half (54 per cent) of the 35,353 farms in Montana owned wholly or in part by the operator, were mortgaged in 1930. The total mortgage debt of the 9,612 farms which reported their mortgage indebtedness was \$36,599,000 and equaled approximately 40 per cent of the value of the land and buildings. The average value per farm was \$9644;

the average debt per farm, \$3808; and the average mortgage debt per acre, \$7.31¹¹.

The number of Montana farms mortgaged is proportionately greater than that for the entire United States. In 1930 only 42 per cent of the farms of the United States owned wholly or in part by operators was mortgaged. However, the ratio of mortgage debt to the value of land and buildings was almost exactly the same as in Montana.

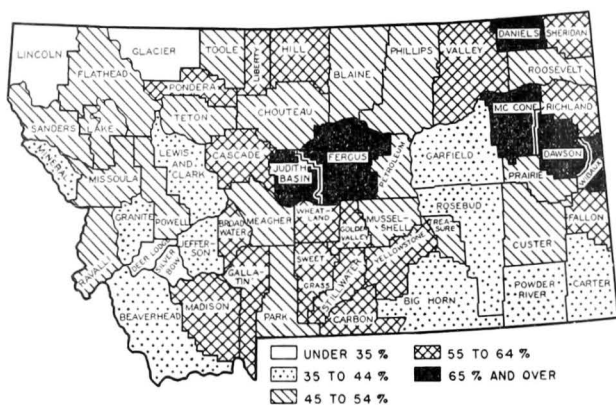


Figure 8.—Percentage of owner-operated farms in Montana counties that were mortgaged in 1930.

The proportion of mortgaged farms, wholly or partially owned by the operator, varies greatly between Montana counties. In 1930, 4 counties (Deer Lodge, Glacier, Lincoln, and Silver Bow) had less than 30 per cent of such farms mortgaged, while 6 counties (Daniels, Dawson, Fergus, Judith Basin, McCone, and Wibaux) had more than 65 per cent of such farms mortgaged, Daniels having the highest proportion with 75 per cent (see figure 8). This figure shows that

¹¹Data from the U. S. Department of Commerce, Bureau of the Census. The mortgage data for all farms are not available but the Bureau of Agricultural Economics estimated the total farm mortgage debt in Montana to be about \$130,000,000 in 1930. This is the most recent year for which reliable data are available, but studies are now being made by the Montana Experiment Station to determine the farm mortgage debt as of January 1, 1936.

a relatively high percentage of farms is mortgaged in the central, south-central, and northeastern portions of the state where the agricultural development has been most recent and where drought, insect pest ravages, and land use maladjustments have been most acute, compared with a proportionately small number in the older, more stable western third of the state.

If the ratio of mortgage indebtedness to value of land and buildings be taken as a measure of the comparative debt burden, the picture is somewhat different (see figure 9). On this basis, 7 counties in

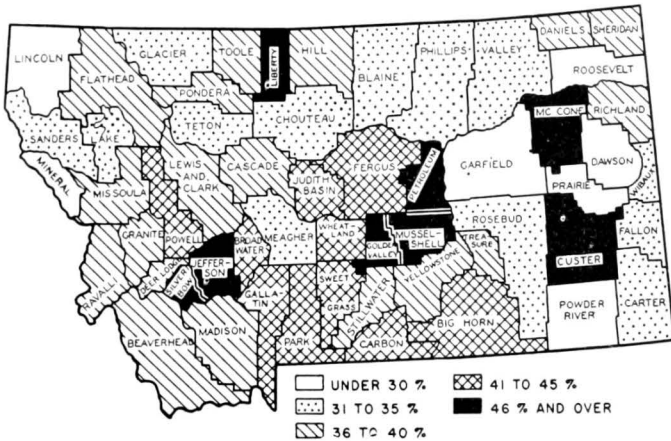


Figure 9.—Ratio of mortgage indebtedness to value of land and buildings on owner-operated farms in Montana counties, 1930.

the state have mortgage indebtedness on owner-operated farms of less than 30 per cent of the value of the land and buildings, Garfield having the lowest with 26 per cent, while 8 counties have farm mortgage indebtedness exceeding 46 per cent, Golden Valley County having the highest with 60 per cent.

Trends in indebtedness.—The total farm mortgage indebtedness in Montana increased from less than \$20,000,000 in 1910 to \$155,000,000 in 1920, or 690 per cent during this 10-year period. The increase for the United States as a whole for these years was only 137 per cent.¹⁴ The large agricultural development in Montana during this

¹⁴United States Department of Agriculture, Bureau of Agricultural Economics.

decade, combined with the boom prices and activity of the war period, largely explains this increase. After 1920 farm mortgage indebtedness in the state decreased until in 1928 only \$105,000,000 was outstanding, or a third less than the 1920 peak. Between 1928 and 1930 the debt increased 23 per cent. Reliable estimates are not available since 1930. The fact that there has been a decreasing willingness on the part of private agencies to loan on farm real estate in the last few years, that farm prices have been relatively higher since the advent of the Agricultural Adjustment Administration, and that in many of the refinancing operations of the Federal Land Bank and other quasi-governmental agencies the original debt was scaled down, has undoubtedly resulted in a decrease in farm mortgage debt below the 1930 level at the present time.

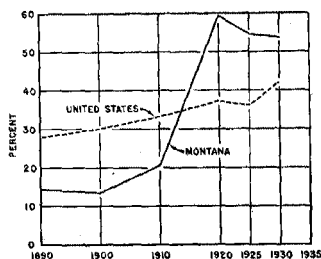


Figure 10.—Trend in proportion of owner-operated farms mortgaged in Montana and the United States.

The proportion of owner-operated farms in Montana that were mortgaged increased from 14 per cent in 1890 to 60 per cent in 1920, and declined to 54 per cent in 1930. Prior to the World War the proportion mortgaged was considerably smaller than for the country as a whole, but since 1920 the reverse has been true (see figure 10).

The ratio of mortgage debt to value of land and buildings on owner-operated farms¹³ for both Montana and the United States de-

creased from 1890 to 1910 because land values were increasing faster than indebtedness. After 1910 and until 1925, however, the debt-value ratio increased for both Montana and the United States, the ratio for Montana increasing somewhat faster and more than for the country as a whole (see figure 11). Indebtedness increased faster than land values during the decade 1910 to 1920, and decreased slower than did land values from 1920 to 1925. The debt-value ratio declined from 1925 to 1930 for both Montana and the United States, the ratio being approximately the same for both of these units in 1930. The debt-ratio record shown in figure 11 indicates that the debt burden

¹³Census data pertaining to farm mortgages are available only for farms owned wholly or in part by the operator.

was not as severe in Montana as elsewhere in the United States prior to the war period, but more burdensome in the early twenties. As a natural consequence, forced sales, bankruptcies, and foreclosures were more frequent in Montana during the decade 1920 to 1930. For the 5-year period 1926 to 1930 inclusive, the number of foreclosures per 1,000 farms in Montana averaged 41 compared with only 17 for the United States as a whole. The number of farm bankruptcies in Montana for the 10-year period 1921 to 1930 inclusive totaled 2904 or 5.25 per cent of the total farm bankruptcies in the United States during this decade, while the total number of all farms in Montana comprised less than one per cent ((0.83) of the total farms of the country.

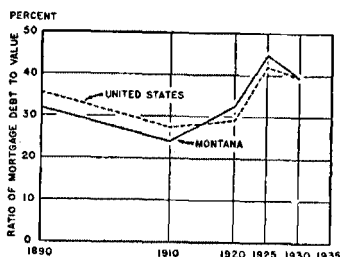


Figure 11.—Trend in the ratio of mortgage indebtedness to value of land and buildings on owner-operated farms in Montana and the United States.

EXTENT AND GROWTH OF MORTGAGE FORECLOSURE

Amount and trend of foreclosures.—There were 22 foreclosures (including other types of forced sales) per 1000 farms in Montana in 1935.¹⁴ This was approximately one-fourth of all farm transfers during that year. The foreclosure rate for the United States as a whole was approximately the same (21 per 1000 farms), but foreclosures made up 30 per cent of the total farm transfers for the country as a whole. In other words, the foreclosure rate was heavier in Montana, but because other kinds of farm transfers were considerably heavier in the state than for the country as a whole, mortgage foreclosures did not represent as large a portion of the total in Montana.

The trend of farm mortgage foreclosures in Montana has been downward since 1926, although there was a tendency for them to

¹⁴All data on foreclosures are for the year ending March 15. Forced sales include in addition to foreclosures: (1) loss of property through bankruptcy, (2) loss of title by default of contract, and (3) sales, surrender of title, or other transfers to avoid foreclosure.

Source, Stauber, B. R., and Regan, M. M., "The Farm Real Estate Situation, 1934-35," U. S. Department of Agriculture Circular No. 382, December, 1935.

increase during the depression years 1930 to 1933 (see figure on title page). In 1926 (the first year for which data are available) there were 61 foreclosures (including other types of forced sales) per 1000 farms in Montana. This amounted to more than half (54 per cent) of the total farm real estate transfers during that year. Foreclosures decreased yearly until in 1929 there were only 21 per 1000 farms or 20 per cent of all farm transfers. During the years 1930 to 1933 the foreclosure rate increased, reaching 40 per 1000 farms in 1933, but since that time the rate has declined to 22 per 1000 in 1935 as noted above. The trend for the country as a whole from 1926 to 1935 was somewhat different, the foreclosure rate being much lower than in Montana prior to the depression but relatively much higher during recent years (see title page).

As previously indicated, farm mortgage debt in Montana decreased about a third between 1920 and 1928. This decrease was due more to bankruptcies and foreclosures than to repayment of loans. Previous to 1922 the number of farm bankruptcies never exceeded 90 in any one year, but beginning with 1922 the number increased greatly, reaching a peak of 624 in 1926 (more than had occurred throughout the whole decade 1910 to 1920 when there were only 517 bankruptcies). When to these bankruptcies is added the large number of foreclosures and forced sales which occurred from 1926 to 1930 inclusive (about 9600), it can readily be seen that a large part of the decrease in indebtedness is due to these factors and not to repayment of the loans.

The decrease in farm mortgage foreclosures in Montana since 1933 (see figure on title page) is due largely to the following: (1) More favorable prices of agricultural commodities, (2) the ready cash made available to contract signers under the Agricultural Adjustment Administration, and (3) increased lending by quasi-governmental agencies such as the Federal Land Bank, a large part of which was used for refinancing existing indebtedness to private lenders.⁴

Comparison of foreclosures with tax deeds.—Mortgage foreclosures have been a much more important cause of farm transfers in

⁴For the 17-month period from May 1, 1933, to September 30, 1934, 87.3 per cent of the proceeds of the loans made by the Federal Land Bank and 92.6 per cent of the Land Bank Commissioner loans made in Montana were used to refinance existing indebtedness. See the Second Annual Report of the Farm Credit Administration 1934, p. 97.)

Montana, on the average, than tax delinquency (see figure on title page). For the 5-year period 1926 to 1930, the number of farms lost by foreclosure averaged 41 per 1000 farms compared with only 16 per 1000 lost through tax delinquency. However, loss of farms through tax delinquency increased relatively more during the depression years, and in 1932 the number of farms lost in that way (35 per 1000) actually exceeded the number of farms lost through mortgage foreclosure (34.6 per 1000). Loss of farms through tax deeds has decreased since 1932 for practically the same reasons as those indicated above for the decrease in mortgage foreclosures. In 1935 loss of farms through tax delinquency equaled only 19 per 1,000 farms, while loss of farms through foreclosure totaled 22 per 1,000 farms.

In general, the trend of loss of farms through tax delinquency for the entire country has been quite similar to that for Montana, but in absolute amounts, such loss of farms has been consistently much higher in Montana than for the United States as a whole (see figure on title page).

FARM DEBT ADJUSTMENT

Bases for a debt adjustment program.—The more fundamental causes of farm mortgage foreclosure are very similar to those of tax delinquency. The depression, drought, and improper use of the land have all been important contributing factors in causing increases in both foreclosures and tax delinquency. In addition, the human element is important in both. Farm bankruptcies or foreclosures frequently result from the carelessness, improvidence, or misfortune of the individual farmer. The relatively high interest rates in Montana (8 to 10 per cent), and the fact that most of the mortgage indebtedness was incurred during a period of relatively high prices, also help to explain the heavy farm foreclosure and bankruptcy rates after 1920, when prices averaged considerably below the inflated prices of the war period.

Improvement of general business and price conditions, reduction in damages from drought and insect pests, and adjustment of agricultural practices to the natural factors which control the agricultural productivity of land, would reduce mortgage foreclosures appreciably. Other adjustments, such as scaling down of the debts by creditors and reducing interest rates, would help to adjust debts to ability to pay and thereby tend to reduce foreclosures.

Recent progress in debt adjustment.—Considerable progress has been made in the last three years in adjusting debt burdens to ability

to pay. The Emergency Farm Mortgage Act of 1933 provides debt-ridden farmers with some relief by: (1) Reducing the interest rate on loans by quasi-governmental agencies, (2) postponing payment of maturing interest and principal installments, and (3) securing a scaling down of indebtedness by creditors. The Act provides a fund of \$800,000,000 to supplement the lending of the Federal Land Banks, to be used for making Land Bank Commissioner loans. Commissioner loans can be made up to 75 per cent

of the appraised normal value of the property mortgaged, while regular land bank loans cannot exceed 50 per cent of the value. The extent to which Commissioner loans since they became effective have helped to relieve the credit situation in Montana is shown in figure 12.¹⁸

Where farmers were so heavily indebted that even maximum loans by the Federal Land Banks and the Land Bank Commissioner permitted under the law were not sufficient to repay their outstanding

¹⁸For the period May 1, 1933, to January 1, 1935, 72 per cent of the total amount loaned by the land banks and the Land Bank Commissioner was used to refinance existing farm mortgage indebtedness, 15 per cent to refund short-term debt not secured by real estate, and 3 per cent to pay taxes. These averages are for the United States as a whole. For Montana, the figures are 58, 23, and 11 per cent respectively. (Computed from the Second Annual report of the Farm Credit Administration, 1934, and from data obtained from the Federal Land Bank of Spokane.)

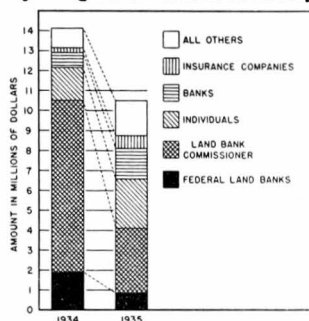


Figure 12.—Amount of farm mortgage loans made in Montana by various lending agencies, 1934 and 1935.

obligations, creditors frequently have agreed to reduce or scale down their claims. A scale-down of indebtedness by creditors has been obtained in about 16 per cent of Land Bank and Land Bank Commissioner loans, and the amount of the scale-down averaged about one-fourth of the former indebtedness of those farmers who obtained such adjustment of excessive indebtedness¹⁷.

The Emergency Act reduced the interest charges on debts refinanced by land bank and Commissioner loans. It is estimated that a saving of about one-fourth of the interest formerly paid has been accomplished.¹⁸ The rate of interest on Federal Land Bank loans made through national farm loan associations during the 2-year period beginning May 12, 1933, (the date the Act was effective) was reduced to 4½ per cent interest per year until July 11, 1938, and to 5 per cent thereafter during the term of the loan. On loans made direct rather than through associations, the rates were 5 and 5½ per cent respectively. On Land Bank Commissioner loans the law provided that borrowers were to pay 5 per cent during the period of the loan. The reductions in interest rates thus obtained range from one-half of one per cent to 1½ per cent per year.

In addition to interest reductions, the law also provided for deferment until July 11, 1938, of payment of the principal portion of installments on Federal Land Bank loans outstanding on May 12, 1933, or made within 2 years after that date, provided the loan was otherwise in good standing. Furthermore, in cases where borrowers, through no fault of their own, were unable to pay maturing interest and principal installments or taxes and insurance premiums advanced by the banks for borrowers, the banks were authorized to grant extensions of time in which to meet such obligations.¹⁹

Debt committees, organized by the State Governors in response to a suggestion by the Governor of the Farm Credit Administration, have proved important in adjusting debts to prevent foreclosure and loss of farm. Voluntary committees are set up in the counties to handle cases of excessive indebtedness submitted to them by either debtors or creditors through negotiating settlements between the parties concerned. At the beginning of 1936, 2811 county commit-

¹⁷These data cover the 20-month period May 1, 1933, to January 1, 1935, for the entire United States and are taken from the Second Annual Report of the Farm Credit Administration, 1935, p. 4.

¹⁸Ibid.

¹⁹Ibid. pp. 4 and 5.

tees with a total membership of 11,750 were active in the United States to secure debt adjustments. For the last four months of 1935, 3661 cases were closed by these county committees, involving indebtedness of more than \$20,000,000. The scale-downs secured totalled nearly \$6,500,000 or almost a third of the debts. At the close of the period there were 17,414 cases pending.²⁰ Montana has cooperated in this program and on April 1, 1936, had 49 active county debt adjustment committees.

During the first year of operation of these debt advisory committees in Montana (August 1, 1934, to August 1, 1935), 167 cases were settled through their efforts. These 167 cases involved an outstanding indebtedness of \$1,099,735.63, while the indebtedness outstanding after adjustments had been agreed to between the creditors and the debtors through the help and advice of the committees was \$671,392.39. Thus a reduction of nearly a half million dollars (\$428,343.24) or nearly 40 per cent in the indebtedness of these Montana farmers was secured. At the close of the first year there were 124 cases pending with estimated outstanding indebtedness of \$753,500. An additional adjustment on 13 farms, reducing their indebtedness from \$98,213 to \$63,486 or a decrease of \$34,728 (35 per cent) occurred from Dec. 1, 1935, to Feb. 1, 1936.²¹

These and other adjustments made in the last three or four years have been significant factors in reducing the number of farm foreclosures in Montana. In periods of severe business depression private agencies are inadequate to meet the crisis and governments find it necessary to relieve debt burdens. Note the large amount of emergency financing in Montana by quasi-governmental agencies compared with private agencies in 1934 (see figure 12). Note also the large relative decrease in quasi-governmental financing and the increase in private lending in 1935. Apparently the major portion of the farm credit requirements of the present emergency has been met.

All of the above adjustments are important but it must not be forgotten that to reduce farm mortgage foreclosures in the future to

²⁰Mimeographed release "Montana Farm Debt Adjustment Bulletin No. 5," Farm Debt Adjustment Section, Rural Rehabilitation Division, Resettlement Administration, February 12, 1936.

²¹Data secured from Mr. H. J. Gordon, State Director of Farm Debt Adjustment for Montana. According to Mr. Gordon, the program was inactive from Aug. 1, 1935, until Dec. 1, 1935, pending reorganization of the county committees under the new program of the Resettlement Administration. This explains the absence of debt adjustments during this period.

a minimum and to secure and maintain a stable and prosperous agriculture, require a thorough-going land use program which will adjust farm types and practices to the natural factors which determine the income-producing ability of the land. If loans are made on the basis of soil productivity and payments adjusted to incomes or ability to pay, depending upon fluctuations in the general price level and yields, mortgage foreclosures as well as tax delinquency will be reduced to a minimum.

The present bulletin is the eighth in a series dealing with readjusting Montana's agriculture. The other seven, published by Montana Agricultural Experiment Station, are listed below.

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