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# The Rural Land Market in the Northern Idaho Grain-Pea Area

A. NORMAN NYBROTEN

## Table of Contents

	<i>Page</i>
Introduction . . . . .	3
Trends in the Land Market . . . . .	3
World War I . . . . .	4
Between the Two Wars . . . . .	5
World War II . . . . .	5
Price Trend of Poorer Land is Different . . . . .	6
Price Trends, Prices Paid, and Length of Ownership . . . . .	8
Factors Influencing Rural Land Values . . . . .	8
Public Services and the Price of Land . . . . .	9
Schools, Roads, and Electricity . . . . .	9
Distance from Market . . . . .	9
Size of Fields . . . . .	10
Wartime Land Finance . . . . .	11
Interest . . . . .	11
Loan-carrying Capacity and Debt . . . . .	12
Duration of Loans . . . . .	13
Prepayment Privileges . . . . .	14
Schedule of Repayment (Amortization) . . . . .	14
Summary . . . . .	15

# The Rural Land Market in the Northern Idaho Grain-Pea Area\*

A. NORMAN NYBROTEN\*\*

## Introduction

THE area studied embraces the main farming areas in Benewah, Latah, Lewis and Nez Perce counties. The Lewiston Orchards in Nez Perce County are omitted from the study because the land in this area is very different from that represented in this study. All four counties were not included in all parts of the study either because the data were limited or there were other technical difficulties.

Although emphasis is on the more recent wartime situation, with its outlook, some of the data go back to World War I for comparative purposes. Also conditions existing immediately before World War II are taken into consideration for it is assumed that when we return to a peacetime economy many of the desires of buyers of land will again be expressed much as they were before the war.

Ordinarily the amount of land transferred in this area serves as an adequate sample for studying and presenting a reasonable view of the market. During the period of time included the only time that voluntary sales became inadequate for this was during the early 1930's. The years of 1919 and 1943 were the ones with the greatest activity and were fairly comparable in some other respects.

## Trends in the Land Market

Throughout the years the most dominant single factor in influencing the land market in this area has been the price of wheat. Unlike so many areas almost entirely dependent upon grain production this is an area with unusually stable yields. In many other grain-growing areas fluctuations in rainfall have a joint effect with prices of farm products in disturbing the land market.

Fluctuations in wheat prices lead the trend in land prices.<sup>1</sup> (See Figure 1). Fortunately the land prices do not change as rapidly, nor as widely,

\* The author wishes to acknowledge the courtesy and help of the county auditors, assessors, and treasurers, of the four counties studied. Also of great help were the Agricultural Adjustment Administration records and personnel in the two local offices, Lewis and Latah counties, where such records were studied. In the other counties these were not sought.

\*\*Associate Agricultural Economist, Idaho Agricultural Experiment Station.

<sup>1</sup> Figure 1 includes data from Lewis County for the years 1919 to 1921 inclusive and from 1941 to 1944 inclusive and for Nez Perce County for 1942 to 1944 inclusive. All years plotted include data for Latah County and the period 1936 to 1940 inclusive was closely checked against Nez Perce and Lewis counties. It involves 2367 transfers worth over \$16.5 million at the time of sale. For the whole 30-year period the average wheat price was \$1.00 and the average price of land was \$76.40 per crop acre. For technical reasons Benewah County had to be excluded.

as do the wheat prices. However, when there has been a sustained trend in the price of wheat the price of land has followed.

### World War I

During and immediately after the first World War there was a great and continuous increase in wheat prices. Peculiarly, both the price of wheat and the price of land were approximately the same as the 30-year average (1915-1944) in 1916. These averages were \$76.40 per crop acre of land and \$1.00 per bushel of wheat. By 1920 the price of wheat had more than doubled, having increased to about \$1.13 per bushel. By this time land had increased about 60 percent, to an average of about \$122 per crop acre.

To the casual observer \$122 per crop acre may not seem exorbitant. However, two factors should be taken into consideration—this is an average of both good and poor crop land and it excludes the value of improvements and non-crop land. The average does not present the full gravity of the situation. In a few extreme cases crop land sold for as much

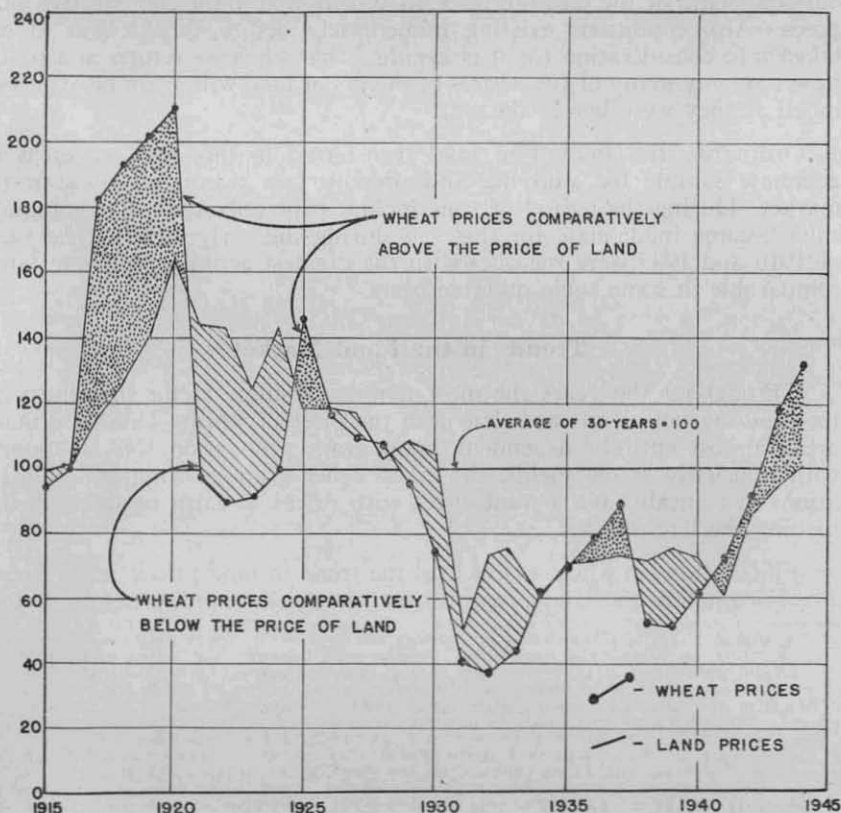


Figure 1.—Annual comparative wheat and land prices in the northern Idaho wheat-growing area, 1915-1944.

last half of each of the years 1942 and 1943 should not be interpreted as declines in land prices. During the war the land prices rose steadily until the 1943 harvest season. At that time the volume of sales was unusually large and the market was erratic.

After the 1943 harvest season the trend in the land prices leveled off for nearly a year. During and shortly after the 1944 harvest season land

**Table 1.—Price of crop land in 407 transfers during three war years in Latah, Lewis, and Nez Perce counties<sup>1</sup>**

Half years	Number of transfers	Average price per crop acre (dollars) <sup>2</sup>			
		Average of all transfers	Average of high one-third	Average of middle one-third	Average of low one-third
<b>1942</b>					
First half .....	60	63.90	85.36	64.72	41.42
Last half .....	49	56.67	76.68	56.80	35.27
<b>1943</b>					
First half .....	66	72.13	94.79	72.93	54.49
Last half .....	123	71.38	95.20	73.12	48.24
<b>1944</b>					
First half .....	52	72.88	100.59	68.82	49.23
Last half .....	57	83.40	115.68	78.74	49.26

<sup>1</sup> These are only those transfers including at least 50 acres of crop land.

<sup>2</sup> To obtain an estimate of the value of crop land as separate from non-crop land and buildings, the total consideration was divided by the total assessment. This result was then multiplied by the assessed value of the crop land. This was done for each transfer.

prices again rose sharply. The average price per crop acre in transfers of 50 or more crop acres rose from \$71.38 in 1943 to \$83.40 in 1944. In the last half of 1944 some better land sold as high as \$150 per crop acre.

Even though land prices had risen strongly at the end of 1944 the current wheat prices were even comparatively higher. However, before this time wheat prices had not been high enough, during peacetime, to yield a normal return on the investment in such land values since 1928.

### Price Trend of Poorer Land Is Different

During the 30-year period of 1915-44 there was more medium-quality land lending itself for market study in Latah County than there was either poorer or better land (See Table 2). In the year 1943 there were 523,125 acres of rural land on the county's tax roll, averaging \$14.78 assessed valuation per acre. For the 30-year period 219,337 acres entered into the study of the land market.<sup>1</sup>

The great majority of the crop land in the county is represented by land assessed at \$10 or more per acre. The turnover of lands assessed between \$10 and \$25 per acre was almost twice that of land assessed at \$25 or more per acre.

By the end of 1944 the average price of land in Latah County had risen about 50 percent above the 5-year period of 1936-1940 (See Table 3).

<sup>1</sup> It should be recognized that this does not include all the land sold during the period. If it was impossible to make a reasonable determination of what was paid for the land it was omitted from compilation. It is probable that more transfers of poor land than of good land were omitted.

as \$260 per acre. To be sure these were better lands, but it is also evident that the buyers were anxious and rather frantic. The greatest volume of transfers in both Latah and Lewis counties (Nez Perce not studied) came in 1919.

### Between the Two Wars

Abrupt decreases in the prices of farm products in 1920 halted the upward spiral in land prices. Wheat prices fell more than twice the 30-year average to less than the average. Land prices responded quickly but the average price of land decreased only about 14 percent between 1920 and 1921. However, some of the sales were at distress prices considerably below this. The short price depression of the early 1920's brought about a decline in land prices which was to last almost a quarter of a century, culminating in the drastic price depression of the early 1930's.<sup>1</sup>

The five-year period of 1936 to 1940 inclusive was one of unusually stable land values in the area. Wheat prices rose from the extreme low of the early 1930's and continued to rise until 1937. The recession in wheat prices beginning in 1937 did not begin to have a real effect on land values until 1941. In 1941 the selling price of rural land dropped slightly in Latah, Lewis, and Nez Perce counties. (Benewah not studied.)

### World War II

In the area studied land values were at a low but well-established level when war was declared. Bare crop land had been selling at about \$55 per acre for about 7 years. This was about 72 percent of the 30-year average. On the basis of average yields and costs the owner operator was realizing about 4.5 percent on his land investment. This was higher on better lands and lower on poorer lands.<sup>2</sup> During World War II the relative prices of better and poorer land indicate that some buyers are aware of the fact that better land has been underpriced compared with poorer land. However, the better land generally still remains the better investment, as was the case before the war.

Land prices have risen sharply during World War II. When the war began the relationship between the wheat prices and land prices was quite normal. Both prices were about 70 percent of the 30-year average. Wheat prices took the lead in rising to the 30-year average of \$1 per bushel in about a year and a half. Land prices reached the 30-year average in the latter part of 1944, lagging about a year and a half behind wheat prices.

Table 1 shows only land sold in parcels of at least 50 acres of crop land. Because of the nature of the area crop land sold in larger parcels may be slightly better than the average but the major part of the farm land is represented. Normally the price per acre during the last half of the year is lower than that during the first half because most of it is sold after the crop has been removed. Because of this lower price per acre in the

<sup>1</sup> It is impossible to give a satisfactory statistical presentation of the land market in the early 1930's. Voluntary sales were scarce, prices were low, and nearly all transfers were merely transfers in lieu of foreclosure. Very little money changed hands. Wheat prices averaged only a little over 40 cents per bushel during 1931-1933 inclusive (See Figure 1).

<sup>2</sup> Reasons for the difference are given in *Land Values, Mortgages, Rents and Wheat Yields of Northern Idaho Wheat Lands*, A. Norman Nybrotten, Idaho Agricultural Experiment Station, Bulletin No. 248.



Different qualities of grain and pea land rose fairly uniformly between 1941 and 1944. Land having less than 50 acres of crop land and less than three-fourths of the crop acreage classed as crop land had a significantly different trend. Land of this type generally makes up cutover and trans-

Table 2.—Lands sold during 1915-1944 and total acreage in Latah County, Idaho, by assessment groups

Grouping by assessed value per acre*	Average assessed value per acre in 1943**	Total computed acreage in county***	Lands sold during 1915-44	
			acreage	% of total in county
All groups .....	\$14.78	523,125	219,337	41.93
\$25 and over.....	31.19	149,075	55,404	37.17
10 to 24.99 .....	16.21	108,643	76,502	70.42
Under 10 .....	4.99	265,407	87,431	32.94

\*Based on the bare land exclusive of improvements.

\*\*Includes the assessed value of improvements.

\*\*\*The breakdown into the three groups was computed from a selective "strip" sample of 81,838 acres—strips 1 mile wide and 6 miles apart and running east-west. The total was the actual figure taken from the county auditor's report.

Table 3.—Price trends of three classes of land, Latah County, 1941 to 1944

Land class and year	Number of parcels sold	Consideration (The amount sold for)	Assessed value for taxes	Consideration divided by assessed val.	Price index (Av. of 1936-40=100)
<b>Crop land assessed for \$30 or more per acre<sup>1</sup></b>					
1944 .....	33	\$383,100	\$135,622	2.82	111
1943 .....	26	358,800	150,122	2.39	111
1942 .....	18	232,670	113,330	2.05	105
1941 .....	20	182,632	92,055	1.98	105
1936-1940 .....	59	455,200	241,607	1.88	100
<b>Crop land assessed for less than \$30 per acre<sup>1</sup></b>					
1944 .....	64	\$585,153	\$180,505	3.24	148
1943 .....	57	559,164	185,387	3.02	138
1942 .....	24	173,073	68,077	2.54	116
1941 .....	16	85,349	39,373	2.17	99
1936-1940 .....	84	448,010	204,877	2.19	100
<b>Small amount of crop land mixed with other land<sup>2</sup></b>					
1944 .....	36	\$113,398	\$31,549	3.59	153
1943 .....	29	52,712	18,039	2.92	124
1942 .....	23	40,705	13,678	2.98	127
1941 .....	8	23,000	7,427	3.10	132
1936-1940.....	80	147,402	62,729	2.35	100

<sup>1</sup> These classes are made up of sales of parcels containing either 50 or more acres of cropland or at least three-fourths of the acreage classed as crop land. Although it is a somewhat arbitrary classification, this method reasonably separates grain-pea and grain farms from cutover farms. The only difference between the two classes is the assessed value of the crop land.

<sup>2</sup> This is land generally included in cutover farms. There are less than 50 acres per parcel sold and more than one-fourth of the acreage is non-crop land.

itional farms along the outskirts of the grain-pea area. The average price of this type of land increased about one-fourth between 1936 and 1940 and reached a peak in 1941. During the decade of the 1930's there was a heavy in-migration of drought-stricken farmers to northern Idaho. Lacking funds with which to obtain better farms, these people sought land in

cutover areas. During the war many of these people have found opportunities elsewhere and until 1944 the upward price trend had been halted. In 1944 there was a marked increase both in the prices paid and the average amount of land per sale.

### Price Trends, Prices Paid, and Length of Ownership

Of 450 buyers who bought in 1918, 1919, and 1920, in Latah and Lewis counties, in less than one-third (133) of the cases either the original buyers or their heirs still retained ownership in 1943 (See Table 4). Those who owned the land in 1943 had generally bought at slightly lower prices than the average buyer. Although this may have been a factor in helping to retain ownership over a longer period of time it is doubtful if it was highly significant. Many of these buyers paid more than the average price at the time they bought.

In Latah County, 62 out of 81 parties who had bought during 1925-1929 inclusive were still the owners in 1943. The 62 had bought at 85.6 percent of the current market. To offset this, those who did not still own the land in 1943 bought very much above the current market price. Although the fact was not investigated, it is common knowledge that many purchases during the late 1920's resulted in distress sales in the early 1930's. It appears that buying at the "right time" is more important than buying at the "right price" at the current market.

### Factors Influencing Rural Land Values

The main factor bringing about different prices at a given time for different parcels of crop land in the northern Idaho grain-pea area has been the wheat yield. Generally this serves as a fair index of the productivity of the land. The prospective operator can afford to pay more per

Table 4.—Number of buyers in given years who are still the owners in the year 1943

Year bought	Latah County			Lewis County		
	Total number of buyers	Buyers still owners in the year 1943		Total number of buyers	Buyers still owners in the year 1943	
		Number	Prices paid as a percent of going market		Number	Prices paid as a percent of going market
1920 .....	115	30	98.6	35	7	95.0
1919 .....	138	48	93.0	60	18	101.4
1918 .....	102	30	98.3	....	....	.....
1925-1929 .....	81	62	85.6	....	....	.....

bushel on the better land and less on the poorer land,<sup>1</sup> but generally crop land has been selling almost directly in proportion to the expected wheat yield. Considerable variations from this are brought about by several known conditions. Some of these will be considered. The main ones not considered are slope and weed infestation.

<sup>1</sup>In the period of 1936 to 1940 inclusive the owner-operator generally realized about 8.7% return on his investment in 45-bushel land, 6.4% on 35-bushel, and 1.4% on 22.5-bushel land. This is explained in Idaho Agricultural Experiment Stations Bulletin number 248 on pages 14 to 19. During the war the prices for better land have risen relatively more than those for poorer lands so there consequently has been a slight trend toward equalizing the return on the investment on lands of different quality. However, the poorer land is still much overvalued compared with prices for better land.



## Public Services and the Price of Land

Because topographic conditions are more uniform in Lewis County than in Latah and Nez Perce counties, data from Lewis County were used for studying the effect of several factors on land prices. During the year of 1943 crop land in Lewis County sold at an average of \$2.58 per bushel of wheat yield (See Table 5). This means that 30-bushel wheat land averaged about 30x\$2.58, or \$77.40 per crop acre. Variations from this were, of course, considerable.

**Schools, Roads, and Electricity**—Land adjoining an all-weather road, school or school bus service, and electrical transmission sold at \$3.13 per bushel of yield compared with \$2.58 for all crop land sold. The selling price per bushel was over one-fifth higher than the average and over one-third higher than land not adjoining any of these, which averaged \$2.30 per bushel of wheat yield. Thirty-bushel land adjoining all of these services sold for about \$94 per crop acre while comparably productive land not adjoining any of them sold for about \$69 per crop acre. Of the three items electricity had the least effect. This is to be expected because, unlike roads and schools, electricity is bought and paid for on the basis of the amount used by individual farms or households. Before the war a bonus was paid for land served with electrical lines. No significant premium in the form of added land prices has been paid for electricity during the war.<sup>1</sup> However, this is associated with a "home" value, which seems to have decreased during the war.

It is shown in Table 5 that the price (\$2.98 per bushel) of land adjoining school or bus was 23 percent higher than the price (\$2.42 per bushel) of that not adjoining. Without further explanation these facts overrate the influence of school services, since almost without exception the school busses run on all-weather roads. The higher price of land adjoining school services (Lewis County uses busses to a great extent) is thus also partly explained by the advantages of living or farming on land on an all-weather road.

Considered from the standpoint of the cost, the effect on land prices, and the long-time public investment, the extension of all-weather roads is a most important prospective public works program in the area. During the war, land on all-weather roads has sold about 18 percent higher than land off such roads. This figure before the war (1936-1941) was 38 percent, or about \$19 per crop acre. In the main farming areas the prices of land adjoining all-weather roads are generally higher than of land not adjoining by amounts greater than the cost of building the roads.

## Distance from Market

In areas having smaller towns interspersed among larger towns and cities it is difficult to determine the influence that the small town has on land values. The reason for this is that the larger markets reach out and overlap the influence of the small market. In some places these influences

<sup>1</sup> The lack of increased land values in the case of land served with electricity during the war should not be interpreted as an argument against extension of this service. Even though such land does not sell higher there are indications that farmers are willing to pay. In fact, as has been pointed out above, electricity is paid for by the user and consequently any premium in land values would indicate that the owners would be willing to pay more than cost.

Table 5.—Selling prices per crop acre per bushel of wheat yield and several factors influencing the selling prices, Lewis County, Idaho, 1941-43

Land grouped by several influences	Number of transfers	Prices in dollars per crop acre per bushel wheat yield*		
		Average	Av. of low one-fourth	Av. of high one-fourth
Land adjoining surfaced road, school and electrical transmission .....	10	3.13	2.36	4.45
Land not adjoining all of these .....	126	2.53	1.65	3.47
Land not adjoining any of these .....	52	2.30	1.43	3.37
Land on surfaced road .....	79	2.75	1.96	3.60
Distance from town in miles				
Less than 3 .....	13	3.16	2.20	4.14
3 to 5.9 .....	26	2.88	2.19	3.48
6 to 8.9 .....	27	2.54	2.02	3.06
9 and over .....	13	2.50	1.45	3.98
Land off surfaced road .....	57	2.34	1.45	3.37
Land adjoining school bus or school ..	38	2.98	2.18	3.90
Land not adjoining school bus or school ..	98	2.42	1.56	3.34
All transfers .....	136	2.58	1.68	3.52

add together, in some they cancel each other, and in other cases the result may be anywhere between these extremes. In Latah and Nez Perce counties the influence of Lewiston and Moscow were too widespread to study the influence of the small towns.

The farm land in Lewis County is served almost entirely by local markets. To be sure there is service from the outside but these centers are far enough away so they do not have a significantly different effect in different areas of the county. Selling prices of 152 sales of land on surfaced roads were studied in relation to the distance to the farm market. The markets considered were Craigmont, Nezperce, Reubens, and Winchester.

Although the influences of these markets were not of equal strength and the sizes of their trading areas differed, it was generally true that land decreased in price as it became more distant from the market. Before the war, land 9 miles or more from town sold for 95.3 percent of the average of all land on all-weather roads while that less than 3 miles from town sold for 103.7 percent of the average (See Table 6). During the war the price of land nearer the market has increased more than land farther away. During 1941-1943, land within 3 miles of town sold for 114.9 percent of the average while that out 9 miles or more sold for only 90.9 percent of the average. The reason for the change is speculative. Scarcity of transportation facilities and supplies has very probably been a consideration. It is also possible that, when farm incomes are high, farmers are willing to pay an added premium for the convenience of living nearer town.

### Size of Fields

The size of fields was used as a general and rough measure of the "lay" of the land. For this purpose 61 transfers of land occurring in Latah

\*An analysis of variance has been made and it was found that the odds were better than 99 to 1 in each case that the difference is not the result of chance sampling. The prices for 1941 and 1942 were uniformly increased to the 1943 level in order to make all transfers comparable.

County in the year 1943 were used. Generally land with larger fields sold higher, but it is not safe to conclude that this is a single important factor because it is possible that it is associated with the quality of the land as well as with the topography. However, it is logical to conclude that land that can be operated with large-scale machinery is desired.

Table 6.—Selling prices of crop land adjoining all-weather roads, classed by distance from market, Lewis County, Idaho

Land grouped by distance from market	Land transferred during 1936-1941*		Land transferred during 1941-1943**	
	No. of transfers	% the av. price is of the price of all the land on surfaced roads	No. of transfers	% the av. price is of the price of all the land on surfaced roads
Land on surfaced road .....	73	100.0	79	100.0
Less than 3 miles from town .....	30	103.7	13	114.9
3 to 5.9 miles from town .....	19	99.4	26	104.7
6 to 8.9 miles from town .....	14	96.3	27	92.4
9 miles and over .....	10	95.3	13	90.9

### Wartime Land Finance

Probably at no other time have grain-pea farmers in northern Idaho had an opportunity as great for reducing their indebtedness as during the first three years of World War II. Of course there are many farmers who have become more heavily indebted during the war but to date (January 1945) there has been a strong trend toward reduced indebtedness.

In Benewah, Latah, Lewis, and Nez Perce counties over 6.6 million dollars worth of farm mortgages for notes of principals of \$1,000 or more have been released since war was declared (See Table 7). During this time less than 2.5 million dollars worth have been drawn, resulting in a net reduction of about 3.2 millions. During the same time it is very probable that payments have been accelerated on mortgages not yet released.

### Interest Rates

Beyond the reduction of principal there has been a considerable reduction in the average interest rate. The most typical rate in the notes of the mortgages released was 5 percent, averaging 5.2 percent. Some of the mortgages released were of old standing and called for high interest rates. There were several small mortgages with rather high interest rates but the most extreme was one that had run for 48 years and called for 15 percent annually. In this case even without compounding, the total interest called for amounted to more than seven times the principal. A sample of other mortgages drawn at that time showed that the terms were not unusual. Indications are that capital was very scarce and eastern corporations had not begun to lend in the area.

The most typical rate in the mortgage notes drawn during the first 3 years of World War II has been 4 percent. The average rate in these was about 4.4 percent. Based on the changes in both principals (original) and

\*This is essentially the 5-year period of 1936 to 1940 inclusive but a few early 1941 transfers are included.

\*\*This period begins with our declaration of war on December 7, 1941, and runs through 1943.

Table 7.—Rural mortgages of \$1,000 or more released and drawn in four Idaho counties during the first three years of World War II

Item	Benewah	Latah	Lewis	Nez Perce	Total 4 counties
Principal amounts of mortgage notes (dollars)					
Released .....	320,230	2,215,349	1,515,703	1,598,103	5,649,385
Drawn .....	116,600	788,694	783,246	761,011	2,449,551
Decrease .....	203,630	1,426,655	732,457	837,092	3,199,834
Average interest rate shown (percent)*					
Released .....	5.1	5.3	5.2	5.2	5.2
Drawn .....	4.6	4.5	4.2	4.3	4.4
Amount of interest (dollars)**					
Released .....	16,332	117,413	78,817	83,101	295,663
Drawn .....	5,364	35,651	32,896	32,723	106,634
Decrease .....	10,968	81,762	45,921	50,378	189,029

interest rates farmers' interest payments have been reduced \$189,000 annually.<sup>1</sup>

Table 8 shows that at least up to principals of about \$7,000 the interest rate generally decreases as the principal increases. In Benewah and Latah counties there are more small cutover farms. Since these loans are necessarily small and consequently the expenses of transaction and supervision are high compared with the amount invested, the interest rate usually is higher.

### Loan-carrying Capacity and Debt

The indebtedness is more burdensome on the poorer land. This is true partly because the interest rate is higher on the poorer land. Note from Table 9 that the average assessed value of land mortgaged for notes bearing 6 percent interest was only \$12.63 per acre. As the assessed value per acre increases the interest rate decreases to the point that land mortgaged for notes bearing 3½ percent or less was assessed at \$22.61 per acre.

Neither the assessed value nor the selling price of land indicated the full difference in the ability of lands of different qualities in their capacity to carry loans. Selling prices overrate the poorer land and assessed values overrate it even more. Compared on the basis of the production above operating costs, including all labor, it is fairly certain that the debt burden on the 6-percent class shown in Table 9 is several times as heavy as on the better land in the low-interest class.

\*The average interest rate was calculated by dividing the total annual interest payment on the mortgages with rates shown by the total of the principals of these mortgages. The rates were shown in 1305 mortgages out of a total of 1601 mortgages.

\*\*Actual amounts were added for mortgages where this was shown and for the others the average rate was applied.

<sup>1</sup> It should be borne in mind, however, that the full amounts of the principals of the mortgages released were not in effect at the time of release. But it is very probable that reductions in indebtedness not otherwise accounted for in this study—such as, payments of mortgage notes not yet released, and payments on land-purchase contracts and trust deeds—more than offset this discrepancy.

**Table 8.—Various factors in mortgages drawn in Benewah, Latah, Lewis and Nez Perce counties, during the first three years of World War II, classed by amount of principal**

Principal of mortgage	Number of mortgages	Average interest rate	Average maturity	Number of mortgages with different prepayment conditions		
				Not* granted	With restriction	Without restriction
		(per cent)	(years)			
\$1,000—1,999	69	5.3	5.6	43	7	19
2,000—2,999	55	4.8	9.2	25	12	18
3,000—3,999	42	4.5	6.6	23	7	12
4,000—4,999	36	4.5	9.4	25	4	7
5,000—5,999	36	4.2	9.6	17	7	12
6,000—6,999	34	4.3	11.4	22	4	8
7,000—7,999	20	4.0	13.8	13	2	5
8,000—8,999	19	4.3	12.6	14	0	5
9,000—9,999	9	4.0	18.0	6	2	1
10,000—10,999	9	4.3	15.0	5	2	2
11,000—14,999	26	4.4	10.1	20	2	4
15,000—19,999	24	4.3	13.4	16	5	3
20,000 and over	9	4.2	12.6	7	0	2

\*Actually it is possible that this may have been stated in the note but may not appear in the mortgage.

**Table 9.—Mortgages drawn during December 1941 to November 1944 in Latah, Lewis and Nez Perce counties classed by interest rates and other factors**

Item	Interest rate shown in note (percent)				
	3.5 or less	4	4.5	5	6 or more
Number of mortgages	12	102	27	53	44
Percent with buildings	75	78	85	75	89
Av. assessed value of bldgs.*	256	281	215	228	142
Total principal (\$)	60,010	640,493	188,743	198,664	97,833
Av. per mtge.	5,001	6,279	6,990	3,748	2,223
Av. per acre	33	26	26	23	17
Av. per crop acre	47	40	43	48	33
Acreage mortgaged	1,810	24,329	7,225	8,612	5,874
Av. per mtge.	151	239	268	162	134
Total assessed value (\$)	40,925	485,172	127,303	128,221	74,175
Av. per acre	22.61	19.94	17.62	14.89	12.63
Percent ratio of prin. to the assessed value	147	132	148	155	132
Annual interest (\$)**	1,690	25,619	8,478	9,938	5,885
Per total acre	.93	1.05	1.17	1.15	1.00
Per crop acre	1.33	1.61	1.95	2.42	2.01

### Duration of Loans

Despite the fact that the farm incomes in the area have been at a high level and there has been a great volume of releases, many of the notes were overdue. It is apparently general for the borrower to underestimate the time he needs for repayment. Table 8 shows that the average duration of the loans between \$2,000 and \$6,000 is fairly constant. Loans for more than \$6,000 are generally for longer periods of time but the period in these does not increase with the amount borrowed. A comparison of

\*This is the assessed value for tax purposes. It is unusually low, but the differences in the assessed values are sufficient for different rates of interest.

\*\*This is computed on the basis of the original principal of the mortgage note. Actually, throughout the years, this will be considerably less because payments are made on many of the notes before the final maturity.



durations and interest rates shows that the interest rate decreases as the duration increases. However, this is largely the result of corporate mortgages (lenders) usually having financed the larger and longer loans at lower interest rates.

**Prepayment Privileges**—Often the borrower feels he has safeguarded his own interests by shortening the duration of the loan. He feels that he may secure the money in a shorter time and does not want to pay interest after he can pay the principal. If he can not pay the principal upon maturity he hopes either for leniency or to be able to re-finance. It is more in the borrower's favor to have a longer duration with a "prepayment privilege."

Out of 388 mortgages, 105 notes allowed the mortgagor to pay any amount on the note at any time (*See Table 10*). This is a valuable privilege to the mortgagor, giving him the opportunity to reduce the principal and the consequent interest as rapidly as he obtains funds. Although this is very favorable to the mortgagor it is not so to the mortgagee. He may be bothered with very small payments, and in cases not stipulating *when* they can be made the payments may be made very frequently, thus making a difficult task of computing the interest on the unpaid balance.

**Table 10.—Prepayment conditions and other factors in rural mortgage notes drawn in Benewah, Latah, Lewis, and Nez Perce counties during December 1941 to November 1944**

Prepayment privilege	Number of mortgage notes (number)	Average interest rate (percent)	Duration of note (years)	Proportion with amortization plan (percent)	Ratio of assessment to principal (percent)
Yes—without restriction ....	105	4.4	9.9	52	141
Yes—with restriction .....	47	4.0	10.3	49	146
No. ....	74	4.5	8.1	73	169
Nothing stated* .....	162	4.4	10.2	68	154

In 47 of the mortgage notes prepayments were allowed, but under stipulated conditions. Ordinarily this is to safeguard the mortgagee from small and frequent payments. Usually these read that payments of at least a minimum amount or multiples of a minimum amount may be made at any interest-paying date. Some of the notes also state that not more than a certain amount may be paid in any given year. Others require that notice be given the mortgagee a given time before payments are made. The prepayment privilege is an encouragement for thrift and efficiency on the part of the borrower. How much he can pay for the privilege in the form of higher interest depends on how well he can estimate his future income.

**Schedule of Repayment (Amortization)**—The trend has been toward a definite schedule for the minimum rate of payment. In 62 percent of the mortgages there was a plan of amortization. This protects the mortgagee in that the amount he has invested decreases at short time intervals. He must make sure that the security is worth at least as much

\*However, most of these are so worded that the mortgagee legally need not accept any payment before maturity. Nevertheless it has been customary for the mortgagee to practice leniency in this matter.



as the liability it is meant to secure. If the value of the mortgaged property falls below this amount, and he believes it will fall more, it is to his interest to be able to foreclose.

If the total current "ownership" costs to the mortgagor (interest, payments on the principal, taxes, maintenance, etc.) are less than the cash rent for comparable land the mortgagor will not relinquish his land even though his equity has completely disappeared and the mortgaged property is currently falling in value. In fact, he can afford somewhat more than cash rent because he stands to gain if the property rises above the unpaid balance of the mortgage and he has already lost all he can because of falling value. If there is no schedule of repayment the lender stands this risk of not being able to foreclose when the mortgagor's equity is completely gone, which may come about through abuse of the property or adverse prices. Unless this risk is avoided it must be charged as one of the credit costs. In some cases it is avoided by lending on more security and/or for a shorter time. In many cases where it is not avoided it is charged as part of a high interest rate. If the prospective mortgagor is interested in borrowing at a low interest rate he must yield to an agreement that protects the security for the mortgagee.

In the mortgages studied there was a greater proportion of notes with amortization plans in those less lenient in prepayment privileges. This may be a matter of chance. However, the corporate lenders have generally rigid contracts and call for periodic payments.

### Summary

During the first 3 years of World War II the prices of grain and peas rose sharply in the area studied. The price of land responded to these rises but not until the latter part of 1944 did land prices reach the 30-year average of 1915 to 1944. Wheat prices rose comparatively more and sooner than land prices. However, not since 1928 had wheat prices been high enough, during peacetime, to yield a normal return on the investment at the prices paid for land in the latter part of 1944. The relationship between the prices of better crop land and poorer crop land still remains rather illogical because the price of the normally overpriced poorer land had by 1945 risen as much as that for the better land.

Of several man-controlled factors studied, all-weather roads have the most significant effect on land values. The premium paid for good roads, in the form of higher land prices, has fallen during the war. Normally the prices of land adjoining all-weather roads are generally higher than those of land not adjoining by amounts greater than the cost of building the roads. Especially is this true in the better farming areas studied. During the war the prices of comparable land nearer town have risen more than those of land farther out. Premiums in land prices indicate that buyers of land are interested in the maintenance and extension of certain community improvements and services.

Indebtedness against farm land in this area has been greatly reduced during the war even though land prices have increased considerably. During the first 3 years of the war there were recorded in Benewah, Latah, Lewis, and Nez Perce counties, releases for over 5.6 million dollars worth of

rural mortgages of principals of \$1,000 or more. During the same time less than 2.5 million dollars worth were drawn. The average interest rate in those released was 5.2 percent annually compared with 4.4 in those drawn.

The debt burden remains heavier on the poorer lands because larger percentages of the market value, which is relatively high for the quality of the land, are loaned and at higher interest rates. In mortgage notes calling for 6 percent annually the annual interest is about 8 cents per dollar of assessed value of mortgaged real estate while in the notes calling for 3.5 percent or less it is only about 4 cents.

About 40 percent of the mortgage notes expressly allow payments to retire principal and interest before such payments are due. About half of the mortgage notes allowing such "prepayment privilege" had a definite time schedule for minimum payments. About one-third of the notes allowing prepayment guard against small frequent payments through one or more of several restrictions. Over two-thirds of the notes not expressly allowing prepayment have rigid repayment plans.