BOOK REVIEWS

COSTS AND RETURNS ON FARM MORTGAGE LENDING BY LIFE INSURANCE COMPANIES, 1945-47. By R. K. Saulnier. (Occasional Paper 30, 1949, Financial Research Programme, National Bureau of Economic Research, New York.)

LIFE Insurance Companies have played an important role in financing agriculture in the U.S.A. About three-fourths of agricultural debt in the U.S.A. is in the form of long-term mortgage loans and Life Insurance Companies have been a major source of farm mortgage credit for well over half a century. In 1928, loans by Life Insurance Companies amounted to more than one-fifth of total farm mortgage debt and in 1938 nearly one-eighth.

An investigation of lending costs and losses of farm mortgage loans by the Insurance Companies over a period of years should help the Insurance Companies to estimate the profitability of farm mortgage loans relatively to other forms of investments and help Government in framing policies which determine or influence net rates chargeable to farmers. The principal object of the present study, which is part of the Agricultural Finance Project of the Financial Research Programme, has been "to design a basis for recording costs that will be comparable among companies and to use certain data assembled on this basis to indicate the general range of cost variation in the industry as a whole."

The difficulties in the study of cost-investment relationship for this form of investment are easily visualised. Certain aquisition costs incurred when the loan is closed should appropriately be related to the income over the duration of the loan. Factors like the future probable duration of the loan, the percentage of loans that might become delinquent and the extent of losses sustained on foreclosed loans are matters for conjecture when the loan is made, and these vary widely with general economic conditions. The percentage of delinquent loans is said to have varied since the last twenties from less than 5% to over 50% and back to less than 1%. The organisation for dealing with farm mortgage loans also varies between different companies and there has been a shift from 'correspondents' to branch office operation during recent years. Comparisons of costs between companies and between years have to take this into account.

The data studied were obtained directly from voluntary returns from Insurance Companies, in the form of special schedules mailed to them. The survey refers to the period 1945–47 and had a wide coverage, although only a small fraction of companies reported; *e.g.*, in 1945, 43 companies reporting fully represented 20% of the number, but 61% of the farm mortgage holdings of all legal reserve Life Insurance Companies having farm-mortgage portfolios. However, among reporting companies, companies with larger assets were represented to a much greater extent.

In the present study a 'cross-section type' of analysis was utilised. Costs of each were related to the income of the same year. The analysis of the data takes the form of presenting the ratios to the average outstanding investment in farm mortgage loans of a given year to the total income of that year, the total cost of that year and different components of costs such as branch office expenses, home office expenses, servicing fees, organisation fees, commissions and premiums. The results show generally a much greater variability among smaller companies than among large companies. Attempts to relate costs to average size of the loan or to new loan activity did not bring out any systematic results. During the three year period studied the losses on loans were negligible and there was a large turnover of loans.

It is clear that similar studies will have to be carried out over a much longer period to form a complete idea of the returns to be expected on this form of investment. Perhaps supplementary studies based on grading of farm mortgage loan investments and an analysis more on the lines of a time-period rather than cross-section method, such as the Investment Departments of the companies might perhaps be in a better position to undertake, may be necessary in order to obtain a real insight into the problem of costs.

The investigation may not have immediate direct relevance in Indian conditions, since absence of a clear distinction between the long-term and short-term credit needs of the agriculturist continues to be an unsatisfactory feature of agricultural financing in India and neither joint-stock banks nor Insurance Companies play a significant part in the supply of long-term credit to the agriculturist.

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