# MINUTES OF THE MEETING
# BUSINESS & INDUSTRY COMMITTEE
# MONTANA STATE SENATE

February 21, 1985

The 27th meeting of the Business & Industry Committee met on Thursday evening, February 21st at 5 p.m. in Room 410 of the Capitol Building. The meeting was called to order by Chairman Mike Halligan.

ROLL CALL: All committee members were present except for Senator Neuman who was excused.

DISPOSITION OF SENATE BILL 317: Senator Kolstad made a motion to TABLE Senate Bill 317. The motion carried.

CONSIDERATION OF SENATE BILL 208, 425, 426: Senator Christiaens asked about the moral obligation and was told by Senator Towe that it just meant the state is not bound but would just be a committment on behalf of the Governor to put it into the budget and present it to the Legislature. He added that failure to do so could affect their bond ratings and he felt this was significant. Senator Towe was asked what the qualifications were to be able to apply for the loan. He stated you have to go through a financial institution but that he was aware of no other criteria other than what the agricultural authority might decide upon. Senator Kolstad asked how often the agricultural board meets now and if meeting monthly would be a problem and he stated it would not be. When asked how long the loan process would take he thought perhaps 15 to 20 days. With loan reviews though it might take up to a month. Keith Kelly stated they had done no new beginning farm loans as yet. Senator Goodover wondered if the agricultural people would be willing to go along with the check-off system. Terry Murphy replied they had not had enough time to discuss this yet. Jo Brunner, from the Cattlemen's Association stated they had not had enough time to study it thoroughly yet nor had the Montana WIFE organization. Bob Stevens, representing the Montana Graingrowers, felt some might not be receptive to the check-off. Frank Thompson, of R.A.D., agreed with the program personally but had not had enough time to poll everyone yet. Senator Halligan felt we should not rush something as major as this through without more careful consideration. Senator Towe stated it is patterned off the "Build Montana" program and if it works for business it can work for agriculture too. Senator Christiaens told the committee he had made some phone calls to rural areas and there seemed to be some reservations about the check-off system. He asked Senator Towe how the Dain-Bosworth program fits into this and Senator Towe introduced Jim Dlugosch from Minneapolis, Minnesota from Dain Bosworth to the committee. Jim Dlugosch distributed a handout with some details on just how the program might work with the senate bills that have been introduced. (EXHIBIT 1) He explained the guaranty authority provides the kind of resources that would give comfort to an investor who would be putting up large sums of money. He felt the most serious problem might be in the timing. He felt that emergency rulemaking authority might be necessary to get the program underway more quickly. He explained they are in the advanced stages of setting up this type of program in six states now. The program would bring a pool of risk capital into agricultural areas that has not been available before. You could cap this pool without having to transfer title to the property. For the farmers it would mean a replacement of a high cost debt with a low cost debt in return for giving up some portion of the appreciation value of the property. The tradeoff for the state is that the federal programs are just a short term solution. Senator Goodover wondered if people would be willing to give up some of the appreciation value of their property. Senator Weeding asked how this value is determined and was told it is just like the balloon payment on a mortgage payment. Jim Dlugosch explained there has to be a formula for valuing the land which would offer the farmer and the investor some sort of gain. The state through its guaranty would be exposed on the last 65% of the debt if a default occurred. The first deed would go to the state. Senator Towe was asked if Senate Bill 208 could stand on its own and he said he could but felt that without the guaranty program it would be more limiting. Senator Gage was told the language states that there has to be long term benefits to the state and that they do not want subsidy. Senator Boylan wondered how many people might be affected this spring if they could not get loans and Keith Kelly stated they are just now starting to receive calls from people who have been turned down for loans. He felt perhaps 20 to 30% of the agriculture people may be turned down but had no exact figures. Senator Boylan felt by the time this program goes into effect most of the most desperate people won't be able to take advantage anyway. The target is to help those who have equity yet and would be good financial risks. Senator Kolstad wondered who participates in the liquidations and was told the financial institutions would. Senator Goodover wondered if Dain Bosworth wasn't taking over for the Montana bankers. He felt if our banks could service the loans for free and were asked to accept a put they might be willing to accept these loans too. Jim Dlugosch explained that the banks cannot accept these types of loans because of regulations. There was concern among the members that the banking people were not present for the hearings. Senator Thayer wondered how they could guarantee the 10% and was told by Jim Dlugosch that the state is doing this in this program. He felt the state might be exposed for as much as 2% the first year but not after that period of time. When asked about the size of the loans, the committee was told they would probably be between $100,000 to $150,000. Senator Towe felt that an upper limit could be set on the check-off. Keith Kelly felt $250,000 would be a more realistic amount per loan. Terry Murphy felt this was too high. He felt the board would want to make some guidelines so that as many people could be helped as possible

Senator Halligan thought the committee should give more careful consideration to this bills before making a decision. Senator Goodover felt uncomfortable voting on it yet. Senator Towe felt there might be some hestitation about the check-off but urged the committee to consider the importance of the first two bills because we are losing the opportunity to help our agricultural people for two years if we don't.

The meeting was adjourned at 6:30 p.m.

Mike Halligan

Mike Halligan, Chairman

cd

SENATE SEAT #

# ROLL CALL

BUSINESS & INDUSTRY COMMITTEE

49th LEGISLATIVE SESSION -- 1985 Date 2/21/85

5 p.m.

| NAME | PRESENT | ABSENT | EXCUSED |
|---|---|---|---|
| Chairman Halligan | X | | |
| V-chrm. Christiaens | X | | |
| Senator Boylan | X | | |
| Senator Fuller | X | | |
| Senator Gage | X | | |
| Senator Goodover | X | | |
| Senator Kolstad | X | | |
| Senator Neuman | | | X |
| Senator Thayer | X | | |
| Senator Williams | | | |
| Senator Weeding | X | | |
| | | | |
| | | | |
| | | | |
| | | | |

Each day attach to minutes.

(This sheet to be used by those testifying on a bill.)

NAME: James Dlugosch DATE: ____________

ADDRESS: 1501 21st Ave NW

PHONE: 612 - 371- 7890

REPRESENTING WHOM? Dain Bosworth

APPEARING ON WHICH PROPOSAL: 208 435 421

DO YOU: SUPPORT? ________ AMEND? ________ OPPOSE? ________

COMMENT: ____________

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

EXHIBIT 1
BUSINESS & INDUSTRY
February 21, 1985

**Montana Agricultural Land Investment Trusts**
**AgLITs**
**A Program to Stabilize Farm Credit**

**DAIN BOSWORTH INCORPORATED**
**100 DAIN TOWER**
**MINNEAPOLIS MN 55402**

**For further information contact:**
**Jim Dlugosch 612-371-7890**
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**WATS LINE 800-328-3407**

## INTRODUCTION

Dain Bosworth believes that one method of reducing the magnitude of today's agricultural crisis is to attract long-term risk capital without a requirement that farmers relinquish title to their land. Since the fall of 1984 we have been working with governors, state legislators, other politicians, agriculture professionals and other interested parties. These persons have suggested ideas to attack the problem with both short-term and long-term strategies. However, the short-term strategies appeared to be mere stop-gap measures; and the long-term ones too radical. The idea of either a limited partnership or a state buying a farmer's land and leasing it back deprives the farmer of fee title: a right we hold sacred. The limited partnership idea also does not produce sufficient return to the investors because of the fact that farm land is not a depreciable asset.

Other ideas proposed include short-term interest-rate subsidies, farm foreclosure moratoriums and other stop-gap measures. As immediately helpful as some of these may be, none of them offers even a semi-permanent solution to the long-term problem of high capital costs combined with relatively low crop prices.

Today's farm crisis, manifested in threats of foreclosure and/or loss of current income, demands a more innovative solution.

The challenge of this problem is considerable. We at Dain Bosworth believe that we have come up with a solution which is politically, legally and economically feasible.

As has been widely publicized, conditions in the agricultural sector of the economy are quite dismal from the point of view of existing farm borrowers and creditors. In addition to high capital costs and low crop prices, farmers are affected by a strong dollar and an export policy that has fluctuated dramatically in recent years, beginning with the Russian grain embargo.

These factors argue to some extent for a contrary point of view for new investors; that is, if we are not at the bottom now, we are pretty near it. Therefore, we believe that it may be possible to attract investors to purchase units in a properly structured crop-and-land-based security. We believe that these investors may be willing to invest at a lower-than-market *guaranteed* interest rate in return for a share of the future success of American agriculture and future appreciation in farm land.

Thus, the program we have developed would provide cash to farmers to replace existing high-interest-rate debt, defer principal payments on farm machinery, provide a higher-than-usual loan-to-value ratio, and create a cushion for farmers against low crop prices for the near future. In return, the farmer would forego some future appreciation in his/her property, and would share his/her gross revenues with investors at levels approximating current practice for share-rent loans. Meanwhile, existing creditors may be willing to service the new debt and to refinance future remaining principal at maturity when it is hoped the situation will have righted itself.

**Unlike other proposals, the Dain Bosworth approach does not require the farmer to give up title to the property. Nor does it demand that the State of Montana merely give money away. Instead it is based on a two-tiered mortgage with interest and an Appreciation Right.**

## DESCRIPTION OF THE PROGRAM

1. Dain Bosworth would attempt to raise $100-$200 million at a time for the purpose of making loans to farmers whom the State of Montana identifies as being in trouble but not hopelessly so. Each loan would completely refinance the farmer's existing land and chattel debt and provide a new debt structure whose principal would be based on present yields and crop prices and whose payments would be based on future yields and crop prices.

2. Dain Bosworth would raise the money by selling shares in an investment trust. The investors would be guaranteed, for example, a 10% current simple-interest return on the principal amount invested and would be guaranteed payment of at least 65% of their principal in 10 years. This would ensure the investors of at least an 8.53% yield on their investment.

3. The money raised would be lent to farmers. The maximum loan would be a percentage of the productive value of each farm: as close to 100% as possible would be involved in the program; some of the proceeds would be needed for costs of issuance; others might be escrowed on behalf of the farmer to enhance his/her ability to refinance in the future. The productive value would be determined by a formula based on today's crop prices and the farm's normal yield.

4. The farmer would pay off all existing debt: land mortgages; machinery and equipment loans; etc. If the existing debt is at lower than today's interest rates, then money might be escrowed at today's investment rates and pledged irrevocably to the payments on this old debt, thus defeasing it. If the maximum loan the program could make would not be sufficient to pay off or defease the farmer's existing debt and pay for financing costs, then no program loan could be made.

5. The State of Montana would guarantee two aspects of the debt: the 10% simple interest on the total principal and a 65% return of principal upon maturity. In return for these guarantees, the State of Montana would be subrogated to the investors' first mortgage on the property and security interest in the farm machinery, and no other mortgages or other security interests would be allowed without permission.

6. As interest on the program's mortgage loan, the farmer would pay the following: approximately 35% of the gross crop revenue (the exact percentage would differ by crop) or 8% of the total principal, whichever is greater in any particular year. Thus, in a bad year the farmer would only be required to pay 8% simple interest; in most years the farmer would pay the approximately 35% of the crop. The investors and the State of Montana would require the farmer to carry crop insurance. In the cases of fallow land (involved in Federal programs) or special contract crops (like beer company barley contracts) a different formula for payment would be set up.

7. The program in effect creates 3 securities: 2 mortgages and an Appreciation Right; however, actual documents might consist of one mortgage loan with the payments devoted to purposes a,b & c in the following order of priority:

a: *A First Mortgage*

This mortgage is the first lien on the farmland. Its loan-to-value ratio is not to exceed 65%. For this purpose "value" is productive value, defined by a formula which multiplies current crop price times expected yield per acre times number of acres times a multiplier presently estimated as 2.6*. The effective minimum interest rate on this mortgage is approximately 8% of the total productive value. This mortgage is originated by the appropriate State of Montana instrumentality in conjunction with appropriate local bankers, PCA's, land bank offices, etc. and would be subject to review and approval by an agency of the State of Montana.

b: *A Second Mortgage*

This mortgage is the second lien on the farmland. Its interest rate is 0% if 35% of the crop minus the payment on the first mortgage is not more than 8% of the productive value. Otherwise the interest rate on this mortgage is 35% of the crop minus the first mortgage payment. The loan-to-value ratio of this loan is 20%.

c: *An Appreciation Right*

In return for cash equal to the remaining 15% of the productive value of the farm, the farmer sells an Appreciation Right in the property. This Right grants to the investors a share of the appreciation in the property between 1985 and 1996 according to the following, or a similar, formula:

*Presuming the 1985 productive value is $1,000,000:*

| Value of Farm | Bracket | Investors Rec'v | Farmer Retains |
|---|---|---|---|
| First $850,000 | 100-0 | $850,000 | $0 |
| Next $150,000 | 0-100 | $0 | $150,000 |
| Next $150,000 | 100-0 | $150,000 | $0 |
| Next $1,000,000 | 80-20 | $800,000 | $200,000 |
| Next $400,000 | 50-50 | $200,000 | $200,000 |
| Any additional | 0-100 | $0 | all |

The upper limit on this future appreciation right is a payment to the investors equal to the value of the property in 1985 after the original invested principal has been paid back.

8. Thus in 1996 it is time for the farmer to satisfy the 2 mortgages and to pay out on the Appreciation Right. The farmer refinances the property via traditional (or non-traditional) means or, if ready for retirement, sells it on the open market. The following system is used to share the cash proceeds of the refinancing or sale with the investors who have had their capital at risk for 11 years:

a. The land is professionally appraised. If the investors' trustee and the farmer cannot agree on an appraiser, then each chooses an appraiser and the two pick a third. The team of three then makes the appraisal.

b. The value of the land is determined to be the higher of 1) the professional appraisal or 2) 2.6* times the last three years' average price times the last three years' average yield.

c. The farmer pays off the 1st mortgage-- 65% of the 1985 productive value. If the farmer is unable to pay 65% of the original loan, then the State of Montana makes up the difference.

d. The farmer pays off the 2nd mortgage-- 20% of the 1985 productive value.

e. The 15% of 1985 productive value which the farmer received in 1985 in payment for the Appreciation Right has now been transformed into equity for the farmer.

f. If the land's 1996 value is more than 100% of the original loan, then distribution is made according to the above chart. The investors get the first 15% appreciation, 80% of the next 100% and 50% of the next 40%. The maximum which the investors can receive in this appreciation share is 100% of the 1985 productive value.

9. If a combination of the farmer's cash and private-sector mortgage programs are not sufficient to make these payments, then it is possible for the State of Montana to issue bonds to refinance the debt; another possibility is to set up a new investment program on the same basis as the 1985 program to allow the farmer to retain title and control of the land.

It is the future refinancing need which leads to the concept of investing a portion of the 1985 loan in escrow on behalf of the farmer. Let us presume that the farmer's present debt is equal to 70% of the farm's productive value and that the productive value is $1,000,000. Thus $700,000 would be used to satisfy existing debt. About $52,500 would be needed for costs of issuance. $150,000 could be invested in zero-coupon U.S. Government obligations, which at today's interest rates would mature at a value of almost $500,000. This $500,000 would be available to the farmer in 1996 to help offset the cost of paying off today's mortgage and the appreciation right. Since very few farmers pay current income tax, the "imputed" interest income on the zero-coupon obligation would not be a burden.

The remaining $97,500 would be available to the farmer to reduce the need to take out annual production loans.

10. The program would include a prepayment right for the farmer. This right would likely cost the farmer a premium during the first 5 years and no premium thereafter. Early prepayments would take into account a value for the Appreciation Right.

## SUMMARY

### THE FARMER

*~Receives a loan of up to 95% of the farm's value (the value of the property less the costs of issuance of the program)*
*The face value of this loan is up to 100% of the farm's value*
*~Pays about 35% of his/her crop as interest, but if this is less than 8% of the loan, he/she pays the 8%*
*~Uses the loan to pay off or defease all existing debt*
*~Retains additional cash as equity and for operations*
*~Repays the loan in 1996 or earlier by paying the program the value of the farm at that time, and probably refinancing*
*~Folds machinery and production debt into an 11-year land loan*
*~Retains title to the property*

### THE STATE OF MONTANA

*~Guarantees 10% per year simple current interest to the investors*
*~Guarantees that the farm will be worth 65% of its 1985 value in 1996*
*~Receives a mortgage equal to 65% of the farm's 1985 value*
*~Evidences its guarantee with appropriate documentation*

## THE INVESTORS

*~Receive the guarantee of the State of Montana on 10% simple interest and a total return of at least 8.53%*
*~Stand to lose 35% of their investment if the land is worth only 65% of its 1985 value in 1996*
*~Stand to gain a current return of 13%-15% if crop prices and yields are at today's levels or higher*
*~Stand to gain a total yield of over 15% if land values increase between now and 1996 and crop prices go up from today's*
*~Forego the opportunity to earn 11.75%-11.90% which they would earn if they invested in bonds of U.S. agencies or the U.S. government*

## SPECIFIC EXAMPLES

### Example A

Wheat Farmer
Minneapolis Price: $3.92
Transportation: .25
Crop Price at the Farm: $3.67
Average Yield: 28 bushels/acre
Gross Revenues/ Acre: $102.76
Total Direct Costs: $38.00/acre
Gross Margin/Acre: $64.76 Program
Lends to Farmer: $253.82
Farm's 1985 Productive Cash Worth: $267.18
Required Basic Payment Amount: $21.37
Additional Payment if Sufficient crop: $14.59
Total Payment: $35.97 (35% of gross revenue) Net Income to Farmer: $28.79/ acre (Net Income does not cost out machinery depreciation or labor)

### Example B

Wheat Farmer
Minneapolis Price: $3.92
Transportation: .25
Crop Price at the Farm: $3.67
Average Yield: 40 bushels/acre
Gross Revenues/ Acre: $146.80
Total Direct Costs: $64.00/acre
Gross Margin/Acre: $82.80
Program Lends to Farmer: $362.60
Farm's 1985 Productive Value: $381.68
Required Basic Payment Amount: $30.53
Additional Payment if Sufficient crop: $20.85
Total Payment: $51.38 (35% of gross revenue)
Net Income to Farmer: $31.42/ acre
(Net Income does not cost out machinery depreciation or labor)

Note: Direct costs include seed, fertilizers, fertilizer application, herbicide, insecticide, fuel and lubrication, repairs and interest in operating capital. It is likely that the program will provide enough cash to the farmer to fund operating capital out of cash, thus avoiding interest costs.

Direct costs do not include labor, management, overhead or machinery ownership. By paying off all existing machinery debt, the costs of machinery should be limited to depreciation. This depreciation would then be deducted from net income to farmer per acre.

**The 2.7 factor appears to be the appropriate multiplier in the wheat cases we have examined; a different factor may be appropriate for some crops in some areas and for cattle production. The same is the case with the 35% estimate.*

NEWS

United States
Department of
Agriculture

Office of
Information

USDA News Division
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FARM CREDIT RELIEF MEASURES ANNOUNCED

WASHINGTON, Feb. 6--Secretary of Agriculture John R. Block today said the Reagan administration is implementing several additional initiatives designed to further help financially stressed farmers through their temporary difficulties.

"Last September President Reagan announced a plan that we felt would give many farmers a chance to put together a stable financial future," Block said. "We are pleased with how this plan has helped Farmers Home Administration borrowers. But the portion of our program designed to help other troubled borrowers is not being utilized by private banks and other commercial lenders to its fullest advantage."

Block said he believes the additional initiatives announced today will enhance the effectiveness of the program announced last September.

The initiatives follow:

o Create a Farm Credit Coordinating Group, chaired by the Secretary of Agriculture. The group will coordinate activities of federal and financial regulatory agencies having responsibilities for dealing with the current farm problems. It will coordinate resources within existing federal programs to assist financial institutions, communities and individual producers affected by farm credit problems. The group will include the Chairman of the Federal Deposit Insurance Corporation, the Comptroller of the Currency, the Assistant Secretary of Treasury for Domestic Finance, the Governor of the Farm Credit Administration, the Under Secretary of Agriculture for Small Community and Rural Development and as an observer, the Vice Chairman of the Federal Reserve Board.

o Modify the procedures in the credit plan announced last September to include an interest write-down option with a maximum 90 percent guarantee of equivalent principal write down.

o Create an emergency "Credit Assistance" program. FmHA guarantees of up to 90 percent on operating loans would be made to eligible producers previously served by failed lending institutions. They would be applicable to new crop loans on a one-year basis. Eligibility would be limited to producers with substandard loans who can meet a cash flow test on new credit extensions. The assuming institutions may write loans under quick certification procedure to be established by emergency regulations.

o The Department of the Treasury will work with the FDIC, the Comptroller of the Currency and the Federal Reserve to implement a policy to avoid supervisory actions that may discourage banks from exercising forbearance or from working with farmers and small business borrowers who are experiencing temporary difficulties in meeting their debt service obligations. Such forbearance is in the public interest and should be encouraged when it is consistent with safety and soundness considerations. In particular, each agency will be asked to designate special review examiners to review the examination report of each farm sector bank before it is forwarded to the bank to ensure compliance with this policy.

o Create special action teams of trained FmHA lending officers to be sent on short notice to set up temporary offices in areas where a commercial bank or Farm Credit System institution has been liquidated. The team will assist in the reestablishment of necessary operating credit for qualified operators. USDA will work with the FDIC to obtain early notification of bank liquidations and will be able to move teams into the area immediately after a liquidation occurs.

o USDA will review its standards for recruiting farm credit and farm management specialists to work with commercial and Farm Credit System lenders on the credit initiatives. USDA will also move more aggressively to place the specialists in targeted areas.

o USDA will help operate "credit hot lines" in various states to provide financial information and advice to troubled operators.

o USDA will encourage state governments and commercial and Farm Credit System lenders to provide staff assistance to help with the timely processing of FmHA loan applications. The Secretary of Agriculture will also direct agencies from within USDA to cooperate with FmHA in providing staff assistance.

Block said all credit relief measures will be implemented under current law and authorities.

#

Q. What is the Farm Credit Coordinating Group? How will it function?

A. The Farm Credit Coordinating Group will include:

Secretary of Agriculture (chairman);

Chairman of the Federal Deposit Insurance Corporation;

Comptroller of the Currency;

Assistant Secretary of Treasury for Domestic Finance;

Governor of the Farm Credit Administration;

Vice Chairman of the Federal Reserve Bank Board (as an observer);

Under Secretary for Small Community and Rural Development.

The group will coordinate activities and programs of Federal agencies as they work together in helping rural borrowers and lenders meet their various responsibilities. They will do this by:

--Timely exchange of information;

--Early warning of banks in potential trouble;

--Coordinate Federal resources to assist, within existing Federal programs, financial institutions, communities and individual producers;

--Provide policy recommendations as appropriate.

The group has not yet held its organizational meeting. At that time it is anticipated it will establish an agenda and determine when, where and how often it should meet.

Q. Do you think the banks will use the Farmers Home Administration (FmHA) guarantees? Why?

A. As the financial industry evaluated the recently announced debt restructuring program (September Initiative), they recommended that a more effective interest rate concession option should be added to the principal interest writedown provision of the program. This interest writedown provision will allow bankers, particularly those banks experiencing financial stress in their capital asset accounts, to participate more fully in the guarantee and debt restructuring programs.

Credit Relief Measures
U.S. Department of Agriculture
Questions and Answers

Farm Credit Relief Measures

Q. Will these new credit relief measures require additional legislation?

A. No, all credit relief measures will be implemented under current law and authorities.

Q. When will these credit relief measures go into effect?

A. Today, February 6, 1985.

Q. How much do you expect this proposal to cost?

A. These measures will not require any additional funding at this time. However, the Administration will carefully monitor the requirements for the Farmers Home Administration guaranteed authority under the debt restructuring program and utilize the agency's transfer authority should additional authorization be required during the course of the lending season.

Q. What farmers will be assisted by this program?

A. Family-size farmers will be the ones assisted by this effort. FmHA loans are limited as they have been for many years to family-size operations. A family-size farm is one that consists of one family unit, i.e., a husband, wife and their minor children. If it is typical for the areas, up to one full-time hired hand may be employed and in cases where seasonal labor is necessary, the hiring of a larger number of seasonal help is also permitted.

Q. How do you plan to augment FmHA personnel?

A. We plan to tap the resources of other USDA agencies, other lenders, the use of gratuitous employees with funding provided by other levels of government and also to use our contracting authority to the maximum.

Q. What are "credit hot lines" and how will they work?

Credit hot lines are being estblished to provide a means for farmers to get quick responses to their questions about farm credit. USDA plans to work with local and State Government and other groups in establishing these hot lines in an effort to provide one central location where questions can be properly and promptly responded to.

September Farm Credit Initiatives

Q. What was the September four point initiative? Why did it not work? Did it help FmHA borrowers?

A. The September four point initiative consisted of the following:

--A one-time set aside of up to 25 percent -- to a maximum of $200,000 -- of a Farmers Home Administration borrower's debt for five years without interest.

--For farmers who are not FmHA borrowers, the agency can guarantee up to 90 percent of a new note if the lender will write off at least 10 percent of the existing debt, up to the amount necessary to achieve a positive cash flow.

--Contracting at the County Office level for specialized assistance in farm financing and management, to be available to any farmer who requests it.

--A five-state project in which the services of commercial lenders will be obtained by contract to assist FmHA in servicing farm loans. The states are Iowa, Kansas, Minnesota, Missouri and Nebraska.

In most areas of the country we are just beginning the lending season for production agriculture. The program as announced in September is currently being used, but not to its fullest extent.

These changes will enhance the earlier initiative and make it more feasible for banks and local financial experts to participate.

Yes, the September four point initiative has helped FmHA borrowers. An estimated 3,900 FmHA borrowers have been granted a set aside on their existing loans, and an estimated 8,000 FmHA borrowers have rescheduled or reamortized their existing loans. We expect the number of FmHA borrowers to benefit from this package to increase significantly when we get into the spring lending season.

Q. What is an emergency "Credit Assistance" Program?

A. A new owner, taking over a liquidated lending institution, will normally select those loans in the portfolio that he wishes to keep. Other legitimate borrowers often find it difficult to obtain financing.

However, there may be some borrowers who are good managers, have tried to protect their collateral, and have a good chance of making their operation succeed if given a bit more time and some restructuring.

In such cases, the Farmers Home Administration is authorized to guarantee up to 90 percent of a one-year operating loan for the purpose of helping the borrower plant, cultivate and harvest a crop. Eligibility conditions include:

--New crop loans only;

--One-year basis;

--Producer must show substantial problems, but be able to meet FmHA cash-flow criteria with the new credit extension.

Q. Who will be members of these "Special Action Teams?"

A. Trained FmHA farm loan specialists will compose the teams. These FmHA farm loan specialists will be "borrowed" from states that have a moderate to low farm loan caseload.

Q. What is the status of bank regulator coordination with USDA?

A. A series of meetings have been ongoing for the purpose of discussing the areas of cooperation and coordination between USDA, Bank Regulators and lenders as it relates to providing relief to the farm credit crisis.

Q. What restrictions are causing trouble in obtaining credit support teams?

A. The credit support teams referred to in this question relate to one of the September Initiatives wherein we are providing, by contract, for a farm credit and farm management specialist to be available in each FmHA County Office location. The Farmers Home Administration will review the guidelines in order to provide more timely placement of these specialists at the county level.

Q. Why has it taken so long to respond to the agricultural credit problem?

A. The Secretary has maintained an ad hoc credit advisory group for three years. This group constantly monitors the credit situation and as conditions change, they recommend necessary actions to correct the problems. Recently, the credit situation deteriorated in some regions of the country and these credit relief measures are steps to respond accordingly.

EXHIBIT 1
BUSINESS & INDUSTRY
February 21, 1985

SENATOR NEUMAN: FACT SHEET ON AGRICULTURE

## THE PROBLEM

The immediate problem for Montana's agricultural industry is the deteriorating financial condition of Montana's farmer/ranchers. This financial predicament threatens to destabilize current ownership patterns which may accelerate the loss of Montana's productive crop and range land.

A recent agricultural credit study (Montana Department of Agriculture, November, 1984) profiles Montana agriculture's financial health. According to the report nearly 30% of Montana's farm/ranch owners have debts exceeding 40% of their assets. Many may be unable to refinance and are certain to face foreclosure. Ultimately, if foreclosures are widespread, the financial stability of half the remaining ranch/farm operations will be jeopardized.

As if to signal a dismal new year for Montana agriculture, in January, 1985, three Montana production credit associations (PCA) decided to liquidate, the first in the 51 years of Montana's PCAs. Mounting problems are also forcing the reorganization of the five-state Federal Intermediate Credit Bank of Spokane.

Public officials, though quick to react, have been unable to do more than gather information and consider various policy options. In January, U. S. Senator John Melcher held a public hearing in Helena for the Senate Agriculture Committee. Ranchers, bankers and agricultural experts gave various explanations for agriculture's plight ranging from the federal deficit to low commodity prices. Most agreed that credit is not to blame for agriculture's depressed condition.

William Hoffman, associate deputy director of the Farm Credit Administration, argued that "Credit can help farmers adjust to the basic economic, social and political conditions that exist, but it is not the primary cause of those conditions." He added that "Only in the very short run can credit substitute for income, for profitability. It can help achieve economic adjustment, so long as it is not viewed as an alternative."

The central problem, then, is the profitability of agriculture. Ironically, the current indebtedness resulted from the profitability of agriculture during the 1970s. Flush with success, ranchers and farmers hurried to farm lending institutions to expand their operation to take advantage of an apparently expanding market. For their part, lenders were willing to lend on the basis of increasing land value, securing these operating loans with land.

By the time agriculture is restored to profitability, a significant percentage of Montana's farmers and ranchers will no longer be in business unless they receive additional credit. Their immediate concern is credit, a concern shared by their creditors. Neither the rancher nor the banker wants foreclosure. The rancher wants to retain his property and his way of life, and the banker does not want the burden of selling agricultural land in a depressed market.

## Results of Farm Operator Survey

Results of the farm operators survey as conducted by the Montana Department of Agriculture shows that 18 percent of Montana farmers are delinquent on real estate loan payments. A breakdown shows that about half of those have been able to stay current on interest payments only. The delinquency rate is somewhat higher among farms of less than a thousand acres, averaging 25 to 29 percent.

## Only 7 Out Of 10 Current On Operating Loans

For non-real estate or loans used to purchase operating equipment and supplies 31 percent of the state's farmers are delinquent in their payments. However, 61 percent of those are current on interest payments only. All sizes of operations seem to be having trouble keeping current on operating loans, but those under 1,000 acres in size are running above average on delinquency, while those between 1,000 and 2,000 acres are below average.

Loan Delinquency Rate By Size of Farm

| SIZE OF FARM | REAL ESTATE LOANS DELINQUENT | NON-REAL ESTATE LOANS DELINQUENT |
|---|---|---|
| ---Acres--- | -------Percent------------ | |
| 499 or less | 25.0 | 31.8 |
| 500-999 | 28.6 | 37.5 |
| 1,000-1,999 | 14.3 | 24.5 |
| 2,000-2,999 | 18.8 | 34.1 |
| 3,000-4,999 | 13.6 | 32.1 |
| 5,000-9,999 | 8.6 | 31.8 |
| 10,000 + | 12.7 | 28.3 |
| STATE TOTAL | 17.6 | 30.6 |

Interest rates averaged 10.4 percent for real estate and 13.9 percent for non-real estate loans. Six percent of the survey respondents had been denied credit between January and September 1984. About 4 out of 10 were able to obtain credit elsewhere.

## Debt To Asset Ratios On The Rise

The debt to asset ratio measures the economic health of the farming and ranching business. A comparison of debt to asset ratios from 1979 to 1984 shows a steadily worsening financial balance sheet for Montana farmers. The average debt to asset ratio based on results of this survey was 28.2. This means the average farm debt was 28.2 percent of total farm assets. This statistic isn't alarming in itself, but closer examination of the data shows that 24 percent of those surveyed had ratios exceeding 50 percent and 7 percent reported debts exceeding 70 percent of assets.

## Forty-five Percent Won't Survive Over 5 Years

Assuming current trends in farm income and expenses, only 55 percent of Montana's farmers and ranchers will be able to stay in business over 5 years. Over 9 percent say they can only survive one more year, but 48 percent will farm until they retire.

MONTANA FARM FINANCE BALANCE SHEET BY DEBT/ASSET RATIO

| DEBT/ASSET RATIO CATEGORY | NUMBER OF REPORTS | DEBT TO ASSET RATIO AVERAGE | FARM ASSETS AVERAGE | FARM DEBT AVERAGE | PERCENT DEBT IN LAND CONTRACTS | INTEREST PAID AVERAGE |
|---|---|---|---|---|---|---|
| -Percent- | | -Percent- | -----Dollars---- | | --Percent-- | -Dollars- |
| 0 | 77 | 0 | 573,702 | 0 | 0 | 48 |
| 0-10 | 58 | 4.3 | 805,751 | 34,866 | 32.4 | 4,865 |
| 10-20 | 53 | 14.0 | 883,587 | 123,679 | 52.3 | 15,587 |
| 20-30 | 41 | 24.6 | 1,097,016 | 270,009 | 60.1 | 31,168 |
| 30-40 | 43 | 33.8 | 907,062 | 306,881 | 55.5 | 30,070 |
| 40-50 | 43 | 43.7 | 894,245 | 390,499 | 48.7 | 40,251 |
| 50-60 | 52 | 53.8 | 764,533 | 411,426 | 57.1 | 36,762 |
| 60-70 | 19 | 63.8 | 470,708 | 300,628 | 57.3 | 33,969 |
| 70 + | 28 | 82.2 | 601,765 | 494,965 | 53.7 | 49,279 |
| STATE TOTAL | 414 | 28.2 | 769,114 | 216,854 | 39.7 | 22,241 |

## KEY PLAYERS

In view of the challenges that face the agricultural sector of the economy, whose responsibility is it to forge the solutions? Who are the key players? Certainly the farmers/ranchers, bankers/institutional lenders and the food consuming public will be high on the list of big winners when a solution is finally found and implemented. Take a brief look at the special interests of each of these key participants.

The farmers and ranchers on a large scale have not been able to satisfy their current financial obligations: as a consequence the farm/ranch sector will be unable to attract the necessary capital resources for its future growth and development. While the failure to meet current obligations is simply on a large scale, the consequent drought in long term capital resources is likely to be on a <u>total</u> scale.

The banks and institutional lenders are key players also. They are not innocent bystanders. The agricultural credit industry has fallen into the old trap of advancing credit on the basis of raw land values rather than on the more conservative basis of the capitalized operating values of the land. As an expected result, many of the nation's most trusted and faithful agricultural lenders find their portfolios clogged with functionally non-performing loans. Their logical response has been to display great reluctance to consider new "AG" credits, even on solid operations. The Agricultural sector's sources of long term capital have become immobilized, frozen in a block of non-performing loans. On the basis of this example, new and old lenders alike have exercised other alternative uses for their remaining funds.

The public, through its harmonic voice, the political system and the market place, demands a reliable, plentiful, high quality and relatively inexpensive food supply. The farm public, once a majority, has become a relatively powerless minority: Its political influence being vastly overshadowed by the urban majority.

In response, the farm community has come to rely upon the bureaucracy of the federal government to implement a comprehensive farm policy designed to place agriculture on firmer financial ground. The federal government, being understandably more responsive to its larger urban constituency, has failed to implement such a policy, electing in the alternative to insure a plentiful and cheap food supply.

What Is The Major Cause Of Farm Problems Today?

| | All Farmers & Ranchers | Cash Grain | Livestock Producers | Commercial Banks | FmHA | PCAS | Fed. Land Bank |
|---|---|---|---|---|---|---|---|
| | | | | --Percent-- | | | |
| Bought Land Too High | 3.7 | 3.1 | 4.3 | 5.0 | --- | --- | --- |
| High Cost of Equipment | 12.9 | 15.2 | 13.7 | 6.3 | --- | --- | --- |
| High Interest Rates | 22.3 | 19.9 | 23.1 | 17.5 | 50.0 | 10.0 | 13.3 |
| Government Farm Programs | 4.8 | 3.6 | 6.7 | 2.5 | --- | --- | --- |
| High Input Costs | 10.0 | 7.6 | 9.8 | 6.2 | --- | 30.0 | 6.7 |
| Low Market Prices | 36.0 | 36.9 | 33.1 | 39.4 | --- | 60.0 | 40.0 |
| Natural Disasters | 8.7 | 11.5 | 8.9 | 6.9 | 20.0 | --- | 20.0 |
| Other 1/ | 1.6 | 2.1 | 8.4 | 16.2 | 30.0 | --- | 20.0 |
| | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

1/ Poor management, over-mechanized and all other.

## ISSUES

The following are a few of the many issues that may be considered.

1. FARM CREDIT — This issue must be addressed immediately. An investigation concerning the farm credit system must be conducted in order to initiate legislation at the state and federal level.

2. COMMODITY PRICES — Policy needs to be developed to provide an equitable price to the farmer/rancher for his products in order to insure a profitable return.

3. LONG-TERM PROGRAM — New farm legislation, both at the state and federal level, must be bi-partisan effort directed at a long term program. Any agricultural plan must provide workable provisions withstanding changes in administration, yet be flexible enough to adjust to domestic and international economic fluctuations.

4. <u>AGRICULTURAL MARKETING</u>

Present agricultural marketing problems must be investigated. Among the issues include:

- Exports
- Embargo Protection
- Foreign Aid Food Programs
- Subsidized Food Export Programs
- Supply Management Programs
- Imported Meats

5. <u>NATIONAL ECONOMIC ISSUES</u>

Those economic issues directly affecting agriculture particularly the <u>Federal Deficit</u> and <u>High Interest Rates</u>.

**PERSONAL REMARKS**

In a state such as Montana, where 34% of the total revenue is generated from agriculture and where many main street businesses are intricately linked to the agricultural industry; any solution, either of long- or short-term significance or at the state or federal level; must include the comments, suggestions and consideration from a cross-section of the Montana citizenry. In order to accommodate the vast array of participants, the resolution suggests the committee be composed of 10 members of the House of Representatives and 10 members of the Senate, with equal representation from both parties.

Many Montana farm organizations have worked very hard to develop proposals that will effect long-term farm profitability. However, the majority of these proposals are not understood by many people outside the agricultural community. The proposed committee would enable many of these non-agricultural groups the opportunity to fully understand the individual proposals and their potential impact on their own organizations and on the entire state. Also, Governor Schwinden and several members of the legislature, including Senator Kolstad and Senator Boylan, serve on national committees which will make recommendations to Congress concerning the 1985 Farm Bill.

The purpose of the proposed committee would be as follows: First, the committee would generate a greater understanding of agriculture's problems and situations. Second, the committee could suggest possible solutions to agriculture's immediate problems. Third, the committee should investigate all the possible options and alternatives in order to derive possible solutions to agriculture's problems. Fourth, the committee, on behalf of the State of Montana, would carry forth these ideas and solutions to the national level, especially concerning the 1985 Federal Farm Programs.

EXHIBIT 1
BUSINESS & INDUSTRY
February 21, 1985

PROPOSED AMENDMENTS TO SB 426
FIRST READING, WHITE COPY

1. Title, line 7.
Following: "DATE"
Insert: "AND A TERMINATION DATE"

2. Page 1, line 12.
Following: "[section"
Strike: "4"
Insert: "3"

3. Page 3, line 12.
Following: "[section"
Strike: "4"
Insert: "3"

4. Page 3, line 16.
Following: "[section"
Strike: "2"
Insert: "1"

5. Page 3, lines 17 and 18.
Following: "reserve account"
Strike: "for retirement of the genral obligation bonds authorized by [section 1]"

6. Page 3, line 20.
Following: "[section"
Strike: "2"
Insert: "1"

7. Page 4, line 25.
Following: "used"
Strike: "solely"
Following: "for"
Insert: "the costs of collection of the assessment provided for in [section 1] and for"

8. Page 5, following line 5.
Insert: "Section 5. Extension of authority. Any existing authority of the agricultural loan authority to make rules on the subject of the provisions of this act is extended to the provisions of this act."

Renumber: subsequent sections

9. Page 5, line 10.
Following: "date"
Strike: "."
Insert: "--termination. (1)'

10. Page 5, line 13.
Following: "void."
Insert: "(2) This act terminates on July 1, 1987."