

Called Cate re: FARM loan

Clarence Willcorn - Marshfield

69 yrs. old
715-659-5344

Russ. Truman - 6% maximum markup

*Talked to
Clarence
10/11/05

- draft takes \$10 mil out of CROP
↳ not available until July 31
(or March 31)

- Clean Air Fund + Non-Point
↳ could be used for FARM also

- Farm Assistance Reinvestment Management

- land contracts not eligible; no refinancing
only new stuff
- most the state will "be on the hook" on a
single loan is \$100,000

*existing resources re-directed
if successful, may generate \$ for future

8/31/95

AI
(Dave Stute)

- Bruce
- Fritz Ruf, Dave Lepak, Carl Zeviske
- Mike Krutza
- Dwaine Sievers
- Fred Opperman - Shawano
- Everett Chambers - farm consultant
- Tomah

- John Umhoefer
- Gean Sunstadt
- Janelle Thomas
- Gan Shepel
- John Chretien

Independent
Bankers Assoc.

Bobbi - service fee is too high
not in business of making \$

Rick - Ag Chem fund - is that from checkoff
from farmers? State doesn't think so

service fee -
Bruce - loss fund
if in 5 yrs. the loss rate is low, could cut
back on service fee

Fritz Ruf
- adverse impact on CROP
- average between \$25 + 30 million in CROP loans -
FARM takes \$10 million away
- turnaround on CROP much faster because only \$20,000
FARM will require more credit checking 2-3 wks.
- unmet demand in some existing programs for WHEDA
(parallel to lender)

* Ruf

amend - don't segregate \$10 mil in case
demand changes (float b4 FARM +
CROP)
5 million F.A.R.M.
32 million C.R.O.P.

~~50 to 100 cows~~
~~\$200,000 farmer equity~~

Krutza - legislation fits a need
leveraging nature ~~is~~ is a benefit
- keep simple, flexible to get 2 week
turnaround
- WHEDA is subordinate note

* amend
eliminate 50,000 - make flat 100,000
lender may move forward on a loan w/
WHEDA approval a few weeks later -
fix "old loans" language

** loan info to legislators

Sievers

1.5% front-end fee - no annual fee

Opperman

conservative approach by banks will be beneficial
in long run but be careful not to risk
another generation

Notice Sub-Comm. hearing
for Sept. 8th

Thank-you to Bruce, Cate, Will

(bill #)

Comm. report - provide to all Ag members
- letter - talk to sub-comm. members
- all were invited

Pat Krutza

WISCONSIN HOUSING AND ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Continued)

(Data concerning December 31, 1994 and 1993 is unaudited)

5. Bonds and Notes Payable: (Continued)

Scheduled debt maturities in the five years subsequent to June 30, 1994 are as follows (in thousands):

	1995	1996	1997	1998	1999	Thereafter
Housing Revenue Bonds	\$ 7,759	\$ 11,838	\$ 12,125	\$ 12,784	13,541	\$ 386,957
Home Ownership Revenue Bonds	19,355	20,846	20,852	20,811	21,002	962,945
Housing Rehabilitation and Home Improvement Loan Revenue Bonds	495	560	11,126	815	870	9,855
Business Development Revenue Bonds	4,240	4,215	4,215	3,655	3,665	23,520
Notes Payable	13,231	14,781	--	--	--	--
	<u>\$ 45,080</u>	<u>\$ 52,240</u>	<u>\$ 48,318</u>	<u>\$ 38,065</u>	<u>\$ 39,078</u>	<u>\$ 1,383,277</u>

6. Segment Financial Data:

The following describes the funds maintained by the Authority, all of which conform with the authorizing legislation, and bond and Authority resolutions.

Multifamily Program Funds: Housing Development--This fund was established to account for the proceeds of bonds and the related mortgage loans to sponsors of eligible multifamily housing developments. As of December 31, 1994 the Housing Development Fund included \$3,555,000 of savings generated by the refunding of Housing Revenue Bonds, 1982 Series A. The Authority is required to use these savings to create and maintain affordable housing opportunities for individuals of "very low income" (as such term is defined in the 1937 Housing Act).

Single Family Program Funds: Home Ownership (1983-1994)--These funds were established to account for the proceeds of the 1983-1994 Series Bonds and the related purchase of mortgage loans to eligible persons with low to moderate income.

Housing Rehabilitation and Home Improvement--These funds were established to account for the proceeds of bonds, legislative appropriations and related purchase of insured home improvement mortgage loans to eligible persons with low to moderate income on owner-occupied properties.

Administered Funds: These funds were established to account for the revenues and expenses associated with administering various programs where the source of funds is outside the Authority. Currently such programs include the Credit Relief Outreach Program (CROP), the Drought Assistance Program, the Agribusiness Fund, the Tourism Fund, the Recycling Fund, the Contract Fund, the Target Area Fund, the Nonpoint Source Pollution Abatement Program, the Clean Air Fund, the Ozone Fund and the Agricultural Chemical Spill Loan Guarantee Program, which provide loan guarantees and interest rate subsidies on agricultural and business loans. The Authority received \$22,471,000 from the State of Wisconsin to fund these programs including \$423,000 in the year ended June 30, 1994 and \$250,000 in the six months ended December 31, 1994. The Authority returned \$3,324,000 to the State of Wisconsin through the year ended June 30, 1994. No funds were returned in the six months ended December 31, 1994. During the years ended June 30, 1994 and 1993 and the six months ended December 31, 1994 and 1993, \$629,000 and \$1,344,000, and \$271,000 and \$202,000, respectively, of the legislative appropriation was utilized to absorb loan guaranty losses and interest rate subsidies. Any remaining fund balances must be paid to the State of Wisconsin General Fund upon program termination.

General Fund: The General Fund accounts for all income and operating expenses which are not allocated to other funds. The fund balance of the General Fund is not restricted by the lien or pledge of any bond or note resolution. However, the Authority may from time to time restrict or designate any portion of the General Fund for the purposes provided in the Act, such as funding or supplementing any loan program or paying operating expenses (see Note 7).

Business Development--These funds, which are part of the General Fund, were established to account for the revenues and expenses associated with the administration of the Business Development Bond (BDB) Program.

Original CROP Appropriation \$ 11 million

Wisc Housing and Econ Dev Auth
 State of Wisconsin Programs
 Balances in the Other Liability Accounts
 December 31, 1994
 Reported in US Dollars

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G/L Account	Description	Current Year	Last Year	
	Total-Prog 75 Other Liabilitie	<i>Cummulative</i>	.00	
07817-0000-25204-000-000	WI LEGIS APPROP - GUAR PAYMENT	(219,741.14)	(240,848.49)	Agri-Business
07814-0000-25204-000-000	WI LEGIS APPROP - GUAR PAYMENT	(324,331.50)	(311,572.75)	
07814-0000-25203-000-000	WI LEGIS APPROP - INT SUBSIDY	(979,388.91)	(979,387.81)	Drought
07819-0000-25204-000-000	WI LEGIS APPROP - GUAR PAYMENT	(33,338.90)	(33,338.90)	
07819-0000-25203-000-000	WI LEGIS APPROP - INT SUBSIDY	(299,384.67)	(163,628.85)	Tourism
07820-0000-25204-000-000	WI LEGIS APPROP - GUAR PAYMENT	(208,578.35)	(211,188.08)	Recycling
07824-0000-25203-000-000	WI LEGIS APPROP - INT SUBSIDY	(2,448,766.38)	(2,118,479.57)	CROP
07824-0000-25204-000-000	WI LEGIS APPROP - GUAR PAYMENT	(3,525,975.42)	(3,421,226.28)	
07801-0000-25201-000-000	ADVANCE FROM STATE	19,147,186.30	19,291,033.30	
	Total-Prog 78 Other Liabilitie	11,107,681.03	11,811,362.57	

[Handwritten scribbles and numbers in the left margin]

WHEDA WIS DEVELOPMENT FUND REPORT
AS OF: 12/31/94

	12/31/94	09/30/94	06/30/94	03/31/94	12/31/94	09/30/93
CASH	6,365.63	3,869.02	(11,323.03)	23,019.72	(2,647.40)	10,779.48
INVESTMENTS	15,688,518.10	15,576,510.16	15,919,983.37	16,945,357.88	16,972,435.00	16,975,716.30
INTEREST RECEIVABLE	111,341.54	141,704.03	74,978.40	164,641.66	98,811.82	141,550.29
ACCOUNTS RECEIVABLE	7,685.77	7,685.77	7,619.57	6,237.11	1,577.72	53,250.30
RECEIVABLE FROM GENERAL RES	0.00	0.00	4,112.90	1,583.40	65,787.22	621.68
TOTAL ASSETS	15,813,911.04	15,729,768.98	15,995,369.21	17,140,839.77	17,136,964.36	17,181,918.05

ADVANCE FROM STATE	19,147,186.30	18,897,186.30	18,897,186.30	19,714,217.30	19,291,033.30	19,291,033.30
GUARANTEES	(4,311,965.31)	(4,285,448.67)	(4,245,481.54)	(4,244,268.13)	(4,218,174.50)	(4,212,342.10)
SUBSIDIES	(3,727,539.99)	(3,680,373.66)	(3,592,507.71)	(3,356,659.07)	(3,261,496.23)	(3,216,680.50)
INTERFUNDS:						
GENERAL RES-G&A	184,660.55	193,413.94	277,426.91	199,029.38	286,365.71	311,327.76
GENERAL RES-COI	10,167.60	10,167.60	10,167.60	10,167.60	59,135.83	51,481.06
GENERAL RES-ESCROW	0.00	12,285.22	0.00	0.00	65,787.22	0.00

EXCESS REVENUE OVER EXPENSE:

REVENUES	429,298.19	205,454.42	848,737.91	651,874.26	464,924.96	222,344.75
EXPENSES-GENERAL	(5,061.44)	(2,570.34)	(10,495.96)	(7,829.30)	(802.14)	(610.62)
EXPENSE-DROUGHT	0.00	0.00	0.00	0.00	0.00	0.00
EXPENSES-AGRI/BUSINESS	(36,848.92)	(18,665.18)	(124,221.90)	(78,944.94)	(45,282.85)	(20,377.59)
EXPENSES-CONTRACT FUND	(47,502.56)	(23,566.86)	(92,931.47)	(70,618.12)	(54,416.97)	(30,107.12)
EXPENSES-TOURISM	(122,837.39)	(62,871.39)	(345,139.65)	(120,810.09)	(59,151.14)	(59,151.14)
EXPENSES-RECYCLING	(730.66)	(378.42)	(46,542.88)	(41,866.52)	(38,366.66)	(18,641.84)
EXPENSES-DISTRESS AREA	(169,587.84)	(86,827.80)	(321,746.83)	(248,672.41)	(194,410.57)	(110,330.52)
EXPENSES-NON PT SOURCE POLL	(12,939.25)	(6,735.22)	(61,335.42)	(42,409.16)	(27,933.26)	(14,071.82)
EXPENSES-TALEISIN	(4,812.54)	(2,385.29)	(26,640.80)	(20,138.29)	(15,048.25)	(7,188.45)
EXPENSES-CROP	(164,879.70)	(86,005.17)	(217,186.89)	(152,499.81)	(100,632.68)	(50,848.67)
EXPENSES-CLEAN AIR	(3,117.69)	(1,448.15)	0.00	0.00	0.00	0.00
FUND BALANCE	4,648,577.65	4,648,577.65	5,046,081.54	5,046,081.54	5,046,081.54	5,046,081.54

TOTAL LIABILITIES & FUND BAL

	15,812,567.04	15,729,768.98	15,995,369.21	17,140,839.77	17,136,964.36	17,181,918.05
PAYABLE TO:	1,344.00					
GENERAL RES-G&A	(184,660.55)	(193,413.94)	(277,426.91)	(199,029.38)	(286,365.71)	(311,327.76)
GENERAL RES-COI	(10,167.60)	(10,167.60)	(10,167.60)	(10,167.60)	(59,135.83)	(51,481.06)
GENERAL RES-ESCROW	0.00	(12,285.22)	0.00	0.00	(65,787.22)	0.00
PAYABLE TO STATE	15,617,738.89	15,513,922.22	15,707,774.70	16,931,642.79	16,724,675.60	16,819,109.23

PROGRAM BAL PRIOR QUARTER

ADVANCE FROM STATE	15,513,922.22	15,707,774.70	16,931,642.79	16,724,675.60	16,819,109.23	17,128,370.63
REVENUES	250,000.00	0.00	(817,031.00)	423,184.00	0.00	0.00
EXPENSES	223,843.77	205,454.42	196,863.65	186,949.30	242,580.21	222,344.75
GUARANTEES	(276,344.16)	(291,473.82)	(366,638.69)	(281,909.64)	(286,365.71)	(311,327.76)
SUBSIDIES	(46,516.64)	(19,967.13)	(1,213.41)	(26,093.83)	(5,832.40)	(99,287.68)
PROGRAM BAL	15,617,738.89	15,513,922.22	15,707,774.70	16,931,642.79	16,724,675.60	16,819,109.23

1st Qtr
2nd Qtr
3rd Qtr
4th Qtr
FY TO DATE
Prev FY

1985 CROP LOANS
as of December 31, 1994

LOAN STATUS	# OF LOANS	% OF LOANS	100% GUARANTEED AMOUNT	90% CONTINGENT LIABILITY	% OF DOLLARS	PAID CLAIMS
Paid-in-Full	751	90.2%	\$10,023,681	\$9,021,313	89.8%	
Defaults-Complete	75	9.0%	\$1,035,243	\$931,719	9.3%	\$778,097
Defaults-Repaid	7	0.8%	\$99,500	\$89,550	0.9%	
TOTAL	833	100.0%	\$11,158,424	\$10,042,582	100.0%	\$778,097

Payments Recd: \$91,998.95

Claims paid -	payments recd=	default payments/	total contingent liability=	Net Default Rate
\$778,097	\$91,999	\$686,098	\$10,042,582	6.83%
Claims paid /	total cont. liab. =	Gross Default Rate		
\$778,097	\$10,042,582	7.7%		

1986 CROP LOANS
as of December 31, 1994

LOAN STATUS	# OF LOANS	% OF LOANS	100% GUARANTEED AMOUNT	90% CONTINGENT LIABILITY	% OF DOLLARS	PAID CLAIMS
Paid-in Full	1292	94.4%	\$16,715,322	\$15,043,790	94.2%	
Defaults-Complete	69	5.0%	\$904,991	\$814,492	5.1%	\$711,967
Defaults-Denied	1	0.1%	\$20,000	\$18,000	0.1%	
Defaults-Repaid	7	0.5%	\$105,654	\$95,089	0.6%	
TOTAL	1369	100.0%	\$17,745,967	\$15,971,370	100.0%	\$711,967

Payments Rec'd: \$154,583.61

Claims Paid-	payments rec'd=	default payments/	total contingent liability=	Net Default Rate
\$711,967	\$154,633	\$557,383	\$15,971,370	3.49%

Claims Paid/	total cont. liab. =	Gross Default Rate
\$711,967	\$15,971,370	4.45%

1987 CROP LOANS
as of December 31, 1994

LOAN STATUS	# OF LOANS	% OF LOANS	100% GUARANTEED AMOUNT	90% CONTINGENT LIABILITY	% OF DOLLARS	PAID CLAIMS
Paid-In Full	1478	96.3%	\$18,755,015	\$16,879,514	96.2%	
Defaults-Complete	42	2.7%	\$565,424	\$508,882	2.9%	\$495,372
Defaults-Repaid	15	1.0%	\$167,774	\$150,997	0.9%	
TOTAL	1535	100.0%	\$19,488,213	\$17,539,392	100.0%	\$495,372
Payments Rec'd:	\$139,714.14					
Claims Paid-	payments rec'd=	default payments/	total contingent liability=	default rate		
\$495,372	\$139,714	\$355,658	\$17,539,392	2.03%		
Claims Paid/	total cont. liab. =	Gross Default Rate				
\$495,372	\$17,539,392	2.82%				

1989 CROP LOANS
as of December 31, 1994

LOAN STATUS	# OF LOANS	% OF LOANS	100% GUARANTEED AMOUNT	90% CONTINGENT LIABILITY	% OF DOLLARS	PAID CLAIMS
Paid-in Full	1641	98.0%	\$22,110,858	\$19,899,772	97.6%	
Forbearance Agree	2	0.1%	\$37,672	\$33,905	0.2%	
Defaults-Complete	26	1.6%	\$414,974	\$373,477	1.8%	\$342,788
Defaults-Pending	0	0.0%	\$0	\$0	0.0%	
Defaults-Denied	1	0.1%	\$3,000	\$2,700	0.0%	
Defaults-Repaid	5	0.3%	\$94,327	\$84,894	0.4%	
TOTAL	1675	100.0%	\$22,660,831	\$20,394,748	100.0%	\$342,788

Payments Rec'd: \$88,129.00

Claims Paid-
\$342,788
payments rec'd=
\$88,129
default payments/
\$254,659
Claims Paid/
\$342,788
total cont. liab. =
\$20,394,748
Gross Default Rate
1.68%

total contingent liability=
\$20,394,748

Net Default Rate
1.25%

1990 CROP LOANS
as of December 31, 1994

LOAN STATUS	# OF LOANS	% OF LOANS	100% GUARANTEED AMOUNT	90% CONTINGENT LIABILITY	% OF DOLLARS	PAID CLAIMS
Paid-In Full	1524	96.0%	\$20,439,191	\$18,395,272	95.6%	
Forbearance Agree	2	0.1%	\$35,000	\$31,500	0.2%	
Defaults-Complete	51	3.2%	\$766,801	\$690,121	3.6%	\$518,243
Defaults-Denied	2	0.1%	\$37,706	\$33,935	0.2%	
Defaults-Repaid	7	0.4%	\$96,443	\$86,799	0.5%	
Guarantee Expired	1	0.1%	\$11,673	\$10,506	0.1%	
TOTAL	1587	100.0%	\$21,386,814	\$19,248,133	100.0%	\$518,243
Payments Recd:	\$78,021.00					
Claims Paid-						
\$518,243	payments recd=	default payments/	total contingent liability=	Net Default Rate		
	\$78,021	\$440,222	\$19,248,133	2.29%		
Claims Paid/	total cont. liab. =	Gross Default Rate				
\$518,243	\$19,248,133	2.69%				

1991 CROP LOANS
as of December 31, 1994

LOAN STATUS	# OF LOANS	% OF LOANS	100% GUARANTEED AMOUNT	90% CONTINGENT LIABILITY	% OF DOLLARS PAID CLAIMS
Paid-in Full	1900	96.1%	\$23,927,718	\$21,534,946	
Forbearance Agree	14	0.7%	\$204,800	\$184,320	95.9%
Defaults-Complete	38	1.9%	\$514,295	\$462,866	0.8%
Guarantee Expired	21	1.1%	\$243,427	\$219,084	2.1%
Defaults Repaid	4	0.20%	\$50,778	\$45,700	1.0%
TOTAL	1977	100.0%	\$24,941,018	\$22,446,916	100.0%
Payments Rec'd=					\$383,549

Claims Paid-	payments rec'd=	default payments/	total contingent liability=	Net Default Rate
\$383,549	\$59,439	\$324,110	\$22,446,916	1.44%
Claims Paid/	total cont. liab. =	Gross Default Rate		
\$383,549	\$22,446,916	1.71%		

1992 CROP LOANS
as of December 31, 1994

LOAN STATUS	# OF LOANS	% OF LOANS	100% GUARANTEED A	90% CONTINGENT LIABILITY	% OF DOLLARS	PAID CLAIMS
Paid-in Full	1914	95.6%	\$25,250,382	\$22,725,344	95.3%	
Forbearance Agree	34	1.7%	\$445,680	\$401,112	1.7%	
Defaults-Complete	41	2.0%	\$640,334	\$576,301	2.4%	\$393,284
Defaults-Pending	0	0.0%	\$0	\$0	0.0%	
Defaults-Repaid	2	0.1%	\$28,863	\$25,977	0.1%	
Guarantee Expired	11	0.5%	\$120,334	\$108,301	0.5%	
TOTAL	2002	100.0%	\$26,485,593	\$23,837,034	100.0%	\$393,284

Payments Rec'd: \$43,928

Claims Paid-	payments rec'd=	default payments/	total contingent liability=	Net Default Rate
\$393,284	\$43,928	\$349,356	\$23,837,034	1.47%
Claims Paid/	total cont. liab. =	Gross Default Rate		
\$393,284	\$23,837,034	1.65%		

1993 LOANS
as of December 31, 1994

LOAN STATUS	# OF LOANS	% OF LOANS	100% GUARANTEED AMOUNT	90% CONTINGENT LIABILITY	% OF DOLLARS	PAID CLAIMS
Loans Outstanding	0	0.0%	\$0	\$0	0.0%	
Paid In Full	1937	95.7%	\$26,019,339	\$23,417,405	95.2%	
Forbearance Agre	72	3.56%	\$1,112,161	\$1,000,945	4.1%	
Defaults-Complete	12	0.6%	\$141,507	\$127,356	0.5%	\$131,507
Defaults-Pending	3	0.1%	\$60,000	\$54,000	0.2%	
TOTAL	2024	100.0%	\$27,333,007	\$24,599,706	100.0%	\$131,507

Payments Rec'd:

Claims Paid-	payments rec'd=	default payments/	total contingent liability=	Net Default Rate
\$131,507		\$131,507	\$24,599,706	0.53%
Claims Paid/	total cont. liab =	Gross Default Rate		
\$131,507	\$24,599,706	0.53%		

1994 LOANS
as of December 31, 1994

LOAN STATUS	# OF LOANS	% OF LOANS	100% GUARANTEED AMOUNT	90% CONTINGENT LIABILITY	% OF DOLLARS	PAID CLAIMS
Loans Outstanding	1875	91.9%	\$26,022,143	\$23,419,929	91.8%	
Paid in Full	160	7.8%	\$2,282,898	\$2,054,608	8.1%	
Forbearance Agree	0	0.00%	\$0	\$0	0.0%	
Defaults-Complete	3	0.1%	\$21,000	\$18,900	0.1%	\$18,900
Defaults-Pending	2	0.1%	\$17,980	\$16,182	0.1%	
TOTAL	2040	100.0%	\$28,344,021	\$25,509,619	100.0%	

Payments Rec'd:

Claims Paid-	payments rec'd=	default payments/	total contingent liability=	Net Default Rate
\$18,900		\$18,900	\$25,509,619	0.07%
Claims Paid/	total cont. liab. =	Gross Default Rate		
\$18,900	\$25,509,619	0.07%		

University of Wisconsin-Madison

Department of Agricultural Economics

Taylor Hall

427 Lorch Street

Madison, Wisconsin 53706

Ph: 608-263-4472

Fax: 608-262-4376

College of Agricultural and Life Sciences

Date: January 30, 1995

To: Representative Al Ott

From: Bruce Jones, Associate Professor

Re: Farm Credit Programs



Included with this memo is an outline that lays out some of the ideas that were discussed at our meeting last Wednesday. I thought this paper might be useful to you as you evaluated WHEDA CROP and other credit programs that could be used to assist Wisconsin farmers.

If you have any questions, feel free to contact me.

FARM CREDIT OPTIONS FOR WISCONSIN

**PREPARED BY
BRUCE L. JONES
ASSOCIATE PROFESSOR
DEPARTMENT OF AGRICULTURAL ECONOMICS
UNIVERSITY OF WISCONSIN - MADISON**

JANUARY 30, 1995

Credit Relief Outreach Program (CROP)

Credit assistance for financially stressed farmers who are unable to obtain operating credit from private sector lenders.

Targeted group of farmers--Those farmers with debt to asset ratios between .40 and .70 and the ability to generate positive cash flows.

Program Benefits

Farmers -- Reduced interest rates through:

- a) Legislative limits on interest rates
- b) Interest rate buy-downs (subsidy)

Lenders -- 90 percent guarantee on loan (risk reduction) with little or no interest rate reduction

Limitations of CROP

- 1) Delivery dependent on lender participation
- 2) \$20,000 lending limit low relative to borrowers' needs
- 3) Use restricted to operating loans

Issue -- The incidence of financial stress in Wisconsin agriculture has declined considerably in the last decade and the credit needs of farmers have also changed. Farmers no longer need "survival loans" as much as they need credit to capitalize their farm businesses.

Possible state action -- shift the focus of Wisconsin's farm credit program from financially stressed farmers to those farmers who are currently having difficulties obtaining credit.

Groups of farmers currently in need of credit assistance:

- 1) Established farming operations with inefficient technologies or production systems that need to be replaced.
- 2) Established operations that need to be grown to allow for the entry of the next generation of farm operators.
- 3) Older farmers who want to sell their farms to their children.

Common characteristic of farmers who have a need for credit assistance:

Farmers can develop business plans which generate profits and positive cash flows, but lenders must deny the credit because the farmers' debt to asset positions will exceed acceptable levels if the loans are granted.

Possible response to farmers' needs:

State offers guarantees on loans that would otherwise be rejected by lenders.

Options for offering guarantees:

- a) 90% guarantee on full loan amount
- b) Negotiated guarantee for a specified dollar amount which allows the lender to satisfy regulator's standards for collateral and debt to asset ratio

Benefit of going to negotiated guarantee program:

Guarantee funds allocated by state are distributed to farmers as needed. Thus more farmers are potentially served by state funds.

Controls on system:

- 1) Total funds in program limited
- 2) Limits on funds used by individual lending institutions
- 3) Limits on funds committed to individual borrowers
Lesser of:
25% of loan amount; or
farmer's equity (net worth)

Up to a maximum of:
\$50,000 if another credit assistance program is also used;
or
\$100,000 if no other credit assistance programs are used.
- 4) Underwriting standards
 - a) Business plan
 - b) Positive cash flow
 - c) Maximum debt to asset (i.e., .85)
- 5) Loan purpose--production agriculture
 - a) Economic development
 - b) Farm transfer
- 6) Pricing system which compensates state for taking risk (i.e., annual charge of 1% on guarantee of *\$50,000 or less and 1.5% on guarantees in excess of \$50,000) and allows state to build a risk pool for covering potential loan losses.

Product delivery

- 1) Lenders make and service loans
- 2) State agency (WHEDA) reviews application for guarantee and then approves or rejects requested guarantee.

Illustration of Borrower Costs Under Negotiated Guarantee Program

	Current Situation	1	Option 2	3	4
New Loan Amount		100000	200000	300000	400000
Guarantee		25000	50000	75000	100000
Balance Sheet:					
Assets	300000	400000	500000	600000	700000
Debts	150000	250000	350000	450000	550000
Equity	150000	150000	150000	150000	150000
Debt to Asset	0.50	0.63	0.70	0.75	0.79
Debt to Security ¹	0.50	0.59	0.64	0.67	0.69
Interest to lender (9.00%)		22500	31500	40500	49500
Charge on Guarantee		250	500	1125	1500
Average financing cost per dollar of debt	9.00%	9.10%	9.14%	9.25%	9.27%

¹ Security is defined as the sum of assets and the loan guarantee

Issues to be resolved

- 1) Source of funds -- Reallocation of, say, \$15 million of the \$30 million of the guarantees that have been authorized for WHEDA CROP.
- 2) Long term commitments on loans to purchase cows, machinery, facilities, land. Will be a need to authorize more guarantees over time.
- 3) Duration of guarantees must be limited. Limits could be as follow:
 - Cows, machinery, etc. -- 5 year commitment
 - Facilities and land -- 10 year commitment
- 4) Duration of program.
- 5) Duplication of other programs--SBA, FMHA, etc.

University of Wisconsin-Madison

Department of Agricultural Economics

Taylor Hall

427 Lorch Street

Madison, Wisconsin 53706

Ph: 608-263-4472

Fax: 608-262-4376

College of Agricultural and Life Sciences

April 27, 1995

Dear Representative Ott:

I am writing this letter as a follow-up to the hearing on agricultural credit you chaired March 16, 1995. I was honored to participate in this hearing.

In my opinion, an important bit of information was uncovered near the end of the hearing. Recall that the Rural Economic Community Development Service (formerly the Farmers Home Administration) had no funds available to guarantee farm mortgages but approximately \$40 million to guarantee operating loans that farmers could use to purchase supplies, dairy cows, machinery, and farm equipment. This abundance of operating credit and shortage of real estate credit suggests to me that the federal government's farm credit programs are not satisfying the credit needs of Wisconsin farmers.

The \$40 million of operating credit assistance that is potentially available from RECDS could be very useful to farmers who choose to expand or upgrade their dairy farms. Unfortunately these farmers cannot undertake expansion activities because they cannot obtain the real estate mortgages which would be used to finance the purchase of land, milking parlors, housing and other real estate improvements. If this real estate credit problem could be solved, farmers would be able to utilize the \$40 million of RECDS loan guarantees to purchase dairy cows and other inputs used on dairy farms.

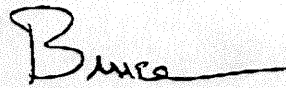
It is my judgement that the State of Wisconsin could stimulate some new economic activity in dairy if it implemented a credit program that would let farmers build improvements such as milking facilities, housing, manure management systems, and feeding systems. By taking this action, the state would make it possible for farmers to take advantage of the \$40 million of credit assistance the RECDS is willing to extend to farmers for the purpose of buying cows or purchasing inputs such as feed and supplies.

I believe you and your committee could create some opportunities for Wisconsin dairy farmers if you implemented a credit program that helped farmers tap into the RECDS loan guarantees that could be used to finance the purchase of

dairy cows and other inputs. I would be happy to work with you in exploring the possibilities of implementing such a credit program that would help solve the real estate credit programs that currently making it difficult for Wisconsin farmers to upgrade or improve their operations.

Best wishes.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Bruce", with a long horizontal flourish extending to the right.

Bruce L. Jones
Associate Professor

msb



**JOHN DEERE
CREDIT**

DEERE CREDIT SERVICES, INC., 8402 Excelsior Drive, P.O. Box 5328, Madison, Wisconsin 53705-0328

HENRY E. SCHWABROW
Director
Revolving Credit Administration

23 March 1995

The Honorable Alvin Ott
Chairman, Assembly Agriculture Committee
P.O. Box 8943
Madison, WI 53708

Dear Assemblyman Ott:

First, let me apologize for not being able to attend or present at the 16 March 1995 hearing of the Joint Sub-Committee of Agricultural Finance and Reinvestment. We do appreciate your consideration of John Deere Credit for participation. We also appreciate your allowing John Brown from our Moline office to attend and we look forward to a future opportunity to share our John Deere Credit initiatives with the Committee.

Since we haven't had a chance to meet yet, let me briefly introduce myself. Having grown up on a dairy farm and having spent over 20 years with John Deere, I have been close to agriculture all my life. My current responsibility is management of our Madison, Wisconsin processing operation which employs about 190 full time people and as many as 50 or more temporary employees during our seasonal peaks.

Regarding specific credit products, our Madison team processes all revolving credit transactions for our Farm Plan finance product which serves agribusinesses nationwide by replacing their in-house accounts receivable and by facilitating their sales of products and services. We also process all transactions from our John Deere Credit Revolving Plan (JDCRP) finance product which finances consumer purchases of John Deere lawn and grounds care equipment for John Deere dealers, as well as some purchases of marine and recreational vehicle products from participating independent recreational product dealers.

Again, thank you for your consideration of John Deere Credit. Please let us know when the next hearing is scheduled and we will make every effort to participate.

Sincerely,

Henry E. Schwabrow

Date	KIM	# of pages	3
From	W. Hughes		
Co.	267-4358		
Phone #			

WHEDA Ag Loan Proposal

Analysis

The Wisconsin Housing and Economic Development Authority currently guarantees 90% of the principal of loans made by private lenders to eligible farmers for operating loans used to produce agricultural products. WHEDA also provides a 2% interest subsidy to the borrower as part of the agricultural production loan guarantee program.

This bill extends the agricultural production loan guarantee program but eliminates the interest subsidy. The bill also establishes a farm reinvestment guarantee program for up to 25% of a loan principal up to a maximum of \$100,000 (or \$50,000, if another credit assistance program is being used at the same time).

The farm reinvestment guarantee program provides guarantees to eligible farmers of five years for machinery and equipment and other production assets (such as cattle) and for 10 years for facilities and land. The program charges a service fee of 1% on guarantees of \$50,000 or less and 1.5% on guarantees over \$50,000. Fees are used to fund loan loss reserves.

Borrowers must be current farm operators to be eligible for a farm reinvestment guarantee loan in addition to the other loan underwriting standards of the program.

Non-Statutory Language

1. Agricultural production loan guarantee: For the purpose of funding the agricultural production loan guarantee program, WHEDA shall establish \$15,000,000 of guarantee authority.
2. Farm reinvestment loan guarantee: For the purpose of funding the farm reinvestment loan guarantee program, WHEDA shall establish \$15,000,000 of guarantee authority.
3. As of January 1, 1997, WHEDA may with the approval of the secretary of the department of administration transfer funds between the agricultural production loan guarantee program and the farm reinvestment loan guarantee program, provided that a minimum of \$5 million of guarantee authority is retained in the ag production loan guarantee fund at the start of each crop year.
4. WHEDA is directed to establish and implement the farm reinvestment loan guarantee program by July 1, 1995.

Statutory Language

234.906 Farm reinvestment loan guarantee program. (1) Definitions:

- (a) "farmer" has the meaning given under s. 102.04 (3).
- (b) "guaranteed loan" means a farm reinvestment loan which is guaranteed by the authority.

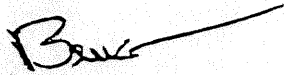
- (c) "participating lender" means a bank, production credit association, credit union, savings bank, savings and loan association, or other person who makes farm loans and who has entered into an agreement with the authority under s. 234 (2) (a).
- (2) **ELIGIBLE LOANS.** A loan made by a participating lender is eligible for a guarantee of collection from the Wisconsin development reserve fund under s. 234.93 if all of the following apply:
- (a) The loan is made to an existing farm operator to finance any of the following:
 1. Machinery and equipment.
 2. Facilities and land.
 3. Livestock.
 - (b) The total principal amount guaranteed shall be limited to 25 percent of the total loan amount or the farmer's net worth, whichever is less.
 - (c) The total principal amount guaranteed shall not exceed \$50,000 if another state or federal credit assistance program is involved in the loan, or \$100,000 if no other state or federal guarantee program is involved in the loan.
 - (d) The guarantee extends for no more than 5 years on machinery, equipment and livestock and for no more than 10 years on facilities and land.
 - (e) The amount of the farmer's debts does not exceed 85 percent of the amount of the farmer's assets after the loan is made.
 - (f) The rate of interest on and terms of the loan, including any origination fees or other charges, is determined by the participating lender and approved by the authority.
 - (g) The participating lender obtains a first position security interest in the farmer's assets being financed by the loan.
 - (h) The proceeds of the loan are not applied to the outstanding balance of any other loan.
 - (i) The participating lender considers the borrower's managerial ability and cash flow sufficient to preclude voluntary or involuntary liquidation during the course of the loan.
- (3) **SERVICE FEES AND GUARANTEE OF COLLECTION.** (a) The authority shall charge a 1 percent service fee on loan guarantees less than or equal to \$50,000 and 1.5 percent on loan guarantees over \$50,000.
- (b) The authority shall deposit the service fees in the loan reserve for the purpose of revolving loan guarantee funds for future loan guarantees under this program.
 - (c) The authority shall use procedures under s. 234.93 (2) (a) in issuing guarantees under this program.

University of Wisconsin-Madison

Department of Agricultural Economics
Taylor Hall
427 Lorch Street
Madison, Wisconsin 53706
Ph: 608-263-4472
Fax: 608-262-4376

College of Agricultural and Life Sciences

Date: January 30, 1995
To: Representative Al Ott
From: Bruce Jones, Associate Professor
Re: Farm Credit Programs



Included with this memo is an outline that lays out some of the ideas that were discussed at our meeting last Wednesday. I thought this paper might be useful to you as you evaluated WHEDA CROP and other credit programs that could be used to assist Wisconsin farmers.

If you have any questions, feel free to contact me.

FARM CREDIT OPTIONS FOR WISCONSIN

PREPARED BY
BRUCE L. JONES
ASSOCIATE PROFESSOR
DEPARTMENT OF AGRICULTURAL ECONOMICS
UNIVERSITY OF WISCONSIN - MADISON

JANUARY 30, 1995

Credit Relief Outreach Program (CROP)

Credit assistance for financially stressed farmers who are unable to obtain operating credit from private sector lenders.

Targeted group of farmers--Those farmers with debt to asset ratios between .40 and .70 and the ability to generate positive cash flows.

Program Benefits

Farmers -- Reduced interest rates through:
a) Legislative limits on interest rates
b) Interest rate buy-downs (subsidy)

Lenders -- 90 percent guarantee on loan (risk reduction) with little or no interest rate reduction

Limitations of CROP

- 1) Delivery dependent on lender participation
- 2) \$20,000 lending limit low relative to borrowers' needs
- 3) Use restricted to operating loans

Issue -- The incidence of financial stress in Wisconsin agriculture has declined considerably in the last decade and the credit needs of farmers have also changed. Farmers no longer need "survival loans" as much as they need credit to capitalize their farm businesses.

Possible state action -- shift the focus of Wisconsin's farm credit program from financially stressed farmers to those farmers who are currently having difficulties obtaining credit.

Groups of farmers currently in need of credit assistance:

- 1) Established farming operations with inefficient technologies or production systems that need to be replaced.
- 2) Established operations that need to be grown to allow for the entry of the next generation of farm operators.
- 3) Older farmers who want to sell their farms to their children.

14-300 HA 2000 LW 1000 T 2000 4-1000 NOV 510 1000

Common characteristic of farmers who have a need for credit assistance:

Farmers can develop business plans which generate profits and positive cash flows, but lenders must deny the credit because the farmers' debt to asset positions will exceed acceptable levels if the loans are granted.

Possible response to farmers' needs:

State offers guarantees on loans that would otherwise be rejected by lenders.

Options for offering guarantees:

- a) 90% guarantee on full loan amount
- b) Negotiated guarantee for a specified dollar amount which allows the lender to satisfy regulator's standards for collateral and debt to asset ratio

Benefit of going to negotiated guarantee program:

Guarantee funds allocated by state are distributed to farmers as needed. Thus more farmers are potentially served by state funds.

Controls on system:

- 1) Total funds in program limited
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 - Cows, machinery, etc. -- 5 year commitment
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- 5) Duplication of other programs--SBA, FMHA, etc.

CROP / Equity Gap

1991 started rollover (Forbearance)

- loan given 1995
- due March 31, 1996
- Jun 30th extension

- then start forbearance (1 yr. extension for up to 3 years - renew original loan)

* 2 1/2 million for equity gap (put in reserve)

* would eliminate about 600 CROP loans out of about 2000 each year

bank could make \$10 million dollars in loans
 ← 25% guarantee
 100 loans up to \$400,000

* forbearance probably isn't helping the farmer - a trend is developing

* lead time - lenders will know this new program is coming

2%

✓ monthly payment

5 yr. agreement in 20 yr. loan package

- have mtg. w/ Leport, acctg. when have draft to make sure #'s work
 - any way to get \$ before June 30th

current:

\$ 7 1/2 million in guarantee left for CROP

- don't even have on a given year the \$15 million b/c of forbearance

- CROP has only \$15 million guarantee

STATE OF WISCONSIN

To Al

Date _____ Time _____

WHILE YOU WERE OUT

M Wil Hughes

of _____

Phone 258-4410

Telephoned		Please Call	X
Called to See You		Rush	
Returned Your Call		Will Call Again	

Message 1. Do you want any equity gap testimony on AB56 in Senate (No)
2. What are we doing for Ag Finance?
Any drafting? (Won't someone supposed to follow up w/ committee)

Party Receiving Call

Call Party

financial impact
w/out JFC overview
- separate bill

Date	KIM	# of pages	3
From	W. Hughes		
Co.	267-4358		
Phone #			

WHEDA Ag Loan Proposal

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To General to broad

? to high

exceed?

Guarantee must be paid off in a proportional level.

? Reverse fee rates, why?

Protect from Cautions on relationship transfers.

Will Hughes 258-4410 5/8/95

1. have state program compatible to FHA program - can't tie in
2. work out w/ FHA ahead of time to make sure they'll extend leverage and vice versa
3. still interest in it from people will deals with
4. FHA production loan program + equity gap financing program that go together but yet stand alone (will doesn't think its a good idea to develop a program at the state level that totally revolves around a federal program)

* RI needs to develop a legislative strategy.
 Will is willing to work w/us, Bruce + FHA to develop a draft.

? Set up meeting w/ Al, John A., Will, State

5/8/95
 2-5105 5000
 Strategy - 2-5105 5000
 1-3097

Equity Gap Fin. → NEED INTEREST
 High
 CROP - Prog.?

AG-TIF

Target Fund - WHEED
 Econ.

Contract Fund.

RED.

DOD - Enterprise War. Zone

Ag: Bus. Prop.

300,000 Prop.

- Banker's Assoc. → preliminary thumbs up
- Farm Bureau → preliminary thumbs up
- Keweenaw told Wil that Bobbi was in to see him + she liked the idea

Wil Hughes - will find someone to testify on AB56 - to bring up proposal.

258-4410

FAY



1-25-95 Al, Kim

Wil Hughes, Duane Sievers, Bruce ^{gone} ~~gone~~, _____

CRDP program → WHEDA

WFC
Dan Gorton
Farm Credit

* Primary motivation to participate in program is the subsidy.
Ephemeral need to rebuild agriculture industry (right now 70 yrs. seasoned industry)
- use CRDP program for capital to rebuild - can leverage out a long way

* state provide base - they provide capital

less risk



private lenders

= partnership

Keep program available for those who need it, but use the other element (\$) for those who don't in other areas to help the industry

Take the resources the state already has set aside + decide how to allocate it so we don't lose it

? How much was originally allocated for CRDP

? 10 million

3 groups that would benefit

antiquated technologies that need capital to update

recapitalization of existing facility for next generation

elder farmer that need financing to help in transfer to next gen

* putting responsibility on farmer → lender says I can do it if you want to

* competitive environment so we can compete in environment we have, not big expansions, help get to 100 cows

WHEOA → aq lending program

- keep reserve fund + spending authority
 - design program in addition to CLDP
- challenge WHEOA to satisfy other needs

Ag Finance Subcommittee

Bruce Jones 2-0705

Will Hughes 258-4410

→ keep informed

last hearing

1. \$40 million dollars untapped federal money
2. Bruce Jones' equity gap financing proposal
3. Gronemus' capital gains bill

~~3~~

3/29/95

Kim talked to Bruce Jones - he will draft a memo next week regarding equity-gap financing and tapping into the federal \$ for this proposal

Will Hughes called - wanted to know if we were drafting anything re: equity gap

To do:

1. Wait for Jones' memo
2. ~~Call~~ Schedule a meeting and develop agenda
 - a. Jones' proposal
 - b. Gronemus' bill
 - c. do we want to invite any more speakers (new or those who were invited last time)

~~4-11 - left message for Bruce
(returned)~~

~~4-26 - left message for Bruce~~

program

→ you want to see how it is going to be done

Idea

CRDP - 50% (approx. \$15 mil) for equity gap
(\$10 mil for equity - \$5 mil flexible)

* Bruce - If economy goes bad → you'll need more \$ for guarantees for operating credit → economy gets better, need for operating credit diminishes + need for detooling \$ increases

* we may be looking at a discontinuation of federal farm help; the state may have to step in → right or wrong

[risk - fueling expansion]

* Steve

- keep debt per cow as low as possible
- modernization → technology is farmer's choice
↳ some barns need to be detooled

* Will

helps younger, lower equity borrowers that are taking over these operations that are obsolete
in next 5 yrs. these barns are going to have to be modernized → this fund won't be enough, but this should be a priority for the state to help this transition

* John

- people willing to try must also be willing to put up almost everything they own

Idea

- Pilot program
- state put \$25,000 up for \$200,000 loan - will go a long way toward building a parlor
② 25% of loan not to exceed \$100,000 (if state was only creditor) or \$50,000 if other creditors

- collect a fee to fund risk pool (? 1%)

- put in safeguards so not financing foolish things

service fee for administrative costs

business plan cash flow will weed some things out →

5/30/95

(Kim) Al, John, Stuk, Bruce Jones, Joe Jregonig, Steve Beaver, Will Hughes, Cate Z

Equity Gap

modernizing

Enterprise Development Zone program (DDZ)
Rural Econ. Dev.
TIF

CROP
Contract Fund } WHEOA
Target Fund

ownships,
portions of
cities are targeted
by unemployment
& other figures

* Will → least resistance path, modify CROP
for equity gap financing

- CROP funds are not currently all used

Joe - most ag
areas don't
show high
unemployment

* Cate → all WHEOA's ag programs come from different pots
? 1 aggregate fund

* Will → targeted fund may not be broad-based program we need for
equity gap

audience for equity gap:

- serious about modernizing
- proven track record
- milking 80 cows, want to go to 400 - bank will do so much but
there's a gap - numbers work, but bank leery about
managing risk

(- FHA - provide operating credit)

* Will - 1. Ag be better users of current programs

2. Remove barriers that prevent ag from fitting w/ these programs

- not many new ^{state} programs - make better use w/ what we have

Idea

* Cate - ? State of WI Investment Board

C.D. program
(can't guarantee \$ - SBA possibly guarantee)

Bruce - banks have the \$, it's that they can't justify the risk to regulators