

8

Assembly Hearing Slip

(Please print plainly)

Date: Aug 31 1995

Bill No. _____
Or _____
Subject _____

(Name) Fred Opperman

(Street Address or Route Number) RR2 Box 124

(City & Zip Code) Shawano

(Representing) WI 54166

Speaking in favor:

Speaking against:

Registering in favor:

Registering against:

Speaking for information only;
Neither for nor against:

Please return this slip to a messenger promptly.

Assembly Sergeant at Arms
Room 210 West
State Capitol
Madison, WI 53702

Assembly Hearing Slip

(Please print plainly)

Date: 8/31/95

Bill No. _____
Or _____
Subject Equity Gap Financing

(Name) Paul Zimmerman

(Street Address or Route Number) 7010 Mineral Point Road

(City & Zip Code) Maeshum WI 53705

(Representing) Wisconsin Farm Bureau

Speaking in favor:

Speaking against:

Registering in favor:

Registering against:

Speaking for information only;
Neither for nor against:

Please return this slip to a messenger promptly.

Assembly Sergeant at Arms
Room 210 West
State Capitol
Madison, WI 53702

Assembly Hearing Slip

(Please print plainly)

Date: 8/31/95

Bill No. 4252
Or _____
Subject "Farm Bill"

(Name) KURT R. BAUER

(Street Address or Route Number) 1 E. MAIN # 200

(City & Zip Code) MADISON, WI 53703

(Representing) WISC. BANKERS ASSN.

Speaking in favor:

Speaking against:

Registering in favor:

Registering against:

Speaking for information only;
Neither for nor against:

Please return this slip to a messenger promptly.

Assembly Sergeant at Arms
Room 210 West
State Capitol
Madison, WI 53702

AB556 SA

Assembly Hearing Slip

(Please print plainly)

Date: Aug 31 1995
Bill No. or Subject: Equity Gap Financing proposal LRB 4252-1
(Name): John Manske
(Street Address or Route Number): 30 W. Mifflin, Suite 401
(City & Zip Code): Madison WI 53703
(Representing): WI Fed. of Co-ops

- Speaking in favor:
- Speaking against:
- Registering in favor:
- Registering against:
- Speaking for information only; Neither for nor against:

Please return this slip to a messenger promptly.

Assembly Sergeant at Arms
Room 210 West
State Capitol
Madison, WI 53702

✓ ①

Assembly Hearing Slip

(Please print plainly)

Date: Aug 31 95
Bill No. or Subject: LRB 4252/1 Farm Program
(Name): Rep. Al Ott
(Street Address or Route Number):
(City & Zip Code):
(Representing):

- Speaking in favor:
- Speaking against:
- Registering in favor:
- Registering against:
- Speaking for information only; Neither for nor against:

Please return this slip to a messenger promptly.

Assembly Sergeant at Arms
Room 210 West
State Capitol
Madison, WI 53702

③

Assembly Hearing Slip

(Please print plainly)

Date:
Bill No. or Subject: FARM
(Name): Fritz Ruf (Ruf)
(Street Address or Route Number): executive director
(City & Zip Code): W HEDA
(Representing):

- Speaking in favor:
- Speaking against:
- Registering in favor:
- Registering against:
- Speaking for information only; Neither for nor against:

Please return this slip to a messenger promptly.

Assembly Sergeant at Arms
Room 210 West
State Capitol
Madison, WI 53702

4

Assembly Hearing Slip

(Please print plainly)

Date: 8-31-95

Bill No. _____
Or
Subject Ag Finance

DAVID J. LEPAK
(Name)

1 S. ~~W~~EDA Parkway
(Street Address or Route Number)

~~Attn~~ Madison WI 53701
(City & Zip Code)

W HEDA
(Representing)

Speaking in favor:

Speaking against:

Registering in favor:

Registering against:

Speaking for information only;
Neither for nor against:

Please return this slip to a messenger promptly.

Assembly Sergeant at Arms
Room 210 West
State Capitol
Madison, WI 53702

5

Assembly Hearing Slip

(Please print plainly)

Date: _____

Bill No. _____
Or
Subject FARM

Cate Zewske
(Name)

(Street Address or Route Number)

(City & Zip Code)

W HEDA (deputy)
(Representing)

Speaking in favor:

Speaking against:

Registering in favor:

Registering against:

Speaking for information only;
Neither for nor against:

Please return this slip to a messenger promptly.

Assembly Sergeant at Arms
Room 210 West
State Capitol
Madison, WI 53702

6

Assembly Hearing Slip

(Please print plainly)

Date: Aug 31-1995

Bill No. _____
Or
Subject FARM Program

MIKE KRUTZA
(Name)

611 S. 32 Ave
(Street Address or Route Number)

WAUSAU, WI
(City & Zip Code)

FARM CREDIT Services
(Representing)

Speaking in favor:

Speaking against:

Registering in favor:

Registering against:

Speaking for information only;
Neither for nor against:

Please return this slip to a messenger promptly.

Assembly Sergeant at Arms
Room 210 West
State Capitol
Madison, WI 53702

①

Assembly Hearing Slip

(Please print plainly)

Date: 8/31/95
 Bill No. _____
 Or _____
 Subject: FARM program

 (Name) DWANE SIEVERS

 (Street Address or Route Number) W9133 BLUE SPRUCE

 (City & Zip Code) CAMBRIDGE, WI 53523

 (Representing) M.F. BANKS

- Speaking in favor:
- Speaking against:
- Registering in favor:
- Registering against:
- Speaking for information only; Neither for nor against:

Please return this slip to a messenger promptly.
 Assembly Sergeant at Arms
 Room 210 West
 State Capitol
 Madison, WI 53702

②

Assembly Hearing Slip

(Please print plainly)

Date: 31 Aug 95
 Bill No. _____
 Or _____
 Subject: Farm

 (Name) Everett Chambers

 (Street Address or Route Number) Rt 2 Box 133

 (City & Zip Code) Lomah WI

 (Representing) Kabnia Consulting

- Speaking in favor:
- Speaking against:
- Registering in favor:
- Registering against:
- Speaking for information only; Neither for nor against:

Please return this slip to a messenger promptly.
 Assembly Sergeant at Arms
 Room 210 West
 State Capitol
 Madison, WI 53702

**Requested to speak near the end*

③

Assembly Hearing Slip

(Please print plainly)

Date: Aug 31, 1995
 Bill No. _____
 Or _____
 Subject: FARM PROGRAM

 (Name) BRUCE JONES

 (Street Address or Route Number) WW CENTER FOR PRESERVATION

 (City & Zip Code) 215 PN 501

 (Representing) WW MADISON

- Speaking in favor:
- Speaking against:
- Registering in favor:
- Registering against:
- Speaking for information only; Neither for nor against:

Please return this slip to a messenger promptly.
 Assembly Sergeant at Arms
 Room 210 West
 State Capitol
 Madison, WI 53702

Assembly Committee on Agriculture

Ag. Comm.

DATE 9-14-95

Moved by Zukowski Seconded by Wilder

AB 556 SB _____ Clearinghouse Rule _____

AJR _____ SJR _____ Appointment _____

A _____ SR _____ Other _____

A/S Amdt _____

A/S Amdt _____ to A/S Amdt _____

* A/S Sub Amdt _____

A/S Amdt _____ to A/S Sub Amdt _____

A/S Amdt _____ to A/S Amdt _____ to A/S Sub Amdt _____

Be recommended for:

- Passage
- Introduction *Sub. Amend. as rec. by Sub-Comm.*
- Adoption
- Rejection
- Indefinite Postponement
- Tabling
- Concurrence
- Nonconcurrence
- Confirmation

inc. 3 basic amend. 1628, 1629, 1650

	Committee Member	Aye	No	Absent	Not Voting
1.	Ott, Alvin (Chair)	✓			
2.	Ward, David (Vice-Chair)	✓			
3.	Ainsworth, John	✓			
4.	Zukowski, Robert	✓			
5.	Otte, Clifford	✓			
6.	Skindrud, Richard	✓			
7.	Hahn, Eugene	✓			
8.	Olsen, Luther	✓			
9.	Gronemus, Barbara			✓	
10.	Baldus, Al	✓			
11.	Reynolds, Martin	✓			
12.	Springer, Thomas	✓			
13.	Wilder, Michael	✓			
14.	Dueholm, Robert	✓	✓		
15.					
16.					
17.					
18.					
Totals		13	0	1	

MOTION CARRIED

MOTION FAILED

Assembly Committee on Agriculture

Ag. Comm.

DATE 9-14-95

Moved by OH Seconded by Ainsworth

AB 556 SB _____ Clearinghouse Rule _____

AJR _____ SJR _____ Appointment _____

A _____ SR _____ Other _____

A/S Amdt _____

A/S Amdt _____ to A/S Amdt _____

* A/S Sub Amdt _____

A/S Amdt _____ to A/S Sub Amdt _____

A/S Amdt _____ to A/S Amdt _____ to A/S Sub Amdt _____

Be recommended for:

Passage

Introduction

Adoption *of Sub.*

Rejection

Indefinite Postponement

Tabling

Concurrence

Nonconcurrence

Confirmation

	Committee Member	Aye	No	Absent	Not Voting
1.	Ott, Alvin (Chair)	✓			
2.	Ward, David (Vice-Chair)	✓			
3.	Ainsworth, John	✓			
4.	Zukowski, Robert	✓			
5.	Otte, Clifford	✓			
6.	Skindrud, Richard		✓		
7.	Hahn, Eugene	✓			
8.	Olsen, Luther	✓			
9.	Gronemus, Barbara			✓	
10.	Baldus, Al	✓			
11.	Reynolds, Martin		✓		
12.	Springer, Thomas	✓			
13.	Wilder, Michael	✓			
14.	Dueholm, Robert		✓		
15.					
16.					
17.					
18.					
Totals		10	3	1	

MOTION CARRIED

MOTION FAILED

Assembly Committee on Agriculture

Ag Comm.

DATE 9-14-95

Moved by Olsen Seconded by Ward

AB 556 SB _____ Clearinghouse Rule _____

AJR _____ SJR _____ Appointment _____

A _____ SR _____ Other _____

A/S Amdt _____

A/S Amdt _____ to A/S Amdt _____

* A/S Sub Amdt _____

A/S Amdt _____ to A/S Sub Amdt _____

A/S Amdt _____ to A/S Amdt _____ to A/S Sub Amdt _____

Be recommended for:

Passage of Sub. Amd.

Introduction

Adoption

Rejection

Indefinite Postponement

Tabling

Concurrence

Nonconcurrence

Confirmation

	Committee Member	Aye	No	Absent	Not Voting
1.	Ott, Alvin (Chair)	✓			
2.	Ward, David (Vice-Chair)	✓			
3.	Ainsworth, John	✓			
4.	Zukowski, Robert	✓			
5.	Otte, Clifford	✓			
6.	Skindrud, Richard		✓		
7.	Hahn, Eugene	✓			
8.	Olsen, Luther	✓			
9.	Gronemus, Barbara			✓	
10.	Baldus, Al	✓			
11.	Reynolds, Martin		✓		
12.	Springer, Thomas	✓			
13.	Wilder, Michael	✓			
14.	Dueholm, Robert		✓		
15.					
16.					
17.					
18.					
Totals		10	3	1	

MOTION CARRIED

MOTION FAILED

1995 Session

LRB or Bill No./Adm. Rule No.

4252/1

AB556

Amendment No. if Applicable

ORIGINAL
CORRECTED

UPDATED
SUPPLEMENTAL

ESTIMATE

DATE (R 10/94)

Subject: WHEDA Loan Guarantee Program for Acquisition of Farm Assets

Fiscal Effect

State: No State Fiscal Effect

Check columns below only if bill makes a direct appropriation or affects a sum sufficient appropriation

Increase Costs - May be possible to Absorb Within Agency's Budget Yes No

Increase Existing Appropriation
Decrease Existing Appropriation
Create New Appropriation

Increase Existing Revenues
Decrease Existing Revenues

Decrease Costs

Local: No local government costs

- 1. Increase Costs
 Permissive Mandatory
- 2. Decrease Costs
 Permissive Mandatory

- 3. Increase Revenues
 Permissive Mandatory
- 4. Decrease Revenues
 Permissive Mandatory

5. Types of Local Governmental Units Affected:
- Towns Villages Cities
 - Counties Others
 - School Districts VTAE Districts

Fund Sources Affected

GPR FED PRO PRS SEG SEG-S

Affected Ch. 20 Appropriations

NA

Assumptions Used in Arriving at Fiscal Estimate

The creation of the farm assets reinvestment management loan guarantee program, if enacted will have no fiscal impact on the Department of Agriculture, Trade and Consumer Protection (DATCP).

This bill would authorize WHEDA to use part or all of the \$650,000 in the agricultural chemical cleanup loan guarantee program under s.234.87. The \$650,000 was established to be used to guarantee loans for cleanups of agricultural chemicals. The use of part or all of the \$650,000 could affect those responsible for performing cleanups of agricultural chemicals due to the fact that this money was set aside so that loans could be provided to pay for cleanup costs. Currently, the money set aside for agricultural chemical cleanup has not been used. The loan guarantee program was established in February 1995.

Funding of the agricultural chemical cleanup loan guarantee program was derived from the agricultural chemical cleanup industry.

Long-Range Fiscal Implications

None

Agency/Prepared by: (Name & Phone No.)

DATCP/Tom Thompson 224-4522

Authorized Signature/Telephone No.

Barbara Knapp 224-4746

Date

9/8/95

M&I Bank of Cambridge

102 Main Street/P.O. Box 7/Cambridge, WI 53523-0007/Tel 608 423-3241

Al -
File or what?

April 11, 1995

**State Representative Alvin Ott
P. O. Box 8953
Madison, WI 53708**

Dear Representative Ott:

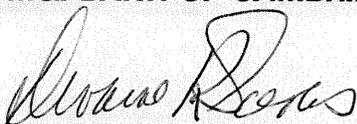
Enclosed is an article from Agri Finance magazine of March, 1995. It describes what Illinois is doing in the are of Guarantees for agricultural loans.

To date, Illinois has issued 1,000 loans totaling \$192,000,000. Losses have been 1.25% or a total of \$240,000 over eight years, an average of \$30,000 per year (not a bad investment to serve 1,000 farmers).

Please call me if I can provide any other information for you. Al, I sincerely, appreciate your efforts on behalf of our ag community.

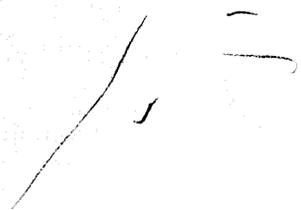
Sincerely,

M&I BANK OF CAMBRIDGE


**Dwaine R. Sievers
President**

DRS:mls

Enclosure



FOCUS ON FINANCE



The state of Illinois has initiated two guarantee programs that get raves for user-friendliness.

GOVERNMENT GUARANTEES THAT WORK

The state of Illinois has a program that other states may want to copy to fill the gaps left by limited FmHA funding. Under the Illinois Farm Development Authority (IFDA), they have initiated two guarantee programs that get raves for user-friendliness.

The Young Farmer Guarantee Program is designed to assist farmers in the purchase of capital assets at a reduced rate of interest. The loans are actually made by local banks and guaranteed by the IFDA for 85% of their principal and interest.

Qualified applicants must be a bona fide operator of a farm with more than 50% of their gross revenues coming from farming. Other requirements are: (1) net worth must be between \$10,000 and \$250,000, (2) the borrower's debt-to-asset ratio must be between 40% and 70% after the purchase, (3) collateral must be adequate for the loan; and (4) there must be sufficient cash flow for repayment of the loan.

Loan funds are supposed to be used for new purchases of farmland, buildings, machinery, breeding livestock and other capital assets. However, under certain circumstances, it is permitted to refinance some existing debt to improve a lien position. Any refinanced debt cannot exceed 50% of the total loan.

The maximum loan amount is \$300,000, with a maximum term of 15 years. Real estate loans may carry a 30-year amortization schedule, but still balloon at the end of the fifteenth year. Rate caps have been established at 1.25% over national prime for loans with an annually variable rate and 3% over three- or five-year Treasury Notes for loans that are fixed for three and five years.

The second program is the State Guarantee Program for Restructuring Agricultural Debt. David Wirth, executive director of the IFDA claims, "The restructuring program is designed to consolidate and spread out a farmer's existing debt over a longer term pay-back at a fair rate of interest. These loans have an 85% guarantee of prin-

cipal and interest."

Because these loans are used for refinancing existing debt, an eligible borrower's debt-to-asset ratio must fall between 40% and 65%. The borrower must also provide adequate collateral, demonstrate sufficient repayment ability and derive more than 50% of his gross income from farming.

Restructuring loans must be repaid in 10 years or less, depending on the service life of the collateral. When real estate is used for security, the loan may have a 30 year amortization with a 10-year balloon.

The maximum amount of the restructured loan is \$300,000. There are interest rate caps set at 2.5% over the one-year Treasury Bill for loans with an annually variable rate, and 3.5% over the three- or five-year Treasury Note for loans that are fixed for three or five year periods.

Although lenders absorb the first 15% of the loss on these loans, the Illinois State Banking Department accepts the IFDA guarantees just as they do FmHA guarantees. Thus, the 85% guaranteed portion of these loans do not count against a borrower's loan limit. This has allowed many small banks to

continue financing long-term customers as their operations grow.

IFDA applications are easy to fill out. They run 11 pages which includes two pages that are mostly text, a cover sheet for real estate appraisals and a two-page environmental review sheet (used for real estate loans). Each loan application is accompanied by a non-refundable \$300 application fee.

At closing, borrowers pay an additional .75% loan closing fee, less the \$300 already paid. The IFDA gets two-thirds of the closing fee (or .5% of the loan) and the bank keeps one-third (or .35% of the loan). The bank is not allowed to charge any other application or closing fees. However, the borrower is responsible for all costs associated with abstracting, title examination, appraisals, and recording fees.

Wirth believes the program has been good for Illinois Farmers. He says, "the Guaranteed Programs are really an incremental credit enhancement - they will not make bad loans good. Nor will they permit you to loan someone money who should not have it." In fact, losses have been relatively modest. Over an eight-year lifespan, combined losses have been only 1.25% of the total \$194 million in Restructuring Program loans.

By law, the total outstanding balance of loans under the Beginning Farmer Guarantee Program cannot exceed \$35 million. The total outstanding under the "Restructuring Program" cannot exceed \$160 million. Since the programs began, more than 1,000 applications totaling \$192 million have been approved.

Generally, the IFDA will get about five to 10 applications per month for the Debt Restructuring Program and two to three applications for the Beginning Farmer Guarantee Program. That's in addition to the applications they receive for the Beginning Farmer Bond Program, which uses tax exempt bond financing. For further information on all the IFDA programs, please call IFDA at 217-782-5792. AF

Leslie Miller is vice president, Iowa State Savings Bank, Knoxville, Iowa.



3pm Tues. 8/8

WISCONSIN FEDERATION OF COOPERATIVES • 30 West Mifflin Street, Suite 401 • Madison, WI 53703 • Phone (608) 258-4400

Date: July 31, 1995

To: Kim Riese
Dave Stute

From: Will Hughes

Re: Farm Reinvestment Loan Guarantee Draft

FARM

talk to John in am. →
AI - OK
John -
Stute - OK
Will OK
Bruce OK
Case - OK

Tues. 8/8
3:00 pm

Farm Assistance Reinvestment
Money (or) Mortgage Guarantee

I circulated the first draft of the *farm reinvestment loan guarantee* to Mike Krutza, Dan Gorton, and Jack Ourada of Farm Credit Services and Dwaine Sievers of M&I Cambridge and Mark Binversie of Firstar. I received responses from everyone except Mark Binversie. Bruce Jones's response (including his response to this memo) is attached.

General The feedback is positive in that generally the program will help, the draft is very close to what was expected, and that moving forward is desirable.

Specific Comments

S. 234.91 line 12- need to replace production credit association with *farm credit service* or add *federal land credit associations and agricultural credit associations* in order to capture all of farm credit within the participating lender definition.

Also S. 234.91 line 12 - question whether owner/financing should be eligible since they are parties to the transaction. Recommend excluding land contract loans from eligibility (this will need discussion from a group).

S. 234.91 (2) (a) - need to clarify the language to allow not just the purchase of agricultural assets but also include labor costs associated with construction. Suggested language: ...to finance the acquisition of agricultural assets *or costs of improvement to agricultural assets.*

S. 234.91 (2) (c) - multiple loans should be allowed but the maximums should apply to one farmer.

S. 234.91 (2) (g) - it would be useful to define the priority order in collection when an FmHA or SBA loan is also applicable. The current draft is not clear whether the participating lender satisfies the first lien requirement without separating for FmHA or SBA guarantees, or whether the first security lien must be separately identified. It would be preferable and more workable to not have to separate collateral from other guarantees. (Note: we need to consult with WHEDA on this and perhaps also with FmHA and SBA) See the attached example.

S.234.91 (2) (g) - secondary loans should be allowed also.

S. 234.91 (2) (h)- some exception may be needed for a case where a pre-existing land contract would be folded into a new reinvestment loan or where a bridge loan was in place. (Note: this should be discussed in a group review meeting)

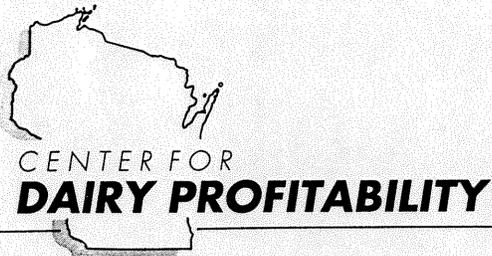
S. 234.91 (3) (a) - a simple flat fee of 1.0 percent was suggested rather than complicating the fee schedule. WHEDA needs to be consulted on fee amount.

S. 234.91 (3) (b) 1. line 7, page 3- structuring loan repayment based upon a single annual interest payment is contrary to conventional lending practices. Most loans are based on monthly interest and principal payments. The preference would be to leave some flexibility in payment schedules. There may be a need to limit the length of amortization according to use of loan- this should be discussed.

S. 234.91 (3) (b) 2. - the interpretation of this section is that the original percent of guarantee remains constant through out the loan; is that correct?

I have attempted to consolidate the comments I have received into the above. I will circulate these comments again with the suggestion that we get together as a group as soon as you folks are ready. I am assuming that you can redraft before a group meeting where we will use the group to provide final draft recommendations.

Please let me know what would work best for you.



UNIVERSITY OF WISCONSIN-EXTENSION
UNIVERSITY OF WISCONSIN-MADISON
UNIVERSITY OF WISCONSIN-PLATTEVILLE
UNIVERSITY OF WISCONSIN-RIVER FALLS

DATE: July 27th, 1995
TO: Kim Riess
Dave Stute
FROM: Bruce L. Jones
RE: Farm Loan Guarantee Program

I have reviewed the first draft of the Farm Loan Guarantee Program and Will Hughes' comments. Below you will find my reactions to the draft and Will's comments. I hope my thoughts are useful.

I think we are well on our way to developing a valuable credit program for Wisconsin farmers. You are to be commended for your contributions to this effort.

Comments:

234.91 (2)(d) 10 years facilities or land; 5 years everything else.

234.91 (2)(g) (Reaction to Hughes comment) Perhaps we should say WHEDA guarantees will be paid after other guarantees are exhausted (i.e., SBA & FHA).

234.91 (2)(h) (Reaction to Hughes comment) Land contract is existing financing. Only new investments should qualify for WHEDA guarantee.

234.91 (3) (a) (Reaction to Hughes comment) Suggested fee schedule:

1% of guarantee funds when the funds are \$50,000 or less

1.5% of guarantee funds when funds exceed \$50,000

234.91 (3) (b) 1 - Set guarantee amount at start of year and collect fee on full amount at the start of the year.

234.91 (3) (b) 2 - Adjust guarantee amount annually in order to determine guarantee fee each year.

**Office of the Director • 282 Animal Sciences Bldg. • 1675 Observatory Dr. • Madison, WI 53706
Phone (608) 263-5665 • FAX (608) 262-9017 • INTERNET: DAIRYPROFIT@WISPLAN.UWEX.WISC.EDU**

University of Wisconsin, United States Department of Agriculture and Wisconsin Counties Cooperating.
UW-Extension provides equal opportunities in employment and programming, including Title IX requirements.



ALVIN R. OTT

State Representative
3rd Assembly District

NEWS RELEASE

FOR IMMEDIATE RELEASE
FOR FURTHER INFORMATION CONTACT:
State Representative Al Ott

August 16, 1995

(608) 266-5831
(414) 989-1240

NEW AGRICULTURAL LOAN GUARANTEE PROPOSAL TO BE DEBATED

Madison...A proposal to provide a loan guarantee from the state for loans made to farmers who are reinvesting, upgrading or modernizing their operation will be debated by the Joint Subcommittee on Ag Finance and Reinvestment which is co-chaired by State Representatives Al Ott (R-Forest Junction) and John Ainsworth (R-Shawano).

Members of the subcommittee will be listening to testimony from anyone who attends the hearing and wishes to speak on Thursday, August 31 at 9:00am in Room 1 (in the basement) of 119 Martin Luther King, Jr. Boulevard (the same building which housed the temporary Assembly Chambers).

The proposal, dubbed the farm asset reinvestment management (FARM) program, is a result of a previous public hearing held by the subcommittee at which time individuals representing various areas of agricultural finance were invited to address the members regarding farmers' financial needs that were not being met. One issue in particular that was raised was the "equity gap" issue. Speakers brought up concerns about the group of farmers who are serious about modernizing and have a proven track record, however, some banks aren't ready to manage the risk involved with major reinvestment in farms. The FARM proposal is being developed to help fill this "gap" and alleviate some of the risk for lenders.

Under the proposal, the loan guarantee program would be administered by the Wisconsin Housing and Economic Development Authority (WHEDA), much like the CROP loan guarantee program which has been very successful. Loans are to be made to farmers currently operating farm premises to finance the acquisition of agricultural assets or the costs of improvements to agricultural assets.

Interested farmers, lenders and other persons are encouraged to attend the hearing and offer their opinions.



Office:
318 North
P.O. Box 8953, State Capitol
(608) 266-5831

**Toll-free
Legislative Hotline:**
1 (800) 362-9472

Home:
P.O. Box 112
Forest Junction, Wisconsin 54123
(414) 989-1240

SUBMITTAL FORM

LEGISLATIVE REFERENCE BUREAU Legal Section Telephone: 266-3561 5th Floor, 100 N. Hamilton Street

The attached draft is submitted for your inspection. Please check each part carefully, proofread each word, and sign on the appropriate line(s) below.

Date: 8/21/95

To: Representative Ott

Relating to LRB drafting number: LRB-4252

Topic

Creation of a loan guarantee program for farm asset reinvestment

Subject(s)

Econ. Development - misc.

1. **JACKET** the draft for introduction _____

in the **Senate** ____ or the **Assembly** ____ (check only one). Only the requester under whose name the drafting request is entered in the LRB's drafting records may authorize the draft to be jacketed. Please allow one day for the preparation of the required copies.

2. **REDRAFT.** See the changes indicated or attached _____.

A revised draft will be submitted for your approval with changes incorporated.

3. Obtain **FISCAL ESTIMATE NOW**, prior to introduction _____.

If the analysis indicates that a fiscal estimate is required because the proposal makes an appropriation or increases or decreases existing appropriations or state or general local government fiscal liability or revenues, you have the option to request the fiscal estimate prior to introduction. If you choose to introduce the proposal without the fiscal estimate, the fiscal estimate will be requested automatically upon introduction. It takes about 10 days to obtain a fiscal estimate. Requesting the fiscal estimate prior to introduction retains your flexibility for possible redrafting of the proposal.

If you have any questions regarding the above procedures, please call 266-3561. If you have any questions relating to the attached draft, please feel free to call me.

Pamela J. Kahler, Legislative Attorney
Telephone: (608) 266-2682



~~Rep Harsdorf~~ ~~Rep Smith~~
ALVIN R. OTT

State Representative
3rd Assembly District

To: All Legislators
From: Representative Al Ott
Date: August 30, 1995
Re: LRB 4252/1 - relating to a loan guarantee program for the acquisition or improvement of farm assets (Farm Asset Reinvestment Management program)

~~Sen Rode~~
~~Sen Clausen~~
~~Rep Kreibich~~ ~~Rep Olsen~~
~~Sen Decker~~ ~~Rep Mosser~~
~~Rep Hahn~~ ~~Rep Green~~

I am introducing LRB 4252/1 as the result of testimony heard by the Joint Subcommittee on Ag Finance & Reinvestment which is co-chaired by Representative Ainsworth and myself.

LRB 4252/1, also known as the F.A.R.M. proposal, seeks to address an "equity gap" problem facing farmers with a proven track record who are serious about reinvesting and/or expanding their operation. However, a problem arises when the lender isn't quite ready to manage the risk involved with reinvesting. The loan guarantee program will be administered by WHEDA, much like the very successful CROP program.

I have worked with Cate Zeuske at WHEDA, Will Hughes of the Wisconsin Federation of Cooperatives and Bruce Jones at UW-Madison to develop the F.A.R.M. proposal. For further information on the bill, please refer to the LRB analysis below.

If you would like to cosponsor LRB 4252/1, please contact my office at 266-5831 by Wednesday, September 6th.

Analysis by the Legislative Reference Bureau

Under current law, the Wisconsin Housing and Economic Development Authority (WHEDA) guarantees collection of loans from the Wisconsin development reserve fund (fund) for the recycling, stratospheric ozone protection, clean air, small business, business improvement, targeted development, nonpoint source pollution abatement and agricultural chemical cleanup, agricultural production, agricultural production drought assistance, agricultural development and cultural and architectural landmark loan guarantee programs. This bill creates a farm assets reinvestment management loan guarantee program.

- OVER -



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Ranking Member: Agriculture, Forestry and Rural Affairs / Member: Environmental Resources; Labor and Job Training

The bill authorizes WHEDA to guarantee collection from the fund of a portion of the principal of an eligible loan made to an eligible borrower by a participating private lender. For any eligible loan, the principal amount that WHEDA may guarantee may not exceed the borrower's net worth or 25% of the loan principal, whichever is less. An eligible borrower is a farmer who is currently operating farm premises and whose debts do not exceed 85% of the farmer's assets. An eligible loan is one for the acquisition of agricultural assets, defined as machinery, equipment, facilities, land or livestock, or for the cost of improvements to facilities or land. The agricultural assets must be purchased, and the improvements must be made, for agricultural purposes. The total outstanding guaranteed principal amount of all loans to an individual borrower that WHEDA may guarantee under the program may not exceed \$100,000, or \$50,000 if any of the loans is affected by any other state or federal credit assistance program. The bill specifies that WHEDA must charge an annual service fee for each loan guarantee, to be deposited in the fund to back up loan guarantees under the program. The amount of the fee is based on the outstanding guaranteed principal amount. The bill also limits the term of a guarantee to 5 years if the loan is for the acquisition of machinery, equipment or livestock or for improvements to facilities or land. The term may not exceed 10 years if the loan is for the acquisition of facilities or land.

The total outstanding guaranteed principal amount of all loans that WHEDA may guarantee under the program may not exceed \$10,000,000. The bill reduces the total outstanding principal amount of all loans that WHEDA may guarantee under the agricultural production loan guarantee program (CROP) from \$30,000,000 to \$20,000,000. Additionally, the bill provides that, if there is a difference between the amount actually guaranteed and the maximum amount that WHEDA may guarantee under the stratospheric ozone protection loan guarantee program, the clean air loan guarantee program or the nonpoint source pollution abatement and agricultural chemical cleanup loan guarantee program, WHEDA may increase the amount that it guarantees under the new program by the amount of any such differences. The amount that WHEDA may guarantee under any of the specified programs must then be reduced by the amount by which the total guaranteed principal amount under the new program was increased on account of the difference under the specified program between its guarantee limit and the amount actually guaranteed.

For further information see the *state* fiscal estimate, which will be printed as an appendix to this bill.



WISCONSIN HOUSING AND ECONOMIC DEVELOPMENT AUTHORITY

Fritz Ruf
Executive Director

Tommy G. Thompson
Governor

Edwin J. Zagzebski
Chairman

August 31, 1995

Testimony of Fritz Ruf, Executive Director
Wisconsin Housing and Economic Development Authority (WHEDA)

Joint Subcommittee on Agricultural Finance and Reinvestment
LRB Number 4252: Farm Asset Reinvestment Management Fund

Chairmen Ott and Ainsworth and members of the Joint Subcommittee on Agricultural Finance and Reinvestment, thank you for this opportunity to testify on LRB Number 4252, a bill creating FARM, or the farm asset reinvestment management fund.

This bill would create in WHEDA a loan guarantee program to help farmers upgrade and modernize their operations. It is our understanding that this program would be directed to farmers with a proven track record and desire to expand their operations. We agree that the market would support such a program and it would complement Governor Thompson's Dairy 2020 Initiative.

WHEDA's earliest economic development activity was in agricultural finance. We have operated the CROP Fund since 1985 and have served more than 16,000 farmers with agricultural production loan guarantees. We offer the Beginning Farmer Bond Program through Wisconsin lenders and have made loans totaling more than \$1.5 million. We also offer the Agribusiness Fund to help processors and marketers of Wisconsin's raw agricultural commodities. We are experienced in agricultural finance issues and believe we could effectively administer the FARM Fund.

Having reviewed the draft legislation, I am compelled to make a two observations about FARM that may be of interest to this subcommittee.

First, the amount of money to be guaranteed under FARM would be substantially higher than that guaranteed through the CROP Fund. FARM guarantees could be as much as \$100,000 on a \$400,000 loan. Conversely, the maximum CROP guarantee is \$18,000 on a \$20,000 loan. This distinction is an important one.

Page Two

WHEDA has a responsibility to Wisconsin's taxpayers to prudently underwrite and approve all loan guarantees made through the Wisconsin Development Reserve Fund. As the guarantee amount on an individual project rises, our review becomes more in depth. Therefore, this committee should not assume that WHEDA will administer the FARM Fund in the same way CROP is operated. Our Board and staff will take a much closer look at FARM guarantees simply because the amount of risk on an individual project is much higher.

Second, FARM would be funded with resources now dedicated to the CROP Fund. WHEDA is presently able to guarantee CROP loans in the total amount of \$30 million. We have in recent years been operating in the \$25-\$27 million dollar range. As FARM Fund activity rises toward the \$10 million limit, the amount available in a given year through CROP will decrease. This trade-off may ultimately have an effect on some farmers seeking financing through CROP.

In conclusion, FARM is a program that WHEDA can market and operate for the benefit of those farmers seeking to reinvest in their operations. We appreciate Chairman Ott's leadership on this issue and I would be happy to answer any questions.

~~A~~ Brief Discussion of the Farm Assets Reinvestment Management (F.A.R.M) Program

Prepared by
Bruce L. Jones, Director, UW Center for Dairy Profitability
August 31, 1995

SITUATION

Established farming operations need to invest in efficient technologies and/or expend operations to allow for the entry of the next management team for the farm businesses.

In many cases these farmers have the ability to generate profits and positive cash flows but lenders are reluctant to extend credit to these farmers because their debt to asset positions would rise to unacceptable levels. These "high" debt to asset positions are directly related to these farmers' lack of equity capital.

STATE RESPONSE

Guarantee program that will fill the "equity-gap" that is preventing some farmers from obtaining the loans they need to invest in assets such as dairy cows, machinery, equipment, facilities, and real estate.

PROS AND CONS OF PROPOSED PROGRAM

PROS

- 1) No new funding since this program uses guarantee funds that were previously authorized for WHEDA C.R.O.P.
- 2) Limited total loss exposure -- @ \$10 million
- 3) Leverages state dollars by limiting guarantees to the lesser of 25 percent of a loan or the net worth of the borrower. A lender allows has the option of extending more credit if the lender is willing to take the risk (i.e., guarantee equals 20 % of loan amount).
- 4) No need for state to establish lending agency because lenders will make and service loans.

- 5) Program is likely to be self funding since administrative and operating cost will be covered by "service fee".
- 6) Controls on program easily implemented
 - A) Limit on total program
 - B) Limit on individual loan guarantee
 - C) Underwriting standards easily monitored on loans

CONS

- 1) Program comes at the expense of WHEDA CROP loans
- 2) Greater loss exposure in individual loan than with WHEDA CROP (\$100,000 vs \$20,000)
- 3) Could allow some farmers to get into "high risk" situations that could be stressful if the agricultural economy weakened
- 4) Only a limited number of farmers will be helped by this program (\$10,000,000 distributed at a rate of \$100,000/farm will allow 100 farms to obtain credit through this program)
- 5) Time commitment on the loans extends beyond one year which means loan funds may not be available for a period of two or three years.



WISCONSIN LEGISLATIVE COUNCIL STAFF MEMORANDUM

One East Main Street, Suite 401; P.O. Box 2536; Madison, WI 53701-2536
Telephone (608) 266-1304
Fax (608) 266-3830

DATE: September 11, 1995
TO: MEMBERS OF THE SUBCOMMITTEE ON AGRICULTURE FINANCE
AND REINVESTMENT
FROM: Dave Stute, Director
SUBJECT: Follow-Up to August 31, 1995 Public Hearing

This memorandum, prepared at the request of the Cochairpersons of the Subcommittee on Agriculture Finance and Reinvestment, takes up topics discussed by the Subcommittee at the conclusion of its August 31, 1995 public hearing on Assembly Bill 556, relating to a loan guarantee program for the acquisition or improvement of farm assets. This memorandum first responds to a question raised by Representative Skindrud; then discusses an amendment requested by the Committee; and concludes with a list of other possible changes which were suggested in the course of the public hearing on Assembly Bill 556.

1. Question of Representative Skindrud

Assembly Bill 556, among other things, proposes to utilize the unused \$650,000 of guarantee capacity provided to the agricultural chemical cleanup loan guarantee program under s. 234.87, Stats. Representative Skindrud inquired as to the relationship between this program and the agricultural chemical spill fund funded by checkoffs and fees on agricultural chemicals.

There is no relationship between the two programs. The agricultural chemical cleanup loan guarantee program is administered by the Wisconsin Housing and Economic Development Authority (WHEDA) and is funded from the Wisconsin Development Reserve Fund under s. 234.93, Stats. At the time this loan guarantee program was enacted in 1991, sufficient funds were appropriated to WHEDA to underwrite the loan guarantees newly made available. These funds, which were placed in the Development Reserve Fund, are under the control of WHEDA, which is an independent entity separate from the state.

The Agrichemical Management Fund is a separate, nonlapsible trust fund under s. 25.465, Stats. It consists of the proceeds of various license and user fees imposed under ss. 94.64, 94.65, 94.68, 94.685, 94.703, 94.704, 94.705, 94.72 and 94.73, Stats., relating to the fertilizer, soil and plant additives, pesticides, commercial feed and agricultural chemical cleanup

programs. These revenues are deposited into the Agrichemical Management Fund and biennially appropriated by the Legislature for agricultural chemical-related programs under s. 20.115 (7), Stats., including agrichemical management, groundwater protection, fertilizer, soil additives and commercial feed regulation, pesticide regulation, administration of the agricultural chemical cleanup program and chemical and container disposal.

2. Proposed Amendment

Attached to this memorandum is a copy of WLCS: 0344/1, which would amend Assembly Bill 556 as follows:

a. Rather than immediately switching \$10 million of guarantee authority from the agricultural production loan guarantee program (commonly referred to as "CROP") to the farm assets reinvestment management loan guarantee program created by the draft ("FARM"), the amendment would phase in the transfer of guarantee authority from CROP to FARM by allowing no more than \$2 million of any unused CROP guarantee authority to be used for the FARM program before July 1, 1997; allowing no more than \$5 million of unused CROP guarantee authority to be used for the FARM program before July 1, 1998; and thereafter allowing no more than \$10 million of unused CROP authority to be used for the FARM program. WHEDA would be directed to manage the CROP and FARM programs in such a fashion that the total amount of loans guaranteed under both programs would never exceed \$30 million, which is the amount of current guarantee authority under the CROP program.

As a practical matter, if the FARM program is enacted, it will not be available to borrowers until sometime in 1996. By that time, CROP-guaranteed lending for the 1996 crop year should be substantially completed and it will be possible to gauge the reduction in demand, if any, from the elimination of the 2% interest rate subsidy by 1995 Wisconsin Act 5. Under the approach taken in the amendment, if there is unused guarantee capacity in the CROP program at the time the FARM program is up and running, no more than \$2 million of such unused capacity may be used for the FARM program before July 1, 1997. This amount and date will:

- (1) Limit the FARM program's initial inroad on CROP's guarantee authority to only 6.7% of total CROP authority.
- (2) Allow for a second (1997 crop year) year's experience under the revised CROP program before increasing the amount of guarantee authority available to the FARM program.
- (3) Give the 1997 Legislature an opportunity to modify one or both programs while the FARM program is still in its initial phase, if the Legislature so desires.

This portion of the proposed amendment is an initial response to the Subcommittee's direction to develop a means of phase-in; obviously, other approaches can be devised.

b. The amendment deletes those portions of the draft which propose to utilize unused loan guarantee authority under the stratospheric ozone protection, clean air, nonpoint source

pollution abatement and agricultural chemical cleanup loan guarantee programs for the FARM program.

3. Other Suggestions

During the course of public testimony on Assembly Bill 556, the following additional suggestions for change were made:

a. Substitute a one-time 1.0% loan guarantee origination fee for the draft's current imposition of an annual service fee of 1.0% for amounts of guaranteed loan not exceeding \$50,000 and 1.5% for amounts of guaranteed loans exceeding \$50,000.

b. Revise the maximum amount of loan guarantee which is available under the FARM program by establishing it at a flat \$100,000, rather than the current \$50,000-\$100,000 maximums, depending on whether other credit assistance programs are used.

c. Revise the draft to clarify that the prohibition on using proceeds of guaranteed loans to refinance any other loan or forbearance does not apply to loan commitments or loans made earlier than the issuance of the FARM-guaranteed loan, but still part of the same loan "package." Such earlier loans would technically be "outstanding" loans.

d. Grant additional flexibility for participating lenders by allowing them to take security interests in all appropriate agricultural assets available to secure the repayment of a guaranteed loan. [The draft currently requires that a security interest be taken in the assets acquired with the guaranteed loan.]

e. Explicitly allow WHEDA to allocate the \$30 million total loan guarantee capacity between the CROP and FARM programs. [The attached amendment, after the completion of the phase-in period, will have that effect.]

Please contact me at the Legislative Council Staff offices if you wish further information or discussion on this topic.

DJS;jt:rjl;kja

Attachment



ALVIN R. OTT

State Representative
3rd Assembly District

To: Assembly Agriculture Committee Members
From: Representative Al Ott, Chairman
Date: September 12, 1995
Re: September 14 executive session

Attached is a memo prepared by Dave Stute, Director of the Wisconsin Legislative Council, which is a follow-up to the August 31 public hearing on AB 556 (F.A.R.M.) held by the Joint Subcommittee on Ag Finance and Reinvestment. At the end of the memo is an amendment to AB 556 which will be discussed by the subcommittee on September 14 prior to the executive session of the Agriculture Committee.

Please review the memo and amendment prior to Thursday. It is my intention to have a recommendation on AB 556 from the subcommittee to the full Agriculture Committee so that we can hold an executive session on AB 556 on Thursday. As was noted earlier, we will also hold an executive session on AB 546 (Right to Farm) on Thursday.

Thank You!

REMINDER: We will be meeting in MLK 1 on Thursday, not the GAR Hall



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Ranking Member: Agriculture, Forestry and Rural Affairs / **Member:** Environmental Resources; Labor and Job Training

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Memorandum

DATE: September 22, 1995

TO: Representatives Al Ott and Luther Olsen

FROM: John Manske, Director of Government Relations

RE: AB 556 and LRB 1630/ I

CC: Michael Krutza, Dan Gorton, Will Hughes & Cate Zeuske

When the Assembly Joint Subcommittee on Ag Finance and Reinvestment made recommendations on AB 556 (FARM) September 14 to the full Assembly Committee on Agriculture, there was discussion on LRB 1630/ I, but no conclusions so the amendment was set aside. LRB 1630/ I would delete on page four of the bill the following: "or \$50,000" on line 15 and all of line 16. (" . . . if any of the loans is affected by any other state or federal credit assistance program.") The effect would be that the loan would be eligible for the guarantee of collection from the WI. development reserve fund if "The total outstanding guaranteed principal amount of all loans made to the borrower that are guaranteed under this section will not exceed \$100,000."

I have talked with Michael Krutza, CEO, Farm Credit Services North Central WI. and Dan Gorton, CEO, Farm Credit Services Western WI., and they both feel strongly that the amendment should be advanced in the Assembly. Including the \$50,000 figure is overly restrictive in that it lessens the value of the program for significant individual farm expansions. In addition, the language as written means that a subordination will typically be required before the lender moves ahead on a loan application, which will add time and cost to the borrower.



Legislative Fiscal Bureau

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September 28, 1995

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Assembly Substitute Amendment 1 to 1995 Assembly Bill 556: Farm Assets Reinvestment Management Loan Guarantee Program

Assembly Substitute Amendment 1 to Assembly Bill 556 would create a farm assets reinvestment management (FARM) loan guarantee program, administered by the Wisconsin Housing and Economic Development Authority (WHEDA). On September 25, 1995, the Assembly Committee on Agriculture adopted ASA 1 on a vote of 10 to 3 and recommended the bill for passage, as amended, on a vote of 10 to 3.

SUMMARY OF ASA 1

Beginning with loans for which applications for guarantee are made after the effective date of the bill, ASA 1 to AB 556 would create a FARM loan guarantee program and require WHEDA to guarantee a portion of the principal of eligible loans made by lenders participating in the program. Funding for FARM loan guarantees would be provided from amounts in WHEDA's Wisconsin Development Reserve Fund (WDRF) that are not being used to fund guarantees under a separate program backed by the WDRF, the agricultural production loan guarantee program, also known as CROP. Under current law, the WDRF backs guaranteed loans made by private lenders under a total of 10 loan guarantee programs (including CROP). The WDRF also funds the administrative costs of the loan guarantee programs and pays interest subsidies for two of the 10 programs -- CROP and the tourism loan guarantee program.

Under ASA 1, FARM loan proceeds could be used to finance, for agricultural purposes, the acquisition of agricultural assets (machinery, equipment, facilities, land, or livestock) or the cost of improvements to facilities or land. Loan proceeds could not be applied to the outstanding balance of any other loan or forbearance. The interest rate and loan terms, including any fees

or charges, would be approved by WHEDA, while the lender would be required to obtain a security interest in the assets of the borrower sufficient to secure repayment of the loan. For loans made to finance the acquisition of machinery, equipment, livestock, or the cost of improvements to facilities or land, the term of WHEDA's loan guarantee could not exceed five years. For loans used to acquire facilities or land, the term of the loan guarantee would be limited to 10 years.

Farmers eligible for a FARM loan guaranteed by WHEDA would be those currently operating farm premises who have debts, including a FARM loan, which do not exceed 85% of the farmer's assets, including the value of the agricultural assets to be acquired or the improvements to be made with the proceeds of the loan. The applicable definition of "farmer" and "farm premises" would be the current law definitions of these terms under the worker's compensation laws. The substitute amendment would require that the lender consider the farmer's assets, cash flow and managerial ability to be sufficient to preclude voluntary or involuntary liquidation during the term of the loan.

Under ASA 1, a participating lender would include a bank, farm credit service (including a production credit association, federal land credit association or agricultural credit association), credit union, savings bank, savings and loan association or other person who makes loans for acquisition or improvement of agricultural assets and who has entered into an agreement with WHEDA. The substitute amendment would specifically exclude a seller under a land contract from the applicable definition of "participating lender."

The substitute amendment would limit the total outstanding principal amount of all FARM loans an individual farmer could receive to \$100,000, or \$50,000 if any of the FARM loans were affected by any other state or federal credit assistance program. In addition, the portion of the principal of an eligible loan that WHEDA could guarantee would be limited to the borrower's net worth or 25% of the total loan amount, whichever is less, calculated at the time the loan is made. For example, if a farmer received a FARM loan totalling \$100,000 and his or her net worth exceeded 25% of this amount or \$25,000, the substitute amendment would limit WHEDA's guarantee to \$25,000.

ASA 1 would also limit the total outstanding guaranteed principal amount of loans to all borrowers that WHEDA could guarantee. Before July 1, 1996, this amount would be the lesser of \$3 million or the difference between \$30 million and the total outstanding principal amount of all loans guaranteed under the CROP program. (The current guarantee authority for the CROP program is \$30 million.) From July 1, 1996, to June 30, 1997, the limit would increase to the lesser of \$5 million or the difference between \$30 million and the total CROP outstanding principal amount, and beginning July 1, 1997, the limit would be established as the lesser of \$10 million or the difference between \$30 million and the total CROP outstanding principal amount. The substitute amendment would reduce the CROP outstanding loan guarantee limit by the total outstanding principal amount that is guaranteed under the FARM program. The effect of these provisions is to limit total outstanding guarantee authority under both the CROP and FARM programs to \$30 million.

In addition, ASA 1 would direct WHEDA to charge a guarantee origination fee on each FARM loan. The amount of the fee would equal 1% of the loan's guaranteed principal and would be collected and remitted to WHEDA by the lender. The substitute amendment directs WHEDA to place the fee revenue in the WDRF to be used to guarantee FARM loans.

Finally, ASA 1 would add a reference to the FARM program to current law provisions which exempt certain WHEDA records from a requirement that such material be open to the public. ASA 1 would also exempt FARM loan guarantees from applicability of the insurance statutes in the same manner as under current law for the other loan guarantee programs administered by WHEDA.

FISCAL EFFECT

ASA 1 to AB 556 requires WHEDA to charge a guarantee origination fee on every FARM loan it guarantees, equal to 1% of the loan's guaranteed principal amount. If a lender makes a loan of \$100,000 (the limit provided for in the substitute amendment), WHEDA is authorized to guarantee, at most, \$25,000 of this amount. The guarantee origination fee required by ASA 1 would equal 1% of this amount, or \$250. This amount would be collected by the lender and forwarded to WHEDA, which would deposit the funds in the WDRF. Because a new program is created by ASA 1, it is not possible to estimate the revenue which WHEDA may receive from this fee. However, if the first year maximum guaranteed outstanding loan principal amount of \$3 million provided in the substitute amendment is reached, WHEDA could guarantee no more than 25% of this amount, or \$750,000, and charge no more than 1% of the guaranteed amount, or \$7,500.

The substitute amendment would not affect the broader issue of a declining WDRF balance and the relationship of this declining balance to WHEDA's ability to guarantee loans under all of the programs backed by the WDRF. This issue was last addressed by the Committee during its executive action on 1995 AB 56 (February, 1995), which converted the CROP program from one requiring reauthorization every two years to a permanent loan guarantee program.

During the Committee's executive action on AB 56, concerns were expressed that payments from the WDRF for loan defaults, interest subsidies under the CROP and tourism loan guarantee programs, and WHEDA's WDRF-related administrative expenses were contributing to a depletion in the level of reserves in the WDRF. This was cause for concern because of WHEDA's recommendation that the WDRF maintain \$1 in reserves for each \$4 in total loan principal and outstanding loan principal that WHEDA was authorized to guarantee. Under this recommended ratio, the total amount of loans WHEDA would be able to guarantee under all of the programs backed by the WDRF would fall as the WDRF was depleted over time.

In response to these concerns, the Committee adopted an amendment to AB 56 which codified WHEDA's recommended 1:4 ratio of WDRF reserves to total principal and outstanding principal which WHEDA is authorized to guarantee under all of the programs backed by the

WDRF. The Committee also amended AB 56 to direct WHEDA to regularly monitor the cash balance in the WDRF and to ensure that the cash balance is sufficient to meet statutory requirements to: (a) pay all outstanding claims under the programs guaranteed by funds from the WDRF; and (b) fund guarantees under all of the programs guaranteed by the WDRF at the 1:4 ratio described above. While these modifications embodied current WHEDA practice, the intent of the amendments was to clarify the Committee's understanding and expectation that WHEDA's ability to guarantee loans under all of the programs backed by the WDRF is restrained by the amount of the WDRF fund balance. Each of these provisions was enacted.

Under ASA 1 to AB 556, funding to back FARM loan guarantees would come from amounts available in the WDRF from unused CROP loan guarantee program authority. Therefore, it is not necessary to provide additional funding to guarantee FARM loans. The substitute amendment also provides an additional revenue source to the WDRF in the form of guarantee origination fees. These two provisions, however, will not be sufficient to reverse the declining balance in the WDRF without other adjustments, unrelated to enactment of the FARM program, to the WDRF. As a result, WHEDA will continue to be required, over time, to reduce the total amount of loans it may guarantee under all of the programs backed by the WDRF to recognize the declining WDRF balance.

Prepared by: Jim Auron

FAX**Date** 10/04/96**Number of pages including cover sheet****TO:** Bruce Jones
Will Hughes**FROM:** Mike Krutza
FARM CREDIT
SERVICES OF NCWI**Phone** 608-258-4407**Fax Phone** 608-262-9017**Phone** 715-842-2211**Fax Phone** 715-842-9561**CC:****REMARKS:** Urgent For your review Reply ASAP Please Comment

Briefly we discussed this past week current flaws in the Wheda FARM program. Those flaws are characterized in a couple of categories--FIRST--legislative intent and SECOND--administrative interpretation, ie. including forms, and process.

To best illustrate the legislative intent, it may be instructive to compare the FSA guarantee with the intent of the WHEDA guarantee. Briefly, the FSA guarantee offers a lender a guarantee based on some predetermined % of the loan. This guarantee is wholly based on a pro-rata % of whatever loss may develop. For example, the max. real estate loan eligible for an FSA guarantee is \$400,000--THEN, the % guarantee is negotiated/established by the originating lender and FSA at some level between 75% and 90% as most common. Two examples of this guarantee could be 1--the 400,000 loan is guaranteed @ 90%. Default occurs and the asset is sold with a loss of \$200,000. The FSA guarantee of 90% then is triggered and the originating lender receives a check for \$180,000 (ie.90% of the loss). OR another example 2--the \$400,000 loan is guaranteed the same. Default occurs and the asset is sold for \$390,000, with a loss of \$10,000. The FSA guarantee of 90% is triggered and the originating lender receives a check for \$9,000.

(next page)

The legislative intent of the FARM program (Wheda guarantee) was to provide lower equity producers with a program which would help with the "equity gap". Attempts to define alternatives to cure this equity gap where eventually defined as some "predetermined static level of guarantee which would serve to close the equity gap". Further attempts to define this

predetermined amount were legislatively intended to be an absolute rather than a % or pro-rata guarantee. The language supports this intent..."max. guarantee amount is 25% of loan amount, (note the following maximum absolute \$ amounts) of \$100,000 or Farmers net worth, whichever is less OR if other state or federal credit assistance programs are used concurrently with the FARM program, the guarantee amount is limited to the lesser of the Farmers net worth or \$50,000." The language clearly indicates the predetermined "absolute" \$ of guarantee UNLIKE the % of loan guarantee offered by FSA.

In our view, this represents significant operational differences. The Wheda guarantee has intended features which were to assure some equity at some predetermined level. The 25% was intended to serve as the basis for determining that level, not to serve as a pro-rata guarantee amount. Using the previous loan example, assume the maximum loan the farmer had was \$400,000 and the farmer had no other credit assistance programs and his net worth was \$75,000. The guarantee amount predetermined at loan inception would be the lesser of his net worth or 25% of the loan NOT to exceed \$100,000. Therefore the predetermined guarantee amount (or equity gap offered by Wheda) is \$75,000. Therefore, the maximum at risk for Wheda is \$75,000. Thus in example 1 above, the Wheda max. would have been triggered and although the loss was \$200,000--Wheda would pay the participating lender \$75,000. In example 2, the loss was \$10,000 and Wheda would pay the participating lender the \$10,000. Interestingly, if this example included an FSA guarantee, then any recovery of monies from Wheda would be distributed on a prorata basis with FSA, ie the participating lender does not in effect double the guarantee if FSA is also involved. An additional way to illustrate the legislative intent could be to omit any reference to the 25% guarantee (again it only serves to set the predetermined level of guarantee) and use the legislative language of a guarantee amount of \$50,000 or \$100,000 dependent on other credit assistance programs, but at no time shall the \$ amount guaranteed exceed the farmers net worth. Bottomline the significant and compelling differences are--FSA guarantee is a pro-rata guarantee based on some predetermined % of guarantee with the intent of offering a participating lender some protection against loss--the Wheda guarantee was intended to cure an equity gap, thus structured to provide a predetermined and absolute level of guarantee.

The differences are profound. Administratively, this implies, the Wheda must be last out and in essence it is subordinated debt.

Many of the current procedures are unnecessarily restrictive and punitive and conflict with the legislative intent.

For example the procedures exclude the use of Farm Credit forms and require subscription to Wis. Bankers forms. Interestingly, Farm Credit forms are acceptable for the Wheda CROP program.

Refinancing existing debt is excluded. Clearly there are instances where the timing of closing transactions will theoretically create a debt which then is existing debt. The best solution within the intent of the legislation would be to offer a "window" of time to close the Wheda guarantee. The issue it seems is the debt was for the purposes intended for eligibility of the Wheda FARM guarantee.

It is understood that farm residences are ineligible and thus must be carved out of the application. As a practical matter, this appears to contribute to unnecessary additional costs and further, in the event of liquidation, its highly likely the farm unit in total would be liquidated.

Without these changes, it is unlikely the intent of the program will be realized.

LOAN UNDERWRITING

FARM Manual • Chapter III

Example: Loan amount of \$350,000, Borrower's net worth is \$132,000, combined with a Farm Service Agency guaranteed loan.

The Guarantee will be the lesser of:

25% of the loan amount = \$87,500
Borrower's net worth = \$132,000
Maximum FARM Guarantee = \$50,000

Maximum FARM Guarantee is \$50,000

~~Maximum FARM Guarantee percentage is $\$50,000 / \$350,000 = 14\%$.~~ *Strike*

Example: Loan amount of \$350,000, Borrower's net worth is \$63,000, no other state or federal loans are being utilized.

The Guarantee will be the lesser of:

25% of the loan amount = \$87,500
Borrower's net worth = \$63,000
Maximum FARM Guarantee = \$100,000

Maximum FARM Guarantee is \$63,000

Maximum FARM Guarantee percentage is $\$63,000 / \$350,000 = 18\%$. *Strike as irrelevant*

D. GUARANTEE PAYMENT

original The Guarantee payment is calculated by multiplying the Guarantee percentage times the ~~outstanding~~ principal amount of the loan after the sale of collateral and application of sale proceeds to the FARM Loan.

E. LOAN GUARANTEE TERM

The maximum term of the loan guarantee is ten (10) years for the acquisition of facilities or land. The maximum term of the loan guarantee is five (5) years for the acquisition of other agricultural assets or improvements to facilities or land. **NOTE: Separate notes must be executed for five (5) year assets versus ten (10) year assets.**

The Guarantee is effective the date of the Note.

Amortization cannot exceed the useful life of the security. The amortization may exceed the term of the Guarantee. The purpose of the program is to provide quasi-equity up front, not shelter the Lender's risk indefinitely. There should be adequate equity in the Collateral in year six or eleven for the Lender to make a non-guaranteed loan business decision.

teed under this section will not exceed \$100,000, or \$50,000 if any of the loans is affected by any other state or federal credit assistance program.

(d) The rate of interest and the loan terms, including any associated fees or charges, are approved by the authority.

(e) The participating lender obtains a security interest in assets of the borrower sufficient to secure repayment of the loan.

(f) The proceeds of the loan are not applied to the outstanding balance of any other loan or forbearance.

(3) **ELIGIBLE FARMERS.** A farmer is eligible for a guarantee of a loan under this section if all of the following apply at the time the loan is made:

(a) The farmer is currently operating farm premises.

(b) The amount of the farmer's debts, including the loan, does not exceed 85% of the farmer's assets, including the value of the agricultural assets to be acquired, or the improvements to be made, with the proceeds of the loan.

(c) The participating lender considers the farmer's assets, cash flow and managerial ability sufficient to preclude voluntary or involuntary liquidation during the term of the loan.

(4) **ORIGINATION FEES.** The authority shall charge a guarantee origination fee on every loan guaranteed under this section. The amount of the fee shall be 1% of a loan's guaranteed principal. The participating lender shall collect the fee and remit it to the authority. The authority shall deposit all fees received under this subsection in the Wisconsin development reserve fund to be used to guarantee loans under this section.

(5) **GUARANTEE OF COLLECTION.** (a) Subject to par. (c), the authority shall guarantee collection of a percentage of the principal of a loan eligible for a guarantee under sub. (2). The principal amount of an eligible loan that the authority may guarantee may not exceed the borrow-

er's net worth or 25% of the total loan amount, whichever is less, calculated at the time the loan is made.

(b) The term of a loan guarantee for a loan made to finance the acquisition of machinery, equipment or livestock, or the cost of improvements to facilities or land, may not exceed 5 years. The term of a loan guarantee for a loan made to finance the acquisition of facilities or land may not exceed 10 years.

(c) Except as provided in s. 234.93 (3), the total outstanding guaranteed principal amount of all loans that the authority may guarantee under par. (a) may not exceed any of the following:

1. Before July 1, 1996, the lesser of \$3,000,000 or the difference between \$30,000,000 and the total outstanding principal amount of all loans guaranteed under s. 234.90.

2. On and after July 1, 1996, and before July 1, 1997, the lesser of \$5,000,000 or the difference between \$30,000,000 and the total outstanding principal amount of all loans guaranteed under s. 234.90.

3. On and after July 1, 1997, the lesser of \$10,000,000 or the difference between \$30,000,000 and the total outstanding principal amount of all loans guaranteed under s. 234.90.

SECTION 4. 234.93 (1) (d) of the statutes is created to read:

234.93 (1) (d) To be used for guaranteeing loans under s. 234.91, fees collected under s. 234.91 (4).

SECTION 5. 600.01 (1) (b) 8. of the statutes is amended to read:

600.01 (1) (b) 8. Guarantees of the Wisconsin housing and economic development authority under ss. 234.67, 234.68, 234.69, 234.765, 234.82, 234.83, 234.87, 234.90, 234.905 and 234.907 and 234.91.

SECTION 6. Initial applicability.

(1) This act first applies to loans for which application for guarantee is made on the effective date of this subsection.



WISCONSIN LEGISLATIVE COUNCIL STAFF MEMORANDUM

One East Main Street, Suite 401; P.O. Box 2536; Madison, WI 53701-2536
Telephone (608) 266-1304
Fax (608) 266-3830

DATE: October 9, 1995
TO: REPRESENTATIVE ALVIN OTT; OTHER INTERESTED LEGISLATORS
FROM: David J. Stute, Director
SUBJECT: Assembly Substitute Amendment 1 to 1995 Assembly Bill 556, Relating to a Loan Guarantee Program for the Acquisition or Improvement of Farm Assets

This memorandum describes Assembly Substitute Amendment 1 to 1995 Assembly Bill 556, which establishes a farm assets reinvestment management ("FARM") loan guarantee program within the Wisconsin Housing and Economic Development Authority (WHEDA). The proposed FARM program would guarantee repayment of a portion of loans made by lenders to operating farmers for the acquisition of agricultural assets and improvements to agricultural property.

On September 14, 1995, the Assembly Committee on Agriculture recommended adoption of Assembly Substitute Amendment 1 by a vote of Ayes, 10; Noes, 3; and recommended the Bill, as amended, for passage by the same vote.

The proposed FARM program has the following principal features:

A. DEFINITIONS

Significant definitions in the Substitute Amendment are as follows:

1. "Agricultural assets" means machinery, equipment, facility, land or livestock.
2. "Participating lender" means a bank, credit service, credit union, savings bank, savings and loan association or other person who makes loans for the acquisition or improvement of agricultural assets and who has entered into an agreement with WHEDA. A seller under a land contract is excluded from the definition of "participating lender."

B. ELIGIBLE LOANS

A loan made by a participating lender is eligible for a guarantee under the FARM program if:

1. The borrower is an eligible farmer.
2. The loan is made to finance the acquisition of agricultural assets or the cost of making improvements to facilities or land. Assets must be acquired and improvements made for agricultural purposes.
3. The total amount of loans to one participant which may be guaranteed by WHEDA under the FARM program may not exceed \$100,000, or \$50,000 if any of the loans are affected by any other state or federal credit assistance program (e.g., programs operated by the Small Business Administration or the Farmers Home Administration).
4. The loan's interest rate and terms are approved by WHEDA.
5. The participating lender obtains a security interest in assets of the borrower sufficient to secure repayment of the loan.
6. Loan proceeds are not applied to the outstanding balance of any other loan or forbearance.

C. ELIGIBLE FARMERS

A farmer is eligible for a loan guarantee under the FARM program if, at the time the loan is made:

1. The farmer is currently operating farm premises.
2. The farmer's debts, including the loan, do not exceed 85% of the farmer's assets, including the value of assets to be acquired or improvements to be made with the proceeds of the loan.
3. The participating lender considers the farmer's assets, cash flow and managerial ability sufficient to preclude liquidation during the term of the loan.

D. GUARANTEE

If the above requirements are met, WHEDA may guarantee collection of a portion of the principal of an eligible loan. The amount guaranteed may not exceed 25% of the total loan amount or the borrower's net worth, whichever is less. The term of the loan guarantee may not exceed five years if the loan is made to finance the acquisition of machinery, equipment or livestock or the costs of improvements to facilities or land. The term of the guarantee may not exceed 10 years if the loan is made to finance the acquisition of facilities or land.

E. ORIGINATION FEE

WHEDA must charge a guarantee origination fee on every loan made under the FARM program. The fee is 1% of the loan's guaranteed principal and must be collected by the participating lender and remitted to WHEDA. WHEDA must deposit all such origination fees into the Wisconsin Development Reserve Fund, to be used to guarantee additional loans under the FARM program.

F. SOURCE OF GUARANTEE AUTHORITY

Currently, WHEDA may guarantee at any one time up to \$30 million of loans made under the agricultural production loan guarantee program established under s. 234.90, Stats. (commonly referred to as the "CROP" program). The FARM program would utilize a portion of CROP's guarantee capacity for the guarantee of loans made to acquire agricultural assets or financing improvements. The use of this existing guarantee authority would be phased in as follows:

1. Before July 1, 1996, WHEDA may guarantee under the FARM program the lesser of \$3 million or the difference between \$30 million and the total outstanding principal amount of all loans guaranteed under the CROP program.

2. On or after July 1, 1996, and before July 1, 1997, WHEDA may guarantee under the FARM program the lesser of \$5 million or the difference between \$30 million and the total outstanding principal amount of all loans guaranteed under the CROP program.

3. On or after July 1, 1997, WHEDA may guarantee under the FARM program the lesser of \$10 million or the difference between \$30 million and the total outstanding principal of all loans guaranteed under the CROP program. [In other words, the maximum amount which eventually may be guaranteed under the FARM program is \$10 million. If WHEDA uniformly guaranteed loans at the 25% maximum participation, an overall total of \$40 million of loans affected by the program would result.]

G. CHANGES MADE BY THE SUBSTITUTE AMENDMENT

Assembly Substitute Amendment 1 incorporates the following departures from 1995 Assembly Bill 556:

1. The Bill proposed to allow unused WHEDA guarantee authority under four other programs to be utilized in the FARM program. The Substitute Amendment ~~deletes~~ this use of unused guarantee capacity in these other programs.

2. The Bill required a participating lender to obtain a security interest only in agricultural assets acquired or improvements made with proceeds of a guaranteed loan. The Substitute Amendment directs the lender to obtain a security interest in all assets of the borrower sufficient to secure repayment of the loan.

3. The Bill proposed an annual service fee on every loan guarantee under the FARM program; the annual fee was 1% of outstanding guaranteed principal not exceeding \$50,000 plus 1.5% of the outstanding guaranteed principal exceeding \$50,000. The Substitute Amendment substitutes a one-time 1% guarantee origination fee.

4. The Bill proposed to immediately utilize up to \$10 million of guarantee authority under the CROP program for the FARM program. The Substitute Amendment phases in the use of CROP guarantee authority as described above.

Please contact me at the Legislative Council Staff offices if you wish further information regarding 1995 Assembly Bill 556.

DJS:rjl:ksm:kja



ALVIN R. OTT

State Representative
3rd Assembly District

Testimony on Assembly Bill 556
October 31st, 1995

Thank you Chairman Lasee and Committee Members:

During discussions on renewing the Credit Relief Outreach Program (CROP) last spring, I was approached by some individuals interested in exploring the idea of broadening the use of CROP funding for "equity gap" financing for farmers. After the legislation renewing the CROP program was signed into law, I began working with these individuals on Assembly Bill 556, also known as the Farm Asset Reinvestment Management or FARM program. Similar to CROP, the FARM program is a loan guarantee program which will be administered by the Wisconsin Housing and Economic Development Authority (WHEDA).

An "equity gap" problem arises for a farmer when their equity isn't quite enough to get a conventional loan to be used for an upgrade in their farming operation. The new facilities, equipment or animals may result in an appraisal that doesn't equal the sum of previous appraisals plus the cost of the new assets therefore creating an "equity gap." The farmer may run an excellent operation and have a good credit rating however this "equity gap" could prevent him or her from obtaining a retooling loan.

AB 556 authorizes WHEDA to guarantee 25% of a loan made to a farmer by a private lender for the acquisition of agricultural assets and improvements to agricultural property. The loan may not be used to finance existing debt. An eligible borrower is a farmer who is currently operating farm premises and whose debts do not exceed 85% of the farmer's assets.

Funding for the FARM program will be phased in over the next several years using some guarantee authority that is currently authorized for the CROP program.

-MORE-



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Forest Junction, Wisconsin 54123
(414) 989-1240

Ranking Member: Agriculture, Forestry and Rural Affairs / **Member:** Environmental Resources; Labor and Job Training

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Page 2

While it is too early to tell, we may see a decline in the usage of CROP because of the elimination of the 2% interest subsidy passed by the Legislature earlier this year. This may free up some of CROP's guarantee authority for the FARM program. Nonetheless, I feel that Wisconsin farmers will benefit from expanding the uses of CROP money to those uses authorized under the proposed FARM program. As the "R" in the FARM acronym stands for, AB 556 encourages reinvestment in our agricultural industry and therefore is an investment in the future of farming in Wisconsin.

Assembly Bill 556 was passed by a vote of 98-0 in the Assembly and I urge this committee to support the bill. Thank you for your time and consideration.

-END-



WISCONSIN HOUSING & ECONOMIC DEVELOPMENT AUTHORITY

Fritz Ruf
Executive Director

Tommy G. Thompson
Governor

Edwin J. Zagzebski
Chairman

February 20, 1996

ADDITIONAL FARM BILL QUESTION

Would you please offer your comments if the guarantee were a straight 25% of the outstanding principal balance at any given time, versus what we originally discussed as an absolute guarantee? How would this impact the usefulness of the program in your opinion?

If the guarantee were 25% rather than a flat dollar, it would be more typical of all other guarantee programs. But, would also be less desirable. With the flat dollar we gain guarantee % as payment comes in and this reduces our risk position.

The change would make the program somewhat harder to sell. Two thoughts; one, could the guarantee be increased to 30%; and two, would it be possible to share the loan fees with the participation lender.

*Dave Grant VP
Security National Bank*

Post-it® Fax Note	7671	Date	2/20/96	# of pages	1
To	DAVE GRANT	From	SIOGARD B.		
Co./Dept.	SECURITY NATL	Co.	WHEDA		
Phone #		Phone #	1-800-642-6474		
Fax #		Fax #	608-267-1099		



WISCONSIN HOUSING & ECONOMIC DEVELOPMENT AUTHORITY

Fritz Ruf
Executive Director

Tommy G. Thompson
Governor

Edwin J. Zagzebski
Chairman

February 20, 1998

ADDITIONAL FARM BILL QUESTION

Would you please offer your comments if the guarantee were a straight 25% of the outstanding principal balance at any given time, versus what we originally discussed as an absolute guarantee? How would this impact the usefulness of the program in your opinion?

My first choice would be the 25% guarantee we discussed at the meeting but a moving 25% guarantee on the back end of the loan (in other words a \$100,000 loan would have a \$25,000 guarantee, if a loss were incurred of \$20,000 - WHEDA would pay the entire loss and not share at 25% of the loss.) would be palatable.

If the moving 25% guarantee were in effect I would expect the annual fee to also decline with the declining loan balance.

In questions don't hesitate to contact me.

Sam Miller

Post-it Fax Note	7871	Date	2/20/98	Page	1
To	SAM MILLER	From	S. B. Miller		
Co./Dept.	M&I	Co.	WHD		
Phone #		Phone #	1-800-672-6774		
Fax #		Fax #	608-267-1099		



WISCONSIN HOUSING & ECONOMIC DEVELOPMENT AUTHORITY

Fritz Ruf
Executive Director

Tommy G. Thompson
Governor

Edwin J. Zagzebski
Chairman

February 20, 1996

ADDITIONAL FARM BILL QUESTION

Would you please offer your comments if the guarantee were a straight 25% of the outstanding principal balance at any given time, versus what we originally discussed as an absolute guarantee? How would this impact the usefulness of the program in your opinion?

*That would make it less attractive for us.
we would probably still use as the loan would
decrease as payments were made. The risk would
come down.
Too bad*

Post-It® Fax Note	7671	Date	2/20/96	# of pages	1
To	CARL LAVECK	From	SIOBAIN B		
Co./Dept.	FIRSTAR	Co.	WHEDA		
Phone #		Phone #	1-800-642-6474		
Fax #		Fax #	608-267-1099		



WISCONSIN HOUSING & ECONOMIC DEVELOPMENT AUTHORITY

Fritz Ruf
Executive Director

Tommy G. Thompson
Governor

Edwin J. Zagzebski
Chairman

February 20, 1996

ADDITIONAL FARM BILL QUESTION

Would you please offer your comments if the guarantee were a straight 25% of the outstanding principal balance at any given time, versus what we originally discussed as an absolute guarantee? How would this impact the usefulness of the program in your opinion?

I don't believe this change would significantly impact the usefulness of the program.

Bruce J. Thompson
Badgerland Farm Credit Service

Post-it® Fax Note	7871	Date	2/20/96	# of pages	1
To	BRUCE THOMPSON	From	SIOBAIN B.		
Co./Dept.	FCS	Co.	WHEDA		
Phone #		Phone #	266-9991		
Fax #		Fax #	247-1099		

Hearing scheduled on FARM proposal

MADISON

JAN SHEPEL *WS Farmer*
8/25/95

Farmers looking to upgrade or modernize their farming operations might get a helping hand from the state if a proposal from a rural legislator becomes reality. Rep. Al Ott, R-Forest Junction, has been working on a proposal dubbed FARM for Farm Asset Reinvestment Management program, that would seek to address the "equity gap" issue for farmers. The idea grew from an earlier hearing of the Joint Subcommittee on Ag Finance and Reinvestment which is co-chaired by Ott and Rep. John Ainsworth, R-Shawano.

At that hearing ag finance leaders were invited to give the legislators their views on financial needs of farmers that were not currently being met. The "equity gap" was a standout issue from that hearing.

It refers to farmers with a proven track record in farming operations who are serious about major reinvestment programs in such things as expanding a dairy operation. But while the farmer may be sure the expansion will pay off, lenders may not be ready to manage the risk involved in a farm expansion.

Ott worked with Will Hughes of the Wisconsin Federation of Cooperatives, Bruce Jones at the University of Wisconsin-Madison and Cate Zueske at Wisconsin Housing and Economic Development Authority (WHEDA) on the FARM proposal that could help fill this gap by alleviating some of the risk for lenders.

Under the proposed program, loans to farmers from private banking institutions would be underwritten by WHEDA with a state guarantee. It would be much like the state's highly successful CROP program that is also administered by WHEDA. That program offers state backing for loans of \$20,000 or less for farmers to use for crop inputs.

As written, the proposal would allow loans to be made to farmers who are already operating farms and would be used to finance the acquisition of agricultural assets or the costs of improvements to existing farm assets.

Ott and Ainsworth will be looking for input from farmers and their lenders at a hearing August 31 at 9 a.m. in Room 1 of the building which housed the temporary Assembly chambers (119 Martin Luther King, Jr. Boulevard).

New ag loan guarantee program to be aired at public hearing

A proposal to provide a loan guarantee from the state for loans made to farmers who are reinvesting, upgrading or modernizing their operation will be debated by the Joint Subcommittee on Ag Finance and Reinvestment, which is co-chaired by State Representatives Al Ott (R-Forest Junction) and John Ainsworth (R-Shawano). Members of the subcommittee will listen to testimony on Thursday, August 31, at 9 a.m. in Room 1 (in the basement) of 119 Martin Luther King, Jr. Boulevard (the same building which housed the temporary Assembly Chambers).

The proposal, dubbed the farm asset reinvestment management (FARM) program, is a result of a previous public hearing held by the subcommittee at which time individuals representing various areas of agricultural finance were invited to address the members regarding farmers' financial needs that were not being met. One issue in particular that was raised was the "equity gap" issue. Speakers brought up concerns the group of farmers who are serious about modernizing and have a proven track record; however, some banks aren't ready to manage the risk involved with major reinvestment in farms. The FARM proposal is being developed to help fill this "gap" and alleviate some of the risk for lenders.

Under the proposal, the loan guarantee program would be administered by the Wisconsin Housing and Economic Development Authority (WHEDA), much like the CROP loan guarantee program which has been very successful. Loans are to be made to farmers currently operating farm premises to finance the acquisition of agricultural assets or the costs of improvements to agricultural assets. *WS Farmer 8/25/95*

FARM Program Topic of Upcoming Hearing

8/24/95 Agri-View

Are you a young – or maybe not so young – farmer looking to update your facilities, but when you talk to your banker you're told you don't have quite enough equity for a loan?

If so, you might want to mark Thursday, Aug. 31 on your calendar. That's when a hearing is scheduled on a proposal being labeled the Farm Asset Reinvestment Management (FARM) program.

The hearing begins at 9 a.m. in room 1 at 119 Martin Luther King, Jr. Blvd., Madison.

The Wisconsin Legislature's joint subcommittee on ag finance and reinvestment, chaired by state Reps. Al Ott (R-Forest Junction) and John Ainsworth (R-Shawano), is conducting the FARM hearing. Room 1 is in the basement of the building which housed the temporary Assembly chambers. It is in the first block off the capitol square, on the two-block avenue leading to Lake Monona.

Earlier, the subcommittee heard testimony from individuals representing various areas of agricultural finance. These finance officials told lawmakers that "farmers' financial needs are not being met." Another described the issue as an "equity gap issue" and said there is a group of farmers that is serious about modernizing and updating facilities. However, the group agreed, these farmers are being held back because "banks aren't ready to manage the risk involved with major reinvestment in farms."

Enter Reps. Ott and Ainsworth, who, in addition to chairing this subcommittee, chair individual committees directly relating to agriculture and rural development. Ott chairs the Assembly ag committee and Ainsworth heads the committee on rural affairs.

In drafting the FARM proposal, they sought help from Will Hughes, formerly an economist at the Department of Agriculture, Trade and Consumer Protection (DATCP), who now works for the Wisconsin Federation of Cooper-



Capitol Update

*A Look at
Legislation
Affecting Farmers
and Rural Wisconsin*

By Joan Sanstadt
Field Editor

atives (WFC). Also providing input was Cate Zeuske, former state treasurer who now works for the Wisconsin Housing and Economic Development Authority (WHEDA), and Bruce Jones, an ag economist who is the director of the University of Wisconsin's Center for Dairy Profitability.

Hughes acknowledges, "We've got a pretty significant reinvestment problem working against us in our efforts to revitalize the dairy industry." That problem relates to both entry-level and younger farmers, as well as farmers who want to modernize and update their facilities, he said. "We're not just talking about expansion," Hughes emphasized.

Under the FARM proposal, WHEDA would handle the administration of a loan guarantee program designed to fill the equity gap. WHEDA already administers the Credit Relief Outreach Program (CROP) designed to help farmers who need credit for such expenses as planting or fertilizer purchases.

"WHEDA has been around since 1985," Hughes points out. This additional program could play "the same kind of role CROP has filled by filling a gap to serve a real need. These younger operators that have already bought, or who are in the process of buying farms, get stuck when it comes to modernizing because they just don't have the equity to satisfy lending standards."

"This would be a way to take a small portion of state backing and fill that gap," Hughes said.

The amount of state money Hughes believes would be needed for the FARM program is \$10 million. He said the money would be well spent because it would "provide money so lenders could stimulate and turn around the reinvestment problem we're all witnessing."

"Because of how it is structured, it will be a modest program," he continued. "But it will fill an important gap for younger operators. FARM would be an authority for guaranteeing loans rather than a loan fund itself."

In this case it is WHEDA that has linkage with the state to guarantee some loans."

Hughes envisions the plan as one that could "build a bridge between farmers' capital and borrowed capital to make the kind of investments people want to make to be effective and competitive."

Ott said he is hoping "interested farmer lenders and others will attend this important hearing and offer their opinions on the plan."

Committee to debate new farm loan plan

Madison

A proposal to provide a guarantee from the state for loans made to farmers reinvesting, upgrading or modernizing operations will be debated next week by the Joint Subcommittee on Agriculture Finance and Reinvestment.

Members of the subcommittee will listen to testimony from the public at 9 a.m. Aug. 31. The session will be held in Room 1 of 119 Martin Luther King, Jr. Boulevard, the same building which housed the temporary Assembly chambers.

The proposal, called the farm asset reinvestment management (FARM) program, is a result of previous public hearing held by the subcommittee. At that time individuals representing various areas of agricultural finance were invited to address the members regarding farmers' financial needs that were not being met.

One issue in particular that was raised was the "equity gap" issue. Speakers brought up concerns about the group of farmers who are serious about modernizing and have a proven track record, however some banks aren't ready to manage the risk involved with major reinvestment in farms. The FARM proposal is being developed to help fill the "gap" and alleviate some of the risk for lenders.

Under the proposal, the loan guarantee program would be administered by the Wisconsin Housing and Economic Development Authority, much like the CROP loan guarantee program which has been successful in the state for many years. Loans are to be made to farmers currently operating farm premises to finance the acquisition of agricultural assets or the costs of improvements to agricultural assets.

Post-It™ brand fax transmittal memo 7671 # of pages ▶ 8

To	Rad Caldwell	From	Rep. Al Ott
Co.	Firststar Bank	Co.	
Dept.		Phone #	608-266-5831
Fax #	849-9547	Fax #	

W ~~Rad~~ Caldwell Fax # 849-9547
 608-742-5321
 1st Star Bank

insult to farmers and bankers

To the Editor:

Regarding The Country Today, Sept. 6, Page B10: The Farm Assets Reinvestment Management Program as proposed by the Joint Subcommittee on Agriculture Finance is an insult to farmers and bankers. A 25 percent capital loan guarantee is welfare for those who want to borrow money and those who want to lend it.

The example given in the Sept. 6 Country Today article of adding 50 cows with a loan of \$250,000 is \$5,000 debt per cow. With a guarantee program Farm Credit Services could close all local offices and collect such a loan between the auctioneer, Madison and St. Paul.

Just as the milk price is rising, legislators propose subsidizing a few expansions. A price drop to all is inevitable and profitable farmers will pay for loan losses on their income taxes.

If the WHEDA employees want to loan out all of their funds, the Milwaukee baseball stadium will take the money. That would also be a waste but it might raise the price of beer rather than lower the price of milk.

Bill Hamer,
Sheboygan Falls

Feb 94

Firststar - flat 25%
critical

- probably won't use much

2 other

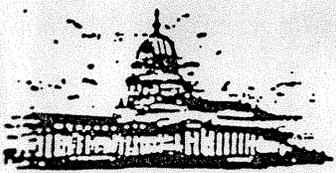
lenders - will still use but not as much

let it run for a year then

ask WHEDA for a summary - maybe a trailer bill (could do another focus group w/ lenders why not working)

WHEDA
6-7884 Shrovan bedea

256-4567 Cate



WISCONSIN LEGISLATURE

P.O. Box 7882 • Madison, WI 53707-7882

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266-5831

PLEASE DELIVER TO:

Bruce Jones

(FAX) NUMBER OF ADDRESSEE: 2-4376

FROM: Kim - Rep. Ott's office

Message:

Intent

Yr 0

Yr 2

Full Loan

400,000

Guarantee

100,000

25%

300,000 loss

100,000 guarantee

INTERPRETATION

Yr 0

Yr 2

* 400,000

100,000

25%

300,000 loss

X. 25

75,000

guarantee

Rep. Duholm

4-1-15 initial rate Sept. 13

* does the FARM guaranteed loan have a lower interest rate?
- It should!
- 90% WHEFA guarantee
- bank sets rate
- tourism guarantee +
up to 3 points depending on need →

* people are still going to borrow \$ for CROP - doesn't buy into that everybody used only for 270 buydown

* FARM loan leverages only to the extent that the person absolutely couldn't get a loan any other way
~~existing \$400,000 out of \$700,000~~

- if person could get \$100,000 w/out this loan - to leverage 4 to 1, person should get \$400,000 w/ this loan - not just the additional guaranteed \$100,000 taken away from CROP - farmers who really need the \$ + put \$ into FARM which has no need requirements

ACT

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Act Against Violence is a project of Wisconsin Public Television in partnership with the Alliance for a Drug Free Wisconsin, UW-Extension Cooperative Extension 4-H Youth Development, and the Division of Youth Services-DHSS.

printing donated by the State Bar of Wisconsin
Depending on these answers, Bob may or may not run.

Paul Zimmerman - farm bureau
* Caps on FARM - can't use \$25 mil of CROP - \$10 million

If \$10 mil is used in first year on 2 - it's gone +1 repayed right?
until pump additional \$ or guarantee lower farmers rep pay free to only CROP \$ now (\$10 mil) go - how much was it before? tap into other 4 programs above \$10 mil - * how does staggering work?

added up to \$3 mil that wasn't being used

a loan guar program for the ag or improvement of agricultural assets

4252 \ p2

Do there a fiscal note? ^{State} ^{is involved}
No yes, can we get it started ASAP?

- Bill - then deal now with used take

\$ send draft to Justice - ^{by} ^{the} ^{state}

Send draft to ^{the} ^{state} ^{attorney} ^{general}
Call Chris Wolk - referred to Ag

Ken - do we do anything to refer bill to sub-comm.
- what do we do as far as action reported to main comm.

Proposed Amendment

ACT

ag
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Act Against Violence is a project of Wisconsin Public Television in partnership with the Alliance for a Drug Free Wisconsin, UW-Extension Cooperative Extension 4-H Youth Development, and the Division of Youth Services-DHSS.

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