

50A ✓

### Assembly Hearing Slip

(Please print plainly)

Date: 3/16/95

Bill No. \_\_\_\_\_  
Or \_\_\_\_\_  
Subject \_\_\_\_\_

(Name) BEVERE JONES

(Street Address or Route Number) 1111 - MADISON

(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

✓

### Assembly Hearing Slip

(Please print plainly)

Date: MARCH 16, 1994

Bill No. \_\_\_\_\_  
Or \_\_\_\_\_  
Subject \_\_\_\_\_

(Name) DWAYNE R SEEVERS

(Street Address or Route Number) 109133 BLUE SPRUCE LAKE

(City & Zip Code) CAMBRIDGE, WI 53523

(Representing) MET BANK OF CAMBRIDGE

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: \_\_\_\_\_

Bill No. \_\_\_\_\_  
Or \_\_\_\_\_  
Subject \_\_\_\_\_

(Name) JOE M SCAR

(Street Address or Route Number) 430819 Windwood

(City & Zip Code) Hartland WI

(Representing) Telmark

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: 3-16-95

Bill No. Or Subject SUMNER FINANCING

(Name) NORMAN HEALEY

(Street Address or Route Number) W55980 WILLOW BEND RD WILCOX, WI, 53184

(City & Zip Code) W55980 WILLOW BEND RD WILCOX, WI, 53184 (Representing) FSCREDIT CORP/GRAND

- 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: 3/16/95

Bill No. Or Subject Ag Finance

(Name) Mike Krusa

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

(City & Zip Code) Wauwatosa, WI (Representing) Farm Credit Services

- Speaking in favor: [ ]
Speaking against: [ ]
Registering in favor: [ ]
Registering against: [ ]
Speaking for information only: [ ]
Neither for nor against: [X]

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:

Bill No. Or Subject

(Name) Mark B. Messier

(Street Address or Route Number) 1617 Washington St Milwaukee, WI 53202

(City & Zip Code) Milwaukee, WI (Representing) Firststar - Milwaukee

- 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: \_\_\_\_\_

Bill No. \_\_\_\_\_

Or \_\_\_\_\_

Subject \_\_\_\_\_

RAY SLEUBERGER  
(Name)

(Street Address or Route Number)

(City & Zip Code)

Normal Food & Dev Service  
(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

Assembly Hearing Slip

(Please print plainly)

Date: 3/16/95

Bill No. \_\_\_\_\_

Or \_\_\_\_\_

Subject \_\_\_\_\_

Don Caldwell  
(Name)

(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

Assembly Hearing Slip

(Please print plainly)

Date: 3-16-95

Bill No. Ag Finance

Or \_\_\_\_\_

Subject \_\_\_\_\_

DAVID LEPAK  
(Name)

15. Pinckney St.  
(Street Address or Route Number)

Madison WI 53701  
(City & Zip Code)

WLEDA  
(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

Name of subcommittee:  
Joint Subcommittee on Ag Financing +  
Reinvestment

Name of the ~~chairperson~~ co-chair: Al Ott + John Kinoworth

Members: Al Ott John Kinoworth  
Luther Olson Frank Lase  
Barb Gronemus Mike Wilden  
Bob Dueholm

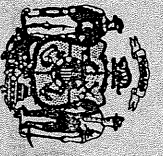
Purpose of sub-committee:

Review existing circumstances in a F + R  
opportunities across broad spectrum of  
ag community  
Identify gaps + how state could fill in  
~~Develop~~ Develop w/ appropriate + needed state policy  
initiators

Write Core Issues

- What careers leaders to not make a loan
  - ~~What careers leaders to not make a loan~~ : Ray Ellmberger UW - State govt  
Farm Credit (Farm inf specialists)
  - ~~What careers leaders to not make a loan~~ Mark Biversic Private banker  
mantiwoc (owners) Private banker  
John Reed / Ken Caldwell  
John Reed credit (Farm plan)
- No ? ag is in transition, w/ it comes fin. restructuring  
as well!

OO needs chairman, this issue has been brought +  
my attention quite frequently - Give it the attention it  
deserves through sep. subcommittee



ALVIN R. OTT

State Representative  
3rd Assembly District

Ag Finance + Reinvestment Sub-Committee

3 GOP (Ott, ~~Smith~~, Olson) ? Pinnoworth  
2 Dem (Crommenwa, Springs) ? Durbin

Where is finance okay?      ✓ background  
Where isn't it okay?

Possible legislation?

1 hearing in March      Report back to comm.  
" " " April      by \_\_\_\_\_

Write a letter to Prosser  
Press release

Review + evaluate areas of ag financing

- enterprise, maintenance + expansion
- equity gap
- access federal \$
- equity / equity

John:

Well-being of rural econ is very depend upon success of ag. We need to make sure we have examined

all poor. sources of ag financing so that ~~we~~ ~~can~~ ~~continue~~ ~~to~~ ~~turn~~ ~~as~~ ~~many~~ ~~as~~ ~~poor~~

~~use~~ ~~of~~ ~~the~~ ~~state~~ ~~financing~~ ~~etc.~~ ~~can~~ ~~continue~~ ~~to~~ ~~turn~~ ~~as~~ ~~many~~ ~~as~~ ~~poor~~  
Office: (609) 266-5831 \* Home: (414) 989-1240 \* Toll-free Legislative Hotline: 1 (800) 362-9696  
Ovshinsky.



JOHN DEERE  
CREDIT

JOHN L. BROWN  
Senior Attorney

DEERE CREDIT SERVICES, INC.  
John Deere Road, Moline, Illinois 61265-8098  
Tel: 309-765-4340, Fax 309-765-4947

For future reference:

Keep these people in  
mind to call on to  
talky on - either

Ag. Fin./Services  
or other cases

Sam Miller - M & I Bank  
western div.

Tom Schneider  
Fisitar

Joe Schultz - Farm Mgr.  
Consultant  
(good supports)

→ 800-328-9680

\* Don Berg - Land 'O Lakes  
head of dairy development

- startling info
- updating, modernizing to compete w/ CA
- what WI law needs to do

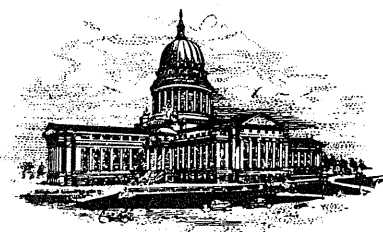
*Bill Anderson*

\* financing dairy expansions

- brains behind Dairy Venture program

3/13 Ron Hillman - Land 'O Lakes

- in Washington this week
- Will Hughes will have him call Al



# Wisconsin State Assembly

P.O. BOX 8952 • MADISON, WI 53708

March 1, 1995

The Honorable David Prosser  
Speaker, State Assembly  
101 MLK

Dear Speaker Prosser:

This letter is to inform you that we have formed the Joint Subcommittee on Ag Finance and Reinvestment. As the chairmen of the Rural Affairs Committee and the Agriculture Committee, we will serve as co-chairmen of the subcommittee.

The following members of the State Assembly will serve on the Joint Subcommittee on Ag Finance and Reinvestment:

Representative John Ainsworth, Co-Chair  
Representative Al Ott, Co-Chair  
Representative Robert Dueholm  
Representative Barbara Gronemus  
Representative Frank Lasee  
Representative Luther Olsen  
Representative Mike Wilder

The purpose of the Joint Subcommittee on Ag Finance and Reinvestment will be to review the existing opportunities in agriculture finance for the broad spectrum of farmers - from the entering farmer to the farmer who wants to modernize his or her operation to the exiting farmer. After this review, the subcommittee will identify the gaps that exist in agriculture financing and determine whether the state can fill in these gaps. If so, we will attempt to develop appropriate state public policy.

Please feel free to contact either or both of us if you would like to discuss this further.

Sincerely,

Representative John Ainsworth, Co-Chair  
Joint Subcommittee on Ag Finance and Reinvestment

Representative Al Ott, Co-Chair  
Joint Subcommittee on Ag Finance and Reinvestment



Directions to March 16th hearing of the Joint Subcommittee on Ag  
Finance and Reinvestment:

Take John Nolen Drive to Broom Street. Turn left on Broom Street.  
Go about one block and turn right on Wilson Street. Go one block  
and turn left on S. Hamilton Street. Go one block and turn right  
onto Doty Street. Go about 2 1/2 blocks and there will be a  
parking ramp on your right.

The hearing will take place at 119 Martin Luther King, Jr. Blvd.  
From the parking ramp, go back the way you came one block. 119  
Martin Luther King is on the corner of Doty and Martin Luther  
King. Go in the front door and take the elevators to your left.  
Go down one floor and exit to the right, then left. Hearing Room  
1 will be on your left.

# Madison

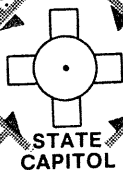
One-way streets

Public parking ramps and lots

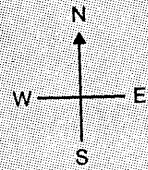
Traffic is not allowed on State St.

Lake Mendota

Lake Monona

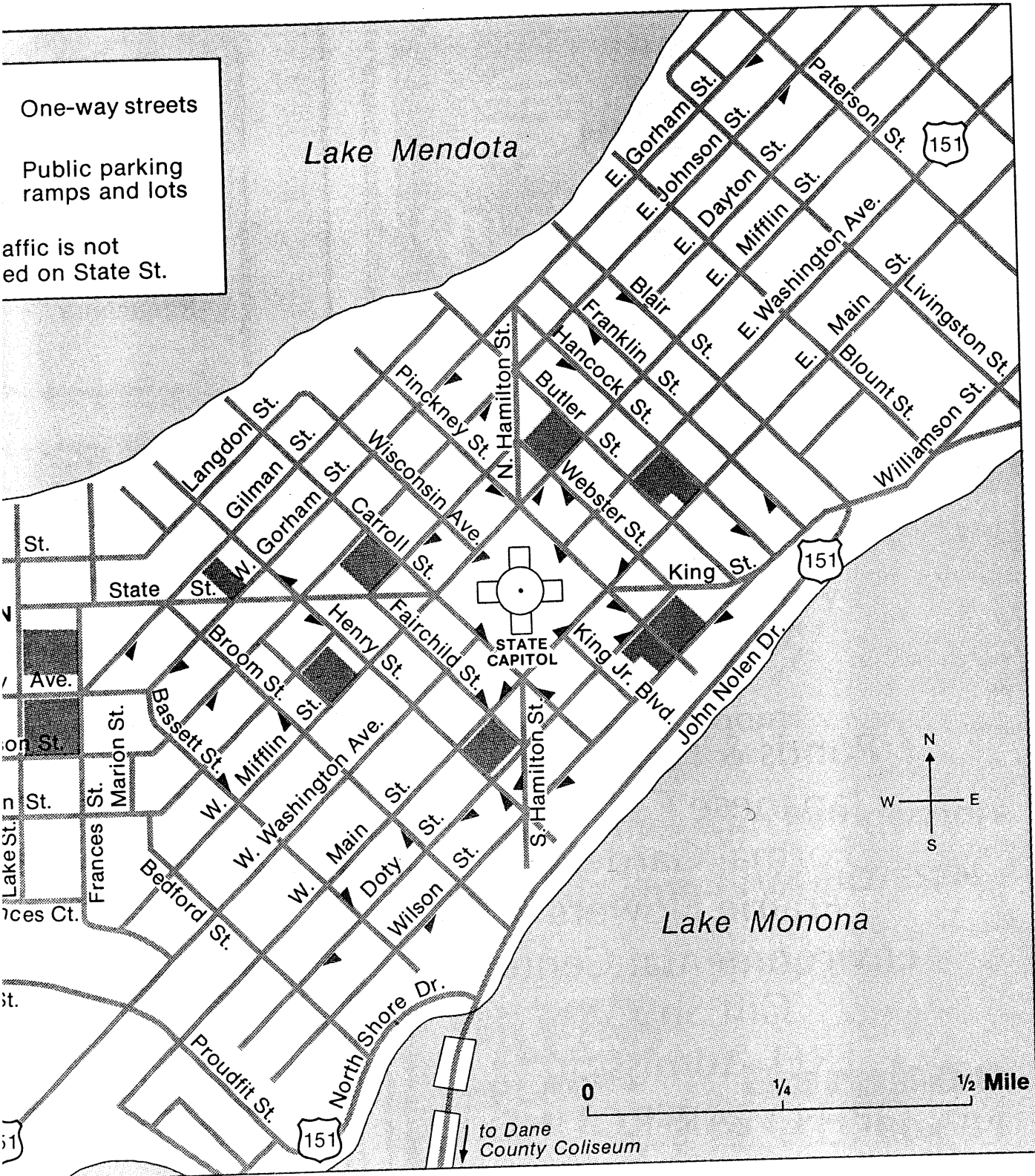


STATE CAPITOL



0 1/4 1/2 Mile

to Dane County Coliseum



# An Overview of Credit Conditions in Wisconsin Agriculture

Prepared by  
Bruce L. Jones, Associate Professor of Agricultural Economics  
University of Wisconsin - Madison

For a hearing of the  
Joint Subcommittee on Agricultural Finance and Reinvestment

March 16, 1995

In the last decade, the financial condition of Wisconsin agriculture has changed dramatically. Nearly ten years ago we were in the midst a "farm financial crisis" that caused problems for almost everyone who has connected to Wisconsin's agricultural economy. Farmers were struggling to earn incomes and stay current on their loans. Farm lenders were desperately trying to work out some lending arrangements to forestall the foreclosures that were being suggested by regulators. Input supply firms and farm machinery dealers also experienced income problems that could be traced back to the financial stresses of farmers. In general there were few rural residents that were not experiencing some level of adversity as a result of the farm financial crisis.

For the most part, Wisconsin's agricultural economy has bounced back nicely in the last five or so years. Farm incomes have trended up, farm land values have increased at modest rates, and farm debt positions have returned to manageable levels. These turnarounds in the agricultural economy has solved many of the problems that existed 10 years ago. However, this economic recovery in agriculture has not eliminated all the financial problems of Wisconsin farmers.

Having spent ten years working themselves out of some difficult situations, Wisconsin farmers, particularly those in dairy, are not faced with the challenge of deciding what they need to do to make their farming operators competitive in the future. Some producers are looking at expansion options while others are considering investments in equipment or other technologies that could boost productivity and efficiency. It is quite probable that the majority of Wisconsin farmers will decide that they should go forward with their plans to re-structure or re-tool their farming operations. However this does not mean they will be able to carry out their plans. Farmers can only make these adjustments in their operations if they can access the financial capital they need to purchase farm assets such as cows, machinery, equipment, and land.

The objective of this paper is to provide the reader information about some farm credit issues. The issues we will consider in this paper are: 1) financial conditions in Wisconsin agriculture; 2) existing federal and state farm credit programs; and 3) potential new uses for loan guarantee programs. Hopefully the information presented in this paper will be helpful to policymakers who want to ensure that Wisconsin farmers will have ready access to the financial capital that is needed to fund expansions and investments in new equipment and technology.

## **Financial Conditions in Wisconsin Agriculture**

In this section we will consider some information that shows how the financial condition of Wisconsin agriculture has changed over the years. The financial variables we will consider are: 1) farm business income; 2) debt to asset ratios; and 3) average per acre value of farm real estate. The source of this information is the Economic Research Service of the United States Department of Agriculture.

Figure 1 shows how farm business income varied during the 1949 to 1992 period. This graph shows two interesting things. First it shows that farm business income has been trending upward at an increasing rate. This is encouraging because it suggests that farm income is likely to be higher in the future. The second important thing shown by figure 1 is that, since about

1980, farm business income has become much more volatile than it was in previous years. This increased variability in farm income is a cause for concern because it may be a signal that farmers incomes are not going to be as stable in the future.

The debt to asset ratios reported in figure 2 show that except for the period from 1981 to 1988, farmers debts have generally been equal to roughly 20 percent of the value of farm assets. During the 1981 to 1988 period, however, farmer debt to asset ratios were generally above the norm of 20 percent. These higher debt to asset ratios for the 1981 to 1988 period can be traced to precipitous declines in farm land values low farm incomes during the first half of the 1980s.

Figure 2 clearly shows that since 1984 the debt to asset ratio has steadily moved down towards the normal level of .20. This improvement in the debt to asset ratio occurred because farm income rose and real estate values moved back to pre-crisis levels. The return to a debt to asset ratio of .20 is a signal, of sorts, that agriculture is back to a "normal" financial position.

Figure 3 presents the average per acre value of Wisconsin farm real estate for the 1950 to 1994 period. In addition to the actual per acre real estate values, the figure also reports some trend data that shows how real estate values have generally been changing over time.

From figure 3 we see that actual real estate values are roughly the same as the time trend values in all years, except for the period from 1976 to 1986. This period where noticeable differences are observed between actual real estate values and time trend values is the time when speculative forces were at work in the farm real estate market. In the first half of this period land value rose to successively higher levels. In the later half of the period, real estate values plummeted until they came back in line with the long run trend for real estate values. This return to "normal" appears to have occurred in 1986. The similarities between actual and time trend values for farm real estate in the most recent years would seem to be evidence that Wisconsin farm real estate values have regained the stability they exhibited prior to 1976.

#### **Existing Federal and State Farm Credit Programs**

Both the federal and state governments have established credit programs that are intended to assist farmers in gaining access to financial capital. The federal farm credit programs are administered by the Rural Economic Community Development Service (RECDs). This federal agency is better known by its former name, which was the Farmers Home Administration. The state's farm credit programs are administered by the Wisconsin Housing and Economic Development Authority (WHEDA). We will now consider some of the credit programs that are administered by these government agencies.

The primary mission of the RECDs is to provide credit assistance to farmers who cannot meet the credit standards of financial institutions in the private sector. This means RECDs works with "high risk" farmer borrowers who are likely to default on loans. The federal government has been willing to take on these risks in order to help beginning farms, with minimal equity, get their start in farming.

There are a variety of ways that the RECDs provides credit assistance to beginning farmers. This agency sometimes provides low interest rate loans directly to farmers but it more frequently guarantees loans that farmers are able to obtain from banks, farm credit service centers, and other credit institutions. These loan guarantees are typically for 90 percent of principal and interest. Farmers can use this guarantee program to get both operating credit and real estate mortgages.

The demands for assistance from the RECDs are typically greater than the amount of funds the agency has available to make direct loans and/or loan guarantees. This is a problem that will only be solved if the federal government authorizes the RECDs to expand its lending activities. This is not likely to happen, however, given that the federal government is trying to curb spending.

Wisconsin has been helping farmers get operating credit for approximately 10 years. The states operating credit program is referred to as CROP, which stands for Credit Relief Outreach Program. This lending program was initiated in 1985, when the farm crisis was at its peak. WHEDA administers this program that is targeted at farmers who have debt to asset ratios in the range of .40 to .70 and the ability to generate positive cash flows. Under this program, lenders have received 90% loan guarantee on operating loans of \$20,000 or less and farmers have received an interest rate reduction of 2%. The cost of this interest rate adjustment was born by WHEDA versus lenders. This arrangement allowed lenders to earn returns on CROP loans that were near the market interest rate while farmers obtained credit at below-market rates. Wisconsin lawmakers decided to eliminate this interest subsidy for CROP loans this year.

Last year Wisconsin initiated another farm program which is intended to provide credit assistance to beginning farmers. This special credit program, which is also administered by WHEDA, makes use of a tax-exempt bonding program authorized by the Internal Revenue Service (IRS). This program allows a lender to receive a tax-exempt bond in exchange for a farm loan that would be subject to federal income taxes. The conversion of taxable loans to tax-exempt bonds creates tax savings that lenders can use to write reduced interest rate loans to beginning farmers. Thus the benefit of this program is cheaper credit for beginning farmers.

To date, the Beginning Farmer Loan Program been a bit of a disappointment because few loans have been made through this program. Some persons argue that the lack of participation in this program can be blamed on IRS regulations which say that exchanges between family members are ineligible for tax-exempt bonding programs. This argument probably has some validity, but it is hard to believe the restriction on family transfers is the only reason this program has not had greater participation.

The Beginning Farmer Program's lack of success could be a signal that the program is missing the mark. This program provides interest rate relief to beginning farmers but it does nothing to control the risks of lenders. This lack of benefits for lenders could be the reason that participation in the program has not been as high as hoped.

#### **New Uses of Loan Guarantee Programs**

It is interesting that the participation in the CREDS and WHEDA loan guarantees programs have been good while the Beginning Farmer Program has floundered. This information seems to suggest that controlling lenders risks versus reducing the costs of loans is the best action government can take to ensure that farmers have access to financial capital. Intuitively this makes sense because lenders will generally be more willing to extend credit if the risk of loan losses is low. Since loan guarantees reduce lenders risk, it follows that guarantee programs would increase farmers' access to credit.

The loan guarantee programs of CREDS and WHEDA help beginning farmers and financially-stressed farmers but they offer no assistance to other groups of farmers who do not the equity positions needed to obtain the additional credit. The groups of farmers who are experiencing type of credit problem are: 1) established farmers who need to replace or up-grade obsolete equipment and buildings; 2) farmers who need to expand in order to allow family members to join the business; and 3) older farmers who want to sell their farms to their offspring. Guarantee programs could help solve the credit problems of these groups of farmers.

The credit problems of the farmers mentioned above stem from their lack equity. The loan guarantees could be used to cover the "equity-gaps" that are preventing these farmers from getting the new credit they need to upgrade their farming operations. Thus this type of guarantee program would be useful to lenders who have to manage risks at the same time they are trying serve the needs of farmer borrowers. The target for this program would probably be established farmers who have a history of profits and a relatively strong financial position (a debt to asset ratio of, say, .50 or less). The guarantees made under this program would only apply to "new credit" extended

to farmers.

If state government would implement a loan guarantee program like the one proposed here, a considerable number of the state's farmers could gain access to the credit they would need to expand dairy herds, build new facilities, buy new equipment, or purchase farms. These farm investment activities should boost farmers' earnings and stimulate other economic activity the state's agricultural system. Given the economic gains that could be derived from an "equity-gap" loan guarantee program, it would seem that the state would want to take a serious look at this program that could be modeled after the CROP program that has been successfully been administered by WHEDA for a decade.

FIGURE 1

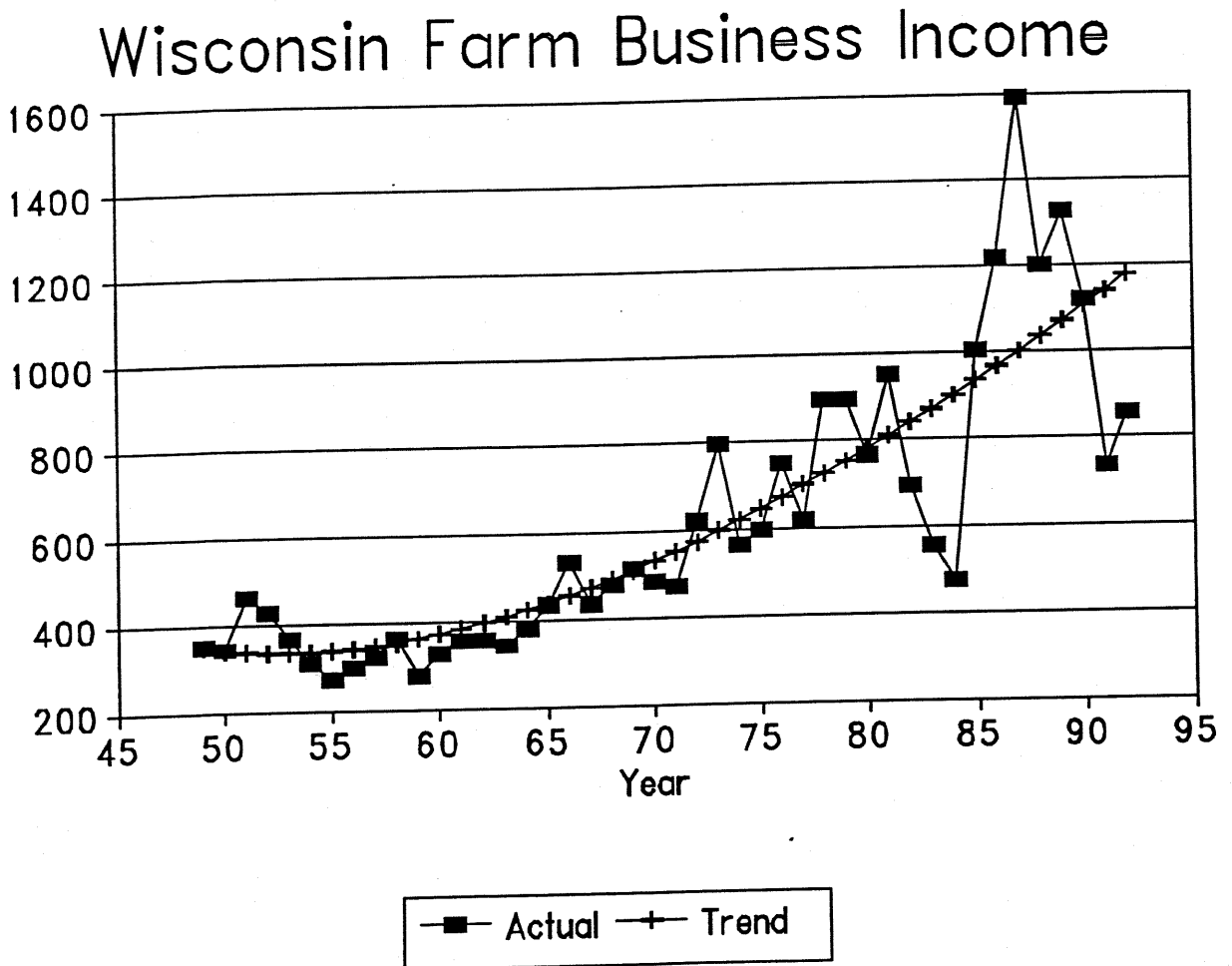


FIGURE 2

### Wisconsin Farm Balance Sheet Debt to Asset Ratio

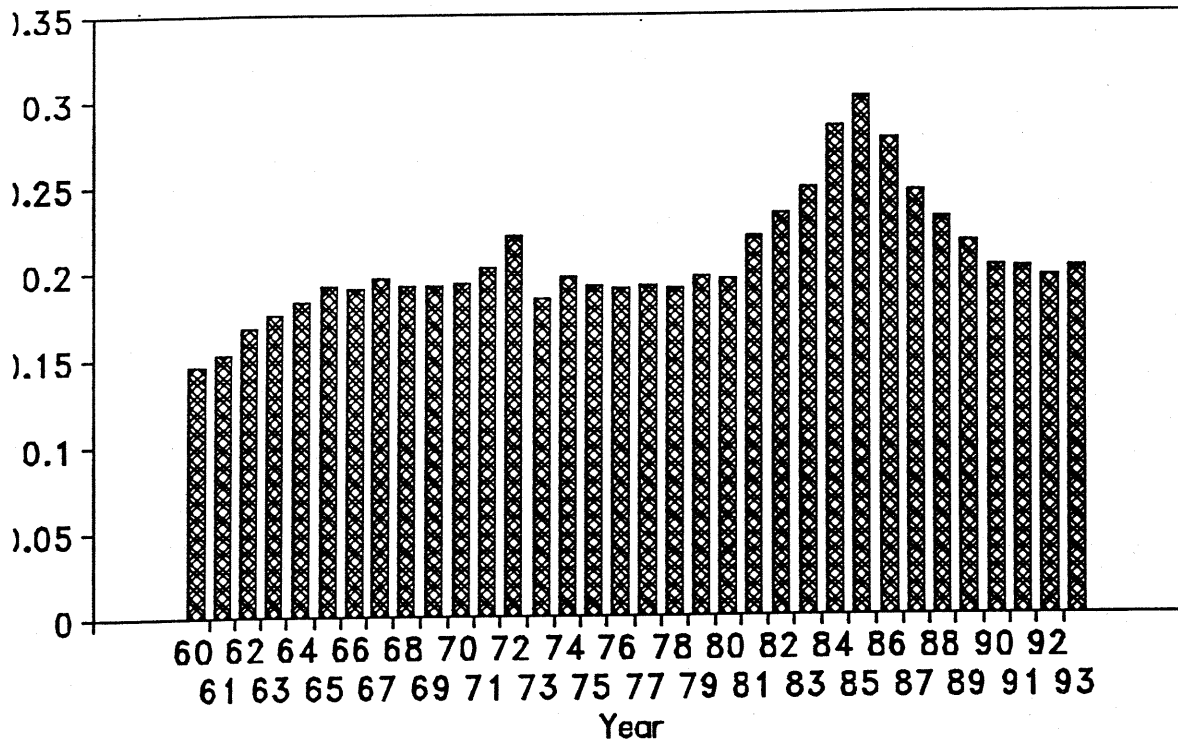
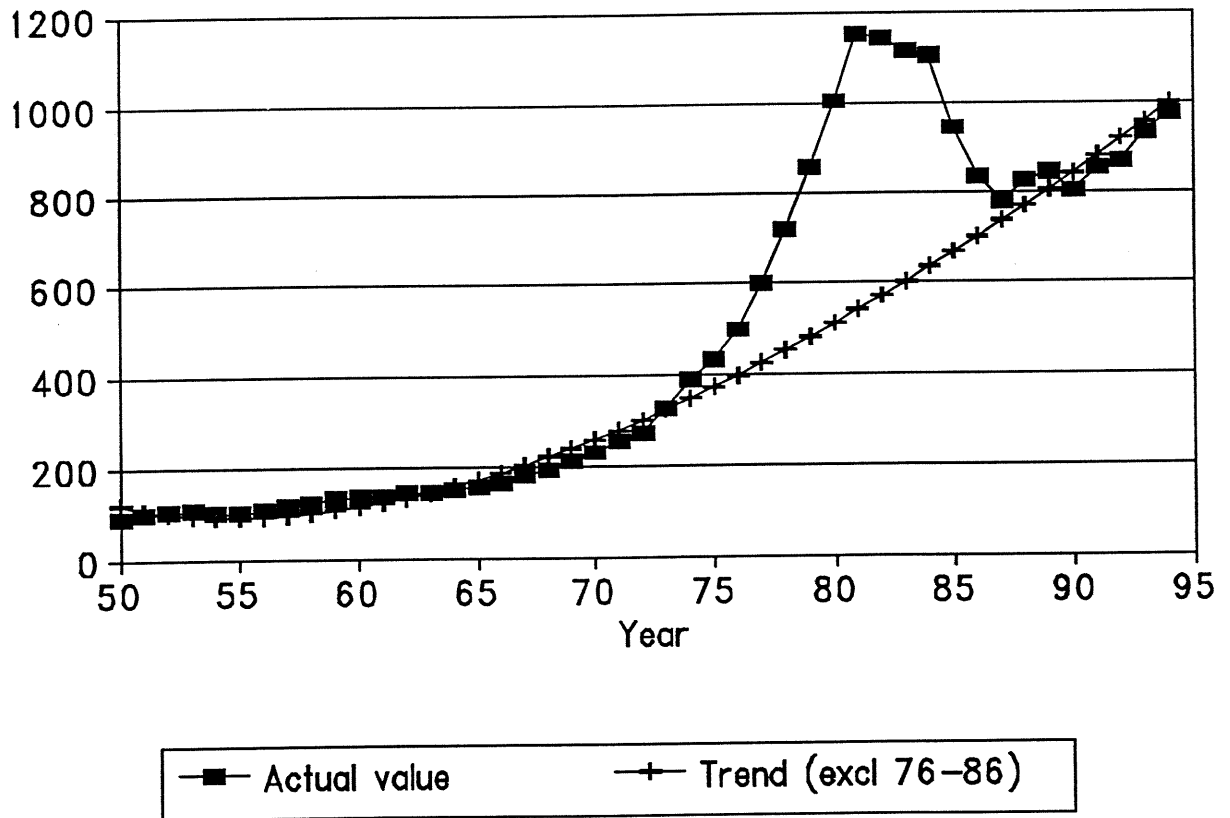




FIGURE 3

### Wisconsin Land and Building Values 1950 through 1994



FINANCIAL OUTLOOK FOR WISCONSIN  
AGRICULTURE

PRESENTED BY

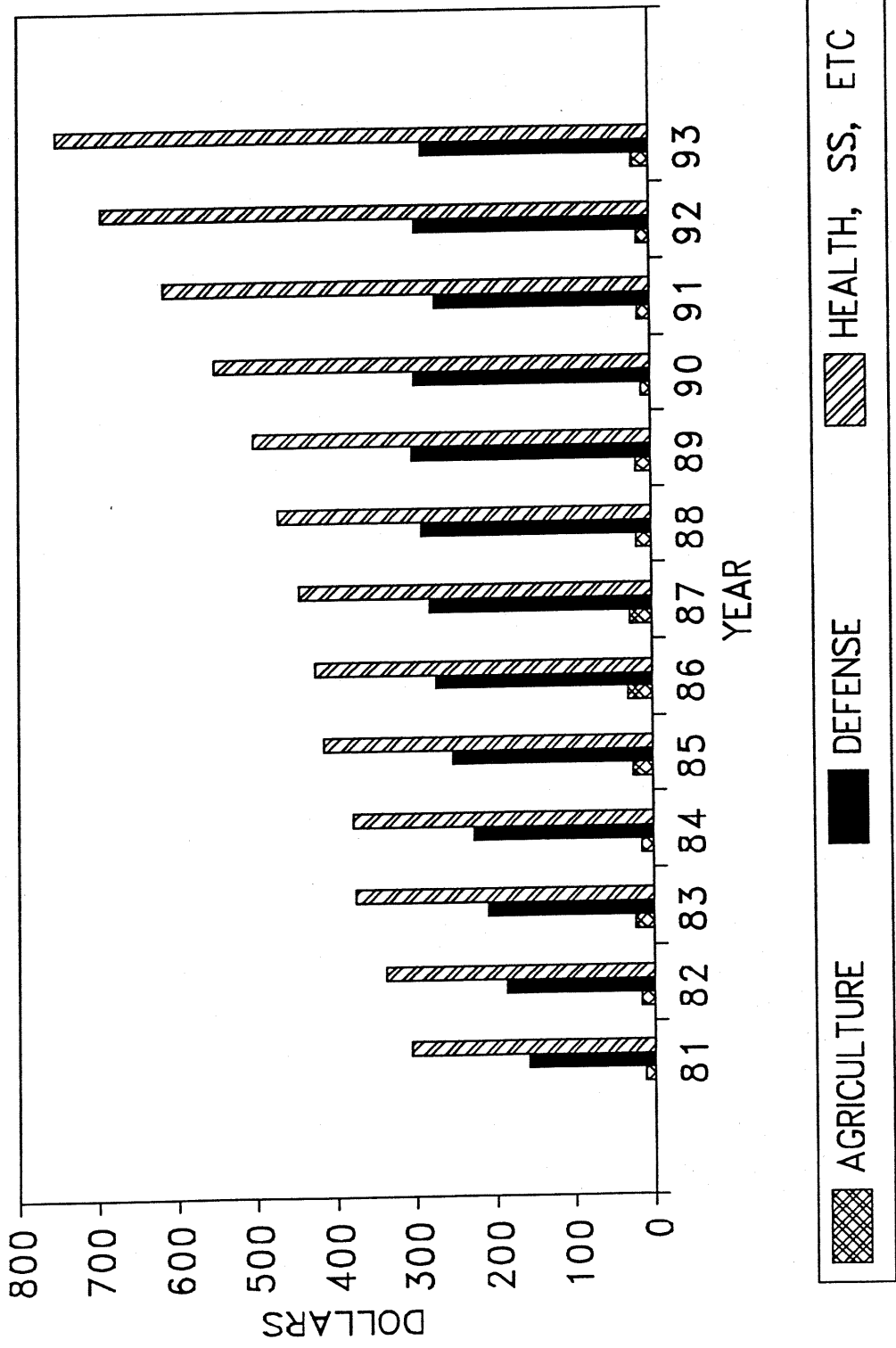
BRUCE L. JONES  
ASSOCIATE PROFESSOR &  
EXTENSION SPECIALIST

JANUARY 5, 1995

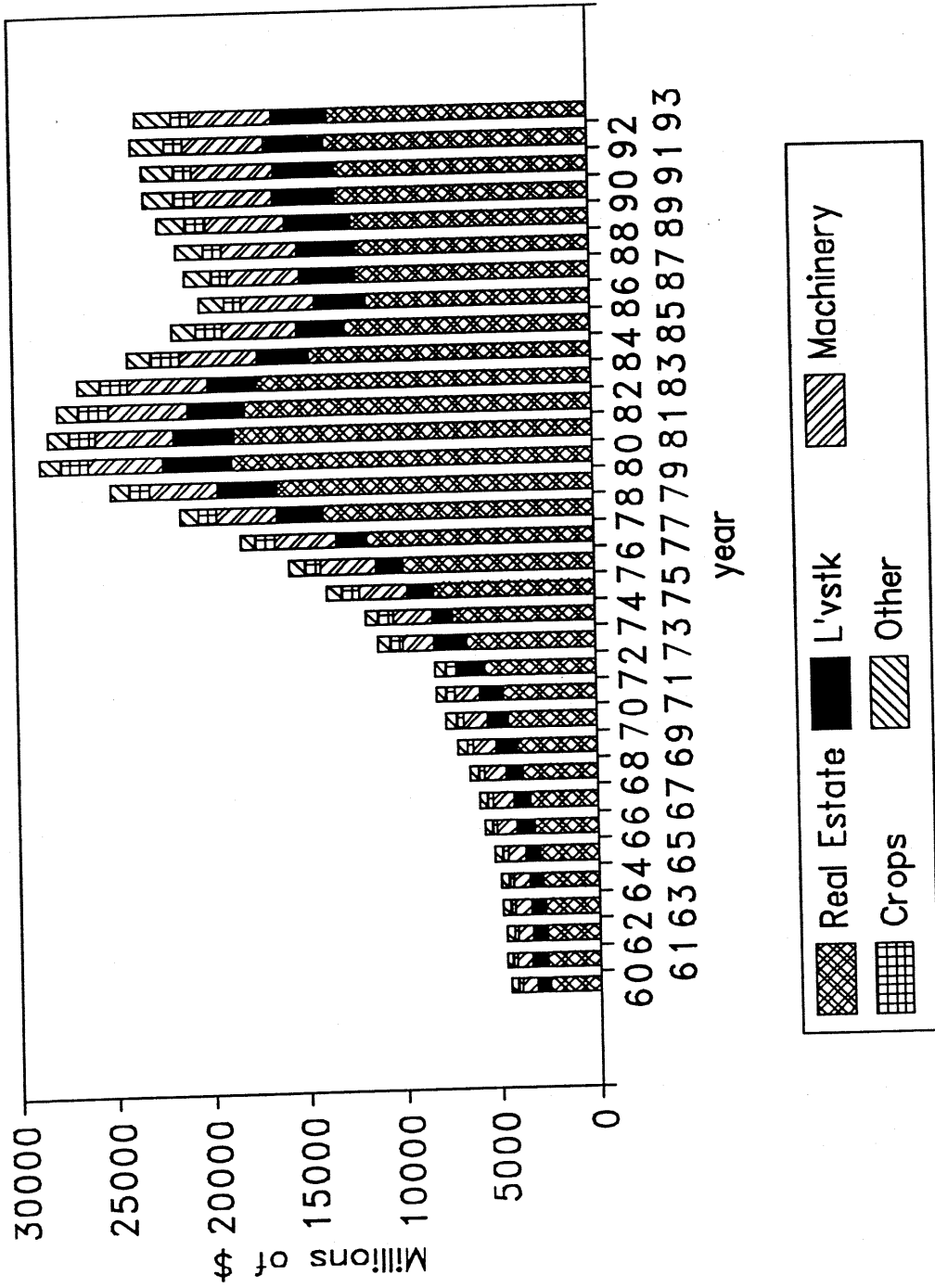
FOR THE  
WISCONSIN AGRI-BUSINESS COUNCIL, INC

# SELECTED GOVT EXPENDITURES

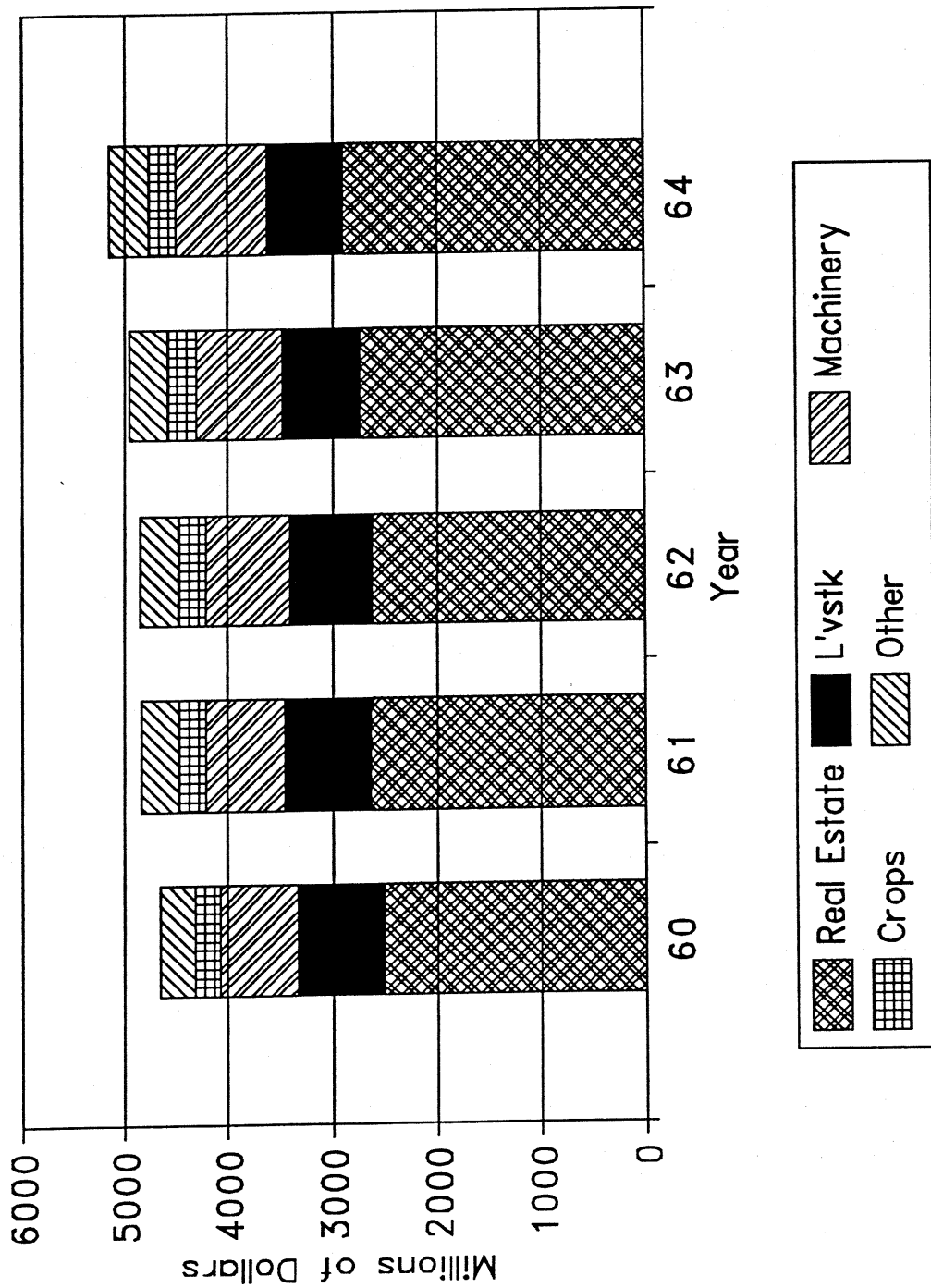
BILLIONS OF DOLLARS



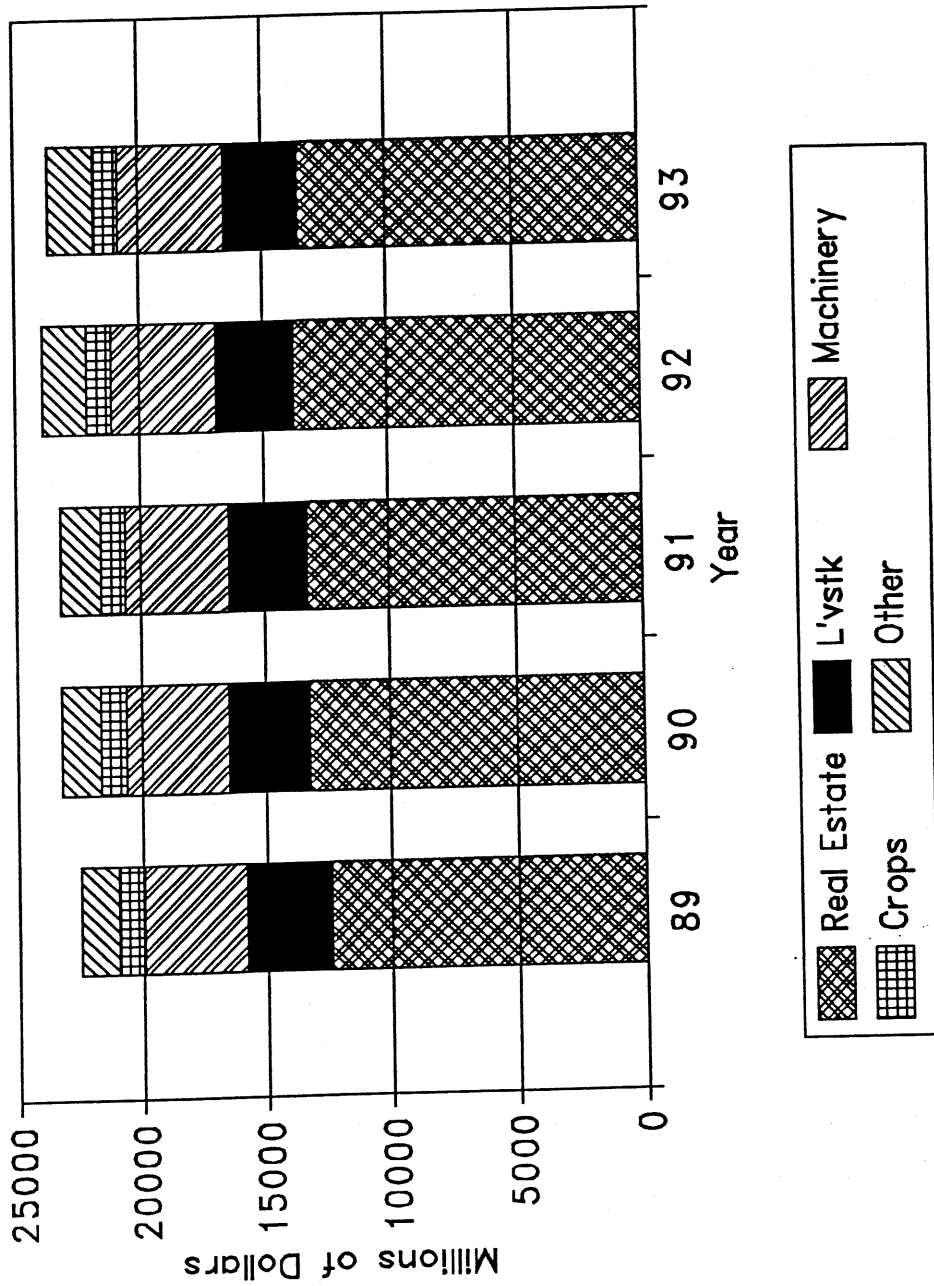
# Wisconsin Farm Balance Sheet



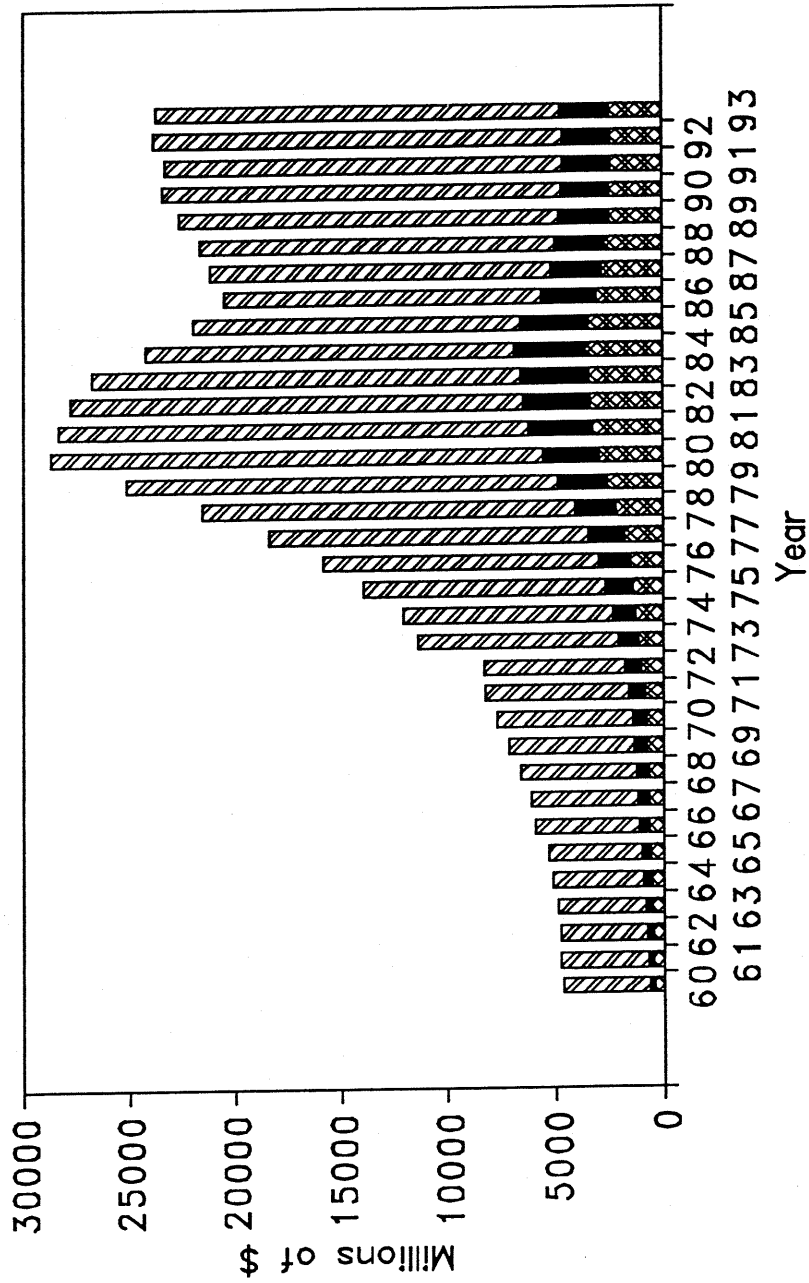
# Wisconsin Farm Balance Sheet



# Wisconsin Farm Balance Sheet

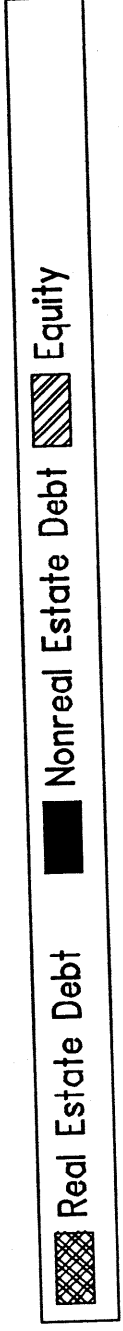
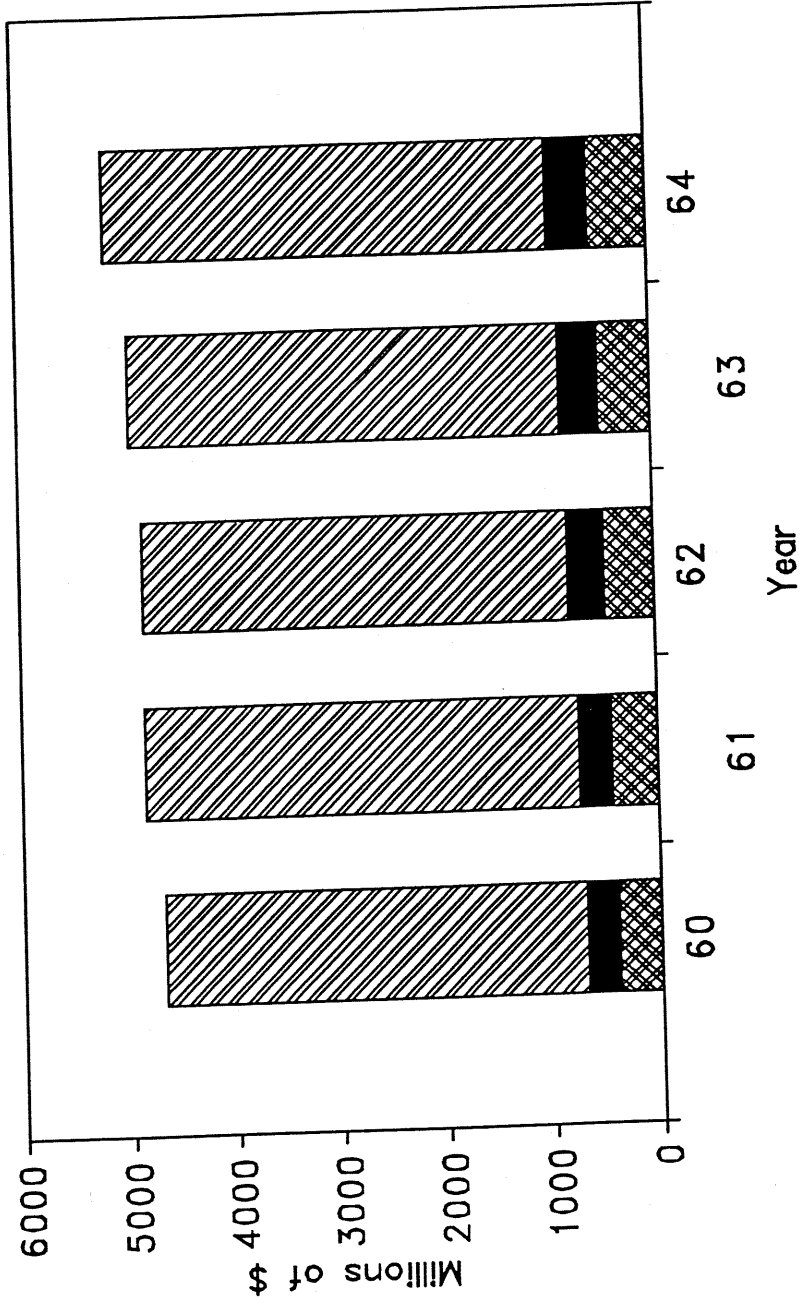


# Wisconsin Farm Balance Sheet



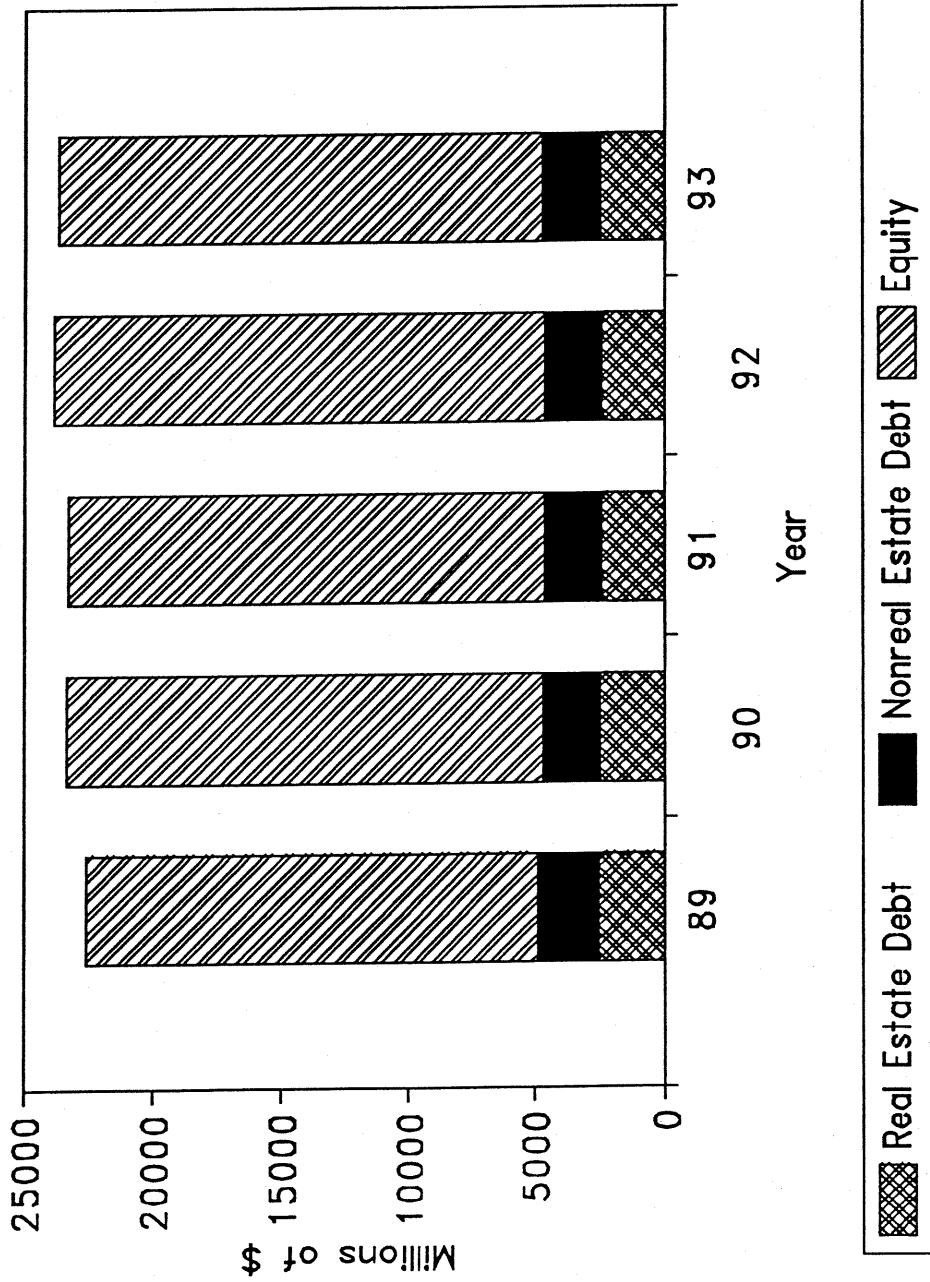
Real Estate Debt    Nonreal Estate Debt    Equity

# Wisconsin Farm Balance Sheet



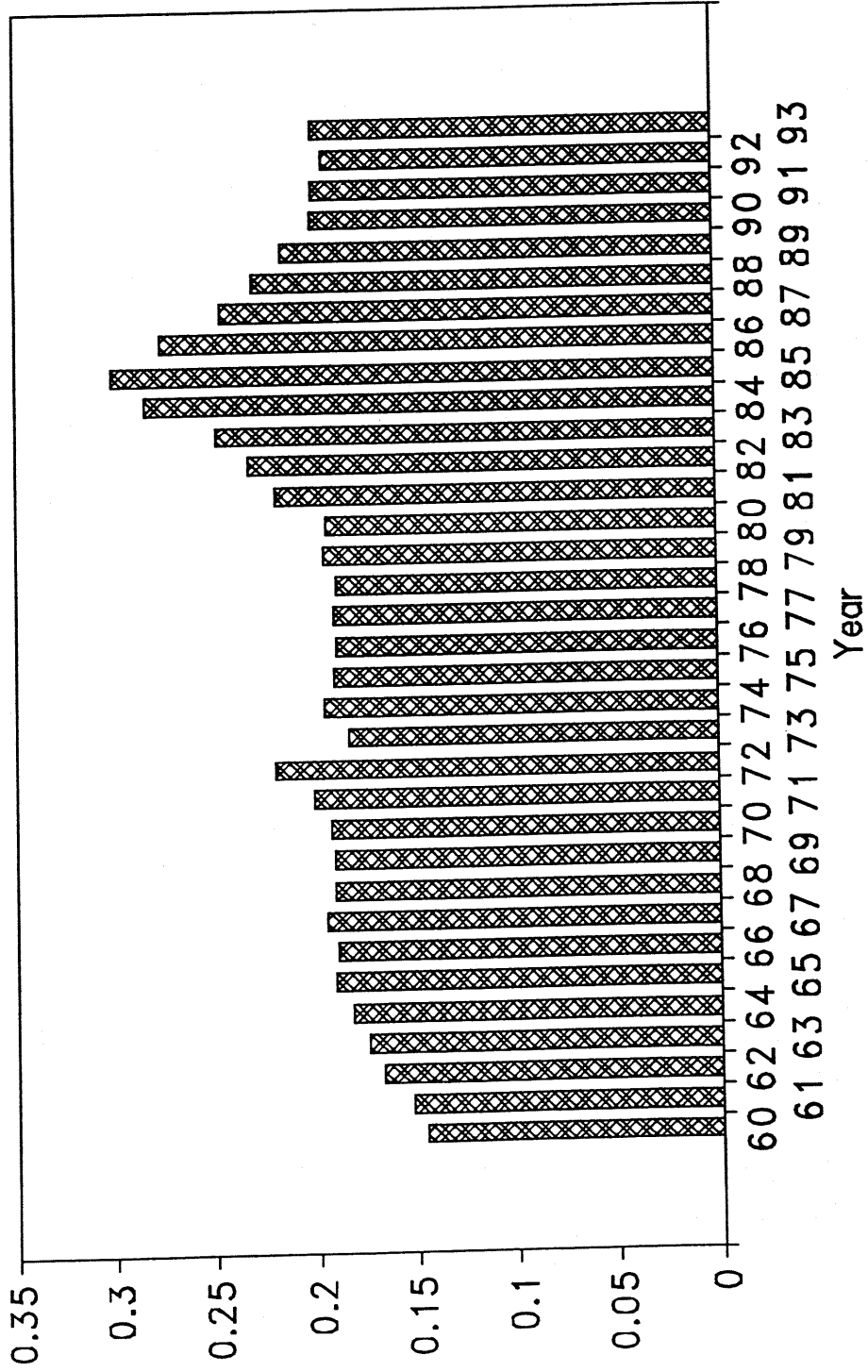


# Wisconsin Farm Balance Sheet

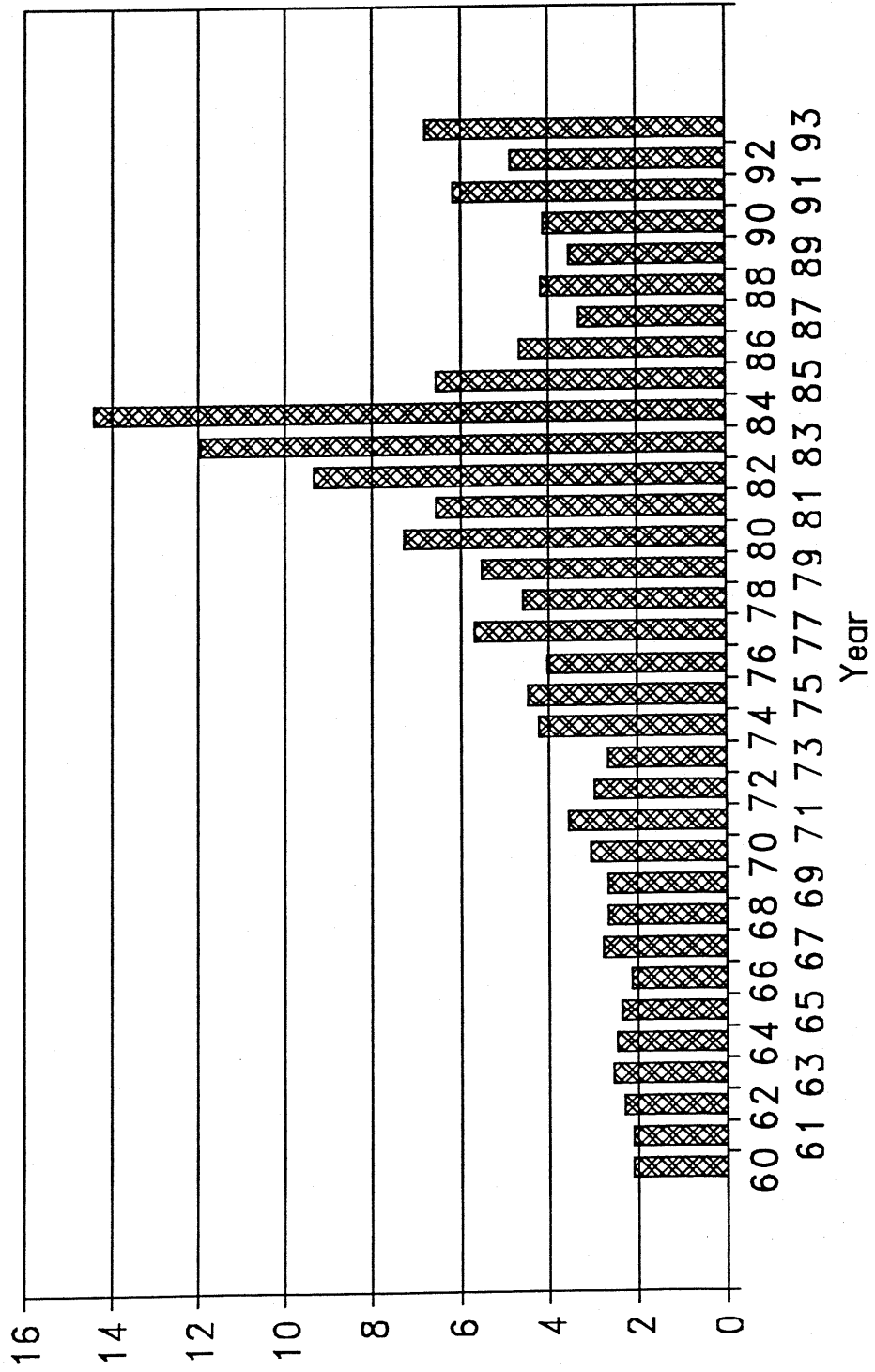


# Wisconsin Farm Balance Sheet

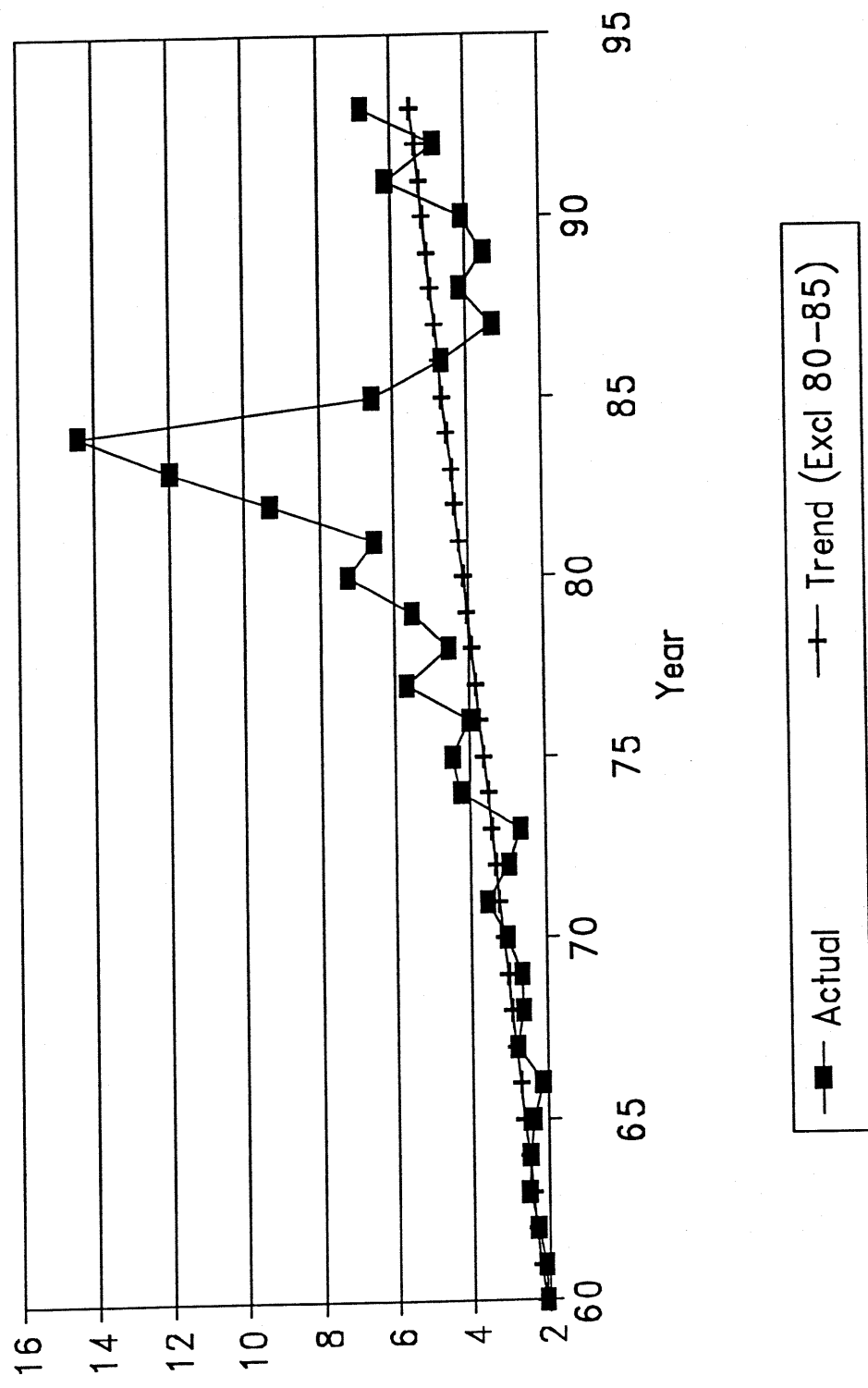
## Debt to Asset Ratio



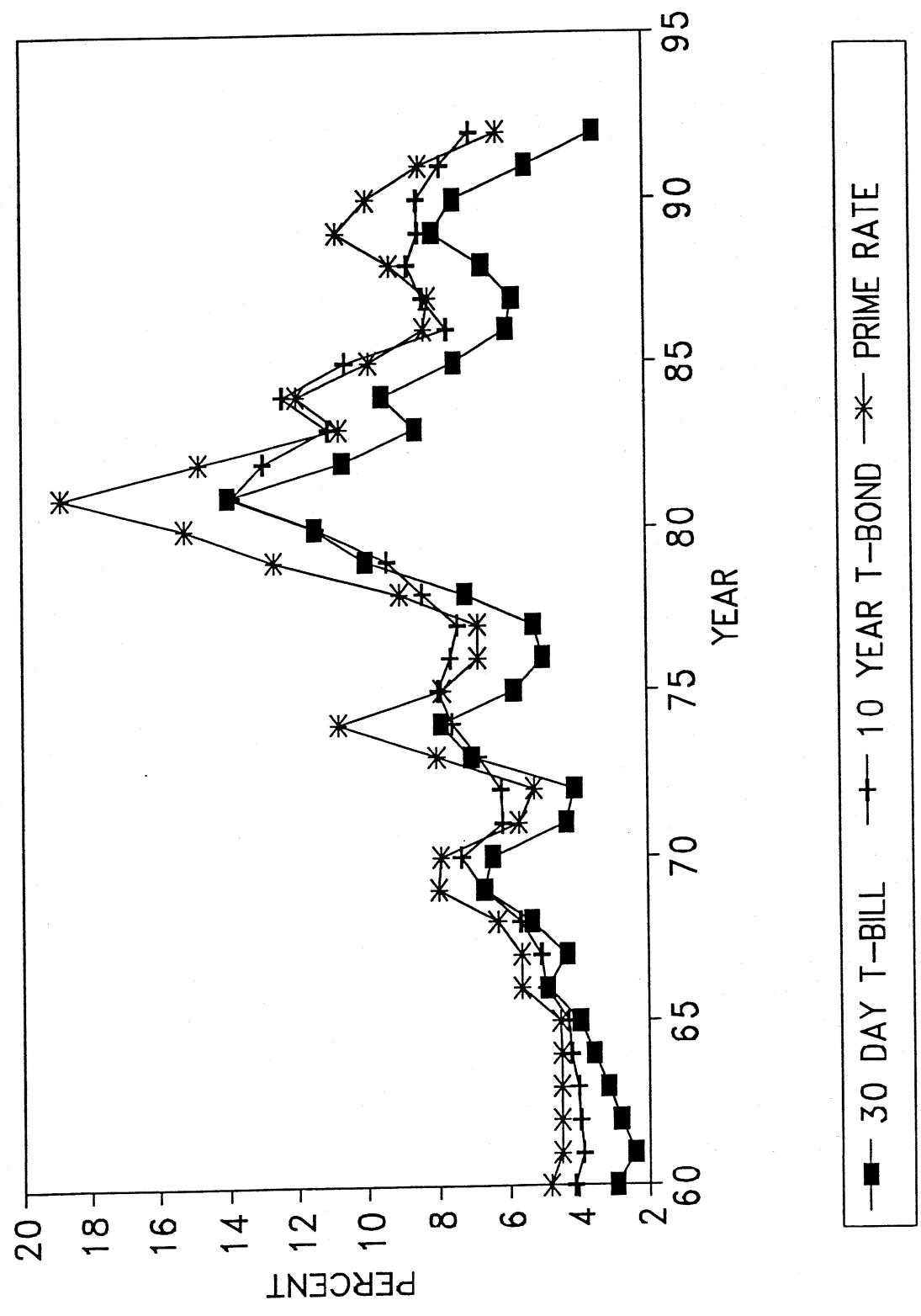
# Wisconsin Farm Debt to Income ( Farm Business Income )



# Wisconsin Farm Debt to Income ( Farm Business Income )

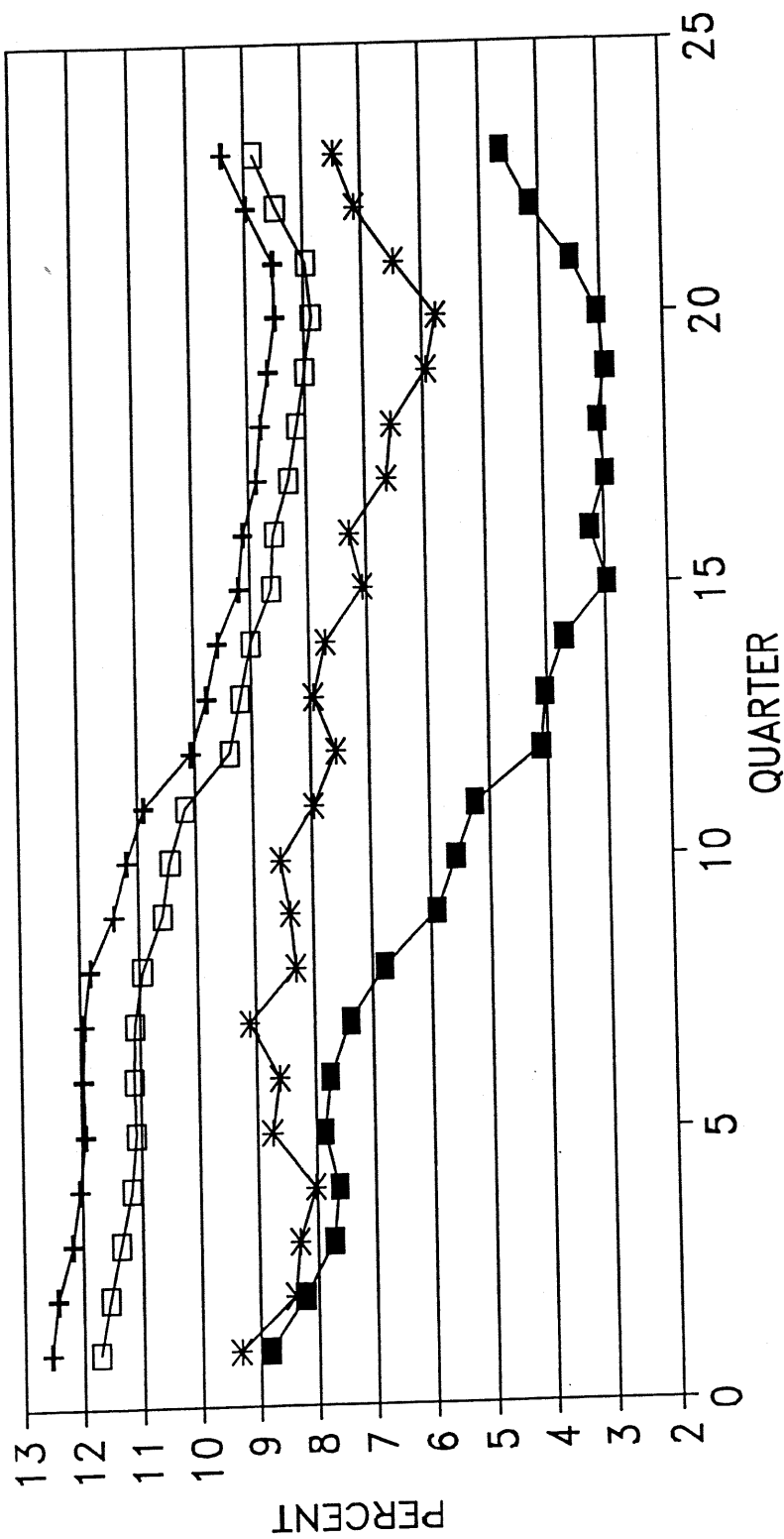


# SELECTED INTEREST RATES



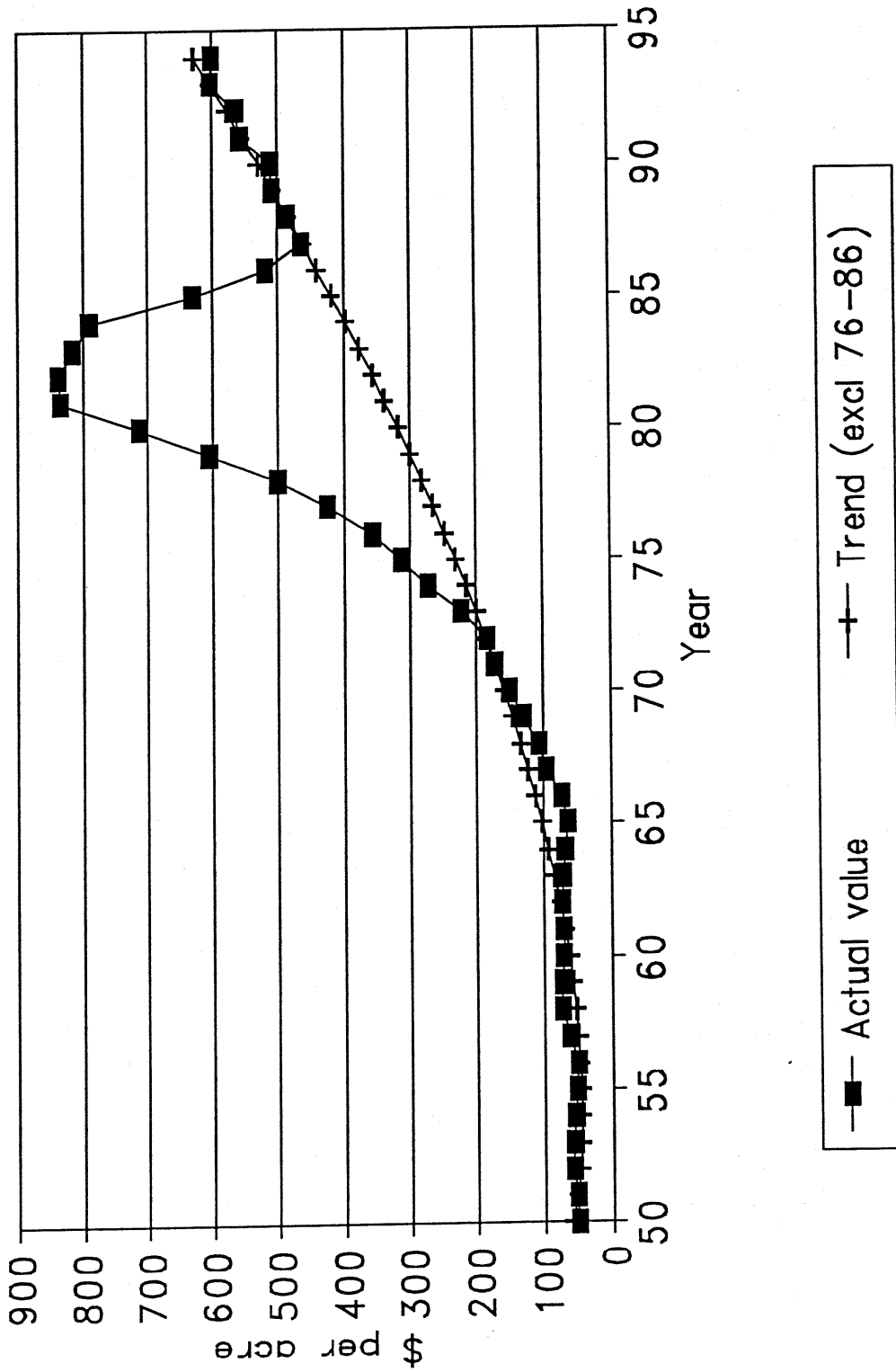
30 DAY T-BILL   
  10 YEAR T-BOND   
  PRIME RATE

# SELECTED INTEREST RATES 1ST QUARTER 1989 TO 3RD QUARTER 1994

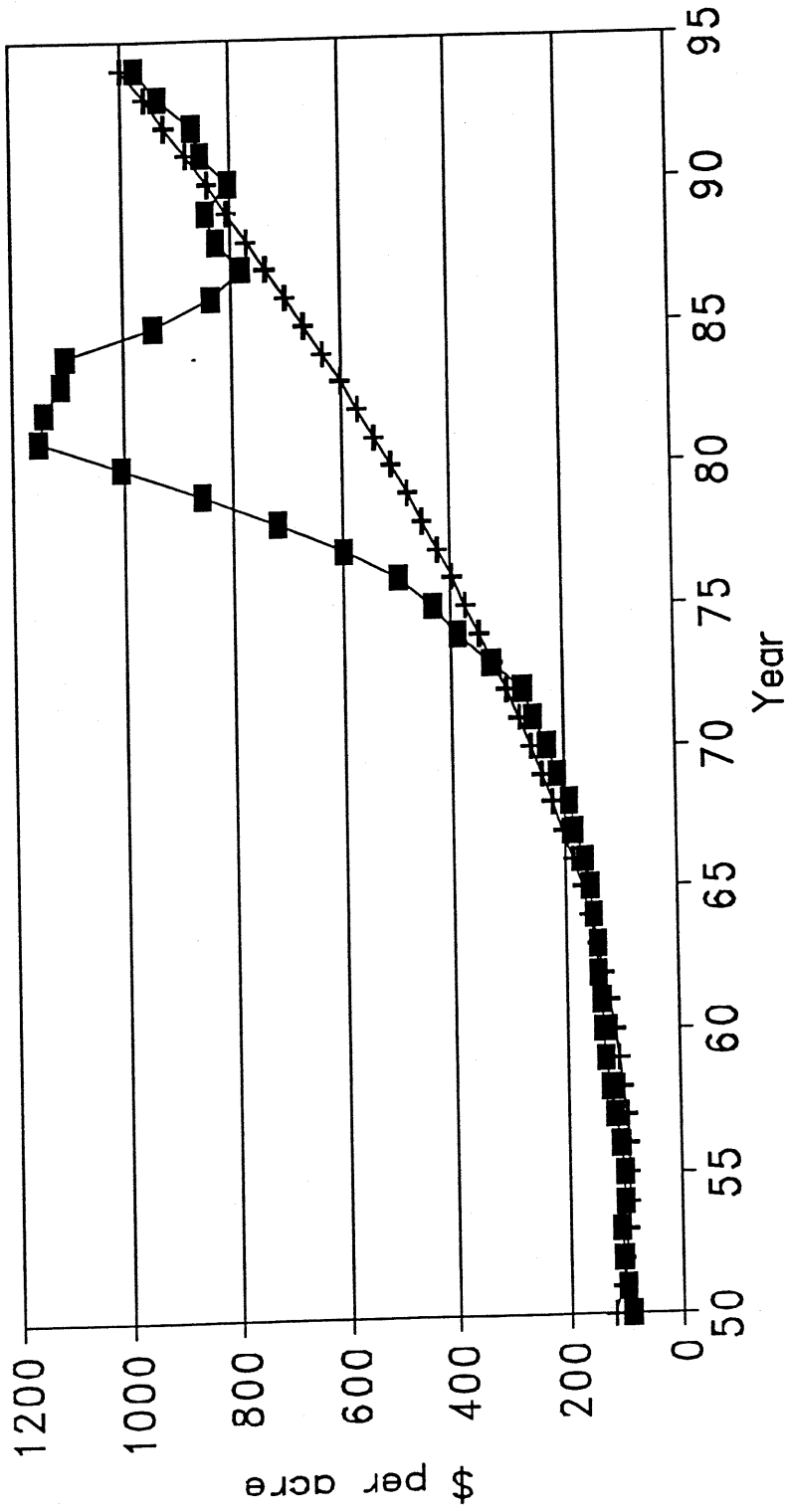


T-BILLS    
  T-BONDS    
  OPER LOANS    
  MORTGAGE

# Wisconsin Land Values 1950 through 1994



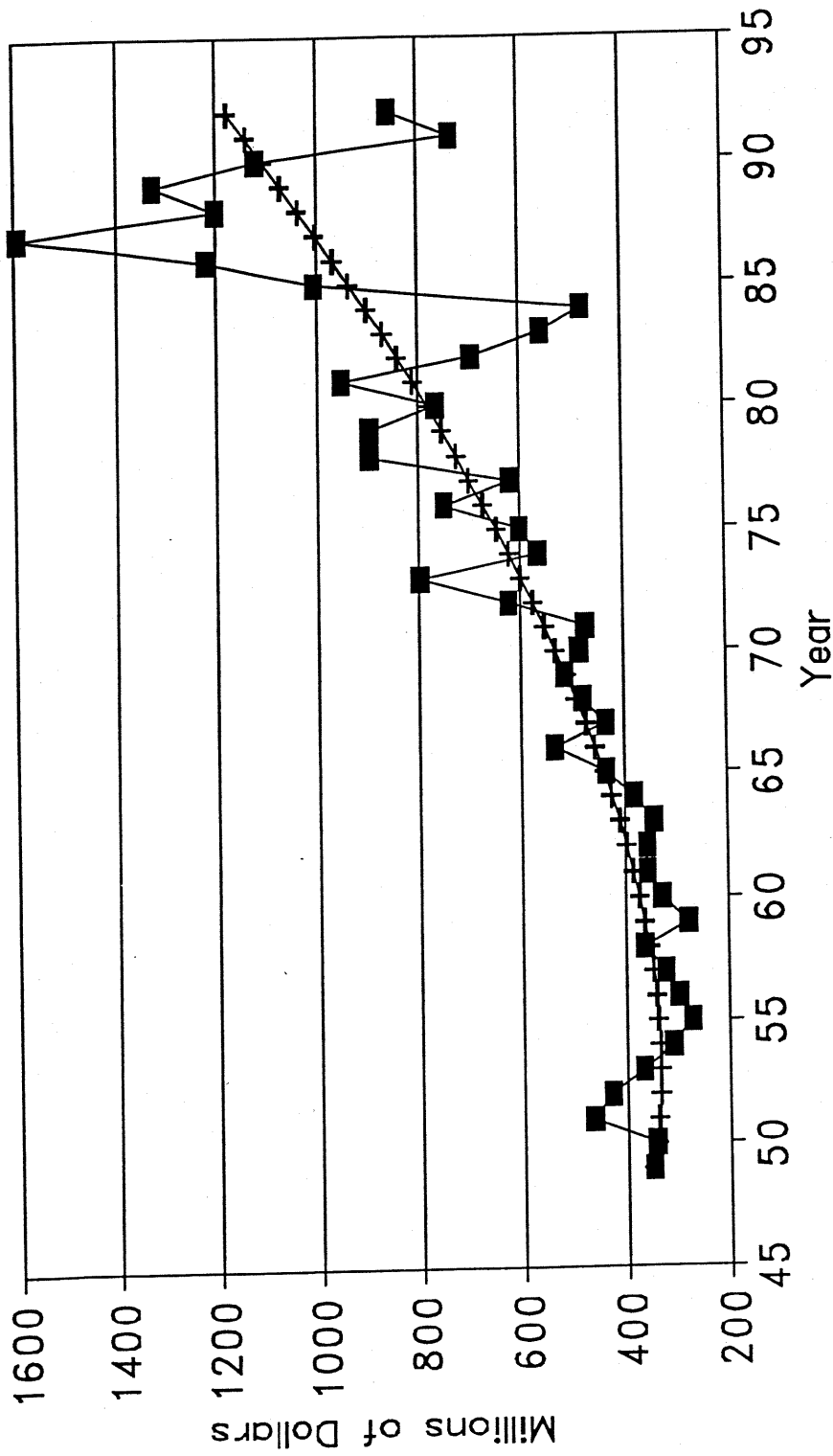
# Wisconsin Land and Building Values 1950 through 1994



—■— Actual value      - - - + - - - Trend (excl 76-86)

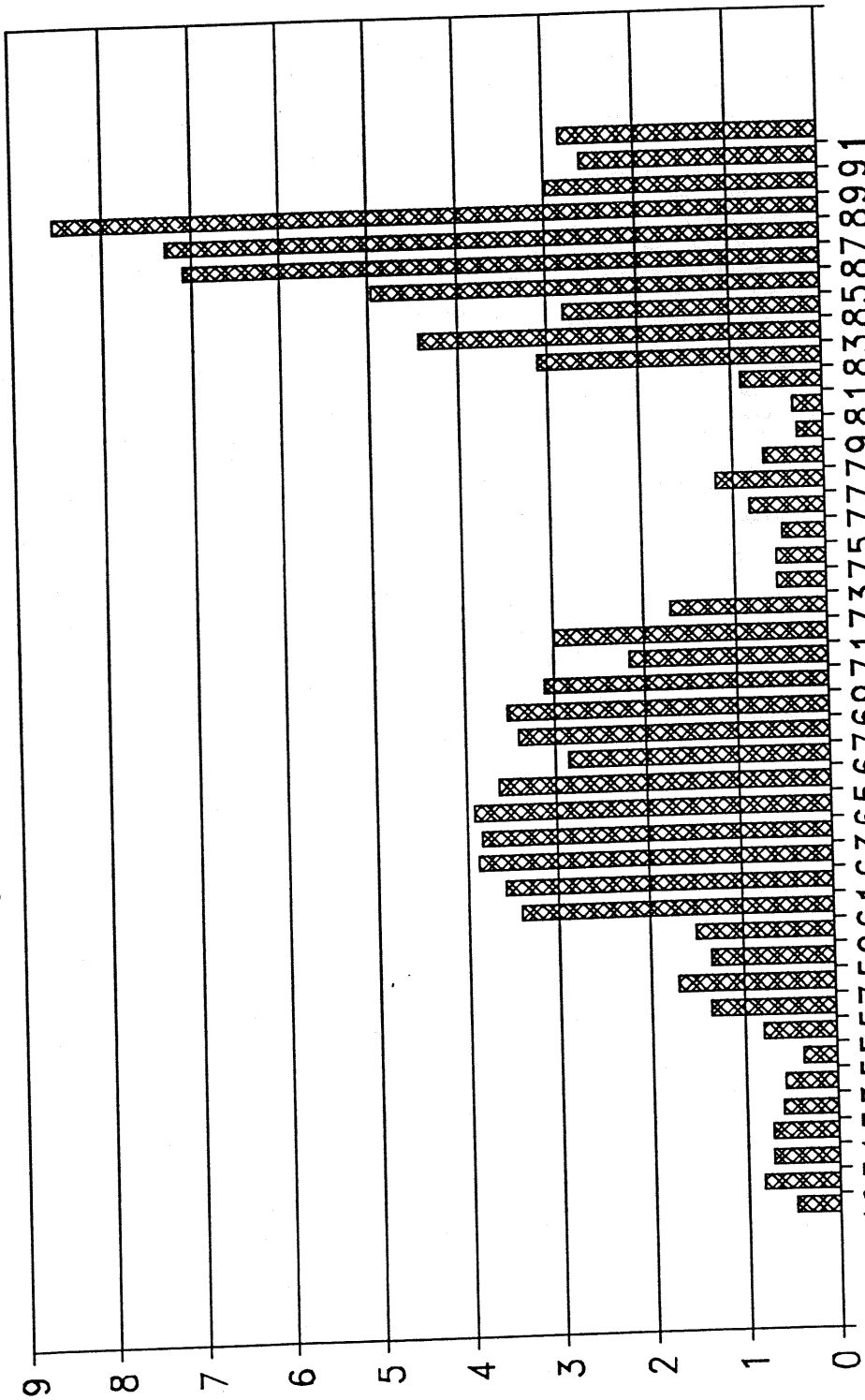


# Wisconsin Farm Business Income



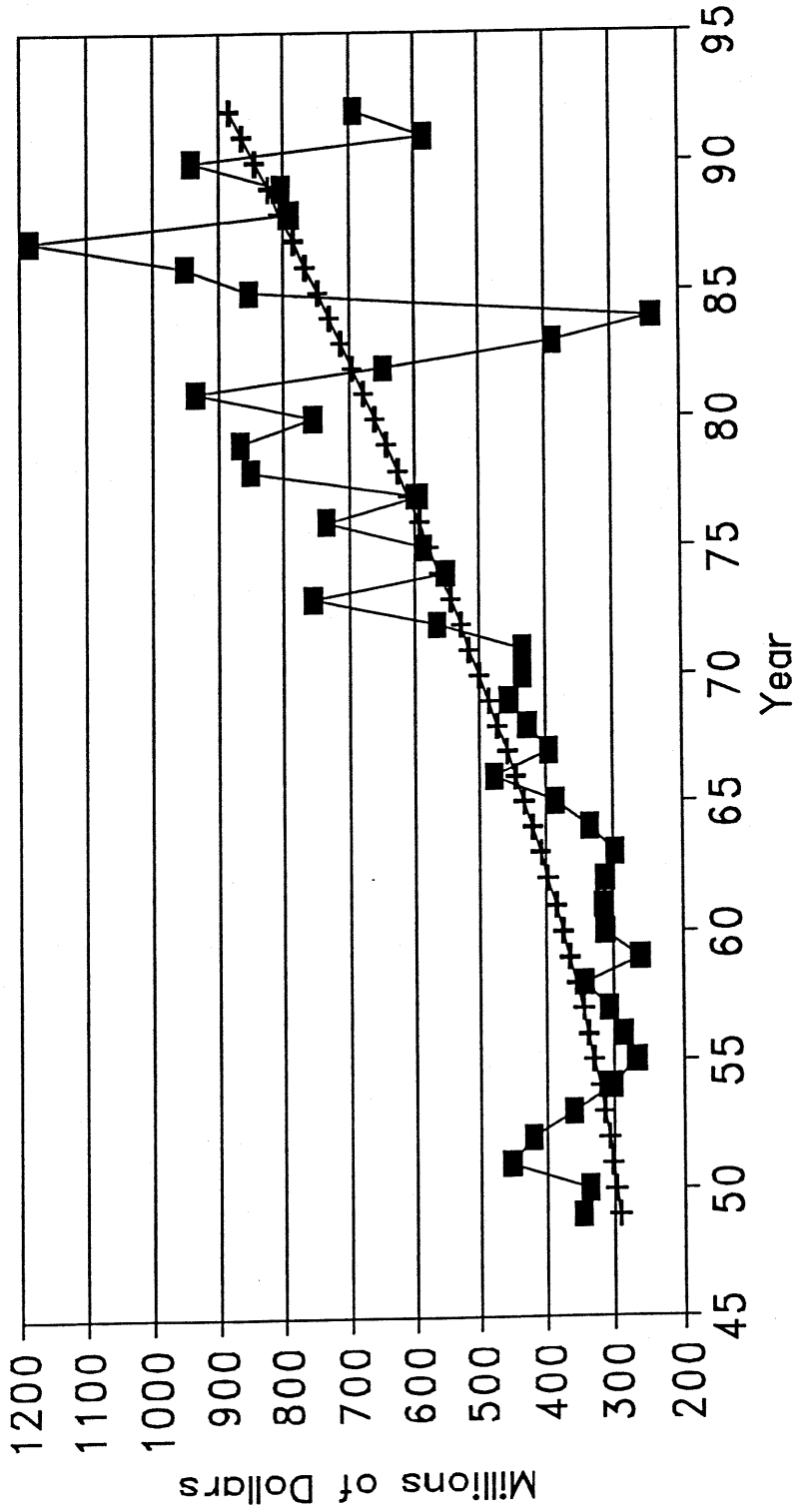
—■— Actual —+— Trend

# Government Payments as % Gross Income



49515355575961636567697173757779818385878991  
50525456586062646668707274767880828486889092

# Wisconsin Farm Business Income Net of Government Payments



Actual Trend

Firstar Bank



March 16, 1995

**Representative Alvin R. Ott**  
**Co-Chair Jt. Subcommittee on Ag Finance & Reinvestment**  
**P O Box 8953, State Capital**  
**Madison, WI 53708-8953**

**Dear Rep. Ott:**

Firstar Bank Manitowoc is a \$225,000,000 bank located in Manitowoc, Wisconsin. We presently have \$82,000,000 in agricultural loans with a high percentage guaranteed by the Rural Economic & Community Development or WHEDA. We have found the guaranteed loan programs to be very beneficial to not only protect our Bank's interest but also to structure loans to give customers the best interest rates and repayment terms available.

We feel that there are some issues and areas that should be reviewed to improve the agricultural finance industry in the state of Wisconsin.

**1. Separate Personal Property Collateral Lines**

As the agricultural industry changes to larger more efficient operations, the financial industry needs to change along with it. We would like to be able to separate collateral when refinancing debt. A bank could then make a \$400,000 guaranteed loan with RECD that is secured by livestock and a non-guaranteed loan could be made that is secured by machinery and equipment. We would also like to see a revision to allow additional liens on the same collateral. In this situation we could make a guaranteed loan behind an in-house loan and secure it with a second lien on all personal property.

**2. Father-Son Transfers**

Current RECD regulations state that the applicant must be the owner-operator of the farming operation to qualify for a real estate loan. We would like to see the regulation revised to allow a lender to provide operating credit to the son or father/son partnership with an guaranteed operating loan and provide long term financing to the father, who still owns the real estate, with a guaranteed farm ownership loan. This would allow banks to help young farmers get started while reducing the risk of the outstanding credit with the father. It is rare that the son has the capital to buy into both sides of the operation or for the father to be able to sell both sides of the operation due to tax consequences.

**Firstar Bank Manitowoc:**  
167 / Washington Street  
PO Box 1230  
Manitowoc, Wisconsin 54221-1230  
414/682 4681  
414/682 3308 FAX

**Two Rivers Office:**  
1516 Washington Street  
Two Rivers, Wisconsin 54241  
414/793 1358  
414/793 1334 FAX

**Lakeview Office:**  
1708 Memorial Drive  
Manitowoc, Wisconsin 54220  
414/682 4681  
414/682 3308 FAX

**3. Raise Guaranteed Loan Limits**

As the cost of inputs, machinery and equipment, real estate and building costs continue to increase, there is a need to raise the present guaranteed loan limits. We would like to see the maximum raised from \$700,000 to \$1,000,000 plus.

**4. Family Farm**

Redefine the "Family Farm" definition to open the guaranteed loan program up to the larger family operations we see in all areas of agricultural.

**5. Streamlined Application Process**

Expand the RECD Certified Loan Program to include real estate loans. Streamline the WHEDA program for lender's who utilize the program on a regular basis.

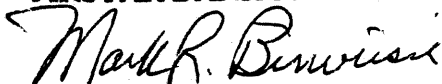
**6. WHEDA Crop Loans**

We have been a regular user of this program. We feel the main benefit is the guarantee it offers. It provides our bank with a low risk financing tool to provide short term financing to a farmer who has limited collateral to offer as security.

Firstar Bank Manitowoc feels very strongly that the agricultural industry is a very integral part of the overall economy in the state of Wisconsin. We see the numerous guaranteed loans programs as an important tool in working with the farming community. Thank you for the opportunity to present our ideas and knowledge of the agricultural finance industry to your Subcommittee.

Sincerely,

**FIRSTAR BANK MANTTOWOC**



**Mark R. Binversie**  
**Vice President**

# FISCAL YEAR 95 FARMER PROGRAMS FUNDING STATUS

*Ray Ellenberger*

TYPE	FY 95 ALLOCATION RECEIVED	OBLIGATED AS OF 3/15/95	NUMBER OBLGTD	BALANCE	NUMBER	AMOUNT
				AVAILABLE 3/15/95	PENDING 3/15/95	PENDING 3/15/95
36 G-FO	\$17,004,415	\$16,927,415	90	\$77,000	0	\$0
203 G-FO Beg Farmer	\$4,677,000	\$1,029,220	10	\$3,647,780	0	\$0
	-----	-----	-----	-----	-----	-----
	\$21,681,415	\$17,956,635	100	\$3,724,780	0	\$0
153/048 G-OL 1 YR/LOC	\$13,314,000	\$3,505,920	63	\$9,808,080	0	\$0
51 G-OL 7 YR	<u>\$53,256,000</u>	\$12,245,530	92	\$41,010,470	0	\$0
153/048 G-OL IA 1 YR/LOC	\$2,063,000	\$240,000	3	\$1,823,000	0	\$0
51 G-OL IA 7 YR	\$5,515,170	\$5,479,170	34	\$36,000	42	\$6,309,210
209/225 G-OL BF IA 1 YR/LOC	\$1,376,000	\$0	0	\$1,376,000	0	\$0
	-----	-----	-----	-----	-----	-----
	\$75,524,170	\$21,470,620	192	\$54,053,550	42	\$6,309,210

*# 4/1 mail  
avail*

-----  
Key

- - G-FO = Guaranteed Farm Ownership
  - G-OL = Guaranteed Operating Loan
  - BF = Beginning Farmer
  - IA = Interest Assistance
  - SDA = Socially Disadvantaged
-

3-16-95 - Subcommittee

Jones

BWCE ~~Q111111~~

- overall financial position of w/ farmers has improved
- land prices are up

- debt to asset position

.20¢ for each \$1.00 - norm over 30-40 years

(farm crisis in early 80's .30¢ for each \$1.00 - now  
back down since '86 - recovered from crisis)

- State + Fed programs

FHA (Rural Econ...)

- focus attention on financially stressed + low-income beginning farmers

State

- some success w/ CROP - targeted at farmers w/ good ability to generate cash flow
  - 40% debt to asset
  - some could have used more \$

- Beginning Farmer - been a disappointment, not ill conceived, but hasn't caught on like people thought it would
  - perhaps reason - doesn't meet credit need of people in question

must be in sound financial position, show good collateral  
\* not enough farmers in this position

What can state do?

- guarantee programs have worked
- 3 groups in need of credit:
  - established farmers that want to expand / update technologies

\* equity gap program

25% guarantee on total package

### Dwaine Sievers

- Problem - age

- Rank 26<sup>th</sup> in nation in production per cow

- don't have the modern facilities allowing us to compete - why?

almost 50% of farmers are over 50, they're looking at retirement

- ~~we~~ allow equity to flow to young farmers to build - WHEDA, state guarantee.

- Aggie Bond

- 2000 inquiries in first 60 days

→ 7 closed loans

- no incentives for lenders (CROP - 90% guarantee, didn't cost anything)

Bobbi

- constituent pd. \$932 on \$6200 loan

started @ 7<sup>3</sup>/<sub>4</sub> % interest, now up to 8% - no lock in

? Is the interest truly tax-exempt (federal)

al

how are going to become more competitive if keep adding debt?

- young people can pay back over a long time, but don't have equity to get loan, they will pay back and be competitive



Siewers, cont.

concern - all marketing facilities will disappear, they are getting older, won't rebuild here if we keep losing dairies

- some processing facilities in need of capital

\* enhancing production facilities, not

Joe McCaw - Telmark, Inc.

- 3 1/2 years in WI + Illinois (1992 - 1st full year \$300,000  
~~around~~ around for 30 years (this year - \$13 million)

- terms 2 to 7 yrs. on equipment

- also lease bldgs., oilos <sup>5-10 years</sup> - no land or cattle

- also ag businesses, cheese companies

- 60% of business thru dealer referrals, rest thru ads

- person gets pre-approved then goes + gets best deal from dealer

- work w/ other lenders a lot - expansions

- their challenge → dealing w/ young farmers

lower capital gains tax, get younger people in farming earlier instead of waiting for someone to die

- profile: 1. fast acceleration of write-off of equip (3 year period vs. 7 year depreciation), making \$, needs write-off

2. person that can't get \$ at local bank - leases used tractor, don't need collateral

majority of customers under 40  
right now, 2% default rate in WI - overall company default in 5 states 5% -

- what if farm is sold - they take subordinate mortgage position

all - what do we need to do in WI?

- anywhere from 5-10 yrs. behind NY in how we do things, but are catching up

- disappointed in beg. farmer, IL is very successful

Norm Healy - FS Credit Corp. - subsidiary of Growmark (3 states + Ontario)

- started in 1968, reformed in early 80's (more supply oriented - supplies offered by their companies)

- financing annual production inputs

- \$80 million dispersed in 3 states

\$8.5 mil in WI (latest #)

- another program deals w/ expansion

- 8 member companies in WI - promote company directly to farmer

1. - fertilizer, chemicals, feed, fuel (annual prod. input)
2. - feeder livestock (cattle or hogs) to bring up to sale <sup>(mon/let)</sup> weight
3. (smaller) energy needs, LP gas financing, fuels, oils, greases, etc.
4. speciality programs - short-term to get product on field, fill a gap between when last loan pd. off + before new loan takes effect @ bank

\* standard account evaluation procedures - same as bank, not easy credit, they try to cooperate w/ primary lender so farmer doesn't get in trouble

→ they walk away from a lot

\* very low default rate, probably less than 1/10 of 1% over 3 state area

\* intended to be limited, short-term financing <sup>seasonal</sup>, see supply financing as niche market, not here to compete w/ banks, Farm Credit

\* No gap in finance arena as their corporation sees it

personal - ~~can~~ <sup>he</sup> deals w/ farmer on high debt to asset ratio (av. .45)

\* across the board on ages

avg. \$30,000 loans -  
most over  
\$10,000

- repeat business  
about 80%

\* In it to sell products, not in financing business like banks

- get customers thru sales  
people on the road

Mike Kuitza / Francis Friar - Farm Credit Services

- 95-98% business is w/ farmers
- about 1/2 to 1/3 farmers are optimistically positive - okay, what should we do from here

Who's buying farms?

1166 farms families were financed transfers

90% of transfers are w/in families - very few are investors

\* farm families benefit, not corporate investors

~~What's different today?~~

~~@@@~~

- Most competitive time among lenders - ample supply of credit

\* Gap occurs when family needs to expand

- young farmer that hasn't generated enough assets

- 55 yr. old that needs to do something for sons

Suggestions:

1. a little more of SBA
2. Bruce Jones' proposal

Baraboo/Wausau

8,000 farmers financed 5,000 tax returns

- return capital gains

## Problem:

1. Worth \$400,000 - sell everything  
between govt., auctioneer, real estate Lose \$160,000  
move to town, buy house \$65,000 to \$150,000 - don't do  
this, so stay on farm, but not milking... acres sitting  
there no one will farm for a long time
2. Kid from average farmer parent - may or may not get financing
3. Kid from unsuccessful farmer parent, lots of talent but doesn't farm

## Big Farmer

- Farm Credit can't participate b/c not a guarantee program

all - what can state do so that if 1 lender turns someone down,  
another lender doesn't give \$?

Create a facility after you've decided who you want to become +  
your financial objectives

Advisory teams for farmers

Don't say expansion = X, slow down

\* Capital gains  
Aerie Bond

\* state shouldn't jump in full force

\* Bruce's proposals

## Mark Binversie - Firststar, Manitowoc

- \$82 million in-house farm loans

- has utilized farm guarantee loans extensively

\* DNR regulations

- farmers will do what it takes to straighten out their business

if they know the rules, can't keep changing

- when you sell, have an updated farm or drop price

1. Separate personal property from livestock collateral → FmHA regulations say cannot split collateral

2. Father - Son transfers

\* SBA allows related entities ↓ possibly 2 entities

cannot have a partnership loan + a real estate loan between related parties (altered egos)

3. guaranteed limits \$700,000 to \$1 million

4. family farm - define, broaden (neighboring farms together)

ex: 1000 cows - 8 families (father + 7 kids) 60 cows per person → family farm

5. CROP program - continue

6. Bruce Jones' proposal - WBA (10 lenders all voted in favor)

## Ray Ellenberger - Rural Economic Dev. Service (FHA)

Oct. 1 - Consolidated Farm Service Agency

- guaranteed loan program - #4 in nation, close to #2

- very active in beginning farmer program

- working w/ SBA - anticipate them doing more

- \$53 million block grant - to date have utilized \$12 million

\$41 million out there

\* if we could use all this \$, he could get ~~60000~~ more \$ for WI

- \$6.3 million approved loans to 42 farmers - no \$, doesn't anticipate any interest subsidy \$ from Washington - if state could provide interest subsidy w/ fed guarantee

### Bon Caldwell - DATCP

#### Aggie Bond

- no alliance between WHEDA + DATCP as there is supposed to be for Aggie Bond program

- 700 personal phone calls from beginning farmers

Do you know or have you ever owned a farm? no - eligible Under tent:

depreciable property

real property

- lifetime eligibility of \$250,000

ex: can buy some bred heifers under aggie bond even if work w/ dad - can buy milking cows (lid of \$62,500)

[ \* Form an alliance

### Dave Lepak - WHEDA

financing beyond farmers - ag-business financing

WHEOA programs, federal ag loan programs, private

Ray Ellenberger

Speakers

1) Ray Ellenberger (7th) - 715-345-7600  
Fax: 715-345-7669 Call back Mon. 3/6

2) Farm Credit (2nd)  
Steve Manske 952-3440  
farmer-director  
(Dairies Comm. Manske)

Mike Kutzo  
Dan Gorton  
Dan Gorton (OK) Steve will call me back  
left message 3/7

3) WHEOA (9th)  
Dave Lepak Longabaugh 6-7884 (OK) ~~WHEOA~~  
Lepak 6-2184

4) DATCP (5th)  
- Ron Caldwell 224-5053 (OK)  
~~224-5053~~ 846-5934

\* Genny Paulin 515-244-9377 Iowa  
Steve Brubaker → Henry madison  
Marketing rep for Farm Plan 836-2702 (Revolving credit + ties into John Deere Credit)

(NO) John Deere Credit Corp.  
a little operating credit / financing tractors  
~~Brubaker~~ ~~Farm Plan~~ ~~Madison~~

5) UW-Madison (1st) (OK)  
Bruce Jones 262-0705  
225 Taylor Hall  
UW-Madison 53706  
\*overheads  
? leading to farmers

7.

Duane Sievers  
~~Cambridge St.~~  
~~Bank~~  
M+J Bank of  
Cambridge

423-3322 (H)  
423-~~3226~~ (w)  
3241

102 W. Main  
53523

5<sup>th</sup>

Call back on Monday 3/6

8.

Mark Binversie  
Firststar - Manitowoc  
1617 Washington St.  
54220

~~414-682-4681~~  
414-682-4681  
~~414-682-4681~~

6<sup>th</sup>

Left message 3/3

9.

Growthmark (through FS Credit) Corp.  
Norm Healy  
Box 5550  
Madison 53705

833-7800

subsidiary  
of  
Growthmark

4<sup>th</sup>

~~Left message 3/3~~  
Norm will call me  
hopefully Mon - King of  
Hoss in Bloomington, IL

10.

Leasing  
Telemark

Joe McCaw  
or  
Stuart Smith

3<sup>rd</sup>

- someone supposed call me on  
Friday ? Joe McCaw

11.

Land O Lakes

\*

Dairy Dev. program  
Business planning - expansions





**ALVIN R. OTT**

March 7, 1995

State Representative  
3rd Assembly District

Mr. Mike Krutza  
Farm Credit Services of  
North Central Wisconsin, ACA  
611 S. 32nd Avenue, P.O. Box 1089  
Wausau, WI 54402-1089

Dear Mr. Krutza:

Thank you for agreeing to address the Joint Subcommittee on Ag Finance and Reinvestment. The public hearing will take place on Thursday, March 16th at 10:00am in room MLK 1 of 119 Martin Luther King Jr. Blvd., Madison, WI. Directions to the hearing room are enclosed.

Representative John Ainsworth and myself serve as co-chairs of this subcommittee. We have invited you and about nine other individuals in various aspects of agricultural finance to address the subcommittee. As the new chairmen of the Assembly Rural Affairs and Assembly Agriculture committees, Representative Ainsworth and myself have been approached several times regarding gaps in agricultural finance opportunities in Wisconsin. It is our hope that this subcommittee can address this issue and if necessary, develop appropriate public policy. This is the first meeting of the subcommittee and we are hoping to receive background regarding most of the agricultural finance opportunities available for farmers.

I am requesting that you provide a 5-10 minute presentation to the subcommittee on your involvement in agricultural finance, any needs you feel are not being met in agricultural finance, any gaps you feel may exist in agricultural finance and what, if anything, the state should be doing in the agricultural finance arena. Please feel free to hand out literature to the subcommittee members and to use visual aids if necessary. Please contact Kim in my office at (608) 266-5831 as soon as possible if you will need any audio-visual equipment as it is not readily available in the hearing room.

Thank you again for agreeing to provide valuable input to the subcommittee. Please don't hesitate to contact me if you have any questions.

Sincerely,



Al Ott  
Co-Chair, Jt. Subcommittee  
on Ag Finance & Reinvestment  
State Representative  
3rd Assembly District

Enclosure




**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

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

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**ALVIN R. OTT**

March 10, 1995

State Representative  
3rd Assembly District

Mr. Joe McCaw  
Telmark, Inc.  
Fax: 414-367-4243

Dear Mr. McCaw:

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on Ag Finance & Reinvestment  
State Representative  
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To Ray Ellenberger	From Kim Riise	
Co. USDA - Rural Econ. +	Co. Rep. Al Ott's office	
Dept. Comm. Dev. Services	Phone # 608-266-5831	
Fax # 715-345-7669	Fax #	

**ALVIN R. OTT**

March 13, 1995

State Representative  
3rd Assembly District

Mr. Ray Ellenberger  
USDA Rural Economic and Community Development Services  
Fax: ~~414-367-4248~~  
715-345-7669  
Dear Mr. Ellenberger:

Thank you for agreeing to address the Joint Subcommittee on Ag Finance and Reinvestment. The public hearing will take place on Thursday, March 16th at 10:00am in room MLK 1 of 119 Martin Luther King Jr. Blvd., Madison, WI. Directions to the hearing room are enclosed.

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Al Ott  
Co-Chair, Jt. Subcommittee  
on Ag Finance & Reinvestment  
State Representative  
3rd Assembly District

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