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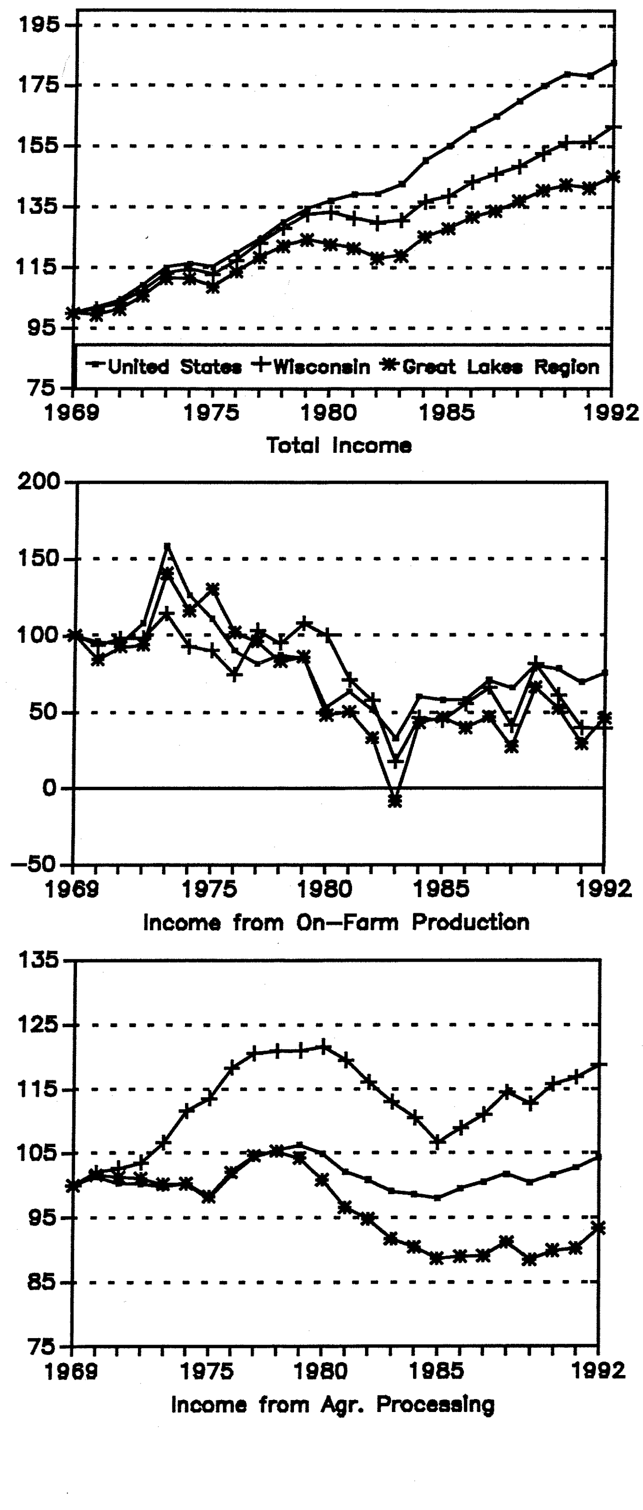
FIGURE 26. LEVELS OF GROWTH IN INCOME FOR THE US, GREAT LAKES REGION, AND WISCONSIN



By the end of the study period income from on-farm production declined from its 1969 levels by nearly 60 percent in Wisconsin, 25 percent for the US, and 54 percent for the Great Lakes Region. In addition, it appears that on-farm income has been relatively unstable.

Income from the agricultural processing industries grew 18.7 percent in Wisconsin over the study period. This out-paced the growth in this source of income for both the U.S. and the Great Lakes Region. The U.S. witnessed only a 4.3 percent increase and the Great Lakes Region a decline of 6.7 percent for the same period. This result suggests that the agricultural processing industry in Wisconsin is generally stronger than that in the rest of the country. The recession of the early 1980s also impacted agricultural processing, with a recovery occurring in 1986.

Trends in Employment. Total employment in Wisconsin grew by 49.5 percent between 1969 and 1992 and lagged only slightly behind the U.S. which grew 53.3 percent (Figure 27).[3] Wisconsin's growth in employment looks favorable when compared to the Great Lakes Region's growth of only 30.1 percent. Again the mild recession in the mid-1970s and the more severe recession of the early 1980s is apparent.

Farm employment, however, experienced little if any growth throughout the 1970s and early 1980s. After 1983, however, the year in which on-farm income hit a period low, farm employment plummeted. Over the complete period farm employment in Wisconsin declined by 25.5 percent which is slightly more than the U.S. decline of 22.7 percent, and slightly less than the Great Lakes Region's decline of 26.4 percent.

In hindsight, the chain of events which lead to the pattern revealed in Figures 26 and 27 is relatively straightforward. Due to changes in export policies with the former Soviet Union and a generally strong overall export market, farm income and profitability surged in 1973 resulting in an escalation of agricultural land prices. The result was a large collection of farms which were highly leveraged. During the late 1970s and early 1980s several factors, such as changing export policies and high interest rates, directly affecting farm sustainability came into play. The drought of 1983 was sufficiently severe to trigger a notable movement out of farming. As farmers liquidated assets and left farming much of the non-human assets (e.g., land and capital) remained in production agriculture. The wave of farm consolidations saw farm employment plummet while farm income was able to recover. There is evidence of farm consolidation today and there are many reasons to expect that this trend will continue. Unfortunately, comparable employment data for agricultural processing is unavailable.

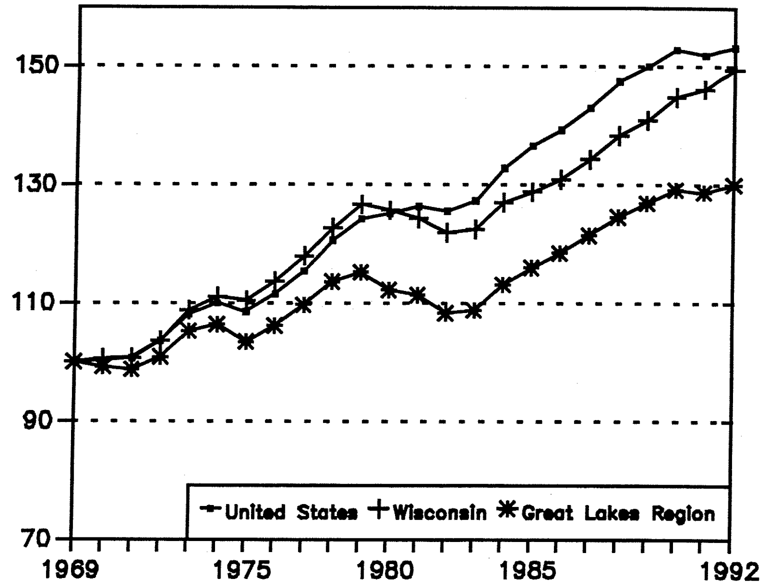
Economic Impact

The second part of this analysis examines the contribution of agriculture, defined as on-farm production and agricultural processing, to the Wisconsin economy. As noted above, this analysis is conducted using an input-output regional economic modeling approach.

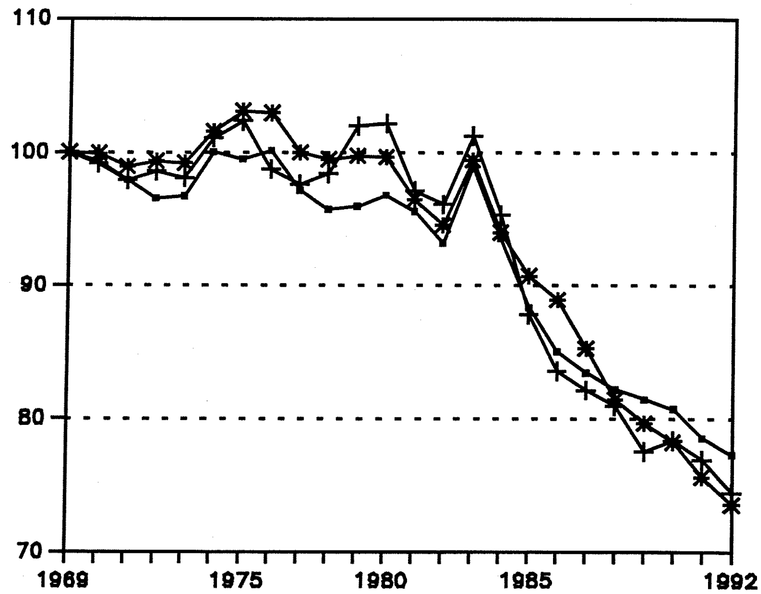
Economic Linkages. Agriculture's contribution to the Wisconsin economy takes many forms. Most obvious is the *direct* contribution through on-farm and agricultural processing employment opportunities. In 1991, the year of analysis reported here, on-farm employment accounted for 3.4 percent of Wisconsin's total employment while agricultural processing accounted for an additional 2.3 percent. Direct contributions to income generated in Wisconsin has on-farm production accounting for 1.5 percent of total income whereas agricultural processing accounts for 4.2 percent. The differences between employment and income shares is attributed to differences in wage structures and firm profitability. But, when one considers agriculture's direct contribution to the total industrial output (i.e., all firm revenue) of Wisconsin, on-farm production accounted for 3.7 percent while agricultural processing contributed 9.2 percent. Depending on the measure of economic performance examined, agriculture's direct contribution to the Wisconsin economy accounts for between 5.7 percent and 12.9 percent.

The 5.7 percent and 12.9 percent *direct* contribution of agriculture to the Wisconsin economy is only part of the picture. Other industries are linked, through *indirect* and *induced* effects, to the agricultural industry. These industries represent additional sources of economic activity, multiplying the effects of the direct activity of agricultural production and processing. The agricultural industry uses machinery, trucks, fuel, financial services and other inputs from local industries to conduct its daily operations. These economic linkages, or *indirect* effects, create a network of interdependent industries, which, in turn, generate additional jobs and income in non-agricultural industries. The income generated directly by agriculture also adds to this interdependency; on-farm and agricultural processing employees spend their income on groceries, housing, entertainment, and other consumer goods and

FIGURE 27. LEVELS OF GROWTH IN EMPLOYMENT FOR THE US, GREAT LAKES REGION, AND WISCONSIN



Total Employment



Farm Employment

services. In turn, employees in these industries spend their income on consumer goods and services. These additional linkages, or *induced* effects, help to form a complex intertwining of industries within Wisconsin. The relevant question to ask is not what agriculture contributes to the Wisconsin economy directly, but rather how much does agriculture contribute to the Wisconsin economy through this complex networking of industries?

To answer this question it is necessary to develop an empirical representation of the Wisconsin economy. While there are numerous methods of regional analysis which can capture these linkages, the method adopted for the analysis reported here is input-output analysis. An input-output model of a regional economy (in this case Wisconsin) can be described as a "snapshot" of the economy detailing the sales and purchases of goods and services between all sectors of the economy for a given period of time. Industry output (sales) can be purchased by other industries as inputs, households for final consumption, or exported outside of the region (again, in this case, Wisconsin). Industry inputs (purchases) are either from other industries within the region, are purchased from households (labor), or imported from outside the region. The input-output model allows these linkages to be described empirically. By examining expenditures by and for the agricultural industry, an assessment of the importance of the agricultural industry to Wisconsin's economy can be gained. In essence, by tracing how agricultural dollars flow throughout the economy we can capture and measure the "multiplier effect."

For this study, Micro-IMPLAN (IMpact PLANning) is used to create the input-output model for the Wisconsin economy.[4] All analysis reported here are for 1991 reflecting the most current year available. The Wisconsin model used has 462 industries.[5]

Empirical Analysis. As with the previous analysis, three levels of economic activity are considered: on-farm production, agricultural processing, and the combined effects. The results of these analyzes are reported in Table 6 and further illustrated in Figure 28. Combined, on-farm production and agricultural processing contribute $40.7 billion dollars to the Wisconsin economy as measured by total industrial output. This represents about 22 percent of the Wisconsin economy in 1991. Independently, agricultural processing accounts for about three quarters of this impact while on-farm production accounts for the remaining one quarter.[6] Agriculture also contributes $14.2 billion in income to the Wisconsin economy, or about 16 percent of all income generated in the state. Here agricultural processing again accounts for approximately three quarters of the total impact. Finally, agriculture contributes just under half a million jobs, or 16.4 percent of all jobs in Wisconsin. Again, as with total industrial output and income generation, agricultural processing contributes the lion's share to employment.

It is important to note that we *cannot* make the claim that if agriculture were to cease to exist that total industrial output would decline by 22 percent, or income or employment would decline by 16 percent. Such an interpretation would imply that all the employees affected, along with their families, would leave the state. We would also need to assume that all other inputs used directly, or indirectly through the multiplier effect, would not be used for any other productive activity. Such an interpretation is clearly unrealistic. Rather, the correct interpretation is that agriculture "touches" these dollars and jobs either directly or through the multiplier effect.

Examination of the contribution of agriculture to Wisconsin distributed across different sectors of the economy reveals several important points (Table 6 and Figure 28). First, the Wisconsin economy is extremely intertwined and interdependent; nearly every sector in Wisconsin is linked, either directly or indirectly, to agriculture. In terms of total industrial output, 47.8 percent of the total impact of agriculture is from sectors other than farming and agricultural processing. In terms of the income nearly 65 percent of the total contribution is from non-agricultural sectors and a similar proportion holds for employment contributions. The rippling, or multiplier affect agriculture has on the state's economy is indeed significant with the bulk of that contribution coming from agricultural processing as opposed to on-farm production.

Second, some sectors are impacted to a larger extent than might be expected. Trade, which includes retail and wholesale trade industries, finance, insurance and real estate (F.I.R.E.) and the service industries are heavily impacted, particularly in terms of income and employment. Indeed, for some of these sectors, agriculture, and particular agricultural processing, account for upward to 20 percent of all activity in the respective sector (Table 6). These impacts are not so much affected by the actual operation of agricultural firms but more through the income that is being spent on consumer goods and services by farmers and employees of agricultural processing firms (i.e., the induced effect). The

FIGURE 28. AGRICULTURE'S CONTRIBUTION TO THE WISCONSIN ECONOMY

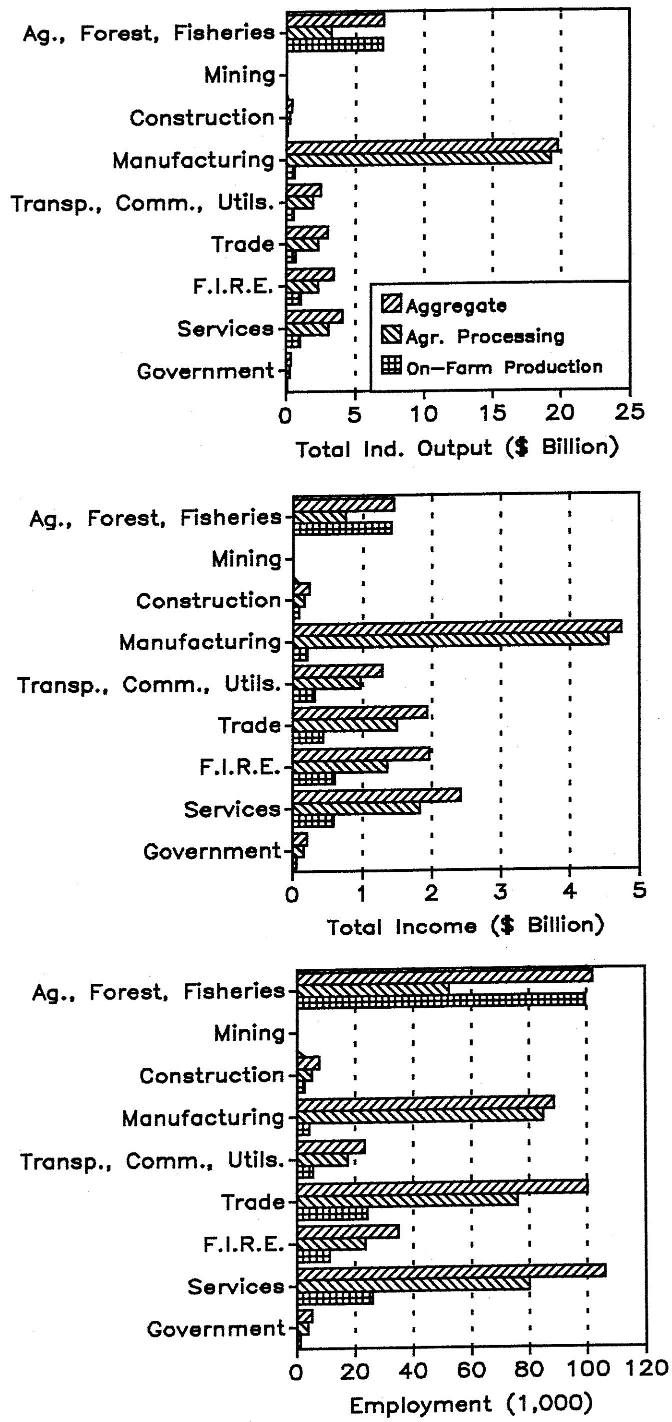


Table 6. Contribution of Agriculture to the Wisconsin Economy in 1991. (All dollar figures are in millions of dollars.)

	AGGREGATE CONTRIBUTION			AGRICULTURE PROCESSING CONTRIBUTION			ON-FARM PRODUCTION CONTRIBUTION		
	TIO[a]	INCOME	EMPLOYMENT	TIO	INCOME	EMPLOYMENT	TIO	INCOME	EMPLOYMENT
					IN ABSOLUTE TERMS				
AG, FORESTRY & FISHERIES	$7054.9	$1448.6	102208	$3259.7	$755.8	52485	$6963.5	$1408.2	99697
MINING	1.2	0.6	9	0.6	0.3	4	0.6	0.3	5
CONSTRUCTION	402.2	229.7	7739	271.9	154.2	5204	130.4	75.5	2535
MANUFACTURING	19788.0	4737.7	88920	19307.0	4555.9	85042	587.0	207.5	4380
TRANSP, COMM & UTILITIES	2532.3	1276.5	23391	1958.7	965.2	17687	573.6	311.3	5704
TRADE	3057.4	1926.3	100392	2357.0	1491.4	76143	700.4	434.9	24248
F.I.R.E.	3438.2	1968.0	34921	2368.3	1360.0	23657	1069.8	608.0	11264
SERVICES	4080.3	2418.0	106116	3070.9	1832.3	80077	1009.4	585.7	26039
GOVERNMENT	397.4	207.9	5144	299.0	57.8	3928	98.3	50.1	1216
Total	$40751.8	$14213.3	468840	$32893.2	$11272.8	344226	$11133.0	$3681.6	175089
Percent of Total Wisconsin Economy	22.0%	16.0%	16.4%	17.7%	12.7%	12.1%	6.0%	4.1%	6.1%
					AS A PERCENT OF THE TOTAL ECONOMY[b]				
	TIO[a]	INCOME	EMPLOYMENT	TIO	INCOME	EMPLOYMENT	TIO	INCOME	EMPLOYMENT
AG, FORESTRY & FISHERIES	90.9%	87.4%	88.8%	42.0%	45.6%	45.6%	89.7%	85.0%	86.6%
MINING	0.5	0.4	0.4	0.3	0.2	0.2	0.2	0.2	0.2
CONSTRUCTION	2.9	4.8	4.7	2.0	3.2	3.2	1.0	1.6	1.5
MANUFACTURING	25.4	16.5	16.0	24.8	15.9	15.3	0.8	0.7	0.8
TRANSP, COMM & UTILITIES	21.5	20.4	20.4	16.6	15.4	15.4	4.9	5.0	5.0
TRADE	16.7	16.8	16.0	12.9	13.0	12.2	3.8	3.8	3.9
F.I.R.E.	18.1	18.0	18.3	12.5	12.4	12.4	5.6	5.6	5.9
SERVICES	15.4	15.7	14.9	11.6	11.9	11.2	3.8	3.8	3.7
GOVERNMENT	4.0	2.3	1.4	3.0	1.8	1.1	1.0	0.6	0.3

[a] TIO stands for Total Industrial Output or total industrial revenues.
[b] Wisconsin agriculture's contribution to the state's economy in terms of percentage. For example, agriculture impacts 14.9% of all employment in the services industry.

Source: Computations by the author using Micro-IMPLAN.

employment impacts for these sectors, particularly trade and services, must be interpreted carefully since no distinction is made between full-time and part-time employment. Given the nature of employment in these two sectors and considering the number of jobs relative to income generated, it would be safe to conclude that many of these jobs are part-time.

Summary and Conclusions

Wisconsin has historically been viewed as a state dependent upon agriculture. Several recent events, such as California challenging Wisconsin's title as the "Dairy State" and the escalation of people leaving farming after the farm crisis of the 1980s, however, have drawn attention to the economic vitality and health of agriculture within Wisconsin. This essay steps back and reflects upon agriculture and addresses the question: what does agriculture mean to the Wisconsin economy? This question is addressed using a regional economic modeling method known as input-output analysis.

The historical analysis unveils several important trends. First, the overall performance of the Wisconsin economy appears to be robust generally outperforming neighboring states within the Great Lakes Region. Second, Wisconsin's agricultural processing sector, while not growing at the same rate as the overall economy, is outperforming the U.S. and Wisconsin's neighboring states specifically. Third, the on-farm component of agriculture has demonstrated signs of deterioration. Income from on-farm production is showing little evidence of growth and significant evidence of instability. On-farm employment, while relatively stable through the 1970s, has dropped nearly 25 percent during the 1980s and early 1990s. Wisconsin appears to be following national and regional trends in terms of a weakening of the on-farm component of the agricultural economy.

In unison, on-farm production and agricultural processing account for between 16 percent (income and employment) and 22 percent (total industrial output) of the state's economy after all initial and multiplier affects are accounted for in the analysis. While on-farm production is clearly economically significant, agricultural processing represents a substantially larger share of the agricultural industry in Wisconsin. When discussing potential policies targeting agriculture, however, it is important to avoid the circular debate between the relative importance of on-farm production and agricultural processing. Clearly, the two parts of Wisconsin agriculture are mutually dependent upon each other. To pit one against the other in policy discussions works to the detriment of the Wisconsin agricultural sector in general.

Wisconsin agriculture appears to be at a cross-road. Is on-farm production slipping below a threshold which threatens the agricultural processing industry? Is Wisconsin agriculture in a position to face increased competition from other agricultural states or from foreign imports? Is Wisconsin agriculture positioned to take advantage of new foreign markets opened under NAFTA and GATT? Clearly, agriculture is important to Wisconsin and the time is now to work together to position Wisconsin agriculture for the year 2000 and beyond.

END NOTES

1. Much of this essay draws from "The Contribution of Dairy to the Wisconsin Economy." by Steven Deller, Ann Roth and Edward Jesse, Economic Issues, No. 127, December 21, 1994. Department of Agricultural Economics, University of Wisconsin-Madison. The author would like to express appreciation to Bill Dobson, Randy Fortenbery, and Bill Saupe for valuable comments and suggestions. Any errors in the analysis or interpretation of the analysis is the sole responsibility of the author.
2. Here income is inclusive, it consists of the income received by persons in the area from all sources, that is, from participation in production, from both government and business transfer payments, and from government interest. Personal income is measured as the sum of wage and salary disbursements, other labor income, proprietors' income, rental income of persons, personal dividend income, personal interest income, and transfer payments, less personal contributions for social insurance.
3. Defining employment here is akin to counting jobs regardless of the nature (i.e., full- vs. part-time) of the job. This definition holds for both parts of the analysis presented in this essay.
4. Micro-IMPLAN is a 528 sector modeling system and data base developed by the U.S. Forest Service of the United States Department of Agriculture. Although no model is perfect, Micro-IMPLAN is superior to most other methods due to the detail of its data. For a more detailed discussion of the regional economic modeling approach adapted for this study, please see *Regional Economic Models for the State of Wisconsin: An Application of the Micro-IMPLAN Modeling System*, by Steven C. Deller, N.R. Sumathi, and David Marcouiller. Center for Community Economic Development, Department of Agricultural Economics, University of Wisconsin-Madison/Extension. Staff Paper 93.6. November, 1993.
5. Wisconsin does not have activity in all 528 IMPLAN sectors. For example, there is no guided missile industry in Wisconsin.
6. Note, the sum of the two disaggregated analyzes does not sum to the total due to feedback effects which are eliminated in the aggregate analysis.

FARM CREDIT SERVICES
OF
WISCONSIN

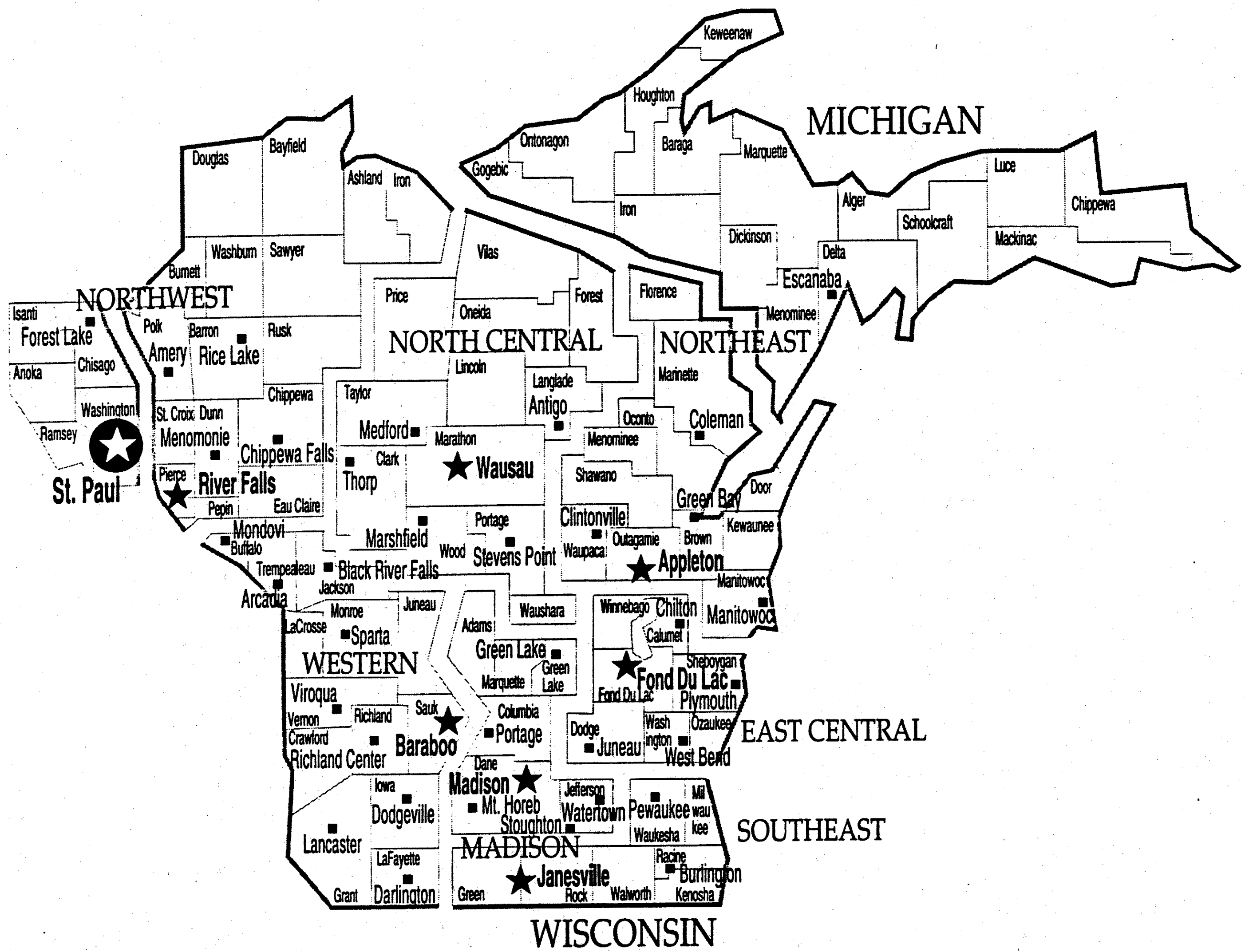
AN OVERVIEW
OF THE
FINANCING ALTERNATIVES
AFFECTING TRANSITION AND REINVESTMENT
IN WISCONSIN AGRICULTURE

WISCONSIN ASSEMBLY JOINT SUBCOMMITTEE ON
AGRICULTURE AND RURAL AFFAIRS
MARCH 16, 1995

PRESENTED BY:

~~DAN GORTON, CEO~~ Francis Friar for Dan Gorton
FARM CREDIT SERVICES OF WESTERN WISCONSIN
MIKE KRUTZA, CEO
FARM CREDIT SERVICES OF NORTH CENTRAL WISCONSIN, ACA

Farm Credit Services - Wisconsin



WISCONSIN FCS ASSOCIATIONS		
SERVICE CENTER	**CHIEF EXECUTIVE OFFICER**	**TELEPHONE**
Northeast Wisconsin/Appleton	Jack Ourada	(414) 739-3186
East Central Wisconsin/Fond du Lac	David Ryan	(414) 922-3940
Southeast Wisconsin/Janesville	Mike Miller	(608) 754-1355
North Central Wisconsin/Wausau	Michael R. Krutza	(715) 842-2211
Madison	G. Maurice Kieffer	(608) 241-1580
Northwest Wisconsin	Rodney L. Rommel	(715) 425-8188
Western Wisconsin	Daniel C. Gorton	(608) 356-4903

FARM CREDIT SERVICES

SUMMARY INFORMATION

- FCS is the ONLY commercial lender chartered primarily to finance ag producers.

- FCS is the ONLY commercial lender with Federal Borrower Rights.

  Right to Restructure
  Right to Appeal
  Right of Refusal

- FCS of Wisconsin is a leader in the use of FmHA guarantees.

- FCS is the largest agricultural lender serving Wisconsin ag producers and is member-owned.

- FCS has a self-funded insurance fund similar to FDIC depository insurance.

- Federal Assistance was provided in the form of authorization to issue additional agency debt without collateral and with a government guarantee in 1987. The St. Paul Farm Credit Bank – now AgriBank – received $133 million in this form of assistance and it now has been fully repaid.

- The seven independent FCS organizations in Wisconsin finance approximately 20,000 farm families for a total loan volume of $1.4 billion. Real estate credit represents $750 million; personal property $650 million.

Clearly, it is unknown how many more producers are "thinking" about renewal, renovation or modernization; however, it is reasonable to predict that most of those optimistic about dairying will continually seek counsel as to their options for keeping their businesses current. Thus, between 10,000 and 15,000 of the current producers will likely continue in some form of renewal and business transition aimed at keeping their business units current and profitable.

During the past 24 months, there appeared to be a rush by many producers to find the "model expansion facility." It is Farm Credit's judgement that no such model exists. Unfortunately, many producers appeared driven by the type of facility rather than making decisions based on the critical business success factors of:

a) breakeven cost of production/cwt;
b) net cash income per cow;
c) net profit per cow;
d) operating expenses as a % of income;
e) debt:income per cow ratio.

Therefore, early indications are that many of the early expansions may have great difficulty achieving improved profitability or efficiency. <u>It is important to recognize, that without some threshold level of economic success of the business it is virtually impossible to improve quality of life and provide for a successful transition to the next generation of the family farm.</u>

WHO IS BUYING THE FAMILY FARMS?

In a recent study by the FCS of North Central Wisconsin of family transitions within the last 3 years, it was found that approximately 165 family farm businesses were in some form of transition and financed by FCS. The 3 year analysis indicated that 66% or 2/3 of the 165 units were in some form of buy/sell between the parents and their sons or daughters. An additional 11% were transitions between unrelated parties in the form of various joint ventures; and 23% of the transitions were to new entrants, unrelated to the sellers. Financing packages oftentimes required the equity financing of the seller, partial sale of the unit (personal property or real estate) rather than a full sale, and sometimes required the use of outside guarantors. (eg. comakers, FmHA).

Additionally it is clear;

a) The business must be economically successful to satisfy the expectations of buyers and seller.

b) Creative entrepreneurship based on an inter-dependence between buyer and seller has created a wide variety of contractual agreements, always based on the objectives of economic (profitability) success.

c) Business financial plans and transition plans are cornerstones to every one of these transfers.

THE CHALLENGE OF 1995 COMPARED TO 1975?

Challenges of economic viability and business transition exist largely because:

a) Traditional transfers over the last 20 years proved far too often the financial and economic disaster for both buyers and sellers. "Those who have experienced financial mistakes of the past are not interested in repeating them."

b) Alternative land uses such as lot sales and recreational use offer a higher economic return than the farm business would otherwise generate.

c) Producer management challenges are even greater where there is less room for error. Management of replacement livestock, market price fluctuation, labor, interest rate risk, debt, managing feed rations, deliberations on applications of technology, whether its AI, DHI, BGH; environmental concerns - to name a few. <u>The use of "advisory teams" (ie. lenders, vendors, extension, veterinarians, etc.) has not advanced to the level needed for an "inclusive" renewal within the industry.</u>

d) Buyer expectations of economic viability and profitability do not meet the same expectations of the seller.

e) The amount and need for capital has changed significantly. In 1975 debt for renewal or expansion increased up to 3 fold after the expansion or renovation. Some of the "new expansions" require a 10-15 fold increase in producer debt. The cost of the major changes in many new expansions is so burdensome that gains in efficiencies and profitability have been difficult to achieve. In fact, the critical business success factors oftentimes dropped significantly. Therefore, there is a compelling need for producers to consider alternative renovation or remodeling strategies. Even with alternative strategies there is a need for gap financing.

Sources Of Financing

Capital is one of the most critical economic resources needed to meet Wisconsin's ag challenge. As such, borrowed capital primarily serves only one legitimate use; that is to maintain or enhance the economic well-being of the borrower.

Commercial Lenders..

Competition between commercial lenders (ie. Farm Credit and banks) is strong, indicating an ample supply of conventional financing available to producers. Some would argue there is an oversupply of lenders with available funds for producers with a history of profits and a sound business plan directing the future of their business.

Trade Credit..

The trade industry (eg. machinery and equipment companies) reflects a generally strong interest in financing their respective products with producers.

Leasing..

Leasing continues to grow as an alternative source of financing for many types of capital improvements, including machinery and equipment.

Gaps In Financing

There is an ample supply of conventional funds available to producers. The issue becomes the willingness and ability of lenders to accept "more than a reasonable level of risk." This may occur when any or all of the following conditions exist.

Equity Capital is less than 40-45%
Examples include:

- Major capital expansion where contributory value of improvements are less than 100%, eg. market value may be 50-70% of cost. Examples include long time successful producers with equity capital of 80-90% before expansion. Post expansion equity capital (net worth) often decreases to 40% or less.

- A profitable business with insufficient history to generate adequate equity capital, eg. a producer may be beginning to farm and has not yet generated sufficient equity capital. Examples of this are the farm sale between parents and children, or the beginning producer with a need to renovate or expand, yet accumulation of equity is insufficient to support the additional capital debt.

Gap Financing Options

Gap financing is needed in those instances where legitimate renewal, renovation, or transfer of an economically viable and profitable business is involved.

Current Options..

Comakers with seller – this option matches the largest equity within the farm sector and the prospective buyers.

FmHA guarantees – this option offers strong possibilities, however, serious shortfalls in long term funding has jeopardized the impact of FmHA.

Aggie Bond – at present the impact appears limited because of regulatory exclusions.

Additional Options to Consider..

SBA – typically, the Small Business Administration has not been a major guarantor within the agricultural sector, although this clearly represents an important opportunity for additional guarantees for renovation or family business transfers within the state.

WHEDA – expand state sponsored guarantee program through expanded guarantee authorities. Guarantees up to $100,000 per eligible applicant provided the purpose is for renovating, remodeling, or transferring (sale) the farm unit within the family.

Additional Source of Non-Borrowed Cash to Consider..

- Expand exclusion of long term capital gains tax up to 100% when the sale or transfer of a family farm is to a family member or individual who will maintain or increase the farm business of the seller. This proposal could parallel the current waiver on inheritance tax.

- Change Medicaid eligibility requirements at the state level so depreciation is no longer added to income when determining eligibility.

SUMMARY

Wisconsin's agricultural producers and infrastructure continues to experience many changes in an attempt to remain current and relevant for the future. It is the leadership responsibility of producers, government, public educators, agribusiness, and lenders to create a partnership which provides for a friendly business climate for the renewal of agriculture. Every effort must be made to create an environment of inclusion, rather than a business environment only for the elite.

Much of the renewal, business transfers, renovation or expansion requires significant capital. New business structures integrating equity capital with borrowed capital will be important. The current gaps in financing represent an opportunity for the State of Wisconsin to help with expanded guarantees in family transfers and renovation; without such help an "inclusive renewal" helping many producers will be difficult. As the states largest agricultural cooperative lender, Farm Credit Services of Wisconsin, is committed to support and participate in the profitable renewal and transfers for Wisconsin's farmers.

FARM CREDIT SERVICES

FACTS ABOUT OUR HISTORY, STRUCTURE, FUNDING AND COMMITMENT TO WISCONSIN AGRICULTURE

THE NEED FOR CREDIT

In 1908 President Theodore Roosevelt's Country Life Commission pointed out the lack of any adequate system of credit available to farmers on fair terms. Further commissions studying the need for farm credit and farmer based political pressure resulted in the passage in 1916 of the Federal Farm Credit Act which established Federal Land Bank (FLBs) and National Farm Loan Associations to meet the long-term mortgage needs of agriculture. In 1923 an effort to develop a system to provide short and intermediate-term credit to farmers and cooperatives resulted in the establishment of Federal Intermediate Credit Banks (FICBs).

The agricultural depression of the 1920's followed by the Great Depression in 1929 and other problems prevented these entities from fulfilling the credit needs of American agriculture. In 1933 Congress revised the existing farm credit programs into a system of 37 banks, each with local associations which still exist today. Since that time the Farm Credit System has grown with the industry of agriculture. Today, Farm Credit Services supplies ranchers and agricultural cooperatives with nearly one-third of their credit needs.

FARM CREDIT SERVICES
AGRICULTURAL PROGRAMS/SERVICES

REAL ESTATE

A farm real estate mortgage that offers each borrower a wide selection of competitively priced loan design options, provides a very high capacity for individualization, and permits the borrower to change from one type of loan to another, at any time, for a nominal fee.

The ability to change the decision of the loan gives farmers unprecedented ease and flexibility in managing their long-term finances. Since it's unlikely that any one type of real estate loan can be ideal for a borrower at all times during a loan's term, this convertibility can make the mortgage more useful as a farm management tool.

SHORT-TERM

Loans to help you run your farm -- When you need short-term money, Farm Credit has several flexible loan options you can choose from. Each offers unique features to buy such things as seed, fertilizer and certain kinds of machinery and equipment.

Standard operating loans -- This is a simple management tool of short-term money. It is very basic for farming. The advances and payment schedule can be tailored to your own situation, but usually repayment is scheduled for within a 12 month cycle.

Intermediate term loans -- These are designed for larger capital investments such as cattle, machinery and real estate improvements. Repayment is flexible but usually is scheduled for a period of three to ten years. The solid understanding Farm Credit has of machinery costs and their potential economic value has been cited by farmers as the reason they prefer Farm Credit as a source of intermediate term loans.

HOME LOANS

Building, buying or remodeling -- Farm Credit's Country Home loans offer the best convenience, service and competitive rates. Choose from an exceptional broad line of fixed and variable rate formats with unusual flexibility. Repayment intervals range up to 30 years. And borrowing costs are low.

HISTORY OF THE FARM CREDIT SYSTEM

As agriculture has developed and changed over the years, so too, has the Farm Credit System. It's history began during the industrial revolution when young men and women were leaving farms in record numbers for new and more promising opportunities in the city. As farmers were declining in numbers, they also were growing in size to produce more food for the expanding urban centers.

Farm mortgages which had once been a rare feature of farm life, became a necessity. But the available credit was short-term and expensive. Agriculture needed a source of credit tailored to suit its own special needs.

Congress recognized this need and stepped in to help.

1916: Congress passed the Federal Farm Credit Act of 1916, establishing the Federal Land Banks and the national Farm Loan Associations to provide a much-needed source of long-term credit for farmers. The National Farm Loan Associations later became known as the Federal Land Bank Associations.

1923: The 12 Federal Intermediate Credit Banks were created by the Agricultural Credit Act of 1923. Initially capitalized by the U.S. Treasury, these banks were established to supplement Land Bank loans and extend more credit to farmers through commercial banks.

1933: The Production Credit Corporations, Production Credit Associations and Banks for Cooperatives were created with the passage of the Farm Credit Act of 1933 to establish a more effective delivery system of credit to farmers and their cooperatives. Also, The Farm Credit Administration was created as an independent agency of the executive branch of the Federal government to supervise the Farm Credit System.

1953: The Federal Farm Credit Board of Directors was formed to develop national policies for the system and to direct the Farm Credit Administration.

1956: The Farm Credit Act of 1956 was passed, providing for the Production Credit Corporations, which were responsible for setting up the PCAs, to merge with the FICBs. It also provided for the ultimate ownership of the FICBs by the PCAs.

1968: The last of the government held stock in the system's institutions was repaid, making the Farm Credit System a cooperatively owned system, owned and capitalized entirely by its borrowers.

1971: The Farm Credit Act of 1971 was passed, replacing all previous Farm Credit Acts. The 1971 Act, as now amended, still contains the authorities under which the system's banks and associations operate.

1975: The Farm Credit banks created Farmbank Services to serve as the system's central service organization in Denver, Colorado.

1977: The first consolidated Farm credit securities were marketed, combining the financial strength and security of the 37 Farm Credit banks.

1980: Congress passed the Farm Credit Act Amendments of 1980, giving the Banks for Cooperatives authority to provide international services to agricultural cooperatives

1983: The Farm Credit Leasing Services Corporation was established in Minneapolis, Minnesota, to provide leasing services to eligible borrowers of the Farm Credit system.

The Farm Credit Council began operations to represent the interests of the system and other cooperative lending institutions in Washington, D.C.

The Federal Farm Credit Banks Funding Corporation was incorporated to manage the sale of Farm Credit securities - a function handled previously by the system's fiscal agency.

1985: The Farm Credit System Capital Corporation was formed by the 37 Farm Credit banks to purchase and service high-risk assets from district banks and associations that qualified for systemwide financial assistance.

The Farm Credit Corporation of America was established by the Farm Credit district boards of directors and the board of directors for the Central Bank for cooperatives to provide the nationwide system with a central decision-making body and national leadership for the first time in its history.

The Farm Credit Amendments Act of 1985 (1985 Amendments) was signed into law on December 23. It restructures the Farm Credit Administration, establishes a mechanism for the Farm Credit System to use its available resources to provide financial assistance to System institutions and provides the Secretary of the Treasury discretionary authority to invest Congressionally appointed funds in the system under certain circumstances.

1986: The 1986 Farm Credit Amendment provided for the system to revert to RAP accounting versus GAAP accounting. The amendment also provided for up to 20 year amortization for loan losses, and eliminated the need for FCS prior approval on interest rates.

1987: The Farm Credit Act of 1987 provides significant changes to the Farm Credit System. Specific portions of the Act provide for:

* Borrower Rights
* FCS Insurance Corporation
* Financial Assistance Corporation
* Merger of District Bank and FLBA/PCAs
* Capitalization of System Institutions
* Federal Agricultural Mortgage Corporation

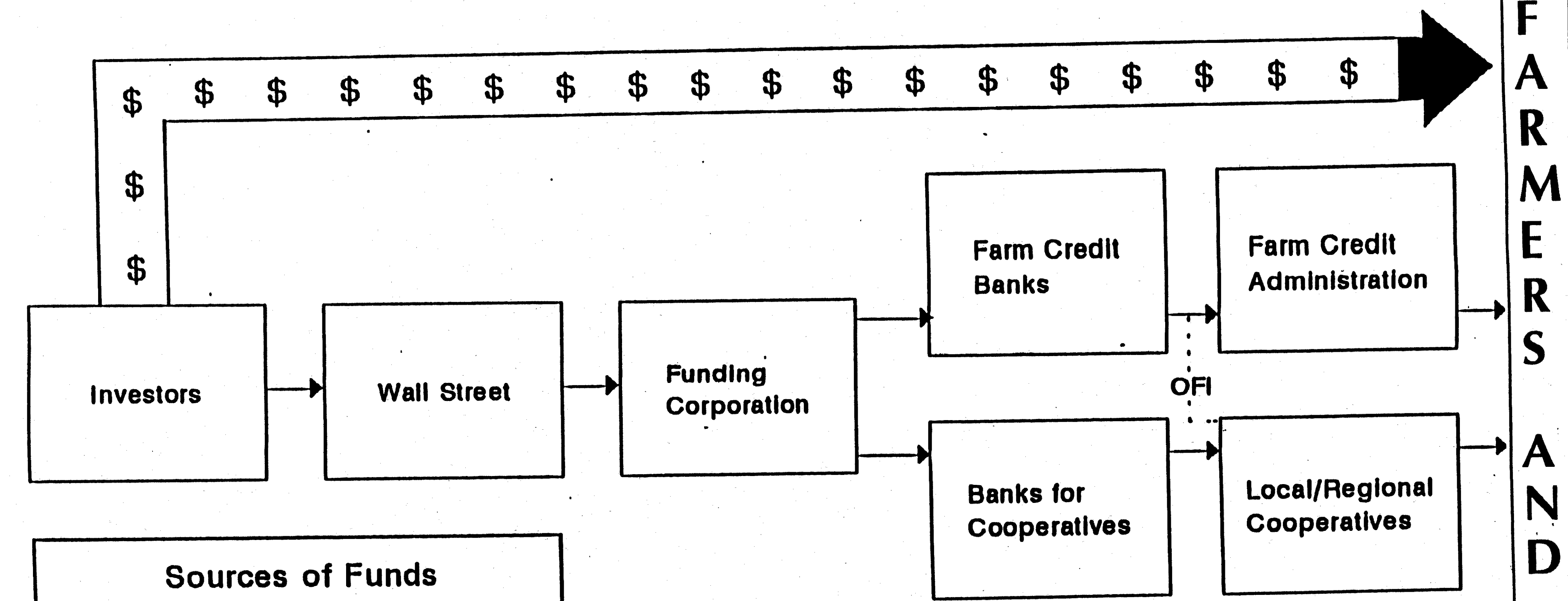
<u>FARM CREDIT SERVICES</u> - Board of Directors

Unlike commercial banks and other private lenders, the Farm Credit banks and association are credit cooperatives, owned and directed by their borrowers. All Farm Credit districts, banks and associations have boards of directors elected by borrowers to represent the best interests of the organization and its members.

Member/borrowers of Federal Land Bank Associations and Production Credit Associations elect their boards of directors from among themselves. The boards hire management and establish local policies. Similarly, members of cooperatives that own stock in the district Banks for Cooperatives elect the boards of those cooperatives.

These boards of directors are the pipeline for borrower input and control of the system. They set policy and hire system, bank and association management.

MONEY FLOW



Sources of Funds

* Commercial Banks	
- for portfolios	30%
- trust departments	15
* Pension Funds	5
* State and Local Governments	15
* Corporations	4
* Thrift Institutions	6
* Individuals	4
* Mutual Funds	5
* Insurance Companies	7
* Foreign Investors	9
	100%

COMPARATIVE ANALYSIS OF FINANCIAL INSTITUTIONS IN THE UNITED STATES

	Farm Credit	Commercial Banks	Credit Unions	Insurance Companies	Savings & Loans	FmHA
Capital Requirement	7%	7%	5-7%	--	(3)-7%	None
Taxable	yes	yes	no	yes	yes	no
Federal Involvement	Federal Charter	State or Federal Charter	State Charter			
Customer Base	Charter limits to ag and country home loans only	diverse	diverse	diverse	diverse	rural
Insurance Fund	yes	yes	yes	no	yes	no
Federally Guaranteed Borrower Rights	Right to Repurchase Right to Restructure	none	none	none	none	Right to Repurchase Right to Restructure
Additional Financial Services	Limited by Charter	comprehensive	comprehensive	comprehensive	comprehensive	none
Governing Body	Producer Board of Directors Member owned Cooperative	Investor owned Corporation	Member owned Cooperative	Investor or Mutual	Investor	Federal Agency

<u>Summary</u>

* FCS is only Commercial lender chartered primarily to finance ag producers.
* FCS is only Commercial lender with Federally Mandated Borrower Rights.
* **FCS is the largest ag lender in Wisconsin serving Wisconsin agriculture and is member owned.**
* Federal Assistance was provided in the form of authorization to issue additional agency debt without collateral and with a government guarantee in 1987. The St. Paul Farm Credit Bank, now AgriBank, receive $133 million in this form of assistance and it now has been fully repaid.

guaranteed loan will be limited to the difference between the amount received by the entity and the maximum amount.

Where To Get Information or Apply? Information on procedures by which loans are guaranteed may be obtained by lenders or prospective borrowers from FmHA county offices (usually located in county seats, listed in telephone directories under U.S. Government). Farmers may apply directly to private lenders or make preliminary inquiry through FmHA county offices. Applications ultimately are received and processed by lender institutions, subject to FmHA approval.

FmHA is an Equal Opportunity Lender. Complaints of discrimination should be sent to the Secretary of Agriculture, Washington, D.C. 20250.

November 1987

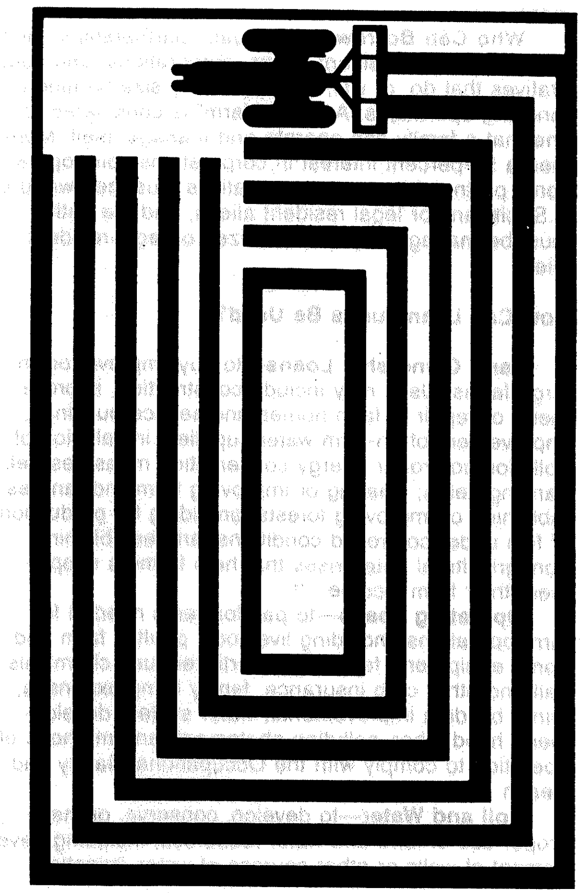
*U.S.GPO:1994-555-009/03008

United States Department of Agriculture

Farmers Home Administration

Program Aid Number 1400

Farm Loan Guarantees



Farm Loan Guarantees

The Farmers Home Administration (FmHA) may guarantee loans made by eligible agricultural lenders to family farmers and ranchers for farm ownership, improvements, and operating purposes.

Guaranteed loans are made and serviced by legally organized private lending institutions, such as commercial banks, Federal land banks, production credit associations, insurance companies, and savings and loan associations. FmHA provides the lender with a guarantee not to exceed 90 percent of any loss of principal and interest on a loan. The use of an FmHA guarantee may enable a private lender to serve, or continue to serve, a farmer who cannot be served on a wholly conventional basis due to risk factors.

All applications for FmHA guaranteed loans are treated with equal consideration, without regard to sex, age, race, color, religion, handicap, national origin, or marital status.

Who Can Borrow? Individuals, partnerships, joint operators, legal resident aliens, corporations, and cooperatives that do or will, conduct family-size farming or ranching operations. A "family farm" is considered to be one that a family can operate and manage itself. More than a 50-percent interest in corporations, joint operations, partnerships, and cooperatives must be owned by U.S. citizens or legal resident aliens, and the entity must be managed by a U.S. citizen or legal resident alien.

How Can Loan Funds Be Used?

Farm Ownership Loans—to buy, improve, or enlarge farms. Uses may include construction, improvement, or repair of farm homes and service buildings; improvement of on-farm water supplies; installation of pollution control or energy conservation measures; refinancing debts; clearing or improving farmland; and establishing or improving forests; providing for production of fish under controlled conditions; and establishing nonagricultural enterprises that help farmers supplement their farm income.

Operating Loans—to pay for items needed for farm operations, including livestock, poultry, farm and home equipment, feed, seed, fertilizer, fuel, chemicals, hail and other crop insurance, family living expenses, minor building improvements, water system development, hired labor, pollution abatement, and methods of operation to comply with the Occupational Safety and Health Act.

Soil and Water—to develop, conserve, or make proper use of land and water resources, including development of wells or other sources of water, irrigation systems, drainage improvements, and improvements associated with forestry, fish farming, land protection, or pollution control.

What Are The Interest Rates and Terms? The interest rate on a guaranteed loan is negotiated between lender and borrower. It cannot exceed the rate given the lender's average farmer customers by more than 1 percent.

Terms for repayment vary according to loan purpose and nature of security. Farm ownership and other real estate loans may run for up to 40 years. Chattel loans for operating purposes or lines of credit may range from 1 to 7 years and in some cases may be extended for 15 additional years.

What Are The Loan Limits? Real estate loans (farm ownership and soil and water)—$300,000. Production (chattel) loans—$400,000.

Is This a Lender's or an FmHA Loan? This is the lender's loan. The loan is made and serviced to conclusion by the lender. If everything works well and the borrower is able to repay the loan, no taxpayers' money will be used except for administrative expenses. If a loan fails, FmHA will reimburse the lender with Federal funds under terms and conditions specified in the guarantee.

What Are The Types of Guarantees? There are two types of guarantee commitments, the Loan Note Guarantee and the Contract of Guarantee. The Loan Note Guarantee is the signed commitment issued by FmHA setting forth the terms and conditions of the guarantee of a fixed loan amount. The Loan Note Guarantee may be used as the instrument of guarantee in all loan programs and is readily marketable by the lender in the secondary market. The Contract of Guarantee is the signed commitment issued by FmHA setting forth the terms and conditions of a revolving line of credit. The Contract of Guarantee (line of credit) is used for specific operating loan (OL) purposes only and may not be sold in the secondary market. Holders (investors) of Loan Note Guarantees are protected by the full faith and credit of the U.S. Government.

What About Marketing Fixed Amount Loans? For the guaranteed portion, the lender has the following three options:

1. *Assignment Option:* The lender may assign, using the FmHA assignment agreement, all or part of the guaranteed portion of the loan to one or more holders. If the assignment option is used, the holder is protected by the full faith and credit of the U.S. Government on the guaranteed portion of the loan.
2. *Multi-Note System:* When this option is selected by the lender, upon disposition the holder will receive one of the borrower's executed notes and a Loan Note Guarantee attached to the borrower's note. If the multi-note system is used, the holder is protected by the full faith and credit of the U.S. Government on the guaranteed portion of the loan.
3. *Participation Option:* The lender may sell participations in the guaranteed portion of the loan in accordance with its regular procedures but must retain the unguaranteed portion of the loan.

What Happens After a Lender Sells Participates or Assigns Part or All of a Loan? The lender contracts with FmHA (by executing a lender's agreement) to collect principal and interest payments and service the loan. Servicing includes keeping in touch with the borrower in order to be aware of any potential problems such as late payment, etc., and meeting with the borrower if a problem does occur.

The local lender is responsible for distribution of principal and interest payments to holder(s), assignee(s), or participant(s), as appropriate. The local lender may deduct a servicing fee agreed upon in advance between the lender and holder(s).

Delinquency and Default. The lender must notify FmHA when a borrower is 30 days overdue on a payment and is unlikely to bring the account current within 60 days or if a loan otherwise is a problem.

The lender is encouraged to work with the borrower to resolve any problems. In case of default, any holder(s) will be paid in full. The holder(s) must first request payment from the lender. If the lender does not make payment in full, FmHA will. If the loan cannot be reconstituted, the lender will ordinarily be responsible for liquidating the account in a manner agreed upon by FmHA.

Can an Applicant Obtain More Than One Guaranteed Loan? More than one loan guarantee can be executed with the same or different lenders for an applicant provided each loan is secured with separate identifiable collateral and limited to a combined total of $400,000 for an operating loan and $300,000 for an ownership loan. The amount of loans guaranteed for an individual who also is a principal partner in a partnership, stockholder in a corporation, or member of a joint operation or of a cooperative restricts the amount of any loan that the partnership, corporation, joint operation, or cooperative can receive. That amount is limited to the difference between the amount received by the individual and the maximum amount. Applicants who are principal members of a partnership, corporation, joint operation, or cooperative that has received a

Where to Go For Help

- ☐ Department of Agriculture, Trade and Consumer Protection
- ☐ Department of Natural Resources
- ☐ Participating lending institutions

Please contact WHEDA for specific names and addresses.

1-800-642-6474
from Madison dial 266-0880

TTY/TDD
Teletypewriter/Telecommunication Device for the Deaf
1-800-943-9430
from Madison dial 267-1464

Other Economic Development Programs

WHEDA offers other business financing alternatives. For more information on these economic development programs, call 1-800-642-6474.

Economic Development
WHEDA
One South Pinckney Street, Suite 500
P.O. Box 1728
Madison, WI 53701-1728

The Wisconsin Housing and Economic Development Authority (WHEDA) was established by the Legislature in 1972 to help provide housing for low-and moderate-income Wisconsin residents. That mission has been expanded over the years to include financing for small businesses and for farming. WHEDA raises capital for its loan programs primarily through the sale of tax-exempt bonds. The Authority's bond-supported programs receive no state tax support.

WHEDA

One South Pinckney Street, Suite 500
Post Office Box 1728
Madison, WI 53701-1728

Created 1/95

WHEDA
Wisconsin Housing and Economic Development Authority

Agricultural Chemical Spill Fund

Agricultural Chemical Spill Fund

The Agricultural Chemical Spill Fund helps you pay for your share of corrective action approved by the Department of Agriculture, Trade and Consumer Protection (DATCP) from its Agricultural Chemical Cleanup Program.

On a loan that you obtain through your local lender, WHEDA may guarantee 90% of the loan amount.

WHEDA administers the Agricultural Chemical Spill Fund in conjunction with the DATCP Agricultural Chemical Cleanup Program.

Loan Terms...

- ❑ Loan amount from $3,000 - $50,000
- ❑ Interest rate cannot exceed prime plus two percent
- ❑ Guaranteed for three to ten years
- ❑ Guaranteed at 90% of loan amount with maximum guarantee of $45,000
- ❑ Loan to be secured to fullest extent possible

You are eligible if...

- ❑ You own, control, or cause an agricultural chemical to be discharged, or an agricultural chemical is discharged on your property
- ❑ You have requested or been ordered to conduct a cleanup by DNR or DATCP
- ❑ You have a debt to asset ratio of 40-80%
- ❑ You are applying for reimbursement from the Agricultural Chemical Cleanup Program administered by DATCP
- ❑ You have not defaulted on a previous loan with WHEDA

You can use the loan to...

- ❑ Pay for your share of the required corrective action that will not be reimbursed by DATCP. Some examples of eligible costs are:
  - laboratory analysis of samples
  - soil borings
  - costs to remove or treat contaminated soil or groundwater

You cannot use the loan to finance...

- ❑ Attorney's fees
- ❑ Costs covered by insurance
- ❑ Loss of income
- ❑ Liability claims

How to apply...

- ❑ Contact a lender who is willing to participate in the Agricultural Chemical Spill Fund on your behalf.
- ❑ With your lender, complete and submit the Application to WHEDA <u>prior to commencement of the project</u>.
- ❑ As part of the complete application, WHEDA will need:
  - a copy of any agricultural chemical cleanup order or request issued to the responsible person
  - an accepted bid for the corrective action
  - a completed DATCP Form ARM.ACM205
- ❑ WHEDA reviews the application.
- ❑ If approved, WHEDA will provide the lender with a Commitment Letter for the loan guarantee. This process takes approximately four to six weeks.

Please note: it is important that the project does not start until WHEDA receives and acknowledges the complete application.

For More Information

Contact WHEDA's Economic Development staff at

1-800-642-6474
from Madison dial 266-0880

TTY/TDD
Teletypewriter/Telecommunication Device for the Deaf
1-800-943-9430
from Madison dial 267-1464

Other Economic Development Programs

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PO Box 1728
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WHEDA

One South Pinckney Street, Suite 500
Post Office Box 1728
Madison, WI 53701-1728

Created 7/94

WHEDA
Wisconsin Housing and Economic Development Authority

Beginning Farmer Bonds

Beginning Farmer Program

WHEDA's Beginning Farmer Program offers first-time farmers a reduced interest rate loan for capital purchases. These lower rates are made possible through the use of federally tax-exempt bonds.

The Beginning Farmer Program features...

- ❑ Interest rate below prevailing market interest rates
- ❑ Maximum loan of $250,000 per family No more than $62,500 may be used to purchase used equipment

You can use the loan to purchase...

- ❑ Farm land
- ❑ New or used farm improvements or buildings
- ❑ New equipment
- ❑ Used equipment
- ❑ Livestock

Terms

Loan terms and credit decisions are determined by the lender or contract seller.

You are eligible if...

- ❑ You are a Wisconsin resident at least 18 years of age
- ❑ Your net worth is less than or equal to $250,000
- ❑ The farm will be your primary livelihood, and you will be the principal user of the capital items to be purchased with the loan
- ❑ You have adequate education, training, and experience in the type of farming operations for which the loan will be used
- ❑ You are purchasing the land or equipment from a nonrelated party (not a parent, grandparent, sibling, child, or spouse)

You are not eligible if you have...

- ❑ Owned farmland with a fair market value higher than $125,000
- ❑ Owned a parcel of farm land bigger than 15% of the median size of a farm in your county

Before You Begin

- ❑ Discuss your project with your lender or contract seller, who will explain the program's requirements. It's important that you understand the requirements so you can make sure your project remains eligible.
- ❑ Contact WHEDA for a Beginning Farmer Program application.

How to Apply

- ❑ With your lender or contract seller, complete the application and negotiate the terms of the loan
- ❑ Send application and $100 nonrefundable application fee to WHEDA. WHEDA must conduct a public hearing on the project (notice of the hearing must be given at least 14 days in advance of the hearing).

WHEDA Approval

The bonds which fund the Beginning Farmer Program are approved by WHEDA's Economic Development Committee in two steps:

- ❑ Approval of an initial resolution indicating the Authority's intent to issue bonds on behalf of the applicant
- ❑ Approval of a final resolution before bond closing

The Economic Development Committee meets twice monthly.

Suggestion for Success

When you first meet with your lender or contract seller, make sure you understand what you can and can't do while your application is under consideration. For example, if you make purchases or begin construction too soon, your project is no longer eligible.

For more information

Call WHEDA toll-free
1-800-642-6474
from Madison dial 266-0880

TTY/TDD
Teletypewriter/Telecommunication Device for the Deaf
1-800-943-9430
from Madison dial 267-1464

NSP
WHEDA
P.O. Box 1728
Madison, WI 53701-1728

The Wisconsin Housing and Economic Development Authority (WHEDA) was established by the Legislature in 1972 to help provide housing for low-and moderate-income Wisconsin residents. That mission has been expanded over the years to include financing for small businesses and for farming. WHEDA raises capital for its loan programs primarily through the sale of tax-exempt bonds. The Authority's bond-supported programs receive no state tax support.

Created 2/94

WHEDA
Wisconsin Housing and Economic Development Authority

Nonpoint Source Pollution Loan Guarantee Program

Areas Eligible for Nonpoint Source Pollution Loan Guarantee

In addition to the Milwaukee River Basin Priority Watershed, these priority watersheds and priority lake projects are eligible for Nonpoint Source Pollution Loan Guarantee:

- Yellow River
- Upper Fox River (Ill.)
- Narrows Creek-Baraboo River
- Middle Trempealeau River
- Middle Kickapoo River
- Arrowhead River & Daggets Creek
- Beaverdam River
- Lower Big Eau Pleine River
- Upper Yellow River
- Duncan Creek
- Upper Trempealeau River
- Neenah Creek
- Balsam Branch
- Red River-Little Sturgeon Bay
- Dunlap Creek
- Lowes Creek
- Whittlesey Creek
- Spring Creek
- Minocqua Lake
- Lake Tomah
- Little Muskego Lake
- Big Muskego Lake
- Wind Lake
- Lake Noquebay
- Lake Ripley

Revised 7/94

The Nonpoint Source Pollution Loan Guarantee Program

Nonpoint Source Pollution describes water pollution not attributable to a single, well-defined point of origin.

If you have a Cost Share Agreement to control nonpoint source water pollution with your municipality or County Land Conservation Department, the Nonpoint Source Pollution Loan Guarantee Program can help you finance your portion.

WHEDA can guarantee 90% of the loan amount. This reduces the lender's risk and makes it easier for you to get the loan.

Loan Terms...

- ❑ Interest rate of prime plus 2%
- ❑ Loan amount from $1,000 - $50,000
- ❑ Guaranteed for 3 to 10 years
- ❑ Lender receives guarantee on 90% of loan amount

You can use the loan to...

- ❑ Install best management practices authorized in the Cost Share Agreement

You cannot use the loan to...

- ❑ Pay for best management practices installed ***before*** WHEDA receives ***and*** acknowledges your application
- ❑ Refinance existing debt

You are eligible if...

- ❑ You are a landowner or operator
- ❑ You have a debt-to-asset ratio of between 40% and 80%
- ❑ You are located in the Milwaukee River Basin
  - East/West Branch
  - North Branch
  - Milwaukee River South
  - Menomonee River
  - Cedar Creek
  - Kinnickinnic River
- ❑ You have a Cost Share Agreement for best management practices dated after March 19, 1993. This agreement must be certified through either the
  - Department of Natural Resources (DNR) or
  - Department of Agriculture, Trade and Consumer Protection (DATCP)

How to Apply

- ❑ Enter into a Cost Share Agreement with your municipality or county
- ❑ Obtain a commitment from your lender to finance your portion of the Cost Share Agreement
- ❑ With your lender, submit a loan guarantee application to WHEDA
- ❑ WHEDA reviews the application
- ❑ If approved, WHEDA will provide the lender with a Commitment Letter for the loan guarantee

Please note: it is important that your application is received and ackowledged ***before*** *you start your project.*

WHEDA WISCONSIN HOUSING & ECONOMIC DEVELOPMENT AUTHORITY

Richard J. Longabaugh
Executive Director

Tommy G. Thompson
Governor

Wayne R. Peters
Chairman

WHEDA's Involvement in Agricultural Finance

Presented to the Joint Subcommittee on Ag Finance
By David Lepak
WHEDA Group Director, Economic Development
March 16, 1995

Credit Relief Outreach Program (CROP)

A loan guarantee program initially authorized by the Wisconsin Legislature in 1985, CROP provided one year loan guarantees of 90% on operating loans of up to $20,000. Loan proceeds could be used for fertilizer, seed, fuel, pesticides, tillage services, crop insurance, animal feed or any other service or consumable good necessary to produce an agricultural commodity. Farmers using this program must have a debt to asset ratio of at least 40%. The program has sunset and extension legislation has passed the Assembly and is awaiting action by the State Senate. WHEDA had been authorized to guarantee up to $30 million in loans annually. CROP also included a 2% interest rate subsidy for farmers using the program. Below is a Table listing CROP's cumulative activity as of December 31, 1994.

CROP Loan Activity
As of December 31, 1994

Year	Number of Loans	Total Amount	Average Loan	Default Rate
1985	833	$11,158,424	$13,395	6.83%
1986	1,369	17,745,967	12,963	3.49
1987	1,535	19,488,213	12,696	2.03
1988	1,786	23,246,443	13,016	2.08
1989	1,675	22,660,831	13,529	1.25
1990	1,587	21,386,814	13,476	2.30
1991	1,977	24,941,018	12,616	1.45
1992	2,002	26,485,593	13,230	1.47
1993	2,017	27,223,979	13,497	0.54
1994	2,040	28,344,020	13,894	N.A.

One South Pinckney Street, Suite 500 • Post Office Box 1728 • Madison, Wisconsin 53701-1728 • (608) 266-7884
General Fax (608) 267-1099 • Single Family Fax (608) 266-0729 • Legal Services Fax (608) 267-1463
Milwaukee Office: 219 West Galena Street, Fourth Floor • Milwaukee, Wisconsin 53212-3962 • (414) 227-4039

Beginning Farmer Bonds

WHEDA's Beginning Farmer Bond program was authorized by the Legislature in the 1994 Budget Adjustment Act and offers beginning farmers a reduced interest rate loan for capital purchases. WHEDA was authorized to issue $10 million in bonds and introduced the program on August 1, 1994. The lower interest rates are made possible through the use of federally tax-exempt bonds. The maximum loan available under this program is $250,000, with no more than $62,500 to be used to purchase used equipment. Loan proceeds can be used for farm land, farm improvements or buildings, equipment or livestock.

Because the program uses federally tax-exempt bonds, it is regulated by Federal Internal Revenue Service (IRS) code. WHEDA has very little flexibility in administering the program, virtually all of the guidelines are determined by the IRS. The IRS defines a beginning farmer as someone who has not owned farmland with a fair market value higher than $125,000 or owned a parcel of land bigger than 15% of the median size of a farm in the county of the proposed project.

Attached is a list of Beginning Farmer Bond program activity to date.

Under IRS Regulations, related party transfers of farms are not eligible to use this program. This has become a major problem in Wisconsin where the primary transfer of farms is between family members. WHEDA has been working with our Congressional delegation to get this provision changed and we have a commitment from Congressman Steve Gunderson's office to introduce corrective legislation.

Beginning Farmer Bonds
03/15/95
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Appl #	Date Recvd	Status	Farmer	City	County	Lender	Purpose	Bond Amount	FHA	Total Proj Amt	IR Date	FR Date	Close Date	Series	Rate	WHEDA Cont
BFB #7	12/21/94	3	Crompton, Alan and Lori	Lamont	Lafayette	Citizens State Bank	Purchase farmland and bldgs	$150,000	$0	$189,000	02/03/95			1995 Series 3	6.50%	MBK
BFB #11	03/06/95	1	Mattson, Robert & Jennifer	Ashland	Bayfield	M&I Ashland	Purchase farmland and bldgs	$78,155	$0	$91,155	04/07/95				P+.4%	LF
BFB #1	08/23/94	6	Christianson, Cheyenne and Katherine	Chetek	Barron	Chetek State Bank	Purchase farmland	$62,000	$30,445	$104,000	10/07/94	11/04/94	11/09/94	1994 Series 1	P-.40%	JF
BFB #2	09/27/94	6	Graber, Larry	Spooner	Washburn	First American Bank Wisconsin	Purchase livestock & equipment	$80,000	$0	$80,000	10/21/94	11/18/94	12/29/94	1994 Series 4	(P+2.5%).75	JT
BFB #3	10/03/94	6	Wright, Greg	Trempealeau	Trempealeau	Bank of Galesville	Construct chicken coop	$250,000	$0	$300,000	10/21/94	11/18/94	12/09/94	1994 Series 3	P+.25%	JF
BFB #4	10/12/94	6	Vande Burgt, Paul	Kaukauna	Outagamie	M&I Bank Fox Valley	Purchase farmland and bldgs	$84,000	$0	$140,000	10/21/94	11/18/94	12/22/94	1994 Series 2	T+3.5%-fed tax exemp	JT
BFB #5	11/21/94	6	DeJager, Tony & Diane	Fox Lake	Dodge	M&I Bank of Beaver Dam	Purchase farmland	$200,000	$0	$238,700	01/06/95	01/20/95	02/16/95	1995 Series 1	(P+2.5%).65	MD
BFB #10	01/06/95	6	Lund, Ron and Sheri	Edgerton	Dane	Bank One, Janesville	Purchase 95 acres farmland	$128,250	$0	$128,250	02/03/95	02/17/95	03/03/95	1995 Series 2	7.50%	CSB
			TOTAL CLOSED BFB					$804,250								
BFB #6	12/07/94	7/19	Hodge, James	Janesville	Rock	First Commercial Bank	Purchase farmland									
BFB #9	10/28/94	7/19	Schmuhl, Patrick and Teresa	Brandon	Fond du Lac	M&I Central State Bank	Purchase farmland and bldgs	$107,325	$0	$115,000						

1,032,405 closed as of 3-16-95

PROGRAM SYNOPSIS
BEGINNING FARMER PROGRAM

The Wisconsin Housing and Economic Development Authority ("WHEDA") administers a program for beginning farmers (the "Beginning Farmer Program" or "Program"), which is designed to provide reduced interest rate loans for first time farmers. The Beginning Farmer Program uses federally tax-exempt bond financing to reduce a farmer's interest rate for capital purchases. Beginning Farmers will be provided with interest rates lower than prevailing commercial rates. WHEDA is authorized to issue up to $10 million in principal amount of bonds for the Program. All financial institutions and land contract sellers are encouraged to participate.

<u>Who can use It:</u> The Program may be used between a borrower and lender for a loan to make a direct purchase or between a buyer and seller for a land contract purchase. The fact that interest is exempt from federal income taxes to the lender or contract seller enables either to charge the borrower a lower interest rate.

<u>How process works If Bond Purchaser Is Bank</u>

Through a series of transactions involving the bond purchaser, the First-Time Farmer* (or "Beginning Farmer") and WHEDA, a federally tax-exempt bond is purchased by the lender with terms identical to the loan terms. The bond purchaser may obtain a mortgage or other security interest in the property being purchased (in the bond purchaser's discretion). The proceeds of the bond issue are then used to fund the loan to the farmer (see diagram below).

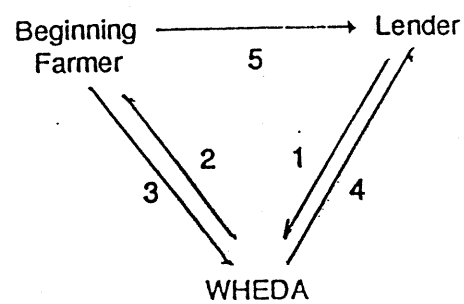
**First-Time Farmer* as defined by the Internal Revenue Code means an individual who engages in farming or wishes to engage in farming and who meets the following requirements:

a) Has not at any time had any direct or indirect ownership interest in substantial farmland in the operation of which individual materially participated,

- and -

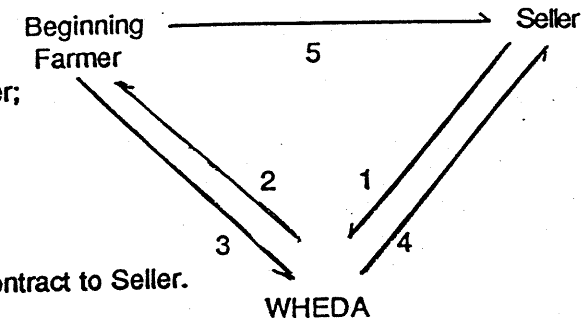
b) Has not received financing greater than $250,000 under this program.

1) Bond purchased by Lender from WHEDA;
2) Bond proceeds lent by WHEDA to Beginning Farmer;
3) Beginning Farmer gives promissory note to WHEDA;
4) Promissory note assigned to Lender as security for the Bond;
5) Beginning Farmer makes loan payments to Lender.



How process works If Bond Purchaser Is Land Contract Seller ("Seller")

Under a land contract arrangement, the Program involves the bond purchaser (Seller), Beginning Farmer, and WHEDA. After an Application has been submitted and approved, the Seller and WHEDA will enter into a sales contract and the Seller will receive a Bond to evidence WHEDA's obligations under the contract. WHEDA's right, title, and interest in the contract will then be assigned to the Beginning Farmer, who will assume the payments and other obligations under the contract.



1) WHEDA and Seller sign sales contract;
2) WHEDA assigns the sales contract to the Beginning Farmer;
3) Beginning Farmer assumes payment obligations under the sales contract;
4) WHEDA delivers Bond to Seller and assigns the Beginning Farmer's obligation to pay sales contract to the Seller as security for the Bond;
5) Beginning Farmer makes installment payments on sales contract to Seller.

Who is eligible: In order to be eligible for the Program, the individual applying to the Program must meet the following:

1. Wisconsin resident
2. At least 18 years of age
3. Net worth less than or equal to $250,000 based on fair market value financial statements
4. Not owned a substantial* amount of farmland
5. Principal user of purchased item
6. Access to adequate working capital, farm equipment, machinery and livestock.
7. Adequate education, training and experience in the type of farming operation for which the loan is sought.

**Substantial Farmland* as defined by the Internal Revenue Code as any parcel of land unless:

a. Such parcel is less than 15 percent of the median size of a farm in the county in which such parcel is located,

- and -

b. the fair market value of the land does not at any time while held by the individual exceed $125,000.

Risk:

100% of the credit risk is borne by the lender/contract seller. WHEDA assumes no liability. Furthermore, the lender is fully responsible for credit evaluation as well as the creation and perfection of any security interests deemed necessary.

Collateral Tax Effects:

Interest on the Bonds issued pursuant to the Beginning Farmer Program will be exempt from federal income taxes. However, interest on the Bonds will be subject to the alternative minimum tax imposed on individuals and corporations. In addition, for regular tax purposes, banks and thrift institutions will not be able to deduct any portion of the interest cost of purchasing the Bonds under Internal Revenue Code Section 265(b). Interest on the Bonds is subject to Wisconsin income tax. Prospective Bond Purchasers should consider these collateral tax effects when establishing the interest rate with the Beginning Farmer.

What Loan can be used for: The following items are allowable purchases of capital assets from non-related parties*:

1. Farm land
2. New or used farm improvements or buildings
3. New or used depreciable machinery and/or equipment
4. New or used breeding livestock

**Non-related parties* as defined by the Internal Revenue Code as all individuals other than parents, grandparents, siblings (whether whole or half blood), child, spouse.

The abovementioned use of proceeds for purchases will be eligible if the following are true:

1. Such assets (both real and personal property) will be used for farming purposes,

- and -

2. Such land is to be acquired by an individual who is a Beginning Farmer, who will be the principal user of such land, and who will materially and substantially participate* on the farm of which such land is a part in the operation of such farm.

**Material and substantial participation* is defined as an individual or individuals who derive a majority of their gross income from the farm operation and where the farm operation is considered their primary livelihood.

Direct Loans by Individuals:

Individuals may also purchase bonds to finance the loans of beginning farmers. However, bond purchasers must be non-related parties (defined earlier in this document) to the Beginning Farmer.

Additional information regarding direct loans by individuals may be obtained from WHEDA.

Loan Limits:

The maximum loan amounts are as follows:

(a) $250,000 for real property; not more than $62,500 may be used for the purchase of used equipment or used breeding livestock,

- or -

(b) $250,000 for the purchase of new equipment, or new breeding livestock.

Note: An individual may access the Program more than once, as long as the total aggregate borrowing does not exceed $250,000.

Loan Terms:

Loan terms and credit decisions are arranged by the lender or contract seller and Beginning Farmer.

Costs to Access:

Each applicant must pay the following: a $100 non-refundable application fee; and a closing cost fee equal to 1.5 percent of the loan amount. The application fee and closing cost are applied toward paying for expenses incurred to issue the bond.

The Financing Process:

The borrower seeking financing discusses the prospective project or purchase with his or her local lending institution. It is very important that the borrower not formally begin any portion of the project until he or she has spoken with a lender about the project.

Once the borrower has consulted with his or her lender, then:

1. The borrower(s) seeking financing obtains an Application from his or her local lending institution or from WHEDA's office.
2. The borrower(s) and lender complete the Application and negotiate the terms of the loan.
3. The Application and the non-refundable $100 application fee are submitted to WHEDA.
4. WHEDA will review the Application for completeness and eligibility.
5. If the Application is complete and eligible, WHEDA must conduct a public hearing on the project (notice of the hearing must be given at least 14 days in advance of the hearing).

6. WHEDA's Econonomic Development Committee considers the Application at a bi-monthly meeting. If approved, WHEDA's Economic Development Committee will adopt an Initial Resolution. **(THIS IS NOT FINAL APPROVAL AND DOES NOT BIND WHEDA TO ISSUE A BOND).**

7. Borrower must obtain approval of Initial Resolution by WHEDA within 60 days of commencement* of project.

**Commencement* is defined as any consideration exchanged between a buyer and a seller for purchase of eligible farm assets. Consideration shall be evidenced by written record, including offers to purchase, contracts, bills of sale, etc.

8. When the documentation and all terms of the bond issue are finalized, the borrower(s) and lender may request final approval from WHEDA's Economic Development Committee. The Economic Development Committee may then approve a final bond resolution.

9. After adoption of the bond resolution, all parties will execute documents and close the bond issue. WHEDA will issue a federally tax-exempt bond which is purchased by the lender, individual or contract seller with terms identical to the loan terms. The proceeds of the bond issue will then be used to fund the eligible expenditures.

About WHEDA:

The Wisconsin Housing and Economic Development Authority (WHEDA) was established by the Legislature in 1972 to help provide housing for low-and moderate-income Wisconsin residents. That mission has been expanded over the years to include financing for small businesses and for farming. WHEDA raises capital for its loan programs primarily through the sale of tax-exempt bonds. WHEDA's bond-supported program receives no state tax support.

This MED. County Farm Size
is An

Issue.

~~Ex: A Son~~

Ex: Can only own About 25-30 A in:
Manitowoc on Calumet Co. Prior
to This Loan

PLACE
STAMP
HERE

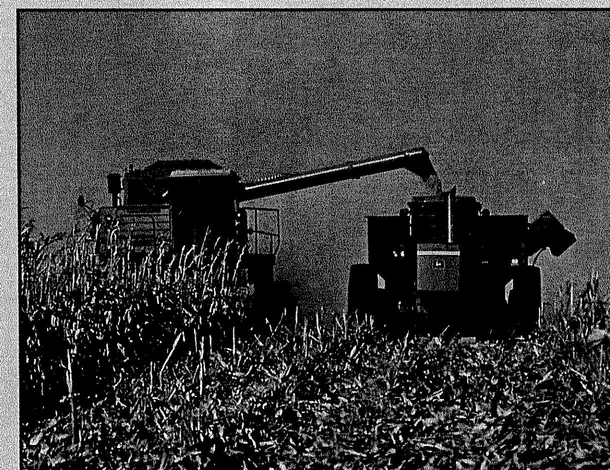
Agri-Finance®
Your Partner In Growth

Norm Healey
FS Credit Corp.
-subsidiary of Growmark

Agri-Finance®

Financing Your Operation Has Never Been Easier

Personal • Convenient • Flexible • Competitive



THE NATURAL RESOURCE
PEOPLE • PRODUCTS • SERVICE • SOLUTIONS

FS

Agri-Finance®
Your Partner In Growth

FS Agri-Finance® is an added value of doing business with your FS Service Company. FS Agri-Finance is a convenient and competitive line of credit that may be used to finance the quality products and services that you rely on from FS.

Personal

- The people at FS understand the business of farming.
- You can depend on our experience to help you develop a program that fits your operation.
- We'll assist you from the time you fill out your application until the final payment is made.

Convenient

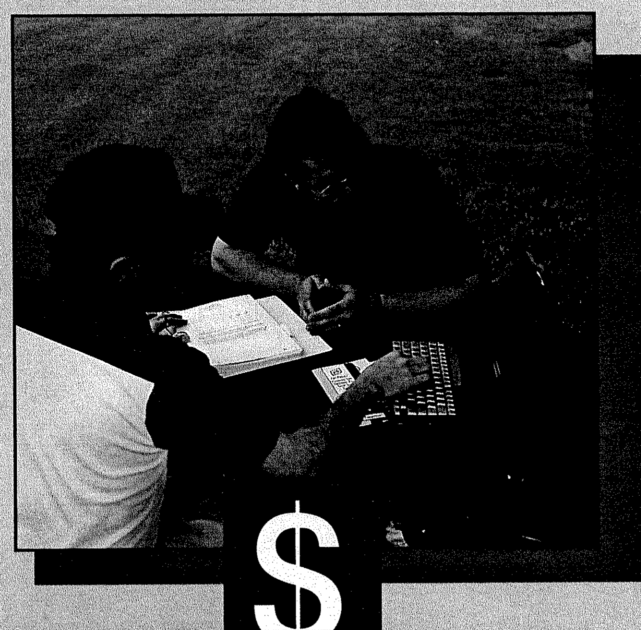
- Arrange production needs and financing in one stop.
- No need to write monthly checks.
- Purchases may be automatically applied to Agri-Finance.
- Eliminate trips to the bank.

Flexible

- Repayment is tied to your marketing plans.
- Additional credit may be arranged with a phone call.
- Even if your present loan is outstanding, you can reapply for next year's needs.

Competitive

- Attractive interest rates.
- Simple interest.
- Pay interest only on the money you use - no waste of borrowed funds or penalty for unused credit.
- Take advantage of most cash discounts and prepayment programs.



Ask us for the details and see how FS Agri-Finance can work for you!

Yes, I'm interested in the FS Agri-Finance program and would like to be contacted for more information.

NAME ____________________

ADDRESS ____________________

CITY ____________________ STATE ________

ZIP ____________________

COUNTY ____________________

PHONE (   ) ____________________

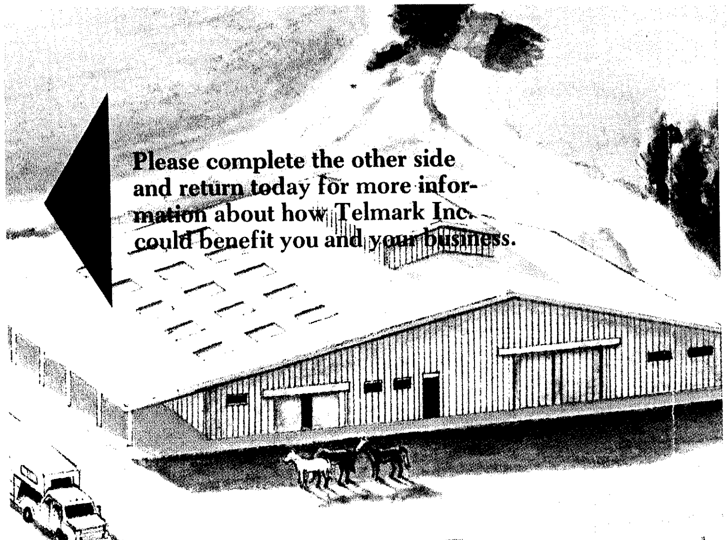
Number of acres farmed

Acres grown: corn ________ beans ________

alfalfa ________ other ________

I'm involved in the following livestock production.

Swine ________ Beef ________ Dairy ________



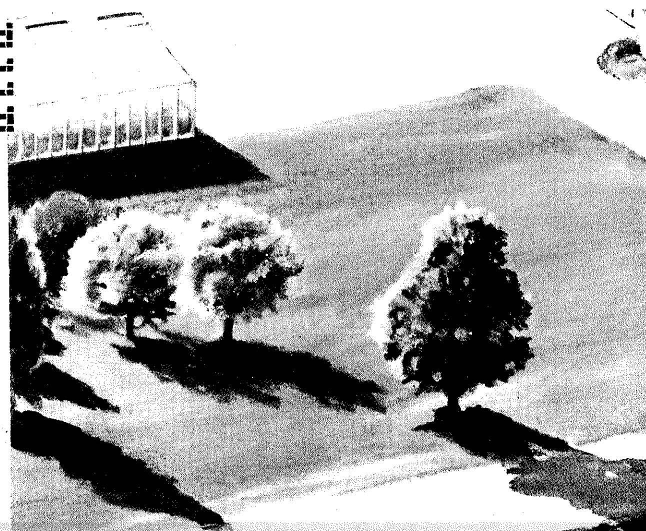
Please complete the other side and return today for more information about how Telmark Inc. could benefit you and your business.

Telmark® lease financing programs let you acquire equipment, buildings and vehicles, plus you get benefits from:

- Fixed Payments
- Flexible Terms
- Customized Payment Schedules
- Low Upfront Costs
- Preapproved Financing
- Guaranteed Tax Deductibility
- Turn Key Financing (buildings)
- Prompt Service by Local Representatives

TELMARK INC.
Attn: Customer Service Department
PO Box 4943
Syracuse, NY 13221-4943
Or call: 315-449-7964

37-7735 COMM 5/93



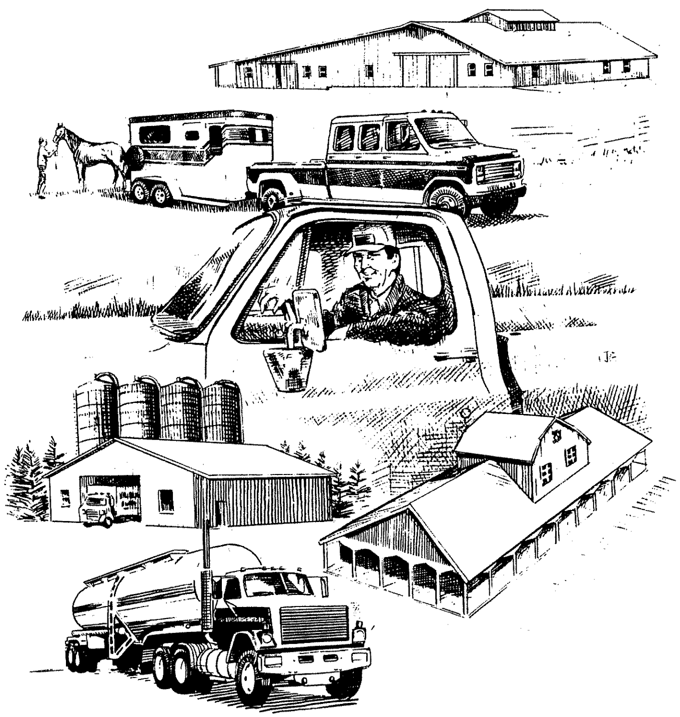
TELMARK INC.

NO POSTAGE NECESSARY IF MAILED IN THE UNITED STATES

BUSINESS REPLY MAIL
FIRST CLASS PERMIT NO. 3691 SYRACUSE, NY
POSTAGE WILL BE PAID BY ADDRESSEE

Telmark Inc.
Attn: Customer Service
P.O. Box 4943
Syracuse, NY 13221-7903

If you're an agri-businessman or woman, you ought to know the answers to these 12 important questions.



TELMARK INC.

ONE

Why should you lease equipment or buildings instead of owning them?

Because the value of equipment or buildings is in *using* them — not *owning* them. However, lease financing does offer most of the advantages of ownership without the burden of a large, initial capital investment. It's The Flexible Financing Alternative$_{SM}$ you'll come to appreciate in more ways than one.

TWO

Who can lease?

Any qualified agribusinessman or woman. Telmark Inc. is dedicated to serving the agribusiness community.

THREE

What can be leased?

Any kind, make or model (new or used) of machinery, durable equipment, over-the-road vehicles and buildings. If in doubt, call your Telmark representative.

FOUR

How does a lease affect my capital situation?

Lease financing is especially valuable to an agribusinessman whose growth is impeded by shortage of capital. A lease may improve your cash flow, preserve existing credit lines, and will eliminate the necessity of large down payments. Because leasing offers **fixed rate** financing, you know exactly what your expenses will be over the term of the lease.

FIVE

How does a lease affect my financial statement?

Most favorably. Capitalization of a lease has less impact than owned assets. Discuss the benefits with your accountant.

SIX

Are there tax advantages?

In most cases, lease payments are fully tax deductible operating expenses. This enables you to write off the total cost at accelerated rates. It may be the most cost-efficient financing source available today.

SEVEN

Is leasing a hedge against inflation?

Why pay for equipment or buildings with today's dollars when payments can be made with less expensive pre-tax dollars. The capital earmarked for equipment that depreciates can be used to purchase an asset that appreciates. It's not the *ownership* that creates profits—it's the *use* that produces profits!

EIGHT

What payment schedules are available?

Terms are available up to six years on TRAC (vehicle) Leases, up to eight years on the equipment leases, and up to eight years (10 by exception) on buildings. In most cases, payments can be made monthly, quarterly, semi-annually, or annually. Seasonal payment schedules can also be arranged in certain situations to coincide with the timing of your income.

NINE

Is leasing expensive?

While the gross dollar cost of leasing may be greater than purchase through cash, the *net* cost may be less than any other method of acquiring equipment or buildings. It offers nearly 100% financing rather than 66⅔% or 75% financing. After considering tax advantages and flexibility, leasing could impact the bottom line more favorably than an outright purchase.

TEN

Are trade-ins acceptable?

Yes. You can use your old equipment to negotiate the most favorable transactions with your dealer.

ELEVEN

What happens at the end of the lease?

You have three options and can select the one best suited to your needs:

- **Purchase** — You may purchase the leased vehicle, equipment or building. Fixed purchase options are available on some leases. Discuss with your Telmark representative.
- **Renewal** — You may elect to continue the lease for an additional period.
- **Return** — If you have no further use for the leased item at the end of the term, you may return it to Telmark with no further obligation, in most cases. Discuss the options with your Telmark representative.

TWELVE

When can we start?

That's up to you! Just choose your piece of equipment, over-the-road vehicle or building and negotiate the cost with your dealer. We'll then give you a proposal covering terms and payment schedule. You'll answer this important question yourself by telling us when you want to start.

The answers are important. But even more important is the corporation behind your lease: Telmark Inc.

Telmark Inc. is a financing corporation wholly owned by Agway Inc. We're headquartered in East Syracuse, NY, and our managers offer leasing services throughout the Northeast, Michigan, Ohio, Kentucky, Virginia, West Virginia, Indiana, Illinois and Wisconsin.

One advantage of leasing equipment, vehicles and buildings through Telmark is that you'll be working with people who are experienced and knowledgeable in both agriculture and financing.

But that's not the only advantage. Telmark has been in business since 1964. We're very professional and very competitive which is why today we have over 10,000 leases which vary from $5,000 to over $1 million. Our total lease portfolio exceeds $200 million.

We offer lease financing. You select the building, machinery, equipment or vehicle at the cost you desire. Telmark then purchases the item from the dealer or vendor and it's delivered to you. Freight and installation charges can be included in the lease, but you assume responsibility for taxes, maintenance and insurance.

Leasing is really a flexible financing alternative for acquiring the use of capital assets. Its importance is growing in farming, agribusiness, and in many other business areas as well.

Investigate how leasing, through Telmark Inc., can financially benefit you. Today.

TELMARK INC.®

Please call me about the items I am interested in leasing through Telmark.
(I understand my request for information does not place me under any obligation. However, I do understand lease financing could be very beneficial to my business.)

Mail this postage-paid card today to receive information immediately about Telmark® lease financing.

I am interested in leasing: ☐ Building ☐ Machinery ☐ Equipment ☐ Vehicle

If possible, please be more specific: ____________

Name (please print) ____________

Address ____________

Town ____________ County ____________

State ____________ Zip ____________

Phone ____/____ (area code) Best time to call ______ A.M. ______ P.M.

COMM 5/93

37-7735

Telmark offers lease financing.

A Telmark lease provides:

- possible tax advantages
- low upfront costs
- fixed-rate financing
- customized payment schedules.

These advantages may not be available through a cash purchase or conventional financing.

After the customer chooses a specific item from a dealer, Telmark buys that equipment, building or vehicle and finances it for the customer. The customer uses the item for the term of the lease. At the end of the lease term, the customer has the option to purchase or return the asset, or to renew the lease.

Lease payments paid to Telmark may be deductible as a business expense on the lessee's income tax return.

TELMARK INC.
Agri-Lease®
P.O. Box 4943, Syracuse, NY 13221-4943
(800) 451-3322

37-7733 9/94

INTRODUCING TELMARK

A financing company offering the rural marketplace lease financing alternatives.

Financing for Agriculture & Rural Businesses

Telmark is in the business of financing.

Telmark Inc. was established in 1964 and is a subsidiary of the 91,000-member farmer cooperative, Agway Inc. Agway operates primarily in the Northeast and is one of the largest and most prominent agricultural supply and service cooperatives in the United States. Telmark offers lease financing for equipment, buildings, and vehicles and serves over 13,000 agricultural and rural customers. Customer satisfaction is important to Telmark as evidenced by the high level of repeat business and referrals from our customers.

Telmark is diversified.

About 75% of Telmark business comes from production agriculture. Telmark finances a wide range of equipment, buildings and vehicles in the following industries:

- Dairy
- Crop
- Hog
- Poultry
- Livestock
- Fruit
- Vegetable
- Wood products
- Agricultural commodity haulers
- Rural commercial businesses

Telmark is growing.

Telmark offers lease financing in 21 states in the Northeast, mid-Atlantic, and midwestern regions of the United States.

Telmark manages a portfolio in excess of $300 million, increased its personnel to over 150 employees who service Telmark customers, and continues to grow.

Telmark is flexible.

To serve the unique cash flow needs of Telmark's diverse customer base, there is a wide variation in the structure of Telmark leases.

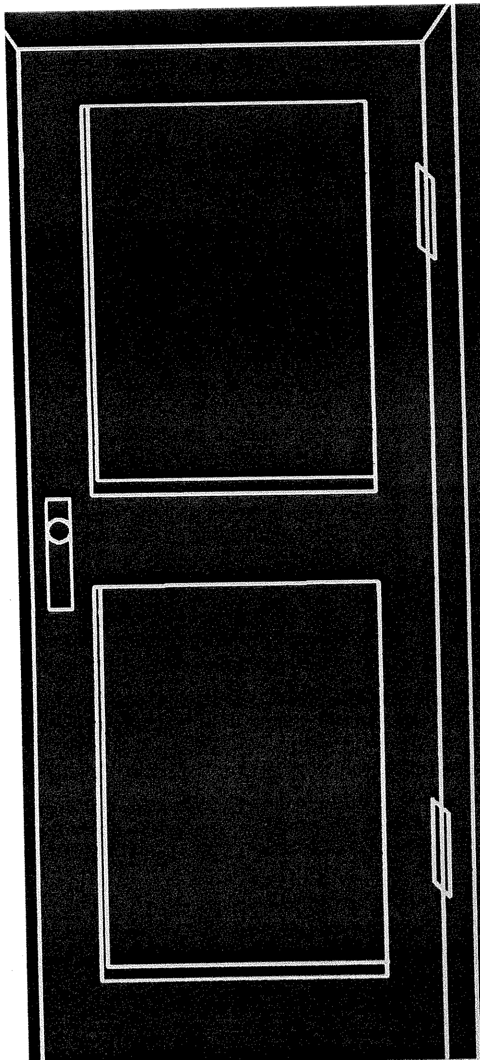
Payment schedules range from the monthly to annual options. Some of the payment options are:

- Skip & seasonal--no payment during low cash flow periods
- Step downs--payment amount decreases over the lease term
- Step ups--payment amount increases over the lease term

Telmark people know agriculture.

Telmark representatives are local people who are familiar with the community and agriculture. Most grew up on the family farm and have agricultural economic degrees.

They understand the value of your time and will serve you at your place of business.



LEASE

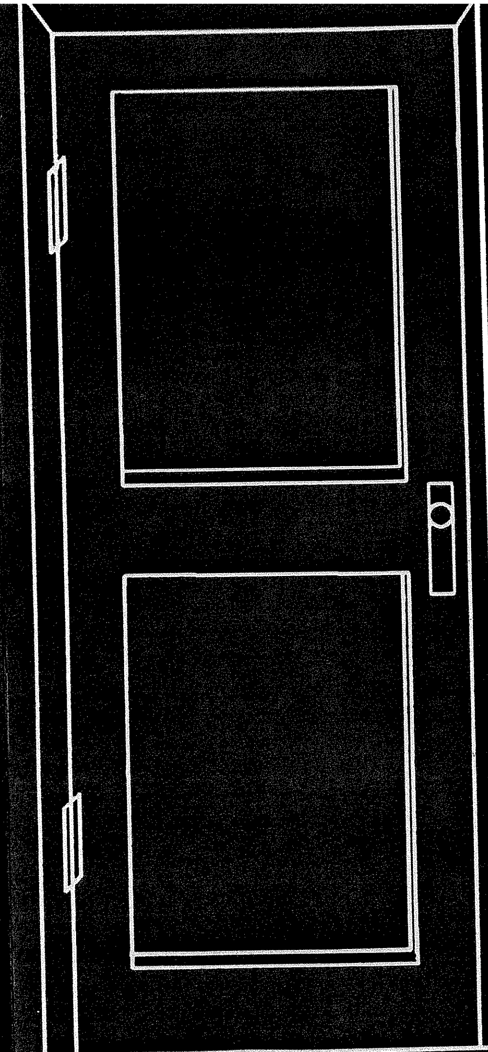
Whether you lease or buy, consider . . .

- How stable is the company? Have they been "in" and "out" of your market or committed to services even when times are tough?
- Do you have to conduct your negotiations only during "banker's hours" or when **you** are available?
- Will representatives visit with you at your farm or business or do you have to travel to an office for an application?
- Does the representative demonstrate a true knowledge of the characteristics of your business?
- Does the Lender or Lessor provide "book" answers only?
- Are estate considerations addressed?
- Does the Lender or Lessor specialize in agricultural/commercial financing or general programs?
- Should you investigate the estate and inheritance tax implications of leasing versus ownership?

TELMARK INC.

YOU'VE CHOSEN THE RIGHT DEALER OR BUILDER.

NOW CHOOSE...



BUY

BUY vs. LEASE

BUY		LEASE
• 10-33% down payment frequently required. • Purchaser pays "closing costs" (i.e. legal, filing.)	**BEGINNING COSTS** Have you considered how additional cash requirements of buying can be directed to other use? Business managers usually have better uses for this cash.	• 1 to 2 monthly lease payments in advance. • "Closing costs" usually built into rental structure.
• Depreciate "cost" of item. • Deduct interest paid. • Depreciation adjustments required for Alternative Minimum Tax. • Mid-quarter convention rules.	**TAX CONSIDERATIONS** Does slow depreciation on assets lead to an increased taxable income during the early years of an asset's useful life? In the early years when you can afford it least, more money will be paid to federal and state tax agencies.	• Expense lease payments. • No adjustment required for Alternative Minimum Tax. • No adjustment for rules of Mid-quarter convention.
• Inflexible schedule of payment regardless of seasonality of business. • Fluctuating rates and payments.	**PAYMENT/SCHEDULES** Do you need a schedule that reflects the slow or "off" times of your business? Are fluctuating interest rates and volatile financial markets making it impossible to budget with certainty?	• Customized schedule of payments reflecting seasonality of business. • Fixed lease payments.
• Banks and other lenders frequently want security beyond specific asset being purchased.	**SECURITY REQUIREMENTS** Are you burdened with blanket liens that cover assets beside that old equipment that you already "paid off"? If so, you frequently must call whenever you want to sell or trade an asset.	• Lessor has title, and may file UCC-1 for informational purposes only; therefore the leased equipment is generally sufficient collateral.
• Banks and other lenders may ask for all loans to be restructured or renegotiated.	**IMPACT ON OTHER DEBTS** Remember that restructuring loans normally results in higher financing costs on assets bought years ago?	• Single asset based financing. • Does not affect other obligations.
• Meeting the needs/requirements of other financiers can slow the process of acquisition.	**TECHNOLOGICAL CHANGE** Do you need to upgrade to add capacity or efficiency? Protect yourself from technological obsolescence by acquiring assets <u>when</u> you need them.	• Use lease financing to acquire assets when technological changes make acquisition necessary for operating reasons.
BUY		**LEASE**

TELMARK INC.

Highlights of Leasing

WHAT IS A TRUE LEASE?

A “true” or tax-based lease allows you to acquire the use of equipment, vehicles or buildings and to deduct the **entire lease payment** as an operating expense on income tax returns.

WHAT CAN BE LEASED?

Any new or used farm **equipment** (such as tractors, tillage and harvesting equipment, grain dryers and bins, feeding or manure handling equipment); **vehicles** (pick ups, trailers); and **buildings** (such as silos, storage buildings, dairy complexes, hog facilities, cattle barns or machinery sheds).

ACCELERATED WRITE-OFFS

Tax deductible over the term of the lease compared to 20-year depreciation of farm buildings, 391/2 years for commercial buildings, and 7- to 10-year depreciation on most farm equipment.

PAYMENT SCHEDULES

Telmark’s fixed-rate payment schedules are designed around the cash flow of your operation

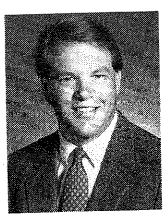
ADVANCE PAYMENT

Begin with as little as one monthly payment or as much as one full annual payment...or something in between.

OPTIONS

The three options at the end of the "true" lease:

- **Purchase the asset**
- **Renew the lease** one year at a time
- **Return the asset**



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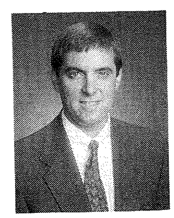
(715) 720-2312



Craig Taylor
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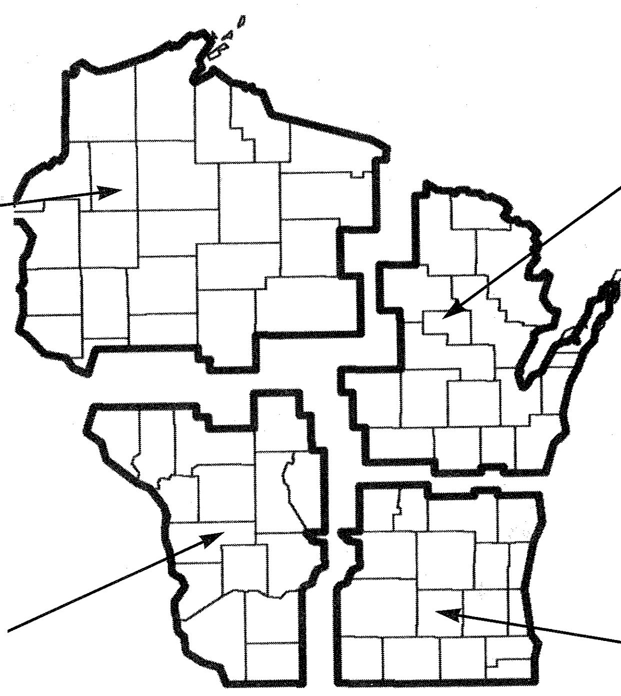
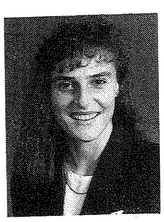
(414) 739-5560





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