SF2218/HF2718 Minnesota Indemnity Fund Bill

Our understanding is that the state is trying to help farmers recoup from losses. The low rate of losses paid by bonds in the past is directly related to the low bond amounts and current bond limiting statues. We believe bonds are better at protecting farmers from high-risk elevators who have higher probability of default than an indemnity fund. Without the financial checks that a bond provides there will be more insolvent warehouses that will default which will deplete the indemnity fund, and rebuilding the fund will cost farmers more.

- The value of surety bonds to the public is well documented in Federal and State law with the Miller Act and corresponding Little Miller Act of 1933.

- A surety bond could be tailored to complement and enhance the protection to the farmer in conjunction with an Indemnity Fund.

- The State could make better use of the surety bond by expanding the definition of cash sales. North Dakota is 30 days, IA is 180 days, currently the Minnesota is 10 days.

- Sureties will consider higher bond limits than the current requirements. Limits in the state have not changed for 20 years, while other Midwest states have expanded.

- Maintaining surety bonds guarantees a review of financial statements by an underwriter. The larger the bond, the closer the review. Underwriters want CPA prepared statements, review or audit, when the bonds are larger. For most elevators, the bond cost is 1% of the bond amount or less.

- While the surety carriers are the gate keepers on the bond, aggressive insurance carriers could write risky elevators for high rates. The primary bond carriers would not write bonds for elevators that don't meet their standards, but other carriers would because currently approval is completely up to carriers. The best way to stop that would be financial requirements written into law similar to Iowa, Indiana, and Michigan.

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