UNIVERSITY OF MINNESOTA
TWIN CITIES

Department of Agricultural and Applied Economics
231 Classroom Office Building
1994 Buford Avenue
St. Paul, Minnesota 55108

February 13, 1985

Governor Rudy Perpich
Office of the Governor
State Capitol
St. Paul, Minnesota

Dear Governor Perpich:

I attach the report of the Farm Subcommittee, Economic Crisis Commission, for your review and consideration. I wish to thank the members for their time, effort, and consideration. We hope that it proves helpful to you and the legislature as you continue your deliberations.

Respectfully submitted,

C. Ford Runge
Chair, Farm Subcommittee
Economic Crisis Commission

CFR:ps

Attachment

REPORT OF THE FARM SUBCOMMITTEE

ECONOMIC CRISIS COMMISSION

STATE OF MINNESOTA

Submitted by C. F. Runge
University of Minnesota

On behalf of the Farm Subcommittee

February 15, 1985

EXECUTIVE SUMMARY

Consistent with the charge set by Executive Order 85 of January 29, 1985, the Farm Subcommittee of the Governor's Economic Crisis Commission met on January 31, February 4, February 7, and February 11. Its purpose was to develop recommendations for short-term state-level policy interventions in credit markets. The resulting recommendations, while not exhaustive, focus on two state responses: interest write-downs and a farm foreclosure moratorium. The subcommittee's first consensus recommendation is that primary attention be given to interest write-downs, provided they are coordinated with other state policies. Its second consensus recommendation is that a moratorium on farm foreclosures, whatever its merits, is incompatible with the interest write-down: one or the other of these two state responses may be appropriate, but not both. Its third recommendation results from a division over the farm foreclosure moratorium issue itself. Eight members oppose it; four are in favor. Finally, the subcommittee as a whole strongly emphasizes the larger role that must be played by the federal government.

Ms. Bobby Polzene
R. R. #1, Box 140A
Brewster, MN 56119

Representative Elton R. Redalen
591 State Office Building
St. Paul, MN 55155

Representative Glen H. Anderson
Room 281 State Office Building
435 Park Street
St. Paul, MN 55155

Senator Randy Kamrath
133 State Office Building
435 Park Street
St. Paul, MN 55155

Senator Keith Langseth
G-24 State Capitol Building
St. Paul, MN 55155

The general charge to the subcommittee states:

> "In respect to the need of Minnesota agriculture, the Commission shall review and give its advice on pending proposals to employ state funds to help underwrite the costs of farm operating loans. The Commission shall recommend state actions that should be taken in respect to anticipated foreclosures of mortgages on Minnesota farms, and shall consider how best to target aid to those Minnesota farmers who can best benefit from state assistance programs."

The Executive Order further charges that the Commission as a whole recommend changes within 30 days of the execution of the Order.

Based on the restricted focus of the agricultural issues identified in the Order, and the limited time available prior to spring planting, the Farm Subcommittee met four times: on January 31, February 4, February 7, and February 11, the maximum number feasible given the other constraints of its members. It was agreed on January 31 to address two issues before others which were pending in the legislature. Both are clearly within

state authority and would provide some form of immediate relief to farmers in this season. Details of the agreement to look first at these issues are contained in the summary of the meeting of January 31, 1985, attached to this report. We stress that the resulting recommendations are not exhaustive.

The two issues taken up first were interest rate write-downs and a farm foreclosure moratorium. Intermediate and longer term policy issues were reserved for later discussion. It was recognized that either or both of the options considered could not be fashioned into final policy either independently of one another, or of other state and federal actions. Despite this, quick action was imperative to be of assistance to the legislature and Governor's office.

The results of these deliberations are contained in three recommendations. The first concerns interest rate write-downs, eligibility criteria affecting them, and the coordination of write downs with other state policies. The second concerns the relationship between a farm foreclosure moratorium and these write-downs, focusing on the incompatibility of the two proposals. Both the first and second recommendation were reached by consensus. The third recommendation resulted from a division in the subcommittee, and reflects differences in outlook between those who favor and those who oppose a farm foreclosure moratorium. These recommendations, and a divided statement on the moratorium, as agreed to by the subcommittee, are recorded below. We emphasize that they are intended as recommendations, not as final proposals for legislation. Had time allowed,

additional briefing materials and a wider range of issues could have been discussed. Regardless of how much time or evidence we considered, however, honest differences of opinion would in all likelihood remain.

Recommendation 1:

The subcommittee recommends that interest rate write-downs be considered of primary importance for state action, and that the write-downs should be coordinated with other state actions.

This recommendation is specifically conditioned on an understanding that other actions can and should be taken. Mr. DuBois has emphasized, and other members of the subcommittee have agreed, for example, that guarantees on loans from either the federal or state government may be important to the success of such a policy. These guarantees merit further investigation if the state proposes to undertake them, since it is unclear what resources are available to support them. Recognizing the need for such additional measures, the subcommittee went on to detail 13 points bearing on eligibility for the write-down, as well as its administration and cost. These were reported to the full committee on February 7, 1985 and forwarded to the Governor by letter on February 5, 1985. This letter is attached to the report.

1. It is recommended that a 50 percent debt/asset ratio be a minimum eligibility requirement, with a maximum to be determined by the lender.

2. The write-down should encourage the lender to continue to extend credit, if credit would not otherwise be granted, given the cash flow position of the operator.

3. A dollar ceiling should be set on loans eligible for write-downs for a given producer equal to $75,000 per producer.

4. The terms of the write-down should apply to a seasonal production commitment on the part of both the lender and the borrower.

5. The terms of the loan should be up to one year from the date the loan is granted.

6. "Operating loans" are recommended to include direct variable production costs, excluding land costs and taxes.

7. It is recommended that the balance sheet values used for asset calculations be consistent with current data or year-end, 1984 data.

8. It is recommended that the base rate before write-downs be set at the Federal Intermediate Credit Bank (FICB) rate plus 3 percent.

9. It is recommended that the fixed rate of write-down be established on the day the loan is made, with the state paying two times the lender share. Suggested bank share ranges are 1-1/2 to 2-1/2 percent; suggested state payment ranges are 3 to 5 percent.

10. It is recommended that the program be directed to commercial banks, other federally insured lenders, the Farm Credit System and its borrowers. State monies should be allocated on a state to lender basis, with borrowers making application for interest rate write-downs.

11. It is recommended that no new agencies be established to administer the program, and that monies be appropriated to cover administrative costs.

12. It is recommended that lenders submit application for apportionment of funds for interest rate write-downs within 30 days of passage of legislation. This application should list total debt outstanding eligible for write-down assistance. All eligible lenders will be entitled to write-down monies not less than their apportionment application, to be paid at the end of the lending period. Supplementary applications may be made at 30 day intervals.

13. It is recommended that a minimum of $20 million be appropriated for the program. If demand exceeds $20 million, distribution of write-downs will be prorated.

If such a measure were passed the estimated relief resulting from write-downs on loans of various sizes is described below. Given an interest rate write-down of 6 percent on a loan of $75,000, interest payments would be reduced by $4,500 per year.

1. If all operating loans were taken at this maximum allowable level, effective estimated relief would be $4,500 for each of 6,667 producers if $20 million dollars were spent.

2. If average operating loans equaled $50,000, rather than the maximum of $75,000, a combined lender-state write-down of 6 percent would buy $3,000 for each of 10,000 producers.

3. It should be noted that state monies contribute on a 2 for 1 matching basis with private monies for farm debt credit relief. Each state dollar spent buys $1.50 in credit relief under the above recommendations.

4. The total number of dollars leveraged by $20 million in state credit relief in the form of interest rate write downs would be $500 million in loans at lower interest rates for Minnesota producers.

Recommendation 2:

A moratorium on foreclosures is incompatible with interest write-downs, but may be compatible with other actions, such as federal or state loan guarantees.

This recommendation emerged as the consensus of the subcommittee after careful discussion of the likely effects of a farm foreclosure moratorium on rural credit markets. Details of this discussion are contained in the summary of the meeting of February 7, 1985, attached to this report. In general, the purpose of this recommendation is to make clear that a moratorium on foreclosures, if adopted, would have effects incompatible with

those likely to result from an interest rate write-down. This is significant, since the proposals have often been tied together.

In the view of the farm lenders on the subcommittee, such a moratorium would negatively affect the availability, rationing and perhaps the interest cost of credit, defeating the purpose of a write-down. In the view of those supporting a moratorium, state actions other than a write-down could best be combined with a moratorium. In either case, both those supporting a moratorium and those opposing it agreed by consensus that a moratorium was not compatible with the write-down recommendation.

Recommendation 3:

Disagreement over the moratorium issue led to a division in the subcommittee. A vote was taken on the following resolution:

The state should impose a moratorium on farm foreclosures. Eight members of the subcommittee voted against the proposal; four voted in favor. The division, which was taken on a show of hands, resulted in the following vote of subcommittee members or their representatives.

Not in Favor	In Favor
Kamrath	Anderson
Redalen	Polzene
Langseth	Schemmel
DuBois	Frenholz
Pohlad*	
Lokensgard*	
Peterson*	
Amdahl*	

*Vote by a representative.

Those not in favor and those in favor of a farm foreclosure moratorium prepared group statements further elaborating their positions. These statements are recorded below.

Statement of those not in favor of a moratorium.

Those voting against the moratorium resolution believe the results of a debt foreclosure moratorium are potentially severe and detrimental to the very people it is purported to help, because of its negative effect on credit availability and cost. Further, we question the extent to which state laws will be effective relative to federal policies and regulations. The imposition of a moratorium may in fact result in severe division within elements of the agricultural community. Our position does not detract from our sincere concern about the crisis in our rural community, however. It is our belief that consideration must be given to other remedial and corrective actions on both a state and federal level. We urge the Governor to immediately explore other means of assisting the state's farmers.

Statement of those in favor of a moratorium.

Our support for a moratorium is based upon the financial, personal, and social needs demonstrated by Minnesota farmers. Farmers are in a desperate crisis. Hope is scarce. Farm morale has never been lower. These human and social needs, which are best addressed by a moratorium, outweigh the less critical economic factors such as the possibility of loss of credit overlines. A moratorium would be most effective in conjunction with a state/federal loan guarantee. The moratorium could become effective upon passage of similar legislation in five other states. The moratorium woud remain in effect for a minimum of one year or until the Governor declares the emergency is passed.

Together, these statements reflect the differences of the subcommittee members. We believe it is now appropriate for these and other differences to be resolved in the legislative and executive offices of the state. We recognize both the difficulty and gravity of these choices, and believe they are best made by the elected representatives of the people. We hope, however, that we have assisted somewhat in clarifying the choices possible at this level of government. Finally, we must reiterate the

overwhelming importance of federal policy intervention to stem the mounting social and economic costs of the farm credit crisis.

Respectfully submitted,

C. Ford Runge
Chair, Farm Subcommittee
Economic Crisis Commission

APPENDIX

Summary of Meeting, January 31, 1985

Letter of Transmittal, February 5, 1985

Summary of Meeting, February 7, 1985

SUMMARY OF MEETING

Economic Crisis Commission

Farm Subcommittee

Thursday, January 31, 1985
10:00 a.m. - 1:00 p.m.

1. Introductory remarks were made by Commissioner Nichols and later by Tom Triplet, of the Governor's staff.

2. Chairman Runge then opened the meeting, noting the Governor's Executive Order, emphasizing that the task of the farm subcommittee is to recommend actions that can be taken in the next planting season. He interpreted the job of the committee to be to make generic recommendations by consensus, wherever possible, rather than to endorse particular legislative alternatives.

3. Of the generic options available for immediate state action, the subcommittee agreed that two should be discussed before others. One was interest rate write-downs. The other was a state farm foreclosure moratorium and related legal assistance.

4. After discussion, unanimous agreement was reached on the following statement:

   "The subcommittee recommends that interest rate write-downs be considered of primary importance for state action, and that they should be coordinated with other state actions."

5. The remainder of the meeting was taken up in a discussion of eligibility criteria for the interest rate write-down. Four criteria were discussed:

   -- 50% debt/asset minimum, with a maximum to be determined by the lender.

   -- the write-down must be sufficient to allow the producer to break even, or encourage the lender to continue to extend credit.

   -- a dollar ceiling should be set on loans eligible for write-downs for a given producer; the ceiling remains to be determined.

   -- the terms of the write-down should be one year from the date the loan is granted.

6. It was agreed to reconvene at 4:00 p.m., Monday, February 5, 1985.

Respectfully submitted,

C. F. Runge
Chair

UNIVERSITY OF MINNESOTA
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Department of Agricultural and Applied Economics
231 Classroom Office Building
1994 Buford Avenue
St. Paul, Minnesota 55108

February 5, 1985

Governor Rudy Perpich
Office of the Governor
St. Paul, Minnesota 55155

Dear Governor Perpich:

Attached are the recommendations of the Farm Subcommittee of the Economic Crisis Commission on interest rate write-down proposals. These recommendations represent the first output of the subcommittee, in response to your request (Executive Order No. 85 of 29 January, 1985) to give "advice on pending proposals to employ state funds to help underwrite the costs of farm operating loans ... and ... how best to target aid to those Minnesota farmers who can best benefit from state assistance programs." We have attempted to respond quickly to your request for guidance on this important matter.

These recommendations were developed by consensus of the Farm Subcommittee, and adopted unanimously, on February 4, 1985.

Respectfully,

C. Ford Runge
Chair, Farm Subcommittee
Economic Crisis Commission

CFR:ps

Attachment

SUMMARY RECOMMENDATIONS

Economic Crisis Commission

Farm Subcommittee

All of the recommendations and criteria were passed unanimously, February 4, 1985.

General Recommendation:

The subcommittee recommends that interest rate write-downs be considered of primary importance for state action, and that the write-downs should be coordinated with other state actions.

Eligibility Criteria:

1. It is recommended that a 50% debt/asset ratio be a minimum eligibility requirement, with a maximum to be determined by the lender.

2. The write-down should encourage the lender to continue to extend credit, if credit would not otherwise be granted, given the cash flow position of the operator.

3. A dollar ceiling should be set on loans eligible for write-downs for a given producer equal to $75,000 per producer.

4. The terms of the write-down should apply to a seasonal production commitment on the part of both the lender and the borrower.

5. The terms of the loan should be up to one year from the date the loan is granted.

6. "Operating loans" are recommended to include direct variable production costs, excluding land costs and taxes.

7. It is recommended that the balance sheet values used for asset calculations be consistent with current data or year-end, 1984 data.

8. It is recommended that the base rate before write-downs be set at the Federal Intermediate Credit Bank (FICB) rate plus 3%.

9. It is recommended that the fixed rate of write-down be established on the day the loan is made, with the state paying two times the lender share. Suggested bank share

ranges are 1-1/2 to 2-1/2%; suggested state payment ranges are 3-5%.

10. It is recommended that the program be directed to commercial banks, other federally insured lenders, the Farm Credit System and its borrowers. State monies should be allocated on a state to lender basis, with borrowers making application for interest rate write-downs.

11. It is recommended that no new agencies be established to administer the program, and that monies be appropriated to cover administrative costs.

12. It is recommended that lenders submit application for apportionment of funds for interest rate write-downs within 30 days of passage of legislation. This application should list total debt outstanding eligible for write-down assistance. All eligible lenders will be entitled to write-down monies not less than their apportionment application, to be paid at the end of the lending period. Supplementary applications may be made at 30 day intervals.

13. It is recommended that a minimum of $20 million be appropriated for the program. If demand exceeds $20 million, distribution of write-downs will be prorated.

Estimated Relief

Given an interest rate write-down of 6% on a loan of $75,000, interest payments would be reduced by $4,500 per year.

1. If all operating loans were taken at this maximum allowable level, effective estimated relief would be $4,500 for each of 6,667 producers if $20 million dollars were spent.

2. If average operating loans equal $50,000, rather than the maximum of $75,000, a combined lender-state write-down of 6% would buy $3,000 for each of 10,000 producers.

3. It should be noted that state monies contribute on a 2 for 1 matching basis with private monies for farm debt credit relief. Each state dollar spent buys $1.50 in credit relief under the above recommendations.

4. The total number of dollars leveraged by $20 million in state credit relief in the form of interest rate write-downs would be $500 million in loans at lower interest rates for Minnesota producers.

to farm credit, as lenders tightened eligibility requirements and rationed credit to previously creditworthy customers. No statistically significant impact on interest rates was found. The second evidence introduced concerned a recent survey in 17 farm states on farmers' attitudes toward agricultural policy alternatives, published in December, 1984 by the North Central Agricultural Extension Service. Data from this survey revealed that about 20 percent of farmers in all states surveyed supported a farm foreclosure moratorium. In the 17 states in which surveys were conducted, 15 to 25 percent were actually in favor of a policy of tightening eligibility requirements for additional credit. In Minnesota, 11 percent were in favor of such a moratorium, while 18 percent favored an opposite policy of tightening credit eligibility requirements.

b. Effects of such a moratorium on the availability, rationing, and interest cost of credit.

(1) Availability of credit.

Two points were made by farm lender representatives concerning availability of credit in the face of a moratorium. First, total credit available to customers would be reduced. Second, analogous to wage/price controls, large increases in foreclosures due to "catch-up" attempts could be expected when the moratorium was lifted. The first of these points was disputed by Mr. Berg, who pointed out that large commercial firms, notably Cargill, might be expected to extend credit during a foreclosure moratorium, even if at higher interest costs. The Chairman observed that while possibly true, the expanded role of agribusiness in credit markets might be disturbing to supporters of foreclosures, many of whom were otherwise opposed to the market power of agribusiness.

(2) Rationing of credit.

Farm lender representatives emphasized that a moratorium on foreclosures would eliminate the security ordinarily associated with a loan, increasing risk and forcing a reevaluation of all potential borrowers in terms of their creditworthiness. Credit would then be rationed on the basis of past experience, with some currently creditworthy customers made ineligible for loans if any doubt existed concerning their ability to repay. Hence, increased credit rationing would result and credit flows to previously creditworthy customers would in some cases stop.

(3) Interest cost of credit.

Farm lender representatives stated that in addition to reduced availability and increased rationing of credit, interest charges could be expected to rise in the face of a moratorium to cover risk premiums on unsecured loans.

c. Application of moratorium.

Mr. Berg stated that his bill was explicitly designed to exclude CD holders from the moratorium, and that his primary motive was to pass his legislation.

d. Relationship of the moratorium to interest write-down proposals.

Mr. Gerber stated the relevant concern succinctly: who will lend operating credit under an interest write-down plan if the credit is unsecured due to a moratorium? This question suggested incompatibility between the interest write-down proposal earlier adopted by the subcommittee, and the moratorium under consideration. The Chairman noted that the write-down depended on farmer/lender cooperation to inject funds into rural credit markets. If a moratorium was passed simultaneously, less money would be expected to be spent on the write-down, and less should be appropriated. He also noted that in contrast to farmer/lender cooperation encouraged by a write-down, a moratorium created incentives for conflict between farmers and lenders.

The discussion concluded with consensus on the need to further investigate the compatibility of the write-down and moratorium proposal.

It was agreed to do so, and to finish discussion on the remaining three subissues.

5. The subcommittee agreed to reconvene at 11:00 a.m., Monday, February 11, 1985.

6. The meeting was adjourned at 7:15 p.m.

Respectfully submitted,

C. Ford Runge
Chair, Farm Subcommittee
Economic Crisis Commission