

THE FARM FINANCIAL CRISIS

AN AGENDA

FOR

ACTION

The Report of the  
Governor's Commission  
on the Farm Crisis

March 22, 1983

To Governor Rudy Perpich:

I have the honor of submitting this report on the financial conditions of Minnesota farmers. In response to your request, the Commission on the Farm Crisis has worked hard and diligently during the past two weeks, reviewing reports and taking testimony from farmers, rural lenders, agricultural supply dealers, and others who could provide current information and observations about the state of the farm situation.

The report summarizes our findings regarding the problems facing Minnesota farmers and the remedies we propose to meet those problems. Our basic conclusion is that severe economic hardships are facing Minnesota farmers, and immediate emergency action is required to prevent the financial failure of a significant proportion of Minnesota farmers and to restore confidence and predictability to the farm finance situation. We, therefore, urge the immediate implementation of the recommendations contained in this report.

We hope this report will assist you and the legislature to achieve what we believe ought to be a major state goal -- to assure economic and social stability in rural Minnesota.

Marvin Hanson, Chairman  
Governor's Commission  
on the Farm Crisis

COMMISSION'S CHARGE

"... to investigate the current and immediate financial problems facing farmers and rural communities ..."

COMMISSION MEMBERS

Marvin Hanson, Chairman  
Hallock, Former State Senator

Bernie Thesing  
Winona, Dairy Farmer

Carmen Fernholz  
Madison, Farmer

Bobbi Polzine  
Brewster, Farmer

Al Christopherson  
Pennock, Farmer

David Duus  
Tyler, Farmer

Clinton Kurtz  
Norwood, Minnesota Bankers Association

Dave Kettering  
St. Paul, Federal Farm Credit System

Russ Bjorhus  
St. Paul, Director, Minnesota Farmers  
Home Administration

John Cairns  
Appleton, Dairy Farmer and Production  
Credit Association Board Member

Burt Peterson  
Cambridge, Feed Mill Operator and  
Bank Director

## PROLOGUE

During the past two weeks the Commission studied the financial problems facing Minnesota farmers. In the course of these investigations, the Commission held hearings in Marshall, Faribault, and St. Paul. In addition, the Commission spent a considerable amount of time discussing information, weighing options and determining practical alternatives for immediate implementation. Written and oral testimony was solicited from farmers, farm organizations, agricultural lenders, farm supply and equipment dealers and other experts in farm financial matters. IT IS THE CONCLUSION OF THIS COMMISSION THAT SEVERE ECONOMIC CONDITIONS TODAY CONFRONT A SIGNIFICATION PROPORTION OF THE FARM AND AGRICULTURAL BUSINESS SECTOR OF RURAL MINNESOTA. INDEED, ONE MUST GO BACK TO THE 1930'S TO FIND CONDITIONS SIMILAR TO THOSE WHICH TODAY FACE MINNESOTA FARMERS AND AGRI-BUSINESSES. This conclusion is supported both by the statistical information presented in the following section as well as testimony of those familiar with the farm financial situation.

## FINDINGS OF FACT

The economic condition of Minnesota farmers can be measured by several indicators, including the growing number of foreclosures, bankruptcies, farm sales and judgments issued against Minnesota farmers. While some indicators tell a self-evident story, others are merely suggestive of the troubling economic conditions facing a significant number of farmers. These are rooted in depressed commodity prices, a decrease in the value of U.S. agricultural exports, a significant erosion in the equity value of farmland and equipment, excessively high interest rates during the past two years and other factors effecting the American economy. Specifically, the Commission has found the following:

### Incidence of Farm Foreclosures, Bankruptcies, Judgments and Farm Sales

- \* Farm foreclosure rates in Minnesota during 1982 were two to five times higher than the rates of the mid-1970's. While the current rates represent a dramatic increase over the 1970's, the number of farm foreclosures is relatively small.
  - Commercial banks in Minnesota, which hold 5 percent of the dollar volume of farm real estate loans in the state and 43 percent of the dollar volume of agricultural operating loans in Minnesota, commenced 36 foreclosure proceedings against real estate loans and 21 foreclosures against operating loans during 1982.
  - The Federal Land Bank of St. Paul, which holds 44 percent of the dollar volume of real estate loans in the state, commenced 104 farm foreclosures in 1982. Due to redemptions, only 46 were in foreclosure status at the end of 1982. This was three times the number in 1981.
  - The Production Credit Association, which holds 23 percent of the dollar volume of agricultural operating loans in the state, commenced 29 foreclosure proceedings in 1982 and completed 16.

- The Farmers Home Administration, which holds 6.5 percent of the dollar volume of farm real estate loans and 10 percent of the dollar volume of agricultural operating loans in Minnesota, completed four foreclosure proceedings during the fiscal year ending September 30, 1982. As of March 15, 1983, approximately 60 farm real estate and agricultural operating loans were being considered for foreclosure.
- It is not known at this time how many foreclosure proceedings or contract for deed terminations were initiated by insurance companies (9 percent of the farm real estate dollar volume) or by individuals (36 percent of the farm real estate dollar volume) in 1982 in Minnesota.
- \* The number of farm bankruptcies in Minnesota also is up. According to the Clerk of U.S. Bankruptcy Court for Minnesota, there were approximately 200 farm bankruptcies filed in 1982 at the three federal court districts of the state, an average of four per week statewide. This compares to an average of four per week filed in the St. Paul office alone, which covers only 70 percent of the state, during the first seven weeks of 1983. During the 1970's, approximately 20 to 25 farm bankruptcies occurred annually.
- \* A February 1983 survey of one-third of Minnesota's county sheriffs in agricultural counties in the northwestern, western, southwestern, southern and southeastern parts of the state revealed that 89 judgments had been executed against farmers.
- \* The U.S. Farmers Association found that there were approximately 2400 farm sales advertised in the state during the period September-December 1982, including land, livestock, equipment and foreclosure sales. The fewest sales were advertised in November (342), the most in September (1159). In January 1983 there were 587 farm sales of all types advertised, which compares to the 534 advertised in October 1982. It is not known how many of the sales were partial or total liquidations brought about by adverse credit situations. However, the Farmers Home Administration reported 146 chattel mortgage liquidations and 34 real estate mortgage liquidations among its borrowers during the 1982 federal fiscal year.
- \* Farm loan delinquency rates have increased during 1982, and the projected status of some farm borrowers for 1983 is not favorable.
  - As of February 1983, only 300 (2 percent) of the 16,732 Production Credit Association (PCA) agricultural operating loans were delinquent. However, of the loans classified by PCA during 1982, about 10 percent had "significant weaknesses," had shown no profit for years, or were considered "charge-off loans." PCA estimates a 5 percent deterioration in loan quality between 1981 and 1982, and projects that 10 percent of their operating loans look vulnerable if the farm income situation continues through 1983.
  - As of December 31, 1982, the Farmers Home Administration in Minnesota had reported an overall delinquency rate of 24 percent which breaks out as follows: 14 percent on farm real estate loans, 22 percent on operating loans, 29 percent on emergency loans, and 32 percent on economic emergency loans.

- By March 1, 1983, the Farmers Home Administration overall delinquency rate was 52 percent. The FmHA projects that for 12 percent of their 12,000 borrowers (1440 farmers), 1983 is going to be a make-or-break year. The Production Credit Association estimates that 2 to 3 percent of its borrowers (275 to 400 farmers) are in a similar position.

### Farm Income and Other Financial Indicators

Put in the simplest terms, the erosion of the financial well-being of farmers reflects the failure of farm prices to keep pace with rising production expenses. USDA estimates that since 1979 total cash farm receipts have risen 9 percent while costs have climbed 19 percent. The following statistics summarize why many Minnesota farmers are facing severe financial stress.

- \* Adjusted national net farm income for 1982 was forecast at about 50 percent of farm income in 1979. The unadjusted figure -- \$19 billion -- was the lowest figure since 1977.
- \* USDA predicts 1983 net farm income likely will decline from 1982 levels -- the third consecutive year of sharply reduced farm income. Farm commodity prices have dropped to their lowest level, in terms of purchasing power, since the Great Depression.
- \* Debt loads of Minnesota farms nearly doubled between 1978 and 1982 -- increasing by 79 percent from \$5.8 to \$10.4 billion.
- \* Minnesota export sales, as a proportion of cash receipts from farm marketings, increased from 21.2 percent in 1977 to a high of 33.9 percent in 1981. During 1979, 1980 and 1981, about 1/3 of all Minnesota farm receipts came from export sales.
- \* The value of U.S. agricultural exports during FY 1982 fell by an average of 11 percent. While export volume dropped only 2 percent, prices for most major commodities fell 10 to 20 percent. Receipts from corn exports declined the most, falling from \$9 to \$6 billion. The value of export sales of wheat and wheat products fell from \$8.1 to \$7.7 billion, while the value of raw soybean exports fell 8 percent. Present forecasts indicate that the value of U.S. agricultural exports will decline another 4 percent during 1983.
- \* The estimated statewide average value of Minnesota farmland in July, 1982 was \$1,179 per acre, or a decline of 10 percent from the average value of 1981. This decrease in value of \$131 per acre represents a loss of farm asset valuation of nearly \$4 billion. This decline in farmland values was the first since 1960, when the statewide average value of farmland dropped one percent. The greatest previous decline occurred in the early 1920's and did not end until the mid-1930's.
- \* The combined effect of lower land prices and inflation has resulted in a decline in the real value of Minnesota farmland of approximately 15 percent between July 1981, and July 1982.

## Financial Condition of Agricultural Input Supply Dealers

The Commission did not gather statistical data regarding the financial conditions of agri-suppliers. However, the following generalizations can be made based upon the testimony of farm supply and equipment dealers.

- \* The Minnesota-Dakota Retail Hardware Association estimated that rural Minnesota lost 80 of its 1030 privately owned retail hardware stores during 1982.
- \* During 1982, several farm equipment dealers were forced to draw upon their reserves and equity to continue in business. An increase in the availability of used equipment has hurt sales of new equipment. With the implementation of the Payment-In-Kind program, the present situation is not expected to improve during 1983 for suppliers and equipment dealers.
- \* The Minnesota Association of Cooperatives estimates that 33 cooperatives merged last year. This segment of rural Minnesota, which generally grants unsecured credit, has and continues to experience severe financial stress.
- \* The ability of cooperative-affiliated local suppliers to service debt has been severely eroded during the last two years. The number of liquidations or bankruptcies of these institutions is expected to increase, perhaps dramatically, during the next year.

## Other Findings

The Commission has found that a great deal of human stress exists behind the major financial indicators. A great deal of mistrust, uncertainty and tension exist among those directly affected by the adverse economic conditions. The tensions have led to problems within families as well as conflicts between lenders and borrowers.

A significant number of farmers indicated a need to have information regarding their rights as borrowers, a neutral party to advise them regarding financial decisions and access to legal advice.



## STATEMENT OF CONCLUSIONS

Several inferences can be drawn from the previous data. The Commission has drawn the following conclusions:

- \* Sufficient funds exist at this time to meet the capital operating needs of Minnesota farmers. The consensus among farm lending institutions -- PCA, FmHA and commercial banks -- is that the availability of money is not a problem. However, given the economic condition of a significant proportion of Minnesota farmers, agricultural lenders are reluctant to extend credit to these borrowers due to their economic situation.
- \* The farm financial situation is neither expected to brighten significantly nor deteriorate much during 1983. There is an optimism that 1984 may see an improvement in farm income, primarily due to the Payment-In-Kind program. Given this situation, immediate and short-term assistance is required to give farmers the time and assistance they need to survive their current economic condition.
- \* Farm assets, such as land and equipment, have been devalued since 1982. This has seriously impacted the loan-to-asset ratio, making it unusually difficult for some producers to obtain operating credit.
- \* The overall effect of low farm prices and income, decreasing net worth and the current financial forecast for 1983 has caused the following significant occurrences in farm lending:
  - Traditional sources of financing (commercial banks, PCAs) for many farmers are adopting more conservative lending practices. This, in turn, appears to have led to an increase in FmHA applicants. FmHA has estimated a 12 percent increase in loan requests over 1982. FmHA offices, already understaffed in most parts of the state, are overburdened by the increase in potential clientele.
  - Several of the "unsecured interests" in the farm credit system -- suppliers, cooperatives, etc. -- are changing credit policies. The new policies range from cash pre-payment to extensions of credit for only 30 days.
  - A significant number of Minnesota farmers still are uncertain as to whether or not they will obtain operating capital for the 1983 planting season.
- \* Foreclosure and voluntary liquidations at this time would cause the sellers of property to absorb unnecessary losses caused by the current devaluation of land and equipment.
- \* The Commission has found that a considerable amount of financial uncertainty exists for a significant proportion of Minnesota farmers. Immediate action is required to lessen this uncertainty and restore confidence in the farm financial situation.

- \* While immediate short-term actions are necessary to enable Minnesota farmers to remain on their land and continue operating, the major long-term solution to the financial problems facing Minnesota farmers and agri-businesses is a rebound in commodity prices. Government at both the national and state levels must assume the responsibility for legislative action which will restore the purchasing power of farmers. WITHOUT SIGNIFICANT INCREASES IN THE PRICES FARMERS RECEIVE FOR THEIR PRODUCTS, THE CURRENT FARM DEPRESSION WILL CONTINUE INDEFINITELY.

#### RECOMMENDATIONS

The recommendations of the Commission include both immediate and long-term proposals. The Commission strongly recommends immediate implementation of proposals I. through IV. contained in this section. The remaining proposals should be implemented as soon as possible. HOWEVER, IT CANNOT BE OVERSTATED THAT THE ONLY PERMANENT SOLUTION TO MINNESOTA'S FARM FINANCIAL CRISIS IS AN EQUITABLE PRICE FOR FARM COMMODITIES. But in view of current economic realities, the Commission sets forth the following proposals to provide financial and other relief for Minnesota farmers. We urge the Governor and the legislature:

- I. To immediately appropriate funds to allow the hiring of emergency clerks within the FmHA so that the current backlog of agricultural loan requests and renewals can be completed prior to the spring planting season. The emergency personnel would be in addition to those already employed in designated disaster counties.
- II. To immediately establish an Office of State Farm Finance Ombudsman. The major functions of the office would be to:
  - A. Provide financial advice and counsel to farmers in financial crisis and to their lenders;
  - B. Set up a system of farm financial advisors across the State of Minnesota (within each county) to work with farm lenders and borrowers.
  - C. Coordinate an intensified effort by Agricultural Extension, Adult Farm Management, Vocational-Agricultural instructors, and the private sector in providing farm financial information to farmers.
- III. To immediately enact a state guaranteed farm operating loan program. The program would do the following:
  - A. Guarantees would cover 80 to 90 percent of losses incurred.
  - B. Eligible costs would include but not exceed actual 1983 expenses for seed, fertilizer, fuel, chemicals, electricity or fuel for irrigation, first-half taxes and cash rent.
  - C. It could be used only in those situations where credit could not be obtained without the guarantee.
  - D. Loans would be made by the lender without prior approval by the state.

- E. Loan amounts approved under this guarantee program should not be counted towards the lending limits of the bank regarding individual loans.
- IV. To immediately enact a state guarantee forbearance loan program available to farmers whose real estate mortgage or contract for deed loans are in default. The program would do the following:
- A. Guarantees would cover 80 to 90 percent of losses incurred.
  - B. It would be available where repayment ability can be shown by 1985 for both the original schedule plus repayment of the forbearance loan, which would be available for no more than two years. Repayment would be based upon an amortization schedule of not more than 10 years.
  - C. Loan amounts approved under this guarantee program should not be counted towards lending limits of the bank regarding individual loans.

THE COMMISSION RECOMMENDS THAT THE PRECEEDING PROPOSALS BE ENACTED BY APRIL 15th, AND IF NOT ENACTED AND THE FARM INCOME SITUATION CONTINUES TO DETERIORATE, THEN A REAL ESTATE FORECLOSURE MORATORIUM SHOULD BE ENACTED THIS FALL.

In addition to the preceding recommendations, the Commission recommends that following recommendations be implemented as soon as possible.

- V. Because of great concern about rising farm real estate taxes, the Commission recommends that any proposed changes in the agricultural credit or homestead credit tax law provisions not place an additional economic burden upon farmers.
- VI. The Adult Farm Management Program should be expanded and changed so more farmers can participate.
- VII. State law should provide a 60-day period of written notice in all cases of farm real estate mortgage defaults or foreclosures and judgments. The provision, similar to that provided under conventional loan default procedures, would apply to all mortgages from date of enactment of the provision.
- VIII. Farm real estate foreclosure procedures should be modified to provide that a mortgage will be reinstated if the payment in default, and subsequent payments due during the period of redemption, is paid to the mortgagee prior to the expiration of the redemption period.