AGRICULTURAL POLICY INITIATIVES IN THE MIDWEST

December, 1986

MINNESOTA DEPARTMENT OF AGRICULTURE
90 WEST PLATO BOULEVARD
ST. PAUL, MINNESOTA

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by Jeff McGuire

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This staff paper is being published without formal review within the Department of Agriculture. Moreover, time constraints did not allow for review of the written document by the resource persons who provided background information for the paper. As such, not all of the details or material have been verified to the author's satisfaction.

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PREFACE

The purpose of this study is to look at the expanded role of states in agricultural policy, documenting the various state finance proposals and other recent initiatives that the Midwest states have taken in the past few years. Surveys were sent to the agriculture departments in twelve states -- Illinois, Indiana, Iowa, Kansas, Michigan, Missouri, Montana, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin -- asking them what steps their state has taken in response to the farm crisis and in what direction their policies are headed. Contacts were made with persons in various state agencies here and in the other states.

Gaps remained even after the follow-up interviews; however, other sources were thus essential. I wish to especially thank Mark Popovich of the Council of State Planning Agencies for "State Emergency Farm Finance"; William Nothdurft for "Hustling Harvests"; Communicating for Agriculture for its "State Agricultural Finance Programs and Farm Crisis Initiatives"; Julie Bleyhl, legislative representative for the Minnesota Farmers Union for "Farm Financial Assistance Programs"; and the National Association of State Departments of Agriculture for its survey report of state finance and counseling programs. These sources, and others contain a wealth of information and analysis. Just as Mark Popovich suggests that state programs ought to supplement, not supplant, other lenders, so this paper seeks to supplement these other reports. Rather than repeating what has already been written elsewhere, I will often refer to the relevant reports. One further note: the programs discussed are not an exhaustive list of everything that the Midwest states are trying in agricultural policy, but they are the major programs and ones which may provide examples for other states to learn from.

BACKGROUND

The 1980's hit farmers hard -- heavy debts and high interest rates coincided with surpluses, falling commodity prices, and plummeting land values. Farmers accumulated debt in the 1970's faster than their ability to repay. Nationwide, farmers will be unable to make an estimated $2.2 billion of scheduled interest payments and $6.2 billion of principal payments because they lack the cash to service loan obligations. Furthermore, many farmers lack cash flow to meet minimum loan qualifications and are thus unable to obtain new credit. Since the states cannot get into CCC purchases or control prices or interest rates, the ultimate responsibility may lie with the federal government. With the preceived inadequacy of federal response in helping farmers, however, many states have adopted a "We'll do it ourselves" attitude, assuming greater responsibility for domestic policy and services. States have become vital testing grounds for new policy ideas to ease the burdens of the farm crisis. The main areas of increased state activity are credit and finance, education and outreach, and diversification and marketing.

CREDIT AND FINANCE

States have tried to respond to the problems farmers face with rising debts and costly operating loans by improving access to stable, low-interest financing for troubled farmers.

In 1985 there were a total of 13 programs in 9 of the 13 states. Currently there are 22 "emergency" farm credit programs in the 13 states; together these 22 programs have facilitated loans worth more than a billion dollars (See Pages 16-17). In "State Emergency Farm Finance," Mark Popovich defines the "minimal criteria" for evaluating state emergency farm finance programs:

-- State programs should supplement and not supplant other lenders. In addition to banks and other traditional capital sources, agriculture financing is provided by special federally-established lenders -- the Farm Credit System and the Farmers' Home Administration. Financing is available to most farmers from these sources.

-- Programs should be limited to refinancing and/or operating loans. These are the highest priorities for farmers struggling to keep operating.

-- Eligibility should be restricted to those farms that are in financial difficulty and who cnnot find financing from other sources. Those farms not in financial distress and those who cannot continue in farming for long even with assistance, should be excluded.

-- All costs, both direct and indirect, must be included in considering the program's efficiency.[1]

Pages 16-22 provide information on the various programs. [See Appendix A for more detailed descriptions of each of the programs. See also "State Emergency Farm Finance" for a more general analysis of the program types.]

<u>Linked Deposit</u>

Linked deposits make up the largest of the programs with over $800 million appropriated and nearly 20,000 loans completed so far this year (See Pages 18-19). With this program, the state deposits funds in banks which loan out the funds at a reduced interest rate. State imposed eligibility requirements are minimal.

Linked deposit programs are popular for various reasons:

- they allow the state to get a return on its investment funds while channeling lower-cost capital to farmers;

- they do not put state money at risk -- lenders make the decisions and accept the risk;

- they are relatively easy for the state to administer.

Further according to Mark Popovich, these programs were very quick to "get up and running," and no other option approached the number and volume of loans made.

Linked deposit programs do have drawbacks, however:

- if the state accepts CD rates lower than T-bill rates, it is losing potential revenue (e.g. Michigan's program cost approximately $5 million in foregone interest in 1985);

- depending on how much they are allowed to mark up loan rates, lenders may not receive an adequate return;

- since bankers make most of the decisions, the funds may not reach those farmers whom the state is trying to help and who could best use the assistance, so banks may continue to avoid marginal loans.

Additional comments about a few of the state linked deposit programs:

- ILLINOIS: begun in 1980, the linked deposit program has expanded ever since. The state does not get a reduced rate on its deposits as in other states. Instead, the state determines the CD rate by taking a survey of bank CD rates and coming up with an average. Ron Baily, Director of the IFDA, claimed: "Rather than lose money in linked deposits, the state ought to use its funds to guarantee more money." Demand was not as heavy in 1986 as in 1985 (though nearly $150 million was still loaned out). Baily attributed this to the fact that banks can only mark up loans 2.5% above the deposit rate: "Banks would rather loan the money conventionally and earn a higher return on deposits." The program will be ongoing, said Baily, because it imposes no cost to the state.

- KANSAS: administered by the State Treasurer's office, the program does not use general revenues. Instead, the program uses money from the Kansas Freeway Construction Fund, the only fund of substantial size that was available with discretionary authority. Stan Ward, Director of FACTS, suggested that this may be a source of funding for other states to tap.

  The first 1986 issue was not well received, as banks complained about the tough paperwork and the lack of flexibility. The next two issues were much better accepted -- the program was opened up to small businesses as well as to farmers, and eligibility requirements were loosened. Steve Hirsch of the Kansas State Treasurer's office admitted that the program "is not perfect" since loans are not going to those who may not be good credit risks, but he added that there has been talk about the possibility of creating an institution similar to the Bank of North Dakota to handle those loans.

- MISSOURI: Don Schauer of the Family Farm Development Authority said that the "MO Ag-Bucks" program was an easy one administratively and that he was "pleased it got out as far as it did" (approximately 3,000 loans each year). Schauer expected that the program would be extended into next year, but doubted that additional funding would be appropriated.

Interest Buy-Down/Deferral

Interest buy-down and deferral programs are designed to make loans more affordable and are usually supplemental to other programs/lenders. Authorized funding levels for these programs are much lower than for linked deposits, but these tend to be more targeted -- tighter eligibility restrictions and more limited purpose (See Pages 20-21). While interest rates are lowered by these programs, it is important to consider whether the reduced rate is less than the farmer's rate of return on the loan or whether the loan will serve to increase debt.

- ILLINOIS: The "Operating Interest Adjustment Loan Program" is designed to assist farmers who are having cash flow problems by extending a portion of their interest expense on their operating loans over a longer term. IFDA Director Ron Baily claimed that the program is too complicated for farmers and lenders. The program ends this year and Baily said he will not recommend that it be renewed.

- NORTH DAKOTA: (1) The state established a mediation panel (Credit Review Board) authorized to provide interest deferrals to help farmers preserve their homesteads when faced with foreclosure or liquidation. The program is not perceived very well, however, as only one application has been fully approved. A spokesman for the program, Duane Wagner, said, "it is a help, but not much of a help" since farmers can get only $11,000 worth of state aid. Wagner suggested that most banks would rather make loans on their own rather than go through the hassle of the program.

  (2) Lender participation in the Family Farm Survival Act (interest deferral) program is still lacking, perhaps because banks would rather reduce interest rates on their own and avoid the paperwork of the state program. The number of approved loans was one-fourth of what was expected.

<u>Loan Guarantees</u>:

Responses to a state loan guarantee program were mixed. The more negative view included:

- the potential high exposure of state funds may be too risky for some states;

- unless loan guarantees insure profitability and repayment ability [which is questionable at best], they serve to transfer losses from borrowers and lenders to the government;

- guarantees insulate the borrower and lender from market decisions [compared, for example, to most linked deposit programs, in which the private sector initiates the loans and takes the risk].

Some state constitutions, including those in Iowa and Michigan, actually forbid the use of state funds for loan guarantees. Iowa, for instance, has a loan guarantee program for beginning or displaced farmers, but the $1 million dedicated to the program comes from the Rural Rehabilitation Fund. Bill Griner, Director of the Iowa Agricultural Development Authority, said he does not like the program because of the use of this fund. Since the fund's assets are limited, loans are limited to $25,000, "hardly enough for most farmers' operating expenses." This year only 12 loans have been approved and one has already defaulted. Griner claimed that the scene would be much different if state funds were allowed; as it stands, though, no state funds may be used. Referring to the state's interest buy-down program, Griner said, "We can give money away, but we can't guarantee it."

Nebraska has had consistent problems with a public purpose lending clause in its constitution. Lending to farmers is made to appear as lending to private concerns, which is prohibited. Interest buy-downs and loan guarantees may thereby be seen as unconstitutional.

I.F.D.A. Director Ron Baily, on the other hand, spoke very highly of state loan guarantee programs. "The small, $2,000 or $3,000 per farmer programs don't work -- farmers need more money." Rather than giving money away, state guarantees can help the most by leveraging more funds than the state could otherwise provide. If administered correctly, claimed Baily, the program should not cost much. While the I.F.D.A. took a lot of criticism for setting relatively low debt/asset requirements (between 40% and 65%), Baily stressed the necessity of focusing such a program on those who have the best chance to make it with state help. "Those with debt/asset ratios above 70% probably can't be helped by the state." The state guarantee will probably continue next year, according to Baily, "especially since the state does not have to come up with the money up front."

Wisconsin's Credit Relief Outreach Program (CROP), the combined interest buy-down and loan guarantee program, was expanded in 1986. Lenders appear to be less skeptical; 62 more lenders participated in 1986 than in 1985 even though the state did not try to recruit new lenders. Yet CROP is designed to cover riskier loans -- applicants must have been turned down by other lenders. These loans are likely to have a higher default rate than other loans and thus put state funds at a higher risk. Still, according to Karen Clemens of the Wisconsin Department of Agriculture, Trade and Consumer Protection, the 90% guarantees were necessary when loans were above 13% if farmers were going to secure loans at all.

Linked Tax Credit

Kansas' new program gives lenders a credit against the state privilege (income) tax in the amount of the foregone interest which they allow agricultural borrowers. Although actual participation levels will not be known until next year's tax returns are in, Steve Hirsch of the Kansas Treasurer's office saw little, if any participation by lenders. "Since banks and P.C.A.'s aren't even making enough money, there is no benefit to a tax credit." He suggested that if banks were in good shape financially, they would write down the loans anyway.

Debt Restructuring

According to a Successful Farming survey of 679 farms in six states, "each $3 of debt since 1978 has returned only $1 in sales. Debt increased three times as fast as sales."[2] The debt problem is worsened by the concentration of debt in the hands of those least able to pay: the 1985 Minnesota Farm Finance Survey reports that roughly 30% of the state's farms are insolvent (debt/asset above 100%) or very highly leveraged (debt/asset between 71% and 100%), but that these farms hold over half (56%) of the state's farm debt. Since 80% of the non-performing and past due debt is held by federal agencies and the Farm Credit System, the responsibility is ultimately a federal one; yet states have been taking steps to try to ease the burden:

- Illinois: The Farmer Debt Relief Program, begun this year, is designed to consolidate and spread out a farmer's existing debt over a longer term by providing a direct subsidy or grant, which is paid directly to the creditor. For qualified farmers with debt/asset ratios betwen 55% and 70% the assistance is in the form of a five-year interest-free loan. For those with debt/asset ratios above 70%, the assistance is in the form of a grant. IFDA Director Ron Baily criticized the program for merely giving money away -- providing very temporary relief without long-term restructuring. He said that he will not recommend that the program be renewed.

- MINNESOTA: The new farm debt restructuring program, modeled upon the North Dakota program, was hoped to restructure $800 million in farm debt. The Rural Finance Authority was created to issue $50 million in general obligation bonds to leverage $200 million in revenue bonds in order to purchase participation in restructured loans [See Appendix B]. The program was supposed to start in August, but the state has had difficulty getting and "A" rating on the bonds, as required by law, and has also been unable to obtain a letter of credit from major banks to substitute for the revenue bonds. Wayne Marzolf, Director of the Family Farm Security Program, predicted that the program probably will not service near the number of potential borrowers as the legislation envisions because of the narrow window of eligibility. These restrictions, Marzolf added, were important "to avoid the appearance of helping the well-to-do."

- NORTH DAKOTA: The debt restructuring program is a cooperative effort with Farm Credit Services. The state commitment of $100 million ($30 million from the Bank of North Dakota and $70 million from other sources -- bonding, trust fund, excess school land monies) is to combine with $300 million from F.C.S. to defer interest and restructure real estate debts. According to Communicating for Agriculture, the program "is aimed at providing for new terms on first mortgage loans, allowing loan principals to be written down to reflect current market values, and allowing secondary principal systems to allow the state and participating lenders to capture appreciation in real estate values if they turn around." The program went into effect in April, but by the end of August only 15 applications had been received and only five had been funded; three more had been approved and four were in the process of being approved. Jeff Weispfenning, the Governor's Ag Advisor attributed the low participation to the newness of the program and its April starting date, "a time when financing was not on farmers' minds." He predicted that use will increase this fall and into next year.

While some suggest using some type of debt moratorium, others argue that this may cause more damage than good, merely postponing the inevitable and causing bankers to be less willing to make future loans. Instead of an outright moratorium Kansas passed the Family Farm Preservation Act, allowing the state to delay foreclosure or repossession up to three years if the borrower is able to make a payment equal to the interest rate times the fair market value of the land and/or equipment. This amounts to a state-level bankruptcy act.

The debt problem, unfortunately, extends beyond refinancing. According to a FAPRI report, as much as 24% of existing farm debt nationwide could not be repaid even at zero interest rates.[3] Some percentage of the debt, therefore, will have to be written off -- the question is how to allocate the bad debt among farmers, lenders, and the government.

<u>IDB - Based Loan Programs</u>

Industrial development bonds are a common source of funds for state agricultural finance programs. In general, a state agency issues a bond in the amount of the loan sought by a borrower. This bond is sold to a bank and money away -- providing very temporary relief without long-term restructuring. He said that he will not recommend that the program be renewed.

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<u>IDB - Based Loan Programs</u>

Industrial development bonds are a common source of funds for state agricultural finance programs. In general, a state agency issues a bond in the amount of the loan sought by a borrower. This bond is sold to a bank and the proceeds of the bond are loaned to the borrower. The advantage lies in te fact that interest earned on the loans is exempt from state and federal income taxes; banks can then pass on the tax savings via lower interest rates to the borrowers. Iowa, Indiana, Illinois, Michigan, Missouri, Nebraska, and Ohio all utilize IDB's for agricultural loans; as of June 1986 these states had approved over 3,350 loans worth nearly $276 million.[4] Most of the loans are for beginning farmers. Federal regulations have considerably restricted the permissible uses for IDB financing.

Illinois has the largest "Aggie Bond" program; as of August 1986, the state had approved 1,915 IDB-based beginning farmer, soil conservation, and agribusiness loans worth $122.8 million. Given the changes in the federal tax laws, however, the future of IDB's is uncertain.

<u>Additional Credit/Finance Policies</u>

- Nebraska's newly created Agricultural Revitalization Authority was authorized to develop and conduct a secondary market in agricultural mortgage loans. Without the moral obligation of the state to back the Authority, however, the program is unlikely to get started.

- Wisconsin and South Dakota now allow state banks to invest in farm operations.

- Iowa and Kansas extended the length of time that a financial institution can retain repossessed lands in order to keep land off the already depressed farmland market.

- North Dakota is considering a "purchase/buy-back" plan which gives farmers cash for their land with an option to buy back the property in the future.

- Iowa, Kansas, Nebraska, and Wisconsin all allocated funds for FmHA staff assistance to speed up the processing of FmHA loans.

One of the greatest difficulties with credit programs is targeting. Most programs are ostensibly geared toward those who are experiencing financial difficulty. Unfortunately, those having the most difficulty may be beyond help from the programs. As Robert Jolly, Professor of Economics and Assistant Dean of Agriculture at Iowa State University, writes, "For high-debt farms, the 70-100 percent D/A group, all restructuring options seem scarcely feasible. The prospect of liquidating 70 to 80% of a farm's asset base with a lease-back seems fortuitous at best. Farmers in this group, in general, are living on borrowed time."[5] Bob Stasson of the Minnesota Bankers' Association fears that legislators may tend to listen to those who <u>are</u> beyond help instead of (and perhaps at the expense of) those at the margin. Mark Popovich points out that many of the early state emergency farm finance programs were not efficiently targeted to those who could benefit the most.[6]

The credit situation for next year is uncertain, but optimism is not too prevalent. Lenders may have been willing to go "one more spring" in 1986 with the interest buy-down, but it is questionable how willing they will be in 1987. Wayne Marzolf, Director of the Minnesota Family Farm Security Program thought that credit next year will probably be tighter especially because of new laws (e.g. right of first refusal, mandatory mediation) that are designed to protect those already on the land. Credit companies are decreasing investments in agriculture and some are pulling out of the state; F.C.S. have been tighter in making loan decisions; and banks are likely to continue to be more selective. Marzolf reminded that lending institutions have their own best interest in mind: "The money is out there, but there are enough alternatives that are less risky and at least as profitable [as agriculture]."

Bob Stasson of the Minnesota Bankers' Association echoed this view, saying that bankers cannot keep all the risks and yet have their ability to collect restricted. Stasson recommended that legislation ought to stop taking away normal collection procedures, stating what he called the general rule: "If you restrict lenders' ability to collect, you also restrict the ability to extend credit and make loans." Stasson claimed that if the agricultural economy continues to worsen and if the state continues to ask lenders to accept more risk and less reward, the credit situation will be even more tight.

The credit outlook in Kansas and Iowa is not much brighter. Stan Ward, Director of FACTS in Kansas, predicted that '86-'87 will be the worst yet, especially because of declining prices and reduced cash flow. Bill Griner, Director of the Iowa Agricultural Development Authority, saw the problems that farmers have obtaining credit, but with banks becoming increasingly wary of making agricultural loans because of the difficulty of foreclosure, he predicted that the situation is only going to get worse: "Credit will be more and more difficult to obtain."

Still, credit <u>is</u> available. According to the Federal Reserve Bank of Minneapolis Agricultural Credit Conditions Survey, in the second quarter of 1986 <u>no</u> banks expected problems meeting loan requests in the next three months because of funds shortage, and 56% were actively seeking <u>new</u> farm loan accounts. Further, in the first and second quarters of 1986, roughly 60% of the banks reported that "current loan-to-deposit ratios with respect to the ratio preferred for normal bank operations at the time of year" was <u>low</u>.

While the money is out there, however, the problem is whether farmers can qualify. Banks provide roughly 40% of operating capital for farmers and are worried about risks. Banks seek high quality borrowers, but many farmers are not profitable enough and are too risky. Moreover, for the last two years, nearly 50% of banks in the Agricultural Credit Conditions Survey have continued to expect adverse change in farmers' ability to repay debts. One possible remedy for this is a loan guarantee program to remove some risk from lenders and thus increase loans. Mark Popovich seemed surprised that more states do not have loan guarantee programs, asserting that "state backing for farm operating or debt refinancing loans is a well-tailored response where the availability of financing is limited by a perception of high risk."[7] Of course the state then assumes the risk, which legislators may not wish to do given the experience of the Family Farm Security Program.

According to Director Wayne Marzolf, the state will probably not recover more than half of the $10 million it paid out in default guarantees for the program. Yet Marzolf feared that legislators may look at the past rather than the opportunities ahead.

In figuring the costs of credit programs it is important to keep in mind what will happen if programs are <u>not</u> there. The 1985 Iowa Farm Finance Survey found that on the average a farmer leaves $77,000 of unsecured debt when he is forced to quit farming. This obviously poses a problem for rural communities, which cannot afford to absorb the loss. The related social costs of displacement must also be factored in. A recent Missouri study found that almost one-third of farmers who had left agriculture were slowly drifting into poverty. It is not just farmers -- entire rural communities are at risk. The trend toward losing farmers is nothing new, but the state may be approaching a point where it is cheaper to help farmers stay on. This could be a question of pay now or pay later.

COUNSELING AND ASSISTANCE PROGRAMS

States have also increased involvement beyond credit programs. "Perhaps more than anything else in this period of confusion, farmers need information and someone to turn to," suggested Jeff Weispfenning, the North Dakota Governor's Ag Advisor. Echoing this sentiment, all 13 states now provide stress counseling, hotlines, legal and financial assistance, and some type of retraining programs. [See Appendix C for details on state counseling assistance programs].

These programs aim to assist existing farmers -- helping those who are already experiencing difficulty as well as trying to maintain the viability of those who may not be in trouble yet -- and seek to alleviate the problems of persons displaced from agriculture:

- Farm crisis hotlines have been established in each of the states to serve as a first point of contact for troubled rural families. Through the hotlines, farmers may receive emotional counseling, technical assistance, and legal and financial counseling/referral. Hotlines can facilitate credit programs by telling farmers what is available.

- Farmer advocate programs, providing referrals, financial and legal assistance, and moral support, have been set up in Minnesota, Nebraska, North Dakota, South Dakota, and Wisconsin.

- Financial management services are provided through such programs as Michigan's Extension Management Assistance Team, Minnesota's Project Support, Nebraska's Financial Management Assistance Program, and Ohio's Accelerated Farm Financial Management Program. These types of programs have become increasingly important in helping farmers develop financial management strategies, usually with the aid of computers, to determine short and long term goals. These services may enable some farmers to attain credit to continue farming and may encourage others that their best option is to discontinue farming.

- Transitional programs have been established in most states to provide a wider range of assistance to ease the adjustment of farmers exiting farming. It is important to consider, as University of Minnesota agricultural economist Steve Taff suggests, that it may be cheaper to ease farmers' transition out of farming "than to try propping them up until times are better." Each of the 13 states has made farmers eligible for job retraining and placement services under the federal Job Training Partnership Act. Using a grant from the U.S. Department of Labor, North Dakota's "Retrain Employ Agriworkers Profitably (REAP)" Program is targeted at farmers and out-of-work employees of agriculturally related businesses, paying for one year of vocational or college education or for half of an applicant's salary in a job training program for up to six months.

The failure of bond issues and the lack of revenues to fund significant credit programs prompted South Dakota to focus resources into one coordinated system to offer economic assistance and training to troubled farmers; working with Cooperative Extension Service Offices in each county, the Rural Renaissance Program provides jobs, retraining, financial assistance for schooling, legal and financial counseling, and other services -- to educate those going off the land.

The long range aspect of such programs is essential: helping those who will survive and those able to adjust.

DIVERSIFICATION AND MARKETING

Most of the credit/finance programs are short-run emergency policies -- states lack the financial resources to continue them indefinitely. Moreover, assuming that farmers can work out existing debt and credit problems, the question remains whether agriculture can continue to support them. "These programs are a band-aid on a hemorrhage," remarked Jeff Weispfenning, Agricultural Advisor for North Dakota's Governor Sinner. Many people respond that the credit/finance programs are designed to "buy time" -- for farmers for rural communities, for asset markets, and especially for the general agricultural economy to turn around. In the meantime, states hope to restore profitability in agriculture via diversification, marketing, and cost reduction programs. States have thus begun looking from "firefighting" towards rebuilding and longer-range solutions for agriculture. [For more details and analysis of state innovations in agricultural marketing, please see William Nothdurft's draft report "Hustling Harvests."]

Diversification of Rural Economy

Recognizing the vital link between agriculture and the economic well-being of rural communities, states have been looking at ways to broaden the economic base of rural areas with jobs not tied to agriculture -- perhaps service-producing and/or manufacturing industries. University of Minnesota Professor Emeritus Philip Raup concludes that "survival in farming depends more than ever before on the availability of off-farm employment."[8] It is hoped that rural economic development will provide jobs for those forced off the farm and to provide additional income for those still farming.

Crop Diversification/Alternative Crop Production

Many states are now encouraging farmers to diversify their farming operations away from traditional crops. Federal policies have done just the opposite, claimed Lori Widmark of the Minnesota Governor's Rural Development Council: "Price supports have skewed farmers' decisions and encouraged a monoculture agriculture." It is hoped that horticultural and other non-traditional crops will be more saleable, providing farmers with greater income and consumers with desired "healthy" products. In addition, a diversified agricultural base would reduce reliance on traditional row crops and make farmers less vulnerable to changes in price. Some of the programs include:

- Iowa provides funding for a Food Crop Research Center and a horticultural marketing specialist;

- Indiana's Department of Agriculture established a special crop diversification program;

- North Dakota's Agricultural Resource Utilization Board was designed to promote research in diversification;

- In Nebraska and Illinois, aquaculture may be a targeted state program next year;

- Ohio is making plans for a $3 million Center for Agricultural Innovations at Ohio State University which is designed to find methods to preserve and sustain diversified family farm agriculture in the state. According to Governor Celeste, the Center will help farmers "increase profits, not just production." The Ohio Farm Bureau Federation is expected to match the state's appropriation two for one.

Of course farm-scale diversification will not be everyone's salvation. Diversification can work but only to a point given our climate, soil, and what farmers are able to grow. Also, farms may lose economies of scale if they diversify too broadly. Further, farmers will be limited by what they are able to sell. All farmers cannot diversify to one crop and hope to sell it. Specialty crops have particularly limited potential, especially because of the distance from markets. Thus alternative crops will likely be a supplement, not a replacement, to traditional commodities.

Processing/Value-Added Industries

States are also trying to bolster farm income along with rural and small business economies by encouraging the in-state processing of raw agricultural products to a more finished stage:

- Iowa created a Food Crops Processing Research Center to examine the potential and feasibility of new food products derived from state-grown soybeans and corn. In addition, Iowa's Program for Diversified Agriculture hopes that by growing in Iowa 10% of the fruit and garden items which are currently imported, up to $60 million in revenue could be generated over the next five years.

- Illinois' Rural Revival Act established programs to assist farmers in developing new methods of marketing their commodities and in adding value to their raw commodities. Also, the state uses IDB's to fund an agribusiness loan program.

- Kansas created the Kansas Technology Enterprise Corporation to "foster innovation in existing industry and developing businesses especially in the creation, growth, and expansion of Kansas enterprises in a diversified range of primary sectors, which develop value-added products, processes, and services."

- Michigan's Processing Development Program: "as of April 1986, state-assisted food industry business development projects had resulted in new private capital investment of over $122 million and new or retained direct employment of nearly 2,300 jobs, with more in the works."[9]

- Minnesota's Agriprocessing Loan Guarantee Program, enacted to further the development of agriculture and improve the market for agricultural products, provides 90% state guarantees on a loan for the cost of agricultural resource projects -- so far loans have been made. In addition, an agricultural development grant program through the Minnesota Trade Office provides matching funds for new crop and product development; as of August, 41 applications had been approved for a total of $1.15 million in grant money.

- Nebraska's Food Processing Center provides technical assistance for processing and distribution of alternative crops and is researching organic/sustainable crop production. Recently, the state assisted a growers' cooperative in finding a market for its first carrot crop. According to Department of Agriculture Director Designate Don Hutchins, Nebraska in 1987 will be looking for an additional 1-1/2 cent checkoff of corn, wheat, and grain sorghum to provide start-up funds for the construction of ethanol and fructose processing and potentially expanding this to food processing.

- The Dairy Research Institute at the University of Wisconsin, Madision, is researching "value-added" dairy-based products to create new markets for Wisconsin milk.

Ethanol production is perhaps the most widespread effort by states at processing. According to Iowa Secretary of Agriculture, R.M. Lounsberry, ethanol production in Iowa provides roughly 150 jobs and 640 indirect jobs, and in 1984 added approximately $135 million to the value of the Iowa corn crop. Illinois appropriated $1 million for a pilot project to examine the feasibility of the use of ethanol in the desulfurization process of coal.

Individuals may be beginning to shift toward diversification and processing, yet it is vital that the state further support these activities by showing examples of how other farmers are doing it and by providing support services such as information and skill, not just capital. The state must foster entrepreneurship through such programs as Nebraska's Department of Economic Development, which, together with the new Research and Development Authority and the Food Processing Center, conducts workshops to encourage "homegrown" economic development in rural Nebraska. Al Jaisle of the Minnesota State Planning Agency added that the state must continue to facilitate "community-based agri-processing," encouraging cooperative relationships within communities to develop their own industries.

Stan Ward, Director of FACTS in Kansas, raised a further point. While it is essential that states encourage new business, they must also look to the retention and expansion of existing businesses. According to Ward, while Kansas attracted approximately 2,300 jobs last year, the state <u>lost</u> nearly three times that many from (previously) existing businesses in the state.

Since conventional lenders are often wary of financing unfamiliar crop proposals, some states have begun providing special financial programs for diversification. In addition to providing funding, these programs may serve to "educate" lenders on the feasibility and profitability of alternative crop production.

- Iowa'a Linked Deposit Program provides reduced interest rate loans to borrowers for the production, processing, or marketing of horticultural or non-traditional crops. According to spokesman Mike Tramatino, the linked deposit program poses no risk to state funds -- the risk remains with the lenders. Even though there was not much advertising for the program, there has been "lots of response" from bankers. Tramatino asserted that the program serves to "raise awareness of bankers to what a good business horticulture can be . . . . Banks were suprised at what the numbers looked like." So far, 90% of the loans have been used for production expenses while none have been used for marketing. Tramatino expected this to change, though, as the state tries to promote marketing and processing in the next six months through mailings and news stories: "We have to let the small towns know that if they want to attract business [for processing], low cost financing is available." The state does not guarantee the loans, but it also does not impose eligibility requirements on borrowers; Tramatino recognized that this enables the "well-to-do" to obtain a loan. Still, he added, the main purpose of the program is to focus money on a specific area in which the state feels it can have the most impact -- diversification.

- Missouri's Horticultural Loan Program provides direct low-interest loans to farmers who wish to diversify into horticultural production. Looking for a new way of coming up with alternative crops, $250,000 from the Rural Rehabilitation Fund was set aside to fund the pilot program. Horticultural specialists in the extension services examine the applications to help determine the feasibility of the project. Pauline King, chairman of the program, expressed confidence in the program and anticipated more demand next spring. King claimed that the program provides examples to lenders of how horticultural production can succeed.

- Kansas Statewide Risk Capital System, while not geared specifically at diversification, will invest $10 million of state funds "to create private risk capital for investment in smaller Kansas businesses. This investment will, in turn, lead to further growth, diversification and improvement of the Kansas economy in all geographic regions in a diversified range of primary sectors."

Iowa and Nebraska demonstrate the cooperation between farmers, researchers, government, retailers, and consumers that is essential for a successful crop diversification program [See Appendix D].

Marketing and Market Development

Government programs have tended to insulate the farmers from the realities of the marketplace. Lately, however, states have realized the importance of consumer-oriented marketing and of looking at market trends, not just at selling existing products. Through what William Nothdurft calls "The New Aggressiveness in State Domestic Agricultural Marketing," states are trying to recapture lost in-state markets and discover new markets in the state and beyond. States are making greater efforts to promote direct marketing (farmers' markets, roadside stands, pick-your-own farms, etc.) and export marketing. Direct marketing can provide fresher and healthier produce to consumers and a higher profit margin for farmers. Exports provide a much greater, though often less predictable, market for state crops.

Dick Haskett, Agriculture Director of the Minnesota Trade office, asserted that the state ought to focus on where it can have an effective and efficient use of state funds. This is not in bulk commodities, claimed Haskett, but rather in a defined niche of non-traditional commodities and small-to-medium size businesses -- breeding livestock, horticultural crops, and processed foods. Marketing and diversification have had to work together. Traditional cash grains are usually tough to market because they lack distinction; states thereby encourage diversification to improve marketability. Yet it will not help to diversify into something that you are unable to market. In a sense, their focus has begun to shift from "How to market what we grow" to "What to grow for the market."

The role for state governments has been to provide farmers with technical and financial assistance and with information on price, market and consumer trends, and patterns of trade. States also provide consumers with information, usually via directories, on farmers' markets and the like. Promotion, both in-state and beyond, is also important; most states have some logo or slogan (e.g. "Minnesota Grown," "Taste of Iowa," "Pride of Dakota," etc.) which emphasizes that the product is locally produced (for in-state markets) and is somehow more wholesome and fresh. Trade shows are a further means of promotion. Dick Haskett added that the state role may include helping firms with negotations if they are trying to export locally grown/processed products, and "may even be as simple as taking them to get passports."

For a more detailed analysis of marketing and market development, please read William Nothdurft's draft report "HUSTLING HARVESTS." Appendix E is an excerpt from this report which describes state marketing guidelines and criteria for evaluating marketing proposals.

CONCLUSION

There is not one solution to the crisis which agriculture is experiencing. The programs and approaches vary from state to state as the situation in each state varies. What does not differ is the recognition that states have a crucial role to play. The problems are too burdensome for local communities and the response from the federal government has been deemed insufficient. Besides, states are better able to create tailor-made solutions to their unique situations. Credit and finance programs have become short-term aides. Education, diversification, processing, and marketing seem to hold more promise for the long-term.

With the unlikelihood of an increase in federal aid or in state revenues, states will have to make due largely with existing resources. Given such budget constraints, states cannot partake in everything, but instead must decide on what alternatives and in what areas they can realistically have the most positive impact. States cannot do it alone, however, and must continue to encourage a federal role in supporting agriculture while tapping federal sources of funding and keeping in line with federal programs. In addition, states must encourage private financing when available along with trying to use public resources to leverage funds from private sources; farm financial management assistance, for example, may help farmers gain access to private financing.

Since a state cannot maintain its agricultural investment indefinitely, it is essential to look towards a future self-sustaining agriculture. As William Nothdurft concludes, rather than trying to "preserve agriculture and family farms, the state ought to help make them economically viable."[10] Long term planning is crucial. If programs are merely buying time, what are they buying time for? What will agriculture and rural Minnesota look like in another ten or twenty years? Policies will have to look not just at troubled farmers, but also at the needs of the successful farmer.

A major part of any long-term solution is education. As President John F. Kennedy once said, "Education must prepare us for a future in which the choices to be made cannot be anticipated by even the wisest among us." The state must help make educated, efficient, and adaptable farmers and get accurate information on prices and market trends to them quickly, and provide financial management assistance. Part of education will also involve convincing people to take losses sometimes. Perhaps the focus ought to be on transitional programs, helping ease farmers out of farming and informing them how to get out of business without incurring huge tax liabilities -- if not easing farmers out, then perhaps helping them to scale-back (sell assets, reduce debts, reduce size of business) or sale-leaseback (liquidate assets and leaseback). Still, the state must be careful not to create a structural dependence of family farmers on public services and benefits. Randy Young of the Minnesota State Planning Agency questioned whether the state "may be developing a permanent welfare system for farming."

Finally, it is important to overcome the sense of hopelessness that commonly pervades discussions on solutions. Marshall Foch said many year ago, "There are no hopeless situations; there are only men who have grown hopeless about them." Of course, hope must be tempered with realism. Agriculture will have to develop a new look. Merely citing the federal bailouts of corporations like Chrysler as a justification for federal funds will not be good enough. Those corporations had to go through a process of restructuring, discovering how to best create and market products that fit consumer demand. The severity of the agricultural situation provides the opportunity for agriculture to do the same.

STATE FARM FINANCE PROGRAMS

STATE	PROGRAM	PURPOSE	NUMBER AND VALUE OF LOANS	DATE INITIATED	END DATE
Illinois	Interest Deferral	Operating Loans Only	1985: 480; $22 mil. 1986: 258; $25 mil.	1985	6/86
	Linked Deposit	Operating Loans	1985: 9960; $176.7 mil. 1986(July): 7300; $149.6 mil.	1980	None
	Loan Guarantee	Debt Restructuring	1986: 396; $79.6 mil.	11/85	None
	Subsidy/Grant	Debt Relief	Loans: 260; $501,913* Grants: 2535; $4.8 mil.*	1986	6/86
Indiana	Linked Deposit	Operating Loans	1985: 1007; $34 mil. 1986: 1457; $53 mil.	4/85	8/31/8 (Cap at $50 mi
Iowa	Interest Buy-Down (2 part)	Operating Loans	1986: 650; $1.5 mil.*	3/86	8/30/8
	Linked Deposit	Diversification Finance	1986(Aug): 17; $750,000	5/86	1990
	Loan Guarantee	Operating Loans Only	1985: 8, $168,000 1986: 12	1980	* *
Kansas	Linked Deposit	Operating, Refinance, or New Purchase	1985: 365; $14.1 mil. 1986: 1200; $53 mil.	8/85	* *
	Linked Tax Credit	Production Loans	N.A.	1986	None
Michigan	Linked Deposit	Equipment Purchase, Debt Refinance, or Operating Loans	1985: 2911; $132 mil. 1986: 3000; $137 mil.	4/85	10/87 (Cap at $139 mi
Minnesota	Interest Buy-Down	Refinance	1985: 355; $3 mil. 1986: 22; $11,169*	3/85	* *
	Interest Buy-Down	Operating Loans	1985: 1832; 2.5 mil.* 1986(Aug): 6310; $389 mil.	3/85	* *

STATE FARM FINANCE PROGRAMS

STATE	PROGRAM	PURPOSE	NUMBER AND VALUE OF LOANS	DATE INITIATED	END DATE
Missouri	Linked Deposit	Production Expenses Only	1985: $46 mil. 1986(Aug): 4211; $106.9 mil.(Ag.) 976; $24.4 mil. (small (business)	5/85	1990 $50 mil.
	Low-Interest Loans	Diversification Finance	1986(Aug): 21; $149,000	2/86	None
Montana	Linked Deposit	Operating Loans	1986: 42; $1.9 mil.	3/86	8/31/86
N. Dakota	Interest Deferral	Home Quarter: Land Equipment, and other uses	1986(to date): 5; $50,400	7/85	None
	Interest Deferral	Operating	1985: 211; $10.3 mil. 1986: 241; $13.4 mil.	4/85	2 Years
	Interest Deferral/ Forgiveness	Debt Restructuring	1986(Aug): 8 approved 5 funded	4/86	4/87
Ohio	Linked Deposit	Flexible, Primarily Operating	1985: 1575; $100 mil. 1986: 1412; $100 mil.	4/85	5/87 (Cap at $100 mil)
S. Dakota	Linked Deposit	Flexible	No Funds Were Available in 1986	2/86	None
Wisconsin	Interest Buy-Down -And- Loan Guarantee	Operating, Refinance	1985: 849; $11.4 mil. 1986(Aug): 1399; $18.2 mil.	3/85	* *

* : State Payments/Commitment, Not Value of Loans
**: Renewed in 1986

NOTE: Chart Adapted From "State Emergency Farm Finance"

LINKED DEPOSIT PROGRAMS

STATE	PURPOSE	APPROPRIATION AND FUND SOURCE	CD RATE	LOAN RATES	MAXIMUM LOAN SIZE	ELIGIBILITY REQUIREMENTS	COMMENTS
ILLINOIS	Operating loans only	1985: $176 million, 1986: $215 million, State Investment Fund.	Based on state survey of bank CD rates Average: '85: 7.5% '86: 5.6-6.5%	2.5% above CD rate	$ 50,000 Average: '85: $18,000 '86: $20,000	Established by lenders.	Loans must be repaid within one year. Demand not as heavy as in 1985 "Program will be on-going because no cost to state"..
INDIANA	Operating loans only	$50 million, State Investment Fund.	5.5% (subject to change)	8% Max 2.5% Above CD rate	$ 50,000 Average: '85: $33,755 '86: $36,183	Net worth less than $250,000; 75% gross income from farming; debt/asset ratio above 55%; net worth/liability above 1.25.	1985: The full $50 million was not used because program started late. 1986: $53 million was committed as program expanded to include lending to P.C.A.'s; 850 loans were made to farmers under age 40 - 600 more than in 1985. Continuation in '87 doubtful because "interest rates are coming down enough".
IOWA	Diversification Finance	Up to $30 million (10% of idle funds), State Pooled Money Fund	2% below market rates	Max 4% above CD rate	$ 100,000 for production loans $ 250,000 for processing or marketing facilities	Loans must be used for the production, processing, or marketing of horticultural or nontraditional crops; no individual requirements	Started late for 1986 loans; So far, 90% of the loans have been used for production, none for marketing; "Lots of response from bankers".
KANSAS	Operating, debt refinance or new purchases	1985: $15 million 1986:Approx. $53 million Freeway Construction Fund	'85: Average: T-bill + .3% '86: 4%	Max 2.5/3% Above CD rate	$50,000(farm) Ave: $41,000 $200,000(small business)	70% of annual gross income from farming; (annual debt expenses over 25% of total annual expenditures - dropped in mid-1986)	Funds were issued 3 times in 1986; expanded to include small business loans.

MICHIGAN	Equipment purchase, operating loans, or debt refinance	$139 million (rollover from 1985) Common Cash Fund	2% below 90-day T-bill rate	Max 5% Above CD rate	$ 100,000	Financially distressed owner/operator; total loans under program must not exceed $100,000	Renewable 90 day loans; cost the state approx. $5 million in interest income in 1985; nearly 75% used for refinancing in 1985.
MISSOURI	Production expenses only	1985: $50 million 1986: $150 million (for farming); $50 million (for small business), State Investment Portfolio	3% below T-bill rate; Average: 2.6 - 4%	8.6% max	$ 35,000	Less than 60% equity; employ fewer than 10 people	Renewable 1 year loans; will cost state $6 million in interest income in 1986 if the full $200 million is loaned out ("which will probably happen by end of year"); loan rate will likely decrease in September.
MONTANA	Operating loans only	$50 million, General Fund	1% below Montana Board of Investment approved (approx. T-bill rate) Average 5.5%	Max. 2% above CD rate	$ 50,000	Debt/ratio above 30%	6 month loans; less than $2 million of available $50 million was used as only 6 banks participated; "Lack of participation likely because all risk stayed with banks and interest rates could only be marked up 2%;" will probably be renewed next year; state interest payments cost approx. $380,000.
OHIO	Flexible, primarily for operating loans	1985: $100 million 1986: $100 million (rollover), Investment Portfolio	T-bill rate, Average 3-5%	4% below market rate	$ 100,000 Average: '85: $63,500 '86: $66,600	Must employ fewer than 150 people; full-time farmer	Renewable, flexible loan terms; entire amount ($100 mill.) loaned in both '85 and '86 (especially because of loose requirements); only 14 defaults on 1575 loans in 1985; will be renewed for 1987; program highlighted in 1986 Suggested State Legislation.
SOUTH DAKOTA	Flexible	No cap, taxable bonds				Established by lenders	"Never got off the ground" Bonding issues were not favorable because not tax exempt and because of sunset provisions.

NOTE: Chart adapted from "State Emergency Farm Finance"

INTEREST RATE BUY-DOWN OR DEFERRAL PROGRAMS

STATE	PROGRAM	PURPOSE	PROVISIONS	ELIGIBILITY REQUIREMENTS	STATE INTEREST PAYMENTS	COMMENTS
Illinois	Deferral	Operating Loans	State pays 1/2 interest on the first $150,000 for loans with interest rates at 13% or less. Loan duration may not exceed 14 months. Farmer pays back 1/5 per year for 5 years.	Principal operator with debt/asset ratio above 55%; prove credit eligibility; provide collateral to equal state's commitment.	1985: $1.25 million on principal of $22 million. 1986: $1.48 million on principal of $25 million.	Maximum loan size increased to $150,000 in 1986. IFDA Director Ron Baily will not recommend that the program be continued in 1987.
Iowa	Buy-Down (2 part)	Operating Loans	(1) 3-part buy-down tied to FmHA buy-down. State writes down up to 3% to improve cash-flow so loan can qualify for FmHA loan. FmHA and lender each buy-down 2%. (2) If unable to get FmHA assistance, state will buy-down interest up to 3% if lender will match (i.e. total of 6%).	(1,2) No net worth limit; Must have negative cash-flow. (2) Financial analysis and plan to "cash flow."	Approx. $1.5 million; limited to $3,000/borrower; average $2,300/application.	Not as much participation as expected: $5 million was appropriated but only $1.5 million was used.
Minnesota	Buy-Down	Debt Restructuring	State pays first 60 days interest on the first $25,000 principal.	Loan is "Classified" by bank.	1985: $228,000 on principal of $3 million.	
	Buy-Down	Operating Expenses	Up to 50% decrease in interest rate on the first $100,000 principal; 3/4 (37.5%) is absorbed by the state, 1/4 (12.5%) by the lender. Maximum interest rate is 3% above the F.I.C.B. rate.	Debt/asset ratio above 50%. Reasonable opportunity to become financially viable; enrollment in farm management class	1985: $2.4 million for 1,735 loans. 1986 (Aug.): $19.9 million for 6,310 loans. Ave. Subsidy: $3,145: Ave. Principal Subsidized: $61,700	Low lender participation in 1985 prompted changes in 1986 provisions: maximum loan increased from $75,000 to $100,000; higher subsidy for banks; eliminated cash flow requirement; expanded to include lines of credit and rollover of debt; appropriated $5 million was used within 2 weeks; Governor Perpich pledged additional funding from 1987 legislature.

STATE	PROGRAM	PURPOSE	PROVISIONS	ELIGIBILITY REQUIREMENTS	STATE INTEREST PAYMENTS	COMMENTS
North Dakota	Deferral/ Forgiveness	Debt Restructuring	State buys up to 1/4 participation (up to $150,000) in existing first mortgage real estate loans. Borrower pays 8% interest in years 1 to 3, 9.5% in years 4 to 6, and current market rate in years 7 and 8. Deferred interest would be due at the end of the loan. In the 8th year of the loan, the land will be reappraised; if it is appraised for less than the amount of the loan, the difference will be written off and absorbed proportionately by bank of North Dakota and F.C.S.	Debt/asset ratio above 50%; must show the operation will cash flow with the assistance but not without; must pledge additional collateral to secure loan	N.A.	Anticipated over 800 applications for approximately $130 million. But as of September, only 15 applications were received, so program extended until April 1, 1987; low participation blamed on late start; expecting increased participation in fall and into next year.
	Deferral	Home Quarter: Land equipment and other uses	Buy-down to 10% in first year, 6% in second and third years, on loans up to $50,000. Amortized over term of loan.	Immediate danger of foreclosure or actually foreclosed within one year of redemption. Must prove ability to repay.	N.A.	Uses $2 million in general revenues to support an interest rate deferral revolving fund.
	Deferral	Operating Loans, Agriprocessing	65% of operating line provided by Bank of North Dakota at 8%. Participating banks must make loans at less than 12.7%.	Debt/asset ratio above 50%. Financial or natural hardship in the last four years; Borrower must have insurance protection.	1985: $300,000 on principal of $10.3 million. 1986: $391,000 on principal of $13.4 million.	Up to 20% of funds may be used for agribusiness; low participation by banks; expected 1,000 loans for 1986 but made fewer than 250; maximum loan amount raised to 200,000 in 1986.
Wisconsin	Buy-Down (Tied with loan guarantee)	Operating Loans, Refinance	State pays interest above 9% on loans up to $20,000. Bank must make loans at no greater than 11%. On defaulted loans, state pays 2% of interest and up to 90% of principal.	Lender of last resort; Debt/asset ratio above 40%; Hail insurance	1985: $441,192	Expanded in 1986 to include refinancing of 1985 program loans. As of June, only 128 loans for under $1.1 million were completed for refinancing of the 1985 loans. Default rate of approximately 8%. 223 lenders participated in 1986 - 62 more than in 1985.

NOTE: Chart adapted from "State Emergency Farm Finance"

STATE LOAN GUARANTEE PROGRAMS

STATE	PURPOSE	APPROPRIATION	PROVISIONS	ELIGIBILITY REQUIREMENTS	COMMENTS
ILLINOIS	Debt Restructuring Only	Up to $100 million in loans (Illinois Agricultural Loan Guarantee Fund is funded with $30 million to cover any losses.)	Provides up to 85% guarantee; Only one guarantee per farm; Loans must not exceed $300,000 and must be set up on a 30-year amortized payment schedule with a 10-year balloon; 3/4% closing fee (minimum of $400); Lenders must reduce interest rates to 2.5% above the one-year T-Bill rate; Lender must absorb the first 15% loss of principal and interest.	Primary operator receiving at least 50% of annual gross income from farming; Debt/asset ratio between 40% and 65%; Applicant must provide sufficient collateral to cover the state guarantees.	In 1986, 396 loans worth $79.6 million were guaranteed. Average loan size was $201,062. IFDA Director - Ron Baily spoke quite highly of the program.
IOWA	Operating Loans Only	$1 million - Rural Rehabilitation Fund (no state funds)	Provides 75% loan guarantee; Maximum loan is $25,000. Loans may not be used for refinancing.	Beginning farmer with net worth less than $200,000. Expanded in 1986 to include "displaced farmers".	In 1985, eight loans worth $168,000 were guaranteed. 1986: 12 loans, 1 has already defaulted by September.
WISCONSIN	Operating Loans Only	1985: $20 million* 1986: $22 million* * Tied With Interest Buy-Down	Provides up to 90% guarantee on loans up to $20,000 made under the state's Interest Buy-Down Program.	Lender of Last Resort: Debt/Equity of 40%; Hail Insurance.	Program will be continued in 1987 (written into the law).

NOTE: Chart adapted from "State Emergency Farm Finance"

OTHER FINANCE PROGRAMS

STATE	PROGRAM	PURPOSE	PROVISIONS	ELIGIBILITY REQUIREMENTS	COMMENTS
ILLINOIS	Subsidy/Grant	Debt Relief	One-time debt relief payment of up to 2% of outstanding farm-related debt or $2,000, whichever is less; Payment is made to creditors; If debt/asset ratio is 55% to 70%, state payment must be repaid 1/5 per year for 5 years; If debt/asset ratio is above 70%, the payment will be considered a direct grant and does not have to be repaid.	Debt/asset ratio above 55%; Able to secure credit from conventional lender.	$24 million was appropriated for this and the interest deferral program; 2,795 requests were serviced: IFDA paid $501,913 for 260 loans and $4.8 million for 2,535 grants (total cost to state was $5.3 million.) IFDA Director Ron Baily will not recommend that the program be renewed for 1987.
KANSAS	Linked Tax Credit/ Interest Buy-Down	Production Loans	Gives tax credits to banks and P.C.A's that reduce agricultural production loans 1 to 3%; Tax credits limited to 20% of annual privilege tax liability.	FARMER: Must already have loan that has been classified by state or federal regulator or has been considered a vulnerable or problem loan by F.C.S. BANK: Limited to deductions of interest of not more than 15%.	Originally estimated to cost $13 million over 5 years, but the program is not expected to be used much.
MISSOURI	Low Interest Direct Loans	Horticultural Finance	State will provide loans of up to $10,000 at an interest rate of 8% for horticultural production expenses; loan may not exceed 75% of total project cost; limit of one loan per borrower.	Returns from the project must be a "substantial source of income"; farmer must submit description of the project to designated Area Extension Specialist for review of potential success.	Loan funds come from Rural Rehabilitation Fund; program will be ongoing; It is hoped that the program will educate bankers so they will make the loans eventually.

FOOTNOTES

1. Popovich, Mark, "State Emergency Farm Finance," p. 3.

2. Successful Farming, "'Megatrends' of Farming . . ." in the Fargo Moorhead Forum, March 21, 1986.

3. Bullock, J. Bruce, "Farm Credit Situation . . ."

4. Communicating For Agriculture Newsletter, July/August 1986, p. 12.

5. Jolly, Robert, "Agricultural Credit and Finance: The Farm View (Micro)."

6. Popovich, Mark, "State Emergency Farm Finance."

7. Popovich, p. 18.

8. Raup, Philip, "Structural Change in Agriculture in the United States," p. 29.

9. Nothdurft, William, "Hustling Harvests" draft report, p. 22

10. Nothdurft, p. 29.

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APPENDIX A*

STATE EMERGENCY FARM FINANCE

SURVEY

*Note: The following is still a draft report--not all of the information from every state has been verified to the author's satisfaction and the paper has not yet been edited.

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DRAFT

STATE EMERGENCY FARM FINANCE 1986

RESULTS FROM MAY 1986 SURVEY

by

Mark G. Popovich

Senior Staff Associate

The Council of State Policy & Planning Agencies

June 1986

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STATE EMERGENCY FARM FINANCE: SPRING STATUS REPORT

A) INTEREST BUY-DOWN, DEFERRAL, FORGIVENESS PROGRAMS:

ILLINOIS: The state offered an interest rate buy-down program in 1985. However, in mid-January 1986, a newly enacted two part interest rate deferral and grant program initiated operations. A funding level of $24 million was authorized.

Under Part One, an interest deferral is available for 1986 operating loans. Assistance is available on the first $150,000 for loans with interest rates at 13% or less. Loan duration may not exceed fourteen months. Under the program, the farmer must pay full principal and half the interest accrued at the end of the loan period. The state extends an interest-free loan to the farmer for the remaining interest. The farmer repays the loan to the state over five years-- one fifth each year. To qualify, applicants must be state residents, the principal operator of the farm, prove credit eligibility, provide collateral to equal the state's commitment, and must have a debt to asset ratio not less than 55%. As of May 7th, 135 applications have been approved for a state commitment of $734,000.

Part Two-- the Farmer Debt Relief Program-- provides a direct subsidy or grant, but is paid directly to the creditor. Qualified applicants must be actively engaged in farming, have a 1986 operating loan from a conventional lender, and have a debt to asset ratio over 55%. The subsidy may range up to 2% of total outstanding debt but may not exceed $2000. If the debt to asset ratio is between 55% and 70%, the assistance is in the form of a five year interest free loan. If the debt to asset ratio exceeds 70%, the assistance is in the form of a grant. As of May 7th, 1168 applications have been approved for a state commitment of about $3,175,000.

IOWA: In April 1986, the state established an interest buy-down program authorizing $5 million-- $2 million in lottery proceeds and $3 million in general revenues. The Ag Loan Assistance Program has two parts. The first part is tied to the existing FmHA buy-down efforts where the bank and FmHA buy down 2% each. In order to receive state assistance, the loan application is submitted by the bank to FmHA. If the loan does not qualify, the state will participate for up to 3% to improve the cash flow enough to have the loan qualify. The second part of the program is primarily for debt restructuring or workout. If FmHA has denied a loan application, or FmHA lending assistance is not available on a timely basis, the state will buy down the interest by up to 3% if the bank will match-- e.g., a total buy down of 6%. This is a strictly lender of last resort program. To qualify, a farmer must be in a negative position. Farmers who are exiting agriculture do not qualify. To date 20 applications have been received. If all are accepted, the state will commit about $42,000. Enacted on March 20th, it is a one year program with an application cut-off scheduled for June 30th.

MINNESOTA: The State's two part interest buy down program has been continued with a $5 million appropriation in 1986. Part one is limited to existing debt. The state pays the first sixty days' interest from date of application. Payment is made at the rate of interest on the existing loan on the first $25,000 principal for farm ownership and/or operating loans. Beyond residency, the only eligibility requirement is that the lending institution sign a statement indicating that it believes losses may be sustained on the loan. The criteria for classifying the loan as such are left to the financial institutions. In 1986, 22 applications have been approved with a state commitment of $11,169.

Under Part Two, the lender may apply for an interest subsidy on the first $100,000 in principal (raised from $75,000 last year). In 1985, the program was restricted to operating loans only. The program was expanded in 1986 to include lines of credit and the roll over of debt. The formula to determine the subsidy level has also been changed. The Commissioner's Interest Rate-- roughly 13.05% remains as a cap on rates charged to borrowers. The borrower pays half the interest rate, the state picks up 37.5%, and the lender foregoes 12.5%. To qualify, borrowers must have a debt to asset ratio greater than 50%. All funding available was used in the first ten days of operation. During this period, 1362 applications were received. In early May, the Governor reopened applications for Part Two loans (Part One remains closed) in anticipation of action to make additional funding available. Since reopening the program, over 3200 additional applications have been received. Full funding for these applications would require about $12 million.

The state, in March 1986, also authorized a new farm debt restructuring deferral/foregiveness program, modeled upon the new North Dakota initiative.The new Rural Finance Authority(RFA) may issue revenue bonds to purchase participation in restructured loans which are further backed by up to $50 M in state General

Obligation Bonds. The state will purchase an interest in a first mortgage debt restructuring loan-- up to 25% (max of $50,000) of restructured loans, or 50% (max of $25,000) for the redemption of a farm homestead. Eligible borrowers must be state residents, the principal operator of the farm, derive at least 50% of gross income from farming, farming must be the principal occupation, a debt/asset of 50% or greater, must be unable to meet projected annual expenses without assistance, and must have projected annual expenses that do not exceed 95% of projected annual income. Virtually all financial institutions, federal and private, appear eligible to participate.

A primary principal for these restructuring loans is established by a fair market price valuation. A secondary principal is defined as the portion of the current debt that is in excess of the current market value. Under a restructured loan, the borrower will be responsible for making only market rate interest payments on the new primary principal. All principal payments will be deferred until the end of the new loan. In addition, interest will accrue on the secondary principal at rates below market and will also be deferred. All market interest rates and below market rates will be set by a governing Commission chaired by the Commissioner of Finance. The duration of loans are yet to be established. Preliminary discussion have indicated a term of 8-12 years.

At the conclusion of the loan period, the borrower owes all primary and secondary principal, and any deferred interest that has accrued. However, part of the obligation may be foregiven if a current appraisal establishes that the market value of the real estate is less than the amount of debt owed. That portion of the debt which exceeds the market value must be foregiven by the lender.

NORTH DAKOTA: The state has committed up to $100 million-- $30 million from the Bank of North Dakota and the remainder from either taxable bonds or the Board of School and University Lands-- to fund its part of an interest deferral/forgiveness program in conjunction with the FCS. Under the program, the state buys a one quarter participation in existing first mortgage real estate loans-- ie loans must be secured by collateral. The interest rate paid by the borrower is 8% in years one to three, 9.5% in years four through six, and the current market rate in years seven and eight. The interest accruing on the loan is at 12% or the current FCS rate, which ever is less. In year nine, a new appraisal is made. If the land has appreciated in value, the farmer is liable for the interest accrued up to the level of the appreciation in land value. If land has declined in value, the interest is foregone and the principal is written down by the amount the land value has declined.

FCS, without financial assistance from the state, may also provide for a "secondary principal"-- where the value of the land is less than the total debt being restructured, the secondary principal is the difference between the collateral value and the total debt. Interest is not paid on secondary principals but accrues at 6%. In the final year, if land values have appreciated to more than cover the primary debt, payment will be made on all or part of the secondary principal.

Qualified applicants must have a debt to asset ratio of 50% or greater and must show the operation can cash flow with the debt restructing assistance and could not without such help. The program was established on April 8th and applications were made available a week later. More than 800 applications for approximately $130 million are anticipated based on estimates made by FCS. The program is scheduled to run through August, but may be extended through negotiations by the state and FCS.

A second state program, continued from 1985, uses $2 million in general revenues to support an interest rate deferral revolving fund for farmers. The fund will buy down the interest rate to 10% in the first year and 6% in the second and third years of a loan. The interest deferred does not accrue interest liability to the farmer and is amortized over the term of the financing package for the home quarter. Eligibility requirements remain unchanged. In order to qualify, farmers must be in immediate danger of foreclosure or actually foreclosed within one year of redemption. The Credit Review Board administers the program. In 1985, three interest subsidies were approved. To date in 1986, five deferrals have been granted with a total state commitment of $50,400.

WISCONSIN: A highly targeted interest rate buy-down and loan guarantee program initiated in 1985 has been continued in 1986. Authorized at $20 million last year, there is $22 M available for 1986. All funds are state general revenues. Under the buy-down provision, the state pays the interest above 9%. Only loans from lenders who agree to provide an 11 percent or lower interest rate are eligible. If the loan is defaulted, the state pays 2% of the interest and up to 90% of the principal. Restricted solely to operating assitance last year, the program has been expanded to include refinancing of 1985 program loans. Eligibility standards-- lender of last resort, debt/equity ratio of 40% or greater, and hail insurance-- remain unchanged. However, a 90 day extension has been granted on last year's loans-- repayment must be made by June 30, 1986.

In 1985, 849 loans for $11.4 million were completed. As of April 30, 1986, 477 loans were paid in full. There were 24 loans defaulted. Total outstanding based on 1985 activity stands at just over $2 M. Program activity in 1986 is ahead of last year's schedule. While lender recruitment was not attempted this year, there are now over 220 lenders participating-- 62 above the 1985 level. The administrative agency, the Wisconsin Housing and Economic Development Authority, began registering loans on April 8th. As of May 30th, 1,110 loans have been registered. 1,096 loans are outstanding for a total of over $14.4 million. The vast majority of lending continues to be for operating assistance. Only 128 loans for less than $1.1 M have been completed for refinancing of the 1985 program loans.

B) <u>STATE LINKED DEPOSIT PROGRAMS:</u>

ILLINOIS: Originally authorized in 1980, the Illinois program has been expanded to $215 million in 1986. No other changes were made to last year's program. Loans made under the program may not exceed $50,000 per borrower and may be used for operating costs only. There is no maximum net worth restriction or debt to asset limit. All other eligibility requirements are set by individual lenders, and banks may establish a loan duration extending from one month up to a maximum of one year. Banks may charge borrowers up to 2.5% more than the interst paid on state funds at the time of deposit. Program activity information will not be available until June.

INDIANA: The state continued its linked state deposit program, (The Treasurer's Farm Program) for a second year. It was authorized for $50 million in 1985. To date, lending is about 10-15% ahead of 1985. Resources from the State Investment Fund are used to purchase 5 1/2 percent CDs from banks who will make loans at 8 percent to farmers for operating capital-- feed, seed, chemicals, or crop insurance. Eligibility requirements remain unchanged-- net worth less than $250,000, 75% or more of gross income from farming, debt/worth ratio of 1.25, and must submit a financial statement. Some requirements may be waived for farmers under forty years of age. The maximum loan amount is capped at $50,000.

As reported in 1985, over 1,000 loans totaling $34 million were completed. In 1986, the program was expanded to include lending by the Production Credit Associations. Through June 2, 1986, the total amount issued is just under $50 M. 1,371 farerms have participated and the average loan has been $36,714.50. Financial institution participation includes 136 (out of 385) banks and all 8 PCA districts.

KANSAS: In 1985, the Kansas Treasurer's Office operated a $15 million linked deposit program. This spring another $6 million was made available. The full amount was committed to 158 loans and the application period ended in April. The CD rate in 1986 was 10.3% and banks were allowed to pass on up to an additional 2.5%-- for a loan interest rate of 12.8%. Loans can be for a broad range of activities-- operating funds, refinancing, or new purchases. In order to qualify, borrowers must receive at least 70% of their annual gross income from farming and have annual debt expenses exceeding 25% of income.

MISSOURI: In 1985, the State Treasurer used existing authority to establish a $50 million state linked deposit program. In 1986, legislation (effective February 18, 1986) limited the discretionary authority of the Treasurer but also established specific provisions continuing a similar program through 1990. Up to $200 million per year from the state investment portfolio (with $150 million earmarked for farm loans) may be used. State funds will are invested at 3% below the Treasury Bill rate. As of June 6, $80.5 M was invested in farm deposits and $17.5 M was committed in small business deposits with an average yield of 3.8%. All loans are made for one year but are subject to renewal. The purpose is limited to loans for necessaryproduction expenses or refinnacing of existing production expenses. The purchase of land or new equipment is not included. There is a cap of $35,000 per individual. Qualified applicants must: be state citizens, operate a farm in the state, have less than ten employees, and may not have more than 60% equity in their farm. This legislation provided authority to give priority to farmers who suffered reduced yeilds from drought or other natural disasters and for those who a reduced rate loan will make a significant contribution to their continued operation of the farm. However, no specific provisions have been made in the operation of the program to implement these priorities. As of early June 209 of Missouri's 674 banks had received deposits. It should also be noted that collateral requirments on these deposits is the same as for all other state deposits-- the financial institution must pledge U.S.

securities, bonds, or some other instrument as collateral.

MICHIGAN: Last year's state linked deposit program was provided $139 million and a two year authorization. As the one year loans made in 1985 are paid, the money is rolled over through new loans in 1986. No significant changes have been made to the program. Loan amounts are capped at $100,000 and applicants must be the financially distressed owner or operator of a farm. There is no lender of last resort, income/asset limit, or debt to asset ratio requirements. In 1986, participation by the FCS lenders has increased.

MONTANA: In Emergency session in late March, the state created a $50 million state linked deposit program. The state will place CDs for six months at 1% below the Montana Board of Investment Approved Rate (close to Treasury bill rate) at banks willing to make loans at no more than 2% above the CD rate. Only operating loans qualify and are capped at $50,000 per individual. Qualified applicants must be ag producers with a debt to asset ratio of 30% or greater. The program is scheduled to end on August 31, 1986.

OHIO: Created in 1985, the state's $100 million linked deposit program has been continued and is authorized through May 1987. No changes have been made to major program provisions. The only eligibility restriction is that applicants must have less than 150 employees. The thrust of the program is for operating assistance, but the program is flexible. Applications are running well ahead of last year. In 1985, about 2,000 applications were received. This year, by the April 25th cut-off date, about 3,000 applications had been made.

S. DAKOTA: Introduced by Governor Janklow in February 1986, the state has enacted a state linked deposit program financed with taxable bonds. A recent decision by the State Supreme Court upholding the proposal's emergency clause, clearing the way for initiating the program. The bond issue has not yet been issues. However, under the program, proceeds will be deposited in FDIC member banks willing to provide lower interest loans for farmers. The purpose of qualifying loans is not limited-- operating, long-term, short-term, and refinancing are all included. Eligibility is determined solely by participating banks. There is no cap on the authorization for the program and no sunset date was established.

C) TAX CREDIT:

KANSAS: A Privilege (Income) Tax Credit for banks has been enacted to encourage lending at below market rates to some farmers. A Bank may qualify up to 3% of 15% of their total ag portfolio for the credit. Qualifying banks may earn a credit for loans at least 1% below the ag prime rate (e.g., there is a dollar for dollar credit for the amount of interest foregone when the rate drops below 1% under ag prime). The credit can be earned solely on production loans made in 1986. Up to 20% of the value of credits earned can be applied in each tax year for the next five years. In order to qualify for the tax credit buy down, the farm-- individual, partnership or family farm corporation-- must have a production loan that has been classified by a state or federal regulator or have a loan considered a vulnerable or problem loan by FCS. The program has an estimated five year cost of approximately $12 million.

D) STATE LOAN GUARANTEES:

ILLINOIS: In January, the state initiated operation of a new $100 million state loan guarantee program. The state will guarantee up to 85% of the value of qualifying debt restructuring loans. Eligible applicants must be state residents, primary operators of the farm, recieve at least 50% of annual gross income from farming, and have a debt to asset ratio above 40% but less than 65%. Loans are limited to the consolidation of existing debt and sufficient collateral must be provided to cover the loan value. Only one guarantee can be made per farm and there is a $300,000 cap. Loans must have an interest rate of no more than 2.5% above the one year Treasury Bill rate-- current interest charge of about 8.5%. As of May 7th, 252 applications have been approved with guarantees totaling just over $50 million. The state is also in negotiations to provide a secondary market for resale of the guaranteed portion of these loans to outside investors.

WISCONSIN: The loan guarantee program established in 1985, continues to operate in 1986. Under the program, up to 90% of the value of loans made under the state's interest buy-down program is backed by the state.

E) STATE SECONDARY MARKET:

NEBRASKA: Legislation to provide funding for the state to back purchases of foreclosed farms by a new Ag Revitalization Authority and to create a secondary market in these loans was introduced. On final passage, the ability to back the Authority with the moral obligation of the state had been deleted. As such, state officials believe it is unlikely that a secondary market can be started. However, the legislation has been enacted and the Ag Revitalization Authority has been created. It has been granted the authority to purchase loans originated by traditional lenders.

WYOMING: Begun in 1985, the state continues to operate a $50 million program funded by the State Investment Portfolio to purchase Farmers Home Administration guaranteed loans from state financial institutions. About $12 million has been committed to 40 loans. The interest rate paid by the state has declined somewhat-- to 6.45% for one year loans and 7.55% for seven year loans. Banks may mark up these loans to borrowers by not more than 2%. The state has no limitations on the use of the loan funds or separate eligibility requirements except that the loan must meet the standards for the FmHA loan guarantee program.

F) REVOLVING FUND PROGRAMS:

WYOMING: Wyoming continues to operate a farm loan program first established in 1921. The current authorization remains at $275 million. In 1986, loan volume is quite heavy and is running ahead of last year's pace. The loans can be used for a broad variety of purposes including operating assistance, debt refinancing, captital improvements and land purchases. Applicants must be residents and registered voters. Loans are made only for first mortgages in which the state has the first lien on the property. Loans are secured by 50% of the land value for 8% loans and 60% of the land value for 9% loans. Interest rates are determined annually by the five elected officials who serve as the Farm Loan Board. The rates can not be less than 4% or higher than 10% by statute. In 1986, 95 loans have been made for over $15.7 million.

WYOMING: A new program in 1986, $150,000 from the Rural Rehabilitation Trust Fund is being used to make seed and fertilizer loans in Fremont County. The interest rate is 4% on loans for up to $10,000. To qualify, applicants must provide a title, tax, and UCC search and must provide a first position on a crop lein as security for the loan. Loan amounts are determined by an estimate of seed and fertilizer costs, but payments are made strictly based on invoices. All loans must be repaid by December 1st, 1986. The program, in operation since the beginning of May, has received 14 applications.

APPENDIX B

MINNESOTA RURAL FINANCE

ADMINISTRATION

Revised

STATE OF MINNESOTA
DEPARTMENT OF FINANCE
309 STATE ADMINISTRATION BUILDING
SAINT PAUL, MINNESOTA 55155
612-296-5900

PROGRAM SUMMARY

May 9, 1986

RURAL FINANCE ADMINISTRATION

In 1986 the Legislature passed, and Governor Rudy Perpich signed into law, Chapter 398, Article 6, which created the Minnesota Rural Finance Administration (RFA) and authorized it to participate in a program of restructuring farm real estate loans. The purpose of the restructuring program is to lower the annual debt service costs of an eligible borrower. This is accomplished by deferring principal and a portion of interest costs until the end of the restructured loan period. The RFA may issue bonds, for purposes of this program and may purchase 25% (up to $50,000) of a restructured agricultural loan, or 50% (up to $25,000) of a first mortgage restructured loan for the redemption of a farm homestead.

When enacting this program, the Legislature and Governor Perpich recognized that not all farmers could be helped, even with assistance from the state and the cooperation of farm lenders. Therefore, the intent of the RFA loan restructuring program will be to assist those farmers who have a reasonable probability of financial success if given time and the relief of a restructured loan.

The Rural Finance Administration

The RFA Board is the governing body of the program. Its members are the Commissioners of the State Departments of Agriculture, Commerce and Finance, the State Auditor, and three public members appointed by the Governor. The Commissioner of Finance is the chairperson of the RFA Board and general administrator of the program.

Eligibility

To be eligible for consideration in this program, potential borrowers and lenders must meet the following criteria as established by the law and additional criteria to be adopted in rules of the RFA.

Borrowers:

(a) The borrower must be a resident of Minnesota or a domestic family farm corporation, as defined in Minnesota Statutes section 500.24, subdivision 2.

(b) The borrower or one of the borrowers must be the principal operator of the farm.

(c) The borrower or one of the borrowers must have received at least 50 percent of his or her annual gross income from farming, and farming must be the principal occupation of the borrower.

(d) The borrower must have a debt to asset ratio equal to or greater than 50 percent. In determining this ratio, the asset value of real estate must be determined by a qualified appraisal of the current market value which considers comparable sales in the area and the reasonable productive value of the property based upon its past production history.

(e) The borrower must be unable to meet projected annual expenses without restructuring the loan.

(f) The borrower's projected annual expenses, including operating expenses, family living, and interest expenses after the restructuring, must not exceed 95 percent of the borrower's projected annual income considering prior production history and uniform projected prices for farm production.

(g) An eligible borrower may receive a restructured agricultural loan or a homestead redemption loan, but not both.

Lenders

Any bank, credit union, savings and loan association chartered by the state or federal government, a unit of the farm credit system, the federal deposit insurance corporation, the federal savings and loan insurance corporation, and any insurance company, fund, or other financial institution doing business as an agricultural lender within the state is eligible for consideration as an eligible agricultural lender. The RFA must determine that the lender has sufficient personnel and other resources to efficiently and properly originate and service restructured real estate loans. To become a participating lender, each eligible agricultural lender must enter into an agreement with the RFA providing for the origination and servicing of restructured loans based upon the terms and conditions the RFA determines to be appropriate.

How the Loan Restructuring Program Works

Only first mortgage real estate debts qualify for restructuring under this program. Either an eligible agricultural lender or borrower may propose restructuring of a real estate loan. After the lender determines preliminary eligibility, the lender must conduct the necessary financial analysis and appraisals and prepare the loan restructuring agreement. The loan restructuring agreement must then be approved by the borrower, the lender, and the RFA. The RFA will then purchase an interest in the restructured loan from the lender, thereby reducing the capital commitment of the lender for the term of the loan.

Example

The following example demonstrates how a typical real estate loan restructuring is expected to work.

For this example, assume:

1. The current balance of the first mortgage real estate loan to be restructured is $200,000.
2. An appraisal determines that the current market value of the real estate is now $180,000.
3. The farmer does not have sufficient cash flow to make required payments on the current debt.
4. The RFA has determined that the borrower and the lender are both eligible for participation in the program.

The current loan obligation is restructured into a new loan with two parts as follows:

A Primary Principal portion, equal to the current market value of the property pledged as security for the loan. In this example it is $180,000, and;

A Secondary Principal portion, which is that portion of the current loan that is in excess of the current market value of the real estate. In this example it is $20,000.

Existing Loan

$200,000

Restructuring Loan

Primary Principal $180,000	Secondary Principal $ 20,000

Under a restructured loan, the borrower will be responsible only for making market rate interest payments on the new primary principal of the loan or an agreed-upon portion of it. All principal payments will be deferred until the end of the new loan. In addition, interest will accrue on the secondary principal at a below market rate and will also be deferred. Therefore, the borrower will have significantly reduced debt service payments for the term of the restructured loan.

The RFA's participation in the restructured loan for this example would be 25% of $180,000 or $45,000. The RFA will purchase this portion of the new loan from the lender.

Lenders and borrowers may also request the restructuring of loans where the current value of the real estate exceeds the loan obligation, but the borrower is experiencing cash flow problems and is unable to make both principal and interest payments.

All market interest rates and below market interest rates will be set by the RFA Board, and the rate paid by a borrower on the RFA portion of the loan may be different than that paid on the lender portion.

The term of the restructured loans will be determined by the RFA. Preliminary discussions have indicated a term of approximately 8-12 years.

Conclusion of the Restructured Loan

At the conclusion of a restructured loan, the borrower owes all primary and secondary principal, and any deferred interest which has accrued. However, part of the obligation may be forgiven if a current appraisal establishes that if the market value of the real estate is less than the amount of debt owned on the restructured loan. That portion of the debt which exceeds market value must be forgiven by the lender. If the value is equal to or exceeds the total debt, the entire debt is payable to the lender. Therefore, at the end of a restructured loan, a borrower cannot be indebted for more than the current market value of the real estate and will have had a period of improved cash flow.

Concluding Note

The RFA is currently preparing administrative rules to govern the loan restructuring program and is seeking the input of all interested persons in order to offer the best and most comprehensive program possible. If you wish to contribute to this rule making effort, your views or comments should be directed to any farm or lender organization with which you are associated or sent directly to the RFA Program Administrator, 309 State Administration Building, St. Paul, MN 55155.

APPENDIX C*

STATE COUNSELING ASSISTANCE

PROGRAMS

* Excerpt from NASDA's "A Survey Report of State Agriculture Departments"

STATE	PROGRAM (DATE INITIATED; 1985/86 FUNDING; ADMINISTRATIVE AGENCY)
COLORADO*	"Colorado Rural Crisis Hotline" (August, 1985; administered by the Colorado Rural Crisis Council). The hotline provides financial and legal information and emotional support to farmers, ranchers and other rural citizens affected by the agricultural crisis. "Farm Finance and Management Workshops" (January, 1985; supported by registration fees; administered by the Extension Service). The workshops aimed to educate farmers on how to complete coordinated financial statements, and in general, how to better manage their farm finances. The program was very successful and all services were filled to capacity. The state department of agriculture also provides one-to-one counseling.
IDAHO	"Family Farm Hotline" (June 1985; by Governor's proclamation and directive, administered by the state department of agriculture). The hotline provides information and makes referrals for assistance to family farms and related small businesses. Callers are responded to by volunteers with support from the state agriculture department staff.
ILLINOIS *	"Rural Route" Program (March, 1985; USDA grant of $87,500.00; administered by the University of

ILLINOIS (cont.)

Illinois Cooperative Extension Service). This counseling program uses a hotline to offer farm financial analysis and family resource management assistance. About 700 farm people have received one-to-one counseling through the hotline. About 1,200 persons have been assisted through the two regional farm financial counseling centers.

INDIANA*

Educational financial workshops (1985; USDA grant of $42,000.00; Cooperative Extension and FmHA).

IOWA*

"ASSIST" (1985; $200,000 special appropriations from the state to Cooperative Extension Service, which administers the program at state and county levels). The program provides financial advisory and emotional counseling. ASSIST also developed a home study course on stress management, which was used by over 10,000 Iowa families. Also, Extension Service has developed a statewide network of county based self-help and peer counseling groups. State appropriations have been used in part to hire specially trained counselors.

"Rural Concern" Hotline (1985; $75,000 contributed to this service by FmHA, and other contributions were made by the state and private sources; established by the Governor and managed by Cooperative Extension Service).

Received a federal JTPA Grant for job training of dislocated farmers.

KANSAS*

"Farmer's Assistance Counseling and Training: FACTS" Program (May 1985; $300,000 for FY 1986; administered by the Kansas State Board of Agriculture and Kansas State University). The program provides legal assistance, financial counseling, farm management analysis, job retraining and personal and family counseling to financially distressed farmers. Initial access to the program is through a toll-free hotline. This assistance and referral program was initiated July 1, 1985 and exceeded 100 calls per week early in the program. "The early success of the program is indicative of its need."

MARYLAND

The state department of agriculture provides counseling assistance.

MICHIGAN

"Extension Management Assistant Teams: EMAT" Program (1985; Cooperative Extension Service). This program provides comprehensive counseling and assistance to the entire family to help them develop strategies for managing in times of crisis. Video and audio tapes on family stress were developed. A series of statewide workshops on farm cash flow and computer assisted financial management strategies were held. Also, there is a hotline.

MINNESOTA*

"Family Farm Crisis Project, The Advocate Program" (March 1984, $141,500 for the 1986-87 biennium; administered by the state department of agriculture). The program provides financial peer

MINNESOTA (cont.)

counseling by specially trained farmers to farmers in financial crisis. The advocate helps the farmer organize paper work to facilitate transactions with lending institutions. Advocates also inform farmers of their rights and options as borrowers, and when necessary, make referrals to legal help, farm management instruction, social services and stress counseling. This program has been widely accepted in the farm community because it works on a farmer to farmer basis.

"Farm Employment Assistance" Program (August 1985; $1.02 million JTPA grant from the U.S. Department of Labor; administered by the Minnesota Department of Jobs and Training). The program provides training and job opportunities to people forced out of farming by foreclosure or bankruptcy. The program is expected to help find jobs for about 780 family farmers in 20 Minnesota counties. The program expires after one year.

"Attorney General's Farm Crisis Hotline" provides legal counseling and aid with filling out FmHA papers.

"Project Support" Program (October 1984; funded through the operating budget of the Cooperative Extension Service; administered through the University of Minnesota Agricultural Extension Service). The program tries to be proactive, seeking people who need financial planning and stress management support. Families which have recently left farming are helped with transition. Families which are deliberating whether to stay in farming are assisted with analysis of their

MINNESOTA (cont.)

short-term financial situation. And, families who will continue to farm are helped with longer-term financial planning. Assistance is delivered through community networks in each county and on-going community activities are used to make contacts. All county agents have received special training and 41 extension workers devote 25-50 percent of their time to the project.

"Farm Crisis Intervention Act" (April 1985; $1,569,050 for the 1986-87 biennium; administered by the "Data Collection Task Force", made up of members from the legislature and administration). The Act creates the task force to develop a uniform procedure for collecting data on the financial status of agriculture in Minnesota. An appropriation of $1,166,550 was made to the State Board of Vocational Technical Education for farm management instruction support and tuition supplements. Also, $402,500 was appropriated to the University of Minnesota Agricultural Extension Service to support its farm financial crisis intervention services. This program should generate comprehensive, sound financial data on which to design a state relief program for farmers. Data collected is provided to the Department of Agriculture.

MISSISSIPPI

The state department of agriculture has assigned one person full time to assist farmers with their financial difficulties.

Also, Cooperative Extension provides financial counseling.

MISSOURI*

"Missouri Financial Advisory and Resource Management Support: MO-FARMS" program (January 1985; $200,000 from Agricultural Emergency Funds; administered by Missouri Agriculture Department and University of Missouri Extension Service). MO-FARMS is designed to enlist the help of farm management teams to work with financially stressed farm families who request assistance. The program provides financial evaluations, helps farmers adopt a financial plan and develops financial options. Stress counseling and referrals for assessing alternative vocations are also provided. Hotline referrals are handled through the University of Missouri campus, and jointly with the state department of agriculture.

MONTANA

The state department of agriculture has a program to counsel financially trouble farmers in the planning stages.

Also, the Extension Service has been providing intensive training since October 1983 for agricultural lenders, consultants, vocational agricultural teachers and others to assist in farm management counseling. Farm financial and stress management counseling workshops were held throughout 1985.

NEBRASKA*

"Farmers in Transition" Program (October 1985; $1 million JTPA grant from the U.S. Department of Labor; administered by the Greater Nebraska Job Training Program and the Nebraska Department of Agriculture). The program is targeted to dislocated farmers, ranchers and manufacturing workers.

NEBRASKA (cont.)

"Financial Management Assistance Program" (September 1984; $200,000 [$100,000 from Central Funds]; administered by the Institute of Agriculture and Natural Resources). The program helps farm couples establish short and long term goals and offers instruction on accounting, economics and the use of computers.

"Farm Crisis Hotline" (Spring of 1984; $30,000; administered by the Farm Crisis Hotline Council). The program trained counselors to take phone calls from farmers experiencing psychological and financial stress. Counselors supply callers with mental, financial, and legal assistance. Also, a reference inventory of help is available for each county. The hotline service is a cooperative effort between the state department of agriculture and various organizations under the direction of the Interchurch Ministries of Nebraska. Staffers are salaried with money taken in by donations.

"Managing for Tommorrow" Program (1984; Cooperative Extension Service). This agricultural financial management program integrates micro-computer analysis of the present business situation with economic projections for the future. The program combines 20 hours of group training with 12 hours of individual consultation and is paid for by participants. The Extension Service also operates counseling centers and hotlines throughout the state.

"Financial Counseling" Program (February 1983; $53,000; administered by the Institute of Agriculture and Natural Resources). The program aids farmers on processing balance sheets and on making cash flow projections for their operations.

NEW YORK

The state department of agriculture provides assistance to help with farm financial problems.

NORTH CAROLINA*

Cooperative Extension Service (beginning in October 1983) helps with individual farm financial problems, and trains counselors to work with distressed farm families. In 1985, a hotline was established to offer callers appropriate advice and help with coordinated financial statements.

NORTH DAKOTA*

"Farm Credit Counseling" Program (March 1984; $460,000 from state general funds as of 4/85; administered by state department of agriculture). The additional funding is to expand the program that began by the Industrial Commission under the direction of the Commissioner of Agriculture. The expanded program is modeled after the Minnesota program, providing one-to-one counseling to help the farmer and his lender work out plans to keep the farmer in business. Assistance with farm stress problems is supported by the state's Human Resources and Job Services agencies, the North Dakota Mental Health Assocation, the Attorney General's office and many local communities.

"Farm Financial Analysis Service" (1985; Cooperative Extension Service). This program provides one-on-one instruction to farmers in completing a thorough financial analysis of their farms. Community leaders and farm financial analysts are also trained to provide one-on-one assistance. Extension has also sponsored advisory workshops for farmers who want to know what financial management options are available to them.

OHIO*

"The Farm Assistance Act" (April 1985). The Act creates a state Financial Management Institute within the Cooperative Extension Service to train consultants and advisors on farm credit problems. The program counsels farmers on farm credit management and on how to improve financial management practices. The Institute has a Division of Credit Mediation which can be used on a voluntary basis by farmers subject to foreclosure. The mediator has no subpoena power, but will request the creditor's cooperation in a review of the books. In cooperation with the state department of agriculture, Ohio Extension Service has also established a financial crisis hotline. Farmers are assisted with identifying potential sources of credit. Callers are referred to the agency that can assist with the type of problem described. A great success has been reported with this program. As of September, more than 500 calls had been received. The Institute will be in effect until April 1, 1986.

OREGON

"Farm Financial Management Consultation" (February, 1985; Oregon State University Cooperative Extension Service). A network of trained extension agents work with farmers experiencing financial hardship. The program was developed in cooperation with the state agriculture department.

PENNSYLVANIA

The state department of agriculture provides financial counseling assistance.

WISCONSIN*

"Farm Credit Advisor Program" (May 1984; $47,000 per year; administered by the state department of agriculture). Volunteers provide information, support and services to farmers experiencing financial difficulties. They can set up and analyze farm financial statements; assist in locating sources of credit and filing applications; act as mediators between a farmer and lender; refer a farmer to other state or local programs; and evaluate the farmer's overall farm situation. "With 40 to 50 volunteers, the program has been very successful so far. We see the program as a positive step in assisting not only in a crisis situation but in the long-term to keep the farmer on the farm."

* Identifies states in which grassroots organizations offer farm financial counseling programs.

NOTE: Several states reported that while they did not have any new 1985 programs, they carried out surveys to examine the extent of the farm credit problem in their state and to develop strategies to assist with the farm financial problems identified. These states include: New Jersey, New Mexico, New York, Tennessee, Virginia, Washington, West Virginia, and Wyoming.

Farm crisis hotline update

Following is an updated listing of farm crisis hotline counseling services throughout the nation:

NATIONAL North American Farm Alliance	515 232 1008		Farm analysis and referral
COLORADO Grassroots Organization with funding from churches, organizations, individuals	(303)848 5382	**Name** Rural Crisis Hotline	**Services Provided** Resources for legal, financial, emotional help
GEORGIA Corporation Funded Volunteer Effort	(912)824 7711	**Name** New Hope in Georgia	**Services Provided** Counseling and legal financial referral
IDAHO Run by Ag Dept funded by contributions	1 800 257 3276	**Name** Family Farm Hotline	**Services Procided** Legal, financial, foreclosure, retraining emotional advice, referral, counseling, advocacy.
Volunteer Effort funded by contributions	(208)886 7570	South Idaho Family Farm Hotline	Financial, legal, emotional counseling, referral
ILLINOIS Illinois South Project Cooperative Extension	(618)942 6613 1 800 UI ROUTE		**Services Provided** Financial legal referral service Financial management counseling and referral.
Cooperative Extension State Bar Association Farm Resource Center	1 800 847 6883 1 800 352 7878 1 800 851 4719		Assistance with financial statements. Legal referral Stress counseling.
Grassroots volunteer effort	1 309 827 4005	**Name** Farmers On Call	**Services Provided** Referral for various services
INDIANA Indiana Coact	(317)773 4763		**Services Provided** Support, group listening & referral
IOWA Extension Service	1 800 447 1985	**Name** ASSIST	**Services Provided** Individual financial and emotional counseling.
Iowa Family Farm Unity Coalition (consists of 7 organizations)	(515)244 5672		Financial, legal and technical counseling, help with FmHA work.
KANSAS KS Ext. Service & KS Board of Ag	1 800 321 FARM	**Name** FACTS (Farmers Assistance Counseling & Training Service)	**Services Provided** Financial, legal counseling, employment retraining, crisis intervention, basic human needs.
Kansas Rural Center	(913)873 3431		Refers in financial, legal services, helps prepare cash flow statements.
KENTUCKY Comm. Farm Alliance	(502)749 4628		**Services Provided** Financial, legal referring, farmer rights information
LOUISIANA Ag Dept	1 800 457 3276 or 457 FARM		**Services Provided** Loan problem, financial planning, legal assistance, employment training and opportunities and mental and emotional counseling referral.
MICHIGAN Department of Agriculture	1 800 346 FARM		**Services Provided** Financial, legal, management aide and personal and stress counseling referral
MINNESOTA Atty. General Office	1 800 652 9747	**Name**	**Services Provided** Legal assistance, help with filling out FmHA papers, analysis of problem & referral to other agencies when necessary.
U of M Extension	(612)373 5168	Project Support	Helps with financial planning, stress management
American Luth. Church	(612)634 4440	Rural Ministries	Financial counseling, helping with cash flow, referring to other sources
MISSISSIPPI Department of Agriculture	(601)359 3639		**Services Provided** Dept. has one man assigned to take calls from farmers who are having financial problems, provide advice.
MISSOURI Ag Department & U of MO Columbia	1 800 662 2767	**Name** MO FARMS	**Services Provided** Helping farmers manage their way back to stable footing or find alternative
Privately sponsored farm counseling service, which charges fee.	(816)465 2530	Farm Counseling Services, Inc.	Provides computerized bookkeeping live stock & cropping system budgets financial statements, cash flows, portfolios for lenders, help with FmHA appeals, debt reorg assistance, help with paperwork.
Farm Alliance of Rural MO (network of other organizations)	(314)635 9127		Financial counseling & referral
MONTANA Montana Rural Ministers	(406)653 2492		**Services Provided** Advocacy, counseling and financial legal and emotional referral
NEBRASKA Interchurch Ministries, Dept. of Ag & other organizations	(402)846 5578		**Services Provided** Counseling & referral on financial and other problems.
NEW YORK Volunteer	(518)872 1958		**Services Provided** Stress counseling
Cooperative Extension	(607)256 4529		Legal, financial information
NORTH CAROLINA United Farmers Org.	(919)542 5292	**Name** Farm Survival Hotline	**Services Provided** Financial counseling & referral, advocacy services at hearings
Extension Service	(919)733 7125		Advises on financial problems, helps with coordinated financial statements
NORTH DAKOTA Department of Agriculture	1 800 642 4752	**Name** Farm Credit Conseling Program	**Services Provided** Financial analysis and advising on available alternatives
Extension Service	1 800 247 0025		Farm Financial Analysis service
Governor's Office	(701)224 2200	Credit Review Board	Provides negotiators where farmers are threatened with foreclosure, interest subsidies sometimes available
N.D. Bar Ass'n.	1 800 932 8880		Referral service for farmers who need legal help
N.D. Mental Health Ass'n.	1 800 472 2911		Counseling for farmers in stress
N.D. CPA Ass'n. Financial referral services	(701)237 5544		Financial referral services
OHIO Family Farm Movement	(614)474 6622		**Services Provided** Financial, legal, emotional counseling & referral
OKLAHOMA OK Council of Churches	1 800 AGR LINK		**Services Provided** Financial analysis, farm management assistance, medical, legal professional advice
SOUTH CAROLINA Ag Department	(803)758 2426	**Name**	**Services Provided** Small staff does counseling & advocacy program for financially troubled farmers
United Farmers Org.	(803)537 2541	Farm Survival Hotline	Financial counseling & referral, advocacy services at hearings
SOUTH DAKOTA Dept. of Ag	1 800 228 5254		**Services Provided** Financial analysis and counseling on available options
TENNESSEE National Farm Borrowers	(615)359 7207 (615)363 7177	**Name**	**Services Provided** Financial counseling
TEXAS Council of Churches and Dept. of Ag	1 800 AGI AID	**Name** Farm Crisis Hotline	**Services Provided** Reference and referral for legal, financial and FmHA help
WISCONSIN Dept. of Ag	1 800 362 3020		**Services Provided** Analysis of financial problems, counseling, referral
Farm Unity Alliance	(715)875 4548		Financial analysis & help with planning
WYOMING Funded by contributions	(307)532 5142	**Name** Rural Support Network	**Services Provided** Information and reference center for financial, legal, educational and personal resources

SOURCE: Communicating for Agriculture, March, 1986, pp. 8 & 9.
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GRASSROOTS ORGANIZATIONS OFFERING FARM FINANCIAL AND EMOTIONAL COUNSELING

CENTER FOR RURAL AFFAIRS (Nebraska) - hotline; works with callers from out of state. The Interchurch Ministries of Nebraska, a state-oriented program, works with callers from Nebraska.

FARM ALLIANCE OF RURAL MISSOURI - represents a network of several other organizations; provides referral services.

FARM COUNSELING SERVICES, INC. (headquartered in Memphis, Missouri) - offers agricultural management counsulting services. Charges fees to users to pay expenses.

ILLINOIS SOUTH PROJECT (Herrin, Illinois) - hotline; referrals, legal and financial counseling.

INDIANA COACT - strictly volunteer; informs callers of their legal rights and what other farmers have done in similar situations.

KANSAS RURAL CENTER - hotline; provides financial and legal referral services to farmers who request it; helps farmers prepare cash flow statements and get their documents in order.

NORTH AMERICAN FARM ALLIANCE (national headquarters in Ames, IA) - hotline; referral assistance, counseling, attorney training on farm financial management.

NORTH DAKOTA CONFERENCE OF CHURCHES - received $5,000 as a second disbursement of funds from FARM AID, Inc., through the National Council of Churches of Christ. Emergency aid for farm families at $3.00 per family member per day for 7 days may be obtained through members of the clergy throughout the state.

THE AMERICAN LUTHERAN CHURCH RURAL MINISTRIES (southwestern Minnesota) referrals; one-to-one counseling. Ministries staff are trained by the state department of agriculture.

THE IOWA FARM UNITY COALITION - consists of seven organizations. Provides technical information, legal referral and counseling to farmers who are in need of it. Has a hotline; works with the FmHA.

THE OHIO FAMILY FARM MOVEMENT (headquartered in Columbus, Ohio) - two-fold purpose: "to get the farm situation turned back to a profitable situation for the farmer" and "to help people in trouble". Provides financial, legal, emotional and referral assistance; sponsors seminars; has a hotline.

THE ROCKY MOUNTAIN FARMERS UNION - financial and legal counseling program.

THE WISCONSIN FARM UNITY ALLIANCE - hotline; farm financial counseling and advocacy program. Helps farmers work out new financial plans and helps farmers with the appeals process.

UNITED FARMERS ORGANIZATION'S (North and South Carolina) - hotline phone counseling; referral; callers can request advocates to accompany them to hearings.

APPENDIX D*

CROP DIVERSIFICATION AND

VALUE-ADDED PRODUCTS

* Center For Agricultural and Rural Development Newsletter

STATE INITIATIVES IN

CROP DIVERSIFICATION AND VALUE-ADDED PRODUCTS

Pioneering New Farm Frontiers

Agricultural crop diversification is emerging as a key element in state government initiatives on the farm crisis front.

To a list that includes emergency credit programs, foreclosure moritoria, intervention hot-lines, and young farmer training programs, states are adding crop diversification projects in an effort to develop long-term solutions to the current farm situation.

Since 1982 the legislatures of 13 states have undertaken special studies to determine what could be done with the agricultural resources within their borders to help farmers tap new market channels.

These studies have included examinations of the benefits of self-sufficiency (Utah), the economic potentials of Farmer's Markets (Alabama), the need for inspection standards for new crops (Louisiana), and state financial incentives to encourage the location of food processing facilities (South Carolina, Washington, South Dakota, and Florida).

In eight other states, the Departments of Agriculture have established special crop diversification programs. In four of these (Idaho, Indiana, Maine, and Massachusetts), by action of either the Governor or the Legislature, appropriations have been earmarked to support these activities.

Additional state initiatives for crop diversification include: Oregon's New Crop Development Board, which the legislature created in 1983 to research new and alternative crops; Iowa's establishment of both a food crop research center and a food processing research center; Nebraska's Food Processing Institute, which has assisted a growers cooperative in finding a market for its first carrot crop; Mississippi's Rural Alternatives Employment Demonstration Project which will test the marketing feasibility of fresh produce and horticultural crop production by small Appalachian farmers; and Kentucky's use of Community Development Block Grant funds to assist a grower's cooperative enter "window markets" in states north of it.

Behind the Search for New Markets

Three factors are prominent in the rationales for State government action on new crops:

> Sharp declines in U.S. farm income. The result of dwindling overseas markets, declining markets have forced many farmers to seek more saleable crops and products to replace lost income.
>
> Growing interest in physical health and fitness. Now a billion dollar industry in its own right, fitness means "eating right." The increased demand for low calorie/high nutrition foods has created new markets for both fresh and processed fruits and vegetables. Consumption of broccoli, for example, has increased by 8 percent per year since the mid-1970's.
>
> Greater emphasis on small business and rural community development. State strategists see an attractive long-term return on investments in crop diversificaiton schemes since the income and employment multipliers, which are significant in the food sector, bolster rural and small business economies. This is true particularly in the value-added, or processed, foods market which analysts predict will grow by 25 percent in the next 25 years.

Iowa estimates that replacing 10 percent of the foods consumed in-state, most of which are currently produced elsewhere, with Iowa-grown foods would generate up to $60 million in revenue a year. Additional research indicates that employment gains from the location of processing facilities, which may be feasible due to Kentucky's geographic location, could also be significant.

In short, farmers are demonstrating their need and interest in directing land, labor, and limited capital to growing markets, such as vegetables, fruits, and horticultural and forest products. And state government is using its resources to test the long-term potential of these alternatives as supplements to traditional commodities markets.

The establishment of new products in the marketplace is no mean feat. Many liken the complexity of the new product/market equation to the old question, "Which comes first, the chicken or the egg?" Many factors must mesh before the idea can bear fruit.

Climate, soils, and location must harmonize with land, labor, capital, and know-how for a product to succeed in the marketplace. This complex mix of variables means that cooperation between farmers, researchers, government, wholesalers, retailers, and consumers must be excellent for a crop diversification initiative to succeed.

This is especially so within the State government link in the crop diversification process since programs to get new crops started and sold cut across branch and agency lines. They join governors, legislatures, Departments of Agriculutre and Commerce, land-grant schools, financeers, and economic developers, and farm cooperatives in the effort to get new crops up and running.

The crop diversification programs in Iowa and Nebraska are good examples of this cooperation. They also demonstrate that state agricultural diversification and value-added initiatives achieve duel goals. They capture in-state and regional markets for crops farmers had stopped growing and discover new markets for the crops their farmers continue to grow.

New Directions in Iowa

Iowa's program has evolved from the preliminary explorations of the Iowa Agricultural Diversification Task Force that Governor Branstadt called to order in 1983. This group of agricultural leaders included representatives of the Iowa State University College of Agriculture, the Iowa State Extension Service, and the Iowa State Departments of Agriculture, and Soil Conservation, as well as the Iowa Conservation Commission, the Iowa Development Commission, and the State Office for Planning and Programming. The Task Force was charged with the mission of identifying alternative crops to corn, soybeans, and beef for Iowa farmers.

During its work, the Task Force determined that 80 percent of the fruits and vegetables which Iowans consumed every day were imported from other states. This "market," it was concluded, deserved closer study to determine whether Iowa farmers could meet the demand.

Subsequent to the Task Force's findings on the potential fruits and vegetables market, the Iowa legislature appropriated funds to the Iowa Department of Agriculture for detailed studies on the potential market.

As a first step in its study program, the Iowa Department of Agriculture canvassed food wholesalers, processors, and distributors to discover why they were not using Iowa-grown foods. The Department found that these food marketers would buy locally grown fruits and vegetables if they met their fresh market quality standards.

The Department identified the lack of availability of field cooling equipment, which prolongs the shelf life of fresh field crops, and the unfamilarity of Iowa farmers with the uniform grading and packaging standards of the Iowa food wholesalers and retailers as the main impediments to their entry into this new market.

Having found that there were in-state outlets for Iowa-grown produce, the Department asked Iowa State University researchers to survey the Iowa farmers who seemed most likely to want to grow new crops for in-state consumption. The results of this survey showed that, of these farms, 39% reported that they would put in new crops if a market for them could be found. The survey respondents said that their number one choice of new crops would be fruits and vegetables because of their high return on investment.

Using the results of the Iowa State survey and the Department's canvass of food wholesalers, the Department applied for, and received, a grant from the US Department of Agriculture through its Federal/State Market Improvement Program. The grant monies provide technical assistance to grower's cooperatives and local governments to establish Farmer's Markets as an outlet for the products of local farmers.

Paralleling the Iowa Department of Agriculture's program to find in-state markets and growers for fresh fruits and vegetables, Iowa State University's Department of Food Technology, using a special $200,000 appropriation fromthe legislature in July 1984, established a Food Crops Processing Research Center to examine the potential and feasibility of new food products derived from Iowa-grown soybeans and corn.

The focus of research at the Iowa Food Crops Processing Center is on improving the technology of changing corn from its raw form into refined products, such as high-fructose corn syrup, manufactured corn chips, and tortillas, and its soybeans into such products as tofu.

In this research, the Center is examining the effects of various processing technologies on the flavor and texture of these grains, as well as their effects on shelf-life and food product safety.

These two programs, ie the Iowa Department of Agriculture's Farmers Markets in which "new" crops are sold to "new" markets, and the Food Crops Processing Center's research on new uses for "old" crops, demonstrate the interworkings of state government - through its various agencies - to ease the plight of its export dependent farm economy.

New Directions in Nebraska

The Nebraska program reflects a different mix of actors: the Nebraska Department of Economic Development, the Nebraska Food Industry Association, a local Chamber of Commerce, and farmers. The group has been instrumental in creating an in-state processing market for vegetables grown on Nebraska farms.

This combination of actors, through cooperation, has been able to demonstrate to growers and buyers alike the feasibility and profitability of supplying vegetables from local farms to a frozen foods processing plant located in the "panhandle" of western Nebraska.

Following up on this success, this year, the Nebraska legislature voted to appropriate $5 million to build a Nebraska Food Processing Institute at the University of Nebraska and to expand the mission of the Center. Originally charged to do only applied research on processing technology and provide technical assistance to the food processing industry in Nebraska, the Center's mission now includes market analyses and development and the study of the transportation aspect of new market development.

In his call for the appropriation, Nebraska Governor Kerry cited the employment and income potential of the food processing industry, the "value added" returns to the state from increased in-state processing of Nebraska-grown foods sold in the U.S. and abroad, and the stability that the additional processing market would add to Nebraska's agricultural economy.

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The relative importance of these initiatives to the long-term transition of U.S. agriculture cannot now be determined. But it is reasonable to believe, as some do, that the international markets lost by the U.S. over the past half decade may never be completely regained.

If this is the case, the fait accompli of excess capacity will beg creative solutions to the continued decline of the family farm.

Given the diminishing role of the federal government in many farm program areas state government will play a larger role in nurturing diversification initiatives as time goes on.

For more information on state crop diversification programs, contact Michael Greene at the Center for Agriculture and Rural Development (606) 252-2291.

July 9, 1986

APPENDIX E*

STATE DOMESTIC

MARKETING GUIDELINES

* NOTE: This excerpt is from a draft working paper written for the CSPA

Chapter Three

STATE DOMESTIC MARKETING GUIDELINES

"We have to switch from `feeding the world' to `selling the customer.'"

Minnesota state official

The Rules Of The Game

Blind pursuit of marketing is as irrational as blind pursuit of production; both lead to disaster. The common thread that links the most successful new domestic state agricultural marketing programs -- and which should guide all proposed programs -- is that they adhere to certain basic rules:

Rule 1: Agriculture Is NOT Special.

One of the most crippling notions in contemporary public policy is that agriculture is somehow unique, in need of being "preserved," and deserving of special treatment. It is not. The name of the game is economic development and agriculture is simply one part of the state's economy. The objective of marketing is to ensure that agriculture competes aggressively in the marketplace, grows robustly, and supports a healthy rural economy. Preservation of the family farm is an outcome of strong agricultural development, not its objective. The barriers to achievingthes objectives are not unique either. They include the inadequacy or high cost of market information, lack of access to capital, the difficulty of performing needed research or product development, and so forth -- the problems which plague all small businesses.

Rule 2: There Is No Shortage Of Bad Ideas.

In agricultural marketing, as in all things, there are more bad ideas than good ones and persuasive arguments for both. The most important, and most difficult, task is asking -- repeatedly -- whether a given marketing idea is appropriate for state government. Many are not. Criteria for evaluating proposals are presented later in this chapter.

Rule 3: The Customer Is Always Right.

This is the first sentence spoken by the children of successful marketers, and it applies to agriculture marketing. The objective of agricultural development is profitability, not production. And customers (markets) are the ultimate source of profits. No matter how efficient, no matter how productive, any enterprise will go bankrupt if it fails to listen to the customer. Consequently, market information and analyses of trends in consumer tastes, patterns of trade, and the impacts of technology on market demand are vital. Do your homework.

Rule 4: Only Fools Rush In Where Angels Fear To Tread.

Ours is a marketplace economy. It is messy and imprecise but, for the most part, it works. Government has no business trying to duplicate or replace it. The landscape of public policymaking is strewn with failed attempts to do so. But government does have an important responsibility to remedy the private market's acknowledged failures. For example, creating a financing program for new product or market development is bad public policy -- and a waste of public money -- when the private financial marketplace is capable and willing to provide that financing on its own. When it is incapable, state government has a responsibility to assure that its own rules and regulations are not the cause. When it is unwilling -- because of a perception of unacceptable risk or because the benefits are largely public ones -- then a role may exist for government, so long as it does not create unfair competitive conditions for other participants in the market by intervening. That role, moreover, should tend to be to prove the viability of the concept for eventual private financing, not to shoulder the burden forever.

Rule 5: There Are No Free Lunches.

With rare exceptions, the days of government funding of projects with substantial private benefits are over. Most marketing programs have substantial private benefits. While the state participates in them, and may even initiate them in order to spur agricultural development, diversify rural economies, increase private capital investment, and provide jobs, the bottom line is that the primary beneficiaries should bear a proportional share of the cost, if not at the front end, then later when the tangible benefits begin to accrue. Thus, for the most part, the financial involvement of the state in market development programs should be in the form of modest seed grants, revolving loans, occasionally matching grants, and -- in case in which product sales are projected -- possibly even royalty financing.

Rule 6: Marketing Is No Substitute For Management.

The most brilliant marketing plan in the world is not going to keep a farmer or food processor in business if that individual is not a competent businessperson. Iowa, Minnesota, and several other states have recognized this fundamental reality and made business planning and financial management training a foundation stone of their market development programs. Rule 6 is a corollary of Rule 1.

Rule 7: Promotion Is Not Marketing.

Promotion is, by definition, a unilateral activity. You try to sell, through a variety of media, whatever you are given. The essence of marketing, however, is bilateral. Just as important as selling the state's agricultural products is providing the state's agricultural producers with information about the customers' preferences, responses, emerging interests, and so forth. In the absence of that market intelligence, producers will keep producing the same products until they are eclipsed by their better-informed competitors.

Rule 8: The Essence Of Marketing Is Deal-Making.

Money is not crucial. A good product that meets a market demand and the energy and imagination to negotiate profitable -- in both private and public terms -- contracts is all that is required. The crucial ingredient in many cases is simply an aggressive deal broker to make things happen. Massachusetts proves this rule regularly. When all the world expected government to spend its way out of economic difficulties, the states' options were limited. Ironically, today's extreme state fiscal distress is a liberating condition; when you can't spend your way out, you have to think. This is the state government version of necessity being the mother of invention, and it applies with special force in the depths of the nation's agriculture crisis.

Criteria For Evaluating Marketing Proposals

Beyond these basic rules, several questions serve as useful criteria for evaluating agricultural marketing and market development proposals:

1. Does the proposal address an identifiable market need? Beware those that are production-driven. The fact that a raw or processed product exists is irrelevant if no market demand for it can be identified.

2. Does the proposal serve a compelling public purpose? If it does not -- that is, if the benefits are largely private ones -- then state involvement is probably unwise.

3. Does the proposal perfect the operation of the marketplace? When markets fail -- and in the case of nontraditional agricultural products and practices they fail often -- the state can play an important, though preferably short-term, role demonstrating the commercial viability of the innovation and then passing it on to the private marketplace once its worth is proven.

4. Does the proposal promote equity? Prejudice -- against minorities, against novelty, and with respect to scale, to name a few -- is a significant problem in the nation's food production, marketing and distribution system. The state has a fundamental responsibility, wherever and whenever possible, to eliminate it.

5. Does the proposal help create economic "critical mass"? Individuals often are unable to compete simply because the cost of information or capital or some other input is greater than any one individual can afford. The state can occasionally bring together individuals with a common product or common target market permitting them to pool their resources or gain access to resources through group action. By acting as a catalyst the state can improve the efficiency of marketing and market development with virtually no costs to the taxpayers.

6. Does the proposal have the potential to be self supporting? Wherever possible, state support should give priority to those marketing and market development proposals that have the potential to be self-supporting, or even spun off.

7. Will the proposal enhance the resilience and economic vitality of the agricultural economy? Be clear about the purpose of agricultural development; it is not to "preserve" agriculture, but to make it vital.