Farm Financial Data Collection Task Force

1987 Report to the Minnesota Legislature

Executive Summary

Part 1

PART I

FARM FINANCIAL DATA COLLECTION
EXECUTIVE SUMMARY

FOREWORD

The Farm Financial Data Collection Task Force was created by the 1985 Minnesota Legislature reactivated by the 1986 Legislature and funded by the 1987 Legislature for the 1988/1989 biennium.

The task force consists of two members of the House of Representatives, two members of the Senate, the director of the Minnesota Extension Service, the director of the Vocational Technical Education system, a representative of the Governor, and two representatives of the Commissioner of Agriculture.

The duties of the Task Force are to continue the uniform procedure for collecting data on the financial status of agriculture in Minnesota and to report the results of such programs to the legislature.

The 1987 Report to the Legislature will be in two parts.

Part I, this report, contains information on those programs which affect agriculture and related areas.

Part II of the Farm Financial Data Task Force Report will contain data on the Minnesota farm financial (economic) situation as of December 31, 1987. This portion of the Report will be provided to the Legislature about April 1, 1988.

This Executive Summary for Part I of the report is just that, a brief explanation of those programs which the Task Force determined should be included.

Several of the program summaries carry a notation that a more detailed explanation of the findings or results of the implementation of the program may be found in the Appendix, which is a separate document. A copy of which may be obtained by calling (612) 296-2810, or writing the:

Minnesota Department of Agriculture
90 West Plato Boulevard
St. Paul, Minnesota 55107

The Farm Financial Data Collection Task Force
Part I
January, 1988

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MINNESOTA'S FARM CREDIT MEDIATION PROGRAM

BACKGROUND

The 1986 Minnesota Omnibus Farm Bill (March 1986) provides voluntary and mandatory mediation of farm debt disputes. Mandatory mediation means that no lender can begin foreclosure or other debt collection proceedings on agicultural property until the farmer and lenders have first attempted to reach resolution of the loan default in mediation. Mediation uses a neutral third party as a facilitator. Mandatory mediation imposes a 90-day stay, provides a mediator and financial analyst, requires good faith participation, and stipulates any mediation settlement agreement is a binding legal contract. The Minnesota Extension Service is authorized to administer the statewide Farm Credit Mediation program. Farmers and lenders participate through the local county extension service.

UPDATE

1987 Amendments to the Mediation Act were passed in May 1987. The thrust of the changes were to add some creditor safeguards, improve the farmers' preparation, and clarify debts not subject to mediation. The amendments include exempting individual creditors of custom work machinery from mediation, requires farmers to attend an orientation session before the first mediation meeting, limits most debts to a one-time mediation, requires farmers to allow lenders to inspect their secured property, and extends the Act from July 1, 1988 to July 1, 1989.

RESULTS

Over 700 volunteer mediators have been trained, with an active pool of 250. From March 1986 through November 1987, 5,155 farmers requested mediation. Of those cases, about 50 percent (2,201) reached a settlement agreement. Another 1,822 cases ended with no agreement leaving 839 still in progress. One hundred seventeen farmers and 36 creditors have been cited with lack of good faith mediation. Extension has prepared over 7,861 financial analyses of farm operations and/or alternative plans have been provided to parties in mediation.

TRAINING

Over 400 county agents and mediators completed the June six-hour update training on the 1987 mediation amendments. In October, over 200 creditors and their attorneys completed a six-hour workshop on "Working with Mediation." These workshops were a collaborative effort between extension and agricultural lenders.

Current discussions with FmHA are focusing on planning for extension training of their staff on communication and counseling techniques for working with farmers in transition (mediation and non-mediation).

Farmers receive their training and orientation to the process by county agents via office consultations. One hundred fifty new mediators will be trained in February/March 1988.

EDUCATIONAL MATERIALS

Extension has developed five publications and two videos to help people understand and use the farm mediation process:

- Mandatory Farm Credit Mediation: What It Is and How It Works.
- Families Together Through Mediation
- Mediation From the Farmer's Perspective
- Preparing for Mandatory Farm Credit Mediation
- Requesting Mediation?: Know Your Responsibilities
- Video - Preparing for Mediation: The Farmer's Perspective
- Video - Farmer-Lender Mediation: You Make It Work

UNIVERSITY RESEARCH

Four mediation research projects will report findings in February/March. Researchers in Family Social Science examined the effects of economic stress on the economic, social, and psychological well-being of over 300 farm couples who had completed mediation. Researchers in Agriculture and Applied Economics are analyzing economic and financial variables in about 200 cases to identify factors that could predict the outcomes of mediation. The Hubert Humphrey Institute Conflict Project has funded two research projects: one examines the legislative history and public policy issues in the development of the Mediation Act, and another examines the dynamics of lender, farmer, and community involvement in mediation in Winona County.

NATIONAL FARM MEDIATION

Farm debt mediation is on the public policy agenda in 23 states. These states have used both Minnesota and Iowa laws as the basis for their own laws and programs. Mandatory mediation systems are now operating under law in Iowa and Minnesota. Colorado just implemented mandatory mediation while Illinois enacted a law which was vetoed by the governor. Voluntary mediation systems exist under state law in five states: Oklahoma, Mississippi, Montana, North Dakota, and Wisconsin. Voluntary mediation systems are operating without supporting state law in Kansas, Texas, and Wyoming.

The Federal Agriculture Credit Bill (H.R. 3030), will require FmHA and Farm Credit Services to participate in state farm mediation programs and may provide federal funds to state administered programs for training and operating expenses.

FUNDING

Extension has been provided $990,000 for mediation out of the 1987-89 legislative appropriation. These funds should be sufficient to cover training and operational costs unless the demand for mediation exceeds 5,000 new cases in the biennium. The Minnesota Extension Service will continue to administer the program until the law sunsets, June 1989.

For More Detailed
Information See
Appendix A
Under Separate Cover

MINNESOTA CENTER FOR FARM FINANCIAL MANAGEMENT

The Center for Farm Financial Management is a unit of the Minnesota Extension Service located within the Department of Agricultural and Applied Economics. The Center was established in 1984 as an entity that could seek public and private funds to carry on and expand ongoing farm financial management educational programs for Minnesota farm families and those who serve them.

The Center teaches the principles and concepts of farm financial planning and analysis and provides hand and computerized tools for use with farmers by ag professionals, including county extension agents, adult vo-ag instructors, and ag lenders. Its FINPACK computer program serves as the basis for most of the educational effort in Minnesota on farm financial planning as well as the tool of choice in the mediation process.

During the past year, the Center completely revised the FINPACK software to better meet today's planning and analysis needs, including the handling of the government feedgrain and wheat programs.

The Center conducted two training sessions for FmHA supervisors and two additional sessions for new FmHA staff on farm planning and analysis.

The Center worked with the Rural Financial Authority (RFA) and developed software to help farmers use in their debt restructuring program. This software was distributed to county extension offices and to banks requesting it. The Center also has worked with R.F.A. in developing their beginning farmer program.

Work continues between the Center and the extension services of forty other states as it makes FINPACK available for their educational programming. This cooperation includes making expertise from other states available to assist research and development within the Center to be used in future program efforts in Minnesota and elsewhere.

Currently, the Center supports 471 ag professionals in Minnesota in their farm financial planning work with farmers, including 127 county agents, 199 adult vo-ag instructors, 52 FmHA supervisors, a number of ag banks, and several farm advocates.

The future of the Center for Farm Financial Management's work in Minnesota and nationwide will depend on its ability to perform at a continuing high demand and high quality level in order to attract funds, private and public, to continue its work. In the meantime, the Minnesota Extension Service through its Center for Farm Financial Management has gained considerable stature within Minnesota and nationwide in terms of not only being leaders, but doers in the area of farm financial management education for farm families and those who serve them.

PROJECT SUPPORT

BACKGROUND

Project Support is the Minnesota Extension Service's special educational program designed to assist rural families undergoing severe economic crisis. The program began in December 1984, and provides rural families with information and skills in farm and family financial management, family stress management, and community resource development.

Statewide Project Support Programs focus on the following areas:

Farm financial management education which helps the family to identify their best option, consistent with family goals, then helps to develop the managerial skills and plans required to be successful in that alternative.

Family resource management education which helps the family assess its current status, identify problems, generate alternatives, develop and implement a plan.

Stress management education which helps the family learn to identify symptoms of stress and choose coping techniques that will minimize the stress and build family strengths.

Community resource development efforts involve extending and improving the networking between social service agencies, churches, community agencies, legal services, lenders and law enforcement.

Youth education which includes: Teens in Distress; Self-Protection and Youth Entrepreneurial Seminars which are designed to help youth cope with pressure of current economic situations.

RESULTS

During 1987, Project Support results included:*

Over 10,000 farm families received a financial analysis of their farm operations through FINPACK (computer decision aid).

4,927 families developed strategies to continue farming; 2,756 planned to seek off-farm income; 770 decided to move out of farming; 3,617 developed strategies for improving family resource management; and 7,358 people worked to cope more effectively with stress.

Extension staff trained over 14,941 people in other community groups and agencies. Participants included people from financial institutions, human service organizations, employment services, farm groups, commodity organizations, vocational agriculture instructors, attorneys, business leaders, local government representatives, clergy and farm advocates.

Extension staff worked with an additional 18,098 people in communities to encourage the development and maintenance of community support networks.

In 1987, the Minnesota Extension Service continued the programs developed to assist families undergoing economic crisis. Some new programs were developed. Many of the programs include networking with other agencies, businesses, and individuals interested in helping families. Some examples of programs are:

Managing Our Farm Family Future - An in-depth series of workshops where families learn financial analysis, set family goals, and choose alternatives to meet their goals. Fifteen workshops were held with 300 in attendance. From this pilot program, a video and a training manual have been developed. The statewide program culminated in a session to train agents in December 1987.

Business Management Programs - Including 250 seminars and workshops with 6,500 participants. Programs included starting a small business, income alternatives for rural families, tourism marketing and other business management programs. The average participant received over seven hours instruction.

Ag Creditor Workshops - These were held in six areas which dealt with bankruptcy laws, mediation, farm enterprise analysis, production practices, as well as stress management for creditors. Approximately 300 participated in these six sessions.

Financial Management Extension Consultant Program - Including recruitment, training and support of volunteers to work with families in transition budgeting problems. Home economists in all 87 counties received training in 1986 to manage the program; 23 were trained as trainer agents. They trained 205 volunteers, each of whom helped 3-25 families learn financial management skills.

Youth Programs - A number of programs for youth affected by the economic situations have been developed and include several on self-protection such as Teens in Distress, Building Self-Esteem, and Teen Suicide. Several counties held Youth Entrepreneurial Seminars to help youth look at business opportunities.

A summary of Project Support Programs is planned for Spring 1988 and will include program evaluations that are being conducted.

* Participation numbers are based on a County Extension Agent survey conducted in November 1987 and includes participation estimates for November and December 1987.

REGENT'S FARM FAMILY SCHOLARSHIP PROGRAM

The Regents' Farm Family Scholarship program provides an opportunity for farm families to take advantage of educational opportunities offered by programs of the University of Minnesota.

1. Applicants must be operators of family farms in Minnesota who can demonstrate through normal financial needs analysis that they are in imminent danger of, or in the process of, losing their farm operation through a foreclosure or repossession, or facing debt restructuring, as verified by the Minnesota Extension Service. The primary criterion will be a debt/asset ratio of 70 percent or greater for the farm business. This analysis must have been determined after January 1, 1986. The county extension director will recommend qualified candidates for the tuition waiver, based on financial analysis of the farm business.

2. Applicants can include spouses of persons found qualified above as well as dependent children who live at home.

3. Applicants can receive tuition scholarships for up to six credits per quarter for a maximum of three quarters. Students enrolled for greater than six credits are not eligible for this scholarship.

4. Applicants must be admitted as degree seeking or adult special students on the campus they choose to attend.

5. Applicants will be enrolled in existing courses on a space available basis after regularly enrolled students have registered. The registrars on each campus will have final authority to approve each candidate's application for this tuition scholarship.

Tuition for up to six credits and student service fees will be waived. Regents' Farm Family Scholarships do not cover retroactive tuition, late fees, course fees, lab fees, books, deposits, record fees for establishing new student files, orientation fee for day school, special needs for CEE, or Health Service fees. A wide range of courses are approved for Regents' Farm Family Scholarships both in day school and Continuing Education and Extension, but with the following exceptions: CEE independent study, TV and correspondence courses offered by CEE independent study, Department of Professional Development and Conferences seminars and workshops, mini courses offered by Coffman Union and the St. Paul Student Center, Rec Sports mini courses, courses and workshops offered for Continuing Education Units (CEU's), Professional Improvement courses, informal courses, CEW non-credit courses, MacPhail Center courses.

Student enrollment figures, up-to-date through December 1987, are listed below by academic quarter and campus:

Number of Students Registered for the Regents' Farm Family Scholarship

	Crookston*	Duluth	Morris	Waseca*	Twin Cities
Fall 1986	1	0	1	2	4 (1 CEE; 1 SP; 2 M)
Winter 1987	2	0	1	3	4 (1 CEE; 1 SP; 2 M)
Spring 1987	2	0	1	2	3 (1 SP; 2 M)
Summer 1987	0	0	0	0	1 (1 CEE)
Fall 1987	1	0	0	2	3 (2 CEE; 1 SP)

Key: CEE - Continuing Education and Extension
SP - St. Paul
M - Minneapolis

* It should be noted that both the Crookston and Waseca campuses have each received $30,000 under H.R. 1599. The availability of these funds through the Minnesota Legislature has probably impacted the use of the Regents' Farm Family Scholarship program at these two campuses so that the respective figures above are probably low. In Crookston, these funds have been used, in part, to reduce tuition and to provide teaching materials, equipment and other support for on- and off-campus offerings for 181 participants. In Waseca, over the last 1-1/2 years, 190 people took advantage of H.R. 1599 funds through UMW's Financial Aid for Rural Minnesotans (FARM) Scholarship Program. This tuition assistance program enables farm families and agribusiness people to take advantage of continuing education opportunities in the form of specially selected 1/2 credit minicourses.

Applicants may apply at the University Registrars' Offices at the following locations:

University of Minnesota
College, Crookston
109 Selvig Hall
Crookston, Minnesota 56716
(218) 281-6510, X346

University of Minnesota
College, Waseca
Room C110 Administration Building
Waseca, Minnesota 56093
(507) 835-1000, X242

University of Minnesota, Duluth
104 Darland Administration Building
Duluth, Minnesota 55812
(218) 726-7500

University of Minnesota, St. Paul
130 Coffey Hall
St. Paul, Minnesota 55108
(612) 624-3731

University of Minnesota, Morris
212 Behmler Hall
Morris, Minnesota 56267
(612) 589-2211, X6027

University of Minnesota, Mpls.
Registration Center
202 Fraser Hall
Minneapolis, Minnesota 55455
(612) 624-1665

University of Minnesota
Continuing Education
and Extension
150 Wesbrook Hall
Minneapolis, Minnesota 55455
(612) 624-2517

FARM SCHOLARSHIP PROGRAM

Family farm operators who can demonstrate severe financial need as a result of farm foreclosure or repossession in the past year are eligible to take courses tuition free and to obtain free career counseling at Minnesota's seven state universities. The program has been in place since the Winter quarter of the 1986-87 academic year and will continue through the Fall quarter of the 1987-88 academic year.

Under the scholarship program, up to six credits may be taken tuition free each quarter, for a maximum of three quarters over a two-year period. Individuals who enroll for more than six credits are not eligible for this program since other scholarship programs are available to those students. Applicants must pay any necessary fees and can enroll in existing courses on the same availability basis as other state university students.

Farm operators, their spouses and dependent children, who are facing debt restructuring or those who have actually lost their family farms in the past year are eligible for the scholarship program. To qualify, farm operators must demonstrate a debt-to-equity ratio of at least 50 percent or an annual farm income of no more than $15,000. Applicants must provide a letter from a lender or a balance sheet of their farm operation, showing evidence of the 50 percent debt-to-equity ratio. The 1040 tax form may also be used to verify annual income derived from farming.

Participation in the program is summarized below.

Location	FY 86-87	FY 87-88 (Fall Quarter Only)
Bemidji	---	0
Mankato	15	8
Metro	---	0
Moorhead	1	1
St. Cloud	2	3
Southwest	12	1
Winona	1	0
	31	13

Applicants may apply at the financial aids office at the following institutions: Bemidji State University, Mankato State University, Metropolitan State University (Minneapolis-St. Paul), Moorhead State University, St. Cloud State University, Southwest State University (Marshall), and Winona State University.

FARM CRISIS INTERVENTION PROJECT

The report provides accomplishment information for May, 1985 through October 1, 1987, of the Farm Crisis Intervention Project by Vo-Ag Instructors. The results of the project were gathered and compiled by the Area Vo-Ag Coordinators.

The Farm Crisis Intervention Project was created and funded by the 1985 Minnesota State Legislature. The Project enabled vocational agriculture staff to provide emergency educational financial planning assistance to farmers. The assistance was available to all farmers. The 1986 and 1987 Legislature provided additional funds to continue the project.

The Project was administered by the State Board of Vocational Technical Education. The Project is an add-on program for those programs and staff that were involved in the project. The report does reflect what the Vo-Ag staff can do in a special effort, while also continuing to conduct its regular program.

PURPOSES

The Farm Crisis Intervention Project consisted of three major purposes:

1. To provide financial planning to all farm operators/families desiring assistance.
2. To provide Farmers Home Administration (FmHA) with loan processing assistance.
3. To provide farmers assistance with mandatory mediation.

MAJOR ACCOMPLISHMENTS OF PROJECT

1. Assisted 13,878 farm families with individual financial management assistance. The Vo-Ag instructors spent 71,782 hours in face to face consultation in this process.
2. Assisted 642 farm operators with assistance in mandatory mediation as a financial analyist or as a mediator. The vo-ag farm management instructors spent 8,086 hours in the actual mediation process assisting farm operators.

3. 959 farm management instructor days were contributed to assist all the Minnesota district FmHA offices in assistance of processing 495 different loan activities. 6,459 hours were spent by the farm management staff in this activity.
4. Provided 6,930 farm families with FINLRB projections.
5. Developed strategy for:
   a. 6,886 farm families to continue farming.
   b. 623 farm families to discontinue farming.
6. Provided assistance to lending institutions in processing loan applications for 5,918 farm operators to obtain credit to continue their farm operations.
7. Provided 1,288 farm families in obtaining legal assistance.
8. Provided farm management information for 6,332 farmers participating in group meetings.

Participation results provide data for both individual consultants and group sessions. A total of 13,878 individuals were assisted with financial management; 3,859 of whom were not regularly enrolled in farm financial management programs. Instructors spent 60,007 hours with regular enrollees and 16,424 hours with non-enrollees. 1,883 non-enrollees were assisted by phone.

Computer programs provided service for 5,139 enrollees and 2,558 non-enrollees with FINLRB; 3,239 enrollees and 1,075 non-enrollees in FINFLO; 629 enrollees and 186 non-enrollees in FINTRAN and 1,766 enrollees and 314 non-enrollees were serviced by other programs.

Group sessions, sponsored totally or partially by vocational agriculture staff, provided farm financial management education to 3,681 enrollees and 2,651 non-enrollees; family stress management education was provided to 1,001 enrollees and 759 non-enrollees; and family resource management education to 978 enrollees and 200 non-enrollees.

As a result of vocational agriculture farm crisis staff efforts, 5,328 enrollees and 1,558 non-enrollees developed strategies to continue farming while 12 enrollees and 311 non-enrollees developed strategies to discontinue farming. 1,218 enrollees and 404 non-enrollees developed strategies to obtain off-farm income. 1,549 enrollees and 450 non-enrollees developed a strategy for family resource management and 1,477 enrollees and 580 non-enrollees developed strategies for dealing with stress.

Several agencies, groups and professionals were assisted by Vo-Ag instructors. A total of 9,471 enrollees and 5,642 non-enrollees received this type of assistance.

FmHA office activities of 50 adult Farm Business Management instructors assigned to the district offices. A total of 959 days and 6,459 instructional hours were spent on the project. These included 191 guaranteed loans; 304 operating loans; 179 security checks; 113 chattel appraisals; 559 review and evaluations of farm plans; 278 analysis of past year records; 627 FINLRBs; 185 loan deferrals and 130 other activities.

Mandatory mediation process shows that farm management instructors served as a financial analyst in 421 cases and as a mediator for 58 cases. Assisted ag extension service in coordinating 105 mandatory mediation cases. A total of 5,928 hours were spent by instructors in the actual mediation process.

For More Detailed
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THE IMPACT OF THE MINNESOTA ADULT FARM BUSINESS MANAGEMENT EDUCATION PROGRAM ON FARM FAMILY SURVIVAL: A STUDY IN CRISIS PREVENTION AND INTERVENTION

> Farming is a business and business decisions must be made with accuracy. Farm management offers the tools needed in the sound decision making process.
>
> Creditor

THE FARM BUSINESS MANAGEMENT EDUCATION PROGRAM (FBMEP)

The Farm Business Management Education Program is a public school program designed to bring the benefits of instruction in business management to farm families. The main purpose of the program is to help farmers achieve their farm business and family goals through the improved management, organization and operational efficiency of their farms.

The Farm Business Management Education Program started in Minnesota in 1952. Adult instruction in Farm Business Management is based on a plan of instruction which includes large group (classroom), small group, and individual on-the-farm instruction. Farm record analysis is a vital part of the program.

PURPOSE OF THE STUDY

It is likely that in the long run, the real proof of crisis prevention and intervention will show in the number of farmers who survive and in the quality of their business life. But decision makers in education and policy development positions must have more immediate clues on which to base decisions. This study was conducted to provide information to decision makers about the impact of increased financial support on the status of Farm Business Management Education Programs, to compare income of farmers in programs with the general population of farmers, to compare the rate of business foreclosure between farmers in management programs and the general population of farmers, and to obtain perceptions of the value of Farm Business Management Education Programs from participants and creditors.

IMPACT OF INCREASED FINANCIAL SUPPORT ON FBMEP

The infusion of new state dollars has allowed programs to regain their scope in numbers and personnel. The 1986 count of 114 full-time equivalent (FTE) instructors compares to a low of 86 FTE's in 1983. In 1986, there were 4,407 Farm Business Management Education enrollees, as compared to 3,852 enrollees in 1983.

Farm Management instructors participated in many forms of crisis intervention including the use of FINPACK, the Farm Credit Mediation Program, and FmHA activities. As a result of 1985 legislation, farm management instructors were equipped with computer hardware, trained in the use of FINPACK software and assigned to assist farmers in crisis.

Twenty-six person years of assistance were given to almost 7,000 farmers from May, 1985 to September, 1986. Much effort was directed at farmers who were members of farm management programs, but extra effort was devoted to those in need who were not enrollees.

INCOME OF FARMERS

Net cash income of farm management enrollees generally moved in the same direction as Minnesota farms in general during the five-year period studied, but in absolute dollars farm managment enrollees showed higher net cash incomes than farmers in general.

Income* of Farm Management Enrollees Compared to General Farm Population

Year	Farm Mgmt. Net Cash Operating Income	% of 1981	USDA: MN Net Cash Operating Figures	% of 1981
1981	25,592	100	16,834	100
1982	24,359	95	17,421	103
1983	33,935	133	19,548	116
1984	23,575	92	15,397	91
1985	28,377	111	22,498	134

* Net operating cash (cash income minus operating expenses). Inventory change is not included.

COMPARISON OF BUSINESS CLOSURES

Farmers who were members of Farm Business Management Education Programs sold their farms at auction or were subject to foreclosure at a lower rate than farmers in general during the crisis periods including March-April 1985 and March-April 1986. Only 7.7 percent of the auction sales and 7.1 percent of the foreclosures during these periods were of farmers who were enrolled in farm management programs. If enrollees left farming at the same rate as farmers in general, they should have accounted for 9.9 percent of the auctions and foreclosures.

PERCEPTIONS OF FARM BUSINESS MANAGEMENT EDUCATION PROGRAMS

Farmers ranked improved management skills, better knowledge of personal capabilities, and increased earnings as the three most important contributions to the family from participation in the program. Creditors also ranked these three items as most important.

Farmers ranked individual farm visits as the most beneficial type of instruction. This was followed by individual instruction using the computer to do long-range budgeting, cash flow planning, and general financial planning, and phone consultations.

Farmers felt assistance in keeping, analyzing and interpreting records, and assistance in planning, implementing, and evaluating changes in the farm business were the most important objectives of the Farm Business Management Education Program. Creditors also felt these were the most important objectives of the program.

Farmers estimated an annual monetary benefit of about $4,400 from participation in a Farm Business Management Education Program. Creditors estimated an annual monetary benefit to farmers of $4,900.

Participants and creditors would recommend the program to others. The mean response of farmers on an eleven point scale from strongly discourage (0) to strongly encourage (10) was 8.6. Creditors were also strongly supportive of the program with 41 of 43 indicating they would encourage farmers to enroll.

> Our program offers so much, marketing skills, production, cost analysis, budgeting, etc. Growth potential is strived for and most of the time reached.
>
> Creditor

PARTICIPANT PROFILE

The vast majority of farms in the Farm Business Management Education Program were single family businesses run by one male and one female. The age of participants ranged from 17 to 81 years with an average age of 39. The typical enrollee had one year of formal education beyond high school.

Farms in the program were highly diverse. Farmers classified their farms into 25 different types of farms, with the vast majority of single enterprise farms classified as dairy, hog, or cash crop farms. The average number of acres farmed was 516.

THE STUDY

No single source of data was sufficient to supply the information for the variety of questions that were asked. Eight sources of data were used in this study: A mail survey of farmers enrolled in the program; interviews/surveys of creditors employed in farm credit granting institutions; records of the State Department of Agriculture; records of the analysis of farm business records; records of the Area Farm Business Management Education Program Coordinators; records of individual Farm Business Management Education Instructors; records of the State Board of Vocational and Technical Education; and archives of newspapers and advertising papers. The study was completed by the Division of Agricultural Education, University of Minnesota with the assistance of many people.

> The confidential and unbiased perspective of the instructor helps keep the business on an even keel. The instructor is invaluable!
>
> Participant

For More Detailed
Information See
Appendix C
Under Separate Cover

FARM OPERATOR FINANCIAL STATEMENT SUMMARY

Farm Business Management Education programs have been long-time course offerings in both high schools and Technical institutes in Minnesota and administered by the State Board of Vocational Technical Education.

The financial condition of farmers enrolled in these programs for the nine-year period, 1978-1986, is described in the statewide summary of selected items taken from these financial statements.

Explanation of items, by lines:

1. Funding stabilization, program recognition and instructor security impetus for up-swing in enrollment.
2. A 23 percent increase in value of farm capital.
3. A slight increase in value-per-acre since 1979.
4. A 37 percent increase in debt-per-acre since 1979.
5. A 32 percent increase in assets.
6. A 45 percent increase in debt.
7. Using constant inventory values on land shows only a 2 percent growth in net worth. In reality, current net worth has probably decreased due to deflation of land values.
8. Real estate debt, as a percentage of total debt, has increased.
9. A ratio of the owner's equity to total debt, a percentage of liabilities covered by net worth.
10. Money available from income after farm expenses are paid, to service debt, to provide family living, and for savings. This has steadily improved over the past two years.
11. Income from off-farm jobs, investment earnings, gifts, sale of personal assets, tax refunds, etc. More of the income seems to be coming from off-farm employment.

12. Ratio: Cash Operating Expenses to Adjusted Total Farm Sales. Twenty-four cents (24 cents) available to replace equipment, pay off debt, feed family and support government.

13 & 14. More paid off than borrowed in 1985 and 1986. A healthier trend than in previous years.

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For More Detailed
Information See
Appendix D
Under Separate Cover
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STATEWIDE SUMMARY
FARM OPERATORS FINANCIAL STATEMENT
SELECTED ITEMS 1978–1986

	1978	1979	1980	1981	1982	1983	1984	1985	1986
1) Number Farms Included Owned by Operator	2,187	2,178	2,376	2,059	1,885	1,781	1,526	1,599	1,689
2) Value of Farm Capital Owned by Operator	$232,500	$275,500	$308,860	$328,600	$342,800	$341,400	$337,400	$316,682	$286,286
3) Land and Farm Buildings Value Per Acre Owned	----	750	770	840	870	900	850	805	780
4) Debt (All Sources) Per Acre Owned	----	650	815	920	990	1,015	1,045	932	893
5) Total Assets (Farm and Non-Farm)	$260,050	$315,450	$345,780	$366,470	$392,860	$393,340	$391,300	$371,040	$342,647
6) Total Liabilities	$129,800	$169,500	$194,600	$223,900	$236,400	$239,300	$240,400	$215,400	$187,850
7) Operators' Net Worth	$152,300	$157,800	$186,800	$178,100	$180,900	$180,500	$172,400	$155,640	$154,815
8) Percent of Liabilities that are Real Estate Mortgages	52.1	51.3	54.8	55.2	54.8	57.0	57.2	58.0	58.5
9) Ratio of Net Worth to Liabilities	1.33	1.20	1.14	0.91	0.86	0.86	0.79	0.73	0.83
10) Return to Capital and Family Labor	$ 33,285	$ 24,400	$ 32,134	$ 7,031	$ 14,370	$ 16,042	$ 6,164	$ 9,462	$ 18,077
11) Non-Farm Income	$ 3,639	$ 4,092	$ 4,888	$ 4,891	$ 5,242	$ 6,223	$ 6,257	$ 7,891	$ 8,894
12) Ratio: Cash Operating Expenses to Adjusted Farm Sales	.71	.76	.77	.79	.82	.76	.82	.80	.76
13) Money Borrowed	$ 62,600	$ 76,300	$ 84,800	$104,000	$ 85,500	$ 73,600	$ 73,400	$ 68,395	$ 57,807
14) Paid on Debt	$ 45,100	$ 49,700	$ 66,600	$ 78,000	$ 70,100	$ 68,200	$ 53,000	$ 70,322	$ 64,574

MINNESOTA'S RURAL FINANCE AUTHORITY

In 1986, the legislature created the Rural Finance Administration or RFA and authorized it to implement and participate in a program of restructuring farm real estate debt. This action was taken in response to the tremendous financial and social stress faced by Minnesota farmers in the wake of rapidly eroding land values. The purpose of this debt restructuring program was to stimulate borrower and lender cooperation in the development of methods to lower the annual debt service costs of eligible borrowers in line with their ability to pay. Through this cooperation, it was hoped that the level of farm bankruptcies and foreclosure actions could be reduced.

In 1987, the legislature directed the RFA, which was renamed the Rural Finance Authority, to establish a Beginning Farmer Program to assist persons wishing to enter farming and who had not previously owned farms.

These programs are governed by a policy making board composed of the Commissioners of the State Departments of Agriculture, Commerce, and Finance, the State Auditor, and three members of the public appointed by the Governor. The Commissioners of Finance and Agriculture are the respective Chair and Vice-Chair of the Board. The Department of Finance provides administrative support and staffing to carry out the programs of the Board, and provides for the structuring and sale of bonds to finance the programs of the RFA.

DEBT RESTRUCTURING PROGRAM

Under the RFA Debt Restructuring Program, the RFA provides financial incentives to both borrowers and lenders through the purchase, by the RFA, of "participation interests" in restructured first mortgage real estate loans. However, before any such purchases can take place, the RFA must negotiate with eligible lenders to secure their voluntary participation in the program, and to establish the loan terms and conditions which will be granted to any borrower whose debt the lender agrees to restructure. Based upon these negotiations, the RFA and lender enter into a contractual agreement stipulating that the lender may offer a 25 percent participation interest (up to $50,000) in any restructured loan to the RFA if the loan conforms to the agreement and borrower meets certain eligibility criteria.

Under the current program, a debt to be restructured must be divided into two portions called the "Primary" and "Secondary" principal. The primary principal is the lessor of the current market value of the property subject to the mortgage, or the full amount of the debt. The secondary principal is any debt in excess of the current market value. The borrower is not required to make payments on either the primary or secondary principal or interest payments on the secondary principal during the term of the loan, although interest does accrue on any secondary principal at a below market rate. The borrower is required to make interest payments on the primary principal, which is calculated at a negotiated interest rate. At the conclusion of the restructuring period, the borrower owes the original debt and any accured interest. However, final payment is determined by the market value of the property subject to the mortgage at the end of the restructuring period. Any amount of debt which exceeds the value of the property must be forgiven by the lender.

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

The participating lender still makes the initial decisions regarding the borrowers credit, debt servicing ability, and long-term financial viability. After a lender has determined that a debt restructuring is possible and appropriate, the lender offers a participation interest in the loan to the RFA by submitting an application and supporting information to the Authority.

The RFA makes an independent determination regarding credit quality, borrower eligibility and the viability of the restructured loan in order to manage the risk exposure of the State. After evaluating the loan application, the RFA notifies both the borrower and lender of its decision, and proceeds to purchase a participation interest from the lender if appropriate.

By purchasing this participation interest in a restructured loan, the RFA is able to offer the borrower a preferential interest rate on it's portion of the loan. The lender benefits from a reduced capital commitment to the loan and by sharing future financial risks with the RFA.

The RFA Debt Restructuring Program has proven to be successful both in it's direct participation in debt restructuring and in its effect as a catalyst to other private lender restructuring without State participation.

BEGINNING FARMER PROGRAM

Because of the financial stress produced by rapidly falling land values in the early 1980's, many farmers who were highly leveraged with land debt had no alternative but to quit farming. This dramatic situation resulted in an overall increase in the age of the farm population. And although land values were at the lowest levels in many years, many well trained and potentially capable new farmers found it extremely difficult to acquire their first farm due to increased credit requirement sought by agricultural lenders. Recognizing the long-term consequences of this situation, the Legislature directed the Authority to develop a program to help first-time farmers by arranging beneficial mortgage financing with minimal down payment requirements and low interest rates.

The Beginning Farmer Program developed by the Authority will operate in the same manner as the Debt Restructuring Program in that the RFA will pre-establish credit criteria and loan terms for loans in which it will purchase participation interests. Participating lenders determine the qualifications of individual applicants and request RFA loan participation. Determination of the Authorities purchase of an interest in any loan is based upon its independent review. The RFA's maximum purchase in any one beginning farmer loan is 25 percent up to a limit of $25,000.

By participating in a loan to a beginning farmer, the RFA is able to secure a very low down payment for the borrower and offer a preferential interest rate on its portion of the loan. The lender also benefits from a reduced capital commitment to the loan and by sharing any future financial risk of loss with the RFA.

ELIGIBILITY CRITERIA

The same lenders that are eligible to join with the RFA in the Debt Restructuring Program are eligible to participate in the Beginning Farmer Program. The legislature established the following eligibility criteria for borrowers in order to assure that beginning farmers prudently assess their business undertaking.

In order to be eligible for the program, each applicant must:

a) Be a person who is a resident of Minnesota.

b) Have sufficient education, training, or experience to succeed in the type of farming he or she intends to undertake.

c) Have a total net worth of less than $100,000, including the assets and liabilities of their spouse and dependents.

d) Have a financial need for the loan and the ability to repay the loan.

e) Not previously owned any farm or more than forty acres.

f) Not have previously received financial assistance from the RFA.

g) Agree to be the principal operator of the farm to be purchased, and make farming his or her principal occupation.

h) Agree to use the farm primarily for agricultural purposes.

i) Agree to enroll and continue in an approved farm business management program for at least the first eight years of the loan.

j) Agree to implement an approved soil and water conservation plan.

k) Agree to place all marginal land in a permanent conservation easement.

For More Detailed
Information See
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DISLOCATED FAMILY FARMER ASSISTANCE PROGRAM

Since 1985, the federally funded Job Training Partnership Act (JTPA) has helped hundreds of farmers and their family members prepare for and secure alternate employment off the farm.

Services have been specifically designed to help counsel, provide short-term training, job search and placement for those who have been forced out of farming. Such parties who are in need of a job change or are simply seeking off-farm employment should consult their nearest JTPA job training office or any office of the job service, Minnesota Department of Jobs and Training.

While employment and training services have historically been thought of as helping industrial non-farm workers, Minnesota has adapted its programs to include farmers and the agricultural sector. One such program is the Dislocated Family Farm Assistance Program. Eligibility for this program is directed toward family farm members who have left farming as an occupation due to economic consequences such as foreclosure of the farm, bankruptcy, or denial of credit which prevents continuation of the farm enterprise.

In the program year July 1987 through June 1988, the Department of Jobs and Training has been awarded $100,000 to serve 66 family farm members in the 22-county project area. Allowable services can include vocational training, on-the-job training, counseling and career exploration, as well as funds to help with relocation and other expenses. Priority is extended to those having a high debt to asset ratio, older workers, those lacking formal educational training and those receiving public assistance. While JTPA and similar assistance help, more resources are needed to ease in the transition of the dislocated farm workers, and to provide more meaningful long-term training.

For more information concerning the location and availability of employment and training services, contact the Job Service:

Minnesota Department of Jobs and Training
390 North Robert Street
St. Paul, Minnesota 55101

Phone: (612) 296-3627

MINNESOTA FAMILY FARM LAW PROJECT

Introduction

This is the third semi-annual report to the Minnesota Supreme Court and the Minnesota Legislature by the Minnesota Family Farm Law Project (the Farm Project). The report covers the period January 1, 1987 through December 31, 1987. The first such report was submitted to the Court and to the Legislature in January 1987.

In 1986, the Minnesota Legislature passed the bipartisan Family Farm Legal Assistance Act (M.S. § 480.250 et seq.) as part of the Omnibus Farm Bill. Pursuant to the act, the legislature appropriated $650,000 to the Minnesota Supreme Court to contract with one or more nonprofit corporations to provide legal assistance to Minnesota's financially distressed family farmers.

The Supreme Court awarded the contract, effective July 1, 1986, to three of Minnesota's established legal services program--Southern Minnesota Regional Legal Services (SMRLS), Mid-Minnesota Legal Assistance (MMLA), and Northwest Minnesota Legal Services (NMLS), with a portion of the grant to be subcontracted to Farmers' Legal Action Group (FLAG)--to provide legal services statewide to eligible family farmers, through the Minnesota Family Farm Law Project (Farm Law Project).

The sponsoring programs have provided legal assistance to low-income rural Minnesotans for many years, and have substantial experience and expertise in legal issues affecting financially distressed family farmers. The programs have also been involved in recruitment of private attorneys to serve financially distressed farmers, the provision of training for attorneys and farm advocates, and the development of educational programs and materials for farmers.

In 1987, the Minnesota Legislature increased the funding for the Farm Project to $850,000/year for the fiscal years 1987 and 1988. This additional money has allowed the Farm Project offices to deliver more complete legal services to more low-income rural Minnesotans. Also, beginning July 1, 1987, Farmers' Legal Action Group (FLAG) became a joint sponsor of the Farm Project along with the three legal services programs. FLAG now contracts directly with the Supreme Court for provision of statewide backup and support.

with the Farm Project's case priorities, have worked reasonably well, to define those farmers who are truly in need and unable to otherwise obtain legal assistance.

Case Priorities

The resources of the Farm Project are limited. Consequently, case priority guidelines, as required by the Family Farm Legal Assistance Act (Minn. Stat. § 480.252, subd. 2), have been adopted by the Farm Project to assure the most efficient and effective use of its funds. These case priorities are intended to ensure that the most immediate and critical needs of financially distressed farmers can be met.

In general, high priority is given, within statutory limits, to cases which involve preservation of family farm homesteads; preservation of farm machinery, equipment, livestock, crops, and real property that are necessary to maintaining a viable farm operation; and the release of sufficient income from farm production and/or the extension of sufficient credit to enable the farmer to pay family living and farm operating expenses.

The case priorities of the Farm Project have remained the same in the last six months of operation.

Services Provided

Under the Act, the Farm Project is required to provide direct legal information, advice, and representaiton to individual farmers, as well as backup and support, legal education and training to farmers, private attorneys, legal services staff, and others (Minn. Stat. § 480.252, subd. 1).

In the last six months of operation, the Farm Project has provided assistance to farmers in 80 of Minnesota's 87 counties.

Individual Representation and Advice.

In the last six months of the operation, the Farm Project has handled 712 financially eligible farmers' legal representation, legal advice, and phone calls.

A substantial percentage of the legal representation and advice involves problems with mediation, debt restructuring, bankruptcy, debt settlement, farm homestead foreclosure, and farm chattel repossession.

The "average" farm law case takes 15 to 25 hours of attorney time. The "average" advice or informational contact takes about one to two hours. A reasonable attorney caseload is approximately 20 cases. A reasonable paralegal caseload is approximately 25 cases. In addition, paralegals in some of the offices may also be handling an equal number of pending applications.

The toll-free line telephone calls continued to be substantive in nature requiring the paralegals who are handling the calls to do a significant amount of research for each phone call. A majority of the toll-free calls from farmers involved questions about mediation, debt settlement, bankruptcy, rights with respect to waiver forms, the status of the Coleman class action lawsuit, foreclosures, right of first refusal and redemption.

In addition to the 712 farmers mentioned above, 308 were referred to other individuals or organizations that could better address their problems. A substantial percentage of the Farm Project's referrals went to the private bar, farm advocates and other Minnesota Legal Services offices. This referral process is outlined above.

Approximately 63 farmers were denied representation by the Farm Project. The three major reasons for denial were: (1) the individual was financially ineligible because of too much income; (2) the problem was not within the case priorities; and (3) the individual had already engaged an attorney.

Mediation.

In addition to attending mediation sessions with farmers, a considerable amount of the Farm Project offices' time was spent providing backup support for farm clients, farm advocates, and private attorneys, and disseminating information about the mediation law.

The Farm Project submitted comments to the Minnesota Department of Agriculture on the proposed mediation rules in October 1987. The comments were instrumental in bringing about revisions to the rules which further protect farmers' rights during the mediation process.

The Farm Project also revised the book entitled Mediation From the Farmer's Perspective to reflect the changes in the law as enacted by the 1987 Minnesota legislative session. The book is scheduled for printing and distribution by the University of Minnesota Extension Service during January 1988.

Complex Cases.

The Farm Project staff has filed several cases which involve the enforcement of legal rights affecting large numbers of farmers. A summary of a few of these cases follows:

Judicial Review of ASCS Determination Denying Reconstitution of Farm Acreage.

Farm Project staff filed an action in the United States District Court seeking judicial review of an ASCS denial of a farmer's certification in the Feed Grain Program. The ASCS' denial occurred because of its refusal to reconstitute two separate parcels of land as one farm for purposes of ASCS program compliance. In this case, although the farmer fully complied with program requirements, the ASCS refused to issue approximately $10,000 in deficiency payments called for by the contract. ASCS settled for full payment.

Confirmation of Chapter 12 Bankruptcy Case.

The Farm Project handled various lien avoidance and other motions to set up for confirmation of a Chapter 12 Plan filed earlier. As a result of various motions and negotiations, the attorneys were able to stipulate to a Chapter 12 Plan of reorganization which reduced clients' debts by over $250,000.

Debt Restructuring to Eliminate FmHA Unsecured Second Mortgage.

In two cases, Farm Project clients had FmHA second mortgages encumbering their homesteads for far in excess of the land's fair market value. FmHA's policy is to refuse to write off or release such mortgages without liquidation. The Farm Project attorneys and their client negotiated with the first mortgage holder to deed the land in lieu of foreclosure with an option to purchase on a contract for deed. (for substantially less than the first mortgages). As part of the arrangements, the attorneys obtained release of the FmHA second mortgage while maintaining the client's homesteads. The attorneys are proceeding to obtain compromise of the remaining unsecured debt to FmHA.

FmHA Settlement.

In three new cases, Farm Project clients had chattel and real estate loans with FmHA for an amount in excess of the fair market value of the property. The clients have a livestock operation which could cash flow a debt at fair market value. Farm Project attorneys and their clients proposed debt settlement and restructuring which would allow clients to maintain their operation without liquidation. They also requested releases of living and operating expenses to allow clients to maintain their operation. Presently, all clients are operating and may benefit from the Minnesota class action lawsuit Hansen v. Lyng.

Debt Settlement.

In 9 new cases, Farm Project clients were faced with replevin or foreclosure. The attorneys were able to negotiate substantial write downs of debt with and without mediation. In two cases, the clients found alternative sources of funds which the lenders accepted as payment in full. In seven cases, the lenders wrote down the debt to the collateral's fair market value. With the decreased debt, these clients are now able to cash flow and operate profitably.

Right of First Refusal.

In two previously filed cases, Farm Project atorneys brought summary judgment motions on the issue of whether the right of first refusal could be waived under Minn. Stat. § 500.24, subd. 6 (1986). Subsequently, the statute was amended to allow waiver of the right in certain situations. At the trial court level, the court found the right was a private right and therefore waivable. These clients decided not to appeal.

Foreclosure Halted.

In one case, Farm Project attorneys obtained a temporary restraining order to postpone a foreclosure sale. The complaint claimed that the defendant creditor failed to provide our clients with the 60-day period in which to cure the default before commencing pubication of the foreclosure sale. The attorneys also pled for moratorium relief in the alternative. Defendant asked the court to bar the plaintiffs from seeking moratorium relief in the future. The court ultimately found that the 60-day cure period could run concurrently with the publication of the notice of foreclosure sale. The court also ruled that the plaintiffs had not waived their right to seek moratorium relief in the future.

Usury.

In one case, the Farm Project attorneys filed an answer to a compliant for money damages ("future rent") on a silo lease. The attorneys believe that the clients have a meritorious defense of usury. This case is currently in the discovery stage. Depositions should take place in late January.

FLB Mediation.

Two different clients came to the Farm Project before their final mediation sessions with Federal Land Bank (FLB). No agreement was reached in either mediation. However, negotiation is continuing and new alternatives are being discussed. One client remarked that, prior to Farm Project representation, they had been unable to get any response to their numerous proposals to FLB.

FmHA Loan.

In one case, the client was trying to negotiate and debt settle with two major creditors, one of which was FDIC. Simultaneously, the client was trying to obtain an FmHA loan. This case was also in the process of court supervised mediation. Thus far, the FmHA loan closing has been completed making the settlement with FDIC and the other creditor possible.

FmHA Funds Protected.

Another case involved a judgment creditor trying to execute on an FmHA supervised bank account. The Farm Project attorneys, with the assistance of the Assistant United States Attorney, were able to protect the funds from the execution. This case resulted in a state court decision from the Eighth Judicial District.

Mortgage Foreclosure Moratorium.

Another case involved a mortgage foreclosure on the clients' homestead by the Federal Land Bank. There had been a second mortgage on the homestead after May 24, 1983, which otherwise would make the client ineligible for mortgage moratorium relief pursuant to Minn. Stat. § 583.03, subd. 2. Farm Project attorneys were able to get the second mortgage satisfied prior to the date set for the foreclosure sale. They then brought a mortgage moratorium action in order to stop the foreclosure on the first mortgage. After a hearing, the Judge agreed that the clients were eligible for the moratorium relief. This again was a decision from the state court, Eighth Judicial District.

FCS Forbearance.

One case involves the failure of Farm Credit Services to provide forbearance to a farmer.

Major Litigation.

The Farm Project attorneys in the statewide support office have continued to represent Minnesota farmers in three class action lawsuits, Hedge v. Lyng, Hansen v. Lyng, and Coleman v. Lyng. Currently, in Hedge v. Lyng, the plaintiffs are awaiting a decision from the district court judge hearing the case. Both parties have cross moved for summary judgment in this lawsuit which challenges the Farmers Home Administration (FmHA) county committee election procedures.

In Hansen v. Lyng, the parties have agreed to delay the litigation schedule until it is determined how the recent passage of the federal Agricultural Credit Act of 1987 will affect the claims raised. In Hansen, the plaintiffs are challenging FmHA's implementation of three farm programs: debt settlement, farm property leaseback/buyback, and homestead protection, as well as FmHA's refusal to participate in the Minnesota mediation program.

In Coleman v. Lyng, a national class action lawsuit against FmHA, the court has continued to enjoin FmHA from proceeding with farm foreclosures and liquidations because certain forms sent to the farmers in default were found to be unconstitutional. This decision is affecting 65,000 farmers across the country (3,000 farmers in Minnesota). The defendants in this case have appealed the district court's decision to the Eighth Circuit Court of Appeals.

Federal Legislation.

At the invitation of several senators and congressmen (incuding Tim Penny), attorneys from FLAG drafted a great deal of proposed legislation that was introduced in the House and Senate. In addition, they provided written and oral testimony to the House and Senate Agriculture Committees on four occasions during the year. Much of this legislation was incorporated into the farm credit bill signed by President Reagan on

January 6, 1988. Congressional staff and members have expressed that the legislation could not have been drafted as comprehensively or precisely without the assistance provided by the Farm Project.

Support of Private Bar Attorneys and Farm Advocates.

Farm Project staff provide ongoing technical assistance to private attorneys and farm advocates. Much of the private attorney support is provided over the telephone and through dissemination of publications and other legal packets on particular subjects. Such support has been provided on cases involving FmHA, Farm Credit, ASCS, bankruptcy, mediation and civil aspects of criminal conversion charges. More than 150 private attorneys have attended Farm Project training sessions or workshops, and many subscribe to the Minnesota Family Farm Law Update, the statewide Farm Project newsletter.

The Farm Project also provides ongoing support and training to the farm advocates employed by the Minnesota Department of Agriculture. Farm Project staff provide advocate training on at least a quarterly basis. In addition, Farm Project staff consult with advocates by telephone from rural Farm Project offices or from the statewide support office via the statewide toll-free line.

In addition, the statewide support office provides the advocates with summaries of all Federal Register publications of federal regulations relating to agriculture, and regular memoranda and briefings concerning changes in agricultural law.

Community Education and Continuing Legal Education.

In the past six months, the rural Farm Project offices have sponsored or participated in 24 community education workshops or seminars. A total of approximately 425 farmers, farm management instructors, farm advocates and farm peer counselors attended these sessions. The topics covered in these sessions included debtor/creditor law, FmHA procedures, state mediation law, and FDIC bank closings.

The statewide support office staff conducted 13 community legal education sessions during this period, These sessions were attended by approximately 380 persons, of whom 250 were farmers and the rest advocates, attorneys, mediators, etc.

The Farm Project also participated in two continuing legal education workshops or seminars conducted specifically for attorneys who represent farm clients. Total participation at these sessions was 150 attorneys.

Publications.

In addition to the above seminars, the Farm Project has continued to produce numerous written materials that were distributed throughout Minnesota. These publications include the Farmers' Guide to FmHA, 4th Edition; Mediation From the Farmer's Perspective, 2nd Edition; Protecting the Farm: A Farmer's Guide to Lending Law, 3rd Edition; two short articles entitled "Right of First Refusal" and "Who Gets the Money From My Crops?," and Minnesota Family Farm Law Update, the Farm Project's bimonthly newsletter. The newsletter features summaries of current farm law cases and legal analysis of recent developments in farm law: statutes, regulations and court cases.

FUTURE NEEDS

The Farm Project has two tasks as 1988 begins. First, for the long run, the Farm Project must begin to identify the level of need for farm legal assistance that will continue beyond the worst "crisis" years for farmers. It is clear that many complex individual and systemic legal problems will continue to affect family farmers who cannot afford private counsel. Some will relate to credit, some to the retrenchment of price support programs, some to environmental and conservation issues and some to pbulic benefits issues such as social security, medical assistance and energy assistance. These must be identified, quantified and explained to the legislature and the public so a realistic long-term picture can be drawn.

For the short run, the Farm Project must brace for a demand for services in 1988 that is likely to exceed that even in 1986 and 1987. This results from several related factors, First, Congress has enacted in late 1987 a bill containing the most sweeping changes in FmHA, Farm Credit Services (FCS), and private agricultural credit in decades. FmHA and FCS now have a broad mandate to restructure loans, to continue credit services and to assure every opportunity to family farmers to keep or recover their farmland. FmHA must participate in the Minnesota mediation program under the new law and offer restructuring to its 3,000 delinquent borrowers in the state. A secondary mortgage market has also been created.

These changes are already putting demands on Farm Project staff that cannot be fully met. Phone calls are up. There is an enormous demand for workshops and seminars, and a host of new legal issues must be analyzed for rulemaking and enforcement purposes.

The upshot, in the intermediate run, is that the Farm Project is likely to be overrun for all of 1988 and at least part of 1989 as the new law is implemented. Additional funding for this period will be sought from public and private sources.

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MINNESOTA FAMILY FARM INTEREST BUYDOWN ACT

Background

The Family Farm Interest Buydown Act was first instituted in March 1985. While results did not achieve the original projections, the Department of Commerce processed 2,277 applications with a total approved interest subsidy of $2.8 million from the $25 million appropriated. During the 1986 Legislative Session, an extension of the Interest Buydown Program was passed. Changes were made to the program designed to overcome the shortcomings of the 1985 Legislation. On March 21, 1986, Governor Rudy Perpich signed into law the Minnesota Family Farm Assistance Act. The appropriation was for $5 million which was exhausted in the first seven days of program operation. On April 26, 1986, Governor Perpich announced the reopening of the program. The Department of Commerce processed more than 6,400 applications and the 1987 Legislature appropriated the $14 million which had been requested for payment.

Participation in the 1986 program was nearly three times that of the 1985 program, and the amount lenders requested for interest payment was six times that of 1985. In anticipation of increased participation in 1987, the Legislature made several changes to the program which would provide for smaller subsidy payments per individual borrower, and allow more farmers to participate. On April 7, 1987, Governor Perpich signed the 1987 Family Farm Interest Buydown Act, initiating two programs with a combined appropriation of $17 million; $14 million for 1987 for "Program A", the State and lender buydown, and $1.5 million for 1987, and $1.5 million for 1988 for "Program B", the combined State, lender and FmHA buydown program.

Utilization

As of October 31, 1987, 5,010 applications were processed under "Program A" with $6,306,511 encumbered for payment. Fifty-two applications have been processed under "Program B" with $137,484 encumbered for payment.

The number of applications for "Program B" clearly did not meet expectations. However, the Department of Commerce cannot determine a clear cut reason for this. The most obvious is purely technical; these loans are all FmHA guaranteed loans, and most have a maturity of 3, 5 or 7 years. Due to the requirement that the loan must be written, rewritten or extended between January 1 and December 31, 1987, and must mature prior to July 1, 1988, many of these guaranteed loans would not qualify.

While the number of applications for "Program A" is not as great as in 1986, the number of applications for this combined State and lender writedown greatly exceeds the number of applications for the equivalent program in 1985.

The decrease in the number of participating lenders and borrowers may be attributed to a number of reasons according to a telephone survey conducted by the Department of Commerce: (1) The decreased subsidy amount was not worth the amount of time spent on applying for the final payment; (2) In areas where the customer base is a mixture of agricultural, main street business, and consumer borrowers, the program is unfair to these other two classes of borrowers, and some lenders instead internally lowered their loan interest rates to all classes of borrowers across the board; (3) Numbers of farm borrowers who qualified in 1986 did not qualify in 1987, partly because of income from increased payments from Federal farm programs; (4) As in "Program B", the increased number of FmHA guaranteed loans which would not qualify because of extended maturity of the loans beyond June 30, 1988, under "Program A".

Due to the decrease in individual subsidy amounts and the decreased number of applications, the total appropriation will not be used. Projections to December 31, 1987, the last date applications may be accepted, indicate that approximately $8,956,000 of the 1987 "Program A" funding will not be used. In addition, as estimated $4,800,000 will be available from the 1986 program once final payment has been made. This is primarily because many lenders requested subsidy based on the maximum of $100,000 for their line of credit loans and for the full term allowed. This maximum was not always disbursed, or the loan was paid off before the maximum period of time of June 30, 1987.

Conclusion

The average debt to asset ratio of participating farm borrowers was 72 percent in 1985, and 72 percent in 1987. With 371 lenders submitting over 5,000 applications for interest subsidy, it may be concluded that in 1987 there was still a significant need for financial relief for Minnesota farmers.

For More Detailed
Information See
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FARM INTEREST BUYDOWN PROGRAM POLICY REPORT

In the early 1980s, the financial situation of many farmers in Minnesota and across the nation began to deteriorate rapidly. Agricultural commodity prices were low and interest rates were high. Many farmers were squeezed by declining income and increasing costs of production. To make matters worse, declining land prices left many farmers with assets and collateral that could not offset a growing debt burden.

The strategies available for states to address these conditions are limited. One of the few things a state can do for farmers is to make credit cheaper. In 1985, the Minnesota Legislature initiated a farm interest buydown program which lowered the interest rates participating farmers had to pay on operating loans. To qualify, farmers had to have a debt-asset ratio of 50 percent or higher. Participating banks voluntarily accepted a slightly reduced interest payment from the farmer, and the state provided a subsidy for further interest rate reductions. The program was supposed to improve access to credit and to help financially stressed farmers overcome financial hardships. Since the program was initiated, the state has provided over $22 million in subsidies, and banks have provided an additional $10 million.

In July 1987, the Legislative Audit Commission requested a program evaluation of the 1987 buydown program. In order to decide if the program should continue, legislators' wanted to know what types of farmers had participated and if the program had been effective. The evaluation examined the following questions:

- What kinds of farmers have participated in the program?
- What is the extent of buydown participants' financial stress? How well targeted is the program toward farmers who are most financially stressed?

We studied this program by selecting a random sample of 239 participants, reviewing their bank loan files, interviewing bankers and program administrators at the Department of Commerce, and studying the farm financial situation in general. Overall, we found that the program is not well targeted toward the farmers who need it most and that it has not significantly improved access to credit. But the program has helped participating farmers to weather declines in land prices and income. If the program is to continue, we think that alternative targeting strategies will help the program better reach its goals.

Buydown Participants' Financial Status.

We found a wide variation in the financial situation of the 1987 buydown recipients in our sample. Most buydown participants were young family farmers. The average participant in 1986 farmed 417 acres and had gross cash receipts from farming of $117,090. Seventy-five percent of participants had at least some off-farm income; the average amount was $10,950. We found that the median debt-asset ratio of participants was 67 percent, far higher than the average figure for the farm population at large. Twenty-one percent of all program participants had debt-asset ratios of less than 55 percent and 58 percent had ratios of less than 70 percent.

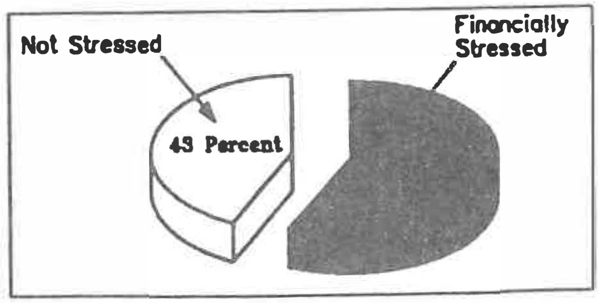
There was considerable variability in other financial measures as well. Net worth varied from a negative net worth of over $130,000 to a positive net worth over $850,000. Net cash farm income varied from a negative $67,000 to over $133,000. Ability to service debt also varied in 1986 from those with no ability to make debt payments to those who could meet all their debt service payments more than three times over.

Unexpectedly, we also found considerable variation in the extent of financial stress experienced by the interest buydown participants. We found that buydown recipients range from farmers with large, profitable operations to farmers who are technically bankrupt.

"Financial stress" is difficult to define with precision. In common use it implies that farmers are having trouble paying all their bills. However, this definition may be too simplistic since it ignores major factors affecting a farmer's financial well-being. For example, if a farmer retains sufficient wealth (net worth) and has additional borrowing capacity, he may be able to get through short-term difficulties. On the other hand, if the farmer has accumulated significant debt obligations, even a large net worth may not prevent financial stress because the higher the debt, the higher the cash flow necessary to service the debt. Consequently, a useful definition of "financial stress" should incorporate several inter-related financial variables.

In our evaluation, we measured "financial stress" in terms of the farm's profitability, the farmer's net worth, the farm's debt-asset ratio, and the ability of the farmer to make payments on that debt. Categorizing stress in terms of these variables, we found that:

- As many as 43 percent of farm interest buydown participants are not severely financially stressed.



Almost half of the farmers we categorized as not severely stressed could meet all their debt payments and family living expenses, had debt-asset ratios less than 70 percent, and had a net worth between $50,000 and $600,000. Other non-stressed farmers had higher debt-asset ratios (between 70 and 100 percent), but could meet all expenses and had a minimum net worth of over $100,000. The last group of farmers we categorized as non-stressed could not quite pay all expenses from current income (they paid between 75 and 100 percent), but they had a net worth over $100,000 and a debt-asset ratio less than 70 percent indicating additional borrowing capacity.

Farmers we categorized as severely stressed ranged from those that could make no debt service payments to those that were technically bankrupt. However, most financially stressed farmers could at least partially service their debt. We also categorized all farmers with a net worth of less that $50,000 as financially stressed, even if they were currently making all their debt payments. The table below shows some examples of farmers we categorized as stressed and not stressed.

Category	Ratio	Debt-Asset Net Worth	Debt Coverage Ratio	Net Cash Farm Income	Off-Farm Income
STRESSED					
Farmer 1	53	$182,250	.57	-$ 10,016	$16,867
Farmer 2	55	59,300	- .12	- 5,558	12,677
Farmer 3	73	307,316	.59	29,997	7,810
Farmer 4	74	110,500	.29	- 13,155	0
Farmer 5	102	- 6,315	.60	17,666	1,844
NOT STRESSED					
Farmer 6	51	$237,553	.81	$ 18,874	$ 3,514
Farmer 7	59	666,758	1.44	133,145	0
Farmer 8	60	236,245	2.14	100,462	22,486
Farmer 9	67	117,769	2.11	- 8,679	63,227
Farmer 10	78	65,729	1.54	73,155	8,888

Examples of Buydown Participants' Financial Stress
Using Legislative Audit Criteria

The wide variation in financial stress experienced by buydown participants suggests that:

- The buydown program is not well targeted toward those farmers that have the most adverse financial situations and need state assistance the most.

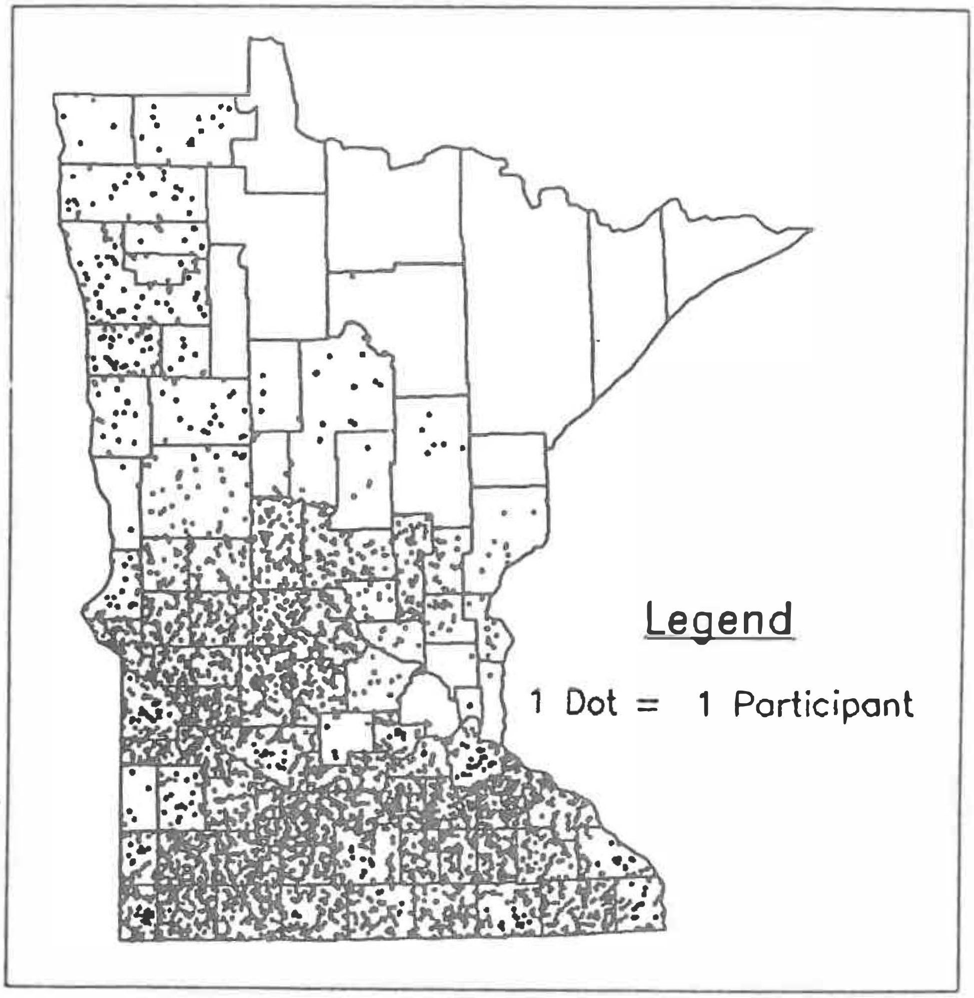
We conclude the debt-asset ratios alone are not reliable indictors of financial stress. They do not reflect current profitability or total net worth, and they can over- or under-estimate the financial hardships experienced by farmers.

It was originally hoped that Minnesota's interest buydown program would provide increased access to credit for farmers, while at the same time subsidizing financially stressed farmers' incomes until they could restructure or adjust to the new farm economic conditions. However, we found that:

- The interest buydown program is not accomplishing its goal of insuring access to credit.

Bankers told us that those farmers in the program would have received operating loans regardless of whether they received an interest subsidy. Indeed, the program allows participating farmers to receive subsidies for pre-existing loans, and we found many examples of such cases in the loan files.

Of course, the interest subsidy did help participants lower their production costs and therefore raised their net income by the amount of the subsidy. However, we conclude that the average 1987 interest subsidy of $1,258 will not significantly affect whether participants remain in farming. Likewise, although 28 percent of the participants had restructured their farming operations, bankers told us that the interest subsidy was not large enough to be a significant factor in that decision.



Interest Buydown Program
Number of Participants by County
1987

Program Administration.

Whatever its other shortcomings, Minnesota's interest buydown program is relatively simple for the state to administer. The Department of Commerce is responsible for program operation, including making payments to lenders and general financial control. Under the terms of the program, the lender selects clients meeting the eligibility criteria, prepares applications, and processes the loans.

The buydown program's simplicity and speed of administration produce several advantages:

- Farmers receive prompt assistance.

- Lender participation is encouraged by the department's quick turnaround and the minimal paperwork and verification required.
- State administrative costs are low.

But the approach also has disadvantages:

- Requiring the bank to share in subsidizing the farmer reduces lender participation, limiting the state's ability to ensure that eligible farmers have access to the program.
- Because the lender determines who can apply, the state has no direct control over who receives the subsidy, and little ability to ensure that assistance will be available where it is needed.
- The lack of verification and the limited review by the Department of Commerce weakens the state's ability to deter program abuse.

Without review, farmers can be certified for participation in the program even though they may not meet eligibility criteria. We found seven cases in our sample of 239 where farmers' financial statements showed a debt-asset ratio less than 50 percent, indicating the farmer may not have been eligible for the program.

Also, despite a requirement that the lender assess the current financial condition of the farmer, in 12 cases the most recent financial statement reflected the farmer's previous operating cycle and many were over a year old. Because eligibility is declared by the lender with no review by the Department of Commerce, questionable practices concerning eligibility or program administration may currently go undetected.

Discussion and Recommendations.

The decision facing the 1988 Legislature is whether to continue this program for another year. Approximately $14 million remains from previous years. Some legislators have suggested that the programs should continue, but they ask whether changes are necessary. Others wonder if the remaining funds might be put to better use in other programs, either in rural Minnesota or statewide.

If the Legislature chooses to continue the interest buydown program, changes should be considered in the targeting of the assistance, the delivery system, and in the program's administration.

Specifically, the program could be better targeted by:

- requiring a cash flow test, and/or
- including a net worth limit.

Including these factors as criteria for eligibility would better ensure that state aid was directed toward those farmers who are most in need of help.

In addition, we believe that as the general farm economy improves, lenders will be increasingly reluctant to participate in the program. Less lender participation may mean that some financially stressed farmers are unable to receive the program's benefits. Increasing the state-paid portion and decreasing the lender portion of the subsidy might increase the lenders' willingness to continue the program. If this step is taken, the Legislature may choose to require lenders who participate to extend the program to all farmers who meet the eligibility criteria.

In addition to changes in eligibility, several administrative reforms should also be considered. We believe that several simple steps could help to minimize program abuse and at the same time keep administrative costs low:

- Bankers' eligibility decisions should be based on current financial statements.
- The Department of Commerce should review a random sample of program participants annually to ensure that eligibility criteria are being observed.
- The Department of Commerce should collect at least a minimal set of information about the characteristics of those participating in the program. This would allow the Legislature and others to assess the program's success.

In considering whether to continue the program for another year, it is important to know what the prospects are for current participants. In general, we found that farm incomes are higher, land prices appear stable, and the income projections for most 1987 buydown participants are up. We found that cash flow estimates for 1987 participants showed that about 75 percent will be able to meet all their debt obligations and family living expenses in 1987.

Given these improved prospects, the Legislature may decide not to renew the program and to use the funds remaining from previous years for another purpose. If the goal is to channel some state funds into rural Minnesota (which has been generally affected by the farm income downturn), there might be better alternatives through the use of the tax system or some other program targeted at rural areas of the state.

GREATER MINNESOTA CORPORATION ACT

INTRODUCTION

The Greater Minnesota Corporation Act is potentially one of the most significant initiatives ever undertaken in Minnesota to promote long-term economic growth and to assure that Minnesotans will have job opportunities in the industries of the future. The Corporation was established to promote job creation through investments in applied research, technological innovation and new products.

Unlike traditional state economic development activities, the Corporation has a long-term perspective. Together with post-secondary institutions, regional research centers and business organizations, the Greater Minnesota Corporation will make investments in targeted research and development activities. It will link the applied research activities at leading colleges and universities throughout the state with entrepreneurs and investors whose knowledge and skills will tranform the results of research into marketable products.

The Corporation is authorized to operate throughout the entire state. However, because of the pressing needs for economic diversification in rural areas and communities outside of the Twin Cities metropolitan area, the Corporation will focus much of its activity on research and investments designed to improve the economy of "Greater Minnesota."

In promoting long-term economic growth, the Corporation may employ a variety of methods which are truly state-of-the-art. The Greater Minnesota Corporation Act draws from and improves upon the experience of the most successful programs already operating in other states. By giving the Corporation, not only effective tools, but wide latitude in determining their application, the Legislature has created an organization which can have a significant impact on the future direction of the State's economy.

Some of its most significant tools include:

Corporate Structure and Governance

The Corporation is not a state agency, but a "public corporation" governed by an 11-member board of directors. The governor will initially appoint board members, and the board will make subsequent appointments. All appointments are subject to Senate consent. The board will also appoint a president, set compensation and establish overall corporate policies. By law, its meetings must be open to the public, except when the board discusses the financial, trade-secret or other, related information of an applicant for board assistance. To provide for further public accountability, the board must engage a certified public accounting firm to conduct annual independent financial audits in conformance with generally accepted accounting principles. Moreover, the Corporation is subject to audit by the Legislative Auditor. In other aspects, it will operate much like a business corporation provided that it may not issue stock or bonds.

Methods to Promote Applied Research

The Corporation will promote applied research leading to new products, businesses and jobs throughout the state. Its activities may include:

Research Financing

It may finance applied research in partnership with private businesses, colleges, universities and other post-secondary educational institutions in the state. Research assistance includes:

Matching grants to post-secondary educational institutions and;

Contract research with public or private research institutions.

On-Site Research

The Corporation may also construct, own and operate its own research centers. This on-site research capability will enable it to respond swiftly to changing priorities and emerging applied research needs.

Regional Research Institutes

The Corporation may establish up to four Regional Research Institutes to be located near a Minnesota post-secondary educational facility. The Agricultural Utilization Research Institute will be one of the four regional institutes. Located in an agricultural region of the state, it will research and develop new uses for Minnesota's farm commodities. Its directors will represent major commodity, farming and agri-business organizations. The regional institutes will:

Coordinate applied research with education institutions;

Perform contract research for individuals, businesses and other organizations; and

Make product development grants.

Methods to Promote Product Development

The Corporation's mission also includes transfer of technology and investments in new products and businesses including equity investments, loans or other investments. Such investments may be made directly by the Corporation's board or, at its discretion, through a financing subsidiary to be known as the Greater Minnesota Finance Authority. If created, this authority must include the president and one other member of the Corporation, and five other persons knowledgeable in business development, finance, banking, and venture capital. The board will establish standards for its investments.

Equity Investments

Effective July 1, 1988, and after the Corporation has submitted its equity investment policies to the governor and the legislature, the Corporation may make direct investments in order to nurture new products and enterprises. While the Corporation may make equity investments in existing or new businesses, its equity investments are expected to concentrate on new products and ventures which have conducted research at the Corporation's research facilities. Such investments may include:

Equity ownership of stocks, stock options, or convertible debt;
Participation as a limited partner in partnerships including venture capital limited partnerships; and
Participation in joint ventures with private corporations.

Other Investments

The Corporation may also use other financing tools including:
Direct loans;
Insurance or loan guaranties;
Interest reductions, and
Participations in loans made by other lenders.

Funding

The Corporation will administer two funds:

The Greater Minnesota Fund, consisting of:
$6,500,000 from the state general fund; and
$2,000,000 from repayments of loans made by the former Minnesota Energy and Economic Development Authority (estimate).

In addition, the fund may receive half on any undesignated surplus in the state treasury in the 1988-89 biennium up to $120,000,000.

The Agricultural Project Utilization Fund, consisting of: $3,500,000 from the rural rehabilitation revolving fund for the Agricultural Utilization Research Institute.

Because the Corporation is in its formative stages, it must embark upon a strategic planning process which will enable it to most effectively use the tools and resources described above. In order to permit the Corporation to begin its planning effort as swiftly as possible, while permitting sufficient time for a thorough search for board candidates, the Corporation began interim operations in August. These interim operations were designed to permit initial planning and logistical activities to proceed during the period between the statutory effective date of the Act and the appointment of the initial board of directors.

For more information contact:

Greater Minnesota Corporation
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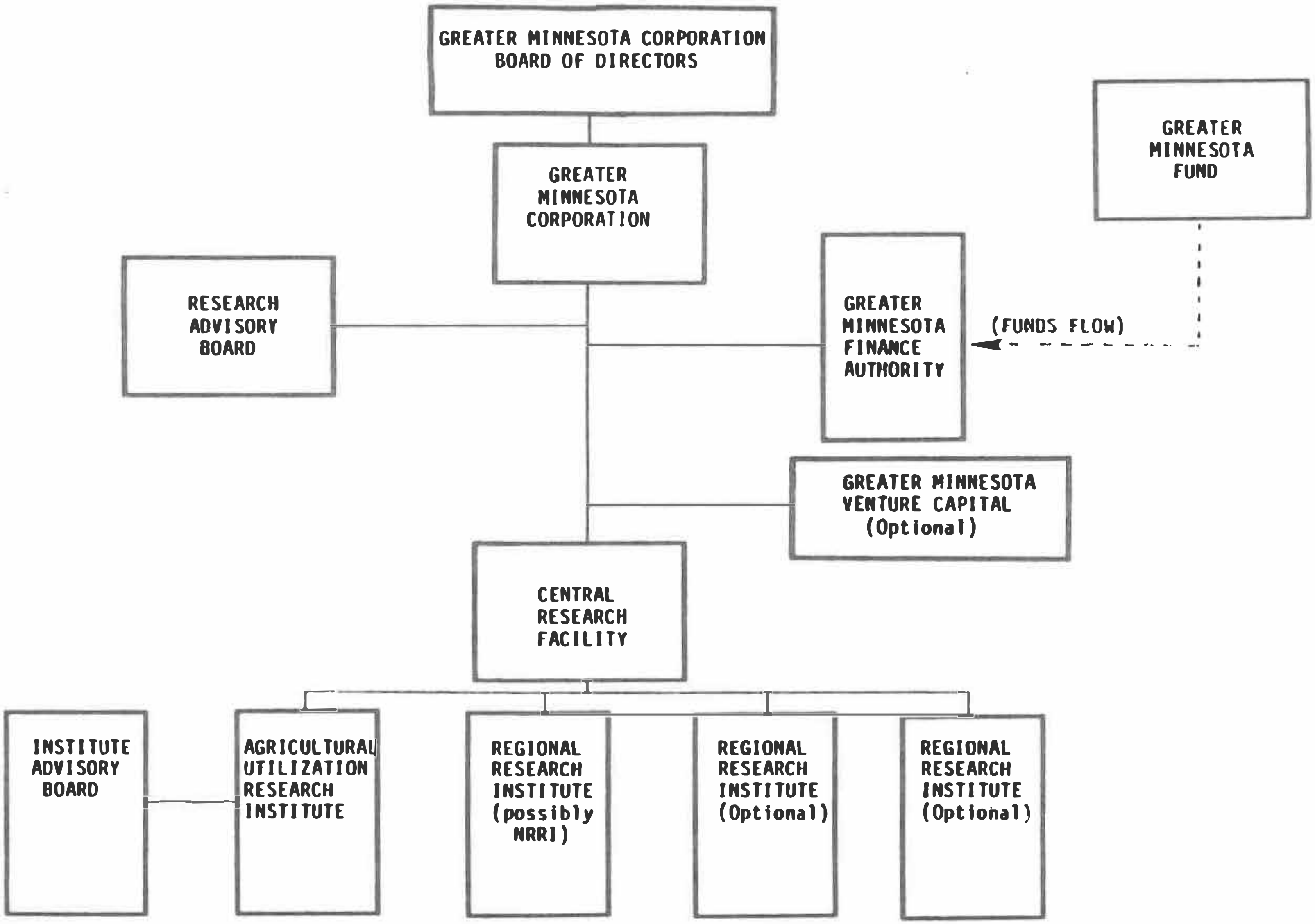
Suite 440
900 Second Avenue South
Minneapolis, Minnesota 55402
(612) 347-9292



GREATER MINNESOTA CORPORATION CORPORATE STRUCTURE

AGRICULTURAL CREDIT

TABLE 1

CHANGE IN FARM CREDIT ADMINISTRATION AGRICULTURAL LENDING PICTURE[1/]

SUMMARY DATA - June 30, 1986 vs. September 30, 1987
PRODUCTION CREDIT ASSOCIATIONS OF MINNESOTA

	Number		Change	Volume		Change
	09/30/86	09/30/87	%	09/30/86	09/30/87	%
Loans Outstanding	8,209	7,861	- 4.2	463,743,000	417,592,130	-10.0
Delinquencies	847	707	-16.5	65,673,000	57,752,717	-12.1
Bankruptcies in Process	102	38	-62.7	7,856,418	2,922,465	-62.8
Foreclosures in Process	30	28	- 6.7	4,134,388	3,015,012	-27.1
Foreclosure in Bankruptcy[2/]	18	9	-50.0	1,537,682	1,109,856	-27.8

FEDERAL LAND BANK ASSOCIATIONS OF MINNESOTA

	Number		Change	Volume		Change
	09/30/86	09/30/87	%	09/30/86	09/30/87	%
Loans Outstanding	26,231	23,977	- 8.6	2,094,257,000	1,693,991,250	-19.1
Delinquencies	4,423	2,506	-43.3	89,215,000	270,811,899	+203.5
Bankruptcies in Process	178	126	-29.2	23,628,572	12,770,668	-46.0
Foreclosures in Process	1,195	992	-17.0	177,393,482	116,713,444	-34.2
Foreclosures in Bankruptcy[2/]	22	56	+154.5	3,674,497	7,018,527	+91.0

1/ Source: Seventh District Farm Credit Administration Quarterly Reports.

2/ Represents foreclosures that were initiated and then went into bankruptcy.

TABLE II

CHANGE IN COMMERCIAL BANKS AGRICULTURAL LENDING PICTURE[1/]
Top 100 Banks in Agricultural Lending

(Dollar Amounts in Thousands)

	03/31/86[2/]	03/31/87	% Change
Total Agricultural Loans	$9,053,602	$8,238,448	- 9.00
Gross Interest Income Farm Loans	181,276	139,206	- 23.21
Chargeoffs on Farm Loans	68,125	81,781	+ 20.05
Bad Farm Loans	779,657	1,341,599	+ 72.07

(Bad Loans: At least 90 days past due, not accruing interest, or is renegotiated.)

1/ Source: American Bankers, November 13, 1987.

2/ Note that 1986 data are restated for mergers occurring in 1987.

CHANGES IN AGRICULTURAL CREDIT

Agricultural credit was for many years relatively stable; however, recent economic and farm policy changes have brought fluidity to the credit picture.

Table 1 summarizes the changes in both number of loans and dollar amounts that have taken place over a 15-month period in the Production Credit and Federal Land Bank Associations of Minnesota.

Table 2 shows the changes that have occurred in the Commercial Banks Agricultural Lending Picture for the top 100 banks, nationwide, that are in the agricultural lending business.

Information on the Minnesota properties held by Farm Credit Services and the Farmers Home Administration are shown in Table 3 and 4.

For More Detailed
Information See
Appendix H
Under Separate Cover

ACQUIRED PROPERTIES

TABLE III

FARM CREDIT SERVICES
as of November 30 of Each Year

REGION	Number of Properties		Number of Parcels		Number of Acres		Net Investment Amount[1/]	
	1986	1987	1986	1987	1986	1987	1986	1987
Mankato	219	340	309	424	30,695	41,736	$ 23,061,321	$ 25,224,886
Minnesota Valley	115	177	200	272	23,189	34,132	13,304,443	13,563,881
St. Cloud	97	128	99	170	21,971	27,922	11,237,078	11,633,780
Southeast	233	199	339	255	44,716	30,286	26,715,520	12,692,214
Southwest	151	134	184	166	24,532	21,045	15,489,477	9,858,471
West Central	74	163	77	267	24,612	46,212	12,016,153	16,131,577
Totals	889	1,141	1,208	1,554	169,715	201,333	$ 101,823,992	$ 89,104,809

FARMERS HOME ADMINISTRATION
as of August 1 of Each Year

REGION	Number of Properties		Number of Parcels		Number of Acres		Net Investment Amount	
	1986	1987	1986	1987	1986	1987	1986	1987
Statewide	168	133	----	----	45,737	35,536	$22,920,000	$14,200,000

1/ Farm Credit Services investment in properties.

For More Detailed
Information See
Appendix H
Under Separate Cover

TABLE IV

FARMERS HOME ADMINISTRATION
MINNESOTA INSURED ACTIVE BORROWERS*

1.	Number Active Borrowers	16,487
2.	Amount Unpaid Principle Outstanding (Active Borrowers)	$1,092,713,000
3.	Number Borrowers Delinquent (of Active Borrowers)	6,403
4.	Percent Active Borrowers Delinquent (3 ÷ 1)	39
5.	Amount Unpaid Principle Outstanding (by Delinquent Borrowers)	$492,210,000
6.	Percent of Unpaid Prinicple Outstanding (5 ÷ 2)	45
7.	Amount Unpaid Principle <u>Delinquent</u>	$222,409,000
8.	Percent of Outstanding Principle Delinquent (7 ÷ 5)	45
9.	Percent of Unpaid Principle Outstanding (7 ÷ 2)	20

* Source: USDA/FmHA Form 389-375-A, Report Code 616, Pg. 1873.

For More Detailed
Information See
Appendix H
Under Separate Cover

MINNESOTA FARM SECURITY PROGRAM

Legislation establishing this program was passed in 1976. The first applicants were approved into the program in March, 1977. From then through 1985, 489 applicants were recommended by the Advisory Council to the Commissioner for approval.

The program was placed on hold as of January 1, 1986. This condition was extended for the 1987-89 biennium.

On December 1, 1987, there were 309 participants in the program with an outstanding loan balance total of $35,949,348.

The first loan default occurred in 1980, followed by one in 1981, one in 1982, and six in 1983. The majority of these were caused by other than economic conditions, i.e. divorce.

The economic conditions facing Minnesota agriculture since the early 1980s is shown with eight defaults in 1984, 27 in 1985, 46 in 1986, and 37 through November 1987. Approximately $22.1 million has been paid out in defaults to December 1, 1987.

From July 1, 1986 through September 30, 1987, seven properties acquired by the state through default have been sold for cash. The guarantee payoffs for these seven properties came to $1,110,499 with the state recovering $457,300 through the cash sale of the properties. There is no question that quality made a difference in the amount of recovery. The poor quality properties returned in the 25 percent of pay out range while the sale of good properties recovered 50-60 percent.

One poor quality property was sold on contract for $32,000. Pay out on this property was $76,275. There was also one default case where two contracts for deed were under the same guarantee. The participant decided to continue making payments on the one contract, which had a balance of $49,308. Guarantee pay out on this contract was $45,395.

The 1985 Legislature passed an amendment to the law which provided that any seller who would agree to reduce the principal balance of the contract on the program by a minimum of 10 percent, the state would amend the guarantee from the original 90-percent level to 100 percent. 91 cases have been fully processed by December 1, 1987, with one still in progress. The average contract reduction was over 15 percent.

For More Detailed
Information See
Appendix I
Under Separate Cover

REINVEST IN MINNESOTA (RIM) PROGRAM

The Reinvest in Minnesota Program (RIM) was instituted in 1986. It is made up of a variety of different programs including RIM Reserve, administered by the Department of Agriculture.

There are three programs within RIM Reserve: Marginal Ag Lands, Wetlands Restoration, and Living Snowfence. They are designed to help restore Minnesota's natural resources through erosion and sediment control, wildlife habitat restoration, and water quality improvement.

Marginal Ag Lands

Almost 2.5 million acres of Minnesota farmland are subject to high erosion rates. RIM Reserve Marginal Ag Lands program pays farmers to take this land out of production.

Marginal Ag Lands complements the Federal Conservation Reserve Program by offering landowners 20 year or permanent easements. Payment is based on local cash rental rates.

Permanent cover must be established on the enrolled land to reduce erosion, improve water quality, and develop and enhance fish and wildlife habitat.

To date, approximately 21,000 acres have been enrolled in the RIM Reserve Marginal Ag Lands Program, but the Minnesota Department of Agriculture estimates that an additional 800,000 to 1,000,000 acres are eligible.

By protecting our precious topsoil from erosion, RIM Reserve enhances Minnesota's agricultural industry and creates wildlife habitat, benefiting farmers and sportsmen alike.

Wetlands Restoration

During the 1970s, increased grain exports and high grain prices encouraged farmers to plant fence row to fence row. Thousands of acres of wetlands were drained and cultivated, decreasing wildlife habitat and creating water quality problems.

The RIM Reserve Wetlands Restoration Program pays landowners to restore their previously drained wetlands. It offers landowners perpetual easements, reimburses the cost of cover seeding and helps pay for any structures needed to restore the wetland. Wildlife groups may also help fund restoration efforts.

A unique and exciting program, RIM Reserve Wetlands Restoration benefits farmers by paying them to retire land that in rainy years may be too wet to farm, letting them focus their management efforts on better land.

It benefits sportsmen by creating wetland habitat, increasing wildlife numbers and improving tourism and hunting opportunities.

And lastly, Wetlands Restoration benefits all Minnesotans by helping control sedimentation and erosion, reducing flood damage, and improving water quality.

Living Snowfence

Wind erosion is a serious problem in areas of the state that do not have natural forest cover. The third RIM Reserve program, Living Snowfence, encourages landowners to plant windbreaks along highway right-of-ways, decreasing snowdrift, lessening wind erosion, and providing valuable wildlife habitat.

The windbreak must be within 300 feet of the edge of a state or county highway right-of-way and have a minimum of six rows of trees and shrubs. RIM Reserve pays for perpetual easements and pays up to $300 an acre for planting trees.

Living Snowfence provides winter roosting habitat for pheasants, nesting habitat for songbirds, and travel lanes for deer and other wildlife.

It cuts winter highway maintenance costs by reducing drifting snow and lessens the effect of wind erosion on valuable topsoil.

The RIM Reserve Program is the only one of its kind in the country. It unites farmers, sportsmen and other conservationists in preserving Minnesota's natural heritage for future generations.

1987 RIM Reserve Program Accomplishments

Two new options were added to the RIM Reserve Program in 1987: Wetlands Restoration and Living Snowfence. These two programs, along with Marginal Ag Lands, made up the 1987 RIM Reserve Program.

A two-week sign-up for Wetlands Restoration and Marginal Ag Lands was conducted in October. Over 400 applications were received statewide requesting approximately $5.5 million ($4.5 million was available). Nearly 60 percent of the applications were for perpetual easements, including 107 applications to restore drained wetlands.

The sign-up deadline for the Living Snowfence Program is March 1988 in the following nine pilot Soil and Water Conservtaion Districts: Lyon, Blue Earth, Watonwan, Lincoln, Nobles, Cottonwood, Mower, Stevens and Morrison.

For More Detailed
Information See
Appendix J
Under Separate Cover

FARM ADVOCATE PROGRAM

The legislature created this program in 1984 to provide financial advice and counsel to Minnesota farmers. Some farmers in financial crisis were experiencing an FmHA operating loan backlog and needed information and assistance to facilitate loan processing. The program was expected to last only through the spring of 1984. However, as the financial crisis continued to deepen, the need to continue the Farm Advocate Program became apparent. The legislature continued the program during the 1985-87 biennium.

The program's purpose is to create farmers' awareness that information is available with which they can help themselves to resolve their current financial problems and to avoid future problems. Advocates provide farmers' with information about borrowers' financial and legal options, rights and responsibilities. They help farmers identify the type of information they need and where to find it. The Advocates assist farmers with loan preparation and debt restructuring for both mediation and other lender negotiations.

Farm families benefit from the Farm Advocate Program by receiving help in preparing financial statements, cash flows and loan applications for all types of lenders, preparing plans to restructure debt and negotiating with lenders inside and outside of mediation. Also, lenders and attorneys benefit from the financial paperwork that Advocates help farmers prepare. By serving an outreach function to service providers, the Farm Advocate Progam helps these providers to maximize their services to farmers.

The program continues to exist because farmers continue to seek information and assistance from the Farm Advocates on how to resolve financial problems; the advocates receive an average of three new clients per week. In addition to farmers' demand, the 1986 Mandatory Mediation Law states that a Farm Advocate will be made available to farmers to help them prepare for mediation. A total of 2,544 farmers had requested mediation in the first five months of the program.

The department anticipates the need for the program to continue at the present or an expanded level at least through the 1987-89 biennium. The category of financially stressed farmers - the Advocates' clientele - will continue to be large. According to the Minnesota Department of Agriculture's 1985 Farm Financial Survey, nearly 30 percent of Minnesota

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- Program Events
  - Waseca County notified on November 18, 1987, that their plan and ordinance, with minor modifications, were consistent with the law. The notification followed review by MDA, the State Planning Agency, the Board of Water and Soil Resources, the Department of Natural Resources, and the Pollution Control Agency. The county had 60 days from the date of notification to adopt these measures.
  - The other four pilot counties, Douglas, Kandiyohi, Wright and Winona, all submitted their plans and ordinances for review by the December 31, 1987, deadline. The Minnesota Department of Agriculture has 90 days from the date they were received to review and determine whether the plans are consistent with the law.
  - MDA staff prepared an informational brochure explaining the program to interested landowners. The brochure has been distributed to the pilot counties, and is used by MDA staff when inquiries are made about the program.
  - MDA staff prepared the forms necessary for the covenant process. These forms are now available for counties to use when their plans and ordinances are adopted.
  - MDA staff surveyed all 87 counties in the state to determine the number of mortgages and deeds recorded in 1986.

<u>FUTURE ACTIVITIES</u>

- The Minnesota Department of Agriculture will continue to review county plans and ordinance, provide assistance to the counties in setting up procedures for the administration of the restrictive covenants, and the preparation of draft reports to the legislature.
- MDA staff will be preparing the report to the legislature on the findings of the Pilot County Program required by 1987 amendments to the law. Information for this report will come out of the reviews of pilot county plans and ordinances, and from experiences from the planning process.
- MDA staff will monitor farmer participaton in the program, participation by non-pilot counties, and credit costs compared to fee revenues. This information will be summarized in future status reports. In addition, once landowners in the pilot counties begin

participation and receive property tax credits, interest from other counties will increase. This interest will require continued technical assistance from MDA staff.

- MDA is working towards developing the agricultural land preservation planning handbook for local governments and a report that would demonstrate the costs to local governments of non-farm rural land use developments, as directed by the 1987 law amendment.
- MDA staff will conduct surveys of county mortgage and deed recording levels, and collect other information relevant to the program for future status reports.

PLAN PREPARATION STATUS

As identified earlier, Waseca County's plan has been reviewed and found to be consistent with the law if minor modifications are made. The remaining four pilot counties all submitted their proposed plans and ordinances by the December 31, 1987, deadline.

Even before entering the program, Waseca County's non-farm residential density limit of no more than one-non farm dwelling for every 160 acres was one of the strictest in the United States. The plan prepared under this program strengthens the planning basis for that standard and eliminates some exceptions to that standard that currently exist. The plan also defines expansion areas around communities in the county and makes other improvements to the county's Agricultural Land Preservation Program.

OTHER IMPLEMENTATION ACTIVITIES

MDA staff have given presentations on the program at public meetings in all the pilot counties. MDA staff has also been in contact with pilot county staff and consultants to provide technical assistance and informational materials.

The American Farmland Trust, a Washington, D.C.-based, non-profit organization that advocates soil conservation and agricultural land protection, received a grant from the Bush Foundation to assist the MDA in providing technical assistance to the pilot counties. Robert Gray, president of the American Farmland Trust, is currently reviewing the proposed plans and ordinances of the pilot counties, and will be providing those counties with comments and suggestions.

FUNDING STATUS

Some pertinent estimates based on the twelve months of receipts, and assuming revenues remain constant, are shown below:

12 months' total revenue from the $3.00 fee. . . . . $ 725,393

Estimated 12 months' revenue from the $5.00 fee. $1,208,985

1987 Metropolitan Agricultural Preserves Property Tax Credit Cost. . $ 483,676

MDA staff will continue to monitor the status of the county and state funds, participation rates, and credit costs. Since landowners in the pilot counties will not be able to place the restrictive covenants on their land until the county adopts the plan and ordinance, estimates of participation rates would be very difficult. More information on these issues will be provided in future status reports.

For More Detailed
Information See
Appendix K
Under Separate Cover

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