

MINUTES OF THE HOUSE COMMITTEE ON AGRICULTURE AND SMALL BUSINESS

The meeting was called to order by Lloyd D. Polson at  
Chairperson

9:00 a.m./~~p.m.~~ on February 21, 1985 in room 423-S of the Capitol.

All members were present except: Representative Dean, who was excused.

## Committee staff present:

Raney Gilliland, Legislative Research Department  
Norman Furse, Revisor of Statutes Office  
Mary Jane Holt, Committee Secretary

## Conferees appearing before the committee:

Representative Mike Hayden  
Representative Max Moomaw  
Representative Harold Guldner  
Gary Ronnebaum, Axtell  
Jeff Conners, Agriculture Loan Officer, First National Bank, Centralia  
Roger Warren, Centralia  
Jim Maag, Kansas Bankers Association  
Bill Fuller, Kansas Farm Bureau  
Larry Davis, FmHA  
Ed Moore, Westmoreland Bank, Westmoreland  
Ren Shultz, State Director at Large, FmHA

## Hearing on H.B. 2405.

Raney Gilliland reviewed H.B. 2405 and distributed the fiscal note on the bill to the Committee (Attachment A).

Representative Mike Hayden appeared and testified in support of H.B. 2405 and urged a favorable consideration by the Committee on this bill. He stated there is a large amount of money currently available at the FmHA for operating loans in Kansas but because of a shortage of personnel the money may not be available to farmers until this summer or late fall without some assistance. The purpose of this bill is to provide compensation and subsistence to loan officers, both active and retired from Kansas financial institution to help FmHA process \$45,000,000 worth of agricultural loans by May 1 or June 1.

Representative Moomaw informed the Committee the purpose of H.B. 2405 is to speed up processing of FmHA operating loan applications, (Attachment B).

Representative Guldner testified in support of H.B. 2405. He feels this bill is not a solution to the farm problems, but it will help while a solution is being sought.

Gary Ronnebaum presented his testimony, (Attachment C) in which he outlined his difficulties with FHA.

Jeff Conners stated his bank in Centralia is an approved lender for FHA and they are in the process of submitting guaranteed loan applications to FmHA. He listed the difficulties with FHA forms and the shortage of loan officers.

Roger Warren stated he felt this bill would help with short term credit. He gave several examples of how far behind the FmHA supervisor in his county is with processing current application.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON AGRICULTURE AND SMALL BUSINESS,  
room 423-S, Statehouse, at 9:00 a.m./~~p.m.~~ on February 21, 1985.

Jim Maag testified in support of H.B. 2405 and urged the Committee to recommend the bill favorably for passage. The K.B.A. has already received 150 names of bank officers and employees, both active and retired, who would be able to assist FmHA in processing applications, (Attachment D).

Secretary Harland Priddle offered an amendment to the bill, amending line 0068 to allow the Secretary to enter into contracts to carry out the purpose of the act and the contracts shall not be subject to the competitive bid requirements of K.S.A. 75-3739.

Bill Fuller expressed the Farm Bureau believes this bill will hasten the processing of loans and stressed short-term relief must become available within 30 to 45 days or many farmers will not have the resources to plant spring crops, (Attachment E).

Larry Davis stated there are 40 county offices to serve all 105 counties in the state. They administer two major programs, single family housing and all types of farm programs, (Attachment F). In answer to questions, he explained the FmHA forms. He stated they can make operating loans to make federal land bank payments but they cannot refinance total indebtedness. There is a federal law that FmHA cannot accept free help from a profit organization or business, such as bank officers and employees. He did not know if the proposed amendment would change this.

Ed Moore stated it is difficult for farmers to get FmHA forms filled out, and if the FmHA is going to be a help to local banks, the regulations must be changed to make FmHA approve the loans. The FmHA is set up to be the lender of last resort. This should also be changed.

Ren Shultz commented farmers are minorities. This poses a big problem when getting changes made or things done for farmers.

The Chairman closed the hearing on H.B. 2405.

Representative Teagarden made a motion to amend H.B. 2405 on line 0068 as proposed by the State Board of Agriculture. The motion was seconded by Representative Clifford Campbell. A vote was taken and the motion passed.

Representative Neufeld moved to introduce H.B. 2405, as amended. Representative Buehler seconded the motion. A vote was taken and the motion passed.

Representative Apt announced the subcommittee which she chairs will meet in Room 423-S, Friday, February 22, at 9:00 a.m. for a staff briefing.

The Committee meeting adjourned at 10:40 a.m.

The next meeting will be Wednesday, February 27, 1985, at 9:00 a.m. in Room 423-S.



FISCAL SUMMARY INFORMATION

KANSAS STATE BOARD OF AGRICULTURE  
109 S.W. 9th Street  
Topeka, Kansas 66612  
Phone: (913) 296-3556

Bill Number: House Bill 2405

As Amended By: \_\_\_\_\_

Donald L. Jacka, Jr.  
Prepared By: \_\_\_\_\_

Assistant Secretary  
Title \_\_\_\_\_

February 20, 1985  
Date \_\_\_\_\_

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Agency Explanation of Estimated Fiscal Impact

NOTE: Use this section to explain the assumptions and rationale employed in determining the estimated fiscal impact of the attached bill. Please note if this bill's fiscal impact is contained, in whole or in part, in the Governor's Budget Report. (Use additional sheets as necessary.)

House Bill 2405 This bill would authorize the State Board of Agriculture to direct and coordinate a program with the Kansas Bankers Association and others with agricultural lending experience to assist the Federal Farmers Home Administration in the processing of backlogged farm loan applications. The bill would allow the Secretary of Agriculture to reimburse such participants for necessary mileage and per diem.

There are forty FMHA offices in Kansas. As of February 19, 1985 FMHA offices had 1,103 applications for credit guarantees for commercial loans and 1,818 applications for credit set aside. House Bill 2405 would allow for an average of one volunteer per office -- for a total of 40. These volunteers would work for a period of 60 to 90 days (average 75 days). Given these assumptions the projected costs of such programs would be: \$33,000 for mileage; \$90,000 for subsistence; \$105,000 for per diem. Additionally this program would require the additional hiring of one temporary Clerk Typist II for a four month period to process vouchers and assist in coordination. The cost of this position would be \$3,671. The total fiscal impact of this program would amount to \$231,671.

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(Continued on reverse side)

2/21/85

Attachment A

Summary of Estimated Fiscal Impact

	<u>1986</u>	<u>1987</u>	<u>1988</u>				
<u>Revenue Impact by Fund</u>							
-----	\$ -----	\$ -----	\$ -----				
-----							
Total Revenue	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>				
<u>Expenditure Impact by Fund</u>							
-----							
State General Revenue	<u>\$ 231,671</u>	<u>\$ -0-</u>	<u>\$ -0-</u>				
-----							
Total Expenditures	<u>\$ 231,671</u>	<u>\$ -0-</u>	<u>\$ -0-</u>				
<u>Expenditure Impact by Object</u>							
Salaries and Wages	<u>\$ 108,671</u>	<u>\$ -0-</u>	<u>\$ -0-</u>				
-----							
250- Travel & Subsistence	<u>123,000</u>	<u>-0-</u>	<u>-0-</u>				
-----							
Contractual Services	<u>\$ 123,00</u>	<u>\$ -0-</u>	<u>\$ -0-</u>				
-----							
-----							
-----							
Commodities	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>				
-----							
Capital Outlay	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>				
-----							
Total Operating Expenditures	<u>\$ 231,671</u>	<u>\$ -0-</u>	<u>\$ -0-</u>				
-----							
<u>Salaries and Wages Summary</u>							
Classification	Salary Range	No.	Amount	No.	Amount	No.	Amount
Clerk Typist II	7	1	3,388				
(Temporary 4 months)							
-----							
Per diem			105,000				
-----							
Total Benefits			238				
-----							
Total Salaries and Wages		<u>1</u>	<u>\$ 108,671</u>		<u>\$ -0-</u>		<u>\$ -0-</u>
-----							
<u>Capital Outlay</u>							
Item	No.	Unit Cost					
-----							
-----							
-----							
-----							
Total			<u>\$ -0-</u>		<u>-0-</u>		<u>\$ -0-</u>
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STATE OF KANSAS

MAX MOOMAW  
REPRESENTATIVE, 117TH DISTRICT  
HODGEMAN, LANE AND  
PARTS OF FINNEY AND  
NESS COUNTIES  
R R 2, BOX 45  
DIGHTON, KANSAS 67839



TOPEKA

HOUSE OF  
REPRESENTATIVES

February 21, 1985

COMMITTEE ASSIGNMENTS  
MEMBER EDUCATION  
ELECTIONS

Testimony before the House Agriculture and Small Business Committee

Mr. Chairman and Members of the Committee:

The purpose of HB 2405 is to speed up the processing of Farm Home Administration loan applications. Each year as spring work in Kansas starts, the Farm Home Administration receives many applications for operating loans. Due to lower land prices resulting from a depressed farm economy, I believe there will be a much larger than usual number of these applications this year.

When farmers go to their local banks for operating loans this spring, some of them will be told that they are no longer an acceptable risk and that they will have to seek outside loans for part or all of their operating money. In many cases whether they are able to put out another crop and harvest that crop will depend on whether their Farm Home Administration loan application is accepted.

If their loan application is accepted, very likely the local bank will fund part of their operating expenses with Farm Home Administration furnishing the other part. These people need to know now, or in the very near future, whether their loan applications will or will not be accepted.

2/21/85  
Attachment B

The problem we are trying to avoid is this, we already have too many farmers in the process of being closed out. If additional farmers due to depressed prices and cash flow problems fall in on top of the first category, we will see a continued depression of prices as more and more land and machinery comes on the market. This in turn will further decrease land and machinery values and cause additional cash flow problems for farmers who might otherwise survive.

I contacted the Farm Home Administration and Mr. Davis, the Kansas Director, said they were trying to locate retired persons with farm loan experience to put on as additional help. Rep. Guldner, Speaker Hayden, and I then met with representatives of the Kansas Bankers Association about the possibility of banks loaning some of their people to the Farm Home Administration on a voluntary basis to help process the applications and speed up the loan process. The Kansas Bankers Association contacted their members on this idea and received a very positive response.

I want to commend the banking industry. They know how serious this problem is and they stand ready to help. Representatives from the Farm Home Administration and the Kansas Bankers Association are here to testify today.

This bill allows the Kansas Department of Agriculture to coordinate this program and reimburse volunteer farm loan officers for mileage and per diem incurred in this volunteer work at a rate not to exceed the amount to be paid for mileage and per diem under K.S.A. 75-3223, which is the same statute legislators are compensated under.

Good Morning, my name is Gary Ronnebaum and I am a farmer from Axtell, KS. I am here to explain some problems I have run into with FHA.

My wife and I were married in 1973 and we moved onto our present farm and began our farming operation then. I had a small stock cow herd, which I started on my dad's farm when I was 12 years old. After we were married, I began farrowing sows and selling feeder pigs. As my sow herd grew and my pasture land was cleared for grain crops, my cow herd was sold off. From my start in 1973 until 1983, I produced 9154 head of feeder pigs in the same old buildings that the farmer before me farrowed 12 sows in, twice a year. These pigs were produced in addition to farming 400 acres of row crops. The buildings have only had minor low dollar modifications. In 1984 I quit farrowing, liquidated my sow herd and began finishing hogs in my facilities which consist mainly of dirt lots and portable sheds that I built myself. My wife now does most of the chores and much of the farm work, as I have had to take a full time job in a manufacturing plant to put food on the table for us and our three small children, ages 5, 4, and 2.

We agreed to buy our farm in March of 1976, but it took 11 months to get our FHA loan. We gave \$85,000 dollars for 160 acres with a house, corn crib, barn, and an old farrowing house, all in need of repair. I cut brush, tore out fences, repaired buildings and worked with the livestock for the next 12 years. The farm originally had 80 acres of cropland on it. I tore up the pasture, terraced, and waterwayed the farm to create 139 acres of cropland today.

We had a combination loan with Federal Land Bank & FHA. Federal Land Bank loaned us \$42,500.00 which included \$2,100.00 required stock, the interest was 8½% on a variable rate. FHA loaned us \$35,000, or 41% of the purchase price, at 5% interest and required that we come up with a \$11,000.00 down payment. They then came up with a farm plan in which they required us to fix up the house and buildings. The plan was financed by the \$11,000.00 that we had to borrow through the bank at current interest rates. The money was put into an FHA checking account on which we were required an FHA co-signature each time we wrote a check. We also received a \$6,000.00 FHA soil and water loan for clearing the land and building waterways.

My wife was working at the bank in Axtell until June of 1979, when she decided to quit and stay home to raise our family. We were making our payments, the crops were good, and interest hadn't yet begun to skyrocket. Then in 1980, we had a severe drought, interest was climbing and we were carrying \$90,000.00 debt load at the bank. The bank debt included crop expenses, machinery purchases, operating expenses, and

2/21/85 Attachment C



the \$11,000.00 down payment required by FHA. We decided to refinance our debt to attain an interest buy-down. We went to FHA for help and applied for a 5% emergency loan, available due to the drought. We received \$8,400.00 on the emergency loan. FHA then agreed to loan us an additional \$14,000.00 to reduce bank debt at 13.9% interest. Not wishing to acquire a loan at that high of fixed interest rate, we turned that loan down and went back to Federal Land Bank and they loaned us an additional \$36,000.00 at 12% interest. We applied the total amount to our bank debt. Nearly one third of the loan assumed by Federal Land Bank was the original down payment required by FHA.

After poor crops in 1983 and 1984, our bank debt has again climbed to \$75,000.00 from 14% to 18% interest. We paid \$21,000.00 interest in 1984, which is about the total value of all crops we raised in 1984 without any other production costs figures in.

This is the first time in our farming career that we have ever been delinquent on any payment. We are now delinquent at Federal Land Bank and FHA. We went to FHA to try to receive a real estate loan to assume part, or all, of our Federal Land Bank Loan and we were told that a real estate loan was 1½ to 2 years away if we qualified for it. Recently, we were told by the Marshall County office that our loan had been rejected because it is not a policy of FHA to refinance Federal Land Bank Loans.

We then contacted Bill Weber, the head of the FHA district office located in Manhattan. He echoed the excuse that it was not a policy of Kansas FHA to refinance a Federal Land Bank loan. He did say however, that they would refinance real estate loans from other lenders. He said that if they began to refinance Federal Land Bank loans farmers would be breaking down the doors to apply for FHA help. I feel that his statement illustrates the need in the farming community today, and FHA's in-effectiveness under present policies to address this need. I feel that if this is actually FHA policy, it is unfair and discriminatory toward Federal Land Bank borrowers.

A 6 or 7% reduction of interest on this \$80,000.00 loan, coupled with bank debt reduction, and extremely conservative management practices will make the difference between survival and failure for myself and many others caught in the same predicament. I feel that FHA is especially unfair in this case when \$11,000.00 of the Federal Land Bank loan is the original down payment required by FHA when we purchased our farm.

Theoretically, we would qualify for a 5% low resource loan to buy additional land today. However, we do not qualify for a low interest loan to keep the farm we already own under current FHA policy.

In the case of another local farmer I feel that this FHA policy is grossly unfair. This man worked for the local coop elevator for 5 years after serving in the war in Viet Nam. When he went to FHA to try to get a loan to buy his dad's farm, they refused him on the grounds that he was in too good of financial shape. He then went to Federal Land Bank and borrowed the full amount of the purchase price of his farm. With rising interest rates and a worsening farm economy, he is now delinquent two payments, with another payment due March 1st. If he doesn't come up with the money by March 1st, Federal Land Bank will begin foreclosure proceedings. This young farmer was awarded a medal while in the service for his part in saving a 3 million dollar US aircraft which had caught fire. He is trying to refinance a loan for less than \$650.00 per acre on land that was valued at \$1,000.00 per acre two years ago. With lower interest money this farmer can survive.

It is unbelievable that when this man risked his life for this country when it was in need, he now turns to the same government in his need and is turned down because of a simple policy of FHA. Unless immediate help is given, he along with his wife and four children will be forced off of their second generation family farm.

I feel that FHA needs to re-access their policies and their commitment to American agriculture. Too many times their loans are targeted at farmers who have no chance of survival, while those who could be successful with lower interest money can't qualify for their help. Today a low resource upstart farmer can go to FHA and get a loan for 100% of the purchase price of a farm, but those of us who are on the farms and have 10 to 15 years of our lives invested in them will not qualify for FHA help. In the Marshall County office alone 9 other young farm families in the same predicament as myself were turned down on their request for FHA assistance with the same reason given: that it is not a policy of Kansas FHA to refinance a Federal Land Bank loan.

Each day our interest keeps adding up, accelerated by the 2% default rate charged by Federal Land Bank. We obviously cannot wait 1½ to 2 years for FHA assistance. Without our help, bankruptcy may be the only way for my family and others in the same straits as us to salvage anything of 12 years of working, sacrificing and dreaming. I feel that it is imperative that Kansas FHA repeals this policy toward Federal Land Bank loans, and does it now!

I also hope that they can, and will, give farmers large enough loans that the reduction in interest is sufficient to get them on their feet, instead of the drop-in-the-bucket programs of the past, which just prolong the agony.

They also need to do everything in their power to expedite these refinancing loans to ward off a landslide of foreclosures on the most productive farmers in the world.

The time I have taken off work and the miles I have traveled to be here will be a small price to pay if they save the farms of my friends, even if my efforts don't result in saving my own.

Thank you Lloyd for inviting me here to speak my piece and thank you members of the committee for listening.



The KANSAS BANKERS ASSOCIATION  
A Full Service Banking Association

February 21, 1985

TO: House Committee on Agriculture and Small Business

FROM: James S. Maag  
Kansas Bankers Association

RE: HB 2405

Mr. Chairman and members of the Committee:

Thank you for this opportunity to present testimony on HB 2405. The provisions of this bill were an outgrowth of discussions between the Farmers Home Administration (FmHA) and Speaker Hayden and Reps. Guldner and Moomaw. In early February, these gentlemen requested that the Kansas Bankers Association work in conjunction with the legislature and the FmHA to provide names of active and retired Kansas bankers who would be willing to assist the FmHA in processing the backlog of operating loan applications which that agency has.

On the 11th of February, we sent an urgent message to all Kansas banks asking them to notify us of any bank officers and employees who might be available to assist the FmHA in this processing operation. We also requested that Kansas bankers give us names of any retired bankers who had experience in agricultural lending and who might be available to assist. The response has been both rapid and strong from banks throughout Kansas and we are happy to report that we have been able to give Mr. Davis at the FmHA the names of nearly 150 active and retired bankers who have indicated that they would be willing to assist in the program. We expect that additional names will be available before the end of the week.

We believe this strong response from Kansas bankers shows a real desire to try and work with those in the farming community to solve at least one part of many problems facing agriculture in this state and country. If we can continue this type of cooperation between federal agencies, the banking industry and farming communities we may well be able to overcome these present difficulties. We appreciate very much the legislative leadership's willingness to involve us in this program and we stand ready to continue our assistance to insure that the program envisioned in HB 2405 will be carried out successfully.

Once again, Mr. Chairman and members of the committee, we appreciate this opportunity to appear before you and comment on HB 2405 and we strongly urge the committee to recommend the bill favorably for passage.

2/21/85

Attachment D



**Kansas Farm Bureau, Inc.**

2321 Anderson Avenue, Manhattan, Kansas 66502 / (913) 537-2261

STATEMENT

of

KANSAS FARM BUREAU

to

HOUSE AGRICULTURE AND SMALL BUSINESS COMMITTEE  
Representative Lloyd Polson, Chairman

RE: H.B. 2405--Directs the Secretary of the State Board of Agriculture to coordinate a program in which persons with agricultural lending experience volunteer to assist the Farmers Home Administration in processing farm loan applications

by

Bill R. Fuller, Assistant Director  
Public Affairs Division  
Kansas Farm Bureau

February 21, 1985

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Mr. Chairman and members of the Committee:

We recognize that agriculture is in the depths of an economic crisis. As your Joint Senate/House Farm Crisis Committee recently held public hearings in Junction City, I took advantage of the opportunity to listen nearly eight hours as farmer after farmer explained the seriousness of the problems in rural Kansas. This sobering experience reinforced our belief that short-term relief must become available within 30-45 days--otherwise many farmers will not have the resources to even plant a spring crop.

Therefore, Mr. Chairman we express our support of H.B. 2405. We believe this proposed legislation will hasten the process of getting the \$45 million in FmHA funds which are available to financially strapped Kansas farmers. We commend the sponsors of this bill in involving the State of Kansas in this assistance for agriculture, the state's largest industry, in this time of economic crisis. We believe this program, staffed by volunteers, with agricultural lending

*Attachment E*  
*2/21/85*

backgrounds with compensation being only mileage and per diem will be a bargain and is an appropriate use of state funds. In fact we predict the state will be repaid many times over as a result of this modest investment.

I would like to report to you that on February 1, 1985, Kansas Farm Bureau President Doyle Rahjes invited state Farm Bureau presidents from Nebraska, Iowa and Minnesota to accompany him to Washington, D.C. to meet with Senate Majority Leader Bob Dole, Secretary of Agriculture John Block, and Under Secretary for U.S.D.A.'s Small Community and Rural Development, Frank Maylor. The delegation expressed the need for immediate action in addressing the farm economic crisis. They warned that the administration's debt restructuring plan is not meeting agriculture's needs—in part because of the huge backlog of FmHA loan applications. Frank Maylor, Under Secretary of U.S.D.A. with FmHA responsibilities, assured these state Farm Bureau leaders that he will transfer FmHA personnel from less impacted areas to midwest states where the farm economic crisis is most critical. It seems these personnel transfers will enhance the goals expressed in H.B. 2405.

In closing we do not believe support of this bill should be based upon one's approval or disapproval of FmHA's programs, policies or philosophies. Rather the fact is there are FmHA funds currently available that must be allocated to qualifying farmers immediately for the purchase of seed, fertilizer, fuel and other crop production costs this spring. Otherwise some crops will not be planted, farm bankruptcies will be accelerated and the farm credit system will be pushed even closer to collapse. Thank you, Mr. Chairman for the opportunity to express the support by the farmers and ranchers of the Kansas Farm Bureau for H.B. 2405.

FmHA serves all counties via 40 county offices, six district offices and one State Office. All of farmer program and single family housing loans are handled in the county offices. For the last three months, major emphasis has been placed on farm programs because the need to complete the debt set-aside analysis on FmHA borrowers and processing of operating loans. The set-aside program allows FmHA to set aside farm borrowers debt up to 25 percent not to exceed \$200,000 at 0 percent for five years.

At the present time we have 1,800 set asides left to do and over 1,100 operating loan applications. During February, 1984, to June 1, 1984, we received over 900 operating loan applications. I anticipate to receive over 1,000 applications in the next 90 days.

Kansas received a \$46 million operating loan and \$20.3 million farm ownership allocation for fiscal year '85. During fiscal year '84, we processed \$31.8 million in operating loans and \$24 million in farm ownership in the State, so it appears we have very adequate funds available.

We have about 30 contractors to assist us in getting our loans processed and we are continuing to let more contracts. In addition, this week I received authority to hire 48 temporary employees.

We support this committee's efforts to help FmHA process operating loan applications. I have some technical legal problems to work out, however, I believe this can be accomplished. This help could not make the credit decision for Farmers Home Administration, however, they could work with farmers in filling out the forms.

For your information, our interest rates are:

Operating loans	10.25	limited resource	7.25
Farm ownership	10.75	limited resource	5.25

2/21/85  
Attachment F