Approved February 27, 198
Date

MINUTES OF THE Senate COMMITTEE ON Agriculture.

The meeting was called to order by Senator Allen Chairperson at

10:00 a.m./p.m. on February 19, 1985 in room 423-S of the Capitol.

All members were present except:

Committee staff present: Raney Gilliland, Research Department
Jim Wilson, Revisor of Statutes Department

Conferees appearing before the committee: Bill R. Fuller, Chairman, Task Force

Senator Allen, Chairman, called the meeting to order. Senator Gordon made a motion the minutes of the February 13 meeting be approved. Seconded by Senator Warren. Motion carried.

Senator Allen introduced Bill Fuller, Chairman of the Task Force to reduce grain warehouse and grain dealer failures.

Mr. Fuller explained the study and recommendations of the committee. He emphasized: the need for required licensing for grain brokers and grain dealers, stricter and more inspections by the State Grain Inspection Department, increase awareness of insurance programs for farmers. Also penalties to fit grain crimes committed be imposed. Mr. Fuller stated the Task Force is willing to work with the Legislature on these recommendations. (see attachment A).

Senator Allen stated in the near future there would be some legislation introduced addressing these recommendations, and the committee would be glad to work with the Task Force.

Questions centered around: Would more frequent inspections reduce grain crimes? What can be done to make courts take action on grain crimes, eliminating plea bargaining, and to levy penalties to fit the crime? How to make sure bonding value equal value of grain in an elevator? Why are insurance programs for farmers not advertised and thus known about? Also the idea was expressed that grain inspectors should be trained to inspect books so as to help catch grain crimes.

Tom Tunnell, Kansas Feed and Grain Dealers, stated his organization endorsed these recommendations made by Mr. Fuller.

Senator Allen stated there would be more time for study and questions on these suggested recommendations at a later time. Senator Allen declared the meeting adjourned at 11:00 a.m.

GUEST LIST

COMMITTEE: SENATE AGRICULTURE

DATE: February 19, 1985

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
[illegible]	Ks [illegible]	Topeka
Gerald Riley	Brighton, Ks	Ks Ass Wheat Grower
Charles Bruner	Uniontown Kans	
Tom R Tunnell	Hutchinson Kansas	Kansas Grain Feed Dealers Assn
Rebecca [illegible]	Topeka	Committee of Farm Orgs.
Nancy Kantola	Topeka	Kansas Co-op Council
HOWARD W. TICE	HUTCHINSON	Ks. Ass'n of WHEAT GROWERS
Marsha J Hutchison	Hutchison	KS Grain & Feed Dealers Assn.
[illegible]	Statehouse	Wichita Eagle-Beacon

from Bill Fuller 2-19-85

FINAL REPORT

TASK FORCE . . .

TO REDUCE GRAIN WAREHOUSE & DEALER FAILURES

Prepared by:

Bill R. Fuller, Chairman

Frank McBride

Howard W. Tice

William R. Morand

February 8, 1985

2/19/85 attachment A

PREFACE

Grain producers in Kansas are facing record losses from grain elevators and grain brokerage firms filing bankruptcy. In fact, it is projected that one recent elevator failure in northeast Kansas alone will likely result in total losses greater than the combined losses of all failures since 1967 in Kansas. In addition, bankruptcies by three grain dealers is expected to cause even larger losses to farmers, elevators and truckers.

Even though the dollar losses in these recent failures is alarming, we must remember that Kansas has experienced few grain warehouse failures when compared to other states. During the last 19 years, Kansas has experienced 16 closings resulting from bankruptcy or receivership -- 0.8 failures per year.

1970 - 1980:

	United States	Kansas
Number Warehouses	6,322 (avg. 154/state)	700
Capacity	5.9 billion bu. (avg. 143,000,000/state)	515 million bu.
Failures	279 (avg. 2.8/year)	8 (avg 0.8/yr.)

Due to these recent grain elevator and grain brokerage firm failures in Kansas, the Kansas State Grain Inspection Department decided to convene a TASK FORCE for the purpose of discovering viable solutions to the problems at hand.

The economic repercussions from the bankruptcies were severe for the geographical areas involved and it became obvious some kind of remedial action is needed. Hopefully, the TASK Force could develop some practical proposals for submission to the Kansas Legislature for its consideration and subsequent legislative action! Those specific proposals or recommendations are set forth at the end of this report.

TASK FORCE MEMBERS:

Erwin Schrag, Jr., Alexander & Alexander, Inc.

Larry Holgerson, Holgerson Grain Dealers

Frank McBride, Evans Grain

C. L. Regini, Far-Mar-Co

Ivan W. Wyatt, Kansas Farmers Union

Don Epps, Chairman, Grain Advisory Commission

Bill Fuller, Kansas Farm Bureau

David W. Dewey, Wichita Bank for Co-ops

Jim Bair, Kansas Wheat Commission

Melissa Cordonier, Kansas City Board of Trade

Stanley Little, Farmer & Grange Member

Dwaine Liby, Pauline Farmers Co-op Elevator

Mike Beam, Kansas Livestock Association

Nancy E. Kantola, Kansas Co-op Council

Howard W. Tice, Kansas Association of Wheat Growers

Wm. R. Morand, Collingwood Grain, Inc.

John Larson, Cargill, Inc.

Tom Tunnell, Kansas Grain & Feed Dealers Association

Robert Batte, Bunge Corporation

Joe Gregg, Morrison-Gregg-Mitchell Grain Company

Wayne Johnson, Topeka Mill & Elevator (General Mills)

KANSAS GRAIN INSPECTION DEPARTMENT STAFF:

Marvin R. Webb, Director

Jack L. Sweeney, Assistant Director

Gary Bothwell, Grain Inspection Coordinator

Sam Reda, Chief Warehouse Examiner

Ron Scheibmeir, Warehouse Examiner II

TASK FORCE RECOMMENDATIONS

1. Increase Warehouse Examinations

   Currently, K.S.A. 34-228 reads:

   > Every public warehouse licensee shall be entitled to one complete examination of such licensee's warehouse by the department each year, without further costs.

   Recommendation: Amend K.S.A. 34-228 to read as follows:

   > Beginning October 1, 1985, the Kansas Grain Inspection Department shall examine each state licensed grain warehouse three times in every 24 month period with a minimum of one examination every 12 months.

2. Improve Kansas Grain Inspection Department Warehouse Examination Procedures

   Recommendation: Kansas Grain Inspection Department shall seek the assistance of other agencies, including but not limited to, the Office of Attorney General, Kansas Bureau of Investigation and the Office of Inspector General of the United States Department of Agriculture, to review warehouse examination procedures, train personnel and investigate criminal activities including fraud, grain embezzlement, computer crimes, false writings and other crimes which may be associated with the grain business.

3. Require Grain Buyer to Inform Sellers that Deferred Payment Contracts and Delayed Pricing Contracts are NOT Covered by Warehouse Bond

   Recommendation: A grain buyer should be required to inform sellers that Deferred Payment Contracts and Delayed Pricing Contracts are voluntary extensions of credit and are not protected by the warehouse bond. The contract shall include the following statement prominently displayed in not less than ten point, all capital type, framed in a box with space provided for the seller's signature:

"THIS CONTRACT CONSTITUTES A VOLUNTARY EXTENSION OF CREDIT PAYMENTS TO THE SELLER AND IS NOT PROTECTED BY THE WAREHOUSE BOND."
(must be signed by seller)

4. Increase Prosecution, Strengthen Penalties and Increase Sentences for Grain Crimes

The task Force . . .

* Insists on timely prosecution of individuals in crimes associated with grain warehouses and grain dealer firms.
* Recommends increases in penalties for crimes including embezzlement, grain embezzlement, fraud and false writings.
* Insists on sentences appropriate to the dollar losses as a result of grain business crimes.
* Recommends extending the current 2 year state statute of limitations to 5 years.

5. Increase Awareness of Insurance Programs

Recommendation: The Kansas Grain Inspection Department and farm organizations should increase the awareness of insurance programs which may be purchased by grain producers to provide protection from potential losses when dealing with grain warehouses and/or grain dealer firms. Two companies currently offer approved policies.

6. Examine Grain Dealer Firms

Recommendation: The Task Force suggests the legislature conduct public hearings to examine the problems and losses associated with grain dealer firms (brokers, truck buyers, other non-warehouse buyers) to determine the need for licensing, regulating and/or bonding.

7. Study FDIC-Type Program for Grain Warehouses

Recommendation: The Task Force encourages the legislature to conduct a preliminary hearing during the 1985 session to determine the feasibility and potential support for a state administered FDIC-type program for grain warehouses. If there is sufficient support, the Task Force believes an Interim Committee study be conducted.

8. Request State General-Fund Revenues

Recommendation: The Task Force requests the Kansas Legislature appropriate adequate general fund revenues for all expanded responsibilities of the Warehouse Division of the Kansas Grain Inspection Department. (Currently, Kansas is the only state which funds the department entirely by fees and without State general fund revenues.)

Creditors pursue claims against bankrupt grain dealers

VICHITA (AP) — Farmers, ickers, elevators and grain ading companies in six states are ying to collect about $7 million ow- them by three Kansas grain alers forced into bankruptcy court ring the past two months.

More than 400 creditors from Kan-s, Missouri, Nebraska, Colorado, w Mexico and Texas are pursuing ims against Fleming Grain Co. c. of Wichita, The Sandburg Co. c. of Overland Park and Midway ain Brokerage Inc. of Salina.

urt records show the claims in-lve both small and large opera-ns ranging from independent uck drivers to fleet trucking com-nies and small country elevators large nationwide grain giants ch as Cargill and Pillsbury.

Many of the creditors are owed oney by more than one of the now funct grain dealers. Goodland Co- Equity Exchange in Goodland is mewhat typical with a potential ss of about $285,000 because of oney owed it by Fleming and Sand-irg.

"Hopefully, we can show a profit offset that," said Alan Stewart, e co-op's manager. "It's a terrible ad."

The genesis of the crashes that led e the filing of the three involuntary ankruptcy cases was in late July hen Fleming's bank, Kansas State ank and Trust Co. of Wichita, froze s accounts. Fleming has reported a ebt of about $4.7 million. It admits wing $4.1 million to 85 elevators, rmers and grain merchants and ore than $600,000 for trucking, ading fees, supplies and services.

John Fleming, president of the year-old company, said its finan-ial problems "are quite a com-licated deal."

It is common for elevators and other grain merchants to "hedge" by selling grain they have purchased on the commodity futures market in an attempt to make a profit. In a hedge, the merchant has to pay his broker a percentage of the contract's worth, called a margin. If the contract's worth increases, then the broker issues a margin call requiring the hedger to pay more margin to keep the contract alive. Fleming was unable to pay its margin calls, according to company officials.

"The market went against us and the bank's bailing out was the big problem," Fleming said.

Court records show KSB&T froze Fleming accounts totalling $1.25 million on July 26. The company was $1.5 million in debt at the time, according to court records.

Word of Fleming's predicament spread quickly through the grain trade during August. The common practice of allowing a grain merchant 30 days or more to pay was abandoned.

"It created a shock wave out here in the country," Goodland Co-op's Stewart said. "Everybody got on the phone to companies that owed them money and said 'Pay us!'"

"It was like a run on the bank," said Richard M. Blackwell, the Salina lawyer who reptesents Midway. "All through August it kept happening. People kept coming in and asking for their money."

Sandburg foundered first. Its response to the involuntary bankruptcy case filed against it listed 172 creditors with claims totalling about $2 million. Some of the larger claims include First National Bank of Olathe, $546,884; the Goodland co-op, $155,276; grain merchants and elevator operators J. Lynch and Co. of Salina, $233,806; and Wright-Lorenz Grain Co. of Salina, $190,182.

Midway wrote its creditors a letter and asked them to hold off for 60 days. But 11 elevators filed state district court suits seeking about $265,000. Eventually, creditors also filed an involuntary bankruptcy case against Midway.

Blackwell said the company won't fight the case. He said Midway owes about 50 creditors around $500,000.

The people owed by the grain companies may eventually get part of their money, depending on the assets that can be liquidated in each case, lawyers for both sides said.

But the potential losses come at a time when there is fierce competition in the grain trade with each company's profit margins already being cut to the bone. In some instances, the creditors readily admit they were attracted to doing business with the three companies, none of which was more than 5 years old, because the firms offered as much as five or six cents a bushel more than older established dealers.

Once burned, the creditors and their colleagues who escaped the crash of the three companies have decided to be twice shy about doing business with grain dealers who don't pay as soon as they purchase grain.

Stewart said the Goodland Co-op like many co-ops, now tries to do business only within the co-op system. He said he deals with one other grain company, but it wires money before even picking up grain.

The memory of the problems with Fleming, Sandburg and Midway is going to affect trading patterns for years, Stewart said.

"With a depressed economy like we're having, I don't know what it's going to do to people," he said. "But I'm never going to forget about it.

"It's always going to be in the back of my mind."

The Kansas City Times
Business
October 11, 1984

Caution replacing trust in Kansas grain business

By Paul Showalter
Financial Writer

Two recent bankruptcy actions and a collection suit involving several Kansas grain dealers are causing alarm and changing the way dealers do business in the regional market, farm industry experts report.

At the heart of the controversy is the abrupt failure of two grain dealers, several million dollars worth of grain that was shipped but not paid for and a loophole in the law that leaves grain buying and selling unregulated in Kansas.

"There is a real crunch now," attorney Terry Bertholf said. He said grain owners are hard pressed to find reliable brokers through which to market their grain.

The Fleming Grain Co. Inc. of Wichita, with potential liabilities of about $4.7 million, closed its doors and consented to an involuntary bankruptcy suit in September. It now is being liquidated.

The Sanburg Co. Inc. of Overland Park, which has discontinued business and is the target of an involuntary bankruptcy suit brought by creditors last month, has alleged debt of about $2 million. Sanburg's response to the suit is due in a few days.

In a third case, creditors of the still active Midway Grain Brokerage Inc., which is affiliated with Midway Grain Co. Inc. of Salina, filed suit in Saline County District Court to collect more than $300,000. That amount is allegedly due on grain the company purchased but never paid for.

The Fleming Grain, Sanburg and Midway companies have done most of their trading in coarse grains used in livestock feeds, said Mr. Bertholf, who filed suit against Midway. He also represents a group of creditors in the Fleming Grain case.

In this smaller, more restricted market, grain dealers provide an important link between those who have grain for sale and customers such as feedlots and milling concerns, he said.

Transactions in this market are normally measured by the truck load rather than train load, and the very nature of the trading confines it to Kansas and nearby states.

Creditors of the troubled companies range from small grain farmers and country elevators spread across Kansas, Oklahoma, Colorado and Nebraska, to grain dealers registered with the Kansas City Board of Trade.

In the wake of the losses and amid fear of more failures, the business of selling grain through independent dealers is undergoing some hasty changes. Dealers who formerly struck their bargains by telephone and depended on good-faith credit are finding that trading increasingly is becoming a cash-and-carry business.

Goodland Cooperative Equity Exchange manager Alan Stewart, who may be stung for as much as $170,000 by the Fleming Grain and Sanburg failures, no longer makes grain transfers on credit outside of the cooperative system. Co-operatives are businesses, owned by farmer/members, that market their members' farm products as well as provide agricultural services and materials.

If a dealer wants to make a purchase, a bank draft for 90 percent of the sale price is required before shipment.

"I've been in this business since 1968," Mr. Stewart said, "and I've never seen anything like this before. It's terrible — we just came off a tough year. We think we'll get some of the money back from Fleming, but not from Sanburg."

Sellers of grain are very leery now, and they don't know with whom it is safe to do business, other co-op managers say. There sometimes have been problems with smaller truckers who deal in grain as a sideline, but now the problems are with established grain dealers.

Grain dealers are reticent to discuss the plight of their three colleagues, but legal and industry experts involved in the suits have developed several theories to explain the fiasco.

That Fleming Grain owes money to Midway has led some to speculate that there was a kind of domino effect. When one company got into trouble, it took the other with it.

Chris Redmond, the court-appointed trustee for Fleming Grain, said he had documents that revealed that the company had lost $2.5 million in the commodity futures market. He said the loss was more than the firm could absorb.

There is no question that Fleming Grain would still be in business if it had not suffered heavy losses speculating in the market, Mr. Redmond said.

A lawyer who agreed to speak only

See KANSAS, Page D-2, Col. 1

Kansas grain dealers' troubles stir fears in farming industry

Continued from Page D-1

if not identified said the Sanburg financial records were in such disarray that there was no way for the firm to know whether it was making money. The records are being reconstructed by bank auditors at the First National Bank of Olathe.

The problems among grain dealers have prompted industry representatives and state officials to take another look at possible licensing in the industry.

Kansas has a strict grain warehousing law, said Nancy Kantola of the Kansas Cooperative Council, the political arm of the state's farmer-owned cooperatives. But there is a critical need for a workable licensing law for grain dealers, too, she said.

Grain storage facilities are licensed, bonded and inspected periodically to guarantee that grain is actually on hand, she said. However, there are no controls to protect cooperatives or others from unscrupulous or financially troubled grain merchandisers.

"We've been trying to get these people bonded and regulated," she said. "There needs to be a way to separate the legitimate, licensed and regulated businesses from the other type."

Sellers of grain are very leery now, and they don't know with whom it is safe to do business, some co-op managers say. There sometimes have been problems with smaller truckers who deal in grain as a sideline, but now the problems are with established grain dealers.

The Kansas Grain and Feed Dealers Association — which counts among its 900 members the Fleming Grain, Sanburg and Midway companies — will be taking the issue of grain dealer licensing under advisement, according to Tom Tunnell, the organization's executive vice president.

The problem with other states' licensing laws is that they tend not to take into account the amount of trading a company does, Mr. Tunnell said. A fair bonding requirement should be based on a trader's volume of purchases, and even that could be expensive enough to put some grain dealers out of business, he said.

Missouri has licensing and bonding regulations for both grain warehousing and dealing. Dealers are required to show a certain net worth and are bonded according to a graduated formula. Bonds range from $5,000 to $150,000, depending on the amount of purchases the firm makes annually.

Kansas agricultural experts and state officials seem to agree on one thing — the level of protection afforded by licensing laws in adjacent states is hardly any protection at all.

The Nebraska law, for example, requires dealer bonding of $25,000, not enough to protect grain owners from the million-dollar losses recorded in Kansas.

There are indications that Fleming Grain bought grain in other states without bothering to meet bonding requirements, according to Steve Rhudy, an attorney for several out-of-state creditors in the case.

"I don't know what the answer is," said Ms. Kantola, "but I don't think we should license grain dealers to operate as they do now."

Kansas State Grain Inspection Department

	CAPACITY IN BUSHELS	STATE LICENSE FEE	STATE BOND
80	1 to 100,000	$ 250.00	$ 60,000
50	100,001 to 150,000	275.00	90,000
81	150,001 to 250,000	300.00	150,000
48	250,001 to 300,000	325.00	180,000
34	300,001 to 350,000	350.00	200,700
39	350,001 to 400,000	375.00	202,700
28	400,001 to 450,000	400.00	204,700
33	450,001 to 500,000	425.00	206,700
44	500,001 to 600,000	450.00	210,700
31	600,001 to 700,000	475.00	214,700
23	700,001 to 800,000	500.00	218,700
19	800,001 to 900,000	525.00	222,700
17	900,001 to 1,000,000	550.00	226,700
66	1,000,001 to 1,750,000	725.00	256,700
23	1,750,001 to 2,500,000	850.00	286,700
11	2,500,001 to 5,000,000	1,100.00	386,700
6	5,000,001 to 7,500,000	1,350.00	486,700
-0-	7,500,001 to 10,000,000	1,550.00	586,700
3	10,000,001 to 12,500,000	1,700.00	686,700
-0-	12,500,001 to 15,000,000	1,850.00	786,700
-0-	15,000,001 to 17,500,000	2,000.00	886,700
-0-	17,500,001 to 20,000,000	2,150.00	986,700

Over 20,000,000 bushels add $150.00 for each 2,500,000 bushels or fraction thereof.

Enclosed Bond
Formula for Kansas

* (No Maximum)

1 - 23,000,000
1 - 24,000,000
1 - 32,000,000

Federal -- U.S. Warehouse Act

CAPACITY	LICENSE	BOND
1 - 150,000	$ 250.00	$ 30,000
151,000 - 250,000	350.00	50,000
251,000 - 500,000	450.00	100,000
501,000 - 750,000	550.00	150,000
751,000 - 1,000,000	650.00	200,000
1,001,000 - 1,200,000	750.00	230,000
1,201,000 - 1,500,000	850.00	275,000
1,501,000 - 2,000,000	950.00	350,000
2,001,000 - 2,500,000	1,050.00	400,000
2,501,000 - 5,000,000	1,150.00	500,000
5,001,000 - Over	1,250.00 (Max.)	500,000 (Max.)

* Bond Amount Computed as follows:
.20¢ - 1st Million
.15¢ - 2nd Million
.10¢ - over above
with maximum of
$500,000

What if your son, wife, daughter, mother, or other member of your household owns some of the land that you farm and you deposit some of the grain produced in his or her name?

If the scale ticket shows an additional name of a member of your household, list that person as an "additional insured" in the appropriate section of your application/enrollment form.

Aggregate Loss Limit

The Grain Protector Insurance Policy provides that Farm Bureau Mutual Insurance Company of Michigan will not be liable for more than $5,000,000 of losses resulting from the failure of any one elevator nor for more than $25,000,000 in losses resulting from the failure of elevators during any single year. If the losses should exceed these amounts, payments would be prorated among the claimants using existing funds.

The Policy Exclusions:

- Coverage does not apply to Michigan Farm Bureau Members who have had an ownership interest or a management position in a failed grain dealer/warehouse anytime during the 12 months preceding failure; provided, however, that this exclusion does not apply where the dealer/warehouse is organized and operating as a cooperative and the member's interest in the cooperative is that of a member only.
- Grain is not covered if it was delivered for storage more than two years before the date of failure.
- Grain is not covered if it was delivered for sale more than one year before the date of failure.
- The policy only covers grain delivered for storage by or sales transactions with a licensed grain dealer/warehouse or, in the case of warehouse receipted grain, a licensed and bonded grain dealer/warehouse. Any other transactions are not covered.
- The policy does not cover a loss resulting from declared or undeclared war, insurrection, rebellion, or revolution or from reaction, radiation, or radioactive contamination.

Making your future a little more predictable

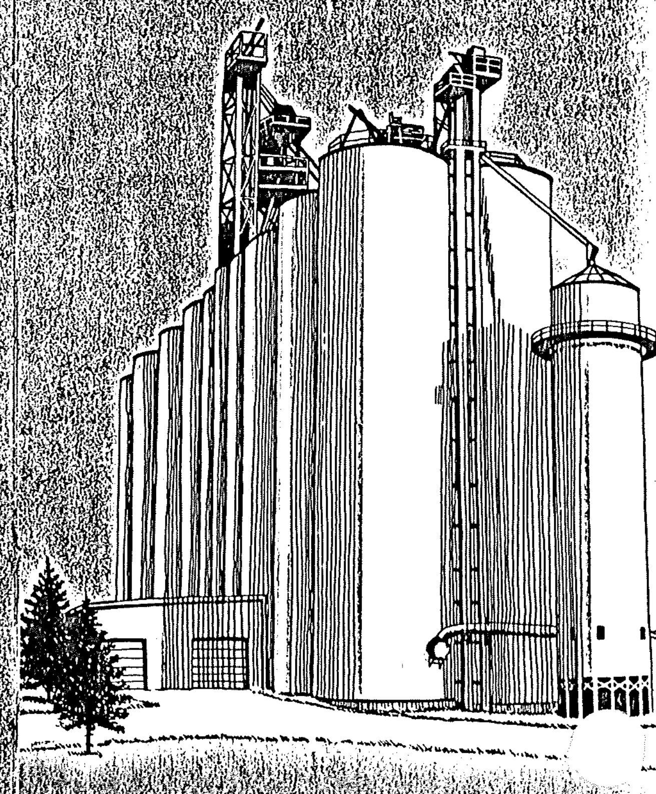
FARM BUREAU INSURANCE GROUP

FARM BUREAU MUTUAL • FARM BUREAU LIFE • FARM BUREAU GENERAL • FB ANNUITY

Grain Protector

Farm Bureau Mutual Insurance Company of Michigan

Affordable insurance protection against elevator bankruptcy available to Michigan Farm Bureau Members*



*If a minimum number of participants apply for the program.

Elevator Bankruptcy

A grain elevator is like any other business: its success depends on the soundness of its financial base and the effectiveness of its management. The stresses of troubled economic times can erode both of these essential elements. During 1981 and 1982, ten Michigan grain elevators declared bankruptcy.

The dollar losses to the hundreds of farmers who had stored their crops in these elevators exceeded $3,000,000.

These farmers believed in the stability of their grain elevators, but they discovered that even well-managed elevators can make mistakes which lead to bankruptcy. When an elevator failure occurs, the farmer may incur tremendous financial loss.

The Grain Protector

The Grain Protector Insurance Policy from Farm Bureau Mutual Insurance Company of Michigan provides protection for the farmer against financial ruin due to elevator failures. Farm Bureau Mutual believes that the benefits provided by this policy, coupled with its low cost, make it an essential farm management tool.

The Coverage

The following five levels of insurance coverage are available at the indicated annual premium:

Wheat @ $3.50 per bu.

	Insurance Amount	Cost @ bu.	*Annual Premium*	
7,143 bu.	$ 25,000	.0098	$ 70	or 9.8 Mills
14285 ..	$ 50,000	.007	$100	or 7 mills
28,572	$100,000	.0051	$145	or 5.1 mills
42,857	$150,000	.0043	$185	or 4.3 mills
57,143	$200,000	.00385	$220	or 3.85 mills

Grain produced in Michigan and PIK grain will be covered in the event of bankruptcy or insolvency of a licensed and bonded grain dealer within the State of Michigan or within 25 miles beyond its border (but within the United States). If the elevator is declared insolvent or if it loses or surrenders its license and its assets are taken over by a bankruptcy court or other a[illegible]d authority for distribution to the creditors, the l[illegible]vered.

The Grain Protector Insurance Policy covers a portion of the *ultimate net loss*. The ultimate net loss is the difference between the farmer's claim (as approved by a bankruptcy court or other approved authority) and the amount which is ultimately distributed to the farmer from the assets of the failed elevator.

Grain delivered for storage for which a warehouse receipt is received is covered for 80 percent of the ultimate net loss. Grain delivered for sale — whether for cash, delayed payment, deferred payment, or under a price-later agreement — is covered for 80 percent of the ultimate net loss for the first 90 days after delivery to the elevator. After 90 days, the coverage reduces by one percent each week until the coverage reaches a minimum of 65 percent of the ultimate net loss.

The farmer should purchase enough insurance to cover the maximum amount of grain to be marketed or stored in a season.

Examples

Let's assume that you purchase a Grain Protector Insurance Policy from Farm Bureau Mutual which provides $50,000 of coverage, that your grain elevator goes bankrupt within 90 days after delivery of your grain, and that you have a loss which amounts to $62,500.

Since the Grain Protector covers up to 80 percent of the ultimate net loss, you would receive a maximum of $50,000, which is 80 percent of the ultimate net loss. In this case, the total value of the Policy is the amount you would receive from Farm Bureau Mutual for your loss.

Let's look at the same $50,000 Grain Protector Insurance Policy under different circumstances. This time, you stored your grain at three different elevators in Michigan. One elevator went bankrupt, and you suffered a $30,000 loss. With the Grain Protector Policy, you would receive 80 percent of the ultimate net loss — $24,000.

You would receive an *advance payment* within 30 days of the time you file your proof of loss with Farm Bureau Mutual Insurance Company of Michigan. Your claim must include a copy of the filing which you made with the agency handling distribution of the assets of the failed elevator. The advance payment you receive will equal either 50 percent of the estimated net loss or 50 percent of the selected limit of liability, whichever is less.

You will receive any remaining amount due on the claim after the ultimate net loss is known and after the policy term has ended. If your ultimate net loss turns out to be less than the amount of the advance payment, then you must reimburse Farm Bureau Mutual for the difference.

The Policy is designed to protect you against catastrophic financial loss, not to protect every dollar. The Grain Protector Policy operates in much the same way as does a policy having a deductible — which helps to keep the premium low.

Time Limits On Coverage

When grain is delivered for storage and a warehouse receipt is given for the grain, it is covered for a maximum time limit of two years after delivery. When grain is delivered for sale, the maximum time limit is one year.

Grain that is delivered for storage before the Policy is issued is covered for two years from the date of delivery — if the elevator failure takes place during the policy term. Grain delivered for storage in one policy year is also covered in the next policy year, provided two years have not passed since the date of delivery and the policy has been renewed.

To be covered, the elevator failure must occur during the policy term. The Grain Protector Insurance Policy is a one-year term policy with an effective date of September 15.

What About...?

What about Payment-In-Kind (PIK) grain?

PIK grain is covered as long as you own the grain and have not yet received payment for it and it is stored in or sold to a licensed elevator located in the State of Michigan or within 25 miles beyond its border (within the United States).

What if you sell your grain to a local elevator but deliver it to a terminal?

Your grain is covered, provided the elevator from which you receive payment is licensed and located in the State of Michigan or within 25 miles beyond its border (within the United States).

Jim Suber

Kansas RFD

FDIC for elevators?

A real criminal investigation is underway in earnest in the Twombly Grain Company case at Troy and Highland, Neil Woerman, press spokesman with the Attorney General's office confirmed Thursday.

Woerman said that Kansas Bureau of Investigation detectives were in the field taking statements and issuing subpoenas. In general terms, the investigation is focusing on circumstances surrounding missing grain worth more than $2 million.

Incredibly, to some observers, criminal allegations against the owners of the grain company were made in writing in a foreclosure suit, and in a public hearing. New rumors have surfaced this week, and if there's any truth to them, the investigation will encompass a broad geographic territory from Kansas City to Topeka to Brown County through Doniphan and across the river into St. Joseph. . .

MEANWHILE, several people, including some political candidates, are toying with the idea of a grain elevator insurance fund based in principle on the insurance system used nationally with most banks.

Let's have a little fun and establish a make-believe insurance program for the grain elevator business, forgetting for the moment about how to get some safeguards against failures of non-warehouse dealers who are not bonded or otherwise bound by state warehouse laws.

Kansas had, as of June 1, 869 million bushels of commercial grain warehouse storage capacity, according to the records of the Kansas Crop and Livestock Reporting Service.

The FDIC levies a premium equal to one-twelfth of one percent of banks' deposits to operate a $15 to $16 billion fund. Of course, interest adds quite a bit.

Starting from capacity, let's say the state levied an amount against the same percentage used by the FDIC. That would yield a bushel capacity premium charge of 725,000 bushels.

I suppose one could then compute each warehouse's share of the premium bushels according to its percentage of the state's total capacity.

> A grain elevator insurance fund similar to protection for bank accounts is being discussed, but that step is fraught with problems.

Because grain varies in price so much among commodities and months and geography, let's assign an arbitrary $3 a bushel premium on the designated capacity percentage. That gives us a $2.175 million insurance fund, or almost enough to cover the Twombly Grain Company failure this fall in Doniphan and Brown counties.

About one such failure a year would be all the fund could stand.

Or, I suppose one could simply assess a figure against every bushel of storage space and come out however one wanted to. A penny would yield about $8.7 million.

Enter now the headaches of figuring out the fairness of such a program. Should a giant, stable company that operates several million bushels or more of capacity be asked to pay into a fund year after year to bail out the customers of other, less secure, but yet competitive firms?

Where would the cooperatives fit in? Should the farmers who own those pay to bolster the security of the competition? Would the federally-licensed warehouses cooperate with such a state program?

What about good years, when no elevator went bust? Would there be a ceiling on how high the fund should grow, as there is with the FDIC? Would the premiums be waived or partially offset after good years?

What agency would administer the program? How much would the program cost to administer? Should criminal penalties be stiffened to offset possible temptations of fraud to tap the insurance fund?

I don't know any of the answers to the above questions, or even enough to know the appropriate questions to ask. But I suspect there are some, and when the politicians are starting to propose this and that as a panacea, some answers will be forthcoming. . .

BASED on conversations over the years and including this week, it is clear that the state examination is a good one, better than most states'. Grainmen tell me the standards and procedures are rigorous, including thorough physical follow-ups of scale tickets and canceled checks, as well as physical measurements of grain in the tanks.

Of course, it's a lot more involved than that. Suffice it to say, the grain dealers say to conceal illegal activity from the state inspectors is possible, but it probably would require elaborate, detailed keeping of a bogus set of books over a long period.

It would take lots of planning and not a little skill to beat the system. Still, it is possible, and it has been done in past years.

Another way to beat the system, at least temporarily, would be to pay off an examiner. While that's probably within the realm of possibility, one certainly has to assume the chances of that are terribly remote. That's the kind of stuff you read about happening in Chicago or New Orleans.

It kind of goes back to the adage, "You can't legislate honesty."

Comparative Study of 573 Kansas Elevators
(379 Licenses) 505,189,112 Bushels
Kansas Warehouse Bond -vs- Federal Warehouse Bond
As Of January 1, 1985

NUMBER OF LICENSES	PERCENTILE RANGE FROM	PERCENTILE RANGE TO	CAPACITY RANGE LOW	CAPACITY RANGE HIGH	TOTAL BUSHEL CAPACITY	EXPOSURE (1)	TOTAL KANSAS BOND	TOTAL FEDERAL BOND	PERCENT PROTECTION KAN (3)	PERCENT PROTECTION FED	BOND PER BUSHEL KAN (4)	BOND PER BUSHEL FED
38	0%	10%	11,023	112,570	2,363,855	$4,751,349	$1,354,931	$768,539	28.5	16.18	$.573	$.325
38	11%	20%	112,766	218,101	6,043,010	12,146,450	3,444,513	1,424,006	28.4	9.95	.57	.20
95	0%	25%	11,023	257,043	12,899,274	25,927,541	7,360,119	2,875,623	28.4	11.1	.571	.222
38	21%	30%	230,714	301,481	9,896,175	19,891,312	5,640,820	1,763,831	28.6	9.95	.57	.20
38	31%	40%	301,565	436,553	13,961,828	28,063,274	7,443,989	2,792,366	26.5	9.95	.533	.20
94	26%	50%	258,287	547,119	37,363,365	75,100,364	18,124,764	7,472,673	24.1	9.95	.485	.20
38	41%	50%	436,848	551,105 (M)	18,548,876	37,283,241	7,808,638	3,709,775	20.9	9.95	.421	.20
37	51%	60%	563,804	785,278	24,183,309	48,608,451	7,848,050	4,836,662	16.6	9.95	.325	.20
95	51%	75%	551,105	1,190,878	79,556,808	159,909,184	20,848,980	15,828,994	13.6	9.90	.262	.199
38	61%	70%	788,675	1,014,732	34,217,833	68,777,844	8,435,396	6,841,427	12.3	9.95	.247	.20
38	71%	80%	1,021,719	1,356,361	44,712,372	89,871,868	8,855,178	8,606,856	9.9	9.58	.198	.192
95	76%	100%	1,192,866	49,832,291	375,369,665	754,493,027	32,681,494	33,401,592	4.3	4.43	.087	.089
38	81%	90%	1,366,561	2,141,624	65,489,715	131,634,327	9,686,272	11,688,815	7.4	8.88	.148	.178
38	91%	100%	2,145,136	49,832,291	285,772,139	574,404,279	18,497,568	17,146,605	3.2	2.99	.065	.06
379					505,189,112	$1,015,432,395	$79,015,357 (2)	$59,578,882	7.78	5.87	.156	.118

WHAT IF EXAMPLES

NUMBER OF LICENSES	KANSAS MINIMUM BOND $100,000 BOND AMOUNT	PROTECTION %	PROTECTION PER BU	KANSAS MINIMUM BOND $250,000 BOND AMOUNT	PROTECTION %	PROTECTION PER BU	KANSAS MINIMUM BOND $500,000 BOND AMOUNT	PROTECTION %	PROTECTION PER BU
38	$3,800,000	80	$1.61	$9,500,000	200	$4.02	$19,000,000	400	$8.04
38	3,906,194	32	.65	9,500,000	78	1.57	19,000,000	133	2.67
95	10,266,867	40	.80	23,750,000	92	1.84	47,500,000	183	3.68
38	5,640,820	28	.57	9,500,000	48	.96	19,000,000	107	2.15
38	7,443,989	27	.53	9,500,000	34	.68	19,000,000	68	1.36
94	18,124,764	24	.49	23,500,000	31	.63	47,000,000	63	1.26
38	7,808,638	21	.42	9,500,000	26	.51	19,000,000	51	1.02
37	7,848,050	16	.33	9,250,000	19	.38	18,500,000	38	.76
95	20,848,980	13	.26	23,750,000	15	.30	47,500,000	30	.60
38	8,435,396	12	.25	9,500,000	14	.28	19,000,000	28	.56
38	8,855,178	10	.20	9,500,000	11	.21	19,000,000	21	.42
95	32,681,494	4	.09	33,023,309	4	.09	52,504,241	70	.14
38	9,686,272	7	.15	9,775,740	7	.15	19,000,000	14	.29
38	18,497,568	3	.07	18,497,568	3	.07	24,004,021	4	.08
379	$81,922,104	8	.162	$104,023,309	10	.21	$194,540,241	19	.39

Footnotes
(1) Exposure based on $3.35 per bushel & 60% occupancy
(2) Bond costs: $125,000 At SAA Rates
$395,000 At $5.00 per 1 M
SAA Rates: First $10,000 - $5.00 per $1,000
Next $15,000 - $2.50 per $1,000
Over $25,000 - $1.25 per $1,000
(3) Percent protection - total bond ÷ exposure
(4) Bond per bushel - total bond ÷ total capacity
(M) Median Kansas license

KANSAS WAREHOUSE BOND
First 350,878 bu. - 57¢ per bu.
Additional bu. - 4¢ per bu.
Minimum bond - $10,000
Maximum bond - None

FEDERAL WAREHOUSE BOND
First 1,000,000 bu. - 20¢ per bu.
Second 1,000,000 bu. - 15¢ per bu.
Next 1,500,000 bu. - 10¢ per bu.
Minimum bond - $20,000
Maximum bond - $500,000

<u>LOSSES FROM 1966</u>

"Averages"
Licenses - 800
Capacity - 550,000,000

CAPACITIES				
287,092 Bu.	1.	(1967)	Farmers Coop @ McPherson	
			Producers loss -	-0-
			Bonding Company loss	$41,011.00
441,021 Courtland	2.	(1972)	Maher Grain Company - Courtland, Kansas	
557,632 Belleville			Producers loss --	-0-
175,986 Formoso			Bonding Company loss	$139,200.00
661,155 Bu.	3.	(1973)	Farmers Coop @ Victoria	
			Producers loss	$ 8,000.00
			Bonding Company loss	10,000.00
57,287 Bu.	4.	(1975)	Centerville Grain Company - Centerville, Kansas	
			Producers loss	$150,000.00
			Bonding Company loss	$ 30,000.00
165,799 Canada	5.	(1975)	Canada Grain Company, Inc. - Canada, Kansas	
75,137 Elmo			Producers loss	$ 97,000.00
41,222 Lost Springs			Bonding Company loss	$145,023.00
96,412 Lehigh				
224,214 Bu.	6.	(1976)	Dighton Grain Company - Dighton, Kansas	
			Producers loss	$ 67,180.00
			Bonding Company loss	-0-
155,602 Highland	7.	(1976)	Way-More Feeds, Inc. - Parsons, Kansas	
77,005 Emporia			Producers loss	-0-
2,314,197 Parsons			Bonding Company loss	$45,000.00
27,674 Bu.	8.	(1976)	Hepler Grain Company - Hepler, Kansas	
			Producers loss --	-0-
			Bonding Company loss	$ 10,900.00
171,385 Bu.	9.	(1980)	Collins Grain Company, Inc. - Kackley, Kansas	
			Producers loss	$120,000.00
			Bonding Company loss	$150,011.00
315,859 Bu.	10.	(1982)	Ames Grain Company, Inc. - Ames, Kansas	
			Producers loss	-0-
			Bonding Company loss	$ 67,030.00
291,952 Bu.	11.	(1982)	Pittman Feed Company - Haynes Switch, Kansas	
249,187 Bu.			Plains Grain, Inc. - Plains, Kansas	
			Producers loss	
			Bonding Company loss	
419,070 Bu.	12.	(1983)	J & H Grain Company, Inc. - Thayer, Kansas	
			Producers loss	-0-
			Bonding Company loss	
265,331 Bu.	13.	(1983)	Farmers Cooperative Association - Moran, Kansas	
			Producers loss	—0—
			Bonding Company loss	$187,800.00
98,346 Bu.	14.	(1983)	Kechi Elevator - Kechi, Kansas	
			Producers loss	
			Bonding Company loss	
297,620 Bu.	15.	(1984)	Bucyrus Grain Co., Inc. - Bucyrus, Kansas	
			Producers loss	—0—
			Bonding Company loss	
760,141 bu	16.	(1984)	Twombly Grain Co., Inc. - Troy, Kansas	
			Producers loss	
			Bonding Company loss	