

MINUTES OF THE Senate COMMITTEE ON Agriculture

The meeting was called to order by Senator Allen at
Chairperson

10:08 a.m./p.m. on March 5, 1986 in room 423-S of the Capitol.

All members were present ~~except~~:

Committee staff present:

Arden Ensley, Revisor of Statutes
Fred Carman, Assistant Revisor of Statutes (excused)
Raney Gilliland, Legislative Research Department

Conferees appearing before the committee:

Senator Wint Winter, Jr., State Senate
Representative Sprague, House of Representatives
Bill Fuller, Kansas Farm Bureau
Ed Reznicek, Kansas Rural Center
Harold Stones, Kansas Bankers Association
Mary Harper, representing herself
Steven Anderson, American Agriculture Movement
Howard Tice, Kansas Association Of Wheat Growers

Senator Allen called the Committee to order and called for approval of Committee minutes.

Senator Gordon made a motion the minutes of the February 26, 27 and 28 meetings be approved. Senator Arasmith seconded the motion. Motion carried.

The Chairman announced that SB 696 would be heard during this meeting; then he called on Senator Winter, the sponsor of the bill, to testify.

Senator Winter gave copies of his testimony to the Committee (attachment 1). Senator Winter explained that he and Representative Sprague had worked together on this bill. Senator Winter asked Representative Sprague to discuss the bill.

Representative Sprague stated the purpose of this bill is to give farmers who need aid with cash flow some help in being able to stay on their land and start over. This bill is a debt restructuring plan.

Senator Winter concluded this bill was prepared with the aim of helping preserve family farms. He stated this bill does not apply to unsecured loans. He stated the provisions of this bill will keep some farmers from going through a bankruptcy and in turn will lessen the load such as is in our bankruptcy courts now. He answered that under provisions of this bill banks will not lose any more than they would in a case of bankruptcy. Senator Winter encouraged favorable action by the Committee on this bill.

The Chairman thanked Senator Winter and Representative Sprague and then called on Bill Fuller to testify.

Mr. Fuller gave copies of his testimony to the Committee (attachment 2). Mr. Fuller expressed support for this bill and encouraged the Committee to approve its passage.

The Chairman thanked Mr. Fuller and called on Ed Reznicek to testify.

Mr. Reznicek expressed support for SB 696; a bill that will help allow some farmers to stay on the land as farmers and as farmers are helped and able to stay in business other segments of agriculture are helped too. Mr. Reznicek suggested this bill would work well in combination with other bills that have been introduced this session.

CONTINUATION SHEET

MINUTES OF THE Senate COMMITTEE ON Agriculture,
room 423-S, Statehouse, at 10:08 a.m./~~p.m.~~ on March 5, 1986

Mr. Reznicek suggested that maybe instead of a farmer having to be insolvent to qualify that maybe it would be better for the requirement to be eligible to be a farmer with a debt ratio of 70% or 80%. He also suggested the number of days a farmer has to make the interest payment be changed from 30 days to at least 60 days or maybe 90 days.

When asked if he knew of any farmer that this bill would help, Mr. Reznicek said that he did know of one farmer that this bill would help.

The Chairman thanked Mr. Reznicek and called on Harold Stones to testify.

Mr. Stones gave copies of his testimony to the Committee (attachment 3). Mr. Stones requested the Committee give consideration to SB 696 with regards to how it might affect what a bank can and cannot do.

The Chairman thanked Mr. Stones and called on Mary Harper to testify.

Ms. Harper gave copies of her testimony to the Committee (attachment 4). Ms. Harper expressed support and urged the Committee pass SB 696 favorably.

The Chairman thanked Ms. Harper and called on Steven Anderson to testify.

Mr. Anderson expressed support for SB 696. He expressed support for the bill which should help some farmers and stated that as farmers prosper so do the small businesses and also the banks of our state. He urged Democrats and Republicans to work together on this bill and to pass it favorably.

The Chairman thanked Mr. Anderson and called on Howard Tice to testify.

Mr. Tice gave copies of his testimony to the Committee (attachment 5). Mr. Tice gave support to SB 696 which is designed to give some farmers a chance to try again.

The Chairman thanked Mr. Tice, and stated the hearing closed on SB 696 and declared the Committee adjourned at 11:04 a.m.

GUEST LIST

COMMITTEE: SENATE AGRICULTURE

DATE: March 5, 1986

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Mary Harper	Healy	Harper Valley Farms
Stephen Anderson	Alma	Family Farmer AA 17
Dale Hrusk	Jefferson City, Mo.	Industrial & Retail
Jack DeLand	Houston, Texas	Tenneco Inc.
MIKE BEAM	TOPEKA	Ks. LUSTK. ASSN.
BILL FULLER	Manhattan	Kansas Farm Bureau
Emmett Kach	Centralia	Farmer
Dave Koch	Centralia	Farmer
Bob D...		leg
M. Hawver	Topeka	Cap-Secretary
Joni Janner	Topoka	KLSI
Harold L...	Topok	KR2
Jimmie	"	"
Nancy Kartola	Topeka	Kansas Co-op Council
Jewel Wright	Topeka	Ks Credit Union League
Dale M. Sprague	MPR	Legislature
Rich McFee	Topeka	Ks LUSTK. ASSN.
Ed Reynick	Self	Ks Rural Center
Dave Topelhor	Lawrence	Law. Journal World
Howard M. Lee	ATCHINSON	K.A.W.G.
David Allenis	Lawrence	Legislature
Kael Peterson	Topeka	CK 70

STATE OF KANSAS

WINT WINTER, JR.
SENATOR SECOND DISTRICT
DOUGLAS COUNTY
2229 WEST DRIVE
BOX 1200
LAWRENCE, KANSAS 66044



TOPEKA

SENATE CHAMBER

March 5, 1986

COMMITTEE ASSIGNMENTS
MEMBER WAYS AND MEANS
JUDICIARY
LOCAL GOVERNMENT
GOVERNMENTAL ORGANIZATION
JOINT COMMITTEE ON STATE
BUILDING CONSTRUCTION
CHAIRMAN JOINT COMMITTEE ON SPECIAL
CLAIMS AGAINST THE STATE

THE FAMILY FARM REHABILITATION ACT

Mr. Chairman and Members of the Committee:

The Act allows a legitimate but insolvent farmer a period of up to three (3) years in length that will allow a farmer to keep his land and equipment so he can keep farming and, in that period, give him the opportunity to make a profit while the farm economy starts to turn around.

It does so by allowing the farmer to prevent a bank or other lender that has filed a foreclosure or repossession suit from taking his land and equipment. The Bill allows the farmer to apply to the State District Court in any foreclosure or repossession action for a stay or order preventing the lender from conducting the sheriff's sale of farm equipment and implements.

The court will issue the stay preventing the lender from taking the property for a period of one year, on condition that the farmer pay into court prior to the sheriff's sale a sum of money equal to the market interest rate for one year on the amount determined by the court to be the current fair market value of the land or equipment. Upon the payment of that sum into court, the stay will be issued for one year allowing the farmer to continue in farming. The money is to be paid to the lender by the court. The farmer may continue in possession of the land and/or equipment and prevent the sheriff's sale and/or repossession of equipment for two additional periods of one year, each upon the payment of similar amounts by the farmer into court.

At the end of any of the three (3) one year periods of Rehabilitation, the farmer will have the right to purchase the land and/or the equipment by paying the lender an amount in cash equal to the fair market value of the property determined as of the date of the entry of the original Stay Order.

The protection under the Act will be available only to legitimate farmers (80% or more of their income from farming) and only if the farmer has no equity in property except (1) property that is exempt from execution under existing Kansas laws, (160 acres, furnishings, tools of the trade and implements up to the value of \$5,000) and (2) cash in an amount determined necessary for family, household and farm expense purposes for a period of (six) 6 months.

3-5-86 Sen. Ag.
attachment 1

The Family Farm Rehabilitation Act

March 5, 1986

Page Two

Consider, for example, a farmer who owns 480 acres purchased for \$800/acre with 80% financing over 20 years at 13% and who has an equipment loan of \$90,000 payable over 5 years at 12%. The depressed farm economy has reduced the current value of the land to \$300/acre and cut the value of the equipment to \$45,000. The reduced profit margin has left the farmer with some profit, but not nearly enough to make high fixed land and equipment payments, and foreclosure actions result.

The Family Farm Rehabilitation Act would provide an opportunity for the farmer to keep farming the land with the equipment for an amount much less than previously required. Since the Act is available only to farmers without equity in other property, the lender will receive cash flow equivalent to that it would receive if judgment and foreclosure were entered against the farmer. Application of the Act would result in the following:

ANNUAL PAYMENTS REQUIRED

	<u>Land</u>	<u>Equipment</u>	<u>Total</u>
Prior Loans:	\$43,457	\$24,966	\$68,423
Rehabilitation Act:	\$14,400	\$ 4,500	\$18,900

The Family Farm Rehabilitation Act allows the insolvent farmer a period of up to three years that will allow him to keep his land and equipment so that he can keep farming and give him an opportunity to make a profit while the farm economy turns around. Prior to this Act, the farmer could only propose compositions and extensions; if these were not approved by the creditors and the court, he was forced to dismiss his proceeding or be adjudicated into straight bankruptcy.

The Family Farm Rehabilitation Act has the controlling purpose of preserving the ownership and enjoyment of the farm property for the farmer. It "scales down" the indebtedness to the present value of the property. Its main purpose is to provide a moratorium for farmers to relieve them from overburdening mortgage indebtedness and the harshness resulting from a loss of their farms through foreclosure in a period of re-alignment in the world economy and depression in the agricultural sector, rivaled only by the Depression period of the 1930's.

Passage of this Act is desperately needed to rid the farmer of unnecessary losses. These are the losses that prevent farmers from cultivating their land and producing crops - two vital factors that have had and will continue to have a tremendous effect on the state and national economy. Moreover, the strain placed on our farm economy by falling farm product prices and acts of God have put an additional burden on the farmer and thus have greatly increased the need for this Act. Without the Family Farm Rehabilitation Act, we in Kansas, must resign ourselves to an accelerating exodus of families from the farm, to more failures of farm related businesses, including banks, and fewer and larger farms. This Act will not stop the re-alignment going on in agriculture. It will, however, give good farm operators a new tool to allow them a fighting chance to survive through the adjustment period.



PUBLIC POLICY STATEMENT

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SENATE AGRICULTURE COMMITTEE
Senator Jim Allen, Chairman
March 5, 1986

RE: S.B. 696 - Creating the Family Farm Rehabilitation Act

Presented by:
Bill R. Fuller, Assistant Director
Public Affairs Division
KANSAS FARM BUREAU

Mr. Chairman and Members of the Committee.

I am Bill Fuller, Assistant Director of the Public Affairs Division of Kansas Farm Bureau. I am speaking on behalf of the farm and ranch members of our organization. We appreciate this opportunity to express our enthusiastic **SUPPORT** of S.B. 696 ... creating the Family Farm Rehabilitation Act.

It is truly refreshing to appear as a proponent of this bill which we believe will assist in keeping many farmers on the farm. The proposal allows a legitimate, but insolvent farmer, up to three years to retain his land and equipment, keep farming and gives him an opportunity to make a profit as he again becomes established as the farm economy improves. The bill addresses the very critical problem of "paper insolvency" ... the result of declining land and equipment values ... which farmers have no control, yet is fatal to their financial stability.

We believe S.B. 696 will carry out some of the needs expressed by the voting delegates at the last Annual Meeting of Kansas Farm Bureau when they adopted this policy statement:

3-5-86 Sen. Ag.
attachment 2

Farmers and ranchers need a variety of credit facilities to finance operating and ownership expenses. In these difficult times neither farmers nor lenders will succeed by themselves if the other fails. We need credit programs that are mutually beneficial for farmers and lenders, programs that will assist farmers and ranchers to maintain viable operations, and programs that will give lenders sufficient latitude to work with producers who have credit or debt difficulties. ...

We believe the safeguards in S.B. 696 limiting the proposal to ... insolvent farmers and farmers who receive more than 80 percent of their gross income from farming ... will direct the assistance to the legitimate farmers. We recommend you consider reducing the "80 percent of gross income from farming" requirement to allow assistance to some farmers forced to acquire off farm employment.

On the other hand, S.B. 696 appears to be balanced with protection for lenders. The land and property must be adequately protected and the Act shall not apply to:

1. Land not occupied in good faith; and
2. Farms abandoned by the owner.

Yet the proposal will allow some cash flow to the lender.

Mr. Chairman and Members of the Committee, the 1986 Session is more than half gone. A flurry of bills have been introduced to address the farm crisis. May we suggest that passage of S.B. 696 ... creating the Family Farm Rehabilitation Act, and the House

approval of S.B. 347 ... providing for \$550 million in low interest production loans to farmers, would assist many farmers in staying on the farm. Couple those bills with S.B. 591 ... a proposal to provide education grants to displaced farmers, and we believe you have the cornerstones of a meaningful, possible and acceptable program to assist farmers during these most troubled times.

Thank you for this opportunity to express our **SUPPORT** of **S.B. 696**. I will attempt to respond to any questions the committee may have.

March 5, 1986

TO: Senate Committee on Agriculture

FROM: Harold Stones, Kansas Bankers Association

RE: Senate Bill 696

Mr. Chairman, Members of the Committee, we appreciate the opportunity to share our concerns with you on this piece of legislation.

First of all, we commend Sen. Winter for his effort to draft a creative piece of legislation with the intent to be of benefit to Kansans and the Kansas economy. We thank Sen. Winter for allowing us input during the drafting of this bill.

As soon as the bill was printed, we sent a copy of it and a copy of Sen Winter's February 25 memo explaining the bill to all members of the KBA State Affairs Committee, KBA Agriculture Committee, and the special KBA Task Force on Agriculture. We asked the 48 bankers on these committees to carefully study the proposal to see if KBA could endorse the concept, and to call us as soon as they arrive at a conclusion. We have not heard from all of them, but the response we have received has been near-unanimous.

Lenders are required to allow the continued use of collateral for three years after default, and in return receive a rate of return equal to two percent over the one year Treasury Bill rate on the current market price of the collateral, regardless of the loan amount.

The banking industry is very fearful of such legislation UNLESS IT COULD SOMEHOW BE ACCOMPANIED BY BANK REGULATORY FORBEARANCE. Bank regulators will consider such a practice to be unsound, and if the bank has enough of these loans, it will see such a line of credit totally classified, 100% charge-off requirements will be imposed, capital will diminish, and the condition of the bank could be severely impaired. The problem is that the Kansas Legislature has no authority over the FDIC, the Comptroller of the Currency or the Federal Reserve Board. Hence, the bankers fear that they are caught in a "Catch 22 Vise", with the Legislature telling them they must follow such an arrangement, and the Regulators punishing them when they do so.

Mr. Chairman, our track record of doing everything we can possibly do to help the agricultural economy is well known, and we are proud of it. We have worked with this very Committee on several important projects, and will continue to do so. We are trying to do everything we possibly can from working with regulators to allow us "breathing room" which we can pass on to farm borrowers; to expending an all-out effort in working with the state and other organizations to promote economic development for the preservation of rural communities. It is a mission we take seriously. But we ask for your consideration, as to what we can and cannot do.

Harold Stones

3-5-86 Sen. Ag.
attachment 3

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copy
3-5

Mary Har

I COME AS A PROPONENT OF S.B. 696,

I BELIEVE THIS WILL HELP A NUMBER OF FARMERS TO BE ABLE TO CONTINUE IN FARMING. WE ALL READ OF THE UNEMPLOYMENT RATES AND WE KNOW THE TRAUMA MANY ARE GOING THROUGH WHEN THEY LOSE THE FARMS AND HAVE TO MOVE OFF AND TRY TO MAKE A NEW LIFE FOR THEMSELVES.

OUR COUNTRY NEEDS THESE PEOPLE WHO WANT TO FARM, SO IF WE CAN HELP THEM WE WILL ALL BENEFIT. I BELIEVE THE LENDING INSTITUTIONS DO NOT USUALLY BENEFIT FROM FORECLOSURES AND IF THEY CAN CONTINUE RECEIVING INTEREST THEY WILL BE WILLING TO NOT FORECLOSE. I VISITED WITH A BANKER LAST WEEK WHO TOLD ME THEY WANT TO HELP ALL THEY CAN, BUT BANK EXAMINERS ARE, TO USE HIS WORDS, "BREATHING DOWN OUR NECKS." THEY JUST DON'T KNOW WHAT TO DO. WE HAVE WATCHED SOME SALES LATELY AND ARE SURE THE LENDERS ARE LOSING BY FORECLOSURES.

THE ONE OR TWO YEARS LEEWAY THIS BILL CAN GIVE CAN GIVE SOME FARMERS A CHANCE TO TAKE ADVANTAGE OF SOME OF THE RE-TRAINING PROGRAMS BEING OFFERED AND PERHAPS EVENTUALLY PAY THEIR LOANS OR AT LEAST PREPARE THEMSELVES FOR AN OFF-THE-FARM LIFE.

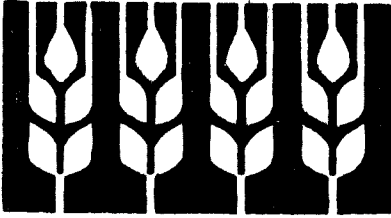
I ALSO HEAR THAT MANY LENDERS RAISE INTEREST WHEN SOMEONE IS FALLING BEHIND AND HEAR OF SOME WHOSE INTEREST IS PAID BUT WITH DEFLATED LAND VALUES THE LENDER EITHER MUST RAISE THE INTEREST OR CALL IN THE NOTE.

I URGE YOU TO PASS THIS BILL. THANK YOU.

3-5-86 Sen. Ag.
attachment 4

3-5

KANSAS ASSOCIATION
OF WHEAT GROWERS



SENATE COMMITTEE ON AGRICULTURE AND LIVESTOCK
Senator Jim Allen, Chairman

Wednesday, March 5, 1986

Hearing on Senate Bill 696 - Family Farm Rehabilitation Act

Mr. Chairman, members of the committee, I am Howard Tice, Executive Director of the Kansas Association of Wheat Growers. I appreciate this opportunity to testify today in support of Senate Bill 696.

There have been several bills offered this session, to help keep family farmers on the land. We have supported most of them in the hope that they will be able to make it possible to help some of our members and their neighbors retain their livelihood, and their heritage. This bill is another positive effort.

Senate Bill 696 does; however, seem to be a unique approach, in that it allows the farmer to take some positive steps to save his home, and his farm before a formal foreclosure action is complete. This in itself should prevent the severe depression that accompanies the feeling of complete failure at the loss of a family tradition.

In keeping with the theme of some of the other bills of this type, a three year time limit is factored in to give the farmer a fair chance to redeem the property as the farm economy improves, yet protects the lending institution against an open ended series of extensions. It further protects the lending institution against having a long list of non-performing assets on the books.

Senate Bill 696 would not be a welfare program funded by tax dollars. It would be a "workfare" program where the farmer would have to be able to pay the interest on the fair market value of the land up front, and protect the land from erosion if he leaves some of the land out of production.

One of the criticisms of some of the other bills this session is that they might raise false hopes. I don't think that can be said of Senate Bill 696. The farmer would be working with the court system, and would have to understand his responsibilities at the outset. If the farmer is unable to raise the money necessary to pay the required interest payment, he would not be eligible for protection under the act.

In short, Senate Bill 696 may give some of our state's hard pressed farmers a chance, and the state has nothing to lose in the effort.

3-5-86 Sen. Ag.
attachment 5