

Approved March 18, 1986  
Date

MINUTES OF THE Senate COMMITTEE ON Agriculture

The meeting was called to order by Senator Allen at  
Chairperson

10:09 a.m. ~~on~~ on March 7, 1986 in room 423-S of the Capitol.

All members were present except: Senator Doyen (excused)

Committee staff present: Raney Gilliland, Legislative Research Department  
Arden Ensley, Revisor of Statutes Department

Conferees appearing before the committee: Harold Stones, Kansas Bankers Association  
James Turner, Kansas League of Savings Institutions  
Ron Wilson, Wichita District Farm Credit Council

Senator Allen called the Committee to order and called attention to Committee minutes.

Senator F. Kerr made a motion the minutes of March 4, 5, and 6 meetings be approved. Senator Karr seconded the motion. Motion carried.

The Chairman turned the Committees' attention to SB 716 for hearing. The Chairman called on Harold Stones to testify.

Mr. Stones gave copies of his testimony to the Committee (attachment 1). Mr. Stones spoke as an opponent to SB 716 as he cautioned the Committee to study both sides of the issue when considering this bill.

During Committee discussion Mr. Stones stated that a bank works with a farmer up to two or three years sometimes before bankruptcy is filed; a minimum amount of time might be six to eleven months. Mr. Stones agreed that this legislation might end up being a detriment to farmers even though the intent of the bill was good.

The Chairman thanked Mr. Stones and called on James Turner to testify.

Mr. Turner gave copies of his testimony to the Committee (attachment 2). Mr. Turner spoke as an opponent and requested the attached amendments be adopted if the Committee recommends SB 716 for passage; the amendments make the bill read for agricultural loans only.

The Chairman thanked Mr. Turner and called on Ron Wilson to testify.

Mr. Wilson handed copies of his testimony to the Committee members (attachment 3). Mr. Wilson spoke in opposition to SB 716. He stated that we all are interested in helping agriculture at this time but that this bill would be counterproductive.

In answer to Committee questions, Mr. Wilson stated the plan of SB 716 worked in the 1930's depression because there was no cash flow anywhere and today we have cash flow in some segments; also, today farming requires a much larger capital than it did in the 30's.

The Chairman thanked Mr. Wilson and declared the hearing closed on SB 716. The Chairman turned the Committees' attention to SB 687 for action. He reminded the Committee that a compromise had been reached on SB 687, that being in line 0152 to change the effective date to be when published in the Kansas Register instead of the statute book.

CONTINUATION SHEET

MINUTES OF THE Senate COMMITTEE ON Agriculture,  
room 423-S, Statehouse, at 10:09 a.m. ~~XXX~~ on March 7, 1986

Senator Montgomery made a motion the Committee accept the recommended amendment to SB 687. Senator Warren seconded the motion. Motion carried.

Senator Arasmith made a motion the Committee recommend SB 687 favorable for passage as amended. Senator Montgomery seconded the motion. Motion carried.

The Chairman called attention to SB 596 for action.

Senator Karr made a motion the wording be changed in the bill so as to read "legal notice" wherever the word notice is used. Senator Norvell seconded the motion. Motion carried.

Senator Karr made a motion the Committee recommend SB 596 favorable for passage as amended. Senator Montgomery seconded the motion. Motion carried.

The Chairman called attention to SB 697 for action.

Senator Norvell made a motion the Committee recommend SB 697 favorable for passage. Senator Warren seconded the motion. Motion carried.

The Chairman called attention to SB 547 for action.

Senator Montgomery moved the Committee recommend SB 547 favorable for passage. Senator Thiessen seconded the motion. Motion carried.

The Chairman declared the Committee adjourned at 11:02 a.m.



March 7, 1986

TO: Senate Committee on Agriculture

FROM: Harold Stones, Kansas Bankers Association

*Harold Stones*

RE: SENATE BILL 716

Mr. Chairman, and Members of the Committee we appreciate this opportunity to voice our deep concerns about any legislation encompassing the basic provisions of SB 716.

The attachments to this testimony reveal that Kansas banks hold some \$2.7 billion in agricultural loans, or 34% of the state's total farm loans. We hold a considerably larger share than any other ag lender. Thus, any legislation which adds additional burdens to agricultural lenders **hurts agricultural banks far worse than any other agricultural lender.**

Those agricultural producers who borrowed in order to expand in the peak years of the late 1970's and an agricultural bank who loaned to a significant number of these borrowers are in exactly the same position. They do not constitute a majority of their peers, but their financial liabilities are awesome. Please understand this is true of both the producer and his banker. When we see the final 1985 "numbers" I expect us to find just about an equal percentage of Kansas banks and Kansas farmers who did not "Cash Flow". In other words, I expect about the same percent of each to have lost money in 1985.

When you pass legislation affecting the bank relationship of a troubled agricultural producer, you are affecting a lender who also has troubled agricultural debt. You are not affecting suburban banks. If you shift any of the burdens of the troubled agricultural producer on his/her banker, it is important to know that you are dealing with **TWO PARTIES WITH PROBLEMS, NOT JUST ONE.** And you are shifting additional burdens on those who can least afford it. You may be placing the very existence of rural communities at risk.

Mr. Chairman, on the surface SB 716 will look good to troubled ag producers. But such action will, in our opinion, make agricultural credit more and more scarce. Kansas banks will remain in Kansas with Kansans, you can be assured of that-----but large national institutional investors have no particular motivation to do so. It is hard enough to keep their involvement right now, without making lending even more risky. The name of the lending game today is, by regulatory insistence, **Cash Flow and Collateral** with a lot more emphasis on the former than the latter. But if Collateral, and the bank's access to it in the event of default is delayed or doubtful, then obviously a higher and higher rate of Cash Flow will be demanded in order to survive examinations.

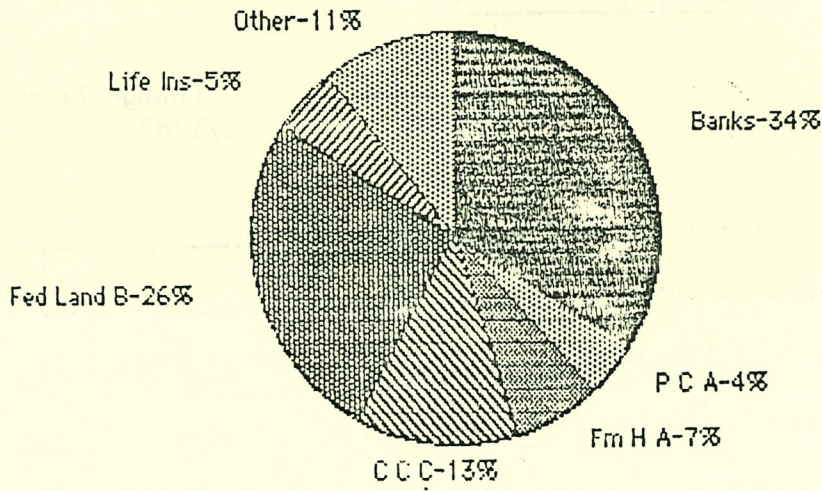
The very farm groups who will appear today strongly in support of SB 716 will, if it is enacted, be very likely to be back in about two years wringing their hands and asking you to "do something" about how hard ag credit is to procure. We have deep concerns that SB 716 will harm the agricultural community, and place those producers who are "thinly marginal" right now in the troubled column by making credit more difficult to obtain.

We respectfully urge the Kansas Legislature to think very carefully of the implications of such legislation. We sympathize with the problem, and there are many today with problems. But we must not make the list larger.

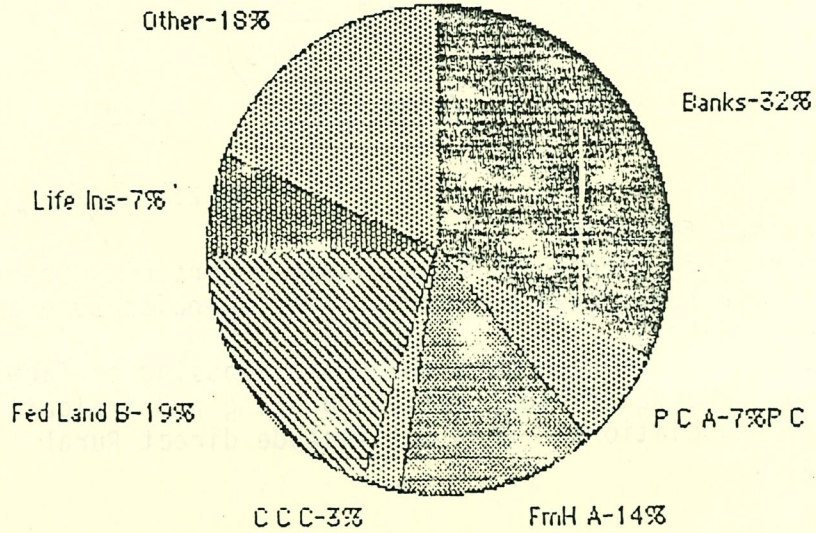
*3/7/86 Sen. Ag.  
Attachment 1*

*LOIS  
COPY  
5-1*

**KANSAS--SHARE OF TOTAL FARM LOANS  
(\$7.8 billion)**



**MISSOURI--SHARE OF TOTAL FARM LOANS  
(\$6.5 billion)**



*(over,  
please)*

1984 - AGRICULTURAL CREDIT REPORT

# 69,075,800 = 20%  
2,072,274 = 03%

KANSAS

On January 1 of this year 607 of the 622 banks in Kansas held farm loans totaling \$ 2,650,539.

NON-REAL ESTATE FARM LOANS	Volume Held 1/1/84	Change From 1/1/83	From 1/1/79
Banks . . . . .	\$ <u>2,407,500</u>	<u>-8.27%</u>	<u>-33.77%</u>
Production Credit Associations . . . . .	<u>345,379</u>	<u>-4.67</u>	<u>0.85</u>
Federal Intermediate Credit Bank (1) . . . . .	<u>16,610</u>	<u>-18.87</u>	<u>-40.95</u>
Farmers Home Administration (2) . . . . .	<u>227,694</u>	<u>-3.10</u>	<u>133.84</u>
Commodity Credit Corporation . . . . .	<u>1,029,038</u>	<u>-12.32</u>	<u>0</u>
Total (3) . . . . .	<u>4,026,221</u>	<u>.28</u>	<u>77.54</u>

(59.2)

REAL ESTATE FARM LOANS

Banks . . . . .	\$ <u>246,000</u>	<u>16.6</u>	<u>13.17</u>
Federal Land Banks . . . . .	<u>2,063,317</u>	<u>-1.10</u>	<u>98.77</u>
Life Insurance Companies . . . . .	<u>387,100</u>	<u>-6.07</u>	<u>-6.81</u>
Farmers Home Administration (4) . . . . .	<u>291,894</u>	<u>3.67</u>	<u>95.03</u>
Individuals and Others . . . . .	<u>811,411</u>	<u>1.00</u>	<u>24.13</u>
Total . . . . .	<u>3,799,722</u>	<u>.14</u>	<u>53.57</u>

(6.5)

7,825,933 / 2,653,500 (33.9)

- (1) Loans discounted for OFIs.
- (2) Includes operating, Emergency And Economic Opportunity Loans.
- (3) Does not include loans held by nonreporting agencies such as merchants and dealers.
- (4) Includes direct and insured farm ownership, housing on farm property, soil and water conservation, grazing and irrigation and drainage associations. Does not include direct Rural Housing Loans.

\*Over 500%

K015  
copy  
3-7

# RLSI Kansas League of Savings Institutions

JAMES R. TURNER, President • Suite 612 • 700 Kansas Ave. • Topeka, KS 66603 • 913/232-8215

March 7, 1986

TO: SENATE COMMITTEE ON AGRICULTURE  
FROM: JIM TURNER, KANSAS LEAGUE OF SAVINGS INSTITUTIONS  
RE: AMENDMENTS TO S.B. 716

The Kansas League of Savings Institutions appreciates the opportunity to appear before the Senate Committee on Agriculture to offer amendments to S.B. 716.

While it is our understanding that the intent of the bill is designed to aid agriculture by extending the redemption period to 18 months, it would also negatively impact the availability of mortgage funds within the State.

The extension of the redemption period to all real property would result in the need to substantially increase down payment requirements, limit the availability of residential mortgage credit, and would make it extremely difficult for Kansas lenders to sell mortgages into the secondary market. We have enclosed with our testimony a letter from the Federal Home Loan Mortgage Corporation which addresses this problem.

Accordingly, if it is the intent of the sponsors that this measure apply only to agriculture, we would appreciate the committee's consideration of amending S.B. 716 pursuant to the recommendations attached to this testimony.

James R. Turner  
President

JRT:bw  
Encl.

3/7/86 Sen. Ag.  
attachment 2

1776 G Street NW  
PO Box 37248  
Washington, DC 20013  
202/789.4700

March 5, 1986

**Freddie  
Mac**

Federal  
Home Loan  
Mortgage  
Corporation

Mr. Jim Turner  
President  
Kansas League of Savings Institutions  
700 Kansas Avenue, Suite 612  
Topeka, Kansas 66612

Dear Mr. Turner:

Thank you for contacting us to request our assessment of legislation amending current Kansas mortgage foreclosure law to extend the present twelve month redemption period to eighteen months. As I understand it, the current six month redemption period on loans with less than one-third pay-off would remain unchanged.

The Federal Home Loan Mortgage Corporation (Freddie Mac) certainly understands the plight of distressed homeowners, especially farmers in Kansas who continue to face difficult times. But Freddie Mac believes that the approach proposed in S.B. 716 could jeopardize the cost and availability of mortgage capital flowing into Kansas through the secondary mortgage market. Let me explain how this could happen.

As you know, Freddie Mac is a federally chartered conduit for mortgage funds serving as an important link between local mortgage markets and national capital markets. Local lenders use the secondary market to sell mortgages. Without this outlet, local mortgage lenders would be limited to the amount of savings deposits they attract, loan repayments they receive, and funds borrowed from other sources to extend mortgage credit to homebuyers. Lending institutions selling their mortgages in the secondary market are able to use the sale proceeds to make new home loans. Freddie Mac plays a major role in providing a continuous, predictable supply of mortgage credit in Kansas by purchasing home loans from lenders and selling these loans as mortgage-backed securities to investors of all types throughout the country. In effect, we provide through this secondary market an influx of additional mortgage funds in areas where loan demand exceeds the local supply of mortgage money available.

In fact, Kansas lending institutions utilize the secondary market extensively for capital to meet homeownership demands. Last year, Freddie Mac alone purchased over \$1.7 billion in Kansas mortgages and currently has over \$1.4 billion in Kansas mortgages backing up our securities. Clearly, Kansas would not want to do anything that might jeopardize either its access to this market or affect the attractiveness of its loans to secondary market investors.



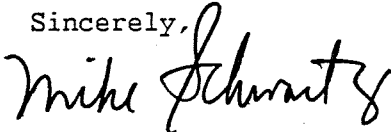
Mr. Jim Turner  
March 5, 1986  
Page two

The secondary mortgage market is a very sensitive creature. It is composed of investors who want a high degree of certainty that known factors affecting a loan's collateral are unlikely to be changed. If there is a default situation, investors want to know that there is a reasonable remedy. Anything that jeopardizes this certainty or raises perceived risks can threaten investor confidence. S.B. 716 has this potential by its introduction and possible passage.

We are concerned that investors will view Kansas loans as having a greater risk to them if the redemption period is extended and will consider Kansas loans as having less certainty if they think that the legal conditions affecting these loans can be changed easily or routinely. At the present time, under current state law, we have been able to package Kansas mortgages with mortgages purchased in other states and investors have obviously been willing to take the risk. Extending the current redemption period could understandably cause investors to question the wisdom of purchasing securities backed in part by Kansas loans or to require a higher rate of return to reflect their perception of greater risk and uncertainty. The result would be that Kansas mortgages would have a competitive disadvantage in the secondary market, thus raising their cost.

These are Freddie Mac's concerns with the legislation as we understand it. I hope this is helpful to you and that you can clarify this situation soon. If you have any questions, please call me at 202-789-4750.

Sincerely,

A handwritten signature in cursive script that reads "Mike Schwartz".

Michael Schwartz  
Legislative Director

## SENATE BILL No. 716

By Committee on Assessment and Taxation

2-26

0017 AN ACT relating to civil procedure; concerning redemption of  
0018 real property; amending K.S.A. 60-2414 and repealing the  
0019 existing section.

0020 *Be it enacted by the Legislature of the State of Kansas:*

0021 Section 1. K.S.A. 60-2414 is hereby amended to read as fol-  
0022 lows: 60-2414. (a) *Right of redemption by defendant owner.*

0023 ~~Except as stated in subsection (g) and as otherwise provided by~~

0024 law, the defendant owner may redeem any real property sold

0025 under execution, special execution or order of sale, at any time

0026 within ~~12~~ 18 months from the day of sale, for the amount paid by

0027 the current holder of the certificate of purchase together with

0028 interest, costs and taxes to the date of redemption. The defendant

0029 owner in the meantime shall be entitled to the possession of the

0030 property. If the court finds that the lands and tenements have

0031 been abandoned, or are not occupied in good faith, the period of

0032 redemption for the defendant owner shall be six months from the

0033 date of sale. The right of redemption shall not apply to oil and gas

0034 leaseholds. Any corporation, general partnership or limited

0035 partnership organized under the laws of the United States, the

0036 District of Columbia or any state of the United States, as mort-

0037 gator, may agree in the mortgage instrument to a shorter period

0038 of redemption than ~~12-18 months~~ or may wholly waive the period

0039 of redemption as against the mortgagor and all persons receiving

0040 title from the mortgagor. Any person, as mortgagor, may agree in

0041 any mortgage instrument to a shorter period of redemption than

0042 ~~12-18 months~~ or may wholly waive the period of redemption as

0043 against the mortgagor and all persons receiving title from the

0044 mortgagor, except in a mortgage instrument against a dwelling or

0045 dwellings for occupancy by not more than two families or against

of agricultural land

such agricultural land

of agricultural land

of agricultural land

the owner would other-  
wise be entitled to

the owner would other-  
wise be entitled to

T

Agricultural land means land or land and improvements devoted primarily to the growing or raising of agricultural products, poultry or livestock. Except as stated in subsection (q) or otherwise provided by law, the defendant owner of land which is not agricultural land may redeem within 12 months from the date of sale.

SB 716

2

0046 agricultural land.

0047 (b) *Redemption by lien creditor.* For the first three months  
0048 after sale, the right of the defendant owner to redeem is exclu-  
0049 sive. If no redemption is made by the defendant owner by the  
0050 end of that time, any creditor of the defendant owner whose  
0051 demand is a lien upon the real estate may redeem it at any time  
0052 within six months from the date of sale. All redemption periods  
0053 and rights of lien creditors set forth in subsections (b), (c), (d), (e),  
0054 (f), (g), (h), (o) and (q) shall commence on the date of judgment or  
0055 date of judicial sale, if any is ordered, and shall expire three  
0056 months thereafter if the judgment of foreclosure finds no re-  
0057 demption for the defendant owner by reason of a valid waiver  
0058 under subsection (a). The first creditor redeeming must pay only  
0059 the amount sold for, together with interest, costs and taxes to the  
0060 date of redemption. All other redemptions, with the exception of  
0061 that of the defendant owner or such owner's transferee, shall be  
0062 made under the terms of subsections (d), (e) and (f) of this  
0063 section. When the defendant owner or transferee of the defend-  
0064 ant owner redeems subsequent to redemption by a creditor the  
0065 defendant owner or transferee shall pay the amount paid by the  
0066 current holder of the certificate of purchase together with inter-  
0067 est, costs and taxes to the date of redemption.

0068 (c) *Creditors who may redeem.* Any creditor whose claim is  
0069 or becomes a lien prior to the expiration of the time allowed by  
0070 law for the redemption by creditors may redeem. A mortgagee  
0071 may redeem upon the terms prescribed by this section before or  
0072 after the debt secured by the mortgage falls due.

0073 (d) *Terms of redemption; rights of parties.* During the period  
0074 allowed for the redemption of real property from sale under  
0075 execution, special execution or order of sale, the holder of the  
0076 certificate of purchase may pay the taxes on the lands sold,  
0077 insurance premiums on the buildings thereon and interest or  
0078 sums due, upon any prior lien or encumbrance on the real  
0079 property. Upon the redemption of the premises from sale the  
0080 holder of the certificate shall be entitled to repayment of all sums  
0081 thus paid by the holder, together with interest on the sums. In all  
0082 cases of redemption by creditors, the terms of redemption shall

0083 be the reimbursement of the amount paid by the current holder  
0084 of the certificate of purchase by redemption added to the  
0085 holder's own claim, and including all sums paid by the holder for  
0086 taxes, insurance premiums and interest or sums due, as shown by  
0087 receipts or vouchers filed in the office of the clerk of the district  
0088 court, with interest and costs, subject to the exemption contained  
0089 in subsection (e). When a mortgagee or other lienholder whose  
0090 claim is not yet due, is the person from whom redemption is to be  
0091 made, the mortgagee or lienholder shall receive in payment the  
0092 full amount that the mortgagee or lienholder paid, as stated in  
0093 the certificate of redemption, and the amount of the mortgagee's  
0094 or lienholder's claim at the date of redemption, including prin-  
0095 cipal and accrued interest on both the amount paid and the  
0096 claim.

0097 (e) *Senior creditor redeeming from junior creditor.* When a  
0098 senior creditor redeems from a junior creditor, the senior creditor  
0099 shall be required to pay only the amount of those liens, with  
0100 interest and costs, which are paramount to the senior creditor's.  
0101 A junior creditor may prevent redemption by the senior creditor  
0102 or the holder of the paramount lien by paying off the lien or  
0103 depositing with the clerk of the district court beforehand the  
0104 amount necessary to remove the lien.

0105 (f) *Junior creditor may redeem from senior creditor.* A junior  
0106 creditor may redeem from a senior creditor by paying to the clerk  
0107 of the district court the full sum, with interest and costs, due the  
0108 senior creditor and shall become vested with full title to the  
0109 redeemed judgment and to all liens of the judgment.

0110 (g) *Time in which creditors may redeem from each other*  
0111 After the expiration of six months from the date of sale, the  
0112 creditors can no longer redeem from each other but the defend-  
0113 ant owner may redeem at any time before the end of ~~12~~ 18  
0114 months as provided in subsection (a).

0115 (h) *Effect of failure of debtor to redeem; deficiency.* If the  
0116 defendant or holder of the legal title fails to redeem as provided  
0117 in this section, the purchaser or the creditor who has last re-  
0118 deemed prior to the expiration of the six-month period will hold  
0119 the property absolutely. If it is held by a redeeming creditor, the

0120 lien and the claim out of which it arose will be held to be  
0121 extinguished, unless the redeeming creditor is unwilling to hold  
0122 the property and credit the defendant owner with the full  
0123 amount of the redeeming creditor's lien and, within 10 days after  
0124 the six-month period files with the clerk of the district court a  
0125 statement of the amount that the redeeming creditor is willing to  
0126 credit on the claim. In order to redeem the real estate within ~~12~~  
0127 18 months, the defendant shall be bound to pay only the amount  
0128 so stated.

0129 (i) *Mode of redemption.* The party redeeming shall pay the  
0130 money into the office of the clerk of the district court for the use  
0131 of the persons entitled to it. The person redeeming, if not the  
0132 defendant owner in execution or order of sale, must also file an  
0133 affidavit or that of the person's agent or attorney, stating as nearly  
0134 as practicable the amount still unpaid due on the claim of that  
0135 person. The clerk shall give a receipt for the money, stating the  
0136 purpose for which it is paid. The clerk must also enter the  
0137 transaction on the appearance docket of the case, showing the  
0138 amount paid and the amount of the lien of the last redemption, as  
0139 sworn to by the clerk.

0140 (j) *Redemption of property sold in parcels, or undivided*  
0141 *portions.* Whenever the property has been sold in parcels, any  
0142 distinct portion of that property may be redeemed by itself. If  
0143 creditors other than the original purchaser have redeemed, the  
0144 amount of their claim shall be added to each parcel pro rata in  
0145 proportion to the amount for which it was originally sold. When  
0146 the interests of several tenants in common have been sold on  
0147 execution the undivided portion of any or either of them may be  
0148 redeemed separately.

0149 (k) *Transfer of right of redemption.* The rights of the de-  
0150 fendant owner in relation to redemption may be assigned or  
0151 transferred, and the purchaser or assignee shall have the same  
0152 right of redemption as the defendant owner. The assigned or  
0153 transferred right of redemption shall not be subject to levy or sale  
0154 on execution.

0155 (l) *Holder of legal title.* The holder of the legal title at the  
0156 time of issuance of execution or order of sale shall have the same

0157 right of redemption upon the same terms and conditions as the  
0158 defendant in execution and shall be entitled to the possession of  
0159 the property the same as the defendant in execution.

0160 (m) *Deed at end of redemption period.* If the defendant or  
0161 the defendant's assigns in execution or order of sale, or the  
0162 owner of the legal title fails to redeem, the sheriff, at the end of  
0163 the redemption period, shall execute a deed to the current owner  
0164 of the certificate of purchase.

0165 (n) *Injury or waste after sale.* After the sheriff makes the  
0166 deed to the purchaser or party entitled to a deed under sale as  
0167 provided in this section, the purchaser or party may recover  
0168 damages for any injury or waste permitted upon the property  
0169 purchased after the sale and before possession is delivered  
0170 under the conveyance.

0171 (o) *Second sale not permitted.* Real estate once sold upon  
0172 order of sale, special execution or general execution shall not  
0173 again be liable for sale for any balance due upon the judgment or  
0174 decree under which it is sold, or any judgment or lien inferior  
0175 thereto, including unadjudicated junior liens filed after the peti-  
0176 tion is filed in the district court to foreclose the senior lien  
0177 against the real estate.

0178 (p) *Injunction or receiver to protect property.* The holder of  
0179 the certificate of purchase shall be entitled to prevent any waste  
0180 or destruction of the premises purchased. For that purpose the  
0181 court, on proper showing, may issue an injunction or, when  
0182 required to protect the premises against waste, appoint a re-  
0183 ceiver who shall hold the premises until the purchaser is entitled  
0184 to a deed. The receiver may rent, control and manage the  
0185 premises but the income during that time, except the amount  
0186 that is necessary to keep up repairs, prevent waste and pay real  
0187 estate taxes and insurance premiums, shall go to the person who  
0188 otherwise would be entitled to possession during the period of  
0189 redemption.

0190 (q) *Reduced owners redemption period.* A foreclosure sale  
0191 shall become absolute and the purchaser at the sale shall be  
0192 immediately entitled to a deed to the real estate purchased  
0193 whenever: (1) A default occurs in the conditions of the mortgage

for non agricultural land

of non-agricultural land

0194 or instrument giving the lien before  $\frac{1}{3}$  of the original indebted-  
0195 ness secured by the mortgage or lien has been paid; (2) the  
0196 mortgage or lien is foreclosed and the real estate sold; and (3)  
0197 neither the defendant owner nor the junior creditors redeem the  
0198 real estate from the judgment by the payment of all principal and  
0199 interest due upon the mortgage or lien and costs of foreclosure  
0200 within six months from the date of the sale. In ordering a sale of  
0201 the real estate, the court may conduct a hearing to establish the  
0202 market value of the property and, as a condition to the confirma-  
0203 tion, allow ~~12~~<sup>6</sup> months' redemption as provided in this section,  
0204 if the amount of the indebtedness is less than  $\frac{1}{3}$  of the market  
0205 value of the property.

12

0206 Sec. 2. K.S.A. 60-2414 is hereby repealed.

0207 Sec. 3. This act shall take effect and be in force from and  
0208 after its publication in the statute book.

X018  
COP  
3-7

TESTIMONY OF

RON WILSON

WICHITA DISTRICT FARM CREDIT COUNCIL

FOR

SENATE AGRICULTURE COMMITTEE

TOPEKA, KANSAS

MARCH 7, 1986

*attachment 3  
3/7/86 Sen. Ag.*



MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, I AM RON WILSON OF WICHITA, KANSAS. I AM EXECUTIVE DIRECTOR OF THE WICHITA DISTRICT FARM CREDIT COUNCIL AND A VICE PRESIDENT OF FARM CREDIT SERVICES. THE WICHITA DISTRICT FARM CREDIT COUNCIL IS THE TRADE ORGANIZATION WHICH REPRESENTS COOPERATIVELY ORGANIZED FARM LENDERS THROUGHOUT KANSAS, OKLAHOMA, COLORADO AND NEW MEXICO.

FARM CREDIT SERVICES IS THE NAME OF OUR CREDIT DELIVERY SYSTEM WHICH INCLUDES THREE BANKS IN WICHITA AND NUMEROUS FARMER-OWNED ASSOCIATIONS. THE FARM CREDIT BANKS OF WICHITA INCLUDE THE FEDERAL LAND BANK, WHICH PROVIDES LONG-TERM REAL ESTATE LOANS THROUGH THE FEDERAL LAND BANK ASSOCIATIONS; THE FEDERAL INTERMEDIATE CREDIT BANK, WHICH PROVIDES FUNDS THROUGH PRODUCTION CREDIT ASSOCIATIONS FOR SHORT- AND INTERMEDIATE-TERM FARM OPERATING LOANS; AND THE BANK FOR COOPERATIVES, WHICH OFFERS LOANS TO AGRICULTURAL AND RURAL UTILITY COOPERATIVES. SIMILAR BANKS AND ASSOCIATIONS ARE FOUND IN 11 OTHER DISTRICTS ACROSS THE COUNTRY WHICH MAKE UP THE NATIONAL FARM CREDIT SYSTEM.

IN THE WICHITA DISTRICT, WE SERVE MORE THAN 70,000 FARMERS AND RANCHERS AND 450 COOPERATIVES WITH NEARLY SIX BILLION DOLLARS IN LOANS OUTSTANDING. AT PRESENT, NO GOVERNMENT FUNDS ARE INVOLVED. THE BANKS AND ASSOCIATIONS ARE CAPITALIZED BY STOCK PURCHASED BY MEMBERS. WE OBTAIN LOAN FUNDS THROUGH THE SALE OF FARM CREDIT BONDS AND DISCOUNT NOTES TO THE INVESTING PUBLIC.

WE MUST OPPOSE SENATE BILL 716 WHICH WOULD LENGTHEN THE REDEMPTION PERIOD ON REAL ESTATE WHICH HAS BEEN ACQUIRED THROUGH FORECLOSURE. THIS LEGISLATION WILL NOT ONLY ADVERSELY AFFECT FINANCIALLY DISTRESSED LENDERS BUT THE MAJORITY OF THEIR BORROWERS AS WELL.

FOR YEARS, THE STATE OF KANSAS HAS HAD EQUITABLE LAWS WHICH WOULD AFFORD RELIEF FOR IMPROVIDENT DEBTORS. AT THE SAME TIME, THESE LAWS PROVIDE FOR THE ORDERLY AND TIMELY HANDLING OF A FORECLOSED OR BANKRUPT ESTATE.

TO PREVENT THE ORDERLY AND TIMELY HANDLING OF REAL ESTATE ACQUIRED THROUGH FORECLOSURE WOULD INCREASE THE UPWARD PRESSURE ON INTEREST RATES FOR OUR REMAINING BORROWERS. CURRENTLY LESS THAN 3 PERCENT OF THE TOTAL NUMBER OF LAND BANK LOANS ARE IN FORECLOSURE. TO EXTEND THE REDEMPTION PERIOD IN THESE CASES WOULD ONLY INCREASE OUR LOSSES WHICH WOULD HAVE TO BE PASSED ON TO THE VAST MAJORITY OF OUR MEMBERS -- WHO ARE PAYING THEIR LOANS ON TIME -- IN THE FORM OF HIGHER INTEREST RATES.

FARM CREDIT SERVICES VIEWS FORECLOSURE AS A LAST RESORT AND IS ONLY INITIATED AFTER ALL OTHER REASONABLE EFFORTS TO ASSIST THE BORROWER HAVE BEEN EXHAUSTED. HOWEVER, WHEN A LOAN BECOMES DELINQUENT AND IT IS DETERMINED THAT THE BORROWER NO LONGER HAS A REASONABLE CHANCE TO RECOVER FROM HIS FINANCIAL BURDENS, WE ARE LEFT NO CHOICE BUT TO INITIATE FORECLOSURE AND MINIMIZE OUR LOSS.

AT ANY TIME DURING THE LENGTHY PROCESS OF FORECLOSURE UP TO THE POINT THAT JUDGMENT IS RENDERED, WE ARE WILLING TO REINSTATE THE LOAN IF IT IS BROUGHT CURRENT. AFTER JUDGMENT IS RENDERED, CURRENT LAW STATES THAT THE JUDGE HAS AUTHORITY TO PROVIDE A REDEMPTION PERIOD OF UP TO 12 MONTHS. WE STRONGLY BELIEVE THAT THIS IS SUFFICIENT TIME FOR THE INDIVIDUAL TO RESTRUCTURE HIS OR HER OPERATIONS AND REDEEM THE PROPERTY IF HE OR SHE IS ABLE TO DO SO.

ALLOWING AN ADDITIONAL SIX-MONTH PERIOD FOR THE DISTRESSED BORROWER IS IN FACT COUNTERPRODUCTIVE TO HIS OWN INTERESTS. IN THE EVENT THAT THE BORROWER CANNOT REDEEM AND THE LENDER PURSUES A DEFICIENCY JUDGMENT, THE BORROWER WOULD THEN BE LIABLE FOR AN ADDITIONAL SIX MONTHS POST-JUDGMENT INTEREST.

AS YOU MAY KNOW, IN VERY FEW CASES DOES THE DISTRESSED BORROWER MANAGE TO REDEEM THE PROPERTY UNDER CURRENT LAW. EXTENDING THE TIME PERIOD WILL NOT CHANGE HIS ECONOMIC CONDITION. TO EXTEND THIS REDEMPTION PERIOD WOULD NOT PROVIDE ANY ADDITIONAL RELIEF TO THE PREVIOUS OWNER, BUT WOULD ONLY INCREASE LOSSES FOR LENDERS WHICH WOULD HAVE TO BE PASSED ON TO OUR REMAINING BORROWERS. THESE INCREASED LOSSES WOULD RESULT FROM HOLDING ACQUIRED PROPERTY LONGER THAN IS NECESSARY. THIS UPWARD PRESSURE ON INTEREST RATES CAN BE AVOIDED BY OPPOSING S.B. 716.

MR CHAIRMAN, THANK YOU FOR ALLOWING ME TO MAKE THESE COMMENTS. I WOULD BE HAPPY TO ANSWER ANY QUESTIONS.