

MINUTES OF THE HOUSE COMMITTEE ON AGRICULTURE AND LIVESTOCK

Held in Room 423-S, at the Statehouse at 9:00 a. m./~~p.m.~~, on February 24, 19 81.

All members were present except:

The next meeting of the Committee will be held at 9:00 a. m./~~p.m.~~, on February 25, 19 81.

These minutes of the meeting held on February 24, 19 81 were considered, corrected and approved.


Chairman

The conferees appearing before the Committee were:

Robert T. Walsh, Vice President - Blyth Eastman Paine Webber

Chairman Beezley called the meeting to order and introduced Mr. Robert T. Walsh, Vice President, Blyth Eastman Paine Webber. Mr. Walsh gave a presentation on agri bonds. The following are some of Mr. Walsh's comments.

Approximately one year ago there was an interest in looking at state level financing of U.S. farmers due to the inability of the federal government in dealing with this situation. The program was to address getting lower interest rates or financing for farmers in need of assistance. Oklahoma, Louisiana and Alabama now have tax exempt bond issues which address this problem. Oklahoma has a \$50 million bond issue; Alabama a \$25 million bond issue. This program would allow bonds to be issued at a lower interest rate and the "originators" would be every lending institution in the state that is a participant. What would be taken into consideration for lending would be the type of farmer, whether it is a land loan, equipment loan, and so forth. A definite set of criteria would be established. The cash is raised through tax exempt bonds. The bonds would be sold to the state wide authority. The lending institutions would stay involved as servicers of the loans. The bonds are sold, payments collected and the bonds paid up. The Reagan administration is emphasizing more state involvement with states creating, monitoring and being responsible for programs. One problem might be that Kansas does not have a state financing agency. Mr. Walsh opened the discussion for questions. Several Committee members responded with pertinent questions regarding the bonds. Mr. Walsh stated that there is legislation pending in six or eight states dealing with this issue. The bonds would be rated AAA if guaranteed by the federal government. They are trying to reduce the term, thereby reducing the interest rates, such as an eighteen year loan versus a twenty five year loan. Responding to a question as to competition with private enterprise, Mr. Walsh said that it is not a question of not being able or an unwillingness to compete, but a question of no cash to make loans because the outflow is going to the high money markets.

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Mr. Walsh said that one of the problems is that of "x" amount of loans raised, and "x" amount of people qualifying; the demand is not there. Iowa is trying a pre-qualifying plan. It is a very conservative issue of \$15 million dollars. They are sizing their bond issue to the known demand. One of the Representatives asked if there was an interest in the program from institutions who do not like to deal with the Farmers Home Administration. Mr. Walsh said that some institutions "boycott" the program because they do not like the Farmers Home Administration connection. They would rather be independent. Farmers Home Administration is supposed to be working for the farmer who is disqualified from a loan at another institution but sometimes the opposite seems to be the case. In response to another question Mr. Walsh stated that Iowa, instead of creating a new authority, is working through the Housing Finance Authority with a staff of six or seven people. One new individual is employed who came from a bond bank. In response to the part his firm plays in this, Mr. Walsh responded that his firm is the underwriter; they would float the bonds and start in the creation of the program itself. They develop the program that turns into the bond issue. The loan money has to be equated with how much the U.S. Treasury borrows; for instance, if they borrow the money at 12% to 18% to loan at 5%. The federal government has to guarantee the program and also the loan that someone else is making. The smallest bank as well as the largest one still has to get the money. The investor is exempted from federal taxes and state intangibles. On a \$100,000 loan, \$90,000, or 90% is guaranteed, and the remaining 10% retained by the local lending institution. Mr. Walsh responded that what you try to do is to try to have some central staff overseeing lenders in their servicing, such as locally, the bank that has made the loan. He suggested looking at the banks' default experience; you can also develop your own standards and guidelines. This is an educational exercise whereby you would concentrate on development, participation and ultimate cooperation. You can define what you want in terms of financial eligibility. You can develop your own standards; "x" amount for land, home improvement, equipment and so forth. In answer to the question, if this problem hinges on federal exemption, will the House of Representatives in the federal government continue it, Mr. Walsh said that it is a purchaser's risk. The bonds are tax exempt, can never be taken away and the federal government has never made a retroactive change in the interest rate. At the time bonds are issued, it is at that point in time that they are legally set and cannot be changed. These are Industrial Revenue Bonds whereby the owner of the loan is the state-wide authority and the holder the tax exempt entity. Without a federal guarantee the bonds would probably be rated A or AA. The first four years are the most critical. For instance, if you have a \$100 bond, what comes off the top for issuance etc would leave 97¢. You would need to invest that 97¢ in farm loans to get back to your dollar in a short time. You could have prepayment penalties for the person who pays before the time of his loan is up.

Mr. Walsh stressed that this program must be approached cautiously and conservatively, we can learn from the mistakes of others, that is the way to get the program going.

Chairman Beezley thanked Mr. Walsh for his presentation and commended the Committee on the quality of their questions.

Rep. Polson moved the previous minutes be approved. Rep. Teagarden gave a second to the motion. The motion carried. The meeting was adjourned.

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| Jeanette Armstrong | Lawrence, KS |
| John Vogelberg | Home Ks. |
| Louetta Vogelberg | Home Ks. |
| Kenneth Jacobs | Yates Center Ks. |
| Harold L. Jacobs | Yates Center Ks |
| Terry Shater | Lawrence, KS |
| Jim Floyd | Liberal, Ks. |
| Janet Murphy | Ulysses Ks |
| Larue Putney | Junction City, Ks |
| Jim Putney | " " " |
| Robert Gaez | ST. FRANCIS, KS |
| Allyn Dresson | WICHITA, KS. |
| W. L. Linn | Ks Seed Dept. Topeka |
| C. F. M. Donald | Yates Center Kan. |
| Raymond Fether | Kan. Seed Dept. |
| Robert O. Wagon | " " " |
| Ragnar Odum | Jamestown Ks |
| Anna Buckland | Cozcardia Ks |

Robert T. Walsh

Blyth Eastman Payne Walker
New York, N.Y.