

2011 SENATE AGRICULTURE

SB 2081

2011 SENATE STANDING COMMITTEE MINUTES

Senate Agriculture Committee
Roosevelt Park Room, State Capitol

SB 2081.
January 6, 2011
12618

Conference Committee

Committee Clerk Signature	<i>Greta Nelson</i>
---------------------------	---------------------

Explanation or reason for introduction of bill/resolution:

Relating to the term of loans for beginning farmers and the family farm loan program.

Minutes:

Attachment #1

Chairman Flakoll called the meeting to order on the 6th day of January. We will open the committee on Senate Bill 2081.

Robert Humann: Senior Vice President of Lending for the Bank of North Dakota. I am here to provide written testimony on Senate Bill 2081. Attachment #1.

Senator Flakoll: Questions

Senator Klein: With additions and Ag economy is there a problem with bad debts in any of these programs that are concerning?

Robert Humann: We haven't had any foreclosures on beginning farmer loans in a number of years. More reasons are that we have received increasing farm real estate farm prices. Both on land value and with commodity prices, we had some good years in the last few years. One concern is we lend up to 75% of appraised value of the farm real estate with the beginning farm program. Where's the end going to occur with these farm real estate prices and starts coming down? Once we see it decline in the prices that could happen someday, then we could see some increase to delinquencies and potential losses there. At this point, we haven't done that. I am concerned at some of these higher land prices, but we have to keep in mind that farming has changed...it is more of a global economy. We can't say what is going to happen in North Dakota is going to happen/dictate with these commodity prices. Based on that maybe people can continue to afford for these high land purchases.

Senator Flakoll: Questions

Senator Flakoll: Can they pay it off early without penalty?

Robert Humann: Yes they can at any time, always take their money.

Senator Flakoll: Will this in anyway affect if they go from a 25 year to 30 year their interest rate that they would be locked in at?

Robert Humann: No, the beginning farmer is fixed for the first 5 years at 1% below the bank's base rate. Our base rate now is 3 ¾%, now the interest rate is fixed at 2 1/4% for 5 years. Second 5 years of the loan, the interest rated is adjusted annually at 1% under our base rate. Remaining 15 years of the loan, which we are proposing to take up to 20 years, the rate is variable at the BND base rate. Whenever that changes, the farmers rate changes. No real change of the farmers' interest rate on what we are looking at.

Senator Flakoll: Is there a disclosure by the bank of estimated total repayment costs of 30 year vs. 25 or 20 that you would provide to them that they have to have looked at before they have to sign off on it?

Robert Humann: We don't really run that for them because it has always been 25 year, but doesn't say we can't go ahead. We will set their amortization period for 30 years and can pre-pay at any time they want. We would give them the schedule if they ask for it...based on a 25 year amo or even a 20 year. A lot farm deals that go 15 max, they don't go the full 25 years Certain cases need the full 30 years to make the payment and sync up with the FSA program.

Senator Flakoll: Helps them with their cash flow?

Robert Humann: No doubt about it. Five more years to repay the loan.

Senator Flakoll: Any others to testify in support of the bill?

Jack McDonald: Appearing today in behalf of the Independent Community Banks of North Dakota. Basically the smaller banks and smaller farm community and often participating with the Band of ND on these loans. Our organization fully supports this bill.

Senator Flakoll: Any other ones to testify in support of the bill?

Senator Flakoll: Any wish to testify in opposition to Senate Bill 2081?

Senator Flakoll: Close the hearing on Senate Bill 2081.

Senator Flakoll: Any amendments to put on this?

Senator Miller: I move a Do Pass

Senator Murphy: Second

Senator Flakoll: Move by Senator Miller, second by Senator Murphy for a Do Pass.....any discussion?

Giving an extra 5 year cushion is always nice when doing a farm plan (speaker unknown)

Senator Luick: Senator Miller had a good point at marrying the two up.....getting thing in sync. It is a very vital move.

Senator Flakoll: Ask the clerk to take roll call for Do Call recommendation to Senate Bill 2081.

Clerk: Roll call vote 7 in favor and 0 opposed (0 absent)

Senator Flakoll: Senator Larsen to carry.

Senator Flakoll: Meeting adjourned.

Roll Call Vote #: (1) Date: 1-06-11

2011 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2081

Senate Senate Agriculture Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Do pass

Motion Made By Miller Seconded By Murphy

Representatives	Yes	No	Representatives	Yes	No
Senator Tim Flakoll	✓		Senator Joan Heckaman	✓	
Senator Oley Larsen	✓				
Senator Jerry Klein	✓				
Senator Larry Luick	✓				
Senator Joe Miller	✓				
Senator Bill Murphy	✓				

Total (Yes) 7 No 0

Absent 0

Floor Assignment Sen. Oley Larsen

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2081: Agriculture Committee (Sen. Flakoll, Chairman) recommends DO PASS
(7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2081 was placed on the
Eleventh order on the calendar.

2011 HOUSE AGRICULTURE

SB 2081

2011 HOUSE STANDING COMMITTEE MINUTES

House Agriculture Committee
Peace Garden Room, State Capitol

SB 2081
March 4, 2011
Job #14933

Conference Committee

Committee Clerk Signature 

Explanation or reason for introduction of bill/resolution:

Relating to the term of loans for beginning farmers and the family farm loan program

Minutes:

Bob Humann, Senior VP of Lending for the Bank of ND: (See attached #1)
The beginning farmer volume is described. (See attached #2) The program has been very active the last few years. At the last legislative session we increased the loan amount from a maximum of \$250,000 to \$400,000 with the increase in land prices. We are starting to see some larger loans. Most of the loans, about 50%, are made in conjunction with FSA's program where the beginning farmer will get either a 50% loan from the FSA office and then get the other 50% from the bank or they will use FSA's down payment program where they come up with 10% cash, FSA will finance 40%, and the BND finances the other 50%. Because of that they have a federal requirement that says our amortization period should be 30 years to match theirs.

Under Section 2, the family farm loan program is a participation program where we are working with a local ND lender. They will sell up to 90% of this loan to the Bank of ND. We come in with below market interest rates. To qualify for this loan, the family farm has to be a leveraged operation. It can't be a strong financial operation. We would just as soon be able to provide a 30-year on real estate on these loans also to help them cash flow better.

There is an attached graph on the family farm loan program. (See attached #3)

It picked up in 2010. We did increase the maximum loan from \$250,000 to \$400,000.

Representative Trottier: What is the interest rate on real estate?

Bob Humann: 2 ¼% fixed for five years. The rate is established at 1% below the bank's base rate fixed for the first five years of the loan with an interest rate not to exceed 6%. The second five years of the loan, the interest rate is variable adjusted annually at 1% below the bank's base rate. For the remaining 15 years of the loan or 20 years if this change takes place, the interest rate is adjusted on the day of the change equal to the Bank of ND's base rate which today is 3 ¼--same as prime

Representative Boe: You talked about the balloon payment at the end of the 25 years. Will moving this to 30 years alleviate balloon payments?

Bob Humann: These will be set up for 30 years. We won't be looking at 40 years which is more on the disaster side of things.

Woody Barth, Chairperson of the ND Credit Review Board: One of the duties of the board is to recommend policies to the Industrial Commission concerning ag. loan development. The board is made up of four farmers and two people representing lending institutions. We support this for the reasons previously mentioned.

Representative Rust: What is the default rate of loans?

Bob Humann: In today's world none. We haven't foreclosed on a beginning farmer loan for the last 5 to 7 years. There have been good farming conditions and price appreciation in land. If a farmer gets in trouble or decides he doesn't want to farm anymore, they can sell and get their equity back. There may be times when people are late on payments due to selling cattle or grain. But it is not serious enough to start foreclosure.

Representative Trottier: If a person quits the beginning farmer loan after 3 years, then what happens to the loan?

Bob Humann: It stays in place.

Opposition: none

Chairman Johnson: Closed the hearing.

Representative Boe: Moved Do Pass.

Representative Rust: Seconded the motion.

A Roll Call vote was taken. **Yes: 14, No: 0, Absent: 0,**

DO PASS carries.

Representative Boe will carry the bill.

Date: 3/4/11

Roll Call Vote # 1

2011 HOUSE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. SB 2081

House **Agriculture** Committee

Legislative Council Amendment Number _____

Action Taken: Do Pass Do Not Pass Amended

Rerefer to Appropriations

Motion Made By Representative Boe Seconded By Representative Rust

Representatives	Yes	No	Representatives	Yes	No
Dennis Johnson, Chair	X		Tracy Boe	X	
Joyce Kingsbury, Vice Chair	X		Tom Conklin	X	
Wesley Belter	X		Richard Holman	X	
Craig Headland	X		Phillip Mueller	X	
David Rust	X				
Mike Schatz	X				
Jim Schmidt	X				
Wayne Trottier	X				
John Wall	X				
Dwight Wrangham	X				

Total Yes 14 No 0

Absent 0

Bill Carrier Representative Boe

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2081: Agriculture Committee (Rep. D. Johnson, Chairman) recommends **DO PASS**
(14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2081 was placed on the
Fourteenth order on the calendar.

2011 TESTIMONY

SB 2081

(X)

#1

TESTIMONY TO THE
SENATE AGRICULTURE COMMITTEE
SENATE BILL 2081
BOB HUMANN – SVP OF LENDING
BANK OF NORTH DAKOTA
JANUARY 6, 2011

Section 1 of Senate Bill 2081 increases the maximum loan term of a Beginning Farmer Real Estate Loan from 25 to 30 years. This change is proposed since many Beginning Farmer loans are made in conjunction with Farm Service Agency's Beginning Farmer Down Payment Loan Program with a requirement that the first mortgage holder provides a 30 year amortization. Currently, BND's Beginning Farmer loans are amortized over 30 years with a balloon at the end of 25 years. This change will allow BND the ability to match the loan term and amortization period at 30 years.

Section 2 increases the maximum loan term of a Family Farm Loan from 20 years to 30 years. This change is recommended to allow farming operations with a tighter cash flow a longer amortization period to enable these operations to cover their debt obligations.

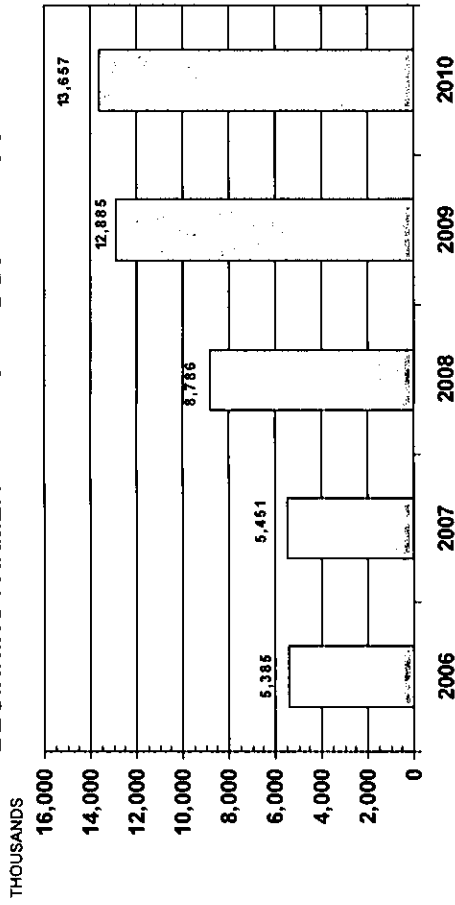
Attached are graphs on both programs detailing the loan activity levels in recent years. It should be noted that the loan limits and maximum net worth limits were increased for both programs last biennium which has resulted in additional program loan volume.

Your approval of the proposed changes is recommended.

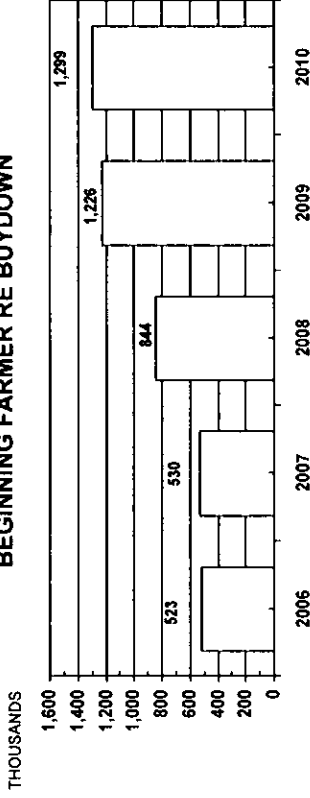
FARM PROGRAM HIGHLIGHTS

2006 - 2010

BEGINNING FARMER REAL ESTATE LOAN PROGRAM



BEGINNING FARMER RE BUYDOWN



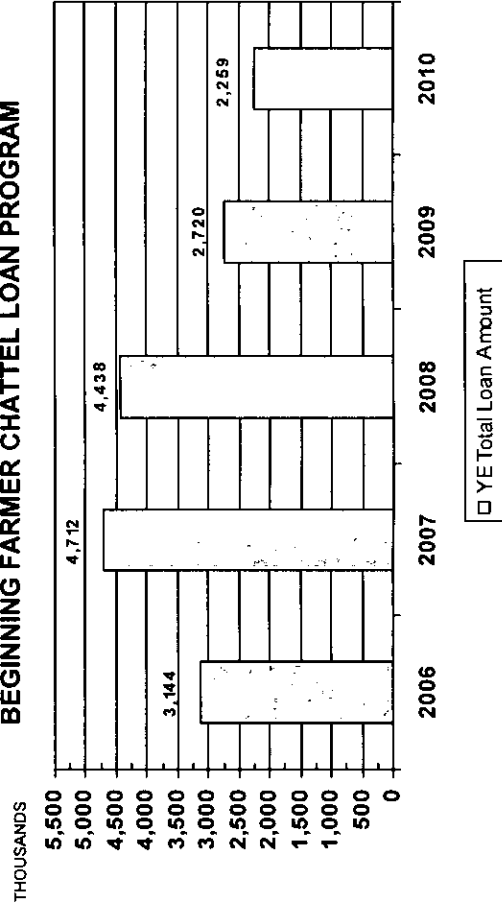
A total of 64 Beginning Farmer RE Loans were funded during 2010 in comparison to 71 during 2009. The large increase in loan amounts in the past three years is a result of the increase in land prices and higher loan limits.

2009-2011 Biennium Beginning Farmer Buydown Fund

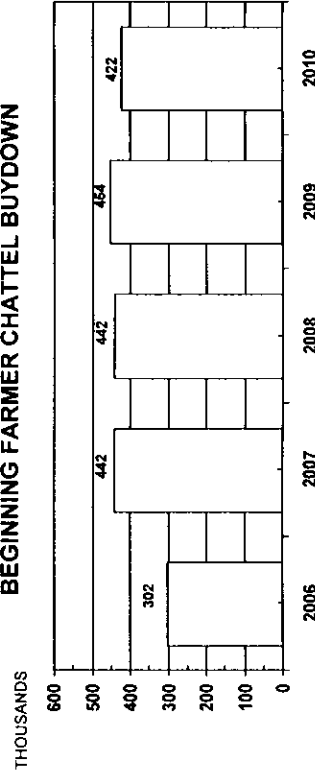
Total Available Funds	\$1,728,100 *
Buydown - RE Committed Loans	222,897
Buydown & Loan Amount - Chattel Committed Loans	664,546
Remaining Buydown Funds	\$ 840,657

*Cash balance could be reduced by possible draws of \$1 million for Envest and \$900,000 for PSC.

BEGINNING FARMER CHATTEL LOAN PROGRAM

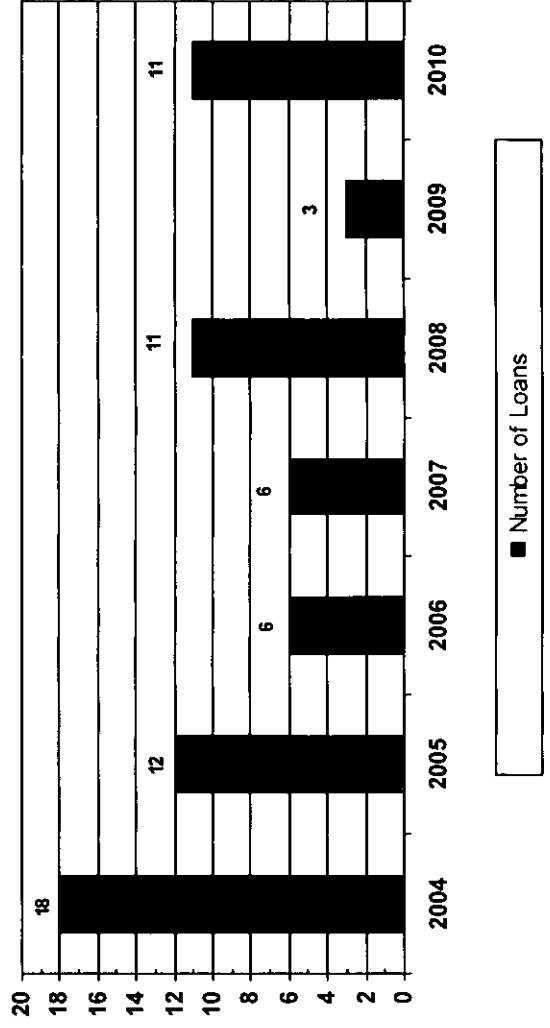
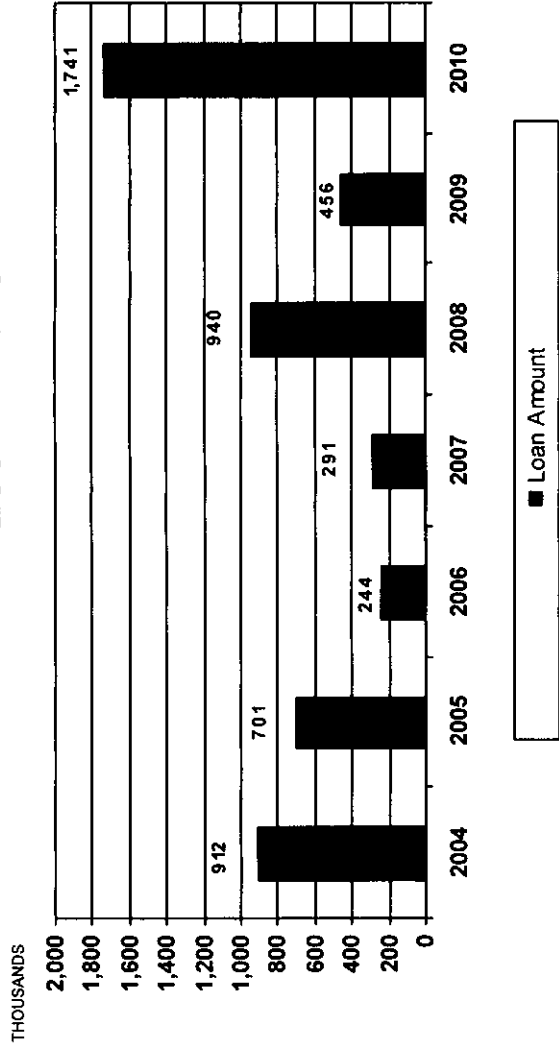


BEGINNING FARMER CHATTEL BUYDOWN



A total of 63 Beginning Farmer Chattel Loans were funded during 2010 in comparison to 63 during 2009.

FAMILY FARM LOAN PROGRAM 2004 – 2010



TESTIMONY TO THE
HOUSE AGRICULTURE COMMITTEE
SENATE BILL 2081
BOB HUMANN – SVP OF LENDING
BANK OF NORTH DAKOTA
MARCH 4, 2011

Section 1 of Senate Bill 2081 increases the maximum loan term of a Beginning Farmer Real Estate Loan from 25 to 30 years. This change is proposed since many Beginning Farmer loans are made in conjunction with Farm Service Agency's Beginning Farmer Down Payment Loan Program with a requirement that the first mortgage holder provides a 30 year amortization. Currently, BND's Beginning Farmer loans are amortized over 30 years with a balloon at the end of 25 years. This change will allow BND the ability to match the loan term and amortization period at 30 years.

Section 2 increases the maximum loan term of a Family Farm Loan from 20 years to 30 years. This change is recommended to allow farming operations with a tighter cash flow a longer amortization period to enable these operations to cover their debt obligations.

Attached are graphs on both programs detailing the loan activity levels in recent years. It should be noted that the loan limits and maximum net worth limits were increased for both programs last biennium which has resulted in additional program loan volume.

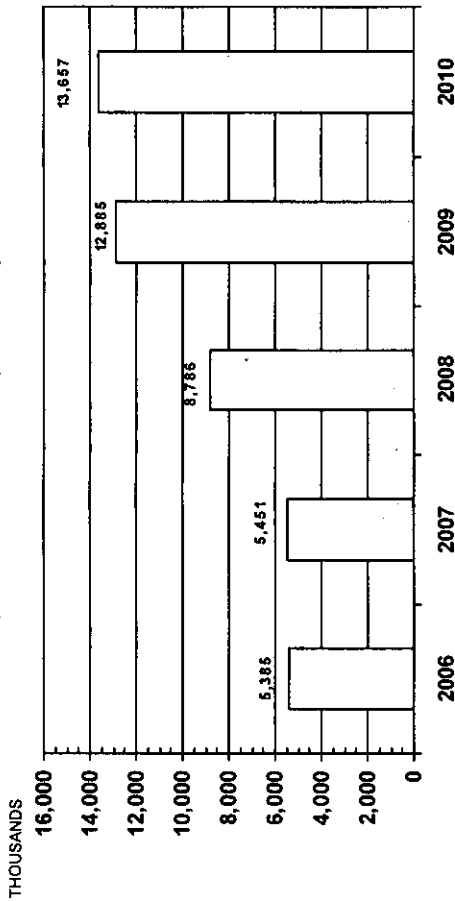
Your approval of the proposed changes is recommended.

FARM PROGRAM HIGHLIGHTS

2006 – 2010

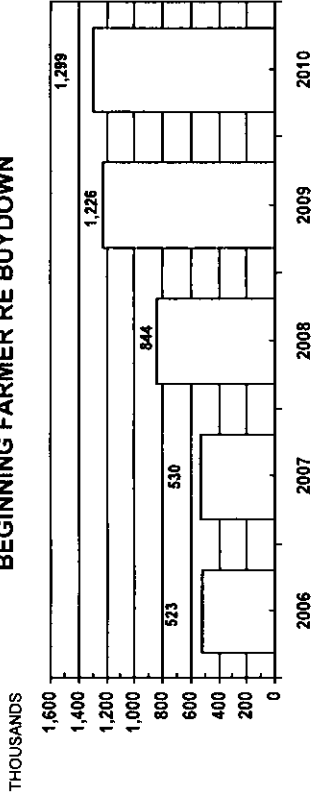
#2

BEGINNING FARMER REAL ESTATE LOAN PROGRAM



□ YE BND Loan Amount

BEGINNING FARMER RE BUYDOWN



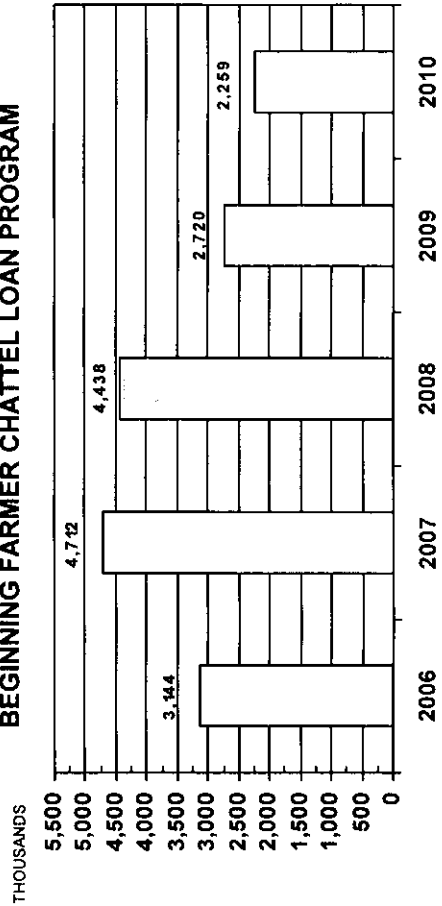
A total of 64 Beginning Farmer RE Loans were funded during 2010 in comparison to 71 during 2009. The large increase in loan amounts in the past three years is a result of the increase in land prices and higher loan limits.

2009 – 2011 Biennium Beginning Farmer Buydown Fund

Cash as of 7-1-2009	\$4,368,929*
Cash Adjustment Due to Chattels	+104,999
RE Buydown – Funded and Pending	-2,295,156
Chattel Buydown – Funded and Pending	-783,560
Chattel Fundings Pending	-554,555
Remaining Funds	\$840,657

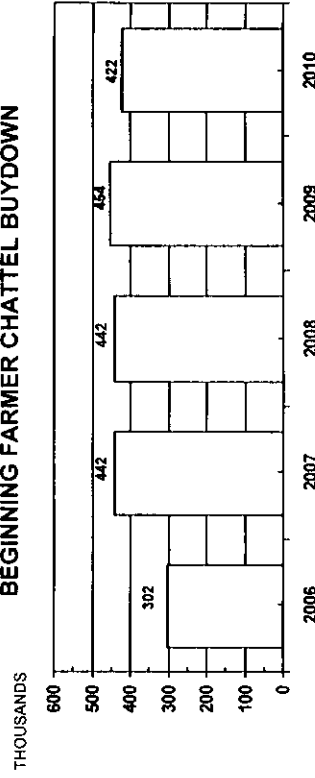
*Cash balance could be reduced by possible draws of \$1 million for Ervest and \$900,000 for PSC.

BEGINNING FARMER CHATTEL LOAN PROGRAM



□ YE Total Loan Amount

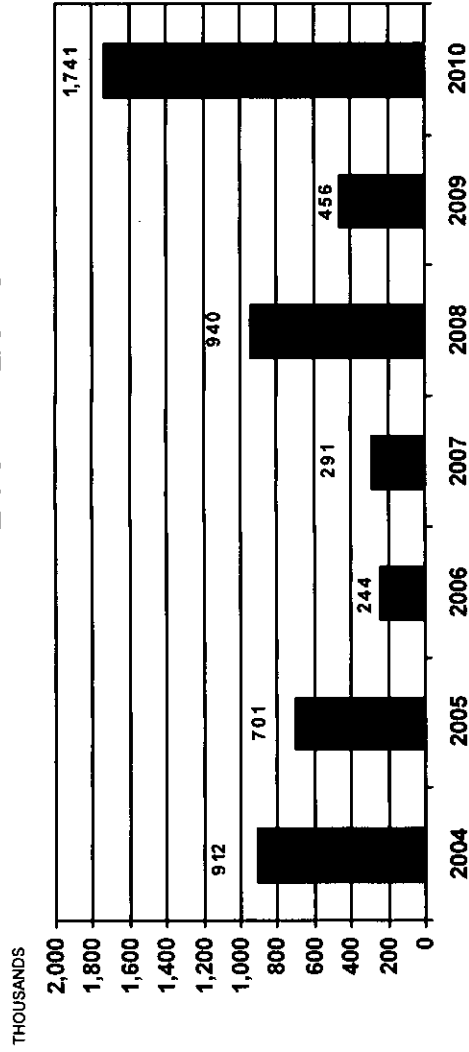
BEGINNING FARMER CHATTEL BUYDOWN



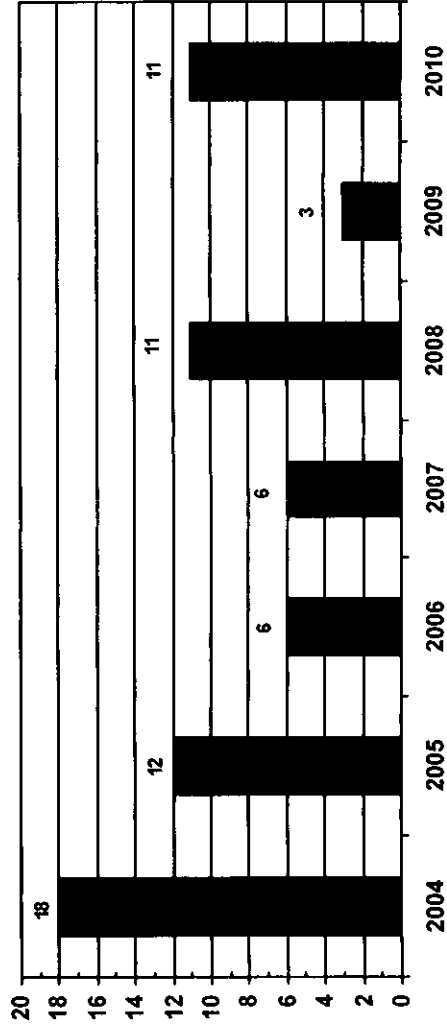
A total of 63 Beginning Farmer Chattel Loans were funded during 2010 in comparison to 63 during 2009.

#3

FAMILY FARM LOAN PROGRAM 2004 - 2010



■ Loan Amount



■ Number of Loans