Restructuring farm debt

WASHINGTON, D. C. — According to FmHA, the Farm Credit Initiative, announced on Sept. 18, is designed "to help farmers who have demonstrated operating skills but cannot repay existing loans due to cash flow problems."

The program provides for:

— five-year deferrals on collecting part of an FmHA farm borrower's debt so that required payments will be within the means of the borrower's cash flow. FmHA may set aside up to 25 percent–not to exceed $100,000--of the borrower's total debt to FmHA. Deferrals will be considered on a case-by-case basis, but eligibility includes all FmHA borrowers who are "good managers" and are in financial distress. No interest will accrue on the set-aside portion of the debt during the 5-year period.

— about $630 million in loan guarantees to be made available to private-sector lenders to encourage them to restructure debts of distressed borrowers on a basis within their ability to pay. The lender must write off at least 10 percent of what the borrower owes. Borrowers must meet the FmHA statutory restriction of being "not larger than family farms."

— local assistance by FmHA professionals or contracted experts in helping farmers develop financial plans and restructure their debts. FmHA can contract with up to two local farm management and farm credit experts to provide such guidance. This service will not be limited to FmHA borrowers.

— assistance to FmHA in eliminating delays and backlogs in handling paperwork and processing related to loans. FmHA will get this help by contracting with local banks and other financial institutions.

USDA officials emphasize that this is a temporary debt-management program intended to assist farmers through current difficulties in handling large debt obligations. FmHA expects the program to be fully implemented by the end of this year.

You can obtain further information on eligibility and application procedures by contacting your county FmHA office. The phone number is listed in your telephone directory (white pages) under United States Government–Agriculture Department–Farmers Home Administration.

Hort session on Nov. 20

SALISBURY, Md. — The greenhouse-nursery session of the Peninsula Horticultural Society's annual meeting will take place Tuesday, Nov. 20, at the Wicomico Youth and Civic Center in Salisbury, Maryland. The program, which is designed for producers of commercial nursery stock, will run from 9:15 a.m. to 3:30 p.m.

The morning session will cover liner production, effective landscape use of plants, keeping pot plants healthy, and the economics of growing pot plants.

For further information about this meeting or the Dec. 6 session for commercial vegetable producers, in Delaware contact county extension offices in Newark (451-2506), Dover (736-1448) or Georgetown (856-5250).

Farmers leaving ag

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commercial banks. Portfolios of other lenders, such as federal land banks and the Commodity Credit Corporation, showed a smaller percentage of high-risk loans.

"As the lender of last resort, FmHA lends to farmers who cannot obtain credit elsewhere. It would be expected to have its loan portfolio dominated by highly leveraged operators," Gabriel maintains. Other lenders can shift or refer marginal accounts to FmHA to improve their risk position or avoid additional risk. From 1980 to the end of 1983, total FmHA outstanding farm loans grew at an annual rate of 11.7 percent, compared with a 6.1 rate of increase for all other lenders.

Many lenders have postponed foreclosures and liquidations on their most distressed clients as long as they can, according to USDA analysts.

Land Values Stay Same

"Commercial lenders will be extremely careful in evaluating future loan requests," predicts Gabriel. "They will scrutinize their applicants more closely, and they will compete aggressively for the large pool of farmers with low debt-to-asset ratios. They'll be looking for borrowers who are not dependent on asset appreciation to service their debts."

Although there will be regional variations, he says, U.S. farmland values are not expected to change significantly over the next few years. In the 1970's, rapid appreciation in the value of farm assets, particularly land, allowed a significant expansion in debt that was backed up by the rising net worth of borrowers.

"As long as interest rates remain substantially higher than the rate of return to farm assets, and the prospect for growth in asset values remains dim, borrowing can be a hazardous financial management strategy for both farmers and lenders," Gabriel concludes.

"Obviously, a reduction in interest rates or an improvement in returns would help borrowers. However, most of those who have been accumulating losses need to restructure their balance sheets to return to long-term profitability."