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A SUMMARY OF HOUSE CONGRESSIONAL BILL H.R. 5588 a.k.a. THE "SAVE THE FAMILY FARM ACT"

by

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Preface

Harry M. Kaiser and Edward H. Heslop are assistant professor and graduate student, respectively, in the department of agricultural economics at Cornell University.

This is the first effort in some planned research in the department of agricultural economics which examines alternative policies aimed at reducing excess supply in agriculture that is currently plaguing this sector of the U.S. economy. In this report, we summarize and interpret one such bill that has been proposed as a solution to this problem, namely the "Save the Family Farm Act" authored by Senator Harkin (Iowa) and Congressman Gephardt (Missouri).

The purpose of this paper is not to provide a policy evaluation of this bill, nor is it intended to examine what economic impacts it would have on our agricultural and general economy. Rather, the sole purpose of this report is to educate the reader on how this bill would change current U.S. farm policy. The various provisions of the Save the Family Farm Act are discussed and some examples are given to help clarify how the bill would work if implemented. The paper draws entirely from the bill itself--House Bill H.R. 5588--and is recommended to individuals interested in knowing more details about specific provisions. Look for reports in the future that examine the implications and consequences on the industry of this bill.

Additional copies of this paper can be obtained from the authors or by writing to:

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Introduction

U.S. agricultural policy is currently guided by the titles and provisions of the Food Security Act of 1985 (FSA), enacted into law in December 1985. This act is supposed to set the general course for U.S. farm policy for the period 1986 through 1990. However, with the elections over and the budgetary costs of agricultural programs running well over what some might call "acceptable" levels, there is a lot of talk about opening up or modifying the FSA to deal with these problems. In addition, the current situation in agriculture has not improved and the outlook for a major turnaround for much of the farm economy is pessimistic at best. These problems are prompting interest by some to change or amend existing laws due to the perception that the FSA does not adequately address or change the current state of agriculture.

As an example of this interest in changing current policies, House Bill H.R. 5588 was introduced in the House of Representatives on September 24, 1986 by Congressman Gephardt (D) from Missouri. Although a companion to this bill has not yet been introduced in the U.S. Senate, reliable sources have indicated that a version of the Gephardt Bill will be introduced in the Senate at the beginning of the next Congressional Session. The purpose of this bill, which is being called the "Save the Family Farm Act" (SFFA), as is stated in its preamble is to:

> "provide price and income protection to family farmers through the management of the supply of the 1987 through 1999 crops of certain agricultural commodities..."

The SFFA would basically amend the Agricultural Act of 1949 by adding five new titles which deal primarily with the problems of excess supplies relative to demand, low prices and incomes received by producers, and high levels of debt incurred by farmers.

These five new titles include:

Title I. Agricultural Commodity Supply Management, which provides for the adoption of a national marketing quota program for wheat, corn, grain sorghums, barley, oats, rye, and soybeans. Also, provisions for an emergency transition program for the 1987 crop is included as Title VI in the case that the bill becomes law prior to or during the 1987 crop year.

Title II. Milk Marketing Control, which provides for the enactment of a national marketing quota program for milk.

Title III. Agricultural Exports and Imports, which provides for multilateral export agreements for famine relief, labeling of imported foods, and prohibition of imported products with chemical residues.

Title IV. Food Assistance, which provides for increased food assistance for the school breakfast and lunch and Women, Infants, and Children (WIC) programs.

Title V. <u>Farm Debt Restructuring</u>, which provides for a comprehensive restructuring of farm loans and farm lending institutions.

The objective of this report is to summarize the five titles of the SFFA. Some of the titles of this bill, if enacted, would represent a significant departure from existing programs and would have many implications at the farm as well as market levels for agricultural commodities. While these implications are very important, it is beyond the scope of this report to examine them. Rather, the paper focuses solely on describing the mechanics of the SFFA. The paper is organized into five main sections with each corresponding to one of the five titles of the SFFA.

Title I - Agricultural Commodity Supply Management

Title I of the SFFA lays the framework for the 1987 transition period and the commodity supply management program for the years 1988 through 1999. The commodities addressed in the transition are: wheat, corn, grain sorghum, barley, oats, rye, and soybeans. The rules are basically amendments to the Agricultural Act of 1949. Prices would be supported on the basis of parity and would be significantly higher than current support levels. In addition, to guard against surpluses resulting from higher price supports, a stringent supply management (marketing quota) program would be instated.

Transition for 1987 Crops

The commodities are given a transition period of one year (1987), assuming that the bill is passed no later than early 1987, sometime before the start of the 1987 cropping year. During the transition year the minimum support price would be set at 70% of parity. In October 1986, the price supports for corn, soybeans, and wheat would have been $3.44, $8.47, and $4.72 per bushel, respectively, if supported at 70 percent of parity. The Secretary of Agriculture would be required to make available loans for and purchases of the 1987 crops at a price not less than the minimum support price (as set by the parity requirement). The loans may not exceed $250,000 to any one producer.

The supply management program for the transition year would not be mandatory BUT if a producer did not participate she/he must either sell their commodity outside the U.S. or consume it on the farm. Thus, for all practical purposes, the program is mandatory. Cross compliance would be mandatory for all participating commodities and the Secretary would have the option of also limiting nonprogram crops. Livestock producers would be allowed to purchase CCC surpluses starting 30 days after enactment of the bill and ending 18 months thereafter or until stock depletion. The stocks would be targeted to farms not larger than "family size" and the maximum value would be $50,000.

Agricultural Commodity Supply Management, 1988-2000 Crops

The supply management program for these years includes two commodities not addressed in the transition period; these are upland cotton and rice. The base acreage for establishment of allowable production would be the current crop acreage base listed with the Agricultural Stabilization and Conservation Service (ASCS). The eligible crop acres would be the base acreage minus set-aside acres for any particular farm, but not less than 50% of total crop acres. This would be in effect for four crop years (termed the Program Period).

Implementation

A referendum would be held no later than August 1, 1987, after the passage of the bill. If approved, the program would be instated for four years. At the conclusion of this four-year period, producers would have to vote to continue the program. To qualify to vote in the referendum, the individual would have to be engaged in production of that commodity for commercial use prior to the date of the referendum. The individual commodities participation, with the exception of wheat and feed grains which are combined, are determined by a majority vote (over 50 percent) of all those casting votes. If a commodity is disapproved by at least one-half of the eligible producers voting, then another referendum must be conducted within 12 months.

Loans

If the bill becomes law, loans to the producers through the Commodity Credit Corporation (CCC) would be made at a price not less than the minimum support price. The Secretary would also take into account the cost of production when determining the support price. The minimum support price as determined by percent of parity would be:

Year	Parity	Year	Parity
1988	71%	1993	76%
1989	72	1994	77
1990	73	1995	78
1991	74	1996	79
1992	75	1997-2000	80

Prior to the 1993 crop year the Secretary would be required to conduct an economic study of the impact of this act on the agriculture and the general economy. This would then be made available for a Congressional review to determine if the schedule should be continued. A joint resolution of disapproval from Congress would be needed prior to July 1, 1992 to discontinue the schedule. If this happened, the price would remain at 75 percent of parity until the year 2000.

National Marketing Quotas

The Secretary would be required to instate a national marketing quota program for each commodity under the SFFA. The quota for each commodity would be based on projected utilization during the year to meet domestic and export demand, food aid, carryover and a small reserve. The Secretary would be required to maintain adequate stocks of all commodities through carryover and reserve levels. All carryover stocks would have to be adequate, but in the event that they became excessive, they would be reduced over a five-year period. Stocks could not be reduced by more than 20% in any one year. The methods of reduction would be: 1) Payment in Kind (PIK) or an export enhancement program, 2) PIK Certificates, 3) assistance to livestock producers in disaster areas and, 4) ethanol production incentives.

National Acreage Allotments

The quantity of the per farm allotment would be based on the projected national yield in relation to the target national marketing quota. This implies that allowed production would be some percentage of the farm base acreage and the national average yield. For example, if the projected national yield was 8 billion bushels of corn while the target national marketing quota was 7 billion bushels, the allowable production would be 87.5 percent (e.g., 7/8). A farm that had a base of 25,000 bushels would have a marketing quota then of 21,875 bushels (25,000 x .875).

Farm Acreage Allotment

Each farmer would be required to submit an application that indicates intended acreage use. This would include all acreage in use and the intended commodity for each acre. The farmer could not increase acreage by more than the number of acres equal to 20% of eligible crop acres.

Set-Aside Program

A set-aside program would be implemented if a commodity was determined to exceed the quota without one. The set-aside would be equal to a pre-determined percentage of base acreage as long as the producer was in compliance with other terms of the program. The set-aside acreage would be utilized for conservation purposes. The conservation acreage (set-aside) could be used for hay and grazing as determined by the Secretary.

The percentage set-aside would be the number of acres (to be set aside) times the established per farm average yield divided by the total per farm yield times 100. This would have to be based on a formula by the Secretary which uniformly requires a greater set-aside percentage as projected production per farm increases. The formula would have to contain a minimum of 10 farm sizes, with each separated by not less than 1% set-aside. The maximum set-aside would be 35%.

Marketing Agreements

Marketing agreements gives producers authority to market, barter, or donate a particular commodity to the CCC. An agreement would be determined by multiplying acreage of the producer times the higher of: 1) county average or 2) farm program payment yield. A producer could use an unlimited amount of the commodity on his own farm. The surplus above the agreements could be used : 1) on farm, 2) stored from the current market year until the next market year, 3) donated to the CCC, or 4) sold to the CCC at a rate not to exceed 50% of the loan level. It would be illegal to purchase or sell anyone's surplus (see penalties subsection).

Farm Disaster Reserve

There is also a provision in the SFFA to set up a farm disaster reserve to assist farmers in case of crop failure. The stocks for this

reserve would come from the CCC. To be eligible for the disaster reserve, a producer would have to experience a reduction below 90% of his authorized marketings. Up to 90% compensation would be given on the authorized commodity inclusive of the farms production. This could not exceed a value of $360,000. An example would be a 25,000-bushel base, crop failure of 40% for farm production of 15,000. The farmer would be eligible for up to 90% of 25,000 bushels minus the farm production of 15,000 bushels which is 7,500 bushels from the CCC, i.e., 25,000 x .90 = 22,500
22,500 - 15,000 = 7,500 bushels.

Penalties

Noncompliance would be penalized with a loss of eligibility for allotment, loan purchase or payments authorized.

Unauthorized marketings would carry a fine in value of three times the value of the commodity marketed OR an increase in set-aside acres during the succeeding crop year by a number that would result in a production decrease sufficient to satisfy the penalty.

Unauthorized purchases would be subject to a fine of three times the value of the purchase. Hence, both the seller and buyer of unauthorized marketings could be fined.

Title II - Milk Marketing Control

This title of the SFFA would institute a national quota program for milk and support the price of milk at higher than current levels. The two major federal programs affecting milk prices--the dairy price support program and federal milk marketing order programs, would not be drastically affected. Rather the quota system would be superimposed upon these two existing programs. If adopted, the program period would be for 1988 through 2000 (and the 1987 calendar year if enacted prior to 1987). Some of the following provisions of the dairy title are quite similar to those previously discussed for crops.

Implementation

Title II of the SFFA would be implemented if Congress enacts this bill into law and if at least 50 percent of all eligible dairy producers approved it in a special referendum. An eligible producer is defined as "any person who is engaged in the production of milk for commercial use" for the 30 days preceding the date of the referendum. Under current provisions, the bill specifies that this special referendum be scheduled no later than 30 days after the SFFA is passed. If approved by over 50 percent of all dairy farmers, then the national milk marketing base program (NMMBP) will be implemented. If not approved by at least 50 percent of eligible farmers, then another referendum must be offered not later than 12 months after the first referendum failed. The second referendum would be conducted in order to determine whether producers want the program for the next calendar year.

Marketing Histories and Bases

As part of the NMMBP, all dairy farmers would be assigned a milk marketing history (MMH), which would be used as the basis for establishing their marketing bases each year. The MMH for each producer would be equal to the average annual milk marketings for a five-year period (1981-85) with the highest and lowest years excluded. For those producers that did not sell milk in each of the five years represented by this period, their MMH would be equal to the annual average of years that they did deliver milk. For those producers that sold milk in only one of these five years, the Secretary of Agriculture is given the discretion to determine a "reasonable" MMH for them. Finally, farmers that participated in the Milk Diversion Program (MDP) would receive a MMH based on the level established under the MDP, i.e., 1981-1982.

At the beginning of each year that the NMMBP is in effect, the Secretary would be responsible for determining each farmer's milk marketing bases (MMB), which would represent the quantity of milk each producer could sell without being penalized. A farmer's MMB for each year would be equal to the product of 99 percent of his/her MMH multiplied by the national Milk Marketing Allocation Factor (MMAF). The MMAF, determined by the Secretary of Agriculture each year, is basically the ratio of estimated use to production of milk. According to the bill itself, the MMAF is "the ratio of the aggregate quantity of milk, as estimated by the Secretary (in consultation with the National Board of Agricultural Producers), necessary to satisfy domestic consumption and exports of milk and the products of milk...to the aggregate quantity of milk produced in the U.S. in the (forthcoming) calendar year (CY)."[1]

To illustrate how the MMH and MMB's are calculated, consider the following example. Suppose that a producer sold the following quantities of milk, respectively, from 1981 through 1985: 650,000, 700,000, 800,000, 750,000, and 1,000,000 pounds. Deleting the lowest and highest levels of 650,000 and 1,000,000 pounds, the average amount is 750,000 pounds, which is his/her MMH. This amount would be the same for each year that the program is in effect. Suppose that the aggregate amount of milk needed to satisfy domestic consumption and exports is estimated at 135 billion pounds and aggregate milk production is 145 billion pounds. Then the MMAF would be 0.93 (i.e., 135 divided by 145). This producer's MMB for the year, given these numbers, would be determined by the following:

MMH x 99% x MMAF = 750,000 x 99% x 0.93 = 690,525 pounds.

Minimum Price Supports

The price of all milk sold within one's MMB would be supported at levels substantially higher than they currently are supported under the SFFA. Beginning in CY 1988, the price support for 3.67% (butterfat) milk would be set at 71 percent of parity (at the time of this writing the price support was equivalent to 51 percent of parity) and would be increased by 1 percentage point annually until it reached 80 percent of parity in 1997. From 1997 to 2000, the price support would be supported at 80 percent of parity.

By CY 1993, when the price supported is set at 76 percent of parity, the SFFA also requires the Secretary to conduct a study of the economic impact of the Act on milk markets. Based on the results of this study, the Secretary would be required to make a recommendation to Congress as to whether or not milk should be supported at levels higher than 75 percent of parity. The SFFA specifies that a Congressional review should follow this study, and at that point in time (prior to 1993), a decision would be made on whether or not to continue the scheduled increases in the milk price

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[1]What the denominator of this ratio (aggregate milk production) means is unclear to the authors of this report. Do the authors of this bill mean projected milk production or do they mean the sum of all producers' MMH? Obviously there is a difference between these two measures, i.e., projected milk production would include milk that is used on the farm in addition to any excess milk marketings, while the MMH is based solely on average milk marketings from 1981 to 1985. The MMH, in our opinion, makes more sense than projected milk production as the denominator for the MMAF.

support. In order to halt these increases, Congress would have to pass a joint resolution of disapproval by July 1, 1992, in which case the Act provides that the price support remain at 75 percent of parity until the year 2000.

Any milk sold over one's MMB would be subject to a civil penalty in order to discourage excess milk marketings. As currently written, the SFFA would require that the Secretary assess any producer delivering over his/her MMB a penalty equal to 75 percent of the price support level (for 3.67% milk) on all excess marketings. This, in effect, would result in excess milk sales being supported at 25 percent of parity.

Any producer who is assessed a penalty has the right to appeal the decision to "an appropriate U.S. District Court" by filing a civil action within 30 days after the penalty is levied. The U.S. District would have full jurisdiction in determining whether or not the penalty should stand. In addition, the Secretary has the authority under provisions of the SFFA to waive or reduce penalties on any producer if the Secretary feels that the violation does not warrant the full penalty.

Transferability of Milk Marketing Histories and Bases

The rules written regarding the ways MMH and MMB's may be transferred under the SFFA are quite cumbersome and difficult to summarize. Generally, the rights to market milk without being penalized are "tied to the farm" and it is probably fair to say that they are quite restrictive.[2] That is, MMH's can only be transferred by selling or leasing all or part of it with "that portion of the farm on which is located the milk production facility owned by the producer". Furthermore, this sale or lease of the MMH must be transferred to a "beginning producer", who is defined as an individual who is in the process of establishing a milk production operation, but has not assumed the full control and risk of such operation for longer than five years. A simple example of a legitimate sale of MMH would be a producer that sells his entire MMH along with his farm to beginning producer.

There are also provisions for the transfer of MMB's each year the program is in effect to new and existing producers. For each CY, a County

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[2]It appears that the authors of this bill have gone to all extremes in attempting to limit the windfall gains that accrue to existing producers due to the adoption of a quota program. However, even with quotas being tied to the farm, they still take on value by being capitalized into farm values and windfall gains to the initial quota holder result when the farm is sold. In addition, the strict rules on MMH and MMB transferability have the negative effect of impeding changes in regional comparative advantage over time. For a more detailed discussion of these implications, the reader is referred to a paper by Kaiser entitled "A U.S. Milk Quota Program: Some Economic Issues," which can be obtained from the department of agricultural economics at Cornell University.

Committee (established under Section 8(b) of the Soil Conservation and Domestic Allotment Act for the county where the farm is located) would be allocated additional MMB for this purpose equal to the county's share of the MMAF multiplied by 1 percent of the aggregate MMH's for the CY. Also, in the case that the MMAF exceeds 100 percent (which implies that total estimated use exceeds total estimated production), then the County Committee would also receive the county share of the percentage excess of the MMAF multiplied by the aggregate MMH's for the CY. In addition, the County Committee will acquire the product of the MMAF times any amount of MMH of producers who do not market and do not transfer MMH in the county for the CY.

The County Committee may transfer the MMB's acquired according to the rules above to persons in the following order of priority:

(1) A producer's spouse, parent, brother, sister, or child (or "a person to whom the producer stands in *loco parentis*").

(2) A beginning producer (defined as before) who is a new owner of a farm that has an existing MMB.

(3) An existing producer who demonstrates that (a) he/she uses "sound management practices" and (b) proves to the County Committee that he/she needs additional MMB to achieve a net farm income at levels as great as the state average.

(4) An existing producer who proves that additional MMB is necessary to permit a family member (defined as in (1)) to form a partnership.

(5) A beginning producer in the County.

(6) A beginning producer in the State.

(7) A beginning producer in the United States.

(8) An agricultural commodity producer in the County.

(9) An agricultural commodity producer in the State.

(10) An agricultural commodity producer in the United States.

If the SFFA would be enacted prior to or during CY 1987, then additional provisions for how the County Committee can acquire MMB and priorities on distributing it for 1987 are also specified. Because they are quite similar to the procedures outlined above, they will not be reported here. See the bill itself for the procedures for CY 1987.

Role of Existing Federal Dairy Programs

As was previously mentioned, the dairy price support program and federal milk marketing order program would not be drastically altered under the SFFA. The price of within MMB milk would continue to be supported through the purchase of surplus dairy products as it currently is. However, support levels would be significantly higher than they now are. Furthermore, CCC purchases would be limited to a quantity that would provide adequate supplies necessary for government needs (e.g., school lunch programs) and a small reserve necessary to balance out any shortages that could arise due to possible underestimation of commercial use. As is currently the case, the price of Grade B milk (eligible for only manufactured dairy products) would be supported by the dairy price support program and federal milk marketing orders would operate exactly the same as they currently work.

Title III - Agricultural Exports and Imports

This title of the SFFA would amend Title II of the Agricultural Trade Development and Assistance Act of 1954 and the Tariff Act of 1930 by adding several sections which provide for multilateral export agreements for famine relief, labeling of imported foods, and prohibiting imported products having chemical residues.

Among other things, this title would require the President to enter into ("to the maximum extent practicable") multilateral agreements with other food exporting nations to provide more food aid to other "needy" countries. This title would also have the President ("to the maximum extent practicable") include provisions in such agreements that would be designed to facilitate that the recipient countries become self sufficient in satisfying their food requirements. One provision would require that food exporting countries design their own farm policies that are not "harmful" to recipient nations. Finally, the CCC would be permitted to use any surplus stocks to aid recipient countries.

Two changes affecting agricultural imports are also specified in the bill. The first requires that any processed agricultural product in the U.S. containing any imported ingredient accounting for "a significant portion of the product's value or volume" be labeled to specify the ingredient's country of origin. The second prohibits agricultural commodities or products, meat or meat products, and live animals chiefly used for human food containing any residue ("or greater level") of any chemical prohibited from the use in production, processing, or marketing in the U.S. from being imported into the country.

Title IV - Food Assistance

This title of the SFFA is basically aimed at increasing food assistance for the needy in the U.S. It includes measures designed to increase assistance for four programs: the Food Stamp, School Lunch, School Breakfast, and WIC programs.

With respect to the Food Stamp Program, the bill mandates that the Secretary increase the value of allotments given to participants by an amount that offsets any increase in the cost of the thrifty food plan resulting from the higher price supports required of the SFFA. Identical amendments in appropriate laws are also specified for the School Lunch and Breakfast as well as WIC programs.

The purpose of this title appears to be to offset any costs incurred to the poor by the higher farm prices resulting under the SFFA. Such a title is probably necessary if the bill is going to get any support from urban and suburban legislators.

Title V - Farm Debt Restructuring[3]

The purpose of Title V, farm debt restructuring, is to provide a mechanism for refinancing family farm loans that are in jeopardy of, or have been forced to forfeit security to, a farm loan creditor. This title is intended to provide financial relief to farmers that are experiencing cash flow problems due to low commodity prices or high interest expenses. The method employed to transfer the funds from the federal level to the individual is through a state "farm loan mediation council." This council would screen farmers' applications for debt restructuring and would provide up to $30,000 annually for three years to producers that qualify. These funds would be repaid to the council beginning five years after the first payment. The repayment term would be for five years at no (0) interest. This means that it could be up to ten years after the initial funds were received by the farmer that the "loan" would be repaid (5 years before first payment, plus 5-year schedule of payments).

Loans to the State

The federal government, through the auspices of the Department of Agriculture, would authorize the debt restructuring loans to individual states who, in turn, would supervise each individual farm case. According to this title, the Secretary shall determine the amount to be loaned to any state after the approval of the state's debt restructuring aid plan. The Secretary must also make subsequent annual loans after he/she receives the expenditure estimate (Restructuring Aid Plan) for the subsequent years. The term of the loan would be for ten years with no interest to be charged on the loan and the repayment would be made in equal monthly payments beginning five years after the date the loan is made. Under the situation where "general agricultural conditions" warrants postponement of repayment, the Secretary may delay repayment for up to two years. For any state to qualify for a farm debt restructuring loan, the state must file with the Secretary a report which estimates the sum ($) to be expended by a Farm Loan Mediation Council (Council) during the 12-month period following acceptance of the request.

Farm Loan Mediation Council

Established by the Governor of the State it would be "composed of such numbers of members as the Governor deems appropriate." The members' qualifications would be based on experience, expertise, and public office. This council would be responsible for the appointment and training of

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[3]The authors suggest interested parties refer directly to the bill for specific language. We found this title difficult to summarize as the language was vague in many areas.

county or regional mediators to efficiently and effectively handle all the applications for mediation.

Mediation System

Any state plan would have to allow anyone the chance of applying to the Council for mediation (debt restructuring). A full financial disclosure detailing the applicant's assets, liabilities, income and expenses at the time of the application would accompany such applications. To be an eligible borrower, the applicant must:

1) be a resident of that state,
2) own and operate part or all of a "family farm"
3) currently be a farm loan borrower,
4) have been notified by his creditor that she/he will be compelled to to forfeit security, or the creditor has collected security in an amount required by the applicant to meet necessary living expenses or maintain a viable farming operation,
5) have annual sales from agriculture, nonfarm income and gross annual income fall within the following table:

If gross annual sales from agricultural operations are--	less than $20,000	at least $20,000 but less than $40,000	at least $20,000
Then nonfarm related income must be--	less than $15,000	at least $30,000	at least $30,000
And the percentage of gross annual income during the applicable period from farm operations must be--	40 percent	40 percent	50 percent

6) have debts greater than or equal to 40 percent of assets,
7) be experiencing negative cash flow due to low commodity prices or high interest rates,
8) have gross income for any of the first 3 fiscal years after the enactment of this title which is likely to be less than the sum of;
   a) farm operating expenses for the year,
   b) living expenses for the year, and
   c) the principal and interest payments due for the year; and

9) demonstrate the ability to maintain a financially viable farming business if aid is provided.

Determination of Amount to be Offered

The Council would have to determine an amount to be offered annually to the farm creditors on behalf of any eligible borrower. This amount would be equal to half of: 1) an amount equal to the sum of the monthly payments which the borrower would be obligated to make if the creditor extended the term of the real estate loans by five years; reduced by 2) the amount which the Council determines the borrower is able to pay without impairing the borrower's standard of living.

Qualified Debt Restructuring Agreement

A qualified debt restructuring agreement would be between the borrower, all of the farm creditors, and the Council under the following provisions. Nonproblem creditors would take a principal write-down on the loan and reduce the interest rate equal to the greater of:

1) half of the percentage by which the value of the assets securing the loan have depreciated since the loan was made,

2) 10 percent; and

3) in the case of the creditor, the rate is not more than new loans at their preferred agricultural borrower rate.

The bill contains specific language that would require the borrower and the farm creditors to hold negotiations. This includes details of the time-frame and the appointment of a mediator. If the borrower and the creditors are unable to reach a satisfactory agreement, the creditors would become restricted in their actions against the borrower (i.e., foreclosure), and the case will be referred by the mediator to the appropriate state court for supervision. For a detailed explanation, the reader is referenced to the bill, pages 71 through 73, for specific language.

Debt Restructuring Aid Payments

The Council would make a maximum annual $30,000 payment to the creditors upon the condition that the borrower make timely payments as scheduled under the restructured loan arrangement. This agreement would be in effect for up to three years.

The borrower, in return, would annually submit to the Council an updated financial disclosure statement. The Council would then review the financial circumstances of the borrower and, when possible reduce the Council's payments made on behalf of the borrower.

Repayments

The plan requires each borrower who receives payments to fully repay an amount equal to the payments received. The repayment would be over a period of five years, beginning five years after the date of the first payment from the Council. The repayment may be postponed for up to two years if the Secretary (Agriculture) determines that a postponement would increase the likelihood that the borrower would be able to make timely repayments. There are no interest charges against the payments made to the creditors; in other words, the Council is making the borrower an interest-free loan.

Cooperation of Secretary of Agriculture and
The Farm Credit Administration

The Secretary would issue rules that guarantees, or insures farm loans (creditors) would cooperate in good faith in requests for information and/or analysis of information. They will also be required to present and/or explore debt restructuring proposals advanced from the Council. The Farm Credit Administration shall also require each institution of the system to cooperate in good faith with requests for information.

Erodible Land and Converted Wetlands

The use of erodible land or converted wetlands would prohibit anyone from receiving the benefits of the debt restructuring plan.

Ten-Year Amortization of Principal Losses
Incurred in Restructuring (Banking)

This pertains to the creditors, primarily the banks, and how they are allowed to account any loss or write-offs that would occur due to the restructuring of any loans. The bank would be allowed to amortize the loss over a period not to exceed ten years.