

SUBJECT: Revising Texas Agricultural Finance Authority loan programs

COMMITTEE: Land and Resource Management — committee substitute recommended

VOTE: 6 ayes — Walker, Crabb, F. Brown, Geren, Howard, Truitt
0 nays
3 absent — Krusee, Mowery, B. Turner

WITNESSES: For — Dennis Raesener, Farm Credit Bank of Texas
Against — None
On — Susan Combs and Lee Deviney, Texas Department of Agriculture;
Jane Anne Stinnett, Texas Agricultural Finance Authority

BACKGROUND: The Texas Agricultural Finance Authority (TAFE) is a loan guarantee program created in 1987 by the 70th Legislature. As a public authority within the Texas Department of Agriculture (TDA), TAFE provides financial assistance for the development and diversification of Texas agricultural products. TAFE is governed by a nine-member board.

In a December 1997 report, the State Auditor's Office (SAO) recommended that, in light of a \$5.7 million negative balance in fund equity, the feasibility of TAFE programs should be reassessed if TAFE's fund equity position due to bad debt continued to deteriorate. The report also noted that the TAFE board was implementing policy changes and corrective measures after an earlier SAO report had cited concerns about a previous TAFE board's approving loans that did not meet its loan guidelines. In May 1999, the SAO reported that 22 of TAFE's 83 loans since 1993 had defaulted and that the negative fund equity had increased to \$6.9 million as of August 31, 1998. At that time, another \$4.5 million in loans were in default.

In 1999, the 76th Legislature enacted HB 3050 by Counts, increasing loan limits and expanding eligibility requirements for several TAFE programs while also revising the program's creditworthiness requirements. The

programs included the Young Farmer Loan Guarantee Program, the Linked Deposit Program, the Microenterprise Loan Program, and the Agricultural Diversification Program. HB 3050 eliminated a requirement that the TAFAs board make loans “that otherwise would not be made” and also dropped the “first-time” farmer requirements for qualifying for the Young Farmer Program. HB 3050 also created new loan programs for nature-tourism lending for agricultural producers, young farmer agribusiness loans, and loans linked to disaster assistance. The Legislature also changed TAFAs board procedures, including a requirement for regular monthly meetings.

DIGEST:

CSHB 1596 would authorize TAFAs to provide up to \$5 million in loan guarantees to non-agricultural businesses in rural areas and to issue revenue bonds for non-agricultural economic development programs; allow the Farm Credit Service, a federal quasi-governmental agency, to participate as a TAFAs lender; and change some TAFAs board procedures.

The bill would authorize a new category of eligible borrowers by adding people who provide non-agricultural goods and services in rural areas. It would allow use of the Linked Deposit Program to encourage development of non-agricultural businesses in rural areas of the state.

The bill also would allow TAFAs to use money from the Texas Agriculture Fund to buy down the interest rates for loans made through other TAFAs financial assistance programs. Additional loan guarantees and lower interest rates would be available for participants in the Farm and Ranch Finance Program, which helps people buy rural real estate for agricultural uses. Also, interest from the Young Farmer Loan Guarantee Program that exceeds administrative expenses would have to be transferred to the Texas Agriculture Fund projects account.

CSHB 1596 would require a majority of TAFAs directors, rather than three, to adopt resolutions and would require a two-thirds vote of board members present to approve a loan of between \$2 million and \$5 million. It also would authorize TAFAs to select Travis County as venue for any lawsuit the board might file.

This bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2001.

**SUPPORTERS
SAY:**

CSHB 1596 would expand TAFAs authority to help non-agricultural businesses in rural Texas, providing these communities with another tool needed to revitalize these areas. The 77th Legislature has given a high priority to rural economic development programs, and CSHB 1596 would represent another piece of that mosaic. Rural issues transcend agriculture policy, and TAFAs programs should reflect that.

TAFAs, in cooperation with legislators and TDA, has made strides in improving the fiscal soundness of the program and in meeting the concerns raised in the 1997 and 1999 SAO reports. The 1999 report noted that none of the defaulted loans had been made during the preceding two years and that current loans are less likely to default because of TAFAs improved credit policies and procedures.

Since the Legislature eliminated the "lender of last resort" provision in 1999, TAFAs has made more productive loans. Also, TDA's active promotion of the program has increased the loan volume. During 1999-2000, 25 loans worth \$23.6 million were made through TAFAs Financial Assistance program, and 12 applicants received \$1.7 million in loans through the Young Farmer program. According to TDA, TAFAs programs have generated an estimated \$564 million in economic activity in rural Texas communities and have helped create or retain about 1,370 jobs.

Allowing the Farm Credit Service to participate in the program would strengthen the assistance programs for young farmers offered by both the Farm Credit Service and TAFAs. The average age of a Texas farmer is now 58 to 59 years. The state must encourage younger Texans to buy and operate their own farms and ranches, and they need to be able to receive loans to buy land and equipment and for working capital. Funding for the Young Farmer Program comes from fees assessed on all farmers who have agreed to support this program. Other professional and occupational groups also can seek the Legislature's permission to fund programs to encourage young people to seek careers in their professions or occupations.

OPPONENTS
SAY:

Broadening TAFAs authority to make loans beyond agricultural enterprises would risk a repetition of the poor lending decisions that caused the fiscal difficulties identified in the 1997 SAO report. While TAFAs may have shown improvement since 1999, it still lacks a sufficient track record to determine if all problems have been corrected. Expanding the program into economic development loans could expose TAFAs to additional risky loans at a time when it still has not attracted enough good loans to serve as a buffer.

Government involvement in loan guarantees at any level interferes with the efficiency of the free market. Private lenders have the expertise and experience in judging the creditworthiness of a particular borrower or a proposed project and can evaluate the loan appropriately. Government loan programs, however, make all taxpayers liable for poor financial decisions made by private borrowers and lenders. Despite improvements in its credit policies and procedures, TAFAs still tends to attract projects deemed too risky by the private sector.

Expanding the eligible applicants to include non-agricultural firms would dilute TAFAs resources, diverting them from the farmers and ranchers for whom these loans originally were intended. Other economic development programs can provide financial support for non-agricultural enterprises.

OTHER
OPPONENTS
SAY:

Programs to help farmers may be worthy, but no similar assistance is available to help equally worthy residents of distressed areas of urban Texas. For example, the state has not created loan guarantee funds comparable to the young farmers fund to help those wishing to start enterprises in Houston, Dallas, San Antonio, or El Paso. Urban as well as rural Texans deserve help in rebuilding their communities.

NOTES:

The committee substitute changed the filed version by adding the provision that the Farm Credit Service could participate as a TAFAs lender.

The companion bill, SB 716 by Duncan, passed the Senate on the Local and Uncontested Calendar on March 12 by 29-0 and was reported favorably, without amendment, by the House Land and Resource Management Committee on March 19, making SB 716 eligible to be considered in lieu of HB 1596.