# *Debt Restructuring Guarantee in High Demand*

by Heather Hampton Knodle

Carryover of 1998 operating loans, high on-farm inventories and low commodity prices – especially hog prices – have forced many Illinois farmers to reassess their financial position. The Illinois Farm Development Authority (IFDA) offers a debt restructuring guarantee that has allowed hundreds of farmers to stay in business and many banks to continue providing service to their clients.

The State Guarantee Program for Restructuring Agricultural Debt is the only one of its kind in the country. IFDA guarantees up to 85 percent of the loan up to $500,000. IFDA Director David Wirth says the typical application involves refinancing operating carryover and refinancing some machinery or intermediate debt in one package that can be repaid over time.

"Many farmers ended up showing two years' hit in one year because they held the 1997 crop too long," says Wirth, who also chairs the National Council of State Agricultural Finance Programs. "This program gives them breathing room to review their marketing plans while they continue operating." The repayment period on depreciable items typically runs from seven to nine years. Real estate can be amortized over 30 years.

Demand for the program is high – 30 to 40 applications are submitted each month compared with fewer than 10 per month a year ago. Wirth says IFDA will have $30 million to $35 million in new loans by June and have the capacity to add an additional $70 million.

The current rate of demand shows shades of 1986 – at the peak of the 1980s farm crisis. Wirth does not expect demand for the restructuring debt program to continue at the same

*Heather Hampton Knodle is an editor for "H" Ink, Hillsboro, Ill.*

rate. "Lenders appear to be more proactive in their use of the program and borrowers have a better awareness and understanding of their financial positions than in the '80s."

"I remember borrowers saying in 1982 and 1983, 'We've been through bad years before. Next year will be better,'" Wirth points out. "Today, no one automatically assumes that 'next year will be better.' Farmers and lenders are looking at the income history and the income projection and trying to figure out the best strategy for success. If there is a high level of debt, the objective might be to devise a strategy for survival."

Wirth adds that many tough decisions will be made in the next year. Some farmers will make major changes to their operations, others will supplement with off-farm income and others will quit farming.

The IFDA staff recognizes the strain many farmers and their lenders are feeling. "We try to make the process as easy as possible," he says. "Before completing a full application, a lender can fax a financial statement to us for a preliminary review and informal discussion to determine if a proposal is in the ballpark. After that, the lender submits the complete application and we typically make a farm visit with the lender." If everything meets specifications, the application is presented to the IFDA board of directors for approval. IFDA eventually prepares all loan-closing documents for the lender so that only signatures and dates need to be dropped in at closing.

For more information on Illinois' Debt Restructuring Program, contact IFDA program managers Rick Schramm or Kevin Koenigstein at 800-406-IFDA or 217-782-5792.

For information on programs in other states, call Communicating for Agriculture at 800-432-3276 and ask for the National Council of State Ag Finance Programs' booklet, *State by State Agricultural Loan Programs*. It lists available programs and includes contact information. For more information about Young Farmer financing and Communicating for Agriculture, visit their home page at **www.cainc.org** jal

## Debt Restructuring Program Requirements

The State Guarantee Program for Restructuring Agricultural Debt from IFDA is designed to consolidate and spread out a farmer's existing debt to a longer term at a reduced interest rate. Loans are made by commercial lenders who receive an 85 percent guarantee of principal and interest.

**Eligibility:**

- Illinois resident at least 18 years old
- Principal operator of a farm who derives 50 percent or more of gross income from farming
- Debt-to-asset ratio between 40 and 65 percent
- Cash flow and collateral adequate for the loan

**Loan terms:**

- Maximum loan is $500,000
- Maximum length of 30 years
- Real estate may be amortized up to 30 years. The repayment period will be shorter for depreciable property
- Annually variable rate: 1-year Treasury plus 2.5 percent
- Three- or five-year rate: corresponding Treasury plus 2.5 percent