

SUBJECT: Farm and ranch finance program

COMMITTEE: Agriculture and Livestock — committee substitute recommended

VOTE: 6 ayes — Patterson, Hawley, Rabuck, Rusling, Swinford, Walker
0 nays

3 absent — R. Cuellar, Finnell, King

WITNESSES: For — None

Against — None

On — Robert Kennedy, Texas Department of Agriculture

BACKGROUND: The Farm and Ranch Finance Program makes loans to eligible farmers and ranchers to purchase land for a base of operation. The program is funded by general obligation bonds and is self-supporting.

Borrowers may not have a net worth greater than \$250,000 and must have earned at least 25 percent of their gross income from farming and ranching in the previous three years. Loans are capped at \$150,000, minus a required down payment. The down payment is 5 percent of the purchase price of the land, if the price is \$150,000 or less, or, if the price is greater than \$150,000, 5 percent of the price plus the difference between the price and \$150,000.

The 73rd Legislature moved the finance program from the Veterans Land Board to the Texas Department of Agriculture.

DIGEST: HB 1167 would set the maximum amount of a Farm and Ranch Finance Program loan at the lesser of \$150,000 *or* an amount equal to 95 percent of either the purchase price or the appraised value, whichever was less. The down payment requirement would be eliminated. The bill would raise the cap on eligible applicants' net worth to \$300,000 and eliminate the requirement that applicants have derived at least 25 percent of their gross income from a farm or ranch over the previous three years.

Applicants would be required to submit an agricultural business plan for the land to be purchased that assures the agriculture department that the applicant intends to use the land for the primary purpose of farming or ranching. Applicants must have at least three years of experience relevant to the submitted business plan.

Administrative costs not covered by fees would be paid from the farm and ranch administrative expense fund.

The bill would take effect September 1, 1995. If a down payment for a loan was paid prior to the effective date and the land sale was not consummated until after that date, the down payment would be refunded.

**SUPPORTERS
SAY:**

CSHB 1167 would expand the number of young farmers and ranchers who would be eligible for loans under the farm and ranch finance program by changing the requirements. Farmers and ranchers with three years of relevant experience could qualify for the loan, and the more restrictive 25-percent-of-income rule would be eliminated. Use of the old rule was complicated by the fact that calculations required to determine gross income from farming and ranching are extremely complex and vary with each individual situation. In addition, the bill would allow farmers and ranchers to have a net worth of up to \$300,000, instead of \$250,000.

The drafting of the current law is unclear and fails to conform to legislative intent. The loan limit in current law is \$150,000, however, the down payment language in effect sets the loan limit at \$142,500 by reducing all \$150,000 loans by a 5 percent down payment. The bill would rectify this problem by eliminating the down payment.

The purpose of the program is to provide affordable financing to eligible farmers and ranchers in order to purchase land for a base of operation. The program is funded by general obligation bonds and is self-supporting. Approved applicants receive farm and ranch loans at a 5 percent loan rate, which is better than a commercial loan rate. Proper agricultural business plans must be submitted and are a significant way to ensure accountability.

**OPPONENTS
SAY:**

No apparent opposition.

NOTES:

The substitute added the provisions about fee deposits. The original bill would have required an applicant to use the land for farming and ranching and removed, rather than changed, the limit on an applicant's net worth.

The companion bill, SB 699 by Sims and Lucio, passed the Senate on March 9 and was reported favorably, as substituted, by the House Agriculture and Livestock Committee on April 18. CSSB 699 is eligible to be considered in lieu of CSHB 1167.