Friends of Family Farmers ◆ 249 Liberty St NE, Ste 212 ◆ Salem, OR 97301

503-581-7124 ◆ www.FriendsofFamilyFarmers.org

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Testimony in Support of HB 3091
Increase Participation in Oregon's 'Aggie Bonds' Beginning and Expanding Farmer Loan Program

Chair Clem, Members of the Committee

Friends of Family Farmers represents small and mid-sized family farmers across Oregon. We are urging your support for HB 3091, a bill to reduce fees paid by borrowers who participate in the state's existing 'Aggie Bonds' Beginning and Expanding Farmer Loan Program. It is our hope that by reducing fees - and potentially creating other structural changes - more beginning farmers and ranchers will be able to benefit from this program.

In 2013, the Oregon Legislature overwhelmingly passed legislation creating the state's Aggie Bonds program. Aggie Bonds is a program authorized in the federal tax code that allows states to use pass-through revenue bonds to support *private* lower-interest lending to qualifying beginning and small farmers and ranchers. The program is basically an interest rate reduction program – while state money is not lent to borrowers, the state certifies that the loans qualify for a tax break for participating lenders so they can offer lower interest rates to borrowers.

Per federal law, the maximum Aggie Bond loan in 2019 is $543,800, which can be used for the purchase for farm land, equipment and other depreciable farm property. Loans for new construction of farm buildings or new equipment is limited to $250,000 (potentially higher in 2019), and financing used equipment or other depreciable farm property is limited to $62,500 (also potentially higher in 2019). Currently, Oregon sets aside $10 million in revenue bonds per biennium to incentivize as many loans as possible to beginning farmer within the individual loan limits above

While Oregon's program started out with great promise, only two Aggie Bonds loans have been issued since the program's inception, both in 2016, and only one lender in the state participates despite the potential for federal and state tax reductions.

In addition to the lack of lenders engaged in the program, we are concerned that the fees that borrowers must pay to state agencies are providing an obstacle to participation. Currently, fees paid by borrowers include: a $250 initial application fee, a loan-processing fee of 1.5% of the total loan set at a minimum of $1500 paid to Business Oregon, out of pocket costs for state agencies for complex transactions, and additional costs and fees that may be charged by the State Treasurer for review and processing. These are in addition to any fees charged by the lender. It is our understanding that the 1.5% percent Business Oregon fee is non-refundable, even if the loan is ultimately determined to be ineligible, and that bond counsel costs account for the largest share of the costs to borrowers the agency is attempting to cover with fees.

HB 3091 would lower these fees to a $100 application fee, and cap the sum total of all state fees combined at 1% of the total loan amount with a minimum of $500. Lower fees would likely encourage greater participation by eligible beginning farmers, and potentially greater use of this program for equipment and depreciable agricultural property loans.

We are open to discussing other solutions that also serve the goal of making this program more widely available to beginning farmers and ranchers as the Legislature intended in 2013. Beyond simply reducing fees to borrowers, other potential legislative solutions could include: authorizing agencies to use alternative bond counsel that can provide lower-cost document review if rules do not currently allow this; creating a streamlined, faster, lower-fee process for simple equipment loans; and, involving the Oregon Department of Agriculture more directly in the program to engage more agricultural lenders to participate.

Thank you for your consideration,

Ivan Maluski
Policy Director