

## CHAPTER 41B

## MINNESOTA RURAL FINANCE ADMINISTRATION

41B.01	Citation; purpose.	41B.08	Revenue bonds; purposes, terms, approval.
41B.02	Definitions.	41B.12	Revenue bonds; nonliability of individuals.
41B.03	Borrower eligibility criteria.	41B.19	General obligation bonds.
41B.035	Rural finance administration.	41B.195	Additional use of general obligation bonds.
41B.037	Homestead redemption program.	41B.211	Data privacy.
41B.038	Programs for commitments to other entities.		
41B.039	Beginning farmer program.		
41B.04	Loan restructuring program.		
41B.05	General powers of the authority.		

**41B.01 CITATION; PURPOSE.**

*[For text of subd 1, see M.S.1986]*

Subd. 2. **Purpose.** Sections 41B.01 to 41B.23 create and establish the Minnesota rural finance authority and establish a program under which state bonds are authorized to be issued and proceeds of their sale are appropriated under the authority of article XI, section 5, clause (h) of the Minnesota Constitution, to develop the state's agricultural resources by extending credit on real estate security. The purpose of the rural finance authority's programs and of the bonds issued to finance or provide security for the programs is to purchase participation interests in loans to be made available by agricultural lenders to farmers on terms and conditions not otherwise available from other credit sources. It is hereby found and declared that there presently exist in the state economic conditions which have severely adversely affected the economic viability of farms to the detriment of the rural economy and to the detriment of the economy of the state of Minnesota as a whole. It is further found and declared that as a result of public agricultural policies, agricultural market conditions, and other causes, the condition of the farm economy of the state of Minnesota is such as to jeopardize the continued existence and successful operation of farms in this state, necessitating the establishment of the programs in sections 41B.01 to 41B.23 to provide new sources of credit on favorable terms and conditions. It is further found and declared that providing credit for farmers on favorable terms and conditions will serve and promote the public welfare by assuring the viability of farm operations, by preventing erosion of the tax base in rural areas, by reducing foreclosures on farm property, and by enhancing the financial stability of farmers and of the businesses which depend on farmers as customers. It is further found and declared that in establishing a Minnesota rural finance authority and in authorizing the programs in sections 41B.01 to 41B.23, the legislature is acting in all respects for the benefit of the people of the state of Minnesota to serve the public purpose of improving and otherwise promoting their health, welfare, and prosperity and that the Minnesota rural finance authority, as created and established, is empowered to act on behalf of the people of the state of Minnesota in serving this public purpose for the benefit of the general public.

**History:** 1987 c 396 art 1 s 3

**41B.02 DEFINITIONS.**

*[For text of subds 1 to 3, see M.S.1986]*

Subd. 4. **Eligible agricultural lender; eligible lender.** "Eligible agricultural lender" or "eligible lender" means a bank, credit union, or savings and loan association chartered by the state or federal government, a subdivision of the Farm Credit System, the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, or any insurance company, fund, or other financial institution doing business as an agricultural lender within the state, if the authority determines that the

agricultural lender has sufficient personnel and other resources to efficiently and properly originate and service qualified agricultural loans. An eligible agricultural lender must enter into one or more agreements with the authority providing for the origination and servicing of qualified agricultural loans on the terms and conditions the authority determines to be appropriate.

Subd. 5. **Eligible borrower.** "Eligible borrower" means a borrower who meets the eligibility criteria for a program in section 41B.03.

Subd. 6. **Qualified agricultural loan.** "Qualified agricultural loan" means a loan to an eligible borrower made under agricultural programs established and implemented by the authority.

*[For text of subs 7 and 8, see M.S.1986]*

Subd. 9. **Primary principal.** "Primary principal" means that portion of the outstanding balance on a loan covered by sections 41B.01 to 41B.23 that is equal to the current market value of the property secured by the loan.

*[For text of subd 10, see M.S.1986]*

Subd. 11. **Basic interest.** "Basic interest" means that part of interest on primary principal that is payable while the loan is in effect.

*[For text of subd 12, see M.S.1986]*

Subd. 13. **Current market value.** "Current market value" means, for the purposes of section 41B.04, the value determined by an appraisal considering comparable sales in the area where the real estate is located and the reasonable productive value of the property based on past production history. The state and the eligible agricultural lender must mutually agree on the current market value.

Subd. 14. **Borrower.** "Borrower" means the person or persons liable on a qualified agricultural loan.

Subd. 15. **Original loan.** "Original loan" means a loan prior to restructuring as provided in section 41B.04.

*[For text of subd 16, see M.S.1986]*

Subd. 17. [Repealed, 1987 c 396 art 1 s 32]

**History:** 1987 c 396 art 1 s 4-11

#### **41B.03 BORROWER ELIGIBILITY CRITERIA.**

Subdivision 1. **Eligibility generally.** To be eligible for a program in sections 41B.01 to 41B.23:

(1) a borrower must be a resident of Minnesota or a domestic family farm corporation, as defined in section 500.24, subdivision 2;

(2) the borrower or one of the borrowers must be the principal operator of the farm or, for a prospective homestead redemption borrower, must have at one time been the principal operator of a farm; and

(3) the borrower must not previously have received assistance under sections 41B.01 to 41B.23.

Subd. 2. **Eligibility for restructured loan.** In addition to the eligibility requirements of subdivision 1, a prospective borrower for a restructured loan must:

(1) have received at least 50 percent of average annual gross income from farming for the past three years or, for homesteaded property, received at least 40 percent of average gross income from farming in the past three years, and farming must be the principal occupation of the borrower;

(2) have a debt-to-asset ratio equal to or greater than 50 percent and in determining this ratio, the assets must be valued at their current market value;

(3) have projected annual expenses, including operating expenses, family living, and interest expenses after the restructuring, that do not exceed 95 percent of the borrower's projected annual income considering prior production history and projected prices for farm production, except that the authority may reduce the 95 percent requirement if it finds that other significant factors in the loan application support the making of the loan; and

(4) demonstrate substantial difficulty in meeting projected annual expenses without restructuring the loan.

**Subd. 3. Beginning farmer loans.** In addition to the requirements under subdivision 1, a prospective borrower for a beginning farm loan must:

(1) have sufficient education, training, or experience in the type of farming for which the loan is desired;

(2) have a total net worth, including assets and liabilities of the borrower's spouse and dependents, of less than \$100,000;

(3) demonstrate a need for the loan;

(4) demonstrate an ability to repay the loan;

(5) demonstrate that the agricultural land to be purchased will be used by the borrower for agricultural purposes; and

(6) demonstrate that farming will be the principal occupation of the borrower.

**Subd. 4. Continuing eligibility requirements.** After qualifying for a restructured loan, a borrower must continue to meet only the requirements of subdivision 1, clauses (1) and (2).

**History:** 1987 c 396 art 1 s 12

#### 41B.035 RURAL FINANCE ADMINISTRATION.

*[For text of subs 1 to 3, see M.S.1986]*

Subd. 4. [Repealed, 1987 c 396 art 1 s 32]

**Subd. 5. Actions of the authority.** A majority of the members of the authority, excluding vacancies, constitutes a quorum for the purpose of conducting its business and exercising its powers and for all other purposes. Action may be taken by the authority upon a vote of a majority of a quorum present.

*[For text of subs 6 and 7, see M.S.1986]*

**Subd. 8. Technical assistance.** The authority must make technical assistance available to potential lenders and applicants to encourage applications for loans.

**History:** 1987 c 396 art 1 s 13,14

#### 41B.037 HOMESTEAD REDEMPTION PROGRAM.

The authority may establish and implement a homestead redemption program under sections 41B.01 to 41B.23. The purpose of the program is to assist persons who have lost their farms due to foreclosure, granting a deed in lieu of foreclosure, or other actions necessary to settle their agricultural debts, and who are otherwise unable to secure the credit necessary to repurchase their farm homestead. The authority may enter into agreements with an eligible lender for the purposes of the program. The authority may, by rule, establish eligibility standards for the program that are different from those established for other programs of the authority. The authority's interest in a homestead redemption loan may not exceed one-half of the loan amount or \$25,000, whichever is less.

**History:** 1987 c 396 art 1 s 15

#### 41B.038 PROGRAMS FOR COMMITMENTS TO OTHER ENTITIES.

The authority may establish programs to make or purchase and enter into commit-

ments to make or purchase qualified agricultural loans or portions of the loans issued to persons described in section 41B.03, subdivision 1. The agricultural loans must be insured or guaranteed by the United States Department of Agriculture, Farmers Home Administration, Farm Credit System, a subdivision of the Farm Credit System, or any similar federal agency or federally chartered institution whose obligations are directly or indirectly guaranteed or insured by the United States. The commissioner of finance may not issue general obligation bonds pursuant to section 41B.19 or 41B.195 to finance any programs established under this section.

**History:** 1987 c 396 art 1 s 16

#### **41B.039 BEGINNING FARMER PROGRAM.**

Subdivision 1. **Establishment.** The authority may establish, develop criteria, and implement a beginning farmer program. The program must assist persons entering farming who have not owned a farm before entering the beginning farmer program.

Subd. 2. **State participation.** The state may participate in a new real estate loan with an eligible lender to a beginning farmer to the extent of one-fourth of the principal of the loan or \$25,000, whichever is less. The interest rates and repayment terms of the authority's participation interest may be different than the interest rates and repayment terms of the lender's retained portion of the loan.

Subd. 3. **Soil and water conservation agreements.** (a) As a condition of receiving a beginning farmer loan, the borrower must agree to implement an approved soil and water conservation plan on the land.

(b) The borrower must place marginal land as defined in section 40.42, subdivision 6, in a permanent conservation easement as provided in section 40.43. The authority may compensate the borrower for the easement as provided in section 40.43, subdivision 6.

Subd. 4. **Farm management.** A borrower must agree to participate in a farm management program approved by the commissioner of agriculture for at least the first eight years of the loan.

Subd. 5. **Loan review.** The authority shall refer all applications for the beginning farmer program to the family farm advisory council to review the loan with the beginning farmer and make recommendations to the authority.

**History:** 1987 c 396 art 1 s 17

#### **41B.04 LOAN RESTRUCTURING PROGRAM.**

*[For text of subs 1 to 5, see M.S.1986]*

Subd. 6. [Repealed, 1987 c 396 art 1 s 32]

Subd. 7. **Restructuring procedure.** (a) The eligible agricultural lender or borrower shall propose restructuring a loan to the authority. Within 30 days of receiving adequate information concerning a proposal, the authority and the eligible lender shall notify the borrower of their determination of eligibility. An eligible agricultural lender shall then expeditiously draft the loan restructuring agreement which must be consistent with this section and documents previously approved by the authority.

(b) An eligible borrower may participate in the restructured loan or the homestead redemption loan, but not both loans.

Subd. 8. **State's participation.** With respect to loans that are eligible for restructuring under sections 41B.01 to 41B.23 and upon acceptance by the authority, the authority shall enter into a participation agreement or other financial arrangement whereby it shall participate in a restructured loan to the extent of one-quarter of the primary principal or \$50,000, whichever is less. The authority's portion of the loan must be protected during the authority's participation by the first mortgage held by the eligible lender to the extent of its participation in the loan.

Subd. 9. **Restructured loan agreement.** (a) All payments on the primary and

secondary principal of the restructured loan, all payments of interest on the secondary principal, and an agreed portion of the interest payable to the eligible agricultural lender on the primary principal must be deferred to the end of the term of the loan.

(b) A borrower may prepay the restructured loan, with all primary and secondary principal and interest and deferred interest at any time without prepayment penalty.

(c) Interest on secondary principal must accrue at a below market interest rate.

(d) At the conclusion of the term of the restructured loan, the borrower owes primary principal, secondary principal, and deferred interest on primary and secondary principal. However, part of this balloon payment may be forgiven following an appraisal by the lender and the authority to determine the current market value of the real estate subject to the mortgage. If the current market value of the land after appraisal is less than the amount of debt owed by the borrower to the lender and authority on this obligation, that portion of the obligation that exceeds the current market value of the real property must be forgiven by the lender and the authority in the following order:

(1) deferred interest on secondary principal;

(2) secondary principal;

(3) deferred interest on primary principal;

(4) primary principal as provided in an agreement between the administration and the lender; and

(5) accrued but not deferred interest on primary principal.

(e) The authority may not participate in refinancing a restructured loan at the conclusion of the restructured loan.

**Subd. 10. Interest rate.** Unless the authority determines that it is not in the best interests of the restructured loan program, the interest rate per annum on the portion of the restructured loan represented by the participation interest purchased by the authority must be that rate of interest determined by the authority to be necessary to provide for the timely payment of principal and interest when due on bonds or other obligations issued by the authority, and to provide for the reasonable and necessary costs of issuing, carrying, administering, and securing the bonds or notes and to pay the costs incurred and to be incurred by the authority in the implementation of the program. The interest rate per annum borne by the primary principal portion of the restructuring loan retained by the eligible agricultural lender must be a rate of interest approved by the authority. The authority may specify the points, fees, and other charges which the eligible agricultural lender may charge to the eligible borrower.

**Subd. 11. Administration.** The eligible lender shall administer the loans and shall bear all costs of the loan administration. Ordinary costs of administration include appraisals, litigation, abstracts of title, and similar costs.

**Subd. 12. Assignability.** Loans restructured under this section may not be assigned to anyone other than a borrower meeting the eligibility requirements of section 41B.03, subdivision 1, and any other requirements imposed or approved by the authority. If such an assignment is contemplated, the borrower must obtain prior written approval of the eligible lender and the administration and the assignee shall thereafter be subject to the same terms and conditions and events of default as the original borrower. If assigned to some other party, the eligible agricultural lender may exercise its foreclosure remedies as provided by its contracts and by law.

Subd. 13. [Repealed, 1987 c 396 art 1 s 32]

Subd. 14. [Repealed, 1987 c 396 art 1 s 32]

Subd. 15. [Repealed, 1987 c 396 art 1 s 32]

Subd. 16. [Repealed, 1987 c 396 art 1 s 32]

**History:** 1987 c 396 art 1 s 18-23

#### 41B.05 GENERAL POWERS OF THE AUTHORITY.

For the purpose of exercising the specific powers granted in section 41B.04 and

effectuating the other purposes of sections 41B.01 to 41B.23 the authority has the general powers granted in this section.

(a) It may sue and be sued.

(b) It may have a seal and alter the seal.

(c) It may make, and from time to time, amend and repeal rules consistent with sections 41B.01 to 41B.23.

(d) It may acquire, hold, and dispose of personal property for its corporate purposes.

(e) It may enter into agreements, contracts, or other transactions with any federal or state agency, any person and any domestic or foreign partnership, corporation, association, or organization, including contracts or agreements for administration and implementation of all or part of sections 41B.01 to 41B.23.

(f) It may acquire real property, or an interest therein, in its own name, by purchase or foreclosure, where such acquisition is necessary or appropriate.

(g) It may provide general technical services related to rural finance.

(h) It may provide general consultative assistance services related to rural finance.

(i) It may promote research and development in matters related to rural finance.

(j) It may enter into agreements with lenders, borrowers, or the issuers of securities for the purpose of regulating the development and management of farms financed in whole or in part by the proceeds of qualified agricultural loans.

(k) It may enter into agreements with other appropriate federal, state, or local governmental units to foster rural finance. It may give advance reservations of loan financing as part of the agreements, with the understanding that the authority will only approve the loans pursuant to normal procedures, and may adopt special procedures designed to meet problems inherent in such programs.

(l) It may undertake and carry out studies and analyses of rural financing needs within the state and ways of meeting such needs including: data with respect to geographical distribution; farm size; the distribution of farm credit needs according to debt ratios and similar factors; the amount and quality of available financing and its distribution according to factors affecting rural financing needs and the meeting thereof; and may make the results of such studies and analyses available to the public and may engage in research and disseminate information on rural finance.

(m) It may survey and investigate the rural financing needs throughout the state and make recommendations to the governor and the legislature as to legislation and other measures necessary or advisable to alleviate any existing shortage in the state.

(n) It may establish cooperative relationships with such county and multicounty authorities as may be established and may develop priorities for the utilization of authority resources and assistance within a region in cooperation with county and multicounty authorities.

(o) It may contract with, use, or employ any federal, state, regional, or local public or private agency or organization, legal counsel, financial advisors, investment bankers or others, upon terms it deems necessary or desirable, to assist in the exercise of any of the powers granted in sections 41B.01 to 41B.23 and to carry out the objectives of sections 41B.01 to 41B.23 and may pay for the services from authority funds.

(p) It may establish cooperative relationships with counties to develop priorities for the use of authority resources and assistance within counties and to consider county plans and programs in the process of setting the priorities.

(q) It may delegate any of its powers to its officers or staff.

(r) It may enter into agreements with qualified agricultural lenders or others insuring or guaranteeing to the state the payment of all or a portion of qualified agricultural loans.

(s) It may enter into agreements with eligible agricultural lenders providing for advance reservations of purchases of participation interests in restructuring loans, if

the agreements provide that the authority may only purchase participation interests in restructuring loans under the normal procedure. The authority may provide in an agreement for special procedures or requirements designed to meet specific conditions or requirements.

**History:** 1987 c 396 art 1 s 24

#### 41B.08 REVENUE BONDS; PURPOSES, TERMS, APPROVAL.

*[For text of subs 1 to 3, see M.S.1986]*

Subd. 4. **Required rating.** No bonds may be issued unless a rating of "A" or better has been awarded to the bonds by a national bond rating agency. The "A" rating is not required if the bonds are initially sold to corporations or financial institutions for investment purposes and not for the purpose of remarketing the bonds to the public.

**History:** 1987 c 396 art 1 s 25

#### 41B.12 REVENUE BONDS; NONLIABILITY OF INDIVIDUALS.

The members of the authority and its staff and any person executing the bonds are not personally liable on the bonds or subject to any personal liability or accountability by reason of their issuance.

**History:** 1987 c 396 art 1 s 26

#### 41B.19 GENERAL OBLIGATION BONDS.

*[For text of subs 1 to 4, see M.S.1986]*

Subd. 5. **Rural finance authority security account.** The commissioner of finance shall maintain a separate state building fund account designated as the rural finance authority security account, into which must be deposited the proceeds of the rural renewal general obligation bonds issued as provided in this section. The commissioner of finance shall maintain a separate bookkeeping account to record receipts and disbursements of money transferred to or from the security account and to record income from the investment of money in the account. Upon the written request of the authority, the commissioner of finance shall transfer from the security account to an account or accounts the authority shall designate, a sum of money sufficient in amount, if available, when added to the balances then on hand in the designated accounts, to pay bonds issued by the authority under sections 41B.01 to 41B.23 and the interest on them due and to become due on the next succeeding date for the payment of the principal of and interest on the bonds of the administration or to restore to any debt service reserve fund established in connection with the bonds any amount withdrawn from the debt service reserve account to pay the bonds. When no revenue bonds secured by the security account are outstanding under the resolution authorizing their issuance, the commissioner of finance shall transfer all money and securities on hand in the security account to the state bond fund.

Subd. 6. **Investment of security account.** (a) Money from time to time on deposit in the security account must be invested by the state board of investment at the request of the authority in any investment authorized by this subdivision. Money on deposit in the security account may be invested in:

(1) certificates of deposit issued by or interest-bearing time deposits with a national banking association or a bank and trust company organized under the laws of any state;

(2) deposits secured by obligations of the United States or of the state of a market value equal at all times to the amount of the deposit and all banks and trust companies are authorized to give security for those deposits;

(3) qualified agricultural loans or in participation interests in qualified agricultural loans; or

(4) qualified restructured loans.

(b) The principal amount of the investment under paragraph (a), clause (1), must be fully insured by the Federal Deposit Insurance Corporation or Federal Savings and Loan Insurance Corporation; or if not fully insured, the institution issuing the certificate of deposit or accepting the time deposit must be rated in the AA or a higher category as defined by a nationally recognized bond rating agency or in an equivalent or higher rating category based on any later redefinition.

(c) If and to the extent money has been transferred from the security account to provide for the timely payment of the principal of and interest on bonds issued by the authority, or to transfer money to a debt service reserve fund established in connection with the bonds, the authority shall transfer to the security account on or before December 1 of each succeeding year an amount equal to that previously transferred from the security account, provided that the authority's obligation to transfer money to the security account is limited to money then on hand in funds or accounts of the authority in excess of those appropriated to other purposes or required to provide for the payment of the principal of and interest on bonds issued by the authority and to pay the costs of issuing, carrying, administering, and securing the bonds of the authority and of administering and implementing the programs of the authority financed by the bonds.

*[For text of subs 7 to 10, see M.S.1986]*

**History:** 1987 c 396 art 1 s 27,28

#### **41B.195 ADDITIONAL USE OF GENERAL OBLIGATION BONDS.**

Notwithstanding the limit set forth in section 41B.19, subdivision 1, the commissioner of finance, upon the request of the rural finance authority, may issue the general obligation bonds authorized by section 41B.19 and use the proceeds of the bonds to purchase participations in qualified agricultural loans if the commissioner determines that it is not practical or efficient to issue revenue bonds under section 41B.08 for the purpose of sections 41B.035, subdivision 5, 41B.037, 41B.038, and 41B.04 as a result of reduced program size or increased program costs. Subject to the other provisions of this section, the proceeds of the bonds must be deposited, held, and disbursed from a separate state building fund account, the bonds are payable from the bond account established by section 41B.19, subdivision 4, and the participations purchased with the bond proceeds must be held as assets of the bond account. If the rural finance authority later determines to issue revenue bonds under section 41B.08 for the purposes specified in section 41B.04, the commissioner may by order provide for the transfer of all or a portion of the remaining bond proceeds and interest on them, and all or a portion of the participations purchased with the bond proceeds and proceeds of them, to be transferred to the security account established in section 41B.19, subdivision 5, and used for the purposes specified in section 41B.19, subdivisions 1 and 5.

**History:** 1987 c 396 art 1 s 29

#### **41B.211 DATA PRIVACY.**

Financial information, including credit reports, financial statements, and net worth calculations, received or prepared by the authority regarding any authority loan and the name of each individual who is the recipient of a loan are private data on individuals, under chapter 13.

**History:** 1987 c 396 art 1 s 30