**41.57 TERMS OF THE LOAN.**

Subdivision 1. **Forms; appraisal procedure; limitations.** A family farm security loan shall be transacted on forms approved by the commissioner with the advice of the attorney general. The commissioner shall establish by rule an appraisal procedure and shall thereby determine the value and income potential of the property before guaranteeing a family farm security loan. No guarantee shall be made if the purchase price of the farm land exceeds the appraisal value as determined under the provisions of this subdivision.

Subd. 2. **Payment adjustment.** To be eligible for payment adjustment a family farm security loan shall have a maximum term of 20 years and shall provide for payments at least annually so that the loan shall be amortized over its term with equal annual payments of principal and interest, adjusted for variable interest rates, except that a loan to be amortized over a term of ten years or less need not provide for equal annual payments of principal and interest. During the first ten years of a family farm security loan, the commissioner shall annually pay to the lender four percent of the outstanding balance due at the beginning of that year and the participant shall pay the remainder of the payment due. After the tenth year, the participant shall make payments according to the stated interest rate. The participant may petition the commissioner for one ten-year renewal of the payment adjustment. If a renewal is granted, in the 21st year the participant shall reimburse the commissioner for the sums paid on the participant's behalf under this subdivision. If no renewal is granted, the participant shall reimburse the commissioner in the 11th year for the sums paid on the participant's behalf under this subdivision. The obligation to repay the payment adjustment is a lien against the property. If the participant does not reimburse the state within the required time period, the commissioner may charge interest at the rate of two percent above the prevailing rate charged by the Federal Land Bank of St. Paul on the net amount owed for the period of delinquency. To recover the adjustment payment due in delinquency cases, the commissioner may proceed to foreclose by advertisement on the lien as if it were a real estate mortgage following the procedures in chapter 580.

Subd. 2a. **Settlements before due date.** The commissioner may settle interest adjustment payment accounts of participants before the contractual due date. These settlements may include receiving partial payments for outstanding obligations if the participant and cooperating lender agree to voluntarily withdraw from the program.

Subd. 2b. **Discounting using present value.** The commissioner may settle interest adjustment payment accounts by discounting the obligation using a present value calculation. The interest rate used in this calculation must be three percent above the current Farm Credit Bank of St. Paul wholesale loan rate to the agricultural credit associations as certified each month by the commissioner.

Subd. 3. **Annual review.** (a) The participant and the participant's dependents and spouse shall annually submit to the commissioner a statement of their net worth. If their net worth in any year exceeds the sum of $135,000, the participant shall be ineligible for a payment adjustment in that year.

(b) The participant shall annually submit to the commissioner evidence of participation in an approved farm management program for at least the first ten years of the family farm security loan. The commissioner may waive this requirement if the participant requests a waiver and provides justification.

Subd. 4. **Additional payment; principal reduction.** (a) The commissioner must annually pay to qualified sellers of property, financed by a family farm security loan, an amount approximately equal to the additional state income tax paid as a result of the inclusion in gross income of the interest and payment adjustment earned on a seller sponsored family farm security loan. No payment may be made under this subdivision to a qualified seller, unless the seller agrees to reduce the outstanding principal amount of the loan by three percent effective prior to or beginning the year in which application is made.

(b) The payment amount must be determined as follows: In order to qualify for a payment, the seller must apply to the commissioner by October 1, following the previous tax year. The application must include a copy of the seller's previous tax year state income tax return. The commissioner must recompute the seller's total state income tax liability that would be due if the interest and payment adjustment amounts were not includable in gross income for state income tax purposes. The commissioner may require the seller to compute these amounts as part of the application. For any calendar year the amount of the payment equals the reduction in state income tax liability that would occur if the interest and payment adjustment were not included in gross income for state tax purposes.

(c) If the seller elects to receive payments under this subdivision, the buyer's payments of principal and interest under the loan must be recalculated. The revised payment schedule must reflect the three percent reduction in the outstanding principal required by paragraph (a) and must provide for equal payments over the remaining term of the loan. The interest rate on the loan may not be increased.

(d) The commissioner may make the payments under this subdivision in the same manner provided for the payment adjustment under subdivision 2.

(e) For purposes of this subdivision, the following terms have the meanings given:

(1) "Gross income" means gross income as defined for purposes of chapter 290.

(2) "Qualified seller" means an individual who sold farm land under a seller sponsored loan after April 1, 1978, and before December 31, 1985, and who is a resident of Minnesota during the calendar year and is subject to the payment of Minnesota income taxes.

**History:** *1976 c 210 s 7; 1977 c 170 s 6; 1977 c 347 s 11; 1979 c 236 s 3; 1983 c 332 s 11; 1985 c 276 s 4,5; 1986 c 444; 1Sp1986 c 2 art 1 s 3; 1988 c 672 s 1; 1992 c 381 s 4; 1992 c 602 s 6,7*