

**Testimony of Brian Demmer  
Farmer and Client/Member of  
AgStar Financial Services, Mankato, Minnesota  
Before the FCA Public Meeting on  
Eligibility and Scope of Financing  
June 26, 2003  
McLean, Virginia**

Good Morning.

My name is Brian Demmer. I am a farmer and client/member of AgStar Financial Services headquartered in Mankato, Minnesota. I am also a small business owner.

Before I describe my farming operation and my businesses, I want to commend the Farm Credit Administration for soliciting input from owners of the Farm Credit System and others regarding scope of financing and eligibility. Agriculture is a dynamic industry. As I relay my story, you will see how my involvement in agriculture changed over the years as the industry changed. I, as one of the System's owners, appreciate the effort FCA is making to review its regulations and accept input on improvements that can be made to ensure the regulations keep pace with the changes in agriculture.

When I decided to finance my farming operation with AgStar, I was astounded to learn I could not conduct all of my business operations with AgStar if I so chose. We are farmers. Farming was my chosen profession. Our other businesses serve farmers and the rural communities in which they live. It seems to me all of our businesses are exactly those that Congress was trying to serve when they passed the Farm Credit Act. Quite frankly, given the mission of the Farm Credit System the current restrictions in the regulations defy common sense.

I started farming in 1973 with my dad and three brothers. We had a sizable operation, things went well until the late 70's and early 80's. In 1983 we sold our farming operation. I went to work for another farmer for two years. During that time a lawn care company came up for sale. I purchased the company consisting of one truck and a customer list of 50 people. My company, Service Ltd., has successfully grown over the past seventeen years to where I now have seven employees and 2000 customers. The company contributes locally both in terms of the jobs it provides and the dollars it pumps into the local economy.

I got back into farming in 1990 when a farmer in the area who had terminal cancer asked me to plant and harvest his crop. When he passed away, I purchased some of his equipment and farmed his 400 acres with my brother.

I now lease 1,000 acres on my own. It takes \$225,000 to put my corn and beans in and pay rent. In 1993 I lost \$30,000 due to a wet year. In order to continue farming I took out a loan and used my lawn care company as collateral. I was able to pay it off in one year, but I would not be farming to this day if it were not for my other businesses.

My reputation with my lawn care and my knowledge as a businessperson was the reason I was asked by the president of a construction company to start a seeding company in 1994. I started bidding on township, county and state jobs and became a sub-contractor as my bids were almost always accepted. Now I needed \$100,000 worth of equipment to make this company successful. I approached my brother, Jerry, with several contracts we became a corporation, bought equipment and today are very successful and very busy. We were financed through a new bank in Albert Lea and have since changed to AgStar, which now finances my farming operation.

All my businesses are based on my knowledge of fertilizer, chemicals, machinery and planting as well as business management, marketing, and being able to have a working relationship with financial institutions.

I require a lot of working capital to maintain a smooth operation and to have continued success. Time spent with several banks and the bookwork involved takes me away from time I should be attending to my jobs. One financial company should be able to see all of my work history, my work ethics, and my ability to succeed and in return give me resources to do just that.

We now finance our farming operation with AgStar and would like to obtain financing for all of our business needs from one lender. I understand the mission of the Farm Credit System is to not only make financial services available to farmers and ranchers, but also "to provide for an adequate and flexible flow of money into rural areas." That quote comes from the Farm Credit Act.

As I mentioned earlier, our farming operation fell on hard times in the 1980's. We were basically forced to start over and successfully built our non-farm businesses to the point where we could once again get back into farming. With our now diversified sources of income we are better prepared to withstand any future downturns in agriculture. By diversifying we have done what many financial advisors recommend. Yet now we find we are penalized because we are forced to split our financing among multiple lenders. We believe this is a great disservice to our operation for three reasons.

First, one of the consequences of having to split our financing between lenders requires us to familiarize more than one loan officer with our business operations. It takes time to educate lenders on the intricacies of our businesses, not to mention the time it takes to build a relationship of mutual trust and confidence. This is valuable time for us which we instead need to be devoting to building a successful business. We would much prefer to deal with one lender and one individual for all our financial needs. Financing with one lender simplifies the process for us leading to more efficiency and confidence that our business needs are more fully understood.

Second, we believe we can obtain a better lending package with better terms if we focus our financing with one lender. By pooling the assets of our businesses to offer as collateral we are able to maximize the dollars we can borrow to grow our businesses. Split financing makes it difficult, if not impossible, to utilize shared collateral to obtain the needed dollars for each business. Obtaining credit involves more than just analyzing numbers. We are confident that if one lender is familiar with all our businesses, that lender will develop an appreciation for our management ability, our character and our general ability to successfully operate our businesses. This translates into a more confident lender who is willing to better work with us to meet our needs and to suggest the financial products and services our businesses require.

Third, dealing with two lenders increases our costs of borrowing. Each lender will require not only a debt instrument, as evidence of the debt, but also collateral documents to show the collateral that has been offered to secure the debt. As a result we as the borrower will be required to pay two sets of filing fees to put the loan documents in place. This adds unnecessary expense for businesses that are striving to compete in an environment that is ever more cost conscious.

Our operation represents the changing face of agriculture. Many farmers today find it necessary to supplement their farm income with income from other sources. According to the USDA's agricultural census of 1997, nearly 67% of Minnesota farms are part-time farms. The "other credit needs" of these part-time farmers are many and varied, just as ours are. We suspect many, if not all, of these part-time farmers with secondary off-farm businesses or jobs are pressed for time because their farming has to fit around the time-demands of their other interests. We also suspect many of these part-time farmers are young beginning farmers with young families. If so, they undoubtedly find themselves in the same circumstances we are in with a very limited amount of time to deal with one lender let alone two or more.

We question the apparent inconsistency between regulations that limit the ability of the Farm Credit System to finance a significant group of farmers when the mission and objectives of the System is to "make credit available to farmers and ranchers." Imposing the burden of split financing on part-time farmers handicaps farmers who are already struggling to make ends meet and to gain a toe-hold in a capital intensive and highly competitive industry. A System designed to assist farmers should be the last organization to structure its lending practices to further complicate the lives of those trying to build a life in agriculture and rural America.

In conclusion, FCA should remove the limitations on financing part-time farmers so they can obtain all of their financing from Farm Credit just as full-time farmers can. FCA should eliminate the artificial barriers that prevent the System from fulfilling its mission of providing a flow of money to rural areas.

Again, thank you for the opportunity to provide comments and for the initiative you have shown in gathering input on how the Farm Credit System can improve its service to America's farm families.