The Committee feels bound to caution against unjustified expectations of the proposal's impact on farmers in serious financial difficulty. Although nearly insolvent farmers would not likely be able to use external equity financing to continue their farm business, such farmers in desperate financial straits might very well be able to benefit from the FCC's proposal in the course of leaving the farm business. Farmers facing less severe financial difficulty, yet nevertheless currently dependent upon operating loans for survival, could turn to outside equity financing as a means of avoiding an expansion or recurrence of their debt problems.

In the Committee's view, the strength of this proposal lies in its potential to alleviate the structural problem of debt. It provides farmers with access to capital markets and substitutes equity for debt. It offers a means for beginning farmers to acquire a farm over the period of a lease without the same risk as acquiring all the assets outright and with a right of first refusal to buy upon lease term maturity.

There are also a number of farmers who would like to retire but cannot dispose of their assets. They would be able to sell their land to the provincial subsidiaries and acquire some shares in the subsidiaries with the expectation of future capital appreciation of share values.

Depending on provincial interest in the scheme, the program offers assistance that is national in scope and which, if it is successful, could build confidence in farm sector investments. It is however not clear to the Committee what incentives exist to entice the participation of other provinces so that the equity concept may become truly national. Presumably, as the concept catches on participation will be forthcoming. The most difficult period will be the early stages of implementation during which, if there is a lengthy implementation lag, initial interest on the part of farmers, other investors, and provincial bodies could decrease.

At the time of the lifting of the FCC moratorium on foreclosures in the spring of 1987, the FCC had about 475 properties on hand, and the number of recovered properties is already growing, now that foreclosures are proceeding. While this scheme offers a means of improved management of recovered properties, using these properties as a basis for the establishment of the subsidiaries would establish a government-owned land bank. It appears to the Committee that the federal holding company will require capitalization of not just land, but also of cash, in its initial investment.

It has yet to be seen whether private investors will find the investment sufficiently attractive without direct government guarantees. It is anticipated that investors will primarily be farmers or farm organizations who see the advantages of being shareholders in such real estate assets. The Committee is optimistic that the convertibility features attached to the initial issues of company shares will encourage interest in the scheme.

The Committee is aware that the Farm Credit Corporation's proposal is not complete. In its present form the proposal leaves certain important questions unanswered. Unresolved concerns include:

(1) at what cost to the government, if any, would investors be attracted to purchase shares;

(2) would the equity financing activities of the proposed federal institution be targeted to a specific category or equity level of farmer;

(3) what constraints would be placed on the equity financing activities of the provincial subsidiaries; and

(4) what mechanisms would be in place to ensure some consistency of operation across provinces.

The Committee reaffirms its support of the principle behind the FCC's equity financing proposal, but is not in a position to endorse the scheme at this point, in view of the fact that all aspects of the