

OFFICE OF POLICY AND LEGAL ANALYSIS

To: Members, Joint Standing Committee on Agriculture, Conservation and Forestry
From: Karen S. Nadeau, Legislative Analyst
Date: February 23, 2021
Subj: **LD 204 An Act To Amend the Law Regarding the Interest Rate for State Loans under the Potato Marketing Improvement Fund**

This bill changes the interest rate on loans made through the Potato Marketing Improvement Fund from a fixed rate of 5% to the federal prime rate on the date of loan closing or up to a maximum of 5% and allows existing loans in good standing to be refinanced at the same rate.

TESTIMONY:

Proponents: *Department of Agriculture, Conservation and Forestry; Maine Potato Board*
Written only: Finance Authority of Maine; Maine Organic Farmers and Gardeners Association;
Maine Farm Bureau

- The Potato Marketing Improvement Fund (PMIF) provides direct, fixed rate loans to potato growers and packers for construction and retrofit of modern potato storages and packing facilities.
- PMIF was developed in conjunction with the Maine Potato Board and the Department of ACF and the program is administered by the Finance Authority of Maine (FAME).
- Although the program is well-funded, the current interest rate makes it unattractive for borrowers who want to avoid interest payments that do not reflect current market conditions.
- LD will benefit potato producers by reducing the amount of interest paid on a loan which will reduce overall costs of operations and potentially encourage investments in new facilities.
- FAME offers an amendment for consideration and has been in contact with the bill sponsor and the Maine Potato Board; both the sponsor and the board have no objections.
- The FAME amendment clarifies the interest rate should be a particular known type of prime rate, and FAME suggests "federal." FAME also requests that the rate be set as of the date of loan **commitment** and not as of the date of loan **closing**. FAME needs to be able to issue a loan commitment with a certain rate and then draft loan documents and set the loan up internally in advance of loan closing; this is typical in the industry.
- For a current loan for which the interest rate is being refinanced, the date upon which FAME would determine the rate is more tenuous so FAME would prefer to leave that open.

Opponents: *None*

NFNA: *None*

FAME's SUGGESTED AMENDMENT:

Sec. 3. 7 MRSA §974-A, sub-§2-A is enacted to read:

2-A. State loan interest rate. The interest rate for state loans is the federal prime rate on the date of loan ~~closing~~ commitment but may not be greater than 5%. Loans current on the effective date of this subsection may be refinanced at the borrower's request to an interest rate of the federal prime rate ~~on the date of loan closing~~ but not greater than 5%.

NOTES: Regular effective date is 90 days after adjournment of the legislative session.

LD 204 has an emergency preamble and emergency clause which requires affirmative vote of 2/3 of all the elected members in both the House and the Senate.

PRELIMINARY FISCAL IMPACT STATEMENT: *Not yet received.*