Staff Papers Series

Staff Paper P89-39

October 1989

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MINNESOTA'S FARMER-LENDER MEDIATION PROGRAM:
Case Characteristics and Results

The Minnesota Legislature passed the 1986 Farm Mediation Act (FMA) on March 22, 1986. Enactment of the FMA required a creditor to initiate debt mediation before attempting to collect on a delinquent debt. This has become popularly known as "mandatory mediation." The FMA stipulated that the following legal actions require mediation; foreclosing on a mortgage, terminating a contract for deed, enforcing a security interest in collateral, or executing, levying, seizing or attaching agricultural property. Any of these actions would have to be on a debt of $5,000 or more.

The 1986 law was amended in 1987. The 1987 amendments to the FMA served to clarify and modify the previous law, and extend the ending date of the FMA from July 1, 1988, to July 1, 1989. The amendments clarified the definitions of agricultural property and farm debt, as well as the limits on enforcement of judgments against agricultural property or farm debt. These amendments also made provisions for emergency rules and how they could be implemented. Under the 1987 amendments, the FMA does not apply to a debt which: (1) is part of a debtor's bankruptcy petition, (2) was previously mediated and is in default, (3 had collection proceedings started against it after the debtor did not make a timely mediation request, or (4) was previously mediated, restructured, and had an agreement.

More recently, the Agricultural Credit Act of 1987 (ACA) has mandated that the Farm Credit System and the Farmers Home Administration restructure loans if that alternative represents a lower cost than foreclosure. In addition, Title V (Section 503) of the ACA requires that the Farmers Home Administration participate in agricultural loan mediation programs. That participation includes presenting and exploring debt restructuring proposals advanced in the course of mediation. Although the Farm Credit System has participated in Minnesota's farmer-lender mediation program, the ACA extends that requirement to include all states with qualifying mediation programs.

The objective of this study is to respond to the need for additional information about the results of farmer-lender mediation. The specific objectives of this report are:

1. to identify and measure selected economic and financial characteristics of mediation activity during the first 18 months of the Minnesota program, and

2. to report the relationships between economic and financial characteristics of mediation cases and the outcomes of mediation.

This report is divided into the following sections; data collection, description of data, statistical summary of the mediation data, analysis of mediation results, and conclusions.

STUDY DATA

Recent statewide mediation reports indicate that creditors have sent 15,924 mediation notices to debtors (farmers) and 7,333 farmers have requested mediation in Minnesota during March 22, 1986, to August 1, 1989 (Table 1). Results of these mediation requests include: 783 cases settled before any mediation meetings took place, 2,666 cases ended in no agreement, 2,803 cases concluded with agreements (2,182 were to continue the debtor in farming and 357 were to terminate the farm operation), 160 cases were found to have "lack of good faith," 42 cases underwent court-supervised mediation, and 860 cases were still in progress on August 1, 1989.

Table 1. Summary of Regional and State Mediation Activities, March 22, 1986 to August 1, 1989

Extension District	Creditor Notices[a]	Debtor Requests	Cases Settled Prior to Mediation	Cases ending with: Agreement	Cases ending with: No Agreement	Cases in Progress[b]
	- - - -	- - - -	- - - -	number	- - - -	- - - -
Northwest	2084	825	105	356	200	137
Northeast	722	255	29	128	76	24
West Central	2,693	1,186	125	537	329	208
East Central	1,465	453	43	197	146	47
Southwest	3,506	1,904	213	608	707	219
South Central	2,917	1,401	161	458	655	147
Southeast	2,537	1,309	107	519	553	78
State	15,924	7,333	783	2,803	2,666	860

a/ The total number of creditor notices exceeds total debtor requests, since several creditors may have filed a notice of intent to mediate on an individual debtor.

b/ Cases in progress on August 1, 1989.

Each study county was selected from an area of the state where mediation was prevalent. This provided a large set of cases from which to derive a representative sample in each county. It also meant that each selected county would have a minimum of 40 complete cases by September 17, 1987 (the cut-off date established for this study). Counties were selected in geographical "clusters" to ensure a large sample of similar farming operations. The selected counties and their corresponding geographical areas are listed below and illustrated in Figure 1.

<u>Central</u>	<u>Southwest</u>	<u>Southeast</u>
Stearns	Cottonwood	Dodge
Swift	Jackson	Goodhue
Meeker	Nobles	Fillmore
Kandiyohi	Murray	Mower
Pope	Lyon	Olmsted

Selection of Cases at the County Level

Mediation cases were first checked for completion date. If a case was completed by September 17, 1987, it was allowed into the selection pool. A completed case was one with a signed agreement or evidence that the case had concluded with no agreement. The pool did not include cases that were resolved prior to entering mediation. Cases were not included in this study if the case was terminated due to "lack of good faith" or went into court-supervised mediation.

Cases in the selection pool were separated into a "mediation with agreement" pool and a "mediation with no agreement" pool. Each pool was internally ordered chronologically according to the date on which the mediation request was filed. Every third case was selected for use in the study. Cases continued to be drawn by revolving through each pool until there were at least 15 cases with agreements and 15 cases with no

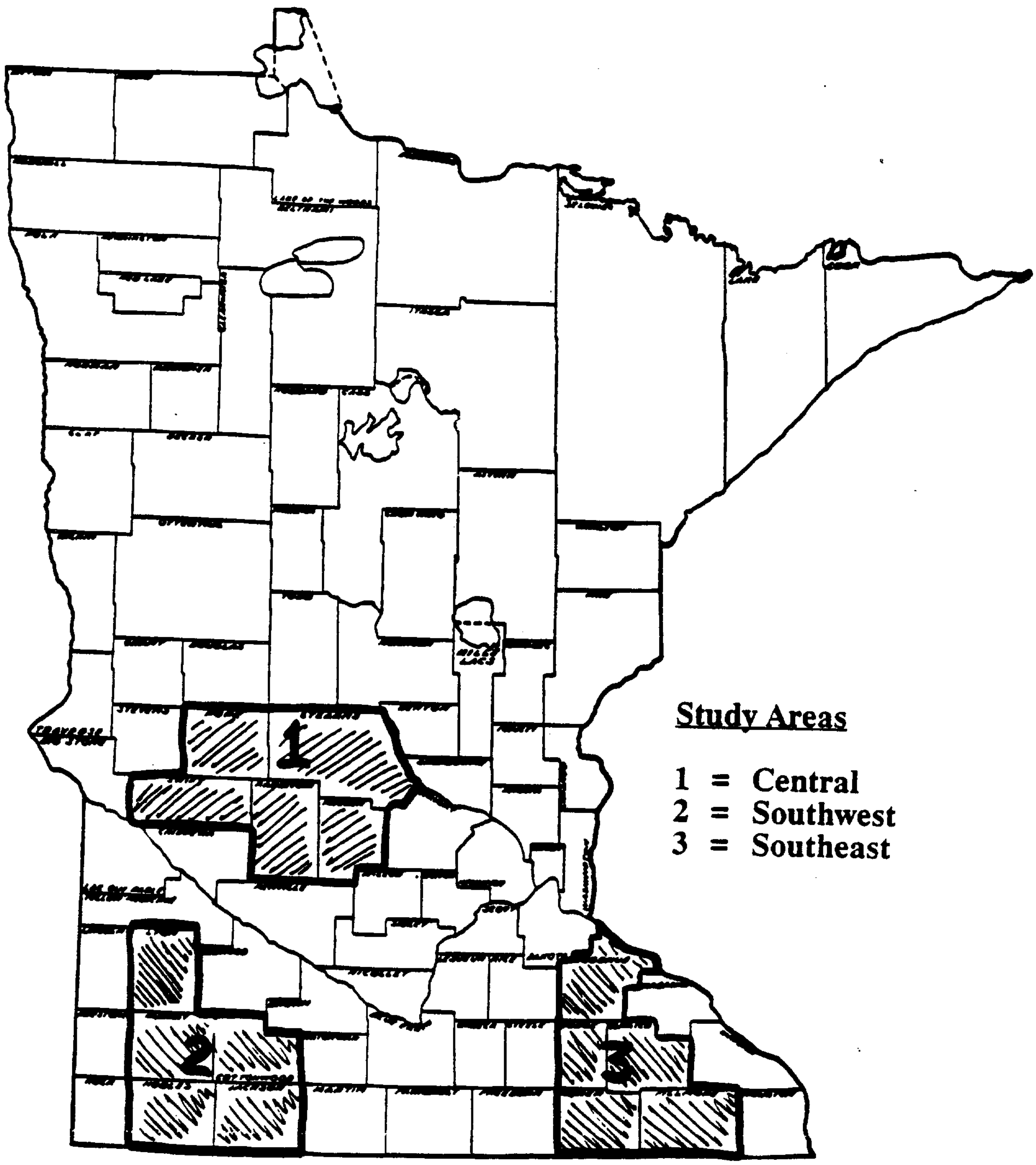

FIGURE 1. FARM MEDIATION STUDY AREAS

agreements for each county. In situations where 15 cases could not be obtained from each pool, all of the completed mediation cases were included.[1]

Mediation Case Variables

Several general categories of financial and nonfinancial data were collected during the study. Six categories of information were identified.

1. Financial characteristics of debtors:

    Assets (Current and Intermediate, Long-term, Total, and Nonfarm)

    Liabilities (Current and Intermediate, Long-term, Total, Real Estate and Nonreal Estate)

    Cases with FINPACK summaries include additional financial information (Rate of Return, Asset Turnover, Total Investment, Interest Paid, Profit or Loss, Family Living, Net Income, Total Principal and Interest Paid, Nonfarm Income and Gross Farm Earnings)

2. Other characteristics of debtors:

    Acres Owned and Rented

    Business Organization (Sole Proprietor, Partnership or Corporation)

    Time Spent Farming (Full-time, Part-time or Retired)

    Extension Involvement
    Personal Statistics (Age, Marital Status, Years Farming and Years of Education)
    Farms with FINPACK summaries include: Farm-type (Crop, Livestock, Dairy, Other and Mixed) and farm production characteristics

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[1] This selection criterion ensured that an adequate number of cases would be drawn from each pool for statistical purposes.

3. Characteristics of mediated debt:

   Number of creditors

   Lender(s) and amount owed by lender type

   Initiator of mediation

4. Events prior to mediation:

   Reason case came to mediation: (default on; contract for deed, mortgage, intermediate loan, operating loan or lease; unsecured creditors not paid; other reason)

   Consultation prior to mediation

   Attempts of lender and debtor to resolve problems prior to mediation

5. Results of mediation:

   Number of days in mediation

   Number and type of agreement (Voluntary Liquidation, Partial Liquidation, Reduction of Interest Rate, Reduction of Principal, Deedback, Loan Reamortization, New Creditor, Bankruptcy, Cash-out, or Other)

   Number and type of no agreement (Creditor or Debtor Objection, No Reason Given, Bankruptcy, or Other).

6. Mediator information:

   Training and experience

   Cases handled (number of agreements, number of no agreements, total number of cases in progress, caseload during mediation of a particular case).

   Number of months mediating

   Occupation (past, present)

The majority of the data collected was taken from county mediation files. Information on Extension involvement was provided by county Extension personnel. Mediators provided information on themselves and part of the information on events prior to mediation, as well as debtor personal data.

The amount and quality of data available varied markedly from county to county. The actual number of cases included for each area is as follows: Central - 112 cases, Southwest - 166 cases and Southeast -114 cases. Files obtained from the Southwest were generally more complete and were of higher quality, while files in the Central and Southeast areas were generally less complete. A total of 392 cases are included in this study. That represents 9 percent of the total number of cases that completed mediation (statewide) through August 1, 1989.

CHARACTERISTICS OF MEDIATION CASES

The period covered by this study is the first 18 months of the Minnesota Farmer-Lender Mediation Program (March 22, 1986 through September 17, 1987). During this period, 66 percent (4,851) of all debtor requests for mediation were filed.[2] Through August 1, 1989, 7,333 mediation requests had been submitted. More significantly, nearly 20 percent (1,449) of all debtor requests in the state were filed during the first three months of mediation (April-June 1986).

A comparison of the timing of the cases selected in this study with all cases statewide is one indication of the representativeness of the study cases. Study cases are sequenced based on the date of the first mediation meeting.[3]

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[2] Minnesota Extension Service, Weekly Farm Mediation Status Report, September 17, 1987.

[3] Since the date of the first mediation meeting was not available from statewide mediation reports, the date of debtor's request for mediation was used. These two dates are quite comparable, since the first mediation meeting must occur within 30 days of the mediation request.

Timing for both the study cases and statewide cases is similar, as indicated in Table 2. Mediation cases which occurred during the first three months of mediation accounted for about 30 percent of the total state cases (4,851) between March 22, 1986 and September 17, 1987. Approximately 30 percent of the study cases also occurred during this same period. By the end of 1986, about 71 percent of the total statewide cases had been initiated and 66 percent of the study cases had requested mediation. During January 1 - September, 1987, about 29 percent of the total statewide cases had been initiated. The corresponding increase in study area cases was just under 34 percent. Therefore, the mediation study cases slightly over-represent mediation during 1987, and slightly under-represent 1986 mediation activity.

Initially, data on 542 cases was collected with 392 cases sufficiently complete to include in this summary report. Since the quality of case data varied, the number of complete responses from which statistical summary measures are computed will also vary. Several case reports (130) did not include a FINPACK financial analysis. Other cases did not include complete responses by mediators and/or Extension agents.

Financial Characteristics of Debtors

One of the primary areas of data collection for the study is on the financial characteristics of farmers involved in debt mediation. Solvency, profitability, liquidity, and other financial characteristics are reviewed here.

Solvency

Solvency is a condition where the current market value of total assets exceeds the value of total liabilities. Total assets, liabilities, and owner's equity are reported in Table 3. Median total assets for

Table 2. Comparison of Study Area and Statewide Mediation Cases Initiated, March 1986 - September 1987

Year and Month	Mediation Study Cases	Statewide Mediation Cases	Percent Difference[b]	Cumulative Percent Difference[c]
	- - - - - - - - - - - -	percent	- - - - - - - - - - - -	
1986				
March 22 - May	18.0	12.3	5.7	5.7
June	11.8	18.2	-6.4	-0.7
July	9.2	9.7	-0.5	-1.2
August	7.4	6.8	0.6	-0.6
September	5.2	4.9	0.3	-0.3
October	6.5	8.5	-2.0	-2.3
November	3.3	4.9	-1.6	-3.9
December	4.6	5.6	-1.0	-4.9
1986 Total	66.0[a]	70.9[a]		
1987				
January	4.0	8.2	-4.2	-9.1
February	2.6	3.1	-0.5	-9.6
March	3.1	3.1	0.0	-9.6
April	7.8	4.1	3.7	-5.9
May	4.2	5.1	-1.1	-7.0
June	3.4	3.1	0.3	-6.7
July	3.5	1.5	2.0	-4.7
August	1.7	.8	0.9	-3.8
September 17	3.5	.3	3.2	-0.6
1987 Total	33.8[a]	29.3[a]		
Total Number of Cases	392	4,851		

a/ Percentages do not add to 100 percent due to rounding.

b/ Percent of study area cases minus percent of statewide cases.

c/ Sum of the percent difference column.

Table 3. Total Assets, Liabilities and Owner's Equity of Study Farms by Area

Item	Central	Southwest	Southeast	Overall
	- - - - - - - - - - dollars	- - - - - - - - - -		
Total Assets:				
25th percentile	$140,041	$138,800	$170,037	$157,891
Median	246,477	244,250	297,792	255,287
75th percentile	398,980	384,762	443,948	406,600
Total Liabilities:				
25th percentile	$165,852	$146,270	$198,180	$164,262
Median	282,819	235,765	293,148	273,402
75th percentile	395,727	443,273	484,034	437,863
Owner's Equity:				
25th percentile	$(90,501)[a/]	$(102,547)	$(93,974)	$(97,831)
Median	892	(8,228)	(12,191)	(6,945)
75th percentile	65,188	61,638	75,875	68,169
	n = 112	n = 167	n = 114	n = 393

a/ Numbers in parentheses represent negative numbers.

n = number of valid cases

Central and Southwest areas are quite similar, while average total assets in Southeast Minnesota ($297,792) are somewhat higher. The distribution of total assets in the overall study indicates a wide range from $157,891 (25th percentile) to $406,600 (75th percentile). This suggests that both small and large commercial farming operations were involved in debt mediation.

Median total liabilities are lower in the Southwest area ($235,765) than in either of the other two areas. Southwest Minnesota also shows slightly greater variability in total liabilities (from $146,270 - the 25th percentile, to $443,273 - the 75th percentile) than the other areas. The reported minimum liability in the Southwest is $17,500 and the maximum liability is $3,600,262. Southeast area farm liabilities vary from $62,500 (minimum) to $2,155,848 (maximum). Central Minnesota data contains the least amount of variability with minimum total liabilities of $22,568 and maximum total liabilities of $1,241,732.

Owner's equity summary statistics indicate negative median equity positions in the Southwest (-$8,228) and Southeast (-$12,191). The overall study median equity position is -$6,945. The range of equity positions in the overall study is from -$1,407,000 (minimum) in the Southeast to $728,584 (maximum) in the Southwest. These summary statistics indicate that over 50 percent of farmers in the mediation study area were financially insolvent at the time of mediation. Although no attempt was made to verify that assets were being reported at market value, the decline of market real estate values in the state through 1986 was undoubtedly a major factor contributing to widespread insolvency among these farmers. Moreover, over 75 percent of farmers in mediation carry equity positions substantially under $100,000.

Table 4 contains selected financial measures by study area. In all cases, the median current and intermediate liability-to-asset ratio is over 1.0. This indicates that for the majority of farms the current and intermediate liabilities exceed like assets in all study areas. The interpretation is that lenders holding current and intermediate assets as security on underlying loans are, as a group, typically undersecured due to the lack of sufficient assets to repay the debt through liquidation. An implication is that short-term lenders (e.g., banks) are either expected to seek additional collateral on loans to farmers in mediation, or are forced to charge-off debt in mediation.

The median longterm debt ratio is .93 for Central Minnesota. In this case, long-term assets exceed long-term liabilities and long-term lenders would be secured on average. The Southwest area and overall study median long-term liabilities and median long-term assets are equal as indicated by the long-term debt ratios of 1.0. Southeastern median long-term liabilities exceed long-term assets (a 1.08 ratio). This indicates that long-term lenders in mediation in this area are undersecured on average.

The total liability-to-total asset ratio (a measure of financial solvency) indicates median total liabilities exceed median total assets in all but the central area. The range of debt-to-asset ratios is quite broad. The minimum ratio is .12 (12¢ in debt for every $1.00 of assets). The maximum ratio is 9.33 ($9.33 of debt for every $1.00 of assets). Since ratios over 1.0 indicate insolvency of the farm business, over 50 percent of the farmers in mediation (in the study areas) were insolvent at the time of mediation. This result further documents the earlier negative equity capital position of those debtors.

Table 4. Selected Financial Measures by Study Area

Measure	Central	Southwest	Southeast	Overall
Current and Intermediate Ratio:[a/]				
25th percentile	.89	.68	.66	.72
Median	1.39	1.16	1.07	1.20
75th percentile	2.25	2.03	2.04	2.06
	n = 111	n = 164	n = 114	n = 389
Long-term Debt Ratio:[b/]				
25th percentile	.60	.56	.73	.62
Median	.93	1.0	1.08	1.0
75th percentile	1.41	1.43	1.63	1.48
	n = 112[d/]	n = 165[d/]	n = 114	n = 391[d/]
Debt-to-Asset Ratio:[c/]				
25th percentile	.77	.77	.78	.77
Median	.99	1.05	1.07	1.04
75th percentile	1.42	1.48	1.45	1.43
	n = 112[d/]	n = 167[d/]	n = 114	n = 393[d/]

a/ Current & intermediate liabilities divided by current & intermediate assets

b/ Long-term liabilities divided by long-term assets

c/ Total liabilities divided by total assets

d/ Some mediation cases had FINPACK results, while others did not. In some cases a measure could be derived from non-FINPACK cases.

Profitability

Profitability measures indicate a farm's income-producing potential. Several alternative measures can be used to measure farm profitability. The measure used in this study is the rate of return on farm investment. Only study cases that contained FINPACK computer printouts are included in this analysis of profitability.

The rate of return on farm investment is similar across the study. The highest median rate of return is 5.8 percent in the Southeast area. The lowest median rate of return is in Southwest Minnesota at 5.05 percent. The median rate of return in the central area is 5.1 percent, while the median overall study value is 5.2 percent. Southeast Minnesota study farms appear to have slightly greater profitability compared to their study counterparts.

Liquidity

Liquidity measures indicate the ease with which a farmer can generate cash to meet financial obligations as they fall due. Measures reported in this study are shown in Table 5. Liquidity measures are calculated only for those mediation cases with FINPACK computer results.

Net cash farm income is gross cash farm income minus cash farm operating expense. Median net cash farm income is positive in all study areas. The median net cash farm income in the study is $6,737. The value shown indicates the amount of money farmers have in a typical year to use towards family living, personal taxes, principal payments on debts, savings, and reinvestment in the business.

Total scheduled principal and interest is the amount of principal and interest that is due to be paid within a year. The highest level of median principal and interest due is in the Southeast ($58,593), while the lowest

Table 5. Liquidity Characteristics of Mediation Farms by Study Area

Measure	Central	Southwest	Southeast	Overall
	- - - - - - - - - dollars - - - - - - - - -			
Net Cash Farm Income:				
25th percentile	$(7,144)	$(8,959)	$(7,109)	$(7,203)
Median	9,670	5,618	7,367	6,737
75th percentile	24,196	18,336	25,284	22,074
	n = 95	n = 110	n = 52	n = 257
Total Scheduled Principal and Interest:				
25th percentile	23,981	24,698	30,231	26,214
Median	45,980	38,090	58,593	43,947
75th percentile	70,742	77,306	88,257	76,500
	n = 94	n = 110	n = 51	n = 255
Cash Available After Loan Payments:				
25th percentile	(29,595)	(29,107)	(36,281)	(29,935)
Median	(13,088)	(10,387)	(13,448)	(12,226)
75th percentile	413	(641)	(3,021)	(1,338)
	n = 94	n = 110	n = 51	n = 255

level is in the Southwest ($38,090). Overall, median scheduled principal and interest is $43,947.

Cash available after loan payments indicates if there is enough cash to service all debt commitments. If this value is negative, the farm is unable to meet all of its debt servicing commitments. In addition to this, there is not enough cash available to replace assets (such as equipment, machinery, and breeding livestock). The inability to replace these assets may have the effect of draining the farm's future earning capacity if this situation persists.

The distribution of cash available (after debt payments) indicates that 50 percent of farmers in the mediation study expect to generate a cash <u>deficit</u> of $12,226 or more. The 75th percentile statistic indicates that 75 percent of farmers in the study reported a projected cash <u>deficit</u> of $1,338 or greater. Clearly, a vast majority of the farmers in debt mediation (as reflected in this study) were projecting continued cash flow stress at the time mediation was occurring.

<u>Other Characteristics of Debtors</u>

Information was gathered on a number of other characteristics of debtors. The majority of data in this category was collected with the help of the mediators and Extension agents in the study counties. Information is not available in all cases, because the information was either unknown to mediators and agents, or they simply did not respond to the questions.

Study Farms by Type

Farms with FINPACK computer output provide information on the earnings of each farm by enterprise. For the purposes of this study, earnings from all crop enterprises, including set-aside acres, are combined into total crop earnings. Livestock enterprises include any earnings on livestock not involved in a dairy operation. Dairy enterprises include earnings from milk and dairy animal sales (cull and breeding animals). Other earnings include any rental income and income listed as other.

Farm types are classified by earnings. If earnings from any one enterprise exceed 50 percent of total earnings, it is categorized as that type of farm. If no single enterprise accounts for more than 50 percent of the total earnings, the farm is classified as a mixed operation.

Crop farms dominate the farms in mediation (43.8 percent in the overall study) as reported in Table 6. The Southwest contains the largest percentage of cash crop farms (52 percent). Central Minnesota follows with 41.1 percent crop farms. The Southeast has the lowest percentage of crop farms (34.3 percent). The predominance of crop farms in the study is due to two primary factors. First, a large percentage of farms in the southern half of Minnesota are cash crop operations (the area that this study covers). Second, a large proportion of a crop farm's assets is in land. One scenario is that this asset base became inflated and was borrowed heavily against during the 1970s and early 1980s. Farmland values dropped in the mid-1980s but the debt remained, leaving many farmers highly leveraged. These highly leveraged farmers became prime candidates for mediation.

Mixed farming operations comprise the next largest group of mediation cases (17.6 percent of the overall study). The Southeast has substantially more mixed farms than the other areas (31.4 percent). This result indicates that farms in this study area typically are engaged in several enterprises, and are somewhat more diversified.

Dairy farms compose 15.6 percent of the study cases. Central and Southeast Minnesota, which have the majority of the state's dairy farms,

Table 6. Percent of Mediation Study Farms by Type and Area

Type of Farm	Central	Southwest	Southeast	Overall
	- - - - - - - - - - -	- - percent[a/]	- - - - - - - - - -	
Crop	41.1	52.0	34.3	43.8
Livestock	9.5	12.0	11.4	11.1
Dairy	26.3	4.8	20.0	15.6
Other	14.7	14.4	2.9	11.8
Mixed	8.4	16.8	31.4	17.6
	n = 95	n = 125	n = 70	n = 290

a/ Column percentages may not add to exactly 100 percent due to rounding.

also have the majority of the study dairy farms (26.3 percent and 20 percent, respectively). Generally, fewer dairy farms would be expected to be in mediation, since dairy farms hold somewhat smaller land assets and have stable cash inflows from which to cash flow their debt obligations.

Other farms make up 11.8 percent of the farms in the overall study. Some of these farms reported rental income from agricultural property as their major source of income. In many cases these farmers are no longer actively farming since their land was being rented out.

Business Organization of Study Farms

Sole proprietors dominate the business organization of mediation study cases (85 percent). The southeast area contains the largest percentage (86 percent), followed by the Southwest (81.8 percent) and Central Minnesota (78.7 percent). Study farms involved in mediation are primarily operated by a single person or family.

Partnerships represent the next largest percentage overall (13 percent). Central Minnesota cases contain the highest frequency of partnerships (19.7 percent). Corporations represent the smallest percentage of farm by organization category (2.0 percent).

Debtor Time Devoted to Farming

Full-time farmers are the largest group in the overall study (71.5 percent). Southwest mediation cases contain 73.2 percent full-time farmers. Central Minnesota cases contain 72.2 percent and the Southeast 68.4 percent full-time farmers. Part-time farmers represent 21.2 percent of the cases in the overall study. Only 7.3 percent of the study farmers are retired. In some cases, the retired farmer was a co-signer to a loan on which another family member had defaulted.

Events Prior to Mediation and Preparation for Mediation

Initiator of Mediation

The initiator of mediation is the creditor who first files a mediation notice, or the debtor in the case where no notice is filed by the creditor. FLB is the most common initiator throughout the study (47.6 percent of the cases). The Southwest contains the largest percentage of FLB- initiated cases (50.3 percent), and Central Minnesota has the lowest percentage (41.4 percent) of cases initiated by FLB (Table 7). The high level of FLB initiations indicates that a number of farmers in mediation had defaulted on real estate loans.

Commercial banks (which provided loans for everything from operating loans to loans for real estate) are the next largest group of initiators (16.6 percent). Bank-initiated mediations occur at about the same level in all study areas.

PCAs are the next most frequent initiator and account for 14.6 percent of all cases in mediation. The Southwest accounts for the largest percentage of PCA initiations (17.6 percent). There is a comparatively small percentage of PCA initiators in the Southwest (8.8 percent).

Individuals initiate a significant percentage of mediations (11.5 percent). The highest percentage of individual initiations occur in the Southeast (15 percent). All individual initiations, in this study, occur because of defaults on contracts for deed.

Other initiators (e.g., insurance companies, farm equipment companies and others) account for relatively small percentages of cases in mediation. Other initiators could be any entity not specifically included on the list. In most cases, the other initiator is an agriculturally-related business (e.g. a feed store or veterinarian). In the overall study, 5.4 percent of

Table 7. Initiator of Mediation by Study Area

Initiator	Central	Southwest	Southeast	Overall
	- - - - - - - - - -	percent[a/]	- - - - - - - - -	
Lenders:				
Commercial Bank(s)[b/]	17.1	16.4	16.8	16.6
PCA	16.2	17.6	8.8	14.6
FLB	41.4	50.3	49.6	47.6
FmHA	0	0	0	0
Farm Equipment Co.	5.4	1.2	3.5	3.2
Individual	12.6	7.9	15	11.5
Insurance Co.	0.9	2.4	10.6	4.4
Government agency	0	0	0	0
Other	6.3	8.5	0	5.4
Debtors:	3.6	0.6	0	1.3
(Number of cases)	(n = 111)	(n = 165)	(n = 113)	(n = 389)

a/ Column percentages may not add to exactly 100 percent, since each mediation case could have more than one initiator.

b/ Commercial bank(s) include the Federal Deposit Insurance Corporation (FDIC) as an initiator of mediation.

the initiations are done by other initiators. Insurance companies (which primarily hold real estate debt) initiate 4.4 percent of all the cases analyzed. Area percentages range from 0.9 percent in Central Minnesota to 2.4 percent in the Southwest and 10.6 percent in the Southeast. Farm equipment companies account for 3.2 percent of the overall initiations.

The initiation of mediation by the debtor occurs when a lender attempts to collect on a debt without notifying the debtor of the option to participate in mediation. This happened in only 1.3 percent of the mediation cases analyzed.

No initiations have been made by FmHA or any other government agency. Government agencies include the Commodity Credit Corporation (CCC) and the Internal Revenue Service (IRS). It had not been the policy of these organizations (during the 18 months of this study) to initiate or be actively involved in mediation.

Reason Case Came to Mediation

Reasons for a case coming to mediation are quite varied as reported in Table 8. Many cases involve a combination of reasons for mediation. The most common reason is a default on a mortgage (72.4 percent in the overall study). Central Minnesota contains the highest percentage of cases due to mortgage problems (75 percent). The high percentage of mortgage defaults corresponds with the high percentage of cases initiated by the FLB and commercial banks, who are the primary mortgage-lending institutions.

The next highest reason for a case coming to mediation is default on an intermediate term loan (36 percent of all cases in mediation). About 53 percent of these cases occur in Central Minnesota, while the Southwest and Southeast study areas comprise 33.3 percent and 23.3 percent, respectively. Intermediate loans are primarily made by commercial banks and PCAs.

Table 8. Reason Case Came to Mediation by Study Area

Reason for Mediation	Central	Southwest	Southeast	Overall
	percent[a/]			
Default on Contract for Deed	37.5[b/]	14.9	17.8	22.7
Default on Mortgage	75.0	71.3	71.2	72.4
Default on Intermediate Loan	53.1	33.3	23.3	36.0
Default on Operating Loan	45.3	25.3	13.7	27.6
Default on Lease	7.8	2.3	4.1	4.4
Unsecured Lenders Not Paid	23.4	5.7	8.2	12.0
Other	10.9	3.4	1.4	4.9
(Number of Cases)	(n = 64)	(n = 87)	(n = 73)	(n = 224)

a/ Column percentages may not add to exactly 100 percent because each case may have multiple reasons for mediation.

b/ Reported percentages indicate the proportion of total cases in each designated study area which involve the particular reason for mediation listed.

Defaults on operating loans occur in 27.6 percent of the cases. About 45 percent of the cases in Central Minnesota are due, at least in part, to defaults on operating loans. About 25 percent of the cases in the Southwest and 13.7 percent of the cases in the Southeast are due to operating loan defaults.

Default on a contract for deed is another important reason for mediation. There are 22.7 percent of the study cases that report this as a reason for coming to mediation. Central Minnesota reports 37.5 percent of its cases as defaults on contracts. The Southeast and Southwest have a relatively low incidence of contract default (17.8 percent and 14.9 percent, respectively). The incidence of default on land contracts agrees with the overall incidence of individuals who initiated mediation.

Nonpayment of unsecured lenders accounts for 12 percent of the overall study. An unusually high incidence occurs in Central Minnesota (23.4 percent).

Characteristics of Mediated Debt

Median Debt and Type of Lender

Table 9 contains the median debt owed to each type of lender and number of mediation cases reporting that type of debt. The vast majority of mediation cases involve more than one lender and more than one type of mediated debt.

In the overall study insurance companies hold the largest median debt ($225,000), but the number of those cases is relatively small. Federal Land Banks have the next highest overall median debt ($135,604). FLBs are reported in a high number of study cases (258 cases). Median FLB debt in the Southwest is $144,719 (114 cases). The Southeast follows with $135,803

Table 9. Median Debt Owed and Type of Lender by Study Area[a]

Lender	Central	Southwest	Southeast	Overall
	- - - - - - - - - -	dollars	- - - - - - - - - -	
Commercial Bank 1[c]	$75,076 (74)[b]	$79,712 (104)	$83,955 (80)	$77,837 (258)
Commercial Bank 2[c]	25,700 (8)	22,659 (13)	36,400 (22)	25,000 (43)
Commercial Bank 3[c]	9,518 (2)	50,424 (2)	65,000 (5)	64,120 (9)
PCA	84,314 (25)	86,851 (48)	116,621 (16)	95,285 (89)
FLB	124,014 (72)	144,719 (114)	135,803 (72)	135,604 (258)
FmHA	80,053 (30)	60,000 (33)	77,586 (22)	71,600 (85)
Farm Equipment Co.	17,791 (29)	16,000 (33)	21,627 (25)	18,649 (87)
Individuals	56,831 (47)	59,235 (66)	59,426 (68)	57,868 (181)
Insurance Co.	467,919 (3)	124,357 (14)	371,704 (14)	225,000 (31)
Government	16,724 (9)	33,200 (19)	17,172 (20)	17,517 (48)
Other	17,500 (21)	17,100 (35)	9,606 (19)	13,700 (75)

a/ Includes only debtors owing that type of debt.

b/ Numbers in parentheses indicate the number of cases reporting that category of debt.

c/ Commercial bank numbers (1,2,3) indicate that in some mediation cases more than one bank was a creditor at the time of mediation.

as the median debt and 72 cases. Central Minnesota has the lowest mediation FLB debt with $124,014 in 72 cases. Both the insurance companies and FLB show a substantially higher debt than other lenders. This is due to the fact that they are typically lending on farm real estate assets.

Production Credit Associations hold a median debt of $95,285 per case. PCAs primarily write intermediate term and operating loans. The highest PCA median debt occurs in the Southeast ($116,621).

In this study any one debtor could report up to three different commercial banks as a lender. Each bank is reported separately in Table 9. Commercial bank 1 holds a median debt of $77,837. The use of at least one bank as a lender is typical of 258 mediation cases. In 43 of the cases two banks are reported, but the second bank has a relatively smaller median loan balance ($25,000). The use of a third bank occurs in nine of the sample cases. The debt in these cases tends to be slightly higher on average ($64,120) probably due to the fact that farmers with funding from three different banks generally have higher debts overall.

Farmers with FmHA debt report overall median debt of $71,600 in 85 mediation cases. Slightly over 20 percent of the study farms report FmHA debt. Slightly over 20 percent of the study farms report FmHA debt.

Individuals as creditors primarily hold farm debt in the form of contracts for deed. A number of mediation cases report individual-held debt (181 cases). The corresponding median debt is $57,868. The low amount of individual-financed debt may indicate that individuals generally do not have the resources to finance large and/or expensive land sales and, therefore, contract for deeds tend to be used on sales of smaller or less expensive tracts of land.

All remaining lenders in this study hold average debts under $20,000. Farm equipment companies are involved in 87 cases and account for a median debt of $18,649. Median debt owed to government lenders is $17,517. Only 48 cases have this type of debt. Government debt is owed primarily to the CCC and the IRS.

RESULTS OF MEDIATION

All cases included in this study concluded with either a mediated agreement or no mediated agreement. In this study 208 cases (53 percent) ended with a mediated agreement and 184 cases (47 percent) ended without a mediated agreement.

Types of Mediation Outcomes

Mediated Settlements

Most of the cases reporting a mediated agreement reported several different settlements combined within the agreement. In other cases a mediated agreement is indicated, but none of the details on the type of settlement are reported in the mediation file.

Deedback of property is one of the most frequent types of settlement. A total of 71 cases reported a deedback in the overall study (Table 10). The Southwest reports the most deedbacks (29), and the Southeast reports the fewest deedbacks (19). A deedback typically involves the return of land (either all or part of the acreage) that was secured by a mortgage or contract for deed. In many cases, the lender initially takes a loss because the devalued real estate is less than the remaining amount of the loan. In 20 of these cases, debtors made a partial or total buyback of this same land as part of the mediated agreement.

Table 10. Type of Mediated Settlement by Study Area

Type of Settlement	Central	Southwest	Southeast	Overall
	- - - - - - - - - - number[a]	- - - - - - - - - -		
Voluntary liquidation	3	1	1	5
Partial liquidation	4	6	4	14
Reduction of interest rate	14	11	2	27
Reduction of principal	7	12	16	35
Deedback	22	29	19	71
Loan reamortization	9	26	15	50
New creditor	9	4	5	19
Bankruptcy	1	0	1	2
Cash-out	10	31	24	65
Other	22	29	19	70
Buybacks[b]	4	7	8	20
Total agreements	50[a]	92[a]	66[a]	208[a]

a/ Numbers in columns will not add up to the total number of agreements, because some agreements include more than one type of settlement.

b/ Cases reporting buybacks are cases that showed a buyback of deeded back land as part of the agreement.

Cash-outs occur 65 times (31 in the Southwest, 24 in the Southeast, and 10 in Central Minnesota). A cash-out (payment of cash to clear a debt) is often used along with another type of settlement in the case of a large debt.

Loan reamortization or loan restructuring is often combined with a reduction of interest rate or principal as a type of settlement. Reamortization of a loan occurs in 50 of the sample cases. Reamortization is most common in the Southwest (26) and least common among Central Minnesota cases (19).

Reduction in the principal and the interest rate on debts is not as common as the preceding settlement options. Reduction of the principal amount occurred in 35 sample cases. Interest rate reduction is present in 27 of the total cases in the sample.

In 19 of the total mediated agreements a new creditor is obtained as part of the settlement. Debtors use loans from new creditors to pay off lenders in mediation.

Partial liquidations are used in 14 of the cases as a way to settle the debt. In these cases, part of the farm's assets are sold to make enough money to pay off a debt or to make payments to satisfactorily reduce the mediated debt.

Voluntary liquidations are present in five of the sample mediation cases. Debtors and lenders come to the agreement that the farm business is no longer viable. Voluntary liquidation is the sale of all farm assets, with the proceeds used to pay off the debt owed.

Bankruptcy of the debtor is reported in only two of the sample cases. Lenders are probably wary of this as a settlement, since it could put their claim in a tenuous position, depending on the type of bankruptcy declared.

Interestingly, at least 201 of the 208 agreements provide that the farmer continue farming.

Other types of settlements include those that do not fit into the previously listed settlement categories or cannot be classified due to the lack of detail in the signed agreement. Several debtors were reluctant to provide information on their debt or any agreements reached.

Reasons for No Agreement

Several reasons could be cited why cases did not reach a mediated agreement. However, no reason is provided in 156 cases where farmers and their lenders failed to reach a mediated settlement. In some cases, the parties would stop communicating and/or stop attending mediation meetings. At the end of 60 days, the mediator declares the mediation over, with no signed agreement and no reason given for the lack of agreement. Some of these mediation cases are undoubtedly due to the fact that these farms are not financially viable. There could be a more definitive reason for the lack of an agreement, but the mediator is either unaware of it, or neglects to report it.

Creditor objection is the reason for no agreement in several cases. For some reason, the creditor does not see the agreement as favorable and refuses to sign. When this occurs and the parties cannot resolve their differences, the agreement is not signed and a no-mediated-agreement form is filed on the case.

Debtor objections are present in six of the no mediated agreement cases. In this situation the debtor raises an objection to an agreement that is reached during the mediation process and refuses to sign the agreement form.

Even though half of the mediation cases in Minnesota have no signed agreement, mediators report that many of the cases continued to negotiate after the mediation period. Several of these cases eventually end with a viable settlement out of mediation.

Mediation Outcome and Case Characteristics

Variables representing different facets of mediation cases were selected for comparison against mediation results (both signed agreements and no signed agreements) in a cross tabulation analysis.[4] Mediation results were tabulated according to the following characteristics: 1) quarter of study, 2) total liabilities, and 3) owner's equity.

Mediation Result by Quarter of Study

During March 22 - June 1986 the most common mediation result is deedbacks, which represent 4.8 percent of total signed agreements (Table 11). No reason given (under the no signed agreement category) is the most frequent result during the first quarter (9.9 percent). This latter result is possibly due to the inability of some debtors and lenders to work through the mediation process during the first quarter of the mediation program. The predominance of deedbacks indicates that either lenders were quite interested in receiving the land they held as security, or debtors expected property values to fall further and were selecting the least cost alternative.

[4] In the tables that follow, (n) is the number of responses for each result, not the number of cases. The number of responses varies from table to table because there could be more than one mediation result per case. In addition to this, the categories for comparison contain varying numbers of missing values. Creditor and debtor objections and other no signed agreements are omitted under no signed agreement in selected tables. Voluntary liquidation and bankruptcy are not included in any of the tables. These results are left out because they represent less than 10 cases.

Table 11. Mediation Result by Quarter of Study

Mediation Result		Mar 22-June 1986	July-Sept 1986	Oct-Dec 1986	Jan-March 1987	April-June 1987	July-Sept 17 1987	Total
		Quarter of Study						
		- - - - percent - - - -						
Signed Agreement:								
Partial liquidation	(n=14)[a]	1.2	.5	.2	.7	.2	.5	3.3
Reduction of interest rate	(n=19)	.7	.7	.9	1.4	.5	.2	4.4
Reduction of principal	(n=30)	1.4	1.6	1.6	1.4	.9	0	6.9
Deedback	(n=61)	4.8	3.0	3.4	2.3	.5	0	14.0
Loan reamortization	(n=30)	.9	1.8	1.8	1.6	.7	0	6.8
New creditor	(n=15)	1.4	.5	.9	.5	.2	0	3.5
Cash-out	(n=68)	2.5	3.0	6.0	2.5	.9	.7	15.6
Other	(n=54)	3.4	2.3	3.4	2.5	.7	0	12.3
Buyback	(n=18)	2.3	.9	.9	0	0	0	4.1
Subtotal Signed Agreements		18.6	14.3	19.1	12.9	4.6	1.4	70.9
No Signed Agreement:								
Creditor objection	(n=10)	.7	.2	.2	.5	.7	0	2.3
No reason given	(n=123)	9.9	6.6	5.3	2.1	2.8	.2	26.9
Total	(n=436)	29.9	21.1	24.6	15.5	8.1	1.6	100.8[b]

a/ (n) is number of responses, not the number of cases since there could be more than one result per case.

b/ Percentages do not add to exactly 100 percent due to rounding.

In the third quarter, October - December 1986, cash-outs represent 6.0 percent of the mediation results. This may indicate that lenders were demanding cash rather than other types of resolutions. It may also be that farmers who sold crops soon after harvest had the cash on hand to pay off their debts.

During the fourth quarter, January - March 1987, no single category of mediation outcome stands out. The most frequent results are cash-outs and other agreements. The lack of one dominant mediation result suggests that the parties in mediation were using a more diversified approach to finding a workable resolution. It could be reasoned that lenders and debtors were becoming more knowledgeable about the options available to them.

Mediation Result by Total Liabilities

Partial liquidations are the most common in the \$100,000-\$250,000 and \$50,000-\$100,000 total liability categories (Table 12). The smaller liability cases are more likely to result in partial liquidations as a way to satisfy debt repayments. Cases in the higher debt categories used partial liquidation in combination with other resolutions.

Interest rate reductions occur most frequently in the \$250,000-\$500,000 range (2.5 percent), the \$100,000-\$250,000 range follows with 1.9 percent. A relatively low frequency occurs in the over \$500,000 category which may indicate that these high debt operators had already entered into some sort of restructuring agreement for the reduction of interest rate before they came into mediation. None of the principal reductions occur in the small liability categories. These debt loads are relatively small compared to other categories and lenders may have been unwilling to write off any of the debt when other options were available. Loan reamortizations follow the same general trend as the reduction of interest rate and principal.

Table 12. Mediation Result by Total Liabilities

Mediation Result	Total Liabilities $0-50,000	$50,000-$100,000	$100,000-$250,000	$250,000-$500,000	Over $500,000	Total
	- - - - - - -	- - - - - - -	percent	- - - - - - -	- - - - - - -	- - - -
Signed Agreement:						
Partial liquidation (n=11)a/	.3	.9	1.2	.3	.6	3.3
Reduction of interest rate (n=19)	.6	.6	1.9	2.5	.3	5.9
Reduction of principal (n=18)	0	0	2.8	.9	1.9	5.6
Deedback (n=41)	.3	1.6	3.1	4.7	3.1	12.8
Loan reamortization (n=30)	.3	.9	2.2	3.7	2.2	9.3
New creditor (n=11)	0	.3	.9	1.2	.9	3.3
Cash-out (n=32)	.3	0	2.5	4.4	2.8	10.0
Other (n=46)	0	1.2	5.6	5.0	2.5	14.3
Buyback (n=12)	.3	1.3	.9	1.2	.9	3.6
Subtotal Signed Agreements	2.1	5.8	21.1	23.9	15.2	68.1
No Signed Agreement:						
Creditor objection (n=10)	0	0	.9	1.2	.9	3.0
No reason given (n=92)	0	3.1	9.0	10.9	5.6	28.6
Total (n=322)	2.1	8.9	31	36	21.7	99.7b/

a/ (n) is the number of responses not the number of cases since there could be more than one result per case.

b/ Percentages do not add to exactly 100 percent due to rounding.

Deedbacks are more prevalent in the highly indebted categories (4.7 percent in the $250,000-$500,000 range, and 3.1 percent in both the $100,000-$250,000 range and the over $500,000 range). These categories did not usually involve a whole-farm deedback. Rather, it was a deedback of a parcel of land.

Cash-outs occur with low frequency in the smaller debt categories. Farms with larger debt loads were typically larger in size and possibly able to generate a larger sum of money for a cash-out than a smaller farm.

Mediation Result by Owner's Equity Position

In the most negative owner's equity category reported in Table 13, deedbacks are a frequent result (1.6 percent). The high number of deedbacks indicate that these farms simply have no recourse. Even with such extremely poor financial positions the majority of these cases ended up with a signed agreement.

In the negative $250,000 to negative $100,000 equity category, 6.3 percent of the cases report no reason for lack of a signed agreement. This is followed by 3.1 percent for both cash-outs and other signed agreements. The predominant result in the negative $100,000-to- $0 range is no reason given for no signed agreement (8.7 percent) followed by deedbacks (4.4 percent). In the $0-$100,000 equity category no reason given for no signed agreement has the highest frequency (8.4 percent). Other signed agreements include additional security sought by the creditor (4.7 percent). Deedbacks are the next most frequent result at 3.4 percent. The results of interest rate reduction, principal reduction and loan reamortization overall occur more often in this category. The greatest number of cases occur in this category (27.8 percent).

Table 13. Mediation Result by Owner's Equity

Mediation Results	Owner's Equity: Under ($250,000)[a]	($250,000)-($100,000)	($100,000)-$0	$0-$100,000	Over $100,000	Total
	- - -	- - -	percent	- - -	- - -	- - -
Signed Agreement:						
Partial liquidation (n=11)[b]	.3	0	.9	.9	1.2	3.3
Reduction of interest rate (n=19)	.3	1.2	.6	2.2	1.6	5.9
Reduction of principal (n=18)	.6	.6	1.6	1.6	1.2	5.6
Deedback (n=41)	1.6	1.2	4.4	3.4	2.2	12.8
Loan reamortization (n=30)	.6	1.6	1.9	2.2	3.1	9.4
New creditor (n=11)	.3	.6	.9	.9	.6	3.3
Cash-out (n=32)	.6	3.1	2.2	1.9	2.2	10.0
Other (n=46)	.6	3.1	3.1	4.7	2.8	14.3
Buyback (n=12)	.6	.3	.9	1.6	.3	3.7
Subtotal Signed Agreement	5.5	11.7	16.5	9.4	15.2	68.3
No Signed Agreement:						
Creditor objection (n=10)	0	.9	.9	0	1.2	3.0
No reason given (n=92)	1.9	6.3	8.7	8.4	3.4	28.7
Total (n=322)	7.4	18.9	26.1	27.8	19.8	100.0

a/ Numbers in parenthesis are negative numbers.

b/ (n) is number of responses, not the number of cases since there could be more than one result per case.

Lenders showed a definite willingness to rework debt for farmers in the over $100,000 owners equity category. Signed agreement results are the second highest in this category when compared to all others. As the owner's equity position improved, the likelihood of a signed agreement also appears to increase. Overall, cash-outs and deedbacks tend to increase in frequency as the level of owners's equity decreases and becomes negative. The opposing result is that loan reamortizations and principal reductions decrease in frequency as the debtor's equity position weakens and becomes more negative. Reductions in interest rate occur more often in cases where the debtor is in a positive equity position.

SUMMARY AND CONCLUSIONS

Minnesota's farmer-lender mediation program has been in existence for slightly over 3 1/2 years. In that period the Minnesota Extension Service has processed about 16,000 notices of creditor intent to mediate. Currently, there are between 800-900 cases in mediation. Although the current level of activity is much smaller than it was initially, the program continues to serve a need as farm lending institution continue to resolve their nonaccruing debt problems.

This study report focuses on a sample of mediation cases which were concluded during the first 1 1/2 years of the program. Sample cases were drawn from Extension Service files in southern Minnesota. Statistical summary of the economic and financial characteristics of sample cases revealed that a majority of the farmers were insolvent at the time of mediation. The combination of high debt loads and sharp declines in real estate values was a factor in many of those cases. Interestingly, the average profitability of farming operations was similar to that found in non-mediating farms in the state. Earnings before interest and taxes was positive in a majority of cases and the average rate of return on investment was in the 5-6 percent range. The problem faced by most of these operators was that those earnings were insufficient to service and repay debt. Cash available after principal and interest was negative in over 75 percent of the cases. This negative cash flow position occurred before subtracting family living expenses and setting aside funds for asset replacement. Thus, cash flow stress was quite apparent.

A majority of the study cases were cash crop farms and over 75 percent were full-time operators in sole proprietorships. Nearly all cases were initiated by creditors. Farm Credit Services was most frequently the initiator. The most common reason for mediation was default on a mortgage (or contract for deed), followed by default on an intermediate term loan. The creditor quite likely held a security position in the underlying asset in these instances.

Settlements occurred in slightly over 50 percent of the study cases. During the first year of mediation the predominant means of resolution was either a deedback of property to the lender or a cash concession by the debtor to discharge the debt (cash-out). In the following six months of mediation, there was greater frequency of loan reamortizations and principal and interest reductions by the lender. This shift in mediation outcome could be attributable to many diverse factors and deserves further study to better understand the dynamics of the mediation process.

Some insight was gained by cross-classifying the type of settlement with total debt and equity position of the debtor. Large debt cases more typically ended in a deedback or cash-out. Loan reamortizations were less frequent in these cases. Large debt cases were apparently more difficult to resolve, as reflected by the higher frequency of creditor objection and no signed agreement at the end of the mediation period. Cases in which the farmer had a positive equity capital position were resolved more frequently through use of a loan reamortization, a reduction in principal, and/or an interest rate reduction. In cases where the equity position was negative, there was a higher incidence of deedbacks and cash-outs.

Based on these sample results, we draw some additional conclusions about farmer-lender mediation. First, it is likely that mediation came too late to save many farms from the necessity to deedback or liquidate assets, or in some cases, discontinue farming. These adjustments were not inevitable in many cases, and measures which might have been taken at the first signs of financial stress could have greatly reduced the impact of accumulating debt and erosion of equity capital positions.

Second, although interest rate reductions were part of the resolution in several cases, it is not clear from our preliminary analysis that interest rates were a major source of the problem. The average rate paid on debt by mediating farmers was not significantly different from rates paid by farmers generally. Profitability of farming operations was not found to be abnormally low. Rather excessive debt was a dominant factor in the dilemma faced by mediating farmers.

Debt mediation reopened the lines of communication between farmers and lenders. Through that process, mediation provided many farmers with a clearer realization of the size and nature of the financial problem they would need to resolve. Mandatory mediation may also have placed debtors in a temporarily stronger position from which to explore concessions from both the lender and debtor sides.

Several unanswered questions remain with respect to the process of debt mediation and the results of mediation. Further study is underway to explore why some cases ended with a signed mediation agreement and others ended with no such agreement. Additionally, further analysis is being conducted to identify which factors were most influential in determining the particular outcomes (or combinations) which were observed.