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6:30 p.m. Social Hour  
7:00 p.m. Dinner

APRIL 24, 1986

TO: THE MAJORITY LEADER  
FROM: SHEILA BAIR  
SUBJECT: BACKGROUND FOR KANSAS COMMUNITY ASSOCIATION DINNER  
STOP BY

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YOU ARE SCHEDULED TO STOP BY THE KANSAS COMMUNITY CORRECTIONS ASSOCIATION CONVENTION DINNER AT THE DOUBLETREE HOTEL THIS EVENING. ABOUT 250 LOCAL KANSAS CORRECTIONS OFFICIALS WILL BE PRESENT.

THE PURPOSE OF THE ASSOCIATION IS TO PROMOTE COMMUNITY-BASED ALTERNATIVES TO STATE PRISON INCARCERATION FOR NONVIOLENT OFFENDERS. SERVICES THEY PROMOTE INCLUDE MORE INDIVIDUALIZED JOB TRAINING AND REFERRAL SERVICES FOR OFFENDERS ON PROBATION, AND ANCILLARY SUPPORT SERVICES FOR THEM SUCH AS DRUG TREATMENT. THE WORK OF THE GROUP IS ENTIRELY STATE FUNDED.

POINTS YOU MAY WANT TO MAKE INCLUDE COMMENDING KANSAS FOR BEING AT THE FOREFRONT OF NATIONWIDE EFFORTS TO FIND ALTERNATIVES TO INCARCERATION. COMMUNITY BASED CORRECTIONS PROGRAMS REDUCE PRISON COSTS, HELP ALLEVIATE PRISON OVERCROWDING AND CAN BE AN IMPORTANT TOOL OF REHABILITATION BY PROVIDING OFFENDERS WITH THE MEANS TO WORK AND CONTRIBUTE TO SOCIETY.

YOU MAY ALSO WANT TO MENTION YOUR LONG STANDING ADVOCACY OF A RELATED PROGRAM, PRISON INDUSTRIES. LIKE COMMUNITY-BASED CORRECTIONS, PRISON INDUSTRIES PROGRAMS REDUCE THE FINANCIAL COSTS OF INCARCERATION AND HELP WITH REHABILITATION BY PROVIDING INMATES WITH VOCATIONAL EDUCATION AND ON-THE-JOB TRAINING.

HERE AGAIN, KANSAS IS IN THE FOREFRONT, BEING ONE OF THE FIRST STATES TO HAVE AN OPERATIONAL PRISON INDUSTRIES PROGRAM. THE WORK OF THESE EARLY PILOT PROGRAMS HAS BEEN BOLSTERED BY A PROVISION YOU AUTHORED IN THE COMPREHENSIVE CRIME CONTROL ACT OF 1984 WHICH GIVES THEM IMMUNITY FROM PROTECTIONIST STATE LAWS THAT PROHIBIT INTERSTATE COMMERCE IN PRISON-MADE GOODS.

ANOTHER POINT WHICH MAY BE OF INTEREST: PETE ADVISES THAT THE OLD TWA TRAINING CENTER IS ONE OF SIX FACILITIES BEING CONSIDERED BY THE NATIONAL INSTITUTE FOR CORRECTIONS (NIC) TO HOUSE A TRAINING CENTER FOR CORRECTIONS OFFICIALS. THERE MAY BE GRAMM-RUDMAN PROBLEMS WITH NIC PURCHASING THE CENTER. ASSUMING THEY CAN BE WORKED OUT, YOU MAY WANT TO PLEDGE STRONG SUPPORT FOR THE SALE.

THURSDAY, APRIL 24, 1986

6:30-8:00 p.m.

MO-KAN TRUST Reception - Alameda Plaza  
Trust Departments of the Missouri and  
Kansas Bankers Association - Diplomat  
Room - approximately 100 people

### RECENT DEVELOPMENTS IN BANKING AREA

- o Congress and bank regulators worked in tandem this year to effect changes which will have the effect of forestalling some bank closings. Legislation introduced, hearings held, bill ready to be passed - then regulators adopted by regulatory fiat principles embodied in legislation.
- o The key elements of the package can be explained by the following example:
  - Farmer has original loan of \$100,000. At some point when the loan is past due and chances of repayment are slim, the bank simply writes off the loss. Under current practices, when the bank acknowledges the loss, it is charged off against reserves which have been set aside for that purpose. Losses over and above whatever loan loss reserves there are must be covered by the bank's capital. Thus, excessive losses have served to impair a bank's capital.
  - The problem has been that the bank must maintain a minimum capital to asset ratio of 6%. In some cases, the excessive losses have caused the capital ratio to fall below 6%, thus causing bank regulators to close the bank.
  - Our plan encourages the bank and the lender to renegotiate the terms of the loan. The bank has an incentive to renegotiate because whatever amount he loses in the renegotiation doesn't have to be called a loss for accounting purposes. The test is that the renegotiated loan qualifies for this treatment if, after the renegotiation, the total amount of cash receipts which can be reasonably anticipated exceed the original principal amount of the loan.
  - On the \$100,000 loan which has been in arrears, the total amount which is due and owing may be far more than the original \$100,000 due to interest which is accruing. In renegotiation of this loan, all the bank and borrower have to concern themselves with is the \$100,000. And all they have to do in the restructuring is write a new loan which will allow the bank at some point in time to recoup the \$100,000. It can be done at any speed - e.g., \$5000 per year over 20 years - as long as the principal is recovered. This will have the effect of forcing a lot of zero-interest loans.
- o This treatment is available to a bank where energy and/or agriculture loans account for 25% or more of its outstanding loans. In addition, the bank's capital can drop below 6% - to as low as 4% in some cases.

BOB DOLE  
KANSAS

## United States Senate

OFFICE OF THE MAJORITY LEADER  
WASHINGTON, DC 20510

April 18, 1986

TO: SENATOR DOLE  
FROM: RICH BELAS  
SUBJECT: IMPACT OF YOUR DEPRECIATION AND FARMER AMENDMENTS ON  
KANSAS

### Depreciation

The Roth-Heinz modification of the Packwood proposal on cost recovery essentially gave back about \$25 billion of the \$145 billion gained from repealing the investment tax credit. Because of you, airplanes were included in the most favored class of assets -- those that can be depreciated over five years using the 200 percent declining balance method.

The general aviation manufacturers, especially Beech, mounted a mail campaign to save the investment tax credit. You did what you could to help them.

### Farmers

When a creditor writes down the principal on a loan, the amount of this "debt forgiveness" is considered to be income to the debtor. It is treated as though the creditor wrote the debtor a check in the amount of the debt forgiven and the debtor endorsed it back.

Under present law, if a taxpayer is insolvent, the amount forgiven is not considered income. However, the taxpayer has to reduce the basis in his property and reduce the amount of his other tax attributes such as NOL's and ITC carryforwards first.

The Grassley-Dole amendment extends this treatment to farmers who are not quite insolvent if they have a high debt to asset ratio.

Individuals would be treated as engaged in the trade or business of farming for purposes of the amendment, if at least 50 percent of their average annual gross receipts during the three taxable years preceding the year of the debt write-down was derived from the trade or business of farming. Only those individuals having a debt-equity ratio of at least 70-30 immediately before the write-down would be eligible for this treatment.

**Memo from . . .**

**MERLE WOOD**

4/25/86

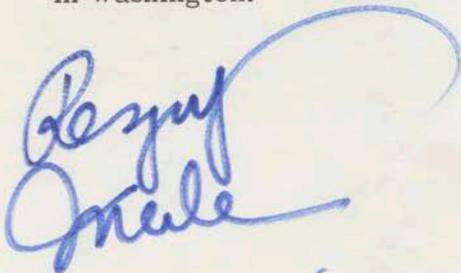
Dear Senator Dole:

It has been my pleasure to be of assistance to you during your visit to the Kansas City area.

Reservations at the Stadium Club have been made for 8:30 p.m. this evening. They will only hold the table until 9:00 p.m.

Any time we can be of service to you, please don't hesitate to call.

All of us here have the greatest respect for your leadership and the wonderful job you are doing in Washington.



Merle Wood