2017 Beginning Farmer Loan and Tax Credit Programs
Iowa Agricultural Development Division

- Formerly Iowa Agricultural Development Authority
- Became a Division of the Iowa Finance Authority in July, 2013
- Administers loan and tax credit programs to benefit Beginning Farmers in Iowa.
Iowa Agricultural Development Division Programs

• Beginning Farmer Loan Program (BFLP)
• Loan Participation Program (LPP)
• Beginning Farmer Tax Credit Program (BFTC)
• Beginning Farmer Custom Farming Tax Credit Program (BFCF)
• DNR Lease to Beginning Farmer Program*
  * Administered by DNR
Who is a Beginning Farmer?  
Same for ALL Programs

• 2017 maximum net worth less than $645,284
  ➢ This amount changes every year

• At least 18 years old (No upper age limit)

• Resident of Iowa

• Must be owner/operator of the farm
  ➢ Cannot lease to someone else or hire someone else to do the work

• Must have sufficient education, training and experience for the anticipated farm operation
  ➢ But not the same as FSA requirement of >3 years and <10 years

• Must have access to adequate working capital, farm machinery, livestock and/or agricultural land
Approval Procedures

• All applications are due by the 1st of month
• Reviewed by IADD board
  ➢ Usually the 4th Wednesday of the month
• Recommendation made to the IFA board
  ➢ Usually meets 1st Wednesday of the following month
• After Board meeting
  • Approval letter sent or
  • Letter detailing additional requirements needed before application can be approved
Application Packets

• For all IADD Programs
  ➢ Program Application
  ➢ Financial Statement less than 30 days old
    • Signed by Beginning Farmer and spouse
    • Witnessed by financial professional that helped prepare statement
  ➢ Background letter explaining
    • Education, training and experience for the anticipated farm operation
    • Access to working capital, farm machinery, livestock and/or agricultural land
      ▪ Explain agreement for machinery use (rental or trading labor for use)
  ➢ Application Fee
  ➢ Other documentation specific to each program
Beginning Farmer Loan Program
Beginning Farmer Loan Program

- Low-interest loan through a lender or contract seller
  - Financed through a tax-exempt bond issued by IFA
  - Interest earned is exempt from federal income taxes
  - For contract sellers, interest is both federal and state tax-exempt income
- Because the interest earned is tax-exempt, lenders and contract sellers can charge the beginning farmer a lower interest rate
- Typically the beginning farmer will see about a 25% interest rate reduction using the Beginning Farmer Loan Program (BFLP)
Beginning Farmer Loan Uses

• **Purchase**
  - Agricultural land
  - Depreciable machinery or equipment
  - Breeding livestock-not feeders

• **Make improvements**
  - Existing buildings
  - New farm improvements

• **Cannot finance**
  - Operating expenses
  - Refinance previous purchases
Financing or Constructing a Facility

- If financing a feeding facility, per federal regulations the feeding contract must be on a per head/per day basis.
- This restriction can cause complications, but most integrators are willing to change the contract when they know it is a requirement of the financing.
- The per head/per day contract format must be maintained for the life of the loan.
- The program cannot be used for any type of rental, so the federal restriction on the feeding contract is to distinguish between:
  - Rental agreement (per pig space)
    - Not eligible
  - Service agreement (per head/per day)
    - Eligible
Maximum Bond Amounts

**Maximum bond amount** - adjusts annually on January 1\(^{st}\)
- $524,200 for real estate
- $250,000 for existing buildings or farm improvements and new depreciable agricultural property
- $62,500 for “used” depreciable agricultural property
- Federal legislation has been introduced to increase all maximums to the maximum bond amount – H.R. 5335

**Restrictions**
- Dwelling may not exceed 5% of bond proceeds
- CRP ground may not exceed 25% of bond proceeds
- Combination of the above can be used up to maximum bond
Other BFLP Factors

• Additional Eligibility requirement
  ➢ If beginning farmer does now or has in the past owned land it must be less than 30% of the county median
    • The federal legislation introduced would also change the maximum land ownership from 30% of the county median to 30% of the county average.
  ➢ Purchases from closely related family members (parents, grandparents or siblings) are permitted but:
    • they must be financed through a 3rd party lender (no contract sale)
    • Must be sold for at least the appraised value
  ➢ Contract sale allowed if not immediate family
    • So can be with aunts, uncles, cousins, etc.
Other BFLP Factors

- May reapply and benefit from the program until the maximum bond amount has been used or land owned exceeds the limit.
- Beginning farmer negotiates down payment and loan terms with bank or contract seller.
- If eligible, down payment assistance may be used with:
  - Farm Service Agency (FSA) loan (5/45/50 program)
  - IADD Loan Participation Program (LPP) loan
    - Only when financed through a bank
# Using the BFLP and FSA 5/45/50 Together

<table>
<thead>
<tr>
<th>% of Project</th>
<th>Funding Source</th>
<th>Total</th>
<th>Interest Rate</th>
<th>1st year Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>5% of project</td>
<td>Down payment</td>
<td>$43,158</td>
<td></td>
<td></td>
</tr>
<tr>
<td>45% of project</td>
<td>FSA Loan</td>
<td>$300,000</td>
<td>1.50%</td>
<td>$4,500</td>
</tr>
<tr>
<td>50% of project</td>
<td>BFLP Aggie Bond</td>
<td>$520,000</td>
<td>4.00%</td>
<td>$20,800</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>$863,158</strong></td>
<td></td>
<td><strong>$25,300</strong></td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>% of Project</th>
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<th>Total</th>
<th>Interest Rate</th>
<th>1st year Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>100% of project</td>
<td>Traditional Loan</td>
<td><strong>$863,158</strong></td>
<td>5.33%</td>
<td><strong>$46,006</strong></td>
</tr>
</tbody>
</table>

**$20,706 Interest Savings in the 1st year**
# Example of Savings Using the Beginning Farmer Loan Program

## 5.33% Interest Loan Amortization Schedule

<table>
<thead>
<tr>
<th>Loan Information</th>
<th>Summary</th>
<th>5.33% Interest</th>
<th>4.00% Interest</th>
<th>Total Savings using BFLP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Amount</td>
<td>$520,000</td>
<td>$520,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Interest</td>
<td>$533,293</td>
<td>$382,150</td>
<td>$151,143</td>
<td></td>
</tr>
<tr>
<td>Annual P&amp;I Payments</td>
<td>$35,110</td>
<td>$30,072</td>
<td>$5,038</td>
<td></td>
</tr>
<tr>
<td>Total P&amp;I Payments</td>
<td>$1,053,293</td>
<td>$902,150</td>
<td>$151,143</td>
<td></td>
</tr>
</tbody>
</table>

## 4.00% Interest Loan Amortization Schedule

<table>
<thead>
<tr>
<th>Loan Information</th>
<th>Summary</th>
<th>5.33% Interest</th>
<th>4.00% Interest</th>
<th>Total Savings using BFLP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Amount</td>
<td>$520,000</td>
<td></td>
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<td>$902,150</td>
<td>$151,143</td>
<td></td>
</tr>
</tbody>
</table>
Other Provisions and Fees

• Applications can be approved if bank loan or contract transaction completed:
  ➢ **BUT** must be approved by IADD-IFA board within 60 days of any financing
• Non-refundable $50 application fee
• Closing fee
  ➢ 1.50% of Bond up to $250,000
  ➢ 0.75% of Bond amount over $250,000
  ➢ $300 minimum
• Closing fee is paid when loan closes
How to get started!

- Talk to your lender and let them know you would like to use the IADD Beginning Farmer Loan Program (BFLP)
- Lender will underwrite your loan to determine if they are willing to finance the project
- Once bank approval has been decided:
  - Loan term and tax exempt interest rate will be negotiated
  - Lender and beginning farmer jointly fill out application
  - Applications, program summaries and additional information is available our website at: [IowaFinanceAuthority.gov/IADD](http://IowaFinanceAuthority.gov/IADD)
How to get started!

• Submit application and all attachments to IADD by the 1\textsuperscript{st} of the month

• Application is reviewed/approved by IADD-IFA Boards
  ➢ process typically takes about six weeks
  ➢ interim financing allowed

• After approval, IADD sends loan closing packet to lender
  ➢ Loan is assigned to lender or contract seller at closing
  ➢ All payments are made directly to the lender or contract seller
Questions on the Beginning Farmer Loan Program?
Loan Participation Program
Loan Participation Program

- The Loan Participation Program (LPP):
  - Established in 1996
  - Supplements a beginning farmer’s down payment to purchase agricultural assets
- The program can be used for the same purposes as the Beginning Farmer Loan Program (BFLP)
- Can be used in conjunction with the Beginning Farmer Loan Program (BFLP)
Maximum and Loan Terms

- IADD’s LPP reduces the lender’s risk:
  - LPP is Last-in/last-out
  - Allows lender to finance more of the beginning farmer’s project
- Maximum loan participation is 30% of project up to $150,000
- Current interest rate is 2.50%
  - Fixed for 5 years then adjusted
    - 1.00% above FSA Direct Farm Ownership Down Payment Loan Program
- 10 year balloon (amortized over 20 years for land and 12 years for facilities)
- There are no restrictions on related party transactions
LPP Underwriting criteria

- Current assets to current liabilities > 1.1 at time of application
- Farm debt-to-asset ratio < 80% at closing
- Aggregate amount of participated loan (total amount financed) < 3 times the borrower’s net worth
- Debt repayment ratio > 120%
- Off-farm income < 50% of projected gross income
- Loan-to-value < 100% of appraised value
  - Collateral appraisals by qualified 3rd party appraiser
  - Property not eligible if house value > 50% of appraisal
Other Provisions and Fees

- Applications can be approved if bank loan has been completed:
  - BUT must be approved by IADD-IFA board within 60 days of any financing
- Non-refundable application fee
  - $100
- Closing fee
  - 1.25% of IADD participation loan
  - $300 minimum
- Closing fee is paid when loan closes
Using the LPP and BFLP Together for Hog Facility Construction

<table>
<thead>
<tr>
<th>% of Project</th>
<th>Funding Source</th>
<th>Total</th>
<th>Interest Rate</th>
<th>1st year Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>30% of project</td>
<td>LPP Loan</td>
<td>$150,000</td>
<td>2.50%</td>
<td>$3,750</td>
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<tr>
<td>F.I. Limit</td>
<td>BFLP Aggie Bond</td>
<td>$250,000</td>
<td>4.00%</td>
<td>$10,000</td>
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<tr>
<td>Remaining</td>
<td>Traditional Loan</td>
<td>$300,000</td>
<td>5.33%</td>
<td>$15,990</td>
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<tr>
<td>12 year amort.</td>
<td></td>
<td>$700,000</td>
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<td>$29,740</td>
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<table>
<thead>
<tr>
<th>% of Project</th>
<th>Funding Source</th>
<th>Total</th>
<th>Interest Rate</th>
<th>1st year Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>100% of project</td>
<td>Traditional Loan</td>
<td>$700,000</td>
<td>5.33%</td>
<td>$37,310</td>
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</table>

$7,570 Interest Savings in the 1st year
### Example of Savings Using the Loan Participation Program

#### 5.33% Interest Loan Amortization Schedule

<table>
<thead>
<tr>
<th>Loan Amount</th>
<th>Number of Payments</th>
<th>Total Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>$150,000</td>
<td>12</td>
<td>$56,883</td>
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</tbody>
</table>

#### 2.50% Interest Loan Amortization Schedule

<table>
<thead>
<tr>
<th>Loan Amount</th>
<th>Number of Payments</th>
<th>Total Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>$150,000</td>
<td>12</td>
<td>$24,416</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Loan Amount</th>
<th>Annual Interest Rate</th>
<th>Total Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>$150,000</td>
<td>2.50%</td>
<td>$174,415.50</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Term of Loan in Years</th>
<th>Total Interest</th>
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</thead>
<tbody>
<tr>
<td>12</td>
<td>$24,415.54</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Loan Amount</th>
<th>Annual Payment</th>
<th>Balloon Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>$150,000</td>
<td>$14,623.07</td>
<td>$42,807.91</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Annual Payment</th>
<th>Balloon Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>$17,240.24</td>
<td>None</td>
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</table>

<table>
<thead>
<tr>
<th>5.33% Interest</th>
<th>2.50% Interest</th>
<th>Total Savings using LPP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Amount</td>
<td>$150,000</td>
<td>$150,000</td>
</tr>
<tr>
<td>Total Interest</td>
<td>$56,883</td>
<td>$24,416</td>
</tr>
<tr>
<td>Annual P&amp;I Payments</td>
<td>$17,240</td>
<td>$14,623</td>
</tr>
<tr>
<td>Total P&amp;I Payments</td>
<td>$206,883</td>
<td>$174,416</td>
</tr>
<tr>
<td></td>
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<td>$32,467</td>
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</tbody>
</table>
How to get started!

- Talk to your lender and let them know you would like to use the IADD Loan Participation Program (LPP)
- Lender will underwrite your loan to determine if they are willing to participate in financing the project
- Once bank approval has been determined, fill out the application with your lender
- Applications, programs summaries and additional information is available at: IowaFinanceAuthority.gov/IADD
- Submit application and attachments to IADD by the 1st of the month
  - Pro-forma financial statement
  - Cash flow analysis
  - 3 Years of Federal Tax Returns
How to get started!

• IADD will review and underwrite the application
• Application is reviewed by IADD Board Credit Committee
• Application is approved by IADD-IFA Board
  - process which typically takes 5-6 weeks
  - interim financing is allowed
• IADD works with bank on closing documents
• At closing, funds are sent to bank via ACH
• All loan payments are made directly to the bank
• Bank sends IADD its payment amount
Questions on the Loan Participation Program?