



IOWA AGRICULTURAL
DEVELOPMENT DIVISION

2017 Beginning Farmer Loan and Tax Credit Programs

Iowa Agricultural Development Division Staff



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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.



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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



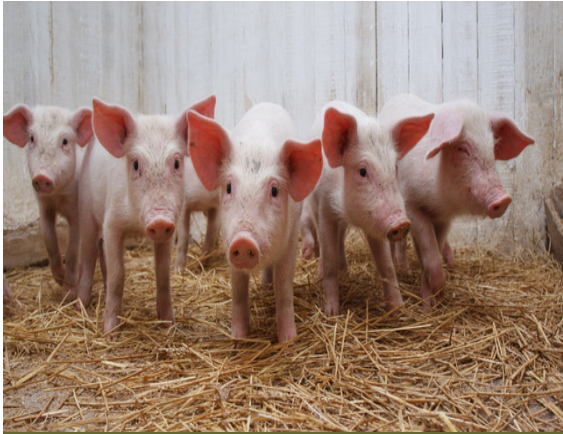
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Who is a Beginning Farmer?

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 the by 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



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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





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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)



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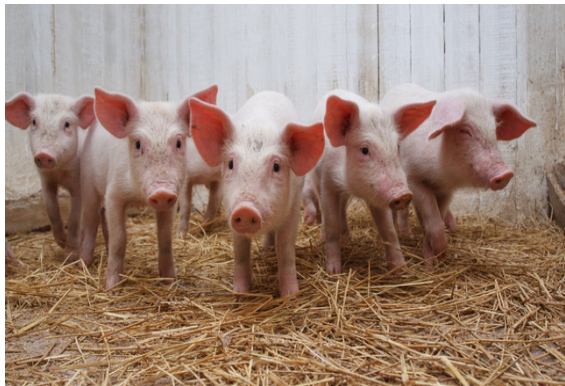


Beginning Farmer Loan Uses

- **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



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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



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Maximum Bond Amounts

Maximum bond amount - adjusts annually on January 1st

- \$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



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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.



Lyon	Osceola	Dickinson	Emmet	Kossuth	Winneshiek	Worth	Mitchell	Howard	Winneshiek	Allamakee
63.0	72.0	54.0	73.5		39.9	41.7	47.1	42.0		
Sioux	O'Brien	Clay	Palo Alto		Hancock	Cerro Gordo	Floyd	Chickasaw		
48.0	71.7	66.9	48.0	78.0	48.0	41.4	30.0	33.0	34.2	40.2
Plymouth	Cherokee	Buena Vista	Pocahontas	Humboldt	Wright	Franklin	Butler	Bremer	Fayette	Clayton
58.5	74.1	72.9	83.1	55.8	48.0	47.1	31.2	30.0	42.0	37.2
Woodbury	Ida	Sac	Calhoun	Webster	Hamilton	Hardin	Grundy	Black Hawk	Buchanan	Delaware
53.4	63.6	48.0	56.1	49.2	41.4	45.0	60.0	36.0	39.0	46.8
Monona	Crawford	Carroll	Greene	Boone	Story	Marshall	Tama	Benton	Linn	Jones
83.4	54.0	48.0	60.0	21.9	24.0	33.6	47.4	48.0	24.0	33.0
Harrison	Shelby	Audubon	Guthrie	Dallas	Polk	Jasper	Poweshiek	Iowa	Johnson	Clinton
48.0	75.6	44.4	39.0	20.4	13.5	34.5	48.0	36.0	26.7	45.3
Pottawattamie	Cass	Adair	Madison	Warren	Merion	Mahaska	Keokuk	Washington		Scott
50.1	48.0	54.0	24.0	19.2	24.0	40.5	36.0	35.4	31.8	28.5
Mills	Montgomery	Adams	Union	Clarke	Lucas	Monroe	Wapello	Jefferson	Henry	Des Moines
45.9	60.0	51.9	30.0	34.5	36.0	38.7	25.2	30.0	30.9	24.6
Fremont	Page	Taylor	Ringgold	Decatur	Wayne	Appanoose	Davis	Van Buren	Lee	
58.8	57.9	48.0	51.0	43.5	44.1	30.0	32.7	33.6	27.3	



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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



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Using the BFLP and FSA 5/45/50 Together

% of Project	Funding Source	Total	Interest Rate	1 st year Interest
5% of project	Down payment	\$ 43,158		
45% of project	FSA Loan	\$300,000	1.50%	\$4,500
50% of project	BFLP Aggie Bond	\$520,000	4.00%	\$20,800
		\$863,158		\$25,300

% of Project	Funding Source	Total	Interest Rate	1 st year Interest
100% of project	Traditional Loan	\$863,158	5.33%	\$46,006

\$20,706 Interest Savings in the 1st year



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Example of Savings Using the Beginning Farmer Loan Program

5.33% Interest Loan Amortization Schedule

Loan Information		Summary	
Loan Amount	520,000.00	Rate (per period)	5.330%
Annual Interest Rate	5.33%	Number of Payments	30
Term of Loan in Years	30	Total Payments	1,053,292.73
First Payment Date	1/1/2015	Total Interest	533,292.73
Payment Frequency	Annual	Est. Interest Savings	0.06
Compound Period	Annual		
Payment Type	End of Period		
Annual Payment		35,109.76	

4.00% Interest Loan Amortization Schedule

Loan Information		Summary	
Loan Amount	520,000.00	Rate (per period)	4.000%
Annual Interest Rate	4.00%	Number of Payments	30
Term of Loan in Years	30	Total Payments	902,149.54
First Payment Date	1/1/2015	Total Interest	382,149.54
Payment Frequency	Annual	Est. Interest Savings	0.01
Compound Period	Annual		
Payment Type	End of Period		
Annual Payment		30,071.65	

	5.33% Interest	4.00% Interest	Total Savings using BFLP
Loan Amount	\$520,000	\$520,000	
Total Interest	\$533,293	\$382,150	\$151,143
Annual P&I Payments	\$35,110	\$30,072	\$5,038
Total P&I Payments	\$1,053,293	\$902,150	\$151,143



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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



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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



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How to get started!

- Submit application and all attachments to IADD by the 1st 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?



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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



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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



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Using the LPP and BFLP Together for Hog Facility Construction

% of Project	Funding Source	Total	Interest Rate	1 st year Interest
30% of project	LPP Loan	\$150,000	2.50%	\$3,750
F.I. Limit	BFLP Aggie Bond	\$250,000	4.00%	\$10,000
Remaining	Traditional Loan	\$300,000	5.33%	\$15,990
12 year amort.		\$700,000		\$29,740

% of Project	Funding Source	Total	Interest Rate	1 st year Interest
100% of project	Traditional Loan	\$700,000	5.33%	\$37,310

\$7,570 Interest Savings in the 1st year



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Example of Savings Using the Loan Participation Program

5.33% Interest Loan Amortization Schedule

Loan Amount	\$150,000	Number of Payments	12
Annual Interest Rate	5.33%	Total Payments	\$206,882.96
Term of Loan in Years	12	Total Interest	\$56,882.96
Annual Payment	\$17,240.24	Balloon Payment	None

2.50% Interest Loan Amortization Schedule

Loan Amount	\$150,000	Number of Payments	10
Annual Interest Rate	2.50%	Total Payments	\$174,415.50
Term of Loan in Years	12	Total Interest	\$24,415.54
Annual Payment	\$14,623.07	Balloon Payment	\$42,807.91

	5.33% Interest	2.50% Interest	Total Savings using LPP
Loan Amount	\$150,000	\$150,000	
Total Interest	\$56,883	\$24,416	\$32,467
Annual P&I Payments	\$17,240	\$14,623	\$2,617
Total P&I Payments	\$206,883	\$174,416	\$32,467



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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



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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?



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