



MN Rural Finance Authority and AgBMP

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RFA History

- Established in 1986 with the Restructure Loan Program
- Beginning Farmer Loan Program in 1987
- Aggie Bond in 1991
- Ag Improvement Loan Program in 1992
- Livestock Expansion Loan Program in 1994
- Revolving account for Stock Loan Program in 1994
- Methane Digester Loan Program in 2002
- Livestock Equipment Loan Program in 2005
- Disaster Recovery Loan Program in 2007
- Pilot Agricultural Microloan Program in 2012
- Farm Opportunity Loan Program in 2015

Purpose of the RFA and Main Audience

Provide eligible Minnesota farmers affordable financing under terms and conditions not available from other credit sources.

- Beginning farmers
- Livestock producers
- Farmers facing financial adversity
- Full time farmer = Majority of income comes from farming

Goals of the RFA

- Help Minnesota farmers
- Help local institutions be competitive
 - Lower interest rates
 - Share risk
 - Manage local lending limits
- Easy to use and prompt approval process
- Utilize local lenders supporting loan documentation

How Are We Funded?

Sale of State Bonds

- RFA has to pay these back
- \$50 Million appropriation in 2020
 - Beginning Farmer & Seller Assisted - Tax Exempt/Taxable
 - Agriculture Improvement - Taxable
 - Livestock Expansion - Taxable
 - Restructure II - Taxable

Allocation of Federal Tax-Exempt Bonds (Paper transactions)

- Aggie Bond

Dedicated Revolving Account (Repayments go back into the account)

- Disaster
- Livestock Equipment
- Value Added Ag Product
- Agro-Forestry
- Microloan
- Farm Opportunity
- Methane Digester

Bonding Dollars Available

- About \$19 million left on the 2020 Authorization of \$50 million
- Loan requests have increased due to high interest rate environment
- RFA expect to exhaust funds by about October of 2023

RFA Program Overview

RFA Performance Measures *(1986 to 2022)*

- 3,810 loans issued, totaling \$362.4 million
- Losses taken on 21 loans (0.002% of total)
- Currently have 742 active loans with balance of over \$99.9 million

How We Work

- We participate with local lenders
- We take 45% of the loan
- Local lender does most of the paperwork
- The local lender lends all of the money and we “buy” our 45% from them after the loan closes
- The borrower pays the lender, the lender pays us
- Loans contain five-year prepayment penalty

Beginning Farmer and Seller Assisted

Help beginning, entry-level farmers purchase real estate.

- Can be bare land, farm site, or five acres with a barn
- Net worth can not exceed \$903,000 (indexed for inflation)
- Loan is limited to 45% of a qualifying loan to a maximum of \$400,000 from the RFA
- Max debt per acre (80 acres x \$3500 x 45%)
- 4.00% RFA interest rate for 10 years
- Program may be used more than once
- Enrollment in farm management program
- Obtain life insurance to cover loan amount

Beginning Farmer Example

A young farmer is buying a 15-acre farm site with a home, barns, and pasture for his beef cattle operation.

Creditor	Dollars	Interest Rate	Lien Position
Purchase Price	\$200,000		
Down Payment	\$40,000		
Remaining Credit Needed	\$160,000		
RFA's 45%	\$72,000	4.00%	Shared First
Lender's 55%	\$88,000	6.50%	Shared First

FSA/RFA Working Together for Minnesota Farmers

Memorandum of Understanding

For Beginning Farmers:

- FSA agrees to waive the 1% origination fee
- FSA agrees to issue 95% Guarantees
- Applies to regular or “Down Payment D-FO” loans
- RFA will do a 20-year balloon on loans including FSA Beginning Farmer Down Payment Program

FSA/RFA Working Together for Minnesota Farmers

FSA/RFA Example Using The Beginning Farmer Loan Program

- \$500,000 Purchase Price
- \$25,000 Down payment (5% down)

Creditor	Dollars	Interest Rate	Lien Position
Credit Needed	\$475,000		
<i>FSA Down Payment</i>	\$225,000	1.50%	Second
Remaining Credit Needed	\$250,000		
<i>RFA's 45%</i>	\$112,500	4.00%	Shared First
<i>Lender's 55%</i>	\$137,500	6.20% +/-	Shared First

Agricultural Improvement

Used to finance improvements to the farm for any ag related purpose, such as livestock buildings, grain handling facilities, machine storage, and manure systems.

- Net worth can not exceed \$903,000 (indexed for inflation)
- Loan is limited to 45% of a qualifying loan to a maximum of \$400,000 from the RFA
- 4.25% RFA interest rate for 10 years

Livestock Expansion

Creates affordable financing for new state-of-the-art livestock production facilities.

- Used for new hog barns, poultry barns, cattle barns, robotic milkers, etc.
- Net worth that does not exceed \$1,919,000 (indexed for inflation)
- Loan is limited to 45% of a qualifying loan up to a maximum of \$525,000 from the RFA
- 4.50% RFA interest rate for 10 years

Restructure II

Restructure loans help farmers reorganize their farm debt to improve cash flow.

- Net worth that does not exceed \$1,919,000 (indexed for inflation)
- Loan is limited to 45% of a qualifying loan up to a maximum of \$525,000 from the RFA
- 4.50% RFA interest rate for 10 years

Disaster Recovery Loan

Helps farmers affected by recent disasters for farm expenses not covered by insurance.

- State or federal declared disaster, or a disaster area as determined by the RFA Board
- Used to help clean up, replace feedstock and other inputs, or repair buildings
- Can be used to purchase watering systems during a drought disaster
- Covers the loss of revenue when there is a contagious disease (animal or human)

Disaster Recovery Loan

- Loan is limited to 45% of a qualifying loan to a maximum of \$200,000 from the RFA
- 0% RFA interest rate
- Interest only payment required in first two years
- No maximum net worth
- Collateral is negotiable

Disaster Recovery Loan

- 91 Disaster Recovery loans issued for \$6.5 million
- 6 loans for \$860K have been issued to cover loss of revenue due to COVID-19
- 17 loans for \$1.6 million have been issued to cover loss due to the most recent drought
- Multiple hazards have been added legislatively over the past three years

Livestock Equipment

Help beginning farmers purchase livestock related equipment, facilities, and improvements.

- Net worth can not exceed \$484,266 (indexed for inflation)
- Loan is limited to 45% of a qualifying loan to a maximum of \$100,000 from the RFA
- 2.00% RFA interest rate
- Must be principal owner of livestock for which the equipment will be used

Farm Opportunity Loan

Used to purchase machinery/ equipment to:

- Add value to crops or livestock
- Adopt best management practices
- Reduce or improve management of ag inputs
- Increase production of on-farm energy
- No maximum net worth requirement
- Individual loan 45% up to \$100,000
- Group loan 45% up to \$250,000
- 2.00% RFA interest rate for 10 years

Value Added Agriculture Product Program

This program is designed to provide financing for farmers with limited capital who want to buy stock in a cooperative proposing to build or purchase and operate an agricultural product processing facility in Minnesota.

The RFA will participate in loans at 45% of the loan up to a maximum of \$40,000.

Methane Digester Loan

The purpose is to help finance the purchase of necessary equipment and the construction of a system that will utilize manure to produce electricity.

- No net worth requirement
- Individual loan 45% up to \$250,000
- 0% interest rate for up to 10 years
- Loan may be used as a match for federal loans or grants

Odds and Ends

- Prepayment penalty starts at 10%, then reduces 2% per year
- A borrower may pay additional principal of 10% of the loan amount without penalty
- All RFA loans should have a loan term of no more than 10 years (except when using FSA BFDP)
- Can be amortized longer

Meat & Poultry Intermediary Lending Program (MPILP)

- \$15 million grant from USDA secured late in 2022 to establish a revolving loan program to support small- and medium-sized meat & poultry processors
- Direct loans as little as \$50,000 and up to \$10 million will be available at 3%
- Funds can be used to purchase land or equipment, cover start-up costs, and make other business investments
- Program expected to open late 1st quarter 2023

Beginning Farmer Tax Credit

The credit to the agricultural asset owner is as follows:

- Take a credit against the tax due
- 5% of the lesser of the sale price or fair market value of the agricultural asset up to a maximum of \$32,000;
- 10% of the gross rental income in each of the 1st, 2nd, and 3rd years of the rental agreement, up to a maximum of \$7,000 per year; or
- 15% of the cash equivalent of the gross rental income in each of the 1st, 2nd, and 3rd years of a share rent agreement, up to a maximum of \$10,000 per year.

Beginning Farmer Tax Credit

Definitions:

- Agricultural Asset = Ag land, livestock, facilities, buildings, and machinery
- Owner of agricultural asset = Individual, trust, or pass-through entity. Cannot be a C Corp, equipment dealer, or livestock dealer

Beginning Farmer Tax Credit

Requirements of the beginning farmer:

- Resident of MN (resident means an “individual”)
- Has farmed less than 10 years (Schedule F)
- Must be farming land in MN
- Asset owner cannot be family or family of a spouse or family of a partner, member, shareholder, or trustee
 - (grandparents, parents, children, grandchildren, brothers, sisters)
- Has a net worth below \$903,000
- Does majority of the farm labor and management
- Agrees to enroll in a farm financial management course

Beginning Farmer Tax Credit

- Tax year 2018: initial infusion of \$5 million
- Tax year 2019-2023: an additional \$6 million each year
- For 2023, there is about \$24 million available
- Sunset: 12/31/2023

Beginning Farmer Tax Credit Application Activity

Tax year 2018

Asset Owners	Amount
407	\$2,010,511
Beginning Farmers	Amount
329	\$321,200

Tax year 2019

Asset Owners	Amount
545	\$2,416,226
Beginning Farmers	Amount
418	\$434,893

Tax year 2020

Asset Owners	Amount
576	\$2,292,505
Beginning Farmers	Amount
370	\$457,271

Tax year 2021

Asset Owners	Amount
462	\$3,282,291
Beginning Farmers	Amount
639	\$383,008

Tax year 2022

Asset Owners	Amount
629	\$3,106,087 est
Beginning Farmers	Amount
388	\$281,223 est

Beginning Farmer Management Tax Credit

- Beginning farmer gets a tax credit for participating in a farm financial management program
- Credit is equal to 100% of the cost of the program not to exceed \$1,500 per year
- Up to three years
- Can also use Beginning Farmer Financial Business Management (FBM) Scholarship

Down Payment Assistance

- \$15,000 matching grant for first-time farm owners
- Program from Emerging Farmers Working Group
- \$500,000 from state legislature for first round, roughly 30-35 grants
- First-come, first-served application opened online 9 a.m. January 4, 2023
- Full allotment applied for in under 15 minutes
- Second and third rounds of funding (\$750,000 each) secured for July 2023 and July 2024



Agricultural Best Management Practices Loan Program

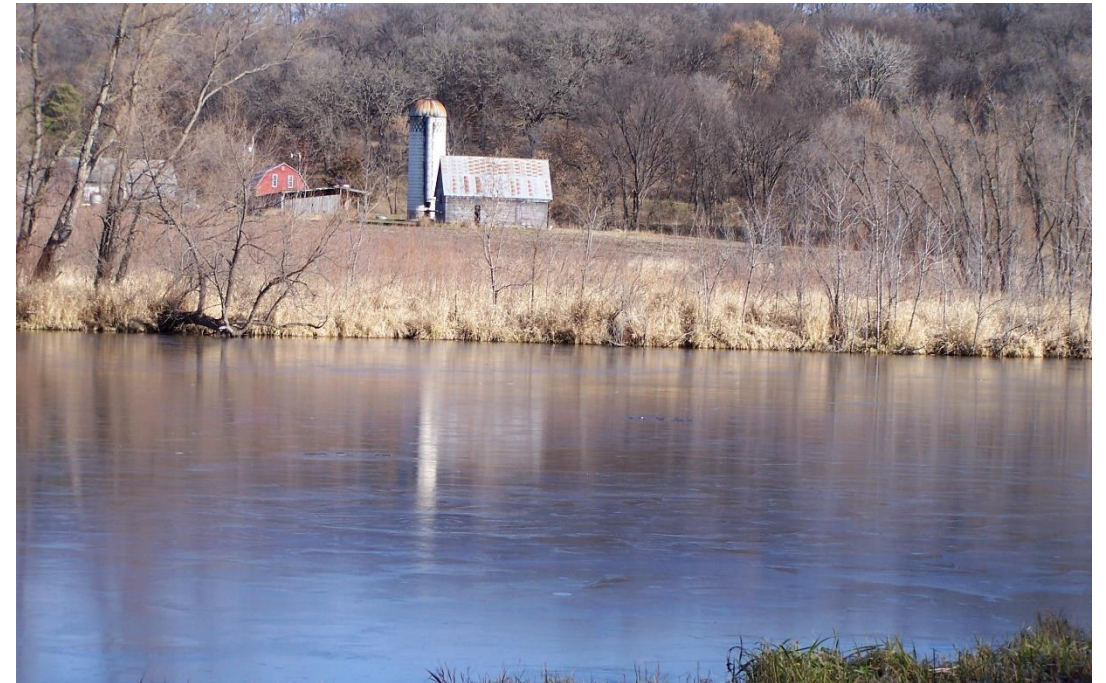
Who Does What?

- **MDA:** Manages all funds and contracts
- **Local Government Unit (LGU):** Approves eligible projects / available funding
 - Pollution Prevention
 - Pollution Problems
 - Drinking Water Standards
 - Odor
- **Lender:** Evaluates the creditworthiness of the Borrower
- **Borrower:** Implements the project and repays the Loan

AgBMP Eligibility Criteria: Must Benefit Water Quality

Eligible projects or practices can be solely funded by AgBMP or used along with any other loan, cost share, or grant programs.

- Use science and environmental benefits
- Does it help: Prevent, Reduce, Eliminate
 - Water quality problem?
 - Drinking water issues?
 - Odor problem?
- Borrower:
 - Farmer
 - Farm Supply Business
 - Rural Landowner
 - Water Quality Cooperative
 - Any septic project



AgBMP Program Terms

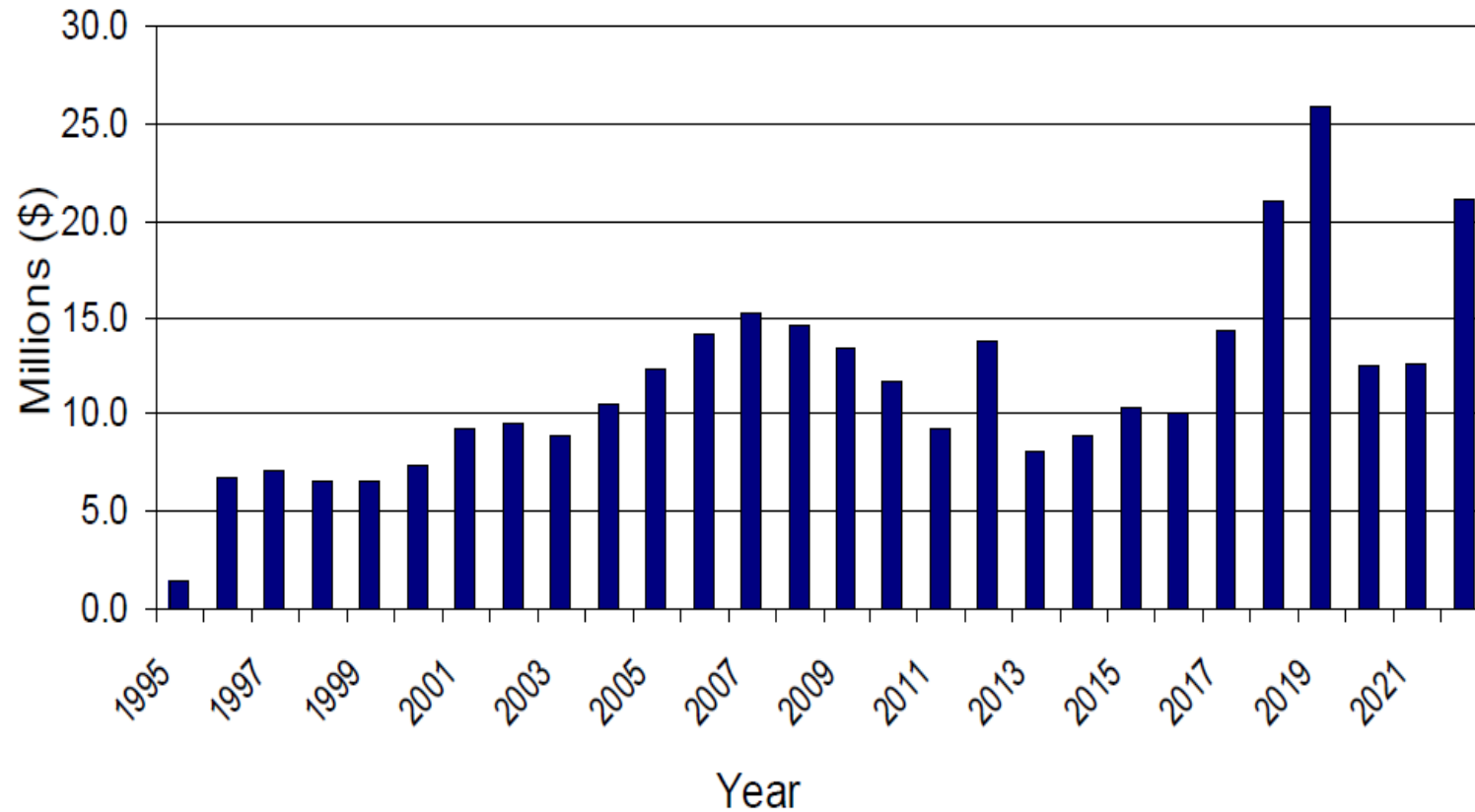
- **MAXIMUM \$200,000** total per person at any given time
 - **No Project Maximum**
- Up to a maximum of a 10-year term
- Maximum of 3% interest + fees

AgBMP Lending Milestones

- Number of loans: **18,060 total**
- Loans by amount: **\$323,213,324**
- Corpus: **\$86.4 million total**

AgBMP Activity by Calendar Year

Total Amount of Loans by Year



AgBMP Project Activity by Calendar Year



AgBMP Loans Issued Last 12 Months

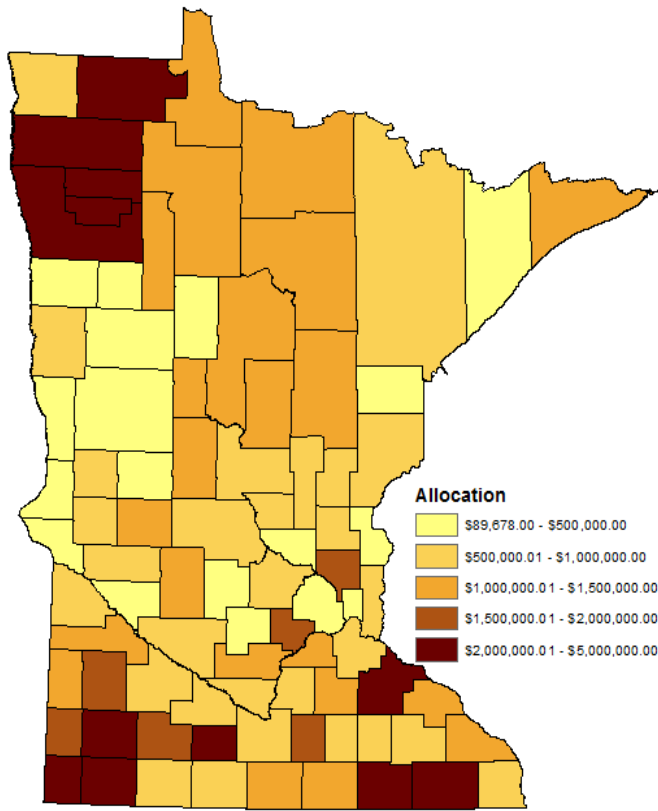
Summary of AgBMP Loans Issued by Category

Funding: All Funding Sources Included - All Funds

1/1/2022 - 12/31/2022

Category	Number of Loans	Amount of Loans	% by Amount	% by Number
Ag Waste Management	89	\$6,057,537.70	28.7%	15.4%
Structural Erosion Control	146	\$636,840.18	3.0%	25.3%
Conservation Tillage Equipment	91	\$8,141,270.57	38.6%	15.8%
Septic Systems	167	\$3,402,825.25	16.1%	28.9%
Other Practices	84	\$2,854,943.09	13.5%	14.6%
Total	577	\$21,093,416.79		

LGU Funding Availability for 2023



\$27,886,410

= LGU Current Budgets +
Lender Repayments +
Approved new appropriated funding

(2022 Applications requested over \$37.5 million)

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