MN HOUSE RESEARCH

Rural Finance Authority

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What is the Rural Finance Authority?

The Rural Finance Authority (RFA) is the state's main agricultural lending arm. The legislature established the RFA during the farm credit crisis of the 1980s to help eligible farmers restructure mounting debt.

What does the RFA do?

The RFA is directed to "develop the state's agricultural resources by extending credit…on terms and conditions not otherwise available from other credit sources." Minn. Stat. § 41B.01. Although the RFA has authority to issue loans directly, it typically partners with private agricultural lenders to provide favorable financing opportunities for eligible farmers. In 2017, the legislature assigned the RFA a new responsibility—certifying eligibility for state beginning farmer income tax credits.

How does the RFA extend credit?

The RFA has official agreements with more than 400 private lenders. The lenders issue and service the loans. The RFA purchases a portion of the loan from the lender and charges the farmer a lower rate of interest on its portion of the debt. As a result, the farmer pays a blended interest rate that is lower than the market rate charged by the private lender alone. (The blended interest rate is the weighted average of the interest rates charged by the RFA and the lender.) By lowering the farmer's interest costs, this arrangement makes debt financing more affordable.

Who runs the RFA?

Although the RFA is a separate public body with its own powers and duties, it is administered by the Minnesota Department of Agriculture. The RFA board consists of the commissioners of agriculture (chair), management and budget (vice chair), employment and economic development, and commerce, as well as the state auditor. The governor appoints an additional six public board members who must be approved by the Senate and cannot reside in the seven-county Twin Cities metropolitan area.

What loan programs are available?

The RFA currently manages 13 different loan programs. Each program has its own specific purpose and borrower criteria. These programs, along with years of inception and funding sources, are as follows:

- Basic Beginning Farmer (1987, general obligation (G.O.) bonds)
- Seller-sponsored (1989, G.O. bonds)
- Agricultural Development Bond ("Aggie Bond") (1991, federal private activity bonds)
- Agricultural Improvement (1992, G.O. bonds)
- Restructure II (1993, G.O. bonds)
- Livestock Expansion and Modernization (1994, G.O. bonds)
- Value-added Stock (1994, general fund (G.F.) appropriation)
- Disaster Recovery (1998, G.F. appropriation)
- Agroforestry (2000, G.F. appropriation)
- Methane Digester (2002, G.F. appropriation)
- Livestock Equipment (2005, G.F. appropriation)

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- Pilot Agricultural Microloan (2012, G.F. appropriation)
- Farm Opportunity (2015, G.F. appropriation)

Which farmers are eligible?

In general, a borrower must be the principal operator of a farm and also (1) a Minnesota resident, (2) a member of a family-owned and -operated farm corporation, or (3) a member of a family-owned and -operated farm partnership. Beyond these general requirements, many programs have their own eligibility rules. To target support to smaller or beginning farmers, several programs limit eligibility to those whose net worth falls below an inflation-adjusted threshold.

How does the RFA use bonds to fund certain loan programs?

The Minnesota Constitution allows the legislature to borrow money and use the proceeds "to develop the state's agricultural resources by extending credit on real estate security." Minn. Const. art. XI, § 5(h). In essence, the state takes out a loan and lends the borrowed funds to eligible farmers. These bonds are considered 100 percent "user-financed" because the RFA is required by law to charge farmers a rate of interest sufficient to meet the debt service obligations on the G.O. bonds. Because the state typically boasts a strong credit rating and G.O. bond interest is generally exempt from federal and state income taxes, the rate the state pays on G.O. bonds—and by extension the rate the RFA charges farmers—tends to be relatively low.

Do these G.O. bonds require a three-fifths vote of the House and Senate?

A three-fifths supermajority is not necessary; only a simple majority is required. The State Constitution treats these bonds differently than bonds issued to fund conventional capital investment projects.

Why are some programs funded with cash instead?

The Constitution requires that farm loans financed by G.O. bonds must be secured by a real estate lien. In other words, RFA loans financed by G.O. bond proceeds must be secured by a mortgage on the borrower's farmland. Loans not secured by the borrower's farmland must be funded by another source. While the RFA has authority to raise funds by issuing its own taxable revenue bonds, the legislature has funded certain RFA programs with general fund appropriations instead. This gives the legislature and RFA greater flexibility in defining loan security requirements and setting interest rates. For instance, the RFA charges no interest on its methane digester loans—a program funded entirely by general fund appropriations. General fund programs utilize revolving loans, whereby the RFA may use loan repayments from one farmer to issue a loan to a different farmer.

Do other states have similar entities?

Approximately 33 other states have agricultural lending programs similar to those offered by the RFA.

For more information: To learn more about the loan programs or to apply for financing visit www.mda.state.mn.us or call the RFA directly at 651-201-6004 or 1-800-967-2474. For legislative matters, contact legislative analyst Colbey Sullivan at 651-296-5047.

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