

Rural Finance Authority Overview and Purpose

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. 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.”¹ The RFA offers low-interest loans to support a variety of farm activities and services including land purchases, farm improvements and equipment, meat and poultry processing, operating capital, debt restructuring, and disaster relief. Although the RFA has authority to issue loans directly, it typically partners with private agricultural lenders to provide favorable financing opportunities for eligible farmers.² In addition to its loan programs, the RFA also certifies eligibility for state beginning farmer income tax credits.³

RFA Board and Minnesota Department of Agriculture

The RFA board consists of the commissioners of agriculture, management and budget, employment and economic development, and commerce, as well as the state auditor.⁴ 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. The commissioner of agriculture presides over the board as chair. Although the RFA is a separate public body with its own powers and duties, it is housed under the Minnesota Department of Agriculture.

RFA Loan Programs

The RFA primarily works with private lenders to issue loans. 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.

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

- Agricultural Development Bond (“Aggie Bond”) (federal private activity bonds)
- Agricultural Improvement (general obligation (G.O.) bonds)
- Agricultural Microloan (general fund (G.F.) appropriation)
- Agroforestry Loan (G.F. appropriation)
- Beginning Farmer (G.O. bonds)
- Disaster Recovery (G.F. appropriation)
- Farm Opportunity (G.F. appropriation)

¹ [Minn. Stat. § 41B.01.](#)

² [Minn. Stat. § 41B.036.](#)

³ [Minn. Stat. § 41B.0391.](#)

⁴ [Minn. Stat. § 41B.025.](#)

- Livestock Equipment (G.F. appropriation)
- Livestock Expansion and Modernization (G.O. bonds)
- Meat and Poultry Intermediary Lending (federal grant)
- Methane Digester (G.F. appropriation)
- Loan Restructuring (“Restructure II”) (G.O. bonds)
- Seller-sponsored (G.O. bonds)
- Value-added Stock (G.F. appropriation)

Loan Eligibility

To be eligible for an RFA loan, a borrower must be the principal operator of a farm and either (1) a Minnesota resident, or (2) a member of a family farm corporation or family farm partnership in compliance with the Corporate Farm Law.⁵ Beyond these general requirements, many loan programs have additional eligibility requirements. To target support to smaller or beginning farmers, several programs limit eligibility to those whose net worth falls below an inflation-adjusted threshold.

RFA Funding: General Obligation Bonds

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.”⁶ Unlike conventional capital investment projects that require a three-fifths supermajority vote of the House and Senate, only a simple majority is required for the legislature to fund the RFA.

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. The Constitution requires that farm loans financed by G.O. bonds must be secured by a real estate lien.⁷ 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.

RFA Funding: General Fund Appropriations

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. General fund programs utilize revolving loans, whereby the RFA may use loan repayments from one farmer to issue a loan to a different farmer. This approach gives the legislature and RFA greater flexibility in defining loan security requirements and setting interest rates. An example of this is the methane digester loan program that uses general fund appropriations so that the RFA can charge no interest on the loan.



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⁵ [Minn. Stat. § 41B.03](#).

⁶ [Minn. Const. art. XI](#), § 5(h).

⁷ [Minn. Const. art. XI](#), § 5(h).