



# 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.

<b>Creditor</b>	<b>Dollars</b>	<b>Interest Rate</b>	<b>Lien Position</b>
<b>Purchase Price</b>	<b>\$200,000</b>		
Down Payment	\$40,000		
<b>Remaining Credit Needed</b>	<b>\$160,000</b>		
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)

<b>Creditor</b>	<b>Dollars</b>	<b>Interest Rate</b>	<b>Lien Position</b>
<b>Credit Needed</b>	\$475,000		
<i>FSA Down Payment</i>	\$225,000	1.50%	Second
<b>Remaining Credit Needed</b>	\$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

# Agricultural Microloan

- Be a resident of the State of Minnesota,
- Be a member of a Protected Group as defined under Minn. Stat. § 43A.02, subdiv. 33 (minority, woman, disabled) or a qualified non-citizen as defined under Minn. Stat. § 256B.06, subdiv. 4, par. (b) (refugee, immigrant, asylum, etc.),
- Utilizing funds towards the production and marketing of specialty crops (direct market fruits & vegetables, cut flowers and herbs, etc.) or eligible livestock, (open range poultry, sheep, goats), and
- Show an ability to repay the loan.

# Agricultural Microloan

- Under the program currently being offered by the RFA, the maximum amount of outstanding principle with this program cannot exceed \$10,000, or 70% of the farm's marketable product value, whichever is less. Loan amortization can be scheduled for a term of one to six years, negotiated between the lender, applicant, and the RFA. Loans may contain prepayment penalties under limited circumstances.
- The borrower must satisfy the local lender's guidelines. The local lender will control the day-to-day operation of the loan. Participating lenders are allowed to charge fixed interest rates no greater than 10% APR.
- A borrower may use the program more than one time to an aggregate amount of \$10,000. A borrower would have to make a new application for each loan. Approval would be determined by the current guidelines in effect at the time of the application.

# 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 1<sup>st</sup> 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

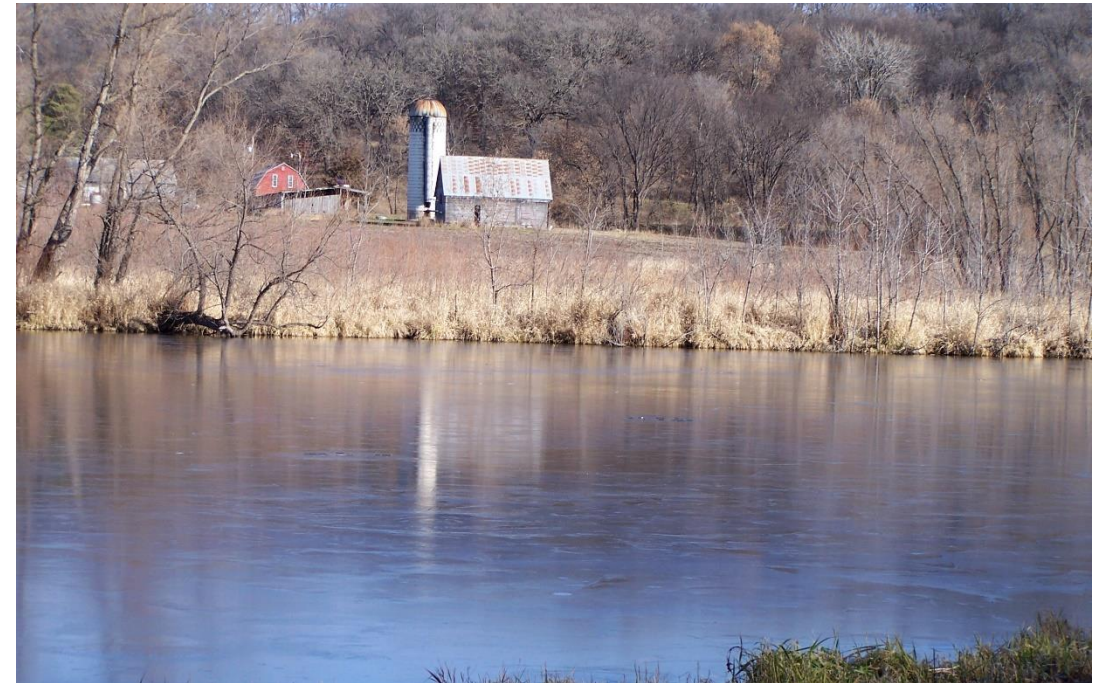
## Who Does What?

- **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 long with any other lone, 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

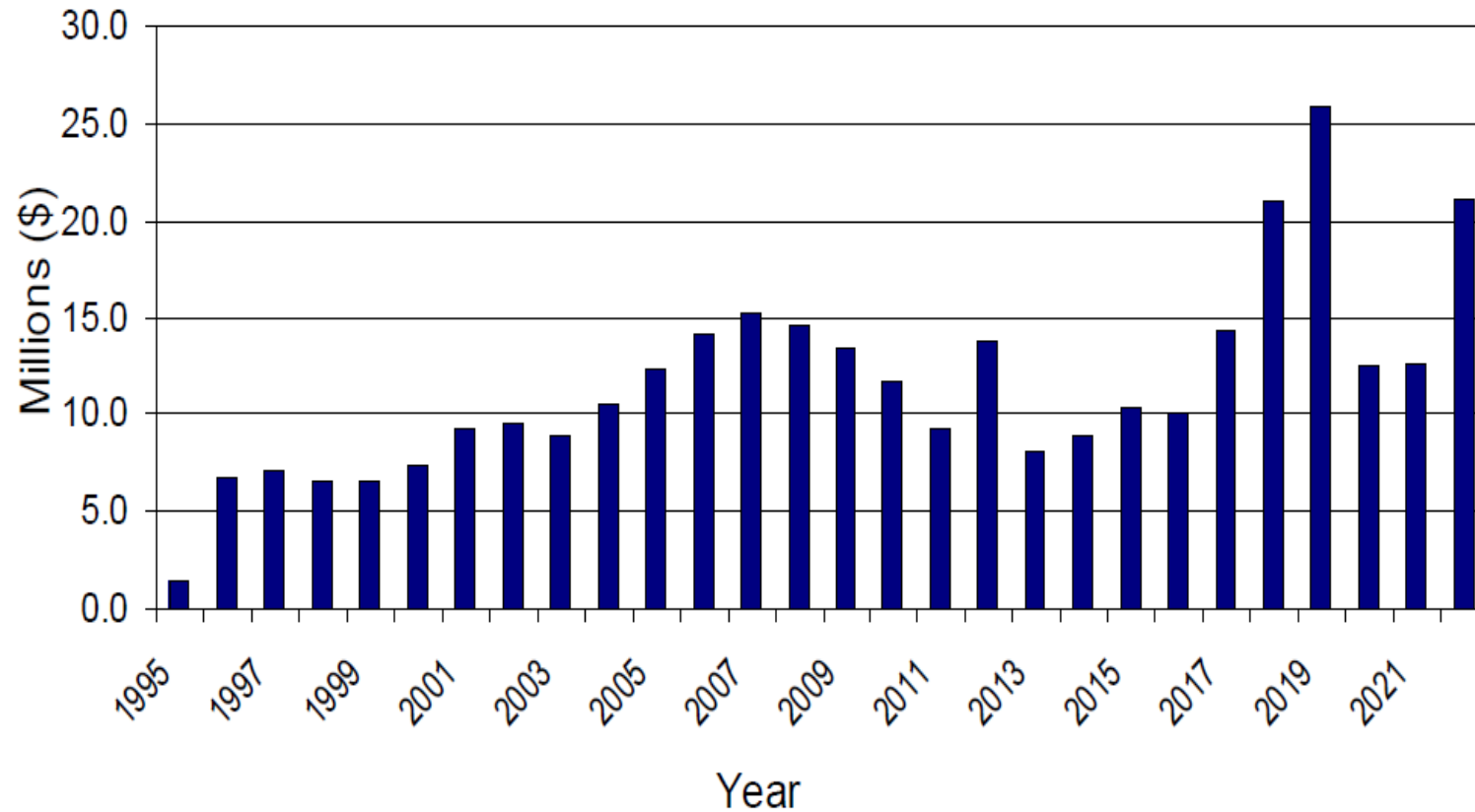
- **MAXIMUM \$200,000** total per person at any given time
  - **No Project Maximum**
- Up to a maximum of a 10-year term
- Maximum of 3% interest + fees

# 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

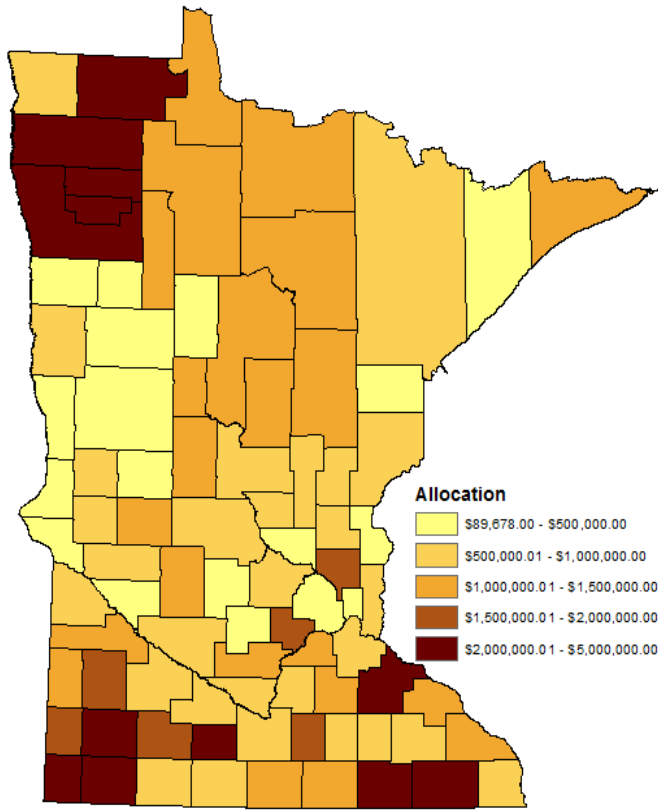
## Summary of AgBMP Loans Issued by Category

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%
<b>Total</b>	<b>577</b>	<b>\$21,093,416.79</b>		



# 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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