Rural Finance Authority Lending Projection

MINN. STAT. 41B.025, Subdivision 9

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Executive Summary

This report will provide backgroud information in regards to the Rural Finance Authority (RFA) as well as current loan issuance and a projection of when the funds will be exhausted.

Introduction

This report will present the current loan trending within the RFA as well as a projection as to when the current available funds will be exhausted.

Background

The RFA currently administers 13 loan programs to provide affordable credit to eligible farmers.

Five programs are funded from the sale of general obligation bonds. They include: the Beginning Farmer Loan Program, the Seller-Sponsored Loan Program, the Agricultural Improvement Program, the Livestock Expansion Loan Program, and the Restructure II Loan Program. All five programs are participation programs whereby the RFA joins in partnership with local lending institutions to provide credit based upon certain pre-established rules. Over 450 financial facilities are included in master participation agreements.

General eligibility requirements for all five programs are: (1) a borrower must be a resident of Minnesota or a domestic family farm corporation or family farm partnership, as defined in MINN. STAT. 500.24, subdivision 2; and (2) the borrower or one of the borrowers must be the principal operator of the farm with respect to which the loan is made.

Security for the bond-funded loans must be a first mortgage on agricultural real estate. The interest rate for the RFA portion of a loan is set to meet the debt service requirements of the bonds sold to finance it. The maximum term for loan participations is 10 years, unless otherwise stated by the RFA.

Beginning Farmer Loan Program

This program is aimed at younger, lower equity individuals who intend, over time, to become full-time farmers. The purpose is to enable the beginning farmer to purchase farm real estate. The RFA participation is limited to 45% of the loan principal, up to a maximum of $400,000. Each loan requires a minimum down payment of 10% of the purchase price. Loan amortization may be scheduled on a term of 15, 20, 25, or 30 years as negotiated among the lender, the borrower, and the RFA. RFA participation is for a maximum of 10 years unless otherwise stated by the RFA. A borrower must (1) have sufficient education, training, or experience to succeed in the type of farming that they intend to pursue; (2) have a total net worth not exceeding $1,013,000, indexed yearly for inflation; (3) agree to enroll in a farm business management program approved by the Commissioner of Agriculture; and (4) agree to obtain credit life insurance for the amount of the debt incurred unless a waiver is given.

Seller-Sponsored Loan Program

This program is very similar to the Beginning Farmer program with one exception. This program is designed to permit the sellers of a farm to fund a portion of the financing essential to the completion of the sale. The seller agrees to subordinate its financing to the lender/RFA. The lender and the RFA provide the balance of the funds with a first mortgage. The down payment is negotiable. The program rules do not, however, require one to be made. Each lender determines its own requirements based on the buyer’s ability to repay the needed financing.

Agricultural Improvement Program

This program creates affordable financing for new, state-of-the-art improvements for agriculture production, including the purchase and construction or installation of improvements to land, buildings, and other permanent structures; and equipment incorporated in or permanently affixed to the land, buildings, or structures, which are useful for and intended for the purpose of improving a farm. The improvements can be for any farm-related purpose including livestock facilities, grain handling facilities, machine storage, erosion control, wells, and manure systems. The RFA participation is 45% of the loan principal, up to a maximum of $400,000. The RFA is restricted to participation in loans that do not exceed 80% of the appraised value of the real estate comprising collateral for the loan. A borrower must have a total net worth not exceeding $1,013,000, indexed for inflation.

Restructured II Loan Program

Under this program, the RFA works with local lenders to help farmers reorganize their debt. This program is for farmers who remain in good credit standing with their local lender, but who are having trouble with cash flow. Only debt of an agricultural nature is eligible. The RFA will participate on 45% of the loan principal, up to $525,000. The loans may be amortized over a period of up to 25 years. Participation is restricted to loans that do not exceed 80% of the appraised value of real estate comprising collateral for the loan. A borrower must (1) have received at least 50% of average annual gross income from farming for the past three years; (2) have a net worth not exceeding $2,150,000, indexed for inflation; and (3) have projected annual expenses not exceeding 95% of projected annual income.

Livestock Expansion and Modernization Loan Program

This program is similar to the Agricultural Improvement program, but only for livestock-related needs. It creates affordable financing for new, state-of-the-art improvements to land, buildings, and other permanent structures; and equipment incorporated in or permanently affixed to the land, buildings, or structures, which are useful for and intended for the purpose of raising livestock. The RFA may participate on a loan up to 45% of the loan principal, up to a maximum of $525,000. The RFA is restricted to participation in loans that do not exceed 80% of the appraised value of the real estate comprising collateral for the loan. A borrower must (1) be actively engaged in a livestock operation; (2) have the ability to repay the loan; and (3) have a total net worth not exceeding $2,150,000, indexed for inflation.

RFA Bonding Authorization

Total bonding authorization is established by MINN. STAT. 41B.19, subdivision 1, and is allocated by resolution of the Rural Finance Authority. Total authorizations received are as follows:

- Laws of Minnesota for 1986, Chapter 398 — $50,000,000
- Laws of Minnesota for 1996, Chapter 463 — $41,000,000
- Laws of Minnesota for 1997, 2nd Spec. Sess., Chap 2 — $1,250,000
- Laws of Minnesota for 2000, Chapter 492 — $20,000,000
- Laws of Minnesota for 2002, Chapter 393 — $15,000,000
- Laws of Minnesota for 2005, 1st Spec. Sess., Chap 3 — $18,000,000
- Laws of Minnesota for 2007, Chapter 16 — $30,000,000
- Laws of Minnesota for 2009, Chapter 93 — $35,000,000
- Laws of Minnesota for 2012, Chapter 293 — $33,000,000
- Laws of Minnesota for 2017, Chapter 4 — $35,000,000
- Laws of Minnesota for 2018, Chapter 214 — $35,000,000
- Laws of Minnesota for 2020, Chapter 67 — $50,000,000
- Laws of Minnesota for 2023, Chapter 32 — $50,000,000

Recent Bond Loan Activity

Bond loan activity over the last four fiscal years and through March 31, 2024, of FY24 is below.

FY18: 109 loans for $21,183,000

FY19: 122 loans for $24,317,00

FY20: 94 loans for $17,041,000

FY21: 75 loans for $10,897,000

FY22: 56 loans for $8,927,151

FY23: 94 loans for $18,516,290

FY24: 78 loans for $13,032,584

Dollars of bonding authority encumbered: $1,631,312

Dollars of unencumbered bond authority left: $53,286,478

Bond Fund Exhaustion Projection

Based upon averages between FY18 and FY24, as well as the current interest rate environment, the RFA estimates that all authorized funding will be encumbered/exhausted by December of 2025.