

The Kansas Development Finance Authority

Beginning Farmer Loan Program

The aim of the Kansas Development Finance Authority (KDFA) Beginning Farmer Loan Program

...is to assist new and certain existing farmers and ranchers with financing their agricultural businesses and, as a result, start or keep them in farming. By making loans available at below market interest rates, KDFA is helping farmers who will become valuable assets for the State of Kansas. The program can be used for beginning farmers/ranchers in purchasing agricultural land, farm buildings, farm equipment and breeding livestock.

KDFA's Individual Agricultural Development Bond Program (Beginning Farmer Loan Program)

- KDFA is authorized to issue bonds on behalf of eligible beginning farmers or ranchers. Because the income, received by private lenders, from the bonds is tax-exempt, the beginning farmers can borrow through KDFA at below-market rates.
- The Tax Reform Act of 1986 has changed the eligibility requirements in the Individual Agricultural Development Bond Program. An individual must be a "First-time Farmer" to be eligible for assistance under the program.

A "First-time Farmer" is an individual who has never had a substantial ownership interest, either directly or indirectly, in farmland in the operation of which the individual has materially participated with the following exception.

Any parcel of land is "substantial farmland" unless the parcel is smaller than 30 percent of the median size of a farm in the county where the parcel is located. The 30 percent median farm size for the state runs from a low of 9 acres in Wyandotte County to a high of 315 acres in Rawlins County (see Median Farm Size Table which is updated periodically). (Bonnie are these acreage amounts current?)

- First-time Farmers must be individuals. Loans to corporations, partnerships, LLC's or other entities are ineligible.
- KDFA issues a tax-exempt Private Activity Bond and lends the proceeds to the Beginning Farmer. The bond is sold to the farmer's bank, a contract seller or other investors, with the loan and its collateral pledged as security for the bond. Loan payments

are usually made directly to the bond purchaser. It should be noted that a third party may guarantee the repayment of the loan.

- Under the program, the farmer negotiates with the local lender, contract seller or other investor to arrange the loan, including interest rate, length of loan, repayment schedule, security and collateral needed. This program gives the lender an opportunity to lend money at an interest rate below the conventional interest rate due to the tax-exempt status of the bond that KDFA sells to the lender. KDFA does not guarantee these loans.
- KDFA cannot approve loans for refinancing existing debt or working capital.
- A beginning farmer must have adequate working capital and education or experience in the type of farming operation for which the loan is sought. Such information will usually be supplied to KDFA through a background letter submitted by the lender.
- Federal law limits the bond amount to an aggregate base amount of \$450,000, indexed annually for inflation per person for a lifetime use. Therefore, this is the maximum aggregate indexed bond amount that can be issued for any one applicant.
- Of the \$450,000 base limit, the entire amount may be used for [Agricultural Land \(includes pasture land\)](#), [Agricultural Improvements and Depreciable Agricultural Property](#), and up to \$62,500 may be for used equipment or breeding stock.
- KDFA charges fees to the borrower for the Program. These include a \$100 non-refundable application fee [that](#) is submitted with the application and a **1 ½%** loan closing fee.

Beginning Farm Loan Checklist

If you can answer "true" to all of the following questions, you may be able to obtain a loan at a "below market" interest rate to finance your farming projects.

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|------------|-------------|--|
| _____ true | _____ false | I feel that with a "little extra help" with my financing, I could be successful in farming. |
| _____ true | _____ false | I want to purchase either agricultural land, agricultural improvements, depreciable agricultural property or a combination of these projects |
| _____ true | _____ false | I have never had a direct or indirect ownership interest in substantial farmland. |
| _____ true | _____ false | I need a loan of \$450,000 or less to purchase land or to purchase or construct buildings and improvements on land, or to purchase depreciable agricultural property. Not more than \$62,500 will be used to purchase <u>used</u> depreciable agricultural property. |
| _____ true | _____ false | I do not intend to refinance existing debt with money borrowed through this program. |

The Financing Process

The borrower seeking financing obtains an application form from his/her local lending institution, extension agent or from KDFFA's office.

The borrower and lender complete the application and negotiate terms of the loan.

The application, background letter and application fee of the borrower is submitted to KDFFA.

KDFFA will consider the application for approval shortly after its receipt. If approved, KDFFA will issue a letter of intent to issue its bond. **(PLEASE NOTE - THIS IS NOT A FINAL APPROVAL AND DOES NOT BIND KDFFA TO THE ISSUANCE OF A BOND.)**

When the documentation and all terms of the bond issue are finalized, the borrower and lender may request that the KDFFA Board consider adoption of a bond resolution authorizing the issuance of the bond. KDFFA must conduct a public hearing on the proposed financing (public notice of the public hearing must be given at least 14 days before the hearing is conducted). KDFFA may then consider adoption of a bond resolution. The public hearing and adoption of a bond resolution may, but do not have to occur at the same Board meeting.

After KDFFA's adoption of the bond resolution, all parties may execute the relevant bond and loan documents and close the bond issue. KDFFA will issue a tax-exempt bond which is purchased by an investor (usually a lending institution, a contract seller or other investor) with terms identical to the loan terms. The proceeds of the bond issue will then be used to fund the loan to the borrower.

About KDFFA

The Kansas Development Finance Authority (KDFFA) was created by the 1987 Kansas Legislature to finance capital improvements and improve access to long-term capital financing for state agencies, political subdivisions, public and private non-profit organizations and businesses. KDFFA is authorized, subject to certain restrictions, to issue revenue bonds and various other debt instruments for the purpose of financing agricultural business enterprises.

KDFFA is governed by a Board of Directors, consisting of five public members appointed by the Governor subject to confirmation by the State Senate. The Governor also appoints the KDFFA President who serves at the pleasure of the Governor and who is an ex-officio, non-voting member of the Board. Not less than three members of the Board must be representative of the general public, and not more than three members may be members of the same political party. KDFFA employs a permanent full-time staff.

FOR MORE INFORMATION

CONTACT YOUR LOCAL BANK, COUNTY EXTENSION OFFICE OR

BONNIE GAUNTT AT KDFFA

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