# KANSAS DEVELOPMENT FINANCE AUTHORITY

# BEGINNING FARMER LOAN PROGRAM

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Kansas Development Finance Authority

Kansas Development Finance Authority (“KDFA” or the “Finance Authority”) was created in 1987 as a statewide and multi-state finance authority to access the capital markets through the issuance of tax-exempt and taxable debt obligations, including bonds, notes, leases and other types of financing on behalf of state agencies, the Regents Institutions, and other public and private entities, including health care facilities, educational facilities, affordable housing, manufacturing, transportation, and agricultural projects and facilities, among other activities.

The Kansas Beginning Farmer/Rancher Loan Program (which you may also see as the “First Time Farmer” program) is a tax-exempt bond loan program (hereafter, the "Program") offered by KDFA as authorized pursuant to federal law, codified in §147 of the Internal Revenue Code. Congress has designated certain private activities as eligible for tax-exempt debt financing, to include among other activities, affordable housing, health care finance and activities of 501(c) (3) entities, small manufacturing, certain transportation and private educational facilities, and tax-exempt loans for first time farmers.

The Program utilizes allocations of private activity volume cap as administered by the Kansas Department of Commerce, however, the State of Kansas always has ample volume cap ($321,775,000 for 2020) such that the Program does not have to compete for cap. KDOC has always awarded the Beginning Farmer volume cap to KDFA quickly upon receipt of a volume cap application.

The KDFA enabling act also authorizes this private activity bond program pursuant to K.S.A. 74-8905(c).

The Program allows certain individuals, generally characterized as "Beginning Farmers" to acquire and finance myriad agricultural activities, including agricultural property, facilities, livestock, etc., at lower federally subsidized interest rates by enabling lenders, individuals, partnerships, corporations and other entities (the "Lender" or “Bond Purchasers") to receive state and federally tax-exempt interest with respect to a loan or contract sale made to a Beginning Farmer.

The ability to carry the interest as tax-exempt, induces the lender, typically a bank, to make a below market rate loan to the Beginning Farmer. I review every Beginning Farmer application and if I believe the rate is not indicative of prevailing rates for typical Beginning Farmer loans, we go back to the bank and ask them to adjust the rate accordingly.

The basic program finance structure looks just like an ordinary bank loan as between a bank or other lender and the Beginning Farmer. The lender (bond purchaser) and loan applicant (Beginning Farmer) work out the terms of the loan, the collateral, and the repayment provisions and source of revenue to be pledged to debt service the loan.  The Lender is entirely responsible for making its own credit evaluation of the Beginning Farmer who is the sole obligor on the loan. Just as with other KDFA financings, there is no recourse on the loan to KDFA or the State of Kansas.

Once the basic terms are agreed upon as between the Lender and Beginning Farmer, they submit a Beginning Farmer application to KDFA. KDFA and its bond counsel review the application for eligibility under federal tax law, identify any tax or other issues which need to be addressed, and should the application qualify, approve the application. At this point, all the parties work to finalize the loan and bond documentation. At closing, KDFA issues a tax-exempt bond placed with the bank/lender, and the bank/lender loans the bond proceeds to the Beginning Farmer.

The program also utilizes a portion of the State's allocation of Private Activity Bond cap as administered by the Department of Commerce. The Beginning Farmer Program uses approximately $5 million in volume cap a year.

The State of Kansas routinely receives more volume cap than it can use in any one year, so the Beginning Farmer Program has never had to compete for volume cap.

Basic Qualifications for the Program include the following:

- The applicant may not have previously owned any substantial amount of farmland (defined to mean a parcel that is smaller than 30% of the median size of a farm in the county where the parcel is located).
- The program may be used to purchase agricultural land, agricultural improvements, livestock, and depreciable agricultural property (new and used).
- **The term "Farm" is broadly defined to encompass the following activities: stock, dairy, poultry operations, fruit and orchards, fur-bearing animals, truck farms, plantations, ranches, and all lands used for farming orchards, ranges, fish farms, nurseries, greenhouses or other similar structures and facilities used primarily for the raising of agricultural or horticultural commodities.**
- Loan limits are set by federal law and index adjusted annually. The 2020 loan limit is $543,800.
- There is no minimum loan amount.
- The Beginning Farmer must affirm he/she plans to provide the substantial majority of management of the agricultural project.
- The Beginning Farmer must be an individual at least 18 years of age. Loans to corporations, partnerships, LLC's, etc. are not eligible under the Federal Tax Code.
- Pre-existing non-beginning farmer loan debt may not be refinanced under the Program.
- Purchases from close relatives (parents, grandparents, siblings) are allowed so long as the purchase price is fair market value (demonstrated through lender certifications and an independent appraisal).
- Less than 5% of the loan amount may be used towards the purchase of a dwelling on the project (Beginning Farmer loans are often made in conjunction with either another program which permits loan proceeds to be used to purchase and associated residence, or a traditional mortgage loan.

- The Beginning Farmer must demonstrate he/she has the requisite qualifications to undertake the proposed agricultural project.
- Over the last five years, KDFA has facilitated 126 Beginning Farmer projects for a financed amount of $24,413,238.87.
- The program averages 25 to 26 beginning farmer loans a year, and the average loan amount is approximately $200,000.
- Since program inception, $102,574,213.06 in loans have been facilitated under the program.
- Top counties for loans are Marshall, Nemaha, McPherson, Cloud and Harvey.

The KDFA Beginning Farmer Loan Program is frequently used in conjunction with the USDA FSA Beginning Farmer Loan Program in part because the FSA program permits FSA proceeds to be used towards the purchase of a dwelling when located on the agricultural site property.

Each fiscal year, Congress appropriates money for FSA farm loans as a part of the USDA budget. These loans are entirely federally funded, are not private activity bonds, and do not require volume cap. FSA targets a portion of its direct and guaranteed farm ownership and operating loan funds to beginning farmers and ranchers. FSA makes and guarantees loans to beginning farmers and ranchers who are unable to obtain financing from commercial lenders, or to use in conjunction with commercial or the tax-exempt bond Beginning Farmer Loan Program for various expenses.

For purposes of the FSA Program, a beginning farmer or rancher is an individual or entity who (1) has not operated a farm or ranch for more than 10 years, (2) meets the loan eligibility requirements of the program to which he/she is applying, (3) substantially participates in the operation and (4) for farm ownership loan purposes, does not own a farm greater than 30 percent of the median size farm in the county and meet training and experience requirements.