



MN Rural Finance Authority

Matt McDevitt, Ag Finance Supervisor



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Minnesota Farm and Rural Health

1. Help with Stress, Anxiety, Depression, Feeling Stuck

- **Minnesota Farm & Rural Helpline Phone (833)-600-2670 x 1**
Free, confidential, 24/7. This call center is located in Minnesota. Calls are answered by trained staff and volunteers.
- **Ted Matthews, Rural Mental Health Counselor Phone (320)-266-2390**

2. Help with Daily Living

- Food, heat, electricity, health care, childcare, senior programs, etc.

3. Business, Financial and Legal Help



Beginning Farmer Tax Credit

Beginning Farmer Tax Credit

- Governor Dayton signed into law on May 30
- Effective January 1, 2018
- Similar to Iowa and Nebraska, Minnesota 1st state to include the sale of ag assets

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 an 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)
- Farm 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 \$816,800
- Does majority of the farm labor and management

Beginning Farmer Tax Credit

Requirements of the beginning farmer:

- Has adequate farming experience
- Submit projected earnings statement
- Farming will be a significant source of income
- Participate in a financial management program

Beginning Farmer Tax Credit

Steps to apply:

- MN Department of Agriculture website
- Beginning Farmer and Asset Owner to complete applications
- RFA will issue a tax certificate

Beginning Farmer Tax Credit

- Tax year 2018, capped at \$5 million
- Tax year 2019-2023, capped at \$6 million
- Sunset 12/31/2023

Beginning Farmer Tax Credit



DEPARTMENT OF
AGRICULTURE

625 Robert Street North
Saint Paul, MN 55155-2538

WWW.MDA.STATE.MN.US



Beginning Farmer Tax Credit Fact Sheet

On May 30, 2017, Governor Mark Dayton signed into law a Tax Credit for Minnesota beginning farmers. The new law will provide tax credits for the rent or sale of farm land or a variety of farm assets to beginning farmers. While similar to tax credits in Iowa or Nebraska, Minnesota will become the first state to provide incentives for the sale of farm land.

A Beginning Farmer is defined as:

- A Minnesota resident who is seeking entry, or has entered into farming within the last 10 years
- A farmer who will provide the majority of the labor and management of the farm that is located in Minnesota
- Has adequate experience and knowledge of the type of farming for which they seek assistance from the Rural Finance Authority
- Can provide positive projected earnings statements
- Is not directly related to the owner of the agricultural asset
- Has a net worth that does not exceed the limit provided under section 41B.03, subdivision 3, paragraph (a), clause (2). Currently this limit is \$800,000.

The beginning farmer will need to participate in an approved financial management program. Costs of financial management programs up to a maximum of \$1,500 per year (for up to 3 years) may also be eligible for a tax credit. The financial management credit need not be tied to any agricultural asset sale or rental.

Definition of "Agricultural Asset":

- Agricultural land, livestock, facilities, buildings and machinery used for farming in Minnesota

The credit to the agricultural asset owner is as follows:

- 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.

The agricultural asset owner can claim credits in one of the above categories in a given tax year up to the maximums stated.

Role of the Rural Finance Authority (RFA)

The RFA will administer the tax credits by:

- Certifying beginning farmers
- Assisting beginning farmers with locating eligible financial management program options in their area
- Certifying that owners of agricultural assets are eligible for the tax credit. This is a first come, first served initiative. The maximum amount available in 2018 is \$5 million. This increases to \$6 million per year in 2019 thru tax year 2023. The asset owner may be an individual, trust, a qualified pass-through entity.

In accordance with the Americans with Disabilities Act, this information is available in alternative forms of communication upon request by calling 651-201-6000. TTY users can call the Minnesota Relay Service at 711. The MDA is an equal opportunity employer and provider.

Beginning Farmer Management Tax Credit

- Beginning farmer gets a tax credit for participating in a financial management program
- Credit is equal to 100% of the cost of the program not to exceed \$1,500 per year
- Up to 3 years
- Can also use Beginning Farmer FBM Scholarship



MN Rural Finance Authority Loan Programs

Ryan Roles, Senior Loan Officer



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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

Provide eligible Minnesota farmers affordable financing under terms and conditions not available from other credit sources.

- Beginning Farmers
- Livestock Producers
- Farmers facing financial adversity
- All farmers
- Full time farmer = Majority of income comes from farming

- 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)
 - * **\$35 Million appropriation in 2017**
 - Beginning Farmer & Seller Assisted-Tax Exempt
 - Agriculture Improvement- Tax Exempt/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)**
 - Stock
 - Livestock Equipment
 - Disaster
 - Microloan
 - Farm Opportunity



- **RFA Performance Measures *(1986 to 2017)***
 - 2,959 loans issued totaling \$228 million
 - Losses taken on 21 loans (0.007% of total)
 - Currently have 468 active loans with balance of over \$67 million

How We Work

- We participate with local lenders
- Local lender does most of the paperwork
- We take 45 % of the loan
- The borrower pays the lender, the lender pays us
- Loans contain 5 year prepayment penalty

Steps In Applying

1. Lender and applicant fill out application – available on website
2. Applicant pays \$50 application fee
3. Lender sends packet to RFA Office in St Paul
 - a. Application
 - b. \$50 Application fee
 - c. Lenders loan narrative/proposal and risk rating analysis
 - d. Updated financial statements and cash flow
 - e. Copies of last 2 – 3 years taxes including Schedule F
 - f. Appraisal of secured property
4. RFA will process, approve loan participation and send approval letter
5. Lender closes loans and sends signed copies of loan agreements and mortgage to RFA
6. RFA sends out funds for participation amount and amortization schedule to loan payments

Beginning Farmer and Seller Assisted

- Help beginning, entry level farmers purchase real estate.
 - Can be bare land, farm site, or 5 acres with a barn
 - Net Worth can not exceed \$816,800 (indexed for inflation)
 - Loan is limited to 45 percent of a qualifying loan to a maximum of \$400,000 from RFA
 - Max debt per acre (80 acres x \$3500 x 45%)
 - 3.00% 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.

<u>Creditor</u>	<u>Dollars</u>	<u>Interest Rate</u>	<u>Lien Position</u>
Purchase Price	\$200,000		
Down Payment	\$ 40,000		
Remaining Credit Needed	\$160,000		
RFA's 45%	\$72,000	3.00%	Shared First
Lender's 55%	\$88,000	5.50%	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 \$816,800 (indexed for inflation)
 - Loan is limited to 45 percent of a qualifying loan to a maximum of \$400,000 from RFA
 - 3.25% RFA interest rate for 10 years

Agricultural Improvement Example

- A young farmer is building a new 2,400 head finishing hog barn. The total cost and appraised value is \$700,000.
- Max LTV of 80%.

Creditor	Dollars	Interest Rate	Lien Position
Total Credit Needed	\$700,000		
Borrower's 20% Down	\$140,000		
Remaining Credit Needed	\$560,000		
RFA 45%	\$252,000	3.25%	Shared First
Bank 55%	\$308,000	5.50% +/-	Shared First

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 \$1,735,700 (indexed for inflation)
 - Loan is limited to 45 percent of a qualifying loan up to a maximum of \$525,000 from RFA
 - 3.50% RFA interest rate for 10 years

Livestock Equipment

- Help beginning farmers purchase livestock related equipment, facilities and improvements
 - Net Worth can not exceed \$464,555 (indexed for inflation)
 - Loan is limited to 45 percent of a qualifying loan to a maximum of \$40,000 from RFA
 - 2.00% RFA interest rate
 - Must be principal owner of livestock for which the equipment will be used

Livestock Equipment Example

- A young farmer is purchasing a skid loader, manure spreader, and feed wagon for his growing beef cattle operation. All items cost \$60,000.

<u>Creditor</u>	<u>Dollars</u>	<u>Interest Rate</u>	<u>Lien Position</u>
Purchase Price	\$60,000		
Down Payment	\$6,000		
Credit Needed	\$54,000		
RFA's 45%	\$24,300	2.00%	Shared
Lender's 55%	\$29,700	6.00%	Shared

Restructure II

- Restructure loans help farmers reorganize their farm debt to improve cash flow
 - Net Worth that does not exceed \$1,735,700 (indexed for inflation)
 - Loan is limited to 45 percent of a qualifying loan up to a maximum of \$525,000 from RFA
 - 3.50% RFA interest rate for 10 years



Restructure II Example

- A dairy family is struggling with feed bills of \$50,000 and needs to consolidate these expenses and also rework their real estate debt of \$300,000. Loan will be secured by farm site and 40 acres valued at \$500,000.

<u>Creditor</u>	<u>Dollars</u>	<u>Interest Rate</u>	<u>Lien Position</u>
Total Debt	\$350,000		
RFA's 45%	\$157,500	3.50%	Shared First
Lender's 55%	\$192,500	6.00%	Shared First

Disaster Recovery Loan

- State or Federal declared disaster
- Help farmers affected by recent disasters for farm expenses not covered by insurance
- Used to help clean up, replace feedstock and other inputs, or repair buildings
- Can be used to purchase watering systems during a drought disaster

Disaster Recovery Loan

- Loan is limited to 45 percent of a qualifying loan to a maximum of \$200,000 from RFA
(this is an increase from \$45,000)
- 0% RFA interest rate
- Collateral is negotiable

Disaster Recovery Loan (For Avian Influenza)

- Funds can be used to:
 - Make building improvements
 - Replace flocks
 - Cover the loss of revenue
 - No maximum net worth



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 \$45,000
- Group loan 45% up to \$180,000
- 2.00% RFA interest rate for 10 years

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)

Creditor	Dollars	Interest Rate	Lien Position
Credit Needed	\$475,000		
<i>FSA DownPayment</i>	\$225,000	1.50%	Second
Remaining Credit Needed	\$250,000		
<i>RFA's 45%</i>	\$112,500	3.00%	Shared First
<i>Lender's 55%</i>	\$137,500	5.00% +/-	Shared First

- 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

For More Help:

- All information and documents can be found at www.mda.state.mn.us/agfinance
- Ryan Roles, Senior Loan Officer
ryan.roles@state.mn.us
651-201-6666
- Matt McDevitt, Loan Supervisor
matthew.mcdevitt@state.mn.us
651-201-6311
- Lori Schmidt, Admin Support
lori.schmidt@state.mn.us
651-201-6556

Thank You

Any Questions