

IOWA AGRICULTURAL DEVELOPMENT DIVISION (IADD) BEGINNING FARMER LOAN PROGRAM (BFLP) FAQ's

Program Benefits

1. What is the benefit for a farmer to participate in the Beginning Farmer Loan Program (BFLP)?

- A. The Beginning Farmer applicant will receive a lower interest rate as a result of the Iowa Agricultural Development Division (IADD) selling a tax-exempt bond to either a bank or contract seller. The IADD requires the interest rate charged to the Beginning Farmer applicant to be lower than the rate without going through the BFLP.
- B. The bank can obtain a federal tax-exempt bond up to the maximum and usually reduces their interest rate approximately 20-25%.
- C. The contract seller receives federal and state tax-exemption, up to the maximum and usually reduces their interest rate approximately 20-25%.
- D. The Beginning Farmer will receive the lower interest rate as long as he/she continues to operate the (project) farm, does not rent it out, or put the farm in CRP.

Program Eligibility

1. What are the basic applicant eligibility requirements?

- A. Must have a net worth below the maximum (including the spouse and minor children).
- B. Must be at least 18 years old.
- C. Cannot presently or previously own(ed) a significant amount of farmland, which is defined as greater than 30% of the county median.
- D. Beginning Farmer must be the operator of the project:
 - i. Cannot rent out the farm or put it in CRP (can put acres in CRP that are purchased without bond funds or no more than 25% of bond is used to purchase CRP acres -- only up to 20% of bond funds can be used to purchase CRP acres if 5% of bond funds are used to purchase a house).
 - ii. Cannot hire work to be done. (Can hire some minor work, but majority of work must be done by the Beginning Farmer applicant).
 - iii. Beginning Farmer applicant must be an individual, cannot be a partnership or corporation or limited liability company.

2. How do I obtain a Beginning Farmer loan application?

- A. The BFLP Application is available at IowaFinance.com or by calling 515.452.0400.

3. What information must the Beginning Farmer submit to be considered for a BFLP project?

- A. Completed BFLP application form signed by applicant and spouse and bond purchaser (bank/contract seller).
- B. Current financial statement (less than 30 days old) prepared by a financial professional.
- C. \$100 application fee.
- D. Background form or letter.
- E. Farm appraisal if project includes the purchase of structures or a house or if buying ag property from parents, grandparents, or siblings.

4. What projects qualify for a Beginning Farmer loan?

- A. Buying farmland and making improvements to farm, including buildings, tile, bulldozing.
- B. Machinery, but no more than \$62,500 for used machinery, \$250,000 for new machinery.
- C. Breeding livestock, but no more than \$62,500 for animals that have already produced offspring, \$250,000 for those that haven't produced offspring.
- D. Projects to buy farmland that includes a house will be restricted to a bond amount where no more than 5% of the bond is used to purchase the house.
 - i. Example: Total purchase price of 80 acres & all bldgs. \$500,000
Less appraised value of house -\$100,000 = \$400,000
Can loan 100% of this amount plus 5% more for dwelling.
\$400,000 divided by 0.95 (adds 5% to bond) \$421,053
Maximum amount of bond for this project
(assuming no land in CRP)
- E. Projects to buy farmland that includes acres in CRP will be restricted to a bond amount where no more than 25% of the bond is used to purchase CRP acres.
 - i. Example: Total purchase price of 80 acres & all bldgs. = \$500,000
Less appraised value of CRP acres - \$150,000 = \$350,000
can loan 100% of this amount plus 25% more for CRP acres.
\$350,000 divided by 0.75 (adds 25% to bond) \$466,667
Maximum amount of bond for this project
(assuming no house on land being purchased)
- F. No refinancing of loans that were used for any of the above can qualify.
- G. Can buy Ag. property from anyone, but if from parents, grandparents, or siblings, Ag. property being purchased for at least fair market value or above. Fair market value is established by the appraised value from an independent third-party appraiser.

5. What is the maximum amount of a loan that can be obtained?

- A. The maximum amount that an individual can use during their lifetime fluctuates annually according to an inflation index.
- B. As long as the Beginning Farmer still meets eligibility items listed in "Program Eligibility" #1 above, he/she can reapply and receive additional loan/bond for other projects until the current maximum bond amount is reached with the total accumulation of all projects.
- C. No more than \$62,500 can be used to purchase used machinery or breeding livestock that has already produced offspring, and \$250,000 for breeding livestock that haven't produced offspring, new machinery or farm improvements.

6. How long does it take to complete the BFLP process?

- A. 5-6 weeks – After receipt of the application (deadline 1st of the month to go to that month's board meeting) the project must be published on the Iowa Finance Authority website, then after the publication the application will go to the Iowa Finance Authority board meeting for bond approval. The loan cannot be closed with the IADD until the bond has been approved by the Iowa Finance Authority.

7. What does it cost to do a BFLP project?

- A. \$100 application fee.
- B. 1.50% loan closing fee on the amount of the bond, \$300 minimum.
- C. Additional appraisal and attorney fees may be experienced, but those are done totally at the discretion and negotiations of the Beginning Farmer.
- D. A state bond exemption can be issued for contracts that are over the federal maximum, there is no maximum on the amount of state bond that can be obtained. In that case, a fee of 1.50% is assessed to the state bond amount that exceeds the federal maximum.

8. Can a spouse not be listed on BFLP if a pre-nuptial agreement exists?

- A. A spouse does not need to be on the application/loan, however they would still need to be listed on the financial statement along with any minor children. The Beginning Farmer must prove that his/her account(s) are separate, and no taxes are ever filed together to exclude the spouse from their financial statement.

9. Can the down payment be included in the bond amount for bank loans?

- A. Down payment can be added (included) in the bond amount as part of the original loan, providing that the bank approves the additional loan amount. The bank can also utilize the Loan Participation Program to assist with down payments.

10. What is the current allocation status?

- A. Currently the program has sufficient funds.

11. Can I apply for a BFLP if I have already purchased the land/equipment?

- A. You can still apply for the Beginning Farmer Loan Program if you have already purchased the land/equipment, but the IADD must approve the application at their Board Meeting no longer than 60 days after the purchase. Due to IRS rules, anything longer than 60 days is considered a refinance any doesn't qualify under the program.

Special Circumstances

1. Can a Beginning Farmer use the BFLP to purchase agricultural property from parents, grandparents or siblings?

- A. Yes, but it must be purchase for at least fair market value or above. Fair market value is established by the appraised value from an independent third-party appraiser.
- B. Also, the parents must sign a Related Persons Certificate confirming that they agree to sell at fair market value and that they will not retain more than 10% ownership and involvement in Ag. property that is being purchased.

2. Can a person apply for the BFLP and have previously owned land?

- A. Yes. The amount of land previously or currently owned cannot exceed 30% of the median for the county where the land is located.

3. What procedures must be followed when bidding on an auction?

- A. An application must be submitted to IADD and approved by the IADD board within 60 days of the financing. Typically auction purchases are submitted immediately after the beginning farmer has won the project at auction.

4. Are there special requirements for hog building construction projects?

- A. Hog projects fall under the \$250,000 farm improvement maximum and the feeding contract needs to be submitted and approved by our bond attorney. All feeding contracts must be on a "per head/per day" basis – not "per pig space".

5. Can a Beginning Farmer IADD bond loan be guaranteed by FSA?

- A. No. IRS states that a guarantee on a tax-exempt loan is considered "double dipping" and is not allowed.

6. Can individuals involved with partnerships or corporations participate in the IADD bond program?

- A. Yes and no. The partnerships or corporations themselves are not eligible under IRS rules. However, the individuals may have an IADD bond loan individually outside of the partnership or corporation if they meet the eligibility requirements. They may also purchase an undivided ½ interest as individuals.



7. Can a Beginning Farmer use Farm Credit Service for a Beginning Farmer tax exempt bond loan?

A. No. The Federal Land Bank (FLB) is a federally tax-exempt entity, therefore, they are unable to pass along the interest rate savings to the Beginning Farmer. Production Credit Associations are not permitted by Farm Credit to invest in Aggie Bonds as investment instruments.

8. Can a Beginning Farmer have land ownership in a trust and qualify for the BFLP?

A. If a Beginning Farmer has land ownership in a trust or some other form, the total amount of land ownership would reflect what the Beginning Farmer owns, (e.g.: if Beginning Farmer owns 1/3 of 120 acres, his land ownership is reflected as 120 acres, not 40), passive ownership.

9. If a Beginning Farmer owns land in another state, can he/she participate in Iowa's BFLP?

A. Yes, however, a determination must be made of what the county median is in that particular state by our bond counsel. The 30 percent county median will then apply.

10. Can a Bond be held by a related person as a third-party lender?

A. Per the tax code a bond cannot be held by a related person as a third-party lender, regardless of the distance in the relationship.

Loan Terms and Closing Procedures

1. What are some of the loan term parameters that have to be met?

- A. Interest rate can be either a fixed rate or variable rate: if a variable rate, it must be tied to a specific index.
- B. The interest rate must be lower than the normal rate charged to the farmer when not financed through BFLP.
- C. Loan terms for projects to purchase land can be written for as long as desired.
- D. Loan terms for machinery and farm improvements (buildings) cannot exceed 120% of the useful life.
- E. Loan terms for breeding livestock cannot exceed: 4 years for hogs and 7 years for cattle.

2. When can interim financing begin on a project?

A. Interim financing can be done no more than 60 days prior to the Iowa Agricultural Development Division Board inducement resolution approval.

3. Is the loan closing process complicated?

A. A minimum amount of paperwork is required to be signed at the time of closing. For a bank loan, only two signed documents and the closing fee need to be returned after closing; for contract sales only one signed document needs to be returned with the closing fee, along with the filed contract and Quit Claim Deed.



4. How is a bank closing handled?

- A. After receiving the application, the project is published on the Iowa Finance Authority website, then approved by the Governor. At the board meeting immediately following the publication, the application is approved by the IADD Board then they make a recommendation to approve the bond at the Iowa Finance Authority Board Meeting. Once the project is approved by the Iowa Finance Authority Board it can be closed with the bank or contract seller.
- B. The lender provides information to the Authority regarding closing date, loan terms, frequency of payments, etc., and this information is forwarded to bond counsel who prepares the bond (proof of bank's tax exemption) and opinion letter. IADD staff assembles bond documents and works with the lender to provide loan closing materials before the anticipated date of closing.
- C. At closing, lender and Beginning Farmer sign necessary documents and lender will return documentation and closing fee to the Authority.

5. How are closings handled for contract sales?

- A. Same as number "Loan Terms and Closing Procedures" #4.A above.
- B. The contract seller must submit a real estate contract (negotiated with the Beginning Farmer) which sets out terms and conditions. The Authority's bond counsel will approve the real estate contract, payment terms, and prepare the bond (proof of the seller's double tax-exempt status) and opinion letter. Authority staff prepares the Quit Claim Deed, which signs over the Authority's rights to the Beginning Farmer, finalizes the Real Estate Contract, assembles bond documents, and mails documentation to the attorney or contract seller who oversees the closing.
- C. At closing, contract seller and Beginning Farmer sign necessary documents and return the documentation and the closing fee to the Authority.

6. If buying on contract, is it advisable to have an attorney draw up the contract?

- A. The Authority would advise that the contract is drawn up and completed by an attorney, with knowledge of real estate contracts, who will help negotiate terms and conditions between the seller and Beginning Farmer. They will oversee the closing process, and make certain proper filings of Quit Claim Deed and Real Estate Contract are completed, as well as hold a final Deed in escrow for when the contract is satisfied.



