

# New Agriculture Enterprise Loan Program



## Guidelines

**Purpose:** To provide loans for Kentucky farming operations as they enter into a new agriculture enterprise to supply market opportunity created by an Agribusiness expansion.

**Terms:**

1. Maximum KAFC participation will be limited to **\$250,000 or 50% of the project**, whichever is less per farming operation.
2. Borrower may have multiple KAFC New Agriculture Enterprise loans but is limited to a total outstanding balance of no more than \$250,000 in this program.
3. Interest rate on KAFC portion of the loan will be **2% a.p.r.** for the life of the loan. KAFC reserves the right to adjust the rate on any new loans as market conditions change.
4. Lender must agree to service the loan for no more than **0.75% (75 basis points)** on the KAFC portion of the loan for the life of the loan. The fee will be added to the KAFC rate to determine the blended rate.
5. Maximum term of the KAFC portion cannot exceed **15 years or the useful life** of the asset. Loans for real estate may be amortized over 25 years with a 15 year balloon.
6. Lead lender is required to prepare and submit the loan application. Lender must be committed to provide additional financing as outlined in the completed application.
7. Participating lender must be a financial institution with offices in Kentucky.
8. Lender is encouraged to include KAFC as part of any FSA guarantee request or application.
9. KAFC will consider subordinating debt to participating lender. No future debt can be incurred on mortgaged property without notification of KAFC.
10. Loan must be secured with both fixed assets and the personal guarantee of the borrower.
11. Applicant must submit a 3-year business plan showing a reasonable return and an ability to retire the KAFC debt.
12. The applicant may be required to submit documentation from expanding business showing the plans for growth and the need for Kentucky product.
13. Applicant must receive at least 20% of gross income from farming for previous two years, as evidenced by federal income tax returns.
  - a. For KAFC purposes this will be calculated by dividing the Gross Farm Income (GFI) amount found on the Schedule F by the Adjusted Gross Income amount found on the Form 1040.

- b. For applications dealing with entities other than Sole Proprietorships, staff will review the applicant's tax returns and calculate GFI by identifying the most relevant Gross Income amount representing farm income and dividing it by the applicant's personal Adjusted Gross Income from their 1040 return.
14. There must be a commitment by a participating lender who will work with the borrower to capitalize the initial investments outlined in the 3-year business plan. The lender will continue to evaluate additional credit needs of the applicant as presented, however, any additional credit will be at the discretion of the lender and according to the lender's normal credit underwriting policies.
15. Project must be located on property in Kentucky.
16. Applicant must be a resident of Kentucky.
17. Applicants must acquire all relevant permits and the project must meet all required construction codes. Property must be in compliance with all environmental regulations.
18. Construction projects must begin within 6 months of loan approval and must be completed within 1 year of loan approval.
19. Participating lender and/or borrower will provide interim financing during construction of project. K AFC will transfer loan proceeds upon satisfactory completion of project.
20. Any principal and interest payments made by borrower will be shared pro-rata by lender and K AFC unless both parties agree to modified terms. There is no penalty for early repayment of the loan.
21. Only expenses incurred after the New Agriculture Enterprise Loan Application has been received by K AFC will be eligible for consideration under this loan program.
22. K AFC shall review each application and supporting documentation; loan approval will be at the discretion of the K AFC board.

**Eligible Projects:** Agricultural purchases include but are not limited to:

- Agricultural facilities
- Funds to invest in a farm partnership, LLC or other farm business structure
  - Applicant must receive equity equal to the investment being provided
  - Business into which borrower is investing must show a positive gain in net worth over the past five years
- Equipment purchases
- Livestock purchases
- Permanent working capital with provisions to lower K AFC's involvement each year
- Real estate, up to 50%, this does not include residence
- Other agricultural investments at the discretion of the K AFC Board

**Not Eligible:** Operating or refinancing loans