

# Beginning Farmer Loan Program



## Guidelines

**Purpose:** To assist individuals with farming experience who desire to develop, expand, or buy into a farming operation.

**Terms:**

1. Applicant must qualify as a Beginning Farmer, as someone who:
  - a. Has not operated a farm or ranch for more than 10 years
  - b. Must have participated in business operation of a farm for at least 3 years
  - c. Substantially participates in the operation
2. Maximum K AFC participation will be limited to **\$250,000**. K AFC will loan up to **50%** of the outstanding debt held by the participating lender and/or FSA on behalf of the applicant at the time of the loan closing not to exceed total cost of the project. Otherwise K AFC is limited to **50%** of the project.
3. Borrower may have multiple K AFC Beginning Farmer loans but is limited to a total outstanding balance of no more than \$250,000 in this program.
4. Applicant (and spouse, if applicable) must have a combined **net worth** of less than \$500,000 at the time of application.
5. Applicant's total household **off-farm income** must be less than \$100,000 annually as evidenced by three year's tax returns. Applicant may also exclude agricultural related occupations, as determined by the board.
6. Interest rate on K AFC portion of the loan will be **2% a.p.r.** for the life of the loan. K AFC reserves the right to adjust the rate on any new loans as market conditions change.
7. Lender must agree to service the loan for no more than **0.75% (75 basis points)** on the K AFC portion of the loan for the life of the loan. The fee will be added to the K AFC rate to determine the blended rate.
8. Maximum term of the K AFC 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.
9. 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.
10. Participating lender must be a financial institution with offices in Kentucky.
11. Lender is encouraged to include K AFC as part of any FSA guarantee request or application.
12. K AFC will consider subordinating debt to participating lender. No future debt can be incurred on mortgaged property without notification of K AFC.

13. Loan must be secured with both fixed assets and the personal guarantee of the borrower.
14. Applicant must submit a 3-year business plan showing a reasonable return and an ability to retire the K AFC debt.
15. Identification and commitment of a Mentor willing to advise the borrower on record keeping and business analysis, during the term of the loan is required (see Mentor detail below).
16. 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.
17. Project must be located on property in Kentucky.
18. Applicant must be a resident of Kentucky.
19. Applicants must acquire all relevant permits and the project must meet all required construction codes. Property must be in compliance with all environmental regulations.
20. Construction projects must begin within 6 months of loan approval and must be completed within 1 year of loan approval.
21. Participating lender and/or borrower will provide interim financing during construction of project. K AFC will transfer loan proceeds upon satisfactory completion of project.
22. 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.
23. Only expenses incurred after the Beginning Farmer Loan Application has been received by K AFC will be eligible for consideration under this loan program.
24. 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

**Auction Policies:**

Pre-auction approval: K AFC will consider a completed application requesting financing to purchase specific items at a specific auction. At time of application, the applicant must provide a list of potential purchases and an expected purchase price for each item. The auction must occur after K AFC approval.

If K AFC approves the loan request, the loan amount will be limited to the total amount approved by the K AFC Board and no more than a 20% variance in purchase price for each item. If the applicant does not acquire the item(s) at the specified auction, the applicant will have up to 15 days after the auction to locate alternate items for those identified in the application within the price constraints identified above.

The purchase of these items must be pre-approved by the K AFC Executive Director. If applicant does not adhere to the terms of the approval the K AFC commitment will be void.

Post-auction approval: K AFC will consider applications for items purchased through an auction if the completed application is received by K AFC within 30 days of the date of purchase. The applicant must have interim financing committed to the project and there is no implied commitment from K AFC in these situations. K AFC will not accept applications for items already purchased through a private treaty sale. K AFC stresses that the applicant should already have their business plan, mentor, and lender finalized before the auction.

**Mentoring partner** must meet one of the following criteria:

- High school agricultural instructor
- KCTCS instructor in business or agricultural related programs
- Kentucky Beef Network Facilitator
- UK Farm Analysis Specialist
- University or Extension Personnel
- Other agricultural management professional at the discretion of K AFC

Approved mentors must have no financial interest in the applicant's farming operation.