
Diversification through Entrepreneurship in Agribusiness Loan Program



Guidelines

Purpose: To assist entry level agri-entrepreneurs with the establishment of or purchase into a business that provides agricultural products or services to other producers.

Eligibility:

1. KAFCC will loan up to 50% of the outstanding debt held by the participating lender, on behalf of the applicant, at time of loan closing. This amount will be limited to \$100,000, not to exceed the total project cost, as indicated on the signed application. KAFCC will otherwise be limited to 50% of the total project cost.
2. Priority consideration will be given to borrowers with agricultural education and/or experience in agriculture.
3. Borrower (and spouse, if applicable) must have a combined net worth of **less than** \$500,000, at time of application.
4. Annual, off-farm, household income must be **less than** \$100,000, as evidenced by three year's tax returns. Income derived from ag-related occupations **may be excluded** from this calculation (as determined by the board).
5. Borrower must be a Kentucky resident, as evidence by a Kentucky driver's license.
6. Project must be located on property in Kentucky.
7. Borrower may have multiple loans but is limited to a total outstanding balance of no more than \$100,000 in this program.

Terms:

1. Participating lender must be a financial institution with offices in Kentucky.
2. Lead lender is required to prepare and submit the loan application. There must be a commitment by a participating lender who will work with the borrower to capitalize the initial investments outlined in the three-year business plan. The lender will continue to evaluate additional credit needs, however, any additional credit will be at the discretion of the lender and according to their normal underwriting policies.
3. Interest rate on the KAFCC portion of the loan will be fixed at **2% a.p.r.** for the life of the loan. KAFCC reserves the right to adjust the rate on any new loans as market conditions change.
4. Lender must agree to service the KAFCC participated loan for no more than **0.75% (75 basis points)**, for the life of the loan. This fee will be added to the KAFCC rate to determine the blended rate.

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5. Maximum K AFC loan term shall not exceed **15 years or useful life** of asset, collateralizing loans. Loans secured by real estate may be amortized over 25 years with a 15 year balloon.
 7. Loan must be secured with both fixed assets and the personal guarantee of the borrower.
 8. K AFC will consider subordinating debt to participating lender. No future debt can be incurred on mortgaged property without notification of K AFC.
 9. Borrower must submit a three-year business plan (outline available) showing a reasonable return and an ability to retire the K AFC debt.
 10. Startup ventures may be required to submit a feasibility study documenting that this business does not unduly compete with other existing businesses providing similar products or services.
 11. Borrower must identify a Mentor who meets the criteria described in the application, who will assist the applicant in carrying out the proposed business plan objectives, who has no financial interest in the borrower's farming operation and who agrees to meet with the borrower at least once a year, throughout the term of the loan. The mentor is asked to provide an annual report outlining these meetings for a minimum of five years or until notified otherwise.
 - a. K AFC and the applicant recognize the mentor as a **volunteer advisor** and release the mentor of any liability
 12. Borrower must acquire all relevant permits and the project must meet all required construction codes. Property must be in compliance with all environmental regulations.
 13. Construction projects must **commence** within **six months** of loan approval and must be **completed** within **one year** of loan approval.
 14. Participating lender and/or borrower will provide interim financing during construction of project. K AFC will transfer loan proceeds upon satisfactory completion of project.
 15. 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 shall be **no prepayment penalty** on the K AFC participated loan.
 16. Only expenses incurred after the DEAL Application has been received by K AFC will be eligible for consideration under this loan program.
 17. No Borrower may participate in this program for more than 15 years.
 18. K AFC shall review each application and supporting documentation; loan approval will be at the discretion of the K AFC board.

Eligible Projects:

- 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
- Facilities
- Funds to invest in a partnership, LLC or other agribusiness business structure
- Permanent working capital
- Real estate
- Other agricultural investments at the discretion of the KAFC Board

Not Eligible: Operating or refinancing loans