
Beginning Farmer Loan Program



Guidelines

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

Eligibility:

1. A KAFC Beginning Farmer will be defined as someone who:
 - a. Has not owned a farm or ranch for more than 10 years (deeded in name)
 - b. Has participated in the business operation of a farm for at least three years
 - c. Will be substantially participating in the proposed operation
2. For Borrowers meeting the above definition, KAFC will **loan up to \$250,000, or 50% of the project cost**. If applicant has existing agriculture debt with the participating lender and/or FSA, this debt can be used as match such that KAFC can participate up to 100% of the project costs, not to exceed \$250,000. If there is no current debt with the participating lender and/or FSA to be matched, KAFC will be limited to 50% of the project costs, up to \$250,000.
3. Annual, off-farm, household income must be **less than \$175,000**, as evidenced by three year's tax returns based on W-2 income. Income derived from ag-related occupations **may be excluded** from this calculation (as determined by the board).
4. Borrower must be a Kentucky resident, as evidence by a Kentucky driver's license or other valid documentation.
5. Project must be located on property in Kentucky.
6. Gross farm income generated by the operation (the entire operation proposed by the applicant, including the property to be purchased or improved) should be at least equal to the annual installments for any debts associated with the real estate purchase or improvement(s).
7. Household and/or operation may have multiple KAFC loans but is limited to an aggregate balance of \$250,000 in all programs, excluding the Agriculture Processing Loan 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.

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3. Interest rate on the KAFC portion of the loan will be fixed at **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 KAFC participated loan for no more than **0.75% (75 basis points)**, for the life of the loan. This fee will be added to the KAFC rate to determine the blended rate.
 5. Maximum KAFC 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.
 - a. If the borrower meets all eligibility requirements of the FSA Down Payment Program – it may be used in conjunction with KAFC financing with up to a 20-year term and amortized over up to 30 years.
 6. Loan must be secured with both fixed assets and the personal guarantee of the borrower.
 7. Lender is encouraged to include KAFC as part of any FSA guarantee request or application.
 - a. In most cases, FSA will waive the 1.5% guarantee fee when the Lender utilizes the KAFC BFLP. Please contact local FSA office for eligibility.
 - b. An FSA guarantee may be required when the credit risk exceeds acceptable levels. **The decision is not solely based on an 85% LTV.**
 - i. A guarantee may be requested when:
 - Collateral coverage is limited.
 - Repayment capacity is marginal or highly variable.
 - The operation shows elevated risk (Ex: start-up, expansion, inconsistent earnings).
 - Borrower financial strength is weak (liquidity, leverage, working capital).
 - Loan structure increases exposure (long terms, seasonal risk, commodity concentration).
 - Global cash flow shows vulnerability under stress.
 - ii. In addition, if a loan is submitted and approved by KAFC subject to an FSA guarantee, it has been assumed KAFC will approve a modification if the LTV is 85% or below. That is no longer the case and a full credit package would need to be submitted to reconsider approval without the guarantee.
 8. KAFC will consider subordinating debt to participating lender. No future debt can be incurred on mortgaged property without notification of KAFC.
 9. Borrower must submit a three-year business plan (outline available) showing a reasonable return and an ability to retire the KAFC debt.

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10. Borrower must be involved in KCARD's mentorship program.
 - a. The lender must complete the form that can be found in the mentor section of the application so that KCARD can provide the borrower with a mentor.
 11. Borrower must acquire all relevant permits and the project must meet all required construction codes. Property must be in compliance with all environmental regulations.
 12. Construction projects must **commence** within **six months** of loan approval and must be **completed** within **eighteen months** of loan approval.
 13. Participating lender and/or borrower will provide interim financing during construction of project. KAFRC will transfer loan proceeds upon satisfactory completion of project.
 14. Any principal and interest payments made by borrower will be shared pro-rata by lender and KAFRC unless both parties agree to modified terms. There shall be **no** **prepayment penalty** on the KAFRC participated loan.
 15. Only expenses incurred after the Beginning Farmer Loan Application has been received by KAFRC will be eligible for consideration under this loan program.
 16. KAFRC shall review each application and supporting documentation; loan approval will be at the discretion of the KAFRC board.
 17. The KAFRC Loan Review Committee must review applicants with credit scores below 600 or with no credit score for funding recommendation.
 18. Applications with a combined loan-to-value up to 85% may have a government guarantee, but it is not required.
 19. Applications with the approval and obligation of a government guarantee, shall not have a combined loan-to-value greater than 100%.
 20. Any application with a combined loan-to-value greater than 85% without a government guarantee will be referred to the KAFRC Loan Review Committee for evaluation and recommendation.

Eligible Projects:

- Agricultural facilities
- Funds to invest in a farm partnership, LLC or other farm business structure
 - Borrower 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 KAFRC's involvement each year
- Real estate, up to 50%, this does not include residence
- Other agricultural investments at the discretion of the KAFRC board

Not Eligible: Operating or refinancing loans

Auction Policies:

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

If KAFC approves the loan request, the loan amount will be limited to the total amount approved by the KAFC Board and no more than a 20% variance in purchase price for each item. If the borrower 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 KAFC Executive Director. If Borrower does not adhere to the terms of the approval the KAFC commitment will be void.

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