



Rural Finance Authority

Minnesota Department of Agriculture

**ANNUAL REPORT
FY 2010**

History

The Rural Finance Authority (RFA) was established in 1986 to administer a program under which state bonds are authorized to be issued and proceeds of their sale are appropriated to develop the state's agricultural resources. The RFA accomplishes this purpose by extending credit on real estate security. The initial program was designed to help lenders and borrowers restructure farm real estate loans that had become undersecured. The initiative was expanded in 1987 to assist beginning farmers in the purchase of their own farms. The RFA has since grown to include five options, including the Beginning Farmer and Seller Assisted Programs; the Agricultural Improvement Loan Program; the Livestock Expansion Loan Program and the Restructure II Loan Program. Through June, 2010, the RFA had closed over \$167 million in total loan participations purchased under the five programs.

The RFA also administers the Aggie Bond Program, which creates a federal tax exemption for lenders, and a federal and state tax exemption on interest income to an individual seller in exchange for offering below market interest rates to the buyer. No state funds go into these loans.

A revolving loan account was established in 1994 to fund the Value Added Stock Loan Program. The Methane Digester Loan Program was added by the Legislature during the 2002 session. A Livestock Equipment Pilot Loan Program was authorized by the 2005 Minnesota Legislature. The Disaster Recovery Loan Program was added to this account during the 2007 legislative session.

Purpose

The purpose of the Rural Finance Authority's programs and of the bonds issued to finance the programs is to purchase participation interests in loans to be made available by agricultural lenders to farmers on terms and conditions not available from other credit sources. The RFA will purchase a forty-five percent (45%) interest in the lender's first mortgage (up to \$300,000) to an eligible farmer under the Beginning Farmer, Seller Assisted and Ag. Improvement Programs. A participation in the Livestock Expansion Loan Program may be up to \$400,000 and up to \$400,000 under the Restructure II Program. This participation interest is set up on a reduced interest rate to improve the farmer's cash flow and to share the risk of making the loan with the lender. The RFA and lender become participators and each owns a pro-rata share of said mortgage.

Summary of Loan Programs

Basic Farm Loan

This program is aimed at lower equity individuals who intend, over time, to have farming as their principal occupation. The purpose is to enable the beginning farmer to purchase farm real estate. The RFA participation is limited to 45 percent of the loan principal up to a maximum of \$300,000. The RFA will loan up to 90% of the appraised value. Loan amortization may be scheduled on a term of 15, 20, 25 or 30 years. A borrower must (1) have sufficient education, training or experience to succeed in the type of farming operation they intend to pursue; (2) not have a total net worth exceeding \$409,000, indexed for inflation; (3) agree to enroll in a farm business management program; and (4) agree to carry credit life insurance for the amount of the loan.

Seller-Assisted

This program is very similar to the Basic Farm Loan program with one exception. The program is designed to permit the sellers of a farm to fund a portion of the financing essential to the completion of the sale. The seller agrees to subordinate their financing to the lender/RFA. The lender and RFA provide the balance of the funds with a first mortgage.

Agricultural Improvement

This program provides financing for improvements to a farm. These improvements can be for any agricultural purpose including grain handling facilities, machine storage, livestock buildings and improvements, wells and manure systems. The RFA participation is 45 percent of the loan principal up to a maximum of \$300,000. The loan may not exceed 80 percent of the appraised value of the collateral. A borrower must not have a total net worth exceeding \$409,000, indexed for inflation.

Restructure II

Under this program, the RFA works with a local lender to help farmers reorganize their debt. This program is for farmers who are having trouble with cash flow to restructure their debt with their local lender. Only debt of an agricultural nature is eligible. The RFA will participate on 45 percent of the loan principal up to \$400,000. Participation is restricted to loans that do not exceed 80 percent of the appraised value of real estate comprising the collateral. Borrower net worth must not exceed \$772,000, indexed for inflation.

Livestock Expansion

This program creates affordable financing for new, state-of-the-art improvements for livestock production, including the purchase and construction or installation of improvements of land, buildings, and other permanent structures, including equipment incorporated in or permanently affixed to the land, building or structures. The RFA may participate on a loan up to 45 percent of the loan principal to a maximum of \$400,000. A borrower (1) must be actively engaged in a livestock operation, (2) have the ability to repay the loan, and (3) have a total net worth not exceeding \$772,000, indexed for inflation. The loan may not exceed 80 percent of the appraised value of the collateral.

Agricultural Development Bond (Aggie Bond)

The Agricultural Development Bond creates a federal tax exemption for lenders, and a federal and state tax exemption on interest income to an individual seller in exchange for offering below market interest rates to the buyer. The loan may be used to purchase agricultural land, agricultural improvements, breeding livestock and machinery. No state funds go into these loans. The 1997 Legislature authorized legislation that provides a \$5.0 million reserve for this program each calendar year starting in January 1998. Eligible applicants must not have a net worth exceeding \$409,000, indexed for inflation, and must never have owned more than 30% of the county median size farm where they reside.

Value Added Stock Loan Program

This program is designed to provide financing for farmers with limited capital who want to buy stock in a cooperative proposing to build or purchase and operate an agricultural product processing facility in Minnesota. The RFA will participate in loans at 45% of the loan up to a maximum of \$40,000. Interest rate on the RFA portion is 4 percent. Eligible applicants must not have a net worth exceeding \$409,000, indexed for inflation and be a grower of the agricultural product which is to be processed at the facility.

Methane Digester Loan Program

This RFA program was passed during the 2002 legislative session. Resources from two other activities were transferred to create a revolving fund to support this activity. The purpose is to help finance the purchase of necessary equipment and the construction of a system that will utilize manure to produce electricity. The maximum amount a producer may borrow through this program is \$250,000 with an interest rate of 0%.

Livestock Equipment Pilot Loan Program

This program will allow livestock producers to tap into existing RFA funds to help finance livestock equipment purchases. An applicant must be a resident of Minnesota or certain entities qualified under the corporate farm law. The net worth is at the same level as the Basic Farm Loan Program currently indexed for inflation at \$409,000.

The RFA will purchase 45% of a qualifying loan up to \$40,000. Loans may be amortized for up to ten years. Security will be determined by the participating lender and the RFA. Eligible expenditures for the program are equipment for animal housing confinement, feeding, milk production and waste management. Interest rate on the RFA portion is 3.0%. Refinancing is not eligible.

Disaster Recovery Loan Program

Initially established in 1998 to assist farmers to recover from flood disasters, this program was substantially changed in 2007. The program may now help farmers located in a county that was the subject of a state or federal disaster declaration due to high winds, hail, tornado, flood or drought. Applicants' net worth must not exceed \$772,000, indexed for inflation. Participation is limited to 45% of the loan, up to \$50,000. Interest rate on the RFA portion may not exceed four percent. The loans may be amortized for up to ten years.

RFA CUSTOMER PROFILE

Basic and Seller Assisted FY 2009 FY 2010

Average Age	26	34
Average Net Worth (000's)	194	269
Number of Loans Tallied	26	25
Cash Grain	0%	0%
Cattle	0%	12%
Dairy	4%	20%
Hogs	15%	4%
Row Crop	77%	60%
Other	4%	4%

Aggie Bond FY 2009 FY 2010

Average Age	23	31
Average Net Worth (000's)	29	207
Number of Loans Tallied	2	3
Cash Grain	0%	0%
Cattle	0%	0%
Dairy	100%	0%
Hogs	0%	0%
Row Crop	0%	100%
Other	0%	0%

Agricultural Improvement FY 2009 FY 2010

Average Age	33	33
Average Net Worth (000's)	189	222
Number of Loans Tallied	6	11
Cash Grain	0%	0%
Cattle	17%	0%
Dairy	17%	18%
Hogs	17%	37%
Row Crop	32%	18%
Other	17%	27%

Restructure II FY 2009 FY 2010

Average Age	50	46
Average Net Worth (000's)	489	504
Number of Loans Tallied	13	22
Cash Grain	0%	0%
Cattle	24%	0%
Dairy	38%	36%
Hogs	0%	41%
Row Crop	38%	18%
Other	0%	5%

Livestock Expansion FY 2009 FY 2010

Average Age	39	42
Average Net Worth (000's)	494	513
Number of Loans Tallied	4	4
Cash Grain	0%	0%
Cattle	0%	0%
Dairy	0%	0%
Hogs	75%	25%
Row Crop	25%	0%
Other	0%	75%

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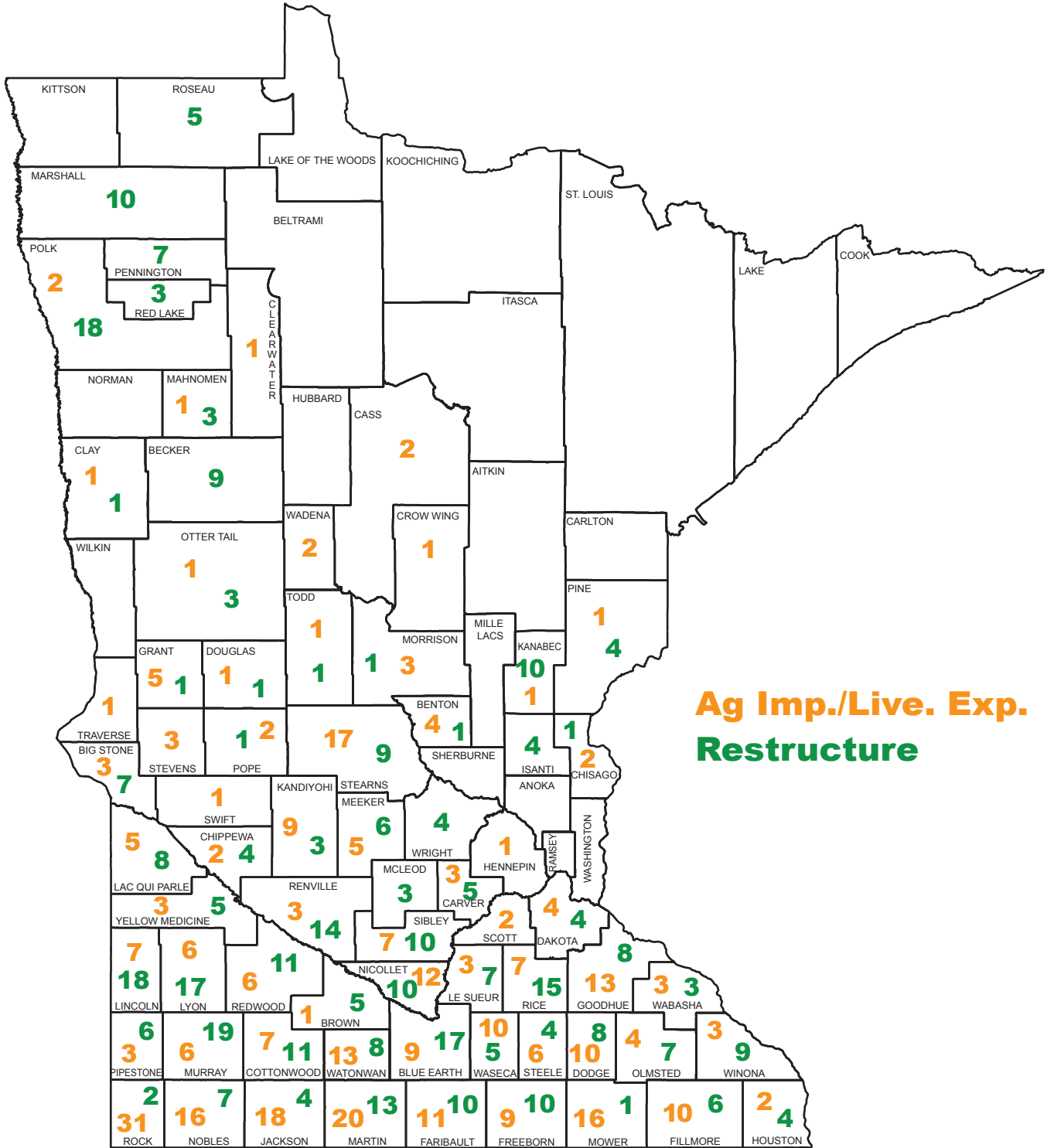
Rural Finance Authority
Loan Participations Closed
As of June 30, 2010

		Prior to FY 2007	FY 2007	FY 2008	FY 2009	FY 2010	Total
Basic Beginning Farmer	No.	1,431	40	48	26	25	1,570
	\$000s	74,800	4,408	5,101	3,153	2,970	90,432
Seller Sponsored	No.	51	1	2	0	0	54
	\$000s	2,713	108	335	0	0	3,156
Ag. Improvement	No.	216	13	16	6	11	262
	\$000s	16,206	2,094	2,401	883	1,768	23,352
Restructure II	No.	354	7	8	13	22	404
	\$000s	24,823	1,449	1,433	1,797	4,417	33,919
Livestock Expansion	No.	86	10	7	4	4	111
	\$000s	11,138	1,874	1,377	904	860	16,153
Subtotal Farm Participations	No.	2,138	71	81	49	62	2,401
	\$000s	129,680	9,933	10,647	6,737	10,015	167,012
Aggie Bond	No.	259	11	9	2	3	284
	\$000s	34,910	2,389	1,854	689	757	40,599
Value Added Stock Loan	No.	139	11	4	1	1	156
	\$000s	1,216	138	92	6	7	1,459
Methane Digestor/ Disaster Recovery	No.	10	0	7	5	0	22
	\$000s	439	0	203	350	0	992
Livestock Equipment Pilot	No.	3	4	2	3	2	14
	\$000s	75	50	54	92	53	324
Total Farmer Loans	No.	2,549	97	103	60	68	2,877
	\$000s	166,320	12,510	12,850	7,874	10,832	210,386



MAP 2

Farm Loans Made through the RFA Programs through 7-1-10



Ag Imp./Live. Exp.
Restructure