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Perceived Benefits from Use of a Small Farmer Bond Program

BEGINNING FARMER BENEFITS:

- Receives benefit of lower interest rate on a loan.
- Can obtain financing on machinery, equipment, breeding livestock, and/or small-acreage land.
- Down payment negotiated with bond purchaser (bank or contract seller).
- Can purchase from a closely related party (i.e., parents, grandparents, or siblings), however, seller must have no further interest whatsoever in that farm after the sale closing.
- No restrictions on off-farm income.
- May reapply and benefit from the program until the purchase of a sizeable land tract.
- Likely to establish a good credit ranking (rapport) with a lending institution/contract seller.
- If eligible, may be used in conjunction with down payment assistance through a Farm Service Agency (FSA) loan.
- If eligible, may be used in conjunction with an Industrial Development Bond (\leq \$1 million, or \leq \$10 million under certain circumstances) for “Value-Added”-related improvement and equipment purchasing.

CONTRACT SELLER BENEFITS:

- Receives a federal tax exemption on the interest earned on loans up to the Small Farmer Maximum Amount (currently \$509,600 for 2014).

- Negotiation of loan terms and conditions are between you and the small farmer, but must be consistent with reasonable lending practices.
- Can sell farm to a relative, however, seller must have no further financial or ownership interest whatsoever in that farm after the sale closing.
- Assist your small farmer partners (rapport) by giving them access to low-interest financing.

BANK BENEFITS:

- Lender receives federal tax exempt interest on loans.
- Opportunity of providing a lower interest loan to a “beginning” or “small” farmer/rancher to obtain property, machinery, etc.
- Bank establishes a new long-term relationship with the small farmer/rancher and secures an opportunity to do additional business (ex. working capital LOCs, checking and savings accounts, additional equipment purchasing, etc.) and possibility of other relatives’ and friends’ business.
- Loans qualify under the Community Reinvestment Act (CRA).
- Up to 5% of bond proceeds can be used to cover financing and other non-capital costs.
- Minimal bond-related closing and monitoring documents once model is established.

Contract Sellers and Lenders to Small Farmers (First-Time Farmers and alike as defined under Section 147(c) of the federal Internal Revenue Code) are strongly encouraged to consider tax exempt bonds as a viable financing resource for their installment sale or lending on land, improvements, and/or depreciable asset purchases. Interested parties should feel free to contact CDLAC at (916) 653-3255 or cdlac@treasurer.ca.gov for further information.