



CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK



Small Issue Bond For Beginning Farmers (Agricultural Bond Program)

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CDLAC is currently in the process of designing an Agricultural Beginning Farmer Bond Program (Program) which would provide resources in the form of tax-exempt bond authority that can be deployed to support loans to small and beginning farmers. This document provides a snapshot of the program and is presented as a tool to gauge the level of interest in participating in the program.

Per discussions with CDLAC, a set of CDFI's have expressed an interest in utilizing the SBLGP and CPCFA's State funded CALCAP programs as credit-enhancement for these bond-funded loans. Other commercial lenders have also expressed interest in the program with the expectation that the tax-exempt bonds will enable them to lower the borrowing cost to their client farmers.

PROGRAM OVERVIEW

Program:

The Program involves having public agency bond issuers act as the conduit for the origination by existing lenders of tax-exempt bond supported loans to small and beginning farmers. The loan/bond amounts are limited to approximately \$500,000 each, and approval of each loan would be within 60 days from the date of receipt of a complete application. Under these guidelines, a wholesale model structure, rather than individual CDLAC allocation applications for each loan/bond would be required.

CDLAC would make a program-level allocation award to an issuer such as I-Bank rather than to individual projects. The Program would primarily be private placement issuances in partnership with the lenders. These lenders would underwrite, and close on the loans with the bonds closing simultaneously.

Monitoring and asset management of the loans would be handled by the participating lenders. The I-Bank would be the point of contact with the bond counsel, monitor post-issuance compliance, and manage the aggregate availability of sufficient bond authority with CDLAC. CDFIs may also consider using the I-Bank's State-funded SBLG and CPCFA's State-funded CALCAP programs as credit-enhancement vehicles where appropriate.

Assumptions:

- CDLAC to assist with introductions to the initial group of lenders interested in the Program.
- Lenders to provide qualifying loan program guidelines and projections. One qualifying loan would need to be originated within the first 90 days following the award of bond allocation from CDLAC.
- Issuers would identify a minimum allocation amount needed which will be the amount requested from CDLAC via an application.
- Lenders would provide most of the information needed for the initial CDLAC Application.
- CDLAC anticipates considering and approving an initial lump sum allocation award to the I-Bank for lender originated loans, with the I-Bank submitting additional applications as the allocation is depleted.

Findings:

Eligible uses for the tax-exempt private activity bond proceeds include: agricultural land; agricultural improvements; depreciable agricultural property; breeder livestock and farm-related purchases from related persons.

A “First Time Farmer” is defined as any individual who has not at any time had any direct or indirect ownership in ‘substantial farmland’ (defined as any parcel of land unless such parcel is smaller than 30% of the median size of a farm in the county in which such parcel is located); and has not received First Time Farmer financing exceeding the aggregate amount permitted by the Internal Revenue Code (currently \$509, 600).

Tax-exempt bond proceeds can be deployed in two ways:

1. Commercial Loan between a borrower and a lender for direct purchase of Farm Property; and
2. Contract Purchase between a buyer and seller for Farm Property

PROS

- Help for farmers and small businesses
- Meeting a public demand
- Ability to partner with other department/agencies
- Helping lenders offer new financing products
- Investment in agricultural needs of State

CONS

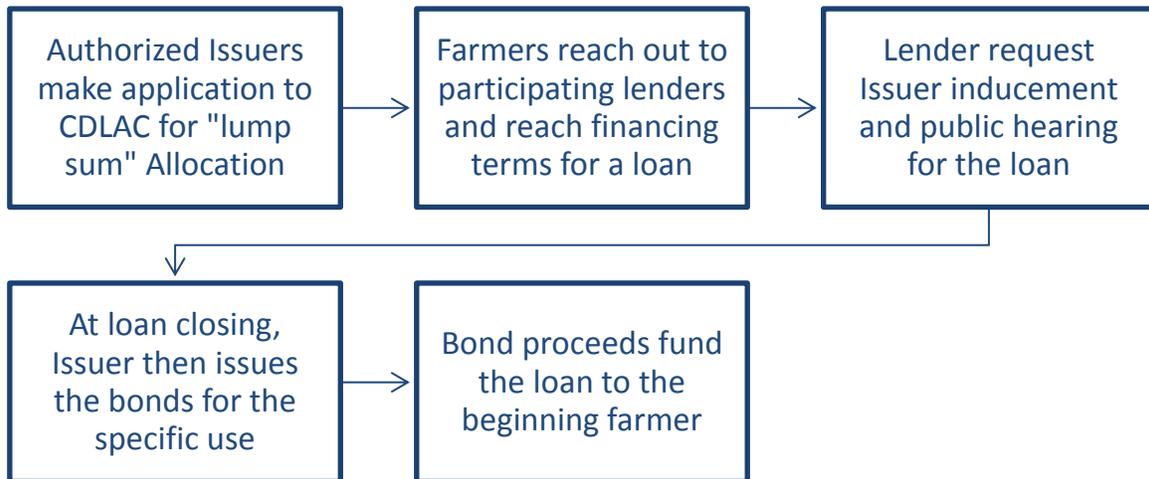
- Lending limits
- Cost of issuance
- Training of staff and staffing needs
- Credit quality of applicants
- Ability to meet goals

BACKGROUND

Section 144 of the United States Internal Revenue Code (the “Code”, and thus CDLAC’s regulations) permits a range of eligible project types to access tax-exempt bond authority. The purchasing of “Farm Property” is an eligible use of tax-exempt bond proceeds generally described under Section 144(a) of the Code. The tax-exempt proceeds (from the bonds issued through state and local governmental agencies) can be deployed either in the form of a loan between the borrower and lender to make a direct purchase of a farm and agricultural machinery & equipment; or between a buyer and seller for a contract purchase. The tax-exempt interest income to the lender or contract seller enables them to charge the borrower a lower interest rate, which is exempt from federal and, in most cases, state taxes that would be applicable. Such projects also benefit communities by increasing California’s locally-sourced food supply, and by creating new jobs.

CONCEPT

The concept rests on the preference to have a statewide bond issuer act as the conduit for the origination by existing lenders of tax-exempt bond supported loans to small and beginning farmers. The loans and bonds will be relatively small involving amount less than \$500,000, with the need for loan approval in less than sixty (60) days.



BENEFITS

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
- 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 downpayment assistance through Farm Service Agency (FSA) loan
- If eligible, may be used in conjunction with an Industrial Development Bond (<\$1 million, or <\$10 million under certain circumstances) for "Value-Added"- related improvement and equipment purchasing; also to be issued by the I-Bank.

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 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.

OUTSTANDING QUESTIONS AND CONCERNS

Questions:

- Threshold requirements and Issuer costs [can be at least partially recouped via a moderate Issuer fee]
- Who is responsible for providing technical assistance? [CDLAC for Lenders and Lenders for Farmers]
- Is there enough demand for a program like this? [\$10 million - \$25 million in first year; estimate \$50 million - \$100 million in out years]
- Qualified applicants [small steady pipeline of qualifying borrowers anticipated, expandable with additional marketing (vets, urban farmers, organic co-ops)]
- Will there be enough interested bond counsel firms willing to participate? [at least one already identified]

LIST OF LENDERS & CONSULTANTS

<p><u>Bank of America</u> www.baml.com</p> <p>Corny Gallagher, Vice President corny.gallagher@baml.com 916-747-0645</p>	<p><u>Rabobank</u> www.rabobank.com</p> <p>Frank Bravo, Vice President Frank.Bravo@rabobank.com 559-308-2545</p>
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