State finance programs, tax credits aim to help beginning farmers with high costs of entering the business

By Carolyn Orr

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For young people, the high cost of getting into farming can be a daunting business proposition. The cost of farmland continues to rise (up more than 20 percent year-over-year in the Midwest), as do expenses related to everything from equipment and fuel to feed and fertilizer.

Such obstacles are often cited as one reason for the aging population of farmers. Between 1982 and 2007, federal data show, the average age rose from 50 to 58, while the percentage of principal farm operators with less than 10 years of experience fell 42 percent.

In the Midwest, varying types of financial-assistance programs are used to help a new generation of agricultural producers get started, and some lawmakers (due in part to current market and demographic trends) have been looking at ways to expand these initiatives.

The most common state program used to help young farmers is the Aggie Bond Loan, which can be used to purchase land, equipment, buildings and breeding livestock.

Under this state-federal partnership, employed in eight of the 11 Midwestern states (all but Michigan, Ohio and Wisconsin), private lenders take on the risk of making a loan to a beginning farmer, but their interest income is federally tax-exempt — thus allowing these farmers to secure loans at reduced interest.

"[It] is successful because we make it easy for community banks to work through the program," explains Lorrie Karcher, agriculture program coordinator for the Illinois Finance Authority, which administers one of the largest Aggie Bond Loan programs in the nation.

Demand for the program, however, has been falling, a trend Karcher attributes to the high cost of Illinois farmland that has put it out of financial reach for many startup farmers — even at reduced interest rates.

But Terri LaBrie of the South Dakota Department of Agriculture says that in her state, demand for Aggie Bond Loans is on the rise due to an increase in contract sales. These sales do not involve local banks, but are agreements between the farmer and landowner, who carries the mortgage and charges the farmer interest.

South Dakota, Illinois, Indiana and North Dakota also offer guaranteed-loan programs, under which lenders receive up to an 85 percent guarantee of principal and interest on loans to qualified borrowers.

"The bank does most of the credit evaluation to help alleviate the state’s workload,” LaBrie says of her state’s program.

Minnesota, South Dakota and North Dakota have also made more-flexible direct loans available to beginning farmers through state agriculture authorities.

Some states, too, have begun loan-participation programs, in which a state agency buys part of a loan from the local
lender. For instance, the state-owned Bank of North Dakota [5] takes on 50 percent of the loan to help new farmers purchase equipment or cattle; as a result, interest rates are fixed at below prime on half of the loan.

The Bank of North Dakota also partners with local lenders to offer interest rates at 1 percent below prime to help startup farmers buy agricultural real estate.

“This program helps beginning farmers in two ways,” explains Rod Anheluk, the bank’s farm-loan manager. “It provides a below-market interest rate and reduces the collateral requirement.”

Iowa has long been a U.S. leader in providing loan and financial aid to new farmers. It was the first state to create an Aggie loan program (in 1980) and has had a unique tax credit program in place since 2006 [6]. Under the program, farmland owners earn tax credits of up to 15 percent for leasing land, livestock, equipment or buildings to beginning farmers.

A bill proposed this year (HF 252 [6]) [7] would provide tax credits for custom-farming contracts, under which an Iowa landowner retains close control of the farm business but is not actively involved in day-to-day activities.