



Oklahoma Beginning Farmer Loan Program

Lori J. Shipman
Extension Associate

Damona G. Doye
Extension Economist

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<http://osufacts.okstate.edu>

The Oklahoma Beginning Farmer Loan Program (OBFLP) helps provide additional credit options for those entering farming. The loan can be used to obtain or improve capital items such as agricultural land and property, depreciable machinery and equipment, and/or breeding livestock. The Oklahoma Development Finance Authority administers the Oklahoma tax-exempt bond program. Agricultural tax-exempt bond programs, often referred to as "Aggie bonds," are an incentive for lenders or contract sellers to offer loans for beginning farmers (defined later) at a generally lower interest rate. The lender, in most cases, is eligible to earn state and federally tax-exempt interest from the loan proceeds. The lender assumes all risk for obtaining security for the loan and repayment.

Beginning Farmer Loan Requirements for Eligibility

The loan applicant must meet the OBFLP definition of a beginning farmer and certain criteria. A beginning farmer is defined by the previous land ownership or material participation in farming (including spouse and children). Ownership at any time prior to obtaining a beginning farmer loan must be less than 30 percent of the median farm size in the county (See Table 1). The owned land must not have exceeded a fair market value of \$125,000 at any time. The applicant's total net worth (value of assets less total liabilities) cannot exceed \$200,000. Partnerships are eligible to participate if all partners individually meet the eligibility requirements; corporations are not eligible to participate.

The beginning farmer must:

- Reside in Oklahoma.
- Be at least 18 years of age, or have a cosigner who is 18 or older.
- Be the principal operator of the farm.
- Find an eligible financial institution, private investor, or contractual seller (all referred to as "lender" in this article) willing to make the loan.
- Demonstrate the need for and ability to repay a loan.
- Certify the land will be used for agricultural purposes.
- Document to the satisfaction of the lender and the Oklahoma Development Finance Authority, sufficient education, training, and experience in the type of farm-

ing operation for which the note is requested. If the applicant is a partnership, all partners shall have sufficient education, training, or experience in that type of farming operation.

- Participate in an approved farm management program for at least the first five years of the loan. Approved farm management programs include Cooperative Extension's Intensive Financial Management and Planning Support (IFMAPS¹) or Oklahoma Department of Career and Technology Education agribusiness or farm management classes.
- File a conservation plan with the Natural Resources Conservation Service.
- Fulfill any other requests of the Oklahoma Development Finance Authority.

Loan or Contract Sale Restrictions and Uses

The proceeds of the "Aggie bond" note (sold to the lender) can be used for conventional loans or owner-financed installment contracts. Principal amounts may not exceed \$250,000, and no more than \$62,500 may be for purchase of "used" property.² Up to \$125,000 may be used for depreciable equipment, machinery, and/or breeding livestock. This loan may not be used for refinancing an existing debt or for operating expenses. Proceeds may be used for:

- Purchasing farmland, farm buildings, or breeding livestock.
- Improving farmland or constructing farm buildings.
- Purchasing depreciable farm machinery and equipment.

If the beginning farmer is an individual, the individual, his or her spouse, and/or his or her minor children shall only use the land, improvements, or depreciable property for farming. If the applicant is a partnership, the partners, their spouses,

¹ IFMAPS is a free and confidential service providing farm financial management planning and analysis. Contact your local Oklahoma Cooperative Extension Service office or call the IFMAPS center toll-free at 1-800-522-3755.

² **Used Depreciable Property:** Livestock that has already been used for breeding are considered used property. Open or bred heifers, gilts, or lambs are considered "new" property.

and their minor children shall only use the land, improvements, or depreciable property for farming.

IRS regulations allow related farm families³ to transfer property using the "Aggie bond" program loan or contract sale. Related party property transfers are subject to a fair market value appraisal by a certified appraiser, realtor, or bank appraiser. The related seller cannot transfer the loan proceeds along with the property.

Funds cannot be used to finance the acquisition of agricultural land, improvements, or depreciable property from a relative, if the relative has more than a ten percent interest in the capital or profits in a partnership or corporation comprising the "beginning" farm. The related seller may not be the principal user of the property, nor can the seller have direct or indirect ownership.⁴ These situations appear to be a means to refinance which is not allowed under "Aggie bond" programs such as the OBFLP. A personal residence must be financed separately, unless it is clearly established that the personal residence is less than five percent of the total amount of the loan or contract sale.

Application Procedures

- Obtain an application from:
Oklahoma Development Finance Authority
5900 N. Classen Boulevard
Oklahoma City, OK 73118
Phone: 405-842-1145
Contact: John Harris
- Complete the application with a participating lender, contract seller, or other individual, and negotiate the terms of the loan or contract sale.

The borrower negotiates interest rate (fixed or variable), payment schedule (maximum loan terms of thirty years), down payment, prepayment rights and obligations, security, insurance coverage, payments of taxes, defaults, and remedies on default with the lender. The lender assumes the total risk

for the loan or contract sale. The debt cannot be guaranteed by the Federal Government or any of its agencies, including the Farm Service Agency (FSA), at this time.⁵

Submit the application, financial statements, background letter, and the \$50 non-refundable application fee to ODFA. A closing fee equal to the greater of \$1,000 or one and a half percent of the loan is payable to ODFA at closing. Closing costs up to two percent of the note may be financed with the note proceeds.

Application Processing

Applications are reviewed at monthly ODFA meetings and, if approved, a non-binding intent resolution is adopted. Once loan documentation and terms are finalized the borrower(s) and lender may request ODFA final approval. Following public notice, a public hearing on the project is held. ODFA may then issue a final note approval, after which the borrower(s) and lender may close the loan. The ODFA issues a federally tax-exempt note with terms identical to the loan. The lender purchases this note, and the proceeds fund the loan.

After approval, the following must occur:

- ODFA and lender sign the contract.
- ODFA assigns the contract to the beginning farmer.
- The beginning farmer assumes payment obligations.
- ODFA delivers the note to the lender and assigns the beginning farmer's obligation-to-pay contract to the lender for security.
- The beginning farmer makes installment payments on the sales contract to the lender.

This process can take two and a half to three months to complete. **Interim financing should not be obtained prior to application approval.** However, following ODFA approval, the lender or other financing can be obtained to proceed with the project. Interim financing must be paid with the proceeds of the note when issued.

³ **Related Person:** According to the IRS, includes grandfather, grandmother, father, mother, either whole or half-brothers and sisters, child, grandchild, or spouse. It also includes certain corporations and partnerships.

⁴ **Indirect Ownership:** If a person holds a minimal interest in a family farm corporation, limited partnership, trust, or other entity which in turn owns farmland in an amount which is greater than 30% of the median size of a farm in the county, or has ever had a value greater than \$125,000 and the person materially participates in the operation of such farmland, then the person will not qualify as a beginning farmer.

⁵ Advocacy groups are lobbying for the ability to secure loans with an FSA guarantee.

Table 1. Beginning Farmer Allowable Ownership Eligibility Chart¹
 30 Percent of Median Farm Size by County

County	Maximum Acres	County	Maximum Acres
Adair	62	Latimer	94
Alfalfa	212	Leflore	70
Atoka	116	Lincoln	67
Beaver	426	Logan	116
Beckham	181	Love	126
Blaine	195	Major	168
Bryan	83	Marshall	118
Caddo	145	Mayes	60
Canadian	120	McClain	76
Carter	98	McCurtain	62
Cherokee	61	McIntosh	84
Choctaw	102	Murray	134
Cimarron	671	Muskogee	68
Cleveland	48	Noble	167
Coal	139	Nowata	121
Comanche	126	Okfuskee	108
Cotton	205	Oklahoma	48
Craig	112	Okmulgee	81
Creek	71	Osage	303
Custer	237	Ottawa	66
Delaware	60	Pawnee	117
Dewey	260	Payne	79
Ellis	323	Pittsburg	93
Garfield	172	Pontotoc	88
Garvin	97	Pottawatomie	69
Grady	112	Pushmataha	99
Grant	255	Roger Mills	304
Greer	197	Rogers	66
Harmon	270	Seminole	81
Harper	392	Sequoyah	78
Haskell	92	Stephens	109
Hughes	118	Texas	415
Jackson	197	Tillman	219
Jefferson	265	Tulsa	45
Johnston	160	Wagoner	74
Kay	151	Washington	92
Kingfisher	166	Washita	176
Kiowa	254	Woods	342
		Woodward	270

¹ Allowable ownership (either currently or in the past) is restricted to less than 30 percent of the median size farm in the county. These numbers are based on the 1997 Census of Agricultural Statistics.

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Extension carries out programs in the broad categories of agriculture, natural resources and environment; family and consumer sciences; 4-H and other youth; and community resource development. Extension staff members live and work among the people they serve to help stimulate and educate Americans to plan ahead and cope with their problems.

Some characteristics of the Cooperative Extension system are:

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- Extension programs are nonpolitical, objective, and research-based information.
- It provides practical, problem-oriented education for people of all ages. It is designated to take the knowledge of the university to those persons who do not or cannot participate in the formal classroom instruction of the university.
- It utilizes research from university, government, and other sources to help people make their own decisions.
- More than a million volunteers help multiply the impact of the Extension professional staff.
- It dispenses no funds to the public.
- It is not a regulatory agency, but it does inform people of regulations and of their options in meeting them.
- Local programs are developed and carried out in full recognition of national problems and goals.
- The Extension staff educates people through personal contacts, meetings, demonstrations, and the mass media.
- Extension has the built-in flexibility to adjust its programs and subject matter to meet new needs. Activities shift from year to year as citizen groups and Extension workers close to the problems advise changes.

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