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Testimony in Support of HB 3239
Senate Committee on Business and Transportation

Chair Beyer, members of the Committee:

Thank you for the opportunity to testify in support of HB 3239 today. This bill will improve access to Oregon's existing 'Aggie Bond' beginning and expanding farmer lending program by expanding who qualifies as a 'participating lender.'

In 2013 the Oregon Legislature passed HB 2700, Oregon's Beginning and Expanding Farmer Loan Program, to incentivize lower interest lending for beginning and smaller farmers. With the average age of Oregon farmers nearing 60 years old, it is estimated that between 25 - 50% of Oregon farmland will change hands in coming decades, according to the Oregon Department of Agriculture. It is currently very hard for new and smaller farmers to purchase land or expand their operations as many financial institutions refuse to lend to farm businesses, or only offer very high interest rates. Programs to aid beginning farmers in accessing land and equipment, including through lower interest lending, are increasingly necessary. The Oregon Beginning and Expanding Farmer Loan Program is meant to assist beginning and smaller farmers in the acquisition of agricultural land, agricultural improvements, and depreciable agricultural property including breeding livestock and equipment.

Specifically, HB 3239 adds Farm Credit Services, one of the region's top farm lenders, to the list of approved lenders under the state's existing Aggie Bond program. Farm Credit Services was intended to be included as an eligible lender in the 2013 bill, but it has been learned since that the definition was not in fact broad enough to include them. HB 3239 also adds owner-financed agreements as a form of eligible lending, in which a landowner agrees to carry the loan for a qualifying beginning farmer through a purchase agreement or sales contract.

The Aggie Bond program does not lend state money. Rather, the state issues tax exempt private activity bonds for the amount of the loan, allowing lenders to receive a federal tax credit when they lend to qualifying small and beginning farmers as defined in the IRS code. This can lower interest rates significantly and save qualifying farmers thousands of dollars per year in interest payments. Farmers can also "piggy back" this program with federal (ie, Farm Service Agency) lending and loan guarantee programs accessible to beginning farmers. Because farm interest rates are typically higher than residential interest rates, by lowering interest rates for beginning farmers this program will help improve cash flow and build equity, while aiding a newer generation of farmers in access to land. While Business Oregon determines a loan's eligibility for the program and whether a bond will be issued, the loan and the bond are secured solely by the collateral required by the lender and are not obligations of state of Oregon. Nothing in HB 3239 will change these safeguards.

Thank you for your consideration of this important bill.

HB 3239 and HB 5005 - Expand Low Interest Lending for Beginning Farmers in Oregon

In 2013, the Oregon Legislature created the Beginning and Expanding Farmer Loan Program to incentivize lower interest lending for beginning and small farmers

- The Oregon Beginning and Expanding Farmer Loan Program, aka 'Aggie Bonds,' is meant to assist beginning and smaller farmers in the acquisition of agricultural land, agricultural improvements, and depreciable agricultural property, including breeding livestock and equipment.
- **The Aggie Bond program does not lend state money.** Rather, the program allows lenders to receive a federal tax credit when they lend to qualifying small and beginning farmers. This can lower interest rates by 25% and save qualifying farmers thousands of dollars per year in interest payments.
- Farmers can "piggy back" this program with federal (Farm Service Agency) lending programs.
- Farm interest rates are typically higher than residential interest rates. Lowering interest rates for beginning farmers improves cash flow and the ability to build equity.

HB 3239 would improve access to Oregon's existing Aggie Bond program by expanding who qualifies as a 'participating lender'

- Specifically, the bill adds Farm Credit Services, one of the region's top farm lenders, to the list of approved lenders. It also adds owner financing agreements as a form of eligible lending, in which a landowner agrees to carry the loan for a qualifying beginning farmer through a purchase agreement or sales contract.

HB 5005 would authorize $10 million in private activity bonds for the program

- In order for lenders and beginning farmers to take advantage of the tax and interest rate benefits of the program, private activity bonds must be issued. $10 million in bonding would enable 20 loans at the maximum amount.

How would an Aggie Bond loan work if HB 3239 and HB 5005 were approved?

When a lender has a potential borrower that meets the IRS definition of 'first time farmer' (under IRS Code Section 147) and who otherwise qualifies for a loan, they would apply to the Oregon Business Development Department (Business Oregon), which would review and approve qualified applications. Under the federal IRS code, such loans are allowed for:

- up to $509,600 for farmland purchases (this is also the total loan limit)
- up to $250,000 for the purpose of depreciable agricultural property (including new farm equipment and breeding livestock)
- up to $62,500 on used equipment

The IRS defines 'first time farmer' as a farmer that either does not own land, or one that owns land smaller than 1/3 of the median county farm size in the county they intend to purchase land in. Equipment loans may be more broadly available. Farm Service Agency loan and loan guarantee programs available to beginning farmers are also generally available for potential Aggie Bonds participants. Business Oregon finalized rules for the Aggie Bond program in February 2015.

Farming is a high capital, low margin business, and the average age of Oregon farmers is now nearly 60 years old. Between 25 - 50% of Oregon's farmland is expected to change hands in coming decades and younger farmers are needed. It is currently very hard for new and smaller farmers to purchase land or expand their operations as many financial institutions refuse to lend to farm businesses, or offer high interest rates.

Financing for new and small farm operations is difficult:
HB 3239 and HB 5005 will help

Questions? Contact Ivan Maluski, Friends of Family Farmers • www.friendsoffamilyfarmers.org • ivan@friendsoffamilyfarmers.org • 503-449-2270