



MEMORANDUM
Department of Natural Resources

STATE OF ALASKA
Division of Agriculture

TO: Board of Agriculture and Conservation

DATE: February 23, 2017

FROM: Amanda Swanson, Loan Officer

SUBJECT: ARLF Loan Interest Rates
Good Borrower Credits

ARLF Loan Interest Rates

11 AAC 39.071: Interest rates on loans (a) At least annually, the board will review and establish interest rates for new loans that are comparable to the rates charged by other agricultural lending institutions in the state for similar types of loans.

(b) The interest rate that will be charged on a new loan is the rate that is in effect on the date that the new loan is approved by the board or the emergency loan committee.

The ARLF loan interest rate for all loan types had been 8% pursuant to Statute for a number of years. As a result of 2000 legislation, the Board of Agriculture and Conservation (BAC) now shall set the ARLF loan interest rates *comparable* to other Alaskan agricultural lenders.

Beginning on December 18, 2001 the BAC set the ARLF short term operating loan interest rate at 6% and all other ARLF loan types at 7%. On January 16, 2003 all ARLF loan interest rates were set by the BAC at 5%. The BAC reviewed the ARLF loan interest rates and good borrower credit rate February 26, 2009 and set rates at 3.00% short term, 4.00% intermediate term, and 4.50% long term. The BAC reviewed and made no changes to these same rates January 21, 2010, May 3, 2010, January 20, 2011, January 30, 2012, February 26, 2013, January 23rd, 2014, and February 18th, 2016.

All the Alaskan agricultural lender programs differ. Therefore, it is difficult to make an exact comparison of ARLF interest rates. The applicable Statute does not specifically define “comparable.” *Historically, the BAC has considered within 1.00% as being comparable.*

Alaska Rural Rehabilitation Corporation – Variable Rate

ARRC is a non profit organization that offers conservative financing with a focus on moderate operating loans, chattel loans, and farm land purchase financing. Their current interest rates are varied 5.00%-9.00% based on the applicant’s credit and collateral. The application fee is \$100.00 for new borrowers and \$50.00 for existing borrowers. ARRC has no loan fees with terms of up to 20 years. Their interest rates are adjustable every two years with no cap. Interest rates were last reviewed on November, 2015. In addition to the chattel and real estate loans, ARRC also offer a Line of Credit (LOC) for any farming use. The draw amount, plus accrued interest on draw amount, are due one year from draw date. LOCs are for a maximum 5- year term if secured by real estate or 3- year term if secured by chattel, at 5%- 9% interest rate. ARRC loans may not exceed 70% of the value of the collateral.

USDA Farm Service Agency – Fixed Rate

FSA makes loans to farmers and ranchers to promote, build, and sustain family farms to support an agricultural economy. The goal of FSA's farm loan programs is to graduate its borrowers to commercial credit. FSA's headquarters are in Washington DC, with offices located in each state. FSA offers several different loan types and services.

Farm Ownership Loans can be made to eligible applicants up to a maximum of \$300,000.00. The maximum repayment term is 40 years. Loan Funds may be used to purchase a farm, enlarge an existing farm, construct new farm buildings and/ or improve structures, pay closing costs, and promote soil and water conservation. Farm Operating Loans are made to eligible applicants up to \$300,000.00 and a direct operating Microloan for up to a maximum of \$50,000.00. The loan term varies but is usually between 1- 7 years. Loan funds may be used for operating expenses, machinery and equipment, minor real estate repairs or improvements, and refinancing debt. Each year Congress targets a percentage of farm ownership and farm operating loans to socially disadvantaged and beginning farmers. FSA also offers a down payment program for socially disadvantaged, beginning, and retiring farmers.

FSA provides Youth Loans as direct loans which have a maximum loan amount of \$5,000.00. Youth loans may be made to individuals between 10-20 years old who are sponsored by a project advisor, such as a 4-H club, FFA, or local vocational instructor.

Emergency loans assist farmers who have suffered physical or production losses in areas declared by the President or the Secretary of Agriculture as disaster or quarantine areas. Applicants must demonstrate a 30% loss in a single farming enterprise and may receive loans up to 100% of the loss, not to exceed \$500,000.00. Other services offered by FSA include conservation loans, land contract guarantees, loan servicing, and supervised credit.

Among some of the qualifications for a loan, applicants must be family farmers, have satisfactory credit history, be a US citizen, be able to obtain credit elsewhere at reasonable rates and terms, and not be delinquent on an FSA loan. For operating loans an applicant must have sufficient education, training, or 1 year's experience. For farm ownership loans an applicant must have participated in the business operations of a farm for at least 3 years within the last 10 years prior to the application.

On October 20, 2016 USDA announced the availability of a streamlined version of the USDA guaranteed loans, which are tailored for smaller scale farms and urban producers. The program, called EZ Guarantee Loans, uses a simplified application process to help beginning, small, underserved and family farmers and ranchers apply for loans of up to \$100,000.00 from USDA approved lenders to purchase farmland or finance agricultural operations.

Farm Credit Services- Variable Rate

Farm Credit Services offers conservative financing with FSA guarantees and has only made a few agricultural loans in Alaska over the years. They do not have an Alaskan office and process Alaskan requests out of Washington or Oregon. Farm Credit no longer publishes their rates online or provides a minimum and maximum interest rate because the loan program and interest rates are too variable depending on loan purpose, term, collateral, and an applicant's qualifications.

Commercial Fishing & Agriculture Bank- Variable Rate

CFAB has had very minimal agricultural activity and focuses primarily on Alaska's commercial fishing industry. This is mainly due to competition from ARRC, ARLF, and FSA who offer lower interest rates on agricultural loans. Interest rates offered by CFAB vary depending on the borrower's credit risk plus the "base rate." The base rate is established annually by their board. The current base rate is 4%, then the rate is adjusted an additional 0.5%- 2.5% depending on the collateral for the loan. CFAB has a 1% loan fee in addition to loan closing expenses. Based on the borrower's credit and collateral offered, they can finance up to 100% loan to value.

Agricultural Revolving Loan Fund- Fixed Rate

ARLF is Alaska's major agricultural lender with an emphasis on promoting agricultural development within the state. Based on ARLF's financial statement for fiscal year ending June 30, 2016, ARLF is valued at approximately \$22 million in fund equity with \$10 million cash available. The ARLF currently offers 3.00% short term one year operating loans, 4.00% chattel loans with a maximum seven year term, and 4.50% long term loans with a maximum thirty year term.

AS 03.10.010 Declaration of policy. It is the policy of this chapter to promote the more rapid development of agriculture as an industry throughout the state by means of long- term low-interest loans.

AS 03.10.030 Limitations on loans. (4) Shall bear interest at a fixed rate comparable to that charged by other agricultural lending institutions in the state for loans similar to those referred to in this subsection.

Adjustments to the ARLF loan interest rates may cause some degree of impact over the long term. However, increasing the interest rates would have little immediate impact for the ARLF.

ARLF FY2016 interest revenue was \$422,994.00. Attached is a bar chart illustrating examples of the varying results based on interest revenue for one year only.

This year we looked at several different interest rate scenarios including lowering the farm development loan interest rate to potentially attract new borrowers and help beginning farmers purchase farm property as well as increasing interest rates to generate more revenue for the ARLF fund. None of the different interest rate scenarios would have a significant impact of the ARLF fund, by either gaining or decreasing revenue. Therefore, it is recommended to maintain the current ARLF interest rates.

ARLF Good Borrower Credit Rate

11 AAC.39.511. Interest credit for borrowers who maintain good financial standing. (a) At least annually the board will establish an interest rate credit rate to encourage the prompt payment of loans under AS 03.10.50. Unless precluded by AS 03.10.050 (f), the board may approve interest credit on a loan granted under this chapter. The interest credit granted may not reduce the fixed rate to less than five percent a year.

The Good Borrower Credit (GBC) program was instituted as an incentive for borrowers to pay their ARLF loans timely and when ARLF loan interest rates were set at 8% by Statute. Until the Statute changed that gave the authority to the BAC to set ARLF loan interest rates comparable to other Alaskan agricultural lenders, the GBC program was essentially utilized to adjust the interest rate. Good borrowers tend to pay timely; therefore, the effectiveness of the incentive to pay timely is minimal.

The GBC rate can be changed any number of times however, credit can be no more than a maximum of 2% within a calendar year. GBCs are available to eligible borrowers for existing and new loans. Borrowers that presently have restructured ARLF loans, loans with terms extended, or have never had an ADL loan contract or AAAC land clearing loan restructured are not eligible for ARLF GBCs. There are "good borrowers" not eligible for good borrower credits.

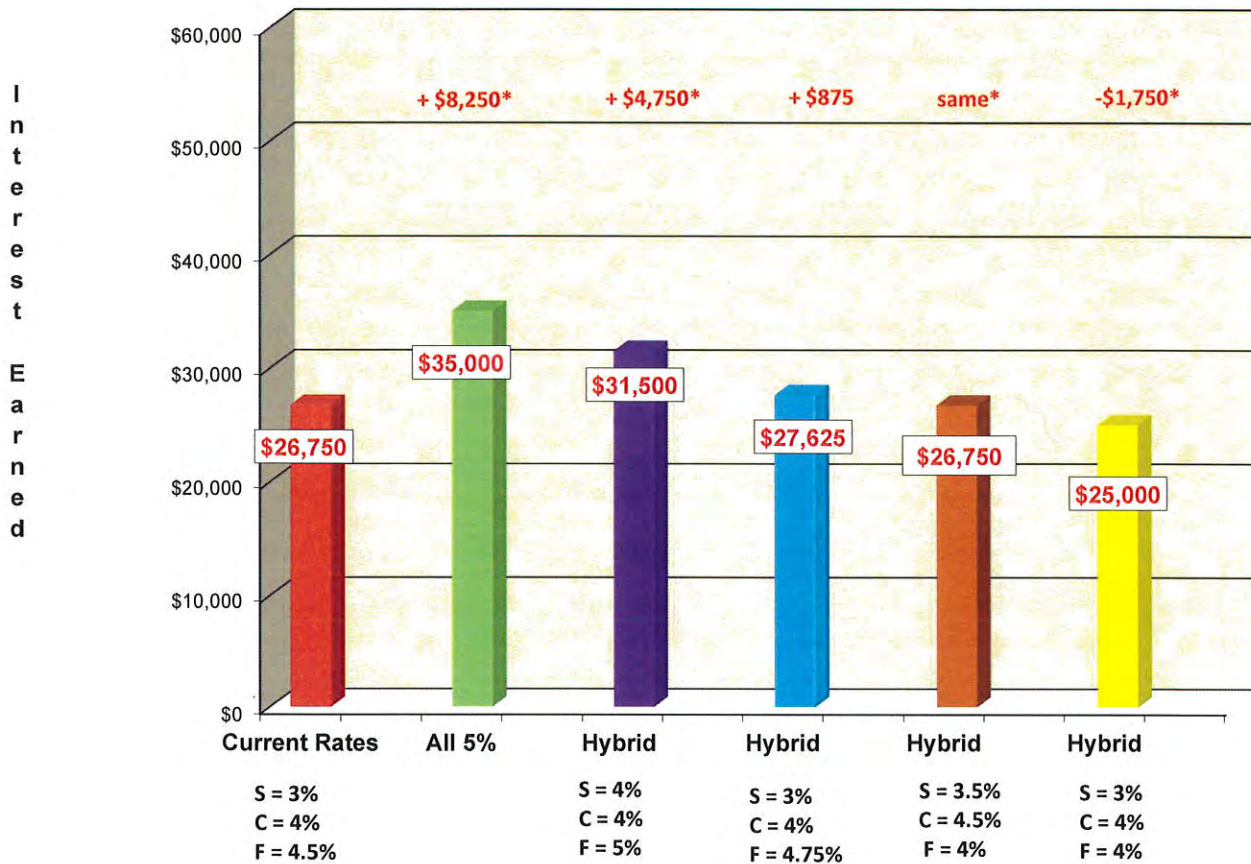
Interest credit may not reduce the fixed rate to less than 5%. The majority of the ARLF portfolio has been refinanced to a 5% interest rate or less. Loans with interest rates greater than 5% may not have refinanced because of standard non-qualifying reasons, low payoff balances, or they are unwilling to apply.

Recommend "0.00%" Good Borrower Credits be approved for 2017.

ARLF One Year Interest Earnings Analysis

\$700,000 Estimated Loan Amounts:
S - \$300,000 C - \$50,000 F - \$350,000

Note: This chart represents 12 months estimated earnings only
*Difference in revenue compared with current interest rates



Alaska Agricultural Loan Interest Rates Effective February 1, 2017

Leader	Short Term	Chattel	Development/ Construction	Irrigation System	Product Processing	Land Clearing	Real Estate	Comments
ARLF								
Interest - Fixed	3%	4%	4.50%	4.50%	4.50%	4.50%	4.50%	Fees - \$50
Term	1 year	7 years	30 years	30 years	30 years	20 years	30 years	Loans limited to 75% CLTV Alaskan residents only

Good Borrower Credit may not reduce rate to less than 5%

ARRC								
Interest - Variable	5.00-9.00%	5.00-9.00%	5.00-9.00%	5.00-9.00%	5.00-9.00%	5.00-9.00%	5.00-9.00%	Fees - \$100 new borrower, \$50 existing borrower
Term	1 year	7 years	20 years	20 years	20 years	20 years	20 years	Loans limited to 70% CLTV Rate & Terms determined by collateral & credit

Interest rate adjustment every 2 years with no interest rate cap. Last reviewed November, 2015.

FSA								
Interest - Fixed	2.875%	2.875%	4.00%	4.00%	4.00%	4.00%	4.00%	Farm Ownership-Direct, Joint Financing Rate 2.500%
Term	1.5 years	7 years	40 years	40 years	40 years	40 years	40 years	Farm Ownership-Down Payment 1.500% Conservation Loan 4.00%

FSA Emergency Loan Rate 3.875%

Farm Credit								
Interest - Variable								Rate & terms determined by collateral & credit
Term	10-15 year	1-15 years	25 years	25 years	25 years	25 years	25 years	* Farm Credit no longer publishing interest rates online or providing a minimum and maximum interest rate. Loan Program and interest rates are too variable depending on loan purpose, term, collateral, and applicant's qualifications.

CFAB								
Interest - Variable	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	Fees-1% loan fee
Term	1 year	7 years	12 years	12 years	12 years	12 years	20 years	Loans limited to 100% CLTV, 70% to 80% standard Rate & LTV determined by collateral & credit Alaskan residents only

Loan interest rate dependent on borrower's risk and collateral plus the base rate established by the board.

ARLF Loan Interest Rate

	Short Term	Chattel	Development	Irrigation	Processing	Clearing	Real Estate
Existing Interest Rates	3.00%	4.00%	4.50%	4.50%	4.50%	4.50%	4.50%
Rate Changes Effective February 23, 2017	_____ %	_____ %	_____ %	_____ %	_____ %	_____ %	_____ %

Good Borrower Credit Rate

2017 GBC Rate 0.00%

GBC Rate Effective _____ %

February 23, 2017

Subject to:

BAC Chair _____

Signature

Date