

# Diversification through Entrepreneurship in Agribusiness Loan Program



## Guidelines

**Purpose:** To assist entry level agri-entrepreneurs with the establishment of or purchase into a business that provides agricultural products or services to other producers.

**Terms:**

1. Majority of household income must originate from farming enterprises
  - a. at least 3 years of schedule F income
  - b. at least 50% gross income from farming the last two years
2. Applicant (and spouse, if applicable) must have a combined net worth of less than \$500,000 at time of application
3. Applicant's household off-farm income is less than \$100,000 annually as evidenced by a minimum of the past two year's tax returns or maximum of three years
4. A borrower will be limited to an outstanding balance of no more than \$100,000 in this program
5. There must be a business plan and feasibility study documenting that this business does not unduly compete with other existing businesses providing similar products or services
6. There must be a commitment by a participating lender who will work with the borrower to capitalize the initial investments outlined in the 5-year business plan. The lender will continue to evaluate additional credit needs of the applicant as presented, however, any additional credit will be at the discretion of the lender and according to the lender's normal credit underwriting policies.
7. Participating lender must be a financial institution with offices in Kentucky
8. KAFC will loan up to \$100,000 not to exceed 50% of the outstanding debt held by the participating lender on behalf of this applicant at the closing of this loan
9. No applicant may participate in this program for more than 15 years
10. Maximum loan term will be 15 years, but may be less than 15 years for certain loans where applicable
11. Initial interest rate will be 2% per annum and will be fixed for the term of the loan
12. There is no penalty for early repayment of the loan
13. Loan must be secured with both fixed assets and the personal guarantee of the borrower

14. Applicant must submit a 5-year business plan and feasibility study showing a reasonable return and an ability to retire the K AFC debt
  15. Applicant must be a resident of Kentucky
  16. Identification and commitment of a Mentor willing to advise the borrower on record keeping and business analysis during the term of the loan
  17. K AFC shall review each application and supporting documentation; loan approval will be at the discretion of the K AFC board
- **Eligible Projects:** Agribusiness purchases include but are not limited to:
- Equipment purchases
  - Facilities
  - Permanent working capital with provisions to lower the K AFC's involvement each year
  - Down payment on real estate
  - Funds to invest in a partnership, LLC or other agribusiness business structure
  - Applicant must receive equity equal to the investment being provided
  - Business into which borrower is investing must show a positive gain in net worth over the past five years
  - Other agricultural investments at the discretion of the K AFC Board
  - Refinancing of existing debt is not eligible with K AFC funds

**Other Details:**

Mentoring partner must meet one of the following criteria: KCTCS instructor in business or agricultural related programs; UK Farm Analysis Specialist; University or Extension Personnel; or Other Agribusiness management professionals at the discretion of K AFC. Approved mentors must have no financial interest in the applicant's farming operation or new venture.

Lead lender is required to prepare and submit the loan application. Lender must be committed to provide additional financing as outlined in the completed application. Lender must agree to service the K AFC loan for no more than 100 basis points (1%) for the term of the loan. The fee will be added to the K AFC rate.