

BEGINNING FARMER LOAN PROGRAM (AGGIE BOND) INTEREST RATE PRICING

The tax-exempt interest income earned by lenders and contract sellers enables them to charge the beginning farmers a lower interest rate.

Comparative pricing - Bond vs. Conventional

Step 1

- First, calculate net after tax yield on a conventional loan
 - Conventional Rate 7.00%
 - Minus Cost of funds 3.00%*
 - Equals Gross margin 4.00%
 - Times (1 minus Tax Rate) 0.65%
 - Equals net after tax yield 2.60%

*Cost of funds as a percent of assets

Step 2

- Add Net after tax yield to Cost of Funds to determine Tax exempt equivalent**
 - Net after tax yield 2.60%
 - Plus Cost of Funds 3.00%
 - Equals tax exempt equivalent 5.60%

**Aggie Bonds are considered “non-bank-qualified.” Therefore, the interest expense of carrying the bond is disallowed from lender’s ordinary expenses for income tax purposes. Lenders are advised to check with their tax consultants.

Please direct Beginning Farmer Loan Program questions to:

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