North Carolina Agricultural Finance Authority

Mission Statement

The North Carolina Agricultural Finance Authority (NCAFA) was established by the North Carolina General Assembly to provide credit to agriculture in local areas where it is not available at reasonable rates and terms. The mission applies to all aspects of agriculture; farming, processing, manufacturing and exporting.

Operating Procedure

Essentially operating as the North Carolina 'Agricultural Bank' NCAFA originates, services, and finances loans in the agricultural sector that would otherwise not be made. Using federal guarantees and secondary markets, state funds are leveraged with minimal risk of loss. Agricultural Development Bonds (tax-exempt) are issued for agribusiness firms.

NCAFA Finance Programs

A. Series I Farm Real Estate Loans

- **Program Began:** 1988
- **Target Group:** Farmers having difficulty qualifying for conventional loans
- **Description:** Loans can be used to purchase real estate (land, buildings, and improvements); up to 15-year term for as much as 95 percent of appraised value; interest rate is prime plus 1.75 percent variable; NCAFA must be able to obtain guarantee from USDA-Farm Service Agency (FSA) on loan; NCAFA is lender and services loan.

B. Beginning Farmer Loan Program (Series II)

- **Program Began:** 1993
- **Target Group:** Young farmers beginning land ownership
- **Description:** NCAFA loans 60 percent of need to farmers who obtain 30 percent from FSA's down-payments loan program; farmer makes 10 percent down payment; interest rate is prime plus 3/4 percent variable.

C. "Ag Start" Beginning Farmer Loans

- **Program Began:** 1997
- **Target Group:** Beginning Farmers
- **Description:** Joint farm real estate lending program with Farm Credit Services (North Carolina) (FCS); NCAFA makes 50 percent of loan with FSA guarantee subordinated to FCS loan.

D. Farm Facilities Disaster Loans

- **Program Began:** 1998
- **Target Group:** Farmers sustaining damage to farm buildings and structures due to natural disasters.
- **Description:** NCAFA makes low interest loans to repair farm buildings and structures. Non-recurring State appropriation.

E. Agribusiness Loans

- **Program Began:** January 2000
- **Target Group:** Agribusinesses that are providing value added processing or support for other facets of agriculture.
- **Description:** Loans typically have a loan guarantee provided by Rural Development, USDA.

F. Agricultural Development Bonds

- **Program Began:** 1995
- **Target Group:** All agribusinesses
- **Description:** NCAFA serves as the issuer of tax-exempt bonds (state and federal), the proceeds of which are loaned to small business involved in processing and manufacturing agricultural products (such as cotton gins, feed mills and meat processing facilities); NCAFA has statewide bond authority. Borrower benefits from lower interest costs from federal and state tax exemption.

G. Green Community Program – Qualified Energy Conservation Bonds

- **Program Began**: 2011
- **Target Group**: Developers of renewable energy projects on farm land, including solar, bio mass facilities (including agricultural waste to energy facilities)
- **Description:** NCAFA serves as the issuer of bonds or loans, the proceeds of which are loaned to renewable energy developers; NCAFA has statewide bond authority. Borrower benefits from lower borrowing costs because purchaser of bond/loan gets a tax credit or borrower receives federal subsidy in lieu of the tax credit.

H. Solid Waste Disposal Bonds

- **Program Began**: 2000
- **Target Group**: Farmers, agribusinesses seeking financing for disposal techniques for agricultural waste and agribusiness byproducts
- **Description:** NCAFA serves as the issuer of solid waste disposal bonds, which are tax-exempt (state and federal), the proceeds of which are loaned to farmers and/or agribusinesses to finance waste disposal facilities and waste to energy facilities that use agricultural waste or waste generated by agribusiness. NCAFA has statewide bond authority. Borrower benefits from lower interest costs from federal and state tax exemption

LOAN PROGRAM ACCOMPLISHMENTS

The "farm loan" program continues to benefit from the use of the "Reserve for Farm Loans" that was established as a trust fund at the outset for NCAFA. During the years, several additions were made to the reserves bringing them to a cumulative total of **$2,300,000 since formation in 1986**. Since FY2001-2002 NCAFA has not received any additional General Fund appropriations.

North Carolina Agricultural Finance Authority
Report as of January 7, 2015
CURRENT PORTFOLIO

Present Portfolio Outstanding Principal (NCAFA)	$ 5,660,778
Present Portfolio Outstanding Principal (NCRRC)	$ 158,272
Present Portfolio Outstanding Principal (Small Family)	$ 41,111

HISTORY
June 1987 thru January 7, 2015

Total Direct Loans	$64,189,895
Participating Credit	$12,619,438
Total Originations	$76,809,331

Recent Loans:

Although it has been difficult to find new borrowers who can qualify for loans NCAFA is processing $4,157,000 in loans which will be closed in Fiscal Year 2015. This will be a total of $4,977,680 in loans for Fiscal Year 2015. This is an increase from Fiscal Year 2014 by 436%. Fiscal year 2014 had an increase from Fiscal Year 2013 of 170%.

These loans will be sold in the secondary market after they have been closed. NCAFA will have a total of $5,966,000 to sell. Loans sold in the secondary market have been averaging selling at 10% above par.

Potential Losses:
NCAFA currently has no troubled loans.

NORTH CAROLINA AGRICULTURAL FINANCE AUTHORITY
GREEN COMMUNITY PROGRAM FOR RENEWABLE ENERGY

The North Carolina Agricultural Finance Authority (the "Authority") has established a loan program to promote the development and implementation of renewable energy resources on agricultural land across the State of North Carolina (the "State") in order to encourage alternative use of agricultural property and to promote energy conservation and renewable energy production in conjunction with agricultural activities (the "Program"). The Program will assist applicants to finance "green" energy conservation projects that are located on, or otherwise have a strong nexus to, agricultural land or agricultural activity. Under the Program, the Authority will issue qualified energy conservation bonds ("QECBs") under section 54D(e)(4) of the Internal Revenue Code of 1986, as amended (the "Code"), and use the proceeds to make agricultural loans under Chapter 122D of the North Carolina General Statutes (the "Act") in order to finance qualified energy conservation projects (as defined in the Code and related Internal Revenue Service publications). This program is intended to be a "green community program" under § 54D(f)(1)(A)(ii) of the Code, as interpreted in IRS Notice 2012-44 issued in June, 2012 (the "Notice").

Green Community Program. Under the Code and the Notice, the purpose of a "green community program" is to promote the purposes of energy conservation, energy efficiency, or environmental conservation initiatives relating to energy consumption, broadly construed. A green community program must involve a loan (or other repayment mechanism) or grant program that is broadly available to members of the general public, including individuals or businesses. A green community program need not affect the entire geographical area or all the residents and businesses within the jurisdiction of the entity that implements the program, so long as the program broadly benefits the general public, residents or businesses in the affected area of the State.

The Authority is creating this green community program in order to provide financing throughout the State for persons and entities who are installing and operating qualified conservation projects on agricultural land. Any person or entity who meets the criteria set forth in this Program description and the application is eligible to participate. The requirements that a Project must meet in order to qualify for consideration in the Program are set forth below.

Qualified Conservation Purposes. In order to be considered for approval, a Project must meet the requirements of a "green community program," and promote the purposes of energy conservation, energy efficiency, or environmental conservation initiatives relating to energy consumption, broadly construed. The Authority will consider applications for loans to finance such projects that include distributed generation initiatives or rural development involving the production of electricity from renewable energy and other qualified conservation purposes.

The types of projects that the Authority will consider financing include the following:

- Rural development involving the production of electricity from renewable energy sources (as further defined in Section 45(d) of the Code), including:
    - Wind energy facilities

- Closed loop biomass facilities
- Open-loop biomass facilities
- Geothermal facilities
- Solar energy facilities
- Small irrigation power facilities

- Distributed Generation Initiatives (involving the generation of electricity from multiple renewable energy sources)
- Research facilities to support research in the following areas:
  - Development of cellulosic ethanol or other non-fossil fuels
  - Technologies for the capture and sequestration of carbon dioxide produced through the use of fossil fuels
  - Increasing the efficiencies of existing technologies for producing non-fossil fuels
  - Automobile battery technologies and other technologies to reduce fossil fuel consumption in transpiration
- Demonstration projects located on agricultural land and designed to promote the commercialization of:
  - Green building technology
  - Conversion of agricultural waste for use in the production of fuel or otherwise
  - Advanced battery manufacturing technologies
  - Technologies to reduce peak use of electricity, or
  - Technologies for the capture and sequestration of carbon dioxide emitted from combusting fossil fuels in order to produce electricity

<u>Agricultural Nexus.</u> Once an applicant has determined that its project promotes a "qualified conservation purpose," in order to be included in the Program the applicant must also demonstrate that the Project has a significant nexus to agriculture, defined for this purpose as "the commercial production, storage, processing, marketing, distribution or export of any agronomic, floricultural, horticultural, viticultural, silvicultural or aquacultural crop including, but not limited to, farm products, livestock and livestock products, poultry and poultry products, milk and dairy products, fruit and other horticultural products, and seafood and aquacultural products." NCGS §122D-3(2). Such a nexus could be demonstrated by locating the Project on land that is leased from an owner who is also using the land for agricultural purposes, or the pursuit of some form of agriculture on the same land, or use of agricultural products or by-products as part of green energy production.

<u>Description of the Program</u>. The Authority intends to make the Program available across the State to any person or entity who meets the qualifications for a loan from the Program. The Authority does not intend to lend its own funds to Participants; rather, the Authority intends to

apply to the North Carolina Federal Tax Reform Allocation Committee ("TRAC") for an allocation of qualified energy conservation bond authority that the Authority will then use to allow loans to qualified applicants to be qualified as QECBs under the Code. The participant is responsible for locating a lender who is willing to underwrite a loan to the participant for the project, or to place the loan in the financial marketplace. Note that any placement of the debt is limited to banks, insurance companies, or "qualified institutional buyers" within the meaning of Rule 144A of the Securities Exchange Act of 1934, as amended. THE QECBS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF NORTH CAROLINA OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF, INCLUDING THE AUTHORITY, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES AND OTHER FUNDS PROVIDED UNDER THE PROPOSED AGREEMENTS WITH THE APPLICANT.

If an applicant is approved to participate in the Program, the Authority will sub-allocate a portion of the allocation of QECB authority to that participant, and the loan obtained by the participant will be eligible to be treated as a qualified tax credit bond under Section 54D of the Code. At the participant's election, the Authority will designate the QECB relating to that participant's project as a direct payment bond under Section 6431 of the Code, which will entitle the participant to a payment from the United States Treasury of an amount equal to the lesser of the interest rate actually paid with respect to the loan, and 70% of the lesser of the interest actually paid and the interest that would have been paid if the interest were calculated at the rate shown on the qualified tax credit web page (*https://www.treasurydirect.gov/GA-SL/SLGS/selectQTCDate.html)* on the date the bonds are sold (or the date on which the bank and the participant sign a binding agreement if a private placement).

<u>Green Community Program.</u> Because the Program is a green community program under Section 54D of the Code, defined as a program to make loans, grants or other repayment mechanisms to public and private entities to finance qualified conservation purposes, bonds or debt obligations issued or entered into as part of a green community program are not treated as private activity bonds for purposes of §54D(e)(3) (which otherwise limits the amount of allocation for privately owned projects to 30% of total allocation).

<u>Application process.</u> An applicant for a loan through the Program must complete the attached application. Particular attention should be given to providing information as to how the Project qualifies as a "qualified conservation purpose" under Section 54D of the Code and IRS Notice 2009-29, and the nexus between the Project and agriculture.

Upon receipt and satisfactory review of the application, the staff of the Authority will give tentative approval to the Project, as evidenced by an approval letter that will include authorization for the participant to reimburse itself for Project expenditures from the proceeds of the QECB, as required by the Code. The Authority's acceptance of a Project for inclusion in the Program is not an endorsement of either the feasibility of the Project or the validity of its financial operations. The Authority will then allocate a portion of the QECB allocation it has already received for the Program to the Project, or, if it does not have any available QECB allocation, include the Project in the amount requested for the Program in its next request for allocation to TRAC. The Authority will cooperate with the Borrower and the participant in the closing of the loan. The participant will have 120 days following receipt of allocation to close the loan, unless a shorter or longer period is required or allowed by TRAC.

By submitting an application, the applicant agrees (a) to provide to the Authority all information which it reasonably needs in connection with the issuance and sale of the QECBs including, without limitation, descriptions of and information regarding the Project or any part thereof, and any other information regarding the activities of the applicants as may be reasonably requested by the Authority or TRAC, including any certificates, representations or other evidence required thereby, and (b) to indemnify, defend and hold the Authority harmless against any loss or damage to property or injury or death of any person or persons occurring in connection with the financing, constructing, equipping or operation of the Project, including attorneys' fees.

Fees. The Authority will charge each participant a fee equal to 1% of the aggregate amount of the loan closed for that participant under the Program. Such fee will be due prior to or at the closing of the loan, and may be paid from loan proceeds to the extent permitted by the Code. The participant will be required to pay all of the Authority's fees and out-of-pocket expenses relating to the Bonds and the Project, including in particular the reasonable fees and expenses of the Authority's counsel and bond counsel, and the fees charged by any underwriter, placement agent or lender in connection with the QECB or the project.

BOND PROGRAM ACCOMPLISHMENTS

Since the program's initiation in 1995 NCAFA has issued **$54,322,711** in **tax exempt** and **Qualified Energy Conservation Bonds (QECB)** to agribusiness in North Carolina.

	Bond Purpose & County	Bond Amount	Date of Issue
Tax Exempt Bond Program			
1	Cotton Gin Craven Co.	$3,240,000	5/20/1995
2	Cotton Gin Duplin Co.	$1,600,000	9/14/1995
3	Cotton Gin Beaufort Co.	$3,000,000	4/30/1996
4	Cotton Gin Wilson Co.	$3,370,000	5/30/1996
5	Lumber Drying Davidson Co.	$2,000,000	4/21/1997
6	Ham Processing Lenior Co.	$7,000,000	4/1/1998
7	Cotton Gin Hyde Co.	$5,400,000	3/25/1999
8	Lumber Processing Pasquotank County	$6,000,000	10/5/2000
9	Cotton Gin Wayne County	$3,700,000	10/4/2001
10	Cotton Gin Pitt County	$4,500,000	12/4/2001
11	Cotton Gin Chowan County	$3,400,000	12/6/2001
12	Solid Waste Compost Manufacturing Chatham County	$3,600,000	12/17/2003
	Total Tax Exempt	**$46,810,000**	

Bond Purpose & County		Bond Amount	Date of Issue
Qualified Energy Conservation Bond Program (QECB)			
13	Avery Solar Project O2 Energies, Inc.	$1,997,711	3/20/2012
14	Maybery Solar Project O2 Energies, Inc.	$2,215,000	5/15/2012
15	Sandy Cross Solar Project O2 Energies, Inc.	$1,200,000	8/29/2012
16	Progress Solar Project O2 Energies, Inc.	$2,100,000	2/6/2013
	Total QECB	**$7,512,711**	

ADB Tax Exempt and QECB Combined Total $54,322,711