

## BEGINNING FARMER LOAN PROGRAM (AGGIE BOND) INTEREST RATE PRICING

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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.

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**Please direct Beginning Farmer Loan Program questions to:**

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