PDA Celebrates First Use Of Next Generation Loan Program

(Continued from Page A1)

of small business loan. This type of loan has been available for years to non-agricultural businesses.

For years, many farm families have been more or less forced out of passing their farm onto the next generation because of high startup capital needs, low margins of profit, reluctance of lenders to invest in unpredictable operations, and heavy inheritance taxes.

In other words, farm families often haven't been able to afford to sell or give their farm to their children, especially since the 1970s when land prices began to rise dramatically in response to urban sprawl, demand for recreational properties, and demand for investment protection of assets.

Meanwhile, property taxes have increased and costs of production have increased, while agricultural profits per acre have not made such strides.

The system has worked against farm families passing on the land for farming, instead making it much easier — through several channels — for family farms to be sold and ultimately converted into real estate development or other use that yields high profits on the short-term, but ultimately destroys the agricultural value of the land.

However, for years small "main street" businesses in Pennsylvania with industrial development authorities or commissions have been able to benefit from a special loan program administered through the state Department of Economic Development, whereby a lender could avoid paying federal income taxes on certain loans to small businesses made through an industrial development authority.

Now that program has been expanded to agriculture.

The removal of federal taxes on loan profits to the bank provides an incentive to lenders to make lower interest loans.

In actuality, the loans are made through a local industrial development authority (IDA) which acts as a third-party non-lien interest in the loan. The secretary of the state Dept. of Economic Development must sign off on each loan. The bank essentially makes the loan only after the local IDA approves it and the DCED approves its tax-exempt status.

There is a $250,000 maximum limit on this type of lending, and it is somewhat restricted in the purchases that can be made with the loan.

The program itself has at least a $10 million cap in tax-exempt loans that could be made every year. That means that, theoretically, up to 40 farm families could each loan the $250,000 maximum each year.

According to state officials, more farms than that transfer ownership every year.

Those involved with the state's agricultural community have in the past often questioned the logic in not extending the tax-exempt business loan program to farmers.

State Secretary of Agriculture Samuel E. Hayes Jr. on Monday said that during his years as a representative in the state House of Representatives, he often wondered why the program wasn't made available to farmers. He said that as agriculture secretary he has had an opportunity to do something about it.

The result is a collaborative program between the state departments of Agriculture (PDA), and Community and Economic Development (DCED).

On Monday, Secretary Hayes presented a plaque and congratulations to Michael Kennis Jr. and his family upon being the first participants in the Next Generation Farmer Loan Program.

The presentation was made during a late morning ceremony on the loft floor of a bank barn on 175-acre farm being purchased by Michael from his two aunts, Florence and Susan Haag.

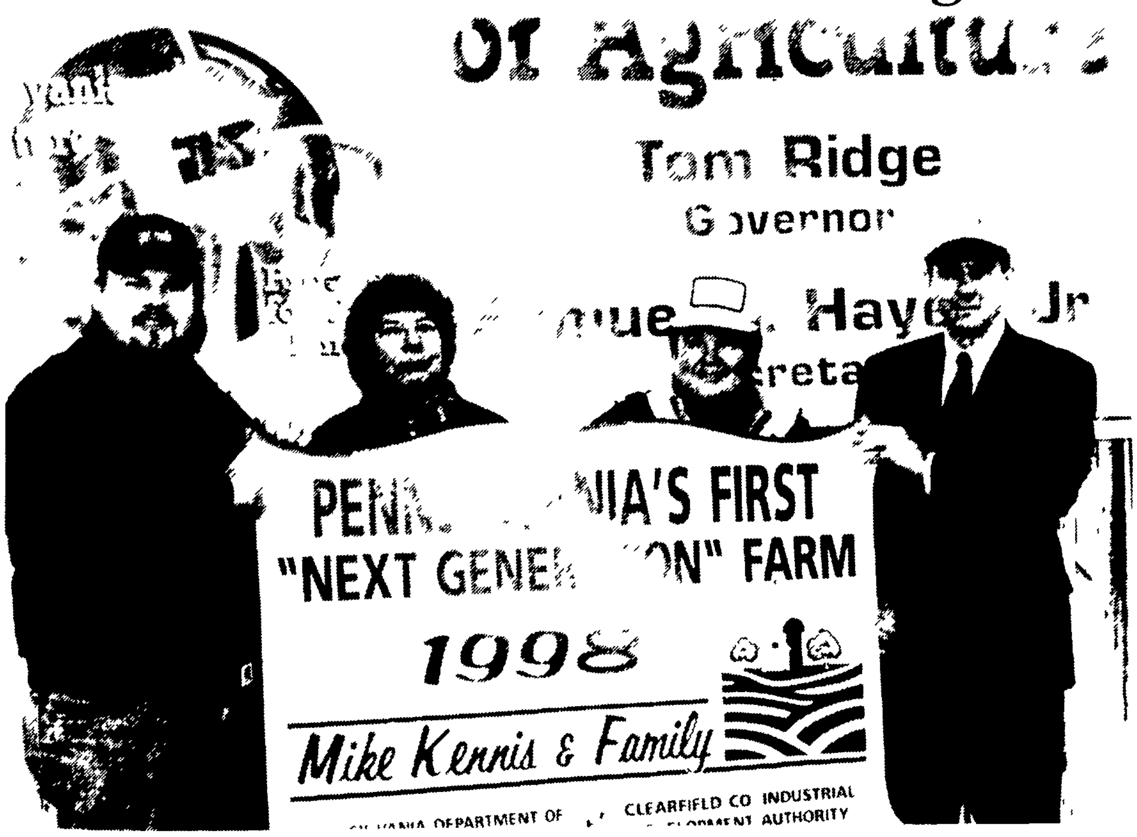
In addition to Secretary Hayes, about 50 people attended the event, including Deputy Agriculture Secretary Russell Redding in charge of the program for PDA, several regional PDA directors, a representative of the bank making the loan, the president and leadership of the state FFA, state Alternate Dairy Princess Lacey Jean Zakostelecky, a couple of local state representatives, friends of the Kennis family, and several different people involved with the Kennis dairy farm operation.

The bank involved in making the loan is the Savings and Trust Bank of DuBois. The lender's knowledge of the tax-exempt lending program, of agriculture, the dairy industry, and the Kennis family, helped make the first loan possible.

The Clearfield County Industrial Development Authority is the catalyst for making the loan opportunity. Its director, Linda Thomson, said she was glad the CCIDA was able to help make the loan possible for the Kennis family, and she also said the bank had to be credited with making the loan.

Michael's aunts, and his parents Michael and Linda, are responsible for making it possible to take advantage of the opportunity. The aunts, Florence and Susan Haag, have agreed to sell the farm for a portion of its assessed value, which is enabling Kennis to be able to use the bulk of the loan to purchase farm equipment, milking

(Turn to Page A26)



State Secretary of Agriculture Samuel Hayes Jr. presents a plaque documenting the first loan through the new Next Generation Farmer Loan Program. From the left are loan recipient Michael Kennis Jr., his aunts Florence and Susan Haag from whom he is buying a farm, and Secretary Hayes.