Equipment finance helps drive growth in the agriculture industry:

Cost-effective Financing

According to the United States Department of Agriculture, agriculture and agriculture-related industries contribute more than $980 billion to the U.S. gross domestic product. America's farms alone contribute more than $170 billion of that sum.

Although it is widely known that agriculture is one of the largest contributors to our nation’s economy, what many do not realize is that on average, farmers and ranchers receive only about 16 cents out of every dollar spent on food. At the same time, agriculture producers must make near-constant investments in equipment, technology, and other resources to maintain their operations. Many are interested in options that enable them to upgrade machinery or take advantage of advances in technology without a large outlay of cash.

For these farmers, ranchers, and growers, equipment financing may be the answer. A variety of equipment financing tools is available to agriculture producers and food processors, including one designed specifically for single-purpose agricultural structures, such as potato storage, onion storage, grain storage, and cold storage.

Types of financing

Some of the most frequently used equipment financing options for agriculture producers include:

- Loan financing
- Capital or operating lease
- Single-purpose storage financing, which may be a loan or a lease

Typically, a loan is the most popular equipment financing choice for those who can use the depreciation benefit and qualifying tax credits, if applicable. If a producer does not need the depreciation benefit or doesn’t value the depreciation, then an equipment lease might be a better value because it offers a lower rate, improves cash flow, and provides other benefits.

Leasing options

The two most common types of equipment leases are the capital lease and the operating lease. A capital lease, also known as a finance lease, offers the widest flexibility of term length, which can help keep payments low. Capital leases also provide a variety of tax benefits, including the ability to write off depreciation and interest expense for the acquired equipment on the grower’s P&L, and often on income taxes. Capital leases can be structured with a variety of options at the end of the lease term. This can include purchasing the equipment for $1 or for a stated purchase amount. Some capital lease structures also allow for lease renewals, usually at a pre-determined price.

With an operating lease, the grower or food processor is able to deduct the entire lease payment on its P&L. An operating lease also provides significant cash flow benefits to the lessee because the lessor invests its own equity in the equipment or storage facility, which is known as taking a residual position.

Operating leases also typically qualify as a tax lease – meaning the equipment leasing company utilizes the tax benefits associated with equipment depreciation, passing the savings on to the lessee in the form of lower monthly payments. This is especially helpful
to growers and food processors who can't take the depreciation themselves, often because they've maxed out their tax deductions or are trying to use up tax credits carried forward from prior years. At the end of an operating lease, the equipment or storage facility can be purchased, returned to the leasing company or the lease can be renewed.

**Storage financing advantages**

Single-purpose storage financing is a unique product that offers specific advantages to a grower or food processor. This equipment finance option allows agriculture producers to obtain or construct single-purpose agricultural structures while avoiding the down payment, encumbrances, fees, costs, and paperwork associated with a real estate mortgage.

**Benefits add up**

Conserving cash and credit lines are two of the most important reasons agriculture producers finance equipment. Other benefits include:

- **Up to 100% financing**: Farmers, ranchers, and growers can bundle all project costs into one plan, including sales tax, labor, equipment, and freight.
- **Reasonable amortization schedules**: can be matched to the agriculture producer’s budget and cash-flow requirements.
- **Pricing** is competitive and provides the ability to lock in low rates and improve cash forecasting.
- **Flexible payment options**: can be designed to complement seasonal cash flow requirements.
- **Financing fees** are typically less than traditional mortgage financing or term loans.

With single-purpose storage financing, a ground lease is defined by a site survey and the legal description is filed on the specific property associated with the storage for $1 per year. The agriculture producer leases the ground to the finance partner, which enables the finance company to lease the storage facility back to the producer. This allows the agriculture producer to avoid a down payment and the high costs associated with a real estate loan. Because it is considered an equipment lease, other collateral or encumbrances are typically not required. The agreement is structured to ensure the agriculture producer absolute ownership at or near the end of the lease term. The benefits to a grower or food processor, whether a loan or a lease, are significant. Anyone who is planning to build a storage facility or make improvements to a facility should consider single-purpose storage financing.
Choosing a financing partner

It is important to choose an equipment finance partner carefully because there are numerous options available. Be sure to work with a company that understands all programs available to your business and which will best meet your needs. Look for a financially strong and knowledgeable partner that offers expert guidance, understands the unique needs of your business, and has the industry experience necessary to serve as a trusted and reliable source of information.

Also, make sure that partner understands equipment financing, leases, and other debt products serving the agriculture industry and has a track record of stability and long-term business partnerships.

Together, agriculture producers and their finance partners can ensure that individual farms, ranches, and other agribusinesses can take advantage of new equipment and remain competitive, helping fuel the economy into the future.

Learn more about KeyBank’s experience and expertise in the Food and Agribusiness Industry, as well as Equipment Financing to tap into the power of unrealized opportunities. Visit us at key.com/agribusiness.