

LEASING

Livestock Production Facilities and Related Equipment

What can be leased?

The facility and all equipment relating to the facility can be leased. The producer pays the site preparation and site improvements, well, utility hookup, construction of the manure storage system (if any) and any other costs not directly related to the facility.

Who owns the facility and equipment?

Although the producer selects the facility design, brand, contractor(s) and negotiates the price; the facility and equipment are sold to AgStar, who becomes the owner and claims the depreciation. The producer, in a properly structured lease, can deduct the entire lease payment as an expense on their income tax return.

What percentage of the facility and equipment cost will AgStar lease?

100% of the sales price.

Does AgStar require any additional collateral to secure the lease?

AgStar will require a long term easement of 20 years(MN) and 15 years(WI) from the owner of the underlying real estate site. The size of the facility site acreage will be determined on a case by case basis, but at a minimum will include enough acreage to operate in and around the facility, plus include the waste storage system (if any). The facility site must be separate from, and not close to, any other buildings and free from any mortgages or liens. It should have its' own well, electrical hookup and access to a public road. In addition

AgStar will require agreements that allow the facility site operator access to a sufficient amount of real estate to properly dispose of the manure generated by the facility. Depending on the credit strength of the transaction, AgStar may also require a modest security deposit or other credit enhancement.

What lease terms are available?

For a lease that includes both the building and equipment, a lease can be written for 5, 7, or 10 years. The producer has the option of annual, quarterly or monthly payments, with the first payment due at lease closing.

What happens at the end of the lease term?

The producer has the option, but not the obligation, to purchase the facility under lease for an amount that ranges from 25 to 10 percent of the original lease amount. The exact amount will depend on the length of the lease and the nature of what is being leased. Also, at the end of the lease term, the producer may return the facility or the right to operate that facility. An option to re-lease the facility for an additional period of time may also be offered.

Who is responsible for maintenance, taxes and insurance?

Even though the facility is owned by AgStar, the producer assumes this responsibility.



ADVANTAGES

of Leasing from AgStar Financial Services

Facility leasing through AgStar has rapidly gained acceptance as an attractive alternative to owning for the following reasons:

Leasing is project-based financing, no mortgages are filed and no additional collateral is required.

Leasing conserves working capital, it's 100% financing on items being leased.

Construction financing is built into the lease.

There is no need to arrange a separate construction loan. AgStar will pay all bills related to what is being leased as they come due.

Lease payments and optional purchase option at the end of the lease are fixed for the life of the lease, which simplifies cash flow planning and reduces risk.

Lease payments are fully tax deductible.

Your income tax deduction is level throughout the lease term. With a loan, your tax deduction starts high (interest expense & depreciation) and falls throughout the loan term. Contract growers with loan financing may face a significant tax liability at the end of the loan term, and no incremental contract revenue increase to pay for this larger tax bill.

Lease terms are structured to the specific needs of the producer up to 10 years for those who are cash flow oriented. As short as 5 years for the producer who wants to reduce their income tax bill.

A properly structured lease can be a powerful estate-planning tool.

For producers with G.A.A.P. financial statements

Leases may be structured as "off balance sheet" transactions for the producers' financial statements.

A lease is less likely to disrupt other lending relationships.

Leasing from AgStar provides a comparable cost form of financing over a conventional loan of similar terms.

Look at all the features of a lease from AgStar. You may conclude that it is your best option!

Call the AgStar Leasing Group to learn more about leasing. We can be reached at 1-866-529-2080.

