



July 15, 2025

To Whom It May Concern,

The purpose of this letter is to help provide additional information regarding the process and rationale by which a rural property may be parceled off to create a rural residence from a financial perspective. As a local agricultural banker for over 10 years, I have assisted and advised a great many landowners with the subdivision of operational farming property into separate tracts assessed residential and agricultural, and I have found that each property owner may have his/her own reasons for doing it. Among the more frequent motives are banking regulations and estate planning. I will focus on these in this letter.

Driven by federal or state regulators, the limitations of banks to lend to customers is based on the "use" of the funds, not the "source" of the funds. This is key to understanding rural subdivisions. By mandating that a loan must align with the use of the loan proceeds, regardless of the collateral that may be offered, an agricultural operation cannot borrow against agricultural real estate, of which it may have plenty, to finance construction, refinance existing debt, or cash out equity on a rural home. The borrower must use the residence itself as the collateral for a loan whose express purpose of the funds is use on the residence itself. This has forced farmers and ranchers to subdivide their homes as their banks cannot legally lend on, say, a corn field to finance a kitchen remodel, even in that farmer's own home! While the nature of the rural residence is unchanged, it is the home of the farmer/rancher, the nature of the financing has changed. Rural residents have responded because of these regulations, which are strictly enforced by federal and state banking regulators.

With regards to estate planning, subdividing is a common strategy, especially for multi-generational agricultural operations. Retiring farmers/ranchers will often transfer ownership of the business to the next generation. Much of the value of this transfer involves real estate, and for a myriad of reasons the home may be treated differently than the pastures or cropland, and therefore a simple subdivision of the property can help with the transfer without forcing a premature sale. Perhaps the older generation would like to remain in the home for their retirement, or an heir would like to come home, or the family just doesn't want to part with the home. Whatever the reason, splitting off the "home" from the "farm" is smart strategy that I encourage as retirement approaches. It allows for business continuity, flexibility, and can support a successful transfer of the business, which is a critical component to our agricultural community.

Rural tracts, whether developed or not, represent an attractive option for families to consider moving to our rural communities, while offering our agricultural landowners potential for putting marginal or underutilized land to productive use.

Sincerely,

Nate Merrigan
Relationship Officer, Alliance NE
Farm Credit Services of America