

HOW DO WE TRANSITION OFF OUR FARM?

FARM
TRANSITION
LOAN



HEARTLAND
BANK

New Zealand's Specialist Bank

You've worked hard, endured droughts, enjoyed record incomes, and achieved a great deal over the years.

Now the time is approaching to leave your farm. You want to do that on your terms, in your time. You only have one opportunity to get it right and to maximise the value of your life's work, as well as having certainty for your future.

A Heartland Farm Transition Loan will allow you to borrow against the equity in your farm now – realising funds that could be used to:

- carry out deferred maintenance on the farm;
- make those farm improvements that you just haven't had the cash flow to get done;
- buy your next home to provide certainty for your family; or
- help your children get established.

In this brochure we explain in some detail exactly what the **Heartland Farm Transition Loan** is, how it works and how it could help you. This type of loan may be a new idea for some, so if you need more information, please remember we are only a phone call away to answer any of your questions – simply call one of our Rural Managers on 0508 432 785.

At Heartland Bank, we pride ourselves in finding products for people, not people for products.

We're the specialist bank that helps you **Do More**.



How the Heartland Farm Transition Loan works

What is a Heartland Farm Transition Loan?

Many farmers have worked a lifetime to build a farming business that holds the majority, if not all of their wealth. By accessing some of this wealth without having to move now, you can do the things you need, or have always wanted to do – or set up the farm for eventual sale.

The Heartland Farm Transition Loan, being a loan that is secured by your farm, enables you to use some of the money tied up in your farm without having to sell it straight away.

You do that by taking out a loan that will be secured against your farm, where you are not required to make any payments (principal or interest) until the loan matures. The total loan amount, including accumulated interest (which is compounded and added monthly to the loan balance), is repayable when the loan matures – at which point it is likely that you will sell or otherwise transition from your farm.

You continue to own, operate, and live on your farm until the loan is settled or the property sold, benefiting from any potential increase in farm values. You do not need to make any regular repayments, although you are free to do so at any time.

What can I do with the money?

You can use a Farm Transition Loan (with our approval) for a wide range of applications. Anything from buying a retirement property, settling farm or family debt, carrying out improvements to your farm to improve its saleability, or a host of other things to make transitioning from your farm easier and more comfortable.

Who can apply?

Anyone who owns their own freehold dairy, sheep, beef or arable cropping farm can apply for a Heartland Farm Transition Loan.

Applications will be considered from sole traders, partnerships (with a maximum of three people), companies (where the farmer or farming couple are the majority shareholders) or Trusts (where the beneficiaries are the farmer or farmer's family).

Equity partnership operations, corporate farms, horticultural farms and farms under 50 hectares in size are not eligible for a Heartland Farm Transition Loan.

How much can you borrow?

You may be able to borrow up to a maximum of 45% of your farm's value (subject to lending criteria), with a minimum initial advance of \$100,000.

You can also apply for additional advances up to your maximum limit. Each additional advance must be for a minimum of \$10,000.

The Heartland Farm Transition Loan is designed to help you manage your financial requirements by accessing only what you need, as and when you need it.

Key features

- A loan secured by your farm
- Designed to help you transition off your farm
- 7 year term
- Ability to repay the loan at any time
- No repayments required during the term of the loan
- Principal and interest repayable at the end of the loan term
- Variable interest rate – interest compounded monthly and added to the loan balance

Lending criteria, fees and charges apply.

Heartland Farm Transition Loan Fees

The fees associated with a Heartland Farm Transition loan are detailed below. The Arrangement Fee will be charged in order to set up your Heartland Farm Transition Loan. This Arrangement Fee will be deducted from your initial drawdown under the loan.

Arrangement Fee For setting up your loan	\$1,200
Variation Fee For processing a variation to your loan	\$200
Discharge Fee For discharging your loan at the end of the term	\$100
Additional Advance Fee For processing an Additional Advance	\$175
Arrears Fee For the collection of arrears (if required)	\$250

You may be required to pay other fees and charges for additional services or on default. Unless otherwise specified, all fees and charges will form part of your loan balance and accrue interest. All fees and charges are subject to change.

Farm Valuation

The Heartland Farm Transition Loan requires that a valuation be obtained on your farm. Heartland Bank will arrange for this valuation to be undertaken however you will need to pay the cost of this directly to the valuer.

Legal work

Heartland Bank retains its own legal firm to act for the Bank, and you are not required to pay additional fees to cover Heartland Bank's legal work.

To protect your interests, your own legal adviser should act for you. Your solicitor will advise you about their charges for completing the necessary legal work. You will be responsible for your own solicitor's fees.

Interest rates

Interest will be charged at our applicable published variable market rate. Being a variable interest rate, it is subject to change. Should the interest rate change, we will notify you of that change.

Interest is calculated on the daily balance and, if you choose, can be compounded and added monthly to your loan balance. The loan balance is paid, including all accrued and (if applicable) compounded interest, at the end of the loan period.

If you choose not to make interest payments during the loan term, the interest that accrues on the loan will itself bear interest. That means the amount of your loan will increase over time until repayment.

Keeping track

To help you monitor your loan, we will send you a statement every six months showing you details of your loan over the previous period, including interest.

After 7 years

Your loan must be repaid after 7 years, at which time you must repay the loan and all amounts you owe us, including any accrued compound interest. You could achieve this by either:

- selling your farm - in which case you should make necessary arrangements ahead of time; or
- refinancing the loan. If you wish to refinance with us, you will need to meet our credit criteria at that time.

Your obligations under the Heartland Farm Transition Loan

Farm maintenance

The value of your farm is fundamental to your Farm Transition Loan and the amount of equity that will remain for you, as the sale of your farm is expected to be the primary source of repaying the loan. For this reason, it is important that you continue to look after your farm, making necessary repairs as required and protecting it from damage or de-valuation.

We will visit your farm at least annually to talk to you about the Farm Transition Loan and determine if we feel any work may be required to maintain the value of your farm. If any remedial work is required, we will discuss this with you and give you a reasonable amount of time to rectify things yourself.

Security position

As security for your loan, Heartland Bank must have the first and only mortgage on your farm. This means you will be unable to take out another mortgage on your farm from a different company. Heartland Bank may be able to provide you with other loans to support the farm operation.

However, if you are unable to repay us at the end of the 7 year term, we have the right to sell your farm and to use the sale proceeds to repay the loan. In that case you would receive any net proceeds of sale.

Purpose of the loan

You must use the funds from your Heartland Farm Transition Loan for the purpose detailed and approved when you took out the loan.

Other obligations

You will also need to continue to pay your rates, adequately insure your farm, not allow any water rights or consents to lapse, and comply with all necessary legal requirements. You will not be able to lease out any section of your farm without our approval.

With Heartland you are protected

Ownership of your farm

You retain ownership of your farm until its sale, and continue to enjoy any increase in its value.

Independent legal advice

For your protection it is a requirement that you receive independent legal advice from your own freely chosen solicitor.

Independent financial advice

We strongly recommend that you talk to your financial adviser or accountant and your family when considering a Heartland Farm Transition Loan.

30-day cooling-off period

We are committed to ensuring you are 100% comfortable and happy with your decision to take out a Heartland Farm Transition Loan. That's why we offer a 30-day cooling-off period, which means if you change your mind within 30 days of taking out your loan, you can simply pay it off and we will refund our Arrangement Fee in full.

Example of a Heartland Farm Transition Loan

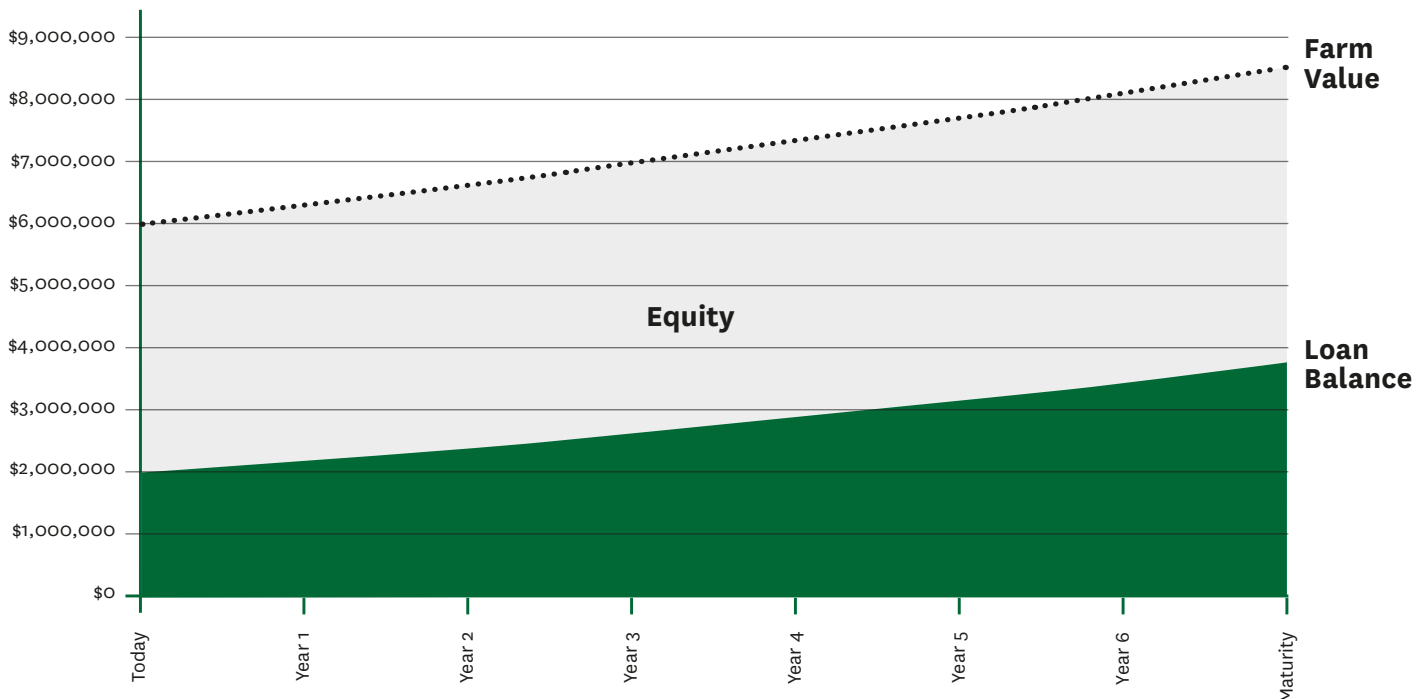
We are often asked how a Heartland Farm Transition Loan adds up over time, and how much equity will remain in the farm. We have therefore prepared the following example for a fictional farm, based on a typical Heartland Farm Transition Loan farm value, loan amount and term.

When applying for their Heartland Farm Transition Loan, the farming couple:

- Have a farm valued at **\$6,000,000**.
- And apply for a loan of **\$2,000,000**.
- The average interest rate during a 7 year loan period is assumed to be **9%** per annum.
- The average farm price inflation rate is assumed to be **5%** per annum.

The chart below shows the performance of the Heartland Farm Transition Loan against the potential value of the farm. The green area shows how much of that value will be used to repay the Heartland Farm Transition Loan.

The graph shows that under a farm value growth rate of 5% per annum, the value of the farm at the end of the loan period exceeds the loan amount by almost \$5 million. It is important to note that interest and farm price inflation rates may change, and that this example is a general illustration only and individual experience will be different.



This diagram is based on historical information and reflects a steady increase in property values. It is not a projection or illustration of future property values. Your relationship manager will take you through different loan-to-value scenarios using our online calculator.

The Heartland Farm Transition Loan - commonly asked questions

Will I still own my farm?

Yes, you will continue to own your farm and continue to live on it just as you do now. However, as this loan is to assist you to transition from the farm, it is expected that the repayment of the loan will usually come from the proceeds of the sale of your farm, leaving any balance to you.

You should make appropriate preparations for sale of your farm well before the loan term ends.

How do you value my farm?

To allow us to establish the value of your farm, and therefore calculate how much you will be entitled to borrow, we will need to assess both the value and condition of your farm. We will arrange for a registered valuer to visit your farm to assess its value, and a copy of this assessment will be provided to you. You will need to pay for the cost of this valuation, which will depend on the location and value of your farm. Contact us for further details of this valuation cost.

How and when is my loan repaid?

With a Heartland Farm Transition Loan you do not need to make regular repayments. The loan balance, including all accrued and compounded interest, is only due to be repaid when the loan matures.

The loan is usually repaid from the sale proceeds of your farm, and the balance is then retained by you.

Although the Heartland Farm Transition Loan is designed to last for a fixed term agreed at the start of the loan, you may repay all or part of the loan at any time without penalty (provided that if the loan is not repaid in full, that the remaining balance will be at least \$10,000), providing you with flexibility to manage your finances in the way that suits you best.



What if I have a concern, complaint, or want to provide feedback?

Heartland Bank is proud to offer customers a high level of service, and your satisfaction is very important to us. If you wish to raise a concern or complaint about our service, or offer feedback, we encourage you to contact us.

- In the first instance, please get in touch with your Rural Manager at Heartland Bank and we will make sure your complaint is investigated promptly; or
- Email us at complaints@heartland.co.nz or call us on 0508 432 785 and ask to speak with a member of the Risk and Compliance team.

If a solution can't be found or you are unsatisfied with the outcome, you can contact our approved dispute resolution scheme being the Banking Ombudsman, an independent party who helps sort out unresolved complaints. This service is free of charge. You can contact the Banking Ombudsman at:

Banking Ombudsman Scheme

Address Freepost 218002, PO Box 25-327,
Featherston Street, Wellington 6146

Telephone 0800 805 950 / +64 915 0400

Email help@bankomb.org.nz

What's the next step?

If you'd like to know more, it's free to call us at any time. We will be able to answer any additional questions you may have, provide you with our full disclosure information, or help you to make an obligation free appointment to talk to a Heartland Bank Rural Manager.

Call us TOLL FREE on 0508 432 785

www.heartland.co.nz

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BANK

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