

LOAN PARTICIPATION PROGRAM

PROGRAM SUMMARY



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IADD LOAN PARTICIPATION PROGRAM

The Iowa Agricultural Development Division (IADD) of the Iowa Finance Authority offers a Loan Participation Program (LPP) to assist lenders and beginning farmers with down payment assistance for the purchase of agricultural property. The maximum loan IADD will purchase is \$200,000 or 30% of the total project cost – whichever is less.

The LPP is designed to supplement the borrower's down payment so that a beginning farmer can secure a loan from a lender. The LPP has a last-in/last-out collateral position.

The LPP can be used in conjunction with IADD's Beginning Farmer Loan Program (BFLP), providing the borrower meets the criteria for both programs. In these instances, the lender has the borrower sign one promissory note to cover the loan funds to purchase the BFLP bond as well as the LPP funds. The participation may also be used in conjunction with USDA Farm Service Agency (FSA) Loan Programs. If eligible, FSA's loan guarantee can be used on the amount of the lender's participated amount (gross loan, less IADD's LPP loan amount). The guarantee will not include IADD's participated amount. FSA Guaranteed loans used in conjunction with an IADD loan program may be eligible for a guarantee fee waiver from FSA, please contact your local FSA office for more details.

Loans must be for new purchases of agricultural property; funds may not be used for refinancing, except for those instances when down payment funds are made for a new purchase no more than 60 days prior to the Authority's approval of the participation.

Purchases from closely related family members are eligible for the Loan Participation Program.

Eligible Borrower

The LPP has the same beginning farmer eligibility criteria as the other IADD programs.

- Must be at least 18 years of age. There is no upper age limit.
- Must be a resident of Iowa at the time of loan closing and throughout the duration of the participation. Project must be located in Iowa.
- Must have documented to IADD's satisfaction sufficient education, training, and experience for the anticipated farm operations.
- Must demonstrate access to adequate working capital, farm machinery, livestock, and agricultural land.
- Net worth of borrower cannot be more than the maximum allowable net worth.

The **maximum allowable net worth** for each calendar year is set each January 1 and is based on the USDA "Index of Prices Paid for Commodities and Services, Interest, Taxes, and Farm Wage Rates" reported as of October 1 of the immediately preceding calendar year. Check IADD website for current maximum allowable net worth, IowaFinance.com.

Eligible Projects

Assets purchased or constructed with LPP loan funds must be used for agricultural purposes. The agricultural property purchased with funds from a participated loan shall be used for farming only by the individual, the individual's spouse, or the individual's minor children.

LPP loans can be used for the following eligible purposes:

1. **Purchasing agricultural land**, which may include small acreages on which sufficient agricultural improvements are located to conduct a livestock operation. If a house is located on land for which an LPP loan is requested, an appraisal of the house must be done. **The appraised value of the house must be less than 50%** of the appraised value of the property or total collateral for the property to be eligible for an LPP loan.
2. **Construction or purchase of improvements located on agricultural land.** Examples of such improvements include, but are not limited to, confinement systems for swine, cattle, or poultry; barns or other out-buildings; grain storage facilities and silos.
3. **Purchasing breeding livestock** (livestock for which an income tax deduction for depreciation is allowed in computing state and federal income taxes).
 - a. Eligible livestock include, but are not limited to, swine, sheep, beef, and dairy cattle used for breeding purposes.
 - b. Feeder cattle, feeder pigs, feeder lambs, chickens, or turkeys **do not** qualify as depreciable property and **are not** eligible under the program. Other animals that would be ineligible under the program include horses and those classed as "exotic" such as llamas, fallow deer, ostriches and emus.
 - c. There are certain provisions included in the loan agreement regarding payments due to the death or sale of livestock included in the loan.
4. **Purchase of agricultural machinery and equipment** for which an income tax deduction for depreciation is allowed in computing state and federal income taxes. This machinery and equipment must be used in the borrower's farming operation.

Interim financing by the lender is allowable. If the project is for the construction of a facility, interim financing must be done until the project is complete and there is a final appraisal at which time the LPP loan can be funded.

Ineligible Projects and Activities

The following program activities are ineligible:

1. Refinancing of existing debt or new purchases which have been incurred by the borrower more than 60 days prior to approval of the LPP loan by the Authority.
2. Financing personal or living expenses and working capital to purchase such items as feed, seed, fertilizer, fuel, and feeder livestock.
3. Down payment for a contract sale, or in connection with a loan from a nonregulated lender.
4. Land with a house on it where the appraised value of the house exceeds 50% of the appraised value of the property or total collateral.

LPP Underwriting Criteria

- 1. Farm debt-to-asset ratio.** Borrower must have a farm debt-to-asset ratio of no more than 80% upon completion of loan closing. If the farm debt-to-asset ratio is greater than 60%, the borrower's projected term debt coverage ratio must be 120% or greater.
- 2. Ratio of current assets to current liabilities.** Borrower must have a ratio of current assets to current liabilities > 1.1 at the time of application.
- 3. Off-farm income.** Borrower may have off-farm income, but 50% or more of the projected gross income must come from the beginning farmer's farm income. This requirement is to ensure that farming is the main occupation of the borrower. Only the borrower's income is used for this calculation.
- 4. Debt coverage ratio.**
 - If Debt to Asset ratio is < 60% then DCR > 110%
 - If Debt to Asset ratio is > 60% then DCR > 120%

NOTE: If the borrower does not meet the underwriting criteria, the LPP can be approved if there is a guarantor. The guarantor would have to meet the credit criteria. If there will be a guarantor for the loan, the guarantor's financial statement must be included with the application and other financial documents may be required depending on what criteria is not being met.

LPP Loan Terms

- 1. Loan Amortization.** The principal payments on an LPP loan will be equally amortized as follows:
 - a. Real estate loan equally amortized for a maximum of 20 years with a balloon due at end of year 10.
 - 1) If using FSA program, a real estate loan can be equally amortized for 30 years with a balloon due at end of year 10.
 - b. Construction of Livestock facilities equally amortized for 12 years with a balloon due at end of year 10.
 - c. Machinery loan or livestock loan, including beef, dairy and/or sheep, equally amortized for 7 years.
 - d. Livestock loan for swine equally amortized for 3 years.
- 2. LPP interest rate.** The IADD board will set the interest rate on the LPP loan, see IADD website for current interest rate.
- 3. LPP loans outstanding.** Loans under the program may be issued more than once, provided that the outstanding LPP loan totals do not exceed \$200,000 to any single borrower.
- 4. Recording documents and fees.** Any recording or filing fees or transfer taxes associated with the participated loan will be paid by the borrower or lender and not IADD. Also, IADD will have no responsibility with respect to the preparation, execution, or filing of any declaration of value or groundwater hazard statements.
- 5. Fees.** The lender or borrower must submit a nonrefundable \$100 application fee when the application is submitted. A participation closing fee of 1.50% of the LPP loan will be paid by check to the IADD at time of closing. A minimum participation closing fee of \$300 will be charged.

6. Real estate collateral issues. A participated loan for real estate:

- a. Cannot exceed 100% of the appraised value of the real estate collateral.
- b. Any guarantee of repayment or pledge of additional collateral required by the lender to secure the participated loan shall secure the entire participated loan including the LPP loan.

LPP Application Procedures

- 1. **Application deadline.** Applications must be in the Authority's office by the 1st day of the month in order to be considered at that month's meeting.
- 2. **Application Requirements.** Lender and borrower are to submit a completed application with all attachments and \$100 application fee to IADD. A complete application includes all of the following items:

Application Packet

- Joint Loan Participation Program application (Signed by all borrowers and lender)
- Financial statement less than 1 month old (Signed by all borrowers and witnessed by lender)
- Completed Beginning Farmer background form
- Pro-forma (after-closing) financial statement
- Global Projected cash flow statement
- Prior three year's tax returns
- Credit Bureau report on the borrower

- 3. **IADD loan review/credit analysis and board decision.** IADD will review the application and make a recommendation for approval/denial to the IADD Board:
 - a. If approved, a "Conditional Commitment to Participate" will be sent to the lender.
 - 1) The "Conditional Commitment to Participate" will be valid for one year
 - 2) Once expired the project will need to go back to the IADD Board for approval and all new financial documents will be required.
 - b. If denied, the lender will be notified.

- 4. **Financial statement.** Lenders may use their own form of financial statement. IADD may require other forms deemed necessary and appropriate to document the eligibility of the borrower and the borrower's ability to make principal and interest payments.

NOTE: If the borrower or the borrower's spouse is involved in a business, partnership, limited liability company, or corporation, either related or unrelated to the borrower's farming operation, a financial statement from this entity must also be submitted with the application.

- 5. **Tax returns.** A copy of the borrower's prior three years' federal income tax returns (if available) shall be submitted.
- 6. **Background letter.** The application will also include a background letter on the borrower, documenting to the satisfaction of the authority sufficient training, experience and access to capital. The background form included in the application can satisfy this requirement.

- 7. Credit evaluation.** The lender will submit a credit evaluation of the project for which an LPP loan is sought. The lender will evaluate the borrower's net worth and ability to pay principal and interest and certify the sufficiency of security for the participated loan. IADD will review the application and make its own credit evaluation prior to issuance of an LPP loan. Such evaluation will center on whether:
- a. The borrower adequately demonstrates the ability to service the debt requirements of the participated loan based on cash flow, net worth, down payment, and collateral pledged for the participated loan.
 - b. The borrower provides sufficient collateral to adequately secure the participated loan and keep the participated loan collateralized throughout its term.

LPP Closing Procedures

1. IADD conditional commitment. If the application is approved, a Conditional Commitment to Participate and a LPP Closing Request Worksheet will be sent to the lender.

2. Two weeks prior to loan closing, Lender will submit to IADD:

- 1) LPP Closing Request Worksheet
- 2) Signed Conditional Commitment to Participate
- 3) Preliminary title opinion on real estate collateral (if applicable)
- 4) Appraisal (third-party appraiser)
- 5) Copy of UCC search on the borrower
- 6) Copy of all promissory notes to be used for the project, including borrower information, loan terms and pledged collateral. (If the project is used in conjunction with the Beginning Farmer Loan Program (BFLP), IADD will provide a joint promissory note for the BFLP and the LPP).
- 7) Amortization schedules for all promissory notes for the project
- 8) Copy of ALL Security Documents being used as collateral (Including but not limited to mortgages, security agreements, guarantees, etc.)
 - All collateral should specifically list the bank loan(s) and LPP loan as "notes".
- 9) Copy of bill of sale, purchase agreement, or sales receipt of purchase(s) (if applicable)
- 10) ACH Instructions (Bank routing number and account number)

3. After the documents have been approved by the IADD attorney, IADD will submit to lender:

- 1) Via email, the Loan Participation Certificate and Agreement to be signed and returned via email to the IADD office at least 3 days prior to the closing date.
- 2) After receipt of signed Certificate and Agreement, IADD will ACH the loan funds to the bank to be disbursed at closing.
- 3) IADD will mail the original Loan Participation Certificate and Agreement to be signed at closing.

4. After loan has closed the following forms must be sent to the IADD office:

- 1) Original signed Loan Participation Certificate and Agreement
- 2) 1.50% closing fee (minimum of \$300)
- 3) Copy of all signed Promissory Notes
- 4) Copy of ALL signed Security Documents being used as collateral (Including but not limited to mortgages, security agreements, guarantees, etc.)
- 5) Copy of recorded UCC filing
- 6) Copy of signed Feeding Contract (if applicable)
- 7) Copy of signed Assignment of Feeding Contract (if applicable)

5. A copy of the final title opinion must be sent to the IADD within 90 days after closing

NOTE: An LPP coupled with the Beginning Farmer Loan Program (BFLP) must close the same day.

LOAN ADMINISTRATION PROCEDURES

1. **Lender's responsibilities.** The lender is responsible for servicing the participated loan following accepted standards of loan servicing and transferring LPP loan payments to the Authority.
 - a. **The lender shall** (at the request of IADD):
 - 1) On an annual basis, provide the Authority with copies of a current financial statement or a current tax return, or both.
 - 2) Provide copies of insurance to the Authority with the lender named as loss payee.
 - 3) The lender will apply payments to the participated loan according to the IADD approved amortization schedule(s) or on a pro-rata basis.
 - b. **The lender shall not** (without prior consent of the Authority):
 - 1) Make or consent to any substantial alterations in the terms of any participated loan instrument.
 - 2) Make or consent to releases of security or collateral unless replaced with collateral of equal value on the participated loan.
 - 3) Use the collateral purchased with funds from the participated loan as security for any other loan without prior written consent of the Authority.
 - 4) Accelerate the maturity of the participated loan.
 - 5) Sue upon any participated loan instrument.
 - 6) Waive any claim against any borrower, consignor, guarantor, obligor, or standby creditor arising out of any instruments.
2. **Payment due dates.** Payment due dates for the LPP loan will be the same as the lender's share of the loan.
3. **Prepayment penalty.** There is no penalty for early repayment of principal or interest.
4. **Repayment proceeds and collateral.** Without limitation, the repayment of proceeds and collateral shall include rights of setoff and counterclaim, which the lender or the Authority jointly or severally may at any time recover on any participated loan.
5. **Subsequent loans.** Any loan or advance made by a lender to a borrower subsequent to obtaining an LPP loan under the program and secured by collateral or security pledged for the participated loan will be subordinate to the participated loan.
6. **Events of loan default.**
 - a. Default will occur when the participated loan payment is 30 days past due. Notice to cure will be sent to borrower with a copy sent to the Authority; and the lender will take appropriate steps to cure the default through mediation, liquidation, or foreclosure if needed.
 - b. After a participated loan is in default for a period of 30 days, the lender shall file monthly reports regarding the status of the participated loan to the Authority.
 - c. The Authority may, anytime a participated loan is in default, purchase the unpaid portion of the participated loan from the lender including the note, security agreements, additional guarantees, and other documents. The Authority would become the servicer of the participated loan in such case.

7. **Applying principal and interest payments.** Lenders shall receive all payments of principal and interest. All payments made prior to liquidation or foreclosure shall be made according to the IADD-approved amortization schedule(s) or on a pro-rata basis. All accrued interest must be paid to zero at least annually on the anniversary date of the note.
8. **Application of proceeds of loan liquidation.** Application of proceeds of loan liquidation will be determined after a written liquidation plan is approved by the Authority or the Authority's loan committee. All amounts recovered upon liquidation or foreclosure will be applied first to the unpaid balance of the lender's portion and then to the unpaid portion of the LPP loan's portion. All funds received from liquidation or foreclosure procedures shall be applied in the following order of priority:
 - a. **First Priority:** To the payment of the outstanding principal and accrued interest on the lender's portion of the participated loan;
 - b. **Second Priority:** To the payment of the outstanding principal and accrued interest on the Authority's LPP loan;
 - c. **Third Priority:** To the payment on a pro-rata basis of all reasonable and necessary expenses incurred by the lender or the Authority in connection with such liquidation or foreclosure procedures.

LOAN SERVICING PROCEDURES

1. The lender will proceed to work with the farmer to service the loan.
2. The provisions for loan servicing are specified in the Program Participation Certificate and Agreement.
3. Lender will collect all payments and send the Authority its pro-rata of each payment along with the Payment Transmittal form.
4. Upon request, lender will provide any annual financial statement and other necessary documents.

RIGHT TO AUDIT

The Authority shall have, at any time, the right to audit records of the lender and the borrower relating to any participated loan made under the program.

Examples of using the Loan Participation Program

- Maximum IADD loan buyout is 30% of purchase up to \$200,000
- BUY FARMGROUND

	NO Down Payment	Down Payment w/ FSA 5/45/50
Down payment by applicant	\$	\$ 50,000
<u>BFLP Bond</u> - Financed by Lender	\$ 543,800*	\$ 543,800*
Financed by Lender	\$ 256,200**	\$
(FSA) Farm Service Agency	\$	\$ 300,000***
From other sources: _____	\$	\$
IADD Loan Participation**	\$ 200,000	\$ 106,200
TOTAL COST OF PROJECT:	\$1,000,000	\$1,000,000

- CONSTRUCT A FACILITY

	NO Down Payment	Down Payment
Down payment by applicant	\$	\$ 50,000
<u>BFLP Bond</u> - Financed by Lender	\$250,000*	\$250,000*
Financed by Lender	\$250,000**	\$200,000**
(FSA) Farm Service Agency	\$	\$
From other sources: _____	\$	\$
IADD Loan Participation**	\$200,000	\$200,000
TOTAL COST OF PROJECT:	\$700,000	\$700,000

- PURCHASE USED MACHINERY OR LIVESTOCK

	NO Down Payment	Down Payment
Down payment by applicant	\$	\$ 20,000
<u>BFLP Bond</u> - Financed by Lender	\$ 62,500*	\$ 62,500*
Financed by Lender	\$ 42,500**	\$ 22,500**
(FSA) Farm Service Agency	\$	\$
From other sources: _____	\$	\$
IADD Loan Participation**	\$ 45,000	\$ 45,000
TOTAL COST OF PROJECT:	\$150,000	\$150,000

* Beginning Farmer Loan Program (BFLP) can be used if applicant is eligible

** Lender can get an FSA Guarantee on the loan they keep in house that is not using the BFLP. FSA Guaranteed loans used in conjunction with an IADD loan program may be eligible for a guarantee fee waiver from FSA, please contact your local FSA office for more details.

*** LPP loan can be used in conjunction with FSA 5/45/50 program however the LPP loan cannot act as the 5% cash down payment required by FSA.



Comparison of IADD Loan Programs

	Beginning Farmer Loan Program – BFLP	Loan Participation Program - LPP
Age	At least 18 years old No upper age limit	At least 18 years old No upper age limit
Eligible projects	Breeding livestock, machinery, land, farm improvements	Breeding livestock, machinery, land, farm improvements
Lender's Certification	None	Certify that no other private or state credit can be obtained; FSA does not need to certify denial
Land ownership	Cannot own substantial farmland (30% of county median acres)	No restrictions
Buy from close relatives	Yes	Yes
Minimum loan	None	None
Maximum loan	Maximum Bond Amount (See website for current maximum)	30% purchase price or \$200,000 participation loan
Maximum net worth	Maximum allowable net worth (See website for current maximum)	Maximum allowable net worth (See website for current maximum)th
Application fee	\$100	\$100
Closing fee	1.50% of IADD Bond \$300 minimum	1.50% of IADD participation loan \$300 minimum
Current ratio	N/A	Cannot be less than 1.1 without a guaranteed source of repayment
Debt to asset ratio (D to A)	N/A	Cannot exceed 80% without guaranteed source of repayment
Debt Coverage ratio (DCR)	N/A	If D to A ratio is < 60% then DCR > 110% If D to A ratio is > 60% then DCR > 120%
Off-farm income	No restrictions	Cannot exceed 50% of beginning farmers projected total gross income
Corporation, Partnerships, LLC's eligibility	No	Yes, however the loan must be to the beginning farmer with the entity as a co-borrower

A beginning farmer can participate in both loan programs at the same time as long as the applicant and project meet both programs' guidelines.