ILLINOIS FINANCE AUTHORITY

PROGRAM SUMMARY

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AGRICULTURAL RESTRUCTURING DEBT GUARANTEE

GENERAL INFORMATION

THE DESCRIPTION SET OUT HEREIN IS SUBJECT TO RULES AND REGULATIONS ESTABLISHED BY ILLINOIS FINANCE AUTHORITY (IFA) AS A MEANS OF IMPLEMENTING THE STATE GUARANTEE PROGRAM FOR RESTRUCTURING AGRICULTURAL DEBT (ADR).

The State Guarantee Program for Restructuring Agricultural Debt was passed by the Illinois General Assembly and signed into law in November, 1985.

The ADR Loan is designed to consolidate and spread out a farmer's existing debt over a longer term at a reduced interest rate. All ADR Loans are made through conventional lenders. IFA will provide up to an 85% guarantee of principal and interest on the loan made to a qualified borrower by a qualified lender. The interest rate may be a variable or fixed rate. The applicant and his/her lending institution must complete an application, balance sheet, security analysis, and cash flow projection. Based upon this information, IFA will approve or reject the request for the ADR Loan.

The applicant must be able to provide sufficient collateral to adequately secure the ADR Loan. The maximum term for an ADR Loan is thirty years. Loans collateralized by real estate may be amortized up to thirty years. Loans collateralized by depreciable property will be amortized over a shorter period.

The guarantees are backed in part by the State of Illinois and any losses incurred will be paid from the Illinois Agricultural Loan Guarantee Fund.

DEFINITIONS

Asset shall include, but not be limited to the following: cash; crops or feed on hand; livestock held for sale; breeding stock; marketable bonds and securities; securities not readily marketable; accounts receivable; notes receivable; cash invested in growing crops; net cash value of life insurance; machinery and equipment; cars and trucks; farm and other real estate including life estates and personal residence; value of beneficial interest in trusts; government payments or grants; assets under capital leases; retirement accounts; and any other assets

Liability shall include, but not be limited to the following: accounts payable; notes or other indebtedness owed to any source; taxes; rent; amounts owed on real estate contracts or real estate mortgages; judgments; accrued interest payable; payments under capital leases; and any other liability.

Debt to Asset Ratio the total outstanding liabilities divided by the total outstanding assets of an applicant using appraised values on a market value balance sheet.

Fund the Illinois Farmer and Agricultural Loan Guarantee Fund, which is the State's fund to cover all losses.

ADR Loan a note for which the State of Illinois shall be liable for up to 85% of the total principal and interest as determined by IFA.

APPLICANT REQUIREMENTS

The eligible applicant must:

- be a resident of the State of Illinois.
- be the principal operator of a farm who derives or will derive at least 50% of annual gross income from farming. (i.e., my gross farm revenues must exceed my nonfarm income.)
- have a debt to asset ratio of between 40% and 65%.
- have adequate cash flow and collateral.

The applicant must provide collateral sufficient to adequately secure the ADR Loan at the time of application, and keep the loan collateralized throughout its term. The applicant must also demonstrate the ability to adequately service the proposed debt. If the applicant has insufficient collateral or if his/her ability to service the debt is not adequately demonstrated, they can have a guarantor sign the note with them and/or pledge additional collateral for the loan.

All real estate and depreciable property which is to be used as collateral on a ADR Loan must be evaluated by a qualified appraiser. All real estate appraisals must meet Federal regulatory requirements and meet the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation. Auctioneers and machinery and equipment dealers are qualified to appraise depreciable property. The applicant is responsible for all appraisal fees connected with the ADR Loan.

Only one ADR Loan shall be outstanding for any one applicant, or any one farming operation. If the applicants file separate Schedule F's for their Federal Income Tax Return, then they will be considered separate farming operations. The maximum loan per applicant is $500,000.

The applicant must certify and agree that he/she will only use the ADR Loan to consolidate and restructure existing agricultural debts. The ADR Loan cannot be used for any new purchases or new operating loans. Also, the applicant must certify that all of his/her debts will be current at the time the ADR Loan is closed.

The applicant agrees to make all payments on the ADR Loan on the stated payment date. If the payment is not made within ninety days of the stated payment date, the total outstanding principal and interest shall become immediately due and payable.

A nonrefundable application fee of $300 must be paid to IFA at the time of application. For guarantees approved by the IFA's Board of Directors prior to July 1, 2007, the applicant pays a fee of 0.75% of the principal amount of the loan at closing. For guarantees approved by the IFA's Board of Directors on or after July 1, 2007, the applicant pays a fee of 1.00% of the principal amount of the loan at closing. This closing fee is net of the $300 application fee; however, the minimum fee is $300. The closing fee may be included in the ADR Loan amount, the $300 application fee may not. No other fees may be charged by the lender.

LENDER REQUIREMENTS

IFA makes its loans available through private lenders. A lender may be any Federal or State chartered bank, savings and loan association, or building and loan association; Farm Credit Service; small business investment company; or any other institution qualified with the State of Illinois to originate and service loans, including but not limited to insurance companies, credit unions, and mortgage loan companies. A lender may also be a wholly owned subsidiary of a manufacturer, seller or distributor of goods or services that makes loans to businesses or individuals.

The lender must agree to complete and certify that to the best of his/her knowledge all information is true and correct on the application and any other documentation submitted during the application process. Misrepresentations by lender or material misstatement of information on the application or otherwise in connection with the ADR Loan can result in the State Guarantee being revoked or terminated.

The lender agrees to charge an interest rate which shall not exceed 2.5% over the 1-Year Treasury Constant Maturity Yield. If the loan is participated or sold in a secondary market, a reasonable fee, approved by IFA before loan closing, may be added. Generally, ADR Loans will call for an annual interest rate adjustment unless converted to a fixed or longer term variable rate not to exceed 250 basis points over the corresponding length Treasury Note. The interest rate term can be converted at closing or at any time during the term of the loan.

The lender may charge no additional fees or points in addition to the fee received at closing. The applicant is liable for normal and customary attorney's fees, title work, lien searches, credit reports, filing fees, appraisal fees, and other costs of the loan. The lender agrees to pay to IFA an annual administrative fee equal to: (a) for State Guarantees approved by the IFA's Board of Directors prior to July 1, 2007, one fourth of one percent (1/4%) of the outstanding principal balance of the ADR Loan calculated on the anniversary date, or (b) for State Guarantees approved by the IFA's Board of Directors on or after July 1, 2007, one half of one percent (1/2%) of the outstanding principal balance of the ADR Loan calculated on the anniversary date. The fee is payable on each anniversary date of the loan. This fee may not be passed on to the borrower. When the ADR Loan is closed, all of the applicant's debts must be current or brought to a current status. If the lender subsequently sells all or a portion of a State Guarantee pursuant to the IFA's Agriculture Secondary Market Program, the lender agrees to pay IFA those fees charged, from time to time, by the IFA for participation in the program.

The ADR Loan may not be called until the third anniversary date except for lack of performance or insufficient collateral. On the third anniversary date and on each successive anniversary date, the lender will have the option of renewing the ADR Loan or withdrawing from the guarantee program, regardless of default. If no such action is taken, the loan automatically continues until the end of the loan term. The maximum loan term is thirty years. If a ADR Loan is going to be called or revoked for whatever reason, written notice must be served to all parties (IFA, lender, and applicant) not less than 90 days prior to said anniversary date.

ADR LOAN PROCEDURES

Applications must be submitted with a nonrefundable application fee of $300 to IFA. Applications will be processed on a first come, first served basis and will be approved as long as funding permits. All ADR Loan applications will be reviewed by IFA staff, and then presented to the Board of Directors for its review and approval or rejection. The Board of Directors meets monthly and posts notices of its meetings as required by the Open Meetings Act. Generally, the Board meets on the second Thursday of each month.

Lenders must use the application form provided by IFA or a photocopy thereof. Lenders may use and submit their own forms in addition to the approved IFA application, but must complete the IFA application in full.

The security analysis, cash flow statements, balance sheets, and environmental survey must be completed fully and returned with the application. In addition, lender must submit a credit bureau report of the applicant(s). The average for the past three years' cash flow statement may not need to be completed if the upcoming year's cash flow statement is not similar to the past farm operation (i.e., a major expansion in the farm operation).

After IFA has reviewed and approved an application, the lender will be instructed to send necessary lien and title information so that IFA can prepare the loan closing documents. IFA will then mail fully completed loan documents, including the Note, Mortgage, Security Agreement, Financing Statements, and all guarantee documents to the lender. The lender, applicant, and IFA must execute all appropriate forms and documents before the ADR Loan is considered finalized.

For guarantees approved by the IFA's Board of Directors prior to July 1, 2007, at the time of closing of the loan, the applicant shall pay a fee of 0.75% of the principal amount of the loan less the $300 application fee. IFA shall receive 0.50% and the lender shall receive 0.25%. For guarantees approved by the IFA's Board of Directors on or after July 1, 2007, at the time of closing of the loan, the applicant shall pay a fee of 1.00% of principal amount of the loan less the $300 application fee. IFA shall receive 0.75% and the lender shall receive 0.25%.

The ADR Loan can be fully or partially paid at any time while the loan is outstanding as long as the loan is held in the lender's portfolio and not sold into a secondary market. ADR Loans may not be assumed; however, ADR Loans may be transferred between lending institutions with the consent of all parties or pursuant to the IFA's Agriculture Secondary Market Program. Also, collateral may be substituted with the consent of all parties.

The ADR Loan shall be reviewed annually by the lender and IFA for adequacy of collateral and performance by the applicant. The applicant is required to provide the lender with a current balance sheet annually. If it is determined that there is not sufficient collateral to adequately secure the ADR loan, additional collateral may be required. If the applicant is unwilling or unable to pledge additional collateral, the ADR Loan may be called due and payable.

THE STATE GUARANTEE

In the event of a default on an ADR Loan, the lender shall serve notice to the borrower that the loan is in default and will become due and payable in full if the default is not cured within ninety days. The lender shall provide IFA with a copy of such notice. At the end of the ninety day cure period, the lender may request payment on the ADR Loan guarantee from IFA. IFA shall have thirty days to make such payment.

The lender agrees to assume all responsibility and costs for collecting any ADR Loan that is delinquent or in default. Collection efforts, including dispositions of collateral, are subject to IFA approval. The lender shall have fourteen months from the date that a loan is declared in default to dispose of the collateral on the ADR Loan and reimburse the State of Illinois for any payments made from the fund. If the lender does not dispose of the collateral within the fourteen month period, the lender shall be liable to pay the State of Illinois interest on the ADR Loan guarantee at the same rate which the ADR Loan would be accruing at that time if it were still in force. The lender shall pay this interest until the collateral has been liquidated and the State reimbursed. IFA may extend the fourteen month period for a lender in the case of bankruptcy or other extenuating circumstances.

IFA will have the final approval on the sale of all collateral for the ADR Loan. Proceeds from collateral sales after the date of default shall be applied as follows:

(1) State recovers the guaranteed portion of principal of the loan (i.e, up to 85%),
(2) Lender recovers the unguaranteed portion of principal of the loan (i.e., at least 15%),
(3) State and lender share additional funds on a guaranteed portion/unguaranteed portion basis (i.e., 85%/15%) until all interest (excluding default rate of interest) is recovered; and
(4) Lender recovers legal expenses and costs of sale.

The lender understands and agrees that it bears the risk of loss on at least the first 15% of principal and interest.

TOTAL OBLIGATIONS THROUGH ARD LOANS

IFA may not have outstanding at any one time guarantees in an aggregate principal amount exceeding $160,000,000.

RIGHT TO AUDIT

IFA shall have, at any time, the right to audit records of the lender and borrower relating to a particular State Guarantee loan to insure that all information submitted is accurate and complete.

This Loan Program Summary is intended to be informational. In case of any discrepancies between the Loan Closing Documents and the Loan Program Summary, the Loan Closing Documents shall prevail.

Questions: If you have any questions regarding the application process, financial records, appraisals, or other terms and conditions, please call the IFA Ag Team at the Mt. Vernon office at 618.244.2424.

About IFA: Illinois Finance Authority is an independent, self-funded state agency offering a variety of loan programs mutually beneficial to farmers and lenders. Contact us for more information on the Beginning Farmer Bond Program, Beginning Farmer Contract Bond Program, Debt Restructuring Loan Guarantee Program, Young Farmer Guarantee Program, Specialized Livestock Guarantee Program, Agri-Industries Loan Guarantee Program, and/or the Value-Added Stock Purchase Loan Guarantee Program.

Serving Illinois Agriculture One Family at a Time Since 1982

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