

# AGRICULTURAL LOAN PARTICIPATION

#### Offices of the Illinois Finance Authority

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[www.il-fa.com](http://www.il-fa.com)

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Question: **What is the maximum amount IFA will participate?**

Answer: IFA will participate the lesser of \$500,000 or a 50% participation in a bank loan.

Question: **Can a participation loan be used to refinance debt?**

Answer: No, with the exception of a refinancing of a construction loan to provide permanent financing for land, building, machinery or equipment. IFA can participate in a loan that includes a refinancing, but only for up to the lesser of \$500,000 or 50% of the debt financing a new capital project.

Question: **What is the borrower's minimum interest rate savings?**

Answer: The borrower's minimum interest rate savings on IFA's Participation will be at least 1% or the difference between the lender's rate and the IFA's rate if that difference is less than 1%.

Question: **What fees can the bank charge?**

Answer: The participating bank may charge a service fee on IFA's participation of up to 1%, as long as the borrower receives at least a 1% annual interest rate savings on the participation. The bank may not charge a fee on IFA's participation if the difference between the bank's loan rate and IFA's participation rate is 1% or less.

Question: **How is the rate determined?**

Answer: The borrower is charged a rate of interest that includes the weighted average of the rate charged by the bank and IFA's rate on its participation plus any servicing fee charged by the bank. The bank's portion of the loan can be fixed or variable and is determined by the bank. IFA's participation rate is fixed and is set at 3-month LIBOR plus 100 basis points (1.0%). The Funding Rate is set on the first business day of the month that the completed application is accepted and approved by the Authority's Credit Review Committee for consideration at IFA's next Board meeting. If an application for a loan is received by the IFA on June 5<sup>th</sup> and accepted by the IFA's Credit Review Committee on June 20<sup>th</sup>, the rate for the loan will be the 3-month LIBOR as of the first business day of June (presumably June 1).

Question: **How long will IFA commit to the "Fixed" rate?**

Answer: IFA will commit to the fixed rate for 6 months. The loan must close no later than the last business day of the month that is the sixth month following the IFA Board approval. For example, if the IFA Board approved a loan at the December 5, 2006 meeting, the loan must close by June 29, 2007. Extensions may be considered for extenuating circumstances. A loan that does not close within the allowed commitment period or within any granted extension period must go to the IFA Board for reconsideration.

Question: **How long is the "Fixed" interest rate period?**

Answer: IFA's maximum fixed rate commitment period is 5 years. At year 5, the interest rate must be reset. The reset rate will be the 3-month LIBOR rate as of the 1<sup>st</sup> business day of the month of the fifth anniversary of the loan. The reset rate may be, but is not required to be, the rate for the remainder of the term of the loan.

Question: **The maximum term is 10 years, but can we amortize longer?**

Answer: Yes, the amortization can be up to 30 years with a 10 year balloon.

Question: **Can the participation be purchased back by the lender?**

Answer: Yes. There are no restrictions.

Question: **Is there an Ag Participation application?**

Answer: Yes. It is available at [www.il-fa.com](http://www.il-fa.com)

Question: **Can any lender use this program?**

Answer: Yes, as long as you and your institution are in good standing with your regulators and have a good record in charge off ratios. This program is geared towards growing institutions that make a difference in their local economy through strong ag and commercial programs.

Question: **Can the participation be used in conjunction with the Beginning Farmer Bond Program? If so, what is the basis for the rate on the participation loan?**

Answer: Yes. This is one of the best uses of the Ag Participation...as a tool to bring in new business at a good yield to the lender, and at a low cost to the beginning farmer. Customers with larger borrowing needs can be served with the expansion of the eligible net worth to \$500,000. The Ag Participation can go up to \$500,000 or 50% of a purchase, whichever is less. Since the Beginning Farmer Bonds are held by the lender, they are considered as the banks portion of the purchase. For example, in a \$500,000 land transaction, the lender could fund the transaction with a \$250,000 bond and IFA could fund the remaining portion with a participation loan of up to \$250,000. Another example would be a \$2,000,000 transaction in which the lender holds a bond for \$250,000 and a \$1,250,000 loan on its books and enters into a \$500,000 participation with IFA. IFA's participation rate would be the 3-month LIBOR plus 100 basis points, with the rate set on the first business day of the month the application is accepted by the Authority's Credit Review Committee for consideration at IFA's next Board meeting.

Question: **What projects are ineligible for the Participation Loan Program?**

Answer: Projects for working capital, restaurants, vehicles, liquor and gambling facilities, and refinancings (other than to provide permanent financing of construction loans) are ineligible for this program. Additionally, participation loans are generally not used to finance retail businesses. Exceptions may be made for projects of special development significance to a community or region.