

# VALUE-ADDED STOCK PURCHASE

Offices of the Illinois Finance Authority

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## GENERAL INFORMATION

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The Value-Added Stock Purchase Guarantee Program, as part of the Specialized Livestock (SLP) or Young Farmer (YFG) Guarantee Program, is a guaranteed loan program designed to enhance the opportunities for Illinois farmers to participate in the further processing of their agricultural commodities into value added products. All loans for stock purchases in value-added entities are made through lenders; IFA provides an 85% guarantee of principal and interest on loans made to qualified borrowers.

The applicant must have adequate cash *flow* and provide sufficient collateral to secure the loan. The applicant and their lending institution must complete an application, balance sheet, and a cash flow projection of their farm operation. IFA suggests a ten year repayment plan with interest only on the first anniversary date and amortized principal and interest payments over the remaining nine years.

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## APPLICANT REQUIREMENTS

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Each eligible applicant must:

- be a resident of the State of Illinois.
- be the principal operator and/or materially involved in a farm operation.
- have adequate cash flow and collateral.
- participate in a value-added entity that is located in Illinois or deliver commodities from their farm operation to the value-added entity.

D/A Ratio: Generally, the maximum debt to asset ratio (D/A) will be 70% on a pro-forma balance sheet unless market and/or production risk reduction measures have been undertaken. The (D/A) ratio will be defined as total debt including the debt of the new project divided by total assets including the cost basis of the new project on a market value balance sheet.

Loan to Collateral Value: With a cash down payment of 30%, 40% or 50%, the guaranteed loan amount will be 70%, 60% or 50% of the stock cost, respectively, depending on the loan size as shown below:

<u>Loan for Stock Purchase</u>	<u>Max. Loan Secured by Stock Only</u>
\$40,000 or less	70% of stock cost
\$41,000 to \$70,000	60% of stock cost
\$71,000 to \$100,000	50% of stock cost

If a significant cash down payment is not made, for collateral purposes, the stock will be valued at 70%, 60% or 50% of cost commensurate with loan size as above and additional collateral will be requested. The loan amount should not exceed 80% of the total collateral value.

Appraisals: All real estate and depreciable property which is to be used as collateral 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 loan.



Value-Added Entity Risk: Applicants must certify they are aware of the risks in a value-added entities and realize part or all of their investment could be lost and they will still be personally liable for this loan.

Debt Service: The applicant must also demonstrate the ability to adequately service the proposed debt with a projected cash flow statement. 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.

Loan Size: The maximum loan per applicant is \$100,000 for stock loans. The loan amount may be higher if addition debt is refinanced. Credit underwriting standards will be more stringent for larger loans. An eligible applicant may use the program more than once provided that the total of the original stock purchase loan amounts do not exceed \$100,000.

Interest Rate and Loan Terms: The interest rate must be less than the market rate of interest generally available to the borrower as determined by IFA. Generally, the repayment schedule will be 10 years with interest only on the first anniversary date and amortized principal and interest payments over the remaining nine years. The maximum loan term is fifteen years.

Uses of Funds: Loan funds may be used for the purchase of stock in cooperatives. Refinancing is only allowed in conjunction with loans for purchases of stock to improve lien position and/or financial structure. Also, the applicant must certify that all their debts will be current at the time the loan is closed.

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## LENDER REQUIREMENTS

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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.

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## LOAN PROCEDURES

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All loan applications will be reviewed by IFA staff, and then presented to the Board of Directors for its review and action. The Board of Directors usually meets on the second Wednesday of each month. If IFA has approved the application, the lender will be contacted regarding closing instructions. Loans may not be assumed; however, they may be transferred between lending institutions with the consent of all parties. Also, collateral may be substituted with the consent of all parties.

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## RIGHT TO AUDIT

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The 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 loan, additional collateral may be required. If the applicant is unwilling or unable to pledge additional collateral, the loan may be called due and payable.



If a loan is going to be called for whatever reason other than default, written notice must be served to all parties (IFA and applicant) not less than 90 days prior to the anniversary date.

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## FEES

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**Applicant Fees:** A nonrefundable application fee of \$300 must be paid to IFA at the time of application. The applicant pays a fee of 1% of the loan amount at closing. [FDA shall receive 0.75% and the lender shall receive 0.25%. This closing fee is net of the \$300 application fee. The minimum fee is \$300. The lender may receive a  $\frac{1}{4}$  of 1% closing fee regardless of loan size. 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.

**Lender Fees:** The lender may charge no additional fees or points in addition to the fee received at closing. The lender agrees to pay IFA an annual administrative fee equal to one-fourth of one percent of the outstanding balance of the loan on the anniversary date. This fee may not be passed on to the borrower.

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## THE STATE GUARANTEE

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Loan losses are paid from the Illinois Farmer and Agribusiness Loan Guarantee Fund. IFA will have the final approval on the sale of all collateral for the Loan. The lender agrees to absorb the first 15 % of principal and interest. Proceeds from collateral sales after the date of default shall be applied as follows:

1. State recovers the 85% guaranteed portion of principal,
2. Lender recovers its 15% of principal,
3. State and lender share additional funds 85%115% until all interest is recovered, Lender recovers legal expenses and costs of sale.

**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***