

YOUNG FARMER GUARANTEE

Offices of the Illinois Finance Authority

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GENERAL INFORMATION

The Young Farmer Guarantee Program (YFG) is a guarantee program designed to enhance credit availability for younger farmers who are purchasing capital assets. Loan funds may be used for new purchases of capital assets such as land, buildings, machinery, equipment, breeding livestock, soil and water conservation projects, etc. In some cases, up to 50% of the loan proceeds may be used to refinance existing debt as needed to improve lien positions.

All YFG Loans are made through conventional lenders; IFA will provide up to 85% guarantee of principal and interest on the loan made to a qualified borrower. The applicant must be able to demonstrate the loan will cash flow on a projected cash flow statement and provide sufficient collateral for the loan. A YFG Loan may be amortized over thirty years for loans secured by real estate. Loans secured by depreciable property will be amortized over a shorter period. In any event, the maximum term of a YFG Loan shall be fifteen (15) years.

APPLICANT REQUIREMENTS

Each eligible applicant must:

- be a resident of the State of Illinois.
- be at least eighteen years of age.
- 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 net worth greater than \$10,000.
- have a debt to asset ratio of between 40% and 70% after purchase of the capital item.
- have adequate cash flow and collateral

D/A Ratio: The Debt to Asset Ratio (D/A) is defined as the total outstanding liabilities divided by the total outstanding assets of an applicant using appraised values on a market value balance sheet.

Collateral and Cash Flow: The applicant must provide collateral sufficient to secure the loan and keep the loan collateralized throughout its term. 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.

Appraisals: All real estate and depreciable property that is to be used as collateral on a YFG 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 YFG Loan.

Loan Size: The maximum loan per applicant is \$500,000. An eligible applicant may use the program more than once provided that the totals of the original loan amounts do not exceed \$500,000. Existing debt may be refinanced in conjunction with a purchase.

Interest Rate: The interest rate must be less than the market rate of interest generally available to the borrower as determined by IFA. The interest rate may be fixed or variable. The maximum term for a YFG Loan is fifteen years, but real estate loans may be amortized up to thirty years. Loans with depreciable



property will be amortized over a shorter period.

Uses of Funds: Loan funds may be used for purchases of capital assets such as land, buildings, machinery, equipment, breeding livestock, soil and water conservation projects, etc. Purchases made not more than six months prior to IFA loan approval are eligible. Also, the applicant must certify that all of his/her debts will be current at the time the YFG loan is closed.

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.

LOAN PROCEDURES

All YFG 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 a monthly basis and posts notices of its meetings as required under the Illinois Open Meetings Act. Currently, the Board meets on the second Tuesday of each month. If IFA has approved an application, the lender will be contacted regarding closing instructions. YFG Loans may not be assumed; however, YFG 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. 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 the IFA those fees charges, from time to time, by the IFA for participation in the program.

RIGHT TO AUDIT

The YFG 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 YFG loan, additional collateral may be required. If the applicant is unwilling or unable to pledge additional collateral, the YFG Loan may be called due and payable. If a YFG Loan is going to be called for any reason other than default, written notice must be served to all parties (IFA and borrower) not less than ninety days prior to the anniversary date.

FEES

Applicant Fees: 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, at the time of closing of the loan, the applicant shall pay a fee of 1.0% of the principal amount of the loan less the \$300 application fee. IFA shall receive .75% and the lender shall receive .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 1.25% of the principal amount of the loan less the \$300 application fee. IFA shall receive 1.0% and the lender shall receive .25%. The minimum fee is \$300. The closing fee may be included in



the YFG Loan amount. 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 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 YFG 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 YFG 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.

Collection Costs: The lender agrees to assume all responsibility and costs for collecting any YFG 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 YFG 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 YFG Loan guarantee at the same rate which the YFG 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.

THE STATE GUARANTEE

Loan losses are paid from the Illinois Farmer Agribusiness Loan Guarantee Fund. IFA will have the final approval on the sale of all collateral for the YFG 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 any 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.

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