UNITED STATES DEPARTMENT OF AGRICULTURE
Farm Service Agency
100 USDA, Suite 102
Stillwater, Oklahoma 74074-2653

OK Notice FLP-485

For: County Offices

2-FLP

Interest Assistance Requirements

Approved by: State Executive Director

1 Overview

A Background

This notice replaces OK Notice FLP-434 issued October 27, 2003.

The Interest Assistance Program (IA) enables lenders to provide credit to operators of family farms who do not have the financial resources to meet the standard repayment terms. Farm Service Agency enters into an agreement with the lender to reimburse the lender 4-percentage points on the loan, in exchange for the lender reducing the interest rate charged to the borrower. IA is available for new guaranteed loans and existing guaranteed loans meeting certain criteria. Loan applicants can obtain IA to achieve a feasible plan if they meet all other eligibility requirements. Existing borrowers may obtain IA if their financial position deteriorates and they no longer can project a feasible plan at their current rates and terms.

B Purpose

This notice provides to the County Office, guidance and direction in the interest assistance program to maintain consistency and continuity throughout the state.

C Contact

Direct any questions concerning this notice to Patty Wanger at (405) 742-1052 in the Oklahoma State Office.

D Filing Instructions

This notice should be filed with the FLP series Notices.

Disposal Date	Distribution
October 1, 2005	Farm Loan ProgramTeams, County Offices, DD's, COR's

2 Implementation

A 10-Year Interest Assistance Limitation

Interest Assistance is now limited per loan applicant/borrower, including entity members, to a maximum of ten (10) years from the date of the first FSA-1980-64, Interest Assistance Agreement, ever executed. See 2-FLP Handbook Par. 224 E.

The 10-year IA limitation applies to all new FSA-1980-64's, as well as, to a servicing request to extend the number of IA years on an existing FSA-1980-64.

FSA will honor any existing FSA-1980-64's in effect prior to February 12, 1992 that will extend beyond the 10-year limitation.

Transition Rule: Borrowers with an FSA-1980-64 signed before the February 12, 1992, may be considered for any additional 3 years of interest assistance under the exception authority in 2-FLP Par. 224 E.

B Non-essential Assets

The lender must determine whether the borrower, including members of an entity, owns any significant assets which do not contribute directly to essential family living or farm operations. The lender must determine the market value of these assets and prepare a cash flow budget based on the assumption that the value of these assets will be sold and the proceeds used for the debt reduction. If a positive cash flow can then be achieved, the borrower is not eligible for interest assistance

C Funds Availability for Interest Assistance Loans

Interest Assistance is ONLY available on the following:

- new OL obligations/loans (OL/LN or OL/LOC) approved hereafter.
- Existing OL/LN, OL/LOC, and FO/LN guaranteed loans approved/obligated prior to 10/01/91 that were NEVER obligated with interest assistance.
- Existing OL's FSA-1980-64's that were originally approved/obligated with less than 10 years of Interest Assistance and now need the number of years extended to the maximum.

D Monthly Cash Flow Requirements

Interest assistance (IA) on an annual operating loan requires a monthly cash flow. A monthly cash flow is not needed for all other guaranteed types.

D Monthly Cash Flow Requirements, cont.

When determining whether the borrower qualifies for interest assistance, a monthly cash flow is required for the OL/LOC or on a 1-year OL/LN loan made for annual operating expense purposes.

This is needed in order to obtain the Average Principal Balance (APB) on the OL/LOC loan. The OL/LOC APB times the OL/LOC promissory note interest rate equals the estimated annual operating loan interest that's shown under the Debt Repayment Table.

E No Adjustments During Claim Period

After the FSA-1980-24 is processed, no adjustments in the level of subsidy (0 or 4%) can be made until the next annual payment/review date.

F Feasible Plan

Many lenders determine the cash flow feasibility without considering the implications associated with cash carryover, accounts payable, cash capital purchases and personal debt obligations. It is the loan approval official's responsibility for ensuring that cash flow feasible plan determination is made using FSA's feasible plan and cash flow definitions for loan(s) involving interest assistance.

Credit Management Systems (CMS) of Preferred (PLP) lenders may authorize lenders to determine cash flow feasibility in a manner inconsistent with 2-FLP Handbook. However, ALL lenders including the PLP lender must strictly adhere to the interest assistance requirements found 2-FLP Part 9.

See 2-FLP Par. 224 D – *Feasible Plan* – A feasible plan is when cash inflows (including all farm income, non-farm income, and loan advances) are greater than cash outflows (including all farm expenses, non-farm/family living expenses, and debt service) likely to be incurred by the borrower during the plan period by a 1 to 1 or 100% debt service margin

Interest Assistance requires the lender to document accountability/liquidation of current assets and use of proposed loan funds. A loan applicant/borrower is not eligible for interest assistance if all or part of the loan purpose (guaranteed or non-guaranteed loan) is used to build working capital. Carryover cash/assets will be treated similarly to nonessential assets. The cash flow budget needs to be developed assuming carryover grain and other near cash items are sold and the proceeds used for debt reduction.

F Feasible Plan, cont.

When the loan(s) exceeds one (1) production cycle and the planned cash flow plan is not considered to be a typical year, a typical cash flow budget must be prepared. Examples of a non-typical year could be when the cash flow includes:

- greater than $1000 cash on hand as of the first day of the operating cycle year
- inventory carryover greater than last years beginning of the year carryover balances
- carryover debt unpaid from last years operating cycle
- cash capital expenditures
- start-up operations
- significant operation changes
- etc

If a borrower has multiple loans, interest assistance may be provided to each loan, only to one loan, or any distribution the lender select; however, interest assistance is only available on as many loans as necessary to achieve a feasible plan.

All existing FSA-1980-64's must be considered first in the interest assistance eligibility/feasibility plan calculation before FSA considers interest assistance on a new OL obligation/loan request.

For new OL IA obligation/loan requests, a borrower may qualify for interest assistance with either an initial non-typical or a typical year cash flow budget where cash inflows are less than cash outflows. This means FSA can approve a new guaranteed OL obligation/loan with interest assistance based on a "typical" year cash and only obligate zero (0%) percent interest assistance subsidy the first year of the loan.

G Interest Assistance Annual Renewals

For loans with an active Interest Assistance Agreement, an annual interest assistance review must be completed each year. The amount of IA subsidy is either 0% or 4%. A payment of zero ($0.00) still must be processed. If the interest assistance agreement is not being terminated and the borrower is not eligible for any interest assistance for the next subsidy / claim year, enter 0% in Item #21 on the FSA-1980-24. When zeros are entered, IA will not be canceled and the remaining IA obligation maintained.

Finance Office sends a preprinted FSA-1980-24 directly to the lender on or around the Annual Review Date. The following items must be obtained from the lender and verified by FSA prior to the lender receiving any interest assistance payments:

G Interest Assistance Renewals, cont.

1. The borrower's promissory note loan history or detailed statement of account, including all disbursements and payments applied to the loan that shows the following items:

   - the unpaid principal balance that was owed at the beginning of the claim period
   - the interest rate charged during the claim period
   - the date and amount of each principal payment
   - the date and amount of each interest payment
   - the date and the amount of all loan advances
   - the unpaid principal balance that is still owed at the end of the claim period
   - detailed calculations of the average daily principal balance during the claim period

2. Properly completed and signed FSA-1980-24, "Request For Interest Assistance Payment," with a revision date of (05-29-02).

3. For interest assistance loans that exceed one year, the interest assistance subsidy rate (either 0% or 4%) for the next review/claim period must be determined before the lender's FSA1980-24 subsidy claim can be processed. If a claim is submitted without an interest assistance review, when it is required, the IA claim **will not be processed** until <u>all</u> of the required IA review information for the next claim period is submitted by the lender.

4. Within 60 days of the annual review date, the lender must provide the FSA county office with the following information, in order to renew interest assistance for the borrower(s) for an additional subsidy period:

   - A summary of the operation's previous year's actual financial and production performance, including a detailed income and expense statement.
   - The lender will perform an analysis of the borrower's farming operation and provide a narrative description of the causes of any major differences between the previous year's cash flow budget and actual performance.
   - A current signed and dated balance sheet.
   - A cash flow budget for the period being planned which is to be <u>signed and dated by both the lender and borrower</u>. A monthly cash flow is required for all OL lines of credit and operating loans made for annual operating purposes to obtain the average principal balance.

H Interest Assistance Claims not Filed Within 1-Year

Interest Assistance claims are to be filed by the lender within 60 days of the annual review/anniversary date. If the lender has not provided the required interest assistance renewal information within 60 days of the annual review date, verbal and written follow-ups need to be made to the lender.

2-FLP, Par 228 E, "Rules for IA Claims", states:

"...Claims not filed within 1 year will not be paid and the amount due the lender permanently forfeited."

Follow OK Notice FLP-486, "Interest Assistance Claims NOT FILED WITHIN 1 YEAR," in servicing interest assistance loans where the IA subsidy claim is not filed within 9 months of the annual review/anniversary date.

I FSA-1980-24, GLS Transaction 4031

Prior to processing the IA FSA-1980-24 subsidy claim payment with a Guaranteed Loan System (GLS) Transaction 4031, the FSA County Office will:

1. Verify that the FSA-1980-24 is completed in accordance with the Forms Manual Insert.
2. Check the lender's calculations to verify the borrower's guaranteed loan account is accurate.
3. Make sure the FSA-1980-24 is signed by the loan approval official to certify that the form is consistent with the supporting documentation and regulations.

When processing the GLS Transaction 4031, the county office will:

1. Obtain a copy of the VIEW Farm Loan Interest Assistance "VI" screen from GLS.
2. Crosscheck the information on the "VI" screen printout with the information found on FSA-1980-24.
3. Obtain a hard copy of ADD Farm Loan Interest Assistance Claim that shows a processing code of "**Create Successful**" for file documentation. Processor to initial and staple the screen-print to the FSA-1980-24.
4. Since the Transaction 4031 updates automatically, the County Office should then check the VIEW Farm Loan Interest Assistance "VI" screen to verify:
   - That the IA payment processed
   - To find out the date of the EFT transfer or check date.
5. However, if the GLS Transaction 4031 does not process, contact the Farm Loan Programs Section to assist with any input and/or problems.

J Calculation of the average Daily Principal Balance and the Interest Payable Amount

FSA pays the 4% IA subsidy based on the average principal balance (APB). The APB on a loan is calculated by multiplying the principal balance times the number of days outstanding. The sum is then divided by the total number of days.

IA subsidy = APB times 4% divided by 360 or 365 times number of days between beginning and ending claim period. See **Exhibit 1** for examples of a 365/365 basis with a 1/1/98 to 1/1/99 claim period and a 360 basis with a 1/1/98 to 7/25/98 claim period.

NOTE: If the lender charges interest on a 360-day basis, then each month is considered to have 30 days and there are only 360 days in a year.

K FSA-1980-64 Interest Assistance Agreement = Allonge to the Promissory Note

FSA-1980-64, Interest Assistance Agreement, is considered an allonge and modifies the interest rate terms of the borrower's promissory note. Therefore, the borrower is to be paying the lender the difference between the full note interest rate less the 4% IA subsidy. When the borrower is approved by the Agency to receive the 4% IA subsidy during a specified IA claim period, the lender IS NOT allowed to collect the full note interest rate from the borrower and then later reimburse the borrower when FSA pays the 4% IA subsidy.

L Interest Rate Basis

On Form 1980-19, "Guaranteed Loan Closing Report," the lender decides whether the loan will be based on either a 360 or 365 daily interest accrual basis. If the promissory note is based on a 360/365 accrual method, then 365 will be input into block #28 on RD 1980-19, the lender will be paid on a 365 DIA basis, and the GLS View Loan Detail "LD" screen must reflect an Interest Basis of 365.

Exhibit 1

Example of a **365/365** basis with a 1/1/98 to 1/1/99 Claim Period (365 days)

Principal Balance	Days Outstanding	Total	
$20,000.00	X 35 (1/1/98 to 2/5/98)		$ 700,000.00
$19,000.00	X 92 (2/5/98 to 5/8/98)		$ 1,748,000.00
$15,000.00	X 72 (5/8/98 to 7/19/98)		$ 1,080,000.00
$ 7,000.00	X 166 (7/19/98 to 1/1/99)		$ 1,162,000.00
	365 days		$ 4,690,000.00
	Divided by		365 days
	Average Principal Balance =		$ 12,849.32
	Subsidy Rate		X .04
	Interest Payable	=	$ 513.97

Example of a **360** basis with a 1/1/98 to 7/25/98 Claim Period (205 days)

Principal Balance	Days Outstanding	Total	
$20,000.00	X 35 (1/1/98 to 2/5/98)		$ 700,000.00
$19,000.00	X 92 (2/5/98 to 5/8/98)		$ 1,748,000.00
$15,000.00	X 78 (5/8/98 to 7/25/98)		$ 1,170,000.00
	205 Days		$ 3,618,000.00
	Divided by		205 days
	Average Principal Balance =		$ 17,648.78
	Subsidy Rate		X .04
	Subsidy on an annual basis	=	$ 705.95
	Divided by		360 days
			$1.9609722
			X 205 days
	Interest Payable	=	$ 402.00