

UNITED STATES DEPARTMENT OF AGRICULTURE

Farm Service Agency
Oregon State Office
7620 S.W. Mohawk Street
Tualatin, OR 97062-8121

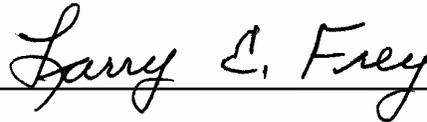
**Oregon Notice
FLP-148**

For: County Offices

Emergency Seed Loan Amortization

Approved By: State Executive Director

LEF:LEV:lv



1 Overview

A Background

Section 253 of the Agricultural Risk Protection Act of 2000 provided assistance to seed producers adversely affected by the bankruptcy filing of AgriBioTech (ABT). On December 6, 2000, implementing regulations were published in the Federal Register and codified at 7 CFR Part 744. Farm Service Agency's (FSA's) handbook provisions implementing the Emergency Loan for Seed Producers Program were distributed on December 27, 2000 as part of FSA Handbook 6-FLP.

The statute and regulations initially authorized an interest free or "zero" interest rate period of 18 months. A statutory change occurred later which extended that period to 36 months. By statute and regulation, amortization of any principal remaining 36 months after the date of the borrower's Form FSA 2662, "Promissory Note and Security Agreement," is amortized over a term of 7 years at the direct Operating Loan (OL) interest rate in effect on the date of amortization.

B Purpose

The purpose of this Oregon Notice is to:

- provide updated information and guidance on processing the required amortizations
- provide tools to assist in the correct calculation of installment amounts
- provide example letters for notifying borrowers of the terms of their Emergency Seed Loans and their amortized installment amounts.
- help assure that amortizations occur in a correct and timely fashion.

FILING: Preceding FSA Handbook 6-FLP

Disposal

Distribution

January 1, 2005

STO, DD, COR, COC, COF - Including Farm Loan Programs

03-11-04

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2 Amortization Facts

A Amortization is Effective on an Exact Date

The terms of the borrower's Form FSA 2662, "Promissory Note and Security Agreement," indicate that amortization will occur *exactly* 36 months (3 years to the day) from the date of the borrower's Form FSA 2662 Promissory Note. Neither FSA nor the borrower have the option of amortizing the unpaid balance of the borrower's Emergency Seed Loan on a different date. The first payment under the borrower's amortized Form FSA 2662 Promissory Note must be due *within* 1 year of the date of amortization (4 years of the date of the borrower's Form FSA 2662 Promissory Note).

B Additional Review for Repayment Capacity Unnecessary

The last paragraph of Subparagraph 116 B of FSA Handbook 6-FLP indicates that amortization will occur without additional review. The borrower will not be required to demonstrate creditworthiness, demonstrate repayment capacity, or pledge additional security.

C Execution of New Promissory Note Unnecessary

The Form FSA 2662 Promissory Note signed by the borrower permits FSA to amortize the borrower's indebtedness under the terms stated, and commence interest accrual on the account, without the need to have the borrower and all co-obligors sign a new Promissory Note at the time of amortization. Instead of executing a new Promissory Note, amortization is accomplished by sending the borrower a "Notice of Interest Accrual and Amortization" which effectively becomes an addendum to the borrower's Form FSA 2662 Promissory Note.

Subparagraph 116 B of FSA Handbook 6-FLP provides a sample "Notice of Interest Accrual and Amortization" on Page 6-12 and indicates that it should be completed and sent to the borrower 36 months after the date of the borrower's Form FSA 2662 Promissory Note. A "fillable" Microsoft Word document meeting the notification requirements of Subparagraph 116 B has been distributed to all County Offices. The document, together with instructions for its use, is shown as Exhibit 1 of this Oregon Notice.

3 Action

A Timing and Due Date of Amortized Installments

Installment due dates are *not* determined and set by the effective date of amortization (which is exactly 36 months from the date of the borrower's Form FSA 2662 Promissory Note. Instead, Subparagraph 116 B of FSA Handbook 6-FLP clearly states that the first amortized installment is to be scheduled for the time of year when *income from the borrower's operation is typically received*. This Subparagraph also says that subsequent annual installments will be due on the same anniversary date as the first installment.

For grass seed operations, income from the sale of grass seed is typically received in April or May. For alfalfa seed operations, income from that sale of alfalfa seed is typically received with a substantial partial payment in November or December, followed by a subsequent payment of the balance in January or February. The due dates of the amortized installments need to be scheduled to coincide with this flow of income.

To help assure that the proposed scheduled installment due dates are consistent with the borrower's flow of income, it is highly recommended that contact be made with each borrower prior to amortization to confirm with them the month that proceeds from the sale of their seed crops is usually and typically received. This contact should be documented in the borrower's running record. Unless the borrower has an atypical marketing program of some sort, and that program is clearly documented in the borrower's case file as a result of the contact made, it is expected that the installment due dates will generally be during the months stated above.

The first installment must be due within 12 months of the effective date of amortization, and needs to be due at the time that income from the borrower's seed operation is typically and normally received. This date must be within 36 and 48 months of the date of the borrower's Form FSA 2662 Promissory Note. Subsequent full amortized annual installments will have the same anniversary date and month as the first installment.

B Calculating Installment Amounts

Because the first amortized installment will typically be due in less than 12 months from the effective date of amortization and commencement of interest accrual, the amount of the borrower's first installment should also be typically less than the full amount of a regular full amortized annual installment. Unless there is some overwhelming, realistic, and logical reason to do otherwise, it is expected that the amount of the first installment be calculated by prorating the full annual installment amount by the percentage of the year between the month of the amortization effective date and the month that the first installment is due. For example, if the amortization effective date is in January, and the first installment is due in April, then 3 of the 12 months of the year will have passed, and the borrower's first installment would be 1/4th of a regular amortized annual installment, rounded up to the next highest whole dollar. In no case should the amount of the first installment be less than the amount of accrued interest on the first installment due date.

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3 Action (Continued)

B Calculating Installment Amounts (Continued)

To assist in correctly and accurately calculating installment amounts, an Excel based loan installment calculator has been developed and electronically distributed for use in calculating the amount of both the borrower's first installment, and the borrower's remaining regular equal amortized annual installments, in the manner expected.

An example of the worksheet printout from the loan installment calculator, together with instructions for its use, are attached as Exhibit 2 of this Oregon Notice. Once printed, the employee that has calculated the installment amounts must review the input data for accuracy, and sign the completed worksheet in the signature block. Retain the completed worksheet by attaching it to the file copy of the original Form FSA 2662 promissory note maintained in Position 2 of the borrower's case file.

C Notice to Borrowers of Interest Accrual and Amortization

After the due date of the due date and amount of the amortized installments have been determined, Subparagraph 116 B of FSA Handbook 6-FLP indicates that the borrower and all co-obligors will be notified. This paragraph provides a sample "Notice of Interest Accrual and Amortization" on Page 6-12 and indicates that it should be completed and sent to the borrower 36 months after the date of the borrower's Form FSA 2662 promissory note.

Because this notice is a legal document with legal consequences, it is extremely important that it be prepared accurately, and that it be sent to all parties and business entities that executed the original Form FSA 2662 Promissory Note and became liable under it. This notice has consequences far beyond what is normally thought of as a typical guide letter. Because of this, please be guided by the following:

- The Notice must be addressed to, and sent to, all parties and business entities that signed the borrower's Form FSA 2662 Promissory Note. If two or more parties reside at the same address, their names can be shown as addresses on the same notice, but a separate notice will need to be mailed to the other parties or business entities who executed the borrower's Form 2662 that reside at a different address.
- All Notices of Interest Accrual and Amortization are to be sent by Certified Mail - Return Receipt Requested. If the certified mailing is accepted, please attach the green "return receipt" card to the correspondence file copy of the notice maintained in Position 4 of the borrower's County Office file. If the certified mail is returned as unclaimed or refused, the unopened envelope should be filed in Position 4 of the borrower's County Office file, and the addressees should be send a copy of the file copy of the "Notice of Interest Accrual and Amortization" by regular mail. An entry should also be made in the borrower's running record documenting and confirming this mailing by regular mail.

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3 Action (Continued)

C Notice to Borrowers of Interest Accrual and Amortization (Continued)

- There needs to be complete accuracy and consistency in specifying and describing the borrower's repayment schedule, just as if the "Notice of Interest Accrual and Amortization" were a promissory note. Because of the need for consistency and accuracy, common language consistent with the language shown on Form FSA 1940-17 needs to be used to describe the borrower's installment repayment schedule. This includes specific dates and amounts for the borrower's first installment and the remaining equal amortized annual installments, as well as the final installment of any remaining amount.
- Although not required by the example guide letter, clear language should be included to again specifically inform the borrower that any further distributions from the bankruptcy court, and any payments received from the sale of any 1999 seed remaining in the borrower's possession, will be applied as an *extra payment*, and *will not reduce the borrower's installment amount due* for that year.

To help assure correct and accurate preparation of the required Notices of Interest Accrual and Amortization, and to help assure consistency, the "form protected" instructions for completion shown as Exhibit 1, have been distributed electronically to all County Offices for use in preparing the required notices.

Note: Please make sure to read the instructions for completion, especially the portion dealing with the repayment schedule language, before attempts are made to use the form protected document. It is suggested that the instructions for preparation be printed out on a color printer, keep for reference, and used like a Forms Manual Insert in preparing any other form. An example of a correctly completed "Notice of Interest Accrual and Amortization" is also attached as Exhibit 3 of this Oregon Notice.

D ADPS and Finance Office Processing of Amortized Accounts

Electronic records reflecting the amortization of Emergency Seed Loan accounts is accomplished through the processing of 1M Transaction in the Automated Discrepancy Processing System (ADPS).

The Finance Office can process the 1M Transactions in the normal manner, with just one exception. For the "Kind Code" data entry, enter the number **24** for Emergency Seed Loans. If the Kind Code is shown as 24, DO NOT code the 1M Transaction for electronic routing to the Finance Office. Routing to the Finance Office should not be necessary, as the 1M Transactions should correctly process in your own jurisdiction with a "Kind Code" of 24.

Please also understand that any payments made on a borrower's Emergency Seed Loan account after the date of amortization will be held by the Finance Office in suspense until the processing of the required 1M Transaction is completed.

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4 Additional Information

A Additional Distributions From the Bankruptcy Court

We understand that for Oregon grass seed growers that filed "secured" claims in the ABT Bankruptcy, there may be one or perhaps two more small distributions forthcoming. We also understand that several Emergency Seed Loan borrowers still have 1999 seed produced under contract with AgriBioTech in their possession.

Please remember that Subparagraph 116 C of FSA Handbook 6-FLP requires that any distribution from the Bankruptcy Court AND any proceeds from the sale of 1999 grass seed still in the borrowers' possession to be applied as *EXTRA payments* on the borrowers' Emergency Seed Loans. They can not be applied toward the upcoming amortized annual installments.

B Contact Persons

If questions arise concerning the amortization of Emergency Seed Loans or the tools that have been distributed to assist in this regard, please contact Lynn Voigt, Bob Perry, Peter Halvorson, or Don Howard in the Farm Loan Programs Section in the State Office.



United States
Department of
Agriculture

Farm Service Agency
FSA Office

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

January 20, 2004

Telephone

RE: Notice of Interest Accrual and Amortization of Emergency Seed Loan

Facsimile

E-Mail
@
or.usda.gov

Dear :

TDD
(202) 720-2600

By this letter, the United States of America, acting through the Farm Service Agency (FSA) is providing notice of the beginning of interest accrual on your loan balance effective and the loan installments due.

The basic terms and conditions of the loan amortization are set forth in this letter. These terms and conditions are an addendum to your loan agreement signed :

1. Loan Amount – The current principal balance is \$.
2. Interest Rate – The interest rate on the loan will be % , the current Direct farm-operating rate. This rate will be fixed for the term of the loan.
3. Term – The term of the loan will be seven (7) years from the date of interest accrual noted above.
4. Repayment Schedule – The repayment schedule will be as indicated below, on or before the following dates:

\$ on , ; and \$ thereafter on the day of each until the principal and interest are fully paid except that the final installment of the entire indebtedness, if not sooner paid, shall be due and payable seven (7) years from the date of interest accrual noted above.

After the effective date of interest accrual noted above, any payments received as a result of distributions from the bankruptcy estate of AgriBiotech or as a result of the delivery or sale of stored 1999 seed produced or sold under contract with AgriBiotech shall be applied to the unpaid balance as extra payments as defined in FSA regulations, and will not effect the above stated installment repayment schedule.



USDA is an Equal Opportunity Employer

5. Reporting – You must notify FSA of any adverse actions, including but not limited to, any anticipated default on the loan.

If you have any questions concerning this proposal, please contact the _____ County
FSA Office at _____.

Sincerely,



United States
Department of
Agriculture

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

[1]

Farm Service
Agency

(County Name) FSA
Office

[2]

[3]

[4]

(County Office Street
Address)
(City and State)
(Zip Code)

RE: Notice of Interest Accrual and Amortization of Emergency Seed Loan

Telephone
(Telephone Number)

Dear [5]:

Facsimile
(FAX Number)

By this letter, the United States of America, acting through the Farm Service Agency (FSA) is providing notice of the beginning of interest accrual on your loan balance effective [6] and the loan installments due.

E-Mail
(E-Mail Name)@
or.usda.gov

TDD
(202) 720-2600

The basic terms and conditions of the loan amortization are set forth in this letter. These terms and conditions are an addendum to your loan agreement signed [7]:

1. Loan Amount – The current principal balance is \$[8].
2. Interest Rate – The interest rate on the loan will be [9]%, the current Direct farm-operating rate. This rate will be fixed for the term of the loan.
3. Term – The term of the loan will be seven (7) years from the date of interest accrual noted above.
4. Repayment Schedule – The repayment schedule will be as indicated below, on or before the following dates:

\$[10] on [11], [12]; and \$[13] thereafter on the [14] day of each [15] until the principal and interest are fully paid except that the final installment of the entire indebtedness, if not sooner paid, shall be due and payable seven (7) years from the date of interest accrual noted above.

After the effective date of interest accrual noted above, any payments received as a result of distributions from the bankruptcy estate of AgriBiotech or as a result of the delivery or sale of stored 1999 seed produced or sold under contract with AgriBiotech shall be applied to the unpaid balance as extra payments as defined in FSA regulations, and will not effect the above stated installment repayment schedule.

USDA is an Equal Opportunity Employer

5. Reporting – You must notify FSA of any adverse actions, including but not limited to, any anticipated default on the loan.

If you have any questions concerning this proposal, please contact the [16] County FSA Office at [17].

Sincerely,

[18]
[19]

LEF/LV/lev:Seed_Loan_Amort_Letter2.doc

Instructions for Preparation

A Notice of Interest Accrual and Amortization of Emergency Seed Loan is required by Subparagraph 116 B of FSA Handbook 6-FLP. This document, together with an Excel based installment calculator, has been developed to assist FSA personnel in accurately preparing the required notification letter.

Each Notice of Interest Accrual and Amortization should be sent by Certified Mail – Return Receipt Requested. A copy of each original notice should be placed in Position 4 of the borrower’s case file. A second copy should be attached to the borrower’s original Form FSA 2662, “Promissory Note and Security Agreement,” maintained in a secured location with other valuable documents. A third copy should be attached to the file copy of Form FSA 2662 in Position 2 of the borrower’s case file.

If the certified mail is returned as unclaimed or refused, file the unopened envelope in Position 4 of the borrower’s County Office file, send a copy of the file copy to the obligated parties by regular mail, and make an entry in the borrower’s running record indicating the date of mailing.

Before completing the Notice, please make the appropriate letterhead entries for your County Office in the left hand margin of the first page. After the appropriate entries are made, the document should be saved as a master for use in generating the required Notices.

Instructions and guidance for completion of the Notification Letter required by Subparagraph 116 B of FSA Handbook 6-FLP are as follows:

- Item 1. Insert the date the letter is prepared. This date should be before the effective date of amortization and interest accrual shown in Item 6.
- Item 2. All parties and legal entities that signed the borrower’s Form FSA 2662, “Promissory Note and Security Agreement,” must be sent a Notice of Amortization. Separate Notices must be sent to obligated parties that reside at different mailing addresses. For parties that reside at the same address, insert the names of the obligated parties that reside at the address for this notice. Prepare another notice for a party or parties that reside at different addresses.
- Item 3. Enter the appropriate street address for the obligated parties shown in Item 2.
- Item 4. Enter the appropriate City, State, and Zip Code.
- Item 5. Enter the appropriate title of courtesy (Mr., Ms., Mr. and Mrs., Messrs., Meses., or Mmes.) followed by each party’s surname. An example complete salutation for multiple parties would read: Messrs. Jones and Donald, and Meses. Smith and Wesson).
- Item 6. Enter the date exactly 36 months from the date of the original Form FSA 2662, “Promissory Note and Security Agreement,” signed by the obligated parties.
- Item 7. Enter the date of the original Form FSA 2662 signed by the obligated parties.
- Item 8. Enter the unpaid balance of the loan on the effective date of amortization as a numerical figure, (i.e. 47,559.84).

- Item 9. Enter the current regular (Market Rate) Direct OL interest rate for the effective month of amortization and interest accrual. (See Exhibit B of RD Instruction 440.1 or the National BU Notice for the month).
- Item 10. Enter the amount in figures of the first installment. This figure is expressed in whole dollars followed by two decimal points, (i.e. 1,634.00). The amount of the first installment is a proportionate share of a regular equal amortized annual installment, prorated based on the number of months between the effective date of amortization and the month the first installment is due.
- NOTE: The guidance provided in Paragraph 116 B of FSA Handbook 6-FLP requires that the first installment be scheduled for the month in which the majority of income from the operation is typically received, but in no case more than 12 months from the effective date of amortization and commencement of interest accrual. The remaining amortized installments are to be scheduled annually on the anniversary date of the first installment.*
- Item 11. Enter the month of the first installment in words, followed by the day of the first installment in figures, (i.e. April 15).
- Item 12. Enter the year of the first installment in figures, (i.e. 2004). Typically the entry will be 2004, but it could be 2005 if the guidance provided in item 10 calls for the first installment to be due shortly after the beginning of the 2005 calendar year.
- Item 13. Enter the in figures of the regular equal amortized annual installments which become due after the first amortized installment shown in Item 10. This figure is expressed in whole dollars followed by two decimal points, (i.e. 12,388.00).
- Item 14. Enter day in figures that the annual installment will be due. This should be the same numerical day of the month as shown in Item 10 for the first installment, and it should be followed by the appropriate extension, (i.e. 1st, 3rd, 15th, 22nd, etc.).
- Item 15. Enter the written name of the month that the annual installment will be due. This should be the same written name of the month shown in Item 11 for the first installment.
- Item 16. Enter the County Name portion of the County Office, (i.e. Washington-Columbia, Wasco-Hood River, Marion, Linn-Benton-Lincoln, etc.).
- Item 17. Enter the address and telephone number of the County Office.
- Item 18. In CAPITAL LETTERS, enter the name of the Farm Loan Manager, Farm Loan Officer signing the notification letter on behalf of the Farm Service Agency.
- Item 19. Enter the appropriate title of the employee signing the notification letter on behalf of the Farm Service Agency.

Emergency Seed Loan
Amortization Calculation Worksheet

Borrower Name: Fertile Farms, LLC
 Case No. 43-037-0123456789
 Loan No. 44-01
 Account Balance \$45,789.32
 Interest Rate 3.750% Current OL Rate
 Repayment Period 7
 Date of Original Loan 1/16/2001
 Full Amortized Payment \$7,559
 Proposed Date of 1st Payment 4/1/2004

NOTE: Schedule payments when income is expected or 48 months from the date of the original loans whatever is lesser.

Installment Information

	Payment Due Date	Scheduled Payment
1	4/1/2004	\$1,890
2	4/1/2005	\$7,559
3	4/1/2006	\$7,559
4	4/1/2007	\$7,559
5	4/1/2008	\$7,559
6	4/1/2009	\$7,559
7	4/1/2010	\$7,559
8	1/16/2011	Balance Due

Date Completed: _____

Completed By: _____
Name/Title

Signature: _____

Instructions for Use

To assist in correctly and accurately calculating installment amounts, an Excel based loan installment calculator has been prepared and electronically distributed for use in calculating the amount of both the borrower's first installment, and the borrower's remaining regular equal amortized annual installments, in the manner expected. The following information is provided concerning its use:

The Emergency Seed Loan amortization worksheet is an Excel based worksheet that calculates prorated and full amortized payments based on inputted information. The worksheet is protected allowing the user access to only those input cells with a yellow background. Data input is necessary in those input cells to accurately identify the loan and calculate the amortized payments. It is recommended that the original amortization worksheet be saved as a master file and a separate file be saved for each loan amortized.

Moving from cell to cell can be best accomplished by using the tab key. Input the borrower's name, case number, and account balance. The interest rate input cell has a drop down list which requires you to click on the arrow on the right of the cell and click on the correct interest rate. The date of the original loan data cell requires the date be entered in the month/day/year format. The proposed date of the first payment data cell requires the date be entered in the month/day/year format and must be between January 1, 2004 and 4 years from the date of the original loan in order to be valid.

Payments are automatically calculated including a prorated payment if the due date is less than 1 year from the amortization date. The date completed input cell has a drop down list from which the current date or blank entry can be selected. The name and title of the employee completing the worksheet must be inputted. Printing the worksheet can be done by the normal method of clicking on the file option on the menu bar, clicking on print, and clicking the OK button. Alternatively, most menu bars will have a print icon which can be clicked to print the worksheet.

Once printed, the employee must review the input data for accuracy, and sign the completed worksheet in the signature block. Retain the completed worksheet by attaching it to the file copy of the original Form FSA 2662 Promissory Note maintained in Position 2 of the borrower's case file.

We hope you find this tool useful and helpful in calculating accurate and correct installment amounts, and in preparing accurate and correct notices for our Emergency Seed Loan borrowers concerning the amortization of their remaining loan balances.



United States
Department of
Agriculture

Farm Service Agency
Carson County FSA
Office

1234 Main Street
Kit City, Oregon
97000-0000

Telephone
(541) 555-1212

Facsimile
(541) 555-2121

E-Mail
Johnny.Goode@
or.usda.gov

TDD
(202) 720-2600

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

January 20, 2004

Fertile Farms, LLC
Sampson A. Smith
Delila B. Smith
Rt. 1, Box 9876
Sherman City, OR 97999

RE: Notice of Interest Accrual and Amortization of Emergency Seed Loan

Dear Mr. and Mrs. Smith:

By this letter, the United States of America, acting through the Farm Service Agency (FSA) is providing notice of the beginning of interest accrual on your loan balance effective January 16, 2004 and the loan installments due.

The basic terms and conditions of the loan amortization are set forth in this letter. These terms and conditions are an addendum to your loan agreement signed January 16, 2001:

1. Loan Amount – The current principal balance is \$45,789.32.
2. Interest Rate – The interest rate on the loan will be 3.750%, the current Direct farm-operating rate. This rate will be fixed for the term of the loan.
3. Term – The term of the loan will be seven (7) years from the date of interest accrual noted above.
4. Repayment Schedule – The repayment schedule will be as indicated below, on or before the following dates:

\$1,890.00 on April 1, 2004; and \$7,559.00 thereafter on the 1st day of each April until the principal and interest are fully paid except that the final installment of the entire indebtedness, if not sooner paid, shall be due and payable seven (7) years from the date of interest accrual noted above.

After the effective date of interest accrual noted above, any payments received as a result of distributions from the bankruptcy estate of AgriBiotech or as a result of the delivery or sale of stored 1999 seed produced or sold under contract with AgriBiotech shall be applied to the unpaid balance as extra payments as defined in FSA regulations, and will not effect the above stated installment repayment schedule.

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5. Reporting – You must notify FSA of any adverse actions, including but not limited to, any anticipated default on the loan.

If you have any questions concerning this proposal, please contact the Carson County FSA Office at 1234 Main Street, Kit City, Oregon 97000-0000, (telephone 541-555-1212).

Sincerely,

JOHNNY B. GOODE
Farm Loan Manager