228 Annual Requests for IA Payment or Continuation

E
Rules for Continuation of IA

In accordance with Par. 135B of 2-FLP, the interest rate on any guaranteed loan cannot exceed the rate the lender is charging their average farm customer. Also, as specified by Par. 228E of 2-FLP, continuance of IA for the next 12 months will be based on the lender cash flow projection that a feasible plan is not possible without subsidy, but a feasible plan can be achieved with a 4 percent subsidy reduction. In making this determination the lender must submit a cash flow indicating an annual payment on the guaranteed interest assistance loans, based on the current rate of interest being charged by the lender to this customer, but not to exceed the rate they are charging their average farm customer. The term will be based on the present term of the note. When requesting IA for the next 12-month period the lender will submit two cash flow statements. One cash flow will project payments at current rate amortized over the current note term. The second cash flow statement will reflect a 4 percent decreased payment for those notes with IA. The lender will be allowed a reasonable capital replacement cost in their cash flow projections.

Example: The lender's original guaranteed loan was a $100,000 OL-G, closed at 7-years, with equal amortized payments at 12% interest. With interest assistance, this rate was reduced to the borrower by 4% (making the borrower's payment based on $100,000 amortized over 7 years at 8%). Due to a reduced Federal Reserve rate, the lender is now charging their average farm customer 6.5 percent interest. When reviewing the request for continuing IA for the next 12 month period the Authorized Agency Official will make the IA determination on a payment based on the outstanding principal balanced amortized over the remaining years at the current note rate being charged the lender’s average farm customer. For example the outstanding balance is $88,554.38 after the first year. This payment will be calculated by amortizing the $88,544.38 over the six remaining years at 6.5 % interest. The "effective rate payment" will be the $88,554.38 amortized over 6 years at 2.5%. If the cash flow indicates that IA is not needed because of the lower payment (based on the reduced interest rate), then IA will be denied for the next 12 month period and "zero" (-0-) will be entered into block 27 of Form FSA 1980-24.

It is the lender’s choice if they wish to change the annual payment they are charging their customer. However, calculation of the need for IA will be based on a payment calculated at the current interest rate being charged by the lender to the borrower, not to exceed the average interest rate being charged to the lender's average farm customer.

F
FSA Review of Request for IA Payment

MT Exhibit 21 will be used by the FSA county office when reviewing Form FSA 1980-24 for IA payment and for determination if IA should be authorized for the next review period.

(Back to Index)