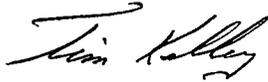


For: County Offices

Interest Assistance Requirements

Approved by: State Executive Director



1 Overview

A Background

This Notice replaces MO Notice FLP-268 dated 9/14/2005, which expired October 1, 2006.

B Purpose

The purpose of this Notice is to provide guidance and direction in the interest assistance program to maintain consistency and continuity throughout the state.

We recommend that the county office utilize the monthly Web GLS reports in monitoring its interest assistance accounts.

C Contact

Any questions concerning this Notice should be directed to the Farm Loan Programs Section in the State Office.

D Filing Instructions

A copy of this Notice should be filed preceding 2-FLP Handbook.

Disposal Date October 1, 2008	Distribution Farm Loan Teams, County Offices, AFLSs, DDs, CORs
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2 **Action**

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.224E.

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, 1999 that will extend beyond the 10-year limitation. Utilize the monthly IA 10-Year Limitation excel report found in the Farm Loan Guar_Reports folder on the state office web site to monitor the 10-year Interest Assistance eligibility expiration date.

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 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:

1. new OL obligations/loans (OL/LN or OL/LOC) approved hereafter.
2. existing OL/LN, OL/LOC, and FO/LN guaranteed loans approved/obligated prior to 10/01/91 that were NEVER obligated with interest assistance.
3. existing OL's and/or FO'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 Requirement

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.

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. A monthly cash flow is not needed for all other guaranteed types.

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 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 utilize it's own method to determine cash flow feasibility in a manner consistent with 2-FLP Handbook. However, ALL lenders including the PLP lender must strictly adhere to the interest assistance requirements found in Part 9 of 2-FLP.

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. The cash flow plan summary being used by the lender should be similar to Exhibit 1 of this notice to support the feasible plan calculation with and without interest assistance.

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. Exhibit 1 of this notice can be used as documentation to support the accountability/liquidation of current assets and use of proposed loan funds.

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. An example of a non-typical year could be when the cash flow includes:

- greater than \$1000.00 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

If a borrower has multiple loans, interest assistance may be provided to each loan, only to one loan, or any distribution the lender selects; 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 flow 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 to update GLS records. 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:

1. The borrower's promissory note loan history or detailed statement of account, including all disbursements and payments applied to the loan that show the following items:
 - the unpaid principal balance that was owed at the beginning of 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 calculation of the average daily principal balance during 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 FSA-1980-24 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 all 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 (SEL lender) 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 signed and dated by both the lender and borrower. 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 Handbook, Par.228 F, "Rules for IA Claims," states:

"If the review is not completed and submitted to the Agency within 1 year of the review date, no claim will be paid for that period."

Follow MO NOTICE FLP-348, "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 was completed in accordance with the Forms Manual Insert.
2. Check the lender's calculations to verify the borrower's guaranteed loan account is accurate. Can utilize the Loan Ledger-IA Worksheet 09-17-02.xls excel spreadsheet program to check that the correct amount of IA subsidy is being paid.
3. Make sure that 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. Verify if a valid or assumed EFT account has been established for the lender. Follow MO NOTICE FLP-336, "Guaranteed Loan Servicing-Electronic Funds Transfer," dated 9/18/06.
2. Obtain a copy of the VIEW Farm Loan Interest Assistance "VP" screen from GLS. Attach to the FSA-1980-24.
3. Cross-check the information on the "VI" screen printout with the information found on FSA-1980-24.
4. GLS Online Help is available.
5. Obtain a hard copy of ADD Farm Loan Interest Assistance Claim screen print that shows a processing code of **Create Successful** for file documentation purposes. Processor to initial and staple the screen print to the FSA-1980-24.
6. 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.

MO Notice FLP-349

7. However, if the GLS Transaction 4031 does not process, contact the Farm Loan Programs Section to assist with any input and/or problem prior to contacting Finance Office.

J Calculation of Average Daily Principle Balance and Interest Payable Amount

FSA now 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. Following is an example of a 365/365 basis with a 1/1/01 to 1/1/02 claim period:

<u>Principal Balance</u>	<u>Days Outstanding</u>	<u>Total</u>
\$20,000.00	X 35 (1/1/01 to 2/5/01)	\$ 700,000.00
\$19,000.00	X 92 (2/5/01 to 5/8/01)	\$ 1,748,000.00
\$15,000.00	X 72 (5/8/01 to 7/19/01)	\$ 1,080,000.00
<u>\$ 7,000.00</u>	<u>X 166 (7/19/01 to 1/1/02)</u>	<u>\$ 1,162,000.00</u>
	365 days	\$ 4,690,000.00
		<u>Divided by 365 days</u>
	Average Principal Balance =	\$12,849.32
		<u>Subsidy Rate X .04</u>
	Interest Payable =	\$ 513.97

Following is an example of a 205-day period on a 360/365 basis with a 1/1/01 to 7/25/01 claim period:

<u>Principal Balance</u>	<u>Days Outstanding</u>	<u>Total</u>
\$20,000.00	X 35 (1/1/01 to 2/5/01)	\$ 700,000.00
\$19,000.00	X 92 (2/5/01 to 5/8/01)	\$ 1,748,000.00
<u>\$15,000.00</u>	<u>X 78 (5/8/01 to 7/25/01)</u>	<u>\$ 1,170,000.00</u>
	205 days	\$ 3,618,000.00
		<u>Divided by 205 days</u>
	Average Daily Principal Balance =	\$17,648.78
		<u>Subsidy Rate X .04</u>
	Subsidy on an annual basis =	\$705.95
		<u>Divided by 365 days</u>
		\$1.9341095
		<u>X 205 days</u>
	Interest Payable =	\$396.49

K IA Excel Spreadsheet

The [Loan Ledger-IA Worksheet 09-17-02.xls](#) excel spreadsheet can be used by the lender and/or loan approval official to calculate/check the IA interest payable. When used, the amount of IA subsidy is automatically calculated. FSA employees can find at:

[\\mocolumbiac001\missouri shared\FSA\STO-Folders\Farm Loan\Guar Excel Files.](#)

The following must be entered into the excel spreadsheet program to obtain the correct IA subsidy:

- beginning date of the claim period
- principal balance at the beginning of the claim period
- principal advances and principal payments during claim period
- ending date of the claim period

L FSA-1980-64 Interest Assistance Agreement = Allonge to 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. This is called the borrower's effective interest rate. 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.

(Borrower's effective interest rate = Promissory Note full note interest rate – 4% FSA interest assistance subsidy).

If the above situation occurs, contact the State Office for guidance.

M Leap Year

Interest that accrues on February 29 (a leap year) is not recognized by the Finance Office computer system and cannot be paid.

N Change Interest Rate Basis

To change the interest rate basis on the GLS "LD" screen, complete the form RD 1980-47 and forward to Finance Office for processing.

O Calculating APB Backwards from IA Subsidy

If you know the amount of IA subsidy, the daily principal balance can be determined for a **one (1) year period** as follows:

$$\frac{\text{Interest Payable amount}}{\text{divided by .04}} = \text{Average Daily Principal Balance (APB)}$$

if less than a one (1) year period

$$\begin{aligned} & \frac{\text{Interest payable amount}}{\text{divided by .04}} \\ & = \text{Quotient} \\ & \times (365 \text{ or } 360) \text{ days} \\ & = \text{product} \\ & \text{divided by actual days of the period} \\ & = \text{Average Daily Principal Balance (APB)} \end{aligned}$$

P 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 a 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.

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