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A Division of Mortgage Solutions of Colorado LLC

AG-AMERICA COMMERCIAL FARM AND RANCH LENDING GUIDE

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201 GENERAL OVERVIEW - CREDIT STANDARDS AND GUIDES

Responsibility at Loan Origination

- The Originator must evidence that each loan meets the underwriting standards set forth herein and that the loan documentation in each loan file conclusively supports that determination.

Age of Documents

Type of Document	Length of Validity to Note Date
• Appraisal	• 365 days
• Bank Statements	• 60 days
• Credit Report	• 60 days
• O&E	• 14 days
• Pay Stubs *	• 60 days
• Payoff Statement	• 30 days
• Property Inspections – septic, well, home inspection, etc.	• 90 days
• Self-Employment Verification	• 30 days
• Survey	• 180
• Title and Closing Protection Letter	• 90 days
• VOD	• 60 days
• VOE	• 30 days
• VOR/VOM	• 30 days

- * Borrowers who are not paid on a 12-month schedule (e.g., teachers paid on a 10-month year) and the loan is closing during the months when the borrower will not have a paystub dated within 60 days of closing, provide the last paystub received and a copy of the contract verifying start date of employment for the coming year
  - Note: Altered or blacked out documents are not allowed
- When consecutive credit documents are in the loan file, the most recent document is used to determine whether it meets the age requirement
  - For example, when two consecutive monthly bank statements are used to verify a depository asset, the date of the most recent statement must be no more than 60 days old on the date the Note is signed

Summary

- The maximum size of an individual Farm and Ranch loan is indexed to the rate of inflation and changes each year. The current maximum loan size for an individual loan is $12.0 million for loans secured by more than 1,000 acres and $30.0 million for loans secured by 1,000 acres or less. A borrower may have multiple loans, but in no event may Ag-America indebtedness exceed $30.0 million.
- As used throughout “pro forma” connotes a restatement of the financial data of the entity being financed, to include in that entity’s current and historical financial statements the assets collateralizing the proposed loan, income derived from those assets and the proposed loan. For facility financing see *Chapter 205*.
- Ag-America’s Fast Track program, an alternative loan packaging option providing a fast process to make low-risk farm loans, is described in detail, in *Chapter 207*.
- Loans that do not conform to one or more of the foregoing standards may be accepted if Ag-America, in its sole discretion, determines that such loans have compensating strengths.
- The compensating strengths must be clearly identified, demonstrated by actual performance and reasonable dependability.

Farm and Ranch Loan Program

- In its subsequent examination of the loan files, Ag-America must be able to confirm from the documents themselves that all Qualified Loans conform to the underwriting standards. Ag-America will verify that the Originator’s presentation satisfactorily meets all the underwriting standards (see *Chapter 202.6* Compensating

Strengths for discussion on loans not meeting all underwriting standards) and other loan origination requirements. This verification does not relieve the Originator of its obligations under the representations and warranties it gives to Ag-America with respect to loans. Ag-America must receive the original loan application signed by all applicants prior to funding.

Credit Philosophy

- All loans shall be made to creditworthy, financially responsible applications of proven integrity and sound financial condition. The credit analysis completed by the Originator must evidence the applicant's ability to repay the loan in accordance with its terms. Loans shall be made under terms and conditions that will be reasonably ensure prepayment. Loans shall be adequately secured to recover principal and interest in the event of adverse operating or economic conditions.
- For Farm and Ranch Program qualified loans, Ag-America recognizes the five credit factors of character, capital, capacity, collateral and conditions when evaluating an applicant's creditworthiness. Ag-America's underwriting standards are designed, within this framework, to aid the decision-making process and to maintain credit quality. Each loan analysis is expected to be thorough, well supported, with a narrative presentation that addresses the five credit factors.
- The extent of the narrative will depend on the complexity of the credit, its risk, the degree to which the pro forma presentation (after loan closing) departs from historic data, and any other criteria necessary to "tell the story". *Exhibit A* at the end of this chapter provides a detailed outline of the contents of a typical loan narrative.

CHAPTER 202 FARM AND RANCH LENDING

202.1 Character

- The Lender shall assess the Borrower's honesty, integrity, management ability and previous performance of his/her contractual, financial and business obligations, based on the documentation presented.

Credit Report Standards

- The initial credit package submitted for Preliminary Loan Approval is to include a copy of the Credit Report. Often, credit bureau reports do not reflect business credit, meaning that only consumer credit items are reported. In these instances, direct credit checks should be made and the results documented in the file. The experience for the past two full years, at minimum, is to be reported. Verification requests should be sent to input suppliers to the farming operation, equipment providers, or other vendors.
- A credit score of 680 is required for all applicants and guarantors. Credit scores are an indicator of the borrower's willingness and ability to repay historical credit obligations. Therefore, a poor credit history alone may be the basis for denying a loan.
- Exceptions for a low credit score may be granted when the borrowing entity is a large, complex partnership/corporation and the person with a low credit score is not integrally involved in the management of the partnership/corporation. In such cases, however, the partnership or corporation should demonstrate historical debt repayment ability and have the financial ability to meet all future proposed debt obligations.
- High credit scores will not compensate for marginal applicants. The credit score will be used to enhance a borrower's sound financial condition.
- Borrowers who question the accuracy of their credit reports should follow up with the credit agencies, obtain corrected credit reports and submit the corrected credit report with the credit application.
- Regardless of the source of information used, the Originator is expected to verify all of the items in the preceding section. Additionally, the following items warrant special attention:
  - Undisclosed debts. Debts not disclosed in the Borrower's balance sheet should be explained in writing with a specific, convincing and acceptable reason for the omission; nevertheless, unless the amounts are minor or exceptionally good explanations are provided, the omission of this information is often considered grounds for denying the loan.
  - Judgments, garnishments and liens. Written explanations of the circumstances of such items are required and judgments must have been bonded or satisfied unless nominal in amount.
  - Verification of employment. The employment of any applicant is to be verified if it is material to the decision to approve the loan. This income is defined as material if the loan does not achieve the Total Debt Coverage ratio without it. W-2s or payroll stubs may be used to verify the historical amounts received. If the loan is highly dependent on the continued off-farm employment, or if it is improbable the

pay level could be replaced if lost, further investigation should be done. The Fannie Mae Form 1005, "Request for Verification of Employment", or equivalent, may be used for this purpose. If the applicant's employment has changes in the past two years, the Originator must obtain, from a reliable source, written verification of employment and income for the previous employment.

- Voluntary Petition. If the borrower has filed a voluntary petition under federal or state bankruptcy laws or has been a Defendant in an involuntary bankruptcy proceeding, the Borrower's date of discharge shall have been at least 48 months prior to the date of application. In addition, the loan file must contain the following:
  - a) Copies of the bankruptcy petition, schedule of debts, and discharge showing the schedule of debts, which were discharged.
  - b) Evidence to indicate that all debts not satisfied in the bankruptcy have been paid.
  - c) Written statement from the Borrower satisfactorily explaining the causes of the bankruptcy.
  - d) Any other evidence necessary to support the Originator's determination that the Borrower has re-established and maintained a good credit record and fiscal responsibility.
- o Ag-America will scrutinize the documentation presented for a very strong borrower and acceptability is not guaranteed.
- o Pending dissolution (divorce, partnership, corporation, etc.); Ag-America will not accept a loan impacted by a pending dissolution.

202.2 CAPITAL

- The Borrower must have adequate ability to sustain and fund normal operations (including periods of financial adversity) over the term of the loan. The Lender's analysis shall assess the following factors and the trends in these factors:
  - The profitability of the enterprise being financed.
  - Historic financial trends for the enterprise.
  - The Borrower's ability to meet all financial obligations.
  - The depth of resources available to the Borrower to absorb any price and production volatility in the Borrower's businesses (the one being financed as well as others that present opportunity and risk to the Borrower).

<u>Financial Statements</u>

- Historically, financial reporting in agriculture has varied in both the extent and quality of financial information available. Production agriculture is unique because of the large number of producers, the diversity of individual production, financial complexity, management capability and marketing characteristics. Ag-America recognizes the differences and variances in financial reporting that exist in the agricultural marketplace. What follows are the Ag-America minimum financial guidelines.

<u>Balance sheets and Income Statements</u>

- The Originator shall obtain from the applicant a minimum of three previous years' financial statements (unless statements were not prepared) preferable of even date (as of the Borrower's fiscal year ending on the same date for each of the three years). At minimum, financial statements shall consist of balance sheets with appropriate schedules and corresponding income statements. Accountant prepared accrual basis statements are preferred buy cash basis balance sheets and income statements may be substituted. The Originator should use sound judgment when requesting financial information and be sure appropriate information is supplied to make a prudent credit decision. Income tax returns must be submitted to support all non-audited statements. If the Lender questions the validity of the tax return, a certified copy of the return should be obtained from the IRS.
- The Originator is required to provide financial and security documentation to support the financial information submitted for underwriting. Originators are responsible for performing and providing all verifications (balance sheet and income statement) to support assets and liability values represented by the applicant. The support for the farm income portion of the income statement should include historic yields and prices. Historic operating results need to relate to the pro forma income statement. Loan analysts, processors and underwriters are expected to use a differential approach throughout the verification and documentation phase. All asset or projected income items that may affect loan performance need to be verified. Often, during the

investigation and analysis of the application, additional and extraordinary work needs to be done to support the analysis, lending ratios, reconcilements, or loan conditions.

- When the Originator is unable to obtain the historical financial statements, their absence must be justified in the credit package. As a rule, Ag-America is typically more flexible on this requirement on smaller loans and loans where the primary source of repayment is from non-farm sources. Conversely, this data is deemed to be very significant for larger loans, more complex operations and applications with marginally acceptable repayment capacity.
- Ag-America expects the amount and detail of financial information required for adequate financial analysis to increase as the size and complexity (e.g. multi-entities) of the loan increases. Financial statements and financial spreads should be consistent from year to year. Pro forma balance sheets and income statements should relate to historic operations with deviations from the historic data explained in detail in the narrative as part of the loan submission.

Leverage and Liquidity

- The entity being financed should have a pro forma debt-to-asset ratio of 50% or less and a pro forma current ratio of 1:25 or greater. The debt-to-asset ratio shall be determined by dividing pro forma liabilities by pro forma assets. The current ratio shall be determined by dividing pro forma current assets by pro forma current liabilities.

Financial Analysis

- The Originator is responsible for completing the financial analysis of both the balance sheet and income statements. In doing so, the Originator needs to comment on trends, both positive and adverse, that are evidence with the entity being financed. The following are guidelines for completing the financial analysis of the Borrower's financial information.
- The Originator shall prepare a pro forma market value balance sheet for use when calculating the underwriting standards for current ratio, debt-to-asset ratio and projected loan-to-value ratio. The pro forma balance sheet shall reflect the requested loan, the anticipated use of loan proceeds and the financial condition of the Borrower immediately after the loan is closed. If the applicant has submitted historic balance sheets using book values, only the most recent balance sheet needs to be adjusted to market value for the purposes of calculating the standards. When making market value adjustments, the Originator should examine major asset components and adjust those items to market value. The originator has the responsibility to fairly portray the pro forma financial condition of the proposed Borrower, remembering adjustments can be both positive and negative. Deferred tax liabilities may be excluded from total liabilities when calculating pro forma standards. The pro forma standards should be calculated using an accrual basis balance sheet, if provided by the Borrower.
- When cash basis market value statements are used, the Originator should obtain the following additional schedules corresponding with the date of the financial statements. If the financial statements have sufficient detail, appropriate schedules may be eliminated.
  a) Verification of deposits and/or investments via copies of bank, credit union or brokerage statements.
  b) Schedule of accounts receivable and accounts payable.
  c) Breakdown of inventory by commodity and market value.
  d) Listing of equipment and its value; either book or market.
  e) Breakdown of livestock by age, kind, type and market value.
  f) Listing of real estate by acres of land use and commodity classification (e.g., irrigated cropland, navel oranges, pasture, etc.) Facilities which contribute value should be identified (e.g. 10,000 bushel grain storage, 300 cow confined dairy, etc.).
  g) Schedule of notes payable with terms, rate and maturity.
  h) Maximum operating (seasonal production year) loan approved with rate and anticipated average loan balance.
  i) Gross income should be listed by agricultural commodity sold consistent with IRS Schedule F reporting. Program payments should be listed separately.
  j) Listing of commodities or products sold by accounting period with average prices received and quantity sold and produced.
  k) Listing any contingent liabilities including amount, purpose and terms.

- Some balance sheets list intermediate assets and liabilities. Provided historic financial information is consistent and corresponding assets and liabilities match this accounting practice, it is acceptable to Ag-America. Livestock operations typically present the greatest difficulty when attempting to match assets and liabilities. Care should be taken to ensure assets and liabilities match when using current asset and liability totals to calculate the pro forma current ratio. It is acceptable to segregate intermediate assets and liabilities and combine appropriate assets and liabilities with the current categories to calculate the pro forma current ratio. The current maturity of long-term debt is the principal portion of term debt due within the next year (12-month period). Not all balance sheet formats have this line item as a separate listing. Ag-America requires current maturities of long-term debt as a separate line item within the current liability section of the balance sheet and the amount to be part of the current ratio calculate.
- When multiple Borrowers (including co-makers or guarantors) apply for the loan and when individual stockholders and partners of closely held corporations and partnerships are required to sign the loan documents, consolidated financial statements must be provided with the elimination of inter-company transactions as appropriate. The existence and quality of non-obligor entities must be verified by a current tax return, including all Schedule K-1 forms, when the applicant owns greater than 10 percent of the entity. If the entity tax return does not include a financial statement, the Borrower must provide a current entity financial statement. An exception to the consolidating owners of corporations or partners in a partnership may be made when the borrowing entity meets all Ag-America standards and the individual's financial information is not compatible with the analysis of the entity being financed. In this situation, individual statements shall be provided and the individuals must sign as guarantor or co-maker.
- When preparing the loan presentation, the financial information should be up to date. If the year-end financial statements are older than three months, an interim balance sheet, adjusted to market value, dated no later than 60 days prior to the loan application, should be used to develop the pro forma statement.
- Any assets such as water rights, milk quota, commodity allotments, and marketing base should be listed as a separate asset if it has a market value and can be sold separately. If the asset is tied to the intended real estate security for the loan, it should be valued as part of the real estate by the appraiser. If the asset cannot be sold on the open market, it should be listed as intangible asset at minimal value. Consideration should be given to requiring the applicant to pledge these types of assets if needed to generate income used to service debt obligations. If these assets are to be pledged, consideration should be given as to including appropriate riders in the related mortgage documentation to ensure a first-priority security interest in such assets.
- A schedule of operating leases with commitments longer than one year should be included as part of the analysis. Terms of the lease, equipment or property involved, payment amount and buy out provisions should appear on the schedule. Lenders should review asset categories to ensure leased assets are not included as part of the balance sheet. Consideration should be given to requiring the assignment of leased items in addition to taking a USS lien on such items, to be part of the collateral package (not valued). This practice is of particular concern with leases of irrigation equipment and other similar assets.

202.3 CAPACITY

- The Borrower shall generate sufficient net earnings, after family living expenses and taxes, to meet all debt obligations as they come due over the term of the loan and provide a reasonable margin for capital replacement and contingencies. The capacity standard is a pro forma total debt service coverage ratio of 1.25:1, after living expenses and taxes. Net income from farming operations and non-farming sources may be included. Income from non-recurring sources may not be included. Ag-America has established the following guidelines for determining debt service capacity:
- The pro forma total debt service coverage ratio is calculated as follows using the pro forma income statement:

+Net Farm Income + Depreciation + Interest on Capital Debt (see Note) + Capital Lease Payments + Net Non-Farm Income -Appropriate Living Expenses <u>Income Taxes</u> = Numerator + Interest on Capital Debt + Annual Principal Payments <u>+ Capital Lease Payments</u> = Denominator	• Note: If operating interest is included in the numerator, then pro forma operating interest must be included as part of the denominator. Pro forma operating interest should also appear as a separate line item in the pro forma income statement.

- The Originator shall include a separate schedule of pro forma capital debt payments, including capitalized lease obligations. A schedule of debts should be provided listing lender, amount, rate, annual interest payment, annual principal payment and maturity
- The Originator should prepare a projected income statement based on historical production, anticipated prices and changes in the operation after closing the proposed loan. The Originator should utilize a "long-term view" when considering the profitability of the applicant's operation. Historical trends in commodity prices, input costs and profitability of the enterprise being financed need to be taken into consideration when analyzing the projected repayment capacity of an operation from a typical year income and expense perspective. Income and expense information can be gathered by the Originator (from the internet, appraisers, United States Department of Agriculture, or other sources) in order to property analyze the projected future repayment of the operation where required.
- If historic scheduled capital debt payments are known, these figures may be used to calculate historic debt service coverage in operations transitioning in acres, herd size, etc.
- If the applicant's pro forma income is dependent on either income from leasing the primary security to non-obligated entities or from payment of obligations resulting from a sale of assets to private parties (contract for deed or mortgage receivables), adequate verification of future performance may be difficult to establish. If that is the case, the Originator should obtain historical performance records (date and payment amount) from the applicant documenting past performance. Said documentation should be reviewed by the Underwriter, when appropriate. In the case of intensive livestock operations, Originators should take reasonable steps to verify that the numbers of income producing animals represented by the applicant to be present in the operation accurate.
- If the applicant has materially changed the operation by expansion, contraction or change of commodities produced, the Underwriter should analyze the Originator's description of future operation. A multiple year operational projection may need to be analyzed with stress testing to show performance with differing price assumptions and yield levels. Both cash and accrual earnings are important to ascertain if possible. If accrual earnings cannot be ascertained more reliance will be placed on ensuring that the cash income analysis is accurate.
- If the applicant applies for an Adjustable Rate Mortgage (ARM) product, an interest rate stress test applies and the output of which shall serve as the data for the qualifying ratio. For 1-month and 1-year ARM products, a stress test of 500 basis points shall be conducted; for a 3-year ARM product, 300 basis points. The stress test shall be conducted by calculating the loan payment based on an interest rate adjusted upward from the initial maximum rate requested in the loan submission.
- The resulting output will be used to determine qualification for the total debt coverage ratio. However, the property debt coverage ratio does not have to be stress tested.
- Non-recurring income from capital sales or other sources should be deducted from the numerator when determining total funds available for debt service
- Non-farm income may be included from the following sources:
    1. Full or part time employment.
    2. Retirement income that can be verified from the providing organization.
    3. Social Security with verification.
    4. Alimony and child support with verifying documentation.

5. Interest and dividends from non-farm investments.
6. Veteran's benefits that are properly documented.

- Reasonable family living expenses should be estimated by the Originator. Originators are expected to use judgment, relying on factors such as location and the financial strength of the applicant, to determine appropriate family living expenses. In cases where a borrower's actual family living expenses cannot be determined accurately based on available information, Ag-America's guidance for determining family living expenses are:
  – $15,000 for each adult (over 18) who is obligated on the loan. In the case of a non-obligated spouse, $15,000 would need to be included as family living expense as well.
  – $5,000 for each dependent.
- If the primary borrower is an entity that provides salaries/withdrawals to ownership, the higher amount of determined living expenses and the salaries/withdrawals paid shall be used for the pro forma consolidated projection.
- Estimated tax expense includes Federal Income taxes, Social Security taxes, State Income taxes, Medicaid taxes and any other state or local taxes.

202.4 COLLATERAL

Loan-to-Value Standard

- When the property being appraised for the loan is part of a purchase transaction, the LTV is to be based on the lower of the property's purchase price or it's Appraised Value. This presumes the property is being acquired in an arms-length market transaction. If this is not the case (e.g., inter-generational transfer) and the Originator proposes to base the loan on the higher figure, the Originator must thoroughly document the circumstances and obtain Ag-America's prior approval.
- The LTV shall not exceed 70% in the case of typical Ag-America loans secured by agricultural real estate, 60% for loans greater than $5.0 million.
- For loans with an LTV >60% and <70%, TDC must be > 1.5:1 and no exceptions for pro forma debt to asset ratio and pro forma current ratio standards.
- The maximum LTV is 60% on standard farm and ranch loans in the following states: Iowa, Illinois, Indiana, Minnesota, Missouri, Nebraska, North Dakota, Ohio and South Dakota.
- For cash-out loans and loans refinancing short-and intermediate-term debt, the maximum LTV is 60% with the amortization not to exceed 15 years.

Net Property Income

- The Net Property Income from the subject property shall be determined by the Appraiser and reported in conjunction with the appraisal. (Note: The owner-operator approach to establishing Net Property Income may be used by the appraiser).

Leasehold Valuations in Real Estate

- Leaseholds may be valued as primary collateral, only if the term of the lease exceeds the loan amortization by five (5) years.

Minimum Acreage and Annual Receipts

- Agricultural Real Estate must consist of at least five acres of land OR be used to produce annual receipts of at least five thousand dollars ($5,000).

202.5 CONDITIONS

Loan Conditions

- The Lender should consider when negotiating the proposed loan, the loan agreements, personal liability or guarantees, additional collateral, title requirements and hazard insurance. These conditions will be made a part of the commitment letter and final loan documentation.
- When negotiating the loan, be aware of the following conditions Ag-America requires unless specifically provided elsewhere:

- The loan shall be fully amortized over a period not to exceed 30 years, or amortize according to a schedule not to exceed 30 years. The amortization is expected to match the useful life of the mortgaged asset and payments should normally match the earnings cycle of the farming operation. Where facilities comprise a material portion of the value of the real property, the amortization schedule should not extend beyond the useful agricultural economic life of the facility. The Originator should refer to the Ag-America for the loan terms, rates and amortization schedules currently being offered.
- Personal guarantees enforceable upon default of all owners of beneficial interest, including partners in a partnership, stockholders of corporations, trusts and estates, are expected to be obtained. Normally, such guarantees should not be limited in any manner, though on occasion, Ag-America may consider limited guarantees if there are compensating strengths to the credit. Trusts are not eligible for Ag-America financing on a stand-alone basis. A trust may be one of the applicants for a loan, but not the only one. In cases where the borrower's spouse has chosen not to accept personal liability on the loan and no prenuptial agreement is in place, Ag-America requires the pro forma balance sheet to be prepared with 50 percent of the net worth of the individuals as a term liability with a 25 year amortization. The amortized payment will be included in the pro forma total debt coverage ratio, allowing for analysis of the potential impact of dissolution on the borrower's leverage position and their ability to service debt.
- Hazard Insurance is required on insurable assets if the contributory value of insurable improvements and buildings given by the appraiser in the appraisal that supports the loan exceeds 20% of the appraised value of the collateral. The amount will be at least equal to the appraised (contributory) value of the asset, but does not need to exceed the loan amount. Originator and applicants are reminded that replacement value is usually a greater amount. While in all cases the policy should be obtained from an A.M. Best "A" or better rated company, it must be obtained from an "A" or better company in the case of a loan that either: (a) is on an agricultural facility as defined in section 205.2 (which includes having the contributory value of buildings exceeding 60% of total Appraised Value) or (b) has a loan-to-value ratio in excess of 60% and is secured by property with insurable assets between 40% and 60% of the Appraised Value. The originator must ensure that the insurance carrier records U.S. Bank National Association, as Custodian/Trustee for Federal Agricultural Mortgage Corporation programs (in case of the Central Servicer or Field Servicer as designated by the Central Servicer) as loss payee. The deductible for any type of hazard insurance may not exceed $10,000 or two (2) percent of the applicable amount of coverage (whichever is less). In cases where loans to Amish, Mennonite or Hutterite borrowers are secured by properties on which there are insurable improvements, the normal rules for hazard insurance do not apply. These farmers or ranchers are typically insured through their society/church and not through conventional providers. Ag-America deems this insurance to be acceptable, but only if supported by a detailed letter of coverage/commitment from the church, society or brotherhood
    - Title insurance from a title company rated at least "A" by Demotech (a rating agency) in an amount equal to or greater than the note or other evidence of title and first mortgage acceptable to Ag-America is required (See Chapter 302.2 and 302.5).
    - Qualified loans where appraisals indicate a value "subject to requirements" shall not be closed by Ag-America until the requirements are certified as completed and the title cleared of any encumbrances not approved by Ag-America.
    - The Lender shall require the applicant to certify that he/she is or will be actively engaged in agricultural production, either in his own right or as a landlord, and intends to continue agricultural production on the real estate used as collateral for the loan.
    - If the property is irrigated, water supply rights and/or entitlements shall have a remaining economic life at least equal to the amortization period of the loan and must be sufficient quality and volume to sustain and economically produce corps typically grown in the area. If the property's appraised value reflects the value of irrigations, either directly or indirectly, the analysis contained within the loan file shall address the sufficiency and quality of water. Normally, this shall be presented by the appraiser. The Originator shall also evaluate the adequacy of the Borrower's future legal and physical access to the water and any necessary easements should be documented as enforceable.
    - If underground water is the primary irrigation source, or is critical as a supplement source, pump and well tests are to be obtained and evaluated by a person skilled in irrigation issues. Any water quantity or quality tests are to be dated not more than one year from the date of loan closing by Ag-America.
    - If the property's water source is from an off-site well or other source (river), Ag-America expects the right to the well or other source will continue to Ag-America, unimpaired, under a successor-in-

interest clause. A supplemental “Pump and Well Agreement” should include, at a minimum, the following:

a) The right of ingress and egress across the property to exercise the rights under the Agreement;
b) The right to maintain, repair and operate the pump, well, power source(s), delivery lines, etc.;
c) A clear definition of who may use the source, and when (i.e. alternating periods of time);
d) A clear definition of how the power costs and/or demand or stand-by charges will be tracked, billed and paid between the sharing parties;
e) A clear definition of how all maintenance, repairs, replacement or re-drilling will be accomplished, specifically with regard to cost-sharing;
f) Defaults, cures and remedies must be specifically addressed;
g) The Agreement may be canceled only with the prior approval of Ag-America;
h) The duration of the Agreement shall be specified and shall in no event be shorter than the term of the loan; and
i) The Agreement is to be made part of the public record (recorded).
j) If surface water is delivered by a federally supervised district or other entity where the issue of “excess” versus non-excess land (under Bureau of Reclamation rules) exists, the Originator is to obtain a letter from the delivery entity that the proposed loan security is “non-excess” land.

- Federal and state grazing leases, permits or preferences that constitute an integral part of a ranching unit may be taken as security as long as the appropriate collateral assignment or escrow waiver is approved by the appropriate federal or state agency. The Originator must determine that the leases, permits or preferences will be available for use as part of the ranch for the term of the loan.
- Crop allotments, specific contracts or long-term leases that enhance the value of the real estate shall be assigned to the Seller if they are given value by the appraiser or are necessary to sustain the agricultural operation and achieve the revenue projections included as part of the loan submission.
- Environmental Disclosure form 1010A signed by the owners of the Mortgaged property and the appraiser must be completed before loan disbursement or closing by Ag-America. In cases where the property is being purchased with loan proceeds, all the applicants with a pending ownership interest must sign the environmental survey. Mortgaged property shall be in compliance with all local, State and Federal laws and regulations before the loan is closed by Ag-America. Requests for exemptions to standards will not be considered for failure to conform to environmental regulations. An Environmental Disclosure form 1010A is contained in the Farmer Mac website at *www.farmermac.gov*. If an Originator elects to provide a form to the applicant, the content thereof must not be materially different from the Farmer Mac form. Underground storage tanks must be removed.
- Loan agreements may be part of the loan documentation if deemed necessary by the Originator or Ag-America. Loan agreements may cover submission of annual financial information, maintenance of financial ratios, prohibitions against future capital borrowings without approval and other related issues. The purpose of the loan agreement is to avoid or detect potential decline in the credit quality of the loan.
- To better manage credit risk presented by certain agricultural segments (e.g., dairies); the Originator may be required to perfect commodity assignments, resulting in revenues captured more frequently than semi-annually. In these cases, the Originator is to work closely with Ag-America to perfect the flow of the income stream in support of the loan.
- On occasion, surveys will be required, especially when facilities are part of the proposed security and the parcel is relatively small in relation to the facility. Ag-America or its designee needs to review zoning and other applicable local laws that pertain to the operation of the security.
- At the discretion of Ag-America or its designee, flood insurance may be required. The lender will consider the risk of flood loss on the repayment ability of the Borrower and will also consider the contributory value of buildings in relation to the total appraised value.
- The borrower shall not be required to waive any right under the agricultural loan mediation program of any state as a condition for obtaining the Qualified Loan.

- Cash-Out Loans and Loans Refinancing Short- and Intermediate-Term Debt: Ag-America will consider refinancing short- and intermediate-term loans for operations that have a history of profitability. Loans where 25% or more of the loan proceeds are requested to refinance short-or intermediate-term loans or to provide cash to the applicant (including cash for loan fees and all other out-of-pocket loan closing costs) are limited to a maximum LTV of 60% (50% for loans greater than $5.0 million) and an amortization not to exceed 15 years.
- Originators/Lenders must thoroughly analyze the applicant's balance sheet along with doing a thorough assessment of the short-and intermediate-term loans being refinanced. The analysis should be done in the context of the applicant's operation line(s) of credit, their status and the probability of the continuity of the borrower's relationship with his/her current operating lender. Additionally, the loan narrative should fully explain the original purpose of these loans.
- Operating Lines: Procedures for refinancing operating lines and replenishing working capital include:
  - When the loan is for current cycle expenses, the applicant should have current assets in the form of investment in growing crops, inventory (at current market value or at contract price) or cash available to repay the line. Ag-America is willing to fund reasonable permanent working capital.
  - When the loan balance includes carryover expenses:
    - The narrative shall justify the loan request by demonstrating that the carryover is the result of a one-time event that adversely affected production (weather, poor yields, etc.). The narrative should also document either that the loan, if made, will provide the applicant with adequate working capital or that an operating line commitment is in place for current cycle operations; and
    - The Originator must document if the operational changes to be made by the applicant that will return the operation to profitability. The source of operating financing for the upcoming operating cycle must be assured and all operating loan conditions must be identified and evaluated.
    - Loss of liquidity as a result of capital expenditures having been made from the operating line may be a valid reason for refinancing. However, all such capital expenditures made must be documented with purchase contracts receipts, or depreciation schedules.
    - Credit checks obtained from the operating Lender or Originator should detail historical loan performance and comment on the borrower's financial production and marketing management ability, cooperation with lenders and trade creditors and use of and approach to his/her obligation to repay debt.
    - Ag-America will normally not fund loan's in the amounts that result in a zero (or nominal) balance operating line when the borrower has significant current assets. Rather, it is expected that the applicant's operating lender will share a more proportionate amount of risk.
    - Intermediate or Term-Debt:
      - Procedures for refinancing intermediate-or term-debt include:
    - Cattle (dairy or beef) loans are common intermediate-loans included in refinance requests. The applicant should demonstrate historical profitability and sufficient working capital for continued operations. It is desirous to have the lender being refinanced maintain its commitment for prudent future borrowings.
    - Credit checks on the borrower should be obtained from lenders being refinanced. The report should comment on any historical delinquencies or other adverse performance by the borrower.
    - The amortization that is requested should properly match the appropriate depreciable life of the assets being refinanced.
- Cash-Out: Procedures for administering cash-out to the applicant include:
  - The applicant must disclose the proposed use of cash proceeds from the loan. If funds will be used for capital expenditures, the pro forma income statement should reflect the economic benefits derived including those of increased depreciation expense. Control of funds is not required if the applicant meets Ag-America underwriting standards or if, in the opinion of the Ag-America Underwriter, such control is not necessary.
  - The loan collateral has been appraised on an "as will be" basis;
  - The property income provided in the income approach of the appraisal includes income from the new plantings or;
  - The Ag-America Underwriter makes control of funds, a condition of loan approval.
  - When the property is appraised on an "as is" basis, Ag-America will consider requests for disbursement of proceeds at closing, provided that the loan is in compliance with underwriting standards. The appraiser may use a discounted future cash flow analysis to calculate property income.

202.6 COMPENSATING STRENGTHS

- Ag-America, on a loan-by-loan basis, may accept a loan that does not conform to one or more of its specified underwriting standards or conditions for the applicable type of loan. Ag-America may accept a loan if it demonstrates compensating strengths on one or more of the underwriting standards to which it does conform to a degree that compensates for noncompliance with one or more other standards; however, in no case will Ag-America accept a standard Farm and Ranch loan if the LTV exceeds 70%. Ag-America recognizes that producers of particular commodities or products may have ratios that will not conform to the general rules and will take that into consideration in determining whether to accept a loan based on compensating strengths.
- The acceptance of loans on this basis is not intended to waive or lessen in any way the requirement that loans be of high quality in order to be closed by Ag-America. The Originator has the responsibility to provide the evidence and rationale for why approval is warranted under the conditions identified and approval rests solely with Ag-America.

EXHIBIT A
LOAN NARRATIVE

Total Ag-America Liability

- In general, the loan narrative should present the total potential exposure to Ag-America. This includes the proposed loan along with any other loans to the same Borrower that have been closed with by Ag-America. Any loans to "related" Borrowers are to be included and by Ag-America's lending limits are not to be exceeded.
- Originators are expected to use their best efforts to learn of any loans on the applicant's or related borrower's balance sheet that have been closed with Ag-America.

Eligibility

- The Borrower must be a United States citizen or a lawfully admitted alien to the United States who maintains a permanent residence in the United States or a corporate entity or partnership whose members, stockholders or partners holding a majority interest in the corporate entity or partnership are citizens or lawfully admitted aliens.

Loan Purpose

1. Sources and Uses of Funds – The sources and uses of funds for the transaction are to be summarized.
2. Primary Loan Purpose – The primary loan purpose is to be summarized, based upon dollar amount, into the following categories:
   - Purchase Real Estate – Proceeds used to pay for the purchase of the collateral offered as security.
   - Refinance Real Estate Debt – Proceeds used to refinance existing real estate debts.
   - Funds for Improvements – Proceeds are used to pay off existing debts such as operating loans, equipment loans or other debts.
   - Refinance Non-Real Estate Debt – Proceeds used to pay off existing debts such as operating loans, equipment loans, or other debts.
   - Cash Out – Proceeds are being used for another purpose not listed above. Originators are to disclose the specific use of proceeds in a cash-out refinance.

Character

1. Ownership Structure – The ownership structure of the primary applicant, (e.g., proprietorship, partnership, corporation, joint venture, corporate estate or trust) is to be discussed. If the applicant is an entity, the owners and their percentage of ownership is to be discussed. Trusts, on a stand-alone basis, are not eligible.
2. Plant and Equipment – The size and scope of operations and the adequacy of the applicant's farming equipment is to be discussed. The number of underlying units generating the income is to be analyzed; for example, if it is a farm, the number of acres farmed by commodity, are to be identified. The number of acres owned vs. leased is to be presented. If the agricultural property contains permanent plantings, the remaining

economic life of the plantings and the applicant's plan for maintaining a revenue stream (e.g., replanting schedule) is to be addressed.

   – If the borrower is a conducting livestock operation, the analysis is to be completed on a per-unit basis typical for that industry. For example, dairies should be completed on a per-cow and/or per-cwt. basis, consistent with industry standard. Production history should be provided (e.g., DHIA or other records). The dairyman's method of providing replacement cattle should be thoroughly analyzed, as should the feed source and treatment of home-raised feed production costs.
   – If it is a cow-calf operation, the analysis should be completed on an animal unit (AU or AUM) basis. Grazing leases and permits should be addressed in the analysis and documented in the loan file.

3. Management Capabilities – The borrower's production abilities can be measured on a comparative basis by obtaining historical production information and evaluating the production results against available county and state information. The availability of management succession should be analyzed.
4. Marketing Plan - The applicant's marketing abilities should be addressed. The degree of reasonableness of the forecasts in the Borrower's marketing plan should be addressed as well.
5. Financial Records - The loan narrative should address the Borrower's financial management and should comment on the type and adequacy of his/her financial record keeping system.

Credit History

- Credit Bureau Report – The credit bureau reports should be discussed with comment on any slow pays, collections, delinquencies, judgments, tax liens or bankruptcies. More detail is required as more derogatory information is disclosed.
- Direct Credit Checks – Originator should make direct inquiry with the applicant's significant creditors to obtain performance history. If direct checks are not practical, a Dun & Bradstreet report or a Mortgage Credit Report is required.
- Industry Economics – The industry in which the applicant operates is to be analyzed. The risks and the Borrower's strategies to mitigate the risks are to be considered. As appropriate, other factors should be addressed, including but not limited to:
   – Industry business cycles
   – Competitive advantages or disadvantages
   – Strategies to reduce competitive threats
   – Viability of markets

Capital

1. Quality of Financial Statements – The financial information should be reviewed for accuracy, basis of presentation (accrual, cash, book, market), and depth (CPA-audited, reviewed, compiled, in-house).
2. Liquidity and Working Capital – Comment on the Borrower's liquidity and working capital position and the applicant's ability to withstand the adversity of a down year is to be considered.
3. Net Worth Reconciliation – Changes in net worth, if not self-explanatory, are to be discussed, as are the sources of equity, from earnings, inflationary appreciation or inheritance.
4. Trends and Ratios – The Originator shall consider and comment on the Borrower's performance trend as it relates to working capital, earned net worth changes and total debt.
5. Operating funds – Determine that the applicant has sufficient cash to fund the current operating year. If not, the Borrower's source for operating cash flow is to be discussed in detail, spelled out. If from borrowed funds, the amount and terms of repayment should be discussed and analyzed.

Capacity

- Historical Earnings and Cash Flow Analysis – The adequacy of net income and the staying power of the operation is to be addressed, focusing on the adequacy, reliability and predictability of earnings. The Originator will comment on any significant changes in earnings from year to year.
- Stable vs. Changing Operations – The Originator is to comment on whether the operation is stable or if it experiences changes or cycles.
- Pro Forma Projections – The Originator is to determine if the pro forma projections are consistent with past performance. If the operation is a stable, Ag-America expects the projections to be consistent with past performance. If the operation is changing, more detailed analysis must be done to support the pro forma projections.

- Non-Farm Income Verification – The Originator is to verify non-farm income, determine its source, if it is stable, and whether or not it is likely to continue in the future.

Collateral

1. Discuss the marketability and desirability of the property
2. Discuss the loan to value and note whether the value is contingent on the perfection of lien instruments in addition to the deed of trust or mortgage (i.e., fixture filings, water company stock, etc.). These conditions should reconcile with the instructions contained in the appraiser engagement letter/process. Such requirements should be stated under Conditions.
3. Discuss water rights and entitlements, including:
   - Quality of the water delivered;
   - Timing of delivery, i.e., whether or not the water is available when it is needed;
   - Adequacy of supply for the rotation of crops grown;
   - The number of acres under the right or entitlement;
   - If water is drawn from an underground source, note the gallons per minute of the pumping plant(s), the static level and drawn-down of each well and any hazards associated with groundwater recession or quality not noted above.
4. Grazing rights, privileges, permits, preferences and leases which much be secured to maintain the operating balance of a livestock (i.e. cow-calf, stocker, range sheep, etc.) operation.
5. If collateral is highly improved or includes permanent plantings, a detailed discussion of the improvements should be included.

Conditions

- Identify the controls and conditions required of the applicant to manage credit risk and ensure loan performance. Originators should consider the following;
  - Who will sign the Note and Mortgage
  - Guarantee agreements
  - Cross-collateralization or cross-default documentation
  - Assignment of intangibles (e.g. quotas, leases, etc.)
  - Specialized covenants

Recommendation

1. Summarize the strengths and weaknesses of the credit.
2. Suggest the loan product and terms that seem best suited to the Borrower's creditworthiness.
   - Note that the product chosen should be tailored to the applicant's cash flow (e.g., dairies on a monthly payment schedule).

CHAPTER 205 SPECIALIZED PRODUCTION AGRICULTURAL FACILITIES LENDING

205.1 OVERVIEW

- This section discusses the credit and appraisal guidelines for specialized production agricultural facilities, such as livestock confinement, feedlot dairies, feedlots, packing facilities, storage units. First level processing facilities, hog nurseries, farrow to finish units and grow out facilities (hog and poultry).
- The use of loan proceeds will exclude "cash out", except for reasonable appraisal and closing costs. Refer to *Chapter 202.4* of this Guide for "cash out" guidelines. Ag-America does not offer construction financing on facility loans. Take-out commitments for construction are available.

Environmental and other Governmental regulations

- Permitting for processing and supporting growing facilities is becoming increasingly difficult, especially in areas of high concentrations of urban population or areas that are rapidly growing. Regulations dealing with livestock concentration, effluent disposal, etc. are having an impact on integrators' willingness to expand or update existing processing capabilities. Facilities securing loans closed with Ag-America must be in full compliance with permitting requirements. If the facility's waste management plan relies on property not part of the loan collateral, the plan must be supported by a first priority manure easement and assigned to the Lender as part of the loan documentation.

- On certain occasions, Ag-America may approve accepting an easement that waives the requirement for the consent of the prior lien holder and/or subordination of the prior lien holder's interests to the easement. Any such waiver would require legal review by Ag-America of the easement in question. (These waivers would only be granted where there is other land available to spread effluent and the practice of the prior lien holder granting consent and/or subordinating its interest is not common).

205.2 QUALIFICATION AS A FACILITY

- When the contributory value of the agricultural producing structures and site improvements, as reported in the current appraisal, exceeds 60% of the total appraised value, the loan is to be treated as a loan on a specialized production agricultural facility. The calculation may exclude the value of any dwellings provided it is feasible for the dwelling and appropriate lot to be separated and marketed as a separate unit.

205.3 FACILITY VALUE FACILITY LOANS WITH CONTRACTS

No Hogs Or Poultry Owned By Applicant

- Hog and poultry production units are typically owned by individuals, many of whom have minimal capital, who have contractual relationships with product users (integrators) to provide services and provide production facilities. Ag-America will accept only those loans located in areas with financially strong integrators and where similar facilities are located. It is expected that within the geographic area of the proposed security there are multiple integrators with appropriate infrastructure (e.g. feed mills and processing facilities) to support the facility being financed. From an environmental standpoint, the Lender must be especially diligent in determining that the properties (and adjacent properties) conform to prevailing environmental law and regulations. Manure and waste disposal contracts/agreements will be required when the site offered as loan security does not contain adequate disposal area. Production contracts and/or guarantees need to be structured carefully to ensure integrator performance.
- Since the Borrower is somewhat insulated from the direct impact of price fluctuations, the cash flow is considered more reliable. Most variable costs, such as feed, supplies, etc. are assumed by the integrator, while the Borrower is primarily responsible for the fixed costs of housing and labor and is paid on a per animal space furnished or pound of product produced with bonus potential for livability and feed conversion, without regard to "market price." Therefore, loans to these Borrowers are considerably less risky than those to independent. Accordingly, certain external factors should be reviewed when assessing loans to contract Borrowers. These factors include the following:
  1. The financial strength of the integrator. Considerable reliance is made on the contract specifying the relationship between the integrator and the Borrower. Integrators are expected to provide reasonable financial information to assess the financial strength of their operations.
  2. Capital investment of the integrator. An indication of the integrator commitment to a given geographical area is evidenced by the integrator's capital investment within the area. If operations have to be reduced at some point in the future, contract growers who are located in fringe areas, or the farthest away from the integrator's resources (feed mills, hatcheries, breeding units, processing plants, etc.) are normally impacted first. Therefore, financing contract growers located in fringe areas will require some assurance that the grower will have sufficient alternatives to repay the loan should the integrator withdraw from the area.
  3. Analysis of the integrator will be undertaken annually by the Lender. The analysis will consist of collection and review of annual financial statements. Integrators with adverse trends will be noted, and Ag-America will consider limit the closing of loans with contracts with those integrators
- Loan amortization will be specific to the type of facility being financed and will recognize the varying levels of depreciation and obsolescence inherent in special use facilities. Some contracts and/or operating agreements provide for the replacement of equipment as the need arises (e.g., creation of a "sinking fund" from contract proceeds). Such agreements are highly desirable, as they not only ensure that the property's value is maintained, but provide cash-flow management, as well. Hazard insurance will be required to protect against default if a casualty loss occurs.

205.4 SPECIFIC REQUIREMENTS FOR FACILITY LOANS WITH CONTRACTS

Poultry (broilers, turkeys and contract layer only)

- In addition to the general credit standards in the Guide (*Chapter 201*), the following additional lending guidelines should be followed when dealing with loans in the poultry industry:
  1. While Ag-America has no minimum loan size requirement, the operations must be large enough to be economically viable. As the loan size increases, Ag-America expects the financial strength and experience of the Borrower to increase, unless there is direct credit enhancement from the integrator.
  2. The maximum LTV is 75% for newly constructed facilities (in service one year or less). The design of the facility must conform to current technological advancements and designs and must be acceptable to other integrators in the area. The appraiser must have experience in appraising similar facilities and will address the remaining economic life of the proposed security. The loan terms must be adjusted according to the remaining economic life established by the appraiser.
     - The maximum LTV is 65% for existing facilities (in service more than one year). If the refinance involves the construction of a new facility, the LTV may be blended to reflect the newly constructed facility. The existing facility must conform to current technological advancements and designs.
     - Subordinate liens for new construction will be allowed at loan closing as long as the original lien position does not exceed 90% of the value of the security (CLTV).
  3. The maximum loan term is 15 years, fully amortized, for newly constructed facilities. Refinancing of existing facilities is limited to 10-year amortization provided the facilities have been updated to current industry standards.
  4. Minimum financial reporting requirements and loan documentation for the Borrower will be the same as the existing underwriting requirements for other Ag-America Loans. Ag-America's underwriting guidelines for poultry facilities will be as follows:
     - Total debt service coverage of 1.25 x or greater, after closing. The analysis may be completed using long term expectations of the integrator's ability to supply animals (the number of turns, flocks or groups per year) and the management ability of the grower.
     - A debt-to-asset ratio after closing of 65% or lower. The facility value used to calculate this requirement will be the lower of the appraised value or cost of construction of new facilities.
     - A credit report with a score of at least 680 for all applicants and written verification of mortgages and other loans outstanding indicating no serious delinquencies for debts not reported on the credit report.
  5. The Borrower must have a production contract insuring occupancy or use of the facility with an integrator. The contract must be standard for the industry with payments assigned to Ag-America.
  6. Annual review of the loan and underlying security will consist of a property inspection with special emphasis on environmental conditions (e.g., problematic lagoon conditions) and a production contract review. Failure to properly maintain the facility or to exert proper environmental care may be considered by Ag-America to be an event of default. It is helpful for the Lender to work closely with the integrator's field force as part of the overall monitoring effort.
     - Note: Information regarding the annual review of the loan and underlying security and any ongoing Borrower or property compliance documentation (e.g., permits, discharges, etc.) is to be included in the loan file.
  7. Occasionally operating agreements will be in place that permits the integrator to operate the facility in the event of Borrower incapacitation or default on performance clauses. These agreements are desirable, from a risk management standpoint and Ag-America encourages their use. When such an agreement is in place, it should contain a clause that requires and provides notification to the mortgage holder in the event the Operating Agreement is activated and/or invoked
  8. The facility offered as loan security must conform to all environmental rules and regulations promulgated by the governing jurisdiction. It is expected that the view of the Borrower will ensure conformance during the entire life of the loan. If any manure and/or waste disposal contract/agreement is in place as part of the compliance, the length of the contract must be at least

for the term of the mortgage plus an additional five years. If state law allows for a greater term, that length of time should be reflected in the agreement and the Borrower's rights under the contract must attach to the security property. In other words, the contract must be with the property in the event of foreclosure and property ownership by a lender, who also must be able to assign the contract. When the mortgage is over property owned by the borrower which is not included in the mortgage, a separate easement document is recommended instead of including the easement in the mortgage. Said easement should be filed prior to mortgage

9. Loan funds for "cash out" purposes will not be allowed, other than for reasonable closing and appraisal costs.

Swine

- In addition to the general credit standards in the Guide (*Chapter 201*), the following additional lending guidelines must be followed for loans in the swine industry:
  1. The operation must be large enough to be economically viable. As the loan size increases, Ag-America expects the financial strength and experience of the Borrower to increase. Ag-America will perform an appropriate analysis to determine if integrators are approved or non-approved
  2. The maximum LTV is 75% for newly constructed facilities (one year or less in service). The design of the facility must conform to current technological advancements and designs and must be acceptable to other integrators in the area. The appraiser must have experience in appraising similar facilities and will address the remaining economic life of the proposed security. The loan terms must be adjusted according to the remaining economic life established by the appraiser.
     – The Maximum LTV is 70% for existing facilities (in service more than a year). The design of the facility must be in substantially conforming to current technological advancements and designs. A contract must be in place for the remaining term of the loan.
     – Subordinate liens for new construction will be allowed at loan closing as long as the original lien position does not exceed 90% of the value of the security (CLTV).
  3. The maximum loan term is 10 years, fully amortized, for existing facility loans and 15 years, fully amortized for newly constructed facilities.
  4. Minimum financial reporting requirements and loan documentation for the Borrower will be the same on all Ag-America Loans.
  5. Underwriting guidelines for swine facilities are as follows:
     – Total debt service coverage of 1.25 x or greater, after closing. The analysis may be completed using long-term expectations of the integrator's ability to supply animals (the number of turns or groups per year) and the management ability of the Borrower.
     – Debt-to-asset ratio after closing of 60% or lower. The facility value used to calculate this requirement will be the lower of the appraised value or the cost of construction of new facilities.
     – A credit report with a score of at least 680 for all applicants and written verification of mortgages and other loans outstanding indicating no serious delinquencies for debts not reported in the credit report.
  6. The Borrower must have a contract with a processor or producer for the entire term of the loan with "take or pay" provisions for either product or pig space. The contract must be non-cancelable and assignable to the Ag-America.
  7. Annual review of the loan and underlying security will consist of a property inspection with special emphasis on environmental conditions (e.g., lagoon conditions), and a production contract review. Failure to properly maintain the facility or to exert proper environmental care may be considered by Ag-America to be an event of default.
  8. Usually operating agreements that permit the integrator to operate the facility in the event of Borrower incapacitation or default on performance clauses will be in place. These agreements are desirable, from a risk management standpoint and Ag-America encourages their use. When such an agreement is in place, it should contain a clause that requires and provides notification to the mortgage holder in the event the operating agreement is activated and/or invoked.
  9. The facility offered as loan security must conform to all environmental rules and regulations promulgated by the governing jurisdiction. It is expected that the Borrower will ensure conformance during the entire life of the loan. If any manure and/or waste disposal contract/agreement is in place as part of the compliance, the length of the contract must be at least for the term of the mortgage plus an additional five years. If state law allows for a greater term, that length of time should be

reflected in the agreement and the Borrower's right under the contract must attach to the security property. In other words, the contract must be with the property in the event of foreclosure and property ownership by a lender, who also must be able to assign the contract. When the mortgage is over property owned by the borrower which is not included in the mortgage, a separate easement document is recommended instead of including the easement in the mortgage. Said easement should be filed prior to the mortgage.

10. Loan funds for "cash out" purposes will not be allowed, other than for reasonable closing and appraisal costs.

CHAPTER 205.5 NON CONTRACT FACILITY LOANS

Feedlot Dairy Operations

- Due to the complexities of these credits, any loans secured by feedlot dairy operations will have to be specifically reviewed by the 3rd party investor prior to loan approval.
- Ag-America expects the loan presentation to contain well-supported production history, income and expenses analyzed on a per head and/per hundred weight basis, herd health comments, detailed comments as to the frequency and method (purchased or raised) of herd replacement along with other issues unique to the dairy industry. The mile marketing mechanism is to be addressed and where appropriate, milk marketing rights (quotas) assignments taken.
- The financial history of the entity being financed will be analyzed thoroughly with an emphasis placed upon the collection of accrual basis financial statements (balance sheets and income statements). Pro forma analysis must reconcile with historic performance and, in certain cases, forward projections should be for multiple years (e.g., a business plan). The analysis of management should address experience, marketing, backup, position in the industry, and business continuity.
- Lender must inspect the property on a semi-annual basis, which will focus on the condition of the facility and insure the facility is being well maintained. Amortization must be limited to the expected life of the facility or the anticipated economic life, whichever is less, in the opinion of the Lender, supported by the appraisal.
- In addition to the general credit standards in the Guide (*Chapter 201*), the following are the lending guidelines for feedlot dairy loans:
    1. While Ag-America has no minimum loan size requirement, the operation must be large enough to be economically viable for the foreseeable future. As the loan size increases, Ag-America expects the financial strength and experience of the Borrower to increase.
    2. The maximum LTV is 65% on the loans less than $5 million and 60% on loans greater than $5 million. The appraiser must demonstrate experience in appraising similar facilities.
    3. Amortization should reflect the useful and economic life of the underlying security.
    4. Loan funds for "cash out" purposes will not be allowed, other than for reasonable closing and appraisal costs. Funds may be reimbursed for capital improvements to the facility being financed with appropriate documentation.
    5. Pro forma loan underwriting standards for feedlot dairy operations are:

a.	Current ratio	1.25:1 minimum
b.	Debt to asset ratio	50% maximum
c.	Total debt service coverage ratio	1.35:1 minimum
d.	Loan-to-value Ratio	
	Equal to or less than $5.0 million	65% maximum
	Over $5.0 million	60% maximum

    6. Quality financial information should enable the analyst to determine the profitability and financial condition of the proposed applicant on a current and pro forma basis. The financial reporting requirements are as follows:

- A five-year trend will be analyzed, if available.
- For loans under $1,000,000, statements may be cash basis with accrual basis adjustments.
- For loans $1,000,000 and over, accountant prepared review quality statements are preferred. See *Section 202.2* of the Guide for a discussion of Ag-America's Financial Statements standard.

7. In addition to Standard Ag-America underwriting conditions, the following conditions may be included at the discretion of Ag-America:
   - Assignment of payments from milk processing company or electronic payment from applicant's bank account.
   - Evidence of permits for waste disposal and herd occupancy for stated capacity of the proposed security.

Other Production Facilities

- Other production facilities include, hog operations where animals are owned by the applicant, egg laying operations, packing sheds, processing buildings and storage units. Ag-America expects the owner of the typical processing, packing or storage facility to also control farmland, vineyards, orchards, groves, etc., that generates at least some portion of the facility's throughput. The Originator must address management practices, marketing plans and the relationship between historic financial performance and pro forma projections.
- Ag-America will limit its loans to facilities that are clearly used in the production stream of agricultural products. This means that "first level" production facilities are eligible, while those farther along in the value-added stream are not. As an example, a fruit sizing, sorting and storage facility is eligible (provided the owners have producing acreage).
- The loan analysis will focus on the industry involved and the marketing arrangements being employed. The financial history of the entity being financed will be analyzed thoroughly with an emphasis placed upon the collection of accrual basis financial statements (balance sheets and income statements). Pro forma analysis must reconcile with historic performance and, in certain cases, forward projections should be for multiple years (e.g., a business plan). The analysis of management should address experience, marketing, backup, position in the industry, and business continuity.
- Annual inspections will focus on the condition of the facility and insure the facility is being maintained and up to industry standards. Amortization must be limited to the expected life of the facility or the anticipated economic life; whichever is less, in the opinion of the Lender, supported by the appraisal.
- In addition to the general credit standards in the Guide (*Chapter 201*), the following are additional lending guidelines:
  1. While Ag-America has no minimum loan size requirement, the operation must be large enough to be economically viable. As the loan size increases, Ag-America expects the financial strength and management experience of the Borrower to increase.
  2. The maximum LTV is 65% for loans less than or equal to $5 million, and 60% for loans greater than $5 million. The appraiser must demonstrate experience in appraising similar facilities.
  3. Amortization should reflect the useful and economic life of the underlying security.
  4. Loan funds for "cash out" purposes will not be allowed, other than reasonable closing and appraisal costs.
  5. Pro forma loan standards are as follows:

• Current ratio •	• 1.25:1 minimum •
• Debt-to-asset ratio Long-term debt/net worth • Local Leverage (Coops)	• 50% maximum or • equal or less than 80% or • equal or less than 80%
• Total debt service coverage ratio	• 1.35:1 minimum
• Loan-to-value ratio Equal to or less than $5.0 million	• 65% maximum
• Loan-to-value ratio over $5.0 million	• 60% maximum

  6. Quality financial information should enable the analyst to determine the profitability and financial condition of the proposed Borrower on a current and pro forma basis. The reporting requirements are as follows:

– A five-year trend will be analyzed, if available.
– For loans under $1,000,000, statements may be on a cash basis with accrual basis adjustments.
– For loans from $1,000,000 to $3,000,000, accountant prepared review quality accrual basis statements are preferred; in-house accrual basis statements are acceptable, providing footnotes/assumptions are well-detailed.
– For loans over $3,000,000, audited financial statements are preferred; accountant prepared review quality accrual basis statements are minimally acceptable. See *Section 202.2* of the Guide for a discussion of Ag-America's Financial Statements standard.

7. Financial analysis will establish acceptable working capital levels and performance ratios so that the business can be analyzed appropriately. RMS ("Robert Morris Associates") peer comparisons may be of value here and should be considered if available. The narrative must include an analysis of management, discussion of financial trends, industry analysis, marketing strategy, price history and sensitivity analysis.

Cattle Feedlot Operations

- In addition to the general credit standards in the Guide (Chapters *201* and *202*), the following additional lending guidelines should be followed for cattle/feedlot loans:
- Qualification as a cattle/feedlot loan:
- Cattle/feedlot loans are designed for individuals and entities that feed their own cattle or which custom feed cattle for others. The special and guidelines apply to operations that meet one of the following two tests:
  – Receive 75% or more of the value of farm production from the sale of fed cattle or from custom cattle feeding income; or
  – Almost all grain produced is marketed through the cattle feeding operation.
- The following pro forma loan standards will be used as underwriting standards for the credit decisions:

• Debt-to-asset ratio	• 50% maximum-or-Equal
• Long-term debt/net worth	• or less than 80%
• Current Ratio	• 1.25:1 minimum
• Total debt service coverage ratio	• 1.25:1 minimum
• Loan-to-value ratio	• 65% maximum up to $5 million; • 60% for loans greater than $5 million

- As the size and complexity of feedlots increases, Ag-America's degree of financial reporting requirements will increase.
- Ag-America will be the feedlot's operating lender, unless the feedlot is not borrowing operating money.
- Maximum loan maturity is not to exceed 20 years when the improvement value is > 60% of total value; 30 years when the improvement value is < 60% of total value.

Cow/Calf Ranch Loans

- In addition to the general credit standards in the Guide (Chapters *201* and *202*), the following additional lending guidelines should be followed for cattle/feedlot loans:
- The following pro forma loan standards will be used as the general underwriting standards for the credit decision process:

• D/A Ratio	• <50%
• Current Ratio	• >1.25
• TDC	• >1.25
• LTV	• <60%

1. It is recommended that appraisals be completed with a market analysis on an Animal Unit (AU) year-round capacity basis.
2. Federal and State grazing leases that constitute an integral part of the ranching unit may be taken as security and will be required if needed to maintain ranch "carrying capacity" and the value of the leases is included in the appraisal.

CHAPTER 206 LOAN DOCUMENTATION
206.1 FORMS

- Ag-America does not require and will not provide pre-clearance of the forms an Originator will use for Qualified Loans being closed with Ag-America. Ag-America reserves the right, in its sole discretion, to review any or all of the loan documentation for a Qualified Loan submitted by the Originator in the context of the loan process. Any review of loan documentation that is undertaken by Ag-America will not relieve the Originator of its obligations under the Guide, including without limitation, the Originator's loan documentation requirements in this Chapter 206.

CHAPTER 207 FAST TRACK LOAN DOCUMENTATION
207.1 PRODUCT DESCRIPTION

- Fast Track is an alternative underwriting option that provides an accelerated approval process for farm mortgage loans. The credit standards, guidelines and requirements set forth in *Chapter 201* of the Ag-America Guide shall apply to Fast Track loans unless stated otherwise in this Chapter. Ag-America, at its sole discretion, may deem any application ineligible for underwriting using the Fast Track option and may require, in the alternative, the standard underwriting method. The maximum loan size for Fast Track is $1,000,000.

207.2 LOAN APPLICATION

- It is expected that the Loan Application will be submitted with all questions answered and salient information and credit forms provided. The Environmental Disclosure (Form 1010A) is required for Fast Track loans.

207.3 ELIGIBLE LOANS

Loan Size

- The maximum size for Fast Track loans is $1,000,000. Eligible loans for Fast Track underwriting may be submitted for an individual borrower (or related borrower) as long as the total Ag-America exposure to the borrower (or related borrower) does not exceed the maximum loan size for an individual Farm and Ranch loan secured by more than 1,000 acres and that only one Fast Track loan is submitted per transaction (purchase, refinance or cash-out loan).

Loan Purpose

- Loan proceeds may be used as follows:
  1. Purchase of real estate,
  2. Refinance of real estate debt on the property,
  3. Financing capital improvements on the property, and
  4. Cash-out may be up to 100% of loan proceeds.
     – Cash out is any loan proceeds in excess of funds needed to purchase real estate, refinance real estate debt on the secured property and finance capital improvements on the secured property.
  5. Security with structural improvements;
     – Facility loans (see *Chapter 205*) are eligible for Fast Track underwriting, only if the contributory value of all improvements, excluding the primary dwelling, does not exceed 40% of the total appraised value.
     – Loans with agricultural improvements whose contributory value exceeds 40% of the total value (including Facility loans as stated above) are not eligible for Fast Track underwriting. Dwellings, occupied by the applicant and considered to be the primary residence of the applicant, are not considered to be agricultural improvements for the purposes of determining the contributory value.
     – Properties with permanent plantings are eligible for Fast Track underwriting with the value contribution from the permanent plantings included.
     – See *Chapter 207.5* for appraisal requirements on this type of property.

6. The loan submission will contain a detailed source and use of funds. Loans deriving repayment from entities or individuals closely related to the applicant must be submitted using full underwrite.

207.4 CREDIT DOCUMENTATION AND QUALIFICATION REQUIREMENTS

No Exceptions

- Ag-America will not grant any exceptions to the standards established for loan approval via Fast Track.

Loan-to-Value

- The Loan-to-Value ratio may not exceed 55%.

Balance Sheet

- A completed and signed current market value balance sheet and a current pro forma market value balance sheet must be submitted for each applicant, co-maker and guarantor (including legal entities such as partnerships, limited liability companies, corporations and trusts). Lender will review the balance sheets for completeness and reasonableness of asset values and accuracy of stated liabilities. Cash andinvestment accounts are to be verified by means of copies of bank and/or brokerage statements. Consolidation of balance sheets is required
- The market value debt-to-asset ratio derived from the current pro forma market value balance sheet of the applicant may not exceed 40% for the loan to be eligible for Fast Track underwriting. In the case of multiple entities:
  - Entities may be listed at net equity if detailed balance sheets are provided to support the value
  - Consolidation of the balance sheets of multiple entities may be required for the purpose of calculating the debt-to-asset ratio
- Ag-America has sole discretion to determine if the applicant (or applicants, co-makers and guarantors) meets the debt/asset requirements.

Credit Report

- A credit report must be obtained for each applicant. The minimum allowable score for individual applicants is 720.
- An applicant's credit report must indicate he/she has a history of repaying creditors in a timely manner. The Originator must provide an explanation for any derogatory credit reported during the previous 24 months. A poor credit history alone may be the basis for denying a loan.
  1. Mortgage indebtedness must be verified. If outstanding mortgage debt is not reported in the credit report, the Originator must obtain and analyze:
  2. A written mortgage debt and repayment performance verification that reports a minimum of the most recent two full years' performance, or
  3. An IRS form 1098 for each of the last two years for each outstanding mortgage debt that is subject to IRS reporting
- The credit report, mortgage verifications and IRS 1098 forms will be used to verify all liabilities listed on the balance sheet.

APPLICANTS WITH LIMITED CREDIT USAGE

Credit Reporting Requirements

- Individuals who have no documented consumer credit scores may be acceptable credit risks. The following alternative means of verifying payment performance may be used to assess the credit worthiness and qualification of such applicants:
  - Written verification from non-reporting creditors of mortgage repayment performance,
  - Written reports from supply sources verifying payment performance on trade credit, and
  - Written reports from landlords regarding payment performance on lease obligations.

Underwriting Considerations

- In these situations, Ag-America will place greater reliance on such other factors as necessary to be reasonably assured of the applicant's ability and willingness to perform on the obligation. Other factors may include but are not limited to the LTV, overall quality and marketability of the property offered as loan security, employment stability and historical and projected earnings of the applicants in addition to the aforementioned written verifications.

Income

- Two years of income tax returns are also required for Fast Track and are used to assess the applicant's debt servicing capacity, evaluate the reasonableness of the values stated in the balance sheet for equipment and other assets and verify the existence of related entities not listed on the asset or liability schedules. Originator must obtain a copy with original signature(s) or initials for each applicant of his/her complete IRS income tax filing (including all schedules) for the two most recent tax years, together with:
  - Copies of the prior year's W-2 or the two most recent pay stubs for each applicant who is employed off the farm.
- In the case of multiple entities, consolidation of the income statements may be required for the purpose of calculating the applicant's debt servicing capacity

Items Not Required

- Ag-America does not require that the following items be submitted with loans that meet the criteria for using the Fast Track option:
  - Pro forma income statements
  - A comprehensive loan narrative
- Fast Track Underwriting assumes that the applicant's repayment history, as measured by a credit score and other basic credit factors is an accurate predictor of future repayment ability. However, it will not be relied on as the sole predictor. While it is not necessary to calculate certain Ag-America ratios, the tax return and the balance sheet are to receive a level of review sufficient to determine that there is adequate cash flow to service all debts, and that the applicant's working capital position is sound.
- If upon review of the loan package by Ag-America, it is determined that the applicant's operation has marginal viability, it would be denied as a Fast Track loan. The Originator may opt to resubmit the loan for full underwriting.

Refinance for existing Fast Track loan

- Borrowers requesting a rate and term refinance for an existing Ag-America Fast Track loan may do so using the Fast Track documentation. All other refinance requests for existing Fast Track loans must be accomplished using the full-underwrite process.

207.5 APPRAISAL

- The valuation for collateral for a Fast Track loan must be conducted using an Appraisal. Appraisals must comply with the applicable requirements stated in Chapter CV101.4 (and for security with improvements, Chapter CV101.5) and be documented in a Summary Appraisal Report that complies with Standards Rule 2-2(b) in USPAP (appropriately supplemented).
- The income approach or the sales comparison approach may be omitted (but not both) when appropriate. Typically the sales comparison approach will be completed. If the income approach is omitted, the property productivity (income producing capacity) must be addressed in the Highest and Best Use section of the appraisal report.
- When depreciable improvements are located on the proposed real estate security, a cost approach is required. The cost approach is to be supported by sales both of bare land and when available, land with improvements comparable to those on the subject property.
- Ag-America encourages the use of the Uniform Agricultural Appraisal Report (UAAR), but a narrative style report or the use of other form type reports that provide equivalent information is acceptable.
- Appraisers must be state licensed and certified general appraisers who have demonstrated competency in appraising properties similar to the proposed real estate security.

207.6 LOAN APPROVAL

Preliminary Approval

- All submissions for Preliminary Approval via Fast Track must include:
  1. Loan Application(s) naming all applicants, co-makers and proposed guarantors.
  2. Current Market Value Balance Sheet, completed and signed for all applicants, guarantors, co-makers, and formal entities
  3. Pro Forma Market Value Balance Sheet, consolidated for all applicants, guarantors, co-makers and formal entities (Partnership, Limited Liability Company, Corporation or Trust) reflecting the requested loan, the anticipated use of loan proceeds, and the financial condition of the Borrower(s) after the loan is closed.
  4. Brief Narrative detailing Borrower's operation, use of funds, and collateral for the loan.
  5. Current Credit Report (60 days or less) on primary obligors:
     – If outstanding mortgage debt is not documented in the Credit Report, alternative requirements are:
       a) Verification of Mortgage Debt or
       b) The last two years of IRS form 1098 for all mortgage debts subject to IRS reporting
       c) Explanation of derogatory credit during the previous 24 months
  6. A copy (including original signatures) of the complete IRS income tax filing (including all schedules) for the two most recent tax years for each applicant.
     – Copies of the prior year's W-2 or the two most recent pay stubs, if applicants are employed off farm.
     – The Originator, at its options, may exclude the items listed below from loan packages submitted to Ag-America for Preliminary Approval. In doing so however, will result in V granting a conditional approval. In that instance, the following items must be received by Ag-America prior to or at the time the Final Loan Approval is requested in order to clear the conditions and approve the loan for closing.
  7. An appraisal report and applicable Farmer Mac forms and supplements as required by Chapters CV101.1, CV101.4 and CV101.5.
  8. Ag-America's (or 3rd party designee) acceptance of completed appraisal report, in accordance with Chapter CV101.7.
  9. A current Environmental Disclosure (Farmer Mac Form 1010A and supplements) with all appropriate signatures.
  10. Evidence of lienable water rights and/or entitlements, if applicable.
  11. Evidence of grazing permits, allotments and leases and CRP contracts on proposed loan security
  12. Copies of all material contracts and leases that affect the security offered for the loan.
  13. A description of fixtures and personal property necessary to operate the property and upon which Originator/Lender will perfect appropriate UCC filings prior to or at closing.
  14. A UCC lien search on all applicants.
  15. Evidence of hazard insurance coverage with loss payee endorsement.

Final Approval

- Request for Final Approval shall be documented in accordance with instructions set forth in Chapter 302.5 of this Guide and Originators are notified via email.

CHAPTER 209 AGEQUITY REVOLVING LINE OF CREDIT

209.1 Product Description

- The AgEquity program is a revolving line of credit loan secured by a first mortgage on real estate with a revolving (draw) period of five or ten years and a total loan term of up to thirty years. Unlimited number of draws and repayments are allowed during the draw period. Upon termination of the draw period, either as scheduled or by the action of the borrower or Ag-America, the borrower may select an amortizing interest rate product from those offered by Ag-America at that time. Repayments throughout the selected draw period will consist, at a minimum, of semi-annual interest-only payments. Field servicing fees are limited to no more than 100 basis points.
- The 5-year draw period: The loan term options are 20, 25 or 30 years with a draw period of 5 years. At the end of the draw period, the outstanding principal is amortized over the remaining term, with the amortization

15, 20 or 25, years. The draw period may be extended for an additional 5-year period, at Ag-America's sole discretion, if the borrower's financial information meets program criteria. Total loan term may not exceed 30 years.

- The 10-year draw period: The loan term options are 20, 25 or 30 years with a draw period of 10 years. The draw period may be extended for an additional 5-year period, at Ag-America's sole discretion, if the borrower's financial information meets program criteria. At the end of the draw period the outstanding principal is amortized over the remaining term, with the amortization 10, 15 or 20 years. Total loan term may not exceed 30 years.
- Credit Score: A credit score of 680 is generally required for each applicant and guarantor, if any. Ag-America will consider applicants with lower credit scores, but the credit report must indicate that the applicant has a history of repaying creditors in a timely manner. A poor credit history along may be the basis for denying a loan, especially for those applicants with a history of collections, judgments, bankruptcy or unexplained derogatory items. .
- The following credit standards apply to AgEquity loans, with all ratios calculated on a pro forma basis as though the loan is fully disbursed.
- Financial Statements: Financial statements of each Borrower are required for at least each of the past three (3) years (of even date).
- Explanatory Comment: Fewer than 3 years' financial statements are acceptable under the circumstances noted in *Chapter 202.2*, Capital.
- Debt-to-Asset Ratio: The Borrower's pro forma debt-to-asset ratio shall be 50% or less, on a market value basis.
- Explanatory Comment: This ratio is to be calculated using a consolidation of all borrowers' and guarantors' financial information.
- Debt Service Coverage and Current Ratios: The Borrower's pro forma total debt service coverage ratio shall not be less than 1.35:1, including net income from farm and non-farm sources; and a pro forma current ratio should not be less than 1.25:1.
- Explanatory Comment: These ratios are calculated using a consolidation of all borrowers' and guarantors' financial information.
- LTV: The loan-to-appraised value ratio ("LTV") shall not exceed 50%.

209.2 LOAN APPLICATION

- See *Chapter 201.1*, Verification and File Content. AgEquity loans are not eligible for Fast Track underwriting.

209.3 ELIGIBLE LOANS

Loan Size

- The minimum loan size for AgEquity loans is $50,000, and the maximum loan size is the same as the maximum for loans secured by more than 1,000 acres (see *Chapter 201*). Loans eligible for AgEquity underwriting may be submitted as long as total Ag-America exposure to the borrower (or related borrower) does not exceed the total indebtedness for any one borrower as described in *Chapter 201*.

Loan Purpose

- Applicant certifies that the loan is a business loan made for business purposes. There is no cash-out limitation.

Loan Security

- Loan security must be a first mortgage position on properties eligible for Ag-America financing.
- Ag-America will allow borrowers that have an existing Ag-America loan to add an AgEquity loan secured by the same collateral. In this case, the AgEquity loan must be recorded in a second position behind the existing first-lien Ag-America mortgage. The AgEquity loan must also contain a cross-default provision to the older Ag-America loan. The combined LTV for both Ag-America loans shall not exceed the limits set forth in *Section 202.4*.

- If the offered property has improvements, including facilities, residences or permanent plantings, the contributory value of such will be deducted from the Appraised Value reported in the appraisal, with the result used for AgEquity qualification. Although adjusted for underwriting purposes, the total property (including the improvements/plantings) is to serve as security for the AgEquity loan. Irrigation equipment may be included in the property value if properly secured.
- Collateral that includes irrigation shall be acceptable as security only when the water quality, quantity and supply stability is stated in the appraisal as good, adequate for the crop demand and stable for the duration of the anticipated loan. This is further defined as a water supply which is normally sufficient to support maximum production of the most profitable crops for which the land is adaptable and typically used, on the full acreage that is feasible under usual crop rotation practices. Such water supply may have a slight shortage in occasional years but no material shortages at any time.

209.4 OTHER REQUIREMENTS

Product Choice

- The interest rate during the draw period is a variable rate and can be obtained by contacting your representative at Ag-America. The loan is convertible to available Ag-America fixed or adjustable products during or at the scheduled termination of the draw period (with a maturity date not to exceed the original maturity date). Conversions may occur only on scheduled payment dates and in accordance with the procedures contained in the Ag-America Guide and the Note. Conversion to an amortizing product during the draw period will terminate the draw feature to the loan. If the borrower takes no action with regard to the interest rate product, the loan will remain on the variable interest rate for the scheduled amortized loan term. No fee will be charged for the conversion at the termination, scheduled or not, of the draw period.
- Customers wishing to “term out” a portion of their current AgEquity loan amount (keeping the remainder on the revolving portion) may do so. The minimum loan amount for the new termed-out portion is $50,000. Once the termed-out option is completed, the maximum new draw amount is determined by subtracting the termed–out portion from the original AgEquity pre-approved credit limit. The rate for the newly selected product is to be in accordance with Ag-America’s conversion rules.

Title Policy Requirement

- Ag-America requires a title insurance policy endorsement insuring future advances and adjustable interest rates under a Revolving Line of Credit product.

Document Preparation

- Due to their complexity, Ag-America recommends AgEquity loan documents should be prepared by PeirsonPatterson, LLP.

Closing

- AgEquity loans are limited to table funding only

Repayment Terms

- Repayments will consist of semi-annual interest only payments, at a minimum, throughout the selected draw period. Upon termination of the draw period, either as scheduled or by the action of the borrower or Ag-America, repayments of principal and interest will be made with the borrower selecting an amortizing interest rate product from those offered by Ag-America at that time.

209.5 LOAN SERVICING

- Borrowers with AgEquity loans may be requested to provide an annual financial statement and tax return for all obligors.
- Collateral securing AgEquity loans may be monitored with annual property inspections, if applicable.

209.6 APPRAISALS

- AgEquity loans must meet Ag-America's collateral valuation requirements (as outlined in the Collateral Valuation Supplement to the Collateral Valuation Guide