MISSOURI VALUE-ADDED LOAN GUARANTEE PROGRAM
Guidelines

OBJECTIVE: Missouri Agricultural and Small Business Development Authority's (MASBDA) objective is to promote the development of agriculture and small businesses. To help achieve this objective MASBDA offers the Missouri Value-Added Loan Guarantee Program. The program provides up to a 50% first-loss guarantee on agricultural business development loans not to exceed $250,000 made by eligible lenders.

The program is intended to benefit Missouri's farmers by creating value-added agricultural products through new uses, new markets or further processing of these agricultural products. It is also intended that this program provide loan guarantees to help develop farmer-owned cooperatives for further processing of agricultural products. Missouri will benefit from the economic activity associated with processing, manufacturing, or other value-added activities occurring in this state, including creating and retaining jobs.

USE OF LOAN PROCEEDS

Loans guaranteed by the value-added loan guarantee program can be used to 1) finance agricultural property, 2) finance the expansion, acquisition, construction, improvement or rehabilitation of a qualifying agribusinesses, and 3) buy stock in a start-up cooperative that processes an agricultural product. Loan proceeds may not be used for producing livestock or agricultural crops except for grapes to be processed into wine.

Agricultural property is defined as any land, easement, real and personal property, including but not limited to buildings, structures, improvements, and equipment, which is used in Missouri by Missouri residents or Missouri-based businesses for the purpose of processing, manufacturing, marketing, exporting or adding value to an agricultural product.

An agricultural product is defined as an agricultural, horticultural, viticultural, or vegetable product, growing of grapes that will be processed into wine, bees, honey, fish or other aquacultural product, planting seed, livestock product, a forestry product, poultry or a poultry product, either in its natural or processed state, that has been produced, processed, or otherwise had value added to it in this state.

A qualifying agribusiness is defined as any business whose primary customer base is producers of agricultural goods and products or any business whose function is the support of agricultural production or processing by providing goods and services used for producing or processing agricultural products.

ELIGIBILITY REQUIREMENTS FOR GUARANTEED AGRICULTURAL BUSINESS DEVELOPMENT LOANS AND STOCK PURCHASE LOANS

Eligibility requirements for securing a guaranteed agricultural business development loan include:

1. A borrower may be an individual, partnership, corporation, firm, cooperative, association, trust, political subdivision, state agency or other legal entity executing a note or other evidence of an agricultural business development loan. If the loan is made to an individual, the borrower must be at least 18 years old and a legal Missouri resident. The authority prefers to guarantee loans for value-added agricultural enterprises operated in Missouri by Missouri residents or those whose primary operation is in Missouri.
2. Any agricultural property financed must be located in Missouri and used by state residents or by

Missouri-based businesses.

3. The program is intended to create new economic activity by creating or retaining jobs.

4. Financed projects must demonstrate a good likelihood to succeed in developing, expanding, and operating business enterprises involved in adding value to, marketing, exporting, processing, or manufacturing agricultural products.

5. Eligibility will not be determined or otherwise affected by any consideration of race, religion, sex, creed, color, or residence, other than the individual borrower must be a legal Missouri resident at the time the loan is closed.

6. Borrower must be able to provide proof of citizenship, identity and residence. If the borrower employs laborers, he/she must also provide proof of enrollment and participation in the federal work authorization program.

LOAN CHARACTERISTICS AND REPAYMENT REQUIREMENTS

Loans for up to $250,000 may be eligible for the guarantee program. The term for a certificate of guaranty may not exceed the expected life of assets guaranteed and may not exceed a period of 10 years. None of the loan proceeds may be used for refinancing or debt restructuring. Exceptions may be made by the authority in projects involving expansions, improvements, or rehabilitation.

The borrower's rate of interest will be negotiated by the lender and the borrower, but cannot exceed the rate the lender normally charges for similar loans.

The borrower must provide a first deed of trust or lien on the financed property. The authority may make exceptions based on evidence of other adequate collateral.

Borrowers must be allowed to accelerate payments, including early loan payoff, without incurring a pre-payment penalty.

PROCEDURE FOR MAKING GUARANTEED AGRICULTURAL BUSINESS DEVELOPMENT LOANS AND STOCK PURCHASE LOANS

Borrowers wishing to secure a loan through the loan guarantee program must apply for a loan through a bank, savings and loan association, the Farm Credit System or other eligible lender.

A participating lender must make its own determination of whether a prospective borrower meets its requirements for a loan if a 50% first-loss guarantee is provided through the Missouri Value-Added Guarantee Program. After deciding to make a guaranteed agricultural business development loan or a stock purchase loan over $50,000, the lender seeking a guarantee through the program must submit an application and the following supporting documentation required by the authority:

A. A favorable lender's loan analysis of the borrower's ability to repay the loan and the prospect of the project's success (including a copy of a credit analysis and financials);

B. A viable business plan that includes information describing products or services offered, how such products or services will add value to an agricultural product, availability of labor or raw materials or supplies, management experience, marketing plan, business compatibility with evidence of community support, and a description of the project's impact on the community where the project will be located (including job creation and/or retention);

C. Appropriate security provided for the loan. The borrower must provide separate security for stock purchase loans over $50,000 other than the stock being acquired if required by the lender. The lender may take additional collateral and may ask for a corporate guarantee.

D. Appropriate risk retained by the borrower;

E. Appropriate risk retained by the lender;

F. Evidence of compliance with federal, state, and local requirements;

G. Financial statements including a) at least three years of historical balance sheets, federal tax returns and profit and loss statements and cash flow statements. Start-up businesses must present historical information for the principal business owners. Annual audited financial statements, if available, should be included; b) a current (not more than 90 days old) balance sheet and profit and loss statement (if an existing business); c) a pro-forma balance sheet (at start-up); and (d) Two years of projections: profit and loss statements, balance sheets and cash flow statements including underlying assumptions used;

H. Current personal (not more than 60 days old) and corporate (not more than 90 days old) financial statements on guarantors (proprietor, partners, officers, directors, key employees, and stockholders with 20% or more interest in the business);

I. Record of any pending or final regulatory or legal (civil or criminal) action against the business, parent, affiliate, project guarantors, subsidiaries, principal stockholders, officers and directors; and

J. Any other information that would help the authority understand the project to be guaranteed.

Upon receiving an application and supporting documents for a loan guarantee, the authority will determine whether the loan constitutes an agricultural business development loan under the loan guarantee program and whether the borrower is an eligible borrower. The authority may reject any application for guaranty. Each application will be considered individually by the authority. The authority may give preference to business enterprises operated in Missouri by Missouri residents or non-Missouri residents whose primary place of operation is in Missouri. A decision to accept, modify or deny each application will be based on the information provided and accompanying documentation, along with location of the project; benefit to economic conditions of the community impacted by project, including but not limited to jobs created or retained; per capita income and unemployment rate; appropriate security provided for the loan; appropriate term of the loan guarantee requested in relation to the expected life of assets guaranteed; and appropriate risk retained by borrower and lender.

Prior to closing, the participating lender must provide an appraisal and commitment for title insurance for the project to be guaranteed. After approval and determining that all requirements for the loan guarantee are met, the authority will issue to the lender a certificate of guaranty for up fifty percent (50%) of any loss of the loan amount on a declining principal basis, and for a period not to exceed 10 years.

Certificates of guarantee will not be issued for construction loans. All loan funds should be disbursed within 90 days of issuing the certificate.

FEES

At the time of closing, the lender will pay or have the borrower pay a one-time loan participation fee of one percent. Additionally, a loan guarantee fee of one-half of one percent of the outstanding principal is due at closing and annually thereafter on agricultural business development loans and on stock purchase loans of over $50,000 as long as the guarantee is in effect. No annual loan guarantee fee is due on stock purchase loans of $50,000 or less.

NOTE

Borrowers qualifying for the Missouri Value-Added Loan Guarantee Program may also qualify for the Linked Deposit Program with the state treasurer's office. The Linked Deposit Program makes funds available at reduced interest rates to lenders who in turn pass the savings along to borrowers.

For more information about the Linked Deposit Program, call the state treasurer's office at (573)751-2372.

LENDER REQUIREMENTS

In addition to submitting applications for the loan guarantees, the participating lender must hold the original instruments and documents evidencing and securing the guaranteed loan and will receive all payments of principal and interest until any default by the borrower of the guaranteed loan.

Without prior written consent of the authority, the lender will not 1) make or consent to any material changes in the loan including, but not limited to, principal amount or interest rate; 2) make or consent to collateral releases; 3) accelerate the maturity of the note; 4) seek recourse under any associated loan instrument; or 5) waive any claim against the borrower, a guarantor, obligor, or standby creditor arising out of any associated loan instrument.

The lender is required to collect the participation fee and loan guarantee fee from the borrower and submit the fee to the authority.

On an annual basis, the lender also must provide tax returns, current financial information, and the annual guarantee fee on the outstanding principal to the authority. (No annual tax return and/or guarantee fee will be required for stock purchase loans of $50,000 or less.)

PROCEDURE FOR COLLECTING LOANS

Eligible lenders must apply normal due diligence procedures in the collection of loans guaranteed through the program and use its regular collection procedures prior to requesting the authority to pay the guarantee on the outstanding principal.

SHARING OF REPAYMENT PROCEEDS, COLLATERAL AND COSTS OF RECOVERY

After a lender has foreclosed upon a borrower who has defaulted on a loan made through the program, the authority will reimburse the lender for any loss up to fifty percent (50%) of the principal outstanding.
The lender will not acquire any preferential security, surety or insurance to protect its unguaranteed interest in the loan. Upon determining that the loan is in default, the lender must exercise reasonable care and diligence in preserving all assets of the borrower securing the loan. All repayments, security, or guarantee of any nature that are recovered on the guaranteed loan will repay and secure the interest of the lender and the authority in the same proportion as each bears respectively to the unpaid principal loan balance. Costs incurred in liquidating the collateral and repaying the lender and authority will be shared by the lender and authority in proportionate share to interest in the unpaid principal balance, provided such costs are pre-approved jointly by

the lender and authority. The lender must notify the authority of any loan or advance by the lender subsequent to the guaranteed loan.

When the authority pays a lender for losses on a defaulted loan, the authority will be subrogated to all rights of the eligible lender. After making a loan loss payment, the authority may institute action, including the use of private collection agencies, to recover any amount due to the State of Missouri.

ASSIGNMENT OR TRANSFER OF INTEREST IN LOAN

The lender may assign in whole or in part its rights or obligations under the guarantee certificate of agreement with the prior written consent of the authority. Assignment is allowed by the lender to other banking institutions provided that: 1) the lender retains an unguaranteed interest of not less than the agreed upon unguaranteed portion of the loan, but in no case less than 10% of the outstanding principal amount of the loan; 2) the authority may continue to deal solely with the lender as to the entire loan; and 3) the assignee shall have no greater rights than the assignor. A transfer to a successor entity by merger or consolidation of the lender with another banking or financial institution is also allowed.

MASBDA will not reissue a certificate, as all the conditions of the original certificate will apply to the lender obtaining the assigned loan. The acquiring lender must provide MASBDA with copies of the loan assignment documents for which a Missouri Value-Added Loan Guarantee Program certificate of guarantee has been issued, along with current financial information. No additional fee will be charged to the borrower or lender.

When the lender issues a new note in lieu of obtaining the loan assignment from the original lender, a transfer of a certificate of guarantee may be allowed under the other following circumstances:

1) An application and required financial records must accompany the written request for a transfer of the certificate of guarantee. The amount of guarantee requested may be no greater than 50% of the balance of the principal amount on the note for which there is an existing guarantee.

2) The terms associated with the requested guarantee will be the same as the terms of the original note guaranteed including, but not limited to, interest rate and maturity date. No individual will receive a guarantee on a loan greater than ten (10) years regardless of any transfer(s) of the certificate of guarantee.

3) An additional transfer fee equal to one-half of one percent (.5%) will be charged at the time the certificate is reissued.

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For stock purchase of $50,000 or less, the lender seeking a guarantee through the program must submit an abbreviated application and the following supporting documents required by the authority:

A. Current balance sheet information, not more than 12 months old (may be part of the lender's application);

B. Credit Bureau report if required by the lender, and

C. Cooperative's current feasibility study must be on file with the authority

No additional collateral is required other than the stock at par value if the lender's promissory note includes a personal guarantee.

Upon receiving an application and supporting documents for a loan guarantee, the authority will determine whether the loan constitutes an agricultural business development loan under the loan guarantee program and whether the borrower is an eligible borrower. The authority may reject any application for guaranty. Each application will be considered individually by the authority. The borrower's ability to repay the loan regardless of the success of the agriculture enterprise being invested in will be considered. The authority may give preference to business enterprises operated in Missouri by Missouri residents or non-Missouri residents whose primary place of operation is in Missouri. A decision to accept, modify or deny each application will be based on the information provided and accompanying documentation, along with;

- location of the project;
- benefit to economic conditions of the community impacted by project,
- jobs created or retained;
- per capita income and unemployment rate;
- appropriate security provided for the loan;
- appropriate term of the loan guarantee requested in relation to the expected life of assets guaranteed; and
- appropriate risk retained by borrower and lender.

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For additional information or if you have any questions, please contact MASBDA at:

Missouri Agricultural and Small Business Development Authority
P.O. Box 630
Jefferson City, MO 65102-0630
(573)751-2129
e-mail: masbda@mda.mo.gov
Website: agriculture.mo.gov