

The **LIVESTOCK LOAN PARTICIPATION PROGRAM** is designed to enable farmers and ranchers of limited equity to procure livestock loans at rates and terms which the applicant can reasonably be expected to meet and thereby utilize available feed, facilities, labor, and management skills.

Below is a brief summary, closing procedure outline for the Livestock Loan Participation Program and sample copy of the Loan Participation Certificate and Agreement, South Dakota Disclaimer, sample Attorney Letter, and the Application.

**I. Eligibility**

- A. Borrower – Farmer/Rancher who derives 60% of all gross income from production agriculture in the last tax year; or farm/ranch laborer, whose majority (60%) gross income is from farm/ranch labor, who:
  - 1. Is 18 years of age or older;
  - 2. Is a South Dakota resident prior to closing;
  - 3. Maintains a farming/ranching operation in South Dakota;
  - 4. Has available feed (sufficient for one year), facilities and management capabilities;
  - 5. Is unable to obtain a livestock purchase loan from own resources or from a commercial source at rates and terms which he/she can reasonably meet without a South Dakota Department of Agriculture Livestock Loan participation, and;
- B. If the Borrower is a member of a corporation, partnership or other such entity which is directly engaged in the borrower's farming/ranching operation, such entity must:
  - 1. Be comprised of a majority membership of farmers/ranchers who meet the farm/ranch income criteria; and
  - 2. Be willing to subordinate or waive interest in the required feed, facilities and labor necessary for the success of the loan. (i.e. feed in exchange for contributed labor).
- C. Lender - federal or state chartered bank, Federal Farm Credit System, Savings and Loan Association, Credit Union or an insurance company, that:
  - 1. Makes loans in or near the region or community where the financed project will be located;
  - 2. Has experience in making livestock loans; and
  - 3. Is subject to credit examination and supervision by an agency of the United States or the State of South Dakota.

**II. Eligible Loan Activities**

Purchase money for:

- A. Livestock purchases only.

**III. Restrictions**

- A. The Livestock Loan Participation Program (LLPP) cannot be used for a loan:
  - 1. Other than financing the "purchase price" for livestock;
  - 2. To refinance existing debt, and;
  - 3. To finance a line of credit (revolving loan).

Borrower may have more than one outstanding Livestock Loan Participation subject to the aggregate outstanding participations not to exceed \$200,000.

**IV. Maturity and Interest Rates**

- A. Terms of the loan will be in accordance with the selected livestock enterprise. The recommended terms shall be:
  - 1. Beef Cattle – maximum 7 years with minimum of annual payments;
  - 2. Dairy Cattle – maximum 7 years with minimum of monthly payments;
  - 3. Swine – maximum 5 years with minimum of semiannual payments;
  - 4. Sheep – maximum 5 years with minimum of annual payments;
  - 5. Feeder Livestock – not to exceed one year; and
  - 6. Other – in accordance with enterprise cash flow.
- B. Interest Rates
  - 1. The interest rate for the Department of Agriculture's portion (50%) of the loan participation will be determined at the time of application and will be a fixed interest rate based on the current federal discount rate, and;
  - 2. The interest rate for the Lender portion (50%) cannot exceed 12.5% per annum at anytime during the term of the loan.

**V. Loan Amounts**

The Department of Agriculture participation amount will not exceed an aggregate outstanding balance of \$200,000.

**VI. Factors for Consideration of Approval**

- A. Character, experience and management record of the Borrower.
- B. Capacity of the Borrower to repay the loan from the cash flow of the enterprise operation.
- C. Net economic effect of increasing or stabilizing the Borrower's financial condition.
- D. Purchase price per animal unit according to the current historical market standards.

**VII. Lender Requirement/Agreement**

- A. Lender will service the loan in accordance with the Livestock Loan Participation Certificate and Agreement, which will include, but not be limited to:
1. A minimum of at least one collateral inspection per annum or loan period, if less than one year;
  2. Annual financial statements submitted by Borrower to Lender; and Assurance that all purchased livestock is identified by brand, tattoos, ear tags, ear notches or other methods of identification.

**VIII. Borrower Requirements**

- A. The Borrower will be encouraged to use and maintain accurate records. The Borrower will be required to submit annual financial statements and profit/loss analyses of the livestock enterprise to the Lender and the Lender will forward copies to the Department of Agriculture. Record keeping, financial planning and analysis and marketing are essential to the success of this program and the Borrower's business.

**IX. Department of Agriculture Requirements/Agreement**

- A. The Department of Agriculture shall within thirty (30) days after receipt of a completed application, either approve the application as requested, disapprove the application for modification, approve the application contingent upon the realization of certain defined conditions or disapprove the application. If the application is disapproved or disapproved for modification, the reasons for the decision shall be conveyed to the Lender. The Lender who has had an application disapproved may submit another application that addresses the reason for disapproval.
- B. The Department of Agriculture will abide by the terms and conditions set forth in the Livestock Loan Participation Certificate and Agreement.

**X. Application/Closing Procedures**

- A. Lender receives the application form.
- B. Lender and Borrower execute the application documents.
- C. Lender sends application and supporting information to the Department of Agriculture. Supporting information shall include, at minimum:
1. Borrower's current financial statement, signed and dated;
  2. Borrower's most recent year 1040 and 1040F Federal Income Tax Return;
  3. Twelve month cash flow projections on enterprise loan request and cash flow for borrower's entire operation;
  4. South Dakota Department of Agriculture Disclaimer, signed and dated; and
  5. If Borrower is entity other than an individual, an attorney's letter as described in the attached sample Attorney Letter.
- D. Department of Agriculture reviews, approves/disapproves the application for Livestock Loan Participation and responds to Lender with Conditional Commitment to Participate or notice of disapproval.
- E. If application is approved, within 30 days of the receipt of the Conditional Commitment to Participate (may extend an additional 30 days), the:
1. Lender executes the loan documentation, disburses the funds for the purchase of livestock and submits copies of the executed loan documentation to the Department of Agriculture; and
  2. Borrower purchases the livestock.
- F. Loan documentation shall include, at minimum, copies of:
1. Signed "Conditional Commitment to Participate";
  2. Promissory note showing inception date, maturity date, principal amount, interest rate and note number;
  3. Security agreement with sales receipt/bill of sale of purchases attached;
  4. Copy of receipts of bill of sale(s) of livestock purchased;
  5. UCC/Effective Financing Statement;
  6. UCC/EFS search on Borrower; and
  7. A signed and established dollar amount Loan Participation Certificate and Agreement.

- XI. Upon receiving the above listed documents, the Department of Agriculture will send the Lender an amount equal to its participation share of the loan with an amortization payment schedule.

**NOTE:** The provisions for loan servicing and, if necessary, default are specified in the copy of the Participation Certificate and Agreement. Please review this prior to the application process.

If you have any questions concerning the application and closing procedures, please contact the South Dakota Department of Agriculture, Division of Ag Development at 773-5436.