



Oklahoma Agricultural Linked Deposit Loans

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Oklahoma Linked Deposit Program

The Oklahoma Agricultural Linked Deposit Program (OALDP) was enacted in March 1988 and the Small Business Linked Deposit Program was enacted in September 1988. Legislative revisions over the years define "at-risk" farmers/ranchers and fund regulations. The purpose of the Linked Deposit programs is to promote economic growth within the state. Oklahoma lenders are able to make loans to agricultural producers and small businesses at a generally lower interest rate.

A linked deposit is a deposit made by the state treasurer with a participating eligible lending institution. The lender is given an interest rate of up to three percentage points below the current two-year United States Treasury note rate. The interest savings are passed on to an eligible agricultural or small business borrower. Most commercial banks and savings and loans are eligible to participate.

Agricultural Linked Deposits

Applicants are eligible if they are Oklahoma residents, doing business in the state, and meet the following guidelines for either at-risk or agricultural alternative products, respectively.

A. At-Risk:

1. Gross income from farming is at 60 percent or more for one of the last two tax years (determined by the percentage of gross income from farming worksheet, Table 1 page 3).
2. The debt-to-asset ratio for the combined farm business and family is 55 percent or higher. (The treasurer has the authority to set the debt-to-asset ratio at 40 percent or more.)
3. The loan is a new or refinanced loan for business operating expenses.
4. The maximum loan amount is \$350,000. Renewals are subject to a 5 percent principal reduction with respect to the last approved amount issued.

B. Alternative Agricultural Products:

1. Maximum loan amount is \$1 million. Renewals are subject to a 5 percent principal reduction of the last approved amount.
2. The loan is for starting or expanding an approved alternative product.

The legislature recognized that all alternatives may not be feasible or contribute to the economic diversity and development intent of the legislation. Thus, it provided some procedures for the Oklahoma Department of Agriculture, Food, and Forestry in consultation with the Cooperative Extension Service of Oklahoma State University to determine eligible alternative agricultural products.

"Alternative agricultural products" refers to those enterprises that are non-traditional crops or enterprises in Oklahoma and which the State Board of Agriculture determines will broaden Oklahoma's overall agricultural base.

Non-traditional enterprises in Oklahoma include, but are not limited to, tree fruits and pecans, small fruits, vegetables, greenhouse and nursery stock, turf, Christmas trees, recreational farm enterprises, hunting and fishing leases, aquaculture, goats, and other small animals. Other enterprises included are some agronomic specialty crops such as mungbeans, sunflowers, popcorn, and native or improved grasses grown expressly for seed production. They do not include wheat, cotton, cattle, or forages grown for hay or grazing purposes, soybeans, peanuts, or a cover crop to bridge an ineligible crop.

Linked Deposit Terms

Specific determinations concerning any alternative agricultural enterprise's eligibility, listed or not, and its feasibility in a given geographic location or specific site within the state may be obtained from the Oklahoma Department of Agriculture, Food, and Forestry at (405) 521-3864.

A linked deposit commitment shall not exceed two years. A borrower may renew up to five times, with each renewal not to exceed two years. A limit of twelve years in the program is allowed. New applicants and renewal applicants with less than eight years of participation will have priority for funding. Any portion of a loan year is counted as one year in the program.

The Treasurer has the right to audit a completed application. This ensures the right to review and audit the figures used to determine debt-to-asset ratio as provided by the applicant and the participating lender. An applicant and lender who knowingly give false information to qualify will be ineligible to participate in the program.

All linked deposit renewals made after July 1, 1995 are limited to 95 percent of the last approved loan amount. Also, interest payments must be current at the time of the application for renewal.

Five Percent Principal Reduction Example: J.D. was approved for an at-risk linked deposit of \$300,000. In October 1999, he renews the linked deposit. The maximum loan amount he will be allowed, assuming he meets the eligibility requirements, is \$285,000. In 2001, a renewal is possible for up to \$270,750.

Determining Interest Rate

Linked Deposit interest savings for the borrower is based on a lender rate quote as of the day of application. This commercial rate depends on factors normally used by lenders to determine the interest rate:

1. risk rating
2. the loan use
3. length of the loan
4. amount of the loan
5. past and current situation of the borrower

The rate quote is not necessarily the same thing as the rate on an existing loan. A qualified borrower expects to save approximately 3 percent from the commercial rate offered by the lender.

The lender pays the state treasurer the current two-year Treasury note rate less three percentage points. The lender is able to add up to 5.5 percentage points for the institution's standard operating margin. However, the rate to the borrower must reflect the 3 percent savings from the commercial rate, which may be less than the bank mark up maximum (Table 2).

An exception occurs when the two-year Treasury note rate falls below 5 percent. The treasurer has a set minimum cost of 2 percent for the lender, and ceases new funding when the Treasury note rate is 2 percent or less. When the Treasury note is below 5 percent, but above 2 percent, the borrower can save the equivalent of the lender discount (Table 3).

The state treasurer invests in certificates of deposit with a commercial lender or in bonds, notes, or securities for the Federal Farm Credit Service. The lender assumes the risk

of the loan. The lender makes a 110 percent security pledge or obtains a letter of credit issued by the Federal Home Loan Bank of Topeka to the state upon acceptance of an application. Deposits must be fully collateralized by the lending institution in compliance with the Security State Deposits Act. The lender bears the responsibility for establishing the credit worthiness of a potential applicant and the intent to use such funds for agricultural operations. The lender must validate the borrower's residency, percent of gross income from farming, asset and liability values, and debt-to-asset ratio.

Other Information

The completed OALDP application is sent to the State Treasurer's Office and is forwarded to the Oklahoma Department of Agriculture, Food, and Forestry. Upon approval, the lender must make the security pledge. The lender may request postponement of funding for 30-day intervals. The State Treasurer Linked Deposit office may be reached at (405) 521-3191.

IFMAPS

Intensive Financial Management and Planning Support (IFMAPS), a special program of the Oklahoma Cooperative Extension Service, provides **free** and **confidential** financial-planning assistance to Oklahoma farm families. IFMAPS financial specialists work with farm families, including linked deposit applicants, to gather information for a plan which includes a cash flow, income statement, balance sheet, debt worksheet, and financial measures for analysis.

Because collection and analysis of information is time consuming, IFMAPS clients are asked to complete a data collection packet prior to meeting with the financial diagnostic specialist (FDS). Once the data collection is completed, the FDS uses computer software, Integrated Farm Financial Statements (IFFS), to generate plans. The FDS reviews the statements and measures with the farm family. Alternate plans are developed if requested. With assistance, the farmer/rancher is able to evaluate current practices and explore alternatives.

To contact IFMAPS, call 1-800-522-3755 or contact your local OSU Cooperative Extension Center.

Table 2. Example of Interest Rate Determination When Treasury Note Rate is 5% or Higher.

Two-year Treasury Note Rate	Discount To Bank	Bank Pays State Treasurer	Commercial Borrower Rate Without Link	Maximum Borrower Rate with Link
5.0	3.0	2.0	9.0	6.0
6.3	3.0	3.3	12.0	8.8*
7.0	3.0	4.0	12.5	9.5

*Maximum markup of 5.5

Table 3. Example of Interest Rate Determination When Treasury Note Rate is Below 5%.

Two-year Treasury Note Rate	Discount To Bank	Bank Pays State Treasurer	Commercial Borrower Rate Without Link	Maximum Borrower Rate with Link
2.0	No funding provided		5.5	
3.3	1.3	2	7.5	6.2
4.8	2.8	2	10.65	7.5*

* Maximum markup of 5.5

Table 1. Qualifications Worksheet for OALDP At-Risk Farm Loans.

Percentage of Gross Income from Farming: 60% or greater in one of the last two tax years. Locate your Federal Income Tax Returns (Form 1040), and Schedule F (Form 1040) for the past two years.¹

- A. Gross Income: Schedule F (Form 1040) Line 11. _____
- B. Cost or Other Basis of Livestock and Other Items Bought for Resale _____
(Schedule F, Line 2)
- C. Gross Income from Farming: (Line A + Line B)..... _____
- D. Total Income: Form 1040, Line 22..... _____
- E. Farm Income or Loss: Form 1040, Line 18..... _____
- F. Non-Farm Income: (Line D – Line E)*..... _____
- G. Gross Income: (Line C + Line F) _____
- H. Percentage of Gross Income from Farming (Line C ÷ Line G) x 100 _____

*A farm loss is recorded as a negative number on Line E. Subtracting a negative number is the same as changing the number to a positive and adding.

Debt-to-Asset Ratio: currently 55% or greater. Refer to OSU Extension Fact Sheet F-752 "Developing a Balance Sheet," F-791 "Schedule of Assets," and F-792 "Liabilities Schedule" for instructions on summarizing and valuing assets and liabilities.

- A. Total Liabilities _____
- B. Present Market Value of All Assets _____
- C. Debt-to-Asset Ratio: (Line A divided by Line B) x 100..... _____

¹ These instructions reference the 2000, 2001, 2002, and 2003 federal forms. Line numbers may be different for other years.

The Oklahoma Cooperative Extension Service *Bringing the University to You!*

The Cooperative Extension Service is the largest, most successful informal educational organization in the world. It is a nationwide system funded and guided by a partnership of federal, state, and local governments that delivers information to help people help themselves through the land-grant university system.

Extension carries out programs in the broad categories of agriculture, natural resources and environment; family and consumer sciences; 4-H and other youth; and community resource development. Extension staff members live and work among the people they serve to help stimulate and educate Americans to plan ahead and cope with their problems.

Some characteristics of the Cooperative Extension system are:

- The federal, state, and local governments cooperatively share in its financial support and program direction.
- It is administered by the land-grant university as designated by the state legislature through an Extension director.
- Extension programs are nonpolitical, objective, and research-based information.
- It provides practical, problem-oriented education for people of all ages. It is designated to take the knowledge of the university to those persons who do not or cannot participate in the formal classroom instruction of the university.
- It utilizes research from university, government, and other sources to help people make their own decisions.
- More than a million volunteers help multiply the impact of the Extension professional staff.
- It dispenses no funds to the public.
- It is not a regulatory agency, but it does inform people of regulations and of their options in meeting them.
- Local programs are developed and carried out in full recognition of national problems and goals.
- The Extension staff educates people through personal contacts, meetings, demonstrations, and the mass media.
- Extension has the built-in flexibility to adjust its programs and subject matter to meet new needs. Activities shift from year to year as citizen groups and Extension workers close to the problems advise changes.

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