



WHEDA

2012

DROUGHT RELIEF

GUARANTEE PROGRAM

Financing Manual

Introduction

ABOUT THIS MANUAL

The Wisconsin Housing and Economic Development Authority (WHEDA®) is providing a Drought Relief Guarantee Program (hereafter “DROUGHT”). This manual contains important details about the DROUGHT Program.

In preparing this Manual, our intention has been make it simple and easy to use. Please read this manual thoroughly before originating any loan you intend to submit for guarantee under the DROUGHT Program in order to ensure understanding of and compliance with program guidelines.

We look forward to working with you to promote drought relief resources in Wisconsin.

WHO TO CONTACT

We have staff in our Madison office to assist you. The DROUGHT Program is being administered by the same team that manages our CROP Program. The relevant contact information is:

WHEDA
DROUGHT Program
P.O. Box 1747
Madison WI 53701-1747

Toll-Free: (800) 334-6873
Fax: (608) 267-1099

<http://wheda.com>
crop@wheda.com

WHEDA has Community Relations Officers (CROs) located throughout the state who are available to assist you with WHEDA programs and services. Our CROs work with local lending institutions, local governments, and Borrowers to provide information and answer questions. For general program information, please contact:

Community Relations Officers (CROs)
(800) 628-4833

All forms referenced in this manual and utilized for the DROUGHT Program can be found at our website as noted above.

CALENDAR OF EVENTS FOR 2012

July 18

WHEDA announces Drought Relief Guarantee Program with \$1.5 million available

July 25

Applications will be accepted for DROUGHT

December 28

Last day WHEDA will accept 2012 Drought Program applications (packages must be received by noon on December 28, 2012)

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CHAPTER I: ELIGIBILITY

A. ELIGIBLE LENDERS

Any bank, farm credit service (includes production credit association, federal land credit association and agricultural credit association), credit union, savings bank, savings and loan association, or other entity that makes agricultural production drought assistance loans is eligible to participate in the Drought Relief Guarantee Program (DROUGHT).

Becoming a Participating Lender

The Lender must submit a signed DROUGHT Participating Lender's Agreement (Form 1) to WHEDA. The Participating Lender's Agreement (PLA) is an agreement executed by the Lender and WHEDA which indicates the Lender's willingness to make loans in accordance with the terms and conditions established in this manual. A Lender wishing to originate DROUGHT loans must meet the criteria defined in the PLA. Once approved, WHEDA will sign the PLA and return a copy to the Lender. The Lender is encouraged to submit a completed PLA prior to submitting guarantee applications. However, in the interest of saving time, WHEDA will accept the completed PLA with the submission of the first guarantee application.

Each financial institution will have a "parent branch" which signs the PLA and is assigned a Lender Number specific to that location as a reference for WHEDA. Each associate branch will also have a unique Lender Number, but does not need to sign a separate PLA. Contact information must be provided for each branch/Lender Number.

The lender must include bank account information in the PLA to participate in the DROUGHT program. The interest reduction payment will be sent via ACH upon approval of an application.

If the Lender fails to meet any of the criteria defined in the PLA at any time while participating in the DROUGHT program, the Lender must immediately notify WHEDA.

Farm Supply Cooperatives

A farm supply cooperative wishing to originate DROUGHT loans must meet the following criteria:

1. Cooperative must be duly organized, validly existing, and registered to operate under the requirements established in Chapter 185 of Wisconsin Statutes
2. Cooperative must have a credit policy in force and have the managerial ability, staff, and procedures to implement the credit policy, including (but not limited to) billing, collection, workouts, and foreclosures
3. Cooperative must operate under the guidance of a board of directors through a general manager
4. Cooperative must be duly authorized by all corporate actions to originate DROUGHT loans
5. Cooperative must be financially solvent, not involved in bankruptcy or any other liquidation proceedings for the benefit of creditors, and financially able to clear the

risk of a loss of any DROUGHT loan
If the farm supply cooperative fails to meet any of these criteria or any of the criteria defined in the PLA at any time while participating in the DOUGHT program, the farm supply cooperative must immediately notify WHEDA.

B. ELIGIBLE BORROWERS

At a minimum, a Borrower must meet the following program guidelines in order to be eligible for a DROUGHT loan guarantee:

1. Does not meet the lender's minimum standards to receive a drought assistance loan.
2. Debt/Asset ratio is at least 40% (for farm operation only; an entity cannot include personal financial information to alter the debt/asset ratio)
3. Has sufficient collateral to cover the value of the DROUGHT loan
4. Farm is located in and Borrower resides in Wisconsin (or is legally registered in Wisconsin if a partnership or corporation)
5. Borrower must be actively engaged in the farming operation
6. Borrower must be current in child support payments and not presently in default or forbearance on any WHEDA loans or guarantees
7. Borrower will lose 40% or more of their crops as a result of drought conditions

In addition, it is the Lender's responsibility to make the following assurances when evaluating a Borrower's application for participation in DROUGHT:

1. The Lender will evaluate the Borrower's assets, cash flow, and managerial ability in order to determine that there is sufficient evidence to preclude a voluntary or involuntary liquidation before the end of the loan term.
2. The Borrower is in good standing with the Lender (or supplier if the Lender is a cooperative) on all loans and monies owed.
3. To the Lender's knowledge, the Borrower is not currently in bankruptcy, has not filed for, and does not anticipate filing bankruptcy (Chapter 7, 11, 12 or 13) at the time of applying for or during the term of the DROUGHT loan. IF a Borrower had a previous bankruptcy, it has been discharged.
4. To the Lender's knowledge, the Borrower has no outstanding judgments or tax liens.

C. ELIGIBLE USES OF PROCEEDS

DROUGHT loans proceeds can only be used for:

- Fertilizer, seed, fuel, pesticides, tillage services, crop insurance, or any other service or consumable good necessary to produce an agricultural commodity that has been

adversely affected by drought conditions.

- Water delivery in connection with agricultural commodities adversely affected by drought
- Feed and associated expenses for livestock when drought conditions have adversely affected supply

If the Borrower obtains a DROUGHT loan to pay a supplier, the participating lender shall pay the supplier directly. This includes suppliers of feed, fertilizer, seed, fuel, pesticides, tillage services, crop insurance, animal feed, water or other services or consumable goods necessary to replace an agricultural commodity adversely affected by drought conditions. Outstanding bills and invoices due which are paid with DROUGHT loan proceeds must be in good standing and cannot be considered delinquent.

WHEDA's guarantee is valid only on eligible uses of proceeds. Documentation verifying expenses may be requested at WHEDA's discretion and will be required for any expenses paid directly by the Borrower as well as for any expenses paid to the same entity that originated the DROUGHT loan (example: farm cooperative).

D. INELIGIBLE USES OF PROCEEDS

Ineligible uses of proceeds include, but are not limited to:

- Property taxes
- Mortgage payments
- Accounting services
- Payments on existing loans
- WHEDA application fee
- Utility bills pertaining to the farm home
- Labor costs paid directly to the Farmer and/or spouse
- Refinancing existing debt
- Payroll-related taxes
- Interest or lender fees
- Insurance other than for crops
- Attorney or other legal fees
- Veterinary expenses
- Expenses not incurred during the current calendar year
- Capital improvements or purchases (i.e. building repair, milking equipment)

Ineligible expenses cannot be paid with loan proceeds and may invalidate the guarantee, depending on the nature, intent and amount of the expense. If loan proceeds are disbursed for ineligible expenses, those disbursements will not qualify for a guarantee payment. Please contact WHEDA before proceeding if you have a questionable expense.

CHAPTER II: ORIGINATION PROCEDURES

A. LENDER'S RESPONSIBILITY

In addition to the eligibility criteria established in the previous chapter, the Lender will utilize its own prudent underwriting standards when evaluating a DROUGHT loan. The Lender's decision to originate a DROUGHT loan must be supported by the value of the collateral for the DROUGHT loan, the repayment capacity, and the creditworthiness of the Borrower. The Lender is responsible for approving or denying the Borrower's request to obtain the loan.

Lender acknowledges and agrees that if any representation or warranty made on any DROUGHT loan proves to be materially incorrect, or if Lender defaults on the observance of any condition or term of the Participating Lenders Agreement or the Drought Relief Guarantee Program Manual, WHEDA shall cancel its agreement to guarantee the DROUGHT loan.

The DROUGHT program (including this manual and forms) is revised as needed. The most up-to-date forms must be used at all times and are available at www.wheda.com.

B. GUARANTEE APPLICATION PROCESS

The Lender must initially verify Borrower and loan eligibility criteria (Chapter 1) in order to determine whether the loan qualifies for a DROUGHT guarantee. The loan is then closed in accordance with program requirements in this chapter prior to submitting the guarantee application package, as pre-approvals are not provided by WHEDA. If there is concern over the potential non-approval of a DROUGHT guarantee after issuing the loan, the Lender is encouraged to include verbiage on the note which indicates that the loan is subject to guarantee approval by WHEDA. The Lender must also use the utmost discretion in making any loan disbursements prior to obtaining the guarantee commitment. It should be noted that WHEDA reviews the application package for adherence to program guidelines, and analyzes supporting documentation to verify information presented, but does not subjectively underwrite each application beyond the guideline requirements set forth.

Loan Package Due Dates

Within 30 days of the loan closing, a DROUGHT Application (Drought Form 2) must be completed and submitted along with all other required documentation listed on the application in order to request a guarantee approval. Packages received by WHEDA later than 30 days after the Note date will not be accepted for review. Applications will be accepted no later than noon on the last business day of the year (or an earlier date if the available funds are depleted).

Guarantee Review Timeframe

WHEDA will process the application package within five business days of receipt. Provided that the application package is complete and meets all program criteria, a formal Guarantee Commitment Letter will be faxed to the contact person listed on the application.

The DROUGHT application fee check must be received in order to begin processing. Faxing or emailing completed packages will not expedite guarantee review. All application packages, requests and correspondence are handled in the order of receipt.

Loans will be guaranteed by WHEDA on a first-come, first-served basis.

Interest Reduction Payment

Within five business days of WHEDA's guarantee approval, a one-time Interest Reduction payment in the amount of 3.5% of the principal loan amount will be sent via ACH to the Lender's designated account on file with WHEDA. The Authorization Agreement for Automated Clearing House (ACH) Transfers is part of Form 1 – Participating Lender's Agreement.

Incomplete Applications

Should any documentation be missing or inconsistent with program guidelines, review of the package will be deferred. **A representative will notify the Lender, who then has 30 days to submit the remaining items or the request will be automatically considered withdrawn or denied.** It is the Lender's responsibility to ensure that all missing items requested by WHEDA have been submitted within the 30-day allotment. All additional information must be submitted to WHEDA together in one correspondence. If WHEDA requires modifications to the note, an amendment or loan modification agreement signed by the Borrower(s) must be submitted.

Upon receipt of the additional information, WHEDA will continue processing the application within five business days and issue a formal Guarantee Commitment Letter, provided that all pending issues have been addressed.

Denial

If an application is denied by WHEDA, written notification will be mailed to the Lender. The notification will clearly detail the basis upon which the decision was made. WHEDA may consider a request to re-evaluate an application within 30 days of denial if the Lender can provide information which materially affects the original loan package. WHEDA may refund the application fee depending on the reason for denial (see APPLICATION FEE section).

C. LOAN AMOUNT

MAXIMUM: \$15,000

Loans that exceed the maximum amount are not eligible for a DROUGHT guarantee.

The DROUGHT loan cannot be treated as a revolving line of credit. Total disbursements cannot exceed the total loan amount.

Applications that do not meet these parameters will be automatically denied.

D. GUARANTEE AMOUNT

Guarantee is 90% on all loans.

Loans that exceed the maximum amount are not eligible for a DROUGHT guarantee.

E. TERM

The loan term is three years from the Note date. Loan may be extended to five years; however, the WHEDA guarantee will not extend beyond three years from the Note date.

F. INTEREST RATE

The maximum interest rate allowed to be charged on 2012 DROUGHT guaranteed loan is the Prime Rate as published in the Wall Street Journal on the date the Note closes, plus 2% (two percent), with a ceiling of 7% (which will only be utilized if WSJ Prime rises above 5% during the course of the year), less 1.167% (3.5% interest reduction payment averaged over the three-year guarantee term). The rate must be a fixed interest rate set on the Note date.

The interest rate set by the Lender may be less than the maximum rate set by WHEDA. The Lender is encouraged to review the Borrower's financial needs on a case-by-case basis and to set the interest rate accordingly.

Important: Fees and interest costs paid by the Borrower to the Lender/lending institution cannot exceed the maximum rate. Fees must be disclosed on the lending agreement as required by law.

Default Interest Rate

The maximum default interest rate allowed on the Note is 12%.

G. APPLICATION FEE

A non-refundable WHEDA application fee equal to 1% of the loan amount must be submitted with the guarantee application package. Loan applications will not be processed until the actual fee is received (a copy of the check will not suffice). This fee cannot be paid with DROUGHT loan proceeds and must either be financed separately by the Lender or paid out of pocket by the Borrower. Electronic payments are not currently accepted.

The application fee is considered non-refundable, unless the Borrower is deemed ineligible due to Lender error (Borrower does not meet program requirements due to an oversight)

which will not be held at the Borrower's expense. Once the guarantee commitment has been executed, the application fee cannot be returned per the request of the Lender or Borrower. If the terms of the guarantee have not been adhered to, or if the guarantee must be terminated due to non-compliance or misrepresentation, the application fee paid will not be eligible for a refund.

H. LOAN PAYMENT

Payment Schedules

The payment schedule should be tailored to accommodate the specific type of farming operation and the anticipated cash flow. Balloon payments are acceptable for all types of farming operations.

Prepayment

The DROUGHT loan may be prepaid in full or in part at any time without penalty.

I. COMPLETING A LOAN PACKAGE

Please submit only one version of each application package for review. Submitting multiple packages for the same borrower will be considered duplications. Duplicate packages will not be examined for variations (*example*: faxing an application and sending the original in the mail). If forwarding a revised or corrected document for inclusion in a previously submitted package, please label accordingly.

A complete loan package must include all of the following (unless otherwise noted):

1. **Non-Refundable Application Fee** (equal to 1% of the loan amount)
2. **Participating Lender Agreement**, if not previously submitted (DROUGHT PLA Form 1)
3. **DROUGHT Application** (DROUGHT Form 2)
4. **Signed Copy of Note** adhering to the following terms:
 - a. Loan amount maximum \$15,000
 - b. Interest rate not to exceed Prime + 2% (with ceiling of 7%) less 1.167%, fixed on the date of Note closing
(NOTE: Any lender fees must be calculated into this rate and cannot exceed the maximum allowed)
 - c. Maturity date must be three years following the Note date
 - d. Default interest rate maximum of 12%
 - e. Application submission date must be within 30 days of Note or application will be denied
5. **Farm Security Agreement** or **Production Credit Association Security Agreement**
 - a. DROUGHT loan must be secured in accordance with normal, prudent agricultural lending practices distinct from WHEDA's guarantee

- b. Sufficient collateral must be in place to cover the value of the DROUGHT loan
 - c. Security documents must contain appropriate environmental law language
 - d. Needs to be signed by the borrower
- 6. UCC-1 Financing Statement**
- a. Must be the recorded version with the filing date within five years of the Note date (if the filing will expire during the DROUGHT loan term, the filing must be renewed in order for the guarantee to remain effective)
 - b. If an extension of the original UCC-1 has been issued, the original UCC-1 filing information and date must be referenced on the extension and a copy of the original must be included
- 7. Balance Sheet (within 90 days of Note Date, signed by borrower)**
- 8. Disbursement Record (DROUGHT Form 5)**
- a. Any expenses incurred prior to application submission that will be paid with loan proceeds must be disclosed
 - b. Only eligible expenses listed in this manual can be paid with loan proceeds

J. DISBURSEMENT OF DROUGHT LOAN PROCEEDS

The Borrower will provide the Lender with a bill or request for payment. The Lender will make the payment directly to the supplier/payee on behalf of the borrower. Hired or contracted labor costs incurred by the Borrower which are directly related to planting or harvesting of the agricultural commodity can be disbursed directly to the Borrower. The Borrower must be able to provide proof of payment for eligibility purposes.

WHEDA will require proof of eligible proceeds disbursement if a Request for Guarantee Payment is made after loan default. Any proceeds that cannot be verified for program eligibility will be deducted from the guarantee payment request.

Ineligible disbursements may invalidate the guarantee and at a minimum will not qualify for a guarantee payment in the event of loan default (refer to Chapter I, ELIGIBLE USES OF PROCEEDS for list of eligible expenses).

Total disbursements cannot exceed the total loan amount (the DROUGHT loan is not to be treated as a revolving line of credit). WHEDA does not prevent the Lender from making disbursements on the loan prior to obtaining guarantee approval, but this practice is strongly discouraged. Proceeds cannot be used to pay previously outstanding credit, as this is considered a refinance.

Lender may want to complete a Loan Disbursement Record (DROUGHT Form 5) to detail proceeds disbursement throughout the duration of the loan. WHEDA will request this form if default action is necessary.

K. INSURANCE REQUIREMENTS

The Borrower must maintain adequate insurance in order to protect loan interests. It is the Lender's responsibility to ensure that the Lender is properly listed as loss payee on the

insurance policy. At WHEDA's request, the Lender must be able to provide verification of insurance for the collateral that is being used to secure the DROUGHT loan.

Flood Insurance

Flood insurance must be purchased if farm is located in a special flood hazard area as defined by FEMA.

L. SECURITY AND COLLATERAL

The Lender will secure each DROUGHT loan in accordance with normal, prudent agricultural lending practices distinct from WHEDA's guarantee. Sufficient collateral must be in place to cover the value of the DROUGHT loan.

The Lender may not subordinate, release, or assign to a third party any collateral securing a DROUGHT loan without written consent from WHEDA.

Sale of Farm Products/Buyer Notification

It is required that the Lender follow all steps necessary to ensure the payment of the Borrower's outstanding obligation. The Lender must pre-notify the buyer of farm products pledged as collateral on a DROUGHT loan that, in the event of the sale of this collateral, possession of the products is to be taken subject to the Lender's security interest.

Guarantors

The DROUGHT loan should be underwritten based solely on the financial circumstances of the Borrower. In borderline cases, the income of a guarantor may be considered if the guarantor signs the DROUGHT loan Note.

M. LOAN MODIFICATION/CHANGE IN TERMS

The Lender must request approval from WHEDA prior to modifying the terms of a DROUGHT-guaranteed loan, including (but not limited to): payment structure, maturity date, and collateral. There are limited situations in which this procedure should be used, and an adequate reason must be provided. A DROUGHT Loan Modification Request (form 10) must be submitted to WHEDA for approval prior to any change in terms. Once the request is approved, the Lender must forward a copy of a Note Modification/Change in Terms Agreement signed by the Borrower, or other modified documents as applicable. The original Note date, principal balance amount, and all other aspects of the original loan must remain unchanged.

N. ENVIRONMENTAL CONSIDERATION

The Lender bears absolute responsibility for assuring itself that no environmental issues

exist which would cause impairment to the collateral offered. Guarantee payment requests may be reduced or denied if environmental issues are present.

O. LENDER'S FILE

The Lender must ensure that all loan documentation is fully and accurately completed, and that appropriate records are kept. Failure to accurately and completely document the DROUGHT loan and properly perfect the Lender's security interest in collateral for that loan may result, at WHEDA's discretion, in termination or reduction in the amount of the guarantee (if a guarantee payment is requested).

The Lender is expected to maintain a complete file on the Borrower. The file must include the original Note and all security documents. WHEDA reserves the right to audit the Lender's file as it deems necessary.

CHAPTER III: LOAN SERVICING

A. SERVICING THE LOAN

The Lender is responsible for holding and servicing each DROUGHT loan throughout its term. Servicing of DROUGHT loans is expected to be performed in accordance with normal agricultural loan servicing standards and in a manner which is consistent with the monitoring and servicing of the Lender's conventional loans. The Lender is responsible for collecting all principal and interest payments due on the DROUGHT loan.

B. GENERAL RESPONSIBILITIES OF THE LENDER

Access to Files

At WHEDA's request, the Lender must provide access to the Farmer's loan file as well as any other records relative to the DROUGHT loan guarantee.

Prompt Notification

Lender must notify WHEDA of a change in loan status by submitting a DROUGHT Loan Status Notification (Drought Form 9). Notification of loan payoffs, delinquency, potential default, bankruptcy, and other status changes must be reported promptly.

Lender must notify WHEDA within thirty (30) days if there is an adverse change in the Farmer's financial situation, or if there is an occurrence (or the likelihood of an occurrence) that would result in the default of the guaranteed loan.

Prior to taking any action against the Borrower, the Lender must notify WHEDA of the situation. WHEDA understands that, on rare occasions, time is of the essence and prior notification may not always be possible. The Lender is expected, however, to act expeditiously when informing WHEDA of the actions taken. If timely notification is not followed and WHEDA discovers that action, or inaction, of the Lender jeopardized WHEDA's interest in the loan, WHEDA reserves the right to terminate or reduce the level of the guarantee.

The Loan Status Notification (Drought Form 9) also serves to secure the DROUGHT guarantee during the collection process, should the guarantee otherwise expire prior to completion of the Request for Guarantee Payment. The form must be received by WHEDA prior to guarantee expiration.

C. REQUEST TO REDIRECT LOAN PAYMENT

WHEDA does not allow proceeds from the sale of collateral which is intended to repay the DROUGHT loan to be redirected or refunds of loan payments or dairy assignments to be given to the Borrower. If the Lender has authorized refunds or redirections of monies which were intended to repay the DROUGHT loan, WHEDA will not reimburse the Lender for that portion of

funds in the event that a request for guarantee payment is applied for.

D. STATUS REPORTS

Status update requests may be issued periodically by WHEDA. The Lender must complete the form and return it to WHEDA by the listed due date.

Guaranteed Loan Reminder Report

In the month prior to the maturity date of the DROUGHT loan, WHEDA will send a Guaranteed Loan Reminder Report which details all active DROUGHT guarantees that require action on the part of the Lender, prior to the maturity date if the loan has not already been paid in full. The report is faxed to the contact person on file for the Lender Number used on the DROUGHT application. This report does not need to be returned to WHEDA, it is merely a reminder notice that action must be taken by the maturity date or the guarantee will expire.

Non-Performing Loan Status Report

Quarterly, WHEDA will send each Lender a Non-Performing Loan Status Report for delinquent loans. The report will detail all loans in Forbearance, Pending Default, and Default status for each Lender. The Lender must verify and update all information required on the report, sign, and return to WHEDA within 15 days of receipt.

E. DELINQUENT LOANS

A delinquent loan is any loan for which the established payment schedule is not current. Procedures for handling delinquent loans are summarized below. For more information about specific collection options available to the Lender, consult your legal counsel. WHEDA's guidelines for various collection options are detailed in the following chapter.

Notification to Borrower

Lender must notify the Borrower of the delinquent loan status no later than the fifteenth day following the date of the DROUGHT loan delinquency. All attempts must be made to contact the Farmer and retrieve payment until the loan becomes current. The Lender's standard course of action for conventional loans should be followed.

Notification to WHEDA

WHEDA does not require the Lender to report minor payment delinquencies on DROUGHT loans. A material change in any DROUGHT loan status should be indicated on the Loan Status Notification (DROUGHT Form 9) and submitted to WHEDA. If the Lender needs to request a guarantee payment in the future, WHEDA may request documentation of all collection efforts.

Unpaid Interest

Once the principal on the guaranteed loan becomes ninety (90) days or more past due, the loan must be placed on non-accrual, with all future payments applied to the principal balance. WHEDA's guarantee only applies to the principal amount due on the loan.

Legal Action

Lender will pursue to the fullest extent possible any and all reasonable alternatives for collecting each delinquent DROUGHT loan. This includes, but is not limited to, filing suit against the Farmer for collection and foreclosure of the Lender's security, and filing a lien against all the Farmer's assets for collection of any remaining deficiency.

NOTE: When pursuing legal action against a Borrower, any financial liability incurred by the Lender remains the sole responsibility of the Lender. WHEDA is not responsible for legal expenses incurred by the Lender and will not guarantee these expenses under the DROUGHT program.

CHAPTER IV: NON-PERFORMING LOAN PROCEDURES

A. NON-PERFORMING LOANS

A Non-Performing loan includes any DROUGHT loan that is delinquent, or for which payment is not expected due to: Bankruptcy, foreclosure, voluntary liquidation, or death of the Farmer.

Under no circumstances will the Lender assign, dispose of, or waive any interest in the DROUGHT loan security which would jeopardize future collection of the loan without written consent from WHEDA.

If any of the Non-performing loan procedures are not followed properly, the Lender risks losing the guarantee.

B. FORBEARANCE

An alternative to legal action is to postpone or restructure loan payment through a Forbearance Agreement. This agreement will allow the Borrower to operate in a normal manner as long as they are in compliance with the terms and conditions provided in the Agreement. The Lender should make all attempts to work with the Borrower in order to formulate a feasible repayment plan if the Farmer is willing and able to continue making payments.

Before the third anniversary of the original note date the Lender must submit a complete Forbearance Agreement (Form 6) in order to extend the repayment terms and guarantee for up to an additional two years. The borrower is not eligible for any other WHEDA guarantees until the Forbearance Agreement has been paid in full.

The Forbearance Agreement applies only to the outstanding principal amount due. A new note is to be created which includes only the outstanding principal amount. Any outstanding interest owed to the Lender or additional fees must be excluded.

The Note must adhere to the terms specified below. If the maximum amortization and monthly payment requirement cannot be met, then an exception may be allowed with WHEDA's prior consent.

Terms of Forbearance Note

- Term of the Note and Forbearance Agreement is up to two years
 - After the initial two-year forbearance term has expired a renewal Agreement package may be submitted for approval of another term
- Note amortization cannot exceed five years
- Payment schedules must include principal payments made monthly at a minimum (NO interest-only payments will be accepted)
- Maximum Note interest rate is 12% (or the Default Rate listed on the original Note, which includes all lender fees)
- Lender is not allowed to impose prepayment penalties on the Note

Execution Fee

A \$200 Execution Fee must be submitted for each Forbearance Agreement at the time of application along with all supporting documents before the Agreement will be approved. This fee cannot be financed with the loan.

Complete Forbearance Agreement Request

A complete Forbearance Agreement request package includes various documents necessary for assessing the Borrower's financial situation and need for the forbearance. The Forbearance Agreement will not be approved until the Execution Fee and all required documents have been received.

Upon satisfactory review of the documents, WHEDA will sign and return a copy of the Forbearance Agreement to the Lender. Until the Lender receives a completely executed Agreement, the Forbearance is not in place. The following documents must be submitted in order for the package to be reviewed for approval:

- \$200 Execution Fee
- Completed and signed Forbearance Agreement (Form 6)
- Signed copy of the new Note
- Income and expense statement (current within last 90 days)
- Balance sheet (current within last 90 days)
- DROUGHT Loan Disbursement Record (Form 5)
- Complete loan payment history printout
- UCC financing statement (if original has expired or been updated)
- Other security instruments related to the DROUGHT loan

In addition, a written summary must be included which details:

- Explanation of the need for the Forbearance
- Explanation addressing what happened to the original collateral
- Explanation/summary of collateral securing the new Note

Deadlines

The Forbearance Agreement and all supporting documentation must be received by WHEDA by the third anniversary of the original note date.

Expiration

Each Forbearance Agreement is executed for a specific term, not to exceed two years. It is the Lender's responsibility to monitor the expiration of Forbearance Agreements. Once the Agreement has expired, the Lender has thirty (30) days to submit a new package for review. If this time period elapses, the guarantee is considered automatically withdrawn. **No exceptions will be made.**

Servicing

Forbearance notes carry the same servicing requirements as regular DROUGHT loans (See Loan Servicing chapter).

C. VOLUNTARY LIQUIDATION

Lender will obtain legal counsel as it deems necessary to assure that all steps are taken to maximize the amount of proceeds received. Collection procedures for voluntary liquidations include:

Liquidation Plan

When liquidation is scheduled, submit the following to WHEDA:

- DROUGHT Loan Status Notification (Form 9)
- Date of the auction
- A complete inventory of all assets and liens against the Borrower
- Complete documentation of how proceeds were applied against the liens
- Copy of Judgment for any remaining deficiencies

If full payment is not expected, the Lender must take further action in order to maintain the guarantee or request a guarantee payment. (See REQUEST FOR GUARANTEE PAYMENT section of this chapter)

Sale of Collateral

Any proceeds obtained from the sale of the collateral securing the DROUGHT loan must be applied toward reducing the outstanding DROUGHT loan balance. This will be done prior to applying such proceeds against the outstanding balance of any other debt the Farmer may owe the Lender.

If there is an outstanding balance on the DROUGHT loan after the collateral is sold, it is the Lender's responsibility to determine whether or not the balance can be collected. If full payment is not expected, the Lender must take action in order to maintain the guarantee or request a guarantee payment (see REQUEST FOR GUARANTEE PAYMENT section of this chapter). A Judgment must be filed for any outstanding principal owed to the Lender prior to submitting a request for guarantee payment to WHEDA.

Unpaid Interest

Once the principal on the guaranteed loan becomes ninety (90) days or more past due, the loan must be placed on non-accrual, with all future payments applied to the principal balance.

The Lender is entitled to apply proceeds from the sale of the collateral toward satisfying up to ninety (90) days of accrued interest due from the Farmer. WHEDA's guarantee only

applies to the principal amount due on the loan.

D. BANKRUPTCY

If a Borrower has filed for protection under Chapter 7, 11, 12, or 13 or the United States Bankruptcy Code, these procedures must be followed at a minimum:

Notification to WHEDA

Within 60 days of the Lender becoming aware that the Borrower has filed for bankruptcy, the Lender must send WHEDA a DROUGHT Loan Status Notification (Form 9) and either a copy of the Proof of Claim filed with the court or an explanation of why a claim has not been filed.

If Bankruptcy is filed and the DROUGHT loan is unsecured or under-secured (the court instructs the Lender NOT to file a Proof of Claim), the Lender may apply for a guarantee payment immediately. Under no circumstances should the Lender give up WHEDA's lien position

Legal Advice

Lender will obtain legal counsel as it deems necessary to ensure that all steps are taken to maximize the amount of proceeds received.

Sale of Collateral

In accordance with United States Bankruptcy Code and the laws of the State of Wisconsin, the Lender is responsible for monitoring the sale of the Borrower's property to assure a fair price is received for the collateral securing the DROUGHT loan. Any proceeds obtained as a result of the sale of the collateral securing the DROUGHT loan will be applied toward reducing the outstanding balance of the DROUGHT loan. After the sale, the Lender will submit to WHEDA an inventory of the items sold and the amount received for each.

If there is an outstanding balance on the DROUGHT loan after the sale, it is the Lender's responsibility to determine whether or not full payment of the loan by the Borrower is likely. If it is not, the Lender is able to request a guarantee payment. (See REQUEST FOR GUARANTEE PAYMENT section for details).

Unpaid Interest

The Lender is entitled to apply proceeds from the sale of the collateral toward satisfying up to ninety (90) days of accrued interest due from the Borrower. WHEDA's guarantee only applies to the principal amount due on the loan.

Reorganization Plan

If the DROUGHT loan is included in a repayment schedule established by the court, the Lender must contact WHEDA in order to discuss further options. A copy of the repayment plan must be submitted to WHEDA. In most cases, the loan will be placed in a Bankruptcy Repayment Plan status in order to secure the guarantee during the repayment period. It may otherwise be

decided that a guarantee payment will be made to the Lender. In such cases, the Lender will enter into an agreement with WHEDA whereby the Lender agrees to forward within five days of receipt ninety percent of the payments made under the established repayment plan.

E. DEATH

In the event of a Borrower's death, the Lender must notify WHEDA within 30 days. The Lender will obtain legal counsel as it deems necessary to assure all steps are taken to maximize the amount of proceeds received.

Contact WHEDA to discuss further steps.

F. FRAUD

If the Lender is aware of any misrepresentations or fraudulent act committed by a Borrower relative to the DROUGHT loan, it is the Lender's responsibility to immediately seek legal counsel and keep WHEDA informed of the situation. Applicable legal processes must be followed in order for the guarantee to remain in place.

G. REQUEST FOR GUARANTEE PAYMENT

Under the Program, WHEDA will provide a limited guarantee of collection (not payment) of each loan that is underwritten, secured, originated, administered and collected as required under the PLA Agreement, Sections 234.905 and 234.93, Wisconsin Statutes, and this Manual, as amended from time to time and posted on WHEDA's website.

In the event that a loan has defaulted and a principal balance remains after all collection processes have been exhausted, the Lender can apply to WHEDA for guarantee payment. Lender must make every reasonable effort to collect the DROUGHT loan prior to requesting a guarantee payment. The claim will not be paid until a complete Request for Guarantee Payment Package has been received and reviewed by WHEDA.

Once a guarantee payment has been made, the borrower and any persons with ownership interest in the borrowing entity will not be eligible for participation in any WHEDA programs. If the borrower chooses to repay WHEDA in full, their program eligibility will be reinstated.

Deadlines

WHEDA must receive a Request for Guarantee Payment before the expiration of an executed Forbearance Agreement or upon completion of the collection process. In the event that the guarantee will expire prior to completing the collection process and Request for Guarantee Payment, the Lender must submit a Loan Status Notification (Form 9) in order to secure the guarantee during the interim period.

Complete Request for Guarantee Payment Package

A complete Request for Guarantee Payment package includes various documents necessary for assessing the Farmer's financial situation and need for the payment. The request will not be reviewed until all documents have been received. Unless the Farmer has filed for bankruptcy, the Lender must first obtain a Judgment for the DROUGHT loan prior to applying for the guarantee payment.

WHEDA will contact the Lender regarding the status of the request after initial review. The following documents must be completed and submitted for review:

- Request for Guarantee Payment (Form 7)
- Copy of Judgment or Proof of Claim if filing Bankruptcy (if the court has instructed not to file, provide copy of the Bankruptcy Notice)
- Loan Disbursement Record (Form 5)
 - Include receipts and copies of cleared checks for all disbursements
- Complete loan payment history (computer printout)
- Income and expense statement (current within last 90 days)
- Balance sheet (current within last 90 days)
- Collateral analysis OR list of lien holders securing the same asset(s) as the DROUGHT loan, including lien position and balance of each loan
- Listing of creditors
- Written explanations of the following:
 - Why the borrower was unable to repay the loan
 - Detail the final disposition of collateral and collateral sale proceeds

Guarantee Payment

WHEDA will pay to the Lender 90% of the outstanding principal balance based on the original DROUGHT loan amount. WHEDA will review all documentation to verify adherence to DROUGHT guidelines in order to determine whether any adjustments should be made to the Lender's request. Ineligible disbursements of loan proceeds and fees will be removed from the total principal amount outstanding before the guarantee percentage is applied.

Stipulation

In most instances prior to making a guarantee payment, WHEDA will require the Lender to sign a Stipulation agreement. By signing the Stipulation, the Lender promises to forward to WHEDA 90% of any future payments made by the borrower after guarantee payment, until WHEDA's payout has been completely reimbursed.

Additionally, the Lender agrees to respond to status inquiries made by WHEDA after the guarantee payment has been made.

APPENDIX A: FORMS LIST

Form 1: Participating Lender Agreement

Form 2: Application

Form 5: Loan Disbursement Record

Form 6: Forbearance Agreement

Form 7: Request for Guarantee Payment

Form 9: Loan Status Notification

Form 10: Loan Modification Request