



Texas Agricultural Finance Authority

Agricultural Loan Guarantee

Agricultural Loan Guarantee (ALG)

The Texas Agricultural Finance Authority (TAFE) Agricultural Loan Guarantee program provides partial guarantees to lenders for loans to agricultural producers and agricultural businesses. Eligibility is primarily limited to state or nationally chartered banks and farm credit institutions; however, non-profits, cooperatives and other organizations may be considered on a special-initiative basis.

The general terms of the guarantee for designated loans are established in a Master Lender Agreement, a one-time document that may be executed at the institutional level, or with an individual branch.

Applications are submitted on a loan-by-loan basis for consideration. Credit quality and institutional eligibility will be assessed for each submission, with credit and eligibility decisions returned in writing. Typically, credit is adjudicated based upon the lender's internal credit evaluation, including customer-supplied documentation and materials submitted for the lender's initial review. Similarly, loan terms are negotiated solely between the lender and the borrower. In certain cases, TAFE program staff may request additional information, or suggest alteration of certain terms necessary to secure the guarantee. All such requests and suggestions will be made timely and in writing. Credit decisions are delegated entirely to program staff; therefore, decisions can be returned quite quickly for typical loans.

Upon approval, a Loan Authorization letter is provided to the lender, at which time a closing date may be scheduled. In addition to the lender's standard closing package, a Loan Guarantee and Interest Rebate Agreement is executed by the lender, the borrower, and a TAFE representative. The guarantee becomes active upon closure of the loan. All closing documents and applicable fees must be delivered to TAFE immediately upon loan closure in either digital or physical form. Electronic signatures are acceptable for the Guarantee and Rebate agreement, routed by TAFE staff. Alternatively, the lender may include the document as part of the closing package consistent with the lender's documentation policies and practices.

Partial Guarantees

Only a portion of qualifying loans are guaranteed under the ALG program. Specific balances covered under the guarantee depend upon the original terms of the loan:

\$250,000 or 90% of the loan amount, whichever is less.

\$500,000 or 80% of the loan amount, whichever is less.

\$750,000 or 70% of the loan amount, whichever is less

The value/percentage guarantee applicable to the original loan balance is applicable to outstanding principal balances throughout the life of the loan until maturity.

Eligible Loans

There are no absolute requirements for loan structure, subject to credit considerations and legal pricing limitations. For each guaranteed loan, the lender should perform credit and collateral analyses and all other underwriting functions that would customarily be performed for a loan not subject to a guarantee. Any deviations from a lender's credit policy and minimum standards should be disclosed in the application with a written justification for consideration.

Loan proceeds must be used to establish, enhance or otherwise support an agricultural business as defined in [Texas Statutes, §58.002\(1\)](#), which includes agricultural producers and most other rural business ventures. Subject to funding availability and guaranteed loan portfolio make-up, preferences may be periodically imposed to encourage or exclude certain industries or business categories. No such preferences exist currently.

ALG Application Process and Costs

A blank PDF form application can be found under "Forms and Information" at the ALG website:

<https://texasagriculture.gov/Grants-Services/Rural-Economic-Development/Texas-Agricultural-Finance-Authority/Agricultural-Loan-Guarantee-Program>

The application is a joint application for the Lender and the Borrower. It is preferred that this form be completed without signature, then emailed as an attachment. TAFE program staff will then distribute the document for electronic signatures by all parties. This process allows a cursory review of the application contents, with adjustments possible prior to final signatures being affixed. Alternatively, the form may be printed, signed and faxed/scanned to program staff.

The lender may schedule loan closing at any time, however once the guarantee application has been approved an approval letter will be sent, valid for 30 days.

There is a \$100 application fee payable by the lender. Additionally, a fee equivalent to 1% of the guaranteed amount is due within 10 days of loan closing, typically paid by the borrower. This may be paid from loan proceeds if needed or preferred, subject to approval by the lender.

Reporting

A quarterly report summarizing outstanding balance and loan details is required. The report is submitted to TAFE/TDA via email.

Borrower Rebates

It is the TAFE board's goal to minimize the impact of debt on struggling agricultural and rural businesses. Each year, the board determines a methodology for annual rebates to offset interest costs to borrowers who remain in good standing. This is currently set at \$500 per year, not to

exceed the origination fee over the life of the loan guarantee. It should be noted that this is a discretionary rebate and is subject to change at any time and without notice.

Considerations

The TAFE Agricultural Loan Guarantee program is often compared to the Business and Industry loan guarantee available through USDA. The following is a summary of several key differences.

	USDA B&I	TAFE ALG
Ag Production Loans	No	Yes
Maximum Guaranteed Amount	> \$10M	\$750,000
Maximum Guarantee Percentage	80%	90%
Active Secondary Market	Yes	No
Borrower Fees	3% of guaranteed amount	1% of guaranteed amount
Borrower Rebates	None	Yes (see explanation above)
Maximum Duration of Guarantee	30 years	10 Years

The programs are similar, but there are some differences that should be considered when evaluating loan guarantee options. Typically, larger loans and loans maturing beyond 10 years (with no balloon) are likely better served by the federal program. However, the ALG program offers very flexible options for smaller loans (< \$1M) maturing in 10 years or less. Furthermore, this can be offered at a much lower cost to the borrower, even before discretionary rebates. Finally, the ALG program can be quickly accessed with a simple application process and lightning-fast decisions.

And if the goal of a guarantee is simply to shore up an otherwise close LTV metric, or meet an internal capital threshold, it is possible that ALG can achieve the same outcome for less cost in time and money, even for an otherwise outsized loan.

Additional Information

Additional questions or requests for information may be routed to the following mailbox for the quickest response:

EconomicDevelopment@TexasAgriculture.gov

Alternatively, the TAFE lending team can be reached as follows:

Bon Wier
 TAFE Bond Finance Specialist
 (512) 936-8163

Roxana Newton
 Program Director for Economic Development
 (512) 463-2537

