



Texas Agricultural Finance Authority

Interest Rate Reduction Program

Interest Rate Reduction

The Texas Agricultural Finance Authority (TAFE) Interest Rate Reduction program is based upon a linked-deposit structure for pricing enhancement of agricultural and agriculture-related loans. It is available for loans up to \$500,000 to Texas-based agricultural businesses and is available to any lender who is approved by the Texas Comptroller as a depository for state funds. There are approximately 175 Texas-based lenders currently accepting state deposits, however any state or OCC chartered institution, savings and loan association, or credit union with sufficient capital may apply for this designation.

In a linked-deposit structure, the State Comptroller places an amount equivalent to the initial loan balance into a time deposit at the lending bank. This deposit earns a below-market yield for its duration. In return, the lender agrees to charge below-market interest for the linked loan.

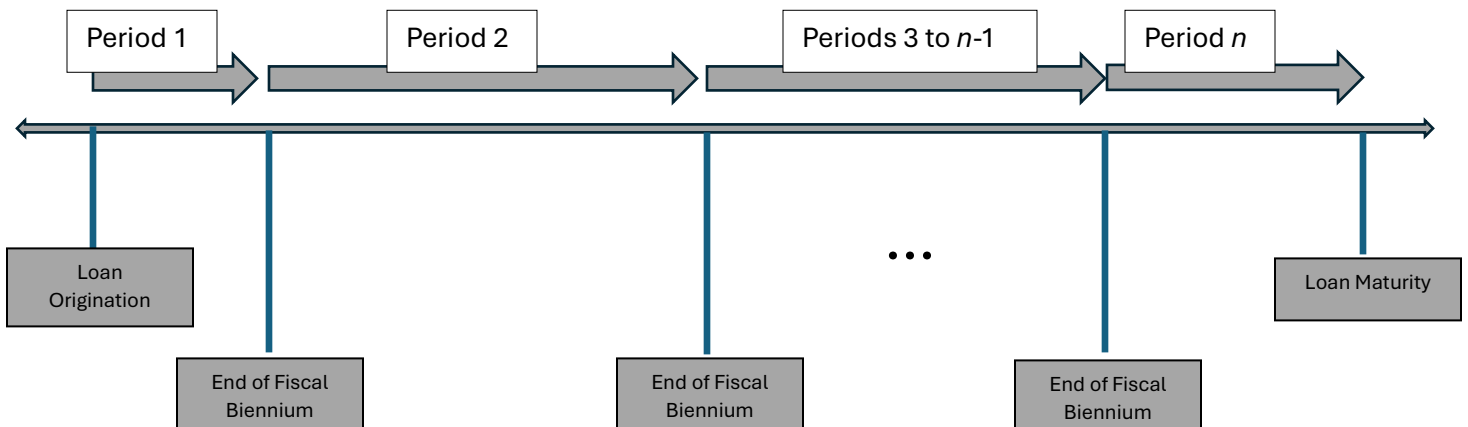
There are two versions of the Interest Rate Reduction program, one available for any eligible agriculture-related loan (IRR), the other exclusively for loans to Young Farmers (YFIRR). The Young Farmer designation is applicable to any agricultural business owned at least in part by an individual under the age of 46 at the time of loan closing. The YFIRR version typically results in lower interest costs, however both programs are effective at reducing average interest costs to participating borrowers.

It should be noted that linked deposit programs are NOT intended to enhance the credit quality of loans. They are intended for pricing enhancement only, and the deposit must be released to the state comptroller immediately in the event of a material default or foreclosure.

TAFE does offer an Agricultural Loan Guarantee program that may be used independently or in tandem with the IRR program to improve the credit quality of otherwise conforming loans.

Deposit Duration and Maturity

Each deposit matures at the end of the state's then fiscal biennium (August 31 of odd numbered years), or the date upon which the linked loan matures, whichever is earlier. The deposit may be renewed by the lender at each deposit maturity point until the loan matures.



The deposit balance for each period will be determined by the linked-loan principal balance at the beginning of that period. Quarterly reporting is required, and significant reductions in loan principal during any period may require an equivalent release of deposited funds to the Comptroller.

Linked-Deposit Rates Payable

The interest rate payable on the time deposit for each period is based upon the yield of US Treasury Notes maturing at the end of the respective period (Index Rate). The *Index Rate* is reset at the beginning of each renewal period and remains fixed for the duration of the applicable period.

The interest payable for the YFIRR version is equal to the Index Rate minus 300 bps or a minimum rate payable of 0.5%, whichever is greater. For the IRR version, interest payable is equal to the Index Rate minus 200 bps or 1.5%, whichever is greater. The calculated rate payable on the deposit is termed the *Program Rate*.

IRR: **Program Rate = Index Rate – 200bps** (or 1.5%, whichever is greater)

Young Farmer IRR: **Program Rate = Index Rate – 300bps** (or 0.5%, whichever is greater)

Program Rate = Interest Payable on state funds deposited

Loan Rates

For loans linked to an Interest Rate Reduction deposit, the lender may not charge more than the Program Rate plus 400 bps. Typically, lenders will incorporate this reset methodology into the loan pricing, with interest rate resets consistent with the renewal periods of the deposit, however this is not a requirement. It should be noted that a fixed rate loan or a variable rate loan subject to an inconsistent index may require repricing if the calculated interest rate is above the maximum rate during a linked deposit following a renewal.

YFIRR and IRR: **Maximum Loan Rate = Program Rate + 400bps**

Considerations

There are no requirements that linked loans be of any particular repayment or pricing structure beyond, of course, that described in the prior section. However, the IRR programs are not operationally designed to deposit additional funds following a renewal, only balance reductions based upon principal reductions. As such, lines of credit and other loan structures that exhibit future draws may not be appropriate for the program.

Many community banks already compete for and accept deposits of state funds. These banks are eligible for the IRR program without further documentation beyond the application and approval

process. Any financial institution — a state or national bank, savings and loan association or credit union — doing business in Texas through a main office or one or more branches may apply to become a depository of state funds. This is a function of the Office of the State Comptroller, and additional information may be found at the OSC website:

<https://comptroller.texas.gov/programs/systems/depository-application.php>

IRR Application Process and Costs

A blank PDF form application can be found under “Resources” at the IRR website:

<https://texasagriculture.gov/Grants-Services/Rural-Economic-Development/Texas-Agricultural-Finance-Authority/Interest-Rate-Reduction>

The application is a joint application for the Lender and the Borrower and includes terms to which both lender and borrower agree associated with the program requirements. It is preferred that this form be completed without signature, then emailed as an attachment to TDA. TDA 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 TDA.

The lender may schedule loan closing at any time, however once the application has been approved by both TDA and the Comptroller, an approval letter will be sent, valid for 30 days. We make every effort to make deposits available on the same day that loans are closed, however closing processes may not always support same-day funds transfer.

There are currently no fees or other charges assessed for this program and it is available on a first-come-first-served basis, subject to available funding.

Reporting

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

Additional Information

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

EconomicDevelopment@TexasAgriculture.gov

Alternatively, we can be reached as follows:

Bon Wier

TAFE Bond Finance Specialist
(512) 936-8163

Roxana Newton

Program Director for Economic Development
(512) 463-2537