

MONTANA BOARD OF INVESTMENTS
CONSERVATION RESERVE ENHANCEMENT PROGRAM
INFORMATION SHEET

INTRODUCTION

This guide is intended to provide information on the Montana Board of Investments' (the Board) Conservation Reserve Enhancement Program (the Program). While as comprehensive as possible, this Information Sheet will not address every situation involving individual CRP contracts. Consequently, if you still have questions about the Program, please call the Board's Loan Originator, Doane Western Company, at (406) 587-1201.

CRP PROGRAM

The Conservation Reserve Program (CRP) is a federally funded program designed to remove highly erodible land from production. Participating farmers in the CRP receive a payment per acre each year for 10 or 15 years in return for the farmer removing the land from agricultural production and seeding it to permanent grass or legume cover.

CRP ENHANCEMENT PROGRAM

The Montana CRP Enhancement Program is designed to complement the federal CRP program. Through the Board's Program a person holding a CRP contract can receive a loan against future CRP payments. This loan will be repaid by the CRP contract owner assigning his or her future CRP payments to the Board. Depending on the number of payments remaining on the CRP contract, borrowers will receive a loan of from 55 percent to 85 percent of the remaining payments (a contract with fewer years remaining will receive a higher percentage because of a lower interest rate and fewer years of interest payments). This percentage approximates the present value of the farmer's total remaining CRP payments using today's market rate of interest. The actual amount received will depend upon the years remaining in the CRP contract and the interest rate set by the Board to finance the Program. See the last page of this Information Sheet for an example of computing the amount of money a farmer could receive under the Program.

ELIGIBILITY

All CRP contract holders are eligible to participate if they: 1) are not in violation of their CRP contract; 2) are not involved in bankruptcy or their farm is not involved in foreclosure proceedings; and, 3) can provide the Board with a first mortgage on the CRP acres and easements that provide access to the CRP acres.

HOLDBACK FOR ESTABLISHMENT OF COVER

The Board will allow CRP participants who have not established cover in accordance with their conservation plan to participate in the Program. However, to hedge its exposure to the potential expense of reseeding costs, the Board will holdback a portion of the borrower's loan proceeds pending the establishment of cover. (The amount of the holdback, subject to change, is presently set at a one-time reduction from loan proceeds of \$20 per acre for introduced species and \$30 per acre for native species.) The holdback will be required for all CRP contracts which have not received certification by the Natural Resources and Conservation Service (NRCS) as having an established cover. Amounts held back, and interest earnings thereon, will be disbursed to borrowers as soon as the Board receives the NRCS certification that the cover has been established. It is the borrower's responsibility to obtain the certification from NRCS and mail it to the Loan Originator (Doane Western Company).

USE OF LOAN MONEY

The farmer must certify that money from the Program will be used for an agricultural purpose in Montana, such as farm-related debt reduction or refinancing, agricultural working capital, or for the purchase of agricultural land, livestock or agricultural equipment.

FIRST MORTGAGE AND SUBORDINATION

Farmers interested in participating in the Program must discuss with any lienholder, lessee, or holder of other property interest in the CRP land their willingness to subordinate or release their present position so the Board can receive a first mortgage and easement on the CRP land. A form for subordinating existing liens may be requested from Doane Western Company if needed or lenders may use their own form if they prefer.

EASEMENT

An easement on the CRP acres is required to allow for CRP compliance monitoring or action required to maintain compliance with the CRP contract by the Board's monitoring agent. Additionally, legal access to the CRP land is required and will require an insurable easement across land lying between a public road and the CRP acres. The easement may be given in gross or over a designated area at the option of the landowner. Once the loan has been repaid in full the easement(s) will be released.

MULTIPLE OWNERSHIP CONTRACTS

Many Farm Service Agency (FSA) farms have several different ownership tracts included in the farm. In some cases more than one of these ownership tracts may be involved in a CRP contract. Because of title insurance and first mortgage requirements of the Program, it will be necessary for each owner who wishes to participate to have FSA reconstitute the different tracts into separate CRP contracts.

SPLIT PAYMENT CRP CONTACTS

Many CRP contracts have two or more persons named as parties to the contract, with each party receiving a specified percentage of the annual contract payment. Some of these contracts involve multiple undivided ownership and others are involved in an owner/tenant situation. The Board allows participation by fewer than all parties named on the CRP contract. Individuals interested in using this option should contact the Board's Loan Originator, Doane Western Company.

TENANTS

Tenant farmers who currently receive a portion of the annual CRP payments and have an interest in the Program must be able to provide the Board a first mortgage from the owner of the CRP ground or provide a first mortgage on substitute collateral acceptable to the Board. The Board requires easements for access to the CRP acres and also the substitute collateral (see "Substitute Collateral").

APPLICATION PROCESS

1. An interested CRP participant will complete a Program application and return the application, together with a \$500 non-refundable application fee, to the Board's Loan Originator, Doane Western Company. If the applicant's CRP acreage is subject to an existing mortgage or other lien, the applicant must confirm the mortgage holder's willingness to subordinate or release his lien on the CRP acreage and to consent to the easements referred to above before submitting the application.
2. The Loan Originator and the Board will review the application to determine applicant and land eligibility.

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LOAN FUNDING PROCESS

The Loan Originator shall obtain approval of the Successor-in-Interest Agreement from the appropriate FSA County Committee and work with the borrower to close the loan, record the necessary legal filings and disburse funds. As a general rule borrowers should plan on at least 30 days from submitting the application to loan close. If the title report shows exceptions that must be dealt with it may take longer.

INTEREST RATE ON PROGRAM LOANS

The fixed interest rate to the borrower on Program loans will represent a pass through of the interest rate on the money the Board must borrow to fund the loan plus all Program costs and expenses. The Board estimates that under current market conditions the current interest rate charged borrowers for a Program loan will vary from 5.5 percent to 7.6 percent, depending on the number of years remaining in the CRP contract.

The gross loan amount to the Borrower will be the present value of the remaining CRP contract payments discounted at the Program loan rate. An example of discount percentages is shown on the last page of this Information Sheet.

COSTS TO THE BORROWER

The following is a list of Program costs, which are borne by the borrower:

A \$500 non-refundable Application Fee. Each applicant for the Program must submit a \$500 check payable to the Board of Investments with the application when applying for the Program. IMPORTANT: \$250.00 of this fee will be credited toward the cost of title insurance and will appear as a credit on the borrower's loan closing statement. (Title Insurance Companies are authorized by law to charge a cancellation fee for the title search if the application does not result in the issuance of a title insurance policy. This is the reason the Application Fee is non-refundable). The remainder of the fee will be applied to costs associated with processing the application.

Loan Origination. At the loan closing, the borrower will have deducted from the loan proceeds a fee of one half of one percent (0.5%) of the actual loan amount.

Title insurance. The cost of the mortgagee's title insurance policy is also the borrower's responsibility. One-half of the Application Fee (\$250) will be credited toward this cost. The remainder of the cost will be deducted from the loan proceeds disbursed at closing or refunded to the borrower at loan closing if the cost of the title insurance is less than \$250.

Courthouse recording and filing fees. The costs of recording the necessary legal documents will be borne by the borrower and will be deducted from loan proceeds.

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Escrow for cover. While not technically a cost, potential expenses of establishing cover will be escrowed at the loan closing for those applicants not having established permanent cover (see Holdback).

Example of Sources and Uses of Loan Proceeds

\$80,000	Actual Gross Loan Amount
250	Credit from Application Fee
(400)	Origination Cost at 1/2% of actual loan amount of \$80,000

(410)	Title Insurance
(250)	Title Company Closing Fee
<u>(145)</u>	Recording Fees
 \$79,045	 Net Loan Amount to Farmer
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SECURITY FOR PROGRAM LOANS

Loans under the Program represent recourse loans. Accordingly, a Program participant will be required to sign a Promissory Note evidencing his obligation to repay the loan. While it is expected that the loan repayments will be made entirely from the annual CRP payments received by the Board pursuant to the Successor-in-Interest Agreement, the borrower bears the ultimate responsibility for the timely repayment of the loan.

Program loans will be additionally secured by a first Mortgage on the acreage included in the CRP contract. The Mortgage will need to be filed on a recordable legal description of property; therefore, in most instances, the Mortgage will be filed on the smallest recordable tract that fully encompasses the CRP acreage. Borrowers with preexisting mortgages on their CRP acreage will need to evidence signed subordination agreements from existing lienholders before receiving a Program loan.

Program participants must comply with the requirements of the Promissory Note and the Mortgage, which principally involve continued compliance with the terms and conditions of the CRP contract and prompt payment of taxes. It is important to note, however, that the farmer retains ownership of the land, together with the privileges and responsibilities relating to such ownership. Among other rights, the farmer will be allowed to sell or transfer his CRP acreage upon Board approval provided that the new owner assumes all obligations under the CRP contract, Promissory Note and Mortgage.

PREPAYMENT PENALTY

There is no prepayment penalty on Program loans. Borrowers that wish to terminate the loan before maturity must pay the outstanding loan balance plus accrued interest in order to receive an early termination.

BOARD’S POSITION AS SUCCESSOR-IN-INTEREST

As part of closing a Program loan, the Board, the CRP participant and the appropriate County FSA County Committee will sign a Successor-in-Interest Agreement on a USDA approved form. The agreement will be attached to and will serve as an addendum to the existing CRP contract.

CRP CONTRACT COMPLIANCE

Farmers participating in the Program will remain responsible for compliance with the terms of the CRP contract including proper contract maintenance, submitting the annual certification required by FSA and establishing and maintaining the permanent cover on the CRP acreage. Any costs, or penalty charges associated with instances of noncompliance, must be paid by the farmer. Under the Program, noncompliance by a borrower is grounds for the Board to accelerate the loan and foreclose upon the Mortgage. In the event of noncompliance, the Board will direct its Contract Monitor (Doane Western) to develop with the local FSA officials and the borrower an acceptable plan of response. If the borrower promptly and effectively proceeds with the corrective action, and agrees to pay any penalty charges, the matter will be resolved. If the borrower refuses to take appropriate corrective action, the Contract Monitor will immediately take steps to correct the violation to the satisfaction of the FSA. The Board will bill any costs to correct the violations and FSA payment reductions and related charges to the borrower. If the borrower refuses to pay these charges, the Board may institute foreclosure proceedings.

TAX TREATMENT OF PROGRAM PROCEEDS AND REPAYMENTS

Farmers interested in the Program should visit with their tax consultants or accountants prior to submitting an application concerning the tax effects of participating in the Program. The following information is provided for your consideration, but the Board assumes no responsibility for its accuracy or the final tax treatment of loan proceeds.

In a recent private letter ruling addressed to the state of South Dakota, the Internal Revenue Service determined that amounts received by farmers under conservation reserve enhancement programs, such as the Program, will be regarded as loan proceeds. Consequently, lump sum amounts received by Montana farmers under the Program should not be subject to income taxation. Instead, participants will be required to annually report as taxable income their CRP payments which the Board receives to repay the farmers Program loan. As an offset to this taxable income, Program participants will, under the conditions specified in the private letter ruling, be allowed to deduct the interest paid on the Program loan in each respective tax year. The Board will provide a schedule of interest payments as an exhibit to the Promissory Note.

ADDITIONAL INSTRUCTIONS IF APPLICANT IS A PARTNERSHIP OR CORPORATION

If the applicant is an organization (not an individual), then the state in which the applicant's organization was organized and the type of organization (partnership, corporation, etc.) must be furnished with the application.

Corporations must furnish the Articles of Incorporation, Bylaws and a Corporate Authorization Resolution showing the names of the persons authorized to sign for the

corporation and how many signatures are required. The resolution must clearly state that the individuals designated to sign have the authority to borrow money and mortgage property on behalf of the corporation.

Partnerships must furnish the Partnership Agreement.

WHERE TO OBTAIN APPLICATIONS AND ADDITIONAL INFORMATION

Specific questions on the Program and requests for applications should be directed to the firm hired by the Board to originate the loans and service the contracts. This firm is:

DOANE WESTERN COMPANY
P.O. BOX 3661
BOZEMAN, MT 59772-3661
PHONE (406) 587-1201

MONTANA BOARD OF INVESTMENTS
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PRESENT VALUE DISCOUNT TABLE

NUMBER OF
REMAINING
CRP PAYMENTS

ESTIMATED
DISCOUNT
RATE*
(11/03/2010 CLOSE)

9

72.54%

NUMBER OF
REMAINING
PAYMENTS

ESTIMATED
LOAN INTEREST
RATE

15

7.60%

14

7.60%

13

7.50%

12

7.30%

11

7.20%

10

7.00%

9

6.90%

8

6.50%

7

6.25%

6

6.00%

5 (or less)

5.50%