PROMISSORY NOTE

INSTRUCTIONS FOR PREPARATION

Purpose: This form is used when making initial and subsequent direct loans and for reamortizing, consolidating and rescheduling such loans. The purpose of the form is to document and provide evidence of debt and to establish a repayment schedule. This is a legal instrument evidencing debt. *Any corrections or strike-outs must be initialed and dated by the liable parties.*	
Handbook Reference: 3-FLP, 4-FLP, 5-FLP	**Number of Copies:** Original and two copies.
Signatures Required: Borrower and co-signer if required, on original, with all copies conformed. See State supplement for entity signatures.	
Distribution of Copies: Original filed in a fire resistant safe, copy to the borrower, and copy to the case file.	
Automation-Related Transactions: DLS - 1F and 1M	

Items 10 through 11(g) pertaining to the terms of the loan and finance charges will be typed in both numbers and capital letters.

Fld Name / Item No.	Instruction
1 Name	Enter borrower's legal name.
2 State	Enter state where farm is located. If borrower is an individual enter the state where the farm residence is located.
3 County	Enter the county in which farm is located. If borrower is an individual, enter the county where the farm residence is located.
4 Case Number	Enter the borrower's case number.
5 Fund Code	Enter the borrower's fund code.
6 Loan Number	Enter the borrower's loan number.
7 Date	Enter date on which loan is closed.
8 Type of Assistance	For restructured loans leave blank. For new loans, enter the abbreviation for type of assistance as shown below:

Fld Name / Item No.	Instruction

	DIRECT FARM OPERATING (OL) – 44
	
	NON-BEGINNING FARMER:
	
	    OL-LR-7YR
	    OL-Reg(Ex Yth) 7YR
	    OL-Youth-7YR
	    OL-Reg(Ex Yth)-1YR
	    OL-LR-1YR
	    OL-Youth-1YR
	
	SOCIALLY DISADVANTAGED - NON BEGINNING FARMER:
	
	    OL-Reg(Ex Yth)-1YR-SDA
	    OL-LR-7YR-SDA
	    OL-Reg(Ex Yth)-7YR-SDA
	    OL-Youth-7YR-SDA
	    OL-LR-1YR-SDA
	    OL-Youth-1YR-SDA
	
	BEGINNING FARMER:
	
	    OL-BF-Reg-1YR
	    OL-BF-Reg- 7YR
	    OL-BF- LR -1YR
	    OL-BF-LR-7YR
	
	SOCIALLY DISADVANTAGED - BEGINNING FARMER:
	
	    OL-BF-Reg-1YR-SDA
	    OL-BF-Reg-7YR-SDA
	    OL-BF-LR-1YR-SDA
	    OL-BF-LR-7YR-SDA
	
	DIRECT FARM OWNERSHIP (FO) - 41
	
	NON-BEGINNING FARMER:
	
	    FO Limited Resource
	    FO Regular
	    FO Participation

Fld Name / Item No.	Instruction

	BEGINNING FARMER:
	
	  FO-BF-Reg
	  FO-BF-LR
	  FO-BF-Participation
	
	BEGINNING FARMER DOWN PAYMENT
	
	  FO-BF-DnPymnt
	  FO-SDA-DnPymnt
	
	  CONSERVATION LOANS (CL) – 30
	
	  CL-Reg
	  CL-NBF-SDA-Gen
	  CL-NBF-SDA-Eth
	  CL-Priority
	
	SOCIALLY DISADVANTAGED - ETHNIC
	
	  FO-LR-SDA-Ethnic
	  FO-Reg-SDA-Ethnic
	  FO-BF-DnPymnt-SDA-Eth
	  FO-BF-Reg-SDA-Eth
	  FO-BF-LR-SDA-Eth
	  FO-Part-SDA-Eth
	  FO-BF-Part-SDA-Eth
	
	SOCIALLY DISADVANTAGED - GENDER
	
	  FO-Reg-SDA-Gen
	  FO-LR-SDA-Gen
	  FO-BF-DnPymnt-SDA-Gen
	  FO-BF-Reg-SDA-Gen
	  FO-BF-LR-SDA-Gen
	  FO-Part-SDA-Gen
	  FO-BF-Part-SDA-Gen
	
	  EMERGENCY LOANS (EM) – 43
	
	  EM-Act Loss-RE Purposes
	  EM-CitrusGr Rehab/Reestab
	  EM-Act Loss-Operating Purposes
	  EM-Equine Loss

Fld Name / Item No.	Instruction
9 Action	Enter a checkmark in the appropriate Action Requiring Promissory Note Box. Loan restructuring actions may require that more than one box be checked.
10*(a)* Office Location	Enter the name of the County office location where this loan is being closed.

10*(b)*
Principal Sum
	Enter the principal sum as determined below, in words.
	
	  a. If "Initial loan", or "Subsequent loan", is checked in Item (9), the principal sum is the amount of the loan.
	
	  b. If "Consolidation", "Rescheduling", "Conservation Easement", or "Reamortization" is checked in Item (9) please refer to the Debt and Loan Restructuring System (DALR$) Report for this borrower to obtain the restructured loan amounts to complete the Promissory Note.
	
	      NOTE: Use the ADPS Inquiry Code SM Screen, to determine the unpaid principal balance and unpaid accrued interest. Balances may be confirmed through the field office terminal system.

10*(c)* Principal Sum	Enter the principal sum in figures.
10*(d)* Interest Rate	Enter the applicable interest rate in words.
10*(e)* Interest Rate	Enter the applicable interest rate in numbers as a percent.
11*(a)* Number of Installments	Enter the total number of installments due on this loan. This number is not always the same as the number of years of the loan. For example: for loans scheduled for payment on the anniversary date of the note beginning one year from the date of the note, the number of installments will equal the number of years. However, if the first installment is due in less than 12 months from the date of the original loan, the number of installments will exceed the number of years by one. (A three year loan closed 4/1/2007. The first installment is due 11/1/2007, the second installment is due 11/1/2008, third installment due 11/1/2009, and the final installment is due 4/1/2010; four installments are due. A three year loan closed 4/1/2007 with a first payment due 10/1/2008, second payment due 10/1/2009 and final installment due 4/1/2010; three installments are due.
11*(b)* Installment Amount	Enter the amount of the first installment in figures. Also, enter the amount of all successive installments that are not equal amortized installments. Enter "NA" in unused blanks.
11*(c)* Installment Due Date	Enter the due date (month, day, year) in figures for the first installment and all successive installments that are not equal amortized installments. The installment date may be any day of the year except **February 29th**. **Note:** See examples for computing installments at end of these instructions. Use blanks from left to right, then top to bottom. Enter "NA" in unused blanks.

Fld Name / Item No.	Instruction
	The Agency Official should schedule note payments when the borrower will have income to service the debt. For example: a cash grain operator will need to have the payments scheduled at or near the end of the harvest season, a livestock operation will need payments scheduled when the borrower plans to sell the livestock, etc. For initial loan closings, **the first installment must be scheduled within 18 months of loan closing.** For loan restructures, no more than 12 months may be used between the restructure closing and the installment due date.
11(*d*) Equal Installments	Enter the amount in figures, of equal amortized installments, which become due following the installments shown in item 11(b). If none enter "0".
11(*e*) Due Date	Enter the day and month payments will be due, except for monthly payments, if note is dated 29, 30, or 31, enter "28" for the day.
11(*f*) Due Date	Enter the word "Month" or "Year" to indicate if payments are due monthly or annually.
11(*g*) Number of Years	Enter the number of years in which the loan will be repaid in figures. **Note:** For operating loans with one installment having a term between 12 months and 18 months, it will be necessary to use two (2) years.
12 thru 16 Read	Applicant must read items 12 through 16 before signing the note.
17 Fully Describe Instruments	Describe the instrument(s) being consolidated, reamortized, rescheduled, or written down by completing the above items (a) through (f) for each.
18 thru 22 Read	Applicant must read items 18 through 22 before signing the note.
23 Signatures	See State Supplement for required signature lines. **Notes:** Individuals – Type legal names of the persons who applied for the loan below lines for signature. Entities - The name of the corporation or cooperative will be typed above the space provided for signatures, and the name and title of each official to sign for the corporation or cooperative will be typed below the signature. Each stockholder or member will have his or her name typed onto the note followed by *(as individual).* Each stockholder or member will sign the note as an individual regardless of the percentage of ownership interest. For corporate borrowers, the secretary will attest to the signature of corporate official(s), and the corporate seal will be affixed.

Fld Name / Item No.	Instruction
	The name of the partnership or joint operator will be typed above the space provided for signatures. Also the words, "For the Partnership" or "For the Joint Operation" will be typed immediately beneath the name of the partnership or joint operation, and the name of the partner or joint operator to sign for the partnership or joint operation will be typed below the signature. Each partner or joint operator will have his or her name typed out onto the note followed by *(as individual)*. Each partner or joint operator will sign the note regardless of the percentage interest in the partnership or joint operation. Borrowers must sign exactly as their legal name is typed on the note. Cosigner - If a cosigner is required, type in a line for signature. Below the line, type the cosigner's name and the word (Cosigner). The cosigner will sign exactly as their legal name is typed on the note. ***Enter the borrower's new mailing address after the loan is closed if required***.

ADDITIONAL INSTRUCTIONS

If a deferral is granted, type in the following and complete the blanks and have the borrower(s) sign.

ADDENDUM FOR DEFERRED INTEREST

Addendum to promissory note dated (1)_____original amount of $(2)_____ at an annual interest rate of (3)_____percent. This agreement amends and attaches to the above note. $(4)_____ of each regular payment on the note will be applied to the interest which accrued during the deferral period. The remainder of the regular payment will be applied in accordance with 7 CFR Part 765. I agree to sign a supplementary payment agreement and make additional payments if during the deferral period I have a substantial increase in income and repayment ability.

The figure to be entered in the fourth blank of the addendum must be calculated as follows:

Found in the DALR$ Report in the Loan Deferral Section as item called "INT ACCRUAL ON DEFERRED PRINCIPAL DURING DEFRL" divided by Final Year of Loan minus the Remaining Life of Loan. The resulting amount must be rounded up to the next whole dollar amount.

Example:

Interest Accrual on Deferred Principal During Deferral	$6,054.69
Final Year of Loan	2020
Date Deferral Expiration	2009
Remaining Life of Loan (2020 – 2009) =	11

$\underline{6054.69}$ = $550.43   11

Rounded up to the next whole dollar, the amount that goes into line four is $551.00

When debt write-down is granted, and real estate is the only security FSA-2543 "Shared Appreciation Agreement" will be completed and signed by the borrower. FSA-2543 will be attached to and become part of the note that is written down. If chattels are the only security no appreciation will be recaptured.

Provided the note is being executed only for a loan servicing action, which does not involve a transfer, assumption, or subordination, and all the borrower's outstanding FSA loans were approved prior to June 24, 1986, the following addendum will also be added to the note:

> *All the Government funds evidenced by this note were approved prior to June 24, 1986. Therefore, the "Highly Erodible Land and Wetland Conservation Agreement" provision of this note does not apply.*

EXAMPLES FOR COMPUTING INSTALLMENTS

General: The Agency Official has substantial flexibility in scheduling installments and payment date for loan repayment. To effectively utilize this flexibility, a thorough evaluation of the borrower's financial situation is necessary. The Agency Official should know the value of the security in which FSA has an interest and should have a full understanding of the impact of alternative repayment schedules on the borrower's income. Reduced installments early in the repayment period will result in increased interests over the life of the loan. The reduced installments could result in an insurmountable financial burden later in the repayment period. The Agency Official must always consider whether reduced installments are needed to enable the borrower to remain in business in the short run and fully evaluate the effect on the borrower's long run financial condition.

The Agency Official has the responsibility for determining the appropriate loan repayment schedule for each borrower. The first payment must be scheduled within 18 months of loan closing. The repayment schedule and the reasons for using the particular schedule will be fully discussed with each borrower. During this discussion, the Agency Official should also make sure that the borrower is aware that all payments will be applied first to accrued interest and then to principal. If deferred payments are scheduled, the borrower should be aware that principal will show little, if any, reduction in the first part of the repayment period.

The following examples are given to illustrate the mechanics of computing installments.

EXAMPLE - I - OPERATING LOAN - EQUAL AMORTIZED INSTALLMENT.

A 7-year OL loan for $23,800 at 8½ percent interest was closed on April 1, 2006. The farm plan shows income to make payments will be available on December 1 of each year beginning December 1, 2006.

Equal amortized installments are determined as follows:

$23,800 Amount of loan
x .19537 Amortization factor for 8½ percent interest for 7 years
$ 4,650 Amoritzed annual installment. Insert in item 11(b) and 11(d)

Insert "7 years" in item 11(g). *(The number of installments in 11(a) will be eight – 12/1/2006; 12/1/2007; 12/1/2008; 12/1/2009; 12/1/2010; 12/1/2011; 12/1/2012; and 4/1/2013.)*

This method of determining the installments will repay the loan in slightly less than 7 years if all installments

are paid as scheduled.

The final payment in this case will be less since a full year did not lapse between loan closing and the first installment. *(If all installments are paid as scheduled, the loan would payoff on 12/1/2012; if not all paid on time, the final installment will be due 4/1/2013.)*

EXAMPLE II - REAL ESTATE LOAN - EQUAL AMORTIZED INSTALLMENTS.

A 40-year FO loan for $100,000 at 9½ percent interest was closed on December 1, 2006. The farm plan shows income to make payments will be available on July 1 of each year beginning July 1, 2007.

Equal amortized installments are determined as follows:

$100,000 Amount of loan
x .09759 Amortization factor for 9½ percent interest for 40 years
$ 9,759 Amortized annual installment. Insert in items 11(b) and 11(d).

Insert "40 years" in item 11(g). *(Number of installments in 11(a) will be 41.)*

This method of determining the installments will repay the loan in slightly less than 40 years if all installments are paid as scheduled.

The final payment in this case will be less since a full year did not lapse between loan closing and the first installment.

EXAMPLE III - OPERATING LOAN FOR ANNUAL PRODUCTION.

An OL loan for $50,000 was closed December 1, 2006. The farm plan shows that income from the production cycle will not be available to make a payment until April 1, 2008, at which time the loan will be paid in full. The farm plan also documents a need for Limited Resource (LR) interest rate. One installment due in 16 months will be scheduled. The installment is calculated as follows:

> Principal balance..$50,000
> Accrued interest - 486 days at 8.9041 per day (interest rate is 6.5 percent).......................4,328
> _____
> Total payment...$54,328 (enter in item 11(b)

Enter "2 years" in item 11(g). The repayment term of an annual OL loan will be determined by future availability of income to make the payment, but MAY NOT exceed 18 months.

EXAMPLE IV – UNEQUAL INSTALLMENTS with BALLOON PAYMENT.

A term OL loan for $250,000 at 2.1250% was closed on February 17, 2009. The farmer is developing a new orchard and the trees will not provide mature fruit for at least 3 years. Instead of a normal repayment schedule, the loan will be amortized with a balloon payment and the farmer will pay interest only for the first 3 years. Payments are to begin December 1, 2009 and will continue on December 1 each year thereafter.

Step 1: Insert "seven unequal" installments in Block 11(a).

Step 2: Calculate equal amortized installments as follows:

Amount of Loan: $250,000
Amortization Factor: x .06028 (2.125 percent interest for 21 years)
                                      _____
Amortized Annual Installment: $15,070.00 (over 21 years)

Step 3: Calculate annual accrued interest: 365 days at $14.5548 per day = $5,312.50

Step 4: Calculate accrued interest from date of loan closing and date of first payment: 287 days at $14.5548 per day = $4,177.23

Step 5: Calculate how much interest and principal is applied for each of the years preceding the balloon payment. The balloon payment equals the total unpaid principal and unpaid interest at the end of the sixth year's payment. Insert all installment amounts in Block 11(b) and due dates in Block 11(c). Insert "xxxxxxxxxxx" in Block 11(d). Insert "7 years" in item 11(g).

12/1/2009 = $ 4,177.23
12/1/2010 = $ 5,312.50
12/1/2011 = $ 5,312.50
12/1/2012 = $ 14,881.91
12/1/2013 = $ 14,881.91
12/1/2014 = $ 14,881.91
12/1/2015 = $221,812.77