

FSA Guaranteed Farm Loan Programs TIDBITS/HELPFUL HINTS



**Oct/Nov 2013
Lender Meetings**

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We specialize in:

Loans for
beginning farmers,
disaster recovery,
operational financing,
and farm ownership

Farm planning and
counseling

Supervised credit and
assistance through
the life of your loan

Sustained financial
planning services

Why should USDA's Farm Service Agency be your lender of first opportunity?

The farming industry has undergone many changes in recent years, resulting in new types of small farming and ranching enterprises. These include value-added farming operations, organic farming, immigrant farming, and growing crops for local retailers or direct sale to consumers.

New federal programs have been enacted to stimulate beginning and younger farmers to establish new, or retain ownership of existing, small family farms. These exciting new trends in rural America present the USDA's Farm Service Agency (FSA) Farm Loan Programs (FLP) with opportunities for increased lending activity in the farming community.

So, why should USDA's Farm Loan Programs (FLP) be your lender of first opportunity?

We are your advocates.

Farm Loan Programs staff are predisposed to award loans, therefore putting the staff on the customer's side. FLP staff want to see you succeed. This is evident in our consultative approach, offering low rates and identifying other resources to our clients in an advisory fashion throughout the life of the loan.

We think outside the box.

FLP staff keep up with the industry trends and constantly look for emerging and non-traditional farm business models. Our commitment to doing things better in the industry provides you with fresh perspectives, alternatives, and creative ways of growing your business.

We offer solutions.

Our loan staff can refer customers to other public and commercial financial aid sources that can serve as a blend with the Farm Loan Programs loan. This results in structuring more comprehensive resources and a tailored financial solution that works for unique lending situations.



We'll go above and
beyond to be the
lender of first opportunity
for agricultural producers
in our community

Our Farm Loan Programs staff are committed to our customers, their goals, and our communities. Our service extends beyond the typical loan, offering our customers ongoing consultation, advice, and creative ways to make their farm businesses thrive. At the Farm Service Agency, we are the lender of first opportunity because we provide agriculture producers who need assistance with an entry into agriculture production.

Our Services

Loan Choices

USDA Farm Loan Programs provides a variety of loan types for every need. These include operating, ownership, disaster, youth, and loans for beginning farmers.

Farm Planning

Whether it's a new, young, socially disadvantaged, or an emerging farm business, Farm Loan Programs can help customers get on the right track with its farm planning services. The success of our customers is the cornerstone of our business.

Financial Counseling

Loan staff are well-trained in both lending and farm operations, giving customers a sounding board and source of counsel.

Sustained Service

Farm Loan Programs staff provide supervised credit throughout the life of the loan, staying with the customer long after the loan is awarded.

Our Standards

Guaranteed Loans

Commercial and Farm Credit lenders' portfolios are strengthened by Farm Loan Programs guaranteed loans.

Rewards for a Job Well Done

With our supervised credit program, the government's interest in repayment is balanced with the benefit of taking measured risk with customers. Thriving business performance will pay off—literally.

Your Success is Our Success

We want to see customers succeed, as their success feeds our success.

Providing Customers with Low Rates

Farm Loan Programs offers low rates for Direct Loan customers, and we can assist customers in buying down a guaranteed loan rate.



Missouri State Fact Sheet

FSA "Guaranteed" Farm Loan Programs

The Farm Service Agency (FSA) may guarantee loans eligible agriculture lenders make to family farmers. The primary purpose of the program is to enable lenders to provide credit to farmers who cannot otherwise obtain credit without the guarantee due to risk and other factors. FSA provides the lender with a guarantee covering up to 90 percent, in most cases. In certain limited circumstances, a 95% guarantee is available. FSA has the responsibilities of approving all loan guarantees and providing technical assistance to the lender in order to accomplish the objectives of the guaranteed loan program.

Who May Borrow? Individuals, partnerships, joint operators, L.L.C., trusts, and corporations that do, or will, conduct and operate family-size farming operations; have day-to-day management and control; and provides a substantial amount of the labor requirements. For operating loans, a loan applicant must be the “**operator**.” For farm ownership loans, the loan applicant must be the “**operator and owner**.” FSA does not make loans to landlords.

What Other Criteria Does FSA Consider? In addition to meeting eligibility criteria, the loan applicant must have a satisfactory credit history, demonstrate repayment ability, and provide sufficient security for the loan.

What Types of Guarantees Are Available and How May Loan Funds Be Used?

1. Farm Ownership (FO/LN):

- Purchase land.
- Construct or acquire buildings and/or other improvements that will become real estate fixtures.
- Soil and water conservation.
- Refinance indebtedness incurred for authorized operating (OL) or farm ownership (FO) purposes provided need to refinance is demonstrated.

2. Operating (OL/LN):

- To purchase livestock and farm machinery/equipment.
- To refinance indebtedness (authorized operating purpose) provided need to refinance is demonstrated.
- For payment of intermediate term chattel (IT) & long term real estate (LT) debt installments, if the debt being paid was for authorized OL or FO purposes.

3. Operating Line of Credit (OL/LOC):

- To pay for annual operating expenses such as feed, seed, fertilizer, chemicals, fuel, repairs, feeder livestock, and family living expenses.
- For purchase of routine capital assets such as replacement of breeding livestock that can be repaid within the operating cycle.
- For payment of scheduled, non-delinquent IT & LT debt installments, if debt being paid was for authorized OL or FO purposes.
- For payment of current annual operating debts advanced for current operating cycle. Under no circumstances can last years carry-over operating debts be refinanced.

4. Conservation Loan (CL):

- Conservation activities included in a NRCS-approved conservation plan. (75% Loan Guarantee)

What Are the Loan Limits? Total outstanding unpaid principal on all guaranteed loans cannot exceed \$1,355,000. Maximum interest rate cannot exceed applicable 3-mo LIBOR or 5-Yr Treasury index and spread.

What Are the Interest Rates? The interest rate on a guaranteed loan is negotiated between the lender and borrower. It can be fixed or variable.

What Are the Loan Terms? Repayment terms vary according to the type of loan made, the market value of the collateral securing the loan, remaining useful life of the collateral, and the producer's repayment ability.

FO/LN - The maximum repayment term is 40 years.

OL/LN - The repayment term may vary, but cannot exceed 7 years for intermediate term purposes.

OL/LOC - Up to a revolving 5-year credit line for annual operating expenses. Generally repaid each year. Subject to renewal based on the next year's cash flow projections.

Is this a Lender's or FSA Loan? This is the lender's loan. The loan is made and serviced to conclusion by the lender. If a loan fails, FSA will reimburse the lender for the loss of the guaranteed principal and interest portion as set forth under the terms and conditions specified in the Loan Note Guarantee.

What is the Guarantee Fee? The guarantee fee is a one-time fee paid to FSA by the lender, who may pass it on to the borrower. The fee is 1.5% of the principal loan amount, multiplied by the percentage of the FSA guarantee. The 1.5% fee is waived:

1. If 50% or more of loan funds are used to refinance Agency debt.
2. Loans to Beginning or SDA farmers involved in the direct Downpayment loan program.
3. If 50% or more of loan funds are funded with the state of Missouri Linked Deposit Beginning Farmer program.

Interest Assistance: FSA is no longer accepting guaranteed loan applications for the OL Interest Assistance Program because of lack of program funding.

Secondary Market Available to Obtain Fixed-rate Loans: The Loan Guarantee is readily marketable by the lender on the secondary market. The lender may assign all or part of the guaranteed portion of the loan to one or more holders, but must retain the unguaranteed portion. The full faith and credit of the U.S. Government protect holders (investors) of Loan Note Guarantees. Operating (OL/LOC) loans may not be sold on the secondary market.

If the Producer Qualifies, What Next? The following actions are usually taken as part of the application process:

1. The producer and lender complete the guaranteed application and submit it to FSA.
2. FSA reviews for eligibility, repayment ability, security, and compliance with other regulations.
3. FSA approves and obligates the loan.
4. The lender receives a conditional commitment indicating funds have been set aside, and the loan may be closed.
5. The lender closes the loan and advances funds to the producer.
6. FSA issues the guarantee.

Additional information may be obtained at local county Farm Service Agency offices or on the FSA website at: <http://www.fsa.usda.gov/FSA/webapp?area=home&subject=fmlp&topic=gfl>.

Regulations governing FSA Guaranteed Farm Loans are found in **FSA Handbook 2-FLP (7 CFR Part 762)**.

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To file a complaint of discrimination, write: USDA, Office of the Assistant Secretary for Civil Rights, Office of Adjudication, 1400 Independence Ave., SW, Washington, DC 20250-9410 or call (866) 632-9992 (Toll-free Customer Service), (800) 877-8339 (Local or Federal relay), (866) 377-8642 (Relay voice users).

Direct Loan

MO FSA Information Sheet

Program	Maximum Loan Amount	Rates and Terms	Use of Proceeds
Direct Farm Ownership (FO)	\$300,000	<ul style="list-style-type: none"> Up to 40 years or useful life of security Rates based on Agency borrowing costs. September interest rate = 4.00% FSA can take a 2nd lien to another lender providing financing. 	<ul style="list-style-type: none"> Purchase farm Construct buildings or other improvements Soil and water conservation Pay Closing Costs
Direct FO Down Payment	The lesser of: <ul style="list-style-type: none"> 45% of the purchase price, 45% of the appraised value, \$225,000 	<ul style="list-style-type: none"> Cash downpayment of 5% required. Can be borrowed, but a lien cannot be taken on the land being purchased. Term: 20 years Interest rate: Direct FO rate less 4% with a floor of 1.5%. September interest rate = 1.5% 	Purchase farm
Direct Operating (OL)	\$300,000	<ul style="list-style-type: none"> From 1 to 7 years Rates based on Agency borrowing cost. September interest rate = 1.875% 	<ul style="list-style-type: none"> Purchase livestock Purchase machinery & equipment Farm operating expenses Soil and water conservation Refinancing indebtedness with certain limitations
Direct Operating Microloan (ML)	\$35,000 or less, including applicant's outstanding OL debt at time of closing – rates, terms, & use of proceeds is the same as direct OL		
FSA targets a portion of its FO and OL loan funds to beginning farmers and socially disadvantaged farmers.			
Direct Emergency	100% actual production and/or physical losses less insurance and other compensation received/to be received \$500,000 maximum program indebtedness	<ul style="list-style-type: none"> From 1 to 7 years for non-real estate purposes Up to 40 years for physical losses on real estate September interest rate = 2.875% OL rate plus 1% 	<ul style="list-style-type: none"> Restore or replace essential property Pay all or part of production costs associated with the disaster year Pay essential family living expenses Reorganize the farming operation Refinancing indebtedness with certain limitations

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Missouri Agricultural and Small Business Development Authority (MASBDA)

MASBDA's purpose is to promote the development of agriculture and small business and to reduce, control and prevent environmental damage in Missouri by providing additional sources of financing at interest rates that are below conventional rates.

Three MASBDA programs that work with FSA direct and/or guaranteed loan programs are as follows:

Animal Waste Treatment System Loan Program

[Animal Waste Treatment System Loan Program](#) can be used to finance animal waste treatment systems for independent livestock and poultry producers at below conventional interest rates. Loan proceeds may be used to finance 100% of the cost of an eligible animal waste treatment system, less the amount of grants from any other state or federal agency, such as: storage structures (earthen, concrete, or slurry systems), eligible land, engineering cost, finance charges, fencing around lagoons, irrigation systems to pump down lagoon, animal waste treatment system equipment, dedicated waste treatment equipment, portions of feeding floors and loafing areas used for waste collection, flush systems, composters, vegetative filters, filter strips, water and sediment strips, contour buffer strips, and diversions or other water pollution reduction activities associated with animal waste treatment systems. Current interest rate is 6.1% for up to 10 years. A borrower's operation must produce less than 1,000 animal units and have a NRCS Certification. Borrowers must provide adequate security for loans (a first or second deed of trust). Need a "dedicated source of repayment". <http://mda.mo.gov/abd/financial/awloanprg.php>

Works with FSA Direct
Participating Loan

→ **Beginning Farmer Loan Program** ←

Not Eligible for
FSA Loan Guarantee

The [Beginning Farmer Loan Program](#) enables lenders to exclude from gross income for federal income tax purposes the interest on loans made to beginning farmers. The tax savings are passed on to beginning farmers in the form of lower interest rates. A qualified borrower can borrow up to \$501,100 to buy agricultural land, farm buildings, farm equipment, and breeding livestock. Of this amount, depreciable agricultural property may not exceed \$250,000, with a limit of \$62,500 for used depreciable property. <http://mda.mo.gov/abd/financial/begfarm.php>

Single-Purpose Animal Facilities Loan Guarantee Program

The [Single-Purpose Animal Facilities Loan Guarantee Program](#) provides a 50 percent first-loss guarantee on collateralized loans up to \$250,000 that lenders make to independent livestock producers to finance the acquisition, construction, improvement, rehabilitation, or operation of land, buildings, facilities, equipment, machinery, and animal waste facilities used to produce poultry, hogs, beef or dairy cattle or other animals in a single purpose animal facility. <http://mda.mo.gov/abd/financial/spafloanprg.php>

For additional information on these or other MASBDA programs, please contact MASBDA at:
(573)751-2129 or masbda@mda.mo.gov

MO FSA Guaranteed Lender Website

http://www.fsa.usda.gov/Internet/FSA_File/lenders.pdf

To access the FSA MO Guaranteed Lender Website use the above address.

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Guaranteed Farm Loan Lenders Page

The information on this page is to help lending institutions provide service to Missouri agricultural borrowers. This information is provided as a service to lenders. To download a file, click on its name.

View or Download our 2-FLP Handbook and Amendments	Questions? Contact the Local FSA Farm Loan Manager
Access eForms	FSA Guaranteed News Fall 2012
Risk Management Tool	Weekly Funds Report
 Farmer Mac II Rate Line	Missouri Farm Loan Fact Sheet
Median County Farm Acreage	Missouri & National Farm Loan Program Notices
e-Filing FSA Guaranteed Loans	2012 Lenders Meeting: Tidbits/Helpful Hints Book

30+ "Optional" Guaranteed Guides available for lender use.

2-FLP Cashflow	Balance Sheet & Cashflow	MO 2-FLP 19	Balance Sheet
IA Loan Ledger	Loan History Payment Record	MO 2-FLP 20	3-5 Year Production & Financial History
MO 2-FLP 01	Eligibility Checklist	MO 2-FLP 21	Loan Analysis Documentation
MO 2-FLP 02	Delinquent Checklist	MO 2-FLP 23	Chattel Appraisal
MO 2-FLP 07	Environmental Letters	FSA-851	Environmental Risk Survey – Real Estate
SEG Exhibit 5	CATEX Guaranteed Checklist	MO 2-FLP 28	Liquidation Plan
SEG Exhibit 6	Class I Guaranteed Checklist	MO 2-FLP 29	Loss Claim Checklist
SEG Exhibit 7	Class II Guaranteed Checklist	MO 2-FLP 32	Appraisal Data – Specialized Buildings
MO 2-FLP 10	Loan Agreement	MO 2-FLP 33	Depreciation Loan Term Calculator
MO 2-FLP 12	Feasible Plan Worksheet	MO 2-FLP 34	Loan Term Depreciation Feasibility Tool
MO 2-FLP 15	Family Living Worksheet	MO 2-FLP 35 & 36	Maximum OL/LOC Advance Worksheet
MO 2-FLP 16	Restructuring Checklist	MO 2-FLP 37	Repayment Record – Maximum OL/LOC Advance
MO 2-FLP 17	Loan Closing Settlement Statement	MO 2-FLP 38	Amortization – Equal Principal Table
MO 2-FLP 18	Waiver Interest Assistance		

Farm Size
MEDIAN COUNTY FARM ACREAGE - MISSOURI
(From 2007 Census of Agriculture)

County	Median # Acres	30%	County	Median # Acres	30%	County	Median # Acres	30%
Adair	145	43.5	Greene	50	15.0	Ozark	165	49.5
Andrew	101	30.3	Grundy	121	36.3	Pemiscot	650	195.0
Atchison	225	67.5	Harrison	150	45.0	Perry	115	34.5
Audrain	140	42.0	Henry	120	36.0	Pettis	114	34.2
Barry	80	24.0	Hickory	160	48.0	Phelps	100	30.0
Barton	160	48.0	Holt	200	60.0	Pike	125	37.5
Bates	132	39.6	Howard	144	43.2	Platte	78	23.4
Benton	153	45.9	Howell	100	30.0	Polk	100	30.0
Bollinger	142	42.6	Iron	123	36.9	Pulaski	136	40.8
Boone	75	22.5	Jackson	36	10.8	Putnam	198	59.4
Buchanan	89	26.7	Jasper	80	24.0	Ralls	109	32.7
Butler	112	33.6	Jefferson	62	18.6	Randolph	102	30.6
Caldwell	100	30.0	Johnson	82	24.6	Ray	90	27.0
Callaway	94	28.2	Knox	165	49.5	Reynolds	120	36.0
Camden	160	48.0	Laclede	120	36.0	Ripley	134	40.2
Cape Girardeau	100	30.0	Lafayette	100	30.0	St. Charles	88	26.4
Carroll	154	46.2	Lawrence	80	24.0	St. Clair	153	45.9
Carter	125	37.5	Lewis	132	39.6	St. Genevieve	135	40.5
Cass	59	17.7	Lincoln	96	28.8	St. Francois	86	25.8
Cedar	118	35.4	Linn	160	48.0	St. Louis	40	12.0
Chariton	147	44.1	Livingston	140	42.0	Saline	160	48.0
Christian	75	22.5	McDonald	100	30.0	Schuyler	155	46.5
Clark	160	48.0	Macon	126	37.8	Scotland	163	48.9
Clay	44	13.2	Madison	134	40.2	Scott	100	30.0
Clinton	80	24.0	Maries	160	48.0	Shannon	120	36.0
Cole	115	34.5	Marion	133	39.9	Shelby	141	42.3
Cooper	137	41.1	Mercer	173	51.9	Stoddard	98	29.4
Crawford	124	37.2	Miller	143	42.9	Stone	93	27.9
Dade	137	41.1	Mississippi	560	168.0	Sullivan	187	56.1
Dallas	80	24.0	Moniteau	124	37.2	Taney	130	39.0
Daviess	120	36.0	Monroe	131	39.3	Texas	126	37.8
DeKalb	116	34.8	Montgomery	117	35.1	Vernon	130	39.0
Dent	150	45.0	Morgan	110	33.0	Warren	85	25.5
Douglas	134	40.2	New Madrid	751	225.3	Washington	102	30.6
Dunklin	241	72.3	Newton	80	24.0	Wayne	140	42.0
Franklin	80	24.0	Nodaway	160	48.0	Webster	80	24.0
Gasconade	150	45.0	Oregon	125	37.5	Worth	167	50.1
Gentry	143	42.9	Osage	168	50.4	Wright	145	43.5

Weekly Funds Report - FY 2013
As of September 26, 2013

Program Description	\$ Funds Obligated	No.	\$ Funds Remaining	Obligations Pending	
				\$ Amt	No.
Direct					
OL - NBF	\$ 7,037,120.00	150	\$ -	\$ 721,670.00	9
OL - NBF - ML	\$ 293,000.00	17	\$ -	\$ 29,000.00	1
OL - NBF - SDA	\$ 970,250.00	54	\$ -		0
OL - Beg Farmer	\$ 13,736,510.00	178	\$ -	\$ 82,000.00	15
OL - Beg Farmer - ML	\$ 710,960.00	35	\$ -	\$ 47,000.00	3
OL - Beg. Farmers - SDA	\$ 1,199,450.00	29	\$ -		0
<i>subtotal</i>	\$ 23,947,290.00	463	\$ -	\$ 879,670.00	28
FO - NBF	\$ 2,750,950.00	15		\$ 5,004,270.00	31
FO - NBF - SDA - Ethnic	\$ 505,000.00	2			
FO - NBF - SDA - Gender	\$ 1,067,680.00	7			
FO - BF - Down Payment/Part.	\$ 5,727,173.00	52		\$ 5,606,240.00	40
FO - BF - Down Payment/Part. SDA-E	\$ 211,500.00	2			
FO - BF - Down Payment/Part. SDA-G	\$ 734,620.00	6			
FO - BF	\$ 7,151,680.00	39		\$ 3,587,430.00	20
FO - BF - SDA - E	\$ 100,000.00	1			
FO - BF - SDA - G	\$ 1,035,790.00	8			
<i>subtotal</i>	\$ 19,284,393.00	132		\$ 14,197,940.00	91
Emergency	\$ 207,370.00	2			
Guaranteed					
OL - NBF	\$ 20,514,381.00	88			
OL - NBF SDA	\$ 4,479,220.00	17			
OL - BF	\$ 10,472,105.00	63			
OL - BF - SDA	\$ 778,295.00	4			
<i>subtotal</i>	\$ 36,244,001.00	172		\$ -	0
FO - NBF	\$ 41,495,865.87	93		\$ 16,465,100.00	45
FO - NBF - SDA - E	\$ 4,147,700.00	9		\$ 2,178,739.00	4
FO - NBF - SDA - G	\$ -	0		\$ 464,562.00	3
FO - BF	\$ 14,492,146.44	60		\$ 6,548,398.00	26
FO - BF - SDA - E	\$ 985,500.00	5			
FO - BF - SDA - G	\$ 1,529,500.00	4		\$ 331,500.00	2
<i>subtotal</i>	\$ 62,650,712.31	171		\$ 25,988,299.00	80
Grand Total	\$ 142,333,766.31	940	\$ -	\$ 41,065,909.00	199

Program Funds Received from National Office

FSA's fiscal year (FY 2014) is from October 1st 2013 to September 30th 2014.

Weekly Loan Funding Report – A funding concern or backlog shows up when loan(s) are under the “Obligations Pending” column. Available on MO FSA Guaranteed “Lender” Website at:
http://www.fsa.usda.gov/Internet/FSA_File/lenders.pdf (Updated weekly)

We encourage all lenders to continue to apply for guaranteed loans regardless of funding projections. Funds may become available at a moments notice for a variety of reasons and cannot be accurately predicted.

Guarantee requests are funded in order of "COMPLETE" application date, so the funds will be used on a first-come-first-served basis. Everyone is encouraged to apply as soon as possible.



Guaranteed FO Funding

FSA has reported to Congress that there is a pressing need for G-FO funding. Demand for G-FOs has surpassed allocations for both FY 2012 and FY 2013. There was a large backlog of G-FO loan request carried over from FY 2012 into FY 2013 and a large backlog of G-FO loan requests will be carried over from FY 2013 into FY 2014.

G-OL funds adequate to meet demand. Utilize G-OL funds whenever possible. G-OL loan funds need to be utilized when financing equipment/fixtures in the poultry and hog facilities.



Unfunded Guaranteed FO Loans

2-FLP Par. 244 C **Lender Notification of Authorized Agency Official Decision** states:

- If the application is approved and funds are not available, the authorized agency official shall prepare a letter (subparagraph E) to the lender with a copy to the applicant, informing them the loan is approved, subject to the allocation of funding. This letter should inform the lender that funding is being requested and the loan should not be closed until they receive the Conditional Commitment, agree to the conditions, and execute the document.

Note: Under certain circumstances a lender may find it necessary to close a loan that has been approved but funds are not available. These closings shall not be construed as an indicator that the guarantee is not needed. Any lender who decides to close an approved loan before funds are available should contact FSA before closing to determine whether there will be any additional closing conditions that would have been on the Conditional Commitment.

Lenders should be aware that:

- the closing is at their own risk and there are circumstances that could result in FSA not issuing the guarantee once funding becomes available, such as any material change in the borrower's condition, financial or otherwise, since submission of the application
- all interest accrued on the lender's loan before guaranteed loan closing (execution of the allonge), will not be covered by the guarantee.

Subparagraph E: Example of an approval letter when guaranteed funds are **not** available.

Date: _____

Dear _____:

This letter is to certify that your application on behalf of (*insert name of borrower/applicant*) for Farm Service Agency (FSA) loan guarantee assistance has been approved. However, funds are not available at this time to obligate the loan.

The loan will be placed on a waiting list based on the date the application was complete. If a substantial amount of time elapses before the loan is obligated, we may ask you to provide updated information. You should not close the loan until you receive an FSA-2232 (Conditional Commitment) indicating that the loan has been funded.

We appreciate your patience and understanding. If you have any questions, please contact this office.

Sincerely,

Under no circumstances will FSA issue a FSA-2232, Conditional Commitment, on the UNFUNDED guaranteed FO until Congress appropriated funding is available.



Interim Lender Loan – Waiting on FSA Guaranteed FO Financing

FUNDED Guaranteed OL Loan(s):

FSA can issue the FSA-2232, Conditional Commitment on a FUNDED Guaranteed OL Loan(s) when a lender decides to proceed to close an interim non-guaranteed loan on which FSA approved a Guaranteed FO loan but funding was not available.

FSA will insert in the GENERAL section of the attachment to the conditional commitment the following wording so that the lender understands the loan requirement and risk:

GENERAL

The County Office hereby notifies you that funds have been obligated for this guaranteed OL loan. However, this guaranteed OL loan was approved in conjunction with a /v/ \$XXX,XXX.00 guaranteed FO loan that was approved but lacked the necessary funding.

It is FSA's understanding that the lender is willing to take the funding risk and close an interim bank loan that matches the terms and conditions of the unfunded /v/ \$XXX,XXX.00 guaranteed FO loan.

It is the Farm Service Agency's (FSA) intention to fund all approved Guaranteed Farm Ownership (FO) loans.

The lender understands that they would assume additional risk if they proceed to close a loan on which FSA approved a Guaranteed FO loan but funding was not available.

FSA's approval provides intent, but not an assurance because additional funding must be approved by Congress.

FSA does not take adverse action against a lender because they close an approved guaranteed loan that is unfunded. In fact, 2-FLP Par. 247A allows FSA to guarantee existing notes regardless of when they were closed based upon the applicable regulations. See page 10 & 50 in the 2013 Tidbits/Helpful Hints Book.

You may proceed with closing the guaranteed OL loan if closed simultaneously with the interim non-guaranteed loan that matches the terms and conditions of the unfunded /v/ \$XXX,XXX.00 guaranteed FO loan and if all of the conditions set forth in the FSA-2232 and this attachment are acceptable.

Unless the guaranteed OL loan became in default for nonpayment purposes, the lender would need to remain with the interim non-guaranteed loan even if the approved guaranteed FO loan remained unfunded and/or FSA could not issue the Loan Guarantee due to an adverse change i.e. such as any material change in the borrower's condition, financial or otherwise, since submission of the application.

Guaranteed Forms – Version Date as of September 23, 2013

FSA-2201 Lender's Agreement	4-16-13	FSA-2241 Status Report	9-3-10
FSA-2211 Application	4-16-13	FSA-2242 Assignment of Guarantee	9-3-10
FSA-2212 Preferred Lender Application	4-16-13	FSA-2248 Default Status Report	8-18-08
FSA-2232 Conditional Commitment	4-16-13	FSA-2254 Loss Claim	9-3-10
FSA-2233 Lender Certification	3-16-12	FSA-2291 Lender Processing Checklist	9-3-10
FSA-2236 Loan Closing Report	4-16-13		

PART I - SUPPORTING DOCUMENTATION *(Please attach the following)***60. Certified Lender Program Lenders:**

- ☐ Narrative
- ☐ Balance sheet dated _____
- ☐ Cash flow budget, if applicable
- ☐ Description of the location of each tract of land to be farmed by the loan applicant *(This may be FSA Farm No., Legal Description, Plat Map, etc.)*
- ☐ Entity information *(name, address, social security or tax identification number, percent ownership, balance sheet for each member)*
- ☐ Conservation Plan *(CL Only)*
- ☐ Transition Plan for Organic or Sustainable Agricultural, if applicable

61. Standard Eligible Lenders Applying for Guarantees of \$125,000 or Less:

- ☐ Narrative
- ☐ Balance sheet dated _____
- ☐ Cash flow budget, if applicable
- ☐ Description of the location of each tract of land to be farmed by the loan applicant *(This may be FSA Farm No., Legal Description, Plat Map, etc.)*
- ☐ Entity information *(name, address, social security or tax identification number, percent ownership, balance sheet for each member)*
- ☐ Credit report
- ☐ Plan for servicing borrower
- ☐ Conservation Plan *(CL Only)*
- ☐ Transition Plan for Organic or Sustainable Agricultural, if applicable

62. Standard Eligible Lenders Applying for Guarantees Greater than \$125,000:

- ☐ Narrative
- ☐ Balance sheet dated _____
- ☐ Cash flow budget, if applicable
- ☐ Description of the location of each tract of land to be farmed by the loan applicant *(This may be FSA Farm No., Legal Description, Plat Map, etc.)*
- ☐ Entity information *(name, address, social security or tax identification number, percent ownership, balance sheet for each member)*
- ☐ Credit report
- ☐ Plan for servicing borrower
- ☐ Proposed loan agreement
- ☐ Verification of all debts greater than \$1,000
- ☐ Verification of non-farm income, if applicable
- ☐ 3 year production history, if applicable
- ☐ 3 year financial history *(income, expenses, balance sheets)*, if applicable
- ☐ If construction or development is proposed, a copy of the plans, specifications, and schedule
- ☐ Conservation Plan *(CL Only)*
- ☐ Transition Plan for Organic or Sustainable Agricultural, if applicable

Guaranteed Loan Applications Filed via Email or Fax

FSA can accept and process a “SIGNED” guaranteed loan application (FSA-2211 or FSA-2212) filed

- via a scanned email attachment
- through a fax submission

However, the faxed or email attached document must be signed by both the loan applicant and the lender to be considered a complete application.

FSA loan approval official will include a requirement in the FSA-2232, Conditional Commitment, which requires the original Application for Guarantee document (FSA-2211 or FSA-2212) with original signatures be provided to FSA prior to the issuance of the FSA-2235, Loan Guarantee.

Appeal Rights – Guaranteed Loans

2-FLP Par. 33A

Lender is Only an Interested Party Without Appeal Rights

The National Appeals Division regulation (7 CFR Part 11) stipulates that an adverse guaranteed loan approval or loan servicing decision directly affects the applicant/borrower and grants appeal rights to the applicant/borrower as a participant. Under 1-APP Handbook Par.73A [7 CFR 11.1] *Participant* means any individual or entity who has applied for, or whose right to participate in or receive, a payment, loan, loan guarantee, or other benefit is affected by a decision of the Agency.

The lender is defined as an “interested party” without appeal rights. Under 1-APP Handbook Par.75C [7 CFR 11.15(b)] *Interested Parties* the lender having an interest in a participant’s appeal may participate in the appeal as an interested party, but such participation does not confer the status of an appellant upon the guaranteed lender.

A decision made by the lender adverse to the borrower is not a decision by the Agency whether or not concurred in by the Agency, and may not be appealed.

In most instances the adverse decision letter will be sent providing appeal rights to the applicant/borrower with a CC to the lender. However, when the adverse decision directly affects only the lender (liquidation plans, interest assistance claims, or loss claims) only the lender will be provided appeal rights.

Lender Conflict of Interest

2-FLP Par. 32 (7 CFR 762.110(f))

A guaranteed lender who applies for and/or is personally liable on an outstanding Guaranteed or Direct loan will be transferred under the direction of the FLP Chief to another Farm Loan office for processing and/or servicing that is not within the lender’s trade area.

It is the FLM/SFLO responsibility to notify the lender of this policy and offer alternative offices where their existing loan(s) and/or loan application can be processed and/or serviced.

AD-3030 – Guaranteed Loan Requirements

Representation Regarding Felony Conviction and Tax Delinquent Status for Corporate Applicants

AD-3030 is a self-certification form addressed in the FSA-2232, Conditional Commitment. It is the responsibility of the lender to determine if AD-3030 needs to be completed and submitted. No FSA follow-up is required.

FCS Financial and Progressive FCS have determined and FSA supports this decision that these lenders are not required to complete the AD-3030 form on FSA guarantee loan applications.

***--Electronic Access to Forms for FSA Lenders**

A Creating an Account With USDA eAuthentication Level 2 Access

USDA developed a centralized eAuthentication service to provide authentication for USDA Web services. USDA eAuthentication provides centralized administration of users and a unified credential that can be used to provide users with single sign-on capability across all participating Web applications.

USDA eAuthentication Level 2 accounts enable the secure presentation of information and electronic signing of submissions. FSA lenders **must** obtain USDA eAuthentication Level 2 account to acquire a Level 2 user ID and password. Follow these steps to obtain a Level 2 account.

Step	Action
1	Go to http://www.eauth.egov.usda.gov/eauthCreateAccount.html and CLICK “Level 2 Access” hyperlink.
2	Complete and submit the 4-step registration. Required fields are indicated by asterisk (*).
3	After users submit the registration, the Level 2 Access Confirmation Page will be displayed that provides instructions on activating the newly created Level 2 account.
4	Users will receive a confirmation e-mail within 24 hours of registering. The e-mail message will provide further instructions and the link necessary to activate the account.
5	Obtain final verification of user’s identity by presenting a Government-issued ID card (such as, State-issued driver’s license or ID, military ID, passport) at user’s local USDA Service Center, where a Local Registration Authority will verify user’s identity. This must be done in person; otherwise, Level 2 authorization cannot be granted. To locate user’s local USDA Service Center, go to http://offices.sc.egov.usda.gov/locator/app .
6	Send request, in writing to FSA State Office, ATTN: FLP Division, to link the validated eAuthentication ID as either a Lender Administrator or Branch Administrator.

B Accessing Forms

Although all FSA lenders have access to online forms, users **must** register for a USDA Level 2 user ID and password to be able to save their information on the form and to submit the form electronically.

Lenders with an eAuthentication Level 2 user ID and password shall follow these steps to access forms.

Step	Action
1	Go to the Service Center Agencies eForms Home Page at http://forms.sc.egov.usda.gov/eForms/welcomeAction.do and CLICK “Login”.
2	On the eAuthentication Warning Screen, CLICK “I Agree”.
3	On the USDA eAuthentication Login Screen, enter user ID and password and CLICK “Login”.
	Note: When viewing forms, have only 1 browser window open. Each form has a supporting instruction file that explains how to complete the form.

--*

***--Electronic Access to Forms for FSA Lenders (Continued)**

C Searching for Forms

To search for forms, follow subparagraph B, under “eForms”, CLICK “**Browse Forms**”, and do either of the following:

- select the Agency, program, and service name from the corresponding drop-down menus to narrow the search results
- when searching for a specific form, enter information in the “Form Number” and “Title or “Keywords” fields.

CLICK “**Search**” to view all forms that meet user’s search criteria.

D Submitting Forms

Forms may be submitted to FSA as follows.

- lenders without an eAuthentication Level 2 account may submit printed forms (that is, paper hardcopies) to FSA. After users have located the form they need at **<http://forms.sc.egov.usda.gov/eForms/welcomeAction.do>** and filled in all the required information, users may print out and mail or FAX the form to the local USDA Service Center.

Note: To locate user’s local USDA Service Center, go to **<http://offices.sc.egov.usda.gov/locator/app>**.

- lenders with an eAuthentication Level 2 account may submit forms to FSA electronically. The eAuthentication Level 2 user ID serves as the signature when submitting forms electronically.

E Application Authorization Security Management (AASM) System

AASM is the database that contains lenders’ information and the eAuthentication user ID’s of all lender-employees authorized to participate in electronic reporting. FSA initially, and the lender’s Security Administrators (SA’s) thereafter, will use AASM to authorize lender-employees to access the USDA Lender Interactive Network Connection (LINC).

After authorized in AASM, lender-employees may use LINC to close guaranteed loans and manage lender semiannual and default status reports that keep the lender up-to-date in FSA’s accounting records. Lenders may request more than one SA to be authorized in AASM.--*

***--Electronic Access to Forms for FSA Lenders (Continued)**

E Application Authorization Security Management (AASM) System (Continued)

The lenders' SA's are:

- FSA points-of-contact for maintaining the lender-employees' USDA eAuthentication Level 2 ID's in AASM
- responsible for adding and removing other employees designated by the lender to use LINC.

Lender-employees:

- are responsible for ensuring that they adhere to the requirements outlined in FSA-2201
- are required to have a Level 2 user ID and password before being authorized in AASM (subparagraph A)
- do not need another Level 2 account and may use their existing Level 2 user ID and password if they have Level 2 access with another USDA Agency.

The FSA LINC User Guide at

http://www.fsa.usda.gov/Internet/FSA_File/gls_lender_linc_user_guide.pdf provides further details on adding a lender-employee in AASM.

F Lender Interactive Network Connection (LINC)

LINC, located at **<https://usdalinc.sc.egov.usda.gov/>**, allows electronic reporting by lenders to FSA. LINC allows lenders to:

- submit semiannual and default status reports
- add loan closings
- view loans
- add lender EFT's for pre-authorized debit (PAD) information
- add lender-employees in AASM.

See the FSA LINC User Guide for instructions on completing these functions.--*

Guaranteed Loan(s) Versus Direct Loan Comparison

Farmers may be facing loan repayment problems due to various reasons. Before qualifying for a direct loan there at least three questions/issues that need to be reviewed and analyzed:

- availability of other credit before qualifying for a direct loan
- loan security
- repayment ability

Availability of other credit before qualifying for a direct loan

The test for credit must be considered. If a guaranteed loan is an option, then the applicant will not qualify for a direct loan. If the lender will not continue with the borrower even with a guaranteed loan, ask the question “Why Not?”. Could the bank’s reason for not continuing be the same reason that FSA shouldn’t make a direct loan? Does the applicant have a reasonable chance for success?

Loan Security

Guaranteed and Direct loan programs security requirements and loan terms are basically the same. NEW guaranteed and NEW direct OL loan(s) must be adequately secured by chattels and/or real estate by at least 1 to 1.

Repayment ability - Average guaranteed interest rate loans closed FY13

FO = 4.9119% OL = 5.1527% OL/LOC = 5.2725%

The amortized payment amount for a \$100,000 loan is as follows:

Situation	Loan	Interest Rate	Loan Terms	Payment Amount
New Direct OL	\$100,000	Current rate = 1.875%	7 yrs.	\$15,377
New Guar OL	\$100,000	5 %	7 yrs.	\$17,283

Refinancing an existing guaranteed loan with direct loan funds:

In most instances, a direct loan OL should not be used to refinance an existing guaranteed loan(s). Existing OL/LOC guaranteed loan(s) can be restructured for up to 7 years or 10 years from the date of the original note, OL/LN guaranteed loan(s) can be restructured for up to 15 years, and FO/LN guaranteed loan(s) can be restructured for up to 40 years. Direct FO loans cannot be used to refinance debt. Guaranteed FO/LN loan(s) funds can be used by lenders to refinance debt. Existing guaranteed loan(s) can be restructured without consideration as to whether or not there is adequate security remaining. If the guaranteed borrower(s) won’t cash flow utilizing all available guaranteed authorities, we don’t see how it would cash flow when the guaranteed loan is refinanced with a direct loan.

Situation	Loan	Interest Rate	Loan Terms	Payment Amount
Restructure Existing Guar OL/LN	\$100,000	5 %	max 15 yrs.	\$9,635
Restructure Ext Guar OL/LOC	\$100,000	5 %	max 7 yrs.	\$17,283
New Guar FO/LN	\$100,000	5 %	25 yrs.	\$7,096

Direct Loan Subordination or Guaranteed OL/LOC Loan?

Which Has the Most Risk?

Is the direct loan subordination or a 5-year guaranteed operating loan line of credit loan (OL/LOC) better for your institution?

Situation: Farmer needs \$325,000 annual operating loan. Lender requested a \$325,000 subordination at 6% interest with a 1st lien on crops and a 1st lien on machinery. Borrower had a partial crop failure. \$325,000 @ 6% = \$19,500 year interest accrual

What was the lender's loss?

"Subordination Example" – 50 % Crop Loss

Loan		\$325,000
Crop Income	-	\$162,500
Interest	+	\$19,500
Unpaid debt		\$182,000
After expenses machinery must net \$182,000 to avoid a loss. What will the machinery bring at a forced liquidation sale?		

"Guaranteed OL/LOC Example"

Loan		\$325,000
Crop Income	-	\$162,500
Interest	+	\$19,500
Unpaid debt		\$182,000
90% Loss Claim Payment	-	\$163,800
Lender Guaranteed Loan Loss		\$18,200
If liquidated after the 1 st year with a 50% crop loss, a lender loses no principal & earns \$1,300 interest income.		

The lender must determine which has the most risk for your institution?

Is it the OL/LOC or the subordination???

Common Complaint: The borrower has to pay a \$4,387.50 guarantee loan closing fee.

Response: FSA does charge a one time loan origination fee. Spread the fee over the length of the guaranteed 5 year OL/LOC loan.

$$\$325,000 \times 90\% \times 1.5\% = \$4,387.50 \text{ guar fee}$$

$$\$4,387.50 \div 5 \text{ years} = \$877.50 / \text{year}$$

$$\$877.50 \div \$325,000 \text{ loan} = .27\% \text{ yearly cost}$$

In summary, regardless of the loan size the "annual guaranteed loan fee" cost for a 5-Year OL/LOC loan calculates to only .27 % or 27 basis points per year.

Option: Lender pays 1.5% loan fee for borrower with prepayment penalty
Increase interest rate 3/8% or .375 basis points

279 Subordination of Direct Loan Security (7 CFR 762.142(c))

A Direct Loan Subordination When Guaranteed Loan Is Being Made

The Agency may subordinate its security interest on a direct loan when a guaranteed loan is being made if, as appropriate, the requirements of the regulations governing Agency direct loan subordinations are met and only in the following circumstances:

- to permit a guaranteed lender to advance funds and perfect a security interest in crops, feeder livestock, livestock offspring, or livestock products, such as milk, eggs, wool, etc.
- when the lender requesting the guarantee needs the subordination of the Agency's lien position to maintain its lien position when servicing or restructuring
- when the lender requesting the guarantee is refinancing the debt of another lender and the Agency's position on real estate security will not be adversely affected
- to permit a Line of Credit to be advanced for annual operating expenses.

See 4-FLP for additional guidance.

B Direct Loan Subordination to Secure LOC

The Agency may subordinate its basic security in a direct loan to permit guaranteed line of credit only when both of the following additional conditions are met.

- The total unpaid balance of the direct loans is less than or equal to 75 percent of the value of all of the security for the direct loans, excluding the value of growing crops or planned production, at the time of the subordination. The direct loan security value will be determined by an appraisal. The lender requesting the subordination and guarantee is responsible for providing the appraisal and may charge the applicant a reasonable appraisal fee.
- The applicant cannot obtain sufficient credit through a conventional guaranteed loan without a subordination. Before approving a combination guaranteed loan and subordination, the local loan approval official will document that the applicant requested a Contract of Guarantee - LOC through at least 1 participating lender. If the local loan approval official has information available that supports a conclusion that credit is not available without a subordination, documentation in the case file will be sufficient to verify that other credit is not available.

Direct Loan Subordinations - 75% LTV Requirement

It is possible to subordinate direct loan basic collateral to allow a GLOC a prior lien. Appraisals (including RE appraisals) are at the cost of the participating lender. The loan-to-value (LTV) ratio of 75% or less is calculated using the total of the FSA direct loans and any and all prior liens divided by the gross value of all FSA collateral excluding growing crops. Example:

Correct Percentage: \$900 prior lien debt plus \$75 FSA direct debt = \$975 total debt divided by \$1,000 gross appraised value = 97.5% LTV

Incorrect Calculation Method: \$1,000 gross appraised value less \$900 prior lien = \$100 equity. \$75 FSA direct debt divided by \$100 equity = 75% LTV

LENDER NARRATIVE - “Credit Presentation”

(2-FLP Par 66 C)

If a loan narrative is not provided, FSA will notify lender that the application is “incomplete” as per 2-FLP Par. 97. The loan narrative may be less detailed for an applicant with an outstanding direct and/or guaranteed loan.

The loan narrative must be an evaluation and not just a summary of the data. Include the following:

1. Description of the farming operation. (*Character and eligibility***)

- Type of Enterprise
- Key Personnel – entity members and their roles
- Management structure
- Background of the farm operation and those members
- Past performance
- Proposed changes to the operation
- Is real estate, owned and rented, adequate and can sustain reasonable success
- Is the equipment (& real estate) adequate along with other facilities needed for the operation

2. Eligibility Requirements:** Provide FSA MO 2-FLP Guide 1 or discuss eligibility in the loan narrative. It is acceptable to say in the loan narrative that the “Applicant meets the FSA eligibility requirements of 2-FLP Handbook, Part 8, Par. 108.”

2-FLP Handbook - Paragraph 108 A eligibility requirements in a summarized format. Please review the Handbook for more detailed information and explanation. An applicant, including members of an entity applicant, must meet the following eligibility criteria to obtain a guaranteed loan. An eligible applicant is an applicant that:

- ✓ meets all requirements about prior debt forgiveness (obtained from FSA County Office)
- ✓ is not delinquent on any Federal debt, other than IRS
- ✓ does not have any outstanding recorded judgments obtained by the United States in a any Court
- ✓ is a citizen of the United States, a U.S. non-citizen national, or a qualified alien under applicable Federal immigrations laws
- ✓ has the legal capacity to incur the obligations of the loan; includes all members who will be liable for the loan
- ✓ has an acceptable credit history; includes all entity members.
- ✓ is unable to obtain sufficient credit elsewhere without a guarantee
- ✓ has not been convicted of planting, cultivating, growing, producing, harvesting, or storing a controlled substance within the last 5 crop years.
- ✓ does not exceed the 15-Year OL Time Limit
- ✓ Entity applicants? See Page 23 of 2013 Tidbits book for specific eligibility requirements for GOL and GFO.
 - _____ Be controlled by operators engaged primarily & directly in farming
 - _____ Members of the entity cannot themselves be an entity

3. Provide an assessment of the collateral being offered - (Collateral)

Describe the collateral being used to secure the proposed loan. What is the loan to value? Is it in line with lender’s underwriting without a guarantee? State if additional collateral is available? Address how appraised/estimated values were derived at if appraisals were not provided.

4. **Discuss the total credit needs** being requested if it cannot be thoroughly explained/itemized on the guaranteed loan application.
5. **Individual “Married” Applications:**
Provide the full legal name(s) of co-borrowers or co-signers who will execute the promissory note. Lender needs to address if applicant is filing “Married filing jointly” or “Married filing separately” if a copy of **Form 1040 U.S. Individual Income Tax Return** is not provided to FSA.
6. **Entity Applications:** Provide the full legal name of all entity members, share percentages, social security number, and current addresses of those members, co-borrowers or co-signers that will be required to execute the promissory note.
7. **Discuss the loan applicant’s financial condition and projected plan with repayment ability.** *(Credit, Capital and Capacity)*
What is the applicant’s current position – working capital? Debt structure and equity. Include any significant assumptions that you are making towards his/her financial condition and/or cash flow projection. Include deviations from historical performance. Key here is to provide documentation to support lender’s proposed loan with the projected cash flow and post close balance sheet. If there are weaknesses, what are the offsetting strengths?
8. **What are the short-term and long-term business goals of the operation?** Discuss these with your customer and give brief comments in narrative.
9. **What will be your customer’s reporting requirements?** *(Conditions)*
Are there any limitations to those requirements? Based on your analysis of the aforementioned topics, should any mitigating measures be taken to assist the borrower to meet their goals to have long term viability?
10. **What is the lender’s servicing plan after the loan is closed?** *(Conditions)*
Planned visits and monitoring of the operation? Year-end analysis of the operation and reporting requirements required of the borrower. Will there be any capital purchase limitations that will require the lender’s pre-approval? Other conditions with the loan?
11. **If the loan contains balloon payments**, state the conditions related to the renewal of the loan.

Any other pertinent information relative to the request should be provided. Keep in mind the narrative is the most important piece of the application package. It may contain out of the ordinary data or variances in normal practices for the type of operation.

FSA - Direct and Guaranteed Definitions:

- Joint Operation means an operation run by individuals who have agreed to operate a farm or farms together as an entity, sharing equally or unequally land, labor, equipment, expenses, or income, or some combination of these items. The real and personal property is owned separately or jointly by the individuals.
- Farmer is an individual, corporation, partnership, joint operation, cooperative, trust, or limited liability company that is the operator of a farm.
- Entity is a corporation, partnership, joint operation, cooperative, limited liability company, or trust.
- Operator is the individual or entity that provides the labor, management, and capital to operate the farm.

This determination of eligibility is for the application on hand. A determination of future eligibility may be provided to the lender/borrower for planning purposes, but is always subject to future regulations changes.

NOTE:

- Just because a principal balance is still owed on the OL loan doesn't necessary mean it is counted as a year "closed".
- Prior to 10/28/92 only the year in which an OL/LOC loan is "closed" is counted. Subsequent year advances on OL/LOC's prior to 10/28/92 do not count as an additional year of eligibility.
- After 10/28/92, the subsequent years advances on OL/LOC's will be counted as a year of eligibility used.
- On the 15th or last year, an OL/LN and/or OL/LOC may be approved for any authorized term. Example: A 5-year OL/LOC may be approved on the last year an applicant is eligible and advances may be made for 5-years.

The following documentation is required to support the OL eligibility limitation determination. List names of the borrowers/loan applicants or anyone who will execute the promissory note and provide the **M/D/Y** for all direct or guaranteed operating loans “closed”.

Borrower/Loan Applicant Name	Years OL's " <u>Closed</u> "	Total #Years. OL's " <u>Closed</u> "
<hr/>	<hr/> <hr/> <hr/>	= <hr/>

Include anyone else who is signing the promissory note other than the borrower/loan applicant.

[illegible]

"Borrower" refers to borrower/loan applicant or anyone who executes the promissory note. "Year" refers to a calendar year.

	IF the “Borrower”...	THEN they are...
1	Had direct or guaranteed OL’s closed in 10 or more years on or before October 28, 1992	<p>Eligible for 5 years from 10/28/92.</p> <p>5 yrs minus $\frac{\text{# yrs loans closed on or after 10/28/92}}{\text{# yrs eligibility remaining}}$ = $\frac{\text{# yrs eligibility remaining}}{\text{# yrs eligibility remaining}}$</p>
2	Had fewer than 10 years of direct or guaranteed OL’s closed on or before October 28, 1992	<p>Eligible now and for not more than 15 total years.</p> <p>15 yrs minus $\frac{\text{# yrs OL's closed}}{\text{# yrs eligibility remaining}}$ = $\frac{\text{# yrs eligibility remaining}}{\text{# yrs eligibility remaining}}$</p>

Date _____

Signature _____

“Operator/Owner” - Basic Loan Eligibility Requirements

Question #1: What is the name of the loan applicant applying for the Guaranteed Loan?

Question #2: What name is listed as the Operator on FSA Farm Program Records?

Lenders are encouraged to discuss with guaranteed loan applicants the status of how their farm is signed up on FSA records prior to submitting new guaranteed loan applications. The FSA Form CCC-502 is the governing document and a farm operating plan for FSA program eligibility.

FSA will check to see who is shown as the “OPERATOR” on the FSA **Producer Farm Data Report**.

To be eligible for a guaranteed “OL” type loan the loan applicant must meet the “OPERATOR” eligibility requirement. 2-FLP Par.109 A & B on page 8-11 (7 CFR 762.120(i))

To be eligible for a guaranteed “FO” type loan the loan applicant must meet both the “OWNER and OPERATOR” eligibility requirement. 2-FLP Par.110 A & B on page 8-12 (7 CFR 762.120(j))

2-FLP Par.108 General Eligibility Requirements (7 CFR 762.120) N Operator Requirement

A loan application should be submitted in the name of the actual operator of the farm. This should be consistent with any representations previously made by the applicant for farm program benefits. If inconsistencies in the structure of the farming operation are identified, the application will be considered incomplete and the lender will be informed according to 2-FLP Par. 97. The inconsistencies must be resolved before the application is considered complete.

“OPERATOR” Definition/Rules:

Individual: In order to meet the "OPERATOR" eligibility requirement for either a FO/LN or an OL/LN loan, the name on the FSA guaranteed loan application and the name listed on the FSA farm program records as "operator".

Entity: If entity members holding a majority interest (>50%) are related by blood or marriage then either the entity or at least one member of the entity individually must operate the family farm. If entity members holding a majority interest (>50%) are not related by blood or marriage then either the entity or the entity members holding a majority interest (>50%) must operate the family farm.

“OWNER” Definition/Rules:

Individual: In order to meet the "OWNER" eligibility requirement of an FO/LN loan, the individual name on the FSA guaranteed loan application and the name of the owner/title of the real estate must be the same.

Entity: If entity members holding a majority interest (>50%) are related by blood or marriage then either the entity or at least one member of the entity individually must own the family farm. If entity members holding a majority interest (>50%) are not related by blood or marriage then either the entity or the entity members holding a majority interest (>50%) must individually own the family farm. The key to the exception is the fact that the land can be owned/titled in the individual’s name.

Note: Entity exception applies to only the “Guaranteed” Loan Program & does not apply to the “Direct” Loan Program.

FSA does not make loans to landlords.

An entity cannot be owned by another entity. Therefore, to be eligible for a guaranteed loan a member of an entity can only be an individual.

BEGINNING FARMER - Definition (7 CFR 761.2(b))

See 2-FLP Exhibit 2

A beginning farmer or rancher is an individual or entity who:

- Meets the loan eligibility requirements for a direct or guaranteed OL or FO loan, as applicable;
- Has not operated a farm for more than 10 years. This requirement applies to all members of an entity;
- Will materially and substantially participate in the operation of the farm:
 - In the case of a loan made to an individual, individually or with the family members, material and substantial participation requires that the individual provide substantial day-to-day labor and management of the farm, consistent with the practices in the county or State where the farm is located.
 - In the case of a loan made to an entity, all members must materially and substantially participate in the operation of the farm. Material and substantial participation requires that the member provide some amount of the management, or labor and management necessary for day-to-day activities, such that if the individual did not provide these inputs, operation of the farm would be seriously impaired;
- Agrees to participate in any loan assessment and borrower training required by Agency regulations;
- Except for an OL applicant, does not own real farm property or who, directly or through interests in family farm entities owns real farm property, the aggregate acreage of which does not exceed 30 percent of the median acreage of the farms in the county where the property is located. If the farm is located in more than one county, the median farm acreage of the county where the applicant's residence is located will be used in the calculation. If the applicant's residence is not located on the farm or if the applicant is an entity, the median farm acreage of the county where the major portion of the farm is located will be used. The median county farm acreage will be determined from the most recent Census of Agriculture;
- Demonstrates that the available resources of the applicant and spouse (if any) are not sufficient to enable the applicant to enter or continue farming on a viable scale; and
- In the case of an entity:
 - All the members are related by blood or marriage; and
 - All the members are beginning farmers.

NOTE: Simply being defined as a "beginning farmer" will not qualify for a waiver of the 1.5% guarantee fee waiver.

SOCIALLY DISADVANTAGED APPLICANT– Definition (7 CFR 761.2(b))

Socially disadvantaged applicant (SDA) is an individual or entity who is a member of a socially disadvantaged group (*American Indians, Alaskan Natives, Asians, Blacks or African Americans, Native Hawaiians or other Pacific Islanders, Hispanics, and women*). For entity applicants, the majority interest must be held by socially disadvantaged individuals. For married couples, the socially disadvantaged individual must have at least 50 percent ownership in the farm business and make most of the management decisions, contribute a significant amount of labor, and generally be recognized as the operator of the farm.

Family Farm Definition

Family farm is a farm that:

1. Produces agricultural commodities for sale in sufficient quantities so that it is recognized as a farm rather than a rural residence;
2. Has both physical labor and management provided as follows:
 - a. The majority of day-to-day, operational decisions, and all strategic management decisions are made by:
 - i. The borrower and persons who are either related to the borrower by blood or marriage, or are a relative, for an individual borrower; or
 - ii. The members responsible for operating the farm, in the case of an entity.
 - b. A substantial amount of labor to operate the farm is provided by:
 - i. The borrower and persons who are either related to the borrower by blood or marriage, or are a relative, for an individual borrower; or
 - ii. The members responsible for operating the farm, in the case of an entity.
3. May use full-time hired labor in amounts only to supplement family labor.
4. May use reasonable amounts of temporary labor for seasonal peak workload periods or intermittently for labor intensive activities.

In summary, the day-to-day labor and all of the day-to-day management/operational decisions should be made by members of the family farm.

Entity Ownership of Large Farms

2-FLP Par.111B (7 CFR 762.120(k))

The collective ownership interest of all entity members may exceed the family farm definition limits only if the following conditions are met:

- all of the entity members are related by blood or marriage
- all of the members are or will be operators of the entity
- each entity member's ownership interest may not exceed the family farm definition limits.
- the majority interest holders of the entity must meet the following requirements
 - the entity member is a US citizen or an alien lawfully admitted to the US for permanent residence
 - the entity member, in past dealings with FSA, must not have provided FSA with false or misleading documents or statements
 - the entity member has an acceptable credit history
 - the entity members must meet the operator (OL) and the operator/owner (FO) requirements.

Full Legal Name: Guaranteed Loan Applications

All FSA guaranteed loan applications must be filed using the customer's full legal name (including middle name). FSA's Loan Guarantee is tied to the promissory note. FSA will issue the FSA-2235, Loan Guarantee, using the customer's full legal name as taken from the application.

Most lenders feel that it is SOP to properly perfect a real estate lien that

1. Deed of Trust name be identical to the name on the Deed to the property
2. Name on the promissory note be identical to the name on the Deed of Trust.

FSA will not be requiring the borrower to change the borrower's name on the deed to the property if different than the borrower's full legal name. A lenders promissory note may be in a shortened/different version of the borrower's name other than the full legal name that FSA is requiring on the guaranteed loan application and Loan Guarantee.

When the borrowers full legal name is not used on the promissory note FSA will allow the use of an AKA in the promissory note addendum that references the borrowers full legal name.

Loan Limits - (2-FLP Par. 244 A on page 10-1)

Effective: October 1, 2013

Maximum total unpaid "PRINCIPAL" balance outstanding

<u>Maximum Loan Amount</u>	<u>Description</u>
\$300,000	Direct FO
\$1,355,000	Guaranteed FO & CL
\$1,355,000	Combined Direct and Guaranteed FO
\$300,000	Direct OL
\$1,355,000	Guaranteed OL
\$1,355,000	Combined Direct and Guaranteed OL
\$1,355,000	Combined Guaranteed OL, FO & CL
\$1,655,000	Combined Guaranteed and Direct OL, FO, & CL

The maximum levels above include the guaranteed loan being made plus any outstanding direct or guaranteed principal owed by anyone who will sign the promissory note. The dollar limit of guaranteed loans is adjusted annually based on Prices Paid by Farmers Index.

Loan Guarantee Percentage - (2-FLP Par. 195 on page 8-165)

The guarantee in most instances will be 90%.

The guarantee will be issued at 95%:

- OL or FO: 100% of the loan funds will refinance the Agency's direct loan debt.
- OL or FO: greater than 50% of lender loan funds will be obtained through the Beginning Farmer Program under the Missouri Linked Deposit
- FO: loan purpose is to participate with the direct Beginning Farmer Downpayment loan.
- OL: made during period that borrower has an outstanding direct Beginning Farmer Downpayment loan

The guarantee will be issued using a weighted percentage between 90-95% on OL or FO loans when a portion of the loan is used to refinance Agency's direct loan debt. See 2-FLP Par.196 A on page 8-167 on how to calculate.

Guarantee Loan Fees

2-FLP Par. 136 C page 8-61 and 2-FLP Par. 247A page10-12

FSA charges a 1.5% loan closing fee on most guaranteed loans. The fee is calculated as follows: (Loan Amount x % guaranteed x 1.5%). 1.5% fee may be passed onto the borrower and included in loan funds.

The following loan types qualify for the 1.5% fee waiver:

1. Specific loan where more than 50% of the funds are used to refinance an Agency direct loan.
2. Applicants who currently meet both the FSA BEGINNING FARMER definition/requirements and have an **outstanding balance or approved but not funded** FSA Direct Beginning Farmer Downpayment (3-FLP Part 7 Section 2) Program FO loan.
3. Applicants who currently meet the FSA BEGINNING FARMER definition/requirements and have an **outstanding balance or approved but not funded** loan where more than 50% of the specific loan funds are under the Missouri Linked Deposit Agriculture - Beginning Farmer program.

See State of Missouri website: <http://www.treasurer.mo.gov/LinkedDeposit.asp> for further clarification and understanding of the Missouri Linked Deposit program – Beginning Farmer Program.

Therefore, prior to receiving the 1.5% fee waiver under the Missouri - Linked Deposit Program, the lender must provide FSA with a copy of the following:

1. Missouri - Linked Deposit Program Beginning Farmer Loan Application signed by both the lender and borrower
2. State of Missouri - Linked Deposit Program Beginning Farmer approval letter
3. Lender promissory note addendum

There are multiple state programs under the Missouri Linked Deposit program and only the subtype **Agriculture - Beginning Farmer** program qualifies for the FSA guaranteed loan 1.5% fee waiver. No other state program qualifies for the 1.5% guarantee fee waiver. The applicant may qualify for the Missouri Linked Deposit Beginning Farmer program but may not qualify for the FSA 1.5% fee waiver if farming longer than 10-years as the State's program has a different beginning farmer definition than FSA.

A 1.5% guarantee fee waiver exception is applied to each individual guaranteed loan independently and separately.

Simply being defined as a “beginning farmer” or “socially disadvantaged farmer” will not qualify for a waiver of the 1.5% guarantee fee waiver.

The guaranteed loan applicant must meet the FSA 2-FLP Exhibit 2 Beginning Farmer definition to qualify for the 1.5% fee waiver as of the date the application is received.

On a guaranteed OL loan the 2-FLP Exhibit 2 beginning farmer definition that pertains to owning more than 30 percent of the median size farm in the county does not apply.

MISSOURI
LINKED*DEPOSIT
Loans to Develop Our Future

AGRICULTURE – BEGINNING FARMER LOAN APPLICATION

Name: _____

Business Name (as reflected on loan application): _____

Social Security #: _____ Tax I.D. #: _____

Mailing Address: _____

City: _____

County: _____ State: _____ ZIP: _____

Physical Address (if different than mailing address): _____

City: _____ County: _____ State: _____ Zip: _____

Phone #: _____ FAX #: _____

Amount Requested: \$ _____ Applicant's Equity: % _____

Farm Acreage: owned _____ rented _____ Number of Employees: _____ Applicant's Net Worth _____

Use of loan proceeds: _____

Type of Operation: ☐ Grain Farming (wheat, corn, etc) ☐ Soybean ☐ Cattle ☐ Poultry ☐ Cotton ☐ Other: _____

If you are requesting this loan due to drought or other natural disaster, please provide an explanation of the impact on your operation: _____

Please attach a brief narrative describing the type of operation you have, how the proceeds will be used, the reason you're requesting a Missouri Linked Deposit Program loan and the impact it will have on your operation.

NOTE: Missouri Linked Deposit Program loans are issued by Treasurer Zweifel's office for a one-year term, which may be renewed annually up to five years. A Missouri Linked Deposit for a multi-year fixed rate may be considered. If you are requesting a multi-year fixed rate, please attach a justification based on sound business reasons.

DEMOGRAPHIC INFORMATION

Have you participated in the Missouri Linked Deposit Program previously? ☐ Yes ☐ No

If yes, what time period: _____

Are you a minority ☐ and/or a female ☐ or neither ☐ (question required by 30.758, RSMo)

Are you a veteran, reservist or member of National Guard ☐ or the spouse of such ☐ or neither ☐

Are you using MO Agriculture and Small Business Development Authority's (MASBDA) Beginning Farmer Program or received a USDA guarantee for this loan? ☐ Yes ☐ No

APPLICATION CERTIFICATION FOR A BEGINNING FARMER:

*In submitting this application, I the undersigned eligible borrower have read the following and hereby certify and agree that I meet the following eligibility criteria:**

(a) I am a permanent Missouri resident and at least 18 years of age. ☐ True ☐ False



CLINT ZWEIFEL
MISSOURI STATE TREASURER

Missouri State Treasurer Clint Zweifel • P.O. Box 210 • Jefferson City, MO 65102
(573) 751-2372 • LinkedDeposit@treasurer.mo.gov • www.treasurer.mo.gov/LinkedDeposit

1.5% FSA Guaranteed Loan Closing Fee

Lender pays 1.5% fee for borrower

- If a Deal Breaker
- If cause Lender to Lose Business

\$100,000 loan = \$1,350 FSA 1.5% Loan Fee

($\$100,000 \text{ loan request} \times 90\% = \$90,000 \text{ Loan Guarantee} \times 1.5\% \text{ fee}$)

Operating (OL) Loan

- Increase interest rate 3/8% or 37.5 basis points
- 5-Year: promissory note prepayment penalty
- Higher interest rate versus borrowing the loan fee equal

\$100,000 loaned at 5.5% over 7 years = \$17,597 per yr annual payment

\$101,350 loaned at 5.125% over 7 years = \$17,361 per yr annual payment

Farm Ownership (FO) Loan

- Increase interest rate 1/4% or 25 basis points
- 6-Year: promissory note prepayment penalty
- Slightly higher cost than borrowing the loan fee.

\$100,000 loaned at 5.25% over 20 years = \$8,196 per yr annual payment

\$101,350 loaned at 5% over 20 years = \$8,025 per yr annual payment

Collecting the 1.5% Fee

\$1,350 fee collected back over 5 years = \$270 additional interest that must be collected

\$1,350 fee collected back over 6 years = \$225 additional interest that must be collected

Payment	OL 7-Yr Loan 1.5% Fee Collected	If repaid early	FO 20-Yr Loan 1.5% Fee Collected	If repaid early
1	\$375.00	\$1,725.00	\$250.00	\$1,600.00
2	\$705.15	\$2,055.15	\$493.02	\$1,843.302
3	\$987.83	\$2,337.83	\$728.66	\$2,078.66
4	\$1,220.23	\$2,570.23	\$956.49	\$2,306.49
5	\$1,399.41	\$2,749.41	\$1,176.06	\$2,526.06
6			\$1,386.90	\$2,736.90

Some borrowers will pay off early.

Prepayment penalty will be owed in addition to the amount of interest already collected.

OL/LN Loan Purposes
Intermediate Term Loans
2-FLP Par.122 B (7 CFR 762.121(a))

OL term guarantee may only be used for the following authorized loan purposes:

1. Purchase of livestock and machinery/equipment.
2. 1-year loan for payment of annual operating expenses, family subsistence, and purchase of feeder animals.
3. Payment of scheduled principal and interest payments on term debt provided the debt is for authorized FO or OL purposes.
4. Refinancing debt incurred for authorized OL purposes when the lender and loan applicant can demonstrate the need to refinance.
5. Limited real estate improvements, so long as the loan can be repaid within 7 years (no balloon installments) and the loan is fully secured. Improvements financed over periods longer than 7 years are assumed to be for real estate rather than operating purposes and will not be financed with OL funds.
6. Payment of loan closing costs.

Note: When the guaranteed loan funds are to be used for refinancing purposes, a reasonable chance for success still must exist. The lender must demonstrate and document in the loan narrative that problems with the loan applicant's operation have been identified, can be corrected and the operation returned to a sound financial basis.

FO/LN Loan Purposes
Long Term Loan
2-FLP Par.123 B (7 CFR 762.121(b))

FO guarantee may only be used for the following authorized loan purposes:

1. Purchase a farm.
2. Make capital improvements that can be made fixtures to the real estate.
3. Refinancing debt incurred for authorized OL or FO purposes when the lender and loan applicant can demonstrate the need to refinance.
4. Promote soil and water conservation and protection.
5. Payment of loan closing costs.

Note: When the guaranteed loan funds are to be used for refinancing purposes, a reasonable chance for success still must exist. The lender must demonstrate and document in the loan narrative that problems with the loan applicant's operation have been identified, can be corrected and the operation returned to a sound financial basis.



Maximum Interest Rates on Guaranteed Farm Loans FSA Rule Change - May 3, 2013

Fixed and Variable Rates

The interest rate on a FSA guaranteed loan may be fixed or variable as agreed upon between the borrower and the lender. The lender may charge different rates on the guaranteed and the non-guaranteed portions of the note. The guaranteed portion may be fixed while the unguaranteed portion may be variable, or vice versa. If both portions are variable, different bases may be used. If a variable rate is used, it must be tied to an index or rate specifically agreed to between the lender and borrower in the loan instruments and the rate adjustments must be in accordance with normal practices of the lender for nonguaranteed loans. Upon request, the lender must provide the Agency with copies of its written rate adjustment practices.

Lenders are not required to tie the promissory note guaranteed interest rates to 3-month LIBOR or 5-year Treasury.

FSA interest rate rule does not require that the promissory note interest rate remain below the maximum throughout the term of the loan. Interest rates can fluctuate based on the pricing practice spelled out in the promissory note. FSA is not required to monitor the interest rate at any other time.

Interest Rate Pricing

- Variable-rate notes of any term and fixed-rate notes with terms less than 5 years will be considered a variable-rate loan
- Fixed-rate notes for 5 years or more would be considered a fixed-rate loan.

Maximum Interest Rates

Before issuing the FSA-2235, Loan Guarantee, and/or approving an existing guaranteed loan restructure FSA must check that the interest rate on both the guaranteed portion and the nonguaranteed portion of a fixed or variable rate note may not exceed FSA's maximum interest rate allowed using the applicable index and spread (3-mo LIBOR or 5-yr Treasury).

At the time of loan closing or loan restructuring, FSA must verify

OL/FO loan with ***variable-rates or rates fixed less than 5 years***, the benchmark will be 6.5% above the 3-month LIBOR.

OL/FO loan with rates ***fixed for 5 years or longer***, the benchmark will be 5.5% above the 5-year Treasury.

When 3-month LIBOR falls below 2%, the maximum spread will increase by 100 basis points (1%) for both to:

- 7.5% above 3-month LIBOR
- 6.5% above 5-year Treasury

Risk-Based Pricing:

- Borrower interest rate should be based on one tier lower (representing lower risk) than the borrower would receive without a guarantee. Should be discussed in the narrative.
- FSA will only be requesting a copy of lender's risk-based pricing practices when the borrower's promissory note loan closing or loan restructuring interest rate exceeds the applicable index and spread (3-mo LIBOR or 5-yr Treasury).
- Lender's risk-based pricing practices are strictly confidential and for FSA use only. FSA will file in the lenders operation file.



Not Using Risk-Based Pricing:

- The maximum interest rate (FSA benchmark) will be based on the **length of time the rate is fixed** rather than loan type.
- The maximum interest rate may not exceed the appropriate benchmark at the time of **loan closing or restructuring**.

3-month LIBOR and 5-year Treasury Links

Historical interest rates will be available in GLS, FSA Intranet, and FSA Internet.

- 3-month LIBOR: http://mortgage-x.com/general/indexes/historical_wslibor.asp
Scroll down to find year and date needed.
3-month LIBOR was .259% on 8/30/2013
- 5-year Treasury Rate: <http://www.federalreserve.gov/releases/h15/data.htm>
Scroll down to 5-year Treasury constant maturities and click on the business day.
5-year Treasury constant maturities was 1.62% on 8/30/2013

FSA Employees - GLS Processing

If the interest rate is variable or fixed for less than five years, select “Variable”.

If the interest rate is fixed for five or more years, select “Fixed.”

Q & A's

Question: Lender closes the loan and interest rate is higher than FSA's maximum rate on the day of loan closing or restructuring?

Answer: FSA will notify lender in writing stating the rate exceeds the maximum allowed. It is better to discuss adjusting the rate with lender rather than to deny the request. FSA will not issue the FSA-2235, Loan Guarantee, if the rate exceeds the maximum. The Lender will not receive appeal rights, but review rights.

Question: Can lenders tie interest rate to another index besides the 3-month LIBOR or 5-year Treasury?

Answer: Yes. Lenders are not required to tie their interest rate to 3-month LIBOR or 5-year Treasury. Lenders may use other pricing methods/indices (i.e.: prime-plus, cost-plus, flat-rate, or market based) as long as the initial rate does not exceed the FSA maximum.

Question: Can lenders charge a rate on a guaranteed loan that equals the maximum even though the borrower would be paying more than a similar farm customer?

Answer: Yes. However, NTO FSA believes competition should prevent lenders from raising their rates to match the maximum rate. Borrower should receive some benefits from the FSA Loan Guarantee in the form of lower interest rates.

FSA's interest rate rule requirement only sets the maximum rate that a lender may charge the borrower at the time of loan closing and possibly again at a promissory note restructuring.

ENVIRONMENTAL “Due Diligence” REQUIREMENTS

FLP “GUARANTEED” LOANS

FSA is required to complete Environmental Assessments or Reviews for all FSA guaranteed requests.

FSA regulations in the environmental review process include: The National Environmental Policy Act (NEPA); 1-EQ Handbook, FmHA Instruction 1940-G; and Paragraphs 69.5H, 95D, 96A, 208 A-F, and 209A of 2-FLP Handbook.

Some applications will require additional information from other USDA agencies or organizations to fulfill National Environmental Policy Act or other special law requirements. The need for this information will indicate an “incomplete” application and will stop the loan processing timeframes for SEL, CLP and PLP lenders until FSA has adequate information to complete the environmental review.

2-FLP Par.208-209 states that lenders will assist in the environmental review process by providing environmental information to FSA when requested. In all cases, the lender must retain documentation of their investigation in the loan applicant’s case file. However, the lender should submit enough information in the due diligence process so that the FSA Authorized Agency Official, in most cases, can perform an adequate assessment without having to visit the farm.

Even though the lender or applicant may supply information used in the preparation of an environmental review, FSA is still responsible for independently evaluating the environmental issues and taking responsibility for the environmental review as the lead agency.

FSA must complete its environmental review process before making a direct and/or guaranteed loan approval decision.

Four Levels of Environmental Review

- Categorical Exclusion (CATEX): This includes most loan proposals. Actions include refinancing of debt, livestock units with less than 500 animal units, annual operating expenses, loans to purchase farm chattel property, and the action is not controversial. CLP and PLP lenders may certify that they have documentation in their file to demonstrate environmental compliance. SEL lenders must submit evidence supporting compliance. Use **CATEX Guar Loan** checklist.
- Environmental Assessment for Class I Action (Class I EA): Includes proposals with 500 to 999 animal units (if construction or expansion), loan request to irrigate 80 to 160 acres of land, there is some impact to an environmental resource, or if there is minimal public concern. PLP, CLP and SEL lenders must submit evidence supporting compliance. Use **Class I Guar Loan** checklist.
- Environmental Assessment for Class II Action (Class II EA): Includes units with 1,000 or more animal units, loan request to irrigate over 160 acres of land, aquaculture, if two or more resources are being impacted, if wetlands are impacted, or if there is public opposition. PLP, CLP and SEL lenders must submit evidence supporting compliance. Public advertisement is required. EA process time can take months. Expenses incurred will be paid by the applicant. Use **Class II Guar Loan** checklist.
- Environmental Impact Statement (EIS): Complete this assessment if the project or proposal will have a major impact to the environment, or the project is controversial. This assessment will involve National Office and will probably be contracted out.

Minimum Lender Requirements

- _____ 1. A Farm Visit must be completed by the lender and/or lender's representative in the environmental due diligence process.
- _____ 2. Environmental Certification: Lender will certify environmental compliance on the FSA-2211, Application for Guarantee Part F or on the FSA-2212, Preferred Lender Application for Guarantee Part E.
- _____ 3. Environmental Risk Management: When real estate is taken as **basic security** the lender will complete an FSA-851, "Environmental Risk Survey Form;" the American Society of Testing and Materials Standards e-1528, Transaction Screen Questionnaire; or a similar environmental risk screening tool approved by the FSA State Environmental Coordinator (SEC). Fixture filings are not considered to be a real estate lien. Check to see property on DEA National Clandestine Laboratory Register: <http://www.justice.gov/dea/clan-lab/clan-lab.shtml>
- _____ 4. Highly Erodible Land, Sodbusting, Swampbusting, and Wetlands: A current AD-1026 must be on file that reflects the applicant/borrower is in compliance. A revised AD-1026 is required when land being farmed not listed on the Producer Farm Data Report or if there will be a shift in land use. A revised AD-1026 is **not** required when the only change to the farming operation is a reduction of acres due to sale of land or the loss of a land use lease.
- _____ 5. Certified Wetland Determination: When the proposed project creates a shift in land use the applicant/borrower may need to obtain a certified wetland determination.
- _____ 6. Floodplains: If there are and/or will be **essential buildings/fixtures located on the real estate property** to be taken as basic and/or additional loan security, a FEMA Form 086-0-32 (4/12), "Standard Flood Hazard Determination" must be completed. Form not required on bare land. Impact to floodplains will be considered. Flood insurance will be required for any proposed and/or existing essential buildings/fixtures located in the 100 year floodplain.
- _____ 7. Section 106 Review*: A determination must be made if the proposed project has the potential to affect historical property. When the proposed project indicates a **soil disturbance** that exceeds the depth, extent or kind of previous cultivation (plow zone) or major renovation of a structure over 50 years old will occur obtain a NRCS-MO-CPA-52 or the State Historic Preservation Officer (SHPO) must be contacted.
- _____ 8. Threatened/Endangered Species*: When threatened or endangered species are shown in the project area and the project creates a shift in land use obtain a Natural Heritage Review at the following website: <http://mdcgis.mdc.mo.gov/heritage/newheritage/heritage.htm> to determine if US Fish & Wildlife (FWS) and/or Missouri Department of Conservation (MDC) must be contacted and/or obtain a NRCS-MO-CPA-52.
- _____ 9. CAFO - DNR Requirements: Borrowers must be in compliance with the rules and regulations of the Missouri Code of State Regulations (CSR) for Concentrated Animal Feeding Operations (CAFO) and Missouri Department of Natural Resources (MoDNR) Guide to Animal Feeding Operations. Most confined hog operations < 1000 AU's will need to apply for a MoDNR Voluntary Operating Permit. <http://www.dnr.mo.gov/env/wpp/cafo/>
- _____ 10. Nutrient Management Plan (NMP): Required for a CAFO/AFO facility having a 1 time capacity ≥ 500 AU's and ≤ 500 AU's if there is a potential to cause adverse effects on the environment as a result of animal waste. MU Extension website: <http://nmplanner.missouri.edu/>
- _____ 11. County Land Use or Zoning Project must be in compliance with county and/or any local land use or zoning laws. MU Extension website: <http://nmplanner.missouri.edu/regulations/mocountyrules/>
- _____ 12. Guaranteed Loan Narrative: must summarize the details of environmental compliance. Lender responsibility to inform FSA that the proposed project may have a significant impact to the human environment.

Livestock Environmental Evaluation and Nutrient Management Plan (NMP) Screening Table

The following table can be used to determine what level of FSA Environmental Assessment is required and if a NMP is necessary to satisfy mitigation requirements.

CAPACITY AT SINGLE POINT IN TIME	Column 1	Column 2	Column 3	Column 4
	FSA CATEX Animal Units 0 to 499 * NMP ???	FSA Class I EA Animal Units 500 to 999 NMP Required	FSA Class II EA Animal Units 1000 + NMP Required	MoDNR Animal Units Operating Permit
Types of Animals	Number of Animals	Number of Animals	Number of Animals	Number of Animals
Slaughter steers and heifers (# of head x 1)	0 - 499	500 - 999	1,000 +	1,000 +
Mature dairy cattle (# milking or dry cows x 1.4)	0 - 349	350 - 699	700 +	700 +
Swine weighing over 55 pounds (# of head x .4)	0 - 1249	1,250 - 2499	2,500 +	2,500 +
Swine weighing under 55 pounds (# of head x .1)	0 – 5,000	5,000 – 9,999	10,000 +	10,000 +
Sheep & Goats (# of head x .1)	0 - 4999	5,000 - 9,999	10,000 +	10,000 +
Turkeys – growout phase (dry manure)	0 - 27,499	27,500 - 54,999	55,000 +	55,000 +
Laying hens or broilers (liquid manure)	0 – 14,999	15,000 – 29,999	30,000 +	30,000 +
Chicken broilers & pullets (dry manure) Turkey poults - brood phase (dry manure)	0 - 49,999	50,000 - 99,999	100,000 +	125,000 +
Chicken laying hens (dry manure)	0 - 49,999	50,000 - 99,999	100,000 +	82,000 +
Horses (# of head x 2)	0 - 249	250 - 499	500 +	500 +
Combination of animal units	Animal Units 0 to 499	Animal Units 500 to 999	Animal Units 1000 +	

* A NMP may be a mitigation requirement for a concentrated animal livestock facility having a 1 time capacity ≤ 500 AU's if there a potential to cause adverse effects on the environment as a result of animal waste.

Combination of Animal Units Example:

100 head of cows	X 1	=	100 animal units
50 head dairy cows	X 1.4	=	70 animal units
500 head fat hogs (55# to market)	X .4	=	200 animal units
500 head sheep	X .1	=	50 animal units
3 head horses	X 2	=	6 animal units
TOTAL		=	426 animal units

Once an animal is weaned from its mother, start counting as an individual animal unit.

NMP Storm Water Exemption

The NMP protects against land application discharges and provides the “Storm Water Exemption” due to weather events, if NMP is current and is actively implemented.

All NMPs prepared prior to current EPA’s 2008 Rule need to be updated to be compliant.

Production area discharges by CAFO’s are not covered by the NMP. A producer needs to obtain a MoDNR Operating Permit or have sufficient documentation that supports the operation was designed and/or is being operated properly in compliance with MoDNR regulations in order to fall under the “Storm Water Exemption”.

MISSOURI DEPARTMENT OF NATURAL RESOURCES (MoDNR)

Effective August 28, 2013, construction permits will no longer be required for agricultural projects with the exception of those with earthen storage structures in accordance with House Bill 28. Agricultural waste management systems still must comply with Missouri design regulations in 10 CSR 20-8.300. Construction must be in accordance with a Professional Engineer's (PE) design.

Based on # of AU's the facility owners are still required to obtain an MoDNR operating permit and develop nutrient management plans. MoDNR will not be issuing voluntary construction permits. If an operating permit is not required, MoDNR will not be reviewing plans.

Neighbor notification requirements are still in effect. Buffer distances still must be met.

There are now just two (2) MoDNR permits (Land Disturbance/Excavation and/or Operating) that a lender may encounter in the FSA guaranteed loan process.

Land Disturbance Permit - MoDNR

An operation that will disturb one acre or more of land may be required to obtain a land disturbance permit. A MoDNR Operating Permit for land disturbance purposes that specifically identifies the project must be issued before any site vegetation is removed or the site disturbed. Any site owner/operator subject to these requirements for storm water discharges and who disturbs land prior to permit issuance from the MDNR is in violation of both State and Federal laws.

Operating Permit - MoDNR

All CAFO's are required to obtain a MoDNR Operating Permit. Voluntary MoDNR Operating Permits can be obtained for those operations that do not meet the minimum state requirements.

With the recent changes a producer will need to apply and receive their MoDNR Operating Permit **prior** to construction. Neighbor notification requirements and buffer distances must be met. MoDNR may inspect the facility prior to approval of the operating permit. Operating permit applications should be submitted to the attention of Amanda Sappington, Industrial Permits Unit Chief.

At the state level, water quality is protected through the department's permit application and approval process. Water pollution construction and operating permits are a requirement for all size and types of CAFOs. These permits typically have a list of very specific and stringent requirements to follow and operations are expected to keep detailed records of farm related activities and submit them to the state agency for review each year. In addition, the MoDNR has developed stringent state technical standards that CAFOs must follow and relate to the handling and land application of animal manure. MoDNR resource website: <http://www.dnr.mo.gov/env/wpp/cafo/index.html> MoDNR has defined a CAFO as:

"An operation is defined as a CAFO if it falls within the Class I size category and confines, stables, or feeds animals for 45 days or more in a 12 month period and a ground cover of vegetation is not sustained over at least 50 percent of the confinement area."

Nutrient Management Plans Requirement

All CAFOs must maintain a current Nutrient Management Plan, or NMP. The plan must be field specific. The plan must address minimum criteria.

Water Wells Permit

State law established well construction standards aimed to protecting Missouri's groundwater. If drilling a new well, a MoDNR New Well Certification must be obtained.



EPA Concentrated Animal Feeding Operations Inspections

Ten Tips to Ensure Operations are in Compliance

June 2010

If you own a Concentrated Animal Feeding Operation (CAFO), you have probably heard about EPA's inspection and enforcement activities in Region 7. These activities are part of an increased national emphasis aimed at ending harmful discharges of pollutants from CAFOs into rivers and streams.

Having EPA show up at your facility for an inspection can sometimes be a daunting experience. Inspections are very comprehensive and typically cover all aspects of a facility's operation. EPA inspectors routinely perform walk-throughs of production and land application areas, review records and collect samples. To assist producers in preparing for inspections, EPA offers the following 10 tips to help ensure operations are in compliance.

1. Are you discharging? Answering this question is one of the primary purposes of an EPA CAFO inspection. Owners and operators of CAFOs should evaluate their facilities to determine if any runoff is getting into nearby rivers and streams. If you are discharging, contact Missouri Department of Natural Resources (MoDNR) to determine waste controls and permit requirements.
2. Are you controlling runoff from feed storage areas? CAFOs are required to control runoff from all production areas, including feed storage areas.
3. Are you controlling runoff from manure/bedding stockpiles? These stockpiles are considered part of a facility's production area even if they are located outside the facility's footprint. Care should be taken to prevent runoff from discharging into nearby rivers and streams.
4. If your operation conveys runoff from the production area through a man-made ditch, flushing system or other similar man-made device, then you need to obtain a permit or stop the discharge.
5. It is important to read your MoDNR Operating Permit or National Pollutant Discharge Elimination System (NPDES) permit and implement its requirements.
6. Are you counting animals correctly? Both EPA and state regulatory agencies require that species in open lots be counted together with similar species in confinement for the purposes of determining your size status as a CAFO. Also, if your operation confines enough animals of one species to be considered a large CAFO, then all animals at the operation must be counted and runoff from these areas must be contained.
7. Maintain complete and accurate animal inventory records. One of the first things an inspector does is determine your CAFO status by looking at the number of animals that have been confined at your facility. This determination can take time if the right records are not readily available.
8. If you have an MoDNR Operating or NPDES permit, you cannot expand operations beyond the capacity listed in your current permit without authorization from MoDNR.
9. Maintain lagoon berms free of trees, shrubs and erosion features and follow pump-down level requirements for lagoons to maintain adequate storage levels.
10. Maintain records for land application of manure solids and liquids and follow a nutrient management plan/manure management plan in the application of any manure. These records are vital to demonstrating that you are implementing appropriate land application practices.

County/Local Restrictions & Zoning Ordinances

Concentrated Animal Feeding Operations (CAFO's)

County health and/or zoning ordinances have been imposed by local governments on animal feeding operations beyond what is required in regulations by the MO Department of Natural Resources (MoDNR).

In the environmental and/or loan approval process, a good source is the University of Missouri website:

<http://nmplanner.missouri.edu/regulations/mocountyrules/>

The website may not have the most current information so it is important to check with the local zoning or county clerk offices while evaluating prospective operation sites.

Local Government Health Ordinances usually address and/or defines the:

- Size of the CAFO in animal units for the different livestock types
- Animal unit is further broken down into four (4) CAFO class categories
- Air restrictions
- Number of acres and % land slope requirements for waste application
- Minimum setback requirements for land waste application, facility, and lagoon from a dwelling, stream, well, spring, other CAFO's, etc.
- Fees to obtain a permit
- Permit renewal requirements
- Cash or surety bond requirements
- Grandfather clauses for existing facilities
- Transfer of ownership requirements

Local restrictions could impact FSA's ability to finance new operations and/or impact existing operations.

- Existing facilities (no ownership changes) are generally grandfathered to operate without a county permit, but typically cannot expand the operation and/or modify the facilities without obtaining a permit.
- Transfer of ownership can be restrictive. Value of the property depends on whether or not the facility complies with the local government health ordinance at the time of the ownership transfer and, if not, whether the county would grant an exception of the ordinance requirements.

In summary, local health and/or zoning ordinances increase the risk to lenders and must be analyzed thoroughly.

The lender is required to address:

“What effect, if any, would the county/local government zoning and/or health ordinance have on the repayment/collection of the guaranteed loan?”

Floodplains

National Flood Insurance Program (NFIP) regulations require flood insurance for insurable buildings/structures located in Special Flood Hazard Area (SFHA) that carry a mortgage loan backed by a federally regulated lender. The SFHAs are the areas determined to be subject to a one percent (1%) probability of being flooded in a given year. This is known as the Base Flood Elevation (BFE) or 100-year flood zone.

FSA must determine if there will be any buildings/structures located in the 100-year flood zone. The proposed project cannot adversely affect the floodplain to be in compliance with EO 11988. When there are buildings/structures that provide a contributory value to the loan collateral's present market value, floodplain documentation is required as part of the FSA guaranteed loan approval process as follows:

- **Lender Documentation:** The lender is to provide a FEMA Form 086-0-32, Standard Flood Hazard Determination, to determine whether an existing and/or a proposed building/structure is located in the 100-year flood zone. FEMA Form 086-0-032 is not required on bare land.
- **FSA Documentation:** FSA will utilize an Arc GIS color map, CARES, or FEMA Map Service Center as the source for environmental floodplain documentation. FEMA Form 086-0-32 is not required. A floodplain map must be attached to the FSA-850 for FP and the RD 1940-22, RD 1940-21, or Exhibit 21 Class II EA for FLP.

If any existing and/or proposed building/structure is located in the 100-year flood zone, flood insurance must be a condition of loan approval. Not all of the 100-year flood zone areas are covered by the National Flood Insurance Program (NFIP). If the project area is not participating in the NFIP it may not be eligible for FSA assistance.

Elevation Certificate:

An Elevation Certificate can be prepared by a land surveyor, engineer or architect authorized by law to certify elevation information documenting that the building/structure is outside the 100-year flood zone.

When an elevation certificate is obtained that shows that the building/structure is located outside the 100-year flood zone the elevation certificate can be used to obtain a LOMA (Letter of Map Amendment) or LOMR-F (Letter of Map Revision-Fill) from FEMA. The issuance of a LOMA or LOMR-F eliminates the Federal flood insurance purchase requirement or the producer may be able to obtain a reduced flood insurance premium.

- If the building/structure was built on natural ground and its lowest adjacent grade is at or above the 100-year flood zone a producer could request a LOMA from FEMA.
- If the building/structure was built on fill (or has been elevated by the placement of earthen fill) a producer could request a LOMR-F from FEMA.
- However, lenders retain the prerogative to require flood insurance as a condition of any loan as part of their standard business practices, regardless of the location of the structure. Although a structure built on a site that has been elevated by the placement of fill may be removed by FEMA from the SFHA, the structure may still be subject to damage during the 100-year and higher-magnitude floods. Many floods occur outside of designated SFHAs, and about 25 percent of NFIP flood insurance claims are for buildings/structures located in these low-risk areas.
- Request a LOMA or LOMR-F from FEMA at the following website:

http://www.fema.gov/plan/prevent/fhm/ot_lmreq.shtm

- Certain sections of the LOMA and LOMR-F application forms must be certified by a Registered Professional Engineer or Licensed Land Surveyor. Therefore, requesters may incur certain fees associated with obtaining data and hiring a Registered Professional Engineer or Licensed Land Surveyor to provide and certify certain information that must be submitted with LOMA and LOMR-F requests.
- If the project area is not participating in the National Flood Insurance Program obtaining a LOMA and LOMR-F from FEMA would allow FSA to provide assistance.

Development in the Floodplain – Permit Required

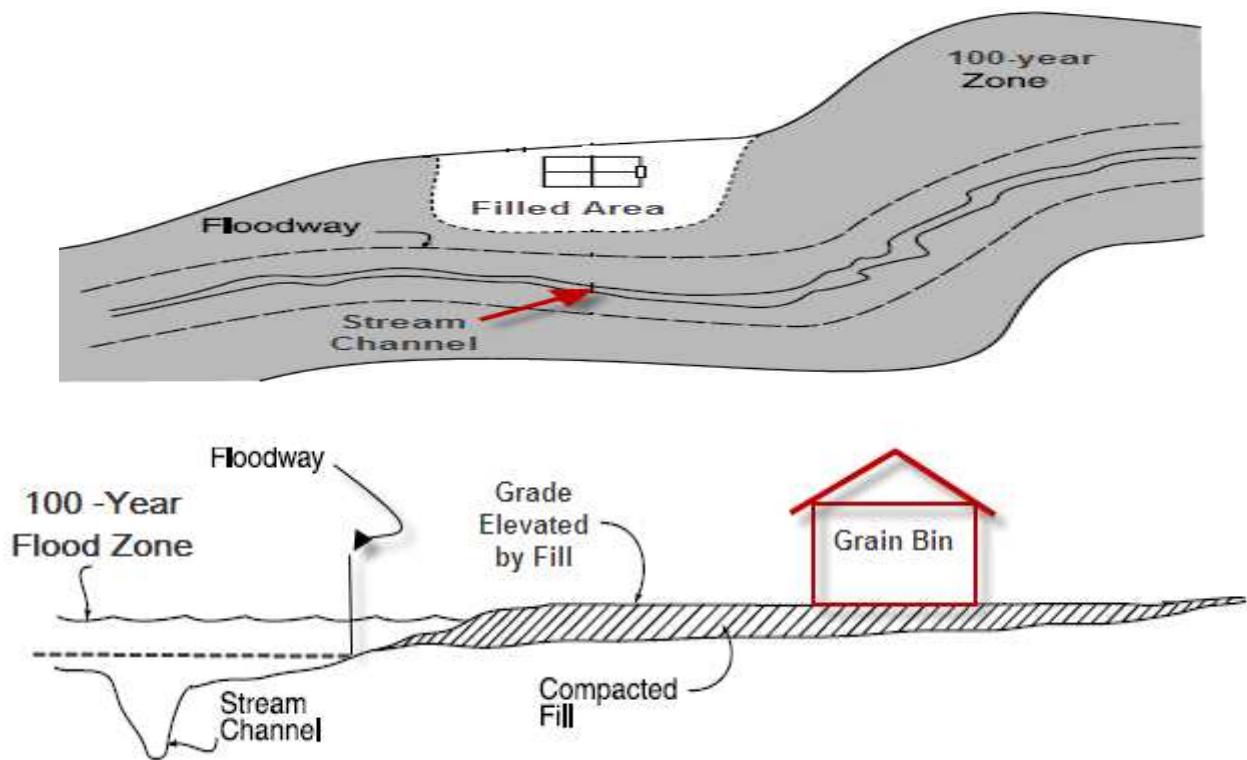
NFIP requires a development permit for any construction development within a floodplain. The development permit is obtained from the local Flood Plain Administrator. This official may require a certification by a qualified design professional that indicates the building/structure is reasonably safe from flooding.

Earthen fill is sometimes placed in a SFHA to reduce flood risk to the filled area. Fill is defined as material from any source placed to raise the ground to or above the 100-year flood zone. The common construction practice of removing unsuitable existing material (topsoil) and backfilling with select structural material is not considered the placement of fill if the practice does not alter the existing (natural grade or ground) elevation. The placement of compacted fill is considered development and will require a development permit from the local Flood Plain Administrator

Local floodplain authorities usually grant a variance for agricultural structures.

If the name of the local Flood Plain Administrator is not known contact the local County Commissioners.

Placement of fill and/or building within the floodway is prohibited. A floodway is a 1 foot rise above the regular channel flood stage.



In summary,

- If building in a 100-year flood zone a development permit must be obtained.
- If placing fill in a 100-year flood zone a development permit must be obtained.
- If any existing and/or proposed building/structure is located in the 100-year flood zone, flood insurance must be obtained.
- If the building/structure is located above the 100-year flood zone an elevation certificate can be obtained. This document can be used to obtain a LOMA or LOMR-F from FEMA which can eliminate the need or reduce the fee for flood insurance.

ELEVATION CERTIFICATE

OMB No. 1660-0008
Expires March 31, 2012

Important: Read the instructions on pages 1-9.

SECTION A - PROPERTY INFORMATION

A1. Building Owner's Name			For Insurance Company Use:		
			Policy Number		
A2. Building Street Address (including Apt., Unit, Suite, and/or Bldg. No.) or P.O. Route and Box No.			Company NAIC Number		
City	State	ZIP Code			
A3. Property Description (Lot and Block Numbers, Tax Parcel Number, Legal Description, etc.)					
A4. Building Use (e.g., Residential, Non-Residential, Addition, Accessory, etc.) _____					
A5. Latitude/Longitude: Lat. _____ Long. _____ Horizontal Datum: <input type="checkbox"/> NAD 1927 <input type="checkbox"/> NAD 1983					
A6. Attach at least 2 photographs of the building if the Certificate is being used to obtain flood insurance.					
A7. Building Diagram Number _____					
A8. For a building with a crawlspace or enclosure(s):			A9. For a building with an attached garage:		
a) Square footage of crawlspace or enclosure(s) _____ sq ft			a) Square footage of attached garage _____ sq ft		
b) No. of permanent flood openings in the crawlspace or enclosure(s) within 1.0 foot above adjacent grade _____			b) No. of permanent flood openings in the attached garage within 1.0 foot above adjacent grade _____		
c) Total net area of flood openings in A8.b _____ sq in			c) Total net area of flood openings in A9.b _____ sq in		
d) Engineered flood openings? <input type="checkbox"/> Yes <input type="checkbox"/> No			d) Engineered flood openings? <input type="checkbox"/> Yes <input type="checkbox"/> No		

SECTION B - FLOOD INSURANCE RATE MAP (FIRM) INFORMATION

B1. NFIP Community Name & Community Number		B2. County Name		B3. State	
B4. Map/Panel Number	B5. Suffix	B6. FIRM Index Date	B7. FIRM Panel Effective/Revised Date	B8. Flood Zone(s)	B9. Base Flood Elevation(s) (Zone AO, use base flood depth)
B10. Indicate the source of the Base Flood Elevation (BFE) data or base flood depth entered in Item B9. <input type="checkbox"/> FIS Profile <input type="checkbox"/> FIRM <input type="checkbox"/> Community Determined <input type="checkbox"/> Other (Describe) _____					
B11. Indicate elevation datum used for BFE in Item B9: <input type="checkbox"/> NGVD 1929 <input type="checkbox"/> NAVD 1988 <input type="checkbox"/> Other (Describe) _____					
B12. Is the building located in a Coastal Barrier Resources System (CBRS) area or Otherwise Protected Area (OPA)? <input type="checkbox"/> Yes <input type="checkbox"/> No Designation Date _____ <input type="checkbox"/> CBRS <input type="checkbox"/> OPA					

SECTION C - BUILDING ELEVATION INFORMATION (SURVEY REQUIRED)

C1. Building elevations are based on: ☐ Construction Drawings* ☐ Building Under Construction* ☐ Finished Construction
*A new Elevation Certificate will be required when construction of the building is complete.

C2. Elevations – Zones A1-A30, AE, AH, A (with BFE), VE, V1-V30, V (with BFE), AR, AR/A, AR/AE, AR/A1-A30, AR/AH, AR/AO. Complete Items C2.a-h below according to the building diagram specified in Item A7. Use the same datum as the BFE.

Benchmark Utilized _____ Vertical Datum _____

Conversion/Comments _____

Check the measurement used.

a) Top of bottom floor (including basement, crawlspace, or enclosure floor) _____	<input type="checkbox"/> feet	<input type="checkbox"/> meters (Puerto Rico only)
b) Top of the next higher floor _____	<input type="checkbox"/> feet	<input type="checkbox"/> meters (Puerto Rico only)
c) Bottom of the lowest horizontal structural member (V Zones only) _____	<input type="checkbox"/> feet	<input type="checkbox"/> meters (Puerto Rico only)
d) Attached garage (top of slab) _____	<input type="checkbox"/> feet	<input type="checkbox"/> meters (Puerto Rico only)
e) Lowest elevation of machinery or equipment servicing the building (Describe type of equipment and location in Comments) _____	<input type="checkbox"/> feet	<input type="checkbox"/> meters (Puerto Rico only)
f) Lowest adjacent (finished) grade next to building (LAG) _____	<input type="checkbox"/> feet	<input type="checkbox"/> meters (Puerto Rico only)
g) Highest adjacent (finished) grade next to building (HAG) _____	<input type="checkbox"/> feet	<input type="checkbox"/> meters (Puerto Rico only)
h) Lowest adjacent grade at lowest elevation of deck or stairs, including structural support _____	<input type="checkbox"/> feet	<input type="checkbox"/> meters (Puerto Rico only)

SECTION D - SURVEYOR, ENGINEER, OR ARCHITECT CERTIFICATION

This certification is to be signed and sealed by a land surveyor, engineer, or architect authorized by law to certify elevation information. I certify that the information on this Certificate represents my best efforts to interpret the data available. I understand that any false statement may be punishable by fine or imprisonment under 18 U.S. Code, Section 1001. ☐

Check here if comments are provided on back of form. Were latitude and longitude in Section A provided by a licensed land surveyor? ☐ Yes ☐ No

Certifier's Name	License Number		
Title	Company Name		
Address	City	State	ZIP Code
Signature	Date	Telephone	

PLACE
SEAL
HERE

Loan Terms

Determined by Loan Type & Security

2-FLP Par. 137 (7 CFR 762.124(b) and (c))

2-FLP Par. 168 (7 CFR 762.126(d))

The type of security obtained for a loan must be appropriate to the type of loan, and the loan terms must be consistent with the useful life of the security.

Guaranteed loans may be secured by any property if the term of the loan and expected life of the property will not cause the loan to be undersecured.

Loans	Guidelines
Short-term	Annual OL's should be secured at least by crops and livestock that will generally be sold during the term of the loan.
Intermediate-term	OL's should be secured by collateral that has a life expectancy at least as long as the loan. Loans to be repaid over a 2- to 7-year period should be secured by breeding livestock and equipment. <u>The lender should evaluate the equipment proposed to be used for security to ensure that it will not depreciate faster than the loan is repaid.</u>
Long-term	Loans scheduled to be repaid over more than 7 years must be secured by real estate. <u>Anticipated depreciation of the improvements must be considered when establishing terms.</u>

In summary, prudent lending practices require that:

1. The borrower's loan must be fully secured at all times based on the expected financial condition of the operation, the depreciated value of the collateral, and the principal balance on the loan.
2. Term loans will be scheduled for repayment over the minimum period necessary considering the loan applicant's ability to repay and the useful life of the security.
3. The terms of the proposed loan shall not exceed the useful life of the guaranteed loan security.
4. If applicable, useful life of the collateral must be documented in the loan approval write-up.

Open Accounts / Non-Disturbance Agreements

The non-disturbance agreement can be an effective tool in keeping a farmer in business. It can be used for open-account creditors that will not get paid.

Warning: The Non-Disturbance Agreement must cover the full term of the new and/or existing loans. We do not care if the non-disturbance agreement balloons after our loans are supposed to be paid in full. However, if the guaranteed loans are later restructured, then the existing non-disturbance agreement must be extended to match the new terms.

Documentation of Cash Flow Feasibility

The lender must follow the guidelines listed in 2-FLP Par.151-154 Determining Financial Feasibility of Proposed Loan (7 CFR 762.125) on pages 8-85 through 8-92.

FSA defines FEASIBLE PLAN as the loan applicants/borrowers cash flow or debt service margin is \geq (greater than or equal to) 1 to 1 or 100%.

The cash flow plan must be realistic and supportable. All components of the plan should be as accurate as possible and based on the individual operation and the market. The cash flow projections must be based on the loan applicant's financial history and proven record of production (SEL only) and financial management. Unless fully justified, the cash flow projections should not be outside the range of the (minimum last 3-years) historical performance. Deviations from historical performance may be acceptable if adequate documentation is provided to FSA on the specific changes in the operation.

A lender's LOAN NARRATIVE must:

1. document the method used to project income and expenses (farm and nonfarm)
2. provide an explanation of any deviations from historical performance.

A lender's CASH FLOW BUDGET must:

1. reflect, as closely as possible, the predicted cash flow of the operating cycle.
 - The cash flow starting and ending period should always match the borrower's starting and ending tax year.
 - Most borrowers are on a January 1st to December 31st tax year. The cash flow period should match the tax year. If you have anything different, then the cash flow should be redone to match the tax year.
 - We have seen too many problems when they are not. When they are different, neither the borrower nor lender can adequately analyze/assess the borrower's financial and cash flow position.
2. be documented in sufficient detail to adequately reflect the overall condition of the operation
 - Many lenders determine the cash flow feasibility without considering the implications associated with cash carryover, accounts payable, cash capital purchases and personal debt obligations.
3. When the planned loan term exceeds the current year or one (1) production cycle and the projected cash flow plan is not considered to be a typical year, a typical cash flow budget must be prepared to reflect a feasible plan for the remaining years/term of the loan.
 - A typical year cash flow includes only 1-year of production income and expenses.
 - An example of a non-typical year could be when the cash flow includes > \$1000.00 cash on hand, NTCCA inventory carryover, carryover debt, cash capital expenditures, start-up operations, significant operation changes, etc.

Section 4 Credit Decision

Subsection 1 Financial Feasibility of Proposed Loan (7 CFR 762.125)

151 Determining Financial Feasibility of Loans (7 CFR 762.125)

A Purpose

This paragraph describes how SEL and CLP lenders must demonstrate that an applicant has sufficient financial resources to repay a guaranteed loan. PLP lenders use methods outlined in their CMS to determine the financial feasibility of a loan.

B Feasible Plan

The applicant's proposed operation must project a feasible plan. The cash flow budget analyzed to determine feasible plan must represent the predicted cash flow of the operating cycle.

Note: See Exhibit 2 for the definition of feasible plan.

A lender must determine whether an applicant has sufficient financial resources to repay a guaranteed loan. To make this determination, lenders work with the applicant to prepare a cash flow budget for the farm operation. As used in this part, the term "operation" includes all farm activities and income as well as all nonfarm income pledged by the applicant.

The cash flow budget used in the loan application must:

- reflect, as closely as possible, the predicted cash flow of the operating cycle
- be documented in sufficient detail to adequately reflect the overall condition of the operation.

*--The lender's projected cash flow budget should include all cash inflows and outflows. If the authorized agency official determines that cash inflows have been overestimated or cash outflows have been underestimated or omitted from the plan, the authorized agency official will recalculate the debt coverage. If the recalculation shows adequate cash flow, the authorized agency official will document the findings and proceed with processing the request.

If, after re-evaluation, the cash flow budget is no longer feasible, the lender will be notified and given up to 10 calendar days to revise the plan. The lender will justify any changes made to the cash flow budget.

Note: For Streamlined CL requests, a cash flow budget is **not** required. The lender should follow their internal procedures to determine financial feasibility.--*

151 Determining Financial Feasibility of Loans (7 CFR 762.125) (Continued)

B Feasible Plan (Continued)

*--Poultry or hog production contracts are the basis of grower income and facility value. The dependability of production contracts has a profound impact on the prospects for loan repayment. “Flock-to-flock” or “turn-by-turn” type arrangements alone may not be a dependable source of income or a reasonable projection of income for poultry or hog applicants who **do not** have a financial performance history with FSA.

Note: For contract income to be considered dependable, the contract must:

- be for a minimum period of 3 years
- provide for termination based on objective “for cause” criteria only
- require that the grower be notified of specific reasons for cancellation
- provide assurance of the grower’s opportunity to generate enough income to ensure repayment of the loan, by incorporating requirements such as a minimum number of flocks or turns a year, minimum number of bird or hog placements per year, or similar quantifiable requirements.

Applicants requesting loans to expand their poultry or hog operation by adding more houses/barns or purchasing additional land to increase the size of the poultry or hog operation, and who **are** presently indebted to FSA, will be required to have a contract with a minimum 3-year term. The contract must at least cover the facilities financed with the guaranteed funds. When contract income **cannot** be determined to be dependable and likely to continue, that is **cannot** be used to reasonably project future income, the authorized agency officials shall:

- inform the guaranteed lender of the contract provisions that result in the determination
- provide an opportunity for submitting a revised contract before a final decision on the request.

Note: Whenever possible, guarantee requests should be approved subject to modification of unacceptable contract provisions.--*

151 Determining Financial Feasibility of Loans (7 CFR 762.125) (Continued)**B Feasible Plan (Continued)**

*--The impact of industry trends must be assessed in guaranteed loan requests from poultry and/or hog growers and can be based on standard production budgets developed by contractors, consultants, or extension specialists. While these budgets are acceptable starting points, the budget must reflect realistic performance assumptions for the individual situation, including, but not limited to, the following:

- increased input costs
- changes in unit numbers and weights
- increased idle time between flocks of poultry or turns of hogs
- other relevant factors that affect net income.

The impact of age, condition, and potential obsolescence of the facilities must be assessed for loans to purchase or refinance existing facilities. Budgets must factor in any reduced efficiency and the potential costs for required modernization of existing facilities to comply with production contract requirements.

Note: Unless PLP lender's CMS specifically addresses how production contracts are evaluated and analyzed for financial feasibility, PLP lenders will comply with the requirements of this subparagraph.--*

Loan Agreement

Use only those that pertain. Modify to fit each individual and unique situation

The Loan Agreement is a signed legal document between the loan applicant/borrower and the lender. The following items are suggestions/recommendation that should be considered and addressed by the lender and, if applicable, included in the lender's security documents (promissory note, security agreement, or loan agreement).

1. Annual Financial Statement:

If not provided by insert date the loan will be in nonmonetary default.

2. Income Tax Records: Complete copy of the Federal and State Income Tax Return with ALL supporting schedules including the depreciation worksheet.

If not provided by insert date the loan will be in nonmonetary default.

3. Prior years actual production and/or financial history:

If not provided by insert date the loan will be in nonmonetary default.

4. Cash flow Projection:

If not provided by insert date the loan will be in nonmonetary default.

5. Entity loan(s) - Annual financial statement and individual tax returns on each member.

If not provided by insert date the loan will be in nonmonetary default.

6. Insurance requirements.

- Adequate property and liability insurance must be obtained on the security and a mortgage clause added to the insurance policy requiring all benefits to be paid jointly with the lender.
- Crop Insurance is required and an assignment of indemnity obtained in favor of the lender in the following minimum levels:
- The loan applicant must obtain Catastrophic (CAT) risk protection insurance coverage on all economically significant crops for this year and all subsequent years or waive eligibility for emergency crop loss assistance in connection with the uninsured crop. Economically significant crops are those that contributed at least 10 percent of the value of the producer's share of the crop in the past year or is expected to contribute at least 10 percent in the coming year.

7. A CCC-36, "Assignment of Payment" has been executed to cover ALL FSA and CCC program payments in which the loan applicant/borrower has an interest in.

We agree to submit any and all FSA and CCC program payments that were not paid directly to the bank within 10 days of receipt.

8. Limitations on the purchase and/or sale of capital assets.

- Capital expenditures are not authorized unless approved/agreed upon by the lender in the signed annual cash flow.
- Any machinery/equipment lease of longer than 1 year is considered a "Capital Lease" and must be treated as a capital expenditure.

9. Government Payments and Programs Security Agreement Clause:

All payments, accounts, general intangibles, or other benefits (including, but not limited to, payments in kind, deficiency payments, letters of entitlement, warehouse receipts, storage payments, emergency assistance payments, diversion payments, and conservation reserve payments) in which I now have and in the future may have any rights or interest and which arise under or as a result of any preexisting, current or future Federal or state government program (including, but not limited to, all programs administered by the Commodity Credit Corporation and the Farm Service Agency).

10. Annual Loan Security Requirements:

Agree to notify the lender with any changes and/or additions to our loan security within 30 days.

11. Collateral inspections / requirements. (Chattels – minimum 1 farm inspection visit per year.)

12. Maintaining minimum basic foundation livestock numbers:

We agree to maintain the following minimum number of basic foundation livestock by keeping breedable age replacements. If the livestock numbers fall below these minimum requirements any and all sales proceeds must be applied on the lender's loan as an extra principal payment.

Cows	50 head
Replacement Heifers	5 head
Bulls	2 head

13. We agree not to incur any additional debt or co-sign for the liabilities of others without first discussing with the lender.

14. For any property owned jointly a "Disposition of Jointly Owned Property Agreement" needs to be obtained and signed by all owners which may include spouses. Note: You do not need this document for property owned jointly by husband and wife.

15. Any improved management and/or production practices to be implemented.

16. Purposes for which loan funds or funds advanced under the line of credit will be used.

17. Interest rate and terms; how and when the rate may fluctuate; term of loan; and conditions related to the repayment, renewal, etc., of loan with balloon payments.

18. Entity loan(s): Establish a limit on compensation of entity members, hired labor, consultants, patronage refunds, dividend payments, or distribution of net income.

19. Limits on Family Living Expenses:

Establish a limit on family living expenses, partner withdrawals, partner salaries, and/or other partner compensation as to the amount as agreed upon in the cash flow.

20. Bank Account Requirements:

We agree to maintain the farm and/or family living accounts at this institution
We agree to run all farm income and farm expenses through the farm account.

21. Integrator Information Exchange Waiver: It is essential to the success of the operation that the lines of communication remain open between the contract grower, lender and the integrator. Privacy Act liability concerns have been expressed as an issue. Therefore, the borrower/grower must grant permission for open discussion and exchange of information and/or documents concerning production and management issues between the lender and integrator, strictly related to the poultry enterprise, while under the contract grower agreement.

Within two weeks of the lenders request, the loan will be in nonmonetary default if the grower does not set up and participate in a "Grower, Lender and Integrator" meeting.

22. Integrator Settlements Statements: When requested by the lender the grower will provide copies of the individual flock settlement statements. Set up to receive on an "annual" or "as needed" basis.

Within two weeks of the lenders request the loan will be in nonmonetary default if the grower does not provide the settlement statements.

23. OL/LOC Loan Requirement:

If ALL farm income is not applied as a payment on the OL/LOC loan the loan will be in nonmonetary default.

24. OL/LOC Annual Renewal Requirements:

Credit ceiling, special limitations, and conditions precedent to annual readvancement or continuation of loans or lines of credit. The promissory note must contain language that limits OL/LOC advances for subsequent years:

- The outstanding OL/LOC unpaid principal and interest shall be due and payable annually on [v] (insert date).
- Failure to reduce the OL/LOC loan down to (\$0.00 - \$100.00) annually on the required due date shall constitute an event of default by the borrower. If not reduced, are there enough current assets on hand that **WILL BE SOLD and all of the PROCEEDS APPLIED on the OL/LOC Loan** that could pay it in full?
- If the borrower operates under a January 1st to December 31st cash flow, Lender shall not be obligated to advance any funds after the end of the borrower's current operating year cash flow which ends December 31st if:
 1. The borrower fails to reduce the OL/LOC loan down to (\$0.00 - \$100.00).
 2. The bank does not obtain FSA concurrence, in writing, that the next production year's cash flow projects a feasible plan as per 2-FLP.

(Note: For CLP lenders - FSA written concurrence is not required, thus allowing the lender the option whether to advance under the terms and conditions of the Guarantee.)

Date: _____

Name of Lender: _____

By: _____

I agree to the foregoing and acknowledge receipt of a copy of this agreement.

Date: _____

By: _____

Borrower

By: _____

Spouse

Existing Promissory Notes - “FSA Guarantee Available”

2-FLP Par.247A on page 10-14

2-FLP Par.247 A states that the lender can use its existing promissory note when the loan purpose is to refinance or restructure the lender's own debt. There should always be a justifiable reason (maintaining an interest rate, loan term, or lien position) for the lender to request a guarantee on an existing promissory note.

If FSA is placing a Loan Guarantee on a lender's existing promissory note, even if the terms and conditions didn't change, a dated amendment/allonge/modification agreement is required to be executed that delineates the promissory note modification date and the unpaid principal balance. The lender may roll unpaid accrued interest into a new principal amount using the allonge provided the new principal amount is less than or equal to the loan amount approved and obligated by FSA.

ALLONGE Requirements:

- Lenders may use their own allonge form.
- Reference and specially identify the promissory note which it is modifying.
- Be signed by the borrowers as they have signed the promissory note.
- Include the date it is executed by the borrowers. Date must be equal to and/or greater than the date of the FSA-2232, Conditional Commitment.
- State the unpaid principal amount and accrued interest as of the date it is executed.
- Interest accrual owed as of the allonge date is not covered under the FSA Loan Guarantee.
- Lender must provide FSA with a copy of the signed original promissory note and allonge.

Example: Amendment/Allonge/Modification Agreement wording:

I (We) acknowledge a Farm Service Agency (FSA) Loan Guarantee has been placed on this promissory note and I(we) will comply with the FSA 2-FLP Handbook (7 CFR 762) rules and regulations while this guarantee is in effect. ...

FSA Loan Guarantee and GLS Processing

- Allonge date will be the “Date of Promissory Note” in block 7 on Form FSA-2235.
- Allonge date will be the FSA GLS loan closing date.
- Loan Amount on Form FSA-2235 in blocks 5 and 8c must match the GLS obligation amount and should be the principal amount as stated on the allonge (assuming a single note is used).
- If the original principal amount has been paid down, the new lower allonge principal amount should be used on Form FSA-2235 and entered into GLS. A partial GLS de-obligation may be necessary. FSA must obligate the same dollar and cent amount (\$36,023.07) to match the unpaid principal amount (\$36,023.07) owed the lender. DO NOT ROUND, as it must match exactly to the penny.



Secondary Market – Allonge Requirements

If the lender plans to sell the guaranteed portion on the secondary market, the loan approval official will attach a memo on FSA letterhead to the Loan Guarantee using the following language:

Farm Service Agency (FSA) acknowledges that the allonge entered into on May 28, 2013, between Bob and Betty Borrower, Anytown, USA, and First Bank, Anytown, USA, attaches to and amends promissory note number 1234 in the amount of \$300,000 and executed on April 1, 2013. FSA also acknowledges that this allonge was executed for the purpose of obtaining a guarantee on the previously executed promissory note 1234 and the date of the executed allonge is the closing date used for FSA Loan Guarantee purposes.

If you have any question, please contact our office.

Promissory Notes Signature Requirements

2-FLP Par.247A on page 10-14

The promissory note is executed by the individual liable for the loan.

On a case by case basis, a condition may be included on Form FSA 2232, Conditional Commitment, which specifies additional parties who must be liable for the loan; however, this condition must be related to the unique circumstances of the loan.

Entity promissory note requirements:

1. Executed by the member(s) who is authorized to sign for the entity. On entity loans, obtain documentation (Article of Incorporation, Operating Agreement, entity legal document, etc.) that says who has the authority to sign the note and mortgage for the entity. Sometimes it takes ALL members of the entity to incur debt for the entity.
2. Executed by all members of the entity as individuals. **Personal guarantees, or other forms, will not be used to address the individual liability requirement.**

FSA cannot accept a lenders **Guaranty** document. FSA's Loan Guarantee is tied to the promissory note and FSA cannot implement offset and/or collection procedures without the individuals' signature on the promissory note.

3. Individual liability can be waived by the Agency for members holding less than 10 percent ownership in the entity if the collectability of the loan will not be impaired.

FSA Handbook 2-FLP, Par. 166B states:

The lender is responsible for ensuring that proper and adequate security is obtained and maintained to fully secure the loan, protect the interest of the lender and the Agency, and assure repayment of the loan or line of credit.

The lender will obtain a lien on additional security when necessary to protect the Agency's interest.

Prenuptial Agreement

FSA's Attorney - "OGC" Opinion

Missouri Revised Statute § 451.220 states that the Prenuptial Agreement must be in writing, must be acknowledged by each of the contracting parties, and must be proved by at least one subscribing witness.

Missouri Revised Statute § 451.230 provides that marriage contracts (prenuptial agreements) are subject to the same acknowledgement and recording requirements as deeds of conveyance for land.

Missouri Revised Statute § 451.240 states that when there is real property at issue, the Prenuptial Agreement does not have legal effect unless such requirements are met.

Prenuptial Agreement must be recorded in order for the FSA security property to remain separate property, and to avoid FSA having to require spouse to assume personal liability for the debt on the property. The language in the MO statute is mandatory language – it says the document “shall” (rather than “may”) be recorded in order to be legally valid. Thus, there is no flexibility in the statutory language itself.

Also, the case law regarding some of the validity requirements for prenuptial agreements in Missouri is fairly extensive, and there have been cases where even when parties met those objective requirements (such as recording, witnesses, etc.) the contract has not been valid for other reasons (i.e. insufficient consideration, signed under duress, etc.). It is difficult enough to predict whether the contract may be held invalid for other reasons that are not always obvious.

In addition, we can't even assume that general provisions of Missouri law will automatically control if the prenuptial agreement is invalid – if ownership of this security property is the very issue the spouse contests as invalid in this prenuptial agreement, a court may conclude, depending upon the evidence submitted by the spouse (for example, if she shows some kind of fraud by the husband inducing her to sign these documents), that equity dictates she have ownership rights, contrary to both the Prenuptial Agreement and Missouri law. The recording is significant to FSA (and any other third parties) in the event that the spouse is actually granted some or all ownership rights through a court proceeding (i.e. divorce decree): that will provide at least some protection to FSA because we can argue on FSA's behalf that FSA had the required notice (through the recording) that the spouse had agreed to the property as separate, and therefore FSA did not require her personal liability on the debt.

Guaranteed Loan Request to Refinance Existing Guaranteed Loan(s)

- Question:** *Lender B has applied for a guaranteed loan to refinance Lender A's existing FSA guaranteed loan. Borrower is shopping interest rates. Existing guaranteed Lender A refused to lower the interest rate. Lender B applies for an FSA guaranteed loan to refinance Lender A's existing guaranteed loan. No other money involved.*
- Answer:** NO - Loan application from Lender B will be rejected as the loan applicant does not meet the basic 2-FLP Par 108 J – Test for Credit loan eligibility requirement. The refinancing reason must be for some other legitimate authorized loan purpose other than to just lower the interest rate. We realize that a lower interest rate from Lender B will lower the borrower's payment and improve repayment capacity, but usually the borrower's cash flow already reflects a feasible plan at Lender A's existing guaranteed loan higher interest rate.
- Question:** *What if Lender B is providing other credit needs that are essential to the farming operation that Lender A won't loan for?*
- Answer:** Yes, an application can be approved for Lender B to take over the entire financing needs of the borrower. Lender A must be contacted and informed of the pending application and given an opportunity to retain the borrower's business. A file review must be completed by the AFLS.
- Question:** *What if the borrower is unhappy with its existing guaranteed Lender?*
- Answer:** FSA will not force the borrower to stay with this lender. However, the existing guaranteed lender must be contacted and informed of the pending application and given an opportunity to retain the borrower's business. FSA must be provided with the reason why the borrower does not wish to retain its business with the existing guaranteed lender. A file review must be completed by the AFLS.
- Substitution Of Lender** In all cases, a "Substitution of Lender" as per 2-FLP Par 287 can be approved by the SED to transfer the Loan Guarantees from Lender A to Lender B. However, both lenders must be in agreement for the substitution of lender to occur. FSA cannot force the original lender to agree to a substitution of lender transaction. The purchasing lender must be aware that the guaranteed loan(s) is being bought AS IS.
- Matured Loan** If Lender A's guaranteed loan has fully matured promissory note then it would be acceptable for Lender B to apply for a guaranteed loan to refinance Lender A's existing guaranteed loan without a contact being made.
- Facts:** Lender A's loan policy is that it will not issue a promissory note for longer than three (3) years. Lender closes guaranteed FO/LN loan 3-1-2008 utilizing a 15-year amortization repayment schedule with the loan maturing 3-1-2011. Existing lender can restructure the existing loan without occurring any additional loan fees.

Bridge Loan for Unfunded Direct FO Approved with Guaranteed FO

FSA cannot use the guaranteed FO loan program to guarantee a “Bridge Loan” which provided interim financing on an unfunded FSA Direct FO loan.

A Guaranteed FO and participation Direct FO loan were approved subject to the availability of funding. The Guaranteed FO/LN loan was funded, but the Direct FO remained unfunded and on a waiting list. Proposed lien position - Guaranteed FO to hold a 1st lien and the Direct FO a 2nd lien.

Question: The lender has agreed to make a “bridge loan” for the unfunded direct loan. Lender wants to close the guaranteed FO loan with a bridge loan with the bridge loan holding a 1st lien position and the guaranteed FO to be in a 2nd lien. When the direct FO is funded and closed, the bridge loan would be paid in full and the guaranteed FO loan would move into a 1st lien position. Can we allow this change in lien position?

Answer: NO *National Office stated that despite the good intentions from the lender the guaranteed loan must close as required by the Conditional Commitment. Therefore, the lender cannot close the guaranteed FO/LN loan until the Direct FO is funded.*

The FSA-2232, “Conditional Commitment,” cannot be issued until the direct loan is funded. Both the guaranteed FO and direct FO loan must be closed at the same time. If the lender makes a bridge loan, it will be for both the guaranteed and direct loan (unguaranteed) and no assurance/guarantee from FSA that it will be refinanced at a later date. Remember, new financial information is needed after 90 days. If circumstances change, FSA has the authority to reject both loans.

Exception: If the lender makes the nonguaranteed “bridge loan” in a 2nd lien position at an interest rate and loan terms that the loan applicant can repay based on the cash flow that the loan was approved on, the FSA-2232, Conditional Commitment, could be issued with the guaranteed loan closed in a 1st lien position. Unless the loan became in default for nonpayment, the lender would need to remain with the bridge loan even if the direct FO loan remained unfunded or the direct FO loan could not be closed due to an adverse change.

Counterparty Risk

Will the supplier and/or grain buyer still be in business when it is time to pick up the supplies or grain check?

Do you know what the stability of the farm expense supplier and/or the grain/livestock buyer is? Can the borrower afford to take the risk?

Counterparty risk, otherwise known as default risk, is the risk of a contract that the counterparty will not live up to its contractual obligations. Counterparty risk should be considered when evaluating a contract.

- Selling grain under a cash contract in which the seller relinquishes possession and receives payment at a later date.
- Locking in and prepayment of fertilizer, chemicals, fuel, etc which remain in the possession of the supplier.

Amish/Mennonite Insurance Requirements

As a general rule, FSA will accept for small loans without specialized buildings the church-issued self-insurance letters, CAM or MUA as an alternative to customary property/casualty insurance.

Lender needs to request usage of alternative insurance in loan narrative. FSA's decision based on loan type, \$\$\$ amounts, proposed operation, security, etc on a case-by-case basis.

FSA will address insurance requirements in the FSA-2232, Conditional Commitment. If FSA requires insurance, lender can close loan with the church-issued self-insurance letters, CAM or MUA but the FSA-2232, Conditional Commitment, will state that losses due to lack of state licensed property insurance are not covered by Loan Guarantee.

Insurance Policy

- Company supplying policy must be licensed or otherwise authorized by law to transact business in MO.
- Mandatory mortgage clause payable to lender

MO Statute – Request for Notice of Sale

Situation: Bank A holds a 1st lien on 160 acres.

Bank B holds a perfected 2nd lien taken as additional security for the FSA guaranteed loan.

Bank A is foreclosing on the 1st lien position.

Bank B was not notified and only recently saw the foreclosure notice in the newspaper.

Question: Is there any MO Statute that requires the 1st lienholder to notify the 2nd or junior lienholder of the pending foreclosure?

The primary notice of foreclosure must be given pursuant to RSMO 443.320 by publication notice.

RSMO 443.325 requires notice to be given to anyone who files a Request for Notice with the County Recorder when there is a foreclosure under a power of sale.

If the GL lender did not file a Request for Notice, its only notice would be the publication notice.

The filing of a Request for Notice is discretionary, but any prudent lender would file such a request so that it would know to enter a protective bid at the foreclosure sale or take other action as necessary to protect its secured position.

Utilizing FSA's Direct and/or Guaranteed Loan Programs to Purchase Farm at Public Auction

A number of farms are being sold at auction rather than through a real estate agent. We have received some inquiries from banks about wanting to use the FSA Direct and/or Guaranteed Farm Ownership program to finance the purchase at the public auction.

MAYBE: FSA can possibly make a Direct and/or Guaranteed FO in an auction situation. It is not easy, but it can be done. Many things must fall into place to allow this to happen. Both the applicant/lender must fully understand what FSA can and cannot do.

On a Direct FO Loan Request FSA does not have a complete application without a contract. Therefore, FSA cannot order an appraisal of the property and/or approve a direct loan without a contract. FSA's budget is too tight to spend \$700-\$1000 on an appraisal on the slight chance that our applicant will be the successful bidder. There is the issue when there are multiple applicants for the same property and how FSA would handle the appraising of the property.

Each FLM has the responsibility to manage their office as they see fit. If time permits, FSA can assist with a cash flow to see what the loan applicant could afford to pay.

The loan applicant/lender needs to have a "Plan B" in case the loan applicant is the successful bidder. Issues that could cause problems include but not limited to the following:

- What if the farm does not appraise for enough to cover the bid?
- What if there is an environmental issue on the farm?
- Can a bridge loan be obtained to fund the purchase until FSA funding is available or does the loan applicant have a third party that can purchase the farm and then re-sell it back?
- What if FSA wasn't told the complete truth up front?
- What if there are marital or cash flow problems?

In summary, FSA cannot provide any type of commitment and if the loan applicant purchases land at a public auction they are on their own. If the loan applicant is the successful bidder, FSA can start processing the application but there are no guarantees that the loan will be approved. FSA cannot obligate any money until we have a so-called "done deal".

Federal and State Income Tax Forms

When obtaining a copy of the borrower's income tax records, the following should be copied:

- ✓ a complete copy of the FEDERAL Tax Return and ALL supporting schedules
- ✓ a complete copy of the STATE Tax Return and ALL supporting schedules

Obtain a copy of the borrower's **depreciation schedule** on chattel secured loans.

Having trouble getting a copy of the borrower's Federal and/or State Income Tax Records? Obtain income tax records directly from IRS by having the borrower execute the following forms:

1. **Federal:** Form 4506, "Request for Copy of Transcript of Tax Form." \$57 fee for each return requested. Form 4506 must be received within 120 days of signature date.

Note: The IRS can provide a **Tax Return Transcript** for many returns free of charge. The transcript provides most of the line entries from the original tax return. See **Form 4506-T, Request for Transcript of Tax Return**, or you can call 1-800-908-9946 to order a transcript.

2. **State:** Form 1937, "Request for Photocopy of Missouri Income Tax Return."

Amount and Quality of Security
“Adequate Security”
2-FLP Par.166 (7CFR 762.126) on pages 8-113 through 8-115

1. **The lender is responsible for ensuring that proper and adequate security is obtained and maintained to fully secure the loan, protect the interest of the lender and the Agency, and assure repayment of the loan or line of credit.**
2. **The lender will obtain a lien on additional security when necessary to protect the Agency’s interest.**

At a minimum, FSA requires the value of the security to be at least equal to the loan amount. However, more security will be taken whenever it is available.

A 1:1 loan to value ratio is not adequate when additional security is available. The adequacy of security will be judged in consideration of the total security available, prior liens, and the lender’s normal practices.

More security may be required if:

- the quality of the security is low
- cash flow is below average
- production capability is suspect
- management history is limited
- enterprise is not firmly established or is atypical for the area.

To evaluate the quality and overall adequacy of the proposed security, the lender should evaluate and determine that more security is required to protect themselves and FSA’s interests based on the answers to the following questions:

- Is the value of the primary security at least equal to the proposed loan amount?
- Is additional security available?
- Is this a specialized operation with limited sale opportunities?
- What is the age, durability, depreciation rate, and useful remaining life of the security? How does this compare to the term of the loan?
- What is the proposed lien position on the primary security?
- Is the applicant’s net worth high or low compared with their total liabilities, including the proposed amount of the loan or LOC?
- Does the loan applicant have a strong cash flow position and high profitability?

In summary, most lenders tend to cross-collateralize all loans on all available security.

An assignment will be used when appropriate (crop insurance, integrated hog and poultry contracts, dairy, FSA program payments, etc.) in an amount sufficient to make the installments due on the loan.

Amount and Quality of Security
“Lien Position”

2-FLP Par.166 (7CFR 762.126) on pages 8-115 through 8-116

1. **Any chattel-secured guaranteed loan must have a higher lien priority (including purchase money interest) than an unguaranteed loan secured by the same chattels and held by the same lender.**

Note: Any lender, who holds an unguaranteed loan with a first lien on the same collateral proposed as security for a guaranteed loan, must subordinate its lien position to the guaranteed loan.

2. **Junior lien positions are acceptable only if the total amount of debt with liens on the security, including the debt in junior lien position, is less than or equal to 85 percent of the value of the security.**

85% Junior Lien Example

Loan collateral valued at \$100,000
Unguaranteed loan – 1st lien position at \$50,000
Guaranteed loan – 2nd or junior lien position limited to \$35,000
Total debt limited to \$85,000 or 85%

When guaranteed loan is in a 1st lien position FSA can make a 100% loan to collateral value.

When guaranteed and unguaranteed loans share equal lien position: neither loan will be considered junior. In these situations, the lender will provide a written agreement, agreeable to FSA, outlining how proceeds will be distributed if security is liquidated. If an agreement is not provided, then when any equally shared security is liquidated, the net proceeds shall be divided pro-rata based on the amounts loaned.

Example: When the net proceeds are divided pro-rata, if the lender makes a \$700,000 guaranteed loan in conjunction with a \$300,000 unguaranteed loan and the security is subsequently liquidated resulting in \$800,000 net proceeds, \$560,000 would be applied to the guaranteed loan and \$240,000 to the unguaranteed loan.

3. **Junior liens on crops or livestock products will not be relied upon for security unless the lender is involved in multiple guaranteed loans to the same borrower and also has the first lien on the collateral.**
4. **When taking a junior lien, prior lien instruments will not contain future advance clauses (except for taxes, insurance, or other reasonable costs to protect security), or cancellation, summary forfeiture, or other clauses that jeopardize the Government's or the lender's interest or the borrower's ability to pay the guaranteed loan, unless any such undesirable provisions are limited, modified, waived or subordinated by the lienholder for the benefit of the Agency and the lender.**

Note: Provisions on prior lien instruments, such as prepayment penalties, will be considered when evaluating the collateral value of the lender's security on the guaranteed loan.

National Office has the authority to grant an exception of any requirements involving security. Request must be in writing and explain why the change is in the best interest of the Government and that the collectability of the loan will not be impaired.

Separate and Identifiable Security

2-FLP Par. 167 (7 CFR 762.126(c))

Par 167 B states:

The guaranteed loan must be secured by identifiable collateral. To be identifiable, the lender must be able to distinguish the collateral item and adequately describe it in the security instrument.

1. Financing Livestock

For livestock operations, the purchase or refinancing will be limited to either a guaranteed loan or a non-guaranteed loan, but not both. We will not allow a lender to co-mingle guaranteed loan security with the same class of livestock that isn't security for the guaranteed loan. More than one owner's livestock co-mingled in the same lot/pasture/field and/or on the same farm is not acceptable in meeting the guaranteed loan separate and identifiable security requirements.

Exception may be considered on a written percentage ownership (50%, 75% 2/3rd, etc) agreement that includes all owners and states all costs, death loss, and sales are split based on the percentage. All creditors involved must be in total written agreement.

Any exceptions to this policy must have prior state office written approval.

Different breeds, branding, ear tagging, or tattooing are not sufficient distinction. Reasons:

- Will a picture be taken of each and every head?
- The feed was paid with guaranteed OL/LOC loan funds. Do the cattle with the other identification or non-FSA security know not to eat the feed in front of them?
- Isn't FSA's security property that always gets sick and die, struck by lightning or stolen, etc?
- Ask the question if an inspection will be made every time that an animal dies and /or is sold. When accounting for death loss, will a carcass inspection be done and picture taken it include the identification markings?
- The problem of splitting by breed is that when they are sold, the sale barn may not do a very good job of identifying the cattle on the sale receipt as they might be listed as all X-bred. Will a picture be taken at the sale barn?
- Another problem is age.
- Calves grow up and become yearlings; yearlings become heifers; and heifers become cows. When does one creditors lien end and another creditors lien start?
- What if there are multiple brands and/or tattoos?

2. Financing Machinery

In most instances, individual items of machinery/equipment are NOT considered to be "Separate and Identifiable Security" for guaranteed loan purposes. On a case-by-case basis, exception may be allowed for a tractor, combine, cotton picker, licensed vehicle/trailer or unique items of machinery.

Any exceptions to this policy must have prior State Office written approval.

Transfer of Ownership Assets – Documentation Required

For estate/tax purposes, borrower/loan applicants are being advised to transfer assets from one type of ownership to another type of ownership. Typical example: As individuals, the borrowers have transferred assets to an entity such as a trust, LLC, partnership, etc. On loans secured by chattels, a Bill of Sale or transfer of ownership document from the individual to the entity must be obtained for file documentation purposes. Remember that a taxable event may occur with the transfer of assets.

FSA can continue with an individual guaranteed loan as long as the entity to whom the chattel or real property was transferred to executes/signs the existing promissory note as a co-obligator.

Chattel Security Requirements When Legal Ownership/Title Could be Questioned

Legal ownership of chattel assets can become an issue, when machinery/equipment and/or livestock is given to, borrowed from, stored, leased, and/or shared with a relative, neighbor, or friend. Legal ownership must be resolved upfront. A written ownership statement and/or certification must be obtained from the other party regarding any and all of the items listed on the borrower's security agreement that could become a legal ownership problem.

All chattel security that is jointly owned will have an "Agreement for Disposition of Jointly Owned Property" that is to be signed by all owners of the property, including spouses.

It is important that a chattel lien search be completed on previous owners to determine if the property is free and clear of all liens and encumbrances. A partial release from another creditor may be required to properly perfect FSA's required 1st lien position.

Example: Son has applied for an FSA loan and does not have adequate collateral to obtain the loan. Dad offers to give or gift son specific items of machinery. In this situation, a Bill of Sale (\$1 and other considerations) must be obtained that includes a detailed description of the machinery and all of the previous owners' signatures including spouses. Lender must be assured that gift item is free of liens.

Leased Equipment – Documentation Requirements

Leased equipment is not owned, but leased from a third party. We understand that there may be a right-to-purchase agreement. If this right-to-purchase agreement is executed by the borrower, the item now becomes security for the guaranteed loan due to the now owned and hereafter acquired property clause in the Conditional Commitment.

Leased equipment should not be appraised and used as collateral for a guaranteed loan. Better loan documentation needs to be made when equipment leases are included in the cash flow.

The lender needs to obtain and/or submit a copy of the lease to FSA. The guaranteed file needs to reflect at least the following information:

- For what purpose was the lease entered into? (tractor, combine, irrigation, equipment, etc.) Be specific and include manufacturer and model.
- Payment amount? (annually, monthly, semi-annually, etc.)
- Lease payment due date? (month/year)

For those guaranteed lenders that do not have to submit everything to the Agency, the credit presentation, loan narrative/cover letter, and/or cash flow needs to address any equipment leases.



UCC1 & MO Secretary of State

Website: <http://www.sos.mo.gov/>

As of August 28, 2013, a change was made to MO UCC laws regarding the name used to file a UCC1. Now the person's name on their valid MO driver's license is the one that is used to file a UCC1. Consequently, the Office of General Counsel, FSA's attorneys, has provided the following guidance to our offices.

1. **When completing a UCC1 Financing Statement for initial filing for an individual, if the person has a valid Missouri driver's license, the name that will be shown on the UCC1 as the Debtor will need to match the driver's license exactly. IF the person's full legal name is different than the name on their valid Missouri's driver's license, you need to put the full legal name on the UCC1 as an additional debtor. This is true for each individual that will sign the security instruments.**
As documentation of the driver's license name, you will need copies of each person's driver's license as part of a complete application. Date stamp the copies the day they are received in the office to document the basis for using that specific name at this point in time.
2. When completing a UCC1 Financing Statement for initial filing for a formal entity, the financing statement must contain the name that is stated to be the registered entity's name on public record most recently filed with, issued to, or enacted by the jurisdiction of the organization, i.e., Articles of Incorporation, Partnership Agreement, etc.
3. If the person does not have a valid Missouri driver's license, including people that have driver's licenses from other states, the person's full legal name will be shown on the UCC1 Financing Statement.
4. The person's full legal name will still be reflected on all other debt and security instruments such as notes, Deeds of Trust, and security agreements, in accordance with FSA's regulations and Handbook requirements.
5. Existing UCC1 Financing Statements are still legally valid with only full legal names on them. However, as they come up for continuation, or if there is a reason to amend them, add the driver's license name as an additional debtor. If the person has more than one UCC1 Financing Statement, it's recommended to make all necessary changes to all UCC1s at one time.
6. **Creditors are responsible for monitoring changes in the person's name as reflected on their valid Missouri's driver's license since that name may change.**

Consequently, as you work with borrowers, check the names to be certain there aren't any changes from what is on the UCC1 Financing Statement. If there are changes, follow the guidance as outlined above.

FSA's Direct Loan Collateral Description - UCC1 & Security Agreement

FSA on the advice of its attorney, Office of General Counsel (OGC), uses the following general collateral description on its UCC1:

- a. *All crops, livestock, farm products, equipment, certificates of title, goods, supplies, inventory, accounts, deposit accounts, supporting obligations, payment intangibles, general intangibles, investment property, crop insurance indemnity payments, and all entitlements, benefits, and payments from all state and federal farm programs.*
- b. _____; and
- c. *All proceeds, products, accessions, and security acquired hereafter.*

The security interest perfected secures a future advance clause and the security agreement contains an after acquired property clause. Disposition of such collateral is not hereby authorized.

On the UCC1 filings, FSA does not use a detailed description nor does it list serial numbers. Rather a detailed description (Quantity, Kind, Manufacturer, Size and Type, Condition, Year of Manufacture, & Serial Number) is clearly and with great care listed on the Security Agreement. It is our opinion that the purpose of UCC filings is to alert others (lenders and anyone needing credit information) that someone has a financial interest with the Debtor. If someone wants to know what specific item a creditor has a lien on then they need to contact the creditor holding the UCC1 lien position for further details, generally a copy of the Security Agreement.

Conducting and Review of Secretary of State UCC Lien Searches

An online lien search in the office of Secretary of State is required for UCC filings to determine proper lien position. FSA uses the following steps to complete an online lien search:

1. Use the MO Secretary of State's website <http://www.sos.mo.gov/ucc>.
Click on the "Research UCC Filings" link.
2. Login with your User ID and Password that you must obtain from the Secretary of State's Office.
3. Select "New UCC Search".
4. Select Individual or Organization.
If an individual, both "Standard" and "Non-Standard" searches should be run on the customer's
 - full legal name
 - driver's license name if different than full legal name
 - commonly known name
 - last name with first initial
5. Separate lien searches are required for all parties that are to become debtors for loans. In addition, a lien search would be required for any party that pledges security for a loan who would not become a debtor. All the searches should be saved and/or printed for lien analysis and filed in the case file.
6. When there is a match for a customer, additional filing information is available by clicking on the "View Filing Chain" button.
7. By clicking on the "View Document" button, you can see the UCC on file.
8. Save and/or Print the UCC.

County Clerk/Recorder's Office Lien Searches

It is the lender's responsibility to complete a lien search to show that the required chattel lien position is obtained.

FSA instructs its offices when searching in the County Clerk/Recorder's Office that a Report of Lien Search should include all financing statements filed of record, any Federal Tax Liens of record filed during the past eleven years and one month, and any judgments of record filed during the past twenty years. Relying on Case.net as the sole source of information for judgments is incomplete since Missouri Circuit Court records reflected on Case.net vary widely on the start date for the reported information. Some Circuit Court records are only available through Case.net for public cases filed since 2006.

If a borrower moved within the past five years from another county or operates land in more than one county a Report of Lien Search should be obtained from each county.

FSA Direct loans records search requirements:

<u>Type of Lien</u>	<u>Office</u>	<u>Period of Search</u>
Fixture filings	County Recorder	5 Years
Federal and/or State tax liens	County Recorder	11 Years & 1 Month
Judgments	County Recorder	20 Years

Using the Appraisal to Determine the Useful Life of Security

2-FLP Par. 181 B states that appraisals are not part of a “complete” loan application and that the guaranteed loan may be approved by the loan approval official, subject to the lender obtaining an acceptable appraisal. The key word is “may.”

Appraisals can and should be requested prior to the loan approval decision when:

1. Information from the appraisal is needed to determine maximum allowable loan terms.

As per 2-FLP Par. 137, all guaranteed term OL and/or FO loans must be scheduled for repayment over the minimum period necessary considering the loan applicant’s ability to repay and the useful life of the security. A shorter repayment period than the lender requested may need to be approved to be assured that the loan will be adequately secured throughout the term of the loan, taking into account the probable depreciation of the security. Obtaining a copy of the appraisal prior to loan approval may be necessary to determine the useful life of the security. This is extremely important when the loan purpose is to refinance debt on an existing integrated livestock confinement facility.

2. Security or loan value is an issue.

Yes, it is acceptable to obtain a copy of the appraisal from a SEL, CLP or PLP lender prior to loan approval and/or issuing the FSA-2235, “Loan Guarantee.”

When the loan has been approved subject to the appraisal, the lender is responsible for obtaining an acceptable appraisal before loan closing.

FSA is required to do an appraisal review prior to issuing the FSA-2235, “Loan Guarantee.”

Depreciation Can Affect Repayment Capacity

When depreciation potentially can have an adverse affect FSA has developed the following tools to assist in the loan decision process:

FSA Tools available at: http://www.fsa.usda.gov/Internet/FSA_File/lenders.pdf

1. MO 2-FLP 33 Depreciation Loan Term Calculator 5-26-2004.xls
2. MO 2-FLP 34 Loan Term Depreciation Feasibility 2-15-2005.xls

Poultry Mitigation

Economic difficulties still plague the poultry industry. Dramatic increases in energy and other costs, periodic reductions in demand leading to increased flock placement intervals, increased/decreased bird weight, building/equipment upgrade requirements, and other relevant factors that affect net income have affected profit margins and returns.

FSA must mitigate its security/repayment capacity risk. FSA has a significant risk exposure, primarily through loan guarantees, with producers who grow poultry under contract.

FSA's instructions (2-FLP Par.151) require a dependable source of farm and/or non-farm income in its evaluation, assessment, and analysis of direct and/or guaranteed loan applications from family farms by the loan approval official. Any application involving a company that contracts for livestock production needs to be financially strong and have a proven history for similar type of production contracts. Company information should be evaluated and used as an indicator of the strength and weakness of the livestock production contract.

FSA needs the integrator's commitment and is requiring a poultry contract term that at least covers the contributory value of the facilities financed with the guaranteed loan funds.

A State Office approved production contract **will be required/in effect** prior to FSA issuing the FSA-2235, Loan Guarantee.

Contract Requirements

Before income from a poultry production contract can be considered a dependable source of income, the poultry production contract must:

- provide assurance of the producer's opportunity to generate income with which to develop a cash flow budget and repay the loan. This assurance must be stated in the contract, which will incorporate requirements, such as a minimum number of flocks per year, minimum number of bird placements per year, or similar quantifiable requirements.
- provide for termination based on objective "for cause" criteria only
- require that the grower be notified of specific reasons for cancellation
- [new construction] - Term of the contract equal to and/or greater than the proposed loan terms. Loan terms should take into consideration the integrators estimated new construction payback.
- [existing poultry facilities] - Term of the contract equal to and/or greater than the economic useful remaining life and/or the proposed loan terms whichever is less

Feasibility - Repayment Capacity

2-FLP Par.151 B requires that the cash flow budget used in the loan application must:

- reflect, as closely as possible, the predicted cash flow of the operating cycle
- be documented in sufficient detail to adequately reflect the overall condition of the operation.
- reflect realistic performance assumptions for the individual situation, including, but not limited to, the following:
 - increased input costs
 - changes in unit numbers and weights
 - increased idle time between flocks of poultry
 - other relevant factors that affect net income

- must factor in any reduced efficiency and the potential costs for required modernization of existing facilities to comply with production contract requirements. The impact of age, condition, and potential obsolescence of the facilities must be assessed for loans to purchase or refinance existing facilities.

Where depreciation and/or security may be a concern, the Agency loan approval official may require a reduced loan term other than what the lender requested when the cash flow margin is greater than 110%.

Refinancing Debt on an Existing Facility: Loan Applicant must provide:

- last 3-years of actual settlement statements
- last 3-years Federal and State Income Tax Records with all supporting schedules
- depreciation schedule

Purchase of Existing Facilities: Seller must provide the:

- last 3-years of actual settlement statements
- last 3-years of actual operating expenses on the facility

New construction: Borrower must agree to depreciate the equipment over a 10-year MACRS recovery period and the buildings over a 15-year MACRS recovery or a yearly cash flow will need to be provided for every year of the loan starting in year eight.

Down Payment: If a cash down payment is being offered as part of the loan financing package it must be unencumbered and verified as such.

Loan Terms

Prudent lending practices warrant loan terms be limited as to the:

- Amount of equity in the proposed collateral
- Contributory useful economic remaining life of the proposed collateral
- Term of the production contract & Integrator strength/reliability
- Reliable income generated (farm and nonfarm)

New Construction Loan Terms

New building construction loans terms are limited to the following unless there are extenuating circumstances:

1. Any new building incentive paid back on a separate note/loan.
2. Building (70% of total construction costs) terms limited to a FO/LN 15-year amortized payment.
3. Equipment (30% of total construction costs) terms limited to 7-year OL/LN and should not exceed a 10-year amortization.
4. Bare land contributory value limited to 30-year amortized payment.
5. Nonpoultry contributory building value limited to remaining useful economic life not to exceed a 30-year amortized payment.

Existing Facilities - Appraisal & Lender Farm Visit Walk Through

The Appraisal needs be submitted with the application to allow FSA to determine the adequacy of the collateral.

Representative of the lender must complete a walk-through/inspection of the existing facility prior to the submission of a FSA Farm Loan Program Loan Guarantee. Lenders are required to evaluate and address in the loan cover letter and/or field report all findings.

Existing Facilities Loan Terms

When loan funds will be used to refinance and/or purchase existing specialized buildings/integrated livestock facility, the loan approval official must document that the proposed guaranteed loan repayment terms do not exceed the contributory useful economic remaining life (equipment and/or buildings) of the proposed collateral based on the facilities actual age. Existing poultry facility loan terms are limited to the following unless are extenuating circumstances:

1. Poultry contract term being offered.
2. Actual physical age of the poultry building and equipment subtracted from date of the new construction (building = 15-years and equipment = 10-years) if does not exceed contract term.
3. Bare land contributory value limited to 30-year amortized payment – no balloon.
4. Nonpoultry contributory building value limited to remaining useful economic life should not exceed a 30-year amortized payment – no balloon.

Suggested “Loan Agreement” Requirements:

1. Information Exchange Waiver: It is essential to the success of the operation that the lines of communication remain open between the contract grower, lender and the integrator. Privacy Act liability concerns have been expressed as an issue. Therefore, the borrower/grower must grant permission for open discussion and exchange of information and/or documents concerning production and management issues between the lender and integrator, strictly related to the poultry enterprise, while under the contract grower agreement.

Within two weeks of the lenders request, the loan will be in nonmonetary default if the grower does not set up and participate in a “Grower, Lender and Integrator” meeting.

2. Settlements Statements: When requested by the lender the grower will provide copies of the individual flock settlement statements. Can be provided on an annual or on an as needed basis.

Within two weeks of the lenders request the loan will be in nonmonetary default if the grower does not provide the settlement statements.

3. Income tax records: Complete copy of the Federal and State Income Tax Return with ALL supporting schedules including the depreciation worksheet. If not provided by (*insert date*) loan will be in nonmonetary default.
4. Annual financial statement: If not provided by (*insert date*) loan will be in nonmonetary default.

Servicing Existing Guaranteed Loans:

FSA will work on a case by case basis with lenders on servicing existing guaranteed loan indebted borrowers. FSA will require documentation from the Integrator indicating continuance even without contract, if no contract can be obtained. No new loan funds will be provided, if Integrator is not determined to be a reliable source of income (Determined by STO). Term cannot exceed remaining useful life of collateral.

Poultry Farm – No Dwelling:

Recent history reflects poultry inventory farms will not sell without a livable dwelling or will be greatly reduced causing unnecessary losses to lenders and FSA. What is the loan to market value? Is additional security available? Are there any mitigation risk options available to reduce the guaranteed loss risk? If no to these questions, the loan may not be able to be approved. Can a dwelling be added to poultry farm site in the future? If yes, then documentation must be provided as to costs involved and the dwelling’s contributory value.

Appraisals: The USPAP appraiser must be provided the following information:

1. Contract Terms
 1. Proposed Gross Income Expected (# **birds** X # **flocks** X **bird size** X \$.xx/lb)
 2. Length of Contract
2. Poultry Equipment Age
 - Waterers: Original Equipment? Yes or No If no, year(s) totally replaced ____
 - Feeders: Original Equipment? Yes or No If no, year(s) totally replaced ____
 - Radiant Brooders: Original Equipment? Yes or No If no, year(s) totally replaced ____

If age unknown or the seller/owner of a facility does not provide the actual age of the equipment (waterers, feeders, and radiant brooders) age will be determined from the date facility was originally built. If equipment was totally replaced over a period of years, age will be determined from the 1st year replacement started.
3. Equipment Supplier cost estimate for “essential” repairs/upgrades to obtain contract.
4. Equipment Supplier evaluation/best guess estimate as to when the equipment will need to be replaced/upgraded.
 - Waterers: ____
 - Feeders: ____
 - Radiant Brooders: ____

Existing Facilities: Requires FSA State Office Review/Concurrence If Actual Age PLUS Proposed New Loan Terms Exceed 25 years

State Office review/concurrence is required for use of any guaranteed loan funds to finance facilities when the actual age plus proposed new loan terms exceed 25 years. Submit the following information through the Area Farm Loan Specialist:

1. Type of operation
2. Integrator
3. Whether facility has been retrofitted to meet all of the Integrators “Premium Standards” criteria.
4. Actual age and remaining useful economic life of poultry building
Actual ____ Remaining ____
5. Actual age and remaining useful economic life of poultry equipment
 - Waterers: Actual ____ Remaining ____
 - Feeders: Actual ____ Remaining ____
 - Radiant Brooders: Actual ____ Remaining ____
6. Breakdown of the contributory value on the guaranteed loan security being offered
 - poultry building
 - poultry equipment
 - bare land
 - other buildings
7. Poultry contract term
8. Proposed loan type and term of loan
9. Detailed justification for making a loan on this facility

Secondary Market Opportunities - FSA Guaranteed Loans

The secondary market for USDA guaranteed loans is a key feature of the guaranteed lending program. The lender may resell the guaranteed portion of the loan to an interested party. The interested party then becomes the *Holder* of the loan, but the original lender must retain the loan servicing responsibilities.

Investors who are looking for safe investments with a reasonable return are attracted to these loans because of the Government's full Faith and Credit guarantee against default. The existence of the secondary market makes guaranteed loan notes more liquid. By reselling the guaranteed portions, lenders reduce interest rate exposure, increase their lending capabilities, and generate fees.

The existence of the secondary market is a strong inducement for lenders to become involved in guaranteed lending. Selling the guaranteed portion of the loan to other investors offers a number of advantages, including:

- **Reduced Interest Rate Risk.** Lenders can transfer risk of interest rate increases on the guaranteed portion of a fixed rate loan.
- **Increased Liquidity.** Selling the loan on the secondary market frees the funds for additional lending or investing activity.
- **Increased Lending or Investing Capabilities.** Since the guaranteed portion of the loan is generally not applied against a bank's lending limit, it can be used to expand lending capabilities.
- **Increased Return on Investment and Retains Loan Servicing Duties.** The sale of the guaranteed portion of the loan in the secondary market increases the lender's overall return on investment. Each time a bank sells a guaranteed portion, it generally retains a servicing fee of ½ % to 2 % on the guaranteed portion sold on the secondary market. Retaining the loan servicing responsibilities maintains the relationship with its customer.

Example: As of 8/29/2013 Farmer Mac II offered a 15-yr fixed rate on a 25-yr Am for 4.38%. 4.38% Farmer Mac II rate + 1.12 % servicing fee = 5.5 % promissory note rate.

1. Unguaranteed Portion (10%)

\$	50,000	Unguaranteed Portion (\$500,000 loan amount X 10%)
	5.5%	Note Rate (unguaranteed rate can be on a different rate structure)
\$	2,750	Interest on Unguaranteed Portion

2. Guaranteed Portion (90%)

\$	450,000	Guaranteed Portion (\$500,000 loan amount X 90%)
	1.12%	Servicing Rate
\$	5,040	Servicing Fee

3. Interest & Fee Income Year 1

$$\text{\$2,750} + \text{\$5,040} = \text{\$7,790}$$

4. Return with a 1.12% Servicing Fee

$$\text{\$7,790} / \text{\$50,000} = 15.58\% \text{ ROA plus \$450,000 available to loan to another customer.}$$

- **Rates and Terms.** Lenders may be able to offer the producer more flexible repayment terms, as well as fixed and/or reduced interest rates to improve cash flow.
- **Sales tool** – Provide fixed-rate long term financing. Lenders can use to keep existing or attract new customers.

How Much Are You Making on Your Guaranteed Loans?

ROA CALCULATOR

90% Guaranteed Portion

Spread (between Loan Rate and Net Yield)
(Servicing Fee or Margin)

		1.00%	1.25%	1.50%	1.75%	2.00%	2.25%	2.50%	2.75%	3.00%
L o a n R a t e	5.00%	14.00%	16.25%	18.50%	20.75%	23.00%	25.25%	27.50%	29.75%	32.00%
	5.25%	14.25%	16.50%	18.75%	21.00%	23.25%	25.50%	27.75%	30.00%	32.25%
	5.50%	14.50%	16.75%	19.00%	21.25%	23.50%	25.75%	28.00%	30.25%	32.50%
	5.75%	14.75%	17.00%	19.25%	21.50%	23.75%	26.00%	28.25%	30.50%	32.75%
	6.00%	15.00%	17.25%	19.50%	21.75%	24.00%	26.25%	28.50%	30.75%	33.00%
	6.25%	15.25%	17.50%	19.75%	22.00%	24.25%	26.50%	28.75%	31.00%	33.25%
	6.50%	15.50%	17.75%	20.00%	22.25%	24.50%	26.75%	29.00%	31.25%	33.50%
	6.75%	15.75%	18.00%	20.25%	22.50%	24.75%	27.00%	29.25%	31.50%	33.75%
	7.00%	16.00%	18.25%	20.50%	22.75%	25.00%	27.25%	29.50%	31.75%	34.00%
	7.25%	16.25%	18.50%	20.75%	23.00%	25.25%	27.50%	29.75%	32.00%	34.25%
	7.50%	16.50%	18.75%	21.00%	23.25%	25.50%	27.75%	30.00%	32.25%	34.50%
	7.75%	16.75%	19.00%	21.25%	23.50%	25.75%	28.00%	30.25%	32.50%	34.75%
	8.00%	17.00%	19.25%	21.50%	23.75%	26.00%	28.25%	30.50%	32.75%	35.00%
	8.25%	17.25%	19.50%	21.75%	24.00%	26.25%	28.50%	30.75%	33.00%	35.25%
	8.50%	17.50%	19.75%	22.00%	24.25%	26.50%	28.75%	31.00%	33.25%	35.50%
	8.75%	17.75%	20.00%	22.25%	24.50%	26.75%	29.00%	31.25%	33.50%	35.75%
	9.00%	18.00%	20.25%	22.50%	24.75%	27.00%	29.25%	31.50%	33.75%	36.00%
	9.25%	18.25%	20.50%	22.75%	25.00%	27.25%	29.50%	31.75%	34.00%	36.25%
	9.50%	18.50%	20.75%	23.00%	25.25%	27.50%	29.75%	32.00%	34.25%	36.50%
	9.75%	18.75%	21.00%	23.25%	25.50%	27.75%	30.00%	32.25%	34.50%	36.75%
10.00%	19.00%	21.25%	23.50%	25.75%	28.00%	30.25%	32.50%	34.75%	37.00%	

Determine the ROA on your Guaranteed Loan by selecting the Spread (across the top) and the Loan Rate charged to your borrower (down the side). The corresponding rate is the ROA earned on your Guaranteed Loan. The Spread is the difference between the Loan Rate and the Farmer Mac Net Yield. For Example: 15-yr fixed: 25-yr Am

Loan Rate:	5.50%	ROA Earned on Loan	15.58%
Farmer Mac Net Yield	<u>-4.38%</u>		
Spread	1.12%		

The ROA is determined by the following formula:

$$\frac{(\text{Spread} \times \text{Guaranteed Balance}) + (\text{Unguaranteed Balance} \times \text{Loan Rate})}{\text{Unguaranteed Balance}}$$

Reference Guide - Introduction to Selling USDA Guaranteed Loans

Farmer Mac II will purchase eligible Farm Service Agency Guaranteed Farm Ownership and Operating loans. The Farmer Mac II program provides financial institutions with an efficient and competitive secondary market for USDA guaranteed portions and enhances participants' ability to offer innovative products to their customers. The original lender retains the unguaranteed portion of the loan and continues to service the entire loan according to the terms of the FSA Loan Guarantee.

Eligibility Criteria

Qualified Loans

- Any FO or OL guaranteed loan is eligible for sale through Farmer Mac II. Line-of-Credit Guarantees are not currently eligible.
- Farmer Mac II accepts guaranteed portions as they are generated by the FSA programs, without being involved in administering those programs. Lenders are encouraged to work closely with Farmer Mac II in structuring and establishing the terms of new loans so that they can maximize the pricing benefits afforded by the secondary market.

Qualified Lenders

- Any lender who is qualified to make FSA guaranteed loans.

Qualified Borrowers

- Any borrower who meets the lender's as well as FSA's criteria.

Loan Documentation and Term Structuring

Required Documents (Single Note)

- One copy of the Loan Guarantee (FSA-2235)
- One original Assignment of Guarantee (FSA-2242)
- One copy of the fully executed Promissory Note (and note amendments if applicable)

Required Documents (Multi-Note)

- One original Loan Guarantee (FSA-2235)
- One original Assignment of Guarantee (FSA-2242)
- One original fully executed Promissory Note for the guaranteed portion
- One copy of the fully executed Promissory Note for the unguaranteed portion

Recommended Loan Terms

- Loan structures and terms have a direct impact on the pricing received in the secondary market.

Variable Rates Available

Fixed Rates Available

Payment Options and Dates:

- Annual – January 1, April 1, July 1, or October 1
- Quarterly – January 1, April 1, July 1, or October 1
- Semi-annual – January 1 & July 1, or April 1 & October 1
- Monthly – 1st day of each month

Interest Calculation:

- Preferred accrual basis is Actual over 365 days

Interest Rate Commitment

The Farmer Mac II cash window is open for Farmer Mac II Interest Rate Commitments (rate locks) Monday through Friday.

How to Sell a Guaranteed Portion

STEP 1: Complete the required Loan Data information ("Borrower" and "Loan Data" tabs)

STEP 2: Upload the required guaranteed portion sale documents ("Documents" tab)

STEP 3: Submit required guaranteed portion sale documents to the Farmer Mac II Program Administrator:
(Documents should be remitted at least one week prior to anticipated settlement date.)

STEP 4: For all guaranteed portions delivered for settlement without a prior rate commitment, "Cash Rate" loan pricing will occur on the Wednesday prior to settlement.

STEP 5: Proceeds for guaranteed portions purchased are wired to sellers each Thursday, which is the weekly settlement date. Sellers will receive a settlement statement from the Program Administrator detailing the wire amount.

Guaranteed Portion Payment Remittance Procedures

Detailed [remittance procedures](#) for Farmer Mac II guaranteed portions can be found in the Farmer Mac II Reference Guide.

Servicing Actions

Servicing action requests can be made directly to the Farmer Mac II program by submitting a servicing action request form online, by e-mail (servicing@farmermac2.com) or fax (877-733-1204). Examples of possible servicing actions include: modification to loan payment schedule, adjusted payment amount, revised maturity date, and interest capitalization. Any changes to be made to the original Promissory Note will require an Allonge with the borrowers signature as well as USDA concurrence to the Allonge.

OL/LOC Annual Operating Loans

Annual Renewal Requirements - Documents Submitted to FSA

SEL Lenders

2-FLP Par.265 C on page 11-9

For an Operating Line of Credit (OL/LOC) loan, **prior to any advances** for the 2nd, 3rd, 4th, or 5th year on the OL/LOC loan, the lender must submit to the FSA Office:

1. Current Financial Statement/Balance Sheet (farm and non-farm) dated and signed by the borrower(s).
2. Farm visit report or collateral inspection.
3. Income and expense summary: Updated MO 2-flp Guide 20 or similar documentation of the previous year's income and expenses (farm and non-farm).
4. Projected cash flow signed by lender and borrower which projects a feasible plan.
5. Narrative summary of the borrower's financial progress.

SEL lenders must receive written approval from FSA prior to any advances for the 2nd, 3rd, 4th, or 5th year. FSA should respond, in writing, within 14 calendar days. FSA approval to include the \$\$\$ amount of the Maximum OL/LOC Advance & Farm Income Releases that the borrower cannot exceed during current cash flow annual operating plan.

CLP Lenders

2-FLP Par.265 E on page 11-11

Prior to any advances for the 2nd, 3rd, 4th, or 5th year on the OL/LOC loan, the lender will submit to the FSA Office:

1. Current Financial Statement/Balance Sheet (farm and non-farm) dated and signed by the borrower.
2. The lender must provide a **written certification** stating that:
 - a cash flow projecting a feasible plan was developed.
 - the borrower is in compliance with the provisions of the Loan/Line of Credit Agreement.
 - the previous year income and expenses (farm and non-farm), loan funds, and security proceeds have been accounted for.

Obtaining written approval from the County Office is not necessary as long as the above is provided and Lender follows FSA's suggestions/recommendations to stay in compliance with the FSA 2-FLP Par.124 B OL/LOC loan limitation requirement.

PLP Lenders

PLP lenders will submit what is stated in their own PLP Lender's Agreement Credit Management System (CMS).

Recommend Lender follow FSA's suggestions/recommendations to stay in compliance with the FSA 2-FLP Par.124 B OL/LOC loan limitation requirement.

OL/LOC Beginning of Year Balance

“File Documentation”

Must Be Able To Show That OL/LOC Loan Can Be Paid In Full

The case file must be adequately documented to reflect that prior to the lender advancing on the OL/LOC operating loan for the 2nd, 3rd, 4th or 5th years, the OL/LOC must be theoretically speaking zeroed out. This doesn't necessarily mean that each OL/LOC loan be paid down to zero \$ owed on the promissory note at the end of each cash flow year.

However, it does mean that there must be at least enough current assets on hand at the beginning of the next cash flow year that **WILL BE SOLD and the PROCEEDS APPLIED on the OL/LOC loan** that could, in theory, have paid the guaranteed OL/LOC loan in full at the end of the prior year cash flow operating year.

Any payments and/or obligations to be paid directly from current assets on hand that will not be applied on the OL/LOC loan cannot be considered in the documentation that the OL/LOC loan was theoretically speaking paid down to zero \$ owed on the promissory note at the end of each cash flow year.

If it is not tax-deductible expense on the borrower's income tax records (1040 Schedule F), then FSA does not allow the expense to be considered as a current asset and in turn justify a carryover debt on the OL/LOC loan. An example is fall tillage work or hay to be fed.

1-1-2013 Balance Sheet – Review Current Assets
1/1/2013 to 12/31/2013 cash flow annual operating cycle

Current Assets - Some will be SOLD and PROCEEDS APPLIED on OL/LOC loan	OL/LOC maximum BOY balance As of 1/1/2013
➤ COH = \$10,000	COH has NO value. LOC balance = \$0.00
➤ fall of 2012 wheat input cost = \$35,000	\$35,000 Beginning OL/LOC Balance is OK.
➤ prepaid 2013 seed/fertilizer = \$150,000	\$150,000 Beginning OL/LOC Balance is OK. If all obligations cannot be met, obtain documentation of prepaid expenses.
➤ feeder cattle/hogs	Beginning OL/LOC Balance should not exceed the current number of head on hand to be sold and applied on note X (purchase price + accrued interest + feed input costs)
➤ soybeans = \$50,000 ➤ 10,000 bu corn to be sold = \$50,000 ➤ 250 bales hay to be fed ➤ 5,000 bu corn to be fed ➤ fall tillage work – no value	\$40,000 farm payment due 3/2013 to be paid from soybeans and/or corn. BOY OL/LOC balance cannot exceed \$60,000.

Failure to adequately/properly document the case file can result in a loss claim reduction or denial.

OL/LOC Loan Advances for Term Debt Payments

MO FSA Position Paper

Two Months (60 Days) Before the End of the Cash Flow Year

2-FLP Par.262B specifies as to the order in which loan installments will be paid.

“When a lender receives a payment from the sale of encumbered property, loan installments will be paid in the order of lien priority. When a payment is received from the sale of unencumbered property or other sources of income, loan installments will be paid in order of their due date. Agency approval is required for any other proposed payment plans.”

Will the borrower pay the OL/LOC balance in full plus meet all other obligations this year?

Lender needs to prepare a loan collateral analysis or T-table.

Unless a collateral loan analysis shows repayment of the OL/LOC in full, lenders should not be authorizing advances on the OL/LOC loan and/or releasing guaranteed loan collateral proceeds to pay intermediate (IT) debt payments, long term (LT) debt payments, or lease payments two months (60 days) before the end of the borrower’s cash flow operating year.

At the Beginning of the Cash Flow Year

Based on a January 1, 2014 financial statement, the borrower does not have sufficient working capital and/or current assets on hand to meet all financial obligations currently due and/or coming due.

Lender has requested authorization from FSA to advance on the 2014 OL/LOC loan to pay Intermediate (IT) debt payments, Long Term (LT) debt payments, or lease payments, that are due or coming due at the beginning of the borrower’s cash flow operating year that should have been paid from last years farm income.

In most instances when the borrower is coming up short as the previous year farm income isn’t enough to meet all obligations, FSA does not consider it to be a prudent lending practice for a lender to advance on the OL/LOC loan to pay Intermediate (IT) debt payments, Long Term (LT) debt payments, and/or lease payments at the beginning of a cash flow year on financial obligations that should have been paid from previous years income.

OL/LOC Annual Operating Loan Servicing

Maintain Compliance with 2 FLP Par. 124B – OL/LOC Loan Limitations

Following FSA's suggestions/recommendations keeps the lender in compliance with the FSA 2-FLP Par.124 B OL/LOC loan limitation requirement:

The total dollar amount of line of credit advances and income releases cannot exceed the total estimated expenses, less interest expenses, as indicated on the borrower's cash flow budget, unless the cash flow budget is revised and continues to reflect a feasible plan.

1. Lender obtains FSA written concurrence before advancing on the OL/LOC Loan.
2. For OL/LOC renewals, lender to complete a YEA which includes a EOY - OL/LOC asset reconciliation which documents that the last years OL/LOC loan was zeroed or theoretically zeroed out before re-advancing on the OL/LOC (years 2 thru 5) for the next operating year.
3. Borrower/Lender agree on a cash flow for the current operating year.
4. Lender/FSA determine the maximum OL/LOC Loan Advance and/or farm income releases for the cash flow operating year. FSA tool (Guide 35 or 36) available.
5. Lender submits information to FSA for review.
6. FSA provides written authorization to the lender to advance on the OL/LOC loan.

Lender/Borrower Discussion: Does the borrower understand the cash flow as to:

- What, if any, capital expenditures are allowed.
- How family living expenses are to be paid. Is this a farm or nonfarm income responsibility?
- How, when, and from what source of income the intermediate and term debt payments are to be paid. Is this a farm or nonfarm income responsibility? Can it be paid from OL/LOC loan?

Loan Agreement Requirements:

- Borrower remits **ALL** farm income as a payment on the OL/LOC loan. (**All in – All out.**)
- Providing a BOY (January 1st) Inventory/Balance Sheet.
- Borrower providing EOY actuals and/or Federal & State Income Tax Records and all supporting schedules including the depreciation worksheet.

Lender Monitoring/Servicing:

- Monitors OL/LOC loan advance totals – Do not exceed maximum amount calculation.
- Borrower remits **ALL** farm income as a payment on the OL/LOC loan. (**All in – All out.**)
- Comply with UCC laws/security notice requirements and have the borrower(s) execute a CCC-36, "Assignment of Payment" to cover ALL FSA and CCC program payments.
- If in the last two months of year, lender wants to release proceeds from farm income proceeds and/or advance on OL/LOC to pay term loan installments and/or prepay expenses a collateral loan analysis or T-table must be prepared that shows borrower will repay OL/LOC in full.
- Farm income released back to the borrower: When there isn't any debt owed on the OL/LOC loan, the lender could release the farm income proceeds back to the borrower. However, this release counts the same as an OL/LOC loan advance.

Maximum OL/LOC Advance & Farm Income Release Worksheet

OL/LOC Loan Limitations (2-FLP Par.124B)

Name:

Borrower ID:

1. What is the total farm operating expense?
Exclude all interest and depreciation. \$ _____
2. Is there BOY COH that will be spent for family living, farm operating expenses, capital expenditures or payments? minus \$ _____
3. Is there any nonfarm income? Gross ☐ or Net ☐
 - If gross, all of the pay check deductions must be shown as an expense item under family living expenses and/or the debt repayment section. minus \$ _____
4. What are the total family living (FL) expenses?
Monthly credit card payments, house payments, car payment, payroll deductions, etc can be shown here or under #6 Debt Repayment Schedule. add \$ _____
5. Are there any capital expenditures where a loan is not being made to cover the cost? If so, add the amount of cash inflow needed. add \$ _____
6. Are there any income taxes, intermediate and/or long term debt payments in the debt repayment table coming due in the cash flow year that need to be paid before the OL/LOC is repaid?
Do not include IT debt payments, LT debt payments, or lease payments that come due within the last two months of the borrower's cash flow operating year. Other IT or LT installments can be included if FSA and lender are comfortable with these obligations being paid before the OL/LOC is repaid. add \$ _____

Debt Repayment Schedule					
Creditor	\$ to be Paid	Date Due	Creditor	\$ to be Paid	Date Due

OL/LOC Advances & Farm Income Releases shouldn't exceed: → \$ _____

Deduct Beginning of Year (BOY) Prepaid Expenses

Include expenses (i.e. fall seeded crop cost) paid in the previous operating year with cash, released farm income, and/or OL/LOC advances. Do not include expenses charged not paid. minus \$ _____

Cash Flow Cushion (\$\$\$ Amount of Excess)

When farm expenses, family living expenses, or debt repayment are greater than originally planned, it is acceptable to use the cash flow cushion, without FSA concurrence.

Cash Flow Cushion Calculated by:

Balance Available To Pay Debt \$ _____

minus (-) Debt Repayment \$ _____

Cash Flow Cushion \$ _____ → add \$ _____

Not required to include in the cash flow margin. OK to use later if expenses running higher than planned.

Maximum OL/LOC Advances & Farm Income Releases: → \$ _____

Note: This document should be revised at any time as the need arises. If in the last two months of year lender wants to release proceeds from farm income proceeds and/or advance on OL/LOC to pay term loan installments a collateral loan analysis or T-table must be prepared that shows borrower will repay OL/LOC in full.

Family Living Reconciliation Table

[Obtain from Income Tax Records, Credit Report, Bank Accounts, and Loan History Records]

[Record any and all transactions between the "beginning and ending" date of the tax year.] Do Not enter negative numbers.

1 Total gross farm income (Schedule F)		
2 Deduct total gross farm expenses (Schedule F)	(-)	
3 Add any loan(s) used to refinance Schedule F cash farm expenses	(+)	
4 Add depreciation expense (Schedule F)	(+)	
5 Add interest expense (Schedule F)	(+)	
6 Add Federal and State income tax refunds received	(+)	
7 Deduct Federal and State income tax paid	(-)	
8 Add gross Non-farm income	(+)	
9 Add or Deduct difference between the beginning and ending <u>principal</u> balances on the annual operating loan. Compare to the BEGINNING balance. If unknown, assume - \$0.00 -.		
Identify loan → _____		
ending <u>principal</u> balance		
(minus -) beginning principal balance		
Add if ending principal balance is higher, deduct if less. (+) or (-)		
10 Deduct <u>interest</u> payment on annual operating loan.	(-)	
11 Deduct <u>principal and/or interest</u> payments on all farm & nonfarm term debt loans.		
Identify loan → _____	(-)	
Identify loan → _____	(-)	
Identify loan → _____	(-)	
Identify loan → _____	(-)	
Identify loan → _____	(-)	
Identify loan → _____	(-)	
Identify loan → _____	(-)	
Identify loan → _____	(-)	
12 Add any loan(s) used to pay any of the <u>principal</u> and/or <u>interest</u> term debt loan payments shown in # 12 above.	(+)	
13 Add or Deduct difference between the beginning and ending <u>principal</u> balances on personal credit cards. Compare to BEGINNING balance. If unknown, assume - \$0.00 -.		
ending principal balance		
(minus -) beginning principal		
Add if ending principal balance is higher, deduct if less. (+) or (-)		
14 Deduct credit card payments	(-)	
15 Deduct cash spent for capital expenditures	(-)	
16 Add or Deduct difference between the beginning and ending checking/savings account balances. Compare to BEGINNING balance. If unknown, assume - \$0.00 -.		
beginning account balance		
(minus -) ending account balance		
Add if ending account balance is less, deduct if higher. (+) or (-)		
17 Deduct ALL deductions/W-2 withholdings (federal/state taxes, social security, insurance, retirement, etc.) from non-farm employment.	(-)	
18 EQUALS FAMILY LIVING EXPENSES		

Cannot use line # 18 family living expense by itself in the FSA-431-2, Cash Flow. In Table F or Table K, you must also add item #17 nonfarm W-2 withholdings, item #14 credit card payments, and any item #11 nonfarm term debt payments to #18.

Annual Financial Analysis by Lender

2-FLP Handbook Par.265

Lenders must perform an annual analysis within 90 days of the end of the borrower's operating cycle and submit all required items to FSA within 30 days of the completed analysis. Providing the optional MO 2-FLP Guide 21, "Lender's Loan Analysis Documentation," meets FSA's annual financial analysis requirements.

PLP lenders will perform an annual analysis in accordance with the requirements established in the Lender's Agreement CMS. The following table clarifies what is required for SEL & CLP lenders based on loan and collateral types.

		SEL	CLP
Secured by Real Estate (Primary)	Analyze	<ul style="list-style-type: none"> Balance sheet Discuss observations about farm business with borrower. 	<ul style="list-style-type: none"> Lender will determine need for analysis based on financial strength. Annual analysis may be waived or postponed if borrower financially strong.
	Submit	<ul style="list-style-type: none"> Balance sheet Narrative summary of borrower's financial progress. 	<ul style="list-style-type: none"> If analysis is performed, submit summary of lender's annual analysis. If analysis not performed, submit reasons why an analysis was not necessary.
Secured by Chattels (Primary)	Analyze	<ul style="list-style-type: none"> Review borrower's progress regarding goals, trends, changes in financial performance, & compare actuals to planned. An account of the whereabouts or disposition of collateral. Discuss observations about farm business with borrower. 	<ul style="list-style-type: none"> Lender will determine need for analysis based on financial strength. Annual analysis may be waived or postponed if borrower financially strong.
	Submit	<ul style="list-style-type: none"> Balance sheet Income and Expense statement or Income Tax Records. Annual farm visit report or collateral inspection. Narrative summary of borrower's financial progress. 	<ul style="list-style-type: none"> If analysis is performed, submit summary of lender's annual analysis. If analysis not performed, submit reasons why an analysis was not necessary.
OL/LOC Loans	Submit	<ul style="list-style-type: none"> Balance sheet Income and Expense statement or Income Tax Records. Annual farm visit report or collateral inspection. Narrative summary of borrower's financial progress. Projected cash flow showing feasible plan. Documentation that last year OL/LOC zero'd out. Request to advance future funds. 	Certification stating: <ul style="list-style-type: none"> Cash flow projects feasible plan. Borrower is in compliance with LOC agreement. Previous year income, loan funds and security proceeds properly accounted for.

General Servicing Responsibilities

2-FLP Par. 262-264 (7CFR 762.140(a))

When the guaranteed loan is closed, the lender must comply with all of the terms and conditions of the Conditional Commitment. Servicing responsibilities can differ on a loan-by-loan basis.

The lender is responsible for obtaining and maintaining the lien coverage and lien priorities which are specified in the Conditional Commitment during the existence of the FSA guarantee.

As per Par. 262, lenders are responsible for:

- servicing the entire loan in a reasonable and prudent manner
- protecting and accounting (monitoring and tracking) for collateral
- remaining the mortgagee or secured party of record.

The lender cannot enforce the guarantee to the extent that a loss results from a violation of usury laws or negligent servicing regardless of when FSA discovers the violation or negligence. Negligent servicing is defined as a failure to perform services which a reasonably prudent lender would perform in servicing its own portfolio of loans that are not guaranteed. The term includes both a failure to act as well as a failure to act in a timely manner.

The lender is responsible for:

- servicing their guaranteed loans as they service any other loan in their portfolio
- complying with all FSA program requirements

As per Par. 263, the lender's responsibilities regarding borrower supervision include, but are not limited to the following:

- ensuring loan funds are not used for unauthorized purposes.
- ensuring borrower compliance with the covenants and provisions contained in the promissory note, loan agreement, mortgage, security instruments, any other agreements, and this part.

Note: Any violations which indicate non-compliance on the part of the borrower must be reported, in writing, to both the Agency and the borrower.

- ensuring the borrower is in compliance with all laws and regulations applicable to the loan, the collateral, and the operations of the farm.
- receiving all payments of principal and interest on the loan as they fall due.

If the loan is sold on the secondary market promptly disburse to the holder its pro-rata share according to the amount of interest the holder has in the loan, less only the lender's servicing fee.

- performing an annual analysis of the borrower's financial condition to determine the borrower's progress.
- **7 CFR 762.140(d) – When a lender receives a payment from the sale of encumbered property, loan installments will be paid in the order of lien priority. When a payment is received from the sale of unencumbered property or other sources of income, loan installments will be paid in order of their due date. Agency approval is required for any other proposed payment plans.**

General Servicing Responsibilities (Continued)

As per Par. 264, the lender's responsibilities regarding servicing collateral include, but are not limited to, the following:

- obtain income and insurance assignments when required.
- ensure the borrower has or obtains marketable title to the collateral.
- inspect the collateral as often as deemed necessary to properly service the loan.
- A loan secured by chattel and other personal property should have a farm inspection completed annually with the inspection report identifying whether or not the collateral is being properly maintained. Changes in inventory should be noted and sources identified to assure that loan covenants are in compliance and that risk of loss in the loan does not occur.

Recommendation: Obtain and review the borrower's depreciation schedule yearly.

- ensure the borrower does not convert loan security. If there is conversion, FSA and the lender will determine whether the potential recovery is cost effective.
- ensure the proceeds from the sale or other disposition of collateral are accounted for and applied in accordance with the lien priorities on which the guarantee is based or used for the purchase of replacement collateral.
- ensure the loan and the collateral are protected in the event of foreclosure, bankruptcy (Part 13), receivership, insolvency, condemnation, or other litigation.
- ensure taxes, assessments, or ground rents against or affecting the collateral are paid.
- ensure adequate insurance is maintained. - The insurance policy should contain a loss payable clause in favor of the lender as the mortgagor or secured party.
- ensure that insurance loss payments, condemnation awards, or similar proceeds are applied on debts in accordance with lien priorities on which the guarantee was based, or used to rebuild or acquire needed replacement collateral.

Failure by the lender to report a borrower violation to FSA in a timely manner could result in the reduction or denial of a loss claim.

LENDER'S LOAN ANALYSIS DOCUMENTATION

[See Par.265 of 2-FLP Handbook for Requirements]

[SEL and CLP Lenders ONLY]

Note: Information to be prepared at the end of the borrower's cash flow operating year.

Borrower's Name _____ Tax ID # _____

Address _____

	LOAN # 1	LOAN # 2	LOAN # 3	LOAN # 4
Loan Type	<input type="checkbox"/> FO/LN <input type="checkbox"/> OL/LN <input type="checkbox"/> OL/LOC	<input type="checkbox"/> FO/LN <input type="checkbox"/> OL/LN <input type="checkbox"/> OL/LOC	<input type="checkbox"/> FO/LN <input type="checkbox"/> OL/LN <input type="checkbox"/> OL/LOC	<input type="checkbox"/> FO/LN <input type="checkbox"/> OL/LN <input type="checkbox"/> OL/LOC
FSA Loan #	#5 _____	#5 _____	#5 _____	#5 _____
Lender Loan #				
Original Loan Amount	\$ _____	\$ _____	\$ _____	\$ _____
As of DATE	____ / ____ / ____	____ / ____ / ____	____ / ____ / ____	____ / ____ / ____
Principal Balance	\$ _____	\$ _____	\$ _____	\$ _____
Interest Balance	\$ _____	\$ _____	\$ _____	\$ _____
Interest Rate	____ %	____ %	____ %	____ %
Payment Status	<input type="checkbox"/> Current <input type="checkbox"/> Ahead <input type="checkbox"/> Behind	<input type="checkbox"/> Current <input type="checkbox"/> Ahead <input type="checkbox"/> Behind	<input type="checkbox"/> Current <input type="checkbox"/> Ahead <input type="checkbox"/> Behind	<input type="checkbox"/> Current <input type="checkbox"/> Ahead <input type="checkbox"/> Behind
If Ahead or Behind Schedule \$ Amount Behind/Ahead	\$ _____	\$ _____	\$ _____	\$ _____
Next Payment Due Date	____ / ____ / ____	____ / ____ / ____	____ / ____ / ____	____ / ____ / ____
Loan secured by	<input type="checkbox"/> chattels <input type="checkbox"/> real estate <input type="checkbox"/> both	<input type="checkbox"/> chattels <input type="checkbox"/> real estate <input type="checkbox"/> both	<input type="checkbox"/> chattels <input type="checkbox"/> real estate <input type="checkbox"/> both	<input type="checkbox"/> chattels <input type="checkbox"/> real estate <input type="checkbox"/> both
Is this loan adequately secured?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No

1. Financial Statement Information as of ____ / ____ / ____ **OR** see attached Balance Sheet ☐

• Amount of Total Debts Owed: \$ _____

• Amount of Total Assets Owned: \$ _____

2. Date of last security inspection made by lender: ____ / ____ / ____

3. If this is a chattel type loan:

- | | <u>Yes</u> | <u>No</u> |
|--|--------------------------|--------------------------|
| • Is all normal income security being properly accounted for and resulting sales documented? | <input type="checkbox"/> | <input type="checkbox"/> |
| • Is the basic security being maintained? | <input type="checkbox"/> | <input type="checkbox"/> |
| • Is the sale of basic security property being properly accounted for? | <input type="checkbox"/> | <input type="checkbox"/> |
| • Does it appear there is a reasonable chance for success? | <input type="checkbox"/> | <input type="checkbox"/> |

4. If there is any type of problem with the loan, what plans are you taking to correct the problem and/or collect the delinquency?

5. Give a summary of the loan account and progress.

Prepared

by:

(Name of Lender)

By: _____

—

Title: _____

—

Date: ____ / ____ / ____

Please submit this report to the Farm Loan Manager within 30 days from the end of the borrower's cash flow operating year.

Guaranteed Loan Servicing

Reserved for STO Approval Authority

Fifteen (15) servicing actions have been specifically reserved for State Office SED approval.
See MO Notice FLP-264 dated 9/14/2005.

1. FSA Handbook 2-FLP Par. 278 A-B pertaining to submission of subordination of guaranteed loan security when National Office DAFLP approval is required.
2. FSA Handbook 2-FLP Par. 280 A-D pertaining to partial releases.
3. FSA Handbook 2-FLP Par. 281 A-D pertaining to transfer and assumptions.
4. FSA Handbook 2-FLP Par. 283 A-C pertaining to emergency advances.
5. FSA Handbook 2-FLP Par. 285 A-D pertaining to release of liability upon withdrawal on an active loan.
6. FSA Handbook 2-FLP Par. 287 A-C pertaining to substitution of lender.
7. FSA Handbook 2-FLP Par. 326 F pertaining to capitalization of interest on loans with interest assistance.
8. FSA Handbook 2-FLP Par. 328 A-D pertaining to debt writedown loss claims.
9. FSA Handbook 2-FLP Par. 344 A-B pertaining to bankruptcy loss claims.
10. FSA Handbook 2-FLP Par. 359 A-G pertaining to estimated loss claims.
11. FSA Handbook 2-FLP Par. 359 E and Par. 360 D pertaining to protective advances.
12. FSA Handbook 2-FLP Par. 360 A-H pertaining to final loss claims.
13. FSA Handbook 2-FLP Par. 361 A-C pertaining to release of liability after liquidations.
14. FSA Handbook 2-FLP Par. 362 B pertaining to FSA actually conducting the liquidation.
15. FSA Handbook 2-FLP Par. 375 A-E pertaining to repurchase of guaranteed portion from a secondary market holder.

A pencil notation should be in the left margin at the start of each of the fifteen (15) Par. references as recommended by the notice? The notation should say something similar to the following:

STO SED Approval Only
See MO Notice FLP-264 dated 9/14/2005

If you have one of the fifteen servicing actions that need SED approval, the State Office needs to be provided with a copy of the following:

1. Copy of the Lender's written request.
2. FLM's cover letter with detailed explanation of the facts and recommendation.
3. AFLS recommendation/concurrence (letter, email, or signing off on FLM's letter).

STO does not need the case file.

Emergency Advances OL/LOC Loan - “ABBERATION” Needed

2-FLP Par. 283 (7 CFR 762.146(a)) on page 11-47

Lenders can request FSA to approve an OL/LOC emergency advance when the OL/LOC loan has reached its ceiling and some “**aberration**” causes “additional” expenses to exceed the original budgeted/planned expenses and is necessary to avoid significant damage to or loss of the security.

An emergency advance in excess of the original loan amount will be made as an advance on the OL/LOC loan and not as a separate note. The lender’s loan documents must contain sufficient language to provide that any emergency advance will constitute a debt of the borrower to the lender and be secured by the security instrument. An emergency advance cannot be approved if its use will cause the total amount of the borrower’s debt to exceed FSA’s statutory loan limit.

SEL’s and CLP lenders must obtain written permission from FSA before an emergency advance on LOC can be made.

Where liquidation is imminent, advances will be made as **Protective Advances** according to 2-FLP Par.359 (7 CFR 762.149) on pages 14-12.

To request an emergency advance, SEL and CLP lenders need to submit the following to the Farm Loan Manager:

1. a narrative explaining all of the following:
 - loan funds are to be advanced for authorized operating loan purposes
 - financial benefit to the lender and the Government from the advance will exceed the amount of the advance
 - loss of crops or livestock is imminent unless the advance is made.
2. balance sheet
3. cash flow projection that projects a feasible plan

Additional Loans Made Outside the Loan Guarantee

UPDATED!

Additional nonguaranteed loans are acceptable if the lender does due diligence and documents that repayment capacity of the operation has not been exceeded and/or does not affect the guaranteed loan collateral.

Unauthorized Payments - Loss Claim Deduction

UPDATED!

2-FLP Par. 359 D (7 CFR 762.149) on page 14-14

As per 2-FLP Par. 359 D, the amount of any payments made by the borrower on unapproved loans or advances outside of the guarantee will be deducted from any loss claim if detrimental to the guaranteed loan.

Payments to be Paid in Order of Lien Priority

UPDATED!

2-FLP Par. 263 B (7 CFR 762.140(d)) on page 11-4

When a lender receives a payment from the sale of encumbered property, loan installments will be paid in the order of lien priority. When a payment is received from the sale of unencumbered property or other sources of income, loan installments will be paid in order of their due date. Agency approval is required for any other proposed payment plans.

Partial Release

Guaranteed Loan Collateral

FSA Concurrence Not Required

2-FLP Par.280 (7 CFR 762.142(b)) on pages 11-40 through 11-42

A partial release is the release of a portion of security used as collateral for a loan.

Without FSA concurrence: a lender may release guaranteed loan security as follows:

1. When the security item is being sold for market value and the proceeds will be applied to the loan in accordance with lien priorities.

Note: In the case of term loans, proceeds will be applied as extra payments and not as a regular installment on the loan.

Security will not be released for the purpose of providing collateral for another loan.

2. The security item will be used as a trade-in or source of down payment funds for a like item that will be taken as security.

Note: FSA input may be requested when there is a question of whether a reasonable value is being obtained for the security.

3. The security item has no present or prospective value.

Note: Older security items that are now junk or obsolete may be left off of the security agreement when it is updated. Regardless, proceeds from the sale of these items as scrap or salvage should be applied to the loan as an extra payment.

State Office approval is required on all other Partial Releases.

Note:

- ⇒ Written consent of any prior or junior lien holder must be obtained and delivered to FSA if any proceeds are not applied according to lien priority.
- ⇒ A partial release will not be allowed if it would result in the borrower being released from loan liability.

Partial Release

Guaranteed Loan Collateral

Written Approval of FSA

2-FLP Par.280 (7 CFR 762.142(b)) on pages 11-40 through 11-42

A partial release of security may be approved in writing by the Agency upon the lender's request when:

1. proceeds will be used to make improvements to real estate that increase the value of the security by an amount equal to or greater than the value of the security being released

Example: A borrower may sell a parcel of real estate to provide funds for construction of a dwelling or reduce debt to another creditor.

2. security, other than significant income generating property, will be released outright, with no consideration, but the total unpaid balance of the guaranteed loan is less than or equal to 75 percent of the value of the security for the loan, after the release, excluding the value of growing crops or planned production, based on a current appraisal of the security

3. significant income generating property will not be released unless it is being replaced, and business assets will not be released for use as a gift or any similar purpose

Note: The release must serve a purpose other than to simply allow a borrower to obtain clear title to security items.

Cropland, significant machinery, and business assets will not be released, unless it is being replaced, proceeds are being used for authorized loan purposes.

4. Agency concurrence is provided in writing to a lender's written request.

Must meet both requirements

Lenders will submit the following information to the Agency:

1. a current balance sheet on the borrower
2. a current appraisal of the security

Note: Unless specifically requested by FSA, the lender will not be required to provide an appraisal of any real estate security being released. Based on the level of risk and estimated equity involved, the Agency shall determine what security needs to be appraised. Any required security appraisals must meet the requirements of §762.127.

3. a description of the purpose for the release
4. any other information requested by the Agency needed to evaluate the proposed servicing action.

Subordination of Guaranteed Loan Security

2-FLP Par.278 (7 CFR 762.142) on pages 11-37 through 11-38

1. Overview Subordination of guaranteed loan security.

The lender may not subordinate its interest in property which secures a guaranteed loan except either of the following:

- the lender may subordinate its security interest in crops, feeder livestock, livestock offspring, or livestock products when no funds have been advanced from the guaranteed loan for their production, so a lender can make a loan for annual production expenses *[Requires written Agency approval.]*
- the lender may, with written Agency approval, subordinate its interest in basic security in cases where the subordination is required to allow another lender to refinance an existing prior lien, no additional debt is being incurred, and the lender's security position will not be adversely affected by the subordination.
- National Office may provide an exception to the subordination prohibition if such action is in the Agency's best interest.

2. Lender Request for Subordination of Guaranteed Loan Security.

FSA discourages subordination of real estate, equipment, and other basic security and will not provide regulatory approval authority at levels lower than DAFLP. If a request is received that SED feels is in the best interest of the Government and the borrower, it can be forwarded to the National Office for final consideration.

Subordinations will not be approved simply to allow the operation to expand, or to allow a lender to secure an operating loan with basic security. The request should contain:

- a description of the transaction including the use of the funds to be obtained through the subordination
- explanation of the borrower's cash flow before and after the proposed subordination documenting the improvement to be attained
- certification that the guaranteed loan will still be secured after the subordination based on a current appraisal
- an explanation of how the subordination is necessary to keep the borrower in business, or otherwise how the Government will benefit from the subordination, other than through conservation of loan funds.

Agency refusal to grant an exception to published regulations is not appealable.

NOTE: Subordinations will not be submitted to National Office for an exception request if the only reason that a lender is requesting the subordination is to avoid the 1.5% loan closing fee.

Release of Liability Upon Withdrawal

2-FLP Par.285 (7 CFR 762.146(b)) on pages 11-50 through 11-51

An individual who is obligated on a guaranteed loan may be released from liability by a lender with the written consent of the Agency provided the following conditions have been met.

1. The individual to be released has withdrawn from the farming or ranching operation. The lender must submit a narrative outlining who is to be released and why.
2. A divorce decree and final property settlement does not hold the withdrawing party responsible for the loan payments. A copy of the divorce decree must be submitted with the lender's request. The lender must document that release of divorced borrowers is a common practice carried out in their nonguaranteed loan portfolio.
3. The withdrawing party's interest in the security is conveyed to the individual or entity with whom the loan will be continued.
4. The ratio of the amount of debt to the value of the remaining security is less than or equal to .75, or the withdrawing party has no income or assets from which collection can be made.
5. Withdrawal of the individual does not result in legal dissolution of the entity to which the loans are made. Individually liable members of a general or limited partnership may not be released from liability. Partners, parents, cosigners, stockholders, and entity members may often be released from liability. However, when the guaranteed loan is made to individuals farming as a partnership, and each partner is fully liable, release of 1 partner would terminate the partnership and the existence of the entity to which the loans were made. The lender must document that release of withdrawing members is common in their unguaranteed portfolio and all other conditions in this paragraph are met.
6. The remaining liable party projects a feasible plan (see § 762.102(b)). The lender must submit a cash flow projection for the remaining liable party with the request for release. A release will not be approved when a loss is probable.

A written request from the lender is required.

A release of liability requires State Office/SED approval.

Servicing Distressed Accounts – “Delinquent Loans”

Delinquent Account Servicing Overview

2-FLP Handbook Part 12 (Page 12-1 through 12-65)

FSA considers a guaranteed loan to be in default when they are 30 days past due on a payment or in violation of provisions of the loan documents. A customer may also be in default if they have violated bank security instruments by failing to maintain collateral as agreed; filing bankruptcy; defaulting on another loan with the same lender; failure to submit reports as required; and conversion of loan security.

Within 120 Days, Lender must decide to either restructure or liquidate the account. The penalty for noncompliance is that FSA can stop covering interest accrual under the Loan Guarantee. The overall servicing process includes but is not limited to the following:

- Failure to address default in a prudent and timely fashion may result in a reduction or rejection of a lender's request for a loss claim.
- If a Customer is current on a loan, but will be unable to make a payment, the lender should notify FSA and proceed with discussing restructuring/modification options. Any modification of the loan terms **MUST** meet all of the restructuring requirements before they are implemented.
- Prompt follow-up on delinquent payments and early recognition of problems are keys to resolving many delinquent loans and distress issues.
- Face to face or telephone communication with the Customer and/or FSA should be followed up with a letter if the loan remains in default and corrective action is not taken. Copies of the correspondence to the borrower should be made available to FSA.
- The lender must negotiate in good faith to resolve any problem to allow the customer to cure a default, where reasonable.
- Inspection of the collateral to assure that the collateral is being properly maintained **AND** properly accounted for is important and should be a priority issue in a default scenario. A lender **MUST** obtain information to account for and to verify the collateral status. An independent appraisal of the collateral may be necessary depending on the situation.
- At meetings with the borrower, FSA is not required to attend. However, if FSA is there, FSA doesn't have the authority to concur with any agreement reached at that time. It must be done in writing and through proper channels with FSA.
- The variety of possible restructuring options include but are not limited to: rescheduling, reamortization, deferral, debt write-down and/or combination of these alternatives. See Guaranteed Loan Servicing Options and Conditions of Servicing Restructuring Requirements.
- When the form FSA-2248 “Guaranteed Farm Loan Default Status Report,” is submitted to FSA, attach the borrower's current financial statement and cash flow, if available.
- All normal and typical loan servicing actions are escalated and magnified when default occurs on a guaranteed loan. Advances on loans in a default scenario **MUST** have written concurrence from FSA before they are advanced.
- If the lenders non-guaranteed loan is past due, FSA should be notified, in writing, of potential issues affecting the operation and ability to perform the FSA guaranteed loans. This will fall into the area outlined in the current loan but potential problem scenario outlined above.

Delinquent Guaranteed Loan Servicing Timeline Guide**SEL and CLP**

(For PLP Lenders see the PLP Lender's Agreement/Credit Management System)

Date Completed	Action
	1. Date that payment was first missed. Click here to enter a date.
	2. Arrange a meeting with borrower within 15 days default or within 45 days of the payment due date to identify the nature of the delinquency and develop a course of action that will eliminate the delinquency and correct the underlying problem. (Par. 300 D).
	3. The lender/borrower meeting will be summarized and sent to the Agency immediately on the form FSA-2248, "Guaranteed Farm Loan Default Status Report." FSA-2248 is submitted every 60-calendar days thereafter until the default is resolved or a final loss claim is submitted. (Par. 300 D)
	4. Within 120 calendar days of a past due loan payment, either a <u>Loan Restructuring Plan</u> is implemented or a <u>Decision to Liquidate</u> is made. (Par. 300 H)
	If restructuring, stop and use the MO 2-FLP Guide 16 Restructuring Checklist. If liquidating, continue with this checklist.
	5. Lender may not initiate foreclosure action until 60 calendar days after Interest Assistance eligibility has been considered. (Par. 300 D & G) Complete Block # 14 on the FSA-2248. 14. INTEREST ASSISTANCE (IA) HAS BEEN CONSIDERED AND: <input type="checkbox"/> a. Has been ruled out as an option to correct the default. <input type="checkbox"/> b. An agency determination of IA eligibility is being requested in conjunction with the attached proposal to reschedule the debt.
	6. Within 150 days after the payment due date a written liquidation plan must be submitted to the Agency. (Par. 355 E)
	7. Within 20 calendar days from the receipt of the lender's liquidation plan, FSA must either approve it or request modifications. (Par. 355 F and Par. 358 F)
	8. Within 150 days after the payment due date, all lenders are required to submit an estimated loss claim unless the account has been completely liquidated and then the final loss claim must be filed. The Agency will not pay interest beyond 210 days from the payment due date. (2-FLP Par. 355 E and 359A)
	9. FSA must respond, in writing, within 30 calendar days of the receipt of the lender's estimated loss claim request (Par. 355 G and par. 359 F). The lender will discontinue interest accrual on the defaulted loan at the time the estimated loss claim is paid by FSA (Par.359G).
	10. Immediately following the completion (last day) of the collateral liquidation, the lender has just another 30 calendar days to submit a final loss claim (Par. 355 I).
	11. FSA must respond, in writing, within 40 calendar days of the receipt of the lender's final loss claim request. (Par 360 F)

**SEL & CLP
RESCHEDULING, REAMORTIZATION,
CONSOLIDATION & DEFERRAL CHECKLIST**

For rescheduling, reamortization, and deferral review Instructions 2-FLP Par.312A through Par.327C [7 CFR 762.145].

For consolidation of debt review Instructions 2-FLP Par.286 [7 CFR 762.146(e)].

Name of Borrower:		Type of Loan(s):
Lender:	<input type="checkbox"/> CLP <input type="checkbox"/> SEL	Type of Restructuring:
Date Restructuring Received:		Date Approved/Rejected:

(Notify lender, in writing, within 14 days of lender's request)

The FSA Loan Approval Official certifies that the borrower meets the following restructuring requirements as per 7 CFR 762.145 (2-FLP Par.312 A, General Requirements).

1. Borrower currently meets the loan eligibility requirements of 7 CFR 762.120. The provisions regarding prior debt forgiveness and delinquency on a Federal debt do not apply to restructuring.
 - does not have any outstanding recorded Federal US judgments
 - US citizen
 - has the legal capacity to incur the obligations of the loan
 - has an acceptable credit history
 - is not able to obtain sufficient credit elsewhere without a guarantee
 - has not had a controlled substance conviction within the last 5 years
 - still meets family farm definition (OL's - operator & FO's - owner/operator)
 - entity borrowers cannot be owned by another entity
2. Lender security position will not be adversely affected.
3. A feasible cash flow cannot be developed with the existing repayment schedule, but can be developed with the revised repayment terms.
4. If applicable and if loan sold on secondary market, Holder and FSA must concur with the proposal.

Signature _____ Date _____
(Loan Approval Official Certification of Restructuring Requirements)

NOTE TO LENDER: As per Par.312A, even if the Agency concurs with the restructuring action, a final loss claim may be reduced, adjusted, or rejected as a result of negligent servicing.

FORMS/DOCUMENTS REQUIRED for a RESTRUCTURING ACTION

SEL Lenders: As per Par.313A SEL lenders must request and obtain Agency prior written approval for all restructuring actions. SEL lenders must provide a copy of the following items for Agency review:

<input type="checkbox"/> Yes	Did the lender provide a <u>cover letter</u> describing the specific loan servicing request?
<input type="checkbox"/> Yes	Did the lender provide a copy of a current <u>financial statement</u> (s) from all liable parties? <input type="checkbox"/> Yes <input type="checkbox"/> No Did it include both farm and non-farm assets and liabilities? <input type="checkbox"/> Yes <input type="checkbox"/> No Is it dated and signed by the borrower(s)?
<input type="checkbox"/> Yes <input type="checkbox"/> N/A	If an <u>entity</u> , did the lender provide a copy of a current financial statement and income/expense information from all members that are liable for the debt.
<input type="checkbox"/> Yes	Did the lender provide a <u>cash flow</u> prepared in accordance with Par.151 – Par.153B? <input type="checkbox"/> Yes <input type="checkbox"/> No Did the cash flow reflect a feasible plan?
<input type="checkbox"/> Yes <input type="checkbox"/> N/A	Was interest assistance required to achieve a feasible plan? If yes, has the requirements of 2-FLP Par.230D been met. <input type="checkbox"/> Yes <input type="checkbox"/> No
<input type="checkbox"/> Yes	Did the lender provide a copy of a <u>credit bureau report</u> ? <input type="checkbox"/> Yes <input type="checkbox"/> No Are there any CBR debts not reflected on the financial statement?
<input type="checkbox"/> Yes <input type="checkbox"/> N/A	Did the lender provide a <u>verification of nonfarm income</u> ? [FSA-2014, lenders own form, W-2, pay stub, earnings statement from employer, or any other verification.]
<input type="checkbox"/> Yes	Did the lender provide a <u>verification of all debts</u> of \$1,000 or more? [FSA-2015, lender's own form, credit bureau report, or any other documented verification. It is recommended that written verification be obtained when verifying prior liens on primary security.]
<input type="checkbox"/> Yes	Did the lender provide <u>financial records</u> for the past 3-years to support cash flow projections? [Actual farm & non-farm income and expense history data and/or a complete set of Federal and State income tax records with supporting schedules.]
<input type="checkbox"/> Yes <input type="checkbox"/> N/A	(SEL only) - Did the lender provide <u>production records</u> for the past 3-years to support cash flow projections? [Actual production records/yields of crops and livestock]

CLP Lenders: As per Par.313B a CLP lender is not required to obtain prior written approval of the Agency when restructuring. CLP lenders are required to have the above forms/documents in their loan file, but are not required to provide FSA with a copy. However, at a CLP lender file review, an agency official should check to see that all of the required restructuring forms/documents are in the lender's file.

COUNTY OFFICE PROCESSING REQUIREMENTS:

1. Approval Authority: ALL restructuring proposals will be reviewed/approved in writing by the appropriate agency loan approval official based on the total outstanding (direct and/or guaranteed) principal in accordance with the loan approval authorities as set forth in 1-FLP Handbook Par.29D.

Total Outstanding Principal = \$

☐ Yes ☐ No SED approval required?

When the restructuring proposal is within the Farm Loan Manager's approval authority AND the guaranteed loan became delinquent during the first year of the loan OR if it has been previously restructured, the AREA FARM LOAN SPECIALIST OR DISTRICT DIRECTOR must concur with the restructuring proposal before the SEL lender is given written approval to restructure. ☐ Yes ☐ No AFLS or DD concurrence required?

2. 14-day Restructuring Approval: The Agency approval official must respond to the lender, in writing, within 14 days of the lender's request. **(Par. 314B)**
3. Restructuring Terms: Are the proposed restructured terms acceptable? ☐ Yes ☐ No
The guaranteed loan should be restructured over the **MINIMUM** number of years necessary to obtain a positive cash flow. **(Par.326B)**
- OL/LOC: repaid over a period up to, but not to exceed 7-years or 10-years from the date of the original note, whichever is less.
 - OL/LN: repaid over a period up to, but not to exceed fifteen (15) years.
 - FO/LN: repaid over a period up to, but not to exceed forty (40) years.
4. Security Requirements: The guarantee loan doesn't need to be fully secured at the time of restructuring, but the new proposed annual principal and interest payment must include enough principal to offset the annual depreciation of the remaining security.
5. Balloon or Unequal Installments: ☐ Yes ☐ N/A Loans can be restructured with balloon or unequal installments under certain circumstances. **(Par.312A)**. When using balloon installments, the restructured loan must be:
- Fully secured when the balloon payment becomes due. Current appraisal required. When note balloons, must project value adjusted for depreciation.
 - Under no circumstances can crops and/or livestock be used as security.
 - Minimum terms 5-years if real estate and 3-years if equipment secured.
6. OL/LOC Loans: ☐ Yes ☐ N/A Advances can no longer be made against any OL/LOC loan that had any portion of the loan restructured. The OL/LOC must be termed out. **(Par.326B)**
7. Deferrals: ☐ Yes ☐ N/A The following conditions apply to deferrals **(Par.327)**.
- Payments up to 5-years may be deferred, but cannot exceed the maturity date.
 - Principal can be deferred either in whole or in part.
 - Interest may be deferred only in part. For multi-year deferrals, annual payment of a reasonable portion of accruing interest must be paid as indicated by the borrower's cash flow projections.
 - A feasible plan must be developed at the end of the deferral period.

8. Consolidations: ☐ Yes ☐ N/A The following conditions apply to consolidations (**Par.286**). Only OL's of the same type (OL/LN to OL/LN and OL/LOC to OL/LOC) can be consolidated.
- Cannot consolidate a FO/LN and/or OL's secured by real estate, OL's with IA, or SAA.
 - Cannot consolidate an OL closed before 10/1/91 with an OL closed after 10/1/91.
 - If consolidating OL/LOC's loans, loan conditions/maturity dates must be the same.
 - Consolidated loan principal cannot exceed statutory loan limits in §7 CFR 762.122.
 - Consolidation cannot adversely affect the value of the security and security position.
 - A new note will be taken. The new note will describe the OL notes being consolidated and state that the indebtedness is not satisfied. The original OL notes must be retained.
 - Use FSA-22-45 to provide the lender with a Modification of Guarantee form to identify the new loan amount, new terms, and % of guarantee. FSA-2245 will be attached to the original Guarantee.
9. Capitalized Interest: ☐ Yes ☐ N/A Lender may capitalize outstanding interest when restructuring the loan. (**Par.326D**) When restructuring a guaranteed loan with capitalized interest:
- As a result of capitalization of interest, the new principal amount cannot exceed the statutory loan limits contained in 7 CFR 762.122. Excess interest above the statutory limit cannot be capitalized, but can be scheduled for repayment as non-capitalized interest over the term of the restructured note.
 - When the new principal/guaranteed portion is greater than the original loan amount, use FSA-2245 to provide the lender with a "Modification of Guarantee." FSA-2245 will be attached to the original Loan Guarantee. In all other restructuring situations where capitalized interest is not involved, FSA-2245 is not required.
 - **Prior to the loan approval official approving capitalized interest on a restructured guaranteed loan with an active Interest Assistance Agreement, contact the Farm Loan Section of the State Office for guidance and ultimate concurrence/approval.**
10. Environmental Evaluation Required: ☐ Yes ☐ No Form 1940-22, "Environmental Checklist for Categorical Exclusions," must be completed **only if**, as a result of the restructuring, it alters the purpose, location, or design of the project as originally approved. [Reference 1940.310(e)(2)].
11. Restructuring Proposal Evaluation: Discuss with the lender any problems with the proposal, inform if the borrower is eligible for interest assistance, request corrections, or suggest revisions to the lender. If corrections are significant, put in writing and establish a time frame to respond.

Can the restructuring proposal be approved?

- ☐ Yes If yes or a favorable decision, send lender written authorization to proceed with the restructuring. The letter must state all items that the lender needs to provide after the loan(s) have been restructured and can also include any additional loan requirements that you wish to impose.
- ☐ No If no or an unfavorable decision, notify both lender and borrower, in writing, with appeal rights according to 1-APP.

AFTER THE LOAN(S) HAVE BEEN RESTRUCTURED the LENDER MUST PROVIDE the FOLLOWING TO FSA:

<input type="checkbox"/> Yes <input type="checkbox"/> N/A	(SEL only) - Did the SEL lender meet all of the requirements in the agency approval letter?
<input type="checkbox"/> Yes	(SEL & CLP) - Did the lender provide a copy of the restructured promissory note and/or allonge/modification agreement? [The existing note must be modified by attaching an allonge or any other legally effective amendment evidencing the revised terms or a new note must be taken. However, if a new note then the note must describe the loan being restructured, state that the indebtedness was not satisfied, and then retain the original promissory note as an attachment.]
<input type="checkbox"/> Yes <input type="checkbox"/> N/A	(SEL & CLP) – Is the loan reflected as being “Delinquent” on GLS? If so, FSA-2248, "Guaranteed Loan Borrower Default Status," must be completed if the loan was previously reported to Finance Office as delinquent and the <i>Delinquency Code</i> field on the GLS "LD" screen is anything other than blank.
<input type="checkbox"/> Yes <input type="checkbox"/> N/A	(CLP only) - Did the CLP lender provide a written certification that all of the forms/documents have been obtained and are in the file and all restructuring requirements have been met in accordance with 2-FLP?
<input type="checkbox"/> Yes <input type="checkbox"/> N/A	(CLP only) - Did the CLP lender provide a narrative outlining the circumstances surrounding the need for the restructuring and any applicable calculations?

COUNTY OFFICE REQUIREMENTS AFTER the LENDER HAS CLOSED the RESTRUCTURING and RETURNED ALL of the REQUIRED ITEMS.

1. Finance Office Notification: FSA-2249, "Request for Restructuring Guaranteed Loans," in most instances should be completed and submitted via fax to Finance Office for all guaranteed loans restructured. A separate form is required for each loan.
2. Delinquent Loan on GLS: ☐ Yes ☐ N/A If the loan was previously reported to Finance Office as delinquent (*Delinquency Code* field on the GLS "LD" screen is anything other than blank), process the FSA-2248 in the Guaranteed Loan System (GLS).
3. Interest Assistance: ☐ Yes ☐ N/A If new interest assistance is being extended on the existing interest assistance guaranteed loan which has been restructured (**Par 230 D**):
 - Make a copy of FSA-2231, "Request For Obligation Of Funds Guaranteed Loans," and the "GLS Obligation Request" screen. Write 'CORRECTED' in red at the top of both copies. On the copy of the FSA-2231 write in red "This loan has been restructured. The term of the IA is being modified from ___years to ___years." Approval official to date and sign the corrected form. On the "GLS Obligation Request" screen copy write in red the new number of IA years in the field *Term of Interest Asst*.
 - Make a copy of FSA-2221, Interest Assistance Agreement. On the copy, at the top in red write 'CORRECTED'. Correct the expiration date of the Interest Assistance Agreement, and have the lender, borrower, and FSA initial the change.
 - FSA-2249, "Request for Restructuring Guaranteed Loans," must be completed for all guaranteed loans restructured.
 - Provide a copy of the original promissory note and of the restructuring "Allonge".
 - Forward all of the above items attached to a cover letter to the Farm Loan Programs Section of the state office for review. State Office will forward to Finance Office.

Lender Liquidation Plan

2-FLP Par.358 on page 14-9 through 14-12

Once the decision to liquidate is made, all (SEL, CLP, and PLP) lenders must prepare a liquidation plan within 150 calendar days of the payment due date.

The SEL and CLP lender's liquidation plan, and any revisions of the plan, must be approved, **in writing**, by the Agency.

It is recommended that the lender read the following prior to liquidation of the account:

- ✓ the Liquidation Section of the Lender's Agreement
- ✓ 2-FLP Handbook Part 12, Par. 300, Monetary Default - Overall Loan Servicing Process
- ✓ 2-FLP Handbook Part 14, Par. 355-362, Liquidation

Interest Assistance 60-day Consideration: The lender may then proceed to begin liquidation actions at its discretion as long as it has been at least 60 days since the borrower's eligibility for interest assistance was considered. The lender must submit the form FSA-2248 and have checked block 14(A) indicating that Interest Assistance has been ruled out or the involuntary liquidation may be delayed. The lender must not initiate foreclosure action on the loan until 60 calendar days after eligibility of the borrower to participate in the IA program has been established by FSA.

Within 150 Days after the payment due date all lenders must submit a

1. written liquidation plan that must include a schedule of all projected liquidation activities, and a complete inventory of the security to be sold.
2. estimated loss claim unless the account will be completely liquidated.

The liquidation plan needs to include the following:

Date Completed	
	1. A current signed and dated balance sheet (farm and nonfarm assets and liabilities) from all liable parties. If under the protection of the bankruptcy court, a copy of the bankruptcy filing, schedules, and discharge notice.
	2. A proposed method of maximizing the collection of debt which includes specific plans to collect any remaining loan balances on the guaranteed loan after loan collateral has been liquidated, including possibilities for judgment.
	3. If the borrower has converted loan security, the lender will determine whether litigation is cost effective. The lender must address, in the liquidation plan, whether civil or criminal action will be pursued. If the lender does not pursue the recovery, the reason must be documented when an estimated loss claim is submitted.
	4. Any proposal to release the borrower from liability will be addressed in the liquidation plan in accordance with Par. 361 (7 CFR 762.146(c)) on page 14-24 through 14-25. If approved in writing by FSA, a release of liability will not be granted until all of the collateral has been liquidated and properly accounted for.

	5. Provide FSA with a copy of the acceleration notice. Foreclosure proceedings commence once a loan is accelerated.
	6. An estimate of time necessary to complete the liquidation from start to finish.
	7. An estimate/explanation of reasonable liquidation expenses (Par.359 B).
	8. No later than 150 days after the payment due an estimated loss claim must be submitted on the Form FSA-2254, "Guaranteed Loan Report of Loss." Utilize the form FSA-2295, "Guaranteed Estimated Loss Review Checklist," in preparing the estimated loss claim.
	9. An estimate/explanation of any protective advances (Par.360 D).
	<p>10. Provide a copy of an independent appraisal report on ALL collateral (chattels and real estate) securing the loan that meets the requirements of Par.181-183 (7 CFR 762.127).</p> <p>It is recommended that prior to issuing a work order to the appraiser that FSA concurrence be obtained.</p> <p>For <u>chattels</u>, provide a copy of a current chattel appraisal and/or statement of value from the auctioneer prior to a sale. (Use MO 2-FLP Guide 23 or similar format.)</p> <p>For <u>real estate</u>, the appraisal must be completed as per Uniform Standards of Professional Appraisal Practices and 2-FLP Par.183.</p> <p>Once the appraisal is received, it will be forwarded to the FSA Staff Appraiser for an appraisal review.</p> <p>The appraisal requirement may be waived by the Agency in the following cases:</p> <ul style="list-style-type: none"> ✓ bankruptcy trustee is handling the liquidation and the lender has submitted the trustee's determination of value. ✓ lender's proposed method of liquidation rarely results in receipt of less than market value for livestock and used equipment. ✓ purchase offer has already been received for more than the debt.
	<p>11. If real estate, provide FSA with a completed Exhibit 10 of 2-FLP Handbook, "Net Recovery Value," (7 CFR 762.102).</p> <ul style="list-style-type: none"> ➤ When it is necessary to enter a bid at a foreclosure sale, the lender may bid the amount that it determines is reasonable to protect its and the Agency's interest. At a minimum, the lender will bid the lesser of the net recovery value or the unpaid guaranteed loan balance (Par.357). ➤ <u>Before the foreclosure sale is held, the lender needs to obtain written concurrence from the Agency on what the minimum bid would be.</u>

If, within 20 calendar days of the Agency's receipt of the liquidation plan, the Agency fails to approve it or fails to request that the lender make revisions, the lender may assume the plan is approved and proceed with the liquidation of the account as long as it has been at least 60 days since the borrower's eligibility for interest assistance was considered.

Guaranteed Loss Claim Checklist

2-FLP Par. 359-360 (7 CFR 762.149) on pages 14-11 through 14-18

Prior to telling a borrower **NO**, it is in the best interest of the bank to obtain whatever information they still need from the borrower to file a guaranteed loss claim.

Within 150 days after the payment due date, all lenders are required to submit a written liquidation plan and an estimated loss claim unless the account has been completely liquidated and then the final loss claim must be filed. The Agency will not pay interest beyond 210 days from the payment due date. (2-FLP Par. 355 E and 359A)

Immediately following the completion (last day) of the collateral liquidation, the lender has just another 30 calendar days to submit a final loss claim (2-FLP Par. 355 I).

The first item in the case file that FSA checks is the Conditional Commitment for each loan.

- ✓ Are there any special terms and conditions?
- ✓ What was the loan purpose?
- ✓ What collateral was required for the loan?

If the lender is going to file a guaranteed loss claim request, FSA will require the following information:

Date Completed	Provide the following when filing a guaranteed loss claim.
	<p>1. Signed FSA-2254, "Guaranteed Loan Report of Loss," for each loan that a loss claim will be requested on.</p> <p>FSA uses a checklist in the loss claim process and must be able to answer and provide file documentation for all questions. Recommend that the lender reviews the FSA loss claim checklists:</p> <ul style="list-style-type: none"> ✓ For estimated loss claims, FSA uses the form FSA-2295, "Guaranteed Estimated Loss Review Checklist." ✓ For final loss claims, FSA uses the form FSA-2296, "Guaranteed Final Loss Review Checklist."
	<p>2. Current signed and dated balance sheet (farm / nonfarm assets and liabilities) from all liable parties.</p> <p>If under the protection of the bankruptcy court, a copy of the bankruptcy filing, schedules, and discharge notice.</p> <ul style="list-style-type: none"> ✓ Determine if there are assets not mortgaged from which collection could be made from? ✓ Check the county assessor records and determine if there are any assets not known to the lender?
	<p>3. Provide a copy of a current credit bureau report.</p>

	4. Copy of <u>Federal</u> and <u>State</u> Income Tax Records with all supporting schedules including the depreciation worksheet.
	5. Provide a copy of the borrower's <u>detailed loan history computer records</u> (<i>advances, principal and interest payments, and interest rate changes</i>) for ALL active and recently <u>paid in full</u> GUARANTEED loan(s) owed to the lender.
	<p>6. Provide a copy of the borrower's promissory note and <u>detailed loan history computer records</u> (<i>advances, principal and interest payments, and interest rate changes</i>) for ALL active and <u>paid in full</u> NON-GUARANTEED loan(s) owed to the lender since the closing date of the first guaranteed loan(s).</p> <ul style="list-style-type: none"> ✓ FSA completes an excel spreadsheet checking all loans against the terms shown on the promissory note. ✓ Did the lender make any non-guaranteed loans without FSA concurrence? ✓ Were the payments made in the order of lien priority?
	<p>7. Provide a copy of the detailed accounting of the disposition of the guaranteed loan security and the proceeds for all guaranteed loan collateral (normal income/current assets, IT assets, and real estate).</p> <ul style="list-style-type: none"> ✓ For normal crops and livestock income, the lender's records are compared to the FSA payment history records, prior and current balance sheets, cash flow, and the income tax records are worked backwards. ✓ For equipment sold at public auction, the settlement statement is compared to the Conditional Commitment, original and subsequent appraisals, security agreements, balance sheets, and depreciation records to be assured that all equipment owned and thereafter acquired is properly accounted for. ✓ In summary, is there any collateral unaccounted for?
	8. Justification and explanation of all protective advances made on the loan.
	9. Copy of all liquidation expenses deducted from the sale of security property.
	10. <u>For Interest Assistance loans</u> : – The final interest assistance claim must be processed.
	<p>11. <u>For OL/LOC loans</u>: - The lender must have complied with 2-FLP Par.124 B - OL/LOC loan limitations requirements.</p> <p>The amount of loan proceeds that the lender advances plus the amount of income that the lender releases to the borrower normally cannot exceed the borrower's total planned expenses, excluding interest expense unless the cash flow is revised and continues to reflect a feasible plan.</p>

Net Recovery Value Calculation

A. Market Value of the Property (Based on appraisal conducted according to 762.127) (Part 8, Section 4, Subsection 3)			
B. Expected income or Revenue			
1. Annual Rent x Holding Period (HP)	\$ - x = \$ -		
2. Annual Royalty x Holding Period (HP)	\$ - x = \$ -		
3. Other Annual Income x Holding Period (HP)	\$ - x = \$ -		
4. Annual % Property Appreciation x HP	0% x = \$ -		
Total = \$ -			
Explanations of calculations			
Estimated holding period	90 Days	=	24.66%
90 period divided (days)	365 Year		
Holding period is typically 90 days unless longer period is agreed upon by FSA.			
Advertising is considered to be covered by the costs of real estate commission			
D. Net Recovery Value			
Market Value of property + Expected Income or revenue - Expenses =		Net Recovery Value	
\$ -	+	\$ -	= \$ -

C. Expenses			
1. Prior Lienholder Indebtedness (P&I)	\$ -	Interest	\$ -
2. Annual Taxes and Assessments x HP			
Taxes	X	Holding Period	
3. Annual Property Depreciation x HP			
Depreciation	X	Holding period	
4. Annual Management Costs x HP			
Mgt Cost	X	Holding period	
5. Essential Repairs to Secure and Resell			
6. Other Costs			\$ -
Taxes			
Closing Costs/Attorney			
Appraisal			
Environmental			
7. Resale Expenses-Commissions Advertising			\$ -
Real estate Commission %		Advertising	
8. Total Interest cost During Holding Period			
(note rate)			
Principal	Rate	Holding Period	
9. Hazardous Waste Cleanup			
Total		\$ -	

Excel version available

BANKRUPTCY SERVICING

2-FLP Par.341-344 on pages 13-1 through 13-10

Failure by the lender to properly service the account in bankruptcy could result in a reduction or denial of a guaranteed loss claim payment.

1. Most important is to hire a “Bankruptcy” attorney.
2. Immediately, notify FSA, in writing, of the bankruptcy filing and provide a copy of the:
 - Notice of Commencement of Case Under Chapter 7, 11, 12, or 13 Of the Bankruptcy Code, Meeting of Creditors, and Fixing of Dates
 - Bankruptcy Schedules
3. Lender needs to instruct its attorney to be proactive and file the necessary motions to keep the bankruptcy moving forward.
4. Follow 2-FLP Handbook Par.341 Lender’s Responsibilities in Bankruptcy Proceedings (7 CFR 762.148(a)). Lender responsibilities include, but are not limited to:
 - Filing a proof of claim and all necessary paperwork.
 - Attend, and when necessary, participate in meetings of the creditors and court proceedings.
 - Seeking adequate protection of the collateral securing the guaranteed loan.
 - If chattel security, complete a chattel security inspection prior to the 341 Meeting of Creditors. Obtain permission from borrower’s attorney/bankruptcy court. Compare the security agreement with the collateral inspection and determine if all of the guaranteed loan collateral can be properly accounted for.
 - Take the opportunity at the 341 Meeting of Creditors to obtain information as the borrower is under “Oath”. Ask questions. Is all guaranteed loan security properly accounted for?
 - For additional discovery purposes and production of documents, a Rule 2004 Examination Hearing may be necessary.
 - Use Section 523 Exception to Discharge of Debts for conversion, false information, and fraud.
 - Obtain an appraisal of the security. Are the borrower’s collateral values acceptable? If necessary, request a “Valuation Hearing.”
 - Request payment for attorney, appraisal, and other fees allowed under promissory note.
 - Make sure that the principal and interest debts are accurate.
 - If secured, make sure that post petition interest accrual is being paid.

For Chapter 11, 12 or 13 Reorganization Bankruptcy filings:

- ❖ Seek a dismissal of the bankruptcy proceedings when the proposed operation is not feasible.
 - ❖ Request modifications of any plan if it appears additional recoveries are likely.
 - ❖ Does the proposed plan address the following items? If not, consult with FSA.
 - A “Drop Dead Clause” if plan in default for 30 days.
 - Make sure borrowers are paying promissory note interest rate? Fight against any interest rate cram down.
 - Are repayment terms acceptable? (Chattels – 5 years & Real Estate – 20 years)
 - Require that an annual financial statement to be provided by an agreed upon date.
 - Require that a copy of yearly Federal and State Income Tax Records and all supporting schedules to be provided by an agreed upon date.
 - Is there adequate insurance with lender lien?
 - Is there a clause that states if taxes & insurance not paid that plan is in default?
 - Require that scheduled payments fall due when collateral is sold.
 - Is plan reasonable? Is plan based on 3-5 year financial history?
 - Ask for lender farm visits to inspect collateral to be assured that collateral is being maintained.
 - ❖ Monitor confirmed Chapter 11, 12 and 13 plans.
 - If the borrower fails to comply, the lender will send a default cure notice and/or seek a dismissal of the reorganization plan.
5. Submit FSA-2248, Guaranteed Farm Loan Default Status, when the borrower defaults and every 60-days thereafter until the default is resolved.
 6. Within 150 days of the payment due date lenders will submit a written liquidation plan and an estimated loss claim. The date the borrower files for bankruptcy protection becomes the payment due date for FSA loss claim purposes.
 7. Keep the agency informed, in writing, of all aspects of the bankruptcy proceedings.

FSA can utilize the services of its attorney, Office of General Counsel (OGC) in certain bankruptcy situations.

In summary, the lender and/or the lender’s attorney should seek advice from FSA on a case-by-case basis to determine what FSA expects and/or requires from the lender in order to protect the FSA Loan Guarantee.

<u>Counties</u>	<u>Farm Loan Manager</u>	<u>AFLS</u>	<u>Address</u>	<u>Phone</u>
Adair, Putnam, Schuyler	Gary Elrod, SFLO Lisa Denton, FLPT	2	2410 S. Franklin Street Kirksville, MO 63501	660-665-3274 Fax 665-0266
Barry, Lawrence, McDonald, Newton	Russell Neill, FLM Gordon Pond, FLOT Becky Thomas, FLPT	3	76 Main Street Cassville, MO 65625	417-847-2862 Fax 847-3096
Butler, Carter, Ripley, Wayne	Brent Summers, SFLO, Monica McCain, FLPT	4	4327 Highway 67 N Poplar Bluff, MO 63901	573-785-8416 Fax 686-0187
Callaway, Audrain, Boone, Lincoln, Montgomery, St. Charles, Warren	Mark A. Mudd, SFLO Janet Hogg, FLPT	2	4549 State Rd. H Fulton, MO 65251	573-592-1400 Fax 592-1450
Carroll, Caldwell, Clay, Clinton, Ray	Annette G. Brandt, SFLO Kay Lichte, FLPT	1	1405 North Hwy 65, Ste. A Carrollton, MO 64633	660-542-8732 Fax 542-2709
Clark, Lewis	William Bonine, SFLO Karma Hillyer, FLPT	2	Route 1, Box 16A Kahoka, MO 63445	660-727-3364 Fax 727-3089
Cole, Gasconade, Maries, Miller, Moniteau, Osage	Kelly Volmert, FLM Sandra Waibel, FLO Julie Long, FLPT	4	1911 Boggs Creek Road Jefferson City, MO 65101	573-893-5196 Fax 893-7238
Dunklin Pemiscot	Brent Landers, FLM Andrew Barker, FLO Sheila Franks, FLPT Betty Ladymon, FLPT Kevin Gilmore, FLO Denna Morris, FLPT	4	704 North By-Pass Kennett, MO 63857	573-888-2536 Fax 888-6736
Harrison, Daviess, DeKalb, Gentry, Worth	Charles Meissen, FLM Pat Barnett, FLPT	1	1400 N. 41 st Street Bethany, MO 64424	660-425-7635 Fax 425-3536
Knox, Scotland	Daryl Huchteman, FLM Leann Martin, FLOT Jane Bohon, FLPT	2	Rt. 3, Box 56 Edina, MO 63537	660-397-2559 Fax 397-3289
Lafayette, Cass, Jackson, Johnson, Saline	Brian Bagnell, FLM Brian Wheeler, FLO Annette Simmons, FLPT	1	120 West 19 th Street Higginsville, MO 64037	660-584-8732 Fax 584-2191
Macon, Randolph, Linn Chariton and Howard	Jared Weydert, FLM Shane Ebeling, FLO Brenda Johnson, FLPT Audrey Hayward, FLPT	2	2108 U.S. Hwy 63, Suite C Macon, MO 63552	660-385-2616 Fax 385-4923
New Madrid Mississippi	Edward (Tadpole) Throgmorton, FLM Andy Wallace, FLO Mary Kay Carter, FLPT Paula Newsom, FLPT	4	495A Hwy 61 New Madrid, MO 63869	573-748-2557 Fax 748-5647
Nodaway, Andrew, Atchison, Buchanan, Holt, Platte	Charlotte Holeman, FLM Tom Shelton, FLO Tammy Luke, FLPT	1	502 W South Hills Dr. Ste. 104 Maryville, MO 64468	660-582-7423 Fax 582-8366

<u>Counties</u>	<u>Farm Loan Manager</u>	<u>AFLS</u>	<u>Address</u>	<u>Phone</u>
Pettis, Benton, Cooper, Morgan	Steven E. Lair, FLM Jonathan Haas, FLOT Connie Berendzen, FLPT	1	1407 W. 32 Street Sedalia, MO 65301	660-826-3339 Fax 826-7982
Pike, Marion, Ralls, Shelby Monroe	Robert Noellsch, FLM Mary Teasley, FLPT Mary DeOrnellis, FLPT	2	1220 South Business 61 Bowling Green, MO 63334	573-324-3313 Fax 324-2475
Polk, Dallas, Henry, Hickory, St. Clair	Kim Mitchell, FLM Ella Strode, FLPT	3	1333 East Broadway Bolivar, MO 65613	417-326-4823 Fax 326-6174
St. François, Bollinger, Cape Girardeau, Franklin, Iron, Jefferson, Madison, Ste. Genevieve, St. Louis, Washington Perry	Michael Hinkebein, FLM Laura Sarratt, FLPT LaDonna Petzoldt, FLO	4	812 Progress Drive Farmington, MO 63640	573-756-6488 Fax 756-8719
Stoddard, Scott	Kevin Hunt, FLM Mike Guethle, FLO Teresha Harris, FLPT	4	18450 Ridgeview Lane Dexter, MO 63841	573-624-5939 Fax 624-3143
Sullivan, Livingston, Mercer Grundy	L. John McKinny, FLM Sarah Lowrey, FLOT Benna Trump, FLPT Debbie Meineke, FLPT	1	23487 Eclipse Drive Milan, MO 63556	660-265-3440 Fax 265-3410
Texas, Crawford, Dent, Douglas, Howell, Oregon, Ozark, Phelps, Reynolds, Shannon,	Amy Peiter, FLM Kelly Arnold, FLO Debi Huff, FLPT	3	6726 A Hwy 63 Houston, MO 65483	417-967-2028 Fax 967-4059
Vernon, Bates, Barton, Cedar, Dade, Jasper	Brian Hedges, FLM Joni Klumpp, FLO Suzette Berning, FLPT	3	102 W. Allison Nevada, MO 64772	417-667-8137 Fax 667-5025
Webster, Camden, Christian, Greene, Laclede, Pulaski, Stone, Taney, Wright	Mark Aycock, FLM Kurt Shelangoski, FLO Abigail Calton, FLPT	3	1202 Banning Street Marshfield, MO 65706	417-468-2088 Fax 468-7334

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|--|---|--|--|



Breaking New Ground?

USDA's Farm Service Agency Provides Cautionary Reminders for Missouri Farmers

Mark Cadle, State Executive Director for Missouri's Farm Service Agency (FSA) cautions agricultural producers to consult with FSA and the Natural Resources Conservation Service (NRCS) before breaking out new ground for production as doing so without prior authorization may put a producer's federal farm program benefits in jeopardy.

Although checking with USDA anytime ground is cleared or otherwise converted is a good business practice, this is especially true for ground that is considered highly erodible (HEL) or is considered a wetland. Producers participating in federal farm programs and any person or entity considered to be an "affiliated person" of the producer, are subject to regulations pertaining to ground having HEL or wetland determinations.

"Before heading out with a dozer to clear a fence line or hiring a contractor to drain or fill in wet areas in a field, it is extremely important that you have consulted with our staff to ensure these acres are not considered highly erodible or wetland acres," said Cadle. "I assure you, the hour or so spent working with our staff to make sure your plans won't impact these fragile lands before you head to the field, will be time well spent."

USDA enacted Highly Erodible and Wetland Conservation Provisions in 1985 to reduce soil loss; reduce sedimentation and improve water quality; preserve the nation's wetland; protect the nation's long-term capacity to produce food and fiber; and remove incentive for persons to produce agricultural commodities on highly erodible land or converted wetlands.

USDA defines highly erodible land as cropland, hayland or pasture that can erode at excessive rates. These lands contain soils that have an erodibility index of eight or more. And, a wetland has a predominance of wet soils types, is inundated or saturated by surface or groundwater at a frequency and duration sufficient to support water tolerant vegetation and, under normal circumstances, supports a prevalence of such vegetation.

According to FSA policy, to be in compliance with the highly erodible land and wetland conservation provisions, producers must agree, by certifying on FSA's Form AD-1026, that they will not:

- Produce an agricultural commodity on highly erodible land without a conservation system;
- Plant an agricultural commodity on a converted wetland;
- Convert a wetland to make possible the production of an agricultural commodity.

Any planned deviation to the agreement having the potential to convert HEL or wetland acreage, or even land that may not yet have HEL or wetland determinations, requires that producers update the Form AD-1026. FSA will notify NRCS and NRCS will then provide highly erodible land or wetland technical determinations on the acreage in question.

Cadle warns that producers participating in FSA and NRCS programs who are not in compliance with highly erodible land or wetland conservation compliance provisions are not eligible to receive benefits for most programs administered by both agencies. And, if a producer has received program benefits and is later found to be non-complaint, he/she would be required to refund all payments received and may be assessed liquidated damages.

"We realize that between harvest and planning for the 2014 planting season, producers get busy, but I can't stress enough the importance of ensuring that all the i's are dotted and t's are crossed before converting land for production – this includes former Conservation Reserve Program (CRP) ground," said Cadle. "Bottom line... when in doubt, come by our office and you'll leave with peace of mind knowing that your eligibility for farm program benefits is not at risk."