Guaranteed 101 Training Q & A

JANUARY 2024

1. **What items need to be submitted before the guarantee is issued?**

   Once FSA approves a guaranteed loan and confirms loan funds are obligated, FSA executes Form FSA-2232, "Conditional Commitment", and sends it to the lender. The lender reviews this Conditional Commitment and accepts or rejects the conditions. If accepted, the lender must return a signed Form FSA-2232 to the agency and the lender may then proceed with loan closing.

   After loan closing, the following needs to be submitted to FSA before the guarantee can be issued:

   a. Form FSA- 2236 "Guaranteed Loan Closing Report and Lender Certification" (unless the closing report was submitted electronically through the LINC system);

   b. Guarantee Fee;

   c. A copy of the executed promissory note or loan agreement;

   d. Form FSA 2201 "Lender's Agreement" if one is not already on file; and

   e. Any other documents specified on the Conditional Commitment.

2. **Regarding items the lender must "maintain in files", can the items be maintained in electronic files, or must they be saved in a paper file?**

   The format of the files, whether electronic or paper, depends on the internal policies of the lending institution. However, all documents used to originate, service, or modify a guaranteed loan must be available for FSA to review when requested.

3. **Is entity information required on ALL members of the entity or only those with a certain percentage of ownership?**

   All members of entity applicants must complete the appropriate section on FSA-2211 and sign the application as individuals. This is necessary to confirm the applicant and all entity members meet loan eligibility requirements. The information regarding entity members that must be provided to FSA will vary depending on lender status. For example, a PLP lender should be collecting personal balance sheets, but they wouldn't submit them to FSA. Instead, the PLP lender would describe and support in their loan narrative why the loan guarantee is necessary after considering the financial condition of the entity and all members as individuals.

4. **Where can I find the link for the lender tool kit site to refer to the presentation, slides, and Q&A?**

   The lender tool kit can be found on the Farm Service Agency website – Programs and Services-Farm Loan Programs-Guaranteed Loans Lender Toolkit or by using the following web address: **https://www.fsa.usda.gov/programs-and-services/farm-loan-programs/guaranteed-farm-loans/guaranteed-loans-lender-toolkit/index**

5. **Can you please explain how the guarantee fee is calculated?**

   The guarantee fee is paid to FSA by the lender, and may be passed on to the borrower and included in loan funds. The fee is currently 1.5 percent. The fee is calculated as follows:

   Guarantee Fee = Loan Amount X percent guaranteed X 1.5%

   For example: $500,000 x 90% x 1.5%% = $6750

6. **What is considered "adequate" security?**

For FSA Guaranteed loans, *adequate security* must be understood in context with *minimum security* and *additional security*. FSA Handbook 2-FLP, Paragraph 166 B explains it this way:

- **Adequate security** is the amount of security sufficient to secure a loan, which is further described in this paragraph.
- **Minimum security** requires the value of the security to be at least equal to the loan amount. A 1:1 loan to value ratio is not adequate when additional security is available.
- **Additional security** is property which provides security in excess of minimum security. Additional security will be taken whenever it is available up to the level of adequate security. Assets in excess of adequate are not required to be taken as collateral.

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 uncertain, management history is limited, or enterprise is not firmly established or is atypical for the area.

FSA Handbook 2-FLP, Paragraph 166 provides a more complete discussion.

7. **Does FSA require the use of a discounted collateral value? Is the loan amount limited to a percentage of appraised value of real estate/equipment?**

FSA does not discount the appraised value of the collateral in the same manner as most lenders. The value of the security (100% of the appraised value) must be at least equal to the loan amount. However, more security may be necessary depending on various risk factors and the collateral available (see question 6 above). See FSA Handbook 2-FLP, Paragraph 166 for a complete discussion of FSA's security requirements, or Paragraph 181 for a discussion of FSA's evaluation and appraisal requirements.

8. **Must guaranteed lenders require adequate insurance coverage?**

FSA Handbook 2-FLP, Paragraph 138 A states lenders must ensure that borrowers have sufficient property, public liability, and crop insurance to safeguard the interests of both the lender and the government. Various factors including the type of security, risk of loss, and typical lending practices influence the amount of insurance necessary. When insurance is deemed necessary, lenders should obtain an assignment. FSA Handbook 2-FLP contains additional requirements specific to crop insurance and flood insurance.

9. **Can a socially disadvantaged farmer qualify for the 95 percent guarantee if they have been farming more than 10 years? Are women operators considered socially disadvantaged farmers?**

Socially disadvantaged farmers are not subject to the 10-year limit that is associated with beginning farmer status. Qualified socially disadvantaged farmers may receive a 95% guarantee with each application without limitation on the number of years in operation.

The definition of a socially disadvantaged applicant or farmer is an individual or entity who is a member of a socially disadvantaged group. A socially disadvantaged group is a group whose members have been subject to racial, ethnic, or gender prejudice because of their identity as members of a group without regard to their individual qualities. These groups consist of: American Indians or Alaskan Natives, Asians, Blacks or African Americans, Native Hawaiians or other Pacific Islanders, Hispanics, and women. (See FSA Handbook 2-FLP, Exhibit 2).

10. Why do certain loan requests take longer than others? What happens if the FSA officer does not meet the 14-30 day timeframe?

FSA has established annual loan processing timeliness goals for all state offices and Farm Loan teams. While we acknowledge there continue to be applications that take longer than they should, managers are directed to follow up and allocate resources to processing loan request as quickly as possible.

FSA Handbook 2-FLP sets maximum loan processing times for FLP offices based on lender status. Standard Eligible Lenders (SEL) must receive approval or rejection of complete applications within 30 calendar days of receipt. Certified Eligible Lenders (CLP) and Preferred Lenders (PLP) must receive approval or rejection of complete applications within 14 calendar days after receipt. As an added benefit of PLP status, if this time frame is not met, applications from PLP lenders will automatically be approved

Note: A guaranteed Loan application cannot be approved before the appropriate environmental review is completed and approved.

Most loan applications are processed much faster than the 30-day or 14-day requirement; in Fiscal Year 2023 PLP applications were approved within an average of 6.4 days, SEL applications within 10.9 days. Some applications do take longer. For example, loans requiring more detailed environmental review frequently will take longer to approve.

11. Is there a limitation on obtaining a Guaranteed Loan when a lender uses a state program that issues an Aggie Bond?

FSA cannot guarantee any loan made with funds generated from a tax-exempt source. Many states have financing for beginning farmers using Tax Exempt Industrial Revenue Agricultural Bonds ("Aggie Bonds"). Because of their tax-exempt status, FSA cannot guarantee loans funded with Aggie Bonds.

12. What are the borrowing limits and current rates on FSA's portion of a 50/50 and 50/45/5 joint financing loan?

FSA's Direct Farm Ownership Joint Financing program (50/50 loans) cannot exceed 50% of the total amount financed or the statutory maximum outstanding principal balance of $600,000, whichever is less. The interest rate charged will be the greater of the following:

a. The Agency's Direct Farm Ownership rate, available in each agency office, minus 2%; or

b. 2.5%

As of February 1, 2024, this rate is 3.375%.

FSA's Direct Farm Ownership Down Payment Loan program (5/45/50 loans) will not exceed 45% of the lesser of:

a. The purchase price,

b. The appraised value of the farm to be acquired; or,

c. $667,000; subject to the direct FO dollar limit specified in 7 CFR 761.8 (a)(1)(i).

The maximum amount for a downpayment program loan is currently $300,150.

The interest rate for Downpayment loans will the lesser of:

a. The regular direct FO rate minus 4% or

b. 1.5%

As of February 1, 2024, this rate is 1.5%.

Interest rates are subject to change monthly. Current interest rates can be found in Exhibit 17 of FSA Handbook 1-FLP. The interest rate charged will be the lower of the rate in effect at the time of loan approval or loan closing.

13. If we have a guarantee on a revolving line of credit that renews within the guaranteed period, should we just send FSA the new note when it renews or is there something else the lender should be sending?

Lenders are not required to provide FSA with a copy of the new note following renewal on a multi-year line of credit. Keep in mind that any new note must reference or provide some link to the original note referenced on Form FSA-2235, "Loan Guarantee".