



United States
Department of
Agriculture

Farmers
Home
Administration

Washington
D.C.
20250

FmHA AN No. 761 (451)

OCT 14 1982

SUBJECT: Graduation of FmHA Borrowers

TO: All State Directors, District Directors
and County Supervisors, FmHA

FmHA must continue to improve its graduation efforts. Some lenders have indicated that we have borrowers whom they would be willing to finance. To assure that the graduation requirements of the statutes are met as Congress intended, we must work even harder in this area.

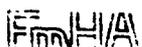
FmHA's resources have been stretched over the years. A more effective graduation program will allow us to concentrate FmHA personnel on those borrowers for whom the servicing and supervision activities will be the most effective.

I want to emphasize to each County Supervisor the extreme importance I am placing on their responsibility to aggressively pursue their borrowers' graduation to other credit sources. Before graduation reviews start, each County Supervisor must meet with the lending officials in his or her county from the Federal Land Bank, Production Credit Association, Savings and Loan Associations, Mortgage Bankers, banks, and insurance companies for the following purposes:

- 1) to fully understand the lending philosophy and credit criteria the conventional lenders will use in taking on new business in 1983
- 2) to explain FmHA graduation policies
- 3) to describe the typical characteristics of the potential FmHA graduation candidates
- 4) to earnestly seek their support in considering and accepting those FmHA borrowers who have been successful and who should qualify for conventional financing.

EXPIRATION DATE: October 31, 1983

FILING INSTRUCTIONS: File preceding
FmHA Instruction ~~451.6~~ *10.1.82*



The conventional lenders' policies should be documented in the county office's operational file, and this information will be used by the County Supervisor to determine which borrowers will be candidates for graduation.

The County Supervisor must be knowledgeable about the borrowers whose names appear on the Finance Office's graduation list. The County Supervisor should identify those borrowers who clearly cannot refinance. The reason for said borrowers' inability to refinance should be briefly noted on the Finance Office's printout, to be held in the operational file with Form FmHA 451-24, which is signed and dated by the County Committee. The remaining borrowers will be reviewed for graduation by the County Committee. For each of these borrowers, the County Supervisor will request a current financial statement and for a farm borrower a current balance sheet and income and expense statement, prior to review by the County Committee. If a borrower does not respond to this request, the County Supervisor will proceed as set forth below.

Upon completion of these graduation reviews, the County Supervisor will prepare Form FmHA 451-24 for the County Committee's signature. The District Director will review the list of the borrowers requested to graduate and then determine if the Supervisor is meeting the intent of the graduation policy. The County Supervisor will notify each borrower required to graduate by use of FmHA Guide Letter 451-1.

The County Supervisor will require documentation from the borrower in the event that he or she cannot graduate, and such documentation will be placed in the borrower's case file. If the borrower's financial statements indicate that the borrower should be able to refinance, even though the borrower has obtained a letter of refusal, the County Supervisor will contact the lender(s) for an explanation of why the credit was not extended, and then document this contact in the running record. The difference in interest rates between FmHA and other lenders will not be a reason for not refinancing if credit is otherwise available at local market rates and terms.

For those borrowers who do not refinance or furnish evidence that they cannot refinance, the County Supervisor will submit to the State Director the case file, the current farm and home plan, Form FmHA 455-1, "Request for Legal Action," or in the case of real estate, Form FmHA 465-7, "Report on Real Estate Problem Case." The State staff will follow the normal review required by FmHA Instruction 451.6. In forwarding a case to OGC for legal action, objective facts must be provided to OGC that clearly establish that the borrower can graduate to other credit.

I want to stress the importance of the role each State Director and District Director must play in supervising the graduation process.

Each State Director is to discuss with the President of the Federal Intermediate Credit Bank and the Federal Land Bank servicing his or her State(s) FmHA's graduation policy and to seek the District President's cooperation in giving serious consideration to referred FmHA borrowers. State Directors should emphasize to their staffs the importance of making sound credit decisions, rather than simply honoring the request of borrowers who want a turndown in order to continue with FmHA financing. State Directors should also look for opportunities at State or area bankers or savings and loan association meetings to convey the same message.

Each District Director must follow up to see that the County Supervisors meet with the conventional lenders in the area. The District Director must ensure that discussions with conventional lenders are held, and that the content of the meetings is documented. Whenever possible, the District Director should attend said meetings.

Guaranteed loans, except for Rural Housing and Operating Loans (OL), will be used as a form of graduation when other lenders will not refinance borrowers without a guarantee. The use of the FmHA guaranteed loan program should be discussed during each State Director's, District Director's and County Supervisor's contact with other lenders regarding graduation.



CHARLES W. SHUMAN
Administrator

Sent via electronic mail October 14, 1982 at 5:46 p.m. by MISD(IMPS).