



United States
Department of
Agriculture

Farmers
Home
Administration

Washington
D.C.
20250

FmHA AN No. 788 (1940)

December 17, 1982

■ SUBJECT: Making Insured Farmer Program Loans to New Applicants -
FY 1983

TO: State Directors, Farmer Program Chiefs,
District Directors, and County Supervisors, FmHA

I. Basic Policy

In fiscal year 1983, the Farmers Home Administration (FmHA) will continue striving to meet the basic Farmer Program objective of providing financial and management assistance to eligible farmers who clearly meet the "test for credit" and who have a reasonable opportunity to become soundly established in farming. We must accept and process applications from new applicants. Loan applications, including those from existing FmHA borrowers, must be processed in the date order received until the regulations are revised to establish a new priority system. However, present farm borrowers will be contacted immediately and urged to file their applications for 1983 annual production purposes as soon as possible.

Under the conditions existing in today's farm economy it is extremely important that the financial and production records of all applicants, along with their proposed operating plans, be thoroughly analyzed when determining eligibility and loan soundness. This analysis will be the basis for FmHA extending any type of farm credit needed for 1983 operations. Only the most essential items will be financed.

Our basic objective does not include taking over hopeless cases from other lenders, nor does it include assisting applicants whose experience, management, records and available resources do not indicate a reasonable probability of success. Any refinancing of debts must be based on realistic appraisals that fully recognize current market values in the area. All loans must be based on realistic farm and home plans which show repayment ability and contain plans for supervisory assistance and analysis.

II. General Requirements

Loanmaking policies for fiscal year 1983 include:

- A. Strong emphasis must continue to be given to the supervision and servicing of our present borrowers, including subsequent loans when needed, to assure that these borrowers can meet the objectives of their initial loan(s).

EXPIRATION DATE: September 30, 1982

FILING INSTRUCTIONS: File
Preceding FmHA Instruction 1941-A



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Complaints of discrimination should be sent to:
Secretary of Agriculture, Washington, D.C. 20250

- B. Emphasis will be given during the processing of applications from new applicants to assisting those who have the farm operating background, experience and/or training that will afford them a reasonable chance to compete successfully in today's high technology farming, with its requirements for highly proficient financial and production managers.
- C. Realistic annual, long time and typical farm plans, as appropriate, must clearly indicate the applicant has a reasonable chance for success.
- D. Applicants must be using or agree to use key production and financial management practices that are considered by FmHA as acceptable for their type of operation in the area
- E. Applicants must have demonstrated good faith in trying to meet their financial obligations to other lenders with verification through an acceptable credit history.
- F. Loans will be made only after it has been clearly documented that other credit for the required purpose is not available within the applicants' repayment ability.
- G. Participation credit will be obtained to the maximum extent possible through subordinations and junior lien positions, as appropriate.

III. Planning, Appraisals and Security

- A. In ordinary times, farm plans should show that all debts maturing during the year can be paid. During periods of a weak agricultural economy such as we have today, income will not be available in many cases to pay all maturing debts and it may be necessary to defer a portion of the FmHA loan payment. In such cases, the file must clearly document the justification for the deferral and a realistic typical year farm plan must show that the loan(s) can be rescheduled to show repayment ability following the deferral period. Plans for not making payments on amounts owed other lenders during the year will be concurred in by those lenders by their signing non-disturbance agreements. Copies of any agreements and/or extensions with other lenders on essential land, livestock and equipment retention for the operating year will be obtained and placed in the applicant's file.

- B. Borrower marketing plans that delay the planned payment to FmHA until after the January 1 due date must be clearly shown in the 1983 farm plan as well as the plan for the next year. Scheduling of note payments will reflect any delayed marketing plan and a supplemental payment agreement will be obtained to confirm the farm plan agreement for payment when marketing is completed.
- C. When the market value of the security for initial EM loans has depreciated in value due to the disaster and is less than the amount of the loan and repayment ability is being considered in determining whether the loan will be made, repayment ability will be the difference between the balance available in table J of the farm plan and the payments due in table K. All initial loans other than EM must be fully secured.
- D. When FmHA is refinancing 100 percent of the appraised market value of property and such value is less than the debt owed, the other creditor will be expected to accept the amount FmHA is loaning as payment in full when the applicant does not have repayment ability for the balance. When the applicant has repayment ability, debt adjustment agreements will be used for any balance owed a creditor who will not accept FmHA refinancing of the debt as payment in full. Nondisturbance agreements will be obtained from secured lenders when necessary to assure that applicants will retain use of essential land, machinery and livestock during the term of the FmHA loan. In any refinancing of chattels, FmHA is required to obtain a first lien on the property refinanced.
- E. Annual production expense loans may be made by FmHA when eligible applicants do not have equity in real estate or chattel other than the crops and/or livestock being financed. In such cases, a realistic farm plan must show that the FmHA loan, plus interest, can be repaid from the year's farm income and that a first lien can be obtained on the crops and/or livestock financed.

The FmHA has a long and generally enviable record in assisting farmers to establish successful operations and to continue their operations during times of financial difficulty. We must continue to provide such assistance to deserving farmers who have a reasonable chance for success, while at the same time fully recognizing our responsibility for the prudent use of public funds in administering these programs.


CHARLES W. SHUMAN
Administrator

Sent via Electronic Mail December 20, 1982, 12:15 p.m. by MISD(IMPS)