



United States
Department of
Agriculture

Farmers
Home
Administration

Washington FmHA AN No. 1414 (1962)
D.C.
20250

May 23, 1986

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SUBJECT: Subordination of FmHA Farmer Program Loan Security

TO: All State Directors and State Directors at Large, FmHA

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to clarify the conditions under which FmHA may subordinate its lien and to stress the importance of using caution when subordinating FmHA security.

COMPARISON WITH PREVIOUS AN:

No previous AN has been issued on this subject.

IMPLEMENTATION RESPONSIBILITIES:

FmHA Instruction 1962-A, "Servicing and Liquidation of Chattel Security," Section 1962.30 sets forth the conditions for subordination of FmHA chattel liens securing OL, EM and EE loans to the lien of another creditor allowing that creditor to lend for any authorized OL, EM (Subtitle B), or EE loan purpose. When subordinating to another creditor for operating purposes, chattel and/or crop liens may be subordinated provided the conditions in section 1962.30(a) and (b) of FmHA Instruction 1962-A are satisfied. Section 1962.30(a)(3) allows FmHA to approve a subordination only when FmHA's financial interest will not be adversely affected. In order to determine whether FmHA's financial position will be adversely affected, approval officials must carefully examine the amount of security which will remain after the subordination, the borrower's ability to repay the additional indebtedness and the impact of the added debt on the borrower's ability to repay FmHA. A subordination might be needed if, for example, a borrower does not qualify for a subsequent loan for reasons such as reaching the statutory OL loan limit or subsequent EM loan assistance is no longer available. SUBORDINATIONS WILL NOT BE USED TO FOSTER A "CONTINUATION POLICY."

EXPIRATION DATE: May 31, 1987

Filing Instruction: preceding FmHA
Instruction 1962-A

1414(1962)

FmHA Instruction 1965-A, Section 1965.12, sets forth the conditions for subordination of FmHA real estate. The State Director may approve the subordination of FmHA real estate security for operating purposes in accordance with Section 1965.12(b)(2)(ii)(B) and (C) for FmHA Instruction 1965-A. This authority is subject to the conditions listed in Section 1965.12(a). Section 1965.12(a)(8) provides that the amount of the prior lien, obtained by subordination, plus the balance of the FmHA debt WILL NOT USUALLY exceed the present market value of the real estate security.

Dwight O. Calhoun

fr VANCE L. CLARK
Administrator

Sent by electronic mail on 05/29/86 at 9:45 am. by DASD/IMPS. The State Director should advise other personnel as appropriate.