

UNITED STATES DEPARTMENT OF AGRICULTURE

Farm Service Agency
Washington, DC 20250

**Guaranteed Loan Making and Servicing
2-FLP**

Amendment 10

Approved by: Deputy Administrator, Farm Loan Programs



Amendment Transmittal

**A
Reasons for
Amendment**

Subparagraph 46 E has been amended to update the reference for determining if a lender or agents of a lender have been debarred.

Subparagraphs 69.5 A, 69.6 A, and 69.7 A have been amended to reflect new threshold limits for low documentation loans from SEL and CLP lenders, according to the Farm Security and Rural Development Act of 2002. The threshold has been increased from \$50,000 to \$125,000.

Subparagraph 108 C has been amended to explain that the term “debt forgiveness” does not include any writedown provided as part of the resolution of a discrimination complaint.

Subparagraph 196 A has been amended to add an exception that a guarantee will be issued at 95 percent when the guaranteed OL is made to a farmer who is farming land subject to the jurisdiction of an Indian tribe, according to the Farm Security and Rural Development Act of 2002.

Subparagraph 230 D has been amended to remove a sentence about rescheduling and deferral, and to unbold two sentences which were deleted by the corrections to the final rule, as published in the Federal Register on July 16, 1999.

Subparagraph 230 G has been amended to correct an improper reference, in conformance with the corrections to the final rule, published in the Federal Register on July 16, 1999.

Continued on the next page

Amendment Transmittal (Continued)

**A
Reasons for
Amendment
(Continued)**

Subparagraph 244 A has been amended to update the statutory loan limits for guaranteed loans.

Subparagraph 267 B has been amended to change the word “bi-annually” to “biennially.”

Subparagraph 267 I has been amended to:

- include clarification that the decision to remove the PLP status of a lender must be made in the National Office
- remove an incorrect reference.

Subparagraph 283 B has been amended to clarify that an emergency advance can be made in any year of a line of credit.

Exhibit 2 has been amended to update the definition of beginning farmer, cash flow budget, entity, and joint operation.

Exhibit 4 has been added to provide guidance on when SED must issue State supplements.

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Part 1 Introduction and Purpose

1 Purpose and Sources of Authority

A

Handbook Purpose

--This handbook is designed to assist FSA and lenders in understanding:--

- regulations governing the Guaranteed Farm Loan Program
 - roles and responsibilities in processing and servicing FSA-guaranteed loans.
-

B

Sources of Authority

The sources of authority for this handbook include 7 CFR Part 762 and other Agency regulations that may be referenced throughout this handbook.

2 Related References

A

FSA Farm Loan Officer Training Modules

FSA Farm Loan Officer Training Modules provide training modules and case studies on specific loan processing and servicing topics for FSA.

B

National Internal Review Guide

The National Internal Review Guide is used to review the performance of district, county, and local credit offices with procedural and regulatory requirements.

C

*--Websites

The FSA website at <http://www.fsa.usda.gov> contains basic program information and updates for agency programs, including those covered by this handbook.

The FSA intranet website at <http://intranet.fsa.usda.gov> provides electronic access to some FSA handbooks and forms.

The USDA eForms website at <http://www.sc.egov.usda.gov> contains downloadable Agency forms for use by the public.--*

Continued on the next page

2 Related References (Continued)

D

**Regulation
References**

This handbook is designed to accompany 7 CFR Part 762. Throughout this handbook are **regulation references and verbatim citations in bold text**. These references are intended to highlight the requirement spelled out in the regulation. In some instances, a regulation reference may be found at the beginning of a paragraph in parentheses. This reference will be the basis for information within that paragraph. Regulation references in brackets in front of blocks of text are for those blocks of text only. Not all parts of the regulations referenced in the text are highlighted.

E

**Other FLP
Handbooks and
FmHA
Instructions**

1-FLP addresses appraisal reviews and FLP authorities.

F

**Other Related
FSA Handbooks**

The following FSA handbooks concern FLP guaranteed loan programs.

IF the area of concern is about...	THEN see...
confidentiality	2-INFO.
employee conflict of interest	3-PM.
maintenance of general and administrative files	25-AS.
Privacy Act	3-INFO.
reports	20-AS.
reviews and appeals	1-APP
forms that cannot be accepted by FAX	1-CM.

3-14 (Reserved)

46 Eligibility Requirements for SEL (7 CFR 762.105(b)) (Continued)

D**Local Lender**

The lender must maintain an office near enough to the collateral's location so it can properly and efficiently discharge its loan making and loan servicing responsibilities or use Agency approved agents, correspondents, branches, or other institutions or persons to provide expertise to assist in carrying out its responsibilities. The lender must be a local lender unless it does either of the following:

- **normally makes loans in the region or geographic location in which the loan applicant's operation being financed is located**
- **demonstrates specific expertise in making and servicing loans for the proposed operation.**

It is expected that the lender's business office will be located near the loans that it services. If the lender is lending out of its normal service area, FSA shall determine whether or not the loan can be appropriately serviced by the lender. Depending on the type of loan and the type of farming operation, it is important the lender have:

- local knowledge
 - the ability to conduct inspections of collateral
 - regular contact with the borrower.
-

E**Participation**

The lender, its officers, or agents must not be debarred or suspended from participation in Government contracts or programs and the lender must not be delinquent on a Government debt.

--Refer to 1-FLP, paragraph 43 for additional guidance about debarment and suspension.--

47 Approval Process for SEL

A**FSA Review**

The Authorized Agency Official shall review FSA-1980-25 in conjunction with the eligibility criteria in paragraph 46 to determine whether the lender is eligible to process the requested guarantee. This review will be done with the review of the proposed guaranteed loan.

B**Approval**

SEL approval is granted for the purpose of originating and servicing a guaranteed *--loan. SEL eligibility is evaluated with each guarantee application. If the lender continues to meet the requirements of paragraph 46, guarantee requests may continue to be processed. A new FSA-1980-38 is not required unless the most recent version of FSA-1980-38 has not been executed. See subparagraph 48 B.--*

48 Monitoring SEL

A**Review of
Lender
Performance**

SED shall determine how the file review requirement will be carried out. FSA shall review 40 percent of the lender's guaranteed loan files over the course of each year. Subparagraph 267 B lists the loans that will be given priority in the review and the items that should be inspected during the review process.

To the extent that deficiencies are discovered during the FSA monitoring review, the Authorized Agency Official shall inform the lender in writing and, if necessary, propose a timeframe for a reinspection of the deficiencies. Copies of any reviews and monitoring correspondence must be sent to DD and SED for major deficiencies.

Continued on the next page

Part 5 Loan Application Requirements (7 CFR 762.110)

*--Section 1 Application Requirements for SEL's and CLP Lenders

69 General Application Requirements--*

A**Application Requirements**

SEL's and CLP lenders must perform at least the same level of evaluation and documentation for guaranteed loans as for nonguaranteed loans of a similar type and amount.

Good communication with lenders will minimize problems and help ensure a rapid review of applications. The Authorized Agency Official should communicate with lenders throughout the application preparation and submission process. Lenders should be encouraged to:

- contact Authorized Agency Officials for assistance with the application
- address any issues or deficiencies before they become problems.

Lenders may use FSA-1980-01 as an application processing checklist. FSA may use FSA-1980-02 to review an application for completeness.

B**Maintaining Complete Loan File**

All lenders must compile and maintain in their files a complete application for each guaranteed loan. CLP lenders must certify that the required items, not submitted, are in their files.

--The lender's file must contain the applicable items in paragraphs 69.5 and 69.6 and all correspondence with the borrower regarding servicing actions and-- other loan-related documentation generated after loan approval.

The Agency may request additional information from any lender or review the lender's loan file as needed to make eligibility and approval decisions.

***--69.5 Requirements for Loans of \$125,000 or Less (7 CFR 762.110)**

A**Application Package**

A complete application for loans of \$125,000 or less from SEL and CLP--* lenders must, at least, consist of:

- **the application form** (see subparagraph B)
- **loan narrative** (see subparagraph C)
- **balance sheet** (see subparagraph D)
- **cash flow budget** (see subparagraph E)
- description of farmed land (see subparagraph F)
- **credit report** (see subparagraph G)
- environmental information (if needed see subparagraph H)
- information related to entity applicants (if needed see subparagraph I).

In addition to the minimum requirements, the lender will perform at least the same level of evaluation and documentation for a guaranteed loan that the lender typically performs for non-guaranteed loans of a similar type and amount.

***--The \$125,000 threshold includes any single loan, or package of loans submitted for consideration at any one time. A lender must not split a loan into two or more parts to meet the threshold thereby avoiding additional documentation.**

Separate \$125,000 thresholds apply to FO and OL/LOC. An application requesting guarantees of loans of different types (FO or OL/LOC), each of which is \$125,000 or less, will be processed under the requirements of this paragraph. The maximum loan package that can be processed under this paragraph is \$250,000.--*

The Agency may require lenders with a lender loss rate in excess of the rate for CLP lenders to assemble additional documentation from paragraph 69.6.

On an individual lender basis, FSA may request additional information to make eligibility and approval decisions.

***--Note:** The \$125,000 threshold was effective with enactment of the Farm Security and Rural Investment Act of 2002. CFR has not yet been revised to conform with the law.--*

B**Application Form**

Lenders may use FSA-1980-25 or their own loan application form if it contains the same information. If a lender uses its own application form, the lender must attach an executed FSA-1980-25 containing the loan applicant's name and address and any information not on the lender's form.

Continued on the next page

--69.5 Requirements for Loans of \$125,000 or Less (7 CFR 762.110) (Continued)--

**C
Loan
Narrative**

The application package must include a narrative description of the lender's underwriting of the loan. The narrative must contain information and analysis of any loan application data that are out of the ordinary, or at variance with normal practices for the type of operation and region. The narrative must be an evaluation and not just a summary of the data. It may be less detailed for a present customer who already has a guaranteed loan or an FSA direct loan.

The narrative should address the following, as applicable:

- describe the farming operation, such as types of enterprises, key personnel and management structure, their roles and background, proposed changes to the operation and adequacy of real estate, equipment, and other facilities
- an assessment of the adequacy of the collateral being offered to secure the proposed loan
- a discussion of the loan applicant's financial condition and projected repayment ability

Note: The lender should discuss any significant assumptions or deviations from historical performance in the proposed cash flow budget.

- the short-term and long-term business goals of the operation
 - the borrower's reporting requirements, limitations, and other conditions based on the lender's analysis of the proposal
 - lender servicing plan describing the borrower's financial reporting requirements, limitations and conditions, plans for visiting the borrower, and any other borrower supervision
 - if the loan contains balloon payments, the conditions related to the renewal of loan
 - a discussion of how the loan applicant meets the loan eligibility requirements.
-

**D
Balance Sheet**

The application package must contain a balance sheet for the loan applicant that was prepared within 90 calendar days of the application submission.

Continued on the next page

--69.5 Requirements for Loans of \$125,000 or Less (7 CFR 762.110) (Continued)--

E**Cash Flow Budget**

The lender should submit a cash flow budget as described in Exhibit 2. If significant changes are expected in the operation during the life of the loan, more than 1 cash flow budget may need to be developed.

F**Description of Farmed Land**

A description of the location of each tract of land to be farmed by the loan applicant should be provided. This may be by FSA farm number, legal description, plat map, or other identifying method. This may be included as part of the loan narrative.

G**Credit Report**

A credit report on the loan applicant's credit history must be provided. In addition, lenders should consider any other pertinent information concerning the loan applicant's credit history. CLP lenders are not required to submit the credit report to the agency.

H**Environmental Information**

Borrowers are required to have a current AD-1026 on file with FSA. Lenders should remind borrowers that AD-1026 must be executed with FSA if one is not already on file.

FSA can conduct its environmental review in most cases without additional information from the lender. However, occasionally additional information is needed, and until this information is received, the application is not complete, and the loan processing timeframe does not start. Situations needing additional information often involve wetland determinations, potential historical or archaeological sites, or construction of major confinement livestock facilities. The review is FSA's responsibility to conduct. However, the information to complete this review is part of a complete application.

I**Additional Requirements for Entity Applicants**

Entity applicants must submit additional information for each entity member. The application must contain the following information about each entity member:

- name
 - address
 - Social Security number
 - percent ownership interest in the entity
 - current balance sheet.
-

***--69.6 Requirements for Loans Over \$125,000 (7 CFR 762.110)**

A Application Package	A complete application package for a guaranteed loan over \$125,000 will--* consist of the items in paragraph 69.5, plus subparagraphs B through G.
B Verification of Income	Nonfarm and “other farm” income should be documented using RD-1910-5 or documentation the lender uses for its nonguaranteed loans.
C Verification of Debts Over \$1,000	Verification can be documented using FSA-440-32 or documentation the lender uses for its nonguaranteed loans.
D Financial History	The financial history should support cash flow projections and include 3 years of income and expenses and 3 years of balance sheets.
E Production History	The application should include 3 years of production history (SEL only) .
F Proposed Loan Agreements	Any proposed nontypical agreements between the lender and the borrower should be explained in the narrative.
G Development Plans	If construction or development is planned, a copy of the plans, a copy of the specifications, and a development schedule is needed.

69.7 Submission Requirements for SEL's and CLP Lenders

A

Submission Requirements

The following table summarizes the submission requirements for SEL's and CLP lenders. In addition to the items submitted to FSA, lenders are expected to maintain in their files all applicable items that do not need to be submitted. Lenders certify that they have the required documentation in their files by signing FSA-1980-25.

Submission Requirement	*--For Loans \$125,000 or Less		For Loans More Than \$125,000--*	
	SEL	CLP Lender	SEL	CLP Lender
Application Form	✓	✓	✓	✓
Loan Narrative	✓	✓	✓	✓
Balance Sheet	✓	✓	✓	✓
Cash Flow Budget	✓	✓	✓	✓
Description of Farmed Land	✓	✓	✓	✓
Entity Information (if applicable)	✓	✓	✓	✓
Credit Report	✓	F	✓	F
Environmental Information (if applicable)	✓	✓	✓	✓
Proposed Loan Agreement			✓	F
Verification of Debts Over \$1,000			✓	F
Verification of Income			✓	F
3 Years of Production History			✓	N/A
3 Years of Financial History			✓	F
Development Plans (if applicable)			✓	F

Note: Items marked with an "F" are items that do not have to be submitted, but must be maintained in the lender's file.

If the lender is requesting IA, the following must be submitted:

- a proposed debt repayment schedule
- a monthly cash flow budget for LOC's.

Part 6 Application Processing Timeframes (7 CFR 762.130)

83 Application Processing Timeframes by Lender Type (7 CFR 762.130)

**A
Processing
Timeframes for
SEL’s**

Complete applications from Standard Eligible Lenders will be approved or rejected, and the lender notified in writing, no later than 30 calendar days after receipt.

The counting of the 30 calendar days begins when FSA determines that the application is complete, as defined in paragraphs 69, 69.5, 69.6, and 69.7.

**B
Processing
Timeframes for
CLP and PLP
Lenders**

Complete applications from CLP or PLP lenders will be approved or rejected not later than 14 calendar days after receipt. For PLP lenders, if this time frame is not met, the application will automatically be approved, subject to funding, and receive an 80 or 95 percent guarantee, as appropriate.

The counting of the 14 calendar days begins when FSA determines that the application is complete, as provided in paragraphs 69, 69.5, 69.6, 69.7 and 70.

--If PLP lenders are not notified of FSA's decision within 14 calendar days of submitting a complete application, the submitted application will be approved at an 80 or 95 percent guarantee.--

If a PLP application is automatically approved, the lender must not close the loan or disburse funds until funds are obligated by FSA and FSA-1980-15 is issued.

**C
Summary of
Processing
Timeframes**

This table summarizes processing timeframes for SEL’s and CLP and PLP lenders.

Lender Type	Processing Timeframe in Calendar Days From the Date the Application Is Complete
SEL	30 calendar days
CLP	14 calendar days
PLP	14 calendar days

84 Monitoring FSA Approvals (7 CFR 762.130)

**A
Authorized
Agency Official
Responsibilities**

The Authorized Agency Official is responsible for:

- processing applications within the allotted timeframes
 - maintaining a tracking system to ensure that:
 - CLP and PLP lender applications are processed within 14 calendar days
 - SEL applications are processed within 30 calendar days
 - *--entering a reason code and, if necessary, an explanation in GLS when a decision has not been made within 45 calendar days of receiving a complete application.--*
-

**B
DD
Responsibilities**

DD is responsible for:

- overseeing the approval process
- monitoring unprocessed applications.

DD shall take all steps necessary to ensure that applications are processed as quickly as possible. Some steps DD can take include the following:

- prioritizing workloads
 - providing additional training
 - providing clerical help
 - temporarily shifting staff assignments.
-

***--C
Designated
Review Official
Responsibilities**

Officials designated by SED to review rejected SDA applications shall:

- in each office of their jurisdiction review at least 50 percent of the rejected loan applications from SDA applicants who were rejected in each quarter
 - if any improper rejections are found, review all rejected SDA loan applications in the approval official's coverage area
 - notify SED of any problems detected--*
-

Continued on the next page

84 Monitoring FSA Approvals (7 CFR 762.130) (Continued)

*--C

**Designated
Review Official
Responsibilities
(Continued)**

- with the Farm Loan Chief's advice, take action on the mishandled rejected loan applications to correct any errors
 - recommend appropriate personnel actions, such as training or revocation of loan approval authority, for the approval official responsible for rejections that appear to reflect a pattern or practice of discrimination against SDA applicants
 - review the reasons and explanations why decisions have not been made on complete loan applications in a timely manner.
-

D**Farm Loan Chief
Responsibilities**

Farm Loan Chiefs shall:

- monitor loan application processing timeframes, Management of Agricultural Credit data entry, GLS data entry, and performance goal accomplishments using FOCUS and EIS reports

Note: From the EIS Main Menu under "MISC APPLICATIONS", access the reports and select "Guar In Race and Gndr". These reports will include average processing timeframes for both SDA and non-SDA applicants. Both "average days received to complete" and "average days complete to final disposition" should be monitored on the EIS reports.

- provide FOCUS and EIS reports on loan application processing timeframes to SED
 - provide technical advice and direction for corrective actions on wrongly rejected loan applications.--*
-

Continued on the next page

84 Monitoring FSA Approvals (7 CFR 762.130) (Continued)

**E
SED
Responsibilities**

SED's shall:

- be accountable for SDA loan application processing in the State, including ensuring that designated review officials conduct reviews and take corrective action on a timely basis
- emphasize the importance of timely loan application processing for all applicants
- ensure that loan application processing data is monitored through EIS, FOCUS, or other systems so that applications are being processed timely and equitably in the State
- manage staff resources appropriately to minimize loan application processing delays
- when necessary, initiate or monitor appropriate personnel actions resulting from incorrect rejection of applications to see if a pattern or practice is shown
- review the reports on loan application processing problems submitted by the designated review officials and Farm Loan Chief
- reports on both SDA and non-SDA average loan application processing timeframes
- *--submit, by October 31 of each year, a copy of summary report of affected--* cases, findings, corrective action, and results to:

USDA, FSA, DAFLP, LMD, STOP 0522
 Attn: Director, Loan Making Division
 1400 Independence Ave., SW.
 Washington, DC 20250-0522.

85-94 (Reserved)

Part 8 Loan Evaluation**Section 1 Eligibility (7 CFR 762.120)****108 General Eligibility Requirements for OL and FO (7 CFR 762.120)**

A**Summary of Eligibility Requirements**

A loan applicant and anyone who will execute the promissory note, including members of an entity applicant, must meet the following eligibility criteria to obtain a guaranteed loan. An eligible loan applicant is an applicant that:

- has not caused FSA a loss by receiving debt forgiveness on more than 3 occasions
- is not delinquent on any Federal debt
- does not have any outstanding recorded judgments obtained by the United States in a Federal court
- is a citizen of the United States or an alien lawfully admitted to the United States for permanent residence
- 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 been convicted of planting, cultivating, growing, producing, harvesting, or storing a controlled substance within the last 5 crop years.

* * *

The Authorized Agency Official will document in the FSA running record that the loan applicant meets all eligibility requirements.

B**Clarification of Loan Applicant**

In this part, the loan applicant includes any person who will execute the promissory note. In the case of an entity, the loan applicant includes all the members of the entity who will execute the promissory note.

Continued on the next page

C

No Agency Loss

The loan applicant, and anyone who will execute the promissory note, has not caused the Agency a loss by receiving debt forgiveness on more than three occasions prior to April 4, 1996, or on any occasion after April 4, 1996, on all or a portion of any direct or guaranteed loan made under the authority of the CONACT by debt write-down, write-off, compromise under the provisions of Section 331 of the CONACT, adjustment, reduction, charge-off, or discharge in bankruptcy or through any payment of a guaranteed loss *--claim under the same circumstances. Debt forgiveness does not include any writedown provided as part of a resolution of a discrimination complaint.--*

A CONACT loan is any of the following loan types, whether direct or guaranteed, made by FSA or its predecessor agency (FmHA):

- FO
- OL
- SW
- Emergency (EM)
- Economic Emergency (EE)
- Emergency Livestock (EL).

Notwithstanding the preceding sentence, applicants who receive a write-down under Section 353 of the CONACT, or are current on payments under a confirmed bankruptcy reorganization plan, may receive direct and guaranteed OL loans to pay annual farm and ranch operating expenses, which includes family subsistence, if the applicant meets all other requirements for the loan.

Notes: A borrower who has successfully completed a bankruptcy reorganization plan will be considered to be current on the plan.

All debt forgiveness actions that are part of 1 transaction and occur on or about the same date are normally considered 1 occasion of debt forgiveness, regardless of the number of loans involved. Since debt forgiveness on direct loans and guaranteed loans are always considered separate transactions, concurrent forgiveness on direct and guaranteed loans are separate occasions. A single loan may have debt forgiveness on more than 1 occasion, when, for example, a borrower received a writedown and the loan was later liquidated at a loss.

A lender should contact the local FSA office if it is unsure of a loan applicant's eligibility.

Continued on the next page

196 Exception to Standard Guarantee Limits (7 CFR 762.129) (Continued)

A**Exceptions
(Continued)**

- **when the purpose of an FO loan guarantee is to participate in the down payment loan program**
- **when a guaranteed OL is made to a farmer or rancher who is participating in the Agency's down payment loan program**

Notes: The guaranteed OL must be made during the period that a borrower has the down payment loan outstanding.

This down payment loan program refers only to a direct FO made according to FmHA Instruction 1943-A. Simply being defined as a beginning farmer will not qualify the applicant for a 95 percent guarantee.

- loans made under a State beginning farmer program where a memorandum of understanding between the State and USDA has been signed
 - *--when a guaranteed OL is made to a farmer or rancher who farms land subject to the jurisdiction of an Indian tribe and whose loan is secured by 1 or more security instruments that are subject to the jurisdiction on an Indian tribe.--*
-

197-207 (Reserved)

E**Floodplains**

A determination must be made as to whether there will be any potential impacts to a 100 year floodplain as defined by Federal Emergency Management Agency floodplain maps, Natural Resources Conservation Service data, or other appropriate documentation.

*--FSA must:

- avoid impacting floodplains, where practicable, by seeking and reviewing alternatives as part of the environmental assessment process
- mitigate potential adverse impacts to the floodplain when avoidance is not possible
- obtain all required floodplain development permits when it is necessary to perform construction within a floodplain.--*

Note: The lender shall keep a copy of the appropriate floodplain map in their files.

F**Water Quality Standards**

The lender will assist the borrower in securing any applicable permits or waste management plans. The lender may consult with the Agency for guidance on activities which require consultation with State regulatory agencies, special permitting or waste management plans.

The Authorized Agency Official and lender must ensure that loan applicants are in *--compliance with Federal and State Water Quality Standards, including Storm Water Discharge Permit requirements for certain construction activities. Although the permit requirements may vary from State to State, there are some types of--* operations that usually require special permits.

Example: Large confinement livestock operations frequently require special permits or waste management plans under State water quality laws.

Lenders are expected to:

- consult with FSA for guidance on those activities that require State agency consultation, special permitting, or waste management plans
- conduct a site visit to the loan applicant's farm

Continued on the next page

208 Environmental Requirements (7 CFR 762.128) (Continued)

F**Water Quality Standards (Continued)**

- indicate on FSA-1980-25 the need for special permits or plans or if potential problems exist

Note: If special permits or plans exist, the lender should describe them and indicate the status of the permits and plans in the application.

- indicate if no problem is evident and that the farmer is in compliance with permits and plans
 - record the farm visit in the loan applicant's case file and keep copies of waste management plans and permits as appropriate.
-

209 National Historic Preservation Act (7 CFR 762.128(c)(3))

A**Requirements**

The lender will examine the security property to determine if there are any structures or archeological sites which are listed or may be eligible for listing in the National Register of Historic Places. The lender may consult with the Agency for guidance on which situations will need further review in accordance with the National Historical Preservation Act and 7 CFR Part 1940, subpart G, and 7 CFR Part 1901, subpart F.

FSA is required to take into account the effects of its actions on historic property that is listed or may be eligible for listing on the National Register of Historic Places. FSA delegates this responsibility to the lender, but FSA is responsible for the final decision.

***--Exception:** FSA may not delegate the responsibility of consulting with the Tribal Historic Preservation Officer and any other interested Tribe.--*

Continued on the next page

A
Requirements
(Continued)

FSA expects the lender to:

- consult with the Authorized Agency Official for guidance on what situations will need historic property review and consultation

Note: If the proposed loan is for an activity that is:

- not an undertaking under Section 106 of the National Historic Preservation Act or it is an undertaking but has no potential to impact historic properties if these properties may be present, then no further Section 106 review is required. FSA personnel may refer to the EQ series for further information and guidance on undertakings
- for an activity that is an undertaking under Section 106 of the National Historic Preservation Act and has the potential to impact historic properties if these properties may be present, then further Section 106 review is required.

Examples: Historic properties include structures over 50 years old, sites of any age with significant historic or archaeological value, and burial grounds.

- examine the farm property and question the owner, if available
- consult with the State Historic Preservation Officer * * *
- check other sources of information, such as local historical societies or universities
- indicate on FSA-1980-25 and describe, include a picture if available, if property has structures or archaeological sites that may be eligible for listing in the National Register of Historic Places
- indicate on FSA-1980-25 if the property has no structures or archaeological sites that may be eligible
- *--document in the loan applicant's case file the site visit and consultation--* about the presence or absence of historic property
- provide information, as necessary, to the Authorized Agency Official for use in completing the environmental assessment.

210 Equal Opportunity and Nondiscrimination (7 CFR 762.128(d))

A**Equal Opportunity
and
Nondiscrimination**

With respect to any aspect of a credit transaction, the lender will not discriminate against any applicant on the basis of race, color, religion, national origin, sex, marital status, or age, provided the applicant can execute a legal contract. Nor will the lender discriminate on the basis of whether all or a part of the applicant's income derives from any public assistance program, or whether the applicant in good faith, exercises any rights under the Consumer Protection Act.

Determinations of whether a guaranteed lender or contractor has discriminated against a loan applicant or borrower, or otherwise violated ECOA, will not be made by FSA. If the Authorized Agency Official receives a complaint of discrimination from a guaranteed loan borrower or applicant, they will note the complaint and request that the borrower contact the lender directly to obtain information on how to file a complaint with the proper regulatory or enforcement authority. If requested by the borrower or loan applicant, the Authorized Agency Official will contact the lender for this information and provide it to the borrower.

If the guaranteed loan borrower or applicant wishes to file a discrimination complaint against FSA or an FSA employee in connection with a guaranteed loan or application, the Authorized Agency Official should inform the applicant of the procedures for filing a complaint. The lender should continue with loan making and servicing actions without regard for resolution of the complaint.

B**Construction
Contracts**

Where the guaranteed loan involves construction, the contractor or subcontractor must file all compliance reports, equal opportunity and nondiscrimination forms, and otherwise comply with all regulations prescribed by the Secretary of Labor pursuant to Executive Orders 11246 and 11375.

211 Other Federal, State, and Local Requirements (7 CFR 762.128(e))

A**Other
Requirements**

Lenders are required to coordinate with all appropriate Federal, State, and local agencies and comply with special laws and regulations applicable to the loan proposal.

212-222 (Reserved)

D**Feasible Plan
(Continued)**

The following apply for existing guaranteed loans not currently under FSA-1980-64.

- **An existing guaranteed loan is eligible for interest assistance if the borrower needs interest assistance to achieve a feasible plan and the borrower meets the eligibility criteria of Part 8, Section 1, except the provision regarding prior debt forgiveness (subparagraph 108 C).**
- **If a borrower has multiple loans, interest assistance may be provided on one or each loan, as available, to the extent necessary to achieve a feasible plan.**

* * *

E**Term of
FSA-1980-64**

The term of the interest assistance agreement under this section shall not exceed 10 years from the date of the first interest assistance agreement signed by the loan applicant, including entity members, or the outstanding term of the loan, as limited by this section, whichever is less.

The term is limited by the first FSA-1980-64.

FSA-1980-64's shall be approved for a term not in excess of 10 years minus the period of time since the first FSA-1980-64 was signed.

Note: The period of time a borrower was subject to an Interest Rate Buydown Agreement will not be considered in this limitation.

Transition Rule: Borrowers with FSA-1980-64 signed before February 12, 1992, may be considered for an additional 3 years of assistance under the exception authority in paragraph 232.

F**Nonessential
Assets**

The lender must determine whether the borrower, including members of an entity, owns any significant assets which do not contribute directly to essential family living or farm operations. The lender must determine the market value of these assets and prepare a cash flow budget based on the assumption that the value of these assets will be used for debt reduction. If a feasible plan can then be achieved, the borrower is not eligible for interest assistance. All interest assistance calculations will be based on the cash-flow budget which assumes that the assets will be sold.

A

Applying for IA

To apply for IA, the lender shall submit:

- **for new guaranteed loans:**
 - **--a completed cash flow budget and interest assistance needs analysis--*
portion of the application form**

**Note: Interest Assistance can be applied to each loan, only to one loan or any distribution the lender selects; however, interest assistance is only available on as many loans as necessary to
*--achieve a feasible plan.--***

- **for loans with unequal payments, a proposed debt repayment schedule which shows principal and interest payments for the subject loan, in each year of the loan**
- **--for existing guaranteed loans not currently under an FSA-1980-64:**
 - **a completed cash flow budget and interest assistance needs analysis--*
portion of the application form**

Note: Interest assistance can be applied to each loan, only to one loan or any distribution the lender selects as required to achieve a feasible plan.

- **for loans with unequal payments, a proposed debt repayment schedule which shows scheduled payments for the subject loan in each of the remaining years of the loan.**

* * *

Note: Requests for interest assistance on lines of credit or loans made for annual operating purposes must be accompanied by a projected monthly cash flow budget.

226 Evaluating and Approving or Denying IA Requests

**A
Evaluating IA
Requests**

Applications for IA will be evaluated according to Part 8, Sections 1 through 3. Additionally, the Authorized Agency Official shall determine whether or not all applicable requirements of this part have been met. The approval official shall check that:

- all mathematical computations are accurate
 - the loan and loan applicant are eligible to receive IA
 - nonessential assets are considered.
-

**B
Approving IA
Requests**

Because of funding limitations, IA may be approved for the following:

- for new loans, OL's only
- for existing loans, either of the following:
 - OL's or FO's that were originally obligated with IA
 - OL's or FO's obligated on or before September 30, 1991.

If the approval official determines that IA can be approved, the approval official shall do the following.

Step	Action
1	Prepare RD-1940-3. RD-1940-3 is used to obligate FSA funds including IA: <ul style="list-style-type: none"> • for new loans • for existing loans, which are presently guaranteed without IA • when the term of IA is to be extended.
2	Execute RD-1940-3 and distribute copies according to FMI.

Continued on the next page

226 Evaluating and Approving or Denying IA Requests (Continued)

B
Approving IA
Requests
(Continued)

Step	Action
3	Verify that the obligation of funds has been completed on the Automated Discrepancy Processing System. Place a printout of this in the case file.
4	For requests that include loan funds in addition to IA funds, prepare FSA-1980-15. Note: In no case will FSA-1980-15 be executed before verification of the obligation of both loan/LOC and IA funds.
5	For requests for IA on existing guaranteed loans, the approval official will notify the lender in writing that the request has been approved.

C
Denying IA
Requests

If the loan applicant is found ineligible for the loan guarantee or the guarantee cannot be approved for other reasons, the approval official shall notify the lender and loan applicant according to paragraph 83.

If the request for guarantee can be approved or has previously been approved and the request for IA is denied, the lender will be notified according to *--paragraph 229.--*

228 Annual Request for IA Payment or Continuation (7 CFR 762.150) (Continued)

E
Rules for
Continuation
of IA
(Continued)

--The loan will be eligible for continuation of interest assistance if the cash flow budget projects a feasible plan with interest assistance applied.--

To continue IA, the cash flow budget must project that a feasible plan is not possible without subsidy, but at least a feasible plan can be achieved with 4 percent subsidy.

***--However, IA can be applied only to as many loans as necessary to achieve a positive cash flow for the plan period.**

If the cash flow budget indicates that the borrower requires a level of interest assistance greater than 4 percent to project a feasible plan, then the Agency will deny the continuation of interest assistance. Interest assistance will be reduced to zero during that period. The lender will be notified according to paragraph 229.--*

If the review is not completed and submitted to the Agency within 1 year of the review date, no claim will be paid for that period.

F
FSA Review of
Request for IA
Payment

Follow this table for reviewing IA payment requests.

Step	Action
1	The Agency will review the claim and the supporting documentation within 3 workdays of receipt. If the information and the supporting documentation is not complete and correct, the reviewing official will notify the lender in writing of the actions needed to correct the request.
2	The reviewing official shall document a comparison of actual and projected income and expenses. Any major differences from previous projections to actual performance as well as major changes from the previous year's balance sheet should be noted.
3	The Authorized Agency Official shall complete the appropriate portion of FSA-1980-24 to reflect the amount of IA approved for the coming year. This should be completed even if the assistance level will be 0 percent so that adjustments in the obligation records can be made.
4	The original will be returned to the lender for attachment to the original FSA-1980-64.

229 Notification of Adverse Action

A**Notification of
FSA Action**

The lender will be notified in writing of all Agency decisions in which a request for interest assistance, a request for continuation of interest assistance or lender's claim for interest assistance are denied. The notification letter will provide specific reasons for the decision and appeals will be handled in accordance with parts 11 and 780 of this title.

230 Servicing of Loans Covered by FSA-1980-64 (7 CFR 762.150(g))

A**Consolidation of
Loans**

Loans covered by Interest Assistance Agreements cannot be consolidated.

B**Transfer and
Assumption**

Interest assistance payments shall cease upon the assumption and transfer of the loan if the transferee was not liable for the debt on the effective date of the interest assistance agreement. The lender shall request payment through the date of the transfer or assumption. The claim must be submitted within 1 year or it will be denied and the payment permanently forfeited.

The loan will be transferred with the interest assistance agreement only in cases where the transferee was liable for the debt at the time the interest assistance was granted. Under no other circumstances will the interest assistance be transferred. If interest assistance is necessary for the transferee *--to achieve a feasible plan, the lender may request such assistance, which may be approved if interest assistance funds are available and the applicant is eligible. The maximum length of the agreement will be 10 years from the date of the first agreement covering a loan for which the transferee was liable. If Interest Assistance is necessary for a feasible plan and funds are--* not available, the request for assumption of the Agency guaranteed debt will be denied.

Continued on the next page

C**Loan
Writedowns**

When consideration is given to using a debt writedown to service a delinquent account, the subsidy level will be recalculated prior to any writedown. If a feasible plan can be obtained using interest assistance and funds are available, then the interest assistance will be authorized and no writedown will be approved. If a feasible plan cannot be achieved using 4 percent interest assistance, all further calculations for determining debt writedown eligibility and amounts to be written down will be based on the borrower receiving no interest assistance. If debt writedown is approved, the interest assistance claim for the previous review period will be processed in conjunction with the writedown loss claim. The interest assistance agreement will not be canceled and the anniversary date can remain the same or be re-established under the same guidelines that it was originally established. IA will continue with a 0 subsidy amount for the first year of the writedown. If the lender determines through its annual analysis that interest assistance is necessary for a feasible plan, a request to reinstate the subsidy in a subsequent review period may be submitted in accordance with subparagraph 228 A.

D**Reamortization,
Rescheduling, or
Deferral of
Loans**

In the event of rescheduling or deferral of loans with interest assistance, interest assistance will remain available for that loan under the terms of the existing interest assistance agreement. Additional years of interest assistance and increases in the restructured loan amount will require additional funding. If the additional interest assistance is needed in order to produce a feasible plan throughout the life of the rescheduled loan and funds are not available for the additional interest assistance, then the rescheduling will not be approved by the Agency. In no case will the subsidy be extended more than 10 years from the effective date of the first interest assistance agreement signed by the loan applicant or by anyone who signed the note or line of credit agreement. * * * A review will be completed, according to subparagraph 228 A. The anniversary date can remain the same or be re-established under the same guidelines that it was originally established.

If additional funding is required, the Authorized Agency Official shall execute a new RD-1940-3 and obligate the additional funds * * *. Also, a copy of the front page of FSA-1980-64 that reflects the new expiration date for IA should be sent to the Finance Office. If FSA-1980-64 has expired, a new one shall be executed for the additional years required. The original new FSA-1980-64 should be attached to the expired one and filed in the borrower's FSA file.

Continued on the next page

E**Reorganization
Bankruptcy**

In cases where the interest on a loan covered by an interest assistance agreement is reduced by court order in a reorganization plan under the bankruptcy code, the interest assistance agreement will be terminated effective on the date of the court ordered interest reduction. The lender will file a claim due through the effective date of the court ordered interest reduction. Guaranteed loans which have had their interest reduced by bankruptcy court order are not eligible to receive interest assistance.

F**Repurchase
From Holder**

For Loan Guarantees held by holders, Agency purchase of the guaranteed portion of a loan will stop interest assistance payments on that portion. Interest assistance payments will cease upon termination of the Loan Guarantee, upon reaching the expiration date set forth in the agreement or upon cancellation by the Agency.

G**Requesting IA
for Delinquent
Accounts**

When a borrower defaults on a loan, interest assistance may be considered in conjunction with a rescheduling action in accordance with § 762.145 (b). After the meeting required by § 762.143 (b)(3) and consideration of actions to correct the delinquency, the lender will notify the Agency of the results of the meeting. If the restructuring proposal includes interest assistance, the lender will provide the items required by paragraph (d) of this section in addition to those items required by § 762.145. Liquidation must not be *--initiated, except in accordance with § 762.143 (b)(3)(v).--*

H**Adjustment of
Assistance
Between Review
Dates**

After the initial or renewal request for interest assistance is processed, no adjustments can be made until the next review or adjustment date except when necessary to service the loan with a rescheduling or deferral.

Continued on the next page

Part 10 Processing Approvals and Issuing the Guarantee**244 Loan Approval**

A**Loan Limits**

The maximum FO or OL levels outlined in this subparagraph include the guaranteed loan being made plus any outstanding direct or guaranteed principal balances, as indicated, owed by anyone who will sign the promissory note.

The total outstanding combined guaranteed FO and OL principal balance cannot *--exceed \$759,000.

The total outstanding direct and guaranteed FO principal balance cannot exceed \$759,000.

The total outstanding direct and guaranteed OL principal balance cannot exceed \$759,000.

The total combined outstanding direct and guaranteed FO and OL balance cannot exceed \$959,000.

The total combined outstanding direct and guaranteed FO, OL, and EM balance cannot exceed \$1,459,000.--*

Note: The dollar limit of guaranteed loans is adjusted annually based on the percentage change in the Prices Paid by Farmers Index, as compiled by USDA.

FSA personnel should refer to 1-FLP for information on loan approval authorities.

Continued on the next page

244 Loan Approval * * * (Continued)

B**Submitting
RD-1940-3 to the
Loan Approval
Official**

When the loan exceeds the Authorized Agency Official's approval authority, the Authorized Agency Official should send the approval official any information the approval official needs to evaluate the loan request, including the following:

- a completed RD-1940-3
- the loan approval screens from the appropriate automated system
- FSA-1980-25 for SEL and CLP loan applicants or FSA-1980-28 for PLP loan applicants
- FSA-1980-15 with recommended changes
- the balance sheet and cash flow statement (for SEL applicants)
- the loan narrative
- any other information the approval official requests.

Once the loan approval official executes RD-1940-3, the Authorized Agency Official may then proceed to execute all other loan-related documents, unless otherwise specified by the loan approval official.

C**Lender
Notification of
Authorized
Agency Official
Decision**

The lender should be informed of the approval decision in writing.

- If the application is approved and funds are available, the Authorized Agency Official shall prepare a letter to the lender (subparagraph D) and *--FSA-1980-15 and proceed to paragraph 245.--*
- 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 FSA-1980-15, agree to the conditions, and execute the document.
- If the application is rejected, the Authorized Agency Official shall prepare a letter to the lender with a copy to the applicant informing them the loan is rejected, the reasons for rejection, and their right to appeal the decision as outlined in 1-APP.

Continued on the next page

247 Actions Before Issuing FSA-1980-27 (7 CFR 762.130) (Continued)

A

**Lender's Actions
(Continued)**

- an acceptable appraisal from SEL's, if the guarantee was approved, subject to an appraisal

Note: SEL's should be encouraged to submit this appraisal to FSA before loan closing to ensure compliance with FSA requirements.

- FSA-1980-38

Note: **The lender must execute the Agency's lender's agreement and deliver it to the Agency.** If a current FSA-1980-38 is not on file with FSA, then one must be executed before issuance of FSA-1980-27.

- guarantee fee

Notes: A guarantee fee will be charged on all loans unless otherwise stated in this paragraph. **Guarantee fees are 1 percent and are calculated as follows:**

$$\text{Fee} = \text{Loan Amount} \times \% \text{ Guaranteed} \times .01.$$

The nonrefundable fee is paid to the Agency by the lender. The fee may be passed on to the borrower and included in loan funds.

The following guaranteed loan transactions are not charged a fee:

- **loans involving interest assistance**
- **loans where a majority of the funds are used to refinance an Agency direct loan**
- **--OL loans to farmers or ranchers involved in the direct beginning farmer downpayment program**

Note: The beginning farmer downpayment loan program refers only to a direct FO made under FmHA Instruction 1943-A. Simply being defined as a beginning farmer will not qualify for a waiver of the fee.--*

- loans made under a State beginning farmer program where a memorandum of understanding between the State and USDA has been signed.

Continued on the next page

A

**Lender's Actions
(Continued)**

- a copy of the executed promissory note or loan agreement.

Note: The lender will use its own promissory notes, line of credit agreements, real estate mortgages (including deeds of trust and similar instruments), and security agreements (including chattel mortgages in Louisiana and Puerto Rico), provided:

- the forms meet Agency requirements
- documents comply with State law and regulation
- the principal and interest repayment schedules are stated clearly in the notes and are consistent with the conditional commitment

***--Note:** A lender may use notes with short-term maturities for intermediate and long-term loans provided:

- the lender has indicated the intended term of the loan

Note: This may be done by entering the total number of years in the repayment period block of the application form.

- the subsequent note is a continuation of the original intended repayment plan and not a restructuring of a past due account
- there is a clear link between FSA-1980-27 and all the notes intended to be covered by FSA-1980-27. FSA-1980-27 references only the debt instrument used at loan closing. The necessary linkage may be established with a master note, a loan agreement, or by referring in the subsequent notes to the original debt instrument referenced on FSA-1980-27.--*

- the note is executed by the individual liable for the loan

Note: For entities, the note is executed by the member who is authorized to sign for the entity, and by all members of the entity as individuals. 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.

Continued on the next page

247 **Actions Before Issuing FSA-1980-27 (7 CFR 762.130) (Continued)**

A**Lender's Actions
(Continued)**

- **when the loan purpose is to refinance or restructure the lender's own debt, the lender may continue to use the existing debt instrument and attach an allonge that modifies the terms of the original note.**

In addition, the lender should take the following actions.

- Inform FSA of the lender's plans to market the loan to the secondary market. These plans must be consistent with Part 15. LOC's may be funded in participation with other lenders, but may not be sold into the secondary market.
 - **The lender must notify the Agency of any scheduled inspections during construction and after the guarantee has been issued. The Agency may attend these field inspections. Any inspections or review performed by the Agency, including those with the lender, are for the benefit of the Agency only. Agency inspections do not relieve any other parties of their inspection responsibilities, nor can these parties rely on Agency inspections in any manner.**
-

B**FSA Actions**

Once FSA receives the information from the lender detailed in subparagraph A, the Authorized Agency Official must take the following actions before executing FSA-1980-27 to guarantee the loan.

- Review FSA-1980-15 to ensure that the loan closed according to the agreed conditions.
 - Review the executed loan agreement and the promissory notes and compare with FSA-1980-15 to ensure consistency with the agreed upon terms and personal liability of entity members.
 - Review the lender's proposed marketing plans to the secondary market. If the lender is proposing to sell the loan or a portion of the loan into the secondary market, documents should be checked to ensure consistency before sale. The Authorized Agency Official should take additional care to review FSA-1980-15, FSA-1980-27, the loan agreement, and the promissory notes to ensure the following:
 - the principal amount and interest rate are consistent
-

Continued on the next page

247 Actions Before Issuing FSA-1980-27 (7 CFR 762.130) (Continued)

B**FSA Actions
(Continued)**

- the closing date on the note and guarantee are consistent
 - the borrower's name, bank name, and FSA contact information are consistent on all documents.
 - For loans involving construction, review the lender's proposed plans for construction inspections and how they intend to ensure that the project is completed according to agreed upon terms.
-

248 Issuing FSA-1980-27

A**Action**

Once the requirements of paragraph 247 have been met, the Authorized Agency Official may prepare and issue FSA-1980-27. The original FSA-1980-27 should be provided to the lender to be attached to the original note. A conformed copy, or signed and dated photocopy, with copies of the note should be kept by FSA in the loan docket.

B**Documents To
Be Transmitted
to the Finance
Office**

Once FSA-1980-27 has been issued to the lender, the Authorized Agency Official should process the guarantee fee through the System 36 under the Miscellaneous *--Code of 30. Refer to 3-FI for additional guidance. The Loan Closing Transaction should be input through the GLS "Add Loan Screen".--*

249 Deobligation of Loan Funds

A**Deobligation of
Funds**

Under certain circumstances, the Authorized Agency Official may need to consider a deobligation of loan funds. If the conditions for the loan or LOC cannot be met after completing the appeal process, the Authorized Agency Official must execute FSA-1940-10 to cancel the actual obligation. FSA-1940-10 should be FAXed to the State Office which will process the cancellation or deobligation through GLS.

266 Lender Reporting Requirements (7 CFR 762.141) (Continued)

B**General Reporting Requirements (Continued)**

Lenders should submit FSA-1980-26 to satisfy the requirement for an annual report on collection activities. See Part 14 for more details on this reporting requirement.

C**FSA Monitoring of Lender Reports**

The Authorized Agency Official should carefully review reports received from lenders, noting changes from previous reports. If the lender is not sending these reports in a timely manner, the Authorized Agency Official should document attempts to obtain the reports and communicate problems to SED.

--The Authorized Agency Official will enter information from FSA-1980-41 into GLS when FSA-1980-41 is received from the lender. The first FSA-1980-41 for a loan will be completed for the second semi-annual reporting cycle after the loan was closed. FSA-1980-41 will not be required on a loan that was closed within the past 6 months.--

The Authorized Agency Official should review the lender's semi-annual FSA-1980-41 to see if it indicates that the loan is in good standing. If the principal balance has not been reduced in over a year, the accrued interest balance appears inordinately large, the interest rate does not comply with the promissory note, or other concerns, the issue should be discussed with the lender. If necessary, the discussion should be followed by a letter requesting that the account be corrected and a new FSA-1980-41 submitted.

An indication on FSA-1980-41 that the loan is past due will not place the account in default in FSA's records. If the lender has indicated that an account is past due, and FSA-1980-44 has not been submitted, the Authorized Agency Official shall contact the lender and request that FSA-1980-44 be submitted if the account will not be brought current within a few days.

*--Entering information from FSA-1980-44, which shows a loan has been brought to a current status, will remove that loan from a delinquency status; however, it will not change the amount the loan payments are shown as Ahead/Behind. The Authorized Agency Official will prepare an updated FSA-1980-41, using the information from FSA-1980-44, and process into GLS. If the information on FSA-1980-41 shows the loan as current, and the amount Ahead/Behind is shown as zero, the management reports will reflect the correct status of the loan.

See Part 12 for other FSA actions regarding FSA-1980-44.--*

See Part 14 for FSA actions regarding FSA-1980-26.

A**Overview**

Authorized Agency Officials will be FSA's primary point of contact with lenders on a day-to-day basis. Authorized Agency Officials must ensure that lenders are appropriately managing their guaranteed loans, and submitting all required reports on time. In cases where lenders may have deficiencies in loan servicing, the Authorized Agency Official should provide loan servicing guidance and assistance.

The purpose of performing lender file reviews is to protect the guarantee, preserve lender status, and minimize losses and the need for adjustments to loss claims.

B**Lender Loan Files Review Priorities**

For each SEL, FSA will annually review the case files of 40 percent of the lender's outstanding guaranteed loan borrowers. For each CLP and PLP lender, FSA must annually review the case files of 20 percent of the lender's outstanding guaranteed loan borrowers. If the file reviews for a PLP lender have found no major deficiencies during the first 3 years of reviews, the frequency of file reviews may be reduced to biennially, and the number of files reviewed may be reduced to a minimum of 5 files, or 10 percent of the lender's loans, whichever is greater. For lenders processing guaranteed loans in more than 1 State, the file reviews should be done in the State where the lender is headquartered, and other States in the lender's service area may send personnel to assist in the review.

Loans are selected for review according to the following priorities:

- loans receiving consideration for rescheduling, deferral, writedown, transfer and assumption, or substitution of lender
 - delinquent loans or loans which the lender or FSA has identified as high risk
 - loans in which the funds were used to refinance the lender's own debt
 - the most recent loans closed by the lender and not yet reviewed
 - other loans.
-

Continued on the next page

267 FSA Loan Servicing Responsibilities (Continued)

B**Lender Loan Files Review Priorities (Continued)**

FSA-1980-03 and FSA-1980-04 may be used to document the lender file reviews. All questions on each FSA-1980-03 and FSA-1980-04 do not require completion for each file reviewed, as long as reviews are sufficient to document that lenders are meeting the underwriting, origination, and servicing requirements of their FSA-1980-38's and this handbook. In addition to the lender's loan file, a copy of the loan account ledger should be obtained and reviewed. Additional information may be requested and reviewed by FSA, if necessary, based on deficiencies noted in the file, in loss claim reviews, or as suggested by other parties. SED shall determine how the file review requirement will be met in their State.

C**Multi-State PLP Lender File Review**

Where PLP lenders are approved to make and service loans in multiple States, it may be beneficial to both FSA and the lender to conduct a multi-State file review to meet the file review requirement. This review can benefit:

- FSA by:
 - helping to lead toward a more consistent handling of the reviews and the associated findings
 - having an opportunity to identify and correct inconsistent practices of the lender or FSA
- lenders by:
 - gaining a better understanding of across-the-board FSA expectations of the lender
 - having minimal disruption to their State operations as a result of FSA file reviews.

To ensure that multi-State reviews are given full consideration, the following procedures will be followed.

- *--In January of each year, the National Office will contact each lender that has PLP status in a minimum of 3 States and the appropriate States in which that lender has PLP status. This contact will determine, based upon the lender and the States' opinion, whether a multi-State review is necessary. If it is determined that a multi-State review is necessary, the National Office will take the lead in contacting the lender and coordinating the review. Multi-State reviews may be scheduled at any time during the year.--*

Continued on the next page

267 FSA Loan Servicing Responsibilities (Continued)

C**Multi-State PLP Lender File Review (Continued)**

- *--In January of each year, the National Office will provide a list of lenders that have PLP status in only 2 States to appropriate Farm Loan Chiefs. Farm Loan Chiefs will be responsible for contacting each other to determine whether a multi-State review is necessary. State Offices will take the lead in coordinating the reviews. Farm Loan Chiefs will determine review participants.--*

* * *

The multi-State review will not alleviate the lender of their responsibility to provide Authorized Agency Officials access to any particular file or files of the lender if in the Authorized Agency Official's opinion an additional review is necessary.

D**Authorized Agency Official Review of PLP Lender Loan Files**

PLP loan file reviews will be documented by completing FSA-1980-04. The review of PLP loan files will be based on the terms and conditions specified in FSA-1980-38. The following questions should be considered during the loan file review.

- Do the files contain sufficient information to document that the underwriting and servicing was consistent with FSA-1980-38?
 - Were servicing actions implemented in a manner consistent with FSA-1980-38?
 - Was servicing prudent and reasonable?
-

E**Authorized Agency Official Response to Loan File Review**

If the review has identified any major deficiencies, the Authorized Agency Official should discuss the problems with the lender. All discussions between the lender and the Authorized Agency Official regarding lender compliance on major deficiencies must be documented and forwarded in writing to SED.

Reports from lender visits and loan file reviews must be placed in the County Office files, with copies forwarded to DD.

Continued on the next page

267 FSA Loan Servicing Responsibilities (Continued)

F**Authorized Agency Official Review of Loan Servicing Reports Provided by Lender**

The Authorized Agency Official is responsible for obtaining all required information from lenders regarding the servicing of guaranteed loans. This includes the annual financial analysis performed to determine the borrower's progress on loan payback and goal achievement (paragraph 265), loan status reports (paragraph 266), and all other materials submitted to FSA, including requests by lenders to perform certain servicing actions.

G**Authorized Agency Official Approval Authority**

Authorized Agency Officials can approve the following servicing actions:

- alterations in loan conditions that do not prejudice the government's interest
 - replacement of collateral
 - the use of proceeds from the disposition of collateral.
-

H**DD Servicing Responsibilities**

DD servicing responsibilities include:

- providing guidance and assistance to the Authorized Agency Official in monitoring guaranteed loans
 - reviewing a sample of lender visit reports and loan reviews, making recommendations or comments, and forwarding reports of deficiencies to SED
 - make recommendations to the Authorized Agency Official on all delinquent loans
 - conducting other servicing actions as directed by SED.
-

Continued on the next page

267 FSA Loan Servicing Responsibilities (Continued)

I**SED Servicing Responsibilities**

SED's have broad management responsibilities for the guaranteed loan program. SED servicing responsibilities include, but are not limited to, the following:

- review deficiencies identified by the Authorized Agency Official and provide recommendations for resolution
- perform an annual review of each lender's CLP and PLP status, and if the lender is found to be deficient in meeting the minimum criteria, then upon notification to the lender, remove the status

***--Note:** For PLP lenders, the decision to remove PLP status must be made in the National Office after reviewing SED's recommendation.

- perform appraisal reviews according to 1-FLP, paragraph 143

Note: See 1-FLP, Part 6 for additional guidance on appraisal review issues.--*

- maintain a lender file for each guaranteed lender in the State Office.
-

J**Addressing Deficiencies**

If deficiencies in loan servicing are detected by FSA, the Authorized Agency Official will work with the lender to correct any problems. If the lender fails to correct a major loan servicing deficiency, and the deficiency results in a loss, the loss claim may be reduced or denied.

Subparagraph 52 H contains the definition of major and minor deficiencies. Refer to paragraphs 48 and 54 for follow-up actions and consequences of not correcting deficiencies for SEL's and PLP lenders, respectively.

K**MOU Between FSA and FDIC**

If a lender who participates in FSA's Guaranteed Farm Loan Programs fails, FDIC may, as Receiver, assume responsibility for FSA-1980-15, FSA-1980-27, and/or FmHA-449-34 for all guaranteed loans to which the closed bank was a party.

Exhibit 16 outlines the responsibilities of FSA and FDIC in such cases.

268-277 (Reserved)

282 Additional Loans or Advances (7 CFR 762.146(a))

A

Additional Loans or Advances SEL and CLP lenders must not make additional loans or advances without prior written approval of the Agency, except as provided in the borrower's Loan or Line of Credit Agreement.

The PLP lender may make additional loans or advances in accordance with the lender's agreement with the Agency.

283 Emergency Advances (7 CFR 762.146(a))

A

Issuance of an Emergency Advance Under LOC

In cases of a guaranteed line of credit, lenders may make an emergency advance when a line of credit has reached its ceiling. The emergency advance will be made as an advance under the line 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. The following conditions apply:

- the loan funds to be advanced are for authorized operating loan purposes
 - the financial benefit to the lender and the Government from the advance will exceed the amount of the advance
 - the loss of crops or livestock is imminent unless the advance is made.
-

B

Lender Request for an Emergency Advance

SEL's and CLP lenders must obtain written permission from the Authorized Agency Official before an emergency advance on LOC can be made.

Emergency advances are authorized for ongoing operations and may be used for *--OL's with a 1-year term, or in any year of LOC. Where liquidation is imminent, advances will be made as protective advances according to Part 14.--*

To request an emergency advance, SEL's and CLP lenders must submit the following to the Authorized Agency Official:

- a narrative explaining that the loss of crops and/or livestock is imminent and can be prevented by an infusion of cash
-

Continued on the next page

283 Emergency Advances (7 CFR 762.146(a)) (Continued)

B

Lender Request for an Emergency Advance (Continued)

- cash flow projections
- if necessary, a copy of the modified loan note that reflects the additional cash advanced.

PLP lenders may make emergency advances according to their FSA-1980-38.

C

FSA Response to Request for Emergency Advance

The Authorized Agency Official:

- shall review a SEL's and CLP lender's request for an emergency advance and notify the lender of FSA's decision in a timely manner
 - should make every effort to respond to a request for an emergency advance within several days of receiving the lender's request.
-

284 Interest Rate Changes (7 CFR 762.146(d))

A

Overview

The lender may change the interest rate on a performing (nondelinquent) loan only with the borrower's consent.

B

Procedures Lender Must Follow to Change Interest Rate

If the loan has been sold on the secondary market, the lender must repurchase the loan or obtain the holder's written consent.

To change a fixed rate of interest to a variable rate of interest or vice versa, the lender and the borrower must execute a legally effective amendment or allonge to the existing note.

If a new note is taken, it will be attached to and refer to the original note.

The lender will inform the Agency of the rate change.

The lender shall inform FSA of the rate change by completing RD-1980-47 and forwarding it to the County Office.

Lenders do not need to seek FSA concurrence to change an interest rate.

313 Specific Lender Requirements for Loan Restructuring (7 CFR 762.145) (Continued)

A**SEL Request for Restructuring (Continued)**

After SEL has submitted all of these documents, FSA shall:

- review the documents for compliance
 - input FSA-1980-44 into GLS
 - complete and forward RD-1980-47 to the Finance Office.
-

B**CLP Restructuring Requirements**

CLP lenders must obtain prior written approval of the Agency only for debt write down under this section.

For restructuring other than write down, CLP lenders will provide FSA with a certification that each requirement of this section (part) has been met, a narrative outlining the circumstances surrounding the need for restructuring, and copies of any applicable calculations.

In addition, the CLP lender will provide:

- copies of any restructured notes
- FSA-1980-44 to show the loan is current
- FSA-1980-84, if applicable.

After the CLP lender has submitted all of these documents, FSA shall:

- review the documents for compliance
 - ~~execute FSA-1980-84, if applicable~~*
 - input FSA-1980-44 into GLS
 - complete and forward RD-1980-47 to the Finance Office.
-

C**PLP Restructuring Requirements**

PLP lenders will restructure loans in accordance with their lender's agreement.

A PLP lender may request guidance on or concurrence with a restructuring proposal. The Authorized Agency Official shall review the lender's request for compliance with the terms indicated in the credit management plan of their PLP FSA-1980-38.

Continued on the next page

313 Specific Lender Requirements for Loan Restructuring (7 CFR 762.145) (Continued)

C**PLP
Restructuring
Requirements
(Continued)**

All PLP lenders will submit copies of any restructured notes to FSA. With the copies of any restructured notes, PLP's must attach a cover memo explaining the restructuring and FSA-1980-44 to confirm that the loan is once again current.

*--After the PLP lender has submitted all of these documents, FSA shall:

- review the documents for compliance with the PLP agreement
 - input FSA-1980-44 into GLS
 - complete and forward RD-1980-47 to the Finance Office
 - execute FSA-1980-84 and provide it to the PLP lender.--*
-

314 FSA Response to Restructuring Requests

A**Authorized
Agency Official
Responsibilities**

Authorized Agency Officials have several responsibilities in the event a loan defaults and a lender submits a restructuring plan, including:

- provide loan restructuring assistance and guidance as requested
- review FSA-1980-44 for compliance with FSA guarantee documents, the lender's loan agreement, promissory note, and FSA regulations
- inform the lender if the borrower is eligible for IA if requested
- process all FSA-1980-44's in the Guaranteed Loan System.

The Authorized Agency Official should contact the lender to discuss any problems with the proposal, request corrections, or suggest revisions. If the requested corrections are significant, this contact should be followed up with a letter outlining the additional information needed and a time frame for it to be provided. If the proposal is approved, the Authorized Agency Official will inform the lender that they may proceed to restructure the loan.

If the lender fails to provide updates on recent or planned collection actions, estimated timeframes for corrective actions proposed by the borrower, or other information reviewed that indicates that the lender is not acting timely or prudently to protect their interest, the Authorized Agency Official will inform the lender in writing of the problems noted and request modifications.

Continued on the next page

A**General
Description**

A deferral postpones the payment of principal and interest on FO, OL, or LOC to accommodate a temporary inability of the borrower to make scheduled payments. Loan principal can be deferred in whole or part. If the deferment period is 1 year or less, interest can be deferred in whole or in part. Interest may only be deferred in part if the deferral period extends over 1 year.

B**Conditions**

The following conditions * * * apply to deferrals:

- **Payments may be deferred up to 5 years, but the loan may not be extended beyond the final due date of the note.**
- **The principal portion of the payment may be deferred either in whole or in part.**
- **Interest may be deferred only in part. Payment of a reasonable portion of accruing interest as indicated by the borrower's cash flow projections is required for multi-year deferrals.**
- **There must be a reasonable prospect that the borrower will be able to resume full payments at the end of the deferral period.**

The amount of principal and interest deferred must be based on the borrower's current ability to pay and projections regarding ability to pay in the future. If the deferral period is to extend beyond 1 year, only a portion of the interest can be deferred.

The loan may be rescheduled after the deferral if payments as scheduled cannot be made.

C**Lender Request
to Defer a Loan**

To request a deferral, SEL lenders must submit documentation according to the requirements listed in paragraph 313. Based on this evidence, the Authorized Agency Official will notify the lender in a timely manner whether or not the deferral plan is approved.

CLP lenders must submit documentation according to paragraph 313, after completing the loan restructuring.

PLP must restructure loans according to FSA-1980-38 and provide post-restructuring documentation to FSA according to paragraph 313.

A**Overview**

A debt writedown involves writing off a portion of the outstanding balance of a loan. A lender may write down a delinquent guaranteed loan only in an amount sufficient to enable the borrower to repay the reduced debt over the remaining term of the loan. All lenders must seek FSA concurrence before they can execute a debt writedown. Debt writedown loss claims must be approved by SED.

B**General Requirements**

The following conditions apply to debt writedown:

- **A lender may only writedown a delinquent guaranteed loan or line of credit in an amount sufficient to permit the borrower to develop a feasible plan of operation as defined in § 762.102(b).**
 - **The lender will request other creditors to negotiate their debts before a writedown is considered.**
 - **The borrower cannot develop a feasible plan after consideration is given to rescheduling and deferral under this section.**
 - **The present value of the loan to be written down, based on the interest rate of the rescheduled loan, will be equal to or exceed the net recovery value of the loan collateral.**
 - **The loan will be restructured with regular payments at terms no shorter than 5 years for a line of credit and OL loan note and no shorter than *--20 years for FO, unless required to be shorter by § 762.145(c)(1)(i) and--* (ii).**
 - **No further advances may be made on a line of credit that is written down.**
 - **Loans may not be written down with interest assistance. If a borrower's loan presently on interest assistance requires a writedown, the writedown will be considered without interest assistance.**
 - **The writedown is based on writing down the shorter-term loans first.**
-

Continued on the next page

D
Agency
Executions of
FSA-1980-36
(Continued)

Before executing FSA-1980-36, the Authorized Agency Official should review the documents to determine the following items.

- To whom the loan is being sold? According to subparagraph A, a loan may not be sold to the borrower or someone who has a relationship to the borrower or is an owner or subsidiary of the lender itself.
- Is the loan delinquent? Delinquent loans may not be sold into the secondary market.
- Is the lender attempting to sell any of the unguaranteed portion of the loan? The lender is only permitted to sell the guaranteed portion of the loan into the secondary market.
- Is FSA currently holding the guaranteed portion of a loan that was purchased more than 180 calendar days after the lender refused the request to repurchase from the holder?

--Once the Authorized Agency Official is satisfied that all 4 of these conditions are met, FSA-1980-36 will be executed and all copies returned to the holder.--

Upon the lender's sale or assignment of the guaranteed portion of the loan, or participation of the line of credit, the lender will remain bound to all obligations indicated in the Guarantee, lender's agreement, the Agency program regulations and to future program regulations not inconsistent with the provisions of the lender's agreement. The lender retains all rights under the security instruments for the protection of the lender and the United States.

The lender will send the holder the borrower's executed note attached to the Guarantee.

The holder will succeed to all rights of the guarantee pertaining to the portion of the loan purchased.

The holder, upon written notice to the lender and the Agency, may assign the unpaid guaranteed portion of the loan.

The holder must sell the guaranteed portion back to the original lender if necessary for servicing or liquidation of the account.

The guarantee or assignment of guarantee in the holder's possession does not cover interest accruing 90 days after the holder has demanded repurchase by the lender, except as provided in the assignment of guarantee and § 762.144(c)(3)(iii), or interest accruing 90 days after the lender or the Agency requested the holder to surrender evidence of debt repurchase, if the holder has not previously demanded repurchase.

375 Repurchase of Guaranteed Portion From a Secondary Market Holder (7 CFR 762.144)**A
Holder Demand
for Repurchase**

The holder may request the lender to repurchase the unpaid guaranteed portion of the loan when either:

- **the borrower has not made a payment of principal and interest due on the loan for at least 60 days**
- **the lender has failed to give the holder its pro-rata share of any payment made by the borrower within 30 days of receipt of a payment.**

--The holder shall notify FSA when these circumstances exist. If the holder chooses not to make demand, Authorized Agency Officials will monitor the account. If the loan remains past due for 90 calendar days, the lender will be requested to repurchase the loan. If the lender refuses to repurchase, FSA will immediately require the holder and lender to reconcile the loan balances. FSA will then repurchase from the holder no later than 150 calendar days past due.--

When a lender is requested to repurchase a loan from the holder, the lender must consider the request according to the servicing actions that are necessary on the loan. In order to facilitate servicing and simplified accounting of loan transactions, lenders are encouraged to repurchase the loan upon the holder's request.

If the lender does not repurchase the loan, the holder must inform the Agency in writing that demand was made on the lender and the lender refused. Following the lender's refusal, the holder may continue as holder of the guaranteed portion of the loan or request that the Agency purchase the guaranteed portion. Within 30 days after written demand to the Agency from the holder with required attachments, the Agency will forward to the holder payment of the unpaid principal balance, with accrued interest to the date of repurchase. If the holder does not desire repurchase or purchase of a defaulted loan, the lender must forward the holder its pro-rata share of payments, liquidation proceeds and Agency loss payments.

If the lender believes the holder is making demand for repayment outside the allowable reasons, the lender should detail why they believe the demand is unreasonable in a refusal letter to the holder. A copy of this letter should also be forwarded to FSA.

Upon repurchase, the lender shall notify FSA by returning the original FSA-1980-36.

Continued on the next page

Reports, Forms, Abbreviations, and Delegations of Authority

Reports None

Forms This table lists all forms referenced in this handbook.

Number	Title	Display Reference	Reference
AD-1026	Highly Erodible Land Conservation and Wetland Conservation Certification		69.5, 208
FEMA-81-93	Standard Flood Hazard Determination Form		138
FmHA-431-2	Farm and Home Plan		72
FmHA-449-34	Loan Note Guarantee		281, 267
FSA-440-32	Request for Statement of Debts and Collateral		69.6, 152
FSA-1940-10	Cancellation of U.S. Treasury Check and/or Obligation		249
FSA-1980-01	Lender's Processing Checklist		69, 95
FSA-1980-02	Guaranteed Loan Processing Checklist		69
FSA-1980-03	Annual File Review Checklist for SEL and CLP Lenders		267
FSA-1980-04	Annual File Review Checklist for PLP Lenders		267
FSA-1980-05	Debt Writedown Review Checklist		329
FSA-1980-06	Guaranteed Estimated Loss Review Checklist for SEL and CLP Lenders		342, 359
FSA-1980-07	Guaranteed Loan Final Loss Review Checklist		360
FSA-1980-15	Conditional Commitment		Text
FSA-1980-22	Lender Certification		247
FSA-1980-24	Request for Interest Assistance Payment		228, 326
FSA-1980-25	Application for Guarantee		47, 69.5, 69.7, 72, 96, 108, 181, 208, 209, 244, 245
FSA-1980-26	Report on Collection Activities on Liquidated Accounts		266, 362
FSA-1980-27	Loan Guarantee		267

Continued on the next page

Reports, Forms, Abbreviations, and Redelegations of Authority (Continued)
**Forms
(Continued)**

Number	Title	Display Reference	Reference
FSA-1980-27	Loan Guarantee		247, 248, 250, 281, 373, 374, 376
FSA-1980-28	Preferred Lender Application for Guarantee		70, 96, 181, 244
FSA-1980-36	Assignment of Guarantee		373-375
FSA-1980-37	FSA Purchase of a Guaranteed Loan Portion		375
FSA-1980-38	Lender's Agreement		Text
FSA-1980-41	Guaranteed Farm Loan Status Report as of		266, 355, 376
FSA-1980-42	Notice of Substitution of Lender (Transaction 4034)		287
FSA-1980-44	Guaranteed Farm Loan Default Status Report		266, 300, 313, 314, 326, 329, 355, 357-359
FSA-1980-49	Guaranteed Loan Status Update Adjustment (Transaction 4048)		288
FSA-1980-64	Interest Assistance Agreement		224, 225, 227, 228, 230, 231, 287
FSA-1980-84	Modification of Loan Guarantee		281, 313, 326
FSA-1980-86	Notification of Transfer and Assumption of a Guaranteed Loan Transaction Code 4037		281
FSA-1980-88	Farm Loan Programs Guaranteed Writedown Worksheet		328
FSA-1980-89	Shared Appreciation Agreement for Guaranteed Loans		181, 288, 328, 341
G-641	Application for Verification of Information From Immigration and Naturalization Records		108
I-151	Alien Registration Receipt Card		108
I-551	Alien Registration Receipt Card		108
RD-449-30	Loan Note Guarantee Report of Loss		136, 288, 328, 342, 344, 355, 360, 362, 376

Continued on the next page

Definitions of Terms Used in This Handbook (Continued)

Beginning Farmer or Rancher (Continued)

In the case of a loan made to an entity, all members must materially and substantially participate in the operation of the farm or ranch. Material and substantial participation requires that the individual 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 or ranch would be seriously impaired.

- agrees to participate in any loan assessment, and financial management programs required by Agency regulations
- except for applicants for OL, **does not own real farm or ranch property or who, directly or through interests in family farm entities owns real farm or ranch property, the aggregate acreage of which does not exceed *-30 percent of the average farm or ranch acreage of the farms or ranches in the county where the property is located**

Notes: The 30 percent acreage limitation was effective with enactment of the Farm Security and Rural Investment Act of 2002. CFR has not yet been revised to conform with the law.--*

If the farm is located in more than one county, the average farm acreage of the county where the loan applicant's residence is located will be used in the calculation. If the loan applicant's residence is not located on the farm or if the loan applicant is an entity, the average farm acreage of the county where the major portion of the farm is located will be used. The average county farm or ranch acreage will be determined from the most recent Census of Agriculture developed by the U.S. Department of Commerce, Bureau of the Census or USDA.

- **demonstrates that the available resources of the loan applicant and spouse (if any) are not sufficient to enable the loan applicant to enter or continue farming or ranching on a viable scale**
- **in the case of an entity:**
 - **all the members are related by blood or marriage**
 - **all the stockholders in a corporation are qualified beginning farmers or ranchers.**

Continued on the next page

Definitions of Terms Used in This Handbook (Continued)

Borrower A borrower is an individual or entity which has outstanding obligations to the lender under any Agency loan program. A borrower includes all parties liable for Agency debt, including collection-only borrowers, except those whose total loan and accounts have been voluntarily or involuntarily foreclosed or liquidated, or who have been discharged of all Agency debt.

* * *

Cash Flow Budget Cash flow budget is a projection listing all anticipated cash inflows (including all farm income, nonfarm income and all loan advances) and all cash outflows (including all farm and nonfarm debt service and other expenses) to be incurred by the borrower during the period of the budget. Cash flow *--budgets for loans under \$125,000 do not require income and expenses--* itemized by categories. A cash flow budget may be completed either for a 12 month period, a typical production cycle or the life of the loan, as appropriate. It may also be prepared with a breakdown of cash inflows and outflows for each month of the review period and includes the expected outstanding operating credit balance for the end of each month. The latter type is referred to as a “monthly cash flow budget”.

Collateral Collateral is property pledged as security for a loan to ensure repayment of an obligation.

Conditional Commitment A conditional commitment is the Agency’s commitment to the lender that the material it has submitted is approved subject to the completion of all conditions and requirements contained therein.

Continued on the next page

Definitions of Terms Used in This Handbook (Continued)

Consolidation	<u>Consolidation</u> is the combination of outstanding principal and interest balance of two or more OL loans.
Controlled	<u>Controlled</u> is when a director or employee has more than a 50 percent ownership in the entity or, the director or employee, together with relatives of the director or employee, have more than a 50 percent ownership.
Cooperative	A <u>cooperative</u> is an entity which has farming as its purpose and whose members have agreed to share the profits of the farming enterprise. The entity must be recognized as a farm cooperative by the laws of the State in which the entity will operate a farm.
Cosigner	A <u>cosigner</u> is a party who joins in the execution of a promissory note to assure its repayment. The cosigner becomes jointly and severally liable to comply with the terms of the note. In the case of an entity loan applicant, the cosigner cannot be a member, partner, joint operator, or stockholder of the entity.
County Average Yield	The <u>county average yield</u> is the historical average yield for a commodity in a particular political subdivision, as determined or published by a government entity or other recognized source.
Debt Writedown	A <u>debt writedown</u> is to reduce the amount of the borrower's debt to that amount that is determined to be collectible based on an analysis of the security value and the borrower's ability to pay.
Deferral	A <u>deferral</u> is a postponement of the payment of interest or principal or both. Principal may be deferred in whole or in part, interest may only be partially deferred.

Continued on the next page

Definitions of Terms Used in This Handbook (Continued)

Direct Loan A direct loan is a loan serviced by the Agency as lender.

Due Diligence Due diligence is the process of evaluating real estate as part of a financing application to determine the presence of contamination from release of hazardous substances, petroleum products, or other environmental hazards and determining what effect, if any, the contamination has on the regulatory status or security value of the property.

Entities *--Entities are **cooperatives, corporations, partnerships, joint operations, trusts or limited liability companies.**--*

Family Farm A family farm is a farm which:

- produces agricultural commodities for sale in sufficient quantities so that it is recognized in the community as a farm rather than a rural residence
 - provides enough agricultural income by itself, including rented land, or together with any other dependable income, to enable the borrower to:
 - pay necessary family living and operating expenses
 - maintain essential chattel and real property
 - pay debts
-

Continued on the next page

Definitions of Terms Used in This Handbook (Continued)

FSA	<u>FSA</u> is the United States of America, acting through the Farm Service Agency, an agency of the United States Department of Agriculture. References to the National Office, Finance Office, State Office, County Office, District Office, SED, DD, local credit officer, or other FSA offices or officials should be read as prefaced by “FSA.”
Graduation	<u>Graduation</u> is the Agency’s determination that a borrower of a direct loan is financially stable enough to refinance that loan with a commercial lender with or without a guarantee.
Guaranteed Loan	A <u>guaranteed loan</u> is a loan made and serviced by a lender for which the Agency has entered into a Lenders Agreement and for which the Agency has issued a Loan Note Guarantee. This term also includes lines of credit except where otherwise indicated.
Hazard Insurance	<u>Hazard insurance</u> includes fire, windstorm, lightning, hail, explosion, riot, civil commotion, aircraft, vehicles, smoke, builder’s risk, public liability, property damage, flood or mudslide, workers compensation, or any similar insurance that is available and needed to protect the security, or that is required by law.
--Historic Property	<u>Historic property</u> is a prehistoric or historic district, site, building, structure, or object, including artifacts and records, included in or eligible for inclusion in the National Register of Historic Places.--
Holder	A <u>holder</u> is the person or organization other than the lender who holds all or a part of the guaranteed portion of an Agency guaranteed loan but who has no servicing responsibilities. When the lender assigns a part of the guaranteed loan to an assignee by way of execution of an assignment form, the assignee becomes a holder.
In-House Expenses	<u>In-house expenses</u> are expenses associated with credit management and loan servicing by the lender and lender’s contractor. In-house expenses include, but are not limited to: employee salaries, staff lawyers, travel, supplies, and overhead.

Continued on the next page

Definitions of Terms Used in This Handbook (Continued)

Interest Assistance Agreement The interest assistance agreement is the signed agreement between the Agency and the lender setting forth the terms and conditions of the interest assistance.

Interest Assistance Anniversary Date The interest assistance anniversary date is the date on which interest assistance reviews and claims will be effective. This date is established by the lender. Once established, it will not change unless the loan is restructured.

Interest Assistance Review The interest assistance review is the yearly review process that includes an analysis of the borrower or applicant's farming operation and need for continued interest assistance, completion of the needs test and request for continuation of interest assistance.

Joint Operation A joint operation is individuals that have agreed to operate a farm or farms together as a business unit. The real and personal property may be owned separately or jointly by the individuals. * * *

Land Development Land development is items such as terracing, clearing, leveling, fencing, drainage and irrigation systems, ponds, forestation, permanent pastures, perennial hay crops, basic soil amendments, and other items of land improvements which conserve or permanently enhance productivity.

Lender A lender is the organization making and servicing the loan or advancing and servicing the line of credit which is guaranteed under the provisions of Agency regulations. The lender is also the party requesting a guarantee.

Lender's Agreement A lender's agreement is the appropriate Agency form executed by the Agency and the lender setting forth the loan responsibilities of the lender and agency when the Loan Guarantee is issued.

Continued on the next page

State Supplements

Subparagraph	State Supplement
267 B	Guidance on determining how the file review requirement will be met in their State.

Note: SED's shall:

- issue State supplements according to 1-AS, paragraph 216
 - obtain approval of State supplements according to 1-AS, paragraph 220.
-

