

UNITED STATES DEPARTMENT OF AGRICULTURE

Farm Service Agency
Washington, DC 20250

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

Amendment 14

Approved by: Deputy Administrator, Farm Loan Programs



Amendment Transmittal

A Reason for Amendment

The provisions of the Farm Security and Rural Investment Act of 2002 (2002 Act) related to guaranteed loans were incorporated in this handbook in Amendment 10. A final rule was published in the Federal Register (FR) on February 18, 2003.

This amendment incorporates the 2002 Act's provisions as published in FR.

Subparagraphs 69.5 A, 69.6 A, and 69.7 A have been amended to reflect the published revised threshold limits for low documentation loans from SEL and CLP lenders. The threshold was increased from \$50,000 to \$125,000.

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.

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

Page Control Chart		
TC	Text	Exhibit
	5-1, 5-2 5-5, 5-6 through 14 8-167 through 8-188	2, pages 3-6

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:

- C contact Authorized Agency Officials for assistance with the application
- C 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:

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

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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	U	U	U	U
Loan Narrative	U	U	U	U
Balance Sheet	U	U	U	U
Cash Flow Budget	U	U	U	U
Description of Farmed Land	U	U	U	U
Entity Information (if applicable)	U	U	U	U
Credit Report	U	F	U	F
Environmental Information (if applicable)	U	U	U	U
Proposed Loan Agreement			U	F
Verification of Debts Over \$1,000			U	F
Verification of Income			U	F
3 Years of Production History			U	N/A
3 Years of Financial History			U	F
Development Plans (if applicable)			U	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:

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

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

A**Exceptions
(Continued)**

- C when the purpose of an FO loan guarantee is to participate in the down payment loan program**
- C 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.

- C loans made under a State beginning farmer program where a memorandum of understanding between the State and USDA has been signed**
 - C 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.**
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197-207 (Reserved)

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.

- C agrees to participate in any loan assessment, and financial management programs required by Agency regulations
- C **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**

Note: * * *

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.

- C **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**
- C **in the case of an entity:**
 - C **all the members are related by blood or marriage**
 - C **all the stockholders in a corporation are qualified beginning farmers or ranchers.**

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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.

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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.

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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:

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