



NEWSLETTER



Kansas FSA State Office
Adrian J. Polansky, State Executive Director
3600 Anderson Avenue, Manhattan, KS 66503
785-539-3531 Fax 855-782-9609

Guaranteed Lender News – Kansas 25th Edition – Winter 2014

Annual Lender Training



It has been a wild and crazy ride in Farm Service Agency (FSA) with the Farm Bill passing and all that has gone into implementing the changes for Kansas in both Farm Programs and Farm Loan Programs (FLP). With this said, dates for annual lender training are unknown as of this newsletter writing. We will anticipate a Microsoft® Live Meeting or Adobe Connect in the spring.

More information will be provided at a later date regarding a Live Meeting. In the meantime, we hope that this newsletter will provide valuable news and updates pertinent to FSA's guaranteed farm loan program.

Maximum Loan Authorities Effective 10/1/2014



The annual increase to the guaranteed loan limits as outlined in 2-FLP Paragraph 244 A stating that the dollar limit of guaranteed loans is adjusted annually based on the percentage change in the Prices Paid by Farmers Index has been announced.

The new guaranteed loan limit is \$1,392,000, for loans approved on or after 10/1/14.

Please contact the FSA County Office for increased loan limits when working with multiple loans in both guaranteed and direct FSA loan programs.

Significant Farm Bill Changes of Interest

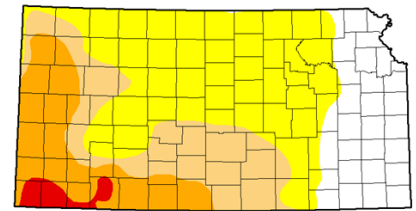
- FSA's direct microloan program increased the loan limit from \$35,000 to \$50,000. Additional information regarding microloans can be found on FSA's website: [click here](#)
- 15-year Guaranteed Operating Loan (G-OL) Term Limits were removed.

- For Direct or Guaranteed FO loans, if the entity is an “Operator Only Entity,” real estate purchased can be owned by one member or any combination of members in their individual name or indirectly through interest in a legal entity (as long as members of the legal entity are members of the Operating Entity). If the entity is an operator-only entity, the individuals that own the farm (real estate) must own at least 50 percent of the family farm (operating entity), as referenced in 2-FLP Handbook, Subparagraph 110 B. To determine if an operator-only entity meets the 50 percent rule, refer to the attached “Operator Only Entity FO Loans Only Worksheet.”
- Entity applicants have been expanded to include embedded entities for an eligible applicant. Areas in 2-FLP Handbook that have been amended:
 - a) Subparagraph 111 D and 112 B to modify rules for entity applicants who are owned by embedded entities.
 - b) Subparagraph 247 A has been amended to clarify signature requirements on promissory notes when embedded entities are involved. The promissory note will be executed to evidence liability for the entity, any embedded entities, and the individual liability of **all** entity members (including individual owners of embedded entities). Personal guarantees, or other forms, will not be used to address the individual liability requirement. Individual liability can be waived by the Agency for members holding less than 10% ownership in the entity if the collectability of the loan will not be impaired.
 - c) Exhibit 2 has been changed to include definitions for: embedded entity, entity member definition, family farm definition and operator definition.
 - d) The attached “Embedded Entities OL, FO, EM other Loans Worksheet” may be helpful to determine eligibility.
- For loans of \$250,000 or less, taking real estate security for collateral, the lender may obtain an appraisal if they deem necessary. If a current appraisal is not obtained, the lender **must** document the value of the real estate by applying the same policies and procedures as their non-guaranteed loans. Justification for this method in lieu of an Appraisal must be clearly documented. Acceptable evaluations are outlined in 2-FLP Handbook at Subparagraph 183 A. PLP’s will follow these guidelines unless otherwise provided for in their CMS with the Agency.
- For loans greater than \$250,000, the lender must obtain a current appraisal* completed by a State Certified General Appraiser and in accordance with USPAP requirements. *FSA may allow an appraisal more than 12 months old to be used only if the following are met:
 - a) Market conditions have remained stable or improved based on sales of similar properties,
 - b) The property in question remains in the same or better condition, **and**
 - c) The value of the property has remained the same or increased.
- The guaranteed loan making and servicing handbook is available here: [FSA-Guaranteed Loans](#).
- Any questions regarding Farm Bill changes should be directed to the Farm Loan Programs staff in the FSA County Office you typically work with.

Guidance on Guaranteed Loan Making and Servicing Actions

Drought conditions and lower grain prices may be increasing financial stress for many farmers and ranchers in the state. Current drought map as of 12/23/14

FSA is committed to using all available authorities, consistent with prudent lending practices, to assist borrowers in surviving this period of uncertain unprofitability. Servicing options are authorized to assist lenders and producers with long-term viability in obtaining operating capital or extending a term loan in difficult times.



Please do not hesitate to contact the FSA County Office loan official to learn of these loan servicing options available to assist your guaranteed loan borrowers.

FSA Farm and Ranch 2015 Planning Guide

The planning guide was sent to lenders in August; however, it is attached again to this newsletter for reference. Please consider using the attached 2015 Farm and Ranch Planning Guide for your use in submitting guaranteed loan requests. For your information, we also keep the planning prices up-to-date on our website: [KS FLP Prices](#).



Use of these prices set by FSA is optional; however, sources must be documented by the lender and acceptable to the Agency. Preferred Lenders will follow their CMS Agreement of price projections. The lender may use price forecasts from land grant universities, other published prices, forward contracted prices, futures or price histories of specialty crops on other commodities. The lender should use price forecasts that provide an accurate projection of commodity prices that the borrower will receive. **All lenders** must use price forecasts that are reasonable and defensible according to 2-FLP Subparagraph 152 C.

Arlyn Stiebe, Farm Loan Chief Retires After 31+ Years of Service

Kansas FSA Farm Loan Chief, Arlyn Stiebe has decided to take retirement, effective December 31, 2014, after 31 plus years of service. Arlyn started his career as an Assistant County Supervisor in Atchison, in 1983. He was then promoted to County Supervisor in Hugoton. In 1987 he became a Farm Loan Specialist for the guaranteed loan program in Western Kansas. He worked as a County Executive Director in Cimarron from 1995 until he became the Farm Loan Chief in 1998. Post retirement, Arlyn plans to spend his time farming with his brother in Pawnee County, KS and enjoying more time in Colorado.

Best wishes for a Happy New Year!

Shelly Wolf, Farm Loan Specialist, shelly.wolf@ks.usda.gov, Phone: 785.564.4765

"The U.S. Department of Agriculture (USDA) prohibits discrimination against its customers, employees, and applicants for employment on the bases of race, color, national origin, age, disability, sex, gender identity, religion, reprisal, and where applicable, political beliefs, marital status, familial or parental status, sexual orientation, or all or part of an individual's income is derived from any public assistance program, or protected genetic information in employment or in any program or activity conducted or funded by the Department (not all prohibited bases apply to all programs). Individuals who are deaf, hard of hearing or have speech disabilities and wish to file a program complaint must contact USDA through the Federal Relay Service at (800) 877-8339 or (800) 845-6136 (in Spanish). Persons with disabilities who require alternative means of communication for program information (e.g., Braille, large print, audiotape, etc.) must contact USDA's TARGET Center at (202) 720-2600 (voice and TDD).

To file a Civil Rights program complaint of discrimination, complete the USDA Program Discrimination Complaint Form, found online at http://www.ascr.usda.gov/complaint_filing_cust.html, or at any USDA office, or call (866) 632-9992 to request the form. You may also write a letter containing all of the information requested in the form. Send your completed complaint form or letter to us by mail at U.S. Department of Agriculture, Director, Office of Adjudication, 1400 Independence Avenue, S.W., Washington, D.C. 20250-9410, by fax at (202) 690-7442 or e-mail at program.intake@usda.gov. USDA is an equal opportunity provider and employer."

Operator Only Entity FO Loans Only Worksheet

FSA Operator Only Entity Applicant: _____

Applying the rule to make sure owners of the real estate own at least 50% of the Operating Entity (a/k/a Operator Only Entity):

1. Identify all individuals of Operating Entity with an ownership interest in farm real estate (as an individual or through another entity) (Table 1)
2. Identify the individuals with an ownership interest in the Operating Entity and their percent interest. (Table 2)
3. List members of the Operating Entity who also own real estate. (Table 3)
4. List their percent share in Operating Entity. The owners of real estate must own at least 50% of the Operating Entity. (Table 4)

DECISION PROCESS:

Table 1
Real Estate Owners

Title Held By:

Table 2
**FSA Applicant
Operating Entity Owners
and Percent Interest**

_____	_____%
_____	_____%
_____	_____%
_____	_____%

Narrow it down:

Table 3
**List Only Members of the Operating
Entity who Own Real Estate**

Table 4
**List their percent Share in
Operating Entity**

_____	%
_____	%
_____	%
_____	%
Total	_____%
Total must be 50% or more	

Operator Only Entity FO Loans Only Worksheet

Operator Only Entity (a/k/a/ Operating Entity) Reference Sheet:

The Rule: If the entity is an **operator only entity**, the **individuals who own the farm (real estate)** must own at least 50 percent of the **farm (operating entity)**.

An Operator Only Entity operates, but does not own real estate in the name of the entity.

Determining who is the Operating Entity (also referred to as family farm or Operator Only Entity)?

- FSA applicant must be the operator of the Operating Entity
- Operating Entity is the business operation (sole proprietorship or entity).

Consider:

- ☐ FP records show operator as Operating Entity
- ☐ Grain checks issued in Operating Entity name
- ☐ Tax return includes Operating Entity
- ☐ Checking account in Operating Entity name

The particular percent of real estate they currently own is not an issue, whether they own 1% or 100%, they are considered owners.

When loan purpose is to purchase a farm:

- For an FO to purchase real estate, the real estate purchased can be owned by one member or any combination of members in their individual name or indirectly through interest in a legal entity (as long as members of the legal entity are members of the Operating Entity – cannot add a third party that is not a member).
- However, must still meet owner-operator test; at least one member (if related) or members owning a majority interest (if not-related) must own the real estate
- If owned by the Operating Entity itself, you essentially have a regular FO loan.

Only Guaranteed FO authorizes refinancing debt. If refinancing debt, the debt to be refinanced must be owed by the Operating Entity, with a small amount of flexibility. For instance, if the Operating Entity is husband and wife and the husband borrowed money as an individual on behalf of the operating entity, it seems reasonable to be able to refinance the debt if it meets all other loan purpose requirements. If the debt is owed by some other Entity, then it likely could not be refinanced (unless possibly if it is an embedded entity).

Operating Entity with an Embedded Entity: Review the Operating Entity documents to determine if an Embedded Entity has an ownership interest in the Operating Entity. If so you would apply the 75% rule to the Embedded Entity and the 50% rule to the Operating Entity. Real estate could be owned by a “real estate only” entity that does not have an ownership interest in the Operating Entity. In this case, you do not apply the 75% rule to the “real estate only” entity as they do not have an ownership interest in the Operating Entity and is not considered an Embedded Entity.

Embedded Entities OL, FO, EM, other Loans Worksheet

Name of FSA Applicant with Embedded Entity(s): _____

To determine if an embedded entity meets the 75% rule, take the following steps:

1. Identify the embedded entities (could be one or more).
2. Identify the individual ownership interests of each embedded entity.
3. For each individual with ownership interest in the embedded entity, determine whether they are actively involved in managing or operating the family farm. (Yes or No)
4. For each embedded entity, individuals representing 75% of ownership of each embedded entity must be actively involved in managing or operating.

Applicant's Name, Assets:

_____ FSA Applicant
Assets: _____

Step 1 - Embedded Entities

Embedded Entity Name

Embedded Entity Name

Step 2 and 3 - Owner's of each Embedded Entity, their percent interest and are they actively involved in managing or operating the family farm?

	_____ %	Managing/Operating
Owner	Interest	<input type="checkbox"/> Yes or <input type="checkbox"/> No
_____	_____ %	<input type="checkbox"/> Yes or <input type="checkbox"/> No
Owner	Interest	<input type="checkbox"/> Yes or <input type="checkbox"/> No
_____	_____ %	<input type="checkbox"/> Yes or <input type="checkbox"/> No
Owner	Interest	<input type="checkbox"/> Yes or <input type="checkbox"/> No
_____	_____ %	<input type="checkbox"/> Yes or <input type="checkbox"/> No
Owner	Interest	<input type="checkbox"/> Yes or <input type="checkbox"/> No

	_____ %	Managing/Operating
Owner	Interest	<input type="checkbox"/> Yes or <input type="checkbox"/> No
_____	_____ %	<input type="checkbox"/> Yes or <input type="checkbox"/> No
Owner	Interest	<input type="checkbox"/> Yes or <input type="checkbox"/> No
_____	_____ %	<input type="checkbox"/> Yes or <input type="checkbox"/> No
Owner	Interest	<input type="checkbox"/> Yes or <input type="checkbox"/> No
_____	_____ %	<input type="checkbox"/> Yes or <input type="checkbox"/> No
Owner	Interest	<input type="checkbox"/> Yes or <input type="checkbox"/> No

Step 4 - Are 75% of the individual ownership interests in each embedded entity actively involved in managing or operating the family farm? Yes _____ No _____

Embedded Entities OL, FO, EM, other Loans Worksheet

Embedded Entity Reference Sheet:

The Embedded Entity Rule: If the applicant has one or more **embedded entities**, at least **75 percent of the individual ownership interests** of each embedded entity must be **owned by members actively involved** in managing or operating the family farm.

Embedded entity - means an entity that has a direct or indirect interest, as a stockholder, member, beneficiary, or otherwise, in another entity.

Determining if the members are “actively involved in managing or operating the family farm”:

- Actively involved and NOT absentee investor
- Involvement may be labor or management (or combination)
- Daily/weekly involvement
- Consider amount of time individual spends on operation
- Consider impact on operation if they did not provide the labor or management

If the applicant has one or more embedded entities, at least 75 percent of the individual ownership interests of each embedded entity must be owned by members actively involved in managing or operating the family farm.

Summary of Entity Rules:

Operator of family farm (OL – FO - EM)

- Related: The entity or at least one member must operate the family farm
- Not related: The entity or entity members holding a majority interest must operate the family farm

Owner of family farm (FO only)

- Related: At least one member or the entity must own the farm
- Not related: Members owning majority interest or the entity must own the farm
- Operating only entity: Individuals that own the farm (real estate) must own at least 50% of family farm (operating entity)

Embedded entities

- Individuals owning at least 75% each embedded entity must be actively involved

Authorized entity

- Meets definition of entity
- Authorized to operate and own in the state



KANSAS FARM SERVICE AGENCY FARM AND RANCH 2015 PLANNING GUIDE

The prices included in this Exhibit may be used in completing 2015 Cash Flows. These prices are established for term loans. If you are making an annual loan (LOC) only, it is allowable to use contracted prices, but only on the amount of grain under contract and the file needs to contain documentation to support prices. These prices were obtained by consultation with other agriculture lenders, agricultural agencies and other FSA State Offices.

If the operator is participating in other government programs, the payments need to be described by the type of government program (i.e. CRP). If the payment information is not available from FSA Farm Program staff, then you'll need to work with the customer, to obtain the data via consent to release information. The FSA Farm Loan Programs staff may be able to obtain projections on the payment amounts for the lender, as a routine user, for guaranteed loan applications and/or FSA direct loan refinancing.

2015 Crop and Livestock Prices:

Wheat – Bu.	6.00	Cows – cwt.	.95
Milo – Bu.	3.50	450# calves-cwt. (blended price)	215.00
Corn – Bu.	3.75	750# calves- cwt (blended price)	185.00
Soybeans – Bu.	10.50	Fat Cattle – cwt.	140.00
Oats – Bu.	3.20	Sows – cwt.	55.00
Pinto Beans – cwt.	25.00	Feeder Pigs (50-60 lbs) per head:	65.00
Sunflowers (oil) – cwt.	19.00	Market Hogs-cwt. (live)	85.00
Sunflowers (confection) – cwt.	21.00	Cull Ewes & Rams – lb.	.65
Alfalfa – ton	130.00	Slaughter Lambs – lb.	1.15
Other Hay – ton	70.00	Cull Goats – lb.	.80
Corn Silage – ton	30.00	Slaughter Goats – lb.	1.40
Other Silage – ton	25.00	Grade A Milk – cwt.	19.00
Cotton – lb.	.65		

The prices listed above for livestock are projected for cow/calf and farrowing operations. For example, since a cow/calf operation would normally include steers and heifers to be sold, the price of \$2.15 per pound for 450# calves is blended to cover all calves to be sold at that weight. These prices are not to be used when calves or pigs have been purchased or are being purchased for resale at heavier weights. In those cases, the actual or projected purchase price should be used for the livestock to be bought. When the livestock are sold, the projected price will be based on the appropriate futures market (less basis), contract prices, adjusting current cash prices, etc. The justification for price variance must be documented in the lender's narrative/customer's loan docket. With livestock, as with other commodities, if the individual can provide reliable evidence that a premium price will be received, the higher prices will be allowed in the plan.

Typical price spreads for steers and heifers will be used. The price difference between steers and heifers is generally greater at lighter weights with the gap narrowing as the cattle reach the fat cattle weight. When steers and heifers are to be purchased and sold, the cash flow is to list steers and heifers separately.

Prices for Specialty Commodities (i.e. elk, rabbit, fruits, vegetables, etc.) will be determined by contracts the applicants have with the buyers of the products or otherwise documented by method and reliability in the plan of operation.

All lenders must use price forecasts that are reasonable and defensible. PLP Lenders will follow their CMS Agreement of price projections. Use of these prices set by FSA is optional; however, sources must be documented by the lender and acceptable to the Agency. The lender may use price forecasts from land grant universities, other published prices, forward contracted prices, futures, or price histories of specialty crops on other commodities. The lender should use price forecasts that provide an accurate projection of commodity prices that the borrower will receive.