

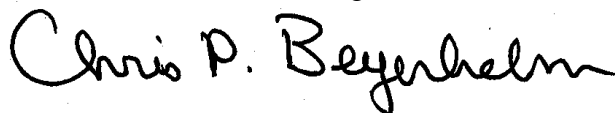
UNITED STATES DEPARTMENT OF AGRICULTURE

Farm Service Agency
Washington, DC 20250

**Guaranteed Loan Making and Servicing
2-FLP (Revision 1)**

Amendment 26

Approved by: Deputy Administrator, Farm Loan Programs



Amendment Transmittal

A Reasons for Amendment

Subparagraph 47 B has been amended to remove reference.

Subparagraph 48 B has been amended to allow service centers the option to maintain Lenders Agreements on the state's Share Point or Intranet Website.

Subparagraph 48 C has been amended to add reference to interest rate policies.

Subparagraph 49 F has been amended to provide guidance for reviewing financial strength of CLP lenders.

Subparagraph 50 D has been amended to clarify CLP lender renewal process.

Subparagraph 51 B has been amended to clarify that the authorized agency official shall develop and maintain an operational file for each CLP Lender.

Subparagraph 51 C has been amended to add reference to interest rate policies.

Subparagraph 52 D has been amended to update link to CMS and correct alphabetical sequence to the CMS summary.

Subparagraph 54 B has been amended to clarify that the authorized agency official shall develop and maintain an operational file for each PLP Lender.

Subparagraph 54 C has been amended to add reference to interest rate policies.

Subparagraph 83 B has been amended to make note of new Farm Bill requirements for CL loans.

Subparagraph 108 L has been amended to remove reference to term limit restrictions and add a note of new Farm Bill requirements.

Subparagraph 123 B has been amended to clarify that FO funds can be used for dwellings recognized in the community as modest after any planned improvements.

Amendment Transmittal

A Reasons for Amendment (Continued)

Subparagraphs 135 B and C have been amended to clarify when lenders rate adjustment practices will be reviewed.

Subparagraph 151 B has been amended to clarify financial performance history must be current.

Subparagraph 181 C has been amended to include evaluations as part of loan servicing actions.

Paragraph 195 has been amended to make note of new Farm Bill requirements for CL loans.

Subparagraph 247 A has been amended to include reference to Exhibit 11.

Subparagraph 247 B has been amended to remove reference to interest rates.

Subparagraph 267 B has been amended to add reference to when lenders interest rate policies will be reviewed.

Subparagraph 267 D has been amended for updating PLP checklist to include reference to risk-base pricing practice.

Exhibit 2 amended to note new Farm Bill requirements for beginning farmer definition.

Exhibit 11 has been added to provide instructions for using an allonge for a loan already closed by the lender when guarantee funds are not available.

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

C Examination and Supervision (Continued)

*--For traditional lenders, SED's shall check the appropriate regulatory agency web sites to determine if the lender is subject to any enforcement action before engaging in a new lending relationship.

For nontraditional lenders, DAFLP shall check the appropriate regulatory agency to determine if the lender is subject to any enforcement action before engaging in a new lending relationship. In addition, DAFLP may periodically complete a review of the financial capacity for nontraditional lenders whose financial statements are not readily available. SED's will be informed of any deficiencies noted.--*

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 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.

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

47 Approval Process for SEL

A FSA Application for Guarantee Review

The authorized agency official shall review the Application for Guarantee 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 Lenders Agreement is not required unless the most recent version of Lenders Agreement has not been executed. * * *

Traditional lenders are subject to a comprehensive financial examination and their financial statements are readily available online. Nontraditional lenders may not be subject to the level of financial examination of traditional lenders and their financial statements may not be easily obtained.

For nontraditional lenders, whose financial statements are not available online or from any other source, the following may be obtained from the lender.

- Copy of the year-end reviewed or audited financial statements for the last 2 years.

Note: Financial statements must be prepared according to Generally Accepted Accounting Principles.

- Schedule of current sources of funding and funds available for agricultural lending.
- Agricultural loan performance history for the last 2 years; including current delinquency, default, and loss rates.
- Current loan loss reserve and methodology for allowance for loan losses.

Note: For certain nontraditional lenders, DAFLP may be able to determine the lender's financial capacity from other sources, such as financial strength rating from an accredited private or State rating agency. In these cases, some or all of the information to be obtained from the lender may not be required.

For nontraditional lenders, DAFLP will be the SEL status approval official and issue the Lenders Agreement.

To develop expertise in guaranteed lending, SEL's are encouraged to designate 1 or more staff members to:

- process and service FSA guaranteed loans
- attend FSA-sponsored training.

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.

B Operational File

*--Each Service Center specified on the Lenders Agreement shall do either of the following:

- develop and maintain an operational file for the lender
- have access to the lender's electronic operational file located on the State SharePoint or Intranet web site.

This operational file shall contain the following:--*

- information on the loans originated and serviced by the lender
- copies of the monitoring reviews conducted by FSA
- resolution of findings
- any correspondence between the lender and FSA
- copy of a current Lenders Agreement
- copy of lender's risk based pricing practice, if applicable.

*--**Note:** For all lender operational files developed and maintained on the respective State SharePoint or Intranet web site, a hard copy of the operational file is not required.--*

C Imposing Sanctions

In situations where the authorized agency official is unable to resolve deficiencies with the lender, enforcement actions may be taken. Before the implementation of any enforcement action by FSA, the lender must be:

- notified in writing of the deficiencies
- given a specific timeframe in which to resolve the deficiencies
- warned of the sanctions that may be taken by FSA if the deficiencies are not resolved.

48 Monitoring SEL (Continued)

C Imposing Sanctions (Continued)

Examples of unresolved deficiencies may include the following:

- failure on the part of the lender to obtain an adequate appraisal
- failure to perfect a lien
- failure to adequately monitor the borrower or the collateral
- *--failure to comply with interest rate policies.--*

While any of these deficiencies may result in the denial or reduction of a loss claim to the lender, it is important to FSA that these issues be resolved as early as possible.

The sanction imposed on the lender should be the most effective in resolving the deficiency. Examples of sanctions include the following:

- adjustment of loss claims
- increased monitoring visits
- increased reporting on corrective actions taken
- increased documentation for guarantee processing
- determination that the lender does not meet SEL standards and, therefore, is not eligible for future guaranteed loans.

In extreme cases, recommendations should be made to the National Office for suspension or debarment.

49 Eligibility Requirements for CLP (7 CFR 762.106)

A Overview

CLP is a program that permits lenders with a proven track record in making and servicing guaranteed loans to operate under a streamlined origination and servicing process. While the CLP lender is still bound by FSA regulations and must use and maintain on file FSA-approved forms, information submitted to FSA for approval is minimized. SED is responsible for approving all CLP's in the State, based on information from the local offices and prior performance of the lender.

B Threshold Eligibility

The lender must **qualify as a Standard Eligible Lender under 7 CFR 762.105.**

To be eligible to apply for certified lender status, the lender must meet the eligibility requirements of SEL as detailed in paragraph 46.

49 Eligibility Requirements for CLP (7 CFR 762.106) (Continued)**F Acceptable Level of Soundness**

The lender must **not be under any regulatory enforcement action such as a cease and desist order, written agreement, or an appointment of conservator or receiver, based on financial condition.**

--When a lender requests CLP status, SED shall check the appropriate regulatory agency web sites in subparagraph 46 C to determine if the lender is subject to any enforcement action before engaging in a new lending relationship.--

G Qualified Person

The lender must **designate a qualified person or persons to process and service Agency guaranteed loans for each of the lender offices which will process CLP loans. To be qualified, the person must meet the following conditions:**

- **have attended Agency sponsored training in the past 12 months or will attend training in the next 12 months**
- **agree to attend Agency sponsored training each year.**

The CLP application should include the resume or resumes of the person or persons qualified to process and service FSA-guaranteed loans. For a CLP lender, it is expected that this person will have experience in agricultural lending and experience in originating and servicing FSA-guaranteed loans.

H Acceptable Forms

The lender must **use forms acceptable to the Agency for processing, analyzing, securing, and servicing Agency guaranteed loans and lines of credit.**

50 Approval of Certified Lenders (7 CFR 762.106)

A Request for CLP Status

Lenders who desire CLP status must prepare a written request addressing:

- **the States in which they desire to receive CLP status and their branch offices which they desire to be considered by the Agency for approval**
- **each item of the eligibility criteria for CLP approval in this section (paragraph 49), as appropriate.**

See subparagraph B for eligibility criteria to be addressed in the request.

The lender may include any additional supporting evidence or other information the lender believes would be helpful to the Agency in making its determination.

The lender must send its request to the Agency State Office for the State in which the lender's headquarters is located.

The lender must provide any additional information requested by the Agency to process a CLP request, if the lender continues with the approval process.

50 Approval of Certified Lenders (7 CFR 762.106) (Continued)**B Eligibility Criteria**

Before a lender is approved for CLP status, the lender must demonstrate compliance with the following eligibility criteria:

- provide evidence of being an eligible lender
- provide information to show that loan losses (net of recovery) do not exceed 7 percent
- have the capacity to process and service FSA-guaranteed loans
- certify that the person designated to process and service FSA-guaranteed loans has attended FSA loan processing and servicing training within the previous 12 months or will attend training within the next 12 months
- agree to send for annual training the designated person from each of the lender's offices responsible for processing and servicing guaranteed loans
- agree to use forms acceptable to FSA for processing, analyzing, securing, and servicing FSA-guaranteed loans/LOC's
- if not previously submitted, copies of financial statements, cash flow plans, loan agreements, analysis sheets, security agreements, and promissory notes should be submitted with the request for CLP status
- *--have closed a minimum of 10 FSA-guaranteed FO, SW, CL, and OL loans/LOC's and--*
5 loans within the past 2 years.

C FSA Approval

The CLP-eligible lender will have a track record in FSA programs. SED may request that authorized agency officials that the lender has worked with provide a recommendation for CLP status and any issues or concerns that should be considered by SED before granting CLP status. SED shall make a decision on CLP status within 30 calendar days of receipt of the lender's complete application.

50 Approval of Certified Lenders (7 CFR 762.106) (Continued)

C FSA Approval (Continued)

CLP status is granted on a statewide basis by SED. A separate Lenders Agreement is required for each State. A lender may request CLP status for all branches within a State, or only the specific branches that are using the guaranteed program. **[7 CFR 762.106(d)(2)]**

The Agency will determine which branches of the lender have the necessary experience and ability to participate in the CL Program based on the information submitted in the lender application and on Agency experience. The branch offices for which CLP status is granted are listed on Lenders Agreement.

[7 CFR 762.106(d)(3)] Lenders who meet the criteria will be granted CLP status for a period not to exceed 5 years. Once a Lenders Agreement is executed by the CLP lender and SED, the original will be kept in the State Office and copies will be sent to the lender and County Offices where the lender is expected to submit applications. In addition, the FSA-approved lender forms and the names of the lender's designated representatives will be sent to the affected County Offices.

D Renewal

[7 CFR 762.106(f)(1)] CLP status will expire within a period not to exceed 5 years from the date the lender's agreement is executed, unless a new lender's agreement is executed.

[7 CFR 762.106(f)(2)] Renewal of CLP status is not automatic. A lender must submit a written request for renewal of a lender's agreement with CLP status which includes information:

- **updating the material submitted in the initial application**
- **addressing any new criteria established by the Agency since the initial application.**

--A request for renewal of CLP status must be submitted to FSA before the expiration of the current lenders agreement. FSA will work with the lender to ensure that CLP status remains in effect until a new CLP lenders agreement is executed.--

[7 CFR 762.106(f)(3)] CLP status will be renewed if the applicable eligibility criteria under this section are met, and no cause exists for denying renewal under paragraph (g) of this section (subparagraph 51 C).

51 Monitoring CLP (7 CFR 762.106)**A Monitoring Reviews**

CLP lenders will provide information and access to records upon Agency request to permit the Agency to audit the lender for compliance with these regulations.

The authorized agency official shall conduct a monitoring review on each CLP lender. This review shall be conducted according to Part 11. The authorized agency official shall review at least 20 percent of CLP's files over the course of a year, according to the priorities in subparagraph 267 B.

B Operational File

--The authorized agency official shall develop and maintain an operational file on each CLP lender, according to subparagraph 48 B. For CLP, SED shall also maintain a file for their SED internal annual review.--

At least annually, SED shall collect and review information about the performance of each CLP lender, including monitoring reviews from all County Offices that monitor the lender. These monitoring reviews shall be used to determine whether CLP status should continue.

C Revoking CLP Status

In addition to the sanctions that may be imposed in subparagraph 48 C, the Agency may revoke the lender's CLP status at any time during the 5 year term for cause.

SED is granted this authority.

51 Monitoring CLP (7 CFR 762.106) (Continued)**C Revoking CLP Status (Continued)**

Any of the following instances constitute cause:

- **violation of the terms of the lender's agreement**
- **failure to maintain CLP eligibility criteria**
- **knowingly submitting false or misleading information to the Agency**
- **basing a request on information known to be false**
- **deficiencies that indicate an inability to process or service Agency guaranteed farm loans**
- ***--failure to comply with interest rate policies according to paragraph 135--***
- **failure to correct cited deficiencies in loan documents upon notification by the Agency**
- **failure to submit status reports in a timely manner**
- **failure to use forms accepted by the Agency**
- **failure to comply with the reimbursement requirements of §762.144(c)(7) and (c)(8) (subparagraph 376 A).**

D Reinstatement of CLP Status

A lender which has lost CLP status must be reconsidered for eligibility to continue as a Standard Eligible Lender in submitting loan guarantee requests. They may reapply for CLP status when the problem causing them to lose their status has been resolved.

If the reason for revoking CLP status was because of the deliberate submission of false information, the National Office must approve the request for reinstatement.

52 Eligibility Requirements for PLP (7 CFR 762.106) (Continued)

D PLP CMS Guidelines

The following is an example of a Credit Management System (CMS) summary. It was developed by the U.S.D.A, FSA to assist lenders who wish to prepare and submit a request for Preferred Lender Program (PLP) status for the FSA Guaranteed Farm Loan Program. The application for PLP status is to be prepared according to section 7 CFR Part 762.106 and this subparagraph.

This document is based on a review of numerous lender policies and is intended solely as an example CMS summary. This example may serve as a starting point for a lender developing a CMS summary; language can be drawn from it for use in areas where a lender does not have a policy. Each area must be amended based on the institution's commercial lending policy, organizational structure, and loan management practices.

Note: The CMS summary is available on FSA's web site at

--http://www.fsa.usda.gov/Internet/FSA_File/example_cms.doc--

**PREFERRED LENDER PROGRAM
CREDIT MANAGEMENT SYSTEM SUMMARY
ATTACHMENT TO Form FSA-2201, "LENDER'S AGREEMENT"**

**Bank Name
Anywhere, USA**

This document contains the credit management system (CMS) requirements agreed to by SAMPLE BANK, City, State, USA, and the Farm Service Agency (FSA) for the Lender's participation in the FSA Guaranteed Loan Program. Requirements for loan administration, servicing, and reporting activities not specifically addressed in this attachment or in conflict with 7 CFR 762 are governed by 7 CFR 762, 2-FLP "Guaranteed Loan Making and Servicing", and the attached Form FSA-2201, "Lender's Agreement."

I. GENERAL OPERATIONS

A. Normal Trade Area

Describe the specific geographic area (States and counties) in which you make loans. If you are requesting PLP status for only a portion of your trade area, please indicate this.

The normal trade area for the Lender is Eastern Colorado and portions of Western Nebraska and Kansas. Colorado counties include Yuma, Cheyenne, Lincoln, Washington, Morgan, Kit Carson, and Kiowa. Nebraska counties include Sioux, Banner, and Kimball. Kansas counties include Wallace, Greeley, Hamilton, Wichita, and Kearney. PLP status covers the Lender's normal trade area.

Loans would be considered outside the normal trade area if loan servicing were limited. For example, integrated broiler or pork contractors where the production check is sent to the Lender could be considered. Livestock and chattel loans that are not cross-pledged with real estate are not desirable outside the trade area due to extensive servicing demands. The Lender will contact the appropriate FSA State Office for guidance when submitting requests for guarantee outside of the normal trade area.

52 Eligibility Requirements for PLP (7 CFR 762.106) (Continued)

D PLP CMS Guidelines (Continued)

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B. Internal Credit Review System

Describe your credit review system. Include who performs the reviews, the frequency and scope of the reviews, and the method to follow up and resolve deficiencies.

The Lender's Quality Control Group operates its internal review program. This group provides an independent, objective, and active means for monitoring adherence to Lender policies and procedures. The group also evaluates the accuracy of the credit and performance classifications and identifies credit administration weaknesses. The Quality Control Group reviews a significant number of loan and servicing actions each year. Reviews are based upon a sampling of those areas that present the greatest risk to the Lender and include a monthly review of credit administration on all loans greater than \$300,000. A minimum of 50 percent of outstanding guaranteed loans are reviewed annually. The Quality Control Group provides the Lender's Board of Directors and senior management a monthly report, which addresses important review results including deficiencies in credit quality and credit administration and adherence to policies and procedures. The group also discusses the results of each loan review with the responsible loan officers to resolve any deficiencies in their portfolio. Loan officers report monthly to the Loan Officer's Committee on the status of corrective actions to address identified deficiencies.

C. Use of Agents, Consultants, and Packagers

Comment on whether and under what circumstances outside packagers are used, the services they perform, and how the work is monitored.

The Lender has not previously used agents or packagers and does not plan to use this type of assistance in the future. Loan requests are originated and packaged by the Lender. Unsolicited loan proposals presented by private consultants may be considered; however, the application will be prepared, analyzed, and presented by a bank loan officer.

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52 Eligibility Requirements for PLP (7 CFR 762.106) (Continued)

D PLP CMS Guidelines (Continued)

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D. Credit Department Personnel

Discuss who will process and service FSA guaranteed loans and who will monitor compliance with FSA rules. If specific personnel and their qualifications are not mentioned, describe the qualifications and standards that will be used to determine who has authority to make and service FSA guaranteed loans.

Joseph Franklin, Senior Vice President, Agriculture Lending, oversees the guaranteed Loan program. Mr. Franklin has 20 years experience in agricultural lending and 12 years' experience in processing FSA guaranteed loans. See attached resumes for qualifications of the Lender's other loan officers.

The Agriculture Lending Department has two loan officers with primary responsibility for originating and servicing FSA guaranteed loans. These loan officers are responsible for ensuring that all FSA requirements are met. The Quality Control Group monitors compliance with FSA requirements and notifies the loan officers and senior management of any deficiencies.

E. Processing Loans

Describe what tasks you perform when making an agricultural loan. Address any differences between existing borrowers, new borrowers, lines of credit, real estate, etc.

Upon receipt of a loan request, the Lender typically performs a site inspection to assess the suitability of the farm and completes environmental due diligence, as appropriate. A site inspection is performed on all new borrowers and on any real estate being acquired by existing borrowers. Existing borrowers' applications may be processed without an additional inspection if one has been completed within the past year.

When requesting a guarantee, the Lender will submit the following information to FSA.

1. A complete "Preferred Lender Application for Guarantee" (FSA 2212).
2. A complete loan narrative supporting the request for Guarantee which includes a:
 - discussion of the proposal's credit factors (5 Cs of credit) and overall strengths and weaknesses
 - discussion showing the loan applicant meets FSA's eligibility, loan purpose, and other relevant program rules
 - description of the location of all farmed land.

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52 Eligibility Requirements for PLP (7 CFR 762.106) (Continued)

D PLP CMS Guidelines (Continued)

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3. Our internal credit presentation, including the scoring and rating determination of the borrower which evaluates credit risk factors and establishes a score in the following range.

Description	Score
Prime	1
Good	2
Average	3
Below Average	4
Poor	5
Not Acceptable	6

Loans submitted for a guarantee will typically score 3 or 4. Loans scoring 5 will only be considered in very unusual circumstances. Any score below 5 will not be considered, with or without an FSA guarantee.

4. If Interest Assistance is requested, a completed Part G of "Application for Guarantee" (FSA 2211), projected cash flow, and current balance sheet.
5. When the applicant is an entity, a description of the entity with names, social security numbers, and percent ownership for each entity member.

F. Information Obtained from Loan Applicants

Describe what information you obtain to evaluate an agricultural loan. Address any differences between existing borrowers, new borrowers, size of loan, purpose of loan, etc. Also state whether the information is mandatory or at the discretion of the loan officer.

The following financial information will be maintained in all loan files.

Loans	Information
Loans under \$100,000	Current Balance Sheet Tax Return or Income/Expense Statement (1 Yr) Projected cash flow budget
Loans \$100,000 and over	Current Balance Sheet Tax Returns Income/Expense Statements (3 Yrs) Production data (3 Yrs) Projected cash flow budget Verification of Significant Debts

--*

53 Approval Requirements (7 CFR 762.106) (Continued)**C Conditions of Approval**

Lenders who meet the criteria will be granted PLP status for a period not to exceed 5 years.

PLP status will be conditioned on the lender carrying out its credit management system as proposed in its PLP status and any additional loan making or servicing requirements agreed to and documented in the PLP lender's agreement.

If the PLP lender's agreement does not specify any agreed upon process for a particular action, the PLP lender will act according to regulations governing CLP lenders.

Example: If the PLP lender does not state in its CMS what historical financial information will be collected when developing applicant cash flow budgets, CLP requirements in paragraph 153 will be followed.

D Renewal

PLP status will expire within a period not to exceed 5 years from the date the lender's agreement is executed, unless a new lender's agreement is executed.

Renewal of PLP status is not automatic. A lender must submit a written request for renewal of a lender's agreement with PLP status which includes information:

- **updating the material submitted in the initial application**
- **addressing any new criteria established by the Agency since the initial application.**

PLP status will be renewed if the applicable eligibility criteria under this section are met, and no due cause exists for denying renewal under subparagraph 54 C.

E Transfer of PLP Information to the Local Office

SED shall provide a copy of PLP Lenders Agreement, including all attachments, to the authorized agency official in each local office that will process loans for the specific PLP lender.

54 Monitoring the PLP Lender (7 CFR 762.106)**A Monitoring Reviews**

PLP lenders will provide information and access to records upon Agency request to permit the Agency to audit the lender for compliance with these regulations.

SED is responsible for ensuring that monitoring reviews are conducted on each PLP lender. This review shall be conducted according to Part 11 and shall examine the lender's approved CMS. The designated reviewer shall review the lender's files according to the priorities in subparagraph 267 B.

B Maintaining an Operational File

--The authorized agency official shall develop and maintain an operational file on each PLP lender, according to subparagraph 48 B. SED shall also maintain a file developed as part of their internal review.--

At least annually, SED shall collect and review information on each PLP lender. SED shall examine monitoring reviews from the local office to determine whether:

- PLP status should continue
- the status should be terminated
- the renewal is denied for failure to comply with program requirements.

The SED operational file shall also contain a copy of the original Lenders Agreement and the lender's corresponding CMS.

54 Monitoring the PLP Lender (7 CFR 762.106) (Continued)

C Revoking PLP Status

In addition to the sanctions that may be imposed in subparagraph 48 C, a PLP lender may, at the discretion of DAFLP, have their status revoked **at any time during the 5 year term for cause. Any of the following instances constitute cause for revoking or not renewing PLP status:**

- violation of the terms of the lender's agreement
- failure to maintain PLP eligibility criteria
- knowingly submitting false or misleading information to the Agency
- basing a request on information known to be false
- deficiencies that indicate an inability to process or service Agency guaranteed farm loans
- *--failure to comply with interest rate policies according to paragraph 135--*
- failure to correct cited deficiencies in loan documents upon notification by the Agency
- failure to submit status reports in a timely manner
- failure to use forms, or follow credit management systems accepted by the Agency
- failure to comply with the reimbursement requirements of §762.144(c)(7) and (c)(8) (subparagraph 376 A).

The Agency may allow a PLP lender with a loss rate which exceeds the maximum PLP loss rate to retain its PLP status for a two-year period, if the:

- lender documents in writing why the excessive loss rate is beyond their control
- lender provides a written plan that will reduce the loss rate to the PLP maximum rate within two years from the date of the plan
- Agency determines that exceeding the maximum PLP loss rate standard was beyond the control of the lender. Examples include but are not limited to the following:
 - a freeze with only local impact
 - economic downturn in a local area
 - drop in local land values
 - industries moving into or out of an area
 - loss of access to a market
 - biological or chemical damage.

54 Monitoring the PLP Lender (7 CFR 762.106) (Continued)

C Revoking PLP Status (Continued)

The Agency will revoke PLP status if the maximum PLP loss rate is not met at the end of the two-year period, unless a second two year extension is granted under this subsection.

PLP lenders who exceed the maximum loss ratio and want to retain their status will contact their FSA State Office and explain why they believe their excessive losses are beyond their control. They will be required to develop a plan to reduce their losses below the 3 percent loss ratio, the current maximum allowed by regulations to retain PLP status.

IF the State Office determines there is...	THEN the State Office will...
adequate justification for allowing the lender to retain PLP status	make their recommendation and send an exception request to DAFLP, who will make the final decision on granting the exception. Notes: If granted, the exception may be renewed at the end of the 2-year period for another 2-year period if the lender is making satisfactory progress toward reducing their loss ratio below the standard, currently set at three percent. No further renewals or extensions would be granted. A waiver may be granted only by DAFLP.
inadequate justification for allowing the lender to retain PLP status	decline to send a request for an exception.

D Reinstatement of PLP Status

A lender which has lost PLP status must be reconsidered for eligibility to continue as a Standard Eligible Lender or as a CLP lender in submitting loan guarantee requests. They may reapply for PLP status when the problem causing them to lose their status has been resolved.

55-64 (Reserved)

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 65, 66, 67, and 68.

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 for FO or OL loans, and 80 or 90 percent (see note) guarantee for CL, as appropriate.

Note: Section 5002 of the Agricultural Act of 2014, enacted on February 7, 2014, amended section 304(e) of the CONACT by removing 75 percent and inserting an 80 percent guarantee for the principal amount of CL. In addition, an applicant that is a qualified SDA farmer or rancher or, a beginning farmer or rancher, will receive a 90 percent guarantee of the principal amount of CL.--*

The counting of the 14 calendar days begins when FSA determines that the application is complete, as provided in paragraphs 65, 66, 67, 68, 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 a 75, 80, or 95 percent guarantee, as applicable.

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

--Note:** GLS is the official loan application date record.**--

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.

108 General Eligibility Requirements for OL, FO, and CL (7 CFR 762.120) (Continued)**K Controlled Substances**

[7 CFR 762.120] The applicant and anyone who will sign the promissory note must not be ineligible for loans as a result of a conviction for controlled substances according to 7 CFR 718 of this chapter.

Notwithstanding any other provision of law, any person convicted under Federal or State law of planting, cultivating, growing, producing, harvesting, or storing a controlled substance in any crop year shall be ineligible for any payment made under any Act, with respect to any commodity produced during the crop year of conviction and the 4 succeeding crop years, by such person.

At the discretion of the court, applicants convicted of any Federal or State offense for distribution (trafficking) or possession of a controlled substance shall be ineligible for any or all program benefits.

Note: Consult with the Regional OGC Attorney before initiating any actions on cases involving controlled substance violations.

Application for Guarantee or Preferred Lender Application both require applicants to certify that they are not ineligible for Federal benefits based on a conviction of any Federal or State controlled substance offense. Self-certifications on Application for Guarantee and Preferred Lender Application will be the only documentation required involving convictions of controlled substances.

***--L 15-Year OL Term Limit Removed**

Section 5107 of the Agricultural Act of 2014, enacted on February 7, 2014, amended section 319 of the CONACT, and removed term limit requirements for guaranteed OL's. Therefore, 7 CFR 762.122(b)(1) no longer applies to a guaranteed OL.--*

108 General Eligibility Requirements for OL, FO, and CL (7 CFR 762.120) (Continued)

* * *

M Operator Requirement

A loan application should be submitted in the name of the actual operator of the farm. This should be consistent with any representations previously made by the applicant for farm program benefits.

If inconsistencies in the structure of the farming operation are identified, the application will be considered incomplete and the lender will be informed according to paragraph 97. The inconsistencies must be resolved before the application being considered complete.

109 Specific Requirements for OL's (7 CFR 762.120(i))**A Operator Requirement**

For Operating Loans, the individual or entity applicant must be an operator of not larger than a family farm after the loan is closed.

When determining whether or not the farm meets the family farm definition, the authorized agency official shall:

- analyze all the factors that make up the regulatory definition of family farm and the items discussed in the following table
- look at all aspects and the circumstances of the farm operations.

Note: Consider and analyze these factors and how they relate to each another.

Application of judgment, combined with documentation of all the factors for the decision, should provide reasonable determinations of an applicant's qualifications as a family farm.

Item	Factor	Consideration
1	Recognized in the community as a farm	Consider how the applicant's farm operation compares to similar farm operations in the community. In most areas of the country and in most farming enterprises, the family will provide most of the day-to-day labor on a family farm. An exception may be made for enterprises that produce high-value, labor-intensive crops, such as fruit or vegetables.
2	Management and control of the farm business	All of the day-to-day management and operational decisions should be made by members of the farm family. The use of consultants, advisors, and similar experts is certainly acceptable provided someone in the farm family is the decision maker.
3	Amount of labor	A substantial amount of the full-time labor required must be contributed by family or entity members to the operation. The use of seasonally hired labor should not be precluded. The borrower may not necessarily perform a majority of the labor, but the amount of labor provided by the borrower is significant. One distinguishing characteristic of a family farm is that the family members provide both physical labor and management for the farm. Consider the labor requirements that are necessary for the production of specific high-value, labor-intensive crops.

123 FO Purposes (7 CFR 762.121(b)) (Continued)

B FO Purposes (Continued)

- **make capital improvements**

Examples: Examples include, but are not limited to, the construction, purchase, and improvement of farm dwellings, service buildings and facilities that can be made fixtures to the real estate. Capital improvements to leased land may be financed subject to the limitations in § 762.122.

***--Notes:** FO funds can be used to purchase, improve, or build any type of structure related to the farming enterprise, including dwellings recognized in the community as moderate in size, cost, and design. When planning capital improvements, the lender shall ensure that:--*

- all project facilities are designed using accepted architectural and engineering practices and conform to applicable Federal, State, and local codes and requirements
- the project will be completed with available funds and, once completed, will be used for its intended purpose and produce products in the quality and quantity proposed in the application.

[7 CFR 762.122] When FO or CL funds are used for improvements to leased land, the terms of the lease must provide either of the following:

- **reasonable assurance that the applicant will have use of the improvement over its useful life**
 - **compensation for any unexhausted value of the improvement if the lease is terminated.**
 - **promote soil and water conservation and protection**
- Examples:** Examples include the correction of hazardous environmental conditions, and the construction or installation of tiles, terraces and waterways.
- **pay closing costs, including but not limited to, purchasing stock in a cooperative, appraisal and survey fees**
 - **refinance indebtedness incurred for authorized FO or OL purposes, provided the lender and applicant demonstrate the need to refinance the debt.**

123 FO Purposes (7 CFR 762.121(b)) (Continued)**B FO Purposes (Continued)**

When the guaranteed loan is to be used to refinance an unguaranteed debt that the requesting lender has with the applicant, the authorized agency official must evaluate whether the terms of the proposed loan will improve the applicant's cash flow and likelihood of success.

*--When a portion of a guaranteed loan is to be used to refinance a guaranteed debt that the lender has with the applicant, the lender shall ensure that rescheduling the note and alternative repayment schedules have been considered before requesting the new guarantee. Refinancing debt that is already covered by a guarantee uses limited funding resources and causes the borrower to pay the guarantee fee a second time.

When a guarantee that includes refinancing guaranteed debt is requested, the authorized agency official must evaluate whether restructuring options described in 7 CFR 762.1945 (Part 12, Sections 2 and 3) will improve the borrower's cash flow and likelihood of success without refinancing the guaranteed debt. If restructuring results in substantially the same likelihood of success, refinancing of the guaranteed debt will not be considered.

Refinancing guaranteed debt shall not be requested just to consolidate the existing guarantee debt with a new request.--*

123.5 CL Purposes (7 CFR 762.121(c))**A General CL Purposes**

The authorized agency official shall review loan applications to ensure that CL funds are used for authorized purposes.

B CL Purposes

Loan funds disbursed under a CL guarantee may be used for any conservation activities included in a conservation plan or Forest Stewardship Management Plan including, but not limited to:

- **the installation of conservation structures to address soil, water and related resources**
- **the establishment of forest cover for sustained yield timber management, erosion control or shelter belt purposes**
- **the installation of water conservation measures**
- **the establishment or improvement of permanent pasture**
- **other purposes including the adoption of any other emerging or existing conservation practices, techniques or technologies**
- **refinancing indebtedness incurred for any authorized CL purpose.**

Note: The lender shall ensure that the project can be completed with available funds.

Section 3 Loan Terms, Insurance, Inspections, and Fees

135 Interest Rate Requirements (7 CFR 762.124(a))

A Fixed and Variable Rates

The interest rate on a guaranteed loan or line of credit may be fixed or variable as agreed upon between the borrower and the lender. The lender may charge different rates on the guaranteed and the non-guaranteed portions of the note. The guaranteed portion may be fixed while the unguaranteed portion may be variable, or vice versa. If both portions are variable, different bases may be used.

If a variable rate is used, it must be tied to an index or rate specifically agreed to between the lender and borrower in the loan instruments and the rate adjustments must be in accordance with normal practices of the lender for nonguaranteed loans. Upon request, the lender must provide the Agency with copies of its written rate adjustment practices.

FSA may request copies of lender's written rate adjustment practices if the loan approval official has reason to believe the interest rates are not in line with local lending practices. Rate adjustment practices will be maintained in lender's operational file. See subparagraphs 48 B, 51 B, and 54 B.

B Maximum Interest Rates for Lenders Using Risk-Based Pricing Practices

At the time of loan closing or loan restructuring, the interest rate on both the guaranteed portion and the nonguaranteed portion of a fixed or variable rate CL, OL or FO loan may not exceed the following, as applicable:

- For lenders using risk-based pricing practices, the risk tier at least one tier lower (representing lower risk) than that borrower would receive without a guarantee. The lender must provide the Agency with copies of its written pricing practices upon request.

Lenders who use a risk based pricing practice will document the risk rating of the borrower without consideration of the guarantee and the risk rating of the borrower with consideration of the guarantee.

FSA may request a copy of lender's written risk based pricing practice if the loan approval official has reason to believe the interest rate charged a borrower will be more than the maximum rates allowed in 7 CFR 762.124(a)(3) and 7 CFR 762.124(a)(4) as applicable.

***--Note:** The agency official will review the lender's risk-based pricing practice at lender loan file review to ensure that the interest rate charged at closing was at least 1 tier lower than what the borrower would receive without a guarantee, and document on applicable file review checklist.--*

135 Interest Rate Requirements (7 CFR 762.124(a)) (Continued)

B Maximum Interest Rates for Lenders Using Risk-Based Pricing Practices (Continued)

Service Centers will forward a copy of all risk based pricing practices obtained to their applicable State Office. State Offices will ensure that all risk based pricing practices are distributed to all applicable service centers and other applicable State Offices. For PLP lenders that submit applications to more than 1 State, the risk based pricing practice will be submitted to the National Office, through the State Office, for distribution to the applicable States.

The risk based pricing practices requested will be maintained in the lender's operational file. See subparagraphs 48 B, 51 B, and 54 B.

Note: Lender's pricing practices are strictly confidential and for FSA use only.

The FSA guarantee compensates a lender for much of the risk of loss involved in guaranteed loans. If the lender's rates of interest are based on a risk-based pricing practice, the rate charged an FSA guaranteed borrower must be at least 1 tier lower than the rate the borrower would have been charged without the guarantee, regardless of the guaranteed borrower's equity, collateral, repayment ability, or servicing needs.

The following table is an example of the risk-based pricing practice.

Risk Rating	Description	Comparable Classification	Pricing and Interest Rate	Definition
1	Highest Quality	Acceptable	WSJP + 1.50%	Highest quality with very minimal risk.
2	Superior Quality			
3	Exceptional Quality			
4	Excellent quality	Acceptable	WSJP + 1.75%	Excellent quality with minimal risk.
5	Strong Quality			
6	Good quality			
7	Average Quality	Acceptable	WSJP + 2.00%	Good quality with minimal risk.
8	Adequate Quality			
9	Minimally Acceptable Quality			
--10--	Potentially Weak	OAEM (Other Assets Especially Mention)	WSJP + 2.50%	Assets protected but potentially weak and constitute unwarranted credit risk.
11	Well defined weakness generally well secured and performing	Substandard	WSJP + 2.75%	Assets inadequately protected and possibility of loss if weaknesses are not corrected.
12	Well defined weakness marginally secured with variable performance			
13	Collection in full is in doubt	Doubtful	WSJP + 3.00%	Major weaknesses impose collection or liquidation.
14	Uncollectible	Loss	WSJP + 3.00%	Loss considered uncollectible.

Example: If a customer's risk rating was 8 and the lender requested a guarantee, the interest rate charged would be the same as for a nonguaranteed customer with risk rating of 7.

135 Interest Rate Requirements (7 CFR 762.124(a)) (Continued)

C Maximum Interest Rates for Lenders Not Using Risk-Based Pricing Practices

At the time of loan closing or loan restructuring, the interest rate on both the guaranteed portion and the nonguaranteed portion of a fixed or variable rate CL, OL or FO loan may not exceed the following, as applicable:

- **For lenders not using risk-based pricing practices, for variable rate loans or fixed rate loans with rates fixed for less than five years, 650 basis points (6.5 percentage points) above the 3-month LIBOR.**
- **For lenders not using risk-based pricing practices, for loans with rates fixed for five or more years, 550 basis points (5.5 percentage points) above the 5-year Treasury note rate.**

The lender is not required to tie its guaranteed loan interest rates to 3-month LIBOR or 5-year Treasury, nor is it required that the rate remain below the maximums throughout the term of the loan. This requirement only sets the maximum rate that may be charged to the customer at the time of loan closing or restructuring.

Note: The maximum rate is not based on loan terms, purpose, or type. It is based on how long the interest rate is fixed. For variable rate loans and loans with an interest rate fixed for less than 5 years, regardless of program type (CL, OL or FO), the maximum rate is based on the 3-month LIBOR index.

Loans with interest rate fixed for 5 or more years, the maximum rate is based on the 5-year Treasury index.

--At lender loan file review, the authorized agency official will verify the interest rate charged the guarantee customer at closing did not exceed the maximum rate, and document on applicable file review checklist.--

To obtain rates for each index, the authorized agency official can access the GLS Add Loan Screen and click the 3-month LIBOR or 5-year Treasury note rate. The links will open the following Web pages:

- 3-month LIBOR at http://mortgage-x.com/general/indexes/historical_wsj_libor.asp, scroll down to find year and date needed
- 5-year Treasury at <http://www.federalreserve.gov/releases/h15/data.htm>, scroll down to 5-year Treasury constant maturities and click on the business day.

135 Interest Rate Requirements (7 CFR 762.124(a)) (Continued)***--C Maximum Interest Rates for Lenders Not Using Risk-Based Pricing Practices (Continued)**

To access the training:

- go to FSA Intranet at <http://fsaintranet.sc.egov.usda.gov/fsa/>
- under “Resources”, CLICK “**FSA Applications**”
- under “Farm Loan Programs”, CLICK “**Farm Loan Programs Systems**”
- under “Informational Links”, CLICK “**Presentations**”
- under “Training Materials”, CLICK “**GL Interest Rate Training Presentation**”.

Note: The 5-yr Treasury note rate may also be listed as Treasury Constant Maturities as published on the Federal Reserve web site.

The following examples are provided to illustrate how to determine the maximum interest rate.

Example 1: Lender closes a 4-year GOL. The rate is fixed at 7.5% on the date loan closes. The 3-month LIBOR rate on date loan closes is 2.5% and the 5-year Treasury rate is 2.0%.

The maximum rate would be 9.0% (3-month LIBOR rate 2.5% plus maximum spread 6.5% = 9%).

In this example, the lender’s rate does not exceed the maximum rate and; therefore, meets the limitation.

Example 2: Lender closes a 7-year GOL. The rate is fixed for the first 3 years at 8% on the date loan closes and variable for the remaining term. The 3-month LIBOR rate on date loan closes is 2.0% and the 5-year Treasury rate is 1.75%.

The maximum rate would be 8.5% (3-month LIBOR rate 2.0% plus maximum spread 6.5% = 8.5%).

In this example, the lender’s rate does not exceed the maximum rate and; therefore, meets the limitation.

Example 3: Lender closes a 20-year GFO. The rate is fixed for the first 5 years at 7.0% on the date loan closes and variable for the remaining term. The 3-month LIBOR rate on date loan closes is 2.0% and the 5-year Treasury rate is 1.0%.

The maximum rate would be 6.5% (5-year Treasury rate 1.0% plus maximum spread 5.5% = 6.5%).

In this example, the lender’s rate exceeds the maximum rate and; therefore, does not meet the limitation.--*

Section 4 Credit Decision

Subsection 1 Financial Feasibility of Proposed Loan (7 CFR 762.125)

151 Determining Financial Feasibility of Loans (7 CFR 762.125)

A Purpose

This paragraph describes how SEL and CLP lenders must demonstrate that an applicant has sufficient financial resources to repay a guaranteed loan. PLP lenders use methods outlined in their CMS to determine the financial feasibility of a loan.

B Feasible Plan

The applicant's proposed operation must project a feasible plan. The cash flow budget analyzed to determine feasible plan must represent the predicted cash flow of the operating cycle.

Note: See Exhibit 2 for the definition of feasible plan.

A lender must determine whether an applicant has sufficient financial resources to repay a guaranteed loan. To make this determination, lenders work with the applicant to prepare a cash flow budget for the farm operation. As used in this part, the term "operation" includes all farm activities and income as well as all nonfarm income pledged by the applicant.

The cash flow budget used in the loan application must:

- reflect, as closely as possible, the predicted cash flow of the operating cycle
- be documented in sufficient detail to adequately reflect the overall condition of the operation.

*--The lender's projected cash flow budget should include all cash inflows and outflows. If the authorized agency official determines that cash inflows have been overestimated or cash outflows have been underestimated or omitted from the plan, the authorized agency official will recalculate the debt coverage. If the recalculation shows adequate cash flow, the authorized agency official will document the findings and proceed with processing the request.

If, after re-evaluation, the cash flow budget is no longer feasible, the lender will be notified and given up to 10 calendar days to revise the plan. The lender will justify any changes made to the cash flow budget.

Note: For Streamlined CL requests, a cash flow budget is **not** required. The lender should follow their internal procedures to determine financial feasibility.--*

151 Determining Financial Feasibility of Loans (7 CFR 762.125) (Continued)

B Feasible Plan (Continued)

Poultry or hog production contracts are the basis of grower income and facility value. The dependability of production contracts has a profound impact on the prospects for loan repayment. “Flock-to-flock” or “turn-by-turn” type arrangements alone may not be a dependable source of income or a reasonable projection of income for poultry or hog

--applicants who **do not** have a current financial performance history with FSA.--

Note: For contract income to be considered dependable, the contract must:

- be for a minimum period of 3 years
- provide for termination based on objective “for cause” criteria only
- require that the grower be notified of specific reasons for cancellation
- provide assurance of the grower’s opportunity to generate enough income to ensure repayment of the loan, by incorporating requirements such as a minimum number of flocks or turns a year, minimum number of bird or hog placements per year, or similar quantifiable requirements.

Applicants requesting loans to expand their poultry or hog operation by adding more houses/barns or purchasing additional land to increase the size of the poultry or hog operation, and who **are** presently indebted to FSA, will be required to have a contract with a minimum 3-year term. The contract must at least cover the facilities financed with the guaranteed funds. When contract income **cannot** be determined to be dependable and likely to continue, that is **cannot** be used to reasonably project future income, the authorized agency officials shall:

- inform the guaranteed lender of the contract provisions that result in the determination
- provide an opportunity for submitting a revised contract before a final decision on the request.

Note: Whenever possible, guarantee requests should be approved subject to modification of unacceptable contract provisions.

Subsection 3 Appraisals

181 General Requirements (7 CFR 762.127(a))

A Purpose

[7 CFR 762.127(a)(1)] The lender is responsible for ensuring that the value of chattel and real estate pledged as collateral is sufficient to fully secure the guaranteed loan.

Collateral valuation is an integral part of the loan evaluation process. This paragraph will discuss general collateral valuation requirements and when appraisals or evaluations are and are not required. See subparagraph 267 I for SED responsibilities about appraisals.

B General Requirements

The requirements in this paragraph apply to all 3 types of lenders.

Appraisals or evaluations of collateral are not part of a complete application and guarantees may be approved by FSA, subject to the lender obtaining an acceptable appraisal or evaluation. The lender is responsible for properly documenting the market value of collateral before loan closing and FSA issuing the loan guarantee. SEL's must provide FSA with a copy of the appraisal or evaluation.

Each lender is responsible for ensuring that the person completing the appraisal or evaluation has the necessary qualifications. Real estate appraisals must be completed according to USPAP.

Notes: FSA may conduct administrative and technical appraisal reviews according to 1-FLP, subparagraphs 143 C and E.

A current copy of USPAP may be obtained from
<http://www.appraisalfoundation.org>.

See Exhibit 15 for additional guidance about appraisals for the liquidation or penalty and other CAFO's.

C Loan Servicing

--Appraisals or evaluations are required under the following loan servicing actions:--

- transfer of security and assumption of debt
- debt writedown
- servicing FSA-2253's
- liquidation
- partial releases of security if determined necessary by FSA
- *--subordinations
- restructures.--*

--181 General Requirements (7 CFR 762.127(a)) (Continued)*D Situations Where Appraisals or Evaluations Are Not Required**

[7 CFR 762.127(a)(2)] The lender is not required to complete an appraisal or evaluation of collateral that will serve as additional security, but the lender must provide an estimated value.

Appraisals or evaluations are not required on property to be taken as additional security that is clearly in excess of what is needed to fully secure the loan. The lender shall provide an estimate of value on the Application for Guarantee or Preferred Lender Application, as applicable.

E Appraisal Costs

[7 CFR 762.127(a)(3)] Except for authorized liquidation expenses, the lender is responsible for all appraisal costs, which may be passed on to the borrower or transferee in the case of a transfer and assumption.

Appraisal costs may be deducted from security proceeds when part of authorized liquidation expenses.

182 Chattel Appraisals (7 CFR 762.127(b))**A When Are Chattel Appraisals Required**

[7 CFR 762.127(b)(1)] A current appraisal (not more than 12 months old) of primary chattel security is required on all loans except loans or lines of credit for annual production purposes secured by crops, which require an appraisal only when the guarantee is requested late in the current production year and actual yields can be reasonably estimated. An appraisal is not required for loans of \$50,000 or less if a strong equity position exists.

B Techniques

[7 CFR 762.127(b)(2)] The appraised value of chattel property will be based on public sales of the same or similar property in the market area. In the absence of such public sales, reputable publications reflecting market values may be used.

Appraisals on machinery, farm equipment, and livestock will be based on recent auction sales in the local area, where possible. However, if the number and frequency of sales is limited, it may be necessary to consult published prices.--*

Subsection 4 Maximum Loss for Percent of Loan Guarantee

195 Percent of Guarantee (7 CFR 762.129 and 762.130)

A Standard Guarantee

Except for CLs, the percent of guarantee will not exceed 90 percent based on the credit risk to the lender and the Agency both before and after the transaction. The Agency will determine the percentage of guarantee.

*** * * All guarantees issued to CLP and PLP lenders will not be less than 80 percent.**

***--For CLs, the percent of guarantee will be 80 percent** regardless of the lender's status or timeframes. (See note.)

For CL's, the percent of guarantee will be 90 percent for Socially Disadvantaged borrowers and Beginning Farmers (see note).

Note: Section 5002 of the Agricultural Act of 2014, enacted on February 7, 2014, amended section 304(e) of the CONACT by removing 75 percent and inserting an 80 percent guarantee for the principal amount of CL. In addition, an applicant that is a qualified SDA farmer or rancher or, a beginning farmer or rancher, will receive a 90 percent guarantee of the principal amount of CL.--*

B PLP Lenders

Most loans will be guaranteed at 90 percent of the loan amount and cannot exceed 90 percent except as described in paragraph 196. The proposed percent of guarantee will be included on the Conditional Commitment.

Complete applications from PLP lenders will be approved or rejected not later than 14 calendar days after receipt. If this timeframe is not met, the application will automatically be approved, subject to funding, and receive an 80 or 95 percent

***--guarantee for FO or OL and 80 or 90 percent (see note) guarantee for CL, as appropriate.**

Note: Section 5002 of the Agricultural Act of 2014, enacted on February 7, 2014, amended section 304(e) of the CONACT by removing 75 percent and inserting an 80 percent guarantee for the principal amount of CL. In addition, an applicant that is a qualified SDA farmer or rancher or, a beginning farmer or rancher, will receive a 90 percent guarantee of the principal amount of CL.--*

After the automatic approval, a PLP lender that had requested a higher percent of guarantee may request that FSA continue to process the request. This would be noted by the lender when returning the Conditional Commitment or by letter.

195 Percent of Guarantee (7 CFR 762.129 and 762.130) (Continued)**C Maximum Loss for FO and OL**

The maximum amount the Agency will pay the lender under the loan guarantee will be any loss sustained by such lender on the guaranteed portion, including:

- **the pro rata share of principal and interest indebtedness as evidenced by the note or by assumption agreement**
- **any loan subsidy due and owing**
- **the pro rata share of principal and interest indebtedness on secured protective and emergency advances**
- **principal and interest indebtedness on recapture debt pursuant to a shared appreciation agreement. Provided that the lender has paid the Agency its pro rata share of the recapture amount due.**

D Guaranteed CL

***--For CL, the percent of guarantee will be 80 percent of the principal amount of the loan and 90 percent for loans made to Socially Disadvantage borrower or Beginning Farmers (see note). The maximum loss under the guarantee will be any loss sustained by the lender on the guaranteed portion including:**

Note: Section 5002 of the Agricultural Act of 2014, enacted on February 7, 2014, amended section 304(e) of the CONACT by removing 75 percent and inserting an 80 percent guarantee for the principal amount of CL. In addition, an applicant that is a qualified SDA farmer or rancher or, a beginning farmer or rancher, will receive a 90 percent guarantee of the principal amount of CL.--*

- **the pro rata share of principal and interest indebtedness as evidenced by the note or by assumption agreement**
- **the pro rata share of principal and interest indebtedness on secured protective and emergency advances made in accordance with this subpart**
- **principal and interest indebtedness on recapture debt pursuant to a shared appreciation agreement. Provided that the lender has paid the Agency its pro rata share of the recapture amount due.**

196 Exception to Standard Guarantee Limits (7 CFR 762.129)

A Exceptions

The guarantee will be issued at 95 percent in any of the following circumstances:

- the sole purpose of a guaranteed FO or OL loan is to refinance an Agency direct farm loan

Notes: When only a portion of the loan is used to refinance a direct Agency loan, a weighted percentage of a guarantee will be provided.

The guarantee will be issued at 95 percent, regardless of lender type. When only a portion of a guaranteed OL or FO will be used to refinance an FSA direct farm loan, the guarantee percent will be calculated based upon a weighted percentage of the refinanced loan to total loan, rounded up to the next whole percent. The following example demonstrates how the weighted percentage is calculated.

- A farmer has a direct loan with an outstanding balance of \$90,000.
- The lender is applying for a \$300,000 FO.
- The percent of guarantee on the new guaranteed loan without the refinancing is 90 percent.

The weighted average guarantee is calculated as follows.

$$\begin{array}{rclcl} \frac{\text{Outstanding}}{\text{direct loan}} & \times 95\% + & \frac{\text{Portion of guaranteed loan}}{\text{not refinancing direct loan}} & \times \text{Percent of guarantee.} = \\ \text{Guaranteed loan amount.} & & \text{Guaranteed loan amount.} & & \\ \frac{90,000}{300,000} & \times 95\% + & \frac{300,000 - 90,000}{300,000} & \times 90\% = 91.5 \text{ percent} \end{array}$$

The weighted average guarantee must be rounded up to the next whole percent, so the guarantee in this example would be 92 percent.

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**

Note: The down payment loan program is a loan made under 3-FLP, Part 7, Section 2 provisions.

- **when a guaranteed OL is made to a farmer 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.

Applicants are not required to be a beginning or socially disadvantaged farmer to qualify for a 95 percent guarantee, only that there is that there must be an outstanding balance on a down payment loan at the time the guaranteed OL is closed, or there is a direct down payment loan approved but funding is not available at the time the guaranteed OL is closed.

- loans made under a State beginning farmer program where a memorandum of understanding between the State and USDA has been approved by DAFLP
- **when a guaranteed OL is made to a farmer 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)

247 Actions Before Issuing the Loan Guarantee (7 CFR 762.130) (Continued)

A Lender's Actions (Continued)

- *--as of loan closing, applicant has an outstanding balance on a direct Downpayment loan under 3-FLP, Part 7, Section 2, or a qualified State Beginning Farmer loan; or has a direct Downpayment loan or a qualified State Beginning Farmer loan approved but funding is not available at the time the guaranteed loan is closed.

Notes: Applicants meeting only the definition of beginning or socially disadvantaged farmer will not qualify for the waiver.--*

A qualified State Beginning Farmer Program has MOU between the State and USDA and has been approved by DAFLP and signed by the State.

- 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), 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 the Loan Guarantee and all the notes intended to be covered by the Loan Guarantee. The Loan Guarantee 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 the Loan Guarantee.

247 Actions Before Issuing the Loan Guarantee (7 CFR 762.130) (Continued)

A Lender's Actions (Continued)

- 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. 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 percent ownership in the entity if the collectability of the loan will not be impaired.**

- 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.

Note: This also applies when a lender has closed an approved guaranteed loan before funds are available.

--See Exhibit 11 for additional guidance.--

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.**

247 Actions Before Issuing the Loan Guarantee (7 CFR 762.130) (Continued)

B FSA Actions

After FSA receives the information from the lender detailed in subparagraph A, the authorized agency official must take the following actions before executing the Loan Guarantee to guarantee the loan.

- Review the Conditional Commitment to ensure that the loan closed according to the agreed conditions.
- Review the executed loan agreement and promissory note and compare with the Conditional Commitment to ensure consistency with the agreed upon terms and personal liability of entity members.
- For SEL's, review the evaluation or appraisal of collateral to ensure that it meets the requirements of paragraph 183. For CLP and PLP lenders, the agency official will review 20 percent of each lender's evaluations. This should be completed during the lender's file review required by subparagraph 267 B.

Note: For real estate evaluations, this review shall be completed on FSA-2234.

- 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 the Conditional Commitment, the Loan Guarantee, the loan agreement, and promissory notes to ensure the following:
 - principal amount and interest rate are consistent * * *
 - closing date on the note and guarantee are consistent
 - borrower's name, lender's 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 the Loan Guarantee**A Action**

Once the requirements of paragraph 247 have been met, the authorized agency official may prepare and issue the Loan Guarantee. The original Loan Guarantee 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 FSC, FLOO

--The guarantee fee will be processed through the National Receipts and Receivable System using applicable collection type. See 3-FI for additional guidance. The authorized agency-- official shall make every attempt to review the closing documents before processing the guarantee fee. However, FSA shall adhere to the timeframes in 3-FI to process the fee even in situations when the authorized agency official is not able to review the closing documents timely. The Loan Closing Transaction shall be input through GLS Add Loan Screen.

C Refund of Guarantee Fee

The guarantee fee is not refundable once the Loan Guarantee has been issued and loan funds disbursed. However, if the fee was processed before reviewing closing documents and it is later determined that the guarantee cannot be issued, the fee may be refunded to the lender.

The authorized agency official will forward a memorandum to the State Office with the reasons FSA was not able to issue the Loan Guarantee and request that the fee be refunded. If approved, the State Office will FAX the memorandum to FSC, FLOO, requesting that the fee be refunded.

A request for a guarantee fee refund for any other reason shall be forwarded to the National Office for approval.

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-2072 to cancel the actual obligation.

B FAXing FSA-2072

FSA-2072 should be FAXed to the State Office that will process the cancellation or deobligation through GLS.

267 FSA Loan Servicing Responsibilities**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.

As part of the review, authorized agency officials will note whether they have become aware of the lender being under any enforcement actions either through checking the appropriate regulatory web sites in subparagraph 46 C or through discussions with the lender.

B Lender Loan Files Review Priorities

For each SEL, FSA will annually review the files of 40 percent of the lender's outstanding guaranteed OL and/or OL-LOC borrowers, unless the 40 percent requirement would result in borrowers being reviewed who were reviewed the previous year. If the 40 percent requirement would result in some of the same borrowers being subject to review, then, for *--those borrowers, the review will be every other year. SEL files for FO-only and CL-only--* borrowers will be reviewed within 3 years of the date the loan is closed and subsequently if the loans become nonperforming. For each CLP and PLP lender, FSA must annually review the 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 borrowers, or 10 percent of the lender's borrowers, 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.

267 FSA Loan Servicing Responsibilities (Continued)**B Lender Loan Files Review Priorities (Continued)**

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.

FSA-2293 and PLP Checklist, developed by the National Office for each specific lender, may be used to document the lender file reviews. All questions on each FSA-2293 and PLP Checklist 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 Lender's Agreement and this handbook. In addition to the lender's *--loan file, a copy of the loan account ledger should be obtained and reviewed, and lender's risk-based pricing practices, if applicable. 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.

Note: See Exhibit 4 for State supplement requirements.

267 FSA Loan Servicing Responsibilities (Continued)**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.
- 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.

267 FSA Loan Servicing Responsibilities (Continued)**D Authorized Agency Official Review of PLP Lender Loan Files**

PLP loan file reviews will be documented by completing the review checklist based on the individual lender's CMS. All review checklists will be either prepared or approved by the National Office. The review of PLP loan files will be based on the terms and conditions specified in the Lender's Agreement.

***--Note:** As the National Offices updates PLP checklists during the lender's renewal or amendment, the States will need to include a question or provide documentation on the last checklist developed from the National Office, that the interest rate charged at loan closing meets the requirements outlined in paragraph 135.--*

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 the Lender's Agreement?
- Were servicing actions implemented in a manner consistent with the Lender's Agreement?
- Was servicing prudent and reasonable?

E Authorized Agency Official Response to Loan File Review

During the lender loan file reviews, the authorized agency official shall hold an entrance and exit conference with the lender. At the entrance conference, the authorized agency official will outline the purpose of the review and request any information that will be required to complete the review. At the exit conference, the authorized agency official will discuss with the lender any deficiencies as well as the lender's accomplishments. The authorized agency official will forward a letter to the lender outlining the findings of the loan file review. Letters or reports from lender visits and loan file reviews must be filed according to 25-AS, Exhibit 40.5, with copies forwarded to DD. If the review reveals frequent deficiencies, a report should be forwarded to SED.

If the lender is under an enforcement action imposed by the lender's regulatory agency, that finding will be documented in the letter to the lender outlining review findings, and a copy provided to SED. SED shall contact DAFLP, LSPMD.

Definitions of Terms Used in This Handbook (7 CFR 761.2(b)) (Continued)

* * *

Basic Security

Basic security is all farm machinery, equipment, vehicles, foundation and breeding livestock herds and flocks, including replacements, and real estate that serves as security for a loan made or guaranteed by the Agency. With respect to livestock herds and flocks, animals that are sold as a result of the normal culling process are typically treated as normal income security unless the borrower does not have replacements that will keep the numbers and production up to planned levels. However, if the borrower plans to make a significant reduction in the foundation livestock herd or flock, the animals that are sold in making this reduction will be considered basic security.

Beginning Farmer

Beginning farmer is an individual or entity who:

- (1) Meets the loan eligibility requirements for a direct or guaranteed OL, FO, or CL loan, as applicable;**
- (2) Has not operated a farm for more than 10 years. This requirement applies to all members of an entity;**
- (3) Will materially and substantially participate in the operation of the farm:**
 - (i) In the case of a loan made to an individual, individually or with the family members, material and substantial participation requires that the individual provide substantial day-to-day labor and management of the farm, consistent with the practices in the county or State where the farm is located.**
 - (ii) In the case of a loan made to an entity, all members must materially and substantially participate in the operation of the farm. Material and substantial participation requires that the member 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 would be seriously impaired;**
- (4) Agrees to participate in any loan assessment and borrower training required by Agency regulations;**

Definitions of Terms Used in This Handbook (7 CFR 761.2(b)) (Continued)

Beginning Farmer (Continued)

(5) Except for an OL applicant, does not own real farm property or who, directly or through interests in family farm entities owns real farm property, the aggregate acreage of *--which does not exceed 30 percent of the average acreage of the farms in the county where the property is located. If the farm is located in more than one county, the average farm acreage of the county where the applicant's residence is located will be used in the calculation. If the applicant's residence is not located on the farm or if the 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 acreage will be determined from the most recent Census of Agriculture;

Note: Section 5303 of the Agricultural Act of 2014, enacted on February 7, 2014, amended section 343 (a) (11) (F) of the CONACT by removing "median acreage" and inserting "average acreage". Therefore, the term "average" has replaced "median" in the Beginning Farmer definition.--*

(6) Demonstrates that the available resources of the applicant and spouse (if any) are not sufficient to enable the applicant to enter or continue farming on a viable scale; and

(7) In the case of an entity:

- (i) All the members are related by blood or marriage; and
- (ii) All the members are beginning farmers.

Borrower (or Debtor)

Borrower (or debtor) is an individual or entity that has an outstanding obligation to the Agency or to a lender under any direct or guaranteed FLP loan, without regard to whether the loan has been accelerated. The term "borrower" includes all parties liable for such obligation, including collection-only borrowers, except for debtors whose total loans and accounts have been voluntarily or involuntarily foreclosed, sold, or conveyed, or who have been discharged of all such obligations owed to the Agency or guaranteed lender.

Cancellation

Cancellation is the final discharge of, and release of liability for, a financial obligation to the Agency on which no settlement amount has been paid.

Cash Flow Budget

Cash flow budget is a projection listing of 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 during the period of the budget. Advances and principal repayments of lines of credit may be excluded from a cash flow budget. Cash flow budgets for guaranteed 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 include the expected outstanding operating credit balance for the end of each month. The latter type is referred to as a "monthly cash flow budget."

***--Using an Allonge for a Loan Already Closed by the Lender When Guarantee Funds Were Not Available**

For guaranteed loans closed before obligation, FSA requires lenders to either execute a new promissory note or an allonge to establish a new closing date. The allonge establishes the principal amount at the time the guarantee is issued. When an allonge is used, FSA will use the allonge date and the principal amount stated on the allonge to complete FSA-2235. Any rules and/or guidance in place for the promissory note apply to the allonge.

- **Requirements for an Allonge**

Lenders may use their own allonge. FSA does not require any specific language other than the allonge must do the following.

- Identify the promissory note which it is modifying.
- Be signed by the borrowers as they have signed the promissory note.
- State the principal amount and accrued interest on the loan, as of the date the allonge is executed.
- Include the date the allonge is executed by the borrowers.
- Be provided to FSA along with a copy of the original promissory note, before receiving the loan guarantee.

- **FSA Actions to Close the Guarantee**

- Complete **FSA-2235** as follows.

Block	Entry
5, 8(c), and 10	Principal amount stated on the allonge.
7	Date the allonge is executed by the borrowers.
8(b) and 9	Lender's note ID number that is referenced on the allonge.

- Complete the closing transaction in GLS using the date of the allonge as the closing date and the principal amount stated on the allonge as the loan amount.--*

***--Using an Allonge for a Loan Already Closed by the Lender When Guarantee Funds Were Not Available (Continued)**

- **If a Payment Has Been Made Before Issuing the Guarantee**

If the principal amount has been paid down since the promissory note was executed, the principal amount that may be lower than the obligated loan amount, will be entered on FSA-2235 and entered into GLS.

IF the...	THEN...
principal has been paid down and there is accrued interest on the note	the lender may modify the loan to establish a new principal amount that may include part of or all the accrued interest. The lender may use an allonge or new promissory note. In all cases, the new principal balance cannot be greater than loan amount approved and obligated by FSA.
new principal balance is lower than the obligation amount	FSA will need to do a partial, not full, deobligation in GLS.

- **Secondary Market**

If the lender plans to sell the guaranteed portion on the secondary market, the loan approval official will attach a memo on FSA letterhead to the loan guarantee using the following example language, modified to include actual information:

“Farm Service Agency (FSA) acknowledges that the allonge entered into on May 28, 2013, between Bob and Betty Borrower, Anytown, USA, and First Bank, Anytown, USA, attaches to and amends promissory note number 1234 in the amount of \$300,000 and executed on April 1, 2013. FSA also acknowledges that this allonge was executed for the purpose of obtaining a guarantee on the previously executed promissory note 1234 and the date of the executed allonge is the closing date used for FSA Loan Guarantee purposes.”--*