

UNITED STATES DEPARTMENT OF AGRICULTURE

Farm Service Agency
Nebraska State Office
7131 A Street
Lincoln, Nebraska 68510-4202

**Nebraska Notice FLP14-33
(2-FLP)**

For: County Offices

**Credit Quality Initiatives and Policy on
Guaranteed Farm Loan Program (FLP) Requests**

Approved by: State Executive Director

1 Overview

A Purpose of this Notice

- **Provides guidance on substantial policy changes in 2-FLP (Rev. 1).**
- Provides information and direction for all FSA Staff in implementing policies for maintaining high credit quality and compliance with Agency regulations on all guaranteed FLP loans in Nebraska.
- Obsoletes Nebraska Notice FLP13-27

2 Action

A General Information

The following items are changed or emphasized:

- **Updated Statutory Loan Limits for Guaranteed Loans**
Statutory loan limits for Guaranteed Loans will be increased to \$1,392,000.00 effective October 1, 2014. The maximum Guaranteed FO and OL loan levels are outlined in 2-FLP (Rev. 1), Subparagraph 244 A.
- **Guaranteed Loan applications requiring designated County Office Official approval**
In some instances, due to vacancies and/or workload there is a need to have alternative counties work on guaranteed loan applications. The loan application, along with the county office case file (if applicable) will be sent to the designated county office upon receiving the application. When the application and county office file are sent to the designated county office, an email should be sent to the Loan Approval Officials and PT informing the office that an application has been forwarded to their office for review and approval. The designated county offices will process loan applications through issuing Form FSA-2235 "Loan Guarantee".

Disposal Date
October 1, 2015

Distribution
County FSA Offices

A General Information, *continued*

- **Submitting applications electronically by FAX or email**

Lenders may submit the application electronically by FAX or email. Faxed and electronically scanned signatures, such as signatures obtained by email or the internet, are acceptable. The date and time printed by the FAX machine or electronic device on the application shall be used to determine the filing date of the application.

- **Refinancing Lender's Debt**

Lenders are to be cautioned against extensive use of refinancing their own debt to transfer the risk of loss to the government. In cases where a lender is refinancing their own debts, FSA is authorized to reduce the percentage of guarantee based on the credit risk to the lender and FSA both before and after the transaction. OL and FO guarantees to CLP and PLP lenders will not be less than 80 percent. Loan approval officials should consider this authority during this period of financial stress to ensure that available rates and terms for the refinancing improve the applicant's likelihood of success, rather than simply transferring the risk to FSA.

- **Increasing USDA-FSA Collaboration with SBA**

A Memorandum of Understanding between U.S. Small Business Administration (SBA) and U.S. Department of Agriculture (USDA) was signed on September 4, 2013. The agencies have entered into this MOU striving to better provide financial support to agricultural producers and small business in rural areas. FSA will exchange program information with SBA and Rural Development (RD) and discuss ways to increase lending options to small agriculture producers and other applicants who provide locally grown produce to the local food supply chain. When possible, the Agencies will coordinate efforts with their lenders, network resource partners, state, county and local agencies to help rural small business and agricultural producers start, grow and thrive.

- **Percent of Guarantee for Guaranteed Conservation Loans (CL's)**

The percent of guarantee for guaranteed conservation loans (CL's) has increased from 75 percent to 80 percent for non-beginning farmer & ranchers and from 75 percent to 90 percent for beginning and SDA farmers & ranchers. FSA shall guarantee all CL's at 80 percent or 90 percent, as applicable.

- **Specialized Operations Requesting Guaranteed Loan Assistance**

The county office personnel should contact Tim Reimer, Farm Loan Specialist, whenever an application or serious inquiry is received concerning guaranteed loans for specialized operations. Specialized operations include confinement hog operations, confinement cattle operations, poultry operations, dairy operations, aquatic operations, buffalo operations, orchards, greenhouse operations, ornamental crop operations, etc. This shall include existing, expanding and/or the development of new specialized operations.

A General Information, *continued*

- **Removal of Guaranteed Term Limits**

Guaranteed OL applicant's are no longer limited to no more than 15 years of financing through FSA's direct and/or guaranteed OL programs.

- **Guaranteed FO Purposes**

2-FLP (Rev. 1), Subparagraph 123 B has been amended to clarify that guaranteed FO funds can be used for only dwellings recognized in the community as moderate in size, cost and design. In the past there were no restrictions in 2-FLP (Rev. 1), Subparagraph 123 B in regards to size, cost and design of a dwelling.

- **Guaranteed Loan Maximum Interest Rate**

Maximum interest rate that may be charged on FSA guaranteed loans will be tied to one of the following nationally published indices:

3-month London Interbank Rate (LIBOR)

- 6.5% above the 3-month LIBOR rate

Note: When the 3-month LIBOR rate drops below 2%, lenders can increase their interest rate an additional 1%, or 7.5%.

- Variable Rate Loans
- Fixed Rate Loans – repayment period of 5 years or less

5-year Treasury note rate

- 5.5% above the 5-year Treasury note rate

Note: When the 3-month LIBOR rate drops below 2%, lenders can increase their interest rate an additional 1%, or 6.5%.

- Fixed Rate Loans – repayment period of 5 years or more

OR the following:

The lender formal written risk-based pricing practice

- Interest rate must be at least one risk tier lower than the borrower would receive without the FSA guarantee. Risk tier levels and interest rate adjustments will vary from lender to lender.

FSA may request a copy of the lender's written risk base pricing practice if the loan approval official has reason to believe the interest rate charged to the borrower is more than the maximum rate allowed. FSA will maintain any risk base practices requested in the lender's operational file and distribute to other FSA offices as appropriate.

Lenders are not required to use the 3-month LIBOR rate, 5-year Treasury rate or risk-based pricing practices in order to participate in the guaranteed loan program. Lenders may use other pricing practices, such as the New York Prime, cost-plus, flat-rate, market based, etc., when establishing interest rates for guaranteed loans. However, the lenders' interest rate cannot exceed the required maximums as described above.

A General Information, *continued*

- **Using Real Estate Evaluation**

For loans of \$250,000.00 or less, lenders may use a real estate evaluation as an alternative method to establish collateral value of the real estate security rather than obtaining a real estate appraisal. Lenders must complete the loan evaluations in accordance with the Federal regulators published Interagency Appraisal and Evaluation Guidelines. Lenders must document the value of the real estate by applying the same policies and procedures as their non-guaranteed loans. If they would require an appraisal on a non-guaranteed loan, they should request an appraisal for the guaranteed loan. For example, a lender should consider obtaining an appraisal as the lenders portfolio risk increases or for higher risk real estate-related financial transactions. Acceptable real estate evaluations must identify the location of the property, provide a description of the property including any improvements and it's current and projected uses, provide confirmation that the property was physically inspected and the date of the inspection, describe the analysis performed and the supporting information used to determine the property's market value, provide information on the preparer including experience and qualifications to complete the evaluation and must include the effective date of the evaluation and the preparer's signature. FSA has the discretion to require an appraisal, but will do so only for loans with unusually high risk factors.

- **Using Real Estate Appraisals**

For loans greater than \$250,000.00, lenders must document the value of the real estate using a current real estate appraisal completed by a State Certified General Appraiser. Appraisal reports must be a USPAP compliant appraisal report.

FSA may allow lenders to use real estate appraisals more than 12 months old under certain conditions when requesting a FSA guaranteed loan. When the appraisal is more than 12 months old the lender must document that the market conditions have remained stable or improved based on current sales of similar property, the property in question remains the same or in better condition and value of the property has remained the same or increased. When using an appraisal over 12 months old, all collateral and loan approval considerations will be based on the market value stated on the appraisal. The value will not be adjusted for time or any other reason.

- **Systematic Alien Verification for Entitlements (SAVE) Program**

Guaranteed and Direct loan applicants, and buyers under land contract guarantees, must be US citizens, noncitizen nationals, or qualified aliens to be eligible for FLP loans. The Department of Homeland Security and the U.S. Citizenship and Immigration Services established the SAVE program to monitor the immigration status of individuals living in the United States. **Using SAVE is not required**, however, County Offices may find SAVE advantageous to use if the applicant's immigration documents are unfamiliar and/or do not clearly indicate immigration status. If necessary, County Offices will contact Tim Reimer, Farm Loan Specialist, for further guidance on requesting a SAVE search on individual applicants who identify themselves as other than a U.S. citizen.

A General Information, *continued*

- **IA Program**

On November 22, 2011, FSA announced that guaranteed loan applications under the Interest Assistance (IA) Program would no longer be accepted due to lack of funding. Existing IA agreements will be honored, claims will be paid as agreed, and all eligible servicing options can be pursued.

- **Guaranteed Loan applications requiring Farm Loan Specialist approval**

County offices will scan the required loan documentation, encrypt and email this information to the Farm Loan Specialist(s). Coreen Carnes, Tim Reimer and Paul Guenther should be included in the cc: portion of the email request. The email should include the name of the originating county office, applicant's name, type of loan request and amount of the loan request for tracking and monitoring purposes. The FLM's, SFLO's and FLO's will review loan applications in detail and provide their recommendation to the Farm Loan Specialist. The loan summary narrative must be thorough and in enough detail to allow the Farm Loan Specialist to make a determination on the soundness of the loan request and avoid the review of the county office loan file, if possible.

NOTE: In some instances the county office file may need to be sent to the Farm Loan Specialist. FLM's, SFLO's and/or FLO's will make this determination based on the complexity of the loan request. The Farm Loan Specialist should be contacted when making this determination.

- **Loan Obligation Requirements**

When the loan is approved, the following documentation will be scanned, encrypted and emailed to Coreen Carnes with a cc to Angie Biester, to obligate the loan:

- 1) Form FSA - 2231, "Request for Obligation of Funds Guaranteed Loans."
- 2) **FIRST PAGE** of the "Loan Summary Narrative," Attachment 5 (SEL/CLP) or Attachment 6 (PLP).

NOTE: County Offices will **not be required** to submit the "GLS Obligation Request" to the State Office with the items listed above.

- **Issuing Conditional Commitments**

Form FSA-2232 "Conditional Commitment" will need to be signed by an authorized agency official with loan approval authority.

B County Office Action

The Exhibit A and Attachments 1, 2, 3, 4, 5, 6 and 7 of this notice must be followed before any FLP guaranteed loan applications are approved. County offices should complete Attachments 1, 2, 3, 4, 5, 6 and 7 as needed.