

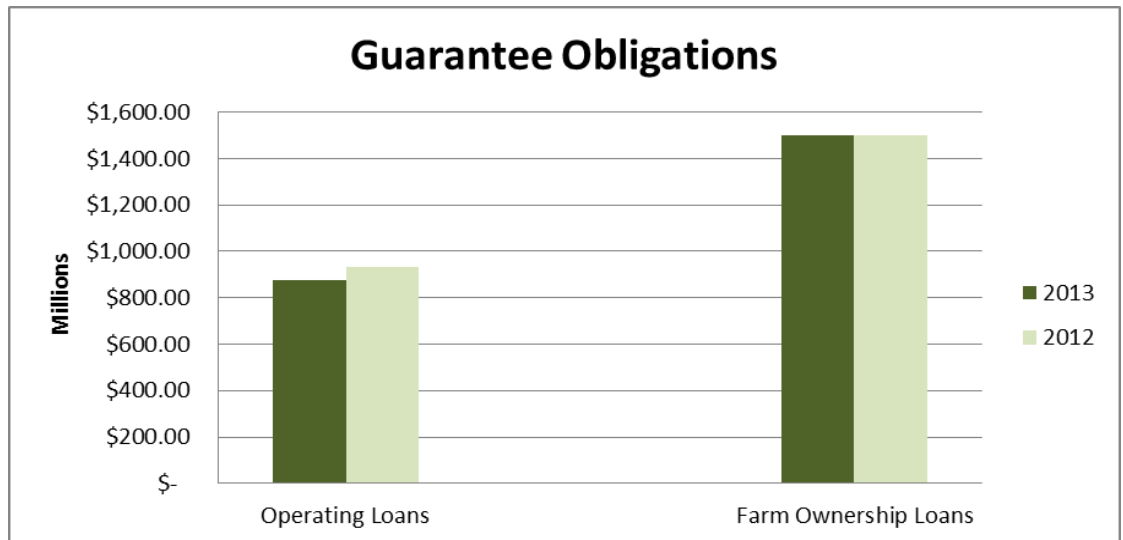


# GUARANTEED NEWS

Fall 2013 Volume 14

## Funding

Below are the Guaranteed Operating and Farm Ownership loans obligated in Fiscal Year 2013 (as of 9/30/2013).



## Funding

Funding for Guaranteed Farm Ownership loans remains a major challenge for FSA and lenders.

Farm Ownership demand surpassed allocations in fiscal year 2013, the second year in a row. Lenders used the full \$1.5 billion allocated for the program. A large backlog of loan requests was carried over into fiscal year 2014. A limited amount of guaranteed farm ownership funds were provided in the continuing resolution period running through Jan. 15, 2014. These monies were not adequate to satisfy the carryover of approved, unfunded loans from FY 2013. Loans approved but not funded are being held until additional funds are available. Once available, approved loans will be funded in order of the completed application date. We recommend you work closely with your local FSA office to identify alternatives until funds are available.

Demand for Guaranteed Operating loans declined slightly from past years. FSA obligated slightly under \$900 million in fiscal year 2013, compared with \$933 million in fiscal year 2012.

Funding for the remainder of fiscal year 2014, which began Oct. 1, remains subject to continued appropriations. If appropriations are provided under the anticipated full year 2014 Budget, additional Guaranteed Farm Ownership funds are expected. Our funding status is periodically updated on our website or you can contact your local FSA Office.

### Bonnet Retires

After guiding FSA's guaranteed program for over two decades, Bob Bonnet retired November 1st. During his 36 year FSA career, he spent most of that time as the Guaranteed Loan Making Branch Chief. We wish Bob well as he moves on and we are confident his positive influence on this program will continue for many years.

### Contents

Funding.....	1
Highlights.....	2-3
Changes .....	4
Feedback.....	4

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## Highlights

### PLP Numbers

Preferred lenders represent about half the total number of applications received, and FSA provides a response in an average of 7.5 days, compared with just over 13 days for Standard Eligible Lenders.

	Applications Received	Days from Application to Decision
PLP	50%	7.5
CLP	17%	9.5
SEL	33%	13.1

282 lenders qualify statistically for PLP status but for whatever reason have chosen not to apply. We encourage all lenders who statistically meet the requirement for PLP status to apply and take advantage of the faster processing time.

### USDA/SBA Harmonize Programs

In September 2013, USDA and the Small Business Administration (SBA) entered into a Memorandum of Understanding (MOU). The purpose of this MOU is to better coordinate delivery of both the SBA's and USDA's guaranteed loan programs to better serve farmers and rural small businesses. Under the MOU, SBA and USDA will:

- Collaborate on marketing and outreach efforts.
- Improve consistency in program rules, forms, and processes.
- Develop training programs for agency personnel, lenders, and applicants.
- Coordinate delivery and use of each agency's technical resource programs.

### Land Contract Guarantees

Have a customer that wants to sell their land through a land contract to:

- Help their son or daughter?
- Spread out the capital gains tax?
- Have an income stream available to them from interest accrual?
- A beginning or socially disadvantaged farmer but are concerned about the risk?

FSA's Land Contract Guarantee Program may be able to help.

The Land Contract Guarantee Program is a valuable tool to transfer farm real estate to the next generation of farmers and ranchers. Guarantees will be offered to the owner of a farm who wishes to sell real estate through a land contract to a beginning or socially disadvantaged farmer or rancher. The guarantee reduces the financial risk to the seller.

For additional information, contact your local FSA office.

### Protecting Your Guarantee

Giving a little extra attention to a few servicing actions will help ensure the guarantee pays in full in the event of a loss. You should:

1. Make certain liens and assignments are properly filed and maintained.
2. Inspect collateral and track any sales or trades.
3. Apply proceeds from collateral according to lien priority.



The most recent 2-FLP Handbook can be viewed and downloaded at:

[www.fsa.usda.gov/FS/FLP/Handbook?area=home&subject=lare&to pic=hbk](http://www.fsa.usda.gov/FS/FLP/Handbook?area=home&subject=lare&to pic=hbk)

#### Maximum Guaranteed Loan Limit:

##### Fiscal Yr.

**2014:** \$1,355,000

Use FSA's **Lender Interface Network Connection (LINC)** to submit status reports and pay guarantee fees.

For more information go to:

[www.fsa.usda.gov/Internet/FSA\\_File/electr\\_collect\\_guarfees0812.pdf](http://www.fsa.usda.gov/Internet/FSA_File/electr_collect_guarfees0812.pdf)

## Highlights

### Direct Loan Program Adds Microloans

FSA's recently introduced Direct Microloan (ML) program has been a big hit. Microloans better serve the unique financial operating needs of beginning, niche and the smallest of family farm operations. Microloans offer more flexible access to credit and serve as an attractive loan alternative for smaller farming operations like specialty crop producers and operators of community supported agriculture.

Microloans can be used for all approved operating expenses allowed under the FSA Operating Loan Program, including but not limited to initial start-up expenses, annual operating expenses, and marketing and distribution expenses. Also, more intermediate uses include purchasing livestock and equipment, minor farm improvements, hoop houses to extend the growing season, and delivery vehicles.

The program features a simplified application process and more flexibility on meeting FSA's farming experience requirement.

Microloans can be made for up to \$35,000 and the interest rate is FSA's normal Operating Loan rate. In fiscal year 2013, FSA approved 3,835 loans for \$75,563,160.

These loans are made and serviced directly by FSA, so if you have any customers that may benefit please refer them to your local FSA office.

### Stakeholder's Meeting

In June 2013, FSA staff participated in a stakeholder's meeting in Washington, D.C. hosted by the Farm Credit Council. Along with Farm Credit, the American Bankers Association and Independent Community Bankers Association brought together lenders to discuss common concerns relating to FSA's Guaranteed Loan Program. Two reoccurring themes brought up were ways to deal with limited program funding and improving consistency between FSA offices.

Other suggestions included further improvements to the Preferred Lender Program such as accepting scorecard underwriting, rule changes to facilitate secondary market sales, and expanding lending to Socially Disadvantaged farmers.

FSA walked away with a very helpful list of action items to help our program better serve farmers and ranchers. We will keep you posted on the progress of this initiative.



#### FSA Direct Loan Interest Rates (November 2013)

<b>Operating Loans 1 &amp; 7 Year</b>	<b>2.125%</b>
<b>Farm Ownership Loans</b>	<b>4.250%</b>
<b>Beginning Farmer Downpayment</b>	<b>1.500%</b>
<b>Emergency Loans</b>	<b>3.125%</b>

#### Conservation Loans Reminder

Operations larger than family size farms are eligible for Conservation Loan Guarantees.

## FSA Guaranteed Loan Program Changes

### Maximum Interest Rate Rule

FSA recently modified its rules governing the interest rates lenders charge on Guaranteed Loans. The longstanding requirement that loans not exceed the rate charged “average agricultural loan customers” is gone. Lenders indicated that the term was too vague and no longer consistent with current industry standards or other government agencies that administer similar programs.

Instead, FSA will use nationally published indices as benchmarks, unless the lender uses a formal written risk-based pricing practice for loans, in which case the rate must be at least one risk tier lower than the borrower would receive without the guarantee. Here is how it works:

- Loans made to borrowers with rates fixed for less than five years; the rate will not exceed 6.5% above the 3-month LIBOR (7.5% above if 3-month LIBOR is below 2%).
- Loans with rates fixed for five or more years; the rate will not exceed 5.5% above the 5-year Treasury note rate (6.5% above if 3-month LIBOR is below 2%).
- Lenders who use risk-based pricing practices, the rate will be at least one tier lower (representing lower risk) than the borrower would receive without the guarantee.

These spreads are generous enough to permit the lender to earn a profit, but prohibit excessively high rates.

### FSA Relaxes Rules on Appraisals

On Nov. 1, 2013, FSA published a new rule that relaxed its requirements for real estate appraisals on loans \$250,000 and under. To become more consistent with industry practices, guaranteed lenders may use an evaluation of collateral when they would do so for a nonguaranteed loan. Lenders would be expected to follow their own lending policies and obtain an appraisal when the loan conditions dictate, such as a high loan to value or for property difficult to value.

Also, lenders will be able to use appraisals greater than 12 months old provided the property’s condition has not changed and they can document values have been increasing.

These changes become effective Dec. 16, 2013.

### Feedback

FSA encourages lenders to provide suggestions, comments or ideas for future newsletter articles. Please contact:

Farm Service Agency  
USDA/FSA/DAFLP/LMD  
Attention: Steve Ford  
Stop 0522  
1400 Independence Avenue, SW  
Washington, D.C. 20250  
Phone: 202-720-3889

Email: [steven.ford@wdc.usda.gov](mailto:steven.ford@wdc.usda.gov)

View an example  
**Credit  
Management  
System** at:

[http://www.fsa.usda.gov/Internet/FSA\\_File/example\\_cms.doc](http://www.fsa.usda.gov/Internet/FSA_File/example_cms.doc)

FSA provides credit to **socially disadvantaged farmers (SDA)** to buy and operate family-size farms and ranches. For more information visit:

[www.fsa.usda.gov/Internet/FSA\\_File/sda2012.pdf](http://www.fsa.usda.gov/Internet/FSA_File/sda2012.pdf).



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courtesy of NRCS.

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