



July 2008

Kentucky FSA Guaranteed Lender News

Farm Bill Update

The Food, Conservation and Energy Act of 2008 became Public Law 110-234 on May 22, 2008. Certain provisions of the bill were available as of May 22, 2008, while others will be phased in as regulations are written. The following sections of the Farm Bill are now available to our borrowers and applicants:

- **Section 5003 and 5102 - Limitations on the Amount of Direct Farm Ownership and Direct Farm Operating Loans**

The maximum loan amount authorized is increased from \$200,000 to \$300,000 for each program. Available loan dollars are projected to increase for these programs due to the increase in loan size.

- **Section 5004 - Down Payment Farm Ownership Loan Program**

The Farm Bill modifies the existing program in several respects. The program is expanded to include Socially Disadvantaged Farmers in addition to Beginning Farmers. The interest rate is specified as the greater of the direct FO rate less 4% or 1.5%. The maximum loan amount is changed from \$100,000 to an amount not exceeding 45 percent of the least of (a) the purchase price of the farm or ranch acquired; (b) the appraised value of the farm or ranch acquired; or (c) \$500,000. (Note: This would result in a maximum loan amount of \$225,000 and no limitation on the purchase price). The loan term is extended from 15 to 20 years. The required down payment is reduced from 10% to 5%.

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“FARM LOANS ARE GOOD BUSINESS -- WE GUARANTEE IT!!”

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Jeffery S. Hall
State Executive Director

State Executive Director Comments

The 2008 Farm Bill is now law, but not without some drama. Nearly eight months after the old law expired, the new version has moved to the implementation phase. Holding true to recent history, the Food, Conservation and Energy Act of 2008 is more comprehensive than previous farm bills. It has 15 different titles, adding programs for livestock and poultry, a permanent disaster program, a separate title for horticulture, plus several other added areas of emphasis.

This newsletter outlines some of the regulations that are now available that directly impact the Farm Service Agency Farm Loan Programs. Most changes will take some time to develop. The best advice is to stay tuned for additional information on implementation of this new farm bill.

Farm Bill Update

(cont'd. from page one)

- **Section 5004 - Down Payment Farm Ownership Loan Program**

The remaining balance may be obtained from a commercial lender or private party. FSA can provide up to a 95 percent guarantee if financing is obtained from a commercial lender. Participating lenders do not have to pay a guarantee fee.

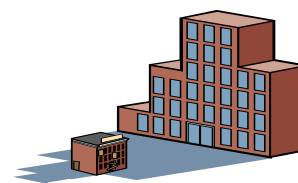
Farm Bill Update *(cont'd)*

- **Section 5004 - Down Payment Farm Ownership Loan Program**

These changes make this program very attractive. For example, let's assume a farm purchase for \$445,000. Forty-five percent of the purchase price is \$200,250. The FSA applicant decides to request a Down Payment Farm Ownership loan of 200,000. A loan of \$200,000 at 1.5% for 20 years will have a payment of \$11,650/year. The applicant will pay 5% down or \$22,250 and he plans to borrow the other \$222,750 on a first mortgage loan from his family lender at 8.5% for 20 years. The first mortgage loan will have a payment of \$23,541/year. The effective "blended" interest rate for the first year would be 5.19%. This is a great opportunity for a Beginning Farmer/SDA applicant to purchase a farm in the time of ever rising input costs.

- **Section 5103 - Suspension of Period for Which Borrowers are Eligible for Guaranteed Assistance**

The 15-year limit for FSA borrowers to receive guaranteed operating loans is waived through December 31, 2010. This buys some of our borrowers additional time to receive guaranteed loans.



PREFERRED LENDER APPLICATION REQUIREMENTS

This is just a reminder that a complete application for a guaranteed loan from a PLP lender consists of Form FSA-2212, "Preferred Lender Application for Guarantee" and a Loan Narrative containing information and analysis of any loan application data that are out of the ordinary, or at variance with normal practices for the type of operation and region. The narrative must be an evaluation and not just a summary of the data. PLP lenders must certify that their normal loan documentation, used for non-guaranteed loans, is in their files.

NEW MEASURES FOR PERSONALLY IDENTIFIABLE INFORMATION (PII)

OMB has mandated removal of Personally Identifiable Information, such as SSN/EIN, from viewable media. This need was reinforced when USDA was notified that a recipient of USDA funding was able to ascertain private identifiable information while viewing a government-wide website. All of the private identifiable information was embedded in a larger amount of information and therefore not immediately identifiable. USDA worked fervently to remove all identification numbers associated with USDA funding from the website.

As a result, the decision has been made by NRCS, FSA and RD that they will use a common set of assigned account numbers for all of their respective systems.

A Master Reference Table has been created to assign a unique customer account number, based on the SSN/EIN, when a customer is created (organizational and individual borrower). Current customers (applicants/borrowers) will automatically be assigned a unique customer account number during the conversion. Customer's SSN/EIN information will only be used in instances where legally or procedurally required.

The Guaranteed Loan System (GLS) will be the first system to begin using the new assigned account numbers in place of the applicants'/borrowers' SSN/EIN.

GSA web pages, block-mode screens, reports, system generated correspondence and forms are currently being modified and implementation is tentatively set for August 2008. Eventually, all FSA IT applications, forms and reports will be modified to incorporate this change. However, change to the direct loan program systems will take substantially more time.

The National Office is currently working on a Notice and training materials for FSA staff and guidance to Lenders regarding the new measures, changes in usage and appearance for privacy protected information. This information will be released in early July prior to implementation. **Note: Lenders will also be notified of the changes with their Guaranteed Farm Loan Status Report Information in October.**



BEGINNING FARMER AND RANCHER LOANS

The Farm Service Agency (FSA) provides direct and guaranteed loans to beginning farmers and ranchers who are unable to obtain financing from commercial credit sources. Each fiscal year, the Agency targets a portion of its direct and guaranteed farm ownership (FO) and operating loan (OL) funds to beginning farmers and ranchers.

In fiscal year 2007, Farm Service Agency county offices in Kentucky made 208 guaranteed loans for a total of \$43,064,160. Of this total, 82 guaranteed loans for a total of \$12,531,191 were made to beginning farmers.

A beginning farmer is an individual or entity who:

- Meets the loan eligibility requirements for a direct or guaranteed OL or FO loan, as applicable;
- Has not operated a farm for more than 10 years. This requirement applies to all members of an entity;
- 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 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;

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BEGINNING FARMER AND RANCHER LOANS

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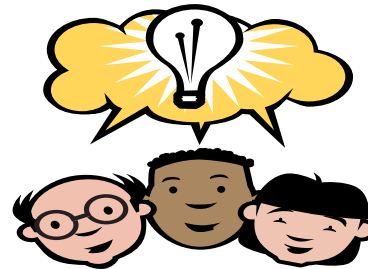
- Agrees to participate in any loan assessment and borrower training required by Agency regulations (Borrower Training is not required if the borrower has only guaranteed loans);
- Except for an OL applicant, does not own real farm property or who directly or through interests in family farm entities owns real farm property, the aggregate acreage of which does not exceed 30 percent of the median acreage of the farms in the county where the property is located. If the farm is located in more than one county, the median 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 median farm acreage of the county where the major portion of the farm is located will be used. The median county farm acreage will be determined from the most recent Census of Agriculture;
- 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
- In the case of an entity:
 - (i) All the members are related by blood or marriage; and
 - (ii) All the members are Beginning Farmers.

FOLLOW-UP TO 2008 ANNUAL LENDER MEETINGS

During our annual lender meetings in April and May, it was brought to our attention that some lenders are reporting information on guaranteed loans to commercial Credit Reporting Bureaus, as is FSA. This duplication of reporting could have an impact on a borrower's credit score. Please let us know if this is a problem and we will contact the National Office.

Some lenders mentioned they had some difficulty getting forms on-line. Lenders can get FSA forms electronically at the USDA Service Center EForms website to browse, fill in and print any of the public FSA forms available. FSA is continually adding new forms and making more forms available for electronic signature. Please check often for new updates to the site, located at:

<http://forms.sc.egov.usda.gov/eforms.mainservlet>



SUGGESTIONS, COMMENTS OR IDEAS

FSA encourages lenders to provide suggestions, comments or ideas for future newsletter articles. Please contact the Farm Service Agency at 771 Corporate Drive, Suite 100, Lexington, KY 40503. Phone (859)224-7441.

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