United States Department of Agriculture
Farmers Home Administration
Washington D.C. 20250

FmHA AN No. 2442 (1940)
December 31, 1991

SUBJECT: Effects of Credit Reform on Farmer Programs Funding

TO: State Directors

ATTN: Farmer Programs Chiefs

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to provide guidance in the management of Farmer Programs loan fund allocations and obligations under the requirements of Credit Reform. The intended outcome is the accurate, effective management of Farmer Programs loan and subsidy allocations.

COMPARISON WITH PREVIOUS AN:

There is no previous AN on this subject.

IMPLEMENTATION RESPONSIBILITIES:

Provisions of the Federal Credit Reform Act of 1990 are being implemented, effective October 1, 1991, to more accurately measure the costs of FmHA loan programs. Credit Reform has a significant effect on the National Office's allocation, obligation, and management of loan funds in Farmer Programs. FmHA Instruction 1940-L, Exhibit A, Attachment 1, dated November 27, 1991, includes the Credit Reform requirements.

Beginning in FY 1992, the obligation of insured and guaranteed loans requires both program loan funds and subsidy funds. In the context of Credit Reform, subsidy is the total anticipated costs of the loan throughout its life. Subsidy includes interest subsidies, loan losses, loan cost items, salaries and expenses, and all other program operating costs. The subsidy will be obligated at the applicable subsidy rate for each specific loan cohort. A cohort is a group of loans made in a particular fiscal year at similar rates and terms. For example, one year limited resources OL loans made in FY 1992 would be one cohort.

State program allocations of Insured and Guaranteed OL and Insured FO funds have been sub-divided into separate cohorts, based on loan rates and terms. One, two or three-year lines of credit are counted in the 1-year cohort. The subsidy funds for each cohort will be managed by the National Office and will not be allocated to States.

EXPIRATION DATE: September 30, 1992

FILING INSTRUCTIONS:
Preceding FmHA
Instruction 1940-L

The second enhancement is an automatic borrower classification upload to the mainframe computer in Kansas City. A borrower must have a completed plan on the ORACLE FHP for the automatic upload to function.

In order to accomplish the above objectives, field offices are instructed to enter the current Farm and Home Plan and 5 years of historical data into the system as they work with the borrowers. All borrowers must be on the system by January 1, 1993.

For those borrowers with servicing flags, the most current data available would be entered, in order for those borrowers to be classified.

The 'Copy' function key of the FHP software will be beneficial in entering the 5-year historical data. It is essential that the required data fields of the FHP be completed for all 5 years in order to properly generate the CFA worksheets and Form FmHA 1960-12. Both planned and actual data fields will be needed for the historical database. In order to have an efficient and useful database, data entry 'shortcuts' are not recommended.

Any questions or comments should be directed to Steven Rubin, Senior Loan Officer, Farmer Programs, Program Development Staff, on FTS 690-4003 or commercial (202) 690-4003.

La Verne Ausman
Administrator

Sent by Time Delay Option to States at 2:00 on 12/23/91, to Districts at 4:00 on 12/23/91 and to Counties at 7:30 on 12/24/91 by GSS.

To recap the situation, to obligate a loan or guarantee, the National Office is required to provide adequate funds in two accounts - the loan fund account <u>and</u> the subsidy account. Thus, there will be two limiting factors to the obligation of a loan.

The subsidy rates for the different cohorts vary considerably. The initial subsidy rates for FY 1992 are as follows:

PROGRAM	SUBSIDY RATE
<u>Insured FO</u>	
Regular	3.81
Limited Resource	29.94
<u>Guaranteed FO</u>	5.02
<u>Insured OL</u>	
Regular 1-year	11.03
Regular 7-year	12.67
Limited Resource 1-year	15.27
Limited Resource 7-year	31.55
<u>Guaranteed OL</u>	
1-year	.96
7-year	2.11
<u>Guaranteed OL w/Interest Assistance</u>	
1-year	5.67
7 year	16.70

Note that the subsidy cost for a limited resource OL is much higher than the cost of a regular rate loan, and a 7-year loan has a much higher cost than a 1-year loan.

Levels for both loan program authority and loan subsidies were established for FY 1992 in the Appropriation Act for the Department of Agriculture. The appropriated levels of subsidy are not totally adequate to fund the entire amount of authorized program authority based upon historical patterns of loan obligations. The amount of subsidy appropriated should be adequate to meet anticipated loan demand. However, if demand patterns shift in FY 1992 (eg. demand for limited resource or 7-year OL loans is higher) availability of loans would be curtailed due to lack of subsidy.

Because subsidy funds are limited, efforts must be made in the loan making process to use subsidy in the most efficient manner possible. This is essential to assure that the credit needs of all eligible creditworthy applicants can be met. Some key points for efficient use of subsidy are:

- Assure that applicants receiving limited resource assistance are truly qualified. The 10 percent cash flow margin for limited resource rate increases specified in Section 1951.25 of FmHA Instruction 1951-A does not apply to loan making. For example, if an applicant can cash flow a regular rate loan with a 5 percent margin, the loan must be made at the regular rate.

- Limit refinancing of non-FmHA debt to situations which are essential for continuing the farming operation. Help applicants develop workout plans for existing creditors to restructure their debts in lieu of FmHA refinancing.

- Where possible, utilize other credit sources for capital expenditure items. Use Operation Assist to utilize guaranteed loans for such items.

- Because the loan term determines cohort and subsidy level, do not combine 7-year and annual production credit in 1 OL loan obligation. For example, if total OL credit needs are $100,000, and $80,000 is needed for annual operating expenses and $20,000 is for a capital expenditure, subsidy obligations will be reduced by making two loans - an $80,000 1-year loan and a $20,000 7-year loan. Otherwise, the subsidy will be obligated at the 7-year rate for the entire loan amount.

FmHA does have the authority to move funds between cohorts for the same type of loan. (Ex: 1-year OL funds can be converted to 7-year OL funds). However, due to the potential subsidy shortage, requests for transfers of loan funds between these cohorts which would increase subsidy costs will not be granted until a determination can be made that such a transfer will not inhibit maximum utilization of the programs on a National level. UNDER NO CIRCUMSTANCES WILL THE NATIONAL Office APPROVE REQUESTS FOR TRANSFER OF 1-YEAR INTEREST ASSISTED OL FUNDS TO THE 7-YEAR COHORT AT THIS TIME.

Additional guidance and information on the impact of Credit Reform will be provided as it becomes available. Questions concerning this AN should be directed to Farmer Programs Loan Making Division on FTS 720-1632.

LaVerne Ausman

LA VERNE AUSMAN
Administrator

Sent by Electronic Mail on 1-6-92 at 11:30A by GSS. The State Director should advise other personnel as appropriate.