

For: County Offices

Increasing Guaranteed OL Line of Credit Ceiling Amounts

Approved By: Acting State Executive Director

RAT:LEV:lv



1 Overview

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Background

Small carry-over operating losses from the previous operating cycle, changing crop and livestock enterprises, and pursuing different marketing strategies than those originally planned with a guaranteed Operating Loan (OL) line of credit (LOC) request, can all result in the need for an increased guaranteed LOC ceiling amount. Several guaranteed lenders with customers facing these circumstances have contacted FSA concerning the procedure to follow in requesting an increase in the line of credit ceiling amount for their guaranteed loan customers with outstanding multiple-year guaranteed OL lines of credit.

B

Purpose

The purpose of this Oregon Notice is to:

- replace expired Oregon Notice FLP-41
 - specify the methods that can be used to effectively increase the ceiling amount available under multiple-year OL lines of credit
 - identify the steps to be followed when consolidation with an existing multiple-year guaranteed OL line of credit is used as the method of increasing the ceiling amount
 - assure that the consolidation of guaranteed OL lines of credit are processed consistently throughout the State so that they can be processed in a timely manner by the KCMO Finance Office in St. Louis, MO.
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FILING: Preceding FSA Handbook 2-FLP

Disposal

Distribution

March 1, 2002

STO, DD, COR, COC, COF - Including Farm Loan Programs

03-08-01

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2 Methods of Effectively Increasing LOC Ceilings

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Separate Additional LOC Loan

The ceiling amount available to a guaranteed loan borrower under multiple-year OL line of credit (LOC) can be effectively increased by the lender making an additional subsequent guaranteed LOC to the borrower.

This is an option when the lender wishes to maintain separate LOCs, with or without the same maturity date. There are several situations that may justify separate LOCs.

Example: One guaranteed OL Line of Credit may be made for feeder cattle purchases, and a separate guaranteed OL Line of Credit may be made to cover farm operating expenses related to the production of cash crops.

As long as the same lender is involved, and the lender's existing multiple-year LOC is both guaranteed by FSA and in a first lien position, then the fifth bullet in Paragraph 166 D of FSA Handbook 2-FLP will permit the subsequent multiple-year LOC to be secured by a junior lien on the same normal income security as the prior guaranteed LOC.

In evaluating such requests, the lender's cash flow statement may show separate advances under each guaranteed OL Line of Credit. In any event, the cash flow statement must reflect how the advances made under each line will be used to meet the total credit needs falling due within the operation's normal operating cycle, and how those advances will be repaid from proceeds generated during the operation's normal operating cycle.

B

Consolidation of Existing LOC With New Subsequent LOC at Closing

Ceiling amounts on existing guaranteed LOCs may be increased by consolidating the existing LOC with a new subsequent guaranteed LOC being made in the amount of LOC increase necessary. At loan closing, the existing LOC and the new LOC being made are then combined (or consolidated) into a single LOC and LOC debt instrument. This is authorized in Paragraph 286 of FSA Handbook 2-FLP. The consolidated LOC note or debt instrument, however, must have the same maturity date as the original LOC had.

Most often, lenders will prefer this method of increasing the LOC ceiling. Consolidation of the two LOCs under one debt instrument simplifies their handling of the borrower's LOC. It also simplifies our handling of the account.

3 Conditions

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Application

When a lender finds it necessary and prudent to increase the ceiling amount for an existing guaranteed LOC, the lender must submit a complete request for another guaranteed LOC in the amount of the increase needed. The cash flow budget submitted in support of the new LOC request must reflect the *combination* of both the existing and the new subsequent LOC being requested.

In cases where consolidation of the existing and new LOCs will not occur, the LOCs may be shown separately on the cash flow. The cash flow budget, however, must show the *total (or combined) LOC needs* of the guaranteed loan applicant.

Once submitted, the subsequent guaranteed LOC request for the increased ceiling amount will be processed essentially the same as any other request.

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Financial Feasibility and Security

The lender's proposed budget must realistically project financial feasibility in the form of positive cash flow, or a term debt and capital lease coverage ratio of no less than 1.00. The lender's application must reflect adequate security based on a current and accurately prepared appraisal.

C

Guarantee Fee

The guarantee fee will be calculated based on the amount of the subsequent LOC only. The guarantee fee should apply only to the dollar amount of the LOC increase, and this is represented in the subsequent LOC request.

D

Term of the Subsequent LOC

If consolidation with an existing LOC will occur, the term of the new subsequent LOC (the period for advances and the final maturity date) must be the same as the existing guaranteed LOC.

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3 Conditions, *Continued*

E

Consolidated Debt Instrument

If consolidation with an existing LOC will occur, both the unpaid balance of the existing LOC and the new subsequent LOC must be combined into a new LOC debt instrument at loan closing, and a Form FSA 1980-84, "Modification of Guarantee," will be executed.

The original (existing) LOC may not be satisfied, and must be retained by the lender with its original Form FSA Form 1980-27, "Loan Guarantee," attached for identification purposes, until the new consolidated LOC debt is paid in full. The new consolidated LOC debt instrument should reference the old original existing debt instrument, and the guarantee amount shown on the Form FSA 1980-27 issued for the new consolidated debt instrument may not exceed the guaranteed portion of the subsequent LOC being made.

4 Processing LOC Consolidations

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Application Processing

A subsequent guaranteed LOC request for an increase in an existing LOC ceiling amount will be processed in essentially the same as any other request.

B

Conditional Commitment

The following must be observed when preparing Form FSA 1980-15, "Conditional Commitment," for issuance when a consolidation is involved:

- the amount to be entered as the "Line of Credit" ceiling should be the amount of the new subsequent LOC being processed.
 - the conditions attached to or entered on the Conditional Commitment must state that when the subsequent LOC is closed by the lender, it is to be consolidated with the existing LOC, increasing the line of credit ceiling to \$_____ (the ceiling amount of the existing LOC, plus the amount of the new subsequent LOC being processed), and that the Loan Guarantee to be issued by FSA will reflect only the subsequent LOC amount. (The debt outstanding under the existing LOC is already covered by the existing Loan Guarantee, and neither it or the existing LOC debt instrument are being satisfied by the consolidation action.)
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4 Processing LOC Consolidations, *Continued*

B

**Conditional
Commitment,**
Continued

- the Conditional Commitment must clearly state that the term (maturity date and period for advances) of the new subsequent LOC must match the term of the existing LOC with which it is being consolidated. This is necessary so that the term of the new consolidated LOC instrument that will exist after consolidation will not exceed the terms (to make advances as well as final maturity date) of the existing LOC.
- the Conditional Commitment must contain a statement requiring the lender not to satisfy the existing LOC, but to retain the existing LOC debt instrument for identification purposes until such time as the new combined and consolidated LOC has been paid in full.
- the Conditional Commitment should state that a Modification of Guarantee will be issued after loan closing, and that the lender is required to attached it to the originals of the Loan Guarantees for the LOCs being consolidated.

Language on the Conditional Commitment should instruct the lender to consolidate the new subsequent LOC with the existing LOC into a new LOC, and provide a copy of the new LOC debt instrument (promissory note or Line of Credit Agreement) to FSA reflecting the increased LOC ceiling amount with the loan closing report.

C

**Consolidated LOC
Closing**

Upon receipt of the Conditional Commitment from FSA, the lender will proceed to close the LOC for which the guarantee is to be issued. The Form FSA 1980-19, "Guaranteed Loan Closing Report," prepared and the loan fee submitted by the lender will be based on the amount of the new subsequent LOC requested.

The County Office will enter the data from Form FSA 1980-19 into the ADPS or GLS system as soon as it is received, and the loan fee will be processed.

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4 Processing LOC Consolidations, *Continued*

D

Consolidation

After the LOC closing and entry of the Form FSA 1980-19 for the new subsequent LOC, the County Office will then prepare a Form FSA 1980-84 and another (second) Form FSA 1980-19 to address the consolidation of the existing LOC with the new subsequent LOC just closed. The Form FSA 1980-84 must reflect the combined maximum line of credit ceiling amount. The second Form FSA 1980-19 will indicate the new total for the increased consolidated LOC ceiling. The new (second) Form FSA 1980-19 will be forwarded to the lender for signature, and returned to FSA.

Upon receipt of the executed Form FSA 1980-19 from the lender, it will be forwarded, together with a copy of Form FSA 1980-84 and a transmittal memorandum identifying which LOCs are being consolidated, to:

Director, Loan Operations Division
Kansas City Finance Office
USDA - FSA – KCMO – DDF – LOD – L&GSB II
Attn: Dan Kennebeck - Mail Code MC-533
Post Office Box 200003
St. Louis, MO 63120-0003

The Form FSA 1980-84 should reflect the combined maximum line of credit ceiling amount, and have the two loan guarantees attached.

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LOC Guarantee

The Form FSA 1980-27, "Loan Guarantee," that is issued will reflect the subsequent LOC amount only. Even though the intent of Form FSA 1980-84 is to cover this issue, for clarification purposes, the Form FSA 1980-27 should include a brief statement indicating that the guarantee represents the consolidation of the existing LOC Guarantee in the amount of \$_____, and the new subsequent LOC in the amount of \$_____, for a new guaranteed LOC ceiling amount of \$_____.

5 Contacts

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Contact Persons

Address questions concerning this Oregon Notice to Lynn Voigt, Bob Perry, or Peter Halvorson in the FLP section in the STO.
