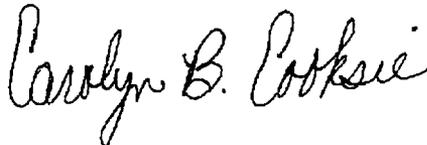


For: State and County Offices

**Guaranteed Loan Cash Flow Projections**

Approved by: Deputy Administrator, Farm Loan Programs



**1 Overview**

**A**

**Background**

7 CFR 1980.113 requires that cash flow projections:

- be based on the financial and production history of the operator
- reflect performance reasonably expected in the operating cycle.

**B**

**Purpose**

This notice:

- discusses deviations from historical performance
- clarifies that projections which are outside the range of proven performance, without adequate justification, will not be accepted.

**C**

**Contacts**

If there are questions about this notice:

- County Offices shall contact the State Office
- State Offices shall contact LMD, Guaranteed Loan Branch.

**Disposal Date**

August 1, 1999

**Distribution**

State Offices; State Offices relay to County Offices

## Notice FC-202

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### 2 Action

#### A Discussion

FmHA Instruction 1980-B, section 1980.113(a)(7) establishes acceptable methods for lenders to project cash flow for their loan applicants. The method selected will vary, based on individual circumstances such as:

- the applicant's number of years in operation
- previous disasters
- availability of historical production and financial records.

Use of an average of the applicant's historical performance is not required. An average is only appropriate when there have not been major changes in the operation. Historical data should be used as an indicator of the capabilities and limitations of the operator and facilities, with the projection based on what can reasonably be accomplished. Of primary importance is that the plan:

- represent, as closely as possible, the predicted cash flow for the operating cycle
- be documented in sufficient detail to adequately reflect the overall condition of the operation.

The plan must be based on the applicant's proven record of production and financial management. **In no case should the projection be outside the range of the applicant's previous performance, unless fully documented and justified by the lender.**

The lender's loan narrative must support the projected production, income, expenses and other major assumptions used in the cash flow budget. This is particularly important when changes have occurred in the operation or there have been unusual circumstances which support deviations from historical performance.

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**2 Action (Continued)**

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**B**

**SED Action**

SED's shall:

- instruct Farm Loan Chiefs to train credit staff and lenders, as needed, on cash flow projection requirements and limitations
  - monitor cash flow analysis by credit personnel.
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**C**

**Farm Loan  
Manager (FLM)  
Action**

FLM's shall:

- review guaranteed loan applications for appropriate cash flow projections
  - ensure that any deviations from historical performance are adequately documented in the loan narrative
  - discuss this notice with lenders.
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