



United States
Department of
Agriculture

Farmers
Home
Administration

Washington
D.C.
20250

FmHA AN No. 1692 (1980)

December 11, 1987

SUBJECT: Determining a Positive Cash Flow for the Interest Rate Buydown Program

TO: State Directors, State Directors-at-Large, Farmer Program Chiefs, District Directors, and County Supervisors, FmHA

PURPOSE/INTENDED OUTCOME:

To assure that all liquid and nonessential assets and income are taken into consideration when developing an operating plan as to the ability of the plan to project a positive cash flow without interest rate buydown assistance.

COMPARISON WITH PREVIOUS AN:

There has been no previous AN's issued.

IMPLEMENTATION RESPONSIBILITIES:

A recent audit concerning the Interest Rate Buydown Program indicated that 51 percent of the cash flow plans reviewed did not meet the requirements of the program. Eighty eight percent of the plans had sufficient liquid or nonessential assets and income to project a positive cash flow without the buydown assistance and the other 12 percent projected a positive cash flow when corrections were made for over-estimations for yields.

Farmers Home Administration (FmHA) Instruction 1980-B, "Exhibit D of Subpart B - Interest Rate Buydown Program" Paragraph IV D states that the lender and County Supervisor must determine whether the borrower owns any assets which do not contribute to essential family living expenses or to the maintenance of a sound farming operation. The lender must determine whether the borrower could sell these assets and, if so, for how much. It is the FmHA reviewing official's responsibility to determine if the lender has complied with this requirement. If the sale of these assets results in a positive cash flow, then the applicant is not eligible for the program.

EXPIRATION DATE: September 30, 1988

FILING INSTRUCTIONS:
Preceding FmHA
Instruction 1980-B



Farmers Home Administration is an Equal Opportunity Lender.
Complaints of discrimination should be sent to:
Secretary of Agriculture, Washington, D.C. 20250

1692(1980)

Prices and yields used to develop cash flow will be established as set forth in FmHA Instruction 1980.113(d)(8) (i) and (ii) regarding prices and yields. It is the FmHA reviewing official's responsibility to assure that the lender has the proper understanding regarding the development of the cash flow and to review each cash flow to determine that the lender is complying with the above regulations in projecting the cash flow. The reviewing official must also determine that only legitimate expenses are reflected in the cash flow. (DEPRECIATION IS NOT A CASH EXPENSE.)

REMEMBER: For an interest rate buydown request to be accepted, the lender must demonstrate that a positive cash flow cannot be developed by rescheduling or reamortizing the account, that all nonessential assets which can be sold will be considered in projecting a positive cash flow and that prices and yields will be established as set forth above. If after these considerations, the plan still requires a reduction in the interest rate to cash flow, then and only then, will the interest rate buydown be approved.

A handwritten signature in black ink, appearing to read "Vance L. Clark", with a long, sweeping horizontal flourish extending to the right.

VANCE L. CLARK
Administrator