



United States
Department of
Agriculture

Farmers
Home
Administration

Washington
D.C.
20250

FmHA AN 1686 (1924)

December 4, 1987

- SUBJECT: Development of Realistic Farm Operating Budgets for Non-Delinquent Borrowers.

TO: All State Directors and State Directors-at-Large, FmHA

PURPOSE/INTENDED OUTCOME:

The purpose of this AN is to stress once again, the importance of developing sound, realistic annual farm operating budgets for use in insured and guaranteed loan making and servicing decisions for non delinquent borrowers. The intent of this AN is to assure compliance with policy and regulations as they relate to prudent loan making and proper servicing actions necessary to accomplish program objectives, prevent further erosion of borrower equity, and minimize loan losses.

COMPARISON WITH PREVIOUS AN:

This AN replaces AN No. 1492(1924) issued October 30, 1986, which expired on September 30, 1987.

IMPLEMENTATION RESPONSIBILITIES:

The development of realistic budgets to support insured and guaranteed loan making and/or servicing actions remains a major concern. Reviews by National Office teams and various oversight authorities indicate that loans are still being made and servicing actions still being based upon projections of production, income, and expenses that cannot be supported or verified.

Questions are being raised concerning repayment ability and adequate cash flow. FmHA Instruction 1924-B, Section 1924.57(c)(5)(ii) states that plans must show the borrower will be able to meet necessary payments on debts. Necessary payments on debts means all debts regardless of purpose or when they were incurred. Sound Farm and Home Plans or other farm financial projections must reflect repayment on the full scheduled installments for ALL debt obligations. Debt carried by other creditors may need to be written down or rescheduled. Other creditors must provide the borrower with a planned and written agreement for payment. This includes all types of credit.

EXPIRATION DATE: September 30, 1988

Filing Instruction:
Preceding FmHA
Instruction 1924-B



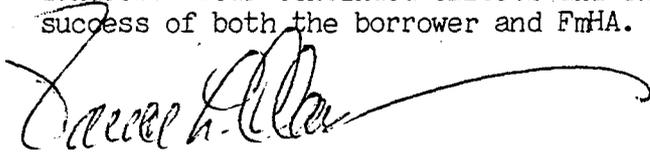
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Secretary of Agriculture, Washington, D.C. 20250

The following actions will be considered to insure that realistic plans are developed:

1. States will establish an annual commodity price list to provide guidance for the County Offices in developing consistent commodity pricing within the State. States should consult with Extension, Land Grant Colleges, adjoining FmHA State Farmer Program Staffs, and other sources in developing a list of commodity prices to be used for projecting the production year's income. Such lists may need to be regionalized to more accurately reflect prices.
2. The planned production and expenses must be consistent with the borrower's/applicant's actual production and financial history. For existing borrowers, actual production and financial history will be utilized. New applicants must provide actual production and financial records. If actual records are not available, then ASCS farm history records will be utilized. County averages will be used for new applicants only and be used "only" if no other records are available. Documentation of sources used in developing the plan must be included in the case file.
3. Any anticipated benefits from Government price support programs will be considered when the operating plan is developed. County Supervisors will consult with local ASCS officials for program information for planning purposes.
4. Farm and Home Plans will be reviewed by the approval official after preparation to assure the accuracy and proper documentation of data and computations.
5. State Directors will insure that post review of at least 5 percent of all farmer program loans approved in each County Office is made annually. The review will determine feasibility and soundness of the loan, and that the credit decision was based on documented production and expense history. Findings will be reported to the State Director with recommendations for corrections needed. State Directors must follow-up on deficiencies identified in loan making to insure that proper corrective actions are taken. This should be appropriately noted in the elements and standards of each Farmer Program Chief and District Director.

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Requirements for prudent lending have never changed. Sound loan servicing actions are also a must if we are to be prudent responsible lenders. Your continued efforts and expertise are vital to the success of both the borrower and FmHA.

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

VANCE L. CLARK
Administrator

Sent via electronic mail on Dec. 08 at 2:26 pm by DASD(IMPS).
State Directors will immediately distribute to the Farmer Program
Chief and all District Directors and County Supervisors.