Posted: Wed, Jun 27, 1990 1:20 PM CDT Msg: KSUA-2998-7193
From: FMHA.ADMIN
To: state.directors
C no.lmd
: subordination of farmer programs
F. warded message:

Posted: Wed, Jun 27, 1990 1:05 PM CDT Msg: ASUA-2998-7113
From: NO.LMD
To: fmha.admin
Subj: subordinations of farmer programs insured loan security

FmHA AN No. 2105 (1980)

June 26, 1990

SUBJECT: Subordinations of Farmer Programs Insured Loan Security

TO: State Directors, District Directors and County Supervisors

PURPOSE/INTENDED OUTCOME:

The purpose of this AN is to clarify FmHA instructions concerning the of subordinations of Farmer Programs insured loan secur.ty. The . nded outcome is to encourage utilization of the Guaranteed Loan Program and assure that subordinations are used only to avoid making an insured loan.

COMPARISON WITH PREVIOUS AN:

There has been no previous AN issued on this subject.

IMPLEMENTATION RESPONSIBILITIES:

The Agency is placing heavy emphasis on the Guaranteed Loan Program. This is consistent with Congressional intent. We are concerned that subordinations are being used in cases where the borrower's credit needs can be met through a guaranteed loan or graduation to commercial credit.

The risk exposure associated with subordinations is greater than with guarantees. Experience indicates that loans made by lenders under FmHA subordinations generally have higher interest rates than guaranteed loans, and lenders tend to treat subordination loans as lines of credit. Finally, FmHA has virtually no control over the use of loan funds.

EXPIRATION DATE: JUNE 30, 1991

FILING INSTRUCTIONS:
Preceding FmHA
Instruction 1980-B

Subordinations reduce the volume of guaranteed loans and discourage graduations at a time when it is in the Agency's best interest to promote both of these programs.

owers who meet the guaranteed loan criteria for the "Operation st Program" as outlined in AN 2034(1980) should have their credit needs met with guaranteed loans. Subordinations should not be approved when the borrower has the capacity, character, capital, collateral and conditions required to graduate to commercial credit.

Subordinations are preferable only on insured loans. Borrowers receiving credit through subordination of insured loan security must be closely supervised to ensure that program objectives are being accomplished and the Government's interest is protected.

If you have any questions, you may contact Ann Dill on FTS 382-1186.

/s/
David Chen for

LA VERNE AUSMAN
Administrator

Sent by Time Delay Option to States at 2:30 p.m. on 6/27, to Districts at 4:30 p.m. on 6/27, and Counties at 9:30 a.m. on 6/28 by ASD.