



United States
Department of
Agriculture

Farmers
Home
Administration

Washington
D.C.
20250

MAY 24 1985

SUBJECT: Farmer Programs Loan Applicants
with Keogh Plans and Individual
Retirement Accounts (IRAs)

TO: All State Directors, FmHA

Purpose/Intended Outcome

The purpose of this Administrative Notice (AN) is to advise that the Internal Revenue Service (IRS) imposes a tax liability on individuals who pledge or cash in their Keogh Plans and/or IRAs prior to the maturity date. Therefore, the Farmers Home Administration (FmHA) will not require farmer program loan applicants to pledge or cash in their retirement accounts as a condition of approval for FO, OL, S&W and/or EM loans. The intended outcome of this AN is to prohibit FmHA loan approval officials from taking liens on applicants' Keogh plans, IRAs or any other retirement fund authorized by law, or requiring that such retirement accounts be liquidated to meet the "test for credit elsewhere" or the "essential assets" criteria prescribed in the farmer programs regulations.

Implementation Responsibilities

We are advised by the Office of General Counsel (OGC) that IRAs and Keoghs can be pledged as security for farm loans; but that if pledged, the IRS requires the amount pledged as security for a loan to be treated as income for that tax year. This would result in a tax liability for the loan recipient, which will, in some cases, create an undue financial hardship on the borrower. The OGC further advised that people with Keogh Plans can usually borrow from those plans without incurring a tax liability.

In view of the above information, County Supervisors and other loan approval officials will refrain from requiring applicants to either pledge or liquidate their Keogh Plans, IRAs or similar retirement accounts in order to qualify for FmHA farm loan assistance. However, applicants with Keogh Plans should be required to borrow from their plans, if possible. Applicants who claim it is not possible to borrow from their Keogh Plans must provide FmHA with written explanations of why they cannot borrow from the plans. If a loan approval official has any questions about any such explanation, OGC should be consulted.

EXPIRATION DATE: May 31, 1986 FILING INSTRUCTIONS: Preceding FmHA
Instruction 1940-G



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

1201(1940)

State Directors are directed to discuss the contents of this AN with the District Directors at the next regular staff meeting. District Directors will in turn discuss this AN with their respective County Supervisors and monitor farm loan processing to ensure uniformity in the implementation of this AN.

Field offices having any questions related to the provisions of this AN should contact their Chief of Farmer Programs who may contact the Director of the Emergency Division in the National Office, if necessary.

Dwight O. Calhoun

DWIGHT O. CALHOUN
Acting Associate Administrator

Sent by electronic mail on May 24, 1985 at 2:31 pm. by IMP.
Please distribute promptly to all County and District Offices.