UNITED STATES DEPARTMENT OF AGRICULTURE
Farm Service Agency
100 USDA, Suite 102
Stillwater, Oklahoma 74074-2653

OK Notice FLP-403

For: County Offices

Farm Credit of Western Oklahoma, ACA
Tax ID # 73-0582499
Preferred Lender Program Status

Approved by: State Executive Director

1 OVERVIEW

A
Background

2-FLP governs the processing and servicing of guaranteed loans. The Preferred Lender Program (PLP) allows lenders to originate and service guaranteed loans as they do their non-guaranteed loans.

B
Purpose

The purpose of this notice is to:

- Advise County Offices that the Farm Credit of Western Oklahoma, ACA, (formerly Production Credit Association of Woodward) Credit Management System (CMS), has been updated and revised.
- Provide guidance and direction to staff to ensure continuous service to the Lender.

C
Contact

Direct any questions concerning this notice to Patty Wanger at (405) 742-1052 in the State Office.

D
Filing Instructions

This notice should be filed with the FLP series Notices.

Disposal Date	Distribution
September 18, 2005	Farm Loan ProgramTeams, County Offices, DD's, COR's

2 ACTION

A County Office Action

Attached is a copy of the revised Farm Credit of Western Oklahoma, ACA PLP Credit Management System (CMS). This replaces the CMS that is attached to the bank's master September 18, 2000, Lender's Agreement (**maintain and do not destroy**) on file.

The PLP Status remains in effect for the same 5-year period, September 18, 2000, to September 18, 2005.

PLP lenders will use their own CMS for originating and servicing FLP-guaranteed loans. Any action not addressed in the CMS will then be in accordance with 2-FLP as a CLP lender.

The County Office shall develop and maintain an operational file on each lender. This file will contain the information outlined in 2-FLP Par. 48 B, Operational File.

B Loan Making

All PLP guaranteed loan applications should be filed with the Farm Loan Manager servicing the county, which has been designated as the centralized PLP application-processing county.

Under Par. 83 B, PLP applications must be approved or rejected and the lender also notified of the decision within 14 calendar days of the complete application.

C Loan Servicing

All PLP guaranteed loans, once closed, shall be sent to the Farm Loan Manager servicing the county where the borrower's principal residence on the farm is located. If the borrower's residence is not located on the farm or the borrower is an entity, the loan will be serviced in the county where the farm or major portion of the farm is located, unless otherwise approved by the State Office.

If not covered under the CMS, Farm Credit of Western Oklahoma, ACA must follow the servicing requirements for CLP lenders found in 2-FLP Handbook.

All loan servicing actions on existing guaranteed loans will be based on the current CMS in effect, regardless if the loan was approved under a previous CMS revision.

D
PLP Designated Loan Officers

Following is a complete list of persons designated to originate and service PLP loans for Farm Credit of Western Oklahoma, ACA.

Steve Jones, Vice President, Chief Credit Officer
Curtis Constien, Vice President, Chief Lending Officer
Greg Livingston, Vice President, Business Development
Wade Pagett, Vice President, Field Services
Randy Meyer, Vice President, Sr. Loan Officer
Randy Dewald, Vice President, Sr. Loan Officer
Clay Sniff, Vice President, Branch Manager
Linda Bryan, Vice Presedent, Sr. Loan Officer
Lance England, Vice President, Loan Officer
Kevin Popps, Vice President, Sr. Loan Officer
Mandy Saunders, Asst. Vice President, YBS/FSA Coordinator
Boyd Hughes, Vice President, Field Representative
Matt Jackson, Asst. Vice President, Loan Officer

E
CMS Interpretation

Contact the Guaranteed FLP Section at the State Office for any assistance and/or guidance in regards to the interpretation of the Farm Credit of Western Oklahoma, ACA PLP Lender's Agreement/Credit Management System (CMS).

APR 8 2003

Ms. Mandy Saunders
Assistant Vice President
Farm Credit Services of Western Oklahoma, ACA
Post Office Box 1510
Woodward, Oklahoma 73802

Dear Ms. Saunders:

As requested, your Lender's Agreement (FSA-1980-38) has been amended to reflect the name change from Production Credit Association of Woodward (PCA) to Farm Credit of Western Oklahoma, ACA; expand lending area; and include other modifications to the Credit Management System (CMS).

Please replace your existing CMS with the enclosed document. Our State Offices in Oklahoma, Kansas, and Texas have been provided a copy of the Lender's Agreement and revised CMS.

Thank you for your interest and participation in FSA's guaranteed loan programs.

If you have any questions, please contact Tracy L. Jones with our Guaranteed Loan Making Branch at (202) 720-6771.

Sincerely,

/s/ Carolyn B. Cooksie

Carolyn B. Cooksie
Deputy Administrator for
Farm Loan Programs

Enclosures

cc: SED/OK SED/KS SED/TX

REPRODUCE LOCALLY. Include form number and date on reproductions.

Form Approved - OMB No. 0560-0155

FSA-1980-38
(06-09-99)

U.S. DEPARTMENT OF AGRICULTURE
Farm Service Agency

LENDER'S AGREEMENT

See page 6 for Privacy Act and Public Burden Statements.

The purpose of this Agreement is to establish the lender as an approved participant in the guaranteed loan programs of the Farm Service Agency, U.S. Department of Agriculture. This Agreement provides the terms and conditions for originating and servicing such loans, including lines of credit. ***Provide the requested information, read this agreement in its entirety and sign in the space on the last page. Your signature indicates consent with this agreement.***

Part A - Background Information

1. Lender's Name and Mailing Address	2. Tax Identification Number
Farm Credit of Western Oklahoma, ACA Post Office Box 1088 Woodward, Oklahoma 73802	73-0582499
	3. Telephone Number *(include area code)* (580) 256-8631

4. This agreement establishes the above lender as a:

[X] Preferred Lender (PLP) [ ] Certified Lender (CLP) [ ] Standard Eligible Lender (SEL)

5. The following suboffices of the lender are covered under this agreement:

[X] All Offices

Farm Credit of Western Oklahoma, ACA
Clinton Branch
2600 Modelle Avenue
Post Office Box 969
Clinton, Oklahoma 73601

Farm Credit of Western Oklahoma, ACA
Guymon Branch
2143 Highway 64 North
Post Office Box 281
Guymon, Oklahoma 73942

6. The lender is authorized to submit loan guarantees in the following FSA Offices:

State of Oklahoma: All Counties.

The following counties in the State of Texas: Dallam, Sherman, Hansford, Ochiltree, Lipscomb, Hutchinson, Hemphill, Wheeler, Robert, and Moore.

The following counties in the State of Kansas: Morton, Stevens, Seward, Meade, Clark, Comanche, Barber, and Kiowa.

The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, gender, religion, age, disability, political beliefs, sexual orientation, and marital or family status. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice and TDD). To file a complaint of discrimination, write USDA, Director, Office of Civil Rights, Room 326-W, Whitten Building, 1400 Independence Avenue, SW, Washington, D.C. 20250-9410 or call (202) 720-5964 (voice or TDD). USDA is an equal opportunity provider and employer.

Part B - Duties and Responsibilities of FSA(*"Agency"*)

1. **Payment of Claims** - Agency agrees to make payment on its claims in accordance with the terms of the guarantee and Agency regulations in 7 C.F.R. part 762. The maximum loss payment may not exceed the amount determined in the guarantee, including the percentage of principal and any accrued interest, protective advances, and emergency advances. The guarantee is supported by the full faith and credit of the United States and is incontestable except under the circumstances of fraud or misrepresentation of which the lender has actual knowledge at the execution of the guarantee or which the lender participates in or condones.

2. **Personnel Available for Consultation** - Agency shall make personnel available for consultation on interpretations of Agency regulations and guidelines. The lender may consult with Agency personnel regarding unusual underwriting, loan closing, and loan liquidation questions.

Part C - General Requirements of the Lender

1. **Eligibility to Participate** - The lender must meet the requirement contained in 7 C.F.R. part 762 and be approved by the Agency to be a participant in the Guaranteed Loan Program.

2. **Knowledge of Program Requirements** - The lender is required to obtain and keep itself informed of all program regulations and guidelines, including all amendments and revisions. The lender must establish and maintain adequate and written internal policies for loan origination and servicing to meet these requirements. These policies will be made available to the Agency for review when requested.

3. **Notification** - The lender shall immediately notify the Agency in writing if the lender:

   a. Becomes insolvent;

   b. Has filed for any type of bankruptcy protection, has been forced into involuntary bankruptcy, or has requested an assignment for the benefit of creditors;

   c. Has taken any action to cease operations, or to discontinue servicing or liquidating any or all of its portfolio guaranteed by the Government;

   d. Has changed its name, location, address, tax identification number, or corporate structure;

   e. Has been debarred, suspended, or sanctioned in connection with its participation in any Federal guaranteed program; or

   f. Has been debarred, suspended, or sanctioned by any Federal or State licensing or certification authority.

4. **Employee Qualifications** - The lender shall maintain a staff that is well trained and experienced in origination and loan servicing functions, as necessary to ensure the capability of performing all the acts within its authority.

5. **Conflict of Interest** - When a lender applies for a guaranteed loan, the lender will inform the Agency in writing of any relationships which could result in a conflict of interest or the appearance of a conflict of interest. Reportable relationships include:

   a. The lender or its officers, directors, principal stockholders (except stockholders in a Farm Credit System institution that have stock requirements to obtain a loan), or other principal owners having a financial interest in the loan applicant or borrower.

   b. The loan applicant or borrower, a relative of the loan applicant or borrower, anyone residing in the household of the loan applicant or borrower, any officer, director, stockholder or other owner of the loan applicant or borrower holds any stock or other evidence of ownership in the lender.

   c. The loan applicant or borrower, a relative of the loan applicant or borrower, or anyone residing in the household of the loan applicant or borrower is an Agency employee.

   d. The officers, director, principal stockholders (except stockholders in a Farm Credit System institution that have stock requirements to obtain a loan), or other principal owners of the lender having substantial business dealings (other than in the normal course of business) with the loan applicant or borrower.

   e. The lender or its officers, directors, principal stockholders, or other principal owners have substantial business dealings with an Agency employee.

Part D - Underwriting Requirements

1. **Responsibility**

   The lender is responsible for originating, servicing, and collecting all guaranteed loans in accordance with Agency regulations.

2. **Origination Process**

   a. General Eligibility. The lender shall make a preliminary determination whether loan applicants meet the general eligibility requirements in Agency regulations. Agency will make the final determination.

Part D - Underwriting Requirements *(continued)*

b. Delinquency on Federal Debt. The lender shall determine whether the loan applicant is delinquent on any Federal debt. The lender shall use credit reports and any other credit history in making this determination. If the loan applicant is delinquent on or a judgment debtor on any Federal debt, processing of the application may only continue in accordance with Agency regulations.

c. Appraisals of Collateral. The lender shall ensure that the value of any collateral property or property to be purchased is determined by a qualified appraiser, including a certified appraiser when required by law or regulation.

d. Change in Borrower's Condition. Before the Agency issues a loan guarantee, the lender will certify that there has been no adverse change in the borrower's condition, financial or otherwise, since submission of the application for guaranteed loan. For use in this provision alone, the term "borrower" includes any member, joint operator, partner or stockholder.

e. Limitation on Guarantee. Late charges of any kind including default charges and default interest will not be covered by the guarantee.

3. **Loan Closing** - All loans guaranteed by the Agency shall be closed by attorneys, escrow companies, escrow departments of lending institutions, or other persons, or entities skilled and experienced in conducting loan closings. The lender shall:

a. Ensure funds for the particular loan or line of credit will be used only for the purposes authorized in Agency regulations and as contained in the conditional commitment;

b. Ensure that documents, including the mortgage and any security agreements, chattel mortgages or equivalent documents relating to it have been properly signed, are valid and contain terms enforceable by the lender;

c. Ensure that all security with appropriate lien priorities is obtained in accordance with the conditional commitment and Agency regulations;

d. Ensure that all closing documents required to be recorded are recorded accurately, in the appropriate offices, and in a timely and accurate manner;

e. Ensure that security interests are perfected in collateral according to applicable regulatory requirements and procedures;

f. Ensure that all required hazard insurance will be obtained in accordance with Agency regulations or is now in effect;

g. Collect all fees and costs due and payable by the borrower in the course of the loan transaction and disburse payment directly to the parties for services rendered;

h. Ensure that construction, relocation, repairs, or development will be complete in accordance with applicable drawings and specifications;

I. Ensure the borrower has marketable title to security property now owned, and will obtain such title to any additional property to be acquired with loan funds, subject only to the instruments securing the loan to be guaranteed and any other exceptions set forth in Agency regulations;

j. The entire loan will be secured equally with the same security and the same lien priority for both the guaranteed and unguaranteed portions of the loan, under the assurance that the unguaranteed portion of the loan will not be paid first nor given priority over the guaranteed portion of the loan;

k. Submit the required guarantee fee with the guaranteed loan closing report.

4. **Restriction and Disclosure of Lobbying Activities** - If any funds have been or will be paid to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or any employee of a Member of Congress in connection with this commitment providing for the United States to guarantee a loan, the undersigned shall complete and submit Standard Form - LLL, "Disclosure of Lobbying Activities," in accordance with its instructions. Submission of this statement is a prerequisite for making or entering into any transaction imposed by section 1352, title 31, U.S. Code. Any person who fails to file the required statement shall be subject to a civil penalty of not less than $10,000 and not more than $100,000 for each such failure.

Part E - Servicing Requirements

1. **Responsibilities** - The lender will service the entire loan as mortgagee and secured party of record in a reasonable and prudent manner, notwithstanding the fact that another party (holder) may hold a portion of the loan.

2. **Supervision** - The lender's responsibilities regarding borrower supervision include, but are not limited to, the following:

a Ensure loan funds are not used for any unauthorized purpose.

b. Ensure borrower compliance with the covenants and provisions provided in the note, loan agreement, security instruments, any other agreements, and 7 C.F.R. part 762.

c. Perform an annual analysis of the borrower's financial condition to determine the borrower's progress when required by Agency regulations.

Part E - Servicing Requirements *(continued)*

d. Account for all collateral.

e. Discuss any observations about the farm business with the borrower.

f. Ensure the borrower and any party liable for the loan is not released from liability for all or any part of the loan, except in accordance with Agency regulations.

3. **Reporting Requirements -** The lender recognizes that the Agency, as guarantor, has a vital interest in ensuring that all acts performed by the lender regarding the subject loans are performed in compliance with this agreement and Agency regulations. Information on the status of guaranteed loans is necessary for this purpose, as well as to satisfy budget and accounting reporting required by the Department of Treasury and the Office of Management and Budget. The lender agrees to provide Agency with all the data required under Agency regulations and any additional information necessary to monitor the status of its guaranteed loan portfolio, and to satisfy external reporting requirements.

   The lender also agrees to provide to the Agency upon request, copies of audited financial statements, reports on internal controls, copies of compliance audits, and such other information that may be required of the Agency to monitor the lender's performance.

4. **Negligent Servicing -** The guarantee cannot be enforced by the lender to the extent a loss results from a violation of usury laws or negligent servicing regardless of when the Agency discovers such violation or negligence. Negligent servicing is defined as the failure to perform services which a reasonably prudent lender would perform in servicing its own portfolio of loans that are not guaranteed. The term includes both a failure to act and not acting in a timely manner to include actions taken up to the time of loan maturity or until final loss is paid.

5. **Payments -** Payments from the borrower shall be reviewed by the lender and processed upon receipt according to Agency regulations, and may include escrow premiums for hazard insurance and real estate taxes. The lender shall promptly disburse to any holder the holder's pro rata share according to their respective interests in the loan, less only the lender's servicing fee.

6. **Collateral**

   a. Insurance. The lender shall ensure that adequate insurance is maintained in accordance with Agency regulations, including the maintenance of property, casualty, flood, and hazard insurance containing a loss payable clause in favor of the lender as the mortgagee or secured party.

   b. Escrow Accounts. The lender may establish separate escrow accounts. All escrow accounts must meet applicable Federal and State laws and regulations, and must be fully insured by the FDIC or cross collateralized with unencumbered Government Securities.

   c. Inspection. The lender shall inspect the collateral as often as necessary to properly service the loan and ensure the collateral is being properly maintained.

   d. Taxes. The lender shall ensure that taxes, assessments, or ground rents against or affecting collateral are paid.

7. **Delinquent Accounts**

   a. A guaranteed loan is in default after 30 days have passed and the borrower has not made a payment as due or has otherwise violated a loan agreement. The lender is responsible for resolution of the default. The lender will notify the Agency using an FSA default status report when a borrower is 45 days past due or otherwise in default. This report will be submitted every 60 days thereafter and will contain a summary of collection, restructuring or liquidation steps taken since the previous report.

   b. The lender may take actions to correct the default as provided in 7 C.F.R. part 762. A loan that has been sold on the secondary market can only be restructured if the loan is repurchased or upon written concurrence from the holder.

   c. The lender will work in good faith with the borrower to allow them to cure the default, where reasonable. The lender must participate in mandatory farmer-creditor mediation in accordance with 7 C.F.R. part 762, State law and the rules that govern the mediation program that operates in the State in which the borrower resides.

   d. The lender must consider the borrower for interest assistance as provided in 7 C.F.R. part 762. If the lender determines that default can be cured by rescheduling the loan with interest assistance, lender will request a determination of the borrower's eligibility by the Agency. Liquidation or foreclosure cannot be initiated until 60 days after consideration.

8. **Sales or Participation**

   a. The guaranteed portion of loans may be sold in accordance with 7 C.F.R. part 762. Lines of credit cannot be sold, but may be participated with other lenders.

   b. When a loan has been sold, the holder can demand that the lender repurchase the unpaid guaranteed portion of a loan in accordance with the FSA assignment of guarantee.

Part E - Servicing Requirements *(continued)*

c. If the lender is unable to repurchase, the holder may make a demand for repurchase to the Agency. Repurchase by the Agency in no way alters lender responsibilities to the loan under this agreement or the loan guarantee. A restructuring action may not be executed once the Agency has repurchased the guaranteed portion of the loan and within 180 days the lender must reimburse the Agency for the repurchase or liquidate the loan in accordance with Agency regulations. Lender must send the pro rata share of the borrower's payments directly to the Agency until liquidation is complete.

d. Failure to reimburse the Agency within 180 days for repurchase, if not waived by the Agency, is a violation of this agreement.

9. **Default/Liquidation**

a. Protective Advances. Protective advances must constitute a debt of the borrower to the lender and be secured by the security instrument. Agency written authorization is required for protective advances in accordance with the terms and amounts specified by 7 C.F.R. part 762 regulations.

b. Additional Loan or Advances. In cases of a Line of Credit, the lender may make an emergency advance when a line of credit has reached its ceiling and additional funds are needed to prevent an imminent loss of crops or livestock that would take place if the emergency advance were not made. The lender must provide Agency with an analysis as required by Agency regulations.

c. Future Recovery. After a loan has been liquidated and a final loss has been paid by the Agency, any future funds which may be recovered from the borrower will be pro-rated between the Agency and the lender.

d. Bankruptcy. The lender is responsible for protecting the guaranteed loan debt and all collateral securing the loan in bankruptcy proceedings. Loss payments on bankruptcy cases will be processed according to the terms described in Agency regulations.

e. Liquidation. Liquidations must receive prior Agency concurrence when required by regulations.

f. Loss Claims. The lender will submit an estimated loss claim to the Agency in the event liquidation will exceed 90 days. Estimated and final claims will be processed in accordance with the terms described in Agency regulations.

10. **Servicer** - If the lender contracts for servicing of guaranteed loans, the lender is not relieved of responsibility for proper servicing of the loans.

Part F - Agency Reviews of Lender's Operations

The Agency may conduct reviews, including on-site reviews, of the lender's operations and the operations of any agent of the lender, for the purpose of verifying compliance with this agreement and Agency regulations and guidelines. These reviews may include, but are not limited to, audits of case files; interviews with owners, managers, and staff; audits of collateral; and inspections of the lender's and its agents underwriting, servicing, and liquidation guidelines. The lender and its agents shall provide access to all pertinent information to allow the Agency, or any party authorized by the Agency, to conduct such reviews.

Part G - Conformance to Standards

1. The lender shall conform to the standards outlined in this agreement and Agency regulations for participation in the Agency's guaranteed loan program. CLP and PLP must maintain compliance with the criteria set forth in 7 C.F.R. part 762. The Agency shall determine lender adherence to the standards based on:

a. Adequacy in meeting requirements for origination, servicing, and liquidation of loans and lines of credit, including protection of collateral;

b. Satisfaction of the reporting requirements of the Agency;

c. Success in operating in a sound, prudent and businesslike manner;

d. Portfolio performance compared to overall performance of the Agency's guaranteed loan program; and

e. Results of on-site reviews of the underwriting and servicing performed by the lender.

2. **Determination of Non-Conformance** - The Agency shall carefully consider the circumstances and available facts in determining whether there is a pattern of lender non-conformance with applicable standards. The Agency shall determine the propriety of any decision made by the lender based on facts available at the time the specific action was taken. It is understood by the Agency and intended by this agreement that the lender has the authority to exercise reasonable judgement in performing acts within its authority. However, the Agency reserves the right to question any act performed or conclusion drawn that is inconsistent with this agreement or Agency regulations or prudent lending practices.

3. **Agency Action** - If the lender is determined to be in non-conformance with any Federal law, State law, Agency regulation, or guideline, or the terms of this agreement, the Agency may take action in accordance with its laws and regulations.

4. **Lender Right of Appeal** - The Agency will provide the lender an opportunity to appeal adverse Agency actions in accordance with Agency regulations.

Part H - List of Agency Regulations and Guidelines and Designation of Lender Authority to Perform Certain Acts

1. **List of Agency Regulations** - The guaranteed loan program is administered under 7 C.F.R. part 762. The lender is required to comply with these regulations as well as any future amendments not inconsistent with this Agreement.

2. **Authority to Perform Certain Acts** - Agency regulations describe the authorities and responsibilities for lenders. In addition, PLP will process and service loans as described in their application for PLP status approved by the Agency. This application is described in the preferred lender program attachment to this agreement. The lender further agrees to inform the Agency and obtain approval on changes to any policy or process described in the application for PLP status.

Part I - Duration and Modification

1. **Duration and Termination**

   a. **Duration and Agreement** - For CLP and PLP, the Agreement is valid for five years unless terminated by the lender or the Agency as described below or revoked according to Agency regulations. For SELs, this agreement will be valid indefinitely unless terminated by the lender or Agency as described below.

   b. **Modification of Agreement** - This agreement may be modified or extended only in writing and by consent of all parties.

   c. **Termination by Agency** - This agreement may be terminated by the Agency in accordance with Agency regulations.

   d. **Termination by the Lender** - This agreement may be terminated by the lender by providing 30 days written notice to the Agency.

   e. **Effect of Termination on Responsibilities and Liabilities** - Responsibilities or liabilities that existed before the termination of the agreement with regard to outstanding guarantees will continue to exist after termination unless the Agency expressly releases the lender from such responsibilities or liabilities in writing. The lender shall remain obligated to service and liquidate the guaranteed loans remaining in the portfolio unless and until the Agency or the lender transfers the loans. These requirements concerning loan management by the lender and rights of the Agency under this agreement shall remain in effect whether the agreement is terminated by the lender or Agency.

   f. **Revocation of CLP or PLP status** - If the Agency revokes CLP or PLP status, loans made while the lender held this status must continue to be serviced under this agreement and according to Agency regulations applying to SELs or CLP, whichever status the lender then holds.

2. **Entire Agreement** - This agreement, Parts A through K inclusive along with any attachments, and any regulations or guidelines incorporated by reference shall constitute the entire agreement. There are no other agreements, written or oral, regarding the terms in this agreement which are or shall be binding on the parties.

Part J - Certification

I certify that I have read and understand the requirements in the agreement, and in 7 C.F.R. part 762, and agree to the participation requirements and other provisions of this agreement.

1. Name and Title of Lender Representative	2. Authorized Lender Representative Signature	Date
John Grunewald, CEO	John Grunewald	4-2-2003

Part K - FSA Use Only

1. Name and Title of FSA Representative	2. FSA Representative Signature	Date
Carolyn B. Cooksie Deputy Administrator for Farm Loan Programs	Carolyn B. Cooksie	4/8/03
3. Effective Date of Agreement September 18, 2000	4. Agreement Expiration Date *(CLP and PLP only)* September 18, 2005	

NOTE: *The following statements are made in accordance with the Privacy Act of 1974 (5 USC 552a): the Farm Service Agency (FSA) is authorized by the Consolidated Farm and Rural Development Act (7 USC 1921 et seq.) and the regulations promulgated thereunder, to solicit the information requested on this agreement. The information requested is necessary for FSA to determine eligibility for guarantee or other financial assistance, service your guarantee, and conduct statistical analyses. Supplied information may be furnished to other Department of Agriculture agencies, the Department of the Treasury, the Department of Justice or other law enforcement agencies, the Department of Defense, the Department of Housing and Urban Development, the Department of Labor, the United States Postal Service, or other Federal, State, or local agencies as required or permitted by law. In addition, information may be referred to interested parties under the Freedom of Information Act (FOIA), to financial consultants, advisors, lending institutions, packagers, agents, and private or commercial credit sources, to collection or servicing contractors, to credit reporting agencies, to private attorneys under contract with FSA or the Department of Justice, to business firms in the trade area that buy chattel or crops or sell them for commission, to Members of Congress or Congressional staff members, or to courts or adjudicative bodies. Disclosure of the information requested is voluntary. However, failure to disclose certain items of information requested, including your Social Security Number or Federal Tax Identification Number, may result in a delay in the processing of an application or its rejection.*

According to the Paperwork Reduction Act of 1995, an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0560-0155. The time required to complete this information collection is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. ***RETURN THIS COMPLETED FORM TO YOUR LOCAL FSA OFFICE.***

PREFERRED LENDER PROGRAM
CREDIT MANAGEMENT SYSTEM SUMMARY
ATTACHMENT TO FORM FSA-1980-38, "LENDER'S AGREEMENT"

FARM CREDIT OF WESTERN OKLAHOMA, ACA
WOODWARD, OKLAHOMA

This attachment contains the credit management system requirements agreed to by the Farm Credit of Western Oklahoma, ACA (Lender), in Woodward, Oklahoma. The following information summarizes the credit management system requirements provided in the Lender's request for preferred lender status, with attachments and exhibits. Requirements for loan administration, servicing and reporting activities not specifically addressed in this attachment are governed by the attached Form FSA-1980-38, "Lender's Agreement", and 7 CFR 762.

I. General Operations

A. Normal Trade Area.

The chartered (normal) trade area of the Lender consists of three counties in the Oklahoma Panhandle (Beaver, Cimarron, & Texas) and nine counties in extreme Northwest and Western Oklahoma (Beckham, Custer, Dewey, Ellis, Harper, Roger Mills, Washita, Woods, & Woodward). The Lender serves these counties from three locations, an administrative office located in Woodward and two full service branch offices located in Guymon and Clinton. Since the City of Woodward serves as the regional trade center for Northwest Oklahoma and the Northeast portion of the Texas Panhandle, it is not uncommon for the Lender to receive loan application requests from farmers/ranchers living outside of the chartered territory in other Oklahoma counties and some from Texas and Kansas. PLP status will cover all Oklahoma counties and the other counties listed on the Lender's Agreement.

The Lender's portfolio primarily consists of beef cow/calf ranches, stocker cattle, feeder cattle, swine production, wheat, corn, soybeans, peanuts and hay crops. The Lender also lends to a few dairies, but this portion of the portfolio has been decreasing.

B. Lending Authority.

The following have the authority to approve loans up to $750,000 which are classified acceptable or special mention:

Steve Jones, Vice President, Chief Credit Officer
Curtis Constien, Vice President, Chief Lending Officer
Greg Livingston, Vice President, Business Development

Wade Pagett, Vice President, Field Services
Randy Meyer, Vice President, Sr. Loan Officer
Randy Dewald, Vice President, Sr. Loan Officer
Clay Sniff, Vice President, Branch Manager

The following have the authority to approve loans up to $400,000 which are classified acceptable or special mention:

Linda Bryan, Vice President, Sr. Loan Officer
Lance England, Vice President, Loan Officer
Kevin Propps, Vice President, Sr. Loan Officer
Mandy Saunders, Asst. Vice President, YBS/FSA Coordinator

The following have the authority to approve loans up to $300,000 which are classified acceptable or special mention:

Boyd Hughes, Vice President, Field Representative
Matt Jackson, Asst. Vice President, Loan Officer

Loans from $750,000 to $2,000,000 must be approved by any two of the following three, John Grunewald, CEO, Steve Jones, CCO, or Randy Meyer, VP and a non-involved loan officer with the authority of $750,000.

Loans over $2,000,000 must be approved by John Grunewald, CEO, Steve Jones, CCO and Randy Meyer, VP and a non-involved loan officer with the authority of $750,000.

C. Policy Exceptions.

The board of directors has authority to rescind or modify all policies. However, except as may be required by law, the board has delegated management authority to the Association CEO, who may redelegate authorities and responsibilities as appropriate. Policy exceptions will normally be documented in the loan file and will be routinely reported to the board.

Loans are expected to meet all of the Lender's established standard credit factors as specifically outlined in the credit underwriting standards. Loans not meeting these standards may be considered on a case-by-case basis. If a credit standard is not met, the application must exhibit strong offsetting credit factors to be considered. Deviations from standards will be fully justified and approved by the appropriate lending officers. Loans not meeting credit standards will normally require an FSA guarantee. If a guarantee is requested, the exception and offsetting strengths will be clearly identified and the decisions justified in the loan narrative that is submitted to FSA.

D. Interest Rates, Loan Terms, and Fees

The Lender will not charge it's guaranteed loan customers rates that exceed those charged to the Lender's average farm loan customer. As a rule, interest rates for guaranteed loan customers, will be placed on the Lender's base rate, as determined by the Lender's board of directors. It is possible that a lower rate may be assigned, but in no case will a higher rate be charged to guaranteed loan customers. The borrower can choose the interest program which best suits his personal needs and desires, be it variable, fixed, or prime rate based.

Repayment terms are based on the type of agricultural entity being financed and the timing of the cash flow stream. Term loan repayments are structured to be collected either annually, semi annually, quarterly, or monthly. Loan terms will be dependent upon collateral type and the expected economic life of the collateral securing the loan. Lines of credit will be extended for up to 5 years and scheduled to be repaid as the income from the farm production is received. New equipment and breeding livestock loans will normally be scheduled to repay in 7 years. Used equipment will normally be scheduled to repay in 5 years. Loans secured by real estate may be fully amortized for terms not to exceed 30 years.

There is currently no policy which establishes the Lender's fee structure or when fees can be waived. The President of the association retains authority to establish fees or waive fees on a case-by-case basis.

Fees charged to the Lender's guaranteed customers would not exceed those charged to non-guaranteed customers for similar transactions. The borrower typically pays fees for appraisals, loan origination, title opinions, abstracting and credit reports. Any fee paid to a government agency is also passed on to the borrower.

E. Internal credit review system.

Harper, Stokes, Knight and Rains will conduct the Lender's Internal Credit Review program on a semi-annual basis.

In addition, the Lender is subject to periodic reviews by FCA, the Farm Credit Bank of Wichita, its own internal operations review, and by an outside independent auditor.

These reviews, with primary importance placed upon the Internal Credit Review, serve as an independent, objective, active means for monitoring adherence to the Lender's policies and procedures, as well as assessing the accuracy of the credit and performance classifications and identifying credit administration weaknesses. In addition, the Association President will normally conduct a cursory review of all loan actions prior to approval under delegated authority.

All of these reports are submitted to the Lender's Board of Directors in a timely manner.

F. Use of Agents, Consultants, and Packagers.

As a matter of general practice, no agents, consultants, or packagers are utilized. However, this is not to say that the Lender would never utilize the services of such. If a decision was made to utilize the services of an agent, consultant, or a packager, it would be to utilize the services of a professional, on highly specialized loan requests or properties, for which the Lender's staff would lack operational knowledge.

G. Organizational Structure.

The Lender's organizational chart is as follows:

John Grunewald, President/CEO
- Greg Livingston, VP Business Development
  - Mandy Saunders, AVP/YBS&FSA Coordinator
- Steve Jones, VP/CCO
  - Randy Meyer, VP/Sr. Loan Officer
  - Randy Dewald, VP/Sr. Loan Officer
    - Lance England, VP/Loan Officer
  - Clay Sniff, VP/Branch Manager
    - Linda Bryan, VP/Sr. Loan Officer
- Curtis Constien, VP/CLO
  - Kevin Propps, VP/Sr. Loan Officer
    - Matt Jackson, AVP/Loan Officer
- Wade Pagett, VP Field Services
  - Boyd Hughes, VP/Field Representative

H. Loan Officer Qualifications.

All loan officers are highly qualified with over 200 years of total experience. All officers currently service portfolio, which contain FSA Guaranteed loans. Each loan officer maintains the require FSA training on an annual basis.

Wade Pagett and Curtis Constein are both state certified appraisers and Boyd Hughes, Kevin Propps, Matt Jackson and Greg Livingston are FSA approved chattel appraisers.

Mandy Saunders is the FSA Guarantee loan coordinator for all three offices.

In the event of changes in personnel, the Lender will ensure that loan officers dealing with FSA loans have significant experience in agricultural lending and in originating and servicing FSA guaranteed loans.

I. Compliance Monitoring.

Normal date specific loan servicing plans and participation in FSA continuing education programs help to insure that all FSA guaranteed loans are closely monitored for compliance issues. In addition, the Lender's internal credit reviews focus on compliance as well. The reviewers, who conduct the Lender's internal credit reviews, have an excellent working knowledge of FSA guidelines and include compliance issues within their review scope.

J. Environmental Issues.

It is of primary importance for this association to comply with and assure that all environmental policies and procedures are in compliance with FSA requirements. In that regard, the association has committed itself to frequent continuing education for its loan officers and real estate appraisers. Environmental compliance issues are an integral part of the loan process, especially when real estate is being taken as collateral.

The Lender will work with the Oklahoma, Kansas, or Texas State FSA Office to ensure that environmental policies and procedures are in compliance with FSA requirements.

Real estate appraisers are required by the Lender to disclose any environmental issues in their appraisals.

The field inspector/appraiser is trained to recognize indicators of potential environmental concerns, such as soil contamination, underground storage tanks, improper disposal of disposal practices, etc.

On livestock and grain handling facility loans, an environmental inspection and assessment will be required. In order to determine the appropriateness of the security being offered and the absence of environmental threats, a person who is highly trained in environmental issues will conduct an environmental inspection. The Lender will deny all loans on properties, which have been identified as having environmental problems.

K. Requesting a Guarantee

Before submitting an application, the Lender will make a site inspection to assess the suitability of the farm and complete environmental due diligence, as appropriate.

When requesting a guarantee, the Lender will submit the following information to FSA:

1. A complete "Preferred Lender Application for Guarantee" (FSA-1980-28);
2. A complete loan narrative, discussing the "5 Cs of Credit" and including a description of the location of all farmed land;

3. If Interest Assistance is required, a completed Part G of "Application for Guarantee" (FSA-1980-25), projected cash flow, and current balance sheet; and
4. When the applicant is an entity, the names, social security numbers, and percent ownership for each entity member (entity information will be addressed in the loan narrative).

II. Loan Analysis/Underwriting.

A. Management Ability/Credit History Analysis.

The applicant's management ability, character and credit history are of primary importance in the credit decision. The Lender's Field Representative/Appraiser conducts a field inspection or appraisal in order to determine the management ability of the applicant, as well as the suitability of the collateral being offered.

Credit History. Normal credit references, from any available source, are obtained in order to determine the credit worthiness of the applicant. As a matter of practice, credit reports are obtained on all customers and are normally updated on an annual basis. Debt verifications are obtained on all debts, either through the credit report or in the form of written verification. UCC searches are obtained in the applicant's county of residence and also from the central filing source of the state.

As a matter of practice, credit histories, which reflect a bankruptcy, previous charge off, or a repossession, will normally be denied. If a decision is made to continue with a new applicant who has had previous credit problems, a thorough investigation will be made to determine if extenuating circumstances exist and to discover all pertinent facts concerning the problem.

New customers and beginning farmers. The Lender is currently considering the adoption of more lenient underwriting standards for young, beginning, small, & minority farmers, if the increased portfolio risk can be offset through the utilization various programs, e.g. loan guarantees, interest reduction programs, etc. At the present time, however, the underwriting standards for these farmers are the same as those for the Lender's other farm loan customers.

Previous Government Program Participation. The Lender will work with the local county FSA office to determine past use of government programs and eligibility issues.

B. Capacity Analysis.

Capital Debt Repayment Capacity (CDRC) is the measurement of a borrower's ability to repay capital debt, based on an analysis of the operation's profitability. The applicant's ability to service the proposed debt plus existing debt and contingent liabilities is evaluated for all loans with the use of pro forma cash flows. The cash flow form utilized

by the Lender not only identifies income and expenses, but will also account for changes in various collateral values, thereby providing an accrual basis cash flow.

For loans of $50,000 or less, at least 2 years of financial information is recommended; however an analysis of only one year's information is required. For loans exceeding $50,000, at least three (3) years of history of farm income, expenses, and production are analyzed with adjustments being made to account for any changes in the operation. For all new customers and for loans exceeding $500,000, three (3) years of history will be analyzed.

Employment income is normally verified through the use of an employment verification form, which is mailed to the applicant's employer. Occasionally, tax returns will be utilized to verify this income. Tax returns are also utilized to verify all other types of income.

Income is analyzed on an annual basis. This analysis will compare actual performance to projected performance, with differences being explained in the loan narrative.

The Underwriting Standards Policy identifies the various CDRC risk levels which are acceptable to the Lender (see attached). Loans with moderate risk will have a CDRC of 115% to 140%. All requests for guarantee will have, at a minimum, 100% coverage with offsetting strengths in other credit factors.

C. Capital Standards.

Asset quality, debt structure, and financial trends will be based on accurate and verifiable historical and current balance sheets, together with income and expense statements of comparable dates. Current ratio, intermediate ratio, owner equity, debt to asset, liquid margin, and working capital ratios are calculated on all loans.

Target ratios for the Farm Credit of Western Oklahoma vary depending upon the type of agricultural enterprise being financed. Refer to the underwriting standards ratio summary for a complete list. Typical target ratios will be a current ratio of 1.30:1 to 1:75:1 and an owner equity level of 40%to 50%. Loan requests, which do not meet target levels, will have offsetting strengths in other credit factors and will normally be considered for FSA guarantees.

The financial statement on the loan request must be no more than thirty (30) days old for a new customer, unless an audited statement is provided. In that case the most recent audited statement is permitted with adjustments being made. For existing customers, a balance sheet of up to ninety (90) days old is acceptable. It is preferable to obtain financial statements for the previous two years, if available, on new customers. Tax returns, income statements, or any other available data should support financial statements.

Entity applicants. The Lender obtains financial statements from all liable parties in addition to the entity itself. Consolidation of all financial statements will be performed, with proper adjustments being made for cross entity assets and liabilities. Income statements will also be consolidated in a like manner.

Debt verification. All debts are verified, either through the credit report, a debt verification form, personal documented telephone calls, or from information provided by the applicant. All verifications are maintained in the loan file.

D. Collateral Analysis.

The Lender maintains a collateral margin target standard of 35% for most loans. Refer to the attached underwriting standards for a complete list of collateral standards and their risk levels. Security will be adequate to protect the Government and Lender's interests.

Appraisal guidelines. Field inspections or real estate appraisals are made on all new loans prior to the loan being approved. As a matter of practice, the inspection is made prior to the completion of the credit analysis, in order for accurate collateral values to be used in the credit analysis. Values are based on current markets. The Lender has extensive knowledge and available resources to determine livestock, machinery and equipment, and real estate values. Auction sales (livestock and machinery) are regularly attended by Lender personnel and the association utilizes the Data Transmission Network satellite system in order to have current cash and futures market information.

Appraisals will be obtained on all primary security and will be performed by a qualified appraiser. As a matter of practice, the loan officer in charge of the loan will perform the field report or the real estate appraisal if the loan is less than $250,000. An appraisal review process is performed as a part of the Lender's internal credit review process.

Field report values should be current and real estate appraisals less than 6 months old are acceptable.

State certified appraisers are utilized for loan transactions over $250,000. USPAP guidelines will be followed at all times. A qualified loan officer will perform chattel inspections on loans over $250,000 other than the loan officer in charge of the loan.

Verifying ownership of assets. The ownership of assets being pledged as security is verified by several means. Real estate ownership is determined by an attorney's title opinion or title insurance. Ownership of chattel items is accomplished by visual inspection, bill of sale, or a search of Uniform Commercial Code (UCC) filings. If doubt exists, the depreciation schedule of the applicant's tax return will be reviewed. Documentation of the above verifications is maintained in the loan file.

Verifying prior liens. Prior liens are verified with the use of a UCC lien search in the applicant's county of residence, central filing for the State, and other counties where the applicant is conducting business. If a lien is noted, the Lender contacts the secured creditor to assess the lien. Occasionally, secured creditors are called to clarify discrepancies.

Real estate mortgages or Deeds of Trust are filed of record to perfect real estate liens. UCC-1 forms are filed to perfect chattel liens. Prior to the above, a preliminary title opinion or title insurance binder is requested to insure title ownership. After filings are completed, a final title opinion or title insurance certificate is requested to verify the priority of the Lender's lien position on real estate. Preliminary and final UCC lien searches are conducted to verify lien position on chattel items and fixtures.

Security agreements with appropriate descriptions (model #, serial #, etc.) are obtained for all chattel and fixture items.

E. Conditions.

Loan conditions address loan purpose, loan amount, loan structure, pricing, scope of financing or requirements unique to the credit. These conditions need to balance credit risk with effective loan conditions and controls. Conditions are added as loan risk increases. The conditions of approval are based on the analysis of the credit factors to properly identify applicant creditworthiness and risk. Examples of approval conditions include additional monitoring, collateral insurance, price protection, etc., in order to reduce the risk exposure of any particular loan. As a matter of practice, most FSA guaranteed loans will have a loan agreement which outlines the loan conditions being placed on the loan. Conditions are determined on a case-by-case basis and will attempt to identify and correct the areas within the loan, which is of concern. Loan conditions will attempt to mitigate risk areas.

Disbursement of loan proceeds. Enterprise budgets are maintained on all loans, which are subject to multiple draws. Budget overdraft reports are activated any time a draw is presented for payment, which would overdraw a specific budget. Loan officer approval is then required prior to payment. Loan proceeds are disbursed via the utilization of a PCA draft. Ledger sheets are maintained on all loans, which documents the date of payment, amount, and purpose. Occasionally, a borrowing base margin report will be required on loans with a high level of liquid property. This borrowing base agreement will limit the amount of funds than can be drawn at any one time.

III. The Loan Servicing/Administration System

A. General Servicing

Borrowers will be monitored for financial performance to determine the level of risk to the Lender. At a minimum, guaranteed agricultural loans will be reviewed on an annual basis. Specific loans will be acted upon according to the servicing plan adopted at loan origination. Loans will be flagged for additional monitoring at the first indication that performance is not in accordance with projections. The loan officer handling the credit will be the one most likely to identify performance problems. At this point, the loan officer will either initiate corrective action or will consult with the Chief Credit Officer or CEO.

Proper loan supervision and servicing requires accurate and timely identification of loans for which performance is either less than acceptable or below expected levels. These loans are grouped according to risk level such as weak, work-down, work-out, or liquidation loans.

Loans are generally placed on a watch list when classified OAEM, Substandard, Doubtful, and Loss.

Approval of loan servicing actions is based on the level of delegated authority. Please refer to the previously referenced delegated authority levels.

Annual borrower review documentation for line of credit loans will include the following:

- Updated appraisals of livestock, crops and equipment on a annual basis, and annual inspections for stocker and feeder livestock operations.
- A current balance sheet for borrower, entity members, and personal guarantors.
- An analysis of current assets, crop conditions, livestock conditions, prices and the likelihood of payment of operating credit and term debt limitations due in the current production cycle.
- An income and expense statement, such as IRS Form 1040, Schedule C or F or the customer's computerized records.
- A comparison of projected to actual financial performance.
- Cash flow projection for the next production cycle.
- Review of capital purchases, if any, and consumer credit needs projected for the next year.
- Assessment of farm condition.
- Annual county records search (UCC).

Borrowers with guaranteed term loans secured by real estate, which are performing, are required to submit yearly financial statements. Inspections will be made if financial deterioration is noted.

Inspections. Annual inspections will determine security condition. Capital purchases during the operating year are added to the security agreement at the time of purchase. Current inventories are maintained on an ongoing basis on all liquid collateral (crops and cattle), which reconcile current inventories to beginning inventories. Cattle are marked for identification. Proceeds from the sale of security will be applied to the debt according to lien priority. Where multiple loans are secured by a blanket lien on chattel security, crop and livestock income will be applied to the annual operating loan debt incurred to produce that item before being used to pay term debt installments.

An on-site chattel inspection will be completed on all FSA guaranteed loans.

The Lender conducts an annual review of existing customers' credit classifications. The Lender requests updated financial statements from *Acceptable* customers with loans greater than $100,000 which are not consumer loans with monthly payments, and on all loans classified *OAEM, Substandard, Doubtful,* and *Loss.* The Lender conducts an annual credit analysis and classification review on all OAEM, Substandard, Doubtful, and Loss accounts. Guaranteed loans will be reviewed annually.

Annual analysis and classification updates. On existing loans equal to or greater than $100,000, which are classified Acceptable, and on loans less than $100,000 and classified OAEM, a formal review of the loan classification is completed every 3 years.

The formal review for the above loans consists of a review of the most recent financial information (balance sheet and earnings), and comparison to the previously received information. A review of loan performance, including a credit bureau search and collateral position, are also required. The loan file is documented with a memo form.

On existing loans equal to or greater than $100,000 and classified as OEAM or all Adversely classified loans, a formal review of the loan classification is completed annually. The formal review for this group of customers consists of a 5-C analysis, credit bureau search, and UCC search. A credit report is developed for file documentation.

The same informational and classification review criteria applies to all loans segments, i.e. line of credit or term.

Advances. For line of credit advances (defining line of credit advance as an additional loan request for operating credit after the initial loan request and cash flow have been completed and approved), file documentation includes a Farm Equity Manager Credit Report, which addresses the changes to financial position, cash flow, collateral, terms and conditions, and loan purpose.

A cash flow projection of income and expenses is required for FSA guarantee lines of credit loans and advances. The cash flow must reflect payment of all annual expenses and term debt payments prior to advancing in subsequent years.

The following documentation is required to perform the annual reconciliation of collateral for FSA guarantee lines of credit:

- On-site inspection of loan collateral at the beginning of the loan cycle. Documentation should include reporting number of head or bushels and beginning value.
- Customers are expected to apply full sale proceeds from collateral sales, unless release is approved by the Lender.
- On-site inspection of loan collateral to be completed at the end of the loan cycle, and documentation would be the same as required at the beginning of the loan cycle.
- Credit report at loan maturity required to document reconciliation of loan collateral.

Emergency advances. A moderate advance in excess of the line of credit ceiling may be made when a deviation causes expenses to exceed the original budgeted amount and the advance is necessary to avoid significant damage to the loan security or loss to the loan security. The reason for the advance along with the estimated dollar benefit to be derived from it will be included in the loan file. Generally emergency advances will be no greater than 15 to 20 percent of the line of credit.

Construction Loans. Loans made for development will require that the Lender be provided with a copy of plans, specifications and construction contracts. Lender endorsement of the method of construction is required. Advances on construction loans will be made based on the level of completion after verification by loan officer visual inspection.

Additional loans. The Lender may make consumer, residential and commercial loans to guaranteed loan customers as part of ongoing relationships. If unguaranteed loans are made, security will not be intermingled and payments will be applied to the guaranteed loan first. The Lender will not make payments to unguaranteed loans, which are adverse to the guarantee.

Collateral monitoring. Collateral monitoring for chattel loans is completed on an as needed basis. Monitoring real estate collateral is completed at loan servicing actions. The Lender conducts an annual analysis of real estate values, by comparing sales and other data annually against a benchmark property.

Insurance. The underwriting loan officer establishes insurance requirements for real estate loans. The amounts are established using the replacement values assigned on the appraisal report. Full replacement values are typically required for homes and income producing facilities. The credit underwriter establishes insurance requirements for

chattel loans on a case-by-case basis. Crop insurance is not mandatory, but may be required on case-by-case basis.

IV. Delinquent Account Servicing

A. Delinquent Loans.

Loan servicing plans are required on all FSA guaranteed loans. Delinquencies are handled according to established policies and regulations. The Lender, being a part of the Farm Credit System, is subject to numerous borrower rights regulations and legislation. The Lender will abide by all standing regulations, laws, and policies, at all times. The Lender will abide by applicable FSA regulations, which are in place at the time of the servicing action. The Lender has an established reputation of working closely with delinquent borrowers, in a manner, which explores ways to restore the operation to viability.

Default notices.

Before 30 days past due: Letter and telephone contact with customer.

30 days past due: Notify FSA and complete FSA Form 1980-44.

Between 20 and 40 days past due: Borrower Rights letter, restructuring policy and mediation notice is sent.

Between 30 and 40 days past due:

- Meet with customer.
- Complete current balance sheet and cash flow.
- Review repayment plan and restructuring options.
- Determine eligibility and application of the FSA interest assistance program (any waiver of interest assistance by the customer must be in writing.)
- Summarize meeting complete FSA 1980-44 and forward immediately to the local FSA office.

Prior to 90 days past due: Forward completed FSA Form-1980-44 to FSA and additional reports thereafter every 2 months until the default is resolved and upon cure of the default.

Within 120 days past due: Lender must decide to restructure or liquidate the account.

When delinquencies occur, the Lender requests the borrower to supply updated financial information, and specific plans to pay the delinquency. This information is necessary for consideration of any rescheduling.

The Lender is required by law to follow Borrower Rights provisions. Distressed borrowers are identified, and notices are provided to the customer outlining their rights as a distressed borrower.

Loan Servicing plans are not mandatory, but are addressed in the credit analysis, and the repayment plans as submitted by the borrowers. Loan Service plans are used in some cases on adversely classified assets.

B. Loan Extension Policies.

Loan Extensions on line of credit loans, typically limited to 120 days, are completed when requested by the customer, and approved under delegated authority.

Loan extensions on line of credit loans are generally granted to provide marketing time for commodities, or time to finalize upcoming loan plan.

Loan extensions for term loans may be either informal or formal. Typically an informal extension is limited to 120 days.

C. Restructuring.

Chattel Loan Restructuring.

Restructure purposes typically include restructuring operating losses or rescheduling term debt payments.
Generally, OL loan restructures are limited to a 7-year term, and are more frequently considered on a 3-5 year term.

Term Loan Restructuring.

FO loan restructures are limited to no longer than 40 years from the date of the mortgage. Restructure purposes typically include term debt rescheduling, reamortizing accelerated real estate principal payments to provide working capital, and operating losses. Balloon payments are prohibited for loan restructuring actions.

D. Deferrals.

Deferments may not be granted on monthly installment loans.

Principal Deferment is limited to a period that does not exceed five years, nor may it extend the life of the loan repayment period.

Formally extended loans may not have principal deferments.

Generally, principal deferments are not granted on loans, which exceed collateral standards.

Deferment of the principal installment is subject to borrower payment of the interest portion of the matured installment.

Deferments are documented with a District 4167 form along with updated balance sheets, earnings and other related loan information. A deferment is considered similar to a new loan request.

Approval or denial is based on delegated authority.

E. Debt Writedown.

Lender will coordinate with FSA in processing debt writedowns.

FSA concurrence will be obtained before a writedown is completed.

Debt writedowns are considered during the Borrower Rights process. Adequate cash flow and viability of the business are key considerations when considering writedowns. Debt writedowns will be completed according to section 762.145(e) of 7 CFR part 762.

F. Partial Releases.

Partial releases are considered/underwritten the same as a new loan request. The degree of underwriting and informational requests depends upon the distribution of sale proceeds generated from the release. If all proceeds, excluding reasonable sale expenses are to be applied to the note, underwriting would include obtaining a Dist 4167 (Service and Field Report) and a brief credit/collateral analysis as documented on this form. If release sale proceeds are to be released, additional credit analysis, and borrower information is required.

An Acceptable loan classification is required if considering release of sale proceeds. Generally, collateral position should not exceed lending standards after the release is completed.

Obtain junior lienholder consent, if a real estate release and proceeds are being released to borrower(s).

Release approval or denial is subject to delegated authority. Typically, the Lender would expect the application of cull sale proceeds on a line of credit note. The Lender utilizes a base herd agreement on term loans, which allows the borrower to manage cull sale proceeds, as long as the base herd numbers are in compliance with the borrower's loan agreement.

Term debt collateral sales will not be used to make scheduled term debt installments.

G. Other Servicing Actions.

Release of Liability. Consideration of a release of liability is based on the analysis of the five credit factors, and the resulting liable parties have the ability to service the debt. The Lender typically does not release liability as an on going practice, but is considered and approved in limited cases. FSA approval is required for all Releases of Liability on FSA guarantee loans in accordance with section 762.146(c) of 7 CFR part 762. Release of liability after liquidation may not be part of a liquidation plan unless the plan is approved by FSA.

H. Bankruptcy.

The Lender will rely on legal counsel and will take all necessary actions to protect and preserve the collateral in bankruptcy proceedings and comply with 762.148 of 7 CFR part 762.

V. Liquidation/Foreclosure.

A liquidation plan, including costs of liquidation and expected time frames, is required. The liquidation plan will be kept in the borrower's case file. The Lender may conduct liquidation, including making bids at foreclosure sales, without prior FSA approval. However, in the event that the value of the property has been substantially reduced by the presence of hazardous waste, the Lender will obtain FSA concurrence prior to the establishment of a protective bid or conveyance by deed in lieu of foreclosure.

An estimated loss claim will be submitted by the Lender with a ledger and supporting calculations, if the liquidation is expected to exceed 90 days. Submission of any estimated loss claim will include the date of the decision to liquidate the loan.

The Lender must comply with the Borrower Rights restructuring provisions as documented in the 1971 Amended Farm Credit Act. Notice is provided to FSA for foreclosures on loans with FSA guarantees.

A decision to liquidate the loan will be made within 120 days of the payment due date.

Mediation. The Lender will participate in mediation according to State law.

Projective advances. The Lender will make reasonable protective advances not to exceed $10,000 without FSA concurrence for the protection of the collateral.

Judgments. Judgments will be sought in all forced liquidations.

Final Loss Claims. Final loss claims will be prepared submitted, reviewed and approved according to section 762.149(i) of 7 CFR part 762.

USDA

Preferred Lender

Farm Service Agency

Farm Credit of Western Oklahoma, ACA

Is a Preferred Lender for the Farm Service Agency

4/8/03
Date

Carolyn B. Cooksie
Deputy Administrator for Farm Loan Programs

FSA-385-1
(11-04-99)