



**Kentucky  
Guaranteed Lender News**

**January 2020**

*Message from the State Executive Director*



**Brian Lacefield**  
**State Executive Director**

**Greetings and Happy New Year from the Kentucky Farm Service Agency.**

Last year is history, 2020 is a mystery but a new decade is underway. Like our farmers, I am glad to have 2019 in the books. It was a challenging year. Beginning the year in a Government Shutdown, rolling out the 2018 Farm Bill and administering 2 additional trade mitigation programs proved to be challenging. I am proud our Kentucky FSA Team was able to step up, meet this head on, and serve our farmers.

Prior to the Government Shutdown on Dec 22, 2018, less than a third of the payments had been made on the first round of Market Facilitation Program (MFP 1.0) to Kentucky producers. Many were dealing with the challenges of delayed harvest and finalizing production totals. The remaining two-thirds of the \$168 million-dollar total for MFP 1.0 was distributed in 2019. A second round of Market Facilitation Program (MFP 2.0) was announced this past spring and sign-up began. To date, we have had 14,562 applications and have paid out \$172.4 million dollars to Kentucky producers on MFP 2.0. The combined payments farmers received in the 2019 calendar year from both programs totaled over \$280 million dollars. This provided a significant impact to net farm incomes for our farmers.

The passing of the 2018 Farm Bill was a win for our industry. This Farm Bill was passed on time as the previous one had expired. This was the first time in my 20-year professional career that we did not have to work off an extension. In addition to being on time, this farm bill presented some real wins to our industry. Producers will now be able to make annual elections in the ARC-PLC price support programs based on their views of market conditions and not remain locked into a program. The Dairy Margin Coverage program provides a much-needed revenue protection program for our dairy producers. We saw an increase to the national acres in our Conservation Reserve Program. Another big win for our Farm Loan team were increased Direct and Guaranteed loan limits. The new limits, with funding to match, has allowed our farm loan team to better serve our farmers.

Kentucky's farm loan program continues to be a national leader. In 2019, Kentucky ranked 5<sup>th</sup> in the nation for total loans originated. We made 1,656 loans in 2019 and obligated \$191.4 million dollars. Kentucky also ranked 1<sup>st</sup> in the nation with our Microloan program. We originated 475 microloans last year for about \$10 million in new money. We have done this while maintaining credit quality. I am proud of the work that the Kentucky farm loan team does for our farmers.

The Farm Bill trainings and outreach have had me on the road traveling the state quite a bit this year. In one 36-hour period I had events in both Fulton and Greenup counties! While not the best in logistics, the opportunity allowed me to literally travel across the state looking at crops and meeting with producers. I look forward to visiting with you at our Guaranteed Lenders Meetings this year. We have added an additional location for 2020 in Owensboro. This meeting will follow the Owensboro Grain Day and begin that afternoon. We hope this extra date and location will be a benefit to many of our participating lenders. I appreciate the partnership that we have with our lenders and look forward to a great year working together and serving our farmers.

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**Expediting the Final Loss Claim Process**

When filing a final loss claim it is imperative to submit complete documentation which will expedite the review and approval process. This includes an accounting of the use of loan funds, an accounting of all security and its proceeds, supporting documentation for liquidation expenses and protective advances, and a complete loan ledger. The loan ledger should include loan advances, interest rate changes, protective advances, application of payments, rental proceeds, and security proceeds, including a running outstanding balance total (principal and accrued interest).

A current (less than 60 days old) FSA Form 2248 Default Status Report must be on record for a final loss claim to be paid.

Lenders should also communicate regularly with their local FSA office throughout the loss claim process to ensure the required forms, and other documentation have been submitted.

**Servicing Reminders**

The following documents should be submitted to FSA within 30 days of the completion of the annual financial analysis for Standard Eligible Lenders (SEL) and Certified Lender (CLP). PLP lenders complete the annual analysis as outlined in the Credit Management System (CMS).

SEL Submission Summary	
<b>Real Estate</b>	Balance sheet, farm visit report, income and expense statement, and narrative summary of borrower's financial progress from previous year only if the loan is secured by chattels.
<b>Term Chattels</b>	Balance sheet, farm visit report, income and expense statement, and narrative summary of borrower's financial progress.
<b>Lines of Credit</b>	Balance sheet, farm visit report, income and expense statement, projected cash flow and narrative summary of borrower's financial progress.
CLP Submission Summary	
<b>Real Estate</b>	Either a summary of a lender's analysis or a summary as to why financial strength makes analysis unnecessary.
<b>Term Chattels</b>	Either a summary of a lender's analysis or a summary as to why financial strength makes analysis unnecessary.
<b>Lines of Credit</b>	Certification stating that a feasible plan has been developed; the borrower is in compliance with the loan agreement; and previous year's income, loan funds, and security proceeds have been accounted for.

### Guaranteed Loan Limit

The Farm Service Agency will not guarantee any loan that would result in the applicant's total indebtedness exceeding the limits established in Handbook 1-FLP, paragraph 29. The maximum, FO, CL, OL and LOC levels include the guaranteed loan being made plus any outstanding direct or guaranteed principal balances owed by anyone who will sign the promissory note. The dollar limit of guaranteed loans is adjusted annually based on the percentage change in the Prices Paid by Farmers Index, as compiled by USDA. The total outstanding combined guaranteed FO, CL, SW, OL, and LOC principal balance cannot exceed \$1,776,000 for fiscal year 2020. 2-FLP paragraph 244 (A).

### Kentucky Farm Loan Program National Standings as of September 30, 2019

#### FY 2019

- Microloans – 1st 475 loans with \$9,649,555 dollars obligated
- Direct OL loans – 4th 1,064 loans with \$42,241,000 dollars obligated
- Youth loans – 3rd 150 loans with \$592,930 dollars obligated
- Total loans – 5th 1,656 loans with \$191.9 mil obligated
- Beginning Farmer loans- 6th 867 loans with \$95,226,407 dollars obligated
- SDA loans – 7th 224 loans with \$14,761,769 dollars obligated
- Guaranteed loans obligated is 289 loans for \$83,639,000 or 43.6% of the dollars obligated
- Direct loans obligated is 1,364 loans for \$108,060,000, or 56.4% of the dollars obligated

#### Existing Borrower caseload

- Direct loan borrowers – 5th 4,493 borrowers and 3rd 8,333 loans for an outstanding loan balance of \$482,111,815
- Youth loan borrowers – 2nd 839 borrowers & 1st 905 loans for an outstanding loan balance of \$2,383,889
- Guaranteed loan borrowers – 13th 1,072 borrowers and 13th 1,740 loans with the outstanding loan balance of \$415,849,552

## Guaranteed Lender Eligibility and Status

### Overview

A guaranteed loan allows a USDA-approved commercial lender to issue and service a loan, while the Farm Service Agency (FSA) guarantees the loan against losses, typically up to a maximum of 90 percent. In some circumstances, including loans to beginning farmers and socially disadvantaged farmers, a 95 percent guarantee is available. FSA reviews all loan guarantees for approval and provides oversight of lenders' activities.

Lenders who are subject to credit examination and supervision by an acceptable State or Federal regulatory agency and have experience in agricultural lending are eligible to participate in all FSA Guaranteed Farm Loan Programs. Lenders not subject to traditional credit examination and supervision, or who have little or no experience with agricultural loans, may qualify as Micro Lenders (MLP) and make loans under the EZ Guarantee Program. Lenders who have a positive track record of participation in the program may participate in one of FSA's status lender programs, the Certified Lender Program (CLP) and Preferred Lender Program (PLP). Once lenders are approved by FSA as a CLP or PLP lender, they may process loans under the reduced paperwork and supervision requirements afforded to the respective status lender program.

### Standard Eligible Lenders

The basic level of participation in the FSA Guaranteed Farm Loan Program is Standard Eligible Lender (SEL). SELs must be State or Federally regulated, have agricultural lending experience and the capability to make and service requested loans. SELs are also expected to have a business office or representative located in the area where loans will be made to allow for adequate loan servicing. The lender or its officers also must not be debarred from participating in government programs or be delinquent on federal debt.

### Certified Lender Program

The Certified Lender Program (CLP) permits lenders with a proven track record in making and servicing guaranteed agricultural loans to operate under a streamlined origination and servicing process. Information submitted to FSA for approval is reduced under the CLP program.

To be eligible for CLP status, the lender must meet the eligibility requirements of a SEL. Additionally, the lender must also have a loss rate that does not exceed seven percent on loans closed in the past seven years and have made a minimum of 10 FSA guaranteed loans in their history, five of which need to have been completed in the past two years. Lenders must have proven their ability to process and service guaranteed loans by submitting complete and correct applications as well as servicing all guaranteed loans in accordance with FSA regulations.

**Guaranteed Lender Eligibility and Status (*continued from page 4*)**

**Preferred Lender Program**

Participation in the Preferred Lender Program (PLP) is the highest status that a lender can hold in the FSA Guaranteed Farm Loan Program. The PLP status was developed to recognize experienced lenders that have demonstrated significant expertise and understanding of agricultural lending and the FSA Guaranteed Farm Loan Program.

PLP lenders benefit from:

- Streamlined submission requirements.
- Decreased turnaround time on FSA actions.
- Authorization to originate and service guaranteed loans as they would other loans in their portfolio.

To qualify for the PLP program, the lender must:

- Meet the CLP eligibility criteria,
- Have originated at least 20 guaranteed loans in the past five years; and
- Not have losses more than three percent on loans closed in the past seven years.

Unlike SEL and CLP lenders who originate and service guaranteed loans under FSA standards and guidance, PLP lenders use their own Credit Management System (CMS) for originating and servicing FLP guaranteed loans. Once a CMS is approved by FSA, it becomes the operational plan and a part of the Lender's Agreement between the lender and FSA for originating and servicing guaranteed loans.

PLP status is granted by the Deputy Administrator for Farm Loan Programs in Washington, DC, and covers all states for which the lender chooses to participate in the program. PLP status is active for five years from the date of the approved Lender's Agreement.

**Guaranteed Lender Eligibility and Status (*continued from page 5*)**

**Micro Lender Program**

The Micro Lender Program (MLP) allows nontraditional lenders and commercial lenders not eligible for other lender statuses to participate in the EZ Guarantee program. MLP status allows FSA to increase collaboration with nontraditional lenders and assist smaller farmers typically in underserved areas. Establishing a stronger working relationship with nontraditional lenders is beneficial as they share a common goal with FSA to assist producers in underserved areas, including credit deserts.

MLP lenders are limited to originating and servicing EZ Guarantee loans only. Additionally, MLP lenders must be subject to oversight as established by FSA.

To meet the requirement of acceptable oversight, MLP lenders must be one of the following:

- Community Development Financial Institution (CDFI)
- Rural Rehabilitation Corporation (RRC)
- A traditional lender subject to credit examination and supervision that does not have experience with agricultural loans.

An MLP lender also must:

- Have experience in making and servicing business loans
- Have the staff and resources to properly and efficiently handle its loan making and loan servicing responsibilities
- Have a loss rate on business loans of \$50,000 or less of no more than three percent over the past seven years
- Have made a minimum of 20 business loans of \$50,000 or less
- Are not debarred or suspended from participation in Government contracts or programs and are not delinquent on a Government debt.
- MLP status may be approved on a statewide basis and the Lender's Agreement is active for five years from the date of the approval.

**Guaranteed Lender Training Meetings 2020**

The Guaranteed Lender Training Meetings have been scheduled for 2020. We will go over some of the changes in the guaranteed loan program. Also, we will be discussing other guaranteed loan making and servicing issues. FSA has six meetings scheduled to be held across the state.

Tuesday, January 28th: Southcentral Kentucky Community and Technical College KY Transpark Campus. Located at 221 Commonwealth Blvd, Bowling Green, KY. Room 105. East of Bowling Green near the intersection of US 68 and 31-W. This meeting will start at 9:00 am and end around noon.

Wednesday, January 29th: Owensboro Convention Center. Located at 501 W 2nd Street, Owensboro, KY 42301. Check message boards for room number. This meeting will start at 1:30 pm and end around 4:30 pm.

Thursday, January 30th: Marshall County Cooperative Extension Office located at 1933 Mayfield Hwy, Benton, KY. From the Purchase Parkway, take the Hardin/Murray Exit (exit 41) on to Hwy 641, at first stoplight turn right onto Hwy 58 (Mayfield Rd). Extension Office will be on the left. This meeting will start at 9:00 am and end around noon.

Tuesday, February 4th: Lake Cumberland Area Development District located at 2384 Lakeway Drive Highway 80, Russell Springs KY. This meeting will start at 9:00 am and end around noon.

Wednesday, February 5th: Hardin County Cooperative Extension Office located at 111 Opportunity Way, Elizabethtown KY. Take the WK Parkway to Exit 133 (Ring Road 3005). Turn right at the end of the ramp. Then turn right at the first Street (Opportunity Way). This meeting will start at 9:00 am and end around noon.

Tuesday, February 11th: Clark County Cooperative Extension Office located at 1400 Fortune Drive, Winchester, KY. Take Exit 96 off I-64, turn north onto Hwy 627, turn left onto Fortune Drive. This meeting will start at 9:00 am and end around noon.

Except for the Owensboro meeting, all meetings will begin at 9:00 a.m. and end at approximately 12:00 noon, local time. The Owensboro meeting will begin at 1:30 pm and end around 4:30 pm. The discussion topics will include guaranteed loan issues. Preferred and Certified Lenders are required to attend, but all agricultural lenders are encouraged to participate in these meetings.

Lenders are urged to attend the meeting closest to the location but may attend any meeting if conflicts occur with a particular meeting date. We look forward to seeing you at one of these meetings.

### 2-FLP Handbook Revisions

#### Highlights of Amendment 44 dated 05/07/2019

- Par. 2 A has been amended to update the handbook reference from 3-FI to 64-FI.
- Par. 46 C has been amended to update website address.
- Par. 47 A has been amended for a paragraph correction.
- Par. 48 B has been amended to provide guidance on filing Lender's Agreements.
- Par. 69 A has been amended to correct a CFR reference.
- Par. 108 C has been amended to clarify applicant eligibility requirements.
- Par. 135 C has been amended to update website address.
- Par. 196 A has been amended to incorporate additional language for beginning farmers and socially disadvantaged farmers.
- Par. 244 A has been amended to update guaranteed loan limits for FY 2019.
- Par. 265 C has been amended to clarify when a collateral inspection is required.
- Par. 265 E has been amended to clarify the submission summary for a CLP's annual analysis.
- Par. 266 B has been amended to clarify credit bureau reporting.
- Par. 279 A has been amended to clarify subordinations on chattel security.
- Par. 285 A has been amended to clarify requirements for releasing individually liable entity members.
- Par. 312 A has been amended to:
  - provide guidance for what is to be provided to FSA if a new co-signer or co-borrower is required at the time of restructure and to clarify the eligibility requirements of a co-borrower.
  - Change the bullet point about a final loss claim note.
  - Clarify reference to subparagraph 326 D.
  - Clarify items lenders are required to submit to FSA after a restructure has closed.
- Par. 312 B has been removed and information has been relocated to subparagraph. 312 A.
- Par. 313 A has been amended to clarify items submitted to FSA by a standard eligible lender after a loan has been restructured.
- Par. 313 B has been amended to clarify items submitted to FSA by a Certified Lender after a loan has been restructured.
- Par. 313 C has been amended to clarify items submitted to FSA by a preferred lender after a loan has been restructured and to clarify actions to complete once submitted.
- Par. 314 C has been amended to clarify FSA review of CLP and PLP restructuring actions.
- Par. 357 D has been amended to include a note to address including prior liens when determining bid amounts.
- Par. 362 A has been amended to update the handbook reference from 3-FI to 64-FI.
- Par. 363 A has been amended to address reporting Federal debts to commercial credit bureaus.
- Par. 363 I has been amended to update the handbook reference from 3-FI to 64-FI.
- Par. 373 C has been amended to provide additional guidance on when Lenders pledge a Guaranteed loan as security.
- Exhibit 2 has been amended to provide guidance on when the beginning farmer 10 years of experience starts.
- Exhibit 10 has been amended to include a note to address prior liens when determining bid amounts as well as the calculation.
- Exhibit 15.4 has been added to provide information pertaining to Lender and FSA Reporting to Credit Reporting Bureaus.

#### Highlights of Amendment 45 dated 08/30/2019

- Par. 280 B has been amended to remove an incorrect form reference.
- Par. 374 D has been amended to clarify submission of the executed FSA-2242 to FSA from the secondary market holder.

#### Highlights of Amendment 46 dated 09/20/2019

- Par. 135 C has been amended to update the website for accessing historical 3-month LIBOR data.
- Par. 244 A has been amended to update the guaranteed loan limits for FY 2020.