



**Kentucky  
Guaranteed Lender News**

**March 2016**

*Message from the State Executive Director*



**John W. McCauley**  
**State FSA Executive Director**

In 2015, our Farm Loan Program continued to be a national leader! We led the nation for the second consecutive year in Microloans and set a new record in total loan dollars at \$163.5 million. Over the past six years we have grown our loan program by over \$40 million. In existing caseload last year, we ranked 1<sup>st</sup> nationally in the number of Youth Loan borrowers and in Youth Loans totaling 866 loans for over \$2.5 million. We were 3<sup>rd</sup> nationally in Direct Loans, Direct Operating Loan borrowers, Direct Operating Loans, Beginning Farmer Direct Operating Loans, and SDA Operating Loans. Whether we are working to help a farmer purchase that first farm, or providing operating loans to purchase items such as farm equipment, livestock, or the funds needed to construct or repair buildings, we are out there every day supporting American agriculture.

At the Farm Service Agency, our dedicated team of professionals strive to manage and deliver programs in commodity, conservation, disaster assistance, and farm loans that improve the economic viability of agriculture in our Commonwealth. Whether it is a farm loan, disaster relief, or a conservation program, we are here to help provide the best available resources to our agricultural producers.

In Kentucky and across the nation, our farmers provide our food and fiber cheaper, safer, and more efficiently than any other country in the world. That is why we stand ready to serve the needs of our local farm community. As we move forward, we will continue to focus and build upon that commitment.

In the coming weeks, I look forward to traveling across Kentucky and visiting with many of our commercial banking partners and agricultural producers.

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**FSA Expands the Microloan Program to Include Farm Ownership Loans**

§ In 2013 FSA developed the microloan loan program for operating loans to better serve the unique financial needs of new, niche and small to mid-sized family farm operations. The Agency recently expanded the microloan program to include farm ownership loans. These types of loans are issued to the applicant directly from the USDA FSA and have a maximum loan limit of \$50,000.00.

- Operating microloans can be used for all approved operating expenses authorized by the FSA Operating Loan (OL) Program, including but not limited to: initial start-up expenses; annual expenses such as seed, fertilizer, utilities, land rents; marketing and distribution expenses; family living expenses; purchase of livestock, equipment and other materials essential to farm operations; minor farm improvements such as wells and coolers; hoop houses to extend the growing season; essential tools; irrigation; and delivery vehicles.
- Farm ownership microloans can be used for all approved authorized by the FSA Farm Ownership (FO) Loan Program, such as purchase a farm or farm land, enlarge an existing farm, construct new farm buildings, pay closing cost and implement soil and water conservation and protection practices.

**Simplified Application Process**

The microloan application process is simpler, requiring less paperwork to complete, consistent with a smaller loan amount. Requirements for managerial experience and loan security have been modified to accommodate veterans, smaller farm operations and beginning farmers.

**Security Requirements**

Operating microloans for annual operating expenses must be secured by a first lien on a farm property or agricultural products having a security value of at least 100% of the microloan amount, and up to 150%, when available. Operating microloans made for purposes other than annual operating ex-

penses must be secured by a first lien on a farm property or agricultural products purchased with loan funds and having a security value of at least 100% of the microloan amount.

Farm ownership microloans are secured by the real estate being purchased or improved. The value of the real estate must be at least 100% of the loan amount.

**Rates and Terms**

For operating microloans, eligible applicants may obtain up to \$50,000. The repayment term may vary and will not exceed seven years. Annual operating loans are repaid within 12 months or when the agricultural commodities produced are sold. Interest rates are based on the regular FSA operating loan rates that are in effect at the time of the microloan approval or microloan closing, whichever is less.

For Ownership microloans, eligible applicants may obtain a microloan for up to \$50,000. The repayment term may vary and will not exceed 25 years. Interest rates are the regular FSA farm ownership rates in effect at the time of the loan approval or closing.

### ***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 \$1,399,000 for fiscal year 2016. Reference 2-FLP paragraph 244 (A).

### **FSA Guaranteed Loan Program**

FSA guaranteed loan programs are designed to help family farmers start, purchase or expand their farming operation.

Under a guaranteed loan, a commercial lender makes and services the loan, and FSA guarantees it against loss up to a maximum of 90 percent in most cases. In certain limited circumstances, a 95 percent guarantee is available.

There are three levels of lender participation in FSA's guaranteed loan program. The Standard Eligible Program, SEL, is the basic level of participation. The Certified Lender program, CLP, is the mid-level, and the Preferred Lender Program, PLP, is the highest level of participation. The higher the level, the lower amount of documentation that must be provided to FSA. For the basic level, a lender must have experience in making and servicing agricultural loans and the capability to make and service the loan for a guaranteed is requested.

Types of guarantees include operating (OL) loans and farm ownership (FO) loans. Terms for an OL are 1-7 years and FO's can go up to 40 years.

Fees for the guaranteed is 1.5% of 90% of the loan amount. Example \$100,000 loan X 90% X 1.5% = \$1,350 onetime fee.

FSA average processing time for FY 2015 was 8.84 days for a guaranteed application.

For an applicant to qualify for an FSA guaranteed loan, they must be recognized as a family farm but still produce agricultural commodities for sale in sufficient quantities to be considered a working farm and not a hobby farm. Other requirements include acceptable credit history, legal capacity to accept the loan, unable to obtain sufficient credit elsewhere, positive cash flow projections, adequate collateral to cover the loan, etc.

### **Waiver of the Guaranteed Fee**

Did you know there are three exceptions that allow the guaranteed fee to be waived? This can provide substantial savings to the borrower. These are the three exceptions to the 1.5% fee:

- ◇ Guaranteed loans used to refinance FSA direct loans. Majority of loan funds must be used to refinance direct loan debt.
- ◇ Beginning or SDA farmers participating in the Direct FO Down Payment Program,
- ◇ Beginning farmers participating in KAFC (Kentucky Agricultural Finance Corporation). The key here is the applicant must meet FSA's definition of a beginning farmer.

## Liquidation and Loss Claims

All lenders must submit an estimated loss claim within 150 days after the payment due date, even if it is zero, unless the account has been completely liquidated and then the final loss claim must be filed. The lender will discontinue interest accrual on the defaulted loan at the time the estimated loss claim is paid by the Agency. This is found in 7 CFR 762.149 and 2-FLP paragraph 359 (A).

All lenders must prepare a liquidation plan within 150 days after the payment due date. Standard Eligible Lenders and Certified Lenders must submit the plan to FSA for approval. Preferred Lenders will submit plans in accordance with their Credit Management System.

In all cases involving bankruptcies, the lender must file the proof of claim, attempt to deal with conversion of loan collateral, etc. Ultimately, the Court will decide the outcome of the debt and collateral, but the lender must make a good faith effort to protect both its interest and that of FSA.

A clear account ledger is required for each loss claim showing the account history, including advances, payments, interest rate changes, and charges to the account.

The lender must confirm both proper use of loan funds and security proceeds.

The file should contain regular documentation to support timely servicing from time of the default to the submission of the final loss claim.

Attention to these concerns can avoid a request for further documentation on submission of a loss claim or modification of the claim.

## Coming Soon to FSA

- **Micro Loan Program**

- ⇒ Guaranteed Farm Ownership Microloan \$50,000
- ⇒ Guaranteed Operating Microloan \$50,000
- ⇒ Simplified Application
- ⇒ Same eligibility requirements and loan purposes as the non-microloans
- ⇒ Simplified feasibility determination

- **Micro Lender Program**

- ⇒ Lenders with no ag experience
- ⇒ Currently limited to CDFIs and RRCs
- ⇒ Limited to microloans

These two new programs are anticipated to be available by March or April of this year. More information on these programs will be available at the annual Guaranteed Lender Training meetings in April. Please stay tuned.

### ***Kentucky Farm Loan Program National Standings as of September 30, 2015***

#### ***FY2015***

- ⇒ Microloans – 1st 473 loans with \$9,121,300 dollars obligated
- ⇒ Direct OL loans – 4th 1,298 loans with \$47,505,000 dollars obligated
- ⇒ Youth loans – 4th 228 loans with \$958,780 dollars obligated
- ⇒ Total loans – 6th 1,785 loans with \$163.5 mil obligated
- ⇒ Beginning Farmer loans- 6th 844 loans with \$77,732,714 dollars obligated
- ⇒ SDA loans – 4th 335 loans with \$15,194,733 dollars obligated
- ⇒ Guaranteed loans obligated is 256 loans for \$74,477,000 or 45.6% of the dollars obligated
- ⇒ Direct loans obligated is 1,529 loans for \$89,029,000, or 54.4% of the dollars obligated

#### ***Existing Borrower Caseload***

- ⇒ Direct loan borrowers – 4th 3,864 borrowers and 3rd 7,437 loans for an outstanding loan balance of \$332,152,140
- ⇒ Youth loan borrowers – 1st 822 borrowers & 1st 886 loans for an outstanding loan balance of \$2,524,679
- ⇒ Guaranteed loan borrowers – 12th 974 borrowers and 12th 1,579 loans with the outstanding loan balance of \$323,445,769

## **2-FLP Handbook Revisions**

### Highlights of Amendment 30 dated 02/23/2015:

- \* Par. 196 B has been added to provide guidance on exceptions for CL's and update the percent of guarantee for targeted underserved (SDA) and beginning farmers has been moved.
- \* Exhibit 2 has been amended to update the definition of:
  - ◇ Beginning farmer and remove the note
  - ◇ Debt forgiveness
  - ◇ Farmer and clarify that the term "farmer" also includes the term "rancher"

### Highlights of Amendment 31 dated 03/19/2015:

- \* Par. 123 B has been amended to include spouses.
- \* Par. 135 C has been amended to update the web site to access the 3-month LIBOR.
- \* Par. 208 D has been amended to provide guidance for identify wetlands.
- \* Par. 374 C and D have been amended to provide guidance on digitally signing FSA-2242.

### Highlights of Amendment 32 dated 03/30/2015:

- \* Par. 20 has been amended to update authorized agency official, DD, and SED responsibilities to collaborate with SBA, RD, and other Federal Agencies.
- \* Par. 21 has been added to provide guidance on collaboration with SBA, RD, and other Federal Agencies and reference new FSA-2297.
- \* Exhibit 6 has been added to provide MOU between SBA and USDA.

### Highlights of Amendment 33 dated 08/24/2015:

- \* Par. 46 E has been amended to include the requirement for lenders who are corporations to execute AD-3030.
- \* Par. 135 has been amended to correct the following:
  - ◇ GLS Add Loan Closing Screen title
  - ◇ link for the 3-month LIBOR rates

### Highlights of Amendment 33 dated 08/24/2015:

- \* Par. 245 C and 247 A and B have been amended to include guidance for obtaining AD-3030 from lenders who are corporations.
- \* Par. 341 A has been amended to emphasize that bankruptcy information is to be provided with the lender's FSA-2248.
- \* Par. 342 B has been amended to clarify calculation of interest accrual and payment of interest in bankruptcy reorganizations.
- \* Par. 344 A has been amended to:
  - ◇ Added the bankruptcy proceedings are to be reviewed with the default status report.
  - ◇ Reference the appraisal or evaluation requirements of paragraphs 181 and 182.
- \* Par. 344 B has been added to address post-bankruptcy plan completion actions.
- \* Par. 359 A has been amended to clarify calculation of interest accrual and payment of interest on estimated loss claims.

### 2-FLP Handbook Revisions (Continued)

#### Highlights of Amendment 33 dated 08/24/2015: (Continued)

- \* Par 360 F has been amended to clarify calculation of interest accrual and payment of interest on final loss claims.
- \* Par. 363 K has been amended to provide additional debt settlement instructions.
- \* Par. 363 L has been amended to provide additional bankruptcy discharge processing guidance.
- \* Par. 374 C has been amended to provide guidance in working with secondary market participants using digital signatures.
- \* Exhibit 15.5 has been added to provide examples of interest accrual calculations for all types of loss claims.

#### Highlights of Amendment 34 dated 09/21/2015:

- \* Par. 244 A has been amended to update the statutory loan limits for guaranteed loans.

#### Highlights of Amendment 35 dated 11/13/2015:

- \* Par. 342 B has been amended to add a note about submitting FSA-2249.
  - \* Par. 334: A has been amended to provide FSA-2249 shall be submitted to adjust the loan to the new loan amount.
- ◇B has been amended to remove reference to FSA-2249.



The U.S. Department of Agriculture (USDA) Farm Service Agency (FSA) Administrator Val Dolcini, with the Kentucky Delegation at the National Farm Loan Training in Albuquerque, New Mexico.

***Guaranteed Lender Training Meetings 2016***

FSA has scheduled five Guaranteed Lender Training sessions across the state for 2016. New changes to programs will be discussed. Also guaranteed loan making and servicing issues will be discussed.

- Tuesday, April 19<sup>th</sup>: Clark County Cooperative Extension Office located at 1400 Fortune Drive, Winchester KY (Take Exit 96 off I-64, Turn North onto Highway 627, Turn onto Fortune Drive)
- Thursday, April 21<sup>st</sup>: Lake Cumberland Area Development District located at 2384 Lakeway Drive Highway 80, Russell Springs KY
- Tuesday, April 26<sup>th</sup>: Graves County Cooperative Extension Office located at 251 Housman Street, Mayfield, KY. Located approx. ¼ mile from intersection of Hwy 121 and Hwy 45, across from Enterprise Rent a Car.
- Wednesday, April 27<sup>th</sup>: KY Community and Technical College located at 1127 Morgantown Road, Bowling Green KY (Located near the Natcher Parkway on U.S. Highway 231 near Wal-Mart. The building has a glass front)
- Thursday, April 28<sup>th</sup>: Hardin County Cooperative Extension Office located at 201 Peterson Drive, Elizabethtown KY, next to Jacobi Case-Int Equipment Sales

All meetings will begin at 9:00 a.m. and end at approximately 12:00 noon, local time. 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. Looking forward to seeing you at one of these meetings.