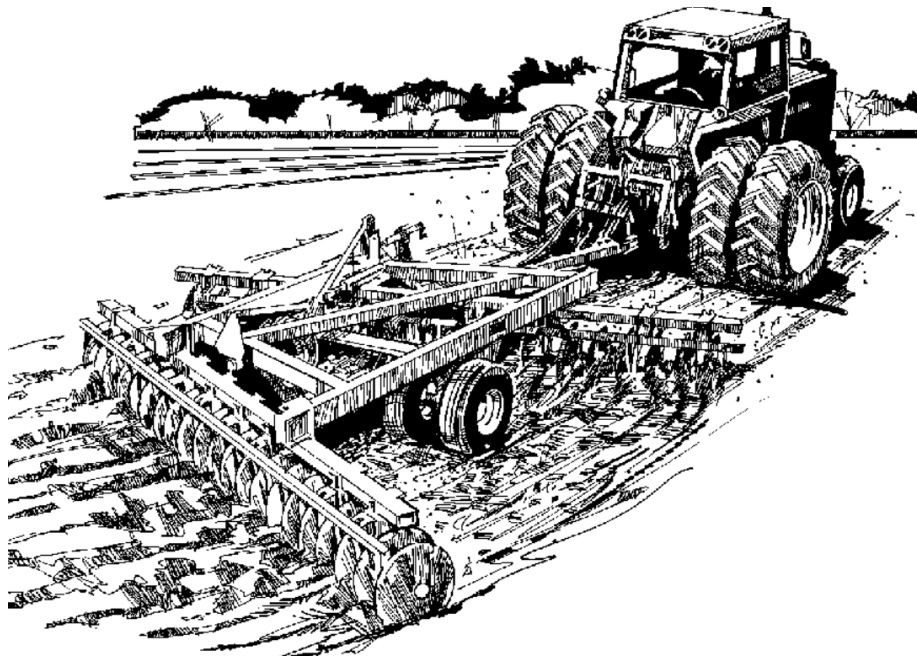


FSA Guaranteed Farm Loan Programs TIDBITS/HELPFULHINTS



**NOVEMBER 2021
LENDER MEETINGS**

State Office Staff

**Dan Gieseke Farm
Loan Chief**

Email = daniel.gieseke@usda.gov

**Sandra Waibel
State Farm Loan Specialist**

Email = sandra.waibel@usda.gov

**Jason Azdell
State Farm Loan Specialist**

Email = jason.azdell@usda.gov

**Julie Long
State Farm Loan Support Specialist**

Email = julie.long2@usda.gov

**601 Business Loop 70 W
Parkade Center, Suite 225
Columbia, MO 65203
Telephone (573) 876-0980
Fax (855) 830-0682**

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We specialize in:

Loans for beginning farmers, disaster recovery, operational financing, and farm ownership

Farm planning and Counseling

Supervised credit and assistance through the life of your loan

Sustained financial planning services

Why should USDA's Farm Service Agency be your lender of first opportunity?

The farming industry has undergone many changes in recent years, resulting in new types of small farming and ranching enterprises. These include value-added farming operations, organic farming, immigrant farming, and growing crops for local retailers or direct sale to consumers.

New federal programs have been enacted to stimulate beginning and younger farmers to establish new, or retain ownership of existing, small family farms. These exciting new trends in rural America present the USDA's Farm Service Agency (FSA) Farm Loan Programs (FLP) with opportunities for increased lending activity in the farming community.

So, why should USDA's Farm Loan Programs (FLP) be your lender of first opportunity?

We are your advocates.

Farm Loan Programs staff are predisposed to award loans, therefore putting the staff on the customer's side. FLP staff want to see you succeed. This is evident in our consultative approach, offering low rates and identifying other resources to our clients in an advisory fashion throughout the life of the loan.

We think outside the box.

FLP staff keep up with the industry trends and constantly look for emerging and non-traditional farm business models. Our commitment to doing things better in the industry provides you with fresh perspectives, alternatives, and creative ways of growing your business.

We offer solutions.

Our loan staff can refer customers to other public and commercial financial aid sources that can serve as a blend with the Farm Loan Programs loan. This results in structuring more comprehensive resources and a tailored financial solution that works for unique lending situations.





We'll go above and beyond to be the lender of first opportunity for agricultural producers in our community

Our Farm Loan Programs staff are committed to our customers, their goals, and our communities. Our service extends beyond the typical loan, offering our customers ongoing consultation, advice, and creative ways to make their farm businesses thrive. At the Farm Service Agency, we are the lender of first opportunity because we provide agriculture producers who need assistance with an entry into agriculture production.

Our Services

Loan Choices

USDA Farm Loan Programs provides a variety of loan types for every need. These include operating, ownership, disaster, youth, and loans for beginning farmers.

Farm Planning

Whether it's a new, young, socially disadvantaged, or an emerging farm business, Farm Loan Programs can help customers get on the right track with its farm planning services. The success of our customers is the cornerstone of our business.

Financial Counseling

Loan staff are well-trained in both lending and farm operations, giving customers a sounding board and source of counsel.

Sustained Service

Farm Loan Programs staff provide supervised credit throughout the life of the loan, staying with the customer long after the loan is awarded.

Our Standards

Guaranteed Loans

Commercial and Farm Credit lenders' portfolios are strengthened by Farm Loan Programs guaranteed loans.

Rewards for a Job Well Done

With our supervised credit program, the government's interest in repayment is balanced with the benefit of taking measured risk with customers. Thriving business performance will pay off—literally.

Your Success is Our Success

We want to see customers succeed, as their success feeds our success.

Providing Customers with Low Rates

Farm Loan Programs offers low rates for Direct Loan customers, and we can assist customers in buying down a guaranteed loan rate.





United States
Department of
Agriculture

Farm
Production
and
Conservation

Farm
Service
Agency

Missouri State FSA Office
Parkade Center, Suite 225
601 Business Loop 70 West
Columbia, MO 65203
Voice 573-876-0980

Missouri State Fact Sheet

FSA "Guaranteed" Farm Loan Programs

The Farm Service Agency (FSA) may guarantee loans eligible agriculture lenders make to family farmers. The primary purpose of the program is to enable lenders to provide credit to farmers who cannot otherwise obtain credit without the guarantee due to risk and other factors. FSA provides the lender with a guarantee covering up to 90 percent, in most cases. In certain limited circumstances, a 95% guarantee is available. FSA has the responsibilities of approving all loan guarantees and providing technical assistance to the lender in order to accomplish the objectives of the guaranteed loan program.

Who May Borrow? Individuals, partnerships, joint operators, L.L.C., trusts, and corporations that do, or will, conduct and operate family-size farming operations; have day-to-day management and control; and provides a substantial amount of the labor requirements. For operating loans, a loan applicant must be the “**operator.**” For farm ownership loans, the loan applicant must be the “**operator and owner.**” FSA does not make loans to landlords.

What Other Criteria Does FSA Consider? In addition to meeting eligibility criteria, the loan applicant must have a satisfactory credit history, demonstrate repayment ability, and provide sufficient security for the loan.

What Types of Guarantees Are Available and How May Loan Funds Be Used?

a. **Farm Ownership (FO/LN):**

- i. Purchase land.
- ii. Construct or acquire buildings and/or other improvements that will become real estate fixtures.
- iii. Soil and water conservation.
- iv. Refinance indebtedness incurred for authorized operating (OL) or farm ownership (FO) purposes provided need to refinance is demonstrated.

b. **Operating (OL/LN):**

- i. To purchase livestock and farm machinery/equipment.
- ii. To refinance indebtedness (authorized operating purpose) provided need to refinance is demonstrated.
- iii. For payment of intermediate term chattel (IT) & long term real estate (LT) debt installments, if the debt being paid was for authorized OL or FO purposes.

c. **Operating Line of Credit (OL/LOC):**

- i. To pay for annual operating expenses such as feed, seed, fertilizer, chemicals, fuel, repairs, feeder livestock, and family living expenses.
- ii. For purchase of routine capital assets such as replacement of breeding livestock that can be repaid within the operating cycle.
- iii. For payment of scheduled, non-delinquent IT & LT debt installments, if debt being paid was for authorized OL or FO purposes.
- iv. For payment of current annual operating debts advanced for current operating cycle. Under no circumstances can last year's carry-over operating debts be refinanced.

4. **Conservation Loan (CL):**

- Conservation activities included in a NRCS-approved conservation plan.

What Are the Loan Limits? Total outstanding unpaid principal on all guaranteed loans cannot exceed \$1,825,000. Maximum interest rate cannot exceed applicable 3-mo LIBOR or 5-Yr Treasury index and spread.

What Are the Interest Rates? The interest rate on a guaranteed loan is negotiated between the lender and borrower. It can be fixed or variable.

What Are the Loan Terms? Repayment terms vary according to the type of loan made, the market value of the collateral securing the loan, remaining useful life of the collateral, and the producer's repayment ability.

FO/LN - The maximum repayment term is 40 years.

OL/LN - The repayment term may vary, but cannot exceed 7 years for intermediate term purposes.

OL/LOC - Up to a revolving 5-year credit line for annual operating expenses. Generally repaid each year. Subject to renewal based on the next year's cash flow projections.

Is this a Lender's or FSA Loan? This is the lender's loan. The loan is made and serviced to conclusion by the lender. If a loan fails, FSA will reimburse the lender for the loss of the guaranteed principal and interest portion as set forth under the terms and conditions specified in the Loan Note Guarantee.

What is the Guarantee Fee? The guarantee fee is a one-time fee paid to FSA by the lender, who may pass it on to the borrower. The fee is 1.5% of the principal loan amount, multiplied by the percentage of the FSA guarantee. The 1.5% fee is waived:

1. If 50% or more of loan funds are used to refinance Agency debt.
2. Loans to Beginning or SDA farmers involved in the direct Downpayment loan program.
3. If 50% or more of loan funds are funded with the state of Missouri First Beginning Farmer Program.

Interest Assistance: FSA is no longer accepting guaranteed loan applications for the OL Interest Assistance Program because of lack of program funding.

Secondary Market Available to Obtain Fixed-rate Loans: The Loan Guarantee is readily marketable by the lender on the secondary market. The lender may assign all or part of the guaranteed portion of the loan to one or more holders, but must retain the unguaranteed portion. The full faith and credit of the U.S. Government protect holders (investors) of Loan Note Guarantees. Operating (OL/LOC) loans may not be sold on the secondary market.

If the Producer Qualifies, What Next? The following actions are usually taken as part of the application process:

1. The producer and lender complete the guaranteed application and submit it to FSA.
2. FSA reviews for eligibility, repayment ability, security, and compliance with other regulations.
3. FSA approves and obligates the loan.
4. The lender receives a conditional commitment indicating funds have been set aside, and the loan may be closed.
5. The lender closes the loan and advances funds to the producer.
6. FSA issues the guarantee.

Additional information may be obtained at local county Farm Service Agency offices or on the FSA website at: <http://www.fsa.usda.gov/FSA/webapp?area=home&subject=fmlp&topic=landing>

Regulations governing FSA Guaranteed Farm Loans are found in **FSA Handbook 2-FLP (7 CFR Part 762)**.

USDA is an equal opportunity provider and employer.

To file a complaint of discrimination, write: USDA, Office of the Assistant Secretary for Civil Rights, Office of Adjudication, 1400 Independence Ave., SW, Washington, DC 20250-9410 or call (866) 632-9992 (Toll-free Customer Service), (800) 877-8339 (Local or Federal relay), (866) 377-8642 (Relay voice users) or e-mail: program.intake@usa.gov.

Farm Service Agency

Farm Loan Information Chart



Program	Maximum Loan Amount	Rates and Terms	Use of Proceeds
Direct Farm Ownership (FO)	\$600,000	<ul style="list-style-type: none"> Rate based on agency borrowing costs Term up to 40 years 	<ul style="list-style-type: none"> Purchase farm Construct buildings or other capital improvements Soil and water conservation Pay closing costs
Direct Farm Ownership (FO) Participation	\$600,000	<ul style="list-style-type: none"> Rate is direct FO rate less 2% with a floor of 2.5% if at least 50% of loan amount provided by other lender Term up to 40 years 	Same as direct FO
Direct Farm Ownership Microloan (FO ML)	\$50,000	<ul style="list-style-type: none"> Rate based on agency borrowing costs Term up to 25 years 	<ul style="list-style-type: none"> Purchase farm Construct buildings or other capital improvements Soil and water conservation Pay closing costs
Direct Down Payment Farm Ownership Program	The lesser of 45% of: <ul style="list-style-type: none"> the purchase price; the appraised value; or \$667,000 (\$300,150 maximum) 	<ul style="list-style-type: none"> Rate is direct FO rate less 4% with a floor of 1.5% Term of 20 years Down payment of at least 5% 	Purchase of farm by a beginning or underserved farmer
Direct Operating (OL)	\$400,000	<ul style="list-style-type: none"> Rate based on agency borrowing cost Term from 1 to 7 years 	<ul style="list-style-type: none"> Purchase livestock, poultry, equipment, feed, seed, farm chemicals, and supplies Soil and water conservation Refinance debts with certain limitations
Direct Operating Microloan (ML)	\$50,000	Same as direct OL	Same as direct OL

Program	Maximum Loan Amount	Rates and Terms	Use of Proceeds
Direct Emergency	100% actual or physical losses \$500,000 maximum program indebtedness	<ul style="list-style-type: none"> Rate is based on the OL rate plus 1%; with a cap of 3.75% Term from 1 to 7 years for non- real estate purposes Term up to 40 years for physical losses on real estate 	<ul style="list-style-type: none"> Restore or replace essential property Pay all or part of production costs associated with the disaster year Pay essential family living expenses Reorganize the farming operation Refinance debts with certain limitations
EZ Guarantee	\$100,000	Same as Guaranteed Operating or Guaranteed Farm Ownership	Same as Guaranteed Operating or Guaranteed Farm Ownership
Guaranteed Operating	\$1,825,000 (Amount adjusted annually for inflation)	<ul style="list-style-type: none"> Rate determined by the lender Term from 1 to 7 years Loan guarantee fee is 1.5% 	Same as direct OL
Guaranteed Farm Ownership	\$1,825,000 (Amount adjusted annually for inflation)	<ul style="list-style-type: none"> Rate determined by the lender Term up to 40 years Loan guarantee fee is 1.5% 	Same as direct FO except loan may be used to refinance debts
Guaranteed Conservation Loan (CL)	\$1,825,000 (Amount adjusted annually for inflation)	<ul style="list-style-type: none"> Rate determined by the lender Term not to exceed 30 years, or shorter period, based on the life of the security Loan guarantee fee is 1.5% Eligibility requirements expanded to include large and financially strong operations 	<ul style="list-style-type: none"> Implement any conservation practice in an NRCS-approved conservation plan May be used to refinance debts related to implementing an NRCS-approved conservation plan
Land Contract (LC) Guarantee	The purchase price of the farm cannot exceed the lesser of: <ul style="list-style-type: none"> \$500,000; or The current market value of property 	<ul style="list-style-type: none"> Rate cannot exceed the direct FO interest rate plus 3% Amortized over a minimum of 20 years with no balloon payments during the first 10 years of loan Down payment of at least 5% 	<ul style="list-style-type: none"> Sell real estate through a land contract to a beginning or underserved farmer Guarantee is with the seller of the real estate

This fact sheet is provided for informational purposes; other restrictions may apply. For more information visit, fsa.usda.gov/farmloans or farmers.gov. Find your local USDA Service Center at farmers.gov/service-locator.

Beginning Farmer Loan Program

[Home](#) » [Agriculture Business Development](#) » [Financial Assistance](#) » Beginning Farmer Loan Program

Description

The Agricultural and Small Business Development Authority administers a program that enables lenders to receive federally tax-exempt interest on loans made to beginning farmers. The tax savings are passed on to beginning farmers in the form of lower interest rates. A qualified borrower can borrow up to \$558,000 to buy:

- agricultural land
- farm buildings
- farm equipment
- and breeding livestock

The maximum loan is \$558,000. Of this amount, depreciable agricultural property may not exceed \$250,000, with a limit of \$62,500 for used depreciable property.

How Does the Program Work?

The authority does not have a "pool" of money to finance loans. Instead, it issues a tax-exempt private activity bond to a lender to finance each loan. The loan and its collateral are assigned to the lender as security for the bond. The lender is able to lend money at below conventional interest rates due to the tax-exempt status of the bond. The steps involved in the loan process are as follows:

- The borrower locates a local participating lending institution and applies for a beginning farmer loan
- The lender sets the terms of the loan, and submits the completed application to the authority
- Applications are considered at authority board meetings
- If approved, the authority will notify the borrower and lender and work with the lender to close the loan

Who Is Eligible?

- Borrowers must be legal Missouri residents at least 18 years old
- Borrower must be able to provide proof of citizenship, identity and legal Missouri residence. If the borrower employs laborers, he/she must also provide proof of enrollment and participation in the federal work authorization program.
- The project must be located within Missouri
- The borrower must have adequate working capital and experience in the type of farming operation for which the loan is sought
- The beginning farmer is one who has not owned, either directly or indirectly, more than 30 percent of the median size of a farm in the county
- After the loan is closed, the borrower's chief occupation must be farming or ranching, gross farm income must exceed any off-farm income (spouse's off-farm income does not count in determining eligibility)
- Individuals in partnerships are eligible for loans if all partners meet the eligibility requirements

Assistance for Producers

- **Assistance for Producers**
 - [AgriMissouri](#)
 - **Aquaculture (fish farming)**
 - **Commodity Councils**
 - **Farmers' Market**
 - **Financial Assistance**
 - **International Trade**
 - **For Missouri Exporters**
 - **For International Buyers**
 - **Market News & Reports**

Contact Information

MASBDA

PO Box 630

Jefferson City, MO 65102-0630

Phone: (573) 751-2129

Fax: (573) 522-2416

Email: masbda@mda.mo.gov

MASBDA staff

MASBDA website

Loan Amount and Terms

A qualified borrower can borrow up to \$558,000 to purchase agricultural land, farm buildings, farm equipment, and breeding livestock. The maximum loan is \$558,000. Of this amount, depreciable agricultural property may not exceed \$250,000, with a limit of \$62,500 for used depreciable property.

The terms of the loan are negotiated by the lender and borrower.

Restrictions

The Internal Revenue Service has many rules and regulations governing the use and sale of tax-exempt bonds. As a result:

- Loans cannot be used to refinance existing debt
- Loans cannot be used for operating expenses, or to purchase inventory, supplies, or livestock other than breeding livestock
- Loans cannot be used to purchase property from a related person unless the acquisition price is for fair market value and, after acquisition, the related person will have no financial interest in the property financed with the loan proceeds
- Not more than five percent of the tax-exempt loan proceeds can be used to finance a house and the costs of issuance. Any down payment may apply toward payment on the house
- The borrower should not enter into a binding contract for any type of property until the application is approved by the authority

Fees

A non-refundable \$300 fee must be submitted with the application, a loan participation fee equal to one-and-one-half (1½) percent of the loan amount but not less than \$500, and a bond issuance fee equal to .05% of the bond amount must be paid at closing. The participation fee and issuance fee may be financed as a part of the loan, not to exceed 2% of the bond amount.

Other Information

Borrowers qualifying for the Beginning Farmer Loan Program may also qualify for the Missouri FIRST Program administered by the state treasurer's office. The Missouri FIRST Program makes funds available at reduced interest rates to lenders who in turn pass the savings along to agricultural borrowers. To find out more about the Missouri FIRST Program, call the state treasurer's office at (573) 751-2372 or visit their website at www.treasurer.mo.gov.

Borrowers may also qualify for the **United States Department of Agriculture's** (USDA) Down Payment Loan Program and Joint Financing Plan for further reduction of interest.

Application Information

- **Beginning Farmer Loan Program Guidelines**
(<https://agriculture.mo.gov/abd/financial/pdf/begfarmloanguidelines.pdf>)
- **Beginning Farmer Loan Program Application**
(<https://agriculture.mo.gov/abd/financial/pdf/begfarmloanapp.pdf>)

About MDA

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- Seller Directories
- Animal Care Program
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- Report Ag Crimes

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- Hay Directory
- Regional Market Reports
- Feed Summary Report
- Weekly Market Summary

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SAVE A LIFE



Farm Service Agency

Guaranteed Farm Loan Lenders Page

The information on this page is to help lending institutions provide service to Missouri agricultural borrowers. This information is provided as a service to lenders. To download a file, click on its name.

<http://www.fsa.usda.gov/Assets/USDA-FSA-Public/usdfiles/State-Offices/Missouri/lenders/lenders.pdf>

**View or Download our 2-FLP Handbook
and Amendments**

**2021 Lenders Meeting:
Tidbits/Helpful Hints Book**

Access eForms

Guaranteed Worksheets & Tools

Farm Size
AVERAGE COUNTY FARM ACREAGE - MISSOURI
(From 2017 Census of Agriculture)

County	Avg #Acres	30%	County	Avg #Acres	30%	County	Avg #Acres	30%
Adair	328	98.4	Greene	120	36.0	Ozark	322	96.6
Andrew	290	87.0	Grundy	341	102.3	Pemiscot	1610	483.0
Atchison	754	226.2	Harrison	403	120.9	Perry	237	71.1
Audrain	445	133.5	Henry	425	127.5	Pettis	309	92.7
Barry	208	62.4	Hickory	310	93.0	Phelps	219	65.7
Barton	383	114.9	Holt	550	165.0	Pike	336	100.8
Bates	396	118.8	Howard	317	95.1	Platte	330	99.0
Benton	299	89.7	Howell	230	69.0	Polk	230	69.0
Bollinger	238	71.4	Iron	242	72.6	Pulaski	222	66.6
Boone	180	54.0	Jackson	150	45.0	Putnam	452	135.6
Buchanan	231	69.3	Jasper	201	60.3	Ralls	362	108.6
Butler	548	164.4	Jefferson	126	37.8	Randolph	272	81.6
Caldwell	270	81.0	Johnson	236	70.8	Ray	249	74.7
Callaway	206	61.8	Knox	370	111.0	Reynolds	254	76.2
Camden	239	71.7	Laclede	229	68.7	Ripley	327	98.1
Cape Girardeau	261	78.3	Lafayette	290	87.0	St. Charles	258	77.4
Carroll	419	125.7	Lawrence	178	53.4	St. Clair	339	101.7
Carter	448	134.4	Lewis	336	100.8	St. Genevieve	255	76.5
Cass	215	64.5	Lincoln	208	62.4	St. Francois	182	54.6
Cedar	243	72.9	Linn	333	99.9	St. Louis	249	74.7
Chariton	394	118.2	Livingston	364	109.2	Saline	500	150.0
Christian	132	39.6	McDonald	204	61.2	Schuyler	309	92.7
Clark	468	140.4	Macon	338	101.4	Scotland	351	105.3
Clay	201	60.3	Madison	261	78.3	Scott	495	148.5
Clinton	325	97.5	Maries	283	84.9	Shannon	298	89.4
Cole	159	47.7	Marion	396	118.8	Shelby	442	132.6
Cooper	319	95.7	Mercer	393	117.9	Stoddard	600	180.0
Crawford	255	76.5	Miller	252	75.6	Stone	169	50.7
Dade	380	114.0	Mississippi	1576	472.8	Sullivan	462	138.6
Dallas	176	52.8	Moniteau	200	60.0	Taney	274	82.2
Daviess	302	90.6	Monroe	348	104.4	Texas	285	85.5
DeKalb	285	85.5	Montgomery	317	95.1	Vernon	344	103.2
Dent	273	81.9	Morgan	219	65.7	Warren	225	67.5
Douglas	268	80.4	New Madrid	1443	432.9	Washington	207	62.1
Dunklin	1000	300.0	Newton	165	49.5	Wayne	287	86.1
Franklin	146	43.8	Nodaway	388	116.4	Webster	144	43.2
Gasconade	252	75.6	Oregon	357	107.1	Worth	373	111.9
Gentry	348	104.4	Osage	251	75.3	Wright	256	76.8

Weekly Funds Report - FY 2021
As of September 30, 2021

Program Description	\$ Funds Obligated	No.	\$ Funds Remaining	Obligations Pending	
				\$ Amt	No.
Direct					
OL - NBF	\$ 3,441,220.00	53	\$ -		
OL - NBF - ML	\$ 248,670.00	9			
OL - NBF - SDA	\$ 584,800.00	21	\$ -		
OL - Beg Farmer	\$ 6,606,000.00	72	\$ -		
OL - BF - ML	\$ 1,530,990.00	58			
OL - Beg. Farmers - SDA	\$ 709,250.00	13	\$ -		
subtotal	\$ 13,120,930.00	226	\$ -	\$ -	0
FO - NBF	\$ 23,399,380.00	78	\$ -		
FO - NBF - SDA - Ethnic	\$ 1,317,450.00	3	\$ -		
FO - NBF - SDA - Gender	\$ 217,500.00	1			
FO - BF - Down Payment/Part.	\$ 19,024,400.00	99			
FO - BF - Down Payment/Part. SDA-E	\$ 95,940.00	1	\$ -		
FO - BF - Down Payment/Part. SDA-G	\$ 1,401,080.00	8			
FO - BF	\$ 22,207,670.00	79			
FO - BF - SDA - E	\$ 1,126,090.00	3	\$ -		
FO - BF - SDA - G	\$ 2,540,000.00	6	\$ -	\$ -	
subtotal	\$ 71,329,510.00	278	\$ -	\$ -	0
Emergency					
Guaranteed					
OL- NBF	\$ 9,833,985.00	54	\$ -		
OL - NBF SDA	\$ 390,000.00	3			
OL-BF	\$ 6,354,223.89	44	\$ -		
OL - BF - SDA	\$ 4,915,862.00	24	\$ -		
subtotal	\$ 21,494,070.89	125	\$ -	\$ -	0
FO - NBF	\$ 94,226,823.38	143		\$ -	
FO - NBF - SDA - E	\$ 2,494,842.19	4	\$ -		
FO - NBF - SDA - G	\$ 4,977,546.14	10	\$ -		
FO - BF	\$ 49,041,880.78	130			
FO - BF - SDA - E	\$ 23,425,513.00	37	\$ -		
FO - BF - SDA - G	\$ 5,795,468.79	18	\$ -		
subtotal	\$ 179,962,074.28	342	\$ -	\$ -	0
Grand Total	\$ 285,906,585.17	971	\$ -	\$ -	0

FSA's fiscal year (FY 2022) is from October 1, 2021 to September 30, 2022. FSA is operating under a continuing resolution until December 3, 2021.

We have been told that funding should be adequate for all programs. However, if loans are backlogged, we encourage all lenders to continue to apply for guaranteed loans regardless.

Guarantee requests are funded in order of "COMPLETE" applications date, so the funds will be used on a first-come-first-served basis. Everyone is encouraged to apply as soon as possible.

Guaranteed Loan Applications Filed via Email or Fax

Unless otherwise restricted, all Guaranteed Loan Program forms will be accepted electronically when received by:

- E-mail with an attached file
- FAX
- Through USDA's Online services

Lenders are responsible for following their own internal guidance to protect customers' personal information when submitting forms electronically. The lender is not required to follow up with or retain an original, paper document when forms are submitted in this manner; however, normal business practices are expected to be followed when obtaining signatures of loan applicants and maintaining electronic records.

Appeal Rights – Guaranteed Loans

2-FLP Par.33A

Lender is Only an Interested Party Without Appeal Rights

The National Appeals Division regulation (7 CFR Part 11) stipulates that an adverse guaranteed loan approval or loan servicing decision directly affects the applicant/borrower and grants appeal rights to the applicant/borrower as a participant. Under 1-APP Handbook Par.73A [7 CFR 11.1] *Participant* means any individual or entity who has applied for, or whose right to participate in or receive, a payment, loan, loan guarantee, or other benefit is affected by a decision of the Agency.

The lender is defined as an "interested party" without appeal rights. Under 1-APP Handbook Par.75C [7 CFR 11.15(b)] *Interested Parties* the lender having an interest in a participant's appeal may participate in the appeal as an interested party, but such participation does not confer the status of an appellant upon the guaranteed lender.

A decision made by the lender adverse to the borrower is not a decision by the Agency whether or not concurred in by the Agency, and may not be appealed.

In most instances the adverse decision letter will be sent providing appeal rights to the applicant/borrower with a CC to the lender. However, when the adverse decision directly affects only the lender (liquidation plans, interest assistance claims, or loss claims) only the lender will be provided appeal rights.

Lender Conflict of Interest

2-FLP Par. 32 (7 CFR 762.110(f))

A guaranteed lender who applies for and/or is personally liable on an outstanding Guaranteed or Direct loan will be transferred under the direction of the FLP Chief to another Farm Loan office for processing and/or servicing that is not within the lender's trade area.

It is the FLM/SFLO responsibility to notify the lender of this policy and offer alternative offices where their existing loan(s) and/or loan application can be processed and/or serviced.

Guaranteed Forms – Version Date as of October 26, 2021

FSA-2201 Lender's Agreement	10-24-16	FSA-2241 Status Report	9-3-10
FSA-2211 Application for Guarantee	4-14-21	FSA-2242 Assignment of Guarantee	3-3-15
FSA-2232 Conditional Commitment	11-5-20	FSA-2248 Default Status Report	9-25-19
FSA-2235 Loan Guarantee	9-19-16	FSA-2254 Loss Claim	9-3-10
FSA-2236 Loan Closing Report and Lender Certification	9-21-20	FSA-2291 Lenders Processing Checklist	4-14-21
		FSA-851 Environmental Risk Survey	4-13-05

FSA-2211
(04-14-21)

U.S. DEPARTMENT OF AGRICULTURE
Farm Service Agency

Position 3

APPLICATION FOR GUARANTEE

LENDERS RETURN THIS COMPLETED FORM TO YOUR COUNTY FSA OFFICE

INSTRUCTIONS TO APPLICANT AND LENDER:

All Loan Applicants will complete Part A. If the Loan Applicant is an entity, they will complete Part B. If the Applicant is an individual, they will complete Part C. All Loan Applicants will complete Parts D, E, and F. Lender will complete Parts G through M. Co-Applicants, entity members, and cosigners will complete Parts O and P.

Note: When both spouses are involved in the operation, and both are applying for the loan, they should be considered a Joint Operation. One spouse completes Part C, the other completes Parts O and P.

PART A TYPE OF OPERATION (LOAN APPLICANT)

1. Type of Operation:

- Individual
 Joint Operation (Includes Spouses Applying Jointly)
 Trust
 Partnership
 Corporation
 Cooperative
 LLC
 Other (Explain): _____

PART B ENTITY APPLICANT INFORMATION (LOAN APPLICANT)

1. Entity Name		2. Entity Address		3. Number of Entity Members	
4. Entity Tax ID Number		5. Entity Headquarters County		6. Entity Telephone Number (Including Area Code)	
				7. Telephone Type <input type="checkbox"/> Home <input type="checkbox"/> Cell <input type="checkbox"/> Work	

PART C INDIVIDUAL APPLICANT INFORMATION (LOAN APPLICANT)

1. Applicant's Full Legal Name		2. Applicant's Address		3. Applicant's Birthdate (MM-DD-YYYY)	
4. Applicant's 9 Digit Social Security or Tax ID Number		5. Residence or Headquarters County		6. Applicant's Telephone Number (Including Area Code)	
				7. Telephone Type <input type="checkbox"/> Home <input type="checkbox"/> Cell <input type="checkbox"/> Work	
8. Marital Status: <input type="checkbox"/> Married <input type="checkbox"/> Unmarried <input type="checkbox"/> Divorced <input type="checkbox"/> Legally Separated <input type="checkbox"/> Widowed					
9. Citizenship Status: <input type="checkbox"/> U.S. Citizen <input type="checkbox"/> *Non-Citizen National <input type="checkbox"/> *Resident Alien <input type="checkbox"/> *Refugee or Other					
*NOTE: Applicant will be asked to provide I-551 and/ or other proper documentation of immigration status as found under PRWORA (8 U.S.C. 1641)					

PART D OTHER INFORMATION (LOAN APPLICANT)

1. Have you or any entity members ever conducted business under any other name(s)? YES NO
If "YES", what name(s)?

Voluntary Information for Monitoring Purposes

Ethnicity, race, and gender information is requested in order to monitor FSA's compliance with Federal laws prohibiting discrimination against loan applicants and to determine if you qualify for targeted funds. You are not required to furnish this information but are encouraged to do so. Failure to complete this information may result in you not receiving access to targeted funds for which you may be eligible. Entity applicants should base their answers on the ethnicity, race, and gender of the owners of a majority interest in the entity.

2A. Ethnicity <input type="checkbox"/> Hispanic or Latino <input type="checkbox"/> Not Hispanic or Latino		2B. Race (Choose as many boxes as applicable) <input type="checkbox"/> American Indian or Alaskan Native <input type="checkbox"/> Black or African American <input type="checkbox"/> Native Hawaiian or Other Pacific Islander <input type="checkbox"/> Asian <input type="checkbox"/> White		2C. Gender <input type="checkbox"/> Male <input type="checkbox"/> Female		2D. Veteran Status <input type="checkbox"/> Veteran <input type="checkbox"/> Non-Veteran	
---	--	---	--	--	--	--	--

Electronic Access for FSA Lenders

A Creating an Account With USDA eAuthentication Level 2 Access

USDA developed a centralized service to provide authentication for participating in USDA Web services. USDA eAuthentication provides centralized administration of users and a unified credential that can be used to provide users with single sign-on capability across all participating Web applications.

USDA eAuthentication Level 2 accounts enables the secure presentation of information and electronic signing of submissions. FSA lenders **must** obtain USDA eAuthentication Level 2 account to acquire a Level 2 user ID and password. Follow these steps to obtain a Level 2 account.

*--

Step	Action
1	Go to https://www.eauth.usda.gov/eauth/b/usda/registration . Select the “Customer” radio button and CLICK “Continue”.
2	Enter your email address and CLICK “Submit”.
3	After users submit the registration, they will receive an email with instructions on how to continue their registration.
4	CLICK “Continue Registration” from the email and complete the required fields to complete your registration.
5	When the user attempts to access forms or LINC as outlined later in this exhibit, they will be prompted to enter the eAuth ID and password they created and will then be prompted to complete a one-time identity verification process to initially gain access to those systems.
6	If the user needs administrative access to LINC, send request, in writing to FSA State Office, ATTN: FLP Division, to link the validated eAuthentication ID as either a lender administrator or branch administrator in LINC. Note: If the user only needs representative access to LINC, they do not need to contact FSA. Instead, they can simply contact their own lender administrator to be added as a representative.

--*

B Accessing Forms

Although all FSA lenders have access to online forms, users **must** register for a USDA Level 2 user ID and password to be able to save their information on the form and to submit the form electronically through “eForms”.

Lenders with an eAuthentication Level 2 user ID and password shall follow these steps to access forms.

Step	Action
1	Go to the Service Center Agencies eForms Home Page at http://forms.sc.egov.usda.gov/eForms/welcomeAction.do and CLICK “Login”.
2	On the eAuthentication Warning Screen, CLICK “I Agree”.
3	On the USDA eAuthentication Login Screen, enter user ID and password and CLICK “Login”.
	Note: When viewing forms, have only 1 browser window open. Each form has a supporting instruction file that explains how to complete the form.

Electronic Access to Forms for FSA Lenders (Continued)

C Searching for Forms

To search for forms, follow subparagraph B, under “eForms”, CLICK “**Browse Forms**”, and do either of the following:

- select the Agency, program, and service name from the corresponding drop-down menus to narrow the search results
- when searching for a specific form, enter information in the “Form Number” and “Title or “Keywords” fields.

CLICK “**Search**” to view all forms that meet user’s search criteria.

D Submitting Forms

*--Forms may be submitted electronically to FSA as follows:

- e-mail with an attached file
- FAX
- through USDA’s Online Services once Level 2 eAuthentication access has been obtained, according to the following instructions:

After a lender’s representative has registered and received a user ID and password, the representative may submit forms electronically through “eForms” at **<http://www.sc.egov.usda.gov>**. CLICK “**eForms**”, log in, and follow the instructions to find, complete, and submit forms. Other electronic documents needed for a complete application may be attached to the application and submitted to FSA.

The eAuthentication Level 2 user ID serves as the signature when submitting forms electronically. There is no need to follow up with a paper copy of the form; however, only one Level 2 user ID may be attached to a document when filing electronically. If additional signatures are needed on the same document, they will need to be provided in another manner.--*

E Application Authorization Security Management (AASM) System

AASM is the database that contains lenders’ information and the eAuthentication user ID’s of all lender-employees authorized to participate in electronic reporting. FSA initially, and the lender’s Security Administrators (SA’s) thereafter, will use AASM to authorize lender-employees to access the USDA Lender Interactive Network Connection (LINC).

Electronic Access to Forms for FSA Lenders (Continued)

E Application Authorization Security Management (AASM) System (Continued)

*--Each lender must designate an employee as their Security Administrator who will have the authority and responsibility of granting access to other employees designated by the lender to use FSA's electronic reporting applications. The Security Administrator can have authority over all of the lender's portfolio as a Lender Administrator or can be limited to a single branch as a Branch Administrator. The Security Administrator will be the point of contact for FSA for maintaining the lender employees' eAuthentication ID's in AASM. A lender can choose to designate additional Security Administrators to act as a backup for the primary Security Administrator.

After the Security Administrators are designated and the requirements have been fulfilled, the lender shall have the Security Administrator contact FSA with his/her eAuthentication ID and lender information to be validated and entered into AASM.

After Security Administrators are validated in the system, they will receive an e-mail confirmation validating their authorization and authority to add additional lender employees to AASM. Additional lender employees may be added by logging into the USDA LINC web site at <https://usdalinc.sc.egov.usda.gov>.

Note: The e-mail confirmation is sent to the e-mail address the Security Administrator entered when creating the eAuthentication account.

The following types of roles can be assigned to lender employees in AASM by the Security Administrator.

- "Representative" is an employee that the lender designates and authorizes to input electronic data through the USDA LINC website. The Security Administrator can authorize access for the entire portfolio as a Lender Representative or limit access to a specific branch as a Branch Representative.
- "Viewer" is an employee that the lender authorizes to view loan data and has view only capabilities of all transactions in the USDA LINC site. The Security Administrator can authorize access for the entire portfolio as a Lender Viewer or limit access to a specific branch as a Branch Viewer.

Note: FSA does **not** add or maintain any roles for lenders' employees.

After authorized in AASM, lender-employees may use LINC to close guaranteed loans and--* manage lender semiannual and default status reports that keep the lender up-to-date in FSA's accounting records. Lenders may request more than one SA to be authorized in AASM.

Electronic Access to Forms for FSA Lenders (Continued)

E Application Authorization Security Management (AASM) System (Continued)

The lenders' SA's are:

- FSA points-of-contact for maintaining the lender-employees' USDA eAuthentication Level 2 ID's in AASM
- responsible for adding and removing other employees designated by the lender to use LINC.

Lender-employees:

- are responsible for ensuring that they adhere to the requirements outlined in FSA-2201
- are required to have a Level 2 user ID and password before being authorized in AASM (subparagraph A)
- do not need another Level 2 account and may use their existing Level 2 user ID and password if they have Level 2 access with another USDA Agency.

The FSA LINC User Guide at

https://www.fsa.usda.gov/Internet/FSA_File/gls_lender_linc_user_guide.pdf provides further details on adding a lender-employee in AASM.

F Lender Interactive Network Connection (LINC)

*--In addition to "eForms", information supplied by lenders through the **USDA LINC** web site meets the submission requirements. LINC, located at <https://usdalinc.sc.egov.usda.gov/>,--* allows electronic reporting by lenders to FSA. LINC allows lenders to:

- submit semiannual and default status reports
- add loan closings
- view loans
- add lender EFT's for pre-authorized debit (PAD) information
- add lender-employees in AASM.

See the FSA LINC User Guide for instructions on completing these functions.

--Lenders are not required to submit hard copies of information, such as loan closing reports or status reports.--

Guaranteed Loan(s) Versus Direct Loan Comparison

Farmers may be facing loan repayment problems due to various reasons. Before qualifying for a direct loan there at least three questions/issues that need to be reviewed and analyzed:

- availability of other credit before qualifying for a direct loan
- loan security
- repayment ability

Availability of other credit before qualifying for a direct loan

The test for credit must be considered. If a guaranteed loan is an option, then the applicant will not qualify for a direct loan. If the lender will not continue with the borrower even with a guaranteed loan, ask the question “Why Not?”. Could the bank’s reason for not continuing be the same reason that FSA shouldn’t make a direct loan? Does the applicant have a reasonable chance for success?

Loan Security

Guaranteed and Direct loan programs security requirements and loan terms are basically the same. NEW guaranteed and NEW direct OL loan(s) must be adequately secured by chattels and/or real estate by at least 1 to 1.

Repayment ability - Average guaranteed interest rate loans closed FY 2021 = 4.39%

303 FO = 4.23% 52 OL = 4.43% 60 OL/LOC = 4.53%

The amortized payment amount for a \$100,000 loan is as follows:

Situation	Loan	Interest Rate	Loan Terms	Payment Amount
New Direct OL	\$100,000	Current rate = 1.75%	7 yrs.	\$15,304
New Guar OL	\$100,000	4.43 %	7 yrs.	\$16,927

Refinancing an existing guaranteed loan with direct loan funds:

In most instances, a direct OL loan should not be used to refinance an existing guaranteed loan(s). Existing OL/LOC guaranteed loan(s) can be restructured for up to 7 years or 10 years from the date of the original note, OL/LN guaranteed loan(s) can be restructured for up to 15 years, and FO/LN guaranteed loan(s) can be restructured for up to 40 years. Direct FO loans cannot be used to refinance debt. Guaranteed FO/LN loan(s) funds can be used by lenders to refinance debt. Existing guaranteed loan(s) can be restructured without consideration as to whether or not there is adequate security remaining. *If the guaranteed borrower(s) won’t cash flow utilizing all available guaranteed authorities, we don’t see how it would cash flow when a guaranteed loan is refinanced with a direct loan.*

Situation	Loan	Interest Rate	Loan Terms	Payment Amount
Restructure Existing Guar OL/LN	\$100,000	4.43 %	max 15 yrs.	\$9,267
Restructure Ext Guar OL/LOC	\$100,000	4.43 %	max 7 yrs.	\$16,927
New Guar FO/LN	\$100,000	4.23 %	25 yrs.	\$6,558

Direct Loan Subordination or Guaranteed OL/LOC Loan?

Which Has the Most Risk for Lenders?

Is the direct loan subordination or a 5-year guaranteed operating loan line of credit loan (OL/LOC) better for your institution?

Situation: Farmer needs \$325,000 annual operating loan. Lender request for a \$325,000 subordination at 6% interest with a 1st lien on crops and a 1st lien on machinery. Borrower had a partial crop failure. \$325,000 @ 6% = \$19,500 year interest accrual

What was the lender’s loss?

“Subordination Example” – 50 % Crop Loss

Loan		\$325,000
Crop Income	-	\$162,500
Interest	+	\$19,500
Unpaid debt		\$182,000
<p style="color: blue; margin: 0;">After expenses machinery must net \$182,000 to avoid a loss.</p> <p style="color: blue; margin: 0;">What will the machinery bring at a forced liquidation sale?</p>		

“Guaranteed OL/LOC Example”

Loan		\$325,000
Crop Income	-	\$162,500
Interest	+	\$19,500
Unpaid debt		\$182,000
90% Loss Claim Payment	-	\$163,800
Lender Guaranteed Loan Loss		\$18,200
<p style="font-size: small;">If liquidated after the 1st year with a 50% crop loss, a lender loses no principal & earns \$1,300 interest income.</p>		

The lender must determine which has the most risk for your institution?

Is it the OL/LOC or the subordination???

Common Complaint: The borrower has to pay a \$4,387.50 guarantee loan closing fee.

Response: FSA does charge a one time loan origination fee. Spread the fee over the length of the guaranteed 5 year OL/LOC loan.

$$\$325,000 \times 90\% \times 1.5\% = \$4,387.50 \text{ guar fee}$$

$$\$4,387.50 \div 5 \text{ years} = \$877.50 / \text{year}$$

$$\$877.50 \div \$325,000 \text{ loan} = .27\% \text{ yearly cost}$$

In summary, regardless of the loan size, the “annual guaranteed loan fee” cost for a 5-Year OL/LOC loan calculates to only .27 % or 27 basis points per year.

Option: Lender pays 1.5% loan fee for borrower with prepayment penalty
Increase interest rate 3/8% or .375 basis points

279 Subordination of Direct Loan Security (7 CFR 762.142(c))

A Direct Loan Subordination When Guaranteed Loan Is Being Made

The Agency may subordinate its security interest on a direct loan when a guaranteed loan is being made if, as appropriate, the requirements of the regulations governing Agency direct loan subordinations are met and only in the following circumstances:

- to permit a guaranteed lender to advance funds and perfect a security interest in crops, feeder livestock, livestock offspring, or livestock products, such as milk, eggs, wool, etc.
- when the lender requesting the guarantee needs the subordination of the Agency's lien position to maintain its lien position when servicing or restructuring
- when the lender requesting the guarantee is refinancing the debt of another lender and the Agency's position on real estate security will not be adversely affected

--Note: Chattel security may not be subordinated when the lender requesting the guarantee is refinancing the debt of another lender.--

- to permit a Line of Credit to be advanced for annual operating expenses.

See 4-FLP for additional guidance.

B Direct Loan Subordination to Secure LOC

The Agency may subordinate its basic security in a direct loan to permit guaranteed line of credit only when both of the following additional conditions are met.

- The total unpaid balance of the direct loans is less than or equal to 75 percent of the value of all of the security for the direct loans, excluding the value of growing crops or planned production, at the time of the subordination. The direct loan security value will be determined by an appraisal. The lender requesting the subordination and guarantee is responsible for providing the appraisal and may charge the applicant a reasonable appraisal fee.
- The applicant cannot obtain sufficient credit through a conventional guaranteed loan without a subordination. Before approving a combination guaranteed loan and subordination, the local loan approval official will document that the applicant requested a Contract of Guarantee - LOC through at least 1 participating lender. If the local loan approval official has information available that supports a conclusion that credit is not available without a subordination, documentation in the case file will be sufficient to verify that other credit is not available.

LENDER NARRATIVE - “Credit Presentation”

(2-FLP Par 66 C)

If a loan narrative is not provided, FSA will notify lender that the application is “incomplete” as per 2-FLP Par. 97. The loan narrative may be less detailed for an applicant with an outstanding direct and/or guaranteed loan.

The loan narrative must be an evaluation and not just a summary of the data. Include the following:

1. Description of the farming operation. (*Character and eligibility*)

- Type of Enterprise
- Key Personnel – entity members and their roles
- Management structure
- Background of the farm operation and those members
- Past performance
- Proposed changes to the operation
- Is real estate, owned and rented, adequate and can sustain reasonable success
- Is the equipment (& real estate) adequate along with other facilities needed for the operation

2. Eligibility Requirements: Discuss eligibility in the loan narrative. It is acceptable to say in the loan narrative that the “Applicant meets the FSA eligibility requirements of 2-FLP Handbook, Part 8, Par. 108.”

2-FLP Handbook - Paragraph 108 A eligibility requirements in a summarized format. Please review the Handbook for more detailed information and explanation. An applicant, including members of an entity applicant, must meet the following eligibility criteria to obtain a guaranteed loan. An eligible applicant is an applicant that:

- ✓ meets all requirements about prior debt forgiveness (obtained from FSA County Office)
- ✓ is not delinquent on any Federal debt, other than IRS
- ✓ does not have any outstanding recorded judgments obtained by the United States in any Court
- ✓ is a citizen of the United States, a U.S. non-citizen national, or a qualified alien under applicable Federal immigrations laws
- ✓ has the legal capacity to incur the obligations of the loan; includes all members who will be liable for the loan
- ✓ has acceptable credit history; includes all entity members.
- ✓ is unable to obtain sufficient credit elsewhere without a guarantee
- ✓ has not been convicted of planting, cultivating, growing, producing, harvesting, or storing a controlled substance within the last 5 crop years.
- ✓ Entity applicants? See FSA 2-FLP Handbook Paragraph 108-111 for all entity eligibility requirements

3. Provide an assessment of the collateral being offered - (*Collateral*)

Describe the collateral being used to secure the proposed loan. What is the loan to value? Is it in line with lender's underwriting without a guarantee? State if additional collateral is available? Address how appraised/estimated values were derived, if appraisals were not provided.

4. Discuss the total credit needs being requested if it cannot be thoroughly explained/itemized on the guaranteed loan application.

5. Individual "Married" Applications:

Provide the full legal name(s) of co-borrowers or co-signers who will execute the promissory note.

Lender needs to address if applicant is filing "Married filing jointly" or "Married filing separately" if a copy of **Form 1040 U.S. Individual Income Tax Return** is not provided to FSA.

6. Entity Applications: Provide the full legal name of all entity members, share percentages, social security numbers, and current addresses of those members, co-borrowers or co-signers that will be required to execute the promissory note.

7. Discuss the loan applicant's financial condition and projected plan with repayment ability. (*Credit, Capital and Capacity*)

What is the applicant's current position – working capital? Debt structure and equity? Include any significant assumptions that you are making towards his/her financial condition and/or cash flow projection. Include deviations from historical performance. Key here is to provide documentation to support lender's proposed loan with the projected cash flow and post closed balance sheet. If there are weaknesses, what are the offsetting strengths?

8. What are the short-term and long-term business goals of the operation? Discuss these with your customer and give brief comments in narrative.

9. What will be your customer's reporting requirements? (*Conditions*)

Are there any limitations to those requirements? Based on your analysis of the aforementioned topics, should any mitigating measures be taken to assist the borrower to meet their goals to have long term viability?

10. What is the lender's servicing plan after the loan is closed? (*Conditions*)

Planned visits and monitoring of the operation? Year-end analysis of the operation and reporting requirements required of the borrower? Will there be any capital purchase limitations that will require the lender's pre-approval? Other conditions with the loan?

11. If the loan contains balloon payments, state the conditions related to the renewal of the loan.

Any other pertinent information relative to the request should be provided. Keep in mind, the narrative is the most important piece of the application package. It may contain out of the ordinary data or variances in normal practices for the type of operation.

EXAMPLE LENDER LOAN NARRATIVE

(Bank Letterhead)

October 9, 2019

Boone County FSA
Attn: Sandra
601 Business Loop 70W
Columbia, MO 65203

Dear Sandra,

Enclosed with this narrative is a Farm Service Agency PLP guaranteed loan application for a \$100,000 GFO for (bank name) regarding Smith Farms LLC.

Loan Request:

The request is for a 90% guaranteed \$100,000 FO term loan to refinance 2018 carryover crop debt. The loan will have a 10 year term and 10 year amortization. The initial rate on both the guaranteed and non-guaranteed loans will be 5%, fixed for 5 years. After 5 years the rate will adjust to 1% above JP Morgan Chase Prime Rate with annual adjustments for the remainder of the loan term. The loan will have an annual payment of \$12,950 due one year from closing. Security will be a second lien on the 600 acres owned, junior to this bank on the existing \$900,000 outstanding GFO. All land is located in Boone County.

Loan funds will be used for:

- \$30,000 to refinance MFA 2018 carryover crop input expenses
- \$50,000 to refinance 5th State Bank's 2018 annual operating loan (the remaining \$50,000 balance is offset by calves and RMA receivables)
- \$10,000 Farm Plan
- \$7850 PHI 2018 seed expense
- \$1350 guarantee fee
- \$800 loan closing fees

In addition to this request, a \$150,000 non-guaranteed participating LOC will be closed simultaneously with the guaranteed loan.

*****Address what the applicant's loan score is and the fact that this score is one of the reasons an FSA guarantee is being requested.**

Description of Operation/Character:

This is a family farm operation based out of Boone County, Missouri. The LLC is made up of 2 married couples, Jake and Kaylee Smith and Luke and Paige Smith. Jake and Luke are brothers. The LLC has a beef cow/calf operation and raises corn and soybeans. The LLC has been in operation for 5 years, prior to that the individual brothers had their own separate operations for 3 years, which were combined to form the LLC. The LLC and all individual members of the LLC have been farming less than 10 years, therefore are still considered beginning farmers. Jake and Luke provide the majority of the operation's needed labor and management.

The member's personal information is as follows:

EXAMPLE

Member	SSN #	% Ownership	DOB	Mailing Address	Marital Status
Jake Andrew Smith	123-45-6789	25%	7-10-85	501 Sunshine Rd Columbia, MO 65203	Married
Kaylee Jo Smith	123-45-6789	25%	1-5-86	501 Sunshine Rd Columbia, MO 65203	Married
Luke Adam Smith	123-45-6789	25%	6-9-83	954 Old Bottom Rd, Columbia, MO 65203	Married
Paige Nicole Smith	123-45-6789	25%	10-7-85	954 Old Bottom Rd, Columbia, MO 65203	Married

The last 2 years have been difficult for the LLC due to the low grain prices. Last year the operation was unable to pay back their non-guaranteed line of credit, the line currently has an outstanding balance of \$100,000 and all crop has been sold. The LLC's 3-year average corn yield is 150 bushel and 3 year average soybean yield is 40 bushel as verified by RMA. The operation typically plants 350 acres of 100% share. The beef cow/calf operation consist of 150 cows and 5 bulls kept on owned and rented pasture. Their 3 year average calving percentage is 88% and they retain replacement heifers for their cull cows. Their 3 year average cull cow percentage is 10% and the operation has spring calving cows. The cow/calf operation has allowed them to continue to make their annual installments in a timely manner. The LLC would like to continue to grow their livestock herd and increase the number of row crop acres they farm as their finances allow.

Eligibility:

All individual members of the LLC meet the FSA eligibility requirements of 2-FLP Handbook, Part 8, Paragraph 108. Luke and Paige Smith have 1 late pay from 2014 on a credit card and an outstanding medical collection from 2010 in the amount of \$75. This is the only late pay they have and they are still working with the credit bureau regarding the removal of the paid in full medical collection. The bank considers Luke and Paige to have acceptable credit history despite these isolated instances.

Capacity:

2019 typical cash flow projection reflects a tight cash flow with a debt service margin of 1.05%. The LLC plans to plant 150 acres of corn and 200 acres of soybeans. Their yields are based off their 3 year historical average and prices based off FSA price sheet. 117 calves to be sold in the fall. Calves are typically sold around 500lbs and FSA price sheet was used. Calving rate and cull cow percentage based off 3 year average. Operating expense ratio is in line with the LLC's 3-year history of 77%. The capacity ratio does not meet our underwriting standards of 1.15% therefore we are requesting a guarantee.

The family does not plan any major changes to their operation in the near future and has historically performed well. 2019 was the third year in a row of low grain prices, which has resulted in the operation's inability to pay all debts as scheduled. Individual cash flows were developed and feasible, therefore no non-farm income or owner withdrawal for members was included in the LLC cash flow. Federal and State taxes will be paid through their personal taxes.

*****Insert Cash Flow Table with Debt Service Table*****

If you're not going to use the applicant's 3-year historical averages, you need to have a good explanation why.

EXAMPLE

If you have an individual applicant, you need to address owner withdrawal, non-farm income, taxes, etc. If any loans are being paid off, land or equipment sold to pay loans off, etc., need to address it here and if those payments are included in the cash flow or not and why.

If they are involved in or have a harvesting entity set up (i.e. trucking company, seed or feed business, etc.), need to know if the cash flow is global including the harvesting entity and/or if the entity can stand alone. Also need to know if the entity is going to sign the note.

Collateral:

The new \$100,000 GFO will be secured by a 2nd lien on the 600 owned acres located in Boone County. The farm is located at T45, R15, S3, see plat map and google earth map attached. There is a 1970 model house, 2 grain bins, 1 machine shed, and 1 barn located on the 600 acre tract. The lien is subject to the bank's existing 1st lien on the 600-acre farm which secures the \$900,000 outstanding GFO. The bank certifies that land values have remained the same and no changes have been made to the 600 acre farm since the existing State Certified General Appraisal was completed April 16, 2014. This appraisal was sent to FSA with the original GFO request, at that time the 600 acres was appraised at \$1,800,000, and its use is consistent with bank policy. LTV on the new GFO request will be 55.55% therefore no additional collateral needed or to be taken. Livestock and equipment are needed as collateral to help secure the non-guaranteed line of credit. The members will not be required to pledge personal assets but will be required to sign the promissory note as individuals.

Capital:

The LLC balance sheet reflects a current ratio of 60% (\$120,000 CL/\$200,000 CA) post-close. Debt to asset ratio of 72% is higher than preferred due to the carry-over debt taken.

Separate balance sheets for the individuals are enclosed for test for credit determinations and information on reserve equity but have not been included in our analysis.

Insert Asset/Liability/Net Worth Table

Conditions & Servicing Plan:

This is the first year the LLC has ever had repayment issues. The restructure of the carryover debt will allow the operation to advance on their line of credit for this year's operating cycle. The LLC anticipates a good crop year and has plans to be able to pay back the line of credit with no issues. The borrowers will be required to carry a 75% minimum yield production crop insurance coverage and hazard insurance on their equipment and real estate listing the bank as loss payee. The Bank's servicing plan requires the borrower to submit annual financial statements and tax returns (including individual taxes returns and financial statements). The lender will monitor the operation continuously to be sure it is in compliance with all loan agreements. The lender will also visit the operation periodically to ensure security is present and is being used as the program intends. The bank will submit semi-annual status reports and annual lender file review analysis to FSA.

*** Add any special loan requirements and/or approval contingencies here.

Lender Name, Title	Date

Beginning Farmer

Beginning farmer is an individual or entity who:

- (1) Meets the loan eligibility requirements for a direct or guaranteed OL, FO, or CL loan, as applicable;
- (2) Has not operated a farm for more than 10 years. This requirement applies to all members of an entity;

Note: Experience obtained through agriculture education programs when the applicant was not the primary owner or operator of the farm or ranch is not included when calculating the 10-year period.

- (3) Will materially and substantially participate in the operation of the farm:
 - (i) In the case of a loan made to an individual, individually or with the family members, material and substantial participation requires that the individual provide substantial day-to-day labor and management of the farm, consistent with the practices in the county or State where the farm is located.
 - (ii) In the case of a loan made to an entity, all members must materially and substantially participate in the operation of the farm. Material and substantial participation requires that the member provide some amount of the management, or labor and management necessary for day-to-day activities, such that if the individual did not provide these inputs, operation of the farm would be seriously impaired;
- (4) Agrees to participate in any loan assessment and borrower training required by Agency regulations;
- (5) Except for an OL applicant, does not own real farm property or who, directly or through interests in family farm entities owns real farm property, the aggregate acreage of which does not exceed 30 percent of the average acreage of the farms in the county where the property is located. If the farm is located in more than one county, the average farm acreage of the county where the applicant's residence is located will be used in the calculation. If the applicant's residence is not located on the farm or if the applicant is an entity, the average farm acreage of the county where the major portion of the farm is located will be used. The average county farm acreage will be determined from the most recent Census of Agriculture;
- (6) Demonstrates that the available resources of the applicant and spouse (if any) are not sufficient to enable the applicant to enter or continue farming on a viable scale; and
- (7) In the case of an entity:
 - (i) All the members are related by blood or marriage; and
 - (ii) All the members are beginning farmers.

NOTE: Simply being defined as a "beginning farmer" will not qualify for a waiver of the 1.5% guarantee fee.

Socially Disadvantaged Applicant or Farmer

Socially disadvantaged applicant or farmer is an individual or entity who is a member of a socially disadvantaged group. For entity applicants, the majority interest must be held by socially disadvantaged individuals. For married couples, the socially disadvantaged individual must have at least 50 percent ownership in the farm business and make most of the management decisions, contribute a significant amount of labor, and generally be recognized as the operator of the farm.

Entity

Entity means a corporation, partnership, joint operation, cooperative, limited liability company, trust, or other legal business organization, as determined by the Agency, that is authorized to conduct business in the state in which the organization operates. Organizations operating as non-profit entities under Internal Revenue Code 501 (26 U.S.C. 501) and estates are not considered eligible entities for Farm Loan Programs purposes.

Embedded Entity

Embedded entity means an entity that has a direct or indirect interest, as a stockholder, member, beneficiary, or otherwise, in another entity.

Entity Member

Entity member means all individuals and all embedded entities, as well as the individual members of the embedded entities, having an ownership interest in the assets of the entity.

Family Farm

Family farm is a business operation that:

- (1) Produces agricultural commodities for sale in sufficient quantities so that it is recognized as a farm rather than a rural residence;
- (2) Has both physical labor and management provided as follows:
 - (i) The majority of day-to-day, operational decisions, and all strategic management decisions are made by:
 - (A) The borrower, with input and assistance allowed from persons who are either related to the borrower by blood or marriage, or are a relative, for an individual borrower; or
 - (B) The members responsible for operating the farm, in the case of an entity.
 - (ii) A substantial amount of labor to operate the farm is provided by:
 - (A) The borrower, with input and assistance allowed from persons who are either related to the borrower by blood or marriage, or are a relative, for an individual borrower; or
 - (B) The members responsible for operating the farm, in the case of an entity.
- (3) May use full-time hired labor in amounts only to supplement family labor.
- (4) May use reasonable amounts of temporary labor for seasonal peak workload periods or intermittently for labor intensive activities.

Entity Ownership of Large Farms - 2-FLP Par.111B (7 CFR 762.120(k))

The collective ownership interest of all entity members may exceed the family farm definition limits only if the following conditions are met:

- all of the entity members are related by blood or marriage
- all of the members are or will be operators of the entity
- each entitymember's ownership interest may not exceed the family farm definition limits.
- the majority interest holders of the entity must meet the following requirements:
 - the entitymember is a US citizen or an alien lawfully admitted to the US for permanent residence
 - the entity member, in past dealings with FSA, must not have provided FSA with false or misleading documents or statements
 - the entitymember has an acceptable credit history
 - the entity members must meet the operator (OL) and the operator/owner (FO) requirements.

Full Legal Name: Guaranteed Loan Applications

All FSA guaranteed loan applications must be filed using the customer's full legal name (including middle name). FSA's Loan Guarantee is tied to the promissory note. FSA will issue the FSA-2235, Loan Guarantee, using the customer's full legal name as taken from the application.

Most lenders feel that it is SOP to properly perfect a real estate lien that

1. Deed of Trust name be identical to the name on the Deed to the property
2. Name on the promissory note be identical to the name on the Deed of Trust.

FSA will not be requiring the borrower to change the borrower's name on the deed to the property if different than the borrower's full legal name. A lender's promissory note may be in a shortened/different version of the borrower's name other than the full legal name that FSA is requiring on the guaranteed loan application and Loan Guarantee.

When the borrower's full legal name is not used on the promissory note, FSA will allow the use of an AKA in the promissory note addendum that references the borrower's full legal name.

Loan Limits - (2-FLP Par. 244 A on page 10-1)

Effective: October 1, 2021

Maximum total unpaid “PRINCIPAL” balance outstanding

<u>Maximum Loan Amount</u>	<u>Description</u>
\$ 600,000	Direct FO
\$1,825,000	Guaranteed FO & CL
\$1,825,000	Combined Direct & Guaranteed FO
\$ 400,000	Direct OL
\$1,825,000	Guaranteed OL
\$1,825,000	Combined Direct & Guaranteed OL
\$1,825,000	Combined Guaranteed OL, FO & CL
\$2,425,000	Combined Direct & Guaranteed OL, FO & CL

The maximum levels above include the guaranteed loan being made plus any outstanding direct or guaranteed principal owed by anyone who will sign the promissory note. The dollar limit of guaranteed loans is adjusted annually based on Prices Paid by Farmers Index.

Loan Guarantee Percentage - (2-FLP Par. 195 on page 8-165)

The guarantee in most instances will be 90%.

CLP and PLP lenders will not be less than 80%.

The guarantee will be issued at 95% when:

- Per the 2018 Farm Bill, the percent of guarantee for new guaranteed loans to any beginning farmer or SDA applicants will be 95%. The 2018 Farm Bill did not, however, change any of the conditions for receiving a fee waiver.
- OL or FO: 100% of the loan funds will refinance the Agency’s direct loan debt.
 - ✓ The guarantee will be issued using a weighted percentage between 90-95% on OL or FO loans when a portion of the loan is used to refinance Agency’s direct loan debt.
See 2-FLP Par.196 A on page 8-167 on how to calculate.
- OL or FO: greater than 50% of lender loan funds will be obtained through Beginning Farmer Program under the State Treasure’s Missouri First Program
- FO: loan purpose is to participate with the Direct Beginning Farmer Downpayment loan.
- OL: made during period where there is an outstanding Direct Beginning Farmer Downpayment loan

Guarantee Loan Fees

2-FLP Par. 136 C page 8-61 and 2-FLP Par. 247A page10-12

FSA charges a 1.5% loan closing fee on most guaranteed loans. The fee is calculated as follows: (Loan Amount x % guaranteed x 1.5%). 1.5% fee may be passed onto the borrower and included in loan funds.

The following loan types qualify for the 1.5% fee waiver:

1. Loan specifically where more than 50% of the funds are used to refinance an Agency direct loan.
2. Applicants who currently meet both the FSA BEGINNING FARMER definition/requirements and have an **outstanding balance or approved, but not funded**, FSA Direct Beginning Farmer Downpayment (3-FLP Part 7 Section 2) Program FO loan.
3. Applicants who currently meet the FSA BEGINNING FARMER definition/requirements and have an **outstanding balance or approved, but not funded**, loan where more than 50% of the specific loan funds are under the Missouri First Linked Deposit Agriculture - Beginning Farmer program.

See State of Missouri website: <https://www.treasurer.mo.gov/content/low-interest-loans/ldbeginning-farmer> for further clarification and understanding of the Missouri First Linked Deposit program – Beginning Farmer Program.

Therefore, prior to receiving the 1.5% fee waiver under the Missouri First - Linked Deposit Program, the lender must provide FSA with a copy of the following:

1. Missouri First- Linked Deposit Program Beginning Farmer Loan Application signed by both the lender and borrower
2. State of Missouri First - Linked Deposit Program Beginning Farmer approval letter
3. Lender promissory note addendum

There are multiple state programs under the Missouri First Linked Deposit program and only the subtype **Agriculture - Beginning Farmer** program qualifies for the FSA guaranteed loan 1.5% fee waiver. No other state program qualifies for the 1.5% guarantee fee waiver. The applicant may qualify for the Missouri First Linked Deposit Beginning Farmer program but may not qualify for the FSA 1.5% fee waiver if farming longer than 10-years as the State's program has a different beginning farmer definition than FSA.

A 1.5% guarantee fee waiver exception is applied to each individual guaranteed loan independently and separately.

Simply being defined as a “beginning farmer” or “socially disadvantaged farmer” will not qualify for a waiver of the 1.5% guarantee fee waiver.

The guaranteed loan applicant must meet the FSA 2-FLP Exhibit 2 Beginning Farmer definition to qualify for the 1.5% fee waiver as of the date the application is received.

On a guaranteed OL loan the 2-FLP Exhibit 2 beginning farmer definition that pertains to owning more than 30 percent of the average size farm in the county does not apply.



AGRICULTURE - BEGINNING FARMER LOAN APPLICATION

Name: _____

Business Name (as reflected on loan application): _____

Social Security #: _____ Tax I.D. #: _____ Number of Borrowers: _____

Mailing Address: _____

City: _____ County: _____ State: _____ ZIP: _____

Physical Address (if different than mailing address): _____

City: _____ County: _____ State: _____ Zip: _____

Phone #: _____ FAX #: _____

Amount Requested: \$ _____ Applicant's Equity: % _____

(*business total assets minus total liabilities divided by total assets)

Farm Acreage: owned _____ rented _____ Number of Employees: _____ Applicant's Net Worth _____

Use of loan proceeds: _____

Type of Operation: Grain Farming (wheat, corn, etc) Soybean Cattle Poultry Cotton Other: _____

If you are requesting this loan due to drought or other natural disaster, please provide an explanation of the impact on your operation: See Attachments _____

DEMOGRAPHIC INFORMATION

Have you participated in the Missouri Linked Deposit Program previously? Yes No

If yes, what time period: _____

Are you a minority and/or a female or neither (question required by 30.758, RSMo)

Are you a veteran, reservist or member of National Guard or the spouse of such or neither

Are you using MO Agriculture and Small Business Development Authority's (MASBDA) Yes No

Beginning Farmer Program or received a USDA guarantee for this loan?

APPLICATION CERTIFICATION FOR A BEGINNING FARMER:

*In submitting this application, I the undersigned eligible borrower have read the following and hereby certify and agree that I meet the following eligibility criteria.**

- (a) I am a permanent Missouri resident and at least 18 years of age. True False
- (b) The proposed project is located within the State of Missouri. True False
- (c) I have adequate working capital and experience in the type of farming operation for which the loan is sought. True False
- (d) The project shall be used only for farming by myself or my family True False
- (e) Projected farming income (not including spouse's income) will exceed non-farm income True False



1.5% FSA Guaranteed Loan Closing Fee

Lender pays 1.5% fee for borrower

- **If a Deal Breaker**
- **If cause Lender to Lose Business**

\$400,000 loan = \$5,400 FSA 1.5% Loan Fee

(\$400,000 loan request X 90% = \$360,000 Loan Guarantee X 1.5% fee)

Operating (OL) Loan

- **Increase interest rate 3/8% or 37.5 basis points**
- **5-Year: promissory note prepayment penalty**
- **Higher interest rate versus borrowing the loan fee equal**

\$400,000 loaned at 5.5% over 7 years = \$70,388 per yr annual payment

\$405,400 loaned at 5.125% over 7 years = \$69,444 per yr annual payment

Farm Ownership (FO) Loan

- **Increase interest rate 1/4% or 25 basis points**
- **6-Year: promissory note prepayment penalty**
- **Slightly higher cost than borrowing the loan fee.**

\$400,000 loaned at 5.25% over 20 years = \$32,784 per yr annual payment

\$405,400 loaned at 5% over 20 years = \$32,100 per yr annual payment

Collecting the 1.5% Fee

\$5,400 fee collected back over 5 years = \$1,080 additional interest that must be collected

\$5,400 fee collected back over 6 years = \$900 additional interest that must be collected

Some borrowers will pay off early.

Prepayment penalty will be owed in addition to the amount of interest already collected.

Maximum Interest Rates on Guaranteed Farm Loans

2-FLP Par.135 (7 CFR 762.124(a))

Fixed and Variable Rates

The interest rate on an FSA guaranteed loan may be fixed or variable as agreed upon between the borrower and the lender. The lender may charge different rates on the guaranteed and the non-guaranteed portions of the note. The guaranteed portion may be fixed while the unguaranteed portion may be variable, or vice versa. If both portions are variable, different bases may be used. If a variable rate is used, it must be tied to an index or rate specifically agreed to between the lender and borrower in the loan instruments and the rate adjustments must be in accordance with normal practices of the lender for nonguaranteed loans. Upon request, the lender must provide the Agency with copies of its written rate adjustment practices.

Lenders are not required to tie the promissory note guaranteed interest rates to 3-month LIBOR or 5-year Treasury.

The FSA interest rate rule does not require that the promissory note interest rate remain below the maximum throughout the term of the loan. Interest rates can fluctuate based on the pricing practice spelled out in the promissory note. FSA is not required to monitor the interest rate at any other time.

Interest Rate Pricing

The maximum rate is not based on loan terms, purpose, or type. It is based on how long the interest rate is fixed.

- Variable-rate notes of any term and fixed-rate notes with terms less than 5 years will be considered a variable-rate loan (3-month LIBOR)
- Fixed-rate notes for 5 years or more would be considered a fixed-rate loan. (5-year Treasury)

Maximum Interest Rates

Before issuing the FSA-2235, Loan Guarantee, and/or approving an existing guaranteed loan restructure, FSA should check that the interest rate on both the guaranteed portion and the nonguaranteed portion of a fixed or variable rate promissory note may not exceed FSA's maximum interest rate allowed using the applicable index and spread (3-mo LIBOR or 5-yr Treasury).

At the time of loan closing or loan restructuring, FSA must verify

OL/FO loan with *variable-rates or rates fixed less than 5 years*, the benchmark will be 6.5% or 650 basis points above the 3-month LIBOR.

OL/FO loan with rates *fixed for 5 years or longer*, the benchmark will be 5.5% or 550 basis points above the 5-year Treasury.

When 3-month LIBOR falls below 2%, the maximum spread will increase by 100 basis points (1%) for both to:

- 7.5% or 750 basis points above 3-month LIBOR
- 6.5% above 5-year Treasury

Risk-Based Pricing:

- Lenders who use a risk based pricing practice will document the risk rating of the borrower without consideration of the guarantee and the risk rating of the borrower with consideration of the guarantee.
- Borrower interest rate should be based on one tier lower (representing lower risk) than the borrower would receive without a guarantee. Should be discussed in the narrative.
- FSA will only be requesting a copy of lender's risk-based pricing practices when the borrower's promissory note loan closing or loan restructuring interest rate exceeds the applicable index and spread (3-mo LIBOR or 5-yr Treasury).
- Lender's risk-based pricing practices are strictly confidential and for FSA use only. FSA will file in the lenders operation file.

Not Using Risk-Based Pricing:

- The maximum interest rate (FSA benchmark) will be based on the **length of time the rate is fixed** rather than loan type.
- The maximum interest rate may not exceed the appropriate benchmark at the time of **loan closing or restructuring**.

3-month LIBOR and 5-year Treasury Links

Historical interest rates will be available in GLS, FSA Intranet, and FSA Internet.

- 3-month LIBOR: <http://www.theice.com/marketdata/reports/170> . Select the appropriate report date and currency (USD).
- 5-year Treasury Rate: <http://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield> , scroll down to the chart and lookup the appropriate date under the "5Yr" column. Historical data is available using the "Select Time Period" drop down list.

FSA Employees - GLS Processing

If the interest rate is variable or fixed for less than five years, select "Variable".

If the interest rate is fixed for five or more years, select "Fixed."

Interest Charges: Interest must be charged only on the actual amount of funds advanced and for the actual time the funds are outstanding.

Environmental Requirements for Guaranteed Loans

FSA regulations require guaranteed loan requests comply with the **National Environmental Policy Act (NEPA)**. FSA regulations also require that guaranteed lenders conduct "due diligence" in real estate transactions per **CERCLA (Comprehensive Environmental Response, Compensation, and Liability Act)**. **Due diligence** is the process of evaluating real estate, in the context of a real estate transaction, for the presence of contamination from the release of hazardous waste, petroleum products, or other environmental hazards, and determining the effect, if any, the contamination has on the regulatory status or security value of the property.

- **National Environmental Policy Act (NEPA)**: Before FSA considers a guaranteed loan application complete certain environmental information needs to be provided. This information is widely variable depending on the specific type of request.

FSA can conduct its environmental review in most cases without additional information from the lender provided the lender fully completes the loan application and provides a detailed loan narrative. In some cases, FSA cannot continue processing the application until additional information is provided. In those cases, FSA processing timeframes do not start until the information is provided. Situations needing additional information often involve protected resources including wetlands, historical/archeological sites, threatened and endangered species, certain streams, floodplains, soils, and water quality. Confinement livestock facilities or **Animal Feeding Operations (AFOs)** also frequently require additional information.

Lenders will assist the FSA environmental review by providing the requested information. In all cases, the lender must keep documentation of their investigation in the applicant's case file. Lenders must certify that documentation in their files and that all applicable laws have been considered before FSA will issue a guarantee.

FSA can no longer approve guaranteed loans conditional on obtaining the required **construction permits, DNR operating permits, nutrient management plans (NMPs)**, and any other information needed to document the proposal's environmental impact.

- **CERCLA/Due Diligence (Hazardous Substances)**: The presence of hazardous substances that have been released into the environment can reduce a property's value because of the regulatory compliance and cleanup costs associated with contamination. The lender is responsible for conducting a due diligence investigation on the subject property. The lender is expected to conduct a site visit with the applicant. If real estate will be taken as primary security, the lender must:

1. Complete the American Society of Testing and Materials' Standards e-1528, Transaction Screen Questionnaire, or FSA Environmental Risk Survey Form FSA-851
Note: Similar questionnaires or screening tools reviewed and approved by the FSA State Environmental Coordinator may also be used.
2. Indicate on the Application for Guarantee or Preferred Lender Application and explain if the questionnaire indicates a problem may exist
Note: Lenders can attach a copy of the American Society of Testing and Materials questionnaire or the FSA-851.
3. Keep this documentation in the borrower's case file. It is not part of a complete guaranteed application. FSA will review this information if a loss claim is impacted by CERCLA issues.

The lender should submit enough information in the due diligence process so that the authorized agency official, in most cases, can perform an adequate assessment without having to visit the farm. The FSA Environmental Risk Survey Form **FSA-851 Environmental Risk Survey** is **publicly available to non-FSA individuals and lenders without copyright.**

FIVE FREQUENT CRITICAL CONSTRUCTION ENVIRONMENTAL COMPLIANCE ISSUES PREVENTING OR COMPLICATING GUARANTEED LOAN PARTICIPATION.

NUMBER 1 ISSUE IS BEGINNING CONSTRUCTION BEFORE RECEIVING WRITTEN APPROVAL. FSA CANNOT APPROVE A PROJECT AFTER DEVELOPMENT INCLUDING LAND CLEARING, GRADING, AND ROAD OR UTILITY CONSTRUCTION HAS STARTED.

NUMBER 2 ISSUE IS REQUESTING TO REFINANCE RECENT CONSTRUCTION OR DEVELOPMENT. FSA HAS A HARD DROPBACK REQUIREMENT OF 12-24 MONTHS AFTER A PROJECT HAS BEEN COMPLETED OR AN AFO CAFO HAS BEEN PUT INTO USE.

NUMBER 3 ISSUE IS NOT MEETING DNR AFO SETBACK REQUIREMENTS AT CONSTRUCTION, OR REDRAWING PROPERTY LINES AND NOT MEETING THE SETBACK REQUIREMENTS. EASEMENTS ARE NOT OBTAINED FOR UTILITIES OR SURFACE WATER SUPPLIES.

NUMBER 4 ISSUE IS NOT GETTING DNR OR LOCAL CONSTRUCTION PERMITS IN THE OPERATOR'S NAME. FSA CANNOT CONDITIONALLY APPROVE A PROJECT SUBJECT TO OBTAINING PERMITS.

NUMBER 5 ISSUE IS NOT ACCURATELY DEFINING AND DESCRIBING THE PROJECT INITIALLY AND THEN CHANGING OR RELOCATING THE PROJECT AFTER THE ENVIRONMENTAL REVIEW AND CONSULTATIONS ARE COMPLETED. EITHER OF THESE ACTIONS REQUIRE SUBSEQUENT CONSULTATIONS AND MAY PREVENT FSA FROM ISSUING THE LOAN NOTE GUARANTEE.

Don't Begin a Project Without Written FSA Concurrence!

FSA must complete the NEPA environmental evaluation process BEFORE making a direct or guaranteed loan approval or loan servicing decision.

IMPORTANT- projects that involve land disturbance, construction, land clearing, or removal of existing structures must not be started prior to completion of the FSA environmental evaluation. Beginning these actions limits FSA's environmental evaluation, and loan or servicing requests cannot be approved if development began prior to the completion of the evaluation.

IMPORTANT -[7 CFR 799.11) FSA or a program participant must not take any action, implement any component of an action, or make any final decision during FSA's NEPA review process that could have an adverse environmental impact or limit the range of alternatives, until FSA completes its environmental review and officially and conclusively approving the action in writing. Examples include site work requiring excavation, clearing, or hauling of fill dirt on or to the activity site. This requirement does not preclude developing preliminary plans and designs or performing other work necessary to support an application for Federal, State, or local permits or assistance.

IMPORTANT -If there has been ground disturbance or construction within the last 12 months, any related refinancing or loan request is deemed to be part of the original project and cannot be approved (this includes <1000 animal unit AFOs). Being highly controversial, large AFOs (>= 1000 animal units) may not be refinanced unless the facility has been in operation for 24 months or longer.

Levels of NEPA Documentation -NEPA regulations contain requirements to ensure the proper level of environmental analysis is completed. There are several levels of review and documentation that provide compliance with NEPA. The level of environmental analysis needed depends on the nature, complexity, and scope of the proposed activity. FSA uses an environmental review process to determine the appropriate level of NEPA analysis and documentation required. Most FSA guaranteed loans will fall into the following review categories:

- **Categorical Exclusions (CATEX)** are activities that have been demonstrated through prior analysis to not significantly affect the environment and in the absence of extraordinary circumstances, may be approved with a basic or limited level of review. FSA has a list CATEXs that have been determined by the agency to have little or no effect on the environment and have been approved by Council on Environmental Quality (CEQ). FSA has the following two tiers of CATEXs:

-Listed CATEXs are specific exclusions from further review and merely require identification and recording on the FSA-850 Environmental Screening Worksheet. These require little or no additional documentation of NEPA compliance. *Some common Listed CATEXs are annual*

operating loans, refinancing, real estate purchase, livestock purchase, and machinery purchases.

-Supported CATEXs with or without ground disturbance require no further review when documented by completion of the FSA-850 Environmental Screening Worksheet and the attachment of appropriate supporting material, such as copies of plans, permits, or consultation responses. *Some common Supported CATEXs include construction of farm storage facilities, farm buildings, farm dwellings, soil and water development, annual operating loans for AFOs, purchase and construction of small and medium AFOs (<1000 animal units).* Guaranteed applicants and lenders may be asked to provide additional information that can include DNR land disturbance permits, county construction permits, floodplain development permits, NMPs, elevation/site drawings, and other information necessary to fully assess the project. FSA may be required to consult with other entities including the US Fish and Wildlife Service, Missouri Department of Conservation, Missouri DNR, the local floodplain administrator, tribal authorities, and local historical societies.

- **Some projects exceed the CATEX review level. These projects are usually large, precedent setting, or are controversial and the public must be allowed to participate in the evaluation. An Environmental Assessment is necessary to allow public comment on some projects.**

- **Environmental Assessments (EAs)** are concise public documents that provide analyses sufficient to determine whether the proposed action would significantly affect the environment. Consultation requirements are similar to those for Supported CATEXs. EAs require the opportunity for the public to comment on the proposed project. This is completed by publishing a "Notice of Availability of the Draft EA" and depending on public comments possibly publishing a "Notice of Availability of a Finding of No Significant Impact". Any public comments received during a specific response period will become part of the public record including the identification of the commenter. Public concerns will be addressed in the Final EA. *Some common projects requiring an EA include construction of AFOs \geq to 1000 animal units, construction of AFOs <1000 animal units if there is significant potential to affect the environment, irrigation development over 320 acres, or any CATEX project that has extraordinary circumstances.* EAs require significant time to complete due to the consultation and publication response periods, and it is extremely important to contact the FSA as early in the process as possible to avoid unnecessary delays. FSA cannot approve, and the proposed project cannot begin until the Finding of No Significant impact is signed and dated.

Summary - most guaranteed loans for real estate purchase and operating loans will require only a very basic environmental compliance review. Loans for small and medium animal feeding operation development, or large animal feeding operation purchase, or general farm construction will usually require additional documentation that could include permits, nutrient management plans, and consultation with regulating agencies and interested parties. Loans for the establishment of new large animal feeding operations will always require public notice via an environmental assessment.

FSA Minimum Lender Requirements (revised 10/28/2021)

- ___ 1. A Farm Visit must be completed by the lender and/or lender's representative to complete the environmental due diligence when real estate is primary security.
- ___ 2. Environmental Certification: Lender will certify environmental compliance on the FSA-2211, Application for Guarantee Part L. PLP lenders also need to provide all items required by their Credit Management System.
- ___ 3. Environmental Risk Management: **Note- FSA cannot complete the FSA-851(due diligence for environmental hazards) for lenders: use of the form is not copyrighted and it can be used by lenders for due diligence assessments.** When real estate is taken as primary security the lender will complete an FSA-851, "Environmental Risk Survey Form;" the American Society of Testing and Materials Standards e-1528, Transaction Screen Questionnaire; or a similar environmental risk screening tool approved by the FSA State Environmental Coordinator (SEC). Fixture filings are not considered to be a real estate lien.
Check to see if property is on DEA National Clandestine Laboratory Register:
<https://www.dea.gov/clan-lab?state=MO&date=>
- ___ 4. Highly Erodible Land, Sodbusting, Swampbusting, and Wetlands: All FSA direct and guaranteed applications require an AD-1026 certifying compliance with the highly erodible land and wetland rules to be considered complete.
- ___ 5. Wetland and HEL Determination: When the proposed project creates a shift in land use, the applicant/borrower may need to obtain an NRCS wetland and/or a HEL determination.
- ___ 6. Floodplains: If there are and/or will be buildings/fixtures located on the property to be taken as loan security, a floodplain determination must be completed. Impact to floodplains will be considered. Flood insurance will be required for any proposed and/or existing buildings/fixtures located in the 100-year floodplain.
- ___ 7. AFO DNR Requirements: Borrowers must comply with Missouri regulations and DNR Guide to Animal Feeding Operations. Also, all operations of 1000 animal units or more need a current operating permit and nutrient management plan in the name of the operator.
<https://dnr.mo.gov/document-search/animal-feeding-operation-permits-regulations-missouri-pub2351/pub2351>
- ___ 8. Nutrient Management Plan (NMP): All AFOs that are 300 animal units or greater require an NMP. Some AFOs less than 300 animal units need an NMP. See the screening table in this book and the DNR NMP Planner: <https://dnr.mo.gov/water/business-industry-other-entities/permits-certification-engineering-fees/concentrated-animal-feeding-operation-permits>
- ___ 9. County Land Use or Zoning: Projects must comply with county and/or any local land use or zoning laws.
- ___ 10. All construction projects disturbing over one acre MUST have a DNR Operating Land Disturbance Permit. This is a plan to minimize erosion and discharges during the construction phase.
- ___ 11. Guaranteed Loan Narrative: Must summarize the details of environmental compliance. Lender responsibility to inform FSA that the proposed project may have a significant impact to the human environment.

FSA Summary of Nutrient Management Plan (NMP) Requirements

LARGE & MEDIUM CAFOs must maintain a current Nutrient Management Plan or NMP. Some small AFOs will be required to have an NMP based on risk. Owners that plan to spread or irrigate processed wastes for reuse as organic fertilizers and soil conditioners must have a detailed NMP that addresses minimum criteria and be field specific.

"Export-only" - no discharge NMPs state all waste (litter/manure and/or compost) will be hauled offsite. Owner is not allowed to spread on any owned acres. The owner is responsible for safe management of litter/manure and/or compost until custody of it is transferred to other responsible party. Weekly records of operations are required to be maintained. **DNR has strict rules on manure transfer to disallow entity organization to be manipulated as a work-around for the export-only operations.**

DNR has defined an AFO as: *An AFO is defined as a lot, building, or complex at an operating location where animals are stabled or confined and fed or maintained for a total of 45 days or more in any 12-month period, and crops, vegetation, forage growth, or post-harvest residues cannot be sustained over at least fifty percent (50%) of the animal confinement area within the normal crop growing season.*

A CAFO is an AFO that meets the criteria for the Class I size category, or a Class II operation where pollutants are discharged into waters of the state through a man-made ditch, flush system, or other similar man-made device; or pollutants are discharged directly into waters of the state which originate outside of and pass over, across, or through the production area or otherwise come into contact with the animals confined in the operation. The department can designate an AFO as a CAFO if it has determined it should be regulated as a CAFO after an on-site inspection has been conducted.

EPA has defined a CAFO as an Animal Feeding Operation (AFO) that is defined as a Large CAFO or as a Medium CAFO.

Note - two or more AFOs under common ownership are considered a single AFO for the purposes of determining the number of animals at an operation, if they adjoin each other or use a common area or system for the disposal of wastes.

An NMP may be required for an AFO having a one-time capacity of less than 300 animal units if there is a potential to cause adverse effects on the environment as a result of animal waste.

NMP Storm Water Exemption

If NMP is current and is actively implemented, the NMP protects against land application discharges and provides an EPA "Storm Water Exemption" due to weather events.

Production area discharges by CAFO's are not covered by the NMP. A producer needs to obtain a DNR NPDES Operating Permit (versus a general state permit) or have sufficient documentation that supports the operation was designed and/or is being operated properly in compliance with DNR regulations to fall under the EPA "Storm Water Exemption". **External earthen liquid waste structures can have significant discharge risk that puts the producer at risk for fines or mitigation requirements. Lenders need to assess the risk and determine if a NPDES permit is appropriate regardless of the facility size. FSA may require an NPDES permit for external lagoon operations.**

MISSOURI DEPARTMENT OF NATURAL RESOURCES (DNR) PERMIT SUMMARY

Permits

DNR *construction* permits are no longer required for agricultural projects except those with earthen storage structures in accordance with House Bill 28. Agricultural waste management systems still must comply with Missouri design regulations in 10 CSR 20-8.300. Construction must be in accordance with a Professional Engineer's (PE) design. DNR will not be issuing voluntary construction permits.

There are three state-level DNR permits (Land Disturbance/Excavation, Operating, and Construction permit) that a lender may encounter in the FSA guaranteed loan process. DNR also administers a NPDES permit that is required for Class 1A facilities, discharging facilities, and voluntarily as a risk mitigation tool for facilities at risk for discharge (external earthen liquid storage structures)

Permit Types

No construction may begin on a proposed new or expanding CAFO until the department has issued an operating permit. Some CAFO systems may require a construction permit in addition to the operating permit.

Construction Permit

This is a non-NPDES permit and is required for a new or expanding Class I CAFO (1000 AUs or greater) for the construction or major modification of an earthen storage structure to hold, convey, contain, store or treat domestic, agricultural, or industrial process wastewater.

All other industrial construction activities are exempt from construction permitting requirements. All construction activities designed to hold, convey, contain, store, or treat domestic, agricultural, or industrial process waste shall be designed by a professional engineer registered in Missouri in accordance with 10 CSR 20-8.300 and constructed according to the design plans.

CAFO Operating Permits

Operating permit coverage must be obtained prior to the operation of a waste management system at a CAFO and before any animals can be placed in confinement. There are two different general operating permits available.

- NPDES – This permit allows for a discharge from an uncovered liquid storage structure due to a catastrophic storm or chronic weather event. A discharge for any other reason is not allowed.
- State No-discharge – Discharges are not allowed for any reason.

Each type of general operating permit issued contains the same monitoring and reporting requirements. Some of the requirements may not be applicable to certain operations due to the type of waste management system used by the operation. Permits are effective for fixed five-year period

CAFOs may obtain a site-specific permit NPDES operating permit, which is written with monitoring and reporting requirements that are specific to that operation.

Additional Permits For All Construction Projects (not limited to AFOs)

There are two other permits that may also be required for construction activities, even if construction or operating permits are not required. These permits authorize activities and discharges that are not covered in the construction or operating permits.

- A land disturbance permit is required if one acre or more of land is to be disturbed during the construction process. This permit must be obtained before any clearing, excavating or grading occurs.
- Section 404, Clean Water Act Permit – This permit is obtained from the U.S. Army Corps of Engineers and is required prior to disturbing, placing fill or discharging material into waters of the United States,

which also includes wetlands. Activities include but are not limited to, building dams or levees, road crossings, and stream bank disturbances. If an operation is planning to conduct any construction activity in or along a drainage way, even if the channel is dry, they should contact the appropriate USACE office to determine if this permit is required.

ALSO - Water Wells Permit -Statelaw established well construction standards aimed to protecting Missouri's groundwater. If planning to drill a new well, a DNR New Well Certification must be obtained

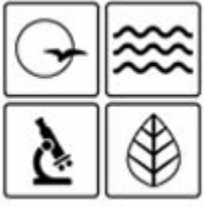
MISSOURI DEPARTMENT OF NATURAL RESOURCES (DNR) Rules Senate Bill 391

From DNR - *Senate Bill 391 was signed into law by the Governor on May 31, 2019 and modified state provisions related to agricultural operations. Some of these changes affect regulated CAFOs:*

- 1. No construction on a new or expanded facility shall commence until the Department has issued an operating permit to the owner or operator of such facility.*
- 2. Notification of the proposed new or expanded CAFO must be provided to all neighbors within three times the buffer distance (was previously one and one-half times). Notice must be provided to all neighbors within 9,000 feet of a Class IA CAFO, within 6,000 feet of a Class IB CAFO, and within 3,000 feet of a Class IC CAFO.*
- 3. All liquified manure from a CAFO that is sold or given to a third party and is surface-applied must meet application setbacks established in the law.*

Other Changes – Senate Bill 391 also possibly impacts any orders, ordinances, rules, or regulations promulgated by county commissions and county health center boards shall not impose standards or requirements on an agricultural operation and its appurtenances that are inconsistent with or more stringent than any provisions of law, rules, or regulations relating to the Department of Health and Senior Services, environmental control, the Department of Natural Resources, air conservation, and water pollution. **It is not clear from discussions with DNR what these impacts are. Affected operators are encouraged to contact DNR, local officials, or an environmental professional to determine what local compliance is necessary.**

Other Changes – Senate Bill 391 also changes neighbor notification requirements to three times the buffer area from 1.5 times for all Class I operations. This is a significant change and is explained in more detail below.



Missouri Department of Natural Resources

ANIMAL FEEDING OPERATION PERMITS AND REGULATIONS IN MISSOURI

Water Protection Program fact sheet

08/2019

Division of Environmental Quality Director: Ed Galbraith

PUB02351

Federal and state laws and regulations, as well as permitting requirements for animal feeding operations (AFO), have undergone several changes in recent years. This guidance provides an overview of federal and state laws and regulations relating to AFOs and Concentrated Animal Feeding Operations (CAFO) in Missouri. It also describes the different permits that can be required and an outline of the permit application process. Not all regulatory and permit requirements are listed so producers are encouraged to contact the Missouri Department of Natural Resources early in the planning stages, particularly if questions or unusual circumstances arise. AFO owners and operators are also encouraged to become familiar with all state and federal regulations.

National Pollutant Discharge Elimination System (NPDES) permits issued by the department are issued in accordance with state and federal laws and regulations. NPDES is a permitting program under Section 402 of the Clean Water Act which is intended to reduce discharges of pollutants from point sources. Non-NPDES permits are issued in accordance with state laws and regulations.

Permit Coverage Requirements

State regulations require all Class I CAFOs to obtain coverage under a NPDES or State No-discharge operating permit. Class II AFOs that are defined or designated as a CAFO due to discharging, must obtain a NPDES operating permit also. State regulations also require a construction permit for certain construction activities for new or expanding Class I CAFOs. To determine if either of these permits are required for a specific operation, the class size must be determined, and if the operation is an AFO or CAFO.

Class Size Determination

The class size category is based on the number of Animal Units (AU) in confinement at an operation. This does not include animals that are kept in pasture. The class size category can be determined in the following ways:

- AU can be calculated by dividing the number of animals by the conversion factor for that animal category from Table 1. (ex. 5000 swine over 55 pound \div 2.5 = 2000 animal units), or
- Class size category can also be determined by using Table 2 which lists the range animal numbers for each animal type by class size category.

Table 1. Animal Unit Conversion Factors

1 Animal Unit =

1.0	Beef cow, feeder, veal calf, cow/calf pair, and dairy heifer	10	Sheep, lambs, and meat and dairy goats
0.5	Horses	30	Chicken laying hens, pullets, and broilers with a wet handling system
0.7	Mature Dairy cows		
2.5	Swine weighing over 55 pounds	55	Turkeys in growout phase
10	Swine weighing under 55 pounds	82	Chicken laying hens without a wet handling system
5	Ducks with a wet handling system	125	Chicken broilers and pullets, and turkey poults in brood phase, all without a wet handling system
30	Ducks without a wet handling system		

Table 2. Class Sizes and Animal Numbers

Animal Class Category	Class IA	Class IB	Class IC	Class II
	7,000 AUs*	3,000 to 6,999 AUs*	1,000 to 2,999 AUs*	300 to 999 AUs*
Beef cows, feeder cattle, veal calves, cow/calf pairs, and dairy heifers	7,000	3,000 to 6,999	1,000 to 2,999	300 to 999
Horses	3,500	1,500 to 3,499	500 to 1,499	150 to 499
Mature Dairy Cows	4,900	2,100 to 4,899	700 to 2,099	200 to 699
Swine weighing over 55 pounds	17,500	7,500 to 17,499	2,500 to 7,499	750 to 2,499
Swine weighing under 55 pounds	70,000	30,000 to 69,999	10,000 to 29,999	3,000 to 9,999
Sheep, lambs, meat and dairy goats	70,000	30,000 to 69,999	10,000 to 29,999	3,000 to 9,999
Chicken laying hens, pullets, and broilers with a wet handling system	210,000	90,000 to 209,999	30,000 to 89,999	9,000 to 29,999
Turkeys in growout phase	385,000	165,000 to 384,999	55,000 to 164,999	16,500 to 54,999
Chicken laying hens without a wet handling system	574,000	246,000 to 573,999	82,000 to 245,999	24,500 to 81,999
Chicken broilers and pullets, and turkey poults in brood phase, all without a wet handling system	875,000	375,000 to 874,999	125,000 to 374,999	37,500 to 124,999
Ducks without a wet handling system	210,000	90,000 to 209,999	30,000 to 89,999	10,000 to 29,999
Ducks with a wet handling system	35,000	15,000 to 34,999	5,000 to 14,999	1,500 to 4,999

*Animal Units

To be a Class I operation, there must be 1,000 AU or more of one animal category at one operating location. Once an operation becomes Class I, the animal units of all animal categories in confinement are added together to determine if it is Class IA, IB or IC. Operations with less than 300 AU are unclassified.

AFO or CAFO

An AFO is defined as a lot, building, or complex at an operating location where animals are stabled or confined, and fed or maintained for a total of 45 days or more in any 12 month period, and crops, vegetation, forage growth, or post-harvest residues cannot be sustained over at least fifty percent (50%) of the animal confinement area within the normal crop growing season.

A CAFO is an AFO that meets the criteria for the Class I size category, or a Class II operation where pollutants are discharged into waters of the state through a man-made ditch, flush system, or other similar man-made device; or pollutants are discharged directly into waters of the state which originate outside of and pass over, across, or through the production area or otherwise come into contact with the animals confined in the operation. The department can designate an AFO as a CAFO if it has determined it should be regulated as a CAFO after an on-site inspection has been conducted.

Permit Types

No construction may begin on a proposed new or expanding CAFO until the department has issued an operating permit. Some CAFO systems may require a construction permit in addition to the operating permit.

Construction Permit

This is a non-NPDES permit and is required for a new or expanding Class I CAFO for the construction or major modification of an earthen storage structure to hold, convey, contain, store or treat domestic, agricultural, or industrial process wastewater.

All other industrial construction activities are exempt from construction permitting requirements. All construction activities designed to hold, convey, contain, store, or treat domestic, agricultural, or industrial process waste shall be designed by a professional engineer registered in Missouri in accordance with 10 CSR 20-8.300 and constructed according to the design plans.

CAFO Operating Permits

Operating permit coverage must be obtained prior to the operation of a waste management system at a CAFO and before any animals can be placed in confinement. There are two different general operating permits available.

- NPDES – This permit allows for a discharge from an uncovered liquid storage structure due to a catastrophic storm or chronic weather event. A discharge for any other reason is not allowed.
- State No-discharge – Discharges are not allowed for any reason.

Each type of general operating permit issued contains the same monitoring and reporting requirements. Some of the requirements may not be applicable to certain operations due to the type of waste management system used by the operation. Permits are effective for fixed five-year period. Both general permits can be viewed on the department's CAFO web page at dnr.mo.gov/env/wpp/cafo/.

CAFOs may obtain a site-specific permit NPDES operating permit, which is written with monitoring and reporting requirements that are specific to that operation.

Additional Permits

There are two other permits that may also be required for construction activities, even if construction or operating permits are not required. These permits authorize activities and discharges that are not covered in the construction or operating permits.

- A land disturbance permit is required if one acre or more of land is to be disturbed during the construction process. This permit must be obtained before any clearing, excavating or grading occurs.
- Section 404, Clean Water Act Permit – This permit is obtained from the U.S. Army Corps of Engineers and is required prior to disturbing, placing fill or discharging material into waters of the United States, which also includes wetlands. Activities include but are not limited to, building dams or levees, road crossings, and stream bank disturbances. If an operation is planning to conduct any construction activity in or along a drainage way, even if the channel is dry, they should contact the appropriate USACE office to determine if this permit is required.

Permit Applications and Fees

To apply for a permit, the appropriate application form and required additional documents, along with a permit fee must be submitted. If applying for more than one permit, or applying for permits at different operating locations, a separate application form and fee must be submitted for each permit. Contact the department's Water Protection Program for appropriate form and current permit fees.

Regulatory Requirements

All CAFOs and AFOs, regardless of size, are subject to Missouri Revised Statute 644.051 which pertains to water contaminants that are likely to or have entered waters of the state and violated the general criteria for water quality standards in 10 CSR 20-7.031(4). In addition, all Class I CAFOs are required to comply with state regulations in 10 CSR 20-6.300 and 10 CSR 20-8.300, as well as federal regulations in 40 CFR 122 and 40 CFR 412, Subpart A through Subpart D.

No Discharge

All CAFOs in Missouri must be designed, constructed, operated and maintained as no-discharge. The no-discharge requirement is the most restrictive effluent limitation for any facility. Uncovered liquid storage structures must be able to contain all manure, litter, or process wastewater, plus the precipitation and runoff from chronic weather events and a catastrophic storm. CAFOs meet the no discharge requirement by having adequate storage volumes and land applying all manure, litter, and process wastewater to agricultural fields.

Discharges of manure, litter, or process wastewater from the production area and land application areas are prohibited by state regulations unless allowed for by an operating permit. CAFO operating permits allow for discharges under following conditions:

- When manure, litter, or process wastewater has been land applied in accordance with the operations NMP and the Missouri Concentrated Animal Feeding Operation Nutrient Management Technical Standard, (NMTS), a precipitation related discharge from land application areas under control of the CAFO, is considered to be an agricultural stormwater discharge.

- NPDES permits allow for discharges from uncovered liquid storage structures when it has been designed and maintained in accordance with regulations and permit requirements, and the criteria for a chronic weather event or a catastrophic storm has been exceeded.

Even though these discharges are allowed, they must not violate water quality standards in 10 CSR 20-7.031(4). Discharges for any other reason are not authorized and is a violation.

Nutrient Management Plans

Prior to issuance of an operating permit an operation must develop a field specific NMP and implement the NMP upon issuance of the permit. The NMP must meet the requirements in 10 CSR 20-6.300(3)(G) 1. and 2., 10 CSR 20-6.300(5) and the NMTS. The NMP at a minimum must address the following areas:

- Ensure adequate storage of manure, litter and process wastewater and procedures for proper operation and maintenance of the storage facilities.
- Ensure proper mortality management.
- Ensure that clean water is diverted from the production area.
- Prevent direct contact of confined animals with waters of the state.
- Ensure that chemicals and other contaminants are disposed of properly.
- Identify site specific conservation practices to be implemented.
- Identify protocols for testing of manure, litter and process wastewater and soil.
- Establish protocols for land application of manure, litter, and process wastewater that ensure appropriate agricultural utilization of nutrients.
- Ensure appropriate record-keeping.

All land application areas that are under operational control of the CAFO owner or operator whether they are owned, leased, or rented must be included in the NMP before receiving any land application of manure, litter, or process wastewater.

Buffer Distances and Neighbor Notice

State regulations require Class I CAFOs to meet buffer distance requirements from the operation to an existing public building or occupied residence that is not owned by the CAFO (see Table 4). The buffer distance is measured in a radius around any lagoon and from each confinement building or area. Any public building or non-owned occupied residence within the buffer zone must sign a waiver to allow the construction or expansion of the operation. This waiver must be recorded with the County Recorder and filed with the chain of title for the property of which the land owner has agreed to the shorter buffer distance.

State regulations also require Neighbor Notice letters to be sent prior to submitting an operating permit application. Letters are required to contain specific information about the operation and must be sent to all adjoining property owners of property located within three times the buffer distance, the county governing body, and the department. The department is required to accept written comments for thirty days after an operating permit application is received. All comments received prior to the comment period ending are reviewed and

will receive a written response when a permitting determination is made. The neighbor notice will expire if an operating permit application has not been received within 12 months of initiating the neighbor notice requirements.

Table 3. Buffer and Neighbor Notice Distances

Class Size	Buffer Distance (ft.)	Neighbor Notice (ft.)
Class IA	3,000	9,000
Class IB	2,000	6,000
Class IC	1,000	3,000
Class II and smaller	Not required	Not required

Odor Control Plans

Many factors affect the level of odors coming from a CAFO including number and type of animal, manure storage structure type, prevailing winds, topography as well as other operational and environmental factors. The buffer distance requirements are intended to address odor concerns by providing an area for odors to disperse. In addition to the buffer distance, Class IA CAFOs are required to prepare and implement an odor control plan as described by the Air Pollution Control Program under its odor emission regulations. The odor control plan requires a detailed analysis of a Class IA CAFOs odor sources and a corresponding plan to reduce odor emissions. All other sizes of CAFOs are exempt from these regulations.

Air Pollution Control Program odor emission regulations require facilities to restrict their odor emissions so that they cannot be perceived above a defined level after it leaves the facilities property. Failure to comply with the odor standard can result in a violation and penalty. The odor emission level for Missouri is defined as follows:

- No person may cause, permit, or allow the emission of odorous matter in concentrations and frequencies or for durations that odor can be perceived when one volume of odorous air is diluted with seven volumes of odor-free air for two separate trials not less than 15 minutes apart within the period of one hour. This odor evaluation shall be taken at a site not at the installation.

Setbacks

There are required minimum setback distances for confinement buildings, open lots, manure storage structures, and mortality composters in the production area from certain features. Additionally, there are setbacks for the land application of manure, litter and process wastewater at land application areas. These setbacks are meant to ensure the protection of surface waters and wells.

Table 4. Production Area Setback Distances

Setback Feature	Setback distance (ft.)
Public water supply lines	10
Property lines	50
Public road	50
Wetland or impoundment for non-human water consumption	100

Lake or impoundment for human water consumption	300
Perennial or intermittent stream	100
Perennial or intermittent losing stream or sinkhole	300

Table 5. Land Application Setback Distances

Set back Feature	Application Conditions	Setback distance (ft.)
**Public drinking water well or impoundment, or drinking water intake structure	All application methods	300
Private drinking water well or impoundment, or drinking water intake structure	All application methods	300
Classified waters of the state not used as a water supply	Permanently vegetated buffer	35
	No or insufficient vegetated buffer	100
Public or private impoundments not used as a water supply	Permanently vegetated buffer	35
	Up-gradient, or no or insufficient vegetated buffer	100
	Down-gradient, or no or insufficient vegetated buffer	35
**Perennial or intermittent stream, wetland	Permanently vegetated buffer	35
	Up-gradient, or no or insufficient vegetated buffer	100
	Down-gradient, or no or insufficient vegetated buffer	35
Tile line inlet, (if left unplugged during application)	Up-gradient, Permanently vegetated buffer	35
	Up-gradient, or no or insufficient vegetated buffer	100
	Down-gradient	0
Losing stream cave, spring, or sinkhole	All application methods	300
Perennial or intermittent losing stream or sinkhole	All application methods	300
Public use area, non-owned residence or business	Spray irrigation only	150
**Public road or property boundary	All application methods	50

**These setback distances also apply to surface-applied, liquefied CAFO manure purchased or received by a third party. Surface application is broadcast or spray of manure upon the ground, but does not include injection beneath the surface.

In addition to the setbacks in Table 5, other limitations for land application include:

- no land application on slopes greater than 20 percent,
- no surface application when soil is frozen, snow covered, or saturated,
- no surface application if a precipitation event that is likely to create runoff is forecasted within 24 hours of the planned application.

Setback distances from wells apply to confinement areas, land application areas, waste storage structures, mortality composters or other potential water contamination sources also. Minimum setback distances are found in 10 CSR 23-3.010 and were established by the Missouri Clean Water Commission and the Well Installation Board.

There were no Missouri well installation rules before November 1987. The well construction setback distances rules adopted after that date are summarized in Table 6. Wells constructed prior to the Missouri Well Construction Rules, but after adoption of the Clean Water Commission rules for minimum separation distances, are reviewed and approved on a case-by-case basis and may involve water sample testing or dye tracing for indications of contamination.

Existing operations with wells installed after rules adoption that do not meet the minimum separation distance requirements will be resolved by either setting modification requirements or requiring a new well to be drilled. The new amendments to the Missouri Well Construction Rules became effective June 30, 1996.

Table 6. Well Construction Rules and Setback Distances

Setback from a water well to:	Setback distance (ft.) by regulation effective date		
	June 30, 1996	Jan. 1, 1994	Nov. 1, 1987
Storage area for commercial fertilizer or chemicals	300	300	150
Cesspool	100	100	100
Below-grade manure storage area	300	100	100
Animal or poultry yard, building or privy	100	100	75
Other contaminants that may drain into the soil	100	100	75
Lagoon	300	300	Case-by-case
Earthen, concrete or other manure storage structure or lagoons	300	1/	1/
Land application areas for animal waste	300	300	2/
Uncovered animal composters	300	1/	1/
Enclosed composters with concrete floor and roof	100	1/	1/
Dry litter storage in poultry building during normal operations.	100	1/	1/
Single family lagoon	100	1/	1/

1/ Not covered by Missouri Well Construction Rules, but Clean Water Commission rules recommend 300 feet and require a minimum of 100 feet.

2/ Not covered by Missouri Well Construction Rules, but April 15, 1989, Clean Water Commission rules require a minimum of 300 feet.

Inspections, Recordkeeping and Reporting

Operating permits include requirements for inspections, recordkeeping, and reporting. The operation is to perform regularly scheduled visual inspections of stormwater diversion devices, manure storage structures including liquid level, water and wastewater lines and land application equipment. These inspections are to ensure the protection of surface water and wells and help to prevent unauthorized discharges. Any deficiencies discovered during a visual inspection should be corrected as soon as possible.

The operation must maintain records of permits, visual inspections, mortality management, discharges, land application, and manure transfers. These records must be kept for five years and made available to the department upon request. Recordkeeping requirements are listed in the permits and in the NMTS. The department has developed a "CAFO Record Keeping Form Checklist" (form MO 780-2153) that has forms for all record keeping required by general operating permits.

An Annual Report is required by all operating permits. The type of information required in the report varies by permit and is listed in each operating permit. These reports may be submitted on the CAFO Annual Report (form MO 780-1953) that is provided by the department or on another form that includes the equivalent information.

CAFOs are also required to report any discharge to the department within 24 hours of the CAFO becoming aware of the discharge. The date, time, duration, and approximate volume of the discharge is to be reported.

Permitting Process

During the planning and design stages all regulatory requirements and water quality issues at the site are to be considered. Other items to consider are manure storage capacities, mortality management, manure handling, and adequate land application areas.

Permit Application Review

When applications and permit fees are received, they are processed and assigned to a permit writer. It can take 45 to 180 days or more from the date the application is received until the permit is issued depending on the type of permit applied for and if any required documents are missing or if more information is needed.

Upon receiving the application, the permit writer will conduct a completeness check to determine if the application includes all of the required documents. If the application is incomplete, or if more information is needed, the applicant or the engineer will be notified and provided an opportunity to provide the information. The application must also include documentation that all neighbors in the neighbor notice distance specified in 640.715 RSMo were adequately notified of the proposed new or expanded CAFO. The neighbor notice comment period extends at least thirty days after the application is received.

Once the application is complete, a technical review of the application begins. During this review, the department verifies compliance with applicable laws and regulations. If the department determines that revisions are needed, all questions or comments on the application will be directed to the applicant or engineer for response. Once a satisfactory response is received, the department will proceed with issuing the permit.

After a permit is issued or denied by the department, the applicant or opponent has 30 days to appeal the decision. Appeals must be made to the Administrative Hearing Commission, which upon hearing the case will make a recommendation to the Missouri Clean Water Commission. The Clean Water Commission will either accept or reject the recommendation.

Construction Permit Applications

Construction permit application and permit fee should be submitted at least 180 days prior to the starting construction. Construction permitting requirements are listed in 10 CSR 20-8.300 and 10 CSR 20-6.010. An application for an operating permit and permit fee shall be included with the construction permit application. Both permits will be issued concurrently after completion of the completeness check, technical review, neighbor comment period, and public notice, if required.

General Operating Permit Applications

Operating permit applications must document compliance with CAFO regulatory requirements, including buffer distances, neighbor notice and comment period, NMP, production area setbacks, and manure storage. Operating permits must be issued prior to the start of construction. The additional documents required to be submitted with the application include:

- Title page of engineering report or similar document including name and address of the operation, date the report was prepared, name and address of firm preparing the report, seal and signature of the engineer, and a statement indicating the project was designed in accordance with 10 CSR20-8.300 and 10 CSR 20-6.300.
- Narrative project summary. This shall include a summary of the existing and/or proposed modifications of operating conditions including the number of confinement buildings or areas, the total design capacity in animal units and actual animal numbers for each type of animal, and an explanation of the existing and/or proposed modifications to the waste management system.
- Calculations showing the amount of manure generated annually, storage volume calculations and days of storage of all manure storage structures, including mortality composters.
- A recent aerial or topographic map showing the extent of the production area including;
 - all existing and proposed confinement buildings, open lots, manure storage structures,
 - surface waters and areas subject to a one hundred-year flood event within or adjacent to the production area, and
 - production area setback distances to public water supply lines, property lines, public roads, impoundments, intermittent and perennial streams (gaining and losing), and wells in accordance with 10 CSR 20-8.300 (3)(B).
- Nutrient Management Plan;
 - NPDES permit – applications for a new or modified permit shall include the operations nutrient management plan, or
 - State no-discharge permit – applications for a new permit shall include the operations nutrient management plan.
 - For export only operations, completing parts 5-11 of Form W meets this requirement.
- Applications for Class I CAFOs shall also include;
 - An aerial or topographic map showing the production area buffer and neighbor notice distances, and all property lines and owners within the neighbor notice area in accordance with 10 CSR 20-6.300(3)(B) and(C);
 - Proof of neighbor notice was sent to property owners in neighbor notice area, county government and the department in accordance with 10 CSR 20-6.300(3)(C).

Permit Maintenance

While permits do allow for some flexibility for the day to day operation and management of CAFOs, it reflects circumstances and operating conditions of the operation on the date of issuance. Certain changes to the operation can require the permit to be modified, require a different permit, or no longer be required to have a permit.

Permit Modification

Certain changes or additions to an operation require a modification of the permit. Changes include but are not limited to, adding a new confinement building or area, changing the footprint of an existing confinement building or area, adding or modifying a manure storage structure, change of ownership, or revisions to the NMP that result in changes to the terms of the NMP in a NPDES permit. Some of these changes could affect the buffer zone requiring another neighbor notification, or change animal units that could increase the class size.

Permit Renewal

All operating permits have an expiration date. The permittee is required to submit an application for renewal. For general operating permits, the application for renewal must be submitted at least 30 days prior to the expiration date. If an application for renewal is submitted within the appropriate time frame, permit coverage will continue under the current permit until the department issues the new permit; if not, the permit will expire and the operation will be considered operating without a permit, which is a violation.

Permit Termination

In the event a permitted operation closes, the operating permit can be terminated. Class I operations must submit a closure plan for all manure storage structures to the department for review and approval. Operating permit coverage must be maintained until all manure storage structures are properly closed. All manure, litter, process waste water, sludge and compost must be removed from all manure storage structures and land applied at agronomic rates. Once the plan has been approved and all waste storage structures are properly closed, the permittee may submit a completed Request for Termination form (MO 780-2814) to the department.

Appeal Procedure

Any parties adversely affected or aggrieved by the department's decision to approve a permit request and issue a final permit may appeal to the Administrative Hearing Commission by filing a written petition within 30 days from issuance.

FSA Loans and Floodplains

National Flood Insurance Program (NFIP) regulations require flood insurance for insurable buildings/structures located in Special Flood Hazard Area (SFHA) that carry a mortgage loan backed by a federally regulated lender. The SFHAs are the areas determined to be subject to a one percent (1%) probability of being flooded in a given year. This is known as the Base Flood Elevation (BFE) or 100-year flood zone.

FSA must determine if there will be any buildings/structures located in the 100-year flood zone. The proposed project cannot adversely affect the floodplain and must be in compliance with EO 11988. When there are buildings/structures that provide a contributory value to the loan collateral's present market value, floodplain documentation is required as part of the loan approval process as follows:

- **Lender Documentation:** The lender is to determine if buildings are or will be located in special flood hazard areas as defined by FEMA maps per 2-FLP. The lender should follow their regulator's guidance on documenting and escrowing for flood insurance. The application must reflect if there are any buildings in the 100-year flood zone.

If any existing and/or proposed building/structure is located in the 100-year flood zone, flood insurance must be a condition of loan approval. Not all of the 100-year flood zone areas are covered by the National Flood Insurance Program (NFIP). If the project area is not participating in the NFIP it may not be eligible for FSA assistance.

Elevation Certificate:

An Elevation Certificate can be prepared by a land surveyor, engineer or architect authorized by law to certify elevation information documenting that the building/structure is outside the 100-year flood zone.

When an elevation certificate is obtained that shows that the building/structure is located outside the 100-year flood zone, the elevation certificate can be used to obtain a LOMA (Letter of Map Amendment) or LOMR-F (Letter of Map Revision-Fill) from FEMA. The issuance of a LOMA or LOMR-F eliminates the Federal flood insurance purchase requirement, or the producer may be able to obtain a reduced flood insurance premium.

- If the building/structure was built on natural ground and its lowest adjacent grade is at or above the 100-year flood zone, a producer could request a LOMA from FEMA.
- If the building/structure was built on fill (or has been elevated by the placement of earthen fill), a producer could request a LOMR-F from FEMA.
- However, lenders retain the prerogative to require flood insurance as a condition of any loan as part of their standard business practices, regardless of the location of the structure. Although a structure built on a site that has been elevated by the placement of fill may be removed by FEMA from the SFHA, the structure may still be subject to damage during the 100-year and higher-magnitude floods. Many floods occur outside of designated SFHAs, and about 25 percent of NFIP flood insurance claims are for buildings/structures located in these low-risk areas.
- Request a LOMA or LOMR-F from FEMA at the following website.

<https://www.fema.gov/letter-map-amendment-loma>

Normally the PE completing the elevation certification can complete this for the customer. The LOMA and LOMR-F application forms must be certified by a Registered Professional Engineer or Licensed Land Surveyor. Therefore, requesters may incur certain fees associated with obtaining data and hiring a Registered Professional Engineer or Licensed Land Surveyor to provide and certify certain information that must be submitted with LOMA and LOMR-F requests.

- If the project area is not participating in the National Flood Insurance Program, obtaining a LOMA and LOMR-F from FEMA would allow FSA to provide assistance.

AFO/CAFO Construction

What does FSA Need to Complete the Environmental Review?

Revised 10/27/2020

The purpose of this summary is to help lenders and applicants expedite the Environmental Evaluation process when a project involves an animal feeding operation. FSA necessarily must complete consultation with regulating agencies and entities as part of the environmental evaluation and must give interested parties a defined response time. There are actions that the lender and applicant can complete to help the process. The lender and applicant may consider:

1. Has the lender conducted a site visit? Lenders should complete an FSA- 851/TSQ/CMS-approved alternative to identify "due diligence" issues. FSA cannot complete the FSA-851 for the lender.
2. Contact FSA and discuss completion of the 1-EQ Exhibit 15 Environmental Review Development Action Plan. This plan outlines applicant, lender, and FSA responsibilities to complete the environmental review and development. The applicant's signature also certifies that development will not commence until written FSA approval is provided. A comprehensive development plan can significantly reduce processing time.
3. AD-1026 - since the construction of the AFO will involve excavation the customer needs to contact the FSA office and execute a new AD-1026 Highly Erodible Wetland Certification. This allows FSA referral to NRCS for possible HEL and Wetland determinations and determine FSA compliance. If the applicants have not participated in FSA programs this will allow FSA to issue a farm and tract number and get the customer on the FSA contact list for program and benefit notifications.
4. The applicant should contact NRCS to determine if they can get assistance with Nutrient Management Planning (NMP), technical assistance, and available financial assistance programs such as the Environmental Quality Incentives Program (EQIP). The applicant should inform NRCS that they are possibly participating in the FSA guaranteed loan program, and:
5. The applicant should inquire to NRCS about the availability of an NRCS-completed CPA52 Environmental Evaluation Worksheet, and CR-1 Cultural Resource Worksheet. NRCS completion of these worksheets reduces or eliminates the FSA requirement to complete consultations including those with DNR State Historic Preservation Officer, USFWS, Missouri Department of Conservation, historical societies, and Native American tribes. FSA typically gives each of these consulted entities a 30-day response time so there is a **significant** reduction in processing times if NRCS has the resources available to assist in the CPA52 and CR-1 completion.
6. The applicant should communicate with the integrator/professional engineer/technical service provider for assistance in determining if a DNR land disturbance permit is required, if a DNR operating permit is required, and/or for assistance in developing a nutrient management plan without NRCS assistance.

7. The lender should provide to FSA (preferably a color .pdf file) containing:
- A plat page showing the location of the farm(s) and location of the development site
 - A color aerial or satellite photo of the development area showing the location of the facility to be constructed, outlining the building location including the stack house or any other structure associated with the facility, and any driveway or disturbance necessary to access the construction site.
 - Overlay a circle on the map above identifying all potentially affected parties within a minimum three times the normal DNR buffer distance (3000 feet for a Class IC permitted operation). This should include the name of landowners, homes, businesses, public buildings, cultural resource sites, and similar assets.
 - A topographical map identifying the boundary of the site to be developed (for SHPO referral)
 - If existing buildings are to be impacted by the development a photo of the buildings (for the SHPO referral)
 - Project description, excavation/building diagram (this information may be available in the appraisal). This does not include detailed bid or specification information.
 - A FEMA flood hazard determination on the developed site and any property serving as collateral for the loan.
 - If a construction permit or county zoning permit has been obtained provide a copy of the permit.
 - **IMPORTANT- Please communicate as early as possible whether a NRCS CPA-52 and CR-1 will or will not be available.**
 - **FSA can begin environmental evaluation prior to receipt of a complete application, significantly reducing processing times.**

Communication is the key to speeding the process - notify FSA as soon as any potential environmental issues are identified!

OL/LN Loan Purposes

Intermediate Term Loans

2-FLP Par.122 B (7 CFR 762.121(a))

OL term guarantee may only be used for the following authorized loan purposes:

1. Purchase of livestock, including poultry, and farm equipment or fixtures, quotas and bases, and cooperative stock for credit, production, processing or marketing purposes
2. 1-year loan for payment of annual operating expenses, family subsistence, and purchase of feeder animals
3. Payment of costs associated with reorganizing a farm to improve its profitability
4. Payment of scheduled principal and interest payments on term debt provided the debt is for authorized FO or OL purposes.
5. Payment of costs associated with land and water development for conservation or use purposes
6. Refinancing debt incurred for any authorized OL purposes when the lender and loan applicant can demonstrate the need to refinance
7. Limited real estate improvements, so long as the loan can be repaid within 7 years (no balloon installments) and the loan is fully secured. Improvements financed over periods longer than 7 years are assumed to be for real estate rather than operating purposes and will not be financed with OL funds
8. Payment of costs associated with complying with Federal or State-approved standards under the Occupational Safety and Health Act of 1970 (29 U.S.C. 655 and 667); this purpose is limited to applicants who demonstrate that compliance with the standards will cause them substantial economic injury
9. payment of training costs required or recommended by the Agency.
10. Payment of loan closing costs.

Note: When the guaranteed loan funds are to be used for refinancing purposes, a reasonable chance for success still must exist. The lender must demonstrate and document in the loan narrative that problems with the loan applicant's operation have been identified, can be corrected, and the operation returned to a sound financial basis.

FO/LN Loan Purposes

Long Term Loan

2-FLP Par.123 B (7 CFR 762.121(b))

FO guarantee may only be used for the following authorized loan purposes:

1. Purchase a farm.
2. Make capital improvements that can be made fixtures to the real estate.
3. Refinancing debt incurred for authorized OL or FO purposes when the lender and loan applicant can demonstrate the need to refinance.
4. Promote soil and water conservation and protection.
5. Payment of loan closing costs.

Note: When the guaranteed loan funds are to be used for refinancing purposes, a reasonable chance for success still must exist. The lender must demonstrate and document in the loan narrative that problems with the loan applicant's operation have been identified, can be corrected, and the operation returned to a sound financial basis.

OL/LOC Loan Purposes
2-FLP Par.122F (7 CFR 762.121(a))
5-year Annual Line of Credit Operating Loan

Agency Instructions 2-FLP Par.122 F (7 CFR 662.121(a)) state that loan funds disbursed under an OL/LOC line of credit loan may only be used for the following authorized loan purposes:

1. Payment of annual operating expenses, family subsistence, and purchase of feeder animals.
2. Payment of current annual operating debts advanced by the lender or other creditors for the current operating cycle. Under no circumstances can carry-over-operating debts from a previous operating cycle be refinanced.

This means that only the current year's cash flow operating plan expenses (operating and family living) can be advanced on this year's OL/LOC annual production loan.

The Agency's Instructions DO NOT ALLOW OLD CARRYOVER DEBT/BILLS that were not paid from the previous year to be carried over and advanced on this year's OL/LOC loan.

If a loss claim is requested, file documentation is required to support the beginning OL/LOC principal loan balance.

3. Purchase of routine capital assets, such as replacement livestock, that will be repaid within the operating cycle.

Only routine, annual recurring, capital purchases that are bought with cash, and not typically financed, may be included under the OL/LOC. These purchases must be scheduled for repayment within the operating cycle.

Capital items should be financed with an IT loan and the payment shown in the Debt Repayment Table.

4. Payment of scheduled, non-delinquent term debt payments provided the debt is for authorized FO or OL purposes.

Loan Terms

Determined by Loan Type & Security

2-FLP Par. 137 (7 CFR 762.124(b) and (c))

2-FLP Par. 168 (7 CFR 762.126(d))

The type of security obtained for a loan must be appropriate to the type of loan, and the loan terms must be consistent with the useful life of the security.

Guaranteed loans may be secured by any property, if the term of the loan and expected life of the property will not cause the loan to be under secured.

Loans	Guidelines
Short-term	Annual OL's should be secured at least by crops and livestock that will generally be sold during the term of the loan.
Intermediate-term	OL's should be secured by collateral that has a life expectancy at least as long as the loan. Loans to be repaid over a 2- to 7-year period should be secured by breeding livestock and equipment. <u>The lender should evaluate the equipment proposed to be used for security to ensure that it will not depreciate faster than the loan is repaid.</u>
Long-term	Loans scheduled to be repaid over more than 7 years must be secured by real estate. <u>Anticipated depreciation of the improvements must be considered when establishing terms.</u>

In summary, prudent lending practices require that:

1. The borrower's loan must be fully secured at all times based on the expected financial condition of the operation, the depreciated value of the collateral, and the principal balance on the loan.
2. Term loans will be scheduled for repayment over the minimum period necessary, considering the loan applicant's ability to repay and the useful life of the security.
3. The terms of the proposed loan shall not exceed the useful life of the guaranteed loan security.
4. If applicable, useful life of the collateral must be documented in the loan approval write-up.

Open Accounts/Non-Disturbance Agreements

The non-disturbance agreement can be an effective tool in keeping a farmer in business. It can be used for open-account creditors that will not get paid.

Warning: The Non-Disturbance Agreement must cover the full term of the new and/or existing loans. We do not care if the non-disturbance agreement balloons after our loans are supposed to be paid in full. However, if the guaranteed loans are later restructured, then the existing non-disturbance agreement must be extended to match the new terms.

Documentation of Cash Flow Feasibility

The lender must follow the guidelines listed in 2-FLP Par.151-154 Determining Financial Feasibility of Proposed Loan (7 CFR 762.125) on pages 8-85 through 8-92.

FSA defines FEASIBLE PLAN as the loan applicants/borrowers cash flow or debt service margin is \geq (greater than or equal to) 1 to 1 or 100%.

The cash flow plan must be realistic and supportable. All components of the plan should be as accurate as possible and based on the individual operation and the market. The cash flow projections must be based on the loan applicant's financial history and proven record of production (SEL only) and financial management. Unless fully justified, the cash flow projections should not be outside the range of the (minimum last 3-years) historical performance. Deviations from historical performance may be acceptable if adequate documentation is provided to FSA on the specific changes in the operation.

A lender's LOAN NARRATIVE must:

1. document the method used to project income and expenses (farm and nonfarm)
2. provide an explanation of any deviations from historical performance.

A lender's CASH FLOW BUDGET must:

1. reflect, as closely as possible, the predicted cash flow of the operating cycle.
 - The cash flow starting and ending period should always match the borrower's starting and ending tax year.
 - Most borrowers are on a January 1st to December 31st tax year. The cash flow period should match the tax year. If you have anything different, then the cash flow should be redone to match the tax year.
 - We have seen too many problems when they are not. When they are different, neither the borrower nor lender can adequately analyze/assess the borrower's financial and cash flow position.
2. be documented in sufficient detail to adequately reflect the overall condition of the operation
 - Many lenders determine the cash flow feasibility without considering the implications associated with cash carryover, accounts payable, cash capital purchases, and personal debt obligations.
3. When the planned loan term exceeds the current year or one (1) production cycle and the projected cash flow plan is not considered to be a typical year, a typical cash flow budget must be prepared to reflect a feasible plan for the remaining years/term of the loan.
 - A typical year cash flow includes only 1-year of production income and expenses.
 - An example of a non-typical year could be when the cash flow includes $>$ \$1000.00 cash on hand, NTCCA inventory carryover, carryover debt, cash capital expenditures, start-up operations, significant operation changes, etc.

Section 4 Credit Decision

Subsection 1 Financial Feasibility of Proposed Loan (7 CFR 762.125)

151 Determining Financial Feasibility of Loans (7 CFR 762.125)

A Purpose

This paragraph describes how SEL and CLP lenders must demonstrate that an applicant has sufficient financial resources to repay a guaranteed loan. PLP lenders use methods outlined in their CMS to determine the financial feasibility of a loan.

B Feasible Plan

The applicant's proposed operation must project a feasible plan. The cash flow budget analyzed to determine feasible plan must represent the predicted cash flow of the operating cycle.

Note: See Exhibit 2 for the definition of feasible plan.

A lender must determine whether an applicant has sufficient financial resources to repay a guaranteed loan. To make this determination, lenders work with the applicant to prepare a cash flow budget for the farm operation. As used in this part, the term "operation" includes all farm activities and income as well as all nonfarm income pledged by the applicant.

The cash flow budget used in the loan application must:

- reflect, as closely as possible, the predicted cash flow of the operating cycle
- be documented in sufficient detail to adequately reflect the overall condition of the operation.

*--The lender's projected cash flow budget should include all cash inflows and outflows. If the authorized agency official determines that cash inflows have been overestimated or cash outflows have been underestimated or omitted from the plan, the authorized agency official will recalculate the debt coverage. If the recalculation shows adequate cash flow, the authorized agency official will document the findings and proceed with processing the request.

If, after re-evaluation, the cash flow budget is no longer feasible, the lender will be notified and given up to 10 calendar days to revise the plan. The lender will justify any changes made to the cash flow budget.

Note: For Streamlined CL requests, a cash flow budget is **not** required. The lender should follow their internal procedures to determine financial feasibility.--*

151 Determining Financial Feasibility of Loans (7 CFR 762.125) (Continued)

B Feasible Plan (Continued)

Poultry or hog production contracts are the basis of grower income and facility value. The dependability of production contracts has a profound impact on the prospects for loan repayment. “Flock-to-flock” or “turn-by-turn” type arrangements alone may not be a dependable source of income or a reasonable projection of income for poultry or hog

*--applicants who **do not** have a current financial performance history with FSA.--*

Note: For contract income to be considered dependable, the contract must:

- be for a minimum period of 3 years
- provide for termination based on objective “for cause” criteria only
- require that the grower be notified of specific reasons for cancellation
- provide assurance of the grower’s opportunity to generate enough income to ensure repayment of the loan by incorporating requirements such as a minimum number of flocks or turns a year, minimum number of bird or hog placements per year, or similar quantifiable requirements.

Applicants requesting loans to expand their poultry or hog operation by adding more houses/barns or purchasing additional land to increase the size of the poultry or hog operation, and who **are** presently indebted to FSA, will be required to have a contract with a minimum 3-year term. The contract must at least cover the facilities financed with the guaranteed funds. When contract income **cannot** be determined to be dependable and likely to continue, that is **cannot** be used to reasonably project future income, the authorized agency officials shall:

- inform the guaranteed lender of the contract provisions that result in the determination.
- provide an opportunity for submitting a revised contract before a final decision on the request.

Note: Whenever possible, guarantee requests should be approved subject to modification of unacceptable contract provisions.

151 Determining Financial Feasibility of Loans (7 CFR 762.125) (Continued)**B Feasible Plan (Continued)**

*--The impact of industry trends must be assessed in guaranteed loan requests from poultry and/or hog growers and can be based on standard production budgets developed by contractors, consultants, or extension specialists. While these budgets are acceptable starting points, the budget must reflect realistic performance assumptions for the individual situation, including, but not limited to, the following:

- increased input costs
- changes in unit numbers and weights
- increased idle time between flocks of poultry or turns of hogs
- other relevant factors that affect net income.

The impact of age, condition, and potential obsolescence of the facilities must be assessed for loans to purchase or refinance existing facilities. Budgets must factor in any reduced efficiency and the potential costs for required modernization of existing facilities to comply with production contract requirements.

Note: Unless PLP lender's CMS specifically addresses how production contracts are evaluated and analyzed for financial feasibility, PLP lenders will comply with the requirements of this subparagraph.--*

Existing Promissory Notes - “FSA Guarantee Available”

2-FLP Par. 247A on page 10-14

2-FLP Par.247 A states that the lender can use its existing promissory note when the loan purpose is to refinance or restructure the lender's own debt. There should always be a justifiable reason (maintaining an interest rate, loan term, or lien position) for the lender to request a guarantee on an existing promissory note.

If FSA is placing a Loan Guarantee on a lender’s existing promissory note, even if the terms and conditions didn't change, a dated amendment/allonge/modification agreement is required to be executed that delineates the promissory note modification date and the unpaid principal balance. The lender may roll unpaid accrued interest into a new principal amount using the allonge provided the new principal amount is less than or equal to the loan amount approved and obligated by FSA.

ALLONGE Requirements:

- Lenders may use their own allonge form.
- Reference and specially identify the promissory note which it is modifying.
- Be signed by the borrowers as they have signed the promissory note.
- Include the date it is executed by the borrowers. Date must be equal to, and/or greater than, the date of the FSA-2232, Conditional Commitment.
- State the unpaid principal amount and accrued interest as of the date it is executed.
- Interest accrual owed as of the allonge date is not covered under the FSA Loan Guarantee.
- Lender must provide FSA with a copy of the signed original promissory note and allonge.

Example: Amendment/Allonge/Modification Agreement wording:

I (We) acknowledge a Farm Service Agency (FSA) Loan Guarantee has been placed on this promissory note and I(we) will comply with the FSA 2-FLP Handbook (7 CFR 762) rules and regulations while this guarantee is in effect. ...

FSA Loan Guarantee and GLS Processing

- Allonge date will be the “Date of Promissory Note” in block 7 on Form FSA-2235.
- Allonge date will be the FSA GLS loan closing date.
- Loan Amount on Form FSA-2235 in blocks 5 and 8c must match the GLS obligation amount and should be the principal amount as stated on the allonge (assuming a single note is used).
- If the original principal amount has been paid down, the new lower allonge principal amount should be used on Form FSA-2235 and entered into GLS. A partial GLS de-obligation may be necessary. FSA must obligate the same dollar and cent amount (\$36,023.07) to match the unpaid principal amount (\$36,023.07) owed the lender. DO NOT ROUND, as it must match exactly to the penny.

Secondary Market – Allonge Requirements

If the lender plans to sell the guaranteed portion on the secondary market, the loan approval official will attach a memo on FSA letterhead to the Loan Guarantee using the following language:

Farm Service Agency (FSA) acknowledges that the allonge entered into on May 28, 2020, between Bob and Betty Borrower, Anytown, USA, and First Bank, Anytown, USA, attaches to and amends promissory note number 1234 in the amount of \$300,000 and executed on April 1, 2020. FSA also acknowledges that this allonge was executed for the purpose of obtaining a guarantee on the previously executed promissory note 1234 and the date of the executed allonge is the closing date used for FSA Loan Guarantee purposes.

If you have any question, please contact our office.

Promissory Note Signature Requirements

2-FLP Par. 247A on page 10-14

The promissory note is executed by the individual liable for the loan.

On a case by case basis, a condition may be included on Form FSA 2232, Conditional Commitment, which specifies additional parties who must be liable for the loan; however, this condition must be related to the unique circumstances of the loan.

Entity promissory note requirements:

1. Executed by the member(s) who is authorized to sign for the entity. On entity loans, FSA recommends documentation (Article of Incorporation, Operating Agreement, entity legal document, etc.) be obtained that says who has the authority to sign the note and mortgage for the entity. Sometimes it takes ALL members of the entity to incur debt for the entity.
2. Executed to evidence liability for the entity, any embedded entities, and the individual liability of all entity members (including individual owners of embedded entities).

Personal guarantees, or other forms, will not be used to address the individual liability requirement. FSA cannot accept a lender's **Guaranty** document.

FSA's Loan Guarantee is tied to the promissory note and FSA cannot implement offset and/or collection procedures without the individuals' signature on the promissory note.

3. Individual liability can be waived by the Agency for members holding less than 10 percent ownership in the entity if the collectability of the loan will not be impaired.

FSA Handbook 2-FLP, Par. 166B states:

The lender is responsible for ensuring that proper and adequate security is obtained and maintained to fully secure the loan, protect the interest of the lender and the Agency, and assure repayment of the loan or line of credit.

The lender will obtain a lien on additional security when necessary to protect the Agency's interest.

Prenuptial Agreement

FSA's Attorney - "OGC" Opinion

Missouri Revised Statute § 451.220 states that the Prenuptial Agreement must be in writing, must be acknowledged by each of the contracting parties, and must be proved by at least one subscribing witness.

Missouri Revised Statute § 451.230 provides that marriage contracts (prenuptial agreements) are subject to the same acknowledgement and recording requirements as deeds of conveyance for land.

Missouri Revised Statute § 451.240 states that when there is real property at issue, the Prenuptial Agreement does not have legal effect unless such requirements are met.

Prenuptial Agreement must be recorded in order for the FSA security property to remain separate property, and to avoid FSA having to require spouse to assume personal liability for the debt on the property. The language in the MO statute is mandatory language – it says the document “shall” (rather than “may”) be recorded in order to be legally valid. Thus, there is no flexibility in the statutory language itself.

Also, the case law regarding some of the validity requirements for prenuptial agreements in Missouri is fairly extensive, and there have been cases where even when parties met those objective requirements (such as recording, witnesses, etc.) the contract has not been valid for other reasons (i.e. insufficient consideration, signed under duress, etc.). It is difficult enough to predict whether the contract may be held invalid for other reasons that are not always obvious.

In addition, we can't even assume that general provisions of Missouri law will automatically control if the prenuptial agreement is invalid – if ownership of this security property is the very issue the spouse contests as invalid in this prenuptial agreement, a court may conclude, depending upon the evidence submitted by the spouse (for example, if she shows some kind of fraud by the husband inducing her to sign these documents), that equity dictates she have ownership rights, contrary to both the Prenuptial Agreement and Missouri law. The recording is significant to FSA (and any other third parties) in the event that the spouse is actually granted some or all ownership rights through a court proceeding (i.e. divorce decree): that will provide at least some protection to FSA because we can argue on FSA's behalf that FSA had the required notice (through the recording) that the spouse had agreed to the property as separate, and therefore FSA did not require her personal liability on the debt.

Guaranteed Loan Request to Refinance Existing Guaranteed Loan(s)

Question: *Lender B has applied for a guaranteed loan to refinance Lender A's existing FSA guaranteed loan. Borrower is shopping interest rates. Existing guaranteed Lender A refused to lower the interest rate. Lender B applies for an FSA guaranteed loan to refinance Lender A's existing guaranteed loan. No other money involved.*

Answer: NO - Loan application from Lender B will be rejected as the loan applicant does not meet the basic 2-FLP Par 108 J – Test for Credit loan eligibility requirement. The refinancing reason must be for some other legitimate authorized loan purpose other than to just lower the interest rate. We realize that a lower interest rate from Lender B will lower the borrower's payment and improve repayment capacity, but usually the borrower's cash flow already reflects a feasible plan at Lender A's existing guaranteed loan higher interest rate.

Question: *What if Lender B is providing other credit needs that are essential to the farming operation that Lender A won't loan for?*

Answer: Yes, an application can be approved for Lender B to take over the entire financing needs of the borrower. FSA must be provided with the reason why the borrower does not wish to retain its business with the existing guaranteed lender. A file review must be completed by the AFLS.

Question: *What if the borrower is unhappy with its existing guaranteed Lender?*

Answer: FSA will not force the borrower to stay with this lender. FSA must be provided with the reason why the borrower does not wish to retain its business with the existing guaranteed lender. A file review must be completed by the AFLS.

Substitution Of Lender In all cases, a "Substitution of Lender" as per 2-FLP Par 287 can be approved by the SED to transfer the Loan Guarantees from Lender A to Lender B. However, both lenders must be in agreement for the substitution of lender to occur. FSA cannot force the original lender to agree to a substitution of lender transaction. The purchasing lender must be aware that the guaranteed loan(s) is being bought AS IS.

Matured Loan If Lender A's guaranteed loan has a fully matured promissory note, then it would be acceptable for Lender B to apply for a guaranteed loan to refinance Lender A's existing guaranteed loan without a contact being made.

Facts: Lender A's loan policy is that it will not issue a promissory note for longer than three (3) years. Lender closes guaranteed FO/LN loan 3-1-2018 utilizing a 15-year amortization repayment schedule with the loan maturing 3-1-2021. Existing lender can restructure the existing loan without occurring any additional loan fees.

Bridge Loan for Unfunded Direct FO Approved with Guaranteed FO

FSA cannot use the guaranteed FO loan program to guarantee a “Bridge Loan” which provided interim financing on an unfunded FSA Direct FO loan.

A Guaranteed FO and participation Direct FO loan were approved subject to the availability of funding. The Guaranteed FO/LN loan was funded, but the Direct FO remained unfunded and on a waiting list. Proposed lien position - Guaranteed FO to hold a 1st lien and the Direct FO a 2nd lien.

Question: The lender has agreed to make a “bridge loan” for the unfunded direct loan. Lender wants to close the guaranteed FO loan with a bridge loan with the bridge loan holding a 1st lien position and the guaranteed FO to be in a 2nd lien. When the direct FO is funded and closed, the bridge loan would be paid in full and the guaranteed FO loan would move into a 1st lien position. Can we allow this change in lien position?

Answer: NO *National Office stated that despite the good intentions from the lender the guaranteed loan must close as required by the Conditional Commitment. Therefore, the lender cannot close the guaranteed FO/LN loan until the Direct FO is funded.*

The FSA-2232, “Conditional Commitment,” cannot be issued until the direct loan is funded. Both the guaranteed FO and direct FO loan must be closed at the same time. If the lender makes a bridge loan, it will be for both the guaranteed and direct loan (unguaranteed) and no assurance/guarantee from FSA that it will be refinanced at a later date. Remember, new financial information is needed after 90 days. If circumstances change, FSA has the authority to reject both loans.

Exception: If the lender makes the nonguaranteed “bridge loan” in a 2nd lien position at an interest rate and loan terms that the loan applicant can repay based on the cash flow on which the loan was approved, the FSA-2232, Conditional Commitment, could be issued with the guaranteed loan closed in a 1st lien position. Unless the loan became in default for nonpayment, the lender would need to remain with the bridge loan, even if the direct FO loan remained unfunded or the direct FO loan could not be closed due to an adverse change.

Counterparty Risk

Will the supplier and/or grain buyer still be in business when it is time to pick up the supplies or grain check?

Do you know what the stability of the farm expense supplier and/or the grain/livestock buyer is? Can the borrower afford to take the risk?

Counterparty risk, otherwise known as default risk, is the risk of a contract that the counterparty will not live up to its contractual obligations. Counterparty risk should be considered when evaluating a contract.

- Selling grain under a cash contract in which the seller relinquishes possession and receives payment at a later date.
- Locking in and prepayment of fertilizer, chemicals, fuel, etc., which remain in the possession of the supplier.

Amish/Mennonite Insurance Requirements

As a general rule, FSA will accept for small loans without specialized buildings, the church-issued self-insurance letters, CAM or MUA as an alternative to customary property/casualty insurance.

Lender needs to request usage of alternative insurance in loan narrative. FSA's decision is based on loan type, \$\$\$ amounts, proposed operation, security, etc. on a case-by-case basis.

FSA will address insurance requirements in the FSA-2232, Conditional Commitment. If FSA requires insurance, lender can close loan with the church-issued self-insurance letters, CAM or MUA, but the FSA-2232, Conditional Commitment, will state that losses due to lack of state licensed property insurance are not covered by Loan Guarantee.

Insurance Policy

- Company supplying policy must be licensed or otherwise authorized by law to transact business in MO.
- Mandatory mortgage clause payable to lender

MO Statute – Request for Notice of Sale

Situation: Bank A holds a 1st lien on 160 acres.

Bank B holds a perfected 2nd lien taken as additional security for the FSA guaranteed loan.

Bank A is foreclosing on the 1st lien position.

Bank B was not notified and only recently saw the foreclosure notice in the newspaper.

Question: **Is there any MO Statute that requires the 1st lienholder to notify the 2nd or junior lienholder of the pending foreclosure?**

The primary notice of foreclosure must be given pursuant to RSMO 443.320 by publication notice.

RSMO 443.325 requires notice to be given to anyone who files a Request for Notice with the County Recorder when there is a foreclosure under a power of sale.

If the GL lender did not file a Request for Notice, its only notice would be the publication notice.

The filing of a Request for Notice is discretionary, but any prudent lender would file such a request so that it would know to enter a protective bid at the foreclosure sale or take other action as necessary to protect its secured position.

Utilizing FSA's Direct and/or Guaranteed Loan Programs to Purchase Farm at Public Auction

A number of farms are being sold at auction rather than through a real estate agent. We have received some inquiries from banks about wanting to use the FSA Direct and/or Guaranteed Farm Ownership program to finance the purchase at the public auction.

MAYBE: FSA can possibly make a Direct and/or Guaranteed FO in an auction situation. It is not easy, but it can be done. Many things must fall into place to allow this to happen. Both the applicant/lender must fully understand what FSA can and cannot do.

On a Direct FO Loan Request, FSA does not have a complete application without a contract. Therefore, FSA cannot order an appraisal of the property and/or approve a direct loan without a contract. FSA's budget is too tight to spend \$1000+ on an appraisal on the slight chance that our applicant will be the successful bidder. There is the issue when there are multiple applicants for the same property and how FSA would handle the appraising of the property.

Each FLM has the responsibility to manage their office as they see fit. If time permits, FSA can assist with a cash flow to see what the loan applicant could afford to pay.

The loan applicant/lender needs to have a "Plan B" in case the loan applicant is the successful bidder. Issues that could cause problems include, but not limited to, the following:

- What if the farm does not appraise for enough to cover the bid?
- What if there is an environmental issue on the farm?
- Can a bridge loan be obtained to fund the purchase until FSA funding is available or does the loan applicant have a third party that can purchase the farm and then re-sell it back to them?
- What if FSA wasn't told the complete truth up front?
- What if there are marital or cash flow problems?

In summary, FSA cannot provide any type of commitment, and if the loan applicant purchases land at a public auction, they are on their own. If the loan applicant is the successful bidder, FSA can start processing the application, but there are no guarantees that the loan will be approved. FSA cannot obligate any money until we have an approved loan.

Federal and State Income Tax Forms

When obtaining a copy of the borrower's income tax records, the following should be copied:

- ✓ a complete copy of the FEDERAL Tax Return and ALL supporting schedules
- ✓ a complete copy of the STATE Tax Return and ALL supporting schedules

Obtain a copy of the borrower's **depreciation schedule** on chattel secured loans.

Having trouble getting a copy of the borrower's Federal and/or State Income Tax Records? Obtain income tax records directly from IRS by having the borrower execute the following forms:

1. **Federal:** Form 4506, "Request for Copy of Transcript of Tax Form." Form 4506 must be received within 120 days of signature date.

Note: The IRS can provide a **Tax Return Transcript** for many returns free of charge. The transcript provides most of the line entries from the original tax return. See **Form 4506-T, Request for Transcript of Tax Return**, or you can call 1-800-908-9946 to order a transcript.

2. **State:** Form 1937, "Request for Photocopy of Missouri Income Tax Return."

Amount of Security in Today's Volatile Market

How much collateral that the lender proposes and/or FSA requires to adequately secure the FSA Loan Guarantee depends on what security is available and the guaranteed loan risk exposure. In today's volatile market (real estate and commodity), it is imperative that FSA ensure that proper and adequate security for the guaranteed loan be obtained and maintained.

FSA 2-FLP Par. 166 B states that security must be adequate to fully secure the loan and that more security will be taken whenever it is available. It is the FSA loan approval official's responsibility to complete a guaranteed loan collateral due diligence analysis. The FSA Loan Guarantee is not a substitute for the lender requiring adequate collateral to fully secure its loan.

FDIC and other farm financial experts have expressed a concern about the market value of farm real estate. Farm real estate values in the 80's had a 25% market correction from its high to the low. FSA loss claim risk increases if there would be a similar farm real estate market adjustment. We cannot predict the future, but the possibility of a farm real estate market correction does exist.

Example:

\$500,000 1 st lien nonguaranteed loan
<u>\$600,000 2nd lien FSA Loan Guarantee</u>
\$1,100,000 total risk exposure

Real Estate Assets:

450 acres @ \$3,000/acre = \$1,350,000 proposed FSA guaranteed loan security

80 acres @ \$4,000/acre = \$320,000 with no debt – lender not taking as guaranteed loan security

\$1,100,000 total risk exposure divided by \$1,350,000 proposed FSA guaranteed loan security
= 81.48% risk exposure

FSA will approve the loan and require in the FSA-2232, Conditional Commitment, that the lender will obtain a 1st lien on the \$320,000 - 80 acres as additional security. USPAP appraisal not required on the 80 acres since taken as additional security

If the guaranteed loan applicant is not willing to provide the 80 acres as additional security, then the loan will be rejected (test for credit and security issue) and appeal rights provided.

Amount and Quality of Security
“Adequate Security”
2-FLP Par.166 (7CFR 762.126) on pages 8-113 through 8-114

1. **The lender is responsible for ensuring that proper and adequate security is obtained and maintained to fully secure the loan, protect the interest of the lender and the Agency, and assure repayment of the loan or line of credit.**
2. **The lender will obtain a lien on additional security when necessary to protect the Agency’s interest.**

At a minimum, FSA requires the value of the security to be at least equal to the loan amount. However, more security will be taken whenever it is available.

A 1:1 loan to value ratio is not adequate when additional security is available. The adequacy of security will be judged in consideration of the total security available, prior liens, and the lender’s normal practices.

More security may be required if:

- the quality of the security is low
- cash flow is below average
- production capability is suspect
- management history is limited
- enterprise is not firmly established or is atypical for the area.

To evaluate the quality and overall adequacy of the proposed security, the lender should evaluate and determine that more security is required to protect themselves and FSA’s interests based on the answers to the following questions:

- Is the value of the primary security at least equal to the proposed loan amount?
- Is additional security available?
- Is this a specialized operation with limited sale opportunities?
- What is the age, durability, depreciation rate, and useful remaining life of the security?
How does this compare to the term of the loan?
- What is the proposed lien position on the primary security?
- Is the applicant’s net worth high or low compared with their total liabilities, including the proposed amount of the loan or LOC?
- Does the loan applicant have a strong cash flow position and high profitability?

In summary, most lenders tend to cross-collateralize all loans on all available security.

An assignment will be used when appropriate (crop insurance, integrated hog and poultry contracts, dairy, FSA program payments, etc.) in an amount sufficient to make the installments due on the loan.

Amount and Quality of Security
“Lien Position”

2-FLP Par.166 (7CFR 762.126) on pages 8-115 through 8-116.5

1. **Any chattel-secured guaranteed loan must have a higher lien priority (including purchase money interest) than an unguaranteed loan secured by the same chattels and held by the same lender.**

Note: Any lender, who holds an unguaranteed loan with a first lien on the same collateral proposed as security for a guaranteed loan, must subordinate its lien position to the guaranteed loan.

2. **Junior lien positions are acceptable only if the total amount of debt with liens on the security, including the debt in junior lien position, is less than or equal to 85 percent of the value of the security.**

85% Junior Lien Example

Loan collateral valued at \$100,000
Unguaranteed loan – 1st lien position at \$50,000
Guaranteed loan – 2nd or junior lien position limited to \$35,000
Total debt limited to \$85,000 or 85%

When a guaranteed loan is in a 1st lien position, FSA can make a 100% loan to collateral value.

When guaranteed and unguaranteed loans share equal lien position: neither loan will be considered junior. In these situations, the lender will provide a written agreement, agreeable to FSA, outlining how proceeds will be distributed if security is liquidated. If an agreement is not provided, then when any equally shared security is liquidated, the net proceeds shall be divided pro-rata based on the amounts loaned.

Example: When the net proceeds are divided pro-rata, if the lender makes a \$700,000 guaranteed loan in conjunction with a \$300,000 unguaranteed loan and the security is subsequently liquidated resulting in \$800,000 net proceeds, \$560,000 would be applied to the guaranteed loan and \$240,000 to the unguaranteed loan.

3. **Junior liens on crops or livestock products will not be relied upon for security unless the lender is involved in multiple guaranteed loans to the same borrower and also has the first lien on the collateral.**
4. **When taking a junior lien, prior lien instruments will not contain future advance clauses (except for taxes, insurance, or other reasonable costs to protect security), or cancellation, summary forfeiture, or other clauses that jeopardize the Government’s or the lender’s interest or the borrower’s ability to pay the guaranteed loan, unless any such undesirable provisions are limited, modified, waived or subordinated by the lienholder for the benefit of the Agency and the lender.**

Note: Provisions on prior lien instruments, such as prepayment penalties, will be considered when evaluating the collateral value of the lender’s security on the guaranteed loan.

National Office has the authority to grant an exception of any requirement involving security. Request must be in writing and explain why the change is in the best interest of the Government and that the collectability of the loan will not be impaired.

Separate and Identifiable Security

2-FLP Par. 167 (7 CFR 762.126(c))

Par 167 B states:

The guaranteed loan must be secured by identifiable collateral. To be identifiable, the lender must be able to distinguish the collateral item and adequately describe it in the security instrument.

1. Financing Livestock

For livestock operations, the purchase or refinancing will be limited to either a guaranteed loan or a non-guaranteed loan, but not both. We will not allow a lender to co-mingle guaranteed loan security with the same class of livestock that isn't security for the guaranteed loan. More than one owner's livestock co-mingled in the same lot/pasture/field and/or on the same farm is not acceptable in meeting the guaranteed loan separate and identifiable security requirements.

Exception may be considered on a written percentage ownership (50%, 75% 2/3rd, etc) agreement that includes all owners and states all costs, death loss, and sales are split based on the percentage. All creditors involved must be in total written agreement.

Any exception to this policy must have prior state office written approval.

Different breeds, branding, ear tagging, or tattooing are not sufficient distinction. Reasons:

- Will a picture be taken of each and every head?
- The feed was paid with guaranteed OL/LOC loan funds. Do the cattle with the other identification or non-FSA security know not to eat the feed in front of them?
- Isn't FSA's security property that always gets sick and die, struck by lightning or stolen, etc?
- Ask the question if an inspection will be made every time that an animal dies and /or is sold. When accounting for death loss, will a carcass inspection be done and picture taken it include the identification markings?
- The problem of splitting by breed is that when they are sold, the sale barn may not do a very good job of identifying the cattle on the sale receipt as they might be listed as all X-bred. Will a picture be taken at the sale barn?
- Another problem is age.
- Calves grow up and become yearlings; yearlings become heifers; and heifers become cows. When does one creditors lien end and another creditor's lien start?
- What if there are multiple brands and/or tattoos?

2. Financing Machinery

In most instances, individual items of machinery/equipment are NOT considered to be "Separate and Identifiable Security" for guaranteed loan purposes. On a case-by-case basis, exception may be allowed for a tractor, combine, cotton picker, licensed vehicle/trailer or unique items of machinery.

Any exception to this policy must have prior State Office written approval.

Transfer of Ownership Assets – Documentation Required

For estate/tax purposes, borrower/loan applicants are being advised to transfer assets from one type of ownership to another type of ownership. Typical example: As individuals, the borrowers have transferred assets to an entity such as a trust, LLC, partnership, etc. On loans secured by chattels, a Bill of Sale or transfer of ownership document from the individual to the entity must be obtained for file documentation purposes. Remember that a taxable event may occur with the transfer of assets.

FSA can continue with an individual guaranteed loan as long as the entity to whom the chattel or real property was transferred to executes/signs the existing promissory note as a co-obligator.

Chattel Security Requirements When Legal Ownership/Title Could be Questioned

Legal ownership of chattel assets can become an issue, when machinery/equipment and/or livestock is given to, borrowed from, stored, leased, and/or shared with a relative, neighbor, or friend. Legal ownership must be resolved upfront. A written ownership statement and/or certification must be obtained from the other party regarding any and all of the items listed on the borrower's security agreement that could become a legal ownership problem.

All chattel security that is jointly owned will have an "Agreement for Disposition of Jointly Owned Property" that is to be signed by all owners of the property, including spouses.

It is important that a chattel lien search be completed on previous owners to determine if the property is free and clear of all liens and encumbrances. A partial release from another creditor may be required to properly perfect FSA's required 1st lien position.

Example: Son has applied for an FSA loan and does not have adequate collateral to obtain the loan. Dad offers to give or gift son specific items of machinery. In this situation, a Bill of Sale (\$1 and other considerations) must be obtained that includes a detailed description of the machinery and all of the previous owners' signatures including spouses. Lender must be assured that "gift item" is free of liens.

Leased Equipment – Documentation Requirements

Leased equipment is not owned, but leased from a third party. We understand that there may be a right-to-purchase agreement. If this right-to-purchase agreement is executed by the borrower, the item now becomes security for the guaranteed loan due to the now owned and hereafter acquired property clause in the Conditional Commitment.

Leased equipment should not be appraised and used as collateral for a guaranteed loan. Better loan documentation needs to be made when equipment leases are included in the cash flow.

The lender needs to obtain and/or submit a copy of the lease to FSA. The guaranteed file needs to reflect at least the following information:

- For what purpose was the lease entered into? (tractor, combine, irrigation, equipment, etc.)
Be specific and include manufacturer and model.
- Payment amount? (annually, monthly, semi-annually, etc.)
- Lease payment due date? (month/year)

For those guaranteed lenders that do not have to submit everything to the Agency, the credit presentation, loan narrative/cover letter, and/or cash flow needs to address any equipment leases.



UCC1 & MO Secretary of State

Website: <http://www.sos.mo.gov/>

As of August 28, 2013, a change was made to MO UCC laws regarding the name used to file a UCC1. Now the person's name on their valid MO driver's license is the one that is used to file a UCC1. Consequently, the Office of General Counsel, FSA's attorneys, has provided the following guidance to our offices.

1. **When completing a UCC1 Financing Statement for initial filing for an individual, if the person has a valid Missouri driver's license, the name that will be shown on the UCC1 as the Debtor will need to match the driver's license exactly. IF the person's full legal name is different than the name on their valid Missouri's driver's license, you need to put the full legal name on the UCC1 as an additional debtor. This is true for each individual that will sign the security instruments.**

As documentation of the driver's license name, you will need copies of each person's driver's license as part of a complete application. Date stamp the copies the day they are received in the office to document the basis for using that specific name at this point in time.

2. When completing a UCC1 Financing Statement for initial filing for a formal entity, the financing statement must contain the name that is stated to be the registered entity's name on public record most recently filed with, issued to, or enacted by the jurisdiction of the organization, i.e., Articles of Incorporation, Partnership Agreement, etc.
3. If the person does not have a valid Missouri driver's license, including people that have driver's licenses from other states, the person's full legal name will be shown on the UCC1 Financing Statement.
4. The person's full legal name will still be reflected on all other debt and security instruments such as notes, Deeds of Trust, and security agreements, in accordance with FSA's regulations and Handbook requirements.
5. Existing UCC1 Financing Statements are still legally valid with only full legal names on them. However, as they come up for continuation, or if there is a reason to amend them, add the driver's license name as an additional debtor. If the person has more than one UCC1 Financing Statement, it's recommended to make all necessary changes to all UCC1s at one time.
6. **Creditors are responsible for monitoring changes in the person's name as reflected on their valid Missouri's driver's license since that name may change.**

Consequently, as you work with borrowers, check the names to be certain there aren't any changes from what is on the UCC1 Financing Statement. If there are changes, follow the guidance as outlined above.

FSA's Direct Loan Collateral Description - UCC1 & Security Agreement

FSA on the advice of its attorney, Office of General Counsel (OGC), uses the following general collateral description on its UCC1:

- a. *All crops, livestock, farm products, equipment, certificates of title, goods, supplies, inventory, accounts, deposit accounts, supporting obligations, payment intangibles, general intangibles, investment property, crop insurance indemnity payments, and all entitlements, benefits, and payments from all state and federal farm programs.*
- b. _____;and
- c. *All proceeds, products, accessions, and security acquired hereafter.*

The security interest perfected secures a future advance clause and the security agreement contains an after acquired property clause.

Disposition of such collateral is not hereby authorized.

On the UCC1 filings, FSA does not use a detailed description nor does it list serial numbers. Rather a detailed description (Quantity, Kind, Manufacturer, Size and Type, Condition, Year of Manufacture, & Serial Number) is clearly and with great care listed on the Security Agreement. It is our opinion that the purpose of UCC filings is to alert others (lenders and anyone needing credit information) that someone has a financial interest with the Debtor. If someone wants to know what specific item a creditor has a lien on, then they need to contact the creditor holding the UCC1 lien position for further details, generally a copy of the Security Agreement.

Conducting and Review of Secretary of State UCC Lien Searches

An online lien search in the office of Secretary of State is required for UCC filings to determine proper lien position. FSA uses the following steps to complete an online lien search:

1. Use the MO Secretary of State's website <http://www.sos.mo.gov/ucc/>.
Click on the "Research UCC Filings" link.
2. Login with your User ID and Password that you must obtain from the Secretary of State's Office.
3. Select "New UCC Search".
4. Select Individual or Organization.
If an individual, both "Standard" and "Non-Standard" searches should be run on the customer's
 - full legal name
 - driver's license name, if different than full legal name
 - commonly known name
 - last name with first initial
5. Separate lien searches are required for all parties that are to become debtors for loans. In addition, a lien search would be required for any party that pledges security for a loan who would not become a debtor. All the searches should be saved and/or printed for lien analysis and filed in the case file.
6. When there is a match for a customer, additional filing information is available by clicking on the "View Filing Chain" button.
7. By clicking on the "View Document" button, you can see the UCC on file.
8. Save and/or Print the UCC.

County Clerk/Recorder's Office Lien Searches

It is the lender's responsibility to complete a lien search to show that the required chattel lien position is obtained.

FSA instructs its offices when searching in the County Clerk/Recorder's Office that a Report of Lien Search should include all financing statements filed of record, any Federal Tax Liens of record filed during the past eleven years and one month, and any judgments of record filed during the past twenty years. Relying on Case.net as the sole source of information for judgments is incomplete, since Missouri Circuit Court records reflected on Case.net vary widely on the start date for the reported information. Some Circuit Court records are only available through Case.net for public cases filed since 2006.

If a borrower moved within the past five years from another county or operates land in more than one county, a Report of Lien Search should be obtained from each county.

FSA Direct loans records search requirements:

<u>Type of Lien</u>	<u>Office</u>	<u>Period of Search</u>
Fixture filings	County Recorder	5 Years
Federal and/or State tax liens	County Recorder	11 Years & 1 Month
Judgments	County Recorder	20 Years

FSA-2201
(10-24-16)

U.S. DEPARTMENT OF AGRICULTURE
Farm Service Agency

Position 2

LENDER'S AGREEMENT

NOTE: *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 page 6. Your signature indicates consent with this agreement.*

PART A – BACKGROUND INFORMATION

1. Lender's Name and Mailing Address	2. Lender 9 Digit Tax Identification Number
	3. Telephone Number (Include Area Code)

4. Check the Lender's status as approved by Agency:

Preferred Lender (PLP) Certified Lender (CLP) Standard Eligible Lender (SEL) Micro Lender (MLP)

5. The following branch offices of the lender are covered under this agreement: (Include a complete address for each branch)

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

In accordance with Federal civil rights law and U.S. Department of Agriculture (USDA) civil rights regulations and policies, the USDA, its Agencies, offices, and employees, and institutions participating in or administering USDA programs are prohibited from discriminating based on race, color, national origin, religion, sex, gender identity (including gender expression), sexual orientation, disability, age, marital status, family/parental status, income derived from a public assistance program, political beliefs, or reprisal or retaliation for prior civil rights activity, in any program or activity conducted or funded by USDA (not all bases apply to all programs). Remedies and complaint filing deadlines vary by program or incident.

Persons with disabilities who require alternative means of communication for program information (e.g., Braille, large print, audiotape, American Sign Language, etc.) should contact the responsible Agency or USDA's TARGET Center at (202) 720-2600 (voice and TTY) or contact USDA through the Federal Relay Service at (800) 877-8339. Additionally, program information may be made available in languages other than English.

To file a program discrimination complaint, complete the USDA Program Discrimination Complaint Form, AD-3027, found online at http://www.ascr.usda.gov/complaint_filing_cust.html and at any USDA office or write a letter addressed to USDA and provide in the letter all of the information requested in the form. To request a copy of the complaint form, call (866) 632-9992. Submit your completed form or letter to USDA by: (1) mail: U.S. Department of Agriculture Office of the Assistant Secretary for Civil Rights 1400 Independence Avenue, SW Washington, D.C. 20250-9410; (2) fax: (202) 690-7442; or (3) email: program.intake@usda.gov. USDA is an equal opportunity provider, employer, and lender.

Using the Appraisal to Determine the Useful Life of Security

2-FLP Par. 181 B states that appraisals are not part of a “complete” loan application and that the guaranteed loan may be approved by the loan approval official, subject to the lender obtaining an acceptable appraisal. The key word is “may.”

Information from the appraisal and/or the appraisal should be requested prior to the loan approval decision when:

1. Information from the appraisal is needed to determine maximum allowable loan terms.

As per 2-FLP Par. 137, all guaranteed term OL and/or FO loans must be scheduled for repayment over the minimum period necessary considering the loan applicant’s ability to repay and the useful life of the security. A shorter repayment period than the lender requested may need to be approved to be assured that the loan will be adequately secured throughout the term of the loan, taking into account the probable depreciation of the security. Obtaining a copy of the appraisal prior to loan approval may be necessary to determine the useful life of the security. This is extremely important when the loan purpose is to refinance debt on an existing integrated livestock confinement facility.

2. Security or loan value is an issue.

When the loan has been approved subject to the appraisal, the lender is responsible for obtaining an acceptable appraisal before loan closing.

Depreciation Can Affect Repayment Capacity

When depreciation potentially can have an adverse affect, FSA has developed the following tools to assist in the loan decision process:

FSA Tools available at: <http://www.fsa.usda.gov/Assets/USDA-FSA-Public/usdfiles/State-Offices/Missouri/lenders/lenders.pdf>

1. Depreciation Loan Term Calculator 8/15/2018
2. Loan Term Depreciation Feasibility 8/15/2018.xls

Poultry Mitigation

Economic difficulties still plague the poultry industry. Dramatic increases in energy and other costs, periodic reductions in demand leading to increased flock placement intervals, increased/decreased bird weight, building/equipment upgrade requirements, and other relevant factors that affect net income have affected profit margins and returns.

FSA must mitigate its security/repayment capacity risk. FSA has a significant risk exposure, primarily through loan guarantees, with producers who grow poultry under contract.

FSA's instructions (2-FLP Par.151) require a dependable source of farm and/or non-farm income in its evaluation, assessment, and analysis of direct and/or guaranteed loan applications from family farms by the loan approval official. Any application involving a company that contracts for livestock production needs to be financially strong and have a proven history for similar type of production contracts. Company information should be evaluated and used as an indicator of the strength and weakness of the livestock production contract.

Security: Term of the loan equal to and/or less than the economic useful remaining life of the facilities and land. Utilize the depreciation loan term calculator.

FSA needs the integrator's commitment and requires a 3 year minimum grower agreement contract.

Contract Requirements

Before income from a poultry production contract can be considered a dependable source of income, the poultry production contract must:

- provide assurance of the producer's opportunity to generate income with which to develop a cash flow budget and repay the loan. This assurance must be stated in the contract, which will incorporate requirements, such as a minimum number of flocks per year, minimum number of bird placements per year, or similar quantifiable requirements.
- provide for termination based on objective "for cause" criteria only
- require that the grower be notified of specific reasons for cancellation

Feasibility - Repayment Capacity

2-FLP Par.151 B requires that the cash flow budget used in the loan application must:

- reflect, as closely as possible, the predicted cash flow of the operating cycle
- be documented in sufficient detail to adequately reflect the overall condition of the operation.
- reflect realistic performance assumptions for the individual situation, including, but not limited

to, the following:

- increased input costs
- changes in unit numbers and weights
- increased idle time between flocks of poultry
- other relevant factors that affect net income

- must factor in any reduced efficiency and the potential costs for required modernization of existing facilities to comply with production contract requirements. The impact of age, condition, and potential obsolescence of the facilities must be assessed for loans to purchase or refinance existing facilities.

Where depreciation and/or security may be a concern, the Agency loan approval official may require a reduced loan term other than what the lender requested when the cash flow margin is greater than 110%.

Refinancing Debt on an Existing Facility: Loan Applicant must provide:

- last 3-years of actual settlement statements
- last 3-years Federal and State Income Tax Records with all supporting schedules
- depreciation schedule

Purchase of Existing Facilities: Seller must provide the:

- last 3-years of actual settlement statements
- last 3-years of actual operating expenses on the facility

New construction: Borrower must agree to depreciate the equipment over a 10-year MACRS recovery period and the buildings over a 15-year MACRS recovery or a yearly cash flow will need to be provided for every year of the loan starting in year eight.

Down Payment: If a cash down payment is being offered as part of the loan financing package it must be unencumbered and verified as such.

Loan Terms

Prudent lending practices warrant loan terms be limited as to the:

- Amount of equity in the proposed collateral
- Contributory useful economic remaining life of the proposed collateral
- Term of the production contract & Integrator strength/reliability
- Reliable income generated (farm and nonfarm)

New Construction Loan Terms

New building construction loans terms are limited to the following unless there are extenuating circumstances:

1. Any new building incentive paid back on a separate note/loan.
2. Building (70% of total construction costs) terms limited to a FO/LN 15-year amortized payment.
3. Equipment (30% of total construction costs) terms limited to 7-year OL/LN and should not exceed a 10-year amortization.
4. Bare land contributory value limited to 30-year amortized payment.
5. Non-poultry contributory building value limited to remaining useful economic life not to exceed a 30-year amortized payment.

Existing Facilities Loan Terms

When loan funds will be used to refinance and/or purchase existing specialized buildings/integrated livestock facility, the loan approval official must document that the proposed guaranteed loan repayment terms do not exceed the contributory useful economic remaining life (equipment and/or buildings) of the proposed collateral based on the facilities actual age. Existing poultry facility loan terms are limited to the following, unless there are extenuating circumstances:

1. Poultry contract term being offered.
2. Actual physical age of the poultry building and equipment subtracted from date of the new construction (building = 15-years and equipment = 10-years).
3. Bare land contributory value limited to 30-year amortized payment – no balloon.
4. Non-poultry contributory building value limited to remaining useful economic life should not exceed a 30-year amortized payment – no balloon.

Suggested “Loan Agreement” Requirements:

1. Information Exchange Waiver: It is essential to the success of the operation that the lines of communication remain open between the contract grower, lender and the integrator. Privacy Act liability concerns have been expressed as an issue. Therefore, the borrower/grower must grant permission for open discussion and exchange of information and/or documents concerning production and management issues between the lender and integrator, strictly related to the poultry enterprise, while under the contract grower agreement.

Within two weeks of the lenders request, the loan will be in nonmonetary default if the grower does not set up and participate in a “Grower, Lender and Integrator” meeting.

2. Settlement Statements: When requested by the lender, the grower will provide copies of the individual flock settlement statements. Can be provided on an annual or on an as needed basis.

Within two weeks of the lenders request, the loan will be in nonmonetary default if the grower does not provide the settlement statements.

3. Income tax records: Complete copy of the Federal and State Income Tax Return with ALL supporting schedules including the depreciation worksheet. If not provided by (*insert date*), loan will be in nonmonetary default.
4. Annual financial statement: If not provided by (*insert date*), loan will be in nonmonetary default.

Servicing Existing Guaranteed Loans:

FSA will work on a case by case basis with lenders on servicing existing guaranteed loan indebted borrowers. FSA will require documentation from the Integrator indicating continuance even without contract, if no contract can be obtained. No new loan funds will be provided, if Integrator is not determined to be a reliable source of income (Determined by STO). Term cannot exceed remaining useful life of collateral.

Poultry Farm – No Dwelling:

Recent history reflects poultry inventory farms will not sell without a livable dwelling or will be greatly reduced causing unnecessary losses to lenders and FSA. What is the loan to market value? Is additional security available? Are there any mitigation risk options available to reduce the guaranteed loss risk? If no to these questions, the loan may not be able to be approved. Can a dwelling be added to poultry farm site in the future? If yes, then documentation must be provided as to costs involved and the dwelling’s contributory value.

Appraisals: The USPAP appraiser must be provided the following information:

1. Contract Terms
 1. Proposed Gross Income Expected (# birds X # flocks X bird size X \$.xx/lb)
 2. Length of Contract
2. Poultry Equipment Age
 - Waterers: Original Equipment? Yes or No If no, year(s) totally replaced _____
 - Feeders: Original Equipment? Yes or No If no, year(s) totally replaced _____
 - Radiant Brooders: Original Equipment? Yes or No If no, year(s) totally replaced _____

If age unknown or the seller/owner of a facility does not provide the actual age of the equipment (waterers, feeders, and radiant brooders) age will be determined from the date facility was originally built. If equipment was totally replaced over a period of years, age will be determined from the 1st year replacement started.
3. Equipment Supplier cost estimate for “essential” repairs/upgrades to obtain contract.
4. Equipment Supplier evaluation/best guess estimate as to when the equipment will need to be replaced/upgraded.
 - Waterers: _____
 - Feeders: _____
 - Radiant Brooders: _____

Existing Facilities: Requires FSA State Office Review/Concurrence If Actual Age PLUS Proposed New Loan Terms Exceed 25 years

State Office review/concurrence is required for use of any guaranteed loan funds to finance facilities when the actual age plus proposed new loan terms exceed 25 years. Submit the following information through the Area Farm Loan Specialist:

1. Type of operation
2. Integrator
3. Whether facility has been retrofitted to meet all of the Integrators “Premium Standards” criteria.
4. Actual age and remaining useful economic life of poultry building
Actual____Remaining _____
5. Actual age and remaining useful economic life of poultry equipment
 - Waterers: Actual ____ Remaining ____
 - Feeders: Actual ____ Remaining ____
 - Radiant Brooders: Actual ____ Remaining ____
6. Breakdown of the contributory value on the guaranteed loan security being offered
 - poultry building
 - poultry equipment
 - bare land
 - other buildings
7. Poultry contract term
8. Proposed loan type and term of loan
9. Detailed justification for making a loan on this facility

Secondary Market Sequence of Selling Loans

- 1. Lender closes loan.**
- 2. FSA issues FSA-2235, Loan Guarantee.**
- 3. Loan can only be sold after it is fully advanced.**
- 4. Lender contacts secondary market.**
- 5. Secondary market accepts loan and a settlement date is established.**
- 6. Lender sends copy of FSA-2235, Loan Guarantee and promissory note (documents needed as established by secondary market).**
- 7. Lender sends FSA-2242, Assignment of Guarantee, with lender's original signature to FSA along with documentation of settlement date.**
- 8. FSA determines the following:**
 - The name of the holder,**
 - The holder is not the borrower or a relation of the borrower and is not an owner or subsidiary of the lender itself,**
 - The loan is current,**
 - The lender is selling only the guaranteed portion of the loan, and**
 - FSA is not currently holding a guaranteed portion of a loan for more than 180 days that the lender refused to repurchase from a holder.**
- 9. Once it is determined the loan is eligible to be sold, verify that all information on the FSA-2242(s) is consistent with the FSA-2235 "Loan Guarantee" and the promissory note.**
- 10. The authorized agency official will sign in blue ink or digitally sign with a blue ribbon certification (provided the holder accepts FSA's digital signature) the FSA-2242 "Assignment of Guarantee", mark original on all pages, and mail the original hard copy or email the digitally signed copy DIRECTLY to the holder listed in item 3 along with a cover letter including USDA letterhead as verification of the guarantee. Courtesy copy will be sent to the lender.**

Secondary Market Opportunities - FSA Guaranteed Loans

The secondary market for USDA guaranteed loans is a key feature of the guaranteed lending program. The lender may resell the guaranteed portion of the loan to an interested party. The interested party then becomes the *Holder* of the loan, but the original lender must retain the loan servicing responsibilities.

Investors who are looking for safe investments with a reasonable return are attracted to these loans because of the Government's full Faith and Credit guarantee against default. The existence of the secondary market makes guaranteed loan notes more liquid. By reselling the guaranteed portions, lenders reduce interest rate exposure, increase their lending capabilities, and generate fees.

The existence of the secondary market is a strong inducement for lenders to become involved in guaranteed lending. Selling the guaranteed portion of the loan to other investors offers a number of advantages, including:

- **Reduced Interest Rate Risk.** Lenders can transfer risk of interest rate increases on the guaranteed portion of a fixed rate loan.
- **Increased Liquidity.** Selling the loan on the secondary market frees the funds for additional lending or investing activity.
- **Increased Lending or Investing Capabilities.** Since the guaranteed portion of the loan is generally not applied against a bank's lending limit, it can be used to expand lending capabilities.
- **Increased Return on Investment and Retains Loan Servicing Duties.** The sale of the guaranteed portion of the loan in the secondary market increases the lender's overall return on investment. Each time a bank sells a guaranteed portion, it generally retains a servicing fee of ½ % to 2 % on the guaranteed portion sold on the secondary market. Retaining the loan servicing responsibilities maintains the relationship with its customer.
Example: As of 10/12/2018 Farmer Mac II offered a 15-yr fixed rate on a 25-yr Am for 4.85%. 4.85% Farmer Mac II rate + 1% servicing fee = 5.85 % promissory note rate.

1. Unguaranteed Portion (10%)

\$	50,000	Unguaranteed Portion (\$500,000 loan amount X 10%)
	5.85%	Note Rate (unguaranteed rate can be on a different rate structure)
\$	2,925	Interest on Unguaranteed Portion

2. Guaranteed Portion (90%)

\$	450,000	Guaranteed Portion (\$500,000 loan amount X 90%)
	1%	Servicing Rate
\$	4,500	Servicing Fee

3. Interest & Fee Income Year 1

\$2,925 + \$4,500 = \$7,425

4. Return with a 1% Servicing Fee

\$7,425 / \$50,000 = 14.85% ROA plus \$450,000 available to loan to another customer.

- **Rates and Terms.** Lenders may be able to offer the producer more flexible repayment terms, as well as fixed and/or reduced interest rates, to improve cash flow.
- **Sales tool** – Provide fixed-rate long term financing. Lenders can use to keep existing or attract new customers.

How Much Are You Making on Your Guaranteed Loans?

ROA CALCULATOR 90% Guaranteed Portion

Spread (between Loan Rate and Net Yield)
(Servicing Fee or Margin)

	1.00%	1.25%	1.50%	1.75%	2.00%	2.25%	2.50%	2.75%	3.00%
5.00%	14.00%	16.25%	18.50%	20.75%	23.00%	25.25%	27.50%	29.75%	32.00%
5.25%	14.25%	16.50%	18.75%	21.00%	23.25%	25.50%	27.75%	30.00%	32.25%
5.50%	14.50%	16.75%	19.00%	21.25%	23.50%	25.75%	28.00%	30.25%	32.50%
5.75%	14.75%	17.00%	19.25%	21.50%	23.75%	26.00%	28.25%	30.50%	32.75%
6.00%	15.00%	17.25%	19.50%	21.75%	24.00%	26.25%	28.50%	30.75%	33.00%
6.25%	15.25%	17.50%	19.75%	22.00%	24.25%	26.50%	28.75%	31.00%	33.25%
6.50%	15.50%	17.75%	20.00%	22.25%	24.50%	26.75%	29.00%	31.25%	33.50%
6.75%	15.75%	18.00%	20.25%	22.50%	24.75%	27.00%	29.25%	31.50%	33.75%
7.00%	16.00%	18.25%	20.50%	22.75%	25.00%	27.25%	29.50%	31.75%	34.00%
7.25%	16.25%	18.50%	20.75%	23.00%	25.25%	27.50%	29.75%	32.00%	34.25%
7.50%	16.50%	18.75%	21.00%	23.25%	25.50%	27.75%	30.00%	32.25%	34.50%
7.75%	16.75%	19.00%	21.25%	23.50%	25.75%	28.00%	30.25%	32.50%	34.75%
8.00%	17.00%	19.25%	21.50%	23.75%	26.00%	28.25%	30.50%	32.75%	35.00%
8.25%	17.25%	19.50%	21.75%	24.00%	26.25%	28.50%	30.75%	33.00%	35.25%
8.50%	17.50%	19.75%	22.00%	24.25%	26.50%	28.75%	31.00%	33.25%	35.50%
8.75%	17.75%	20.00%	22.25%	24.50%	26.75%	29.00%	31.25%	33.50%	35.75%
9.00%	18.00%	20.25%	22.50%	24.75%	27.00%	29.25%	31.50%	33.75%	36.00%
9.25%	18.25%	20.50%	22.75%	25.00%	27.25%	29.50%	31.75%	34.00%	36.25%
9.50%	18.50%	20.75%	23.00%	25.25%	27.50%	29.75%	32.00%	34.25%	36.50%
9.75%	18.75%	21.00%	23.25%	25.50%	27.75%	30.00%	32.25%	34.50%	36.75%
10.00%	19.00%	21.25%	23.50%	25.75%	28.00%	30.25%	32.50%	34.75%	37.00%

Determine the ROA on your Guaranteed Loan by selecting the Spread (across the top) and the Loan Rate charged to your borrower (down the side). The corresponding rate is the ROA earned on your Guaranteed Loan. The Spread is the difference between the Loan Rate and the Farmer Mac Net Yield. For Example: 15-yr fixed: 25-yr Am

Loan Rate:	5.85%	ROA Earned on Loan	14.85%
Farmer Mac Net Yield	-4.38%		
Spread	1.00%		

The ROA is determined by the following formula:

$$\frac{(\text{Spread} \times \text{Guaranteed Balance}) + (\text{Unguaranteed Balance} \times \text{Loan Rate})}{\text{Unguaranteed Balance}}$$



Contact Us

Farmer Mac II, LLC
9249 Northpark Dr.
Johnston, IA 50131
settlements@farmermac2.com

OL/LOC Annual Operating Loans

Annual Renewal Requirements - Documents Submitted to FSA

SEL Lenders

(Also, any lender who has an FSA crop or equipment subordination on a LOC must submit the below information)

2-FLP Par.265 C on page 11-9

For an Operating Line of Credit (OL/LOC) loan, **prior to any advances** for the 2nd, 3rd, 4th, or 5th year on the OL/LOC loan, the lender must submit to the FSA Office:

1. Current Financial Statement/Balance Sheet (farm and non-farm) dated and signed by the borrower(s).
2. Farm visit report or collateral inspection.
3. Income and expense summary: Documentation of the previous year's income and expenses (farm and non-farm).
4. Projected cash flow signed by lender and borrower which projects a feasible plan.
5. Narrative summary of the borrower's financial progress.

SEL lenders must receive written approval from FSA prior to any advances for the 2nd, 3rd, 4th, or 5th year. FSA should respond, in writing, within 14 calendar days. FSA's approval to include the \$\$\$ amount of the Maximum OL/LOC Advance & Farm Income Releases that the borrower cannot exceed during current cash flow annual operating plan.

CLP Lenders

2-FLP Par.265 E on page 11-11

Prior to any advances for the 2nd, 3rd, 4th, or 5th year on the OL/LOC loan, the lender will submit to the FSA Office:

1. Current Financial Statement/Balance Sheet (farm and non-farm) dated and signed by the borrower.
2. The lender must provide a **written certification** stating that:
 - a cash flow projecting a feasible plan was developed.
 - the borrower is in compliance with the provisions of the Loan/Line of Credit Agreement.
 - the previous year income and expenses (farm and non-farm), loan funds, and security proceeds have been accounted for.

Obtaining written approval from the County Office is not necessary as long as the above is provided and Lender follows FSA's suggestions/recommendations to stay in compliance with the FSA 2-FLP Par.124 B OL/LOC loan limitation requirement.

PLP Lenders

PLP lenders will submit what is stated in their own PLP Lender's Agreement Credit Management System (CMS).

Recommend Lender follow FSA's suggestions/recommendations to stay in compliance with the FSA 2-FLP Par.124 B OL/LOC loan limitation requirement.

OL/LOC Beginning of Year Balance

“File Documentation”

Must Be Able To Show That OL/LOC Loan Can Be Paid In Full

The case file must be adequately documented to reflect that prior to the lender advancing on the OL/LOC operating loan for the 2nd, 3rd, 4th or 5th years, the OL/LOC must be theoretically speaking zeroed out. This doesn't necessarily mean that each OL/LOC loan be paid down to zero \$ owed on the promissory note at the end of each cash flow year.

However, it does mean that there must be at least enough current assets on hand at the beginning of the next cash flow year that **WILL BE SOLD and the PROCEEDS APPLIED on the OL/LOC loan** that could, in theory, have paid the guaranteed OL/LOC loan in full at the end of the prior year's cash flow operating year.

Any payments and/or obligations to be paid directly from current assets on hand that will not be applied on the OL/LOC loan cannot be considered in the documentation that the OL/LOC loan was theoretically speaking paid down to zero \$ owed on the promissory note at the end of each cash flow year.

If it is not tax-deductible expense on the borrower's income tax records (1040 Schedule F), then FSA does not allow the expense to be considered as a current asset and justified as a carryover debt on the OL/LOC loan. An example is fall tillage work or hay to be fed.

1-1-2021 Balance Sheet – Review Current Assets

1/1/2021 to 12/31/2021 cash flow annual operating cycle

Current Assets - Some will be SOLD and PROCEEDS APPLIED on OL/LOC loan	OL/LOC maximum BOY balance As of 1/1/2021
➤ COH = \$10,000	COH has NO value. LOC balance = \$0.00
➤ fall of 2020 wheat input cost = \$35,000	\$35,000 Beginning OL/LOC Balance is OK.
➤ prepaid 2021 seed/fertilizer = \$150,000	\$150,000 Beginning OL/LOC Balance is OK. If all obligations cannot be met, obtain documentation of prepaid expenses.
➤ feeder cattle/hogs	Beginning OL/LOC Balance should not exceed the current number of head on hand to be sold and applied on note X (purchase price + accrued interest + feed input costs)
➤ soybeans = \$50,000 ➤ 10,000 bu corn to be sold = \$50,000 ➤ 250 bales hay to be fed ➤ 5,000 bu corn to be fed ➤ fall tillage work – no value	\$40,000 farm payment due 3/2021 to be paid from soybeans and/or corn. BOY OL/LOC balance cannot exceed \$60,000.

Failure to adequately/properly document the case file can result in a loss claim reduction or denial.

OL/LOC Loan Advances for Term Debt Payments

MO FSA Position Paper

Two Months (60 Days) Before the End of the Cash Flow Year

2-FLP Par.262B specifies as to the order in which loan installments will be paid.

“When a lender receives a payment from the sale of encumbered property, loan installments will be paid in the order of lien priority. When a payment is received from the sale of unencumbered property or other sources of income, loan installments will be paid in order of their due date. Agency approval is required for any other proposed payment plans.”

Will the borrower pay the OL/LOC balance in full plus meet all other obligations this year?

Lender needs to prepare a *loan collateral analysis or T-table*.

Unless a collateral loan analysis shows repayment of the OL/LOC in full, lenders should not be authorizing advances on the OL/LOC loan and/or releasing guaranteed loan collateral proceeds to pay intermediate (IT) debt payments, long term (LT) debt payments, or lease payments two months (60 days) before the end of the borrower’s cash flow operating year.

At the Beginning of the Cash Flow Year

Based on a January 1, 2021 financial statement, the borrower does not have sufficient working capital and/or current assets on hand to meet all financial obligations currently due and/or coming due.

Lender has requested authorization from FSA to advance on the 2021 OL/LOC loan to pay Intermediate (IT) debt payments, Long Term (LT) debt payments, or lease payments, that are due or coming due at the beginning of the borrower’s cash flow operating year that should have been paid from last year’s farm income.

In most instances, when the borrower is coming up short as the previous year’s farm income isn’t enough to meet all obligations, FSA does not consider it to be a prudent lending practice for a lender to advance on the OL/LOC loan to pay Intermediate (IT) debt payments, Long Term (LT) debt payments, and/or lease payments at the beginning of a cash flow year on financial obligations that should have been paid from previous year’s income.

OL/LOC Annual Operating Loan Servicing

Maintain Compliance with 2 FLP Par. 124B – OL/LOC Loan Limitations

Following FSA's suggestions/recommendations keeps the lender in compliance with the FSA 2-FLP Par.124 B OL/LOC loan limitation requirement:

The total dollar amount of line of credit advances and income releases cannot exceed the total estimated expenses, less interest expenses, as indicated on the borrower's cash flow budget, unless the cash flow budget is revised and continues to reflect a feasible plan.

1. Lender obtains FSA written concurrence before advancing on the OL/LOC Loan.
2. For OL/LOC renewals, lender to complete a YEA which includes a EOY - OL/LOC asset reconciliation which documents that the last year's OL/LOC loan was zeroed or theoretically zeroed out before re-advancing on the OL/LOC (years 2 thru 5) for the next operating year.
3. Borrower/Lender agree on a cash flow for the current operating year.
4. Lender/FSA determine the Maximum OL/LOC Loan Advance and/or farm income releases for the cash flow operating year. FSA tool Maximum OLLOC Advance Worksheet is available.
5. Lender submits information to FSA for review.
6. FSA provides written authorization to the lender to advance on the OL/LOC loan.

Lender/Borrower Discussion: Does the borrower understand the cash flow as to:

- What, if any, capital expenditures are allowed.
- How family living expenses are to be paid. Is this a farm or nonfarm income responsibility?
- How, when, and from what source of income the intermediate and term debt payments are to be paid. Is this a farm or nonfarm income responsibility? Can it be paid from OL/LOC loan?

Loan Agreement Requirements:

- Borrower remits **ALL** farm income as a payment on the OL/LOC loan. (**All in – All out.**)
- Providing a BOY (January 1st) Inventory/Balance Sheet.
- Borrower providing EOY actuals and/or Federal & State Income Tax Records and all supporting schedules including the depreciation worksheet.

Lender Monitoring/Servicing:

- Monitors OL/LOC loan advance totals – Do not exceed maximum amount calculation.
- Borrower remits **ALL** farm income as a payment on the OL/LOC loan. (**All in – All out.**)
- Comply with UCC laws/security notice requirements and have the borrower(s) execute a CCC-36, "Assignment of Payment" to cover ALL FSA and CCC program payments.
- If in the last two months of year, lender wants to release proceeds from farm income proceeds and/or advance on OL/LOC to pay term loan installments and/or prepay expenses, a collateral loan analysis or T-table must be prepared that shows borrower will repay OL/LOC in full.
- Farm income released back to the borrower: When there isn't any debt owed on the OL/LOC loan, the lender could release the farm income proceeds back to the borrower. However, this release counts the same as an OL/LOC loan advance.

Maximum OL/LOC Advance & Farm Income Release Worksheet

OL/LOC Loan Limitations (2-FLP Par.124B)

A cash outlay/expense is an "Add"

Whereas, COH or income to pay on a cash outlay/expense is a "Minus"

1 What is the total farm operating expense excluding interest and depreciation? _____

2 Is there any Beginning Cash that will be spent for family living, farm operating expenses, capital expenditures or payments? _____ -

3 Is there any nonfarm income? Gross Net
 If gross, all of the pay check deductions must be shown as an expense item under family living expenses and/or the debt repayment section. _____ -

4 What are the total family living expenses? _____ +
 Monthly credit card, house, and car payments; payroll deductions; etc can be show here or under #6 Debt Repayment Schedule.

5 Are there any capital expenditures where a loan is not being made to cover the cost? If so, add the amount of cash inflow needed. _____ +

6 Are there any income taxes, intermediate and/or long term debt payments in the debt repayment table coming due in the cash flow year that need to be paid before the OL/LOC becomes due? _____ + \$0.00

Do not include IT, LT, or lease payments that come due within the last two months of the borrower's cash flow operating year. Other IT or LT installments can be included if FSA and Lender are agreeable with these obligations being paid before teh OL/LOC is repaid.

Debt Repayment		
Creditor	\$ to be Paid	Date Due

OL/LOC Advances & Farm Income Releases shouldn't exceed: \$0.00

Deduct Beginning of Year (BOY) Prepaid Expenses
 Include expenses (i.e. fall seeded crop cost) paid in the previous operating year with cash, released farm income, and/or OL/LOC advances. Do not include expenses charged not paid. _____ -

Cash Flow Cushion (\$\$\$ Amount of Excess)
 When farm expenses, family living expenses, or debt repayment are greater than originally planned, it is OK to use the cash flow cushion, without FSA concurrence.

Cash Flow Cushion Calculated by:

Balance Available To Pay			
Debt Repayment		+	\$0.00

Maximum OL/LOC Advances & Farm Income Releases: \$0.00

If in the last two months of the cash flow operating year lender wants to release proceeds from farm income proceeds and/or advance on OL/LOC to pay IT, LT or lease payments a collateral loan analysis or T-table must be prepared that shows borrower will repay OL/LOC in full. This document can be revised at any time as the need arises.

Family Living Reconciliation Table

[Obtain from Income Tax Records, Credit Report, Bank Accounts, and Loan History Records]

[Record any and all transactions between the "beginning and ending" date of the tax year.] Do Not enter negative numbers.

Table with 18 rows for reconciliation items. Each row includes a description, a sign (+/-), and a light blue input box. Items include farm income, expenses, loan adjustments, interest payments, and family living expenses.

Cannot use line # 18 family living expense by itself in the FSA-431-2, Cash Flow. In Table F or Table K, you must also add item #17 nonfarm W-2 withholdings, item #14 credit card payments, and any item #11 nonfarm term debt payments to #18

Annual Financial Analysis by Lender

2-FLP Handbook Par.265

Lenders must perform an annual analysis within 90 days of the end of the borrower’s operating cycle and submit all required items to FSA within 30 days of the completed analysis. Providing the optional “Lender’s Loan Analysis Documentation,” meets FSA’s annual financial analysis requirements.

PLP lenders will perform an annual analysis in accordance with the requirements established in the Lender’s Agreement CMS. The following table clarifies what is required for SEL & CLP lenders based on loan and collateral types.

		SEL	CLP
Secured by Real Estate (Primary)	Analyze	<ul style="list-style-type: none"> • Balance sheet • Discuss observations about farm business with borrower. 	<ul style="list-style-type: none"> • Lender will determine need for analysis based on financial strength. Annual analysis may be waived or postponed if borrower is financially strong.
	Submit	<ul style="list-style-type: none"> • Balance sheet • Narrative summary of borrower’s financial progress. 	<ul style="list-style-type: none"> • If analysis is performed, submit summary of lender’s annual analysis. • If analysis is not performed, submit reasons why an analysis was not necessary.
Secured by Chattels (Primary)	Analyze	<ul style="list-style-type: none"> • Review borrower’s progress regarding goals, trends, changes in financial performance, & compare actuals to planned. • An account of the whereabouts or disposition of collateral. • Discuss observations about farm business with borrower. 	<ul style="list-style-type: none"> • Lender will determine need for analysis based on financial strength. Annual analysis may be waived or postponed if borrower is financially strong.
	Submit	<ul style="list-style-type: none"> • Balance sheet • Income and Expense statement or Income Tax Records. • Annual farm visit report or collateral inspection. • Narrative summary of borrower’s financial progress. 	<ul style="list-style-type: none"> • If analysis is performed, submit summary of lender’s annual analysis. • If analysis is not performed, submit reasons why an analysis was not necessary.
OL/LOC Loans	Submit	<ul style="list-style-type: none"> • Balance sheet • Income and Expense statement or Income Tax Records. • Annual farm visit report or collateral inspection. • Narrative summary of borrower’s financial progress. • Projected cash flow showing feasible plan. • Documentation that last year OL/LOC zeroed out. • Request to advance future funds. 	Certification stating: <ul style="list-style-type: none"> • Cash flow projects feasible plan. • Borrower is in compliance with LOC agreement. • Previous year income, loan funds and security proceeds properly accounted for.

General Servicing Responsibilities

2-FLP Par. 262-264 (7CFR 762.140(a))

When the guaranteed loan is closed, the lender must comply with all of the terms and conditions of the Conditional Commitment. Servicing responsibilities can differ on a loan-by-loan basis.

The lender is responsible for obtaining and maintaining the lien coverage and lien priorities which are specified in the Conditional Commitment during the existence of the FSA guarantee.

As per Par. 262, lenders are responsible for:

- servicing the entire loan in a reasonable and prudent manner
- protecting and accounting (monitoring and tracking) for collateral
- remaining the mortgagee or secured party of record.

The lender cannot enforce the guarantee to the extent that a loss results from a violation of usury laws or negligent servicing regardless of when FSA discovers the violation or negligence. Negligent servicing is defined as a 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 as well as a failure to act in a timely manner.

The lender is responsible for:

- servicing their guaranteed loans as they service any other loan in their portfolio
- complying with all FSA program requirements

As per Par. 263, the lender's responsibilities regarding borrower supervision include, but are not limited to, the following:

- ensuring loan funds are not used for unauthorized purposes.
- ensuring borrower compliance with the covenants and provisions contained in the promissory note, loan agreement, mortgage, security instruments, any other agreements, and this part.

Note: Any violations which indicate non-compliance on the part of the borrower must be reported, in writing, to both the Agency and the borrower.

- ensuring the borrower is in compliance with all laws and regulations applicable to the loan, the collateral, and the operations of the farm.
- receiving all payments of principal and interest on the loan as they fall due.

If the loan is sold on the secondary market, promptly disburse to the holder its pro-rata share according to the amount of interest the holder has in the loan, less only the lender's servicing fee.

- performing an annual analysis of the borrower's financial condition to determine the borrower's progress.
- **7 CFR 762.140(d) – When a lender receives a payment from the sale of encumbered property, loan installments will be paid in the order of lien priority. When a payment is received from the sale of unencumbered property or other sources of income, loan installments will be paid in order of their due date. Agency approval is required for any other proposed payment plans.**

General Servicing Responsibilities (Continued)

As per Par. 264, the lender's responsibilities regarding servicing collateral include, but are not limited to, the following:

- obtain income and insurance assignments when required.
- ensure the borrower has or obtains marketable title to the collateral.
- inspect the collateral as often as deemed necessary to properly service the loan.
- A loan secured by chattel and other personal property should have a farm inspection completed annually with the inspection report identifying whether or not the collateral is being properly maintained. Changes in inventory should be noted and sources identified to assure that loan covenants are in compliance and that risk of loss in the loan does not occur.

Recommendation: Obtain and review the borrower's depreciation schedule yearly.

- ensure the borrower does not convert loan security. If there is conversion, FSA and the lender will determine whether the potential recovery is cost effective.
- ensure the proceeds from the sale or other disposition of collateral are accounted for and applied in accordance with the lien priorities on which the guarantee is based or used for the purchase of replacement collateral.
- ensure the loan and the collateral are protected in the event of foreclosure, bankruptcy (Part 13), receivership, insolvency, condemnation, or other litigation.
- ensure taxes, assessments, or ground rents against or affecting the collateral are paid.
- ensure adequate insurance is maintained. - The insurance policy should contain a loss payable clause in favor of the lender as the mortgagor or secured party.
- ensure that insurance loss payments, condemnation awards, or similar proceeds are applied on debts in accordance with lien priorities on which the guarantee was based, or used to rebuild or acquire needed replacement collateral.

Failure by the lender to report a borrower violation to FSA in a timely manner could result in the reduction or denial of a loss claim.

LENDER'S LOAN ANALYSIS DOCUMENTATION

[See Par.265 of 2-FLP Handbook for Requirements]

[SEL and CLP Lenders ONLY]

Note: Information to be prepared at the end of the borrower's cash flow operating year.

Borrower's Name _____ GLS ID # _____

Address _____

	LOAN # 1	LOAN # 2	LOAN # 3	LOAN # 4
Loan Type	<input type="checkbox"/> FO/LN <input type="checkbox"/> OL/LN <input type="checkbox"/> OL/LOC	<input type="checkbox"/> FO/LN <input type="checkbox"/> OL/LN <input type="checkbox"/> OL/LOC	<input type="checkbox"/> FO/LN <input type="checkbox"/> OL/LN <input type="checkbox"/> OL/LOC	<input type="checkbox"/> FO/LN <input type="checkbox"/> OL/LN <input type="checkbox"/> OL/LOC
FSA Loan #	#5 _____	#5 _____	#5 _____	#5 _____
Lender Loan #				
Original Loan Amount	\$ _____	\$ _____	\$ _____	\$ _____
As of DATE	___ / ___ / ___	___ / ___ / ___	___ / ___ / ___	___ / ___ / ___
Principal Balance	\$ _____	\$ _____	\$ _____	\$ _____
Interest Balance	\$ _____	\$ _____	\$ _____	\$ _____
Interest Rate	_____ %	_____ %	_____ %	_____ %
Payment Status	<input type="checkbox"/> Current <input type="checkbox"/> Ahead <input type="checkbox"/> Behind	<input type="checkbox"/> Current <input type="checkbox"/> Ahead <input type="checkbox"/> Behind	<input type="checkbox"/> Current <input type="checkbox"/> Ahead <input type="checkbox"/> Behind	<input type="checkbox"/> Current <input type="checkbox"/> Ahead <input type="checkbox"/> Behind
If Ahead or Behind Schedule \$ Amount Behind/Ahead	\$ _____	\$ _____	\$ _____	\$ _____
Next Payment Due Date	___ / ___ / ___	___ / ___ / ___	___ / ___ / ___	___ / ___ / ___
Loan secured by	<input type="checkbox"/> chattels <input type="checkbox"/> real estate <input type="checkbox"/> both	<input type="checkbox"/> chattels <input type="checkbox"/> real estate <input type="checkbox"/> both	<input type="checkbox"/> chattels <input type="checkbox"/> real estate <input type="checkbox"/> both	<input type="checkbox"/> chattels <input type="checkbox"/> real estate <input type="checkbox"/> both
Is this loan adequately secured?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No

1. Financial Statement Information as of ___ / ___ / ___

****SEL Lenders are required to submit a copy of the balance sheet and cash flow****

- Amount of Total Debts Owed: \$ _____
- Amount of Total Assets Owned: \$ _____

2. Date of last security inspection made by lender: ___ / ___ / ___

****SEL Lenders are required to submit a copy of the security inspection****

3. If this is a chattel type loan:

- | | <u>Yes</u> | <u>No</u> |
|--|--------------------------|--------------------------|
| • Is all normal income security being properly accounted for and resulting sales documented? | <input type="checkbox"/> | <input type="checkbox"/> |
| • Is the basic security being maintained? | <input type="checkbox"/> | <input type="checkbox"/> |
| • Is the sale of basic security property being properly accounted for? | <input type="checkbox"/> | <input type="checkbox"/> |
| • Does it appear there is a reasonable chance for success? | <input type="checkbox"/> | <input type="checkbox"/> |

4. If there is any type of problem with the loan, what plans are you taking to correct the problem and/or collect the delinquency?

5. Give a summary of the loan account and progress.

Prepared by: _____
(Name of Lender)

By: _____

Title: _____

Date: ___ / ___ / ___

Please submit this report to the Farm Loan Manager within 30 days from the end of the borrower's cash flow operating year.

Guaranteed Loan Servicing

Reserved for STO Approval Authority

Fifteen (15) servicing actions have been specifically reserved for State Office SED approval. See MO Notice FLP-264 dated 9/14/2005.

1. FSA Handbook 2-FLP Par. 278 A-B pertaining to submission of subordination of guaranteed loan security when National Office DAFLP approval is required.
2. FSA Handbook 2-FLP Par. 280 A-D pertaining to partial releases.
3. FSA Handbook 2-FLP Par. 281 A-D pertaining to transfer and assumptions.
4. FSA Handbook 2-FLP Par. 283 A-C pertaining to emergency advances.
5. FSA Handbook 2-FLP Par. 285 A-D pertaining to release of liability upon withdrawal on an active loan.
6. FSA Handbook 2-FLP Par. 287 A-C pertaining to substitution of lender.
7. FSA Handbook 2-FLP Par. 326 F pertaining to capitalization of interest on loans with interest assistance.
8. FSA Handbook 2-FLP Par. 328 A-D pertaining to debt writedown loss claims.
9. FSA Handbook 2-FLP Par. 344 A-B pertaining to bankruptcy loss claims.
10. FSA Handbook 2-FLP Par. 359 A-G pertaining to estimated loss claims.
11. FSA Handbook 2-FLP Par. 359 E and Par. 360 D pertaining to protective advances.
12. FSA Handbook 2-FLP Par. 360 A-H pertaining to final loss claims.
13. FSA Handbook 2-FLP Par. 361 A-C pertaining to release of liability after liquidations.
14. FSA Handbook 2-FLP Par. 362 B pertaining to FSA actually conducting the liquidation.
15. FSA Handbook 2-FLP Par. 375 A-E pertaining to repurchase of guaranteed portion from a secondary market holder.

A pencil notation should be in the left margin at the start of each of the fifteen (15) Par. references as recommended by the notice? The notation should say something similar to the following:

STO SED Approval Only
See MO Notice FLP-264 dated 9/14/2005

If you have one of the fifteen servicing actions that need SED approval, the State Office needs to be provided with a copy of the following:

1. Copy of the Lender's written request.
2. FLM's cover letter with detailed explanation of the facts and recommendation.
3. AFLS recommendation/concurrence (letter, email, or signing off on FLM's letter).

STO does not need the case file.

Emergency Advances OL/LOC Loan

2-FLP Par. 283 (7 CFR 762.146(a)) on page 11-47

Lenders can request FSA to approve an OL/LOC emergency advance when the OL/LOC loan has reached its ceiling and some “**aberration**” causes “additional” expenses to exceed the original budgeted/planned expenses and is necessary to avoid significant damage to or loss of the security.

An emergency advance in excess of the original loan amount will be made as an advance on the OL/LOC loan and not as a separate note. The lender’s loan documents must contain sufficient language to ensure that any emergency advance will constitute a debt of the borrower to the lender and be secured by the security instrument. An emergency advance cannot be approved if its use will cause the total amount of the borrower’s debt to exceed FSA’s statutory loan limit.

SEL’s and CLP lenders must obtain written permission from FSA before an emergency advance on LOC can be made.

Where liquidation is imminent, advances will be made as **Protective Advances** according to 2-FLP Par.359 (7 CFR 762.149) on pages 14-15.

To request an emergency advance, SEL and CLP lenders need to submit the following to the Farm Loan Manager:

1. a narrative explaining all of the following:
 - loan funds are to be advanced for authorized operating loan purposes
 - financial benefit to the lender and the Government from the advance will exceed the amount of the advance
 - loss of crops or livestock is imminent unless the advance is made.
2. balance sheet
3. cash flow projection

Additional Loans Made Outside the Loan Guarantee

Additional nonguaranteed loans are acceptable if the lender does due diligence and documents that repayment capacity of the operation has not been exceeded and/or does not affect the guaranteed loan collateral.

Unauthorized Payments - Loss Claim Deduction

2-FLP Par. 359 D (7 CFR 762.149) on page 14-14

As per 2-FLP Par. 359 D, the amount of any payments made by the borrower on unapproved loans or advances outside of the guarantee will be deducted from any loss claim if detrimental to the guaranteed loan.

Payments to be Paid in Order of Lien Priority

2-FLP Par. 263 B (7 CFR 762.140(d)) on page 11-4

When a lender receives a payment from the sale of encumbered property, loan installments will be paid in the order of lien priority. When a payment is received from the sale of unencumbered property or other sources of income, loan installments will be paid in order of their due date. Agency approval is required for any other proposed payment plans.

Partial Release

Guaranteed Loan Collateral

2-FLP Par.280 (7 CFR 762.142(b)) on pages 11-40 through 11-42

A partial release is the release of a portion of security used as collateral for a loan.

Without FSA concurrence: a lender may release guaranteed loan security as follows:

1. When the security item is being sold for market value and the proceeds will be applied to the loan in accordance with lien priorities.

Note: In the case of term loans, proceeds will be applied as extra payments and not as a regular installment on the loan.

Security will not be released for the purpose of providing collateral for another loan.

2. The security item will be used as a trade-in or source of down payment funds for a like item that will be taken as security.

Note: FSA input may be requested when there is a question of whether a reasonable value is being obtained for the security.

3. The security item has no present or prospective value.

Note: Older security items that are now junk or obsolete may be left off of the security agreement when it is updated. Regardless, proceeds from the sale of these items as scrap or salvage should be applied to the loan as an extra payment.

State Office approval is required on all other Partial Releases.

Note:

- ⇒ Written consent of any prior or junior lien holder must be obtained and delivered to FSA if any proceeds are not applied according to lien priority.
- ⇒ A partial release will not be allowed if it would result in the borrower being released from loan liability.

Partial Release

Guaranteed Loan Collateral

Written Approval of FSA

2-FLP Par.280 (7 CFR 762.142(b)) on pages 11-40 through 11-42

A partial release of security may be approved in writing by the Agency upon the lender's request when:

1. proceeds will be used to make improvements to real estate that increase the value of the security by an amount equal to or greater than the value of the security being released

Example: A borrower may sell a parcel of real estate to provide funds for construction of a dwelling or reduce debt to another creditor.

2. security, other than significant income generating property, will be released outright, with no consideration, but the total unpaid balance of the guaranteed loan is less than or equal to 75 percent of the value of the security for the loan, after the release, excluding the value of growing crops or planned production, based on a current appraisal of the security

3. significant income generating property will not be released unless it is being replaced, and business assets will not be released for use as a gift or any similar purpose

Note: The release must serve a purpose other than to simply allow a borrower to obtain clear title to security items.

Cropland, significant machinery, and business assets will not be released, unless it is being replaced, proceeds are being used for authorized loan purposes.

4. Agency concurrence is provided in writing to a lender's written request.

Must meet both requirements

Lenders will submit the following information to the Agency:

1. a current balance sheet on the borrower.
2. a current appraisal of the security.

Note: Unless specifically requested by FSA, the lender will not be required to provide an appraisal of any real estate security being released. Based on the level of risk and estimated equity involved, the Agency shall determine what security needs to be appraised. Any required security appraisals must meet the requirements of §762.127.

3. a description of the purpose for the release.
4. any other information requested by the Agency needed to evaluate the proposed servicing action.

Subordination of Guaranteed Loan Security

2-FLP Par.278 (7 CFR 762.142) on pages 11-37 through 11-38

1. **Overview Subordination of guaranteed loan security.**

The lender may not subordinate its interest in property which secures a guaranteed loan, except in either of the following:

- the lender may subordinate its security interest in crops, feeder livestock, livestock offspring, or livestock products when no funds have been advanced from the guaranteed loan for their production, so a lender can make a loan for annual production expenses *[Requires written Agency approval.]*
- the lender may, with written Agency approval, subordinate its interest in basic security in cases where the subordination is required to allow another lender to refinance an existing prior lien, no additional debt is being incurred, and the lender's security position will not be adversely affected by the subordination.
- National Office may provide an exception to the subordination prohibition if such action is in the Agency's best interest.

2. **Lender Request for Subordination of Guaranteed Loan Security.**

FSA discourages subordination of real estate, equipment, and other basic security and will not provide regulatory approval authority at levels lower than DAFLP. If a request is received that SED feels is in the best interest of the Government and the borrower, it can be forwarded to the National Office for final consideration.

Subordinations will not be approved simply to allow the operation to expand, or to allow a lender to secure an operating loan with basic security. The request should contain:

- a description of the transaction including the use of the funds to be obtained through the subordination.
- explanation of the borrower's cash flow before and after the proposed subordination documenting the improvement to be attained.
- certification that the guaranteed loan will still be secured after the subordination based on a current appraisal.
- an explanation of how the subordination is necessary to keep the borrower in business, or otherwise how the Government will benefit from the subordination, other than through conservation of loan funds.

Agency refusal to grant an exception to published regulations is not appealable.

NOTE: Subordinations will not be submitted to National Office for an exception request if the only reason that a lender is requesting the subordination is to avoid the 1.5% loan closing fee.

Release of Liability Upon Withdrawal

2-FLP Par.285 (7 CFR 762.146(b)) on pages 11-50 through 11-51

An individual who is obligated on a guaranteed loan may be released from liability by a lender with the written consent of the Agency provided the following conditions have been met.

1. The individual to be released has withdrawn from the farming or ranching operation. The lender must submit a narrative outlining who is to be released and why.
2. A divorce decree and final property settlement does not hold the withdrawing party responsible for the loan payments. A copy of the divorce decree must be submitted with the lender's request. The lender must document that release of divorced borrowers is a common practice carried out in their nonguaranteed loan portfolio.
3. The withdrawing party's interest in the security is conveyed to the individual or entity with whom the loan will be continued.
4. The ratio of the amount of debt to the value of the remaining security is less than or equal to .75, or the withdrawing party has no income or assets from which collection can be made.
5. Withdrawal of the individual does not result in legal dissolution of the entity to which the loans are made. Individually liable members of a general or limited partnership may not be released from liability. Partners, parents, cosigners, stockholders, and entity members may often be released from liability. However, when the guaranteed loan is made to individuals farming as a partnership, and each partner is fully liable, release of 1 partner would terminate the partnership and the existence of the entity to which the loans were made. The lender must document that release of withdrawing members is common in their unguaranteed portfolio and all other conditions in this paragraph are met.
6. The remaining liable party projects a feasible plan (see § 762.102(b)). The lender must submit a cash flow projection for the remaining liable party with the request for release. A release will not be approved when a loss is probable.

A written request from the lender is required.

A release of liability requires State Office/SED approval.

Servicing Distressed Accounts – “Delinquent Loans”

Delinquent Account Servicing Overview

2-FLP Handbook Part 12 (Page 12-1 through 12-65)

FSA considers a guaranteed loan to be in default when they are 30 days past due on a payment or in violation of provisions of the loan documents. A customer may also be in default if they have violated bank security instruments by failing to maintain collateral as agreed; filing bankruptcy; defaulting on another loan with the same lender; failure to submit reports as required; and conversion of loan security.

Within 120 Days, Lender must decide to either restructure or liquidate the account. The penalty for noncompliance is that FSA can stop covering interest accrual under the Loan Guarantee. The overall servicing process includes, but is not limited to, the following:

- Failure to address default in a prudent and timely fashion may result in a reduction or rejection of a lender’s request for a loss claim.
- If a Customer is current on a loan, but will be unable to make a payment, the lender should notify FSA and proceed with discussing restructuring/modification options. Any modification of the loan terms MUST meet all of the restructuring requirements before they are implemented.
- Prompt follow-up on delinquent payments and early recognition of problems are keys to resolving many delinquent loans and distress issues.
- Face to face or telephone communication with the Customer and/or FSA should be followed up with a letter if the loan remains in default and corrective action is not taken. Copies of the correspondence to the borrower should be made available to FSA.
- The lender must negotiate in good faith to resolve any problem to allow the customer to cure a default, where reasonable.
- Inspection of the collateral to assure that the collateral is being properly maintained AND properly accounted for is important and should be a priority issue in a default scenario. A lender MUST obtain information to account for and to verify the collateral status. An independent appraisal of the collateral may be necessary depending on the situation.
- At meetings with the borrower, FSA is not required to attend. However, if FSA is there, FSA doesn’t have the authority to concur with any agreement reached at that time. It must be done in writing and through proper channels with FSA.
- The variety of possible restructuring options include, but are not limited to: rescheduling, reamortization, deferral, debt write-down and/or combination of these alternatives. See Guaranteed Loan Servicing Options and Conditions of Servicing Restructuring Requirements.
- When the form FSA-2248 “Guaranteed Farm Loan Default Status Report,” is submitted to FSA, attach the borrower’s current financial statement and cash flow, if available.
- All normal and typical loan servicing actions are escalated and magnified when default occurs on a guaranteed loan. Advances on loans in a default scenario MUST have written concurrence from FSA before they are advanced.
- If the lenders non-guaranteed loan is past due, FSA should be notified, in writing, of potential issues affecting the operation and ability to perform the FSA guaranteed loans. This will fall into the area outlined in the current loan but potential problem scenario outlined above.

Delinquent Guaranteed Loan Servicing Timeline Guide SEL and CLP

(For PLP Lenders see the PLP Lender’s Agreement/Credit Management System)

Date Completed	Action
	1. Date that payment was first missed.
	2. Arrange a meeting with borrower within 15 days default or within 45 days of the payment due date to identify the nature of the delinquency and develop a course of action that will eliminate the delinquency and correct the underlying problem. (Par. 300 D).
	3. The lender/borrower meeting will be summarized and sent to the Agency immediately on the form FSA-2248, “Guaranteed Farm Loan Default Status Report.” FSA-2248 is submitted every 60-calendar days thereafter until the default is resolved or a final loss claim is submitted. (Par. 300 D)
	4. Within 120 calendar days of a past due loan payment, either a <u>Loan Restructuring Plan</u> is implemented or a <u>Decision to Liquidate</u> is made. (Par. 300 H)
	If restructuring, stop and use the Restructuring Checklist. If liquidating, continue with this checklist.
	5. Even though interest assistance funding is unavailable a lender may not initiate foreclosure action until 60 calendar days after Interest Assistance eligibility has been considered. (Par. 300 D & G) Complete Block # 14 on the FSA-2248. This starts the 60-day clock. 14. INTEREST ASSISTANCE (IA) HAS BEEN CONSIDERED: ▲ a. Has been ruled out as an option to correct the default.
	6. Within 150 days after the payment due date, a written liquidation plan must be submitted to the Agency. (Par. 355 E)
	7. Within 20 calendar days from the receipt of the lender’s liquidation plan, FSA must either approve it or request modifications. (Par. 355 F and Par. 358 F)
	8. Within 150 days after the payment due date, all lenders are required to submit an estimated loss claim, unless the account has been completely liquidated and then the final loss claim must be filed. The Agency will not pay interest beyond 210 days from the payment due date. (2-FLP Par. 355 E and 359A)
	9. FSA must respond, in writing, within 30 calendar days of the receipt of the lender’s estimated loss claim request (Par. 355 G and par. 359 F). The lender will discontinue interest accrual on the defaulted loan at the time the estimated loss claim is paid by FSA (Par.359G).
	10. Immediately following the completion (last day) of the collateral liquidation, the lender has just another 30 calendar days to submit a final loss claim (Par. 355 I).
	11. FSA must respond, in writing, within 40 calendar days of the receipt of the lender’s final loss claim request. (Par 360 F)

**SEL & CLP
RESCHEDULING, REAMORTIZATION,
CONSOLIDATION & DEFERRAL CHECKLIST**

For rescheduling, reamortization, and deferral, review Instructions 2-FLP Par.312A through Par.327C [7 CFR 762.145].

For consolidation of debt, review Instructions 2-FLP Par.286 [7 CFR 762.146(e)].

Name of Borrower:		Type of Loan(s):
Lender:	<input type="checkbox"/> CLP <input type="checkbox"/> SEL	Type of Restructuring:
Date Restructuring Received:		Date Approved/Rejected:

(Notify lender, in writing, within 14 days of lender's request)

The FSA Loan Approval Official certifies that the borrower meets the following restructuring requirements as per 7 CFR 762.145 (2-FLP Par.312 A, General Requirements).

1. Borrower currently meets the loan eligibility requirements of 7 CFR 762.120. The provisions regarding prior debt forgiveness and delinquency on a Federal debt do not apply to restructuring.
 - does not have any outstanding recorded Federal US judgments
 - US citizen
 - has the legal capacity to incur the obligations of the loan
 - has an acceptable credit history
 - is not able to obtain sufficient credit elsewhere without a guarantee
 - has not had a controlled substance conviction within the last 5 years
 - still meets family farm definition (OL's - operator & FO's - owner/operator)
2. Lender security position will not be adversely affected.
3. A feasible cash flow cannot be developed with the existing repayment schedule, but can be developed with the revised repayment terms.
4. If applicable and if loan sold on secondary market, Holder and FSA must concur with the proposal.

Signature _____ Date _____
(Loan Approval Official Certification of Restructuring Requirements)

NOTE TO LENDER: As per Par.312A, even if the Agency concurs with the restructuring action, a final loss claim may be reduced, adjusted, or rejected as a result of negligent servicing.

FORMS/DOCUMENTS REQUIRED for a RESTRUCTURING ACTION

SEL Lenders: As per Par.313A SEL lenders must request and obtain Agency prior written approval for all restructuring actions. SEL lenders must provide a copy of the following items for Agency review:

<input type="checkbox"/> Yes	Did the lender provide a <u>cover letter</u> describing the specific loan servicing request?
<input type="checkbox"/> Yes	Did the lender provide a copy of a current <u>financial statement(s)</u> from all liable parties? <input type="checkbox"/> Yes <input type="checkbox"/> No Did it include both farm and non-farm assets and liabilities? <input type="checkbox"/> Yes <input type="checkbox"/> No Is it dated and signed by the borrower(s)?
<input type="checkbox"/> Yes <input type="checkbox"/> N/A	If an <u>entity</u> , did the lender provide a copy of a current financial statement and income/expense information from all members that are liable for the debt.
<input type="checkbox"/> Yes	Did the lender provide a <u>cash flow</u> prepared in accordance with Par.151 – Par.153B? <input type="checkbox"/> Yes <input type="checkbox"/> No Did the cash flow reflect a feasible plan?
<input type="checkbox"/> Yes <input type="checkbox"/> N/A	Was interest assistance required to achieve a feasible plan? If yes, has the requirements of 2-FLP Par.230D been met. <input type="checkbox"/> Yes <input type="checkbox"/> No
<input type="checkbox"/> Yes	Did the lender provide a copy of a <u>credit bureau report</u> ? <input type="checkbox"/> Yes <input type="checkbox"/> No Are there any CBR debts not reflected on the financial statement?
<input type="checkbox"/> Yes <input type="checkbox"/> N/A	Did the lender provide a <u>verification of nonfarm income</u> ? [FSA-2014, lenders own form, W-2, pay stub, earnings statement from employer, or any other verification.]
<input type="checkbox"/> Yes	Did the lender provide a <u>verification of all debts</u> of \$5,000 or more? [FSA-2015, lender’s own form, credit bureau report, or any other documented verification. It is recommended that written verification be obtained when verifying prior liens on primary security.]
<input type="checkbox"/> Yes	Did the lender provide <u>financial records</u> for the past 3-years to support cash flow projections? [Actual farm & non-farm income and expense history data and/or a complete set of Federal and State income tax records with supporting schedules.]
<input type="checkbox"/> Yes <input type="checkbox"/> N/A	(SEL only) - Did the lender provide <u>production records</u> for the past 3-years to support cash flow projections? [Actual production records/yields of crops and livestock]

CLP Lenders: As per Par.313B a CLP lender is not required to obtain prior written approval of the Agency when restructuring. CLP lenders are required to have the above forms/documents in their loan file, but are not required to provide FSA with a copy. However, at a CLP lender file review, an agency official should check to see that all the required restructuring forms/documents are in the lender’s file.

COUNTY OFFICE PROCESSING REQUIREMENTS:

1. Approval Authority: ALL restructuring proposals will be reviewed/approved in writing by the appropriate agency loan approval official based on the total outstanding (direct and/or guaranteed) principal in accordance with the loan approval authorities as set forth in 1-FLP Handbook Par.29D.

Total Outstanding Principal = \$ Yes No SED approval required?

When the restructuring proposal is within the Farm Loan Manager’s approval authority AND the guaranteed loan became delinquent during the first year of the loan OR if it has been previously restructured, the AREA FARM LOAN SPECIALIST OR DISTRICT DIRECTOR must concur with the restructuring proposal before the SEL lender is given written approval to restructure. Yes No AFLS or DD concurrence required?

2. 14-day Restructuring Approval: The Agency approval official must respond to the lender, in writing, within 14 days of the lender’s request. (Par. 314B)

3. Restructuring Terms: Are the proposed restructured terms acceptable? Yes No

The guaranteed loan should be restructured over the **MINIMUM** number of years necessary to obtain a positive cash flow. (Par.326B)

- OL/LOC: repaid over a period up to, but not to exceed 7-years or 10-years from the date of the original note, whichever is less.
- OL/LN: repaid over a period up to, but not to exceed fifteen (15) years.
- FO/LN: repaid over a period up to, but not to exceed forty (40) years.

4. Security Requirements: The guarantee loan doesn't need to be fully secured at the time of restructuring, but the new proposed annual principal and interest payment must include enough principal to offset the annual depreciation of the remaining security.

5. Balloon or Unequal Installments: Yes N/A Loans can be restructured with balloon or unequal installments under certain circumstances. (Par.312A). When using balloon installments, the restructured loan must be:

- Fully secured when the balloon payment becomes due. Current appraisal required. When note balloons, must project value adjusted for depreciation.
- Under no circumstances can crops and/or livestock be used as security.
- Minimum terms 5-years if real estate and 3-years if equipment secured.

6. OL/LOC Loans: Yes N/A Advances can no longer be made against any OL/LOC loan that had any portion of the loan restructured. The OL/LOC must be termed out. (Par.326B)

7. Deferrals: Yes N/A The following conditions apply to deferrals (Par.327).

- Payments up to 5-years may be deferred, but cannot exceed the maturity date.
- Principal can be deferred either in whole or in part.
- Interest may be deferred only in part. For multi-year deferrals, annual payment of a reasonable portion of accruing interest must be paid as indicated by the borrower’s cash flow projections.
- A feasible plan must be developed at the end of the deferral period.

8. Consolidations: Yes N/A The following conditions apply to consolidations (**Par.286**). Only OL's of the same type (OL/LN to OL/LN and OL/LOC to OL/LOC) can be consolidated.
- Cannot consolidate a FO/LN and/or OL's secured by real estate, OL's with IA, or SAA.
 - Cannot consolidate an OL closed before 10/1/91 with an OL closed after 10/1/91.
 - If consolidating OL/LOC's loans, loan conditions/maturity dates must be the same.
 - Consolidated loan principal cannot exceed statutory loan limits in §7 CFR 762.122.
 - Consolidation cannot adversely affect the value of the security and security position.
 - A new note will be taken. The new note will describe the OL notes being consolidated and state that the indebtedness is not satisfied. The original OL notes must be retained.
 - Use FSA-2245 to provide the lender with a Modification of Guarantee form to identify the new loan amount, new terms, and % of guarantee. FSA-2245 will be attached to the original Guarantee.
9. Capitalized Interest: Yes N/A Lender may capitalize outstanding interest when restructuring the loan. (**Par.326D**) When restructuring a guaranteed loan with capitalized interest:
- As a result of capitalization of interest, the new principal amount cannot exceed the statutory loan limits contained in 7 CFR 762.122. Excess interest above the statutory limit cannot be capitalized, but can be scheduled for repayment as non-capitalized interest over the term of the restructured note.
 - When the new principal/guaranteed portion is greater than the original loan amount, use FSA-2245 to provide the lender with a "Modification of Guarantee." FSA-2245 will be attached to the original Loan Guarantee. In all other restructuring situations where capitalized interest is not involved, FSA-2245 is not required.
 - **Prior to the loan approval official approving capitalized interest on a restructured guaranteed loan with an active Interest Assistance Agreement, contact the Farm Loan Section of the State Office for guidance and ultimate concurrence/approval.**
10. Environmental Evaluation Required: Yes No "Environmental Checklist," must be completed **only if**, as a result of the restructuring, it alters the purpose, location, or design of the project as originally approved.
11. Restructuring Proposal Evaluation: Discuss with the lender any problems with the proposal, inform if the borrower is eligible for interest assistance, request corrections, or suggest revisions to the lender. If corrections are significant, put in writing and establish a time frame to respond.

Can the restructuring proposal be approved?

- Yes If yes or a favorable decision, send lender written authorization to proceed with the restructuring. The letter must state all items that the lender needs to provide after the loan(s) have been restructured and can also include any additional loan requirements that you wish to impose.
- No If no or an unfavorable decision, notify both lender and borrower, in writing, with appeal rights according to 1-APP.

AFTER THE LOAN(S) HAVE BEEN RESTRUCTURED the LENDER MUST PROVIDE the FOLLOWING TO FSA:

<input type="checkbox"/> Yes <input type="checkbox"/> N/A	(<u>SEL only</u>) - Did the SEL lender meet all of the requirements in the agency approval letter?
<input type="checkbox"/> Yes	(SEL & CLP) - Did the lender provide a copy of the restructured promissory note and/or allonge/modification agreement? [The existing note must be modified by attaching an allonge or any other legally effective amendment evidencing the revised terms or a new note must be taken. However, if a new note then the note must describe the loan being restructured, state that the indebtedness was not satisfied, and then retain the original promissory note as an attachment.]
<input type="checkbox"/> Yes <input type="checkbox"/> N/A	(CLP only) - Did the CLP lender provide a written certification that all of the forms/documents have been obtained and are in the file and all restructuring requirements have been met in accordance with 2-FLP?
<input type="checkbox"/> Yes <input type="checkbox"/> N/A	(CLP only) - Did the CLP lender provide a narrative outlining the circumstances surrounding the need for the restructuring and any applicable calculations?

COUNTY OFFICE REQUIREMENTS AFTER the LENDER HAS CLOSED the RESTRUCTURING and RETURNED ALL of the REQUIRED ITEMS.

1. Finance Office Notification: FSA-2249, "Request for Restructuring Guaranteed Loans," in most instances should be completed and submitted via fax to Finance Office for all guaranteed loans restructured. A separate form is required for each loan.
2. Delinquent Loan on GLS: Yes N/A If the loan was previously reported to Finance Office as delinquent (*Delinquency Code* field on the GLS "LD" screen is anything other than blank), process the FSA-2248 in the Guaranteed Loan System (GLS).
3. Interest Assistance: Yes N/A If new interest assistance is being extended on the existing interest assistance guaranteed loan which has been restructured (**Par 230 D**):
 - Make a copy of FSA-2231, "Request For Obligation Of Funds Guaranteed Loans," and the "GLS Obligation Request" screen. Write 'CORRECTED' in red at the top of both copies. On the copy of the FSA-2231 write in red "This loan has been restructured. The term of the IA is being modified from ___years to ___years." Approval official to date and sign the corrected form. On the "GLS Obligation Request" screen copy write in red the new number of IA years in the field *Term of Interest Asst.*
 - Make a copy of FSA-2221, Interest Assistance Agreement. On the copy, at the top in red write 'CORRECTED'. Correct the expiration date of the Interest Assistance Agreement, and have the lender, borrower, and FSA initial the change.
 - FSA-2249, "Request for Restructuring Guaranteed Loans," must be completed for all guaranteed loans restructured.
 - Provide a copy of the original promissory note and of the restructuring "Allonge".
 - Forward all the above items attached to a cover letter to the Farm Loan Programs Section of the state office for review. State Office will forward to Finance Office.

Lender Liquidation Plan

2-FLP Par.358 on page 14-9 through 14-12

Once the decision to liquidate is made, all (SEL, CLP, and PLP) lenders must prepare a liquidation plan within 150 calendar days of the payment due date.

The SEL and CLP lender’s liquidation plan, and any revisions of the plan, must be approved, **in writing**, by the Agency.

It is recommended that the lender read the following prior to liquidation of the account:

- ✓ the Liquidation Section of the Lender's Agreement
- ✓ 2-FLP Handbook Part 12, Par. 300, Monetary Default - Overall Loan Servicing Process
- ✓ 2-FLP Handbook Part 14, Par. 355-362, Liquidation

Interest Assistance 60-day Consideration: The lender may then proceed to begin liquidation actions at its discretion as long as it has been at least 60 days since the borrower’s eligibility for interest assistance was considered. The lender must submit the form FSA-2248 and have checked block 14(A) indicating that Interest Assistance has been ruled out or the involuntary liquidation may be delayed. The lender must not initiate foreclosure action on the loan until 60 calendar days after eligibility of the borrower to participate in the IA program has been established by FSA.

Within 150 Days after the payment due date all lenders must submit a

1. Written liquidation plan that must include a schedule of all projected liquidation activities, and a complete inventory of the security to be sold.
2. Estimated loss claim unless the account will be completely liquidated.

The liquidation plan needs to include the following:

Date Completed	
	1. A current signed and dated balance sheet (farm and nonfarm assets and liabilities) from all liable parties. If under the protection of the bankruptcy court, a copy of the bankruptcy filing, schedules, and discharge notice.
	2. A proposed method of maximizing the collection of debt which includes specific plans to collect any remaining loan balances on the guaranteed loan after loan collateral has been liquidated, including possibilities for judgment.
	3. If the borrower has converted loan security, the lender will determine whether litigation is cost effective. The lender must address, in the liquidation plan, whether civil or criminal action will be pursued. If the lender does not pursue the recovery, the reason must be documented when an estimated loss claim is submitted.
	4. Any proposal to release the borrower from liability will be addressed in the liquidation plan in accordance with Par. 361 (7 CFR 762.146(c)) on page 14-24 through 14-25. If approved in writing by FSA, a release of liability will not be granted until all of the collateral has been liquidated and properly accounted for.

	5. Provide FSA with a copy of the acceleration notice. Foreclosure proceedings commence once a loan is accelerated.
	6. An estimate of time necessary to complete the liquidation from start to finish.
	7. An estimate/explanation of reasonable liquidation expenses (Par.359 B).
	8. No later than 150 days after the payment due an estimated loss claim must be submitted on the Form FSA-2254, "Guaranteed Loan Report of Loss." Utilize the form FSA-2295, "Guaranteed Estimated Loss Review Checklist," in preparing the estimated loss claim.
	9. An estimate/explanation of any protective advances (Par.360 D).
	<p>10. Provide a copy of an independent appraisal report on ALL collateral (chattels and real estate) securing the loan that meets the requirements of Par.181-183 (7 CFR 762.127).</p> <p>It is recommended that prior to issuing a work order to the appraiser that FSA concurrence be obtained.</p> <p>For <u>chattels</u>, provide a copy of a current chattel appraisal and/or statement of value from the auctioneer prior to a sale.</p> <p>For <u>real estate</u>, the appraisal must be completed as per Uniform Standards of Professional Appraisal Practices and 2-FLP Par.183.</p> <p>Once the appraisal is received, it will be forwarded to the FSA Staff Appraiser for an appraisal review.</p> <p>The appraisal requirement may be waived by the Agency in the following cases:</p> <ul style="list-style-type: none"> ✓ bankruptcy trustee is handling the liquidation and the lender has submitted the trustee's determination of value. ✓ lender's proposed method of liquidation rarely results in receipt of less than market value for livestock and used equipment. ✓ purchase offer has already been received for more than the debt.
	<p>11. If real estate, provide FSA with a completed Exhibit 10 of 2-FLP Handbook, "Net Recovery Value," (7 CFR 762.102).</p> <ul style="list-style-type: none"> ➤ When it is necessary to enter a bid at a foreclosure sale, the lender may bid the amount that it determines is reasonable to protect its and the Agency's interest. At a minimum, the lender will bid the lesser of the net recovery value or the unpaid guaranteed loan balance (Par.357). ➤ <u>Before the foreclosure sale is held, the lender needs to obtain written concurrence from the Agency on what the minimum bid would be.</u>

If, within 20 calendar days of the Agency's receipt of the liquidation plan, the Agency fails to approve it or fails to request that the lender make revisions, the lender may assume the plan is approved and proceed with the liquidation of the account as long as it has been at least 60 days since the borrower's eligibility for interest assistance was considered.

Guaranteed Loss Claim Checklist

2-FLP Par. 359-360 (7 CFR 762.149) on pages 14-11 through 14-18

Prior to telling a borrower **NO**, it is in the best interest of the bank to obtain whatever information they still need from the borrower to file a guaranteed loss claim.

Within 150 days after the payment due date, all lenders are required to submit a written liquidation plan and an estimated loss claim, unless the account has been completely liquidated and then the final loss claim must be filed. The Agency will not pay interest beyond 210 days from the payment due date. (2-FLP Par. 355 E and 359A)

Immediately following the completion (last day) of the collateral liquidation, the lender has just another 30 calendar days to submit a final loss claim (2-FLP Par. 355 I).

The first item in the case file that FSA checks is the Conditional Commitment for each loan.

- ✓ Are there any special terms and conditions?
- ✓ What was the loan purpose?
- ✓ What collateral was required for the loan?

If the lender is going to file a guaranteed loss claim request, FSA will require the following information:

Date Completed	Provide the following when filing a guaranteed loss claim.
	<p>1. Signed FSA-2254, "Guaranteed Loan Report of Loss," for each loan that a loss claim will be requested on.</p> <p>FSA uses a checklist in the loss claim process and must be able to answer and provide file documentation for all questions. Recommend that the lender reviews the FSA loss claim checklists:</p> <ul style="list-style-type: none"> ✓ For estimated loss claims, FSA uses the form FSA-2295, "Guaranteed Estimated Loss Review Checklist." ✓ For final loss claims, FSA uses the form FSA-2296, "Guaranteed Final Loss Review Checklist."
	<p>2. Current signed and dated balance sheet (farm / nonfarm assets and liabilities) from all liable parties.</p> <p>If under the protection of the bankruptcy court, a copy of the bankruptcy filing, schedules, and discharge notice.</p> <ul style="list-style-type: none"> ✓ Determine if there are assets not mortgaged from which collection could be made from? ✓ Check the county assessor records and determine if there are any assets not known to the lender?
	<p>3. Provide a copy of a current credit bureau report.</p>

	4. Copy of <u>Federal</u> and <u>State</u> Income Tax Records with all supporting schedules including the depreciation worksheet.
	5. Provide a copy of the borrower's <u>detailed loan history computer records</u> (<i>advances, principal and interest payments, and interest rate changes</i>) for ALL active and recently <u>paid in full</u> GUARANTEED loan(s) owed to the lender.
	6. Provide a copy of the borrower's promissory note and <u>detailed loan history computer records</u> (<i>advances, principal and interest payments, and interest rate changes</i>) for ALL active and <u>paid in full</u> NON-GUARANTEED loan(s) owed to the lender since the closing date of the first guaranteed loan(s). <ul style="list-style-type: none"> ✓ FSA completes an excel spreadsheet checking all loans against the terms shown on the promissory note. ✓ Did the lender make any non-guaranteed loans without FSA concurrence? ✓ Were the payments made in the order of lien priority?
	7. Provide a copy of the detailed accounting of the disposition of the guaranteed loan security and the proceeds for all guaranteed loan collateral (normal income/current assets, IT assets, and real estate). <ul style="list-style-type: none"> ✓ For normal crops and livestock income, the lender's records are compared to the FSA payment history records, prior and current balance sheets, cash flow, and the income tax records are worked backwards. ✓ For equipment sold at public auction, the settlement statement is compared to the Conditional Commitment, original and subsequent appraisals, security agreements, balance sheets, and depreciation records to be assured that all equipment owned and thereafter acquired is properly accounted for. ✓ In summary, is there any collateral unaccounted for?
	8. Justification and explanation of all protective advances made on the loan.
	9. Copy of all liquidation expenses deducted from the sale of security property.
	10. <u>For Interest Assistance loans</u> : – The final interest assistance claim must be processed.
	11. <u>For OL/LOC loans</u> : - The lender must have complied with 2-FLP Par.124 B - OL/LOC loan limitations requirements. The amount of loan proceeds that the lender advances plus the amount of income that the lender releases to the borrower normally cannot exceed the borrower's total planned expenses, excluding interest expense unless the cash flow is revised and continues to reflect a feasible plan.

Net Recovery Value Calculation

A. Market Value of the Property (Based on appraisal conducted according to 762.127) (Part 8, Section 4, Subsection 3)									
1. Annual Rent x Holding Period (HP)	\$ -	X	=	\$ -					
2. Annual Royalty x Holding Period (HP)	\$ -	X	=	\$ -					
3. Other Annual Income x Holding Period (HP)	\$ -	X	=	\$ -					
4. Annual % Property Appreciation x HP	0%	X	=	\$ -					
Total			=	\$ -					
Explanations of calculations									
Estimated holding period	90	Days	=	24.66%					
90 period (days)	/	365 Year	divided						
Holding period is typically 90 days unless longer period is agreed upon by FSA. Advertising is considered to be covered by the costs of real estate commission									

C. Expenses									
1. Prior Lienholder Indebtedness (P&I)	\$ -	+	Interest	\$ -					
2. Annual Taxes and Assessments x HP									
Taxes	X		Holding Period						
3. Annual Property Depreciation x HP									
Depreciation	X		Holding period						
4. Annual Management Costs x HP									
Mgt Cost	X		Holding period						
5. Essential Repairs to Secure and Resell									
6. Other Costs	\$ -								
Taxes									
Closing Costs/Attorney									
Appraisal									
Environmental									
7. Resale Expenses-Commissions Advertising	\$ -								
Real estate Commission %			Advertising						
8. Total Interest cost During Holding Period			(note rate)						
Principal			Rate						
Hazardous Waste Cleanup			Holding Period						
Total									\$ -

D. Net Recovery Value	
Market Value of property + Expected Income or revenue - Expenses =	Net Recovery Value
\$ - + \$ - =	\$ -

BANKRUPTCY SERVICING

2-FLP Par.341-344 on pages 13-1 through 13-10

Failure by the lender to properly service the account in bankruptcy could result in a reduction or denial of a guaranteed loss claim payment.

1. Most important is to hire a “Bankruptcy” attorney.
2. Immediately notify FSA, in writing, of the bankruptcy filing and provide a copy of the:
 - Notice of Commencement of Case Under Chapter 7, 11, 12, or 13 Of the Bankruptcy Code, Meeting of Creditors, and Fixing of Dates
 - Bankruptcy Schedules
3. Lender needs to instruct its attorney to be proactive and file the necessary motions to keep the bankruptcy moving forward.
4. Follow 2-FLP Handbook Par.341, Lender’s Responsibilities in Bankruptcy Proceedings (7 CFR 762.148(a)). Lender responsibilities include, but are not limited to:
 - Filing a proof of claim and all necessary paperwork.
 - Attend, and when necessary, participate in meetings of the creditors and court proceedings.
 - Seeking adequate protection of the collateral securing the guaranteed loan.
 - If chattel security, complete a chattel security inspection prior to the 341 Meeting of Creditors. Obtain permission from borrower’s attorney/bankruptcy court. Compare the security agreement with the collateral inspection and determine if all of the guaranteed loan collateral can be properly accounted for.
 - Take the opportunity at the 341 Meeting of Creditors to obtain information as the borrower is under “Oath”. Ask questions. Is all guaranteed loan security properly accounted for?
 - For additional discovery purposes and production of documents, a Rule 2004 Examination Hearing may be necessary.
 - Use Section 523 Exception to Discharge of Debts for conversion, false information, and fraud.
 - Obtain an appraisal of the security. Are the borrower’s collateral values acceptable? If necessary, request a “Valuation Hearing.”
 - Request payment for attorney, appraisal, and other fees allowed under promissory note.
 - Make sure that the principal and interest debts are accurate.
 - If secured, make sure that post petition interest accrual is being paid.

For Chapter 11, 12 or 13 Reorganization Bankruptcy filings:

- ❖ Seek a dismissal of the bankruptcy proceedings when the proposed operation is not feasible.
 - ❖ Request modifications of any plan if it appears additional recoveries are likely.
 - ❖ Does the proposed plan address the following items? If not, consult with FSA.
 - A “Drop Dead Clause” if plan in default for 30 days.
 - Make sure borrowers are paying promissory note interest rate? Fight against any interest rate cram down.
 - Are repayment terms acceptable? (Chattels – 5 years & Real Estate – 20 years)
 - Require that an annual financial statement to be provided by an agreed upon date.
 - Require that a copy of yearly Federal and State Income Tax Records and all supporting schedules to be provided by an agreed upon date.
 - Is there adequate insurance with lender lien?
 - Is there a clause that states if taxes & insurance not paid that plan is in default?
 - Require that scheduled payments fall due when collateral is sold.
 - Is plan reasonable? Is plan based on 3-5 year financial history?
 - Ask for lender farm visits to inspect collateral to be assured that collateral is being maintained.
 - ❖ Monitor confirmed Chapter 11, 12 and 13 plans.
 - If the borrower fails to comply, the lender will send a default cure notice and/or seek a dismissal of the reorganization plan.
5. Submit FSA-2248, Guaranteed Farm Loan Default Status, when the borrower defaults and every 60-days thereafter, until the default is resolved.
 6. Within 150 days of the payment due date, lenders will submit a written liquidation plan and an estimated loss claim. The date the borrower files for bankruptcy protection becomes the payment due date for FSA loss claim purposes.
 7. Keep the agency informed, in writing, of all aspects of the bankruptcy proceedings.

FSA can utilize the services of its attorney, Office of General Counsel (OGC) in certain bankruptcy situations.

In summary, the lender and/or the lender’s attorney, should seek advice from FSA on a case-by-case basis to determine what FSA expects and/or requires from the lender in order to protect the FSA Loan Guarantee.

Borrower Subject to FSA “Offset” - After Final Loss Claim Payment

FSA Guaranteed Loan Application includes the loan applicant’s certification and acknowledgement that any final guaranteed loss claim paid by FSA will constitute a Federal debt. ALL guaranteed loans closed after 7/20/2001 will be subject to offset after a guaranteed **final loss claim is paid** by FSA.

After the FSA guaranteed “Final” loss claim is paid, the borrowers will be notified, in writing, by the FSA State Office, of the pending offset. Offset covers:

- ✓ FSA payments including the borrower’s % ownership in an entity
- ✓ income tax refunds
- ✓ federal salary
- ✓ social security
- ✓ wage garnishment
- ✓ etc.

Loss Claim Recovery 2-FLP Par. 362A (7CFR 762.149)

The application of the loss claim payment to the account does not automatically release the borrower of liability for any portion of the borrower’s debt to the lender. The lender will continue to be responsible for monitoring and collecting the full amount of the promissory note debt for three (3) years.

The lender will share and remit any recoveries made on the borrower(s) account after the Agency’s payment of a final loss claim. FSA must be paid a pro-rata share of the recovery until the account is paid in full or otherwise satisfied.

As a minimum, the lender should be requesting from the borrower(s):

- annual financial statement
- Federal and State income tax records with all supporting schedules.

Lender must report its collection activities to FSA by November 30 using Form FSA-2261.

FSA Guaranteed Loans Reported to Commercial Credit Bureaus

Since June 2005, FSA reports to two credit bureaus (Experian & Dunn and Bradstreet) on the first day of each month as mandated by the Debt Collection Improvement Act of 1996 and Office of Management and Budget Circular A-129, “Policies for Federal Credit Programs and Non-Tax Receivables”.

FSA reports the information it receives from the lender on the form FSA-2241, “Guaranteed Farm Loan Status Report,” and the form FSA-2248, “Guaranteed Farm Loan Default Status Report.”

1. On active loans, the unpaid principal plus accrued interest is reported as of the effective date of the last monetary update on the loan.
2. Loans in default could report different balances every 60 days assuming the lender is submitting the default status reports (FSA-2248) as required.
3. Terminated (paid in full) loans are reported with a zero balance on the report for the month following the termination. **Paid in full loans are reported only once.**
4. Loans with final loss claims not subject to offset, according to 2-FLP Par.363 B, are reported for 3 years from the effective date of the loss. The amount of the final loss claim (less any recoveries) is reported.
5. Loans subject to offset are reported as long as the offset exists. The amount reported is the outstanding offset balance plus interest accrued through the date of the credit bureau report. Once the debtor becomes ineligible for offset, loans with a terminated debt offset are reported 3 years from the effective date of the writeoff.

It is extremely important that lenders accurately and timely submit the required FSA-2241 and/or FSA-2248 report forms.



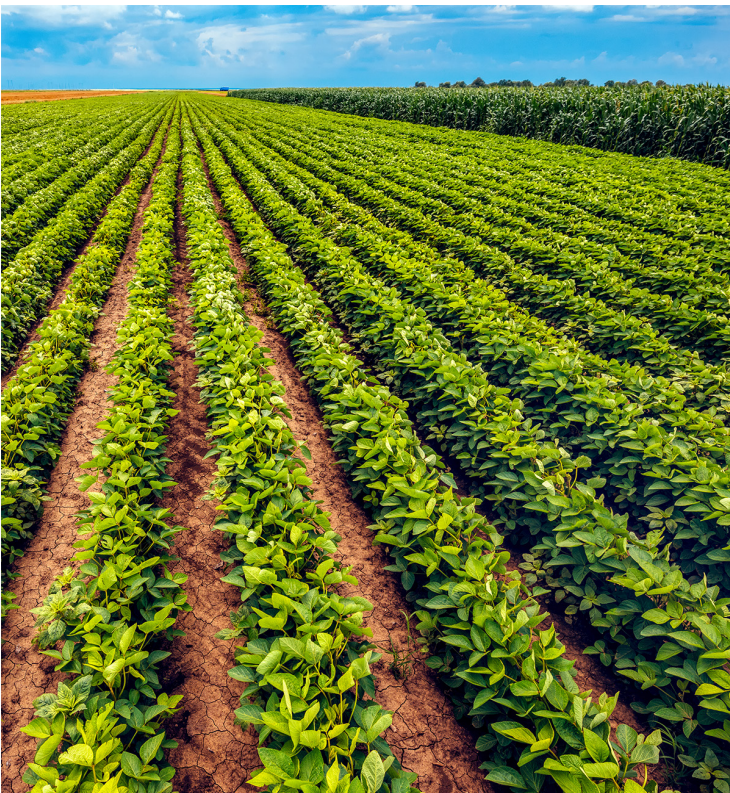
Farm Service Agency

2014 Farm Bill vs. 2018 Farm Bill – Agricultural Risk Coverage & Price Loss Coverage

FACT SHEET
August 2019

Overview

The Agriculture Improvement Act of 2018 (the 2018 Farm Bill) amended the Agricultural Improvement Act of 2014 (2014 Farm Bill) and reauthorized the Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) programs with modifications. The ARC Program is an income support program that provides payments when actual crop revenue declines below a specified guarantee level. The PLC Program provides payments when the effective price for a covered commodity falls below its effective reference price. Though much of the main structure of the ARC and PLC programs was retained in the 2018 Farm Bill, a few mandatory and discretionary changes were made to ARC and PLC in regulations. The following information covers the changes for the ARC and PLC programs for the 2019 through 2023 crop years.



Program At-A-Glance

2014 Farm Bill vs. 2018 Farm Bill

Treatment of Base Acres on Farms Entirely Planted to Grass, Pasture, Idle or Fallow

2014: The 2014 Farm Bill placed no restrictions on farms planted to grass, pasture, idle or fallow in any year.

2018: Base acres on farms where all cropland acres have been planted entirely to grass or pasture, including cropland that was idle or fallow, from January 1, 2009, through December 31, 2017, will be maintained; however, no ARC or PLC payments will be issued for those base acres from 2019 through 2023. Identified farms meeting these criteria cannot be combined with another farm in order to circumvent these provisions.

Election of ARC or PLC

2014: The 2014 Farm Bill required producers to make a one-time unanimous and irrevocable election to obtain PLC or ARC-CO on a covered, commodity-by-commodity basis. An election of ARC-IC applied to all covered commodities on the farm. The election was effective for the 2014 through 2018 crop years.

2018: The 2018 Farm Bill requires a unanimous election to obtain PLC or ARC-CO on a covered commodity-by-commodity basis that will remain in effect for the 2019 through 2023 crop years. An election of ARC-IC in any year will apply to all covered commodities on the farm. Starting with the 2021 crop year, and each crop year thereafter through 2023, the producers on a farm may change the election of PLC or ARC on a year-to-year basis.

**2018
FARM
BILL**



FARM BILL CHANGES TO THE ARC-PLC PROGRAM - AUGUST 2019

ARC County Payments Based on Physical Location of the Farm

2014: The 2014 Farm Bill provided that payment rates for covered commodities with an ARC County election were based on the yield data from the administrative county of the farms determined by FSA.

2018: Beginning with crop year 2019, payments for covered commodities with an ARC County election will be based on the yield data of the county where each tract is physically located. ARC County revenues will be weighted by base acres from each physically located tract, then summarized to the administrative farm level to determine the payment rate.

County Yield Data

2014: The 2014 Farm Bill provided the actual and benchmark ARC County per-acre yields that were established using the following data sources, as determined by the Secretary: NASS County yield, Risk Management Agency (RMA) and other sources determined by the STC.

2018: Effective for each of the 2019 through the 2023 crop years, the actual and benchmark ARC County per-acre yields will be established using the following three data sources in the following order of precedence: RMA, National Agricultural Statistics Service (NASS) and other sources determined by the State Committee (STC).

Yield Updates

2014: The 2014 Farm Bill allowed for a one-time opportunity to update farm PLC yields on a covered commodity-by-commodity basis. The updated yield was used in calculating PLC payments for crop years 2014 through 2018 on covered commodities that had elected PLC.

2018: The 2018 Farm Bill allows producers a one-time opportunity to update farm PLC yields on a covered commodity-by-commodity basis in 2020. The updated yield will be used in calculating PLC payments for crop years 2020 through 2023 for covered commodities that have elected PLC.

Farms with Less than 10 Base Acres

2014: The 2014 Farm Bill provided that a producer on a farm may not receive ARC or PLC payments if the sum of the base acres on the farm is 10 acres or less. **Exceptions:** socially disadvantaged farmers or ranchers or limited resource farmers or ranchers.

2018: Under the 2018 Farm Bill, a producer may not receive ARC or PLC payments if the sum of base acres on all farms in which the producer has an interest is 10 acres or less. **Exceptions:** socially disadvantaged farmers or ranchers, limited resource farmers or ranchers, beginning farmers or ranchers, or veteran farmers or ranchers.

2018
FARM
BILL



FARM BILL CHANGES TO THE ARC-PLC PROGRAM - AUGUST 2019

Years Used to Compute Benchmark Yield for ARC County

2014: Under the 2014 Farm Bill, USDA established benchmark revenue using the average historical yield from the five most recent crop years. This provision was administered using the immediately five preceding years.

For example, the 2017 benchmark revenue was computed using the yield from crop years 2012-2016.

2018: Under the 2018 Farm Bill, because in crop years 2021-2023 the producer or producers on the farm may change their election, FSA will establish benchmark revenue using an average of the actual county yields from the five preceding years that immediately precede the previous year.

For example, under the 2014 Farm Bill, the 2022 benchmark would be computed using the average of actual county yields from crop years 2017-2021. The 2021 actual county yield information cannot be obtained by FSA until September 2022, which is well after the time to make each 2022 farm election. Therefore, under the 2018 Farm Bill, the 2022 benchmark will be computed using the acreage of the 2016 through 2020 actual county yields. Prices will correspond to the yields.

Reference Price vs. Effective Reference Price

Reference Price of a covered commodity is:

Commodity	Reference Price	Unit of Measure
Wheat	\$5.50	bushel
Corn	\$3.70	bushel
Grain Sorghum	\$3.95	bushel
Barley	\$4.95	bushel
Oats	\$2.40	bushel
Long Grain Rice	\$14.00	hundredweight
Medium Grain Rice	\$14.00	hundredweight
Soybeans	\$8.40	bushel
Other Oilseeds	\$20.14	hundredweight
Peanuts	\$535.00	ton
Dry Peas	\$11.00	hundredweight
Lentils	\$19.97	hundredweight
Small Chickpeas	\$19.04	hundredweight
Large Chickpeas	\$21.54	hundredweight
Seed Cotton	\$0.367	pound

Effective Reference Price of a covered commodity means the lesser of:

- an amount equal to 115 percent of the reference price for the applicable covered commodity, or
- the greater of:
 - the reference price of the applicable covered, or
 - 85 percent of the Olympic average of the marketing year average price of the applicable covered commodity for a five-year period prior to the previous crop year.





FARM BILL CHANGES TO THE ARC-PLC PROGRAM - AUGUST 2019

PLC

2014: The 2014 Farm Bill made PLC payments to producers when the effective price for the applicable covered commodity was less than the reference price for the covered commodity.

2018: The 2018 Farm Bill will make PLC payment to producers when the effective price for the applicable covered commodity is less than the effective reference price for the covered commodity.

ARC

2014: If the 12-month national average market price for any year in the benchmark calculation is less than the reference price, then the reference price was substituted for the 12-month national average market price for that year.

2018: If the 12-month national average market price for any year in the benchmark calculation is less than the effective reference price, then the effective reference price will be substituted for the 12-month national average market price for that year.

Determining Counties and Crops with a Separate Irrigated and Non-irrigated Guarantee and Actual Revenue

2014: The 2014 Farm Bill directed the Secretary, to the extent practicable, to calculate a separate actual revenue and guarantee for irrigated and non-irrigated covered commodities. FSA implemented the policy by determining that a county and crop combination must have at least 25 percent of the acreage irrigated and 25 percent of the acreage non-irrigated using FSA planted data for the 2008 through 2013 crop years.

2018: Under the 2018 Farm Bill, the same language was used except that the phrase “to the extent practicable” was removed. FSA policy for determining a county and crop that will have a separate irrigated and non-irrigated guarantee and actual revenue will be based on RMA data. In order to be designated a county with a separate irrigated and non-irrigated guarantee

and actual revenue, one of the following items must occur:

- RMA irrigated and non-irrigated data must be available in 3 of the 5 years between the years 2013 and 2017, or
- Both of the following:
 - FSA irrigated and non-irrigated data must indicate the county had at least 10% irrigated and 10% non-irrigated in the county between the years 2013 and 2017
 - an average of 5,000 acres was planted in the county every year 2013 through 2017

FSA will evaluate these counties beginning in 2021 and continue through the end of the farm bill.

Enrollment Dates

2014: Under the 2014 Farm Bill, the enrollment dates were November 1 through August 1 of the applicable contract year.

2018: Under the 2018 Farm Bill, the enrollment dates will be as follows:

Contract Year	Enrollment Dates
2019	September 3, 2019 through March 15, 2020
2020	October 7, 2019 through June 30, 2020
2021	October 2020 through March 15, 2021
2022	October 2021 through March 15, 2022
2023	October 2022 through March 15, 2023

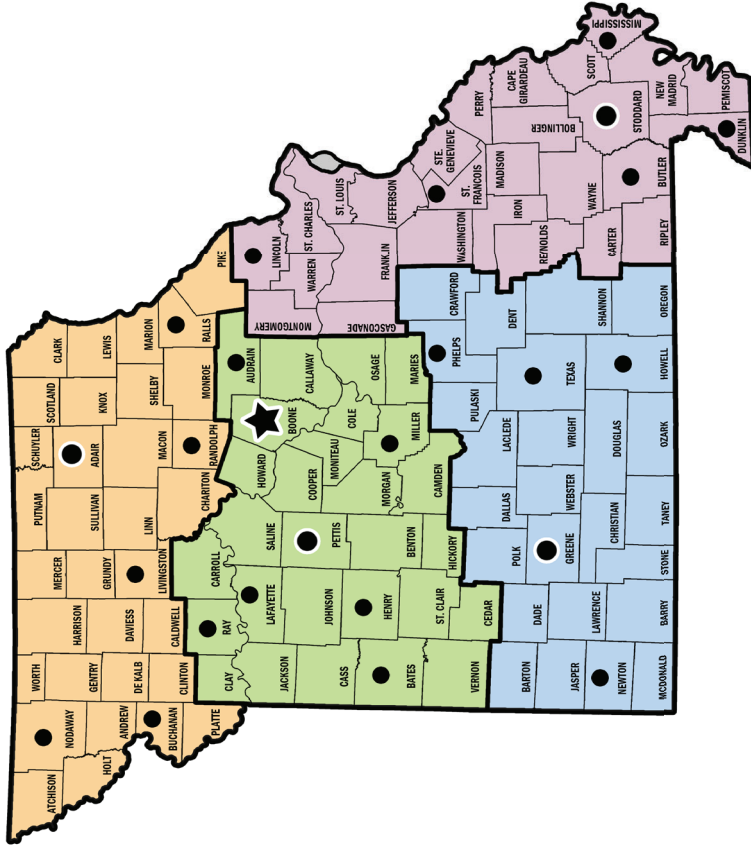
More Information

For more information on FSA programs, eligibility and related information, visit fsa.usda.gov.

Find your Local USDA Service Center

To locate your local FSA office, visit farmers.gov/service-locator.





Area 1

KIRKSVILLE
(Adair County)
2410 S Franklin St.
Kirksville, MO 63501
☎ (660) 665-3274

CHILLICOTHE
(Livingston County)
1100 Morton Parkway
Chillicothe, MO 64601
☎ (660) 646-6222

MARYVILLE
(Nodaway County)
502 W. South Hills Drive
Maryville, MO 64468
☎ (660) 582-7421

MOBERLY
(Randolph County)
2995 County Rd 1325
Moberly, MO 65270
☎ (660) 263-7400

NEW LONDON
(Ralls County)
17623 Highway 19
New London, MO 63459
☎ (573) 985-7211

ST. JOSEPH
(Buchanan County)
3915 Oakland Avenue
St. Joseph, MO 64506
☎ (816) 364-3927

Area 2

SPRINGFIELD
(Greene County)
688 S State Hwy B, Ste 400
Springfield, MO 65802
☎ (417) 831-5246

HOUSTON
(Texas County)
6726 S Hwy 63, Ste B
Houston, MO 65483
☎ (417) 967-2028

NEOSHO
(Newton County)
1900 S. Bus. Hwy 71 S
Neosho, MO 64850
☎ (417) 451-1007

ROLLA
(Pheips County)
1050 Hwy 72 E
Rolla, MO 65401-3962
☎ (573) 364-1479

WEST PLAINS
(Howell County)
3210 Hoover Drive
West Plains MO 65775
☎ (417) 256-7117

Area 3

SEDALIA
(Pettis County)
1407 W 32nd St
Sedalia, MO 65301
☎ (660) 826-3339

BUTLER
(Bates County)
625 W Nursery St Box A
Butler, MO 64730
☎ (660) 679-6114

CLINTON
(Henry County)
1306 N 2nd St.
Clinton, MO 64735
☎ (660) 885-5567

ELDON
(Miller County)
101 Industrial Parkway
Eldon, MO 65026
☎ (573) 392-5667

HIGGINSVILLE
(Lafayette County)
120 W 19th St Ste 102
Higginsville, MO 64037
☎ (660) 584-8732

MEXICO
(Audrain County)
4617 S Clark
Mexico, MO 65265
☎ (573) 581-4177

RICHMOND
(Ray County)
500 Wollard Blvd.
Richmond, MO 64085
☎ (816) 776-2266

Area 4

DEXTER
(Stoddard County)
18450 Ridgeview Lane
Dexter, MO 63841
☎ (573) 624-5939

CHARLESTON
(Mississippi County)
831 S Hwy 105
Charleston, MO 63834
☎ (573) 649-9947

FARMINGTON
(St. Francois County)
812 Progress Drive
Farmington, MO 63640
☎ (573) 756-6413

KENNETT
(Dunklin County)
704 N Bypass
Kennett, MO 63857
☎ (573) 888-2536

POPLAR BLUFF
(Butler County)
4327 Hwy. 67N
Poplar Bluff, MO 63901
☎ (573) 785-9679

TROY
(Lincoln County)
114 Frenchman Bluff Rd
Troy, MO 63379
☎ (636) 528-7046

Contact any *USDA Rural Development office for more information about the agency's funding opportunities.*

Missouri Rural Development State Office

601 Business Loop 70 West
Parkade Center, Suite 235
Columbia, MO 65203-2546

☎ (573) 876-0976



rd.usda.gov/mo



@RD_Missouri

USDA is an equal opportunity provider, employer, and lender.



PURPOSE

The Business & Industry Guaranteed Loan Program provides guarantees of up to 80% of loans made by eligible commercial lenders for job creation and economic development projects in rural areas. Eligible lenders include national and state-chartered banks, savings & loan associations, and Farm Credit system lenders.

ELIGIBLE AREAS

Projects may be located in cities, towns or unincorporated areas with a population of 50,000 or less (as defined by the U.S. Census Bureau).

APPLICANT ELIGIBILITY

- Corporations, partnerships and sole proprietors
- Non-profit organizations
- Cooperative organizations
- Municipal and public bodies
- Federally-recognized tribal organizations
- Individuals must be U.S. citizens or legal permanent residents

TYPES OF BUSINESSES

Eligible businesses include manufacturing, wholesale, retail, service, or other business activities that will provide opportunities to create or maintain employment and/or improve the economic condition in rural communities.

ELIGIBLE LOAN PURPOSES

- Construction, renovation & development
- Purchase of land and buildings
- Purchase of machinery & equipment
- Debt refinance/restructure
- Working capital

INELIGIBLE LOAN PURPOSES

- Revolving credit lines
- Golf courses, race tracks, or gambling businesses
- Agricultural production with some exceptions
- Lending, investment or insurance businesses
- Payment to owner, partner, or shareholder who will retain ownership in the business or loans involving a conflict of interest

MAXIMUM LOAN AMOUNTS AND GUARANTEES

- Maximum 80% guarantee for loans up to \$5 million
- Max. 70% guarantee for loans greater than \$5 million up to \$10 million
- Max. 60% guarantee for loans greater than \$10 million up to \$25 million

LOAN TERMS AND REPAYMENT

- 30 years on real estate
- 15 years or useful life on machinery and equipment
- 7 years for working capital term loans

INTEREST RATES

- Fixed or variable rates are allowed (rate is negotiated between lender and applicant)
- Well-established secondary market provides lenders with opportunities for improved loan pricing and liquidity

COLLATERAL

Collateral must be adequate to protect the interest of the lender and the government. A senior lien position is preferred (exceptions allowed in some cases). Personal guaranties are required for owners, partners, or shareholders with 20% or greater ownership.

EQUITY REQUIREMENTS

- Minimum of 20% tangible equity required for start-up businesses
- Minimum of 10% equity required for existing businesses (open 12 months or longer)
- Equity will be in the form of cash or tangible business assets. Excludes appraisal surplus.

FOR MORE INFORMATION / HOW TO APPLY

Contact the USDA Rural Development Business Program Specialist according to the project location:

North Missouri:	Steve Gerrish (Moberly, MO)	660-263-7400, Ext.4	steve.gerrish@mo.usda.gov
Southwest Missouri:	James Combs Makeesha Munro (Springfield, MO)	417-831-5246, Ext.4	james.combs@mo.usda.gov makeesha.munro@mo.usda.gov
Southeast Missouri:	Ray Mowery (Houston, MO)	417-967-2028, Ext.4	ray.mowery@mo.usda.gov
Missouri State Office:	Matt Moore Nathan Tutt Jenna Soendker (Columbia, MO)	573-876-9321	matt.moore@mo.usda.gov nathan.tutt@mo.usda.gov jenna.soendker@mo.usda.gov

<https://www.rd.usda.gov/programs-services/business-industry-loan-guarantees/mo>



FAQ'S ON THE B&I ANNUAL RENEWAL FEE

Business & Industry (B&I) Guaranteed Loan Program

On October 3, 2005, USDA Rural Development instituted an **annual renewal fee** for all new B&I guaranteed loans. The renewal fee is charged by USDA in addition to the initial B&I guarantee fee (typically 3%) that must be paid prior to issuance of the B&I Loan Note Guarantee.

Does the annual renewal fee affect pre-existing B&I guaranteed loans?

No. The annual renewal fee applies only to B&I loans that are approved (i.e., the Conditional Commitment was issued) by USDA on or after October 3, 2005. There is no renewal fee for B&I loans whose Conditional Commitments pre-date October 3, 2005.

How much is the annual renewal fee?

The fee is calculated based on (a) the guaranteed principal owing on the B&I loan as of December 31 and (b) a fee percentage set by the Administrator of USDA Rural Business-Cooperative Service in an annually published notice in the Federal Register. The annual fee for B&I loans made in FY 2019 is 0.500%. Once established on a given loan, the fee remains fixed at that level for the life of the loan. In FY 2019, all B&I loans approved at the standard 80% guarantee will carry a renewal fee equal to 0.400% of the principal (0.500% of 80% = 0.400%) calculated as of each December 31 the loan remains outstanding.

Who is responsible for paying the fee?

The lender is solely responsible for payment of the fee regardless of whether the guarantee has been sold on the secondary market or not. Note that this differs from the SBA 7(a) program's monthly fee, where Colson Financial Services takes over responsibility for payment of the SBA fee when a 7(a) guarantee is sold on the secondary market. Since the B&I program has no fiscal transfer agent, the lender remains responsible for seeing that the fee is paid.

When is the annual renewal fee due?

The renewal fee, computed using the December 31 principal balance, is due to USDA by January 31.

Is the first annual renewal fee pro-rated based on when the guarantee is issued?

There is no pro-ration of the renewal fee – regardless of whether a B&I guarantee is issued early or late in the calendar year, B&I loans are assessed the same fee based on their December 31 principal balance. The only exception to this is for B&I guarantees issued in the last quarter of the calendar year (October 1 to December 31); these are not required to pay a renewal fee until the end of the following calendar year. So, if 3 B&I guarantees were issued on January 2, September 30, and October 1, respectively, the first two are required to pay the same renewal fee at year's end, but the last one skips the renewal fee until the following year.

How should lenders arrange for the accumulation of the annual renewal fee?

USDA does not require lenders to adopt any particular method for funding the renewal fee or to maintain a renewal fee account. A lender may elect to absorb the added cost of the fee, or a lender may increase the interest rate on the B&I loan in order to assure that sufficient funds are available to pay the fee when it is due. A lender may wish to set up and fund a renewal fee account at loan closing along the lines of a mortgage tax-&-insurance escrow account; the balance in the account could then be funded from a portion of monthly payments received from the B&I borrower. Depending on how late in the year the guarantee is received, it may be desirable to pre-fund such an account at loan closing so that there will be sufficient funds on deposit when the first renewal fee is due. Proceeds from the B&I loan may be used to fund such an account, just as loan proceeds may be used to pay the initial B&I guarantee fee. Since there is no required method, each lender can design its own system.

How will the mechanics of USDA's collection of the annual renewal fee work?

USDA Rural Development has instituted the LINC system, a secure web-based system whereby lenders will report the principal, interest, and status of their B&I loans as of December 31. The system will then calculate the renewal fee due on each loan, if any, and the lender will transfer the funds via ACH to USDA.

What happens to a lender if the annual renewal fee is not paid?

Although the renewal fee is due on January 31, it is not considered delinquent until April 1. If the fee is not paid by April 1, one of two things may happen. First, the delinquent renewal fee will begin bearing interest at the B&I loan's note rate until such time as the delinquent fees plus interest are paid to USDA. Second, so long as any fee delinquency exists, USDA may at any time and at its sole discretion cancel the guarantee *as to the lender only*. If USDA elects not to cancel the guarantee, and if a loss claim is ultimately submitted, delinquent fees with interest will be deducted from any loss payment due the lender. It is also important to note that a lender is prohibited from selling a B&I guarantee on the secondary market if there are unpaid renewal fees because such a loan is in technical violation of the B&I Lender's Agreement.

What happens to a secondary market holder if the annual renewal fee is not paid?

If a B&I guarantee has been sold on the secondary market, the holder who has purchased the guarantee is not responsible for payment of the renewal fee; this is solely the lender's obligation. Therefore, nonpayment of the renewal fee does not alter the enforceability of the guarantee as to the holder. USDA will continue to honor the guarantee as to the holder regardless of whether renewal fees are unpaid, renewal fees become delinquent, or USDA cancels the guarantee as to the lender.

For More Information

Contact the USDA Rural Development State Office in Columbia at 573-876-9321 or one of our Business Program Specialists:

Steve Gerrish	(Moberly)	660-263-7400, Ext. 4
James Combs	(Springfield)	417-831-5246, Ext. 4
Makeesha Munro	(Springfield)	417-831-5246, Ext. 4
Ray Mowery	(Houston)	417-967-2028, Ext. 4

Website: www.rd.usda.gov/mo



The **Value Added Producer Grant** program is intended to help producers increase their revenues through value-added activities that expand the customer base for their products or commodities.

General Information

- Grant funds can be used for business planning or working capital
- The maximum award per grant is \$250,000 for working capital and \$75,000 for planning (subject to change annually)
- Applicants must provide matching funds at least equal to the amount of the grant

Eligible Applicants

- Independent producers
- Individual producer or a producer-owned corporation or partnership
- Steering committee of producers in the process of organizing
- Agricultural producer groups
- Trade association or commodity group representing independent producers
- Farmer or rancher cooperatives
- Business ventures that are majority owned and controlled by producers, producer groups, cooperatives, and majority owned businesses must be entering emerging markets

Eligible Products

- Products that have undergone a change in a physical state or form
 - Example: Making cheese from milk, slaughtering beef
- Products produced in a manner that enhances its value, as demonstrated by a business plan
 - Example: Organically produced, Locally Produced and Marketed
- Physical segregation of products in a manner that enhances its value
 - Example: Identity preserved marketing system
- Using agricultural products to produce renewable energy on a farm
 - Example: Generate energy from animal waste methane

Eligible Purposes

- Planning activities
- Feasibility studies, marketing and business plans, legal evaluations
- Working capital, legal and accounting costs, salaries, utilities, inventories, office equipment, supplies, etc. (to receive working capital grant, applicants must have an independent feasibility study and a business plan completed)
- Can apply for either Working Capital or Planning grant, but not both in same year

Ineligible Purposes

- Costs related to purchase of land, buildings or equipment, or engineering/design for a specific facility
- Costs incurred prior to receiving the grant
- Expenses related to agricultural production
- Pay for preparation of the grant application
- Expenses not directly related to the funded venture
- No conflict of interest. Grant funds cannot be paid to project owner or relative.

FOR MORE INFORMATION / HOW TO APPLY

Contact USDA Rural Development Business Programs in the Missouri State Office at 573-876-9321 or visit our website <http://www.rd.usda.gov/MO>

On the web: <https://www.rd.usda.gov/programs-services/value-added-producer-grants>

Missouri State Office (Columbia, MO):	Matt Moore Nathan Tutt Jenna Soendker	573-876-9321	matt.moore@mo.usda.gov nathan.tutt@mo.usda.gov jenna.soendker@mo.usda.gov
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Address:

USDA Rural Development
Attn: Business Programs
601 Business Loop 70 West, Suite 235
Columbia MO 65203



The Rural Energy for America Program (REAP) Grant offers financial assistance to agricultural producers and small businesses in rural areas for the purchase and installation of renewable energy systems and energy efficient improvement projects. Grants can be made for 25% of the eligible project cost.

APPLICANT ELIGIBILITY

- Agricultural producers
- Rural small businesses

PROJECT ELIGIBILITY

- Purchase and installation of a renewable energy system
- Energy efficiency improvements
- Commercially available technology
- Project must have technical merit
- The project must be located in a rural area with a population of 50,000 or less according to the latest US census. Agricultural production projects can be located in non-rural areas of a State of the United States.
- The applicant must be the owner of the project and control the revenues and expenses of the project, including operation and maintenance.

GRANT FUNDING

- The amount of grant funds will not exceed 25 percent of total eligible project costs.
- The applicant is responsible for and must secure the remainder of the total eligible project costs not covered by grant funds. Other direct Federal grant funds and applicant in-kind contributions cannot be used to meet the matching fund requirement.
- Renewable energy system grant applications will be accepted for a maximum of \$500,000 (minimum grant is \$2,500)
- Energy efficiency improvement grant applications will be accepted for a maximum of \$250,000 (minimum \$1,500)

ELIGIBLE PROJECT COSTS

Costs must be an integral and necessary part of the renewable energy system or energy efficiency improvement. Eligible costs include the following:

- Post-application purchase and installation of equipment (new, refurbished, or remanufactured). Agricultural tillage equipment, used equipment, and vehicles are not eligible.
- Post-application construction, improvements, or retrofitting (not residential)
- No conflict of interest. Grant funds cannot be paid to project owner or relative.

APPLICATIONS

Grant applications are selected for funding based on a competitive process. In determining the amount of a grant awarded, USDA will consider the following criteria:

- The type of renewable energy system to be purchased
- The estimated quantity of energy to be generated by the renewable energy system
- The expected environmental benefits of the renewable energy system
- The amount of energy savings expected to be derived from the activity, as demonstrated by an energy audit
- Estimated simple payback period

FOR MORE INFORMATION / HOW TO APPLY

Contact the USDA Rural Development Business Program Specialist according to the project location:

North Missouri:	Steve Gerrish (Moberly, MO)	660-263-7400, Ext.4	steve.gerrish@mo.usda.gov
Southwest Missouri:	James Combs Makeesha Munro (Springfield, MO)	417-831-5246, Ext.4	james.combs@mo.usda.gov makeesha.munro@mo.usda.gov
Southeast Missouri:	Ray Mowery (Houston, MO)	417-967-2028, Ext.4	ray.mowery@mo.usda.gov
Missouri State Office:	Matt Moore Nathan Tutt Jenna Soendker (Columbia, MO)	573-876-9321	matt.moore@mo.usda.gov nathan.tutt@mo.usda.gov jenna.soendker@mo.usda.gov

Program information and applications are also available at our website:

<http://www.rd.usda.gov/MO>



The Rural Energy for America Program (REAP) can guarantee up to 85% of loans made to agricultural producers and small businesses in rural areas for the purchase and installation of renewable energy systems and energy efficient improvement projects. Eligible lenders include national and state-chartered banks, savings & loan associations, and Farm Credit system lenders.

APPLICANT ELIGIBILITY

- Agricultural producers
- Rural small businesses

PROJECT ELIGIBILITY

- Purchase and installation of a renewable energy system
- Energy efficiency improvements
- Commercially available technology
- Project must have technical merit
- The project must be located in a rural area with a population of 50,000 or less according to the latest US census. Agricultural production projects can be located in non-rural areas of a State of the United States.
- The applicant must be the owner of the project and control the revenues and expenses of the project, including operation and maintenance.

ELIGIBLE PROJECT COSTS

Costs must be an integral and necessary part of the renewable energy system or energy efficiency improvement. Eligible costs include the following:

- Post-application purchase and installation of equipment (new, refurbished, or remanufactured). Agricultural tillage equipment, used equipment, and vehicles are not eligible.
- Post-application construction, improvements, or retrofitting (not residential)
- Permit and license fees, professional service fees (except for application preparation)
- Working capital (subject to program restrictions)
- Refinancing (subject to program restrictions)

MAXIMUM LOAN AMOUNTS AND GUARANTEES

- 85% guarantee for loans up to \$600,000
- 80% guarantee for loans up to \$5 million
- 70% guarantee for loans greater than \$5 million up to \$10 million
- 60% guarantee for loans greater than \$10 million up to \$25 million
- Guaranteed loan amount not to exceed 75% of eligible project cost

LOAN RATES & TERMS

- Up to 30 years on real estate
- 15 years or useful life on machinery and equipment
- 7 years for working capital
- Interest rates may be fixed or variable and are negotiated by borrower and lender

COLLATERAL

Collateral must be adequate to protect the interest of the lender and the government. Personal guaranties are required for owners, partners, or shareholders with 20% or greater interest in the business.

FOR MORE INFORMATION / HOW TO APPLY

Contact the USDA Rural Development Business Program Specialist according to the project location:

North Missouri:	Steve Gerrish (Moberly, MO)	660-263-7400, Ext.4	steve.gerrish@mo.usda.gov
Southwest Missouri:	James Combs Makeesha Munro (Springfield, MO)	417-831-5246, Ext.4	james.combs@mo.usda.gov makeesha.munro@mo.usda.gov
Southeast Missouri:	Ray Mowery (Houston, MO)	417-967-2028, Ext.4	ray.mowery@mo.usda.gov
Missouri State Office:	Matt Moore Nathan Tutt Jenna Soendker (Columbia, MO)	573-876-9321	matt.moore@mo.usda.gov nathan.tutt@mo.usda.gov jenna.soendker@mo.usda.gov

Program information and applications are also available at our website:

<http://www.rd.usda.gov/MO>

QUICK OVERVIEW OF SBA LOAN GUARANTY PROGRAMS



Program	Maximum Loan Amount	Percent of Guaranty	Use of Proceeds	Maturity	Maximum Interest Rates	Guaranty Fees	Who Qualifies	Benefits to Borrowers
7(a) Loans	\$5 million	85% guaranty for loans of \$150,000 or less; 75% guaranty for loans greater than \$150,000 (up to \$3.75 million maximum guaranty)	Term Loan. Expansion/renovation; new construction, purchase land or buildings; purchase equipment, fixtures, lease-hold improvements; working capital; refinancing; debt for compelling reasons; seasonal line of credit, inventory or starting a business	Depends on ability to repay. Generally, working capital & machinery & equipment (not to exceed life of equipment) is 5-10 years; real estate is 25 years.	Loans less than 7 years: \$0 - \$25,000 Prime + 4.25% \$25,001 - \$50,000 P + 3.25% Over \$50,000 Prime + 2.25% Loans 7 years or longer: 0 - \$25,000 Prime + 4.75% \$25,001 - \$50,000 P + 3.75% Over \$50,000 Prime + 2.75% Fixed Rate: www.colsonservices.com Click: News & Rates	(No SBA guaranty fees on loans of \$150,000 or less approved in FY 2017.) Fee charged on guaranteed portion of loan only. \$150,001-\$700,000 = 3.0%; \$700,001-\$1,000,000 = 3.5%; plus portion over \$1 million, 12 months or less .25% Ongoing fee of 0.546%.	Must be a for-profit, business & meet SBA size standards; show good character, credit, management, and ability to repay. Must be an eligible type of business. Prepayment penalty for loans with maturities of 15 years or more if prepaid during first 3 years. (5% year 1, 3% year 2 and 1% year 3)	Long-term financing; Improved cash flow; Fixed maturity; No balloons; No prepayment penalty (under 15 years)
(7a) Small Loans Is any 7a loan \$350,000 and under, except the Community Advantage and Express loans	\$350,000	Same as 7(a) Loans	Same as 7(a) Loans	Same as 7(a) Loans	Same as 7(a) Loans	Same as 7(a) Loans	Same as 7(a) Loans Plus, all loan applications will be credit scored by SBA. If not an acceptable score, the loan can be submitted via full standard 7(a) or Express.	Same as 7(a) Loans
SBA Express	\$350,000	50%	May be used for revolving lines of credit (up to 7 year maturity) or for a term loan (same as 7(a)).	Up to 7 years for Revolving Lines of Credit including term out period. Otherwise, same as 7(a).	Loans \$50,000 or less; prime + 6.5% Loans over \$50,000; prime + 4.5%	Same as 7(a) Loans	Same as 7(a) Loans	Fast turnaround; Streamlined process; Easy-to-use line of credit
SBA Veterans Advantage	Processed under SBA Express \$350,000 Processed under SBA 7(a) Loans \$5 million	Same as SBA Express Same as 7(a) Loans	Same as SBA Express Same as 7(a) Loans	Same as SBA Express Same as 7(a) Loans	Same as SBA Express Same as SBA 7(a) Loans	No guaranty fee. Ongoing fee of 0.546% Same as 7(a) Loans Except guaranty fee for non SBA Express loans up to \$500,000 will be reduced by 50%. Ongoing fee of 0.546%	Same as 7(a) Plus, small business must be owned and controlled (51%+) by one or more of the following groups: veteran, active-duty military in TAP, reservist or National Guard member or a spouse of any of these groups, or a widowed spouse of a service member or veteran who died during service, or a service-connected disability.	Same as SBA Express No guaranty fee Same as 7(a) Loans but with a reduced guaranty fee.
CapLines: 1. Working Capital; 2. Contract; 3. Seasonal; and 4. Builders	\$5 million	Same as 7(a) Loans	Finance seasonal and/or short-term working capital needs; cost to perform; construction costs; advances against existing inventory and receivables; consolidation of short-term debts. May be revolving.	Up to 10 years, except Builder's CAPLine, which is 5 years	Same as 7(a) Loans	Same as 7(a) Loans	Same as 7(a) Loans Plus, all lenders must execute Form 750 & 750B (short-term loans)	1. Working Capital - (LOC) Revolving Line of Credit 2. Contract - can finance all costs (excluding profit). 3. Seasonal - Seasonal working capital needs. 4. Builder - Finances direct costs in building a commercial or residential structure
Community Advantage Mission-focused lenders only. Expires 03/31/2020	\$250,000	Same as 7(a) Loans	Same as 7(a) Loans	Same as 7(a) Loans	Prime plus 6%	Same as 7(a) Loans	Same as 7(a) Loans Small Loans	Same as 7(a) Plus lenders must be CDFIs, CDCs, micro-lender or SBA Intermediary Lenders targeting underserved market.

U.S. Small Business Administration
409 3rd Street, S.W.
Washington, DC 20416

SBA Answer Desk
1-800-827-5722
www.sba.gov

Information current as February 2017
SBA Programs and services are provided on a nondiscriminatory basis.
See the SOP for the most up to date detailed information

QUICK OVERVIEW OF SBA LOAN GUARANTY PROGRAMS



Program	Maximum Loan Amount	Percent of Guaranty	Use of Proceeds	Maturity	Maximum Interest Rates	Guaranty Fees	Who Qualifies	Benefits to Borrowers
International Trade	\$5 million	90% guaranty (up to \$4.5 million maximum guaranty) (Up to \$4 million maximum guaranty for working capital)	Term loan for permanent working capital, equipment, facilities, land and buildings and debt refinancing related to international trade	Up to 25 years.	Same as 7(a) Loans	Same as 7(a) Loans	Same as 7(a) Loans Plus, engaged or preparing to engage in international trade or adversely affected by competition from imports.	Long term financing to allow small business to compete more effectively in the international marketplace
Export Working Capital Program	\$5 million	90% guaranty (up to \$4.5 million maximum guaranty)	Short-term, working-capital loans for exporters. May be transaction based or asset-based. Can also support standby letters of credit	Generally one year or less, may go up to 3 years	No SBA maximum interest rate cap, but SBA monitors for reasonableness	Same as 7(a) Loans	Same as 7(a) Loans Plus, need short-term working capital for direct or indirect exporting.	Additional working capital to increase export sales without disrupting domestic financing and business plan
Export Express	\$500,000	90% guaranty for loans of \$350,000 or less; 75% guaranty for loans greater than \$350,000	Same as SBA Express plus standby letters of credit	Same as SBA Express	Same as SBA Express	Same as 7(a) Loans	Applicant must demonstrate that loan will enable them to enter a new, or expand in an existing export market. Business must have been in operation for at least 12 months (though not necessarily in exporting).	Fast turnaround; Streamlined process; Easy-to-use line of credit Loan can be for direct or indirect exporting.
504 Loans Provided through Certified Development Companies (CDCs) which are licensed by SBA	504 CDC maximum amount ranges from \$5 million to \$5.5 million, depending on type of business or project.	Project costs financed as follows: CDC: up to 40% Lender: 50% (Non-guaranteed) Equity: 10% plus additional 5% if new business and/or 5% if special use property.	Long-term, fixed-asset loans; Lender (non-guaranteed) financing secured by first lien on project assets. CDC loan provided from SBA 100% guaranteed debenture sold to investors at fixed rate secured by 2nd lien.	CDC Loan: 10- or 20-year term fixed interest rate. Lender Loan: Unguaranteed financing may have a shorter term. May be fixed or adjustable interest rate	Fixed rate on SBA Grow (504) Loan established when the debenture backing loan is sold. Declining prepayment penalty for 1/2 of term.	SBA guaranty fee on debenture is 0.0%. A participation fee of 0.5% is on lender share, plus CDC may charge up to 1.5% on their share. CDC charges a monthly servicing fee of 0.625%-2.0% on unpaid balance. Ongoing guaranty fee is 0.697% of principal outstanding. Ongoing fee doesn't change during term.	Alternative Size Standard: For-profit businesses that do not exceed \$15 million in tangible net worth, and do not have an average two full fiscal year net income over \$5 million. Owner Occupied 51% for existing or 60% for new construction.	Low down payment - equity (10, 15 or 20 percent) (The equity contribution may be borrowed as long as it is not from an SBA loan) Fees can be financed; SBA /CDC Portion: Long-term fixed rate Full amortization and No balloons
504 Loan Refinancing Program (Permanent) Provided through Certified Development Companies (CDCs) which are licensed by SBA	Same as 504 (see SBA Policy Notice 5000-1382 dated 05/26/2016 for complete program information)	Loan to Value (LTV) Qualified and Secured Debt 90%. For projects that include "Business Operating Expenses (BOE)" the LTV is 85%. BOE may not exceed 15% of the fixed asset.	At least 85% of the proceeds of the loan(s) to be refinanced had to be originally used for eligible fixed assets. May include the financing of eligible business expenses as part of the refinancing.	Same as 504	Same as 504	Same as 504 except, Ongoing guaranty fee is 0.731% of principal outstanding.	Loan(s) to be refinanced can't be subject to a guaranty by a Federal agency, can't be a Third Party Loan which is part of an existing SBA 504 project and must have been current on all payments for the past 12 months. Both the business and loan(s) to be refinanced must be at least 2 years old.	Business can access equity in their commercial real estate for business operating expenses or refinancing property on reasonable terms. Fees can be financed; SBA /CDC Portion: Long-term fixed rate Full amortization and No balloons
Non-7(a) Loans Microloans Loans through nonprofit lending organizations;	\$50,000	Not applicable	Working capital, supplies, machinery & equipment, fixtures; etc. Intermediary may choose to refinance debt. Cannot be used for real estate.	Shortest term possible, not to exceed 6 years	Negotiable with intermediary. Subject to either 7.75 or 8.5% above intermediary cost of funds.	No guaranty fee	Same as 7(a)	Direct loans from nonprofit intermediary lenders; Fixed-rate financing; Very small loan amounts; Technical assistance available

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This is an overview and does not include full policy and procedures. See the current Lender and Development Company Loan Programs SOP 10 5 for more details.

February 2017 Version B

<u>Counties</u>	<u>Staff /Extensions</u>	<u>DD/AFLS</u>	<u>Address/Code</u>	<u>Phone/FAX</u>
Adair, Putnam, Schuyler, Knox	Sean Bonnell, FLM	Mosley (2) Bagnell	2410 S. Franklin Street Kirksville, MO 63501	P 660-665-3274 F 855-842-0824
Barry, Lawrence, McDonald, Newton	Russell Neill, FLM Brenda Pfitzner, FLOT Becky Thomas, FLPT	Johnson (6) Hedges	76 Main Street Cassville, MO 65625	P 417-847-2862 F 855-827-5255
Butler, Carter, Ripley, Wayne	Taylor Miller, FLO Monica McCain, FLPT	Eddy (7) Barker	4327 Highway 67 N Poplar Bluff, MO 63901	P 573-785-8416 F 855-850-2618
Carroll, Caldwell, Clay, Clinton, Ray	Annette G. Brandt, SFLO Taylor Rardon, FLPT	Mosley (2) Bagnell	1405 North Hwy 65, Ste. A Carrollton, MO 64633	P 660-542-8732 F 855-826-0254
Clark, Lewis, Marion, Scotland	Lisa Orton, FLPT	Marks (3) LePage	23925 State Route 81 Kahoka, MO 63445	P 660-727-3364 F 855-841-0750
Cole, Gasconade, Maries, Miller, Moniteau, Osage, Callaway	Kelly Volmert, FLM Jessica Groose, FLO Marisa Doerhoff, FLO Nicole Bestgen, FLPT	Gerlemann (5) LePage	1911 Boggs Creek Road Jefferson City, MO 65101	P 573-893-5196 F 855-841-0749
Dunklin Pemiscot, New Madrid, Mississippi	Emily Wilson, FLM Justin Williams, FLOT Sheila Franks, FLPT	Eddy (7) Barker	704 North By-Pass Kennett, MO 63857	P 573-888-2536 F 855-841-0752
Grundy, Sullivan, Livingston, Mercer	Sarah Lowrey, FLM Carlee Quinn, FLOT Benna Trump, FLPT	Mosley (2) Bagnell	3415 Oklahoma Ave. Trenton, MO 64683	P 660-359-2006 F 855-863-7031
Harrison, Daviess, DeKalb, Gentry, Worth	Brett Goligoski, FLOT Pat Barnett, FLPT	Dreier (1) Bagnell	1400 N. 41 st Street Bethany, MO 64424	P 660-425-7635 F 855-825-4738
Lafayette, Cass, Jackson, Johnson, Saline	Caitlyn McFee, FLO	Singer (4) Bagnell	120 West 19 th Street Higginsville, MO 64037	P 660-584-8732 F 855-835-5200
Macon, Randolph, Linn, Boone, Chariton, Howard, Shelby	Leann Martin, FLM Lisa Denton, FLPT	Marks (3) LePage	2108 U.S. Hwy 63 Suite C Macon, MO 63552	P 660-385-2616 F 855-842-7891
Monroe, Audrain, Lincoln, Montgomery, Pike, Ralls, St. Charles, Warren	Amy Myers, FLM Jessie Devore, FLOT Chayla Hoffman, FLOT Mary DeOrnellis, FLPT	Marks (3) LePage	18771 Hwy 15 Paris, MO 65275	P 660-327-4137 F 855-850-2614
New Madrid, Mississippi	Andy Wallace, SFLO Paula Newson, FLPT	Eddy (7) Barker	495A Hwy 61 New Madrid, MO 63869	P 573-748-2557 F 855-849-1530

<u>Counties</u>	<u>Farm Loan Manager</u>	<u>DD/AFLS</u>	<u>Address</u>	<u>Phone/FAX</u>
Nodaway, Andrew, Atchison, Buchanan, Holt, Platte	Matthew Strueby, FLM Brett Henggeler, FLO Blake Elsberry, FLOT Tammy Luke, FLPT	Dreier (1) Bagnell	502 W South Hills Dr. Ste. 104 Maryville, MO 64468	P 660-582-7423 F 855-846-2013
Pemiscot	Kevin Gilmore, SFLO Denna Morris, FLPT	Eddy (7) Barker	1206 Hwy 84 West Caruthersville, MO 63830	P 573-333-1923 F 855-827-5253
Perry, Bollinger, Cape Girardeau, Madison, St. Genevieve	LaDonna Petzoldt, FLO	Eddy (7) Barker	1003 N Main Perryville, MO 63775	P 573-547-6531 F 855-850-2615
Pettis, Benton, Cooper, Morgan	Hannah Zimmel, FLOT Victoria Kruep, FLPT	Singer (5) LePage	1407 W. 32 Street Sedalia, MO 65301	P 660-826-3339 F 855-861-0832
Polk, Cedar, Dallas, Henry, Hickory, St. Clair	Lauren Eagles, FLOT Julie Caffey, FLPT	Johnson (6) Hedges	1333 East Broadway Bolivar, MO 65613	P 417-326-4823 F 855-825-4973
Stoddard, Scott, Bollinger, Cape Girardeau, Madison, Perry, St. Genevieve, St. François, Franklin, Iron, Jefferson, St. Louis, Washington	Kevin Hunt, FLM Mike Guethle, FLO Heather Barker, FLPT LaDonna Mitchell, FLPT	Eddy (7) Barker	18450 Ridgeview Lane Dexter, MO 63841	P 573-624-5939 F 855-830-4753
Texas, Crawford, Dent, Douglas, Howell, Oregon, Ozark, Phelps, Reynolds, Shannon	Emma Hohenberger, FLM Kallie Turner, FLO Molly Adams, FLPT	Johnson (6) Hedges	6726 A Hwy 63 Houston, MO 65483	P 417-967-2028 F 855-835-5210
Vernon, Bates, Barton, Dade, Jasper	Joni Klumpp, FLM Sarah Harmon, FLOT Suzette Berning, FLPT	Singer (4) Hedges	102 W. Allison Nevada, MO 64772	P 417-667-8137 F 855-846-9256
Webster, Camden, Christian, Greene, Laclede, Pulaski, Stone, Taney, Wright	Abigail Calton, FLM Zakary Banks, FLOT Courtney Gunter, FLPT Kelsey Rummel, FLPT	Johnson (6) Hedges	1202 Banning Street Marshfield, MO 65706	P 417-468-2088 F 855-842-7896

AFLS

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|--|--|---|--|
| 1. Brian Bagnell
brian.bagnell@usda.gov | 2. Andrew Barker
andrew.barker@usda.gov | 3. Brian Hedges
brian.hedges@usda.gov | 4. Rick LePage
rick.lepage@usda.gov |
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DD's

- | | | | |
|---|---|---|---|
| 1. Tim Dreier
tim.dreier@usda.gov | 2. Jeremy Mosley
jeremy.mosley@usda.gov | 3. Sharon Marks
sharon.marks@usda.gov | 4. Jared Singer
jared.singer@usda.gov |
| 5. Kate Gerlemann
kate.gerlemann@usda.gov | 6. Dennis Johnson
dennis.johnson@usda.gov | 7. Ryan Eddy
ryan.eddy@usda.gov | |

Crop and Livestock Commodity Prices to use for 2022 Farm Business Plan cash flow projections.

<u>Commodity</u>	<u>Unit</u>	<u>Price</u>
Corn	bu.	\$ 4.40
Grain Sorghum	bu.	4.25
Wheat	bu.	5.50
Soybeans	bu.	10.80
Cotton	lbs.	.75
Rice	cwt.	12.77
Purple Hull Peas	lbs.	.38
Seedless Watermelons	lbs.	.08
Regular Watermelons	lbs.	.05
Cantaloupes	lbs.	.20
Popcorn	lbs.	.17
Peanuts	lbs.	.23
Feeder Pigs (40-50 lbs.)	lbs.	1.20
Market Hogs	lbs.	.58
Cull Sows	lbs.	.40
Feeder Steers		
500-600 lbs.	lbs.	1.65
600-700 lbs.	lbs.	1.60
700-800 lbs.	lbs.	1.55
Feeder Heifers 90% of Steer Prices		
Fed Cattle-Choice Steer and Heifers	lbs.	1.20
Cull Cows	lbs.	.70
Slaughter Lambs	lbs.	1.75
Slaughter Ewes	lbs.	.85
Slaughter Kids (70lbs)	lbs.	2.55
Cull Does/Bucks	lbs.	1.90
Milk Grade A	cwt.	17.00
Grade B	cwt.	16.00