



# 2020 Lender Informational Meeting

# State Office Staff

**Marilyn McMullen – 406-587-6850 [marilyn.mcmullen@usda.gov](mailto:marilyn.mcmullen@usda.gov)**

**Janet Smith - 406-727-7580 Ext 4299 - [janet.smith@usda.gov](mailto:janet.smith@usda.gov)**

**Libby Bartholomew - 406-587-6988 - [libby.bartholomew@usda.gov](mailto:libby.bartholomew@usda.gov)**

**Deborah Thingvold - 406-587-6799 - [deborah.thingvold@usda.gov](mailto:deborah.thingvold@usda.gov)**

**FLP GROUP - [MT-fsa-flpsto@one.usda.gov](mailto:MT-fsa-flpsto@one.usda.gov)**

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# State Office Staff Changes

**We are happy to announce that Casey Toyne has joined us as a Farm Loan Specialist in the state office in Bozeman. He replaces Kim Adams who is now the Farm Loan Manager in Ronan.**

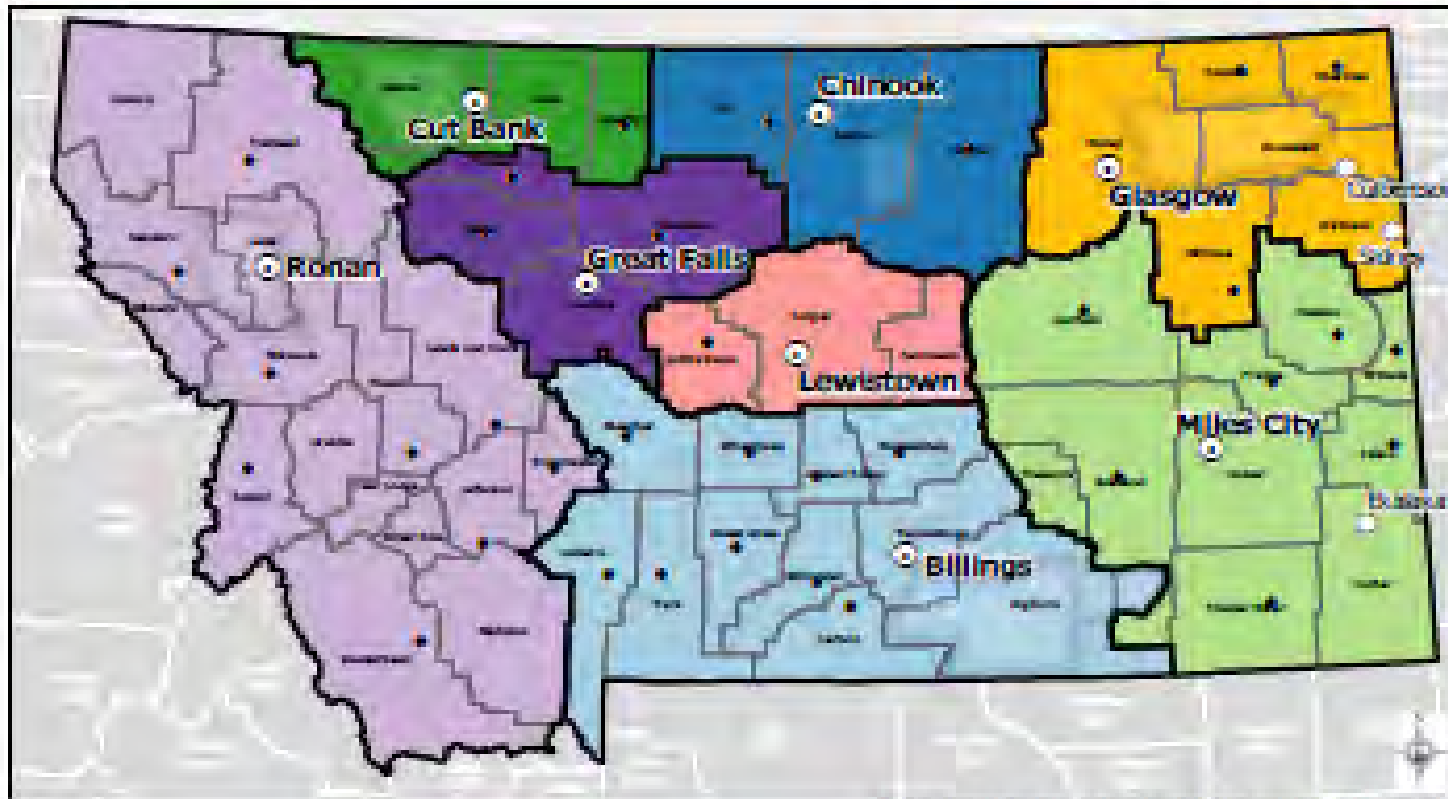
**[casey.toyne@usda.gov](mailto:casey.toyne@usda.gov)**

**(406) 587-6720**

# Office locations



## USDA Farm Service Agency Montana Farm Loan Programs (FLP) Areas



FLP Areas		
Culbertson, 406.787.8280	Glasgow, 406.228-8301	Miles City, 406.233-7905
Billings, 406.627.8135	Cut Bank, 406.873.5818	Great Falls, 406.727.7580
Chinook, 406.257.2300	Bozeman, 406.775.6355	Lewistown, 406.538.3489
		Ronan, 406.678.2811
		Sidney, 406.433.2100

October 2020

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# FSA Objectives

The objective of these programs is to provide supervised credit and management assistance to eligible farmers to become owners or operators, or both, of family farms, to continue such operations when credit is not available elsewhere, or to return to normal farming operations after sustaining substantial losses as a result of a designated or declared disaster. These regulations apply to loan applicants, borrowers, lenders, holders, Agency personnel, and other parties involved in making, guaranteeing, holding, servicing, or liquidating such loans. The programs are designed to allow those who participate to transition to private commercial credit or other sources of credit in the shortest period of time practicable through the use of supervised credit, including farm assessments, borrower training, market placement, and borrower graduation requirements.

# FSA

# Direct Loan Program

# Direct Loan Program Comparison as of 9/30/2020

	Montana	Nation
# of Borrowers	1,086	88,826
# of Loans	1,878	149,688
Portfolio	\$210,245,356.00	\$13,584,062,975
Delinquent \$ percentage	4.10%	4.50%
Delinquent Br Percentage	10%	12.80%

**Graduations as of 09/30/2020: 31 - \$3,476,293.02**

## Comparing 2020 and 2019

FUNDING - APPLICATIONS

	2020		2019	
Direct				
OL	440	38,802,990	385	32,689,197
FO	80	30,868,300	77	22,193,660
EM	0	-	2	208,820
BW	0	0	0	0
ITLAP	0	0	0	0
Guaranteed				
OL	178	84,656,623	80	22,495,442
FO	80	55,964,078	53	31,491,008
CL	0	-	0	0
	778	210,291,991	0	597
				109,078,127



# Direct Loan Program

## Direct Farm Ownership Loan (FO)

- Maximum \$600,000
- Used to purchase land, pay closing costs, purchase easements and construct new/improve farm buildings
- Current rate is 2.375% (11/2020)
- Maximum term is 40 years
- Must be secured at a minimum of 100% loan to value of land, try to be secured at 150% of loan to value of land

## • Participation Loans (Joint Financing)

- Maximum \$600,000
- Use same as above
- Interest rate will be the greater of: Current D-FO rate minus 2% OR 2.5%
- Lender provides 50% or more of the loan with 1<sup>st</sup> lien position
- FSA provides 50% or less of the loan with 2<sup>nd</sup> lien position
- Maximum term of 40 years
- Must be secured at a minimum of 100% loan to value, try to be secured at 150% of loan to value of land

# Direct Loan Program

## Direct Farm Ownership Loans

- **Beginning Farmer Down Payment**
  - Must be a Beginning Farmer or SDA
  - Must not own > 30% of the average size farm for the county prior to closing
  - 5% down payment required
  - Interest rate will be the greater of:
    - Current D-FO rate minus 4% OR
    - 1.5%
  - Term of 20 Years (FSA) and 30 Years (Non-Agency)
  - FSA portion will not exceed 45% of: the purchase price; appraisal value; or \$667,000 (**\$300,150 maximum**); whichever is less

# Direct Loan Program

## Direct Farm Operating (OL)

- Maximum \$400,000
- Uses are to purchase livestock/equipment, minor repairs to real estate, annual operating needs, refinance chattel debt
- Interest rate is currently at 1.25% (11/2020)
- Term of 1-7 years depending on purpose of loan and security

## Youth Loans

- Maximum \$5,000
- Must be an ag related project
- Limited to youth between 10 and 20 years old
- Must participate in 4-H, FFA, or Tribal youth group
- Current Interest rate is 1.25% (11/2020)
- Term 1-7 years depending on the purpose of the loan

# Direct Loan Program

- **Microloans OL and FO**
  - Maximum \$50,000
  - Same purposes as regular OL and FO loans
  - Same interest and OL or FO loans
  - Simpler and requires less paperwork to complete
  - Micro-FO loan is limited to 25 years
  - Security can be different that loan purpose
- **Emergency Loans**
  - Amount of loss up to \$500,000 at 2.25%
- **ITLAP – Indian Land Acquisition**
- **Conservation Loans – NO FUNDING**

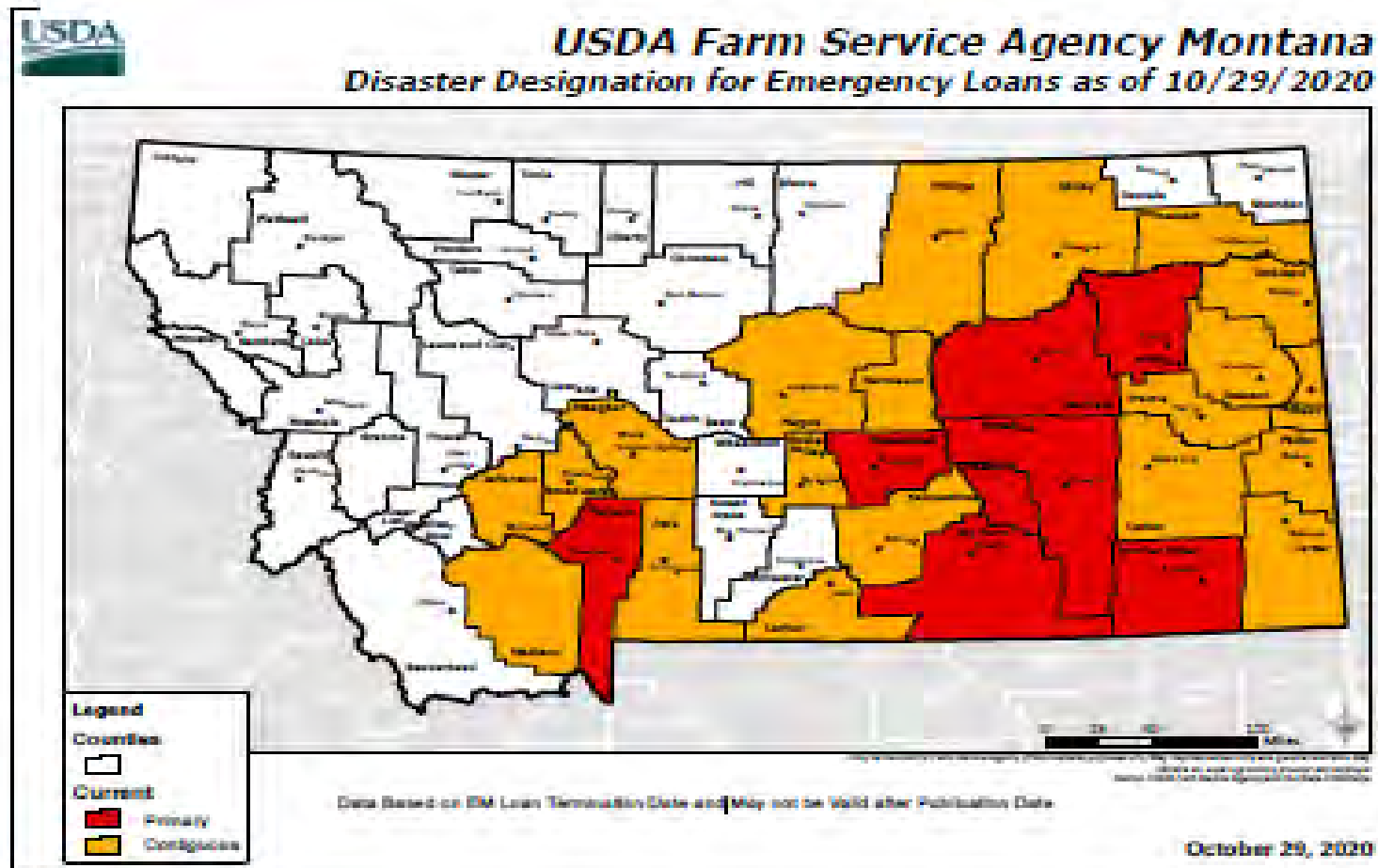
# Disaster Designations and the Emergency Loan Program



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# Current Disaster Events



# Emergency Loan Program

- **INTENT**

- Return the operation to its pre-disaster state

- **TYPES OF LOSS**

- Physical Loss
  - Loss to real estate, buildings, structures, M&E, harvested/stored feed or grain and any livestock loss
- Production Loss
  - Loss to crops and pastures
  - Must show a 30% loss to qualify

# Direct Emergency (EM)

When a county or area has been designated for a Natural Disaster by the President or Secretary of Agriculture

**Loan Limit:**

**100% Of The Actual Loss**

**Or**

**\$500,000 Max. Program Indebtedness**



**Term Of Loan:**

1 To 7 Years On Non-Real Estate

Up To 40 Years On Real Estate

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# Direct Emergency (EM)

## Loan Funds May Be Used For:

- **Restoration Or Replacement Of Essential Property**
- **To Pay All Or Part Of Production Costs Associated With The Disaster Year**
- **Pay Essential Family Living Expenses**
- **Reorganize The Farming Operation**
- **Refinance Indebtedness With Certain Limitations**

# Direct Loan Information

Loan  
information:

[farmers.gov/fund](https://farmers.gov/fund)



Visit us online at [www.fsa.usda.gov/mt](https://www.fsa.usda.gov/mt) and  
[www.farmers.gov](https://www.farmers.gov)

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# Agreement with Prior Lienholders

FSA-2319

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# FSA-2319

**This is used when FSA is making a loan that is also financed by another lender**

**Requires:**

- Foreclosure proceedings will not begin unless the Government is provided prior **written notice by certified mail** not later than the date the notice to cure is provided to the borrower

# FSA-2319

- Security Instrument secures future advances, which have priority over the Government's security instrument, **no advances for purposes other than taxes, insurance or payment on other prior liens** will be made under any future advance feature of the Mortgagee's Security Instrument without the written consent of the Government

# FSA Guaranteed Loan Program

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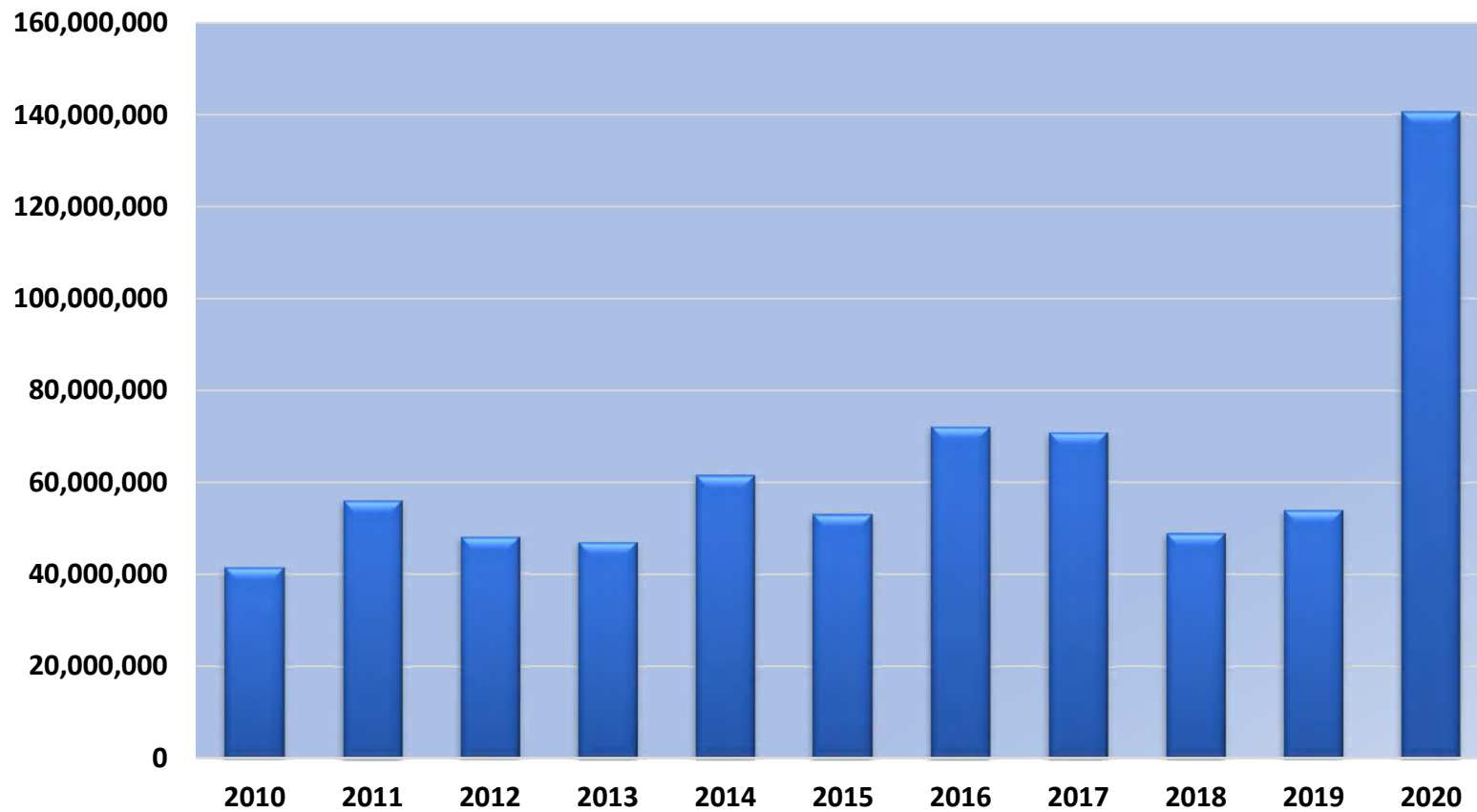
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# Guaranteed Loan Making

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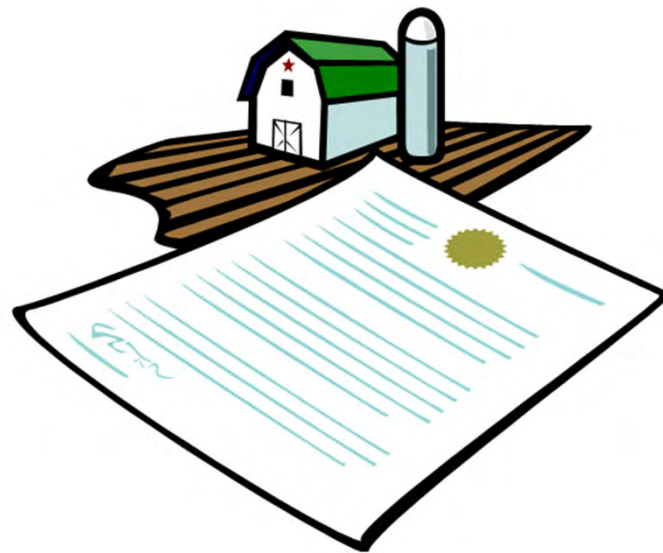
## MT Guaranteed Loan Obligations 2010-2020





# What is an FSA Guaranteed Loan?

## Lender's Perspective: Loan with government insurance on it



# What is an FSA Guaranteed Loan?

**Farmer's Perspective: Loan co-signed  
by "Uncle Sam"**



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## 4 Types of Lender

- **SEL – Standard Eligible Lender**
- **MLP – Micro Lender Program**
- **CLP – Certified Lender Program**
- **PLP – Preferred Lender Program**

## SEL – Standard Eligible Lender

- **Regulated financial institution**
- **Experienced in Ag lending**
- **Local presence**
- **Not debarred from working with the government**

## MLP – Micro Lender Program

- **Be subject to appropriate oversight**
- **Have originated at least 20 loans**
- **Not have losses in excess of 3 percent in the past seven years**
- **MLP lender authorities are limited to originating and servicing EZ Guarantee loans, and only up to \$50,000**

# CLP – Certified Lender Program

- **Meets SEL Requirements**
- **Streamlined submission requirements and increased servicing flexibility**
- **Institution identifies Qualified Person(s) who process and service loans and attend Agency training**
- **Volume requirements:**
  - 10 loans ever, plus
  - 5 loans in past 2 years, and
  - Less than 7% losses
- **Approval by State Office**
- **Maximum of 5-year agreement**

## Applying for CLP Status

**The CLP application should include the resume or resumes of the person or persons qualified to process and service FSA-guaranteed loans. For a CLP lender, it is expected that this person will have experience in agricultural lending and experience in originating and servicing FSA guaranteed loans.**

# Preferred Lender Program

- **Lender must meet SEL and CLP requirements**
- **Very streamlined FSA application/servicing**
- **Originate and service guaranteed loans largely consistent with non-guaranteed loans**
- **Primary FSA focus is compliance with lender's unique FSA-approved, "Credit Management System"**
- **Volume requirements:**
  - 5 loans in past 2 years, plus
  - 20 loans in past 5 years, and
  - less than 3% losses
- **Approved by the National Office**
- **Maximum of 5-year agreement**



# PLP Lender's CMS

- **Lender's credit policies & underwriting standards, incorporated into a Lender's Agreement**
- **Quick approval of loans provided Applicant is eligible**
- **If not covered by CMS, fallback to CLP rules**
- **Approval by FSA National Office with input from State Office(s)**
- **Requires identification of "mitigating strengths" in the loan narrative when financing transactions outside of lender's standards**

## Why Use FSA Guarantees?

- **Existing good customers qualify for expansion loan packages**
- **New customers qualify for loans**
- **Existing struggling customers stay in business**
- **Lender can sell loans in the secondary market resulting in:** Fee income, bank liquidity, more competitive rates & terms
- **Keep bank regulators happy & reduce required loan reserves**

# Benefits and Advantages of Guaranteed Loan Program

- **Increased lending ceiling without increasing reserves**
- **Enables risk-based lending**
  - Use the program as a hedge
  - 90% guarantee if something goes wrong
  - 95% for Socially Disadvantaged or Beginning Farmers
- **Expands customer base**
- **Help builds and maintain long-term banking relationships**

# Benefits and Advantages of Guaranteed Loan Program

- **Assists beginning farmers and retiring generation**
- **Improves Community Reinvestment Act Compliance**
- **Improves Portfolio Quality**
- **Protects the lender in Bankruptcy**

# Benefits and Advantages of Guaranteed Loan Program

- **Secondary Market Advantage**
  - Reduces Interest Rate Risk
  - Increases Liquidity
  - Generates Servicing Fee Income
  - Increases ROA and Profits

# Guaranteed Loan Program Changes

- **Guaranteed Loan Limit**
  - FY 2021 = \$1,776,000 (Remained the same)
- **New application form FSA-2211 to be used for all lenders with a revision date of 9/20/2020.**
- **New combined form FSA-2236, which combines the Lender Certification (FSA-2236), AD-3030 and Loan Closing Report (FSA-2233)**

# Guaranteed Loan Making Brief Review

- **Level of Guarantee**
  - Usually 90%
    - Exceptions:
      - Refinancing FSA Debt
      - Loans to Utilize FSA's Down Payment Program
      - Operation within the jurisdiction of an Indian Reservation
      - Loan to SDA and Beginning Farmers
        - Guarantee can be issued at 90% if requested in writing by lender to save borrower guarantee fee

# Guaranteed Loan Making Brief Review

- **Types & Purposes**
  - Line of Credit Guarantee (LOC)
  - Operating Loan Note Guarantee (OL-G)
  - Farm Ownership Guarantee (FO-G)
  - Conservation Loan (CL)
  - EZ Guarantee (EZ)



# Guaranteed Loan Making

- **Interest Rate**
  - Negotiated between the lender and their customer
  - Cannot exceed the maximum outlined in 2-FLP par. 135 on day of closing
  - May be fixed or variable
    - If it changes at any point in the term of the loan it is variable
  - Guaranteed portion may be variable while non-guaranteed portion is fixed, or vice versa
  - If variable, rate must be tied to an adjustment/formula agreed to by the borrower

## Maximum Interest Rates

**Risk Based Pricing – Rate offered to applicants that is one tier lower than without a Guarantee**

**-or-**

**Variable rate loans (fixed for less than 5 years)**

**Based on 3-month LIBOR plus 650 basis points**

**-AND-**

**Fixed Rate Loans (fixed 5 years or longer) – 5-Year Treasury plus 550 basis points**

When the LIBOR is below  
2 Percent...

**Variable rate cannot exceed 750  
basis points above the 3-month  
LIBOR**

**-AND-**

**Fixed rate cannot exceed 650 basis  
points above the 5-year Treasury**

# Guaranteed Loan Making

- **Application Process**
  - SEL and CLP Lenders
    - FSA-2211
      - Refer to Par 66.5, 66, and 67
    - Loans of \$125,000 or less
  - PLP Lenders
    - FSA-2211
      - Refer to CMS, regardless of loan amount
      - Info submitted to FSA can consist only of application and well documented loan narrative

# Electronic Forms & Application Process

- **Signatures on Application Form**

- Lender can submit applications by Fax or E-mail; Faxed and scanned signatures shall be accepted in accordance with 1-CM paragraph 680
- If submitted electronically without signatures, application will be processed but signatures needed prior to FSA issuing the guarantee

- **Entities**

Applications must be signed by:

- Entity – signature of entity members as authorized
- All members – signatures of all members as individuals
- Note they are signing for both themselves and the entity, make sure the boxes on the application are checked correctly

## Guarantee Loan Making (Continued)

- **Custom Farming – What is acceptable? Producer must be owner/operator of the farm. He can farm and still complete custom work.**
  - 100% custom farming operations are not eligible
  - Person completes 75% custom work and farms 5 acres - No
  - Separate books should be kept on custom farming; custom farming can be excluded from guarantee request

# Guaranteed Loan Requirements

- **LOC Promissory notes**
  - Advances can be made for 5 years from the promissory note date
    - Lenders should allow enough time for the borrower to reasonably make repayment
  - Example: Final advance December 31, 2020, final maturity December 31, 2021

## Security: Adequacy

- **Minimum: Equal to loan amount**
  - A 1:1 loan to value is not adequate when additional security is available
- **Additional: Any security over loan amount**
- **Adequate: Varies loan by loan depending on various factors including, but not limited to:**
  - Quality of the collateral property
  - Availability of additional security
  - Lien position
  - Repayment ability



# Security: Lien Position

- **Real Estate:**

- Junior liens are acceptable if the total debt with liens against the property (including the guaranteed loan) do not exceed 85% of the value of the security
- Any loan with a term longer than 7 years, a lien must be taken on real estate

- **Chattels:**

- Junior liens are acceptable if the total debt with liens against the property (including the guaranteed loan) do not exceed 85% of the value of the security **(ONLY IF THE PRIOR LIEN IS HELD BY A DIFFERENT LENDER)**
- Chattel secured guaranteed loan must have a higher lien priority than an unguaranteed loan secured by the same chattels held by the same lender

# Identifiable Security

**Loans will need to be secured by identifiable collateral**

**This is described in enough detail to distinguish the collateral item and describe it in the security instrument**

**A tractor described with make, model, serial number is identifiable, while a “flat bed truck” is not**

## Security: Shared Liens

- **Lenders may propose shared liens under the following conditions:**
  - Same lender only
  - Real estate security only
  - Conditional Commitment must specify how any payments and proceeds will be split
- **The Result: Junior lien considerations are removed**

## Security: Lender Responsibilities

- **Obtaining and perfecting the liens as agreed on conditional commitment**
- **Accounting for security property throughout the life of the loan**
- **Failure to meet such responsibilities could result in reduction or denial of a loss claim**

# Security: Lender Responsibilities

The lender is expected to conduct a site visit with the applicant before submitting the request. If real estate will be taken as primary security, the lender must:

- Complete the American Society of Testing and Materials' Standards e-1528, Transaction Screen Questionnaire, FSA Environmental Risk Survey Form, (FSA-851) or similar questionnaires or screening tools meeting the requirements outlined by their respective regulator
- Explain on the Application for Guarantee if the questionnaire indicates a problem may or may not exist

# Guaranteed Loan Requirements

- **Appraisals**

- Obtained by Lender Prior to:
  - Loan Closing
  - Issuance of Guarantee
- In-house chattel appraisals are acceptable
  - Bank must apply same policies/procedures as they do with regular portfolio as far as separation of duties
- Loans of \$250,000 or less a valuation can be completed by an independent 3rd party
- ALL RE appraisals must comply with USPAP
  - For loans > \$250,000 use a State Licensed Certified General Appraiser
- Not required for additional security, but an estimate of value is required

# Guaranteed Loan Requirements

- **Insurance Requirements**
  - Lenders must ensure that their borrower has the necessary insurance
    - 2-FLP Par. 138 and Part 13 of Conditional Commitment
    - Crops – minimum of CAT/NAP is required
    - Chattels and real property – whatever is necessary to protect the lender's and the government's interest

# Guaranteed Loan Requirements

## Lenders Loan Narrative

The National Office has put together a document entitled **“Lender's Loan Narrative: Content and Level of Detail”** which provides information about the content and level of detail expected from Lenders in the loan narratives.

This document is included in the handouts provided today.



# Guaranteed Loan Requirements

**Completion of Security Section of the Application;  
(Part I) discounted value or gross value?**

**Answer: Gross**

1. Item Description	2. Lien Position	3. Estimated Value	4. Amount of Prior Lien	5. Collateral Value
		\$	\$	\$
		\$	\$	\$
		\$	\$	\$
		\$	\$	\$
<b>6. TOTALS:</b>		\$	\$	\$

# FSA Direct Loan Subordination LOC

- **FSA can subordinate to G-LOC when:**
  - 75% LTV
  - Does not include value of growing crops or planned production
  - Appraisal is required
  - Lender responsible for completing
  - Applicant cannot receive sufficient credit through a conventional guaranteed loan without the subordination

## **Example:**

**FSA direct loan balance: \$150,000 (equipment)**

**Value of equipment: \$202,000 (net prior liens)**

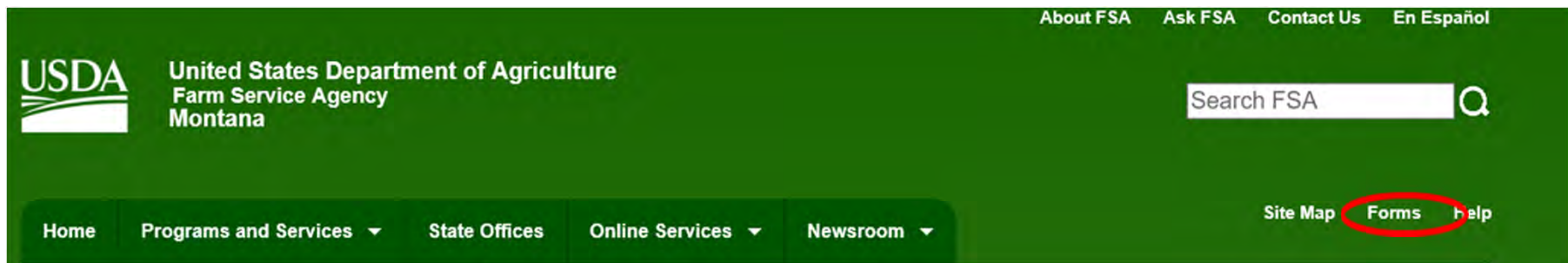
**Calculation:  $\$150,000/\$202,000 = 74.26\%$**

# E-Government

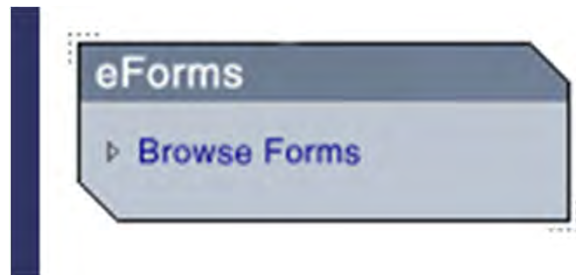
- **Benefits**
  - Allows fast access to regulations, fillable forms, and other news
  - Lender can use GLS Reporting System
    - Requires Level 2 E-Authorization
      - Contact local FSA office to obtain
  - Lender can submit applications online
    - Requires Level 2 E-Authorization

# Electronic Forms & Application Process

- Go to the Montana FSA Website
- <https://www.fsa.usda.gov/state-offices/Montana/index>
- Click on the FORMS link



- Click BROWSE FORMS



# Electronic Forms & Application Process

- **We would like your input on the eAuth process**
  - If you are having problems
  - Who is the authorized person in your branch
  - Once FSA has added an authorized person to a bank, that person is responsible for adding other users and deleting those that should no longer have access

# THE GUARANTEED LENDER TOOLBOX

- **The Guaranteed Lender Toolbox has been added to the website to assist lenders**
- **The website address is:  
<https://www.fsa.usda.gov/programs-and-services/farm-loan-programs/guaranteed-farm-loans/guaranteed-loans-lender-toolkit/index>**

## Tool Kit Resources

- **Guaranteed Handbook 2-FLP**
- **Examples of Credit Management System (CMS) for PLP Lenders**
- **All forms (fillable) with instructions for the guaranteed loan program**
- **Online Electronic Transaction Options**
- **Other resource about all loan topics**

# COVID-19 Temporary Updates

**If a lender is not able to provide a complete application within the normal timeframes because of reasons outside of their control caused by the pandemic, FSA may grant an extension**

**FSA can grant Conditional Commitment extensions if lenders are unable to close loans timely due to restrictions by the pandemic**



# Questions?

**Please contact your local FSA office if  
you have questions**

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