LENDER NARRATIVE WEAKNESSES

• Addressing FSA Eligibility
• Projected Budget
  • Little to no discussion of the historical yields versus the projected yields.
  • No discussion on variances in expenses.
  • Using non-recurring income in long-term budgets
  • Using current high prices for long-term (FO) projections.
LENDER NARRATIVE WEAKNESSES

• Balance Sheet
  • Per 2-FLP Paragraph 66D the Balance Sheet used to prepare the package must have been prepared within 90 days of submission
  • PLP lenders are not required to submit the balance sheet, but still must ensure that it has been prepared within the 90 days of application submission. Therefore, in discussing the debt and assets, address the date of the balance sheet.
OWNER-OPERATOR REQUIREMENT

• The application must come from the owner-operator of the farm
  The guaranteed loan must be made to the owner-operator

• If there is a change in the operation after the loan is made (entity formation, divorce, etc.) the guarantee needs to be updated to reflect that change

• Typically, a Transfer and Assumption is necessary
• Inspection

• FSA Handbook 2-FLP Paragraph 129A requires that an inspection of the farm be made before submitting the application.

• A summary of the inspection and the lender’s assessment of the viability of the operation should be mentioned in the application narrative.
10. REQUIREMENTS FOR LOANS SECURED BY CHATTELS

As required in 7 CFR Part 762.140, yearly accounting and reconciliation with the security agreement is required for all chattel loan collateral, i.e., livestock, farming and other equipment, crops, other farm products, supplies, inventory, accounts and contract rights, and general intangibles. An assignment will be obtained on all USDA crop and livestock program payments and all crop insurance proceeds when required as security. All collateral pertains to that now owned and hereafter acquired.
• FSA Handbook 2-FLP Paragraph 138B and the Conditional Commitment covers the requirement of having at least catastrophic risk protection level of crop insurance or a waiver for uninsured crops.

13. CROP INSURANCE

The loan applicant will obtain at least catastrophic risk protection insurance coverage or sign a benefits waiver for each of their economically significant crops, for which coverage is offered or reinsured by the Federal Crop Insurance Corporation.
• Field Visit

• Required in FSA Handbook 2-FLP Paragraph 208B, 208H requires the lender to complete a visit to the farm operation when the available information is insufficient to make an environmental determination.
TEST FOR CREDIT

DISCUSS NON-ESSENTIAL ASSETS

CREDIT HISTORY AND ANY LATE PAYMENTS

DISCUSS WHY THEY DO NOT QUALIFY W/O GUARANTEE
APPRAISAL DEFICIENCIES

• To Clarify - Appraisals are not part of a complete application, however they must be maintained in the lender’s file.

• All lenders must obtain an adequate appraisal.
  • The method used will be discussed in the lender narrative as per 2-FLP Paragraph 69B
  • 2-FLP Paragraph 182B requires chattel appraisals be based on public sales and reputable publications.
COLLATERAL DEFICIENCIES

• Lender Narrative list value of overall equipment collateral
  • Loss Claim submitted
    • Equipment list includes fixtures such as buried irrigation lines, pivots, etc
      • No UCC1A County fixture filing completed

Equipment value was misrepresented resulting in adjustments to the loss claim
REAL ESTATE SECURITY

Found During Loss Claims

• No easement to the irrigation diversion point, therefore property must be sold as dryland when valued as irrigated.

• Borrower had not irrigated in last 3 years and lost the water rights.
QUESTIONS?