

**CREDIT QUALITY INITIATIVES AND POLICY
ON GUARANTEED FLP LOAN APPLICATIONS**

This Exhibit will provide information and direction for all Farm Service Agency staff in implementing actions and policies for maintaining high credit quality and compliance with Agency regulations on all Guaranteed Loans in Nebraska. This Notice applies to all guaranteed loans and transfers & assumptions.

This Exhibit and Attachments replace Nebraska Notice 13-27 dated September 30, 2013.

Effective October 1, 2014, the following actions will be required before any FLP guaranteed loans and/or transfers and assumptions applications are approved:

- A. Guaranteed loan application should be date stamped and entered into GLS upon receipt.
- B. The Loan Approval Official (with loan approval authority) will call the lender and follow up with the letter found in 2-FLP (Rev.1), subpar. 97 B, within 5 calendar days of receipt of an incomplete application.

It is important that the Loan Approval Official analyze the application in enough detail to assess what additional items are needed. If the lender's loan request is not complete for the type of request (SEL, CLP or PLP) the Loan Approval Official must contact the lender and obtain the additional information. It is expected that when the lender is contacted within the 5-day time frame, all the items necessary for a complete application will be requested. The Loan Approval Official must consider calling the lender first and then following up with a letter.

- C. Upon receiving a guaranteed loan application, the FSA program records need to be checked to verify the type of operation reflected on the FSA-2211 or FSA-2212 is consistent with any previous representations made by the applicant for Farm Program benefits. If any difference in representations of the farming operation is identified, the Lender will need to be notified by phone and follow up with the letter in accordance with 2-FLP (Rev. 1), subpar. 97 B including the following paragraph indicating the application will be considered incomplete until the inconsistency is resolved:

“A review of the guaranteed loan applicant’s FSA records revealed inconsistent representations in how their farming operations are conducted. (Provide details of different representations identified by FSA records.) Documentation must be provided to resolve the inconsistencies identified prior to the application for assistance to be considered completed.”

Exceptions: An application will not be considered incomplete if the difference in representation is the result of either of the following:

- a) husband and wife representing themselves as a joint operation for FLP assistance but combined as a single person for FP.
- b) producer participating in two separate and distinct operations.

- D. If the necessary information for a complete application has not been received from the lender 20 calendar days after the date of the first written notification of an incomplete application, the Loan Approval Official will immediately send to the lender the letter found in 2-FLP (Rev.1), subpar. 97 D.

District Directors will review weekly all pending guaranteed loan applications that have been received and are not complete within 20 days of initial application and immediately take steps to ensure that the appropriate action on the application is taken.

- E. Automatic Withdrawal of an Application--If a lender does not provide the required information needed to complete the guaranteed loan application by the deadline established in an Agency request for the information, normally identified in the second notification letter, the application will be considered withdrawn by the lender. The authorized agency official will notify the lender in writing that the guaranteed loan application is withdrawn. 2-FLP (Rev.1) Subparagraph 97F provides an example of the application withdrawn letter that will be used to notify lenders that the application has been withdrawn.
- F. The District Director will review weekly each complete application pending more than 10 days, and immediately take steps to ensure that final disposition on the application is taken and that future applications are approved or rejected within 10 days from the date of a complete application.
- G. The County Office should obtain a copy of the applicant's Business File, Producer Subsidiary Print and Producer Farm Data Report. The Loan Approval Official must compare the information on the Business File and the Producer Farm Data Report with the loan application. The farms, rental terms (cash vs. share), and ownership listed on the Producer Farm Data Report, Business File and loan application should agree. The production acres should be reasonably close. If the operation has rangeland/pastureland, the Producer Farm Data Report is not required on the rangeland/pastureland unless it is already on file. If the County Office has any questions on the information, they should contact the appropriate CED to discuss any discrepancies. The Producer Subsidiary Print will be used to verify compliance with Farm Programs.

The "Business File" can be accessed from the Nebraska FSA Share Point page. Select "Subsidiary" on the left hand side of the screen (Nebraska FSA Share Point), enter your E-Auth ID and password and select "Business File" from the menu at the top of the page. Select "Nebraska" from the drop down menu, select an individual county or all counties (if you have an applicant that farms in multiple counties), type in the applicant or entity name and click on "search". Click on the applicant/borrowers name. Click on the applicable year to obtain the Business File/CCC-902.

The "Producer Subsidiary Print" can be accessed from the Nebraska FSA Share Point page. Select "Subsidiary" on the left hand side of the screen (Nebraska FSA Share Point), enter your E-Auth ID and password and select "Subsidiary Print" from the menu at the top of the page. Select "Nebraska" from the drop down menu, select an individual county or all counties (if you have an applicant that farms in multiple counties), type in the applicant or entity name and click on "search". Click on the applicant/borrowers name. Select the three most recent years, which includes the current operating year. Click on "submit".

G. (Continued)

The “Producer Farm Data Report” can be accessed from the Nebraska FSA Share Point page. Select “Farm Records” on the left hand side of the screen (Nebraska FSA Share Point), enter your E-Auth ID and password and select “Reports”. At the “Reports” screen, select “Producer Farm Data Report”. At the “Producer Farm Data Report”, click on “Select Customer”, select “Nebraska” from the drop down menu, select an individual county or all counties (if you have an applicant that farms in multiple counties), type in the applicant or entity name and click on “search”. Click on “Confirm”.

If the County Office has any questions on the Natural Resources Conservation Service (NRCS) compliance, the Conservation Plan should be obtained from the Natural Resources Conservation Service (NRCS) to review and determine if there are any financial implications. The typical year cash flow should be developed based on the applicant’s Conservation Plan.

Be sure this reflects the cropping practices and rotations specified by Natural Resources Conservation Service (NRCS). Compliance with CRP contracts and CCC loans should also be checked by accessing the Subsidiary File on the Nebraska FSA Share Point page, the Nebraska FSA STO Intranet page or check with the CED.

H. When verifying FSA Farm Program payments, CCC debts and other FSA debts, the web based “Financial Inquiries” site will be used. This site may be accessed from the Nebraska FSA Share Point page. Select “Financial Inquiries” on the left side of the screen (Nebraska FSA Share Point), enter your E-Auth ID and password. At the Financial Inquiries screen, enter the tax ID. From the “Select an Inquiry” drop down box, select “Customer Account Inquiry”. Click on “Submit”.

I. When a guaranteed loan application is received, the DLS Customer Profile will be reviewed to determine if the applicant has received debt forgiveness on a direct or guaranteed loan. The DLS Customer Profile screen will be reviewed by a county office FLP employee. The employee that completes this review will date and initial the appropriate checklist to identify that the review was completed. The View Loan Screen in GLS will be used to verify previous debt forgiveness for guaranteed loans. At the Loan List Screen in GLS, enter the unique identification number, tax ID or name of the applicant and all of the individuals that will be signing the promissory note. The Loan List Screen will be displayed with previous and current loan information for all of the individuals entered. The GLS View Loan screen will be reviewed by a county office FLP employee. The employee that completes this review will date and initial the appropriate checklist to identify that the review was completed. **The requirement to print the DLS Customer Profile screen and the GLS View Loan screen and place in the County Office file has been removed.**

J. For all guaranteed loan applicants an AD-1026 “Highly Erodible Land Conservation (HELIC) And Wetland Conservation (WC) Certification” form must have been completed. Occasionally FSA receives a loan application from a producer that does not have an AD-1026 on file as indicated on the FSA Producer Subsidiary Print, when a guaranteed loan applicant does not have an AD-1026 on file the form needs to be completed by the applicant and distributed to the CED so the AD-1026 flag can be updated in Subsidiary.

- K. The Federal Debt Collection Act prohibits FSA from making or guaranteeing loans to applicants and co-applicants who are delinquent on a Federal debt. The Agency is required to process a CAIVRS inquiry for all direct or guaranteed loan applicants and co-applicants.
- L. Guaranteed and Direct loan applicants, and buyers under land contract guarantees, must be US citizens, noncitizen nationals, or qualified aliens to be eligible for FLP loans. The Department of Homeland Security and the U.S. Citizenship and Immigration Services established the SAVE program to monitor the immigration status of individuals living in the United States. **Using SAVE is not required**, however, County Offices may find SAVE advantageous to use if the applicant's immigration documents are unfamiliar and/or do not clearly indicate immigration status. If necessary, County Offices will contact Tim Reimer, Farm Loan Specialist, for further guidance on requesting a SAVE search on individual applicants who identify themselves as other than a U.S. citizen.
- M. When debts over \$1,000 are required to be verified, the lender must use one of the following:
- 1) Form FSA - 2015, "Verification of Debts and Assets."
 - 2) Lender's own form.
 - 3) Any other form of verification that provides the required information
- "Any other form of verification" could be the credit report or a documented phone call to the creditor by the lender. It is recommended that written verification should be obtained when verifying prior liens on primary security. If there is an understatement of debt because of an error in the verbal exchange of information on a prior lien, a deduction may be made to any loss claim filed equal to the amount of the difference between the amount verified by phone and the actual debt.
- N. County Offices must use the Attachment 1 (SEL/CLP) and Attachment 2 (PLP) Guaranteed Loan Checklists for monitoring and handling the processing of each guaranteed loan applications. In some instances, the County Office will utilize specific items on the "Checklist" as file documentation or a running record. If this is done, the County Office employee must be sure to **place their initials and date beside the specific item referred to**. A thorough review of the loan request and checklists must be completed before the loan is approved and after the loan closing information is received from the lender. The County Office will use an eight-position file for all guaranteed loans.
- O. When Guaranteed Loan applications require Farm Loan Specialist approval, county offices must use Attachment 3 (checklist) to assure the proper documentation is scanned, encrypted and emailed to the appropriate Farm Loan Specialist. Coreen Carnes, Tim Reimer and Paul Guenther should be included in the cc: portion of the email request. The email should include the name of the originating county office, applicant's name, type of loan request and amount of the loan request for tracking and monitoring purposes. FLM's, SLO's and/or FLO's will review loan applications in detail and provide their recommendation to the loan approval official. The loan summary narrative must be thorough and in enough detail to allow the loan approval official to make a determination on the soundness of the loan request and avoid the review of the county office loan file.

P. Current Real Estate Appraisals, Real Estate Evaluations and Chattel Appraisals are required by SEL and CLP lenders except for:

- additional security
- loans of \$50,000 or less if a strong equity position exists.

A strong equity position is defined as a loan to value ratio of 60% on chattels and 70% on real estate or less. The loan to value is calculated by dividing the requested loan amount plus any prior lien amounts by the estimated value of the collateral being pledged for the loan.

If an appraisal is not required, the lender must provide a current estimate of value which will include the legal description of the property and/or a list describing the chattel property being offered for security.

For loans greater than \$250,000.00, lenders must document the value of the real estate using a current real estate appraisal completed by a State Certified General Appraiser. Appraisal reports must be a USPAP compliant appraisal report. Uniform Standards of Professional Practices (USPAP) continues to put emphasis on the term “Scope of the Work Rule”. The “Scope of the Work Rule” term requires the appraiser and the client to communicate and agree what is needed to produce a credible report. The emphasis on the “Scope of the Work Rule” makes it even more important for the lenders/client to provide complete information in the engagement letter to the appraiser. In addition to the general information such as applicants name, legal description, etc., the lender will need to provide information such as, but not limited to, identifying irrigation equipment or other personal assets that should be included in the appraised value, describe specific improvement plans and provide cost estimates for all planned development, identify limitations on the title of the real estate such as life estates, leases, easements, CRP contracts, boundary disputes, etc. It is recommended that the lender use the “engagement letter” to identify the appraisal requirements when obtaining a real estate appraisal. Ultimately the lenders need to work closely with appraisers and FLM’s to obtain an acceptable appraisal. It is recommended that the lender as a normal course of business contact the FLM prior to engaging a chattel or real estate appraisal to review the appraiser’s qualifications. Appraisals must be submitted in a self-contained or summary format. Restricted reports are not acceptable.

When an appraisal is necessary, the SEL or CLP lender is not required to complete the appraisal before loan approval. The conditional commitment will be issued subject to an appraisal being completed in an amount adequate to secure the loan. The appraisal **MUST** be complete prior to closing the loan. The CLP lender must maintain the appraisal in the bank file but is not required to send the appraisal to FSA. The SEL lender must submit the appraisal to FSA and receive FSA acceptance prior to the SEL lender closing the loan.

PLP lenders will follow the CMS concerning appraisal requirements.

FSA may allow lenders to use real estate appraisals more than 12 months old under certain conditions when requesting a FSA guaranteed loan. When the appraisal is more than 12 months old the lender must document that the market conditions have remained stable or improved based on current sales of similar property, the property in question remains the same or in better condition and value of the property has remained the same or increased. When using an appraisal over 12 months old, all collateral and loan approval considerations will be based on the market value stated on the appraisal. The value will not be adjusted for time or any other reason.

P. (Continued)

Current Chattel Appraisals, Real Estate Appraisals or Real Estate Evaluations are required by SEL and CLP lenders

Administrative reviews are required to be completed on form FSA-2165 “Administrative Appraisal Review” by the FLM/FLO on all Real Estate Appraisals submitted by SEL lenders.

For loans of \$250,000.00 or less, lenders may use a real estate evaluation as an alternative method to establish collateral value of the real estate security rather than obtaining a real estate appraisal. Lenders must complete the loan evaluations in accordance with the Federal regulators published Interagency Appraisal and Evaluation Guidelines. Lenders must document the value of the real estate by applying the same policies and procedures as their non-guaranteed loans. If they would require an appraisal on a non-guaranteed loan, they should request an appraisal for the guaranteed loan. For example, a lender should consider obtaining an appraisal as the lenders portfolio risk increases or for higher risk real estate-related financial transactions. Acceptable real estate evaluations must identify the location of the property, provide a description of the property including any improvements and it’s current and projected uses, provide confirmation that the property was physically inspected and the date of the inspection, describe the analysis performed and the supporting information used to determine the property’s market value, provide information on the preparer including experience and qualifications to complete the evaluation and must include the effective date of the evaluation and the preparer’s signature. FSA has the discretion to require an appraisal, but will do so only for loans with unusually high risk factors.

Q. Maximum interest rate that may be charged on FSA guaranteed loans will be tied to one of the following nationally published indices:

3-month London Interbank Rate (LIBOR)

- 6.5% above the 3-month LIBOR rate
Note: When the 3-month LIBOR rate drops below 2%, lenders can increase their interest rate an additional 1%, or 7.5%.
- Variable Rate Loans
- Fixed Rate Loans – repayment period of 5 years or less

5-year Treasury note rate

- 5.5% above the 5-year Treasury note rate
Note: When the 3-month LIBOR rate drops below 2%, lenders can increase their interest rate an additional 1%, or 6.5%.
- Fixed Rate Loans – repayment period of 5 years or more

OR the following:

The lender formal written risk-based pricing practice

- Interest rate must be at least one risk tier lower than the borrower would receive without the FSA guarantee. Risk tier levels and interest rate adjustments will vary from lender to lender.

Q. (Continued)

FSA may request a copy of the lender's written risk base pricing practice if the loan approval official has reason to believe the interest rate charged to the borrower is more than the maximum rate allowed. FSA will maintain any risk base practices requested in the lender's operational file and distribute to other FSA offices as appropriate.

Lenders are not required to use the 3-month LIBOR rate, 5-year Treasury rate or risk-based pricing practices in order to participate in the guaranteed loan program. Lenders may use other pricing practices, such as the New York Prime, cost-plus, flat-rate, market based, etc., when establishing interest rates for guaranteed loans. However, the lenders' interest rate cannot exceed the required maximums as described above.

- R. The Loan Approval Officials will analyze the guaranteed loan requests by completing the following items:
- 1) "Loan Summary Narrative" Attachment 4 (SEL/CLP) or Attachment 5 (PLP).
 - 2) "Source and Use Analysis" Attachment 7 on all SEL and CLP guarantee requests.
- S. Loan Summary Narrative must be completed by the FLM, SFLO or FLO prior to loan approval or recommendation of approval.

The depth of the analysis and the amount of documentation will vary depending on the individual loan request and type of loan request. (SEL, CLP, or PLP)

A Loan Summary Narrative must include a comparison of the past financial and production history to the projected cash flow and current financial statement in the following areas:

Farm income	Yields/production
Non-Farm income	Net worth
Other Farm income	Current ratio/working capital
Farm Expenses	Capital expenditures
Family living expense (non-farm)	Any Special Agreements
Creditors/payments)	Federal, State and Social Security taxes

Note: Only the items listed above that have deviated from the past history will need to be compared and explained. For example, a subsequent guaranteed LOC loan request may only need minimum documentation because FSA is already familiar with the operation and the operation is performing as expected. An operation that is restructuring because of past financial difficulties may require that all of the above items be addressed and justified as to why a loan should be approved or recommended for loan approval.

The following is a list of items that will not be compared to the history but the current situation must be analyzed:

Adequacy of the collateral
Commodity prices used
Completeness of the lenders narrative
Typical Year Plan (necessary for term loans)

S. (Continued)

In some cases, the CLP lender will send more information to FSA than is required for a CLP request. In those cases when the lender chooses to send additional information, the County Office must analyze this information and utilize it in any credit decisions.

If a PLP lender submits more information to FSA than is required, the PLP lender must be contacted and advised only to submit information that is required.

T. When the loan is approved, the following documentation will be scanned, encrypted and emailed to the State Office (to Coreen Carnes and cc: Angie Beister) to obligate the loan:

- 1) Form FSA - 2231, "Request for Obligation of Funds Guaranteed Loans."
- 2) **FIRST PAGE** of the "Loan Summary Narrative," Attachment 4 (SEL/CLP) or Attachment 5 (PLP).

U. The Farm Loan Specialists and the Farm Loan Chief will continue to do post reviews of guaranteed loans approved by all Loan Approval Officials. A separate Nebraska Notice will be issued describing the requirements of the 1-FLP Handbook and the post review process by the Farm Loan Specialists and Farm Loan Chief. The required compliance and credit quality review questions on Form FSA-2104 will be utilized for the guaranteed loan post reviews.

V. If any loans post reviewed for credit quality have major deficiencies in the post review, the Farm Loan Specialist will document the deficiencies in the comment section of the Guaranteed Loan Making File Review Questionnaire and will contact the Farm Loan Chief and appropriate District Director for guidance. The State Executive Director may then recommend training and/or loan approval authority may be revoked in accordance with 1-FLP, Subparagraph 28 A.

The FLM, SLO or FLO will review Form FSA-2104 completed by Farm Loan Specialist and make the necessary changes to the guaranteed loan file. The FLM, SLO or FLO must document in the running record on how the changes have been made.

If you have any questions on the credit quality policies or initiatives stated herein, contact your District Director, a Farm Loan Specialist or the Farm Loan Chief.

W. 2-FLP Handbook requires that SEL/CLP Guaranteed Lenders must not be under any State or Federal lender regulatory enforcement actions to be eligible to participate in the FSA Guaranteed Loan program. The Nebraska State Office will monitor the appropriate State or Federal web sites (subparagraph 46C lists web sites) to determine if a lender is subject to any enforcement actions. The FSA State Office will notify the appropriate County Offices of any enforcement actions that will have an effect on renewing or engaging in a lending relationship. National Office will monitor PLP Lending status.

If you have any questions on the credit quality policies or initiatives stated herein, contact your District Director, the Farm Loan Chief or a Farm Loan Specialist.

Attachments