

**UNITED STATES DEPARTMENT OF AGRICULTURE**

Farm Service Agency  
Washington, DC 20250

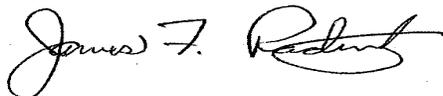
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**Guaranteed Loan Making and Servicing  
2-FLP (Revision 1)**

**Amendment 37**

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**Approved by:** Deputy Administrator, Farm Loan Programs



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**Amendment Transmittal**

**A Reasons for Amendment**

Paragraph 15 has been amended to update language to include Micro Lenders and the EZ Guarantee Program.

Subparagraph 34 B has been amended to include reference to Micro Lenders.

Paragraph 55 has been added to implement the Micro Lender Program.

Part 5 has been rewritten to implement the EZ Guarantee Program. Other modifications have been made for clarity.

Subparagraph 83 A has been amended to remove references to specific paragraphs for complete applications.

Subparagraph 83 B has been amended to remove references to specific paragraphs for complete applications.

Subparagraph 83 C has been modified to establish application processing timeframes for EZ Guarantee applications.

Subparagraph 83 D has been added and the table summarizing processing timeframes has been modified to include EZ Guarantee applications.

Paragraph 155 has been added to provide guidance on financial feasibility decisions for EZ Guarantee applications.

Subparagraph 208 B has been amended to include reference to Micro Lenders (MLP).

Paragraph 265 has been amended to provide new guidance on annual analysis and to include references to MLP.

## Amendment Transmittal

### A Reason for Amendment (Continued)

Subparagraph 287 C has been amended to include references to MLP.

Exhibit 2 has been amended to include the definition of EZ Guarantee.

Exhibit 14.5 has been added to provide guidance on lender narratives.

<b>Page Control Chart</b>		
<b>TC</b>	<b>Text</b>	<b>Exhibit</b>
1-4 7, 8	2-1, 2-2 3-5 4-29 through 4-32 (add) 5-1 through 5-26 6-1, 6-2 8-91, 8-92 8-93 through 8-112 (add) 11-7 through 11-12 11-57, 11-58	1, pages 3, 4 2, pages 9, 10 14.5, pages 1-6 (add) page 7 (add)

# Table of Contents

Page No.

## Part 1 Introduction and Purpose

1	Purpose and Sources of Authority .....	1-1
2	Related References.....	1-2
3-14	(Reserved)	

## Part 2 Guaranteed FLP

15	Program Purpose and Eligible Lenders.....	2-1
16	Eligible Borrowers .....	2-3
17	Types of Guaranteed Loans .....	2-3
18	IA Program.....	2-5
19	Full Faith and Credit Applicability and Exceptions (7 CFR 762.103) .....	2-6
20	Responsibilities .....	2-7
21	Collaboration With SBA, RD, and Other Federal Agencies .....	2-9
22-30	(Reserved)	

## Part 3 General Program Requirements

31	EOCA (12 CFR 202.9(b)(1)) .....	3-1
32	Conflict of Interest (7 CFR 762.110(f)).....	3-2
33	Review and Appeals (7 CFR 762.104) .....	3-3
34	Lender List and Classification (7 CFR 762.101(c)).....	3-5
35-45	(Reserved)	

## Part 4 Lender Eligibility

46	Eligibility Requirements for SEL (7 CFR 762.105(b)) .....	4-1
47	Approval Process for SEL .....	4-4
48	Monitoring SEL .....	4-4
49	Eligibility Requirements for CLP (7 CFR 762.106).....	4-6
50	Approval of Certified Lenders (7 CFR 762.106).....	4-10
51	Monitoring CLP (7 CFR 762.106).....	4-13
52	Eligibility Requirements for PLP (7 CFR 762.106) .....	4-15
53	Approval Requirements (7 CFR 762.106) .....	4-23
54	Monitoring the PLP Lender (7 CFR 762.106).....	4-26
55	Micro Lender Program.....	4-29
56-64	(Reserved)	

## Part 5 Loan Application Requirements (7 CFR 762.110)

### Section 1 Application Requirements for SEL's and CLP Lenders

65	General Application Requirements.....	5-1
66.5	EZ Guarantee .....	5-2
66	Requirements for Loans of \$125,000 or Less (7 CFR 762.110).....	5-3
67	Requirements for Loans Over \$125,000 (7 CFR 762.110).....	5-6
10-18-16	2-FLP (Rev. 1) Amend. 37	

## Table of Contents (Continued)

Page No.

### Part 5 Loan Application Requirements (7 CFR 762.110) (Continued)

68	(Withdrawn—Amend 37).....	5-7
69	Application Requirements for PLP Lenders [7 CFR 762.110].....	5-7
70	Application Requirements .....	5-15

#### Section 2 Other Guaranteed Application Options

70.5	Application Requirements for CL's (7 CFR 762.110(d)).....	5-25
71	(Withdrawn—Amend 37).....	5-26
72	Market Placement Program (7 CFR 762.110(h)).....	5-26
73	Filing Applications Electronically .....	5-27
74-82	(Reserved)	

### Part 6 Application Processing Timeframes (7 CFR 762.130)

83	Application Processing Timeframes by Lender Type (7 CFR 762.130) .....	6-1
84	Monitoring FSA Approvals (7 CFR 762.130) .....	6-2
85-94	(Reserved)	

### Part 7 Loan Application Completeness Review (7 CFR 762.110)

95	Initial Review.....	7-1
96	Complete Application (7 CFR 762.130).....	7-3
97	Incomplete Application (7 CFR 762.110(e)).....	7-5
98-107	(Reserved)	

### Part 8 Loan Evaluation

#### Section 1 Applicant Eligibility (7 CFR 762.120)

108	General Eligibility Requirements for OL, FO, and CL (7 CFR 762.120) .....	8-1
109	Specific Requirements for OL's (7 CFR 762.120(i)) .....	8-9
110	Specific Requirements for FO's (7 CFR 762.120(j)).....	8-11
111	Eligibility Requirements for OL and FO Entity Applicants (7 CFR 762.120(k)) .....	8-14
112	Specific Requirements for CL's (7 CFR 762.120) .....	8-16
113-121	(Reserved)	

#### Section 2 Loan Purposes and Limitations

122	OL Purposes (7 CFR 762.121(a)).....	8-31
123	FO Purposes (7 CFR 762.121(b)).....	8-34
123.5	CL Purposes (7 CFR 762.121(c)) .....	8-36
124	Loan Limitations (7 CFR 762.122 and 761.8).....	8-37
125-134	(Reserved)	

**Table of Contents (Continued)**

**Page No.**

**Part 8        Loan Evaluation (Continued)**

**Section 3        Loan Terms, Insurance, Inspections, and Fees**

135	Interest Rate Requirements (7 CFR 762.124(a)) .....	8-59
136	Charges and Fees (7 CFR 762.124(e)).....	8-61
137	Loan Term and Payment Schedules (7 CFR 762.124(b), (c), (d), and (e)) .....	8-63
138	Insurance Requirements (7 CFR 762.123(a)) .....	8-65
139	Inspection Requirements (7 CFR 762.123(b)).....	8-66
140-150	(Reserved)	

**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) .....	8-85
152	Calculating Projected Income and Expenses by SEL's (7 CFR 762.125).....	8-86.6
153	Calculating Projected Income and Expenses by CLP Lenders (7 CFR 762.125)	8-91
154	Determining Financial Feasibility of Loans by PLP Lenders (7 CFR 762.125) .	8-92
155	Determining Financial Feasibility of EZ Guarantee Loans [7 CFR 762.125] ....	8-93
156-165	(Reserved) .....	8-112

**Subsection 2        Security of the Loan**

166	Amount and Quality of Security (7 CFR 762.126).....	8-113
167	Identifiable Collateral (7 CFR 762.126(c)).....	8-117
168	Type of Security Required by Type of Loan (7 CFR 762.126(d)) .....	8-118
169	Multiple Security Owners and Exceptions to Security Requirements (7 CFR 762.126) .....	8-120
170-180	(Reserved)	

**Subsection 3        Appraisals**

181	General Requirements (7 CFR 762.127(a)).....	8-141
182	Chattel Appraisals (7 CFR 762.127(b)).....	8-142
183	Real Estate Security (7 CFR 762.127(c)) .....	8-143
184-194	(Reserved)	

**Table of Contents (Continued)**

**Page No.**

**Part 8            Loan Evaluation (Continued)**

**Section 4        Credit Decision (Continued)**

**Subsection 4    Maximum Loss for Percent of Loan Guarantee**

195	Percent of Guarantee (7 CFR 762.129 and 762.130).....	8-165
196	Exception to Standard Guarantee Limits (7 CFR 762.129).....	8-167
197-207	(Reserved)	

**Section 5        Environmental and Special Laws**

208	Environmental Requirements (7 CFR 762.128) .....	8-189
209	National Historic Preservation Act (7 CFR 762.128(c)(3)).....	8-195
210	Equal Opportunity and Nondiscrimination (7 CFR 762.128(d)).....	8-197
211	Other Federal, State, and Local Requirements (7 CFR 762.128(e)).....	8-197
212-222	(Reserved)	

**Part 9            IA Program (7 CFR 762.150)**

223	Purpose of IA Program .....	9-1
224	General Rules (7 CFR 762.150(b)).....	9-1
225	Application Requirements (7 CFR 762.150(a)).....	9-9
226	Evaluating and Approving or Denying IA Requests .....	9-10
227	IA Closing (7 CFR 762.150(h), (i)) .....	9-12
228	Request for IA Payment or Continuation (7 CFR 762.150(i)).....	9-13
229	Notification of Adverse Action.....	9-18
230	Servicing of Loans Covered by FSA-2221 (7 CFR 762.150(j), (k), (l), (n), (p)) ....	9-19
231	Cancellation of FSA-2221 (7 CFR 762.150(m), (o)).....	9-26
232	Exceptions to IA Requirements (7 CFR 762.150(q)) .....	9-26
233-243	(Reserved)	

## Table of Contents (Continued)

Page No.

### Part 14      **Liquidation**

355	Liquidation Process (7 CFR 762.149) .....	14-1
356	Mediation (7 CFR 762.149(a)) .....	14-5
357	Foreclosure and Acceleration (7 CFR 762.149) .....	14-6
358	Lender Liquidation Plan (7 CFR 762.149(b)).....	14-9
359	Lender Submission of Estimated Loss Claim (7 CFR 762.149).....	14-13
360	Lender Submission of Final Loss Claim (7 CFR 762.149) .....	14-17
361	Release of Liability After Liquidation (7 CFR 762.146(c)) .....	14-24
362	Miscellaneous Liquidation Items (7 CFR 762.149).....	14-26
363	Collecting Final Loss Claim Payments From Guaranteed Loan Debtors (7 CFR 762.149(m)).....	14-28
364	Release From Liability and Unauthorized Assistance .....	14-35
365-372	(Reserved)	

### Part 15      **Secondary Market**

373	Overview of the Secondary Market for FSA Guaranteed Loans .....	15-1
374	Agency Requirements (7 CFR 762.160).....	15-4
375	Repurchase of Guaranteed Portion From a Secondary Market Holder (7 CFR 762.144) .....	15-9
376	Actions After Agency Repurchase (7 CFR 762.144) .....	15-14

### **Exhibits**

1	Reports, Forms, Abbreviations, and Redelegations of Authority	
2	Definitions of Terms Used in This Handbook (7 CFR 761.2(b))	
3	(Reserved)	
4	State Supplements	
5	Electronic Access to Forms for FSA Lenders	
6	MOU Between SBA and USDA	
7	Interim Guidance: Documentary Evidence of Status as a Qualified Alien	
8	Interim Guidance: Documentary Evidence of Status as a U.S. Non-Citizen National	
9	Embedded Entity Examples	
10	Calculations and Formulas	
11	Using an Allonge for a Loan Already Closed by the Lender When Guarantee Funds Were Not Available	
12	Lender Documentation and Reporting Requirements	
13	Interagency Agreement	
14	FSA Appraisal Guidelines	
14.5	Lenders Loan Narrative	
15	Appraisals for the Liquidation of Poultry and Other CAFO's	
15.5	Loss Claims	
16	Comparison Guide for Loss Claim Decisions and Appeals	

## Table of Contents (Continued)

### Exhibits (Continued)

- 17 Demand for Payment, Notice of Intent to Collect by Non-Centralized Administrative Offset, Including Internal Administrative Offset, Centralized Offset, and Other Applicable Debt Collection Methods
- 18 Demand for Payment, Notice That Non-Centralized Administrative Offset, Including Internal Administrative Offset, Has Been Taken and Will Continue, and Intent to Collect by Centralized Offset and Other Applicable Debt Collection Methods
- 19 Notice to a Non-Debtor Entity of Intent to Collect by Non-Centralized Administrative Offset, Including Internal Administrative Offset From an Entity Member
- 20 Notice to a Non-Debtor Entity That Non-Centralized Administrative Offset, Including Internal Administrative Offset From an Entity Has Been Exercised and Will Continue
- 21 Notice of Referral to the Department of Treasury to Collect Through the Treasury Offset Program (TOP) - Sent by KCFO Only

## Part 2 Guaranteed FLP

### 15 Program Purpose and Eligible Lenders

#### A Program Purpose

FSA's Guaranteed FLP:

- enables lenders to extend credit to family farm owners or operators who do not qualify for standard commercial loans
- benefits beginning farmers and family farmers experiencing financial distress, as well as lending institutions and the local community as a whole

**Note:** Farmers receive credit at reasonable terms to finance their current operations or to expand their business. Financial institutions receive additional loan business and servicing fees, as well as other benefits from the program.

- serves the local community by protecting family farmers and farm-related businesses
- enables lenders to extend conservation credit to some farmers who are **not** eligible for guaranteed FO's or OL's.

#### B Requirements

Lenders who are subject to credit examination and supervision by an acceptable State or Federal regulatory agency, and have experience in agricultural lending are eligible to \*--participate in all FSA Guaranteed Farm Loan Program. Lenders not subject to traditional credit examination and supervision, or who have little or no experience with agricultural loans may qualify as MLP lenders and make loans under the EZ Guarantee Program.--\*

Lenders who have a positive track record of participation in the program may participate in one of FSA's status lender programs. CLP and PLP are the 2 status lender programs. Once lenders are approved by FSA as a CLP or PLP lender, they may process loans under the reduced paperwork and supervision requirements afforded to the respective status lender program.

For more information on the different lender types, see Part 4.

**15 Program Purpose and Eligible Lenders (Continued)****C Lenders Agreement**

The purpose of the Lender's Agreement is to:

- establish the lender as an approved participant in the FSA Guaranteed Farm Loan Program
- outline the terms and conditions for originating and servicing FSA-guaranteed loans.

The lender is responsible for originating and servicing all guaranteed loans in their portfolio according to Lenders Agreement that is valid at the time.

**Example:** If a lender has an approved SEL Lenders Agreement, they will originate and service loans under SEL requirements spelled out in 7 CFR Part 762 and this handbook.

If the same lender later applies for PLP status and is approved, a new PLP Lenders Agreement will be executed. As long as the PLP Lenders Agreement remains in effect, the lender will originate and service all FSA-guaranteed loans in their portfolio, including loans originated while the lender was SEL, under the conditions agreed to in the PLP Lenders Agreement.

\*--For MLP, CLP, and PLP lenders, the Lender Agreement is valid for 5 years from the date of execution by the authorized agency official, SED, or DAFLP. For SELs, the Lenders--\* Agreement is valid indefinitely from the time of execution by authorized agency official, unless otherwise terminated or replaced by FSA.

For each State covered by the approved Lenders Agreement, the State Office is responsible for entering the details of the approved Lenders Agreement in GLS. State Offices may seek assistance from the NFAOC, Farm and Community Services Branch for particularly complex situations.

**34 Lender List and Classification (7 CFR 762.101(b))**

**A Lender List**

**The Agency maintains a current list of lenders who express a desire to participate in the guaranteed loan program. This list is made available to farmers upon request.**

**B Classification**

**Lenders who participate in the Agency guaranteed loan program will be classified into one of the following categories:**

- **Standard Eligible Lender** (paragraph 46)
- **Certified Lender** (paragraph 50)
- **Preferred Lender** (paragraph 52)
- **\*--Micro Lender** (paragraph 55).--\*

**35-45 (Reserved)**



\*--55 **Micro Lender Program (7 CFR 762.107)****A Overview**

MLP allows nontraditional lenders and commercial lenders not eligible for other lender statuses to participate in the EZ Guarantee program. MLP status allows FSA to increase collaboration with nontraditional lenders and assist smaller farmers typically in underserved areas. Establishing a stronger working relationship with nontraditional lenders is beneficial since they share a common goal with FSA to assist producers in underserved areas, including credit deserts.

**[7 CFR 762.107(a)(3)] MLP lender authorities are limited to originating and servicing EZ Guarantee loans.**

**B Application**

**[7 CFR 762.107(a)] Lenders who desire MLP status must submit an application form to any local FSA office. The lender must provide any additional information requested by the Agency to process an MLP request if the lender continues with the approval process.**

**C Eligibility Criteria**

**[7 CFR 762.107(b)] An MLP lender must:**

- **have experience in making and servicing business loans**
- **have the staff and resources to properly and efficiently discharge its loan making and loan servicing responsibilities that may include use of Agency approved agents**
- **be subject to oversight as established and announced by the Agency.**

Acceptable oversight for MLP lenders must be one of the following:

- a lender meeting the examination and supervision requirement in §762.105(b) (see subparagraph 46 C)
- Community Development Financial Institution (CDFI). CDFI's that have been awarded funds and are under the supervision of the Community Development Financial Institutions Program described in 12 CFR § 1805
- Rural Rehabilitation Corporation (RRC). RRC's that have entered into an agreement establishing an ongoing reporting and credit supervision relationship with the FSA--\*

## \*--55 Micro Lender Program (7 CFR 762.107) (Continued)

**C Eligibility Criteria (Continued)**

- **have a loss rate not in excess of the maximum MLP loss rate established and announced by the Agency**

**Note:** Losses on all business loans (which includes agricultural loans) of \$50,000 or less made over the past 7 years do not exceed 3 percent.

- **have made the minimum number of loans as established and announced by the Agency**

**Note:** The lender has originated 20 or more business loans of \$50,000 or less

- **not be debarred or suspended from participation in Government contracts or programs or be delinquent on a Government debt. This includes the lender's officers and agents.**

See subparagraph 46 E for guidance on confirming this requirement.

**D Approval**

MLP status may be approved on a statewide basis by SED.

The Agency and MLP lender will execute a Lenders Agreement for a term not to exceed 5 years. The Lenders Agreement will be maintained and distributed according to State Office policy.

**E Monitoring and Revoking MLP Status**

**[7 CFR 762.107(d)] The Agency may revoke the lender's MLP status at any time during the 5 year term for cause. [7 CFR 762.107(d)(1)] Any of the following instances constitute cause for revoking or not renewing MLP status:**

- **violation of the terms of the Lender's Agreement**
- **failure to maintain MLP eligibility criteria**
- **knowingly submitting false or misleading information to the Agency**
- **deficiencies that indicate an inability to process or service Agency guaranteed farm loan programs loans in accordance with this subpart**
- **failure to correct cited deficiencies in loan documents upon notification by the Agency--\***

\*--55 **Micro Lender Program (7 CFR 762.107) (Continued)**

**E Monitoring and Revoking MLP Status (Continued)**

- **failure to submit status reports in a timely manner; or,**
- **failure to comply with the reimbursement requirements of § 762.144(c) (7) and (c)(8).**

**[7 CFR 762.107(d)(2)] A lender that has lost MLP status may reapply for MLP status once the problem that caused the MLP status to be revoked has been resolved.**

**F Renewal of MLP Status**

**[7 CFR 762.107(c)] MLP status will expire within a period not to exceed 5 years from the date the lender's agreement is executed, unless a new lender's agreement is executed.**

**[7CFR 762.107(c)(1)] Renewal of MLP status is not automatic. A lender must submit a new application for renewal.**

**Note:** State Offices shall monitor expiration of MLP status and contact the lender with sufficient lead time prior to the expiration of MLP status to discuss renewal procedures.

**[7 CFR 762.107(c)(2)] MLP status will be renewed if the applicable eligibility criteria under this section are met, and no cause exists for denying renewal under paragraph (d)(1) of this section (subparagraph 55E).**

**56-64 ( Reserved)--\***



## Part 5 Loan Application Requirements (7 CFR 762.110)

### Section 1 Application Requirements

#### 65 General Application Requirements

##### A Application Requirements

**\*--[7 CFR 762.110(a)(1)] Lenders must perform at least the same level of evaluation and documentation for guaranteed loans that the lender typically performs for nonguaranteed loans of a similar type and amount.--\***

Good communication with lenders will minimize problems and help ensure a rapid review of applications. The authorized agency official should communicate with lenders throughout the application preparation and submission process. Lenders should be encouraged to:

- contact authorized agency officials for assistance with the application
- address any issues or deficiencies before they become problems.

**\*--SEL's and CLP lenders may use FSA-2291 as an application processing checklist. FSA may use FSA-2292 to review an application for completeness.**

**[7 CFR 762.110(a)(2)] The application thresholds in this section apply to any single loan, or package of loans submitted for consideration at any one time. A lender must not split a loan into two or more parts to fall below the threshold in order to avoid additional documentation.--\***

**\*--To qualify for an EZ Guarantee Loan, an applicant's outstanding guaranteed loan principal balance may not exceed \$100,000 (\$50,000 for MLP lenders) for FO and OL combined at the time of loan closing.**

**[7 CFR 762.110(a)(3)] The Agency may require lenders with a lender loss rate in excess of the rate for CLP lenders to assemble additional documentation from (paragraph 68).**

On an individual loan basis, FSA may request additional information to make eligibility and approval decisions.--\*

##### B Maintaining Complete Loan File

**[7 CFR 762.110(g)] All lenders must compile and maintain in their files a complete application for each guaranteed loan. CLP lenders must certify that the required items, not submitted, are in their files.**

**\*--The lender's file must contain the applicable items in paragraphs 66 through 68 and all--\* correspondence with the borrower about servicing actions and other loan-related documentation generated after loan approval.**

**[7 CFR 762.110(g)] The Agency may request additional information from any lender or review the lender's loan file as needed to make eligibility and approval decisions.**

**\*--65.5 EZ Guarantee Loans**

**A EZ Guarantee Loan Requirements**

**[7 CFR 762.110(b)] MLP lenders may submit an EZ Guarantee application for loans up to \$50,000. All other lenders may submit EZ Guarantee application for loans up to \$100,000.**

To qualify for an EZ Guarantee Loan, an applicant's outstanding guaranteed loan principal balance may not exceed \$100,000 (\$50,000 for MLP lenders) for FO and OL combined at the time of loan closing.

**B Application Package**

**[7 CFR 762.110(b)] Lenders must submit:**

- **an EZ Guarantee Application form**
- **if the loan fails to pass the underwriting criteria for EZ Guarantee approval in 762.125(d), or the responses in the application are insufficient for the agency to make a loan decision, the lender must provide additional information as requested by the Agency.**

**Note:** The intent of the EZ Guarantee Loan program is to reduce application requirements, provide lenders with more flexible underwriting rules, and therefore provide for faster FSA approval.

Additional information may only be required on a case by case basis and only when necessary to make eligibility, environmental, or other determinations which are outside of the lenders' purview or to resolve inconsistencies in the application package.--\*

## 66 Requirements for Loans up to \$125,000 (7 CFR 762.110)

**A Application Package**

**\*--[7 CFR 762.110(c)] Lenders must submit the following items for loans up to \$125,000 (other than EZ Guarantees):**

The \$125,000 threshold applies separately to OL, FO, or CL loans. For example, a lender may request a \$125,000 OL loan and a \$125,000 FO loan in the same package and submit the items in this subparagraph.--\*

- **the application form** (Application for Guarantee) (subparagraph B)
  - **\*--loan narrative, including a plan for servicing the loan** (subparagraph C)--\*
  - **balance sheet** (subparagraph D)
  - **cash flow budget** (subparagraph E)
  - description of farmed land (subparagraph F)
  - **credit report** (subparagraph G)
  - environmental information (if needed, see subparagraph H)
  - information related to entity applicants (if needed, see subparagraph I)
- \*\*\*

**B Application Form**

Lenders may use FSA-2211 Application for Guarantee or their own loan application form if it contains the same information. If a lender uses its own application form, the lender must attach an executed Application for Guarantee containing the applicant's name and address and any information not on the lender's form.

**Note:** Applications submitted electronically will be processed according to subparagraph 73 B.

**C Loan Narrative**

**\*--The application package must include a narrative description of the farming operation and the lender's underwriting of the loan. The narrative should address the following:**

- a description of the farming operation
- any items relevant to determining applicant eligibility
- the loan proposal including amount, purpose, rates and terms
- collateral analysis
- capacity analysis
- capital analysis
- loan conditions and servicing plan--\*

**C Loan Narrative (Continued)**

\*--See Exhibit 14.5 for a complete description and instruction for completing a loan narrative.--\*

**D Balance Sheet**

The application package must contain a balance sheet for the applicant that was prepared within 90 calendar days of the application submission.

**E Cash Flow Budget**

The lender should submit a cash flow budget as described in Exhibit 2. If significant changes are expected in the operation during the life of the loan, more than one cash flow budget may need to be developed.

\*\*\*

**F Description of Farmed Land**

A description of the location of each tract of land to be farmed by the applicant should be provided. This may be by FSA farm number, legal description, plat map, or other identifying method. This may be included as part of the loan narrative.

**G Credit Report**

A credit report on the applicant's credit history must be provided. In addition, lenders should consider any other pertinent information concerning the applicant's credit history. CLP lenders are not required to submit the credit report to FSA.

**H Environmental Information**

Borrowers are required to have a current AD-1026 on file with FSA. Lenders should remind borrowers that AD-1026 must be executed with FSA, if AD-1026 is **not** already on file.

FSA can conduct its environmental review in most cases without additional information from the lender. However, occasionally additional information is needed, and until this information is received, the application is not complete, and the loan processing timeframe does not start. Situations needing additional information often involve wetland determinations, potential historical or archaeological sites, or construction of major confinement livestock facilities. The review is FSA's responsibility to conduct. However, the information to complete this review is part of a complete application.

66 Requirements for Loans up to \$125,000 [7 CFR 762.110] (Continued)

**I Additional Requirements for Entity Applicants**

Entity applicants must submit additional information for each entity member. The application must contain the following information about each entity member:

- full legal name
- address
- Social Security number
- percent ownership interest in the entity
- current balance sheet.

\*\*\*

67 **Requirements for Loans Over \$125,000 (7 CFR 762.110)**

**A Application Package**

\*--[7 CFR 762.110(d)] **A complete application package for a guaranteed loan over \$125,000 will consist of the items** in paragraph 66, plus subparagraphs B through G.--\*

**B Verification of Income**

Nonfarm and “other farm” income should be documented using the same documentation the lender uses for its nonguaranteed loans.

**C Verification of Debts Over \$1,000**

Verification can be documented using the same documentation the lender uses for its nonguaranteed loans.

**D Financial History**

The financial history should support cash flow projections and include 3 years of income and expenses and 3 years of balance sheets. \*\*\*

**E Production History**

The application should include **3 years of production history (SEL only)**. \*\*\*

**F Proposed Loan Agreements**

Any proposed nontypical agreements between the lender and the borrower should be explained in the narrative.

**G Development Plans**

**If construction or development is planned, a copy of the plans, a copy of the specifications, and a development schedule** is needed.

68 **(Withdrawn—Amend. 37)**

\*--69 **Application Requirements for PLP Lenders [7 CFR 762.110]**

**A Application Requirements**

**A complete application for PLP lenders will consist of:**

- **an application form FSA-2212**

**Note:** Applications submitted electronically will be processed according to subparagraph 73 B.

- **a loan narrative**
- **any other items agreed to during the approval of the PLP lender's status and contained in the PLP lender agreement.**

**PLP lenders must certify that the required items, not submitted, are in their files.** On a case-by-case basis, **the Agency may request additional information from any lender or review the lender's files as needed to make eligibility and approval decisions.** These requests shall be made only in situations when, because of the unique characteristics of the loan request, an eligibility or approval decision cannot be made without additional information.

FSA can conduct its environmental review in most cases without additional information from the lender. However, occasionally additional information is needed, and until this information is received, the application is not complete, and the 14-calendar-day timeframe does not start. Situations needing additional information often involve wetland determinations, potential historical or archaeological sites, or construction of major confinement livestock facilities. The review is FSA's responsibility to conduct. However, the information to complete this review is part of a complete application.

**B Loan Narrative**

FSA expects PLP lenders to include, in the narrative, a discussion of the 5 "C's" of credit; that is, character, capacity, capital, conditions, and collateral.

For many PLP lenders, the narrative will often contain the same information submitted to the lender's loan committee. Since the authorized agency official will rely on the narrative and application form for making the loan approval decision, it is important that the narrative covers any issues or questions that may arise during the loan evaluation process. The lender shall state the proposed method to establish the real estate market value, evaluation, or appraisal.--\*

**\*--69 Application Requirements for PLP Lenders [7 CFR 762.110] (Continued)**

**B Loan Narrative (Continued)**

If the application is for CL, a discussion of the conservation plan or Forest Stewardship Management Plan and need for the qualifying conservation practices including a discussion of the transition plan, if applicable, must be provided in the loan narrative.

**C Submitting Applications Outside Normal Trade Area**

PLP status will be approved for the lender's normal trade area as defined in CMS. If a lender wants to make a guaranteed loan outside of this area, the lender should contact the State Office responsible for that area for guidance on where to submit the request for guarantee.

On a case-by-case basis, SED may authorize the approval of guarantees outside the lender's normal trade area if SED determines that the lender can adequately make and service the loan. If the lender wants to permanently expand its approved normal trade area, it will request an expansion through SED to DAFLP.--\*

Section 2 Preferred Lender Applications

\*--70 Summary of OL and FO Applications

A Application Requirements

The following is a summary of OL and FO application requirements.

Items to submit to FSA:	EZ Guarantee	PLP	CLP	SEL	SEL
Amount:	MLP to \$50,000 SEL, CLP, PLP to \$100,000	Over \$100,000	Over \$100,000	\$100K - \$125K	Over \$125K
Application Form	Y	Y	Y	Y	Y
Narrative	Lenders will collect and maintain these items according to their normal lending practices	Y	Y	Y	Y
Location of farmed land		Y	Y	Y	Y
Balance Sheet		PLP Lenders will maintain these items according to the terms of their CMS	Y	Y	Y
Repayment Capacity (Cash flow)			Y	Y	Y
Credit Report			CLP lenders will maintain these items in their file for loans above \$125,000	Y	Y
Verification of debts over \$1000					Y
Verification of non-farm income					Y
3 year financial history					Y
3 year production history				N/A	
<b>Items needed infrequently</b>					
Entity Information	Y	Y	Y	Y	Y
Environmental – additional information	Y	Y	Y	Y	Y
Construction, development plans	Y	Per CMS	In file	Y	Y
CL: Conservation plan		Y	Y	Y	Y
CL: Transition plan for organic, sustainable agriculture		Y	Y	Y	Y

--\*



## Section 2 Other Guaranteed Application Options

**\*--70.5 Application Requirements for CL's (7 CFR 762.110(f))--\*****A CL Program**

The objective of the CL Program is to facilitate implementing conservation practices rather than be a safety net for family farmers. Because of the emphasis on the environment, the CL Program can provide funds to individuals and entities that normally would **not** qualify for FSA assistance. CL's:

- are **not** limited to family farmers and CL applicants can operate noneligible enterprises as defined in Exhibit 2

**Note:** A portion of the applicant's income may be derived from a noneligible enterprise source and the conservation measure may benefit the noneligible enterprise. However, the applicant must be engaged in production agriculture (an enterprise that would normally be eligible for FSA's FO or OL programs and does not meet FSA's definition of noneligible enterprise).

- will **not** need to pass the test for credit, and the graduation requirements of OL and FO loans do **not** apply.

**\*--B CL Application Package**

**[7 CFR 762.110(f)] In addition to the other requirements in this section, the following items apply when a lender is requesting a CL guarantee.**

**[7 CFR 762.110(f)(1)] CL applicants must submit a copy of their current conservation plan or Forest Stewardship Management Plan.** The plan must address conservation practices that will be financed by the CL request.

**Note:** NRCS CPA-1155 or Tool Kit is considered sufficient documentation for the conservation plan. A copy of the owner's objectives, schedule of activities, and property map is considered sufficient documentation for the Forest Stewardship Management Plan.

**[7 CFR 762.110(f)(2)] Lenders must submit plans to transition to organic or sustainable agriculture when the funds requested will be used to facilitate the transition and the lender is requesting consideration for priority funding.** This plan can be:

- part of the conservation plan, as described in subparagraph J, or an organic plan that has been approved by a certified agent and the State Organic Certification Program
- a grant that was awarded by the Sustainable Agriculture research and Education Program of the National Institute of Food and Agriculture, USDA.

All CL applications will consist of the applicable items as outlined in paragraphs 67, 68, and 69.--\*

**\*--70.5 Application Requirements for CL's (7 CFR 762.110(f)) (Continued)--\*****\*--C Streamlined CL's--\***

Applicants who qualify for Streamlined CL's have already developed a higher level of management skills and financial security. For applicants with exceptionally strong financial positions, the lender will **not** be required to perform as intensive a cash flow analysis as is necessary for other applicants. The lender will only be required to follow their internal process that they would use for nonguaranteed applicants for cash flow analysis.

**[7 CFR 762.110(f)] When CL guarantee applicants meet all the following criteria, the cash flow budget requirement in this section will be waived:**

- **be current on all payments to all creditors including the Agency (if currently an Agency borrower)**
- **debt to asset ratio is 40 percent or less**
- **balance sheet indicates a net worth of 3 times the requested loan amount or greater**
- **FICO credit score is at least 700. For entity applicants, the FICO credit score of the majority of the individual members must be at least 700.**

71 (Withdrawn---Amend.37)

**\*--72 Market Placement Program (7 CFR 762.110(j))--\*****A Purpose**

The Market Placement Program:

- is designed to assist qualified existing direct loan borrowers and new direct loan applicants in obtaining a guaranteed farm loan from a commercial lender
- reduces the number of direct loans FSA makes, which reduces FSA costs while still meeting the credit needs of the farmer
- helps new lenders become familiar with FSA lending standards and; therefore, serves a marketing function for the Guaranteed Farm Loan Program.

**Note:** The Market Placement Program does **not** apply to CL's because there is no test for credit requirement.

**B Lender Participation**

Each County Office shall identify lenders who are interested in participating in the Market Placement Program. To identify lenders, the County Office shall contact lenders:

- currently participating in the Guaranteed Farm Loan Program
- who are **not** participating in the Guaranteed Farm Loan Program.

Lenders should advise FSA of their interest.

**Part 6 Application Processing Timeframes (7 CFR 762.130)**

**83 A Processing Timeframes for SEL’s**

**[7 CFR 762.130(a)(1)] Complete applications from Standard Eligible Lenders will be--\* approved or rejected, and the lender notified in writing, no later than 30 calendar days after receipt.**

\*--The counting of the 30 calendar days begins when FSA determines that the application is complete.--\*

**B Processing Timeframes for CLP and PLP Lenders**

**[7 CFR 762.130(a)(2)] Complete applications from CLP or PLP lenders will be approved or rejected not later than 14 calendar days after receipt. For PLP lenders, if this time frame is not met, the application will automatically be approved, subject to funding, and receive an 80 or 95 percent guarantee for FO or OL loans, and 80 or 90 percent guarantee for CL, as appropriate.**

The counting of the 14 calendar days begins when FSA determines that the application is complete. \*\*\*

If PLP lenders are not notified of FSA’s decision within 14 calendar days of submitting a complete application, the submitted application will be approved at 80, 90, or 95 percent guarantee, as applicable.

If a PLP application is automatically approved, the lender must not close the loan or disburse funds until funds are obligated by FSA and Conditional Commitment is issued.

**\*--C Processing Timeframes for EZ Guarantee Loans**

Complete applications for EZ Guarantee loan requests will be approved or rejected within 14 days.--\*

**D Summary of Processing Timeframes**

This table summarizes processing timeframes for EZ Guarantee loans, SEL’s and CLP and PLP lenders.

<b>Lender Type</b>	<b>Processing Timeframe in Calendar Days From the Date the Application Is Complete</b>
SEL (regular loan)	30 calendar days
*--EZ Guarantee	14 calendar days--*
CLP	14 calendar days
PLP	14 calendar days

**84 Monitoring FSA Approvals (7 CFR 762.130)**

**A Authorized Agency Official Responsibilities**

The authorized agency official is responsible for:

- processing applications within the allotted timeframes
- \*--maintaining a tracking system to ensure that all loans are processed within the 14 or 30 day timeframe--\*

\*\*\*

- entering a reason code and, if necessary, an explanation in GLS when a decision has not been made within 45 calendar days of receiving a complete application.

**Note:** GLS is the official loan application date record.

**B DD Responsibilities**

DD is responsible for:

- overseeing the approval process
- monitoring unprocessed applications.

DD shall take all steps necessary to ensure that applications are processed as quickly as possible. Some steps DD can take include the following:

- prioritizing workloads
- providing additional training
- providing clerical help
- temporarily shifting staff assignments.

## 153 Calculating Projected Income and Expenses by CLP Lenders (7 CFR 762.125)

### A Purpose

CLP lenders are provided greater flexibility in estimating the projected income and expenses of an operation. They are not required to estimate production yields or price forecasts for crops, livestock, and livestock products.

The remainder of this paragraph explains the FSA guidelines for determining an applicant's income and expenses by CLP lenders.

### B Using Financial History

**For CLP lenders, the projected income and expenses of the borrower and operation must be based on the applicant's financial history and proven record of financial management.**

CLP lenders must use their judgment and evaluation of the individual circumstances to determine the best method for estimating the projected income and expenses of the applicant. CLP lenders have the option of using the operation's production yields, as described in paragraph 152 for SEL. CLP lenders will use the applicant's income and other financial records. As with the use of production yields, the lender should not merely average 3 years of income figures. An average is only appropriate when there have not been major changes in the operation. If there have been major changes in yields, prices, or production, this should be considered when estimating the projected income and expenses.

The lender should consider the range and trends as indicators of the capability and limitations of the operator, land, and equipment. The projection should:

- reflect what the current or proposed operation can reasonably and justifiably accomplish
- not be outside the range of historical performance unless fully justified.

The loan narrative should:

- document the method used to project income and expenses
- provide an explanation of any deviations from historical production
- address any major changes in yields or prices.

**\*--Note:** For Streamlined CL requests, CLP lenders will follow their internal procedures for determining financial feasibility.--\*

**154 Determining Financial Feasibility of Loans by PLP Lenders (7 CFR 762.125)****A Purpose**

PLP lenders are not required to use the financial feasibility methods in paragraph 151. These lenders will use the methods that FSA approved at the time of PLP certification.

This paragraph explains the guidelines FSA will use in evaluating PLP determination of the financial feasibility of loans.

**B Using Internal Procedures**

**Notwithstanding any other provision of this section, PLP lenders will follow their internal procedures on financial feasibility as agreed to by the Agency during PLP certification.**

To determine financial feasibility, PLP lenders must follow the procedures agreed to by FSA and the lender as described in CMS. The loan narrative must contain justification for assumptions made during the determination of financial feasibility.

\*\*\*

**\*--155 Determining Financial Feasibility of EZ Guarantee Loans (7 CFR 762.125)--\*****A Purpose**

Lenders submitting EZ Guarantee applications are not required to use the financial feasibility methods in paragraph 151. Lenders will demonstrate financial feasibility using the procedures in this paragraph.

**B Using Internal Procedures**

**[7 CFR 762.125(d)] Notwithstanding any other provision of this section, FSA will evaluate EZ Guarantee application financial feasibility using criteria below. EZ Guarantee applications that satisfy the criteria will be determined to meet the financial feasibility standards in this section.**

The lender's standards need to meet the following requirements:

- The lender must perform the same evaluation and apply their same underwriting standards for an EZ Guarantee loan as they would for a nonguaranteed loan of the same size and type.
- The lender must determine that the EZ Guarantee applicant demonstrates reasonable prospects to repay the requested loan. This determination must be arrived at using the lender's typical underwriting criteria and methods such as a cash flow projection, a scorecard underwriting model, historical income and expenses, or other repayment capacity indicator.
- The lender will describe the methods and criteria used to determine the applicant's prospects for repayment on the EZ Guarantee application form. The description should address how the EZ Guarantee application compares to their own approval standards.

The following are examples of commonly used methods to evaluate capacity for repayment, other methods may be used:

- projected cash flow
- historical cash flow
- scorecard underwriting system.

**[7 CFR 762.125(d)(3)] EZ Guarantee applications that do not satisfy the criteria will require further documentation.--\***

**156-165 (Reserved)**



**Section 5 Environmental and Special Laws****208 Environmental Requirements (7 CFR 762.128)****A Overview**

Lenders must consider environmental issues when making guaranteed loans. Authorized agency officials should consult 7 CFR part 12 and CFR part 799, for guidance on what FSA must do to comply with the National Environmental Policy Act, on issues such as HEL, wetlands, floodplains, and hazardous waste.

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

**B Environmental Requirements**

**[7 CFR 762.128(a)]The requirements found in 7 CFR part 12 and 7 CFR par 799, must be met for guaranteed OL, FO, and CL. CLP, PLP, and MLP lenders may certify that they have documentation in their file to demonstrate compliance with this section. Standard eligible lenders must submit evidence supporting compliance with this section.**

**The Agency determination of whether an environmental problem exists will be based on:**

- **the information supplied with the application**
- **the Agency official's personal knowledge of the operation**
- **environmental resources available to the Agency including, but not limited to, documents, third parties, and governmental agencies**

**208 Environmental Requirements (7 CFR 762.128) (Continued)****B Environmental Requirements (Continued)**

- **a visit to the farm operation when the available information is insufficient to make a determination**
- **other information supplied by the lender or applicant upon Agency request. If necessary, information not supplied with the application will be requested by the Agency.**

**Lenders will assist in the environmental review process by providing environmental information. In all cases, the lender must retain documentation of their investigation in the applicant's case file.**

It is the responsibility of the authorized agency official to complete the proper level of environmental assessment for each loan application as required in 7 CFR Part 1940, subpart G. The certification by the lender on Application for Guarantee or Preferred Lender Application does not certify that the loan request is in full compliance with the environmental requirements. The certification only demonstrates that reasonable investigations have been completed for certain items.

**C Hazardous Substances**

**All lenders are required to ensure that due diligence is performed in conjunction with a request for guarantee of a loan involving real estate. The Agency will accept as evidence of due diligence the most current version of the American Society of Testing Materials (ASTM) transaction screen questionnaire available from 100 Barr Harbor Drive, West Conshohocken, Pennsylvania 19428-2959, or similar documentation, supplemented as necessary by the ASTM Phase I environmental site assessments form.**

**264 Servicing Collateral (7 CFR 762.142(a)) (Continued)****B FSA Responsibilities**

Authorized agency officials can offer assistance to lenders in this area of servicing. Assistance may include the following:

- advising the lender when there is concern that the lender is overestimating or underestimating the value of collateral
- regularly asking the lender about the condition of the borrower's collateral, especially security that is particularly valuable or volatile
- performing cross checks to verify that UCC filings have been made for all collateral
- informing the lender of deficiencies discovered during the annual review and proposing modifications in procedures to resolve the deficiencies.

**C FSA Monitoring of Collateral Servicing**

If FSA discovers that a lender does not have adequate procedures in place to ensure that the collateral is being serviced to FSA standards, the authorized agency official should inform the lender in writing of the deficiency and, if necessary, require the lender to submit a plan outlining the actions they will take to correct the deficiency. Failure on the part of the lender to submit a plan or take action to correct the deficiency may result in denial of future loan applications or revocation of status until the deficiency is resolved.

For CLP and PLP lenders, any finding of a major deficiency should be forwarded to SED for action.

## 265 Annual Analysis of Borrower's Financial Condition (7 CFR 762.140(b)(5))

**A Overview**

The lender must perform an annual financial analysis of the borrower's operation within 90 calendar days of the end of the borrower's operating cycle. SEL's and CLP lenders must \*--submit documents to FSA in support of this analysis. **An annual analysis is required for all borrowers with term loans greater than \$100,000 and all line of credit loans. For borrowers with an outstanding loan balance for existing term loans of \$100,000 or less, the need for annual analysis will be determined by the Agency for SEL, CLP, and MLP lenders.--\***

\*--FSA requires the lender to perform an annual analysis of borrowers with an outstanding loan balance of \$100,000 or less for SEL, CLP, and MLP lenders when any of the following exist:

- the loan is past due by more than 30 days
- a current balance sheet indicates financial deterioration, including reduction in collateral and/or values
- a credit report indicates an increase in use of credit, increase in late pays, or reports of collection activity results in a decrease in credit score.--\*

**\*--B Financial Analysis of Borrower by SEL and MLP--\***

The annual analysis will include:

- **for loans secured by real estate only, the analysis for standard eligible lenders and \*--Micro Lenders must include a balance sheet--\***
- **for loans secured by chattels, all lenders will review the borrower's progress regarding business goals, trends, and changes in financial performance, and compare actual to planned income and expenses for the past year**

**Note:** For a borrower with Streamlined CL only, the financial analysis will **not** include the comparison of actual to planned income and expenses for the past year.

- **an account of the whereabouts or disposition of all collateral**
- **a discussion of any observations about the farm business with the borrower.**

265 Annual Analysis of Borrower’s Financial Condition (7 CFR 762.140(b)(5)) (Continued)

**\*--C Documents Submitted to FSA by SEL and MLP in Support of Annual Analysis**

[7 CFR 762.141(d)] SEL and MLP shall provide the following to FSA:--\*

- **borrower’s balance sheet and income and expense statement for the previous year, if applicable**
- **for lines of credit, the cash flow for the borrower’s operation that projects a feasible plan or better for the upcoming operating cycle**

**Note: The standard eligible lender must receive approval from the Agency before advancing future years’ funds.**

- **an annual farm visit report or collateral inspection**
- narrative summary of borrower’s financial progress, if applicable.

<b>Submission Summary</b>	
Real Estate	Balance sheet, farm visit report, income and expense statement, and narrative summary of borrower’s financial progress from previous year only if loan is also secured by chattels.
Term Chattels	Balance sheet, farm visit report, income and expense statement, and narrative summary of the borrower’s financial progress.
Lines of Credit	Balance sheet, farm visit report, income and expense statement, projected cash flow, and narrative summary of the borrower’s financial progress.

These documents should be submitted to the authorized agency official within 30 calendar days of the completion of the annual financial analysis.

## 265 Annual Analysis of Borrower's Financial Condition (7 CFR 762.140(b)(5)) (Continued)

**D Annual Analysis of Borrower by CLP Lender**

**CLP lenders will determine the need for the annual analysis based on the financial strength of the borrower and document the file accordingly.**

**For loans secured by chattels, all lenders will review the borrower's progress regarding business goals, trends and changes in financial performance, and compare actual to planned income and expenses for the past year.**

**\*--Note:** For a borrower with Streamlined CL only, the financial analysis will **not** include the comparison of actual to planned income and expenses for the past year.--\*

CLP lenders shall maintain **an account of the whereabouts or disposition of all collateral.** The accounting will occur in the form of a documented annual farm visit report or collateral inspection report for all chattel loans.

CLP lenders shall document **a discussion of any observations about the farm business with the borrower.**

If the lender determines that an analysis should be performed, the analysis may be based on a comparison of current and past balance sheets. If a balance sheet analysis is not performed by the lender, information that confirms the borrower is strong financially and reasons why the lender is confident of the borrower's progress must be provided by the lender. Examples of information that would indicate the financial strength of the borrower would include deposit or investment accounts with the lender.

265 Annual Analysis of Borrower’s Financial Condition (7 CFR 762.140(b)(5)) (Continued)

**E Documents Submitted to FSA by CLP in Support of Annual Analysis**

[7 CFR 762.141(c)] CLP lenders shall submit the following to FSA in support of their annual analysis:

- a written summary of the lender’s annual analysis of the borrower’s operation

**Note:** This summary should describe the borrower’s progress and prospects for the upcoming operating cycle. This annual analysis may be waived or postponed if the borrower is financially strong. The summary will include a description of the reasons an analysis was not necessary.

- for lines of credit, an annual certification stating that a cash flow projecting at least a feasible plan has been developed, that the borrower is in compliance with the provisions of the line of credit agreement, and that the previous year income and loan funds and security proceeds have been accounted for.

<b>Submission Summary</b>	
Real Estate	Either a summary of lender’s analysis or summary as to why financial strength makes analysis unnecessary.
Term Chattels	Either a summary of lender’s analysis or summary as to why financial strength makes analysis unnecessary.
Lines of Credit	Certification that cash flow was obtained. Borrower in compliance with Lender’s Agreement. Lender has accounted for previous year’s income and loan funds and security proceeds are accounted.

These documents must be submitted to the authorized agency official within 30 calendar days of the completion of the annual financial analysis.

**265 Annual Analysis of Borrower's Financial Condition (7 CFR 762.140(b)(5)) (Continued)****F FSA Review of Annual Financial Analyses**

Upon receiving the annual borrower financial analysis supporting documentation from \*--SEL and MLP, the authorized agency official should review the documentation for the--\* following:

- indications of borrower financial distress or major changes in the borrower's financial status from the previous year
- changes in the appearance of the operation or collateral. If the authorized agency official notices any problems, he or she should call the lender to discuss these concerns.

For borrowers with LOC, FSA must determine at this time whether or not LOC should be renewed for the next year.

Upon receiving the annual borrower financial analysis supporting documentation from a CLP lender, the authorized agency official should review the documentation of the borrower's progress on loan payback. The narrative should summarize factors of financial strength which support the lender's determination that further analysis is unnecessary, if applicable.

\*--After reviewing the annual financial analyses submitted by the SEL, MLP, and CLP--\* lender, the authorized agency official must document their review of the annual financial analysis by making an entry in the borrower's County Office guaranteed loan file. To the extent the authorized agency official has concerns about a specific borrower or lender's management and supervision of FSA-guaranteed loans in general, the authorized agency official should communicate these concerns to the lender in writing.

\*--Copies of correspondence, including authorization to advance LOC funds in SEL and MLP cases, will be placed in the borrower's FSA guaranteed loan file. A copy of any--\* correspondence sent to a lender about their management of a loan will be placed in the lender's file and, if the deficiency is major, a copy forwarded to SED. The borrower's file will be marked for necessary followup actions.

## 287 Substitution of Lender (7 CFR 762.105) (Continued)

**C Lender Name or Ownership Changes**

**When a lender begins doing business under a new name or undergoes an ownership change the lender will notify the Agency.** If the lender simply changes their name and there is no change in ownership, location, or TIN, the authorized agency official shall make the change in GLS on the Lender Maintenance Screen.

**\*--The lender's CLP, PLP, or MLP status is subject to reconsideration when ownership--\***  
**changes.** If a status lender is merged with or purchased by a nonstatus lender, and the original lender's management, operating policies, CMS, and personnel are changed as a result, the lender's CLP or PLP status should be revoked. If the newly merged or purchased lender will continue to operate the status lender substantially as it has been managed in the past, revocation may not be necessary. The nonstatus lender will apply for status or their present status will be revoked. If a lender sells any guaranteed loans in their entirety, SED shall determine whether volume requirements of subparagraphs 49 E or 52 E are still being met.

**Note:** The lender will execute a new lender's agreement when ownership changes.

**287 Substitution of Lender (7 CFR 762.105) (Continued)****C Lender Name or Ownership Changes (Continued)**

The new lender must provide FSA with:

- its new TIN
- a list of all its branches where they will service guaranteed loans, their addresses, and responsible contacts.

**Note:** An interim request for subsidy payment from the original lender is not required when the entire lender has changed.

\*--FSA-2243 must be completed and submitted to NFAOC, Farm and Community Services Branch. One FSA-2243 may be completed with a list of the names, FSA case numbers,--\* and loan numbers for the entire guaranteed loan portfolio of the lender attached.

Although guaranteed lenders are responsible for informing FSA when ownership changes occur, acquiring lenders are often unaware of this responsibility. If the authorized agency official becomes aware that a lender with FSA-guaranteed loans has been purchased by or merged with another lender, the authorized agency official shall contact the new management and remind them of their responsibilities under existing Lender's Agreement and the need to process a substitution. If authorized agency officials learn that a lender has been closed or placed in receivership by a financial institution regulatory agency, they shall contact their SED for guidance.

## Reports, Forms, Abbreviations, and Delegations of Authority (Continued)

## Forms (Continued)

Number	Title	Display Reference	Reference
FSA-2250	FSA Purchase of a Guaranteed Loan Portion		375
FSA-2251	Lender's Guaranteed Loan Payment to USDA		376
FSA-2252	Farm Loan Programs Guaranteed Writedown Worksheet		328, Ex. 12
FSA-2253	Shared Appreciation Agreement for Guaranteed Loans		181, 288, 328, 341, Ex. 12
FSA-2254	Guaranteed Loan Report of Loss		136, 288, 328, 342, 344, Part 14, 376, Ex. 12
FSA-2261	Report on Collection Activities on Liquidated Accounts		266, 362, Ex. 12
FSA-2262	Notice of Liquidation Responsibility		362
FSA-2291	Lender's Processing Checklist		65, 95
FSA-2292	Guaranteed Loan Processing Checklist		65
FSA-2293	Annual File Review Checklist for SEL and CLP Lenders		267
FSA-2294	Debt Writedown Review Checklist		329
FSA-2295	Guaranteed Estimated Loss Review Checklist for SEL and CLP Lenders		342, 359
FSA-2296	Guaranteed Loan Final Loss Review Checklist		360
FSA-2297	Lender Training and Collaboration Report		21
FSA-2731	Cancellation of Debt Without Application (RD-1956-1)		363
FSA-2731A	Cancellation of Debt Without Application (Continuation)		363
IRS-1099-C	Cancellation of Debt		362
IRS-8379	Injured Spouse Claim and Allocation		Ex. 17, 18
NRCS CPA-1155	Conservation Plan or Schedule of Operations		66
RD 1951-C-1	Notice of Intent to Collect by Administrative Offset		376
RD 1956-1	Application for Settlement of Indebtedness		363
RD-1980-64	Interest Assistance Agreement		224, 228, 230
UCC1	Financing Statement		364
W-2	Wage and Tax Statement		152

Reports, Forms, Abbreviations, and Redelegations of Authority (Continued)

Abbreviations Not Listed in 1-CM

The following abbreviations are not listed in 1-CM.

Approved Abbreviation	Term	Reference
AASM	Application Authorization Security Management	73, Ex. 5
ACT	Consolidated Farm and Rural Development Act	1, 108, 286
ADPB	average daily principal balance	228, Ex. 10
CAFO	Concentrated Animal Feeding Operation	181, 358, Ex. 15
CL	conservation loan	Text, Ex. 2
CMS	Credit Management System	Text
EL	emergency livestock loan	108
EO	economic opportunity loan	108
FmHA	Farmers Home Administration	108, Part 9, Part 11, 360
GFO	guaranteed farm ownership loan	135
GLOC	guaranteed line of credit	108
GOL	guaranteed operation loan	135
IA	interest assistance	18, Parts 9, 11-15, Ex. 10
IAO	Internal Administrative Offset	363, Ex. 2, 17, 18
INA	Immigration and Nationality Act	Ex. 7
LIBOR	London Interbank Offered Rate	135
LINC	Lender Interactive Network Connection	73, 266, Ex. 5
LOC	line of credit	Text
MLP	Micro Lender Program	Text
NFAOC	National Finance and Accounting Operations Center	Text, Ex. 10, 21
NPO	nonprofit organization	111
PLP	Preferred Lender Program	Text, Ex. 12
PRWORA	Personal Responsibility and Work Opportunity Reconciliation Act of 1996	Ex. 7
SAA	Shared Appreciation Agreement	286, 288, Ex. 2
SBA	Small Business Administration	20, 21, Ex. 6
SDMS	State Directive Management System	84
SEL	Standard Eligible Lender	Text, Ex. 12
USCIS	U.S. Citizenship and Immigration Services	Ex. 7, 8

Re delegations of Authority

This table lists the redelegations of authority in this handbook.

Redelegation	Reference
Administering handbook provisions	20

## Definitions of Terms Used in This Handbook (7 CFR 761.2(b)) (Continued)

**Default**

**Default** is the failure of a borrower to observe any agreement with the Agency, or the lender in the case of a guaranteed loan, as contained in promissory notes, security instruments, and similar or related instruments.

**Deferral**

**Deferral** is a postponement of the payment of interest or principal, or both.

**Delinquent Borrower**

**Delinquent borrower**, for loan servicing purposes, is a borrower who has failed to make all scheduled payments by the due date.

**Direct Loan**

**Direct loan** is a loan funded and serviced by the Agency as the lender.

**Disaster**

**Disaster** is an event of unusual and adverse weather conditions or other natural phenomena, or quarantine, that has substantially affected the production of agricultural commodities by causing physical property or production losses in a county, or similar political subdivision, that triggered the inclusion of such county or political subdivision in the disaster area as designated by the Agency.

**Disaster Area**

**Disaster area** is the county or counties declared or designated as a disaster area for EM loan assistance as a result of disaster related losses. This area includes counties contiguous to those counties declared or designated as disaster areas.

**Disaster Yield**

**Disaster yield** is the per-acre yield of an agricultural commodity for the operation during the production cycle when the disaster occurred.

**\*--Downpayment Loan**

**Downpayment loan** is a type of FO direct loan made to eligible applicants to finance a portion of a real estate purchase under part 764, subpart E of this chapter.--\*

## Definitions of Terms Used in This Handbook (7 CFR 761.2(b)) (Continued)

**Due Diligence**

**Due Diligence (762.128)** is the process of evaluating real estate in the context of a real estate transaction to determine the presence of contamination from release of hazardous substances, petroleum products, or other environmental hazards and determining what effect, if any, the contamination has on the security value of the property.

**Economic Emergency Loan**

**Economic Emergency loan** is a loan that was made or guaranteed to an eligible applicant to allow for continuation of the operation during an economic emergency which was caused by a lack of agricultural credit or an unfavorable relationship between production costs and prices received for agricultural commodities. EE loans are not currently funded; however, such outstanding loans are serviced by the Agency or the lender in the case of a guaranteed EE loan.

**Emergency Loan**

**Emergency loan** is a loan made to eligible applicants who have incurred substantial financial losses from a disaster.

**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**

**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.

**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.

**\*--EZ Guarantee**

**EZ Guarantee** means a type of OL or FO of \$100,000 or less made using a simplified loan application. As part of the simplified application process, EZ Guarantees are processed using a streamlined underwriting method to determine financial feasibility. --\*

**False Information**

**False information** is information provided by an applicant, borrower or other source to the Agency that the applicant or borrower knows to be incorrect

## **Lender's Loan Narrative**

### **A Content and Level of Detail**

The following is a summary of the content that should be in a typical loan narrative, factors to consider, common errors and omissions, and applicable 2-FLP references. This document is not meant to be all inclusive, but is provided to assist both lenders and FSA personnel in preparing proper loan narratives. All guaranteed loan requests, except EZ Guarantee loan requests, must include a lender's loan narrative which must address the items found in 2-FLP, subparagraph 66 C, the 5 "Cs" of credit. The narrative should be an evaluation of the data related to the guaranteed loan request, not just a summary or restatement of data found on the guaranteed loan application or other submitted documents. It should include a discussion behind the numbers, for example, whether a number or ratio is strong or weak depending on the type of farming operation and the stage in the business cycle. The narrative should describe the farming operation's weaknesses, and provide details on the mitigating strengths.

The loan narrative must provide sufficient detail to provide the FSA loan approval official with the information required to ensure the guaranteed loan applicant meets the eligibility requirements, the applicant's proposed operation is viable, and the proposed security for the loan is sufficient to adequately secure the loan. The level of detail necessary in the lender's loan narrative is determined by a variety of factors - including the management structure of the farming operation, loan type and purpose, and type of lender. If the lender's loan narrative does not provide sufficient detail, the loan approval official should notify the lender of the additional details needed to evaluate the loan request.

**Note:** Every guaranteed loan application is unique, and therefore the level of detail that is required in the lender's loan narrative will vary.

**Example:** A loan narrative for an existing FSA Farm Loan Program (FLP) customer may be less detailed than an application for a new customer who is refinancing the lender's existing debt. FSA officials are to use judgment in determining the appropriate level of detail in the lender's loan narrative.

### **B Farming Operation**

The loan narrative must include certain details regarding the lender's description of the farming operation such as:

- the type of farming enterprises

**Example:** Joe and Jane Farmer operate a 500 acre farm in Dodge County, KS. They grow corn and soybeans, and have a small 25 beef cow-calf herd.

- the operating structure:
  - legal structure - Sole proprietorship, LLC, S Corporation, Partnership, etc.

**Lender’s Loan Narrative (Continued)**

**B Farming Operation (Continued)**

- for each entity member:
  - full legal name
  - address
  - Social Security number
  - percent ownership
  - responsibilities in operation
- key personnel and management structure (information about the individuals that provide the management and labor to operate the farm on a daily basis; relationship to applicant, relevance to the operation, adequacy to operation, etc)
- adequacy of real estate, equipment and other facilities

**Example:** Joe and Jane Farmer own 200 acres of real estate with 150 acres of cropland and rent an additional 310 acres of cropland. The farmstead consists of their home, grain storage, machinery storage, and housing for their beef cattle. They own a well-maintained line of machinery. The real estate, facilities, and equipment are adequate for their needs.)

- description of the location of all land to be farmed
- short-term and long-term goals of farming operation
- proposed changes to the farming operation
- description of any environmental issues or impact.

<b>Less detail may be required if...</b>	<b>More detail may be required if...</b>
existing guaranteed or direct loans.	no existing guaranteed or direct Loans.
it is an FO loan.	it is a OL or LOC loan.
no debt refinance.	there is debt refinance.
traditional farming enterprises.	multiple and/or non-traditional farming enterprises.
sole-proprietorships or joint operations.	partnerships, LLC’s, embedded entities, etc.
no changes in farming operation.	there are changes in farming operation
balance sheet, cash flow projection, and financial and production histories are part of application.	balance sheet, cash flow projection, financial or production histories are not part of application.

**Lender’s Loan Narrative (Continued)**

**B Farming Operation (Continued)**

Common errors and omissions occur when there is:

- insufficient detail to determine if applicant is the actual operator of a family size farm
- insufficient detail concerning the members of an entity applicant.

**2-FLP References: Subparagraphs. 66 C, 66 I, 67 A, 70 B, 108 M (Operator Requirement), paragraphs 109 (OL), 110 (FO), 111 (OL and FO Entity Applicants), 112 (CL)**

**C Applicant Eligibility**

Lender to address the following applicant eligibility requirements:

- has an acceptable credit history
- is a citizen of the U.S., a U.S. non-citizen national, or a qualified alien

**Note:** Only if applicant is a U.S. non-citizen national or qualified alien.

- lender is unable to make the loan without a guarantee.

The following eligibility requirements **typically** do not need to be addressed in the lender’s loan narrative, since lender or applicant self-certifies on loan application and/or FSA loan official can check on status:

- meets all requirements of prior FSA debt forgiveness
- is not delinquent on any Federal debt
- does not have any outstanding recorded judgments obtained by a Federal agency
- has the legal capacity to incur the obligations of the loan
- has not been convicted of planting, cultivating, growing, producing, harvesting, storing, trafficking, or possessing a controlled substance within the last 5 years

<b>Less detail may be required if...</b>	<b>More detail may be required if...</b>
existing guaranteed or Direct Loans.	no existing guaranteed or direct loans.
no prior FSA debt forgiveness.	prior FSA debt forgiveness.
no debt refinance.	there is refinance debt.
no current or recent delinquencies.	there are current or recent delinquencies.

**Lender’s Loan Narrative (Continued)**

**C Applicant Eligibility (Continued)**

<b>Less detail may be required if...</b>	<b>More detail may be required if...</b>
joint operation, sole-proprietorship or Partnership.	complex entity.
credit report – part of application.	the credit report is not part of application.
underwriting standard weaknesses are obvious.	lender’s Underwriting Standards appear to be met.

Common errors and omissions occur when there is:

- no discussion regarding delinquencies or other issues found on the credit report  
**(2-FLP References: Subparagraph 66 C, 66 G, 67 A)**
- no discussion referring to the need for an FSA Guarantee.

**D Loan Proposal**

Lender to adequately describe proposed loan, including:

- description of loan type, amount, term, rate, and purpose, (for loans containing a balloon payment, include loan renewal conditions)
- description of any other proposed loans or loan restructuring (non-guaranteed, FSA direct loans, other), including loan type, amount, term, rate, purpose, and security
- description of Conservation Plan or Forest Stewardship Management Plan, and the need for a qualifying conservation practice (CL only)
- if risk based pricing is used, an indication that the rate charged to the borrower is at least one tier below the rate the borrower would be charged without the guarantee.

<b>Less detail may be required if...</b>	<b>More detail may be required if...</b>
equally amortized loan installments.	unequal loan installments and/or balloon payment.
no debt refinance.	debt refinance.
no plans to sell guaranteed portion of loan.	sell guaranteed portion of loan on secondary market.

Common errors and omissions occur when there is:

- insufficient detail on loans being refinanced (amount, original purpose, etc.)

**2-FLP References: Subparagraph 66 C, 67 A, paragraph 135 (interest rate), 137 (loan term and payment schedules)**

**Lender’s Loan Narrative (Continued)**

**E Collateral Analysis**

Lender to adequately describe security for proposed loan, including:

- assessment of the adequacy of the security being offered to secure the proposed loan
- any additional details or clarification on the security value and proposed lien position not apparent on the loan application
- method used to establish the market value of the security - evaluation or appraisal.

Less detail may be required if...	More detail may be required if...
first lien.	shared or junior lien.
real estate security.	chattel or crop security.
appraisal or evaluation submitted with application.	appraisal or evaluation not submitted with application.

Common errors and omissions occur when there is:

- no mention of method used to establish security value
- insufficient details on prior liens of proposed security.

**2-FLP References: Subparagraph 66 C, 67 A, paragraph 166 (amount and quality of security), 181 (appraisal requirements), 182 (chattel security), 183 (real estate security)**

**F Capacity Analysis**

Lender to adequately describe repayment capacity, including:

- discussion of applicant’s projected cash flow (deviations from previous history, strengths and weaknesses. Address any changes in the pro-forma capacity not shown in the cash flow details.)
- discussion of assumptions made and basis for commodity prices and yields used to develop cash flow
- discussion of why rescheduling or alternative payment schedules are not being offered (if refinancing debt held by lender)

**Lender’s Loan Narrative (Continued)**

**F Capacity Analysis (Continued)**

<b>Less detail may be required if...</b>	<b>More detail may be required if...</b>
high debt repayment margin	low debt repayment margin
FO	OL or LOC
established farmer	beginning farmer
balance sheet, cash flow projection, and financial and production histories are part of application	balance sheet, cash flow projection, financial or production histories are not part of application

Common errors and omissions occur when there is:

- failure to adequately discuss pro-forma changes in the operation
- listing the FSA Guarantee as an offsetting strength to compensate for a weakness in capacity. Strength should be another credit factor such as capital, or management ability.

**2-FLP References: Subparagraph 66 C, 67 A, 122 E (OL debt refinance), 123 B (FO debt refinance), 151-154 (feasibility)**

**G Capital Analysis**

Lender to adequately describe capital, including:

- discussion of applicant’s financial condition (in addition to just stating financial ratios, lender should provide context for the type of operation or the life stage of the operation – startup, new enterprise, preparing for retirement)
- effect of new debt on financial condition
- discussion of non-essential assets, if any
- discussion of consolidation of balance sheets (if applicable).

<b>Less detail may be required if...</b>	<b>More detail may be required if...</b>
established farmer.	beginning farmer.
strong equity position.	little or no equity.
balance sheet, cash flow projection, and financial and production histories are part of application.	balance sheet, cash flow projection, financial or production histories are not part of application.

**Lender’s Loan Narrative (Continued)**

**G Capital Analysis (Continued)**

Common errors and omissions occur when there is:

- providing financial ratios only, with no context or discussion of these ratios
- listing the FSA Guarantee as an offsetting strength to compensate for a weakness in capital. Strength should be another credit factor such as capacity, or management ability

**2-FLP References: Subparagraph 66 C, 67 A, paragraphs 151-154 (feasibility)**

**H Loan Conditions and Servicing Plan**

Lender to adequately describe loan conditions and servicing, including:

- lender loan servicing plan describing borrower’s financial reporting requirements, limitations and conditions, and other borrower supervision (not required if described in another loan application document.)
- the name, Social Security number, and current address of any guarantors or co-signers required to execute the promissory note (not required if this information is listed on the loan application or another application document).

<b>Less detail may be required if...</b>	<b>More detail may be required if...</b>
<ul style="list-style-type: none"> <li>• established farmer.</li> </ul>	<ul style="list-style-type: none"> <li>• beginning farmer.</li> </ul>
<ul style="list-style-type: none"> <li>• real estate security.</li> </ul>	<ul style="list-style-type: none"> <li>• equipment, livestock or crop security.</li> </ul>
<ul style="list-style-type: none"> <li>• FO.</li> </ul>	<ul style="list-style-type: none"> <li>• OL or LOC.</li> </ul>
<ul style="list-style-type: none"> <li>• financially strong farming operation.</li> </ul>	<ul style="list-style-type: none"> <li>• financially weak farming operation.</li> </ul>

Common errors and omissions occur when there is:

- no loan servicing plan
- insufficient details on co-borrowers, guarantors, or co-signers.

**2-FLP References: Subparagraph 66 C, 67 A**

