

UNITED STATES DEPARTMENT OF AGRICULTURE

Farm Service Agency
Washington, DC 20250

Guaranteed Loan Making and Servicing 2-FLP (Revision 1)	Amendment 46
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Approved by: Acting Deputy Administrator, Farm Loan Programs



Amendment Transmittal

A Reasons for Amendment

Subparagraph 135 C has been amended to update the website for accessing historical 3-month LIBOR data.

Subparagraph 244 A has been amended to update the guaranteed loan limits for FY 2020.

Page Control Chart		
TC	Text	Exhibit
	8-60.5, 8-60.6 10-1, 10-2	

135 Interest Rate Requirements (7 CFR 762.124(a)) (Continued)

C Maximum Interest Rates for Lenders Not Using Risk-Based Pricing Practices

[7 CFR 762.124 (a)] At the time of loan closing or loan restructuring, the interest rate on both the guaranteed portion and the nonguaranteed portion of a fixed or variable rate CL, OL or FO loan may not exceed the following, as applicable:

- For lenders not using risk-based pricing practices, for variable rate loans or fixed rate loans with rates fixed for less than five years, 650 basis points (6.5 percentage points) above the 3-month LIBOR.
- For lenders not using risk-based pricing practices, for loans with rates fixed for five or more years, 550 basis points (5.5 percentage points) above the 5-year Treasury note rate.

The lender is not required to tie its guaranteed loan interest rates to 3-month LIBOR or 5-year Treasury, nor is it required that the rate remain below the maximums throughout the term of the loan. This requirement only sets the maximum rate that may be charged to the customer at the time of loan closing or restructuring.

Note: The maximum rate is not based on loan terms, purpose, or type. It is based on how long the interest rate is fixed. For variable rate loans and loans with an interest rate fixed for less than 5 years, regardless of program type (CL, OL or FO), the maximum rate is based on the 3-month LIBOR index.

Loans with interest rate fixed for 5 or more years, the maximum rate is based on the 5-year Treasury index.

At lender loan file review, the authorized agency official will verify the interest rate charged the guarantee customer at closing did not exceed the maximum rate, and document on applicable file review checklist.

To obtain rates for each index, the authorized agency official can access the GLS Add Loan Closing Screen and click the 3-month LIBOR or 5-year Treasury note rate. The links will open the following Web pages:

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

135 Interest Rate Requirements (7 CFR 762.124(a)) (Continued)

***--C Maximum Interest Rates for Lenders Not Using Risk-Based Pricing Practices (Continued)**

To access the training:

- go to FSA Intranet at <http://fsaintranet.sc.egov.usda.gov/fsa/>
- under “Resources”, CLICK “**FSA Applications**”
- under “Farm Loan Programs”, CLICK “**Farm Loan Programs Systems**”
- under “Informational Links”, CLICK “**Presentations**”
- under “Training Materials”, CLICK “**GL Interest Rate Training Presentation**”.

Note: The 5-yr Treasury note rate may also be listed as Treasury Constant Maturities as published on the Federal Reserve web site.

The following examples are provided to illustrate how to determine the maximum interest rate.

Example 1: Lender closes a 4-year GOL. The rate is fixed at 7.5% on the date loan closes. The 3-month LIBOR rate on date loan closes is 2.5% and the 5-year Treasury rate is 2.0%.

The maximum rate would be 9.0% (3-month LIBOR rate 2.5% plus maximum spread 6.5% = 9%).

In this example, the lender’s rate does not exceed the maximum rate and; therefore, meets the limitation.

Example 2: Lender closes a 7-year GOL. The rate is fixed for the first 3 years at 8% on the date loan closes and variable for the remaining term. The 3-month LIBOR rate on date loan closes is 2.0% and the 5-year Treasury rate is 1.75%.

The maximum rate would be 8.5% (3-month LIBOR rate 2.0% plus maximum spread 6.5% = 8.5%).

In this example, the lender’s rate does not exceed the maximum rate and; therefore, meets the limitation.

Example 3: Lender closes a 20-year GFO. The rate is fixed for the first 5 years at 7.0% on the date loan closes and variable for the remaining term. The 3-month LIBOR rate on date loan closes is 2.0% and the 5-year Treasury rate is 1.0%.

The maximum rate would be 6.5% (5-year Treasury rate 1.0% plus maximum spread 5.5% = 6.5%).

In this example, the lender’s rate exceeds the maximum rate and; therefore, does not meet the limitation.--*

Part 10 Processing Approvals and Issuing the Guarantee

244 Loan Approval (7 CFR 762.122)

A Loan Limits

[7 CFR 762.122 (a)] The agency will not guarantee any loan that would result in the applicant's total indebtedness exceeding the limits established in § 761.8 of this chapter (1-FLP, paragraph 29).

The maximum FO, CL, or OL levels outlined in this subparagraph include the guaranteed loan being made plus any outstanding direct or guaranteed principal balances, as indicated, owed by anyone who will sign the promissory note.

The total outstanding combined guaranteed FO, CL, SW, and OL principal balance cannot *--exceed \$1,776,000.

The total outstanding direct and guaranteed FO, CL, and SW principal balance cannot exceed \$1,776,000.

The total outstanding direct and guaranteed OL principal balance cannot exceed \$1,776,000.

The total combined outstanding direct and guaranteed FO, CL, SW, and OL principal balance cannot exceed \$2,376,000.

The total combined outstanding direct and guaranteed FO, CL, SW, OL, and EM principal balance cannot exceed \$2,876,000.

Notes: The maximum loan levels established in this subparagraph are for FY 2020.--*

The dollar limit of guaranteed loans is adjusted annually based on inflation.

This will be incorporated by a Farm Bill CFR change but is effective, as provided here, immediately.

FSA personnel should see 1-FLP for information on loan approval authorities.

B Submitting FSA-2231 to the Approval Official

When the loan exceeds the authorized agency official's approval authority, the authorized agency official should send the approval official all information the approval official needs to evaluate the loan request, including the following:

- a completed FSA-2231
- GLS Loan Approval Screens
- Application for Guarantee for SEL and CLP applicants or Preferred Lender Application for PLP applicants

244 Loan Approval (7 CFR 762.122) (Continued)

B Submitting FSA-2231 to the Approval Official (Continued)

- Conditional Commitment with recommended changes
- the balance sheet and cash flow statement (for SEL applicants)
- the loan narrative
- any other information the approval official requests.

The authorized agency official should verify the lender has a Lender's Agreement in effect.

Once the loan approval official executes FSA-2231, the authorized agency official may then proceed to execute all other loan-related documents, unless otherwise specified by the loan approval official.

C Lender Notification of Authorized Agency Official Decision

The lender and applicant should be informed of the approval decision in writing.

- If the application is approved and funds are available, the authorized agency official shall prepare a letter to the lender (subparagraph D), with a copy to the applicant, and a Conditional Commitment, and proceed to paragraph 245.
- If the application is approved and funds are not available, the authorized agency official shall prepare a letter (subparagraph E) to the lender with a copy to the applicant, informing them the loan is approved, subject to the allocation of funding. This letter should inform the lender that funding is being requested and the loan should not be closed until they receive the Conditional Commitment, agree to the conditions, and execute the document.

Notes: Under certain circumstances a lender may find it necessary to close a loan that has been approved but funds are not available. These closings shall not be construed as an indicator that the guarantee is not needed. Any lender who decides to close an approved loan before funds are available should contact FSA before closing to determine whether there will be any additional closing conditions that would have been on the Conditional Commitment. Lenders should be aware that:

- the closing is at their own risk and there are circumstances that could result in FSA not issuing the guarantee once funding becomes available, such as any material change in the borrower's condition, financial or otherwise, since submission of the application
- all interest accrued on the lender's loan before guaranteed loan closing (execution of the allonge), will not be covered by the guarantee.

--Accrued interest is any interest documented on the allonge.--