

UNITED STATES DEPARTMENT OF AGRICULTURE

Farm Service Agency  
Washington, DC 20250

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

**Amendment 66**

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



**Amendment Transmittal**

**A Reasons for Amendment**

Subparagraph 138 A has been amended to include more specific language about general hazard insurance and conditions for opting out of the insurance requirements.

Subparagraph 244 B has been amended to remove GLS Loan Approval Screens and Conditional Commitment from the documents needed to submit to the approval official when a loan exceeds agency official's approval authority and clarified when the FSA-2231 needs to be submitted to the submittal tool.

The handbook text has been amended throughout to replace:

- “chattel” with “personal property”
- “gender” with “sex” to comply with Executive Orders 14151 and 14168.

Page Control Chart		
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**52 Eligibility Requirements for PLP (7 CFR 762.106) (Continued)****D PLP CMS Guidelines**

The following is an example of a CMS summary. It was developed by USDA, FSA to assist lenders who wish to prepare and submit a request for PLP status for the FSA Guaranteed Farm Loan Program. The application for PLP status is to be prepared according to 7 CFR 762.106 and this subparagraph.

This document is based on a review of numerous lender policies and is intended solely as an example CMS summary. This example may serve as a starting point for a lender developing a CMS summary. Each section of this example must be amended based on the institution's commercial lending policy, organizational structure, and loan management practices.

\*--Lenders must outline the manner in which they intend to process and service FSA Loan Guarantees based on their own underwriting and servicing policies. A PLP lender's CMS as approved by FSA becomes the basis for approval decisions on Applications for Guarantee.--\*

**Note:** The CMS summary is available on FSA's web site at

\*--[https://www.fsa.usda.gov/Assets/USDA-FSA-Public/usdafiles/Farm-Loan-Programs/docs/Example\\_CMS\\_FINAL.doc](https://www.fsa.usda.gov/Assets/USDA-FSA-Public/usdafiles/Farm-Loan-Programs/docs/Example_CMS_FINAL.doc).\*--

## 52 Eligibility Requirements for PLP (7 CFR 762.106) (Continued)

## D PLP CMS Guidelines (Continued)

**PREFERRED LENDER PROGRAM  
CREDIT MANAGEMENT SYSTEM SUMMARY  
ATTACHMENT TO FORM FSA-2201, "LENDER'S AGREEMENT"**

**Bank Name  
Anywhere, USA**

This document contains the credit management system (CMS) requirements agreed to by SAMPLE BANK, City, State, USA, and the Farm Service Agency (FSA) for the Lender's participation in the FSA Guaranteed Loan Program. Requirements for loan administration, servicing, and reporting activities not specifically addressed in this attachment or in conflict with 7 CFR 762 are governed by 7 CFR 762, 2-FLP "Guaranteed Loan Making and Servicing", and the attached Form FSA-2201, "Lender's Agreement."

**I. GENERAL OPERATIONS****A. Normal Trade Area**

*Describe the specific geographic area (states and/or regions within states) in which you make loans. If you are requesting PLP status for only a portion of your trade area, please indicate this. Please attach a list of branches intended to be covered by the Lender's Agreement.*

The normal trade area for the Lender is Eastern Colorado and portions of Western Nebraska and Kansas. PLP status covers the states of Colorado, Nebraska, and Kansas.

Loans would be considered outside the normal trade area if loan servicing were limited. For example, integrated broiler or pork contractors where the production \*--check is sent to the Lender could be considered. Livestock and personal property--\* loans that are not cross-pledged with real estate are not desirable outside the trade area due to extensive servicing demands. The Lender will contact the appropriate FSA State Office for guidance when submitting requests for guarantee outside of the normal trade area, or if the lender desires to permanently expand its approved normal trade area.

## 52 Eligibility Requirements for PLP (7 CFR 762.106) (Continued)

**D PLP CMS Guidelines (Continued)**

\*\_\_

**D. Collateral Analysis.**

*Describe how the adequacy of collateral is evaluated and what standards are used. What are the preferred and minimum loan to value ratios or rates used? What is the process for determining the collateral to be required?*

The following table identifies the Lender's standard Loan to Value rates. Loans exceeding these rates will be offset by strengths in other credit factors.

Collateral	Loan to Value Rates
Crops	70% estimated crop value before harvest
	75% estimated crop value after harvest
	80% of forward contracted crops
	When available, the Lender will also secure crop loans with machinery and equipment, or other farm assets, in addition to the crops.
Beef Cattle	70-80%
Dairy	75% for milking herd, replacement heifers, and feed
Sheep	70 - 80%
Swine	60 - 70%
Agricultural Real Estate	
Range Land (unimproved)	50%
Improved Dry Pasture	60%
Cropland	75%
Farmsteads (including home)	80% - where home accounts for at least 50% of the total value of the parcel w/improvements
Farmsteads (without home)	75%
Machinery	
Used Equipment	75%
New Equipment	75%

The lender is responsible for ensuring that proper and adequate security for the guaranteed loan is obtained and maintained to fully secure the loan, protect the interest of the lender and the Agency, and assure repayment of the loan or line of credit. A 100% loan to value ratio is not adequate when additional security is available. The lender, with concurrence from FSA, will assess the need for, and availability of, additional security on a case-by-case basis based on factors including but not limited to the quality of the proposed security, proposed loan-to-value, repayment capacity, production capacity, management ability, etc.

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## 52 Eligibility Requirements for PLP (7 CFR 762.106) (Continued)

**D PLP CMS Guidelines (Continued)**

Loans over \$250,000 secured by real estate will have a USPAP compliant appraisal completed by a state certified general appraiser to determine the value of the proposed security. An internal evaluation meeting the guidelines in 2 FLP, subparagraph 183A may be acceptable for requests of \$250,000 or less per the Bank's internal appraisal guidelines. The lender has internal appraisal guidelines which state the transaction size and its complexity establish the basis for the type of value method necessary. Complex facilities and real property such as a specialized livestock building may require a full appraisal although the request may not exceed the \$250,000 threshold. Appraisals will typically be within 18 months old. Appraisals over 18 months old may be used if the criteria in 7 CFR 762.127(c)(2) are met and documented.

\*--Loans secured by personal property will have a personal property appraisal completed either by the lender's staff with experience and expertise in determining values of personal property, or by a qualified third party. Personal property appraisals will be based on available data from public sales of the same or similar property in the market area. In the absence of such public sales, reputable publications reflecting market values may be used. Appraisals for personal property must be within 12 months old.--\*

Appraisals or evaluations are not required on property to be taken as additional security that is clearly in excess of what is needed to fully secure the loan. The lender shall provide an estimate of value on the Application for Guarantee, as applicable.

All appraisals and evaluations will be completed in compliance with FSA Handbook 2-FLP requirements.

**E. Conditions**

*Provide some insight into your typical practices for placing additional conditions on loans or agreements with borrowers beyond the promissory note and security documents particularly in cases where there are obstacles beyond the usual covenant or security documentation.*

Loan conditions address loan purpose, loan amount, loan structure, pricing, scope of financing or requirements unique to the loan. Conditions are added as loan risk increases, and are based on the credit factor analysis used to identify applicant creditworthiness and risk. Examples include additional monitoring, collateral, insurance, etc., to reduce the risk exposure of any particular loan. A loan agreement will be completed, if necessary, on a case-by-case basis.



## 52 Eligibility Requirements for PLP (7 CFR 762.106) (Continued)

## D PLP CMS Guidelines (Continued)

## Exceptions:

- Borrowers with term loans secured by real estate, which have performed as agreed for more than five consecutive years, are required to submit only a balance sheet each year. An inspection will be performed when the balance sheet indicates financial deterioration.
- Borrowers who do not borrow money for operating needs and maintain sufficient cash deposit accounts with the Lender to pay 12 months of installments on their term debts are only required to submit a financial statement every three years.
- Line of credit only borrowers are not scored.

**Monitoring security.** Acquisition and lien priority of planned capital purchase or ownership of basic security will be verified. Methods for verification include physical inspection visit by loan officer, bill of sale, vehicle title, deed, lien search or another method as appropriate. Cattle will be marked for identification.

Proceeds from the sale of security will be applied to the debt according to lien \*--priority. Where multiple loans are secured by a blanket lien on personal property--\* security, crop and livestock income will be applied to the annual operating debt incurred to produce that item before being used to pay term debt installments.

The source of proceeds, including bushels, weights, and size will be verified with receipts in those cases where the borrower's records are not accurate. Income from sales in one cycle that is not received until the following cycle (e.g., overlap income, retains, dividends) will be applied to any outstanding debt associated with the production of that commodity.

Term debt collateral sale proceeds will not be used to make scheduled term debt installments.

**Advances on lines of credit.** Advance requests by the borrower may be made by telephone, electronic mail or other method. The request and its use will be acknowledged in writing on an Advance Record by the borrower during his/her next physical office visit, or by copy of a check written on the account where disbursements are deposited. Each year, the ability to meet all financial obligations will be documented with an annual cash flow projection before the operation is financed for another year.

## 52 Eligibility Requirements for PLP (7 CFR 762.106) (Continued)

**D PLP CMS Guidelines (Continued)**

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Loan ledgers are updated daily for advances and payments. Ledgers do not track the use of funds or source of proceeds; therefore, advances will be entered into an automated spreadsheet and itemized based on projected expense categories weekly. This spreadsheet is checked monthly by loan officers for deviations from projected expense category and total needs. Livestock operation lines of credit are also tracked using livestock inventory control records and inspection reports.

**Emergency advances.** A moderate advance in excess of the line of credit amount may be made when an aberration causes expenses to exceed the original budgeted amount, and the advance is necessary to avoid significant damage to or loss of the loan security. The reason for the advance and the financial benefit to be derived from it will be documented in the loan file.

**Additional loans.** The lender will make consumer, residential and commercial loans to guaranteed loan customers as part of ongoing relationships. If nonguaranteed loans are made, security will not be intermingled with a guaranteed loan. When a lender receives a payment from the sale of encumbered property, loan installments will be paid in the order of lien priority. When a payment is received from the sale of unencumbered property or other sources of income, loan installments will be paid in the order of their due date.

**Partial releases.** Security may be released without FSA concurrence (1) when the security item is being sold for market value and the proceeds will be applied to the loan in accordance with lien priorities; (2) when the security item will be used as a trade-in or source of down payment funds for a like-item that will be taken as security; or (3) when the security item has no present or prospective value. All other releases require FSA written approval.

**Cull and replacement policy.** Breeding livestock sales proceeds will be treated as normal income when herd size and value is maintained at a level at or above that which existed at loan inception as verified by periodic inspection.

All other releases without compensation will meet FSA regulatory requirements and require loan committee approval. Details of the transaction will be documented in the credit file.

**Releases of borrowers.** Obligated parties, including entity members, personal guarantors, cosigners, or joint operators, are not released from liability except when the debt has been paid or refinanced, or on a case-by-case basis, with executive loan committee concurrence and FSA written approval.

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## 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 \* \* \*. Establishing a stronger working relationship with nontraditional lenders is beneficial since they share a common goal with FSA to assist producers \* \* \* in 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 “FSA-2205, “Guaranteed Micro Lender Application” 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--\***

## 97 Incomplete Application (7 CFR 762.110(h)) (Continued)

**D Example of Second Notification Letter**

The following is an example of a second notification letter.

<div style="text-align: right; margin-bottom: 20px;">Date: _____</div> <p>Dear _____:</p> <p>Your application on behalf of (insert name of borrower/applicant) for Farm Service Agency loan guarantee assistance is still incomplete. We must receive the following information before we can finish processing this request:</p> <p>(Insert list of items necessary to complete application.)</p> <p>If you do not submit this information or contact this office by (insert date 15 calendar days from date of letter), your application will be withdrawn without further notice.</p> <p><i>The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The Federal agency that administers compliance with this law is the Federal Trade Commission, Equal Credit Opportunity, Washington, D.C. 20580.</i></p> <p>In accordance with Federal civil rights law and U.S. Department of Agriculture (USDA) civil rights regulations and policies, the USDA, its Agencies, offices, and employees, and institutions participating in or administering USDA programs are prohibited from discriminating based on race, color, national origin, religion, sex, * * * disability, age, marital status, family/parental status, income derived from a public assistance program, political beliefs, or reprisal or retaliation for prior civil rights activity, in any program or activity conducted or funded by USDA (not all bases apply to all programs). Remedies and complaint filing deadlines vary by program or incident.</p> <p>Persons with disabilities who require alternative means of communication for program information (e.g., Braille, large print, audiotape, American Sign Language, etc.) should contact the responsible Agency or USDA's TARGET Center at (202) 720- 2600 (voice and TTY) or contact USDA through the Federal Relay Service at (800) 877-8339. Additionally, program information may be made available in languages other than English.</p> <p>To file a program discrimination complaint, complete the USDA Program Discrimination Complaint Form, AD-3027, found online at <a href="http://www.ascr.usda.gov/complaint_filing_cust.html">http://www.ascr.usda.gov/complaint_filing_cust.html</a> and at any USDA office or write a letter addressed to USDA and provide in the letter all of the information requested in the form. To request a copy of the complaint form, call (866) 632-9992. Submit your completed form or letter to USDA by: (1) mail: U.S. Department of Agriculture, Office of the Assistant Secretary for Civil Rights, 1400 Independence Avenue, SW, Washington, D.C. 20250-9410; (2) fax: (202) 690-7442; or (3) email: <a href="mailto:program.intake@usda.gov">program.intake@usda.gov</a>. USDA is an equal opportunity provider, employer, and lender.</p> <div style="text-align: right; margin-top: 40px;"> <p>Sincerely,</p> <p>_____</p> <p>(Title)</p> </div>
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**\*--97 Incomplete Application (7 CFR 762.110(h)) (Continued)--\***

**E Automatic Withdrawal of Application**

**If the lender does not provide the information needed to complete its application by the deadline established in an Agency request for the information, the application will be considered withdrawn by the lender.**

The authorized Agency official shall provide the lender with written notification that the application is withdrawn.

## 97 Incomplete Application (7 CFR 762.110(h)) (Continued)

## F Example of Application Withdrawn Letter

The following is an example of an application withdrawn letter.

Date: _____
<p>Dear _____:</p> <p>Your application on behalf of <i>(insert name of borrower/applicant)</i> for Farm Service Agency loan guarantee assistance was withdrawn effective <i>(insert date application was withdrawn)</i>. You failed to provide the additional information we requested in our second notification letter dated <i>(insert date of second notification letter)</i>.</p> <p>If you have any questions, please contact <i>(insert office name)</i> at <i>(insert office address)</i> or telephone <i>(insert office telephone number)</i>.</p> <p><i>The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The Federal agency that administers compliance with this law is the Federal Trade Commission, Equal Credit Opportunity, Washington, D.C. 20580.</i></p> <p><i>In accordance with Federal civil rights law and U.S. Department of Agriculture (USDA) civil rights regulations and policies, the USDA, its Agencies, offices, and employees, and institutions participating in or administering USDA programs are prohibited from discriminating based on race, color, national origin, religion, sex, * * * disability, age, marital status, family/parental status, income derived from a public assistance program, political beliefs, or reprisal or retaliation for prior civil rights activity, in any program or activity conducted or funded by USDA (not all bases apply to all programs). Remedies and complaint filing deadlines vary by program or incident.</i></p> <p><i>Persons with disabilities who require alternative means of communication for program information (e.g., Braille, large print, audiotope, American Sign Language, etc.) should contact the responsible Agency or USDA's TARGET Center at (202) 720- 2600 (voice and TTY) or contact USDA through the Federal Relay Service at (800) 877-8339. Additionally, program information may be made available in languages other than English.</i></p> <p><i>To file a program discrimination complaint, complete the USDA Program Discrimination Complaint Form, AD-3027, found online at <a href="http://www.ascr.usda.gov/complaint_filing_cust.html">http://www.ascr.usda.gov/complaint_filing_cust.html</a> and at any USDA office or write a letter addressed to USDA and provide in the letter all of the information requested in the form. To request a copy of the complaint form, call (866) 632-9992. Submit your completed form or letter to USDA by: (1) mail: U.S. Department of Agriculture, Office of the Assistant Secretary for Civil Rights, 1400 Independence Avenue, SW, Washington, D.C. 20250-9410; (2) fax: (202) 690-7442; or (3) email: <a href="mailto:program.intake@usda.gov">program.intake@usda.gov</a>. USDA is an equal opportunity provider, employer, and lender.</i></p> <div style="text-align: right; margin-top: 20px;"> <p>Sincerely,</p> <hr style="border: 0.5px solid black;"/> <p>(Title)</p> </div>

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98-107 (Reserved)





**137 Loan Term and Payment Schedules (7 CFR 762.124(b), (c), (d), and (e))****A OL's Repayment Schedule**

**Loan funds or advances on a line of credit used to pay annual operating expenses will be repaid when the income from the year's operation is received, except when the borrower is establishing a new enterprise, developing a farm, purchasing feed while feed crops are being established, or recovering from disaster or economic reverses.**

When repayment is scheduled over a longer period, the borrower's expected income is not  
\*--sufficient security. The lender must secure the loan with additional personal property or--\*  
real estate security for the period of repayment.

**Advances for purposes other than for annual operating expenses will be scheduled for repayment over the minimum period necessary considering the applicant's ability to repay and the useful life of the security, but not in excess of 7 years.**

**B OL/LOC Final Maturity Date**

**The final maturity date for each loan cannot exceed 7 years from the date of the promissory note or line of credit agreement.**

**137 Loan Term and Payment Schedules (7 CFR 762.124(b), (c), (d), and (e)) (Continued)****C LOC Advances**

**All advances on a line of credit must be made within 5 years from the date of the loan Guarantee.**

**D FO Final Maturity Date**

**Each loan must be scheduled for repayment over a period not to exceed 40 years from the date of the note or a shorter period as may be necessary to assure that the loan will be adequately secured, taking into account the probable depreciation of the security.**

**E CL Terms**

**Each loan must be scheduled for repayment over a period not to exceed 30 years from the date of the note or such shorter period as may be necessary to assure that the loan will be adequately secured, taking into account the probable depreciation of the security.**

**F Loan Note Guarantee Balloon Payments**

**Balloon payment terms are permitted on FO, OL or CL subject to the following.**

- **Extended repayment schedules may include equal, unequal, or balloon**  
**\*--installments if needed by a borrower on a guaranteed loan to establish a new enterprise, develop a farm, recover from a disaster or an economic reversal, or reasonably increase cash flow margin to increase working capital reserves and savings, including reasonable savings for retirement and education.--\***
- **Loans with balloon installments must have adequate collateral at the time the balloon installment comes due. Crops, livestock other than breeding livestock, or livestock products produced are not sufficient collateral for securing such a loan.**
- **The borrower must be projected to be able to refinance the remaining debt at the time the balloon payment comes due based on the expected financial condition of the operation, the depreciated value of the collateral, and the principal balance on the loan.**

When conditions warrant, FO, OL, or CL may have repayment schedules that may include equal, unequal, or balloon payments. The period of time between loan origination and a balloon installment must be no shorter than that provided to nonguaranteed customers for similar type transactions.

**137 Loan Term and Payment Schedules (7 CFR 762.124(b), (c), (d), and (e)) (Continued)****G Loan Term to Qualified Alien**

The loan term to a qualified alien may not exceed the number of years of residency that they have been formally granted by the documents described in Exhibit 7. This is to ensure that the operation's viability and guaranteed loan security are not adversely affected during the term of the loan.

**Note:** An applicant may lawfully be admitted to the U.S. for permanent residence per Bureau of Citizenship and Immigration Service Form I-551, commonly known as the Green Card or Alien Registration Card. The Bureau of Citizenship and Immigration Service Form I-551 may have an expiration date. The expiration date is for the card only. Their U.S. permanent resident status is not affected. Unless the applicant acts in an unlawful way that demands the removal of the status or voluntarily give up the status, their permanent resident status remains. Therefore, in these cases, the applicant's residency will be considered permanent.

**H Multiple Notes**

When a lender uses multiple notes for a loan, such as a guaranteed and unguaranteed portion, the loan term for both portions **must** be the same. For example, it is not permitted to have a 5-year term for the unguaranteed portion and a 7-year term for the guaranteed portion.

**138 Insurance Requirements (7 CFR 762.123(a))****A Lender Responsibilities**

**Lenders must require borrowers to maintain adequate property, public liability, and crop insurance to protect the lender and Government's interests.**

\*--General hazard insurance obtained by the applicant, at a minimum, should be the standard type of insurance policy for the locality in which the property is located. Additional coverage should be considered on a case-by-case basis for operations with specialized, high value buildings that constitute a significant portion of the operation's income generating capacity and collateral value. Lenders must require borrowers to maintain insurance coverage throughout the term of the loan unless it subsequently becomes unavailable for a reason such as those indicated in this subparagraph.--\*

Insurance is not required in every situation. When insurance is warranted, lenders should obtain an assignment, including crop insurance.

**138 Insurance Requirements (7 CFR 762.123(a)) (Continued)****A Lender Responsibilities (Continued)**

\*--In certain cases, a lender may opt to not require insurance for reasons such as the following:

- insurance is not sold or available by agents or companies in the area of the applicant's operation
- cost of the insurance premiums exceed the benefit of the policy and/or the value of the property
- value of buildings on the property is minimal.

Justification must be provided in the loan narrative if a lender will not require a certain type of insurance. Specific reasons such as those identified in this subparagraph should be explained in detail. Lenders must also document what other measures they require the applicant to take to protect the security and offset the risk presented by the lack of insurance coverage. If insurance coverage was available at reasonable rates and the lender suffers a loss which could have been mitigated by insurance coverage, the resulting loss claim could be negatively impacted.--\*

**B Crop Insurance**

**By loan closing, applicants must either:**

- **obtain at least the catastrophic risk protection (CAT) level of crop insurance coverage, if available, for each crop of economic significance, as defined by 7 CFR 400.651**
- **waive eligibility for emergency crop loss assistance in connection with the uninsured crop. EM loan assistance under 7 CFR Part 764 of this chapter (3-FLP) is not considered emergency crop loss assistance for purposes of this waiver and execution of the waiver does not render the borrower ineligible for EM loans.**

**Insurance, including crop insurance, also must be obtained as required by the lender or the Agency based on the strengths and weaknesses of the loan.**

### 38 Insurance Requirements (7 CFR 762.123(a)) (Continued)

#### C Flood Insurance

**Applicants must purchase flood insurance if buildings are or will be located in a special flood hazard area as defined by FEMA maps and if flood insurance is available.**

Regulatory agencies require that lenders determine whether a building or structure offered as security for a loan will be located in a special flood hazard area. The lender shall follow their regulator's guidance on documenting and escrowing for flood insurance.

FSA shall not approve a loan guarantee in which security offered for the loan contains a structure located in a special flood hazard area unless flood insurance is obtained under the National Flood Insurance Program. If a structure is located in a special flood hazard area and the community is not participating in the National Flood Insurance Program, the loan cannot be guaranteed. If there are no structures located in a special flood hazard area, the guarantee may be approved.

### 139 Inspection Requirements (7 CFR 762.123(b))

#### A Inspection Requirements

**Before submitting an application the lender must make an inspection of the farm to assess the suitability of the farm and to determine any development that is needed to make it a suitable farm.**

During the inspection, the lender should determine whether the applicant has adequate property, buildings, and equipment to operate a viable farm.

#### B Inspection and Assessment Documentation

A summary of the farm inspection and the lender's assessment of the viability of the operation should be mentioned in the application narrative.

### 140-150 (Reserved)



## 166 Amount and Quality of Security (7 CFR 762.126) (Continued)

**D Lien Position**

**[7 CFR 762.126(e)] All guaranteed loans will be secured by the best lien obtainable. Provided that:**

- **Any chattel-secured guaranteed loan must have a higher lien priority (including purchase money interest) than an unguaranteed loan secured by the same chattels and held by the same lender.**

**Notes:** Any lender, who holds an unguaranteed loan with a first lien on the same collateral proposed as primary security for a guaranteed loan, must subordinate its lien position to the guaranteed loan.

A lender may secure a guaranteed and unguaranteed loan with individual  
\*--personal property items provided they can be identified separately. For--\*  
example, a lender with a first lien on all equipment may subordinate two tractors and a planter to the FSA guaranteed loan, providing sufficient collateral to secure the loan.

- **Junior lien positions are acceptable only if the total amount of debt with liens on the security, including the debt in junior lien position, is less than or equal to 85 percent of the value of the security.**

**Notes:** The security used to determine the 85 percent threshold must be valued using an evaluation or appraisal as described in paragraphs 181 through 183.

\*--Personal property secured guaranteed loans may be secured by a junior lien--\*  
position which meets this requirement when a different lender is involved.

Junior lien positions are acceptable for real estate security when the same or a different lender is involved.

Liens junior to the guaranteed position will not be considered in this limitation.

**LTV Calculation:**

Guaranteed Loan: \$516,800

Security item	Lien Position	Value	Prior Liens	Collateral Value
40 Acres	1 <sup>st</sup>	\$474,000	\$0	\$474,000
5 Acres & buildings	2 <sup>nd</sup>	\$365,000	\$129,443	\$235,557
		\$839,000		\$709,557

$$\begin{aligned}
 \text{LTV} &= \$516,800 + \$129,443 / \$839,000 \\
 &= \$646,243 / \$839,000 \\
 &= .77
 \end{aligned}$$

## 166 Amount and Quality of Security (7 CFR 762.126) (Continued)

**D Lien Position (Continued)**

A subsequent guaranteed loan is not considered junior provided that it is made by the \*--same lender with the same real estate or personal property security and also provided--\* that it is not junior to a nonguaranteed loan. In these cases, the subsequent guaranteed loan will be treated as having an equal lien position as the existing guaranteed loan.

A subsequent unguaranteed loan made by the same or a different lender will be considered junior to the guaranteed loan.

A guaranteed loan and an unguaranteed loan secured by the same real estate security and made by the same lender may be considered to have a shared lien.

**Note:** This applies to a guaranteed and an unguaranteed loan closed at the same time or a guaranteed loan made subsequent to an unguaranteed loan. It does not apply to an unguaranteed loan made subsequent to a guaranteed loan.

If a lender chooses to consider the loans to have a shared lien position, FSA will include a description on the FSA-2232, outlining how proceeds will be distributed if security is liquidated. Language similar to the following should be used:

“This guaranteed FO loan in the amount of \$649,500 is to be closed simultaneously with an unguaranteed loan in the amount of \$570,500. These loans will equally share first lien position on approximately 421 acres of real estate along with leases and improvements. In the event the security is liquidated, the proceeds will be divided pro rata based on the above loan amounts totaling \$1,220,000. If liquidation occurs 53% of the proceeds would be applied onto the guaranteed loan and 47% of the proceeds would be applied onto the unguaranteed loan.”

- **Junior liens on crops or livestock products will not be relied upon for security unless the lender is involved in multiple guaranteed loans to the same borrower and also has the first lien on the collateral.**

**Note:** Junior liens on income security may be taken as security but will be considered to have no collateral value unless the prior lien is securing an FSA-guaranteed loan to the same lender.

- **when taking a junior lien, prior lien instruments will not contain future advance clauses (except for taxes, insurance, or other reasonable costs to protect security), or cancellation, summary forfeiture, or other clauses that jeopardize the Government's or the lender's interest or the borrower's ability to pay the guaranteed loan, unless any such undesirable provisions are limited, modified, waived or subordinated by the lienholder for the benefit of the Agency and the lender.**

**Note:** Provisions on prior lien instruments, such as prepayment penalties, will be considered when evaluating the collateral value of the lender's security on the guaranteed loan.



## 166 Amount and Quality of Security (7 CFR 762.126) (Continued)

**E Additional Security**

**[7 CFR 762.126(a)(2)] The lender will obtain a lien on additional security when necessary to protect the Agency's interest.**

**[7 CFR 762.126(f)] For real estate, additional security or any loan of \$10,000 or less may be secured by the best lien obtainable on real estate without title clearance or legal services normally required, provided the lender believes from a search of the county records that the applicant can give a mortgage on the farm and provided that the lender would, in the normal course of business, waive the title search.**

**Note: This exception to title clearance will not apply when land is to be purchased.**

Title clearance work can be expensive and cost-prohibitive in some cases. Title clearance is not required for loans of \$10,000 or less if the lender feels such a search is not necessary. In addition, FSA does not want to discourage taking additional security. Therefore, any amount of real estate to be taken as additional security that is clearly in excess of what is needed to fully secure the loan does not need title clearance. Both of these exceptions require that the lender conduct an informal check, be reasonably certain that a lien can be perfected, and otherwise follow internal lending policy on title clearance.

When taking additional security:

- the lien position restrictions in subparagraph D do not apply
- FSA must ensure the FSA-2232 includes any required additional security and the expected lien position in addition to all other required security
- \*--for personal property security, the lender will be expected to file and perfect the--\* position(s)
- an appraisal is not required to be completed on additional security, but the lender must provide a statement of estimated value.



**181 General Requirements (7 CFR 762.127(a)) (Continued)****C Loan Servicing (Continued)**

MLP's and SEL's must submit evaluations or appraisals to FSA with requests for transfer and assumptions, debt writedowns, liquidations, and partial releases.

CLP's must submit evaluations or appraisals to FSA with requests for debt writedowns, liquidations, and partial releases.

PLP's must submit evaluations or appraisals to FSA with requests for debt writedowns and final loss claims.

An evaluation or appraisal obtained for servicing actions must be maintained in the lender's loan file.

**D Situations Where Appraisals or Evaluations Are Not Required**

**[7 CFR 762.127(a)(2)] The lender is not required to complete an appraisal or evaluation of collateral that will serve as additional security, but the lender must provide an estimated value.**

Appraisals or evaluations are not required on property to be taken as additional security that is clearly in excess of what is needed to fully secure the loan. The lender shall provide an estimate of value on the Application for Guarantee \* \* \*, as applicable.

**E Appraisal Costs**

**[7 CFR 762.127(a)(3)] Except for authorized liquidation expenses, the lender is responsible for all appraisal costs, which may be passed on to the borrower or transferee in the case of a transfer and assumption.**

Appraisal costs may be deducted from security proceeds when part of authorized liquidation expenses.

**\*--182 Personal Property Appraisals (7 CFR 762.127(b))****A When Are Personal Property Appraisals Required--\***

**[7 CFR 762.127(b)(1)] A current appraisal (not more than 12 months old) of primary chattel security is required on all loans except loans or lines of credit for annual production purposes secured by crops, which require an appraisal only when the guarantee is requested late in the current production year and actual yields can be reasonably estimated. An appraisal is not required for loans of \$50,000 or less if a strong equity position exists.**

**B Techniques**

**[7 CFR 762.127(b)(2)] The appraised value of chattel property will be based on public sales of the same or similar property in the market area. In the absence of such public sales, reputable publications reflecting market values may be used.**

Appraisals on machinery, farm equipment, and livestock will be based on recent auction sales in the local area, where possible. However, if the number and frequency of sales is limited, it may be necessary to consult published prices.

**\*--182 Personal Property Appraisals (7 CFR 762.127(b)) (Continued)--\*****C Reports**

**[7 CFR 762.127(b)(3)] Appraisal reports may be on the Agency's appraisal of chattel property form or on any other appraisal form containing at least the same information.**

**D Appraiser Qualifications**

**[7 CFR 762.127(b)(4)] Chattel appraisals will be performed by appraisers who possess sufficient experience or training to establish market (not retail) values as determined by the Agency.**

**\*--The important qualification for personal property appraisers is the ability to establish the--\*** value of equipment as reflected at auction sales. An appraiser's qualifications can be demonstrated through their years of experience, number of appraisals performed, and any relevant education or training.

**183 Real Estate Security (7 CFR 762.127(c))****A Loans of \$250,000 or Less**

**[7 CFR 762.127(c)(1)] For loans of \$250,000 or less, the lender must document the value of the real estate by applying the same policies and procedures as their non-guaranteed loans.**

Federal regulators published Interagency Appraisal and Evaluation Guidelines detailing both when a lender may use an evaluation of collateral rather than obtain an appraisal, and the standards that an evaluation must meet. An evaluation is an alternative method to establish collateral value. When requested, lenders must be able to support they have met the requirements contained in the Interagency Appraisal and Evaluation Guidelines.

Interagency Appraisal and Evaluation Guidelines direct lenders to establish policies outlining when to obtain an appraisal. These policies should consider the borrower's risk characteristics, the collateral's expected loan-to-value ratio, the type of property involved, and other factors. FSA expects the lender to:

- apply these same policies to guaranteed loans
- request an appraisal when they would do so for nonguaranteed loans, such as when the expected loan-to-value is above their established standards.

Authorized agency officials have the discretion to require an appraisal, but will do so **only** for loans with unusually high risk factors. Justification for this requirement will be clearly documented.--\*

**183 Real Estate Security (7 CFR 762.127(c)) (Continued)****A Loans of \$250,000 or Less (Continued)**

An acceptable evaluation must:

- identify the location of the property
- provide a description of the property, including any improvements and its current and projected use
- provide confirmation that the property was physically inspected and the date of the inspection
- describe the analysis performed and supporting information used to determine the property's market value
- provide information supporting the preparer's experience and other qualifications to complete the evaluation and independence from the loan transaction

**Note:** Qualifications may be demonstrated through years of experience, number of appraisals or evaluations performed, and any other relevant education or experience.

- include an effective date of the evaluation and a signature of the preparer.

When requested, the lender must demonstrate that the method or tools used to determine value is consistent with safe and sound lending practices. This includes supporting the qualifications of the person completing the evaluation or the validity of any automated tool used.

**B Loans Greater Than \$250,000**

**[7 CFR 762.127(c)(2)] For loans greater than \$250,000, the lender must document the \*--value of real estate using a current appraisal (not more than 18 months old) completed by a State Certified General Appraiser. Real estate appraisals must be completed in accordance with USPAP. Restricted reports as defined in USPAP are not acceptable. The Agency may allow an appraisal more than 18 months old to be used only if documentation provided by the lender reflects each of the following:**

- (i) Market conditions have remained stable or improved based on sales of similar properties,**
- (ii) The property in question remains in the same or better condition, and**
- (iii) The value of the property has remained the same or increased.**

**Note:** Appraisals more than 18 months old may be used for all loans, including loans of \$250,000 or less.

PLP lenders must maintain documentation in their loan file supporting these criteria. The loan narrative will include a discussion supporting use of an appraisal over 18 months.--\*

## 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 \$2,251,000.

The total outstanding direct and guaranteed FO, CL, and SW principal balance cannot exceed \$2,251,000.

The total outstanding direct and guaranteed OL principal balance cannot exceed \$2,251,000.

The total combined outstanding direct and guaranteed FO, CL, SW, and OL principal balance cannot exceed \$2,851,000.

The total combined outstanding direct and guaranteed FO, CL, SW, OL, and EM principal balance cannot exceed \$3,351,000.

**Notes:** The maximum loan levels established in this subparagraph are for FY 2025.

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

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

#### B Submitting FSA-2231 to the Approval Official

When the loan is within the authorized agency official's approval authority, the authorized agency official will execute FSA-2231. Once FSA-2231 is executed, the authorized agency official will submit FSA-2231 to SharePoint according to instructions provided in this subparagraph.

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
- \* \* \*
- Application for Guarantee for all applicants

## 244 Loan Approval (7 CFR 762.122) (Continued)

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

\* \* \*

- 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 and requests obligation, the authorized agency official:

- --will submit FSA-2231 to SharePoint for all dispositions (approved, rejected, and withdrawn)--\*
- may then proceed to execute all other loan-related documents, unless otherwise specified by the loan approval official.

The following are instructions for submitting FSA-2231 to SharePoint.

Step	Action
1	Go to <a href="https://usdagcc.sharepoint.com/sites/FSA-DAFLP/SitePages/glm.aspx">https://usdagcc.sharepoint.com/sites/FSA-DAFLP/SitePages/glm.aspx</a> .
2	Click the "FSA-2231 Submittal Tool" icon.
3	Enter the appropriate information for each of the required fields.
4	Click the attachment icon to upload the completed FSA-2231.
5	CLICK "Submit" to complete the submission of FSA-2231.

### 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 will 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 will 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.



**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**

**Note:** An annual farm visit report may not necessarily include a collateral inspection. A collateral inspection should be completed as often as deemed necessary according to subparagraph 264 A.

- 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 personal property.
Term Personal Property--*	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 personal property 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.

Submission Summary	
Real Estate	Either a summary of lender's analysis or summary as to why financial strength makes analysis unnecessary.
*--Term Personal Property--*	Either a summary of lender's analysis or summary as to why financial strength makes analysis unnecessary.
Lines of Credit	Certification of the following: <ul style="list-style-type: none"> <li>• cash flow was obtained</li> <li>• borrower is in compliance with Lender's Agreement</li> <li>• previous year's income, loan funds, and security proceeds are accounted for.</li> </ul>

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.

## 342 Lender's Claims for Expenses and Estimated Losses in Reorganization Bankruptcy Proceedings (7 CFR 762.148) (Continued)

### B Claims for Estimated Losses of Principal and Interest in Reorganizations

Lenders may submit a claim for losses of principal and interest sustained as a result of a reorganization plan in a bankruptcy reorganization proceeding. Lenders may have had an estimated loss claim approved by FSA before the reorganization bankruptcy filing. These lenders may have to submit a revised loss claim (bankruptcy type 05) as a result of the reorganization plan.

- Claims should be submitted using FSA-2254 to the authorized agency official. The authorized agency official shall review the claim using FSA-2295 and either request modifications by the lender or forward the claim to SED with recommendations and supporting documents as necessary.
- **At confirmation, the lender may submit an estimated loss claim (bankruptcy type 05) upon confirmation of the reorganization plan in accordance with the following:** The initial estimated loss claim (bankruptcy type 05) must include a copy of the confirmed bankruptcy plan and a memorandum clearly indicating the plan's confirmation date, the date the plan is to go into effect, and any other relevant information concerning the loan and the loss claim. Supporting documentation must be supplied immediately following confirmation of the plan.

**\*--Note:** FSA will submit FSA-2249 and a copy of the confirmed bankruptcy plan to the RD Business Center, Guaranteed Commercial Branch, with any Type 05 loss--\* claim to adjust to the new loan amount.

- When a confirmed plan extends the term of a guaranteed loan beyond the agency's maximum allowable terms, it does not extend the term of the guarantee. When preparing FSA-2249, agency officials will only extend the terms of the loan according to subparagraph 326 B.
- During the bankruptcy, interest accrual coverage begins with the filing date and continues through the plan confirmation date and will be paid as part of the estimated (bankruptcy type 05) loss.
- For subsequent bankruptcy reorganization filings, FSA will cover interest accrual on the portion of the debt determined to have become unsecured because of the multiple filings, but only if the initial bankruptcy was filed within 150 calendar days of default or the lender submitted an estimated loss claim within 150 calendar days of default.
- **The estimated loss claim (bankruptcy type 05) will cover the guaranteed percentage of the principal and accrued interest written off, plus any allowable costs incurred as of the effective date of the plan.**
- **The lender will submit supporting documentation for the loss claim.**
- **The estimated loss (bankruptcy type 05) payment may be revised as consistent with a court-approved reorganization plan.**

### 342 Lender's Claims for Expenses and Estimated Losses in Reorganization Bankruptcy Proceedings (7 CFR 762.148) (Continued)

- The estimated loss (bankruptcy type 05) claim may be revised after a court-approved partial liquidation of the collateral. When this occurs, the revised claim will be based upon the actual value received for the liquidated collateral as long as the lender made every effort to ensure that maximum proceeds were received. In these cases, FSA will pay the lender additional interest on that portion of debt that is determined to be unsecured on the bankruptcy (type 05) loss claim during and up to 45 calendar days after \*--the court order for the personal property-secured portion of the debt and 90 calendar--\* days for real estate.

#### C Claims for Estimated Interest-Only Losses in Reorganizations

**Lenders may submit an estimated loss claim for interest only after confirmation of the reorganization plan in accordance with the following.**

- Claims should be submitted using FSA-2254 to the authorized agency official.
- The interest-only estimated loss claim can be approved only after the confirmation date of the reorganization plan.
- The initial interest-only estimated loss claim may include a claim for interest accrued to the effective date of the reorganization plan (the date when the plan becomes effective). This date may be later than the date the plan is approved by the court (the confirmation date). This loss will be paid as of the plan's effective date with no additional interest accrual after that date.
- If the loan has a variable rate that remains at or below the court-ordered rate during the claim period, no loss claim may be submitted.
- Subsequent claims for interest-only estimated losses covering 1-year periods following the effective date of the reorganization plan may be submitted annually, and will be processed on the anniversary date of the effective date of the reorganization plan or immediately thereafter.
- **The loss claims may cover interest losses sustained as a result of court-ordered, permanent interest rate reduction.**
- **The loss claims will be processed annually on the anniversary date of the effective date of the reorganization plan.**

**Note:** Loss claims may also be processed immediately following the payment due date established in the reorganization plan and on that date annually thereafter.

- **If the borrower performs under the terms of the reorganization plan, annual interest reduction loss claims will be submitted on or near the same date, beyond the period of the reorganization plan.**

**\*--Lender's Loan Narrative**

**B Eligibility (Continued)**

Does or is the applicant:

- a U.S. citizen, a U.S. non-citizen national, or a qualified alien under applicable Federal immigrations laws?

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

- meet all the requirements of prior FSA debt forgiveness?
- not delinquent on any Federal Debt?
- not have any outstanding judgments obtained by a Federal Agency?
- have the legal capacity to incur the obligations of the loan?
- have any past convictions of planting, cultivating, growing, producing, harvesting, storing, trafficking, or possessing a controlled substance within the last 5 crop years?

**C Loan Proposal**

<b>2-FLP References</b>	
Subparagraphs: 66 C 67 A 69 B	Paragraphs: 135 (interest rate) 137 (loan term and payment schedules) 122-123.5 (loan purposes)

The lender must adequately describe the proposed loan that includes a description of:

- loan type, amount, term, rate, and purpose

**Note:** For loans containing a balloon payment, include loan renewal conditions.

- the original loan purpose if the loan request is for refinancing
- other proposed loans or loan restructuring (such as non-guaranteed, FSA direct loans, or other) including loan type, amount, term, rate, purpose, and security
- Conservation Plan or Forest Stewardship Management Plan and the need for a qualifying conservation practice (CL only).--\*

## Lender's Loan Narrative

### C Loan Proposal (Continued)

**Example:** Because of the dry crop year with reduced yield/income and the customer's inability to cover all expenses and debt payments, XYZ Savings Bank is requesting a \$345,000 guaranteed operating loan to refinance \$100,000 in carryover operating debt, \$100,000 in machinery loans from outside sources, and \$145,000 existing machinery/livestock loans. This loan will be fixed at 4.5 percent for 7 years.

**Example:** Savings and Loan Federal Bank is requesting a \$700,000 guaranteed line of credit to finance farm operating expenses for the next 5 years. This loan will be a variable rate loan at 5.5 percent for 5 years. At the end of each operating cycle, the credit will be reviewed to determine that cash flow is feasible before funds will be advanced for the next year.

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

### D Collateral Analysis

2-FLP References	
Subparagraphs: 66 C 67 A 69 B	Paragraphs: 166 (amount and quality of security) 181 (appraisal requirements) *--182 (personal property security appraisal requirements)--* 183 (real estate security appraisal requirements)

The lender must adequately describe security for proposed loan, including:

- assessment of the adequacy of the security being offered to secure the proposed loan (both primary and additional)
- explanation of how the ratios for the operation meet or do not meet internal standards by documenting strengths and weaknesses of the operation
- additional details or clarification on the security value and proposed lien position not apparent on the loan application
- explanation of the method used to establish the market value of the security - evaluation or appraisal and when it was completed



## **Lender's Loan Narrative**

### **D Collateral Analysis (Continued)**

- description of remaining useful life for highly specialized buildings
- explanation of how junior liens meet the 85 percent security rule (see 2-FLP, subparagraph 166 D).

**Example:** Primary security for the proposed loan is a first lien position on all machinery, equipment, and livestock. The bank will require 3<sup>rd</sup> party appraisals on all items prior to closing to support loan requirements. Additional security offered for the loan proposal is a second lien position on the 160 acres “The south farm” subject to the existing bank loan of \$150,000. An internal evaluation will be completed on the additional security.

<b>Less detail may be required if...</b>	<b>More detail may be required if...</b>
first lien	shared or junior lien
real estate security	*--personal property or crop security--*

### **E Capacity Analysis**

<b>2-FLP References</b>	
Subparagraphs: 66 C 67 A 69 B 122 E (OL debt refinance) 123 B (FO debt refinance)	Paragraphs: 151-154 (feasibility)

The lender must thoroughly support how the applicant meets their repayment capacity standards, including an explanation or discussion of:

- the method used to determine how repayment capacity standards were met
- how the ratios for the operation meet or do not meet internal standards by documenting strengths and weaknesses of the operation
- the applicant's projected cash flow (including deviations from previous history, strengths and weaknesses, addressing any changes in the pro-forma capacity not shown in the cash flow details)
- the source for the information, adjustments made, and any considerations made for changes in the operation or changes in the farm economy if capacity analysis was based on actual cash flow history (CLP and PLP lenders only)

**\*--Lender's Loan Narrative**

**E Capacity Analysis (Continued)**

- the lender's standards and how the applicant meets those standards if a credit scorecard model was used (PLP lenders if allowed in CMS)
- assumptions made and basis for commodity prices and yields used to develop the cash flow budget
- why rescheduling or alternative payment schedules are not being offered (if refinancing debt held by lender).

**Example:** Joe and Jane Farmer's repayment capacity is derived from three prior years tax returns, and one internally prepared 11-month profit and loss statement. Tax returns in all three years show large losses from the Sugar Co-op deductions and patronage loss. These were tax events and not cash events. The tax returns were reconciled and then sugar deductions and losses were added back. The debt service coverage ratio (DSCR) for 2016 was just above 5. The 2017 DSCR was above 1 at 1.46. The 2018 DSCR was .27 with beet income the main driver for farm income loss. Just like in 2019, there was a large amount of crop inventory carried over from 2018. At the end of 2018, \$224,000 in crop inventory was carried over into 2019. If those crops were sold at end of 2018 prices, the 2018 DSCR would have been 1.89.

The internal 2019 numbers show the additional farm ground taken on resulting in a 1.15 DSCR. Only expenses that had been paid were used on internal numbers. Last year when this credit was reviewed, the customer had projected a .46 DSCR. Actual DCSR was .27, so their projections were .19 higher. Those projections were actual end of 2019 numbers as of 12/1/2019. The lender concludes that 2019 numbers are accurate and estimates a 1:1 DSCR for 2019. An additional \$117,893 in term debt was due before end of year 2019. On the 12/1/2019 balance sheet provided to the lender, there were \$309,870 in accounts receivable and \$297,000 in accounts payable, resulting in \$12,870 additional income. That, along with crop inventory of \$539,725, was more than enough to service all debt.

Projections for 2020 have a 1.18 DSCR which exceeds the bank's 1.15 capacity standard. This includes sugar beet income of \$35/ton, which is a deviation from past years because full payment of beets has not happened. All commodity prices used on cash flow are based on the bank's established prices. Only bean prices have been modified to \$28 based on the customers full contract with Northeastern Bean. An FSA guarantee is required because of capacity shortfall history from sugar beet underpayment. Positive cash flow for 2020 is \$158,245.46 on 2020 cash flow.--\*

## Lender's Loan Narrative

### I Sample Lender Narrative (Continued)

#### Collateral:

##### Describes

- ✓ The primary security for the loan
- ✓ Details about additional security
- ✓ Appraised values
- ✓ When appraisals were completed
- ✓ Any items not to be included as security
- ✓ Prior liens
- ✓ Non-essential/personal assets to be included in security

Sunshine Farm and Ranch meets the security requirements for internal lending standards of 70 percent. For additional collateral, the lender is requiring all personal ownership in real estate be pledged as security.

- \*--Both loans will be secured by a first lien on all farm personal property. The line of credit will--\* have first priority lien on the crops and calves to be produced. Sunshine Farm and Ranch owns the farm equipment used in the operation, except for 2 sprinklers owned individually by Bob. That debt owed to We R Irrigation is included in the cash flow. An appraisal was completed by Ralph Appraiser during a field visit on XX-XX-XXXX, estimating \$490,830 in equipment market value. The cattle were inspected at the same time and valued at \$1,400/pair or \*--\$1,000/cow. Currently, they own 4 bulls valued at \$2,000/each. Refer to the personal property appraisal for additional specifics. There are no plans for capital purchases. The--\* collateral offered is adequate to secure the loan at a 70 percent Loan/Appraised Value. Rural Town Bank's underwriting standard is 70 percent, which requires that partners pledge their interest in real estate, subject to prior liens in place to Rural Town Bank. All loans will be cross collateralized.

#### Capital:

##### Describes

- ✓ What financial measures were taken into consideration
- ✓ How the new debt affects the operation
- ✓ Post-Close balance sheet analysis
- ✓ Non-essential assets

Given the past financial issues and carryover debt, Sunshine Farm and Ranch's current ratio of 50 percent and debt to asset ratio of 72 percent do not meet Rural Town Bank's internal lending standards for capital, making restructuring necessary.

**\*--Lender's Loan Narrative**

**I Sample Lender Narrative (Continued)**

The partnership balance sheet reflects a current ratio of 50 percent (\$100,000 Current Assets/\$200,000 Current Liabilities); however, this will correct itself shifting carry-over debt to intermediate thus creating a longer pay-out. Debt to asset ratio of 72 percent is higher than preferred because of the carry-over debt taken. After restructuring, the balance sheet will reflect a current ratio of 113 percent which is lower than Rural Town Bank's internal lending standards allow but within the requirements for a new loan with a FSA guarantee. Separate balance sheets for the individuals are enclosed for test for credit determinations and information on reserve equity but have not been included in our analysis.

**Conditions & Servicing Plan:**

Describes:

- ✓ Financial reporting requirements
- ✓ Borrower supervision requirements
- ✓ Name, SSN, address of any co-signors
- ✓ Any limitations or conditions

Servicing plan: Rural Town Bank's servicing plan includes annual farm visits and requires the borrower to submit annual financial statements, cash flow projection, and tax returns. If the borrower can't make all of their debt payments, an interim balance sheet and cash flow will be developed. LOC advances will be requested either by email or phone and itemized closely to document the expenses, supported by repair, fuel, fertilizer, seed, chemical and feed statements.

Additional conditions are:

1. No capital purchases without lender approval.
2. Assignment of government payments.
3. No advances for future years' operating until the lender has completed an analysis of the previous year or accounted for inventory and a feasible cash flow has been projected.
4. Assignment of MPCl policy to the Bank.
5. Subject to prior liens, Bob and Anne Sunshine and Joe and Mary Sunshine will pledge their real estate as collateral for the loans.
6. All partners and their spouses will sign the security documents.

**Interim Guidance: Documentary Evidence of Status as a Qualified Alien (Continued)**

**G Cuban/Haitian Entrant**

- \*USCIS Form I-551 (Alien Registration Receipt Card, commonly known as a “green card”) with the code CU6, CU7, or CH6 Unexpired temporary I-551 stamp in foreign passport or on
- \*USCIS Form I-94 with the code CU6 or CU7; or
- USCIS Form I-94 with stamp showing parole as “Cuba/Haitian Entrant” under Section 212(d)(5) of the INA.

**H Alien Who Has Been Battered or Subjected to Extreme Cruelty**

Guidance as to the requirements that must be met for an alien to fall within this category of qualified alien is set forth in DOJ’s Notice of Interim Guidance. Note that Title IV, as amended by the Illegal Immigration Reform and Immigrant Responsibility Act of 1996, contains provisions requiring that, upon the effective date of the new affidavit of support (required under section 213A of the Act), when determining eligibility for federal means-tested public benefits and the amount of such benefits to which an alien is entitled, the income and resources of the alien be deemed to include those of any person executing an affidavit of support on behalf of the alien and that person’s spouse. Certain exceptions are made for indigent qualified aliens and for qualified aliens who (or whose children) have been battered or subjected to extreme cruelty in the U.S. by a spouse, parent or member of the spouse or parent’s family and for qualified alien children whose parents have been subjected to such abuse.

**I Expired or Absent Documentation**

If an applicant presents expired documents or is unable to present any documentation evidencing his or her immigration status, refer the applicant to the local USCIS office to obtain documentation of status. In unusual cases involving applicants who are hospitalized or medically disabled, or who can otherwise show good cause for their inability to present documentation, and for whom securing such documentation would constitute an undue hardship, if the applicant can provide an alien registration number, you may file USCIS Form G-845 and Supplement, along with the alien registration number and a copy of any expired USCIS document presented, with the local USCIS office to verify status. As with any documentation of immigration status, you should confirm that the status information you receive back from USCIS pertains to the applicant whose identity you have verified.

**J Receipt for Replacement Document**

If an applicant presents a receipt indicating that he or she has applied to USCIS for a replacement document for one of the documents identified above, file USCIS Form G-845 and Supplement along with a copy of the receipt with the local USCIS office to verify status. Upon return receipt of information from USCIS, confirm that it pertains to the applicant whose identity you have verified. You should ask to see the replacement document at a later date.

**Interim Guidance: Documentary Evidence of Status as a Qualified Alien (Continued)**

**K Applicants With Disabilities and Nondiscrimination**

If an applicant has a disability that limits the applicant's ability to provide the required evidence of immigration status (e.g. mental retardation, amnesia, or other cognitive, mental or physical impairment), you should make every effort to assist the individual to obtain the required evidence. In addition, you should not discriminate against applicants on the basis of race, \*--national origin, sex, religion, age or disability.--\*

**Interim Guidance: Documentary Evidence of Status as a U.S. Non-Citizen National (Continued)**

**A. Collective Naturalization:** If the applicant cannot present one of the documents listed in A or B above, the following will establish U.S. citizenship for collectively naturalized individuals:

- (1) Puerto Rico:** Evidence of birth in Puerto Rico on or after April 11, 1899 and the applicant's statement that he or she was residing in the U.S., a U.S. possession or Puerto Rico on January 13, 1941; or Evidence that the applicant was a Puerto Rican citizen and the applicant's statement that he or she was residing in Puerto Rico on March 1, 1917, and that he or she did not take an oath of allegiance to Spain;
- (2) U.S. Virgin Islands:** Evidence of birth in the U.S. Virgin Islands, and the applicant's statement of residence in the U.S., a U.S. possession or the U.S. Virgin Islands on February 25, 1927; The applicant's statement indicating resident in the U.S. Virgin Islands as a Danish citizen on January 17, 1917, and residence in the U.S., a U.S. possession or the U.S. Virgin Islands on February 25, 1927, and that he or she did not make a declaration to maintain Danish citizenship; or Evidence of birth in the U.S. Virgin Islands and the applicant's statement indicating residence in the U.S., U.S. possession or territory or the Canal Zone on June 28, 1932.
- (3) Northern Mariana Islands (NMI) (formerly part of the Trust Territory of the Pacific Islands (TTPI)):** Evidence of birth in NMI, TTPI citizenship and residence in NMI, the U.S., or a U.S. territory or possession on November 3, 1986, (NMI local time) and the applicant's statement that he or she did not owe allegiance to a foreign state on November 4, 1986 (NMI local time); Evidence of TTPI citizenship, continuous residence in NMI since before November 3, 1981 (NMI local time), voter registration prior to January 1, 1975, and the applicant's statement that he or she did not owe allegiance to a foreign state on November 4, 1986 (NMI local time); or Evidence of continuous domicile in NMI since before January 1, 1974, and the applicant's statement that he or she did not owe allegiance to a foreign state on November 4, 1986 (NMI local time). Note: If a person entered NMI as a nonimmigrant and lived in NMI since January 1, 1974, this does not constitute continuous domicile and the individual is not a U.S. citizen.

**B. Derivative Citizenship:** If the applicant cannot present one of the documents listed in A or B above, you should make a determination of derivative U.S. citizenship in the following situations:

- (1) Applicant born abroad to two U.S. citizen parents:** Evidence of the U.S. citizenship of the parents and the relationship of the applicant to the parents, and evidence that at least one parent resided in the U.S. or an outlying possession prior to the applicant's birth.
- (2) Applicant born abroad to a U.S. citizen parent and a U.S. non-citizen national parent:** Evidence that one parent is a U.S. citizen and that the other is a U.S. non-citizen national, evidence of the relationship of the applicant to the U.S. citizen parent, and evidence that the U.S. citizen parent resided in the U.S., a U.S. possession, American Samoa or Swain's Island for a period of at least one year prior to the applicant's birth.

**Interim Guidance: Documentary Evidence of Status as a U.S. Non-Citizen National (Continued)**

- (3) Applicant born out of wedlock abroad to a U.S. citizen mother:** Evidence of the U.S. citizenship of the mother, evidence of the relationship to the applicant and, for births on or before December 24, 1952, evidence that the mother resided in the U.S. prior to the applicant's birth or, for births after December 24, 1952, evidence that the mother had resided, prior to the child's birth, in the U.S. or a U.S. possession for a period of one year.
- (4) Applicant born in the Canal Zone or the Republic of Panama:** A birth certificate showing birth in the Canal Zone on or after February 26, 1904, and before October 1, 1979, and evidence that one parent was a U.S. citizen at the time of the applicant's birth; or A birth certificate showing birth in the Republic of Panama on or after February 26, 1904, and before October 1, 1979, and evidence that at least one parent was a U.S. citizen and employed by the U.S. government or the Panama Railroad Company or its successor in title.

**C. All other situations where an applicant claims to have a U.S. citizen parent and an alien parent, or claims to fall within one of the above categories but is unable to present the listed documentation:**

- (1)** If the applicant is in the U.S., refer him or her to the local USCIS office for determination of U.S. citizenship;
- (2)** If the applicant is outside the U.S., refer him or her to the State Department for a U.S. citizenship determination.
- (3) Adoption of Foreign-Born Child by U.S. Citizen:** If the birth certificate shows a foreign place of birth and the applicant cannot be determined to be a naturalized citizen under any of the above criteria, obtain other evidence of U.S. citizenship; Since foreign-born adopted children do not automatically acquire U.S. citizenship by virtue of adoption by U.S. citizens, refer the applicant to the local USCIS district office for a determination of U.S. citizenship if the applicant provides no evidence of U.S. citizenship.
- (4) U.S. Citizenship By Marriage:** A woman acquired U.S. citizenship through marriage to a U.S. citizen before September 22, 1922. Ask for: Evidence of U.S. citizenship of the husband, and evidence showing the marriage occurred before September 22, 1922. Note: If the husband was an alien at the time of the marriage, and became naturalized before September 22, 1922, the wife also acquired naturalized citizenship. If the marriage terminated, the wife maintained her U.S. citizenship if she was residing in the U.S. at that time and continued to reside in the U.S.
- (5) Applicants With Disabilities and Nondiscrimination:** If an applicant has a disability that limits the applicant's ability to provide the required evidence of citizenship or nationality (e.g., mental retardation, amnesia, or other cognitive, mental or physical impairment), you should make every effort to assist the individual to obtain the required evidence. In addition, \*--you should not discriminate against applicants on the basis of race, national origin, sex,--\* religion, age or disability. See Nondiscrimination Advisory, Attachment 2 to Interim Guidance.