

UNITED STATES DEPARTMENT OF AGRICULTURE

Farm Service Agency
Washington, DC 20250

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

Amendment 71

Approved by: Deputy Administrator, Farm Loan Programs



Amendment Transmittal

A Reasons for Amendment

Added and updated various CFR references throughout handbook.

Subparagraphs 50 A and C have been amended to remove the branch offices for agency approval related to CLP status.

Subparagraphs 51 C, 52 H, 55 E, and 267 J have been amended to add a reference for major and minor deficiencies.

Subparagraph 52 D has been amended to update loan narrative requirements and appraisal thresholds in the sample CMS.

Subparagraph 52 H has been amended to define major and minor deficiencies in administrative guidance and remove existing administrative guidance.

Subparagraph 54 C has been amended to add details regarding deficiencies and delinquency rates.

Paragraph 56 has been added to include the new PLP Delegated Authorities

Subparagraph 65 A has been updated to reference the submission of applications through electronic means.

Subparagraph 69 A has been amended to give further directions on requests for more information on PLP applications.

Subparagraph 69 B has been amended to change the expectations for PLP lender narratives based on the addition of delegated authorities.

Subparagraphs 83 D and 84 A have been amended to reflect updated processing time expectations for applications from PLP lenders.

Subparagraphs 108 I and J have been amended to include language on delegated authority for PLP lenders

Amendment Transmittal (Continued)

A Reasons for Amendment (Continued)

Subparagraph 138 B has been amended to correct CFR language and policy regarding crop insurance requirements.

Subparagraph 154 B has been amended to include language on delegated authority for PLP lenders and provide updated guidance on financial feasibility documentation in the lender's narrative.

Subparagraphs 166 D, 181 A, 247 A and paragraph 182 have been amended to change references from chattel to personal property.

Subparagraph 168 B has been amended to include additional guidance on how to secure loans with amortizations greater than 7 years.

Subparagraph 169 B has been added to include language on delegated authority for PLP lenders and provide updated guidance on security documentation in the lender's narrative.

Subparagraphs 183 A and B have been amended to update the real estate evaluation threshold.

Subparagraphs 208 A and B, and 209 A have been amended to replace references to 7 CFR Part 799 with 7 CFR Part 1b.

Subparagraph 208 D has been amended to include a reference to compliance with 7 CFR Part 12.

Subparagraph 244 A has been amended to update the FY 2027 guaranteed loan limits.

Subparagraph 244 C has been amended to reference notifications and documentation by the agency being delivered electronically.

Subparagraph 262 A has been amended to reference notifications and documentation being delivered electronically by lenders and the agency.

Subparagraph 265 A has been amended to provide new guidance to lenders on conducting annual analysis of borrower's financial condition.

Subparagraph 265 B has been amended to provide new guidance to non-PLP lenders on conducting financial analysis of borrowers.

Subparagraph 265 C has been amended to provide updated guidance on documents submitted by SEL and MLP lenders in support of annual analysis.

Subparagraph 265 D has been removed because the content has been incorporated into subparagraphs 265 A and B.

Subparagraph 265 D (formerly E) has been amended to provide updated guidance on documents submitted by CLP lenders in support of annual analysis.

Subparagraph 267 B has been amended to update the frequency of PLP lender file reviews.

Subparagraph 267 C has been amended to designate that State Offices are responsible for coordinating PLP lender file reviews not conducted by the National Office.

Amendment Transmittal (Continued)

A Reasons for Amendment (Continued)

Subparagraph 282 A has been amended to allow additional flexibility for SEL and CLP lenders to make additional unguaranteed loans under certain circumstances.

Subparagraph 359 D has been amended to update policy regarding the impact of additional loans and include a reference to the requirements of 762.146 (subparagraph 282 A).

Subparagraph 360 F has been amended to include language on the negligent origination of delegated authority accounts and updated references from chattel to personal property.

Subparagraph 363 D has been amended to change a reference to Exhibit 17 with FSA-2263, add guidance on how to handle situations where certified mail is returned, and change a reference to Exhibit 19 with FSA-2264.

Exhibit 2 has been amended to:

- add definitions for:
 - adequate security
 - appraisal
 - personal property security definition
 - real estate evaluation
 - valuation
- update the definitions for:
 - administrative appraisal review
 - lien
 - market value
 - potential liquidation value
 - security value
- remove the definition for chattel security.

Exhibit 4.5 has been amended to update the Lender's Loan Narrative to reference Non-PLP Lender's

Exhibit 4.6 has been added to provide guidance on PLP Lender's Loan Narrative.

Exhibit 16 has been amended to provide additional guidance on loss claim reductions and supporting references.

Exhibit 17 has been withdrawn because it has been replaced by FSA-2263.

Exhibit 19 has been withdrawn because it has been replaced by FSA-2264.

Exhibit 23 has been added to provide guidance on identifying major and minor deficiencies during lender reviews.

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18 IA Program**A Requirements**

In certain situations, lenders may use the IA Program to assist a borrower in qualifying for an FSA-guaranteed loan. Under the IA Program, FSA will subsidize 4 percent of the interest rate on loans to qualifying borrowers.

***--Note:** On November 22, 2011, an FR Notice was published announcing that, until further notice, FSA is no longer accepting applications for guaranteed loans under the IA Program because of a lack of funding. Guaranteed loan applications without IA will continue to be accepted. The FR Notice does **not** invalidate existing IA agreements. Existing IA agreements will be honored, claims will be paid as agreed, and all eligible servicing options can be pursued.--*

B Additional Information

For additional information on the IA Program, see Part 9.

19 Full Faith and Credit Applicability and Exceptions (7 CFR 762.103)**A Full Faith and Credit Applicability**

***--[7 CFR 762.103(a)] The loan guarantee constitutes an obligation supported by the--*
full faith and credit of the United States.**

B Exceptions for Fraud and Misrepresentation

***--[7 CFR 762.103(a)] The Agency may contest the guarantee only in cases of fraud or--*
misrepresentation by a lender or holder, in which the lender or holder:**

- had actual knowledge of the fraud or misrepresentation at the time it became the lender or holder**
- participated in or condoned the fraud or misrepresentation.**

C Exceptions for Lender Violations

***--[7 CFR 762.103(b)] The loan guarantee cannot be enforced by the lender, regardless--*
* of when the Agency discovers the violation, to the extent that the loss is a result of
any of the following:**

- violation of usury laws**
- negligent servicing**
- failure to obtain the required security**
- failure to use loan funds for purposes specifically approved by the Agency.**

D Effects of Full Faith and Credit With Holders

***--[7 CFR 762.103(c)] The guarantee and right to require purchase will be directly--*
enforceable by the holder even if either of the following occurred:**

- the loan guarantee is contestable based on the lender's fraud or misrepresentation**
- the loan note guarantee is unenforceable by the lender based on a lender violation.**

Part 3 General Program Requirements**31 ECOA (12 CFR 202.9(b)(1))****A Purpose**

FLP must comply with the provisions of ECOA and the implementing regulations of the Federal Reserve System published in 12 CFR Part 202.

[12 CFR 202.9(b)(1) 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 into 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, DC 20580.

ECOA prohibits discrimination against recipients of Federal financial assistance in the delivery of services to the public. FSA is required to comply with nondiscriminatory and *--equal opportunity practices in guaranteed loan making and servicing actions.--*

B Further Explanations

See 1-FLP, paragraph 41 for explanations of ECOA, USDA Nondiscrimination Policy, and USDA Nondiscrimination Statements.

--32 Conflict of Interest (7 CFR 762.110(i))*A Definition and Reporting**

[7 CFR 762.110(i)(1)] When a lender submits the application for a guaranteed loan,--* the lender will inform the Agency in writing of any relationship which may cause an actual or potential conflict of interest.

--[7 CFR 762.110(i)(2)] Relationships include:--

- **the lender or its officers, directors, principal stockholders (except stockholders in a Farm Credit System institution that have stock requirements to obtain a loan), or other principal owners having a financial interest (other than lending relationships in the normal course of business) in the applicant or borrower**
- **the applicant or borrower, a relative of the applicant or borrower, anyone residing in the household of the applicant or borrower, any officer, director, stockholder or other owner of the applicant or borrower holds any stock or other evidence of ownership in the lender (except stockholders in a Farm Credit System institution that have stock requirements to obtain a loan)**
- **the applicant or borrower, a relative of the applicant or borrower, or anyone residing in the household of the applicant or borrower is an Agency employee**
- **the officers, directors, principal stockholders (except stockholders in a Farm Credit System institution that have stock requirements to obtain a loan), or other principal owners of the lender have substantial business dealings (other than in the normal course of business) with the applicant or borrower**
- **the lender or its officers, directors, principal stockholders, or other principal owners have substantial business dealings with an Agency employee.**

The lender must furnish additional information to the Agency upon request.

The Agency will not approve the application until the lender develops acceptable safeguards to control any actual or potential conflicts of interest.

--32 Conflict of Interest (7 CFR 762.110(i)) (Continued)--**B FSA Employees**

An FSA employee will not participate, directly or indirectly, in deliberations on, or determination of, any matter affecting the application or servicing of a guaranteed (or direct) loan to any relative of the employee, any person residing in the employee's household, anyone with continuing business dealings with the employee, or any entity controlled by the employee.

An FSA employee will also not participate, directly or indirectly, in deliberations on, or determination of, any matter affecting the application or servicing of a guaranteed loan submitted by a lender who employs (in a lending capacity) any relative of the employee, any person residing in the employee's household, or anyone with continuing business dealings with the employee.

Note: This provision applies when the lender's employee in question is involved in the lending process of FSA guaranteed loans or is a member of the lender's management team overseeing their FSA guaranteed loan portfolio. It is not considered to be a conflict of interest if the lender's employee works in a nonmanagement, administrative capacity or has no involvement in the FSA guaranteed lending process.

FSA employees should notify their immediate supervisor of any potential conflict of interest with an applicant or an employee of a guaranteed lender.

Any processing or servicing activity conducted according to this subparagraph is subject to 3-PM provisions. When an FSA employee has a conflict of interest with an employee of a lender as outlined in this subparagraph, the same guidance from 3-PM should be followed as if the FSA employee had a conflict of interest with an applicant.

33 Review and Appeals (7 CFR 762.104)**A Appeal Rights**

7 CFR Part 11 (the National Appeals Division regulation) stipulates that an adverse guaranteed loan approval or loan servicing decision directly affects the applicant/borrower and grants appeal rights to the applicant/borrower. The lender is defined as an "interested party", without appeal rights.

Because an adverse decision of a liquidation plan, interest assistance claim, or loss claim directly affects the lender, the lender will be provided with appeal rights when making an adverse decision in these situations.

***--[7 CFR 762.104(a)] A decision made by the lender adverse to the borrower is not a--* decision by the Agency, whether or not concurred in by the Agency, and may not be appealed.**

33 Review and Appeals (7 CFR 762.104) (Continued)

B Handling Appeals

***--[7 CFR 762.104(c)] FSA appeals will be handled in accordance with parts 11 and 780--* of this title (1-APP).**

1-APP, subparagraph 75 C states if, for any reason, an interested party (such as a guaranteed lender) is **not** given notice of an appeal to NAD, FSA's representative should bring the omission to NAD's attention without delay, providing names and addresses of interested parties, if known to FSA. Therefore, when FSA is notified of an appeal filed by a guaranteed loan applicant or borrower, an authorized agency official will ensure that the appropriate lender has been notified by NAD.

C Actions When a Denial Is Overturned in NAD Final Determination

1-APP, subparagraph 135 A requires that FSA implement a final determination not later than 30 calendar days after the effective date of the notice of final determination. An appeal determination is administratively final when the provisions of 1-APP, subparagraph 135 B have been met.

The borrower and lender, as appropriate, will be advised of the next steps to be taken within 5 workdays of the date the appeal decision becomes administratively final, or the date FSA determines that it will not pursue a further review of the hearing officer's decision, whichever comes first. The contact will be by telephone or in person, with a written follow-up.

1-APP, subparagraph 135 D provides that, according to FSA regulations, changes in the borrower's condition in implementing NAD's final determination may be considered. If there have been significant changes to the borrower's financial or farming situation since the date of the original FSA decision, only the information that has changed needs to be submitted or revised.

Note: A significant change is a change that would materially affect the feasibility of, or eligibility for, the proposed loan servicing action.

***--[7 CFR 762.104(b)] The lender or Agency may request updated information from--* the borrower to implement an appeal decision.**

The lender or FSA may request updated financial or production information as the borrower's circumstances may have changed during the pendency of the appeal, which may adversely affect the borrower's farming operation.

Note: Adversely affect means that a change unrelated to the issue resolved through the appeal will result in the borrower no longer being eligible for the assistance requested.

The State appeals coordinator will monitor receipt and implementation of final NAD determinations to ensure that they are properly and timely implemented.

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

***--[7 CFR 762.101(b)] The Agency maintains a current list of lenders who express a--* desire to participate in the guaranteed loan program. This list is made available to farmers upon request.**

When discussing the guaranteed loan program with potential applicants, FSA employees should inform the producer about the lenders in the area who participate in the guaranteed loan program. However, employees **should not** show favoritism toward any lender or attempt to influence the customer to work with a certain lender over any others.

B Classification

***--[7 CFR 762.101(c)] Lenders who participate in the Agency guaranteed loan program--* will be classified into one of the following categories:**

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

35-45 (Reserved)

Part 4 Lender Eligibility**46 Eligibility Requirements for SEL (7 CFR 762.105(b))****A Overview**

The basic level of participation in the FSA Guaranteed Farm Loan Program is SEL. SEL must meet the eligibility criteria in this section to submit an application for a guarantee. If the lender does not meet the eligibility criteria to the satisfaction of FSA, the application will be denied.

B Capacity

***--[7 CFR 762.105(b)(1)] A lender must have experience in making and servicing--* agricultural loans and have the capability to make and service the loan for which a guarantee is requested.**

In reviewing the SEL request, the authorized agency official shall consider FSA's prior experience with the lender in assessing whether or not they have the capability to make and service the loan. An important factor in reviewing the lender's capacity is their experience in agricultural lending. Experience in agricultural lending must be demonstrated for either the lender or the lender's personnel.

***--[7 CFR 762.105(b)(2)] The lenders must not have losses or deficiencies in processing--* and servicing guaranteed loans above a level which would indicate an inability to properly process and service a guaranteed agricultural loan.**

Previous problems with a lender, as evidenced in monitoring reports, excessive loss claims, or denial of loss claims, should be considered in this determination.

C Examination and Supervision

***--[7 CFR 762.105(b)(3)] A lender must be subject to credit examination and--* supervision by an acceptable State or Federal regulatory agency.**

Only lenders that are subject to both examination and supervision by an acceptable State or Federal regulatory agency may participate in the FSA Guaranteed Program. Examination will normally include a review of the lender's asset quality, management practices, financial condition, and compliance with applicable laws and regulations. Supervision gives the regulator the authority to require that the lender make changes to ensure safety and soundness.

46 Eligibility Requirements for SEL (7 CFR 762.105(b)) (Continued)

C Examination and Supervision (Continued)

Traditional and nontraditional lenders, that are audited and subject to oversight by a State agency, may or may not be examined and subject to supervision. Any questions about whether a lender meets this requirement should be addressed to DAFLP, Guaranteed Loan Making Branch.

Acceptable agencies and their web sites that in some cases identify enforcement actions as well as other activities associated with a lender, include, but are not limited to, the following:

- **--FDIC at <https://orders.fdic.gov/s/> --***
- Office of the Comptroller of the Currency at <http://apps.occ.gov/EASearch/>
- Federal Reserve Board at <https://www.federalreserve.gov/apps/enforcementactions/>
- FCA at <http://apps.fca.gov/FCSPublicDirectory/PubSearchInstitution.aspx>
- National Credit Union Administration at <http://www.ncua.gov/Legal/Regs/Pages/AdminOrders.aspx>
- U.S. Department of the Treasury's Community Development Financial Institutions Fund at <https://www.cdfifund.gov/programs-training/certification/cdfi/pages/default.aspx> for nontraditional lenders
- State banking commissions.

For traditional lenders, SED's shall check the appropriate regulatory agency web sites to determine whether the lender is subject to any enforcement action before engaging in a new lending relationship.

For nontraditional lenders, DAFLP shall check the appropriate regulatory agency to determine whether the lender is subject to any enforcement action before engaging in a new lending relationship. In addition, DAFLP may periodically complete a review of the financial capacity for nontraditional lenders whose financial statements are not readily available. SED's will be informed of any deficiencies noted.

48 Monitoring SEL (Continued)

B Operational File

Each Service Center specified on the Lenders Agreement shall do either of the following:

- develop and maintain an operational file for the lender
- have access to the lender's electronic operational file located on the State SharePoint or Intranet web site.

This operational file shall contain the following:

- information on the loans originated and serviced by the lender
- copies of the monitoring reviews conducted by FSA
- resolution of findings
- any correspondence between the lender and FSA
- copy of a current Lenders Agreement
- copy of lender's risk based pricing practice, if applicable.

Note: For all lender operational files developed and maintained on the respective State SharePoint or Intranet web site, a hard copy of the operational file is not required.

Loan official should continue to check the Lender's Agreement and CMS (if applicable) when a new guaranteed application is submitted to ensure it is valid. Lender's Agreement forms shall **not** be maintained in borrower files.

C Imposing Sanctions

In situations where the authorized agency official is unable to resolve deficiencies with the lender, enforcement actions may be taken. Before the implementation of any enforcement action by FSA, the lender must be:

- notified in writing of the deficiencies
- given a specific timeframe in which to resolve the deficiencies
- warned of the sanctions that may be taken by FSA if the deficiencies are not resolved.

Examples of unresolved deficiencies may include the following:

- failure on the part of the lender to obtain an adequate appraisal
- failure to perfect a lien
- failure to adequately monitor the borrower or the collateral
- failure to comply with interest rate policies.

48 Monitoring SEL (Continued)

C Imposing Sanctions (Continued)

While any of these deficiencies may result in the denial or reduction of a loss claim to the lender, it is important to FSA that these issues be resolved as early as possible.

The sanction imposed on the lender should be the most effective in resolving the deficiency. Examples of sanctions include the following:

- adjustment of loss claims
- increased monitoring visits
- increased reporting on corrective actions taken
- increased documentation for guarantee processing
- determination that the lender does not meet SEL standards and, therefore, is not eligible for future guaranteed loans.

In extreme cases, recommendations should be made to the National Office for suspension or debarment.

49 Eligibility Requirements for CLP (7 CFR 762.106)

A Overview

CLP is a program that permits lenders with a proven track record in making and servicing guaranteed loans to operate under a streamlined origination and servicing process. While the CLP lender is still bound by FSA regulations and must use and maintain on file FSA-approved forms, information submitted to FSA for approval is minimized. SED is responsible for approving all CLP's in the State, based on information from the local offices and prior performance of the lender.

B Threshold Eligibility

***--[7 CFR 762.106(b)(1)] The lender must qualify as a Standard Eligible Lender under--* 7 CFR 762.105.**

To be eligible to apply for certified lender status, the lender must meet the eligibility requirements of SEL as detailed in paragraph 46.

49 Eligibility Requirements for CLP (7 CFR 762.106) (Continued)

C Loan Production and Performance

***--[7 CFR 762.106(b)(2)] The lender must have a lender loss rate not in excess of the--* maximum CLP Loss Rate established by the Agency and published periodically in a Federal Register Notice.**

This rate is set at 7.00 percent.

To be eligible for CLP, the lender must have a loss rate that does not exceed 7 percent.

***--[7 CFR 762.106(b)(2)] The Agency may waive the loss rate criteria for those lenders--* whose loss rate was substantially affected by a disaster as defined in 7 CFR 761.2(b) and Part 759 of this chapter. See Exhibit 2.**

***--SED is granted the authority to waive this criteria on a lender-by-lender basis. The--* performance of other lenders under similar conditions should be considered before granting such a waiver.**

[7 CFR 761.2(b)] Loss rate is the net amount of loan loss claims paid on FSA guaranteed loans made in the previous 7 years divided by the total loan amount of all such loans guaranteed during the same period. See Exhibit 10.

***--[7 CFR 762.106(d)(1)] If a lender applying for CLP status is or has recently been--* involved in a merger or acquisition, all loans and losses attributed to both lenders will be considered in the eligibility calculations.**

The lender must continue to meet this requirement to hold CLP status. As part of the annual CLP review, the authorized agency official shall ensure that the lender's losses remain below the maximum loss rate.

49 Eligibility Requirements for CLP (7 CFR 762.106) (Continued)

D Experience

***--[7 CFR 762.106(b)(3)] The lender must have proven an ability to process and--* service Agency guaranteed loans by showing that the lender:**

- **submitted substantially complete and correct guaranteed loan applications**
- **serviced all guaranteed loans according to Agency regulations.**

In evaluating whether or not a lender meets these requirements, the State Office shall review historical monitoring reports on the lender. Recurring and/or unresolved issues about origination or servicing should be considered in the approval of CLP status for the lender. If CLP status is denied because of failure to meet this requirement, SED should recommend changes that the lender would need to implement to qualify for CLP status at a later date.

E Minimum Guaranteed Loans

***--[7 CFR 762.106(b)(4)] The lender must have made the minimum number of--* guaranteed OL, FO, CL, or SW loans established by the Agency and published periodically in a Federal Register Notice.**

This is set at a minimum of 10 Agency guaranteed loans closed in the past 5 years.

The lender must continue to meet this requirement to hold CLP status. As part of the CLP review, the authorized agency official shall ensure that the lender has closed the required number of loans to retain CLP status.

Notes: The volume requirements are published in a separate FR document.

Multiple loans for 1 borrower will be counted separately. However, advances on LOC's do not count as separate loans.

49 Eligibility Requirements for CLP (7 CFR 762.106) (Continued)

F Acceptable Level of Soundness

***--[7 CFR 762.106(b)(5)] The lender must not be under any regulatory enforcement--*
action such as a cease and desist order, written agreement, or an appointment of
conservator or receiver, based on financial condition.**

When a lender requests CLP status, SED shall check the appropriate regulatory agency web sites in subparagraph 46 C to determine if the lender is subject to any enforcement action before engaging in a new lending relationship.

G Qualified Person

***--[7 CFR 762.106(b)(6)] The lender must designate a qualified person or persons to--*
process and service Agency guaranteed loans for each of the lender offices which will
process CLP loans. To be qualified, the person must meet the following conditions:**

- **have attended Agency sponsored training in the past 12 months or will attend training in the next 12 months**
- **agree to attend Agency sponsored training each year.**

The CLP application should include the resume or resumes of the person or persons qualified to process and service FSA-guaranteed loans. For a CLP lender, it is expected that this person will have experience in agricultural lending and experience in originating and servicing FSA-guaranteed loans.

H Acceptable Forms

***--[7 CFR 762.106(b)(7)] The lender must use forms acceptable to the Agency for--*
processing, analyzing, securing, and servicing Agency guaranteed loans and lines of
credit.**

50 Approval of Certified Lenders (7 CFR 762.106)**A Request for CLP Status**

***--[7 CFR 762.106(a)(1)] Lenders who desire CLP status must prepare a written request addressing:**

- the States in which they desire to receive CLP status * * ***
- each item of the eligibility criteria for CLP approval in this section (paragraph 49), as appropriate.**

See subparagraph B for eligibility criteria to be addressed in the request.

***--[7 CFR 762.106(a)(2)] The lender may include any additional supporting evidence--* or other information the lender believes would be helpful to the Agency in making its determination.**

***--[7 CFR 762.106(a)(3)] The lender must send its request to the Agency State Office--* for the State in which the lender's headquarters is located.**

***--[7 CFR 762.106(a)(4)] The lender must provide any additional information--* requested by the Agency to process a CLP request, if the lender continues with the approval process.**

50 Approval of Certified Lenders (7 CFR 762.106) (Continued)**B Eligibility Criteria**

Before a lender is approved for CLP status, the lender must demonstrate compliance with the following eligibility criteria:

- provide evidence of being an eligible lender
- provide information to show that loan losses (net of recovery) do not exceed 7 percent
- have the capacity to process and service FSA-guaranteed loans
- certify that the person designated to process and service FSA-guaranteed loans has attended FSA loan processing and servicing training within the previous 12 months or will attend training within the next 12 months
- agree to send for annual training the designated person from each of the lender's offices responsible for processing and servicing guaranteed loans
- agree to use forms acceptable to FSA for processing, analyzing, securing, and servicing *--FSA-guaranteed loans or LOC's--*
- if not previously submitted, copies of financial statements, cash flow plans, loan agreements, analysis sheets, security agreements, and promissory notes should be submitted with the request for CLP status
- *--have closed a minimum of 10 FSA-guaranteed FO, SW, CL, and OL loans or LOC's within the past 5 years.--*

C FSA Approval

The CLP-eligible lender will have a track record in FSA programs. SED may request that authorized agency officials that the lender has worked with provide a recommendation for CLP status and any issues or concerns that should be considered by SED before granting *--CLP status. SED will make a decision on CLP status within 30 calendar days of receipt--* of the lender's complete application.

50 Approval of Certified Lenders (7 CFR 762.106) (Continued)

C FSA Approval (Continued)

CLP status is granted on a statewide basis by SED. A separate Lenders Agreement is
--required for each State. All branch offices will be included on the Lenders Agreement.--

*--[7 CFR 762.106(d)(3)] **Lenders who meet the criteria will be granted CLP status--*
for a period not to exceed 5 years.** Once a Lenders Agreement is executed by the CLP
lender and SED, the executed agreement will be kept in the State Office and copies will be
sent to the lender and County Offices where the lender is expected to submit applications.
In addition, the FSA-approved lender forms and the names of the lender's designated
representatives will be sent to the affected County Offices.

D Renewal

**[7 CFR 762.106(f)(1)] CLP status will expire within a period not to exceed 5 years
from the date the lender's agreement is executed, unless a new lender's agreement is
executed.**

**[7 CFR 762.106(f)(2)] Renewal of CLP status is not automatic. A lender must submit
a written request for renewal of a lender's agreement with CLP status which includes
information:**

- **updating the material submitted in the initial application**
- **addressing any new criteria established by the Agency since the initial application.**

A request for renewal of CLP status must be submitted to FSA before the expiration of the
current lenders agreement. FSA will work with the lender to ensure that CLP status
remains in effect until a new CLP lenders agreement is executed.

**[7 CFR 762.106(f)(3)] CLP status will be renewed if the applicable eligibility criteria
under this section are met, and no cause exists for denying renewal under
paragraph (g) of this section (subparagraph 51 C).**

51 Monitoring CLP (7 CFR 762.106)**A Reviewing Lender Eligibility and Performance**

[7 CFR 762.106 (e)] CLP lenders will provide information and access to records upon Agency request to permit the Agency to audit the lender for compliance with these regulations.

The authorized agency official shall conduct a monitoring review on each CLP lender.
This

~~*--~~review shall be conducted according to Part 11. The authorized agency official shall review the lender's files according to the priorities of subparagraph 267 B.~~--*~~

At least annually, SED or designee shall collect and review information about the performance and eligibility of each CLP lender, including monitoring reviews from all County Offices that monitor the lender. SED or designee shall review the lender's compliance with subparagraphs 46 C, 46 E, 49 C, 49 E, and 49 F. These reviews shall be used to determine whether CLP status should continue.

B Operational File

The authorized agency official shall develop and maintain an operational file on each CLP lender, according to subparagraph 48 B. For CLP, SED shall also maintain a file for their SED internal annual review.

C Revoking CLP Status

In addition to the sanctions that may be imposed in subparagraph 48 C,
[7 CFR 762.106 (g)] the Agency may revoke the lender's CLP status at any time during the 5 year term for cause.

SED is granted this authority.

51 Monitoring CLP (7 CFR 762.106) (Continued)**C Revoking CLP Status (Continued)**

Any of the following instances constitute cause:

- **violation of the terms of the lender's agreement**
- **failure to maintain CLP eligibility criteria**
- **knowingly submitting false or misleading information to the Agency**
- **basing a request on information known to be false**
- **deficiencies that indicate an inability to process or service Agency guaranteed farm loans**

***--Note:** A list of major and minor deficiencies and related guidance can be found in Exhibit 23.--*

- **failure to correct cited deficiencies in loan documents upon notification by the Agency**
- **failure to submit status reports in a timely manner**
- **failure to use forms accepted by the Agency**
- **failure to comply with the reimbursement requirements of §762.144(c)(7) and (c)(8) (subparagraph 376 A).**

D Reinstatement of CLP Status

***--[7 CFR 762.106(g)(3)] A lender which has lost CLP status must be reconsidered—* for eligibility to continue as a Standard Eligible Lender in submitting loan guarantee requests. They may reapply for CLP status when the problem causing them to lose their status has been resolved.**

If the reason for revoking CLP status was because of the deliberate submission of false information, the National Office must approve the request for reinstatement.

52 Eligibility Requirements for PLP (7 CFR 762.106)

A Overview

PLP is the top status that a lender can hold in the FSA Guaranteed Farm Loan Program. PLP was developed to recognize experienced lenders, who have demonstrated expertise in and understanding of agricultural lending and the FSA Guaranteed Farm Loan Program, by:

- streamlining submission requirements
- decreasing turnaround time on FSA actions
- allowing lenders to originate and service guaranteed loans as they would other loans in their portfolio.

To apply for PLP, lenders must outline the manner in which they intend to process and service FSA loan guarantees, based on their own underwriting and servicing policies. This CMS becomes the basis for approval decisions on guarantee applications. To request a *--guarantee, lenders need only to submit an Application for Guarantee and a loan narrative--* discussing the 5 “C’s” of credit; that is, character, capacity, capital, conditions, and collateral. The streamlined requirements of PLP result in a program that is nearly invisible to the lender.

--PLP is beneficial to both lenders and FSA. The streamlined loan making and servicing-- processes allow lenders to reduce administrative costs and provide a quick turnaround time and a higher level of service to their customers. For FSA, the streamlined process allows DAFLP to devote more time to other critical areas of the loan programs.

PLP status is granted by DAFLP in the FSA National Office.

B Meeting CLP Eligibility Criteria

The lender **must meet the CLP eligibility criteria.**

The PLP lender must be a lender who has a track record with FSA-guaranteed loans. While the lender does not have to hold or have held CLP status, they must qualify for CLP status.

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

C CMS

--[7 CFR 762.106(c)(2)] The lender must have a credit management system,--
satisfactory to the Agency, based on the following:

- the lender's written credit policies and underwriting standards
- loan documentation requirements
- exceptions to policies
- analysis of new loan requests
- credit file management
- loan funds and collateral management system
- portfolio management
- loan reviews
- internal credit review process
- loan monitoring system
- the board of director's responsibilities.

Unlike SEL's and CLP lenders who originate and service guaranteed loans under FSA standards and guidance, PLP lenders will use their own CMS for originating and servicing FLP-guaranteed loans. The items that will be considered when reviewing CMS are in subparagraph D.

DAFLP shall determine what changes must be made to CMS to ensure that statutory and regulatory program requirements are met.

Once CMS is approved by FSA, it becomes the operational plan and a part of Lenders Agreement between the lender and FSA for originating and servicing guaranteed loans. FSA shall monitor the lender by determining whether or not they are in compliance with the terms and conditions agreed to in CMS.

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

D PLP CMS Guidelines (Continued)

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B. Internal Credit Review System

Describe your credit review system. Include who performs the reviews, the frequency and scope of the reviews, and address if there is a minimum number of guaranteed loans to be reviewed annually. Describe the required method to follow up and the time frame to resolve deficiencies.

The Lender's Quality Control Group operates its internal review program. This group provides an independent, objective, and active means for monitoring adherence to Lender policies and procedures. The group also evaluates the accuracy of the credit and performance classifications and identifies credit administration weaknesses. The Quality Control Group reviews a significant number of loan and servicing actions each year. Reviews are based upon a sampling of those areas that present the greatest risk to the Lender and include a monthly review of credit administration on all loans greater than \$300,000. A minimum of 50 percent of outstanding guaranteed loans are reviewed annually.

The Quality Control Group provides the Lender's Board of Directors and senior management a monthly report, which addresses important review results including deficiencies in credit quality and credit administration and adherence to policies and procedures. The group also discusses the results of each loan review with the responsible loan officers to resolve any deficiencies in their portfolio. Loan officers report monthly to the Loan Officer's Committee on the status of corrective actions to address identified deficiencies.

C. Use of Agents, Consultants, and Packagers

Provide information on whether outside packagers are utilized, and if so, under what circumstances? Additionally, outline the type of services these packagers generally perform, and how their work is monitored.

The Lender has not previously used agents or packagers and does not plan to use this type of assistance in the future. Loan requests are originated and packaged by the Lender. Unsolicited loan proposals presented by private consultants may be considered; however, the application will be prepared, analyzed, and presented by a loan officer. The lender's loan officers are responsible for ensuring that all FSA requirements are met.

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

D PLP CMS Guidelines (Continued)

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D. Credit Department Personnel

To determine who will make and service FSA Guaranteed Loans, list the job titles/positions and describe the qualifications needed to ensure that all FSA requirements are met.

The Senior Vice President of Agriculture Lending, who has 20 years of experience in agriculture lending and 12 years of experience in loan processing, is responsible for overseeing the guaranteed loan program.

The Agriculture Lending Department has two loan officers with primary responsibility for originating and servicing FSA guaranteed loans. These loan officers are responsible for ensuring that all FSA requirements are met. The Quality Control Group monitors compliance with FSA requirements and notifies the loan officers and senior management of any deficiencies.

E. Processing Loans

Describe what tasks you perform when making an agricultural loan. Address any differences between existing and new borrowers requesting lines of credit, real estate loans, and/or personal property (livestock and machinery) loan requests.

Upon receipt of a loan request, the Lender typically performs a site inspection to assess the suitability of the farm and complete environmental due diligence, as appropriate. A site inspection is performed on all new borrowers and on any real estate being acquired by existing borrowers. Existing borrowers' applications may be processed without an additional inspection if an inspection has been completed within the past year and the lender has no concerns with the operation or property. A brief summary of the farm inspection and the lender's assessment of the viability of the operation should be addressed in the loan narrative.

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

D PLP CMS Guidelines (Continued)

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When requesting a guarantee, the Lender will submit the following information to FSA:

- 1.A complete “Application for Guarantee” (FSA 2211).
- 2.A complete loan narrative supporting the request for Guarantee which includes:
 - appropriate certifications regarding credit worthiness, financial feasibility (capital and capacity), and collateral as well as a discussion of any conditions or other credit factors including overall strengths and weaknesses
 - a certification regarding the test for credit and discussion explaining how the loan applicant meets the remaining FSA eligibility, loan purpose, and other relevant program requirements
 - a description of the location of all farmed land.

3.Our internal credit presentation, including the scoring and rating determination of the borrower which evaluates credit risk factors and establishes a score in the following range: *(Please discuss your internal scoring and rating system used to form a determination of the borrower’s credit risk. Also, address what the typical score is for loans submitted for a guarantee).*

Description	Score
Prime	1
Good	2
Average	3
Below Average	4
Poor	5
Not Acceptable	6

Loans submitted for a guarantee will typically score 3 or 4. Loans scoring 5 will only be considered in very unusual circumstances. Any score below 5 will not be considered, with or without an FSA guarantee.

4. If FSA’s Interest Assistance becomes available, the lender may use this program according to the provisions in 2-FLP and will work with FSA’s State Office to determine the necessary information to be provided.

5.When the applicant is an entity, member information will be provided on Form FSA-2211. Entity legal and operating structure will be discussed in the lender narrative.

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

D PLP CMS Guidelines (Continued)

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F. Information Obtained from Loan Applicants

Describe what information you obtain to evaluate an agricultural loan. Address any differences between existing borrowers, new borrowers, size of loan, purpose of loan, etc. Also state whether the information is mandatory or at the discretion of the loan officer.

The following financial information will be maintained in all loan files.

Loans under \$100,000	Current Balance Sheet
	Tax Return or Income/Expense Statement (1 Year)
	Projected cash flow budget
Loans \$100,000 and over	Current Balance Sheet
	Tax Returns or Income/Expense Statements (3 Years)
	Production data (3 Years)
	Projected cash flow budget
	Verification of Significant Debts

Current Balance Sheet. For new customers, current is no more than 30 days old. For existing customers, current is no more than 90 days old.

Verification of Significant Debts. Significant debts are those that could potentially affect repayment capacity of the operation if understated. These are verified through credit reports, creditor statements, mail, or telephone contacts.

Projected cash flow budget. Projected cash flow budget may be based only on income/expense history when the operation's history is reliable, the operation is stable, and other credit factors are sufficiently strong.

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

D PLP CMS Guidelines (Continued)

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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)

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Loans over \$500,000 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 \$500,000 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 \$500,000 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.

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D PLP CMS Guidelines (Continued)

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C. Other Servicing Actions

Non-monetary default. Upon occurrence of an event that triggers non-monetary default according to the promissory note, notice of default is mailed and the borrower is provided 30 days to take corrective action.

D. Terminations, Liquidations, and Final Loss Claims.

Describe steps and milestones to resolve a loan delinquency through liquidation of collateral.

Loss Claims. Supporting documentation will be developed, meeting FSA regulatory requirements for any loss claim. This will include a plan of liquidation, including costs of liquidation and expected time frames. The liquidation plan will be kept in the borrower's case file, and revised as necessary. Estimated loss claims will be conservatively developed in order to avoid overpayment.

Voluntary Liquidation. The borrower will be provided 30 days from acceleration to liquidate or agree in writing to a plan for voluntary liquidation of all loan collateral. Voluntary plans will include contingencies for failure to meet plan milestones. A release of the borrower from continued liability may be agreed to as part of a voluntary plan if written agreement is obtained from the FSA State Office.

Protective advances. Multiple protective advances may be made to protect the collateral. FSA approval is required when the total of all advances exceed \$10,000 and each \$10,000 thereafter.

Acquisition of real estate security. The responsible loan officer or workout officer will review the collateral for possible environmental liability. If environmental problems are found, the executive loan committee will make a decision with FSA concurrence on the acceptance of a deed in lieu of foreclosure or assessment of protective bids to be made at foreclosure. For FSA guaranteed loans, FSA will be consulted regarding the method of sale or establishing foreclosure bids on any properties whose value has been substantially reduced by the presence of hazardous waste.

Bankruptcy. In the event of bankruptcy, the lender will protect the guaranteed loan debt and all collateral securing the loan.

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

E FSA Experience

***--[7 CFR 762.106(c)(3)] The lender must have made the minimum number of--* guaranteed OL, FO, CL, or SW loans established by the Agency and published periodically in a Federal Register Notice.**

This is set at a minimum of 20 Agency guaranteed farm loans closed in the past 5 years for lenders initially seeking to obtain PLP status. In the case of existing PLP lenders seeking to renew their PLP status, this is set at a minimum of 10 Agency guaranteed farm loans closed in the past 5 years.

Former PLP lenders whose status was not renewed since 2/23/2019 solely because of a lack of loan volume may reapply for PLP status under the revised renewal threshold of 10 Agency guaranteed farm loans closed in the past 5 years. Those lenders must reapply by no later than 8/21/2024 to be evaluated under the requirement of 10 Agency guaranteed farm loans closed in the past 5 years.

Former PLP lenders whose status was not renewed before 2/23/2019 and former PLP lenders whose status was not renewed at any time for a reason other than lack of loan volume must meet the threshold of 20 Agency guaranteed farm loans closed in the past 5 years if they seek to regain PLP status.

Note: The volume requirement is published in a separate FR document.

F Loss Rate

***--[7 CFR 762.106(c)(4)] The lender must have a lender loss rate not in excess of the--* rate of the maximum PLP loss rate established by the Agency and published periodically in a Federal Register Notice.**

This rate is set at 3 percent.

[7 CFR 761.2(b)] Loss rate is the net amount of loan loss claims paid on FSA guaranteed loans made in the previous 7 years divided by the total loan amount of all such loans guaranteed during the same period. See Exhibit 10.

***--[7 CFR 762.106 (d)(1)] If a lender applying for PLP status is, or has recently been,--* involved in a merger or acquisition, all loans and losses attributed to both lenders will be considered in the eligibility calculations.**

***--[7 CFR 762.106(c)(4)] The Agency may waive the loss rate criteria for those lenders whose loss rate was substantially affected by a disaster as defined in 7 CFR 761.2(b)--* and Part 759 of this chapter. See Exhibit 2.**

This waiver may be granted only by DAFLP.

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

G Sound Loan Proposals

***--[7 CFR 762.106(c)(5)] The lender must show a consistent practice of submitting--* applications for guaranteed loans containing accurate information supporting a sound loan proposal.**

PLP lenders are expected to be experienced agricultural lenders who can demonstrate a history of consistently developing complete and accurate applications with minimal FSA involvement.

H Recurring Deficiencies

--[7 CFR 762.106(c)(6)] The lender must show a consistent practice of processing Agency guaranteed loans without recurring major or minor deficiencies.--

In reviewing this requirement, DAFLP shall check previous monitoring reviews for major and minor recurring deficiencies. **[7 CFR 761.2] A major deficiency is one that directly**
***--affects the soundness of the loan.** Examples of major deficiencies and guidance regarding impacts to PLP status can be found in Exhibit 23.--*

* * *

[7 CFR 761.2] A minor deficiency violates Agency procedure, but does not affect the
***--soundness of the loan.** Examples of minor deficiencies and guidance regarding impacts to PLP status can be found in Exhibit 23.--*

* * *

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

I Ability to Service Guaranteed Loans

***--[7 CFR 762.106(c)(7)] The lender must demonstrate a consistent, above average--* ability to service guaranteed loans based on the following:**

- **borrower supervision and assistance**
- **timely and effective servicing**
- **communication with the Agency.**

This criterion should be reviewed in the light of the lender's relationship to FSA and its borrowers. Three specific criteria are addressed.

- **Borrower Supervision and Assistance.** For PLP lenders, FSA expects that lenders will routinely work with borrowers to set goals and resolve deficiencies. For troubled borrowers, FSA would look for lender actions to:
 - communicate with the borrower about their complete credit and debt situation
 - resolve financial difficulties with a view of the big picture.
- **Timely and Effective Servicing.** In assessing the PLP request, FSA shall look at how the lender has serviced its existing portfolio. Have problem loans been monitored closely and action taken promptly? Have loans been adequately protected in bankruptcy, litigation, or liquidation? Has the lender used good judgment in servicing actions, maintained control, and minimized losses to FSA?
- **Communication With FSA.** Because of the nature of PLP, good communication with FSA is critical. DAFLP shall look to SED and the authorized agency official for information about FSA's past and current relationship with the lender. Is FSA informed of issues and potential losses at the early warning stage? Does the lender submit required reports on time? Are issues discovered in monitoring reviews quickly resolved and communicated to FSA?

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

J Qualified Person

***--[7 CFR 762.106(c)(8)] The lender must designate a person or persons, either by--* name, title, or position within the organization, to process and service PLP loans for the Agency.**

The lender should detail the minimum educational and experience requirements of loan officials or include the resume or resumes of the person or persons who are qualified to process and service FSA-guaranteed loans. For a PLP lender, it is expected that this person will have significant experience in agricultural lending and significant experience in originating and servicing FSA-guaranteed loans. To satisfy this requirement, the lender's application should address the experience the designated person has about the items in subparagraphs G and I.

Once PLP status is approved, the lender is responsible for maintaining staff that are adequately trained in originating and servicing guaranteed loans.

53 Approval Requirements (7 CFR 762.106)

A Request for Approval

Both the lender and SED should develop the lender's request for approval. The lender should contact the State Office and inform SED of its intent to submit a PLP request. SED may provide additional guidance to the lender in developing its application. The request should be in the following 3 parts.

- Part I. The Lender's Application Letter demonstrating the lender meets the PLP criteria, excluding CMS.
- Part II. SED Comments and Recommendation. This part of the package will be developed from information gathered from the following sources:
 - County Offices where the lender proposes to do business and has done business in the past
 - in a multi-State request, the other FSA State Offices located in the lender's region

53 Approval Requirements (7 CFR 762.106) (Continued)

A Request for Approval (Continued)

- *--State and County Office operational files, containing information on the lender's--* past performance
- the lender's PLP application package

Note: SED shall review the lender's proposed CMS to make a recommendation to DAFLP. However, SED will **not** set minimal underwriting, servicing, or liquidation standards, processes, or procedures for the lender. This is the lender's proposal and it need not, and probably will not, comply with requirements set for SEL and CLP lenders. Any areas considered inadequate by SED will be identified in the recommendation to DAFLP, but will not be communicated to the lender.

- reports indicating volume, loss, delinquencies, timeliness of lender reporting, etc.
- National Office for information on the lender's financial strength.
- Part III. A copy of the lender's proposed CMS. See subparagraph 52 D for CMS requirements.

Parts I and III of the application should be submitted to SED, who shall:

- check the application for completeness
- review its contents
- make an approval recommendation
- forward the application to DAFLP for approval.

B DAFLP Review

DAFLP shall review the PLP request, contacting the lender if necessary, and make the approval decision.

53 Approval Requirements (7 CFR 762.106) (Continued)

C Conditions of Approval

--[7 CFR 762.106(d)(2)] Lenders who meet the criteria will be granted PLP status--
for a period not to exceed 5 years.

--[7 CFR 762.106(d)(4)] PLP status will be conditioned on the lender carrying out-- its credit management system as proposed in its PLP status and any additional loan making or servicing requirements agreed to and documented in the PLP lender's agreement.

--[7 CFR 762.106(d)(4)] If the PLP lender's agreement does not specify any-- agreed upon process for a particular action, the PLP lender will act according to regulations governing CLP lenders.

Example: If the PLP lender does not state in its CMS what historical financial information will be collected when developing applicant cash flow budgets, CLP requirements in paragraph 153 will be followed.

D Renewal

--[7 CFR 762.106(f)(1)] PLP status will expire within a period not to exceed 5 years-- from the date the lender's agreement is executed, unless a new lender's agreement is executed.

--[7 CFR 762.106(f)(2)] Renewal of PLP status is not automatic. A lender must-- submit a written request for renewal of a lender's agreement with PLP status which includes information:

- updating the material submitted in the initial application
- addressing any new criteria established by the Agency since the initial application.

--[7 CFR 762.106(f)(3)] PLP status will be renewed if the applicable eligibility-- criteria under this section are met, and no due cause exists for denying renewal under subparagraph 54 C.

E Transfer of PLP Information to the Local Office

SED must provide a copy of PLP Lenders Agreement, including all attachments, to the authorized agency official in each local office that will process loans for the specific PLP lender.

54 Monitoring the PLP Lender (7 CFR 762.106)

A Review of Lender Eligibility and Performance

[7 CFR 762.106 (e)] PLP lenders will provide information and access to records upon Agency request to permit the Agency to audit the lender for compliance with these regulations.

SED is responsible for ensuring that monitoring reviews are conducted on each PLP lender. This review shall be conducted according to Part 11 and shall examine the lender's approved CMS. The designated reviewer shall review the lender's files according to the priorities in subparagraph 267 B.

At least annually, SED or designee shall collect and review information about the performance and eligibility of each PLP lender, including monitoring reviews from all County Offices that monitor the lender. SED or designee shall review the lender's compliance with subparagraphs 46 C, 46 E, 49 C, 49 E, and 49 F. These reviews shall be used to determine whether PLP status should continue.

B Operational File

The authorized agency official shall develop and maintain an operational file on each PLP lender, according to subparagraph 48 B. SED shall also maintain a file developed as part of their internal review.

The SED operational file shall also contain a copy of the executed Lender's Agreement and the lender's corresponding CMS.

C Revoking PLP Status

***--[7 CFR 762.106(g)(1)] In addition to the sanctions that may be imposed in subparagraph 48 C, a PLP lender may, at the discretion of DAFLP, have their status revoked at any time during the 5 year term for cause. [7 CFR 762.106(g)(2)] Any of the following--* instances constitute cause for revoking or not renewing PLP status:**

- violation of the terms of the lender's agreement
- failure to maintain PLP eligibility criteria
- knowingly submitting false or misleading information to the Agency

54 **Monitoring the PLP Lender (7 CFR 762.106) (Continued)****C Revoking PLP Status (Continued)**

- basing a request on information known to be false
- deficiencies that indicate an inability to process or service Agency guaranteed farm loans

*--A list of major and minor deficiencies and related guidance can be found in Exhibit 23.

To maintain PLP status, the dollar delinquency rate for the lender must not exceed 3 percent of the national average dollar delinquency rate for PLP lenders. The agency will review this rate for all PLP lenders at least annually. The agency may allow a lender with a delinquency rate above this threshold to retain their PLP status for a 1-year period, if the:

- lender documents in writing why the excessive loss rate is beyond their control
- lender provides a written plan that will reduce the delinquency rate to the maximum rate within 1 year from the date of the plan
- agency will revoke delegated authority and PLP status if the delinquency rate is not met at the end of the 1-year period.--*
- failure to comply with interest rate policies according to paragraph 135
- failure to correct cited deficiencies in loan documents upon notification by the Agency
- failure to submit status reports in a timely manner
- failure to use forms, or follow credit management systems accepted by the Agency
- failure to comply with the reimbursement requirements of §762.144(c)(7) and (c)(8) (subparagraph 376 A).

--[7 CFR 762.106(g)(2)(ii)] The Agency may allow a PLP lender with a loss rate-- which exceeds the maximum PLP loss rate to retain its PLP status for a two-year period, if the:

- lender documents in writing why the excessive loss rate is beyond their control
- lender provides a written plan that will reduce the loss rate to the PLP maximum rate within two years from the date of the plan

54 Monitoring the PLP Lender (7 CFR 762.106) (Continued)

C Revoking PLP Status (Continued)

- **Agency determines that exceeding the maximum PLP loss rate standard was beyond the control of the lender. Examples include but are not limited to the following:**
 - a freeze with only local impact
 - economic downturn in a local area
 - drop in local land values
 - industries moving into or out of an area
 - loss of access to a market
 - biological or chemical damage.

***--[7 CFR 762.106(g)(2)(ii)(D)] The Agency will revoke PLP status if the maximum--* PLP loss rate is not met at the end of the two-year period, unless a second two year extension is granted under this subsection.**

PLP lenders who exceed the maximum loss ratio and want to retain their status will contact their FSA State Office and explain why they believe their excessive losses are beyond their control. They will be required to develop a plan to reduce their losses below the 3 percent loss ratio, the current maximum allowed by regulations to retain PLP status.

IF the State Office determines there is...	THEN the State Office will...
adequate justification for allowing the lender to retain PLP status	make their recommendation and send an exception request to DAFLP, who will make the final decision on granting the exception. Notes: If granted, the exception may be renewed at the end of the 2-year period for another 2-year period if the lender is making satisfactory progress toward reducing their loss ratio below the standard, currently set at three percent. No further renewals or extensions would be granted. A waiver may be granted only by DAFLP.
inadequate justification for allowing the lender to retain PLP status	decline to send a request for an exception.

D Reinstatement of PLP Status

***--[7 CFR 762.106(g)(3)] A lender which has lost PLP status must be reconsidered for--* eligibility to continue as a Standard Eligible Lender or as a CLP lender in submitting loan guarantee requests. They may reapply for PLP status when the problem causing them to lose their status has been resolved.**

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

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**

***--Note:** A list of major and minor deficiencies and related guidance can be found in Exhibit 23.--*

- **failure to correct cited deficiencies in loan documents upon notification by the Agency**

55 Micro Lender Program (7 CFR 762.107) (Continued)**E Monitoring and Revoking MLP Status (Continued)**

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

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

F Renewal of MLP Status

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

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

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

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

--56 PLP Delegated Authority (7 CFR 762.108)*A Purpose**

[7 CFR 762.108(a)] FSA may delegate authority for certain portions of the guaranteed loan process to qualified guaranteed lenders. This allows the lender to certify compliance with those pre-determined aspects of the guaranteed loan process without the need for a more detailed review by the Agency.

B Scope

[7 CFR 762.108(b)] Delegated authority is only applicable for those portions of the guaranteed loan process specifically identified within this Part.--*

--56 PLP Delegated Authority (7 CFR 762.108) (Continued)*C Eligibility**

[7 CFR 762.108(c)(1)] All lenders that hold PLP status will receive and exercise delegated authority as outlined in this section.

[7 CFR 762.108(c)(2)] Delegated authority will be granted to PLP lenders for a period not to exceed the expiration date of their PLP lender's agreement.

[7 CFR 762.108(c)(3)] Delegated authority will be conditioned upon the lender carrying out its authority in accordance with their agreement with the Agency and credit management system.

D Renewal of Delegated Authority.

[7 CFR 762.108(d)(1)] Delegated authority will expire on the expiration date of the lender's PLP lender's agreement unless delegated authority is otherwise revoked according to paragraph (e) of this section.

[7 CFR 762.108(d)(2)] Renewal of delegated authority is not automatic and is conditioned upon the renewal of the lender's PLP status.

E Revocation of Delegated Authority

[7 CFR 762.108(e)] FSA may revoke a lender's delegated authority at any time for any of the following reasons:

- **[7 CFR 762.108(e)(1)] Approving loans that do not meet the Agency's requirements for eligibility, financial feasibility, and loan security;**

Note: A list of major and minor deficiencies and related guidance can be found in Exhibit 23.

- **[7 CFR 762.108(e)(2)] Failure to maintain any of the eligibility requirements in this section;**
- **[7 CFR 762.108(e)(3)] Knowingly submitting false or misleading information to the Agency;**
- **[7 CFR 762.108(e)(4)] Basing a request on information known to be false;**
- **[7 CFR 762.108(e)(5)] Failure to maintain PLP lender eligibility requirements in § 762.106(c) of this Part; or--***

--56 PLP Delegated Authority (7 CFR 762.108) (Continued)*E Revocation of delegated Authority**

- **[7 CFR 762.108(e)(6)] Unacceptable portfolio performance as evidenced by delinquency, losses, material deficiencies, or any other performance metric established by the Agency; or**

A list of major and minor deficiencies and related guidance can be found in Exhibit 23.

To maintain delegated authority , the dollar delinquency rate for the lender must not exceed 3 percent of the national average dollar delinquency rate for PLP lenders. The agency will review this rate for all PLP lenders at least annually. The agency may allow a lender with a delinquency rate above this threshold to retain their delegated authority for a 1-year period, if the:

- lender documents in writing why the excessive loss rate is beyond their control
 - lender provides a written plan that will reduce the delinquency rate to the maximum rate within 1 year from the date of the plan
 - agency will revoke delegated authority and PLP status if the delinquency rate is not met at the end of the 1-year period.
- **[7 CFR 762.108(e)(7)] Revocation of PLP status under § 762.106(g).**

F Processing Timeframes

[7 CFR 762.108(f)] Complete applications from lenders exercising delegated authority will be approved or rejected no later than 5 calendar days after receipt if requisite environmental requirements have been met.

G Oversight

[7 CFR 762.108(g)] The Agency will monitor lender performance through the regular use of loan level data and lender oversight/monitoring reviews. The frequency of such reviews will be announced by the Agency in the Agency's administrative handbooks.

H Administration of Delegated Authority

[7 CFR 762.108(h)] The Agency may adjust, modify, or cancel the use of delegated authority programmatically based on overall considerations such as budget, portfolio performance, and program integrity.--*

57-64 (Reserved)

Part 5 Loan Application Requirements (7 CFR 762.110)

Section 1 Application Requirements

65 General Application Requirements

A Application Requirements

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

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

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

When FSA receives a guaranteed loan application in conjunction with a direct loan application, the authorized agency official will share application documentation with the guaranteed lender, if necessary, to facilitate application completeness and consistency.

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

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

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

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

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

--[7 CFR 762.110(a)(4)] Lenders may submit applications through any electronic means designated by the Agency and the Agency may provide all notifications and requests for information related to the application to the lender electronically.--

65 General Application Requirements (Continued)

B Maintaining Complete Loan File

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

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

***--[7 CFR 762.110(g)(5)] The Agency may request additional information from any--* lender or review the lender's loan file as needed to make eligibility and approval decisions.**

65.5 Application Requirements for EZ Guarantee Loans

A EZ Guarantee Loan Qualification

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

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

B Application Package

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

- Application for Guarantee, FSA-2211
- **if the loan fails to pass the underwriting criteria for EZ Guarantee approval in 762.125(d), or the responses in the application are insufficient for the agency to make a loan decision, the lender must provide additional information as requested by the Agency.**

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

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

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

I Additional Requirements for Entity Applicants

--All members of entity applicants must complete the appropriate sections on FSA-2211, and sign the application as individuals. In addition, each member must provide a current personal balance sheet.--

* * *

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

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

B Verification of Income

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

C Verification of Debts

Verification of debts over \$5,000 can be documented using the same documentation the lender uses for its nonguaranteed loans.

D Financial History

The financial history should support cash flow projections and include 3 years of income and expenses and 3 years of balance sheets, if available.

E Production History

***--The application should include [7 CFR 762.110(d)(4)] 3 years of production history--* (SEL only).**

F Proposed Loan Agreements

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

G Development Plans

***--[7 CFR 762.110(d)(6)] If construction or development is planned, a copy of the--* plans, a copy of the specifications, and a development schedule is needed.**

68 (Withdrawn—Amend. 37)

69 Application Requirements for PLP Lenders [7 CFR 762.110]

A Application Requirements

[7 CFR 762.110 (e)] **A complete application for PLP lenders will consist of:**

- **an application form FSA-2211**

Note: Applications submitted electronically will be processed according to paragraph 3.

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

***--[7 CFR 762.110(g)(4)] PLP lenders must certify that the required items, not submitted, are in their files. On a case-by-case basis, [7 CFR 762.110(g)(5)] the Agency may request additional information from any lender or review the lender's files as needed to make eligibility and approval decisions.** These requests will only be made in situations where an eligibility or approval decision apart from test for credit, credit history, financial feasibility, or collateral cannot be made without additional information. FSA will not request additional documentation related to the test for credit, credit history, financial feasibility, or collateral from a PLP lender. Similarly, any documentation related to the test for credit, credit history, financial feasibility, or collateral submitted voluntarily by a PLP lender will not be utilized by FSA for decision making purposes.--*

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

This environmental review, conducted by FSA (using FSA-850 or an environmental assessment), focuses on the proposed use of loan funds and the environmental compliance of the action being supported by FSA funds. This is unrelated to the lender's own environmental due diligence (FSA-851 or other similar forms) which focuses on the suitability of loan security. See subparagraph 208 C for information about the lender's environmental due diligence requirements.

69 Application Requirements for PLP Lenders [7 CFR 762.110] (Continued)**B Loan Narrative**

--FSA expects PLP lenders to include, in the narrative, a discussion of the description of the operation, eligibility, loan purpose, goals, conditions and certifications for capital, capacity, collateral, test for credit and credit history. Agency officials will not ask for additional details regarding the certifications provided in the narrative.--

For many PLP lenders, the narrative will often contain the same information submitted to the lender's loan committee. Since the authorized agency official will rely on the narrative and application form for making the loan approval decision, it is important that the narrative covers any issues or questions that may arise during the loan evaluation process.

--Agency officials will not utilize for decision making purposes any additional information submitted voluntarily by PLP lenders regarding financial feasibility, collateral, test for credit and credit history.--

The lender will state the proposed method to establish the real estate market value, evaluation, or appraisal.

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

--See Exhibit 4.6 for information on Delegated Authority (PLP) Lender's Loan Narrative.--

C Submitting Applications Outside Normal Trade Area

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

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

Section 2 Other Guaranteed Application Options

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

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

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

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

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

***--B CL Application Package**

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

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

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

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

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

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

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

C Streamlined CL's

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

--[7 CFR 762.110(f)(3)] When CL guarantee applicants meet all the following criteria,-- the cash flow budget requirement in this section will be waived:

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

71 (Withdrawn---Amend. 37)

72 Market Placement Program (7 CFR 762.110(j))

A Purpose

The Market Placement Program:

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

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

B Lender Participation

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

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

Lenders should advise FSA of their interest.

Part 6 Application Processing Timeframes (7 CFR 762.130)

83 Application Processing Timeframes by Lender Type (7 CFR 762.130)

A Processing Timeframes for SEL's

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

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

B Processing Timeframes for CLP and PLP Lenders

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

A guaranteed loan application **cannot** be approved before the appropriate environmental review is completed and approved. In the case of a PLP lender, if an approval/rejection decision is not made within 14 calendar days of a complete application, FSA will consider feasibility requirements met and will conduct no further financial analysis after that point. However, the application will not be approved, funds will not be obligated, and the conditional commitment will not be issued until after the appropriate environmental review is completed and approved.

--This environmental review, conducted by FSA (using FSA-850 or an environmental assessment), focuses on the proposed use of loan funds and the environmental compliance of the action being supported by FSA funds. This is unrelated to the lender's own environmental due diligence (FSA-851 or other similar forms) which focuses on the suitability of loan security. See subparagraph 208 C for information about the lender's environmental due diligence requirements.--

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

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

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

C Processing Timeframes for EZ Guarantee Loans

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

83 Application Processing Timeframes by Lender Type (7 CFR 762.130) (Continued)**D Summary of Processing Timeframes**

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

*--

Lender Type	Processing Timeframe in Calendar Days From the Date the Application Is Complete
SEL (regular loan)	30 calendar days
EZ Guarantee	14 calendar days
CLP	14 calendar days
PLP	5 calendar days (automatic approval after 14 calendar days)

--*

84 Monitoring FSA Approvals (7 CFR 762.130)**A Authorized Agency Official Responsibilities**

The authorized agency official is responsible for:

- processing applications within the allotted timeframes
- maintaining a tracking system to ensure that all loans are processed within the *--appropriate timeframe--*
- entering a reason code and, if necessary, an explanation in GLS when a decision has not been made within 45 calendar days of receiving a complete application according to Part 5.

Note: GLS is the official loan application date record.

B DD Responsibilities

DD is responsible for:

- overseeing the approval process
- monitoring unprocessed applications.

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

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

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.

Date: _____ Dear _____: 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: (Insert list of items necessary to complete application.) 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. <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> 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. 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. To file a program discrimination complaint, complete the USDA Program Discrimination Complaint Form, AD-3027, found online at http://www.ascr.usda.gov/complaint_filing_cust.html 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: program.intake@usda.gov. USDA is an equal opportunity provider, employer, and lender. Sincerely, _____ (Title)

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

E Automatic Withdrawal of Application

***--[7 CFR 762.110(h)] 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 must provide the lender with written notification that the application is withdrawn.

Part 8 Loan Evaluation

Section 1 Applicant Eligibility (7 CFR 762.120)

108 General Eligibility Requirements for OL, FO, and CL (7 CFR 762.120)

A Summary of Eligibility Requirements

An applicant, including members of an entity applicant, must meet the following eligibility criteria to obtain a guaranteed loan. An eligible applicant is an applicant that:

- meets all requirements about prior debt forgiveness
- is not delinquent on any Federal debt

Note: The authorized agency official will check DNP to verify that the applicant is not delinquent on any Federal debt. See 1-FLP, paragraph 53 and Exhibit 15.6 for more information on DNP.

- does not have any outstanding recorded judgments obtained by the United States in a Federal court
- is a citizen of the United States, a U.S. non-citizen national, or a qualified alien under applicable Federal immigrations laws
- has the legal capacity to incur the obligations of the loan
- has an acceptable credit history
- is unable to obtain sufficient credit elsewhere without a guarantee

Note: This does **not** apply to CL.

- has not been convicted of planting, cultivating, growing, producing, harvesting, storing, trafficking, or possessing a controlled substance within the last 5 crop years

Note: If an applicant is convicted of one of the offenses above, they may be ineligible during the crop year of the conviction and the next 4 succeeding crop years. Therefore, at the time of the application, if the applicant's conviction was within the past 5 years, they could be considered ineligible.

- is not ineligible because of disqualification resulting from a Federal Crop Insurance violation
- is not debarred or suspended from participating in government contracts or programs.

The authorized agency official will document that the applicant meets all eligibility requirements using FSA-2231. If the GFO request is in conjunction with a DFO request, see subparagraph 96 D for evaluation requirements.--*

108 General Eligibility Requirements for OL, FO, and CL (7 CFR 762.120) (Continued)**B Clarification of Applicant**

In the case of an entity, the applicant includes all the members of the entity who will execute the promissory note.

C No Agency Loss

***--[7 CFR 762.120(a)(1)] The applicant, and anyone who will execute the promissory--* note, has not caused the Agency a loss by receiving debt forgiveness on all or a portion of any direct or guaranteed loan made under the authority of the “ACT” by debt write-down or write-off; compromise, adjustment, reduction, or charge-off under the provisions of section 331 of the “ACT”; discharge in bankruptcy; or through payment of a guaranteed loss claim on: more than three occasions on or prior to April 4, 1996; or any occasion after April 4, 1996, except as noted below.**

***--[7 CFR 762.120(a)(2)] The applicant may receive a guaranteed OL to pay annual--* farm operating and family living expenses, provided the applicant meets all other requirements for the loan, if the applicant and anyone who will execute the promissory note:**

- **received a write-down under section 353 of the “ACT”**
- **is current on payments under a confirmed reorganization plan under Chapter 11, 12, or 13 of Title 11 of the United States Code; or**
- **received debt forgiveness on not more than one occasion after April 4, 1996, resulting directly and primarily from a Presidentially-designated emergency for a county or contiguous county in which the applicant operates. Only applicants who were current on all existing direct and guaranteed FSA loans prior to the beginning date of the incidence period for a Presidentially-designated emergency and received debt forgiveness on that debt within three years after the designation of such emergency meet this exception.**

***--[7 CFR 762.120(a)(3)] If the debt forgiveness is resolved by repayment of the--* Agency’s loss, the Agency may still consider the debt forgiveness in determining the applicant’s creditworthiness.**

108 General Eligibility Requirements for OL, FO, and CL (7 CFR 762.120) (Continued)

C No Agency Loss (Continued)

Notes: An “ACT” loan is any of the following, whether direct or guaranteed, made by FSA or its predecessor agency, FmHA:

- CL
- EE
- EL
- EM
- EO
- FO
- OL
- RHF
- RL
- SW.

Debt forgiveness does **not** include any write-down provided as part of a resolution of a discrimination complaint or any direct or guaranteed loan assistance received under the Inflation Reduction Act.

A borrower who has successfully completed a bankruptcy reorganization plan will be considered to be current on the plan.

All debt forgiveness actions that are part of 1 transaction and occur on or about the same date are normally considered 1 occasion of debt forgiveness, regardless of the number of loans involved. Since debt forgiveness on direct loans and guaranteed loans are always considered separate transactions, concurrent forgiveness on direct and guaranteed loans are separate occasions. A single loan may have debt forgiveness on more than 1 occasion, when, for example, a borrower received a write-down and the loan was later liquidated at a loss.

***--Note:** Guaranteed losses include any loss claim paid by a type 01, 02, 05, 06, 07, or 08 loss claim.--*

The authorized agency official will verify previous loss to the Government, or debt forgiveness, for each applicant and all individuals who will sign the promissory note. Both DLS, for direct loans, and GLS, for guaranteed loans, will be used to verify prior debt forgiveness.

Note: The applicant may be considered eligible if the loss to the Agency is paid in
--full before loan closing.--

108 General Eligibility Requirements for OL, FO, and CL (7 CFR 762.120) (Continued)**D Delinquency on Federal Debt**

***--[7 CFR 762.120(b)] The applicant, and anyone who will execute the promissory--* note, is not delinquent on any Federal debt, other than a debt under the Internal Revenue Code of 1986. Any debt under the Internal Revenue Code of 1986 may be considered by the lender in determining cash flow and credit worthiness.**

Federal debt not paid within 90 calendar days of the due date is considered delinquent.

The applicant may be considered eligible if the delinquency will be remedied by the date of loan closing. Unless otherwise prohibited, applicants may use loan funds to cure delinquencies. Federal debt includes, but is not limited to, student loans, CCC loans, FSA direct loans, VA loans, and SBA loans. FSA-guaranteed loans are not Federal debts.

Loans that are made, using the following, become a delinquent Federal debt upon the payment of a final loss claim:

- FSA-1980-25 or FSA-1980-28 with the July 20, 2001, or later revision date
- Application for Guarantee or Preferred Lender Application.

The authorized agency official shall verify, through DNP, that the applicant and all individuals who will sign the promissory note are not delinquent on Federal debt. DNP screen prints will be placed in the case file to document the basis for eligibility. See 1-FLP, paragraph 53, and 1-FLP, Exhibit 15.6, for more information related to the use of DNP.

E Outstanding Recorded Judgments

***--[7 CFR 762.120(c)] The applicant, and anyone who will execute the promissory--* note, has no outstanding unpaid judgments obtained by the United States in any court. Such judgments do not include those filed as a result of action in the United States Tax Courts.**

Applicants must provide evidence that all Federal judgments have been released or paid in full to be eligible for guaranteed loans. Loan funds will not be used to pay Federal judgments. Questions by FSA employees about outstanding judgments should be directed to OGC.

108 General Eligibility Requirements for OL, FO, and CL (7 CFR 762.120) (Continued)**F United States Citizenship**

***--[7 CFR 762.120(d)(1)] The applicant must be a citizen of the United States, a--* United States non-citizen national, or a qualified alien under applicable Federal immigration laws. For an entity applicant, the majority interest of the entity must be held by members who are United States citizens, United States non-citizen nationals, or qualified aliens under applicable Federal immigration laws.**

***--[7 CFR 762.120(d)(2)] United States non-citizen nationals and qualified aliens must--* provide the appropriate documentation as to their immigration status as required by the United States Department of Homeland Security, Bureau of Citizenship and Immigration Services.**

See Exhibit 7 and 8 for:

- a definition of U.S. non-citizen national and qualified alien
- guidance on documentary evidence of U.S. non-citizen national citizenship and qualified alien status.

G Legal Capacity to Incur Loan

***--[7 CFR 762.120(e)] The applicant and all borrowers on the loan must possess the--* legal capacity to incur the obligations of the loan.**

The applicant must be of legal age, mental capacity, and authority to enter into a legally binding agreement with the lender. An entity applicant and the entity members must be able to enter into such a contract.

H Past Dealings

***--[7 CFR 762.120(f)] The applicant, in past dealings with the Agency, must not have--* provided the Agency with false or misleading documents or statements.**

I Credit History

***--[7 CFR 762.120(g)] The individual or entity applicant and all entity members must--* have acceptable credit history demonstrated by debt repayment. A history of failures to repay past debts as they came due when the ability to repay was within their control will demonstrate unacceptable credit history. Unacceptable credit history will not include either of the following:**

- isolated instances of late payments which do not represent a pattern and were clearly beyond their control
- lack of credit history.

108 General Eligibility Requirements for OL, FO, and CL (7 CFR 762.120) (Continued)

I Credit History (Continued)

***--[7 CFR 762.120(g)(4)] *Delegated Authority.* Lenders who have received delegated authority under § 762.108 of this Part (paragraph 56) must certify that all requirements of paragraphs (g)(1), (g)(2) through (3) of this section and the related requirements in the lender's credit management system have been met for each loan application.**

PLP Lenders are required to certify in their lender narrative that applicants have an acceptable credit history without further review or documentation by the agency.--*

J Test for Credit

***--[7 CFR 762.120(h)] Except for CL guarantees, the applicant is unable to obtain--* sufficient credit elsewhere without a guarantee to finance actual needs at reasonable rates and terms. The potential for sale of any significant nonessential assets will be considered when evaluating the availability of other credit. Ownership interests in property and income received by an individual or entity applicant, or any entity members as individuals also will be considered when evaluating the availability of other credit to the applicant.**

--[7 CFR 762.120(h)(4)] *Delegated Authority.* Lenders who have received delegated authority under § 762.108 of this Part (paragraph 56) must certify that all requirements of paragraphs (h) and (h)(1) through (3) of this section and the related requirements in the lender's credit management system have been met for each loan application.--

The applicant's inability to obtain credit will be demonstrated when the lender certifies that they would not make the loan without a guarantee. The lender certifies this by signing the application form.

If the applicant has significant assets that are not essential to the farm operation, and the sale of those assets would remove the need for a guarantee, the applicant does **not** meet the test for credit requirement.

Assets and income of the entity members will also be considered when evaluating the availability of other credit to the entity applicant.

The authorized agency official will:

- review the financial information supplied by the lender along with graduation
- document that the loan requested does **not** meet the lender's loan requirements without a guarantee.

--PLP lenders are required to certify that the applicants meet the test for credit requirements without further review or documentation by the agency.--

108 General Eligibility Requirements for OL, FO, and CL (7 CFR 762.120) (Continued)

N Operator Requirement

A loan application should be submitted in the name of the actual operator of the farm. This should be consistent with any representations previously made by the applicant for farm program benefits.

If inconsistencies in the structure of the farming operation are identified, the application will be considered incomplete and the lender will be informed according to paragraph 97. The inconsistencies must be resolved before the application being considered complete.

109 Specific Requirements for OL's (7 CFR 762.120(i))

A Operator Requirement

***--[7 CFR 762.120(i)(1)] For Operating Loans, the individual or entity applicant must--* be an operator of not larger than a family farm after the loan is closed.**

When determining whether or not the farm meets the family farm definition, the authorized agency official shall:

- analyze all the factors that make up the regulatory definition of family farm and the items discussed in the following table
- look at all aspects and the circumstances of the farm operations.

Note: Consider and analyze these factors and how they relate to each another.

Application of judgment, combined with documentation of all the factors for the decision, should provide reasonable determinations of an applicant's qualifications as a family farm.

Item	Factor	Consideration
1	Recognized in the community as a farm	Consider how the applicant's farm operation compares to similar farm operations in the community. In most areas of the country and in most farming enterprises, the family will provide most of the day-to-day labor on a family farm. An exception may be made for enterprises that produce high-value, labor-intensive crops, such as fruit or vegetables.
2	Management and control of the farm business	All of the day-to-day management and operational decisions should be made by members of the farm family. The use of consultants, advisors, and similar experts is certainly acceptable provided someone in the farm family is the decision maker.
3	Amount of labor	A substantial amount of the full-time labor required must be contributed by family or entity members to the operation. The use of seasonally hired labor should not be precluded. The borrower may not necessarily perform a majority of the labor, but the amount of labor provided by the borrower is significant. One distinguishing characteristic of a family farm is that the family members provide both physical labor and management for the farm. Consider the labor requirements that are necessary for the production of specific high-value, labor-intensive crops.

109 Specific Requirements for OL's (7 CFR 762.120(i)) (Continued)**A Operator Requirement (Continued)**

Item	Factor	Consideration
4	Credit Needs	Congress established FSA's loan limits to assist family sized operations. The loan limits generally ensure that loans are made to family farm operations. It is also important that every effort be made to ensure that loans are made only when it is certain that other credit is not available. Loan participation arrangements are acceptable when FSA farm loans cannot meet the total needs; but, if maximum FSA farm loans are a small portion of the total credit requirements, this may be another indicator of a larger than family-size farm when considered with other factors, or that credit is available from another source.

B Entity Borrower Requirements

--[7 CFR 762.120(i)(2)] In the case of an entity borrower:--

- **the entity must be authorized to operate, and own if the entity is also an owner, a farm in the state or states in which the farm is located**
- **either of the following:**
 - **if the entity members holding a majority interest are related by marriage or blood, at least one member of the entity also must operate the family farm**
 - **if the entity members holding a majority interest are not related by marriage or blood, the entity members holding at least 50 percent interest must also operate the family farm.**

Note: The entity can be the operator for organizational or tax purposes in either case.

110 Specific Requirements for FO's (7 CFR 762.120(j))

A Owner and Operator Requirement

[7 CFR 762.120(j)(1)] The individual must be the operator of not larger than a family farm and the owner of a farm after the loan is closed. Ownership of the family farm operation or the farm real estate may be held either directly in the individual's name or indirectly through interest in a legal entity.

The applicant must own the farm to obtain FO. The factors in subparagraph 109 A will be considered when determining whether or not the farm meets the family farm definition. Farmers also may lease farm land in addition to the land they own. Farmers are expected to be the primary operator of the farm(s) they own to meet the owner operator requirements for a FO; however, certain exceptions may be made when it is impractical to operate selected tracts.

In the case of an FO loan for construction, a tenant with a long term lease who meets the requirements of 7 CFR 762.122 and subparagraph 123 B will be considered to meet the owner and operator requirements. State Offices with questions about owner and operator requirements will contact the National Office for guidance as needed.

B Entity Requirements

[7 CFR 762.120(j)(2)] In the case of an entity borrower:

An ownership entity must be authorized to own a farm in the state or states in which the farm is located. An operating entity must be authorized to operate a farm in the state or states in which the farm is located; and

- either of the following:
 - **if the entity members holding a majority interest are related by marriage or blood, at least one member of the entity must operate the family farm and at least one member of the entity or the entity must own the farm**
 - **if the entity members holding a majority interest are not related by marriage *--or blood, the entity members holding at least 50 percent interest must operate the family farm and the entity members holding at least 50 percent interest--* or the entity must own the farm.**

[7 CFR 762.120(j)(3)] If the entity is an operator-only entity, the individuals that own the farm (real estate) must own at least 50 percent of the family farm (operating entity).

[7 CFR 762.120(j)(4)] All ownership may be held either directly in the individual's name or indirectly through interest in a legal entity.

110 Specific Requirements for FO's (7 CFR 762.120(j)) (Continued)

B Entity Requirements (Continued)

To determine if an operator-only entity meets the 50 percent rule, the following steps can be used.

Step	Action
1	Identify all individuals with an ownership interest in any farm real estate operated by the family farm.
2	Identify the individuals with an ownership interest in the family farm operating entity and their percent interest.
3	Select the individual family farm owners who are also owners of the real estate.
4	The total interests from step 3 must be at least 50 percent.

Example: Jones Farm Inc. applied for FO. The corporation is owned by Bob and Jeff Jones. Jones Farm Inc. operation includes a farm that is owned by Jones Farms, LLC, with Bob and Betty Jones, each having a 50 percent ownership interest in LLC.

Individuals owning farmland	Jones Farm Inc.
Bob Jones	Bob Jones (50 percent)
Betty Jones	Jeff Jones (50 percent).

Jones Farm Inc. would meet the ownership rule because farmland owner (Bob Jones) owns 50 percent of the family farm (Jones Farm Inc.).

C Life Estates

FO's may be guaranteed under some circumstances when life estates are involved.

A guaranteed FO can be made to:

- both the life estate holder and the remainderman, if:
 - both have a legal right to occupy and operate the farm
 - both are eligible for the loan independently
 - both parties sign the note and lien instrument
- just the remainderman, if:
 - the remainderman has a legal right to occupy and operate the farm
 - the lien instrument is signed by the remainderman, life estate holder, and any other party having any interest in the security
- just the life estate holder, if:
 - there is no restriction placed on a life estate holder who occupies and operates a farm
 - the lien instrument is signed by the life estate holder, remainderman, and any other party having any interest in the security.

111 Eligibility Requirements for OL and FO Entity Applicants (7 CFR 762.120(k))**A Individual Ownership Interest Requirement**

***--[7 CFR 762.120(k)] Each entity member's ownership interest may not exceed the--* family farm definition limits.**

B Entity Ownership of Large Farms

***--[7 CFR 762.120(k)(2)] The collective ownership interest of all entity members may--* exceed the family farm definition limits only if the following conditions are met:**

- **all of the entity members are related by blood or marriage**
- **all of the members are or will be operators of the entity**
- **the majority interest holders of the entity must meet the requirements of paragraphs 108 F, H, I, and 109 and 110 of this section.**

The majority interest holders of the entity must meet the following requirements:

- the entity member is a citizen of the United States, United States non-citizen national, or qualified alien
- the entity member, in past dealings with FSA, must not have provided FSA with false or misleading documents or statements
- the entity member has an acceptable credit history
- the entity members meet the requirements of paragraph 109 or 110.

C Domestic Farmer

***--[7 CFR 762.120(k)(3)] The entity must be controlled by farmers engaged primarily--* and directly in farming in the United States after the loan is made.**

Section 2 Loan Purposes and Limitations

122 OL Purposes (7 CFR 762.121(a))

A General OL Purposes

The authorized agency official shall review loan applications to ensure that OL funds are used for authorized purposes.

B Term OL Purposes

--[7 CFR 762.121(a)(1)] Loan funds disbursed under an OL guarantee may only be--
used for the following purposes:

- **payment of costs associated with reorganizing a farm to improve its profitability**
- **purchase of livestock, including poultry, and farm equipment or fixtures, quotas and bases, and cooperative stock for credit, production, processing or marketing purposes**

Notes: Acquiring farm assets by purchasing ownership interest in an entity is considered to be the same as purchasing the assets themselves. The following uses are authorized:

- individual(s) purchasing ownership interest in an existing operating entity to become the new owner(s)
- existing member(s) purchasing the shares of a withdrawing member(s).

When considering these requests:

- in all cases, the entity must be the applicant and operator of the farm
- all entity members must sign the promissory note providing individual liability for the debt (unless waived according to subparagraph 247 A)
- the assets purchased must be an authorized OL purpose
- the loan amount must be consistent with the interests purchased.

State Offices shall contact the National Office for guidance, if needed.

- **payment of annual farm operating expenses, examples of which include feed, seed, fertilizer, pesticides, farm supplies, repairs and improvements which are to be expensed, cash rent and family subsistence**
- **payment of scheduled principal and interest payments on term debt provided the debt is for authorized FO or OL purposes**
- **other farm needs**

122 OL Purposes (7 CFR 762.121(a)) (Continued)

B Term OL Purposes (Continued)

- payment of costs associated with land and water development for conservation or use purposes
- refinancing indebtedness incurred for any authorized OL purpose, when the lender and applicant can demonstrate the need to refinance
- payment of loan closing costs
- payment of costs associated with complying with Federal or State-approved standards under the Occupational Safety and Health Act of 1970 (29 U.S.C. § 655 and 667); this purpose is limited to applicants who demonstrate that compliance *--or non-compliance with the standards will cause them substantial economic--* injury
- payment of training costs required or recommended by the Agency.

C Real Estate Improvements

Term OL funds may be used for limited real estate improvements, so long as the loan can be repaid within 7 years. These improvements can take the form of fixtures to existing farm buildings or new building construction. Improvements financed over periods longer than 7 years are assumed to be for real estate rather than operating purposes and will not be financed with OL funds.

D Processing or Marketing Purposes

Allowable marketing costs include the purchase of quotas and expenses related to the sale of farm products produced by the applicant. FSA funds cannot be used to finance the resale of agricultural commodities produced by other farm entities.

OL funds can also be used to finance the initial processing of agricultural commodities produced by the applicant's farm.

Examples: Examples of allowable processing activities include canning tomatoes and packaging maple syrup.

Generally, for the financing of a marketing activity to be eligible, the activity must be a natural extension of the farming operation. In determining allowable enterprises, authorized agency officials should:

- compare the relative size of revenues and expenses for the farm and nonfarm operations
- consider the portion of goods marketed or processed that the farm raises versus the portion obtained from other entities. If the applicant produces more than 50 percent of the commodity being processed, the enterprise may be allowable.

122 OL Purposes (7 CFR 762.121(a)) (Continued)

F LOC Purposes

--[7 CFR 762.121(a)(2)] Loan funds under a line of credit may be advanced only for--
the following purposes:

- **payment of annual operating expenses, family subsistence, and purchase of feeder animals**

Note: Annual operating expenses include those expenses related to operations with normal production cycles exceeding 12 months, such as some aquaculture and tree crops.

- **payment of current annual operating debts advanced for the current operating cycle; under no circumstances can carry-over operating debts from a previous operating cycle be refinanced**
- **purchase of routine capital assets, such as replacement of livestock, that will be repaid within the operating cycle**

Note: Only routine, annually recurring capital purchases may be included under LOC. These purchases must be scheduled for repayment within the operating cycle.

Example: Operations that normally replace a certain portion of their breeding livestock each year may include these purchases under LOC.

- **payment of scheduled, non-delinquent term debt payments provided the debt is for authorized FO or OL purposes**
- **purchase of cooperative stock for credit, production, processing, or marketing purposes**
- **payment of loan closing costs.**

123 FO Purposes (7 CFR 762.121(b))**A General FO Purposes**

The authorized agency official shall review loan applications to ensure that FO funds are used for approved purposes.

B FO Purposes

[7 CFR 762.121(b)] Guaranteed FO's are authorized only to:

- **acquire or enlarge a farm**

Examples: Examples include, but are not limited to:

- **providing down payments**
- **purchasing easements for the applicant's portion of land being subdivided**
- ***--participating in the Down Payment Loan program under--*
7 CFR Part 764 of this chapter (3-FLP).**

Notes: Land acquired with FO funds must be intended for production of agricultural commodities, used as the headquarters of the farming operation, used as the primary residence of the farm owner or manager, or used to store, repair, or process farm equipment, commodities, or livestock.

FO funds must only finance purchases by FSA loan applicants; therefore, when FO funds are advanced to acquire or enlarge a farm, all individuals that will own the farm (real estate) being purchased must also be owners of the family farm (operating entity) or their spouses.

Acquiring farm assets by purchasing ownership interest in an entity is considered to be the same as purchasing the assets themselves. The following uses are authorized:

- Individual(s) purchasing ownership interest in an existing operating entity to become the new owner(s).
- Existing member(s) purchasing the shares of a withdrawing member(s).

123 FO Purposes (7 CFR 762.121(b)) (Continued)

B FO Purposes (Continued)

- **make capital improvements**

Examples: Examples include, but are not limited to, the construction, purchase, and improvement of farm dwellings, service buildings and facilities that can be made fixtures to the real estate. Capital improvements to leased land may be financed subject to the limitations in § 762.122.

Notes: FO funds can be used to purchase, improve, or build any type of structure related to the farming enterprise, including dwellings recognized in the community as moderate in size, cost, and design. When planning capital improvements, the lender shall ensure that:

- all project facilities are designed using accepted architectural and engineering practices and conform to applicable Federal, State, and local codes and requirements
- the project will be completed with available funds and, once completed, will be used for its intended purpose and produce products in the quality and quantity proposed in the application.

--[7 CFR 762.122(b)] When FO or CL funds are used for improvements--
to leased land, the terms of the lease must provide either of the following:

- **reasonable assurance that the applicant will have use of the improvement over its useful life**
- **compensation for any unexhausted value of the improvement if the lease is terminated.**

- **promote soil and water conservation and protection**

Examples: Examples include the correction of hazardous environmental conditions, and the construction or installation of tiles, terraces and waterways.

- **pay closing costs, including but not limited to, purchasing stock in a cooperative, appraisal and survey fees**
- **refinance indebtedness incurred for authorized FO or OL purposes, provided the lender and applicant demonstrate the need to refinance the debt.**

123 FO Purposes(7 CFR 762.121(b) (Continued)**B FO Purposes (Continued)**

When the guaranteed loan is to be used to refinance an unguaranteed debt that the requesting lender has with the applicant, the authorized agency official must evaluate whether the terms of the proposed loan will improve the applicant's cash flow and likelihood of success.

When a portion of a guaranteed loan is to be used to refinance a guaranteed debt that the lender has with the applicant, the lender shall ensure that rescheduling the note and alternative repayment schedules have been considered before requesting the new guarantee.

Refinancing debt that is already covered by a guarantee uses limited funding resources and
--causes the borrower to pay a new guarantee fee.--

When a guarantee that includes refinancing guaranteed debt is requested, the authorized agency official must evaluate whether restructuring options described in 7 CFR 762.145
--(2-FLP, Part 12, Sections 2 and 3) will improve the borrower's cash flow and likelihood of success without refinancing the guaranteed debt. If restructuring results in essentially the same likelihood of success, refinancing of the guaranteed debt will not be considered.--

Refinancing guaranteed debt shall not be requested just to consolidate the existing guarantee debt with a new request.

123.5 CL Purposes (7 CFR 762.121(c)) (Continued)

B CL Purposes (Continued)

***--[7 CFR 762.122(b)] When FO or CL funds are used for improvements to leased land,-**
-* the terms of the lease must provide either of the following:

- **reasonable assurance that the applicant will have use of the improvement over its useful life**
- **compensation for any unexhausted value of the improvement if the lease is terminated.**

124 Loan Limitations (7 CFR 762.122 and 761.8)

A General Guaranteed Loan Limitations

Applicants are limited in the total amount of money they can borrow through FSA programs and in how they can use the funds they receive. The authorized agency official must review loan applications to ensure that they comply with FSA limitation requirements.

B Specific OL, FO, and CL Limitations

[7 CFR 761.8(c)] The total dollar amount of line of credit advances and income releases cannot exceed the total estimated expenses, less interest expense, as indicated on the borrower's cash flow budget, unless the cash flow budget is revised and continues to reflect a feasible plan.

The amount of loan proceeds that the lender advances plus the amount of income that the lender releases to the borrower normally cannot exceed the borrower's total planned expenses, excluding interest expense. However, additional amounts may be advanced or released if a revised feasible plan, as defined in Exhibit 2, is developed.

***--[7 CFR 762.122(c)] The Agency will not guarantee any loan made with the proceeds--**
*** of any obligation the interest on which is excluded from income under Section 103 of the Internal Revenue Code of 1986, as amended. Funds generated through the issuance of tax-exempt obligations may not be used to purchase the guaranteed portion of any Agency guaranteed loan. An Agency guaranteed loan may not serve as collateral for a tax-exempt bond issue.**

Many States have financing programs for, typically, beginning farmers using Tax Exempt Industrial Revenue Agricultural Bonds ("Aggie Bonds"). Because of their tax-exempt status, FSA cannot guarantee loans funded with Aggie Bonds.

--124 Loan Limitations (7 CFR 762.122 and 761.8) (Continued)--**B Specific OL, FO, and CL Limitations (Continued)**

***--[7 CFR 762.122(d)] The Agency will not guarantee any loan to purchase, build,--*
or expand buildings located in a special 100 year floodplain as defined by FEMA flood
hazard maps unless flood insurance is available and purchased.**

If FEMA floodplain maps have not been completed, this restriction will not apply. However, if the floodplain maps have been completed for the area, but the community has chosen to not make flood insurance available, a guarantee cannot be approved for a loan to construct buildings on the floodplain or purchase farm property if buildings are located on the floodplain. A loan for refinancing or construction of buildings outside the floodplain would not be prohibited.

***--[7 CFR 762.121(d)] Loans may not be made for any purpose which contributes to--*
excessive erosion of highly erodible land or to the conversion of wetlands to produce
an agricultural commodity. A decision by the Agency to reject an application for this
reason may be appealable. An appeal questioning the presence of a wetland,
converted wetland, or highly erodible land on a particular property must be filed
directly with the USDA agency making the determination in accordance with the
agency's appeal procedures.**

***--[7 CFR 762.121(e)] Loans may not be used to satisfy judgments obtained in the--*
United States District courts. However, Internal Revenue Service judgment liens may
be paid with loan funds.**

See Part 10 for maximum loan amount limitations.

**[7 CFR 762.125(a)(9)] Except for CL, guaranteed loan funds will not be used to
establish or support a noneligible enterprise as defined in Exhibit 2, even if the noneligible
enterprise contributes to the farm.**

The purpose of the CL Program is to provide funding that results in a net benefit to the environment regardless of the type of enterprise, including noneligible enterprises as defined in Exhibit 2.

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

125-134 (Reserved)

Section 3 Loan Terms, Insurance, Inspections, and Fees

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

A Fixed and Variable Rates

***--[7 CFR 762.124(a)(1)] The interest rate on a guaranteed loan or line of credit may--* be fixed or variable as agreed upon between the borrower and the lender. The lender may charge different rates on the guaranteed and the non-guaranteed portions of the note. The guaranteed portion may be fixed while the unguaranteed portion may be variable, or vice versa. If both portions are variable, different bases may be used.**

***--[7 CFR 762.124(a)(2)] If a variable rate is used, it must be tied to an index or rate--* specifically agreed to between the lender and borrower in the loan instruments and the rate adjustments must be in accordance with normal practices of the lender for nonguaranteed loans. Upon request, the lender must provide the Agency with copies of its written rate adjustment practices.**

FSA may request copies of lender's written rate adjustment practices if the loan approval official has reason to believe the interest rates are not in line with local lending practices. Rate adjustment practices will be maintained in lender's operational file. See subparagraphs 48 B, 51 B, and 54 B.

B Maximum Interest Rates

***--[7 CFR 762.124(a)(3)] 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 rates established and announced by the Agency on the FSA website (www.fsa.usda.gov) and as outlined below.**

- For variable rate loans or fixed rate loans with rates fixed for less than five years, 675 basis points (6.75 percentage points) above the prior business day's SOFR.
- For loans with rates fixed for five or more years, 550 basis points (5.5 percentage points) above the prior business day's 5-year Treasury note rate.

The lender is not required to tie its guaranteed loan interest rates to SOFR 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 SOFR.

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

B Maximum Interest Rates (Continued)

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

At loan closing and the lender loan file review, the authorized agency official will verify the interest rate charged to the guaranteed 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 links for the following Web pages:

- <https://www.newyorkfed.org/markets/reference-rates/sofr>, scroll down to the table and select the rate for the appropriate date

Note: If an earlier date is needed, scroll down further to enter a new date range under *--“Reference Rates Historical Data Search” and select “Overnight Rates”, “Secured Rates”, and “SOFR”. CLICK “SEARCH”.

- 5-year Treasury at https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily_treasury_yield_curve&field_tdr_date_value=2022,--* scroll down to the chart and look up the appropriate date under the “5 Yr” column. Historical data is available using the “Select Time Period” drop-down list.

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

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 prior business day’s SOFR rate on date loan closes is 2.5% and the prior business day’s 5-year Treasury rate is 2.0%.

The maximum rate would be 9.25% (SOFR rate 2.5% plus maximum spread 6.75% = 9.25%).

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

135 Interest Rate Requirements (7 CFR 762.124(a)) (Continued)***--B Maximum Interest Rates (Continued)**

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 prior business day's SOFR rate on date loan closes is 2.0% and the prior business day's 5-year Treasury rate is 1.75%.

The maximum rate would be 8.75% (prior business day's SOFR rate 2.0% plus maximum spread 6.75% = 8.75%).--*

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 prior business day's SOFR rate on date loan closes is 2.0% and the prior business day's 5-year Treasury rate is 1.0%.

The maximum rate would be 6.5% (prior business day's 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.

***--C Maximum Interest Rate When SOFR Falls Below 1.75 Percent**

In the event the SOFR rate is below 1.75 percent, the maximum interest rate shall not exceed the following.

- For variable rate loans or fixed rate loans with rates fixed for less than 5 years, 775 basis points (7.75 percentage points) above the prior business day's SOFR.
- For loans with rates fixed for 5 or more years, 650 basis points (6.5 percentage points) above the prior business day's 5-year Treasury note rate.--*

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

C Maximum Interest Rate When SOFR Falls Below 1.75 Percent (Continued)

Note: The 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 interest rate fixed for less than 5 years, regardless of program type (CL, OL or FO), the maximum rate is based on the SOFR. For loans with interest rates fixed for 5 or more years, the maximum rate is based on the 5-year Treasury index.

The following examples are based on the SOFR below 1.75%.

Example 1: Lender closes a 15-year GFO. The rate is fixed for the first 3 years at 8.75% on the date loan closes and variable for the remaining term. The prior business day's SOFR rate is 1.0% and the prior business day's 5-year Treasury rate is 0.75%.

The maximum rate would be 8.75% (SOFR 1.0% plus maximum spread 7.75% = 8.75%).

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

Example 2: 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 prior business day's SOFR rate on the date the loan closes is 1.5% and the prior business day's 5-year Treasury rate on the date loan closes is 1.0%.

The maximum rate would be 7.5% (5-year Treasury rate 1.0% plus maximum spread 6.5% = 7.5%).

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

D Interest Charges

***--[7 CFR 762.124(a)(4)] Interest must be charged only on the actual amount of funds--* advanced and for the actual time the funds are outstanding. Interest on protective advances made by the lender to protect the security will be charged at the note rate limited to subparagraph B or C.**

Interest on protective and emergency advances, made by the lender to protect the security, must not exceed the rate specified in the loan instruments. The charge of interest on legal fees, broker's fees, and other expenses paid in conjunction with bankruptcy, liquidation, or other servicing is not covered by the guarantee.

--136 Charges and Fees (7 CFR 762.124(f))--**A Loan Fees**

***--[7 CFR 762.124(f)(1)] The lender may charge the applicant and borrower fees for--* the loan provided they are no greater than those charged to nonguaranteed customers for similar transactions. Similar transactions are those involving the same type of loan requested (for example, operating loans or farm real estate loans).**

***--[7 CFR 762.124(f)(3)] Lenders may not charge a loan origination and servicing--* fee greater than one percent of the loan amount for the life of the loan when a guaranteed loan is made in conjunction with a down payment FO under 7 CFR Part 764 of this chapter (3-FLP, Part 7, Section 2).**

FSA may request that the lender provide evidence supporting the amount of their loan fees.

B Late Payment Charges

***--[7 CFR 762.124(f)(2)] Late payment charges (including default interest charges)--* are not covered by the guarantee. These charges may not be added to the principal and interest due under any guaranteed note or line of credit. However, late payment charges may be made outside of the guarantee if they are routinely made by the lender in similar types of loan transactions.**

Late payment fees and prepayment penalties may be charged on guaranteed loans, if they are routinely charged by the lender on similar loans. Late payment charges, including interest on late payments, may be charged and collected from borrowers in cases of default when the borrower pays the account current or the loan is paid in full. However, late payment charges and prepayment penalties are not covered by the guarantee and will not be paid by the government in the case of a loss. Ledgers that are provided to support the principal and interest included on FSA-2254 should not include default interest or late charges.

C Guarantee Fee

A guarantee fee will be charged on all loans according to subparagraph 247 A.

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

***--[7 CFR 762.124(b)(1)] 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.

***--[7 CFR 762.124(b)(2)] 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

***--[7 CFR 762.124(b)(2)] 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**

***--[7 CFR 762.124(b)(3)] 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

***--[7 CFR 762.124(c)] 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

***--[7 CFR 762.124(d)] 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

***--[7 CFR 762.124(e)] 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**

***--[7 CFR 762.123(a)(1)] 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

* * *

***--[7 CFR 762.123(a)(2) By loan closing, applicants must obtain at least the--* catastrophic risk protection level of crop insurance coverage, if available, for each crop of economic significance, as defined by 7 CFR 400.651.**

***--Applicants are not required to obtain insurance coverage if the only insurance product available is based on farm revenue only (for example, Whole-Farm Revenue Protection used by some specialty crop producers).**

[7 CFR 762.123(a)(4)] 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.--*

* * *

138 Insurance Requirements (7 CFR 762.123(a)) (Continued)**C Flood Insurance**

***--[7 CFR 762.123(a)(3)] 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**

***--[7 CFR 762.123(b)] 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)

Section 4 Credit Decision

Subsection 1 Financial Feasibility of Proposed Loan (7 CFR 762.125)

151 Determining Financial Feasibility of Loans (7 CFR 762.125)

A Purpose

This paragraph:

- describes how SEL and CLP lenders must demonstrate that an applicant has sufficient financial resources to repay a guaranteed loan.
- Instructs PLP lenders to use methods outlined in their CMS to determine the financial feasibility of a loan.
- details how to address missing or incomplete financial feasibility application information submitted by each lender according to the lender's status.

B Feasible Plan

--[7 CFR 762.125(a)] The applicant's proposed operation must project a feasible plan.--
The cash flow budget analyzed to determine feasible plan must represent the predicted cash flow of the operating cycle.

Note: See Exhibit 2 for the definition of feasible plan.

If the GFO request is in conjunction with a DFO request, see subparagraph 96 D for evaluation requirements.

A lender must determine whether an applicant has sufficient financial resources to repay a guaranteed loan. To make this determination, lenders work with the applicant to prepare a cash flow budget for the farm operation. As used in this part, the term "operation" includes all farm activities and income as well as all nonfarm income pledged by the applicant.

The lender will provide a cash flow budget that:

- reflects, as closely as possible, the projected cash flow of the operating cycle
- is documented in sufficient detail to adequately reflect the overall condition of the operation.

The authorized agency official will document the following information on FSA-2231:

- cash flow budget that includes all cash inflows and outflows, such as farm income sources, lease information, expenses, marketing strategies, non-farm income sources, and cash flow ratio information
- reasonable capital reserves or savings for education and retirement if needed to support operation stability and growth.

Notes: Inclusion is not required, but it may be done at the lender's discretion according to internal policies.

151 Determining Financial Feasibility of Loans (7 CFR 762.125) (Continued)

B Feasible Plan (Continued)

*--If a lender does not specifically budget for reasonable working capital reserves or savings, they still must address how the applicant is able to make progress toward long-term financial goals within the loan narrative.

If the submitted cash flow budget **does not** meet these requirements, the authorized agency official will recalculate the debt coverage.

If the recalculation shows adequate cash flow, the authorized agency official will document the findings and proceed with processing the request.

If, after re-evaluation, the cash flow budget is no longer feasible, the lender will be notified and given up to 10 calendar days to revise the plan. The lender will justify any changes made to the cash flow budget.--*

Note: For streamlined CL requests, a cash flow budget is **not** required. The lender should follow their internal procedures to determine financial feasibility.

Poultry or hog production contracts are the basis of grower income and facility value. The dependability of production contracts has a profound impact on the prospects for loan repayment. “Flock-to-flock” or “turn-by-turn” type arrangements alone may not be a dependable source of income or a reasonable projection of income for poultry or hog applicants who **do not** have a current financial performance history with FSA.

Note: For contract income to be considered dependable, the contract must:

- be for a minimum period of 3 years
- provide for termination based on objective “for cause” criteria only
- require that the grower be notified of specific reasons for cancellation
- provide assurance of the grower’s opportunity to generate enough income to ensure repayment of the loan, by incorporating requirements such as a minimum number of flocks or turns a year, minimum number of bird or hog placements per year, or similar quantifiable requirements.

Applicants requesting loans to expand their poultry or hog operation by adding more houses/barns or purchasing additional land to increase the size of the poultry or hog operation, and who **are** presently indebted to FSA, will be required to have a contract with a minimum 3-year term. The contract must at least cover the facilities financed with the guaranteed funds.

151 Determining Financial Feasibility of Loans (7 CFR 762.125) (Continued)**B Feasible Plan (Continued)**

When contract income **cannot** be determined to be dependable and likely to continue, it **cannot** be used to reasonably project future income, the authorized agency officials will:

- inform the guaranteed lender of the contract provisions that result in the determination
- provide an opportunity for submitting a revised contract before a final decision on the request.

Note: Whenever possible, guarantee requests should be approved subject to modification of unacceptable contract provisions.

The impact of industry trends must be assessed in guaranteed loan requests from poultry or hog growers and can be based on standard production budgets developed by contractors, consultants, or extension specialists. While these budgets are acceptable starting points, the budget must reflect realistic performance assumptions for the individual situation, including, but not limited to, the following:

- increased input costs
- changes in unit numbers and weights
- increased idle time between flocks of poultry or turns of hogs
- other relevant factors that affect net income.

The impact of age, condition, and potential obsolescence of the facilities must be assessed for loans to purchase or refinance existing facilities. Budgets must factor in any reduced efficiency and the potential costs for required modernization of existing facilities to comply with production contract requirements.

Note: Unless PLP lender's CMS specifically addresses how production contracts are evaluated and analyzed for financial feasibility, PLP lenders will comply with the requirements of this subparagraph.

152 Calculating Projected Income and Expenses by SEL's (7 CFR 762.125)

A Purpose

SEL's must follow FSA methodology for calculating projected income and expenses. This paragraph explains the methodology SEL's must use.

B Projected Income and Expenses

***--[7 CFR 762.125(a)(3)] For standard eligible lenders, the projected income and--* expenses of the borrower and operation used to determine a feasible plan must be based on the applicant's proven record of production and financial management.**

The lender will provide a cash flow budget where projected income and expenses meet the following requirements. The cash flow budget must:

- project reasonable crop or livestock prices
- use the operation's actual production records, when available
- use expenses based on prior experience and that is consistent with projected prices for similar goods and services
- project income from FSA farm programs prepared with assistance from DAFP employees, when necessary.

The authorized agency official will document the following on FSA-2231:

- projected yields and financial performance are within the range of previous performance
- Note:** What type of 3-year history was provided or used to develop the plan?
- justification if the lender did project outside the range
 - how the lender is supporting the projected change if additional income or expenses were projected
 - any assumptions used in the cash flow, including any reasonable capital reserves or savings for education and retirement, if needed to support stability and growth.

Notes: Inclusion is not required in the cash flow, but may be done at the lender's discretion according to their internal lending practices.

If a lender does not specifically budget for reasonable working capital reserves or savings, they still must address how the applicant is able to make progress toward long-term financial goals within the loan narrative.

152 Calculating Projected Income and Expenses by SEL's (7 CFR 762.125) (Continued)

B Projected Income and Expenses (Continued)

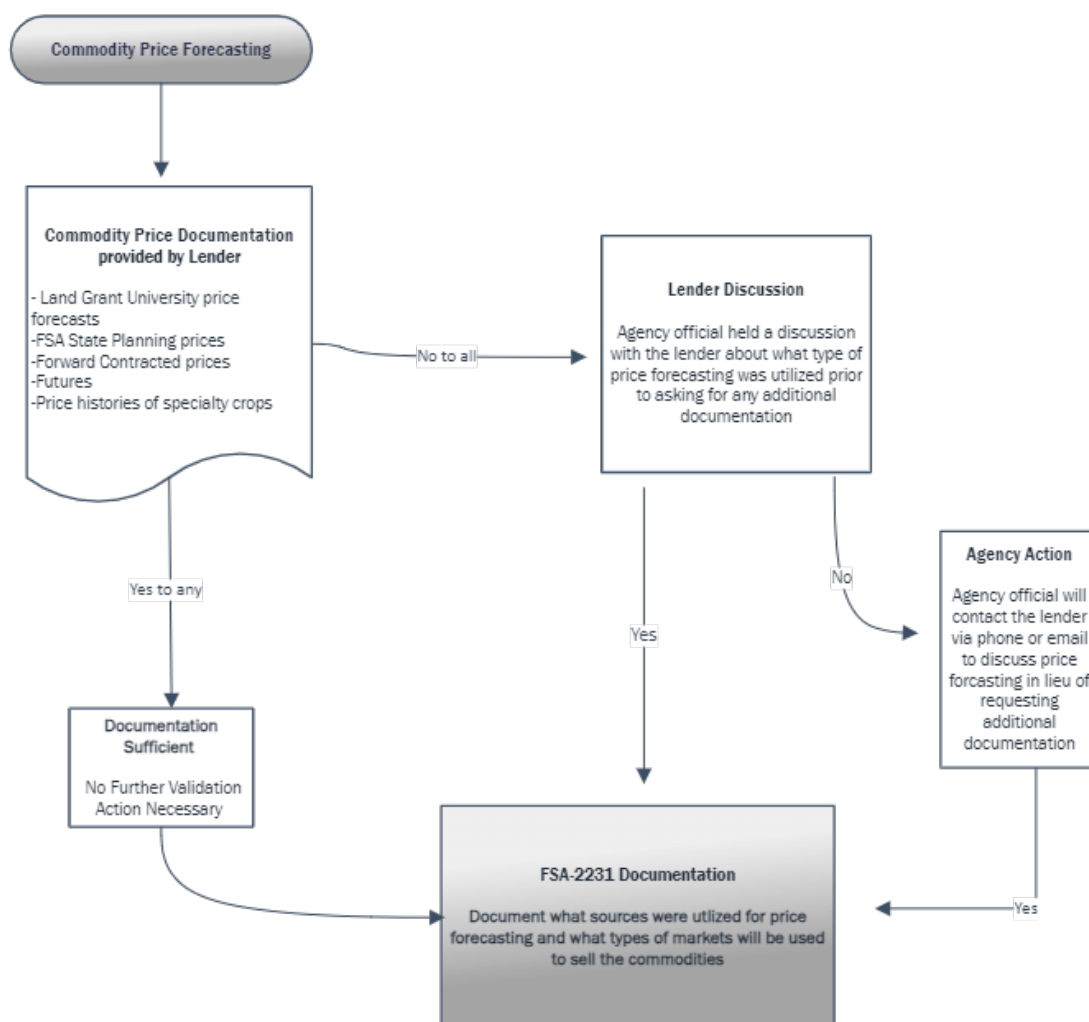
When the projected income and expenses do not meet these requirements, the agency approval official will contact the lender to discuss any clarification needed and summarize on FSA-2231.

Note: For streamlined CL requests, SEL's will follow their internal procedures for determining financial feasibility.

C Commodity Price Forecasts

***--[7 CFR 762.125(a)(7)] Lenders must use price forecasts that are reasonable and--* defensible. Sources must be documented by the lender and acceptable to the Agency.**

The lender may use price forecasts from land grant universities, other published prices, forward contracted prices, futures, or price histories of specialty crops on other commodities. The lender should use price forecasts that provide an accurate projection of commodity prices that the borrower will receive.



152 Calculating Projected Income and Expenses by SEL's (7 CFR 762.125) (Continued)

D Estimating Production

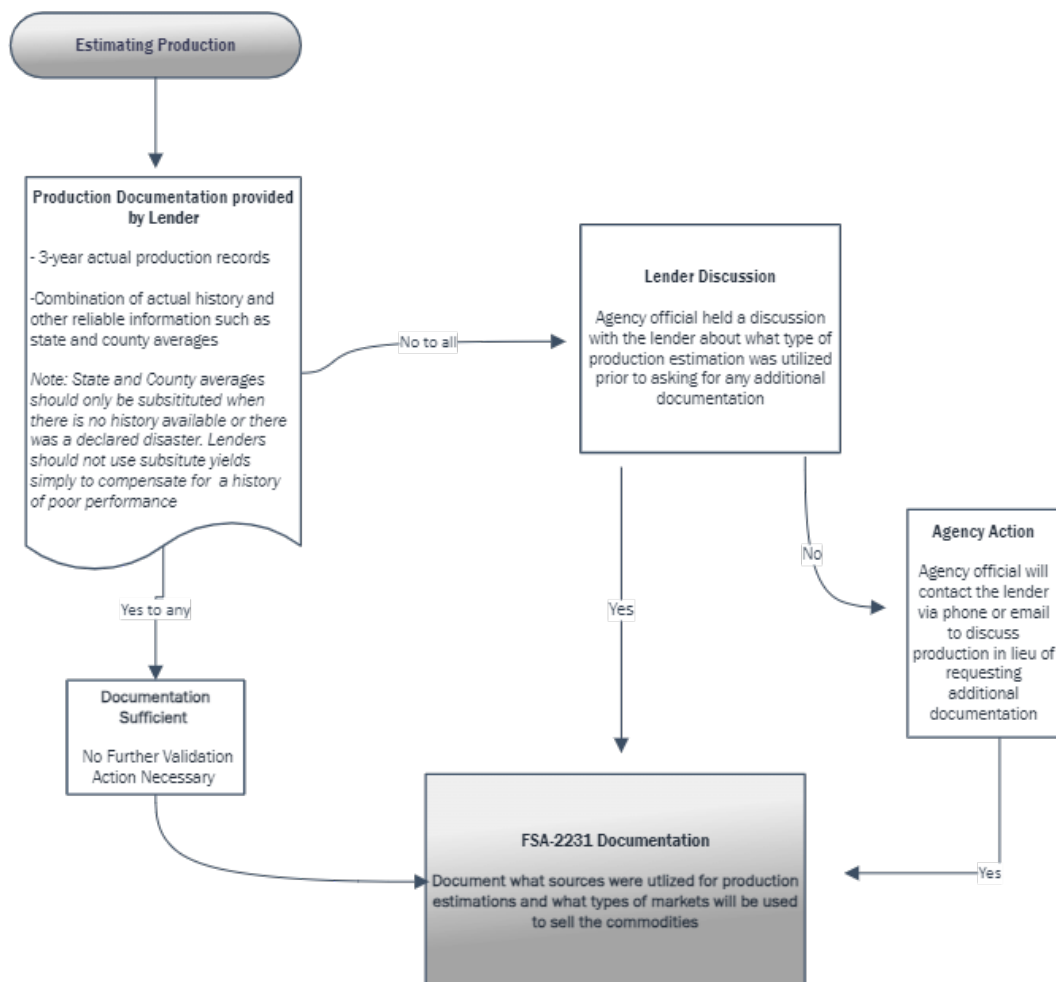
***--[7 CFR 762.125(b)(1)] Standard eligible lenders must use the best sources of--*
information available for estimating production in accordance with this subsection
when developing operating cash flow budgets.**

***--[7 CFR 762.125(b)(2)] Deviations from historical performance may be acceptable,--*
if specific to changes in operation and adequately justified and acceptable to the
Agency.**

***--[7 CFR 762.125(b)(3)] For existing farmers, actual production for the past 3 years--*
will be utilized.**

***--[7 CFR 762.125(b)(4)] For those farmers without a proven history, a combination--*
of any actual history and any other reliable source of information that are agreeable
with the lender, the applicant, and the Agency will be used.**

***--[7 CFR 762.125(b)(5)] When the production of a growing commodity can be--*
estimated, it must be considered when projecting yields.**



152 Calculating Projected Income and Expenses by SEL's (7 CFR 762.125) (Continued)

E Declared Disaster

***--[7 CFR 762.125(b)(6)] When the applicant's production history has been so--* severely affected by a declared disaster that an accurate projection cannot be made, the following applies.**

- **County average yields are used for the disaster year if the applicant's disaster year yields are less than the county average yields. If county average yields are not available, State average yields are used. Adjustments can be made provided there is factual evidence to demonstrate that the yield used in the farm plan is the most probable to be realized.**
- **To calculate a historical yield, the crop year with the lowest actual or county average yield may be excluded, provided the applicant's yields were affected by disasters at least 2 of the previous 5 consecutive years.**

County or State average yields should be substituted only when the other information is not available to make an accurate projection. The objective is to arrive at a projection of the most reliable estimate of the production level the operator is expected to achieve.

F Lender's Documentation

Lenders must maintain supporting documentation for their determination of cash flow budgets in their files. The following table summarizes the loan documentation that can be used to support the cash flow budget.

Cash Flow Element	Documentation to Support Elements
Income and Expense Projections	• Historical performance data. • FSA records. • Extension or county data. • Thorough loan narrative.
Nonfarm Income	• Lender verification of income form. • W-2, pay stub, telephone record, or historical performance data.
Loan Balances and Payment Schedules	• Lender verification of debt form. • Loan statement, credit report, or telephone record.

G Consistency of Farm Operating Plans

***--[7 CFR 762.125(a)(10)] When the applicant has or will have a cash flow budget--* developed in conjunction with a proposed or existing Agency direct loan, the two cash flow budgets must be consistent.**

To be consistent, the 2 plans must be of the same operation, with similar major assumptions, but they do not have to be identical.

Example: The lender and FSA may use slightly different projected prices and yields or different allocations for reasonable working capital reserves or savings for education and retirement.

152 Calculating Projected Income and Expenses by SEL's (7 CFR 762.125) (Continued)

H Refinancing Existing Debt

***--[7 CFR 762.125(c)] Loan guarantee requests for refinancing must ensure that a--* reasonable chance for success still exists. The lender must demonstrate that problems with the applicant's operation have been identified, can be corrected, and the operation returned to a sound financial basis.**

An allowed use of guaranteed loan funds is to refinance existing debt, including direct loans and other farm loans. In many cases, refinancing existing debt is required because the borrower is experiencing financial difficulties. In these cases, requests for use of guaranteed loan funds for refinancing debt must ensure that a reasonable chance for operational success exists.

The lender must indicate in the loan narrative what the applicant will do differently to ensure the success of the farming operation. The lender must explore different financial options that would allow the applicant to achieve a feasible plan. The lender should consider adjusting the loan terms or negotiating with other creditors to adjust their loan terms or rates as needed to make the loan feasible. See Section 2 for additional information on limitations to refinancing.

The lender will document in the loan narrative any refinancing of existing debt, including:

- an explanation of proposed changes to operations or circumstances that will help to ensure the success of the farming operation
- a description of the different financial options that were considered to achieve a feasible plan
- any consideration for adjusting loan terms or negotiations with other creditors for adjustments to rates and terms.

The authorized agency official will document on FSA-2231:

- the lender justification for the changes made to the operation for a reasonable prospect of success

Note: Address the problems identified, address how they were corrected or plan to be corrected, and validate that the operation has a plan to return to a sound financial basis.

- other considerations made for the operation to achieve a feasible plan.

If justification is not provided, the authorized agency official will discuss with the lender to obtain clarification on changes being made to the operation for future success.

152 Calculating Projected Income and Expenses by SEL's (7 CFR 762.125) (Continued)**I Alternate Income**

--[7 CFR 762.125(a)(8)] When a feasible plan depends on income from other sources in addition to income from owned land, the income must be dependable and likely to continue. [7 CFR 762.125(a)(9)] The lender will analyze business ventures other--
than the farm operation to determine their soundness and contribution to the operation.

Income from custom work and seasonal or temporary positions should not be included in the cash flow budget, unless there is a history of income from similar sources or other strong evidence of likelihood.

The lender will document in the loan narrative any proposed alternative income sources, including:

- details of the alternative or additional income included in the plan, and how it was verified
- explanation of how likely the income is to continue, and whether or not it is supported by history.

Note: Any custom work and seasonal or temporary positions should be discussed and included only if it is likely to continue.

The authorized agency official will document on FSA-2231 the lender justification for the inclusion of additional or alternate income.

- How was it verified?
- Is it dependable and likely to continue?

If justification is not provided, the authorized agency official will discuss with the lender to obtain clarification on changes being made to help ensure the future success of the operation.

153 Calculating Projected Income and Expenses by CLP Lenders (7 CFR 762.125)**A Purpose**

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

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

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

B Using Financial History

***--[7 CFR 762.125(a)(4)] For CLP lenders, the projected income and expenses of--* the borrower and operation must be based on the applicant's financial history and proven record of financial management.**

CLP lenders must use their judgment and evaluation of the individual circumstances to determine the best method for estimating the projected income and expenses of the applicant, including any reasonable working capital reserves or savings for education and retirement if needed to support operational stability and growth. CLP lenders have the option of using the operation's production yields, as described in paragraph 152 for SEL. CLP lenders will use the applicant's income and other financial records. As with the use of production yields, the lender should not merely average 3 years of income figures. An average is only appropriate when there have not been major changes in the operation. If there have been major changes in yields, prices, or production, this should be considered when estimating the projected income and expenses. The inclusion of reasonable working capital reserves or savings for education and retirement in the budget is not required, but may be done at the lender's discretion according to their internal lending policies. If a lender does not specifically budget for reasonable working capital reserves or savings, they still should address how the applicant is able to make progress toward long-term goals in the loan narrative.

The lender will include in their loan narrative a discussion on the applicant's financial history and management that will:

- consider the range and trends as indicators of the capability and limitations of the operator, land, and equipment

Note: Projections should reflect what the current or proposed operation can reasonably and justifiably accomplish.

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

The authorized agency official will document on FSA-2231:

- lender's method of projected income and expenses
- deviations from historical production
- major changes in yields or prices.--*

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

B Using Financial History (Continued)

If justification is not provided, the authorized agency official will discuss with the lender to obtain clarification on documentation.

- Source documentation can be provided when it is more convenient for the lender to provide the information.
- The authorized agency official may require an update to certain sections of the narrative, and should not require an entirely new narrative. Email updates are considered acceptable.

Note: For streamlined CL requests, CLP lenders will follow their internal procedures for determining financial feasibility.

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

A Purpose

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

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

B Using Internal Procedures

***--[7 CFR 762.125(a)(1)] Notwithstanding any other provision of this section, PLP--* lenders will follow their internal procedures on financial feasibility as agreed to by the Agency during PLP certification.**

***--[7 CFR 762.125(e)] Delegated Authority. Lenders who have received delegated authority under § 762.108 of this Part (paragraph 56) must certify that all requirements of this section and the related requirements in the lender's credit management system have been met for each loan application.**

To determine financial feasibility, PLP lenders must follow the procedures agreed to by FSA and the lender as described in CMS. The loan narrative must contain a certification of the financial feasibility of the operation including the debt service coverage ratio, current ratio, debt to asset ratio and net worth (or other similar ratios and measures as outlined in the CMS) without any further review or documentation by the agency. The lender should also consider whether reasonable capital reserves or savings for education and retirement are needed to support operational stability and growth. The inclusion of reasonable working capital reserves or savings for education and retirement in the feasibility analysis is not required, but may be done at the lender's discretion according to their internal lending policies. No specific discussion regarding working capital reserves or savings is required in the capacity section of the narrative, but it should be considered by the lender when conducting their feasibility analysis internally.--*

154 Determining Financial Feasibility of Loans by PLP Lenders (7 CFR 762.125) (Continued)

B Using Internal Procedures (Continued)

--The authorized agency official will not request additional documentation related to financial feasibility.--

* * *

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 personal property-secured guaranteed loan must have a higher lien priority (including purchase money interest) than an unguaranteed loan secured by the same personal property 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 adequate 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.

If a proposed loan is to be secured with 1 or more items in a junior lien position that are necessary to meet adequate security requirements, the 85 percent limitation applies. In those cases, agency officials should utilize the calculation in subparagraph 166 B to determine whether the 85 percent threshold has been met. If junior liens are taken as additional security only, the 85 percent limitation does not apply.

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.

*--The following table provides the lien position scenarios in this subparagraph.

WHEN the loan request is a...	THEN the lien position is...
subsequent guaranteed loan	equal lien to original guaranteed loan.
• with: • same lender • same collateral • not junior to unguaranteed loan	
subsequent guaranteed loan and is junior to an unguaranteed loan	junior lien position.
subsequent non-guaranteed loan and has the same or different lender	junior lien position to the guaranteed loan.
guaranteed loan and non-guaranteed loan • with: • same lender • same collateral • that close at the same time or the guarantee comes after	shared lien position or junior lien position (if the 85 percent threshold is met) depending on agreement with the lender. Note: Lender makes the shared lien determination. The agency cannot require a shared lien if the junior lien provisions of this subparagraph (including the 85 percent threshold) are met.

--*

167 Identifiable Collateral (7 CFR 762.126(c))**A Purpose**

All of the collateral must be identifiable. This paragraph describes the guidelines for evaluating whether the security obtained for a guaranteed loan is identifiable.

B Identifiable Security

***--[7 CFR 762.126(c)] The guaranteed loan must be secured by identifiable--* collateral. To be identifiable, the lender must be able to distinguish the collateral item and adequately describe it in the security instrument.**

Guaranteed loans must be secured by collateral that can be distinguished from other collateral items and can be adequately described in security instruments.

Example: A tractor described by its make, model, year, and serial number is identifiable collateral, while a truck that is only described as “flat-bed truck” is not identifiable collateral.

C Equipment

Equipment should be identified by manufacturer, model, year, and serial number, where available. If this information is not available, the lender should provide a sufficient written description of the equipment so that it is easily identifiable.

D Livestock

Livestock taken as security will be fully described, including breed, age group, and type, and will indicate the numbers in each group. This provision allows the farmer to perform routine culling and replace livestock without obtaining a release of security. The lender is responsible for ensuring that the borrower maintains the livestock numbers by periodically monitoring the livestock on the farm and ensuring that liens have not been provided to other creditors.

Particularly high value livestock can be appraised as such if the animals are clearly identified, monitored, and accounted for.

E Real Estate

Real estate can be identified using tax lot and block numbers, full metes and bounds, or rectangular survey description or similar system. A survey is not required if the property is adequately described and determined unnecessary by the lender’s internal lending policy.

168 Type of Security Required by Type of Loan (7 CFR 762.126(d))**A Purpose**

The type of security obtained for a loan must be appropriate to the type of loan, and the loan terms must be consistent with the useful life of the security. This paragraph describes the guidelines for evaluating whether the type of security is appropriate for the proposed loan.

B Security Requirements

***--[7 CFR 762.126(d)(1)] Guaranteed loans may be secured by any property if the--* term of the loan and expected life of the property will not cause the loan to be undersecured.**

Typically, annual operating loans will be secured by crops and livestock, loans to be repaid within 2 to 7 years by breeding livestock and equipment, and loans repaid over greater than 7 years by real estate.

***--[7 CFR 762.126(d)(2)] For loans with terms greater than 7 years, a lien must be--* taken on real estate.**

The guidelines for short-, intermediate-, and long-term loans are as follows.

Loans	Guidelines
Short-term	Annual OL's should be secured at least by crops and livestock that will generally be sold during the term of the loan.
Intermediate-term	OL's should be secured by collateral that has useful life at least as long as the loan. Loans to be repaid over a 2- to 7-year period should be secured by breeding livestock and equipment. The lender should evaluate the equipment proposed to be used for security to ensure that it will not depreciate faster than the loan is repaid.
Long-term	Loans scheduled to be repaid over more than 7 years must be secured by real estate. Anticipated depreciation of the improvements must be considered when establishing terms.

--OL's with an amortization over 7 years and up to 15 years must use breeding livestock, equipment, or real estate to fully secure the loan. Real estate security is not required for OL's with amortizations of 15 years or less if adequate breeding livestock or equipment is available to secure the loan. OL's with amortizations longer than 15 years must use real estate to fully secure the loan.--

168 Type of Security Required by Type of Loan (7 CFR 762.126(d)) (Continued)**C Leasehold Properties**

***--[7 CFR 762.126(d)(3)] Loans can be secured by a mortgage on leasehold properties--* if the lease has a negotiable value and is subject to being mortgaged.**

If the authorized agency official does not have experience in making loans secured by leaseholds, they should contact the State Office for assistance.

D Additional Personal or Corporate Guarantees

***--[7 CFR 762.126(d)(4)] The lender or Agency may require additional personal--* or corporate guarantees to adequately secure the loan. These guarantees are separate from, and in addition to, the personal obligations arising from members of an entity signing the note as individuals.**

If the farm operation does not have adequate security for the proposed loan, additional security, such as personal or corporate guarantees, may be used to secure the loan. Therefore, entity members may be required to pledge their personal property or other non-farm assets. For individual applicants, an additional guarantee may be provided by a co-signer.

For entities, the instruments are executed by the member who is authorized to sign for the entity, and by all members of the entity as individuals. Individual liability can be waived by FSA for members holding less than 10 percent ownership in the entity if collectability of the loan will not be impaired.

--169 Multiple Security Owners, Delegated Authority, and Exceptions to Security--
Requirements (7 CFR 762.126)

A Multiple Security Owners

--[7 CFR 762.126(g)] If security has multiple owners, all owners must execute the--
security documents for the loan.

***--B Delegated Authority**

[7 CFR 762.126(h)] Lenders who have received delegated authority under § 762.108 of this Part (paragraph 56) must certify that all requirements of this section and the related requirements in the lender's credit management system have been met for each loan application.

PLP Lenders are required to certify that the applicants have met the lenders internal collateral standards and provide a LTV without further review or documentation by the agency.--*

C Exceptions to Security Requirements

--[7 CFR 762.126(i)] The Deputy Administrator for Farm Loan Programs has--
the authority to grant an exception to any of the requirements involving security, if the proposed change is in the best interest of the Government and the collectability of the loan will not be impaired.

DAFLP has the authority to make exceptions to the rules about security. Exceptions will only be made on a case-by-case basis where the proposed exception is in the best interest of FSA, the lender, and the applicant. The exception must not reduce either of the following:

- applicant's ability to make regular loan payments
- lender's ability to collect on the debt obligation through the sale of collateral.

DAFLP's decision on granting exceptions is final and not appealable. SED's should evaluate all requests for exceptions, and forward them to DAFLP with a formal memo and supporting documentation addressing the following items:

- analysis of the benefits or problems
- documentation of exception criteria requirements
- analysis of why the exception is in the best interest of the government, the lender, and the applicant
- recommendation for their approval or rejection.

No exception will be granted without an analysis and documentation of why such an exception is in the Government's best interest.

170-180 (Reserved)

Subsection 3 Appraisals

181 General Requirements (7 CFR 762.127(a))

A Purpose

[7 CFR 762.127(a)(1)] The lender is responsible for ensuring that the value of
~~*--personal property and real estate pledged as collateral is sufficient to fully secure--*~~
the guaranteed loan.

Collateral valuation is an integral part of the loan evaluation process. This paragraph will discuss general collateral valuation requirements and when appraisals or evaluations are and are not required. See subparagraph 267 I for SED responsibilities about appraisals.

B General Requirements

The requirements in this paragraph apply to all 3 types of lenders.

Appraisals or evaluations of collateral are not part of a complete application and guarantees may be approved by FSA, subject to the lender obtaining an acceptable appraisal or evaluation. The lender is responsible for properly documenting the market value of collateral before loan closing and FSA issuing the loan guarantee.

MLP's and SEL's must provide FSA with a copy of an evaluation before FSA issuing FSA-2235, if the request was approved subject to obtaining an evaluation. CLP's and PLP's certify that evaluations have been completed, which support the security values as stated in the Conditional Commitment. CLP's and PLP's are **not** required to submit the evaluation to FSA but are required to maintain it in the lender's loan file.

All lenders certify that, when required, appraisals have been completed, which support the security values as stated in the Conditional Commitment and are **not** required to submit the appraisal to FSA. The lender will maintain the appraisal in the lender's loan file.

Lenders are encouraged to provide their appraisers with the appraisal guidelines in 1-FLP and this handbook. Using the appraisal guidelines will help ensure obtaining quality appraisals.

Authorized agency officials shall review evaluation and appraisal requirements and appraisal guidelines during lender training sessions.

Each lender is responsible for ensuring that applicable ECOA requirements are met including providing applicants with copies of the appraisals or evaluations. It is not FSA's responsibility to make a determination whether a lender violated ECOA; rather, lenders should be advised to research those requirements with their appropriate regulatory authority or attorneys as needed. See subparagraph 210 A for additional information related to ECOA complaints against lenders.

181 General Requirements (7 CFR 762.127(a)) (Continued)**B General Requirements (Continued)**

Each lender is responsible for ensuring that the person completing the appraisal or evaluation has the necessary qualifications. Real estate appraisals must be completed according to USPAP.

Notes: FSA will no longer conduct administrative and technical reviews on appraisals for guaranteed loan making or loan servicing actions except for those submitted for liquidation or writedown purposes. FSA will conduct evaluation and appraisal *--reviews according to 1-FLP, subparagraphs 143 C, E, F, and G, as applicable. FSA retains the right to conduct Lender reviews which may include reviews of evaluations and appraisals.--*

A current copy of USPAP may be obtained from
<http://www.appraisalfoundation.org>.

See:

- Exhibits 14, 14.1, 14.2, and 14.3 for guidance to lenders when ordering appraisals
- Exhibit 15 for additional guidance about appraisals for the liquidation of poultry and other CAFO's.

C Loan Servicing

All lenders, regardless of their status, are required to obtain acceptable evaluations or appraisals when loans are secured by real estate for the following actions:

- transfer of security and assumption of debt (according to subparagraph 281 D)
- debt writedown
- servicing FSA-2253's
- liquidation
- partial releases of security if determined necessary by FSA
- subordinations of basic and/or additional security
- restructuring payments when the new payment schedule will include a balloon installment.

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 personal property 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 personal 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
--personal property form or on any other appraisal form containing at least the same--
information.**

D Appraiser Qualifications

***--[7 CFR 762.127(b)(4)] Personal property 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 \$500,000 or Less**

**[7 CFR 762.127(c)(1)] For loans of less than or equal to \$500,000 or the current OMB
threshold, whichever is higher, the lender must document--*
the value of the real estate by applying the same policies and procedures as their non-
guaranteed loans.**

Note: The current OMB threshold is \$500,000.--*

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 \$500,000 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 \$500,000**

[7 CFR 762.127(c)(2)] For loans greater than \$500,000, or the current OMB threshold, whichever is higher, 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.**

***--Notes:** The current OMB threshold is \$500,000.

Appraisals more than 18 months old may be used for all loans, including loans of \$500,000 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.

183 Real Estate Security (7 CFR 762.127(c)) (Continued)***--B Loans Greater Than \$500,000 (Continued)--***

[7 CFR 762.127(c)(3)] Agency determinations under paragraph (c)(2) of this section (this subparagraph) to permit appraisals more than 18 months old are not appealable.

Note: When using an appraisal over 18 months old, all collateral and loan approval considerations will be based on the market value stated on the appraisal. The value will not be adjusted for time or any other reason.

Generally, the 3 approaches to value are required when all are necessary to produce credible assignment results. Appraisal development may, however, be limited in nature as established in the scope of work. An appraisal that has been limited in scope might result in an exclusion of 1 or more of the approaches to value, if deemed unnecessary or not representative. An example of this might be the exclusion of the cost approach to value when appraising cropland where there are no improvements or when the improvements are functionally obsolete and have no remaining contributory value.

The appraisal report must be a USPAP compliant appraisal report. Restricted reports, as defined in USPAP, are normally only for internal use, may be simply a letter of value, have limited information, and are not acceptable for guarantee requests.

184-194 (Reserved)

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

Lenders must consider environmental issues when making and servicing guaranteed loans.
--Authorized agency officials should consult 7 CFR Parts 12 and 1b, for guidance on what--
FSA must do to comply with the various environmental statutes and Executive Orders on issues such as HEL, wetlands, floodplains, and hazardous waste.

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

B Environmental Requirements

--[7 CFR 762.128(a)] The requirements found in part 1b of this title, must be met for--
guaranteed OL, FO, and CL. CLP, PLP, and MLP lenders may certify that they have documentation in their file to demonstrate compliance with this section. Standard eligible lenders must submit evidence supporting compliance with this section.

--[7 CFR 762.128(b)] The Agency determination of whether an environmental--
problem exists will be based on:

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

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

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

***--[7 CFR 762.128(c)] Lenders will assist in the environmental review process by--* providing environmental information. In all cases, the lender must retain documentation of their investigation in the applicant's case file.**

It is the responsibility of the authorized agency official to complete the proper level of environmental review for each loan application as required in 7 CFR Part 799 and 1-EQ. The certification by the lender on Application for Guarantee does not certify that the loan request is in full compliance with the environmental requirements. The certification only demonstrates that reasonable investigations have been completed for certain items.

C Hazardous Substances

***--[7 CFR 762.128(c)(5)] All lenders are required to ensure that due diligence is--* performed in conjunction with a request for guarantee of a loan involving real estate. The Agency will accept as evidence of due diligence the most current version of the American Society of Testing Materials (ASTM) transaction screen questionnaire available from 100 Barr Harbor Drive, West Conshohocken, Pennsylvania 19428-2959, or similar documentation, supplemented as necessary by the ASTM Phase I environmental site assessments form.**

208 Environmental Requirements (7 CFR 762.128) (Continued)

C Hazardous Substances (Continued)

The presence of hazardous substances that have been released can reduce a property's value, because of the regulatory and cleanup costs associated with contaminated soils and groundwater. The lender is responsible for conducting a due diligence investigation on the subject property. Of concern is the presence of contamination from hazardous substances or petroleum products and their impact on the market value of the property.

The lender is expected to conduct a site visit with the applicant. If real estate will be taken as primary security, the lender must:

- complete the American Society of Testing and Materials' Standards e-1528, Transaction Screen Questionnaire, FSA Environmental Risk Survey Form, or similar questionnaires or screening tools meeting the requirements outlined by their respective regulator (FDIC, OCC, FCA, etc.).

Notes: The lender is responsible for ensuring that an adequate level of due diligence review is conducted. Failure of a lender to do so **could** potentially result in a reduction or denial of a loss claim.

If similar questionnaires or screening tools used by a lender require that the applicant provide information for the review, the lender must also review the form and provide acknowledgement that they have reviewed the form and certified its accuracy.

If a lender's regulator does not outline environmental due diligence requirements, the lender should use the American Society of Testing and Materials' Standards e-1528, Transaction Screen Questionnaire, FSA Environmental Risk Survey Form, or should use those forms as a guide for their own questionnaire.

- indicate on the Application for Guarantee * * * and explain if the questionnaire indicates a problem may exist

Note: Lenders can attach a copy of the questionnaire if it indicates that a problem may exist. However, submission of the questionnaire is not required if it appears that there are no potential problems.

- indicate on the Application for Guarantee * * * if the questionnaire indicates no problem was discovered
- keep the questionnaire in the borrower's case file.

If the lender's review indicates a potential problem, the lender should submit enough information in the due diligence process so that the authorized agency official, in most cases, can review the information without having to visit the farm. However, if the lender's review does NOT indicate any potential problems, submission of the due diligence information to the Agency is not required, but it must be maintained in the lender's loan file.

208 Environmental Requirements (7 CFR 762.128) (Continued)

D Wetlands and HEL

***--[7 CFR 762.128(c)(4)] The applicant must certify that they will not violate the--* provisions of Section 363 of the “ACT”, the Food Security Act of 1985, and Executive Order 11990 relating to Highly Erodible Land and Wetlands.**

The authorized agency official must:

- *--ensure that the applicant has certified they are in compliance with the requirements of 7 CFR Part 12 and therefore:--*
 - will not violate HEL and WC provisions
 - are not currently out of compliance with HEL or WC provisions
- determine that loan funds will not be used for a purpose that will contribute to a violation of HEL and WC provisions.

See 1-FLP, subparagraph 222 C for guidance to identify potential wetlands that may be impacted by the proposed action.

According to 6-CP, applicants must certify that they will not violate HEL and WC provisions by completing and executing AD-1026 for each tract of land in which they have a farming interest.

If question 6, 7A, 7B, or 7C is answered “yes” by the applicant, then AD-1026 will be referred to NRCS for a HEL or wetland determination as appropriate.

A conservation plan may be required if the property contains HEL. If a conservation plan is required, NRCS should be contacted to:

- determine what the conservation plan will contain
- evaluate if the applicant has the resources to carry out the plan.

The authorized agency official should consider the proposed use of loan funds, the contents of the conservation plan, if a conservation plan exists, and changes in land use when determining whether an applicant is likely to violate HEL and WC provisions.

208 Environmental Requirements (7 CFR 762.128) (Continued)

E Floodplains

***--[7 CFR 762.128(c)(1)] A determination must be made as to whether there will be--* any potential impacts to a 100 year floodplain as defined by Federal Emergency Management Agency floodplain maps, Natural Resources Conservation Service data, or other appropriate documentation.**

FSA must:

- avoid impacting floodplains, where practicable, by seeking and reviewing alternatives as part of the environmental assessment process
- mitigate potential adverse impacts to the floodplain when avoidance is not possible
- obtain all required floodplain development permits when it is necessary to perform construction within a floodplain.

Note: The lender shall keep a copy of the appropriate floodplain map in their files.

F Water Quality Standards

***--[7 CFR 762.128(c)(2)] The lender will assist the borrower in securing any--* applicable permits or waste management plans. The lender may consult with the Agency for guidance on activities which require consultation with State regulatory agencies, special permitting or waste management plans.**

The authorized agency official and lender must ensure that applicants are in compliance with Federal and State Water Quality Standards, including Storm Water Discharge Permit requirements for certain construction activities. Although the permit requirements may vary from State to State, there are some types of operations that usually require special permits.

Example: Large confinement livestock operations frequently require special permits or waste management plans under State water quality laws.

208 Environmental Requirements (7 CFR 762.128) (Continued)**F Water Quality Standards (Continued)**

Lenders are expected to:

- consult with FSA for guidance on those activities that require State agency consultation, special permitting, or waste management plans
- conduct a site visit to the applicant's farm
- indicate on the Application for Guarantee * * * the need for special permits or plans or if potential problems exist

Note: If special permits or plans exist, the lender should describe them and indicate the status of the permits and plans in the application.

- indicate if no problem is evident and that the farmer is in compliance with permits and plans
- record the farm visit in the applicant's case file and keep copies of waste management plans and permits as appropriate.

209 National Historic Preservation Act (7 CFR 762.128(c)(3))**A Requirements**

***--[7 CFR 762.128(c)(3)] The lender will examine the security property to determine--*
if there are any structures or archeological sites which are listed or may be eligible for
listing in the National Register of Historic Places. The lender may consult with the
Agency for guidance on which situations will need further review in accordance with
*--the National Historical Preservation Act and Part 1b of this title.--***

FSA is required to take into account the effects of its actions on historic property that is listed or may be eligible for listing on the National Register of Historic Places. FSA may require assistance from the lender, but FSA is responsible for the final decision.

Exception: FSA may not delegate the responsibility of consulting with the Tribal Historic Preservation Officer and any other interested Tribe.

FSA expects the lender to:

- consult with the authorized agency official for guidance on what situations will need historic property review and consultation

IF the proposed loan is for an activity that is...	THEN...
not an undertaking of National Historic Preservation Act, Section 106, or it is an undertaking but has no potential to impact historic properties if these properties may be present	no further Section 106 review is required; FSA personnel may see the EQ series for further information and guidance on undertakings.
for an activity that is an undertaking of the National Historic Preservation Act, Section 106 and has the potential to impact historic properties if these properties may be present	further Section 106 review is required.

Examples: Historic properties include structures over 50 years old, sites of any age with significant historic or archaeological value, and burial grounds.

209 National Historic Preservation Act (7 CFR 762.128(c)(3)) (Continued)**A Requirements (Continued)**

- examine the farm property and question the owner, if available

* * *

- check other sources of information, such as local historical societies or universities
- indicate on the Application for Guarantee and describe, include a picture if available, if property has structures or archaeological sites that may be eligible for listing in the National Register of Historic Places
- indicate on the Application for Guarantee if the property has no structures or archaeological sites that may be eligible
- document in the applicant's case file the site visit and consultation about the presence or absence of historic property
- provide information, as necessary, to the authorized agency official for use in completing the environmental review.

210 Equal Opportunity and Nondiscrimination (7 CFR 762.128(d))**A Equal Opportunity and Nondiscrimination**

***--[7 CFR 762.128(d)(1)] With respect to any aspect of a credit transaction, the--* lender will not discriminate against any applicant on the basis of race, color, religion, national origin, sex, marital status, or age, provided the applicant can execute a legal contract. Nor will the lender discriminate on the basis of whether all or a part of the applicant's income derives from any public assistance program, or whether the applicant in good faith, exercises any rights under the Consumer Protection Act.**

Determinations of whether a guaranteed lender or contractor has discriminated against an applicant or borrower, or otherwise violated ECOA, will not be made by FSA. If the authorized agency official receives a complaint of discrimination from a guaranteed loan borrower or applicant, they will note the complaint and request that the borrower contact the lender directly to obtain information on how to file a complaint with the proper regulatory or enforcement authority. If requested by the borrower or applicant, the authorized agency official will contact the lender for this information and provide it to the borrower.

If the guaranteed loan borrower or applicant wants to file a discrimination complaint against FSA or an FSA employee in connection with a guaranteed loan or application, the authorized agency official should inform the applicant of the procedures for filing a complaint. The lender should continue with loan making and servicing actions without regard for resolution of the complaint.

B Construction Contracts

***--[7 CFR 762.128(d)(2)] Where the guaranteed loan involves construction, the--* contractor or subcontractor must file all compliance reports, equal opportunity and nondiscrimination forms, and otherwise comply with all regulations prescribed by the Secretary of Labor pursuant to Executive Orders 11246 and 11375.**

211 Other Federal, State, and Local Requirements (7 CFR 762.128(e))**A Other Requirements**

***--[7 CFR 762.128(e)] Lenders are required to coordinate with all appropriate--* Federal, State, and local agencies and comply with special laws and regulations applicable to the loan proposal.**

212-222 (Reserved)

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 \$2,558,000.

The total outstanding direct and guaranteed FO, CL, and SW principal balance cannot exceed \$2,558,000.

The total outstanding direct and guaranteed OL principal balance cannot exceed \$2,558,000.

The total combined outstanding direct and guaranteed FO, CL, SW, and OL principal balance cannot exceed \$3,158,000.

The total combined outstanding direct and guaranteed FO, CL, SW, OL, and EM principal balance cannot exceed \$3,658,000.

Notes: The maximum loan levels established in this subparagraph are for FY 2027.--*

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 https://usdagcc.sharepoint.com/sites/FSA-DAFLP/SitePages/glm.aspx .
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.

244 Loan Approval (7 CFR 762.122) (Continued)

C Lender Notification of Authorized Agency Official Decision (Continued)

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 will 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.

- ***--If FSA did not approve or reject an application from a PLP lender within 14 calendar--*** days of a complete application, the application is supposed to be automatically approved. However, the application cannot be approved unless the environmental review (FSA-850 or environmental assessment) is complete and approved. In these cases, the lender will be notified by letter (subparagraph F) that the financial analysis will stop, but the application will not be approved unless the environmental review is approved. The lender should also be notified that they can request FSA to continue the financial analysis if they would like to receive the percent of guarantee for which they originally applied.
- If it appears the application cannot be approved, the authorized agency official will contact the lender to discuss the reasons for rejection. To ensure good service, the authorized agency official will make a good faith effort to discuss with the lender, in person or by telephone, the reasons the application cannot be approved and possible alternatives. If necessary, the applicant should also be involved in these discussions. Any discussions will be documented in the application file.
- If the application is rejected, the authorized agency official will prepare a letter to the applicant with a copy to the lender informing them the loan is rejected, the reasons for rejection, and their right to appeal the decision as outlined in 1-APP. The letter should:
 - clearly and concisely describe the reason or reasons the application cannot be approved
 - include only the most relevant CFR citations and handbook paragraphs
 - **not** contain acronyms and accusatory wording.

244 Loan Approval (7 CFR 762.122) (Continued)

C Lender Notification of Authorized Agency Official Decision (Continued)

Notes: See 1-EQ, Exhibit 26 for information to be included when notifying the applicant that wetland indicators were determined to be present, as provided in 1-EQ, paragraph 51.

If requested by the lender, FSA may participate in mediation to provide guidance on FSA regulations and guidelines.

If the environmental review determines that there will be a significant impact to the environment, the application **cannot** be approved, and a rejection letter will be prepared according to this subparagraph.

--[7 CFR 762.130(g)] Notifications and documents issued by the Agency or provided by the lender under this section may be delivered electronically.--

D Example of Approval Letter When Funds Are Available

The following is an example of an approval letter when funds are available.

Date: _____
Dear _____: This letter is to certify that your application on behalf of (insert name of borrower/applicant) for Farm Service Agency loan guarantee assistance has been approved and funds have been obligated. Enclosed is for FSA-2232 (Conditional Commitment) specifying the conditions you must meet to secure the guarantee. Please review these conditions, complete Part D of the form (Acceptance or Rejection of Conditions), and return it to this office by (insert date). If you have any questions, please contact this office. Sincerely, _____ (Title)

245 Agency Obligation of the Loan (7 CFR 762.130)

A Loan Obligation

[7 CFR 762.130 (b)] Loans are approved subject to the availability of funding. When it appears that there are not adequate funds to meet the needs of all approved applicants, applications that have been approved will be placed on a preference list according to the date of receipt of a complete application.

After the loan approval official executes FSA-2231, the authorized agency official should follow State Office guidance when submitting loan requests for obligation and ensuring that funds have been obligated through GLS.

IF GLS indicates that...	THEN the authorized agency official...
funds have been obligated for the loan	may proceed under subparagraph C and issue the Conditional Commitment.
sufficient funds are not available	must proceed under subparagraph B and place the loan on the waiting list until sufficient funds are available for obligation.

The Conditional Commitment must never be executed until verification is received that funds have been obligated.

Note: If a PLP lender receives an automatic approval of a loan because of FSA's failure to meet the 14-calendar-day response deadline, the lender may not close the loan until funds are obligated and the lender receives the Conditional Commitment.

*--A guaranteed loan application **cannot** be approved before the appropriate environmental--* review is completed and approved. In the case of a PLP lender, if an approval/rejection decision is not made within 14 days of a complete application, FSA will consider feasibility requirements met and will conduct no further financial analysis after that point. However, the application will not be approved, funds will not be obligated, and the conditional *--commitment will not be issued until after the appropriate environmental review is--* completed and approved.

B Funding Priorities

If GLS indicates that funds are not available to obligate a loan, the authorized agency official shall:

- not execute the Conditional Commitment
- inform the lender and applicant that funds are not currently available
- place the loan on a waiting list based on the date the application was considered complete.

245 Agency Obligation of the Loan (7 CFR 762.130) (Continued)**B Funding Priorities (Continued)**

***--[7 CFR 762.130(b)] If approved applications have been received on the same day,--*
the following will be given priority:**

- **an application from a veteran**
- **an application from an Agency direct loan borrower**
- **an application from an applicant who is described by 1 of the following:**
 - **has a dependent family**
 - **is an owner of livestock and farm implements necessary to successfully carry out farming operations**
 - **is able to make down payments**
- **any other approved application.**

The priority list will be maintained at the level where the funds have been allocated or suballocated.

When funds become available, applications will be funded in priority list order. If a substantial amount of time has elapsed between loan approval and obligation, the authorized agency official may request updated information on the applicant.

247 Actions Before Issuing the Loan Guarantee (7 CFR 762.130) (Continued)

A Lender's Actions (Continued)

- as of loan closing, applicant has an outstanding balance on a direct down payment loan under 3-FLP, Part 7, Section 2, or a qualified State Beginning Farmer loan; or has a direct down payment loan or a qualified State Beginning Farmer loan approved but funding is not available at the time the guaranteed loan is closed.

Notes: Applicants meeting only the definition of beginning or veteran farmer will not qualify for the waiver.

A qualified State Beginning Farmer Program has MOU between the State and USDA and has been approved by DAFLP and signed by the State.

- a copy of the executed promissory note or loan agreement

Note: [7 CFR 762.130(e)] The lender will use its own promissory notes, line of credit agreements, real estate mortgages (including deeds of trust and *--similar instruments), and security agreements (including personal property mortgages), provided:--*

- the forms meet Agency requirements

Note: HEL/WL language is required to be included in lender's debt and security instruments as outlined in Part 12 of the conditional commitment if the farming operation has HEL/WL present. However, WL determinations are not always complete, or the applicant may acquire additional farms during the term of the loan. Due to these uncertainties, it is often difficult to determine that there will be no HEL/WL present. Therefore, the HEL/WL language should typically be included in the debt and security instruments for all guaranteed loans.

- documents comply with State law and regulation
- the principal and interest repayment schedules are stated clearly in the notes and are consistent with the conditional commitment

Note: A lender may use notes with short-term maturities for intermediate and long-term loans provided:

- the lender has indicated the intended term of the loan

Note: This may be done by entering the total number of years in the repayment period block of the application form.

- the subsequent note is a continuation of the original intended repayment plan and not a restructuring of a past due account

247 Actions Before Issuing the Loan Guarantee (7 CFR 762.130) (Continued)

A Lender's Actions (Continued)

- there is a clear link between the Loan Guarantee and all the notes intended to be covered by the Loan Guarantee. The Loan Guarantee references only the debt instrument used at loan closing. The necessary linkage may be established with a master note, a loan agreement, or by referring in the subsequent notes to the original debt instrument referenced on the Loan Guarantee.
- the note is executed by the individual liable for the loan

Note: For entity applicants, the promissory note will be executed to evidence liability for the entity, any embedded entities, and the individual liability of all entity members (including individual owners of embedded entities). Personal guarantees, or other forms, will not be used to address the individual liability requirement. **Individual liability can be waived by the Agency for members holding less than 10 percent ownership in the entity if the collectability of the loan will not be impaired.**

- when the loan purpose is to refinance or restructure the lender's own debt, the lender may continue to use the existing debt instrument and attach an allonge that modifies the terms of the original note.

Note: This also applies when a lender has closed an approved guaranteed loan before funds are available.

See Exhibit 11 for additional guidance.

- FSA-2236. Lenders that are corporations must read and certify to the statements on Part C of FSA-2236. A lender is a corporation if they file articles of incorporation with the Department of State where their headquarters is located. A completed FSA-2236 must be received for each application

In addition, the lender should take the following actions.

- Inform FSA of the lender's plans to market the loan to the secondary market. These plans must be consistent with Part 15. LOC's may be funded in participation with other lenders, but may not be sold into the secondary market.
- ***--[7 CFR 762.130(d)(2)] The lender must notify the Agency of any scheduled--* inspections during construction and after the guarantee has been issued. The Agency may attend these field inspections. Any inspections or review performed by the Agency, including those with the lender, are for the benefit of the Agency only. Agency inspections do not relieve any other parties of their inspection responsibilities, nor can these parties rely on Agency inspections in any manner.**

249 Deobligation of Loan Funds**A Deobligation of Funds**

Under certain circumstances, the authorized agency official may need to consider a deobligation of loan funds. If the conditions for the loan or LOC cannot be met after completing the appeal process, the authorized agency official must execute FSA-2072 to cancel the actual obligation.

B FAXing FSA-2072

FSA-2072 should be FAXed to the State Office that will process the cancellation or deobligation through GLS.

250 Replacing or Terminating the Loan Guarantee (7 CFR 762.101 and 762.130)**A Replacing the Loan Guarantee**

***--[7 CFR 762.130(f)] If the guarantee or assignment guarantee agreements are lost,--* stolen, destroyed, mutilated, or defaced, except where the evidence of debt was or is a bearer instrument, the Agency will issue a replacement to the lender or holder upon receipt of acceptable documentation, including a certificate of loss or an indemnity bond. It is the responsibility of the lender to coordinate the replacement activities with the holder and submit the required documents to SED for processing. SED shall contact the National Office for further guidance when replacing the Loan Guarantee.**

B Terminating the Loan Guarantee

--[7 CFR 762.101(e)] The Loan Guarantee will automatically terminate as follows:--

- **upon full payment of the guaranteed loan**

Note: A zero balance within the period authorized for advances on a line of credit will not terminate the guarantee.

- **upon payment of a final loss claim**
- **upon written notice from the lender to the Agency that a guarantee is no longer desired provided the lender holds all of the guaranteed portion of the loan. The Loan Guarantee will be returned to the Agency office for cancellation within 30 days of the date of the notice by the lender.**

250 Replacing or Terminating the Loan Guarantee (7 CFR 762.101 and 762.130) (Continued)**B Terminating the Loan Guarantee (Continued)**

There are instances where the authorized agency official may need to consider terminating
 *--Loan Guarantees without the lender's written notification. For example, when lenders
 refuse to provide FSA with required status or default status reports.--*

This does not apply to occasional missed or late reports; but to a pattern of missing reports
 or reports that do not provide new information covering lengthy time periods.

Before terminating the Loan Guarantee, loan files must be documented to reflect attempts
 made to obtain required FSA-2241's or FSA-2248's from the lender or any other pertinent
 information on the status of loans.

Authorized agency officials will notify lenders, in writing, the specifics of the reporting
 problems and provide 30 calendar days to submit updated FSA-2241's, FSA-2248's, or
 --other required information.--

IF lenders fail to provide updated FSA-2241's, FSA-2248's, or there is no response from lenders...	THEN...
after the first 30 calendar days	a 2nd letter will be sent to the lender providing an additional 30 calendar days.
after the second 30 calendar days	a final letter will be sent to the lender informing them that because of their failure to follow the requirements of 7 CFR 762.141 (a) and/or (b), any loss claim would be denied according to 7 CFR 762.103(b)(2) and FSA is terminating the Loan Guarantee. Note: Appeal rights must be provided according to 1-APP.
or no appeal is filed	the Loan Guarantee will be terminated. Note: Loans may not be terminated simply because they have matured.

*--Other situations that may justify terminating the guarantee without the lender's written
 notice should follow the same steps in the provided example. If the State Office believes
 the guarantee should be terminated because of other circumstances besides failure to
 submit status or default status reports, the State Office should contact the National Office
 for guidance before taking action to terminate the guarantee.--*

251-261 (Reserved)

Part 11 General Servicing Responsibilities**Section 1 General Servicing Requirements****262 Relationships and Responsibilities (7 CFR 762.140(a))****A Lender Role**

Lenders are responsible for servicing the entire loan in a reasonable and prudent manner, protecting and accounting for collateral, and remaining the mortgagee or secured party of record.

The lender cannot enforce the guarantee to the extent that a loss results from a violation of usury laws or negligent servicing.

***--Lenders may submit loan servicing documentation through any electronic means designated by the Agency.**

Notifications and documents issues by the Agency related to loan servicing may be delivered to the lender electronically.--*

The lender is responsible for:

- working with the agency to ensure all environmental requirements are met during the loan servicing actions according to 7 CFR 762.128 and paragraph 208
- complying with all FSA program requirements.

FSA servicing regulations are designed to accommodate standard agricultural lending practices, so lenders can be assured they meet program regulations if they:

- service guaranteed loans in a prudent, traditional manner
- comply with specific program eligibility guidelines and loan limits.

262 Relationships and Responsibilities (7 CFR 762.140(a)) (Continued)**B FSA Role**

FSA is responsible for working with lenders to ensure that all servicing and reporting requirements are met. FSA shall:

- *--complete a review of annual financial analyses according to subparagraph 265 F
- concur on feasible servicing requests made by the lender according to paragraphs 278 through 288
- ensure all environmental requirements are followed during loan servicing actions according to paragraph 208, 1-EQ, and 2-EQ
- collect and review all necessary servicing reports required of the lender according to paragraph 266
- review a percentage of the lender's loan files annually to assess program compliance according to paragraph 267.--*

FSA will work closely with SEL's in loan servicing. SEL's may be new to the FSA guaranteed loan program and, therefore, may require additional assistance and guidance. CLP lenders will be monitored less, since these lenders have working knowledge of the program and should need minimal guidance and oversight. PLP lenders have proven experience with the guaranteed loan program and servicing guaranteed loans. PLP lenders will be provided maximum flexibility to service guaranteed loans and minimal supervision by FSA.

When a lender attains PLP status, the lender will service its existing guarantee portfolio under the provisions of its CMS summary and Lender's Agreement. Servicing requirements that were included in the Conditional Commitment for loans made before the lender was a PLP lender may be retained upon mutual agreement between the lender and FSA.

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

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

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

C FSA Monitoring of Collateral Servicing

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

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

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

The lender must perform an annual financial analysis of the borrower's operation within 90 calendar days of the end of the borrower's operating cycle. SEL's and CLP lenders must *--submit documents to FSA in support of this analysis. **PLP lenders will conduct and document an analysis in accordance with the requirements in the lender's credit management system (CMS). All other lenders will perform an annual analysis of the borrower's financial condition on term loans when the sum of all balances on term loans is greater than \$500,000, all line of credit loans, and all loans in monetary or non-monetary default.--***

* * *

***--B Financial Analysis of Borrower by Non-PLP Lenders**

The annual analysis for non-PLP lenders will be documented in the lender's file and will include:

- **for loans secured by real estate only, an analysis of the borrower's balance sheet**
- **for loans secured by personal property, lenders will also compare the borrower's actual to planned income and expenses for the past year**
- **an account of the whereabouts or disposition of all collateral.--***

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 ML also will provide the following for all lines of credit and for all term loans that are in monetary or non-monetary default:**

- **borrower's balance sheet and income and expense statement for the previous year, if applicable**
- ***--for lines of credit only, 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 on a guaranteed line of credit.--

- **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.

* * *

- ***--the analysis of the balance sheet and comparison of the borrower's actual to planned income and expenses, if applicable.**

Note: Copies of documentation provided to FSA must also be maintained in the lender's files.

Loan Type	Submission Summary for SEL and MLP
Real Estate (monetary or non-monetary default only)	Balance sheet, farm visit report, and analysis of balance sheet.
Term Personal Property (monetary or non-monetary default only)	Balance sheet, farm visit report, income and expense statement, analysis of the balance sheet, and comparison of the borrower's actual to planned income and expenses.
Lines of Credit	Balance sheet, farm visit report, income and expense statement, projected cash flow, analysis of the balance sheet, and comparison of the borrower's actual to planned income and expenses.

--*

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 Documents Submitted to FSA by CLP in Support of Annual Analysis

*--[7 CFR 762.141(c)] CLP lenders also must provide the following:

- for all lines of credit and term loans that are in the monetary or non-monetary default, 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.

- for lines of credit, the written summary will also include a 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.

*--**Note:** Copies of documentation provided to FSA must also be maintained in the lender's files.

Loan Type	Submission Summary for CLP
Real Estate (monetary or non-monetary default only)	A written summary of the lender's annual analysis of the borrower's operation.
Term Personal Property (monetary or non-monetary default only)	A written summary of the lender's annual analysis of the borrower's operation
Lines of Credit	A written summary of the lender's annual analysis of the borrower's operation, including a certification of the following: • a cash flow projecting a feasible plan was obtained • the borrower is in compliance with line of credit agreement • the previous year's income, loan funds, and security proceeds are accounted for.

--*

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)**E 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 an LOC from an SEL or MLP lender, FSA will also determine whether or not the LOC should be renewed for the next year. If FSA determines the LOC should not be renewed, the authorized agency official will prepare and send a letter to the borrower informing them that FSA does not concur with the renewal, the reason for rejection, and the right to appeal the decision according to paragraph 33 and 1-APP. A copy of the letter must be provided to the lender.

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 follow-up actions.

267 FSA Loan Servicing Responsibilities

A Overview

Authorized agency officials will be FSA's primary point of contact with lenders on a day-to-day basis. Authorized agency officials must ensure that lenders are appropriately managing their guaranteed loans, and submitting all required reports on time. In cases where lenders may have deficiencies in loan servicing, the authorized agency official should provide loan servicing guidance and assistance.

The purpose of performing lender file reviews is to protect the guarantee, preserve lender status, and minimize losses and the need for adjustments to loss claims.

As part of the review, authorized agency officials will note whether they have become aware of the lender being under any enforcement actions either through checking the appropriate regulatory web sites in subparagraph 46 C or through discussions with the lender.

B Lender Loan Files Review Priorities

For each SEL and MLP, FSA will review 20 percent of the lender's outstanding guaranteed borrowers every 3 years, unless there has been financial deterioration of the lender or the guaranteed program.

For each CLP and PLP lender, FSA must review the files of 20 percent of the lender's *--outstanding guaranteed loan borrowers, up to a maximum of 50 borrowers every 5 years for CLP and every 3 years for PLP, unless there has been financial deterioration of the lender or their guaranteed loan portfolio. In addition, FSA will conduct a loan making file review on 10 percent of every PLP lender's loans written under delegated authority each year with maximum of 4 loans per year and a minimum of 1 loan per year for each PLP lender.--*

Notes: Financial deterioration of the lender is when there is a significant increase in the number of, and/or dollar amounts associated with, the following items from the previous year:

- Default Status Reports
- Past Due Status Reports
- Estimated Loss Claims
- Final Loss Claims.

Financial deterioration may also be evidenced by notification or public notice from lending oversight or review organizations such as:

- Federal Deposit Insurance Corporation (FDIC)
- National Credit Union Administration (NCUA)
- Farm Credit Administration (FCA)
- Federal Reserve Board
- A state banking regulatory agency.

267 FSA Loan Servicing Responsibilities (Continued)

B Lender Loan Files Review Priorities (Continued)

Any such notifications or public notices should be reviewed carefully to determine if there could be an impact of the lender's ability to continue operating or if there are concerns related to the guaranteed program. If concerns arise, a lender review should be completed.

Loans will be selected for review according to the following priorities:

- loans that have recently received or are receiving consideration for rescheduling, deferral, write-down, transfer and assumption, or substitution of lender
- delinquent loans or loans which the lender or FSA has identified as high risk
- loans in which the funds were used to refinance the lender's own debt
- the most recent loans closed by the lender and not yet reviewed
- performing LOC and OL
- performing FO, only if required to reach minimum number of required reviews.

For lenders processing guaranteed loans in more than one State, the file reviews should be done in the State where the lender is headquartered, unless the lender requests the review be conducted in a different location. States are responsible for communicating with each other to determine who will lead the review, who from each State will assist with the review, and which files will be reviewed based on the preceding priorities. The percentage of borrowers to be reviewed is based on the lender's entire guaranteed loan portfolio.

Review Summary		
Lender Type	Number of Borrowers to Review	Minimum Frequency
SEL	20 percent of guaranteed loan borrowers.	Every 3 years.
CLP	20 percent of guaranteed loan borrowers, with a minimum of 5 borrowers and a maximum of 50 borrowers.	Every 5 years.
PLP	20 percent of guaranteed loan borrowers, with a minimum of 5 borrowers and a maximum of 50 borrowers.	*--Every 3 years.--*
--PLP-Loan Making Reviews	10 percent of every PLP lender's loans written under delegated authority each year with a maximum of 4 loans per year and a minimum of 1 loan	Every year.--

267 FSA Loan Servicing Responsibilities (Continued)**B Lender Loan Files Review Priorities (Continued)**

FSA-2293 and PLP Checklist, developed by the National Office for each specific lender, *--may be used to document the lender file reviews. For annual loan making file reviews of PLP lender's loans written under delegated authority, the authorized agency official will use only the loan making portion of the PLP Checklist for documentation. All questions on--* each FSA-2293 and PLP Checklist do not require completion for each file reviewed, as long as reviews are sufficient to document that lenders are meeting the underwriting, origination, and servicing requirements of their Lender's Agreement and this handbook. If a loan selected for review based on the preceding priorities was previously reviewed for loan making, it will be reviewed for loan servicing only in the subsequent review.

In addition to the lender's loan file, a copy of the loan account ledger should be obtained and reviewed, and lender's risk-based pricing practices, if applicable. Additional information may be requested and reviewed by FSA, if necessary, based on deficiencies noted in the file, in loss claim reviews, or as suggested by other parties. SED shall determine how the file review requirement will be met in their State.

Note: See Exhibit 4 for State supplement requirements.

267 FSA Loan Servicing Responsibilities (Continued)

C * * *PLP Lender File Review

--To ensure consistent and effective oversight of PLP lender operations, State Offices will coordinate and conduct all PLP lender file reviews except those designated to be completed by the National Office. It is beneficial to both FSA and the lender to conduct PLP lender file reviews through a centralized method, including multi-State file reviews. This review method can benefit:--

- FSA by:
 - helping to lead toward a more consistent handling of the reviews and the associated findings
 - having an opportunity to identify and correct inconsistent practices of the lender or FSA
- lenders by:
 - gaining a better understanding of across-the-board FSA expectations of the lender
 - having minimal disruption to their State operations as a result of FSA file reviews.

*--State Offices will designate an employee to manage the review process. This designated employee will schedule reviews, ensure use of the appropriate PLP Review Checklist, conduct reviews and gather necessary documentation, and maintain statewide consistency in evaluating lender performance.

State Offices should involve local authorized agency officials to provide supporting information and participate in the review when assistance is needed to complete the review. The State Office will ensure all review findings, follow-up actions, and required reporting are completed.--*

To ensure that multi-State reviews are given full consideration, in January of each year, the National Office will contact each State that has lenders with PLP status in a minimum of 2 States. FLC's will work with each other, and with the National Office when necessary, to determine * * * where a multi-State review is necessary. If it is determined that multi-State review is necessary for a PLP lender in 3 or more States, the National Office will take the lead in contacting the lender and coordinating the review. If it is determined that a *--multi-State review is necessary for a PLP lender in only 2 States, the FLC's, or their designee will be responsible for contacting each other to determine who will be contacting the lender to coordinate the review. Lender reviews may be scheduled at any time during the year.--*

267 FSA Loan Servicing Responsibilities (Continued)**C * * * PLP Lender File Review (Continued)**

The multi-State review will not alleviate the lender of their responsibility to provide authorized agency officials access to any particular file or files of the lender if in the authorized agency official's opinion an additional review is necessary.

D Authorized Agency Official Review of PLP Lender Loan Files

PLP loan file reviews will be documented by completing the review checklist based on the individual lender's CMS. All review checklists will be either prepared or approved by the National Office. The review of PLP loan files will be based on the terms and conditions specified in the Lender's Agreement.

Note: As the National Offices updates PLP checklists during the lender's renewal or amendment, the States will need to include a question or provide documentation on the last checklist developed from the National Office, that the interest rate charged at loan closing meets the requirements outlined in paragraph 135.

The following questions should be considered during the loan file review.

- Do the files contain sufficient information to document that the underwriting and servicing was consistent with the Lender's Agreement?
- Were servicing actions implemented in a manner consistent with the Lender's Agreement?
- Was servicing prudent and reasonable?

E Authorized Agency Official Response to Loan File Review

During the lender loan file reviews, the authorized agency official shall hold an entrance and exit conference with the lender. At the entrance conference, the authorized agency official will outline the purpose of the review and request any information that will be required to complete the review. At the exit conference, the authorized agency official will discuss with the lender any deficiencies as well as the lender's accomplishments. The authorized agency official will send a letter to the lender outlining the findings of the loan file review. The letter and loan file review forms will be filed in the lender's operational file, with copies forwarded to DD and SED. Copies of letters from PLP reviews should be forwarded to DAFLP, LSPMD to be filed in the lender's PLP file only if major deficiencies are found or other concerns or issues arise.

If the lender is under an enforcement action imposed by the lender's regulatory agency, that finding will be documented in the letter to the lender outlining review findings, and a copy provided to SED. SED shall contact DAFLP, LSPMD.

267 FSA Loan Servicing Responsibilities (Continued)**F Authorized Agency Official Review of Loan Servicing Reports Provided by Lender**

The authorized agency official is responsible for obtaining all required information from lenders about the servicing of guaranteed loans. This includes the annual financial analysis performed to determine the borrower's progress on loan payback and goal achievement (paragraph 265), loan status reports (paragraph 266), and all other materials submitted to FSA, including requests by lenders to perform certain servicing actions.

G Authorized Agency Official Approval Authority

Authorized agency officials can approve the following servicing actions:

- alterations in loan conditions that do not prejudice the government's interest
- replacement of collateral
- the use of proceeds from the disposition of collateral.

H DD Servicing Responsibilities

DD servicing responsibilities include:

- providing guidance and assistance to the authorized agency official in monitoring guaranteed loans
- reviewing a sample of lender visit reports and loan reviews, making recommendations or comments, and forwarding reports of deficiencies to SED
- make recommendations to the authorized agency official on all delinquent loans
- conducting other servicing actions as directed by SED.

267 FSA Loan Servicing Responsibilities (Continued)**I SED Servicing Responsibilities**

SED's have broad management responsibilities for the guaranteed loan program. SED servicing responsibilities include, but are not limited to, the following:

- review deficiencies identified by the authorized agency official and provide recommendations for resolution
- perform an annual review of each lender's CLP and PLP status, and if the lender is found to be deficient in meeting the minimum criteria, then upon notification to the lender, remove the status

Note: For PLP lenders, the decision to remove PLP status must be made in the National Office after reviewing SED's recommendation.

- perform appraisal reviews according to 1-FLP, paragraph 143

Note: See 1-FLP, Part 6 for additional guidance on appraisal review issues.

- maintain a lender file for each guaranteed lender in the State Office.

J Addressing Deficiencies

--If deficiencies in loan making or loan servicing are detected by FSA, the authorized-- agency official will work with the lender to correct any problems. If the lender fails to correct a major loan servicing deficiency, and the deficiency results in a loss, the loss claim may be reduced or denied.

--Exhibit 23 contains examples of major and minor deficiencies. See paragraphs 48, 54, and Exhibit 23 for follow-up actions and consequences of not correcting deficiencies for-- SEL's and PLP lenders, respectively.

K Interagency Agreement Between FSA and FDIC

If a lender who participates in FSA's guaranteed FLP's fails, FDIC may, as Receiver, assume responsibility for the Conditional Commitment, Loan Guarantee, and/or FmHA-449-34 for all guaranteed loans to which the closed bank was a party.

Exhibit 13 outlines the responsibilities of FSA and FDIC in such cases.

268-277 (Reserved)

Section 2 General Servicing Actions

278 Subordination of Guaranteed Loan Security (7 CFR 762.142)

A Overview

The lender may not subordinate its interest in property which secures a guaranteed loan except as follows:

- **the lender may, with written Agency approval, subordinate its security interest in crops, feeder livestock, livestock offspring, or livestock products when no funds have been advanced from the guaranteed loan for their production, so a lender can make a loan for annual production expenses**

***--Notes:** The authorized agency official may approve a lender's request to subordinate normal income security that was not produced through advances made under the guaranteed loan to allow a borrower to obtain nonguaranteed annual operating credit.

Multi-year assignments of FSA program payments cannot be subordinated. However, in cases where normal income security is being subordinated so another lender can make a loan for annual production expenses, any amount that exceeds the guaranteed loan payment for that year may be released.--*

- **the lender may, with written Agency approval, subordinate its interest in basic or additional security in cases where the subordination is required to refinance an existing prior lien, no additional debt is being incurred, and the lender's security position will not be adversely affected by the subordination**

***--Note:** The authorized agency official will approve the subordination, provided that:

- no additional debt is being incurred (beyond customary closing costs)
- the lender's security position will **not** be adversely affected by the subordination.
- **the Agency's National Office may provide an exception to the subordination prohibition if such action is in the Agency's best interest, according to subparagraph 278 B.--***

However, in no case can the loan made under the subordination include tax exempt financing.

--Subordination requests for easements must be submitted as an exception request to be considered by DAFLP according to subparagraph 278 B.--

278 Subordination of Guaranteed Loan Security (7 CFR 762.142) (Continued)

B DAFLP Exception to Subordination Prohibition--*

FSA discourages subordination of real estate, equipment, and other basic security and will **not** provide regulatory approval authority at levels lower than DAFLP, except in cases where the subordination is required to allow a lender to refinance an existing prior lien.

When SED determines that the subordination of basic and/or additional security for any other purpose is in the best interest of FSA and the borrower, the request shall be forwarded to the National Office for DAFLP approval. Subordination of basic and/or additional security will **not** be approved simply to allow the operation to expand or to make improvements, unless necessary for the operation to remain feasible, or to allow a lender to secure an operating loan with the security.

A template is available for DAFLP exception requests for subordination along with instructions and examples. The “Template for DAFLP Exception Requests for *--Subordination” can be found under the Loan Servicing Guides and Trainings section--* located on the Program Base Trainings SharePoint site at <https://usdagcc.sharepoint.com/sites/FSA-DAFLP/SitePages/programbased.aspx>.

The request should contain:

- a description of the transaction including the use of the funds to be obtained through the subordination
- explanation of the borrower’s cash flow before and after the proposed subordination documenting the improvement to be attained
- certification that the guaranteed loan will still be secured after the subordination based on a current appraisal

Note: If the subordination request is to refinance existing real estate debt and no additional funds are provided, an appraisal is **not** required.

281 Transfers and Assumptions (7 CFR 762.142(d)) (Continued)**D FSA Response to Request for Transfer and Assumption**

The Agency will review, approve or reject the request in accordance with the time frames in § 762.130 of this part (Part 6). The Agency will complete the review using FSA-2231.--*

The Agency approves the transfer and assumption by executing a modification of the guarantee to designate the party that assumed the guaranteed debt, the amount of the debt at the time of the assumption, including interest that is being capitalized, and any new loan terms, if applicable.

The authorized agency official will execute FSA-2245 and provide it to the lender for attachment to the original Loan Guarantee.

***--To process a guaranteed loan transfer and assumption in GLS, an Application Package and Loan Guarantee Request must be entered for the transferee.**

The Agency will agree to releasing the transferor or any guarantor from liability only if the requirements of § 762.146(c) (the items listed in subparagraph 361 B) are met.

Note: The release does not require DAFLP exception in this situation and may be approved by SED.--*

The authorized agency official should treat a request for a transfer as an application for a new guaranteed loan. If all of the program requirements are met the transfer and assumption should be approved by FSA.

The authorized agency official will attach the assumption agreement to the Loan Guarantee or FmHA-449-34. To notify the RD Business Center, Guaranteed Commercial Branch of the assumption, complete and forward FSA-2246. Guaranteed loan fees are not required for transfer and assumption.

The lender will provide the Agency copies of any agreements executed to carry out the servicing action.

282 Additional Loans or Advances (7 CFR 762.146(a))**A Additional Loans or Advances**

***--SEL and CLP lenders must not make additional unguaranteed loans or advances) except as provided in the borrower's Loan or Line of Credit Agreement, without documenting that:**

- (i) The borrower's account is in good standing;**
- (ii) The borrower is continuing to operate in accordance with their latest farm operating plan;**
- (iii) The borrower's projected cash flow budget continues to reflect a feasible plan;**
- (iv) The guaranteed loan security will continue to remain either separate and identifiable from and will not be intermingled with security for, or have priority over the security for any subsequent loan; and**
- (v) Proceeds from the sale of loan security will be applied in order of lien priority.**

The PLP lender may make additional unguaranteed loans or advances in --* accordance with the lender's agreement with the Agency.

283 Emergency Advances (7 CFR 762.146(a)) (Continued)**C FSA Response to Request for Emergency Advance**

The authorized agency official:

- shall review a SEL's and CLP lender's request for an emergency advance and notify the lender of FSA's decision in a timely manner
- should make every effort to respond to a request for an emergency advance within several days of receiving the lender's request.

--If FSA determines the advance will not be approved, the authorized agency official will-- prepare a letter to the borrower informing them that FSA does not concur with the requested emergency advance, the reason for denial, and their right to appeal the decision according to paragraph 33 and 1-APP. A copy of the letter must be provided to the lender.

284 Interest Rate Changes (7 CFR 762.146(d))**A Overview**

The lender may change the interest rate on a performing (nondelinquent) loan only with the borrower's consent.

B Changing Interest Rates

A lender must follow the following procedures to change the interest rate.

- **If the loan has been sold on the secondary market, the lender must repurchase the loan according to subparagraph 375 B or obtain the holder's written consent.**
- **To change a fixed rate of interest to a variable rate of interest or vice versa, the lender and the borrower must execute a legally effective amendment or allonge to the existing note.**
- **If a new note is taken, it will be attached to and refer to the original note.**
- **The lender will inform FSA of the rate change.**

The new interest rate may not exceed the maximums established in paragraph 135.

The authorized agency official shall update the rate change in GLS on the Loan Maintenance Screen.

Note: Lenders do **not** need to seek FSA concurrence to change an interest rate.

285 Release of Liability Upon Withdrawal (7 CFR 762.146(b))

A General Requirements

[7 CFR 762.146(b)] An individual who is obligated on a guaranteed loan may be released from liability by a lender with the written consent of the Agency provided the following conditions have been met.

- **The individual to be released has withdrawn from the farming operation.** The lender must submit a narrative outlining who is to be released and why.
- **A divorce decree and final property settlement does not hold the withdrawing party responsible for the loan payments.** A copy of the divorce decree must be submitted with the lender's request. The lender must document that release of divorced borrowers is a common practice carried out in their nonguaranteed loan portfolio.
- **The withdrawing party's interest in the security is conveyed to the individual or entity with whom the loan will be continued.**
- **The ratio of the amount of debt to the value of the remaining security is less than or equal to .75, or the withdrawing party has no income or assets from which collection can be made.**
- **Withdrawal of the individual does not result in legal dissolution of the entity to which the loans are made. Individually liable members of a general or limited partnership may not be released from liability.** * * * When the guaranteed loan is *--made to individuals farming as a general or limited partnership, and each partner is fully liable, release of one partner would terminate the partnership and the existence of the entity to which the loans were made. In these cases, a release can only be approved if a replacement member is not being obtained, and the entity is dissolved, and the remaining member(s) choose to form a new entity, the agency would consider a transfer and assumption of the newly formed entity.

Typically, corporations and limited liability corporations (LLC) are not legally dissolved when an individual member exits. However, in every case before the agency makes a final decision on a request for release of any entity member, the authorized loan official will discuss with OGC and the lender the legal effects of the release. All discussions should be well documented.--*

The lender must document that release of withdrawing members is common in their unguaranteed portfolio and all other conditions in this paragraph are met.

- **The remaining liable party projects a feasible plan (see § 761.2(b) of this chapter).** The lender must submit a cash flow projection for the remaining liable party with the request for release. A release will not be approved when a loss is probable.

359 Lender Submission of Estimated Loss Claim (7 CFR 762.149) (Continued)

D Unapproved Loans or Advances

***--The amount of any payments received or credited by the lender on loans or advances outside of the guarantee that do not meet the requirements of §762.146 will be deducted from any loss claim submitted by the lender on the guaranteed loan, if that--* loan or advance was paid prior, and to the detriment of, the guaranteed loan.** The lender will certify with the estimated loss claim that appropriate deductions were made, if necessary.

E FSA Approval of Protective Advances

FSA will approve a request for a protective advance if the request is reasonable and the value of the security would decrease significantly if the advance was not made. FSA will respond within 14 calendar days to an SEL and CLP written request for concurrence on a protective advance. Concurrence with protective advances can be provided separately from approval of the liquidation plan. See subparagraph 360 D for additional information.

PLP lenders will make protective advances according to the Lender's Agreement.

Protective advances are not paid on a Type 01 estimated loss claim. **Payment for protective advances is made by the Agency when the final loss claim is approved, except in reorganization bankruptcy actions.** Protective advances in reorganization bankruptcies may be paid on the Type 05 estimated loss claim, according to subparagraph 342 D.

F FSA Approval and Payment of Estimated Loss Claim

The estimated loss claim is submitted on FSA-2254 to the authorized agency official. FSA will review the submitted claim to ensure it has been completed correctly. For Type 01 estimated loss claims, FSA may request corrections to the form if necessary; however, FSA's review must not include requiring supporting documentation, aside from the loan ledger, as that will be done at the time the final loss claim is processed. For Type 05 estimated loss claims, documentation to support the entire claim is required according to subparagraph 342 B and must be reviewed before approval.

After reviewing FSA-2254 to ensure the form was completed correctly, the authorized agency official shall forward FSA-2254 to the SED with a recommendation to approve the estimated loss claim. If SED finds the estimated loss claim to be accurate, SED shall approve it within 30 calendar days of estimated loss claim submission. If the authorized agency official is unable to recommend approval of the estimated loss claim, the concerns should be reviewed with the SED. The SED will determine if the estimated loss claim will be disputed with the lender. If FSA wants to dispute the estimated loss claim, FSA will attempt to resolve the differences with the lender within 30 calendar days of the submission.

359 Lender Submission of Estimated Loss Claim (7 CFR 762.149) (Continued)**F FSA Approval and Payment of Estimated Loss Claim (Continued)**

*--If FSA and the lender cannot resolve the disputes, resulting in a denial of the lender's entire estimated loss claim request, the authorized agency official will approve the loss claim in GLS for \$0 and will not require the lender's signature on the approved FSA-2254. See GLS User Guide for additional information.

If FSA and the lender cannot resolve the disputes resulting in a partial denial of the lender's estimated loss claim request, the authorized agency official will process the approved amount of the estimated loss claim in GLS and will not require the lender's signature on the approved FSA-2254. See GLS User Guide for additional information.

If FSA makes any reductions that the lender will not agree to, SED will prepare and send a letter to the lender informing them of the dollar amount of each deduction with the corresponding CFR and 2-FLP references (see Exhibit 16 for assistance with references) and their right to appeal the decision according to paragraph 33 and 1-APP.

Note: When FSA must request additional information from the lender such as the loan ledger, required documentation for a Type 05 claim, or clarification or a correction to the form to proceed with processing, FSA's review and approval timeframes will pause as of the date of the request and will resume when the requested information is received.

After approval by SED, the authorized agency official must forward FSA-2254 to the RD--* Business Center, Guaranteed Commercial Branch for payment of the estimated loss claim according to 1-FLP, paragraph 5. The RD Business Center, Guaranteed Commercial Branch shall issue a check to the lender within 30 calendar days of receiving FSA-2254.

Note: Estimated loss claims for \$0 do not require SED signature and the FSA-2254 will not be submitted to RD Business Center for processing. When the authorized agency official clicks "Refer to NFAOC" in GLS, the status of the estimated loss claim will automatically change to "Complete."

G Application of Estimated Loss Payment

The application of the loss claim payment to the account does not automatically release the borrower of liability for any portion of the borrower's debt to the lender. The estimated loss payment compensates the lender for the loss, but does not reduce the loan balance or cure a delinquency, and should not be reflected as such on FSA-2248.

360 Lender Submission of Final Loss Claim (7 CFR 762.149) (Continued)**D Protective Advances (Continued)**

The lender may claim recovery for the guaranteed portion of any loss of monies advanced as protective advances allowed in this part, plus interest that accrues on the protective advances.

--Interest accrues at the note rate from the date of each advance to the date the final loss claim is submitted. A reduction of the final loss claim may be necessary if interest on protective advances continues to accrue because of excessive delays in liquidation or submission of the final loss claim.--

Interest that accrues on protective advances is limited to the guaranteed loan interest accrual cutoff if the protective advance is used to pay off the lender's prior lien.

Payment for protective advances is made by the Agency when the final loss claim is *--approved, except in bankruptcy actions (see subparagraph 342 D).--*

Protective advances are used only when the borrower is in liquidation, liquidation is imminent, or when the lender has taken title to real property in a liquidation action.

Legal fees are not a protective advance.

Protective advances may only be made when the lender can demonstrate the advance is in the best interest of the lender and the Government.

Protective advances must constitute a debt of the borrower to the lender and be secured by the security instrument.

Protective advances must not be made in lieu of additional loans.

Protective advances approved by FSA may be made by a lender to protect or preserve the collateral from loss or deterioration. Additional loans made to improve the value of security, such as loans for home improvement, are not protective advances and should not be approved. Protective advances and the interest that accrues on the advances are covered by the guarantee.

E Legal Fees

Legal fees associated with liquidation are a liquidation expense, see subparagraph 359 B. Documentation of actual legal expenses incurred must be provided with the final loss claim.

360 Lender Submission of Final Loss Claim (7 CFR 762.149) (Continued)**F FSA Approval and Payment of Final Loss Claim**

The Agency will notify the lender of any discrepancies in the final loss claim or, approve or reject the claim within 40 calendar days. Failure to do so will result in additional interest days being paid to the lender for the number of days over 40 taken to process the claim. This additional interest paid to the lender for FSA delays in processing the final loss claim over 40 calendar days is not included with the loan's interest accrual calculation on the FSA-2254. (See Exhibit 15.5 for additional information). FSA officials may use FSA-2296 for this discrepancy review.

Note: When FSA must request additional information from the lender to proceed with processing, FSA's review and approval clock will pause as of the date of the request and will resume when the requested information is received.

The application of the loss claim payment to the account does not automatically release the borrower of liability for any portion of the borrower's debt to the lender.

The Agency will reduce a final loss claim based on its calculation of the dollar amount *--of loss caused by the lender's negligent servicing of the account and negligent origination of the account for loans originated using delegated authority. Loss--* claims may be reduced or rejected as a result of the following:

- **A loss claim may be reduced by the amount caused by the lender's failure to secure property after a default, and will be reduced by the amount of interest that accrues when the lender fails to contact the borrower or takes no action to cure the default, once it occurs**
- **Losses incurred as a result of interest accrual during excessive delays in collection, as determined by the Agency, will not be paid**
- **Unauthorized release of security proceeds, failure to verify ownership or possession of security to be purchased, or failure to inspect collateral as often as required to ensure its maintenance.**
- ***--Originating loans using delegated authority that do not meet the Agency's requirements for eligibility, financial feasibility and loan security.--***
- **A final loss claim may be reduced, adjusted, or rejected as a result of negligent servicing after the concurrence with a restructuring action under 7 CFR 762.145 (see subparagraph 329 C).**

Packager fees and outside consultant fees for servicing of guaranteed loans are not covered by the guarantee, and will not be paid in a final loss claim.

Losses will not be reduced for the following:

- **Servicing deficiencies that did not contribute materially to the dollar amount of the loss**
- **Unaccounted for security, as long as the lender's efforts to locate and recover the missing collateral was equal to that which would have been expended in the case of an unguaranteed loan in the lender's portfolio.**

360 Lender Submission of Final Loss Claim (7 CFR 762.149) (Continued)**F FSA Approval and Payment of Final Loss Claim (Continued)**

Default interest, late charges, and loan servicing fees are not payable under the loss claim.

The final loss will be the remaining outstanding balance after application of the estimated loss payment and the application of proceeds from the liquidation of the security. The lender will designate one or more financial institutions to which any FSA payments will be made by EFT.

Note: If the final loss claim follows an estimated loss claim that resulted in a payment to the lender and the final loss claim results in either no additional payment to the lender or a partial repayment from the lender, then the settlement date on the final loss claim must be adjusted in GLS to match the date the final loss claim is processed.

Interest accrual as part of a final claim will be the same as the estimated claim, (unless the interest on the estimated claim is incorrectly calculated), except for the following circumstances.

- It may include interest that accrued between the estimated loss claim settlement date and the date the lender received the estimated loss claim payment on all final claims in which an estimated claim was previously submitted timely (within 150 calendar days) and paid.
- **In the case of a Chapter 7 bankruptcy, in cases where the lender timely filed an estimated loss claim, FSA will pay the lender interest that accrues during and up to:**
 - ***--45 calendar days after the date of discharge on the portion of the personal property only secured debt that was estimated to be secured but upon final--* liquidation was found to be unsecured**
 - **90 calendar days after the date of discharge on the portion of real estate secured debt that was estimated to be secured but was found to be unsecured upon final disposition.**
- **The Agency will pay the lender interest which accrues during and up to 90 calendar days after the time period the lender is unable to dispose of acquired property because of State imposed redemption rights, on any unsecured portion of the loan during the redemption period, if an estimated loss claim was timely submitted by the lender and paid by the Agency during the liquidation action.**

360 Lender Submission of Final Loss Claim (7 CFR 762.149) (Continued)**F FSA Approval and Payment of Final Loss Claim (Continued)**

- *--For Chapter 11, 12, and 13 bankruptcies, if the bankruptcy is dismissed before liquidation, interest accrual may exceed 210 calendar days from the missed payment due date on the final loss claim only. During the bankruptcy, interest continues to accrue, but the days for calculating interest termination do not count against the lender, including cases where the lender did not have an estimated loss claim, because the lender does not have the authority to liquidate. Interest may be paid from the date of filing through the date of confirmation, or if a plan was never confirmed, then to the date of dismissal. In these cases, the authorized agency official shall document that interest accrual exceeded 210 calendar days because of bankruptcy, and any other supporting documentation, in GLS. National Office approval does not need to be requested. See Exhibit 15.5 for examples.
- For cases involving borrower-initiated litigation, interest accrual may exceed 210 calendar days from the missed payment due date on the final loss claim only. During the litigation, interest continues to accrue, but the days for calculating interest accrual termination will not count against the lender, including cases where the lender did not have an estimated loss claim, if the lender is unable to liquidate. In these cases, the authorized agency official shall document that interest accrual exceeded 210 calendar days because of litigation. See Exhibit 15.5 for examples.

If an estimated loss claim was not timely submitted or the final loss claim was not submitted within 150 calendar days of the missed payment due date, interest accrual on the final loss claim may only be paid beyond 150 calendar days from the payment due date if the requirements of one of the last two bullet points above are met (Chapter 11, 12, and 13 bankruptcies or borrower-initiated litigation).

FSA will determine whether the lender has liquidated the account in a timely manner. If liquidation was unduly delayed or the lender did not comply with the reporting requirements of this part, interest accrual will be calculated on the claim to the date that FSA determines--* that liquidation should have reasonably been accomplished.

* * *

FSA may pay a loss when a borrower sells security out of trust. If the borrower has converted loan security, the lender shall determine whether litigation is cost-effective. The lender must determine whether civil or criminal action is cost-effective and will be pursued. If the lender does not pursue the recovery, the reason must be documented when a loss claim is submitted. If recovery of converted security through legal action is possible, a lender may still submit a final loss claim and reimburse FSA according to subparagraph 362 A after proceeds are collected.

363 Collecting Final Loss Claim Payments From Guaranteed Loan Debtors (7 CFR 762.149(m)) (Continued)

B Guaranteed Final Loss Claim Payments Not Subject to Offset

Final loss claim payments for borrowers who executed FSA-1980-25 with a revision date of July 27, 1999, or earlier, or FSA-1980-28 with a revision date of April 7, 1999, or earlier, shall not be offset.

Loans approved using FSA-1980-25 or FSA-1980-28 with the July 20, 2001, or later revision date and Application for Guarantee or Preferred Lender Application that are discharged in bankruptcy, will establish a Federal debt, but generally are not subject to offset. Any case where a final loss claim was paid after a Chapter 7 discharge should be processed as follows:

- all pertinent information, such as loss claim and documentation on the bankruptcy including the discharge order, is to be provided to the Regional OGC, requesting their opinion as to whether or not offset can be pursued
- document the case file with OGC's recommendation:
 - if Regional OGC's opinion is that the loan is not subject to offset, the debtor shall be removed from referral to IAO and TOP through the GLS maintenance screens and debts discharged in bankruptcy will be written off upon receipt of the discharge order; SED shall FAX or mail a copy of the discharge order along with a memorandum *--requesting that the debt be written off to the RD Business Center, Guaranteed Commercial Branch--*
 - if Regional OGC's opinion is that the loan is subject to offset, then immediately follow the requirements of subparagraphs 363 D through G.

Notes: Any debt reaffirmed under Chapter 7 bankruptcy on which a final loss claim is later paid, is considered a Federal debt and shall be subject to offset.

In a reorganization bankruptcy, if the confirmed plan is not successfully completed and the bankruptcy is dismissed, the payment of a final loss claim will be considered a Federal debt and shall be subject to offset.

C Payments Not Subject to Offset

The following payments are not subject to offset:

- Federal crop insurance indemnity payments
- the initial payment for planting expenses under certain conservation programs
- program payments ineligible for offset.

Payments will not be offset when the authorized agency official determines that it is not in the best interest of the Government.

**363 Collecting Final Loss Claim Payments From Guaranteed Loan Debtors
(7 CFR 762.149(m)) (Continued)**

D Debtor Notification of FSA's Intent to Offset

Immediately upon confirmation of a final loss claim payment, the authorized agency official *--will provide the debtor and any co-debtors notification of intent to offset using FSA-2263, according to this subparagraph and 7 CFR Part 3.

The FSA-2263 must be sent to debtors by certified mail. If FSA-2263 is returned, the authorized agency official will use first class mail or personal delivery.

The date FSA-2263 was received by the debtor and/or co-debtor will be entered in the "Notified Date" field using the GLS Debt Offset Maintenance Screen.

Note: GLS will be updated for the debtor and/or co-debtor with the date of the electronic verification or return receipt of FSA-2263 that is sent by certified mail to a debtor's last known address. If the certified mail was returned then resent by first class mail, the date of delivery will be 3 days following the date the first class mail was sent. This date will be entered in the "Notified Date" field using the GLS Debt Offset--* Maintenance Screen. A copy of the electronic verification will be placed in the case file.

The authorized agency official will provide written notification to debtors a minimum of:

- 30 calendar days before affecting non-centralized administrative offset and IAO
- 60 calendar days before affecting TOP.

The debtor's pro rata share of entity payments will be offset according to 7 CFR Part 3 and 7-FLP, paragraph 62 B, after the non-debtor entity members have been notified using *--FSA-2264.--*

363 Collecting Final Loss Claim Payments From Guaranteed Loan Debtors (7 CFR 762.149(m)) (Continued)

D Debtor Notification of FSA's Intent to Offset (Continued)

Authorized agency officials will follow 7-FLP, paragraph 63 B, to handle debtor requests
--received as a result of the receipt of FSA-2263 or FSA-2264.--

Debtors proposing an agreement to repay the debt as an alternative to offset must include the full amount of the Federal debt. The Federal debt must be paid within a short period of time.

E Salary Offset

The authorized agency official will determine whether collection by salary offset is feasible according to 7 CFR Part 3 and 7-FLP, Part 5.

F Referral of Debt for IAO Offset

The authorized agency official will refer debtors for IAO and non-centralized administrative
--offset 30 calendar days after sending FSA-2263 or FSA-2264, or 30 calendar days after the--
conclusion of a review or appeal.

The authorized agency official must complete the debtor's and/or co-debtor's IAO referral information, in GLS on the Debt Offset Maintenance Screen, for the debt to be referred for offset. Indication of referral to IAO in GLS does not automatically refer the debt. The authorized agency official must also work with Farm Program staff to ensure borrower accounts are flagged for offset in Financial Services, Subsidiary, and NPS.

Note: Debtors who are ineligible for IAO or who later become ineligible for IAO will be removed from referral in GLS on the Debt Offset Maintenance Screen and the authorized agency official must work with Farm Program staff to ensure all other flags are removed.

G Referral of Debt to TOP

The authorized agency official will refer debtors to TOP 60 calendar days after
--FSA-2263 was sent or 60 calendar days after the conclusion of a review or appeal.--

The authorized agency official must complete the debtor's TOP referral information, in GLS on the Debt Offset Maintenance Screen, for the debt to be referred for offset. After the information is entered, debtors will be programmatically referred according to the established Treasury quarterly referral schedule.

After the debt is referred for TOP, the RD Business Center, Guaranteed Commercial Branch will send Exhibit 21. The date of Exhibit 21 will be shown on the debtor's GLS maintenance screen.

Note: Debtors who are ineligible for TOP or who later become ineligible for TOP will be removed from referral in GLS on the Debt Offset Maintenance Screen.

363 Collecting Final Loss Claim Payments From Guaranteed Loan Debtors (7 CFR 762.149(m)) (Continued)

H State Office Responsibility

SED will ensure that FSA employees responsible for servicing FLP guaranteed loans notify all County Offices where the debtor receives Federal payments that these payments are to be
*--offset according to subparagraphs 363 F and G.

DD will ensure that all County Offices are updated monthly on debtors whose payments are eligible to be offset or are no longer eligible for offset.

Note: Management reports for debts currently referred for IAO and TOP are available in Tableau.

Debts may become ineligible for offset because of bankruptcy filing (see subparagraph 363 L) when:

- it has been 6 years since the last collection or 6 years since the debt was established and collections are less than accruing interest (see subparagraph 363 K)
- the borrower has an approved debt settlement plan (see subparagraph 363 K)
- the debt is referred to DOJ, or when the borrower or coborrower are on active duty in the military.

Debts referred to DOJ will be suspended from TOP according to 7-FLP, subparagraph 352 B. DOJ has exclusive jurisdiction over the debts referred to it, therefore FSA will remove DOJ debts from TOP. If any TOP collections are received after the debt is referred to DOJ but before removal from TOP, DOJ must be notified of the collection. Debt referred to DOJ may continue to be referred for IAO, but the steps in 7-FLP, subparagraph 352 A must be followed.

When a guaranteed borrower, co-borrower, or both, are called to report for induction or military service, debts will be removed from IOA and TOP. Co-borrowers associated--* with the debt must also be suspended from offset collections in GLS in an effort to reduce hardship on the family. Offsets should not be taken during the period of active duty and 3 months thereafter. Any collections received as a result of offset, **after** the date the borrower and/or co-borrower were called to active duty, will be refunded. State Offices will
--make refund request to the RD Business Center, Guaranteed Commercial Branch. When removing the debt from offset, the Reason Deleting selection will be “Other” with “National Defense Act” entered in the “Why Agency Deleting” box for both IAO and TOP.--

* * *

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

Forms (Continued)

Number	Title	Display Reference	Reference
FSA-2262	Notice of Liquidation Responsibility		362
FSA-2263	Notice of the Establishment of Federal Debt, the Demand for Payment, and the Intent to Collect		363
FSA-2264	Notice of Intent to Collect by Administrative Offset for Nonborrower Entity		363
FSA-2291	Lender's Processing Checklist		65, 95
FSA-2292	Guaranteed Loan Processing Checklist		65
FSA-2293	Annual File Review Checklist for SEL and CLP Lenders		267
FSA-2294	Debt Writedown Review Checklist		329
FSA-2295	Guaranteed Estimated Loss Review Checklist for SEL and CLP Lenders		342, 359
FSA-2296	Guaranteed Loan Final Loss Review Checklist		360
FSA-2701	Notice of Intent to Collect by Administrative Offset		376
FSA-2731	Cancellation of Debt Without Application (RD-1956-1)		363
FSA-2731A	Cancellation of Debt Without Application (Continuation)		363
FSA-2732	Debt Settlement Application (RD-1956-1 Application For Settlement of Indebtedness)		363
IRS-1099-C	Cancellation of Debt		362
IRS-8379	Injured Spouse Claim and Allocation		Ex. 17
NRCS CPA-1155	Conservation Plan or Schedule of Operations		66
RD-1980-64	Interest Assistance Agreement		224, 228, 230
UCC1	Financing Statement		364
W-2	Wage and Tax Statement		152

Note: Agency officials may use digital signatures on all Guaranteed Loan Program forms. Lenders and loan applicants may use digital or other electronic signatures on all Guaranteed Loan Program forms.

Some secondary market holders may not accept digital signatures on FSA-2235 and FSA-2242. Lenders should verify with their secondary market holders and notify FSA if digital signatures will **not** be accepted.

Authorized agency officials shall reference the User Guide for Digital Signatures on FLP's Presentation intranet web site for instructions to create a digital signature with their employee LINCPASS.

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

Abbreviations Not Listed in 1-CM

The following abbreviations are not listed in 1-CM.

Approved Abbreviation	Term	Reference
AASM	Application Authorization Security Management	73, Ex. 5
ACT	Consolidated Farm and Rural Development Act	1, 108, 286
ADPB	average daily principal balance	228, Ex. 10
CAFO	Concentrated Animal Feeding Operation	181, 358, Ex. 15
CL	conservation loan	Text, Ex. 2
CMS	Credit Management System	Text
DFO	direct farm ownership	108, 151
DNP	Do Not Pay	46, 108
EL	emergency livestock loan	108
EO	economic opportunity loan	108
FmHA	Farmers Home Administration	108, Part 9, Part 11, 360
FTP	file transfer protocol	Ex. 15.4
GFO	guaranteed farm ownership loan	96, 108, 135
GLOC	guaranteed line of credit	108
GLS	guaranteed loan system	248, Ex. 15.4
GOL	guaranteed operation loan	135
IA	interest assistance	18, Parts 9, 11-15, Ex. 10
IAO	Internal Administrative Offset	363, Ex. 2, 17
INA	Immigration and Nationality Act	Ex. 7
LINC	Lender Interactive Network Connection	73, 266, Ex. 5
LOC	line of credit	Text
LTV	loan to value	166
MLP	Micro Lender Program	Text
MPCI	multi-peril crop insurance	Ex. 4.5, 4.6
NPO	nonprofit organization	111
PLP	Preferred Lender Program	Text, Ex. 12
PRWORA	Personal Responsibility and Work Opportunity Reconciliation Act of 1996	Ex. 7
SAA	Shared Appreciation Agreement	286, 288, Ex. 2
SAM	System for Award Management	108
SDMS	State Directive Management System	84
SEL	Standard Eligible Lender	Text, Ex. 12
SOFR	Secured Overnight Financing Rate	135
USCIS	U.S. Citizenship and Immigration Services	Ex. 7, 8

Delegations of Authority

This table lists the delegations of authority in this handbook.

Delegation	Reference
Administering handbook provisions	20

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

Act

Act is the Consolidated Farm and Rural Development Act (7 U.S.C. 1921 et seq.).

Additional Security

Additional security is property which provides security in excess of the amount of security value equal to the loan amount.

***--Adequate Security**

Adequate security means property which is required to provide a security value at least equal to the loan amount.--*

Adversely Affect

Adversely affect means that a change unrelated to the issue resolved through the appeal will result in the borrower no longer being eligible for the assistance requested.

Adjustment

Adjustment means the settlement of an FLP debt for less than the total amount owed. The adjusted amount is collected through a series of payments that are scheduled over time. An adjustment is not a final settlement until all scheduled payments have been made. After applying all payments pursuant to the adjustment agreement, any remaining balance is canceled. The amount canceled is reported to the IRS pursuant to § 3.90 of this title and applicable IRS requirements.

Administrative Appraisal Review

Administrative appraisal review is a review of an appraisal to determine if the appraisal:

- (i) Meets applicable Agency requirements; and
- (ii) Is accurate outside the requirements * * * of USPAP.

Agency

Agency is the FSA.

Agency Official

Agency official is any employee with FSA.

Agricultural Commodity

Agricultural commodity means livestock, grains, cotton, oilseeds, dry beans, tobacco, peanuts, sugar beets, sugar cane, fruit, vegetable, forage, ornamental plants, nursery crops, nuts, aquaculture species, and the products resulting from livestock, tree farming, and other plant and animal production as determined by the Agency.

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

Allonge

Allonge is an attachment or an addendum to a promissory note.

***--Appraisal**

Appraisal means a written statement independently and impartially prepared, setting forth an opinion as to the value of an adequately described property as of a specific date(s), supported by the presentation and analysis of relevant market information. Real estate appraisals must comply with the Uniform Standards of Professional Appraisal Practice (USPAP).--*

Applicant

Applicant is the individual or entity applying for a loan or loan servicing under either the direct or guaranteed loan program.

Aquaculture

Aquaculture is the husbandry of any aquatic organisms (including fish, mollusks, crustaceans or other invertebrates, amphibians, reptiles, or aquatic plants) raised in a controlled or selected environment of which the applicant has exclusive rights to use.

Assignment of Guaranteed Portion

Assignment of guaranteed portion is a process by which the lender transfers the right to receive payments or income on a guaranteed loan to another party, usually in return for payment in the amount of the loan's guaranteed principal. The lender retains the unguaranteed portion in its portfolio and receives a fee from the purchaser or assignee to service the loan and receive and remit payments according to a written assignment agreement. This assignment can be reassigned or sold multiple times.

Assignment of Indemnity

Assignment of indemnity is the transfer of rights to compensation under an insurance contract.

Assistance

Assistance is financial assistance in the form of a direct or guaranteed loan or interest subsidy or servicing action.

Assumption

Assumption is the act of agreeing to be legally responsible for another party's indebtedness.

Authorized Agency Official

Authorized agency official is an employee who has either inherent or delegated authority to complete the described action.

Definitions of Terms Used in This Handbook (7 CFR 761.2(b)) (Continued)**Certified Mail**

Certified mail is a delivery service offered by USPS that allows the sender proof of mailing, as well as proof of delivery.

Notes: Certified mail service provides the following:

- electronic verification that an article was delivered or delivery attempt was made

Note: If the item was delivered, the electronic verification provides the date, time, and location of delivery.

- proof of delivery record (copy of the recipient's signature) that is kept at the Post Office for 2 years after mailing. If needed, the signature proof can be requested after mailing by purchasing the "Return Receipt After Mailing" service.

"Return Receipt" is an additional feature that may be purchased but is **not** required.

* * *

Civil Action

Civil action is a court proceeding to protect the Agency's financial interests. A civil action does not include bankruptcy and similar proceedings to impound and distribute the bankrupt's assets to creditors, or probate or similar proceedings to settle and distribute estates of incompetents or decedents, and pay claims of creditors.

Commercially Foraged

Commercially foraged means the harvesting of naturally occurring plants, or plantlike material, including fungi, that develop naturally with limited management of the resource.

Compromise

Compromise is the settlement of an FLP debt or claim by a lump-sum payment of less than the total amount owed in satisfaction of the debt or claim.

Conditional Commitment

Conditional commitment is the Agency's commitment to a lender that the material the lender has submitted is approved subject to the completion of all listed conditions and requirements.

Definitions of Terms Used in This Handbook (7 CFR 761.2(b)) (Continued)**Conservation Contract**

Conservation Contract is a contract under which a borrower agrees to set aside land for conservation, recreation or wildlife purposes in exchange for reduction of a portion of an outstanding FLP debt.

Conservation Loan (CL)

CL means a loan made to eligible applicants to cover the costs to the applicant of carrying out a qualified conservation project.

Conservation Plan

Conservation plan means an NRCS-approved written record of the land user's decisions and supporting information, for treatment of a land unit or water as a result of the planning process, that meets NRCS Field Office Technical Guide (FOTG) quality criteria for each natural resource (soil, water, air, plants, and animals) and takes into account economic and social considerations. The conservation plan describes the schedule of operations and activities needed to solve identified natural resource problems and takes advantage of opportunities at a conservation management system level. This definition only applies to the direct loans and guaranteed loans for the Conservation Loan Program.

Conservation Practice

Conservation practice means a specific treatment, such as a structural or vegetative measure, or management technique, commonly used to meet specific needs in planning and implementing conservation, for which standards and specifications have been developed. Conservation practices are contained in the appropriate NRCS Field Office Technical Guide (FOTG), which is based on the National Handbook of Conservation Practices (NHCP).

Conservation Project

Conservation project means conservation measures that address provisions of a conservation plan or Forest Stewardship Management Plan.

Consolidation

Consolidation is the process of combining the outstanding principal and interest balance of two or more loans of the same type made for operating purposes.

Construction

Construction is work such as erecting, repairing, remodeling, relocating, adding to, or salvaging any building or structure, and the installing, repairing, or adding to heating and electrical systems, water systems, sewage disposal systems, walks, steps, and driveways.

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

Leasehold is a right to use farm property for a specific period of time under conditions provided for in a lease agreement.

Lender

Lender is the organization making and servicing a loan, or advancing and servicing a line of credit that is guaranteed by the Agency. The lender is also the party requesting a guarantee.

Lender's Agreement

Lender's Agreement is the appropriate Agency form executed by the Agency and the lender setting forth their loan responsibilities when the Loan Guarantee is issued.

Lien

***--Lien** is a legally enforceable claim against real or personal property of another obtained--* as security for the repayment of indebtedness or an encumbrance on property to enforce payment of an obligation.

Line of Credit Agreement

Line of Credit Agreement is a contract between the borrower and the lender that contains certain lender and borrower conditions, limitations, and responsibilities for credit extension and acceptance where loan principal balance may fluctuate throughout the term of the contract.

Liquidation

Liquidation is the act of selling security for recovery of amounts owed to the Agency or lender.

Liquidation Expenses

Liquidation expenses are the costs of an appraisal, due diligence evaluation, environmental assessment, outside attorney fees, and other costs incurred as a direct result of liquidating the security for a direct or guaranteed loan. Liquidation expenses do not include internal Agency expenses for a direct loan or in-house expenses for a guaranteed loan.

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

Livestock is a member of the animal kingdom, or product thereof, as determined by the Agency.

Loan Agreement

Loan Agreement is a contract between the borrower and the lender that contains certain lender and borrower agreements, conditions, limitations, and responsibilities for credit extension and acceptance.

Loan Servicing Programs

Loan servicing programs include any primary loan servicing program, conservation contract, current market value buyout, and homestead protection.

Loan Transaction

Loan transaction is any loan approval or servicing action.

Loss Claim

Loss claim is a request made to the Agency by a lender to receive a reimbursement based on a percentage of the lender's loss on a loan covered by an Agency guarantee.

Loss Rate

Loss rate is the net amount of loan loss claims paid on FSA guaranteed loans made in the previous 7 years divided by the total loan amount of all such loans guaranteed during the same period.

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

Major Deficiency

Major deficiency is a deficiency that directly effects the soundness of the loan.

Majority Interest

Majority interest is more than a 50 percent interest in an entity held by an individual or group of individuals.

Market Value

***--Market value** means the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- (i) The buyer and seller are typically motivated;
- (ii) Both parties are well informed or well advised, and acting in what they consider to be their own best interests;
- (iii) A reasonable time is allowed for exposure in the open market;
- (iv) Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- (v) The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.--*

Minor Deficiency

Minor deficiency is a deficiency that violates agency regulations, but does not affect the soundness of the loan.

Mortgage

Mortgage is a legal instrument giving the lender a security interest or lien on real or personal property of any kind. The term “mortgage” also includes the terms “deed of trust” and “security agreement.”

Definitions of Terms Used in This Handbook (7 CFR 761.2(b)) (Continued)**Natural Disaster**

Natural disaster is unusual and adverse weather conditions or natural phenomena that have substantially affected farmers by causing severe physical or production, or both, losses.

Negligent Servicing

Negligent servicing is servicing that fails to include those actions that are considered normal industry standards of loan management or comply with the lender's agreement or the guarantee. Negligent servicing includes failure to act or failure to act in a timely manner consistent with actions of a reasonable lender in loan making, servicing, and collection.

Negotiated Sale

Negotiated sale is a sale in which there is a bargaining of price or terms, or both.

Net Recovery Value of Security

Net recovery value of security is the market value of the security property, assuming that the lender in the case of a guaranteed loan, or the Agency in the case of a direct loan, will acquire the property and sell it for its highest and best use, less the lender's or the Agency's costs of property acquisition, retention, maintenance, and liquidation.

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

Past Due

Past due is when a payment is not made by the due date.

Personal Property

Personal property is property that may consist of, but is not limited to, crops, livestock, aquaculture species, farm equipment, inventory, accounts, contract rights, general *--intangibles, and supplies that are covered by financing statements and security agreements, personal property mortgages, and other security instruments.--*

Potential Liquidation Value

Potential liquidation value is the amount of a lender's protective bid at a foreclosure sale. *--Potential liquidation value may be determined by an independent appraiser using--* comparables from other forced liquidation sales.

Present Value

Present value is the present worth of a future stream of payments discounted to the current date.

Presidentially-Designated Emergency

Presidentially-designated emergency is a major disaster or emergency designated by the President under the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5121 et seq.).

Production Cycle

Production cycle is the time it takes to produce an agricultural commodity from the beginning of the production process until it is normally disposed of or sold.

Program Loans

Program loans include FO, CL, OL, and EM. In addition, for loan servicing purposes the term includes existing loans for the following programs no longer funded: SW, RL, EE, ST, and RHF.

Definitions of Terms Used in This Handbook (7 CFR 761.2(b)) (Continued)**Promissory Note**

Promissory note is a written agreement to pay a specified sum on demand or at a specified time to the party designated. The terms “promissory note” and “note” are interchangeable.

Prospectus

Prospectus consists of a transmittal letter, a current balance sheet and projected year’s budget which is sent to commercial lenders to determine that lenders interest in financing or refinancing specific Agency direct loan applicants and borrowers.

Protective Advances

Protective advance is an advance made by the Agency or a lender to protect or preserve the collateral from loss or deterioration.

Purchase Money Interest

Purchase money interest is a component of UCC dealing with security and lien position. A lender providing for a crop or a particular piece of equipment can frequently have first position on that item despite other financing statements in place.

***--Real Estate Evaluation**

Real estate evaluation is an estimate of value of real estate provided by an individual who is not required to comply with USPAP, using market supported information to analyze the subject property.--*

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

Security is property or right of any kind that is subject to a real or personal property lien. Any reference to “collateral” or “security property” will be considered a reference to the term “security.”

Security Instrument

Security instrument includes any document giving the Agency or lender a security interest on real or personal property.

Security Value

***--Security value** is the market value of real estate or personal property (less the value of--* any prior liens) used as security for an Agency or lender’s loan.

Shared Appreciation Agreement

Shared Appreciation Agreement is an agreement between the Agency, or a lender in the case of a guaranteed loan, and a borrower on the appropriate Agency form that requires the borrower who has received a write-down on a direct or guaranteed loan to repay the Agency or the lender some or all of the write-down received, based on a percentage of any increase in the value of the real estate securing an SAA at a future date.

Definitions of Terms Used in This Handbook (7 CFR 761.2(b)) (Continued)***--Socially Disadvantaged Applicant or Farmer**

Socially disadvantaged applicant or farmer is an individual or entity who is a member of--* a socially disadvantaged group. For entity applicants, the majority interest must be held by socially disadvantaged individuals. For married couples, the socially disadvantaged individual must have at least 50 percent ownership in the farm business and make most of the management decisions, contribute a significant amount of labor, and generally be recognized as the operator of the farm.

Socially Disadvantaged Group

Socially disadvantaged group is a group whose members have been subject to racial, ethnic, or gender prejudice because of their identity as members of a group without regard to their individual qualities. These groups consist of: American Indians or Alaskan Natives, Asians, Blacks or African Americans, Native Hawaiians or other Pacific Islanders, Hispanics, and women.

Soil and Water Loan

Soil and Water loan is a loan that was made to an eligible applicant to encourage and facilitate the improvement, protection, and proper use of farmland by providing financing for soil conservation, water development, conservation, and use; forestation; drainage of farmland; the establishment and improvement of permanent pasture; pollution abatement and control; and other related measures consistent with all Federal, State and local environmental standards. SW loans are no longer funded, however, such outstanding loans are serviced by the Agency.

State Beginning Farmer Program

State Beginning Farmer Program is any program that is carried out by, or under contract to, a State and designed to assist persons in obtaining the financial assistance necessary to establish a new or maintain a recently established farming operation.

***--Streamlined Conservation Loan (CL)**

Streamlined CL means a direct or guaranteed CL made to eligible applicants based on reduced documentation.--*

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

Subordination is a creditor's temporary relinquishment of all or a portion of its lien priority in favor of another creditor, providing the other creditor with a priority right to collect a debt of a specific dollar amount from the sale of the same collateral.

Subsequent Loans

Subsequent loan is any FLP loan processed by the Agency after an initial loan of the same type has been made to the same borrower.

Technical Appraisal Review

Technical appraisal review is a review of an appraisal to determine if such appraisal meets the requirements of USPAP pursuant to standard 3 of USPAP.

***--Traditional Lender**

Traditional lender is a lender that is subject to examination and supervision by a Federal or State agency, and has Federal deposit or share insurance protection. This includes, but is not limited to, lenders supervised by FDIC, Office of Comptroller of the Currency, Office of Thrift Supervision, Federal Reserve Board, Farm Credit Administration, or National Credit Union Administration.--*

Transfer and Assumption

Transfer and assumption is the conveyance by a debtor to an assuming party of the assets, collateral, and liabilities of a loan in return for the assuming party's binding promise to pay the debt outstanding or the market value of the collateral.

Typical Plan

Typical plan is a projected income and expense statement listing all anticipated cash flows for a typical 12 month production cycle; including all farm and nonfarm income and all expenses (including debt service) to be incurred by the borrower during such period.

Typical Cash Flow Budget

Typical cash flow budget is a cash flow budget that reflects the cash inflows and outflows the operation will likely incur during a normal production cycle.

Trust

Trust is an entity that under applicable state law meets the criteria of being a trust of any kind but does not meet the criteria of being a farm cooperative, private domestic corporation, partnership, or joint operation.

Definitions of Terms Used in This Handbook (7 CFR 761.2(b)) (Continued)**Unaccounted for Security**

Unaccounted for security is security for a direct or guaranteed loan that was misplaced, stolen, sold, or otherwise missing, where replacement security was not obtained or the proceeds from its sale have not been applied to the loan.

Unauthorized Assistance

Unauthorized assistance is any loan, loan servicing action, lower interest rate, loan guarantee, or subsidy received by a borrower, or lender, for which the borrower or lender was not eligible, which was not made in accordance with all Agency procedures and requirements, or which the Agency obligated from the wrong appropriation or fund. Unauthorized assistance may result from borrower, lender, or Agency error.

Undivided Ownership Interest

Undivided ownership interest means a common interest in the whole parcel of land that is owned by two or more people. Undivided ownership interest does not include those who own a specific piece of a parcel of land; rather they own a percentage interest in a parcel of land as a whole.

Uniform Standards of Professional Appraisal Practice

Uniform Standards of Professional Appraisal Practice are standards governing the preparation, reporting, and reviewing of appraisals established by the Appraisal Foundation pursuant to the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

United States

United States is any of the 50 States, the Commonwealth of Puerto Rico, the Virgin Islands of the United States, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, Republic of Palau, Federated States of Micronesia, and the Republic of the Marshall Islands.

U. S. Attorney

U. S. Attorney is an attorney for the United States Department of Justice.

***--Valuation**

Valuation is the estimation or determination of value of personal property or real estate by agency officials, vendors, or third parties, in each case, authorized or approved by the Agency.--*

--Lender's Loan Narrative (Non-PLP Lenders)--

A Content and Level of Detail

All guaranteed loan requests, except EZ Guarantee loan requests, must include a lender's loan narrative that addresses the 5 "Cs" of credit found in 2-FLP, subparagraph 66 C. The following is a summary of:

- the content FSA expects a typical loan narrative to contain
- factors to consider
- applicable 2-FLP references.

This document is not meant to be all-inclusive and is provided to assist lenders and FSA personnel prepare proper loan narratives. The loan narrative must provide the FSA loan approval official with the information required to ensure that the:

- guaranteed loan applicant meets the eligibility requirements
- proposed use of funds is authorized
- applicant's proposed operation is viable
- proposed security for the loan is sufficient to adequately secure the loan.

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

Example: A loan narrative for an existing FLP customer may have fewer details than an application for a new customer who is refinancing the lender's existing debt. FSA officials must use judgment to determine the appropriate level of detail in the lender's loan narrative.

B Eligibility

2-FLP References	
Subparagraphs: 66 C 66 I 67 A 69 B	Paragraphs: 108 109 (OL) 110 (FO) 111 (OL and FO Entity Applicants) 112 (CL)

The lender's narrative should address how the loan applicant meets FSA's eligibility regulations found in 2-FLP, paragraphs 108-112. Some of these requirements must be addressed with each loan application, and some only need to be discussed if the lender has particular relevant information. The following describes what must be addressed in all cases, what is relevant only in certain cases, and the elements to include in each.

--Lender's Loan Narrative (Non-PLP Lenders)--

B Eligibility (Continued)

Key Eligibility Requirements Lenders MUST Address for Each Loan

[1] Description of the Farming Operation. FSA relies heavily on the lender's description of the operation to determine whether the loan applicant meets the program's statutory requirement to be an owner/operator or tenant/operator of a farm not larger than family size. Without direct knowledge or interaction with the loan applicant, FSA depends on the lender's description of the applicant and operation to make this decision. The following should be discussed:

- What products are raised?
- In what quantities (acres, head, etc.)?
- How are they marketed?
- What is the legal structure of the operation (sole proprietorship, LLC, S corporation, partnership)?
- Who are the owners and what are their roles?
- Who else is involved in the daily management structure?
- How much labor is hired and how much is provided by the owners?
- What are their roles?
- **Entity Example:** Joseph John Farmer and Jane Elizabeth Farmer are the sole members of Down by the Bay Farms, LLC. Down by the Bay Farms, LLC is located at 12345 Farm Town Road, Ranch City, Louisiana and is legally registered to operate in the state of Louisiana. The LLC operates 1,000 acres on a no-till corn/soybean rotation and 500 head cow/calf operation. Joe is primarily responsible for the farming operation while Jane manages the finances and record keeping. The LLC employs one full-time hired hand and two seasonal hired hands.

--Lender's Loan Narrative (Non-PLP Lenders)--

B Eligibility (Continued)

Other items to include in a description of the operation:

- General description of the owned and rented real estate (location, acres, owner, cost/acre, etc.)
- General description of the equipment and other facilities. What key items are owned and rented? What is the condition?
- A list of the location of all land to be farmed (unless submitted separately as part of the application). FSA needs this information for environmental review.
- What are the short-term and long-term goals of farming operation?
- What changes are planned for the farming operation?
- What environmental issues are present (if any) and what is their impact?

Less detail may be required for...	More detail may be required for...
traditional farming enterprises	multiple and/or non-traditional farming enterprises
sole-proprietorships or joint operations	partnerships, LLC's, embedded entities, etc.
there are no changes in the farming operation	there are changes in the farming operation

[2] Credit History. FSA relies on the lender's ability to adequately demonstrate their acceptable credit history. A history of failures to repay past debts when the ability to repay was within the applicant's control will demonstrate unacceptable credit history. FSA does not consider isolated instances of late payment or lack of credit history as unacceptable credit history. The following should be discussed:

- Explain any history of late payments; were they beyond or within the applicant's control?
- Explain low credit score or lack of credit history.
- Describe lending relationship with the financial institution.

Example: Bob and Betty Farmer have a good relationship with ABC Savings Bank. They have had some credit issues in the past. Bob's credit score is 600 and Betty's is 595. Five years ago, Bob and Betty had premature twins who required significant medical care. This led to bills becoming past due and medical debt. Since then, Bob and Betty have worked hard to improve their financial standing by paying extra on debt and regularly communicating with the bank. Most of the medical debt has been paid off and their credit scores are showing marked improvement.

--Lender's Loan Narrative (Non-PLP Lenders)--

B Eligibility (Continued)

Less detail may be required if...	More detail may be required if...
no debt refinance	prior debt refinancing
no credit issues beyond the applicant's control	credit issues beyond the applicant's control
no late payments or isolated instances of late payment	significant number of late payments

[3] Test for Credit. FSA depends on lenders to explain why they cannot make the applicant a loan at reasonable rates and terms without a guarantee.

- The need for the guarantee must be based on a weakness, such as cash flow, new enterprise, irregular performance history, rapid expansion, poor market, net worth, current capital position, limited collateral, new operator.

Example: A guarantee is required because the applicant does not meet lender standards for capital and repayment capacity. Applicant has a repayment capacity of 1.01 and debt/equity of 55 percent. Internal lending standards require repayment capacity of 1.10 or higher and debt/equity of 50 percent.

- Selling the guaranteed portion on the secondary market alone for just a fixed rate and term is not adequate. Explain how the secondary market rates and terms are necessary for the operation's success.

Example: Without a guarantee to sell on the secondary market, the lender is not able to offer a fixed interest rate which will benefit the customer's repayment capacity in the long term as well as reduce the overall risk in the future of potential rate increases. This will also allow the customer's repayment capacity to meet internal lender standards.

Less detail may be required if...	More detail may be required if...
meets internal lending standards	does not meet internal lending standards
no debt refinance	there is refinance of debt
no current or recent delinquencies	there are current or recent delinquencies

Other Eligibility Rules to Discuss If Necessary

The following eligibility requirements **typically** do not need to be addressed in the lender's loan narrative, since the lender or applicant self-certifies on the loan application and/or FSA loan official can check on the status of the following items. The following items only require further explanation in unusual circumstances.

--Lender's Loan Narrative (Non-PLP Lenders)--

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

2-FLP References	
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 (Non-PLP Lenders)--

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 (Non-PLP Lenders)--

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 3rd 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.

Less detail may be required if...	More detail may be required if...
first lien	shared or junior lien
real estate security	personal property or crop security

E Capacity Analysis

2-FLP References	
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 (Non-PLP Lenders)--

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 (Non-PLP Lenders)--

E Capacity Analysis (Continued)

Less detail may be required if...	More detail may be required if...
high debt repayment margin	low debt repayment margin
balance sheet, cash flow projection, and financial and production histories are part of application	balance sheet, cash flow projection, financial or production histories are not part of application

F Capital Analysis

2-FLP References	
Subparagraphs: 66 C 67 A 69 B	Paragraphs: 151-154 (feasibility)

The lender must adequately describe capital position of operation, including a discussion or explanation of:

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

Example: Over the last 3 years, the borrowers have shown steady progress in their overall financial condition. Their working capital, debt to asset (D:A), and net worth have all shown marked improvement. Their working capital sits at \$250,575, up from \$200,000. D:A ratio is 60 percent, down from 63 percent. Net worth is \$755,895, up from \$735,000. While those improvements have not been large, they have been steady from the major financial uncertainty of the 5 years before these past 3 years. The pro-forma balance sheet shows a small decrease in all these ratios. With the continued financial monitoring implemented over the past few years, this should be a one-time decrease.

--Lender's Loan Narrative (Non-PLP Lenders)--

F Capital Analysis (Continued)

Less detail may be required if...	More detail may be required if...
strong equity position	little or no equity
strong working capital	weak working capital

G Loan Conditions and Servicing Plan

2-FLP References	
Subparagraphs: 66 C 67 A 69 B	

The lender must adequately describe loan conditions and servicing plans, including:

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

Example: For the line of credit, the borrower will be required to obtain at least catastrophic level crop insurance coverage and give ABC Bank an assignment of crop insurance and government payments. The bank will also require the customer to submit invoices before advancing on the line of credit to manage funds properly since this has been an issue in the past. Customer will agree to a yearly farm inspection and a financial review twice a year. Cash flow will be developed and analyzed annual to determine if the budget is feasible and funds can be advanced for the following year.

Less detail may be required if...	More detail may be required if...
real estate security	equipment, livestock or crop security
FO	OL or LOC
financially strong farming operation	financially weak farming operation

--Lender's Loan Narrative (Non-PLP Lenders)--

H Loan Narrative Guide Checklist

	Eligibility: Description of Operation • What products are raised? • In what quantities (acres, head, etc.)? • How are they marketed? • What is the legal structure of the operation (sole proprietorship, LLC, S corporation, partnership)? • Who are the owners and what are their roles? • Who else is involved in the daily management structure? • How much labor is hired and how much is provided by the owners? • What are their roles? Credit History • Does the applicant have an acceptable credit history? • Describe your relationship history with the applicant. • Address any negative aspects of their credit history. Test for Credit • Why can't the lender make the loan without a guarantee?
	Loan Purpose: • Description of loan type, amount, term, rate, and purpose, (for loans containing a balloon payment, include loan renewal conditions) • Description of any other proposed loans or loan restructuring (non-guaranteed, FSA direct loans, other), including loan type, amount, term, rate, purpose, and security • Description of Conservation Plan or Forest Stewardship Management Plan, and the need for a qualifying conservation practice (CL only)

--Lender's Loan Narrative (Non-PLP Lenders)--

H Loan Narrative Guide Checklist (Continued)

	Collateral Analysis: • Assessment of the adequacy of the security being offered to secure the proposed loan • Discuss the ratios for the operation back to internal standards to help document strengths and weaknesses of the operation • Any additional details or clarification on the security value and proposed lien position not apparent on the loan application • Method used to establish the market value of the security - evaluation or appraisal
	Capacity Analysis: • Discuss 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) • Discuss the ratios for the operation back to internal standards to help document strengths and weaknesses of the operation • Discuss assumptions made and basis for commodity prices and yields used to develop cash flow • Discuss why rescheduling or alternative payment schedules are not being offered (if refinancing debt held by lender)
	Capital Analysis: • Discuss applicant's financial condition (in addition to just stating financial ratios, lender should provide context for the type of operation or the life stage of the operation – startup, new enterprise, preparing for retirement) • Discuss the ratios for the operation back to internal standards to help document strengths and weaknesses of the operation • Effect of new debt on financial condition • Discuss non-essential assets, if any • Discuss consolidation of balance sheets, if applicable
	Loan Conditions and Serving Plan: • Lender loan servicing plan describing borrower's financial reporting requirements, limitations and conditions, and other borrower supervision (not required if described in another loan application document) • The name and current address of any guarantors or co-signers required to execute the promissory note (not required if this information is listed on the loan application or another application document)

--Lender's Loan Narrative (Non-PLP Lenders)--

I Sample Lender Narrative

Loan proposal:

Describes:

- ✓ The type of loan request
- ✓ Uses of loan funds
- ✓ Interest rate and terms
- ✓ Reasons for refinance if applicable
- ✓ The original loan purpose if refinancing

Sunshine Farm and Ranch and Rural Town Bank are requesting FSA guaranteed loan assistance. Their wheat yields over the past few years were substantially reduced because of late freeze, excessive flooding, hail, and heavy rains. Additionally, excessive repairs to irrigation equipment and excessive heat have affected their corn yields. Even though crop insurance paid, the yield issues have caused carry-over debt on the LOC. The family needs to restructure their balance sheet and term out carry-over debt to overcome this negative set back.

The plan for this proposal was discussed on February 1, 2023, during the pre-application farm visit with all members of the operation. During that visit, Rural Town Bank loan officer Frank Banker was able to:

- view the farming operation and potential security
- conduct an environmental inspection of the property and found no noted ground disturbance or environmental concerns
- discuss a plan on successfully moving forward.

Loan #1: Rural Town Bank requests loan # 8745 be refinanced, along with debt of 3 other creditors. The loan amount requested is \$400,500 with a 7-year term and a 3-year adjustable interest rate of 8.75 percent.

Refinance Rural Town Bank (8745)	\$229,856
Refinance John Deere Credit	\$ 51,200
Refinance Rural Town Coop	\$ 22,000
Refinance carry over crop debt	\$ 90,000
Additional accrued interest	\$ 2,037
FSA guarantee fees	<u>\$ 5,407</u>
Total	\$400,500

Payment will be made annually with the first payment due following fall harvest in the amount of \$78,910. Overall term loan payments will be reduced by \$25,000 annually with the extended terms.

--Lender's Loan Narrative (Non-PLP Lenders)--

I Sample Lender Narrative (Continued)

Loan #2: Rural Town Bank also requests an LOC for the upcoming operating year in the amount of \$250,000. This will be an annually renewable note for 5 years.

Loan proceeds:

Crop input costs	\$195,000
Feed	\$ 50,000
Partner withdrawals (Bob and Anne)	<u>\$ 5,000</u>
Total	\$250,000

All income from farm proceeds will be applied to principal as grain or livestock are sold or government payments collected. Annual paydown will occur on the LOC to prevent carry over.

Interest is prime + 1.5 percent paid by December 1 annually or at note maturity. Initial rate projected to be set at 9 percent.

Rural Town Bank is requesting a 90 percent guarantee on both loan requests.

Description of the Farming Operation:

Describes:

- ✓ Who the owners of the operating entity are
- ✓ What percentage they own
- ✓ Who the owners of the land are if they are different from the operating entity
- ✓ Their responsibilities
- ✓ What they raise
- ✓ Size of the operation
- ✓ If any additional hired labor is required

Sunshine Farm and Ranch is a general farm partnership consisting of a father and mother, Bob and Anne Sunshine, and their two sons, Joe and Mike. The following table displays the partnership breakdown.

Partner	Title	Ownership	
Bob Sunshine	Partner	50%	General Management
Anne Sunshine	Partner		Bookkeeping
Joe Sunshine	Partner	25%	Daily management and labor
Mike Sunshine	Partner	25%	Daily management and labor

--Lender's Loan Narrative (Non-PLP Lenders)--

I Sample Lender Narrative (Continued)

Most strategic business decisions are made by Bob, with Anne assisting with the bookkeeping. Bob and Anne jointly own a 50 percent interest in the partnership. Additionally, Joe and Mike provide all day-to-day labor and management of the operation holding 25 percent interest each. The operation hires occasional seasonal labor. Sunshine Farm and Ranch, located in East and West Counties, farms approximately 2,400 acres of dryland wheat, irrigated corn, and milo, and runs a small cow/calf operation of about 100 head of cows and 4 bulls. Bob individually owns two 160-acre parcels of irrigated farm ground and 300 acres of pasture. Bob and Anne Sunshine reside on one of those parcels. Joe and his wife Mary jointly own 80 acres of pasture and reside there as well. Mike is single and lives in Rural Town, Kansas. Sunshine Farm and Ranch also rents an additional 100 acres of pasture to rotate the cattle throughout the year to help with feed costs. The Sunshine's have been customers of Rural Town Bank since 2004 borrowing for term loans and then expanding the relationship with a revolving LOC as the operation grew larger.

Character:

Describes:

- ✓ If the credit acceptable
- ✓ What the credit report shows
- ✓ If any potential problems have been resolved
- ✓ What credit sources have been investigated
- ✓ The reasoning behind credit issues
- ✓ If the credit issues are within the applicant's control or not

The members of Sunshine Farm and Ranch display strong character and meet lending standards for character despite lower credit scores. They have shown their willingness to communicate openly with the bank about their financial issues.

Bob and Anne's credit score is 790. Their only farm debt is to Rural Town Bank on their owned 320 acres and home.

Joe and Mary's credit score is 689. A hospital bill from an auto accident their oldest son was in showed up on the credit report as a collection account. Auto insurance was slow to resolve the dispute involved in that bill, but it has now been paid in full. Joe and Mary's loan to Rural Town Bank is reported in good standing. They have several credit cards with small balances that are usually resolved in 3 to 6 months.

Mike's credit score is 620. His FMC pickup loan reported 5 late payments in the past 12 months but none over 30 days past due.

Their overall credit history appears satisfactory. Debts over \$5,000 not reflected on the credit report have been verified.

--Lender's Loan Narrative (Non-PLP Lenders)--

I Sample Lender Narrative (Continued)

Goals:

Describes

- ✓ Short-term goals
- ✓ Intermediate goals
- ✓ Long-term goal

The main goal of the operation is to heal from the past few years of financial setbacks. Over the next 5 years, Bob and Anne would like to complete the process of transferring ownership and management of the operation to their boys. After the transition, Bob would continue to assist harvesting spring crops, planting wheat, and helping as needed with the cattle.

Joe sees considerable potential in increasing the operation's profitability and Mary would like to devote more time to chores and bookkeeping after shifting from fulltime teaching to substitute teaching. Joe and Mary's oldest son wants to come back after college and join the operation.

Mike enjoys crop adjusting and has no desire to quit his day job but is willing to put more hours into the operation once Bob cuts back. Mike has indicated that he'd like to move into the country and purchase a small tract of ground.

These are all long-term goals until the operation can correct itself from prior setbacks. The ultimate goal of the operation is to operate profitably on a cash basis. For now, the bank is willing to continue with them using the guaranteed loan program.

Eligibility:

This farm operation meets the loan eligibility requirements outlined in 2 FLP, paragraph 108. The applicant has self-certified to applicable eligibility questions on the application. Credit history and operator of a family farm are addressed in the Character section. The need for the guarantee is addressed in the Capacity, Capital and Collateral sections. Rural Town Bank has determined there are no conflicts of interest present with this application.

--Lender's Loan Narrative (Non-PLP Lenders)--

I Sample Lender Narrative (Continued)

Capacity:

Describes:

- ✓ Farm Income Sources, such as crops or livestock
- ✓ Lease information
- ✓ Expenses
- ✓ Marketing strategies
- ✓ Non-farm income sources
- ✓ Cash flow ratio information
- ✓ Scorecard model

A review of the financial information for this application indicates that the debt service margin of 1.05 percent does not meet the internal lending standard of 1.15 percent, therefore generating the need for the guarantee.

The cash flow projection provided with the application is for the upcoming crop year and reflects a typical year.

The cash flow is tight with their debt service margin at 1.05 percent. Their operating expense ratio is in line with their 3-year history of 77 percent. This return is good considering the increase in fuel expenses and prior year setbacks. The weakness is offset by grain contracts in place for the upcoming operating cycle, assignment of government payments and crop insurance, as well as established off-farm income.

Acres and yields: Sunshine Farm and Ranch's operation consists mainly of 1,200 acres of dryland wheat with average yields over the past 3 years around 42 bushels/acre. Irrigated corn is planted on 480 acres (2 owned and 1 rented with annual cash rent of \$115/acre) with average yields of 220-240 bushels/acre. The remaining 720 acres are planted to milo with average yields ranging 50-80 bushel/acre. Soybeans are planted into the rotation every 3 years on 320 of the irrigated rented acres.

All irrigated croplands have good wells. The owned land wells average about 900 gpm, and the rented land wells averaging between 600-750 gpm. The crop ground has good soils, and the terraces are maintained. Some of the newer rented ground had bindweed problems over the past few years, but it has been mostly eradicated. None of the ground has been classified as HEL or Wetland.

--Lender's Loan Narrative (Non-PLP Lenders)--

I Sample Lender Narrative (Continued)

Cattle: A smaller part of the operation's income comes from 75 head of calves being sold/retained. The plan utilizes a 2 percent death loss. The operation practices a cull rate of 10 percent with an equal retention rate to keep the average age of the overall herd. Calving rate is based on State historical information of 55 percent. Sunshine Farms sells all the calves to the local cattle feeder. For breeding purposes, the operation primarily utilizes AI with a cleanup bull. The cattle operation is supported by adequate pastures with good water sources. Pastures consist of native grasses and are plentiful in a good rainfall season. The pastures are relatively close together and there is good pond located on Joe's 80 acres. A pond and a creek run through the rented pasture. They would like to eventually add and grow their breeding cattle numbers and have increased from 75 to 100 over the past few years. Additional pasture is always a concern.

Leases: The sprinklers are provided by the landlord with the crop share and expenses split at 50/50. The balance of the rental arrangements are 1/3 landlord and 2/3 tenant.

Expenses: All expenses are in line with the 3-year history (provided) with adjustments made in seed, fertilizer, chemicals, and other inputs to an increase in input expenses.

Marketing: The operation does exercise forward contracting when feasible. The cash flow represents a history of forward contracting, and a typical year plan has also been developed using FSA's farm planning prices.

Nonfarm income and withdrawals: Bob and Anne receive social security income as well as a small partnership draw from the farming operation of \$5,000 each year. Joe doesn't work off the farm and Mary is a schoolteacher. Mike works part-time as a crop insurance adjuster. The lender has not injected any off-farm income into the cash flow or personal debt. All members personal cash flows can stand alone. Joe's withdrawals from the farm show up under "labor" for \$24,000/year. The operation supports this expense. Mike is paid as "seasonal labor" when necessary; otherwise, no withdrawals are made by Mike.

The family isn't planning any changes to their operation which had been working well until the last few years.

--Lender's Loan Narrative (Non-PLP Lenders)--

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 (Non-PLP Lenders)--

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.

--Lender's Loan Narrative (Non-PLP Lenders)--

I Sample Lender Narrative (Continued)

7. Family living expenses drawn from the entity are limited to Bob and Anne Sunshine and not to exceed \$5,000 annually. All other family living expenses will be covered from non-farm sources.
8. All entity members are required to sign the promissory note as individuals.

Rural Town Bank believes Sunshine Farm and Ranch is on the upward trend financially. Over time, the conditions, servicing plan, and proposed loan structure will assist in the long-term viability of the operation.

***--Delegated Authority (PLP) Lender's Loan Narrative**

A Content and Level of Detail

All guaranteed loan requests from lenders with delegated authority must include a lender's loan narrative that addresses the background information for the customer, a description of their operation, loan purpose, and certifications regarding capital position, repayment capacity, collateral, and credit history. The following is a summary of:

- the content FSA expects a typical loan narrative from a lender with delegated authority to contain
- factors to consider
- applicable 2-FLP references.

This document is not meant to be all-inclusive and is provided to assist lenders and FSA personnel prepare proper loan narratives. The loan narrative must provide the FSA loan approval official with the information required to ensure that the:

- guaranteed loan applicant meets the eligibility requirements
- proposed use of funds is authorized
- applicant's proposed operation is viable
- proposed security for the loan is sufficient to adequately secure the loan.

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

B Eligibility

2-FLP References	
Subparagraphs: 66 C 66 I 67 A 69 B	Paragraphs: 108 109 (OL) 110 (FO) 111 (OL and FO Entity Applicants) 112 (CL)

The lender's narrative should address how the loan applicant meets FSA's eligibility regulations found in 2-FLP, paragraphs 108-112. Some of these requirements must be addressed with each loan application, and some only need to be discussed if the lender has particular relevant information. The following describes what must be addressed in all cases, what is relevant only in certain cases, and the elements to include in each.--*

***--Delegated Authority (PLP) Lender's Loan Narrative**

B Eligibility (Continued)

Key Eligibility Requirements Lenders MUST Address for Each Loan

[1] Description of the Farming Operation. FSA relies heavily on the lender's description of the operation to determine whether the loan applicant meets the program's statutory requirement to be an owner/operator or tenant/operator of a farm not larger than family size. Without direct knowledge or interaction with the loan applicant, FSA depends on the lender's description of the applicant and operation to make this decision. The following should be discussed:

- What products are raised?
- In what quantities (acres, head, etc.)?
- How are they marketed?
- What is the legal structure of the operation (sole proprietorship, LLC, S corporation, partnership)?
- Who are the owners and what are their roles?
- Who else is involved in the daily management structure?
- How much labor is hired and how much is provided by the owners?
- What are their roles?
- **Entity Example:** Joseph John Farmer and Jane Elizabeth Farmer are the sole members of Down by the Bay Farms, LLC. Down by the Bay Farms, LLC is located at 12345 Farm Town Road, Ranch City, Louisiana and is legally registered to operate in the state of Louisiana. The LLC operates 1,000 acres on a no-till corn/soybean rotation and 500 head cow/calf operation. Joe is primarily responsible for the farming operation while Jane manages the finances and record keeping. The LLC employs one full-time hired hand and two seasonal hired hands.--*

***--Delegated Authority (PLP) Lender's Loan Narrative**

B Eligibility (Continued)

Other items to include in a description of the operation:

- General description of the owned and rented real estate (location, acres, owner, cost/acre, etc.)
- General description of the equipment and other facilities. What key items are owned and rented? What is the condition?
- A list of the location of all land to be farmed (unless submitted separately as part of the application). FSA needs this information for environmental review.
- What are the short-term and long-term goals of farming operation?
- What changes are planned for the farming operation?
- What environmental issues are present (if any) and what is their impact?

Less detail may be required for...	More detail may be required for...
traditional farming enterprises	multiple and/or non-traditional farming enterprises
sole-proprietorships or joint operations	partnerships, LLC's, embedded entities, etc.
there are no changes in the farming operation	there are changes in the farming operation

[2] Credit History. FSA relies on the lender's ability to adequately demonstrate their acceptable credit history and allows for a certification that the applicant meets this requirement.

[3] Test for Credit. FSA depends on lenders to certify they cannot make the applicant a loan at reasonable rates and terms without a guarantee.

Other Eligibility Rules to Discuss If Necessary

The following eligibility requirements **typically** do not need to be addressed in the lender's loan narrative, since the lender or applicant self-certifies on the loan application and/or FSA loan official can check on the status of the following items. The following items only require further explanation in unusual circumstances.--*

***--Delegated Authority (PLP) Lender's Loan Narrative (Continued)**

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

2-FLP References	
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).--*

***--Delegated Authority (PLP) Lender's Loan Narrative (Continued)**

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 certify that there is adequate security being obtained for the proposed loan and the security meets internal lending standards. Lender must provide the LTV.--*

***--Delegated Authority (PLP) Lender's Loan Narrative (Continued)**

E Capacity Analysis

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

The lender must certify the applicant meets their repayment capacity standards and provide the following key ratios: Debt Service Coverage Ratio (DSCR). The lender must further certify that the positive repayment capacity was determined using realistic information and assumptions for the current operating cycle for all loans and also for the typical operating cycle if the loan will span multiple operating cycles.

F Capital Analysis

2-FLP References	
Subparagraphs: 66 C 67 A 69 B	Paragraphs: 154 (feasibility)

The lender must certify the capital position of operation meets their repayment capacity standards and provide a few key ratios: Current Ratio, Debt to Assets, and Net Worth.--*

***--Delegated Authority (PLP) Lender's Loan Narrative (Continued)**

G Loan Conditions and Servicing Plan

2-FLP References	
Subparagraphs: 66 C 67 A 69 B	

The lender must adequately describe loan conditions and servicing plans, including:

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

Example: For the line of credit, the borrower will be required to obtain at least catastrophic level crop insurance coverage and give ABC Bank an assignment of crop insurance and government payments. The bank will also require the customer to submit invoices before advancing on the line of credit to manage funds properly since this has been an issue in the past. Customer will agree to a yearly farm inspection and a financial review twice a year. Cash flow will be developed and analyzed annual to determine if the budget is feasible and funds can be advanced for the following year.

Less detail may be required if...	More detail may be required if...
real estate security	equipment, livestock or crop security
FO	OL or LOC
financially strong farming operation	financially weak farming operation

--*

*--Delegated Authority (PLP) Lender's Loan Narrative (Continued)

H Loan Narrative Guide Checklist

	Eligibility: Description of Operation • What products are raised? • In what quantities (acres, head, etc.)? • How are they marketed? • What is the legal structure of the operation (sole proprietorship, LLC, S corporation, partnership)? • Who are the owners and what are their roles? • Who else is involved in the daily management structure? • How much labor is hired and how much is provided by the owners? • What are their roles? Credit History and Test for Credit • Certification
	Loan Purpose: • Description of loan type, amount, term, rate, and purpose, (for loans containing a balloon payment, include loan renewal conditions) • Description of any other proposed loans or loan restructuring (non-guaranteed, FSA direct loans, other), including loan type, amount, term, rate, purpose, and security • Description of Conservation Plan or Forest Stewardship Management Plan, and the need for a qualifying conservation practice (CL only)
	Collateral, Capacity and Capital Analysis: • Certification • Key Ratios: Current Ratio, Debt Service Coverage Ratio, Debt to Asset Ratio, Net worth, Loan to Value
	Loan Conditions and Serving Plan: • Lender loan servicing plan describing borrower's financial reporting requirements, limitations and conditions, and other borrower supervision (not required if described in another loan application document) • The name and current address of any guarantors or co-signers required to execute the promissory note (not required if this information is listed on the loan application or another application document)

***--Delegated Authority (PLP) Lender's Loan Narrative (Continued)**

I Sample Delegated Authority Lender Narrative

Loan proposal:

Describes:

- ✓ The type of loan request
- ✓ Uses of loan funds
- ✓ Interest rate and terms
- ✓ Reasons for refinance if applicable
- ✓ The original loan purpose if refinancing

Sunshine Farm and Ranch and Rural Town Bank are requesting FSA guaranteed loan assistance. Their wheat yields over the past few years were substantially reduced because of late freeze, excessive flooding, hail, and heavy rains. Additionally, excessive repairs to irrigation equipment and excessive heat have affected their corn yields. Even though crop insurance paid, the yield issues have caused carry-over debt on the LOC. The family needs to restructure their balance sheet and term out carry-over debt to overcome this negative set back.

The plan for this proposal was discussed on February 1, 2023, during the pre-application farm visit with all members of the operation. During that visit, Rural Town Bank loan officer Frank Banker was able to:

- view the farming operation and potential security
- conduct an environmental inspection of the property and found no noted ground disturbance or environmental concerns
- discuss a plan on successfully moving forward.

Loan #1: Rural Town Bank requests loan # 8745 be refinanced, along with debt of 3 other creditors. The loan amount requested is \$400,500 with a 7-year term and a 3-year adjustable interest rate of 8.75 percent.

Refinance Rural Town Bank (8745)	\$229,856
Refinance John Deere Credit	\$ 51,200
Refinance Rural Town Coop	\$ 22,000
Refinance carry over crop debt	\$ 90,000
Additional accrued interest	\$ 2,037
FSA guarantee fees	<u>\$ 5,407</u>
Total	\$400,500

Payment will be made annually with the first payment due following fall harvest in the amount of \$78,910. Overall term loan payments will be reduced by \$25,000 annually with the extended terms.--*

***--Delegated Authority (PLP) Lender's Loan Narrative (Continued)**

I Sample Delegated Authority Lender Narrative (Continued)

Loan #2: Rural Town Bank also requests an LOC for the upcoming operating year in the amount of \$250,000. This will be an annually renewable note for 5 years.

Loan proceeds:

Crop input costs	\$195,000
Feed	\$ 50,000
Partner withdrawals (Bob and Anne)	\$ 5,000
Total	\$250,000

All income from farm proceeds will be applied to principal as grain or livestock are sold or government payments collected. Annual paydown will occur on the LOC to prevent carry over.

Interest is prime + 1.5 percent paid by December 1 annually or at note maturity. Initial rate projected to be set at 9 percent.

Rural Town Bank is requesting a 90 percent guarantee on both loan requests.

Description of the Farming Operation:

Describes:

- ✓ Who the owners of the operating entity are
- ✓ What percentage they own
- ✓ Who the owners of the land are if they are different from the operating entity
- ✓ Their responsibilities
- ✓ What they raise
- ✓ Size of the operation
- ✓ If any additional hired labor is required

Sunshine Farm and Ranch is a general farm partnership consisting of a father and mother, Bob and Anne Sunshine, and their 2 sons, Joe and Mike. The following table displays the partnership breakdown.

Partner	Title	Ownership	
Bob Sunshine	Partner	50%	General Management
Anne Sunshine	Partner		Bookkeeping
Joe Sunshine	Partner	25%	Daily management and labor
Mike Sunshine	Partner	25%	Daily management and labor

--*

***--Delegated Authority (PLP) Lender's Loan Narrative (Continued)**

I Sample Delegated Authority Lender Narrative (Continued)

Most strategic business decisions are made by Bob, with Anne assisting with the bookkeeping. Bob and Anne jointly own a 50 percent interest in the partnership. Additionally, Joe and Mike provide all day-to-day labor and management of the operation holding 25 percent interest each. The operation hires occasional seasonal labor. Sunshine Farm and Ranch, located in East and West Counties, farms approximately 2,400 acres of dryland wheat, irrigated corn, and milo, and runs a small cow/calf operation of about 100 head of cows and 4 bulls. Bob individually owns two 160-acre parcels of irrigated farm ground and 300 acres of pasture. Bob and Anne Sunshine reside on one of those parcels. Joe and his wife Mary jointly own 80 acres of pasture and reside there as well. Mike is single and lives in Rural Town, Kansas. Sunshine Farm and Ranch also rents an additional 100 acres of pasture to rotate the cattle throughout the year to help with feed costs. The Sunshine's have been customers of Rural Town Bank since 2004 borrowing for term loans and then expanding the relationship with a revolving LOC as the operation grew larger.

Character:

Certifies:

- ✓ The applicants have an acceptable credit history
- ✓ Meet the test for credit requirements

Describes:

- ✓ Short-term goals
- ✓ Intermediate goals
- ✓ Long-term goal

The members of Sunshine Farm and Ranch display strong character and meet lending standards for character despite lower credit scores. They have shown their willingness to communicate openly with the bank about their financial issues.

Rural Town Bank certifies that the applicants meet all requirements for credit history and test for credit.

Goals:

The main goal of the operation is to heal from the past few years of financial setbacks. Over the next 5 years, Bob and Anne would like to complete the process of transferring ownership and management of the operation to their boys. After the transition, Bob would continue to assist harvesting spring crops, planting wheat, and helping as needed with the cattle.

Joe sees considerable potential in increasing the operation's profitability and Mary would like to devote more time to chores and bookkeeping after shifting from fulltime teaching to substitute teaching. Joe and Mary's oldest son wants to come back after college and join the operation.--*

***--Delegated Authority (PLP) Lender's Loan Narrative (Continued)**

I Sample Delegated Authority Lender Narrative (Continued)

Mike enjoys crop adjusting and has no desire to quit his day job but is willing to put more hours into the operation once Bob cuts back. Mike has indicated that he'd like to move into the country and purchase a small tract of ground.

These are all long-term goals until the operation can correct itself from prior setbacks. The ultimate goal of the operation is to operate profitably on a cash basis. For now, the bank is willing to continue with them using the guaranteed loan program.

Eligibility:

This farm operation meets the loan eligibility requirements outlined in paragraph 108. The applicant has self-certified to applicable eligibility questions on the application. Credit history, test for credit and operator of a family farm are addressed in the Character section. Rural Town Bank has determined there are no conflicts of interest present with this application.

Capacity:

Certifies the applicant:

- ✓ Meets all internal lending capacity standards.
- ✓ Includes Debt Service Coverage Ratio/Margin

Rural Town Bank certifies that Sunshine Farm and Ranch meet minimum capacity lending standards. The proposed debt service margin is 1.05 percent. Rural Town Bank further certifies the positive repayment capacity was determined using realistic information and assumptions for the current operating cycle for all loans and for the typical operating cycle.

Collateral:

Certifies the applicant:

- ✓ Meets internal collateral standards
- ✓ Includes LTV

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

***--Delegated Authority (PLP) Lender's Loan Narrative (Continued)**

I Sample Delegated Authority Lender Narrative (Continued)

Capital:

Certifies the applicant:

- ✓ Meets internal lending standards for capital analysis
- ✓ Includes Current Ratio, Debt to Asset and Net worth

Rural Town Bank certifies Sunshine Farm and Ranch's operation meets our internal capital requirements. With a current ratio of 105 percent and debt to asset ratio of 72 percent. Sunshine Farm and Ranch's net worth is \$1,500,000. After restructuring, the balance sheet will reflect a current ratio of 113 percent.

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.--*

***--Delegated Authority (PLP) Lender's Loan Narrative (Continued)**

I Sample Delegated Authority Lender Narrative (Continued)

7. Family living expenses drawn from the entity are limited to Bob and Anne Sunshine and not to exceed \$5,000 annually. All other family living expenses will be covered from non-farm sources.
8. All entity members are required to sign the promissory note as individuals.

Rural Town Bank believes Sunshine Farm and Ranch is on the upward trend financially. Over time, the conditions, servicing plan, and proposed loan structure will assist in the long-term viability of the operation.--*

Comparison Guide for Loss Claim Decisions and Appeals

*--The following guide may be used to assist with loss claim reductions and denials and appeals. For loans made before February 12, 1999, reductions and denials will be handled according to FmHA Instructions 1980-A and 1980-B in effect at the time the guarantee was issued.

Loss claims may only be reduced by the calculation of the dollar amount of loss caused by the lender's negligence and each reduction must cite the applicable CFR (or FmHA) and references in this handbook.

Subject	2-FLP	7 CFR	FmHA Instructions 1980-A and 1980-B
Unauthorized use of loan funds	Paragraphs 122 and 123 Subparagraphs 123.5 and 263 B	762.121, 762.140(b)	1980.11, 1980.130(h), 1980.175(c), 1980.180(c), 1980.185(c)
Interest accrual	Subparagraphs 355 E, 359 A, and 360 F	762.149(d)(2)	1980.146 (d)(1)(V), 1980.146 (e)(1), and 1980, Subpart A, Appendix B (D) (2)
Protecting loan collateral in bankruptcy, foreclosure, insolvency, or any other litigation	Subparagraphs 264 A, 341 A, and 360 F	762.142(a)(6), 762.148(a), and 762.149(h)(6)(i)	1980.130 (j) and 1980.144
Lender fails to contact borrower or takes no action to cure default	Subparagraphs 19 C and 360 F	762.103 and 762.149(h)(6)(i)	1980.145
Lender supervision of borrower	Subparagraphs 263 B and 360 F	762.140(b)	1980.130
Application of payments	Subparagraphs 263 B and 360 F	762.140(b)	
Unauthorized release of security proceeds	Subparagraphs 15 C, 264 A, and 360 F	762.103, 762.142(a)(5), 762.142(b), and 762.149(h)(6)(ii)	1980.130 (k)
Unauthorized subordination	Paragraph 278 Subparagraph 360 F	762.142(c)	
Failure to inspect collateral or ensure borrower does not convert security	Subparagraphs 19 C, 264 A, and 360 F	762.103, 762.142(a)(3) and (4), and 762.149(h)(6)(ii)	1980.130 (i)
Failure to verify ownership or possession of security	Subparagraphs 264 A and 360 F	762.142(a)(2) and 762.149(h)(6)(ii)	1980.130 (b) and (d)
Protective advances	Subparagraphs 359 E and 360 D	762.149(e)	1980.136
Fraud, misrepresentation, and negligent servicing	Subparagraphs 19 B, 19 C, 329 C, and 360 F	762.103 and 762.149(b), 762.149(i)(6)	1980.130

***--Lender Review Deficiencies**

When a pattern of deficiencies is discovered during the lender file review process, this exhibit must be utilized to identify whether the issues constitute major or minor deficiencies. The list of deficiencies in the table is not considered an all-inclusive list as other deficiencies may be identified during review. Contact the National Office for guidance about whether a deficiency not identified in this exhibit is considered major or minor.

When 40 percent of the borrower files reviewed for any given lender are found to have a combination of major or minor deficiencies, State Offices will contact the National Office with a recommendation for a corrective action plan, including potential revocation of status. A corrective action plan should include a list of identified deficiencies, required corrective action needed for each deficiency, and timeline for completion.

When 20 percent of the borrower files reviewed for any given lender are found to have 1 or more major deficiencies, State Offices will contact the National Office with a recommendation for a corrective action plan, including potential revocation of status. Reviewing officials, along with the National Office, must also consider the lender's overall portfolio delinquency, loss rate, and repetition of major and minor deficiencies prior to pursuing a potential revocation of status.

For PLP lenders, if either of the deficiency thresholds above are met during the annual loan making file review process, a full file review will be scheduled and conducted by FSA before finalizing a corrective action plan.

Loan Making

The following table describes the major and minor deficiencies for loan making:

IF the lender...	THEN the deficiency is...	AND the paragraph or subparagraph reference is...
fails to perform environmental due diligence (FSA-851 or similar form) and no hazardous substances were subsequently discovered	minor	208.
fails to obtain and maintain adequate insurance (hazard, flood, property) with loss payable clause to the lender, if applicable	minor	138.
fails to verify significant debts/obtain credit report that does not adversely affect feasibility. SEL/CLP > \$5,000, PLP as stated in CMS	minor	67 C.
uses unsupportable projections or unsound assumptions without justification that do not adversely affect feasibility.	minor	151.
commits fraud/misrepresentation	major	19 B.

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***--Lender Review Deficiencies (Continued)**

Loan Making (Continued)

IF the lender...	THEN the deficiency is...	AND the paragraph or subparagraph reference is...
fails to perform environmental due diligence (FSA-851 or similar form) and hazardous substances were subsequently discovered	major	208.
fails to verify significant debts/obtain credit report which results in the plan no longer being feasible. SEL/CLP > \$5,000, PLP as stated in CMS	major	67 C.
fails to document borrower eligibility for credit history and test for credit (PLP lender)	major	108.
misuses funds for purposes not approved by Agency	major	122-123.5.
uses unsupportable projections or unsound assumptions without justification which results in the plan no longer being feasible	major	151.
fails to obtain security interest(s) or perfect required lien position as established on the conditional commitment	major	166.
fails to complete or obtain an evaluation/appraisal for primary security	major	181.
fails to perform a capacity analysis according to CMS (PLP Lender)	major	154.
fails to perform a capital analysis according to CMS (PLP lender)	major	154.
fails to satisfy the conditions of the conditional commitment	major	244 C.

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***--Lender Review Deficiencies (Continued)**

Loan Servicing

The following table describes the major and minor deficiencies for loan servicing.

IF the lender...	THEN the deficiency is...	AND the paragraph or subparagraph reference is...
advances funds on LOC over the loan ceiling	minor	124 B.
fails to perform inspections or monitoring timely	minor	264.
fails to perform annual analysis (LOC and monetary default) (Non-PLP lenders)	minor	265.
fails to obtain FSA approval before advancing future years' funds on a guaranteed LOC (SEL)	minor	265.
fails to document borrower met the requirements for additional loans or advances in accordance with regulations and/or CMS	minor	282 A.
fails to obtain concurrence on emergency advances in accordance with regulations and CMS	minor	283 A.
fails to provide default status report within 45 days of default	minor	300.
fails to service loans in non-monetary default	minor	301 A.
fails to restructure the loan in accordance with regulations and/or CMS, including deferrals, capitalization of interest, etc.	minor	312.
fails to prepare a liquidation plan	minor	355 E.
fails to submit final loss claims within 30 days after liquidation	minor	355 I.
fails to obtain concurrence on protective advances in accordance with regulations and/or CMS	minor	359 E.
fails to have a ledger documenting the purpose and dollar amounts of all disbursements and payments	minor	360 C.
releases proceeds without prior authorization when required	major	263 B.
fails to adhere to reporting requirements for the entire portfolio for more than 2 years	major	266.
executes unauthorized subordination or partial releases when the LTV is negatively impacted	major	278 and 280 B.
releases a borrower of liability without prior authorization	major	285 A and 361 B.

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***--Lender Review Deficiencies (Continued)**

Loan Servicing (Continued)

IF the lender...	THEN the deficiency is...	AND the paragraph or subparagraph reference is...
fails to protect the guaranteed loan debt and all collateral securing the loan in bankruptcy proceedings	major	340 A.
fails to complete or obtain an evaluation or appraisal as appropriate prior to liquidation	major	358 B.
misapplies payments (applied to non-guaranteed loans or out of lien priority)	major	360 F.

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