UNITED STATES DEPARTMENT OF AGRICULTURE
Farm Service Agency
Washington, DC 20250

Direct Loan Making 3-FLP (Revision 2)	Amendment 50

Approved by: Deputy Administrator, Farm Loan Programs

Amendment Transmittal

A Reasons for Amendment

Subparagraph 201 D has been amended to clarify use of direct annual Operating Loan funds to finance multiple production cycles within a 24-month period.

Subparagraph 204 B has been amended to clarify when an applicant repays an annual Operating Loan.

Page Control Chart		
TC	**Text**	**Exhibit**
	9-2.5, 9-2.6 (add) 9-3, 9-4 9-13, 9-14	

201 Uses (Continued)

D Annual Farm Operating Expenses

OL funds may only be used for:

[7 CFR 764.251(a)(3)] Farm operating expenses, including but not limited to, feed, seed, fertilizer, pesticides, farm supplies, repairs and improvements which are to be expensed, cash rent and family living expenses;

See Exhibit 2 for the definition of family living expenses.

***--**Financing multiple production cycles within a 24-month period is achievable with a direct annual OL. This can be accomplished through the release of proceeds from the sale of normal income security if previously approved by FSA. Release of proceeds from the sale of normal income security to finance future production cycles must:

- not occur for a production cycle to be marketed beyond the annual OL maturity
- be completed according to 4-FLP, paragraph 164
- described on FSA-2040
- budgeted for in the farm operating plan
- thoroughly documented in the FBP Credit Presentation “Capacity” section.

Example: A cattle feeder operation plans to purchase and feed six sets of calves within a 24-month period (one set every 4 months with $125,000 of associated credit needed for each rotation). FSA approves a $125,000 direct annual OL request to purchase and feed the initial set of cattle. When the first set of calves are sold, FSA will release the sale proceeds in accordance with the approved farm operating plan and FSA-2040. The sale proceeds will be used to purchase the second set of calves and inputs. This may continue through the sixth set of calves. The sale proceeds from the sixth set of calves would be used to pay the direct annual OL in full.

Limitations and considerations:

- can be used for both new and existing customers

- operating cycles must not exceed 24 months

- loan maturity complies with subparagraph 204 B

- monthly cash flow budgets are encouraged; at a minimum, the farm operating plan will cover the term of the loan and each production cycle should show detailed income and expenditures associated with each cycle

- servicing will be consistent with 4-FLP, paragraph 164.**--***

201 Uses (Continued)

E Principal and Interest Payments

OL funds may only be used for:

[7 CFR 764.251(a)(4)] Scheduled principal and interest payments on term debt provided the debt is for authorized FO or OL purposes;

--**The payment must be installment(s) due within the initial plan and cannot be delinquent at the time of closing.**--

F Other Farm Needs

OL funds may only be used for:

[7 CFR 764.251(a)(5)] Other farm needs;

Funds can be used to finance the initial processing of agricultural commodities provided that a majority of the agricultural commodities processed are produced by the applicant's farm.

Example: Allowable processing activities include but are not limited to canning tomatoes, packaging maple syrup, bottling milk, making cheese or yogurt, producing juice or wine, and other general value-added processes.

G Land and Water Development

OL funds may only be used for:

[7 CFR 764.251(a)(6)] Costs associated with land and water development, use, or conservation;

201 Uses (Continued)

H Loan Closing Costs

OL funds may only be used for:

[7 CFR 764.251(a)(7)] Loan closing costs;

An applicant may use OL funds to pay only for those loan closing costs that are reasonable and customary.

OL funds may not be used to pay loan packaging or consultant fees associated with applying for or obtaining a FSA loan.

I Occupational Safety and Health Act of 1970 Compliance

OL funds may only be used for:

[7 CFR 764.251(a)(8)] Costs associated with Federal or State-approved standards under the Occupational Safety and Health Act of 1970 (29 U.S.C. 655 and 667) if the applicant can show that compliance or non-compliance with the standards will cause substantial economic injury;

J Training Costs

OL funds may only be used for:

[7 CFR 764.251(a)(9)] Borrower training costs when required or recommended by the Agency;

K Refinancing Farm-Related Debts

OL funds may only be used for:

[**7 CFR 764.251(a)(10)] Refinancing farm-related debts other than real estate to improve the farm's profitability, provided the applicant has refinanced direct or guaranteed OL loans four times or fewer and one of the following conditions is met:**

(1) A designated or declared disaster caused the need for refinancing; or
(2) The debts to be refinanced are owed to a creditor other than the USDA.

Notes: The debts refinanced must be held by the applicant.

Loans made for authorized direct or guaranteed OL purposes, regardless of the type of security, may be refinanced.

204 Rates, Terms, and Repayment

A Rates

[7 CFR 764.254(a)(1)] The interest rate is the Agency's Direct Operating Loan rate, available in each Agency office.

See 1-FLP, Exhibit 17 for interest rates.

[7 CFR 764.254(a)(2)] The limited resource Operating Loan interest rate is available to applicants who are unable to develop a feasible plan at regular interest rates.

See subparagraph 351 C for more information on limited resource loans when the farm operating plan shows that installments at the higher rate, along with other debts, cannot be paid during the period of the plan.

Note: When the regular OL interest rate is equal to or less than the limited resource rate, the limited resource rate will not be used.

[7 CFR 764.254(a)(3)] The interest rate charged will be the lower rate in effect at the time of loan approval or loan closing.

[7 CFR 764.254(a)(4)] The Agency's direct ML OL interest rate on an ML to a beginning farmer or veteran rancher is available in each Agency office. ML borrowers in these groups have the option of choosing the ML OL interest rate or the Direct OL interest rate in effect at the time of loan approval, or if lower, the rate in effect at the time of closing.

B Annual OL Term

[7 CFR 764.254(b)(1)] The Agency schedules repayment of annual OL loans made for family living and farm operating expenses when planned income is projected to be available.

(i) The term of the loan may not exceed 24 months from the date of the note.

(ii) The term of the loan may exceed 24 months in unusual situations such as establishing a new enterprise, developing a farm, purchasing feed while crops are being established, marketing plans, or recovery from a disaster or economic reverse. In no event will the term of the loan exceed 7 years from the date of the note. Crops and livestock produced for sale will not be considered adequate security for such loans.

--**The applicant repays an annual OL when income becomes available or in accordance with an approved farm operating plan when financing multiple production cycles. The repayment period will normally be within 12 months, or no more than 24 months after the date of loan closing, if necessary, when production or marketing plans extend beyond 12 months. The**-- authorized agency official, by using FSA-2027, may approve a supplemental payment agreement for applicants who receive substantial income from which payments are to be made before their installment due date.

204 Rates, Terms, and Repayment (Continued)

C Other OL Terms

[7 CFR 764.254(b)(2)] The Agency schedules the repayment of all other OL loans based on the applicant's ability to repay and the useful life of the security. In no event will the term of the loan exceed 7 years from the date of the note. Repayment schedules may include equal, unequal, or balloon installments if needed to establish a new enterprise, develop a farm, or recover from a disaster or economic reversal. Loans with balloon installments:

--Note:** If the loan official determines that a term of less than 7 years is warranted, the justification for the reduction must be fully documented in the FBP Credit Presentation, including a discussion of the collateral taken and reason the collateral is not sufficient for the full 7-year term.**--

(i) Must have adequate security, at the time the balloon installment comes due. Crops, livestock other than breeding stock, or livestock products produced are not adequate collateral for such loans.

(ii) Are only authorized when the applicant can project the ability 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 the applicant's projected repayment ability will not allow normal repayment within 7 years, a 7-year loan with a 21-year balloon amortized installment schedule may be offered.

There must be adequate collateral for the loan at the time the balloon payment is due. Circumstances that warrant balloon installments include establishing a new enterprise, developing a farm, purchasing feed while feed crops are being established or during recovery from a disaster, or economic reverses. In no case will annual crops be used as the sole collateral securing balloon installment. A loan with a balloon installment must be adequately secured by basic security, which may include foundation stock, farm equipment, and/or real estate. The amount of the balloon installment should not exceed that amount which the applicant could reasonably expect to pay during a maximum additional 15-year period.

Note: The 21-year balloon amortized installment factor represents the minimum amount the payments would be based upon restructuring the remaining balloon payment over the maximum 15-year period.

(iii) Are not authorized when loan funds are used for real estate repairs or improvements.