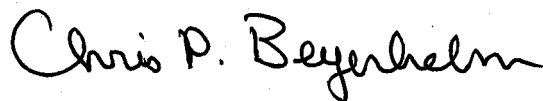


**UNITED STATES DEPARTMENT OF AGRICULTURE**

Farm Service Agency  
Washington, DC 20250

<b>Direct Loanmaking 3-FLP (Revision 2)</b>	<b>Amendment 2</b>
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**Approved by:** Deputy Administrator, Farm Loan Programs



**Amendment Transmittal**

**A Reasons for Amendment**

Subparagraphs 42 A and 43 B have been amended to:

- clarify sufficient documentation of an approved conservation plan
- add reference to 1-FLP, Part 5 for construction loans.

Subparagraph 69 A has been amended to:

- suspend 7 CFR 764.101(i)(3)'s requirement that the applicants farming experience must have been in 1 in the last 5 years
- remove examples which no longer apply.

Subparagraph 70 A has been amended to provide an automatic waiver from borrower training for streamlined CL's.

Paragraph 72 has been amended to remove information about individual members of an entity.

Subparagraph 112 A has been amended to clarify insurance requirements.

Subparagraph 171 A has been amended to clarify:

- what will be in the file as documentation of an approved conservation plan
- that the completed conservation practice must be done to NRCS standards.

Paragraph 172 has been amended to clarify:

- eligibility exceptions
- term limits are not applicable to all CL's.

Paragraph 173 has been amended to clarify noneligible enterprise requirements.

## Amendment Transmittal (Continued)

### A Reasons for Amendment (Continued)

Subparagraph 173 C has been added to establish that loan approval must be after an approved conservation contract on those plans which have planned cost share payments from NRCS.

Subparagraph 174 B has been amended to clarify loan terms for CL's.

Subparagraph 175 A has been amended to clarify security requirements for streamlined CL's.

Subparagraph 191 B has been amended to clarify the FICO score requirement.

Subparagraph 371 C has been amended to clarify that the State supplement is to include entities, including LLC's.

Subparagraph 471 A has been amended to clarify that streamlined CL's will have borrower training requirements waived.

Exhibit 2 has been amended to clarify the conservation loan definition to provide that FSA's file can contain either the NRCS CPA-115 or Tool Kit as proof of an approved conservation plan.

Exhibit 4 has been amended to remove a duplicative requirement of a State supplement for LLC's.

Exhibit 5 has been amended to restore box 5, which was inadvertently left off in front of the credit elsewhere reference.

Page Control Chart		
TC	Text	Exhibit
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**41 Obtaining and Filing a Loan Application (Continued)****E SED Action**

SED's will prepare and publicize, at least semi-annually, through newspaper articles, radio announcements, and television broadcasts, that FSA targets direct and guaranteed loan funds to beginning and SDA farmers. These required outreach efforts are in addition to information provided in State or Service Center newsletters.

**Note:** Outreach to assist these potential applicants will include maintaining and documenting close liaison and attending meetings with local, State, and national organizations serving beginning and SDA farmers.

**42 Complete Loan Application****A Requirements**

**[7 CFR 764.51(b)] A complete loan application, except as provided in paragraphs (c) \*--through (f) of this section (paragraphs 43 and 44), will include:--\***

**(1) The completed Agency application form;**

The application must be initialed, signed, and dated by the applicant. An unsigned FSA-2001 or FSA-2301 will be considered an incomplete application.

**Notes:** FSA-2001 with missing initials only will not be considered incomplete; however, initials shall be obtained before loan closing.

Youth loan applications should be filed according to paragraph 44.

**(2) If the applicant is an entity:**

**(i) A complete list of entity members showing the address, citizenship, principal occupation, and the number of shares and percentage of ownership or stock held in the entity by each member, or the percentage of interest in the entity held by each member;**

**Note:** Each member of the entity must demonstrate individual ownership of the entity by owning either shares or a percentage of the entity.

**(ii) A current personal financial statement from each member of the entity;**

**(iii) A current financial statement from the entity itself;**

## 42 Complete Loan Application (Continued)

**A Requirements (Continued)**

**(iv) A copy of the entity's charter or any entity agreement, any articles of incorporation and bylaws, any certificate or evidence of current registration (good standing), and a resolution adopted by the Board of Directors or entity members authorizing specified officers of the entity to apply for and obtain the desired loan and execute required debt, security and other loan instruments and agreements;**

**Note:** If entity documents require more than 1 member to apply, then all identified members must sign FSA-2001, Part E, item 18A.

**(v) In the form of married couples applying as a joint operation, items (i) and (iv) will not be required. The Agency may request copies of the marriage license, prenuptial agreement or similar documents as needed to verify loan eligibility and security. Items (ii) and (iii) are only required to the extent needed to show the individual and joint finances of the husband and wife without duplication.**

For a married couple, FSA will accept any of the following to verify existence of a joint operation:

- applicable CCC-502/CCC-902
- jointly filed tax return
- marriage license
- prenuptial agreement
- similar documentation.

Ordinarily, individual financial statements are not required from a married couple applying as a joint operation. However, in States without community property laws and in some other States, individual financial statements may be necessary to obtain a complete picture of the financial situation. A State supplement will be issued when applicable to provide additional guidance and related information requirements for a married couple applying as a joint operation.

**[7 CFR 764.51(b)(3)] A written description of the applicant's farm training and experience, including each entity member who will be involved in managing or operating the farm;**

This requirement applies to either new applications or when significant changes to an applicant's operation have occurred. The applicant will provide the information using FSA-2302.

**42 Complete Loan Application (Continued)****A Requirements (Continued)**

**[7 CFR 764.51(b)(10)] A legal description of the farm property owned or to be acquired and, if applicable, any leases, contracts, options, and other agreements with regard to the property;**

**Note:** FSA-2006 will be provided by the applicant as part of the complete application.

This information will be used to determine:

- FSA security
- value of security
- eligibility
- potential income affecting cash flow.

**[7 CFR 764.51(b)(11)] Payment to the Agency for ordering a credit report on the applicant;**

The agency official will record the date the credit report fee is received in DLS.

**[7 CFR 764.51(b)(12)] Verification of all debts;**

Applicants must complete FSA-2005 to provide a list of creditors and FSA-2004 to authorize those creditors to release information to FSA.

The authorized agency official:

- must verify the status of debts over \$1,000
- must confirm the balance of the debt, the applicant's payment history on the debt including any delinquency, the security pledged for the debt, and the payment schedule including the amount and date of the next scheduled installment

## 42 Complete Loan Application (Continued)

**A Requirements (Continued)**

- may obtain this information with any of the following as long as the required information is provided:
  - credit report
  - FSA-2310 (EM's)
  - CAIVRS
  - completed FSA-2015
  - most recent billing statement for the debt (e.g., credit card debt)
  - DLS Customer Profile (printer friendly version) verification of both current/past debts and any prior debt forgiveness
  - any other form of verification that provides the required information.

**[7 CFR 764.51(b)(13)] Any additional information deemed necessary by the Agency to effectively evaluate the applicant's eligibility and farm operating plan; and**

Examples of additional information include:

- divorce or separation decree
- child support or alimony payments
- 2 additional years for farm production or financial records (in extenuating circumstances).

**[7 CFR 764.51(b)(14)] For EM loans, a statement of loss or damage on the appropriate Agency form (FSA-2309).**

**[7 CFR 764.51(b)(15)] For CL only, a conservation plan, as defined in 761.2 of this chapter; (see Exhibit 2 for definition of conservation plan) and**

**\*--Note:** NRCS CPA-1155 or Tool Kit are considered sufficient documentation.--\*

**[7 CFR 764.51(b)(16)] For CL only, and if the applicant wishes to request consideration for priority funding, plans to transition to organic or sustainable agriculture when the funds requested will be used to facilitate the transition.**

**\*--Note:** For all FLP loans involving construction, see 1-FLP, Part 5.--\*

**42 Complete Loan Application (Continued)****B Existing Information in Applicant's File**

**[7 CFR 764.51(f)] The applicant need not submit any information under this section (subparagraph A) that already exists in the applicant's Agency file and is still current.**

Generally, information less than 90 calendar days old, unless noted otherwise, is considered current.

**43 Lo-Doc and Streamlined Loan Requests****A Completed Lo-Doc OL Applications**

**[7 CFR 764.51(c)(4)] Submit items (1), (2), (7), (9), and (11) of paragraph (b) of this section (paragraph 42). The Agency may require a Lo-Doc applicant to submit any other information listed in paragraph (b) of this section as needed to make a determination on the loan application.**

A completed Lo-Doc OL application includes:

- completed FSA-2001
- entity information
- environmental information
- farm operating plan
- payment of credit report fee
- balance sheet.

**Note:** An applicant is qualified for loan processing under Lo-Doc OL provisions, when all of the Lo-Doc OL requirements of subparagraph 216 B are met.

**B Completed Streamlined CL Applications**

**[7 CFR 764.51(d)(6)] Submit the following items:**

**\*--(i) Items identified in paragraphs (b)(1), (b)(2), (b)(3), (b)(7), (b)(11), (b)(15), and--\* (b)(16) of this section (paragraph 42),**

**\* \* \* (ii) A current financial statement less than 90 calendar days old, and,**

**\* \* \* (iii) Upon Agency request, other information specified in paragraph (b) of this section necessary to make a determination on the loan application.**

43 Lo-Doc and Streamlined Loan Requests (Continued)

**B Completed Streamlined CL Applications (Continued)**

A completed Streamlined CL application includes the following:

- completed FSA-2001
- entity information
- written description of farm training and experience
- environmental information
- payment of credit report fee
- approved conservation plan

\*--**Note:** FSA considers either NRCS CPA-1155 or the Tool Kit proof the applicant has an NRCS-approved conservation plan.--\*

- if desired, request for priority funding with plan to transition to organic or sustainable agriculture
- current financial statement.

**Note:** An applicant is qualified for loan processing under Streamlined CL provisions when all Streamlined CL requirements in subparagraph 191 B are met.



## 69 Managerial Ability (Continued)

## A General Requirement (Continued)

**[7 CFR 764.101(i)(3)] Farming experience. For example, the applicant has been an owner, manager, or operator of a farm business for at least one entire production cycle. The farming experience must have been obtained within the last 5 years.**

\*--The applicant may satisfy the managerial ability requirement through any equivalent combination of education, on-the-job training, and farm experience. The authorized agency official must consider each application on a case-by-case basis.

**Note:** The requirement that farming experience be obtained in the last 5 years is suspended until further notice based on amendments to Sections 302 and 311 of CONACT by Sections 5001 and 5101 of the Food Conservation and Energy Act of 2008 (Pub. L. 110-246) (2008 Farm Bill). Regardless of when the experience was obtained, it will be considered in meeting the managerial ability requirement.

To meet the managerial ability requirement through farming experience alone, the applicant should demonstrate 1 of the following traits:--\*

- an owner of a farm business with management and operator responsibilities for at least 1 entire production and marketing cycle
- employed as a farm manager or farm management consultant for at least 1 entire production and marketing cycle
- raised on a farm and held significant responsibility for day-to-day management decisions for at least one entire production and marketing cycle.

\*--The applicant may document this experience through tax returns, FSA farm records, or--\* similar documentation.

\* \* \*

Applicants must demonstrate that they have carried out their operation according to standard  
\*--farming practices in the area including keeping accurate records of income and expenses, income tax records, and breeding statistics, as applicable.--\*

\* \* \*

**70 Borrower Training**

**A General Requirement**

**[7 CFR 764.101(j)] The applicant must agree to meet the training requirements in**  
**\*--subpart K of this part** (Part 18, Section 1). Borrower training requirements for streamlined  
 CL applicants will be automatically waived. Applicants are required to complete  
 FSA-2370.--\*

**71 Owner/Operator of a Family Farm**

**A General Requirement**

**[7 CFR 764.101(k)(1)] Except for CL, the applicant must be the operator of a family  
 farm after the loan is closed.**

**[7 CFR 764.101(k)(2)] For an entity applicant, if the entity members holding a majority  
 interest are:**

**(i) Related by blood or marriage, at least one member must be the operator of a family  
 farm;**

**(ii) Not related by blood or marriage, the entity members holding a majority interest  
 must be the operators of a family farm.**

**[7 CFR 764.101(k)(3)] Except for EM loans, the collective interests of the members  
 may be larger than a family farm only if:**

**(i) Each member's ownership interest is not larger than a family farm;**

**(ii) All of the members of the entity are related by blood or marriage; and**

**(iii) All of the members are or will become operators of the family farm; and**

## 71 Owner/Operator of a Family Farm (Continued)

**B Factors for Consideration**

**[7 CFR 764.101(k)(4)] If the entity applicant has an operator and ownership interest for farm ownership loans and emergency loans for farm ownership loan purposes, in any other farming operation, that farming operation must not exceed the requirements of a family farm.**

See Exhibit 2 for the definition of family farm.

The authorized agency official must consider the following factors when making the family farm determination.

- Be recognized in the community as a farm. The applicant's farm operation must be large enough to be considered a working farm (as opposed to a "hobby farm", garden, or residence) and provide a significant financial return.
- Members of the farm family must make all the day-to-day farm management and operational decisions. The use of outside consultants or advisors is acceptable provided that someone in the farm family is the ultimate decision-maker.
- Family or entity members must supply a substantial amount of the full-time labor. This does not preclude using seasonally hired labor, but in most instances, the family should provide most of the day-to-day labor. Exceptions may be made for enterprises that produce high value, labor-intensive crops such as fruit or vegetables.
- Credit needs. Congress established FSA's loan limits to assist family farm operations. The loan limits generally ensure that loans are made to family farm operations.
- Loan participation arrangements are acceptable when FSA farm loans cannot meet the total credit needs of the applicant. However, if the FSA loan only represents a small portion of the total credit requirements, this may be an indication that the applicant's operation is larger than a family farm when all factors are considered. The authorized agency official must also fully consider if credit is available from another source, including a guaranteed loan.

To make a determination about the family farm requirement, the authorized agency official must judge the factors individually and also weigh and consider how the factors relate to each other. If the authorized agency official determines that the applicant's farm does not satisfy the definition of a family farm, the reasoning behind the authorized agency official's decision must be documented in the loan file.

**72 Entity Composition****A General Requirement**

**[7 CFR 764.101(l)] If the applicant is an entity, the entity members are not themselves entities.** Entity applicants who are composed of other entities are not eligible applicants.

\* \* \*

**B Married Persons**

Married persons applying together shall be treated as a joint operation unless they form or have formed a legal entity before application for assistance. If they apply as a joint operation, both parties must meet the general and program specific eligibility requirements for the loan requested.

**C Joint Operations**

In the case of an informal joint operation, where no formal tax ID number has been assigned by a taxing authority, the persons requesting the assistance will designate which TIN will be used as primary to assign the case number.

## 72 Entity Composition (Continued)

**D Treatment of Trusts**

SED's, after consultation with the Regional OGC, shall issue a State supplement about the following for trusts:

- security requirements when lending to trusts
- \* \* \*
- unique characteristics of State trust statutes.

In trusts cases, SED shall consult with the Regional OGC to determine if:

- nonparticipant beneficiaries, third party trustees, beneficiaries of a revocable trust, and beneficiaries with only a future interest need to sign on behalf of the trust and as individuals
- submitted trust documents demonstrate valid organization under State law
- trustee has authority to mortgage trust property for the planned farming purposes.

**E Life Estates**

An FO involving a life estate may be made under certain circumstances to:

- both the life estate holder and the remainderman, if both:
  - have a legal right to occupy and operate the farm
  - are eligible for the loan independently
  - parties sign the note and lien instrument
- just the remainderman, if the remainderman has a legal right to operate the farm
- 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.

**73 Final Eligibility Determination****A Eligible Applicants**

Within 5 calendar days of a favorable eligibility determination, the authorized agency official will provide written notification to the applicant using FSA-2308. The notification should clearly explain that a decision of eligibility does not constitute loan approval. When notifying the applicant of a favorable eligibility decision, the authorized agency official, if necessary, will schedule a meeting with the applicant to proceed with developing the loan docket.

The authorized agency official must document in the FBP Credit Action whether the applicant meets:

- all eligibility requirements
- SDA requirements
- the beginning farmer definition.

If the applicant is determined eligible and additional information becomes available that indicates the original eligibility determination was in error, the authorized agency official will reconsider the eligibility determination. The authorized agency official will clearly document in the case file whether the applicant still meets eligibility requirements. Written notification of the action taken will be sent to the applicant within 5 calendar days of the determination.

**Part 6 Insurance****111 Overview****A Adequate Insurance**

**[7 CFR 764.108] The applicant must obtain and maintain insurance equal to the lesser of the value of the security at the time of loan closing or the principal of all FLP and non-FLP loans secured by the property, subject to the following:**

**(a) All security, except growing crops, must be covered by hazard insurance if it is readily available (sold by insurance agents in the applicant's normal trade area) and insurance premiums do not exceed the benefit. The Agency must be listed as loss payee for the insurance indemnity payment or as a beneficiary of the mortgagee loss payable clause.**

The insurance obtained by the applicant, at a minimum, should be the standard insurance policy for the locality in which the property is located. The policy must include the terms and coverage commonly available in the locality.

**B Qualifications of Insurance Agents and Companies**

The applicant is responsible for selecting the agent for property insurance coverage. The applicant should obtain insurance, if possible, from an insurance agent in the locality where the property is located.

The insurance agent must be licensed to sell insurance within the State.

The company supplying the policy should be licensed or otherwise authorized by law to transact the business in the State or other jurisdiction where the property is located. State insurance regulators can provide information about the licensing status of companies.

If the required insurance is not available at comparable rates from an insurance company licensed or otherwise authorized to do business, the authorized agency official may accept insurance from another company if:

- OGC advises that policies issued by the company will be enforceable in the State
- SED determines that the company is reputable and financially sound.

**112 Type of Insurance Required****A Hazard Insurance**

Subparagraphs A through C contain general insurance requirements.

Insurance is required if the security is the applicant's dwelling, other buildings, and chattels that are necessary for the farm operation or that provide income to ensure the orderly repayment of the loan.

The authorized agency official may waive the insurance requirement if 1 or more of the following conditions apply:

- cost of insurance is very high in comparison with the value of the building
- building is subject to very slight hazards because of its construction
- building has a depreciated value of \$2,500 or less.

\*--The minimum amount of coverage for buildings, improvements, and chattels shall be--\* equal to the lesser of the value of security or the cumulative principal owed on all FLP and non-FLP loans at the time of loan closing.

\* \* \*

**B Flood Insurance**

**[7 CFR 764.108(b)] Real estate security located in flood or mudslide prone areas must be covered by flood or mudslide insurance. The Agency must be listed as a beneficiary of the mortgagee loss payable clause.**

The contents of a building must be insured separately from the building itself.



## Part 8 Conservation Loan (CL) Program

### Section 1 CL's

#### 171 Uses

##### A General

**[7 CFR 764.231(a)] CL funds may be used for any conservation activities included in a conservation plan including, but not limited to:**

- (1) The installation of conservation structures to address soil, water and related resources;**
- (2) The establishment of forest cover for sustained yield timber management, erosion control, or shelter belt purposes;**
- (3) The installation of water conservation measures;**
- (4) The installation of waste management systems;**
- (5) The establishment or improvement of permanent pasture; and**
- (6) Other purposes including the adoption of any other emerging or existing conservation practices, techniques, or technologies.**

**\*--FSA's file will contain either NRCS CPA-1155 or Tool Kit as proof of an approved conservation plan.--\***

Any equipment, conservation practice, conservation project listed on the conservation plan, or anything that is required to carry out the provisions of the conservation plan, including items regularly funded with OL or FO can be funded with CL.

**\*--The completed conservation practice must meet NRCS standards.--\***

See Exhibit 2 for definitions of conservation plan, conservation practice, and conservation project.

**\* \* \***

**172 Eligibility****A General Eligibility**

**[7 CFR 764.232(a)] The applicant:**

**[7 CFR 764.232(a)(1)] Must comply with general eligibility requirements specified in \*--§764.101 except paragraphs (e) and (k) (paragraphs 66 and 71).--\***

**B No Prior Debt Forgiveness**

The applicant:

**[7 CFR 764.232(a)(2)] And anyone who will sign the promissory note, must not have received debt forgiveness from the Agency on any direct or guaranteed loan.**

**C CL Individual and Entity Owner and Operator Requirement**

The applicant:

**[7 CFR 764.232(a)(3)] Must be the owner-operator or tenant-operator of a farm and be engaged in agricultural production after the time the loan is closed. In the case of an entity:**

**(i) The entity is controlled by farmers engaged primarily and directly in farming in the United States;**

**(ii) The entity must be authorized to operate a farm in the State in which the farm is located.**

**[7 CFR 764.232(b)] [Reserved].**

**\*--D Term Limits**

**CL's are not subject to term limits.--\***

**173 Limitations****A General**

**[7 CFR 764.233(a)] The applicant must comply with the general limitations specified in \*--§764.102 except §764.102(f) (subparagraph 74 F) which does not apply to applicants for the CL Program.**

**Note:** A portion of the applicants 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).--\*

**B Repaying Duplicate Benefits**

**[7 CFR 764.233(b)] The applicant must agree to repay any duplicative financial benefits or assistance to CL.**

**Example:** FSA provides CL for a project that is eligible for cost-share payments at completion. The cost share payment must be applied to CL as an extra payment when received.

**\*--C Loan Timing**

FSA will not approve CL, on which cost share payments are planned, until the NRCS conservation contract is approved.--\*

**174 Rates and Terms****A Rates**

**[7 CFR 764.234(a)] \* \* \* The interest rate:**

**(1) Will be the Agency's Direct Farm Ownership (regular) rate, available in each Agency office.**

**(2) Charged will be the lower rate in effect at the time of loan approval or loan closing.**

See 1-FLP, Exhibit 17 for interest rates.

**B Terms**

**[7 CFR 764.234(b)] \* \* \* The following terms apply to CL's:**

**(1) The Agency schedules repayment of a CL based on the useful life of the security.**

**(2) The maximum term for loans secured by chattels only will not exceed 7 years from the date of the note.**

**(3) In no event will the term of the loan exceed 20 years from the date of the note.**

CL's will be scheduled for either 7 years (chattel) or 20 years (real estate) or for the useful life of the security if it is less.

\*--All CL's are scheduled with annual payments. All normal considerations for establishing a payment schedule may be used, including interest only for the first payment and unequal installments. Assignments or FSA-2027 can be put in place to collect payments that--\* correspond with the income stream of the applicant's operation.

**175 Security****A Security Requirements**

**[7 CFR 764.235(a)] The loan must be secured:**

**(1) In accordance with requirements established in §§ 764.103 through 764.106**

\*--(Part 5); and--\*

**(2) In the order of priority as follows:**

**(i) By real estate, if available, and then**

**(ii) By chattels, if determined acceptable by the Agency.**

**176-190 (Reserved)**

## Section 2 Streamlined CL's

## 191 Streamlined CL Process

## A Overview

Applicants meeting the requirements established in subparagraph 43 B may apply for Streamlined CL.

## B Requirements

**\*--[7 CFR 764.51(d)] For a CL Program streamlined application, the applicant must meet all of the following:--\***

**(1) Be current on all payments to all creditors including the Agency (if currently an Agency borrower);**

**(2) Have not received primary loan servicing on any FLP debt within the past five years**

**\*--Note: Servicing under 5-FLP, Part 2 is not considered primary loan servicing.--\***

**(3) Have a debt to asset ratio that is 40 percent or less,**

**(4) Have a balance sheet that indicates a net worth of 3 times the requested loan amount or greater;**

**(5) Have a FICO score from the Agency obtained credit reports of at least 700. For entity applicants, the FICO credit score of the majority of the individual members of the entity must be at least 700; submit all items required for a complete streamlined CL application as described in subparagraph 43 B. In FBP, the FICO score is the Experian credit score.--\***

**Note:** Streamlined CL's are automatically classified as 2. All other CL's will be classified in the normal manner according to 1-FLP.

## 192-200 (Reserved)



## Section 2 Lo-Doc OL's

**216 Lo-Doc OL Process****A Overview**

Applicants meeting the requirements established in subparagraph 43 A may apply for Lo-Doc OL.

**B Requirements**

**[7 CFR 764.51(c)] For a Lo-Doc OL request, the applicant must:**

**(1) Be current on all payments to all creditors including the Agency (if an Agency borrower);**

**(2) Have not received primary loan servicing on any Agency debt within the past 5 years; and**

**\*--Note:** Servicing under 5-FLP, Part 2 is not considered primary loan servicing.--\*

**(3) Meet one of the following sets of criteria:**

**(i) The loan requested is \$50,000 or less and the total outstanding Agency OL loan debt at the time of loan closing will be less than \$100,000; or**

**(ii) The loan requested is to pay annual operating expenses and the applicant is an existing Agency borrower who has received and timely repaid at least two previous annual OL loans from the Agency.**

**217-225 (Reserved)**





## 371 Overview (Continued)

**C Loan Document Signatures (Continued)**

Required signatures:

- in the case of an entity applicant will include:
  - each individual required to obligate the entity
  - each individual member of the entity
  - cosigner if required
  - other signatures as required in State supplements
- in the case of a partnership or joint operation will include:
  - both the partner or joint operator authorized to sign for the entity
  - all partners in the partnership or joint operators in the joint operation, as individuals

**Note:** Husband and wife informal joint operations will only sign FSA-2026 as individuals.

- in the case of a cooperative or corporation will include:
  - both the individual authorized to sign for the entity
  - all members or stockholders, as individuals
- \*--in the case of a trust or entities, including LLC's, SED will, after consultation with the Regional OGC, issue a State supplement for trusts outlining signature requirements on FSA-2026's and security instruments.--\*

\* \* \*

**(3) Despite minority status, a youth executing a promissory note for a Youth Loan will incur full personal liability for the debt.**

- in the case of a youth applicant will include:
  - youth applicant individually
  - cosigner, if required.

**Note:** A cosigner will be required only if it is determined that the applicant cannot possibly meet the repayment or security requirements for the loan request. When a plan is feasible using realistic figures, a cosigner will not be required.

## 371 Overview (Continued)

**C Loan Document Signatures (Continued)**

**(4) A cosigner will be required to sign the promissory note if they assist the applicant in meeting the repayment requirements for the loan requested.**

**Note:** A cosigner is required to complete FSA-2001, Part C of the applicant's current application to provide necessary information, including self certifications.

**Exception:** In the case of a married couple, when 1 spouse of the couple applies individually, if the spouse that is not party to the application has off farm income that:

- pays only family living expenses and does not contribute to the farm operation, then neither the off farm income nor the family living expenses will be included in FBP and the spouse will not be required to sign FSA-2026
- is needed to contribute to a feasible farm operating plan, then both the off farm income and family living expenses will be included in FBP and the spouse will be required to sign FSA-2026 as a cosigner and would therefore, be required to be eligible under certain requirements according to paragraphs 62 through 72.

**Example 1:** Tom has applied for a term operating loan. Mary's salary for her job as a teacher is \$35,000. FBP indicates that owner withdrawals would total \$35,000 and would all be paid from Mary's salary. After removing Mary's income and the family living from FBP, the ending cash on hand remains positive. In this case, Mary will not be required to sign FSA-2026 and will not be considered a cosigner.

**Example 2:** Bruce has applied for a term operating loan. Camille's salary as a nurse at the local hospital is \$60,000. FBP indicates that family living would total \$40,000. The ending cash on hand is -\$10,000 if Camille's salary is not included. In this case, it is clear that Camille's income must be included to show positive ending cash on hand. Camille would be required to sign FSA-2026 as a cosigner and would therefore, be required to be eligible under certain requirements under paragraphs 62 through 72.

**Part 18 Borrower Training****Section 1 Borrower Training Requirements****471 Overview****A Scope**

FSA requires direct loan applicants \* \* \* to complete training in production, financial management, or both unless FSA waives the training requirement.

**\*--Note:** Streamlined CL's will initially have borrower training requirements waived. The waiver remains in effect as long as the loan is performing as planned.--\*

**B Purpose**

**[7 CFR 764.451] The purpose of production and financial management training is to help an applicant develop and improve skills necessary to:**

**(a) Successfully operate a farm;**

**(b) Build equity in the operation; and**

**(c) Become financially successful and prepared to graduate from Agency financing to commercial sources of credit.** CL's are exempt from graduation requirements, but are subject to training requirements.

**472 Assessing an Individual's Need for Training****A Individuals Required to Complete Training**

**[7 CFR 764.452(a)] The applicant must agree to complete production and financial management training, unless the Agency provides a waiver in accordance with § 764.453 (subparagraph B), or the applicant has previously satisfied the training requirements. In the case of an entity:**

**(1) Any individual member holding a majority interest in the entity or who is operating the farm must complete training on behalf of the entity, except as provided in paragraph (a)(2) of this section;**

**(2) If one entity member is solely responsible for production or financial management, then only that member will be required to complete training.**

**[7 CFR 764.452(d)] An applicant who applies for a loan to finance a new enterprise, such as a new crop or a new type of livestock, must agree to complete production training with regard to that enterprise, even if production training requirements were waived or satisfied under a previous loan request, unless the Agency provides a waiver in accordance with § 764.453 (subparagraph B).**

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

## Forms (Continued)

Number	Title	Display Reference	Reference
FSA-2301	Request for Youth Loan		41, 42, 44, 45, 62, 226
FSA-2302	Description of Farm Training and Experience		42, 472
FSA-2303	Notice of Farm Loan Programs Application Received		45
FSA-2304	Notice of Incomplete Application		41, 42, 45
FSA-2305	Second Notice of Incomplete Application		45
FSA-2306	Notice of Application Withdrawal/Pending Withdrawal		45
FSA-2307	Notice of Complete Application		45
FSA-2308	Notice of Eligibility for FSA Assistance		73
FSA-2309	Certification of Disaster Losses		42, 244
FSA-2310	Request for Lender's Verification of Loan Application		42, 242
FSA-2311	Calculation of Actual Losses Worksheet		244
FSA-2313	Notification of Loan Approval and Borrower Responsibilities		91, 352, 472
FSA-2317	Consent and Subordination Agreement		92
FSA-2318	Agreement for the Disposition of Jointly Owned Property		416, 418
FSA-2319	Agreement with Prior Lien Holder		92
FSA-2320	Property Insurance Mortgage Clause (Without Contribution)		114, Ex. 4
FSA-2340	Selection of Attorney/Title Agent		372
FSA-2341	Certification of Attorney		372, 397, 451
FSA-2342	Certification of Title Agent		372, 397, 451
FSA-2343	Transmittal of Title Information		397
FSA-2344	Preliminary Title Opinion		397
FSA-2350	Loan Closing Instructions		398
FSA-2351	Certification of Improvement of Property		398
FSA-2352	Final Title Opinion		398, 433
FSA-2360	Report of Lien Search		417
FSA-2361	Lender Subordination Agreement		417
FSA-2370	Request for Waiver of Borrower Training Requirements		70, 472
FSA-2371	Agreement to Complete Training		473
FSA-2375	Agreement to Conduct Production or Financial Management Training		493, 494
FSA-2376	Borrower Training Course Evaluation		494

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

## Forms (Continued)

Number	Title	Display Reference	Reference
FSA-2510	Notice of Availability of Loan Servicing to Borrowers Who Are 90 Days Past Due		3
FSA-2512	Notice of Availability of Loan Servicing to Borrowers Who Are Current, Financially Distressed, or Less than 90 Days past Due		3
FSA-2514	Notice of Availability of Loan Servicing to Borrowers Who are in Non-Monetary Default		3
FSA-2535	Conservation Contract		3
G-845	Document Verification Request		Ex. 8
HUD 1	Uniform Settlement Statement		398
I-94	Arrival/Departure Record		Ex. 8
I-179	Certificate of Birth Abroad		Ex. 9
I-197	United States Citizen Identification Card		Ex. 9
I-551	Alien Registration Receipt Card		Ex. 8
I-571	Refugee Travel Document		Ex. 8
I-688B	Employment Authorization Card		Ex. 8
I-766	Employment Authorization Document		Ex. 8
N-550	Certificate of Naturalization		Ex. 9
N-560	Certificate of U.S. Citizenship		Ex. 9
N-561	Certificate of U.S. Citizenship		Ex. 9
N-570	Certificate of Naturalization		Ex. 9
NRCS CPA-1155	Conservation Plan/Schedule of Operations		42, 43, 171, Ex. 2
RD 1940-22	Environmental Checklist for Categorical Exclusions		45
Schedule F (Form 1040)	Profit or Loss from Farming		246
UCC-1	National Financing Statement		92, 93, 373, 398, 417, 419, 433

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

## Abbreviations Not Listed in 1-CM

The following abbreviations are not listed in 1-CM.

<b>Approved Abbreviation</b>	<b>Term</b>	<b>Reference</b>
BCIS	Bureau of Citizenship and Immigration Services	Ex. 8, 9
CONACT	Consolidated Farm and Rural Development Act	1, 69, Ex. 16
CAT	Catastrophic Risk Protection Endorsement	113, 244
CL	Conservation Loans	Text, Ex. 2
EPLS	Excluded Parties List System	68
FFA	Future Farmers of America	69, 227
FICO	Fair Isaac Corporation	191
FmHA	Farmers Home Administration	2, 94, 202
FP	Farm Program	41, 93, 244, Ex. 2
INA	Immigration and Nationality Act	Ex. 8
Lo-Doc	low documentation	2, 43, 191, 216, Ex. 2
PRWORA	Personal Responsibility and Work Opportunity Reconciliation Act of 1996	Ex. 2, 8
SDMS	State Directive Management System	3, 355
ST	softwood timber	94, Ex. 2

## Redelegations of Authority

None





**Definition of Terms Used in This Handbook (7 CFR 761.2(b)) (Continued)****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.

**\*--Note:** This definition only applies to the direct and guaranteed the CL Program. FSA will use either NRCS CPA-1155 or Tool Kit provided by NRCS as proof that the applicant has an approved conservation plan.--\*

**Conservation Practice**

Conservation practice means a specific treatment that is planned and applied according to NRCS standards and specifications as part of a resource management system for land, water, and related resources.

**Conservation Project**

Conservation project means conservation measures that address provisions of a conservation plan.

**Construction**

Construction means **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.**

**Definition of Terms Used in This Handbook (7 CFR 761.2(b)) (Continued)****Controlled**

Controlled means **when a director or an employee has more than a 50 percent ownership in an entity or, the director or employee, together with relatives of the director or employee, have more than a 50 percent ownership.**

**Controlled Substance**

Controlled substance means **the term as defined in 21 U.S.C. 812.**

**Cooperative**

Cooperative means **an entity that has farming as its purpose, whose members have agreed to share the profits of the farming enterprise, and is recognized as a farm cooperative by the laws of the state in which the entity will operate a farm.**

**Corporation**

Corporation means **a private domestic corporation created and organized under the laws of the State in which it will operate a farm.**

**Cosigner**

Cosigner means **a party, other than the applicant, who joins in the execution of a promissory note to assure its repayment. The cosigner becomes jointly and severally liable to comply with the repayment terms of the note, but is not authorized to severally receive loan servicing available under 7 CFR parts 765 and 766. In the case of an entity applicant, the cosigner cannot be a member of the entity.**

**County**

County means **a local administrative subdivision of a State or similar political subdivision of the United States.**

**County Average Yield**

County average yield means **the historical average yield for an agricultural commodity in a particular political subdivision, as determined or published by a government entity or other recognized source.**

## State Supplements

The following lists required State supplements.

<b>Subparagraph</b>	<b>State Supplements</b>
3 C	<b>Notary Acknowledgement</b> <ul style="list-style-type: none"> <li>To provide the appropriate State required text.</li> </ul>
3 E	<b>State Specific Forms</b> <ul style="list-style-type: none"> <li>Address the use of all State created forms, except the State specific FSA-2029, which does not need to be included.</li> </ul>
3 D and 371 C	<b>Signature Requirements</b> <ul style="list-style-type: none"> <li>As required by State law for individuals, entities, and trusts.</li> </ul>
42 A	<b>Married Couples Applying as a Joint Operation</b> <ul style="list-style-type: none"> <li>Issued when applicable to provide guidance on married couples applying as a joint operation.</li> </ul>
72 E * * *	<b>* * * Trust Issues</b> <ul style="list-style-type: none"> <li>Security requirements.</li> <li>Signature requirements.</li> <li>Unique State statutes.</li> </ul>
91 B	<b>Adequate Security - 3rd Party Pledge</b> <ul style="list-style-type: none"> <li>In States where property is not held in fee simple or where DOJ lacks jurisdiction a State supplement may be necessary upon the advice of OGC.</li> </ul>
92 D	<b>Real Estate Security - Fixtures and Equipment</b> <ul style="list-style-type: none"> <li>A State supplement may be necessary upon the advice of OGC, to further explain taking a security interest in fixtures.</li> </ul>
92 F and 131 C	Leasehold Estates in Hawaii, Puerto Rico, and American Samoa <ul style="list-style-type: none"> <li>Unique State/territory statutes.</li> </ul>
94 D	<b>DOJ Jurisdiction Issues: When FSA Cannot Obtain a Valid Lien</b> <ul style="list-style-type: none"> <li>Where DOJ has no jurisdiction or has advised FSA that because of the lack of a Federal District Court, DOJ will not litigate civil cases.</li> </ul>
114 A	<b>Mortgage Clause, for Required States Only</b> <ul style="list-style-type: none"> <li>If using a mortgage clause other than the standard mortgage clause on FSA-2320 has been made mandatory by State law or insurance regulation.</li> </ul>

**State Supplements (Continued)**

<b>Subparagraph</b>	<b>State Supplements</b>
133 D	<b>State Water Rights, Irrigation Issues, and Restrictions on Land Drainage</b> <ul style="list-style-type: none"> <li>• State all requirements to be met, including the acquisition of water rights.</li> <li>• Define areas where development of ground water for irrigation is not recommended.</li> <li>• Define areas where land drainage is restricted.</li> </ul>
136 A	<b>Mortgage Requirements for Subsequent Loans</b> <ul style="list-style-type: none"> <li>• A State supplement shall be issued about when to obtain a new mortgage for a subsequent loan.</li> </ul>
152 B	<b>Median Size Farm</b> <ul style="list-style-type: none"> <li>• Guidance addressing what constitutes a median size farm.</li> </ul>
202 H	<b>Term Limit Requirements</b> <ul style="list-style-type: none"> <li>• If needed to reissue any existing State supplements on term limit requirements to comply with the term limit provisions.</li> </ul>
244 C	<b>Unit Price on Commodities</b> <ul style="list-style-type: none"> <li>• Guidance on unit prices for all commodities produced commercially in the State.</li> </ul>
248 A	<b>Waiver of Real Estate Appraisal Requirements for EM</b> <ul style="list-style-type: none"> <li>• Guidance about waiving the real estate appraisal requirements for an applicant receiving <b>only</b> EM.</li> </ul>
284 A	<b>State Requirements for Filing Liens</b> <ul style="list-style-type: none"> <li>• Forms to use, directions for completion, and correct way to make the lien a matter of public record.</li> </ul>
397 B and 398 A	<b>Purchase Contracts and Fixtures</b> <ul style="list-style-type: none"> <li>• Forms to use, directions for completion, and correct way to make the lien a matter of public record.</li> </ul>

## Information Needed to Submit an FSA Direct Loan Application

**Note:** Exhibit 5 is available in a fillable format at <http://intranet.fsa.usda.gov>. CLICK “FFAS Employee Forms/Publications Site” and CLICK “Find Current Forms Using Our Form Number Search”. For “Form Number”, ENTER “3-FLP Exhibit 5”.

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<b>3-FLP, Exhibit 5</b>	
(Use Agency Letterhead format with local return address.)	
[Name and Address]	
<b>INFORMATION NEEDED TO SUBMIT AN FSA DIRECT LOAN APPLICATION</b>	
Dear [Name] :	Date [MM-DD-YYYY]
Please provide the items marked with an “X” in the box so that your request for loan assistance can be considered. Any required forms are enclosed. Additional copies of forms, if needed, can be obtained at <a href="http://forms.sc.egov.usda.gov/eForms/welcomeAction.do?Home">http://forms.sc.egov.usda.gov/eForms/welcomeAction.do?Home</a> .	
<input type="checkbox"/> 1) FSA-2001, “Request for Direct Loan Assistance”.	
<input type="checkbox"/> 2) FSA-2301, “Request for Youth Loan”.	
<input type="checkbox"/> 3) For entity applicants only:	
<input type="checkbox"/> a. Copies of any Organizational and Operation Documents (e.g., Charter, Articles of Incorporation, Bylaws, Partnership or Joint Operation Agreement, etc.).	
<input type="checkbox"/> b. Any evidence of current registration with relevant state regulatory agencies (good standing).	
<input type="checkbox"/> c. A duly adopted resolution to apply for and obtain financing.	
<input type="checkbox"/> d. A balance sheet not more than 90 days old for the entity.	
<input type="checkbox"/> e. A balance sheet not more than 90 days old for each individual entity member.	
<b>Note:</b> If there are no individually owned assets then husband and wife joint operations may submit a consolidated balance sheet.	
<input type="checkbox"/> 4) Notification of Exercise of Priority Consideration under Consent Decree (FSA-2010), or similar written request, if you are exercising your right to priority consideration. If FSA does not receive your written notice, your application will be processed in the normal manner.	
<input type="checkbox"/> 5) Evidence that you have recently applied with a commercial lender for a loan at their rates and terms for similar purposes, and have been denied.	
<b>Notes:</b> EM loans have different credit elsewhere requirements (See Item 22)	
CL’s are exempt from this requirement.	
If FSA believes you or the members of the entity can obtain commercial credit based on the financial information provided, you may be asked to apply with another lender or FSA may contact lenders interested in assisting you under FSA’s Guaranteed Loan Program.	

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Information Needed to Submit an FSA Direct Loan Application (Continued)

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3-FLP, Exhibit 5

- ☐ 6) FSA-2002, "Three-Year Financial History", or similar form acceptable to the Agency. Also provide tax returns, including Schedule F, for the past three years, or each year you have been in business, whichever is less. You may be asked to provide supporting documentation if you provide financial summaries. If the financial history has been previously provided, complete only for those years not previously provided.

**Note:** Provide 3 years balance sheets, if available.

- ☐ 7) FSA-2003, "Three-Year Production History", or similar form acceptable to the Agency, for the past three years, or each year you have been in business, whichever is less. If production history has been previously provided, complete only for those years not previously provided.

- ☐ 8) FSA-2004, "Authorization to Release Information".

**Note:** If you are relying on non-farm income or other assets of a non-applicant spouse to generate positive cashflow or pay family living expenses he/she must execute an FSA-2004 or provide their 2 most recent earning statements.

- ☐ 9) FSA-2005, "Creditor List".

- ☐ 10) FSA-2006, "Property Owned and Leased". Attach a copy of the legal descriptions of any farm property owned, or to be acquired, and if applicable, any lease, contracts, options and other agreements with regard to the property.

- ☐ 11) FSA-2007, "Statement Required by the Privacy Act", required from anyone who will sign loan or security documents, but is not the applicant or an entity member.

- ☐ 12) Projected farm operating plan which includes a balance sheet and cash flow for the next 12 months. You may use the Farm Business Plan Worksheets: the FSA-2037, "Balance Sheet" and FSA-2038, "Income and Expenses", or similar forms acceptable to the Agency.

- ☐ 13) Most recent account statement for credit cards, loans, and all other bank accounts. Any original documents you submit will be returned to you.

- ☐ 14) Credit Report Fee made payable to the Farm Service Agency for the type of applicant:

Individual \$ \_\_\_\_\_ Joint \$ \_\_\_\_\_ or Commercial \$ \_\_\_\_\_

- ☐ 15) SF-3881, "ACH Vendor/Miscellaneous Payment Enrollment Form", or Form SF-1199A, "Direct Deposit Sign-Up", for electronic funds transfer.

- ☐ 16) FSA-2302, "Description of Farm Training and Experience," For entity applicants, provide for each individual member involved in managing or operating the farm.

- ☐ 17) FSA-2370, "Request for Waiver of Borrower Training Requirements".

- ☐ 18) Verification of any other non-farm income (i.e., social security, rental income, pension).

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Information Needed to Submit an FSA Direct Loan Application (Continued)

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3-FLP, Exhibit 5

- ☐ 19) RD-1940-20, "Request for Environmental Information".
- ☐ 20) AD-1026, "Highly Erodible Land Conservation and Wetland Conservation Certification".  
(Initial Application and Subsequent Application when there have been changes to the real estate farmed.)
- ☐ 21) For construction loans only:
  - ☐ a. A copy of any plans and specifications for the improvements you intend to make.
  - ☐ b. A description of any planned development, the proposed schedule and cost estimate.
- ☐ 22) For EM only:
  - ☐ FSA-2309, "Certification of Disaster Losses".
  - ☐ FSA-2310, "Lender's Verification of Loan Application".
- ☐ 23) For CL only:
  - ☐ a. NRCS Approved Conservation Plan.
  - ☐ b. Financial Statement (Streamlined CL's).
- ☐ 24) Other

**A DECISION CANNOT BE MADE ON A LOAN REQUEST WITHOUT ALL INFORMATION REQUESTED IN THIS LETTER**

Please contact this office if you need help. We can help you complete the requested forms, explain what information we need, and answer any questions about the information requested in this letter. If we cannot assist you by phone, we will schedule an appointment to meet with you.

Sincerely,

Enclosures

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