

CREDIT QUALITY INITIATIVES AND POLICY  
ON GUARANTEED FLP LOAN APPLICATIONS

The following actions will be required before FLP guarantee loan applications are approved:

- A. The Farm Loan Manager will call the lender and follow up with the letter found in 2-FLP, paragraph 97B, within 5 calendar days of receipt of an incomplete application.

It is very important that the Farm Loan Manager analyze the application in enough detail to assess what additional items are needed. If the lender's loan request is not complete for the type of request (SEL, CLP or PLP) the FLM must contact the lender and obtain the additional information. It is expected that when the lender is contacted within the 5-day time frame, all the items necessary for a complete application will be requested. The FLM must consider calling the lender first and then following up with a letter.

- B. If the necessary information for a complete application has not been received from the lender 20 calendar days after the date of the first written notification of an incomplete application, the Farm Loan Manager will immediately send to the lender the letter found in 2-FLP, paragraph 97D.

District Directors will review weekly all pending guaranteed loan applications that have been received and are not complete within 20 days of initial application and immediately take steps to ensure that the appropriate action on the application is taken.

- C. The District Director will review weekly each complete application pending more than 10 days, and immediately take steps to ensure that final disposition on the application is taken and that future applications are approved or rejected within 10 days from the date of a complete application.

- D. Upon receiving a guaranteed loan application, the FSA program records need to be checked to verify the type of operation reflected on the FSA-2221 or FSA-2212 is consistent with any previous representations made by the applicant for FP benefits. If any difference in representations of the farming operation is identified, the Lender will need to be notified by phone and follow up with the letter in accordance with 2-FLP, paragraph 97B including the following paragraph indicating the application will be considered incomplete until the inconsistency is resolved:

"A review of the guaranteed loan applicant's FSA records revealed inconsistent representations in how their farming operations are conducted. (Provide details of different representations identified by FSA records.) Documentation must be provided to resolve the inconsistencies identified prior to the application for assistance to be considered completed."

Exceptions: An application will not be considered incomplete if the difference in representation is the result of either of the following:

- a) husband and wife representing themselves as a joint operation for FLP assistance but combined as a single person for FP.

b) producer participating in 2 separate and distinct operations

NE Notice FLP08-48 (2-FLP)

Exhibit A - Page 2

The County Office should obtain a copy of the applicants CCC-502 and AD-1026A on all cropland in the operation. The FLM or FLO must compare the information on the AD-1026A and CCC-502 with the loan application. The farms, rental terms (cash vs. share), and ownership listed on the AD-1026A, CCC-502 and loan application should agree. The production acres should be reasonably close. If the operation has rangeland/pastureland, the AD-1026A is not required on the rangeland/pastureland unless it is already on file. If the County Office has any questions on the information, they should contact the appropriate CED to discuss any discrepancies. The Subsidiary File may also be used to verify compliance with Farm Programs. The CCC-502 should identify any additional entities the applicant is involved with and that Subsidiary File should also be reviewed for the entity or entities.

If the County Office has any questions on the Natural Resources Conservation Service (NRCS) compliance, the Conservation Plan should be obtained from the Natural Resources Conservation Service (NRCS) to review and determine if there are any financial implications. The typical year cash flow should be developed based on the applicant's Conservation Plan. Be sure this reflects the cropping practices and rotations specified by Natural Resources Conservation Service (NRCS). Compliance with CRP contracts and CCC loans should also be checked by accessing the Subsidiary File on the Nebraska FSA STO Internet page or check with the CED.

- E. When verifying FSA Farm Program payments, the web based "Financial Inquiries" site will be used. This site may be accessed from the Nebraska FSA STO Intranet home page. "Financial Inquiries" is a Quick Link on the left side of the screen. At the Financial Inquiries screen, enter the tax ID or name of the applicant and co-applicants. From the "Select an Inquiry" drop down box, select "Payments".
- F. The web base "Financial Inquiries" site will be used to obtain information on delinquent FSA/CCC debts. This site can be accessed from the Nebraska FSA Intranet home page. "Financial Inquiries" is a Quick Link on the left side of the screen. At the Financial Inquiries screen, enter the tax ID or name of the applicant and co-applicants. From the "Select an Inquiry" drop down box, select "debts".
- G. The View Loan Screen in GLS will be used to verify previous debt forgiveness. At the Loan List Screen in GLS, enter the unique identification number, tax ID or name of the applicant and all individuals that will be signing the promissory note. The Loan List Screen will be displayed with previous and current loan information for the individuals entered. Detailed information can be obtained for a specific loan by selecting the View Loan Screen from the "Action" drop down box and clicking on the specific loan number hyperlink.
- H. Effective immediately, the guaranteed OL term limit waiver is extended through December 31, 2010. Enforcements of 2-FLP, subparagraphs 108 L and M will be suspended until that date.

- I. When debts over \$1,000 are required to be verified, the lender must use one of the following:
- 1) Form FSA - 2015, "Verification of Debts and Assets."
  - 2) Lender's own form.
  - 3) Any other documented verification.

"Any other documented verification" could be the credit report or a documented phone call to the creditor by the lender. It is recommended that written verification should be obtained when verifying prior liens on primary security. If there is an understatement of debt because of an error in the verbal exchange of information on a prior lien, a deduction may be made to any loss claim filed equal to the amount of the difference between the amount verified by phone and the actual debt.

- J. Farm Loan Managers must use the Attachment 1 (SEL/CLP) and Attachment 2 (PLP) (Guaranteed Loan) Checklists and Attachment 3 (Interest Assistance) Checklists for monitoring and handling the processing of each guaranteed loan application. In some instances, the County Office will utilize specific items on the "Checklist" as file documentation or a running record. If this is done, the County Office employee must be sure to **place their initials and date beside the specific item referred to**. A thorough review of the loan request and checklists must be completed before the loan is approved and after the loan closing information is received from the lender. The County Office will use an eight-position file for all Guaranteed loans.
- K. The "Nebraska Historical and Annual Performance" worksheet is included with this notice as Exhibit A Attachment 10 and will be used or a similar form will be used on all SEL requests over \$125,000.
- L. Current appraisals (not over 12 months) are required by SEL and CLP lenders except for:
- additional security
  - loans of \$50,000 or less if a strong equity position exists.

A strong equity position is defined as a loan to value ratio of 60% on chattels and 70% on real estate or less. The loan to value is calculated by dividing the requested loan amount plus any prior lien amounts by the estimated value of the collateral being pledged for the loan.

If an appraisal is not required, the lender must provide a current estimate of value which will include the legal description of the property and/or a list describing the chattel property being offered for security.

Uniform Standards of Professional Practices (USPAP) continues to put emphasis on the term "Scope of the Work Rule". The "Scope of the Work Rule" term requires the appraiser and the client to communicate and agree what is needed to produce a credible report. The emphasis on the "Scope of the Work Rule" makes it even more important for the lenders/client to provide complete information in the engagement letter to the appraiser. In addition to the general information such as applicants name, legal description, etc., the lender will need to provide information such as, but not limited to, identifying irrigation equipment or other personal assets that should be included in the appraised value, describe specific improvement plans and provide cost estimates for all planned development, identify limitations on the title of the real estate such as life estates, leases, easements, CRP contracts, boundary disputes, etc. Ultimately the lenders need to work closely with appraisers and FLM's to obtain an acceptable appraisal. Appraisals must be submitted in a self-contained or summary format. Restricted reports are not acceptable.

It is recommended that the lender as a normal course of business contact the FLM prior to engaging a chattel or real estate appraisal to review the appraiser's qualifications.

When an appraisal is necessary, the SEL or CLP lender is not required to complete the appraisal before loan approval. The conditional commitment will be issued subject to an appraisal being completed in an amount adequate to secure the loan. The CLP lender must maintain the appraisal in the bank file but is not required to send the appraisal to FSA. The SEL lender must submit the appraisal to FSA and receive FSA acceptance prior to the SEL lender closing the loan.

PLP lenders will follow the CMS concerning appraisal requirements.

Real Estate Appraisals submitted by SEL lenders must be administratively reviewed with the use of Form FSA 1922-16 "Administrative Appraisal Review" (or RD 1922-15 "Administrative Appraisal Review for Single Family Housing" for residential properties).

- M. The Loan Approval Officials will analyze the Guaranteed loan requests by completing the following items:
- 1) "Loan Summary Narrative," Attachment 4 (SEL/CLP) or Attachment 5 (PLP) and the Comprehensive Analysis Documentation as required in item N of this Exhibit A.
  - 2) Historical and Annual Performance Evaluation Worksheet (SEL over \$125,000)
  - 3) "Source and Use Analysis" Attachment 6, page one on all SEL and CLP guarantee requests.

- N. A comprehensive analysis must be completed prior to approval or recommendation of approval. This comprehensive analysis will be one of the following or a combination of two or more of the following:
1. Loan Narrative completed by the lender
  2. Loan Summary Narrative completed by the FLM
  3. Attachment to the Loan Summary Narrative completed by the FLM
  4. “Comprehensive analysis documentation for SEL/CLP guaranteed loans” Exhibit A Attachment 8 of this notice or “Comprehensive analysis documentation for PLP guaranteed loans” Exhibit A Attachment 9 of this notice.

(Note- on PLP application, it is expected that items 1 and 2 from above will always be part of the comprehensive analysis.)

- O. When the loan is approved, the following documentation must be sent to the Farm Loan Specialist (field) for review and determination if the loan docket should be post reviewed:
- 1) “Loan Summary Narrative,” Attachment 4 (SEL/CLP) or Attachment 5 (PLP) and the Comprehensive Analysis Documentation as required in item P of this Exhibit A.
  - 2) “Source and Use Analysis” Attachment 6, page one on all SEL and CLP guarantee requests.

When the loan is approved, the following documentation will be mailed or faxed to the State Office to obligate the loan:

- 1) Form FSA - 2231, “Request for Obligation of Funds Guaranteed Loans.”
- 2) Copy of “GLS Obligation Request” screen.
- 3) “Loan Summary Narrative,” Attachment 4 (SEL/CLP) or Attachment 5 (PLP).

In some cases, the CLP lender will send more information to FSA than is required for a CLP request. In those cases when the lender chooses to send additional information, the County Office must analyze this information and utilize it in any credit decisions.

If a PLP lender submits more information to FSA than is required, the PLP lender must be contacted and advised only to submit information that is required.

The depth of the analysis and the amount of documentation will vary depending on the individual loan request and type of loan request. (SEL, CLP, or PLP)

A comprehensive analysis must include a comparison of the history to the projected cash flow and the history to the current financial statement in the following areas:

Farm income	Net worth
Non-Farm income	Total liabilities
Farm Expenses	current ratio/working capital
Family living expenses	
Yields/production	
Per acre/per head costs	
Federal, State and Social Security taxes	
Capital expenditures	
Operating efficiency ratio	

When documenting the analysis only these items that have deviated from the past history will need to be included in the loan comprehensive analysis. Such as a subsequent LOC loan request may only need minimum documentation because FSA is already familiar with the operation and the operation may be performing as expected. An operation that is restructuring because of past financial difficulties may require that all the above items be addressed and justified why a loan should be approved or recommended for loan approval.

The following is a list of items that will not be compared to the history but the current situation must be analyzed:

- Adequacy of the collateral
- Commodity prices used
- Completeness of the lenders narrative
- Typical Year Plan for term loans

- P. The Farm Loan Specialists and the Farm Loan Chief will continue to do post reviews of guaranteed loans approved by all Loan Approval Officials. A separate Nebraska Notice will be issued describing the requirements of the 1-FLP Handbook and the post review process by the Farm Loan Specialists and Farm Loan Chief. The required compliance and credit quality review questions on Form FSA-2104 will be utilized for the guaranteed loan post reviews.

The Farm Loan Specialists and the Farm Loan Chief will continue to do post reviews of guaranteed loans approved by all Loan Approval Officials. A separate Nebraska Notice will be issued describing the requirements of the 1-FLP Handbook and the post review process by

the Farm Loan Specialists and Farm Loan Chief. The required compliance and credit quality review questions on Form FSA-2104 will be utilized for the guaranteed loan post reviews.

NE Notice FLP08-48 (2-FLP)  
Exhibit A - Page 7

- Q. If any loans post reviewed for credit quality have major deficiencies in the post review, the Farm Loan Specialist will document the deficiencies in the comment section of the Guaranteed Loan Making File Review Questionnaire and will contact the Farm Loan Chief for guidance. The State Executive Director may then recommend training and/or loan approval authority may be revoked in accordance with 1-FLP, Paragraph 28A.

The FLM or FLO will review Form FSA-2104 completed by Farm Loan Specialist and make the necessary changes to the guaranteed loan file. The FLM or FLO must document in the running record on how the changes have been made.

If you have any questions on the credit quality policies or initiatives stated herein, contact your District Director, a Farm loan Specialist or the Farm Loan Chief.

- R. 2-FLP Handbook requires that SEL/CLP Guaranteed Lenders must not be under any State or Federal lender regulatory enforcement actions to be eligible to participate in the FSA Guaranteed Loan program. The Nebraska State Office will monitor the appropriate State or Federal web sites (subparagraph 46C lists web sites) to determine if a lender is subject to any enforcement actions. The FSA State Office will notify the appropriate County Offices of any enforcement actions that will have an effect on renewing or engaging in a lending relationship. National Office will monitor PLP Lending status.

If you have any questions on the credit quality policies or initiatives stated herein, contact your District Director, a Farm loan Specialist or the Farm Loan Chief.

Attachments