USDA
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Kentucky FSA Guaranteed Lender News

KAFC AGRICULTURAL INFRASTRUCTURE LOAN PROGRAM

The Kentucky Agricultural Finance Corporation (KAFC) Agricultural Infrastructure Loan Program may be used to finance agricutural structures and permanently attached equipment such as livestock and poultry barns, grain storage facilities, greenhouses, tobacco barns, waste storage buildings, etc. The loans may not be used for refinancing debts or purchases of land. The loan applicant must have received a minimum of 20% of his/her gross income from farming for the two years previous to the date of the loan application.

KAFC does not actually make a direct loan. They must use a participating lender (i.e. bank) to make and service the loan on their behalf (FSA cannot provide loan servicing for KAFC). KAFC funds are deposited in the bank under a participation agreement. The bank in turn makes the loan using the bank's note and mortgage. There will be two notes, one for the bank's portion with its rates and terms and one for the KAFC portion.

The maximum amount of KAFC funds used by the participating lender must be the lower of $100,000 or 50% of the cost of the project. The KAFC portion of the lender's loan may be set up for a maximum term of 10 years or the useful life of the project, if less than 10 years. *(continued on page 2)*

"FARM LOANS ARE GOOD BUSINESS -- WE GUARANTEE IT!!"

State Executive Director Comments

It's the middle of Summer and another year's operation is well on its way. We view the fields and herds of livestock and wonder what harvest and sale day will bring to a particular farm operation.

We all have spoken for years of the increasing age of the American farmer. This is a real issue and there must be a passing of the baton. However, another important issue is the availability of farm credit for creditworthy farmers. With the increasing urbanization of rural areas, it seems that more and more banks are uninterested in providing agricultural credit. We understand the issues involved but at the same time are concerned about the availability of the credit necessary, particularly for young farmers, to farm and actually transition ownership of the land.

FSA stands ready to work with any lender who is capable of servicing a farm debt. We realize that Operating Loan lines of credit are not a viable loan for certain lenders, while they may be very capable of servicing a well secured Farm Ownership loan. The Kentucky State Office staff and local Farm Loan Managers and Loan Officers will be more than happy to meet with bank loan officers and/or their boards in order to explain our guaranteed farm loan program. We invite and encourage you to use this tool as your safety net in allowing you to provide agricultural credit in your service area.

As a final note, we are foregoing this year's lender meetings. There is also little change in our regulations at this point. We will plan on having meetings next Spring and will give you plenty of notice of the sites and dates. We will be asking our Farm Loan Managers to touch base with our active guaranteed lenders during the next few months to cover certain guaranteed loan issues.

Please call on us any time we can be of assistance in either working with new or existing customers or in answering questions concerning any of FSA's programs.

Jeffery S. Hall
State Executive Director

KAFC AGRICULTURAL INFRASTRUCTURE LOAN PROGRAM

(cont'd from page 1)

The effective interest rate on the KAFC portion of the loan funds is now 2.75% for producers documenting past involvement in tobacco either by receiving a Phase II payment, enrollment in TTPP (the tobacco buyout) or an executed current tobacco marketing contract. For those without involvement in tobacco, the rate will be 4.75%. In either case, KFAC will pay .75% (75 basis points) to the Bank as a loan servicing fee. KAFC reserves the right to change the rates in the future for new loans as market conditions change.

FSA may partner with KAFC and its participating lender through our direct and/or guaranteed loan program. It is a win/win situation. Our funds go further and the farmer receives a very favorable blended interest rate.

For further information, you may contact Tim Hughes, KAFC Marketing and Business Development Coordinator, at (502)564-4627, extenstion 232. The KAFC website may be accessed at kafc.ky.gov.

KAFC BEGINNING FARMER PROGRAM

The Kentucky Agricultural Finance Corporation Beginning Farmer program has eligibility criteria similar to the FSA Beginning Farmer program. To qualify, applicants must not have operated a farm for more than 10 years and not currently own a farm greater in size than 30% of the average farm size of the county in which the operation is located. In addition, for real estate loans, they must have participated in the business operation of a farm for at least three years. The applicant (and spouse, if applicable) must have a net worth of less than $250,000 at the time of application. The loan limit for this program is $100,000. In the case of farm real estate purchases, the KAFC participation is capped at 25% of the farm's purchase price.

There must be a lender who will provide at least 50% of the needed financing and who will agree to service the entire debt. The lender will receive no more than 100 basis points (1%) as a servicing fee which would result in a 3% effective rate on the KAFC portion of the debt. FSA is not able to service the participated amount by KAFC thus requiring the involvement of a private lender. The KAFC portion of the debt will be included in the lender's notes and mortgages, thus resulting in a blended interest rate. The KAFC interest rate is fixed at loan closing. KAFC reserves the right to adjust rates on future loans in this program.

The applicant must submit a five year business plan which shows repayment ability. There also must be a commitment from a Mentor who is willing to advise the applicant during the term of the loan.

The maximum loan term will be 10 years, but may be less depending upon the type of collateral. Loan funds may be used to purchase livestock, equipment and agricultural facilities. They may also be used in some instances to provide working capital and for a downpayment on a farm real estate purchase. They may be used to purchase a share in an existing farm entity (this is not an eligible purpose under FSA loan programs). **Refinancing of existing debt is prohibited under this program.**

The following is an example of how this program could work with a FSA joint financing direct FO loan:

Farm real estate purchase of $300,000
FSA joint refinancing direct FO loan of $150,000 (subject to availability of loan funds) fixed for 40 years at 5%
Farmer Friendly Bank loan of $150,000, $75,000 of which is provided to the bank by KAFC at a 3% rate for a 10-year term. The other $75,000 is actual bank funds which will be set up at the bank's normal rates and terms. The bank may use a variable rate on its portion of the debt. The bank may hold a first lien position ahead of the FSA loan on their total debt and their entire debt is eligible for an FSA guarantee, as needed.

This is a program which can be of great help to young farmers trying to establish themselves in business. We encourage you to work in partnership with KAFC and other lenders in utlizing these funds.

Further questions may be addressed to Tim Hughes, KAFC Marketing and Business Development Coordinator at (502)564-4627, extenstion 232. The KAFC website may be accessed at kafc.ky.gov.

SERVICING ALTERNATIVES FOR GUARANTEES

Sometimes there are unforeseen circumstances that prevent the timely payment of loan accounts. In such instances, the FSA has the ability to allow rescheduling/reamortization of guaranteed accounts with the guarantee intact. A credit report must be run on the borrower, a positive cash flow must be shown and it must be a viable operation in all regards. The principal and interest balances may be amortized as a new principal amount.

The debt restructuring term limits are 40 years, less the existing guarantee's age, on Farm Ownership loans and 15 years on the term Operating loans. You should take into account the age and condition of chattel security when considering the proper length of the rescheduled Operating loan. Lines of credit may also be rescheduled, but in doing so are shut off as to future advances. They may be rescheduled over a period not to exceed seven years from the date of rescheduling or ten years from the date of the original note, whichever is less.

SERVICING ALTERNATIVES FOR GUARANTEES (cont'd)

If the loan currently is on Interest Assistance, you must obligate an additional subsidy amount if the principal balance is increased by restructuring the loan and capitalizing interest or if there is an extension of the loan term. In the case of capitalized interest, the restructuring is subject to the availability of new interest assistance funds. All borrowers are subject to a ten-year lifetime limit as to Interest Assistance. FSA must see all applicable documentation on a loan from an SEL lender. CLP lenders must certify that all requirements have been met and provide a copy of all restructured notes. PLP lenders must abide by the requirements of their Credit Management System and provide FSA a copy of the new note or allonge.

GUARANTEE REPORTS REMINDER!

Please be reminded that Form FSA 1980-41, Guaranteed Farm Loan Status Report, is due as of 03/30 & 09/30 each year a particular guarantee is in existance. This form gives us information as to loan balances & payment status which is then passed on to Congress. If you ever fail to receive a partially pre-printed form on each of your guarantee loans from our St. Louis office, please contact your local FSA office for a form(s).

Form FSA 1980-44, Guaranteed Farm Loan Default Status Report, is due every 60 days once the guaranteed loan is 30 days past due & there are no immediate plans to bring the account current. The 60-day interval simply keeps us updated as to the servicing of the account and protects you, as lender, should the problem result in a guaranteed loss claim.

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