



Guaranteed Lender News Kentucky

April 2013

Hispanic and Women Farmer Rancher Claims Process



John W. McCauley

State Executive Director



Nationwide outreach continues for the Hispanic and Women Farmer Rancher Claims Process (HWFRCP) announced by Agriculture Secretary Tom Vilsack on January 25, 2012. The updated claims process moves to resolve discrimination claims of Hispanic and women farmers. The process offers a streamlined alternative to litigation for each Hispanic and women farmer and ranchers who can prove that USDA denied their loan or loan

servicing for discriminatory reasons for certain time periods between 1981 and 2000. In Kentucky, we held meetings in Graves and Shelby Counties to discuss the claims process, since those counties have the largest number of Hispanic and female farmers. The Agency continues to share information and post the HWFRCP flyers across the Commonwealth. Individuals interested in participating in the claims process may register to receive a claims package, or may obtain more

information by visiting www.farmerclaims.gov or by calling the Farmer and Rancher Call Center at 1-888-508-4429. The deadline has been extended to May 1, 2013 to file a claim.

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Maximum Interest Rates on Guaranteed Farm Loans

An interim rule was published on March 4, 2013 with a May 3, 2013 effective date. The rule ties the interest rate on FSA guaranteed loans to either the LIBOR or the 5-year Treasury note rate, unless the lender uses a formal written risk-based pricing practice for loans. In the latter case, the rate used must be at least one risk tier lower than the loan would have received without an FSA guarantee. The FSA National Office is accepting comments on the rule through June 3, 2013.

If you need further information on this issue, please contact our office.

USDA Farm Service Agency reserves funds each year to make loans to **socially disadvantaged applicants** to buy and operate family-size farms. A socially disadvantaged farmer is one of a group whose members have been subjected to racial, ethnic, or gender prejudice because of their identity as members of the group without regard to their individual qualities. For the purposes of this program, socially disadvantaged groups have been defined as women, Blacks or African Americans, American Indians or Alaskan Natives, Hispanics, Asians, and Native Hawaiians or other Pacific Islanders.

Kentucky Farm Loan Program Division is Recipient of the 2012 Administrator's Award for Excellence in Achieving Goals and Objectives Award

CONGRATULATIONS, to the Kentucky Farm Loan Division composed of the Farm Loan Program Chief, Mitchell Whittle; Farm Loan Program Specialists: John Hoskins, Debra Hunt, Jacky Ott, and Michael Hoyt. Appraiser: John D. Bowles; Legal Assistant, Linda Anderson; and Agricultural Specialists: Tammy Phelps and Rebecca Webster, for being the recipients of the 2012 Administrator's Award for Service to Agriculture. This is the most prestigious award presented by the Farm Service Agency. **Good job on the part of all Farm Loan Program employees in Kentucky for their hard work.**



Pictured from left to right: Jacky Ott, Mitchell Whittle, Rebecca Webster, Linda Anderson, Debra Hunt, John Hoskins, and John McCauley, State Executive Director. Not pictured, Michael Hoyt, John Bowles, and Tammy Phelps.

✓ Kentucky's National Ranking for 2012 Fiscal Year:

✓ Number 1 in the number of Direct Operating Loans and Youth Loan dollars .

✓ Number 2 in the number of total Direct, Guaranteed, and Youth Loans.

✓ Number 3 in the number of all Beginning Farmer Loans.

✓ Number 4 in the number of Socially Disadvantaged Loans.

The Farm Service Agency will not guarantee any loan that would result in the applicant's total indebtedness exceeding the limits established in Handbook 1-FLP, paragraph 29. The maximum, FO, CL, OL, and LC levels include the guaranteed loan being made plus any outstanding direct or guaranteed principal balances owed by anyone who will sign the promissory note. The dollar limit of guaranteed loans is adjusted annually based on the percentage change in the Prices Paid by Farmers Index, as compiled by USDA. The total outstanding combined guaranteed FO, CL, SW, OL, and LC principal balance cannot exceed \$1,302,000 for fiscal year 2013. 2-FLP paragraph 244 (A)

BORROWER SUPERVISION

LIQUIDATION AND LOSS CLAIMS

Lenders must supervise guaranteed loan borrowers in a manner similar to their supervision of regular loan customers. Lenders are expected to apply standard, agricultural loan servicing principles to their guaranteed customers.

Examples of standard borrower supervision include the following:

- * maintaining regular contact with the farmer
- * periodically discussing the farmer's goals and monitoring progress in meeting these goals
- * accounting for loan proceeds by monitoring expenditures and discussing how these will facilitate the achievement of the operator's expressed goals
- * monitoring collateral and tracking the sale of security.

Lender's supervision include, but is not limited to the following:

- * ensuring loan funds are not used for unauthorized purposes
- * ensuring borrower compliance with the covenants and provisions contained in the promissory note, loan agreement, mortgage, security instruments, any other agreements, and this part
- * ensuring the borrower is in compliance with all laws and regulations applicable to the loan, the collateral, and the operations of the farm
- * receiving all payments of principal and interest on the loan as they fall due and promptly disbursing to any holder its pro-rata share according to the amount of interest the holder has in the loan, less only the lender's servicing fee
- * performing an annual analysis of the borrower's financial condition to determine the borrower's progress.

2-FLP Paragraph 263 (A)(B)

All lenders **must** submit an estimated loss claim within 150 days after the payment due date, even if it is zero, unless the account has been completely liquidated and then the final loss claim must be filed. The lender will discontinue interest accrual on the defaulted loan at the time the estimated loss claim is paid by the Agency. **This is found in 7 CFR 762.149 and 2-FLP paragraph 359 (A).**

All lenders must prepare a liquidation plan within 150 days after the payment due date. Standard Eligible Lenders and Certified Lenders must submit the plan to FSA for approval. Preferred Lenders will submit plans in accordance with their Credit Management System.

In the cases involving bankruptcies, the lender must file its proof of claim, attempt to deal with conversion of loan collateral, etc. Ultimately, the Court will decide the outcome of the debt and collateral, but the lender must make a good faith effort to protect both its interest and that of FSA.

We need a clear account ledger for each loss claim showing a total account history, including advances, payments, interest rate changes, and charges to the account.

The lender must evidence both proper use of loan funds and security proceeds.

There should be regular documentation in the file to evidence timely servicing from the time of the default to the submission of the final loss claim.

Attention to these concerns can avoid a request for further documentation on submission of a loss claim or modification of the claim.



FACT SHEET

UNITED STATES DEPARTMENT OF AGRICULTURE
FARM SERVICE AGENCY

January 2013

Microloans

Overview

The Farm Service Agency (FSA) developed the Microloan (ML) program to better serve the unique financial operating needs of beginning, niche and the smallest of family farm operations by modifying its Operating Loan (OL) application, eligibility and security requirements. The program will offer more flexible access to credit and will serve as an attractive loan alternative for smaller farming operations like specialty crop producers and operators of community supported agriculture (CSA). These smaller farms, including non-traditional farm operations, often face limited financing options.

Use of Microloans

Microloans can be used for all approved operating expenses as authorized by the FSA Operating Loan Program, including but not limited to:

- Initial start-up expenses;
- Annual expenses such as seed, fertilizer, utilities, land rents;
- Marketing and distribution expenses;
- Family living expenses;
- Purchase of livestock, equipment, and other materials essential to farm operations;
- Minor farm improvements such as wells and coolers;
- Hoop houses to extend the growing season;
- Essential tools;
- Irrigation;
- Delivery vehicles.

Simplified Application Process

The application process for microloans will be simpler, requiring less paperwork to fill out, to coincide with the smaller loan amount that will be associated with microloans. Requirements for managerial experience and loan security have been modified to accommodate smaller farm operations, beginning farmers and those with no farm management experience. FSA understands that there will be applicants for the ML program who want to farm but do not have traditional farm experience or have not been raised on a farm or within a rural community with agriculture-affiliated organizations. ML program applicants will need to have some farm experience; however, FSA will consider an applicant's small business experience as well as any experience with a self-guided apprenticeship as a means to meet the farm management requirement. This will assist applicants who have limited farm skills by providing them with an opportunity to gain farm management experience while working with a mentor during the first production and marketing cycle.

Security Requirements

For annual operating purposes, microloans must be secured by a first lien on a farm property or agricultural products having a security value of at least 100 percent of the microloan amount, and up to 150 percent, when available. Microloans made for purposes other than annual

operating expenses must be secured by a first lien on a farm property or agricultural products purchased with loan funds and having a security value of at least 100 percent of the microloan amount.

Rates and Terms

Eligible applicants may obtain a microloan for up to \$35,000. The repayment term may vary and will not exceed seven years. Annual operating loans are repaid within 12 months or when the agricultural commodities produced are sold. Interest rates are based on the regular OL rates that are in effect at the time of the microloan approval or microloan closing, whichever is less.

More Information and Eligibility Criteria

Additional information on the FSA microloan program may be obtained at local FSA offices or through the FSA website at www.fsa.usda.gov.

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2-FLP Handbook Revisions

Highlights of Amendment 17 dated 4/13/12:

- * Amended to provide guidance on determining feasibility for production contracts.
- * Amended to clarify qualified State Beginning Farmer Program.
- * Amended to provide guidance on deferrals for poultry and hog growers.

Highlights of Amendment 18 dated 5/22/12:

- * Amended to include Forest Stewardship Management Plans as part of a complete application for Conservation Loans (CL).
- * Amended to include discussion of a Forest Stewardship Management Plan in the loan narrative for CL's.
- * Amended to include activities in a Forest Stewardship Management Plan as an authorized purpose for CL's.
- * Amended to change CL terms to 30 years.
- * Amended to clarify lender responsibilities when restructuring CL's.
- * Amended to change maximum terms to 30 years when rescheduling CL's.
- * Updated the definition of "conservation practice" and "conservation project" and to add the definition of "Forest Stewardship Management Plan".
- * Updated the statutory loan limit for guaranteed loans

Highlights of Amendment 19 dated 6/19/12:

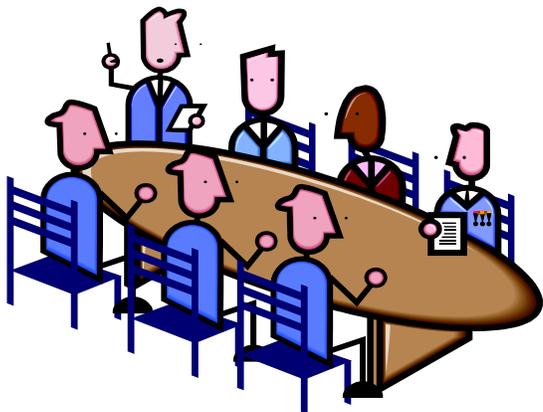
- * Subparagraph 33 C has been added to address implementing final NAD decisions
- * Subparagraph 246 A has been amended to update a reference to paragraph 249
- * Exhibit 2 has been amended to add the definition of "adversely affect"

Highlights of Amendment 20 dated 9/14/12:

- * Amended to update the statutory loan limits for guaranteed loans

Highlights of Amendment 21 dated 9/19/12:

- * Amended to update the fiscal year for the maximum loan levels



Guaranteed Lender Training

Meetings are pending budget

approval. We hope to be able to have the meetings in late summer or early fall. We will keep you updated.



Guarantee Fees pertaining to Loan Packages which include Kentucky Agricultural Finance Corporation (KAFC) Beginning Farmer real estate loans or FSA Direct Down-Payment Farm Ownership Loans:

The FSA National Office has advised that any FSA guarantee request associated with either a new KAFC Beginning Farmer real estate loan or a FSA Direct Down-Payment Farm Ownership Loan will qualify for a waiver of the FSA guarantee fee. This can provide substantial savings to the borrower.

**Kentucky Guaranteed Lender News is published by the Kentucky Farm Service Agency State Office, Farm Loan Program Division,
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