KENTUCKY USDA FARM SERVICE AGENCY

Guaranteed Lender News

December 2009

Inside this issue:

John W. McCauley Appointed Kentucky State Executive Director

On October 6th, John McCauley was appointed the KY USDA Farm Service Agency State Executive Director by President Barack Obama. When announcing Mr. McCauley's appointment, Agriculture Secretary Tom Vilsack stated that "John McCauley has a solid understanding of the challenges and opportunities facing our rural communities and will help build on the Obama Administration's efforts to rebuild and revitalize rural America." Mr. McCauley's agriculture roots go back to his grandparents' farms in Muhlenberg County and in the hills of eastern Kentucky. Mr. McCauley was the managing member of JWM Consulting Service for almost six years representing the agricultural industry on issues across the nation. Mr. McCauley brings over two decades of public service to this position. He served as Director of the Division of Pesticide Regulation and as an advisor to the Commissioner in the KY Dept. of Agriculture. Mr. McCauley served in the administration of two KY Governors and on the staff of the House Majority Leader in the KY General Assembly and former U. S. Senator Walter D. Huddleston.

John W. McCauley

Guaranteed Loan Making and Servicing Loans to Poultry Producers

As we all know, the poultry industry has encountered significant economic difficulties. Notice FLP-540 was issued on June 9, 2009, to provide guidance on the analysis and evaluation of direct and guarantee loan requests and loan servicing for contract poultry growers. FSA no longer considers "flock-to-flock" type arrangements alone to be a dependable source of income or a reasonable projection of income when an applicant does not have a current financial performance history in FSA Farm Loan Programs. For income from a poultry production contract to be considered dependable, applicants not indebted for direct or guaranteed loans must have a contract for a minimum period of 3 years with an average of 5 flocks per year. The contract must also provide for termination based on objective "for cause" criteria only and require that the grower be notified of specific reasons for cancellation. Part of the reasoning behind the issuance of the revised policy on financing poultry buildings was to mitigate additional risk the agency incurs when we provide long term financing with short term contract commitments.

Did You Know? **Junior lien positions are acceptable only if the total amount of debt against the security, including the debt in the junior lien position, is less than or equal to 85% of the value of the security.** ***(2-FLP Par. 166 D)***

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From the State Executive Director's Desk . . .

It is an honor and a privilege to serve as the Kentucky FSA State Executive Director. I'm excited about the opportunity to roll up my sleeves to work with producers and agricultural leaders and lenders in Kentucky. The Farm Service Agency (FSA) has an important mission in our farming communities to provide loans, loan guarantees, and business planning to eligible farmers, ranchers, and others. There are so many issues impacting agricultural communities. Questions, concerns, and speculations about farm income and expenses are in the forefront of most farm family conversations.

Facing tough times and driving changes in agricultural credit, what does a producer want from a lender? The Farm Service Agency's Guaranteed Loan Program can be one answer for both farmers and lenders.

Participating lenders can use the Guaranteed Loan Program to strengthen a loan's viability through a guarantee of up to 95 percent of the loan amount. Lenders may also obtain liquidity by utilizing other funding sources through the secondary market. By reselling the guaranteed portions, lenders reduce interest rate exposure, increase their lending capabilities, and generate fees.

In looking at the funding reports for the 2009 fiscal year, Kentucky used more total direct and guaranteed loan funds than any year since1985. We funded 137 guaranteed Farm Ownership loans totaling over $22.5 million and 140 guaranteed Farm Operating loans totaling over $21.5 million.

As I travel the state to meet our office staffs and agricultural leaders and lenders, I want to challenge you to use the guaranteed loan program to help eligible farmers obtain much needed financing.

On November 3, 2009, USDA announced the award of more than $17 million in grants to 29 institutions to address the needs of beginning farmers and ranchers and enhance the sustainability and competitiveness of U.S. agriculture. "The training and education provided through these grants will help ensure the success of the next generation of farmers and ranchers as they work to feed people in their local communities and throughout the world," Agriculture Deputy Secretary Kathleen Merrigan said. Beginning farmers and ranchers interested in participating in any of the education, outreach, mentoring and/or internship activities are asked to contact the grantee institutions. The University of Kentucky and Kentucky State University are partnering in the program. Additional information can be found on each university website.

Advantages of Using the Secondary Market

The existence of the secondary market is a strong inducement for lenders to participate in guaranteed lending. By selling the guaranteed portion of the loan to other investors, the lender receives a number of advantages. Participation in the Farmer Mac II program affords lenders ready access to competitive funding rates that Farmer Mac obtains in the capital markets on its debt obligations. The program allows lenders to build customer relationships by offering borrowers a wide variety of competitively priced loan products. Lenders enhance their ROA through greater servicing fee income. Lenders can increase the liquidity of their guaranteed loan portfolios enabling them to re-lend to new borrowers and minimize interest rate risk while still offering borrowers intermediate and long-term fixed rate loans. Any lender, or other seller of guaranteed portions, may participate in this program and need not be a Farmer Mac stockholder. Some lenders also utilize other secondary market sources. All that is required is that the lender make USDA guaranteed loans in accordance with existing standards and procedures. More information on Farmer Mac can be found at: http://www.farmermac.com

Did You Know? When the guaranteed loan purpose is to refinance or restructure the lender's own debt, the lender may continue to use the existing debt instrument and attach an allonge that modifies the terms of the original note.
(2-FLP Par. 247 A)

Transition Rule for New Interest Assistance (IA) Agreements

As of June 8, 2007, all new Interest Assistance (IA) Agreements (FSA-2221) including those for beginning farmers, will expire no more than 5 years from the date of the first IA Agreement signed by the applicant.

The transition rules below outline the regulatory changes for new IA Agreements. *(2-FLP Par. 224 J)*

- New FSA-2221's, for applicants with an effective date on their first IA Agreement after June 8, 2004, will mature 5 years after the effective date of their first IA Agreement or the maturity date of the loan, whichever is earlier.
- New FSA-2221's, for applicants with an effective date on their first IA Agreement between June 8, 1999, and June 8, 2004, will mature on June 8, 2009, or the maturity date of the loan, whichever is earlier.
- New FSA-2221's, for borrowers with an effective date on their first IA Agreement between June 8, 1997, and June 8, 1999, will mature 10 years from the effective date of their first IA Agreement.
- Borrowers with an effective date on their first IA Agreement before June 8, 1997, are not eligible for IA.

Did You Know? **A borrower may only receive IA if their total debts (including personal debts) prior to the new loan exceed 50% of their total assets (including personal assets).** ***(2-FLP Par. 224 D)***

Example: *You have an OL application with interest assistance. The applicant had his first IA Agreement with an effective date of March 26, 2003. The OL was paid in full in 2005. The applicant has no active guaranteed loans at this time. Even though the applicant only used 2 years of interest assistance, the period of interest assistance was still in effect for the full term. The transition rule will apply and the IA Agreement matured on June 8, 2009, as the first IA Agreement was between the dates of June 8, 1999 and June 8, 2004.*

Annual Adjustment to Statutory Loan Limits

In accordance with Handbook 1-FLP, the dollar limits of guaranteed loans are increased each fiscal year based on the percentage change in the Prices Paid by Farmers Index as compiled by the National Agricultural Statistics Service, USDA. The maximum guaranteed loan limits for the 2010 fiscal year have been increased to $1,112,000.

Did You Know? **The lender will discontinue interest accrual on the defaulted loan at the time the estimated loss claim is paid by the Agency. The Agency will not pay interest beyond 210 days from the payment due date.** ***(2-FLP Par. 359 A)***

The Agency will not guarantee any loan that would result in the applicant's total indebtedness exceeding the limits established in 1-FLP, paragraph 29.

- The maximum Farm Ownership and/or Farm Operating 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 maximum amount of the Line of Credit (LOC) ceiling will be considered the outstanding principal balance.
- The total combined outstanding direct and guaranteed FO, SW, and OL balance cannot exceed $1,412,000.
- The total combined outstanding direct and guaranteed FO, SW, OL, and EM balance cannot exceed $1,912,000.

Did You Know? **An emergency advance shall not be used if its use will cause the total amount of the borrower's debt to exceed the statutory limit.** ***(2-FLP Par. 283 A)***

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Guaranteed Loan System (GLS) Updates

The Guaranteed Loan System (GLS) was updated on September 23, 2009, to allow lenders to submit guaranteed loan closing fees electronically, either as part of the loan closing in USDA LINC or with the loan closing forms submitted to FSA for processing. Since this process can enable a lender to submit loan closing information and the fee electronically, the lender may submit any documentation required on the Conditional Commitment electronically. Lender's established on the (AASM) system have the capability of entering the Electronic Fund Transfer (EFT) information (routing and account numbers) via the Automated Clearing House (ACH) using Treasury's Pay.Gov interface to pay the guaranteed fee when processing a loan closing in GLS or on USDA LINC. This will eliminate the need for lenders to send checks to the Wholesale Lockbox via the field offices.

If the lender chooses to submit documentation electronically, the lender **must** maintain copies of the borrower's original signatures in their files..

A PowerPoint Training Presentation for lenders has been posted at:

www.fsa.usda.gov/Internet/FSA_File/e_submission_of_guar_fees.ppt

Did You Know? Advantages of eAuthentication for guaranteed lenders:

- Faster Service—Documents and forms are submitted in real-time
- Access to FSA's Paperless System
- Electronically Sign Documents
- Flexibility—No software to buy
- Secure and Private

Kentucky's TOP 10 Guaranteed Loan Making Offices for FY 2009

1. Mayfield - 47 loans $12,715,780
2. Springfield - 41 loans $6,488,751
3. Stanford - 29 loans $3,710,265
4. Russellville - 21 loans $6,414,150
5. Hopkinsville - 18 loans $5,541,177
6. Columbia - 17 loans $3,154,093
7. Hardinsburg - 16 loans $4,495,198
8. Shelbyville - 15 loans $3,776,428
9. Glasgow - 14 loans $4,333,271
10. Cynthiana - 12 loans $1,191,642

Save the Date Notice: Annual Guaranteed Lender Meetings in April 2010.

Kentucky Guaranteed Lender News is published by the Kentucky Farm Service Agency State Office, Farm Loan Program Division, 771 Corporate Drive, Ste. 100, Lexington KY 40503-5478. Telephone (859) 224-7333, Fax (859) 224-7432.

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