USDA

Farm Service Agency

December 2006

Kentucky FSA Guaranteed Lender News

FSA IS LOOKING FOR A "FEW GOOD PARTNERS"

We continue to hear how difficult it is to get into farming due to the high capital requirements, lack of down-payments, interest costs, etc. There are some great opportunities for private agricultural lenders and FSA to partner in providing a low "blended" interest rate and extended loan term to allow more people to begin their farming operation. This can be of particular help in the transfer of ownership within a family.

In addition to our guaranteed loan program, FSA offers a Joint Financing loan within our direct Farm Ownership (FO) loan program. If the loan applicant obtains 50% or more of the total funds needed from a private lender, the interest rate for the direct FO loan is currently a fixed rate of 5% and the term may be as long as 40 years. The private lender's loan may be guaranteed by FSA or it may be a non-guaranteed loan. The private lender will hold the first lien position of the property. The loan has to involve a farmland purchase and may not be used to refinance the applicant's existing debt. Designated loan funds are also available for both socially disadvantaged (ethnic minorities or females) and beginning farmers.

Obviously, having up to one-half the farmland purchase price set up in a 40 year loan with a fixed interest rate of 5% is a tremendous advantage to the borrower. It also creates a great situation for the private lender, as it holds a first lien position on the farm and the borrower's cash flow position is enhanced by the low fixed rate on the FSA direct loan.

A great example of how this partnership can work in helping a young person get their operation started is described in "Farmers of the Future" on page three of this newsletter.

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

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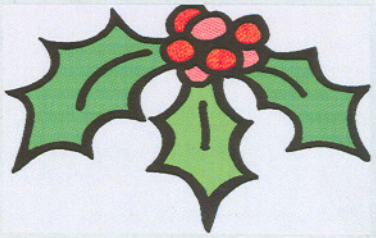
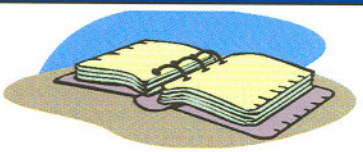




FSA LENDER FILE REVIEW REMINDER

According to FSA Handbook 2-FLP, "Guaranteed Loan Making and Servicing", Paragraph 267, lender files are performed to protect the guarantee, preserve lender status, minimize losses and the need for adjustments to loss claims.

The reviews of lender loan files are based on the terms and conditions specified in FSA 1980-38, "Lender's Agreement". PLP loan file reviews are also subject to the terms and conditions of their Credit Management System (CMS), in addition to the FSA 1980-38, "Lender's Agreement".

Lenders are encouraged to continually be proactive in resolving guaranteed loan servicing deficiencies to eliminate a possible loan loss or loss claim reduction or denial.

ENVIRONMENTAL REVIEWS INVOLVING EXISTING LIVESTOCK CONFINEMENT OPERATIONS

We spoke to the FSA National Office after having some questions about existing confinement livestock operations and the required environmental review. They have told us that if we are dealing solely with existing buildings we will only be required to complete a Class I review regardless of the number of animal units involved in the operation or vicinity. Even though there is no new construction, we have to address other impacts such as fish and wildlife. There would be no public notice requirement.

If the applicant is adding additional new buildings to his/her operation, we will consider the cumulative impact of all livestock numbers in the area in determining whether to complete a Class I, Class II, or Environmental Impact Statement (EIS). This means if they have four houses and are adding two more, we will need to do a Class II assessment. We will also consider the other poultry/swine houses in the immediate vicinity.

Jeffery S. Hall
State Executive Director

State Executive Director Comments

Discussions are under way on the new Farm Bill. The public, as well as representatives of the various lending organizations, provided many insightful comments during Secretary of Agriculture Johanns' Farm Bill forums. From the lending point of view, many felt our loan programs needed some changes to stay abreast with today's market needs. Specifically, they felt more emphasis should be given toward assistance to beginning farmers, removing OL term limits and increasing our monetary lending limits per borrower. We anticipate these issues will be addressed in discussions between the Administration and Congress.

I encourage you to take advantage of the programs offered by FSA. As always, we solicit your comments as to how we may improve our service to Kentucky farmers and to you, our partners.

NEW GUARANTEE LOAN LIMITS

The total limit for OL and FO guarantees was raised to $899,000 on September 15, 2006. Please keep this in mind when working with potential guaranteed loan customers.

FARMERS OF THE FUTURE

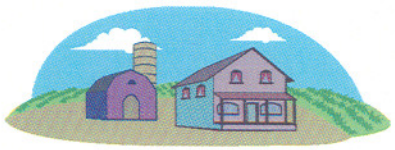
Josh Luttrell is the oldest son of Debbie and Darren Luttrell. He was born on January 7, 1987, and graduated from Ohio County High School in 2005. His parents are fulltime grain and cattle farmers in Olaton, Kentucky (Ohio County). His parents devote much of their time to raising corn, soybeans and wheat on 3500 acres.

Even though he enjoyed the long hours spent with his parents in their grain operation, his main interest was raising cattle. His goal was to operate his own cattle farm some day. In 2004, he began working toward that goal. With a FSA loan from the Daviess County office and the savings he had accumulated from working on the farm, he purchased 22 head of cattle. To help him to get started, his parents provided land for pasture and the use of the farm buildings that were needed for the cattle.

In 2006, a 184-acre pasture farm came available near his parent's operation. For financing, he approached FSA and Farm Credit Services (FCS), who he knew of through his parents and FSA. With cooperation between these lenders, FCS provided 50% of the financing with a first mortgage for 20 years and FSA provided 50% with a second mortgage at 5% for 40 years. The combination of loan terms of FCS and FSA made it possible for Josh to cash flow his operation.

Since purchasing the farm this summer, he has been busy renovating his pastures, fencing and cross-fencing his farm so he can utilize rotational grazing. He is now in the process of putting an office in one of the buildings so he can have a place to maintain his farm records. He feels good records are a must if your operation is to succeed and produce a profit.

Josh manages his cattle operation plus working fulltime for his father in his grain operation.



Josh states that his grandad influenced him the most in his decision to raise corn and cattle. "He would say that when I was younger I stayed by his side as often as I could, watching and learning. Now that I'm older and have learned more about farming, I still look up to him and always will. I am the third generation of farmers on the Cedar Grove Farm and the fourth generation of Luttrell farmers. Grandad received a loan from FmHA (FSA) to purchase the Cedar Grove Farm. I think it was for $70,000 when he was a little older than me."

Josh has goals set for his operation. Within 10 years he hopes to have 200 brood cows, in 20 years to have everything paid for and invest in more land and someday to operate a 1,000 head cow/calf operation. He states that the joint financing program has meant the difference in him being able to get his cattle business up and going 10 years sooner than he could have accomplished otherwise.

LENDER MEETINGS

We will hold our lender meetings in March per the following schedule:

March 13th - Elizabethtown
Nolic RECC, 411 Ring Road (map attached)

March 14th - Mayfield
Graves Co. Public Library, North 17th St.
(off Highway 121)

March 15th - Bowling Green
Warren Co. Extension Office, 3132 Nashville Rd.

March 20th - Winchester
Clark Co. Extension Office, 1400 Fortune Drive. Take exit 96 off I-64, go North on 627. Turn left onto Fortune Drive, within sight of the exit.

March 22 - Russell Springs
Lake Cumberland Area Development District, Highway 80

Guaranteed issues, along with the Farm Bill, will be discussed. Preferred and Certified lenders are required to attend and all agricultural lenders are encouraged to participate in the meetings. The meetings will run from 9:30 a.m. to 12:00 p.m., local time.

LENDER LIQUIDATION PLAN

Once the decision has been made to liquidate an FSA guaranteed loan account, the lender must submit a liquidation plan to the appropriate FSA farm loan team within 30 days. In many cases, this will be with the borrower's cooperation and can be very concise. The plan must be in writing and must include the following:

- A current financial statement from all liable parties, a copy of the bankruptcy schedules or the bankruptcy discharge. In a case where the borrower is uncooperative, you should complete a lien search and obtain a credit report, along with any other financial information available.

- A proposed method of maximizing collection of the debt, including pursuit of a personal judgment and/or garnishment of wages. We only want to pursue these avenues when there is a real likelihood of additional collections.

- A proposal as to the pursuit of legal action concerning the conversion of guaranteed loan security, if this is applicable. Again, if there are no means to retrieve security proceeds from sources other than the borrower and he has no means to make restitution, we may agree to drop the matter. We need specific details of this issue on a case-by-case basis.

- Any proposal to release an obligated party of liability must be addressed according to 2-FLP, Paragraph 361. Again, this must have the concurrence of the FSA State Executive Director. This has occasionally come up when the borrower proposes a workout agreement in lieu of foreclosure. Such a release is not probable on loans made after July 20, 2001, as these loans will be subject to U.S. Treasury offset of future federal benefits if there is a loss to the government. Releases on these accounts must be approved by the FSA National Office.

An independent appraisal must be provided on all FSA guaranteed loan security, along with a calculation of the security's net recovery value per 2-FLP, Exhibit 10. The appraisal may be waived if the bankruptcy trustee is handling the liquidation and we are utilizing the court-approved values. We may also waive a chattel appraisal if the lender's normal method of liquidation rarely results in receipt of less than market value for livestock and equipment. Finally, the appraisal is not required if we know the debt is being paid in full and no release is made until there is verification of the final payment.

- An estimate of the time necessary to complete the liquidation.
- An estimated loss claim if the liquidation is expected to exceed 90 days. Some cases will not show losses due to the loan's security value.
- An estimate of any protective advances that may be necessary to either allow liqiuidation or protect the lender's interest until completion of liquidation.

These issues, as applicable, need to be addressed in as short a form as possible so that we may either concur or advise of problems with the plan. PLP lenders must abide by their Credit Management System.

Kentucky Guaranteed Lender News
is published by:
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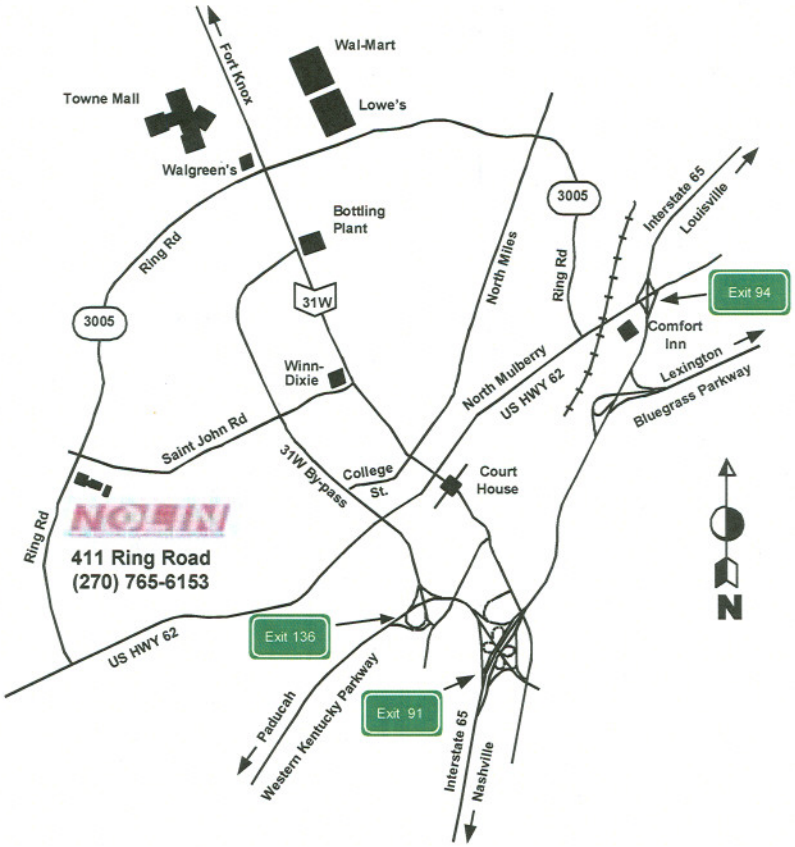

FROM LOUISVILLE, KY

Take I-65 South to Exit 94 (this is the first Elizabethtown exit)

Turn right onto Hwy. 62

Go one-half mile to the 3rd light and turn right onto Ring Road (HWY 3005). Ring Road runs between PNC Bank and Walgreen's.

Continue on Ring Road until you go through the 9th light and Nolin RECC is the first building on the left.

FROM BOWLING GREEN, KY

Take I-65 North to Exit 91 to Fort Knox / Western Kentucky Parkway

Get onto Wendell H. Ford Highway (previously Western Kentucky Parkway) and take Exit 136 to Fort Knox / 31-W by-pass

Go to second light & take a left onto St. John Road (HWY 1357)

Go to first light and take a left onto Ring Road (HWY 3005)

Nolin RECC is the first building on the left

FROM LEXINGTON, KY

Take Bluegrass Parkway West (will end at I-65)

Take I-65 North to Exit 94

Turn left onto Hwy. 62

Go one-half mile to the 3rd light and turn right onto Ring Road (HWY 3005). Ring Road runs between PNC Bank and Walgreen's.

Continue on Ring Road until you go through the 9th light and Nolin RECC is the first building on the left.

FROM WESTERN PART OF KY

Take Wendell H. Ford Highway (previously Western Kentucky Parkway) East to Elizabethtown

Take Exit 136 and turn left onto 31-W by-pass

Go to second light & take a left onto St. John Road (HWY 1357)

Go to first light and take a left on to Ring Road (HWY 3005)

Nolin RECC is the first building on the left