KENTUCKY USDA FARM SERVICE AGENCY

Guaranteed Lender News

A Successful Lending Partnership

July 2010

Bruce and Charissa Wade

The **Bruce Wade** family of Mercer County, KY is prime example of how a conventional lender and State and Federal agencies can work together to assist young farmers in their credit needs.

Inside this issue:

Both Bruce and Charissa Wade were born on farms in Mercer County and are graduates of the University of Kentucky and Lexington Community College. They have two daughters, Alexa and Mia. The Wades purchased a small farm tract in 2001 and have now increased their owned farmland to 183 acres. Bruce farms leased land in the area with a total operation of approximately 1500 acres. Tobacco continues to be an important part of the Wades' operation and this acreage has increased to 90 acres since the implementation of the quota buyout. They now have a 75 head cow-calf operation and Bruce backgrounds 600-800 calves over the course of a year. He also has 500 acres in his grain operation, consisting of corn, soybeans and wheat.

Young people, like the Wades, from the best of families, who possess a great work ethic and a good farm background can still have difficulty in obtaining needed credit at rates and terms they can meet. Today's agriculture requires extensive capital investment, be it in land, equipment, livestock, operating input costs, etc. Many times the young person or family simply will fail to meet the equity requirements of a conventional lender when they are first beginning their operation.

In the case of the Wades, Central Kentucky ACA was able to work with the Kentucky Agricultural Finance Corporation (KAFC) and FSA to meet their farm credit needs. To accomplish this, low interest rate KAFC loan funds for a portion of their credit needs, along with FSA loan guarantees, were utilized to structure the debt to where it could be repaid within a realistic time period.

The Wades believe that there is a future in farming and are a great example of a younger couple who are doing well in a way of life that is fast becoming more difficult for young people to enter as a career. In addition to the capital needs mentioned earlier, farmers must deal with the uncertainties of the weather, changing interest rates, rising input costs, fluctuation in commodity prices, etc., in addition to the actual production of agricultural products. FSA is ready and available, through both its direct and guaranteed loan programs, to assist beginning and existing farmers in this effort.

Did You Know? Guaranteed term OL funds may be used for limited real estate improvements, so long as the loan can be repaid within 7 years. These improvements can take the form of fixtures to existing farm buildings or new building construction. *2-FLP Par. 122 (C)*

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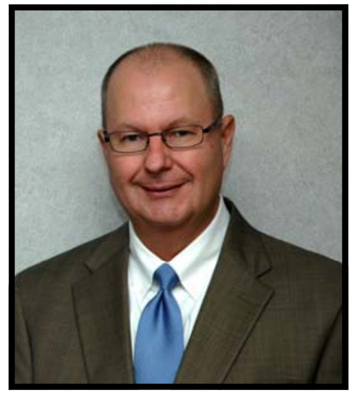
From the State Executive Director's Desk . . .

We had a total of 107 lenders who attended one of the five guaranteed lender training meetings held across the state in April. Feedback was good from lenders and FSA staff on the "Back to Basics" focus this year. The staff of the Kentucky Agricultural Finance Corporation did an excellent job explaining and emphasizing the benefits of the partnership between their agency, conventional lenders and FSA working together to assist Kentucky farmers with their credit needs. Being relatively new to FSA, it did not take me long to realize that the farm loan program staff in our 18 offices in Kentucky work hard to provide eligible farmers with the direct and guaranteed loans they need for their farming operations. However, the Farm Service Agency could not deliver the financial services needed without the partnership we have with other agricultural lenders and agencies. As we work hand-in-hand with our lenders, local, state, and other federal agencies, the Farm Service Agency is able to provide the best possible delivery of our loan programs to KY agricultural producers.



John W. McCauley

Did You Know? Kentucky Amendment 1 to Handbook 2-FLP states that the Farm Loan Manager is required to review a minimum of 20 percent of each Certified (CLP) and Preferred (PLP) lender's guaranteed loan files and 40 percent of each Standard Eligible lender's files each year. The National Office handles reviews for some PLP lenders.

Congratulations! The Kentucky Dam Village State Park guaranteed lender meeting had a total of 38 lenders and has shown a steady increase in lender attendance since 2007.

Guarantee Fees

The guarantee fee of 1 percent is charged on all loans except for the following guaranteed loan transactions:

- Loans involving interest assistance
- Loans were a majority of the funds are used to refinance a Farm Service Agency direct loan
- Loans to farmers involved in the direct downpayment program
- Loans made under a State beginning farmer program where a memorandum of understanding between the State and USDA has been signed.

Note: Only applicants who meet the requirements of the beginning or socially disadvantaged farmer, and are participating in the direct downpayment loan program under handbook 3-FLP, Part 7, Section 2, will qualify for a waiver of the fee.

Change in Loan Amount

There are times when a lender submits a guaranteed application request that the loan amount changes after the guaranteed is approved. It is important that the lender notify the farm loan program staff as soon as they realize there will be a change in the loan amount. If the loan amount increases, the Farm Service Agency will have to obligate the additional funds. Funding of the additional funds may be affected by the availability of funds at the time. On the other hand, if the loan amount decreases, the Farm Service Agency will have to de-obligate a portion of the loan.

Beginning Farmers and Ranchers

Each year Congress targets a percentage of farm ownership and farm operating loan funds to Beginning Farmers. There still seems to be some confusion in determining whether the applicant meets the definition of a Beginning Farmer. The 2-FLP Guaranteed Handbook Exhibit 2 defines a Beginning Farmer as an individual or entity who must meet the loan eligibility requirements for a direct or guaranteed farm operating or farm ownership loan, as applicable. The individual or entity must not have operated a farm for more than 10 years. This requirement applies to all members of an entity. A good reference to use in determining the number of years farming is to check the income tax returns for the first reported farm income to IRS, whether as an individual or entity member. *(2-FLP Par. 224 (I))*

Individuals must materially and substantially participate in the operation of the farm and provide substantial day-to-day labor and management of the farm, consistent with the practices in the county or State where the farm is located.

In the case of a loan made to an entity, all members must materially and substantially participate in the operation of the farm. Material and substantial participation requires that the member provide some amount of the management, or labor and management necessary for day-to-day activities, such that if the individual did not provide these inputs, operation of the farm would be seriously impaired.

Except for an OL applicant, the applicant does not own real farm property or who, directly or through interests in family farm entities owns real farm property, the aggregate acreage of which does not exceed 30 percent of the median acreage of the farms in the county where the property is located. If the farm is located in more than one county, the median farm acreage of the county where the applicant's residence is located will be used in the calculation. If the applicant's residence is not located on the farm or if the applicant is an entity, the median farm acreage of the county where the major portion of the farm is located will be used.

The median county farm acreage is determined from the most recent Census of Agriculture. A chart of the median county farm acreage for Kentucky counties based on the 2007 Census of Agriculture was attached to the March 2009 Guaranteed Newsletter.

The applicant must demonstrate that the available resources of applicant and spouse (if any) are not sufficient to enable the applicant to enter or continue farming on a viable scale. In the case of an entity applicant, all the entity members must be related by blood or marriage and be beginning farmers.

Did You Know? Beginning farmers, as defined in Exhibit 2, may be considered for two 5-year periods of Interest Assistance in accordance with requirements outlined in 2-FLP Par. 224 (I).

Did You Know? Under no circumstances can carry-over operating debts from a previous operating cycle be refinanced with guaranteed operating line of credit funds. *2-FLP Par. 122 (F)*

Make a Note...

The 2008 Farm Bill suspended the enforcement of the 15-Year OL time limit until December 31, 2010. We will keep you informed of updates regarding this suspension. 2-FLP Par. 108 (L)

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Future Recovery

The application of the guaranteed final loss claim payment to the account does not automatically release the borrower of liability for any portion of the borrower's debt to the lender. The lender will continue to be responsible for collecting the full amount of the debt and sharing future recoveries with the Agency in proportion to the percentage of guarantee until the account is paid in full or otherwise satisfied. Lenders receiving a loss payment because of liquidation in the past 3 years, must complete and forward the Agency a report on its collection activities for each unsatisfied account on Form FSA-2261 "Report on Collection Activities on Liquidation Accounts" by November 30. The Farm Service Agency will send this form to you.

There have been no amendments to Handbook 2-FLP since 9/23/09.

Appeal Rights *Par. 33 (A)*

7 CFR Part 11 stipulates that an adverse guaranteed loan approval or loan servicing decision directly affects the applicant/borrower and grants appeal rights to the applicant/borrower. The lender is defined as "an interested party", without appeal rights.

Because an adverse decision of a liquidation plan, interest assistance claim, or loss claim directly affect the lender, the lender will be provided with appeal rights when making an adverse decision in these situations.

A decision made by the lender adverse to the borrower is not a decision by the Agency, whether or not concurred in by the Agency, and may not be appealed.

As of 5/28/10, Kentucky had a guaranteed borrower caseload of 843 and a total guaranteed loan number of 1,369. Comparing our guaranteed caseload with the seven states bordering Kentucky, we rank 5th behind Ohio with 2,219 borrowers and 3,746 loans, Illinois with 1,702 borrowers and 2,410 loans, Missouri with 1,231 borrowers and 2,054 loans, and Indiana with 1,006 borrowers and 1,635 loans. The other three of our bordering states rank behind us in guaranteed borrower caseload and guaranteed loan numbers, Tennessee, Virginia and West Virginia.

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As of 6/30/10, Kentucky Farm Loan Program offices have an average Guaranteed Loan Processing Time of 4.31 days.