

Nebraska Lender Processing Checklist

SEL AND CLP REQUIRED DOCUMENTATION FOR A COMPLETE FSA GUARANTEED LOAN REQUEST

In addition to the items submitted to FSA, lenders are expected to maintain in their files all applicable items that do not need to be submitted. Lenders certify that they have the required documentation in their files by signing FSA-2211.

✓	Submission Requirement	For Loans \$125,000 or Less 1/		For Loans Greater than \$125,000	
		SEL	CLP Lender	SEL	CLP Lender
	Application Form FSA - 2211	✓	✓	✓	✓
	Narrative	✓ 2/	✓ 2/	✓ 2/	✓ 2/
	Current Balance Sheet	✓	✓	✓	✓
	Cash Flow Budget	✓ 3/	✓ 3/	✓ 3/	✓ 3/
	Location Description of Farmed Land (owned - rented - rent shares)	✓ 4/	✓ 4/	✓ 4/	✓ 4/
	Entity Information (if applic.)	✓ 5/	✓ 5/	✓ 5/	✓ 5/
	Credit Report	✓	LF	✓	LF
	Lender's Servicing Plan (may be incl. with loan narrative)	✓	LF	✓	LF
	Proposed Loan Agreement			✓ 6/	LF
	Verification of Debts Over \$1,000	7/	7/	✓	LF
	Verification of Nonfarm Income			✓	LF
	3 Years of Production History			✓	8/
	3 Years of Financial History			✓	LF
	Construction Documents (if applicable)			✓	LF
	Environmental and National Historic Preservation	✓ 9/	LF 9/	✓ 9/	LF 9/
	Appraisals	✓ 10/	LF 10/	✓ 10/	LF 10/
	Form AD-1026 (Conservation)	<u>11/</u>	<u>11/</u>	<u>11/</u>	<u>11/</u>
	If Interest Assistance Request A - Proposed Debt Repayment Schedule	✓	✓	✓	✓

Note: Items marked with an "LF" are items that do not have to be submitted, but must be maintained in the lender's file. Please refer to the attachment for an explanation of items 1 through 11.

Explanation of items 1 through 11 concerning the complete SEL or CLP application.

In addition to the minimum requirements, the lender will perform at least the same level of evaluation and documentation for a guaranteed loan that the lender typically performs for non-guaranteed loans of a similar type and amount.

The Agency may require lenders with a lender loss rate in excess of the rate for CLP lenders to assemble additional documentation from paragraph 67.

On an individual lender basis, FSA may request additional information to make eligibility and approval decisions. (Paragraph 66A)

Copies of leases and contracts will no longer be required although the lender will be responsible for insuring the loan applicant has leases as represented in the cash flow budget and no provisions which will harm the collectability of the loan.

1/ A loan will be considered \$125,000 or less if each loan type being requested is \$125,000 or less. Such as a request for an operating loan of \$125,000 and a farm ownership of \$125,000 for a total of \$250,000 will be considered under \$125,000. A request for an operating term loan of \$100,000 on machinery and a Line of Credit operating loan of \$40,000 for a total of \$140,000 will be considered over \$125,000 because they are the same loan type.

2/ (Paragraph 66C) The application package must include a narrative description of the lender's underwriting of the loan. The narrative must contain information and analysis of any loan application data that are out of the ordinary, or at variance with normal practices for the type of operation and region. The narrative must be an evaluation and not just a summary of the data. It may be less detailed for a present customer who already has a guaranteed loan or an FSA direct loan.

The narrative should address the following, as applicable:

- The name, Social Security number, and current address of any co-borrowers or co-signers required to execute the note at loan closing.
- describe the farming operation, such as types of enterprises, key personnel and management structure, their roles and background, proposed changes to the operation and adequacy of real estate, equipment, and other facilities
- an assessment of the adequacy of the collateral being offered to secure the proposed loan
- the sources used by the lender for commodity price forecasts must be stated (SEL only)
- provide an explanation of any deviations from historical production
- a discussion of the loan applicant's financial condition and projected repayment ability

NOTE: The lender should discuss any significant assumptions of deviations from historical performance in the proposed cash flow budget.

- the short-term and long-term business goals of the operation

- the borrower's reporting requirements, limitations, and other conditions based on the lender's analysis of the proposal
- lender servicing plan describing the borrower's financial reporting requirements, limitations and conditions, plans for visiting the borrower, and any other borrower supervision (SEL only)
- if the loan contains balloon payments, the conditions related to the renewal of loan
- a discussion of how the loan applicant meets the loan eligibility requirements
- proposed loan agreements, any proposed nontypical agreement between the lender and loan applicant must be explained. (This item only applies on loans over \$125,000.) (Paragraph 67F)
- conflict of interest
When a lender submits the application for a guaranteed loan, the lender will inform the Agency in writing of any relationship which may cause an actual or potential conflict of interest. (Paragraph 32A)

Relationships include:

- the lender or its officers, directors, principal stockholders (except stockholders in a Farm Credit System institution that have stock requirements to obtain a loan), or other principal owners having a financial interest (other than lending relationships in the normal course of business) in the loan applicant or borrower
- the loan applicant or borrower, a relative of the loan applicant or borrower, anyone residing in the household of the loan applicant or borrower, any officer, director, stockholder or other owner of the loan applicant or borrower holds any stock or other evidence of ownership in the lender
- the loan applicant or borrower, a relative of the loan applicant or borrower, or anyone residing in the household of the loan applicant or borrower is an Agency employee
- the officers, directors, principal stockholders (except stockholders in a Farm Credit System institution that have stock requirements to obtain a loan) or other principal owners of the lender have substantial business dealings other than in the normal course of business) with the loan applicant or borrower
- the lender or its officers, directors, principal stockholders, or other principal owners have substantial business dealings with an Agency employee.

The lender must furnish additional information to the Agency upon request.

The Agency will not approve the application until the lender develops acceptable safeguards to control any actual or potential conflicts of interest.

- when guaranteed loan funds will be used for refinancing

The lender must indicate what the loan applicant will do differently to ensure the success of the farming operation. The lender must explore different financial options that would allow the loan applicant to achieve a positive cash flow. The lender should consider adjusting the loan terms or negotiating with other creditors to adjust their loan terms or rates as needed to make the loan feasible.

3/ The cash flow must break down the debts to be paid in a table itemizing each creditors payment. On requests over \$125,000 the cash flow budget must include any work sheets that were utilized in developing the cash flow.

5/ (Paragraph 66I)

Entity information. For entity loan applicants, include all members:

- ___ Names
- ___ Addresses
- ___ Social Security Number
- ___ Percentage of ownership of entity
- ___ Personal Balance Sheet (not over 90 days old at the time of filing the application) for each member

(Articles of incorporation and partnership agreements are not required although the lender is responsible for insuring the entity has authority to operate in the state and has the authority to borrower.)

6/ (Paragraph 68A)

Proposed loan agreements - any proposed nontypical agreements between the lender and the borrower should be explained in the loan narrative. (This item only applies to requests over \$125,000.)

7/ Any debt over \$1,000 that will be a prior lien on the pledged collateral must be verified in writing to protect the lender. (SEL - must submit a copy to FSA. CLP - must have a copy in the lender file.)

8/ Paragraph 153A indicates that the CLP lenders are not required to estimate production yields; however, paragraph 153B (last sentence) requires the CLP lender to provide an explanation in the loan narrative of any yield deviation from historical production. Therefore, it is recommended the CLP lender should obtain the production history so a comparison can be made. The production history does not have to be submitted to FSA.

9/ (Paragraph 208 and 209)

All lenders must insure that the guaranteed loan is in compliance with environmental requirements including hazardous substances, wetland, HEL, flood plains, water quality standards and National Historic Preservation Act. All SEL and CLP lenders will complete part F of Form FSA - 2211 (Application for Guarantee) by stating yes or no to each question.

In addition to the questions on the application and **on all loans that require real estate to be taken as primary security (FO or OL loans)**, all lenders must complete the Form FSA 851 "Environmental Risk Survey Form" or similar documentation. CLP will retain this document in their file and SEL lenders will submit the document to FSA with the loan application. The loan application will not be considered complete until this documentation has been completed.

Confinement livestock operations may require a special use permit from the Nebraska Department of Environmental Quality.

10/ (Paragraphs 181, 182, and 183)

Current appraisals (not over 12 months) are required by SEL and CLP lender except for:

- additional security
- loans of \$50,000 or less if a strong equity position exists.

A strong equity position is defined as a loan to value ratio of 60% on chattels and 70% on real estate or less. The loan to value is calculated by dividing the requested loan amount plus any prior lien amounts by the estimated value of the collateral being pledged for the loan.

If an appraisal is not required, the lender must provide a current estimate of value which will include the legal description of the property and/or a list describing the chattel property being offered for security.

Uniform Standards of Professional Practices (USPAP) continues to put emphasis on the term “Scope of Work Rule”. The “Scope of the Work Rule” requires the appraiser and the client to communicate and agree what is needed to produce a credible report. The emphasis on the “Scope of the Work Rule” makes it even more important for the lenders/client to provide complete information in the engagement letter to the appraiser. In addition to the general information such as applicants name, legal description, etc., the lender will need to provide information such as, but not limited to, identifying irrigation equipment or other personal assets that should be included in the appraised value, describe specific improvement plans and provide cost estimates for all planned development, identify limitations on the title of the real estate such as life estates, leases, easements, CRP contracts, boundary disputes, etc. Ultimately the lenders need to work closely with appraisers and FLM’s to obtain an acceptable appraisal. Appraisals must be submitted in a self-contained or summary format. Restricted reports are not acceptable.

As of January 1, 2008, all Real Estate Appraisals must be completed by only Certified General Appraisers. Several changes in the Nebraska statutes have occurred as a result of LB 186 passed by the Nebraska Legislature in 2007. The major change that affects Farm Service Agency is that after January 1st, 2008, only Certified General Appraisers will be able to legally appraise properties more complex than one to four residential units. Registered, Licensed and Certified Residential appraisers will not be allowed to appraise commercial or agricultural property. In the past, Nebraska law did not limit the scope of practice of any of the license categories. This is no longer the case and Registered, Licensed and Certified Residential appraisers will not be legally able to appraise farm property, no matter how small the transaction. This requirement only applies to FSA guaranteed & direct loan programs.

It is recommended that the lender as a normal course of business contact the FLM prior to ordering a chattel or real estate appraisal to review the appraiser’s qualifications.

When an appraisal is necessary, the SEL or CLP lender is not required to complete the appraisal before loan approval. The conditional commitment will be issued subject to an appraisal being completed in an amount adequate to secure the loan. The CLP lender must maintain the appraisal in the bank file but is not required to send the appraisal to FSA. The SEL lender must submit the appraisal to FSA and receive FSA acceptance prior to the SEL lender closing the loan.

- 11/ Borrowers are required to have AD-1026 on file with FSA. Lenders should remind borrowers that AD-1026 must be submitted to FSA if it is not already on file but the lender does not have to submit a copy of the Form AD-1026 or have one on file at the bank. FSA will determine if a current AD-1026 is on file when the application is filed.

PLP required documentation for a complete FSA guaranteed loan request

- Form FSA - 2212 "PLP application."
- Loan Narrative discussing the "5 C's" of credit and applicable items from 2-FLP handbook Paragraph 70A & 70B.
- Description of the location of all farmland (may be included in the loan narrative).
- When the applicant is an entity, the names, social security numbers and percent ownership for each entity member must be provided.
- When interest assistance is requested, additional information is required.
 1. Part G of Form FSA - 2211, SEL/CLP Application of Guarantee
 2. Cash Flow
 3. Current balance sheet (include entity members if an entity)
- Any other items agreed to during the approval of the PLP's lender status and included in the PLP lender agreement and attached credit management system (CMS).

PLP lenders must certify that the required items, not submitted, are in their files. On a case-by-case basis, the Agency may request additional information from any lender or review the lender's files as needed to make eligibility and approval decisions. These requests shall be made only in situations when, because of the unique characteristics of the loan request, an eligibility or approval decision cannot be made without additional information.

1/ (Paragraph 70B)

The application package must include a narrative description of the lender's underwriting of the loan. The narrative must contain information and analysis of any loan application data that are out of the ordinary, or at variance with normal practices for type of operation and region. The narrative must be an evaluation and not just a summary of the data. Since the authorized agency official will rely on the narrative and application form for making the loan approval decision, it is important that the narrative covers any issues or questions that may arise during the evaluation process. It may be less detailed for a present customer who already has a guaranteed loan or an FSA direct loan.

The narrative should address the following, as applicable:

- describe the farming operation, such as types of enterprises, key personnel and management structure, their roles and background, proposed changes to the operation and adequacy of real estate, equipment, and other facilities
- an assessment of the adequacy of the collateral being offered to secure the proposed loan
- a discussion of the loan applicant's financial condition and projected repayment ability

Note: The lender should discuss any significant assumptions of deviations from historical performance in the proposed cash flow budget.

- the short-term and long-term business goals of the operation
- the borrower's reporting requirements, limitations, and other conditions based on the lender's analysis of the proposal
- lender servicing plan describing the borrower's financial reporting requirements, limitations and conditions, plans for visiting the borrower, and any other borrower supervision

- if the loan contains balloon payments, the conditions related to the renewal of loan
- a discussion of how the loan applicant meets the loan eligibility requirements.
- proposed loan agreements, any proposed nontypical agreement between the lender and loan applicant must be explained. (Paragraph 68A)
- conflict of interest

When a lender submits the application for a guaranteed loan, the lender will inform the Agency in writing of any relationship which may cause an actual or potential conflict of interest. (Paragraph 32A)

- Character
- Capacity
- Capital
- Conditions
- Collateral

2/ (Paragraph 208 and 209)

All lenders must insure that the guaranteed loan is in compliance with environmental requirements including hazardous substances, wetland, HEL, flood plains, water quality standards and National Historic Preservation Act. PLP lenders will complete part E of Form FSA - 2212 (Preferred Lender Application for Guarantee) by stating yes or no to each question.

In addition to the questions on the application and on all loans that require real estate to be taken as primary security (FO or OL loans) the PLP lender must complete Form FSA 851 "Environmental Risk Survey Form" or similar documentation. The PLP lender will retain this document in their file. The loan application will not be considered complete until this documentation has been completed and the 14 calendar day time frame will not start.

Confinement livestock operations may require a special use permit from the Department of Environmental Quality.