



United States Department of Agriculture  
Farm Service Agency

**Kentucky  
Guaranteed Lender News**

**January 2018**

*Message from the State Executive Director*

**Greetings and Happy New Year from the Kentucky Farm Service Agency**



**Brian Lacefield**  
**State Executive Director**

On October 11<sup>th</sup>, 2017, I was humbly appointed as the State Executive Director for the Farm Service Agency of Kentucky by President Trump. It is an honor for me to serve in this position under Secretary of Agriculture, Sonny Perdue, and work for the 76,000 farm families in Kentucky. I have also had the opportunity to work with the last 3 State Executive Directors (Hoppy Hinton, Jeff Hall and John McCauley) over the course of my professional career and plan to bring the same passion for Kentucky agriculture to the position.

For my first Guaranteed Lenders Newsletter I would like to introduce myself. I grew up in Princeton, KY with my summers spent working on the farm at the UK Research and Education Center. After earning degrees from Western Kentucky University and University of Florida in Ag Economics, I began my career with the University of Kentucky Extension Service. I served as an Extension Specialist with the Farm Analysis Program, working with a great group of producers and lenders in Christian, Caldwell, Crittenden, Livingston, Lyon and Trigg counties. In July 2006 I joined Planters Bank in Hopkinsville as an ag lender, making my first FSA guaranteed loan shortly thereafter. In 2012 I had the opportunity to work for Hopkinsville Elevator Co. as the General Manager for Commonwealth Agri-Finance and CFO for Agri-Chem. In 2015 I went back to community banking as the Market President for FNB Bank in Trigg County.

All my career stops have involved working closely with the Farm Service Agency. As an extension specialist I prepared records that were used for credit decisions on many direct and guaranteed loans. I also spent time in extension educating producers on the 2002 Farm Bill and the 2004 Tobacco Buyout. During my tenure in lending I worked closely with the FSA loan officers in the market with many guaranteed and joint financing loans. I even experienced filing an FSA guaranteed loan loss claim. I share that as I want you to know that I have been in your shoes and know firsthand what it is like. I know that our guaranteed lenders are instrumental in carrying out our mission with the Farm Service Agency to serve Kentucky farmers.

The Kentucky Farm Loan Program continues to be a national leader. Last year we were 5<sup>th</sup> in the nation in total loans, making 1,890 loans totaling over \$176 million dollars. The Guaranteed Loan Program accounted for 46% of the total loan dollars. Kentucky also ranked 1<sup>st</sup> in the nation with our Micro Loan Program and 3<sup>rd</sup> in the nation with our Youth Loan Program. Our farm loan team across

*Continued on page 2*

***Inside this issue:***

Message from the State Executive Director .....	1,2
Loans for Beginning Farmers and Ranchers.....	2,3
EZ Guarantee Loans .....	3
Guaranteed Loan Limit/Lender Status Reports.....	4
KY FLP National Standings.....	5
Handbook Revisions /Training Schedule .....	6,7

Continued from page 1

the state are a dedicated group who work hard to help our producers and partnering lenders. I am proud of the work that they do and excited to be a team member of such a great agency.

Mark Twain stated, "History doesn't repeat itself, but it does rhyme." We are seeing this in the financial cycle of our industry. Depressed commodity prices are continuing to present challenges to our producers. As we are working our way through this cycle we continue to see larger demand in both our direct and guaranteed loans. During a recent trip to Washington, D.C., FSA's Acting Administrator Steve Peterson stated, "the FSA is not a "lifeboat" for producers, but when times are tough and commodity prices drop we are there for them." We commit to being there for our producers and our partnering lenders, and appreciate all that you do for our farmers.

I look forward to visiting with you in the coming weeks as we have our guaranteed lenders meetings across the state. Please don't hesitate to contact me if I can be of assistance to you.

### Loans for Beginning Farmers and Ranchers

#### Overview

The U.S. Department of Agriculture's (USDA) Farm Service Agency (FSA) makes and guarantees loans to beginning farmers who are not financially ready to obtain financing from commercial lenders. Each fiscal year, FSA targets a portion of its direct and guaranteed farm ownership (FO) and operating loan (OL) funds to beginning farmers.

A beginning farmer is an individual or entity who:

- Has not operated a farm for more than 10 years;
- Meets the loan eligibility requirements of the program to which he/she is applying;
- Substantially participates in the operation; and
- For FO purposes, does not own a farm greater than 30 percent of the average size farm in the county, at time of application.

(Note: All applicants for direct FO loans must have participated in the business operations of a farm for at least three years out of the 10 years prior to the date the application is submitted).

#### Maximum Loan Amounts

- Direct FO: \$300,000
- Direct OL: \$300,000
- Microloan: \$50,000
- Guaranteed FO or OL: \$1,399,000 (Amount varies annually based on inflation)

- EZ Guarantee: \$100,000 (\$50,000 if the lender is a Micro Lender)

#### Down Payment Program

FSA has a special loan program to assist underserved and beginning farmers in purchasing a farm. Retiring farmers may use this program to transfer their land to future generations.

#### To qualify:

The applicant must make a cash down payment of at least 5 percent of the purchase price.

The maximum loan amount does not exceed 45 percent of the least of:

- a) The purchase price of the farm to be acquired;
- b) The appraised value of the farm to be acquired; or
- c) \$667,000 (Note: This results in a maximum loan amount of \$300,000).

The term of the loan is 20 years. The interest rate is 4 percent below the direct FO rate, but not lower than 1.5 percent.

The remaining balance may be obtained from a commercial lender or private party. FSA can provide up to a 95 percent guarantee if financing is obtained from a commercial lender. Participating lenders do not have to pay a guarantee fee.

Financing from participating lenders must have an amortization period of at least 30 years and cannot have a balloon payment due within the first 20 years of the loan.

*Continued from page 2*

### **Joint Financing Arrangement**

Farmers may choose to participate in a joint financing arrangement. With this arrangement, FSA lends up to 50 percent of the amount financed and another lender provides 50 percent or more. The applicant will use funds from the joint financing arrangement along with FSA funds for any authorized FO purpose. The interest rate is 2 percent less than the direct FO rate but not lower than 2.5 percent. The term of the loan will not exceed 40 years or the useful life of the security.

### **EZ Guarantee Loans**

FSA has developed the EZ Guarantee Loan to better serve the unique financial operating needs of new, niche, family, underserved or small farm operations by offering faster and simplified application and submission requirements. These farms often face limited financing options.

#### **Simplified Application**

The application process requires less paperwork and analysis that corresponds with a smaller maximum loan amount. Lenders must only submit one application form per loan request that contains all of the necessary information for the application. Lender applying for an EZ Guarantee Loan will not be required to submit other supporting documents normally require for regular FSA guaranteed loan applications, such as balance sheets, cash flow projections, debt verifications, etc.

#### **Rates and Terms**

Eligible applicants may obtain an EZ Guarantee Loan for up to \$100,000 from traditional lender or \$50,000 from micro lender for farm operating purposes and/or farm ownership purposes. Authorized loan purposes are the same as Non-EZ Guaranteed. The repayment term can be up to seven years for operating loans and 40 years for farm ownership loans. The interest rates are determined by the lender, but must be below maximum levels established by FSA.

***Guaranteed Loan Limit***

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 LOC 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 LOC principal balance cannot exceed \$1,399,000 for fiscal year 2018. 2-FLP paragraph 244 (A).

**Lender Status Reports Required**

<i>Form</i>	<i>When</i>	<i>Reason</i>	<i>Who</i>
FSA-2241, "Guaranteed Farm Loan Status Report"	Required every 6 months on March 31 and September 30 each year	To comply with the requirement to submit a semi-annual loan status report, and provides an update on the borrower's progress on loan performance and the loan's terms and conditions. The FSA uses these to monitor debt reduction, delinquencies, restructures, advances, and terminations.	All lenders must report on <i>all</i> active loans
FSA-2248, "Guaranteed Farm Loan Default Status Report"	Manually required within 45 days of borrower's default or delinquency; updates required every 60 days thereafter until current or settled	To comply with the requirement to report borrower defaults, and used first to notify FSA that a loan is in default, second, as a progress report on the lender's attempt to make the loan current again, and third, once a loan is brought current, as a means to notify FSA of the new loan terms and conditions. Every report should include updates in the comment section. See Part 12 for more details on this reporting requirement.	All lenders must report on <i>all</i> borrowers in monetary or non-monetary default

Did you know that you can terminate the loan at any time with a manual FSA-2241 when paid in full?

**Kentucky Farm Loan Program National Standings as of  
September 30, 2017**

***FY 2017***

- ◆ Microloans – 1st 522 loans with \$10,545,010 dollars obligated
- ◆ Direct OL loans – 5th 1,335 loans with \$52,336,000 dollars obligated
- ◆ Youth loans – 3rd 267 loans with \$1,083,310 dollars obligated
- ◆ Total loans – 5th 1,890 loans with \$176.9 mil obligated
- ◆ Beginning Farmer loans- 5th 965 loans with \$87,706,439 dollars obligated
- ◆ SDA loans – 6th 290 loans with \$13,279,356 dollars obligated
- ◆ Guaranteed loans obligated is 307 loans for \$82,123,000 or 46.4% of the dollars obligated
- ◆ Direct loans obligated is 1,583 loans for \$94,866,000, or 53.6% of the dollars obligated

***Existing Borrower Caseload***

- ◆ Direct loan borrowers – 4th 4,343 borrowers and 3rd 8,078 loans for an outstanding loan balance of \$410,258,943
- ◆ Youth loan borrowers – 1st 917 borrowers & 1st 980 loans for an outstanding loan balance of \$2,861,955
- ◆ Guaranteed loan borrowers – 14th 994 borrowers and 12th 1,634 loans with the outstanding loan balance of \$363,403,423

## **2-FLP Handbook Revisions**

### Highlights of Amendment 39 dated 05/09/2017

- \* Par. 181 C has been amended to clarify when appraisal for restructured payments are required.
- \* Par. 281 C has been amended to clarify restrictions on transferring beginning farmer loans.
- \* Par. 282 A has been amended to clarify the type of additional loans and advances that require prior written approval of the Agency.
- \* Par. 286 C has been amended to reference FSA-2245, Modification of Loan Guarantee.
- \* Par. 360 H has been amended to provide additional guidance on the return of the Guarantee.
- \* Par. 363 K has been amended to provide further direction on cancelling debt.
- \* Par. 364 F has been amended to provide the new effective date of the Interagency Agreement with FDIC. Exhibit 13 has been amended to provide the new effective date of the Interagency Agreement with FDIC.

### Highlights of Amendment 40 dated 9/26/2017

- \* Par. 3 has been added to provide guidance on electronic signatures.
- \* Par. 46 C has been amended to update the web site address and provide guidance on interpreting lender regulator enforcement actions.
- \* Par. 46 E has been revised to provide additional guidance on checking Debarment and Suspension.
- \* Par. 46 F has been added to include guidance on obtaining AD-3030.
- \* Par. 48 A, 51 A and B, 54 A and B have been revised to provide additional guidance on lender monitoring.
- \* Par. 52 D has been amended to update the web site address for CMS summary.
- \* Par. 55 B has been amended to include reference to FSA-2205.
- \* Par. 65.5 has been amended to include reference to FSA-2210.
- \* Par. 66 B has been amended to require that lender use FSA-2211.
- \* Par. 66 I has been amended to update guidance on entity information.
- \* Par. 70 has been amended to update and correct the table for application requirements.
- \* Par. 83 B, 95 D, 96 A, 96 C, 195 B, 244 C, and 245 A have been amended and 244 F has been added to include guidance on complete application when environmental reviews are necessary.
- \* Par. 97 D has been amended to replace ECOA language.
- \* Par. 135 C has been amended to update guidance on locating interest rates.
- \* Par. 137 H has been added to provide guidance on lenders using multiple notes.
- \* Par. 244 A has been amended to update the FY for loan limits.
- \* Par. 247 and 248 A have been amended to provide guidance for lenders using LINC to submit information.
- \* Par. 313 A has been amended to update the reference for guidance on guaranteed loan restructuring limits

Continued from page 6

- \* Par. 326 B has been amended to provide additional guidance on when an operating line of credit may be extended beyond normal terms.
- \* Par. 342 B has been amended to clarify agency policy on when confirmed bankruptcy plan extend the term of a guaranteed loan.
- \* Par. 374 C has been amended to remind lenders to confirm with secondary market participants before using electronic signatures.
- \* Par. 376 A has been amended to instruct offices to contact the National Officer for Due Process notification instructions.
- \* Exhibit 4.5 has been renumbered and was previously Exhibit 14.5.
- \* Exhibit 5 has been amended to provide additional instruction on electronically submitting forms.
- \* Exhibit 14.1 has been added to separate the Poultry Appraisal Guidelines provided in a previous Amendment
- \* Exhibits 14.2 and 14.3 have been added to provide Dairy and Hog appraisal guidelines to assist lender when ordering an appraisal.

### ***2018 Guaranteed Lender Training Meetings***

Five Guaranteed Lender Training sessions are scheduled for 2018. There is a lot of new information to discuss since our training meetings last year. Also other guaranteed loan making and servicing issues will be discussed.

- Monday, January 22nd : Clark County Cooperative Extension Office located at 1400 Fortune Drive, Winchester KY (Take Exit 96 off I-64, Turn North onto Highway 627, Turn onto Fortune Drive)
- Tuesday, January 23rd: Lake Cumberland Area Development District located at 2384 Lakeway Drive Highway 80, Russell Springs KY
- Tuesday, January 30th : Hardin County Cooperative Extension Office located at 201 Peterson Drive, Elizabethtown KY, next to Jacobi Case-Int Equipment Sales.
- Thursday, February 1st : West KY Rural Electric Cooperative located at 1218 West Broadway, Mayfield, KY.
- Tuesday, February 6th : Kentucky Fire Rescue Training Center located at 825 Morgantown Road, Bowling Green KY (Located near the Natcher Parkway on U.S. Highway 231. Down from Wal-Mart, right next to the Bowling Green Fire Station.)

All meetings will begin at 9:00 a.m. and end at approximately 12:00 noon, local time. The discussion topics will include guaranteed loan issues. Preferred and Certified Lenders are required to attend, but all agricultural lenders are encouraged to participate in these meetings.

Lenders are encouraged to attend the meeting closest to the location, but may attend any meeting if conflicts occur with a particular meeting date. We look forward to seeing you at the meetings.