



United States Department of Agriculture
Farm Service Agency

**Kentucky
Guaranteed Lender News**

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Message from the Farm Loan Chief

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Farm Loan Chief**

Kentucky’s Farm Service Agency Loan Program posted another record year in 2016 for the number of loans made and dollars obligated. I credit the third straight record year and outstanding National Ranking to the hard work and dedication of the men and women in our 16 service centers across the state as well as our participating lenders. Without this participation from our lending partners, FSA would be limited in our ability to get the much needed credit out to our producers.

In 2016, Kentucky FSA loaned almost \$84 million in guaranteed loans, up 12.5% from 2015. We also loaned over \$93 million in direct loans, which is up 5% from 2015. In 2016 FSA obligated 985 beginning farmer loans which is an increase of 101 loans from last year. Kentucky continues to rank in the top ten nationally in the number of loans made to youth loan applicants, beginning farmers, and SDA applicants. Additionally Kentucky ranks in the top 5 for direct operating loans, and lead the nation with microloans.

At Farm Service Agency we strive to continue to be the Lender of First Opportunity, whether it be assisting a young farmer trying to get started in agricultural production, an established farmer’s first farm purchase, or the expansion of a farming operation. We stand ready to serve our customers with our credit teams scattered across the state.

FSA has scheduled our annual Guaranteed Lender Training meetings for 2017. Details are enclosed. Please make an effort to attend one of the 5 meetings that has been scheduled across the state. We hope these meetings can be very informative to all of our lending partners, and give us a chance to meet each one of you face to face. While all PLP and CLP Lenders are required to attend, these meetings are highly beneficial for all SEL type lenders, or any lender that is considering participation in one of our loan programs.

With the current agricultural economy and low commodity prices, the next few years will bring some challenges to anyone involved in agriculture. As a lender we all look for ways to mitigate our risk when making loans. Let’s not forget that the FSA guarantee is one of the better tools available to assist you in achieving that goal. I hope to see you at one of our meetings.

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Guaranteed Versus Direct Farm Loans

With a guaranteed farm loan, the lender is FSA's customer, not the loan applicant. Guaranteed loans are the property and responsibility of the lender. The lender and loan applicant complete the Application for Guarantee and submit it to the FSA Service Center in their lending area. The Service Center works with the commercial lender to process the guarantee. The Farm Loan Officer reviews the application for applicant eligibility, repayment ability, adequacy of collateral, and compliance with other regulations, and if the applicant meets those requirements, the request is approved. The Service Center issues the lender a conditional commitment outlining the terms of the loan guarantee and indicating that the loan may be closed. The lender closes the loan and advances funds to the applicant, after which the Service Center staff issues the guarantee. The lender makes the loan and services it for the life of the loan. In the event the lender suffers a loss, FSA will reimburse the lender according to the terms and conditions specified in the guarantee.

A direct loans is funded directly by the Agency. The money used for direct loans comes from annual Congressional appropriations received as part of the USDA budget. The Agency is responsible for making and servicing the loan.

2017 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 existing guaranteed loan application 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 2017. 2-FLP paragraph 244 (A).

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. Lenders 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 Micro Lenders

FSA developed the guaranteed Micro Lender status to allow participation in the EZ Guarantee Loan program by "non-traditional lenders," such as Community Development Financial Institutions (CDFI) and Rural Rehabilitation Corporations (RRC). These lenders have experience with servicing the unique financial operating needs of new, niche, underserved and small family farm operations.

FSA developed the EZ Guarantee Loan to make obtaining a guaranteed type loan to an approved lender

EZ Guarantee Loans Continued from page 2

simpler and faster. An EZ Guarantee loan can be made up to \$100,000 for traditional lenders and \$50,000 for Micro Lenders.

Eligible uses of EZ Guarantee Loans

Guaranteed Micro Lenders apply for EZ Guarantee Loans on behalf of their applicants to:

- * Pay for the purchase of a farm;
- * Enlarge an existing farm;
- * Construct new farm buildings and/or improve structures;
- * Pay closing cost;
- * Promote soil and water conservation and protection;
- * Refinance debt from another creditor;
- * Purchase equipment;
- * Purchase livestock; and
- * Pay for other operating needs.

Micro Lender Eligibility

- * Be subjected to appropriate oversight;
- * Have originated at least 20 loans: and
- * Not have losses in excess of 3 percent in the past 7 years.

Obtaining Forms and Submitting Application

Interested lenders must apply to the USDA FSA for Micro Lender status before submitting EZ Guarantee Loan applications. FSA Micro Lender application forms can be obtained from the local FSA office or can be downloaded and printed from the USDA website at www.fsa.usda.gov/farmloans.

Funding

On December 9, 2016, the President signed a continuing resolution to fund the government through April 28, 2017. At this time funding is available in all FSA loan programs.

Helpful Tidbits

Lenders Agreement: FSA-2201 "Lenders Agreement" has been revised. Date of revised form is 10/24/2016. SEL lenders are reminded to execute new agreements. CLP and PLP lender will execute a new agreement at the time of renewal. 2-FLP, Subparagraph 47A.

Application Requirements: Lenders must perform at least the same level of evaluation and documentation for a guaranteed loan as would be done for a nonguaranteed loan of the similar size and type. All documentation must be maintained in the lender's loan file. The amount of information required to be submitted to FSA is determined by the lender status and the amount of the loan. (See table in subparagraph 70) Submitting a completed application saves everyone time and gets you a faster decision.

Loan Applicant: The applicant must be the operator of the farm. The applicant can be an individual or an entity and must be the same as documented for Farm Program payments. Farm income is usually reported for income tax purposes under the name of the farm operator. The operator must meet the definition of a family farm as defined in Exhibit 2 and must produce an agricultural commodity. 2-FLP, Subparagraphs 108M, 109A and 110A.

Loan Narratives: FSA requires SEL, CLP and PLP to provide a narrative with each loan request. Exhibit 14.5 has been added to provide guidance for both lenders and FSA personnel in preparing proper loan narratives. 2-FLP, Paragraph 66C, Exhibit 14.5.

Appraisals: Exhibits 14 and 15 have been added to provide additional guidance for lenders and appraisers when completing USPAP compliant appraisal reports acceptable to FSA. 2-FLP, Paragraph 183, Exhibit 14 and 15.

Lender Servicing Reminders

Annual requirements for lines of credit (LOC): SEL lenders are required to submit a cash flow showing a feasible plan for the upcoming operating cycle. CLP lenders are required to provide an annual certification stating a feasible plan has been developed and the previous year's income, loan funds, and security proceeds have been accounted for. PLP lenders will service LOC's in accordance with their PLP Agreement and CMS. 2-FLP, Subparagraph 265C and E.

Servicing Options: Loan does not have to be in default to be considered for servicing. Servicing options available for guaranteed loan customers include, restructuring, subordination, interest rate adjustments, deferrals, or consolidation of debt. 2-FLP, Part 11.

FSA Form 2248, Default Status Report: Submit within 45 days of default and every 60 days until the delinquency has been resolved. Include comments to document progress of account servicing. If liquidation becomes imminent, all lenders must prepare a plan of liquidation and submit an Estimated Loss Claim no later than 150 days of the missed payment due date. 2-FLP Paragraphs 300, 358 and 359.

Get Connected with USDA Connect

FSA's new communication website provides our lenders access to more information, including;

- ◇ Updates and revisions to policy
- ◇ Information for Agency sponsored webinars and special events
- ◇ Access to National training presentations, and many more features

To be part of FSA's USDA Connect Guaranteed Lender Community, please email us at:

FSAguaranteedloans@wdc.usda.gov

Include your name, email information, and lender institution name.



Kentucky Farm Loan Program National Standings as of September 30, 2016

- ⇒ Microloans – 1st - 526 loans with 10,787,130 dollars obligated
- ⇒ Direct OL loans – 5th - 1,341 loans with \$48,750,000 dollars obligated
- ⇒ Youth loans – 3rd - 261 loans with \$1,077,010 dollars obligated
- ⇒ Total loans – 5th - 1,892 loans with \$177.2 mil obligated
- ⇒ Beginning Farmer loans– 5th - 985 loans with \$95,212,000 dollars obligated
- ⇒ SDA loans – 6th - 330 loans with \$15,325,920 dollars obligated
- ⇒ Guaranteed loans obligated is 292 loans for \$83,843,000 or 47.3% of the dollars obligated
- ⇒ Direct loans obligated is 1,600 loans for \$93,385,000 or 52.7% of the dollars obligated

Existing Borrower Caseload

- ⇒ Direct loan borrowers – 4th - 4,154 borrowers and 3rd 7,817 loans for an outstanding loan balance of \$376,837,213
- ⇒ Youth loan borrowers – 1st - 904 borrowers and 1st - 967 loans for an outstanding loan balance of \$2,751,183
- ⇒ Guaranteed loan borrowers – 12th - 987 borrowers and 12th - 1,606 loans with the outstanding loan balance of \$341,744,304

2-FLP Handbook Revisions

Highlights of Amendment 36 dated 05/18/2016:

- * Par. 46 C has been amended to update acceptable agency web sites.
- * Par. 110 A has been amended to clarify the owner and operator requirements.
- * Par. 181 B has been amended to refer lender to Exhibit 14 for guidance on ordering appraisals.
- * Par. 196 A has been amended to clarify paragraph language.
- * Par. 363 D has been amended to:
 - ◇ Replace reference to RD Instruction 1951-C, section 1951.106, with 7-FLP, Par. 62 B.
 - ◇ Replace reference to RD Instruction 1951-C, section 1951.103 with 7-FLP, Par. 63 B.
- * Par. 363 E has been amended to replace reference to RD Instruction 1951-C, section 1951.111 with 7-FLP, Par. 131 A.
- * Exhibit 14 has been added to provide guidelines for lenders when ordering appraisals for Guaranteed loans.
- * Exhibit 17 and 18 have been amended to include guidance on “Opportunity for an Administrative Review”.

Highlights of Amendment 37 dated 10/18/2016:

- * Par. 15 has been amended to update language to include Micro Lenders and the EZ Guarantee program.
- * Par. 34 B has been amended to include reference to Micro Lenders.
- * Par. 55 has been added to implement the Micro Lender Program.
- * Part 5 has been rewritten to implement the EZ Guarantee Program. Other modifications have been made for clarity.
- * Par. 83 A has been amended to remove references to specific paragraphs for complete applications.
- * Par. 83 B has been amended to remove references to specific paragraphs for complete applications.
- * Par. 83 C has been modified to establish applications processing timeframes for EZ Guarantee applications.
- * Par. 83 D has been added and the table summarizing processing timeframes has been modified to include EZ Guarantee applications.
- * Par. 155 has been added to provide guidance on financial feasibility decisions for EZ Guarantee applications.
- * Par. 208 B has been amended to include reference to Micro Lenders (MLP).
- * Par. 265 has been amended to provide new guidance on annual analysis and to include references to MLP.
- * Par. 287 C has been amended to include references to MLP.
- * Exhibit 2 has been amended to include the definition of EZ Guarantee.
- * Exhibit 14.5 has been added to provide guidance on lender narratives.

Highlights of Amendment 38 dated 12/1/2016:

- * 7 CFR 1940 G has been retired and related RD Instruction 1940 G has been made obsolete. This handbook has been amended to provide current guidance based on FSA’s revised NEPA regulations as provided by 7 CFR 799.
- * Par. 1 A has been amended to remove the reference RD Instruction 1940 G and include 2-EQ and 6-CP to related handbooks.
- * Par. 208 A and B have been amended to replace references to 7 CFR 1940 G with 7 CFR Part 12 and 799.
- * Par. 208 B has been amended to replace reference to 1-FLP, subparagraph 222 C with regard to potential wetland presence to 1-EQ, paragraph 51.

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2-FLP Handbook Revisions (Continued)

Highlights of Amendment 38 dated 12/01/2016: (Continued)

- * Par. 209 A has been amended to replace reference to 7 CFR 1940 G with 7 CFR 799.
- * Par. 244 C has been amended to replace reference to 1-FLP, Exhibit 27.5 with regard to potential wetland presence to 1-EQ, paragraph 51 and Exhibit 26.

2017 Guaranteed Lender Training Meetings

FSA has scheduled five Guaranteed Lender Training Meetings across the state. Topics of discussion include guaranteed loan issues, making and servicing loans, and handbook revisions and updates.

- **Tuesday, March 21st:** Lake Cumberland Area Development District located at 2384 Lakeway Drive Highway 80, Russell Springs KY
- **Wednesday, March 22nd:** Hardin County Cooperative Extension Office located at 201 Peterson Drive, Elizabethtown KY, next to Jacobi Case-Int Equipment Sales
- **Thursday, March 23rd:** 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)
- **Wednesday, March 29th:** 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.)
- **Thursday, March 30th:** Marshall County Cooperative Extension Office located at 1933 Mayfield Hwy, Benton, KY. From the Purchase Parkway, take the Hardin/Murray Exit (exit 41) on to Hwy 641, at first stoplight turn right onto Hwy 58 (Mayfield Rd). Extension Office will be on the left.

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

Lenders are urged to attend the meeting closest to their location, but may attend any meeting if there is a conflict with a date. We look forward to seeing you at one of these meetings.