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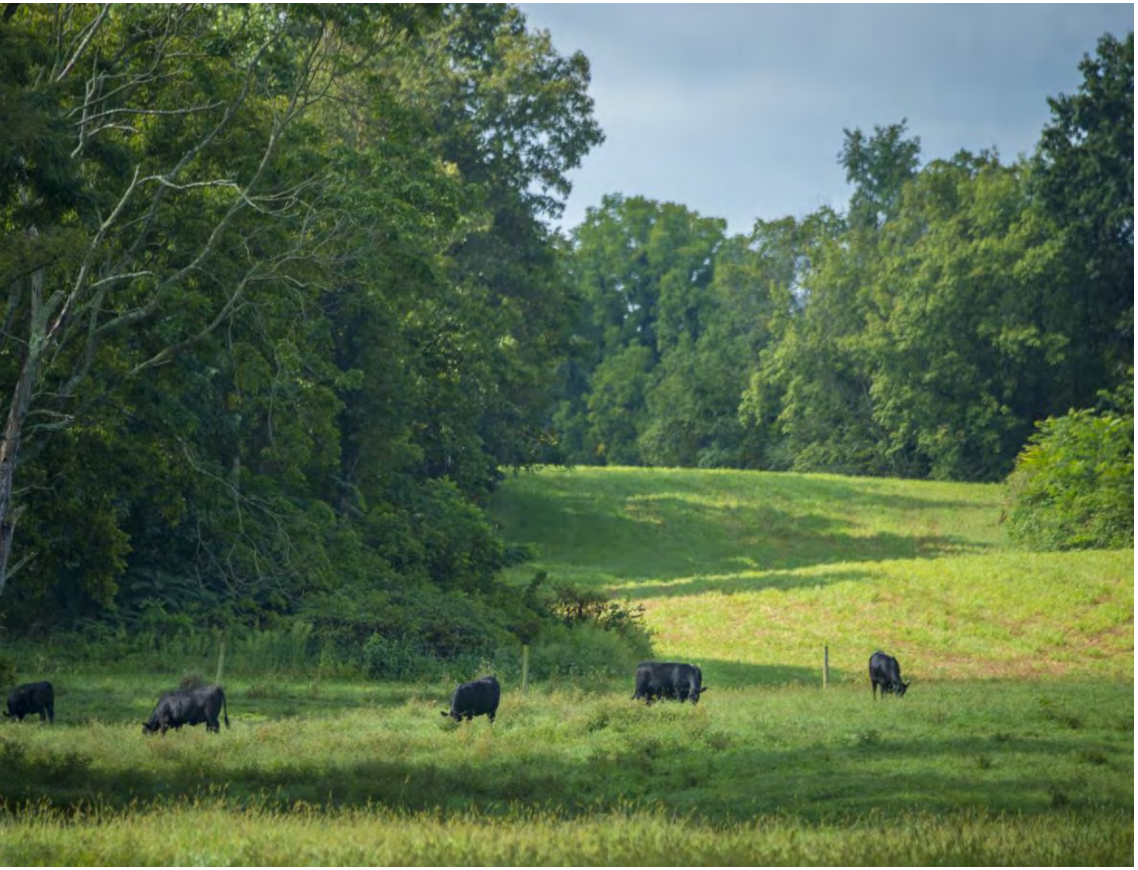

PLP Refresher Training (2023)

Farm Service Agency

fsa.usda.gov

Opening Comments

- MS Live Event
- Length. Approximately 1 – 1 1/2 Hours
- Participants muted
- Type Questions under Q&A (top right of screen)
- We will respond both during presentation and after
- Recording will be made available
- Q&A's summarized and made available
- Slides will be made available

- Presenter: Steve Ford, Sr. Loan Officer, Guaranteed Loan Branch. Contact: steven.ford2@usda.gov

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- **Lender Beginning Farmer Summit**
  - Consistency
  - Joint FSA / Lender Training
    - PLP
    - Beginning Farmer Programs
    - Guaranteed Loan Making Practices and Issues
    - Guaranteed Loan Servicing Expectations
  - Other recommendations

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Today's Topics

- PLP Application
- PLP Narrative
- Application Processing – Best practices
- Consistency

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Credit Management System (CMS)

PREFERRED LENDER PROGRAM
CREDIT MANAGEMENT SYSTEM SUMMARY
ATTACHMENT TO FORM FSA-2201, "LENDER'S AGREEMENT"

Bank Name
Anywhere, USA

This document contains the credit management system (CMS) requirements agreed to by SAMPLE BANK, City, State, USA, and the Farm Service Agency (FSA) for the Lender's participation in the FSA Guaranteed Loan Program. Requirements for loan administration, servicing, and reporting activities not specifically addressed in this attachment or in conflict with 7 CFR 762 are governed by 7 CFR 762, 2-FLP "Guaranteed Loan Making and Servicing", and the attached Form FSA-2201, "Lender's Agreement."

I. GENERAL OPERATIONS

A. Normal Trade Area.

Describe the specific geographic area (states and counties) in which you make loans. If you are requesting PLP status for only a portion of your trade area, please indicate this.

The normal trade area for the Lender is Eastern Colorado and portions of Western Nebraska and Kansas. Colorado counties include Yuma, Cheyenne, Lincoln, Washington, Morgan, Kit Carson, and Kiowa. Nebraska counties include Sioux, Banner, and Kimball. Kansas counties include Wallace, Greeley, Hamilton, Wichita, and Kearney. PLP status covers the Lender's normal trade area.

Loans would be considered outside the normal trade area if loan servicing were limited. For example, integrated broiler or pork contractors where the production check is sent to the Lender could be considered. Livestock and chattel loans that are not cross-pledged with real estate are not desirable outside the trade area due to extensive servicing demands. The Lender will contact the appropriate FSA State Office for guidance when submitting requests for guarantee outside of the normal trade area.

B. Internal Credit Review System.

Describe your credit review system. Include who performs the reviews, the frequency and scope of the reviews, and the method to follow up and resolve deficiencies.

The Lender's Quality Control Group operates its internal review program. This group provides an independent, objective, and active means for monitoring adherence to Lender policies and procedures. The group also evaluates the accuracy of the credit and performance classifications and identifies credit administration weaknesses. The Quality Control Group reviews a significant number of loan and servicing actions each year. Reviews are based upon a sampling of those areas that present the greatest risk to the Lender and include a monthly review of credit administration on all loans greater than $300,000. A minimum of 50 percent of outstanding guaranteed loans are reviewed annually.

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...a complete application for PLP lenders will consist of at least:

(1) An application form;

(2) A loan narrative;

(3) Any other items agreed to during the approval of the PLP lender's status and contained in the PLP lender agreement." (7 CFR 762.110 (e))*

* Including environmental information.

CMS defines what a lender will gather from applicant.

- ✓ **Balance sheets – how many years and how old is a "current" balance sheet**
- ✓ **Years and types of income / expense history**
- ✓ **Production history (if any)**
- ✓ **Policies on verifying debt and assets**
- ✓ **Age of a "current credit report"**

PLP - Application

When requesting a guarantee, the Lender will submit the following information to FSA:

A complete "Application for Guarantee" (FSA 2211).

A complete loan narrative supporting the request for Guarantee which includes:

- a discussion of the proposal's credit factors (5 Cs of credit) and overall strengths and weaknesses
- a discussion showing the loan applicant meets FSA's eligibility, loan purpose, and other relevant program rules.
- a description of the location of all farmed land

If Interest Assistance is available, the lender will work with the appropriate State Office to determine the necessary information to be provided.

When the applicant is an entity, member information will be provided on Form FSA-2211. Entity legal and operating structure will be discussed in the lender narrative.

Application

Narrative

Lender Question: **How can I limit requests for more information?**

Answer: **A thorough loan narrative.**

PLP Loan narrative needs to be thorough since we don't get any other information

Loan Narrative Guide (2-FLP Exhibit 4.5)

- ✓Eligibility
  - ✓Operation background and description
- ✓Location of farmed land
- ✓Entity description
- ✓Use of loan funds
- ✓Rates and terms
- ✓5 C's of Credit (Strengths and Weaknesses)
  - Character (Credit History)
  - Capacity
  - Capital
  - Collateral
  - Conditions (Servicing plan)

Lender's Loan Narrative
Guide
2-FLP Handbook
Exhibit 4.5

Exhibit 4.5
(Par. 66)

*--Lender's Loan Narrative

A Content and Level of Detail

The following is a summary of the content that should be in a typical loan narrative, factors to consider, common errors and omissions, and applicable 2-FLP references. This document is not meant to be all inclusive, but is provided to assist both lenders and FSA personnel in preparing proper loan narratives. All guaranteed loan requests, except EZ Guarantee loan requests, must include a lender's loan narrative which must address the items found in 2-FLP, subparagraph 66 C, the 5 "Cs" of credit. The narrative should be an evaluation of the data related to the guaranteed loan request, not just a summary or restatement of data found on the guaranteed loan application or other submitted documents. It should include a discussion behind the numbers, for example, whether a number or ratio is strong or weak depending on the type of farming operation and the stage in the business cycle. The narrative should describe the farming operation's weaknesses, and provide details on the mitigating strengths.

The loan narrative must provide sufficient detail to provide the FSA loan approval official with the information required to ensure the guaranteed loan applicant meets the eligibility requirements, the applicant's proposed operation is viable, and the proposed security for the loan is sufficient to adequately secure the loan. The level of detail necessary in the lender's loan narrative is determined by a variety of factors - including the management structure of the farming operation, loan type and purpose, and type of lender. If the lender's loan narrative does not provide sufficient detail, the loan approval official should notify the lender of the additional details needed to evaluate the loan request.

Note: Every guaranteed loan application is unique, and therefore the level of detail that is required in the lender's loan narrative will vary.

Example: A loan narrative for an existing FSA Farm Loan Program (FLP) customer may be less detailed than an application for a new customer who is refinancing the lender's existing debt. FSA officials are to use judgment in determining the appropriate level of detail in the lender's loan narrative.

B Farming Operation

Narrative - Three Must Haves:

Eligibility Rules	Primary Source of Documentation
✓ Description of the operation "operator of family farm"	Lender Narrative
✓ Credit history	
✓ Need for guarantee ("Test for credit")	

Four for Lender to share what they know:

Eligibility Rules	Primary Source of Documentation
Outstanding Recorded Judgements	Lender
Legal Capacity to Incur Loan	Lender
Controlled Substances	Lender (Applicant certification)
Citizenship	Applicant certification (Lender disclosure in narrative)

Tips:

- ✓ General reference generally enough
- ✓ If you know something on any of these topics, describe in the narrative

Four that FSA will generally take care of:

Eligibility Rules	Primary Source of Documentation
No Agency Loss	FSA: Agency database
Delinquency on Federal Debt	FSA: Government databases
Past Dealings	FSA: Agency files
Federal Crop Insurance Violations	FSA: via RMA Notice

Tips:

- ✓ General reference to these is enough
- ✓ Although FSA will generally take care of these, if you know something on any of these topics, describe in the narrative

Operator – "Owner/operator of a family farm".

1. **Are they the operator?**
2. Is the operation a farm?
3. Is the operation family size?

Who is the legal operator?

- ✓ Is this a formal entity, an informal entity, or sole proprietorship?
- ✓ What name is on the leases, contracts, bank accounts, grain checks, etc.?

Who is the physical operator?

- ✓ Who (what individuals) provides the daily labor, the daily management, and strategic management?
- ✓ What are the individual's roles in the operation, or contribution to labor?

Operator – Owner/operator of a family farm.

1. Are they the operator?
2. **Is the operation a farm?**
3. Is the operation family size?

What do they produce?

- ✓ Family Farm: "Produces an agricultural commodity for sale in sufficient quantities…"
- ✓ Must produce a commodity for sale – not simply purchase and resell
- ✓ What commodities or products do the applicant's produce?
- ✓ Is the commodity an agricultural product?

**Contact the local office if you are unsure

Operator – Owner/operator of a family farm.

1. Are they the operator?
2. Is the operation a farm?
3. **Is the operation family size?**

What do we look at:

- ✓ How much labor is provided by family members?
- ✓ Size (quantity, dollars) compared to typical family farm for the area

What to include in the narrative:

- ✓ Sales Revenue
- ✓ Production quantity (Acres farmed, head raised/sold)
- ✓ Number of owner families involved, labor contribution
- ✓ Any special factors (Growth plans, past size vs. current)

Test for Credit? (Why do you need the guarantee)

- PLP: Compare to standards in your Credit Management System (CMS)
- Must be based on some weakness: cash flow, new enterprise, irregular performance history, rapid expansion, poor market, net worth, current capital position, limited collateral, new operator
- Consider other assets, including personal assets

Example – if an entity member has a second home free and clear, would the lender make the loan if that were offered as security. If so, then this does not pass the test for credit

Entities.

Most CMS contain the following:

"The lender will consider the financial resources of each member of an entity when determining the need to request an FSA Guarantee."

Describe in the narrative anything relevant related to this

Question:

What about the rates and terms offered by the secondary market are needed by the borrower and we are unable to offer these without the guarantee?

Answer:

Selling on secondary market alone is not adequate. How do secondary market rates and terms necessary for operation's success? Need to show benefit to borrower.

Examples:

Acceptable: "Repayment margin below lender's credit standards. Projected cashflow indicates 1.05 Debt Service Margin (DSM) which falls below lender's standard of 1.20 DSM."

Acceptable: "Capital position does not meet lender's credit standards. 65% debt / equity higher than lenders standard of 50%."

Unacceptable: "Guarantee is needed to sell the loan on the secondary market".

Better : "Without secondary market won't be able to offer a fixed interest rate which will …."

PLP Narrative – Credit History

PLP lenders have more flexibility in analyzing character/credit history

- ✓ Don't be silent on credit history

- ✓ If negative - discuss late payments, low scores
  1. How these were beyond borrower's control
  2. Why this is no longer a concern

- ✓ What about positive? (if there are no late payments, etc.)

  If positive, can be brief - just note saying "credit history is strong with no history of late payments, and a credit score of …"

Repayment capacity.

“Notwithstanding any other provision of this section, PLP lenders will follow their internal procedures on financial feasibility as agreed to by the Agency during PLP certification.” (CFR 762.125(a)(1)

CMS details how lender will evaluate capacity

PLP lenders may use:

- ✓ Projected cash flow (FSA’s traditional method)
- ✓ Their own planning prices
- ✓ Their own projected yields – should be supported in the narrative
- ✓ Historical income and expenses rather than a projection (if no changes)
- ✓ Scorecard underwriting

PLP Narrative- Capacity

All CMS have statement similar to "the lender will not approve a loan that projects less than 100% repayment"

Most CMS will describe when capacity is considered a weakness

CMS "Term Debt/Capital Lease Coverage Ratio (TDCLCR) below 1.25:1.00 is considered weak and must have offsetting strengths in other credit factors. In no case will a loan be approved with TDCLCR less than 1.00:1.00."

PLP Narrative- Capacity

What should the narrative contain:

- ✓ Document offsetting strength
- ✓ Discuss assumptions used
- ✓ Discuss strengths, weaknesses, and confidence level in forecast
- ✓ If Year 1 is not positive, discuss how current assets or unequal payments are to be used to get to positive typical year
- ✓ If cashflow provided, address flags, inconsistencies

What collateral rules are the <u>same</u> for a PLP lender and other lenders?

Collateral. **Lien position rules apply regardless of lender status**

Examples: Need 85% LTV for junior lien on real estate

Restrictions for junior lien on chattels

Need to take additional collateral when appropriate*

*** Several factors to consider**

✓ Discuss in loan narrative what additional collateral was considered and why it wasn't taken if needed

Appraisals. PLP lenders must use the same appraisal rules

Over $250,000: USPAP, Certified General

Except a PLP is not required to obtain FSA prior approval to use an appraisal over 18 months. They must still document criteria are met

NOTE: Appraisals do NOT need to be submitted to FSA

CMS typically describes the acceptable loan to value rates for different collateral

These are used as an indicator to look for other strengths, or to offset a weakness in another category

- ✓ Lenders: Describe method of valuation (appraisal, evaluation) used or to be used
- ✓ If LTV standards not met, what are offsetting strengths

FSA Offices:

1. As soon as you receive the application, make a complete list of items needed. Don't piecemeal the items needed – make sure the list is complete.

2. Email this to the lender ASAP and follow up with 15-day letter.

If I have questions after reviewing the application material and lender's narrative?

1. Call, email the lender with the questions.

2. Document the lender's response in the file or include the email.

3. Avoid putting a simple question on incomplete application letter.

Question: When do I need physical documentation?

Answer: Unless you absolutely need to see the documentation to figure things out, take the lender's answer and document it. Don't require documents to confirm honesty. Lender status may play a role in this

The following can typically be handles with a call or email (physical documentation generally not necessary). FSA can document this in their approval narrative:

- Projected yields seem high
- Projected prices seem high
- Some expenses seem out of line with history
- Unable to identify which debts will be refinanced with loan funds

Lender Concern: FLP should obtain needed forms from FSA-Farm Program rather than make applicant or lender obtain it

When do FP forms need to be in FLP file?

- ✓ Copy of current form AD-1026 must be in FLP file

Other FP forms need to be executed with FSA, but not necessarily in FLP file

If not specifically required to be in the file, confirm it has been executed with FSA

Applications – Environmental Best Practices

- ✓ Applications involving ground disturbance or large amounts of livestock typically require a more detailed environmental review by FSA
  - ✓ Start any environmental inquiry with FSA early – prior to submitting application and prior to disturbing any ground or starting any construction
  - ✓ Communication with FSA is key because state laws and regulations can vary
  - ✓ FSA should conduct whatever consultations are needed within USDA or with any outside Agency. FSA may need lender's assistance in obtaining information needed from the applicant.
- ✓ FSA's environmental review must be completed before the application can be approved and before the project is started

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Consistency

FSA

✓ Talk to your neighbors. Local to local; State to State.
✓ Stick to the handbook
✓ Use best practices when requesting clarification.
✓ Talk to your neighbors. Local to local; State to State - Again

Lenders

✓ Let FSA (County-State-National) know if something is not consistent
✓ It's not wrong to appropriately ask for consistency between offices
✓ Recognize certain information needs will be situation dependent
✓ Recognize environmental rules are different between states

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Summary

PLP Application

PLP Narrative

Application Processing – Best practices

Consistency

Questions

Send future training suggestions to:

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