

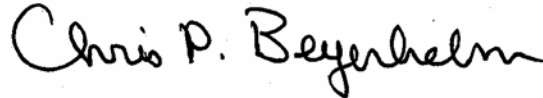
UNITED STATES DEPARTMENT OF AGRICULTURE

Farm Service Agency  
Washington, DC 20250

**Guaranteed Loan Making and Servicing  
2-FLP**

**Amendment 29**

Approved by: Acting Deputy Administrator, Farm Loan Programs



**Amendment Transmittal**

**A Reasons for Amendment**

Part 9 has been amended to provide current information for the IA Program because of a final rule that was published in the FR on April 9, 2007.

Subparagraph 287 B has been amended to update FSA-1980-64 to FSA-2221.

Subparagraph 312 A has been amended to meet the regulatory requirements in the final rule that was published April 9, 2007.

Exhibit 2 has been amended by:

- removing average farm customers, interest assistance anniversary date, and interest assistance review
- adding average agricultural loan customer.

Exhibit 10 has been amended to include the calculations and formulas to request payment and renewal for IA. The calculations for requesting IA payment and renewal were removed from subparagraph 228 A. Exhibit 10 contains all calculations and formulas for IA.

**Notes:** The following forms have been revised/renumbered according to the final rule published April 9, 2007. All other forms will be available in the near future.

<b>Previous Form Number</b>	<b>Current Form Number</b>
FSA-1980-64	FSA-2221
FSA-1980-24	FSA-2222
FSA-1980-15	FSA-2232

FSA-1980-04 is obsolete.

**Amendment Transmittal (Continued)**

<b>Page Control Chart</b>		
<b>TC</b>	<b>Text</b>	<b>Exhibit</b>
3, 4	9-1 through 9-20 9-21 through 9-26 (add) 11-51, 11-52 12-27, 12-28 12-28.5, 12-28.6	1, pages 1-4 2, pages 1, 2 pages 9, 10 10, pages 5, 6 (add) page 7 (add)

## Table of Contents (Continued)

Page No.

### Part 8      Loan Evaluation (Continued)

#### Section 3      Loan Terms, Insurance, Inspections, and Fees

135	Interest Rate Requirements (7 CFR 762.124(a)) .....	8-59
136	Charges and Fees (7 CFR 762.124(e)) .....	8-60
137	Loan Term and Payment Schedules (7 CFR 762.124(b) and (c)) .....	8-62
138	Insurance Requirements (7 CFR 762.123(a)) .....	8-64
139	Inspection Requirements (7 CFR 762.123(b)) .....	8-65
140-150	(Reserved)	

#### Section 4      Credit Decision

##### Subsection 1      Financial Feasibility of Proposed Loan (7 CFR 762.125)

151	Determining Financial Feasibility of Loans (7 CFR 762.125) .....	8-85
152	Calculating Projected Income and Expenses by SEL's (7 CFR 762.125) .....	8-86
153	Calculating Projected Income and Expenses by CLP Lenders (7 CFR 762.125) .....	8-91
154	Determining Financial Feasibility of Loans by PLP Lenders (7 CFR 762.125) .....	8-92
155-165	(Reserved)	

##### Subsection 2      Security of the Loan

166	Amount and Quality of Security (7 CFR 762.126) .....	8-113
167	Identifiable Collateral (7 CFR 762.126(c)) .....	8-117
168	Type of Security Required by Type of Loan (7 CFR 762.126(d)) .....	8-118
169	Multiple Security Owners and Exceptions to Security Requirements (7 CFR 762.126) .....	8-120
170-180	(Reserved)	

##### Subsection 3      Appraisals

181	General Requirements (7 CFR 762.127) .....	8-141
182	Chattel Appraisals (7 CFR 762.127(c)) .....	8-143
183	Real Estate Appraisals (7 CFR 762.127(d)) .....	8-144
184-194	(Reserved)	

## Table of Contents (Continued)

Page No.

### Part 8 Loan Evaluation (Continued)

#### Section 4 Credit Decision (Continued)

##### Subsection 4 Maximum Loss for Percent of Loan Guarantee

195	Percent of Guarantee (7 CFR 762.129 and 762.130) .....	8-165
196	Exception to Standard Guarantee Limits (7 CFR 762.129) .....	8-166
197-207	(Reserved)	

#### Section 5 Environmental and Special Laws

208	Environmental Requirements (7 CFR 762.128) .....	8-189
209	National Historic Preservation Act (7 CFR 762.128(c)(3)) .....	8-194
210	Equal Opportunity and Nondiscrimination (7 CFR 762.128(d)) .....	8-195
211	Other Federal, State, and Local Requirements (7 CFR 762.128(e)) .....	8-196
212-222	(Reserved)	

### Part 9 IA Program (7 CFR 762.150)

223	Purpose of IA Program .....	9-1
224	General Rules (7 CFR 762.150(b)) .....	9-1
225	Application Requirements (7 CFR 762.150(a)) .....	9-9
226	Evaluating and Approving or Denying IA Requests .....	9-10
227	IA Closing (7 CFR 762.150(h), (i)) .....	9-12
228	Request for IA Payment or Continuation (7 CFR 762.150(i)) .....	9-13
229	Notification of Adverse Action .....	9-18
230	Servicing of Loans Covered by FSA-2221 (7 CFR 762.150(j), (k), (l), (n), (p)) .....	9-19
231	Cancellation of FSA-2221 (7 CFR 762.150(m), (o)) .....	9-26
232	Exceptions to IA Requirements (7 CFR 762.150(q)) .....	9-26
233-243	(Reserved)	

## Part 9 IA Program (7 CFR 762.150)

### 223 Purpose of IA Program

#### A Purpose

\*--The IA Program enables lenders to provide credit to operators of family farms who lack financial resources to meet standard repayment terms, as compared to other operators of similar type operations. IA is intended to assist farmers who have low production or suffered the effects of a natural disaster or adverse economic conditions. Beginning farmers are also specifically targeted by FSA for increased assistance because of their inability to access private credit programs. The IA program could provide such applicants with the assistance needed to get them through the difficult early years as they accumulate farm assets and become financially viable.

Under this program, FSA enters into an agreement with the lender to reimburse the lender 4 percentage points on the Guaranteed OL, in exchange for the lender reducing the interest rate charged to the borrower by that amount. If a lender is unsure of the loan applicant's eligibility, the local FSA office should be contacted.

### 224 General Rules (7 CFR 762.150(b))

#### A Summary of Eligibility Requirements

In addition to the eligibility requirements to receive a Guaranteed OL, outlined in paragraphs 108 and 109, an eligible loan applicant for IA, must meet the following requirements:

- a feasible plan cannot be achieved without IA, but can be achieved with IA
- Note:** Additionally, a typical plan must demonstrate that the borrower will have a feasible plan throughout the term of the loan, even after the IA subsidy payment ceases, if applicable.
- must not have received IA for 5 or more years (see exceptions for beginning farmers and others outlined in subparagraphs 224 I and J)
  - must not have received IA on guaranteed loans of \$400,000 or more
  - must not have a Debt to Asset ratio of less than 50 percent

**Note:** This does not apply to beginning farmers.

- must consider any significant non-essential assets.

**Interest Assistance is available only on new guaranteed Operating Loans (OL).**

FSA-2221 will not be executed on any guaranteed loan that was obligated without IA.--\*

**\*--B Feasible Plan**

To be eligible for IA, **the lender's cash flow budget for the guaranteed loan applicant must reflect the need for interest assistance and the ability to cash flow with the subsidy.**

**The lender must document that the following conditions have been met for the loan applicant to be eligible for interest assistance:**

- **A feasible plan** (as defined in Exhibit 2) **cannot be achieved without interest assistance, but can be achieved with interest assistance.** The lender will conduct a "needs test" and document it in either FSA-1980-25, Part G or in the loan narrative, submitted to FSA.
- **If significant changes in the borrower's cash flow budget are anticipated after the initial 12 months, then the typical cash flow budget must demonstrate that the borrower will still have a feasible plan following the anticipated changes, with or without interest assistance.**
- A borrower may qualify for IA with either an initial or typical cash flow budget where cash inflows are less than outflows. The borrower may receive an IA payment the first year, even if the budget shows it is not needed in the first year of the agreement.
- **The typical cash flow budget must demonstrate that the borrower will have a feasible plan throughout the term of the loan.** If the maturity date of the loan exceeds the maturity date of the IA Agreement, the borrower must demonstrate the ability to make the scheduled payments without the subsidy after the IA agreement matures. The lender must demonstrate that the producer has long term viability, but it is not necessary to complete another cash flow budget. This viability may be documented by the lender in the narrative submitted to FSA.

Investment in capital expenditures may be made to maintain existing operations, improve efficiencies, or expand the business. These expenditures often come in increments and typically require funding from sources other than those generated internally from operations. Lenders will ensure that excess cash has not been used to purchase capital assets in order to reduce the cash flow to qualify for IA. If excess cash was used in the purchase of capital assets, the lender will document why.--\*

**\*--C Nonessential Assets**

The lender must determine that **the borrower, including members of an entity, does not own any significant assets that do not contribute directly to essential family living or farm operations. The lender must determine the market value of any such non-essential assets and prepare a cash flow budget and interest assistance calculations based on the assumption that these assets will be sold and the market value proceeds used for debt reduction. If a feasible plan can then be achieved, the borrower is not eligible for interest assistance.**

Significant non-essential assets, as defined in Exhibit 2, such as vacation homes, hunting lodges, certificates of deposit, stocks, bonds, etc., which do not contribute directly to essential family living or farm operations, are considered to be nonessential assets, and must be considered in preparing the cash flow budget. The lender must prepare a cash flow budget based on the assumption that the value of these assets will be used for debt reduction. If a feasible plan can then be achieved, the borrower is not eligible for IA.

Lenders should obtain a balance sheet on all entity members and consider the assets of all members.

Reasonable, qualified IRS retirement accounts are not considered to be nonessential and therefore, will not be considered in this limitation.

**D Debt to Asset Ratio**

**A borrower may only receive interest assistance if their total debts (including personal debts) prior to the new loan exceed 50 percent of their total assets (including personal assets). An entity's debt to asset ratio will be based upon a financial statement that consolidates business and personal debts and assets of the entity and its members. Beginning farmers and ranchers, as defined in Exhibit 2, are excluded from this requirement.**

Applicants who have a debt to asset ratio of less than 50 percent before the new loan being made are not eligible for IA. Lenders will ensure that assets are valued in a consistent manner over time, ensuring that they are not misstated in quantity, quality, or value, to qualify for IA. The Lender will use reasonable, supportable values for all assets. Liabilities will be verified according to their lender status.

Lenders should include discussion of IA eligibility issues, including debt to asset ratios in their loan narrative. 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.

**Note:** Intentional misrepresentation of asset values will not be permitted. Such abuse, of which the lender is aware or condones, may be considered fraud or misrepresentation and may be grounds for FSA not to honor the guarantee as outlined in RD-1980-19 and FSA-1980-38, Part B.--\*

## 224 General Rules (7 CFR 762.150(b)) (Continued)

**\*--E Terms**

**The typical term of scheduled loan repayment will not be reduced solely for the purpose of maximizing eligibility for interest assistance. A loan must be scheduled over the maximum term typically used by lenders for similar type loans within the limits in paragraph 137. Guaranteed OL's will be scheduled for repayment according to the terms listed below:**

- **An OL for the purpose of providing annual operating and family living expenses will be scheduled for repayment when the income is scheduled to be received from the sale of crops, livestock, and/or livestock products which will serve as security for the loan.**
- **An OL for purposes other than annual operating and family living expenses (i.e. purchase of equipment or livestock, or refinancing existing debt) will be scheduled over 7 years from the effective date of the proposed interest assistance agreement, or the life of the security, whichever is less.**
- **An OL should not be requested if an FO would be more appropriate, based on loan purposes and collateral.**

Balloon installments are permitted if longer terms are needed.--\*



## 224 General Rules (7 CFR 762.150(b)) (Continued)

**\*--F Maximum Amount of Assistance**

**The maximum total guaranteed OL debt on which a borrower can receive interest assistance is \$400,000, regardless of the number of guaranteed loans outstanding. This is a lifetime limit.**

**In the case of a borrower with multiple guaranteed loans with one lender, interest assistance can be applied to each loan, only to one loan or any distribution the lender selects, as necessary to achieve a feasible plan, subject to subparagraph 224 C.**

As of June 8, 2007, applicants, including entity members, are limited to a total of \$400,000 in loans receiving IA over their lifetime. However, IA loans, governed by FmHA-1980-64's, FSA-1980-64's, or RD-1980-64's executed before June 8, 2007, are not included in this limitation.

Once an FSA-2221 is executed on a loan, the loan amount is subtracted from the \$400,000 lifetime limit. Repayment of an IA loan in part or in full will not permit that amount to be obligated again. Subsequent advances on lines of credit are not counted as additional obligations.

Requests are subject to the overall guaranteed loan limits as published in subparagraph 244 A. Lenders may request a combination of subsidized and non-subsidized funds if the borrower's credit needs exceed \$400,000. If this occurs, FSA will split the request into 2 obligations, and issue two FSA-1980-15's. The lender will close the loans using 2 promissory notes and FSA will issue a FSA-1980-27 for each note.

The terms of both loans should be consistent and in compliance with the limitations outlined in subparagraph E. The lender may choose to apply payments pro-rata between the 2 loans or according to the lender's normal banking practices.--\*

## 224 General Rules (7 CFR 762.150(b)) (Continued)

**\*--G Rate of Interest**

**The lender may charge a fixed or variable interest rate, but not in excess of what the lender charges its average agricultural loan customer.**

As outlined in paragraph 135, if a variable rate is used, it must be tied to a rate specifically agreed to between the lender and borrower in the loan instruments. Variable rates may change according to the normal practices for the lender, but the frequency of change must be specified in the loan or line of credit instrument.

The lender will reduce the interest rate charged the borrower's account by at least the amount of IA.

**H Maximum Time for Which IA is Available for Non-Beginning Farmers**

**A borrower may only receive interest assistance for one 5-year period. The term of the interest assistance agreement executed under this section shall not exceed 5 consecutive years from the date of the initial agreement signed by the loan applicant, including any entity members, or the outstanding term of the loan, whichever is less. This is a lifetime limit.**

As of June 8, 2007, all new FSA-2221's (including those for beginning farmers and ranchers) will expire no more than 5 years from the date of the first IA agreement signed by the applicant. Agreements on subsequent IA loans, executed within that 5-year period will also expire no more than 5 years from the date of the first FSA-2221 signed by the applicant. FmHA-1980-64's, FSA-1980-64's, or RD-1980-64's in effect before June 8, 2007, are not impacted by this 5-year limitation.

FSA will document the effective date of the first FSA-2221 in GLS Loan View Screen for each party that will sign the notes. The 5-year period starts on the date of the first FSA-2221, executed by the applicant (including entity members) and does not stop, even if the loan is paid in full. A review of the borrower's agency history will be used to determine which entity members, if applicable, have previously received IA.--\*

## 224 General Rules (7 CFR 762.150(b)) (Continued)

**\*--I Maximum Time Available for Beginning Farmers**

**Beginning farmers and ranchers, as defined in Exhibit 2, may be considered for two 5-year periods. The applicant must meet the definition of a beginning farmer or rancher and meet the other eligibility requirements outlined in subparagraphs 224 B and C at the onset of each 5-year period. A needs test will be completed in the 5<sup>th</sup> year of IA eligibility for beginning farmers, to determine the continued eligibility for a second 5-year period.**

To be eligible for the second 5-year period, the loan applicant must meet the definition of a beginning farmer, meet the feasible plan and non-essential assets requirements, and not have received \$400,000 in IA loans, at the beginning of the second 5-year period.

When determining whether or not the borrower continues to meet the definition of a beginning farmer, all the factors that make up the regulatory definition of a beginning farmer will be considered. The year the applicant, or any member of an entity applicant, first reported farm income to IRS, whether as an individual or entity member, should be used to determine the number of years farming.

For existing IA loans, a needs test, as outlined in subparagraph B, will be completed and documented by the lender for beginning farmers in the fifth year after the effective date of the first FSA-2221 to determine eligibility for an additional 5 year period. This is discussed further in subparagraph 228 B.--\*

## 224 General Rules (7 CFR 762.150(b)) (Continued)

**\*--J Transition Rule**

**Notwithstanding the limitation of subparagraph H, a new interest assistance agreement may be approved for eligible borrowers to provide interest assistance through June 8, 2009, provided the total period does not exceed 10 years from the effective date of the original interest assistance agreement.**

The objective of this transition rule is to provide a borrower with at least 2 years notice of this regulation change which reduces the years of eligibility from 10 years to 5 years, to give them time to prepare for the reduced period of eligibility.

- New FSA-2221's, for applicants with an effective date on their first IA agreement after June 8, 2004, will mature 5 years after the effective date of their first IA agreement or the maturity date of the loan, whichever is earlier.
- New FSA-2221's, for applicants with an effective date on their first IA agreement between June 8, 1999, and June 8, 2004, will mature on June 8, 2009, or the maturity date of the loan, whichever is earlier.
- New FSA-2221's, for borrowers with an effective date on their first IA agreement between June 8, 1997, and June 8, 1999, will mature 10 years from the effective date of their first IA agreement.
- Borrowers with an effective date on their first IA agreement before June 8, 1997, are not eligible for IA.--\*

**225 Application Requirements (7 CFR 762.150(a))****A Applying for IA**

\*--In addition to the loan application items required by Part 5, to apply for IA, requests from all lender types must include:

- a current balance sheet (including entity members), with supporting schedules
- a completed cash flow budget, according to subparagraph 224 B
- an IA “needs test” according to subparagraph 224 B (included in FSA-1980-25, Part G or the loan narrative).

**Notes:** See subparagraph 224 B for more details of the feasible plan requirements. All applications for IA where FmHA-1980-64’s, FSA-1980-64’s, or RD-1980-64’s were not effective (loan closed and FmHA-1980-64’s, FSA-1980-64’s, or RD-1980-64’s executed by the lender) before June 8, 2007, will need to meet the requirements as set forth in this Handbook. Applications not meeting the new criteria will be denied according to paragraph 229.

Lenders will follow their own internal procedures concerning the completion of monthly cash flow budgets for lines of credit.

IA can be applied to each loan, only to 1 loan, or any distribution the lender selects; however, IA is only available on as many loans as necessary to achieve a feasible plan.--\*

226 Evaluating and Approving or Denying IA Requests

**A Evaluating IA requests**

\*--Applications for IA will be evaluated according to paragraphs 108 through 183. Additionally, FSA shall determine whether or not all applicable requirements of this Part have been met. The approval official shall check that:

- all mathematical computations are accurate
- the loan and loan applicant are eligible (paragraph 224)

**B Approving IA Requests**

IA may be approved only on new guaranteed OL's. An IA Agreement will not be executed on any guaranteed loan that was not originally obligated with IA.

If the approval official determines that IA can be approved, the approval official shall do the following.

Step	Action
1	Prepare FSA-1940-3. FSA-1940-3 is used to obligate FSA funds including IA: <ul style="list-style-type: none"> <li>• for new loans</li> <li>• when the term of IA is to be extended.</li> </ul>
2	Execute FSA-1940-3.
3	Verify that the obligation of funds has been completed on GLS. Place a printout of the GLS screen in the case file. <p><b>Note:</b> In no case will FSA-1940-3 be executed before verification of the obligation of OL loan funds with IA.</p>
4	For requests to extend the term of IA on existing guaranteed loans, the approval official will notify the lender in writing, using the following guide letter, that the request has been approved.

--\*

226 Evaluating and Approving or Denying IA Requests (Continued)

**B Approving IA Requests (Continued)**

\*--

<p>Date: _____</p> <p>Dear _____:</p> <p>This letter extends the Interest Assistance Agreement for <i>(insert name of borrower)</i>, on loan number <i>(insert loan number from FSA-2221, Part A, item 7)</i> in the original principal amount of <i>(insert principal amount from FSA-2221, Part A, item 6)</i>. The Interest Assistance Agreement, scheduled to expire on <i>(insert date from FSA-2221, Part B, item 1b)</i>, is hereby extended until <i>(insert expiration date)</i>. This extension is made in accordance with Part B, item 1, of that Interest Assistance Agreement, and all conditions contained in the Interest Assistance Agreement remain in effect.</p> <p>If you have any questions, please contact this office.</p> <p>Sincerely,</p> <p>_____ <i>(title)</i></p>
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**C Denying IA Requests**

If the loan applicant is found ineligible or the request cannot be approved for other reasons, the approval official shall notify the lender and loan applicant according to paragraph 229.--\*

\*--227 IA Closing (7 CFR 762.150(h), (i))

**A Closing Requirements**

Guaranteed loans will be closed according to paragraph 247.

**Note:** If the lender indicates 360/365 accrual method on the promissory note, on RD-1980-19, item 28, ENTER "365".

- **The lender and borrower must execute an interest assistance agreement as prescribed by the Agency.**

**The Lender may select at the time of loan closing the date they that wish to receive an interest assistance payment. That date will be included in the interest assistance agreement.**

FSA, lender, and borrower shall execute FSA-2221.

- An original FSA-2221 will be prepared for each promissory note or LOC agreement executed.
- All FSA-2221 originals will be provided to the lender and attached to the note with the original guarantee.--\*



**\*--228 Request for IA Payment or Continuation (7 CFR 762.150(i)) (Continued)****A Rules for IA Claims and Agreements**

Borrowers with IA Agreements signed before June 8, 2007, will continue to receive IA under the terms and conditions of those agreements, not to exceed 10 years from the date they entered into their first IA agreement.

**The initial and final claims submitted under an agreement may be for a period less than 12 months. All other claims will be submitted for a 12 month period, unless there is a lender substitution during the 12 month period in accordance with this section.**

Claim period coverage will be as follows:

- the initial claim will cover the entire period between the effective date of the agreement and the end of the claim period
- subsequent requests must cover 12-month periods of IA, and must be prepared by the lender.

**A claim should be filed within 60 days of its due date. Claims not filed within 1 year from the due date will not be paid, and the amount due the lender will be permanently forfeited.** FSA-2222 should be submitted even if the claim amount is 0.

For FmHA-1980-64's, FSA-1980-64's, or RD-1980-64's signed before June 8, 2007, if a claim is submitted without an analysis of the operation and documentation of the need for continuation of IA, the claim will not be processed until it is submitted by the lender. Claims based on FSA-2221's signed after June 8, 2007, do not require reviews for the continuation of IA.--\*

**\*--228 Request for IA Payment or Continuation (7 CFR 762.150(i)) (Continued)****B Rules for Continuation of IA Agreements**

**Requests for continuation of interest assistance for agreements dated prior to June 8, 2007 will be supported by the lender's analysis of the applicant's farming operation and need for continued interest assistance as set out in their Interest Assistance Agreements. The following information will be submitted to the Agency:**

- **A summary of the operation's actual financial performance in the previous year, including a detailed income and expense statement.**
- **A narrative description of the causes of any major differences between the previous year's projections and actual performance, including a detailed income and expense statement.**
- **A current balance sheet.**
- **A cash flow budget for the period being planned.** To continue IA, the cash flow budget must project that a feasible plan is not possible without subsidy, but at least a feasible plan can be achieved with 4 percent subsidy
- **A copy of the interest assistance needs analysis portion of the application form which has been completed based on the planned period's cash flow budget.**

**Note: A monthly cash flow budget is required for all lines of credit and operating loans made for annual operating purposes. All other loans may include either an annual or monthly cash flow budget.**

**Interest Assistance Agreements dated June 8, 2007, or later do not require a request for continuation of interest assistance. The lender will only be required to submit an Agency IA payment form and the average daily principal balance for the claim period with supporting documentation.--\***

**\*--228 Request for IA Payment or Continuation (7 CFR 762.150(i))****C Request for IA Payment**

**To receive an interest assistance payment, the lender must prepare and submit a claim on the appropriate Agency form. Lenders may not charge or cause a borrower with an interest assistance agreement to be charged a fee for preparation and submission of the items required for an annual interest assistance claim.** Within 60 calendar days of the annual review date, all lenders should submit the following to FSA:

- FSA-2222

**Notes:** FSA-2222 shall be used to request payment for the previous year. A separate FSA-2222 is required for each IA loan.

The lender shall provide FSA with an EFT account number so IA payment may be transmitted to them electronically.

- a detailed statement of activity, including all disbursements and payments applied to the loan or LOC account
- detailed calculations of ADPB's for the claim period. See Exhibit 10.

**Note: All claims will be supported by detailed calculations of average daily principal balance during the claim period.** (For all payment claims borrowers must continue to meet the general eligibility requirements of paragraph 108 and the applicable requirements of paragraphs 109 and 110).--\*

**\*--228 Request for IA Payment or Continuation (7 CFR 762.150(i)) (Continued)****D Interest Assistance Loans with Interest Rates Below 4 Percent**

**Interest assistance payments will be four (4) percent of the average daily principal loan balance prorated over the number of days the loan has been outstanding during the payment period. For loans with a note rate less than four (4) percent, interest assistance payments will be the weighted average interest rate multiplied by the average daily principal balance.**

The “ADD Interest Asst Claim” transaction in GLS programmatically calculates the IA payable by multiplying ADPB entered times 4 percent. However, FSA cannot pay an IA claim in excess of the interest that has accrued at the full note rate during the claim period.

To process an IA payment when the interest rate has averaged below 4 percent, authorized agency officials must determine ADPB by completing the following:

- total the interest that accrued at the note rate
- divide the total accrued interest by 4 percent to calculate an adjusted ADPB

The authorized agency official shall then enter FSA-adjusted ADPB in the “Avg. Prin Balance” field to process the IA claim.

**E Final Request for Payment**

Upon full payment of the note or line of credit, the lender will immediately prepare the request for IA payment and submit FSA-2222 to FSA.

The final claim period may be less than 12 months.

**F Final IA Request from Liquidated Accounts**

**In the event of liquidation, the final interest assistance claim will be submitted with the estimated loss claim or the final loss claim if an estimated loss claim was not submitted. Interest will not be paid beyond the interest accrual cutoff dates established in the loss claims according to 762.149(d)(2) and paragraphs 359 through 360.--\***

**\*--228 Request for IA Payment or Continuation (7 CFR 762.150(i)) (Continued)****G Continuation of Beginning Farmer Agreements Beyond Original 5-Year Period**

See subparagraph:

- 224 I for continuing eligibility requirements for beginning farmers and ranchers
- 230 D for specific actions necessary to obligate additional funds when additional years of IA is authorized.

If a beginning farmer receives multiple IA loans in subsequent years the lender will submit the needs test for all loans in the fifth year of the first loan closed.

To request continuation of an additional 5 years of IA for beginning farmers, lenders will submit FSA-1980-25. Borrowers must meet the requirements of subparagraph 224 A and lenders will meet the requirements of subparagraph 225 A.

**Note:** Only the portion of the FSA-1980-25 applicable to IA will need to be completed. All requests should be provided to FSA within 60 calendar days before expiration of the FSA-2221. Failure to request continuation will result in termination of the FSA-2221 upon its expiration.

IA requests for continuation will be evaluated to determine if the eligibility and application requirements of subparagraphs 224 A and 225 A have been met.

If the request for continuation of IA is denied, lenders will be notified according to subparagraph 229 A.--\*

**\*--228 Request for IA Payment or Continuation (7 CFR 762.150(i)) (Continued)**

**H FSA Review of Request for IA Payment**

Follow this table for reviewing IA payment requests.

Step	Action
1	FSA will review the claim and the supporting documentation within 3 workdays of receipt. If the information and the supporting documentation is not complete and correct, the reviewing official will notify the lender in writing of the actions needed to correct the request.
2	For IA agreements dated before June 8, 2007, the reviewing official shall document a comparison of actual and projected income and expenses. Any major differences from previous projections to actual performance as well as major changes from the previous year's balance sheet should be noted and discussed with the lender before a determination is made whether IA can be approved for the upcoming year. For IA agreements signed on or after June 8, 2007, proceed to step 3.
3	The authorized agency official shall complete the appropriate portion of the FSA-2222 to reflect the amount of IA approved for the coming year.
4	The original FSA-2222 will be returned to the lender for attachment to the original FSA-2221 or FmHA-1980-64, FSA-1980-64, or RD-1980-64 for loans made before June 8, 2007.

**229 Notification of Adverse Action**

**A Notification of FSA Action**

The lender will be notified in writing of all FSA decisions in which a request for IA, a request for continuation of IA or lender's claim for IA are denied. The notification letter will provide specific reasons for the decision and appeals will be handled according to paragraph 33.--\*

**\*--230 Servicing of Loans Covered by FSA-2221 (7 CFR 762.150(j), (k), (l), (n), (p))****A Consolidation of Loans**

**Loans covered by interest assistance agreements cannot be consolidated.**

**B Transfer and Assumption**

**For loans covered by an IA agreement, such loans can be transferred only when the transferee was liable for the debt on the effective date of the interest assistance agreement. Loans covered by interest assistance can be transferred to an entity if the entity is eligible in accordance with § 762.120 (paragraph 108 and applicable paragraphs 109 and 110) and § 762.150(b) (paragraph 224) and at least one entity member was liable for the debt on the effective date of the interest assistance agreement.**

**C Debt Writedown**

When consideration is given to using a debt writedown to service a delinquent account, the subsidy level will be recalculated before any writedown. If IA is available on the loan and a feasible plan can be obtained using IA, IA will be used instead of a writedown. **Interest assistance will be discontinued as of the date of any writedown on a loan covered by an interest assistance agreement.** No further IA will be available on any loan that has been written down.

**D Rescheduling or Deferral of Loans and Additional Beginning Farmer IA Funding**

**When a borrower defaults on a loan with interest assistance or the loan otherwise requires rescheduling or deferral, the interest assistance agreement will remain in effect for that loan at its existing terms. The lender may reschedule the loan in accordance with § 762.145 (see also paragraphs 312-327). For Interest Assistance Agreements dated June 8, 2007, or later increases in the restructured loan amount above the amount originally obligated do not require additional funding; however, interest assistance is not available on that portion of the loan as interest assistance is limited to the original loan amount.--\***

**\*--230 Servicing of Loans Covered by FSA-2221 (7 CFR 762.150(j), (k), (l), (n), (p)) (Continued)**

**D Rescheduling or Deferral of Loans and Additional Beginning Farmer IA Funding (Continued)**

If additional funding is required because of additional years of IA either for loans being rescheduled or for beginning farmers receiving additional years of IA, the authorized agency official must modify loan documents according to the following table.

Original Loan Document	Action
FmHA-1940-3, FSA-1940-3, or RD-1940-3	<p>In item 5, ENTER “This loan has been restructured. The term of the IA is being modified from _ years to _ years.”</p> <p>Modify the Guarantee Obligation Request Screen to indicate the correct IA term.</p> <p>In GLS the Beg Farmer/Rancher dropdown menu must be checked in order to have the additional funding obligated, if IA is being extended beyond 5 years for a beginning farmer.</p>
FSA’s copy of FSA-2221	Strike through the original expiration date and enter the new expiration date as applicable. The lender, borrower, and FSA shall initial the changes.

**Note:** The effective ending date must be equal to or before the new loan maturity date but cannot be greater than 10 years from the effective date of the borrower’s first FmHA-1980-64, FSA-1980-64, or RD-1980-64 for loans made before June 8, 2007. For loans made after June 8, 2007, the ending date of the FSA-2221 must not exceed 5 years from the date of the first FSA-2221, unless the borrower was a beginning farmer at the time of rescheduling, reamortization, or deferral.

Copies of the modified loan documents will be FAXed or sent to FCS as follows:

- FAXed to:
  - 314-539-3111 for States 01 through 32
  - 314-539-6447 for States 33 through 64
- sent to:
 

USDA-FSA-FLOO  
PO Box 200003  
St. Louis, MO 63120.--\*



**\*--230 Servicing of Loans Covered by FSA-2221 (7 CFR 762.150(j), (k), (l), (n), (p)) (Continued)**

**E Capitalization of Interest on Loans with IA**

For loans closed before June 8, 2007, if the loan amount after capitalization of interest exceeds the original IA loan amount and the term of the original IA is not being extended, the authorized agency official will complete the following.

<b>New Loan Document</b>	<b>Action</b>
FmHA-1940-3, FSA-1940-3, or RD-1940-3	Enter the following: <ul style="list-style-type: none"> <li>• in item 4, Enter the amount that exceeds the original IA loan amount</li> <li>• in item 5, ENTER “This loan has been restructured and interest has been capitalized. The amount in item 4 exceeds the original IA loan amount. The requested term of IA is _ years.”</li> </ul> <p><b>Note:</b> The number of years will correspond with the effective beginning and ending dates shown on the new FSA-2221, Part B, items 1(a) and 1(b).</p>
FSA-2221	Enter the following: <ul style="list-style-type: none"> <li>• in Part A, item 5, date the loan was restructured</li> <li>• in Part A, item 6, amount that exceeds the original IA loan amount</li> <li>• in Part B, items 1(a) and 1(b), new effective beginning and ending dates.</li> </ul>

**Notes:** The effective:

- beginning date must be equal to or subsequent to the date the loan was restructured
- ending date must be equal to or before the ending date of the original IA term.--\*

\*--230 Servicing of Loans Covered by FSA-2221 (7 CFR 762.150(j), (k), (l), (n), (p)) (Continued)

**E Capitalization of Interest on Loans with IA (Continued)**

For loans closed before June 8, 2007, if the loan amount after capitalization of interest exceeds the original IA loan amount and the term of the original IA agreement is being extended, the authorized agency official will complete the following.

Loan Document	Action
New FSA-1940-3	Enter the following: <ul style="list-style-type: none"> <li>• in item 4, amount that exceeds the original IA loan amount</li> <li>• in item 5, ENTER “This loan has been restructured and interest has been capitalized. The amount in item 4 exceeds the original IA loan amount. The requested term of IA is _ years.”</li> </ul> <p><b>Note:</b> The number of years will correspond with the effective beginning and ending dates shown in the new FSA-2221, Part B, items 1(a) and 1(b).</p>
Original FmHA-1943-3, FSA-1940-3, RD-1940-3	In item 4, ENTER “This loan has been restructured. The term of the IA is being modified from _ years to _ years.” <p>Modify the Guarantee Obligation Request Screen to indicate the correct IA term.</p> <p>In item 19, modify IA term, if the loan was not obligated in GLS.</p>
FSA-2221	Enter the following: <ul style="list-style-type: none"> <li>• in Part A, item 5, date the loan was restructured</li> <li>• in Part A, item 6, amount that exceeds the original IA loan amount</li> <li>• in Part B, items 1(a) and 1(b), new effective beginning and ending dates.</li> </ul>
FSA’s copy of original FmHA-1980-64’s, FSA-1980-64’s, or RD-1980-64’s	Strike through the original ending date and enter the new effective date as applicable. <p><b>Note:</b> The lender, borrower, and FSA shall initial the changes.</p>

**Notes:** The effective beginning date on the original FSA-1980-64 will not be changed. The effective ending date must reflect the “corrected” ending date as indicated on the new FSA-2221. The effective ending date must be equal to or before the restructured loan maturity date and cannot be greater than 10 years from the effective date of the borrower’s first FmHA-1980-64, FSA-1980-64, or RD-1980-64 unless exception authority has been granted according to subparagraph 232 A.--\*

\*--230 Servicing of Loans Covered by FSA-2221 (7 CFR 762.150(j), (k), (l), (n), (p)) (Continued)

**E Capitalization of Interest on Loans with IA (Continued)**

Loans made after June 8, 2007, cannot receive IA on any capitalized amount above the original loan amount. For these loans whether or not capitalization of interest exceeds the original loan amount and the IA term is not being extended, restructuring will be accomplished according to paragraph 326. For these loans whether or not capitalization of interest exceeds the original loan amount and the IA term is being extended, the authorized agency official will complete the following:

Original Loan Document	Action
New FSA-1940-3	In item 5, ENTER "This loan has been restructured. The term of the IA is being modified from ____ years to ____ years."  Modify the Guarantee Obligation Request Screen to indicate the correct IA term.
FSA's copy of FmHA-1980-64, FSA-1980-64, or RD-1980-64	Strike through the original expiration date and enter the new expiration date as applicable.  <b>Note:</b> The lender, borrower, and FSA shall initial the changes.

Copies of the original and new FmHA-1940-3, FSA-1940-3, RD-1940-3, and FmHA-1980-64, FSA-1980-64, or RD-1980-64 and FSA-2221, as applicable, will be FAXed or sent to FCS as follows:

- FAXed to:
  - 314-539-3111 for States 01 through 32
  - 314-539-6447 for States 33 through 64

- sent to:
 

USDA-FSA-FLOO  
PO Box 200003  
St. Louis, MO 63120.

The lender may submit either:

- one FSA-2222 at the annual review date if sufficient documentation is provided by the lender for the authorized agency official to verify the loan balances
- FSA-2222 for the period from the previous FSA-2222 to the date of the restructuring and submit a second FSA-2222 from the date of the restructuring to the annual review date.

**Note:** Both FSA-2222's will be submitted for payment at the annual review date.--\*

**\*--230 Servicing of Loans Covered by FSA-2221 (7 CFR 762.150(j), (k), (l), (n), (p)) (Continued)****F Other Requirements**

The rescheduling of a loan with IA must meet all the conditions described in this paragraph and Part 12.

**G Bankruptcy**

**In cases where the interest on a loan covered by an interest assistance agreement is reduced by court order in a reorganization plan under the bankruptcy code, interest assistance will be terminated effective on the date of the court order.** The lender will file a claim due through the effective date of the court order. **Guaranteed loans which have had their interest reduced by bankruptcy court order are not eligible for interest assistance.**

**H Adjustment of Assistance between Review Dates**

After the initial or renewal request for IA is processed, no adjustments can be made until the next review or adjustment date, except to service loans made before June 8, 2007, with a rescheduling or deferral.

**I Excessive IA**

**Upon written notice to the lender, borrower, and any holder, the Agency may amend or cancel the interest assistance agreement and collect from the lender any amount of interest assistance granted which resulted from incomplete or inaccurate information, an error in computation, or any other reason which resulted in payment that the lender was not entitled to receive.--\***

**\*--230 Servicing of Loans Covered by FSA-2221 (7 CFR 762.150(j), (k), (l), (n), (p)) (Continued)****J Substitution of Lenders**

**If there is a substitution of lender, the original lender will prepare and submit to the Agency a claim for its final interest assistance payment calculated through the effective date of the substitution. This final claim will be submitted for processing at the time of the substitution.**

- **Interest assistance will continue automatically with the new lender**
- **The new lender must follow paragraph (i) of this section (§ 762.150(i) found in paragraph 228) to receive their initial and subsequent interest assistance payments.**

**K Liquidation**

When liquidation occurs on a loan with IA, and there are other loans not receiving IA, FSA expects the lender to give the guaranteed loan with IA equitable treatment. If the loans have different lien positions, payments from liquidation will be made according to lien priority. If the loans are sharing a lien position, payment should be made on a pro rata basis, based on the remaining principal balances of the loans.--\*

**\*--231 Cancellation of FSA-2221 (7 CFR 762.150(m), (o))****A Termination of IA Payments**

**Interest assistance payments will cease upon termination of the loan guarantee, upon reaching the expiration date contained in the agreement, or upon cancellation by the Agency under the terms of the interest assistance agreement. In addition, for loan guarantees sold into the secondary market, Agency purchase of the guaranteed portion of a loan will terminate the interest assistance.**

**B Condition for Cancellation**

**The Interest Assistance Agreement is incontestable except for fraud or misrepresentation, of which the lender or borrower have actual knowledge at the time that the interest assistance agreement is executed, or which the lender or borrower participates in or condones.**

If FSA determines that the lender or borrower fraudulently completed FSA-2221 or misrepresented information on FSA-2221 or supporting documentation, FSA shall cancel FSA-2221 and collect any subsidy that has been paid up to the point this fraud was discovered.

**232 Exception Authority (762.150(q))****A Exceptions**

**The Deputy Administrator for Farm Loan Programs has the authority to grant an exception to any requirement involving interest assistance if it is in the best interest of the Government, and is not inconsistent with other applicable law.**

DAFLP has the authority to make exceptions to the rules about IA. Exceptions will only be made on a case-by-case basis where the proposed exception is in the best interest of the Government.

DAFLP's decision on granting exceptions is final and not appealable. SED's should evaluate all requests for exceptions, and forward them to DAFLP along with their analysis only if they recommend approval. No exception will be granted without an analysis and documentation of why such an exception is in the Government's best interest.--\*

**233-243 (Reserved)**

## 287 Substitution of Lender (7 CFR 762.105)

**A Overview**

When a borrower wishes to move their guaranteed loan from 1 lender to another, or a lender wishes to sell a guaranteed loan to another lender, with or without the borrower's consent, FSA must process a substitution of lender.

**B Lender Requirements**

**A new eligible lender may be substituted for the original lender, if the original lender concurs, under the following conditions.**

- **The Agency approves of the substitution in writing by executing a modification of the guarantee to identify the new lender, the amount of debt at the time of the substitution and any new loan terms if applicable. The new lender agrees in writing to:**
  - **assume all servicing and other responsibilities of the original lender and to acquire the unguaranteed portion of the loan**
  - **execute a lender's agreement if one is not in effect**
  - submit a request to the authorized agency official that the new lender be approved as a substitute lender for the loan
  - **give any holder written notice of the substitution. If the rate and term are changed, written concurrence from the holder or repurchase is required.** The authorized agency official shall review the FSA file and determine if the loan has been sold. If the loan has been sold, the authorized agency official shall remind the lender of special considerations warranted by its sold status.
- The authorized agency official shall review the borrower and lender's substitution request as follows:
  - determine whether the requirements of this section are met
  - determine whether the new lender possesses the ability to service agricultural loans and, if necessary, discuss the loan with the lender and ensure that they are aware of their responsibilities
  - notify FLOO of the substitution by completing and submitting  
\*--FSA 1980-42.--\*

## 287 Substitution of Lender (7 CFR 762.105) (Continued)

**B Lender Requirements (Continued)**

- **The original lender will assign their promissory note, lien instruments, loan agreements, and other documents to the new lender. The guarantee documents will then be assigned to the new lender.** The original lender must:
  - **assign their promissory note, lien instruments, loan agreements, and other documents to the new lender**
  - **if the loan is subject to an existing IA Agreement, submit a request for subsidy for the partial year that they have owned the loan**
- **\*--Note:** FSA-2221 can then be transferred to the new lender. When a substitution--\* is being processed, authorized agency officials should review the file to determine whether the loan has IA. If so, they should remind the:
  - original lender of the need for a subsidy request
  - new lender of special servicing requirements of a loan with IA.
- if the original lender does not concur, the substitution cannot take place. If the borrower still wants to move their loan, the new lender may refinance the debt of the original lender.

**C Lender Name or Ownership Changes**

**When a lender begins doing business under a new name or, undergoes an ownership change, the lender will notify the Agency.** If the lender simply changes their name and there is no change in ownership, location, or tax ID numbers, the authorized agency official shall:

- submit a request to FLOO to change the lender name
- attach a printout of the lender cross-reference screen from GLS with marks to explain the change.



## Section 2 Restructuring Requirements for Guaranteed Loans

## 312 Lender Requirements and Conditions for Loan Restructuring (7 CFR 762.145)

## A General Requirements

For any restructuring action, the following conditions apply.

- **The borrower meets the eligibility criteria of § 762.120, except the provisions regarding prior debt forgiveness and delinquency on a Federal debt do not apply.**

**Note:** When a lender submits a request for FSA concurrence with a restructuring action, the authorized agency official will review the borrower's eligibility for the loan. However, the eligibility provisions of subparagraphs 108 C and D do not apply to the restructuring of existing loans.

- **The borrower's ability to make the amended payment is documented by the following:** (SEL and CLP lender only; PLP lender shall see the lender's agreement)

- **\*--a feasible plan (as defined in section 762.102(b)--\***

**Note:** If interest assistance is required to achieve a feasible plan, the items required by Sec. 762.150(d) must be submitted with a restructuring request.

- **current financial statements from all liable parties**
- **verification of nonfarm income**
- **verification of all debts of \$1,000 or more**
- **applicable credit reports**
- **financial history (and production history for standard eligible lenders) for the past 3 years to support the cash flow projections.**
- **A final loss claim may be reduced, adjusted, or rejected as a result of negligent servicing after the concurrence with a restructuring action under this section.**

**312 Lender Requirements and Conditions for Loan Restructuring (7 CFR 762.145)  
(Continued)****A General Requirements (Continued)**

- \*--Loans secured by real estate and/or equipment can be restructured using a balloon payment, equal installments, or unequal installments. Under no circumstances may livestock or crops alone be used as security for a loan to be rescheduled using a balloon payment. If a balloon payment is used, the projected value of the real estate and/or equipment security must indicate that the loan will be fully secured when the balloon payment becomes due. The projected value will be derived from a current appraisal adjusted for depreciation of depreciable property, such as buildings and other improvements, that occurs until the balloon payment is due. For equipment security, a current appraisal is required. The lender is required to project the security value of the equipment at the time the balloon payment is due based on the remaining life of the equipment, or the depreciation schedule on the borrower's Federal income tax return. Loans restructured with a balloon payment that are secured by real estate will have a minimum term of 5 years, and other loans will have a minimum of 3 years before the scheduled balloon payment. If statutory limits on terms of loans prevent the minimum terms, balloon payments may not be used. If the loan is restructured with unequal installments, a feasible plan, as defined in §762.102(b), must be projected for when installments are scheduled to increase.--\*

**Example of unequal installment:** A payment that increases as the cash flow and debt repayment ability of the farming operation increases because of development or expansion. Unequal installments may be used when development is being financed, such as the planting of orchards or other perennial crops, the construction of livestock or other processing facilities, or the purchase of foundation livestock. Since typical production income may not be realized for quite a number of years in some cases, higher installments could be scheduled later in the life of the loan. For instance, an orchard development may be financed resulting in the planting of immature trees. In years 1 through 3, there may be no realized production and income. In years 4 through 6, initial production may be anticipated; however, full production may not be expected until years 8 through 10. Unequal payments may be adjusted accordingly.

- **If a borrower is current on a loan, but will be unable to make a payment, a restructuring proposal may be submitted prior to the payment coming due.**
- **The lender may capitalize the outstanding interest.** See subparagraph 326 D.

**312 Lender Requirements and Conditions for Loan Restructuring (7 CFR 762.145)  
(Continued)****A General Requirements (Continued)**

- **The lender's security position will not be adversely affected because of the restructuring. New security instruments may be taken if needed, but a loan does not have to be fully secured in order to be restructured, unless it is restructured with a balloon payment. When a loan is restructured using a balloon payment, the lender must take a lien on all assets and project the loan to be fully secured at the time the balloon payment becomes due, in accordance with 7 CFR 762.145 (b)(4).**

**Note:** If the lender takes additional security as part of the loan restructuring, a list of the new security items and their estimated values should be forwarded to the authorized agency official along with all other restructuring materials according to paragraph 313.

- **Any holder agrees \* \* \* to any changes in the original loan terms \* \* \*.**

**All lenders will submit copies of any restructured notes or lines of credit to the Agency.**

If a co-borrower or co-signer is required to execute a note in conjunction with a restructuring, the lender must provide the name, Social Security number, and current address of the co-borrower or co-signer to the Agency.

**313 Specific Lender Requirements for Loan Restructuring (7 CFR 762.145)**

**A SEL Request for Restructuring**

**Standard eligible lenders must obtain prior written approval of the Agency for all restructuring actions.**

After SEL has restructured the loan, the lender must submit:

- FSA-1980-44 indicating that the loan is current
- copies of restructured notes or LOC's.

After SEL has submitted all of these documents, FSA shall:

- review the documents for compliance
- input FSA-1980-44 into GLS
- execute FSA-1980-84 and provide a copy to the lender, if applicable
- complete and forward FSA-1980-48 to KCFO.

**Note:** For loans with IA, see subparagraphs 230 D and E for additional requirements.

## Reports, Forms, Abbreviations, and Delegations of Authority

### Reports

None

### Forms

This table lists all forms referenced in this handbook.

Number	Title	Display Reference	Reference
AD-1026	Highly Erodible Land Conservation and Wetland Conservation Certification		69.5, 208
FEMA-81-93	Standard Flood Hazard Determination Form		138
FmHA-449-34	Loan Note Guarantee		281, 267
FmHA-1940-3	Request for Obligation of Funds Guaranteed Loans		230
FmHA-1980-64 <u>1/</u>	Interest Assistance Agreement		224, 225, 228, 230, 287
FSA-440-32	Verification of Debts and Assets		69.6, 152
FSA-1940-3	Request for Obligation of Funds Guaranteed Loans		226, 230
FSA-1940-10	Cancellation of U.S. Treasury Check and/or Obligation		249
FSA-1980-01	Lender's Processing Checklist		69, 95
FSA-1980-02	Guaranteed Loan Processing Checklist		69
FSA-1980-03	Annual File Review Checklist for SEL and CLP Lenders		267
FSA-1980-04	Annual File Review Checklist for PLP Lenders		267
FSA-1980-05	Debt Writedown Review Checklist		329
FSA-1980-06	Guaranteed Estimated Loss Review Checklist for SEL and CLP Lenders		342, 359
FSA-1980-07	Guaranteed Loan Final Loss Review Checklist		360
FSA-1980-15 <u>1/</u>	Conditional Commitments		Text
FSA-1980-22	Lender Certification		247
FSA-1980-25	Application for Guarantee		Text
FSA-1980-26	Report on Collection Activities on Liquidated Accounts		266, 362
FSA-1980-27	Loan Guarantee		247, 248, 250, 267, 281, 360, 363, 364, 374, 376
FSA-1980-28	Preferred Lender Application for Guarantee		Text

1/ This form is obsolete.

## Reports, Forms, Abbreviations, and Delegations of Authority (Continued)

## Forms (Continued)

Number	Title	Display Reference	Reference
FSA-1980-36	Assignment of Guarantee		373-375
FSA-1980-37	FSA Purchase of a Guaranteed Loan Portion		375
FSA-1980-38	Lender's Agreement		Text
FSA-1980-41	Guaranteed Farm Loan Status Report as of		250, 266, 355, 376
FSA-1980-42	Notice of Substitution of Lender (Transaction 4034)		287
FSA-1980-44	Guaranteed Farm Loan Default Status Report		250, 266, 300, 313, 314, 326, 329, 355, 357-359
FSA-1980-48	Request for Restructuring Guaranteed Loans		313
FSA-1980-49	Guaranteed Loan Status Update Adjustment (Transaction 4048)		288
FSA-1980-64 <sup>1/</sup>	Interest Assistance Agreement		224, 225, 228, 230
FSA-1980-84	Modification of Loan Guarantee		281, 313, 326
FSA-1980-86	Notification of Transfer and Assumption of a Guaranteed Loan Transaction Code 4037		281
FSA-1980-88	Farm Loan Programs Guaranteed Writedown Worksheet		328
FSA-1980-89	Shared Appreciation Agreement for Guaranteed Loans		181, 288, 328, 341
FSA-2221	Interest Assistance Agreement		224-228, 230, 231, 287
FSA-2222	Request for Interest Assistance Payment		228, 326
FSA-2232	Conditional Commitment		Text
IRS-1099-C	Cancellation of Debt		362
IRS-8379	Injured Spouse Claim and Allocation		Ex. 17, 18

<sup>1/</sup> This form is obsolete.

Reports, Forms, Abbreviations, and Delegations of Authority (Continued)

Forms (Continued)

Number	Title	Display Reference	Reference
RD-449-30	Loan Note Guarantee Report of Loss		136, 288, 328, 342, 344, 355, 360, 362, 376
RD-1910-5	Request for Verification of Employment		69.6, 152
RD-1940-3 <u>1/</u>	Request for Obligation of Funds Guaranteed Loans		230, 244, 245, 326
RD-1951-C-1	Notice of Intent to Collect by Administrative Offset		376
RD-1956-1	Application for Settlement of Indebtedness		363
RD-1980-7	Notification of Transfer and Assumption of a Guaranteed Loan		281
RD-1980-19	Guaranteed Loan Closing Report		227, 247, 249, 286
RD-1980-43	Lender's Guaranteed Loan Payment to USDA		376
RD-1980-45	Notice of Liquidation Responsibility		362
RD-1980-47	Guaranteed Loan Borrower Adjustments		281, 284, 288
RD-1980-64 <u>1/</u>	Interest Assistance Agreement		224, 225, 228, 230, 287
W-2	Wage and Tax Statement		152

1/ This form is obsolete.

Abbreviations Not Listed in 1-CM

The following abbreviations are not listed in 1-CM.

Approved Abbreviation	Term	Reference
ADPB	average daily principal balance	228
ALP	Approved Lender Program	34
CLP	Certified Lender Program	Text
CMS	Credit Management System	Text
CONACT	Consolidated Farm and Rural Development Act	108
DCIA	Debt Collection Improvement Act of 1996	363, Ex. 17, 18
ECOAA	Equal Credit Opportunity Act	31, 210
EE	economic emergency loan	108
EFT	Electronic Funds Transfer	228, 360
EIS	Executive Information System	84

## Reports, Forms, Abbreviations, and Delegations of Authority (Continued)

## Abbreviations Not Listed in 1-CM (Continued)

Approved Abbreviation	Term	Reference
EL	emergency livestock loan	108
EM	emergency loans	108, 138, 244
EO	economic opportunity loan	108
FLPRA	FLP Risk Assessment	2
FmHA	Farmer's Home Administration (formerly by FSA)	108
FMI	Forms Manual Inserts	226, 328, 359, 362
FO	farm ownership loan	Text
GLS	Guaranteed Loan System	Text
IA	interest assistance	Text
IAO	Internal Administrative Offset	363, Ex. 2, 17, 18
INA	Immigration and Nationality Act	Ex. 7
INS	Immigration and Naturalization Service	108
LOC	line of credit	Text
MOU	Memorandum of Understanding	Ex. 16
OL	operating loan	Text, Ex. 2
PLP	Preferred Lender Program	Text
PRWORA	Personal Responsibility and Work Opportunity Reconciliation Act of 1996	Ex. 2, 7
RHF	Rural Housing for farm service buildings	108
RL	recreation loan	108
SAA	Shared Appreciation Agreement	286, 288
SEL	Standard Eligible Lender	Text
SW	soil and water loan	49, 50, 52, 108, 244, 281, 326
TOP	Treasury Offset Program	363, Ex. 2, 17, 18, 21
USCIS	U.S. Citizenship and Immigration Services	Ex. 7, 8
USPAP	Uniformed Standards of Professional Appraisal Practice	181, 183, 267

## Delegations of Authority

This table lists the delegations of authority in this handbook.

Delegation	Reference
Administering handbook provisions	20



## Definitions of Terms Used in This Handbook

### **Additional Security**

Additional security is collateral in excess of that needed to fully secure the loan.

### **Allonge**

Allonge is an attachment or an addendum to a note.

### **Applicant**

For guaranteed loans, the lender requesting a guarantee is the applicant. The party applying to the lender for a loan will be considered the loan applicant.

### **Approval Official**

An approval official is the FSA official authorized to approve a loan or servicing request. The official is determined depending on the dollar limitations and other conditions applicable to a particular action.

### **Aquaculture**

Aquaculture is the husbandry of aquatic organisms in a controlled or selected environment. An aquatic organism is any fish, amphibian, reptile, or aquatic plant. An aquaculture operation is considered to be a farm only if it is conducted on the grounds which the loan applicant owns, leases, or has an exclusive right to use. An exclusive right to use must be evidenced by a permit issued to the loan applicant and the permit must specifically identify the waters available to be used by the loan applicant only.

### **Assignment of Guaranteed Portion**

Assignment of guaranteed portion is the process by which the lender transfers the right to receive payments or income on the guaranteed loan to another party, usually in return for payment in the amount of the loan's guaranteed principal. The lender retains the unguaranteed portion in its portfolio and receives a fee from the purchaser or assignee to service the loan, and receive and remit payments according to a written assignment agreement. This assignment can be reassigned or sold multiple times.

### **\*--Authorized Agency Official**

The authorized agency official is the FSA official that is authorized to perform specific tasks related to loan making or servicing. The appropriate official is determined by inherent authorities or delegations applicable to a particular task.--\*

## Definitions of Terms Used in This Handbook (Continued)

**\*--Average Agricultural Loan Customer**

**An average agricultural loan customer is a conventional farm borrower who is required to pledge crops, livestock, other chattels and/or real estate security for the loan. This does not include the high-risk farmer with limited security and management ability that is generally charged a higher interest rate by conventional agricultural lenders. Also, this does not include the low-risk farm customer who obtains financing on a secured or unsecured basis, who has as collateral items such as savings accounts, time deposits, certificates of deposit, stocks and bond, and life insurance to pledge for the loan.--\***

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**Balloon Installment**

A balloon installment is a final ending installment of a loan that is typically characterized by a sizeable balance that is intended to be paid through rescheduling or refinancing the remaining debt. A loan that incorporates a “balloon installment” may be scheduled with equal or unequal installments during the term of the loan.

**Basic Security**

Basic security is **all farm machinery, equipment, vehicles, foundation and breeding livestock herds and flocks, including replacements, and real estate which serves as security for a loan guaranteed by the Agency.** With respect to livestock herds and flocks, animals that are sold as a result of the normal culling process are basic security unless the borrower has replacements that will keep numbers and production up to planned levels. However, if a borrower plans to make a significant reduction in the basic livestock herd or flocks, the animals that are sold in making this reduction will be considered basic security.

**Beginning Farmer or Rancher**

A beginning farmer or rancher is an individual or entity who:

- meets the loan eligibility requirements for OL or FO assistance, as applicable
- has not operated a farm or ranch, or who has operated a farm or ranch for not more than 10 years; this requirement applies to all members of an entity
- will materially and substantially participate in the operation of the farm or ranch

**Notes: In the case of a loan made to an individual, individually or with the immediate family, material and substantial participation requires that the individual provide substantial day-to-day labor and management of the farm or ranch, consistent with the practices in the county or State where the farm is located.**

**Definitions of Terms Used in This Handbook (Continued)****FSA**

FSA is the United States of America, acting through the Farm Service Agency, an agency of the United States Department of Agriculture. References to the National Office, Finance Office, State Office, County Office, District Office, SED, DD, local credit officer, or other FSA offices or officials should be read as prefaced by "FSA."

**Graduation**

Graduation is the Agency's determination that a borrower of a direct loan is financially stable enough to refinance that loan with a commercial lender with or without a guarantee.

**Guaranteed Loan**

A guaranteed loan is a loan made and serviced by a lender for which the Agency has entered into a Lenders Agreement and for which the Agency has issued a Loan Note Guarantee. This term also includes lines of credit except where otherwise indicated.

**Hazard Insurance**

Hazard insurance includes fire, windstorm, lightning, hail, explosion, riot, civil commotion, aircraft, vehicles, smoke, builder's risk, public liability, property damage, flood or mudslide, workers compensation, or any similar insurance that is available and needed to protect the security, or that is required by law.

**\*--Historic Property**

Historic property is a prehistoric or historic district, site, building, structure, or object, including artifacts and records, included in or eligible for inclusion in the National Register of Historic Places.--\*

**Holder**

A holder is the person or organization other than the lender who holds all or a part of the guaranteed portion of an Agency guaranteed loan but who has no servicing responsibilities. When the lender assigns a part of the guaranteed loan to an assignee by way of execution of an assignment form, the assignee becomes a holder.

**In-House Expenses**

In-house expenses are expenses associated with credit management and loan servicing by the lender and lender's contractor. In-house expenses include, but are not limited to: employee salaries, staff lawyers, travel, supplies, and overhead.

**Definitions of Terms Used in This Handbook (Continued)****Interest Assistance Agreement**

The interest assistance agreement is **the signed agreement between the Agency and the lender setting forth the terms and conditions of the interest assistance.**

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**Internal Administrative Offset (IAO)**

IAO is a non-centralized administrative offset between a USDA creditor agency and a USDA payment authorizing agency.

**Joint Operation**

A joint operation is **individuals that have agreed to operate a farm or farms together as a business unit. The real and personal property may be owned separately or jointly by the individuals.**

**Land Development**

Land development is **items such as terracing, clearing, leveling, fencing, drainage and irrigation systems, ponds, forestation, permanent pastures, perennial hay crops, basic soil amendments, and other items of land improvements which conserve or permanently enhance productivity.**

**Lender**

A lender is **the organization making and servicing the loan or advancing and servicing the line of credit which is guaranteed under the provisions of Agency regulations. The lender is also the party requesting a guarantee.**

**Lender's Agreement**

A lender's agreement is **the appropriate Agency form executed by the Agency and the lender setting forth the loan responsibilities of the lender and agency when the Loan Guarantee is issued.**

**Calculations and Formulas (Continued)**

**Average Daily Principal Balance and IA Payment Calculations**

Calculate ADPB by multiplying the principal balance times the actual number of days it is outstanding. The sum of the daily principal balance is then divided by the total calendar days outstanding for a partial year or by 365 calendar days for a full year regardless of the interest accrual method.

The following is an example of a full year calculation for ADPB.

<b>Date</b>	<b>Number of Days</b>	<b>Principal Balance</b>	<b>Total</b>
January 1 – April 15	104	\$25,000	\$2,600,000
April 16 – July 15	91	\$20,000	\$1,820,000
July 16 – September 15	62	\$15,000	\$930,000
September 16 – January 1	108	\$10,000	\$1,080,000
<b>Total</b>	<b>365</b>		<b>\$6,430,000</b>

$\$6,430,000 \div 365 = \$17,616.44$  ADPB for a full year.

The following is an example of a **partial year** calculation for ADPB.

<b>Date</b>	<b>Number of Days</b>	<b>Principal Balance</b>	<b>Total</b>
June 12 – August 2	51	\$15,000	\$765,000
August 3 – September 28	57	\$10,000	\$570,000
September 29 – October 29	31	\$12,000	\$372,000
<b>Total</b>	<b>139</b>		<b>\$1,707,000</b>

$\$1,707,000 \div 139 = \$12,280.58$  ADPB for the partial year.

**Note:** For the purpose of calculating ADPB for payment of IA, for loans made after June 8, 2007, the principal balance for calculating interest assistance shall not exceed \$400,000 or the original loan amount, whichever is less, on any given day.

**Calculations and Formulas (Continued)**

**Average Daily Principal Balance and IA Payment Calculations (Continued)**

The following is an example of a loan, made under the rule limiting IA to 5 years and \$400,000 or the original loan amount, whichever is less, that is restructured on July 1<sup>st</sup>, with capitalized interest above the original loan amount. For purposes of this example, the original loan amount was \$300,000.

The lender's actual ledger may look like this:

<b>Date</b>	<b>Number of Days</b>	<b>Principal Balance</b>	<b>Total</b>
January 1 – July 1	181	\$280,000	\$50,680,000
July 2 – January1	184	\$310,000	\$57,040,000
<b>Total</b>	<b>365</b>		<b>\$107,720,000</b>

$\$107,720,000 \div 365 = \$295,068.49$  ADPB for a full year.

For purposes of calculating IA on this loan, the ADPB should be calculated as follows.

<b>Date</b>	<b>Number of Days</b>	<b>Principal Balance</b>	<b>Total</b>
January 1 – July 1	181	\$280,000	\$50,680,000
July 2 – January1	184	\$300,000	\$55,200,000
<b>Total</b>	<b>365</b>		<b>\$105,880,000</b>

$\$105,880,000 \div 365 = \$290,082.19$  ADPB for a full year.

- The lender can use interest basis (360, 365, 360/365) as indicated by the promissory note for calculating interest for the borrower. Some methods result in a slightly higher interest payment by the borrower; however, this is irrelevant to the amount FSA will pay, which is fixed at 4 percent.
- An interest assistance claim submitted with interest accrual based on 360 and then multiplied by 365 is not acceptable.
- If a loan is closed on a 365-calendar-day basis, interest that accrues on February 29 is not recognized by FLOO computer system and will not be paid.
- GLS does not count the first day of the claim period. The ending day of a claim period becomes the first day on the next claim period.

Calculations and Formulas (Continued)

IA Payment Calculation

<b>Full Year</b>
ADPB x 4 percent
<b>Note:</b> Interest basis is not an issue.
<b>Example:</b> \$100,000 x 4 percent = \$4,000
<b>Partial Year (360-Day Base)</b>
ADPB x 4 percent x [(number of months in the claim period x 30 calendar days) + additional days in excess of a month] ÷ 360
<b>Note:</b> Convert all months to 30 calendar days. The system does not count the first day of the claim period. The ending day of a claim period becomes the first day on the next claim period.
<b>Example:</b> Claim period is March 1 through June 5 (3 months x 30 calendar days = 90 + 5 - 1 = 94 calendar days). \$100,000 x 4 percent = \$4,000 x 94 calendar days ÷ 360 = \$1,044.44 interest assistance payment.
<b>Partial Year (365-Day Base)</b>
ADPB x 4 percent x actual days in the claim period ÷ 365.
<b>Note:</b> Count actual days in the month. The system does not count the first day of the claim period. The ending day of a claim period becomes the first day on the next claim period.
<b>Example:</b> Claim period is March 1 through June 5, which equals 97 - 1 calendar days. \$100,000 x 4 percent = \$4,000 x 96 calendar days ÷ 365 = \$1,052.05 interest assistance payment.

