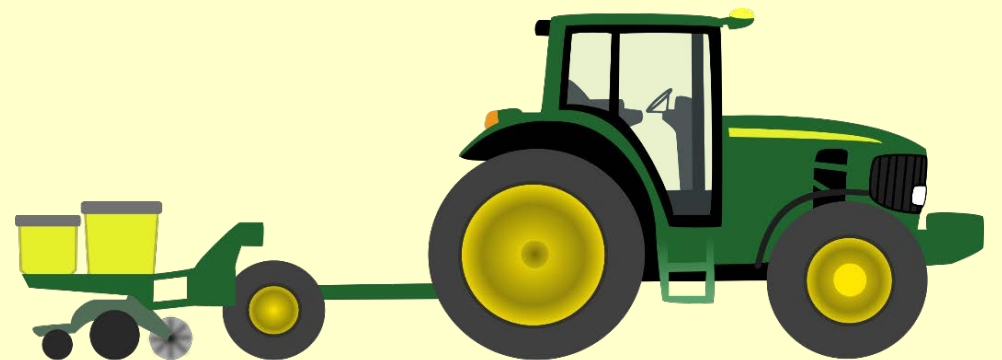


FARM SERVICE AGENCY

Farm Loan Programs Update

April 2018



Direct & Guaranteed Loans

- Direct Loans

Government loans “Direct” from the US Treasury.

- Guaranteed Loans

Commercial lenders extend the credit with a Government guarantee.

BF- Beginning Farmer - (FSA's Definition)

- Has not farmed for more than 10 years.

Note: # of Schedule F's is a fairly good indicator.

- For D-FO's and G-FO's, does not own more than 30% of average-sized farm in the county.



SDA – Socially Disadvantaged Applicant (change pending to) TU – Traditionally Underserved

A member of a group whose members have been subject to racial, ethnic, or gender prejudice because of their identity ... American Indians, Alaskan Natives, Blacks or African Americans, Native Hawaiians or other Pacific Islanders, Hispanics and women.



USDA Farm Service Agency
Minnesota's Agricultural Lender of First Opportunity

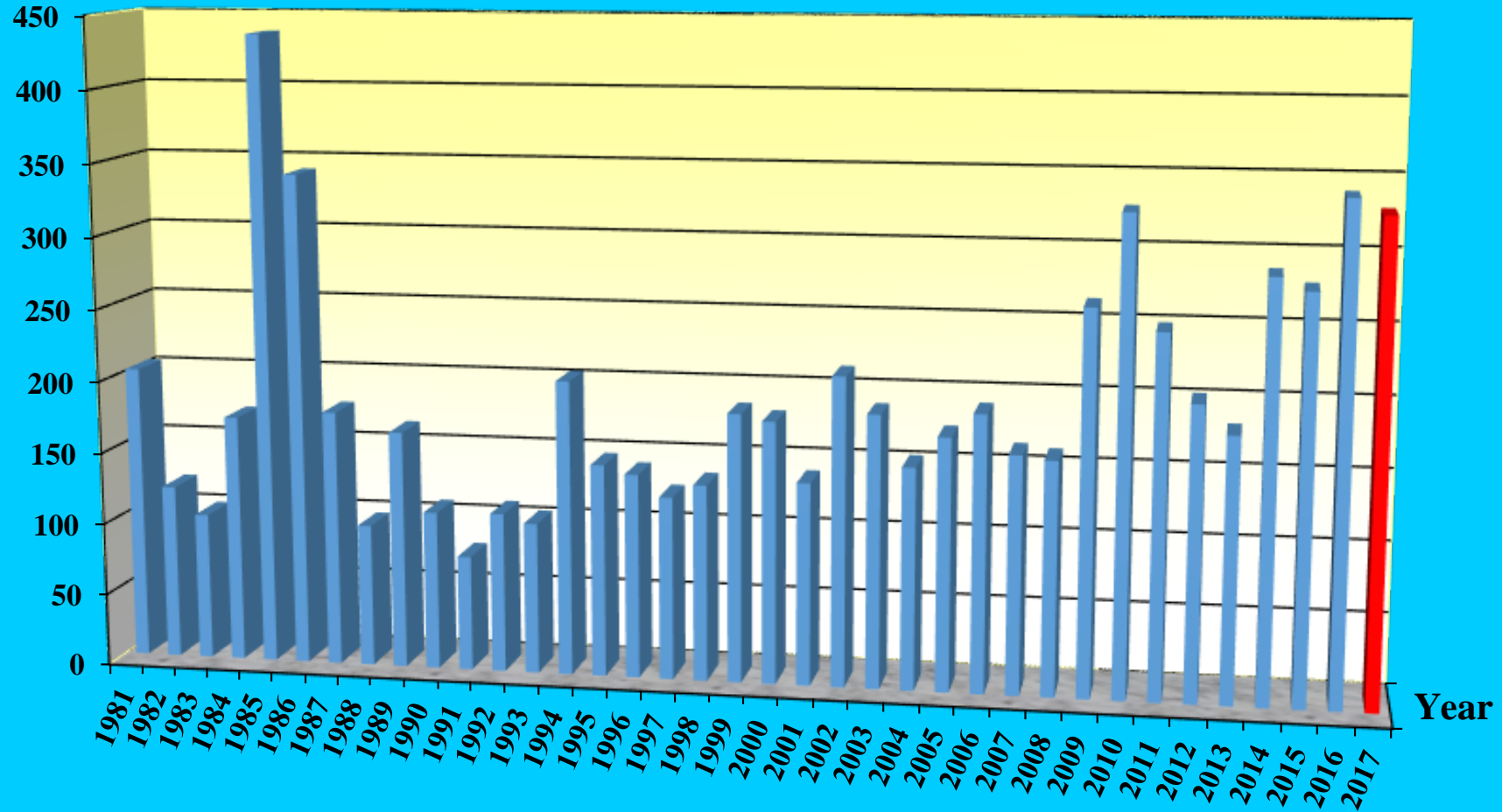
	Direct Loans							Guaranteed Loans		
	Micro	OL	OL-Youth	Micro	FO/ Joint	BF/SDA/Down Payment FO	EM	Conservation	OL	FO
Loan Purpose	Annual operating expenses, Livestock, Equipment		Agricultural Income producing youth project	Purchase and make improvements to Real Estate		Purchase Real Estate	Recovery from Natural Disaster	Helping farmers finance conservation practices on their farm	Annual operating expense, Livestock, Equipment	Purchase Real Estate
Maximum Amount	\$50,000	\$300,000	\$5,000	\$50,000	\$300,000	45% of Purchase or \$300,000 whichever is less	\$500,000	\$1,399,000	\$1,399,000 OL & FO Combination	
Interest Rates	3.50%			4.00%/2.5%		1.50%	3.75%	Set by lender		
Terms	1 year for Annual Operating, Up to 7 years for Livestock and Equipment		1 year for Annual Operating, up to 7 years for Livestock and Equipment	25 years	Up to 40 years	5% cash down, 45% FSA 20 years, 50% other credit 30 year amortization, can balloon after 20 years	Normally, on Chattel 1-7 years, on Real Estate 20-30 years but not more than 40 years	Real Estate Security 20 years Chattel Security 7 years	1 year for Annual Operating, -Up to a 5 year line of credit, Up to 7 years for livestock and Equipment	Up to 40 years
Primary Security	Crops Livestock Equipment			Real Estate			Chattels and/or Real Estate	Real Estate and Chattel	Crops Livestock Equipment	Real Estate

*Rates are fixed for the term of the loan. Today's rates are subject to change. Interest rates are as 4/1/2018.

USDA is an equal opportunity provider, employer and lender.

In
Millions

Total MN Obligations Direct & Guaranteed



MN Historical Obligations

Fiscal Year 2018 Direct and Guaranteed Loan Obligations (As of February 28, 2018)

- MN has obligated 428 direct loans totaling \$44.5 Million.
- MN has obligated 199 guaranteed loans totaling \$60.8 Million.
- MN total loans of 627 ranks 6th in the USA.
- MN total loan dollars of \$105.3 ranks 5th in the USA.

Direct Loan Portfolio in Minnesota

(As of February 28, 2018)

- 3032 direct loan borrowers owe \$487.9 Million.
- MN ranks 8th in number of direct borrowers in USA.
- MN ranks 7th in the dollar size of the portfolio in USA.
- MN has 2041 beginning farmer borrowers which ranks 8th in USA.
- 392 direct borrowers are delinquent which is 12.9% of the caseload.
- Amount of delinquencies total \$9.8 Million or 2.0% of debt outstanding.

Guaranteed Loan Portfolio in Minnesota

(As of February 28, 2018)

- 2211 guaranteed loan borrowers owing \$982.7 Million principal.
- MN ranks 4th in the number of guaranteed borrowers.
- MN ranks 3rd in the dollar size of the portfolio in the USA.
- 98 guaranteed loans are delinquent which is 1.76% of the loans.
- Amount of delinquencies total \$10.3 Million or 1.04% of debt outstanding.

Borrower Training

- FBM has been a valued training provider since 1994.
- If FSA requires a borrower to complete training:
 - Farmer selects training provider from list of approved trainers.
 - FSA can require the farmer take training in financial management and/or production management.
 - Farmer must complete within 2 years.
 - Farmer may be ineligible for additional loans if training is not completed.

Borrower Training

- For FSA borrowers enrolled with FBM, training is completed when:
 - Borrower completes 10 credit hours if financial management is required.
 - Additional 2 credit hours if production training is required.
 - FBM Instructor provides FSA with a brief summary of farmer's understanding of training and provides a score of:
 - 1 – If the farmer attended training and understands course material.
 - 2 – If farmer attended, but did not demonstrate understanding of course material.
 - 3 – If farmer did not make a good faith effort to complete the training.
 - If farmer receives score of 1 or 2, the farmer has satisfied the training requirement, but FSA may recommend farmer complete additional training.

NEPA

What is NEPA?

- National Environmental Policy Act (NEPA).

What does NEPA require?

- NEPA requires that **before** implementing activities that have the potential to significantly impact the human environment, Federal agencies **must** consider **all** potential environmental impacts of their proposed action.

What are Some Basic Requirements?

- ❑ Approval Required Before Starting FSA-Funded Projects!
 - Farm Loan Programs (FLP),
 - Farm Storage Facility Loans (FSFL),
 - Conservation Reserve Enhancement Program (CREP), etc.

- ❑ What if the project has been started before approval?
 - FSA cannot complete the environmental review,
 - Could result in loss of program eligibility, and
 - Denial of loan request.

What are Some Basic Requirements, Cont.?

- ❑ What actions “cannot be done” before approval!
 - DO NOT complete vegetation clearing (tree removal, etc.)
 - DO NOT complete site preparation (do not disturb the ground by leveling the site or bringing in fill)
 - DO NOT remove old building and structures (old barn, silo, etc.)
 - DO NOT install utilities (wells, electrical lines, plumbing, etc.)

- ❑ What actions can be done before approval?
 - Work on obtaining plans, permits, other related services, and provide information to FSA, as needed.

Important Take Home Points!

- ❑ Applications can not be approved and funded by FSA until all environmental processes have been fully concluded!
- ❑ It is important for the lender and applicant to consult with the local FSA Office and get the process started as early as possible for any action requiring ground disturbance and permitting activity. I.E.:
 - Building New Hog Barns, Cattle Barns, Grain Bins, etc.
 - Installing Drainage Tile, Septic Systems, Drilling Wells,
 - Removing Trees & Windbreaks, etc.

2018 MN Farm Planning Guide Summary

- Goal: Insure consideration of credit tools to help farmers.
- Objective: Provide assistance with program integrity.
- Key to successful plans: It must be the family's plan.
- Key to good credit decisions: Identify viable operations.
- Special credit tools:
 - Partial deferrals of 2018 annual OL's.
 - Documenting planned reduction to family living expenses.
- Feasible 2018 plan needed. For term debt, also need a feasible typical plan.
- Applicants must meet FSA eligibility and lender requirements.

FSA's General Expectations for a Feasible Plan

- Represent the most realistic plan available.
- Income & expenses based on history.
- Use reasonable prices - sources need documenting.
- Planned yields based on history.
- Lender's Guaranteed & FSA's Direct Loan plans need to be "consistent".

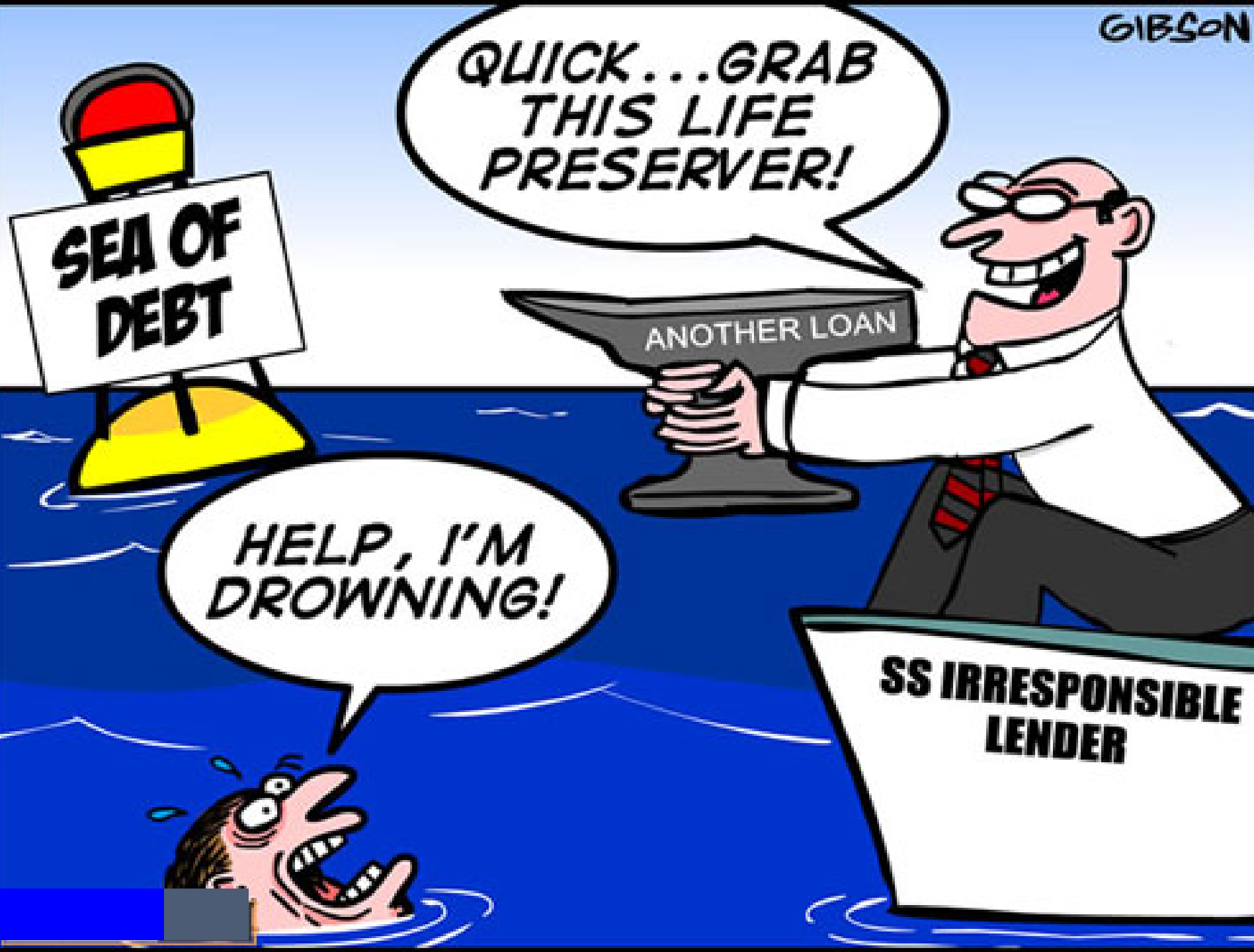
Basic FSA Expectations for Cash Flows

- All anticipated cash inflows and all cash outflows.
- Cash flow demonstrates feasibility in the current year, and if a term loan, also in a “typical year plan”.
- May be monthly or annual plans.



Dealing with Open Accounts

- “Current” Open Accounts should be:
 - Incurred for current production cycle expenses.
 - For existing G-LOC borrowers, these should be “minimal”.
- “Aged” Open Accounts must be:
 - Refinanced, or ...
 - Termed out by the creditor/supplier with satisfactory Debt Adjustment Agreement, or ...
 - Shown as to be paid in full within the first year.



SEA OF DEBT

QUICK... GRAB THIS LIFE PRESERVER!

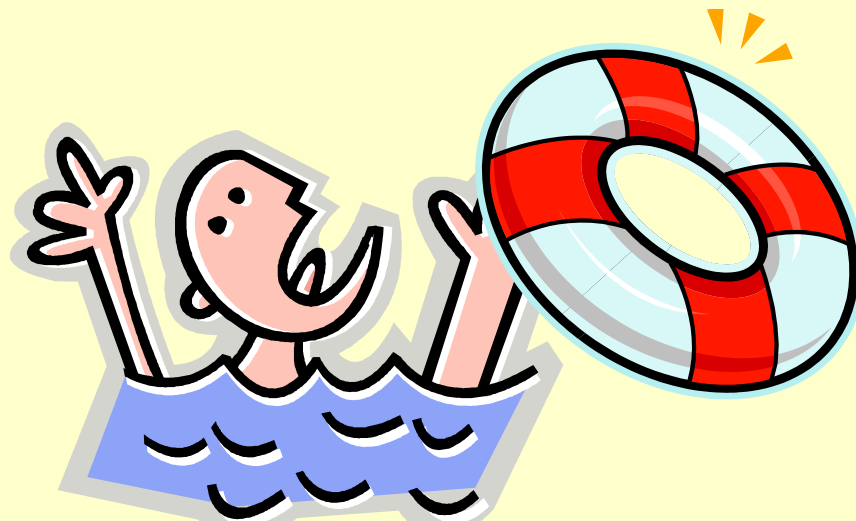
ANOTHER LOAN

HELP, I'M DROWNING!

SS IRRESPONSIBLE LENDER

Dealing With Negative Cash Flows

- Restructure existing debts to lower payments
- Term out first year's expenses or refinance other creditors until a feasible plan is achieved.
- Add a FSA Direct loan.
- Someone provides debt forgiveness.
- Deny the credit request.



FSA Loan Servicing Toolbox

- Reschedule/Reamortize
- Deferral
- Disaster Set-Aside (Direct Loans Only)
- Writedown



Guaranteed Loan Servicing

- FLP Numbered Letter 18-258 dated February 15, 2018 signed by Joe Martin, Minnesota FSA State Executive Director.
- Due to lower profitability for many guaranteed loan borrowers, prudent lender serving is critical to:
 - Protect validity of your guaranteed loan(s) and
 - Give borrower best possible chance for success.

FSA Handbook 2-FLP available at www.macsfsa.org.

Annual Cash Flow Requirements for G-LOC

There must be a realistic, positive cash flow for guaranteed lender to advance on a G-LOC in the current year. Each year:

- SEL lenders – Need prior written FSA consent before advancing.
- CLP lenders – Need to certify to FSA that there is a positive cash flow.
- PLP lenders need to have positive cash flow, but do not need to certify to FSA.

Guaranteed Line of Credit - G-LOC

Authorized Loan Purposes:

- Annual operating needs including family living.
- Scheduled term loan payments as they come due.
- Small capital purchases – must be paid within first year's cash flow.

Cannot be used for:

- Refinance of old debt.
- Real estate purchases.

Guaranteed Loan Servicing

- Security dispositions normally need to be applied to secured debt according to lien priority.
- For most G-LOC's, all crop sales, market livestock, crop insurance proceeds and FSA program payments are to be applied on the G-LOC.

If Year 2-5 G-LOC Plan is Negative...

- Lender should consider restructuring. Meanwhile:
- Apply all security proceeds to G-LOC. No releases.
Collect!!
- No new regular advances on the G-LOC.
- Protective Advances can be made/approved to preserve or maintain security per FSA rules.

Feasible Plan Has Been Found!

- If a feasible plan can be developed only through debt restructuring and/or partial asset liquidation, these actions need to be timely.
- May be acceptable that advances resume on G-LOC prior to the actual completion of restructuring action. Must be acceptable to borrower, lender and when appropriate, FSA.

Subordination of G-LOC Normal Income Security

- Distressed borrower may attempt to find a new source of annual operating credit for current year.
- Lien priority of the new crop may depend upon if guaranteed lender already made some advances or not on G-LOC.
- Once advance(s) made for current operating cycle, guaranteed lender cannot subordinate away first lien position on crops and/or market livestock.

If guaranteed loan payment is missed and no feasible plan can be found ...

- Lender prepares timely liquidation plan that maximizes recovery for guaranteed loan debt.
- SEL and CLP lenders must submit liquidation plan to FSA for concurrence. PLP lenders complete per their Credit Management System.
- All lenders need to submit estimated loss claim for each guaranteed loan in default within 150 days of missed payment.