



Kentucky

GUARANTEED LENDER

Newsletter | December 2021

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Message from Farm Loan Chief

Mike R. Hoyt

USDA Farm Service Agency, KY

Kentucky's Farm Service Agency Loan Programs posted another good year in 2021. This year here in Kentucky, FSA loaned almost \$76.7 million in guaranteed loans and \$113.67 million in direct loans. Of those, 746 were loans to beginning farmers which totaled over 105 million dollars. The number of loans made, and dollars obligated, was down from last year for not only Kentucky but the rest of the nation as well. Kentucky continues to rank in the top ten nationally in the number of direct farm ownership and guaranteed farm ownership loans and loans made to beginning farmers and SDA applicants. Kentucky also ranks in the top 5 nationally for direct operating loans, youth loans, loans to veterans, SDA loans and microloans.

Credit is due to the men and women in our 16 service centers across the state as well as our participating lenders for these accomplishments. Without this participation from our lending partners, FSA would be limited in our ability to get the much-needed credit out to our producers.

At Farm Service Agency we strive to continue to be the Lender of First Opportunity, whether it be assisting a young farmer trying to get started in agricultural production, an established farmer's first farm purchase, or the expansion of a farming operation. We stand ready to serve our customers with our 16 credit teams across the state.

Due to the pandemic, FSA will not be holding our annual Guaranteed

Lender Training meetings for 2022. We are making plans to provide a virtual training meeting via Microsoft Teams in early 2022. We plan to keep it short and very informative. All lenders who have previously provided an email address will receive an invite to the meeting.

With the continuing pandemic the next 12 months will certainly bring some challenges to everyone. As a lender we all look for ways to mitigate our risk when making loans. Let's not forget that the FSA guarantee is one of the better tools available to assist you in achieving your risk management goals. I hope you will participate in our pending Microsoft Teams meeting.

Loan Servicing Guidance Due to the COVID-19 Pandemic

Ordinarily, documents are submitted according to the lender status requirements of FSA Handbook 2-FLP. However, due to the ongoing pandemic, special consideration is being given in the following servicing actions:

- Annual Analysis of Line of Credit – If you are a Standard Eligible Lender (SEL) you may certify in writing that the borrower has a cash flow projecting feasible plan, is in compliance with the provisions of the line of credit agreement, and that the previous year’s income, loan funds and security proceeds have been accounted for. Written concurrence from FSA will not be required, however, supporting documentation must be in your files.
- Emergency Advances of Lines of Credit – If you are a Certified Lender (CLP or SEL), you may make emergency advances without prior approval after certifying to FSA in writing that all other requirements of FSA Handbook 2-FLP, Subparagraph 283 have been met.
- Additional Loans and Advances – If you are a CLP or SEL, you may make non-guaranteed loans to guaranteed borrowers without prior approval after certifying to FSA in writing that a cash flow projecting a feasible plan has been developed. A feasible cash flow is not a requirement of the SBA Paycheck Protection Program (PPP); therefore, all lenders may make PPP loans without FSA’s consent.
- Lenders who request forbearance of pursuing a liquidation due to circumstances created by the COVID-19 emergency will be granted the forbearance. In these cases, for interest accrual calculation purpose in the event of a loss, FSA will extend the payment due date 90 days. If you have a foreclosure action scheduled and cannot complete it due to circumstances created by COVID-19 emergency, you can have their borrower’s payment due date extended up to 90 days, by FSA, for purposes of calculating accruing interest on any potential loss. All lenders are encouraged to adhere to the existing time frames established for liquidation and the submission of loss claims. When you, regardless of your lender status, anticipate that delays may occur due to the ongoing pandemic, you should, as much as reasonably possible, remain in contact with your local FSA office to provide detailed up-to-date information. FSA will not reduce or deny a loss claim request when you can demonstrate that delays in liquidation and filing a loss claim was caused by the pandemic.

During the ongoing crisis, access to local FSA offices will be limited. You should submit requests and documentation electronically via email. If you have any questions about a specific FSA guaranteed account and potential servicing options, please contact your local FSA office by email or telephone.

The Farm Service Agency will not guarantee any loan that would result in the applicant’s total indebtedness exceeding the limits established in Handbook 1-FLP, paragraph 29. The maximum, FO, CL, OL and LOC levels include the guaranteed loan being made plus any outstanding direct or guaranteed principal balances owed by anyone who will sign the promissory note. The dollar limit of guaranteed loans is adjusted annually based on inflation. The total outstanding combined guaranteed FO, CL, SW, OL, and LOC principal balance cannot exceed \$1,825,000 for fiscal year 2022. 2-FLP paragraph 244 (A).

Down Payment Program

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

Requirements:

- Cash down payment of at least 5 percent of the purchase price.
- 20 years loan term
- Interest rates is 4 percent below the direct farm ownership rate, but not lower than the 1.5 percent.
- Loan amount limited to 45 percent of the least of:
 - The purchase price of the farm; or
 - The appraised value of the farm; or
 - \$667,000 (300,150 maximum).

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

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



Percent of Guarantee

For most loans, the maximum guarantee is 90 percent. The guarantee percentage will be determined by FSA based on the risk involved in the loan. The lender may receive a 95 percent guaranteed when:

- The applicant meets the definition of a beginning farmer or socially disadvantage applicant: or
- The purpose of the loan is to refinance Direct FSA farm loan. If only a portion of

the loan is for this purpose, a weighted percentage of guarantee will be used: or

- The loan is made to a beginning farmer to participate in the Down Payment Loan Program or a qualifying state beginning farmer program: or
- The loan is made to a socially disadvantaged farmer to participate in the Down Payment Loan Program.

K AFC Reaches Milestone

The Kentucky Agricultural Finance Corporation (K AFC) achieved a financial milestone in spring 2021 when it reached more than \$100 million in total assets.

This historic milestone came after Kentucky Agricultural Development Board (KADB) committed \$5 million to K AFC during its May 2021 meeting. Since 2003, the KADB has invested \$80 million in K AFC for loans. The additional \$20 million in assets includes loans approved by KADB and then transferred to K AFC and interest payments made on all loans over the years.

K AFC provides access to low-interest loans through joint partnerships with local lending institutions. Applicants must work with a lending agency to submit a K AFC loan application. Once

submitted the staff at Kentucky Office of Agricultural Policy (KOAP) work with the applicants and lending institutions to prepare the applications for the K AFC board review. All K AFC loan applications are due to KOAP staff by close of business three weeks prior to the regular monthly K AFC board meeting to be eligible for consideration.

K AFC currently offers five capital access programs to Kentucky producers and processors: The Agricultural Infrastructure Loan Program (AILP), Agricultural Processor Loan Program (APLP), Beginning Farmer Loan Program (BFLP), Diversification through Entrepreneurship in Agribusiness Loan Program (DEAL), and Large Animal Veterinary Loan Program (VET).

KOAP is proud to work with the Kentucky FSA on many of our K AFC loans. In fact, half of K AFC's loan portfolio involves guarantee or joint financing with the Kentucky FSA. It is because of strong partnerships with our local lenders and the Kentucky FSA, the K AFC loan programs are so successful and able to impact farmers and agribusinesses across the Commonwealth.

To learn more about the programs offered by the K AFC, contact Ali Hulett, loan programs manager, at 502-782-1760 or email kafc@ky.gov. To sign up for all KOAP news, email koap@ky.gov and put "news sign up" in the subject line.

Secondary Market

The lender may resell the guaranteed portion of the loan to an interested party. The purchaser then becomes the holder of the loan, but the original lender must retain the loan servicing responsibilities. Investors who are looking for safe investments with a reasonable return are attracted to these loans because of the government's full faith and credit guarantee against default. The existence of the secondary market makes Guaranteed loan notes more liquid. By reselling the guaranteed portions, lenders reduce interest rate exposure, increase their lending capabilities, and generate fees.

Advantages of Using the Secondary Market

Selling the guaranteed portion of the loan to other investors offers a number of advantages, including:

- **Reduced interest rate risk.** Lenders can transfer risk of interest rate increases on the guaranteed portion of fixed rate loan;
- **Increased Liquidity.** Selling the loan on the secondary market frees the funds for additional lending or investing activity;
- **Increased Lending or Investing Capabilities;**
- **Increased Return on Investment.** The sale of the guaranteed portion of the loan in the secondary market increases the lender's overall return on investment. Each time a bank sells a guaranteed portion, it generally retains a servicing fee; and
- **Rates and Terms.** Lender may be able to offer the borrower more flexible repayment terms, as well as fixed and/or reduced interest rates to improve cash flow.

Kentucky Farm Loan Program National Standings as of September 30, 2021

FY 2021

Microloans OL's – 1st 439 loans with \$9,486,140 dollars obligated

Direct OL loans – 4th 864 loans with \$35,485,000 dollars obligated

Youth loans – 3rd 115 loans with \$495,480 dollars obligated

Total loans – 5th 1,353 loans with \$190.37 mil obligated

Beginning Farmer loans – 9th 746 loans with \$105,910,227 dollars obligated

SDA loans – 4th 250 loans with \$27,350,819 dollars obligated

Guaranteed loans obligated is 209 loans for \$76,697,000 or 40.3% of the dollars obligated

Direct loans obligated is 1,144 loans for \$113,669,000, or 59.7% of the dollars obligated

Existing Borrower caseload

Direct loan borrowers – 6th 4,368 borrowers and 4th 8,098 loans for an outstanding loan balance of \$570,412,715

Youth loan borrowers – 2nd 679 borrowers & 3rd 724 loans for an outstanding loan balance of \$1,918,778

Guaranteed loan borrowers – 13th 1,110 borrowers and 13th 1,757 loans with the outstanding loan balance of \$450,652,813



Guaranteed Teams Event

On January 19, 2022 at 10:00 am (EST), Kentucky FSA will be hosting a Guaranteed Lender training event. This event will replace the annual lender meetings that are normally held in person across the state. Estimated time of this event is 1 hour. Topics will include guaranteed updates, loss claim findings and a quick overview of environmental requirements. We plan to keep this event short, to the point and informative.

We will be sending out an invite shortly to everyone who is on our master emailing list. Feel free to pass the invite on to other co-workers and lenders who may have not received an invite. If you fail to receive an invite, please contact your local FSA Office. All lenders who participate or have interest in FSA's guaranteed loan program are highly encouraged to join us in this event. We hope to get back to our in-person lender training meetings in 2023.

2-FLP Handbook Revisions

Highlights of Amendment 53 dated 03/17/2021

- **Par. 46 C** has been amended to correct the FDIC hyperlink.
- **Par. 110 A** has been amended to clarify the owner and operator requirements for Farm Ownership Loans.
- **Par. 123 B** has been amended to clarify the Farm Ownership Loans approved purposes.
- **Par. 363 E and K** have been amended to correct the reference in 7-FLP.

Highlights of Amendment 54 dated 04/12/2021

- **Par. 46 C** has been amended to correct a hyperlink.
- **Par. 67 C, 70 A, , 312 A, and Exhibit 12** have been amended to update the requirements for debt verifications.
- **Par. 83** has been amended to correct a CFR reference.

Highlights of Amendment 55 dated 08/13/2021

- **Par. 97** has been amended to revise the time periods for a lender to provide the items necessary for a complete application.
- **Par. 109 B and 110 B** have been amended to clarify operator requirements for entities.
- **Par. 122 B** has been amended to clarify authorized Term OL purposes.
- **Par. 138 B** has been amended to correct a CFR reference.
- **Par. 166 A** has been amended to correct instructions for completing FSA-2232.
- **Par. 183 B** has been amended to clarify the acceptable age of a real estate appraisal.
- **Par. 209 A** has been amended to clarify guidance for ensuring compliance with the National Historic Preservation Act.

- **Exhibit 2** has been amended to:

- Clarify operator requirements within the definition of a family farm.
- Add a definition of Non-monetary Default

Highlights of Amendment 56 dated 09/14/2021

- **Par. 66 B** has been amended to correct a reference to FSA-2211, Application for Guarantee.
- **Par. 66 H, 69 A, 70 A, 83 B, 95 D, 96 A, 96 C, 195 B and 244 C** have been amended to clarify the difference between FSA's environmental compliance review and the lender's environmental due diligence responsibilities.
- **Par. 244 A** has been amended to reflect the guaranteed loan limit for FY 2022.
- **Exhibit 5** has been amended to update the eAuth sign-up instruction for lenders.





USDA is an equal opportunity provider, employer, and lender.