

UNITED STATES DEPARTMENT OF AGRICULTURE

Farm Service Agency
Washington, DC 20250

General Program Administration 1-FLP (Revision 1)	Amendment 274
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Approved by: Acting Deputy Administrator, Farm Loan Programs



Amendment Transmittal

A Reason for Amendment

Exhibit 70 has been amended to update the instructions for developing farm operating plans using the FLP Amortization Tool.

Page Control Chart		
TC	Text	Exhibit
		70, pages 1-4 page 5

Developing Farm Operating Plans Using the FLP Amortization Tool

The following table provides a standard direct loan underwriting process that can be used to analyze various savings rates and repayment terms for direct loan applicants to make progress towards a reasonable working capital reserve and savings accumulation. A basic workflow is as follows.

Notes: Any balloon repayment terms offered must meet the security requirements of 7 CFR 764.254(b)(2)(i) (3-FLP, subparagraph 204 C). See results in the “Estimated Minimal Security Value at the Time of Loan Closing” within the “Key Output Figures” table in the FLP Amortization Tool.

The FLP Amortization Tool and this process workflow:

- will not be used if the request is for an annual OL only, or if the request is made along with a PLS request
- are optional if the request is only for a youth loan or down payment FO.

Step	Action
1	<p>Submit the application.</p> <ul style="list-style-type: none"> • Applicants should be encouraged to consider short- and long-term family and operational working capital reserve and savings needs when developing their farm operating plan and farm assessment. • Exhibit 71 can be used as a resource to aid applicants.
2	<p>Enter balance sheets and cash flows as would typically be completed but leave blank new FSA term debt repayment amounts and capital withdrawals for savings. This will result in an ending cash on hand that is the balance available for savings and new FSA term debt payments that can be input to the FLP Amortization Tool.</p> <ul style="list-style-type: none"> • Develop a before close balance sheet. In the loan schedule, enter the following loans with scheduled payments: <ul style="list-style-type: none"> • existing non-FSA debts • existing FSA debts. • Develop an after close balance sheet. In the loan schedule, enter the following loans with scheduled payments: <ul style="list-style-type: none"> • new non-FSA debts • new FSA annual OL’s. • In the after close balance sheet loan schedule, enter all new FSA term debts with no scheduled repayment amount. • Develop required cash flow projections to reflect the applicant’s plan. <p>Note: Do not put any amount in the budget for savings at this time.</p>

Developing Farm Operating Plans Using the FLP Amortization Tool (Continued)

Step	Action
3	Find the projected farm operating expense amount (operating expenses less interest and *--depreciation) and ending cash on hand from current year, interim (if applicable), and typical year cash flows, located in the FBP Ratios and Indicators Report.--*
4	<p>Enter the following data into the FLP Amortization Tool for each new FSA term loan:</p> <ul style="list-style-type: none"> • loan type • loan description • loan amount • interest rate • life of security • estimated date of closing • date of first payment • loan term (default to the max term, enter in a lesser number if requested by applicant) • for each of the first 7 years: <ul style="list-style-type: none"> • cash farm operating expense amount (operating expenses less interest and depreciation) • *--ending cash on hand <p>Notes: Do not include beginning cash on hand in typical year plans.</p> <p style="padding-left: 40px;">Cash farm operating expenses and ending cash on hand will be located--* in the FBP Ratios and Indicators Report.</p> <ul style="list-style-type: none"> • for each of the first 3 years, the savings rate and alternative savings amount default to the higher of 5 percent of the typical year operating expense less interest and depreciation, or \$7,000. Reasonable amounts identified by the applicant exceeding these thresholds may be entered with State Office concurrence and must be documented in the FLP credit presentation. <p>Notes: Youth loans are not eligible to include intended savings.</p> <p style="padding-left: 40px;">Savings and working capital reserves amounts included in the approved cash flow budget must be for reasonable purposes and specified, to the extent practicable, in the FBP farm assessment and credit presentation.</p>

Developing Farm Operating Plans Using the FLP Amortization Tool (Continued)

Step	Action
5	<p>If all combinations of repayment options 1 and 2 in the FLP Amortization Tool are feasible for all loans (reflected as green in the combined summary of loans in all years) and the terms on all loans being considered are the lesser of the useful life of the security or the maximum loan term, only options 1 and 2 are offered to the applicant.</p> <ul style="list-style-type: none"> • Contact the applicant to inform them of their options, select the radio button next to their selected option, and document the selection in the FBP credit presentation. Applicants must provide a determination within 5 workdays from the date of FSA communication. If the applicant does not provide a request of either option 1 or 2 for each new loan within the 5 workdays, FSA should proceed using option 2. • Enter the appropriate repayment amounts from the FLP Amortization Tool in the applicable after close balance sheet loan schedules. <p>Note: Additional after close balance sheets and cash flows may be necessary to accurately reflect repayment amounts that are different from the first year.</p> <ul style="list-style-type: none"> • Enter the savings amount as capital withdrawals in the corresponding cash flows. •*--In the applicable narrative WordPad of the FBP credit action, document the--* selected savings amounts and repayment terms identified by the applicant. • Rerun the FLP Amortization Tool with the actual closing date before loan closing if the FLP Amortization Tool will be used for completing the promissory note. • The FLP Amortization Tool document showing the selected repayment options must be saved in the applicant’s file, as well as a screenshot of the summary page saved in *--the applicable narrative WordPad of the credit presentation.--*
6	<p>If any combination of repayment options 1 and 2 in the FLP Amortization Tool is not feasible with the initial intended savings, select “No” in the “Feasible With Initial Savings” option to remove the savings rate and alternative savings amount. If the combination of any repayment options for all loans at regular interest rates is feasible with no savings, coordinate with the customer to select a feasible repayment plan, and increase the savings rate or alternative savings amount to the maximum amount available with the feasible repayment plan selected (recommended to increase in \$1,000 increments).</p> <p>Notes: Options 3 through 7 are only authorized when loan input details, item 9 “Loan Term”, is set to the maximum term authorized for the loan type, regardless of whether the FLP Amortization Tool reflects options 3 through 7 as feasible.</p> <p>For OL’s, if regular rates are higher than LR rates and the only feasible option at regular rates involves a balloon installment, LR rates with zero savings should also be ran in the FLP Amortization Tool. If LR rates provide a feasible option without a balloon installment, the applicant may select between regular rates with a balloon installment or LR rates without a balloon. If a balloon installment is also required for LR rates, only regular rates with a ballon will be offered in this step.</p>

Developing Farm Operating Plans Using the FLP Amortization Tool (Continued)

Step	Action
<p>6 (Cntd)</p>	<ul style="list-style-type: none"> • Discuss with the customer the impact of budgeting for reduced working capital reserves or savings accumulation. • Record the applicant’s decision by selecting the corresponding FLP Amortization Tool radio button and document the selection in the FBP credit presentation. Applicants must provide a determination within 5 workdays from the date of FSA communication. If the applicant does not provide a requested option for each new loan within the 5 workdays, FSA should proceed using the loan terms offered in this step, which includes interest only in year 1 and the lowest number of years of amortization presented. • Enter the appropriate repayment amounts from the FLP Amortization Tool in the applicable after close balance sheet loan schedules. Note: Additional after close balance sheets and cash flows may be necessary to accurately reflect repayment amounts that are different from the first year. • Enter the savings amount from the FLP Amortization Tool as capital withdrawals in the corresponding FLP cash flows. •*--In the applicable narrative WordPad of the FBP credit action, document the--* savings amount and repayment terms identified by the applicant. • Rerun the FLP Amortization Tool with the actual closing date before loan closing if the FLP Amortization Tool will be used for completing the promissory note. • The FLP Amortization Tool document showing the selected repayment options must be saved in the applicant’s file, as well as a screenshot of the summary page saved in *--the applicable narrative WordPad of the credit presentation.--*
<p>7</p>	<p>If reducing savings down to zero savings rate and zero alternative savings amount does not reflect any feasible plan at regular rates, select the LR rate option and re-evaluate options without any savings amounts.</p> <p>Note: Skip this step if the LR rate is not available for any of the loan types being considered, or if the regular rate is equal to or lower than the LR rate.</p> <p>If any combination of repayment options is feasible for all loans, do the following.</p> <ul style="list-style-type: none"> • Discuss with the customer the impact of not budgeting for working capital reserves or savings accumulation. • Record the applicant’s decision by selecting the corresponding FLP Amortization Tool radio button and document the selection in the FBP credit presentation.

Developing Farm Operating Plans Using the FLP Amortization Tool (Continued)

Step	Action
<p>7 (Cntd)</p>	<ul style="list-style-type: none"> • Enter the appropriate repayment amounts from the FLP Amortization Tool in the applicable after close balance sheet loan schedules. Applicants must provide a determination within 5 workdays from the date of FSA communication. If the applicant does not provide a requested option for each new loan within the 5 workdays, FSA should proceed using the loan terms offered in this step, which includes interest only in year 1 and the lowest number of years of amortization presented. <p>Note: Additional after close balance sheets and cash flows may be necessary to accurately reflect repayment amounts that differ from the first year.</p> <ul style="list-style-type: none"> • Do not enter any savings as capital withdrawals in the FLP Amortization Tool. •*--In the applicable narrative WordPad of the FBP credit action, document the--* repayment terms identified by the applicant. • Rerun the FLP Amortization Tool with the actual closing date before loan closing if the FLP Amortization Tool will be used for completing the promissory note. • The FLP Amortization Tool document showing the selected repayment options must be saved in the applicant's file, as well as a screenshot of the summary page saved in *--the applicable narrative WordPad of the credit presentation.--*
<p>8</p>	<p>If no combination of repayment options is feasible for all loans:</p> <ul style="list-style-type: none"> • contact the applicant to discuss opportunities for adjustments that may result in a feasible plan, including consideration of refinancing other debts, and re-evaluate in FBP and the FLP Amortization Tool • the FLP Amortization Tool document must be saved in the applicant's file, as well as a screenshot of the summary page saved in the capacity WordPad of the credit presentation • update FBP with repayment amounts reflecting an unfeasible plan using the nearest payment plan feasible from the FLP Amortization Tool. <p>Note: Multiple cash flow years may need to be developed to demonstrate the lack of feasibility.</p> <p>If the applicant's farm operating plan does not reflect a feasible plan, process a loan denial according to 3-FLP, paragraph 356.</p>

