



United States
Department of
Agriculture

Farm Service Agency

Your FSA Farm Loan Compass





Purpose of this Guide

Who should read this guide?

This guide is for farmers or ranchers who have a USDA Farm Service Agency (FSA) Farm Loan Programs loan. FSA offers other types of loans, such as marketing assistance loans and farm storage facility loans, which are made under authorities of the Commodity Credit Corporation (CCC). These are not part of FSA's Farm Loan Programs and, therefore, may be serviced differently. Any reference to an FSA loan in this guide is referring to a Farm Loan Programs loan. For more information on these and other programs offered by FSA, please visit our website at <https://www.fsa.usda.gov>.

Getting an FSA loan is only the beginning of your relationship with FSA. When you borrow money, you have many responsibilities, but with an FSA loan, you also have a partner that wants to help you succeed. While you have your loan, there is a lot to know, like how to report sales and make payments. You may also need other help with your loan. You might want to trade a piece of equipment, lease certain property rights (for example, allow drilling for oil or gas, building wind power generation, or cell antenna towers), or sell or give some property to someone else. You may need your loans restructured because of a disaster or financial problems.

This guide will help you answer these and other questions. It is important that you know what your responsibilities are in working with FSA. It is also important that you know what FSA's responsibilities are and how the local FSA office can help you. It may be helpful to use this guide with someone who can direct you to more sources of farming or ranching information, such as an experienced farmer or rancher, Extension Agent, a specialist with a community or farm organization, or other service provider. You may want to involve your family when reviewing this guide. It is important that everyone involved in the farm understands the process and risks involved in operating a farm business and borrowing money.

What is in this guide?

This guide includes information to help you understand how to make the most of the services and options that FSA offers. It also explains the responsibilities that you have with an FSA loan. It is intended to be a reference for you. When you have situations that affect your farm business, your ability to repay an FSA loan, or the property you have given as collateral for a loan, you can refer to this guide. There are sections on interest and payments, loan documents, and farm business planning and records. It includes important information about requirements for loan collateral. It also explains FSA's responsibilities to you.

Appendix A provides a list of other USDA agencies and some organizations you can contact for more information on agriculture, developing business plans, and obtaining help for your operation. Lending and finance have some specialized terms. Definitions for these terms are included in this guide in Appendix B. If you are not familiar with terms like promissory note, loan collateral, and accrued interest, you should review Appendix B before you read further.

There is also a Quick Reference Index to help you find information in the guide on certain situations.

Disclaimer: *This booklet is provided as a guide to help you understand FSA loan features, benefits, and borrower and agency responsibilities. This document does not replace or change FSA requirements, regulations, loan documents, or program handbooks. It is intended only as a program aid and guide. You should always talk with an FSA loan official before making major decisions that affect your financial situation, FSA loans, or farming operation.*



Contents

<i>Introduction</i>	8
<i>Your Relationship With FSA</i>	11
<i>Loan Basics</i>	12
• How FSA Charges Interest	
• Interest and Late Payments	
• Your Loan Documents	
<i>Your Responsibilities</i>	17
• Personal Liability	
• Making Your Payments	
• Supervised Bank Accounts	
• Changes in Your Financial or Operating Status	
• Borrower Training	
• Term Limits	
• Graduation	
<i>Your Farm Business Plan</i>	23
• Following and Changing the Plan	
• Keeping Complete, Accurate, Up-to-Date Records	
• Year-End Analysis and Farm Assessment	
• Loan Collateral	
• Maintaining Loan Collateral	
• Accounting for Loan Collateral	
• What Happens If You Violate the Agreement?	
<i>Services for Existing Loans</i>	33
• Subordination	
• Transfer and Assumption	
• Partial Release	
• Lease of Collateral	
• Borrowers Who Are Active Duty Members of the Armed Services	
• What To Do If You Cannot Make a Payment	
• Disaster Set-Aside	
• Primary Loan Servicing Options	
• FSA's Consideration of Primary Loan Servicing Requests	



- Results of a Request for Primary Loan Servicing
- Offsets
- Conservation Contracts
- Alternatives When Primary Loan Servicing Is Not Possible

Other Servicing and Collection Activities. 45

- Homestead Protection
- Treasury Servicing and Offset
- Debt Settlement

Guaranteed Loan Program 47

- Overview
- Servicing of Guaranteed Loans

FSA Responsibilities 48

- Customer Service
- Timeliness
- Technical Assistance
- Receipt for Service
- Written Notification of FSA Decisions
- Notification If Your Request Is Denied
- Availability of FSA Forms and Documents
- Availability of Regulations and Directives
- Availability of Your Loan File

Conclusion 53

Appendix A: Resources and Contact Information. 54

- USDA Agencies
- Other Organizations
- Additional Resources for American Indians/Alaskan Natives

Appendix B: Definition of Terms 62

Appendix C: Example Scenarios 68

- Making Payments
- Term Limits
- Changes in Financial or Operating Status

Appendix D: Quick Reference Index. 72

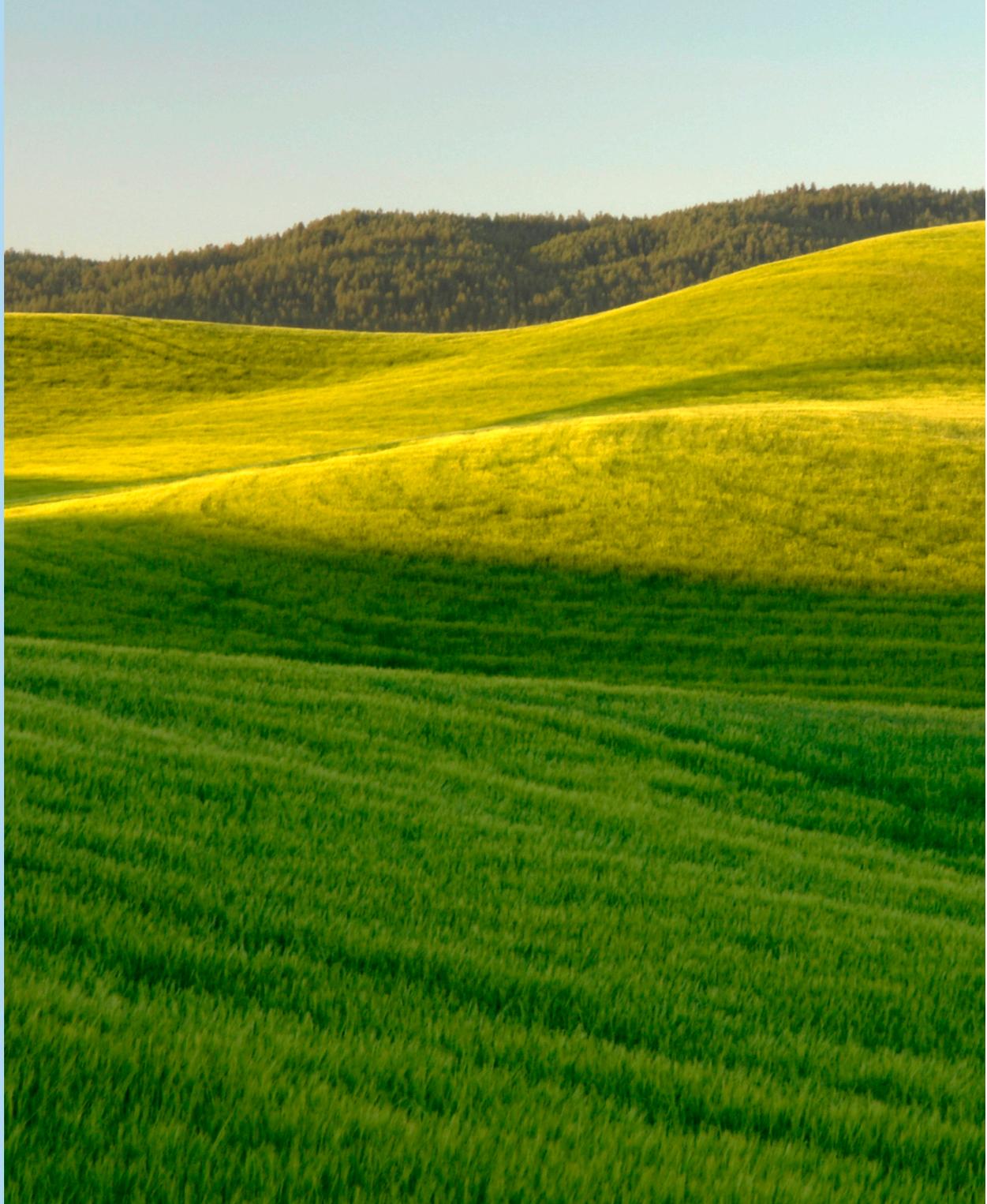
Introduction

FSA is an agency of the U.S. Department of Agriculture (USDA) that delivers programs to support American agriculture. When a commercial lender could not help you, FSA provided the loan you needed. If you received your loan from your local FSA office, then your loan was made under the Direct Loan Program. If you received your loan from a commercial lender, such as a bank, the Farm Credit System, or a credit union, who obtained a loan guarantee from FSA, your loan was made under the Guaranteed Loan Program. This guide focuses primarily on the Direct Loan Program.

FSA is not meant to be your lender for your entire farming career. Our goal is to help you progress and move to a commercial lender. Once you are able to obtain credit from a commercial lender, FSA's mission of providing temporary, supervised credit for you is complete.







Your Relationship With FSA

FSA's mission in making farm loans is to give you the best opportunity to achieve financial success on your farm, pay back your FSA loan, and move to a commercial lender. Although this guide explains your and FSA's responsibilities and how FSA can help you overcome challenges and make financial progress, it is not a substitute for communicating with your local FSA office. If you run into problems or difficulties, FSA staff may be able to help you, even if the information is not included in this guide. Be sure to check with them before making changes or decisions that were not part of your current farm business plan or that could affect your loan. It is especially important that you get FSA's approval of any sales, trades, or changes to collateral.

FSA's mission is not limited to providing just credit – it is to provide supervised credit including technical assistance. These features are part of what makes FSA different from commercial lenders. This means that FSA works with you to identify specific strengths and opportunities for improvement in farm production and management, and then works with you on alternatives and other options to address the areas needing improvement to achieve success. Learning improved business planning and financial acumen through supervised credit is the difference between success and failure for many farm families. If you need help with anything related to your loans, your farm business plan, your financial situation, even production problems, ask the FSA loan staff. If FSA staff cannot help you, they will help you find an expert who can help.

Everyone's case is different, so loan servicing may be different for you than for someone else going through the same process. Be sure to ALWAYS contact your local FSA office with any questions you have about your loan, collateral, or any changes you are thinking about making in your operation.



Loan Basics

How FSA Charges Interest

Lenders calculate interest in different ways. FSA calculates interest using what is called a simple interest method. That is, interest is charged only on the unpaid loan principal. Interest is charged on the principal each day. When you make a payment, the money is first used to pay interest that has been charged (called “accrued interest”) up to the day the payment is received. The rest of the payment goes to pay down the principal amount of the loan.

FSA loan payments are usually calculated or “amortized” so they repay the loan in equal, regularly scheduled amounts over a period of time. Some important payment facts:

- Payments are normally due annually.
- You are expected to pay when you receive income, which is planned for use as a loan payment, even if the payment is not yet due.
- You do not have to wait until a payment is due to make a payment.
- You can make partial payments at any time.
- There is no penalty for paying early.
- Paying ahead and paying early will reduce the interest you pay.



Whatever amount you pay will always be used to first pay any interest that has been charged (accrued) since the last payment. The rest of the payment then goes to pay down the loan principal.

Interest and Late Payments

If you are late making a payment on a loan, not only does FSA have to begin consideration of loan restructuring (which we will discuss later), but also your last payment will have to be higher to make up for the extra interest that accrues.

Here are some examples so you can see the effect of late payments:

Example 1: *Payments made as scheduled.*

\$75,000 loan, 3% interest rate, payment due March 31, loan closed March 31.

	Principal	Daily Interest	Pay Date	Payment	Interest Paid	Principal Paid	Balance
Year 1	\$75,000.00	\$6.15	31-Mar	-12,037.98	\$2,243.85	\$9,794.12	\$65,205.88
Year 2	\$65,205.88	\$5.34	31-Mar	-12,037.98	\$1,950.83	\$10,087.14	\$55,118.73
Year 3	\$55,118.73	\$4.52	31-Mar	-12,037.98	\$1,649.04	\$10,388.93	\$44,729.80
Year 4	\$44,729.80	\$3.67	31-Mar	-12,037.98	\$1,338.23	\$10,699.75	\$34,030.05
Year 5	\$34,030.05	\$2.79	31-Mar	-12,037.98	\$1,018.11	\$11,019.86	\$23,010.19
Year 6	\$23,010.19	\$1.89	31-Mar	-12,037.98	\$688.42	\$11,349.56	\$11,660.63
Year 7	\$11,660.63	\$0.96	31-Mar	-12,009.49	\$348.86	\$11,660.63	\$0.00
Total Interest Paid					\$9,237.35		

Example 2: *Payments are made late.*

\$75,000 loan, 3% interest rate, payment due March 31, loan closed March 31.

	Principal	Daily Interest	Pay Date	Payment	Interest Paid	Principal Paid	Balance
Year 1	\$75,000.00	\$6.15	30-May	-12,037.98	\$2,428.28	\$9,609.70	\$65,390.30
Year 2	\$65,390.30	\$5.36	30-Jun	-12,037.98	\$2,444.10	\$9,593.88	\$55,796.42
Year 3	\$55,796.42	\$4.57	31-Mar	-12,037.98	\$1,669.32	\$10,368.66	\$45,427.76
Year 4	\$45,427.76	\$3.72	30-Jun	-12,037.98	\$1,359.11	\$10,678.87	\$34,748.90
Year 5	\$34,748.90	\$2.85	31-Mar	-12,037.98	\$1,298.81	\$10,739.17	\$24,009.73
Year 6	\$24,009.73	\$1.97	30-Apr	-12,037.98	\$777.36	\$11,260.61	\$12,749.12
Year 7	\$12,749.12	\$1.05	31-Mar	-13,130.55	\$381.43	\$12,749.12	\$0.00
Total Interest Paid					\$10,358.41		

In this example, you can see that making late payments can be expensive. When a payment is paid late, more of the payment is used to pay the additional daily interest charges that added up for each late day. The amount of principal that was not paid will then accrue more interest than calculated in the original repayment schedule. The result is that every late payment will continue to cost you money for the remaining term of the loan. This borrower paid over \$1,100 more interest than was originally scheduled for the loan because payments were late. Also, the last payment on the loan had to increase by that amount to pay the loan in full when it was due.

If you make payments early or you include extra money with your payments, just the opposite will happen. You will be paying less interest and your last payment could even be lower than projected.

If a loan is restructured, any unpaid interest will be capitalized and become part of the principal (this is explained in more detail in the primary loan servicing section of this guide). The result is that the capitalized interest will also begin to accrue interest.



Your Loan Documents

When you received your FSA loan, you signed several legal documents including a promissory note, a list of your responsibilities, and documents giving FSA a lien on the items used to secure the loan (collateral). When you signed these documents, you made serious financial and legal promises. Hopefully, you read these carefully before signing them. If you have not read them, do that right away. If there is anything you do not understand, contact your FSA loan officer to discuss your concerns.

The documents include agreements about how you may use your loan funds, what property you pledged to the Government to assure repayment if you fail to pay your loans (the collateral for the loan), and requirements for insurance and property taxes. You are responsible for keeping all the agreements and promises in the documents you signed. Failure to make a payment or meet any of the other requirements in the loan agreements can lead to serious problems. If you have more than one FSA loan, breaking one loan agreement means you have broken the agreements for all your FSA loans. However, in many cases, a loan official can help you resolve these issues before they become major problems. That is why it is so critical for you to stay in close communication with FSA loan staff. The most important agreements and promises are outlined in the next section.

Your Responsibilities

Personal Liability

When you receive a loan, you sign a legal contract, a document called a promissory note (this document is explained further in Appendix B). Anyone (and everyone, if more than one person signs it) who signs a promissory note is legally responsible for the repayment of the entire loan, including any unpaid interest and any fees charged on the account.

When you sign a promissory note, you are responsible for the loan until one of these things happens:

- The loan is paid in full.
- FSA releases you from liability (covered later in this guide).
- The debt is canceled through bankruptcy.

If you are part of a business organization like a partnership, limited liability company (LLC), or corporation that received a loan, you are still required to sign as an individual. Each member of the entity is responsible for the entire FSA loan.

- If you signed the promissory note for a loan and leave the business, you are still liable for the loan until FSA releases you from liability.
- If you leave or plan to leave the business, you and the remaining members of the business should contact FSA immediately to discuss future plans, including the possibility of release from liability if you wish to be released.



If you signed one or more FSA promissory notes with a spouse, and later you and your spouse divorce, you are still liable for the loan(s). A divorce decree does not release you from liability with FSA. You should tell your local FSA office about the divorce action and update contact information, such as new mailing addresses and telephone numbers. Your local FSA office will work with you and your ex-spouse to help figure out a plan for servicing the FSA loan, including requesting a release from liability for the former spouse leaving the farm business.

Making Your Payments

Your loan payments are due as scheduled and agreed upon in the promissory note. As discussed in the *Interest and Late Payments* section earlier in this guide, it is important that payments be made on time. Prepayment of scheduled payments, or any part of a payment, can be made at any time without a penalty.

If basic loan security, such as land, equipment or breeding livestock is sold and will not be replaced, the money from the sale must be used to make an extra payment. An extra payment cannot be used as a scheduled installment. This is because the sale of collateral decreases the value of the remaining collateral. Making an extra payment from the sale of collateral does not take away your responsibility to also make scheduled loan installments; however, it does reduce the amount of your FSA debt.

Any money that FSA must advance or spend to collect a loan or to care for and protect loan collateral, such as payment of unpaid property taxes, becomes a part of the loan. Interest is charged at the same rate as the loan, and you are required to repay FSA for these expenses without prior notice.

Even if you get behind on your loan payments and are working with FSA on restructuring or loan servicing options, it is important to pay what you can. Not only is that what you promised to do, but interest continues to be charged on the loan.

It is also important to make every effort not to become delinquent on your payments to FSA because other payments you may be expecting to receive will be administratively offset (offsets are discussed in detail later in this guide) and not paid to you. Being delinquent on FSA loan payments will also keep you from getting other loans from the Federal Government, such as student loans and Veterans Affairs (VA) loans.

Supervised Bank Accounts

In certain situations, FSA may require money to be placed in a supervised bank account (SBA). These situations could include loan funds, when the funds will be used to purchase livestock or equipment; money received from the sale of FSA loan collateral, when the funds will be used to replace what was sold; and money received from insurance claims, when the money will be used to repair or replace damaged or destroyed property.

Use of an SBA should not continue for an extended period of time. When the items have been purchased, repaired, or replaced, the account should be closed. Even though FSA must sign off on checks written from an SBA, the account is yours. Be sure to review the monthly account statement carefully. If you see any problems or differences with your records, contact FSA as soon as possible.

Changes in Your Financial or Operating Status

FSA made you a loan based on facts you gave in your application, for example, what property you have, what you are producing or going to produce, and how you plan to farm. If you plan to or have had an important change in your operation, family income, expenses, or collateral, any of these things could affect your ability to repay the loan or affect FSA loan collateral. You should let your local FSA office know immediately if any of these things happen or when you find out something is going to happen.



The law that establishes FSA farm loans requires that anyone who receives a loan must actually operate a farm or ranch. This requirement is included in the promissory note that you signed when you received the loan. In certain cases, FSA may be able to grant limited exceptions to this requirement (covered in the *Lease of Collateral* section later in this guide). Be sure to talk with your local FSA office about your options **before** agreeing to rent or lease loan collateral to anyone. **Never** sign a lease or rental agreement on any part of your property that is loan collateral without talking with FSA. If you rent or lease loan collateral without FSA's approval, even if you rent or lease to a family member, it is a violation of your loan agreements and security instruments. Breaking these agreements can jeopardize your loan and take away much of the flexibility FSA may have to help you cope with or resolve problems.

Borrower Training

As part of a loan agreement, FSA often requires borrowers to complete training in production, financial management, or both. This is to help borrowers develop and improve important skills to help them be successful farm and ranch operators (the law actually directs FSA to determine a borrower's need for training and require it when appropriate). The training helps FSA borrowers gain knowledge, address problems or operational weaknesses, and plan for financial success.

Depending on the needs and location, there are different kinds of training available. For example, some training may be done locally in a classroom setting while other training is available online, by video, or correspondence course workbooks. If you are required to complete training as part of your loan agreement, your local FSA office will work with you to find approved classes and training programs. You will have 2 years from loan closing to complete the training.



Term Limits

Because FSA is a temporary source of credit, there are limits on the number of years in which you can get some types of FSA loans. When you reach the term limit in a loan program, loans you still owe are not affected, but you cannot get new loans in that program.

Operating Loans – In general, you may not receive FSA direct operating loans in more than 7 different calendar years. For beginning farmers, the limitation is 10 years. It does not make any difference if the years are consecutive (1 year after the other) or spread out over many years. Even if you receive multiple operating loans in 1 year, you still have used only 1 year of eligibility. The number of years a loan is outstanding does not count toward term limits for direct operating loans. For example, if your first operating loan is a 7-year loan, even if several years have passed, if you have not received additional operating loans you have still only used 1 year of eligibility.

Exemptions/Exceptions:

- If you are a beginning or a veteran farmer/rancher, any FSA microloans you receive will NOT count against the term limits as long as you qualify as a beginning or veteran farmer/rancher.
- Term limits do not apply if your land is subject to Indian Tribal jurisdiction.
- In limited circumstances, FSA can grant a waiver to term limits. The waiver is only available one time and is good for 2 years. To receive a waiver, you must be able to show that your operation is financially viable. You must also agree to complete

financial management training under the borrower training program, even if you have previously completed training or received a waiver. If you do not complete the training during the first year, the term limit waiver is cancelled and you cannot receive additional operating loans.

Farm Ownership (FO) Loans – You may not have a direct FO loan outstanding for more than a total of 10 years prior to the date a new FO is closed. When you receive your first farm ownership loan, the 10-year period begins and runs as long as you have an outstanding farm ownership loan. It does not make any difference if the years are consecutive (1 year after the other) or spread out over many years. For example, if you previously received a farm ownership loan, but paid it off in 5 years, you still have 5 years of having a farm ownership loan left before you are no longer eligible due to term limits.

Emergency loans – There is no term limit on emergency loans.

Graduation

FSA loans are a temporary source of credit and not a replacement or substitute for commercial credit; therefore, FSA loans are only available to you until you are able to get a loan from a commercial lender. FSA is required to review your financial situation periodically to determine whether it might be possible for you to graduate by refinancing your FSA loans with a commercial lender. When it appears to FSA that you have made financial progress and are able to get commercial credit at rates and terms similar to other farmers in your area, you will be required to apply for a loan with a commercial lender. If you apply for commercial loans at FSA's request and are denied, you will not have to graduate at that time.

Your Farm Business Plan

Following and Changing the Plan

Your farm business plan has several purposes. If you do not know where you are going, how will you know when you get there? Can you tell if you have made a wrong turn? Is there a better road to take? That is what a farm business plan is for. It helps you operate your business.

Your farm loan or loan servicing application received approval because your farm business plan showed your farming operation would produce enough income to pay your bills, make your loan payments, and pay your family living expenses. Of course, we all know that things can change, sometimes for better (we hope!) or worse (hopefully not).

Sometimes it is hard to discuss what you believe is a bad situation with your loan officer. You might be surprised to find things are not as they seem. Please keep in mind that FSA's goal is to help you make financial progress. When changes happen, it is important for you to talk with FSA. It was mentioned earlier that any changes you make have the potential of affecting your income or overall financial situation, including your ability to make your loan payments. FSA has a variety of tools to help you, such as training, technical assistance, and loan servicing options (covered later in this guide); however, FSA cannot use these tools to help you unless you talk to your loan officer.



Below are a few examples of changes you should discuss with your FSA loan officer if they were not part of the farm business plan.

- Renting more or fewer acres.
- Trading, buying, or leasing equipment.
- Increasing breeding herd (keeping rather than selling heifers/gilts/ewes, etc.).
- Impact of adverse weather (delayed planting or harvest, hail or frost, or death or injury to livestock).
- Significant, unplanned expenses or income.
- Lease or sale of mineral rights.
- Reduction in non-farm income.

There could also be nonfinancial changes that affect your operation that you should discuss immediately with FSA. Examples of nonfinancial changes include, and are not limited to:

- Formation or dissolution of a business organization (partnership, corporation, LLC, etc.).
- Divorce.
- Serious illness or death of a spouse or other key person in the farm operation.
- Property changes beyond your control (notice of eminent domain, change in zoning, etc.).

If you talk with FSA as soon as you are aware of any of these changes, FSA can help you avoid or minimize problems with FSA. For example, the Agency wants to make sure you will form a business organization in a way that will allow you to continue to qualify for future loans or that you remain eligible for loan servicing options.

Keeping Complete, Accurate, Up-to-Date Records

Proper records of income and expenses for family living and farm operating expenses are an important part of your business “road map” that enable you to know where you are and make good business decisions as you move forward.

Records that are complete, accurate, and up-to-date are critical for successfully managing your operation. Good records can help you identify parts of your operation that are not profitable, expenses that may be too high, or opportunities for greater profit.

Because records are so important, keeping good records and providing financial information to FSA upon request are part of your loan contract. Without timely and accurate financial information, FSA cannot help you with decisionmaking or provide assistance such as loan restructuring.

Year-End Analysis and Farm Assessment

Your year-end analysis (YEA) is a key component of FSA technical assistance and an important tool to help you become successful. A YEA is an annual meeting with an FSA loan officer to review your records. To be most effective, the meeting should be as close as possible after the end of the season or production cycle.

The objective of a YEA is to determine what went right, what went wrong, and plan accordingly for the coming year. Your FSA loan officer will work with you to review your progress, identify challenges, evaluate current needs, and help you plan for the coming production cycle.

When you first received a loan, the loan officer worked with you to complete a farm assessment. The assessment included strengths and weaknesses and plans to use the strengths and correct or cope with weaknesses. It also included setting goals for your operation. The assessment is intended to provide you with a long-term plan for moving toward success. The idea is to help you see where you are on the road to success, and when necessary, get help from the right places to overcome challenges and keep moving forward.

Loan Collateral

Please read this section carefully. Problems and misunderstandings when accounting for collateral can create very serious problems.

Collateral refers to specific property you have pledged to FSA to secure repayment of a loan. The items used as collateral provide a second source of repayment in case you are not able to make payments on the loan. Loan collateral can be many different things, for example, land and buildings, crops, livestock, equipment, trucks, trailers, and in unusual cases, even cars and boats. Loan collateral other than land is often referred to as chattel property or chattels (refer to Appendix B for a complete definition of chattel property). FSA groups loan collateral into two different categories:

- **Normal Income Security** – This includes things you will produce or grow on your farm or ranch and then sell; for example, crops that you grow and harvest, livestock products like milk, eggs, wool, and livestock raised for sale like calves or feeder stock. These are the things you would raise and expect to sell to make money each season or production cycle.

- **Basic Loan Security** – This includes the value of things you need to be able to continue to operate your farm or ranch; for example, land (including the surface and any oil, gas and minerals), farm equipment, breeding livestock, or livestock used to produce things that you sell, like milk, eggs, or wool.

The loan documents you signed give FSA certain legal rights to basic and normal income security (this property is under lien or mortgage – refer to Appendix B for a definition of these terms); this makes you responsible for letting your local FSA office know about anything that affects this property. Be sure you know what property and products were used to secure your FSA loan.

Important Note: It is critical that you understand the following:

- **Your agreements with FSA for using any money received from selling collateral property.** Be sure to **always** contact your local FSA office any time you are not sure or have questions.
- **If your loan is secured by chattel property, the loan documents include an after-acquired clause** (defined in Appendix B). This means that you agree to give FSA a security interest in property you purchase after signing the documents, even if FSA did not provide financing for it. For example, if you buy additional cattle, those cattle become part of FSA's loan collateral no matter where the funds to purchase them came from. If you buy a tractor or other equipment with dealer financing, FSA will automatically have a lien behind the dealer or finance company. If you have questions about whether FSA has a lien on property you have purchased, talk with an FSA loan official.

Procedures for placing and releasing liens on property to secure a loan are determined by State laws, which FSA must follow. The policies and processes discussed here are general; an FSA loan official can discuss the very specific details for the State where you live. For example, in many States, liens on chattel property are recorded centrally at the State level, but in other States, the records are kept in each county.

Maintaining Loan Collateral

The loan contract requires you to take care of all the property used to secure your FSA loan. If you have a loan secured by real estate, this includes following all farm and ranch conservation, environmental, or management plans. Do not change the use of the property (for example, from farmland to a quarry) or sell or allow removal of things like timber, sand, gravel, oil, gas, coal, or other minerals without first getting the written consent of FSA. If another lender has a lien on the property in addition to FSA, you will need to get the other lender's approval as well.

As discussed previously in the *Changes in your Financial or Operating Status* section of this guide, you must **always** get FSA approval any time you want to lease property that is part of FSA loan collateral. This could be anything from the lease of a small plot for a mobile home to sections of cropland or buildings. It also includes leases for oil or mineral exploration, as well as leases for wind turbines or communication towers. Leasing of equipment and livestock (chattels) that are loan collateral will not be approved. Payments received for approved leases must be made directly to FSA and will be used toward your regular loan payments.



You must obey all environmental laws and requirements and not do anything that could create environmental problems, such as use, handle, or store hazardous material improperly or dispose of hazardous material on property that is FSA loan collateral. Livestock waste must be properly stored and handled. The USDA Natural Resources Conservation Service (NRCS) can help you if you need assistance with livestock waste issues; your local FSA office can provide you with an NRCS contact. If your operation requires environmental permits, you must stay in compliance with any permit requirements.

You must pay all taxes you owe on property securing your FSA loan. Unlike home mortgage loans, FSA does not include taxes as a part of a farm land loan payment and pay them for you. Be sure to plan for enough cash on hand to pay taxes when they are due.

If any other legal claim is filed against FSA collateral such as liens, assessments, or judgments as a result of debts you owe to other creditors or Government agencies, you are in default on your FSA loan agreements. **If you run into problems with other creditors, it is important that you contact FSA right away.** FSA may be able to use its loan servicing tools and help you reach payment agreements with other creditors. **Do not wait until a creditor starts legal action.** If the situation reaches that point, it may be too late for a workable solution.

Insurance is required on all property that serves as FSA loan collateral. Collateral must be insured against damage or loss. The amount of coverage required is specified in loan documents. If the property includes buildings within a flood plain, flood insurance is required as well. You are not required to insure property when the cost is not reasonable, for example, when the premium for insuring an older building is more than the building is actually worth. In addition, you must provide FSA with a copy of the insurance policy when requested.

You must pay for or reimburse FSA for the cost of filing or renewing paperwork needed to keep your legal loan documents current during the life of the loan or to protect FSA loan collateral. For example, each State charges a small fee every 5 years to renew or continue some types of lien documents, so FSA will ask you for the money to pay for this.

FSA will inspect your farm to make sure that you are taking care of loan collateral and operating it in keeping with the promises and agreements you made in your loan documents.

Accounting for Loan Collateral

Any sale or trade of things used to secure your FSA loan, even if FSA is not the first lien holder, must be approved in advance by FSA.

Selling Normal Income Security – Part of the farm business plan and loan documents you signed included an agreement about how, where, and to whom you would sell the crops, livestock products, and livestock you grow or produce. This agreement is known as Form FSA-2040, “Agreement for Use of Proceeds and Security,” and it lists the amount of income you expect to receive from the sale of the property and how that money will be used. Form FSA-2040 serves as your permission from FSA to sell or transfer the property listed and use the proceeds to pay for family living and farm operating expenses, loan installments, and other purchases. At the beginning of the planning cycle, you meet with FSA to develop or update your farm business plan for the year. When you and FSA agree on a plan, that agreement includes FSA’s permission to use income from the sale of certain collateral according to the plan. **If your actual expenses are higher than expected, contact FSA to discuss** changed circumstances and get approval by adjusting Form FSA-2040 **before** you use proceeds from the sale or transfer of collateral to pay for these additional expenses.

Any time you are thinking about making any changes to how, where, or to whom you sell the things you grow or produce or how the money will be used, be sure to let your local FSA office know. Here are some examples: instead of selling watermelons at a local produce auction, a grower might want to sell them directly to a grocery store; instead of using money from the sale of spring crops to buy more cows as planned, a borrower may need to pay for a tractor overhaul; or an integrated livestock producer may want to change integrators.

Selling or Trading Basic Loan Security – Before you sell or trade basic loan security, it is very important for you to let your local FSA office know what you are thinking about doing. They will work with you to figure out the current market value of the item(s), agree on how any money received will be used, and determine if any changes in your loan documents will be needed.

Example: You want to trade your tractor for a newer tractor and you can get financing from the dealer. You would first go to your local FSA office to discuss the possible trade. Some discussion points could be:

- *Does the newer tractor better fit your operation?*
- *Is the older tractor breaking down a lot, how much would repairs cost, and have breakdowns kept you from using the tractor when it was needed?*
- *How much do you need to get for the trade-in?*
- *How much additional debt can you afford?*

The FSA loan staff can help you answer these questions so you can make an informed decision.

- **Selling Real Estate** – Real estate is also basic loan security. If you decide to sell real estate, contact your FSA loan official as soon as possible. Real estate sales are more complicated than chattel sales. If you are dividing property, you may need to hire a surveyor and an attorney. In some cases, FSA may need an

appraisal of the property before agreeing to release its lien. If the sale will directly impact your farm operation, a new or revised farm business plan may be needed. Be sure to let your local FSA office know well in advance of any possible sale so a staff member can work with you to figure out what processes are needed and get them started.

What Happens If You Violate the Agreement?

If you accidentally violate the Form FSA-2040 agreement by disposing of collateral or using the proceeds from the sale of collateral in a way outside the plan, you will have the opportunity to correct the violation. You may get FSA approval for what you did, after you did it (post approval). However, this post approval is only available to you one time. You:

- have 30 days to correct the violation
- can correct the violation by either paying FSA the amount received when you sold the collateral or by providing enough information to allow FSA to approve the sale and use of proceeds.

If you are not able to correct the violation within 30 days, then you will be considered in default on the loan and FSA may pursue legal action. If you violate the agreement a second time, then you will be considered in default on the loan and FSA may pursue legal action.

Knowingly selling or disposing of FSA loan collateral without FSA approval and then using any money from that sale for something other than paying FSA is not only a violation of loan agreements, but also a criminal offense. The Government may press criminal charges against you.

Services for Existing Loans

Subordination

A subordination:

- is when a lender gives all or part of its legal right to loan collateral to another lender, creditor, or other party
- can allow FSA loan collateral to be used by another lender to make a new loan. The new loan could be used for things like operating credit to produce a crop, build a house on the farm or ranch, or other useful improvements for the operation
- may be requested because of a lease for oil or mineral rights or for wind or cell towers. In these cases, subordination would mean that the lease takes priority over a mortgage. The lease holder would want this so that if a foreclosure happened, it would not affect the lease.

There are several conditions that must be met for approval of a subordination. Be sure to check with your local FSA office if you have a situation where a subordination may be necessary.

Transfer and Assumption

A transfer and assumption is when someone wants to buy your loan collateral and take personal liability for the FSA loans. The sale of your loan collateral has to meet certain conditions like being sold for current market value. It is also important to remember the person who wants to assume your loan has to meet all FSA loan requirements the same as if the person was getting a new loan.

Transfer and assumptions can be very complicated, so be sure you and the buyer discuss the sale of your loan collateral with your local FSA office before making any kind of commitment. The local FSA office will help you with the proper paperwork and assist the buyer who will need to submit a complete FSA loan application. You will both need to work closely with FSA throughout the whole process.

Important Note: If you intend to sell property and the deal includes the buyer “taking over payments,” it is critical that you discuss this with FSA and that the buyer apply for a transfer and assumption. If you make such a deal without FSA’s approval, you have created problems for yourself because:

- you are still responsible and liable for the FSA loans. If the person who bought the farm from you does not pay, FSA is still looking to you for payments even though you are not operating the farm.
- your loans will be in nonmonetary default (covered in the *Changes in Your Financial or Operating Status* section of this guide) because you will no longer be the operator (or owner-operator) of the farm. FSA may declare your loans all due and payable and begin foreclosure action.

Partial Release

A partial release is when FSA releases its lien against some part of the property that is FSA loan collateral. Usually a partial release is requested when land is being sold, for example, dividing off and selling a building lot or selling one of several parcels of land FSA holds as collateral. It can also be the sale of a right of way and rights to things like timber, mineral rights, gas, coal, sand, or gravel. For a partial release to be approved, certain conditions must be met. Releases may be made for chattel, which is FSA loan collateral as well.



At a minimum, the sale must be for current market value and should not interfere with your operation. In a few cases, FSA can agree to release property without payment. However, the value of the remaining collateral must be significantly more than the remaining loan balances and other conditions must be met.

Any time you are thinking about a sale of real estate or other collateral, you will need to contact your local FSA office so that FSA can determine if a partial release can be approved. The same is true if you want to give some land to a family member. FSA can also help you with the application and legal processes. The process can be complicated and could require things like an appraisal, sales contract, and legal services. Be sure not to sign any type of an agreement or make any promise until after you have discussed the sale or gift with FSA.

Lease of Collateral

As mentioned in the *Changes in Your Financial or Operating Status* section earlier in this guide, if you have real estate that serves as FSA loan collateral, you may be able to rent or lease out the collateral under the following conditions:

- FSA has to approve your request.
- The length of the lease is sometimes limited to 3 or 5 years.
- The lease cannot cover chattel that is FSA loan collateral.
- The lease cannot have an option for sale or purchase.
- If the collateral is part of your farm or ranch operation, FSA will need to know why you will not be the operator.

There are different rules for leases for communication towers, wind turbines, nonfarm usage, or any type of minerals. Contact your local FSA office for help working through the process anytime you are thinking about leasing anything that is part of FSA loan collateral.

Borrowers Who Are Active Duty Members of the Armed Services

If you join the military and enter active duty or are activated from the National Guard or reserve status, contact FSA as soon as possible. FSA will help you plan for the future of your operation and discuss options for your FSA loans. You should consider giving someone power of attorney so that he or she can work with FSA and others on your behalf when you are unavailable to sign documents or discuss issues related to the farm. If you are considering lease or sale of loan collateral as a result of your activation, FSA will help you evaluate options. If you decide to lease or sell loan collateral, FSA will work with you to request and, if possible, approve one of these actions if you choose.

Active duty members of the U.S. Armed Services have the following additional rights related to the servicing of their loans:

- The interest rate on your loans cannot exceed 6 percent while you are in active duty status. If the rate on any loan exceeds 6 percent, FSA will reduce the rate to 6 percent for the duration of your active duty. You do not need to request this; FSA will reduce the rate automatically when informed that you are on active duty.
- If your FSA loans become delinquent or are delinquent, no offset of Government payments may be taken after you enter active duty (offsets are discussed in this guide), and loans will not be referred to the U.S. Department of Treasury for collection.
- FSA cannot declare your loans fully due and payable (called acceleration) or foreclose on loan collateral while you are in active duty status.
- During a time of war or national emergency, interest and your payments can even be suspended for a period of time.

Some of these rights apply not just to FSA loans, but certain loans with other lenders as well. If you have loans with other lenders, you should also contact them as soon as possible. If you are having financial difficulties while on active duty, you may want to consult a legal advisor about your rights under the “Service Members Civil Relief Act of 2003.”

What To Do If You Cannot Make a Payment

If you know that you are not going to be able to make your full payment on time, you should contact your local FSA office as soon as possible. Do not wait until you miss a payment. It can be hard to discuss what you believe is a bad situation with your loan officer. But, the sooner you and FSA begin working together on the problems you face, the more likely it will be that something can be worked out. FSA will work with you to try and restructure your loan so that the payment plan better matches your current situation. FSA can:

- consider you for Primary Loan Servicing (PLS) (discussed later in this guide) if you are under financial distress, even if you have not missed a payment yet. For this to happen, you will need to provide FSA with information and a complete servicing application.
- provide technical assistance to help identify the cause and potential solution for your problems. As discussed earlier, it is very important to pay what you can because it will help minimize the amount of interest you must pay and reduce other problems.
- sometimes set part of the payment aside if you are having a problem making your FSA loan payment because your operation was affected by a natural disaster. You can find more information about Disaster Set-Aside in the next section.

If you become delinquent on payments, FSA sends detailed letters with information about servicing in the mail. Be sure to pay very close attention to any mail or letters you receive from FSA and call your local office any time you have questions.

Disaster Set-Aside

When there are unfortunate natural events like bad storms, floods, or drought, the President or Secretary of Agriculture may declare the event a natural disaster. When a disaster is declared, FSA can make emergency loans, and Disaster Set-Aside becomes available for borrowers who are having problems because of the disaster.

The Disaster Set-Aside program allows FSA to set aside part of the annual payment for many kinds of FSA loans until the last year of the loan. The amount cannot exceed 1 year's payment, and it continues to accrue interest while set aside. Disaster Set-Aside does not apply to annual operating loans, and there are some other conditions that need to be met.

FSA will send you a letter about Disaster Set-Aside once a year, if the county where you farm or ranch, or a neighboring county, is officially declared a disaster. If you are usually able to pay all your expenses and loan payments, but are now having trouble because of a disaster, contact your local FSA office to find out more about Disaster Set-Aside.

Primary Loan Servicing Options

If you do not make your payments by the due date, you will be delinquent on your FSA loans. FSA has several loan servicing options that can be used to bring your account current and can often make a new restructured payment plan specifically for your operation. FSA calls this process Primary Loan Servicing.



By law, Primary Loan Servicing actions must follow some very detailed guidelines with important deadlines. When you have been delinquent on your payments for 90 days, FSA will send you a letter telling you about Primary Loan Servicing and exactly what you must do to apply. You will have 60 days to get a complete application to FSA, but it is important that you get started right away. You will get a reminder letter from FSA in about 30 days to make sure you know exactly where you are in the application process.

Important Note: It is very important to complete the application by the 60-day deadline. This is a legal requirement that FSA cannot waive. If you do not apply by the deadline, FSA cannot provide Primary Loan Servicing.

FSA can often help by restructuring your loans and setting up new payments. There are several ways this can be done:

Rescheduling/Reamortization which means your payments are rearranged over the remaining term of the loan. Sometimes a longer term can be used to give you more time over which to make the payments.

Deferral is when you are given a period of time up to 5 years during which you make reduced payments or no payment. However, interest will continue to be charged on the whole loan.

Write Down/Debt Forgiveness is when a part of the debt is forgiven (written off). This can only be done as a last resort and depends on the value of your loan collateral. You can

only get this type of help one time, and it will prevent you from being able to get many types of FSA loans in the future. You might also have to pay income taxes on the amount of principal written down. Write down of debt secured by real estate includes a recapture provision, which means that you could also be required to repay all or part of the debt forgiveness if the real estate collateral increases in value during the 5 years after the write down.

Interest Rate Reduction allows loans to be restructured at the lower of:

- the existing rate on your loan, or
- the rate that is being charged on new loans at the time of restructuring, or
- the rate in effect at the time of application for Primary Loan Servicing, whichever is lower.

The rates on your loans will not increase, but they may be reduced depending on current interest rates.

FSA's Consideration of Primary Loan Servicing Requests

FSA uses a computer program called eDALR\$ to evaluate primary loan servicing requests. All Primary Loan Servicing action calculations must be made with eDALR\$. There are some key reasons FSA uses eDALR\$:

- There are usually several different servicing actions possible for each loan. eDALR\$ can quickly evaluate every combination to assure that if there is any possible combination of actions that would make Primary Loan Servicing feasible, it will be found.
- eDALR\$ follows the same process every time for every borrower and loan. This assures that everyone with a complete Primary Loan Servicing application receives the same consideration of all possible servicing alternatives in the same way.

- Much of the data needed for the complex calculations is entered into eDALR\$ automatically from the FSA farm business plan system and the FSA accounting system. This reduces the possibility that a mistake in data entry could cause a result that is incorrect and possibly harmful to you.

If you submit a complete request for Primary Loan Servicing, you will be provided a copy of a printout of the result of eDALR\$ calculations when a final decision is made on your request.

Results of a Request for Primary Loan Servicing

Based on the results of eDALR\$ calculations, FSA will either:

- offer to restructure your loans. If restructuring is possible, you must accept the offer within 45 days of when you receive the offer.
- deny the request. If restructuring is not feasible, your request will be denied. You will receive a letter explaining why your request was denied and what additional options you have, if any. The letter will include your rights for an appeal of the decision.

IMPORTANT REMINDER: The law governing FSA loan restructuring is very specific on timeframes and decisions. You only have one opportunity to apply for loan restructuring, and the decision you make is final. FSA cannot consider an application received after the 60-day deadline. If you do not apply by the deadline but later decide to apply, your application cannot be processed. If you receive an offer to restructure and do not accept it within 45 days (if you appeal terms of the offer, the 45-day clock stops until the appeal is resolved), your loans cannot be restructured. For these reasons, if you receive any kind of letter from FSA, especially if it is sent by certified mail, you should always read it very carefully. Contact your local FSA office if you do not understand it or have questions.

Offsets

If you are 90 days late in making your loan payment, FSA is required by the “Debt Collection Improvement Act” to start withholding part of any money you normally expect to get from FSA and other Government programs. This is called an offset and applies to things like FSA Farm Program payments, Social Security payments, and Federal tax refunds. FSA is also required to refer delinquent loans to the U.S. Department of Treasury for collection. If offset is necessary, you will be sent a letter to let you know before an offset happens. This is an appealable decision, and the letter will include instructions to follow if you wish to appeal. However, the law says that FSA must take all actions possible to collect delinquent debt.

Conservation Contracts

A conservation contract is a legal agreement between FSA and an FSA borrower whose loan is secured with real estate. FSA agrees to reduce the amount of the FSA loan that must be paid back, and the borrower agrees not to use part of the land the borrower owns so it can be used for conservation purposes to benefit the environment.

Example: Using the land for wildlife habitat or for a buffer next to a natural resource like a wetland, stream, or lake.

The land must be suitable for a conservation purpose for your loan to be reduced by a conservation contract. The contract agreement must be for at least 10 years; however, it can be for 30 or 50 years in return for a larger reduction in the amount you have to pay back.

You can ask for a conservation contract at any time; however, you will also be told about the Conservation Contract Program whenever you are sent a letter about Primary Loan Servicing. If you think you might be interested in a conservation contract, contact your local FSA office. If you are eligible, they will put together a Conservation Contract Review Team, with experts from the USDA Natural Resources Conservation Service and other agencies. FSA and the team will work together with you to see if your land is suitable, and if it is, FSA will help you with the processes and legal paperwork.

Alternatives When Primary Loan Servicing Is Not Possible

If you default on your FSA loan and a feasible business plan is not possible after considering FSA's Primary Loan Servicing options, or if you do not apply within the 60-day time period, there are still a few options that may be available:

Pay Current or in Full – You can pay the amount you owe FSA at any time.

Market Value Buy Out – You may pay FSA the value of the loan collateral. Under this option, you can keep the collateral even if that amount is less than the amount you owe FSA.

Voluntary Liquidation – You may sell the collateral for its current market value and pay FSA the amount you receive.

Note: No matter which of the above options you choose, you will still need to work with FSA to settle your loan account if a balance remains after all collateral is sold or the value is paid.

Foreclosure – If you do not resolve your account voluntarily, FSA is required to liquidate the loan collateral through foreclosure. Foreclosure is a last resort and the worst outcome for both FSA and the borrower. Voluntary resolutions are almost always better than the process of foreclosure. In the case of a foreclosure, the collateral for the loan will be sold and the money used toward paying off the loan.

Other Servicing and Collection Activities

Homestead Protection

If your home is part of FSA loan collateral and because of foreclosure or voluntary conveyance FSA takes possession of it, then Homestead Protection will give you the right to lease the house and up to 10 acres from FSA. The lease can be for up to 5 years if certain conditions are met. The purpose is to give you time to make arrangements or look for financing so you can buy the house back from FSA. If you are an American Indian or Alaskan Native, Asian, Black or African American, Native Hawaiian or other Pacific Islander, Hispanic, or a woman, and you are able to lease the homestead property, you can also give a member of your immediate family the right to buy the home under Homestead Protection. FSA tells borrowers that might be eligible for Homestead Protection about it during Primary Loan Servicing and again if the house comes into FSA's possession.

Treasury Servicing and Offset

In most cases, if there is a remaining balance owed after all loan collateral is sold, FSA is required to turn over loan collection to the U.S. Department of the Treasury. Treasury will use both the offset process and private collection agencies to collect the money owed. The Treasury offset program (TOP) covers all Federal Government payments and many other kinds of income. Treasury servicing may include garnishment of wages or salary.

Debt Settlement

Sometimes, as part of settling the balance on an account, a portion of the debt is forgiven or written off. As noted earlier, you can only get debt forgiveness once from FSA, and it will prevent you from getting most types of FSA loans in the future.

These are all very serious legal actions which FSA works to avoid, but to do so, FSA will need your help. That is why it is very important to communicate and work with your local FSA office, even in difficult situations. Always remember when you borrow money from FSA, it is taxpayer money and must be repaid with interest.

Guaranteed Loan Program

Overview

Guaranteed loans are made and serviced by commercial lenders, such as banks, the Farm Credit System, or credit unions. FSA guarantees the lender's loan against loss up to 95 percent. FSA is responsible for reviewing these loans and providing oversight of the lender's activities.

Servicing of Guaranteed Loans

Lenders are responsible for supervising guaranteed loan borrowers in the same way they do their other agricultural loan customers; therefore, lenders are expected to apply standard agricultural loan servicing policies to their guaranteed loan customers. If you are a guaranteed loan borrower, you are responsible for keeping the promises you made in the loan agreements you have with your lender. FSA's servicing of guaranteed loans is limited to checking on the lender's supervision of the guaranteed loan and letting the lender know in writing about any problems.

Communication with your lender is very important. Many loan agreements require periodic reporting and notification of changes in the operation, similar to FSA requirements. Keeping your lender informed of changes can improve the lender's confidence in you and increase the likelihood of a positive decision when you request additional loans.

If you have both direct and guaranteed loans, FSA will work with you and the guaranteed lender on servicing your accounts. Any financial or production information you report to the guaranteed lender may be submitted to FSA in the same format – it is not necessary to copy the data onto FSA forms.

FSA Responsibilities

FSA has several responsibilities to you as a borrower.

Customer Service

You are entitled to good customer service. When you call or visit an FSA office, you can expect to be treated professionally and with courtesy. In some cases, FSA staff will ask that you make an appointment for a face-to-face meeting. However, you cannot be required to schedule an appointment to submit an application for FSA assistance, either for a new loan or for any type of loan servicing action. Applications may be submitted to FSA at any time, in person, or by fax, email, or regular mail. If for some reason FSA cannot approve a request, it is agency policy to discuss adverse decisions with you, if at all possible, before giving them in writing.

Timeliness

FSA realizes that timing is critical for many decisions and activities in farming and ranching. FSA is committed to providing timely service.

Technical Assistance

One of the key differences between FSA and other lenders is technical assistance. FSA is required to provide you with technical assistance to help you make financial progress and reach your goals. There are many possible activities covered by technical assistance, ranging from help in completing an application for a loan or for servicing, identifying strengths and weaknesses in your operation, and finding outside experts to help you address a complex production issue. As a part of technical assistance, if FSA cannot approve what you have requested, a loan official can identify alternatives that might make a farm business plan viable, or possible changes that might allow a denied servicing action to be approved, for example. Do not be reluctant to ask FSA for help – it is part of the agency's responsibility.

Receipt for Service

When you ask for assistance, request an application, or submit an application, FSA will provide you a Receipt for Service.

Written Notification of FSA Decisions

All FSA Farm Loan Programs decisions must be given in writing, either hard copy, email, or both. An FSA official may not approve or deny a request for a loan, or any servicing action, without giving written notice of the decision. If the request is approved, the notification must include any requirements and conditions. If the request is denied, the notification must provide the reasons for the denial. The notice must also specify the requirements in FSA handbooks and regulations that resulted in the denial decision.

Notification if Your Request Is Denied

Commitment to good service does not mean FSA will approve every request. Sometimes a request for a loan servicing action cannot be approved. Requests may only be approved if all applicable requirements have been met. Whenever a request is denied, FSA staff will explain why and provide alternatives, if possible, that might allow the Agency to approve a later request.

A denial letter must include any applicable appeal rights. Appeals of FSA decisions are handled by the National Appeals Division (NAD) of USDA. NAD is an independent agency and has no connection to FSA. In some cases, FSA may determine that a decision is not appealable. Non-appealable decisions typically involve program requirements where there is no judgment involved. For example, if you request a Disaster Set-Aside, but did not farm in a declared disaster area, FSA must deny the request because operating in a declared disaster area is a requirement to receive a Disaster Set-Aside. There is no judgment involved in determining that the county was not part of a disaster declaration, so the decision is not appealable. However, even in cases like this, if you believe FSA is wrong and you should be allowed to appeal, you can ask the Director of NAD to review the FSA decision that the denial is not appealable. The denial letter from FSA will include instructions on how to request a NAD review of the decision.

If your request is denied, the denial letter will tell you how to request the following options that are available to you:

Reconsideration, which provides you with the opportunity to meet with the FSA loan officer to present additional information and explain why you believe FSA's decision may be in error. If you do not agree with the outcome of the reconsideration process, you can then request mediation or an appeal.

Mediation, which is a process for resolution of a disagreement between two or more parties. A trained, neutral mediator helps the parties look at the issues, consider all available options, and attempt to agree on an acceptable solution. Mediation may be helpful especially if there are other creditors involved in your situation. Many States have USDA approved mediation programs. If you request mediation, FSA will contact the appropriate mediation coordinator. If your State does not have a mediation program, FSA will help if you wish to meet with creditors to explore alternatives that might allow your request to be approved.

Appeal to the USDA National Appeals Division, which is an independent organization within USDA where you may present evidence that demonstrates why you believe that FSA's decision may be wrong. If you choose to appeal, be sure to make your request before the deadline in the denial letter. NAD will not accept appeal requests submitted after the deadline.

Availability of FSA Forms and Documents

All blank FSA forms and documents are available in FSA offices, and most are also available on the FSA website at <https://forms.sc.egov.usda.gov/eForms/welcomeAction.do?Home>. FSA does not require an appointment to submit a loan application or a servicing request. However, if you need help completing a form or other document, we encourage you to make an appointment to ensure that our staff has adequate time scheduled to give you their full attention and answer all your questions.

Availability of Regulations and Directives

FSA's program regulations and directives for Farm Loan Programs are available to the public. Regulations are published in the Code of Federal Regulations (CFR), available through the U.S. Government Printing Office website. Farm Loan Programs' policy, procedures, instructions, and information are issued in FSA directives. Long-term and permanent guidance is issued in handbooks, whereas short-term or temporary guidance is addressed in notices.

Much of the CFR language is included in our handbooks. Handbooks and notices are available on the FSA website and are also available for review in local FSA offices. The FSA staff is required to follow the directions and requirements in handbooks and notices. If you make a request for a loan or loan servicing and the request is denied, the written notice of the decision must include a reference to the specific handbook requirements or guidelines that the decision was based on.

Availability of Your Loan File

You have the right to review your loan file. You may need to schedule an appointment to see your file so that an FSA staff member will be available to provide it for you. There is no cost for copying the first 100 pages; however, after that a fee may be charged.

Conclusion

Congratulations on getting your loan from FSA's Farm Loan Programs. At this point, you have developed a strong relationship with the staff at your local FSA office. Remember, when you borrow money, you have many responsibilities, but with FSA, you also have a partner that wants to help you succeed in achieving a successful career in farming or ranching. We hope this guide will help you answer questions that come up as you operate; however, keep in mind that FSA staff is still available every step of the way from making your first payment to graduating to a commercial lender.

Appendix A: Resources and Contact Information

USDA Agencies

Agricultural Marketing Service (AMS)

Website: <https://www.ams.usda.gov>

AMS facilitates the strategic marketing of agricultural products in domestic and international markets while ensuring fair trading practices and promoting a competitive and efficient marketplace. AMS constantly works to develop new marketing services to increase customer satisfaction.

Agricultural Research Service (ARS)

Website: <https://www.ars.usda.gov>

ARS is USDA's principal in-house research agency. ARS leads America towards a better future through agricultural research and information.

Animal and Plant Health Inspection Service (APHIS)

Website: <https://www.aphis.usda.gov/aphis/home>

APHIS provides leadership in ensuring the health and care of animals and plants.

The agency improves agricultural productivity and competitiveness and contributes to the national economy and the public health.

Center for Nutrition Policy and Promotion (CNPP)

Website: <https://www.cnpp.usda.gov>

CNPP works to improve the health and well-being of Americans by developing and promoting dietary guidance that links scientific research to the nutrition needs of consumers.

Economic Research Service (ERS)

Website: <https://www.ers.usda.gov>

ERS is USDA's principal social science research agency. Each year, ERS communicates research results and socioeconomic indicators via briefings, analyses for policymakers and their staffs, market analysis updates, and major reports.

Farm Service Agency (FSA)

Website: <https://www.fsa.usda.gov>

The Farm Service Agency implements agricultural policy, administers credit and loan programs, and manages conservation, commodity, disaster, and farm marketing programs through a national network of offices.

Food and Nutrition Service (FNS)

Website: <https://www.fns.usda.gov>

FNS increases food security and reduces hunger in partnership with cooperating organizations by providing children and low-income people access to food, a healthy diet, and nutrition education in a manner that supports American agriculture and inspires public confidence.

Food Safety and Inspection Service (FSIS)

Website: <https://www.fsis.usda.gov/wps/portal/fsis/home>

FSIS enhances public health and well-being by protecting the public from foodborne illness and ensuring that the Nation's meat, poultry, and egg products are safe, wholesome, and correctly packaged.

Foreign Agricultural Service (FAS)

Website: <https://www.fas.usda.gov>

FAS works to improve foreign market access for U.S. products. This USDA agency operates programs designed to build new markets and improve the competitive position of U.S. agriculture in the global marketplace.

Forest Service (FS)

Website: <https://www.fs.fed.us>

FS sustains the health, diversity, and productivity of the Nation's forests and grasslands to meet the needs of present and future generations.

Grain Inspection, Packers and Stockyards Administration (GIPSA)

Website: <https://www.gipsa.usda.gov>

GIPSA facilitates the marketing of livestock, poultry, meat, cereals, oilseeds, and related agricultural products. It also promotes fair and competitive trading practices for the overall benefit of consumers and American agriculture. GIPSA ensures open and competitive markets for livestock, poultry, and meat by investigating and monitoring industry trade practices.

National Agricultural Library (NAL)

Website: <https://www.nal.usda.gov>

NAL ensures and enhances access to agricultural information for a better quality of life.

National Agricultural Statistics Service (NASS)

Website: <https://www.nass.usda.gov>

NASS serves the basic agricultural and rural data needs of the country by providing objective, important, and accurate statistical information and services to farmers, ranchers, agribusinesses, and public officials. This data is vital to monitoring the ever-changing agricultural sector and carrying out farm policy.

National Institute of Food and Agriculture (NIFA)

Website: <https://nifa.usda.gov>

NIFA's unique mission is to advance knowledge for agriculture, the environment, human health and well-being, and communities by supporting research, education, and extension programs in the Land-Grant University System and other partner organizations. NIFA does not perform actual research, education, and extension, but rather helps fund it at the State and local level and provides program leadership in these areas.

Natural Resources Conservation Service (NRCS)

Website: <https://www.nrcs.usda.gov/wps/portal/nrcs/site/national/home>

NRCS provides leadership in a partnership effort to help people conserve, maintain, and improve our natural resources and environment.

Risk Management Agency (RMA)

Website: <https://www.rma.usda.gov>

RMA helps to ensure that farmers have the financial tools necessary to manage their agricultural risks. RMA provides coverage through the Federal Crop Insurance Corporation, which promotes national welfare by improving the economic stability of agriculture.

Rural Development (RD)

Website: <https://www.rd.usda.gov>

RD helps rural areas to develop and grow by offering Federal assistance that improves quality of life. RD targets communities in need and then empowers them with financial and technical resources.

Other Organizations

Cooperative Extension System Offices

Website: <https://nifa.usda.gov>

Each U.S. State and territory has a Cooperative Extension State office at its land-grant university and a network of local or regional offices. These offices are staffed by one or more experts who provide useful, practical, and research-based information to agricultural producers, small business owners, youth, consumers, and others in rural areas and communities of all sizes.

Small Business Counselors (SCORE)

Website: <https://www.score.org>

SCORE, a nonprofit organization, is a network of volunteers who provide resources to help entrepreneurs start, grow, and succeed in their business. SCORE operates through 364 chapters located throughout the United States and provides confidential business counseling services at no charge.

Extension Risk Management Education (ERME) Centers

Website: <http://extensionrme.org/>

The four regional ERME Centers provide funds on a competitive basis to extension educators and farm management consultants who have the expertise to develop and deliver risk mitigation materials to agricultural producers. The Digital Center serves as the clearinghouse for risk management material and provides risk management curricula,

information, tools, and assistance through an online resource called the National Ag Risk Education Library.

Additional Resources for American Indians/Alaskan Natives

Intertribal Agriculture Council (IAC)

Website: <http://www.indianaglink.com>

The Intertribal Agriculture Council pursues and promotes conservation, development, and use of agricultural resources for the betterment of American Indians/Alaskan Natives.

IAC Regional Technical Assistance Program Offices

Website: <http://www.indianaglink.com/our-programs/technical-assistance-program>

Through assistance from USDA's Office of Tribal Relations, the Intertribal Agriculture Council has established IAC Regional Technical Assistance Program Offices. These regional offices provide technical assistance and outreach to Indian producers and tribes. They provide guidance through the regulations and processes of Federal agencies and:

- teach intensive financial, business, and marketing planning skills and understanding of basic and advanced farm and ranch business management skills to American Indian/Alaskan Native farmers and ranchers;
- teach leasing requirements for tribal trust and restricted lands to American Indian/Alaskan Native farmers and ranchers in coordination with the Bureau of Indian Affairs; and
- support the deployment of tribal agriculture advocates and technical assistance providers in key locations throughout Indian Country, who will serve alongside consolidated sub-offices at tribal headquarters, tribal agriculture USDA liaisons, third-party regional employees, and others.

Indian Land Tenure Foundation

Website: <https://iltf.org>

The Indian Land Tenure Foundation is a community-based nonprofit organization focused on the recovery, management, and control of American Indian lands by Indian people. They work with Indian people, Indian organizations, tribal communities, tribal governments, and others connected to Indian land issues.

Indian Land Working Group

Website: <http://www.indianlandworkinggroup.org>

The Indian Land Working Group is dedicated to the restoration and recovery of the native land base; and the control, use, and management of this land base by tribal communities.

Note: The information describing these organizations was obtained primarily from their websites.

Appendix B: Definition of Terms

Accrued interest: Interest that has been charged to a loan account, but has not been paid.

After-acquired clause: A provision in security agreements (chattel is livestock, machinery, etc., also see the definition of chattel in this appendix) which specifies that if you acquire additional property after the agreement is signed, it is covered by the agreement and treated as collateral for the loan(s) even though that property is not listed on the agreement.

Amortize: To schedule regular payments to reduce a debt over time.

Assumption: An agreement to be responsible for someone else's loan. The original borrower remains responsible unless he or she is released by the lender.

Beginning farmer/rancher: Someone who has not operated a farm or ranch before or has not operated a farm or ranch for more than 10 years.

Capitalize: To convert unpaid interest to loan principal when a loan is restructured.

Chattel (or chattels): Property other than real estate, for example, livestock, equipment, growing or stored crops. Sometimes referred to as “personal property.” Chattel property can be pledged by a borrower to serve as collateral for loans.

Collateral: Specific property pledged to FSA to assure repayment of a loan. The items used as loan security provide a second source of repayment in case payments are not made on the loan. For example: land and buildings, fixtures, growing or stored crops, livestock, equipment, trucks, trailers, and in unusual cases, even cars and boats. A lender has a legal right to take possession of the property or goods pledged as security if the loan is not repaid. Collateral may also be referred to as security.

Continuation statement: An amendment that is attached to a borrower’s financing statement which extends the lender’s lien on the borrower’s collateral past the original expiration date. The actual continuation statement itself must be filed with the State’s Secretary of State or other appropriate authority before it can be attached to the financing statement.

Deed of Trust: A document that gives a lender or other creditor a lien on real estate. A deed of trust usually includes requirements in addition to making loan payments as agreed, such as paying property taxes, keeping insurance on the property, and keeping other agreements with the lender. In some States, this document is called a mortgage.

Default: Failure to keep a promise agreed to in loan documents. There are two kinds of default. Not making payments by the due date is monetary default, but usually simply called default and is the most frequent type of default. Monetary default can be resolved by paying the past-due payment, or often, through the primary loan servicing process. The second form of default is nonmonetary default, which refers to the situation when

a borrower breaks a loan agreement or does not meet a loan requirement other than repayment. See the definition of nonmonetary default for more information on that situation.

Deferral: An approved delay in the repayment of a loan.

Delinquent: When a loan payment is not made on or before the date when due.

Easement: The legal right to access or use another person or entity's land for a specific purpose.

Financing Statement: Also known as a UCC-1 Form, this is a standardized form that a lender files with the State to secure its interest in collateral from a borrower. Should the borrower default, or fail to pay back the loan, the lender is then entitled to take the collateral in place of the loan repayment. This legal form gives the public notice of a lender's claim to the collateral.

Note: UCC is the Uniform Commercial Code.

Fixture: An item of personal property attached to real estate in such a way that it cannot be removed without defacing or dismantling the structure, or damaging the item itself.

Foreclosure: Occurs when a lender uses his or her legal right to sell loan collateral because the borrower is in default. The legal process a lender must follow.

Graduation: Getting a loan from a commercial lender and paying off FSA loans. This is required by law when a borrower has made financial progress and is able to get commercial credit.

Lien: A lien is a legal claim on property to secure a debt owed to someone other than the

property owner. A lien given to a lender grants the lender a legal right to take possession of and sell the property covered by the lien to repay the loan, if the loan is not repaid as agreed, or if other agreements are not kept. A mortgage, deed of trust, and financing statement are examples of legal documents that result in a lien.

Loan Agreement: A contract between the borrower and the lender that contains certain lender and borrower agreements, conditions, limitations, and responsibilities for credit extension and acceptance.

Market Value: The price an item would be expected to sell for on the open market given a willing, not forced, buyer and seller and a reasonable time for an agreement to be reached.

Mineral Rights: The right of ownership to naturally occurring substances or resources that might exist on or in the ground. Examples of items covered by mineral rights include coal, gravel, and stone. Oil and gas may also be covered under mineral rights but often are considered separately under oil and gas rights. Dealings with any of these rights can be legally and financially complex. It may be best to get expert advice when considering offers for lease or sale of mineral, oil, and gas rights.

Mortgage: A document that gives a lender or other creditor a lien on real estate. A mortgage usually includes requirements in addition to making loan payments as agreed, such as paying property taxes, keeping insurance on the property, and keeping other agreements with the lender. In some States, this document is called a Deed of Trust.

Nonmonetary Default: Failure to meet or follow a requirement in a loan agreement, a promissory note, or real estate mortgage/deed of trust. Examples of actions FSA considers nonmonetary default include disposing of loan collateral or using the proceeds from the disposition without FSA prior approval, leasing the farm or ranch without FSA's consent, failing to pay real estate taxes, and not keeping other agreements made with FSA.

Offset: A deduction or withholding of all or part of a benefit or payment due to a borrower from another Government source. If the offset is the result of a delinquent FSA loan, the money withheld is applied as a regular payment on the delinquent loan.

Primary Loan Servicing: The process of considering loans for primary loan servicing programs including restructuring or other modification of payments and/or reduction of loan amounts through a conservation contract or write down.

Promissory Note (or “note”): A legal contract, an agreement in which a borrower promises in writing in return for a loan, to repay the lender a specific sum of money on specific terms. A note usually includes requirements in addition to repayment, such as providing information, meeting specific conditions, cooperating with the lender, and so forth.

Reamortize: To revise the payment schedule on a real estate loan. Except in unusual cases, the repayment term is not extended and the reamortized payments are based on the remaining term of the loan. The interest rate may be changed.

Reschedule: The process of revising the payment schedule, including extending the term of an operating type loan. Operating loans may be rescheduled for up to a 15-year term to improve repayment ability. The interest rate may be changed.

Restructure: A general term for changing the payment schedule and other terms on one or more loans. Restructuring may include any or all primary loan servicing actions, depending on the individual situation.

Security Agreement: A document that gives a lender or other creditor a lien on chattel property much like a mortgage or deed of trust, but covering property such as crops, Government payments, livestock, farm equipment, and similar items.

Security Instrument: Any legal document giving a lender a legal interest or claim to goods or property pledged to secure a loan. Examples include a mortgage, deed of trust, and security agreement and financing statement.

Subordination: A written agreement giving another lender priority over FSA's current lien or interest in loan collateral. When FSA subordinates its lien to another lender, that lender gets claim to the value of the collateral before FSA. Subordinations are often used to allow a lender to make a loan instead of FSA making a loan.

Term Limit: The end of a person's eligibility for a certain type of FSA loans. Term limits are determined differently for each kind of loan (operating and ownership).

Uniform Commercial Code (UCC): A set of laws with similar requirements in each State that govern commercial dealings, including loans. The UCC provides a process for a lender to obtain a lien on chattel or other personal property. Lien documents on chattel property are commonly referred to as UCC filings.

Appendix C: Example Scenarios

Making Payments

Example 1: Monique's FSA loan payments are due on January 1. The payments are to be made from the sale of feeder calves. The calves grew better than expected and the market price was high so Monique sold the calves in late October, rather than mid-December, as planned. She made her FSA payment on October 29, when she received the money for the calves. She did not wait until January 1. This was required, since she and FSA agreed that she would use the calf sales to make the payment. As a bonus, she saved 2 months of interest by paying early!

Example 2: Sam is a little nervous about the payment on his farm ownership loan. His installment of \$12,535 is due on January 1, and it's been challenging making it the first couple years. He just paid off the loan on his pickup and decides to put that money towards the farm ownership loan payment. He sends \$425 per month to the FSA office, beginning in January. On January 1 of the next year, he only needs to pay the remaining \$7,435 as he made payments throughout the year.

Term Limits

Example 1: Susan began with FSA as a beginning farmer and received operating loans in each of 9 years. She has now farmed for more than 10 years and is no longer considered a beginning farmer under FSA regulations. She has reached the Operating Loan (OL) term limit. Susan has an OL loan she used to buy equipment that still has several thousand dollars to be repaid. Susan cannot borrow additional money through the operating loan program.

Changes in Financial or Operating Status

Example 1: Juan got a loan from FSA to grow cotton, but after he planted and got a good stand, his crop was destroyed by hail. He immediately goes to see his FSA Farm Loan Officer thinking that this year will be a total loss. Juan's Farm Loan Officer puts Juan in contact with the County Extension Agent and between them it is determined that Juan can switch to grain sorghum, cut his operating expenses for the less expensive crop, and successfully meet all his debt payments for the year.

Example 2: Terri's cattle operation had a very difficult year with a severe drought resulting in the price of feed being much higher than what had been planned and a lower-than-expected calving rate. It became obvious that she was not going to be able to make all her payments to FSA. While she was aware that she needed to go see her Farm Loan Manager when she saw that she could not make her payment, she got busy and no contact was made. She received a certified letter from FSA several months after she was supposed to make her payment. The letter offered her several options to restructure the loan. After reviewing the letter, she determined another application would be required and she thought she might be able to operate on her own and make the FSA payment later. Later, her tax

refund was offset (collected) by the U.S. Department of the Treasury and she received another certified letter from FSA but did not read it. A few months later, she received a notice that all her FSA loans were due and FSA was going to have to liquidate her cattle and other loan collateral to pay on the FSA debt. Had Terri contacted the office when she realized she could not make her payment and applied for Primary Loan Servicing when she received her certified letter, FSA may have been able to assist her by restructuring her outstanding loans. Unfortunately, because Terri missed the application deadlines established by law, FSA is now unable to assist her with loan restructuring.

Appendix D: Quick Reference Index

This section is designed to help you quickly find the section of this guide that addresses the issue or situation you are dealing with or have questions about.

Situation	Suggestions and Reference
I know right now that I cannot make my payment, but it is not due for a few months.	Review the <i>What To Do if You Cannot Make a Payment</i> and <i>Primary Loan Servicing Options</i> sections. Update your records, if you have not already done so and contact your FSA loan officer as soon as possible.
FSA financed my crop and cattle operation. Crop expenses were higher than I planned, and I need to use some money from the sale of cull cows to pay the bills.	Review the <i>Your Farm Business Plan</i> section and contact your FSA loan officer. DO NOT spend any money from the cattle sale until you talk with FSA.

Situation	Suggestions and Reference
<p>I want to trade a piece of equipment that is collateral for my FSA loan.</p>	<p>Review the <i>Your Farm Business Plan</i> section especially the <i>Loan Collateral</i> section. Put together information on what you want to do and contact your FSA loan officer. Be prepared to discuss:</p> <ul style="list-style-type: none"> • Will you need financing? • How will the trade affect your cash flow? <p>Do not “do the deal” until you have talked with FSA.</p>
<p>FSA has a mortgage on my farm. I want to give a building lot to a family member to build a house on.</p>	<p>You will need a partial release from the FSA mortgage. Review the <i>Partial Release</i> section. You will need to have a survey and a legal description of the parcel you plan to gift to provide to FSA as a part of the release request. Before you spend money on surveys and legal work, talk with your FSA loan officer to find out if approval is likely.</p>
<p>I just got divorced. My former spouse is farming now and the divorce decree states that I am not responsible for the FSA farm loans. FSA needs to follow the court’s order and take me off the loans.</p>	<p>Review the <i>Personal Liability</i> section. A divorce decree does not release you from liability; contact the FSA office to find out what is needed for you to be released from liability for the loans. You might also want to discuss the issue with your attorney.</p>

Situation	Suggestions and Reference
<p>Renovating my farm house with new windows and siding will save me a lot of money on utilities. I have checked and the bank will make me a home equity loan for these improvements, but only with a first mortgage. Will FSA allow this?</p>	<p>You need to request a subordination of FSA's mortgage. Review the <i>Subordination</i> section. You will need an updated farm business plan. Other information may be needed as well. Your FSA loan officer can tell you what is needed to process a subordination request.</p>
<p>I heard about something called the “debt for nature” or Conservation Contract Program that can reduce my FSA debt, and I am interested in this. How can I find out more about it?</p>	<p>The FSA Conservation Contract Program is sometimes called “debt for nature.” Review the <i>Conservation Contracts</i> section. Important: You do not have to be delinquent or financially distressed to participate.</p>
<p>My spouse has developed serious health issues. I have to hire help now and have medical bills to pay as well. I might not be able to make my next payment, and I do not know what to do.</p>	<p>FSA has several tools that may help. Review the <i>What to Do if You Cannot Make a Payment</i> and <i>Primary Loan Servicing Options</i> sections. Contact your FSA loan officer as soon as possible to discuss what options might be available in your situation.</p>
<p>I am retiring from farming. My daughter is taking over; she will run the farm and make the payments on the FSA land and machinery loans. Does she need to complete any FSA paperwork if she makes the payments as scheduled?</p>	<p>You and your daughter should review the <i>Transfer and Assumption</i> section. Please do not sign any formal leases or other arrangements until you have talked with FSA.</p>

In accordance with Federal civil rights law and U.S. Department of Agriculture (USDA) civil rights regulations and policies, the USDA, its Agencies, offices, and employees, and institutions participating in or administering USDA programs are prohibited from discriminating based on race, color, national origin, religion, sex, gender identity (including gender expression), sexual orientation, disability, age, marital status, family/parental status, income derived from a public assistance program, political beliefs, or reprisal or retaliation for prior civil rights activity, in any program or activity conducted or funded by USDA (not all bases apply to all programs). Remedies and complaint filing deadlines vary by program or incident.

Persons with disabilities who require alternative means of communication for program information (e.g., Braille, large print, audiotape, American Sign Language, etc.) should contact the responsible Agency or USDA's TARGET Center at (202) 720-2600 (voice and TTY) or contact USDA through the Federal Relay Service at (800) 877-8339. Additionally, program information may be made available in languages other than English.

To file a program discrimination complaint, complete the USDA Program Discrimination Complaint Form, AD-3027, found online at <https://www.ascr.usda.gov/filing-program-discrimination-complaint-usda-customer> and at any USDA office or write a letter addressed to USDA and provide in the letter all of the information requested in the form. To request a copy of the complaint form, call (866) 632-9992. Submit your completed form or letter to USDA by: (1) mail: U.S. Department of Agriculture, Office of the Assistant Secretary for Civil Rights, 1400 Independence Avenue, SW, Washington, D.C. 20250-9410; (2) fax: (202) 690-7442; or (3) email: program.intake@usda.gov.

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