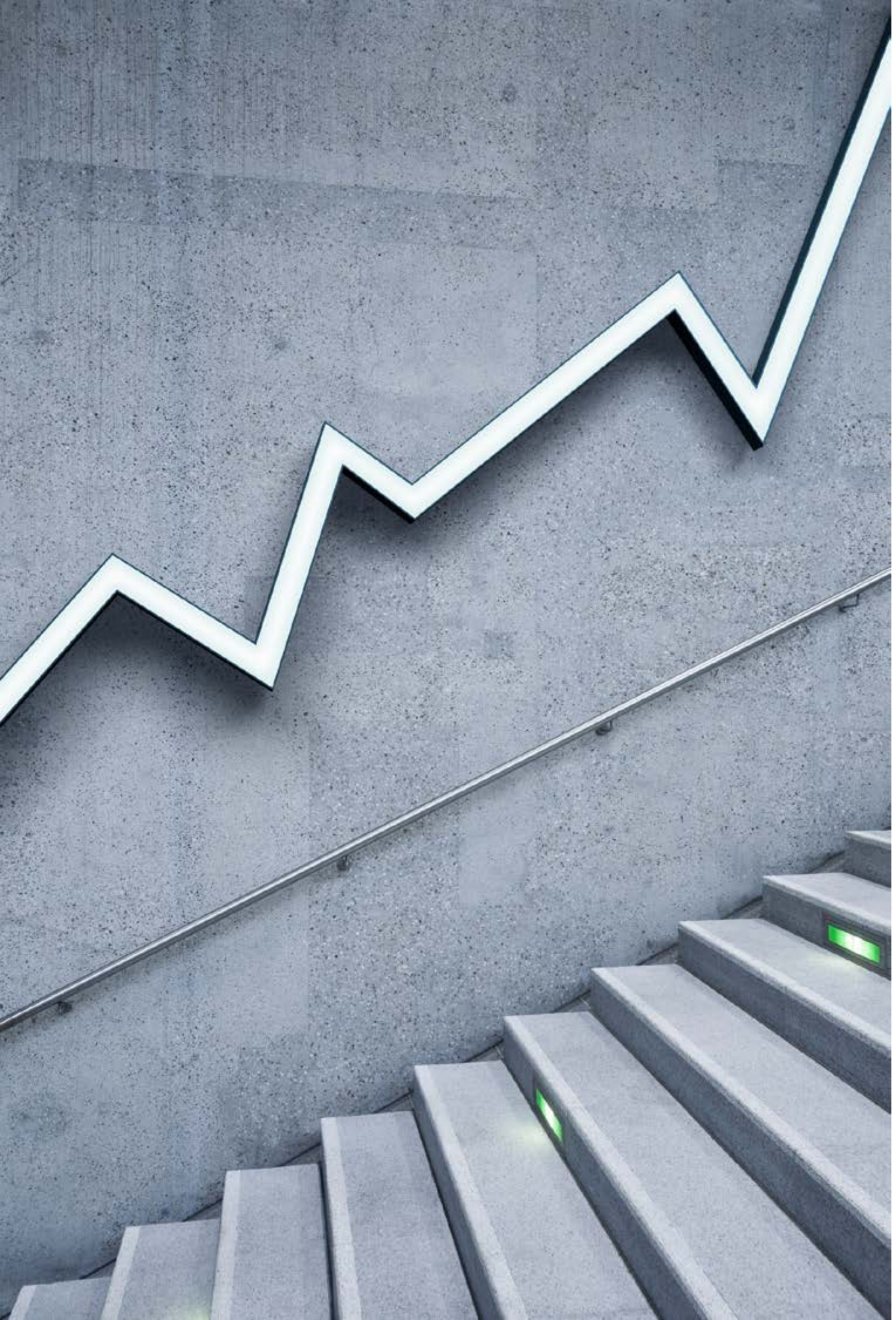


Farm Loan Program

2021 ANNUAL FSA / FBM WORKSHOP

“Every day I get up and look through the Forbes list of the richest people in America.

If I’m not there, I go to work.”

BY: ROBERT ORBEN

Disaster Set-Aside

Disaster Set-Aside

- When Farm Service Agency (FSA) borrowers located in designated disaster areas or contiguous (adjoining) counties are unable to make their scheduled payment on any FSA debt, FSA is authorized to consider set-aside of one payment to allow the operation to continue. This program is authorized under Section 331A of the Consolidated Farm and Rural Development Act.
- The first time in a calendar year that a county in which a borrower farms, or a contiguous county, is designated as a disaster area by the President or Secretary of Agriculture, farmers indebted to FSA will be notified of the availability of the Disaster Set-Aside Program (DSA) or they may inquire about eligibility at their local FSA office.

Disaster Set-Aside

How to Apply

- Borrowers have **eight months** from the date of designation to apply. A complete application for DSA consists of the following items:
  - A written request for DSA signed by all parties liable for the debt;
  - Actual production, income, and expense records for the production and marketing period in which the disaster occurred (unless the agency already has this information); and
  - Other items as required based on the individual application.

    - A projected cash flow for the next year showing they will continue to have a feasible plan

NOTE: COVID was included as a disaster reason for 2020 and 2021 for payments due thru 1/31/2022.

Disaster Set-Aside

Eligibility and Limitations

- Eligibility to receive the DSA will primarily be determined based on the following criteria:
  - As a direct result of the disaster, the borrower is unable to pay all family living and farm operating expenses, payments to other creditors, and payments to FSA;
  - The borrower must have operated a farm or ranch in a county designated as a disaster area or in a contiguous county. Each loan considered for DSA must have been outstanding at the time of the disaster;
  - The borrower must have acted in good faith and complied with written agreements with FSA;
  - The borrower must not be in non-monetary default;

Disaster Set-Aside

Eligibility and Limitations (cont)

- The borrower must be current or not more than 90 days past due on any FSA loan when the DSA application is completed. No loan to be set aside may have a remaining term of less than two years. Loans must not be accelerated;
  - After the DSA is completed, the borrower will be current on all FSA loans;
  - The borrower's FSA debt has not been restructured since the disaster;
  - The amount set aside will not exceed one year's FSA payment;
  - No loan may receive more than one disaster set- aside unless it is later restructured; and
  - The borrower must be able to develop a positive cash-flow projection for the coming year.

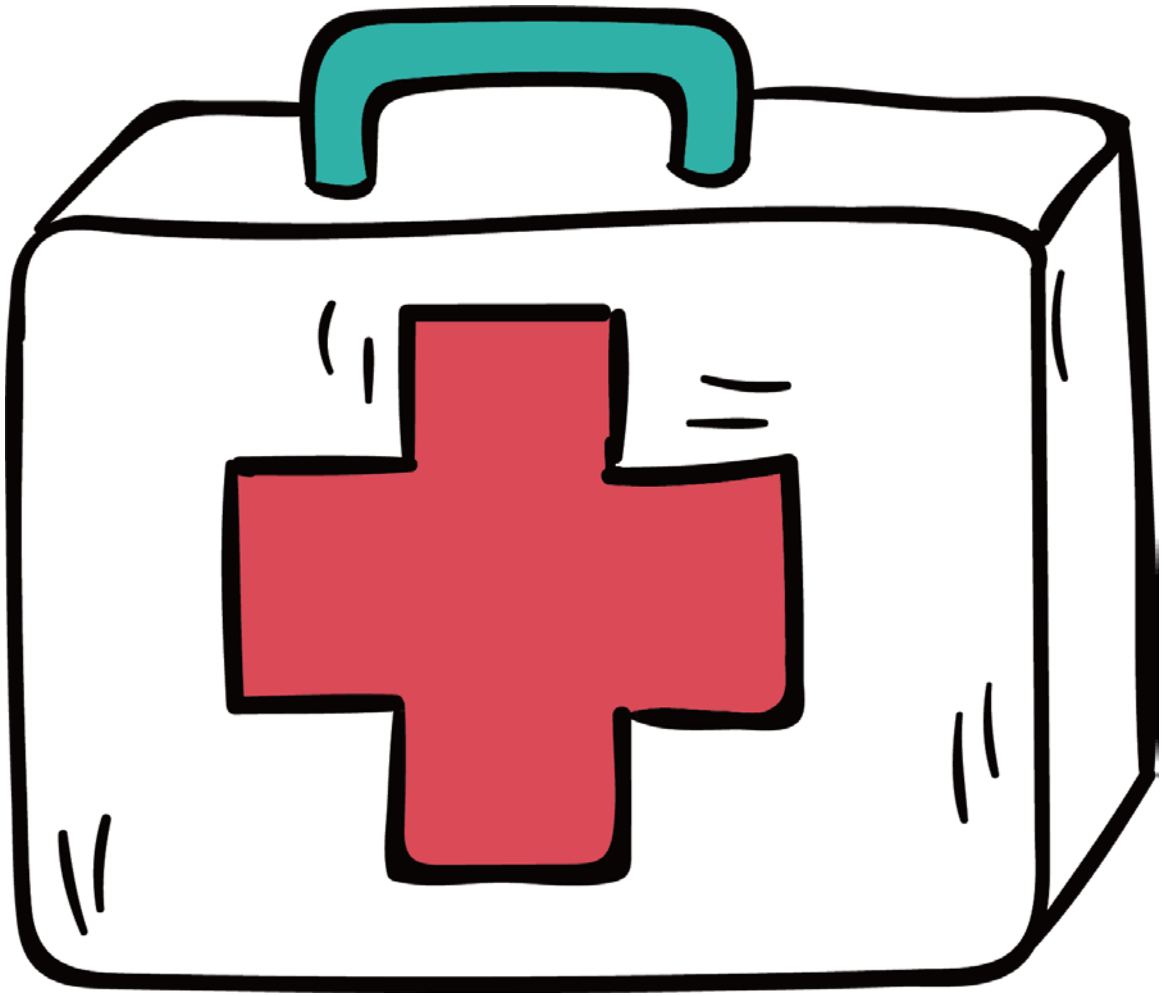
Disaster Set-Aside

PAYMENT

- Each payment set-aside must be repaid prior to the final maturity of the note. Any principal set-aside will continue to accrue interest until it is repaid.

Disaster Set-Aside

Emergency Loans



Emergency Loans

Overview

- The U.S. Department of Agriculture's Farm Service Agency (FSA) provides emergency loans to help producers recover from production and physical losses due to drought, flooding, other natural disasters, or quarantine.

Emergency loan funds may be used to:

- Restore or replace essential property;
- Pay all or part of production costs associated with the disaster year;
- Pay essential family living expenses;
- Reorganize the farming operation; and
- Refinance certain debts.

Emergency Loans

Emergency loans may be made to farmers and ranchers who:

- Own or operate land located in a county declared by the President or designated by the Secretary of Agriculture as a primary disaster area or quarantine area. All counties contiguous to the declared, designated, or quarantined primary counties also are eligible for emergency loans. A disaster designation by the FSA Administrator authorizes emergency loan assistance for physical losses only in the designated and contiguous counties;
- Are established family farm operators and have sufficient farming or ranching experience;
- Are citizens or permanent residents of the United States;

Emergency Loans

Emergency loans may be made to farmers and ranchers who (cont):

- Have suffered at least a 30 percent loss in crop production or a physical loss to livestock, livestock products, real estate, or chattel property;
- Have an acceptable credit history;
- Are unable to receive credit from commercial sources;
- Can provide collateral to secure the loan; and
- Have repayment ability.

Emergency Loans

Loan Requirements

- FSA loan requirements are different from those of other lenders. Some of the more significant differences are the following:
  - Borrowers must keep acceptable farm records;
  - Borrowers must operate in accordance with a farm plan they develop and agree to with local FSA staff; and
  - Borrowers may be required to participate in a financial management training program and obtain crop insurance.

Emergency Loans

Collateral Is Required

- All emergency loans must be fully collateralized. The specific type of collateral may vary depending on the loan purpose, repayment ability, and the individual circumstances of the applicant. If applicants cannot provide adequate collateral, their repayment ability may be considered as collateral to secure the loan. (Applicants will need to show a postive net cash farm income in at least 3 of the 5 past years). A first lien is required on property or products acquired, produced, or refinanced with loan funds.

Loan Limit

- Producers can borrow up to 100 percent of actual production or physical losses to a maximum amount of $500,000.

Emergency Loans

Loan Terms

- Loans for crop, livestock, and non-real estate losses are normally repaid within one to seven years, depending on the loan purpose, repayment ability, and collateral available as loan security. In special circumstances, terms of up to 20 years may be authorized. Loans for physical losses to real estate are normally repaid within 30 years. In certain circumstances, repayment may be made over a maximum of 40 years.

Current Interest Rate

- To find the current emergency loan interest rate, visit http://fsa.usda.gov/farmloans

Emergency Loans

Application Deadline

Applications for emergency loans must be received within **eight months** of the county's disaster or quarantine designation date.

Emergency Loan

Cash Flow Planning

"with drought impacting it"

When making loans, did you know that all great Cash Flow Plans start with an Accurate Balance Sheet (less than 90-days old)!

Cash Flow Planning

FSA Requires that when we build a Balance Sheet it must include

- *Verification* of **all** Debts (including those on the Credit Report)
  - *Include all accounts payables*
  - *Include Personal Debt / Credit Cards*
  - *Include Non-Farm Debts*
- Also include a detailed accounting of all assets along with established a value of all assets
  - *Cash on hand (checking and savings)*
  - *Accounts Receivable / Prepay Expenses*
  - *Co-op Stock / Shares*
  - *Feed on Hand*
  - *Livestock / Equipment / Machinery / Farm Vehicles*
  - *Real Estate (Land and Buildings)*

Cash Flow Planning

What are FSA Requirements when putting together a cash flow plan?

- Verification of all Income
- 3-year Production History
- 3-year Expense History
- Planning Prices / Locked in Contracts
- Historical bumps in prices (high butterfat, low sematic, high test weight, etc….
- FSA Programs that are not built into the planning prices

Cash Flow Planning

How do we project using :

- Different types of yield data?
  - Producers' actual yields (Do they have a history farming the same land or animals)
  - County Ave yields from NASS (Are they a start up operation / beginning farmer)
  - Deviations due to a Declared Disaster
- Different types of expenses?
  - Producers' history (Do they have a history without any changes, expansions or shrinkage)
  - Current market expenses (crop input costs)
  - Typical enterprise average expenses for a new operation (FinBin)

Cash Flow Planning

How does FSA derive at planning prices

- FSA planning prices are typically issued in late November.
- The prices are based on CME prices, futures, and USDA price information.
- Current prices are from MN – FLP Notice – XXX which can be obtained from any FSA loan office.
- The planning prices include the current year and typical year prices.

Can prices other than FSA planning prices be used in cash flow planning?

- Contracts or other guaranteed pricing

What prices have built in FSA Program Benefits?

Cash Flow Planning During/After A Disaster Year

- **Calculating Three Year Averages**
  - If the producer's production history has been substantially affected by a disaster declared by the President or designated by the Secretary of Agriculture, or the applicant or borrower has had a qualifying loss from such disaster, but the farming operation was not located in a declared or designated disaster area, the applicant or borrower may:
    - (i) Use county average yields, or state average yields if county average yields are not available, in place of the disaster year yields when the county or state average yields are realistic and reasonable compared to the applicant's actual non-disaster year yields, as determined by the agency approval official
    - (ii) Exclude the production year with the lowest actual or county average yield if their yields are affected by disasters during at least 2 of the 3 years.
      - Note: SED will issue a State supplement containing the 3-year history of disaster declarations for all counties in their State, along with the type of disaster and the incident period.

- **What disaster payments can I include in the cash flow?**
  - Only if verifiable, and only in the first year
  - NRCS EQUIP/CSP contracts must consider the term of the contract

- **Are the three-year average expenses still a realistic projection?**

Cash Flow Planning

What are some options to consider when the cash flow does not work?

- All FSA loans are at a fixed rate for the life of the loan
  - The only time the interest can be changed is when the loan is restructured with our special loan servicing process
- Disaster Set Aside
  - Short-term solution for a short-term problem
- Sell unused or Nonessential Assets
- Restructuring FSA Loans
  - Get it done before loans become delinquent!
- Restructure Commercial loans
- New financing (FSA or Commercial) to term out short-term liabilities.
- FSA Loan Deferral or Balloon Payment (Restructuring)
  - What's Changing?
- Refinance loans from a commercial lender
  - Only available for operating debts
- Add non-farm income from new job
  - Must be verifiable
- Decrease owner withdrawal?
  - Must come with reasonable rationalization
- Fudge the numbers to make it work and hope the FSA loan officer does notice it
  - DON'T DO IT! DON'T DO IT! DON'T DO IT!

Cash Flow Planning

Common asked Questions….

- Does the 1st year need to have a positive term debt coverage ratio?
- What is a typical year?
- When is a 2nd year plan needed?
- Does it make a difference if the loan requested is a term loans vs. annual operating loan?

Cash Flow Planning

Direct Operating loans:

- Interest rate – 1.875%
- Term – 1 to 7 years

Direct Farm Ownership loans:

- Interest rate – 3.00%
- Term – 20 to 40 years

Emergency Loans

- Interest rate – 2.875%
- Term – 1 to 7 years

Direct Down Payment Farm Ownership loans:

- Interest rate – 1.5%
- Term – 20 years

*** RATES are effective as of September 2021***

Cash Flow Planning