

MACS NEWS

April 2010

Minnesota Association of Credit Specialists - FSA

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MACS/MNASCOE ANNUAL STATE CONVENTION

The state convention will be held on July 22 and 23 at the Holiday Inn, Alexandria. This is the same place as last year and there are a couple reasons for this. The first one being the STO is planning a managers meeting in conjunction with our convention. It sounds like the managers meeting will be scheduled from noon to noon on July 20th to 22nd. The second reason is it is centrally located. The central location seems to work out better for most people.

A block of rooms has been reserved for July 22nd. The hotel information is:

- Holiday Inn Alexandria
- Room Rate: \$70.00 per night
- Block of room reserved till June 24th Phone number: 320-763-6577 - ask for MACS/MNASCOE Block

Other activity ideas include: Golf, Bowling, possible tours, and of course some Hospitality.

More information will be posted as details are developed. If you have any ideas for the convention or are interested in helping, please let me know.

FLP OFFICE RESTRUCTURE

The State Office continues to work on various issues regarding implementation of the FLP restructure plan. If you have any questions or comments, feel free to contact Linda, Glenn or myself. If you have any ideas for implementation of the plan, please forward them also.

The restructuring will change where, when and how the FLP staff is located and available to provide FLP programs and services. Per Handbook 16-AO Paragraph 285 A, All Service Centers shall provide the following basic FLP services:

- Collecting and processing payments.
- Distributing applications, forms, and informational literature.
- Accepting loan making and servicing applications.
- Responding to account information inquiries.
- Scheduling appointments with FLO or FLM.
- Outreach activities for FLP, including appropriate publicity through the media.

How can we be assured that basic FLP services are available in all 79 MN FSA Service Centers?

Some topics that should be discussed with the satellite offices include:

Visibility/availability of FLP posters, brochures, etc. in general
 Accessibility of program information to staff to discuss with producers
 Frequency of visits by credit staff
 Level of knowledge of FLP programs
 Newsletters content of FLP information
 New PT training on FLP programs
 Promotion of FLP programs at producer meetings
 Referring producers to credit staff

ANNUAL STATE CONSULTATIVE MEETING UPDATE

The FLP State Office staff provided additional information regarding questions discussed at the consultative meeting. The additional STO response is:

1. **Consent for Borrowers to Cease to Operate (4 FLP Par. 99):** We are getting into year 3 since the new regulation. Concerns raised included having staffing to begin accelerating current accounts, in light of the current economy. Is it in the Agency's best interest to begin accelerating current accounts. MACS stressed the need to be aware that it is an issue that requires policy and an answer.

STO Response: The 3 and 5 year cumulative limits on leasing land are regulations (CFR) that the state does not have authority to modify. Borrowers are expected to refinance or sell within the 3/5 year limit. Employees are encouraged to provide assistance to borrowers that wish to refinance the FSA debt with another lender. If the borrower cannot operate due to poor health or age, the state office is willing to request an Administrator's exception to consent to longer term leases on a case by case basis. If an exception is not obtained, once the 3/5 year limit is reached, the borrower will be considered to be in non-monetary default and serviced accordingly.

2. **Clarification is needed regarding the application requirements for Individual vs. Joint operation requirements for married couples:**

- Example 1: How is the application Form 2001 completed for loan servicing only applications when both husband and wife are signed on the note?
- Are both names listed on page 1 of the application or do we list both names on page two and treat it similar to a joint operation with two signatures?

STO Response: The importance is to ensure that all liable parties have signed the application, with less emphasis placed on how the names are placed on the application.

- Example 2: One spouse signs the application as an individual. Non-applicant spouse has non-farm income and some non-farm debt. Do we verify the income and debt?
- Is the debt included on the balance sheet and cash flow?
- Do we include 100% of the family living?

STO Response: Employees are encouraged to review the training exercises on this topic from the streamlining training in early 2008. We believe that the scenarios in the training exercises provide the guidance needed to answer these questions.

The training exercise examples are attached.

NACS NATIONAL CONVENTION

The National Convention will be held in Portland, Maine this year on June 19th - June 23rd. The registration information should be available soon. Several members have expressed an interest in attending. Information can be found on the NACS website or the convention website at: www.2010northeastconvention.com. If you are interested in attending, let me know so that we can coordinate travel information and attendance numbers.

FUTURE ZONE B MEETINGS

NACS-RD Board has approached NACS-FSA Zone B regarding the possibility of changing the date of Zone B meeting from the first weekend in February to the last week-end in March. All four organizations would have to agree to this: NACS-FSA, NACS-RD, NASE, and NASP. Please forward your thoughts and opinions regarding the potential date change to me.

2009-10 MACS Board

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Answers to Loan Making Discussion Cases and Quizzes

Stuart on Day 1 of Training

Loan Making Discussion Case #1

Mary Farmer comes into your office to apply for an annual operating loan as an individual. On her application she states that she is married and her husband Joe Farmer works off the farm as a school teacher making \$35,000 a year. When the Farm Business Plan was developed the plan would not generate a positive cash flow without including Joe's non-farm income. Additionally it was determine that Joe helps out around the farm when he can.

Q: Should Joe be required to sign the application and the promissory note?

A: Joe would not be required to sign the application since he is not an applicant, per 7CFR 764.51(a) and 3FLP paragraph 41B However, Joe would be required to sign the promissory note as a cosigner since his non-farm income is necessary for the plan to have a positive cash flow, see 7CFR764.402(a)(4) and 3FLP paragraph 281C.

Q: If Joe's non-farm income was not needed for the FBP to cash flow would your answer be different?

A: Yes, in this case Joe would not be required to sign either the application or the promissory note. Since his income is not necessary for the plan to cash flow it should not be included in the plan and he would not sign the promissory note. See the above references.

Q: If Joe's income meets their family living expenses and is not used for Mary's personal debts or farm related expenses, debt payments etc, how is Joe's NFI and their family living expenses addressed in the FBP?

A: Neither the NFI nor family living expenses are entered into the FBP.

Q: If Mary signs the application, and the FBP is not feasible:

- does FSA suggest that Joe's income be put in the plan and that he then signs the note?

- if a cosigner is needed to make Mary's FBP positive, who decides who will cosign?

- how should FSA articulate to Mary the need for a cosigner without violating ECOA?

A: For ECOA reasons, FSA must be very clear that our applicant determines who will be asked to sign the note. FSA should not suggest to Mary that she should see if Joe will cosign. In this case, Mary must be the one to determine if Joe's income should be put in the plan and that she will need to ask him to sign the note. Maybe she has an uncle who she would prefer to ask to cosign.

Loan Making Discussion Case # 2

Fred has applied for a loan as an individual applicant. Fred has a spouse with good NFI. Fred advises that farm income covers all farm expenses, farm debt payments and personal debt payments, but not family living. Fred advises that spouses NFI covers 100% of family living. What does FSA need to do?

- A. Verify spouses income
- B. Order credit report on spouse
- C. Include family living expenses in FBP
- D. Include NFI in FBP
- E. Have spouse sign promissory note
- F. None of the above**
- G. All of the Above

Fred's Case Study Continued with A Different Twist

Same information as previous slide however the LAA has knowledge from previous experience that spouse has a spending issue and likely has a lot of personal debt and does not believe that there is sufficient NFI to meet family living expenses. What should LAA do?

- A. Ask Fred to get spouses signature on the 2004 and 2007 forms so her income can be verified and order a credit report.
- B. Ask Fred about a potential different cosigner.
- C. If spouse refuses to cooperate, put family living expenses in FBP and reject loan.
- D. All of the above.**

We need to be very careful that Fred is the one deciding who he will ask to be cosigner if Fred had wanted his spouse to cosign, but problems were found with the spouses income or expenses. If we get the information in step A above, and there are problems we should then go to step B and if that doesn't work proceed to step C.

Loan Making Discussion Case # 3

You have an application for a direct FO loan from an applicant who, for several years, has been operating a farm owned by his elderly parents. During the past several months, both parents passed away. Title to the farm is now held by the deceased borrowers' seven adult children, each owning an un-divided 1/7th interest. The applicant wishes to build a new barn on the farm with a direct FO loan. The other owners are willing to pledge their interests as loan security but are not connected to the farm operation and are not willing to incur liability for the debt.

The question is, under the circumstances described; does the applicant meet the owner/operator requirement?

Answer: Yes, he does, because the regulation (and statute, for that matter) does not specify that that an applicant must hold 100% ownership interest in the farm, just that they be an owner. OGC has determined that so long as an applicant holds some "fee title" ownership interest in the property, they meet the ownership requirement in the FO regulations. Therefore, in this case, the applicant meets the owner/operator requirement

for direct FO eligibility, since he holds an undivided 1/7th fee title interest in the farm real estate.

Answers to Loan Making Discussion Quizzes

Stuart on Day 1 of Training

Quiz # 1

1. Sally applicant did not provide information as requested; as her application was withdrawn on March 10. Ten days later, she visits the office and delivers the information requested. You should:

- a) Give Sally a new application package and her withdrawn application to re-submit together
- b) Get Sally to sign and date a new FSA 2001, review the withdrawn application to determine the information less than 90 days old, and advise Sally of any additional or updated information to complete the new application**
- c) Reinstate the withdrawn application and add the new information
- d) Tell Sally she cannot re-apply until her circumstances have changed
- e) None of the above

Quiz # 2

2. Everyone who will sign the promissory note must sign the application as an applicant.

- a) True
- b) False**

Quiz # 3

Bill advises that he needs to withdraw \$1000 per month to meet family living expenses and the plan is feasible. His non applicant spouse makes \$30,000 per year and it all goes toward family living. What amount should be shown in the FBP under owner withdrawals?

- A. \$30,000
- B. \$6000
- C. \$12,000**
- D. None of the Above

C is the correct answer. The owner withdrawal portion of the FBP would only include the amount needed from the farm to fund family living.