

Module 4, Screen 15 Exercise

Read the following adverse decision letter body and then answer the question on screen 15.

Feasibility

[7 CFR 764.401(b)(1)] states that “The Agency will not approve a loan if it determines that the applicant’s farm operating plan does not reflect a feasible plan.”

[7 CFR 761.2] defines a feasible plan as when “an applicant or borrower’s cash flow budget or farm operating plan indicates that there is sufficient cash inflow to pay all cash outflows.”

FSA Handbook 3-FLP Par. 351 C Feasibility states:

- **The farm operating plan must show the loans, farm operating, and family living expenses and all other obligations will be repaid.**
- **The operating and family living expenses, nonfarm income, and farm and other income included in the farm operating plan should be realistic and supportable.**
- **The projected production must be realistic and based on the applicant’s or operation’s history.**

The proposed farm business plan, based upon your historical information, current verifiable operating expenses, and ALL debts and debt payments due and payable, is not feasible. Based on our figures, the projected plan shows a negative cash flow of \$142,114 as a result of two payments to Mountaintop Credit Union being due and payable within the same operating cycle totaling \$55,611, 2008 income taxes outstanding in the amount of \$22,610, the non-farm debts that are currently due and payable from the credit report totaling \$72,832, and the HUD/FHA loss claim outstanding for \$101,204. Furthermore, the plan submitted did not accurately reflect history, with the projected operating expense ratio being 29.55%, compared to a historical operating expense ratio at 38.36%.

Unauthorized Loan Purpose

[7 CFR 764.251(a)(10)] OL funds may only be used for refinancing farm-related debts other than real estate to improve the farm’s profitability.

Your proposal to refinance your debt to Henry Oliver is not an authorized OL loan purpose.

[7 CFR 764.251(a)(4)] OL funds may only be used for scheduled principal and interest payments on term debt provided the debt is for authorized FO and OL purposes;

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FSA Handbook 3-FLP Par. 201 E states that “the payment must be the current year’s installment and cannot be delinquent”.

Your request to pay your delinquent 2008 real estate installment due at Rocky Ridge Mortgage is not an authorized OL loan purpose because the installment is currently delinquent.

Eligibility

[7 CFR 764.101(d)] states that “The applicant must have acceptable credit history demonstrated by debt repayment.” [7 CFR 764.101(d)(1)] further states that “the Agency may examine whether the applicant has properly fulfilled its obligations to other parties, including other agencies of the Federal Government.”

[7 CFR 764.101(d)(3)] states that “A history of failures to repay past debts as they came due when the ability to repay was within the applicant’s control will demonstrate unacceptable credit history.”

[7 CFR 764.101(f)] states that “the applicant and anyone who will sign the Promissory Note must not be in delinquent status on any Federal debt at the time of loan closing.”

A credit report obtained with reporting agencies of Equifax, Experian, and Trans Union shows:

- Four (4) foreclosures/repossessions of real estate investment property mortgages within the past 3 years; including a HUD/FHA loan, on which a claim was paid on your behalf in the amount of \$101,203.42 and is still outstanding
- Three (3) open accounts/charge-offs from the foreclosure of real estate investment property in the amounts of \$28,681.00, \$22,344.50, and \$11,287.00,
- Five (5) open collection accounts, which total \$6,543.00
- Three (3) paid collection accounts within the past two years, one of which was settled for less than the debt owed
- Two (2) repossessions of automobiles within the past 2 years
- An open delinquent account for a vacation package with a balance of \$19,204.00.

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Note to writer: Do not forget to add language regarding information obtained from credit reports, the customer's right to disagree/dispute its information, and the customer's right to obtain a copy of the report (Handbooks 1-FLP Par.48, 3-FLP Par.73 and 1-APP).

Further information was obtained from creditors with whom you currently have loans that are not reflected on the credit report, and from the lenders to whom you had applied prior to applying to FSA for a farm operating loan. Lenders indicated the main reason for their denial of new farm operating credit was due to your poor credit history with them.

Due to the above information, you are not eligible for Farm Service Agency direct loans.