Module 4, Screen 17 Exercise

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

FSA Handbook, 2-FLP, Paragraph 151 states: The loan applicant's proposed operation must project a feasible plan. The cash flow budget analyzed to determine feasible plan must represent the predicted cash flow of the operating cycle. For standard eligible lenders, the projected income and expenses of the borrower and operation used to determine a feasible plan must be based on the loan applicant's proven record of production and financial management.

The 2020 operating plan as developed has grossly underestimated Mr. Washington's operating expenses. The last two average farm operating expenses excluding depreciation and interest is $425,500 or $21.93/Ewe. The 2020 projection is only $186,145.00 or $43.71/Ewe. Granted Mr. Washington is renting out rather than farming 235 acres this year, but even with this expense removed from the budget, the expenses have been underestimated. The University of Sunnyside 2018 Livestock Cost and Returns Estimate shows an annual cost of $101.92/Ewe without interest. This study supports the cost of the operating expenses should be greater than submitted.

Mr. Washington's Farm Income/Expenses Summary also shows that he has been unable to meet his existing debt service payments in each of the last three years. FSA believes that the 2020 payments will be the same or close to the same as the previous annual debt service requirements. It is true that the debt payment of the long-term liability will be reduced, but this will be offset by the increase of the short-term debt that will be going up. FSA does not believe a feasible plan can be found for the 2020 crop year, based on the information you have provided to FSA. This is based on the U of S studies for livestock expenses and the past two-year historical. Based on this information, a feasible plan for 2020 cannot be obtained and FSA will be unable to approve your loan request.