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Constructing an FmHA Guaranteed Loan Loss Report

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by John M. Blanchfield

Farmers Home Administration is continuing to de-emphasize their role as direct lenders to agriculture and is encouraging agricultural bankers to utilize their Guaranteed Lending Program. The American Bankers Association published an excellent manual on processing and servicing Guaranteed Loans, and the creation of the Approved Lenders Program streamlined the application and approval process.

Because FmHA expanded their Guaranteed Lending Program so rapidly, training efforts focused on the application and processing end of guaranteed lending and neglected liquidation and loss reporting. While the application and processing steps are very specific and uniform, the liquidation and reporting processes are vague, resulting in some communication problems between FmHA and the banking community. Ultimately, the success of FmHA's Guaranteed Loan effort will hinge upon the development of a clear and workable process of reporting and documenting the lender's actions prior to, during, and after a Guaranteed Loan is liquidated. It is impor-

tant for banks to develop this process to demonstrate to FmHA that the loan and liquidation was handled in a professional and competent manner. Knowledge of the way that FmHA analyzes situations, and how data is organized, is important because it will help the lender to arrange a Loan Loss Report that is understandable to the FmHA reviewing official, and should result in a timely settlement of the loss claim.

Servicing and documentation

All FmHA Guaranteed Loans must be adequately serviced and documented. If a problem develops with the loan, earlier servicing and documentation of events is critical to the success or failure of the bank to collect from FmHA. Every action taken on

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a loan that deviates from the original conditions of approval should be documented in the credit file and followed up with a letter to the local FmHA County Office. Problems occur when a loan loss is requested and the bank has failed to live up to agreements made during the approval process. Never take a course of action that could affect the liquidation of the loan without first informing FmHA County Officials.

Assuming that the servicing has been as agreed, and the collateral has been liquidated; a Loan Loss Report must then be constructed and submitted for review. Frequently Loan Loss Reports are reviewed by FmHA State Office officials who may not be familiar with the case. A successful format must meet the requirements of FmHA procedure and be organized well enough to provide the FmHA reviewing official with adequate information to make a timely decision. How is the information best organized for presentation to FmHA?

Organizing the loan loss report

Loan documents in a FmHA credit file are organized along a very specific format. The Loan Loss Report should be organized in a similar fashion. Obviously the more complicated the situation, and the larger the loss, the greater the requirements of organization are on the banker submitting the claim. A well written Loan Loss Report will make it easier for the FmHA official to understand actions taken and will have an effect on the ultimate decision on the loss payment.

The following format is designed to present information on the account to FmHA in a report that is familiar and understandable to them. The first step in organization is the use of a six-position folder. The folder is similar to the eight-position folder used by FmHA for their credit files and prevents loss of paperwork. Each position should be organized along the specific guidelines presented here.

Position I. The most important document in the Loan Loss Report is the cover letter because it lays out the bank's case for the claim. It may include a Table of

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Contents for the entire Loss Claim Report, a brief history of the account, problems encountered, and reasons for the failure of the loan. With the cover letter the bank can demonstrate to FmHA its control over the facts and competence in servicing the loan. Also included in this section should be the FmHA Form 449-30 Loan Note Guarantee Report of Loss, the calculation of accrued interest, a copy of the note showing how payments

were applied, security agreements, and other documents related to the processing and securing of the loan. The banker may also want to include the original loan application and a summary of loan proceeds and dispersals. In very complicated situations, a chronology of specific events is useful (as in bankruptcy cases).

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Positions II, III, IV. They should contain specific collateral liquidation information and deal with the dispersal status of the collateral. If the collateral consisted of cattle, equipment, and crops; each of these components should be discussed. At the beginning of each section there should be a summary of all dispositions, sales and replacements. Sales notices, advertisements, copies of the sale sheets, copies of the checks received, and any other documents related to the specific collateral should be included. Problems develop when all of the collateral can not be accounted for by the bank. To make this process easy to resolve, reconstruct in chronological order what happened from the point the loan was closed to when the collateral was liquidated. If proper servicing and documentation has been done in a timely fashion, reconstruction of events will be simplified.

Position V. The Running Case Record is devoted to entries made by the bank while the loan was on the books. The period covered should be from time of development of the loan to the completion of the liquidation of the collateral. (The rule here is for FmHA to docu-

ment every relevant action in their running case records and they expect to find a similar pattern on the part of the bank.) To make it easier for FmHA to understand, a summary of conferences, farm visits, and dates is helpful. Again timely documentation of relevant servicing actions is necessary to demonstrate competent servicing of the loan.

Position VI. It is essential for the banker to keep FmHA informed of the situation through correspondence. Problems arise when a decision is made by the bank and FmHA is not informed. If a loss is likely, it is important that FmHA be advised in writing. Correspondence should indicate that if FmHA does not agree with the bank's planned course of action, it should notify the bank within a specified time frame (i.e. 10 days). Later, if FmHA disagrees with the decision, the bank can not be faulted for failing to keep FmHA informed. Any other relevant correspondence should also be included in this section of the report. It

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is helpful to prepare a summary to enable the FmHA reviewing official to quickly assimilate the scope of the correspondence.

The liquidation of any loan is complicated. When dealing with a potential loan loss on a FmHA Guaranteed Loan, the task can become further involved. It is the responsibility of the banker to prepare a Loan Loss Report that will enable FmHA to make a timely decision. Adopting a structured format to present the relevant documents will aid this process.