

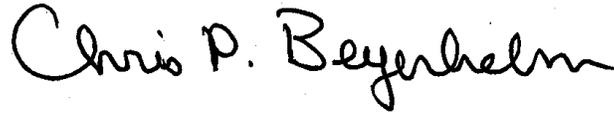
UNITED STATES DEPARTMENT OF AGRICULTURE

Farm Service Agency
Washington, DC 20250

General Program Administration
1-FLP (Revision 1)

Amendment 107

Approved by: Deputy Administrator, Farm Loan Programs



Amendment Transmittal

A Reasons for Amendment

Subparagraph 242 A has been amended to clarify using Exhibit 28.

Exhibit 28 has been added to provide guidance on determining prices and understanding marketing methods for organically, locally, and regionally grown commodities.

Page Control Chart		
TC	Text	Exhibit
3, 4	8-88.5, 8-88.6 8-89, 8-90	1, pages 3, 4 28, pages 1-4 (add) page 5 (add)

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242 Developing Farm Operating Plans (Continued)

A General (Continued)

[7 CFR 761.104(c)(4)] If the applicant or borrower'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; or

(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.

7 CFR 761.104(d)] Unit prices for agricultural commodities established by the Agency will generally be used. Applicants and borrowers that provide evidence that they will receive a premium price for a commodity may use a price above the price established by the Agency.

--FSA-established prices will be used in all farm operating plans developed, unless the-- applicant provides evidence that they will receive a premium price or a price other than that established by the State. Evidence of this may include, but is not limited to, contracts or other written agreements that guarantee the price for the commodity being produced. If the applicant has historically received a premium price because of above average quality or grade of the product produced, the premium will be taken into account when determining the expected price to be received for that product.

SED will issue a supplement listing the unit prices for all commodities commercially
--produced in their State, including resources for pricing and marketing strategies for commodities that have not traditionally been commercially produced or marketed in the past. Examples may include organic production, locally or regionally produced agricultural food products, direct marketing to restaurants and grocery stores, CSA, and farmers markets.--

242 Developing Farm Operating Plans (Continued)

A General (Continued)

Pricing data for alternative production and marketing methods may be available from the following:

- NASS, through its 2008 organic production survey at http://www.agcensus.usda.gov/Publications/2007/Online_Highlights/Organics/index.php
- AMS:
 - grain and foodstuffs at <http://www.ams.usda.gov/mnreports/lbnof.pdf>
 - fruit and vegetables at <http://www.marketnews.usda.gov/portal/fv>
 - *--wholesale terminal markets at <http://usdareports.com>
- RMA provides price for organically grown commodities--*
- National Agricultural Library has resources available on sustainable and organic agriculture at <http://afsic.nal.usda.gov/organic-production>
- nonprofit organizations such as Rodale Institute's New Farm Organic Price Report
- local sources such as the State Department of Agriculture, farmers market organizations, State organic farmers and gardeners associations, roadside stand organizations, local retail outlets, and State universities.

--Note: See Exhibit 28 for a guide to determining projected prices.--

[7 CFR 761.104(e)] For MLs, when projected yields and unit prices cannot be determined as set forth in paragraphs (c) and (d) of this section because the data is not available or practicable, documentation from other reliable sources may be used.

[7 CFR 761.104(f)] Except as provided in paragraph (g) of this section, the applicant or borrower must sign the final farm operating plan prior to approval of any loan or servicing action.

[7 CFR 761.104(g)] If the Agency believes the applicant or borrower's farm operating plan is inaccurate, or the information upon which it is based cannot be verified, the Agency will discuss and try to resolve the concerns with the applicant or borrower. If an agreement cannot be reached, the Agency will make loan approval and servicing determinations based on the Agency's revised farm operating plan.

--242 Developing Farm Operating Plans (Continued)*A General (Continued)**

If a loan making/servicing decision is based on a revised farm operating plan the applicant does not agree with, the authorized agency official will place the plan on which the applicant does not agree in the case file along with the plan submitted by the applicant. The authorized agency official will document in the case file the differences in the plans and the fact that the loan making/servicing decision was based on a revised farm operating plan on which the applicant does not agree.

In FBP, the plans should be named such that it is clear which plan is the applicant's plan and which plan is developed by FSA.

B Consideration of New Enterprises

For new enterprises that are **not** a part of the applicant's history, the authorized agency official may use reliable sources, such as enterprise budgets from Extension Service and Land Grant Universities, as acceptable documentation to support the farm operating plan. Farm operating plans developed for new enterprises must use acceptable State or county average production levels. In addition, the local conditions (soil productivity, climate, etc.) that will affect the enterprise and current realistic income and expense information will be considered when State or county averages are used.

Note: Program loan cost contracting funds are available and may be used to procure technical assistance for applicants planning new enterprises if public sector institutions (Extension Service, State Government, Land Grant Universities, etc.) cannot provide the assistance necessary.--*

Reports, Forms, Abbreviations, and Redelegations of Authority (Continued)

Forms (Continued)

Number	Title	Display Reference	Reference
FSA-2212	Preferred Lender Application For Guarantee		44, 47
FSA-2232	Conditional Commitment		43, Ex. 7
FSA-2235	Loan Guarantee		Ex. 7
FSA-2242	Assignment of Guarantee		Ex. 7
FSA-2292	Guaranteed Loan Processing Checklist		Ex. 36
FSA-2301	Request For Youth Loan		44, 47, 48, Ex. 15
FSA-2304	Notice of Incomplete Application		Ex. 36
FSA-2305	Second Notice of Incomplete Application		Ex. 36
FSA-2306	Notice of Application Withdrawal/Pending Withdrawal		Ex. 36
FSA-2307	Notice of Complete Application		Ex. 36
FSA-2308	Notice of Eligibility for FSA Assistance		Ex. 36
FSA-2311A	Emergency Loan Calculations		Ex. 15
FSA-2313	Notification of Loan Approval and Borrower Responsibilities		202
FSA-2314	Streamlined Request for Direct OL Assistance		48
FSA-2330	Request for Microloan Assistance		44, 48
FSA-2341	Certification of Attorney		43
FSA-2342	Certification of Title Insurance Company		43
FSA-2510	Notice of Availability of Loan Servicing to Borrowers Who Are 90 Days Past Due		3
FSA-2512	Notice of Availability of Loan Servicing to Borrowers Who Are Current, Financially Distressed, or Less Than 90 Days Past Due		3
FSA-2514	Notice of Availability of Loan Servicing to Borrowers Who Are in Non-Monetary Default		3
FSA-2535	Conservation Contract		3
FSA-2543	Shared Appreciation Agreement		3
FSA-2544	Request for Information on Capital Improvements		Ex. 36
FSA-2545	Borrower Notification of Shared Appreciation Due		Ex. 36
OF-347	Order for Supplies and Services		165
RD 1922-15	Administrative Appraisal Review for Single Family Housing		143
RD 1940-22	Environmental Checklist for Categorical Exclusions		Ex. 15, 36
SF-1449	Solicitation/Contract/Order for Commercial Items		165

Note: SF-1449 is available on GSA's form web site at www.gsa.gov/portal/forms/type/TOP.

Reports, Forms, Abbreviations, and Redelegations of Authority (Continued)

Abbreviations Not Listed in 1-CM

The following abbreviations are not listed in 1-CM.

Approved Abbreviation	Term	Reference
ACCP	accelerated payment	169
ACIF	Agricultural Credit Insurance Fund	163
ADR	alternative dispute resolution	42
ARRA	American Recovery and Reinvestment Act of 2009	28, 163, Ex. 16
AS	Agricultural Specialist	23, 26, Ex. 7
BIR	Business Information Report	48
BPA	Blanket Purchase Agreement	161, 162, 165, 166
BOPR	Borrower Property Table	166
CCR	Central Contractor Registration	162
CDAT	Consent Decree Action Team	Ex. 12, 13.5
CL	conservation loan	Text, Ex. 2, 15, 16
CMT	Constant Maturity Treasury	Ex. 17
CNC	currently not collectible	41, 251, Ex. 5, 12, 13, 13.5, 15
CONACT	Consolidated Farm and Rural Development Act	1, 21, 29, 142, 251
CPA	Certified Public Accountant	Ex. 26
CSA	community supported agriculture	242, Ex. 28
DDORS	District Director Oversight Reporting System	442, 443, 444, Ex. 2, 36
eDALR\$	electronic Debt and Loan Restructuring System	Ex. 13.5, 15, 17
DUNS	Data Universal Numbering System	43
ECM	Enterprise Content Management	5, 52
EIN	employer identification number	53
ERSR	Electronic Repository of Security Requests	53, Ex. 15
FAR	Federal Acquisitions Regulation	162, 165, 166
FCAO	Farm Credit Applications Office	49, Ex. 15
FHP	Farm and Home Plan	Ex. 5, 15
FLOTRACK	Farm Loan Officer Trainee Tracking System	25
FLPRA	Farm Loan Programs Risk Assessment	401-403, 443, Ex. 36
FmHA	Farmers Home Administration	52, Ex. 5
FMMI	Financial Management Modernization Initiative	162-169
ISA	installment set-aside	Ex. 15
ITLAP	Indian Tribal Land Acquisition Program	2, Ex. 16
LOA	Loan Analyst	23, 26, Ex. 7
LOC	line of credit	29, Ex. 15, 16

*--Alternative Production and Marketing Price Determination Guide

A Overview

Agriculture is an evolving business and the recent surge in consumer demand for organic and locally-produced food is creating jobs and agricultural opportunities throughout rural America. Beginning farmers are finding an entry point into agriculture through local markets, while many existing businesses are diversifying into high-value, locally-branded products. With the increasing number of “buy local”, organic, urban agriculture and specialty crop awareness campaigns; there has been an increase in request for assistance for operations unfamiliar to some local offices. The following methodologies can be used in developing prices and other forms of valuation for crops and evaluating local or regional marketing methods. The same methodologies can be applied to organic crops and pricing.

Four basic methodologies are discussed in this exhibit. In addition, there is also information on considering alternative enterprises.

Note: DAFLP maintains a library of web-based resources that includes a variety of information on nontraditional and niche-type farm enterprises. This information includes sample enterprise budgets, marketing models, how-to and start-up guides, organics, hydroponics, Community Supported Agriculture, and more. The DAFLP community found within USDA Connect at <https://connections.usda.gov> provides an additional source of information and the opportunity to network with other USDA Agencies and topic-specific communities that provide equally valuable resources and information.

B Prices for Enterprises Not Available on Published State Price Lists

When actual records data is not available, prices may be found by using NASS data, terminal price information, RMA data, AMS Market News, or the price list from an adjoining or nearby State. This may be helpful in cases where a significant amount of land is dedicated to growing a specific crop. USDA-AMS Market News also has a local food price-gathering effort underway and is starting to publish datasets online at

<http://www.ams.usda.gov/AMSV1.0/MarketNewsLocalRegional>. This data will be enhanced significantly over the next year. Additional information may also be available by researching cooperative extension sites at <http://www.csrees.usda.gov/Extension>. Many cooperative extension sites have enterprise budgets that can assist applicants in developing their farm plan.

Example 1: An office receives a request for assistance from a new producer who wants to grow basil. The proposal is for 20,000 square feet of basil production. The applicant provides a letter from the local grocery store agreeing to purchase basil not less than wholesale price. The applicant submits the latest Detroit terminal price of \$6 per pound for basil and obtains an enterprise budget from the local university. Using this analysis, the applicant substantiates a feasible plan and assistance can be approved. In the following year, this applicant will have actual price history and income and expense data.--*

***--Alternative Production and Marketing Price Determination Guide (Continued)**

B Prices for Enterprises Not Available on Published State Price Lists (Continued)

Example 2: An applicant comes into the office with the intention to grow an organic crop. Deciding how to price organic products is difficult, particularly when markets often are not well-established. Prices need to be high enough to make a profit, but reasonable based on competition and how customers value (or establish a price on) the product. Many enterprise budgets may be available, but the applicant should choose an enterprise budget that suits the business they are proposing. The applicant should review the scale that is being proposed, the production method proposed (organic or conventional), and geographic region from which the sample budget is created. Still, there are numerous resources to assist even if the State's extension service or the land grant college does not have specific information for a particular enterprise. The National Sustainable Agricultural Service provides numerous resources for organic enterprise budgets at <https://attra.ncat.org/organic.html#vegetable>, and the USDA Economic Research Service at <http://ers.usda.gov/data-products/organic-prices.aspx> is a useful resource for organic pricing.

C Applicants With Actual Income and Expense Records, Not Specific to a Commodity

It is not always practicable to value crop income and expenses on an individual crop basis. This is especially true for small acreage operations, high tunnel production, highly diverse operations, CSA, and operations where product choice is driven by market demands. When product choice is driven by market demands, the applicant's actual historical income and expense records may be used to establish trends and projections.

Example: In 2012, an applicant grew 12 different vegetables and herbs on 21,000 square feet. The operation grossed \$9,000 income by using a variety of marketing methods. In 2013, the applicant improved selling techniques and grossed \$10,800 in income, a 20 percent increase. In 2014, the operation proposes to grow to 35,000 square feet. An acceptable estimate of the proposed gross income for 2014 would be calculated as $10,800 \div 21,000 \text{ square feet (former lot size)} \times 35,000 \text{ square feet (new lot size)} = \$18,000$. The same methodology would be used to estimate expenses.--*

***--Alternative Production and Marketing Price Determination Guide (Continued)**

D Small Acreage, Square Footage Operations With a Variety of Commodities

An applicant's actual records will be most reliable. It is an acceptable practice to use the actual gross income divided by the square footage of the plot to estimate the potential income per square foot (see paragraph C). If there are no actual records to estimate net income, or when price and yield information usage is not practicable because of multiple crops and small plot areas, other methods of income and expenses may be used. Many State universities publish enterprise budgets for small scale and fractional acreage. **ALMOST ALL CROPS CAN BE IDENTIFIED IN A SEARCH.** In addition, many local lending institutions and universities, including the farm credit system, have conducted benchmarking studies. ERS publishes organic costs and returns for organic corn, wheat, soybeans, and milk. Information is available at <http://ers.usda.gov/Data-products/organic-production.aspx>.

Example: In 2012, the Farm Credit Council and Farm Credit East conducted a CSA-benchmark study to establish a performance metrics and expectations for usage in making informed lending decisions. A review of this study can be found at <http://www.ngfn.org/resources/ngfn-cluster-calls/csa-benchmark-project/CSA%20benchmark%20slides.pdf>. This study set a general guide of \$18,000 to \$20,000 sales average per acre or \$.41 to \$.46 per square foot.

E Alternative Marketing Methods

The following provides details on 2 alternative marketing methods:

- **CSA** is a direct marketing channel by which farmers sell shares or subscriptions for farm products to customers. CSA operation occurs when consumers provide upfront funds (buy a share) for a portion of the expected harvest from the farm, typically in the form of weekly harvest deliveries. A diverse selection of products is delivered regularly, for a specified time during the harvest period, to customers at designated pickup sites. CSA is typically used to market fresh produce, but can also be used to market meat, eggs, honey, flowers, and other products.

For existing operations, actual historical records should be available to demonstrate share price and number of subscriptions. Because a CSA farm effectively sells produce before the growing season begins, the farm's gross CSA income can be easily calculated. CSA farmers should determine the breakeven point when establishing membership income.--*

***--Alternative Production and Marketing Price Determination Guide (Continued)**

E Alternative Marketing Methods (Continued)

Applicants establishing new CSA operations should research target market and be able to answer general questions, such as:

- How many competitors are there in the target marketing area?
- What is the average share price?
- How does your CSA product differ from your competitors?
- Can your market support another CSA?
- How did you determine your share price and the number of shares you plan to sell?

Numerous resources are available to assist farmers with marketing methods, share pricing, and breakeven analysis. Many farms combine CSA with other forms of marketing, such as selling at a farmers market, farm to institution or restaurants, and retail stores.

- **Farmers Markets**, as with CSA, should be researched by the applicants in the area where they expect to market their product. Many State Departments of Agriculture maintain an average price list for farmers markets in their jurisdiction and AMS Market News is beginning to gather this information as well (see link in subparagraph B). Also many States have farmers market associations that may track average prices.

F Alternative Enterprises

Prices, farm programs, trade policies, technology, markets, and consumer preferences change continuously. Some enterprises previously believed to be speculative or without an established or steady market are now proving, through consumer demand, to be main stream in some regions. Loan officers are often faced with request for assistance from operations, either wholly or in part, producing income through production of alternative enterprise. To find out more about alternative enterprises suited to each area, the National Agricultural Library has many examples and helpful publications at <http://www.nal.usda.gov/afsic/pubs/altlist.shtml>. Examples of alternative enterprises include the following.

- **Wetland plants grown for environmental restoration.** Contracts are often available from State agencies to raise plants for environmental restoration. If plants are raised as seedlings or rooted cuttings for sale and not “wild harvested”, this operation may be considered an eligible enterprise.
- **Bison.** When an operation can provide documentation of an established meat market, bison may be considered an eligible enterprise. The USDA’s National Animal Health Monitoring System launched Bison 2014, the first-ever national study of the U.S. ranched-bison industry. This initiative is intended to increase knowledge and understanding about the characteristics, health, management practices, and challenges facing bison operations in the U.S.

If the operation’s main enterprise is production for heads and skulls, this would be considered a non-eligible enterprise.--*

*--Alternative Production and Marketing Price Determination Guide (Continued)

F Alternative Enterprise (Continued)

- **Alpaca.** Alpaca's have generally been considered non-eligible enterprises because of the speculative nature of the industry. During the height of the industry, it was not uncommon to see breeding stock sell for \$35,000. Animals were subsequently raised and bred with the hope that the offspring would sell to another breeder to perpetuate the cycle. This speculative market is considered a non-eligible enterprise. However, each year it is estimated that alpaca fiber can be worth \$500 to \$1,000 per animal, depending on the market. In addition to this, alpaca can be used as guard animals for livestock. An alpaca operation whose primary enterprise is to produce fiber and sell alpacas as guard animals for livestock farmers may be considered eligible.
- **Goats.** A goat operation for milk, meat, and fiber offers many opportunities. The 2 most common fibers produced are mohair and cashmere. Fiber markets should be evaluated for reliability, but can often produce a marketing alternative to strictly meat production. In many areas of the country, goat meat and milk are highly sought after by many immigrant communities, providing marketing options for products. According to NASS, meat goats account for over 80 percent of the total of goats produced in the U.S.
- **Rabbits.** Rabbits grown for fiber, such as angora, and rabbits grown for food can be considered an eligible enterprise, if a reliable market exists for the product. Rabbits raised primarily for pet purposes would be considered a non-eligible enterprise.
- **Timber.** Forestry products may be eligible, depending on the manner in which the forestry is managed and harvested. The operation must follow a Timber Management Plan. Purchasing property with the intention of clear cutting and selling the timber and firewood is not considered managed agriculture and; therefore, not an eligible enterprise. In contrast, a request for assistance to purchase real estate and actively manage the timber with a forestry plan may be considered an eligible enterprise. Each request for assistance and Timber Management Plan should be reviewed and determined eligible or ineligible on its own merit.
- **Aquaculture.** Aquaculture is the husbandry of any aquatic organisms, including fish, mollusks, crustaceans, or other invertebrates, amphibians, reptiles, or aquatic plants, raised in a controlled or selected environment of which the applicant has exclusive rights to use. As with other agricultural enterprises, the requirements under non-eligible enterprise still apply, but in some cases these enterprises may be eligible for FSA financing. The USDA National Agricultural Library web site, alternative farming systems information center, at <http://www.nal.usda.gov/afsic/pubs/altlist.shtml>, has several resources available for aquaculture, among other alternative enterprises.--*

