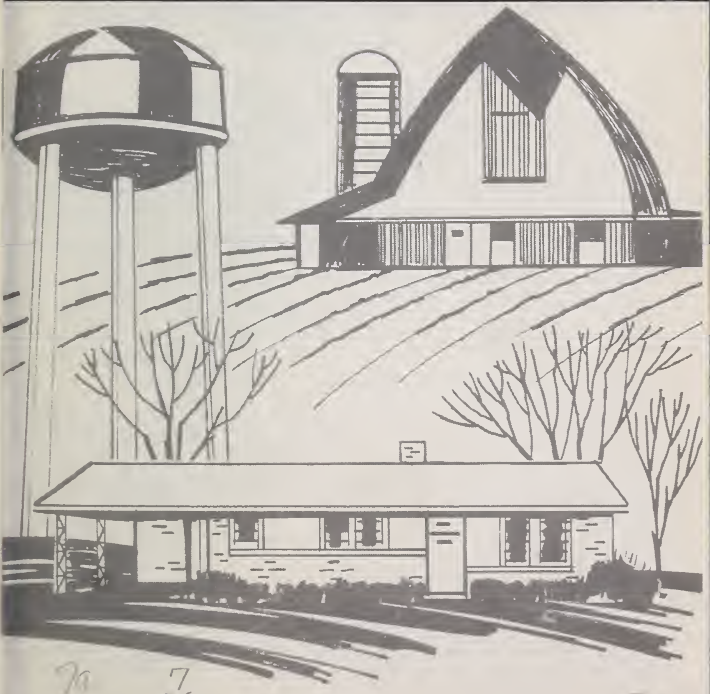
# FARMERS HOME ADMINISTRATION INSURED LOANS

*Information for Lenders*



PA-556 U.S. Department of Agriculture

Farmers Home Administration Washington, D.C.

FARMERS HOME ADMINISTRATION

# INSURED LOANS
# Information for Lenders

- **Principal and Interest Fully Guaranteed by the United States Government**
- **Attractive Yields to Investors**
- **Maturities to Meet Diversified Investor Requirements**
- **Extension Options**
- **Ownership of Insured Notes Easily Transferred**

Loans insured by the Farmers Home Administration, a credit agency in the U.S. Department of Agriculture, enable private lenders to supply capital to finance farm purchase and development, rural housing and rural community facilities under a Federal Government guarantee against loss.

Following is a brief description of the many attractive features of this form of investment.

### *Interest Rates to Lenders*

Rates of return to lenders are consistent with prevailing money market conditions. Rates vary according to the length of time the private investor commits his funds.

### *Duration of Commitment*

Lenders may make either long-term or short-term investments in Farmers Home Administration insured loans.

Under a repurchase agreement between the lender and the agency, the lender may have the option to sell a note back to the Government within one year following a specified minimum period of time for holding the note. The Government will repurchase the note at the full amount of unpaid principal balance, plus accrued interest. Interest earnings continue during the option period.

If the lender does not use the option, he may (a) enter into a new repurchase agreement on terms then offered by the agency on comparable loans, or (b) hold the note until it is paid in full, refinanced, or otherwise liquidated, with a yield to the lender of not to exceed 5 percent per annum on the unpaid principal balance of the loan.

The maximum repayment period on insured loans varies from 33 to 40 years.

Under its secondary market operations, the Federal National Mortgage Association (FNMA) is authorized to buy from a private lender any rural housing loan insured by the Farmers Home Administration.

## *Loan Serviced by Government*

All loan making, loan servicing and collecting of loans insured under these programs are handled by the Farmers Home Administration without cost to the lender.

The mortgages for these insured loans are held by the Government. The lender holds only the insured note and the Government's insurance endorsement.

## *Lender Paid on Schedule by Government*

Repayment of principal and interest on an insured note held by a private investor is fully guaranteed by the U.S. Government.

The lender receives installment payments directly from the Government by United States Treasury check, regardless of whether the Farmers Home Administration collects on schedule from the borrower. Prepayments, except final payment, are held by the Farmers Home Administration, so that the Government makes payments to the lender only in installments as they become due under the note. Final payment whenever made is remitted promptly.

The notes generally call for annual payments to the Farmers Home Administration due January 1. Payments are remitted to the lender by the Farmers Home Administration on January 31, with interest to January 31.

Each payment to the lender is accompanied by a statement showing the applications of the remittance between principal and interest.

### *Notes Easily Assigned*

The lender may easily assign an insured note to another investor. This assignment will be binding upon the Government as soon as it receives the notice of assignment from the seller and acknowledges the notice. The note will be assigned by endorsement "to the order of," and delivery to, the buyer. The seller sends notice of the assignment to the Finance Office, Farmers Home Administration, U.S. Department of Agriculture, St. Louis, Missouri 63103.

### *Notes Sold for Principal Outstanding*

Notes are sold to investors by the Farmers Home Administration for the amount of the unpaid principal as of date of sale. Investors are not required to purchase interest. Accrual of interest on an investor's funds begins as of the date of sale.

### *Loans Acceptable as Collateral*

The U.S. Treasury considers notes insured by the Farmers Home Administration to be acceptable security for deposits of public moneys; e.g., they may be pledged by depository banks with the Federal Reserve banks as collateral security for Treasury tax and loan accounts. These insured loans fall within the classification described in paragraph 7(b) of Treasury Department Circular No. 92, Revised, and paragraph 20(b) of Treasury Department Circular No. 176, Revised, namely, "Obligations guaranteed by the United States—Obligations fully and unconditionally guaranteed both as to principal and interest by the United States; all at face value."

The Federal Reserve Board considers these insured notes to be eligible as collateral security for advances not exceeding 90 days within the meaning of paragraph 8, section 13 of the Federal Reserve Act. (Federal Reserve Bulletin, June 1962, p. 690.)

### *Loans Not Classified as Real Estate Loans*

As the security for insured loans runs to the Government, the Comptroller of the Currency has determined that national banks do not have to classify these loans as real estate loans, under section 24 of the Federal Reserve Act. By law, as far as national banks are concerned, the ratio of the amount of the loan to the appraised value of the property does not apply to these insured loans.

The National Association of Insurance Commissioners Committee on Valuation of Securities has ruled that insurance companies, in their statements, may carry these insured loans at investment value. The Committee lists them under bonds of the United States of America, in its publication "Valuation of Securities."

### *Loans Up to 25 Percent of a Bank's Capital and Surplus*

Section 5200 of the Revised Statutes (12 U.S.C. 84(12)) permits loans by a national bank to an individual up to 25 percent of the bank's capital and surplus if the amount that brings the individual's indebtedness over the usual 10 percent limitation is a loan insured by the Farmers Home Administration.

## How Lenders May Contact Agency

Any lending institution or individual interested in investing funds in these guaranteed loans should write or call the Administrator, Farmers Home Administration, Washington, D.C. 20250 (Telephone: Area Code 202, DUdley 8–5243), or the local State Director or County Supervisor of the Farmers Home Administration.

## Two Ways of Investing

Lenders and investors may supply funds to acquire Farmers Home Administration insured loans in either of two ways:

*Acquiring Loan When Made*—A private lender may supply funds to make a loan at the time it is approved and closed by a county supervisor of the Farmers Home Administration. The lender will issue a check to the borrower in a specified amount and convey it to the county supervisor. When the loan is closed, the Farmers Home Administration will convey to the lender the borrower's promissory note accompanied by an insurance endorsement executed by the United States.

*Purchase From Insurance Fund*—Insured loans may be purchased directly from the Farmers Home Administration. These loans, which the agency already has advanced from its Insurance Fund, may be purchased singly or in blocks.

## Information for Holders of Insured Notes

Holders of notes should address their questions concerning payments, assignments, or related matters to the Finance Office, Farmers Home Administration, U.S. Department of Agriculture, St. Louis, Missouri 63103.

## *The USDA-FHA Programs*

Insured loans are employed by the Farmers Home Administration in several of its credit services to family farmers, rural residents, and rural communities and associations.

The agency makes or insures loans only to eligible applicants who cannot obtain financing from other sources at reasonable rates and terms.

Insured loans to farmers for the purchase, improvement or refinancing of family-operated farms are authorized by the Consolidated Farmers Home Administration Act of 1961, as amended.

Insured loans to farmers and other rural residents for the construction, purchase and repair of homes are authorized under Title V of the Housing Act of 1949, as amended.

Insured loans to public bodies and nonprofit organizations in rural areas for development of rural community water and waste disposal systems, outdoor recreation centers, and livestock grazing ranges serving family farms and ranches, are authorized by the Consolidated Farmers Home Administration Act of 1961, as amended.

Insured loans for rental housing in rural areas are made under Title V of the Housing Act of 1949, as amended.

The Farmers Home Administration serves rural areas through 1,600 county offices located throughout the rural United States.

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