

Agricultural Handbook



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Abbreviations and Acronyms

AI	assuming institution
ARM	Asset Resolution Manual
CCC	Commodity Credit Corporation
cwt	hundredweight
DRR	Division of Resolutions and Receiverships
ECR	estimated cash recovery
FSA	Farm Services Agency
MPCI	multiple peril crop insurance
NPV	net present value
ORE	owned real estate
RMA	Risk Management Agency
SME	subject matter expert
SRP	strategic resolution plan
UCC	Uniform Commercial Code
USDA	US Department of Agriculture

Chapter 1 Introduction

When an insured institution fails, the FDIC is appointed as receiver to preserve, protect, and liquidate the failed institution's assets. In that capacity, the FDIC performs the following:

- Assumes responsibility for efficiently recovering the maximum amount possible from the disposition of the receivership's assets
- Seeks to manage and quickly terminate receiverships in an orderly and expeditious manner
- Terminates the receivership after the FDIC has completed the disposition of the assets and resolved all obligations, claims, and other legal impediments
- Makes a final distribution to the failed institution's creditors

This handbook is a guide to assist receivership staff with the assessment, management and resolution of the assets acquired from failed banks, primarily agricultural banks. This handbook serves to supplement the Division of Resolutions and Receiverships' (DRR) policies regarding agricultural credits that are stated in the Asset Resolution Manual (ARM). This handbook is to be used in conjunction with the other manuals and the Delegations of Authority. The point of contact regarding the resources and web links in this handbook is DRR's Policy and Oversight Unit. This handbook is a living document that will be updated as the need arises. Any plans and programs referenced in this handbook are intended to provide DRR options to consider and the flexibility to adapt its management and resolution strategies to agricultural bank issues on a case by case basis and under established protocols. Not all agricultural loan assets and agricultural bank failures will require the implementation of any or all of the outreach programs and management plans referenced in this handbook.

In addition to providing guidance about existing procedures for managing agricultural assets in a receivership environment, as opposed to an agricultural lending environment, this handbook provides general information about agricultural operations during the receivership for a failed bank with substantial agricultural assets. Specifically, this handbook contains a section of general information about the major crops and livestock most frequently encountered. While every attempt has been made to be specific in the discussion of agricultural operations, generalities are necessary due to geographical differences across the United States.

The portion of a failed bank's portfolio that is agriculturally related is influenced by its geographic location and the size of the community in which the failed bank operated. Small rural banks hold a higher percentage of agricultural assets than their metropolitan counterparts.

The nature of agricultural portfolios will vary due to local conditions. Areas with rich soil and favorable climatic conditions generally have a predominance of loans used to finance the purchase of equipment, seed, fertilizer, crops, and general operating expenses, while dry, sandy

areas may be more oriented toward livestock production. However, borrowers of many failed banks raise livestock in addition to growing crops in an attempt to diversify, thereby reducing the risks associated with agriculture that stem from conditions beyond anyone's control, such as weather, disease, and price fluctuations.

SPECIAL AGRICULTURAL CONSIDERATIONS

There are many unique aspects of agricultural banking that require informed and careful management, and there are important sociological and political concerns for receiverships to understand. Special considerations discussed throughout this handbook include the following:

- **Decision-making** – Farming and raising livestock are American traditions that, despite large-scale commercialization trends, tend to pull at the heart strings of individuals and communities. One result of such strong emotional ties is that, while a recommendation for dealing with a failing bank's assets may be based in large part on "the numbers," it cannot be assumed that the numbers alone will determine the decision. Farmers tend to live in rural communities and generally have fewer alternative job opportunities. This limitation can affect their decision to continue farming even when faced with poor commodity prices or farming conditions. Farm plans and realistic projections based on past performance and future commodity prices are important decision-making tools.
- Due to potential reputational risks and publicity, it is very important, pre-failure and ongoing, to contact the Office of Communications (OCOM) public affairs specialist who is assigned to the specific bank closing. Provide the OCOM public affairs specialist with the final SRP as soon as it is completed so that appropriate assessment of risks can be made.
- **Criticality of livestock care** – The need for immediate livestock management may arise in the course of receivership operations if a borrower suddenly abandons an operation. The Asset Manager (who may also serve as Post-Closing Asset Manager) should plan on utilizing a knowledgeable Receivership Assistance Contractor (RAC) staff, on site at closing, when there are likely to be livestock collateral. Cattle, hogs, and other livestock, etc., may not survive or their value may be seriously diminished before an emergency contractor (or court-appointed receiver) can be brought in. It will be important that the FDIC staff develop a list of local contacts (e.g., local veterinarians, agricultural suppliers, livestock sale barns, etc.). A case should be prepared (pre-closing) to obtain immediate assistance from local farmers and ranchers in the event that their, immediate, assistance is needed. The failed bank's staff will be a valuable resource in determining which borrowers and their livestock are at greatest risk and can also be valuable in obtaining emergency contacts for care of livestock. Bank staff should be interviewed on closing night to determine their level of knowledge so that a strategy may be formulated. In consultation with Legal, evaluate, pre-failure, and as soon as practical after bank-closing, whether there may be a need for seeking the court appointment of a receiver to run the operation and care for livestock. Receivership staff may have to use the Emergency Contracting Procedure in the Acquisition Service Branch's Acquisition, Procedures, Guidance, and Information manual. Using this procedure in such an emergency situation will help you quickly hire a sufficient number of livestock managers.

- **Need to call upon experts** – Despite various FDIC manuals, handbooks, and job aids, situations may arise when receivership staff must call upon experts for guidance. Again, you should consult the Emergency Contracting Procedure.
- **Need for emergency funding** – The Business Operations Support Unit may need to quickly establish a special operating account to use for milk checks, feed, water, veterinarian services, and other essential livestock maintenance items on an emergency basis. Crops and livestock are highly perishable, and timing can become critical for feeding livestock or harvesting or protecting crops from insects, weather, or other damaging conditions. Prompt actions can preserve the value of the collateral as well as prevent a public relations backlash caused by images of starving animals.

A critical concern is funding potential margin calls on hedging accounts. This must be addressed immediately on all accounts that have hedging activity that may potentially have to be funded by the bank. Failure to make a margin call could seriously impact the collateral value of crops or livestock pledged. The Asset Manager (post-closing) team should immediately review such accounts. If possible, try to determine if the situation exists prior to bank failure so that a case can be prepared in advance.

- **Alternative valuations** – Some situations may be so time-sensitive that there is not enough time to obtain proper inspections or appraisals. If that is the case, receivership staff may look for alternative means for valuation, such as contacting USDA cooperative extension services or other local financial institutions.
- **Carve-outs** – There may be circumstances when it is acceptable to offer reasonable incentives to encourage borrowers to cooperate with a voluntary liquidation. The incentives can vary considerably depending on the situation, but they may include allowing the borrower to retain his or her primary residence or offering a cash bonus per head of livestock surrendered.

The previously discussed situations may be extreme, but they have all been encountered. If receivership staff are in these situations, they are urged to follow established protocols and contact the appropriate FDIC office for guidance or approval of action, as necessary. As mentioned, each of these situations is addressed in detail in this handbook.

STAKEHOLDER OUTREACH PROGRAM

Recognizing that there are other stakeholders besides the FDIC and borrowers when the assets of a failed bank are sold or liquidated, receivership staff may need to consider a stakeholder outreach program. Such an outreach program is intended to provide a systematic, chronological process for communicating any FDIC receivership agricultural loan portfolio management plan to essential stakeholders shortly after an agricultural bank failure. It is anticipated that such a plan may be developed by the receivership on a case by case basis to manage a specific agricultural loan portfolio. An outreach program may also be helpful when significant agricultural borrowers and agricultural loans in the portfolio are already the subject of litigation.

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NOTE: Before creating any such outreach program, obtain input from the receivership's assigned Ombudsman and the FDIC's OCOM. In addition, the following outreach notifications should be made on a case by case basis, and then (with few exceptions) by only one designated FDIC point of contact, i.e. a specifically designated Outreach POC.

- Members of the US Congress (House and Senate) in the respective states where the failed bank's borrowers' operations are located are advised of the receivership's agricultural loan portfolio resolution efforts by the FDIC chairman or designee. There is a high probability these legislators will be contacted by constituent borrower. A pre-briefing by the FDIC both alerts members and provides them with an understanding of the receivership resolution process.
- The US Secretary of Agriculture is advised of the receivership's agricultural loan portfolio resolution efforts by the FDIC chairman or designee. The Secretary may be contacted by members of Congress or farming associations. A pre-briefing provides an opportunity to offer comments or suggestions to the FDIC.
- The agricultural commissioner of each affected state is advised of the receivership's agricultural loan portfolio resolution efforts by receivership staff. There is a high probability the commissioners will receive inquiries from several sources inside and outside their states. It is important to keep the agricultural commissioners informed because they may be able to assist the FDIC in an emergency.
- The appropriate trade associations and local cooperatives in the region are apprised of the receivership's agricultural loan portfolio resolution efforts by receivership staff. Pre-notification provides an opportunity to obtain their comments and support for the receivership's efforts.

The regional Farm Services Agency (FSA) is apprised of the receivership's agricultural loan portfolio resolution efforts by receivership staff. The FSA is an important source of funding and information for the farming industry. The SME for government-guaranteed loans must be contacted regarding all performing and non-performing FSA-guaranteed loans in order to preserve the integrity of all FSA guarantees. It is important to determine, as quickly as possible, whether there is, in fact, a guarantee and to get the loans to a servicer that understands the FSA reporting requirements. Most full-time crop farmers will be participating in FSA programs such as commodity price support, crop insurance, and cost-share programs. A few farmers will receive their land and/or operating loans through a direct loan or guaranteed bank loan from the FSA.

- The US Forest Service and the Bureau of Land Management provide over 25,000 grazing permits and leases on over 245 million acres. Large livestock operations, particularly in western states, may be participating with these agencies. Contacting those agencies can be valuable in obtaining important information about a specific operation or current grazing conditions for a specific area.
- Occasionally, the Department of the Interior, Bureau of Indian Affairs may need to be involved in instances of land-lease or grazing permits involving Indian lands.

- Many rural communities have a strong dependence on revenues from local farmers and their need for ancillary services provided by local businesses, such as fertilizer, feed, fuel, pesticides, and repairs. Those businesses can also suffer from the closing of a local agricultural lender. The loss of a major source of funding can also affect other lenders in the area. It is important to meet with the agriculture lenders, including banks, farm cooperatives, and others in the market area, and determine the availability of other credit to assist farmers who have loans at the receivership.
- The appropriate news media may need to be notified by OCOM of the receivership's agricultural loan portfolio resolution efforts so that they convey correct information to the public.

Borrower Notification and Process

- Receivership staff reviews the borrower's individual situation and begins to design a loan-specific management plan that best meets the interests of all parties.
- Receivership staff meets face-to-face with borrowers and provides an analysis and negotiation framework, including a timeframe for acceptance. Loan rehabilitations and workouts, when necessary, are to be discussed.
- Receivership Asset Management staff does not communicate directly with the borrower's attorney. FDIC Legal advises attorneys known to represent the borrowers.
- Receivership staff puts forth best efforts to negotiate a loan resolution within a reasonable time, considering cost of delays to both the FDIC and the borrowers.

If no agreement is reached, receivership staff proceeds to protect the receiver's interest. The FDIC recognizes the influence that long-held traditions and attitudes have in deciding economic policy and implementing financial reform (including the resolution of failed agricultural banks). With this in mind, the FDIC pays close attention to those banks with agricultural loans and, as management of the receivership progresses, lends a great deal of support to the on-site staff members. The final disposition of the failed bank's assets is a balancing act that takes into account the interests of all stakeholders.

Chapter 2 Initial Actions Before and After Bank Resolution

Receivership staff must quickly determine risk exposures and high-priority assets, and establish priorities for their activities. To achieve this goal, the post-closing asset manager assembles teams to conduct a thorough study of risks and assets and develop strategies to promptly address them.

CONDUCT PRE-RESOLUTION REVIEW OF BANK'S ASSETS

As Asset Management begins reviewing a bank's assets, staff should be particularly watchful for agricultural loans. When Asset Management determines that the bank has a significant number of these loans, the strategic resolution plan (SRP) developed by the Post-closing Asset Management SRP team must identify these agricultural loans as sensitive assets. These agricultural loans must be segregated into those that involve livestock and those that do not. Agricultural loans, especially those involving livestock, represent a significant need for FDIC employee resources (agricultural lending subject-matter experts). Those who are tasked to work in a receivership containing livestock loans must be in close contact with Franchise Marketing staff prior to resolution to prepare for the immediate management of agricultural assets involving livestock. One day without food and water can have disastrous results for livestock.

Because of the criticality of livestock care, the statement of work may reflect the need to engage knowledgeable and capable outside help before a bank resolution so they can begin to work the Saturday morning after resolution, if needed. The receivership should make every effort to retain as many of the failed bank's loan servicing, processing, and workout staff as possible. However, retention of failed bank personnel may not be possible, or the existing staff may not be sufficient or possess the necessary experience and expertise to address the needs of the agricultural loan portfolio. Sufficient Receivership Assistance Contract resources will be provided for in the statement of work, but they may be held in reserve until existing staff can be evaluated and the need to deploy more staff is justified.

Pre-resolution actions to ensure there is no break in the care and management of livestock may include a special operating account from which cash withdrawals are made to pay for feed, specialized labor, and other essential livestock needs when there is a need for quick action required to protect livestock. Evaluate each instance involving the care of livestock to determine if it is in the best interest of the FDIC, as Receiver, to seek a court-appointed receiver to manage the operations to ensure ongoing care for the impacted livestock.

MEET WITH BANK STAFF TO OBTAIN INFORMATION

Existing bank personnel usually have a long history in the community and know its residents. They are likely to be quite familiar with both the loan portfolios and the borrowers.

However, not all employees may be suitable to assist in certain circumstances. The Post-closing Asset Management team must make these judgments promptly. Employees that may not be suitable include:

- Instances when the bank employee's judgment or actions arguably contributed to excessive risk and /or resulted in substantial losses to the institution (e.g., subject to investigation).
- Instances when the employee has a strong friendship or family relationship that could lead to the appearance of conflicted interests.
- As with all receivership resolution efforts, the first priority is to ensure the safety of all staff. Some borrowers with credit problems may clearly pose a danger to others, while other borrowers may more discreetly express anger regarding their situations. Appropriate consideration should be given to the security and safety of all personnel. The following actions may need to be taken:
 - Lock down the receivership if there is a threat to confront and enter the receivership.
 - Contact any and all staff who may be en route to visit the operations or otherwise encounter the individuals involved in any threat or danger.
 - Alert law enforcement authorities to the danger or potential danger.
- Animals rank as second priority, but they require protection and care. When there is any doubt about the well-being of animal collateral, receivership staff may need to:
 - Contact law enforcement personnel.
 - Reach out to local community members who may also be concerned about the welfare of the livestock.
 - Recruit FDIC Legal staff members for help with evaluating all options for liquidating endangered animals. Seek their input on the advisability of seeking a court-appointed receiver to handle the liquidation of endangered animals.
 - Use an escrow account if there is concern about ownership or application of proceeds from sold collateral.
- Government-guaranteed agricultural loans are a special asset requiring prompt attention and direct contact from the assigned receivership account officer within a very short timeframe after a bank closes. Sometimes this is as little as 24 hours or the next business day, depending on the type of government-guaranteed loan and if livestock or perishable crops are financed. As part of the strategic resolution planning process prior to failure, the FDIC government-guaranteed loan subject matter expert (SME) is contacted to be sure that the SME is aware of the presence of guaranteed agricultural loans at the failing bank and to compare information that the SME has received from the government guarantee agency to be sure that all guaranteed agricultural loans are identified and classified prior to closing.

- Approved but incomplete pipeline deals might not be listed on the failed bank's books, requiring the bank staff to provide input on individual situations. Also, as borrowers contact the receivership to understand their options, the number of pipeline deals will likely increase. After the bank closing, resolve incomplete pipeline deals individually. The objective of the receivership is to reduce unfunded commitments to the greatest extent practical. However, because of the unique considerations of managing an agricultural receivership, incomplete pipeline deals should be given consideration on a case-by-case basis, with appropriate attention given to preserving the enterprise value of each agricultural enterprise.
- Receivership staff must determine the following:
 - How much of the failed bank's portfolio is agriculture related; are loans on local operations or multiple locations (especially, multi-state cattle operations)?
 - What is the composition of the agricultural portfolio by crop growers, livestock keepers, grain elevators, farm equipment dealers, and sale barns?
 - What are the primary and secondary crops grown in the area?
 - What are the types of livestock raised in the area?
 - What is the typical crop and livestock season?
 - When is seed, fertilizer, herbicide, and the like ordered?
 - Who are the local feed and fertilizer dealers?
 - When do crop farmers begin to cultivate or plant their fields?
 - Does the farmer/borrower own or lease the land used?
 - Are any of the farms considered labor intensive?
 - When are crops harvested?
 - Do crop farmers irrigate their fields?
 - Are water rights a consideration for the local area?
 - Are growing crops under contract? If so, with whom and what are the terms?
 - Are there any non-written agreements whereby a third party may be growing crops on a borrower's land?
 - How many of the borrowers also borrowed from other sources, including other banks, production credit associations, the Federal Land Bank Association, and government agencies such as the FSA?
 - Are any subordination or non-disturbance agreements in effect?

- Do bank loan officers make regular visits to the farms or ranches? If so, how often? How do they verify the existence, quality, and quantity of collateral?

Note: This is one of the most critical areas of borrower and bank loan file review since the answers often determine whether the bank perfected its lien interests in agricultural collateral. It also determines third party sources for locating collateral or proceeds from its sale (e.g., livestock auction houses).
- How has the weather been for the last three years? Have there been droughts, floods, hail storms, or early frosts?
- Have any farmers experienced severe crop or livestock loss from disease?
- If calving operations are involved, when are most sold? At what stage of growth?
- Did the bank use employees for appraisal or employ outside appraisers? Obtain the contact information for all appraisers qualified in agricultural operations.
- Which equipment dealers are used and are they local or remote?
- Where are the livestock auctions, feedlots, packing plants, etc.?
- What are the locations, phone numbers, addresses, and names of officers of all local, state, and federal organizations that support farming communities? Examples are:
 - US Department of Agriculture (USDA)
 - Small Business Administration
 - Farm Credit Services
 - FSA
- Do most of the local farmers do their own planting and harvesting?
- What is the condition of the local real estate market – depressed, declining, stabilizing?
- Do any of the borrowers use the futures market?
- Are any foreclosures planned or in process?
- Are any auction sales planned for the near future? If yes, determine:
 - Which borrowers?
 - Voluntary or involuntary?
 - When and where scheduled?
 - Auctioneer contact information?
 - Who are the prior lien holders?
- Have there been any recent foreclosures or sales?

- If there are any loan participations, are they purchased or sold, and who are the lead and passive participants?
- Have any agricultural loans been recently charged off?
- Do local purchasers make checks jointly payable to the borrower and the bank?
- What is the failed bank's policy for allowing the farmers to keep proceeds from the sale of collateral instead of applying it to their loans?
- Has the bank repossessed any livestock, equipment, or other collateral that has not been sold, or for which the sale proceeds have not been processed? If so:
 - What was repossessed?
 - Which loans did the collateral secure?
 - Where is the collateral stored?
 - Have any arrangements been initiated for its sale?

MAKE INITIAL CONTACT WITH BORROWERS

When a bank fails, word spreads very quickly through the community. The Asset Manager (post-closing) team should request that the RAC receive the list of borrower names and loan assets being assigned to the RAC, prior to closing night. The first few days following closing can be confusing and chaotic; this is an effective way to make sure important borrower accounts are not missed. The sooner the receivership staff contacts borrowers, the faster borrower consternation can be relieved and the sooner staff can begin to educate the borrower about the FDIC's role in a failed institution. An excellent source of information for borrowers is the FDIC's publication [A Borrower's Guide to an FDIC Insured Bank Failure](#) (which can currently be found on the internet at [Federal Deposit Insurance Corporation > Industry Analysis > Failed Banks](#)). In particular, receivership staff should communicate that:

- The FDIC is not a bank and does not intend to establish itself as a lending institution in the failed bank's community or anywhere else.
- The borrower would be well advised to seek all new and replacement funding elsewhere. No significant plans should be developed until there is practical evidence that no other sources of credit exist.
- Even though the borrower may have had a long-time and positive banking relationship with the failed bank (with unfunded commitments), the FDIC is not bound to honor such unfunded commitments. (There may be certain scenarios for which it may be in the best interest of the Receivership to advance funds on a prior commitment, but these advances will be considered on a case-by-case basis.)
- If it is determined that a scenario exists that would require funding of prior commitments, the receivership account officer assigned to the borrower will request that financial information be provided by the borrower on forms acceptable to the FDIC. After receipt of all necessary financial information, a case for funding a prior commitment will be

prepared and submitted to the appropriate levels of delegated authority. The financial package should be prepared by the borrower and submitted to the receivership staff for consideration in those cases where other financing is not immediately available to repay the full amount of the debt.

NOTIFY PURCHASERS OF AGRICULTURAL PRODUCTS

Under the Uniform Commercial Code (UCC), borrowers of agricultural loans are required to advise their lenders of the names of purchasers of their products, and receivership staff should verify that the borrowers' files contain the purchasers' contact information. Then receivership staff attempt to make verbal and written contact with the agricultural product purchasers to remind them of their financial commitment and advise them of the receivership's role.

CONDUCT A REVIEW OF AGRICULTURAL LOAN FILES

The receivership staff reviews all loan collateral and credit files held by the receivership and begins preparing an asset disposition plan for each loan. When these files are found to be deficient, staff members attempt to correct all shortcomings. In the case of agricultural loans, the loan folder may contain commitments, participations, or other documents, and receivership staff should search for these when conducting a file examination or inventory. The documents include:

- **Unfunded commitments** – Be aware of all potential requests for additional funds, especially those made by a borrower whose agricultural operation may be either failing or on the brink of failing. Advance preparation by staff to learn of potential future requests for advances can help with deciding whether to fund critical needs for a defaulted borrower.

Depending on the time of year that the bank closing occurs, there may be unfunded commitments relating to funding crops for the current crop season or providing funds for feedlot operations. Analysis and preparation prior to the bank closing helps provide adequate access to funds to meet the outstanding commitments and keep the agricultural operations funded in a timely manner. This may include preparation of a case to authorize funding within guidelines upon arrival of the Post-closing Asset Management team or shortly thereafter.

- **Participations** – If the receivership holds a participation serviced by another institution, then the receivership is at risk without having final authority or control over events with regard to that participation. Advance preparation can help to reduce exposure. If a receivership has sold participations, then it has a reporting relationship to the downstream participants.
- **Financial package analysis** – Similar to an appraisal, solid financial analysis of an agricultural operation provides information critical to managing the receivership. If no thorough analysis exists, or if it is outdated, receivership staff must request that the

borrower complete the financial statement information, as necessary, to protect the interest of the receivership. Financial analysis components are:

- **Land use chart** – Agricultural production takes place at a physical location. Determining how much land is used and its location provides receivership staff with information critical to conducting site visits and assessing the extent to which some (or all) of the land can be put to its best use.
- **Balance sheet** – The balance sheet is the starting point – a snapshot of the operation’s financial condition at a particular time. When providing the borrower with the financial package, receivership staff should take the time to explain that all assets and liabilities should be listed. Many agricultural balance sheet forms have specific sections for farm and non-farm components, but if no separate section is present, then all items listed should be identified clearly as farm or non-farm.

To ensure that the information is complete, refer to the most recent balance sheet provided to the failed bank for information about assets, valuations, creditors, and liabilities. The balance sheet must contain at least three years of financial statements, three years of tax returns, and an interim statement, and it may not be more than six months old.

Because of the seasonal nature of agricultural businesses, the balance sheet changes significantly during the four seasons, particularly when crops are harvested or livestock is marketed. Receivership staff should take caution to be sure it is comparing apples to apples when conducting the financial review.

Asset values are represented on balance sheets as either cost with depreciation or market value. Market valuations are particularly common in agricultural lending and most clearly reflect the true financial condition of the operation.

Appraisals and inspections may be necessary or required to support market value reporting. (These two methods of verification are discussed in detail in a subsequent section.) Additionally, the appraiser should state all significant assumptions used in determining the value of the assets reported (for example, price per bushel for row crops and price per pound for livestock).

Agricultural producers must also synchronize the numbers they report. That is, if a balance sheet shows the value of crops at market value and this value assumes that the crops continue growing in a typical way up to a certain time period, then the liabilities associated with this same time period must also be reported.

- **Off-balance sheet items** – An agricultural operation may employ some strategies that can have an undesirable financial impact but that are not always readily disclosed on balance sheets. Hedging operations are one common off-balance sheet strategy. Look for borrower’s brokerage house records or bank records of such operations.

While most agricultural producers or farmers do not use significant hedges to lock in market prices or future expected costs, some might. As standard practice, receivership

staff should attempt to discover and assess hedge positions as soon as possible after the failed bank closes.

A hedge differs from a contract – it requires that adequate funding be in the producer’s brokerage account (margin account) to cover market movement on a daily basis. If adequate funds are not present, or otherwise not immediately available, the broker can sell the position and the hedge is lifted. Such an action by the broker could result in both the loss of margin funds and an unprotected position.

As a result of the volatility, specific expertise required to manage hedged accounts, potential for extremely large requirements for immediate cash payments, these accounts are not a suitable arrangement for a receivership (as opposed to a commercial lending operation) for an indefinite period of time.

Ask bank staff to identify borrowers with hedging accounts. Receivership personnel should immediately gather all facts and circumstances related to the hedge positions. Information that needs to be gathered and assessed includes the following:

- The reason for the hedge positions
- Alternatives to hedging
- Broker contact information
- Maximum exposure for market moves on a daily basis
- Duration of the hedge positions

After the receivership staff receives all available facts and has assessed a specific hedge position, they should arrange a meeting with the borrower to discuss it and the receivership’s financial exposure. The discussion should include the option to move the hedging account to another lender, or replace any hedged positions with contracted positions, in which the financial obligations of the borrower, and therefore the receivership, are fixed.

A commitment used for margin calls needs to be fully collateralized with adequate unhedged collateral, in addition to hedged collateral, at maximum extension. The security agreement, at a minimum, must cover the product being hedged (for example, the feed and livestock, crops, and custom feeding accounts receivable) and the margin account itself. Be certain to utilize a FDIC Legal SME to assist in document review, preparation and/or perfection immediately upon discovery of hedging activities related to the loan collateral. Alert the attorney to any Investigations, PLU and OIG issues related to the portfolio.

To assess and minimize its risk, receivership staff should:

- Request daily statements from the commodities broker so that the strategy and cash position can be monitored
- Have the authority to sell the positions if and when there is concern about the execution of the trades

- Maintain constant and effective communication between the borrower, the broker, and involved staff

If the margin account is successfully sold, the proceeds are forwarded to the receivership and applied against the borrower's asset, or they are released for a qualified purpose. In the case of the latter, perform a cash flow analysis.

- **Cash flow statement** – Net cash flow is not the same as net income. Cash is required to pay operating expenses, living expenses, payments (both principal and interest), capital replacement, and so on. It is common for a business to be “profitable on paper” but “out of business” with regard to cash flow. One major reason for the difference between apparent profitability and actual insolvency is the difference in the timing of income and expenses, and this difference centers around two important cycles: the production cycle and the cash cycle.
 - In the production cycle, timely care is required for the operation to succeed, and this care depends on funding at critical times of the year (for example, breeding stock and planting must be funded at the beginning of a cycle).
 - The cash cycle of agricultural enterprises is often longer than the production cycle because the receipt of income typically comes after the end of a production cycle when crops have been harvested and livestock have been finished (i.e., advanced in preparation for selling) and taken to market.

The cash flow statement will document:

- Operating, financing, and investing activities of the entity
 - Available cash-to-service debt obligations
 - Need, extent, and timing of cash for the operation
 - Timing, source, and extent of funding of other obligations
 - Primary source and amount of repayment expected from the operation
 - Capital expenditures and major repairs
- **Leases and rent agreements** – Leases and rents, particularly those that are not disclosed by the borrower, can present special problems. First, if the receivership does not know about them, it cannot consider them for a repudiation case. Second, some lease or rent agreements, such as an equipment lease or purchase, are really financing agreements, and the borrower may include the tractor, harrow, or other farming equipment on the balance sheet, but not as accompanying liability. Third, rent payments are often known and expected liabilities that occur in the future – not possible expenses dependent on some future action of the agricultural operator.
 - **Borrower solvency** – Assets minus liabilities equals net worth, but just because a balance sheet shows a net worth does not mean that a borrower is liquid, or has the cash (or potential to produce cash) necessary to efficiently operate and pay expenses or payments as they become due. Liquidity is critical for any short-term arrangements.

For instance, a producer or farmer could own relatively illiquid assets or long-term assets that do not produce income. The cash flow statement (discussed previously) helps in determining whether the statement of net worth showing borrower equity also means that the borrower is liquid.

A good measure of the operating liquidity for an agricultural operation is working capital. Working capital equals current assets minus current liabilities. Many loans to agricultural businesses are lines of credit, such as short-term crop lines, to enable the producer to make it through the growing season.

- **Budget** – Crop and livestock producers each have different cash flow elements, and farmers or ranchers should have an excellent grasp of their cash inflows and outflows over the next 6-12-month period that should, at a minimum, complete the current production or cash cycle and begin the next. However, many farmers or ranchers do not understand the detail needed to provide adequate documentation to prepare a budget. The receivership staff needs to work with the borrower to obtain adequate information.

As with cash flow statements, all major projections (for example, feed prices, seed prices, herbicide costs, labor costs, projected yields, transportation costs, and debt service) should be clearly and accurately stated and supported.

States often have a cooperative extension department funded by the federal government that has detailed budgeting information on virtually any agricultural commodity produced. This information is typically “common-sized” on a per-acre or per-unit basis, so it applies to each situation. Receivership staff should compare the farm or ranch operator’s submitted budget against known and existing budgets, available from reliable data sources, to add confidence and credibility to the financial data analysis.

Receivership staff need to recognize that the cash flow budget is critical to determining whether the borrower is capable of meeting his or her debt obligations, including any possible additional advances. After the budget is reviewed for stress factors, such as reduced income and potential increased expenses, and it still fails to support obligations to the receivership, some other modification must be offered.

Often, short-term cash flow budgets are well suited for agricultural operations because, as in the case of dairy farmers who ship their milk daily, but get paid semi-monthly, there is a regular and predictable cycle. Other operations may best be budgeted over a longer period. Receivership staff should become knowledgeable of the borrower’s operations to know which budgeting period provides the most information and control.

- **Family living expenses** – A statement of budgeted family expenses provides receivership staff with the assurance that the borrower understands that living expenses taken from the operation must be reasonable. Additionally, the borrower is assured that withdrawal of cash for reasonable living expenses is within the scope of permissible expenses.

- **Tax returns** – Receivership staff should check the loan files for copies of tax returns. Reviewing the past several years provides an overview of the operation’s activities, but staff must keep in mind that agricultural operations are at risk of macro-economic changes that can suddenly manifest themselves. Also, the tax returns for many operations do not include a balance sheet, which provides a picture of the current financial status of the operations.

Income tax returns can be particularly useful when determining whether the operation has unpaid tax obligations or may soon encounter tax obligations for which it does not have sufficient cash to settle.

- **Government payments** – Government payments apply to only a few products – most notably row crops. However, if there is a government program for the product, the government payment receivable can be significant and is worth entering on the balance sheet and the cash flow worksheets. Be certain that the payment is provided directly by the FSA, and assigned to the FDIC, as receiver. Be sure to go through the process of understanding what is available to the producer. Eligibility, timing, amount, etc., are easy to verify.

PURCHASE AND ASSUMPTION AGREEMENT – FIRST RIGHT OF REFUSAL

When there is an assuming institution (AI), the transaction documents (or Purchase and Assumption Agreement [P&A]) may include a provision that gives the AI an exclusive option period to purchase loans retained by the FDIC. During this option period, receivership staff should attempt to cure any deficiencies or technical exceptions.

To enhance the attractiveness of the loans available for sale, receivership staff should attempt to eliminate any servicing or documentation deficiencies that exist, such as:

- Lack of financial statements or tax returns
- Outdated or incomplete inspections and appraisals of collateral
- Improper or non-existent UCC filings
- Establishment of proper recording of correct collateral disposition and application of collateral proceeds

Work with the Legal SME on such issues due to State-specific lien perfection requirements. Receivership staff should quickly communicate to borrowers that complete and accurate financial records in their loan files could mean the difference between the FDIC retaining their loans (with accompanying restrictions) or an ongoing bank taking over their loans and the subsequent establishment of a new financial relationship.

By the expiration of the option period, the AI will have likely purchased the best assets, leaving the FDIC holding everything else, which typically consists of poorly secured and non-performing loans. However, it is possible that an AI would pass on a loan that might be bankable

but lacks proper documentation. Work with the Legal SME, at this time, to develop a State-specific and compliant letter, to be sent to all borrowers, that does the following:

- Notifies the borrowers that their loans were not purchased by the AI (normally, this notice goes out immediately, not after expiration of 30 days)
- Encourages the borrowers to seek alternate financing
- Advises the borrowers of the receivership staff member to contact if they deem a loan restructure is necessary. Provide all contact information to the borrower.
- Notifies borrowers of the Change in the Course of Dealings. This notifies them that they must obtain the FDIC's permission prior to selling any collateral and agreement regarding application of proceeds, or that their collateral will not be released. Their acknowledgement of this notice must be obtained.
- Provides the Waiver of Right to Confidentiality form and the agreement titled Requirements for Sale of Secured Property to be executed and returned at the borrower's earliest convenience. Find these and other pertinent forms on the DRR's then-current electronic distribution service. Contact the DRR, Asset Management, Policy and Oversight Section for assistance.

PRESERVE FRANCHISE VALUE

Successful agricultural operations have a franchise value that often exceeds the total value of its individual physical assets. To preserve the franchise value, receiverships must carefully consider funding requests – particularly those associated with the difference between the production and cash cycle – because an agricultural operation with little or no production for a year or more is not a good candidate for loan refinance by another lender or for sale to another party.

Consider the following examples that demonstrate the need for careful receivership analysis of loans:

- Urgent and critical up-front funding is required for a row crop in the spring. Banks located in the Corn Belt (Iowa, Illinois, and other states where corn is grown) that fail in the spring put more stress on receiverships than similar failures occurring in the summer when cash requirements are considerably less.
- Urgent and critical up-front and operating funding is required for a row crop in the spring, and throughout the growing season for irrigated crops. In areas where corn, milo, soybeans, and wheat are grown as irrigated crops, it puts more stress on a receivership for a bank to fail either in the spring, or in the summer irrigating period, than in the summer in non-irrigated areas (because cash requirements are considerably less then).
- Similarly, a cattle feeder or dairy operation may require funding for silage in the fall. This operation may have significant cash needs on a regular basis because it markets its milk or cattle inventory and replaces it with new stock.

The receivership must carefully and thoroughly evaluate the risk of funding versus not funding a production cycle and should carefully consider critical funding in situations that can result in a catastrophe if funding is delayed or denied.

Receivership staff members who consider full or partial funding for the orderly resolution of an agricultural operation believed to be unusable need to use the net present value/estimated cash recovery (NPV/ECR) model to properly evaluate the financial consequences of funding versus not funding and document all facts and conclusions with a written case.

BEGIN ORDERING INSPECTIONS AND APPRAISALS

As previously stated, the receivership staff's goal is to liquidate the failed bank's assets in the most expeditious manner possible, while minimizing the loss to the FDIC. Begin with a current and accurate appraisal or inspection that provides critical information. Receivership staff should immediately compile a contact list for appraisers who are qualified in the various agricultural fields. (See the [Inspections and Appraisals](#) section for details.)

BEGIN PREPARING THE CASE

As written cases are entered into the FDIC Automated Corporate Tracking System (FACTS), two documents are provided:

- The discussion and detailed information necessary to present and seek approval for any action that exceeds the delegated authority of the person preparing the case
- A written record of events

Receivership staff should have been trained already on how to determine when cases are required and how to prepare them, resulting in a thorough and complete job of explaining the rationale behind an action that the receivership may want to take. Cases are a necessary part of the receivership process, and the sooner the receivership staff has all forms, templates, and training in place, the better. Refer to [Directive 7000.6, Case Preparation](#) for further guidance and access to samples, style guidelines, and format requirements.

SUMMARY

The first few days after an institution fails, the receivership staff needs to set a positive tone for the balance of the administration of the receivership.

Important! All staff members quickly assess not only the paper status of loans, but also the actual physical status of the collateral and its associated operations.

The failed bank staff is likely to be familiar with the bank's borrowers and operations, and receivership staff should encourage their participation in providing critical information required for the protection of collateral, particularly livestock.

There is a reason for the bank failure, and borrower files may be deficient in ways that hinder the marketability of the loans. Staff members need to conduct a thorough review of the loan files and work to bring them up-to-date to ensure compliance and improve marketability.

To summarize, receivership staff members must quickly and properly prioritize their activities and be vigilant about protecting collateral, which is ultimately the best source to guarantee the repayment of loans.

Chapter 3 Collateral Management

When managing assets, the receivership staff employs a process very similar to that of a traditional bank. However, it is important to remember that receivership staff is managing assets within the scope of its mission to liquidate the failed bank's assets as quickly and efficiently as possible, and that collateral is the first recourse of repayment should a borrower default. Therefore, this source of repayment must be known, understood, and protected, and receivership staff must quickly become familiar with all aspects of agricultural collateral management.

ACCOUNT FOR COLLATERAL

Receivership staff must ensure they properly account for all collateral. Doing so enhances asset values and improves the chance of a sale to a buyer or refinancing by a substitute lender. Most borrowers cooperate when they understand that properly accounting for collateral helps improve their situation. When the borrower is lax about accounting for collateral, receivership staff should review the loan agreement to ascertain the collateral documentation requirements stated therein, and then meet with the borrower to emphasize the same.

- **Perfection of security interest** – The granting of security interests is prescribed in the UCC and awards the holder certain rights and protection against other parties that may eventually have a financial interest in the same property or operation. Most details are beyond the scope of this handbook, but the Legal SME can be helpful regarding lien perfection issues early on in the loan review process. The Legal SME may bring other factors to bear on an issue of lien perfection (e.g., the Food Safety Act governs important aspects of lien perfection and may be relevant to a particular instance). The following information about how and when a security interest is perfected under Article 9 of the UCC is offered for explanation:
 - Value has been given
 - A debtor has rights in the collateral
 - A security agreement has been entered into that:
 - Is authenticated by the debtor
 - Describes the collateral
 - Describes the land if the collateral includes trees to be cut for timber

Non-possessory collateral (collateral not held or controlled directly by the lender) is perfected by filing a financing statement (typically, UCC-1). This action is necessary when relying on farm chattels for security.

For all practical purposes, all interested parties must sign the security agreement when the consideration is granted. Otherwise, receivership staff may need to grant additional consideration to re-do the perfection on the collateral. Likewise, it is customary to generate new collateral documentation when receivership staff grants new consideration.

Revisions to Article 9, effective circa 2001, removed the requirement for debtors to sign the financing statement, which is typically filed by the secured party.

Most often, each jurisdiction has central filing with its respective Secretary of State. However, it is more common for lenders and agricultural operations to operate and trade across state lines. In those cases, the filing details are represented in Table 1:

Table 1: Filing Details

Type of Entity	Filing Location
Natural person	State of residence
Registered organization	State of organization
Non-registered organization (e.g., general partnership)	Choice of: 1) Organization's place of business, or 2) Chief executive's office if more than one place of business

There is not a separate collateral class for growing crops and livestock that are non-possessory in nature and, thus, require central filing that categorizes them into appropriate classes. For an extra measure of caution, all non-possessory classes should be listed in the security agreement and UCC-1. In all instances, consult FDIC Legal for assistance and concurrence in all issues relating to collateral.

- **Inspection** – Receivership staff should regularly conduct an observation of agricultural collateral. The inspection must be done only as allowed by the specific loan documents at issue. “Self-help” is not favored in all jurisdictions. These activities may also need to be coordinated through FDIC and borrower’s legal counsel, particularly when borrower is represented by counsel or litigation already exists. Consult the Legal SME for review of the loan documents to support the inspection efforts. During such ongoing inspections, the staff member should both inspect the collateral and observe the entire operation, employing technology (i.e., cameras and recording devices) to record and note collateral and the operation. Frequently, agricultural observations and inspections are of such magnitude that two or more receivership staff members may conduct them.

This visit does not replace a required chattel appraisal conducted by a contractor hired by the receivership. (Both inspections and appraisals are detailed in a subsequent section.)

Two issues are paramount when preparing for an on-site visit to any operation:

- **Personal safety** – As a general rule, if there is any concern for physical safety for any reason, never perform an on-site visitation. Even in cases where no threat is thought to exist, visiting personnel should always have their cell phones and should leave an itinerary and contact information with another staff member.
- **Bio-security** – Livestock and farming operations can pose special health risks; visiting personnel should be fully informed and aware of those risks and take the necessary measures to protect against such risks. In the event that risks are unknown or unmanageable, receivership staff should not perform personal visits.

Observe the following rules when visiting a producer’s operation:

- Do not visit a borrower's operation without an invitation. Remember, in some instances, an inspection may need to be coordinated through borrower's legal counsel and the Legal SME representing the receivership. Once an appointment has been made, call the farmer while you are in transit so that he or she is reminded of your visit.
- Ask about bio-security measures before scheduling an appointment. Ensure that you understand and prepare for the established procedures; some operations require shower in/shower out.
- Wear clean, waterproof boots and appropriate clothing that has not been worn to observe other livestock operations.
- Observe all posted signs. If there is a warning not to enter, do not enter. Call from your vehicle.
- Wash your vehicle and change your clothes between livestock operation visits. Boots must be disinfected or disposed of between farm visits.
- Contractors engaged as inspectors or appraisers will include a Certification of Bio-security Compliance in the body of the report.

Inspections provide important information about the existence and condition of collateral, plus useful insight on the borrower's ability and desire to protect collateral.

UNIQUE AGRICULTURAL COLLATERAL SITUATIONS

While the UCC has been adopted by all 50 states, its agricultural application is quite state-specific. Growing crops, marketing crop inventory, and raising livestock all have situations that vary from jurisdiction to jurisdiction, so it is best to obtain advice from the FDIC Legal staff early in the receivership phase.

In general, most agricultural lenders attempt to encumber all of their borrowers' farm chattels (now owned and hereafter acquired, for all debts, absolute and contingent) as collateral. While all the farm products are likely thus encumbered by the security agreement(s), the lender may have made a business decision to allow the producer to use all or part of the collateral, or proceeds of the collateral, as long as no default exists and the borrower has not received notice to the contrary. This leeway offered to the borrower is often called the "course of dealings" or a similar term.

Most commonly, the producer is well within his or her rights to use the pledged collateral, as long as there is no change in this course of dealings. This course of dealings can easily be changed with proper notification, per the security agreement, and the receivership is within its rights to reconsider the original business decision granting the course of dealings and advise the borrower accordingly of any changes in managing collateral. Always refer to FDIC Legal for assistance with these matters.

CROSS-COLLATERALIZATION

Most agricultural security documents call for cross-collateralization (i.e., when the same collateral is pledged against more than one note). In addition, some loan documents may claim a security interest in collateral after the notes are repaid in full. Receivership staff maintains that the documents speak for themselves and state the receivership staff's position on securing assets. As always, consult with FDIC Legal, as early as possible in the loan review process, for concurrence and answers to any situations that develop.

Typically, cross-collateralization incorporates cross-default language. While cross-collateralization typically ties collateral documents (such as mortgages, deed of trust, and security agreements) to all collateral documents, cross-default means that default on one note creates a default on all other notes held by the same lender.

Cross-collateralization allows the lender to remain in a secured position when subsequent advances are made. Cross-default allows a lender to pursue remedies on all indebtedness with the borrower, not just the notes selected by the borrower. There can be differences in interpretation of these rights by different states and different courts, and receivership staff should consult FDIC Legal on issues that may involve cross-collateralization.

INSURANCE

The receivership has the requirement for insurance coverage on collateral in the same way as the original lender. The receivership staff also monitors collateral insurance in the same manner as the original lender, but perhaps in an even more stringent way, assuring that coverage levels are adequate, the insured's interest is correct, and the policy is in force. A lapse of insurance on pledged property is a material default, and receivership staff must immediately act to ensure that it is reinstated or, if not, force place insurance on the collateral.

Common types of agricultural insurance coverage include:

- **Property insurance** – A general term for coverage on real estate improvements. The receivership will have a mortgagee's interest in the policy that allows it to be paid in the event of loss even if the borrower is not entitled to coverage, which may be the case when the loss is caused directly and intentionally by the borrower.
- **Builders risk insurance** – A specialized form of property insurance that covers projects under construction. As the project nears completion, it is typically replaced with property insurance. Same concerns as above.
- **Farm/ranch personal property insurance** – Helps protect the insured if damage occurs to items used to run an agricultural operation – for example, tractors, combines, tools, grain, feed, supplies, and livestock. Blanket coverage can be acquired or an operator may ensure specific items of farm/ranch personal property. In the event of a covered loss, payments are made for the actual cash value of the covered items. For example, if the tractor is 10 years old and damaged beyond repair, the policy pays for the current value of the 10-year-old tractor, which may be less than it would cost to replace it with a new

piece of equipment. For commodities such as livestock or grain, actual cash value is equivalent to their market value.

- **Farm blanket policy** – Offers coverage for a variety of perils common to farms. Typically, a blanket policy offers protection as stated in the previous examples, but terms are combined to give greater coverage and possibly a pricing advantage. Typically, this coverage includes both property and casualty (liability coverage for third parties) coverage at competitive group pricing. Liabilities include “slip and fall” and vehicle liability coverage and may also include pollution liability, chemical overspray, and so on. The wide liability coverage is of less value to the receivership, but it is likely so inexpensive that an agricultural operation can and will easily obtain it.
- **Crop insurance** – Insurance that covers crop loss or reduced yield. Crop insurance is of high importance when crop proceeds are necessary for loan repayment, feed purchase, or other essential farm and financial needs.

Two types of crop insurance are available to farmers in the US: crop-hail and multiple peril crop insurance (MPCI).

- Crop-hail policies are not part of the federal crop insurance programs and are provided directly to farmers by private insurers. Many farmers purchase crop-hail coverage because hail has the unique ability to destroy a significant part of a planted field while leaving the rest undamaged. Unlike MPCI insurance, a crop-hail policy can be purchased any time during the growing season.
- MPCI insurance must be purchased prior to planting and offers coverage for the loss of crop yield from all types of natural causes, including drought, excessive moisture, freezing, and disease. Newer coverage options combine both yield and price protection to protect farmers against the potential loss of revenue.

Private insurance companies are authorized by the USDA Risk Management Agency (RMA) to write MPCI policies. The service-delivery side of the program is handled by each private company and includes writing, reinsuring, marketing, adjusting, and processing claims in addition to training and record-keeping. The RMA oversees and regulates the program, decides which crops will be covered, and sets the chargeable rates. The private companies are obligated to sell insurance to every eligible farmer who requests it and retain a portion of the risk on every policy.

The amount of insured coverage in an MPCI policy is a conservative value to use as projected income in the borrower’s cash flow projection. Receivership staff must verify that the receivership is listed as “loss payable” in the policy.

Producer obligations – Producers must:

- Report acreage accurately
- Meet policy deadlines
- Pay premiums when due
- Report losses immediately

- Producer expectations** – Producers receive:
- Accurate answers to questions on types of coverage
 - Prompt processing of their policies
 - Timely payments for covered losses
- **Important deadlines** – Key dates vary by crop or livestock and location. However, some dates important to every producer include:
 - **Sales closing date** – Last day to apply for coverage
 - **Final planting date** – Last day to plant unless insured for late planting
 - **Acreage reporting date** – Last day to report the acreage planted. If not timely reported, insurance will not be in effect.
 - **Date to file notice of crop damage** –
 - If crop is damaged before harvest, when the producer decides to discontinue caring for the crop
 - If harvest has begun and the farmer determines that the crop is damaged, or at the end of the insurance period, whichever is earlier
 - **End of insurance period** – Latest date of insurance coverage
 - **Payment due date** – Last day to pay the premium without being charged interest

Note: This date is after the typical harvest date and is intended to be paid from sales or claim proceeds. There is no need to advance for crop insurance premiums, unless the insured crop is used to feed the receiver's collateral.

 - **Cancellation date** – Last day to request cancellation of policy for the next year
 - **Production reporting date** – Last day to report production for Actual Production History
 - **Debt termination date** – Date insurance company will terminate the policy for nonpayment

Receivership staff should pay careful attention to situations in which the original lending terms did not require the borrower to obtain insurance, so the borrower did not obtain insurance. In such cases, if the staff believes that insurance is needed to protect the receivership's collateral interest, take all measures to encourage the borrower to obtain insurance. If the borrower does not do so, determine if it is in the best interest of the receivership to purchase insurance.

UNDISCOVERED COLLATERAL – OTHER SOURCES OF INFORMATION

There may be situations when the borrower is uncooperative and receivership staff needs to determine whether collateral is being transferred or sold. In most cases, receivership staff can obtain very detailed information on dates, amounts, numbers, etc., of collateral movement from the buyers of product sold by the borrower. When a buyer is a dairy or farm produce operation, the buyer is probably large and sophisticated, and recognizes the rights of the receivership.

Several states have branding laws that require brand inspectors to provide evidence of transactions, and “prima facie” evidence of ownership, particularly those involving cattle. These inspectors keep detailed records that are also readily available to receivership staff for use in tracking the movement of collateral. In addition, several states have created a central filing system for agricultural liens. Typically, for a fee, the Secretary of State’s office can run a search of the farm product producer (borrower) by name/tax ID number and issue a lien report.

Example: Oklahoma Secretary of State Central Filing System For Agricultural Liens (CFS).

Other sources for detailed information include trucking companies, feedlots, cow/calf operators, stocker operators, bull semen production and heifer developers, packing houses, elevators (grain warehouses), and sales barns. All of these businesses have a vested interest in avoiding involvement in the mysterious disappearance of collateral, thus damaging their reputation.

COLLATERAL PROTECTION SITUATIONS

Ideally, receivership staff and the borrower have an open line of communication and there are few, if any, surprises. Unfortunately, receivership staff may be faced with a “critical request” for funding. For example, these requests for funds may include:

- Feed (consider the discussion about endangered livestock)
- Essential hired labor
- Utilities
- Margin calls (see the Off-balance sheet items subsection of the Conduct a Review of Agricultural Loan Files section for more information)
- Appropriate pest control

If a crop is neglected, there is a negative financial impact. However, if livestock and living beings are endangered by neglect, mismanagement, or mistreatment, the situation is more serious. Such a situation rarely arises, but when it does, receivership staff must take swift and effective action to prevent harm to animals and the extremely negative press that could result from such neglect. Work closely with the Legal SME for assistance in evaluating the possible need for seeking a court-appointed receiver to address ongoing, operational issue as soon as practical and the situation is stabilized.

The FDIC ensures that funds are available to feed and care for the livestock. This includes items such as feed, veterinary services, insurance, freight, wages, fuel, repairs and maintenance, utilities, water, and fertilizer. These costs are partially offset by the sale of livestock.

COLLATERAL DISPOSITION

Compiling information to account for the collateral and use of proceeds is generally delegated to receivership Asset Management account officer staff. The release of the collateral and proceeds is specified and accomplished by the approval of a case. The funds from the disposition are handled according to established policies, as stated in the ARM.

The guidance or course of dealings should be documented in the comments section of the working file or the Asset Management Disposition Plan, under the plan portion near the end of the form. This should be understood and agreed to by the borrowers and receivership staff. This information on the handling of collateral proceeds should be available to the account officers to enable them to service the loan appropriately.

SUMMARY

Collateral, collateral, collateral. As mentioned at the start of this section, collateral is the first recourse of repayment if regular payments are not made due to a lack of cash flow or other failure to perform. Receivership staff must verify that collateral is required and that its interest is perfected and safeguarded. In agricultural operations, the collateral consists not just of equipment that can theoretically sit in a barn, but also of live plants and animals. These living things have unique characteristics and requirements, and it is critical that staff members become knowledgeable about the forms of agricultural collateral and take steps for its protection.

Chapter 4 Funding Alternatives

The receivership is not a bank, and its first objective is to preserve, protect, and liquidate the assets of the failed bank. While the receivership's basic objective is not to advance more funds, there are a few instances (primarily for protection of collateral) in which it may. It is important for receivership staff to identify any potential need for future funding before such a request is made. Before advancing additional funds, receivership staff should explore all other practical alternatives. Several future funding alternatives are discussed in the following sections.

OTHER SOURCES OF FUNDS

Receivership staff must encourage borrowers to look for other sources of cash and assist borrowers when and where it can. Sources to consider are:

- **Family resources** – Are there other resources in the borrower's family?
- **Non-farm assets** – Is there any life insurance cash value available? Retirement accounts? Other investments? Camp homes?

NEW PRIVATE LENDERS

The best alternative is for the borrower to seek and obtain a financial relationship with a new lender. Borrowers of "bankable" loans should be able to pursue a new lender without much difficulty. In other cases, receivership staff may be in a position to help the borrower rehabilitate the loan in order for it to become more bankable. At times, receivership staff may take vigorous action to move the loan to a new institution, and that process follows.

GOVERNMENTAL AGENCIES

Because agricultural operations find popular support with the public and, consequently, political bodies, many are eligible for financial assistance from the USDA. In particular, the FSA can lend funds in certain circumstances, although it is a lender of last resort, and requires all borrowers to refinance their loans with a private, commercial lender when they are financially able to do so.

Also, the Commodity Credit Corporation (CCC), a federal corporation within the USDA, supports agricultural operations by providing loans, purchases, and payment programs. Farmers may receive basic nonrecourse commodity loans on major commodities by pledging and storing a quantity of a commodity as collateral.

COMPROMISE

The FDIC has the ability to compromise or write-off any asset, and this power often offers a win-win-win for the receivership, borrower, and succeeding lender. With a well-documented case

containing a fair offer, a compromise can be accomplished relatively quickly using Delegation of Authorities B(1) (Compromise) and B(25) (Write-off Any Asset). The result is often that a borrower gets a secure loan from a new lender that he or she can afford, and the receivership resolves an asset. A compromise can be a very desirable solution if a case can be approved with a fair offer.

After the asset is paid off, the receivership staff releases or assigns the collateral to the new lender and charges off the loan balance. Since the receivership staff charges off a portion of the loan, an IRS Form W-9 must be prepared pursuant to filing a Form 1099, and this action will be noted in the case by checking “yes” in answer to the question "Issue 1099?"

RELEASE COLLATERAL

Typically, receiverships have a superior security interest on all farm chattels and should not relinquish this position unless it improves the receivership’s position, pursuant to a well thought-out and carefully considered plan. After a plan is developed, receivership staff must prepare a case that fully presents the plan and all agreements with the borrower. The borrower’s planned use of funds must be documented with a brief budget or statement indicating the date, source, and estimated amount of collateral to be sold and released. Additionally, the borrower should present the date, use, and estimated amount of fund expenditures.

Receivership staff should not consider a plan to release collateral on loans in default or containing file deficiencies unless such defaults and deficiencies are corrected ahead of the plan’s execution or as a part of the plan’s execution. In such cases, Delegations of Authority B(4) (Release Collateral) are required.

SUBORDINATE COLLATERAL

As stated above, the receivership typically has a superior security interest on all farm chattels. The subordination of the receivership’s security interest allows the borrower to pledge a superior security interest to another lender to secure a credit request. Thus, the new lender obtains a new farm-banking customer and a well-secured loan with the following benefits:

- The receivership divests itself of the risk of future potential funding obligations on this loan.
- The new lender now monitors the operation and the jointly-pledged collateral.
- The new lender is in an optimum position to consider a future total refinancing plan, which either pays the borrower’s obligation to the receivership in full or pays an acceptable compromise amount.
- The borrower is granted necessary funds to continue the farming operation and preserve the enterprise value of the business.

It is not unusual for the new lender to require a prior security interest in the collateral affected (for example, crops planted, feeder livestock purchased, and equipment acquired), as well as a

priority interest in the sources of repayment (for example, if planting feed crops, the livestock to be fed and sold would need to be subordinated), and/or adequate excess valuation to provide a reasonable cushion in case of failure of the primary source of repayment. Additionally, the maturity date of the subordinated note may be at the time of the production cycle when the collateral is converted to cash.

Even when the receivership has approval to subordinate its position on a loan granted by a new lender, monitoring the new position continues in the same manner as before the subordination. In particular:

- Receivership staff still requires good communication and follow-up between all parties involved in such subordination.
- Receivership staff still inspects and appraises the collateral and expects to receive copies of the new lender's routine inspection reports.
- The borrower still submits financial statements, but receivership staff may, if it so chooses, use the financial information that the borrower provides to the new lender.
- The borrower must understand and the plan must reflect that the receivership's newly subordinated position must be repaid according to specific dates and terms.
- Receivership staff must routinely monitor the new plan for compliance in the same manner it monitored its pre-subordinated loan.
- In the event of a default, receivership staff proceeds as with every other default, except the process will include a new lender with a strong position in the collateral.

When the receivership staff members believe that the subordination increases the expected dollar amount of recovery, it should use Delegations of Authority B(6) (Restructure Debt in a Manner that Does Not Reduce Book Value). In all other circumstances it should use Delegations of Authority B(1) (Compromise).

In some cases, the receivership's position is automatically subordinated. Specifically, most states allow for an agricultural vendor, custom livestock raiser, or landlord (providers) to be granted a superior lien on crops to the extent of their invoices. These liens are referred to as seed liens, landlord liens, agisters' liens, or a similar term.

These liens attach to the appropriate collateral and are superior under most circumstances. Therefore, they should be serviced much like a subordinated credit. The security interest is involuntary, so no action is required by receivership staff. The security interest is enforceable, and arrangements should be made to honor the superior creditor in an orderly manner and not routinely default the borrower because the superior lien was allowed to attach.

When receivership staff becomes aware of liens of this nature, the staff gathers relevant information and develops a plan to apply the proceeds to settle the debts of all parties in the order of their interests.

SUMMARY

A receivership is not required to foreclose on all non-performing loans. While such action may eventually be necessary (and receivership staff must recognize that foreclosure must be quickly undertaken and not delayed if it is apparent that such action is in the best interest of the FDIC), other alternatives may exist. Receivership staff should be very proactive in helping the borrower find other sources and should also work diligently to bring file and collateral deficiencies up-to-date, because doing so helps make the loan more attractive to outside parties. When it is in the FDIC's best interest (and a case needs to be prepared to provide justification), staff will consider releasing collateral or subordinating the FDIC's position. While not the first choice, such action is appropriate in many situations.

Chapter 5 Environmental Guidelines, Policies and Procedures

The environmental guidelines, policies and procedures help the FDIC, in its various capacities, to ensure that assets with environmental issues are handled uniformly, consistently and timely in order to reduce the possibility of any diminished recovery and/or potential liability.

Consult the Environmental Guidelines Manual (“Environmental Manual”) for specifics. Circular (Directive) 7200.2 reaffirms the Environmental Manual as the FDIC’s official policy.

The provisions of the Environmental Manual apply to DRR personnel, Asset Management Contractors, and Third-Party Servicers under the jurisdiction and control of the FDIC in its various capacities, or with receivership subsidiaries.

The Emergency Procedures of the Environmental Manual provide general guidance and initial responses to help expedite the resolution and minimization of the remediation expenses. It sets forth the policies and procedures concerning the handling of assets that (i) have environmental issues or environmental hazards, (ii) are protected for future conservation purposes (known as Special Resources), or (iii) are considered historically significant.

Environmental hazards that pose potential liability and financial risk for the FDIC include the following: (i) underground storage tanks, (USTs), (ii) Asbestos Containing Material (ACM), (iii) hazardous substances - (material and chemicals), (iv) historic or current use of pesticides - (animal and plant life poisons), (v) lead-based paint (LBP), (vi) polychlorinated biphenyls (PCB) – (coolant fluids, cutting fluids for machining operations, oil spills from electric-line transformers), (vii) soil and/or underground contamination - (oil and gas spills), and (viii) landfills - (non-hazardous and hazardous material), some of which may be found on agriculture property.

The FDIC’s potential liability and financial risk, regarding environmental issues, include the following: (i) liability for potential claims, (ii) expense of remediation of the property, (iii) fines and penalties imposed by local, state or federal regulatory agencies, and (iv) third party damage claims.

The four stage process for the management of assets with environmental issues are the screening, investigation, evaluation, and disposition of the asset. If environmental issues are identified in the screening process, the issue must be investigated further, in consultation with the Environmental Specialist and the Environmental Attorney. It is not the FDIC’s practice to conduct large-scale corrective action on “environmentally impacted” properties as long as other disposition options exist for the asset, especially when no emergency remediation is required (i.e., need to sell the asset with full disclosure of known environmental information about the property, without remediation). The goal in the investigation process is to collect information to help determine the value of the asset, and to identify environmental liability issues.

There are three kinds of Environmental Site Assessments (ESAs) used in this process, namely, Phase I ESA - identifies the presence or absence of issues, Phase II ESA - determines the magnitude and extent of the issues, and Phase III ESA - develops a remedial investigation / feasibility study to select a course of action.

Note: An environmental checklist is performed on all ORE and loan collateral (real property). Prior to initiating a foreclosure on loan collateral (real property), the FDIC standard Phase I ESA must be conducted on the real property, except for a single-family residence (“SFR”) or a parcel of less than one (1) acre. If the environmental checklist indicates a potential environmental hazard on the SFR or parcel of less than one (1) acre, then a Phase I ESA is required. On real property where the Phase I ESA report indicates that an environmental hazard may exist and the FDIC intends to proceed with initiating foreclosure, a Phase II ESA shall be completed. If the environmental checklists indicate that an environmental hazard or Special Resource may exist on any ORE or loan collateral (real property), further study is required and the FDIC standard Phase I ESA must be completed. Please refer to Appendix C of the Environmental Manual, FDIC Standard Statement of Work—Environmental Checklists, for addenda that should be used as a part of the environmental checklist process unless the FDIC standard Phase I ESA is more appropriate (as determined by the Environmental Specialist).

The FDIC’s Policy concerning ESA and Environmental Checklist is that a standard Phase I ESA shall be completed for all ORE with the exception of a “single-family residence” or “land smaller than one acre” as set forth above. An Environmental Checklist must be performed on the “single-family residence” or “land smaller than one acre,” prior to its sale, or transfer to the FDIC in its Corporate capacity.

Acquiring knowledge of the existence of an Endangered or Threatened Species located on/in the asset may arise from the following: (i) confirmation of a protected species habitat given by a local, state or federal regulator, (ii) communication with the local, state, or federal environmental agency, (iii) previous environmental correspondence or notices found in the asset’s files, or (iv) noting the existence of parks, preserves, sanctuaries, or forest lands located adjacent to the asset.

Investigation, identification and evaluation of environmental issues are performed by outside professionals (environmental consultants) hired by the FDIC. The FDIC’s management provides direction based on information received from the ESA reports and data and analysis received from the DRR Specialist (managing the asset), the DRR Environmental Specialist, and the Environmental Attorney. The DRR specialist conducts a site visit of the property and performs a thorough review of the asset files, determines if there is a risk due to a potential environmental hazard, and notifies the Environmental Specialist, and the Environmental Attorney, when an environmental hazard is noted. The Environmental Specialist provides technical environmental services to the FDIC on environmental issues, serves as Technical Monitor for all environmental contracts, reviews the ESA reports and makes recommendations, and when necessary, contacts regulatory agencies, with the assistance of the Environmental Attorney, concerning the reporting of an environmental hazard. The Environmental Attorney reviews documents identifying environmental issues, provides drafting and analysis of legal documents concerning the

environmental issues, communicates with the regulators, if needed, and, in emergencies, assists with the implementation of emergency response procedures concerning the environmental hazard.

During the disposition process, after the Phase I, Phase II, or Phase III report has been delivered by the ESA Contractor to the Environmental Specialist, s/he reviews the report and works with the Environmental Attorney to resolve any environmental issues in order to help in the disposition of the asset.

If an asset is environmentally impacted, the FDIC's overall environmental guiding principles in managing and disposing of the asset are to (i) cooperate with federal, state, and local regulatory agencies, (ii) identify health / safety concerns, (iii) evaluate the impact of the environmental hazard, (iii) evaluate and comply with environmental laws, (iv) respond to public inquiries, and (v) communicate and coordinate with outside parties.

It is important for the DRR Specialist to initiate and follow the aforementioned guidelines prior to any activity concerning leasing, marketing or sales, acting as a mortgagee-in-possession, or terminating a receivership that will result in an asset being transferred to the FDIC in its Corporate capacity.

Chapter 6 Inspections and Appraisals

Chattel inspections and appraisals are critical elements of the information-gathering process conducted by receivership staff. Since inspections and appraisals are time consuming, receivership staff should immediately hire professionals to conduct them. Guidance on the timing and level of detail can be found in the ARM. When time is of the essence, receivership staff can rely on other valuation methods, such as information from Extension Services and other local institutions; however, these other sources should be used sparingly and only in an emergency.

INSPECTIONS VERSUS APPRAISALS

Some differences between inspections and appraisals follow:

Inspections are:

- Faster and can be turned around in a couple of days
- Cheaper because they are less complex and present less risk to the inspector
- Not a direct indicator of value because only numbers, sizes, condition, etc. of generic items are provided. Valuations can be a part of the report, but may not be supported with documented research or comparables. Obtain the per-unit values from easily accessible, reputable sources.
- Useful to quickly confirm balance sheet items
- Adaptable to livestock, feed inventories, crop reporting, or other situations where the collateral will be marketed in the future. Less valuable on machinery and equipment, where condition and sales data are needed to determine value. However, documentation of make, model, serial number, condition, etc. can be included in both inspections and appraisals.

Appraisals are:

- More time consuming
- More expensive because they are more detailed
- More closely support the valuation of collateral

Note: All compromise cases require an accompanying appraisal.

- Useful for completing balance sheets by helping to establish potential income and supporting FDIC Legal in potential litigation

- Appropriate for all situations, especially when machinery and equipment are involved. Additionally, an appraisal is particularly helpful with farm-stored cash crop inventories and other situations requiring a strong verification that comes from a complete process of valuation.

Receivership staff should use their best judgment in deciding whether to use an inspection or an appraisal. The final authority is the approval official. The basic question to answer is, “What is your need?” Using inspections to the maximum extent practical, considering time and money constraints, is recommended.

PROCEDURE FOR ORDERING INSPECTIONS AND APPRAISALS

Use the following procedure when ordering inspections and appraisals:

1. Develop accountability by assigning the appropriate receivership staff to be responsible and accountable for ordering (and tracking) inspections and appraisals.
2. The assigned receivership staff works with the technical monitor to review and work within the initial task order for appraisal services to be provided by any existing contracted appraisal brokers (appraisal management companies). The receivership management or a technical monitor is responsible for notifying the oversight manager when an amendment to a task order is required (due to an increase in the original estimated costs for inspections/appraisals to the receivership).
3. Before any inspections or appraisals are ordered, receivership staff must prepare an appraisal ordering log and submit it to receivership management for review and authorization. The log is used to track the progression of all inspections and appraisals. At least weekly, receivership staff must review, update, and track orders and receipts of inspections and appraisals, required reviews, and so on with all involved staff.
4. The receivership management must complete a monthly report on appraisal and inspection ordering and attach it to any required monthly management status report submitted to the DRR in Dallas.
5. If there is no existing contracted appraisal broker available, or if there is not a service available for the location or type of inspections or appraisals needed, receivership staff may have to seek services from outside vendors. Refer to the ARM for contracting procedures. Engage the Division of Administration’s (DOA) Acquisition Services Branch with regard to managing all contracting activities.
6. Develop a case to recommend that authority be granted to engage and compensate inspectors and appraisers. Cases should include:
 - a. Proposed costs and criteria for appraiser approval (such as accreditation, years in a particular line of work, or approved review of work samples)

- b. The portfolio sorted by collateral type, location, priorities, or as otherwise deemed necessary and appropriate to efficiently carry out appraisals and inspections. Using the sorted portfolio, assign work to the appropriate appraiser.

Note: See “Account for Collateral” under Chapter 3 regarding consulting the Legal SME for review of the loan documents to support the inspection efforts.

7. Use a standardized work order form when calling to ensure that visits to the farm or ranch are scheduled and that the appropriate high level of focus and detail is communicated to the appraiser or appraisal firm, ensuring that the assignment is completed and provides the right information. An “engagement letter” may be used to list the required information or to identify the focus of a specific inspection or appraisal assignment. See the Farm Chattel Appraisal Specifications, which may be included as part of written instruction to the appraiser or firm for a particular assignment.
8. Upon the appraiser’s acceptance of the assignment, receivership staff must contact the borrower and make it very clear that the appraisal is a routine part of the receivership process and that the borrower is not being singled out for special treatment. Further, the borrower should understand that you are in a much better position to help them if you understand the operation, which can be better gained through a field visit. The staff must understand that borrowers of failed institutions are concerned and your job is to reduce or alleviate concerns whenever possible. One way to reduce borrower anxiety is to provide the borrower with the appraiser’s contact information and let the borrower schedule the visit.
9. Upon receipt of the appraisal or inspection, complete the Chattel Appraisal/Inspection Checklist for each report. Place a copy in the Asset File, and any other file, as necessary.
10. If, after completing the previous steps, the appraisal or inspection report is deemed materially deficient, return the report to the contractor for remediation.
11. Upon receipt of an acceptable report, the receivership staff follows established procedures by submitting the invoice for payment, including submitting IRS Form W-9.

FARM CHATTEL APPRAISAL SPECIFICATIONS

An acceptable farm chattel appraisal (and similar for real property) will contain the following:

- Owner of record
- Date of inspection/appraisal
- Location of the collateral
- Client of the appraiser/inspector
- Date of valuation
- Stated value
- A complete listing of any assumptions and limiting conditions
- Purpose of the appraisal
- Scope of the appraisal

- Function of the appraisal
- Expression of market value
- Condition of the chattel/real property
- Comparable sales
- Reconciliation of values
- Appraiser's qualifications and experience
- Appraiser's references
- Appraiser's certifications, including compliance with FDIC bio-security guidance
- Pictures of the chattel/real property
- Graphs, drawings, and maps, if appropriate

Additionally, the appraisal or inspection will be professionally prepared and two copies delivered to the receivership within the timeframe of the receiver's request. In the event that circumstances do not allow a timely, professional, and complete report, the appraiser or inspector will promptly notify the receivership staff and work to resolve the situation.

Further requirements for the farm chattel appraisal include the following:

- Appraisals should be prepared assuming a sale on a cash basis within 30 – 60 days of the date of the appraisal.
- Appraisals should reflect values on an “as is, where is” basis and “with all faults.”
- Appraisals shall be expressed as market value, defined as the value that can be obtained in an open outcry auction, sealed-bid sale, or other method of sale typically used for like-property.
- Appraisals should also include:
 - A complete description of the property appraised, and any attachments, including the manufacturer's name, model number, and serial number, and the property's specific location
 - The names and editions of all reference material
 - A description of the general condition of the property, if possible, based on the following definitions:
 - **New items** – New condition
 - **Excellent** – Some use, but almost new
 - **Very good** – In above-average condition with low hours or miles, or recently overhauled or refurbished
 - **Good** – In average condition
 - **Fair** – In below-average condition, with considerable use or is older than average

- **Poor** – Needs major repairs
 - **Scrap value** – Not suitable for any use, and the appraiser should note the approximate cost of removal
- Appraisals should note any potential environmental hazards, such as known or unknown contents in a tractor trailer used for carrying hazardous materials or chemicals.
 - Appraisals should value personal property in its existing condition. However, there may be instances in which repairs are either essential for an item to have value or they will significantly enhance value. In these cases, the appraiser should note the property at its current value and include the estimated value if the property was repaired or rehabilitated with the described type and cost of such repairs.
 - Appraisals should advise if it is appropriate to transport the property to a different location to realize its highest value. The appraisal should specify the value of the property in its current location, the value if relocated, and all costs of relocation, including, but not limited to, transportation, storage, and insurance costs. For example, the appraisal should determine whether to transport an automobile to a central auction site or relocate specialized machinery to realize the best value.

SUMMARY

The Collateral Management chapter emphasized the importance of protecting collateral. While doing so protects, and may even enhance, the value of collateral, an inspection or appraisal translates or determines the value in market-defined terms. Appraisals provide the number that reflects the value of the asset and help support any necessary actions taken by receivership staff. Finally, the value determined by an appraisal becomes the basis for future actions on the loan, whether selling it, working it out, or compromising it.

Chapter 7 Defaulted Loans

Receivership staff must assign a high priority to defaulted loans. Staff must immediately contact all borrowers in an effort to resolve the issues and bring the loans back to a performing status. Staff must be very careful when contacting defaulted borrowers. Other than the initial phone call to ask borrowers to meet with Receivership staff, all communications should be formalized in writing and negotiations and discussions only entered into after the execution of a pre-negotiation agreement. All written notices to borrowers should be made in accordance with the notice provisions contained in the loan documents. It is especially important for receiverships with agricultural loans to correct defaulted loans because agricultural operations frequently have more than one loan with a financial institution, and these loans usually have cross-default language that would impair all loans if one loan defaults.

RECEIVERSHIP/BANK STAFF SAFETY

Although rare, borrowers of defaulted loans have made threats to personnel of the receivership and bank staff. In such cases, or even in potential cases, be cautious and take all necessary steps to ensure the safety of all personnel.

COMMUNICATE

Correcting defaulted loan positions begins with a conversation with the borrower, and it is not unusual for a borrower to want to start fresh with a new account manager. Granting such a request and immediately beginning a dialogue with the borrower about the operation is a good step toward developing (or redeveloping) rapport and gaining insight. As discussed above, Receivership personnel should always enter into a pre-negotiation agreement with borrower prior to engaging in discussions on correcting defaulted loan positions. Receivership personnel should not be negotiating with defaulted borrowers unless they execute a pre-negotiation agreement. It is especially imperative to have a pre-negotiation agreement with borrowers who are reluctant to work with the Receivership personnel.

Note: If the farm or ranch operation is in bankruptcy, contact FDIC Legal. If the borrower is represented by an attorney, receivership staff should ask that all communication go through the respective legal teams.

GATHER INFORMATION

Prior to a meeting with the borrower, receivership staff should be prepared. Obtain a Credit Bureau Report and Lien Search, which provides valuable information about a borrower's financial condition and the status of any chattel security held by the receivership. Determine the availability of other sources of credit for some or all of the needs of the borrower and the property operations. Order an appraisal, but do not wait for the results before contacting the borrower because many issues can be resolved without access to the appraisal.

USE WORKOUTS

At times, the best option for the receivership to keep an honest and hard-working borrower from just giving up is to implement a “workout.” Loan workouts can take many forms, including a renewal or extension of loan terms, extension of additional credits, or restructuring – with or without concessions. A renewal or restructuring should improve the receivership’s prospects for repayment of principal and interest and not be a delaying action against final liquidation or other final disposition of the asset.

The receivership should consider a workout only after analyzing both a borrower’s desire and intent and the repayment capacity given market conditions. Staff should also evaluate the support provided by guarantors and assess the value of the collateral pledged on the debt. Proper loan workout arrangements ensure that the receivership maximizes recovery potential. Analysis of the borrower for consideration of a workout arrangement would include the following:

- **Borrower’s repayment capacity and willingness** – It is probably accurate to say that most agricultural borrowers sincerely desire to stay in business and repay their debts. Willing and communicative borrowers are candidates for a possible workout. Yet, willingness must be accompanied by up-to-date financial records and regular cash flow budgets. Borrowers that demonstrate a low priority of receivership payments or other receivership interests is justification for denial of further funding and/or release of collateral and/or proceeds.
- **Market conditions** – Borrower desire notwithstanding, some circumstances may make it difficult for a borrower to meet the terms of the original debt. A good example of this is the sudden and unexpected drop in dairy prices in 2008, pushing many dairy farmers into dire straits. Given the known and potential market conditions, determine the range of loan terms and conditions that would be appropriate in the current and expected market conditions.
- **Reason for default** – If a borrower has a defaulted loan because the due date arrived and insufficient payment was made, receivership staff should make a careful inquiry as to why the deficiency existed. Was there an unusual event causing the default by a borrower who, heretofore, had been current? Or was the default the result of a continual non-payment of a portion of an annual crop loan, thus evidencing that the borrower is simply unable to conduct a sustainable operation? Or is the default a timing issue or strategic default
- **Guaranty support** – Determine who the guarantors are, if any, and obtain current, up to date financial information from them in the same manner as from the borrower.
- **Collateral value** – Again, receivership staff find themselves assessing collateral. A workout plan in which the borrower remains active with the business may help to ensure the current and future value of collateral. Any weakness in knowing what the collateral is, where it is, or its value must be addressed.

Agricultural operations are prime candidates for workouts because of the intrinsic nature of the borrowers and the type of collateral. Receivership staff must continually encourage the borrower

to do everything reasonably possible to keep from having to move toward a final resolution that terminates the operation and liquidates the collateral, provided that this would maximize recovery to the deposit insurance fund.

Since all workouts require some form of loan modification, they must be implemented only after receiving approval on a case that lists all the pertinent details and explains why the workout is preferable to alternatives. All loan modifications must be drafted and/or reviewed by Legal.

VOLUNTARY LIQUIDATIONS

There are times when a workout may not be feasible or may fail. If so, winding up the affairs of the operation may likely become the best course of action. The success of such liquidation depends, in large part, on the cooperation of the borrower. Receivership staff should make every effort to keep the borrower's dignity intact and strive for a resolution through a voluntary liquidation.

Sometimes, the FDIC allows a "carve out" of the borrower's personal residence, some acreage, or other consideration upon agreement to a voluntary liquidation. Such forgiveness should be carefully evaluated by receivership staff to ensure it is in the best interest of the FDIC to consummate. The benefits of this type of plan include:

- Maximizing the return on collateral by using a structured, well-planned liquidation with livestock or crops sold at near-market prices rather than waiting through a lengthy negotiation period during which the collateral may decline in worth
- Avoiding expensive litigation costs
- Ensuring that livestock/crops are cared for until sold
- Removing the expense and risk in the livestock collateral as soon as possible

Incentives to motivate borrowers to cooperate vary because each situation is unique. A review of the borrower's current financial condition and the FDIC's collateral position determines the extent and type of negotiations. If approved by the appropriate sources, receivership staff may initiate negotiations using a menu of alternatives to obtain resolution. A sampling of typical incentives follows:

- Offer forgiveness of debt tied to NPV of liquidation scenario.
- Preserve the home whereby borrowers would be allowed an equity ownership in their homestead and some acreage (perhaps equal to a bankruptcy scenario).
- Give credit against debt of, for example, \$2,000 per head of cattle, regardless of the amount received for the livestock.
- Allow borrower to retain assets up to \$50,000 in value (perhaps equal to a bankruptcy scenario).

- Consider removing the borrower's loans from the loan pool sale.
- Provide a \$10 per head cash bonus to the borrower.
- Give the borrower 50 percent of the sale proceeds above 90 percent of the appraised value.
- Pay the owner a salary to stay and manage the herd through liquidation.

The FDIC's policy is to resolve assets within a short time after determining that liquidation is the only or best option available. However, there are a few instances in which receivership staff may deem it more beneficial to delay sales. For instance, the farmer may be allowed to continue operations until harvest is completed since the crops have to be removed from the field, and the borrower has the least expensive method. The receivership staff's decision in this scenario would be influenced by whether the borrower has been cooperative, how soon harvesting begins, and other related variables.

Receivership staff and the borrower should jointly agree on an orderly plan and proceed as rapidly as possible. If the FDIC is removing items such as livestock from the farm listed for sale, ask the borrower to sign a voluntary surrender of collateral agreement to protect receivership staff from possible charges of illegally removing collateral from the borrower's farm without his or her knowledge or consent (consult with the Legal SME regarding the impact of State law on deficiency rights or other remedies available to the Receiver before taking any such action). Also, inform the borrower that the FDIC is under no obligation to, and will not, release liens on any collateral sold in a manner deemed unacceptable. For example, if a borrower attempts to sell collateral below market value, it could result in an FDIC refusal to release the lien on the collateral even though payment has been given or promised.

A preferable method of sale is through a voluntary "on farm" auction that the FDIC oversees. In this case, equipment is much more apt to bring a reserve price because many potential buyers are familiar with the equipment, know the owner, and tend to pay more. Also, the FDIC is spared the expense of transportation and storage while also minimizing labor costs, and the equipment is offered to buyers in the geographic location for which the equipment is suited.

As with all auctions, reserve prices are to be established for individual items or the aggregate of all items for sale at the auction in compliance with the delegations of authority. A receivership staff member will attend the sale to monitor prices on items sold and to collect proceeds. This representative should maintain a low profile at the auction. To conduct oneself in a manner that attracts attention conveys the impression that the sale is actually an involuntary liquidation, which could negatively affect the outcome of the auction. Legal should be included in any such auctions to resolve potential conflicts.

Receivership staff should carefully evaluate items offered for sale at auctions. Some items, like unique seed grains and specialty equipment, should be sold in another manner, such as the acceptance of sealed bids, to achieve the highest possible return.

Receivership staff should carefully screen potential auctioneers and attempt to use one with a good reputation, local and extensive market knowledge, a big draw of customers, effective advertising campaigns, and reliable support staff.

LEGAL ASSISTANCE

If resolution becomes likely/unlikely, refer to FDIC Legal. There is typically an oversight attorney, who can provide assistance on the legal issues and options. However, FDIC Legal will not provide business advice, and business decisions need to come from Post-closing Asset Management.

Also, some states do not allow collection activities to commence without a financial default. However, after a financial default occurs, all other defaults (such as financial reporting) can be cited at that time.

MEDIATION

There are many states in which statutory authority grants special exemptions and considerations to agricultural producers. Each state is different, but it is not unusual to encourage mediation or negotiation for agricultural producers and their lender prior to the lender initiating foreclosure.

Given the relatively short timeframe during which most receivership staff manage assets, mediation or negotiation is unlikely to have a significant impact on the management of the assets and the receivership should proceed accordingly.

BANKRUPTCY

Bankruptcy is a process afforded to debtors or borrowers to manage financial difficulties in an orderly process overseen by the courts. The courts have sweeping authorities to discharge debt, resolve assets, reorganize businesses, stipulate terms of debt, and take other action deemed necessary to properly conclude the affairs addressed in the filing.

It is not uncommon for receiverships to have several assets in some stage of bankruptcy, and FDIC Legal, usually with outside counsel, will manage the regular reporting and strategizing. Asset managers will be asked to assist when desirable, necessary, or appropriate.

It is important that receivership staff understand that collection activities for all scheduled debts in a bankruptcy filing must cease and not be pursued without the order of the court. Such suspension is called an automatic stay. The consequences of violating the automatic stay are quite significant. Accordingly, the mere mention of a bankruptcy filing should result in an immediate call to FDIC Legal.

Note: Do not contact the borrower for collection purposes without clear and specific instructions from FDIC Legal.

There are various types, or chapters, of bankruptcy, as described in Table 2.

Table 2: Chapter of Bankruptcy

Bankruptcy Chapter	Use	Eligibility	Comments
7	Liquidation	Anyone	Provides orderly liquidation and discharge of debt
11	Reorganization	Anyone	Used for many situations; can provide better terms, repudiate contracts, absolve liability, cram down (i.e., reduce) debts, etc.
12	Restructure for family farmers	Farmers debts limited 50% of debts Ag-related >50% of gross income from Ag	Debtor must propose to pay in 3 to 5 years. Secured creditors must be paid at least the value of the collateral.
13	Restructure for wage earners	Individual debtor with regular income	Similar to Chapter 12

PRE-FORECLOSURE CONSIDERATIONS

Foreclosing and taking legal title to real estate and agricultural operations exposes the receivership to substantial additional costs and potential liabilities. Agricultural loans can pose significant, potential, and unknown liabilities because of past uses and potential environmental hazards. Before beginning foreclosure action, the receivership staff should consult with its point of contact and senior management. Review and accomplish the following “to do” items prior to initiating a case that recommends foreclosure:

- Order an appraisal
- Order an environmental report (See Chapter 5 – Environmental Guidelines, Policies and Procedures)
- Have the title report updated
- Attempt, again, to make contact with all borrowers and guarantors
- If contact is made, consider an appropriate workout that offers a chance of success while also providing proper FDIC oversight
- Request current and notarized financial statements and income tax returns from all borrowers and guarantors
- Analyze costs to secure the premises and operations
- Conduct a review of livestock maintenance needs
- Ascertain the status of real estate taxes
- Conduct a review of any environmental concerns/issues

- Prepare a report that lists the eventual liquidation strategy, including all costs, risks, and benefits
- Perform an NPV/ECR using the applicable discount rate

SUMMARY

A defaulted loan may not automatically require foreclosure – the action of last resort. Receivership staff should be proactive and help the borrower avoid default, but if such default happens, be equally proactive in working to bring the loan current, using any available and reasonable method that takes into account the best long-term results for the Receivership. In any such analysis of a default, all the factors involved with, and perhaps contributing to the default, need to be compiled and thoroughly reviewed. Borrower cooperation is critical to any course of action undertaken to remedy a default, and a frank and realistic assessment of the borrower's willingness (and confirming actual behavior) to work diligently with receivership staff is the first step in bringing a defaulted loan current. With the borrower as a solid partner, other actions become possible; otherwise the receivership staff has little recourse other than to move toward foreclosure and liquidation. At this point, when considering foreclosure, the receivership staff must thoroughly consider whether it is in the Receivership's best interest to move toward foreclosing and taking possession of the collateral of the defaulted loan.

It is not unusual for FDIC to commence foreclosure proceedings to the point of taking possession of the property serving as collateral (particularly real estate or livestock collateral), then selling the position to another investor to assume the risks of taking possession of the collateral. This strategy can protect the receiver from being exposed to other damage claims, including potential environmental claims or care and health issues relating to livestock.

Chapter 8 ORE and Foreclosed Operations

Restating once more the FDIC's goal of liquidating a failed institution's assets in the most timely and cost-effective manner possible, receivership staff are challenged with handling those defaulted assets that result in owned real estate (ORE) and other owned assets (OOA). Receivership staff may encounter ORE and foreclosed operations in one or both of two ways: 1) by acquiring from a failed institution, and 2) as a result of receivership operations. Regardless of the manner of acquisition, receivership staff must move forward with crop, livestock, and equipment sales, while also maintaining idle farmland and perhaps entering into short-term land leases or crop rents.

INVOLUNTARY LIQUIDATIONS

The FDIC may not be able to conduct liquidations through "on farm" auctions. If the borrower is not willing to voluntarily liquidate, foreclosure and repossession are necessary. Equipment should be moved to a sterile environment; however, take care that no equipment is moved from the geographic location for which it is suited. Equipment has a higher market value in its own area of use. Specialized equipment, such as peanut diggers, should never be removed from the area in which it is used. When moving equipment to another site for sale, the receivership's options include selling items through consignment to a neutral party, transporting assets to another location for sale at an auction, selling through a sealed bid process with advertisements in local and national newspapers, and so on. These sales professionals can provide excellent marketing advice. All sales should be conducted in accordance with relevant statutes including Article 9 of the UCC and other state/jurisdiction-specific statutes. Consult with the Legal SME early in the planning of a sale.

If assets must be transported to another location for sale, removing assets from the farm should occur as quickly and quietly as possible. The FDIC recommends that enough trucks and personnel be hired to accomplish removal in one trip.

Auctions and other options for selling assets in other locations can be identified through advertisements in newspapers from the intended sale site. It is suggested that receivership staff confer with several auctioneers in the proposed sale area regarding local market conditions, results of recent sales, etc. The reputation of other auctioneers in the area can also be investigated during these conversations. Carefully screen auctioneers prior to engagement. The factors to be examined are the same as those discussed in the Voluntary Liquidations section.

If the FDIC finds itself in possession of livestock that cannot be sold immediately, receivership staff must make arrangements for the feeding and care of the livestock. Groups of livestock cannot be mixed together due to the risk of spreading any disease from one herd to others. A call to the state veterinarian provides information on regulations governing the movement and transfer of livestock. A veterinarian should be retained to inspect the health and condition of the livestock and provide guidance on nutritional needs, etc. Consult the Livestock Operations section of this handbook for information about any such disposition.

In the event that a crew of livestock care providers is necessary to provide interim care, be sure to include FDIC Legal to be certain that the livestock care providers are properly hired without barriers to properly manage the account. The FDIC has a responsibility to observe all pertinent employment and/or contracting law.

MAINTAIN ORE

The FDIC generally does not fund the planting and growing of crops on ORE; harvesting most likely will be allowed. Each situation is evaluated individually. The value of the planted commodity versus the cost to bring the crop to maturity and the cost of harvesting the crop would be considered. However, the FDIC will spend money on farmland only to the extent necessary to preserve the value of the land – such as controlling certain weeds, conserving tillage, providing irrigation to bring a crop to maturity, or planting cover crops to reduce wind erosion and sand humps. On occasion, the FDIC will spend money to facilitate growing crops or grazing cattle to maintain the agricultural tax exemption on a property.

In some areas of the country, owners of surrounding property adversely affected by neglected real estate have the legal capacity to obtain an injunction against landowners who take no measure to prevent erosion caused by wind and rain. Receivership staff should take care not to allow ORE to deteriorate to an extent where such action might be undertaken. Consult with the Legal SME when deterioration of collateral/ORE becomes known.

If farmland has crops growing on it when the FDIC acquires it and the former owner is not willing, or allowed, to continue the operation, and the decision is made to bring the crops to maturity, receivership staff should immediately move to hire a farm manager to supervise the care, maintenance, harvesting, and selling of the crops. In this case, the FDIC will likely expend funds for normal and necessary expenses to bring the crop to maturity and to sell it.

There may be some equipment housed on the ORE, such as irrigation equipment, that the FDIC will want to maintain as necessary for growing crops or safeguarding livestock. After crops are harvested, irrigation equipment may be so expensive to dismantle for sale that a better choice may be to let it sit. A unique marketing opportunity exists if the defaulted borrower has neighbors who are interested in this equipment at auction, avoiding high transportation costs.

If FDIC-acquired farmland has been rented to another farmer and crops are growing on it, the FDIC may not have security interests in those crops. Receivership staff should obtain any and all documents regarding such leases and submit them to FDIC Legal.

LAND LEASE

Under a land lease (also known as cash rent or cash lease in some parts of the country), the FDIC leases land to a farmer who in return pays a specified amount to use the land. A lease, in a form acceptable to FDIC Legal, must be signed by both parties and contain the terms of payment, amount of payment, period of use, effects on the lease if the land is sold, and other terms and agreements that FDIC Legal deems necessary.

The most favorable cash lease agreement provides for full payment of the rent in advance; however, concessions may be necessary to secure a tenant. Again, be certain that the receiver's lien status is protected by referring this to FDIC Legal. If the lease does not provide for full payment of the rent in advance, a UCC-1 (state specific) must be filed on the crops to be grown on FDIC ORE to secure the FDIC's lien position against the crops to be grown. Although laws vary from state to state, the land owner often has a senior lien position over other secured parties. Staff should thoroughly investigate this matter because a subordinate position is much less favorable than a senior position.

CROP RENT

Under a crop rent agreement (also referred to as crop share in some parts of the country), the FDIC rents the land to a local farmer who later remits a specified portion of the resulting crop sale as payment for using the land. As is the case with a land lease, FDIC Legal will specify all the terms and conditions that the agreement needs to contain.

In a crop rent, the renter typically pays all expenses except those necessary for the preservation of the land's value, such as a herbicide application to Bermuda grass that can deplete the market value of the ORE if not controlled.

Receivership staff must use good business sense when crafting the terms of the rental agreement. For example, an agreement in which the FDIC will be paid based on the total yield of all acreage under cultivation is more advantageous than an agreement that gives the renter an opportunity to cherry pick the best sections.

Receivership staff must file a UCC-1 (state-specific) to secure the FDIC's interest in the crops to be grown on ORE, and they should thoroughly investigate state laws to determine the land owner's lien position prior to entering into this type of agreement. As in the case of land leases, a subordinate lien position is much less favorable than a senior lien position.

CROP SALES

Crops are generally sold to grain warehouses, also called elevators. Most commodities are sold in close proximity to the farm due to the cost of transportation. However, some will be marketed outside the typical marketing area based on pricing and the availability of local buyers. All or a portion of crops may be withheld for feed and stored on a farm or in a commercial elevator. Some elevators buy crops and sell their total inventories locally as feed, but most will resell their inventory to another purchaser further along the supply line. The final buyer may ultimately be a foreign country.

Terminal elevators are located at transportation terminals such as ports, major railheads, river barge loading facilities, or major processing areas, and they purchase only from licensed grain dealers. These elevators are supplied by sub-terminal elevators, usually located in rural areas. Sub-terminal elevators may be owned by one of the major terminal elevators, cooperatives, or independent parties, but the majority of sub-terminals located in the Corn Belt are owned by cooperatives. Sub-terminal elevators buy from individual sellers, and their function is to assemble large quantities for delivery further along the chain of purchasers.

Prior to reaching a sales decision, receivership staff should contact several elevators, if available. However, the highest price per bushel may not necessarily result in the highest cash return, because the cost of transportation must be figured into the net cash yield equation.

When a decision is made to market crops, receivership staff will also arrange transportation. Local newspapers may contain advertisements placed by truckers operating in the area. Consultation with elevator personnel may yield valuable information about the reliability of truckers used locally. Truckers hired by the FDIC must be bonded and insured.

If the crops are being sold at harvest time, receivership staff will acquire assistance to determine whether it is most beneficial to sell the crop as it comes directly from the field (known as “wet”) and receive a reduction in price or to pay for drying prior to sale.

Receivership staff will need to verify lien positions prior to marketing crops. If any crops have been sealed through the CCC loan program, prior to movement of any of those crops, you must receive CCC permission or the FDIC will be violating federal law and will be subject to criminal and civil law. Get specific FDIC Legal advice on all lien and collateral-related issues.

Prior to storing crop in an elevator, staff should obtain an opinion from FDIC Legal regarding the validity of warehouse elevator receipts in bankruptcy court. If FDIC Legal advises that a warehouse elevator receipt does not adequately secure the stored crop, a UCC-1 should be filed on the warehouse elevator.

LIVESTOCK SALES

As with crops, the highest bid per pound of livestock does not necessarily result in the highest cash return to the receivership because it may have attached conditions that reduce the actual return. Accordingly, receivership staff should consider the following options:

- **Reliability of the buyer** – At public markets, disinterested parties do the weighing. If the buyer weighs the livestock, it creates an inherent conflict of interest with possible skewed results.
- **Bonding** – Packers and stockyard administration can advise whether a buyer is bonded and the extent of the bond. If a buyer is bonded, the seller has recourse up to the amount of the bond in case the buyer defaults.
- **Shrink loss** – Livestock will lose weight during transportation, and the farther and longer the transportation, the more weight is lost. Hogs typically undergo 2 percent shrinkage during the sorting, loading, and hauling in the first few miles. To result in 4 percent shrinkage, a significant amount of time would have to pass during shipping, hogs would have to be shipped over 150 miles, or handled very roughly.

To compute the value of shrink loss, multiply the percent of shrinkage by the per hundredweight (cwt) value, then add to the hundredweight. For example, assume a \$45/cwt and a 3 percent shrink rate. $\$45 \times 3 \text{ percent} = 1.35/\text{cwt}$. Add that number to the hundredweight and you get \$46.35. Therefore, if you are getting a \$45 price at a local

market, you would need to receive \$46.35 at a distant market, based on the expected shrink loss.

The cost per hundredweight of shrinkage decreases as the price declines; therefore, the actual value of shrink loss is less at lower prices and more at higher prices.

- **Transportation** – Although transportation costs increase with the distance traveled, they do not usually increase at a constant rate. The size of the shipment is instrumental in determining transportation costs.

The cost of transportation per hundredweight becomes less important as the price increases and more important as the price declines. Therefore, as prices increase, the number of viable markets may also increase because the relative cost of going to more distant markets is less.

- **Selling costs** – The public markets, terminals, and auctions have set commission, yardage, feed, and insurance fees that are charged when selling through those markets. These costs must be deducted from the price to determine actual net farm price. Other specialty marketing programs may have marketing fees attached to them also, which should be deducted from the price to determine actual net farm price.
- **Pricing options** – Examine pricing options to determine the most beneficial approach for the producer if any options exist in the market.
- **Degree of sorting** – Excessive sorting, though it can increase a seller's net return, requires both time and effort.
- **Timing of sales** – Selecting the proper time to market is a serious consideration. Although receivership staff may at times be in a situation that does not allow the selection of a marketing time, selection of the proper marketing time should be considered a factor when the option exists. If a commission firm is being used and has knowledgeable personnel, they can help with this decision.

When a decision is made to market livestock, receivership staff need to arrange for transportation. Local newspapers, telephone books, and the Internet may contain advertisements that identify truckers operating in the area. Consultation with buyers can also provide information about the identity and reliability of these truckers. Truckers hired by the FDIC are to be bonded and insured.

Prior to arranging for transportation, receivership staff need to determine the adequacy of loading facilities. Holding and loading facilities should have adequate capacities to accommodate the volume anticipated. Depending on the loading facilities available, a temporary corral may need to be obtained and set up to facilitate the gathering and loading of the livestock. These corrals may be rented locally. Also, if the livestock will be held for any period of time before shipping to a buyer, receivership staff should ensure that there is adequate food, water, and staff trained to care for the animals.

Unlike a commercial herd, purebred/registered stock usually brings higher prices because of the various superior genetic traits inherent in the respective breed. These animals are raised for breeding rather than slaughter. Possession of the registration papers is imperative to command the higher prices achievable in the purebred/registered market. The documents provide the date of birth, bloodline percentages, name of the breed, etc., and if not available from the debtor, can usually be obtained through the appropriate breed association.

When selecting an appraiser for purebred/registered livestock, receivership staff should employ reputable individuals with verifiable expertise relative to the breed being evaluated. Auctioneer advertisements, breed magazines, and recommendations from the breed association should provide contact information for qualified appraisers.

Upon receipt of the appraisal, receivership staff must determine what type of sale will result in the greatest net return. Sales methods to consider include commercial, special, breed consignment, and private treaty (finding a buyer without going to auction).

When dealing with smaller numbers, choose a sale by private treaty or a breed consignment sale because both eliminate many of the costs associated with other sale types. In a private treaty or breed consignment sale, a prospective buyer and seller negotiate directly. The names of prospective purchasers can be obtained from the respective breed association and from purchasers who previously bought animals from the borrower. If the private treaty sale does not happen, a breed consignment sale sponsored by the local chapter of the breed's association can be effective.

When dealing with large numbers, ORE considers using a private auction or marketing through a regional sale barn. The private auction should be considered first, if the livestock is of high quality and the related expenses (for example, commissions, transportation, and advertising) make sound business sense. The operators of the regional sale barn are usually candidates for conducting such an auction. Receivership staff should ensure that the local breed association and other local known purchasers are advised of the pending sale. Alternately, the regional sale barn is a viable resolution method when dealing with a larger number of animals. This method has the advantage of attracting a greater number of potential buyers, especially if the livestock sale is extensively advertised and the potential buyers in the area were notified.

To ensure that all of the appropriate considerations are addressed when determining the marketing method of purebred/registered livestock, consult the appropriate regional agriculture specialist. Realistically, it is unusual for purebred/registered livestock to return a significant premium in a forced sale. This is particularly true with small quantities and/or a lack of very significant reputation of the breeder and/or bloodlines.

SUMMARY

In the beginning of the chapter, emphasis was placed on the need to find alternative funding and protect collateral while also reporting on collateral values. However, there comes a time when a defaulted loan results in the FDIC asserting its claim and taking possession of the pledged collateral. While certainly not desirable, such ownership does happen, and receivership staff must be prepared to take final action in such a situation, which is to sell the asset. As mentioned,

agricultural operations likely have live plants and animals, and therefore require carefully planned and expeditious action. Staff must be prepared to step in quickly to protect its collateral, avoid mismanagement of livestock, and ultimately dispose of its collateral interest in the manner that provides the highest return to the Receivership.

Chapter 9 Types of Agricultural Operations

This section gives general information on various livestock and crop operations. It covers the livestock and major crops that have been most frequently encountered, but, while every attempt has been made to be as specific as possible, generalities are necessary due to the vast differences encountered across geographic areas of the country.

This section contains the major types of livestock operations, “timetables of activity” for the production of the most common crops, and general information on issues relevant to each operation. Keep in mind that each farm is a unique business. There are many variations among farms, and there may be significant differences among geographic locations.

LIVESTOCK OPERATIONS

Market

The following are several options available for selling livestock:

- **Auction** (or sales barn) – Livestock are received and sold to buyers on an auction basis with bidding and selling open to the public. Auctions may be owned by individuals, partnerships, corporations, or cooperative associations. An auction’s effectiveness is influenced by the quantity and quality of livestock offered and the number and competitiveness of the buyers it attracts. One disadvantage of auctions is that livestock is sold only on sale days, and most auctions take place only one or two days a week.
- **Cash or spot market** – This is the market for the actual, physical commodity of each livestock class. Price quotations may come from terminal, auction, electronic, or direct market.
- **Direct marketing** – Direct marketing includes sales to packing plants, packer-owned county buying stations, order buyers, county dealers, independent county buying stations, and cooperative county buying stations. One advantage of direct marketing is that a close approximation of the price may be calculated before livestock is moved from the farm. Any price bid can be accepted or rejected, providing marketing flexibility. No costs are incurred (such as transportation) prior to sale. The seller must possess sufficient market knowledge to be able to evaluate the commodity based on applicable market conditions and offer price.
- **Electronic marketing** – Electronic marketing is a system of trading market information via computer. Trading is organized and centralized at a single point. As a result, the market is accessible to remote buyers and sellers, distanced from the actual site where the livestock is held. The product, in this case livestock, is merchandised on description rather than visual appraisal.

- **Futures market** – Futures is a market in which contracts are bought and sold under formal and regulated conditions. The seller agrees to deliver and a buyer agrees to accept a specified commodity at a future time. Terms of the contract specify the commodity being traded, price, quantity, quality, place, and time of delivery.
- **Online auctions** – Online auctions are held via the Internet; all arrangements and purchases are between the buyer and the auction house. Transportation of livestock is the sole responsibility of the buyer. This option features real-time streaming video auctions with live bidding from auction facilities around the US.
- **Terminal public market** – Terminal public markets are also called public stockyards, central public markets, and terminal markets. Livestock is consigned to commission firms for selling, and two or more commission firms must operate such a market. A stockyard company owns and maintains the physical facilities. Individuals, partnerships, corporations, or cooperative associations operate as commission agencies on terminal public markets. The Packers and Stockyards Act, 1921; (7 U.S.C. 181) requires public markets to be bonded (see 7 U.S.C. 204).

Use care in selecting a commission firm to benefit from their knowledgeable personnel. Terminal public markets are not auctions. The commission firms negotiate with individual buyers until they get an offer that they deem to be the strongest, at which time they agree to sell the livestock for the specified price. Although each commission firm and each buyer are in direct competition, none of them is officially aware of transactions by the others. This detail is not to suggest that a certain amount of information is not exchanged informally.

One disadvantage of marketing livestock in this manner is that price declines and strengths can be exaggerated by an oversupply or undersupply of livestock at a particular market on a given day.

- **Other** – Although not widely used, there is another marketing alternative available in some areas. This alternative involves using a commission firm, but the livestock is sold directly from the farm instead of from a centralized market. The commission firm contacts buyers and arranges for inspection of the livestock on the farm. If the commission firm receives an offer that it deems the strongest, the firm presents the offer to the seller, who has the right of refusal. This method is advantageous since transportation costs are not incurred prior to sale, and the livestock is not moved prior to sale. This method also eliminates accepting a low bid because the livestock cannot be held at centralized markets, and no shrinkage from moving the livestock occurs prior to the sale. (Receivership staff must take into account that the price offered by a buyer who then has to arrange transportation will factor this cost and the accompanying shrinkage into the offer.)

Due to their increased value, registered livestock are sold through privately negotiated sales rather than one of the previously described markets. Registered livestock must have papers that identify a particular animal and are obtained by listing certain data on an application and sending it to the appropriate association for processing.

Each livestock association has its own requirements. Therefore, when dealing with registered livestock, the appropriate association should be contacted for information, such as how to verify authenticity, transfer ownership, and duplicate the certificate of registration.

Methods of Pricing

Just as there are several options for selling livestock, there are several pricing options:

- **Mixed pricing** – Using a mixed pricing method, the buyer establishes one price for a group of animals mixed in grade and weight, which makes it easier for the seller to understand because the weight of the group is multiplied by the price to calculate the value of the livestock being sold. When selling better-than-average livestock, this may not be the most advantageous approach, since any averaging technique has the natural tendency to underprice the good quality livestock and overprice the poor.
- **Live sort pricing** – A specified price on each grade and weight group is established by the buyer using this method. The livestock are then separated by grade and weight and the price is determined accordingly. This method is often faulty because the buyer sorts and grades the livestock. Ideally, the grading and sorting is done by an impartial party, but a knowledgeable representative of the seller should be present to observe the sorting. Comparing bids between potential buyers using this pricing method is difficult because each slaughtering firm has its own grading system.
- **Carcass grade and weight (yield)** – Individual animals are evaluated as they pass from the kill floor to the chill room. Carcass weight and grade are evaluated, and price premiums or discounts from a base price are computed for each carcass.

The main disadvantage of grade and yield selling is that the livestock are evaluated by the buyer, with the seller having no input into the evaluation criteria or process. Payment is delayed until after the livestock has been slaughtered and evaluated, and it is impossible to re-grade or re-weigh carcasses if an error is discovered because they will have been sold or cut up before the seller receives a report. Most plants use USDA grades and graders for beef. Pork plants usually have in-house grades.

Livestock Slaughter Market Weights

- Cattle are typically sold at heavier weights (closer to 1,200 lbs) in the late spring and during the summer and at lower weights in the winter.
- Steers are usually marketed at 1,000 – 1,100 lbs. However, steers sold for kosher beef are usually heavier (1,100 – 1,200 lbs).
- Heifers are usually marketed at 950 – 1,050 lbs, although cows sold for slaughter are heavily discounted with their lean being used for hamburger and sausage.

Hog and Lamb Market Weights

Hogs are usually marketed at 230 – 260 lbs, although some packers will still pay top prices for 210 – 240 lb weights. In some markets, price discounts are substantial for hogs above 230 lbs. The chance for a price rise is best from December to January and May to July. The chance for a price rise is lower from February to April and August to November.

Lambs are usually marketed at 100 – 115 lbs, but can be sold for top price at up to 130 lbs if there is an undersupply. Mutton (mature sheep) sold for slaughter is greatly discounted.

Emergency Livestock Management Plan

In the past, livestock owners have threatened to walk away or transfer the management of their operations to the receivership with little or no notice, thereby abandoning their livestock. Others have expressed an inability to continue as a result of personal distress and depression due to their situation. They have been unable to obtain financing from area banks and do not know where to go for help. While the laws of several states seem to consider abandonment of livestock as animal cruelty and, therefore, a felony, it has not deterred some livestock owners in the past.

The following actions can be taken to proactively avert borrower abandonment of livestock:

- Communicate with all dairy and feedlot owners one-on-one.
- Hold town hall meetings (only if considered necessary) to help resolve borrower or community concerns.
- Meet with area bankers to explain the FDIC's role and encourage refinancing using appropriate underwriting standards.
- Meet with stakeholders (only if considered necessary) .
- Meet with livestock buyers.
- Assess time requirements and feasibility for FDIC liquidation of herds.
- Confer with DRR SMEs for agriculture, if s/he is available, to obtain concurrence on a plan.

In the case of abandonment with little or no notice, receivership staff must immediately move to provide care for livestock. This may include withdrawing funds from the special operating account and employing the Acquisition Services Branch's Acquisition Policy Manual (APM) – APM Chapter 3.4 Contracting in Support of Potential Financial Institution Failures - Emergency Contracting Procedures (Acquisition Procedures, Guidance and Information – PGI 3.407) to hire a livestock manager on a non-competitive basis. Consult with the Legal SME to determine if the situation calls for seeking the court appointment of a receiver to handle the ongoing operations in support of maintaining the livestock.

Beef Industry

The beef industry is comprised of several basic segments:

- Ranches or cow/calf operations
- Stocker operations
- Feed lots
- Packers

Cow/Calf Operations

The ranch, or cow/calf operation, is an enterprise that uses forage land, brooding cows, and a small number of bulls to produce calves. The size of these operations vary considerably, but a typical herd of brood cows will number about 75. The herd is complemented by a “herd bull battery” of about three bulls (usually one bull for about 25 brood cows). The land required to support each cow/calf unit varies in size, from four acres in high rainfall areas in the East and South, to as many as 200 acres in the more arid West and Southwest. The ranches vary in size from 100 acres to many thousands.

The breeding season is usually late summer, when coupled with the normal gestation of nine months, and provides the expected calf crop in the early to late spring. This management technique avoids higher mortality rate of winter calving, assuring better climatic conditions and abundant spring forage for the newborn calf. Better forage, incidentally, provides stronger cows and more milk at the time of birth, while further enhancing survival of the offspring.

Normally, a cow gives birth to a single calf. Multiple births are not common for bovines. Not all cows will settle or conceive, and a 90 percent calf crop is considered the breakeven point in the industry. A herd’s conception rate can be adversely affected by venereal diseases such as brucellosis, which is a bacterial infection of the female urogenital tract that causes the fetus or unborn calf to abort or miscarry in the third trimester (seventh to ninth month of pregnancy). A cow that misses conception is usually culled and sold for slaughter.

To maintain a herd at constant size, the culled animals are replaced with pregnant cows or pairs (cow/calf unit). In some cases, the rancher may elect to replace the culled animal with heifers from his or her own herd. However, the goal of the cow/calf herd is to sell the calf crop, so any delay in receiving full benefit of at least a 90 percent calf herd represents loss of revenue; thus, replacing culls with calf-producing cows is more efficient.

Stocker Operations

Stocker operations involve putting weaned cattle on summer grass, winter wheat, or some type of harvested roughage. The feed type depends on the locale and time of year. The cow/calf operator may pay a stocker operator for providing this post-weaning room and board, or he/she may sell the animals to the stocker operator.

Either way, this second phase of the calf’s life may last from 6 to 10 months, until the animal reaches a desirable feedlot weight of about 650 to 800 lbs. At this point, when the animals are

ready to be placed in feedlots, they are referred to as feeder cattle. Again, as they pass from the stocker operation to the feedlot, the animals may not change ownership.

Feedlot

The feedlot's function is to keep cattle in pens and feed them high protein feed to promote rapid weight gain. Almost all feeder cattle are steers (castrated males) and heifers (females that have not yet calved). At any time, there are significantly more steers than heifers in feedlots, because a portion of the heifers are retained on ranches for herd maintenance. Cows (females that have calved) and bulls (sexually intact males) generally are not placed in feedlots.

Farmer Feedlot

Feedlots vary in capacity from fewer than 100 head to more than 100,000 head. Conventionally, feedlots are divided into two main groups, based on size. The first and most common is the farmer feedlot, which is any feedlot with a one-time capacity of fewer than 1,000 head. About 97 percent of all feedlots are farmer feedlots, but given their relatively small size, they account for less than a fourth of total fed-cattle marketing.

The typical farmer feedlot tends to be just one aspect of a diversified farming operation. In the past, fed-cattle sales generated less than half of the total sales of farms with feedlots. The commercial feedlot usually requires the full attention of its owner or manager because it is the primary enterprise.

Commercial Feedlot

The commercial feedlot has a one-time capacity of 1,000 head of cattle or more. While these account for less than 2 percent of the nation's feedlots, their large average size makes them the source of more than three-fourths of all fed-cattle marketing.

Feedlot Distinctions

One other distinction between feedlots, apart from size, is whether the cattle are owned by the people who own and operate the feedlot or by outsiders. While virtually all the cattle in farmer feedlots are owned by the farmer, almost half of all commercial feedlot cattle are owned by someone other than the owner of the feedlot. This arrangement, which is known as custom feeding, shifts both the price risk and a major portion of the capital requirement from the feedlot to the customer.

To visualize the magnitude of the capital required for a large feedlot, calculate the cost of filling a 30,000-head capacity feedlot with 600-lb feeder steers at \$70 per cwt. This \$12.6 million must then be increased by 50 percent to cover feed purchases during the feeding period. For feedlot operators who are unable to raise \$19 million per feeding cycle, selling feedlot services to outsiders becomes an attractive, lower-risk alternative.

Farmer feedlots differ from commercial lots in that they tend to feed more roughage and less protein concentrate. The difference in feeding practice results in higher feed-to-meat conversion

ratios, lower daily gains, and longer feeding periods for the farmer feeder. In the past, the average farmer feeder got 1 lb of gain for 12.5 lbs of feed, saw his cattle gain about 2.17 lbs per day, and kept them on feed for 170 days. For calves, the feeding period was extended to 265 days. The commercial feedlot, on the other hand, used 9.7 lbs of feed per pound of gain, experienced average daily weight gains of 2.68 lbs and kept its animals on feed for 148 days.

All of these averages can be affected by weather. Extremely hot weather will depress appetites, lower daily weight gains, and extend feeding periods. Unusually cold weather will cause food energy to be diverted from growth to the maintenance of body heat, resulting in lower daily gains, higher feed-to-meat conversion ratios, and longer feeding periods.

Feedlot cattle receive a ration consisting of grain, protein supplement, and roughage. The grain portion is usually corn, milo, or wheat, when its price is low. Generally, the protein supplement is soybean, cottonseed, or linseed meal. The roughage portion of the cattle's diet is alfalfa, silage, prairie hay, or some local agricultural by-product, such as sugar beet pulp. The choice of feed depends on its price relative to the price of alternatives.

Usually, feeding continues until steers weigh from 1,000 to 1,200 lbs and heifers from 850 to 1,000 lbs. However, feeding weights and times vary with market conditions. The feeder should, but does not always, continually compare the cost of adding each pound of weight gain with what that pound will earn in the marketplace. Should feed prices fall or slaughter cattle prices rise, animals will be kept on feed slightly longer to attain a somewhat higher weight. However, there is a limit to the extension of the feeding period. If cattle are over-fattened, they can be discounted by a substantial amount at marketing time. When feed is relatively cheap, or fed-cattle prices are high, the feeding period can also be extended by starting earlier with lighter-weight feeder cattle.

While virtually all fed cattle are purchased by packers, there are three different marketing routes through which this livestock flow:

- Direct sale to the packer
- Sale through a terminal market
- Sale through an auction

Commercial feedlots sell about 90 percent of their cattle directly to the packer. Farmer feeders market about 63 percent directly, 25 percent through terminal markets, and 12 percent through auction markets.

Meat Packer

The meat packer buys livestock, slaughters them, and sells virtually every item that comes from the slaughtered animal. There are two major sources of revenue for the packer: sales of meat (whether in carcass or boxed form) and sales of "hide and offal," or "drop" (comprised of hide, trimmed fat, variety meats, bones, blood, glands, etc.).

Most of the packers' cattle are purchased directly from feedlots, by salaried employees known as packer buyers, based on current quotes for meat prices. These packer buyers travel to cattle-feeding areas and bid for desirable cattle. When a bid is accepted, the packer generally picks up

the cattle within seven days. This arrangement gives the packer some flexibility and allows him to schedule the slaughter several days in advance.

Knowing the price that can be obtained for a beef carcass and beef by-products, a packer can determine an animal's value. The packer must estimate dressing percentage (the carcass is generally about 62 percent of the live weight), the quality grade (prime, choice, good, etc.), and the yield grade (#1 through #5, with the higher numbers representing a lower proportion of saleable retail cuts in the carcass). For example, a 1,000 lb choice yield grade 3 steer might produce a 650 lb carcass, which in turn, would yield 495 lbs of saleable beef. It is estimated that about 50 – 55 percent of a carcass is sold as steaks and roasts, another 5 percent or so as stewing beef, and the balance as ground beef or hamburger.

Pork Industry

Like the beef industry, the pork industry is divided into three basic phases:

- Production of young animals (pigs), commonly referred to as a farrowing or feeder pig operation.
- Fattening these animals to slaughter weight, commonly referred to a feeding or finishing operation.
- Slaughter and fabrication

It's not unusual for farrowing and finishing operations to be combined in a farrow-to-finish operation.

The important differences between the two industries are:

- Hogs cannot efficiently convert grass and roughage into protein and, therefore, do not experience anything equivalent to the stocker-cattle phase.
- The pre-slaughter phases of hog production are usually combined into a single unit in the hog industry. Such integrated units are called farrow-to-finish operations. The hog stays on the same farm from farrowing (birth) to the finish of its feeding period. It is convenient to breed and feed hogs in a single operation, since mother hogs (sows), baby pigs (piglets), and market hogs all eat virtually the same thing, although the feed mix may vary.
- Another reason for integrating feeder pig production and hog feeding into a single operation is that young pigs are sensitive to stress and disease. Consequently, farmers are often reluctant to purchase feeder pigs on the market because they risk introducing disease to the remainder of their herd. Furthermore, a USDA study suggests that the stress on feeder pigs from market handling and from the adaptation to a new environment can slow weight gain and extend the feeding period by up to 13 days.

Note: Despite these issues, about 20 percent of all market hogs pass through a feeder pig market. The other 80 percent spend their lives in integrated farrow-to-finish enterprises.

- Beef is typically used as fresh meat within a few days following slaughter, while a large portion of pork is further processed and then stored for a lengthy period. Hams and picnics (a ham-like cut from the front leg of the hog) can be smoked, canned, or frozen. Pork bellies (the raw material for bacon) can be frozen and stored for up to a year prior to processing. This ability to store the meat means that forecasting pork supplies, especially pork belly supplies, at any future time, involves an estimate of both available supply of meat on hand and production.

Hog Farm

- The typical hog farm is a farrow-to-finish, or birth-to-final, marketing operation located in the Corn Belt. An average farm consists of 41 breeding females (both gilts and sows), 2 boars, and 228 other barrows and gilts being fed for market. (Gilts are young females that have not produced a litter and sows are mature females that have.)
- Boars are purchased from breeding farms, and each boar has an expected working life of about one year. Breeding females are usually obtained simply by holding back some of the gilts from slaughter. At six months of age, they simultaneously reach sexual maturity and slaughter weight. Each mature female can be bred twice a year. The gestation period is slightly shorter than four months, and the nursing period is about six weeks.
- In the past, all females were bred at the same time, once in the spring and once in the fall. Now, a typical farm might breed six or seven females each month. Four months following breeding, these females give birth to an average of 8.8 pigs. At about six weeks of age, the nursing piglets are taken away from their mothers, who are then either rebred or sent to slaughter. Although females can continue to produce two litters a year for several years, they become very heavy. The price discount imposed on very heavy sows is an incentive for a farmer to produce only one or two litters before sending the sow to slaughter.
- Between farrowing and weaning, an average of 1.6 piglets is lost from each litter. By weaning time, the average litter size is reduced to 7.2 pigs.

Note: The litter size reported by the USDA refers to the surviving pigs, not the initial litter size. Death loss can be a bit higher during severe winters, so the winter-quarter litters often contain fewer pigs.

As young pigs grow, they are fed a combination of grain: corn, oats, or grain sorghum (milo), and commercial protein supplement. Vitamins, minerals, and antibiotics are also likely to be added to the feed. Most of the grain is produced on the hog farm. On average, each pound of live hog marketed requires 4.39 lbs of feed.

Generally, hogs are taken to market when they weigh about 220 lbs. With high feed prices and low hog prices, marketing tends to take place at lighter weights. Low feed prices and high hog prices induce farmers to feed to heavier weights. Depending on location and relative prices, a hog farmer can sell directly to the packer or through a terminal market or auction.

Packing and Processing

When livestock arrive at the packing plant, the hogs are slaughtered and then cut either into halves or quarters for shipment to a processor or into a larger number of smaller pieces called wholesale cuts. A 220 lb US #2 hog yields about 153 lbs of pork, pork trimmings, and lard. This 153 lb carcass can be divided into the following:

- Fresh hams, 18.5 percent
- Pork bellies, 17.5 percent
- Loins, 15.0 percent
- Fat back, clear plate, and fat trimmings, 18.0 percent
- Picnic, 8.5 percent
- Other, 22.5 percent

Knowing the average composition of a hog carcass enables the analyst to forecast the production of any specific item. For example, if pork production were forecast at 3.2 billion lbs in some future quarter, then pork belly production could be roughly forecast at 560 million lbs (or .175 x 3.2 billion) for that quarter. The analyst should obtain recent, reliable estimates of pork carcass composition. These composition figures can change over time.

The pork belly is the meat from the underside of an animal. It extends between the front and rear legs and goes about halfway up each side of the animal. This section is cut from each side of the carcass to produce two pork bellies.

Naturally, the size of the belly depends on the size of the animal being slaughtered. As a result, belly sizes depend on the weight and age at which farmers bring their hogs to market. Bellies are divided by size into five basic 2 lb ranges: 10 to 12 lbs, 12 to 14 lbs, and so on, up to 18 to 20 lbs. The bulk of pork bellies fall in the middle of these weights.

Almost all pork bellies are processed, cured, smoked, and sliced into bacon. This may be done either by the firm that kills and dresses the hog or by a specialized pork processing firm. There is a well-developed cash market for bellies between the packers and processors.

Broiler Industry

The broiler industry is very different from the beef and pork industries. For beef and pork, there is often one set of firms producing the young animals, another feeding these animals to finished growing condition, and a third slaughtering the animals and processing the meat. The broiler segment of the poultry industry is characterized by a single set of firms performing all of these operations. For broilers, the only viable market is for the sale of the slaughtered and dressed fowl. There is virtually no market for baby chicks going into the feeder stage, or for live birds on their way to processing.

Integrator and Contract Grower

There are two main characters in the broiler industry. The first is the integrator, so called because it has vertically integrated all of the once-disparate functions of hatching, feeding, and

processing. The second is the contract grower, who grows or feeds the birds on contract for the integrator.

The integrator, typically a large feed company, will often maintain:

- A hatchery supply flock (a group of hens aged 6 to 18 months that lay the eggs destined to become broilers)
- A replacement flock (a group of hens aged 0 to 6 months that provide new recruits for the breeding flock)
- A hatchery (a facility in which the eggs are incubated until the baby chicks emerge from their shells)

After the chicks hatch, the integrator ships them to a contract grower. The contract grower does not own them, but provides growing facilities during the seven to nine weeks it takes to bring a chick up to the 3.5 to 4 lb market weight. The contract grower provides housing, labor, water, litter, electricity, and in most cases, fuel. The integrator provides feed, medication, and field supervision. When the birds are returned to the integrator for slaughter, the contract grower is paid an agreed-upon fee per bird. There is usually a graduated bonus based on the efficiency with which the birds have converted feed into meat.

Distribution

Until the dressed broilers leave the processing plant, there is no market. The four basic outlets for broilers are:

- Retail
- Institutional (including restaurants and fast-food outlets)
- Further processing
- Export

Most of these sales are direct, although a portion does flow through wholesalers. Sales of broilers appear to be split fairly evenly between weekly negotiated trades and formula price trades.

In weekly negotiated trades, the price is set at the time of sale. In formula price trades, the price is not set at the time of sale, but is agreed to be equal to some price yet to be published, plus or minus some fixed amount.

Published prices include the USDA nine-city weighted average wholesale price for iced broilers, prices for the individual cities, and a group of processing plant dock prices in several southern states. Possibly as much as half of all broilers are sold cut up, which means the prices for whole birds are considerably less than the entire broiler market.

Dairy Industry

Milk production is an enterprise operating on many different types of farms and may be only a small segment of a diversified agricultural operation. Specialized dairy farmers generally have

small portions of their operation devoted to crop production, and the crops produced are used to feed and maintain the dairy herd.

Dairy operations are very labor intensive. Although automatic feeding devices and field machinery have increased production capacity and reduced labor demands, dairying remains a continual operation that requires constant attention and activity. The unrelenting toil partially accounts for the decline in the number of dairy farmers, but efficiency gains through mechanization and automation have increased the size of individual operations.

Dairy farming has advantages for the farmer over other types of operations, including the following:

- Farmers receive regular cash payments throughout the year.
- Milk prices have, on the whole, not shown the price fluctuations experienced by other commodities, such as crops and livestock.
- Farmers achieve a better return per acre (in part because of feeding farm-grown crops to the dairy cows) than in most other agricultural enterprises.

Cows need to be milked at least twice a day for 10 months of the year and are rebred within three months after giving birth. During the two months immediately prior to giving birth, the cow is allowed to “dry up,” (stop producing milk, which occurs if a cow is not milked) and rest. After giving birth, the cow returns to the milking herd, and the calf is hand-fed until it becomes self-sufficient.

Newborn calves are used for any of the following purposes:

- Slaughtered for veal
- Raised for replacement animals
- Fed until time to be transferred to feed lots for further fattening and eventual slaughter

Note: Dairy breeds fed for slaughter are not worth as much per pound as the beef breeds because of their different genetic traits.

A heifer retained as a replacement animal is usually bred at 13 months of age. Thus, by the time she gives birth nine months later and becomes a milk producer, the heifer is approximately two years old.

The dairy cows are brought into a milking parlor, where they feed while being milked. The equipment used determines the number of cows that can be milked at one time. The milk is pipelined into a storage vat, then cooled and stored until the milk processing plant picks it up. Milk is usually picked up every other day; for larger farms, it is picked up every day.

Exotic Animal Industry

While exotic animals are likely to comprise, at most, a very small percentage of an agricultural loan portfolio, a single operation may have exotic animals under its care.

Agricultural loans with exotic animals as collateral usually fall into the following general categories:

- **Breeders** – The demand for healthier meat, such as ostrich, has led to the creation of companies that breed animals for sale. Likewise, demand for special fur has resulted in a small but specialized industry in animals whose coats have desirable properties. Breeders of exotic pets for sale to the public may raise ferrets, snakes, and other wild, if not exotic, animals.
- **Farming** – Raising exotic animals for the purpose of harvesting their fur (alpacas), feathers and toenails (emus), skin (alligators), or meat (ostrich)
- **Ranching** – Using exotics as work animals (llamas make excellent guard animals for herds)

Again, failed bank personnel are likely to be aware of the breeding or other use of animals that falls outside the norm for the locale, and any information gleaned from those familiar with an agricultural operation involving such animals should be put to good use from the start. The local veterinary facilities will likely have been engaged in the past for medical care and attention and are aware of special needs.

Also, since the sale of exotics requires special expertise, the operator probably has connections to an auction dealer working with such rare and unusual breeds; so consult this auction dealer.

Finally, there are exotic animal networks that offer a great deal of information about the care and feeding of exotics, so receivership staff should survey the Internet and local sources, such as the Society for the Prevention of Cruelty to Animals, for assistance.

Due to limited markets and volatile pricing, the liquidation of exotic animals rarely results in significant recoveries.

CROP OPERATIONS

Crop Pricing

Most crops are priced per bushel, based on a standard quality. The final price of a particular load is determined by a premium or discount to the standard. Test weight (pounds per bushel), moisture content, and quality are a function of grade determinations. Grade standards are set by the USDA and are uniform throughout the country. The FDIC resolution staff must request that the grain buyer submit a sample of each load of crops to the nearest official grain grading center. Use the sample to assess the accuracy of the buyer's grading.

When delivering crops to an elevator, the loaded truck is first weighed, then emptied, and then weighed again. The final weight of the crop is determined by subtracting the empty weight of the truck from the loaded weight. The final weight is then divided by the standard weight of one bushel to determine the number of bushels delivered. A sample is removed from the delivered

quantity and weighed. This sample weight is used to determine the test weight per bushel, which is one of the factors used to grade the crop. The moisture content is then determined.

The crop is inspected for cracks, splits, and fines (small particles of material left in the load during the harvesting process), foreign material, and other pertinent criteria. Each grade has specific levels of acceptability for each of the evaluation factors. The final grade is determined by the lowest level of the evaluating factors used to determine the grade.

The various crop grades and their requirements are listed in Table 3 (provided by the USDA):

Table 3: Standard Weights of Common Feeds

Crop	Pounds Per Bushel	Pounds Per Quart (Not Ground)	Bushels Per Ton
Barley	48	1.01	41.7
Corn (shelled)	56	1.75	35.7
Corn (ear)	70	1.50	28.5
Oats	32	1.03	62.5
Rye	56	1.85	35.7
Soybeans	60	1.81	33.3
Wheat	60	1.90	33.3
Flaxseed	56	1.65	35.7

Irrigation

Irrigation systems are useless without an adequate water supply source—lakes, rivers, streams, underground aquifers, and surface reservoirs. The following irrigation systems represent the more popular methods of irrigating crops throughout the country:

- **Center pivot** – The center pivot is a pipeline structure on wheels with nozzles spaced evenly along the main pipe, which is attached to a well in the center of the field. The source of water comes from an underground aquifer. This system is adapted for moving over sloping terrain. Each irrigation well has an engine or engines located at the well site that powers the pump that pumps the water to the surface and into the irrigation system. The fuel for that engine or engines is diesel fuel, natural gas, or propane. If electricity is used, it would power an electric motor, rather than an engine, which would provide the power to operate the pump. The system rotates by means of water drive or hydraulic drive.
- **Traveling gun** – The traveling gun is one giant, rotating nozzle located at the top of a high-rise pipe, which is situated on a mobile frame. This system is attached by a long cable to a tractor, or some stationary object, at the opposite end of the field. As the gun pulls itself to the stationary end of the cable by a water-powered ratchet, the cable is coiled onto the machine. The source of water for the traveling gun is pumped from streams, surface reservoirs, or wells. Water is guided under pressure through coupler pipes and flexible hoses to the unit and distributed onto the field by the giant, rotating nozzle.

- **Siphon tube** – Siphon tube irrigation is merely siphoning water with small s-shaped tubes from a primary ditch on the high side of a field to the secondary channels in rows. The terrain must be level with a slight drop at the opposite end of the field for the water to flow. The source of water to the primary ditch comes from underground aquifers and surface reservoirs.
- **Gated pipe** – Irrigating with gated pipe has requirements similar to those of a siphon tube irrigation system. The terrain must be level with a slight drop from one end of the field to the other so that the water can flow. The gated pipe, which is used in place of a ditch and siphon tubes, consists of 30-foot sections of pipe with evenly distributed, gated holes, approximately 20 or 30 inches apart, which allow the water to flow freely. The gates can be opened or closed, depending on the watering schedule. Each gate can be closed individually, which allows for varied irrigation across the field. Row crops are planted perpendicular to the gated pipe.

The pipe is located at the upper end of the field with the holes facing the crop, allowing the escaping water to run down the rows and irrigate the fields. Care must be taken to avoid soil erosion. The source of water to the gated pipe is underground aquifers, or surface reservoirs, commonly called reuse pits.

Timetable of Activity for Corn, Grain Sorghum (Milo), Soybean, Sunflowers, and Other Row Crop Production

- January to March
 - Order fertilizer.
 - Order seed.
 - Prepare fields for planting.
 - Arrange for financing the crop year.
 - Repair machinery and equipment.
- Note:** Most costs are incurred during this period if input items are pre-paid. Otherwise, payments for seed, fuel, fertilizer, pesticides, taxes, and cash rent are made beginning March 1, which is the most common due date for cash rent, mortgage, and contract for deed payments.
- April to June; peak labor demand
 - Complete spring tillage of the fields.
 - Plant crops (the order of planting the major crops is: small grains, corn, soybeans).
 - Till the ground after planting (for weed control).
 - Pay for (or establish a payment plan) and apply fertilizer, herbicide, and insecticides.
 - Hire labor as needed.

- Purchase crop insurance – all risk government program. Hail insurance may also be purchased, if needed.

Note: Fuel for machinery is a major expense during this period.

- July to September; growing season
 - Apply additional herbicides or cultivate weeds between rows, as needed.
 - Irrigate the crops, as needed.
 - Apply insecticide, if needed.
- October to December; harvest season
 - Harvest crops in late September and early October.
 - Defoliate mature sunflower crop, if necessary.
 - Till the ground after harvesting the soybeans.
 - Fall fertilizer may be applied on soybean stubble.
 - Many farmers plow the fields after harvest for conservation tillage.

Note: During this period, the work is very labor intensive, fuel for machinery is a major expense, fuel and electricity for drying the corn is a major expense.

Timetable of Activity for Winter Wheat Production

First Year

- June to August; peak labor demand
 - Arrange for purchase of fuel, fertilizer, etc. (current and new crop).
 - Purchase seed for new crop.
 - Harvest current crop.
 - Prepare fields for planting summer fallow (new crop).
 - Plant new crop.
- September to October; initial growing season for new crop
- November to December
 - Wheat plant is dormant.
 - Stocker cattle may feed on the winter wheat.
 - Apply fertilizer, as needed.

Second Year

- January to March
 - Wheat plant is dormant.

- Stocker cattle may feed on the winter wheat.
- Apply fertilizer, as needed.
- Purchase crop insurance – all risk government program. Hail insurance may also be purchased, if needed.
- April to June; secondary growing season for new or current crop
- July to September; peak labor demand
 - Arrange to purchase fuel, fertilizer, etc. (current and new crop).
 - Purchase seed for new crop.
 - Harvest current crop.
 - Prepare fields for planting new crop on summer fallow ground in dry weather areas and straight crop ground in wet weather areas. Summer fallow ground is ground that has been left fallow (without a growing crop or weeds to pull moisture out of the soil) every other year or between crops to build the moisture profile in the soil in areas that get limited rainfall.
 - Plant new crop.

Timetable of Activity for Spring Wheat Production

- March; peak labor demand
 - Arrange to finance the crop.
 - Prepare fields for planting.
 - Order and apply fertilizer.
 - Order and plant seed.
 - Purchase crop insurance – all risk government program. Hail insurance may also be purchased, if needed.

Note: Most costs are incurred during this period.

- April to June; growing period
 - Irrigate, as needed.
- July to September; peak labor demand
 - Harvest crop.

Note: Fuel is the major expense during this period

Timetable of Activity for Alfalfa Production

- November to February; dormant
- March to October; growing season
 - Reseed (once every 4 to 10 years).
 - Apply lime.
 - Apply insecticide.
 - Most common expenses are for labor, fuel for tractors and irrigation systems, upkeep and repair on equipment, and baling wire/twine.
 - Harvest (may be cut several times each year).

Timetable of Activity for Cotton Production

- January to March
 - Order seed, fertilizer, etc.
 - Shred stalks on old crop.
 - Break and list ground.
 - Arrange financing.
- April to May
 - Plant crop.
 - Treat with fertilizer, herbicides, or early insecticide.
- June to September
 - Cultivate.
 - Apply insecticide, as needed.
 - Irrigate.
 - May side dress with fertilizer.
- October to December
 - Defoliate mature cotton crop (if necessary).
 - Strip or pick according to locale.

INTANGIBLES

Water Rights

Groundwater is water that occurs beneath the earth's surface that fills or saturates the voids of porous earth material or cracks in rocks. An aquifer is saturated material sufficiently abundant and permeable that is capable of yielding significant quantities of water to wells and springs.

There is more than 20 times the amount of fresh water under the earth's surface than exists in all surface lakes, rivers, streams, and reservoirs combined. Withdrawals from this resource have increased dramatically over the past few decades, and management of water resources is complex. Many regional and local issues must be addressed while developing resource management strategies concerning the quantity and quality of groundwater.

Aquifers are usually unconsolidated material, such as sand or gravel. Others are composed of rock, such as volcanic rock, sandstone, or limestone. The only aquifers that resemble the common conception of underground lakes or streams occur in limestone or lava aquifers that hold water in large caverns, allowing it to move rapidly.

Problems encountered in groundwater management include:

- Contamination
- Depletion
- Subsidence
- Insufficient recharge (replacement water gained through precipitation)
- Aquifer restoration

When the amount of water pumped from an aquifer over a period of time exceeds that which is returned through recharge, the groundwater is depleted and a vital natural resource may become nonrenewable due to the slow rate of recharge compared to the rate of pumping. Over-pumping can reduce stream flow, deplete surface-water supplies, and allow saltwater to enter freshwater supplies.

Laws and policies concerning groundwater vary widely by geographical location. The US Environmental Protection Agency (EPA) is responsible for federal regulation of groundwater quality. The US Geological Survey has compiled the largest database on groundwater conditions in the nation. Soil and water conservation districts are another source of information on groundwater management and often provide technical assistance upon request.

Although water resources are not an issue in many parts of the country, they are a major concern in others, and regulations and restrictions regarding usage rights are stringently enforced. Some sections of the country require permits prior to using water and impose substantial fines for violating the law. Therefore, investigate state and local restrictions to learn about any impact on FDIC- and borrower-owned property.

Oil and Gas Rights

Oil and natural gas rights extend vertically downward from the property line. Unless explicitly separated by a deed, oil and gas rights are owned by the surface landowner. After oil and gas rights are severed from surface ownership, they may be bought, sold, or transferred like other real estate property. Oil and gas rights offshore are owned by either the state or the federal government and leased to oil companies for development using one of the following:

- **Mineral interest** – Consists of a fee simple ownership interest in oil and natural gas products under a parcel of property, including the exclusive right to explore for, develop, and produce oil and gas from the property. Because most minerals are found below the land surface, refer to mineral rights as subsurface rights to distinguish them from surface rights, such as land ownership and the right to use the surface for agricultural purposes, urban development, etc. Mineral rights are also sometimes referred to as the mineral estate and surface rights as the surface estate. The mineral interest owner has the right to grant oil and gas leases.
- **Leasehold working interest** – Provides the owner, or “lessee,” with the right to drill, produce, and conduct operating activities on the property, as well as pay all operating expenses in return for a share of a property's production. Additionally, when a working interest property has reached the end of its economic life, the working interest owner is responsible for the plugging and abandonment costs associated with the depleted oil or gas well.
- **Royalty interest** – An oil and natural gas property that entitles the owner (i.e., the “lessor”) to a share of oil and natural gas production free of operating costs, and plugging and abandonment costs.
- **Overriding royalty interest** – A royalty interest carved out of the lessee’s leasehold working interest. After the lessee abandons the leasehold interest – that is, plugging and abandonment of a depleted oil or gas well – the associated overriding royalty interest is terminated.

Severance by mineral reservation occurs when a party owning both surface rights and mineral rights sells or grants by deed the surface rights of the property but retains all or a portion of the mineral rights. Historically, severance of minerals by mineral reservation has been widely practiced by federal and state governments, land-grant railroads, and lending institutions, as well as individuals. Mineral reservations are recorded with the county register of deeds and are included in any abstract of title to the land involved.

Occasionally, the FDIC is unaware of a severed mineral interest, or a mineral interest used as collateral by an institution prior to failure, concurrent with the sale of the “surface ORE” associated with the aforementioned mineral interest. The land-man who works for an oil and gas exploration company, which is the lessee, notifies the FDIC (usually by mail or phone) of “the discovered mineral interest” seeking to lease it. The mineral reservation appears in county courthouse records when run sheets (lists) are generated to inform an oil and gas company of who the owners are and what they own. Handle these discovered oil and gas mineral assets the same way as other assets originating from the failed institution’s books.

SUMMARY

Just as there is no single retail activity or loan in a bank, there is no single agricultural operation. Similarly, as a bank does business with enterprises having different busy and slow seasons during the year, agricultural operations vary as to the level of activity during their production and cash cycles. A critically important characteristic of agricultural livestock and crop loans that makes them different from other loans is the potential for the receivership to find itself responsible for the care and feeding of livestock and tending of crops. Receivership staff has a pressing need to obtain facts about the failed bank's agricultural loans, assess the information, and then take action to ensure the safety and care of livestock, while also moving toward liquidating assets and closing the receivership. Also, as receivership staff members evaluate agriculture loans, they must recognize the commonalities to non-agriculture loans, such as mineral rights and other intangibles.

IX. Glossary

Absorption - the passage of liquid and digested (soluble) food across the gut wall.

Aquifer - a geological formation capable of transmitting water through its pores at a rate sufficient for water supply purposes; usually saturated sands, gravel, fractures, caverns, or vesicular rock.

Arid - a term applied to regions or climates where lack of sufficient moisture severely limits growth and production of vegetation.

Baby beef - young slaughter beef animals that weigh approximately 1,000 lbs and are well finished at about a year of age.

Balanced ration - the daily food that provides all required nutrients in proper proportion for normal health, growth, reproduction, lactation, maintenance, or work.

Baldy - a black, white-faced bovine produced by crossbreeding a Hereford and Angus.

Bangar - a slang term referring to an animal which has brucellosis.

Bangs - see brucellosis.

Barrow - a young castrated male hog.

Basis - the price difference between the cash market and the nearest futures contract. New crop basis is the difference in price between your local new crop cash bid and the nearest futures option to the harvest time-period.

Beef Cattle - bovine raised for meat consumption only.

Beef forequarter - the front half or section of a side of beef that includes ribs 1 through 12, includes chuck or shoulder section, brisket, shank, and plate.

Beef hindquarter - the back half or section of a side of beef, includes the round, loin, flank, and kidney.

Belly (pork) - lower side(s) of a hog remaining after the loin and spareribs have been removed; the source of bacon.

Bitting - the process and procedures involved with accustoming the horse to the bit and conditioning him to yield to pressure transmitted through it.

Blemish - any defect or injury that mars the appearance of, but does not impair the usefulness of, an animal.

Bloat - a marked distension of the rumen and reticulum with gasses. It is seen as an enlargement of the left side of the abdomen.

Boar - a mature male hog held for breeding purposes.

Bog spavin - a soft enlargement of the anterior, inner aspect of the hock.

Bolus - 1) regurgitated food, or 2) a large pill for dosing animals.

Bone spavin - a bony (hard) enlargement of the inner aspect of the hock.

Boston butt - upper part of a pork shoulder.

Bovine - pertaining to, or derived from, ox, cow, or heifer; hollow-horned animals.

Breech - the buttocks. A breech presentation at birth is one in which the rear portion of the fetus is presented first.

Breeding flock - those ewes and rams kept for reproduction, also the birds used to produce the young hens (pullets) that will become part of the laying flock.

Bridle path - the closely clipped area of the horse's mane (3" to 6") lying directly behind the poll and ears. The area is clipped to allow the poll strap or crownpiece of the halter or bridle to lie smoothly in place without ruffling the mane.

Broiler - a young chicken of either sex (usually 9 to 12 weeks of age) that has tender-meat, smooth-textured skin, and flexible breastbone cartilage.

Broodiness - the desire of a female bird to sit on eggs (incubate). Exhibiting those qualities is deemed desirable for good reproduction. Female characteristics of mature animals relating to reproduction and mothering ability.

Brucellosis - a disease of the reproductive tract in cattle, sheep, goats, and swine that generally causes abortions.

Buck - a male sheep, goat, or rabbit. This term usually denotes animals of breeding age.

Bull - a mature un-castrated male bovine (beef or dairy) animal held breeding purposes.

Bullock - young bull beef.

Calf - a young animal that has not reached sexual maturity (usually between 3 and 8 months of age).

Cancer eye - a malignant tumor composed chiefly of epithelial cells in the eye.

Canner - lowest USDA grade designation for beef. Not sold at retail. Used primarily in canned meats, sausage, and ground meat.

Canter - a slow easy gallop.

Capon - a male chicken castrated before reaching sexual maturity capped hocks - hocks that have hard growths that cover, or “cap”, their points.

Carcass - the two sides of the same slaughtered animal with or without the kidneys and after other viscera, hide, head, feet, and tail are removed.

Carcass merit - the value of a carcass for consumption.

Carrying charge - the cost of carrying or holding a commodity from month to month (interest, insurance, storage, etc.).

Castrate - to physically remove the testicles.

Cattle guard - a structure used in lanes, driveways, or roads that prevents cattle from crossing but allows vehicles to move over it. Cattle guards are made of concrete, wood, or metal with rails spaced over a pit, so as to discourage livestock from crossing.

Chestnuts - the horn-like growth on the inside of the legs of the horse. They occur above the knees and below the hocks. They are thought to be the remnants of a fourth or fifth toe from the ancestral horse. Also called gallosities or night eyes.

Chevon - the meat of goats. At its best, it should be the meat from a weanling or yearling animal.

Chick - a young chicken of either sex.

Choice - USDA grade designation below prime for beef, veal, and lamb.

Cockerel - a young male chicken from about 10 weeks to 8 months of age.

Colic - acute abdominal pain.

Colostrum - the first milk secreted by a female following delivery of her young. It is high in antibodies that give the young protection from invading microorganisms.

Colt - a young male of the horse or donkey species.

Commercial - one of the lower USDA grade designations for beef; usually sold as ground meat.

Commercial feedlot - a high-nutrient feeding operation with a one-time capacity of 1,000 head or more. Some commercial feedlots can hold up to 100,000 head of cattle at a time. Commercial feedlots typically purchase both feeder cattle and feed in the cash market and then feed the cattle to slaughter weight. Commercial feedlots may or may not own the cattle being fed (see custom feeding).

Contract grower - a farm that has a contract to produce or grow out young birds for an integrated broiler company. The company generally provides young chicks, feed, and medication. Contracts generally specify a base price plus premiums for efficient performance.

Contracted heels - a condition in which the heels of a horse are pulled in so that expansion of the heel when the foot strikes the ground cannot occur.

Cow - a mature female bovine (beef or dairy) animal that has calved.

Cow/calf operation - a cattle breeding enterprise that markets young animals 180 to 360 days after weaning at weights ranging from 575 to 800 pounds.

Cow hocks - a condition in which the hocks are close together but the feet stand apart.

Cow/yearling operation - a grass-rich cattle breeding enterprise that markets young animals 180 to 360 days after weaning at weights ranging from 575 to 800 pounds.

Creep - an enclosure surrounded by a fence through which large animals cannot pass, in which food for young animals is placed.

Cribber - a horse or pony that has the bad habit (vice) of biting or bracing his front teeth against some object while sucking air. Also known as wind sucking.

Crossbreeding - a term generally used to mean the crossing of two breeds of farm animals. It sometime denotes the crossing of breeds or species of animals.

Cull - to eliminate from the breeding herd or prevent from leaving genes in the population.

Cull Cows - an inferior mature female bovine that can not be used for milking due to health issues or inability to produce milk at a volume to justify cost.

Curb - a hard swelling that occurs just below the point of the hock.

Custom feeding - the feeding service provided by commercial feedlots to owners of feeder cattle who are not involved in the ownership of the feedlot.

Cut-out - quantity of saleable meat obtained from a wholesale cut.

Cutter - second lowest USDA grade designation for beef; used in canned meat, sausage, and ground meat.

Cutting chute - a narrow chute that allows animals to go through in single file with gates such that animals can be directed into pens along the side of the chute.

Dairy Cattle - may be milk cows, cull cows or dry cows.

Dam - a female parent.

Dock - 1) to cut off the tail, 2) the remaining portion of the tail of a sheep that has been docked.

Doe - a female goat or rabbit.

Dressing percentage - the percentage of the live animal that becomes the carcass at slaughter, after chilling. It is determined by subtracting the losses due to removal of blood, hide, and intestines from live-animal weight, dividing that quantity by live-animal weight, and multiplying by 100.

Dry cow - a cow that is not presently producing milk. She may or may not be pregnant.

Dry period - a designated time within the year that a cow is not milked (usually 60 days).

Essential nutrient - a nutrient that cannot be synthesized by the body, but must be supplied in the ration.

Estrous - an adjective meaning "heat." which modifies such words as "cycle." the estrous cycle is the heat cycle. Or time from one heat to the next. The Americanized term is estrual (see estrus).

Estrus - the period of mating activity in the female mammal. The time when the female has a strong sexual urge. It is also called heat.

Ewe - a sexually mature female sheep. A ewe lamb is a female sheep, less than 1 year old, which has not reached sexual maturity.

Exotic animal – a rare or unusual animal, often non-indigenous to the locale.

Fallow - land plowed but left unseeded during a growing season.

Farmer feedlot - an on-farm, high-nutrient feeding operation with a one-time capacity of less than 1,000 head. Farmer feeders take weaned or yearling cattle and finish them to market weight on grains produced primarily on the farm.

Farrow - the act of giving birth to a litter of pigs. The average litter size is about seven to ten pigs. Sows and gilts give birth.

Farrow-to-finish operation - an operation in which gilts and sows are bred, farrowed, and the litters of pigs are fed to market weight. Contrast with feeder-pig operations that produce and sell feeder pigs and finishing operations that purchase feeder pigs and raise them to market weight.

Fats - see finishing cattle.

Federally inspected slaughter - required and provided at government expense for all packing plants from which meat or meat products move in interstate trade. Federal inspectors examine animals before slaughter, supervise sanitation during slaughtering and processing. Inspect carcasses and internal organs for disease and certify carcasses and products as to wholesomeness.

Feed bunk - a manger for providing feed, usually hay, silage, grain or some combination thereof, to cattle, sheep, goats, or horses.

Feeder calf - a calf that is purchased to go directly into the feedlot.

Feeder cattle grading - grades introduced in 1979 based on frame size and thickness. Frame size relates to the end weight normally required before an animal can be expected to grade choice. Thickness is related to yield, rib eye size, and muscle-to-bone ratio.

Feeder pig - a young hog, approximately 6 to 8 weeks old, commonly 40 to 80 lbs. in weight.

Feedlot - a lot in which animals on a finishing ration are kept. Confinement facilities that are primarily used to grow and fatten cattle for slaughter to eventually become hamburger or steaks.

Feedlot Cattle - usually cattle being fattened for slaughter but may be young heifers being fed to prepare for the milking stage of their life.

Feedlot Sheep - sheep being fatten for slaughter.

Fetlock - a projection on the lower part of the leg of a horse or related animal, above and behind the hoof.

Filly - a young female horse.

Finish - the degree of fatness of an animal.

Finishing cattle - the finishing of cattle is the laying on of fat. Fattening fats.

Fistula - a running sore at the top of the withers of a horse, resulting from a bruise followed by invasion of microorganisms.

Fleece - the wool from all parts of a sheep.

Flushing - having females fed to gain condition for stimulating greater rates of ovulation and conception.

Foal - a young male or female horse.

Foal heat - heat that occurs in a mare 5 to 7 days following the birth of her foal.

Forage land - pasture upon which cattle graze.

Forging - the striking of the heel of the front foot with the toe of the hind foot by a horse in action.

Forward contract - agreement between two parties that specifies grade and amount of product to be delivered at a specific time-period and price level in the future.

Founder - to overeat to the point that illness results. Foundering results in laminitis, a condition in which the hoof grows unusually rapidly.

Freshen - to give birth to young and initiate milk production. This term usually used with reference to dairy cattle.

Fused teats - teats that are close together or, often, joined together on one side.

Futures contract - an agreement to make or take delivery of a specified quantity and grade of a commodity during the designated month, with the price established by open outcry in the trading pit.

Gallop - a three-beat gait in which each of the two front feet and both of the hind feet strike the ground at different times.

Gelding - a male horse that has been castrated.

Genotype - the genetic constitution, or makeup, of an individual. For any pair of alleles, three genotypes (AA, Aa, and aa) are possible.

Gestation - the time from breeding of a female until she gives birth to her young.

Gilt - an immature female hog either un-bred or one that has not been bred long enough to show signs of pregnancy.

Good - USDA grade designation below choice for beef, veal, and lamb.

Grade - meat grades. Ranked from most desirable to least. Desirable, are as follows:

- prime
- choice
- good

- standard
- commercial
- cutter
- canner

Prime through good are used to grade lamb.

Prime through standard are used to grade feedlot meat.

Standard through canner are used to grade cow beef.

Granulation tissue - small, rounded clumps of tissue which grow outward to heal or fill a wound site. Sometimes referred to as proud flesh, granulation tissue is richly vascularized and full of connective tissue cells.

Ground-water - water that occurs beneath the earth's surface that fills or saturates the voids of porous earth material or cracks in rocks.

Growing out - developing a young animal to larger size.

Half-sib - a half-brother or half-sister. Animals that are half-sibs usually have the same sire but different dams.

Ham - cured and smoked meat from the hind leg of pork. Excluding the shank.

Hand mating - bringing a female to a male for service (breeding) after which she is removed from the area where the male is located.

Hatchery - an operation where eggs are collected and placed in incubators in order to produce baby chicks.

Hatchery supply flock - the flock of hens, aged 6-18 months and roosters responsible for producing the fertile eggs from which will emerge the baby chicks destined to become broilers or layers.

Heaves - a respirator defect in horses in which the animal has difficulty completing the exhalation of air.

Hedging - initiating a position in the futures market in an equal and opposite side from that which you hold in cash. A transfer of risk.

Heifer - a young female bovine (beef or dairy) animal that has not yet produced a calf.

Hen - an adult female domestic fowl, such as a chicken or a turkey.

Herbivorous - subsisting or feeding on plants.

Hernia - the protrusion of some of the intestine through an opening in the body wall (also commonly called rupture). There are two types: umbilical and scrotal. Occur in farm animals.

Heterosis - increase vigor or capacity for growth arising from the crossbreeding of genetically different plants or animals.

Hide and offal/drop - skins, fat, bone, blood, hair, and other non-meat slaughtering by-products sold for use in making leather, soap, animal feed, camera film, pharmaceuticals and other manufactured products.

Hobble - to tie the front legs of an animal together. Or to tie the hind legs to a rope run between the front legs and over the shoulder. An animal is hobbled to prevent it from kicking.

Hocks - the joint on the back leg between the pasterns and pelvic joint.

Hot weight - weight of a carcass before it is chilled.

Hutch - a pen for small animals such as rabbits.

Hybrid - 1) a heterozygous individual, or 2) an offspring of genetically alike parents. Some animal breeders use "hybrid" to refer to an individual coming from a cross of two lines. Two breeds or two species.

Hybrid vigor - the added vigor of crossbreeds over their straight bred parents (see heterosis).

Implantation - 1) the embedding of an embryo in the lining of the uterus, 2) the transfer of, or the grafting of, parts in an animal.

Inbreeding - the mating of individuals who are more closely related than the average individuals in a population. Inbreeding increases homozygosity in the population but it does not change gene frequency.

Incubation period - the time that elapses from the time an egg is placed in an incubator until the young is hatched.

Index - 1) an overall merit rating of an animal, 2) a method of predicting the milk-producing ability that a bull will transmit to his daughter.

Inheritance offspring - The transmission of genes from parents to offspring.

Integrator - an entity that organizes and owns or controls several broiler operation units. Integrated operation generally involves different functions including the hatchery, the broiler growout, feed production and the processing, packing and marketing of ready-to-cook broilers. Also applies to layers and turkey operations.

Inverted nipple - a condition in which the teat or nipple turns into the gland canal instead of protruding.

Kid - a young goat.

Lactation - the secretion and production of milk.

Lamb - 1) a young male or female sheep, usually less than 10 months of age, or 2) to deliver or give birth to a lamb.

Lambing jug - a small pen in which an ewe is put for lambing. It is also used for containing the ewe and her lamb until the lamb is strong enough to run with other ewes and lambs.

Lanolin - the fat-like substance contained in wool. It is water soluble and imparts the grease-like or smooth feeling present in wool and on your hands after handling wool.

Layer - one that lays, especially a hen.

Lean cutability - the amount of trimmed lean retail cuts that can be obtained from carcass. Usually expressed as a percentage.

Legume - any plant of the family leguminosae, such as pea, bean, alfalfa, and clover.

Lethal gene - a gene (or genes) that causes death of the young prior to, or shortly following birth. Delayed lethal genes are those that cause death of the individual later in life. Partial lethals cause a condition to exist which may result in death if certain conditions are present.

Line crossing - the crossing of inbred lines.

Litter - the young produced by such multiparous females as mink, swine, and rabbits. The young in a litter are called litter mates.

Livestock - animals usually produced for human consumption or producing products for human consumption; include cows, bulls, sheep, goats, pigs or buffalos.

Loin - cuts from the animal's back between the ribs and the hip. Palatability - characteristics of the lean; "eatability," picnic shoulder - lower or shank part of a pork shoulder. Primal cut any of the major wholesale cuts: round, full, loin (or short loin and sirloin), rib, and square cut chuck.

Long - buying futures without having offsetting short positions. When buying long, the buyer benefits from the market going up.

Mane - the long hair on the top of the neck of a horse.

Marbling - the distribution of fat in muscular tissue.