FACT SHEET

UNITED STATES DEPARTMENT OF AGRICULTURE
FARM SERVICE AGENCY

October 2013

Farm Loans

Overview

The U.S. Department of Agriculture's Farm Service Agency (FSA) makes and guarantees loans to family farmers and ranchers to promote, build and sustain family farms in support of a thriving agricultural economy. FSA maintains its headquarters in Washington, DC, with offices located in each state, usually in a state capital or near a state land-grant university, as well as in most agriculturally productive counties. Farmers may apply for direct loans at local FSA offices. Guaranteed loans may be available from commercial lenders who apply for loan guarantees from FSA. Although general information may be obtained from headquarters and state offices, all programs are administered through local offices.

The goal of FSA's farm loan programs is to graduate its borrowers to commercial credit. Once a farmer is able to obtain credit from the commercial lending sector, the Agency's mission of providing temporary, supervised credit is complete.

FSA Farm Loans

FSA's loan programs are designed to help family farmers to start, purchase or expand their farming operation. In many cases, these are beginning farmers who need additional financial and business acumen to qualify for commercial credit. In other cases, they are farmers who have suffered financial setbacks from natural disasters, or who need additional resources with which to establish and maintain profitable farming operations.

Some farmers obtain their credit needs through the use of loan guarantees. Under a guaranteed loan, a commercial lender makes and services the loan, and FSA guarantees it against loss up to a maximum of 90 percent in most cases. In certain limited circumstances, a 95 percent guarantee is available. FSA has the responsibility of approving all eligible loan guarantees and providing oversight of lenders' activities.

For those not yet meeting the qualifications for a loan guarantee from a commercial lender, FSA also makes direct loans, which are serviced by an FSA official. FSA has the responsibility of providing credit counseling and supervision to its direct borrowers by making a thorough assessment of the farming operation. FSA helps applicants evaluate the adequacy of the real estate and facilities, machinery and equipment, financial and production management, and the applicant's goals. FSA assists the applicant in identifying and prioritizing areas needing improvement in all phases of the operation. An FSA official then works one-on-one with the applicant to develop and to help strengthen the identified areas that ultimately result in the applicants graduation to commercial credit.

Unlike FSA's commodity loans, most farm loans must be fully secured and can only be approved for those who have repayment ability.

Farm Ownership Loans

Eligible applicants may obtain direct loans up to a maximum indebtedness of $300,000. Maximum indebtedness for guaranteed loans is $1,355,000 (amount adjusted annually for inflation). The maximum repayment term is 40 years for both direct and guaranteed farm ownership loans. In general, loan funds may be used to purchase a farm, enlarge an existing farm, construct new farm buildings and/or improve structures, pay closing costs, and promote soil and water conservation and protection.

Farm Operating Loans

Eligible applicants may obtain direct loans for up to a maximum indebtedness of $300,000 and a direct operating Microloan for up to a maximum indebtedness of $35,000. Maximum indebtedness for a guaranteed loan is $1,355,000 (amount adjusted annually for inflation). The repayment term may vary, but typically it will not exceed seven years for intermediate-term purposes. Annual operating loans are generally repaid within 12 months or when the commodities produced are sold. In general, loan funds may be used for

normal operating expenses, machinery and equipment, minor real estate repairs or improvements, and refinancing debt.

Targeted Funds to Socially Disadvantaged and Beginning Farmers

Each year Congress targets a percentage of farm ownership and farm operating loan funds to socially disadvantaged (SDA) and beginning farmers. For more information, refer to the FSA Fact Sheet, "Loans for Socially Disadvantaged Farmers."

Downpayment Program

FSA has a special loan program to assist SDA and beginning farmers in purchasing a farm. Retiring farmers may use this program to transfer their land to future generations.

To qualify:

■ The applicant must make a cash down payment of at least 5 percent of the purchase price.

■ The maximum loan amount does not exceed 45 percent of the least of (a) the purchase price of the farm to be acquired; (b) the appraised value of the farm to be acquired or; (c) $500,000 (Note: This results in a maximum loan amount of $225,000).

■ The term of the loan is 20 years. The interest rate is 4 percent below the direct FO rate, but not lower than 1.5 percent.

■ The remaining balance may be obtained from a commercial lender or private party. FSA can provide up to a 95 percent guarantee if financing is obtained from a commercial lender. Participating lenders do not have to pay a guarantee fee.

■ Financing from participating lenders must have an amortization period of at least 30 years and cannot have a balloon payment due within the first 20 years of the loan.

Rural Youth Loans

These are available as direct loans only and have a maximum loan amount of $5,000. Rural youth loans may be made to individuals who are sponsored by a project advisor, such as a 4-H Club, FFA or local vocational instructor. Individuals must be at least 10 but not more than 20 years old to be eligible and reside in a town or city with a population of 50,000 or fewer people.

Emergency Loans

These loans are available only as direct loans from FSA. Emergency Loans assist farmers who have suffered physical or production losses in areas declared by the President as disaster areas or designated by the Secretary of Agriculture as disaster or quarantine areas (for physical losses only, the FSA Administrator may authorize Emergency Loan assistance). For production loss loans, applicants must demonstrate a 30 percent loss in a single farming enterprise. Applicants may receive loans up to 100 percent of production or physical losses.

Loan purposes include operating and real estate, restoring/replacing essential property, production costs for disaster year, essential family living expenses, reorganization and refinancing certain debts.

The maximum indebtedness under the Emergency Loan program is $500,000.

Conservation Loans

Conservation loans are available as guaranteed loans only. Eligible applicants may use Conservation Loan funds to complete any conservation activity included in a conservation plan or Forestry Management Plan, and may be used to refinance debts related to implementing any conservation activity if refinancing will result in additional conservation benefits. Maximum indebtedness is $1,355,000 (amount adjusted annually for inflation) and the maximum repayment term is 30 years.

Note: The family farm and test for credit requirements are not applicable to Conservation Loans.

Land Contract Guarantees

These provide certain financial guarantees to the seller of a farm through a land contract sale to a beginning or socially disadvantaged farmer. The seller may request either of the following:

Prompt Payment Guarantee: A guarantee up to the amount of three amortized annual installments plus the cost of any related real estate taxes and insurance.

Standard Guarantee: A guarantee of 90 percent of the outstanding principal balance under the land contract.

The purchase price of the farm cannot exceed the lesser of (a) $500,000 or (b) the market value of the property. The buyer must provide a minimum down payment of five percent of the purchase price of the farm. The interest rate is fixed at a rate not to exceed the direct FO loan interest rate in effect at the time the guarantee is issued, plus three percentage points. The guarantee period is 10 years for either plan regardless of the term of the land contract. The contract payments must be amortized for a minimum of 20 years. Balloon payments are prohibited during the 10-year term of the guarantee.

Loan Servicing and Supervised Credit

FSA's mission is not limited to providing just credit - it is to provide supervised credit. This means that FSA works with each direct loan borrower to identify specific strengths and opportunities for improvement in farm production and management, and then works with the borrower on alternatives and other options to address the areas needing improvement to achieve success. Learning improved business planning and financial acumen through supervised credit is the difference between success and failure for many farm families.

To help keep borrowers on the farm, FSA may be able to provide certain loan servicing benefits to direct loan borrowers whose accounts are distressed or delinquent due to circumstances beyond their control. These benefits include:

■ Reamortization, rescheduling, and/or deferral of loans;

■ Rescheduling at the Limited Resource (lower interest) rate;

■ Acceptance of conservation contracts on environmentally sensitive land in exchange for reduction of debt; and
■ Writing down the debt (delinquent borrowers only).

If none of these options results in a feasible farm operating plan, borrowers may be offered the opportunity to pay off their debt at the current market value of the security. If this is not possible, other options include:

■ Debt settlement based on inability to repay.

■ In some cases, where a feasible operating plan cannot be developed, FSA works with commercial lenders to help the borrower retain the homestead and up to 10 acres of land.

Farms that come into FSA ownership are sold at market value, with preference given to SDA and beginning farmers.

Who May Borrow

To qualify for assistance, applicants must meet all loan eligibility requirements including:

■ Be a family farmer;

■ Have a satisfactory history of meeting credit obligations;

■ For direct OL loans, have sufficient education; training, or at least 1-year's experience in managing or operating a farm or ranch within the last 5 years. For direct FO loans, all applicants must have participated in the business operations of a farm for at least three years out of the 10 years prior to the date the application is submitted;

■ Be a citizen of the United States, including Puerto Rico, the U. S. Virgin Islands, Guam, American Samoa, Commonwealth of the Northern Mariana Islands, Republic of Pallau, Federated States of Micronesia and the Republic of Marshall Islands, a U.S. non-citizen national, or a qualified alien under federal immigration law;

■ Be unable to obtain credit elsewhere at reasonable rates and terms to meet actual needs;

■ Possess legal capacity to incur loan obligations;

■ Not be delinquent on a federal debt;

■ Not have caused FSA a loss by receiving debt forgiveness (certain exceptions apply) and;

■ Be within the time restrictions as to the number of years they can receive FSA assistance.

In the case of an entity, certain eligibility requirements apply. The entity must:

■ Meet applicant eligibility requirements;

■ Be authorized to operate a farm in the state where the actual operation is located and;

■ Be owned by U.S. citizens, U.S. non-citizen nationals or qualified aliens.

For SDA members, they must hold a majority interest in the entity applicant to receive SDA benefits.

If the individuals holding a majority interest in the entity are related by blood or marriage, at least one member or partner must operate the family farm. If they are not related by blood or marriage, the member holding a majority interest must operate the farm.

For More Information

Additional information may be obtained at local FSA offices or through the FSA website at www.fsa.usda.gov.

The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, age, disability, and where applicable, sex, marital status, familial status, parental status, religion, sexual orientation, political beliefs, genetic information, reprisal, or because all or part of an individual's income is derived from any public assistance program. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice and TDD). To file a complaint of discrimination, write to USDA, Assistant Secretary for Civil Rights, Office of the Assistant Secretary for Civil Rights, 1400 Independence Avenue, S.W., Stop 9410, Washington, DC 20250-9410, or call toll-free at (866) 632-9992 (English) or (800) 877-8339 (TDD) or (866) 377-8642 (English Federal-relay) or (800) 845-6136 (Spanish Federal-relay). USDA is an equal opportunity provider and employer.