UNITED STATES DEPARTMENT OF AGRICULTURE
FARM SERVICE AGENCY

FARM LOANS

FACT SHEET

December 2016

Guaranteed Loan Program

OVERVIEW

The U.S. Department of Agriculture (USDA) Farm Service Agency (FSA) issues and guarantees loans to family farmers, ranchers and livestock producers to promote, build and sustain family agricultural operations. Qualified agricultural producers can apply for loans directly from FSA (known as direct loans), or from FSA-approved commercial lenders whereby FSA guarantees the loan against a loss (known as guaranteed loans).

FSA guaranteed loans provide lenders (such as banks, Farm Credit System institutions, credit unions) with a guarantee of up to 95 percent of the loss of principal and interest on a loan. Farmers and ranchers apply to an agricultural lender, which then arranges for the guarantee. The FSA guarantee permits lenders to make agricultural credit available to farmers who do not meet the lender's normal underwriting criteria.

FSA guaranteed loans are for both farm ownership and farm operating purposes. A percentage of FSA guaranteed loan funds are targeted to new farmers and ranchers and minority applicants.

LOAN PURPOSES

GUARANTEED OWNERSHIP LOANS

Guaranteed Farm Ownership (FO) Loans may be made to purchase farmland, construct or repair buildings and other fixtures, develop farmland to promote soil and water conservation or to refinance debt.

GUARANTEED OPERATING LOANS

Guaranteed Operating Loans (OL) may be used to purchase livestock, farm equipment, feed, seed, fuel, farm chemicals, insurance and other operating expenses. The loans also can be used to pay for minor improvements to buildings, costs associated with land and water development and family living expenses, and to refinance debts under certain conditions.

MAXIMUM LOAN SIZE

FSA can guarantee these loans up to $1,399,000 (amount adjusted annually based on inflation).

BORROWER ELIGIBILITY

To qualify for an FSA guarantee, a loan applicant must:

- Be a citizen of the United States (or legal resident alien), which includes Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa and certain former Pacific Trust Territories;
- Have an acceptable credit history as determined by the lender;
- Have the legal capacity to incur the obligations of the loan;
- Be unable to obtain a loan without a guarantee;
- Not have caused FSA a loss by receiving debt forgiveness on more than three occasions on or prior to April 4, 1996; or any occasion after April 4, 1996;
- Be the owner or tenant operator of a family farm after the loan is closed. For an OL, the applicant must be the operator of a family farm after the loan is closed. For an FO loan, the applicant needs to also own the farm; and
- Not be delinquent on any federal debt.

Entities (corporations, cooperatives, joint operations, partnerships, trusts and limited liability companies) and their members/stockholders must meet these same eligibility requirements. The entity must also be authorized to operate a farm or ranch in the state where the land is located.

WHAT OTHER CRITERIA DOES FSA CONSIDER?

In addition to meeting the eligibility criteria, the loan applicant must have a satisfactory credit history, demonstrate repayment ability and provide sufficient security for the loan.

IF THE APPLICANT QUALIFIES, WHAT NEXT?

The following actions are usually taken as part of the application process:

- The applicant and lender complete the guaranteed application and submit it to FSA (FSA will assist if needed);
- FSA reviews the application for eligibility, repayment ability, security and compliance with other regulations;
- FSA approves and obligates the loan;
- The lender receives a conditional commitment indicating funds have been set aside, and the loan may be closed;
- The lender closes the loan and advances funds to the applicant; and
- FSA issues the guarantee.

LOAN TERMS AND INTEREST RATES

Repayment terms vary according to the type of loan made, the collateral securing the loan and the producer's ability to repay. OLs are normally repaid within seven years and FO loans cannot exceed 40 years.

The guaranteed loan interest rate and payment terms are negotiated between the lender and the applicant. Interest rates on these loans may not exceed the maximum rates established by FSA. In addition, under the Interest Assistance Program*, FSA will subsidize 4 percent of the interest rate on loans to qualifying borrowers.

***Note:** At this time, there is no funding for interest assistance.

SECURITY

Each loan must be adequately secured. Collateral for OLs consists of a first lien on crops to be produced and on livestock and equipment purchased or refinanced with loan funds. A lien may be taken on certain other chattel and real estate property, and an assignment usually will be taken on income such as that from a dairy enterprise. Collateral for FO loans consists of real estate only or a combination of real estate and chattels. FSA staff determines whether the collateral proposed by the lender is adequate.

IS THIS THE LENDER'S LOAN OR AN FSA LOAN?

Guaranteed loans are the property and responsibility of the lender. The lender makes the loan and services it to conclusion. If successful, the borrower is able to repay the loan and no taxpayer money will be used except for administrative expenses. If a loan fails, and the lender suffers a loss, FSA will reimburse the lender with federal funds according to the terms and conditions specified in the guarantee.

WHAT HAPPENS IF THE LOAN BECOMES DELINQUENT OR THE BORROWER DEFAULTS?

The lender must notify FSA when a borrower is 30 days overdue on a payment and is unlikely to bring the account current within 60 days, or if a loan is otherwise a problem. Lenders are encouraged to work with the borrower to resolve any problems.

PERCENT OF GUARANTEE

For most loans, the maximum guarantee is 90 percent. The guarantee percentage will be determined by FSA based on the risk involved in the loan. The lender may receive a 95 percent guarantee when:

- The purpose of the loan is to refinance direct FSA farm loan program debt. If only a portion of the loan is for this purpose, a weighted percentage of guarantee will be used; or
- The loan is made to a beginning farmer to participate in the beginning farmer down payment loan program or a qualifying state beginning farmer program.

GUARANTEE FEES

For most loans, FSA charges a guarantee fee of 1.5 percent of the guaranteed portion of the loan.

This fee may be passed on to the borrower. The guarantee fee is waived for:

- Interest assistance loans;
- Loans where more than 50 percent of the loan funds are used to pay off direct FSA loan debt; or
- Loans in conjunction with an FO loan down payment program for beginning farmers or a qualifying state beginning farmer program. This fee waiver does not extend to all beginning farmers.

SECONDARY MARKET

The secondary market for USDA guaranteed loans is a key feature of the guaranteed lending program. The lender may resell the guaranteed portion of the loan to an interested party. The interested party then becomes the holder of the loan, but the original lender must retain the loan servicing responsibilities. Investors who are looking for safe investments with a reasonable return are attracted to these loans because of the government's full faith and credit guarantee against default. The existence of the secondary market makes guaranteed loan notes more liquid. By reselling the guaranteed portions, lenders reduce interest rate exposure, increase their lending capabilities and generate fees.

ADVANTAGES OF USING THE SECONDARY MARKET

The existence of the secondary market is a strong inducement for lenders to become involved in guaranteed lending. Selling the guaranteed portion of the loan to other investors offers a number of advantages, including:

- **Reduced Interest Rate Risk.** Lenders can transfer risk of interest rate increases on the guaranteed portion of a fixed rate loan;
- **Increased Liquidity.** Selling the loan on the secondary market frees the funds for additional lending or investing activity;
- **Increased Lending or Investing Capabilities.** Since the guaranteed portion of the loan is generally not applied against a bank's lending limit, it can be used to expand lending capabilities;
- **Increased Return on Investment.** The sale of the guaranteed portion of the loan in the secondary market increases the lender's overall return on investment. Each time a bank sells a guaranteed portion, it generally retains a servicing fee; and
- **Rates and Terms.** Lenders may be able to offer the borrower more flexible repayment terms, as well as fixed and/or reduced interest rates to improve cash flow.

FOR MORE INFORMATION

This fact sheet is provided for informational purposes only; other details or restrictions may apply. For further information, visit **www.fsa.usda.gov/farmloans** or contact your local FSA office. To find your local FSA office, visit **http://offices.usda.gov**.