USDA

United States Department of Agriculture

Farm and Foreign Agricultural Services

Farm Service Agency

1400 Independence Ave, SW
Stop 0520
Washington, DC 20250-0520

Notice of Revised Guaranteed Loan Interest Rate Policy

Dear Lender:

I am pleased to inform you that on March 4, 2013, the Farm Service Agency (FSA) published the maximum interest rate interim rule in the Federal Register, which establishes new policies for determining the maximum interest rates charged on loans guaranteed by the Agency. This new rule becomes effective on May 3, 2013, but since the Agency is still interested in your input on this new rule, comments will continue to be accepted. We are inviting you to submit comments on this new rule until June 3, 2013. To view the interim rule and submit your comments, go to: http://www.regulations.gov/#!docketDetail;D=FSA-2008-0001 and click Guaranteed Farm Loans Maximum Interest Rates. Please include: RIN 0560-AH66, volume 78, March 4, 2013, and page 13999 in the comment.

The interim rule is designed to benefit lenders and producers alike. These new policies are part of our ongoing commitment to expand credit opportunities for our farmers and ranchers. Lenders have expressed a desire to see greater clarity in FSA's interest rate policy. At the same time, FSA seeks greater consistency with industry standards and other government agencies that administer similar programs. The improvements in the new rule will make FSA's interest rate policy clearer and compliance easier. The rule also insures that borrowers receive benefits from the guarantee by way of competitive interest rates.

The rule includes significant changes to the previous program regulations. First, it eliminates the term "average agriculture loan customer" and second, it establishes easily determined interest rates that can be charged a guaranteed borrower. The rule sets the maximum interest rate that may be charged on FSA guaranteed farm loans by tying the rate to your formal written risk-based pricing practice if you use one, in which case the rate must be at least one risk tier lower than the borrower would receive without the guarantee.

If you do not use a risk-based pricing practice, the maximum interest rate allowed will be tied to spreads over widely published indices. Specifically, if the interest rate is variable or fixed for less than 5 years, the interest rate charged the borrower cannot exceed 6.5% above the 3-month London Interbank Offered Rate (LIBOR). If the interest rate is fixed for 5 years or more, the interest rate charged the borrower cannot exceed 5.5% above the 5-year Treasury. If the 3-month LIBOR falls below 2 percent the maximum allowable spread for both indices will increase by 100 basis points.

Please be aware that you will not be required to change the indices you use to price your loans as long as the rate given the borrower does not fall above those outlined in the rule. Compliance to the new rule is required only on the day the guaranteed loan closes or on the day a guaranteed loan is restructured.

Over the last several years FSA has focused on clarifying and simplifying our policies and I hope you will find the new rule beneficial. FSA staff is available to answer any questions you might have concerning these new provisions.

I would like to thank you for your contributions and participation in FSA's guaranteed loan program. Working together, we will continue to serve this country's farmers and ranchers and transform FSA into an even more effective Agency.

Sincerely,

Chris P. Beyerhelm

Chris P. Beyerhelm
Deputy Administrator for
Farm Loan Programs