

Farm Service Agency

Direct Farm Operating Loan Program

American Samoa

Objective

The objective of the Farm Service Agency (FSA) direct operating loan program is to help existing and qualified beginning farmers establish themselves in small to medium scale commercial farming operations. Farmers are eligible for FSA financing only if commercial credit (excluding personal loans) is unavailable to them. FSA also provides credit counseling and oversight to its farm loan customers.

Who can qualify?

Loan applicants must meet FSA eligibility requirements, demonstrate the ability to repay the loan, and be able to provide collateral to secure the loan.

Eligibility requirements

- Must be a U.S. citizen, U.S. National, or an AA immigrant status resident who has a U.S. Passport or Green Card;
- Must be unable to obtain the needed credit from a private commercial lender (excluding personal loans) considering all assets and income they possess;
- Must be at least 18 years of age and be mentally competent;
- Must have no convictions for producing controlled substances;
- Must have training and education, or, recent and relevant on-the-job experience managing and operating a farm to demonstrate to FSA that he or she has the basic financial, production, and overall management skills to successfully carry out the agricultural enterprise;
- Must not be delinquent on any U.S. Federal debt. For example, USDA, Rural Development, Small Business Administration, or Dept. of Education loans;
- Must not have a previous loss with FSA;
- Must have an acceptable credit history;

- Must meet the definition of a *family farm* after a loan is made. A family farm under FSA regulations must generally meet the following criteria: The farm, plus any other dependable income, will provide enough money to meet payment obligations and pay living expenses. The farm will produce and sell enough agricultural commodities so that the local community would consider it a commercial farming operation, rather than a rural residence or subsistence operation. The applicant must manage the farm and the applicant and his or her family must show meaningful involvement in the operation of the farm. Applicants must at least actively manage the farm to qualify. FSA will evaluate each applicant's situation on a case-by-case basis.

Individuals ineligible for participation

These include (1) currently-serving elected or politically-appointed officials serving in the Executive, Legislative or Judicial branches of the American Samoa Government and their immediate family members living in the same household.

Corporate, cooperative & partnership applicants

Applicants applying as a corporation, cooperative, or partnership must meet the same eligibility criteria listed above, but must also:

- 1.) Be unable to obtain commercial credit taking into consideration the assets and income of the organization and its individual members.
2. Be an agricultural operation controlled and operated by eligible individuals. At least one member must actively operate/manage the farm.
- 3) The corporation, cooperative, or partnership must be legally recognized in

American Samoa and be authorized to operate in the jurisdiction where the farm is located.

Loan purposes

Examples include:

- Machinery and equipment;
- Livestock, including fish and other aquatic organisms;
- Annual operating expenses, such as feed, seed, fuel, fertilizer, repairs, etc.;
- Limited real estate improvements;
- Small-scale processing facilities to add value to a raw product; or
- Marketing expenses.

Examples of authorized agricultural enterprises

Many enterprises are eligible. Examples include vegetables, fruits, taro and other root crops, aquaculture/fish farming (except open water fishing), agroforestry, livestock, and herbs and medicinal plants.

Interest Rates and Repayment Terms

Interest rates vary from month to month. However, the lowest rate in effect at the time the loan is approved or closed will be used and then remain fixed for the life of the loan. Historically, interest rates have ranged from 3-8%

Loan repayment terms range from 1 to 7 years. The loan repayment term depends on the individual's repayment ability, the purpose of the loan, and the useful life of items being financed. Loans for annual operating expenses are repaid throughout the year as agricultural products are sold. An individual's FSA loan payments may be set-up on a monthly, quarterly, annual, or other schedule depending on when farm and non-farm income will be received.

Feasibility Requirements

- *Must be able to show repayment ability.* For existing farming operations, FSA uses the historical income and expenses of the operation (up to 5 years). When an applicant does not

have written records and historical income and expenses cannot be verified, applicants will be required to provide evidence that income and expense estimates are accurate. Production and income estimates may be checked by comparison with similar farms in the community, and through consultation with institutions such as the Dept. of Agriculture of American Samoa, USDA-Natural Resources Conservation Service, Land Grant College, and other reliable sources.

- *Must have definite marketing plan.* Loans can only be approved when applicants can demonstrate a demand for their product(s) and the ability to sell it.
- *Must provide collateral (machinery, equipment, motor vehicles) to secure the FSA loans. Loans for more than \$7,500 may require real estate as collateral if it is available. Co-signers may also be considered if collateral is not available.*
- *If the farming operation will degrade highly erodible soils or wetlands, the operator must adhere to a conservation plan developed by the USDA, Natural Resources and Conservation Service. Local environmental regulations may apply and could impact loan approval.*
- *The Development Bank of American Samoa must concur with the FSA loan approval decision. DBAS' concurrence or denial will normally be completed within 30 days of FSA loan approval.*

Application processing

FSA does not have a permanent Farm Loan Officer in American Samoa at this time. Applications will be processed by Hawaii-based Farm Loan Specialists with assistance from Mrs. Matesina Willis, who is the Pago Pago-based FSA Farm Program Technician. Visits to American Samoa will

be made as needed, typically monthly, to ensure as timely service as possible.

Applicants who do not have a business plan prepared or who lack basic recordkeeping and other basic financial skills may be referred first to the Small Business Development Center (SBDC) for technical training and education. Applicants will be asked to provide a copy of their tax returns for the previous three years.

When an individual has a reasonably well developed plan for the farm operation, including expected income, expenses, and use of loan funds, an FSA official will schedule an appointment to meet to assist them with the FSA loan application, determine their eligibility, inspect the farm, and review repayment ability and collateral.

Once an applicant's loan application has been completed --and if approved— the application must be reviewed by the Development Bank of American Samoa. The bank will normally make its concurrence decision within 30 days.

If the bank concurs with FSA, a formal loan closing and funds disbursement normally occurs within 30 days. If an applicant's request is denied because of FSA regulatory requirements, the applicant will be provided with appeal rights to the National Appeals Division (NAD), which is an independent office within USDA. The denied applicant may request a telephone, record review, or face-to-face hearing with a NAD Hearing Officer. If the loan cannot be made because DBAS does not concur with FSA, no appeal rights will be provided to the applicant.

Fees and Charges

At the time of application, individuals must pay FSA for the cost of obtaining a credit report, which is usually around \$5.

Applicants must also pay for the cost of document searches and/or recording costs with the Office of Motor Vehicles and Territorial Registrar's Office. The cost is about \$5 per document. The DBAS is

cooperating in the delivery of FSA's loan program in American Samoa and it will assess a guarantee fee to offset administrative costs. Applicants must pay a \$25 or 1% of the loan amount, whichever is greater. This fee must be paid at loan closing and FSA may include this amount in the loan on an as needed basis.

Funding

A total of \$50,000 is available for FSA loans under the agreement between FSA and DBAS. The maximum loan size is \$10,000 to a single individual. All loan amounts are derived from the applicant's need, which is based on the farm business plan.

In addition, the U.S. Congress appropriates funds to FSA for its operating loan program at the beginning of each fiscal year (October 1). Once exhausted, loan applications are accepted and approved subject to funding. Funds are made available to applicants by the date of receipt their application by FSA.

Credit counseling & oversight

Unlike regular commercial lenders, FSA will periodically visit its borrowers' farms and meet with them to review their record keeping, financial progress, discuss unexpected problems, offer advice, and inspect the condition of the crops, livestock, and loan collateral. Once each year, FSA may conduct a formal year-end analysis to compare the borrower's *planned* income and expenses versus *actual* income received and expenses incurred.

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Rev. 02-01-06