

Beginning Farmer & Rancher Land Contract Guarantee Pilot Program

FY 2003 - FY 2007

Overview

- Mandated by 2002 Farm Bill
- Purpose: facilitating land transfers to beginning farmers
- 6 pilot States
- 5 loans per State for 5 years

Pilot States

- Indiana
- Iowa
- North Dakota
- Oregon
- Pennsylvania
- Wisconsin

Guarantee Structure

- “Prompt Payment” Guarantee
- 10-years
- Guarantee will cover:
 - 2 annual installments on land contract or an amount equal to 2 installments
 - 2 years of taxes and insurance

Role of Escrow Agent

- Handle transactions between buyer & seller
- Remit payments to seller
- Notify FSA and seller of buyer default, balance on the contract, & payment status
- Other State requirements

Eligible Purpose

- Land purchases only
- Farm or ranch must be located in a pilot State
- New contracts only

Seller Application

- “Letter of interest”
- Other information as determined by State

Buyer Application

- FSA-1980-25
 - first 2 pages only
- 3 years financial records & production history
- Description of operation and farm experience
- Projected production, income/expenses, financial statement, & plan of operation
- Copy of contract

Buyer Application (continued)

- Verification of off-farm employment & income
- FSA-440-32
- Credit report fee
- Entity information
- Other information required by FSA

Buyer Eligibility

- Meet eligibility criteria for regular guarantee
- Must be a beginning farmer or rancher
- Participated in the business operations of a farm/ranch for 3 years

Purchase Price

- Lesser of:
 - \$500,000
 - farm's current market value
- Buyer must provide 5% cash downpayment

Rates and Terms

- Fixed at no more than direct FO rate plus 3%
- Equal payments amortized for 20 years minimum
- Balloon payments prohibited

Executing the Guarantee

- “Loan Payment Guarantee Agreement and Contract Modification”
 - signed by buyer, seller, FSA and escrow agent

Routine Servicing

- Buyer will provide annually:
 - balance sheet
 - income statement
 - cash flow budget
- Seller and buyer may modify contract if feasible plan is projected

Buyer Default

- Escrow agent will notify FSA and seller of default
- Seller must enforce contract (written demand)
- If buyer does not pay in 30 days, seller will make demand on FSA for payment

Restructuring Missed Payments

- Missed installments, delinquent taxes or insurance can be structured to be repaid for
 - up to 7 years or
 - termination of guarantee
- Best lien obtainable on all buyer assets

Delinquent Installments

- Immediately due and payable to FSA
- Nonprogram interest rate charged on unpaid amounts
- Will constitute Federal debt - subject to offset

Termination of Guarantee

- Guarantee will terminate if:
 - contract is paid in full
 - FSA pays 2 installments (or equal amount)
 - seller does not enforce contract terms
 - seller terminates contract
 - 10-year term expires