



United States  
Department of  
Agriculture

Farmers  
Home  
Administration

Washington  
D.C.  
20250

FmHA AN No. 587 (1940)

September 9, 1981

■  
SUBJECT: Loans for Advance Payment of Cash Rent

TO: All State Directors, District Directors  
and County Supervisors

The number and amount of production purpose loans to pay cash rent for the use of facilities, land or crop quotas has increased at an alarming rate in recent years. This causes concern for the following reasons:

- (1) Some FmHA borrowers have used cash rent as a method to acquire additional resources and may be paying more than is economically justified due to competition. Paying a use fee higher than economically feasible can result in a hardship on all tenants. FmHA could, under such circumstances, contribute to the problem by loaning for the cash rent payment.
- (2) All the annual production risk is shifted to the tenant in cash rent situations.
- (3) Operators who must borrow for the rental payment are paying current high interest on the borrowed money and thus raising operating costs.
- (4) Cash rent places a necessity upon the operator to make maximum use of the land which often results in poor conservation practices and deterioration of natural resources.
- (5) Available operating loan funds must be conserved to provide for essential and justified purposes.

We do not want to put a blanket prohibition on loans for cash rent purposes. Authority to loan for cash rent can be beneficial to FmHA borrowers, but should be administered with the above concerns in mind and all of the following considerations:

Is the applicant obligated under a written lease or other written agreement to pay all or a part of the rent or charge prior to the time income will be available from the operations to make such payment?

Can arrangements be made for all or a part of the rent or charge to become due when income will be available from the operation to make such payment?

Expiration Date: August 31, 1982

Filing Instructions: File preceding  
FmHA Instruction 1941-A



Farmers Home Administration is an Equal Opportunity Lender.  
Complaints of discrimination should be sent to:  
Secretary of Agriculture, Washington, D.C. 20250

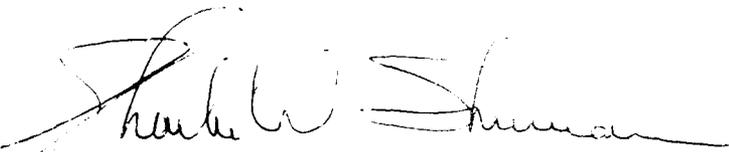
587(1940)

Do the terms of the rental agreement provide the applicant or borrower with satisfactory terms and is it economically sound for the crop year being financed?

Only the minimum amount required, but no more than one year's cash rent or cash charges, can be paid with loan funds in any one lease year.

Determinations should always be entered in the file in accordance with the appropriate loan making instructions.

State Directors are requested to issue detailed guidelines for any specialty crops or conditions within their State or a given area thereof. Borrowers who must rely on rented facilities, land or crop quotas are of special concern since they lack adequate ownership base. The necessary supervision and servicing required to accomplish loan objectives are to be scheduled and carried out in accordance with appropriate loan servicing regulations.



CHARLES W. SHUMAN  
Administrator