Farm Service Agency

Fact Sheet *November 2000*

United States Department of Agriculture

Farm Loans

The Farm Service Agency (FSA), an agency of the U.S. Department of Agriculture, makes and guarantees loans to family farmers and ranchers to purchase farmland and finance agricultural production. These loans were formerly administered by the Farmers Home Administration.

FSA maintains its headquarters in Washington, D.C. Offices are located in each state, usually in a state capital or near a state land-grant university, as well as in most agriculturally productive counties. Farmers may apply for direct loans at FSA local offices or USDA Service Centers. Guaranteed loans are available from local commercial lenders who apply for loan guarantees from FSA. Although general information may be obtained from headquarters and state offices, all programs are administered through local offices.

FSA Farm Loans

FSA's loan programs are designed to help family farmers who are temporarily unable to obtain private, commercial credit. In many cases, these are beginning farmers who have insufficient net worth to qualify for commercial credit. In other cases, they are farmers who have suffered financial setbacks from natural disasters, or who have limited resources with which to establish and maintain profitable farming operations.

Some farmers obtain their credit needs through the use of loan guarantees. Under a guaranteed loan, a local agricultural lender makes and services the loan, and FSA guarantees it against loss up to a maximum of 90 percent in most cases. In certain limited circumstances, a 95-percent guarantee is available. FSA has the responsibility of approving all loan guarantees and providing oversight of lenders' activities.

For those unable to qualify for a loan guarantee from a commercial lender, FSA also makes direct loans, which are serviced by an FSA official. FSA has the responsibility of providing credit counseling and supervision to its direct borrowers by making a thorough assessment of the farming operation. The agency evaluates the adequacy of the real estate and facilities, machinery and equipment, financial and production management, and the farmer's goals. The weaknesses in all phases of the operation are identified and prioritized. An FSA official then works one-on-one with the farmer to develop a plan of supervision that will help overcome those weaknesses and ultimately result in the farmer's graduation to commercial credit.

Unlike FSA's commodity loans, most farm loans must be fully secured and can only be approved for those who have repayment ability.

Farm Ownership Loans

Eligible applicants may obtain direct loans up to a maximum indebtedness of $200,000. Maximum indebtedness for guaranteed loans is $717,000. The maximum repayment term is 40 years for both direct and guaranteed farm ownership loans. In general, loan funds may be used to purchase farm real estate, to enlarge an existing farm, to construct new farm buildings and/or improve structures, and to improve the environmental soundness of the farm.

Farm Ownership Downpayment Loans

Eligible beginning farmer applicants may obtain a direct loan for up to 30 percent of the purchase price of a family-size farm, or the farm's appraised value, whichever is less. Applicants must provide at least a 10 percent downpayment on the purchase. The interest rate on the 30 percent portion is fixed at 4 percent, and it must be repaid in 10 years or less. The remaining balance may be guaranteed by FSA if financed by an eligible lender. The purchase price or appraised value of the farm, whichever is lower, may not exceed $250,000.

Farm Operating Loans

Eligible applicants may obtain direct loans for up to a maximum indebtedness of $200,000, and guaranteed loans for up to a

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maximum indebtedness of $717,000. The repayment term may vary, but typically it will not exceed 7 years for intermediate-term purposes. Annual operating loans are generally repaid within 12 months or when the commodities produced are sold. General purposes of this type of loan include normal operating expenses, machinery and equipment, real estate repairs, and refinancing debt.

Emergency Loss Loans

These loans are available only as direct loans from FSA. Emergency loans assist farmers who have suffered physical or production losses in areas declared by the President or designated by the Secretary of Agriculture or the FSA Administrator. For production loss loans, applicants must demonstrate a 30-percent loss in a single farming or ranching enterprise and may receive loans up to a maximum of 80 percent of total production losses, or 100 percent of physical losses. Loan purposes include both operating and real estate, and repayment terms depend on the loan purpose and type of collateral securing the loan. The maximum indebtedness under the emergency loan program is $500,000.

Rural Youth Loans

These are available as direct loans only and have a maximum loan amount of $5,000. Rural youth loans may be made to individuals who are sponsored by a project advisor, such as a 4-H club, FFA, or local vocational instructor. Individuals must be at least 10 but not more than 20 years old to be eligible.

Targeted Funds to Beginning Farmers

Each year the Congress targets a percentage of farm ownership and farm operating loan funds to beginning farmers. Beginning farmers must have been in the business less than 10 years and meet certain other requirements.

Loan Servicing and Supervised Credit

The Farm Service Agency's mission is not limited to providing just credit — it is to provide supervised credit. This means that FSA works with each borrower to identify specific strengths and weaknesses in farm production and management, then works with the borrower on alternatives and other options to address the weaknesses and achieve success. Effective supervised credit is the difference between success and failure for many farm families.

To help keep borrowers on the farm, FSA may be able to provide certain loan servicing benefits to borrowers whose accounts are distressed or delinquent due to circumstances beyond their control. These benefits include:

- Reamortization, restructuring, and/or deferral of loans;
- Rescheduling at the Limited Resource (lower interest) rate;
- Acceptance of conservation easements on environmentally sensitive land in exchange for reduction of debt;
- Writing down the debt to its current market value (delinquent borrowers only).

If none of these options results in a feasible farming operation, borrowers may be offered the opportunity to purchase their debt at its current market value. If this is not possible, other options include the following:

- Debt settlement based on inability to repay;
- In some cases, where a successful operation cannot be developed, FSA works with the borrower to help him or her retain the homestead and up to 10 acres of land.

Farms that come into FSA ownership are sold at market value, with a preference to beginning farmers and ranchers.

The eventual goal of FSA's farm credit programs is to graduate its borrowers to commercial credit. Once a farmer is able to obtain credit from the commercial lending sector, the Agency's mission of providing temporary, supervised credit is complete.

Additional information may be obtained at local Farm Service Agency offices.