



### Loans for Socially Disadvantaged Farmers and Ranchers

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#### OVERVIEW

The U.S. Department of Agriculture's Farm Service Agency (FSA) makes and guarantees loans to eligible socially disadvantaged (SDA) farmers to buy and operate family-sized farms and ranches. Each fiscal year, FSA targets a portion of its direct and guaranteed farm ownership (FO) and operating loan (OL) funds to SDA farmers. Non-reserved funds can also be used by SDA individuals.

An SDA farmer or rancher is a group whose members have been subject to racial, ethnic or gender prejudice because of their identity as members of a group without regard to their individual qualities. These groups consist of American Indians or Alaskan Natives, Asians, Blacks or African-Americans, Native Hawaiians or other Pacific Islanders, Hispanics and women.

FSA:

- Helps remove barriers that prevent full participation of SDA farmers in FSA's farm loan programs; and
- Provides information and assistance to SDA farmers to help them develop sound farm management practices, analyze problems and plan the best use of available resources essential for success.

#### TYPES OF LOANS AND USES OF LOAN FUNDS

Direct FO loans and OLs are made by FSA to eligible farmers. Guaranteed FO loans and OLs are made by lending institutions subject to federal or state supervision (banks, savings and loans and units of the Farm Credit System) and guaranteed by FSA. Typically, FSA guarantees 90 percent of any loss the lender might incur if the loan fails. FO funds may be used to purchase or enlarge a farm or ranch, purchase easements or rights of way needed in the farm's operation, erect or improve buildings, implement soil and water conservation measures

and pay closing costs. Guaranteed FO funds also may be used to refinance debt.

OL funds may be used to purchase livestock, poultry, farm equipment, feed, seed, fuel, fertilizer, chemicals, insurance and other operating expenses. The funds also may be used for training costs, closing costs and to reorganize and refinance debt.

#### TERMS AND INTEREST RATES

Repayment terms for direct OLs depend on the collateral securing the loan and usually run from one to seven years. Repayment terms for direct FO loans vary but never exceed 40 years.

Interest rates for direct loans are set periodically according to the government's cost of borrowing.

Guaranteed loan terms are set by the lender. Interest rates for guaranteed loans are established by the lender.

#### DOWN PAYMENT PROGRAM

FSA has a special loan program to assist SDA and beginning farmers in purchasing a farm. Retiring farmers may use this program to transfer their land to future generations.

To qualify:

- The applicant must make a cash-down payment of at least 5 percent of the purchase price;
- The maximum loan amount does not exceed 45 percent of the least of (a) the purchase price of the farm or ranch to be acquired, (b) the appraised value of the farm or ranch to be acquired or (c) \$667,000 (*Note: This results in a maximum loan amount of \$300,000*);
- The term of the loan is 20 years. The interest rate is 4 percent below the direct FO rate, but not lower than 1.5 percent;
- The remaining balance may be obtained from a commercial lender or private party. FSA

can provide up to a 95 percent guarantee if financing is obtained from a commercial lender. Participating lenders do not have to pay a guarantee fee; and

- Financing from participating lenders must have an amortization period of at least 30 years and cannot have a balloon payment due within the first 20 years of the loan.

## LAND CONTRACT GUARANTEES

These provide certain financial guarantees to the seller of a farm through a land contract sale to a beginning or SDA farmer. The seller may request either of the following:

- Prompt Payment Guarantee: A guarantee up to the amount of three amortized annual installments plus the cost of any related real estate taxes and insurance.
- Standard Guarantee: A guarantee of 90 percent of the outstanding principal balance under the land contract.

The purchase price of the farm cannot exceed the lesser of (a) \$500,000 or (b) the market value of the property. The buyer must provide a minimum down payment of 5 percent of the purchase price of the farm. The interest rate is fixed at a rate not to exceed the direct FO loan interest rate in effect at the time the guarantee is issued, plus three percentage points. The guarantee period is 10 years for either plan regardless of the term of the land contract. The contract payments must be amortized for a minimum of 20 years. Balloon payments are prohibited during the 10-year term of the guarantee.

## SALE OF INVENTORY FARMLAND

FSA advertises inventory property within 15 days of acquisition. Eligible SDA and beginning farmers are given first priority to purchase these properties at the appraised market value. If one or more eligible SDA or beginning farmer offers to purchase the same property in the first 135 days, the buyer is chosen randomly.

## WHERE TO APPLY

Applications for direct loan assistance may be submitted to the local FSA office serving the area where the operation is located. Local FSA offices are listed in the telephone directory under U.S. Government, Department of Agriculture or Farm Service Agency. For guaranteed loans, applicants must apply to a commercial lender who participates in the Guaranteed Loan program. Contact the local FSA office for a list of participating lenders.

## FOR MORE INFORMATION

Additional information may be obtained by contacting your local FSA office at <http://offices.usda.gov> or through the FSA website at [www.fsa.usda.gov/farmloans](http://www.fsa.usda.gov/farmloans).

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- 1) *mail: U.S. Department of Agriculture Office of the Assistant Secretary for Civil Rights, 1400 Independence Avenue, SW Washington, D.C. 20250-9410;*
- 2) *fax: (202) 690-7442; or*
- 3) *email: [program.intake@usda.gov](mailto:program.intake@usda.gov).*

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