

**Annual Report to Congress**  
**Regarding**  
**Term Limits on Direct Operating Loans**  
**as**  
**Required by**  
**Section 5104 of the Agricultural Act of 2014**

**Prepared by USDA/Farm Production and Conservation**  
**Economic and Policy Analysis Division**

## Executive Summary

Term limits, which impose a statutory maximum on the number of years a farmer may receive a Farm Service Agency (FSA) direct operating loan (DOL), have not appeared to have had a major impact on FSA's loan portfolio during the past two decades. A vibrant farm economy through 2013 and ample credit availability enabled most farmers to meet nearly all of their credit needs through commercial lenders. Farm incomes fell in 2014, declined more sharply in 2015, and continued to drop through 2017. Expectations of continued lower farm incomes and a leveling out of land values in upcoming years may reduce commercial credit availability and increase reliance on FSA credit programs, resulting in more borrowers being impacted by term limits. Small and mid-size family farms and those in more economically depressed regions appear to be the most vulnerable to DOL term limits.

FSA may obligate DOL funds to an eligible farmer who has received DOL's in 6 or fewer calendar years. The years need not be consecutive, and multiple loans received during a year count only against 1 year of loan eligibility. A borrower may receive additional DOL's in a 7th (final) year. The limitation does not apply to beginning farmers through their 10th year of farming. Waivers for 2 years can be provided on a case-by-case basis if borrowers continue to meet all other eligibility criteria. Youth loans and microloans to beginning farmers and veterans are exempt and do not count against the limitation.

Key findings are:

***In calendar year 2017, an additional 598 farm businesses reached the DOL term limit.*** This brought the total number of farm borrowers reaching term limits since their inception in 1993 to 7,346. These 7,346 farms represented more than 11,000 individual borrowers and co-borrowers.

***Term-limited borrowers represented only 5.4 percent of total DOL borrowers with a positive loan balance at the end of 2017.*** This reflects the importance of DOLs as a temporary credit source. Nearly half of DOL borrowers during the last 25 years received a DOL in only 1 year and more than 80 percent were recipients of DOLs for 3 years or less.

***There is no indication that term limits have hastened farm exits.*** About 75 percent of farm borrowers who have reached term limits since their implementation in 1993 were still active in farming through 2017 as indicated by eligibility to vote in the most recent County Office Committee (COC) elections. Most term-limited borrowers—58.4 percent—maintained a positive loan balance with FSA for at least 3 years after reaching the term limit. Many continued to benefit from the use of other FSA credit programs. For example, nearly one-third (32.2 percent) had received primary loan servicing while 9 percent received direct farm ownership (FO) and emergency (EM) loans subsequent to reaching term limits.

***Most DOL borrowers who reached their term limits since 2005 do not appear to be sufficiently creditworthy to meet most commercial lender underwriting standards.*** Only 16.7 percent of farm borrowers reaching term limits appeared sufficiently creditworthy to meet commercial lender underwriting standards, implying that they could likely receive credit from a commercial lender without an FSA guarantee.

***Many term-limited borrowers could have qualified for additional FSA loans in the absence of term limits.*** Also, many of the farms in this group have credit shortcomings which could adversely affect their ability to obtain commercial credit, especially if exacerbated by current farm income trends.

***Term limits have had a greater impact on crop farms compared to livestock farms.*** While crop farms represented 46 percent of total DOL borrowers, they comprised 57 percent of term-limited borrowers. Likewise, term limits have greater impacts on regions where family-size crop farms are more prevalent such as the Corn Belt and Northern Plains, where one-third of all term-limited borrowers are located.

# Annual Report to Congress Regarding Term Limits on Direct Operating Loans

## Introduction

This report is provided in fulfillment of requirements specified in Section 5104 of the 2014 Farm Bill, which amended the Consolidated Farm and Rural Development Act (ConAct) and requires an annual report on term limits for DOL (see Appendix 1). As directed by the statute, this report documents the number and location of DOL borrowers who have reached their term limits, and their structural, demographic, and financial characteristics.

Term limits impose a statutory limit on the number of years that a farm borrower may receive loan funds through programs administered by the U.S. Department of Agriculture (USDA).<sup>1</sup> DOLs are authorized under Section 311(c)(2) of the ConAct to provide a source of credit for qualified farmers. Term limits were initially enacted for both direct and guaranteed FO and operating loan programs by the Agricultural Credit Improvement Act of 1992.<sup>2</sup> Term limits have never applied to EM borrowers.

Subsequent legislation exempted all guaranteed loans from any term limits. Microloans made to veterans and beginning farmers are also exempt from term limits. Moreover, the limitation does not apply if a borrower's farm is subject to the jurisdiction of an Indian tribe. FSA can obligate, in certain circumstances, DOLs to borrowers beyond their term limit. For example, waivers are granted to qualified beginning farmers through their 10th year of farming. Non-beginning farmers may receive a 2-year waiver, provided the operation is viable, the borrower has or will complete financial training, and commercial credit is unavailable.

One of the reasons for enacting term limits was to assure FSA's role as a temporary credit source. Long-term dependence on FSA credit can lead to economic inefficiencies such as subsidizing inefficient operations or crowding out of private lending. Another concern is that long-term DOL borrowers might monopolize program benefits at the expense of young and beginning farmers. However, there are provisions in place to address these issues. For example, regulations requiring qualified FSA loan applicants to demonstrate a feasible business plan impede the distribution of funds to unprofitable or inefficient operations, regardless of whether they are new or existing borrowers.<sup>3</sup> Further, eligibility criteria and graduation requirements provide safeguards against crowding out of private lending, as qualified DOL applicants must be

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<sup>1</sup> A farm borrower may be an individual, partnership, or legal entity. Term limits apply to both the entity and underlying individuals who are obligated as co-borrowers. This includes the spouse of married borrowers as well as a legal partner. In this report, the term 'farm business' or 'farm business borrower' refers to the primary borrower listed on the promissory note.

<sup>2</sup> The ConAct states that an applicant is eligible for a direct operating loan if the applicant received a DOL in 6 or fewer years. The regulations (7 CFR 764.252), which were implemented in 1993, state that an applicant is not eligible if the applicant has closed a DOL in 7 or more years. The net impact of these provisions is that a borrower has 6 full years of eligibility before reaching the term limit. In accordance with language in the ConAct, this report considers term limits to have been met at the end of 6 full years of receiving DOLs.

<sup>3</sup> As required under 764.401(a)(1), a feasible business plan is one which '...includes repayment of the proposed loan.'

unable to obtain credit from commercial lenders at reasonable rates and terms and provide supporting documentation. Graduation requirements stipulate that existing DOL borrowers considered eligible for commercial credit must refinance FSA loans with a commercial lender (Section 345 of the ConAct; 7 CFR 765.101).<sup>4</sup> Section 359 of the ConAct requires loan recipients to complete appropriate financial and farm management training, while Section 360 requires FSA, in conjunction with the loan applicant, to develop a plan of supervision to assist borrowers in achieving financial viability and transitioning to commercial credit. These requirements were enacted to ensure applicants did not remain in the loan portfolio for extended periods of time. Additionally, a large share of loan funds is targeted for use by beginning and socially-disadvantaged groups.<sup>5</sup>

Term limits may adversely affect some groups and/or regions that may be more dependent on FSA credit. FSA tends to be more important in credit deserts, which are defined as regions served by few commercial lenders. Further, FSA credit programs tend to be more important among groups considered socially disadvantaged and among small and mid-size family farms. Also, term limits can adversely impact the Government's ability to serve as a safety net in the event of a credit crunch.

### **Farm Economic Outlook**

For the fourth time in the last 5 years, U.S. farm income is expected to decline. USDA's forecast of 2018 net farm income represents a 13-percent decline from 2017 and, if realized, would be the lowest in nominal dollar terms since 2006 (USDA, ERS).<sup>6</sup> In inflation-adjusted (real) 2018 dollars, net farm income would be the second lowest since 2002. Increased red meat and dairy supplies continue to depress livestock and milk prices. With crop receipts expected to be unchanged from 2017, profit margins are expected to remain tight.

Nationwide, farm land values increased by 1.3 percent annually since 2015 (USDA, NASS). But in the Great Plains and Lake States, land values continued to decline through 2017 (Federal Reserve Bank of Kansas City (a); USDA (2018)). Low farming returns and increasing interest rates are likely to limit future increases in land values. Additionally, lower returns are likely to weaken farm balance sheets as farmers access equity to meet working capital needs.

A generally pessimistic outlook is expressed by farm bankers in quarterly surveys undertaken by Federal Reserve district banks. Results of these surveys for the Chicago, Kansas City, and Minneapolis Federal Reserve districts reflect a slight improvement in 2018 but were generally negative (Federal Reserve Bank of Kansas City (b)).<sup>7</sup> The loan repayment ability index, as reported by lenders, has been under 100 since 2014, indicating weak loan repayment ability (figure 1). Though it has improved since 2016, the average index of farm loan repayment ability

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<sup>4</sup> The process for evaluating a borrower's potential for graduation to commercial credit is described in Section 4 of 4-FLP Direct Loan Servicing (<http://fsaintranet.sc.egov.usda.gov/dps/services/downloadhandler.ashx?fileid=17989>).

<sup>5</sup> SDA groups are those 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. It includes, but is not limited to, Blacks, Asians, Hispanics, American Indians, and women.

<sup>6</sup> This does not include payments made under the Market Facilitation Program which was announced on August 27, 2018.

<sup>7</sup> The area served by these Federal Reserve Banks includes the Great Plains, western Corn Belt, and states bordering the Great Lakes.

for the three Federal Reserve districts remains lower than at any time between 2003 and 2015. The index for renewals and extensions as well as the loan demand index has been more than 100 since 2014, indicating that lenders are seeing more situations where farmers are unable to completely repay their production (operating) loans and are seeking either a longer repayment period or a roll over to the upcoming year's credit line. Additionally, bankers indicated that they have been increasing collateral requirements since 2014.

### **Farm Financial Conditions**

While lenders have been generally pessimistic since 2013, loan delinquencies for both commercial banks and the FCS have increased only slightly since 2015 (figure 2). FSA defaults tend to be higher than for commercial lenders, reflecting the higher risk profile of FSA borrowers (figure 3). From 2003 to 2017, default rates by DOL borrowers ranged from around 15 to 25 percent. This compared to a default rate of less than 3 percent of total loan volume for FCS and banks.<sup>8</sup> At the end of 2017, 17.6 percent of DOL and 8.6 percent of direct farm ownership (DFO) borrowers were in default. DOL default rates have increased by about 3 percentage points from 2014 to 2017 yet remain low by historical standards. The share of guaranteed operating loan (GOL) borrowers in default has been increasing since 2014 and, at 7 percent, remained at the highest level since 2003. While DOL and GOL defaults have increased since 2015, defaults for the DFO and guarantee farm ownership programs have remained stable. Loan losses on FSA loans remain at historical lows despite recent increases in farm loan defaults.

Low loan defaults and other financial duress indicators are most likely a consequence of the strong equity positions held by farmers. Generally, farm financial conditions have remained strong as reflected by relatively high net worth. Farm equity is at historical highs and debt-asset ratios at historical lows. High commodity prices and farm incomes contributed to more than 50-percent growth in farm equity from 2009 to 2014—providing a substantial cushion to withstand a prolonged economic downturn (figure 4). This is in contrast to the equity picture of the 1980s farm financial crisis.

However, there are some early indicators of potential financial duress in the farm sector. In addition to the pessimistic outlook among bankers, the quality of commercial banks' agricultural loan portfolios appeared to deteriorate in 2017. Surveys of bankers undertaken by the Federal Reserve indicated that the share of farm loans holding a moderate or higher risk rating increased to more than 40 percent in 2017 (Federal Reserve Bank of Kansas City (b)). An increasing proportion of higher-risk borrowers suggests that such borrowers could face near-term obstacles in obtaining credit from commercial lenders, especially if farm incomes continue to fall. Also, small- and mid-size family farms, defined as having between \$100,000 and \$1 million in annual sales, may be more susceptible to any downturn. USDA ARMS data for 2014–2016 indicated that farms in this group had utilized a majority of their debt capacity and had lower average returns on assets than larger farms (figure 5).<sup>9</sup> Small and mid-size farms also tended to be more reliant on FSA as a credit source compared to large and part-time farms (Dodson and Ahrendsen).

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<sup>8</sup> Delinquency rates for FSA are based on loans past due for 30 days or more while those for commercial lenders are for 90 days or more, which explains at least some of the difference in percentages.

<sup>9</sup> The farm size classifications in this report are drawn from USDA's Economic Research Service farm typology as described in *America's Diverse Family Farms*, 2017 edition.

## Term-Limited Borrowers

The number of farm businesses reaching term limits has continued to increase annually since 2013 (figure 6). In calendar year 2017, an additional 598 farm businesses, reached the DOL term limit of 6 full years, bringing the cumulative number of term-limited farm borrowers to 7,346 (table 1)<sup>10</sup>. Since a farm borrower can be an individual, or multiple individuals, or a legal entity, the number of persons impacted by the DOL term limit is greater, at 11,158. At year-end 2017 there were 2,951 direct farm borrowers (representing a total of 4,785 individuals) that (a) had reached term limits, and (b) had outstanding DOL balances. While increasing since 2013, term-limited borrowers as a share of all DOL farm borrowers with an outstanding loan balance was only 5 percent at year-end 2017 (figure 6).

Even though a borrower may have reached the term limit, many continue as DOL farm borrowers benefiting from the advantageous terms associated with these loans. Since 2005, almost 60 percent of all term-limited farm borrowers maintained DOL balances for at least 3 years after reaching term limits. Of the 7,346 farm borrowers who had reached term limits since 1993, 40 percent still had an outstanding DOL balance at year-end 2017 (i.e., table 1—2,951/7,346). Term-limited borrowers are still eligible to participate in other FSA credit programs such as DFO, EM loans, or FSA guaranteed loans. Among term-limited borrowers, 9 percent had received an EM or DFO while 19 percent (1,367/7,346) had received a guaranteed loan (table 1). Reaching the term limit also does not affect eligibility for primary loan servicing, of which one-third of all term-limited borrowers have partaken.<sup>11</sup>

Most farmers who have utilized DOLs have done so only as a temporary credit source. Nearly half of all farmers receiving DOL loans since 1993 received DOL loans in only one calendar year, while more than 80 percent have received a new DOL in 3 years or less (figure 7). Consistent with targets for beginning farmers, term-limited borrowers tend to be younger than average. The average age of borrowers reaching term limits was 45 years, compared to the U.S. average farmer age of 58 years (table 1). Nearly 30 percent were a member of a targeted group during their last year of DOL eligibility.

There is little evidence that term limits hasten farming exits. There appeared to be few forced liquidations as indicated through loan write-offs. Only 7 percent of term-limited borrowers either had received either a direct debt settlement or a guaranteed loss claim, with most of these losses occurring prior to 2012. Another 5 percent (385) are deceased. About 75 percent of farm borrowers reaching term limits since their implementation were still active in farming in 2018 as indicated by their eligibility to vote in the most recent COC elections<sup>12</sup>.

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<sup>10</sup> The number of farm borrowers reaching term limits is based on the total number of calendar years in which DOL funds were received as of December 31, 2017. Beginning farmers who started farming after 2007 were excluded from the 7,346 term-limited borrowers. Borrowers who had used DOLs during 6 calendar years were considered to have reached term limits even though they are eligible for 1 additional DOL.

<sup>11</sup> Borrowers who are 90-days or more in default may be eligible for primary loan servicing, which includes deferrals of principal and interest, rate reductions, extensions of terms, or partial loan write-offs.

<sup>12</sup> An eligible voter in an FSA COC election includes an individual or legal entity which ...participates or cooperates in any FSA program that is provided for by law.

## Financial Condition of All Borrowers Who Have Reached Term Limits

While term limits may not have hastened farm exits, many term-limited borrowers were likely to have experienced adverse impacts. Most term-limited DOL farm borrowers do not appear to be sufficiently creditworthy to meet most commercial lender underwriting standards. FSA's *Farm Business Plan* data indicate that the average debt-to-asset ratio for term-limited borrowers has exceeded 50 percent since 2012 (table 2).<sup>13</sup> Also, the average current ratio (current assets/current debt) for term-limited borrowers is around 100, indicating that limited working capital could constrain production decisions. When providing operating credit, commercial lenders desire a current ratio of 200 or more. The average FSA classification score of 2.2 during the last 7 years for borrowers reaching term limits is consistent with shortcomings in credit quality.<sup>14</sup> Only 16.6 percent of farm borrowers reaching term-limits in any given year had an FSA score of 1 ("1" indicates potential for graduation to commercial lending) (figure 8). More than half (52 percent) of term-limited borrowers were considered acceptable or marginal with FSA scores exceeding 3.0 and would be likely to face credit constraints impacting their ability to make capital investments necessary to maintain or improve farm productivity.

While most term-limited farm borrowers had credit shortcomings, their financial conditions were similar to those of other FSA borrowers. Since 2010, the debt-asset ratio, return on assets, and term debt coverage ratio for term limited borrowers during their last year of eligibility for new DOLs has been about the same as for all direct borrowers (table 2). The one exception was liquidity, as measured by current assets/current debt, which has been consistently below the average for all direct borrowers (e.g., in 2017, 93.0 vs. 109.8—table 2). The overall FSA classification score for borrowers reaching term limits has been less than the average for all borrowers, suggesting that many term-limited borrowers would qualify for additional DOLs, if the term limit was not a constraint (figure 8).

Average annual revenue and total farm assets of term-limited borrowers were larger than for all DOL borrowers (table 2). Nearly 80 percent of term-limited borrowers operated farms with more than \$100,000 in annual sales compared to 50 percent for all DOL farm borrowers (figure 9)<sup>15</sup>. Farms with less than \$100,000 in annual sales were the largest user of FSA DOLs but represented only 20 percent of those reaching term limits. The greater dependence of family farms on FSA credit programs reflects their economic vulnerabilities. Since they lack the size and scale of larger operations, their farm incomes tend to be lower. And since the labor requirements for operating a farm with less than \$100,000 in annual sales can restrict the ability

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<sup>13</sup> The Farm Business Plan is FSA's version of Web-Equity (a cloud-based, loan-application and credit-management software application operated by Moody's Analytics). For a description, see FSA Handbook 1-FLP, Exhibit 15. It has been used by FSA since 2005 and provides data on a farm business's financial condition, operating plans, and loan status.

<sup>14</sup> The FSA score is a borrower account classification used to determine a borrower's eligibility for graduation. The score is completed using the most current balance sheet and income/expense statements available. It is a weighted index of the current ratio, debt-to-asset ratio, return on assets, and term debt coverage ratio. The score can range from 1 to 4, with 1 being most creditworthy and 4 being the least (see paragraph 252 of FSA Handbook 1- FLP). A borrower with a score of 1 would be the most likely to meet commercial credit underwriting standards.

<sup>15</sup> The farm typology reflects that used by USDA's Economic Research Service with respect to annual sales: part-time farms-\$100,000 or less in annual farm sales; small family farms-\$100,000 to \$350,000 in annual sales; mid-size family farms-\$350,000 and \$1 million in sales; large family farms-\$1 million or more in sales.

to pursue nonfarm employment opportunities, family farms have less off-farm income than part-time farms.

Term-limited farm borrowers were more likely to be row-crop farmers (those farmers whose predominant activity is cash grain, cotton, and/or oilseeds). While row crop producers represented 27 percent of all DOL borrowers since 1993, they have represented 45 percent of all those reaching term limits (figure 10). Due to their greater need for working capital to plant a crop each year, crop producers have a greater demand for annual operating loans compared to livestock producers. Consequently, crop producers are more likely to use DOLs during multiple years. Term-limited borrowers have tended to be more common in regions where crop production is prevalent, such as the Corn Belt and Northern Plains.

### **Summary and Policy Options**

DOL term limits do not appear to be having a large impact on current farm borrowers. Since their inception in 1993, only 7,346 borrowers have reached term limits. While the number reaching on an annual basis has been increasing, the total reflects 5 percent of current borrowers. This is primarily because DOLs have mostly been used as a temporary credit source with about half of all borrowers receiving new DOLs in only 1 year.

The lack of long-term dependence on FSA credit is a consequence of several factors. A strong farm economy through 2013 combined with rising farm land values facilitated an increase in farm equity. When combined with low interest rates and ample credit availability from commercial lenders, farmers have been able to meet most of their credit needs without turning to FSA. However, there are concerns as to whether this trend will continue. Several consecutive years of lower farm incomes have stressed farmers' working capital. Along with ongoing concerns about future prices, trade, interest rates, and farmland values, farm lenders have recently expressed a pessimistic outlook concerning farmers' repayment ability. These factors could result in a greater share of farms having to turn to FSA credit programs in upcoming years and greater numbers impacted by term limits.

Term limits can have disproportionate impacts upon certain groups—specifically crop farmers and among small and mid-size family farms. Regions where small and mid-size crop producers are more prevalent will likely experience greater impacts from term limits. Also, there are certain regions characterized as credit deserts where FSA is a relatively more important source of credit.<sup>16</sup> A continuation of current trends in farm income are likely to exacerbate problems faced among small and mid-size family farms. Even though their balance sheets may currently be strong, many have shortcomings in liquidity, cash flow, or profitability, making them more vulnerable to a credit crunch. Also, the credit shortcomings faced by these family farms are unlikely to be eliminated completely in just 7 years. Given the nature of farming with low returns and high capital requirements, it will likely require a longer period for beginning farmers to achieve commercial credit status, especially if credit markets become tight.

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<sup>16</sup> A credit desert is defined as: "Farming, ranching, and lending in areas where there are very few lenders (credit deserts) and/or areas where cultural and/or economic conditions create unique circumstances and can be challenging." See USDA, Farm Service Agency Notice FLP-665 ([https://www.fsa.usda.gov/Internet/FSA\\_Notice/flp\\_665.pdf](https://www.fsa.usda.gov/Internet/FSA_Notice/flp_665.pdf)).

Policymakers may wish to consider options which provide greater flexibility in the event of widespread farm financial stress. For example, the Secretary of Agriculture could be granted the authority to implement waivers under certain conditions such as a declared disaster or economic crisis. Another option would be to modify Section 311(c)(2) so that DOLs to beginning farmers would not be considered a direct operating loan, along with youth loans and microloans made to beginning farmers or veterans, in this subsection. Under current law, beginning farmers are not subject to term limits; however, a beginning farmer becomes ineligible for further DOLs after 10 years of farming if they have received loan funds in 7 or more years. Changing the status from waiver to exemption would enable a beginning farmer up to 17 years access to FSA credit before being ineligible for further DOL assistance.

## List of References and Suggested Readings

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**Table 1. Cumulative Number of Direct Borrowers Reaching Term Limits Since Implementation of Term Limit Restrictions in 1993, End-of-Calendar-Year 2012-2017**

	Total Term Limited Farm Borrowers Through 12/31					
	2017	2016	2015	2014	2013	2012
	# of farm borrowers					
Cumulative # reaching DOL term limits <sup>a</sup>	7,346	6,748	6,225	5,733	5,334	4,987
W/outstanding DOL balance on 12/31	2,951	2,355	1,870	1,494	1,227	1,034
Received FSA loans after term limited <sup>b</sup>	669	635	561	514	434	352
Direct farm ownership (DFO)	379	359	312	276	212	177
Direct emergency (EM)	264	258	241	237	227	184
Microloans to veterans	51	40	25	17	9	0
Received FSA guaranteed loan	1,367	1,261	1,029	635	854	780
Primary loan servicing after term limited	2,325	2,194	1,907	1,770	1,666	1,565
Loan write-off after term limited						
Direct debt settlement	483	483	482	481	476	472
Guaranteed loss claims paid	98	98	95	91	85	80
Primary borrower age at last obligation	45	45	45	45	45	45
Any targeted group: <sup>c</sup>	2,164	1,918	1,869	1,722	1,555	1,420
Beginning farmer <sup>d</sup>	1,368	1,215	1,236	1,143	1,027	931
Racial-ethnic minority	625	566	504	460	421	397
Woman	414	365	338	313	282	253
Socially disadvantaged (SDA)	976	875	793	726	658	608
Veteran	612	584	561	548	528	512
Primary borrower deceased	385	346	300	262	207	172
County office committee eligible voters	5,477	5,092	4,664	4,623	3,889	3,618
	Number of total borrowers					
Cumulative total individuals (including co-borrowers)	11,158	10,158	9,308	8,530	7,891	7,327
<sup>a</sup> Estimates for previous years are revised from what was previously published to reflect any additional 7 <sup>th</sup> -year loans granted in 2017. For example, a farm borrower reaching the 6-year term limit in 2015 would have been considered in the 2015 column in earlier studies. If this farm borrower received a 7 <sup>th</sup> -year loan in 2017, they would be now be counted in the 2017 column.						
<sup>b</sup> Includes FSA farm loans under programs not subject to term limits.						
<sup>c</sup> FSA is required by Congress to target a percentage of farm ownership and farm operating loan funds to socially disadvantaged and beginning farmers. Microloans to veterans are exempt from DOL term limits.						
<sup>d</sup> Qualified beginning farmer when last DOL was received. Source: USDA FSA OBFN, R540, PLAS, DSTH, OM3RS, and SCIMS databases.						

**Table 2. Balance Sheet and Income Statement Summary for DOL Borrowers by Calendar Year**

	2017	2016	2015	2014	2013	2012	2011	2010
Term-limited DOL farm borrowers during last year of eligibility								
	--\$ per farm--							
Total assets	863,755	836,404	837,980	790,806	734,638	893,909	911,813	890,294
Total liabilities	451,885	439,016	445,285	418,556	403,857	467,962	431,744	435,341
Net equity	411,870	397,388	392,695	372,250	330,781	425,947	480,069	454,953
Gross revenue	263,704	301,387	340,730	289,703	305,749	350,262	296,662	292,024
Net income	50,232	51,764	62,508	56,281	58,511	73,183	63,304	58,063
	--percent--							
Debt-asset <sup>a</sup>	52.3	52.5	53.1	52.9	55.0	52.4	47.4	48.9
Loan-to-value <sup>b</sup>	50.2	49.1	45.5	45.6	46.3	35.8	40.5	38.7
ROA <sup>c</sup>	2.2	2.7	1.4	3.3	2.9	4.9	6.1	3.9
Debt coverage <sup>d</sup>	122.5	122.7	133.4	126.3	129.2	136.0	139.7	130.6
Current ratio <sup>e</sup>	93.0	99.4	100.6	102.6	100.4	92.7	99.3	115.9
	--average/borrower--							
FSA score	2.2	2.2	2.1	2.2	2.2	2.2	2.2	2.2
All DOL farm borrowers with current balance sheet/income statement.								
	--\$ per farm--							
Total assets	671,605	660,070	652,619	671,843	661,078	680,589	652,442	616,854
Total liabilities	355,734	346,339	332,487	334,823	325,389	338,420	326,976	313,674
Net equity	315,871	313,730	320,132	337,021	335,689	342,170	325,466	303,180
Gross revenue	214,944	217,302	218,783	237,281	249,067	262,755	255,497	235,796
Net income	36,737	38,767	40,309	43,213	49,423	50,795	50,345	43,129
	--percent--							
Debt-asset	53.0	52.5	50.9	49.8	49.2	49.7	50.1	50.9
Loan-to-value	56.8	55.0	53.2	51.9	51.1	51.5	50.6	50.4
ROA	2.8	2.9	2.9	2.9	3.6	3.6	3.9	3.3
Debt coverage	126.7	127.9	130.1	131.2	135.8	135.6	135.0	129.6
Current ratio	109.8	111.2	121.5	129.4	135.3	134.8	129.7	115.3
	--average/borrower--							
FSA score	2.4	2.4	2.3	2.3	2.3	2.3	2.4	2.4

<sup>a</sup> Debt-asset= total farm liabilities/total farm assets.

<sup>b</sup> Loan-to-value = (value of the FLP security - value of any prior liens)/(FLP direct loan debt (principal + interest)).

<sup>c</sup> ROA = (farm income – owner withdrawals)/ value of (farm) property owned.

<sup>d</sup> Debt coverage = Net farm income from operations +/- total miscellaneous revenue/expense + total non-farm income + depreciation/amortization expense + interest on term debt + interest on capital leases – total income tax expenses – owner withdrawals (total) / (annual scheduled principal and interest payments on term debt + annual scheduled principal and interest payments on capital leases).

<sup>e</sup> Current ratio=current assets/current liabilities

5) ANNUAL REPORT ON TERM LIMITS ON DIRECT OPERATING LOANS.—

(A) IN GENERAL.—The Secretary shall prepare a report annually that describes—

- (i) the status of the direct operating loan program of the Department of Agriculture; and
- (ii) the impact of term limits on direct loan borrowers.

(B) DEMOGRAPHIC INFORMATION.—

(i) IN GENERAL.—The report shall provide a demographic breakdown, on a State-by-State basis, of—

- (I) all direct loan borrowers; and
- (II) borrowers that have reached the eligibility limit for direct lending programs during the previous calendar year.

(ii) DEMOGRAPHIC INFORMATION.—The available demographic information shall include, to the maximum extent practicable, a description of race or ethnicity, gender, age, type of farm or ranch, financial classification, number of years of indebtedness, veteran status, and other similar information, as determined by the Secretary.

(C) ADDITIONAL CONTENT.—In addition to information described in subparagraph (B), the report shall provide—

- (i) a demographic analysis of the borrowers impacted by term limits;
  - (ii) information on the conditions impacting the direct lending portfolio of the Department of Agriculture, including impacts by region and agriculture sector, and credit availability within those regions and sectors;
- information on the status of borrower operations impacted by term limits; and
- (iv) recommendations, if appropriate, to address any identifiable unmet credit needs.

(D) SUBMISSION.—The Secretary shall—

- (i) annually submit to the Committee on Agriculture of the House of Representatives and the Committee on Agriculture, Nutrition, and Forestry of the Senate a copy of the report; and
  - (ii) make the report available to the public, including posting the report on the website of the Department of Agriculture.
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**Appendix 1.  
Text of  
Legislation  
from Section  
5104 of the  
Agricultural  
Act of 2014.**

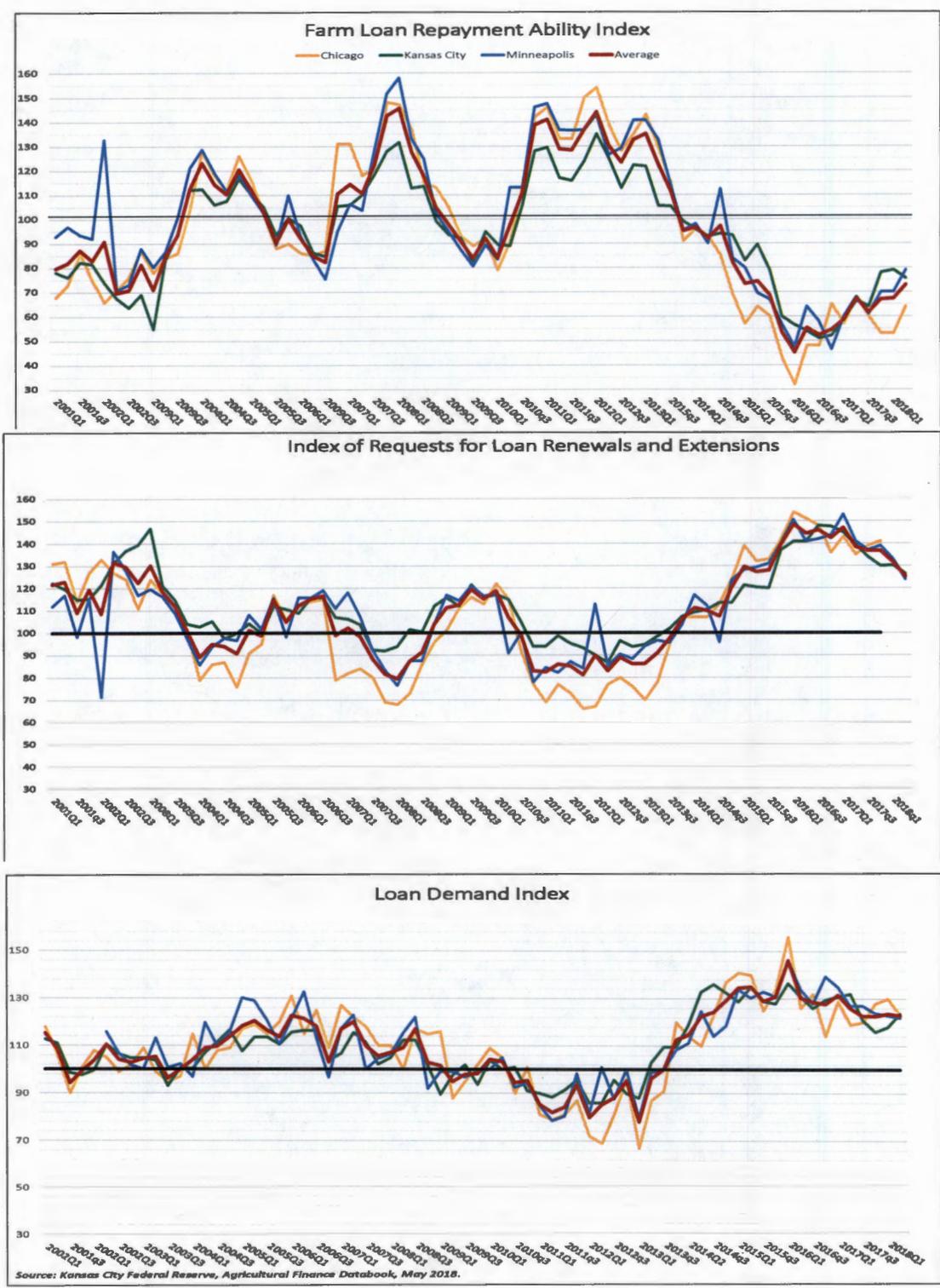


Figure 1. Indexes of loan demand, renewal and extensions, and loan demand for farm loans made by commercial banks in the Kansas City, Chicago, and Minneapolis Federal Reserve districts.

Source: Kansas City Federal Reserve, Agricultural Finance Databook, May 2010.

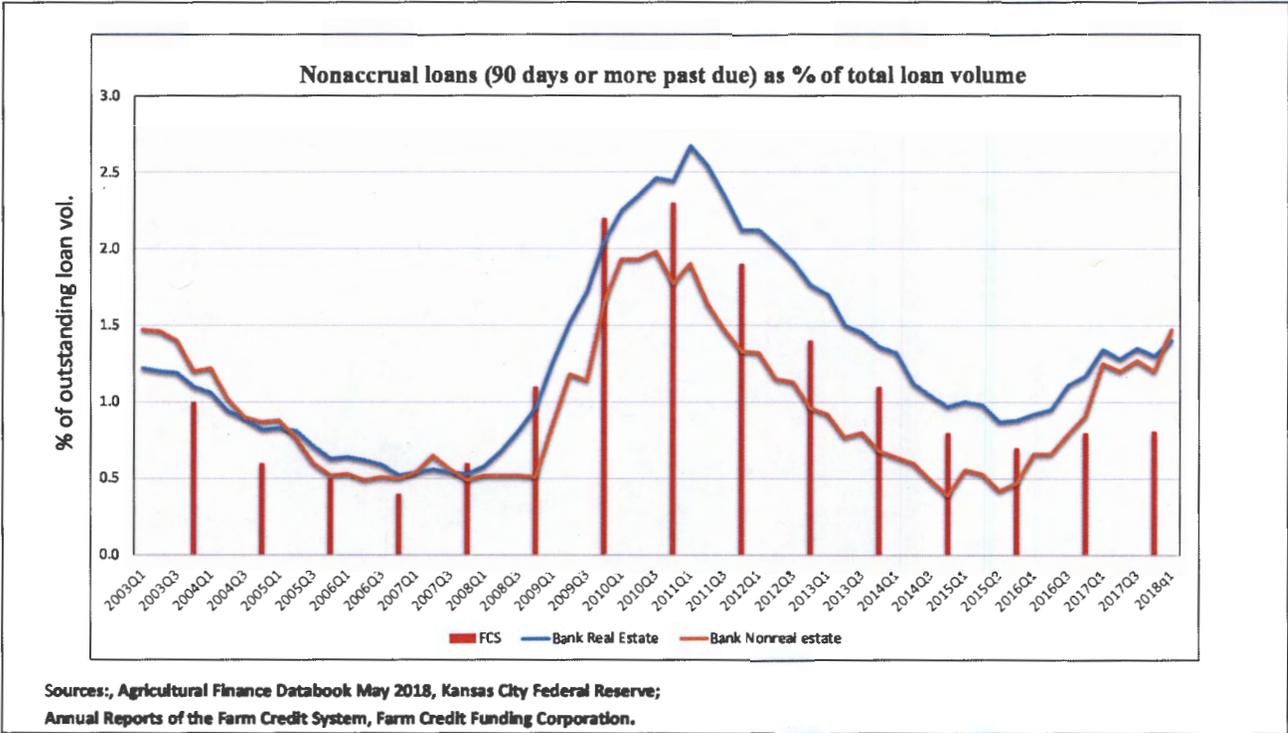


Figure 2. Agricultural loans 90 days or more past due as percent of total farm loans, for FCS and commercial banks.

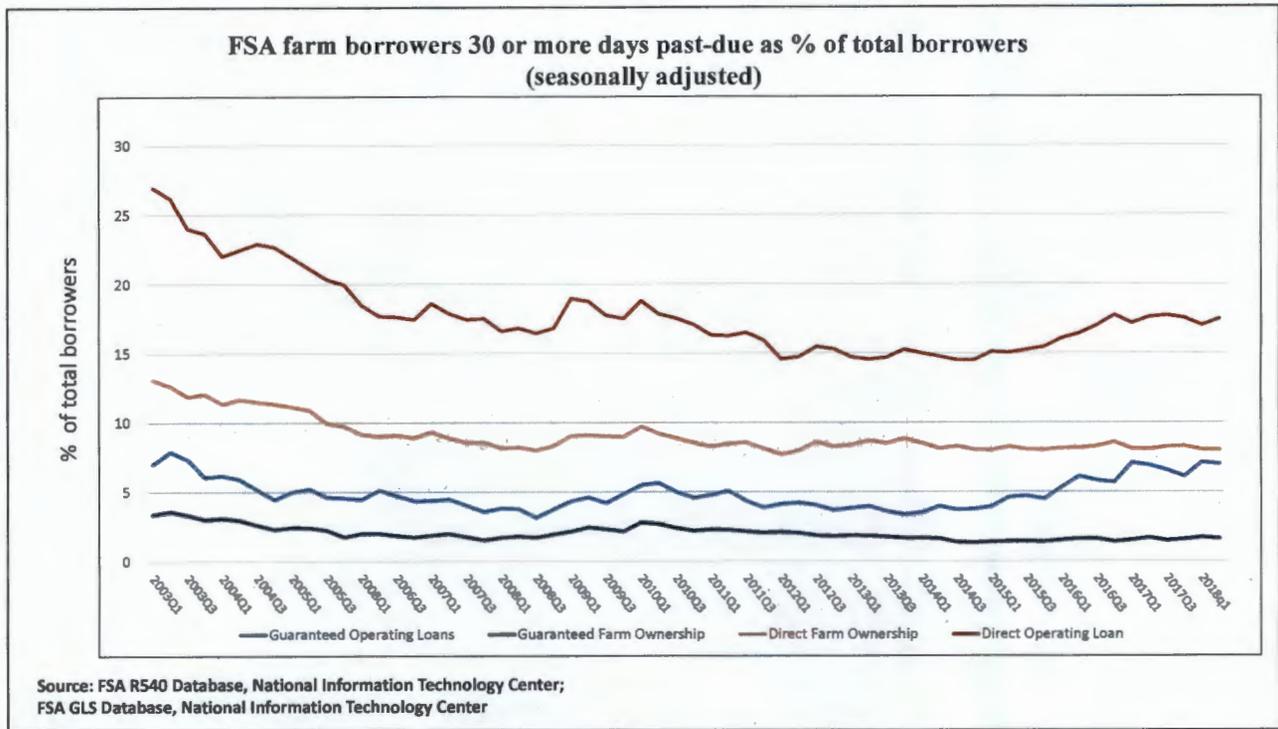


Figure 3. Share of FSA direct and guaranteed borrowers in default by quarter (seasonally adjusted).

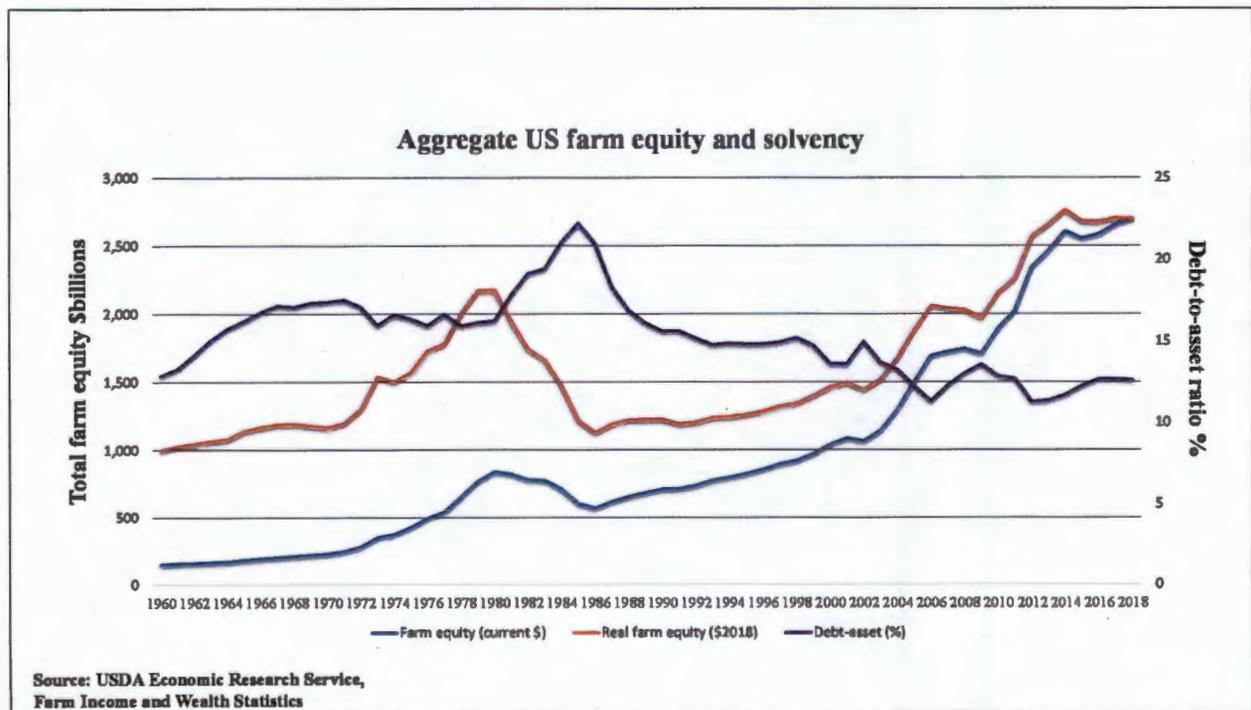


Figure 4. U.S. farm equity (in real and nominal terms) and debt-to-asset ratio from 1960-2018.

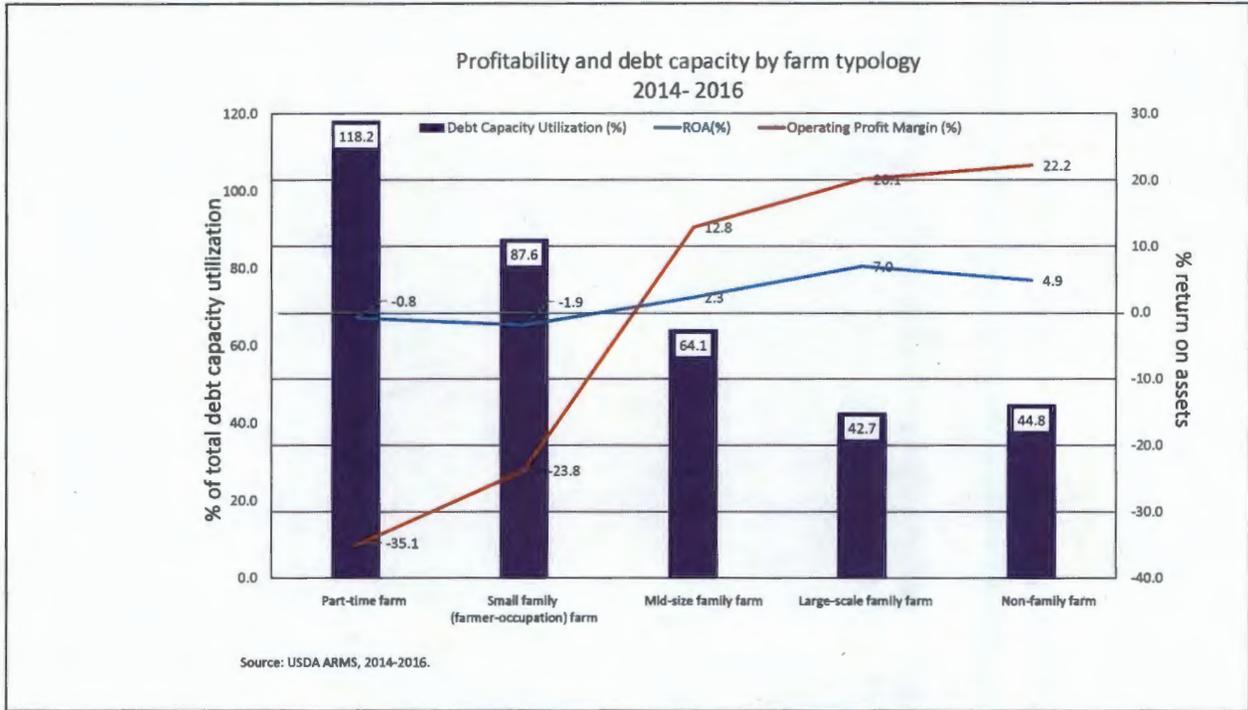


Figure 5. Average profitability and debt capacity utilization by farm typology, 2014-2016.

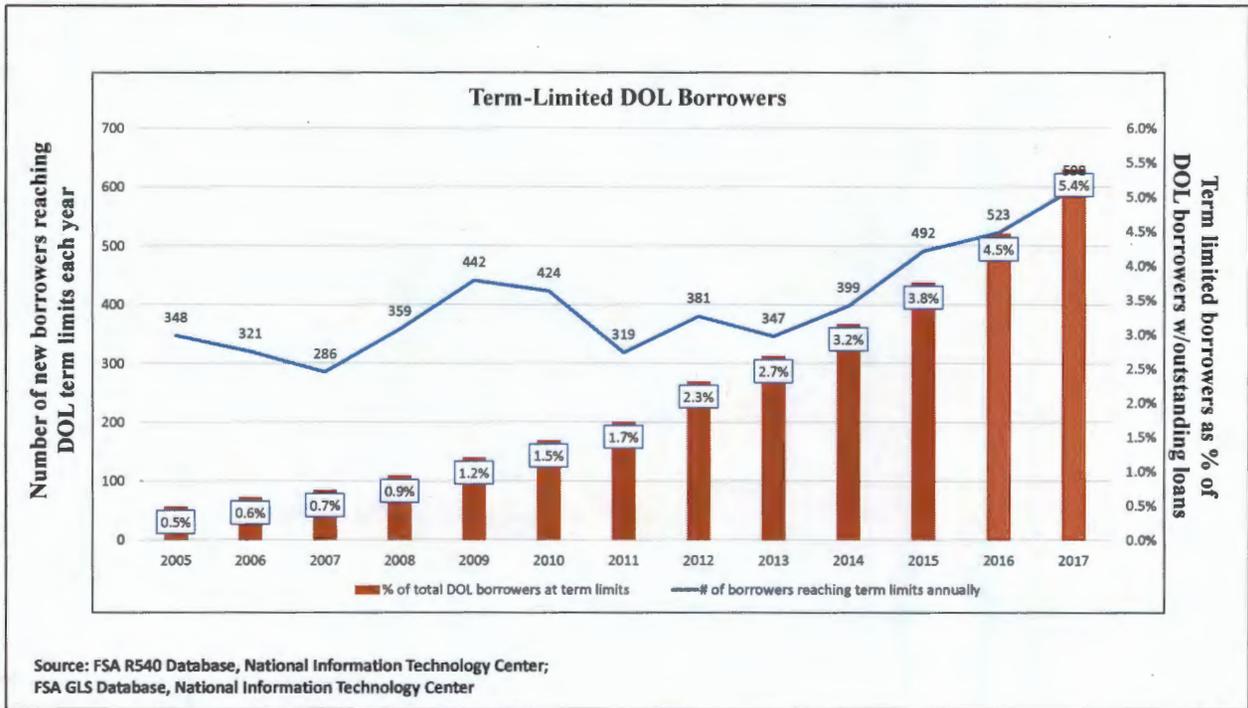


Figure 6. Number of borrowers reaching term limits annually and cumulative term-limited borrowers as % of all DOL borrowers from 2005 through 2017.

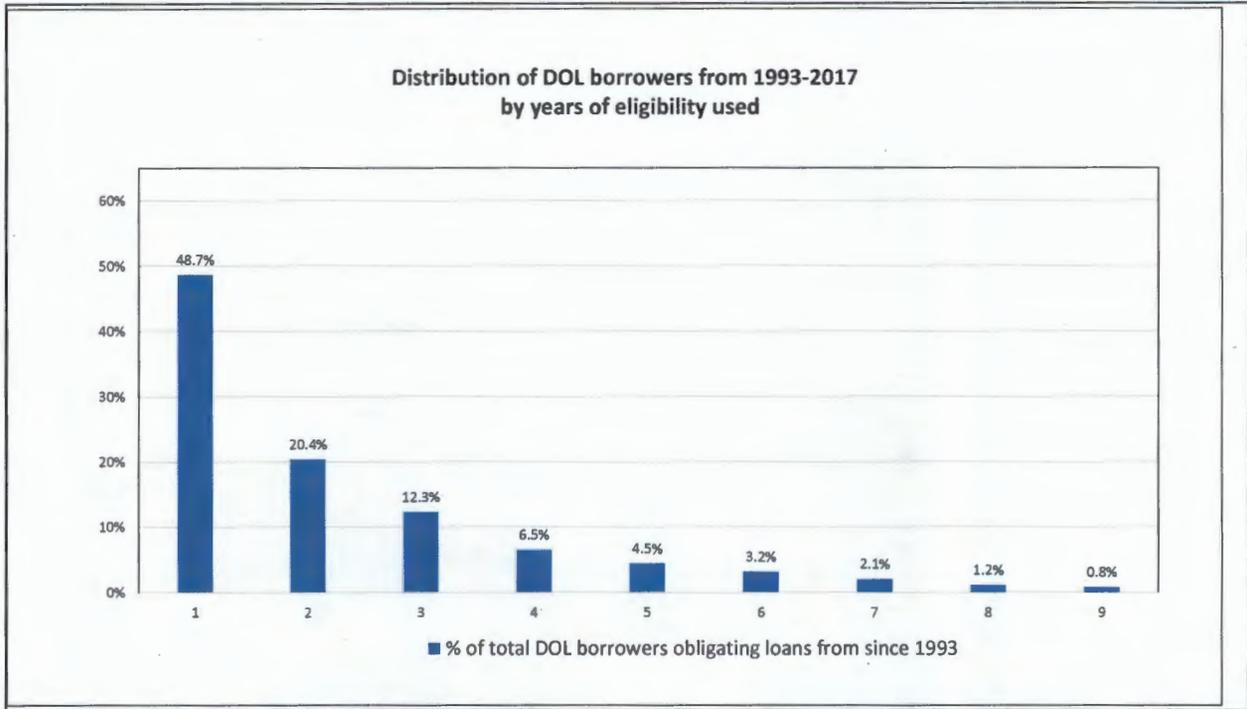


Figure 7. All borrowers receiving DOLs from 1993-2017 by total years in which a new DOL was received.

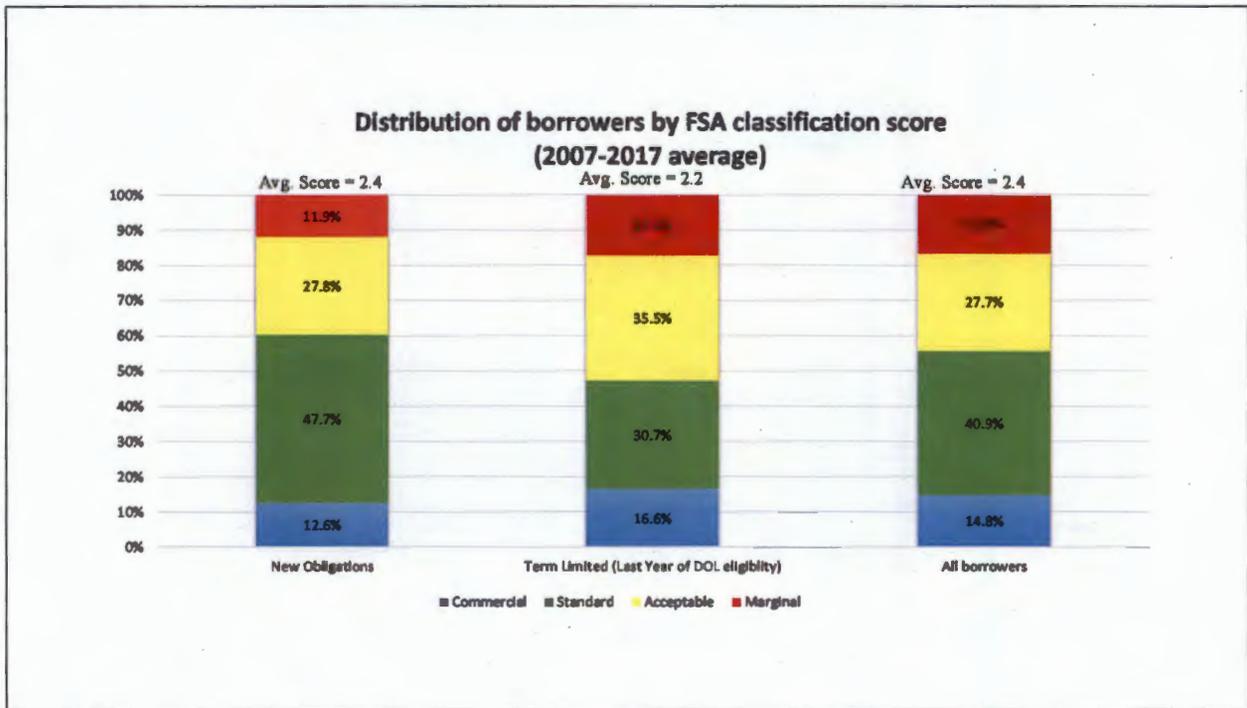
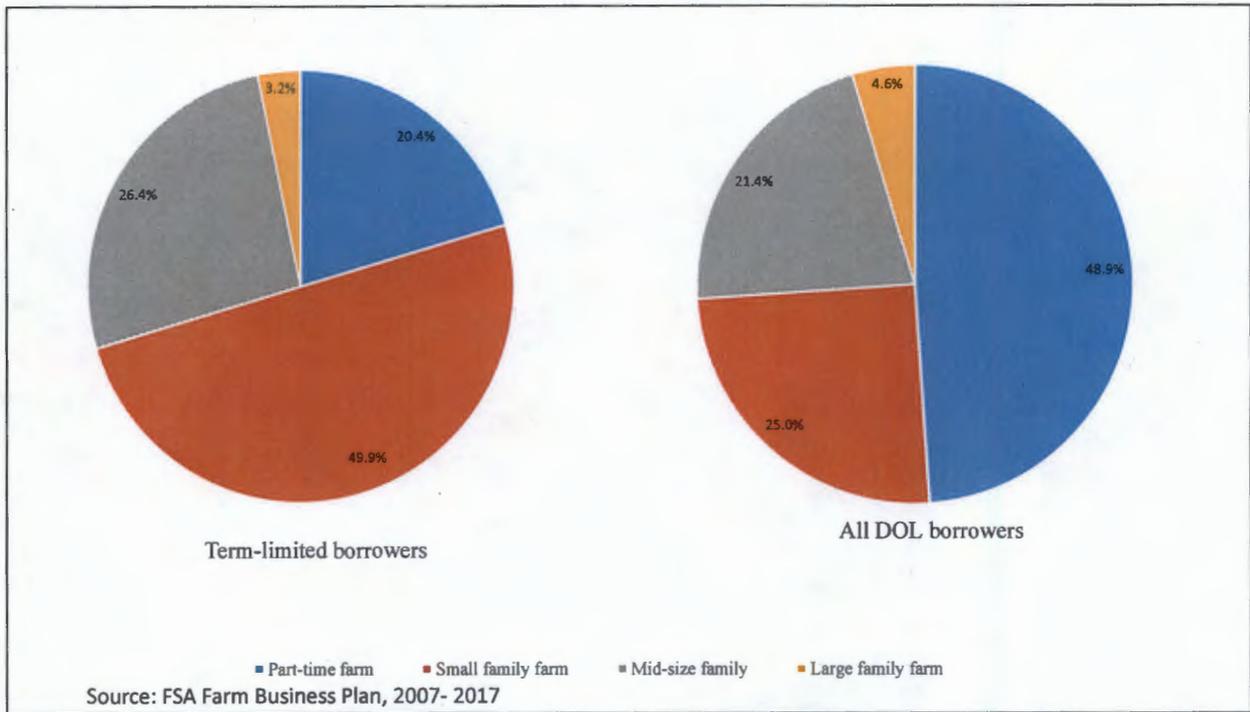
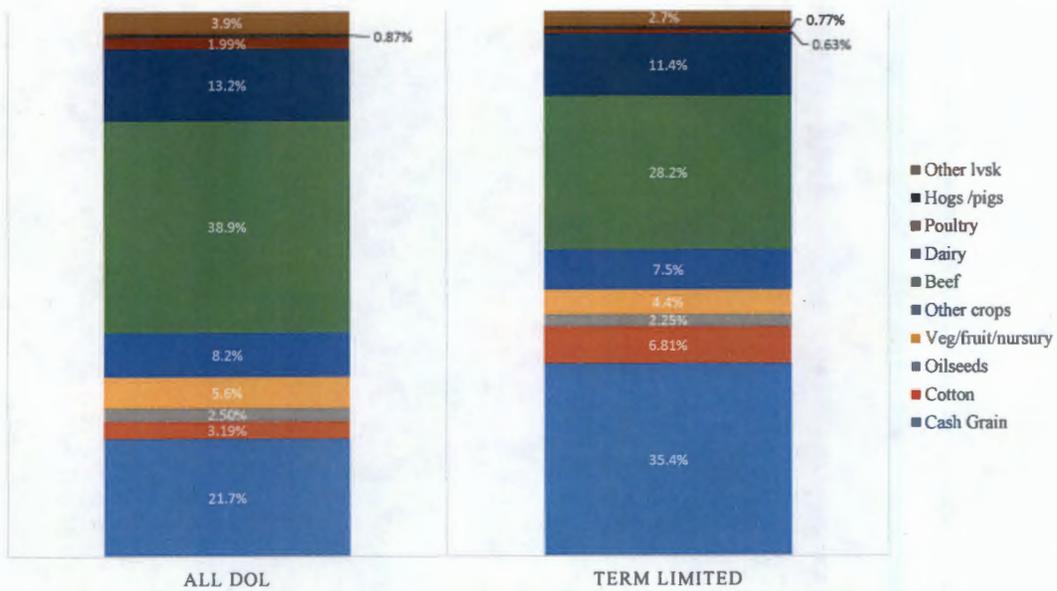


Figure 8. Distribution of DOL borrowers compared with all borrowers and those receiving new DOL loans by FSA classification score.



*Figure 9. Distribution of term-limited borrowers compared to all borrowers by ERS farm typology, 2005-2017*



Sources: USDA FSA Farm Business Plan; USDA FSA OBFN Database (2006-2017)

Figure 10. Distribution of DOL borrowers receiving loans since 2006, by commodity specialization, for term limited and all borrowers.