



# FACT SHEET

UNITED STATES DEPARTMENT OF AGRICULTURE  
FARM SERVICE AGENCY

January 2011

## Loans for Socially Disadvantaged Persons

*According to the 2008 Farm Bill*



### Here's What's New:

- Direct Farm Ownership or Operating Loans increased to \$300,000
- Direct loans available for up to 45 % of the purchase price of a family-sized farm
- First priority along with beginning farmer and rancher to purchase FSA inventory property

### Overview

The Farm Service Agency (FSA) can make and guarantee loans to socially disadvantaged applicants to buy and operate family farms and ranches. Funds specifically for these loans are reserved each year. Non-reserved funds can also be utilized.

A socially disadvantaged farmer or rancher is one of a group whose members have been subjected to racial, ethnic, or gender prejudice because of their identity as members of the group without regard to their individual qualities.

For purposes of this program, socially disadvantaged groups are: American Indians or Alaskan Natives, Asians, Blacks or African Americans, Native Hawaiians or other Pacific Islanders, Hispanics, and women.

### ***This program:***

- Targets direct and guaranteed loan assistance to socially disadvantaged persons;
- Discovers and removes barriers that prevent full participation of those persons in FSA's farm loan programs; and
- Provides information and assistance to applicants to help them develop sound management practices, analyze problems, and plan the best use of available resources essential for success.

### ***Types of Loans***

Direct loans are made to applicants by FSA and include both farm operating and farm ownership loans.

Guaranteed farm loans also may be made for ownership or operating purposes, and may be made by any lending institution subject to Federal or State supervision (banks, savings and loans, and units of the Farm Credit System) and guaranteed by FSA. Some State governments also operate farm loan programs that are eligible for FSA guarantees. Typically, FSA guarantees 90 or 95 percent of a loan against any loss that might be incurred if the loan fails.

### ***Use of Loan Funds***

Farm Ownership Loans (FO) 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, promote soil and water conservation and development, and pay closing costs. Reserved direct farm ownership loan funds can only be used to purchase a farm or ranch. Guaranteed farm ownership funds may also be used to refinance debt.

Farm Operating Loans (OL) may be used to purchase livestock, poultry, farm equipment, feed, seed, fuel, fertilizer, chemicals, hail and other crop insurance, food, clothing, medical care, and hired labor. Funds also may be used to refinance debt and to install or improve water systems for home use, livestock or irrigation, and other improvements.

### ***Who May Borrow***

Individuals and entities primarily and directly engaged in farming and ranching on family-size operations may apply. A family-size farm is considered to be one that a family can operate and manage itself. In addition to being members of a socially disadvantaged group, individual applicants under this program must meet all requirements for FSA's regular farm loan program assistance, including:

- Have a satisfactory history of meeting credit obligations;
- Have sufficient education, training, or at least 1-year's experience in managing or

operating a farm or ranch within the last 5 years for a direct operating loan, or for a direct farm ownership loan applicant must have experience in the operation of a farm or ranch for 3 years;

- Is a citizen of the United States (or a legal resident alien) including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, and certain former Pacific Island Trust Territories;
- Be unable to obtain credit elsewhere at reasonable rates and terms to meet actual needs; and
- Possess legal capacity to incur loan obligations.

In the case of an entity, the members holding a majority interest must meet the same eligibility requirements. The entity must be authorized to operate a farm or ranch in the State where the actual operation is located. In addition, U.S. citizens or legal resident aliens must own the entity, and the socially disadvantaged members must hold a majority interest in the entity.

If blood or marriage relates the individuals holding a majority interest in the entity, at least one stockholder, member, or partner must operate the family farm or ranch. If blood or marriage does not relate them, those holding a majority interest must operate the farm or ranch.

### ***Terms and Interest Rates***

Repayment terms for direct operating loans depend on the collateral securing the loan and usually run from 1 to 7 years. Interest rates for direct loans are set periodically according to the Government's cost of borrowing. Repayment terms for direct farm

ownership loans are up to 40 years depending on security and replacement ability.

Interest rates for guaranteed loans are established by the lender, but may not exceed the rate the lender charges its average farm loan customer. The lender sets guaranteed loan terms.

### ***Getting a Loan***

Applications for all FSA direct loan programs are made through local county FSA offices. These are listed in telephone directories under "United States Government, Department of Agriculture."

Guaranteed loan applications are made with the lender. In cases where an applicant does not know a lender, local office personnel will assist the applicant.

### ***How to Apply***

For instructions on applying for any FSA loan, please refer to the fact sheet included within this Producer Handbook entitled "***How to Complete an FSA Loan Application.***"

### ***For more information***

Additional information may be obtained at local FSA offices or through the Montana FSA Web site at <http://www.fsa.usda.gov/mt>

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