United States Department of Agriculture

FARM SERVICE AGENCY

Montana State Producer Handbook

October 2009

Fact Sheet

Farm Loan Program –

According to the 2008 Farm Bill

Here's What's New:

- Direct Farm Ownership or Operating Loans increased to $300,000
- Beginning farmer and rancher applicants may obtain a direct loan for up to 45 % of the purchase price of a family-sized farm
- Beginning farmer and rancher term increased to 20 years
- Beginning farmer and rancher interest rate has changed to the farm ownership rate less 4 % with a floor of 1.5 percent.

Overview

The Farm Service Agency (FSA), an agency of the U.S. Department of Agriculture, makes direct and guaranteed loans to family farmers and ranchers to purchase farmland and finance agricultural production. 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 in USDA Service Centers. Guaranteed loans are available for producers from local commercial lenders. Producers may obtain general information for loan guarantees from the county FSA office, as all programs are administered through these 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 that will help overcome those weaknesses and ultimately result in the farmer's graduation to commercial credit.

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 $300,000. Maximum indebtedness for guaranteed loans is $1,094,000 (amount adjusted annually for inflation). Depending on security and replacement ability, the maximum repayment term is 40 years for direct farm ownership loans. Based on the lenders decision, the maximum repayment ability for the Guaranteed Farm Ownership is 40 years. 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.

Beginning Farmer Down Payment Farm Ownership Loans

Eligible beginning farmer applicants may obtain a direct loan for up to 45 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 5 percent down payment on the purchase. The remaining balance may be guaranteed by FSA if financed by

an eligible lender. The amount financed may not exceed $500,000.
The interest rate is specified as the direct farm ownership rate less 4 percent with a floor of 1.5 percent. The maximum term is 20 years.

Direct Farm Operating Loans

Eligible applicants may obtain direct loans for up to a maximum indebtedness of $300,000, and guaranteed loans for up to a maximum indebtedness of $1,049,000 (amount adjusted annually for inflation). 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. In general, loan funds may be used for normal operating expenses, machinery and equipment, real estate repairs, and refinancing debt.

Emergency 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 as disaster areas or designated by the Secretary of Agriculture as disaster areas or quarantine areas (for physical losses only, the FSA Administrator may authorize Emergency Loan assistance). For production loss loans, applicants must demonstrate a 30-percent loss in a single farming or ranching enterprise. Applicants may receive loans up to 100 percent of production or physical losses. Loan purposes include both operating and real estate, and repayment terms, depending 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 and must be used for agricultural purposes. 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 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

FSA'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, and 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 contracts on environmentally sensitive land in exchange for reduction of debt; and
- 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:

- Debt settlement based on inability to repay. In some cases, where a successful plan of 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 loan 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.

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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Farm Loan Information

Program	Maximum Loan Amount	Rates and Terms	Use of Proceeds
Direct Farm Ownership	$300,000	➢ Up to 40 years (depends on security and replacement ability) ➢ Rates based on Agency borrowing costs ➢ Temporary limited resource interest rates are available for those unable to repay at regular rates ➢ Interest rate 5% if 50% of loan amt. provided by other lender	➢ Purchase land ➢ Construct buildings or other improvements ➢ Soil and water conservation
Beginning Farmer Down Payment Farm Ownership	Lesser of: 45% purchase price or appraised value	➢ Term: 20 years ➢ Interest rate: Farm Ownership rate less 4% with a floor of 1.5%	➢ Purchase farm or ranch
Direct Operating	$300,000	➢ From 1 to 7 years (depends on security and repayment ability) ➢ Rates based on Agency borrowing cost ➢ Temporary limited resource interest rates are available for those unable to repay at regular rates	➢ Purchase livestock, poultry, equipment, feed, seed, farm chemicals, and supplies ➢ Soil and water conservation ➢ Refinancing indebtedness with certain limitations
Direct Emergency	100% actual physical losses or $500,000 maximum program indebtedness	➢ From 1 to 7 years for non-real estate purposes ➢ Up to 40 years for physical losses on real estate ➢ Interest rate: 3.75%	➢ Restore or replace essential property ➢ Pay all or part of production costs associated with the disaster year ➢ Pay essential family living expenses ➢ Reorganize the farming operation ➢ Refinancing indebtedness with certain limitations
Guaranteed Operating	$1,112,000 (Amount adjusted annually for inflation)	➢ From 1 to 7 years (lenders decision) ➢ Rates not to exceed those lenders charge average farm customers ➢ Interest rate reduction of 4% available for those unable to repay at regular rates (with certain limitations)	➢ Same as Direct Operating except loan may be used to refinance debts
Guaranteed Farm Ownership	$1,112,000 (Amount adjusted annually for inflation)	➢ Up to 40 years (lenders decision) ➢ Rates not to exceed those lenders charge average farm customers	➢ Same as Direct Farm Ownership except loan may be used to refinance debts