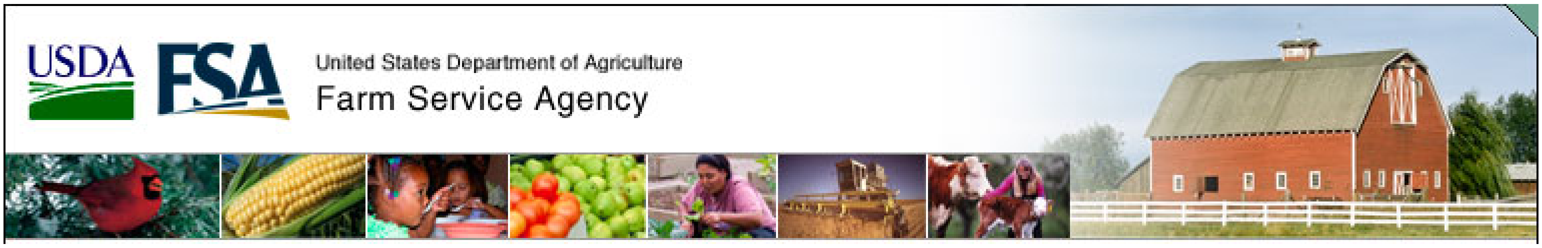

Guaranteed Loan Program

Loan Purposes

Guaranteed Ownership Loans

Guaranteed Farm Ownership (FO) Loans may be made to purchase farmland, construct or repair buildings and other fixtures, develop farmland to promote soil and water conservation, or to refinance debt.

Guaranteed Operating Loans

Guaranteed Operating Loans (OL) may be used to purchase livestock, farm equipment, feed, seed, fuel, farm chemicals, insurance, and other operating expenses. Operating Loans can also be used to pay for minor improvements to buildings, costs associated with land and water development, family living expenses, and to refinance debts under certain conditions.

Maximum Loan Size

FSA can guarantee OLs or FO loans up to $1,392,000 (amount adjusted annually based on inflation).

Borrower Eligibility

To qualify for an FSA Guarantee, a loan applicant must:

- be a citizen of the United States (or legal resident alien), which includes Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, and certain former Pacific Trust Territories.
- have an acceptable credit history as determined by the lender.
- have the legal capacity to incur the obligations of the loan.
- be unable to obtain a loan without a guarantee.
- not have caused FSA a loss by receiving debt forgiveness on more than 3 occasions on or prior to April 4, 1996; or any occasion after April 4, 1996.
- be the owner or tenant operator of a family farm after the loan is closed. For an OL, the producer must be the operator of a family farm after the loan is closed. For an FO Loan, the producer needs to also own the farm.
- not be delinquent on any Federal debt.

Entities (corporations, cooperatives, joint operations, partnerships, trusts, and limited liability companies) and their members/stockholders must meet these same eligibility requirements. The entity must also be authorized to operate a farm or ranch in the State where the land is located.

What Other Criteria Does FSA Consider?

In addition to meeting the eligibility criteria, the loan applicant must have a satisfactory credit history, demonstrate repayment ability, and provide sufficient security for the loan.

If the Producer Qualifies, What Next?

The following actions are usually taken as part of the application process:

- The producer and lender complete the guaranteed application and submit it to FSA (FSA will assist if needed.)
- FSA reviews the application for eligibility, repayment ability, security, and compliance with other regulations.
- FSA approves and obligates the loan.
- The lender receives a conditional commitment indicating funds have been set aside, and the loan may be closed.
- The lender closes the loan and advances funds to the producer.
- FSA issues the guarantee.

Loan Terms and Interest Rates

Repayment terms vary according to the type of loan made, the collateral securing the loan, and the producer's ability to repay. OLs are normally repaid within 7 years and FO loans cannot exceed 40 years.

The Guaranteed loan interest rate and payment terms are negotiated between the lender and the borrower within certain allowable benchmarks. In addition, under the *Interest Assistance Program, FSA will subsidize 4 percent of the interest rate on loans to qualifying borrowers.

*Note: At this time there is no funding for Interest Assistance.

Security

Each loan must be adequately secured. Collateral for OLs consists of a first lien on crops to be produced and on livestock and equipment purchased or refinanced with loan funds. A lien may be taken on certain other chattel and real estate property, and an assignment usually will be taken on income such as that from a dairy enterprise. Collateral for FO loans consists of real estate only or a combination of real estate and chattels. FSA staff determines whether the collateral proposed by the lender is adequate.

Is this the Lender's Loan or an FSA Loan?

Guaranteed loans are the property and responsibility of the lender. The lender makes the loan and services it to conclusion. If successful, the borrower is able to repay the loan and no taxpayer money will be used except for administrative expenses. If a loan fails, and the lender suffers a loss, FSA will reimburse the lender with Federal funds according to the terms and conditions specified in the guarantee.

What Happens if the Loan Becomes Delinquent or the Borrower Defaults?

The lender must notify FSA when a borrower is 30 days overdue on a payment and is unlikely to bring the account current within 60 days, or if a loan is otherwise a problem. Lenders are encouraged to work with the borrower to resolve any problems.

Percent of Guarantee

For most loans, the maximum guarantee is 90 percent. The guarantee percentage will be determined by FSA based on the risk involved in the loan. The lender may receive a 95 percent guarantee when:

- The purpose of the loan is to refinance direct FSA farm credit program debt. If only a portion of the loan is for this purpose, a weighted percentage of guarantee will be used.
- The loan is made to a beginning farmer to participate in the beginning farmer down payment loan program or a qualifying State beginning farmer program.

Guarantee Fees

For most loans, FSA charges a guarantee fee of 1.5 percent of the guaranteed portion of the loan. This fee may be passed on to the borrower. The guarantee fee is waived for:

- Interest assistance loans
- Loans where more than 50% of the loan funds are used to pay off direct FSA loan debt
- Loans in conjunction with a Downpayment Farm Ownership Loan program for beginning farmers or a qualifying state beginning farmer program. This fee waiver does not extend to all beginning farmers.

Secondary Market

The secondary market for USDA guaranteed loans is a key feature of the guaranteed lending program. The lender may resell the guaranteed portion of the loan to an interested party. The interested party then becomes the *Holder* of the loan, but the original lender must retain the loan servicing responsibilities. Investors who are looking for safe investments with a reasonable return are attracted to these loans because of the Government's full Faith and Credit guarantee against default. The existence of the secondary market makes guaranteed loan notes more liquid. By reselling the guaranteed portions, lenders reduce interest rate exposure, increase their lending capabilities, and generate fees.

Advantages of Using the Secondary Market

The existence of the secondary market is a strong inducement for lenders to become involved in guaranteed lending. Selling the guaranteed portion of the loan to other investors offers a number of advantages, including:

- **Reduced Interest Rate Risk**. Lenders can transfer risk of interest rate increases on the guaranteed portion of a fixed rate loan.
- **Increased Liquidity**. Selling the loan on the secondary market frees the funds for additional lending or investing activity.
- **Increased Lending or Investing Capabilities**. Since the guaranteed portion of the loan is generally not applied against a bank's lending limit, it can be used to expand lending capabilities.
- **Increased Return on Investment**. The sale of the guaranteed portion of the loan in the secondary market increases the lender's overall return on investment. Each time a bank sells a guaranteed portion, it generally retains a servicing fee.
- **Rates and Terms**. Lenders may be able to offer the producer more flexible repayment terms, as well as fixed and/or reduced interest rates to improve cash flow.

Where to Go for More Information

Further information and applications for FSA loan programs are available at the Agency's local county offices. These are usually listed in telephone directories in the section set aside for governmental/public organizations under the U.S. Department of Agriculture, Farm Service Agency. To locate your local FSA Office, click here.

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and wish to file either an EEO or program complaint, please contact USDA through the Federal Relay Service at (800) 877-8339 or (800) 845-6136 (in Spanish).

If you wish to file a Civil Rights program complaint of discrimination, complete the USDA Program Discrimination Complaint Form, found online at **http://www.ascr.usda.gov/complaint_filing_cust.html**, or at any USDA office, or call (866) 632-9992 to request the form. You may also write a letter containing all of the information requested in the form. Send your completed complaint form or letter by mail to U.S. Department of Agriculture, Director, Office of Adjudication, 1400 Independence Avenue, S.W., Washington, D.C. 20250-9410, by fax (202) 690-7442 or email at **program.intake@usda.gov**.

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