Missouri State Fact Sheet

FSA "Guaranteed" Farm Loan Programs

The Farm Service Agency (FSA) may guarantee loans eligible agriculture lenders make to family farmers. The primary purpose of the program is to enable lenders to provide credit to farmers who cannot otherwise obtain credit without the guarantee due to risk and other factors. FSA provides the ag lender with a guarantee covering up to 90 percent, in most cases. In certain limited circumstances, a 95 percent guarantee is available. FSA has the responsibilities of approving all loan guarantees and providing technical assistance to the lender in order to accomplish the objectives of the guaranteed loan program.

Who May Borrow? Individuals, partnerships, joint operators, L.L.C., trusts, and corporations that do, or will, conduct and operate family-size farming operations. A loan applicant must be the "**operator**" and recognized in the community as a family-size farmer, have day-to-day management and control, and provides a substantial amount of the labor requirements.

What Other Criteria Does FSA Consider? In addition to meeting eligibility criteria, the loan applicant must have a satisfactory credit history, demonstrate repayment ability, and provide sufficient security for the loan.

What Types of Guarantees Are Available and How May Loan Funds Be Used?

1. **Farm Ownership (FO/LN) -** *loan funds may be used:*

   - To purchase land.
   - To construct or acquire buildings and/or other improvements that will become real estate fixtures.
   - For soil and water conservation.
   - To refinance indebtedness incurred for authorized operating (OL) or farm ownership (FO) purposes provided need to refinance is demonstrated.

2. **Operating (OL/LN) -** *loan funds may be used:*

   - To purchase livestock and farm machinery/equipment.
   - To refinance indebtedness (authorized operating purpose) provided need to refinance is demonstrated.
   - For payment of intermediate term chattel (IT) and long term real estate (LT) debt installments, if the debt being paid was for authorized OL or FO purposes.

3. **Operating Line of Credit (OL/LOC) -** *loan funds may be used:*

   - To pay for annual operating expenses such as feed, seed, fertilizer, chemicals, fuel, repairs, feeder livestock, and family living expenses.
   - For purchase of routine capital assets such as replacement of breeding livestock that can be repaid within the operating cycle.
   - For payment of scheduled, non-delinquent IT and LT debt installments, if debt being paid was for authorized OL or FO purposes.
   - For payment of current annual operating debts advanced for current operating cycle. Under no circumstances can last years carry-over operating debts be refinanced.

What Are the Loan Limits? Limits for the real estate type loan (FO/LN) is $852,000. Limits for operating (chattel) type loans (OL/LN or OL/LOC) are $852,000. Total outstanding unpaid principal on all guaranteed loans cannot exceed the market value of the loan security or $852,000, whichever is less.

What Are the Interest Rates? The interest rate on a guaranteed loan is negotiated between the lender and borrower. It can be fixed or variable, but cannot exceed the rate the lender charges its average farm customer without a guarantee.

What Are the Loan Terms? Repayment terms vary according to the type of loan made, the market value of the collateral securing the loan, remaining useful life of the collateral, and the producer's repayment ability.

- **FO/LN -** The maximum repayment term is 40 years.
- **OL/LN -** The repayment term may vary, but cannot exceed 7 years for intermediate term purposes.
- **OL/LOC -** Up to a revolving 5-year credit line for annual operating expenses. Generally repaid each year. Subject to renewal based on the next year's cash flow projections.

Is this a Lender's or FSA Loan? This is the lender's loan. The loan is made and serviced to conclusion by the lender. If a loan fails, FSA will reimburse the lender for the loss of the guaranteed principal and interest portion as set forth under the terms and conditions specified in the Loan Note Guarantee.

What is the Guarantee Fee? The guarantee fee is a one-time fee paid to FSA by the lender, who may pass it on to the borrower. The fee is 1 percent of the principal loan amount, multiplied by the percentage of the FSA guarantee. The 1 percent fee is waived:

1. For guaranteed loans approved/obligated under the OL/LN or OL/LOC Interest Assistance program.
2. If 50 percent or more of loan funds are used to refinance Agency debt.
3. If lender participating in the 40-50-10 direct loan beginning farmer downpayment program.
4. If 50 percent or more of loan funds are funded with the state Beginning Farmer MO First Linked Deposit program.

What is Interest Assistance? Interest Assistance (IA) is a program to enable lenders to continue to provide credit to borrowers who are temporarily unable to project a 100 percent feasible plan on all income and expenses, including debt service, without a reduction in interest rates. In other words, Balance Available to Debt Repayment must be less than 1:1 before IA subsidy can be considered and greater that 1:1 after its applied. Interest Assistance can be applied to each loan, only to 1 loan, or any distribution the lender selects, however, Interest Assistance is only available on as many loans as necessary to achieve a <u>feasible plan or 1:1 cash flow margin</u>. The lender reduces the interest rate paid on the loan/line of credit by 4 percent. FSA will make annual payments reimbursing the lender the 4 percent based on the borrower's actual average unpaid principal balance. Interest Assistance is available only for NEW OL/LN and OL/LOC loans.

What about marketing fixed-amount loans? The Loan Guarantee is readily marketable by the lender on the secondary market. The lender may assign all or part of the guaranteed portion of the loan to one or more holders, but must retain the unguaranteed portion. The full faith and credit of the U.S. Government protect holders (investors) of Loan Note Guarantees. Operating (OL/LOC) loans may not be sold on the secondary market.

If the Producer Qualifies, What Next? The following actions are usually taken as part of the application process:

1. The producer and lender complete the guaranteed application and submit it to FSA.
2. FSA reviews for eligibility, repayment ability, security, and compliance with other regulations.
3. FSA approves and obligates the loan.
4. The lender receives a conditional commitment indicating funds have been set aside, and the loan may be closed.
5. The lender closes the loan and advances funds to the producer.
6. FSA issues the guarantee.

Additional information may be obtained at local county Farm Service Agency offices or on the FSA Web site at: **http://www.fsa.usda.gov/dafl/guaranteed.htm.** Regulations governing FSA Guaranteed Farm Loans are found in **FSA Handbook 2-FLP / 7 CFR Part 762**.