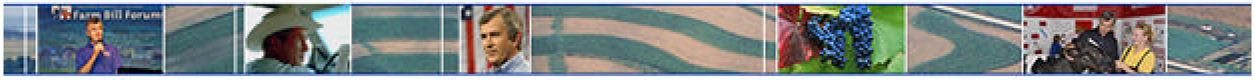

FARM LOAN PROGRAMS

Background

The U.S. Department of Agriculture (USDA) makes direct and guaranteed operating and farm ownership loans to eligible farmers and ranchers. Under its direct operating loan program, USDA also makes loans to rural youth to establish and operate income-producing projects of modest size in connection with their participation in 4-H clubs, FFA, and similar organizations. Guaranteed loans are made through private lenders with a guarantee of up to 95 percent of the loss of principal and interest. Direct and guaranteed operating loans can be used to purchase livestock, equipment, feed, seed, and other material essential to a farm or ranch operation. Direct and guaranteed farm ownership loan funds may be used to purchase land, construct buildings, or make farm improvements. Guaranteed operating and farm ownership loans may also be used to refinance debt. USDA also provides assistance to beginning farmers and ranchers under its Direct Farm Ownership Down Payment Loan Program, and provides retiring farmers the opportunity to transfer their land to future generations of farmers and ranchers. USDA also targets a portion of its direct and guaranteed operating loan and farm ownership loan funds to beginning farmers and ranchers and Socially Disadvantaged Applicants (SDAs). Emergency loans are available to established farmers and ranchers who have suffered losses as a result of a natural disaster or quarantine.

The individual loan limits for each program are set by statute as follows: direct operating loan $200,000; direct operating loan-youth $5,000; direct farm ownership $200,000; direct farm ownership down payment $100,000; guaranteed operating loan and farm ownership $852,000 (adjusted annually for inflation); and emergency loans $500,000.

The Consolidated Farm and Rural Development Act (CONACT) of 1961 authorized direct operating loan and farm ownership assistance. The Rural Development Act of 1972, which amended the CONACT, authorized the agency to make guaranteed operating loans, as well as farm ownership, emergency, and youth loans. The targeting of SDA farm ownership loan funds was authorized under the Agricultural Credit Act of 1987, and the 1990 farm bill authorized the targeting of operating loan funds to SDA. The targeting of direct and guaranteed operating and farm ownership loan funds to beginning farmers and ranchers was authorized under the Agricultural Credit Improvement Act of 1992.

To be eligible for direct and guaranteed operating loan and farm ownership assistance, applicants must be a U.S. citizen or legal resident alien; be unable to obtain sufficient credit from other sources; not be delinquent on any Federal debt; have acceptable credit history, adequate collateral, and sufficient loan repayment ability; and meet other criteria.

Individuals requesting direct farm ownership assistance must have participated in the business operations of a farm or ranch for at least 3 years, but not necessarily have been the primary operator of the farm or ranch. To qualify for the Direct Farm Ownership Down Payment Loan Program, applicants must be beginning farmers and ranchers, provide a down payment of at least 10 percent of the purchase price, and meet all other direct farm ownership eligibility requirements.

Concerning the loan targeting, beginning farmers and ranchers and SDAs must meet all basic loan program eligibility requirements. Beginning farmers and ranchers must have operated a farm or ranch for not more than 10 years, and if applying for a farm ownership loan, must not own farm property totaling more than 30 percent of the average farm acreage in the county, and meet all other eligibility requirements. SDAs include women, African Americans, Alaska Natives, American Indians, Hispanics, Asians, and Pacific Islanders.

To be eligible for emergency loan assistance, the applicant's operation must be located in, or contiguous to, a county that has been declared a disaster area by the President or designated a disaster or quarantine area by the Secretary of Agriculture. The applicant must have suffered a qualifying production or physical loss as the direct result of a natural disaster or quarantine. An applicant must be unable to obtain credit elsewhere and must meet other eligibility criteria. To be eligible for a direct operating youth loan, an applicant must also be between 10 and 20 years old and live in a town of fewer than 10,000 people.

The Farm Service Agency (FSA) farm loans have provided thousands of direct and guaranteed loans to farmers and ranchers who need aid with startup costs and other financial or technical assistance to maintain the profitability of their operations. The table below provides a breakdown of loan activity from fiscal year (FY) 2001 through FY 2005:

USDA Farm Service Agency Loan Activity, FY 2001—FY 2005

Fiscal Year	Total Obligations	Number of Loans
2001	$3,258,478,000	29,922
2002	$3,554,373,000	30,460
2003	$3,616,594,000	30,675
2004	$3,103,341,000	26,716
2005	$3,046,469,000	26,349

Since FY 1994, FSA has provided more than $7.6 billion in direct and guaranteed loan funds to 87,660 beginning farmers and ranchers. From FY 2001 to FY 2005, FSA has provided more than $1.7 billion in loan funds to 19,996 SDA individuals.

General Opinions Expressed

- Participants generally expressed support to increase the guaranteed and direct operating and farm ownership loan limits. The general consensus was that the current direct loan limits have not been changed in many years and have not kept pace with inflationary changes that have occurred in the agricultural economy.

- Many asked to have the direct and guaranteed loan term limits abolished so producers have sufficient time to recover from financial hardships.
- Many expressed concerns about the complicated process of applying for FSA loan assistance. They routinely stated the loan process needs to be streamlined for simplicity. They also expressed concern that too much time elapses between application filing and loan closing.
- Many participants expressed support for the beginning farmer loan program and helping beginning farmers. The general consensus was that funding needs to be increased. Low-interest loans should be provided to young farmers under this program. Participants also supported added incentives to encourage new farmers to get into farming. Many said that better rates and terms should be provided to beginning farmers seeking agency loan assistance.
- Participants also expressed general support for the continuation of the FSA direct and guaranteed operating loan programs. Many commented that the programs should be expanded to allow loan funds to be used for custom farming, value-added crops, niche farming, and organic farming. Other commenters encouraged FSA to increase credit supervision to prevent misuse and abuse of its program loan funds.
- Several comments were made concerning the continuation and improvement of the Rural Youth Loan Program. Participants expressed support for increasing the loan limit of the program.
- Some participants expressed a need for additional technical assistance and education programs for farmers and ranchers. The general consensus on this topic was that more management training is needed for farmers; minority farmers need increased opportunities for education and technical assistance; and more technical and business planning help is needed for farmers.
- Some participants expressed a need for increased outreach efforts and activities by FSA concerning the existence and availability of loan programs. Participants stated the agency does a poor job of informing the farming public regarding the availability of financial programs.
- Some participants stated that FSA needs to do a better job of supporting minority and socially disadvantaged farmers, as well as small farmers.
- Some participants said that they had no confidence in the local FSA directors regarding receiving guaranteed loan assistance.
- General support was expressed for intergenerational transfer of assets and farm operations within families.
- Some want simplified methods of applying for conservation contracts and loan restructure which would preserve farm operations and prevent farmland from being lost to residential and industrial development.
- Many felt that relaxed recordkeeping requirements are needed.
- Leniency on bank loans due to rising energy costs was encouraged.

Detailed Suggestions Expressed

- Notification of delinquency should occur after 180 days, not 90 days.
- The Beginning Farmer Program loan limit is $250,000 and has been that way for 23 years. It should be raised to $750,000.
- Direct and guaranteed operating loan programs should be expanded to include custom service providers to production agriculture, including custom field operations (i.e., planting/spray-spread applications/harvesting) and manure handling operations.
- The present direct operating loan term limits of 7 years for operating loans and 10 years for farm ownership loans should be suspended permanently. These term limits do not allow adequate time for beginning farmers to become financially stable and grow their businesses. Guaranteed operating loan term limits that were suspended during the last farm bill should be suspended permanently. Permanently removing term limits from direct loans as well as from guaranteed operating loans should be supported by USDA.
- Increase loan limits for direct farm ownership and operating loans—the current limits of $200,000 for farm ownership loans and $200,000 for operating loans were set over 20 years ago. Production costs and real estate values have greatly increased over the past 20 years. Loan limits should be increased to $400,000 for farm ownership, operating and direct loans. Also in an effort to help beginning farmers, the $250,000 limit on the purchase price or appraised value for property in FSA's Beginning Farmer Down Payment Program should be increased to $350,000.
- FSA should be allowed to guarantee loans made by commercial lenders on tax-free bonds—many States are promoting tax-free bonds as an avenue to assist beginning farmers. Changing the rules to allow the use of FSA guaranteed loans in conjunction with tax-free bonds will provide an excellent opportunity for a Federal-State partnership in their efforts to assist beginning farmers.
- Increase the maximum FSA loan term for beginning farmer downpayment loans to 20 or 25 years, from the present 15-year term.
- The current USDA Beginning Farmer Program needs improvement. The need to hire someone to fill out the application is a major concern. Also, the limited availability of these funds is a problem.
- FSA loan application processing needs to be streamlined and expedited. The application process is taking more than 60 days, because the employment verification of new farmers, who also hold multiple other jobs, delays the process.
- The 2007 farm bill should provide low-interest loans or cost-sharing arrangements to individuals and entities involved in niche and value-added agriculture.
- Make operating loan assistance less complicated and more flexible with added incentive programs for young farmers.
- Beginning farmer and rancher programs should be expanded to specifically serve beginning organic farmers and ranchers.
- Provide funding for "small" farmers to be able to purchase land if desired and necessary.
- Increase the FSA cap on farm purchase loans to $500,000 (from $200,000).
- Investment should go to supporting programs encouraging small family farms and community-supported agriculture.
- At the very least, USDA actions should be crafted to do no harm to beginning farmers and ranchers. This could be done by developing an oversight group that would scrutinize the

development of law, rule, and policy to ensure programs are designed to benefit beginning farmers.

- Let more low-income people get loans for smaller farms. Take a lot of restrictions off the farms and the people applying for loans.
- A one-time interest-free or very-low-interest loan to purchase equipment and/or land would be helpful in getting young farmers into business.
- Place as much emphasis on providing loans to non-beginning farmers (by increasing targeted funds for non-beginning farmers) as for providing loans to beginning farmers.
- Offer low-cost loans for farmers to gain land, much like the Veterans Administration does for veterans.
- The Rural Youth Loan Program should be the vehicle to provide our rural youth the needed production and marketing experience required to participate in the FSA Beginning Farmer Loan Program, contributing to the short-term and long-term enhancement of rural economic growth.
- The youth operating loan limits should be increased to $10,000. They have been at $5,000 for quite a few years. This could help aspiring young farmers who are FFA members.
- Guaranteed loan limits should be increased beyond the current limit of $813,000.
- Young farmers need to be educated about the administrative side of FSA loan programs.
- A program is needed to assist farmers, especially young farmers who are under stress, to improve their farming abilities, to provide a positive cash flow, and to allow them to control and better operate the family farm. This program could help farmers diversify by assisting in capital costs of equipment purchases, constructing buildings, and other farm-related items. FSA has the data to help assess this program and it could be a combination of both State and Federal funds.
- Reduce foreclosure of black farmers by providing educational and economic programs.
- Provide personnel to assist black farmers with education to improve program participation and production levels.