

SEPTEMBER 2008

## Loans for Socially Disadvantaged Persons (Minorities and Women)

### **Overview**

The U.S. Department of Agriculture's (USDA) Farm Service Agency (FSA) makes and guarantees loans to eligible socially disadvantaged farmers (SDA) to buy and operate family-size farms and ranches. Each fiscal year, the Agency targets a portion of its direct and guaranteed farm ownership (FO) and operating loan (OL) funds to SDA farmers. Non-reserved funds can also be used by SDA persons.

An SDA group is a group whose members have been subject to racial, ethnic or gender prejudice because of their identity as members of a group without regard to their individual qualities. These groups consist of American Indians or Alaskan Natives, Asians, Blacks or African Americans, Native Hawaiians or other Pacific Islanders, Hispanics and women.

The Agency:

- Helps remove barriers that prevent full participation of SDA farmers in FSA's farm loan programs; and
- Provides information and assistance to SDA farmers to help them develop sound farm management practices, analyze problems, and plan the best use of available resources essential for success.

### **Types of Loans and Uses of Loan Funds**

Direct farm ownership loans (FO) and farm operating loans (OL) are made by FSA to eligible farmers. Guaranteed FO and OL loans are made by lending institutions subject to Federal or State supervision (banks, savings and loans, and units of the Farm Credit System) and guaranteed by FSA. Typically, FSA guarantees 90 percent of any loss the lender might incur if the loan fails. FO funds 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, implement soil and water conservation measures, and pay closing costs. Guaranteed FO funds may also be used to refinance debt.

OL funds may be used to purchase livestock, poultry, farm equipment, feed, seed, fuel, fertilizer, chemicals, insurance, and other operating expenses. The funds also may be used for borrower training costs, closing costs, and to reorganize and refinance debt.

### **Terms and Interest Rates**

Repayment terms for direct OL depend on the collateral securing the loan and usually run from 1 to 7 years. Repayment terms for direct FO vary but never exceed 40 years.

Interest rates for direct loans are set periodically according to the Government's cost of borrowing. Guaranteed loan terms are set by the lender. Interest rates for guaranteed loans are established by the lender.

#### **Downpayment Program**

FSA has a special loan program to assist socially disadvantaged and beginning farmers in purchasing a farm. Retiring farmers may use this program to transfer their land to future generations.

To qualify:

- The applicant must make a cash down payment of at least 5 percent of the purchase price.
- The maximum loan amount does not exceed 45 percent of the least of (a) the purchase price of the farm or ranch to be acquired; (b) the appraised value of the farm or ranch to be acquired; or (c) \$500,000 (Note: This results in a maximum loan amount of \$225,000).
- The term of the loan is 20 years. The interest rate is 4 percent below the direct FO rate, but not lower than 1.5 percent.
- The remaining balance may be obtained from a commercial lender or private party. FSA can provide up to a 95 percent guarantee if financing is obtained from a commercial lender. Participating lenders do not have to pay a guarantee fee.

#### **Sale of Inventory Farmland**

FSA advertises inventory property within 15 days of acquisition. Eligible SDA and beginning farmers are given first priority to purchase these properties at the appraised market value. If one or more eligible SDA or beginning farmer offers to purchase the same property in the first 135 days, the buyer is chosen randomly.

#### **Where to Apply**

Applications for direct loan assistance may be submitted to the local FSA office serving the area where the operation is located. Local FSA offices are listed in the telephone directory under U.S. Government, Department of Agriculture or Farm Service Agency. For guaranteed loans, applicants must apply to a commercial lender who participates in the Guaranteed Loan Program. Contact your local FSA office for a list of participating lenders.

#### **For More Information**

Further information about this and other FSA programs is available from local FSA offices or on the FSA website at: [www.fsa.usda.gov](http://www.fsa.usda.gov).

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