

Are you Eligible for an FSA Direct or Guaranteed Loan?

If you have decided to apply for a loan for a poultry operation or an upgrade, the first step is to talk to your bank. You may be able to get the loan you need from a private bank, or through the Farm Credit System. Ask other farmers in your area about their experiences with local banks, and about which banks are willing to finance poultry operations.

If you are unable to get approved for the loan that you need at reasonable rates and terms¹, through a private bank or the Farm Credit System, then you may be eligible for an FSA Direct or Guaranteed loan. For example, maybe you are struggling to find a loan that will cash flow *and* allow for family living expenses. Or, you may have been approved for a loan, but it does not meet your needs because of a very high interest rate. In these situations, you may be able to get a better loan through FSA.

FSA has different general eligibility requirements for direct and guaranteed loans. This section explains those general requirements. If you do not meet one of these requirements, you should discuss your situation with an FSA loan officer before applying for the loan.

For any loan: FSA Farm Number

The first step in considering your eligibility for an FSA loan of any kind, is demonstrating that you are authorized to operate your farm in the state where it is located. You will need to bring either a lease, rental agreement, or proof of ownership for the property to the FSA office. The loan officers will be able to register you in their system, and will give you a farm number, which you will use on any loan application.²

Borrower Training³

In order to apply for a Direct FSA loan, you must have the education or financial experience necessary to manage the loan. If your FSA loan officer decides it is necessary, FSA requires that applicants be willing to complete a borrower training course within two years of the closing on your loan. In many cases this requirement will be waived, based on your prior experience in business or financial management. (Local FSA officers will have more information about what is required in your situation.)

General limitations on FSA loans⁴:

For both Direct and Guaranteed FSA loans, the following limitations apply:

- The funds must be used for operations located in the United States
- If funding requirements for your operation exceed the maximum amount that FSA can loan through a Direct or Guaranteed loan or a combination of the two, the

¹ 764.101.e Availability of Credit Elsewhere

² 764.252.d.(2) Farm Number

³ 764.252 Eligibility Requirements

⁴ 764.102 General Limitations

applicant must be able to get the rest of the amount that is needed from another source. FSA will not approve a loan that covers only part of the operation's expenses unless the farmer can demonstrate that they have funding arrangements for the rest that they need as well.

Eligibility for Direct Loans

FSA has a set of criteria that you must meet before being able to apply for a direct loan. Direct loans can be for farm ownership, operating expenses or emergency situations. Some criteria are specific to the type of direct loan, and others apply to all types of direct loans. The following chart includes eligibility criteria as listed by FSA, published in “Your Guide to FSA Farm Loans,” available at:

https://www.fsa.usda.gov/Internet/FSA_File/fsa_br_01_web_booklet.pdf

(For a more detailed description of eligibility requirements, read section 764.101 in subpart c of Title VII in the Agricultural Credit Act, which provides the regulation for FSA loan eligibility.)

Eligibility Requirement for all Direct Loans	Examples of successfully meeting these criteria for starting a poultry operation	Examples of ways to document meeting this criteria
I have the training, education, or experience that will enable me to effectively manage my farm or ranch	● A degree in poultry science ● Experience working on and/or managing a poultry farm ● Experience raising other livestock ● Experience working on a diversified farm that raised poultry or livestock	● Degree or proof of coursework ● Schedule F from tax returns demonstrating farm income & expense management ● Tax returns or pay slips demonstrating wages for farm work related to poultry
I am a citizen of the United States, a non-citizen national, or a qualified alien.	● Born in the US ● Moved to the US legally and became a permanent resident	● Passport ● Birth Certificate ● Green Card ● Qualifying US visa
I possess the legal capacity to obtain a loan.	You do not have to have documentation for this criteria, as long as you are of sound mind and are legally able to sign for yourself.	
<i>(Table continued from p. 28: Eligibility criteria for Direct Loans)</i>		
Eligibility Requirement for all Direct Loans	Examples of successfully meeting these criteria for	Examples of ways to document meeting

	starting a poultry operation	this criteria
I do not have a conviction related to controlled substances	In order to be eligible, neither you as the applicant nor any entity member on your farm can have been convicted of cultivating, growing, producing, harvesting or storing controlled substances in the past 5 crop years. ⁵	
I am unable to obtain credit elsewhere at reasonable rates and terms.	● You must have already tried to obtain a loan from a private bank or the Farm Credit System and been denied, ● OR you were approved for a loan, but only at terms that are unreasonable. ● Unreasonable terms can mean: a high interest rate that does not allow your loan to cash flow in a way that enables you to cover family living expenses.	● For Direct and Guaranteed loans, you do not need to provide documentation of denials from other banks. You will self-certify on your application that you were unable to obtain credit at reasonable rates and terms elsewhere.
I can show that I have a good credit history (I pay my bills on time) or, if I do not, I can show that my failure to pay my bills was due to circumstances beyond my control, was infrequent, or did not happen recently.	● You have a good credit report, ● OR: problems in your credit past happened more than <u>3 years</u> ago (for example, previous late payments) and you can demonstrate good credit habits since then. ● Problems in your credit history were related to a specific event you couldn't control, like a weather disaster, layoff, or accident. (NOTE that debt may still have an impact on the feasibility of your loan.)	● In addition to your credit report, any documentation that supports your explanation for poor credit (in case of weather related instances, a county disaster declaration or other weather documentation. in case of an accident, hospital bills. In case of a layoff or contract termination, letter of termination, etc.)
<i>(Table continued from p. 28: Eligibility criteria for Direct Loans)</i>		
Eligibility Requirement for all Direct Loans	Examples of successfully meeting these criteria for	Examples of ways to document meeting this

⁵ 2 FLP – P.108 Eligibility

	starting a poultry operation	criteria
I have not had a recent foreclosure or business failure.	Previous foreclosures are treated by FSA in the same way as judgments or late payments – if they happened more than <u>3 years</u> in the past, FSA will not hold them against you in eligibility to apply for a loan.	
My operation is a family farm or ranch, and the majority of the physical labor and management is provided by me, a family member, or another entity member.	● You and your family work the farm. You may hire labor, but you are managers & owners directly. ● You and your family are present on the farm, make important decisions about the farm. ● You and/or family provide the majority of the labor.	● Farm logs ● Letters from neighbors ● Schedule F tax returns demonstrating you or family member's management of farm income & expenses ● Articles of incorporation (if incorporated)
I have not received debt forgiveness (caused FSA to lose money) on another direct or guaranteed loan.	If you have received debt forgiveness from FSA in the past, contact an FSA loan officer for additional guidance or clarification.	
I will not be behind on any debt (other than a debt under the Internal Revenue Code of 1986) that I owe to the US Government when the loan is closed.	This criteria includes debts owed to FCIC subsidized crop insurance, which is treated as a federal debt. If you have outstanding debt on crop insurance, you will be ineligible for an FSA loan. FSA cannot make an additional loan if you are delinquent on your current loans. Your loans must be current as of the date of closing your FSA loan.	

(Table continued from p. 28: Eligibility criteria for Direct Loans)

Eligibility Requirement for all Direct Loans	Examples of successfully meeting these criteria for	Examples of ways to document meeting this
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	starting a poultry operation	criteria
<i>For farm ownership loans only.</i> I have participated in the business operations of a farm or ranch for at least 3 out of the last 10 years.	● You must have played a role in <i>management</i> of a farm for 3 out of the last 10 years, not just working in farm labor ● Having financial risk in a farm business that you are managing and operating ● If you have military experience, you can substitute that for 1 of the 3 required years, IF your rank was E5 or above - must still have 2 additional years of farm management	● Schedule F from tax returns that demonstrate your role in managing farm income & expenses, not just farm wages ● Letters from neighbors describing your role on the farm you managed ● Documentation of farm purchases & sales in your name such as seeds, chemicals, livestock ● Form DD214 for military discharge demonstrating rank, if using military experience ● (For crop) Documentation of pesticide application permit
<i>For beginning farmer or rancher targeted funds only:</i> I have operated a farm or ranch for 10 years or less.	● You have worked on farms all your life but have only managed, owned or had financial risk in a farm business for 10 years or less.	● Schedule F tax returns demonstrating management of farm expenses & income for 10 years or less
<i>For beginning farmer or rancher targeted funds only:</i> If I currently own a farm or ranch, it is less than 30% of the average farm size in my county.	● Your “farm” is the land and enterprises that you own. ● Your farm acreage can be over the 30% mark <i>after</i> closing the loan and making the new purchase, but not before. (For reference, the average farm size in the US 434 acres in the 2012 census. North Carolina: 164 acres.)	● Look up the average farm size in your county. You do not need to provide documentation of the average farm size in your county as FSA will check this information internally. ● Provide documentation of the total land acreage you own.

(Table continued from p. 28: Eligibility criteria for Direct Loans)

Eligibility Requirement	Examples of successfully	Examples of ways to
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for all Direct Loans	meeting these criteria for starting a poultry operation	document meeting this criteria
<i>For down payment loans only:</i> I can make a cash down payment of at least 5% of the purchase price for the farm or ranch I want to buy, and its price is less than \$500,000.	Making a down payment means having cash on hand, ready at the time of signing the loan.	
<i>For emergency loans only:</i> My operation is in a county that has a disaster designation, and it has not been more than 8 months since the designation was declared. I suffered a production loss (at least 30%) or a physical loss due to the designated disaster.	● Following a flood, tornado, drought, or other disaster the governor of your state declared your county in a state of emergency ● AND you had physical damage such as fences down, trees down or flood damage to equipment ● or you had a production loss, for crops and other products	Pictures of damage, before you start cleanup (this is critical documentation for insurance claims as well)

Security Requirements for All FSA Direct Loans⁶

All loans must be secured by assets having a value of at least 150% of the loan amount, unless you do not have assets that add up to 150%, or unless your operation meets certain limited exceptions. If you do not have 150% collateral value, you must have a minimum of 100% of the loan value in assets. If the applicant's assets do not provide adequate security (meaning the minimum 100% of the value of the loan), the agency may accept a co-signer, or interest in property not owned by the applicant. The agency is allowed to, and often times will take a lien on all assets that are not essential to the farming operation over \$5,000 in value. These “non-essential” assets do not count toward the 150% security.

What this means is: to get a Direct loan from FSA, you must have collateral (see p.34 for an explanation of collateral) that is equal in value to 100% of the amount you are requesting as a loan. If you need a loan of \$100,000, you must put up enough property, land, farm structures, etc. that in total add up to a value of at least \$100,000.

⁶ 764.103-764.106 Security Requirements

While 100% is *required*, if you have other available farm assets (such as a tractor or other equipment) that are not already collateralized in reaching 100% of the value of your loan, FSA will take a lien on these assets as well, up to 150% of the value of your loan. In the case of the \$100,000 loan, FSA will take a lien on up to \$150,000 worth of farm assets, if they are available.

Keep in mind; FSA is considered the **“lender of last resort.”** That means that the regulations are written to discourage farmers from coming to FSA if they could potentially have other means to finance their operation, including for example, selling assets that are not required for that farming operation. An example of a **non-essential asset** is a second home, beach house, a boat, or other luxury asset not used in the farming operation. According to the regulation, FSA may take a lien on any non-essential assets valued at over \$5,000 and this will *not* count toward the %150 collateral. This means that in some cases, FSA could take a lien on all farming assets up to 150% of the value of your loan, and *in addition* take a lien on any luxury or non-essential assets over \$5,000.

However, there are important exceptions to the 150% security rule. If you are able to adequately secure the loan at 100%, some of these exceptions may apply.⁷

- If you need the asset (tractor, equipment, breeding stock etc.) to get credit elsewhere for other farming operations from other sources,
- Your personal home, household contents, small tools and personal vehicles can be excepted from the 150% rule. This is an important step for farmers to take to avoid risking their homes in debt.
- Working capital accounts (meaning other bank accounts that you're regularly using) and retirement accounts may also be excepted.

Lien Positions on Assets Between FSA and your Private Bank

In some cases, you may use the same chattel (equipment or breeding stock) as collateral on more than one FSA Direct loan, or on a combination of Direct and Guaranteed loans⁸. In some cases, FSA will take a second position on this collateral to a private bank. This may allow for more flexibility in securing your loan. Ask your Loan Officer for additional details.

⁷ 764.106 Exceptions to Security Requirements

⁸ 764.105 Chattel as Security

Eligibility for Guaranteed Loans

As with Direct loans, you must meet certain criteria before you can apply to Guaranteed loans. The following chart includes eligibility criteria as listed by FSA, published in “Your Guide to FSA Farm Loans,” available at:

https://www.fsa.usda.gov/Internet/FSA_File/fsa_br_01_web_booklet.pdf

Eligibility requirements for Guaranteed Loans	Examples of successfully meeting these criteria for starting a poultry operation	Examples of ways to document that you meet this criteria
I am a citizen of the United States, a non-citizen national, or a qualified alien.	● Born in the US ● Moved to the US legally and became a permanent resident	● Passport ● Birth Certificate ● Green Card ● Qualifying US visa
I possess the legal capacity to obtain a loan.	This simply means you are not mentally incapacitated, and do not need a legal guardian to sign for you.	
The lender will not approve my loan with reasonable terms and rates without an FSA guarantee.*	You are unable to get a loan that has reasonable terms and rates (for example, to pay your bills and cover your living expenses) from a private bank or the Farm Credit System without the guarantee.	For Direct and Guaranteed loans, you do not need to provide documentation of denials from other banks. You will self-certify on your application that you were unable to obtain credit at reasonable rates and terms elsewhere.
I have not received debt forgiveness (caused FSA to lose money) on another direct or guaranteed loan.	If you have received debt forgiveness from FSA in the past, contact an FSA loan officer for additional guidance or clarification.	

<i>(Table continued from p. 34: Eligibility criteria for Guaranteed Loans)</i>		
Eligibility requirements for Guaranteed Loans	Examples of successfully meeting these criteria for starting a poultry operation	Examples of ways to document that you meet this criteria
My operation is a family farm or ranch, and the majority of the physical labor and management is provided by me, a family member, or another entity member.*	● You and your family work the farm. You may hire labor, but you are managers & owners directly. ● You and your family are present on the farm, make important decisions about the farm. ● You and/or family provide the majority of the labor.	● Farm logs ● Letters from neighbors ● Schedule F tax returns demonstrating you or family member's management of farm income & expenses ● Articles of incorporation (if incorporated)
I will not be behind on any debt (other than a debt under the Internal Revenue Code of 1986) that I owe to the US Government when the loan is closed.	● FSA cannot make an additional loan if you are delinquent on your current loans. Your loans must be current as of the date of closing your FSA loan.	

Special Security Requirement for all Guaranteed Loans

In addition to the Security Requirements laid out in the general section, there are certain requirements that apply only to Guaranteed Loans. One in particular is worth mentioning here. This may not impact your loan application process, but it is important to keep in mind if you are pursuing a joint financing arrangement (getting both a direct loan from your bank and an FSA guaranteed loan):

In some cases, you may use **chattel** (breeding stock or equipment) as security on more than one loan. For example you may use the same chattel as security on a loan directly from your bank, *and* on an FSA guaranteed loan from the same bank. In this case, if you were to default on your loans, the bank would be *required* to apply the value of the chattel to your guaranteed loan first. This is important to know ahead of time. If you were to default on your loan, you could be left with a lingering federal debt if the bank uses the security chattel to pay off their own direct loan first. Working with FSA Preferred lenders is a good

way to avoid confusion, as Preferred Lenders have experience with the FSA loan system. (For more information about finding Preferred lenders, see p. 51).

What types of loans are available, and what is best for my farm?

There are many different types of loans. We have mentioned some briefly in this guide already - like Farm Ownership (FO) Loans, Operating Loans (OL) and loans for equipment. These types of loans can be made either by private lenders, Farm Credit System, Direct from FSA, or from another lender but Guaranteed by FSA.

In some situations, you may need to combine different types of loans in order to get the amount and type of credit you need.

Different types of loans also come with different **loan terms**. The loan term is the number of years that the loan will be set up for. Throughout the years of your loan term, you will pay back the loan according to a payment plan. In addition, different types of loans come with different agreements for **interest rates**. Interest is charged by banks, and FSA. Interest is an amount that you pay back, in addition to the amount of your loan itself. Interest is calculated as a certain percentage of what you owe every year. Having longer loan terms (like 30 or 40 years) can mean having lower payments, but it can also mean that you will pay more in interest. Shorter loan terms (like up to 7 years) are typically for equipment or operating expenses.

Who determines your terms and interest rate?

For Direct Loans, FSA is the lender. Thus FSA sets the interest rate. For Guaranteed Loans, the bank or lender sets the interest rate and terms, following certain FSA guidelines. The interest rate FSA offers you for Direct loans is the agency's standard rate. This rate is adjusted monthly, and posted online at: www.fsa.usda.gov/FSA/webapp?area=home&subject=gfmlp&topic=fir

You can also ask your local FSA Loan Officer for current Direct Loan interest rates. Once your loan is closed, the interest rate for direct loans will be fixed at the rate in effect on the date of loan approval, or of loan closing, whichever is lower.

However, it is useful to note that for Direct Loans, **FSA also offers a limited resource interest rate**, which is available to applicants who are unable to develop a feasible plan at regular interest rates. This interest rate may be lower and may help you if your loan does not cash flow at the agency standard rate.

The exact term of your loan will be determined based on your ability to repay, up to the term limit for that type of loan. Your loan officer will determine this, according to your cash flow and income. In no circumstances can an FSA Farm Ownership loan have a term longer than 40 years from the original note, even under restructuring.

Interest Rates

Interest rates can be negotiated in different ways, depending on the type of loan you get. For Direct FSA loans, the interest rates will most often be fixed, which means that for the entire course of your loan, the interest rate will remain the same. This is the most reliable type of interest rate, and helps you maintain a stable budget. There are other types of interest rates you may encounter, such as:

Fixed interest rate: Interest rate stays the same throughout the entire term of your loan (unless you refinance.)

Floating interest rate: FSA Guaranteed loans come with interest rates that are negotiated by your bank rather than by FSA. Therefore, the FSA guidelines requiring that interest rates are fixed do not apply. In some cases, your bank may offer you a floating interest rate, which means that it is subject to change over time. In some cases, floating interest rate loans may be slightly cheaper than fixed interest rate loans. However, you may take a significant risk if the interest rates increase during the term of your loan. Increasing interest rates can have a significant impact on your payments and on your ability to meet the debt obligations.

Why Are Balloon Payments Risky for Your Farm?

Balloon loans are increasingly common in poultry production, and are offered by many private banks. In a balloon loan, you will be set up with manageable payments over a short term (often 3 years) and a fixed interest rate initially. But after the 3 years, the entire remainder of the loan will be due in one very large payment, referred to as a balloon payment.

Often what farmers do when their balloon payment comes up, is refinance that remaining debt into a new loan. Banks who offer balloon loans will often renew the loan on the same structure – so another 3-year term with manageable payments will end in a large balloon payment.

Balloon loans are high risk for several reasons. First, **you are unable to lock in an interest rate for the duration of your loan.** Every time the loan term runs out, you reset in a new loan and your interest rate can change. Banks may take advantage of this to continuously increase your interest rate if possible. This means you will be unable to predict the total amount of payments you'll have to make over the long term.

Secondly, **there is no guarantee that your bank will renew the loan after your balloon payment is due.** Many farmers find themselves in stressful situations every 3 years wondering if their bank will renew their loan, or call in their debt. If the bank refuses to

renew the loan, and you are unable to pay the entire balloon payment, you must either find another bank to finance that debt or your bank will begin to liquidate your assets to claim what you owe them.

And finally, **watch out for banks that offer balloon loans with significant upfront fees.** Getting a loan always involves paying some fees for loan origination, but some banks charge significantly larger fees upfront than others do. These fees are rolled into your loan amount. You will have to pay off these fees before you begin to pay down the principal amount of your loan. For many farmers, after the 3-year term is up, they have only paid down the fees and interest – and have not paid down the principal amount of their loan. After 3 years your equipment is older and the value of your operation may have changed. In this risky situation, you may find yourself “**under water**” on your loan, meaning that you owe more than the value of your collateral. This will make any other banks highly unlikely to step in to help you refinance your loan, thus you are completely dependent on your original bank to renew the balloon loan structure.

Balloon loans are a high-risk option and should be avoided wherever possible.

