Introduction to FSA Loans:

The Farm Service Agency (FSA) is an agency of the U.S. Department of Agriculture (USDA). The goal of the FSA loans program is to help farmers get access to credit they need so that they can weather difficult times, or build their farming operations, business skills and credit scores. The FSA can make loans to eligible farmers, but only if farmers have been unable to get a loan from other lenders. FSA loans are not intended to be used for long-term credit needs, but instead for short-term credit needs, eventually "graduating" from the FSA to private lenders. They are meant to be used when farmers need one-time credit, but cannot access it elsewhere.

FSA offers Direct loans, and they also can Guarantee a loan that another lender is making to a farmer. The following definitions of these programs come from "*Your Guide to FSA Farm Loans*", a useful guide produced by FSA available at:
https://www.fsa.usda.gov/Internet/FSA_File/fsa_br_01_web_booklet.pdf

Direct Loans: When FSA makes a Direct loan to a farmer, they are the lender. *The farmer is FSA's client in this case, and FSA loans money directly to the farmer. Direct loans are made and serviced by FSA using federally appropriated money and under federal guidelines. FSA has the responsibility of providing credit counseling and supervision to its direct borrowers by helping applicants evaluate the adequacy of their real estate and facilities, machinery and equipment, financial and production management, and goals.*

Guaranteed Loans: When FSA Guarantees a loan, a private bank or entity is the actual lender*. This means FSA does not loan any money to the farmer, the farmer's bank or Farm Credit or credit union does. The FSA oversees the bank, and the bank manages the loan with the farmer. Guaranteed loans are made and serviced by commercial lenders, such as banks, or the Farm Credit System. FSA guarantees the lender's loan against loss, up to 90 percent of the remaining principal. FSA has the responsibility of approving all eligible loan guarantees and providing oversight of the lender's activities.*

The FSA provides both operating and ownership loans, either direct or guaranteed. These different types of loans available from FSA are explained in more detail in section p. 33. FSA Loans Programs are also explained on the FSA website, available at this link:
https://www.fsa.usda.gov/programs-and-services/farm-loan-programs/index

Is a Guaranteed Loan Less Risky for Me?

The short answer is: No. FSA Guaranteed Loans lower the risk to your bank in offering you the loan. They do not lower your risk, and they do not guarantee that you will be able to make your payments. If you are unable to keep making your payments on time, you may default on your loan. This means you are not able to pay the loan back but you still owe money to the bank. In this case, your bank and FSA wound be entitled to foreclose on any assets you used as collateral to get the loan – which could be your farm or home. If these assets are not worth enough money to cover the amount you still owe the bank, FSA will pay the bank back up to 90% of the remaining debt. The FSA uses federal tax dollars assigned to the agency by Congress for these programs. The Guaranteed loan lowers the risk that the bank would lose money, but not you. If the FSA does have to pay the bank back for your remaining debt, the amount they pay the bank may transition over into a federal debt for you. In addition, your credit score will be negatively impacted by defaulting on your loan, which may impact your ability to get loans or other forms of credit in the future.

Helping farmers get access to credit that is otherwise unavailable is the primary purpose of these programs. You still need to assess your financial health and take seriously the risk of taking on significant debt, even if you are able to get an FSA guaranteed loan.

Small Business Administration Loans

The Small Business Administration (SBA) is also a government agency that offers Direct and Guaranteed Loans, and has recently begun to offer loans for poultry operations. They have several different loan programs, including loans for real estate & equipment, disaster loans, and general small business loans. The SBA loan limits are higher than FSA loan limits, as high as $5,000,000, but they also come with different criteria. To be eligible for an SBA loan, your operation must create jobs or meet other public policy goals such as energy reduction or alternative fuels.

In this guide we do not cover SBA Loans in detail. For some operations, SBA loans may be an attractive alternative to FSA Loans because the higher loan limits can allow you to build a bigger operation. The trend in the poultry industry is toward having larger farms, and several farmers are seeking to put up 8 or 10 house poultry operations. This would not be feasible under the FSA loan limits, unless you were able to contribute significant personal capital for constructing the houses.

If you plan to consider SBA loans as an option, keep this in mind:

- **SBA is not an agricultural lender**, and has significantly less experience with agricultural or poultry loans than FSA.

- **Larger debt does NOT necessarily equal larger profits.** The poultry industry offers a very tight margin, and large debts can tie up all of your family's capital for decades. Larger debt DOES guarantee higher risk for you and your family.
- Over the years the **FSA has instituted specific guidelines for contracts and banks** to ensure that the farmers they work with are at least getting a feasible interest rate, and at least have a chance at making the income promised in the pro-forma from the company. SBA may not have these same requirements in place, which could increase your risk.