

Types of Loans Available from FSA

This section will help you understand in greater detail what types of loans are available from FSA, and with what rates and terms, so you can better determine what would be appropriate for your operation.

FSA offers a variety of loans including: Farm Ownership loans (FO), Operating Loans (OL), Emergency Loans, Conservation Loans, Micro Loans of up to \$50,000, and others. In this guide we explain three of the most commonly types and their requirements. For more information about loans such as Conservation Loans and Micro Loans, talk to your FSA Loan Officer directly or read these helpful guides:

- Your Guide to FSA Farm Loans (Published by USDA): https://www.fsa.usda.gov/Internet/FSA_File/fsa_br_01_web_booklet.pdf
- The Farmer's Guide to FSA Microloan Program (Published by Farmers' Legal Action Group, 2014): <http://www.flaginc.org/wp-content/uploads/2014/06/20140602-FSA-Microloan-Guide-FINAL.pdf>

Farm Ownership (FO)

Farm Ownership (FO) loans may only be used to buy or enlarge a farm, or make a down payment on a farm, or make improvements on a farm such as building or servicing structures, and other brick and mortar projects. It's important to note that if the farm you want to improve is leased, you must have a lease agreement that will extend through the useful life of the purchase or improvement. According to FSA's description, they "will help you purchase or enlarge a farm or ranch, construct a new or improve an existing farm or ranch building, pay closing costs, and pay for soil and water conservation and protection."⁹ In order to be successful in obtaining a Farm Ownership loan, you must be able to show that you will have everything you need in place at the closing of the loan to run your operation, including structures and equipment.

What if FSA doesn't have money for my Farm Ownership Loan?

Remember that the total amount of money that FSA can use to give farmers Farm Ownership loans is determined each year by Congress, which also sets maximum limits on this pool of money. In some years, the total amount of money that is set aside for Farm Ownership loans may be already spent by FSA by the time your application comes in. It is worth noting that in some cases a farmer's Farm Ownership application may still be approved, even if FSA has already run out of money for the year. In this case, a **Bridge Loan**

⁹ Your Guide to FSA Farm Loans: https://www.fsa.usda.gov/Internet/FSA_File/fsa_br_01_web_booklet.pdf

may be possible. A private lender can put the money up for your loan upfront, and FSA will pay them back when the next amount of money is released for their use by Congress.¹⁰

Additional Eligibility Requirement for Farm Ownership Loans:

- In addition to meeting all of the eligibility criteria for the Direct or Guaranteed loan as described in the previous section, applicants for Farm Ownership loans cannot have had a previous Direct Farm Ownership Loan through FSA outstanding for more than 10 years.¹¹

Type of Loan	Maximum Loan Amount¹²	Rates and Terms¹³
Direct Farm Ownership	\$300,000	Term: Up to 40 years Interest rate: fixed
Direct Down Payment (for Farm Ownership. Beginning farmers and Socially Disadvantaged Farmers are eligible for this kind of loan.)	The <u>lowest</u> of the following: ● 45% of the farm or ranch purchase price ● 45% of the appraised value ● \$300,000	Term: Up to 20 years Interest rate: fixed
Guaranteed Farm Ownership	The maximum loan amount is set annually, and adjusted each year for inflation. (as of this publication in 2017, the maximum was \$1,399,000.)*	Term: Up to 40 years Interest rate: negotiated by you and your lender.

*Talk to your FSA loan officer to find out this year's annual loan limit, or visit:
https://www.fsa.usda.gov/Internet/FSA_File/guaranteed_farm_loans.pdf

Operating Loans (OL)

Operating Loans (OL) can cover necessary expenses associated with improving the profitability of your farm. According to FSA's description, "operating loans will help you purchase livestock and equipment and pay for minor real estate repairs and annual operating expenses." This is including but not limited to: feed, seed, fertilizer, pesticides, farm supplies, repairs and improvements, cash rent, and family living expenses. This can

¹⁰ 764.151 Farm Ownership Loan Uses

¹¹ 764.152 Eligibility Requirements for Farm Ownership

¹² 761.8 Loan Limitations

¹³ 764.154 Rates and Terms for Farm Ownership

also include scheduled principle and interest payments on term debt, provided the debt is for an authorized FO or OL purpose. In addition, OL loans can cover costs associated with conservation practices, or costs associated with OSHA compliance, borrower training costs. Operating loans can also cover significant equipment or upgrade purchases.¹⁴ (Other uses are described in: 7 CFR, 764.251.)

Graduation from FSA Direct Operating Loans: 7 years (+2 more with a case-by-case waiver)

Farmers can close Direct Loans with FSA in no more than 7 years, and possibly 9 years with a waiver. Within any given single year a farmer may get more than 1 FSA Direct Loan, there is no limit on the number of loans closed within a year. Each individual Direct Loan can have a term of multiple years. The term amount of individual loans does not affect the farmer's graduation from the Direct Loan Program.¹⁵

This means that if a farmer takes out any Direct Loans in 2017, regardless of how many Direct Loans they take out and regardless of the term limits of each of the loans, that counts as 1 year towards that farmer's graduation from the Direct Loan Program.

Once a farmer has received FSA Direct Loans in 7 different calendar years, they are considered “graduated” from the program. They can however apply for a waiver, and on a case-by-case basis they may be granted a one-time waiver for a period of 2 years, allowing you to apply for Direct Loans for another 2 years.¹⁶

Term Length of a Direct Operating Loan:

In most cases, an operating loan will be for a one-year annual period. An annual Direct Operating Loan may be extended up to 18 months under certain circumstances. But if the loan is taken out to cover chattel, which are expenses such as equipment and breeding stock, it may have a longer term, up to but not longer than 7 years.¹⁷

Type of Loan	Maximum Loan Amount	Rates and Terms
Direct Operating	\$300,000	Term: 1 to 7 years Interest rate: fixed
Guaranteed Operating	The maximum loan amount is set annually, and adjusted each year for inflation. (as of this publication in 2017, the maximum was \$1,399,000.)*	Term: 1 to 7 years, according to your lender's procedure Interest rate: negotiated by you and your lender.

¹⁴ 764.251 Operating Loan Uses

¹⁵ 764.252.e Graduation required after 7 years

¹⁶ 764.252.e(4) Waiver to graduation - 3FLP P 202

¹⁷ 764.254

*Talk to your FSA loan officer to find out this year's annual loan limit, or visit:
https://www.fsa.usda.gov/Internet/FSA_File/guaranteed_farm_loans.pdf

Assets and Security Requirements for FSA Operating Loans

In general, an operating loan must be secured by a first lien on all property or products acquired or produced with loan funds. For crop producers, this normally means that FSA would have a lien against their crop once it is harvested. But for contract poultry producers, this works differently. As a contract producer, you will not at any point own the product, the birds themselves.

Emergency Loans

At times you may need access to credit to recover from an emergency. FSA does offer a special category of emergency loans. According to the FSA description, "emergency loans will help you if you suffered a qualifying loss caused by natural disasters that damaged your farming or ranching operation.¹⁸ Emergency loan funds may be used to restore or replace essential property, or any farming asset that is essential to your operation that has been damaged. It can also be used to pay all or part of production costs associated with the disaster year, which can include legal or technical service fees related to disaster recovery. In addition it can be used to pay essential family living expenses, replace household contents that were damaged, reorganize the farming operation, and replace lost working capital or refinance certain debts.

FSA only offers direct emergency loans, and does not offer the option of guaranteeing emergency loans from other lenders.

Additional Eligibility Requirements for Emergency Loans¹⁹:

- You must submit an application within 8 months of the date that the disaster is declared or designated.
- For production loss, you must have had a loss of yield of at least 30% to be eligible.
- For physical losses, you must have had general hazard insurance on the physical property at the time of the disaster. You must be able to document the damage of any physical loss.
- You must have been the owner or operator of the farm at the time of the disaster.
- If you were leasing the land, you must have been leasing it at the time of the disaster, and your lease must extend beyond the term of the loan – to show that you will be using that land throughout the repairs.
- If you will terminate your lease before the term of the loan, the lessor must provide a mortgage on that real estate to FSA to secure the loan.

¹⁸ 764.351 Emergency Loan Uses

¹⁹ 764.352 Eligibility for Emergency Loans

- If you are applying as an entity rather than an individual, you must be able to demonstrate your intent to continue to farm after the disaster.
- Emergency loans can be made for up to \$500,000. If you are requesting a loan larger than \$300,000, you will need to provide *two* letters from private banks or Farm Credit declining your request for a loan.
 - If you're requesting an emergency loan of *less* than \$100,000 on the other hand, FSA may waive the requirement for you to submit a letter of declination from an outside bank.

Type of Loan	Maximum Loan Amount	Rates and Terms
Direct Emergency	The <u>lowest</u> of the following: ● 100% actual or physical losses ● The amount required to restore the operation to its pre-disaster condition ● \$500,000	Term: typically 1 to 7 years, but possibly up to 20 years for non-real estate purposes. OR: Up to 40 years for physical losses on real estate (FSA determines the terms based on ability to repay and the type of loss.) Interest rate: Fixed

How does FSA Calculate Loss for an Emergency Loan?

It is very important to realize that, as we discussed on p. 15 of this guide, it is not possible to get insurance for your birds if you have a poultry contract because you technically do not own the birds, the integrator does. In the event of a catastrophe or weather disaster, you would be able to apply for an emergency loan for physical losses. Unlike with lost crops, you may *not* be able to get an emergency loan for lost revenue, because you do not own the birds.

For crops and other products from your farm, the value you can get an emergency loan for is calculated following these steps:

- (1) Subtract the disaster yield from the normal yield to determine the per acre production loss;
 - (2) Multiply the per acre production loss by the number of acres of the farming operation devoted to the crop to determine the volume of the production loss;
 - (3) Multiply the volume of the production loss by the market price for such crop as determined by the Agency to determine the dollar value for the production loss; and
 - (4) Subtract any other disaster related compensation or insurance indemnities received or to be received by the applicant for the production loss.
- (d) For a physical loss loan, the applicant's total eligible physical losses will be calculated as follows:

- (1) Add the allowable costs associated with replacing or repairing chattel covered by hazard insurance (excluding labor, machinery, equipment, or materials contributed by the applicant to repair or replace chattel);
 - (2) Add the allowable costs associated with repairing or replacing real estate, covered by hazard insurance;
 - (3) Add the value of replacement livestock and livestock products for which the applicant provided:
 - (i) Written documentation of inventory on hand immediately preceding the loss;
 - (ii) Records of livestock product sales sufficient to allow the Agency to establish a value;
 - (4) Add the allowable costs to restore perennials to the stage of development the damaged perennials had obtained prior to the disaster;
 - (5) Add, in the case of an individual applicant, the allowable costs associated with repairing or replacing household contents, not to exceed \$20,000; and
- Subtract any other disaster related compensation or insurance indemnities received or to be received by the applicant for the loss or damage to the chattel or real estate. ²⁰

Special Security Requirements for Emergency Loans:

Security for Emergency Loans can be based on income, rather than equity, which is a little different from FO and OL loans. When adequate security is not available after the disaster, the loan may be approved, if the applicant has a reasonable plan to repay the loan. This process will involve demonstrating income – see the box above for limitations related to poultry ownership. (For more specific information, see 7 CFR 764.355.)²¹



²⁰ 764.353 Emergency Loan Limitations

²¹ 764.355 Security for Emergency Loans