FACT SHEET

UNITED STATES DEPARTMENT OF AGRICULTURE
FARM SERVICE AGENCY

May 2013

Loans for Beginning Farmers and Ranchers

Overview

The U.S. Department of Agriculture's (USDA) Farm Service Agency (FSA) makes and guarantees loans to beginning farmers who are unable to obtain financing from commercial lenders. Each fiscal year, FSA targets a portion of its direct and guaranteed farm ownership (FO) and operating loan (OL) funds to beginning farmers.

A beginning farmer is an individual or entity who:

■ Has not operated a farm for more than 10 years;

■ Meets the loan eligibility requirements of the program to which he/she is applying;

■ Substantially participates in the operation and;

■ For FO purposes, does not own a farm greater than 30 percent of the median size farm in the county.

(Note: All applicants for direct FO loans must have participated in the business operations of a farm for at least three years out of the 10 years prior to the date the application is submitted). If the applicant is an entity, all members must be related by blood or marriage, and all entity members must be eligible beginning farmers.

Maximum Loan Amounts

■ Direct FO: $300,000

■ Direct OL: $300,000; Microloan: $35,000

■ Guaranteed FO or OL: $1,302,000 (Amount varies annually based on inflation).

Downpayment Program

FSA has a special loan program to assist socially disadvantaged (SDA) 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 to be acquired; (b) the appraised value of the farm 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.

■ Financing from participating lenders must have an amortization period of at least 30 years and cannot have a balloon payment due within the first 20 years of the loan.

Joint Financing Arrangement

Beginning farmers may choose to participate in a joint financing arrangement. With this arrangement FSA lends up to 50 percent of the amount financed and another lender provides 50 percent or more. The applicant will use funds from the joint financing arrangement along with FSA funds for any authorized FO purpose. The interest rates for such arrangements can be obtained from the local FSA office. The term of the loan will not exceed 40 years or the useful life of the security.

Land Contract Guarantees

These provide certain financial guarantees to the seller of a farm through a land contract sale to a beginning or SDA farmer. The seller may request either of the following:

Prompt Payment Guarantee: A guarantee up to the amount of three amortized annual installments plus the cost of any related real estate taxes and insurance.

Standard Guarantee: A guarantee of 90 percent of the outstanding principal balance under the land contract.

The purchase price of the farm cannot exceed the lesser of (a) $500,000 or (b) the market value of the property. The buyer must provide a minimum down payment of five percent of the purchase price of the farm. The interest rate is fixed at a rate not to exceed the direct FO loan interest rate in effect at the time the guarantee is issued, plus three percentage points. The guarantee period is 10 years for either plan regardless of the term of the land contract. The contract payments must be amortized for a minimum of 20 years. Balloon payments are prohibited during the 10-year term of the guarantee.

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 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.

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