

Guaranteed Loan Program



Overview

The U.S. Department of Agriculture's (USDA) Farm Service Agency (FSA) offers Guaranteed loans to farmers and ranchers to promote, build, and sustain family farms for a thriving agricultural economy. Agricultural producers can apply for a Guaranteed loan through FSA-approved commercial lenders.

FSA Guaranteed loans are made and serviced by commercial lenders such as banks, Farm Credit System institutions, or credit unions. FSA guarantees up to 95 percent of the loss of principal and interest on a loan. Farmers and ranchers apply to an agricultural lender, which then arranges for the guarantee. The FSA guarantee permits lenders to make agricultural credit available to farmers who do not meet the lender's normal underwriting criteria.

FSA Guaranteed loans are for both farm ownership and farm operating purposes. FSA guarantees loans up to \$2,251,000 (amount adjusted annually based on inflation).

Guaranteed Farm Ownership Loans

Guaranteed Farm Ownership Loans may be made to purchase farmland, construct or repair buildings and other fixtures, develop farmland to promote soil and water conservation, or to refinance debt.

Guaranteed Operating Loans

Guaranteed Operating Loans may be used to purchase livestock, farm equipment, feed, seed, fuel, farm chemicals, insurance, and other operating expenses. The loans can also be used to pay for minor improvements to buildings, costs associated with land and water development, family living expenses, and to refinance debts under certain conditions.

Who Can Apply

To qualify for an FSA Guaranteed loan, an applicant must:

- Be a U.S. citizen or legal resident alien which includes Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, and certain former Pacific Trust Territories
- Have an acceptable credit history as determined by the lender
- Demonstrate ability to repay the loan
- Provide sufficient security for the loan
- Have the legal capacity to incur the obligations of the loan
- Be unable to obtain a loan without a guarantee
- Have not received FSA debt forgiveness on more than three occasions on or prior to April 4, 1996; or any occasion after April 4, 1996
- Be the owner or tenant operator of a family farm after the loan is closed. For Operating Loans, the applicant must be the operator of a family farm after the loan is closed
- Not be delinquent on any federal debt
- Not have outstanding unpaid judgements obtained by the U.S. in any court excluding judgements filed in U.S. Tax Courts
- Not have provided FSA with false or misleading documents or statements in the past
- Not have been convicted under federal or state laws of planting, cultivating, growing, producing, harvesting, or storing a controlled substance within the last 5 crop years



Who Can Apply (cont.)

Applications may also be made by entities. Entities are corporations, cooperatives, joint operations, partnerships, trusts, and limited liability companies. Their members/stockholders must meet the same eligibility requirements. The entity must also be authorized to operate a farm or ranch in the state where the land is located.

Loan Terms and Interest Rates

Loan terms vary according to the type of loan, the collateral securing the loan, and the producer's ability to repay. Operating Loans cannot exceed seven years and Farm Ownership loans cannot exceed 40 years. The Guaranteed loan interest rate and payment terms are negotiated between the lender and the applicant. Interest rates on Farm Ownership and Operating Loans may not exceed the maximum rates established by FSA.

Securing the Loan

Each loan must be adequately secured. Collateral for Operating Loans may consist of crops, livestock and equipment, and real estate when necessary. A lien may be taken on other chattel or real estate property.

Collateral for Farm Ownership loans consists of real estate or a combination of real estate and chattel. FSA staff determines whether the collateral proposed by the lender is adequate.

Percent of Guarantee

For most loans, the maximum guarantee is 90 percent. The guarantee percentage will be determined by FSA based on the risk involved in the loan. The lender may receive a 95 percent guarantee when:

- The applicant meets the definition of a beginning farmer or a socially disadvantaged applicant; or
- The purpose of the loan is to refinance a Direct FSA farm loan. If only a portion of the loan is for this purpose, a weighted percentage of guarantee will be used; or
- The loan is made to a beginning farmer to participate in the Down Payment Loan Program or a qualifying state beginning farmer program; or
- The loan is made to a socially disadvantaged farmer to participate in the Down Payment Loan Program

FSA Fee for Guaranteed Loans

For most loans, FSA charges the lender a guarantee fee of 1.5 percent of the guaranteed portion of the loan.

This fee may be passed on to the borrower. The guarantee fee is waived when:

- The majority of the loan is to refinance a Direct FSA farm loan; or
- The loan is made to a beginning farmer to participate in the Down Payment Loan Program or a qualifying state beginning farmer program; or
- The loan is made to a socially disadvantaged farmer to participate in the Down Payment Loan Program.

How is the Loan Managed?

Guaranteed loans are the property and responsibility of the lender from the time of loan making, through loan servicing, until the loan is satisfied. The lender is responsible for servicing their Guaranteed loans as they service any other loan in their portfolio and complying with all FSA program requirements.

Secondary Market

The lender may resell the guaranteed portion of the loan to an interested party. The purchaser then becomes the holder of the loan, but the original lender must retain the loan servicing responsibilities. Investors who are looking for safe investments with a reasonable return are attracted to these loans because of the government's full faith and credit guarantee against default. The existence of the secondary market makes Guaranteed loan notes more liquid. By reselling the guaranteed portions, lenders reduce interest rate exposure, increase their lending capabilities, and generate fees.

Advantages of Using the Secondary Market

Selling the guaranteed portion of the loan to other investors offers a number of advantages, including:

- **Reduced interest rate risk.** Lenders can transfer risk of interest rate increases on the guaranteed portion of a fixed rate loan;
- **Increased Liquidity.** Selling the loan on the secondary market frees the funds for additional lending or investing activity;
- **Increased Lending or Investing Capabilities;**
- **Increased Return on Investment.** The sale of the guaranteed portion of the loan in the secondary market increases the lender's overall return on investment. Each time a bank sells a guaranteed portion, it generally retains a servicing fee; and
- **Rates and Terms.** Lenders may be able to offer the borrower more flexible repayment terms, as well as fixed and/or reduced interest rates to improve cash flow.



More Information

For more information visit, fsa.usda.gov or farmers.gov. Find your local USDA Service Center at farmers.gov/service-locator.