

Federal Agricultural Lending Provisions in the 2002 Farm Bill¹

Title V of the new farm bill, formally called the Farm Security and Rural Investment Act of 2002, addresses issues related to the implementation of federal farm credit programs administered by the Farm Service Agency (FSA) of the U. S. Department of Agriculture (USDA). In general, the new agricultural credit provisions in the farm bill:

- authorize increased availability of funds for direct and guaranteed agricultural lending;
- focus more resources on beginning farmers and ranchers; and
- introduce eligibility rule changes that will make more borrowers eligible for federal farm credit assistance.

Funding Levels

The farm bill authorizes levels of lending for FSA farm loan programs. Based on these levels, appropriations bills are passed by the Congress annually that set limits for actual expenditures under the federal farm lending programs.

The new farm bill has increased authorization levels for both FSA direct and guaranteed lending programs:

FSA Funding Levels Authorized by the 1996 and 2002 Farm Bills

Program	1996 Farm Bill	2002 Farm Bill
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Direct Loans	\$585 Million	\$770 Million
Farm Ownership	\$85 Million	\$205 Million
Loans		
Operating Loans	\$500 Million	\$565 Million
Guaranteed Loans	\$2.85 Billion	\$3.026 Billion
Farm Ownership	\$750 Million	\$1 Billion
Loans		
Operating Loans	\$2.1 Billion	\$2.026 Billion

The new farm bill continues to emphasize guaranteed lending programs that again received more authorized funds than direct lending programs. This suggests that private credit sources could continue to account for the bulk of farm loans as the new farm federal credit policy encourages more the use of guarantees by farmers seeking credit from private sources.

Beginning Farmers and Ranchers

Beginning farmers and ranchers are now given more opportunities to obtain credit under the new farm bill that introduces modifications in program benefits and eligibility requirements affecting this class of farm borrowers. These farmers are now given more chances to acquire farm properties held by FSA. Moreover, two new guidelines provide for the additional guarantee schemes involving owner-financed farm purchase loans on a pilot basis and State beginning farmer loans, although the latter is contingent on a required change in the tax code. These changes are discussed in detail in the following sections.

Amended Lending Guidelines for Beginning Farmers and Ranchers

Lending Guideline	1996 Farm Bill	2002 Farm Bill. <i>Eligibility Rule Change under Farm Ownership (FO) Loan Program</i>
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Limit on the amount of acreage owned (for eligibility)	25% of the county median	30% of county medianII. Farm purchase down payment loans
Interest rate and maximum term	4% fixed, up to 10 years	4% fixed, up to 15 years
Loan Amount	Equal to the lesser of 30% of the sale price or of the appraised value	Equal to the lesser of 40% of the sale price or of the appraised valueIII. Farm property held by FSA
Holding period to offer for sale to interested beginning farmers before offered for selling to other buyers	75 days	135 days
Size of properties	No provision	Inventory properties are to be divided or combined to make them more suitable to the needs (<i>more economically viable to the operations</i>) of beginning farmers.
Interest rate reduction (IRR) available annually	4% IRR on up to \$490 million of guaranteed OL loans through 2002	IV. Guaranteed Operating Loans (OL) 4% IRR made permanent, with 15% of the \$750 million in annual authority set aside for beginning farmers until March

1 of each fiscal
year.

There are also two provisions introduced for the first time in the new farm bill:

1. *Beginning Farmer and Rancher Contract Land Sales Program:* A pilot program to be implemented in at least five geographically diverse states that will guarantee up to five (5) loans per state during the period 2003-2007 made by a private seller to a beginning farmer on a contract land sale basis provided underwriting criteria are met and a commercial bank agrees to serve as escrow agent.

2. *State Beginning Farmer and Rancher Guarantee Program:* FSA may guarantee loans made under State beginning farmer loan programs that use small issue agricultural bonds (although a change in the tax code is still required in this case).

Farm Ownership (FO) Loans

The new farm bill did not create any new farm ownership loan programs. However, certain eligibility guidelines were modified to expand the scope of the FO program, in addition to special provisions on the implementation of the FO program for beginning farmers and ranchers discussed in the preceding section. Moreover, the bill includes a provision that now allows for the financing of bridge loans under the direct FO program. Details of these amendments are discussed in the following table:

Other Provisions on Direct and Guaranteed Farm Ownership Loans

Lending Guideline	1996 Farm Bill	2002 Farm Bill
Eligibility for direct farm ownership loan	Borrower must have owned or operated a farm or ranch for at least 3 years	Borrower must have participated in the operation of a farm or ranch for at least 3

Bridge Financing	Use of direct FO loans to refinance commercial debt was prohibited.	years Refinancing of commercial debt is allowed for direct FO loans if the debt was incurred for a farm purchase while waiting for funding of an approved FO loan application.
Other Eligible Borrowers		USDA and State, county, or area committee employees become eligible for FSA farm loans.

Operating Loans (OL)

The 2002 farm bill likewise did not introduce new operating loan programs. Instead, eligibility guidelines were expanded and existing provision on debt forgiveness was amended, in addition to changes made to the interest rate reduction for guaranteed operating loans discussed in the section for Beginning Farmers and Ranchers. The following summary outlines the provisions affecting said changes:

Other Provisions on Direct and Guaranteed

Operating Loans

Lending Guideline	1996 Farm Bill	2002 Farm Bill
Qualifying for new guaranteed and direct operating loans (OL) after receiving either direct or guaranteed OL loans	Waiver through 2002 of provisions preventing existing borrowers from qualifying for new guaranteed OL for period of 15 years and from qualifying for new direct	Eligibility time limits on guaranteed OL were waived through 2006. Direct OL borrowers are eligible on a case-by-case basis for a one-time waiver good for 2 years

OL after 7 years.

under following conditions:

viable operation

denied operating loan by two (2) commercial lenders

unable to get FSA loan guarantee

has completed or will complete borrower training within one (1) year

Special consideration for Native Americans whose farms or ranches are within the jurisdiction of an Indian Reservation

No similar provision

May be exempt from direct OL eligibility limits and also become eligible for 95% guarantee on operating loans instead of a 90% guarantee

Debt forgiveness: For borrowers who have received FSA debt forgiveness under certain procedures

Eligible for further direct or guaranteed loans, but only for annual operating expenses.

If forgiveness resulted from a declared major emergency or natural disaster, may be eligible for new direct or guaranteed operating loans.

Emergency Loans

Emergency Resulting from Quarantines

Besides areas designated as natural disaster emergency areas, the new farm bill also provides for low-interest emergency loans for Secretarial-declared areas under plant or animal quarantines.

Horse Breeders

While the new farm bill does not contain any provisions for assistance to horse breeders, Section 759 of the Agricultural Appropriations Act of 2002 provides for a temporary low-interest loan program to assist horse breeders suffering from mare reproductive loss syndrome. FSA will be publishing a notice of funds availability in the Federal Register to announce this program.

Administrative Provisions

New Eligible Borrowers

Trusts and limited liability companies are now eligible to avail of farm ownership, farm operating and emergency loans.

Interest Rate Options for Loans in Servicing

Originally there were two options to choose from: the original loan rate or the current rate. The bill introduces a third alternative as an option for lowest rate: the rate being charged by FSA for loans other than guaranteed loans, of the same type at the time which the borrower applies for a deferral, consolidation, rescheduling or re-amortization.

Simplified Loan Guarantee Application Procedure

Previously available for loans of \$50,000 or less, the simplified procedure is now available for loans of \$125,000 and less.

Re-amortization of Recapture Payments

This applies to shared-appreciation agreements maturing after this Act or recapture amount re-amortized, or recapture amount unpaid due to circumstances beyond the control of the borrower, and borrower acted in good faith. The following conditions will apply in these cases:

The allowable term may not exceed 25 years from the date of the original amortization agreement.

May not provide for reducing the outstanding principal or unpaid interest due.

Waiver of FSA Borrower Training Requirement

The borrower-training requirement may be waived if borrower demonstrates adequate knowledge. FSA shall establish criteria providing for the application of waivers consistently in all counties nationwide.

Periodic Review of Borrowers

In the past, local farm loan managers spent much of their time conducting loan assessments twice a year on all farm borrowers. Since farmers mainly produce annual crops, the Congress has reduced the requirement for loan assessments to only once a year. Loan managers will now have time to work with the farm borrowers who have the greatest need for individual assistance.

Greater Involvement of FSA Personnel

County committee involvement in farm loan decisions and procedures has been reduced in the new farm bill. A greater number of FSA employees shall be provided with the authority to handle farm loan decisions, provided they receive appropriate training.

Farm Credit System

The farm bill also contains provisions affecting the operations of the Farm Credit System, a combination of cooperatively owned financial institutions that specialize in providing rural housing loans, farmland loans and operating credit, and loans to farmer-owned supply, marketing and processing cooperatives. These provisions are:

FCS associations and farm credit banks no longer must get prior permission from another FCS lender when participating in certain loans originated outside the lender's chartered territory.

The Bank of Cooperatives is given greater authority to finance the import and export of farm supplies, agricultural-related equipment, agricultural processing equipment, and other capital goods used in storing and handling agricultural commodities or products.

The FCS Insurance Corporation may recognize lower risks associated with assets that are guaranteed by government-sponsored enterprises when assessing insurance premiums on FCS lenders.