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Do we need to Increase the Availability of Agricultural Credit?

BACKGROUND

Demand for credit is on the rise as commodity prices remain weak and farm income falls for the third straight year. As the lender of last resort for production agriculture, USDA's Farm Service Agency (FSA) has experienced significantly higher demand for its direct loans and guarantees during the current downturn in the farm economy. The agency recently released \$185 million for direct and guaranteed loans in an effort to ease the backlog of farmer applications. These funds were only expected to cover about 30 percent of the need in FY 2016.

ISSUE

FSA receives appropriations to make direct loans to farmers and issue guarantees on loans made by commercial lenders to farmers who do not qualify for regular credit. By statute, direct loans are capped at \$300,000 and guaranteed loans at \$1,392,000 per borrower. The guarantee limit is adjusted annually for inflation. Direct emergency loans are available during/after natural disasters.

Making credit available to beginning farmers and ranchers as well as socially disadvantaged farmers is a priority for FSA. Under the direct loan program, 75 percent of farm ownership loan funding and 50 percent of operating loan funding is reserved for the first 11 months of the year. Under the guaranteed loan program, 40 percent of funds are reserved for both ownership and farm operating loans for the first six months of the fiscal year.

Congress made the following changes in FSA loan programs in the 2014 Farm Bill:

- 1) Gave USDA discretion to allow alternative legal entities to qualify for farm ownership loans.
- 2) Granted USDA discretion to allow alternatives to meet the three-year experience requirement for direct loans.
- 3) Created a microloan program for direct and guaranteed loans. The maximum loan is \$35,000, with a total microloan indebtedness of \$70,000 for any borrower.
- 4) Eliminated term limits on guaranteed farm operating loans.
- 5) Increased the maximum down payment loan under the farm ownership loan program to 45 percent or \$667,000.
- 6) Authorized appropriations of \$150 million each year through FY 2018 for conservation loans.

OPTION #1

Increase the authorized FSA funding levels for direct and/or guaranteed ownership or operating loans.

OPTION #2

Increase the authorized FSA funding caps to increase the size of the loans that may be made.