

# RAFI-USA

Rural Advancement Foundation International - USA

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274 Pittsboro Elem. Sch. Rd. • PO Box 640 • Pittsboro, NC 27312 • Tel: 919-542-1396 • Fax: 919-542-0069 • www.rafiusa.org

## Farm Service Agency Direct and Guaranteed Loans Emergency Needs

### Policy Recommendation for the 2009 Economic Stimulus Package

**Policy Recommendation:** Increase the capacity of the agency to respond to the credit needs of beginning and established family farmers caught by high input costs and low commodity prices by increasing the appropriation for direct and guaranteed loans.

As farmers prepare for the 2009 planting season, they face a series of major challenges beyond their control. Prices for commodities such as corn and cotton have fallen significantly since record highs in early 2008. In some areas of the country, corn prices have plummeted from \$7.25 per bushel in June to \$3.17 per bushel in November.<sup>1</sup> While commodity prices have fallen, the prices of many agricultural inputs have continued to rise.<sup>2</sup>

While some segments of agriculture had record years in 2007 and 2008, many farmers enter the 2009 season reeling from natural and market disasters. Disaster assistance programs passed in the 2008 farm bill are yet to be implemented, leaving farmers who have faced disasters in late 2007 through 2008 unassisted.<sup>3</sup> In 2008, all fifty states had some areas covered by either Presidential Disaster Declarations or Secretarial Disaster Designations. With turmoil in financial markets, farmers are facing the possibility of tighter and more expensive credit for the 2009 season.<sup>4</sup>

The Farm Service Agency (FSA) of the USDA provides direct and guaranteed loans for both farm ownership and farm operation to farmers and ranchers. Direct loans are made by the FSA, whereas guaranteed loans are made by private banks with 90 to 95% of the loan amount guaranteed by the FSA against loss of principle or interest. The current interest rate as of December 1, 2008 on a direct farm ownership loan is 4.875%. The interest rate on a direct operating loan is 3.375 %.

Farmers are eligible for direct and guaranteed loans if:

- They have been turned down by a commercial bank.
- They have a feasible farm plan.
- They have sufficient education, training and experience in managing or operating a farm.

Access to FSA direct and guaranteed loans assist farmers on the edge by:

- Providing access to credit with a lower interest rate, providing significant savings in financing costs.
- Providing access to credit when the producer has no other credit option.

FSA officials have indicated that applications for 2009 direct and guaranteed loans are running 25% above 2008 levels, and they anticipate greater demand for loan programs than their current budget can handle.

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**Congress should provide emergency supplemental and increased funding for farm loan programs in FY 2009** as follows:

	<u>FY2008 Demand</u>	<u>Emrgcy Supplemental</u>	<u>FY 2009 Prg Lvl</u>
Direct operating	\$ 669,609,000	\$ 175,000,000	\$ 750,000,000
Direct ownership	\$ 424,478,000	\$ 100,000,000	\$ 500,000,000
Guaranteed operating	\$ 946,627,000		\$1,050,000,000
Guaranteed operating-IA	\$ 134,706,000		\$ 170,000,000
Guaranteed ownership	\$1,170,527,000		\$1,275,000,000

In order to ensure that this increase in funding does not contribute to the further overexpansion in the swine and poultry industries, **FSA should also issue an administrative directive that suspends the issuance of any direct or guaranteed farm ownership or operating loans for the construction or expansion of a specialized hog or poultry production facility.**

The majority of livestock and poultry production contract loans are federally guaranteed, either by USDA’s Farm Service Agency or the Small Business Administration. Because the federal guarantees make these production contract loans so easy to secure, it can lead to over-supply, particularly in the case of poultry. On December 23, 2008, USDA announced an emergency purchase of over 60 million pounds of chicken products, at a cost of over \$42 million to create a market for surplus product.<sup>5</sup>

Whenever the company needs to cut back production to reduce supply, it is easy to do so by cutting off growers or suspending delivery of chickens until supply and demand are re-balanced. Yet despite being cut off, growers are responsible for repaying their large loans on their stranded investments, which reverts to the federal taxpayers if the grower goes bankrupt.

Similar concerns exist about the use of guaranteed loans in the hog sector. Since the 1990's the hog industry has rapidly consolidated and vertically integrated. As a result of this industry consolidation and integration more and more hogs are produced in single use facilities specially designed to produce large volumes of hogs under production contracts or to be sold through marketing agreements with packers. The changing structure of the industry and the use of specialized hog production facilities make it very difficult for pork producers to respond to market signals such as cutting-back production during periods of prolonged low prices

In the current climate of financial uncertainty, it is crucial that the Farm Service Agency has the capacity to provide stability in agricultural credit markets, and assist farmers who are caught by rising costs, falling prices, and an uncertain credit market.

1. “Fields of Grain and Losses” David Streitfield, New York Times. 11/20/08
2. Harris, J.M. et. Al. Agricultural Income and Finance Outlook. 12.10.2008. USDA Economic Research Service publication AIS-86.
3. Top USDA Officials Discuss Farm Bill Implementation, June 25, 2008. USDA Newsroom Release No. 0168.08.
4. “Farmer’s New Trouble at the Ranch: Tighter Credit.” Betsy Blaney, Farm and Dairy Outlook, 10.22.08. <http://farmanddairyoutlook.com/trouble-at-the-ranch/>
5. United States Department of Agriculture Food Purchase Report, U.S.D.A. Agricultural marketing Service, December 23, 2008.