

RAFI-USA

Rural Advancement Foundation International - USA

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Interest Assistance for Guaranteed Farm Ownership and Farm Operating Loans

Policy Recommendation for the 2009 Economic Stimulus Package

As farmers head into the 2009 growing season, they face continuing high prices for farm inputs such as seed, fertilizer, and chemicals and falling commodity prices. They also face the uncertainty of what effects the ongoing credit crisis and financial turmoil in mortgage markets will have on the availability of farm credit. In this environment, it is critical that FSA use all of the tools at its disposal to assure farmers access to credit, and the ability to continue in farming. The guaranteed loan Interest Assistance Program is an underutilized tool that can increase the ability of farms to stay in business.

The FSA guaranteed loan farm program is intended to ensure that credit is available to family farmers and ranchers who are unable to obtain commercial credit at reasonable rates and terms, while imposing a reduced administrative and fiscal burden on the government compared to the direct loan program. In particular, the Interest Assistance Program is intended to provide extra assistance to farmers who, although otherwise eligible, could not cash flow a guaranteed loan at the lender's regular agricultural interest rate. The Interest Assistance Program allows FSA to pay the commercial lender on a guaranteed loan some of the interest the borrower would otherwise be responsible for paying. The program currently authorizes FSA to reduce a guaranteed borrower's interest rate by up four percentage points by paying the amount of the reduced interest to the lender.

The authorizing statute, 7 U.S.C. § 1999, provides generally that an interest rate reduction program "shall" be established and carried out. The statute does not restrict the types of guaranteed loans on which interest assistance should be made available.

The authorizing statute suggests that Congress expects interest assistance to be available on all guaranteed farm loans, so long as the borrower meets the eligibility requirement that the borrower would be otherwise unable to obtain sufficient credit to satisfy the borrower's actual needs. There is no statutory limit on how long or how often a particular borrower may receive interest rate reduction. Section 1999(g) of the statute also provides that, before any foreclosure action may be taken on a guaranteed loan, the lender must determine whether the borrower is eligible for an interest rate reduction under this program. This demonstrates a clear statutory intention that interest assistance be made available not only on new guaranteed loans, but also as a form of debt servicing on any existing guaranteed loans that are in financial distress.

FSA policy for several years has been to make interest assistance available only on new operating (OL) loans and to impose a lifetime 10-year limit on any single borrower's eligibility for interest rate reduction. This means there is no interest assistance available for real estate (Farm Ownership – FO) loans. FSA's policies also make the Interest Assistance Program unavailable as a form of debt restructuring (unless the original loan had interest

assistance and the 10-year limit hasn't yet been reached). FSA recently issued regulations formalize its policy limiting the use of interest assistance to new guaranteed OL loans. These new rules become effective June 8, 2007. These rules also reduce the lifetime limit on borrower eligibility for interest assistance down to five years (except for beginning farmers who have a chance to renew for another five).

The Conference Report accompanying the 2008 Farm Bill included language repudiating FSA's regulatory limitations on the Interest Assistance Program. The report states, at pages 117-118:

The Managers are aware that the Secretary has amended regulations under the guaranteed loan program to limit the availability of interest rate reduction authorized under section 351 of the Con Act to new guaranteed operating loans.

The Managers believe that non-statutory limitations in the program's regulations will deter the immediate availability of funds that may be appropriated in the future for interest rate reductions for other categories of guaranteed loans. It is the Managers' expectation that the regulations and policies for the guaranteed loan program should clarify that interest rate reduction may be available for all new and restructured guaranteed loans.

We recommend that the FSA guaranteed loan regulations be amended to allow Interest Assistance to be available on both new and restructured guaranteed loans, including farm ownership and farm operating loans.

We further recommend that the Interest Assistance Program be funded at its authorized level of \$750M. Current funding is at approximately \$300M.

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