RAFI-USA

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Farm Loan Restructuring

Farmers and ranchers, like many businesses, are suffering from the dramatic downturn in the nation's economy. With ever increasing operating costs and now declining prices for their agricultural products, many farmers and ranchers will find it difficult or impossible to keep up with their regularly scheduled farm loan payments. Because most family farmers' and ranchers' live on their farms, their homes also are listed as security for their farm loans. This means that if they fall behind on their farm loan payments they are threatened not only with the loss of their farming operations but also their families' homes.

Promoting a stable farming economy is essential to any economic recovery plan because of the substantial role the agricultural sector plays in the country's economy. One necessary step in reaching this goal will be to prevent farmers and ranchers from being forced out of business and their families out of their homes solely due to effects of the overall downturn in the economy, circumstances clearly outside their control.

Policy Recommendation

Any economic stimulus or economic recovery funding should require as a condition of the receipt of any federal government funds by a bank or other financial institution providing credit to farmers or ranchers that the bank or financial institution

- implement a farm loan restructuring program like the one Congress has mandated for FSA farm loan programs at 7 U.S.C. Section 2001, 1991(b)(3), and 1981d (except that a borrower's receipt of a write-down on the a loan under this program will not prevent eligibility for future loans);
- offer this program to any farmers or ranchers that are at least 60 days behind in their scheduled loan payments; and
- restructure loans that qualify under the program accordingly.

Background

While many farmers and ranchers face the inability to make their scheduled loan payments during this economic downturn, there is nothing that assures that commercial lenders such as banks and other financial institutions which are also under great financial stress will be willing to restructure their loan accounts to a level that farmers can afford to pay. This may precipitate a dramatic increase in the number of farm and farm home foreclosures over the next few years. Banks and financial institutions that will be receiving federal government economic stimulus or recovery funds should be required to restructure farm loans in the same manner that government farm loan programs are required to restructure loans.

Congress has required that federal government lenders such as USDA's Farm Service Agency enter into specified types of loan restructuring when farmers are unable to make their scheduled payments due to circumstances beyond their control. *See*, 7 U.S.C. Sections 2001, 1991(b)(3), and 1981d. Through this loan restructuring program Congress has recognized that broad-based downturns in the agricultural economy should be considered circumstances beyond farmers control and justify government loan restructurings. This Congressionally mandated FSA farm loan restructuring program, like many of the programs recommended for restructuring housing loans in conjunction with the receipt of federal economic recovery funding, **allow restructuring when borrowers can show that they can afford to make payments on a restructured loan that has a net present value at least equal to what the lender would receive if it were to foreclose on the loan.**