

# Loans for Beginning Farmers and Ranchers



## Overview

Building a successful farm is a significant financial investment and can be especially challenging for beginning farmers who are not financially ready to access credit from commercial lenders. The U.S. Department of Agriculture's (USDA) Farm Service Agency (FSA) makes and guarantees loans to beginning farmers. While FSA is fully committed to all farmers and ranchers, there is a special focus on the credit needs of farmers and ranchers who are in their first 10 years of operation.

Each year Congress targets a percentage of farm ownership and farm operating loan funds to beginning farmers. Providing loan programs is important as beginning farmers have historically experienced more difficulties obtaining financial assistance.

A beginning farmer is an individual or entity who:

- Has not operated a farm for more than 10 years;
- Substantially participates in the operation;
- For farm ownership loans, the applicant cannot own a farm greater than 30 percent of the average size farm in the county, at time of application.
- If the applicant is an entity, all members must be related by blood or marriage, and all entity members must be eligible beginning farmers.

In addition, beginning farmers must meet the loan eligibility requirements for the program.



## Maximum Loan Amounts

- Direct farm ownership: \$600,000
- Direct operating loan: \$400,000
- Microloan: \$50,000 each for operating and farm ownership
- Guaranteed farm ownership or operating loan: \$2,236,000
- EZ Guarantee: \$100,000 (\$50,000 if the lender is a micro lender)

## Down Payment Program

FSA has a special loan program to assist beginning farmers in purchasing a farm. Retiring farmers may use this program to transfer their land to future generations. Requirements:

- Cash down payment of at least 5 percent of the purchase price.
- Loan amount limited to 45 percent of the least of:
  - The purchase price of the farm;
  - The appraised value of the farm; or
  - \$667,000 (\$300,150 maximum).
  - 20 years loan term.
  - Interest rate is 4 percent below the direct farm ownership rate, but not lower than 1.5 percent.

The remaining balance may be obtained from a commercial lender or private party. FSA can guarantee up to 95 percent of the loan if financing is obtained from a commercial lender. Participating lenders do not have to pay a guarantee fee.

Financing from participating lenders must have an amortization period of at least 30 years and cannot have a balloon payment due within the first 20 years of the loan.



## More Options for Accessing Capital

Beginning farmers may choose to participate in a joint financing arrangement. FSA will lend up to 50 percent of the amount financed and another lender provides 50 percent or more. The applicant will use funds from the joint financing arrangement along with FSA funds for any authorized farm ownership purpose. The interest rate is 2 percent less than the direct farm ownership rate but not lower than 2.5 percent. The term of the loan will not exceed 40 years or the useful life of the security.

## Land Contract Guarantees

FSA provides financial guarantees for land sale contracts to a beginning farmer. The seller may request either of the following:

- Prompt Payment Guarantee: A guarantee up to the amount of three amortized annual installments plus the cost of any related real estate taxes and insurance.
- Standard Guarantee: A guarantee of 90 percent of the outstanding principal balance under the land contract.

The purchase price of the farm cannot exceed the lesser of \$500,000 or the market value of the property. The buyer must provide a minimum down payment of 5 percent of the purchase price of the farm. The interest rate is fixed at a rate not to exceed the direct farm ownership loan interest rate in effect at the time the guarantee is issued, plus 3 percentage points. The guarantee period is 10 years for either plan regardless of the term of the land contract. The contract payments must be amortized for a minimum of 20 years. Balloon payments are prohibited during the 10-year term of the guarantee.

## How to Apply

Farmers may apply for direct loans at their local FSA offices. Your local FSA offices are listed in the telephone directory under U.S. Government, Department of Agriculture or Farm Service Agency or find your local FSA office at [farmers.gov](https://farmers.gov).

For guaranteed loans, applicants must apply to a commercial lender who participates in the Guaranteed Loan Program. Contact your local FSA office for a list of participating lenders.

## More Information

For more information visit, [fsa.usda.gov/farmloans](https://fsa.usda.gov/farmloans) or [farmers.gov](https://farmers.gov). Find your local USDA Service Center at [farmers.gov/service-locator](https://farmers.gov/service-locator).

