



**Washington State Fact Sheet**

**Farm Loan Programs  
Guaranteed Farm  
Operating Loans**

**January 1999**

**Background**

Guaranteed loans are made by banks, cooperatives, Farm Credit System member institutions, and other lenders. FSA guarantees up to 90-95 percent of the loan principal and interest against loss, subject to certain conditions. The lender is responsible for servicing the loan.

**Who is eligible to borrow?**

Individuals, joint operations, corporations, and cooperatives primarily and directly engaged in farming may apply.

In addition, to be eligible an applicant must:

- Be a citizen or legally admitted alien;
- Have sufficient education and/or training or farming experience which indicates the managerial ability needed to assure reasonable prospects for success;
- Be unable to obtain sufficient credit elsewhere to finance actual needs;
- Meet the life-time loan limits for the type of loan requested;
- Possess the legal capacity to incur the obligations of the loan;
- Be the owner or operator of not larger than a family-sized farm after the loan is closed.

- Not have caused the agency a loss due to debt forgiveness.
- Not be delinquent on any Federal debt.

*Note: A "family-size farm" is generally considered to be one that a family can operate and manage. This is determined by the local elected FSA county committee made up of local farmers.*

In the case of corporations, cooperatives, joint operations, or partnerships, the stockholders, members or partners holding a majority interest must meet these same eligibility requirements.

If the individuals holding a majority interest in the entity are related by blood or marriage, at least one stockholder, member, or partner must operate the family farm. If they are not related by blood or marriage, those holding a majority interest must operate the farm.

**How may Guaranteed Operating Loans be used?**

A borrower may use guaranteed operating loan funds to pay for items needed for a successful operation. Basically, whether the loan is direct or guaranteed the purposes are the same and these may include:

- Costs to reorganize a farming operation to improve profitability.
- The purchase of livestock, machinery, equipment, and other basic security.

- Payment of annual operating expenses such as feed, fuel, and fertilizer.
- Payment of costs associated with land and water development for conservation and use.
- Payment of loan closing costs.
- Payment of the costs of complying with OSHA.
- Payment of training costs.
- Payment of family living expenses.
- Refinancing debt under certain conditions.

**Lines of Credit**

FSA may guarantee a line of credit for the following purposes:

- Payment of annual operating expenses, family living expenses, and the purchase of feeder animals.
- Payment of debts that the borrower incurred for current annual operating expenses before the guarantee was issued. This does not include debts carried over from the previous year.

Guaranteed lines of credit cannot be used to make principal payments on real estate or to purchase real estate or capital items such as equipment.

FSA may contract to guarantee a line of credit for a term of 3 to 5 years.

### **Interest Rates**

Interest rates can be fixed or variable, and as agreed upon by the borrower and the lender. The rate charged may not exceed the rate the lender charges its average farm customer.

### **Repayment Terms**

Repayment terms are generally 1 year for loans used to pay annual operating expenses. For loans used for capital expenditures, the terms of the loan may not exceed 7 years. Terms may include equal, unequal, or balloon installments, depending on the circumstances.

### **Security Requirements**

Borrowers must provide sufficient collateral to secure the loan. This may include farm equipment, livestock, real estate, or assignments on crops or other produce.

There must be adequate security; at least 1:1 when considering repayment ability. A first lien is required on all property/products acquired, produced or refinanced.

### **Loan Amounts**

The size of the loan is agreed upon by the borrower and the lender. The borrower must show the ability to repay the loan under the terms and conditions of the loan agreement, and the loan is necessary to the success of the farming or ranching operation.

The borrower may have more than one guaranteed loan. Each loan must be secured with separate and identifiable collateral. The total principal indebtedness of FSA direct and guaranteed loans may not exceed \$700,000. Also, the combination of the guaranteed OL and FO principal balance (also considering direct loans of the same type) cannot exceed \$700,000.

### **Applying for a Guaranteed Operating Loan**

To obtain a guaranteed operating loan, you must apply with an eligible lender. If the lender decides to make the loan, the lender applies with FSA for a guarantee.

### **Who can make Guaranteed Loans?**

Lenders eligible to participate in the FSA guaranteed farm loan program include:

- Any federal or State chartered bank, Farm Credit Bank, or other Farm Credit System institution with direct lending authority;
- The Bank for Cooperatives, savings and loan associations, building and loan associations;
- A mortgage company that is part of a bank-holding company;
- Credit unions that are examined and supervised by either the National Credit Union Administration or a State agency;
- An insurance company that is regulated by a State agency of the National Association of Insurance Commissioners; and
- An Agricultural Credit Corporation that is a subsidiary of any Federal or State chartered bank.

All these lenders must be subject to credit examinations and supervision by either a Federal or State agency. The lenders must be in good standing with their licensing authority and have the capability to adequately service the loans for which guarantees are requested.

### **Targeted Groups**

FSA reserves a certain percentage of guaranteed loan funds to be targeted specifically for either Beginning Farmers or Socially Disadvantaged Applicants.

*Note: See FSA Fact Sheet on Beginning Farmers.*

Socially Disadvantaged Applicants (SDA) are members of one of the following groups: Women; African Americans; Native Americans; Alaskan Natives; Hispanics; Asians; and Pacific Islanders.

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