Farmers Flock To Low-Interest USDA Loans

Should Assistance Be Targeted To Only Certain Types Of Farmers?

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Many farmers are grumpy this time of year and with good reason. In most of the nation's mid-section, they've watched record amounts of rainfall slow down harvest and significantly reduce the quality of their crops. Even though there have been some seasonal price spikes, average prices are still lagging far below last year.

Last week, the USDA's National Agricultural Statistics Service released its agricultural price report, which showed that wheat prices were up 8 cents from September, but down $2.09 from October 2008. Corn prices averaged $3.54/bu, up 29 cents from last month but 83 cents below October last year. Soybean prices were only down a penny from the previous month, but dropped 21 cents from prior year. The October all milk price of $13.80 per cwt. increased 90 cents from last month but is $4.00 lower than October 2008.

As farm gate prices continue to show a lot of volatility and creditors are growing more concerned, demand is skyrocketing for low-interest operating, farm ownership and emergency loans from USDA's Farm Service Agency (FSA). As you can see from the chart on the right, the requests almost doubled from the prior year. Direct Operating loan obligations were about $629 million in fiscal 2008, compared to $1.2 billion in fiscal 2009.

Texas A&M ag economist Danny Klinefelter thinks loan demand at USDA offices will continue to increase dramatically.

"We're on the front end of what I think could be some fairly significant problems in 2010 and 2011 on the credit side," Klinefelter said at a seminar on changes in ag credit hosted by the CME Group. "The [Obama] administration may be providing liquidity and encouraging lenders to get credit flowing again, but commercial bank and Farm Credit System regulators are aggressively working to make sure lenders recognize and mitigate risk.

That's likely to force more farmers to turn to USDA's Farm Service Agency (FSA) for credit next year. "Farm Service Agency staff members are going to be swamped," said Klinefelter.

Farm income, land values and interest rates will drive credit access over the next 2-3 years, according to Klinefelter, an agricultural finance expert and director of The Executive Program for Agricultural Producers. And the farm income outlook is pretty dismal: USDA forecasts net farm income in 2009 at $54 billion, down $33.1 billion from $87.1 billion in 2008 and $9.6 billion below the 10-year average of $63.6 billion.

Should funds be targeted?

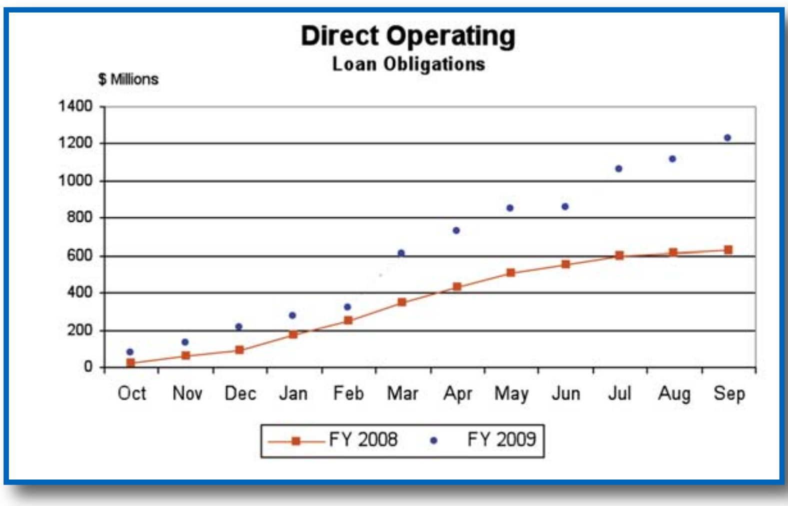
Earlier this year, some small farm advocates pushed the Obama Administration to provide more loan funds. Thanks to $173.4 million from the American Recovery Act, loan applicants received additional funds in March. Within days, more than 2,000 farmers were buying farm equipment, seed, fertilizer, and contracting with local tradesmen for repairs to buildings and fences and hiring helping hands for spring planting.

But some of those same folks who begged for more loan funds, want to target the dollars only to people who do not rely on production contracts to raise hogs or poultry. Ironically, these loan recipients are many of the same small and disadvantaged farmers that the rural advocates claim to want to help.

The number of beginning farmers asking for direct operating loans was up 46 percent in fiscal 2009 compared to the prior year and the number of socially disadvantaged direct loan obligations is up 41 percent, according to FSA data. In general, the programs are targeted at family-size farmers and ranchers who cannot obtain commercial credit from a bank, Farm Credit System institution, or other lender. The 2008 Farm Bill raised the legal maximum for direct operating loans from the $200,000 limit set in 1984 to the current $300,000. USDA recently increased the limit for its Guaranteed Loan Program to $1,112,000.

Beginning farmers who can't obtain credit elsewhere have often started in hog or poultry production because they can partner with a larger, integrated firm. It's a chance to build financial equity in exchange for their "sweat" equity.

But the Campaign for Family Farms and the Environment recently delivered a letter with 25,323 signatures to Secretary of Agriculture Tom Vilsack, calling for FSA to suspend direct and guaranteed loans to new or expanding specialized hog and poultry facilities. The groups say FSA loans are contributing to overproduction and low market prices in these livestock sectors. They cited USDA data showing FSA direct and guaranteed loans for new hog and poultry building construction for fiscal years 2008 and 2009 totaled over $264 million, while USDA has also purchased $55 million and $42 million worth of surplus pork and poultry, respectively. The campaign includes Iowa Citizens for Community Improvement, Missouri Rural Crisis Center and the Land Stewardship Project.



Effective as of October 1, 2009	
Program	Interest Rates
Farm Operating-Direct	3.125%
Farm Ownership- Direct	5.00%
Farm Ownership- Direct, Joint Financing	5.00%
Farm Ownership- Down Payment	1.50%
Emergency Loan- Amount of Actual Loss	3.75%

"This cycle of promoting the expansion of corporate livestock production with taxpayer money, then bailing out the industry because of overproduction with taxpayer money is an irresponsible practice and must come to an end," said Rhonda Perry, a Howard County, Mo., livestock and grain farmer and program director of the Missouri Rural Crisis Center. "You can't justify loans for new operations and more livestock when the current hog farmers are barely treading water or are going out of business altogether."

However, these same groups did not ask USDA to stop loans for dairy producers who have also increased production while at the same time benefiting from low-interest loans and additional USDA dairy purchases. In the agricultural appropriations bill that was signed by President Barack Obama recently, dairy producers will receive an additional $350 million in taxpayer subsidies for payments to dairy producers.

"It's easy to see that this is a not-so-thinly veiled attempt to stop contract production, even though that's how hundreds of small farmers get started," says one livestock industry leader. "Too bad they don't realize how much harm they could do to small farmers in the process."

For now, USDA seems to be ignoring the calls for targeting credit to only certain types of farming and ranching operations. A spokesperson for USDA said the agency "has concerns about actions that would restrict credit," especially during these tough economic times. "Any proposed action that would restrict credit availability will be reviewed carefully to determine whether making changes of this nature would be prudent." Δ

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