USDA To Simplify Guaranteed Farm Loans By Setting Thresholds On Interest Rates

WASHINTON, D.C.

The U.S. Department of Agriculture (USDA) announced an interim rule that sets thresholds on the interest rates charged by lenders on guaranteed farm ownership and operating loans. The changes will amend guidelines for interest rates and establish new policies that clearly set the maximum interest rate lenders may charge to borrowers.

"By providing clear thresholds on interest rates for federally-guaranteed farm loans, USDA is ensuring greater certainty to producers, making compliance easier for our lenders and ensuring greater benefits for all farmers and ranchers," said Agriculture Secretary Tom Vilsack. "It is important that American agriculture continue to play a key role in driving economic growth and creating good-paying jobs across the American middle class. By setting thresholds on interest rates, USDA will strengthen access to farm credit."

USDA's Farm Service Agency (FSA) guaranteed loans reduce the risk of loss to lenders (banks, farm credit institutions and credit unions) by guaranteeing up to 95 percent of the loss of principal and interest on a loan. By reducing a lender's risk, borrowers benefit from a lower rate.

The interim rule on maximum interest rates for FSA-guaranteed loans will benefit lenders and producers alike. Lenders have expressed a desire to see greater clarity in FSA's interest rate policy. At the same time, FSA seeks greater consistency with industry standards and other government agencies that administer similar programs. The improvements in the new rule will make credit pricing procedures easier to follow and improve compliance for lenders.

At this time, FSA is also requesting additional comments on the interim policies in the rule, aiming to assure that the benchmark rates required of lenders do not prevent farmers and ranchers from obtaining guaranteed loans. USDA is seeking comments through June 3, 2013.

This interim rule is part of USDA's work to expand credit opportunities for America's farmers and ranchers. In January, USDA announced a new microloan program to help small and family operations, and beginning and socially disadvantaged farmers secure loans under $35,000. The new microloan program is aimed at bolstering the progress of producers through their start-up years by providing needed resources and helping to increase equity so that farmers may eventually graduate to commercial credit and expand their operations. The interest rate for microloans changes monthly and is currently 1.25 percent.

While USDA continues to introduce new products that are more responsive to the credit needs of its diverse customer base, the Department continues to expand its traditional farms loans. In fact, since 2009 USDA has made a record amount of farm loans – more than 134,000 loans totaling nearly $18 billion. USDA has increased the number of loans to beginning farmers and ranchers from 11,000 loans in 2008 to 15,000 loans in 2011. More than 40 percent of USDA's farm loans now go to beginning farmers. In addition, USDA has increased its lending to socially-disadvantaged producers by nearly 50 percent since 2008. Δ