



FACT SHEET

UNITED STATES DEPARTMENT OF AGRICULTURE
FARM SERVICE AGENCY

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Land Contract (LC) Guarantee Program

Overview

The U.S. Department of Agriculture's Farm Service Agency (FSA) makes and guarantees loans to eligible farmers to buy and operate family sized farms.

The Land Contract (LC) Guarantee Program provides a valuable tool to transfer farm real estate to the next generation of farmers. Guarantees will be offered to the owner of a farm who wishes to sell real estate through a land contract to a beginning farmer or a farmer who is a member of a socially disadvantaged group. The guarantee provides an incentive to sell to individuals in these groups as it reduces the financial risk to the seller due to buyer default on the contract payments.

A land contract is an installment contract between a buyer and a seller for the sale of real property, in which complete ownership of the property is not transferred until all payments under the contract have been made.

Program Purpose

Guarantees can be used for financing the purchase of a farm with a purchase price up to \$500,000 on a new land contract.

Types of Guarantees

FSA offers two types of guarantees under this program. The seller may request either of the following:

Prompt Payment Guarantee: A guarantee of up to the amount of

three amortized annual installments plus the cost of any related real estate taxes and insurance; or

Standard Guarantee: A guarantee of 90 percent of the outstanding principal balance under the land contract.

Program Eligibility

To qualify for assistance, buyers must meet eligibility requirements similar to those for the Guaranteed and Direct Farm Ownership Programs.

Buyers must be owner/operators of the land contract farm at the time the contract is complete. Buyers must have a feasible business plan of operation.

Guarantee Period

The guarantee period is for up to 10 years for either type of guarantee, regardless of the term of the land contract.

Interest Rate

During the term of the guarantee, the interest rate must be fixed at a rate not to exceed the Agency's direct farm ownership loan interest rate in effect at the time the guarantee is issued, plus three percentage points. (This rate is available from any FSA office.)

Land Contract Terms

The contract payments must be amortized for a minimum of 20 years and payments on the contract must be of equal amounts during the term of the guarantee.

Buyer Requirements

The buyer must provide a minimum down payment of five percent of the purchase price, plan to operate the farm, and be able to project the ability to make the land contract payments.

For More Information

Additional information, including a complete list of borrower and seller eligibility criteria and application materials may be obtained at any FSA office or through the FSA website at www.fsa.usda.gov.

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