



Loans for Socially Disadvantaged Persons

Overview

The Farm Service Agency (FSA) can make and guarantee loans to socially disadvantaged applicants to buy and operate family-size farms and ranches. Funds specifically for these loans are reserved each year. Non-reserved funds can also be utilized.

A socially disadvantaged farmer or rancher is one of a group whose members have been subjected to racial, ethnic, or gender prejudice because of their identity as members of the group without regard to their individual qualities. For purposes of this program, socially disadvantaged groups are women, African Americans, American Indians and Alaskan Natives, Hispanics, and Asian Americans and Pacific Islanders.

This program:

- Targets direct and guaranteed loan assistance to socially disadvantaged persons;
- Discovers and removes barriers that prevent full participation of those persons in FSA's farm loan programs; and
- Provides information and assistance to applicants to help them develop sound farm management practices, analyzes problems, and plans the best use of available resources essential for success in farming or ranching.

Types of Loans

Direct loans are made to applicants by FSA and include both farm operating and farm ownership loans.

Guaranteed farm loans also may be made for ownership or operating purposes, and may be made by any lending institution subject to Federal or State supervision (banks, savings and loans, and units of the Farm Credit System) and guaranteed by FSA. Some State governments also operate farm loan programs that are eligible for FSA guarantees. Typically, FSA guarantees 90 or 95 percent of a loan against any loss that might be incurred if the loan fails.

Use of Loan Funds

Farm Ownership Loans (FO) may be used to purchase or enlarge a farm or ranch, purchase easements or rights of way needed in the farm's operation, erect or improve buildings, promote soil and water conservation and development, and pay closing costs. Reserved direct farm ownership loan funds can only be used to purchase a farm or ranch. Guaranteed farm ownership funds may also be used to refinance debt.

Farm Operating Loans (OL) may be used to purchase livestock, poultry, farm equipment, feed, seed, fuel, fertilizer, chemicals, hail and other

crop insurance, food, clothing, medical care, and hired labor. Funds also may be used to refinance debt and to install or improve water systems for home use, livestock or irrigation, and other improvements.

Who May Borrow

Individuals and entities primarily and directly engaged in farming and ranching on family-size operations may apply. A family-size farm is considered to be one that a family can operate and manage itself. In addition to being members of a socially disadvantaged group, individual applicants under this program must meet all requirements for FSA's regular farm loan program assistance, including:

- Have a satisfactory history of meeting credit obligations.
- Have sufficient education; training, or at least 1-year's experience in managing or operating a farm or ranch within the last 5 years for a direct operating loan, or, for a direct farm ownership loan, have participated in the business operation of a farm or ranch for 3 years;
- Be a citizen of the United States (or a legal resident alien), including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, and certain former Pacific Island Trust Territories;

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- Be unable to obtain credit elsewhere at reasonable rates and terms to meet actual needs; and
- Possess legal capacity to incur loan obligations.

In the case of an entity, the members holding a majority interest must meet the same eligibility requirements. The entity must be authorized to operate a farm or ranch in the State where the actual operation is located. In addition, the entity must be owned by U.S. citizens or legal resident aliens, and the socially disadvantaged members must hold a majority interest in the entity.

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 or ranch. If they are not related by blood or marriage, those holding a majority interest must operate the farm or ranch.

Terms and Interest Rates

Repayment terms for direct operating loans depend on the collateral securing the loan and usually run from 1 to 7 years. Interest rates for direct loans are set periodically according to the Government's cost of borrowing. Repayment terms for direct farm ownership loans are up to 40 years. Interest rates for guaranteed loans are established by the lender, but may not exceed the rate the lender charges its average farm loan customer. Guaranteed loan terms are set by the lender.

Getting a Loan

Applications for all FSA direct loan programs are made through FSA's local offices. These are listed in telephone directories under "United States Government, Department of Agriculture."

Guaranteed loan applications are made with the lender. In cases where a lender is not known to an applicant, local office personnel will assist the applicant.

For more information

Further information is available from local USDA Service Centers or on the FSA website at:
www.fsa.usda.gov.

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