House Committee on Agriculture
Farm Bill Audit

1. Program Name

Farm Ownership Loan (FO)
Prepared by the U.S. Department of Agriculture's (USDA) Farm Service Agency (FSA).

2. Subprograms/Department Initiatives

Through its nationwide network of service centers, often in geographically isolated areas with few private or commercial lenders, FSA provides agricultural financing to small and family size farmers and ranchers for farm ownership purposes, including costs associated with acquiring or enlarging a farm or ranch or to make a down payment of a farm or ranch; make capital improvements to a farm owned by the applicant, for construction, purchase or improvement of farm dwellings, service buildings or other facilities and improvements essential to the farming operation; promote soil and water conservation and protection; pay loan closing costs; and to refinance a bridge loan under specific and limited conditions.

FO loans are sub-categorized by targeted funding type, i.e., regular interest rate eligible; limited resource rate; Socially Disadvantaged Applicant; and Beginning Farmer and/or Beginning Farmer Socially Disadvantaged Applicant. There is no limited resource Guaranteed FO loan.

In addition to the aforementioned FO loan types, FSA offers two other subprograms under the main FO umbrella: Participation FO and Beginning Farmer Down Payment loans. Each of these sub-categories are further identified by targeting Socially Disadvantaged FO loan applicants by ethnicity and gender to broaden and ensure availability of limited appropriations for all members of the agricultural community. For example, an FO loan application can be funded as "Direct FO-Beginning Farmer Down Payment-Socially Disadvantaged-Gender."

<u>Direct FO – Participation:</u>
A Direct FO Participation loan is made as part of a joint financing arrangement and the amount of FSA's loan does not exceed 50 percent of the total amount financed. In such arrangements, an applicant may obtain financing from a commercial lender, a State program, or the seller of a farm. The other lender's portion of the loan may be guaranteed by FSA. Utilization of this program allows FSA to extend credit to more farmers than the Agency would be able to finance if the farmer relied solely on FSA Direct or Guaranteed loan funding.

<u>Direct FO – Beginning Farmer Down Payment:</u>
Down Payment FO loans are used to partially finance the purchase of a family farm by an eligible Beginning Farmer or Socially Disadvantaged Applicant. This is the only FSA loan program that requires the loan applicant to provide a minimum downpayment of 5 percent of the purchase price of the farm. Additional limitations specific to the Beginning Farmer Down Payment FO loan is that the maximum FSA loan amount is not tied to the statutory limitations. Rather, Down Payment loans may not exceed 45 percent of the lessor of: (1) the purchase price; (2) the appraised value of the farm to be acquired; or (3) $500,000. Financing provided by FSA and all other creditors must not exceed 95 percent of the purchase price. Any financing provided by eligible lenders may be guaranteed by FSA.

Direct FO - Socially Disadvantaged Applicant (SDA)
A Socially Disadvantaged loan applicant is not a program type; rather it distinguishes a specific funding source. Therefore, the loan process and all loan requirements are identical for SDA applicants to those for non-SDA applicants. To be eligible for SDA loan consideration, the applicant must belong to a socially disadvantaged group whose members have been subject to racial, ethnic or gender prejudice, which includes American Indians or Alaskan Natives, Asians, Blacks or African Americans, Native Hawaiians

or other Pacific Islanders, Hispanics, and women. Loan applicants must voluntarily provide his or her ethnicity, race and gender on the loan application. If an applicant does not voluntarily provide this information, targeted funding will not be available. Direct FO assistance for SDA applicants is available for all FO purposes and authorities.

<u>Guaranteed FO</u>
An FSA Guaranteed FO loan is a contract between the loan applicant and commercial lender that allows for the extension of financial credit for a period not to exceed 40 years. FSA guarantees the loan against possible loss up to 95 percent principal and interest.

<u>Guaranteed – Beginning Farmer/Rancher</u>
Beginning farmer loans are targeted to loan applicants who have not operated a farm or ranch for more than ten years and do not own real farm property, directly or indirectly, which does not exceed 30 percent of the median acreage of the farms in the county where the property is located. FSA guarantees the loan against possible loss up to 95 percent of principal and interest.

<u>Guaranteed – Socially Disadvantaged Applicant</u>
A Socially Disadvantaged loan applicant is not a program type; rather it distinguishes a specific funding source. To be eligible for SDA loan consideration, the applicant must belong to a socially disadvantaged group whose members have been subject to racial, ethnic or gender prejudice, which includes American Indians or Alaskan Natives, Asians, Blacks or African Americans, Native Hawaiians or other Pacific Islanders, Hispanics, and women. FSA issues a guarantee that protects the lender against possible loss up to 95 percent of principal and interest.

3. Brief History

The Farm and Rural Development Act, as amended, Subtitle B, Sections 311-317, Public Law 92-419, 7 U.S.C. 1942 enabled operators of not larger than family farms, through the extension of credit and supervisory assistance, to make efficient use of their land, labor, and other resources, and to establish and maintain financially viable farming and ranching operations.

Title III of the Agricultural Act of 1961, The Consolidated Farm and Rural Development Act (CONACT), as amended, through Public Law 109-171, Feb 8, 2006, provided a major overhaul and expansion of farm lending authorities.

The 1978 Agriculture Credit Act changed existing programs by authorizing farm loans to family corporations, cooperatives, and partnerships as well as to individuals; changed the interest rate for farm ownership loans so that the rate is now based on the cost of borrowing to the Government; and limited resource farmers and limited resource rates were identified and established.

The Food Security Act of 1985 (December 23, 1985) made major changes in farm loan eligibility and provided protections for borrowers undergoing serious financial difficulty. Loan eligibility was expanded to include "joint operators" and persons related by blood or marriage.

Targeted participation rates for Direct and Guaranteed FO loans are found in the Agricultural Credit Act of 1987 (January 6, 1988), Section 355 of the CONACT.

FO Down Payment loans were authorized through the Agricultural Credit Improvement Act of 1992 (October 29, 1992), Section 310E of the CONACT. Section 246(b)(2) of this same Act contains the authorities for targeted funds to beginning farmers. This Act also provided for the inclusion of women in the definition of Socially Disadvantaged Applicants.

Through the Federal Agriculture Improvement and Reform (FAIR) Act of 1995 (April 4, 1996), Public Law 104-127, farm lending programs were reauthorized, placing new restrictions on loan purposes and the length of time borrowers are eligible for new credit assistance. This law also established the targeted funding for beginning farmers.

In fiscal year 1988, FSA was given authority to offer FO-SDA loans.

4. Purpose/Goals

The basic objective of the FO loan program is to provide credit and management assistance to eligible farmers and ranchers to become owner-operators of family-sized farms or to continue such operations when credit is not available elsewhere. FSA's farm ownership loan assistance enables family-farm operators to procure land and to improve their living and financial conditions so that they can graduate fully to commercial credit.

FSA direct loans facilitate the provision of credit, which can help support low farm family incomes, assist minority and beginning farmers, or help farmers adopt new technology that will make their farming operations more economical. FSA has the responsibility of providing credit counseling and supervision to its direct borrowers by making a thorough assessment of the farming operation. The Agency helps applicants evaluate the adequacy of the real estate and facilities, machinery and equipment, financial and production management, and the farmer's goals. FSA assists the applicant in identifying and prioritizing areas needing improvement in all phases of the operation. An FSA official then works one-on-one with the farmer to develop and to help strengthen the identified areas that ultimately result in the farmer's graduation to commercial credit.

Because special skills may be needed to evaluate farm loans, and because much farm production occurs in geographically isolated areas that have few lenders, some farmers may face less competitive markets for their loans that can result in higher rates, less favorable terms, and/or no access to loan funds. Farmers may have trouble demonstrating their credit worthiness to lenders because of the economic uncertainties of production agriculture as well. This can be particularly true for beginning farmers, women, and minorities, as they typically operate smaller farms, have less equity, or lack a sufficient credit or production histories. To address these issues, each year FSA allocates a share of loan funding for use by beginning farmers and socially disadvantaged, including racial, ethnic minorities, and women farmers, who by statute are deemed more likely to have problems accessing needed credit than other high-risk family-sized farm borrowers.

The Guaranteed Loan Program plays an important role in facilitating the extension of credit to farmers, not only through collaboration with partner lenders but also with FSA's Direct Loan Program. Often times a borrower's credit needs are met through a combination of a Guaranteed loan and an FSA direct loan. For example, a Farm Ownership loan will be made by a commercial lender with an FSA guarantee to purchase farmland and the borrower will also obtain a direct operating loan from FSA to cover annual operating expenses.

The "credit gaps" which farm loan guarantees are designed to fill are associated with farm businesses that usually have debt burdens and/or repayment capacities that do not meet private sector lending standards. These high-risk farms might fail to meet industry standards due to a lack of production or credit history, limited equity, being a start-up business, defined as ten or less years of farming experience, or by being able to offer only single purpose collateral. Another factor limiting access to capital is that some farm production occurs in geographically isolated areas that tend to have fewer lenders specializing in agricultural lending. As a result, farmers may face limited competition loans in these areas, which can result in higher interest rates, unfavorable loan terms, and/or a shortage of loan funds. By reducing the lenders' exposure to risk, the 90 to 95 percent guarantee provided lenders on eligible farm loans allows farmers to obtain loans to finance annual operating expenses, equipment, livestock, and farmland purchases and improvements.

5. Success in Meeting Programmatic Purpose/Goals

FSA has been very successful in accomplishing its long-term performance goals for the Farm Ownership Loan Program. Loss rates, delinquency rates, and lending to beginning farmers, minorities, and women have all shown significant long-term progress.

Reduce First Year Delinquency Rates on New Loans: The 1st year delinquency rate is calculated based on the number of new loans issued in the previous calendar year and is primarily and indicator of credit quality. The formula is the total number of delinquent first year loans plus any first year loans restructured divided by the total number of loans issued in the previous calendar year. Note: Data reported is for all Direct FO and Operating Loans (OL) loans, Guaranteed loans are not included.

Fiscal Year	Actual Performance
2007	7.4%
2008	6.2%
2009	10.5%
2010	9.2%
2011	

Increase Lending to Minorities, Woman, and Beginning Farmers and Ranchers: FSA establishes annual performance goals to increase its lending to beginning and socially disadvantaged farmers. Performance is measured by calculating the percentage of total loan obligations in a given fiscal year that are issued to farmers in the targeted groups. Note: Data reported is for all Direct and Guaranteed FO and OLs.

Fiscal Year	Actual Performance
2007	40.7%
2008	43.2%
2009	41.0%
2010	37.7%
2011	

Reduce the Average Processing Time for Direct and Guaranteed Loan Applications: A core component of FSA's mission is to provide an economic safety net for America's farmers and ranchers. Therefore, it is important that financial assistance is provided timely when the need arises. The average processing time is calculated from the date of application receipt until the date a loan decision is made. Note: Data reported includes the average processing time for FO and OL loans.

Program Category	Fiscal Year	Actual Performance
Direct FO	2007	27.0 days
	2008	27.8 days
	2009	29.9 days
	2010	30.8 days
	2011	
Guaranteed FO	2007	12.6 days
	2008	8.6 days
	2009	8.75 days
	2010	10.24 days

	2011	

Decrease Delinquency Rates for Direct and Guaranteed Loans: A low delinquency rate indicates that borrowers are experiencing greater success in meeting their financial obligations, which is an indicator of greater financial strength and viability. The Direct Delinquency rate is calculated by dividing the amount delinquent by the unpaid principal plus unpaid interest held by all Direct loan borrowers. The loan delinquency rate performance measure for FSA Guaranteed loans is calculated by taking the total amount past due, as reported by lenders nationwide on form FSA-2248, "Guaranteed Farm Loan Default Status Report", divided by the total amount outstanding on all guaranteed loans nationwide.

Program Category	Fiscal Year	Actual Performance
Direct FO	2007	7.1%
	2008	6.5%
	2009	6.3%
	2010	5.9%
	2011	
Guaranteed FO	2007	1.32%
	2008	1.18%
	2009	1.69%
	2010	1.69%
	2011	

Decrease the Loss Rate for Direct and Guaranteed Loans: Low loss rates indicate that borrowers are experiencing greater success in meeting their financial obligations, which is an indicator of financial strength and economic viability. The Direct Loss rate is calculated by dividing the amount of losses processed during the fiscal year by the amount of unpaid principal at the beginning of the fiscal year. The Guaranteed Loss rate is calculated by dividing the amount of losses processed during the fiscal year by the amount unpaid principal at the beginning of the fiscal year.

Program Category	Fiscal Year	Actual Performance
Direct FO	2007	2.3%
	2008	1.6%
	2009	0.8%
	2010	1.1%
	2011	

Program Category	Fiscal Year	Actual Performance
Guaranteed FO	2007	0.30%
	2008	0.33%
	2009	0.39%
	2010	0.58%
	2011	

6. Annual Budget Authority (FY 2002 – FY 2011)

Appendix I: ACIF Historical Program Subsidy Budget Authority and Loan Levels

($ in millions)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
ACIF										
Annual Subsidy Budget Authority	190	248	198	144	151	148	153	241	156	155
Direct Loan Level										
Farm ownership	147	169	142	272	275	303	382	560	702	474
Farm operating	611	690	610	556	641	600	629	1,056	1,220	1049
Emergency disaster	25	96	30	24	51	75	46	30	36	66
Indian tribe land acquisition	2	0	2	0	0	0	0	0	0	4
Boll weevil eradication	100	99	98	83	22	6	100	100	0	100
Indian Highly Fractionated Land	N/A	N/A	N/A	N/A	N/A	N/A	0	0	0	0
Conservation	N/A	N/A	N/A	N/A	N/A	N/A	0	0	5	11
Farm Operating ARRA	N/A	N/A	N/A	N/A	N/A	N/A	0	170	22	0
Total Direct Loan Levels	885	1,054	882	935	989	984	1,157	1,916	1,985	1,704
Direct Loan Appropriated Subsidy										
Farm ownership	4	20	31	15	14	13	17	36	29	33
Farm operating	55	119	88	56	64	70	80	125	58	64
Emergency disaster	3	19	4	3	6	9	5	4	1	7
Indian tribe land acquisition	0	0	0	0	0	0	0	0	0	0
Boll weevil eradication	0	0	0	0	0	0	0	0	0	0
Seed cotton	0	0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Indian Highly Fractionated Land	N/A	N/A	N/A	N/A	N/A	N/A	0	0	0	0
Conservation	N/A	N/A	N/A	N/A	N/A	N/A	0	0	0	0
Farm Operating ARRA	N/A	N/A	N/A	N/A	N/A	N/A	0	20	1	0
Total Direct Loan Subsidy	62	158	123	74	84	92	102	185	89	104
Guaranteed Loan Level										
Farm ownership	1,161	1,231	1,103	1,027	949	965	1,171	1,273	1,606	1,906
Farm operating, unsubsidized	1,548	1,013	951	885	937	918	946	1,235	1,510	1,498
Farm operating, subsidized	511	418	278	283	272	272	135	150	182	65
Conservation	N/A	N/A	N/A	N/A	N/A	N/A	0	0	0	1
	3,220	2,662	2,332	2,195	2,158	2,155	2,252	2,658	3,298	3,470
Guaranteed Loan Appropriated Subsidy										
Farm ownership	5	9	6	5	5	6	5	4	6	7
Farm operating, unsubsidized	54	32	34	27	28	23	23	31	35	35
Farm operating, subsidized	69	49	35	38	34	27	23	21	26	9
Conservation	N/A	N/A	N/A	N/A	N/A	N/A	0	0	0	0
	128	90	75	70	67	56	51	56	67	51

7. Annual Outlays (FY2002-FY2011)

ACIF Historical Program Outlays ($Millions)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
ACIF										
Direct Loan Subsidy Outlays										
Farm ownership	5	17	30	15	13	9	19	30	28	33
Farm operating	56	109	87	56	61	70	77	107	67	64
Emergency disaster	28	18	4	3	5	7	5	4	1	7
Indian tribe land acquisition	0	0	0	0	0	1	0	0	0	0
Boll weevil eradication	0	0	0	0	0	0	0	0	0	0
Indian Highly Fractionated Land	N/A	N/A	N/A	N/A	N/A	N/A	0	0	0	0
Conservation	N/A	N/A	N/A	N/A	N/A	N/A	0	0	0	0
Farm Operating ARRA	N/A	N/A	N/A	N/A	N/A	N/A	0	18	2	0
Total Direct	89	144	121	74	79	87	101	159	98	104
Guaranteed Loan Subsidy Outlays										
Farm ownership	5	9	6	5	4	5	4	4	5	7
Farm operating, unsubsidized	48	32	33	28	28	35	23	30	35	9
Farm operating, subsidized	63	49	31	37	34	15	18	21	25	35
Conservation	N/A	N/A	N/A	N/A	N/A	N/A	0	0	0	0
Total Guaranteed	116	90	70	70	66	55	45	55	65	51

8. Annual Delivery Cost (FY 2002 – FY 2011)

Department Strategic Goal: Assist rural communities to create prosperity so they are self-sustaining, repopulating, and economically thriving

PROGRAM	PROGRAM ITEMS	FY 2007 Amount ($000)	FY 2008 Amount ($000)	FY 2009 Amount ($000)	FY 2010 Amount ($000)	FY 2011 Amount ($000)
Farm Loans						
	Direct Farm Ownership Loans	12,712	16,990	35,560	28,675	26,520
	Direct Farm Operating Loans	70,147	79,959	124,545	58,889	47,500
	Guaranteed Farm Ownership Loans	5,599	4,955	4,200	5,942	5,559
	Guaranteed Farm Operating Loans,	27,379	23,341	20,645	25,529	23,902
	Guaranteed Farm Operating Loans, unsub.	22,666	22,908	30,754	35,338	35,126
	Emergency Disaster Loans	8,891	5,135	4,323	1,314	6,000
	Indian Tribe Land Acquisition Loans	0	0	0	0	0
	Boll Weevil Eradication Loans	114	0	0	0	0
	Indian Fractionated Land Loans	0	0	0	0	793
	Direct Conservation Loans	0	0	0	0	0
	Guaranteed Conservation Loans	0	0	0	0	0
	Program Loan Cost Expenses	7,920	7,920	7,920	7,920	7,920
	Individual Development Account Grants	0	0	0	0	0
	Administrative costs (direct)	243,993	277,206	305,903	309,848	304,655
	Indirect costs [2]	146,791	23,979	4,214	4,273	8,518
	Total Costs [1]	**546,212**	**462,393**	**538,064**	**477,728**	**466,493**
	FTEs	*2,809*	*2,752*	*2,923*	2,804	2,804
	Performance Measure: Maintain or reduce avg processing time for direct and guaranteed loans					
	Direct Loans (# of days):	27.00	27.80	33.50	30.80	32.50
	Guaranteed Loans (# of days):	12.60	8.50	13.50	13.25	13.00
	Performance Measure: Increase % of beginning farmers, racial and ethnic minority farmers, and women farmers financed by FSA					
	Percent:	15.90%	16.22%	17.40%	19.90%	18.00%

[1] For loan programs reflects subsidy budget authority to support loan levels

[2] Indirect costs include a small amount related to State Mediation Grants

9. Eligibility Criteria

The eligibility criteria for all FO loan applicants include the following:

- Have no disqualifying convictions for controlled substances, including drug trafficking and possession;
- Possess the legal capacity to incur the obligation of the loan
- Be a citizen of the United States, a United States non-citizen national, or a qualified alien under applicable Federal immigration laws;
- Have an acceptable credit history demonstrated by debt repayment;
- Have not caused the Agency a loss by receiving debt forgiveness;

- Have not received debt forgiveness or incurred a loss to the Government relating to a guaranteed loan loss;
- Have the inability to obtain credit elsewhere, with or without an FSA guarantee;
- Not be in delinquent status on any Federal debt, excluding debt under the Internal Revenue Code of 1986 at the time of loan closing;
- Have no outstanding unpaid judgments obtained by the United States in any court, excluding those filed as a result of action in the United States Tax Courts;
- May not be ineligible due to disqualification resulting from Federal Crop Insurance violation(s) according to 7 C.F.R. 718;
- Have sufficient farm managerial ability as demonstrated by a combination of education, on-the-job training, and farming experience;
- Must agree to meet borrower training requirements, if FSA determines the training to be necessary for success; and
- Be the owner-operator or tenant-operator of a family farm or ranch.

The loan eligibility criterion for an FO loan to a Socially Disadvantaged Applicant, including women, includes all general eligibility requirements outlined above. As stated previously, a Socially Disadvantaged loan only specifies a funding source. Therefore, the loan process and all loan requirements are identical for SDA applicants to those for non-SDA applicants. Loan applicants must voluntarily provide his or her ethnicity, race, and gender on the loan application to qualify for the targeted funding.

Specific to the Direct FO loan program is the requirement that the applicant, or one or more members constituting a majority interest of an entity applicant, must have participated in the business operations of a farm or ranch for at least 3 years out of the 10 years prior to the date the application is submitted. The factors to determine participation in the business operations of a farm are similar to those for determining adequate farming experience necessary to ensure a reasonable prospect of success.

The Direct FO program also has term limits attached to it. To meet the program-specific eligibility requirement, the loan applicant must: (1) meet the definition of a beginning farmer; (2) have not had a Direct FO loan outstanding for more than a total of 10 years prior to the date the new FO loan is closed; or (3) have never received a Direct FO loan.

10. Utilization (Participation) Data

Program Loan Funds Use (dollars in millions)

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011*
Direct FO	303	382	560	702	425
Guaranteed FO	949	1,170	1,272	1,605	1,456

*As of June 30, 2011

11. Duplication or Overlap with Other Programs

FSA Guaranteed Farm Loan Program serve separate purposes and are generally not duplicative with other Federal and State credit programs. While other Federal or State credit programs are available to family farm businesses, these programs lack national scope, are focused on narrow market segments, and are not specifically designed to serve high-risk farm businesses. FSA's Direct Farm Loan Program serves high-risk farmers with similar purposes, but this program is designed to assist even less creditworthy borrowers; those unable to obtain credit, even with a Federal loan guarantee. Studies of the economic profiles of both Direct and Guaranteed program participants indicate the two delivery systems serve different high-risk borrower segments. In addition, the FSA Direct Loan Program is narrower in scope because of the more limited funding and is more highly targeted to underserved market segments of beginning start-up farm operations and socially disadvantaged borrowers.

Across other Federal agencies, the Small Business Administration (SBA), and USDA's Rural Business Service (RBS) provide loan guarantee programs that may serve agriculture. The RBS loan guarantee programs do not duplicate those of FSA because they serve agribusiness and value-added farm enterprises. The SBA programs are not designed to meet specialized agricultural needs and participating SBA lenders' program delivery is geographically limited. In FY 2007, SBA accounted for only 3.5 percent of all federally guaranteed loans made to farmers, with FSA accounting for the remainder. Many SBA agricultural loan guarantees are made to farms that would not meet FSA eligibility requirements. Overlap between FSA and SBA was mostly limited to poultry and nursery farms.

Some State governments also provide farm loan guarantees, but funding and geographic coverage for such programs is limited. The National Council of State Agricultural Finance Programs indicates that only 18 States have an established loan guarantee program. However, only four States have programs that are actively providing loan guarantees to farmers. State programs typically target specific purposes, such as value-added or single-purpose livestock facilities, have limited or sporadic funding, or limited geographical availability, hence seldom duplicating FSA loan objectives. Again, eligibility criteria and intended purposes differ significantly from FSA Direct and Guaranteed Loan Programs, and funding can be sporadic. A more common type of State financing assistance is provided through "Aggie Bonds," which are tax exempt bonds, issued by States under specific eligibility requirements.

12. Waste, Fraud and Abuse

FSA has a robust internal controls program for its farm loan programs, which consists of OMB Circular A-123 reviews, Farm Loan Program Risk Assessments, the County Operations Review program, Lender Reviews, and National Office Loan Origination File Reviews. Additionally, farm loan programs are subject to periodic audit and review by the Office of Inspector General and the Government Accountability Office. No material weaknesses related to fraud, waste, and abuse have been identified through these processes for many years.

13. Effect of Administrative Pay-go

None.

House Committee on Agriculture
Farm Bill Audit

1. Program Name

Emergency Loan (EM)
Prepared by the U.S. Department of Agriculture's (USDA) Farm Service Agency (FSA)

2. Subprograms/Department Initiatives

Emergency loans may be categorized as being a: (1) real estate physical loss; (2) chattel physical loss; or (3) a production loss.

Real Estate Physical Loss:
EM loan funds for real estate physical losses may only be used to repair or replace essential property damaged or destroyed as a result of a disaster for purchasing real estate, if authorized; establishing a new site for a farm dwelling and service buildings outside of a flood or mudslide area; soil and water conservation, land and water resource placement and land and water development when existing structures are damaged or destroyed during the disaster.

Chattel Physical Loss:
EM loan funds may be used for chattel physical losses only to repair or replace essential property damaged or destroyed as a result of a disaster to purchase livestock or farm equipment; repair or replace household contents damaged by the disaster; pay the costs to restore perennials which produce an agricultural commodity; pay family living expenses and farm operating expenses for farmers and ranchers suffering from livestock losses or losses to stored crops held for sale; or for refinancing farm-related debts caused by the designated or declared disaster.

Production Loss:
Production losses to agricultural commodities are eligible for FSA EM loan assistance to pay costs associated with reorganizing the farm or ranch; to pay annual operating expenses; pay costs associated with Federal or State-approved standards under the Occupational Safety and Health Act of 1970 (19 U.S.C. 655 and 667); pay essential family living expenses; or refinance farm debt which resulted from the designated or declared disaster.

3. Brief History

Federal Farm Loan Act of 1916 – Emergency crop and seed loans

Disaster Loan Act of 1949 – Emergency farm loans

Rural Development Act of 1972, Section 321 of the CONACT – Emergency Loan Program

Title III of the Agricultural Act of 1961, The Consolidated Farm and Rural Development Act (CONACT), as amended, through Public Law 109-171, Feb 8, 2006

4. Purpose/Goals

EM loans are made to eligible loan applicants who have incurred substantial financial losses from a natural disaster or quarantine. These disasters may be either Presidential declarations or declared by the Secretary of Agriculture.

5. Success in Meeting Programmatic Purpose/Goals

Performance in the EM program is consistent with other farm loan programs in terms of loan processing timeliness, delinquency rates, and losses. These results are especially noteworthy considering the very high risk nature of these loans, as they are issued to borrowers who have suffered financial losses resulting from natural disaster.

6. Annual Budget Authority (FY 2002 – FY 2011) See chart on Page 6

7. Annual Outlays (FY 2002 – FY 2011) See chart on Page 7

8. Annual Delivery Cost (FY 2002 – FY 2011) See chart on Page 8.

9. Eligibility Criteria

Emergency loans may be made to farmers and ranchers who:

- Own or operate land located in a county declared by the President or designated by the Secretary of Agriculture as a primary disaster area or quarantine area. All counties contiguous to the declared, designated, or quarantined primary counties also are eligible for emergency loans. A disaster designation by the FSA administrator authorizes emergency loan assistance for physical losses only in the designated and contiguous counties;
- Are established family farm operators and have sufficient farming or ranching experience;
- Are citizens or permanent residents of the United States;
- Have suffered at least a 30 percent loss in crop production or a physical loss to livestock, livestock products, real estate or chattel property;
- Have an acceptable credit history;
- Are unable to receive credit from commercial sources;
- Can provide collateral to secure the loan; and
- Have repayment ability;
- Submit applications within eight months of the county's disaster or quarantine designation date.

In addition to eligibility criteria, FSA loan requirements are different from those of other lenders. Some of the more significant differences are borrowers must keep acceptable farm records, must operate in accordance with a farm plan developed with the local FSA staff, may be required to participate in a financial management training program, and may be required to obtain crop insurance.

All emergency loans must be fully collateralized. The specific type of collateral may vary depending on the loan purpose, repayment ability and the individual circumstances of the applicant. If applicants cannot provide adequate collateral, their repayment ability may be considered as collateral to secure the loan. A first lien is required on property or products acquired, produced or refinanced with loan funds.

Loans for crop, livestock, and non-real estate losses are normally repaid within one to seven years, depending on the loan purpose, repayment ability and collateral available as loan security. In special circumstances, terms of up to 20 years may be authorized. Loans for physical losses to real estate are normally repaid within 30 years but, in certain circumstances, may be extended up to a maximum of 40 years.

10. Utilization (Participation) Data

Program Loan Funds Use (dollars in millions)

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011*
Emergency	75	44.9	30.4	35.5	29

*As of June 30, 2011

11. Duplication or Overlap with Other Programs

The FSA Farm Loan Programs serves separate purposes and is generally not duplicative with other Federal and State credit programs. While other Federal or State credit programs are available to family farm businesses, these programs lack national scope, are focused on narrow market segments, and are not specifically designed to serve high-risk farm businesses. FSA's EM program serves an even higher-risk farmer who have suffered financial setback resulting from natural disasters.

Some State governments also provide farm loan assistance but funding and geographic coverage is limited. Emergency assistance, if available, would be only available on an ad-hoc basis.

12. Waste, Fraud and Abuse

FSA has a robust internal controls program for its farm loan programs, which consists of OMB Circular A-123 reviews, Farm Loan Program Risk Assessments, the County Operations Review program, Lender Reviews, and National Office Loan Origination File Reviews. Additionally, farm loan programs are subject to periodic audit and review by the Office of Inspector General and the Government Accountability Office. No material weaknesses related to fraud, waste, and abuse have been identified through these processes for many years.

13. Effect of Administrative Pay-go

None.

House Committee on Agriculture
Farm Bill Audit

1. Program Name
Operating Loan (OL)
Prepared by the U.S. Department of Agriculture's (USDA) Farm Service Agency (FSA)

2. Subprograms/Department Initiatives
Through its nationwide network of service centers, often in geographically isolated areas with few private or commercial lenders, FSA provides agricultural financing to small and family size farmers and ranchers for farm operating costs, including costs associated with reorganizing a farm to improve its profitability; farm equipment and other chattel purchases; family and annual farm operating expenses; refinancing farm related debts; land and water development, and other farm needs. Federally regulated lenders with experience in agricultural lending are eligible to participate in the FSA Guaranteed Farm Loan Program as Standard, Certified, or Preferred Lenders, depending upon their experience and level of participation.

<u>Direct OL</u>
An annual OL is designed to finance farm operating expenses, family living expenses, or small purchase costs that are repayable within one year or a maximum of 18 months. The maximum number of years a farmer may receive annual direct OL assistance is seven years, which may be consecutive or non-consecutive. There is no limit on the number of loans closed in a single year. On a case-by-case basis, it is possible for farmers and ranchers to be granted a one-time waiver for an additional two years of direct loan assistance. This limitation is not applicable if the farm or ranch is subject to the jurisdiction of an Indian tribe.

A term OL is designed to finance costs associated with reorganizing a farm, such as changing enterprises, production practices, marketing methods or purchasing shares in value-added processing and marketing cooperatives; land and water development; and other similarly related farm expenses. Term Operating loans allow for an extended repayment period not to exceed seven years. The maximum number of years a farmer may receive term direct OL assistance is seven years, which may be consecutive or non-consecutive. There is no limit on the number of loans closed in a single year. On a case-by-case basis, it is possible for farmers and ranchers to be granted a one-time waiver for an additional two years of direct loan assistance. This limitation is not applicable if the farm or ranch is subject to the jurisdiction of an Indian tribe.

<u>Direct OL – Limited Resource</u>
A limited resource Direct OL is designed to assist family farmers and ranchers unable to develop a farm business plan with a positive cash flow and reasonable prospects for loan repayment using FSA's regular interest rates. A limited resource interest rate is intended to reflect an interest rate below FSA's regular interest rate during periods of otherwise high interest rates. Limited resource loans are available for all OL loan purposes and authorities with repayment periods from one to seven years depending upon the loan purpose, type of security and repayment ability. Limited resource farmers and ranchers are expected to graduate to FSA's regular rates and terms upon achieving stronger financial solvency. The maximum number of years a farmer may receive term Direct OL limited resource assistance is seven years, which may be consecutive or non-consecutive. There is no limit on the number of loans closed in a single year. On a case-by-case basis, it is possible for farmers and ranchers to be granted a one-time waiver for an additional two years of direct loan assistance. This limitation is not applicable if the farm or ranch is subject to the jurisdiction of an Indian tribe.

Direct OL – Rural Youth

Rural Youth loans are utilized to finance modest, income-generating, agriculture-related educational projects while participating in 4-H Clubs, Future Farmers of America, or similar organizations. Applicants must be between the ages of 10 to 20 years. Youth loan funds may be used only to pay the expenses associated with the approved project. A 4-H club advisor, vocational teacher, county extension agent or other organizational sponsor is required for supervision and technical assistance, and parental consent must be obtained.

Direct OL – Beginning Farmer/Rancher

Beginning farmer loans are targeted to loan applicants who have not operated a farm or ranch for more than ten years and do not own real farm property, directly or indirectly, which does not exceed 30 percent of the median acreage of the farms in the county where the property is located. Beginning farmer loan recipients are often required to participate in production and financial management training in an effort to ensure success of the operation by providing the guidance and technical support necessary. Beginning farmer loans are available for all OL purposes and authorities with repayment periods from one to seven years depending upon the loan purpose, type of security and repayment ability. The maximum number of years a beginning farmer may receive Direct OL assistance is ten years. This limitation is not applicable if the farm or ranch is subject to the jurisdiction of an Indian tribe.

Direct OL – Socially Disadvantaged Applicant (SDA)

A Socially Disadvantaged loan applicant is not a program type; rather it distinguishes a specific funding source. Therefore, the loan process and all loan requirements are identical for SDA applicants to those for non-SDA applicants. To be eligible for SDA loan consideration, the applicant must belong to a socially disadvantaged group whose members have been subject to racial, ethnic or gender prejudice, which includes American Indians or Alaskan Natives, Asians, Blacks or African Americans, Native Hawaiians or other Pacific Islanders, Hispanics, and women. Loan applicants must voluntarily provide his or her ethnicity, race and gender on the loan application. If an applicant does not voluntarily provide this information, targeted funding will not be available. Direct OL assistance for SDA applicants is available for all OL purposes and authorities with repayment periods from one to seven years depending upon the loan purpose, type of security and repayment ability. The maximum number of years a farmer may receive term Direct OL limited resource assistance is seven years, which may be consecutive or non-consecutive. There is no limit on the number of loans closed in a single year. On a case-by-case basis, it is possible for farmers and ranchers to be granted a one-time waiver for an additional two years of Direct loan assistance. This limitation is not applicable if the farm or ranch is subject to the jurisdiction of an Indian tribe.

Guaranteed OL

An FSA Guaranteed Line of Credit is a contract between the loan applicant and commercial lender that allows for the extension of financial credit where the loan principal may fluctuate throughout the term of the contract. The term of the contract may not extend beyond five years. FSA issues a guarantee that protects the lender against possible loss up to 95 percent principal and interest.

An FSA Guaranteed Operating term loan is a contract between the loan applicant and commercial lender that allows for the extension of financial credit for a period not to exceed seven years. FSA guarantees the loan against possible loss up to 95 percent principal and interest.

Guaranteed OL – Beginning Farmer/Rancher

Beginning farmer loans are targeted to loan applicants who have not operated a farm or ranch for more than ten years and do not own real farm property, directly or indirectly, which does not exceed 30 percent of the median acreage of the farms in the county where the property is located. FSA guarantees the loan against possible loss up to 95 percent of principal and interest.

Guaranteed OL – Socially Disadvantaged Applicant

A Socially Disadvantaged loan applicant is not a program type; rather it distinguishes a specific funding source. To be eligible for SDA loan consideration, the applicant must belong to a socially disadvantaged group whose members have been subject to racial, ethnic or gender prejudice, which includes American Indians or Alaskan Natives, Asians, Blacks or African Americans, Native Hawaiians or other Pacific Islanders, Hispanics, and women. FSA issues a guarantee that protects the lender against possible loss up to 95 percent of principal and interest.

Guaranteed OL – Interest Assistance

FSA's Interest Assistance program is intended to assist family farmers and ranchers who have low production or who are suffering the effects of a natural disaster or adverse economic conditions. This is helpful to beginning farmers who traditionally face difficulties in obtaining access to private credit programs. In exchange for reimbursing a commercial lender 4 percentage points on the Guaranteed OL, the commercial lender reduces the interest rate charged to the farmer by that amount, thus allowing the farmer a greater opportunity to accrue farm assets and become financially viable. FSA also issues a guarantee that protects the lender against possible loss up to 95 percent of principal and interest.

3. Brief History

The Farm and Rural Development Act, as amended, Subtitle B, Sections 311-317, Public Law 92-419, 7 U.S.C. 1942 enabled operators of not larger than family farms through the extension of credit and supervisory assistance, to make efficient use of their land, labor, and other resources, and to establish and maintain financially viable farming and ranching operations.

Title III of the Agricultural Act of 1961, The Consolidated Farm and Rural Development Act (CONACT), as amended, through Public Law 109-171, Feb 8, 2006, provided a major overhaul and expansion of farm lending authorities.

Congressional appropriations are the sole source of funding for FSA's Direct loan program. Funding for this program was initially authorized through Title III of the Consolidated Farm and Rural Development Act of 1961 (CONACT), as amended, and amended by every subsequent Farm Bill.

The Rural Development Act of 1972 (August 20, 1972), Section 311(b)(1) of the CONACT, established the use of the guarantee provisions for commercial lenders and authorized the Rural Youth loan program, and has been amended in every subsequent Farm Bill. Loan authorities provided within this Act initially authorized FSA's Guaranteed loan program, which also has been amended by each subsequent Farm Bill.

The 1978 Agriculture Credit Act changed existing programs by authorizing farm loans to family corporations, cooperatives, and partnerships as well as to individuals; changed the interest rate for farm ownership loans so that the rate is now based on the cost of borrowing to the Government; and limited resource farmers and limited resource rates were identified and established.

The Emergency Agricultural Credit Act of 1984 (April 10, 1984) increased the maximum repayment period for rescheduled or consolidated loans and allowed for borrowers to have their loan changed to a limited resource loan, if qualified. This Act also permitted interest rates on operating loans that are deferred, consolidated, rescheduled or re-amortized to be set at the original rate or current rate, whichever is lower and required a target of 20 percent of operating funds to be targeted to limited resource borrowers.

The Food Security Act of 1985 (December 23, 1985) made major changes in farm loan eligibility and provided protections for borrowers undergoing serious financial difficulty. Loan eligibility was expanded to include “joint operators” and persons related by blood or marriage.

The targeting of direct and guaranteed Operating Loan funds to Socially Disadvantaged Applicants was initially authorized in the Food, Agriculture, Conservation and Trade Act of 1990 (November 28, 1990), Section 355 of the CONACT. The inclusion of women as Socially Disadvantaged farmers occurred in the Agricultural Act of 1992, Section 355 of the CONACT.

Targeted direct and guaranteed Operating Loan funds to Beginning Farmers and Ranchers were authorized through the Agricultural Credit Improvement Act of 1992, Section 346(b)(2) of the CONACT, and as amended in every subsequent Farm Bill.

Through the Federal Agriculture Improvement and Reform (FAIR) Act of 1995 (April 4, 1996), Public Law 104-127, farm lending programs were reauthorized, placing new restrictions on the purposes for which loans can be used and the length of time borrowers are eligible for new credit assistance. This law also established the targeted funding for beginning farmers.

Section 806 of the Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999 (Public Law 106-277), amended the maximum Guaranteed loan limits for farm operating loans in Section 305 and 313 of the CONACT. Beginning in Fiscal Year 2000, this cap is adjusted annually if the “Prices Paid by Farmers Index”, as compiled by the National Agricultural Statistics Service for the 12-month period ending in August of year exceeds the value for the 12-month period ending August 31, 1996.

4. Purpose/Goals

FSA direct loans facilitate the provision of credit, which can help support low farm family incomes, assist minority and beginning farmers, or help farmers adopt new technology that will make their farming operations more economical. FSA has the responsibility of providing credit counseling and supervision to its direct borrowers by making a thorough assessment of the farming operation. The Agency helps applicants evaluate the adequacy of the real estate and facilities, machinery and equipment, financial and production management, and the farmer's goals. FSA assists the applicant in identifying and prioritizing areas needing improvement in all phases of the operation. An FSA official then works one-on-one with the farmer to develop and to help strengthen the identified areas that ultimately result in the farmer's graduation to commercial credit.

Because special skills may be needed to evaluate farm loans, and because much farm production occurs in geographically isolated areas that have few lenders, some farmers may face less competitive markets for their loans that can result in higher rates, less favorable terms, and/or no access to loan funds. Consequently, farmers may face a competitively limited market for their loans that can result in higher rates, unfavorable terms, and a shortage of loan funds. Farmers may have trouble demonstrating their credit worthiness to lenders because of the economic uncertainties of production agriculture as well. This can be particularly true for beginning farmers, women, and minorities, as they typically operate smaller farms, have less equity, or lack a sufficient credit or production histories. To address these issues, each year FSA allocates a share of loan funding for use by beginning farmers and socially disadvantaged, including racial, ethnic minorities, and women farmers, who by statute are deemed more likely to have problems accessing needed credit than other high-risk family-sized farm borrowers.

The Guaranteed Loan Program plays an important role in facilitating the extension of credit to farmers, not only through collaboration with partner lenders but also with FSA's Direct Loan Program. Often times a borrower's credit needs are met through a combination of a Guaranteed loan and an FSA direct loan. For example, a Farm Ownership loan will be made by a commercial lender with an FSA guarantee to purchase farmland and the borrower will also obtain a direct operating loan from FSA to cover annual operating expenses.

The "credit gaps" which farm loan guarantees are designed to fill are associated with farm businesses that usually have debt burdens and/or repayment capacities that do not meet private sector lending standards. These high-risk farms might fail to meet industry standards due to a lack of production or credit history, limited equity, being a start-up business, defined as ten or less years of farming experience, or by being able to offer only single purpose collateral. Another factor limiting access to capital is that some farm production occurs in geographically isolated areas that tend to have fewer lenders specializing in agricultural lending. As a result, farmers may face limited competition loans in these areas, which can result in higher interest rates, unfavorable loan terms, and/or a shortage of loan funds. By reducing the lenders' exposure to risk, the 90 to 95 percent guarantee provided lenders on eligible farm loans allows farmers to obtain loans to finance annual operating expenses, equipment, livestock, and farmland purchases and improvements.

Current program measures and targets, which cover FY 2007-2011, were established in FY 2006 by the Farm Loan Programs Goal Working Group. The group, which was comprised of FSA senior managers and stakeholders, considered numerous factors when developing the performance targets, including past program performance and economic forecast for the agricultural sector. Out-year targets for the loss and delinquency goals may not seem overly ambitious, on the surface, given the current performance levels. However, it is important to note that both losses and delinquencies are at historically low levels. The historical loss rate covers a long-term period and reflects the high-risk nature of agricultural operations, where success often depends upon circumstances beyond the control of lenders and borrowers. The historic loss rate is a more accurate gauge of the cyclical nature of agriculture and is a more relevant comparison than measuring against the extremely low losses attained in recent years.

It must be understood that FSA’s loan program was designed to provide access to capital for those farmers who cannot obtain credit with or without a guarantee, equating to an extremely high probability of loss. The long-term measures focus on an outcome of keeping losses and delinquency low but not so low as to no longer meaningfully reflect the purpose of the program. FSA’s goals for Fiscal Years 2007 through 2011 are as follow:

<u>Loan Making</u>: (1) reduce first year delinquency rates on new loans; (2) increase lending to minorities, women and beginning farmers and ranchers; (3) reduce the average processing time for direct loans; and (4) reduce the average processing time for Guaranteed loans.

<u>Loan Servicing</u>: (1) decrease the delinquency rate on direct loans; (2) decrease the loss rate for direct loans; (3) decrease the loss rate on guaranteed loans and (4) decrease the delinquency rate of Guaranteed loans.

Measures for loss and delinquency rates are valuable in two respects. First, they are indicators of the financial well being of borrowers. Secondly, they are indicators of the overall quality of the FSA underwriting standards and loan servicing.

Regarding the measure to “increase the percentage of beginning farmers, minorities, and women financed by FSA,” FSA continues to provide increased levels of assistance to these targeted groups. Measurement of this goal was revised in 2002 to be a more outcome-oriented indicator of FSA success in providing credit assistance to these historically underserved groups. This performance is noteworthy, given the relatively low numbers of farmers in the targeted groups in the U.S. farm sector.

An external factor that could impact progress and accomplishment of these measures includes widespread or prolonged natural disasters that can significantly reduce farm production and, therefore, reduce net income. Also, substantial inflation in farm expenses or depressed commodity prices could have a similar effect. If economic conditions deteriorate in the agricultural sector, rural lending institutions contract their delivery of capital, which increases demand for FSA Farm Loan Programs. Such conditions reduce borrower repayment ability, increase delinquencies and losses, and reduce the ability of direct borrowers to obtain guaranteed credit. Such an event would also dramatically increase workload of Service Center employees, hindering the ability to provide needed assistance to producers in a timely manner. To mitigate these factors, FSA encourages farmers to use various risk management practices such as crop insurance, and marketing tools, such as forward contracting.

5. Success in Meeting Programmatic Purpose/Goals

FSA has been very successful in accomplishing its long-term performance goals for the Operating Loan Program. Loss rates, delinquency rates, and lending to beginning farmers, minorities, and women have all shown significant long-term progress. (See specifications on page 4)

6. Annual Budget Authority (FY 2002 – FY 2011) See Chart on page 6.

7. Annual Outlays (FY 2002 – FY 2011) See Chart on page 7.

8. Annual Delivery cost (FY 2002 – FY 2011) See Chart on page8.

9. Eligibility Criteria

The eligibility criteria for the Operating Loan-Annual, Operating Loan-Term, Operating Loan-Limited Resource applicants and Beginning Farmers is as follows:

- Have no disqualifying convictions for controlled substances, including drug trafficking and possession;
- Possess the legal capacity to incur the obligation of the loan
- Be a citizen of the United States, a United States non-citizen national, or a qualified alien under applicable Federal immigration laws;
- Have an acceptable credit history demonstrated by debt repayment;
- Have not caused the Agency a loss by receiving debt forgiveness;
- Have not received debt forgiveness or incurred a loss to the Government relating to a guaranteed loan loss; and
- Have the inability to obtain credit elsewhere, with or without an FSA guarantee;
- Not be in delinquent status on any Federal debt, excluding debt under the Internal Revenue code of 1986 at the time of loan closing;
- Have no outstanding unpaid judgments obtained by the United States in any court, excluding those filed as a result of action in the United States Tax Courts;
- May not be ineligible due to disqualification resulting from Federal Crop Insurance violation(s) according to 7 C.F.R. 718;
- Have sufficient farm managerial ability as demonstrated by a combination of education, on-the-job training and farming experience;
- Must agree to meet borrower training requirements, if FSA determines the training to be necessary for success; and
- Be the owner-operator or tenant-operator of a family farm or ranch.

The loan eligibility criterion for an Operating Loan to a Socially Disadvantaged Applicant, including women, includes all general eligibility requirements outlined above. As stated previously, a Socially

Disadvantaged loan only specifies a funding source. Therefore, the loan process and all loan requirements are identical for SDA applicants to those for non-SDA applicants. Loan applicants must voluntarily provide his or her ethnicity, race and gender on the loan application to qualify for the targeted funding.

Rural Youth loan eligibility criteria include all general eligibility requirements **except** a youth loan applicant does not need to demonstrate managerial ability, is not subject to borrower training requirements, does not need to operate a farm, and is not subject to OL term limits for loan assistance.

10. Utilization (Participation) Data

Program Loan Funds Use (dollars in millions)

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011*
Direct OL	600	629.1	1,226.4	1,242.3	917
Guaranteed OL (unsubsidized)	917	1,032	1,235	1,510.1	1,015.2
Guaranteed OL (interest assistance)	271	175	149.7	181.5	52.1

*As of June 30, 2011

11. Duplication or Overlap with Other Programs

The FSA Guaranteed Farm Loan Program serves separate purposes and is generally not duplicative with other Federal and State credit programs. While other Federal or State credit programs are available to family farm businesses, these programs lack national scope, are focused on narrow market segments, and are not specifically designed to serve high-risk farm businesses. FSA's Direct Farm Loan Program serves high-risk farmers with similar purposes, but this program is designed to assist even less creditworthy borrowers; those unable to obtain credit, even with a Federal loan guarantee. Studies of the economic profiles of both Direct and Guaranteed program participants indicate the two delivery systems serve different high-risk borrower segments. In addition, the FSA Direct Loan Program is narrower in scope because of the more limited funding and is more highly targeted to underserved market segments of beginning start-up farm operations and socially disadvantaged borrowers.

Across other Federal agencies, the Small Business Administration (SBA), and USDA's Rural Business Service (RBS) provide loan guarantee programs that may serve agriculture. The RBS loan guarantee programs do not duplicate those of FSA because they serve agribusiness and value-added farm enterprises. The SBA programs are not designed to meet specialized agricultural needs and delivery by participating SBA lenders' program delivery is geographically limited. In FY 2007, SBA accounted for only 3.5 percent of all federally guaranteed loans made to farmers, with FSA accounting for the remainder. Many of SBA agricultural loan guarantees are made to farms that would not meet FSA eligibility requirements. Overlap between FSA and SBA was mostly limited to poultry and nursery farms.

Some State governments also provide farm loan guarantees, but funding and geographic coverage for such programs is limited. The National Council of State Agricultural Finance Programs indicates that only 18 States have an established loan guarantee program. However, only four States have programs that are actively providing loan guarantees to farmers. State programs typically target specific purposes, such as value-added or single-purpose livestock facilities, have limited or sporadic funding, or limited geographical availability, hence seldom duplicating FSA loan objectives. Again, eligibility criteria and intended purposes differ significantly from FSA Direct and Guaranteed Loan Programs, and funding can be sporadic. A more common type of State financing assistance is provided through “Aggie Bonds,” which are tax exempt bonds, issued by States under specific eligibility requirements.

12. Waste, Fraud and Abuse

FSA has a robust internal controls program for its farm loan programs, which consists of OMB Circular A-123 reviews, Farm Loan Program Risk Assessments, the County Operations Review program, Lender Reviews, and National Office Loan Origination File Reviews. Additionally, farm loan programs are subject to periodic audit and review by the Office of Inspector General and the Government Accountability Office. No material weaknesses related to fraud, waste, and abuse have been identified through these processes for many years.

13. Effect of Administrative Pay-go

None.

House Committee on Agriculture
Farm Bill Audit

1. Program Name

Indian Tribal Land Acquisition Program (ITLAP)
Prepared by the U.S. Department of Agriculture's (USDA) Farm Service Agency (FSA)

2. Subprograms/Department Initiatives - None

3. Brief History
ITLAP was authorized by 5 U.S.C. 301 and 25 U.S.C.

4. Purpose/Goals
Some Indian reservation allotments are co-owned by hundreds of people. This is because with the passing of each generation, there are an increasing number of heirs who have inherited undivided interests in the same allotments. This increase in co-ownership, or fractionation, often renders the consolidation of title into one owner nearly impossible. There are limited sources of funding to consolidate fractionated interest. FSA's ITLAP extends credit to Indian Tribes or Tribal corporations which do not qualify for standard commercial loans to purchase land within their own reservation or Alaskan community.

5. Success in Meeting Programmatic Purpose/Goals
The ITLAP program has been successful in meeting the programmatic purpose. The amount appropriated each year limits the program benefits because the funding available is insufficient to meet the needs of the Tribes interested in participating in the program.

6. Annual Budget Authority (FY2002-FY2011) See chart on Page 6.

7. Annual Outlays (FY2002-FY2011) See chart on Page 7.

8. Annual Delivery Cost (FY2002-FY2011) See chart on Page 8.

9. Eligibility Criteria

Native American Tribes must meet the following eligibility requirements to be eligible for an ITLAP loan:

- The Tribe must show credit from other sources is not available to purchase the real estate.
- The land must be located within the Tribe's reservation for use by the members of the Native American tribe or Tribal Corporation.
- A feasibility plan for the use of lands and a method of repayment of the loan funds must be provided.
- The Tribe must be in good standing with all Federal Agencies and not subject to a judgment lien against the Tribe's property due to a debt to the United States.
- The Tribe must not have received a write-down on any other loans within the past 5 years.
- The amount of the loan funds must not exceed the market value of the land determined by the current appraisal.

10. Utilization (Participation) Data

Since 2000, 7 loans valued at a total of $2.88 million have been made through ITLAP.

11. Duplication or Overlap with Other Programs

The Bureau of Indian Affairs' Indian Land Consolidation Pilot Program, which began in 1999, is a result of Congressional Acts and Supreme Court decisions that sought to remedy problems associated with fractional land.

12. Waste, Fraud and Abuse

There has been no known instance of waste, fraud or abuse.

13. Effect of Administrative Pay-go

None.

House Committee on Agriculture
Farm Bill Audit

1. Program Name

Boll Weevil Eradication Loan Program
Prepared by the U.S. Department of Agriculture's (USDA) Farm Service Agency (FSA).

2. Subprograms/Department Initiatives

There are no subprograms or department initiatives for the Boll Weevil Eradication Loan program.

3. Brief History

USDA has been involved with Boll Weevil Eradication since the 1970's through the USDA Animal and Plant Health Inspection Service (APHIS), the Agency that initially funded the program along with the member states. The Boll Weevil Eradication Loan Program was authorized by 5 U.S.C. 301; 7 U.S.C. 1989 and Public Law 104-180, 110 Stat. 1569, to essentially provide the full funding needed to complete the eradication of the boll weevil. The first Boll Weevil Eradication Loan was made by FSA in 1997, and since that time the boll weevil has been successfully eradicated from most States.

4. Purpose/Goals

Through the use of FSA's loan authorities, this loan program serves two primary objectives: reducing pesticide requirements of cotton producers and increasing overall cotton production in the United States. The FSA Boll Weevil Eradication Loan program is a supplemental program to the USDA/APHIS Boll Weevil Eradication program and differs only in that FSA administers a Boll Weevil Eradication Loan program and APHIS offers federal grants as well as provides technical assistance and program oversight.

The goal of the Boll Weevil Eradication Loan Program is to support APHIS and farmer eradication efforts at minimal cost.

5. Success in Meeting Programmatic Purpose/Goals

The Boll Weevil Eradication Loan program has been very successful in meeting its programmatic purpose. The reduction in the number of boll weevils has greatly reduced the amount of pesticides used by cotton producers. At one time, cotton growers applied more than 41 percent of all insecticides in agricultural use, regularly spraying their cotton as many as 15 times a season. In contrast, since the establishment of the Boll Weevil Eradication Loan Program, annual pesticide applications have been reduced to nearly zero. The program has no delinquent accounts and no losses with minimal administrative program cost.

6. Annual Budget Authority (FY2002-FY2011) See chart on Page 6.

7. Annual Outlays (FY 2002 – FY 2011) See chart on Page 7.

8. Annual Delivery Cost (FY2002-FY2011) See chart on Page 8.

9. Eligibility Criteria

An eligible applicant must:

- Meet all requirements prescribed by APHIS to qualify for cost-share grants;

- Have the appropriate charter and legal authority as a non-profit corporation or State organization specifically organized to operate the boll weevil eradication program in any State or region (Individual producers are not eligible for loans);

- Possess the legal authority to enter into contracts, including debt instruments;

- Operate in an area in which producers have approved a referendum authorizing producer assessments and in which an active eradication or post-eradication program is underway or scheduled to begin; and

- Have the legal authority to pledge producer assessments as security for loans from FSA.

10. Utilization (Participation) Data

Ten States have benefited from the Boll Weevil Eradication Loan program; obtaining a total of 49 loans for a total of $992,412,496. At present, only two States remain active in this program with a total outstanding debt of slightly more than $61,000,000.

11. Duplication or Overlap with Other Programs

There is no known duplication with other programs beyond the APHIS grant program for Boll Weevil Eradication. As stated earlier the APHIS program was supplemented by the FSA loan program in order to provide full funding to the eradication initiative.

12. Waste, Fraud and Abuse

FSA has a robust internal controls program for its farm loan programs, which consists of OMB Circular A-123 reviews, Farm Loan Program Risk Assessments, the County Operations Review program, Lender Reviews, and National Office Loan Origination File Reviews. Additionally, farm loan programs are subject to periodic audit and review by the Office of Inspector General and the Government Accountability Office. No material weakness related to fraud, waste, and abuse have been identified through these processes for many years.

13. Effect of Administrative Pay-go

None.