Abstract

The Farm Service Agency's (FSA) Farm Business Plan was used to compare the characteristics of beginning farmers receiving direct Farm Ownership (FO) loans in fiscal 2005 by the type of delivery mechanism. Regular FO loans were commonly used by small and intermediate size family farming operations while FO loans made in participation with commercial lenders were used by larger commercial-sized family farming operations. Start-up beginning farmers in the Corn Belt were more likely to utilize FO downpayment loans. Regardless of the delivery mechanism, nearly all beginning farmers receiving direct FO loans had credit shortcomings that could inhibit them from commercial credit.

Facilitating Beginning Farmers Purchase of Farmland

By Charles B. Dodson and Steven R. Koenig

The advancing age of U.S. farmers and ranchers has raised concerns about who will be the future operators and owners of U.S. farmland. USDA data indicates that over one-third of all farmland owners have less than 15 years of remaining life expectancy (Dodson, 2004). This seemingly imminent transfer of farmland and related assets is likely to impact the productive land base, local economies, and rural landscapes. While the greater availability of farmland presents increased buying opportunities for aspiring farmers, high farmland values can make it difficult to accumulate the minimum downpayment and to demonstrate the repayment ability necessary to finance these acquisitions. FSA's direct farm loan program represents one of the primary federal policy initiatives used to facilitate their farmland purchase by beginning family farmers. This analysis examines the financial and demographic characteristics of beginning farmers receiving Farm Service Agengey (FSA) direct farm ownership (FO) loans during fiscal year 2005.

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Background

FSA delivers subsidized credit to family farmers through two mechanisms: direct loans and loan guarantees. Direct loans are made, funded, and serviced by FSA, whereas guaranteed loans are made, funded, and serviced by commercial lenders but guaranteed up to 95 percent against loss by the agency. Both delivery mechanisms provide long-term loans for FO purposes to purchase or improve farm real estate or in the case of guaranteed loans, refinance existing debts.[1]

In recent years, tight federal budgets and high delivery costs have encouraged a general shift from direct toward guaranteed lending. Despite this shift, the direct FO loan program has remained the primary method used by USDA to facilitate a beginning farmer's purchase of land. About 4,200 beginning farmers utilized direct FO loans to facilitate land purchases between fiscal years 2000 to 2004 compared to just 1,420 who utilized guaranteed FO loans for land purchases (USDA, Farm Service Agency). This reliance on direct FO loans reflects both higher targeting and greater restrictions on the use of loan funds. The direct FO loan program is more highly targeted to beginning farmers with 70 percent of loan funding reserved for use by beginning farmers compared to only 25 percent for the guaranteed loan program. Direct FOs may only be used for either a farmland purchase or capital improvement while guaranteed FOs may only be used to refinance existing indebtedness.

While many aspiring farmers rely on the direct FO loans to finance a farmland purchase, delivery of these programs requires large amounts of public resources. It has been estimated that direct loans cost the government $14.22 for every $100 loaned which is over three times greater than the cost of providing loan guarantees (USDA, Farm Service Agency). Given their higher delivery cost, it is important to better understand who benefits from these programs. This analysis utilizes FSA Farm Business Plan (FBP) data to obtain detailed information on the farm size, financial performance, commodity specialization, and operator characteristics of beginning farmers participating in FSA's direct FO loan programs during fiscal 2005.[2]

The availability of FBP data enables a level of analysis which had not been previously attainable. Earlier studies of FSA loan program clientele relied on surveys whose results were subject to sampling and estimation variability thereby limiting the informational detail provided from the analysis. In contrast this analysis was completed using actual data on all FO loans makde in fiscal 2005. The information presented in this study enables analysis of possible impacts of future policy changes on FSA direct borrowers. For example, concerns that current FO loan size limits prohibits beginning farmers from acquiring economically-viable sized farm parcels increase the possibility that maximum loan size changes may be considered in future legislation.[3] But, raising loan limits without raising budget authority may result in disparate impacts among different groups of farmers. While larger commercial-sized family farms may benefit from access to larger FSA loans, groups who would have previously received FSA loans may find it more difficult to obtain such loans due to the increased demand, assuming no increase in lending authorities.

Direct FO loan applicants must meet certain eligibility requirements. An eligible applicant must: (1) demonstrate an inability to obtain credit elsewhere at reasonable rates and terms; (2) substantially participate in the farming operation for which the loan is to be applied; and, (3) not own a farm greater than 30 percent of the median size farm in the county. In addition, to qualify as a beginning farmer, an individual or entity must have not operated a farm or ranch for more than 10 years. A sole proprietor making application as a beginning farmer must prove all parties in the farm business meet the beginning farmer criteria.[4] There are three delivery mechanisms utilized by the direct FO program; regular FO loans, loan participations, and downpayment loans.

With a regular FO loan, FSA can provide up to 100 percent of the financing for the transaction. Regular FO loans can be made for amounts up to $200,000, have a maturity of up to 40 years, must be fully collateralized with real estate, and can be made at FSA's regular borrowing rate or at its limited resource rate. To increase the flexibility in meeting the credit needs of larger commercial farms, participation loans were authorized in 1996. Under this authority, FSA can finance up to 50 percent of a real estate loan that would qualify under criteria for a regular FO loan. The balance of the loan must be financed by another lender. Use of participation loans enables FSA to provide financing for transactions which exceed the $200,000 loan limit.

Interest rates on FSA portion of the participation can be at an annual interest rate of five percent or the regular FO rate, whichever is lower. Other terms and eligibility requirements for FSA's share of the participation are the same as for regular FO loans. While non-beginning farmers are eligible to receive regular FO and participation loans, only beginning farmers were considered in this analysis.

Eligible beginning farmer applicants may also obtain a beginning farmer downpayment loan to assist in the purchase of farmland. A beginning farmer that can make cash down payment of at least 10 percent toward the purchase of a farm or ranch may be eligible for loans in amounts of up to 40 percent of the farm purchase price or appraised value, whichever is lower. The loan has a term of 15 years with a fixed-interest rate of 4 percent. The remaining purchase cost can be financed by commercial or private party lender with FSA providing a 95 percent guarantee. The purchase price or appraised value, whichever is lower, may not exceed $250,000.

Previous Studies

Over the years, FSA credit programs have served younger farmers as well as smaller and more financially-stressed farms. Studies from the 1990s found FSA direct loans were more likely to be utilized by smaller and financially stressed farms and farms operated by racial minorities (Dodson and Koenig 1999; Dodson and Koenig 1994). A 1994 study concluded that FSA was the primary source of credit among young farmers with limited capital (Dodson and Koenig 1995). Studies from the 1960s indicated FmHA borrowers were younger, operated smaller farms, and had less capital than farmers as a whole (McD Herr).[5] In the 1950s, FmHA borrowers were also found to be younger and just becoming established in farming (Bierman and Case).

Some studies have questioned the merit of using credit as a policy tool to assist beginning farmers. Higher debt loads increase financial risk. Since beginning farmers tend to lease rather than own farmland, beginning farmers may benefit more from policies which address leasing rather than purchasing real estate. Dodson (1996) suggests that policies to assist beginning farmers should go beyond traditional credit programs and consider equity investments or tax incentives.

More recent studies of FSA loan programs have focused on general program effectiveness, regional demand variability, and clientele served. A 2005 University of Arkansas study concluded that direct loan programs were consistent with the mission objectives and that for the most part borrowers were using the program as a temporary rather than permanent source of credit (Nwoha, et al.). Another recent study examined reasons for varying levels of FSA market penetration in the overall loan market and found FSA loan program usage was greater in counties with lower per capita income, counties with FSA loan service centers and greater FSA funding in previous years, and regions experiencing greater financial stress (Dodson and Koenig, 2003). A 2006 USDA Report to Congress found direct loan program borrowers to be more financially stressed than guaranteed loan borrowers and that many current direct loan program borrowers may not be able to continue farming, at least in the short-term, without access to government subsidized credit (USDA, Farm Service Agency).

Data and Results

In 2005 FSA implemented the FBP, an online accounting system, which documented borrower's cash flow, expenses, assets, debts, and other important financial information. This data source provides a greater capability than was previously available to analyze the characteristics of all farmers receiving FSA direct loans. In this analysis, the FBP database was used to examine the characteristics of beginning farmers receiving direct FO loans in fiscal 2005, the first year the FBP was fully implemented. Characteristics of FSA direct borrowers are presented by production region, delivery mechanism, production specialty, and farm size.

Direct FO Loans to Beginning Farmers Were Regionally Concentrated

There were 1,425 beginning farmers who received FSA financing through regular FO downpayment, or participation loans in fiscal 2005. Even though some direct FO loans were made to beginning farmers in every state, use was geographically concentrated in the Great Plains and the western Corn Belt (Figures 1-3). Oklahoma, Missouri, Nebraska, Iowa, Minnesota, Wisconsin, South Dakota, and North Dakota accounted for 53 percent of the direct FO loans made to beginning farmers in fiscal 2005. Given the limited overall availability of FSA direct FO loan funds and the process used to

allocate funds to states, greater usage may not necessarily imply greater demand by farmers.[6] Fewer direct loans in some states may not necessarily be a consequence of fewer eligible beginning farmers, but rather reflect less availability of direct loan funds because of lower administrative allocations.

Regional patterns are also apparent in the type of direct FO loan delivery mechanism. The use of participation and downpayment loans by beginning farmers was greatest in the central U.S. with Iowa, Illinois, and Missouri accounting for the bulk of downpayment loan usage (Figures 1 and 2). Among beginning farmers receiving direct FO loans, 63 percent were assisted through participation loans in the Corn Belt and 51 percent used participation loans in the Northern Plains (Table 1).[7] There were some localities with more intense usage of loan participations such as southwest Wisconsin, northwest Iowa, and the Michigan thumb perhaps reflecting policies of local lenders (Figure 2).

In many parts of the country, beginning farmers were served almost exclusively through using regular FOs (Figure 3). Ninety percent of beginning farmer direct FO borrowers in the Northeast, Appalachia, and Delta used regular FO loans (Table 1). A possible explanation for the absence of participation loans in these regions is the lack of specialized agricultural lenders which is less common in the Northeast and Appalachia.

Participation Borrowers Operated Larger Farms

The characteristics of beginning farmers receiving participation loans indicate they tend to serve larger commercial farming operations. These beginning farmers carried greater amounts of debt, had greater revenues, and were older than beginning farmers who used only regular FO loans or downpayment loans. Participation loan borrowers held more assets and more indebted as indicated by outstanding debts of $351,606 compared to $297,843 for regular FO borrowers (Table 2). Participation loan borrowers were less reliant on FSA for their credit needs, receiving less than half of total credit from FSA compared to 62 percent for regular FO loan borrowers. Expected average annual gross revenues for participation borrowers were greater than that of regular or downpayment borrowers (Table 3). And, only eight percent of those utilizing regular FO loans expected annual sales of greater than $250,000 for 2005, compared to 43 percent for participation borrowers (Table 1). The average age of participation borrowers was 34 years, compared to 29 years for downpayment borrowers and 32 years for regular FO (Table 4)

Even though annual non-farm wages were similar among loan delivery systems, participation borrowers received a much greater share of their household income from the farm. While average off-farm wages for regular FO loan borrowers were only $4,000 more than for participation loan borrowers, expected farm income was $35,000 less (Table 3). Consequently, two-thirds of total income for participation borrowers came from the farm compared to only one-third for regular FO borrowers. Also, a larger share of a participation borrowers' gross farm income came from crops.

Downpayment Loans Fund Appear to Fund Start-Ups

Because they were younger, less experienced, and operated smaller farms, beginning farmers receiving downpayment loans are more likely to be start-ups. Over 40 percent of downpayment loan recipients had annual revenues of less than $25,000. With an average age of 29, only 5 years of farming experience, and lower levels of assets and net worth, these operations were less established than beginning farmers receiving other types of FO loans (Table 1). Downpayment borrowers appeared more creditworthy than either regular FO loan or participation loan borrowers because their debt-to-asset and loan-to-value ratio was less while their average FSA credit score was higher (Table 1; Table 4). But, this may simply reflect the requirement that downpayment borrowers come up with a 10 percent down payment to apply to their purchase. In contrast, participation and regular FO beginning farmer borrowers typically put down less than 10 percent of the purchase price.

Direct FO Recipients Did Not Meet Commercial Lending Criteria

Regardless of the delivery mechanism, nearly all beginning farmers receiving loans in fiscal 2005 had credit shortcomings that would likely inhibit them from receiving commercial credit. The FBP allows for the calculation of commonly used measures of financial performance used to evaluate applications, such as the applicant's solvency, farm profitability, collateral position, liquidity, and repayment ability. At the time of loan application each applicant based on a weighted score of financial measures which includes return-on-assets (ROA), current ratio, debt-to-

asset ratio, repayment margin, and loan-to-value ratio.[8] Those with the highest overall rating scores are considered potential candidates for commercial credit. The next highest group is classified as standard, and is generally characterized by applicants meeting commercial standards in all but one of the credit criteria. Acceptable applicants typically have credit shortcomings in two credit criteria. Borrowers in the doubtful category typically have credit shortcomings in more than two credit criteria and represent loans with the highest risk of loss.

FSA's internal scoring procedure indicated that all but 15 percent of beginning farmers receiving direct loans in fiscal 2005 might not meet commercial credit standards (Table 4). Recipients of downpayment loans appeared to be financially stronger than participation loan or regular FO loan borrowers with a lower score and higher share classified as commercial. Since the FBP did not include any data on credit history, it can not be ascertained whether those classified as commercial could have actually received commercial credit. This is especially true among beginning farmer borrowers whose more limited farming experience would have provided lenders with a short credit history on which to judge repayment capacity.

Probably the most consistent credit shortcoming among direct FO loan recipients was the inability to provide adequate collateral to fully securitize the loan. Commercial lenders prefer that loan-to-value ratios not under 80 percent on farm real estate loans (Table 4). Most beginning farmers receiving direct FO loans failed to meet this criteria. The average loan:value ratio was 90 percent, with nearly 70 percent of all direct FO loan borrowers putting down less than 10 percent. Loan-to-value ratios were lower for downpayment loans because of the requirement of a 10 percent investment on the part of the borrower.

Tight cash flows and limited repayment capacity represented other common credit shortfalls. About one-third of all beginning farmer direct FO loan borrowers had debt coverage ratios of less than 115 percent which is a typical minimum standard used by commercial lenders (Table 4). Regardless of the delivery mechanism, cash flows were tight with total cash inflows exceeding total cash outflows by less than 5 percent (Table 3).

Generally, beginning farmers receiving direct FO loans in fiscal 2005 had limited capital and solvency. Average net worth for these borrowers was only $160,000 and ranged from $122,918 for downpayment borrowers to $194,291 for participation borrowers (Table 2). This was substantially less than the average net worth of $440,000 for all farmers under 35 years of age (USDA, Economic Research Service). The average debt-asset ratio of 0.66 combined with an average of 6.7 loans per farm would likely cause commercial lenders serious concerns (Table 4). Plus, 20 percent had debt-asset ratios greater than 0.80 indicating limited capacity to withstand a short-term economic downturn.

While regular FO and participation loan borrowers exhibited similar financial profiles, downpayment borrowers were generally financially stronger. Since downpayment borrowers must put down 10 percent of the purchase price and be able to cash flow a 15 year loan amortization, their relatively greater financial strength is not surprising. Any policy changes affecting the downpayment loan program which provides more flexibility to applicants is likely to encourage use in more regions and among applicants with less means.[9]

Current Loan Limits May Constrain Ability to Serve Some Beginning Farmers

One criticism of the current $200,000 direct FO loan limit is than it restricts service to commercial-sized farms. With average annual sales for 2004 of $600,000, it is unlikely that direct FO loans alone will meet the complete credit needs of many larger commercial farms (USDA, Economic Research Service). Consequently, regular FO loans may be more suitable for smaller farms and farm types with less capital requirements. Nearly half (46%) of beginning farmers who used regular FO loans exclusively to finance a land purchase specialized in beef cattle farming (Table 1). Beef cattle farms are typically smaller, as indicated by 2004 average annual sales of $46,000 compared to $155,000 for cash grain farms. Half of the beginning farmers receiving regular FO loans reported $50,000 or less in annual sales compared to just 27 percent for FO participation borrowers.

With 22 percent of regular FO borrower receiving the maximum size loan, the current loan limits are a greater constraint on regular FO loan borrowers than on participation loan borrowers where 16 percent of borrowers were at the $200,000 limit. While participations enable FSA to serve farms whose mortgage credit needs exceed $200,000, these loans may be more risky,

since FSA typically subordinates their first lien position in order to facilitate commercial lenders to participate.

Summary

The availability of FBP data provided detailed information on the characteristics of FSA direct borrowers at a level not readily attainable in the past. Distinct differences were indicated in the types of farmers served by the three direct FO delivery mechanisms. The combination of smaller farm size, lower farm income, and specialization in beef cattle production suggested regular FO loan funds were mostly being used to support small and intermediate sized family farming operations while participation loans were going to more established family farms, especially in the Corn Belt and Northern Plains. Start-up beginning farmers were more likely to utilize the downpayment loan option, but only if they lived in Iowa, Missouri, or Illinois.

Even though regular FO loans tended to serve smaller sized farm operations, all recipients appeared to meet general eligibility requirements. Most regular FO loan borrowers had limited capital, solvency, and collateral necessary to adequately securitize a loan. With 85 percent not meeting commercial credit standards, regular FO loan borrowers would likely not have been able to obtain credit elsewhere.

While current loan limits restricts the ability of FSA to meet the full credit needs of commercial-sized farming operations, higher loan limits would require greater budgetary resources and may affect the clientele served. Increasing loan limits would most benefit beginning farmers in regions where the participation delivery mechanism is not being used. The greatest impact from higher loan limits will likely occur in regions outside the north central U.S. where participations are less commonly used.

Regular FO loan programs are currently more focused on lending to smaller farm operations, many of which specialize in beef cattle. Raising loan limits may affect the composition of applicants and the type of farm which utilizes regular FOs. Higher loan limits would likely increase demand from larger commercial-sized family farms. Among commercial-sized farms likely to utilize participations, higher loan limits may increase FSA's share of credit provided. Through a combination of higher loan size limits and loan participations, farms with real estate credit needs in excess of $500,000 would be more apt to utilize direct FO programs.

Endnotes

[1] For more information on FSA farm loan programs, http://www.fsa.usda.gov/dafl/default.htm. Accessed on May 17, 2007.

[2] For more detailed information see http://www.agriculture.com/ag/story.jhtml?storyid=/templatedata/ag/story/data/future_040406looker.xml&catref=ag9030. Accessed May 17, 2007.

[3] In their 2007 farm bill Proposal, USDA proposes direct FO loan limits be raised from $200,000 to $500,000 (http://www.usda.gov/documents/07title5.pdf). Accessed on May 17, 2007.

[4] These criteria are based on specifications in the Consolidated Farm and Rural Development Act of 1961 (CONACT), as amended. See USDA fact sheet Loans for Beginning Farmers and Ranchers http://www.fsa.usda.gov/pas/publications/facts/html/begloan05.htm. Accessed on May 17, 2007.

[5] The Farmer's Home Administration (FmHA) was the predecessor to current Farm Service Agency farm loan programs.

[6] Administrative allocations of annual loan funds to individual states are determined by formula and are based on historical usage, farm income, and number of farms.

[7] For a description of USDA production regions see: http://www.ers.usda.gov/data/farmincome/USDA-Production-regions.htm. Accessed on May 17, 2007.

[8] FSA requires loan accounts to be classified after the borrower receives the initial loan. This classification is tool be based on a financial statement which includes the initial loan and any changes in debt or assets, including refinancing or assets purchased with new loan funds (FmHA Instruction 2006-W, Section 2006-1103).

[9] In their 2007 farm bill Proposal, USDA proposes reducing from 10 percent to 5 percent the amount of the purchase price the beginning farmer must put down. It is also proposed that the interest rate on FSA share of the loan be reduced from 4 percent to 2 percent and no installments are due until the end of the second year.

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USDA. Farm Service Agency. *Report to Congress: Evaluating the Effectiveness of the Farm Service Agency's Direct and Guaranteed Farm Loan Programs*. August 2006.

Figure 1. Postal ZIP codes where direct FO borrowers received downpayment loans in fiscal 2005

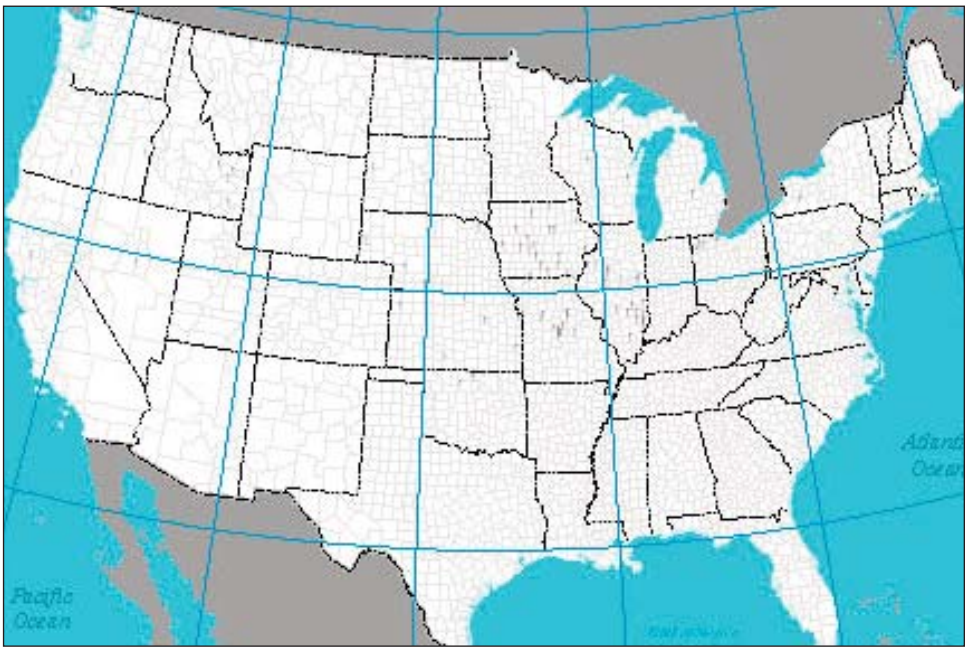

Figure 2. Postal ZIP codes where direct FO borrowers received participation loans in fiscal 2005

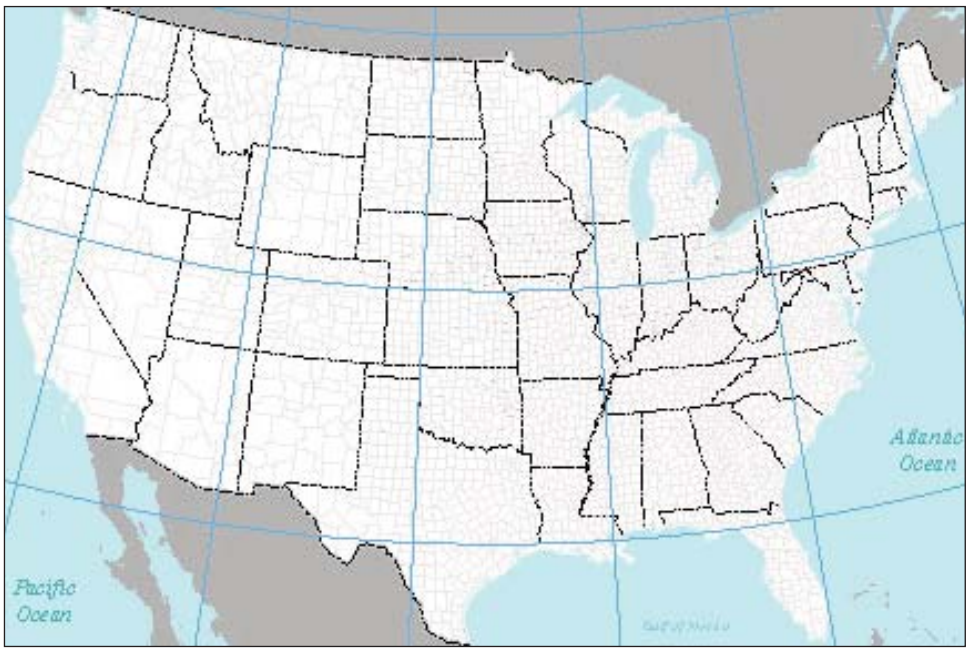

Figure 3. Postal ZIP codes where direct FO borrowers received regular direct FO loans in fiscal 2005

Table 1. Distribution of beginning farmers receiving direct FO loans in FY2005, by loan type, production region, and annual farm sales

	Delivery Mechanism			
	Regular	Partic-ipation	Down-payment	Total
	---percent---			
Borrowers	51	43	6	100
Region				
Northeast	96	2	2	100
Lake States	61	37	2	100
Corn Belt	23	63	14	100
Northern Plains	45	51	4	100
Appalachia	90	10	0	100
Southeast	81	19	0	100
Delta	96	4	0	100
Southern Plains	77	21	2	100
Mountain	59	31	9	100
Pacific	71	20	9	100
Other	89	11	0	100
Annual Farm Sales				
Less than $25,000	32	17	42	26
$25,000 to 49,999	18	10	13	15
$50,000 to $99,999	19	21	19	20
$100,000 to $249,999	24	31	13	26
$ 250,000 to $499,999	6	15	9	10
$500,000 or more	1	6	4	3
Total	100	100	100	100
Farm Type				
General row crop	20	48	40	35
Wheat	7	8	4	7
Fruits,nuts/Vegetables/potato/ Greenhouse	4	2	3	3
Beef	46	22	29	34
Dairy	11	11	7	11
Poultry	2	4	1	3
Hogs	1	2	1	2
All other types	9	3	15	5
Total	100	100	100	100

Source: Farm Service Agency Farm Business Plan, May 2006

Table 2. Average balance sheets for beginning farmers receiving direct FO loans in fiscal 2005, post-loan closing. \1

	Delivery Mechanism			
	Regular	Participation	Down-payment	All
	(Dollars per borrower)			
Total Farm Assets	431,429	545,897	321,882	476,483
Current	51,484	78,866	53,024	64,019
Intermediate	111,376	127,860	99,414	118,105
Long-term	268,570	339,171	169,445	294,359
Land owned	248,716	316,488	160,066	273,884
Total Liabilities	297,843	351,606	198,964	315,999
Current	47,014	64,364	40,952	54,510
FSA	8,177	8,007	4,938	7,895
Intermediate	55,680	58,203	41,924	55,954
FSA	27,350	23,140	22,941	25,159
Long-term	195,150	229,039	116,088	205,534
FSA	148,372	141,944	68,220	140,375
Net worth	133,586	194,291	122,918	160,484

\1 Debt and assets were adjusted to reflect new loan in cases where the latest Farm Business Plan was completed before new loan was closed.
Source: FSA Farm Business Plan, May 2006

Table 3. Anticipated income statement and cash flows of beginning farmers receiving direct FO loans in fiscal 2005

	Delivery Mechanism			All
	Regular	Partic-ipation	Down-payment	
	(Dollars per borrower)			
Gross Revenue	102,581	179,842	100,800	135,436
Crops	38,997	106,911	53,338	68,681
Livestock products	18,762	19,662	3,187	18,354
Livestock & poultry	34,719	36,794	38,689	35,807
Government pay'mt	3,394	6,531	2,675	4,697
Other farm income	6,709	9,944	2,911	7,897
- Purchases for resale	7,620	7,068	15,500	7,785
=Gross Farm Income	94,961	172,774	85,300	127,651
- Total Expenses	75,342	140,564	68,901	102,818
=Net Farm Income	19,619	32,210	16,399	24,833
+ Nonfarm Income	28,417	24,053	36,475	28,244
= Net Income	48,036	56,263	52,874	53,077
-Owner Withdrawal	23,298	29,417	24,362	25,158
=Inc. after W'drawal	24,738	26,846	28,512	27,919
Total cash inflow \1	319,985	461,462	255,371	373,160
Total cash outflow\1	313,316	460,782	259750	369,452
Net cash flow	6,669	680	-4,379	3,708

\1 Includes all loan disbursements, repayments, and capital purchases.
Source: FSA Farm Business Plan, May 2006

Table 4. Summary financial variables for beginning farmers receiving direct FO loans in fiscal 2005, post-loan closing

	Delivery Mechanism			
	Regular Direct FO	Part-icipation	Down-paym't	All
Average score \1	2.2	2.1	1.9	2.1
Total # of loans \2	6.9	6.6	5.5	6.7
		Years		
Operator age	32	34	29	32
Farming experience	6	9	5	7
		Percent		
Term-debt-repayment	131	149	126	138
Loan-to-value ratio	91	88	80	90
Debt-asset ratio	69	64	62	66
		Percent of borrowers		
Distribution of Scores				
Commercial	14	16	22	15
Standard	38	41	51	41
Acceptable	33	31	21	31
Doubtful	15	12	6	13
Debt-asset ratio				
Less than 0.40	33	34	37	34
0.41 to 0.60	20	20	24	20
0.61 to 0.80	23	26	25	25
Over 0.80	24	20	14	21
Capital Replacement and Term Debt Coverage				
Less than 115%	32	33	26	32
115% to 130%	18	18	2	16
130% to 150%	17	7	24	15
Over 150%	33	42	48	37
Loan-to-Value				
100%	64	62	0	59
90% to 99%	10	8	0	9
80% to 89%	7	6	74	11
Less the 80%	19	24	26	21

1/ Internal FSA scoring procedure used by FSA where 1-2= commercial, 2-3=Standard, 3-4 =Acceptable, and > 4 is Doubtful.
2 / Total number of outstanding loans to all lenders.
Source: Farm Service Agency Farm Business Plan, May 2006