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# **Agricultural and Rural Finance Markets in Transition**

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PO Box 110240  
Gainesville, Illinois 32611-0240

## **Borrower Term Limits on FSA Loans**

Prepared by

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Slide 1



**Borrower Term Limits on FSA Loans**


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Presentation to the  
Annual Meeting of  
**NC-1014 Agricultural and Rural**  
**Finance Markets in Transition**  
October 4-5, 2007  
St. Louis, Missouri



Slide 2

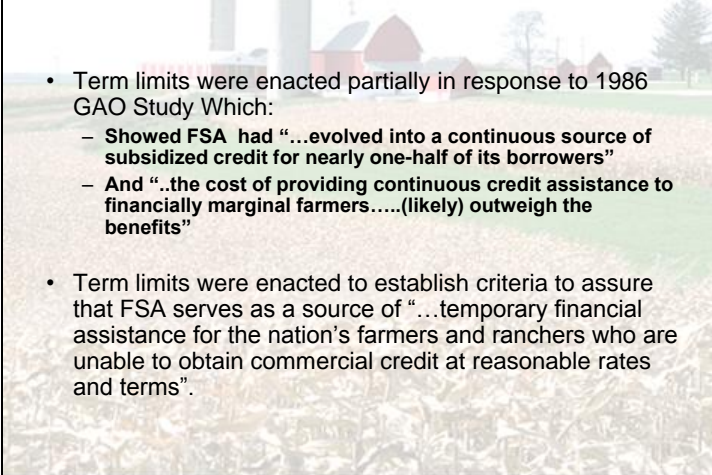

**Background on Term Limits**



- Enacted in the 1996 Farm Bill
  - Limits eligibility for direct OL's to 7 calendar years
    - Years may be nonconsecutive;
    - # of loans closed during a year does not affect eligibility
    - Not affected by guaranteed OL loans
  - Limits eligibility for direct FO's to 10 calendar years
    - From date 1<sup>st</sup> direct FO is closed
    - Counts only years where loan is active
  - Limits eligibility for guaranteed OL's to 15 calendar years
    - Direct OL loans count against the 15-year eligibility period
    - Years do not have to be consecutive
    - # of loans closed during a year does not affect eligibility
    - Year in which the guarantee is issued is the only year that is counted toward eligibility, except for advances on lines of credit

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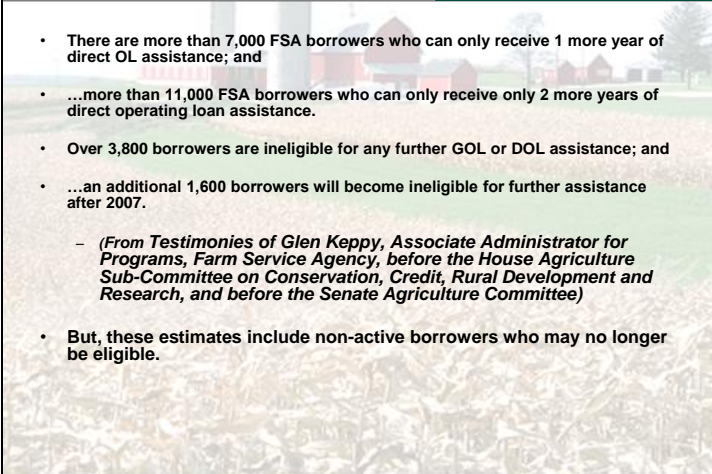

**Background on Term Limits**



- Term limits were enacted partially in response to 1986 GAO Study Which:
  - **Showed FSA had “...evolved into a continuous source of subsidized credit for nearly one-half of its borrowers”**
  - **And “...the cost of providing continuous credit assistance to financially marginal farmers.....(likely) outweigh the benefits”**
- Term limits were enacted to establish criteria to assure that FSA serves as a source of “...temporary financial assistance for the nation’s farmers and ranchers who are unable to obtain commercial credit at reasonable rates and terms”.

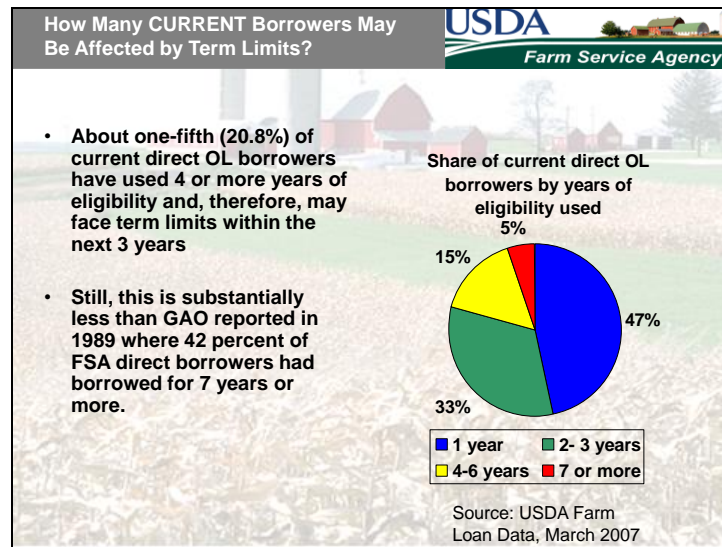
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**How Many Borrowers Affected?**

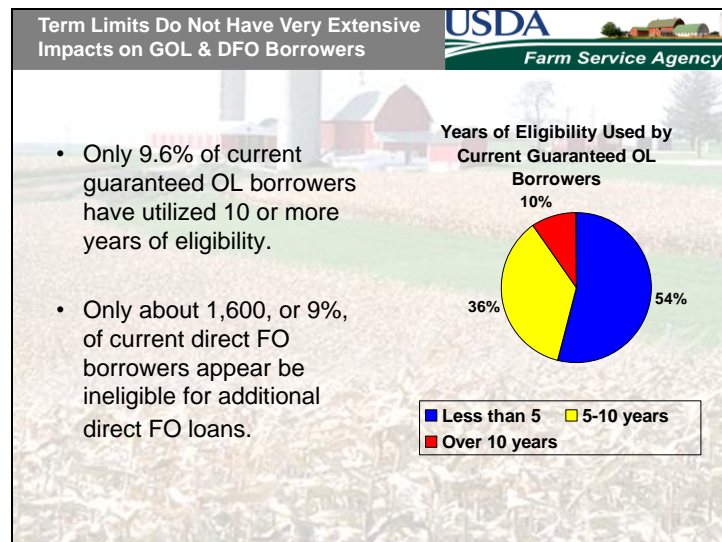


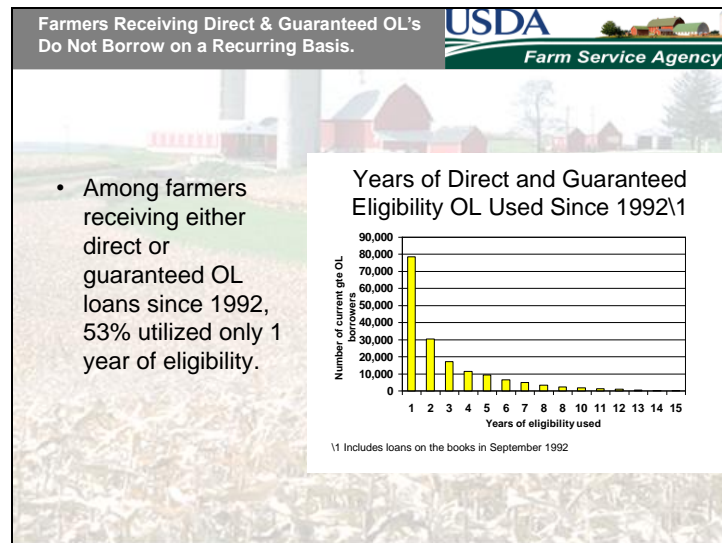
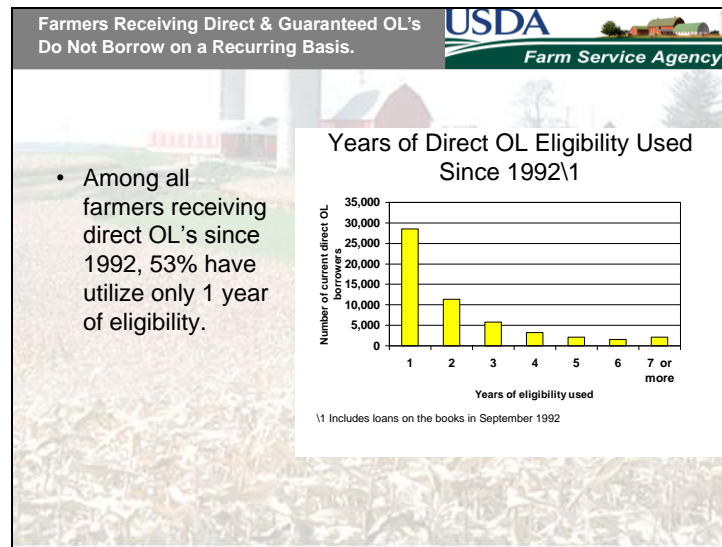
- There are more than 7,000 FSA borrowers who can only receive 1 more year of direct OL assistance; and
- ...more than 11,000 FSA borrowers who can only receive only 2 more years of direct operating loan assistance.
- Over 3,800 borrowers are ineligible for any further GOL or DOL assistance; and
- ...an additional 1,600 borrowers will become ineligible for further assistance after 2007.
  - *(From Testimonies of Glen Keppy, Associate Administrator for Programs, Farm Service Agency, before the House Agriculture Sub-Committee on Conservation, Credit, Rural Development and Research, and before the Senate Agriculture Committee)*
- **But, these estimates include non-active borrowers who may no longer be eligible.**

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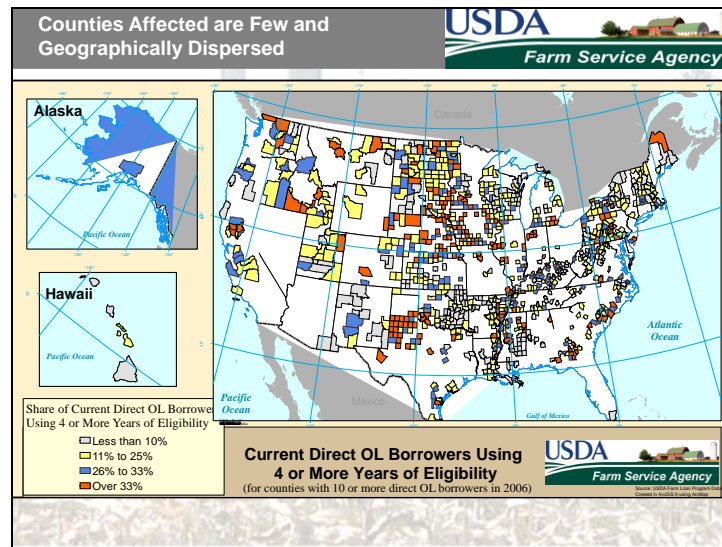
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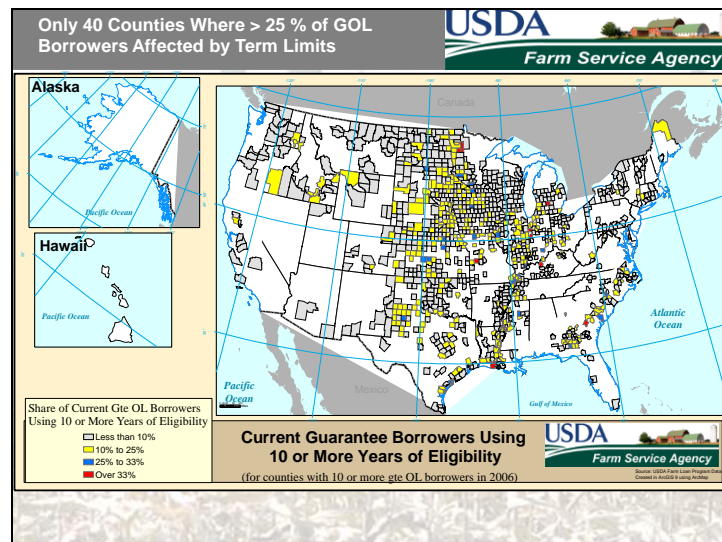




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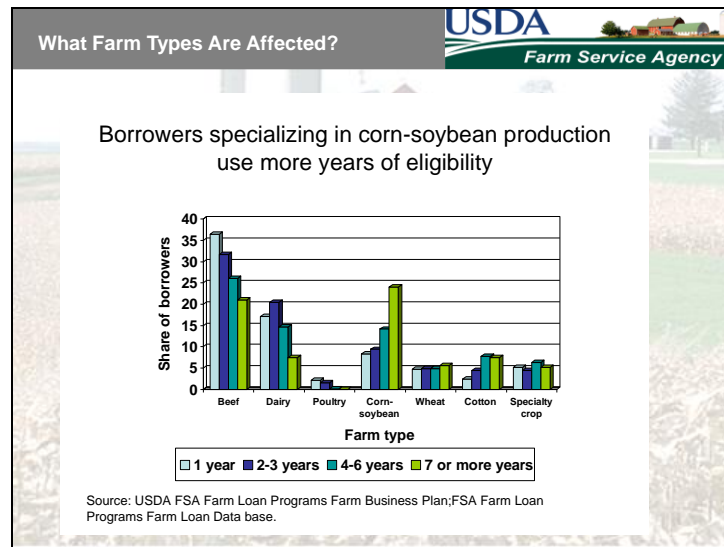


Slide 10





Slide 11



Slide 12

**Can Borrowers Facing Term Limits Obtain Other Credit?**

USDA  
Farm Service Agency

**Selected characteristics of current direct OL borrowers, by years of eligibility used.**

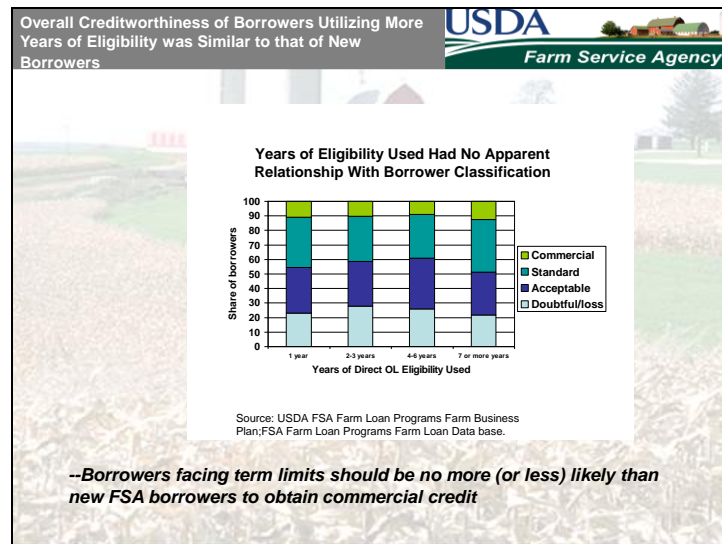
	Years of Eligibility Used			
	1	2 -3	4-6	7 or more
	Percent			
Debt-to-asset	53.8	55.9	58.6	57.4
Debt-to-asset > .9	13.7	15.0	17.0	17.7
Return on assets	1.3	1.6	1.5	1.5
Term debt coverage	1.3	1.3	1.3	1.4
Coverage > 1.15	55.5	56.3	54.4	50.6
Liquidity ratio < 1.	56.3	58.1	58.8	57.3
Score	2.3	2.4	2.4	2.3

Source: 2006 USDA FSA Farm Business Plan; USDA FSA Farm Loan Data

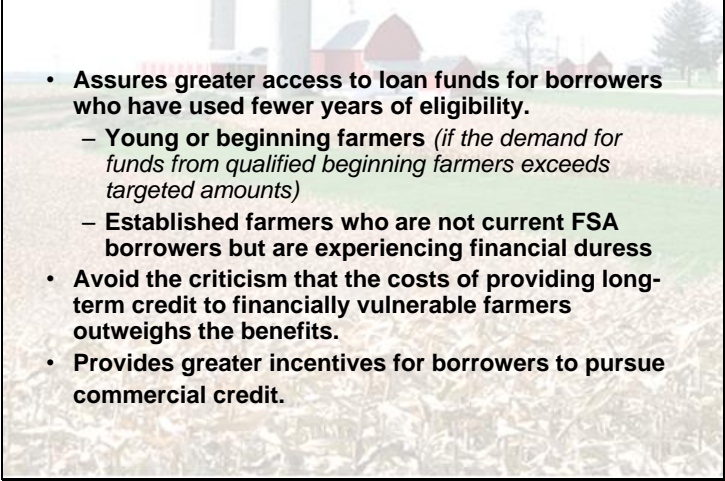

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Little Relationship Between Years of Eligibility Used and Current Financial Status			
USDA Farm Service Agency			
Selected characteristics of current guaranteed OL borrowers, by years of eligibility used.			
	Current Guaranteed OL Borrowers Years of Eligibility Used		
	Less than 5 years	5 to 10 years	10 or more years
	--percent--		
Debt-to-asset	32.1	32.9	31.1
	--dollars per farm--		
Total farm assets	1,016,887	1,142,552	1,455,730
Total farm debts	326,827	376,128	452,004
Farm farm net worth	690,060	766,424	1,003,726
Net farm income	62,538	66,177	63,389
Source: 2004 USDA ARMS; USDA FSA Farm Loan Data			

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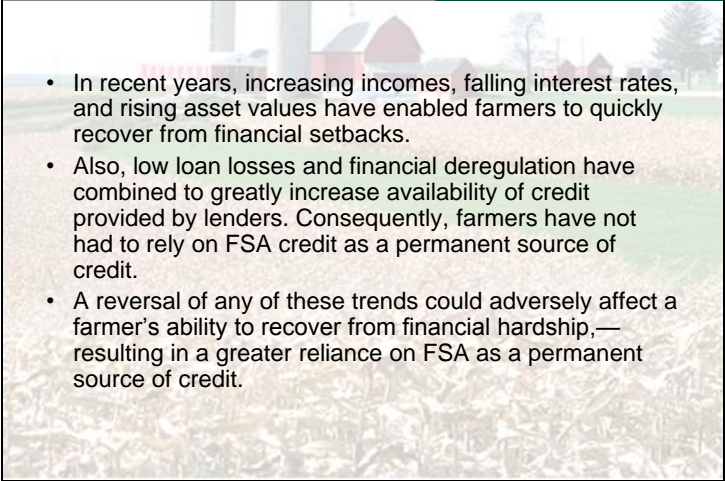



**What Are the Benefits of Term Limits?**



- **Assures greater access to loan funds for borrowers who have used fewer years of eligibility.**
  - **Young or beginning farmers** *(if the demand for funds from qualified beginning farmers exceeds targeted amounts)*
  - **Established farmers who are not current FSA borrowers but are experiencing financial duress**
- **Avoid the criticism that the costs of providing long-term credit to financially vulnerable farmers outweighs the benefits.**
- **Provides greater incentives for borrowers to pursue commercial credit.**

**A Caveat..**



- In recent years, increasing incomes, falling interest rates, and rising asset values have enabled farmers to quickly recover from financial setbacks.
- Also, low loan losses and financial deregulation have combined to greatly increase availability of credit provided by lenders. Consequently, farmers have not had to rely on FSA credit as a permanent source of credit.
- A reversal of any of these trends could adversely affect a farmer's ability to recover from financial hardship,—resulting in a greater reliance on FSA as a permanent source of credit.

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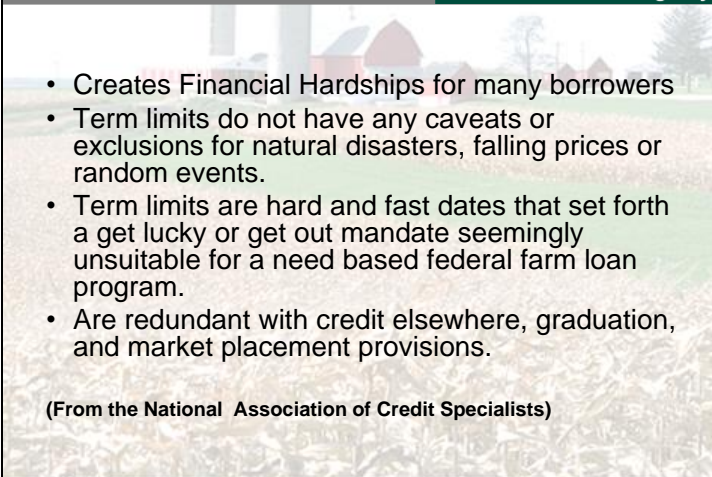

**But, Term Limits Are Not Popular**



- **Eliminating Term Limits Was Common Theme in 'Farm Bill Listening Sessions'**
- **Trade groups have jointed together in calling for their elimination:**
  - (American Bankers Association; American Farm Bureau Federation; Farm Credit Council; Farmer Mac; Independent Community Bankers of America; National Association of Wheat Growers; National Cotton Council; National Council of Farmer Cooperatives; National Farmers Union; Southern Peanut Farmers Federation;-USA Rice Federation)
- **National Association of Credit Specialists of the Farm Service Agency have lobbied for their elimination.**

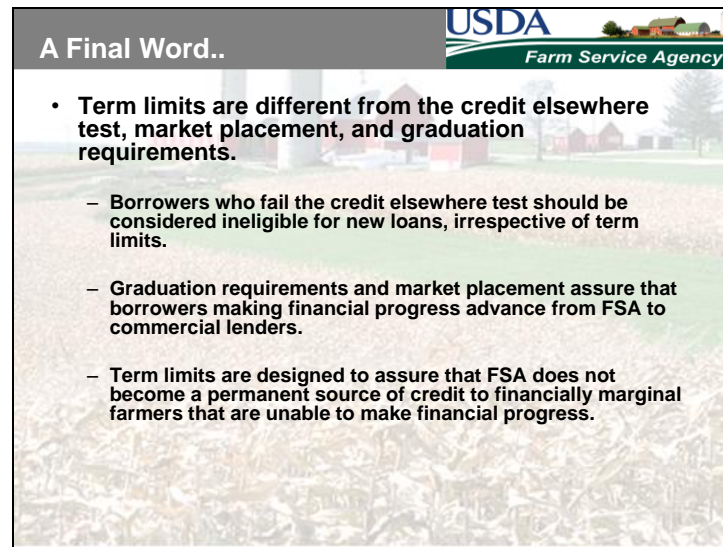
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**Costs of Term Limits**



- **Creates Financial Hardships for many borrowers**
- **Term limits do not have any caveats or exclusions for natural disasters, falling prices or random events.**
- **Term limits are hard and fast dates that set forth a get lucky or get out mandate seemingly unsuitable for a need based federal farm loan program.**
- **Are redundant with credit elsewhere, graduation, and market placement provisions.**

**(From the National Association of Credit Specialists)**

The slide features a background image of a farm with a red barn and silos. In the top right corner, the USDA Farm Service Agency logo is displayed. The title 'A Final Word..' is in a grey box on the left. The main content is a bulleted list of three points regarding term limits, credit elsewhere test, market placement, and graduation requirements.

**A Final Word..**

- **Term limits are different from the credit elsewhere test, market placement, and graduation requirements.**
  - Borrowers who fail the credit elsewhere test should be considered ineligible for new loans, irrespective of term limits.
  - Graduation requirements and market placement assure that borrowers making financial progress advance from FSA to commercial lenders.
  - Term limits are designed to assure that FSA does not become a permanent source of credit to financially marginal farmers that are unable to make financial progress.