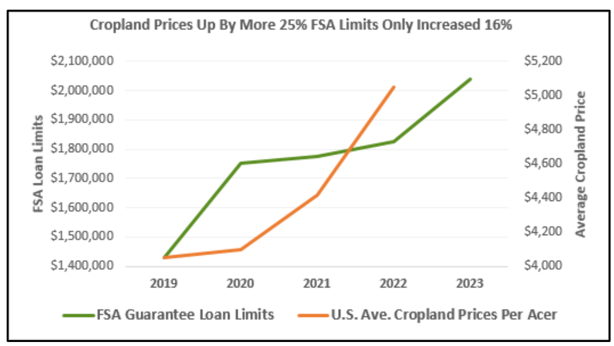
FSA Program Changes Needed to Support Beginning Farmers and Improve FSA Farm Loan Programs

Outdated requirements in law are preventing some beginning farmers and ranchers from accessing credit to establish their operations. Commercial bankers and Farm Credit System lenders are working together to suggest changes that would improve opportunities for beginning farmers and ranchers and improve FSA loan programs for other eligible producers. Together, we support some specific changes and encourage Congress to include those changes in the upcoming Farm Bill, including:

- modernizing loan size limits for FSA guaranteed loans;
- updating the loan size limit for FSA down payment loans;
- recognizing modern legal structures used by family farmers and ranchers;
- relaxing FSA beginning farmer experience requirements;
- streamlining guaranteed loan program applications as was done with direct loans;
- implementing a new USDA Express program to approve loans withing 36 hours; and
- providing funding needed to support modern agriculture.

<u>Modernize Loan Size Limits for FSA Guaranteed Loans</u>

Maximum loan size limitations for USDA Farm Service Agency loans do not reflect modern farming operations and unnecessarily limit access to credit for farmers, including beginning producers. **We recommend that Congress increase the FSA guaranteed loan limit to $3.5 million for farm ownership loans and $3 million for farm operating loans.**



- FSA guaranteed loans provide critical access to affordable, flexible credit that helps beginning farmers and ranchers get started and more experienced farmers stay in operation.

- Beginning farmers and ranchers require substantial amounts of start-up capital compared to their more established counterparts. The cost of farming and ranching in America significantly outpaced the growth in the FSA guaranteed loan size limits.

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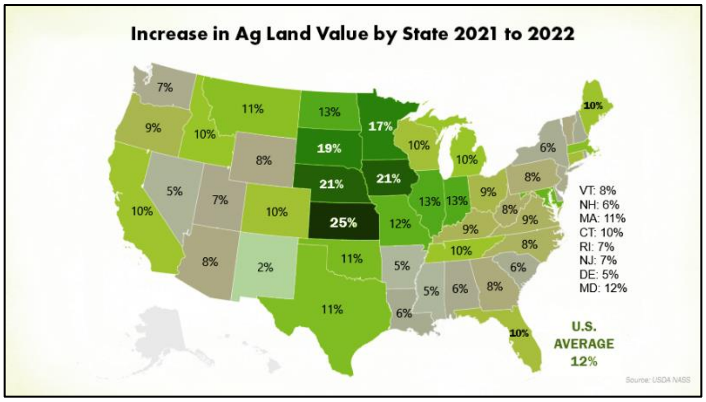
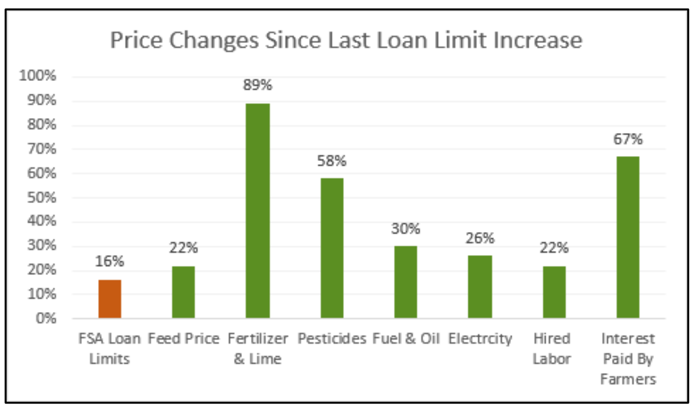


- USDA's reports an increase of <u>more than 25% increase</u> in cropland prices nationally from 2018 to 2022.
- Some states, like Kansas, saw a 25% increase in cropland prices from 2021 to 2022 alone.
- Operating costs for all farmers soared over the past 5 years as prices for equipment, fuel, and crop inputs spiked. USDA estimates that production expenses will <u>increase by more than 34%</u> in 2023 compared to the prices paid in 2018.
- Since the changes to loan limits have been implemented, FSA guaranteed loan limits only increased by 16%.

<u>Update Loan Size Limit for FSA Down Payment Loan Program</u>

The FSA's down payment loan program is widely used by beginning farmers and ranchers to start their operations. Producers make a 5% down payment, USDA/FSA makes a direct loan for 45%, and private lenders make a guaranteed loan for the remaining 50%. The loan size limit for the program, however, has not kept pace with realities of modern farm operations. **We recommend that Congress align the limit for this program with the overall limit for USDA direct farm ownership loans**.



- The FSA down payment loan program permits beginning farmers to finance all but 5% of their down payment, allowing them to retain more working capital which is critical to their operation's success in the beginning years when operations tend to be more cash strapped.
- The current limit for the program is $300,000 and was not updated as part of the 2018 Farm Bill. As a result, this program has not kept up with increases in land values and other expenses.
- We recommend that the separate limit for the down payment loan program be eliminated and simply mirror the limit for direct farm ownership loans.

Recognize Modern Structures Used by Family Farmers and Ranchers

Technical changes to FSA loan eligibility requirements are needed to accommodate family farmers and ranchers who are using sound legal structures to share risks, limit liability, and better manage the transfer of operations from one generation to the next. **We recommend that Congress make technical changes to the law so that family farmers and ranchers who use modern legal structures are eligible to receive FSA direct and guaranteed loans.**

- FSA's current understanding of "farm operators" prevents many family farms from adopting structures that are needed for liability protection and provide a less burdensome transition of their family farm to the next generation.

- We acknowledge that these changes need to be done carefully so that any family farm has the ability to use these FSA loan programs, while also limiting the language so that it does not allow investors to use these programs.

- Family farm transitions are some of the most challenging times in the life of a family farmer business, and if not done appropriately, can also have negative long-term impacts on the success of the next generation of the family farm.

- For example, some families are using separate legal entities to hold farmland for the benefit of all their children equally, while only some of the children will be operating the farm through their separate legal entities. The legal entity holding the farmland then, is not eligible to receive or hold a USDA direct or guaranteed farm ownership or operating loan because it is not the entity "operating" the farm. The current rules, in this instance, severely limit the ability of the children to take over their family's farm operations and their parents to retire. This is just one example of how this prohibition is affecting many family farms and ranches that could benefit from access to these programs.

Relax FSA Beginning Farmer Experience Requirements

FSA's beginning farmer experience requirements are limiting and have prevented many beginning farmers from accessing FSA loan programs in the first years of their operation, many times hindering their potential growth and their long-term likelihood of success. **We recommend reducing the previous experience requirement to 1-year for both the FSA direct and guaranteed loan programs.**

- FSA currently requires a beginning farmer to have at least 3 years of experience to qualify for FSA's beginning farmer loan programs.

- Beginning farmers need to have skills and experience to succeed. The current statute, however, is rigid, implemented inconsistently, and does not fully recognize the value of many of the lived experiences of those who would like to begin farming, including such things as their past business experience and educational background.

- Reducing the specific farm experience requirement to 1-year will allow beginning farmers to start without waiting an additional two years to grow their operations, many times missing vital opportunities such as land acquisition.

- The experience requirement should be lowered for BOTH the direct and guaranteed borrowers to ensure that beginning farmers and ranchers can take full advantage of USDA beginning farmer loan programs, like the 5/45/50 down payment loan program.

Streamline Guaranteed Farm Loan Applications

The Inflation Reduction Act (IRA) directed USDA to streamline their direct farm loan applications, resulting in USDA reducing applications for direct loans from 29 pages to 13 pages.

- The Farm Bill should include language to likewise direct USDA-FSA to streamline the guaranteed loan application for their farm loan programs, both farm ownership and farm operating.

- The final streamlined guaranteed loan application should result in an easier loan approval process for both borrowers and their partnering lenders.

USDA Express Loans

Producers often complain about the length of time required for FSA to approve their guaranteed loan applications. The Small Business Administration (SBA) has addressed this problem by utilizing an "Express" program which provides lenders with a much lower initial guarantee (i.e., 50%) in exchange for an SBA approval of the loan within 36 hours of the lender's submission of the application, once they have made a credit determination. A USDA Express loan could be implemented using this model including a slightly higher guarantee and loan limit to accommodate higher costs faced by agricultural production compared to other small businesses. Introducing an express guarantee program would not only help to speed up the approval process but would also help to free up FSA staff by placing a great amount of the workload on the private lender. This would help to greatly improve the customer experience and would be especially beneficial for beginning farmers and ranchers who use FSA programs as these long approval times put them at a competitive disadvantage. Some features of this Express program could include the following:

- Lender makes the initial credit decision and takes on more of the credit underwriting workload.

- Once an application is submitted, a 36-hour turnaround time on USDA loan approval will be established. If FSA does not act within the 36-hour loan approval period, the loan guarantee will automatically be approved. A 50% - 75%

guarantee would then be placed on the loan. The percent could change based on a sliding scale, depending on loan amount (Example: $750,000 at 75%; $1 million at 50%).

- Establishment of the $1 million loan limit is responsive to higher prices faced by agricultural producers.

- Lenders would have the option to use their own forms and procedures or have the option to use a streamlined form/process created by USDA to help make the process as easy as possible for customers. This program would be available to all lenders and would be complementary to FSA's current loan programs.

<u>Provide FSA With the Funding Needed to Support Modern Agriculture</u>

To ensure FSA remains a valuable partner with commercial lenders, increased funding consideration should be given to ensure FSA can continue to serve U.S. farmers and ranchers and meet customers' needs and demands in this modern lending environment.

- **Loan Limits** – Loan limit increases are critically needed to ensure FSA can continue to serve future generations of farmers and ranchers. To meet the needs of producers, consideration should be given to increasing FSA's appropriation levels for farm loan programs.

- **Staffing –** Hiring and human capital limitations continue to negatively affects FSA operations and their ability to serve farmers and ranchers. In addition, some 31% of all FSA loan officers are currently eligible for retirement.

- **Direct Hiring Authority** – Durations in hiring FSA loan officers can exceed more than a year. To shorten the time, flexibility and direct hiring authority should be extended to FSA in the hiring of loan officers with the aim of obtaining staff with a relevant experience and to ensure FSA offices are fully staffed.

- **Training –** Consistency of FSA lending program can and does vary among FSA's local offices. To ensure consistent customer service, training, including joint training with commercial lenders, should be made a part of regular and reoccurring workforce education. Sufficient funding should be provided to ensure adequate FSA loan staff training.