



VI. Credit and Finance



USDA provides direct or guaranteed loans to eligible farmers for new and existing operations.

Commission Recommendations: The Commission wanted USDA to disallow nonfarm corporations to become direct competitors with farmers in agriculture production (recommendation 3.17). It also recommended that Rural Business Service (RBS) revise Business and Industry (B&I) regulation 4279-113(h). In addition, the Commission wanted RBS to strengthen bank use of B&I loan programs (Recommendation. 4.10) and wanted RBS to conduct outreach for the Intermediary Re-lending Program (IRP) through regional land national conferences (recommendation 4.11).

AGENCY HIGHLIGHTS

Farm Service Agency (FSA)

- **Repayment and Advance Policies:** FSA continues to reinforce the repayment policy so that the period of repayment reflects the useful life of purchases. Also, as recommended by the Commission, lines of credit cannot be implemented under the 1992 Credit Reform Act. Any advance is considered a new loan under OMB guidelines; therefore, loanable funds would be reduced by 80 percent
- **Shared Appreciation Regulations and Agreements:** Shared appreciation regulations enacted in FY 2000 provide for a set-aside of the appreciation when it comes due, if it cannot be paid. FSA has authorized extended terms on shared appreciation agreements by converting them to nonprogram loans. On all shared appreciation loans, each servicing office receives a monthly report of expiring agreements, and borrowers are notified annually and 60 days prior to expiration. A notice was issued to field offices instructing them that USDA had determined that payment would be made without offset for a single-year crop loss disaster assistance program, and the small hog operation payment program.



- **Farm Loan Programs:** By law, farm loan programs are directed to family size farm operations. Below are a list of dollar amounts and number of loans made in FY 2000 and 2001. There is also a description of Lo-Doc (a low documentation process to reduce operating loan approval timeframes).

Below is a chart showing the type of loans and amounts approved by FSA in FY 2000 and 2001:

| | FY 2000 Dollars in Millions | FY 2001 Dollars in Millions |
|---|-----------------------------------|-----------------------------------|
| Loan Amounts | | |
| Direct Operating Loans (OL) | \$664 | \$690 |
| Guaranteed OL Regular (Interest Assistance) | \$999 | \$998 |
| Direct Farm Ownership | \$802 | \$464 |
| Guaranteed Farm Ownership | \$233 | \$163 |
| Emergency | \$873 | \$852 |
| | \$151 | \$ 90 |
| Number of Loans | | |
| Direct Operating Loans | 14,023 | 14,403 |
| Guaranteed Operating Loans (Interest Assistance) | 6,798 | 6,389 |
| Direct Farm Ownership | 4,646 | 2,696 |
| Guaranteed Farm Ownership | 2,085 | 1,472 |
| Emergency | 3,488 | 3,283 |
| | 2,451 | 1,679 |

- **The Lo-Doc Direct Operating Loan Rule:** This rule, effective January 9, 2001, amended the regulations governing the Farm Service Agency's direct operating loan (OL) program by simplifying the application process for certain farmers requesting assistance of \$50,000 or less and for certain recurring OL applicants who borrow operating capital from the Agency each year. By making FSA's direct OL program application process more consistent with standard industry practices, these operating loan applications have made bearer processing

more efficient and less time consuming. This has decreased the timeframe for family-size farmers to receive their credit, thereby allowing them to conduct their farming operations in a timelier manner. This rule reduces the amount of paperwork necessary to apply for a loan, saving time for both the Agency and applicant.

Rural Development/Rural Business-Cooperative Service (RBS)

- Based on the Commission's recommendations (i.e., 5.11, 1.10, 1.32, and 3.22), the Rural Development's Business and Industry (B&I) program is revising its regulations on the use of B&I funds for Cooperative Stock Purchase. This option has always been available to small farmers, but the revised regulations will make it much easier to access B&I funds for this purpose. The revised regulations with the proposed changes will be available for public comment during FY 2002 and issuance during FY 2003.
- A *Cooperative Stock Purchase Program* brochure has been published and widely distributed.
- RBS State office staff are participating with private sector experts to be certified by the use of a B&I CD-ROM training package produced by the Rural Business-Cooperative Service.
- RBS conducted a national conference during 1999 for 120 intermediary re-lenders.



How B&I Guaranteed Loans Helped:

■ **California—B&I Guaranteed Loan to F.B. Fisheries, Inc. with Desert Community Bank:** F.B. Fisheries is a minority-owned farm operation (aquaculture) located in the Riverside County Empowerment Zone. Leveraging (supplemental financing) in the amount of \$473,000 created 14 jobs and saved 5 jobs. This loan allowed the transfer of ownership and further development of an existing aquaculture operation. The business' main product is tilapia, a fish for which there is a growing demand in California's growing urban ethnic communities. Loan proceeds allowed the addition of 30 additional aquaculture tanks and provided working capital.

■ **Oregon—Intermediary Re-lending Program Loans:** Valley Development Initiatives made an Ultimate Recipient loan to Frontier Custom Cutting, Inc. The recipient performs mobile custom meat cutting and packaging of livestock and wild game. Lane Council of Governments (LLC) made an Ultimate Recipient loan to Sweet Creek Foods, LLC. This recipient is an organic food processor of fruits and vegetables. In addition to other products, they make berry jams, syrups, and soups. Sweet Creek Foods obtains produce from local farmers.

A second Lane Council of Governments Ultimate Recipient loan was made to Pam's Sunnyside Greenhouse and Flower Shop. The loan provided for expansion of the existing wholesale nursery, which produces and sells primarily indoor flora and outdoor potted plants.

