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The Center on Federal Financial Institutions (COFFI) is a nonprofit, nonpartisan, non-ideological policy institute focused on federal insurance and lending activities.

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USDA Agricultural Lending

The FSA's mission. The Farm Service Agency provides direct and guaranteed loans to farmers in order to stabilize incomes, encourage farm ownership, and assist after disasters.

The FSA was created in 1994 during the reorganization of the USDA. It oversees conservation programs, grant support, lending, and other functions. Various forms of the FSA have been in existence since New Deal agricultural programs were begun in the 1930s.

Farm Service Agency & Commodity Credit Corporation

Guaranteed Loans Outstanding: $14.6 billion

Guaranteed Loans Originated FY2004: $6.7 billion

Direct Loans Outstanding: $9.4 billion

Direct Loans Originated FY2004: $10.1 billion

Statutory Taxpayer Exposure*: $22.9 billion

Budget Cost of Loan Programs FY 2004: $1.1 billion

*Note: Reflects total federal losses in a worst case scenario given current law and current financial commitments

Structure and Functions

Nuts and bolts. The FSA is an agency of the Department of Agriculture. It is directed by the FSA Administrator, who reports to the USDA Secretary. The FSA's loan program guidelines are set by Congress pursuant to 7 U.S.C 50.

The Commodity Credit Corporation is a wholly-owned government entity under the USDA. Many of its loan programs are operated by the FSA. It is overseen by the Secretary of Agriculture and seven other Board members who are USDA officials, appointed by the President and approved by the Senate. The CCC's loan program guidelines are set by Congress pursuant to various portions of Chapter 7 of the U.S. Code.

Each year, Congress appropriates funds for the operating costs of the FSA and CCC. They are both overseen in Congress by the House's Agriculture committee and the Senate's Agriculture, Forestry, and Nutrition committee.

The FSA's credit functions. The Farm Service Agency provides both guaranteed and direct loans. The major loan programs provide credit or credit guarantees for farm ownership, operating costs, interim commodity financing, and exports.

Loan program administration. The FSA sets interest rates for its direct loan programs. In FY2004, these rates averaged 4-5% for farm ownership loans. The FSA negotiates rates with lenders for guaranteed loans so that the interest rate will not exceed the average farm loan rate of the lending institution. In addition, for guarantee programs, it sets applicable guaranty fees to the lender which average 1%, but are waived in certain instances.

Guaranteed Loan Programs

The FSA and CCC offer guaranteed loan programs for farm ownership, operating costs, and commodity export guarantees.

Farm Ownership Loans. Ownership loans can be used for a variety of property and capital purchases. They can also be used for up to $50,000 in water and soil conservation projects.

Preferences are given to those farmers with dependents and to those who can make down payments. All financed agricultural properties must have hazard insurance. A certain portion of loans are targeted towards new farmers and socially disadvantaged farmers.

Maximum loan levels are the lesser of a) the value of the farm or (b) $700,000 indexed to inflation from the year 2000 ($813,000 for FY 2004). Loans are made for up to 40 years. Guarantees are typically for the first 90% of the loan.

Farm Operating Loans. Operating loans assist farmers with livestock, feed, seed, and capital expenses. Maximum loan levels are the same as guaranteed

Farm Service Agency

Farm Ownership

Purpose: Real estate purchase, enlargement, soil and water conservation, refinancing, or capital purchase on family farms; for farmers, trusts, and corporations

Maximum Loan: $813,000; $50,000 for conservation purposes

Average Guaranty: 90%

FY2004 Originations: $1.1 billion

Farm Operating

Purpose: Assistance with financial costs of operating a farm: livestock, seed, or capital purchase; refinancing

Maximum Loan: $813,000

Average Guaranty: 90%

FY2004 Originations: $1.3 billion

Commodity Credit Corporation

Export Guarantee Program

Purpose: Enable foreigners to buy U.S. agricultural products

Maximum Loan: Varies by country and crop

Average Guaranty: 98%

FY2004 Originations: $4.3 billion

ownership loans. Loans are made for up to 7 years. Guarantees are typically for the first 90% of the loan.

Operating loans can be subsidized through the FSA's interest assistance program. If eligible, the FSA will subsidize 4 percentage points of interest for the life of the loan. There are current proposals to streamline the interest assistance program to reduce the paperwork burden and to enhance financial integrity by reducing overall loan levels and decreasing loan terms.

Export Guarantee Program. This CCC program, operated by the Foreign Agricultural Service, guarantees credit extended to foreigners. American banks extend agricultural credits to foreign banks that in turn lend to foreign importers who buy American agricultural products. The CCC typically guarantees the first 98% of the principal and a portion of the interest loaned by American banks. Loans are made for up to 10 years.

Guarantee process. Loans are made by banks and farm credit agencies. The FSA guarantees a given percentage of these loans against default. This guarantee is on the first amount of the default, meaning that in the instance of default the FSA would first pay out up to its limit and, if there were still unrecoverable losses, the lender would then be on the hook for the rest.

Direct Loan Programs

The FSA provides several types of direct loans as well. There are seven main loan programs: farm ownership, farm operating, boll weevil eradication, and emergency disaster loans under the Agricultural Credit Insurance Fund, and farm facility, sugar facility, and commodity loans under the Commodity Credit Corporation.

Farm Ownership and Operating Loans. Direct ownership and operating loans can be used for refinancing in addition to the purposes stipulated for the respective guaranteed loan programs. The maximum loan levels are $200,000. The maximum loan terms are 40 years for ownership and 7 years for operating. A certain portion of

Farm Service Agency

Farm Ownership

Purpose: Real estate purchase, enlargement, soil and water conservation, or capital purchase on family farms; for farmers, trusts, and corporations

Maximum Loan: $200,000; $50,000 for conservation purposes

FY2004 Originations: $142 million

Farm Operating

Purpose: Assistance with financial costs of operating a farm: livestock, seed, or capital purchase

Maximum Loan: $200,000

FY2004 Originations: $609 million

Boll Weevil Eradication

Purpose: Eradication of boll weevils via loans to local non-profit organizations

Maximum Loan: No upper limit

FY2004 Originations: $98 million

Emergency Disaster

Purpose: Disaster assistance to those farmers in federal disaster areas; restoration of property, recovery of lost production costs

Maximum Loan: $500,000

FY2004 Originations: $30 million

loans are targeted towards new farmers and socially disadvantaged farmers.

Boll Weevil Eradication Loans. The FSA makes loans to non-profit associations, typically state boll weevil eradication foundations, for the purpose of pest eradication, farmer training, and research.

Emergency Disaster Loans. Emergency disaster assistance loans may be used for property restoration or replacement, lost production costs, essential family living expenses, farm reorganization, and some types of refinancing. Farmers must be in a federal disaster area and have lost 30% of crop production, livestock, capital equipment, or real estate. Loans are made for up to 40 years, depending on purpose.

Farm and Sugar Facility Loans. Farm and sugar facility loans can be used for the construction or remodeling of facilities for certain commodities. Loans are made for up to 7 years.

Commodity Credit Corporation

Farm Storage Facility

Purpose: Construction or upgrade of storage and handling facilities.

Maximum Loan: $100,000

FY2004 Originations: $63 million

Sugar Storage Facility

Purpose: Construction or upgrade of raw or refined sugar storage and handling facilities.

Maximum Loan: $100,000

FY2004 Originations: None

Marketing Assistance Loans

Purpose: Provide interim financing at harvest time so farmers can avoid selling commodities at harvest-time lows

Maximum Loan: Varies by commodity

FY2004 Originations: $9.2 billion

Marketing Assistance Loans. Marketing assistance loans are provided to avoid a harvest time cash flow crunch. Often farmers are required to sell commodities at low-cost harvest prices. These loans enable farmers to hold off making contracts until prices recover. They are secured with the commodities as collateral. These loans are made for 9 months. Therefore, while marketing assistance loans account for almost 50% of loan originations each year, they only account for only around 1% of outstanding loans at the end of the fiscal year. These loans are only available for certain commodities. Interest rates are 1% above the CCC's borrowing rate from the Treasury. The maximum loan levels vary by commodity and are set in statute.

Loan deficiency payments on marketing assistance loans are eligible to certain borrowers who cannot repay their loans. These payments are a partial forgiveness of debt by the CCC. This is meant to minimize the commodity stocks (and subsequent storage costs, etc.) received from foreclosed loans, since the commodities themselves are used for collateral.

Finances

Overall size. The FSA currently has outstanding guaranteed loans of nearly $14.6 billion and direct loans in excess of $9.4 billion. See Table 1. The agency made upwards of $10.1 billion in new direct loans and $6.7 billion in guaranteed loans during FY2004. The FSA provided loans to more than 26,000 farmers in FY2004. See Table 2.

Table 1: Outstanding Loans

Fiscal Years	2003 Act.	2004 Act.	2005 Est.	2006 Proj.
Direct Loans *in millions*				
FSA - Agricultural Credit Insurance Fund	$ 7,794	$ 7,150	$ 6,669	$ 6,242
Commodity Credit Corporation	$ 2,116	$ 2,259	$ 2,141	$ 1,873
	$ 9,910	$ 9,409	$ 8,810	$ 8,115
Guaranteed Loans *in millions*				
FSA - Agricultural Credit Insurance Fund	$ 10,309	$ 10,392	$ 10,603	$ 10,752
(guaranteed portion)	(90%)	(90%)	(95%)	(95%)
Commodity Credit Corporation	$ 3,808	$ 4,191	$ 4,368	$ 4,374
(guaranteed portion)	(96%)	(99%)	(98%)	(98%)
	$ 14,117	$ 14,583	$ 14,971	$ 15,126
Total *in millions*				
Total Loans	$ 24,027	$ 23,992	$ 23,781	$ 23,241
Total Guaranteed Portion plus Direct Loans	$ 22,867	$ 22,919	$ 23,164	$ 22,616

Source: President's FY2005-6 Budget
Note: Loan levels reflect total for financing and liquidating accounts

Table 2: Loan Originations

Fiscal Years	2003 Act.	2004 Act.	2005 Est.	2006 Proj.
Loans Originated *in millions*				
Agricultural Credit Insurance Fund				
Boll Weevil Eradication Direct	$ 99	$ 98	$ 100	$ 60
Emergency Disaster Direct	$ 96	$ 30	$ 0	$ 25
Farm Operating Direct	$ 690	$ 609	$ 645	$ 650
Farm Ownership Direct	$ 169	$ 142	$ 208	$ 200
Indian Tribe Land Acquisition Direct	$ 0	$ 2	$ 2	$ 2
Farm Operating Subsidized Guaranteed	$ 418	$ 271	$ 283	$ 266
Farm Operating Unsubsidized Guaranteed	$ 1,013	$ 1,017	$ 1,091	$ 1,200
Farm Ownership Unsubsidized Guaranteed	$ 1,231	$ 1,114	$ 1,389	$ 1,400
Commodity Credit Corporation				
Marketing Assistance Direct	$ 10,718	$ 9,150	$ 11,944	$ 10,106
Farm Storage Facility Direct	$ 125	$ 63	$ 61	$ 64
Sugar Storage Facility Direct	$ 22	$ 0	$ 22	$ 3
Export Guarantee Program Guaranteed	$ 4,318	$ 4,318	$ 4,528	$ 4,396
	$ 18,899	$ 16,814	$ 20,273	$ 18,372

Source: President's FY2005-6 Budget Appendix

Statutory taxpayer exposure. Total potential taxpayer exposure to the Farm Service Agency's credit programs at the current time includes the net present value of its direct loans and the guaranteed portion of its guaranteed loans. This is the total cost if all covered borrowers defaulted on their loans today and no recoveries were possible. At present this is approximately $22.9 billion.

Loan program budgeting. Since 1992, loan programs have been reflected two ways in the budget. See COFFI's "Budgeting for Credit Programs: A Primer" at www.coffi.org for a fuller explanation on how federal credit programs are accounted for.

On-budget program accounts record the net cost or revenue of a loan program to the federal government. Costs and revenues are broken into two pieces: a "subsidy" cost and annual administrative expenses. Subsidies are calculated by projecting future cash inflows to and outflows from the government and discounting these flows back to today's dollars. The net "present value" represents the subsidy amount. A deficit is registered as a positive subsidy and a surplus as a negative subsidy. Since the net present value relies on default rate estimates and a discount rate which is recalculated each year (varying with interest rates), subsidy reestimates are made yearly. Reestimates are reflected in program costs, but do not directly affect discretionary appropriations, as they fall under an indefinite, unlimited appropriations authority of their own.

Table 3: Budget Costs

	Agricultural Credit Insurance Fund		CCC Export Guarantee Loans	
Fiscal Years	**2004 Act.**	**2005 Est.**	**2004 Act.**	**2005 Est.**
Costs *in millions*				
Direct Loan Subsidy	$ 123	$ 99	-	-
Direct Loan Reestimates and Interest	$ 0	$ 156	-	-
Guaranteed Loan Subsidy	$ 72	$ 82	$ 457	$ 309
Guaranteed Loan Reestimates and Interest	$ 9	$ 7	$ 69	$ 110
Administrative Costs	$ 288	$ 299	$ 4	$ 4
	$ 492	$ 643	$ 530	$ 423
Revenues *in millions*				
Discretionary Appropriations (from general revenues)	$ 485	$ 456	$ 4	$ 4
Mandatory Appropriations (from general revenues)	$ 9	$ 164	$ 600	$ 419
	$ 494	$ 620	$ 604	$ 423
Balance *in millions*				
Balance from previous year	$ 30	$ 26	$ 384	$ 458
Total Costs	$ -492	$ -643	$ -530	$ -423
Total Revenues	$ 494	$ 620	$ 604	$ 423
Capital Transfers (to general revenues)	$ 0	$ 0	$ 0	$ -150
Other funds available	$ -6	$ 2	$ 0	$ 0
Balance carried forward	$ 26	$ 5	$ 458	$ 308

Source: President's FY2006 Budget Appendix

Table 3: Budget Costs (continued)

Fiscal Years	CCC Farm Storage Facility Loans 2004 Act.	CCC Farm Storage Facility Loans 2004 Act.	Total Agricultural Loans* 2004 Act.	Total Agricultural Loans* 2005 Est.
Costs *in millions*				
Direct Loan Subsidy	$ 1	$ 1	$124	$100
Direct Loan Reestimates and Interest	$ 3	$ 3	$3	$159
Guaranteed Loan Subsidy	-	-	$ 522	$ 391
Guaranteed Loan Reestimates and Interest	-	-	$ 78	$ 117
Administrative Costs	$ 1	$ 1	$ 293	$ 304
	$ 5	$ 5	$ 1,027	$ 1,071
Revenues *in millions*				
Discretionary Appropriations (from general revenues)	$ 0	$ 0	$ 489	$ 460
Mandatory Appropriations (from general revenues)	$ 5	$ 15	$ 614	$ 598
	$ 5	$ 15	$ 1,103	$ 1,058
Balance *in millions*				
Balance from previous year	$ 1	$ 0	$ 415	$ 484
Total Costs	$ -5	$ -15	$ -1,027	$ -1,071
Total Revenues	$ 5	$ 15	$ 1,103	$ 1,058
Capital Transfers (to general revenues)	$ -1	$ 0	$ -1	$ -150
Other funds available	$ 0	$ 0	$ -6	$ 2
Balance carried forward	$ 0	$ 0	$ 484	$ 313

Source: President's FY2006 Budget Appendix
*Note: The CCC's Marketing Assistance Loan Program is not included in agricultural loan budget totals since it was not part of credit reform in 1990; and, therefore, its budgeting is conducted without a program and finance account, making it incongruous with the other accounts in the table.

Most FSA loan programs run positive subsidies, paying out more in expenses than they bring back in revenues. See Table 4.

Non-budgetary financing accounts record the actual collections from a loan program and the cost of defaults and losses. This is on a cash flow basis, meant to make it easier to understand a program's inflows and outflows. Loans existing before the 1992 law are kept in a third type of account, a liquidating account, which operates in a similar manner to a financing account but is on-budget.

In general, with a positive subsidy, the program account receives appropriations from general revenues to cover the net cost of administrative, subsidy, and subsidy reestimate costs.

In general, with a negative subsidy, the program account applies the negative subsidy to cover administrative expenses, any subsidy reestimate costs, or subsidy costs incurred by positive subsidy programs in the same account. In some cases, the negative subsidy is enough to cover all costs and no appropriations are made to the program account. In other cases, some appropriations from general revenues are made to cover the difference. Often, negative subsidy programs pay for their own administrative costs but subsidy reestimate costs are paid through general revenues.

FSA budgeting. The FSA is financed in part through interest, fees, principal payments, and recoveries on defaults collected through its direct and guaranteed loan programs. The rest of its costs are covered by annual appropriations. The FSA consists of several credit accounts: the Agricultural Credit Insurance Fund (all FSA loan programs), the CCC Export Guarantee Loan Fund, and the CCC Farm Facility Loan Fund (Farm and Sugar Facility Loan Programs). See Table 3.

None of the budget figures in this paper include the costs of the CCC's Marketing Assistance Loan Program which was not reformed in 1990 along with other credit programs. Its budget costs are reported in the federal budget inline with the CCC's grant programs, making the loan program's costs indistinguishable from other expenditures.

Cost to general revenues. Total mandatory and discretionary appropriations represent the budget cost of the programs from general revenues for the year. This varies slightly from the total obligations, or costs, of the loan programs since they have a small amount of cash on hand (balances carried forward) that is accumulated or depleted each year.

For FY2004, the budget cost of the Agricultural Credit Insurance Fund was $494 million, the cost of the CCC Export Guarantee Program was $604 million, and the cost of the CCC Farm Storage

Table 4: Subsidy Rates

Fiscal Years	2003 Act.	2004 Act.	2005 Est.	2006 Proj.
Subsidy Rates *in %*				
FSA - Agricultural Credit Insurance Fund				
Boll Weevil Eradication Direct	-2.70%	-6.07%	-5.68%	-18.09%
Emergency Disaster Direct	20.39%	13.83%	12.94%	10.94%
Farm Operating Direct	17.25%	14.42%	10.09%	9.95%
Farm Ownership Direct	11.61%	22.08%	5.35%	5.12%
Indian Tribe Land Acquisition Direct	8.95%	-0.78%	5.27%	4.01%
Weighted Average	14.71%	13.32%	7.40%	7.14%
Farm Operating Subsidized Guaranteed	11.80%	12.77%	13.31%	12.50%
Farm Operating Unsubsidized Guaranteed	3.17%	3.33%	3.23%	3.03%
Farm Ownership Unsubsidized Guaranteed	0.75%	0.54%	0.53%	0.48%
Weighted Average	3.38%	3.10%	2.91%	2.66%
Commodity Credit Corporation				
Commodity Direct	N/A	N/A	N/A	N/A
Farm Storage Facility Direct	1.28%	1.22%	-1.43%	-1.16%
Sugar Storage Facility Direct	1.26%	-3.87%	-5.25%	-5.24%
Weighted Average	1.28%	1.22%	-2.44%	-1.34%
Export Guarantee Program Guaranteed	4.10%	10.58%	6.83%	8.93%
Weighted Average	4.10%	10.58%	6.83%	8.93%

Source: President's FY2005-6 Budget Appendix

Facility Program was $5 million. The total budget cost for the FSA's agricultural loan programs for FY 2004 was $1.1 billion.

Current Issues

Proposed programs. H.R. 1590, sponsored by Rep. Kind, and S.385, sponsored by Sen. Grassley, would change provisions for the CCC's commodity grant and loan programs. They would put more limits on marketing assistance loan size as well as a cap on loan deficiency payments. Producer gains under the program would be limited to $75,000. As of August 2005, both identical bills have been sent to committee for review.

Sources

FSA: Program Descriptions; available via http://www.fsa.usda.gov

U.S. Code: Full Text of 7 U.S.C. 50; available via http://uscode.house.gov

OMB: President's FY2006 Budget; available via http://www.whitehouse.gov/omb

