Farm Ownership Loans » » »

U. S. Department of Agriculture

Farmers Home Administration

PA-62

Farm Ownership Loans

Every year several thousand farm families obtain loans through the Farmers Home Administration either to buy family-type farms or to make family-type farms out of their present holdings.

The Bankhead-Jones Farm Tenant Act was passed in 1937 to help tenants, share-croppers, and farm laborers climb the agricultural ladder to ownership. This law provides 40-year loans for farm purchase, at low interest rates, to those who are unable to obtain adequate credit from other sources.

In 1946 Congress enlarged the program to help owners whose farms are too small or are not sufficiently developed to provide them a good living.

War veterans with agricultural experience who wish to become farmers now have preference, under the law, for the loans.

By 1950, loans had been made to 65,000 farmers including almost 12,000 veterans. About 20 percent of the families owned their farms debt-free and a majority of the others were well ahead of schedule with their payments.

Some Farm Ownership loans are made from money appropriated by Congress. Others are now made from funds advanced by private lenders and insured by the Farmers Home Administration. The same general standards as to land values and farmers' eligibility are followed for both kinds of loans, but insured loans are made to applicants who have a 10-percent down-payment or a 10-percent equity in their farms.

Here are answers to questions often asked about Farm Ownership loans:

Am I Eligible for a Farm Ownership Loan?

Your application will be accepted if you are a veteran, or a farm tenant, sharecropper or farm laborer, or the owner of an inadequate or underimproved unit—provided you cannot get the credit you need from any other source. It is also required that you be a citizen of the United States. The county Farmers Home Administration committee then decides, on the basis of your character, experience, managerial ability, industry, and financial resources, whether you are likely to be successful in the farming business. The committee is made up of three local persons, including at least two farmers.

Veterans' applications are given preference. A veteran, in this program, is anyone who served in the U. S. land or naval forces in any war between the United States and another nation and who has a discharge other than dishonorable.

If My Application Is Approved, What Kind of Farm Can I Buy?

You should select a productive family-type farm; that is, a place you and your family can operate without using outside help except perhaps in planting and harvesting seasons. The farm should be large enough and productive enough to enable you to earn a good living, pay operating expenses, taxes and insurance, and meet your other obligations while paying for it.

The price must not be more than the long-time normal earning-capacity value of the land. This value will be determined by the committee members on the basis of an appraiser's report and their own inspection of the farm.

What If I Already Own Land?

If you already own enough acres but need land improvements such as drainage, terracing, clearing or fencing, or need to add or repair necessary buildings, a Farm Development loan may be obtained for this purpose. If the farm you own is too small, you may obtain a Farm Enlargement loan to buy additional land. After you have enlarged the farm or done the necessary development work, it must then meet the requirements for a family-type unit. If necessary, the loan will include money to refinance any mortgage debt you already owe on the land, but the main purpose of the loan must be to create a farm on which you can earn an adequate income.

Are There Any Exceptions?

Yes, Congress made an exception for disabled veterans. A veteran receiving a disability pension is eligible for a loan to buy, enlarge, or improve a farm which may not measure up to the usual requirements for a family-type unit. But it must be suited to his farming capabilities and provide enough income so that, when he combines his earnings and his pension, he will be able to pay his expenses and make the loan payments.

How Much Money Can I Borrow?

The total investment in the complete unit cannot be more than the fair and reasonable value of the farm as determined by the county committee. This value is based upon the long-time earning capacity of the farm. County investment limits, based on local land values, have been established for each county; the Farmers Home Administration supervisor can tell you what the limit is in your county.

Private loans made by banks, insurance companies, or individuals and insured by the Farmers Home Administration may not exceed 90 percent of the investment in the farm. For this reason, if you are getting an insured loan you need a 10-percent down payment on the farm you wish to buy or a 10-percent equity in the farm you wish to improve or enlarge; you will also pay the first mortgage insurance charge at the time the loan is closed.

Does the Loan Include Money for Buildings and Land Development?

Yes, funds may be included to repair or remodel the house and farm buildings or to construct new ones if necessary. The loan may also include money for land development such as drainage, irrigation, clearing, and terracing. In other words, it will provide enough money to put the farm in condition for satisfactory living and successful operation.

Does the Loan Provide for Farm Equipment?

No. Usually a qualified applicant owns or is in a position to buy enough equipment and livestock to run the farm efficiently. However, operating loans are made by the Farmers Home Administration if you need credit for chattels and are unable to obtain it on satisfactory terms elsewhere. These operating loans carry 5 percent interest and extend for periods up to 5 years. They may be used for stock, machinery, feed, seed, and other operating essentials.

What Obligations Will I Have?

If you receive a Farm Ownership loan, you will be obligated to follow a system of farming and methods of farm and home management that are successful in your community and are approved by responsible research and educational agencies. With the supervisor's help, you will be expected to make a plan and a budget for operating your farm and managing your business, and to follow them as closely as possible. The plan and budget must indicate that good methods will be used which promise to increase your earnings and profits. You will be free to alter your plan and budget to meet changing conditions, but will be expected to talk over important changes with the supervisor before making them.

Since you will need records of income and expenses to know whether you are getting the best results from your work, you will be expected to keep account of receipts and costs in a book furnished by the supervisor. He will help you, if necessary, with keeping and analyzing your records.

How Much Would I Pay Each Year?

By paying about $50 each year on each $1,000 you borrow, you would keep your payments current. However, you would be encouraged to make larger payments in years of good income. Thus you would build up a reserve which would make it easier to keep your loan in good standing during years of low income. Payments may be made at any time, and interest is charged only on your unpaid balance.

Homesteaders on public land and settlers on newly irrigated farms in reclamation areas may defer the first annual installment as long as 2 years, if necessary, so they can get the land into production before starting to repay.

How Long Does a Loan Extend?

Farm Ownership loans are made for 40-year periods. However, if you could get your loan refinanced at any time after it was obtained at the rates and terms prevailing in your community, you would be required to do so and pay off your Farmers Home Administration loan or insured mortgage. A borrower who has an equity of 35 percent in his farm will usually be able to obtain a refinancing loan.

What Is the Interest Rate?

The interest rate on a direct loan is 4 percent. The rate for an insured loan is 3 percent plus a 1 percent annual mortgage insurance charge.

What Security Must I Give?

A first real estate mortgage on the farm is given as security for either a direct or an insured loan.

Where Should I Apply for a Loan?

At the Farmers Home Administration office serving your county. There you will be given an application blank, and the supervisor will be glad to answer any questions you may have.

If you are not able to locate the local office of the Farmers Home Administration, write U. S. Department of Agriculture, Farmers Home Administration, Washington 25, D. C.

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