

EMERGENCY LIVESTOCK LINE OF CREDIT GUARANTEES

Public Law 94-35

Wayne A. Hayenga and John A. Hopkin*

To assist livestock producers in weathering the current cyclical financial adversity, the Emergency Livestock Line of Credit Guarantee program was enacted recently. Under this program, the Federal government through the Farmers Home Administration (FmHA) guarantees up to 90 percent of the principal and interest on approved loans. The loans, made by commercial lenders such as banks and production credit associations, charge market interest rates. In this sense, this is not a subsidy program. Instead, this program is designed to permit livestock producers to finance their operation when they could not do so otherwise.

The guarantee is limited to 90 percent of the difference between the total amount of principal and interest owed on any Emergency Livestock Loan Advances made under an approved line of credit and the market value of such loan security less the amount owed on prior liens. The total should not exceed \$350,000. Special regulations exist for producers owning interests in partnerships or corporations. Regulations for unusual cases can be obtained from the director of the Farmers Home Administration.

Highlights

1. The guarantee ceiling for each borrower is \$350,000.
2. Guarantee can cover the loan advances under a "line of credit" system.
3. Loans must be repaid in a maximum of 7 years, with a 3-year renewal.
4. Twenty-five percent of an applicant's farming or ranching operation must be in breeding, raising, fattening or marketing livestock or marketing dairy products.
5. Guarantees apply up to 90 percent of the principal and interest owed on approved loans.
6. Guarantees may be approved until December 31, 1976.
7. Security requirements authorize acceptance of repayment ability as a substitute for collateral under certain conditions.

*Extension project leader in farm management and economist-management, The Texas A&M University System, and Head of Agricultural Economics Department, Texas A&M University.

Eligibility

To be eligible for an Emergency Livestock Line of Credit Guarantee:

1. *Citizens of the United States or persons who have been legally admitted for permanent residence in the United States.* In a partnership, the principal partners must be citizens or legally admitted permanent residents of the United States. A corporation must be incorporated under the laws of the United States and the principal stockholders must be citizens or such permanent residents of the United States.
2. *Bona fide farmer(s) or rancher(s)*
 - a. Recognized in the community as one whose chief occupation is farming and ranching.
 - b. Primarily and directly engaged in agricultural production.
 - c. Having substantial operations in breeding, raising, fattening or marketing livestock including dairy cattle.
 - d. Bona fide farmers and ranchers must actually engage in the livestock operations. Individual applicants must manage such livestock operations. Partnership or corporation applicants must be managed by one or more of the partners or stockholders.
3. Applicant must possess *ability, experience and industry* necessary to carry out the proposed livestock operations.
4. *Credit elsewhere.* Applicant must be unable to provide the necessary funds from his own resources or obtain sufficient credit from local commercial sources to finance his actual livestock operations needs without a guarantee.

In case of an individual loan applicant, the term "primarily and directly engaged in agricultural production" means that the person derives more than 50 percent of his gross income from his own agricultural production or devotes more than 50 percent of his time to such production.

In the case of a corporation or partnership loan applicant, the corporation or partnership derives more than 50 percent of its gross income from

agricultural production, and the share holders or partners owning or controlling a majority interest derive more than 50 percent of their gross income from agricultural production, devote more than 50 percent of their time to such production, and have substantial livestock operation.

"Substantial livestock operation" (Item 2c above) means that the individual loan applicant derives not less than 25 percent of the gross farm income from livestock operations, or devotes not less than 25 percent of his time to such operations, or has not less than 25 percent of his total capital investments in such operations.

Loan Purposes

Loans may be guaranteed under the Act for purposes which are *essential* to carrying on the livestock operation. In addition to the usual operating inputs of labor, fuel, feed, fertilizer, machinery expenses, farm supplies, veterinary fees, etc., they include the following:

1. Purchase of livestock for replacement or restocking purposes, but not to permit expansion beyond the highest level reached during 18 months immediately preceding July 25, 1974.
2. Building or repair of fences and holding pens.
3. Refinancing essential debts incurred for livestock operation.
4. Payment of real estate or personal taxes.
5. Payment of premiums on insurance necessary to obtain the loan.
6. Livestock water supplies and pollution abatement facilities.
7. Purchase of any stock in a cooperative lending agency.
8. Payment of loan fee and costs.

Loan Application and Processing

1. *Applicant may contact the lender or Farmers Home Administration.* If the lender is interested in making a guaranteed Emergency Livestock Line of Credit and believes that the applicant will qualify for such a loan, the lender will assist in preparing the application required for the Emergency loan. If an applicant contacts Farmers Home Administration, they will refer the applicant to his present lender to see if the lender needs a guarantee to continue the loan.

If, after reviewing the completed application, the lender is still interested in making a guaranteed Emergency Livestock Line of Credit and believes that the applicant can qualify for such a loan, the lender, with the assistance of the applicant, may pre-

pare a loan docket and proceed with loan processing.

2. *Loan Making.* The responsibility for making and closing a guaranteed Emergency Livestock Line of Credit rests with the lender. Loan funds will not be disbursed until after Farmers Home Administration issues a Contract of Guarantee. The loan will be considered closed when all loan and security instruments have been executed and the mortgage or financing statement (or both) is/are filed for record.

Information Needed

The information needed by the Farmers Home Administration to process a loan guarantee includes the following:

1. Application for Guaranteed Loan (Form FmHA 449-6). This form requires personal information, planned livestock and crop information and a financial statement.
2. Request for Contract of Guarantee (Form FmHA 449-25). This form, to be signed by the lender, contains copies of the following documents used to support loans.
 - a. Loan application.
 - b. Cash flow sheet.
 - c. Drawings and specifications for construction, major repairs, and land development, if any.
 - d. Appraisal report on real estate based on two comparable sales.
 - e. Certification of Lender and Loan Applicant.

It also requests information on the loan such as loan purposes, interest rate, repayment schedule, list of security and operating plan and budget.
 - f. Certification of Lender that the loan guarantee is needed by the lender to make the loan and that the borrower qualifies for the guarantee.

After processing the request for guarantee, which will include a Farmers Home Administration issue of Guarantee (Form 449-27) to the lender, the lender will then disburse the loan funds according to the agreed upon schedule.

Program Details

Program details and Farmers Home Administration forms may be obtained by writing to:

Director, Finance Office
Farmers Home Administration, USDA
1520 Market Street
St. Louis, Missouri 63103

or from your state or local Farmers Home Administration office. Ask for information on the Guaranteed Livestock Loan program.

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