Congressional Research Service
Informing the legislative debate since 1914

INSIGHT

COVID-19 and USDA Farm Loan Flexibilities

June 3, 2020

On May 21, 2020, the U.S. Department of Agriculture (USDA) temporarily expanded the Disaster Set-Aside (DSA) provision to allow flexibility for farm loan repayment due to the economic effects of the Coronavirus Disease 2019 (COVID-19) pandemic. The set-aside provision allows a borrower to move a loan payment owed to USDA's Farm Service Agency (FSA) to the end of the loan or, in the case of an annual operating loan, to extend the payment by a year. Interest continues to accrue on the deferred principal; neither the interest nor the principal is forgiven. The set-aside (deferment) is meant to provide financial relief and cash flow flexibility during a crisis.

Earlier during the pandemic, on March 26, 2020, USDA announced certain flexibilities in its loan-making and servicing procedures. These included relaxing deadlines, accommodating social distancing, and temporarily suspending loan accelerations and new foreclosures.

Disaster Set-Aside Provision

Disaster set-aside has been available to FSA farm loan borrowers since 1994 (7 C.F.R. §766.51-61). The underlying authority (Section 331A of the Consolidated Farm and Rural Development Act, 7 U.S.C. §1981a) gives the Secretary of Agriculture discretion to defer principal and interest to forgo foreclosure if a borrower is temporarily unable to make payment due to circumstances beyond the borrower's control. USDA implemented the regulations to apply to natural disasters but has made temporary exceptions for losses due to low prices in 1998 and 1999 (64 *Federal Register* 392, January 5, 1999; and 65 *Federal Register* 31248, May 17, 2000) and now for the COVID-19 pandemic in 2020.

The DSA affects loans made and serviced by FSA, referred to as *direct loans*. The DSA covers direct farm ownership (real estate) loans and direct farm operating loans but may also apply to conservation and emergency loans that are also direct. The DSA does not apply to *guaranteed loans* that are made and serviced by an originating lender such as the Farm Credit System (FCS) or commercial banks. (See CRS Report RS21977, *Agricultural Credit: Institutions and Issues*.) DSA is intended to allow borrowers to recover from losses without incurring additional debt or liquidating assets. The cost to the government is less than forgiving debt. Normally, one set-aside installment is allowed for each loan, but the temporarily expanded provision allows for a second set-aside if one already exists.

Congressional Research Service
https://crsreports.congress.gov
IN11415

Farm Loan Servicing

Loan servicing refers to the process followed under law when a borrower is unable to make payments on a loan, the loan becomes delinquent, or the lender initiates foreclosure. Federal law prescribes a series of borrower rights for USDA farm loans, including notification, restructuring, write-down, and homestead protection.

For direct loans, USDA stated in a press release on March 26, 2020, that it would "temporarily suspend loan accelerations, non-judicial foreclosures, and referring [new] foreclosures to the Department of Justice" during the public health emergency.

For guaranteed loans, USDA is being more flexible working with originating lenders (e.g., commercial banks or the FCS), when the lenders request, to consider future lines of credit, temporary payment deferrals, or forbearances on foreclosures.

Availability of FSA Farm Loans

As of May 28, 2020—two-thirds through FY2020—FSA reported that about half of its farm loan funding authority remained unused. This incorporates both FY2020 appropriations and carryover balances. For operating loans, about 60% or more of direct and guaranteed loan authorities remain. For farm ownership loans, about one-quarter of the direct and guaranteed loan authorities remain, and less than 5% remains for borrowers who are not beginning farmers or members of socially disadvantaged groups. For emergency loans, nearly all available loan authority remains, since program use depends on natural disasters that have been few through the fall and winter and because a public health emergency is not among the criteria for making them available (**Table 1**).

Table 1. USDA Farm Loans: FY2020 Authority and Availability Remaining

(dollars in millions)

	FY2020 Loan Authority	Availability as of May 28, 2020	Percentage Remaining
Operating loans			
Direct loans	2,463	1,462	59%
Guaranteed loans	3,764	2,847	76%
Farm ownership loans			
Direct loans	1,875	523	28%
Guaranteed loans	2,750	802	29%
Emergency loans (direct)	122	121	99%

Source: FSA, farm loan programs funding (accessed June 1, 2020).

Note: FY2020 loan authority includes annual appropriations and carryover balances.

For many farms at this point in the crop year, annual operating lines of credit were secured before the public health emergency was declared. The funding remaining, especially for operating loans, indicates that sufficient authority has likely been available for this crop year. The COVID-19 pandemic is undercutting farm income rather than immediately raising loan demand for many farms. Nonetheless, lower farm incomes may lead to future loan repayment difficulties, as indicated by the DSA and loan servicing flexibilities discussed above. Payments on many farm loans may not be due until later in the calendar year after harvest.

FSA Farm Loan Portfolio

On April 30, 2020, FSA released updated data about its outstanding loan portfolio and loan delinquencies (**Table 2**). FSA holds $12.8 billion of direct loans (including farm operating and farm ownership), which is about 3% of the $415 billion sector-wide farm debt total in 2019. The FSA delinquency rate on repayment remains steady at about 5%, especially on a seasonal basis compared to the previous year. This is generally a high rate relative to bank loans but is not abnormal for FSA borrowers, who are by definition unable to obtain credit elsewhere.

FSA guarantees $16.6 billion of loans made by other lenders, which is about 5% of an estimated $340 billion of farm loans made by commercial banks and the FCS. The delinquency rate for these loans is steady at 1.6%, consistent with the underlying loan performance at those lenders. Growth in the FSA portfolio since last year is faster than the growth in the sector-wide debt balance, indicating that more farms are experiencing financial stress as the farm economy has slowed even before the pandemic.

Table 2. USDA Farm Loan Portfolio and Delinquency Rates

(dollars in millions)

	Direct Loans		Guaranteed Loans	
	Portfolio	% Delinquent	Portfolio	% Delinquent
Sept. 30, 2018	11,437	4.7%	15,741	1.4%
Apr. 30, 2019	11,485	5.5%	15,761	1.6%
Sept. 30, 2019	12,250	4.5%	16,435	1.6%
Apr. 30, 2020	12,752	5.0%	16,583	1.6%

Source: FSA, farm loan programs loan servicing data as of 9/30/2019, and farm loan programs direct and guaranteed data as of 4/30/2020.

Notes: FSA direct loans are about 3% of the $415 billion sector-wide farm debt total in 2019. FSA guarantees are about 5% of an estimated $340 billion of the farm loans that are issued by the Farm Credit System and commercial banks.

Author Information

Jim Monke
Specialist in Agricultural Policy

Disclaimer