



Land Contract (LC) Guarantee Program

The USDA Farm Service Agency (FSA) has a new **Land Contract Guarantee Program** designed to help beginning or socially disadvantaged farmers & ranchers build the foundation for a successful career in agriculture. The Land Contract Guarantee Program provides a valuable tool to transfer farm real estate to the next generation of farmers and ranchers. FSA guarantees will be offered to the owner of a farm who wishes to sell real estate through a land contract to a beginning farmer/rancher or a farmer/rancher who is a member of a socially disadvantaged group. The guarantee provides incentive to sell to individuals in these groups as it reduces the financial risk to the seller due to buyer default on the contract payments.

The FSA Land Contract Guaranteed Program offers two guarantee options:

1. **Prompt Payment Guarantee (LCPG)** - Provides a guarantee of up to the amount of three annual installments plus the cost of any related real estate taxes and insurance on three occasions. The primary focus of this guarantee is to provide a guaranteed income source for the seller.
2. **Standard Guarantee (LCSG)** - Provides a 90% guarantee of the outstanding principal balance of the land contract. The primary focus of the Standard Guarantee is to guarantee the value of the real estate. If the purchaser defaults on the contract, the seller has the option of liquidating the real estate and receiving 90% of the principal remaining after sale proceeds are applied to the contract, or alternatively the seller may elect to retain the real estate. If the property is retained, FSA would complete an appraisal and pay the Seller 90% of the difference between the appraised value and the unpaid principal balance on the contract.

Land Contracts Guarantee Requirements:

1. Land Contract Guarantees can be used to finance the purchase of a farm/ranch with a purchase price not to exceed \$500,000.00 on a new land contract.
2. Buyer must provide a minimum down payment of 5% of the purchase price.
3. Land contract payments must be amortized for a minimum of 20 years with equal annual installment amounts, and a balloon payment is acceptable after 10 years.
4. Interest rate must be a fixed rate for first 10 years of the land contract, not to exceed the FSA direct farm ownership loan interest rate in effect at the time the guarantee is issued, plus three percentage points (FSA's D-FO rate is 3.125% as of February, 2013).
5. FSA Guarantee period is for a maximum of 10 years for either type of FSA guarantee, Prompt Payment Guarantee or Standard Guarantee, regardless of the term of the contract.
6. FSA pays for the cost of the appraisal, when an appraisal is required by FSA.
7. No guarantee fee is charged by FSA.

The buyer must meet eligibility and feasibility requirements similar to those for the FSA Guaranteed and Direct Farm Ownership Loan Programs. Buyer must be the owner/operator of a family size farm at the time the land contract is signed. Seller must also meet eligibility criteria established by FSA to participate in the Land Contract Guarantee Program.

Land Contract (LC) Guarantee Program (Cont.)

FSA requires the seller to obtain an **escrow agent** for the Prompt Payment Guarantee (LCPP) or a **servicing agent** for the Standard Guarantee (LCSG) to monitor the land contracts while the guarantees are in effect. The monitoring responsibilities would include the following:

The **escrow agent** under the LCPP will:

1. Provide FSA with a copy of the recorded Land Contract Agreement
2. Handle transactions between buyer and seller, including receipt of and submission of payments
3. Provide FSA evidence of paid property taxes and insurance
4. Send payment due notices to buyer
5. Notify FSA and seller if buyer defaults
6. Service delinquent accounts and make demand on FSA to pay missed installments, taxes, or insurance
7. Complete and submit semi-annual status reports
8. Perform other duties as required by State law or as specified by buyer and seller.

The **servicing agent** under the LCSG will:

1. Provide FSA with a copy of the recorded Land Contract Agreement
2. Handle transactions between buyer and seller, including receipt of and submission of payments
3. Provide FSA evidence of paid property taxes and insurance
4. Perform annual farm inspection, obtain financial statement, income statement, cash flow budget, and other information needed to perform and provide an annual analysis and inspection report to the FSA
5. Complete and submit semi-annual status reports
6. Send payment due notices to buyer
7. Notify FSA and seller if buyer defaults
8. Service delinquent accounts and make demand on buyer for amount of default
9. Perform other duties as required by State law or as specified by buyer and seller.

ALL Agents must be bonded and not debarred or suspended from participating with the US Government.

If you have questions, please contact Tim Reimer, Farm Loan Specialist @ 402-437-5455.

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