

## Concessional loan arrangements in the US, Canada and New Zealand

In the United States and Canada, government assistance is provided to the rural sector through their government departments responsible for agriculture. In the United States, both direct loans from the government as well as government-guaranteed loans are available. Canada has a guarantee system, while no such government assistance is provided in New Zealand.

### United States

The US Department of Agriculture (**USDA**) provides rural development loan assistance, crop and livestock insurance, and farm loan programs through the federal Farm Service Agency (**FSA**).

Guarantee loans comprise around 60 per cent of the \$5.7 billion loans made by the FSA to 37,610 farmers in 2015. For most loans, FSA charges a guarantee fee of 1.5 per cent of the guaranteed portion of the loan. This fee may be passed on to the borrower.

For the guarantee loans, two broad streams are available:

- 1) The streamlined program, called EZ Guarantee Loans, uses a simplified application process to help beginning, small, underserved and family farmers and ranchers apply for loans of up to \$100,000 from USDA-approved lenders to purchase farmland or finance agricultural operations. EZ Guarantee Loans offer low interest rates and terms up to seven years for financing operating expenses and 40 years for financing the purchase of farm real estate. USDA-approved lenders can issue these loans with the FSA guaranteeing the loan up to 95 per cent.

There are also larger guarantee loans for financing the purchase of a farm with a purchase price up to \$500,000 on a new land contract. These loans are guaranteed to 90 per cent by the USDA.

- 2) Lenders approved to offer USDA EZ Guarantee Loans under these programs are traditional lenders, such as banks and credit unions. Microlenders, which include Community Development Financial Institutions and Rural Rehabilitation Corporations, will be able to offer their customers up to \$50,000 of EZ Guarantee Loans, helping to reach urban areas and underserved producers. Banks, credit unions and other traditional USDA-approved lenders, can offer customers up to \$100,000 to help with agricultural operation costs.

The FSA also provides direct loans to farmers for operating and purchase. These loans, which account for \$1 billion of loans, are funded through budget appropriations.

The maximum loan amount for a Direct Farm Operating Loan is \$300,000. There is no down payment requirement. Direct Farm Operating loan repayment terms vary depending upon the purpose of the loan, the loan applicant's ability to pay, and when income is projected to be available. General operating and family living expenses are normally due within 12 months or when the agricultural commodities sell. For larger purchases such as equipment, minor repairs, or livestock, the term will not exceed 7 years.

The Direct Farm Ownership Down Payment Loan is the only loan program specifically for underserved and women farmers and beginning farmers. Down payment loan funds may be used only to partially finance the purchase of a family farm. Loan applicants must contribute a minimum down payment of 5 per cent of the purchase price of the farm and the agency will finance 45 per cent to a maximum loan amount of \$300,000. The balance of the purchase price not covered by the down payment loan and the loan applicant's down payment may be financed by a commercial lender, private lender, a cooperative, or the seller.



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## Canada

The [Canadian Agricultural Loans Act \(CALA\)](#) is a federal financial loan guarantee program for farmers and agricultural co-operatives to use these loans to establish, improve, and develop farms, while agricultural co-operatives may also access loans to process, distribute, or market the products of farming. Under the CALA, the federal government guarantees, to the lender, repayment of 95 per cent of a net loss on an eligible loan issued. The maximum aggregate loan limit for any one farm operation is \$500,000.

Loans are limited to a maximum of:

- \$500,000 for the purchase of land and the construction or improvement of buildings
- \$350,000 for all other loan purposes, including consolidation/refinancing, and
- The maximum aggregate loan limit for agricultural co-operatives is \$3 million, with the Minister's approval.

For example, if a farmer gets a CALA loan for \$300,000 for a tractor, the farmer can still access up to \$200,000 for land purchase or building repair, or \$50,000 for another implement and \$150,000 for land purchase or building repair. Lenders, such as banks, credit unions and caisses populaires (credit unions in Quebec), issue and administer loans under the CALA program.

Some direct loans from the Government are available at the provincial level (New Brunswick and Alberta), and are outlined here: <http://canadabusiness.ca/grants-and-financing/government-grants-and-financing/loans-and-cash-advances/>. There is no direct loan scheme at the federal level.

## New Zealand

No guaranteed or direct government loans are available to farmers in New Zealand. Most subsidies and direct assistance programs were abolished in the 1980s on a series of trade liberalisation reforms backed by farming groups. Some direct grant programs exist for the agricultural sector at the regional level.

Otherwise, Fonterra has offered its farmers a short-term interest-free loan of 50 cents for every kilogram of share-backed milk solids produced from 1 June to 31 December 2015. The loan will be interest-free until 31 May 2017, after which Fonterra may charge interest. Farmers can repay all or part of the loan at any time and no security is required over their shares or any other assets. The loan will be repayable directly from milk payments, and automatic repayments will occur when Total Advance Rate Payments exceed \$6.00. Fonterra Co-operative Support for the first half of the season (June to December) will be funded by one-off savings generated by changes the business is making, such as improving working capital.