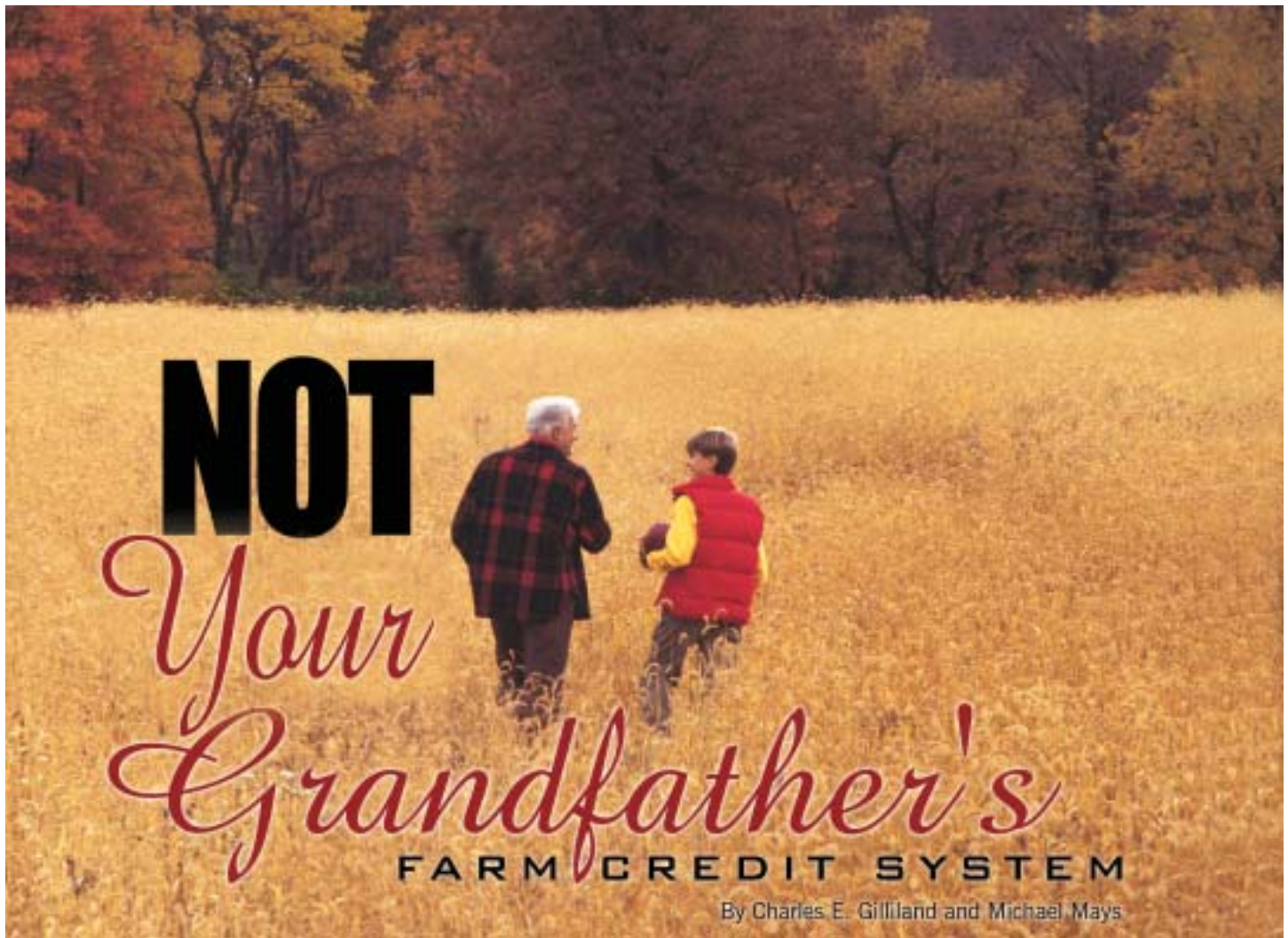


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**A**nyone who has tried to get a loan for recreational land, a rural home or rural agricultural property knows that this type of financing can be hard to come by. One source of loans — the Farm Credit System (FCS) — is unknown to many buyers. Those familiar with the FCS may assume that only farmers and ranchers are eligible to apply for FCS loans. But the FCS isn't what it used to be. It's better, offering a wider range of loan products to a broader spectrum of borrowers.

For many years the FCS provided loans for farmers and ranchers through locally owned lending cooperatives. Long-term farm and ranch mortgage loans were made by Federal Land Bank Associations (FLBAs), and short- and intermediate-term agricultural production and equipment loans were offered by Production Credit Associations (PCAs). Although both organizations were involved with agricultural financing, these two lending systems operated independently with separate management.

FLBAs and PCAs both primarily served agricultural borrowers in narrowly defined geographic regions. However, FLBA lending territories differed from PCA regions, and borrowers had to locate the FLBA or PCA office nearest to the property they were financing. They had to endure an arduous application process and were required to purchase and hold stock in the local FLBA or PCA while their loans remained outstanding.

## Farm Credit Comes of Age

In January 2001, the FCS adopted a new management philosophy that relaxes the geographic barriers and makes the overall loan process more accommodating to borrowers. The new system reflects changing rural markets, with loan approvals based on credit scoring for many of the smaller loan requests.

Local associations now compete to provide loans to borrowers no matter where the borrower buys land. And although the bulk of their loan volume continues to revolve around agricultural properties, FCS now will make loans to borrowers who are not full-time farmers or ranchers. Borrowers are still required to hold stock in a local association, but most associations have significantly reduced the amount of stock required.

The revitalized FCS consists of 15 primary lending entities offering a variety of loan products for land and homebuyers in rural Texas.

## Changes Bring Flexibility

The changes began in 1999 when several FLBAs, which had been locally controlled agents of the Farm Credit Bank of Texas (FCB) in Austin, converted to Federal Land Credit Associations or FLCAs. Over the next two years, all FLBAs in Texas adopted the new FLCA business model, making them independent

lenders with full ownership of their loan portfolios. In doing so, these associations took on the risk of underwriting the loans.

Beyond simplifying the loan application and approval process, the conversion from FLBAs to FLCAs has had little effect on customers' day-to-day dealings with their lenders. However, this shift in ownership gives FLCAs more local control and more flexibility in setting loan terms and rates and fosters more aggressive marketing and loan development activity.

Last year, a number of FCS lenders — both FLCAs and PCAs — went a step further and became Agricultural Credit Associations (ACAs) with FLCA and PCA subsidiaries. ACAs are chartered to make both mortgage loans and agricultural production loans through their respective subsidiaries. Currently, there are five FLCAs and ten ACAs in Texas.

Although local associations retain responsibility for their chartered territories, the merger and reorganization process has resulted in overlapping boundaries in many areas of Texas. The surviving entities compete directly within the same territory and may lend funds for purchases outside that area if a borrower's headquarters is located within the association's region.

For example, a rancher in Amarillo could obtain a loan from his local FLCA to purchase land in South Texas. Before the change, that rancher would have had to locate and contact the FCS lender in South Texas to apply for a South Texas loan. Now borrowers can establish and maintain a relationship with local offices even as they purchase land farther from home.

**D**espite the shift toward local control within FLCAs, the FCB in Austin maintains a working relationship with the individual associations. Through bond sales, FCB serves as a financial conduit, securing funds from the Federal Farm Credit System Funding Corporation to be used in the lending operations of local associations. However, the merged management and lending system should allow local FLCAs to offer more competitive interest rates and more flexible loan

programs designed to better meet borrowers' needs than the old FLBAs. Because credit decision authority is retained at the local level, the loan application process should be less daunting, with timelier loan approvals and more efficient loan servicing.

### Available FCS Loans

**C**urrently, local associations offer loans for farm and ranch properties, rural homes and home sites, timberland, recreational land and agribusinesses. The system also makes farm and ranch operating loans and loans for equipment and livestock. These loan products have a variety of terms. The associations routinely describe available loan products and terms on their websites (see chart).

Although most FCS loans support agricultural operations, a growing portion of lending activity focuses on owners of recreational properties, part-time operators, absentee landlords and rural homes. Although some regulations restrict the availability of home loans made through the system, most residences within the city limits of communities with populations of less than 2,500 may be eligible.

Most residences outside city limits on small tracts will qualify for system residential loans. The system can even

grant loans to individuals building in rural subdivisions provided the subdivision is platted and deed restricted. However, rural residence loans made to nonfarmers and nonranchers set a maximum home value of \$153,583 for 2002, not including land value.

### Application Process

In addition to the changes in focus and geographic coverage, the loan application process has been streamlined. Associations now offer an Ag Fast program for small loans, generally limited to a maximum of \$100,000, featuring a shortened application. Applicants may not be required to submit detailed financial

## The FCS is planning how best to serve the next generation of farmers and ranchers.

### Farm Credit System Lending Associations

Association	Location	Website
Heritage Land Bank	Tyler and McKinney	<a href="http://www.heritagelandbank.com">www.heritagelandbank.com</a>
Capital Farm Credit	East and Central Texas	<a href="http://www.capitalfarmcredit.com">www.capitalfarmcredit.com</a>
Brady Land Bank	Brady	<a href="http://www.bradylandbank.com">www.bradylandbank.com</a>
Ag Credit of South Texas	Weslaco, Hebbronville and Raymondville	<a href="http://www.agcreditofsouthtexas.com">www.agcreditofsouthtexas.com</a>
Agriland Farm Credit Services	Headquartered in Tyler, services East Texas	<a href="http://www.agrilandfcs.com">www.agrilandfcs.com</a>
Ag Texas Farm Credit Services	Headquartered in Lubbock, with 12 branches	<a href="http://www.agtexas.com">www.agtexas.com</a>
First Ag Credit	Statewide	<a href="http://www.agmoney.com">www.agmoney.com</a>
Federal Land Bank Association of Texas	Headquartered in Coleman with branches in Brownwood, Haskell and San Angelo	<a href="http://www.flbatexas.com">www.flbatexas.com</a>
The Land Bank of Sulphur Springs	Sulphur Springs	<a href="http://www.flba.net">www.flba.net</a>
Lone Star	Weatherford	<a href="http://www.lonestarflba.com">www.lonestarflba.com</a>
Panhandle-Plains FLBA	Panhandle Region	<a href="http://www.panhandle-plainsflba.com">www.panhandle-plainsflba.com</a>
Southwest Texas ACA		<a href="http://www.southwesttexasflba.com">www.southwesttexasflba.com</a>
Texas AgFinance	South Texas	<a href="http://www.texasagfinance.com">www.texasagfinance.com</a>
Texas Land Bank	North East Central Texas	<a href="http://www.texaslandbank.com">www.texaslandbank.com</a>
Great Plains Ag Credit	Amarillo	<a href="http://www.greatplainsagcredit.com">www.greatplainsagcredit.com</a>

Source: Real Estate Center at Texas A&M University

statements for Ag Fast loans, which are available to simple partnerships or individuals.

Applications for loans of more than \$100,000 are more complex and call for more information from the borrower to establish a credit history. These loans require full financial disclosure covering the past two to three years.

The time required for loan approval depends on the type of loan. Some loans are approved in one day; others take longer. Most property transfers can be closed within 30 to 60 days from first contact with the local association. To help speed decisions, associations now use mathematical credit scores as part of the process. Credit scores are principal factors for Ag Fast loans but also impact decisions on the more sizeable loans.

## FCS: The Next Generation

While meeting the financing needs of today's rural land owners, FCS also is planning how best to serve the next

generation of farmers and ranchers. Because this market segment usually encounters the most difficulty obtaining loans, FCS has established young, beginning and small farmer and rancher programs ranging from financial counseling to educational scholarships to relaxed credit standards.

Today's rural land buyers have a wide spectrum of objectives. From owning a country home to creating a recreational retreat, buyer motives often extend beyond the dominant motive in granddad's day: increasing agricultural production.

The local lending arms of the FCS are refining their application processes and expanding their menu of loan products to satisfy an increasingly diverse array of customers. This shift in business practices has positioned the FCS to efficiently provide capital to fuel rural Texas land markets and support farming and ranching activities throughout the state. ♣

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