

The Agricultural Loan Guarantee Program

The Issue

The Agricultural Loan Guarantee (ALG) Program, a project of the Texas Agricultural Finance Authority, is designed to offer farmers and ranchers financial assistance for the establishment of agricultural operations or the improvement of existing ones. The ALG Program provides aid primarily through loan guarantees, though it also grants interest rebates to select borrowers.

Any of Texas' 248,800 agricultural enterprises can apply for a loan guarantee from the program so long as they meet minimum financial requirements. Borrowers must possess a credit score no less than 650 and loan equity of at least 15 percent. In addition, the ALG Program requires debt service coverage at a minimum of 1.25 and a debt to equity ratio no higher than 2:1. Once these parameters are met, the amount guaranteed depends upon the terms of the loan, with three available options:

Guarantee Amounts

<p>\$250,000 or 90% of loan amount, whichever is less</p> <p>\$500,000 or 80% of loan amount, whichever is less</p> <p>\$750,000 or 90% of loan amount, whichever is less</p>

The ALG Program has guaranteed 63 loans under these parameters since 2010, the majority of which have gone toward the purchase of real estate and livestock. As of June 2016, 57 of the loans remained open, totaling \$12.8 million in guarantees.

Recipients of a loan guarantee from the program may also qualify for an interest rebate on their loan. The ALG Program awards a rebate equivalent to a reduction in the loan's interest rate, though it faces a series of limits on the rebate's size. According to the program's stipulations, the effective interest rate on the loan cannot be reduced below the WSJ Prime rate or by more than 3 percent. Payouts exceeding \$5,000 are also prohibited. These restrictions further attempt to limit the amount of money that the Texas Agricultural Finance Authority can dole out to agricultural borrowers.

The Arguments

As an initiative of the Texas Agricultural Finance Authority, the ALG Program ostensibly seeks to bolster Texas' agricultural market by encouraging new investment. Proponents believe that the farming and ranching communities require government loan support to achieve sufficient growth. Furthermore, they can point to the ALG Program's numerous caps and eligibility requirements as safeguards against undue cost or risk. From their perspective, the program offers a more robust Texas agricultural market at minimal cost to the Texas taxpayer.

However, a more critical examination of the ALG Program reveals that it suffers from critical shortcomings. First and foremost, the loans guaranteed—amounting to 63 over the past six years—can only hope for a tiny impact on a marketplace containing 248,800 farms and ranches. Individual farmers receiving the benefits

of the program's largesse might witness positive change, but the rest of Texas experiences a negative effect; Texans would have profited more from keeping those tax dollars to themselves and spending them on what they see fit. This is a far more efficient way to boost an economy than relying on central planners to redistribute wealth.

The practice of offering loan guarantees to some farmers introduces distortions into the marketplace. Beneficiaries receive a leg up that could potentially give them an edge over their less governmentally favored rivals. Banks also face limited incentive to ensure that farms can repay their loans, knowing that the state is on the hook in the case of failure. As a result, the ALG Program creates an uneven playing field and inclines banks to invest in farming endeavors that may not be worthy of financial support. The program, in sum, interferes with Texas' markets while fostering economic loss.

Recommendations

- Eliminate the Agricultural Loan Guarantee Program and other agricultural subsidy programs.

Resources

"Grants Office," Texas Department of Agriculture (accessed July 2016).

"Agricultural Loan Guarantee (ALG) Program - Frequently Asked Questions," Texas Department of Agriculture (accessed Aug. 2, 2016).

"Agricultural Loan Guarantee Program," Texas Department of Agriculture (accessed July 2016).

"Texas Ag Stats," Texas Department of Agriculture (accessed July 2016).

Additional ALG Program information, Texas Department of Agriculture email to author (June 27, 2016).