

Don't Wait Until Cows Come Home: Changes to Wisconsin's Agricultural Loan Guarantee Programs: Housing and Economic Development Authority

Article By:

Ann Ustad Smith

On March 30, 2016, *Wisconsin Governor Scott Walker* signed **2015 Wisconsin Act 316**, which makes changes to the various agricultural loan guarantee programs offered by the ***Wisconsin Housing and Economic Development Authority (WHEDA)***. The changes increase the flexibility and availability of the programs.

Agricultural Production Loan Guarantee Program

In its agricultural production loan guarantee program, WHEDA provides guarantees for certain agricultural production loans. The prior cap on this type of guarantee was reached when the total outstanding principal of loans to a borrower was \$150,000. Under the new law, the cap is raised so that the total guarantee can be as high as \$250,000 (including refinancing loans). In addition, WHEDA can now extend the term of the guaranteed loan if the loan is part of a workout agreement, providing borrowers and lenders the support of the continued guarantee as they work through a troubled or stressed credit.

Limits on eligible farmer debts are now limited to the debts and assets related to the agricultural production that is the subject of the loan. The farmer receiving a guaranteed loan must be reasonably likely to not be subject to voluntary or involuntary liquidation by the end of the loan term. Prior law required the test to be as of April 1 of the following calendar year.

Prior law required a mandatory 80 or 90 percent guaranty based on the principal amount of the loan, and mandatory interest reduction payments equal to two percent of the principal amount of the guaranteed loan to participating lenders. Both of these requirements are now permissive rather than mandatory. The guarantee is capped at no more than 90 percent regardless of the principal amount of the loan, and interest reduction payments can be made up to an amount not to exceed two percent of the principal amount of the guaranteed loan.

Farm Assets Reinvestment Management Loan Guarantee Program

Under the farm assets reinvestment management loan guarantee program, WHEDA guarantees loans to farmers for the acquisition of agricultural assets or the cost of improvements to facilities or

land. The law encourages family farm succession planning and implementation by expanding eligibility for these loan guarantees to include a person who intends to operate farm premises and maintain the family farmstead on the farm premises and who has experience farming the specific farm.

WHEDA is no longer required to, but may still, charge origination fees. Similar to changes made to the agricultural production loan guarantee program, guarantee limitations will now be based on the total guarantee amount of all the loans made to the borrower under the program. The law also limits the debt to asset comparison for farmer eligibility to those related to the agricultural assets that are the subject of the eligible loan.

Agricultural Production Drought Assistance Loan Guarantee Program (n/k/a Agricultural Production Disaster Assistance Loan Guarantee Program)

The law reinstates WHEDA's authority to guarantee agricultural production drought assistance loan guarantees and expands the program to include loans for certain extraordinary costs related to any act of nature for which the governor issues a declaration of disaster.

The new law allows, but does not require, WHEDA to make an interest reduction payment in an amount up to 3.5% of the loan. The maximum amount of the guarantee is increased to \$25,000. The restriction on the term of the loan is lifted, but the WHEDA guarantee is limited to no longer than three years. WHEDA now has the flexibility to guarantee up to 90% of an eligible loan and similar changes as those described above are made to an eligible farmer's debt to asset ratio.

Agricultural Development Loan Guarantee Program

WHEDA's agricultural development loan guarantee program provides guarantees for loans for working capital or to finance certain items if the working capital or item is necessary to, or used to, process or market a product from a raw agricultural commodity produced in this state or to commercially harvest whitefish from Lake Superior.

The bill increases the maximum WHEDA guarantee to \$750,000 (as opposed to guaranteeing loans with a total principal amount of \$750,000) and to a \$100,000 guaranty for commercially harvesting whitefish in Lake Superior. The bill also creates an exception for the term of loans included in a loan workout agreement. Finally, WHEDA's authority to make guarantees under this program becomes permissive instead of mandatory.

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National Law Review, Volume VI, Number 96

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