ACCESS TO CREDIT

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Most farm businesses borrow money. Obtaining capital to launch or develop a farm business is … possible! As any lender or farm financial consultant will tell you, there *are* sources of credit for those who do their homework. Homework includes preparation of a business plan and/or other documents that demonstrate that you know what you are doing and have the means to repay the debt. Farmers who arrive at the bank with their finances in a shoebox or all in their heads are much more likely to be turned away -- and for obvious reasons. Check www.northeastnewfarmer.org for programs and organizations that can help new farmers prepare business plans.

That being said, there *are* challenges to finding and obtaining loans. Fewer and fewer commercial lenders are in the ag lending business. Loan officers who are not familiar with farming are less inclined to make farm loans. New farmers and those who want to develop "alternative" or non-traditional" products or markets have an even tougher time, as they are perceived as higher risk.

There are several agricultural loan programs to help new farmers. The USDA's Farm Service Agency has several loan programs targeted to beginning farmers and ranchers. They offer direct and guaranteed loans for operating expenses and real estate. They have a unique downpayment loan program that helps new farmers package an affordable mortgage for farm property. FSA has a mandate to recruit and serve new farmers to reach their targets. Funds not spent on lending to new farmers go back into the general pool. They want you!

Another lender to beginning farmers is the Farm Credit System is a national farmer-owned lending cooperative. It is overseen by the US government. FCS has a mandate from the government to serve "young, beginning and small farmers and ranchers". Recently, the FCS has come under some scrutiny regarding their performance in this area. While they do not have specifically targeted funds for new farmer loans, they want (and need) to reach and serve new farmers. FCS also offers financial planning and management, tax, and farm management services.

A 1992 federal law established a federal-state partnership loan program for new farmers and ranchers. Commonly known as the "aggie bond" program, it offers low interest loans from money bonded by participating states. In the Northeast, only Pennsylvania has such a program. The Growing New Farmers Project is working to encourage more states to participate in this program or others to provide financial assistance to beginning farmers.

Some community-based economic development organizations offer small business loans. For example, in Hampshire County (MA), the Valley Community Development

Corporation offers loans to small businesses, including agricultural businesses. Coastal Enterprises, Inc. in Maine, has a program devoted to agricultural lending and business development.

A survey of farmers in western Massachusetts several years ago revealed (or confirmed) that established, larger and more conventional farmers do not experience much difficulty in obtaining credit. But start-up and non-traditional farm businesses more often rely on "family, friends and others", personal credit cards or line of credit from a home mortgage for loans. The New England Small Farm Institute experimented with a "peer lending" program for start-up micro-loans, in trying to fill the gap in small loans for start-up farm businesses. In fact, the Farm Credit Foundation, an arm of the FCS, recommends that a micro-loan program be developed, perhaps by the federal government, in response to this identified need. The Growing New Farmers Project is fostering the development of several community-based lending models. With the existing programs and some exciting new ones under development, diligent and prepared new farmers will find it possible to meet their credit needs.

While most farm businesses borrow money at some point for operating or to purchase land, equipment or livestock, debt is a slippery slope. Our entire agriculture is built on a model that encourages farmers to get deeper into debt by getting bigger -- acquiring more and bigger equipment, more acreage, more inputs just to try to stay even. Farm entry models that minimize debt, such as renting instead of purchasing land right away, or using your own and family labor instead of fancy equipment and other inputs, should be encouraged. Smart planning will help you make the best decisions about the role of credit for your farm enterprise.