GROWING NEW FARMERS

ACCESS TO FINANCIAL RESOURCES ISSUE-FOCUSED PROJECT

FINDINGS AND RECOMMENDATIONS

SUBMITTED BY

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NOVEMBER 22, 2004

Acknowledgements

This study was commissioned by the Growing New Farmers Project (GNF) to promote the establishment of state programs that assist beginning farmers to obtain financing via federal-state partnerships, aggie bonds and/or other tools and mechanisms, as appropriate, in the Northeast region. For this project, we define the Northeast region as twelve states from Maine to West Virginia.

The study team and the Growing New Farmers Consortium owe a debt of gratitude to the many people and organizations that helped this project by sharing their opinions and data that were utilized for this study. Investigations of business issues for individuals are best when names are keep confidential; however, beyond the unpublished individual names, we recognize the following organizations for providing staff and assistance with this project:

USDA Economic Research Service
USDA Farm Service Agency, including the Northeastern States
USDA National Agricultural Statistics Service (2002 Census of Agriculture)
Northeast State Departments of Agriculture
Farm Credit Administration
Farm Credit Services
Farm Credit Associations located in the Northeastern States
Federal Deposit Insurance Corporation
Various Community Development Services located in the Northeast
Cooperative Extension agents and the related Universities
Chester County Development Council
Illinois Farm Development Authority
Communicating For Agriculture
National Council of State Agriculture Finance Programs
The Intervale Foundation
American Farmland Trust
Land Stewardship Project

The authors offer a special recognition to all of the individuals who responded on the GNF List serve to our inquiries and surveys.

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This material is based upon work supported by the Cooperative State Research, Education and Extension Service, U.S. Department of Agriculture, under Agreement No. 00-52101-9706. Any opinion, findings, conclusions, or recommendations expressed in this publication are those of the author(s) and do not necessarily reflect the view of the U.S. Department of Agriculture.

Executive Summary

Growing New Farmers; A Northeast Service Providers Consortium" is a regional initiative to provide support for future generations of farmers in order to sustain agriculture as a business in the Northeast. This report addresses one of the challenges taken on by the Growing New Farmers consortium by identifying the barriers a beginning farmer experiences when accessing financial capital.

For purposes of this report, a beginning farmer is someone who has operated a farm for ten years or less. Financial status, age, size of operation, etc; are not part of the definition; however, during the study period feedback indicated many stakeholders felt the spirit of the term "beginning farmer" had more meaning than the definition.

The goal of this report is to heighten the awareness of advocates for the industry and to provide specific recommendations for action to improve the success rate of beginning farmers. Although the report addresses the various topics with factual data, it is meant to provoke deeper thought into the areas that deal with some of the social issues that are harder to measure. Since access to financial capital is a dynamic issue, changing with the many factors that affect the farm and financial industries a point in time factual report may not clearly identify future needs.

The study looked into statistical information provided by the various agencies, such as the USDA NASS, Census, FDIC, Farm Credit System, FSA and USDA-ERS. The study also used a written survey and interview approach to help gather anecdotal information along with gaining information on the perceived barriers.

Comparing the number of farms and dollar amount of credit used, across the nation the Northeastern beginning farmers received an approximately equal share of USDA Farm Service Agency (FSA) funding for farm ownership programs (direct and guaranteed). However, showing a fair share may only prove that farms equally share hurdles. The study then looked at reports which suggested many Northeast farmers have non-farm repayment resources. This conclusion was most obvious when looking at the FCS activity that showed that almost one in every four loans made during 2002 was made to a beginning farmer.

Although there are minor differences of opinion the study's general conclusion indicates that, except for beginning farmers with very limited resources, obtaining credit is not a significant barrier. However, the study was conducted when interest rates were at a 40-year low.

For those farmers with limited resources, the findings indicated that even though there are potential sources of funding available, the lack of acceptable projected profits limits new farmers more than any other factor. The factors that lead to lower profit potential varied depending on whether the operation was more capital or labor intense; however, training, and land issues were a consistently identified barrier. The land issues ranged from the acquisition and holding cost to the need to obtain long term leases to allow long term investment decisions.

The interview process also indicated there are several regional programs such as Community Development Corporations or local sponsored programs that have encouraging programs for

limited resource farmers; however, the activity is either too new or the outreach hasn't been effective enough to test the merits of the programs.

Recommendations resulted from a Strength, Weakness, Opportunity and Threat Analysis

1. *Improve the knowledge and network for the various sources of financial capital*.
   This recommendation stresses the need to continually keep the network information "fresh" and to make more effort to look at programs for "best management practices"

2. *Create a regional work group to continually evaluate the effectiveness of the various programs administered by for the beginning farmers*.
   Lending is a cyclical business; therefore, efforts need to be pro-active and continually reviewed. The goals of the group should hold accountable the lending programs at regional levels rather than broader levels. Pointed analysis should address how many requests are being denied and why. With this data, appropriate action can be taken

3. *Advocate the economic development agencies to address more efforts to retain business rather than using criteria for job creation as a method to prioritize program funding.*
   This will require some analysis to quantify the impact of revenue and the associated cost a farm has to the community. As much as practical, social impact and soft cost benefits such as environmental benefits should also be quantified.

4. *The spirit of the Farm Bill encourages better cooperative efforts between Federal and State programs. Investigate changes to local and federal legislation to allow "bridge loans" to be made to beginning farmers when FSA funds are not available.*
   Generally, FSA is not authorized to pay off existing debt nor are guarantees of other governmental obligations allowed. However, many times FSA does not have funds available and other "high risk" lenders won't make a "bridge loan" due to their limited funds. With a mechanism to address this eligibility issue community supported lenders could provide funds in a timely fashion and better leverage their efforts.

5. *Test all beginning farmer programs to determine if they can be commercialized*.
   By doing so, this will isolate the needs for future assistance and determine if a program is creating a dependence on outside assistance.

6. *Support programs that protect the agricultural land base and allow farmers to operate based on the agriculture use.*
   Not being able to plan on land resources is a disincentive for farmers

7. *To assist the beginning farmers, the goals and target groups need to be refined to include some of the findings of this report.*
   Issues of inclusion or exclusion of small or large, wealthy or corporate new farmers, and the impact of a new farmer on existing farmers, needs to fit the overall mission. When reviewing these issues, consider combining some of the recommendations in a group than is larger than "beginning farmers." This recommendation recognizes, beginning farmers issues may not be broad enough to attract some of the needed "shaker and movers."

These recommendations are based on the premise that lending environments will change and entry into the farm industry will continue to become tougher as the industry evolves. Using economic impact analysis is needed for defending supporting action but the recommendations are also meant to use social issues such as environmental, health, etc. to help quantify the needs.

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SECTION 1: BACKGROUND

1.1 INTRODUCTION

"Growing New Farmers; A Northeast Service Providers Consortium" is a regional initiative to provide support for future generations of farmers in order to sustain agriculture as a business in the northeastern United States. One of the challenges taken on by the Growing New Farmers consortium is to identify the barriers facing future farmers. This report specifically addresses the difficulties raising financial capital that a beginning farmer in this region might face.

Access to financial capital is a dynamic issue, changing with the many factors that affect the farm and financial industries. Therefore, this report provides current findings along with some projections of the needs for the future. The goal of this report is to heighten the awareness of industry advocates of the industry and to provide specific recommendations for action. Although the report addresses the various topics with factual data, it is meant to incorporate the non-measurable impacts and challenges of the region's agriculture.

1.2 DEFINITIONS

To correctly understand this issue, a clear understanding of the parameters of the study is necessary. The terms are defined as follows:

> **Farmer:** Since 1850, when minimum criteria defining a farm for census purposes were first established, the farm definition has changed nine times. A farm is currently defined, for statistical purposes, as any place from which $1,000 or more of agricultural products (crops and livestock) were sold, or normally would have been sold during the year under consideration.[1]
>
> **New or beginning farmer**: The USDA definition of a beginning farmer is one who has operated a farm for ten years or less. Additionally some USDA programs require that a beginning farmer have at least three years' of experience. Financial status, age, size of operation, etc; are not part of the definition; however, during the early fact finding stages, perceived definition were noted by many of the stakeholders.
>
> **Northeast region**: Includes the following twelve states: Maine, New Hampshire, Vermont, Massachusetts, Connecticut, New York, Pennsylvania, West Virginia, Maryland and Delaware.
>
> **Financial Capital**: includes forms of cash and/or equivalents as well as other property that is used to operate a business.

[1] This definition has been in place by joint agreement among USDA, the Office of Management and Budget, and the Bureau of the Census.

1.3 METHODOLOGY OF THE STUDY

The primary objective of this study was to assess a beginning farmer's ability to access financial capital. This was done by exploring the needs of this group by using surveys, interviews and validating factual data, where appropriate. Since compiled data often lags behind current events, the study time was extended to consider anticipated developments such as outcomes from the nation's Farm Bill that passed in 2002 and shifts within the farm and financial sectors. The project began in the February of 2002 and continued through 2003. This was during a time of historically low interest rates.

Data was collected to profile the agricultural economics of each state along with specific data to provide metrics for the financial analysis of the lending industry. Equally as important, interviews were conducted with individuals representing various USDA lending programs, state departments of agriculture, public and private lenders, community development corporations, trade associations and various agricultural funding organizations located throughout the nation. Surveys using the Growing New Farmers listserv were also distributed to gather data and anecdotal information. In support of this analysis, the study also reviewed publications for current efforts or issues regarding access to capital for individuals engaged in agriculture.

SECTION 2: INDUSTRY OVERVIEW

2.1 GENERAL ECONOMY

This report does not deal with the macro economic issues beyond the factors that directly affect the agriculture and finance sectors in the Northeast. However, a clear understanding of cause and effect from certain variables is gained when reviewing economic indexes, data and trends. Most of the following data is generally known; however, the documentation of the data is provided to keep the focus on the issues as well as to provide historical basis, in the event this report is used in the future projects.

2.2 NATIONAL AND GLOBAL ECONOMIC ISSUES

During the study period, interest rates for commercial and consumer credit were at a 40-year low. At a very basic finance level, interest rates are determined by three factors: 1) supply of money, 2) demand on money and 3) perceived risk. Other factors that affect the interest rate environment such as terms, governmental policy, administrative and regulatory cost are discussed throughout this report.

A commonly recognized U.S. index of interest rates is the New York Prime Rate. During the forth quarter of 2002, the prime rate was 4.5% and compares to the all time high of 18.75% that was experienced in 1981[2]. Generally government economic policy used to stimulate the economy will affect prime rate which is used more for loans with shorter terms. Long-term interest rates are based on investors expectations of the future economy and are least affected by current government policy. Rates are currently low because the demand for credit is low and the supply of money is abundant. Demand for credit is low because business does not see enough economic benefit to make increases in the operations. Supply of credit is abundant, because the slow down of the business activity is wide spread, including the global economy.

From the largest producer to the smallest niche market farmer, U.S. agriculture is strongly affected by the domestic and world markets. Factors such as the gross domestic product (GDP) and the strength of the U.S. dollar significantly affect agricultural income. Generally speaking, the rate of increase (or decrease) from year to year of the GDP affects the demand for credit, more so than the actual amount of GDP. When the GDP grows, capital spending within the affected industry(s) increases, which pulls on the supply of money (credit). During 2002 GDP grew by 2.7% above 2001 due to strong growth in consumer and government spending but not as much from business spending on capital or exports[3]. However, the forecasted growth in future GDP does not indicate a significant increase in capital spending (business spending). The following table shows a ten-year trend in GDP and may help explain the past several years of lower interest rates.

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[2] Prime rate data was obtained from Board of Governors of the Federal Reserve System.
[3] Economic Research Service, USDA "Agricultural Income and Finance Annual Lending Issue". www.ers.usda.gov

Table 1
"Real" Gross Domestic Product
(Seasonally adjusted annual rates)
Annual Growth and Rate of Change

Year	GDP in billions based on chained 2000 dollars	Percent Rate of Change
1992	**7,336.6**	**3.3%**
1993	**7,532.7**	**2.7%**
1994	**7,835.5**	**4.0%**
1995	**8,031.7**	**2.5%**
1996	**8,328.9**	**3.7%**
1997	**8,703.5**	**4.5%**
1998	**9,066.9**	**4.2%**
1999	**9,470.3**	**4.5%**
2000	**9,817.0**	**3.7%**
2001	**9,866.6**	**0.5%**
2002	**10,083.0**	**2.2%**

Source: U.S. Bureau of Economic Analysis

The previously mentioned increase in consumer spending was spurred by increased personal income. Although personal income has increased, the nation's household wealth actually decreased since 2000, which has had a serious impact on consumer confidence. Without the effect of disastrous growing years, farming revenue is affected by the consumers (shifting to and from more expensive styles of taste) but the expenses are driven more by the business economy. Since food is a perishable product the farmer truly is at the mercy of the markets. Lower consumer confidence can negatively affect the higher-end retail agricultural products as buying patterns shift to lower value products. Shifts in the global consumer's buying habits are now more important since many products can be effectively transported from one area to the next.

When looking at factors affecting the agricultural economy, the value of the U.S. dollar is very important. Over the past few years, the dollar has remained strong relative to foreign currencies, which makes U.S exported goods more expensive. World markets have a significant impact on farm commodities such as grains, meats and to a lesser degree (trickle down effect) on local farm products sold near the retail level. Therefore, it is possible for very small percentage changes to the export markets to have a serious impact on local commodity prices. The latter half of 2003 saw the weakening of the U.S. dollar and the agricultural commodities prices predictably increased due to more foreign buyers.

2.3 NATIONAL AGRICULTURAL CREDIT FACTORS

In the recent years, agricultural lenders have shown profits without a significant build up of identified risk. Federal assistance programs have mitigated a significant amount of agricultural credit risk. Without these government programs, the profits would be considerably less. A change in government policy can have significant affects on agricultural interest rates. Therefore, even though a farmer may not be directly receiving government program payments, changes in federal policy can have a trickle-down effect on the agricultural lending rates.

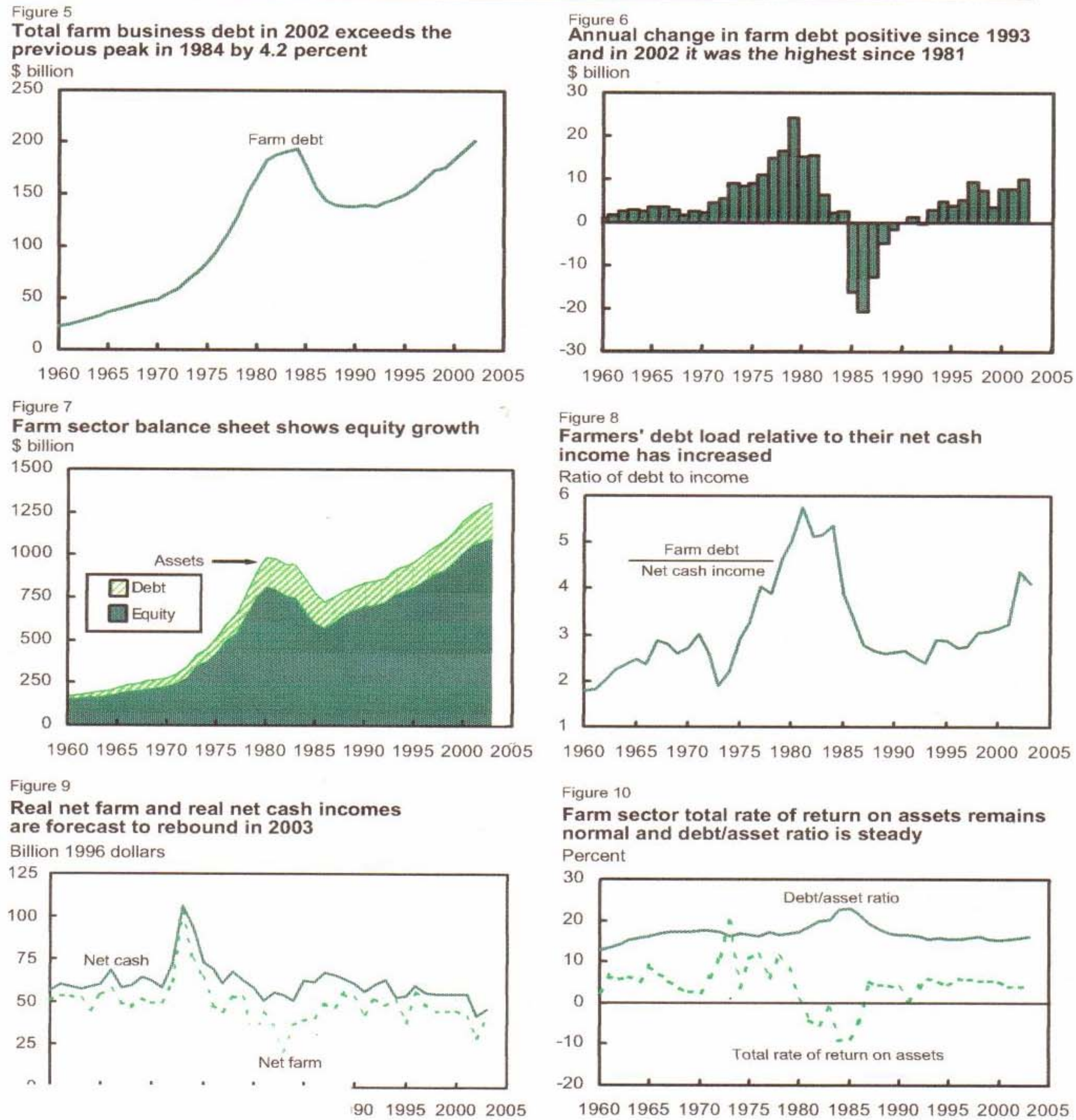
Generally favorable conditions experienced by the farm economy over the1990-98 period contributed to strengthening financial conditions for farm lenders. However, net farm income was forecast to decrease from $45.7 billion in 2001and forecasted to $32.4 billion in 2002[3]. At the time of this report, preliminary data indicates the prediction to be accurate and projections for 2003 should be near the 10-year net farm average of the mid $45 billion.. Considering that these farm income figures have not been normalized to current dollars, it is apparent that the return to the farmer is not growing enough to attract much new investment.

Despite the volatility within farm earnings, the balance sheets of the farmers have shown measurable increases in net worth but the overall health noted on the balance sheets also indicates some increase in debt. Increased debt is not necessarily a negative factor depending on the future earnings capacity of the industry. Farm assets (mostly land) have been the positive influence on the balance sheet, which has helped mitigate credit risk. Figure 1, which follows, summarizes some key indicators of the agricultural sector's balance sheet.[4]

[3] Economic Research Service, USDA "Agricultural Income and fiancé Annual Lending Issue". www.ers.usda.gov
[4] ibid

Figure 1

The farm sector's aggregate indicators were mixed in 2002. Weather problems negatively influenced large regions, but the effects were mitigated by sizable government payments together with crop and revenue insurance. Total farm business debt increased $62.8 billion or 45.2 percent during 1992-2002, and this growth increased from 3.1 percent annually 1992-96 to 4.9 percent annually 1996-2002. Total farm assets exceeded $1.29 trillion in 2002 as farm equity (assets minus debt) increased for the 16th straight year to $1.09 trillion (up 91.4 percent during the span). The sector debt load relative to net cash income is growing, but the debt-to-asset ratio is steady. The total rate of return on assets has been in the 4-6 percent range since 1992.



Source USDA-ERS

The data in Figure 1 is a compilation of all farms regardless of tenure, size or location. Financial information regarding beginning farmers is available for a select group of data elements and in many cases, is skewed due to data being obtained only from limited sources, such as statistical surveys, reports from creditors, etc. For example, some "next generation" farmers' data is included in their parents' reports. Other examples are the reporting problems with sharecroppers and farmers co-mingling the finances of their non-farm operations (such as retail outlets selling on farm products).

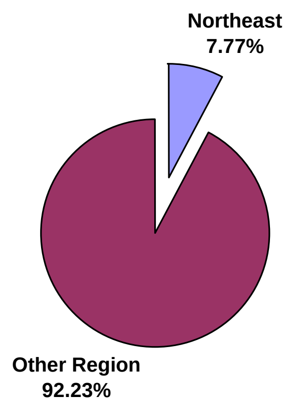
Even without a comparative approach, figures show the competitive advantages or disadvantages of the industry that a beginning farmer has to consider. The farm income trends and low return on assets point to an industry that will struggle to attract new business people willing to invest their time and money in a farm operation. Of course, many people consider conducting a small farm operation as a hobby or way of life. These loosely defined "lifestyle" farms can contribute to the food supply but they compete with operators who depend on farm profits for a livelihood. One very important conclusion drawn from the years of data is (in general) farmers have been willing to produce ample supplies of food to the US public even though the economic returns are less than other industries. If the outlook for long-term returns on investment were greater, profit motivated corporate operations would make up a larger portion of new farmers. Most large farms existing today grew out of a smaller operation and are not large *new* ventures. This poses opportunities for small farmer who most either finding niches too small for competitors or they can grow their operations to deal benefit from larger economies of scale.

2.4 AGRICULTURAL CREDIT FACTORS IN THE NORTHEAST REGION

When comparing some of the other data in the report, it is important to note that, as of 2002, the northeastern region contained 7.8% of the nation's 2.16 million farmers. Nationally, the average size of a farm is about 400 acres. In the northeast the average size is about 150 acres. Of course, when looking at the financial capital issues, it is important to note that these relatively small Northeastern operations are on expensive land.

Figure 2

Number of Northeastern Farmers compared to National, based on year 2002



Source: USDA-ERS

The value of agricultural production shows that the northeast region produces approximately 6% of the nation's total. Yet it only earns about 5.6% of the total net farm income.

Based on earnings and balance sheets summaries, the Northeast does not appear to be at any more of a disadvantage than the national situation. The following table is based on the year 2000. A broader review of trends from 1990 to 2002, however, suggests that showing only one year can be slightly misleading but the conclusions are still similar. The table is also useful; by showing the level of leverage (debt to asset) does not show a direct correlation to the potential returns of the operations. In the case of the table, "capital consumption" means the amount of capital *used* (real depreciation) during a farm year. The national average was approximately $10,000 per farm.

Except for Maryland, Vermont and Delaware, income from government payments is less than the property (land and vehicle) tax; whereas at the national level, the government payments exceed the property tax[5]. At first thought this may suggest a lack of parity but it may also show how NE farm operations have evolved to maintain profits similar to the national level.

Net income is per farm and shows that six of the twelve northeastern states equaled or exceeded the national average. Again, of most concern is the observed low return on equity of the entire agriculture sector. Within the northeast region, the highest noted return on equity of 8.4% is considered below expectations of most businesses with similar risk.

[5] All of the states tax real estate based on the current use, not the highest and best use and although this helps when the land is being used as agriculture, there still are inequities (e. g. school, fire/police protection, etc.) when other taxes are assessed to real estate.

Table 3
Selected Farm Finance Data

Year 2000	Debt/Asset	Income per Farm ($000)	Total ROA (1)	Total ROE (2)	Local tax expense & Gov't Income (3)	Capital Consumption(4)
WV	8.9%	***$*** *1*	-2.3%	-3.0%	Tax >Gov't Funds	Low
NH	10.5%	$ 2	-48.7%	-54.8%	Tax > Gov't Funds	Low
MA	11.1%	$ 6	1.5%	1.1%	Tax >Gov't Funds	Moderate
ME	20.5%	$ 7	1.9%	1.2%	Tax > Gov't Funds	Low
RI	10.2%	$ 8	-1.5%	-2.2%	Tax >Gov't Funds	Moderate
PA	12.1%	$ 10	-1.1%	-1.9%	Tax >Gov't Funds	Moderate
MD	13.8%	$ 16	3.0%	2.6%	Pos Gov't Funds	High
VT	14.0%	$ 16	4.3%	4.1%	Pos Gov't Funds	Low
NJ	7.8%	$ 21	2.6%	2.4%	Tax >Gov't Funds	Moderate
CT	12.3%	$ 26	4.9%	4.9%	Tax >Gov't Funds	Moderate
DE	21.0%	$ 31	7.8%	8.4%	Pos Gov't Funds	High
NY	17.9%	$ *59*	3.1%	2.6%	Tax >Gov't Funds	Moderate
US	14.8%	$ 16	Reference: #5	Ref #5	Pos Gov't Funds	Moderate

References:

#1	Income includes capital gains
#2	Income includes capital gains
#3	Vehicle and Property tax netted against direct government payments
#4	Based on the NE regional capital expenditures average of $10k per farm. Low <7.9: Mod = 8 to 11: H >11 (ACDS scale)
#5	Due to one year data, averaging can be misleading, but used for regional data is appropriate due to familiarity with region
Source	http://www.ers.usda.gov/Data/FarmIncome/finfidmu.htm

SECTION 3: SOURCES OF FINANCIAL RESOURCES

3.1 SOURCES OF AGRICULTURAL FUNDS

The previous sections have broadly compared the farm industry to the all inclusive "other industries." This was done to amply the fact that the supply of capital funds (money) does not differentiate agriculture away form other demands for money. However, like all business, niche markets are available, even for money/capital.

Excluding donations, inheritance, and the like, there are three ways to raise financial capital: 1) use owner equity (or stock), 2) use retained earnings or 3) incur debt. In corporate finance, owner equity is usually the most costly form of capital. Stockholders expect a return on equity well above lending rates. Even an individual should expect the farm to produce a better return on their equity than the safer forms of investments, (e.g. insured investments). Like corporate finance, efforts to grow new farmers should use a combination of the mentioned sources. The following are typical sources of funds other than debt:

- **Owner equity** is typically more at risk than any other source of funds. Therefore, the potential return on the owner's equity is a significant factor in attracting new farmers. As with the rest of the nation, the northeast agricultural sector does not attract equity based on highest and best use for financial investment. Until the agriculture economy shows more parity, the number of potential farmers will be limited to those with goals beyond return on equity.

- **Paid-in capital, (internally generated)** in many ways is the same as owner equity but in this context, it comes from an established operation. Funds from paid in capital can be generated from past or current year earnings (or cash flow). But it doesn't' necessarily have to come from profits. For example it can occur by using "reserved" cash, or from partial liquidations, reducing inventory, collecting receivables, or partial liquidations of other assets such as non-essential land, equipment, etc. The sale of real estate development rights, where available, has become a significant financial resource to convert fixed assets into working capital. Regardless, the main point is to recognize that this source of funds has to come from established operations.

- **Externally generated capital** can come from *debt*, leasing or occur when USDA government programs criteria fit *cost sharing* programs for the farm operation. When an operation's cost of debt is more than the potential return on equity, financial incentives are not the sole motivation for farming. In other words, when a farmer can make more money by safely investing the operation's equity, the reasons for borrowing funds is more than purely financial. When this is the case, supporting reasons for a beginning farmer to have more access to financial resources goes beyond advocating for financial health.

3.2 FORMS OF AGRICULTURAL CREDIT

The following descriptions of agricultural credit are based more on the lenders perspective than the borrowers need. This approach is used to assist someone with a need for funding to understand the needs of the lender. Since, the needs of the farmers drive the lenders' business, the lenders have either the choice of either being competitive or not. In order to remain competitive most suppliers of agricultural credit are profit oriented, which requires continual operational changes.

Not too long ago, the banking industry depended on the interactions of *local* funds (retained earnings, deposits, etc) to be able to grow or supply demands for credit. During this time, government policy was used more frequently to help supply agricultural funds to needed areas. However, the ability to electronically access funds has resulted in dramatic changes to the industry. Money flows to the needs much easier.

Additionally, data collection has evolved to a point that the credit decision process relies less on community standing and more on numerical resources such as credit bureaus, peer performance comparisons, etc. Over the years, the lenders were finding that the labor required making a loan the "traditional" way could be expensive. In many cases they found that it took almost the same amount of labor to make a small loan as it did to make larger loans. To recover the cost that meant small loans had to be charged higher interest and fees or, the lenders had to use a differential approach to approving loans.

Loans are differentiated based on the size and type of credit. For example, many small loan decisions are based on existing analytical data rather than spending time examining individual forecast of the farmers' earnings. Another example is that many lenders are knowingly making loans to farmers but analyzing the credit more like a consumer loan to qualify the loan for a cheaper program. Knowing the following forms of approaches and loans may help a beginning farmer decide how to approach a lender.

- **Commercial loans** are for true business type of operations. These loans usually require that a minimum of a balance sheet, income and cash flow statements to collected. The credit decision process is based on the "5 C's of credit; *C*apital, *C*apacity, *C*haracter, *C*ollateral and *C*onditions, all which takes a fair amount of detail to assess. This level of detail also helps determine the minimum level of charges needed to competitively price the loan. This type of analysis, along with the anticipated amount of supervision, can be costly and needs to be recaptured in the loan terms. Interest rates and the terms of business loans can be complex. They may include the ability to adjust the lending rates based on the borrower's updated financial results and/or trends in financial markets. Of course, the larger the loan, the less impact the cost of analysis has; therefore, smaller loans generally have higher rates or fees. Not all loans to businesses are analyzed using commercial standards. Loans under a certain size (e.g. under $250,000) or that include a private residence are handled as consumer loans. Therefore, even though the need for the borrowed funds is based on a business operation, not all farm loans are viewed as a commercial loan.

- **Agricultural loans**. In theory, there should be no difference between an agricultural loan and other business loans. However, not all lenders are comfortable making agricultural loans even though they fit the commercial loan criteria. There are many reasons, but the primary ones are: the farm's financial data is not properly presented, a lack of published financial data for comparative analysis, comparatively low earnings or a general perception that there is more risk. In general, the agricultural culture of setting itself as different from other businesses helps foster some of the fears of lenders. The positive aspect of agricultural loans is the obvious benefit of having a lender that recognizes the needs of agriculture. Agricultural loans can have a wide variety of terms and programs. See Section 3.3 for more detail.

- **Consumer loans** may have regulatory protection in favor of the borrower. For example, they may have restrictions on interest rates or prepayment penalties. Although these regulations do add to the initial cost of credit, lenders have found ways to reduce the amount of analysis, which lowers the cost of delivery. Using credit bureaus to determine the applicant's repayment reputation and/or statistical scoring processes have taken the human factor (cost) out of the decision process. Additionally, the decision has very little to do with the farm projections. Many loans made for farm activity are actually made as a consumer loan. Sometimes higher rates can be cheaper than the farmer's time. For example, if a produce farmer needs a $5,000 seasonal crop loan it may make sense to pay 4% higher interest rates. The higher rate results in $150 more interest expense, but that may be a cheaper than taking time away from the farm at a very critical (seasonal, etc.) period to gather the records, make an appointment to visit the bank, go through the interview process and wait for a response. The downfall of this type of program is the banking relationship is much colder.

- **Residential mortgage loans.** At times, real estate is mortgaged for short to intermediate term loans (such as a home equity loan that is due in 10 years or less). However, generally speaking, when the term "mortgage loan" is used, it means a loan with a long-term repayment period such as 15 or more years. These loans can be made to farms if the dwelling on the property fits into the "residential" loan definition. Many times, in order to make the residence fit into the loan criteria, the house and a small parcel of land is surveyed off the large farm tract. This approach allows loans that are extremely similar (based on collateral) to be bundled into groups called loan pools and allows the lender the option of selling or keeping the loan. These types of loans have very rigid features and are not appropriate if the borrower needs to alter the terms in the future. On the other hand, residential mortgage loans are typically cheaper than other loans with similar terms.

- **Farm mortgage loans.** These agricultural loans are for long-term repayment periods. The degree of analysis for a loan decision depends on the circumstances and the lender but typically focus more on long-term repayment and collateral. For example, a lender may be comfortable with short-term projections but as the loan terms get greater the "what if's" require more security, which is generally done by providing solid collateral. Like residential mortgages some farm mortgages can be sold to investors, but because there are more variables with farm loans the investors assumes more risk and expect better returns. If the loan does not require consumer regulations some farm mortgage loans can have pre-payment penalty features that can be assessed to avoid refinancing or payoffs during times of falling interest rates.

- **Leases.** Leases are generally classified as either a "capital" or "operating" lease. Capital leases are typically used for things like equipment, livestock, buildings, etc. and have some sort of feature to deal with the asset when the lease expires. Operating leases are generally for expenses that re-occur normally in the course of business. Leases and loans are similar but, typically, the expense of controlling the asset is taxed differently. Regardless, a lease is a form of credit, which assesses some charge for the risk and time value of money. In many cases, beginning farmers aren't as tax motivated as an established farmer but because many leases require less cash down payment a beginning farmer finds them as an easy way to get the use of needed equipment, etc. Of course the differences of the entry cost are addressed at the end of the lease. Therefore, the benefits of a lease need to be closely analyzed.

- **Trade credit**. This has been one of the fastest growing segments of agriculture credit. Trade credit occurs when equipment dealers provide financing for machinery. It also occurs when agricultural vendors provide financing plans for a variety of reasons (e.g. equipment, feed, supplies and even non-farm needs). In many cases, this credit is co-mingled with the business conducted by credit card companies. Therefore, the impact of trade credit is hard to measure. The credit decision can be based on the factors surrounding the equipment and/or supplies or it can be based on some sort of analysis. Generally, the decisions are handled similarly to consumer lending and lease underwriting standards.

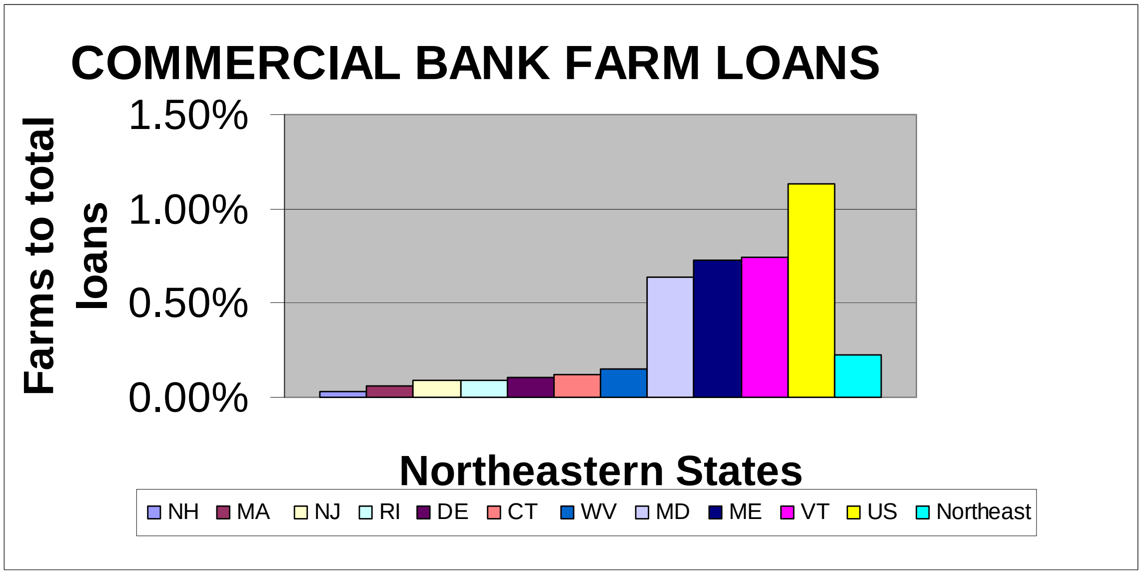
- **Credit cards.** The use of credit cards continues to grow because the limits have been increasing while the expectation of convenience is increased. Farmers are treated no different than their counterparts (personal or business). Credit card use by a beginning farmer may make sense if the borrowed amounts are small and the terms are short enough to outweigh the time needed to acquire other types of funding.

3.3 PROFILE OF AGRICULTURAL LENDERS

Growing new farmers, like growing any new business, will require some level of debt. Total farm debt at year-end 2002 was estimated to be near $201.9 billion, which represents a 3.8% increase over the 2001 levels and 4.6% over 2000 debt levels. Since 1993 farm debt has steadily increased. The for-profit providers of finance have experienced good returns over the last several years and have not shown any significant signs of tightening their credit standards. At the time of this study the following lenders were reviewed regarding their role in meeting the needs of a beginning farmer.

- **Commercial Banks**. As of December 31, 2002, commercial banks had 39% market share of the $201.9 billion agricultural loan volume, making them the leading provider of agricultural loans. The FDIC system classifies a bank as an agricultural bank if the percentage of agricultural loans to total loans is 25% or more. The Federal Reserve Board uses a different definition by considering a bank an agricultural bank if the level of farm loans to total loans is above the sum of all banks. Using the FDIC definition, agricultural banks have declined from 27% of the total banks in 1994 to 24% in 2002. However, during this time frame, the total number of banks declined by 2,504 (also 24%), mostly due to mergers that affected the number of banks meeting the agricultural definition.[6]

Figure 3
Commercial Bank Farm Loans in the Northeast Region



Source :FDIC

The chart above shows the northeast region's commercial bank activity in making farm loans. Total classified farm loan volume equaled $2.6 billion as of year-end 2000, or about 1.5% of the national farm debt. The region has a greater opportunity than more agricultural concentrated states, to lend to many other sectors of the economy (e.g. consumer, manufacturing, service, retail).

The ACDS study team previously conducted a study in Maryland to determine the availability of credit for rural industries (including agriculture) and found that many of the commercial lenders classified a large portion of the smaller loans as consumer loans, provided there was income from steady "outside" employment. Similar research has been conducted in the Hudson Valley of New York with similar results. This practice allows the loan analysis and decision to be streamlined so the savings can be passed on to the borrower. This practice may mask some of the progress made in providing credit to beginning farmers.

- **Farm Credit System.** The Farm Credit System (FCS) is a borrower-owned cooperative that evolved from a government operated system when it was created in 1916 to an independent Government Sponsored Enterprise (GSE) with the government's only role being supervisory. As of year-end 2002 it held about an $88 billion in volume or 30% share of the nation's agricultural loan volume. In general, the FCS is a stockholder-run cooperative that is allowed to make short and long-term loans for agricultural purposes, including loans to cooperatives. It also has the ability to lend to rural homeowners and to Other Financial Institutions (OFI's). Generally, the OFI's are commercial banks that are eligible to use FCS funding as long as they are engaged in agricultural lending. FCS

[6] FDIC "STATISTICS AT A GLANCE," published 9/30/2003.

cannot accept deposits for lending purposes. Therefore, loanable funds are raised through the open bond markets and internally (using stock and retained earnings). As a cooperative, it has the advantage of passing on its earnings to the patrons without the double taxation that non-cooperatives face. In many ways the FCS is very similar to a credit union.

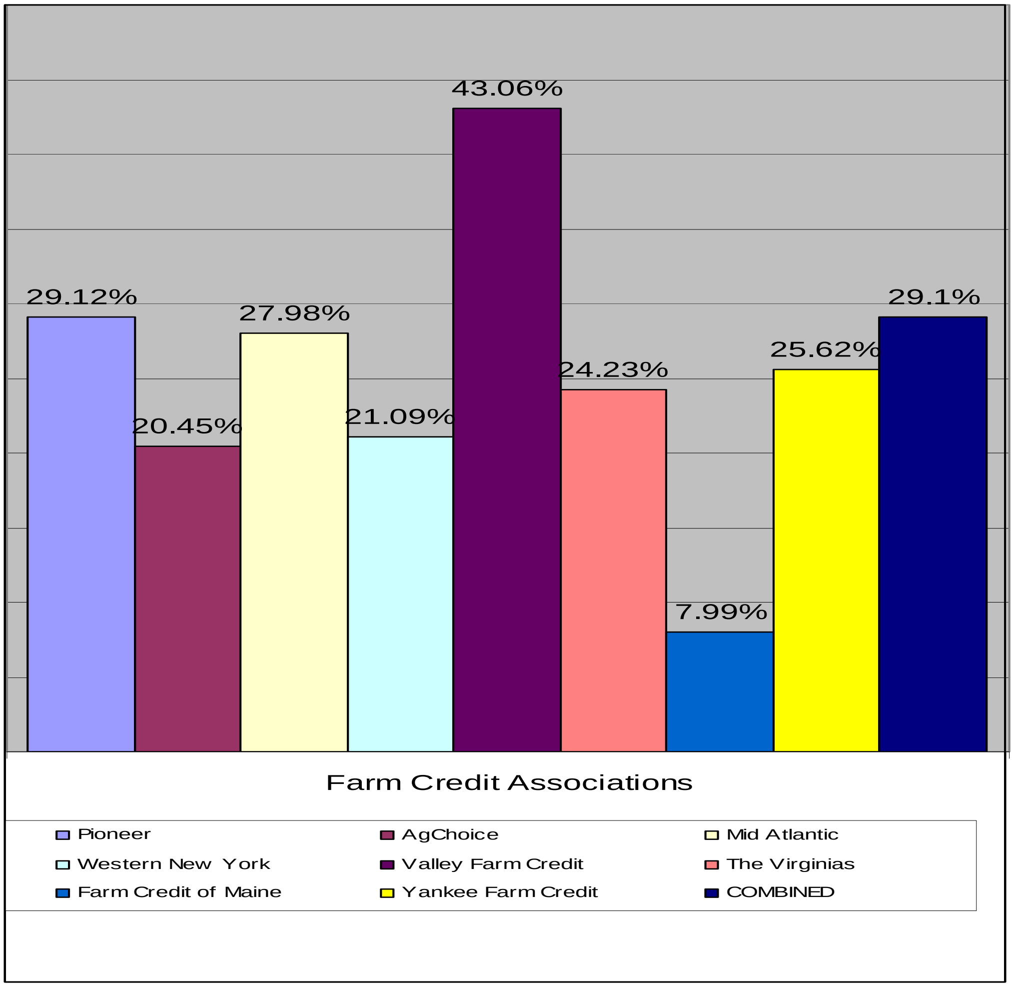
The FCS has locally controlled organizations with a variety of operational structures but typically have some variations of "Farm Credit", FCS, or Agricultural Credit Associations (ACA's) in the name. In the northeast region, the associations do not match the geography of the study. Therefore, comparative data on market share is difficult to identify. Using very general data, the FCS has at least 50% of the agricultural loan volume market share in the northeast.

Although no tax dollars are used for the FCS, the government maintains oversight to insure the original mission is met. As part of the government's oversight, the FCS was questioned about the amount of lending activity to young, beginning, and small farmers (YBS). By definition a FCS beginning farmer is the same as this report's definition of a new farmer. A young farmer is 35 years of age or younger. A small farmer is someone with gross sales of $250,000 or less. As a result of the FCS improved their ability to report their activity in the area of YBS lending. The following chart shows the percentage of new FCS loans made to beginning farmers.

The chart shows the combined FCS in the northeast made approximately 29% of all of their new loan activity was to beginning farmers. Considering the volume of loans made to established borrowers this indicates a significant amount of activity devoted to beginning farmers. Looking behind the FCS data highlights the important point that this study is only looking at the barriers of a *new* farmer. Since a new farmer can have significant wealth or repayment from non-farm sources, some of the perceived barriers to financial capital are reduced. On the other hand, this portion of the study does not make any judgment regarding beginning farmers that have limited resources. The concept of classification of wealth is easy to grasp but hard to define. Equally as difficult is to classify the motivational factors of a new farmer.

In addition to lending programs, the FCS have other programs designed for beginning farmers, such as offering assistance with business, accounting and tax consulting, reduced fees for appraisal services along with interest rate programs that are favorably geared towards the needs of a beginning farmer. All of the FCS associations in the northeast are actively making loans guaranteed by the USDA, Farm Service Agency that mitigates some risk that many beginning farmers present. This does point to the fact that the FCS is making efforts to attract all classes and types of beginning farmers.

Figure 4
Comparison of new beginning farmer loans to all new loans made in 2002



Source: Farm Credit reporting

- **USDA, Farm Service Agency (FSA).** This agency makes high-risk agricultural funds available through loans made directly to a farmer or through a guarantee for another lender making a farmer a loan. If the loan is made directly, the borrower must prove that they cannot obtain credit elsewhere. If the loan is made by another lender, the lender must be able to provide evidence that without the guarantee, the loan could not be made. Guaranteed loans are easier on the Federal budget, so over the past decade, the emphasis has been to make more guaranteed loans than directly funded loans. However, FSA direct loans programs are still experiencing funding limitations within the remaining programs. Loans made by the other lenders are owned and serviced by the lender, not the FSA. Many of the FSA direct or guaranteed loan programs are designed for YBS farmers. Loans made to limited resource borrowers are also eligible for interest rate buy downs, which are more helpful when lending rates are higher in than the current economy.

  The following chart is from the FSA website and is used to summarize the main features of their loan program.

Table 4
FSA Farm Loan Information

Program	**Maximum Loan Amount**	**Rates and Terms**	**Use of Proceeds**
Direct Farm Ownership	$200,000	• Up to 40 years • Rates based on Agency borrowing costs • Temporary limited resource interest rates are available for those unable to repay at regular rates • Interest rate 5% if 50% of loan amt. provided by other lender	• Purchase land • Construct buildings or other improvements • Soil and water conservation
Beginning Farmer Down Payment Farm Ownership	Lesser of: 40% purchase price or appraised value	• Term: 15 years • Interest rate: 4%	• Purchase farm or ranch
Direct Operating	$200,000	• From 1 to 7 years • Rates based on Agency borrowing cost • Temporary limited resource interest rates are available for those unable to repay at regular rates	• Purchase livestock, poultry, equipment, feed, seed, farm chemicals, and supplies • Soil and water conservation • Refinancing indebtedness with certain limitations
Direct Emergency	100% actual physical losses or $500,000 maximum program indebtedness	• From 1 to 7 years for non-real estate purposes • Up to 40 years for physical losses on real estate • Interest rate: 3.75%	• Restore or replace essential property • Pay all or part of production costs associated with the disaster year • Pay essential family living expenses • Reorganize the farming operation • Refinancing indebtedness with certain limitations
Guaranteed Operating	$762,000 (Amount adjusted annually for inflation)	• From 1 to 7 years • Rates not to exceed those lenders charge average farm customers • Interest rate reduction of 4% available for those unable to repay at regular rates (with certain limitations)	• Same as Direct Operating except loan may be used to refinance debts
Guaranteed Farm Ownership	$762,000 (Amount adjusted annually for inflation)	• Up to 40 years • Rates not to exceed those lenders charge average farm customers	• Same as Direct Farm Ownership except loan may be used to refinance debts

The following chart shows the activity of FSA operating loans (OL) made by each northeast state during Fiscal year 2002.

Table 5
Northeast Area FSA Program Activity, 2002

	Direct OL				Guaranteed OL			
State	No.	% of # Nation	$ Amount	$ % of Nation	No.	% of # Nation	$ Amount	$ % of Nation
CT	10	0.2%	262,000	0.1%	6	0.4%	379,000	0.2%
DE	0	0.0%	0	0.0%	2	0.1%	127,000	0.1%
ME	48	0.9%	2,234,000	0.8%	1	0.1%	53,000	0.0%
MD	3	0.1%	218,000	0.1%	4	0.3%	111,000	0.1%
MA	25	0.5%	948,000	0.4%	5	0.3%	540,000	0.3%
NH	22	0.4%	959,000	0.4%	0	0.0%	0	0.0%
NJ	5	0.1%	256,000	0.1%	0	0.0%	0	0.0%
NY	130	2.5%	6,936,000	2.6%	36	2.3%	2,927,000	1.4%
PA	172	3.3%	7,670,000	2.9%	15	1.0%	1,523,000	0.7%
RI	11	0.2%	397,000	0.1%	0	0.0%	0	0.0%
VT	22	0.4%	1,435,000	0.5%	12	0.8%	1,538,000	0.7%
WV	104	2.0%	3,907,000	1.5%	2	0.1%	303,000	0.1%
Northeast	552	10.7%	25,222,000	9.5%	83	5.3%	7,501,000	3.5%
NATIONAL TOTAL	5,155		265,219,000	100%	1,562	100.0%	211,395,000	100.0%

Source: USDA-FSA

The following chart shows the activity of FSA Farm Ownership loans (FO) made by each northeast state during Fiscal year 2002.

Table 6
Number of Farmers & Volume of Direct and Guaranteed Farm Ownership Loans, 2002

	Direct FO				Guaranteed FO			
State	No.	% of # Nation	$ Amount	$ % of Nation	No.	% of # Nation	$ Amount	$ % of Nation
CT	0	0.0%	0	0.0%	1	0.1%	218,000	0.1%
DE	0	0.0%	0	0.0%	11	1.3%	3,570,000	1.5%
ME	3	0.3%	350,000	0.3%	0	0.0%	0	0.0%
MD	1	0.1%	200,000	0.2%	10	1.2%	2,431,000	1.1%
MA	3	0.3%	475,000	0.4%	2	0.2%	610,000	0.3%
NH	4	0.4%	533,000	0.4%	0	0.0%	0	0.0%
NJ	1	0.1%	200,000	0.2%	1	0.1%	210,000	0.1%
NY	22	2.0%	3,101,000	2.3%	33	3.8%	5,344,000	2.3%
PA	22	2.0%	2,957,000	2.2%	19	2.2%	3,457,000	1.5%
RI	3	0.3%	510,000	0.4%	0	0.0%	0	0.0%
VT	2	0.2%	400,000	0.3%	1	0.1%	62,000	0.0%
WV	16	1.4%	1,536,000	1.2%	7	0.8%	1,313,000	0.6%
Northeast	77	6.9%	10,262,000	7.8%	85	9.9%	17,215,000	7.5%
US	1,115	100.0%	132,395,000	100.0%	859	100.0%	230,498,000	100.0%

Source: USDA-FSA

When looking at the activity of the FSA OL and FO program in the Northeast, the combined totals is about 7.2% of the national activity which correlates to the region's percentage of farmers.

Table 7
Number of Farmers and Dollar Volume of Farm Down Payment Loans

	FY 2000			FY 2001			FY 2002			FY 2003		
STATE	No.	$ Amount	Percent of US	No.	$ Amount	Percent of US	No.	$	Percent of US	No.	$ Amount	Percent of US
CT	0	0		0	0		0	0		0	0	
DE	0	0		0	0		0	0		0	0	
ME	0	0		0	0		0	0		0	0	
MD	0	0		0	0		0	0		0	0	
MA	0	0		0	0		0	0		0	0	
NH	0	0		0	0		0	0		0	0	
NY	0	0		0	0		0	0		0	0	
NY	5	243,000		2	117,000		2	126,500		1	75,000	
PA	1	60,000		2	115,200		0	0		0	0	
RI	0	0		0	0		0	0		0	0	
VT	0	0		0	0		0	0		0	0	
WV	1	8,400		0	0		0	0		0	0	
US	*141*	*6,383,311*	*4.9%*	*129*	*5,512,893*	*4.2%*	*104*	*5,078,637*	*2.5%*	*100*	*6,603,580*	*1.1%*
Northeast	7	$ 311,400		4	$ 232,200		2	$ 126,500		1	$ 75,000.0	

Source: USDA-FSA

Since northeast region farm makes up about 7% of the nation's farms, the down payment program activity indicates *an area of concern.* The data may suggest that either FSA is not actively involved, or it can indicate the lack of demand for the loan product. Currently there is insufficient data (e.g. tabulating rejected verse discouraged applications and unknown pre-screening activity by other lenders) to draw any conclusions. Empirical data suggest factors such higher land values and limiting eligibility criteria may be contributing factors.

The 2002 Farm Bill allowed the FSA to pilot a program for beginning farmers and ranchers by offering sellers of real estate a guarantee of repayment up to two years of a land installment contract. The guarantee is good for 10 years. Pennsylvania is one of the six pilot states selected. However, as of December 2003, they have not made any guarantees due to issues with the Pennsylvania laws surrounding contracts. The Farm Bill also relaxed some of the standards regarding a beginning farmer's prior experience to allow for a wider pool of applicants.

- **Agricultural Mortgage Corporation (Farmer Mac):** This is a federally-chartered instrumentality of the United States. Created by Congress in 1988, the goal of this organization is to attract new capital for the financing needs of agricultural real estate and to provide some liquidity for rural lenders. Like Fannie Mae, capital stock was sold to investors to raise capital for the newly organized Farmer Mac. These stockholders expect a return for their risk. The entire mechanism is intended to work like the systems used to keep residential mortgage rates competitive and available during tough times. Farmer Mac buys and/or guarantees agricultural loans from banks, which helps local banks make other deals. Even though a loan may be sold to Farmer Mac, many times the local banks retain the servicing rights of the loan to keep the relationship. Farmer Mac programs have underwriting standards that are tailored to farm needs, but since investors (stockholder) money is at risk, they do not specifically address the higher risk farm loans. However, Farmer Mac can play a vital role in improving the risk and liquidity of the local banks, which in turn can lend to more farmers.

- **Aggie Bonds.** This program is typically used to assist first time purchasers of agriculture land by providing lower interest rate loans. The bonds are tax-exempt at the federal level, but the programs are conducted through individual state agencies. The tax-exempt feature provides funds that are cheaper than conventional methods. The enabling Federal legislation does cap the bonds at a $250,000 limit. In many ways these bonds play a role similar to the Farmer Mac by creating a mechanism to improve the funding issues of local banks. In addition, the banks pass on lower rates recognized by the tax-exempt feature to the borrower. The risks of the loan are still the sole responsibility of the local bank. Pennsylvania does have an Aggie Bond program but because of the higher land values in the northeast and the current low interest rate environment, the program is not in great demand. The program is relatively new; therefore, as rates rise and outreach continues, more use should be expected.

- **U.S Small Business Administration (SBA).** This agency has loan programs similar to the FSA using both direct and loan guarantee programs. Although the FSA programs are specifically written for farm lending, the variety of agricultural production and processing operations can sometimes create a situation where an SBA loan is a practical solution for funding. For example, a farm that is processing milk may be viewed by the SBA as a manufacturer that fits the SBA lending criteria. During the year 2002 there was approximately $113 million used to fund loans to agricultural businesses with a "standard industrial code" (SIC) that fit agricultural definitions. As an example, the following table shows the loan activity by SIC code during FY 2002.

TABLE 8

National SBA Loan Approvals within Agricultural Related SIC's for FY 2002

Type of business	Number	Amount	Average Size
Cotton	1	$85,000	$85,000
Field Crops, Except Cash Grains, N.E.C.	1	$85,000	$85,000
Vegetables and Melons	1	$150,000	$150,000
Deciduous Tree Fruits	1	$450,000	$450,000
Ornamental Floriculture Nursery Products	6	$1,053,600	$175,600
Food Crops Grown Under Cover	2	$310,000	$155,000
General Farms, Primarily Crop	3	$585,500	$195,167
Beef Cattle Feedlots (Custom)	2	$248,000	$124,000
Hogs	3	$708,000	$236,000
Sheep and Goats	1	$285,000	$285,000
Dairy Farms	16	$11,492,200	$718,263
Broiler, Fryer, and Roaster Chickens	131	$53,515,168	$408,513
Chicken Eggs	4	$1,779,700	$444,925
Turkeys and Turkey Eggs	1	$384,460	$384,460
Poultry and Eggs, N.E.C.	2	$515,000	$257,500
Horses and Other Equines	1	$71,500	$71,500
Animal Aquaculture	1	$25,000	$25,000
Animal Specialties, N.E.C	3	$252,000	$84,000
Soil Preparation Services	2	$1,538,000	$769,000
Crop Planting, Cultivating, and Protecting	2	$334,000	$167,000
Crop Harvesting, Primarily by Machine	3	$445,000	$148,333
Crop Preparation Service for Market, Except Cotton	11	$6,774,100	$615,827
Cotton Ginning	1	$84,000	$84,000
Veterinary Services for Livestock	10	$2,859,000	$285,900
Veterinary Services for Animal Specialties	79	$30,089,000	$380,873
Livestock Services, Except Veterinary	2	$341,000	$170,500
Animal Specialty Services, Except Veterinary	46	$10,141,775	$220,473

Source: _Small Business Administration

- **Insurance Companies:** Many insurance companies will make long-term loans to finance agriculture land. These are not likely sources for beginning farmers with the exception of individual life insurance policies that have loan features. Although this is not a typical source of funds, it is possible that it could meet a small percentage of beginning farmers.

- **Trade Credit and Leasing:** Excluding traditional leases, trade credit alone made up almost 21% of the farm debt measured at year end 2002. Credit standards for trade credit vary but for the most part, much of the decision is based on the particular item being purchased. Many times the cost of the credit is hard to isolate due to vendors co-mingling of the financing in the cost of the product. Regardless, this can be a viable method for a beginning farmer to acquire needed resources.

- **Government grants.** There are funding agencies (federal, state and local) that provide grants for innovation, market development, training, conservation practices, etc. Most grants are competitive and in short supply. Proposals must be well thought out and submitted when funds are first announced. The study did not find any grant program specifically restricted to beginning farmers.

- **State or locally supported funding programs:** There are a variety of programs already in place to help the beginning farmer. Section 3.4 addresses a sample of some of the state programs. Section 3.5 profiles a few of the non-state sponsored programs.

- **Not for Profits loan programs.** The study found a variety of not for profit type of lenders that will fund beginning farmers. Some of these groups dealt with farm specifically while others looked at broader groups such as small business loans for minorities and women. Within the farm programs there were loans for organic farmers, high-risk farmers, micro credits (small loans) etc. The terms of these loans varied depending on the mission. Some of the programs were focused on environmental needs or protecting land, while others were designed to build farmers business skills. The study found that many of these organizations did not have as much activity as the perceived potential; however, this statement cannot be quantified. See section 3.5 for more detail.

- **Venture Capital (VC) or Angels.** For the most part, venture capital is attracted by operations that have the potential to return substantial economic gains. In most cases, the venture fund will require part of the equity of the operation and expects a lot of managerial reporting by the operator. VC's are typically made up of a group of investors, whereas angel lenders are usually people that are willing to lend to meet their individual goals. Angel's goals vary from those that expect high returns to lenders that are more community-minded.

3.4 PROFILE OF STATE EFFORTS

The study team looked into each Northeastern state's efforts to make financial resources available to farmers. All State officials reported budget constraints as a major concern for any new program for beginning farmers. All of the states offered some variations on market assistance, innovation funding or business training assistance. The following is a sample of funding programs at the state level. These profiles do not include county or town sponsored programs.

Connecticut does not offer any specific funding programs for beginning farmers. The state does have agencies to enhance economic development by providing some assistance to farmers/businesses albeit, most of the funding programs do not addresses the specific needs of farmers (too much emphasis on job producing criteria).

Delaware is similar to the other states using other agencies such as economic development programs to help the farmers. They do not offer any specific state sponsored programs for a beginning farmer.

Maine doesn't have any specific funding programs for beginning farmers however; it does offer loan programs for marketing and grant programs for innovative technology. It also has an "Agricultural Farms for the Future Grant", which is administered jointly with Coastal Enterprises, Inc. to assist in developing business plans. This program does require the recipient to pledge a conservation easement on the farm[8].

Maryland is similar to the other states using other agencies such as economic development, department of environment and other programs to help the farmers. They do not offer any specific state sponsored programs for a beginning farmer.

Massachusetts has a program known as the Farm Viability Enhancement Program which is used to improve farm profitability by assisting with development and implementing business plans. In exchange for a conservation easement, a landowner may get up to $40,000 in grant funds. The program has specific goals and it is administered over a multi-year period. However, coupling the land component to funding eliminates many beginning farmers. The state also allows farmers to enter into a five year leases for state owned property[9]

New Hampshire is similar to the other states using other agencies such as economic development programs to help the farmers.

New Jersey is similar to the other states using other agencies such as economic development programs to help the farmers.

New York is similar to the other states having programs to encourage market development and innovation. In addition they work with local jurisdictions (counties, towns,) and other agencies such as industrial development authorities (IDA) to develop their own programs. An example is Wayne County using their IDA to make higher risk loans.

Pennsylvania does have a "Next Generation Farmer Loan Program" which uses the Aggie Bonds by partnering with the local Industrial Development Authorities and private banks. The loan programs can be used for the purchase or improvement of real estate (not to exceed $250,000) or for depreciable assets not to exceed $62,500. Although not specific to the type of farmer it does limit the program to individuals with a net worth of less than $400,000 or partnerships with net worth's less than $800,000. The sponsoring bank makes credit decisions. The state also offers "Small Business First (SBF) loans and a "Machinery and Equipment Loan Fund (MELF). These are low-interest loans for financing land, buildings, equipment and working capital.[10]

Rhode Island is similar to the other states using other agencies such as economic development programs to help the farmers.

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[8] http://www.state.me.us/agriculture/
[9] http://www.state.ma.us/dfa/programs/farmviability/guidelines.htm
[10] http://www.agriculture.state.pa.us/agriculture/cwp/view.asp?a=3&Q=116112&agricultureNav=|

***Vermont** is similar to the other states using other agencies such as economic development programs to help the farmers.*

West Virginia is similar to the other states using other agencies such as economic development programs to help the farmers

3.5 PROFILE OF OTHER RESOURCES

In addition to funding, many beginning farmers need business assistance such as business planning, technical advice, marketing assistance, etc. The following gives a very broad based approach of some of the activity occurring in the northeast to assist new farmers**.**

Community Development Corporations (CDC) or Community Development Financial Institutions (CDFI): These are not-for-profit agencies that usually have a mission that includes helping the economic development of a region by assisting with small business needs. These organizations are typically started with some financial assistance from governments, private philanthropist, or combinations. Many have a finance component to their service. Recent tax law further encourages funding to qualified CDC by enhancing the tax credits to the funding organizations. The CDCFI's usually have re-lending authority from the SBA or other government agencies. The study did find a variety of well run CDC's that could be listed as good examples for beginning farmer programs. A suggested example of a cooperative effort between several CDC's and related agencies is the interwoven network of the Coastal Enterprise Incorporated, (CEI[11]) the Western Mountains Alliance[12] and the Maine Department of Agriculture. One strong aspect of this referenced alliance is because of the participation of private fund from banks and philanthropist, quasi-government agencies and other private non-profits. Having all of these sources networked provides added value to the farmer by providing funds, technical resources and a method to allow for beginning farmers to graduate to private providers. The study team suggests using sources such as the SBDC and the Internet as methods to locate CDC's that do business in a particular area.

Community Supported Agriculture (CSA): This is not a program but instead a practice that a farmer can use to help raise operating funds and in some cases, help with labor needs. Over the past decade CSA's have gained acceptance and become a viable method of financing certain types of agriculture. The concept is best suited for farm operations raising products that are retail ready, such as fresh produce, eggs, etc. The farm sells "shares" of the current year's anticipated production. In return, a shareholder receives the product as it is harvested. In some cases the shareholders actually provide labor for the operation. Similar to the farm operator (and a lender), the shareholder does accept production and market risk. Conceptually, CSA's are attractive for many reasons; however, to be successful above-average management skills are needed maintain a following of customers/shareholders.

Economic Development (ED) Agencies and Industrial Development Agencies (IDA): Typically, these are formed at the local government level (state, county, town) and for the

[11] http://www.ceimaine.org/cei/aboutcei.htm
[12] http://www.westernmountainsalliance.org

most part do not provide funding for any type of business that doesn't create significant taxable revenues or jobs in an area. However, there are many variations of economic development organizations, including local governmental controlled, colleges or universities and various not-for-profit organizations that also offer some funding. The study team recommends the best method to find these organizations starts at the local SBDC, along with using a good Internet search engine. The research for this project found a few examples of outreach by local governmental agencies for beginning farmers, but interviews revealed that the activity was low. In some cases, the local ED/IDA program somewhat duplicated FSA but when asked how their program differed from the FSA, many of the agency directors replied that they could help when FSA had funding problems. Furthermore, having their own program allowed more control over the destiny of the local jurisdiction. An IDA's governance and mission vary by the local authorities. For example, in Wayne County New York, the IDA has recently developed a loan fund for farmers however, many other agriculture counties located in New York, have very little interest in designing programs specifically for the farmers' needs.

Land or Farm Link programs: These programs are typically sponsored by a state, university or not-for-profit agencies with the goal of finding ways to keep retiring farmers and new farmers in touch with land resources, training, etc. The main goal of helping with farm transfers centers around improving the network of stakeholders and providing technical programs. While these programs have been successful, they have been challenged to meet the wide variety of landowner and new farmer needs. A good starting point to find these types of organization would either be the National Farm Transition Network or the New England Small Farm Institute[13]

Purchase of Development Rights: Many states have programs that purchase easements that restrict any future development of the farm, thus protecting and leaving the farm with its agricultural value. The programs are voluntary and typically have a competitive scoring process that is usually weighted to protect the most productive farms. This type of program helps to hold the value of the farm and often these farms bring more than just an agricultural value when they are sold. Competition is strong for limited funds but, in certain states, the programs have been very successful. An example of a successful PDR program enhancement designed for beginning farmers is in Carroll County Maryland. Under their *Critical Farms Program*, the county recognizes that State funding is not always available or timely. Therefore, if a farm is being sold to another farmer the county will fund up to 75% of the PDR value at settlement. The new buyer then has five years to obtain funding from the state. If funding is not available, the County and the landowner have the option of allowing the county to maintain the easement or make other arrangements. This program was specifically designed to help farmers acquire land at a much more reasonable cost.

SBDC and SCORE: Farms, just like any other businesses, have access to a local Small Business Development Center (SBDC). These can be found by contacting the local economic development agency, SBA or community college. Other agencies such as SCORE (Service Core of Retired Executives) are also available. These agencies provide free service. Since some service-providers feel uncomfortable providing business advice to farmers, a

[13] National Farm Transition Network http://www.extension.iastate.edu/nftn/ and New England Small Farm Institute, http://www.smallfarm.org/nell/nell.html

joint effort with state land grant university cooperative extension agents may be necessary to obtain the maximum benefit.

Miscellaneous private and cooperative efforts: There are several individual efforts to help new farmers with funding such as the various organic growers associations, various cooperatives, etc. The New York based DairyLea cooperative is working in partnerships with lenders, USDA and Cornell to design a "New Producer Milk Marketing Contract" (NPMM). This contract uses a fixed pricing system for a start-up dairy farmer, which reduces some of the risk that farmers and lenders experience during volatile pricing periods. The program is in a pilot stage but recognizes the need to improve the balance sheets of the new farmers.

SECTION 4: FINDINGS FROM SURVEY AND INTERVIEWS

4.1 SURVEYS

During August of 2002, surveys were sent using the GNF Listserv. This survey was used to help identify hurdles for a beginning farmer. A Likert scale was used to rate the challenges. Care was taken to blind the respondent to the survey's main focus --- the availability of credit. Instead of asking direct questions regarding funding sources, the questionnaire used factors that are used in credit analysis to determine if the hurdles were funding (access to credit) or financial barriers (low profits, high costs, etc). In the later part of the survey a direct question regarding the need for any programs to improve the accessibility of credit was asked.

Counting the incomplete surveys and a few phone calls in lieu of the written answers, 27 individuals responded. The Listserv was relatively new and a normal response rate is not known; however, the quantity of response appears low. A low response rate may be caused by many factors such as the survey group being over-surveyed. A low level of interest may also result when the surveyed group feels that the issues are not high priorities.

Regardless, the results of the survey indicated that respondents did not consider access to funding to be a significant obstacle to a beginning farmer. The make-up of the respondents was as follows:

When asked "What is your involvement in agricultural?" the response was as follows:

- 46% were agricultural educators
- 31% were farmers with over 10 years experience
- 15% were farmers with less than 3 year experience
- 15% were a member of a farmer organization
- 15% were a provider of agriculture funds or credit
- 15% were involved with agricultural economic development
- 8% were farmers with experience between 3 and 8 years
- 8% were farmers with experience between 8 and 10 years

Where is your operation located?

- 23% Vermont
- 15% New York
- 15% Maine
- 8% of the response was from; Delaware, Massachusetts, New Hampshire and West Virginia

On a scale of 1 – 5, rate the hurdles for beginning farmers (1 being quite difficult, 3 being moderately difficult and 5 being of little or no concern).

Lack of farm experience 2.15
Inadequate financial records 2.38

Lack of financial experience 2.46
Lack of equity 2.46
Lack of projected earnings 2.46
Lack of liquidity 2.62
Limited collateral 2.69
Lack of stable (owned or leased) land base 2.69
Lack of established earnings trend 2.69
Poor credit history 2.92
Unpredictable or undeveloped markets 3.31

The survey had three open ended questions that asked for comments. They were:

1. What are your views regarding the hurdles for beginning farmers?
2. Do you know of any successful beginning farmers that have been in business over 5 years? If so, can you provide names and contact information?
3. Please share your thoughts on any needed programs (private, local, State or Federal) to improve the accessibility of credit for a beginning farmer).

The respondents listed a variety of hurdles. The responses followed these themes:

- Affordable and available land
- High cost of entry
- Currently much of agriculture isn't viable enough to encourage beginning farmers.
- Market access needs improvement to enhance direct marketing at the retail level.
- Need for improvement with non-production business skills such as record keeping, budgeting, etc.

Many of the respondents did not answer the second question inquiring for names (referrals) about successful beginning farmers. Only 5 people responded that they knew of successful beginning farmers and they asked that the names not be made public. Two responded that they did not know any successful beginning farmers.

The survey responses to the open-ended question regarding "any needed programs to improve the accessibility of credit" were generally as follows:

- More ways to secure the land for a long-term operation.
- In many cases a more holistic approach to finance which may not include traditional credit avenues might be needed. Approaches such as Community Supported Agriculture is an example of obtaining necessary funds.
- Small loans outside the traditional banking circles for start up funds.
- Low interest rate loans but not through programs such as FSA where you need to be denied credit elsewhere.
- Grants
- Credit isn't the issue.

Conclusions from the mailed survey and some follow up conversations were drawn with the following points:

- There were a lot of conflicting statements of the goal of having a beginning farmer program and the type of farmer that should be targeted for program. Even though the definition of a beginning farmer is clear, there is a wide range of opinion regarding the target group for beginning programs. The opinion ranged from helping all beginning farmers to not providing assistance to farmers that were loosely defined as one of the following; large, traditional commodity, or wealthy beginning farmers.
- The lack of sustainable profits due to market fluctuations is the biggest challenges to entry into farming.
- Many of the potential beginning farmers need technical assistance (including topics on finance).
- Controlling the cost of the related land (whether buying or leasing for a long term) is discouraging many potential farmers to invest into the industry.
- Most agreed that under the current environment, prevailing interest rates and current underwriting standard obtaining traditional credit was possible for a significant portion of the beginning farmers.
- The opinions of the needs of the next generation "capital intense farmer" (such as children from a medium to large scale dairy farm) were also mixed based on the respondent's opinions regarding farming practices, social wealth issues, etc.
- Many of the respondents who felt there was a need for more financial assistance could not address why the USDA FSA programs weren't more effective; however, some speculated the process was too long and sporadic to be of benefit.
- Many that recommended grants or subsidized lending rates designed specifically for a beginning farmer found it difficult to articulate the economic or social (environment, cultural issues, etc.) benefit to the tax payers or supporters of the program.

Once again, it must be noted that during the time of this survey interest rates were at a 40-year low. Low rates are indicative of low loan demand. Therefore, current survey responses may not be predictive of future needs.

4.2 INTERVIEWS

Anecdotal evidence of the various degrees of need was gathered through interviews conducted with representatives of agriculture and finance. All State FSA offices, each FCS Association in the northeast region, and every state's department of agriculture (or equivalent) were contacted. All of the major dairy cooperatives were contacted as well as trade associations (e.g. apple growers), and some small farm cooperatives and land grant college extension services. Interviews were conducted as well with representatives of several community supported agriculture (CSA) operations and various other farmers were also conducted.

Almost all of the people interviewed agreed that access to financial resources was a concern. But the cause of concerned varied. In general, all agreed that the real culprit was the ratio of low earnings potential relative to the costly "inputs". It is important to note that inputs were described as physical assets such as land, equipment, supplies, or even the owner's labor. Many of the interviews revealed a significant narrowing of the definition of a beginning farmer to be someone with limited resources. They all recognized the trend of the lifestyle or hobby farmers with significant income or wealth as being the majority of the current beginning farmers.

It was surprising that many of the respondents were not fully aware of the breadth of the FSA programs.

Many of the interview conversations moved from discussion of a beginning or new farmer, per se, and towards limited resource, young, or small farmers in particular. As a result of the muddied definitions and their respective issues, a summary of the interviews and surveys is organized into the following issues:

Beginning farmers with limited financial resource and training: For the most part, the interviews revealed these farmers are best suited to start small, labor intense operations such as small scale produce operations. Most of those interviewed felt that capital intense operations required farmers that needed more “cushion” on their balance sheets and should not be considered by a limited resource farmer. The interviews suggested the need for training in marketing and business planning along with funding similar to the FSA programs. Most of those interviewed disagreed with the concept of providing grants to jump-start a farmer. They did agree that grants were acceptable for research and development of markets or for innovation. Only a very few felt grants would be good, but they could not articulate any specific guidelines to determine eligibility. Although some of the interviews revealed very passionate opinions regarding the need to have some policies to counter large operations, they agreed that in the current status, it would be very difficult to compete on a level playing ground, regardless of any special funding.

Beginning farmers with moderate financial resources: This group’s profile has one of the following traits: enough non-farm income to support a very modest lifestyle, or, in many cases, a potential “next generation” farmer. The “next generation” farm group was supported emotionally by just about the entire survey group. For this group of potential new farmers, the respondents suggested the next generation’s farmers needed assistance with family estate issues. Other significant issues for the next generation farmers were the loss of control over the land base and the loss of the agriculture community’s infrastructure. For those that had modest non-farm income but were new farmers training was mentioned as a high priority.

Beginning farmers with significant financial resources: This group’s profile would include people that have substantial non-farm income or wealth. Even though this group of potential farmers may provide the community with food and fiber, for the most part, many of those interviewed had no concern for this group. However, the interviews with the suppliers of agricultural products and services (mostly lenders and educators) did see training and market development as a need.

Land Issues: After training and market development, access to land was a major concern. Some of the interviewees felt the lenders were too conservative when lending against real estate. But they all agreed the cost of land would make repayment extremely difficult. The interviews did reveal that many felt land ownership was becoming less important if long-term leases were available. This part of the interviews revealed the concern of dwindling supply of productive agricultural land was as important an issue as was finding ways for a new farmer to control the land needed for the operation.

Training: Training was a catch-all answer to many of the hurdles. For the "next generation" farmers, the needs identified were mostly for planning and financial training. For those beginning farmers with no experience the needs were comprehensive.

Grants or below market lending rates: Grants were suggested in several cases, but criteria for those eligible typically had a "needs" component and excluded those new farmers who had significant resources. Again, the definition for a new farmer and the intent for new farmer programs seemed to vary significantly. To a degree there was some exception to allow a wider range of recipients for grants used for innovative purposes.

Small loans: The term "small" is subjective but for example a loan of $25,000 or less can be used to illustrate some of the points made from the respondents. In the earlier stages of the research there was some opinion that small loans were a concern; however, with credit cards providing relatively low rates, the latter interviews revealed this not to be of much concern. The main issue of concern rest on traditional lenders unwillingness to make small loans unless the decision can be based on factors beyond the potential profit of the new farm venture.

Poor networking of providers: Although few respondents specifically mentioned the lack of a comprehensive understanding of the sources where financial resources are available for a beginning farmer, the compilation of surveys, interviews and the associated research reveals this to be a barrier. The clearest evidence of this was the low rate of applications at FSA.

Additional comments on existing programs*:* The study revealed there is some concern that the current federal programs are legislatively enabled but not operating at capacity. However, there was little interest in creating other governmental programs at a state or local level for fear of duplication. The exception was Aggie Bond programs. However, most knowledgeable respondents agreed that the current interest rates and the dollar limitations are limiting factors. Although there is room for improvement, it was felt that the existing credit delivery systems are adequate.

Some programs interfere: Some of the interviewees had the opinion that providing advantageous funding programs was transferring help inequitably. In particular, the concern was that established farmers were already struggling. Providing low cost funds to another farmer disrupts the market. When asked about providing training or other non-monetary support, all of the interviews responded favorably.

SECTION 5: SWOT ANALYSIS

From the outcomes of sections one through four, the study team developed a list of the Strengths, Weaknesses, Opportunities and Threats (SWOT) that relate to accessing financial capital. These issues do intertwine and are listed to help formulate strategies to address future needs.

5.1 STRENGTHS

- Much of the Northeast has small farms which allow more opportunities to transfer the operations to new farmers.
- Many of the new farmers have significant wealth or income to subsidize the start up operations.
- Off-farm employment is available to allow some supplemental income for a beginning farmer.
- There are existing programs to help fund a large percentage of the beginning farmers with access to the necessary start up capital. Lenders' statistics show a willingness to lend to beginning farmers.
- The Farm Credit System has been mandated to publish their activity within the Young, Beginning and Small farmer programs. This increased scrutiny should increase the focus of the FCS to achieve a proper balance within their government sponsored entity (GSE) mission. Additionally, the downward trend of agriculture activity has challenged the FCS to focus on the beginning farmer more than ever.
- Activity within the FSA guaranteed portfolio has been increasing in the Northeast, which allows for a lending relationship to be established with local commercial lenders.
- Much of the Northeast is located near the retail markets. This location allows for many farmers to market their products directly to retail to capture high margins. This advantage of location also allows a beginning farmer to test their markets with greater ease than if located elsewhere.
- The recent trend of agriculture in the northeast has been a shift into the retail market sector. This retail sector is more labor intense than capital intense. Therefore, the need to incur debt is less of a concern than for the "traditional" farms.
- Less traditional forms of credit are becoming more available for a beginning farmer. Leasing, home equity lines of credit, "trade credit" (store/vendor credit) and liberal credit card policies have proven to be effective for many beginning farmers.
- Community Supported Agriculture (CSA) operations are no longer a foreign concept and are adding one more "tool" to obtain funding for agriculture.
- The Northeastern area has strong advocacy efforts. There are many groups that see the beginning farmer as a benefit to agriculture and society. This has created some CDC's or other funding mechanisms willing to take additional risk.

5.2 WEAKNESSES

- Food has shown a trend of becoming cheaper each year. Additionally, many of the local citizens in the northeast are becoming more disconnected with farmers' needs. This challenges policy makers when support for beginning farmers is advocated.
- Established farm operations are seeing the benefits of capturing the local markets, thereby competing for the same markets as the beginning farmers. Fore example, some very large produce farms have entered the organic markets.
- The definition of a "beginning farmer" can be interpreted differently than the USDA/Census definition. The lack of consistent definitions creates confusion for stakeholders and policy makers.
- The economic returns of farming *generally* attract investors with life style or other goals (e.g. tax advantages) ahead of maximum return on investment. The result can be that many less fortunate new farmers struggle to capitalize their operations and a wealthier segment of the new farmers that don't push the industry for improvement. Farms subsidized with non-farm income add to the supply of product that depresses prices for the operations that are reliant on the farm income. Shrewd investors (potential farmers) that set higher economic goals are not attracted to the industry. These dichotomies are creating an environment that is eliminating the mid-size northeastern farm and making policy issues hard due to the split of wealth. The loss of mid-size farms is widening the gap of farm operations based on labor intensity verses capital intensity. It is not clear what impact this gap will have on topics such as food prices, availability of land, etc.
- Many established farms will have trouble retiring without selling the property. The need for retirement funds encourages the land to be sold at the highest value, which may result in loss of farmland.
- Without a good base of affordable and controllable agricultural land, many new farmers are averse to making capital improvements.
- Many of the beginning farmers are well capitalized or have good primary "off- farm" income. This sector of farmers is marketed heavily by many of the lenders, which reduces the need to lend to higher risk farmers.
- Many of the beginning farmers only need small credit. Traditional, small loans are difficult for a lender to administer at a profitable level. Therefore, many banks either do not offer the product or use a credit score approach.
- Most state-sponsored economic development funding mechanisms have goals such as growing jobs, or taxable sales that are not well suited for the needs of a beginning farmer.
- Labor markets are competitive and difficult for agriculture enterprises to keep pace.
- A significant number of the northeastern dairy or other traditional operations have gone out of business resulting in stress to the agriculture infrastructure.

5.3 OPPORTUNITIES

- With access to a large population farmers are finding market advantages that create very profitable operations. These farmers are creating new markets that will allow for additional, local farm competition.
- Portions of the local retail markets are willing to support the locally grown agriculture products with higher prices.
- The average age of farmers indicates the need for a new generation.
- Many of the northeastern communities realize the adverse affect (social, environmental, health, economic, etc.) of losing farmland; therefore, supporting sustainable farm operations that benefit the region's lifestyles.
- Many environmental concerns favor the need to maintain open space. Open space policies may help secure some of the needed land base, but can also add regulatory cost or delay approval of unfamiliar or innovative practices.
- Small farm owners that are not reliant on the farm income can reduce the loss of farmland and local agricultural infrastructure.
- Low demand for credit has lending institutions lowering credit risk standards in exchange for more loan supervision.
- The high land values in the northeast allow for more liberal loan to collateral requirements than many other areas of the nation.
- Land ownership can be restrictive for many beginning farmers. However, there are many landowners (retired, absentee, family trust, etc.) that are not in a position to maintain their own properties. With a declining base of farmers, land rent has stabilized and in some areas actually become cheaper to attract good stewards of the property.
- There are several programs run by states, local governments or the not-for-profits organizations that have provided funds for beginning or limited resource farmers. These programs can now be evaluated for their success based on economic or social factors (depending on the goals of the programs). Many of these beginning farmer programs will soon be in a position to evaluate the success of their credit programs.
- Although there are many potential sources for financial capital, better outreach is needed to improve the network.
- The northeast dairy industry has been declining and has encouraged actions by firms such as DairyLea Milk Cooperative to develop a program to look for ways to stabilize the revenue for a beginning dairy farmer.
- Educational efforts are increasing to make the general public aware of the benefits of agriculture within the northeast states. However, continual (more) education programs are needed to educate the public of the benefits of having agriculture in the area.
- The necessity to improve earnings foster innovation and self-improvement actions.

5.4 THREATS

- The current price of food has lowered the need for agriculture policy to protect the northeast farmers.
- Favorable transportation and distribution cost along with improved product handling has allowed for import of farm products at prices that are hard to compete against.
- As the global economy evolves, national protection programs (tariffs, etc.) will be challenged.
- At the state level, agriculture programs are under budget constraints. Presently, there is little initiative for states to cooperate or look at their programs at a multi-state, regional level.
- The quality of agricultural land base is declining, making remaining agricultural land more important for production and environmental needs.
- The recent economy will continue to challenge funding at the governmental levels for capital (loans, etc) for the small business.
- Capital investments and expensive labor limits the scope and scale of operations for a beginning farmer with limited resources. As farm operations grow and become specialized, the risk of food production is placed on a small group of producers.
- The advocates of farmers vary significantly on their opinion of needs for governmental policy issues and many issues are not easily supported with quantifiable approaches.

SECTION 6: RECOMMENDATIONS

Based on the SWOT Analysis, the following recommendations are offered:

#1 Improve the knowledge *and* network for the various sources of financial capital. At a regional level assemble a *standardized and coordinated comprehensive list* of all (Federal, state and local governments, Not-for Profits, commercial banks, etc.) funding programs categorized by each state with the goal of using this list as follows:

- To be used for guidance for farmers and service providers.
- To be shared amongst the other states and various stakeholders to glean for "best practices" and to promote some creativity while reducing the burden of a state or other agency having to re-invent the wheel.
- To seek out programs not specifically designed for agriculture, but meeting the criteria for business loans. For example, there are many CDC's or small business initiatives that should include agriculture as a viable business to include in their portfolio.
- Improve the network of potential sources by having an up-to-date usable reference that includes a brief summary and contact information.
- To better identify regional gaps in needed programs (ex. Micro loans, etc.).
- This list should be well known by each FSA office.

#2 Create a regional oversight process to *continually* evaluate the effectiveness of the various programs administered for the beginning farmers. Because lending is a cyclical business, this group needs to be pro-active. The goals of the group should hold accountable the FSA, FCS and similar programs at regional levels rather than broader levels. Since the FSA is the "lender of last resort" some pointed questions should be address when a potential borrower is denied. These questions should address the issue of acceptable risk, statistical summaries of rejected loans (profiling the credit need, amount and type of request and reason for rejection), ease of application, and funding. Similar regional oversight should be conducted for activity of the GSE's (FCS and Farmer Mac) and other local government funded agencies (local IDA, etc.). Once the issues are identified, then potential solutions can be addressed. This oversight will also help by identifying:

- Look for best practices.
- Identify conditions requiring timely responses.
- Allow for collection of more quantitative data to foster more proactive policy making.

#3 Advocate the need for state economic development agencies to address more efforts to retain business rather than using criteria for job creation as a higher priority. This will require some analytical impact analysis of farming. The impact analysis should attempt to quantify both revenue and cost control issues such as; cost associated with government services, threatened environmental needs, etc.

#4 The spirit of the US Farm Bill encourages better cooperative efforts between Federal and State sponsored programs. Investigate changes to local and federal legislation to allow "bridge loans" to be made to beginning farmers when FSA funds are not available. Currently, FSA is not authorized to pay off existing debt, nor are guarantees of other governmental obligations allowed. This forces other lenders such as local governments, CDC's etc. willing to make high risk loans to either tie up their limited funds or deny the credit due to their own fiscal limitations. Aspects to be considered are:

- Memorandum of understandings to allow FSA to participate in financing transactions conducted by other "approved" lenders. This will allow the FSA to refinance the high risk credits that meet all other "denial" eligibility issues. Risk will remain with the originating financing agency as long as FSA does not have funds, but this will allow some opportunity for farmers to receive more timely loans. Even if only a few loans are "refinanced" by FSA, each case will allow the smaller lenders to better leverage their funding.

- Address the FSA limitation of only guaranteeing private lenders.

#5 Test all programs to determine if they can be commercialized. By doing so, this will isolate the needs for assistance and the successful incubation of new farmers. This will include:

- Determining if the program is financial sustainable and if not, identify the social benefits.

- Helping to identify partners or affiliations for the various programs such as special interest groups, economic development groups, angel investors, etc.

#6 Support programs that protect the agricultural land base and allow farmers to operate based on the agriculture use. Review programs such as;

- PDR, TDR (Transfer of Development Rights) and conservation easements are all programs that reduce pressure on the agricultural land base.

- Tax abatement programs (such as using a term easement) designed to encourage landlords to provide reasonable rental rates to farmers.

- The FSA pilot guaranteed land contract program
- Other efforts (training, Land Links, etc.) to help farmers find acceptable lease opportunities

#7 Based on the implied goal of the GNF project, consider adding additional criteria such as; young and/or small into the criteria. In addition consider the strategies used for advocating the needs while the trend of food prices continues to be less expensive and when new farmers with significant resources are able to enter the industry. Regardless of the scope of the target group, strengthen the advocates' efforts by identifying measurable benefits.