Financing Farming in the U.S.
FINDINGS FROM THE FIELD

On the Line: Food and Jobs
Lack of access to financial capital is a chief obstacle for newer farmers in the United States. This problem is urgent because the vast majority of farmers are at retirement age, and few of their children are choosing to stay in agriculture. A next generation of farmers is essential for future food security. New farmers are also important to economic security as small businesses that create jobs when they spend and invest locally.

Needed: Lending Capacity
The Financing Farming in the U.S. project formed in 2010 to explore this problem and solutions to it. In a national series of focus groups, the project found challenges on both sides of the table.

New farm borrowers:
- Lack personal capital or an equity base.
- Need tools and training to convert farm production plans to cash flow projections.
- Have no credit history or poor credit.

Lenders:
- Lack assessment tools to help them lend with confidence to newer, unconventional farm businesses.
- Are unable to take on smaller loans that can be too costly to service.
- Are restricted by the tightening of credit in the financial industry.

The project also found promising signs for next steps:
- Many smaller, diversified farms are profitable after 3-5 years, serving primarily local food markets.
- Local and regional intermediaries and collaborations are emerging to offer capital, land access, and business development assistance to young, beginning, and small farmers.

Taking Action
In a report on this initial research, stakeholders involved in the project recommended action to:
1. Build farm borrowers’ capacity to communicate their business plans and potential.
2. Improve farm lenders’ capacity to evaluate new farm business models and markets.

To start this work, Financing Farming in the U.S. is now collecting practical knowledge from lenders with experience in the small farming sector. The project’s objective is to make this information available to others interested in this field and use it to advance development of needed farm risk assessment tools for lenders.

Case Studies
In May and June of 2011, FSUS conducted interviews with nine Community Development Financial Institutions (CDFI) that have experience in farm production lending. The project chose CDFIs to start with because of their nonprofit mission-based approach to lending in underserved areas. CDFIs are on the forefront of the U.S. Treasury’s Healthy Food Financing Initiative. A national HFFI capacity-building program for CDFIs will include training in farm production lending.

Three themes emerged from the project’s discussions with CDFI farm lenders. They point to ways in which other lenders could develop their capacity to finance young, beginning, and smaller farms.

#1: Relationship Lending
In all cases, the lenders interviewed take the time to get to know the borrowers, their businesses, and their communities. Each confirmed the need to engage in higher-touch “relationship lending” vs. the more

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common transactional lending based primarily on credit scores and collateral. The common denominator is the lenders’ willingness to suspend transactional judgment, dig under the surface, and seek assistance.

Example: UCEDC is a statewide economic development corporation and CDFI in New Jersey that recently made its first agricultural loan. Lender Ellen McHenry says her only challenge was in understanding what the borrower’s needs were and structuring the loan around those needs rather than using a standard approach. She researched the borrower’s capacity, conditions etc. extensively with farm visits, stakeholder interviews and help from a nonprofit involved in building the borrower’s business and markets. She recruited another loan fund, also new to agriculture, to participate in the total $35,000 deal. UCEDC believes agriculture serving local and regional markets is a growth sector and intends to build its capacity to serve it, including the potential to make government guaranteed loans.

#2: Sector Commitment and Development
All CDFIs interviewed approach agriculture lending as a core part of their work; they do not position themselves marginally as a “lender of last resort.” Many also engage in the sector strategically and proactively, making loans that can advance the sector itself, not just the borrower, and engaging with partners to address challenges, such as limited processing and distribution infrastructure for local and regional markets.

Example: The Natural Capital Investment Fund is a CDFI serving North Carolina, West Virginia, and Appalachian regions of Ohio, Kentucky, and Tennessee. Its staff is involved in development of the sustainable agriculture and smaller farm sector as a way to improve the economic outlook for their borrowers and the region. In one instance, a loan for a well-qualified tobacco farmer’s conversion to organic dairy production was in part an effort to draw the services of an organic dairy processor and distributor to the region and, in turn, build opportunity for additional organic dairies.

#3: Asset-building and Community Engagement
Rather than reject a borrower for lack of assets and equity, the CDFIs interviewed are engaged in helping borrowers build up their assets. They work creatively and collaboratively to develop loans and packages of assistance that improve the borrower’s financial position.

Example: Enterprise Cascadia is a CDFI with a long history of supporting the natural resource-based rural economies of Oregon and Washington. Its current work to finance new generation farm businesses in the region is a logical outgrowth of this history. Enterprise Cascadia does so by engaging a broad range of partners and community members in the process.

In one case, a promising young farmer’s need to purchase her own land motivated Enterprise Cascadia to develop an innovative arrangement with a land trust in the region. Rather than saddle the young farmer with a large mortgage, or give up on her land prospects, Enterprise Cascadia instead gave the mortgage to a separate nonprofit that the land trust formed. The deal involved the young farmer leasing the property from the nonprofit organization. The loan specified that her lease payments would reduce the mortgage and build her equity in the land at the same time.

The deal had further benefits, too. One was the ability for the farmer to obtain a working capital loan from the region’s Farm Credit Service institution because she had only lease payments and not a major mortgage on her balance sheet. Others involved local residents and customers making smaller direct loans to the farmer based on the due diligence and effort that Enterprise Cascadia took with her business.

Summary
To ensure future food security and economic prosperity, local, state, and national leaders must act to:
- Keep credit-worthy farm borrowers from falling through the cracks.
- Build the capacity of more farm borrowers to succeed with lenders.
- Develop networks of lenders and technical assistance providers that can provide needed support.

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