




Farm Service Agency Programs for Young & Beginning Farmers

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What is the Policy Objective? (Why?)


- A specific Federal Credit Policy objective (as stated by OMB) is assure credit availability to start-up businesses & farms who, because of their limited current income and credit history, may be unable to prove their creditworthiness to a commercial lender.
 - There are economic benefits when markets are easy to enter.
 - Credit rationing imposes costs on society
- Long history of Federal financial assistance to beginning farmers.
 - Reports from 1950's show a large share of FmHA farm loans made to beginning farmers even though there was no explicit regulatory requirement.
 - Agricultural Credit Act of 1992 required FmHA to target a percentage of its direct and guaranteed farm operating and farm ownership loans to beginning farmers and ranchers.



Farm Credit Programs Targeted to Beginning Farmers


Program	Purpose/Eligibility
Farm Ownership (FO) Loans	Purchase/Improve farm-3 years of farming experience
Down-payment Loan*	Provides up to 45% of purchase price/appraised value of farm
Farm Operating (OL) Loans, including direct youth loans	Operating capital- livestock, equipment, feed, crop inputs
Conservation Loans	Implement Conservation Practices (37 CL to beginning farmers)
Land-Contract Guarantees*	Guarantee of a loan made by a private seller to a beginning farmer to purchase a farm (only made 2)
Individual Development Accounts* (pilot)	Establish tax-exempt savings accounts to fund purchases of farmland & farm-related capital investments
Acquired property	Beginning farmers have right of 1st refusal on all property acquired by FSA

* Program exclusively for beginning farmers



Other USDA Beginning Farmer Programs

Program	Purpose/Eligibility
CRP Transition Incentives *	Facilitate the transfer of CRP land to beginning farmers (1,800 contracts on 280,000 acres.)
Risk Management Education *	Implement outreach programs for beginning farmers with special emphasis on risk management strategies.
EQIP	Set-aside share of cost-share funds for use by beginning farmers.
Beginning farmer & rancher development program*	Grant program to develop and offer education, training, outreach and mentoring programs to new farmers



FSA Credit Programs Not Exclusive to Beginning Farmers

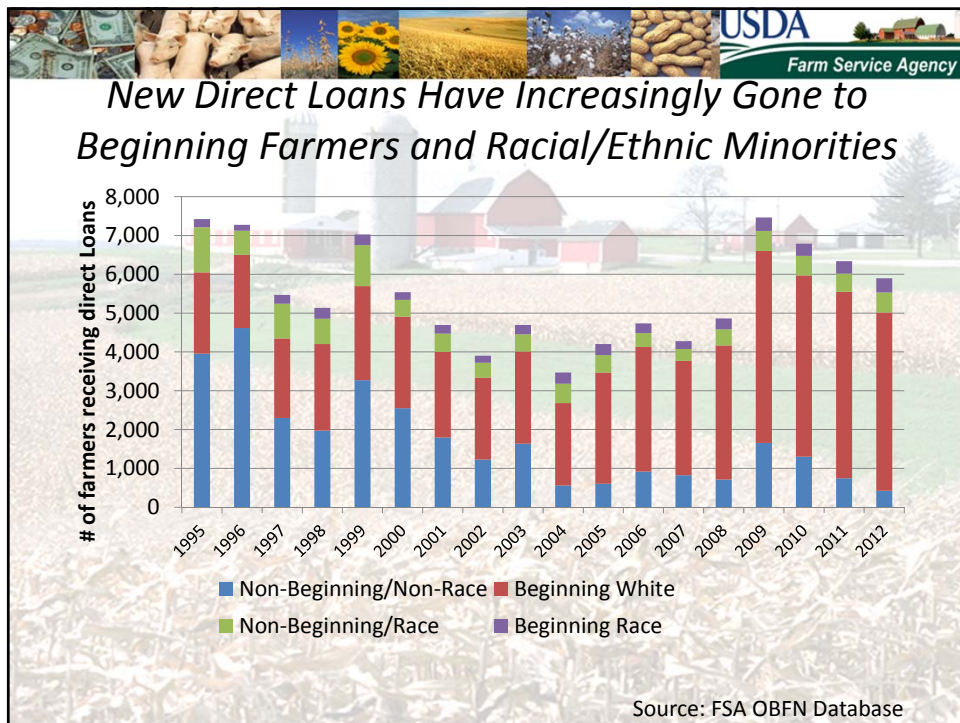
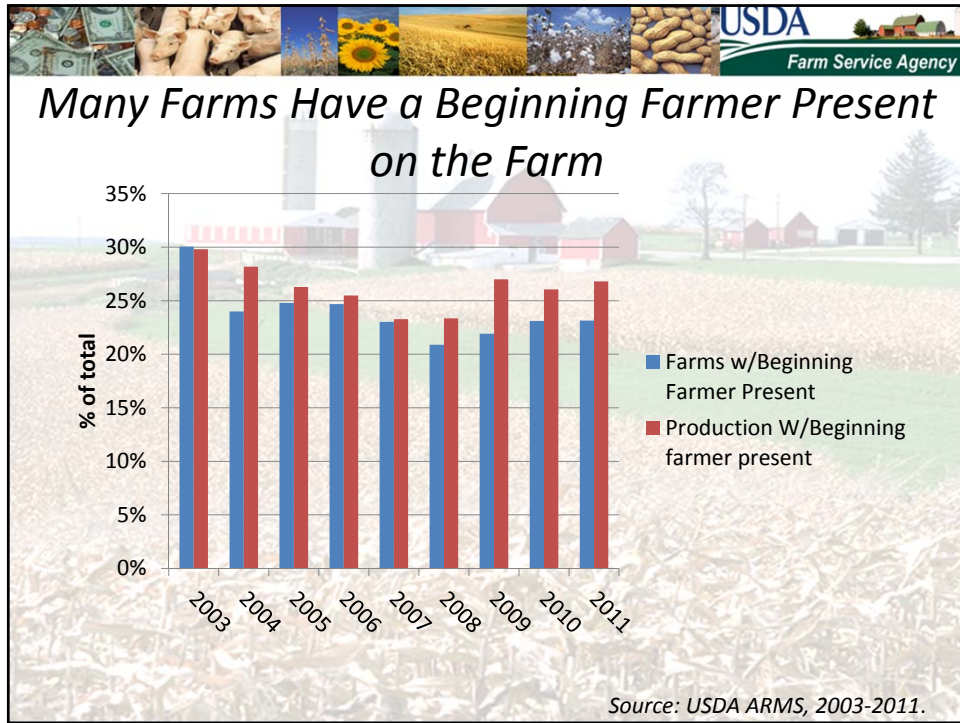
- **Farm Loan Programs:**
 - Assists farmers who are temporarily unable to obtain private commercial credit because of financial stress, inadequate collateral, or lack of track record
- **FLP customers may be:**
 - Beginning farmers
 - Farmers who belong to socially disadvantaged groups
 - Farmers who have limited resources with which to establish and maintain a successful operation
 - Farmers who have suffered financial setbacks due to natural disasters or economic downturns

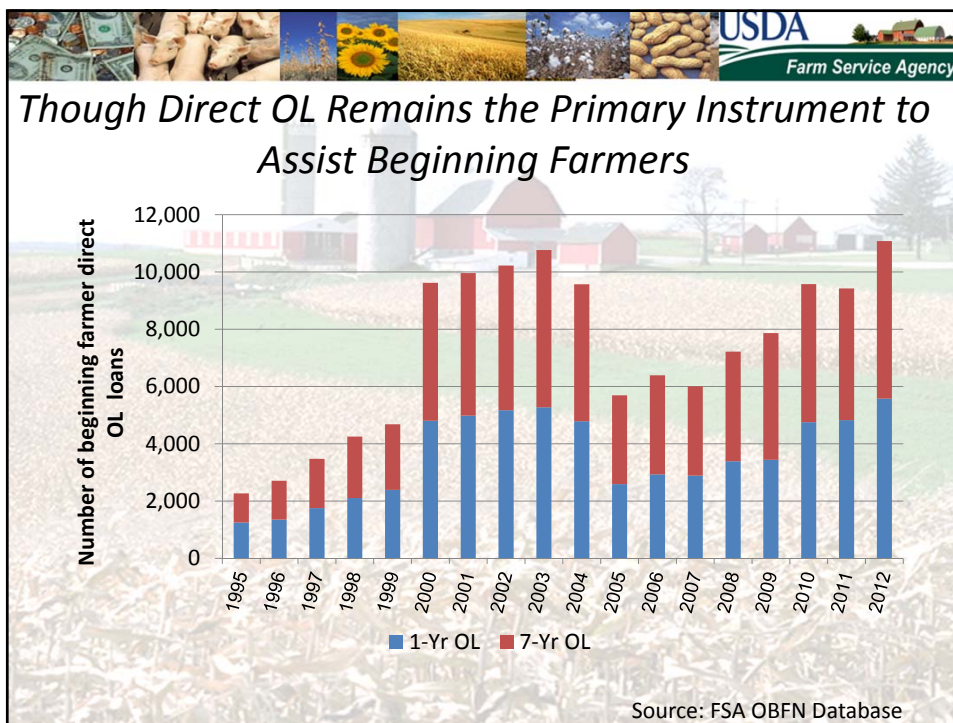
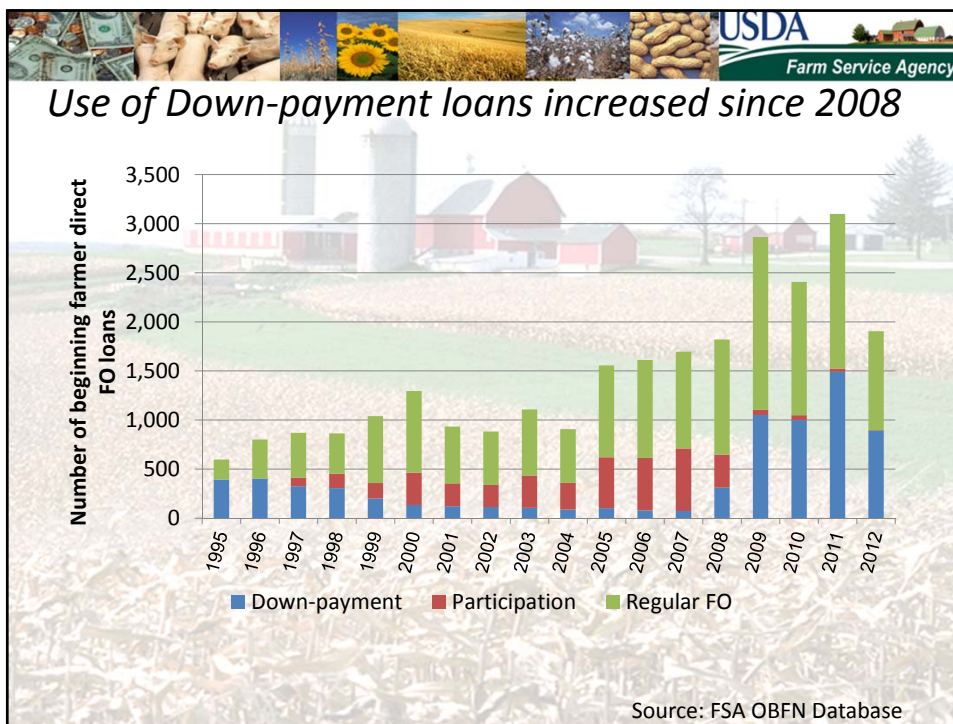


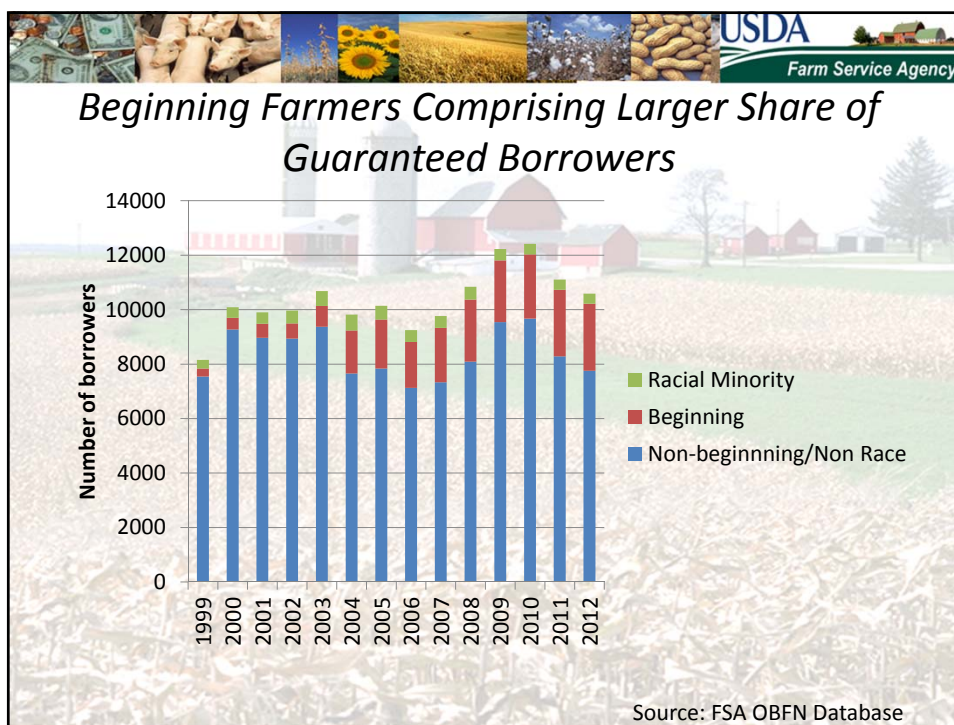
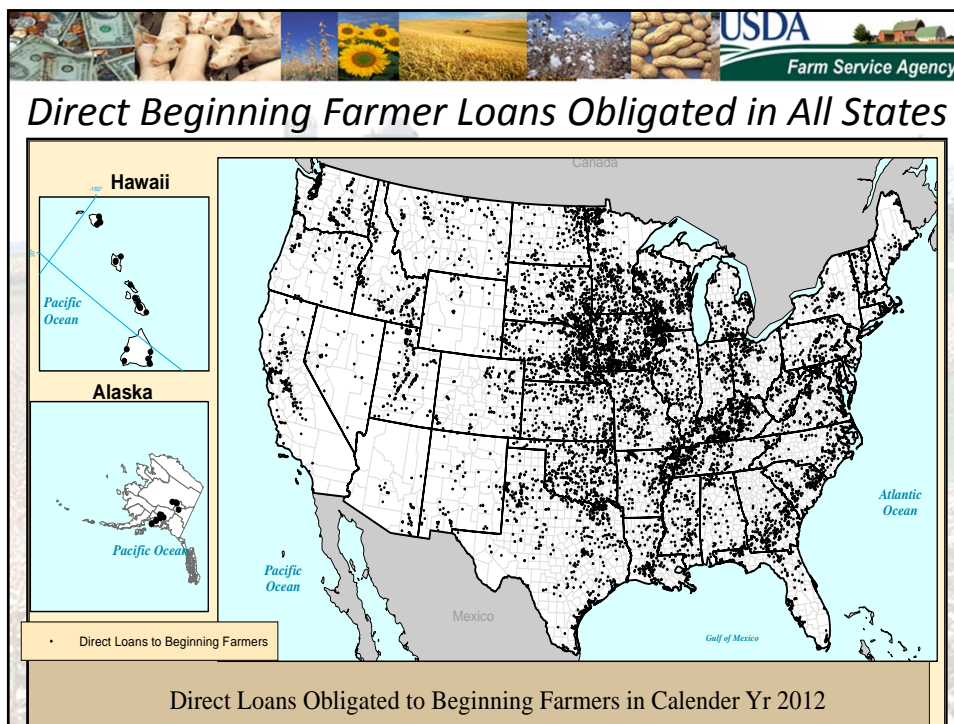
Who Are Beginning Farmers?

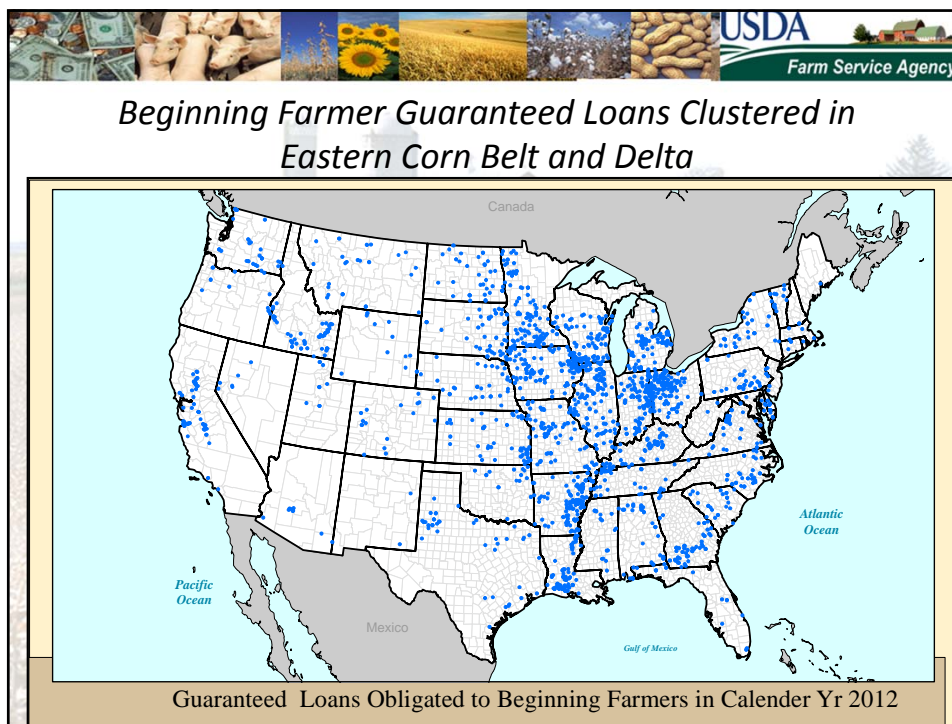
Producers, farmers, borrowers

- **FSA producers** (anyone who could potentially participate in an FSA program; farm operators, land owners, entities, youth, new and potential farmers).
- **ERS--** All farm operators have 10 years or less of farming experience
- **Farm Loan Programs—**
 - Not operated a farm for > 10 years,
 - ...materially & substantially participates in operation of farm,
 - ...total farm property owned < 30% of median farm size for county (except OL),
 - ...meets all other eligibility guidelines,
 - Entities—if all members are beginning farmers,
 - Does not exclude farm businesses with multi-generational family units (beginning farmer just borrows as an individual)










What Explains the Increase in Beginning Farmer Loans Obligated in Recent Years?

- Reflects clarified policy objectives.
 - Increased emphasis on encouraging farmers to enter farming (reflecting farm structure concerns).
 - Greater beginning farmer direct lending reflects a preference for funding projects with higher social pay-offs (beginning farmers & SDA groups),
 - While guaranteed primarily addresses issues arising from informational opaqueness of the borrower.
- Direct programs mostly targeted
 - 50% of direct OL and 75% of direct FO reserved for beginning farmers.
 - In CY 2012, 85% of ne direct borrowers were beginning farmers
- Farm business organizations have become complex, making generational transfers of assets more difficult to finance.
 - While the farm business may be financially sound, the young or beginning farmer who is buying into the business may lack capital and have little equity interest making it difficult to obtain a traditional loan through commercial lenders.
- Increased risk (especially for beginning farmers)
 - Higher operating costs reduces liquidity and increases risk for non-real estate lenders.
 - Higher land costs increases financial risk for real estate lenders



The top of the slide features a horizontal collage of agricultural images: stacks of money, potatoes, sunflowers, a cornfield, a field of blue flowers, and more potatoes. To the right is the USDA Farm Service Agency logo, which includes the text "USDA" and "Farm Service Agency" with a small farm icon.

Farm Service Agency
Farm Loan Programs

QUESTIONS?



The background of the slide is a faded image of a farm with two tall silos and a red barn, situated behind a field of corn.