Mind the Gap: Credit Enhancements for Lending to Agricultural Entrepreneurs

Presented by Scott Marlow

May 29, 2012
Introduction

- CDFI Fund’s Capacity Building Initiative

  - Financing Healthy Food Options
    - Workshops
    - Technical Assistance – individual and group
    - Resource Bank
Today’s Webinar Topic

Mind the Gap: Credit Enhancements for Lending to Agricultural Entrepreneurs

• Why?
  – Understand the credit gap facing many agricultural entrepreneurs
  – Learn about programs and forms of credit enhancements that can assist entrepreneurs
Presenter

Scott Marlow
Executive Director
RAFI-USA
smarlow@rafiusa.org
Mind the Gap: Credit Enhancements for Lending to Agricultural Entrepreneurs

Presented by Scott Marlow

May 29, 2012
Today’s Discussion

• Risk and risk management in agriculture, and how it affects credit access.
• Federal programs that can be used to further mitigate risk through grants, easements or guarantees.
• Specific examples from conservation programs.
• Overview of USDA lending programs.
Why are we having this discussion?

- US agricultural credit is approximately $240B/year.
- USDA Farm Service Agency (FSA) lending—specifically targeting low-wealth communities— is $4.8B/year.
- FSA provides both direct lending and guarantees for private lenders.
- Farm Credit ($174B) is specifically chartered for lending to agriculture.
Why are we having this discussion?

- Financial infrastructure creates a gap in risk between large-scale industrial agriculture and small-scale or entrepreneurial agriculture.

- Programs are based on wholesale, conventional prices, leaving behind anyone who sells for more than that price.

- With the economic crisis, lenders are increasingly risk averse, driving credit toward low risk.

- Small-scale and underserved farmers likely to use credit cards for operating credit.
Agricultural Credit

• Separate ownership and operating loans.

• Ownership and operating loans are collateralized differently.

• In general larger operations will have more operating credit, smaller will have more ownership credit.

• Operating expenses will differ based on crop costs, duration of production cycle.
Many of the same issues addressed by CDFIs are also true in agricultural lending

- Under-served communities have had significant difficulty in accessing affordable and appropriate credit, often due to historic patterns of discrimination and wealth concentration.

- Experience in both the challenges and rewards of addressing issues of underserved populations hold true.
Agricultural entrepreneurship is underserved by both agriculture and small business lending.
Farm Entrepreneurship

- Emerging markets for local, sustainable, organic.
- Fastest growing segment of agriculture.
- Retains value in local community.
- Poorly served by federal programs, so poor participation.
Understanding Agricultural Risk
Understanding Agricultural Risk

*Commodity agriculture has an extensive ‘safety net’*

- Crop insurance.
- Commodities programs.
- Disaster assistance programs.
- Research and documentation.
- Assures up to 95% of anticipated income.
Understanding Agricultural Risk

*Commodity agriculture has an extensive ‘safety net.’*

- Crop insurance insures up to 80% of anticipated income with a 60% federal premium subsidy.
- Revenue crop insurance covers combination of yield and price losses.
- Disaster programs can provide increased benefits to 95%.
- Commodity programs address losses due to price.
Understanding Agricultural Risk

*Commodity agriculture has an extensive ‘safety net’*

- Programs are assured income that can be borrowed against.
- Relatively low interest rates.
- Low documentation requirements.
- Crop as collateral.
- Extensive history and familiarity.
Understanding Agricultural Risk

*Entrepreneurs step off the safety net cliff.*

- Direct market producers may receive 8x conventional price.
- Little coverage for minor specialty crops.
- Little coverage for livestock.
- No documentation for emerging markets.
Understanding Agricultural Risk

*Entrepreneurs step off the safety net cliff.*

- Beginning farmers.
- Transitioning farmers finding new markets.
- Mid-scale farms scaling up what was pioneered by small farms.
- On-farm processing rather than just production.
- Overlaid with continuing issues of underserved communities.
Entrepreneurial Farm Credit

*Separating the enterprise into buckets.*

- Crop / field
- Processing
- Marketing
- Generational transition
Entrepreneurial Farm Credit

Separating the enterprise into buckets.

• Different buckets will have different credit needs and opportunities.

• Separate return on investment for individual enterprises.

• Home mortgages.

• Small business loans.

• FSA lending.
Federal Programs

Creative Risk Management.

• Points of protection.
• Assured income.
• Conservation programs.
• Commodity programs.
• Rural Development Loans and Guarantees.
Federal Programs

*Creative Risk Management.*

- Putting together a package.
- Build relationships and collaboration.
- Maximize the chance of success.
Conservation Reserve

• Removes land from production

• Forestry which can be harvested later

• Average monthly payments between $35 and $122 per acre in NC
Environmental Quality Incentives Program (EQIP)

• Cost share for enhancements

• Higher percentage for beginning / socially disadvantaged.

• Can create equity, e.g. high tunnel program.
Federal Programs

Conservation Programs - www.nrcs.usda.gov

Conservation Stewardship Program

• Conservation on working lands.

• Incentive payment for existing and new practices.

• Farm Bill determined.
Federal Programs

Conservation Programs - www.nrcs.usda.gov

• Place 50 acres in a program with payments of $60 / acre for 5 years.

• $3,000/year annual payment.

• $250 / month.

• Vehicle Loan of $13,000 for 60 months at 4.75%.
Federal Programs

Crop Insurance - www.rma.usda.gov

- Individual crop programs
- Adjusted Gross Revenue – Lite
  - 5 year average gross
  - Adjusted for post-harvest
  - 80% coverage
  - Diversification benefit.
Federal Programs

Farm Service Agency Loan Programs  www.fsa.usda.gov

• Down Payment Loan Program (1.5%).

• Beginning Farmer Loan Program.

• Socially Disadvantaged Applicant (SDA) set-aside.

• Direct Farm Ownership Loans (3.5%).

• Emergency loans (3.75%).

• New micro-loan program.
Federal Programs

Farm Service Agency Loan Programs  www.fsa.usda.gov

• 4 CDFIs have become FSA guaranteed lenders

• FSA direct loans can finance a portion of the credit needs, and can be subordinated to private loans.
Options for CDFIs

• Before moving into agricultural lending, it is important to identify expertise in both production and financial infrastructure for risk mitigation.

• CDFIs can provide an important role bringing together multiple service providers.

  • CDFIs bring important skills that directly apply to the credit gap in agriculture.
Resources

• The Farmer Lender Project: Strategies to Sustain Agriculture and Enhance Rural Development in North Carolina

• The Farmers Guide to Agricultural Credit

• The Farmers Guide to the Development of New Farm Enterprises

• www.rafiusa.org/pubs/puboverview.html

• Farm Credit Field Guide to the New American Foodshed
  http://foodshedguide.org/
Additional Resources
Financing Healthy Food Options Resource Bank

http://www.cdfifund.gov/what_we_do/FinancingHealthyFoodOptionsResourceBank.asp

I. Training Curriculum

- Food Systems Overview
- Healthy Food Retail Financing
- Financial Services for Mid-Tier Food Chain Enterprises
- NMTI & Urban Supermarkets
- Understanding the Grocery Industry
- Underwriting Supermarkets & Grocery Stores
- Mid-Tier Food Chain Enterprises Overview & Underwriting
- Capitalizing Healthy Food Retail Initiatives
- Identifying Optimal Areas for Supermarket Development
- Understanding the Food Production Sector
- Credit Skills for Lending to the Food Production Sector

II. Training Webinars

III. Additional Resources

- Searching for Markets: The Geography of Inequitable Access to Healthy and Affordable Food
  - Executive Summary
  - Full Report
- Financial Resources Catalogue

IV. Food Desert Mapping Tools

- USDA Food Desert Locator
- PolicyMap

The CDFI Fund Has Moved
Financing Healthy Food Options Webinar Archive

http://www.cdfifund.gov/what_we_do/FHFOResourceBankWebinars.asp

Financing Healthy Food Options Resource Bank: Webinars

Relevant Training Curriculum chapters can be found on the Resource Bank's main page.

1. PolicyMap and Using Limited Supermarket Analysis in Your Target Market
   - Webinar 1 Presenter Biographies
   - Webinar 1 Accompanying Presentation

2. Healthy Food Options Program Design and Social Impact Measurement
   - Webinar 2 Presenters Biographies
   - Webinar 2 Accompanying Presentation
   - Sample Retail Loan Pre-Application Design
   - Sample Retail Loan Application Design
   - Sample Retail Loan Template for Data Collection (.xls)
   - The Grocery Gap: Who Has Access to Healthy Food and Why it Matters (Food Trust and PolicyLink)

3. Green for Greens
   - Webinar 3 Presenters Biographies
   - Webinar 3 Accompanying Presentation
   - Green for Greens: Finding Public Financing for Healthy Food Retail (Public Health Law & Policy)
   - Getting to Grocery: A Toolkit for Attracting Food Retail to Underserved Neighborhoods (Public Health Law & Policy)

4. New American Foodshed
   - Webinar 4 Presenters Biographies
   - Webinar 4 Accompanying Presentation
   - Field Guide to the New American Foodshed
     - Field Guide: One Page Planning
   - National Good Food Network
   - Farm Credit Council
Final TA Workshops

Farms & Food Production
Boston, MA
May 31st and June 1st
[Link](#) to Training Information & Registration

Food Retailers
Seattle, WA
June 28th and 29th
[Link](#) to Training Information & Registration
Upcoming TA Webinars

How to Access Financing Healthy Foods TA
• Wednesday, June 6, 2pm EDT

How to Effectively Underwrite Small and Emerging Farms
• Wednesday, June 27, 2pm EDT

MORE WEBINARS TO COME – STAY TUNED!

Visit www.opportunityfinance.net/FHFOwebinars/ to register for one or all of the TA webinars
Contact Information

Pam Porter
Executive Vice President
Strategic Consulting
Opportunity Finance Network
pperter@opportunityfinance.net
215.320.4303

Christy Bare
Strategic Consulting
Opportunity Finance Network
cbare@opportunityfinance.net
215.320.4320
Mind the Gap: Credit Enhancements for Lending to Agricultural Entrepreneurs

Presented by Scott Marlow

May 29, 2012