AGRIBANK INSIGHTS

FARM CREDIT 100 ESTABLISHED 1916 | AgriBank FARM CREDIT BANK

Young, Beginning, Small

Resources abound to help fledgling farmers and ranchers plant roots and grow

#AgriThought

Farm Credit supports rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow. As part of our #AgriThought initiative, AgriBank Farm Credit Bank features our research and analysis in AgriBank Insights to help inform the financial decisions among those Farm Credit serves.

Contents

Farming and ranching are fraught with significant challenges for operators of any age and size. After all, it takes a lot of capital to invest in land, buildings, equipment, livestock, seed, feed, fertilizer, fuel and other inputs. And uncertain commodity prices, animal diseases, interest rates and weather events are just some of the tremendous risks to be managed. These challenges can be especially daunting for young, beginning and small producers. Experienced lenders who understand their unique needs can extend not only credit but also a helping hand.

Highlights

- **UNIQUE NEEDS.** Young, beginning and small farmers face significant management and financial hurdles, including understanding their capital needs and risks they face. They benefit not only from access to credit but also to information they need to start and grow their businesses.
- **TAILORED SOLUTIONS.** Off-the-shelf solutions are not equipped to meet the unique needs of young, beginning and small farmers. These producers are typically unable to meet conventional underwriting requirements and therefore need support from lenders who are willing to relax the rules on a case-by-case basis as well as offer other focused support.
- **STARTING THE CONVERSATION.** Given the high barriers to entry, young, beginning and small farmers need to take a disciplined approach in building their case for lender financing. This includes carefully crafting their personal narrative, business overview, risk management approach and balance sheet information.

Unique Needs: Financial, Risk and Knowledge Hurdles Are High for Young, Beginning and Small Producers

After serving multiple tours overseas as an armor officer—deploying to Iraq, Afghanistan and Bosnia during his military career—in 2008 Jed Welder and his wife decided to leave the Army and return home to Michigan to start a family and a farm. Welder quickly found that even a small farm requires hundreds of thousands of dollars in seed, fertilizer and fuel each year to operate. In order to be able to farm full-time successfully, he needed access to both land and capital.

> *"Having a lender that works with me, that knows my farm and the challenges I face, is more important now than ever."*
>
> *-Jed Welder*

Welder turned to his fellow producers for advice on farming processes and operational challenges as well as on where to obtain the financing he needed to establish and grow his operation. They directed him to GreenStone Farm Credit Services, and he's been a customer-owner of the financial cooperative ever since.

"They understood what I wanted to do and what I needed to run my operation," Welder said in testimony before the Senate Committee on Agriculture, Nutrition & Forestry in May 2016. "They made good, solid recommendations and over time became a trusted partner."

Today, Welder farms more than 800 acres, including land his parents had farmed since the 1960s. Initially raising corn and soybeans, he soon added one of the first hop yards in his county, and in 2015, added a grain drying and storage system with financing from GreenStone.

"As my business has changed and grown, GreenStone has grown with me," Welder said. "Having a lender that works with me, that knows my farm and the challenges I face, is more important now than ever. They understand the crops in our area and what the prospects for harvest are because they are in the business of working with farmers every day."

COMMITMENT FROM THE TOP

Welder is just one example of the thousands of young, beginning and small farmers Farm Credit supports by providing credit and other financial solutions. Working with fledgling producers requires deep understanding of the challenges they face—understanding Farm Credit has developed through supporting rural communities and agriculture for more than 100 years.

Farm Credit's understanding of the needs of young, beginning and small producers starts in the board room. All Farm Credit Associations are cooperatives owned by customers—farmers and ranchers who are also borrowers. If Farm Credit directors aren't young, beginning or small producers, themselves, today, they likely once were. And many Farm Credit directors have children and grandchildren who will some day take over their operations. So their interests align with producers who have less experience or fewer resources.

> *"Working with fledgling producers requires deep understanding of the challenges they face."*

Some Farm Credit Associations take formal steps to ensure their boards understand the needs of young, beginning and small producers. Since 2008, for example, Farm Credit Services of America has appointed a young and/or beginning customer-owner to its board. The first appointee, a young farmer from south central Nebraska, was later elected to a seat and became board chair.

"Our motives are influenced by our business structure," said Carl Horne, program and outreach manager of the Young, Beginning & Small Producer Program at Farm Credit Services of America and Frontier Farm Credit, where approximately half of all new customers fall into the young, beginning and small segment. "We're here to serve our shareholders, who are farmers and ranchers."

Some Farm Credit Associations have formalized efforts to include the perspectives of young, beginning and small farmers in their business operations, regardless of whether those producers are directly represented on the board. For example, AgStar Financial Services has a Young, Beginning and Small Farmer Committee, which is responsible for developing, executing and overseeing the Association's commitment to this segment. This committee is composed of 12 employees and five board members who meet quarterly, and committee members also meet twice a year with an advisory committee made up of customer-owners. These young and beginning farmers provide insights on issues facing young farmers, as well as help shape the content and direction of educational programs and conferences. In addition, AgStar integrates efforts, goals and tactics to support young, beginning and small producers into marketing plans and supported by the organization's Diversity & Inclusion Council.

KNOWLEDGE SHARING

New farmers have a steep learning curve. Often their greatest need is knowledge. Farm Credit organizations nationwide provide training and host seminars on topics such as establishing and maintaining effective business plans, risk management techniques, and intergenerational transfer of family farms. These activities support a wide spectrum of those entering agriculture, including producers focused on organic, sustainable, or local food-related operations, direct-to-retail, or other emerging business models.

Many ag financial professionals have years of experience growing up on farms, operating them or supporting them as lenders. They and their organizations have developed many ways to share this knowledge with customers and potential customers through consulting, seminars, workshops and other opportunities.

"We've got 100 years of experience helping customers begin and grow their operations," said Tim Koch, senior vice president of specialized lending at Farm Credit Services of America and Frontier Farm Credit. "We've got a lot of financial officers that are extremely good at coaching and mentoring young and beginning producers. That fleet of loan officers does a very good job of getting the right products and services into customized solutions for customers."

CONFERENCE HELPS YOUNG FARMERS WITH DECISION-MAKING

Mary and Adam Ebert credit Farm Credit Services of America's 2013 Side by Side conference for the decision-making process they used to buy several parcels of land in west central Iowa. Industry experts at the conference forecast challenging times for farmers and advised attendees to put their energy into improving their current operations before considering expansion. Other speakers detailed what lenders look for when deciding whether to extend credit to a farmer or rancher. The Eberts also received a tutorial on Farm Credit Services of America's online tools.

When the Eberts had the opportunity to buy 30 acres, then an additional 110, they discussed at length the effect such big steps would have on their operation. In the end, the relatively low price for the land swayed the Eberts. Each parcel needed work: Buildings had to come down, and trees stood in the way of planting. But the Eberts, both in their 20s, decided their labor would pay dividends in the future.

With that decision made, the Eberts gathered the documentation needed for a strong loan application. Then they plugged numbers into the online tool they set up after the conference, and the resulting what-if scenario reinforced their conviction that the purchases made sense.

Today, the Eberts farm about 300 acres and exchange some labor and equipment with Mary's family farming operation. They also have hogs and cows.

"Surround yourself with good people who care about you and want you to do well," Mary said in a June 2016 Farm Futures publication. "We go to the Young Farmer Conference the Farm Bureau puts on every year, and [Farm Credit Services of America] has been a huge help with loans and financial advice."

Paul Dietmann, emerging markets specialist with Badgerland Financial, focuses on helping beginning farmers with business planning. One of his latest education efforts involves working with six beginning farmers who obtained a North Central Sustainable Agriculture Research & Education grant to learn about farm financial management. The farmers—who lack previous farming experience and connections to family farms—will gather eight times over a year at each other's farms to learn about a different management topic. For the first meeting, Dietmann taught them how to put together balance sheets. Other Badgerland Financial professionals also will present to the group on topics such as minimizing tax liabilities and recordkeeping.

"The more we can help them understand their financial situation and manage their finances, the better customers they'll be when they come to us," says Dietmann, noting that Badgerland Financial has picked up two of the six in the group as tax customers and made a mortgage loan to another one.


Minnesota
YBD0003

Tailored Solutions: From Loans to Grants, Young, Beginning and Small Producers Have Access to Resources to Help Them Start and Expand

Farm Credit has a 100-year-old mission to support rural communities and agriculture with reliable, consistent credit and financial services. In support of that mission, Farm Credit institutions are leading providers of credit to young, beginning, and small farmers and ranchers.

The Farm Credit Act requires Farm Credit lenders to have programs that specially focus on meeting the needs of young, beginning, and small farmers and ranchers. Farm Credit lenders annually report their lending activity in these areas to Congress and the Farm Credit Administration, the independent federal regulatory agency that oversees the Farm Credit System.

Who are young, beginning and small producers, and what support has Farm Credit provided them?

- **Young farmers** are defined as those 35 years of age or younger. Farm Credit made more than 62,000 loans to young producers in 2015 for a total of $9.4 billion. Those are actual new loans originated in 2015. When Farm Credit first began reporting this specific information in 2001, new loan levels were at 33,000 loans to young producers for $3.1 billion.
- **Beginning farmers** are defined as those having 10 years or less of experience. In 2015, Farm Credit made more than 76,000 new loans totaling $12.7 billion to beginning farmers. In 2015, these loans represented 22.0 percent of new loans made by Farm Credit during the year and 15.2 percent of the dollar volume of all loans made. At year-end 2015, Farm Credit had nearly $41.5 billion in outstanding loans to beginning borrowers.
- **Small farmers** are defined as those having annual gross agricultural sales of $250,000 or less. Farm Credit institutions made just over 150,000 loans to small producers for $11.8 billion in 2015. This is up substantially from the 114,000 loans made to small producers in 2001 for $7.6 billion.

"Farm Credit makes extraordinary efforts to support young, beginning and small farmers and ranchers," said Doug Stark, CEO of Farm Credit Services of America and Frontier Farm Credit, in testimony before the Senate Committee on Agriculture, Nutrition & Forestry in May 2016. "To put Farm Credit's lending to small farmers and ranchers into perspective, at year-end 2015 Farm Credit had just over 1 million loans of all kinds outstanding, and slightly more than 500,000 of those loans outstanding were to small farmers and ranchers."

FARM CREDIT 2015 SUPPORT FOR YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

SEGMENT	# NEW LOANS	$ NEW LOANS
Young—age 35 and younger	62,000	$9.4 billion
Beginning—10 years or less of experience	76,000	$12.7 billion
Small—$250,000 or less in annual gross agricultural sales	150,000	$11.8 billion

RELAXED UNDERWRITING STANDARDS

Some young, beginning and small producers can access the credit they need by having family members co-sign loans or pledge collateral. Others are new to agriculture or lack family support. With or without such support, Farm Credit lenders offer less-established producers a variety of credit and other financial products and services such as operating loans, real estate loans and insurance. Solutions available at particular Farm Credit Associations vary but typically include quick turnaround on loans, competitive interest rates, and a wide range of financing options and services to meet individual needs.

Meeting the credit needs of young, beginning and small farmers often involves evaluating and underwriting borrowers on a case-by-case basis. Many Farm Credit Associations also have developed programs that focus on helping less-established borrowers with their credit needs.

When evaluating loan applications and underwriting loans, lenders typically consider the “five Cs of credit,” which incorporate both qualitative and quantitative measures to evaluate the borrower:

- **Capacity—**a borrower’s ability to repay a loan by comparing income against recurring debts
- **Capital—**contribution a borrower puts toward a potential investment
- **Character—**a borrower’s reputation
- **Collateral—**property or large assets that helps to secure the loan
- **Conditions—**loan terms such as the interest rate and amount of principal, which will influence the lender’s desire to finance the borrower

When it comes to young, beginning and small borrowers, Farm Credit lenders typically relax these standards.

“If you carve out the five Cs of credit, we’re mainly interested in their capacity and their character,” said Carl Horne, program and outreach manager of the Young, Beginning & Small Producer Program at Farm Credit Services of America and Frontier Farm Credit. “If we’re confident in their ability to repay a loan and their management and planning abilities, we may be willing to take on risk even if they don’t have cash in the bank.”

Adds Tim Koch, senior vice president of specialized lending at Farm Credit Services of America and Frontier Farm Credit: “We place less emphasis on equity and liquidity and more emphasis on cash flow, profitability and projected profitability.”

At AgStar Financial Services, relaxed loan underwriting standards for young, beginning and small farmers include lower owner equity requirements, said Sai Thao, emerging agribusiness officer. Borrowers in this segment are required to have 25 percent minimum owner equity and at least equal to the age of the customer for customers 26- to 35-years-old. Normal owner equity standards are 50 percent.

Paul Dietmann, emerging markets specialist at Badgerland Financial, said his organization takes a similar approach: “We require less equity in the farm operations, and we require less working capital. And, for real estate loans, we can accept a higher loan-to-appraised value ratio—essentially a lower down payment.”

Badgerland Financial and other Farm Credit Associations sometimes partner with the U.S. Department of Agriculture Farm Service Agency (FSA) to make credit more affordable for young, beginning and small borrowers. The FSA offers a variety of loan programs that encourage lenders to work with young, beginning and small farmers.

Under one FSA program for real estate loans, farmers can make relatively low down payments. A farmer can make a 5 percent down payment, while the FSA finances 45 percent at a 1.5 percent interest rate locked for 20 years, and Farm Credit or other lenders finance 50 percent at regular market interest rates with the loan amortized over 30 years.

FSA guaranteed loans provide Farm Credit and other lenders with a guarantee of up to 95 percent of the loss of principal and interest on a loan. Farmers and ranchers apply to an agricultural lender, which then arranges for the guarantee. The FSA guarantee permits lenders to make agricultural credit available to farmers who do not meet the lender’s normal underwriting criteria. FSA guaranteed loans are for both farm ownership and operating purposes. A percentage of guaranteed loan funds are targeted to beginning farmers and ranchers and minority applicants.

SPECIAL PROGRAMS FOR FLEDGLING FARMERS AND RANCHERS

Beyond providing credit, young, beginning and small farmers have opportunities for grants and other financial resources to help them get established. Farm Credit Associations offer a variety of unique programs. Some examples:

- AgStar Financial Services' Emerging Agribusiness Lending Program serves the needs of socially disadvantaged farmers (American Indians or Alaska natives, Asian, African Americans, native Hawaiians or other Pacific Islanders, Hispanics and women) and non-traditional agriculture operations, including urban farms, food processors, and direct-to-consumer agricultural producers of fresh fruits and vegetables, honey, fish, berry crops, tree nuts, and fur-bearing animals. The program has three tiers: up to $50,000, $50,000 to $100,000 and $100,000-$175,000. These are character-type loans that require a minimum credit bureau score, income statement, balance sheet, tax returns, business plan, farming background and references.
- The Beginning with Badgerland Program provides grants up to $1,500 to any beginning farmer living in Badgerland Financial's territory, regardless of age. The farmer simply needs to have less than 10 years of experience operating a farm and should be able to show evidence that farming is a part-time or full-time vocation. Grant funds can be used to pay for a variety of farm business-related expenses, including the first year of tax or farm accounting services from a Badgerland Financial professional; purchase of farm accounting software; tuition for courses in farm business management, accounting, or related topics; registration for farm-related conferences or workshops; fees for development of a new value-added agricultural product at a licensed food processing establishment; and FSA loan guarantee fees.
- Farm Credit Services of America has several programs that provide loans to youth in agriculture and college scholarships. The Youth in Agriculture Loans are designed to give the Association's customers' children practical experience. Individual student breeding livestock loans, up to $10,205, offer future producers first-hand experience in business planning and farm financing. Farm Credit Services of America also offers $2,500 scholarships annually to qualified college juniors and seniors studying agriculture or ag business at land grant universities within its territory, and $1,000 annual scholarships to freshman and sophomore students studying agriculture or ag business programs at designated colleges. Like other Farm Credit institutions, Farm Credit Services of America also contributes funds to 4-H and FFA groups for a variety of local and state needs that prepare young people for careers in farming and ranching.

VETERANS: A GROWING SOURCE OF NEW FARMERS

Returning service members from Iraq and Afghanistan have become the latest group of veterans in need of employment and who, by some measures, may be the most likely young people to enter into agriculture and other rural-based businesses.

As service members return from active duty, they tend to return to their home communities, which in many cases are rural. Sometimes they have difficulties finding long-term employment and often need additional assistance in accessing capital to start farm businesses.

Farm Credit helps mobilize veterans to enter agriculture.

The Farm Credit Council collaborates with the Farmer Veteran Coalition (FVC), an organization that mobilizes veterans to enter agriculture and help feed America while rebuilding rural communities. The Council and FVC have partnered to help find farm ownership or employment opportunities for members of the military transitioning into the civilian work force.

The vision for the partnership is to connect the talent and experience that Farm Credit System institutions have in financial and business skills, with farmer veterans whom the FVC has identified as potentially needing such assistance.

Starting the Conversation: Tips for Beginning Producers Before Talking to a Lender

In some industries, new professionals might sit in a cubicle, draw a salary and let others figure out how to run a profitable business. In farming, however, new producers must figure out why they want to work long hours in fields, pastures or feedlots, how they can turn that effort into a steady income, and what type of farm operation they can successfully operate from one year to the next.

Not surprisingly, that type of grit and determination can make a big difference with agricultural lenders.

"If a beginning farmer doesn't show a high level of excitement for life on the farm, that will make it hard for a loan officer to say 'yes' to financing," said Gary Matteson, vice president for Young, Beginning, Small Farmer Programs and Outreach at the Farm Credit Council in Washington, D.C. "Without the kind of visible commitment that suggests the individual is willing to get up in the middle of the night to pull calves or put in an 18-hour day in the field, it wouldn't make much difference how financially prepared that beginning farmer may be—they've got to have the passion."

While passion is clearly a major prerequisite for farm life, capital is also vital for young or beginning producers trying to get started in an expensive business. Due in large part to steep entry barriers, such as high prices to purchase or rent land, substantial input costs, and depressed returns on farm commodities, fewer than 8 percent of U.S. producers are under age 35. While many grew up on farms that became a launching pad for their own operations, it's still common for younger producers to hold down second jobs to help finance their dreams of rural life, as Successful Farming reported in September 2015. Facing those hurdles, experts say it's important that young producers–or even older individuals just getting started in farm life–take a disciplined approach in building their case for lender financing.

STARTING GATE: DEVELOP A BUSINESS PLAN

Business plans are a routine part of the financing process for virtually any business. However, 63 percent of current producers who participated in a recent Sustainable Agriculture Research and Education survey said they had no formal business plan when they started farming. That lapse may help explain why a majority of respondents also said they were "not very successful" at maintaining profitability, managing expenses, and insuring their operations.

In essence, the business plan outlines a strategic overview of what a beginning or young producer wants to accomplish, and why they are a good candidate for achieving those goals. If done well, the plan should include:

- **Personal narrative.** This should include a personal and educational history, an outline of farming experience and a discussion of why the producer wants to pursue a career on the land.

- **Business overview.** In this section, producers should start by identifying their target business model, such as a partnership, limited liability company or other entity for tax purposes. Then, outline short-term goals that cover the intended type of operation (such as crop, livestock or organic farming, or a community-supported agriculture enterprise serving a more urban area). These goals should provide specific targets on production, anticipated income and planned expenses. This overview becomes even stronger if the producer takes time to illustrate longer-term projections on how the farm business can grow while maintaining profitability.

- **Risk management approach.** This component should summarize the producer's approach to handling the uncertainties of farm life. For a production crop operation, this may include the choice of Agricultural Risk Coverage (ARC) or Price Loss Coverage (PLC) under the 2014 Farm Bill, the use of any private multi-peril crop insurance, and a discussion of how the producer would use crop marketing tools to hedge profit risk in the current low commodity price environment. In addition, this risk management narrative should also address contingency planning, which is an important reality-check that all lenders want to see.

"A seasoned producer would plan for unexpected events, like equipment breakdowns or weather events, because those things happen," said Kyle Kauffman, vice president for ag lending services at Farm Credit Illinois. "On the other hand, it's a pretty common planning oversight for younger producers."

- **Balance sheet.** Experienced producers have years of income and cash-flow statements, equity statements, expense records and cost-of-production data. On the other hand, the financial records for most young or beginning farmers often boil down to a basic balance sheet. Lenders will want to see a list of current assets, such as checking, savings and any investment account balances, as well as the value of any real property or vehicles owned by the prospective borrower. On the liability side, the balance sheet should disclose any outstanding debt on a mortgage, vehicle, student loans or credit cards, and any regular monthly payments on those obligations. In addition, lenders typically want to review up to three years of the applicant's most recent tax returns.

The balance sheet summary serves two main purposes. First, it provides lenders with a tangible sense of how well applicants handle their financial affairs (and, by extension, how likely they are to repay operating loans). And, the balance sheet will also determine whether the applicant meets minimum capital standards for lender financing. Across the Farm Credit System, lending to young or beginning producers typically includes a review of the borrower's net worth, ownership equity in the planned farm operation, and expected working capital to meet monthly obligations and pay off existing liabilities.

TAKE TIME TO BUILD A RELATIONSHIP WITH LENDERS

Building a solid case for operating loans or other financing can be a daunting challenge, particularly for younger producers who have little or no experience with the process. Fortunately, an array of online resources are available to help jump start the task. For example, the AgPlan tool developed by the University of Minnesota allows users to customize business plans by type of operation, and share drafts for feedback from select advisers or farm educators. The U.S. Department of Agriculture also provides a substantial library of farm business planning resources through its New Farmers and Start2Farm websites.

While the online resources add tactical value, Matteson of the Farm Credit Council said young or beginning producers should also build early ties with a lender who can offer strategic, real-world advice on the development of a farm business plan. Local Farm Credit Associations have a variety of educational and lending programs available to fledgling producers.

"This is a conversation that most likely should begin a year or more before the producer needs the loan," he said. "Anyone who delays talking with a lender until they really need the money is going to have a much harder time getting an approval, in part because it demonstrates a lack of planning."

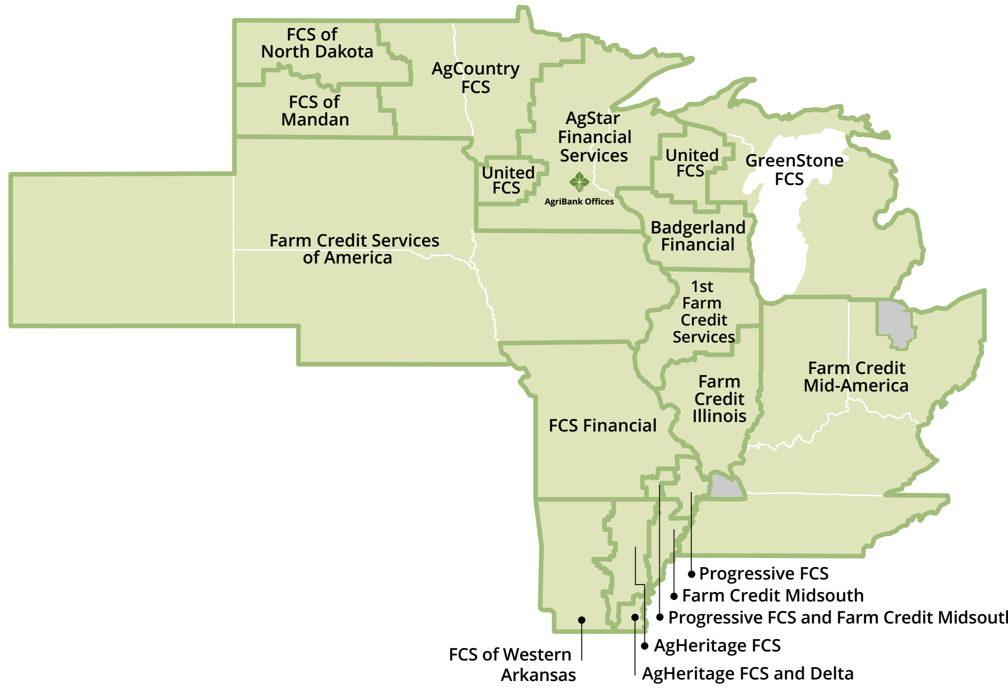
For more Information

Whether farmers, ranchers or other borrowers are looking to begin or expand operations, take advantage of new opportunities or manage day-today operations, Farm Credit can help them access needed financing. Farm Credit offers a wide range of competitive agricultural loans — including operating, equipment, real estate and home mortgage — to help meet their operation's unique needs. Offerings include multiple interest rate options and cash management solutions that can help hold down the cost of borrowing. **Find a local Farm Credit Association at www.AgriBank.com.**

Additional resources for young, beginning, and small farmers and ranchers:
Farm Credit Council
Farmer Veteran Coalition
New Farmer Websites
USDA Farm Service Agency
USDA New Farmers Website

Find previous AgriBank Insights reports on the AgriThought pages of www.AgriBank.com.

AgriBank District Map



About AgriBank

AgriBank is one of the largest banks within the national Farm Credit System, with nearly $100 billion in total assets. Under the Farm Credit System's cooperative structure, AgriBank is primarily owned by 17 affiliated Farm Credit Associations. The AgriBank District covers America's Midwest, a 15-state area stretching from Wyoming to Ohio and Minnesota to Arkansas. With about half of the nation's cropland located in the AgriBank District, and nearly 100 years of experience, the Bank and its Association owners have significant expertise in providing financial products and services for rural communities and agriculture. For more information, please visit www.AgriBank.com.

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