

Review of Lender Requirements for Beginning Farmer Loan Programs



Introduction

Agriculture is a capital-intensive venture. Capital is necessary through every step of an agricultural operation: from preparing the land for the crop, to planting the crop, to harvesting the crop, etc. Many entering agriculture for the first time may not have built up the necessary cash reserves and may thus be forced to rely on borrowing capital from agricultural lenders. But many beginning farmers have reported that access to capital is in fact the biggest challenge in starting off in farming – that along with access to farmland (ERS, 2013). Understanding the capital sources available in Maryland and how to apply for those sources is therefore a necessary skill for beginning producers to have. This factsheet will focus on the requirements of three

potential sources: (1) USDA's Farm Service Agency (FSA), (2) Maryland Agricultural & Resource-Based Industry Development Corporation (MARBIDCO), and (3) three Farm Credit lenders. Understanding the requirements of each will help you, as a potential borrower, to understand what forms of credit are available and documentation needed before you apply for a loan.

FSA, the first of these potential sources, makes both direct and guaranteed loans to farmers who are unable to get financing from traditional commercial lenders. A direct loan is made and serviced by FSA using federal dollars, and a guaranteed loan is made and serviced by a commercial lender (like a Farm Credit lender), with FSA guaranteeing up to 95 percent

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of the loan against loss. Each year, FSA sets aside a portion of its loan program money to target both guaranteed and direct loans to beginning farmers.

The second potential source of capital, MARBIDCO, was created by the Maryland legislature to help provide financing to Maryland-based ag, forestry, and seafood businesses. MARBIDCO provides specialized financing to maintain the continued viability of Maryland agricultural and rural businesses. Perhaps the biggest financial assistance MARBIDCO provides for beginning farmers is in financing farmland purchases. Utilizing MARBIDCO's most popular loan program (MRBIFF), a commercial lender typically provides 50 percent or more of the funding needed for a farmland purchase, while MARBIDCO finances the remaining amount needed after a small borrower down payment. But these requirements will be discussed in detail later in the fact sheet.

The third potential source of capital for beginning farmers is the Farm Credit System. Created in 1916 by Congress, this system provides a network of independent, member-owned lenders across the



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Before applying for a loan with any agricultural lender, a beginning producer would want to develop a business plan for the new agricultural operation. In the business plan, lenders would like to see that you, the potential borrower, understand how your crops will be marketed and that you have backup plans for the possibility that the market for those crops disappears, contingency plans for when equipment breaks, and risk mitigation tools such as crop insurance and/or marketing agreements where feasible.

United States. Farm Credit's mission is to provide reliable sources of credit to farmers and ranchers by making loans at competitive rates and to provide other services to qualified borrowers. The U.S. is divided into various regions, with a different Farm Credit lender servicing each region. Maryland falls into three different Farm Credit territories: (1) Mid-Atlantic Farm Credit (MAFC), (2) Colonial Farm Credit (CFC), and (3) Farm Credit of the Virginias (FCV). Each of these three Farm Credit lenders provides programs targeted toward helping beginning farmers get started in agriculture. As will be discussed later, each of the three Farm Credits provides similar programs and additional support for beginning farmers to help them succeed in agriculture.

It should be noted that these are

not the only three sources of capital available to the beginning farmer. Other commercial lenders may provide agricultural operating loans and may have other requirements not mentioned in this article. Please check with those sources to determine what information the lender will need.

Before Applying With Any Credit Source

One document required by all three of these credit sources is a business plan for the operation. The business plan does not need to be lengthy and complex, but the lending institute is going to want to see that the potential borrower has a basic understanding of the industry and the business. In the business plan, lenders would like to see that you, the potential borrower, understand

how your crops will be marketed and that you have backup plans for the possibility that the market for those crops disappears, and risk mitigation tools such as crop insurance and/or marketing agreements where feasible. They will also want to see what contingency plans you have developed for the possibility of major equipment breaks. Finally, they would like to see a cash flow statement and a balance sheet. Beginning producers taking the time to develop such a business plan will be in a better position when applying with any of these lenders.

For those farmers inexperienced in developing a business plan, University of Maryland Extension (UME) provides resources to aid in the task (see University of Maryland Extension EB-307: *Farm Business Planning*). Another valuable source when developing a business plan is UME's Maryland Rural Enterprise Development Center (MREDC). The MREDC provides resources to help develop a business plan and information on other innovative business strategies. MARBIDCO also provides materials on developing a business plan and has links to resources on its website. A beginning farmer without a business plan should consider reviewing these documents and developing a business plan before approaching potential lenders.

Lastly, before applying for any credit source, you as the potential borrower may want to consider requesting a copy of your most recent credit report from each of the three major credit bureaus: TransUnion, Experian, and Equifax. As will be discussed later, the credit sources are naturally going to want the borrower to have a favorable

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credit history. Reviewing your credit history would allow you at least the opportunity to know what is in the report; you may find mistakes in the report that you want to dispute. A person is entitled to one free copy of their credit report, available at www.annualcreditreport.com, from each of the three bureaus each year; as the potential borrower, you may want to use those free reports to see the credit history that the loan officer will see in evaluating your application for credit. Reviewing your credit history before applying for a loan will also allow you to determine if you even have a credit history. As will be discussed later, some of the lenders will help a potential borrower develop a credit history in order to be eligible for a loan.

Credit Sources Available

USDA-FSA Loan Programs

Direct Loan Program: Direct loans are made and serviced through USDA-FSA using government funds. FSA offers an array of loans for producers: farm ownership loans, farm operating loans, emergency loans, farm storage facility loans, etc. FSA targets a portion of its funds

each year to many of these programs, which are utilized in making loans to producers who do not have access to commercial credit. Different loan programs have different ceilings; for direct Farm Ownership and Farm Operating Loans, the loans under either program are limited to \$300,000. Different loan limits apply in other programs such as the Emergency, Farm Storage Facility Loans and Microloans, FSA's newest program, which is limited to \$35,000 but is geared to beginning and niche farmers. The direct farm operating loans may be used to purchase livestock, farm equipment, purchase operating inputs, and to do capital improvements in some instances. The direct farm ownership loans can be used to purchase farmland, construct new buildings or fixtures, repair existing buildings or fixtures, or help implement conservation practices on farmland.

To qualify as a beginning farmer for either a direct farm operating loan or a direct farm ownership loan, a farmer needs to have operated a farm for less than 10 years, meet the program eligibility requirements (see Figure 1), and substantially participate in the farming operation. For a farm ownership loan, the beginning farmer cannot already own a farm larger than 30 percent of the median-size farm in that county.

Guaranteed Loan Program: FSA also has a guaranteed loan program for both operating loans, farm ownership loans and conservation loans. The guaranteed loan program allows FSA to provide a lender with a guarantee of up to 95 percent of the principal, interest and certain other expenses in the event of loss on the loan. The guaranteed loan program is a way to provide credit to farmers



PHOTO: EDWIN REIMSBERG

USDA loan programs target a portion of their loan funds to beginning producers. To qualify as a beginning farmer for either a direct farm operating loan or a direct farm ownership loan, a farmer needs to have operated a farm for less than 10 years, meet the program eligibility requirements (see Figure 1), and substantially participate in the farming operation. For a farm ownership loan, the beginning farmer cannot already own a farm larger than 30 percent of the median-size farm in that county.

who may not meet a lender's normal underwriting standards.

Both guaranteed loan programs are limited to \$1,302,000 (as of the time this publication went to press; this amount is increased annually for inflation). The interest rate and payment terms are negotiated between the lender and the borrower. The payback period for a guaranteed farm operating loan is typically within 7 years; for guaranteed farm ownership loans, the payback period cannot exceed 40 years.

The requirements of the guaranteed loan program are similar to those of the non-guaranteed loan program. In order to qualify as a beginning farmer for the guaranteed loan program either for a farm operating loan or a farm ownership loan, he or she needs to (i) have

operated a farm for less than 10 years, (ii) meet the loan eligibility requirements for the loan he or she is applying for (see Figure 2), and (iii) substantially participate in the operation. Again, for farm ownership loans, a beginning farmer would not be able to own a farm that is greater than 30 percent of the median farm size in the county.

MARBIDCO Loan Programs

MARBIDCO (Maryland Agricultural and Resource-Based Industry Development Corporation) offers a Maryland Resource-Based Industry Financing Fund Loan (MRBIFF) to provide for the purchase of fixed assets, equipment, and real estate. MARBIDCO's loan programs are designed to be utilized by those borrowers who may be short on equity and have insufficient

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collateral to be able to finance a purchase through conventional means, which is typical for a beginning farmer. MARBIDCO along with the MRBIFF program will finance up to 50 percent of the project, and typically a commercial bank (or FSA) will finance the other 50 percent.

Somewhat similar to FSA, many MARBIDCO loan programs require that a commercial lender will have been consulted in some fashion before making an application (often in the form of a referral), although an outright bank downturn for a loan is not a requirement. The MRBIFF program requires that a commercial lender actually provide a majority of the commercial financing when requesting that MARBIDCO consider the application (see Figure 3 for a review of all the qualifications required to be eligible). The program can also be used to finance environmental and water quality programs. MRBIFF loans are generally limited to \$200,000 for equipment and fixed asset purchases or \$400,000 for real estate purchases. The loan has a term of 5 to 7 years for equipment and fixed assets and 10 to 30 years for real estate purchases. MRBIFF loans carry an interest rate of 3 percent for the first three years and a higher rate after the third year.

Farm Credit Programs

In Maryland, all three Farm Credit lenders have loan programs specially designed for beginning producers. As stated earlier, Maryland falls into three different Farm Credit territories. Each of these three Farm Credit banks offers a loan program for beginning producers.

CFC and FCV provide loan programs for young, beginning, and small producers (see Figure 4 for a walk-through of all the qualifications needed for a Farm Credit loan program). To qualify as a *young* producer, the potential borrower would need to be less than 35 years old. A *beginning* producer would need to have less than 10 years of farming, ranching, or aquatic agriculture experience in order to qualify. A *small* producer would need less than \$250,000 in annual gross agricultural or aquatic sales in order to qualify. As discussed earlier, beginning producers will need to have developed a business plan before going to see lending officers at either CFC or FCV.

CFC also has a Small Farm Loan Program (SFLP) for full and part-time farmers who would not qualify for a loan based on the standard credit score criteria for small loans (maximum note amount in this program would be \$50,000 or less). These loans would have compensating factors that make the loans an acceptable risk.

MAFC has the StartRight Program for young, beginning, small, and minority farmers (see Figure 4 for a walk-through of all the qualifications needed for a Farm Credit loan program). This program provides a qualifying producer with low interest term and operating loans, low interest loans to encourage the implementation of best management practices, and farmland financing. In order to qualify a producer would need to:

1. have less than \$2 million in annual gross sales, and
2. be less than 35 years old at the time of closing,
3. have less than 10 years of agricultural experience, or
4. be considered American Indian or Alaskan Native, Asian, Black or African American, Native Hawaiian or other Pacific Islander, a person whose ethnicity is of Hispanic or Latino, or women.



PHOTO: EDWIN REMSBURG

MARBIDCO's loan programs are designed to be utilized by those borrowers who may be short on equity and have insufficient collateral to be able to finance a purchase through conventional means, which is typical for a beginning farmer.

As discussed earlier, beginning producers will need to have developed a business plan before going to see lending officers at MAFC.

MAFC also recently introduced Farm Fresh Financing, a program that focuses on “new generation” (NewGen) farmers who have small-scale or sustainable agricultural operations. The Farm Fresh Financing program can also provide loans for any organizations involved in the local food system in their territory (such as CSA's and food aggregators). The NewGen Farmer program allows MAFC to adjust their underwriting standards and expand MAFC's potential class of borrowers.

All three Farm Credit lenders will also require some form of credit history, such as a credit score. These lenders may work with those potential beginning farmer borrowers who may not have a credit score to develop a credit history. For example, Amish borrowers will not typically have a credit score, but MAFC and CFC have worked with those borrowers to develop one by looking at their payment history. Lenders will also require borrowers to develop a personal balance sheet detailing assets and liabilities (and if a borrower's business is incorporated, a business balance sheet will need to be provided too). Lastly, most lenders will want to see copies of the last two years of borrower's federal income tax returns (if they exist), even if the borrower was not yet operating a farming enterprise.

FCV is currently developing a Knowledge Center which will provide young and experienced farmers with access to learning tools, information about educational events, and programs to enhance business skills.

MAFC, FCV, and CFC offer beginning borrowers programs to provide the financial skills necessary to become better borrowers. All three Farm Credit lenders offer at a discount the two-year AgBiz Master's program that utilizes materials from David M. Kohl, Professor Emeritus in the Department of Agricultural and Applied Economics at Virginia Tech. This program is designed to hone the business and financial skills of the participants. The program focuses on a mixture of online materials and regional face-to-face meetings. This program gives the participants the skills necessary to become better borrowers in the Farm Credit system. Past participants have enjoyed the program because of the networking opportunities with other beginning producers in the region.

All three farm credits also offer another program, again in conjunction with David Kohl: the annual Young Farmer Institute program. This program is a one-day program offering in-person training from Professor Kohl and provides a forum to help develop the skills beginning borrowers will need to be successful in agriculture.

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PHOTO: EDWIN REINBERG

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provide young and experienced farmers with access to learning tools, information about educational events, and programs to enhance business skills. Please check the FCV website (www.farmcreditofvirginias.com) for information on the availability of this resource.

Conclusion

Availability to credit sources is important to all agricultural operations, but especially to those beginning producers who may not have built up the necessary cash reserves in their operations. As this fact sheet has shown, a few lenders in Maryland have loan programs specifically for beginning producers. Before meeting with a loan officer, a beginning farmer should understand the documentation and requirements of the specific loan program.

A beginning producer should develop a business plan before applying with a lender. With a business plan in hand and a basic understanding of the requirements of the various loan programs, a beginning producer will be able to review the loan programs they qualify for and make the best decision for financing his or her operations. This initial capital can help to make these beginning producers successful agricultural producers and help to ensure that they are in business for years to come. ■

For more information on tools available for beginning farmers in Maryland, see <http://extension.umd.edu/newfarmer>.

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Figure 1

Eligibility Requirements for Direct Loans, source Your Guide to FSA Loans

Qualifications	Yes	No
1) I have training, education, or experience that will enable me to effectively manage my farm or ranch		
2) I have participated in the business operation of a farm or ranch for at least 3 out of the last 10 years (Farm ownership loans only).		
3) I have operated a farm or ranch for 10 years or less (For beginning farmer or rancher targeted Funds only).		
4) If I currently own a farm or ranch, it is less than 30% of the median farm size in my county (For beginning farmer or rancher targeted funds only).		
5) I can make a cash down payment of at least 5% of the purchase price for the farm or ranch I want to buy, and its price is less than \$500,000 (for down payment loans only).		
6) My operations is in a county that has a disaster designation, and it has been more that 8 months since the designation was declared. I suffered a production loss (at least 30%) of a physical loss due to the designated disaster.		
7) I am a citizen of the United State, a non-citizen national, or a qualified alien.		
8) I possess the legal capacity to obtain a loan.		
9) I am unable to obtain credit elsewhere at reasonable rates and terms.		
10) I can show that I have a good credit history (I pay my bills on time) or, if I do not, I can show that my failure to pay my bills was due to circumstances beyond my control, was infrequent or did not happen recently.		
11) My operation is a family farm or ranch, and the majority of the physical labor and management is provided by me, a family member, or another entity member.		
12) I have not received debt forgiveness (caused FSA to lose money) on another direct or guaranteed loan.*		
13) I will not be behind on any debt (other than a debt under the Internal Revenue Code of 1986) that I owe to the U.S. Government when this loan is closed.		

* Debt forgiveness does not include debt reduction through a conservation contract, a write-down provided as part of a discrimination complaint or to claimants in certain legal settlements, or prior debt forgiveness that has been repaid in its entirety. (Contact an FSA loan officer for additional guidance or clarification).

Figure 2

Eligibility Requirements for Guaranteed Loans (farm ownership, operation, and conservations), source Your Guide to FSA Loans

Qualifications	Yes	No
1) I am a citizen of the United States, a non-citizen national, or a qualified alien.		
2) I possess the legal capacity to obtain a loan.		
3) I the lender will not approve my loan without a FSA guarantee.*		
4) I have not received debt forgiveness (caused FSA to lose money) or another direct or guaranteed loan.**		
5) My operation is a family farm or ranch, and the majority of the physical labor and management is provided by me, a family member, or another entity member.*		
6) I will not be behind on any debt (other than a debt under the Internal Revenue Code of 1986) that I owe to the U.S. Government when this loan is closed.		
<p>* This requirement does not apply to a conservation loan.</p> <p>** Debt forgiveness does not include debt reduction through a conservation contract, a write-down provided as part of a discrimination complaint or to claimants in certain legal settlements, or prior debt forgiveness that has been repaid in its entirety. (Contact an FSA loan officer for additional guidance or clarification).</p>		

Figure 3
Do You Qualify for a Maryland Resource-Based Industry Financing Fund (MRBIFF) Loan with MARBIDCO?

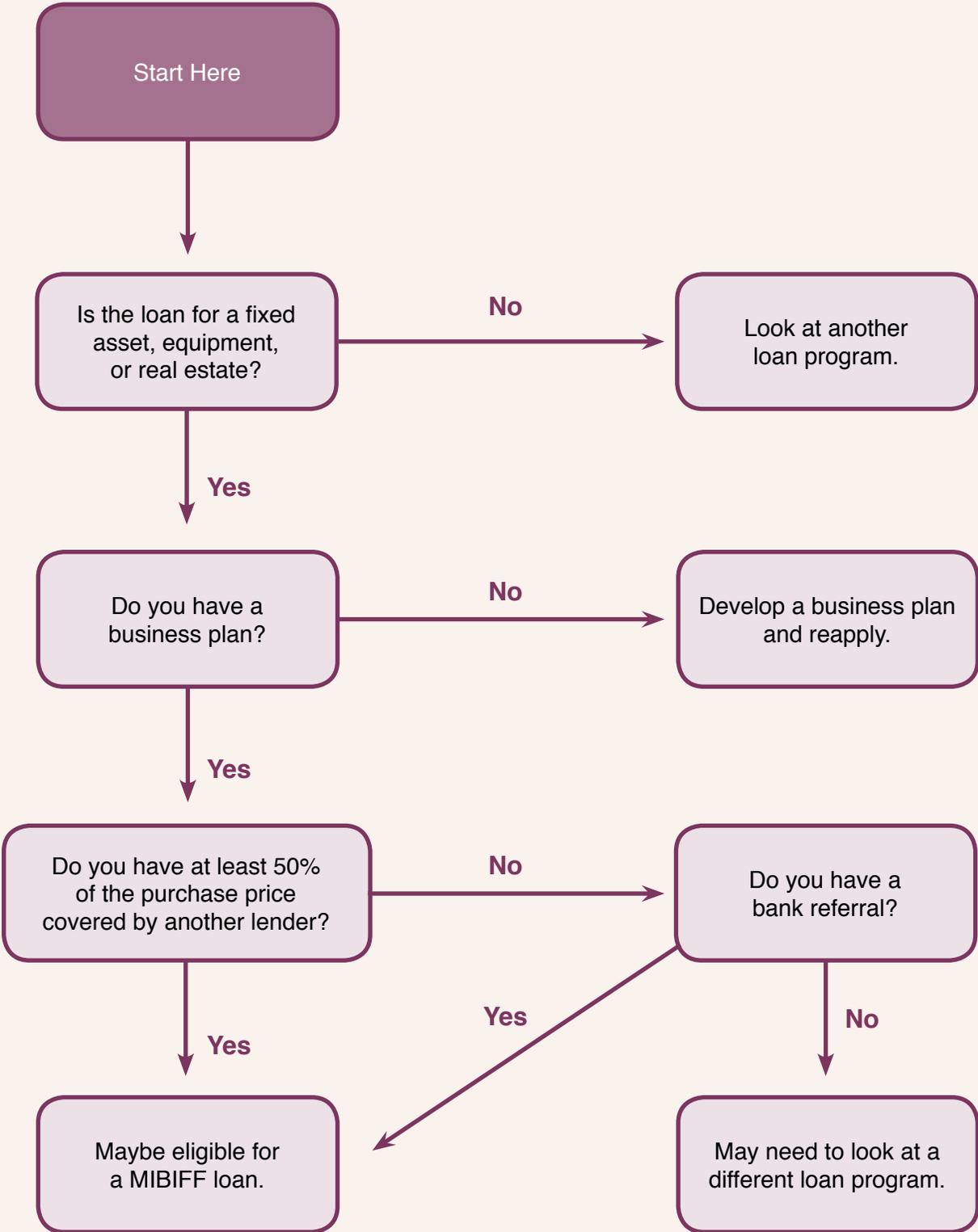
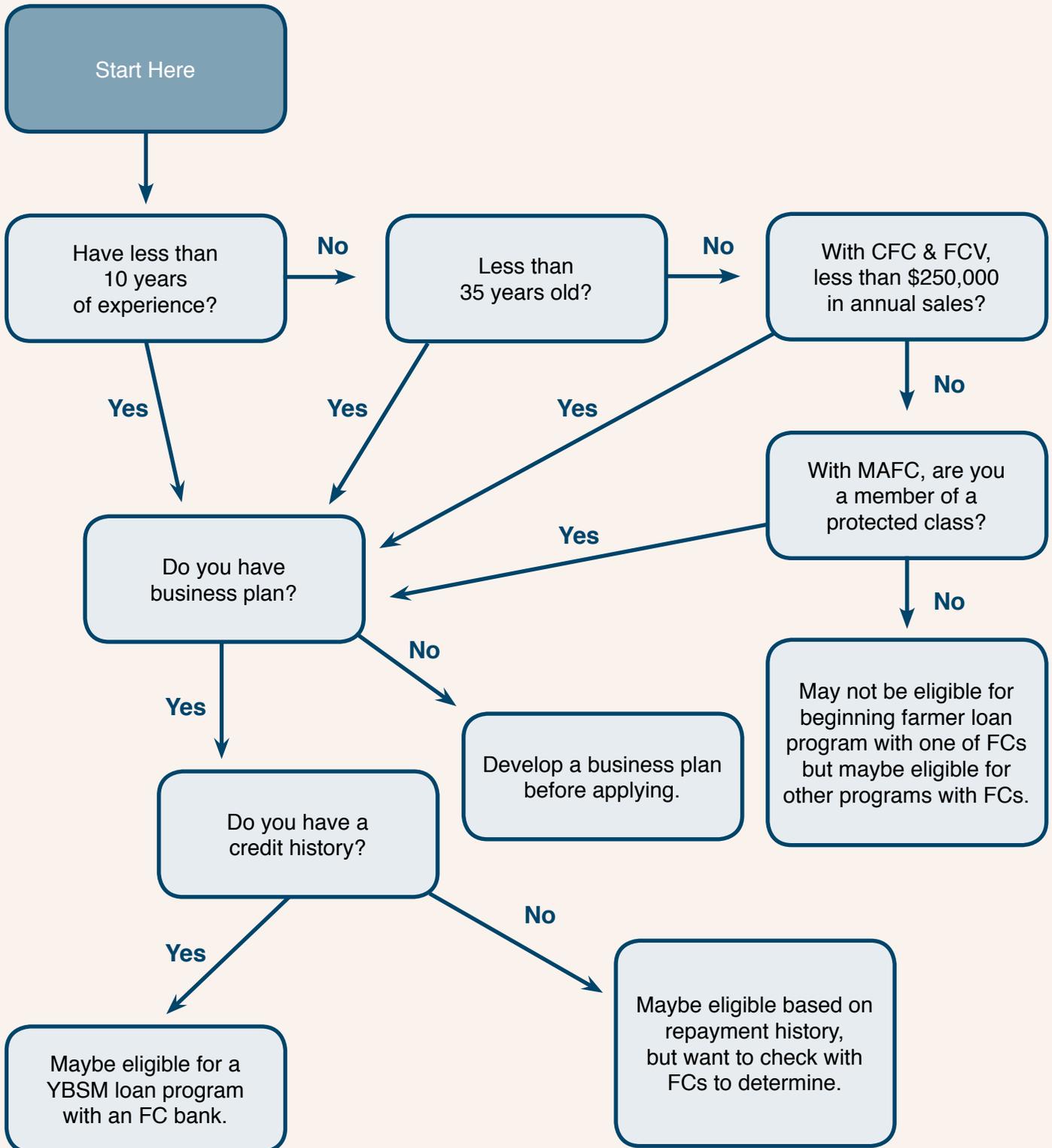


Figure 4

Do You Qualify for a Beginning Farmer Loan with Mid-Atlantic Farm Credit (MAFC), Colonial Farm Credit (CFC), & Farm Credit of the Virginias (FCV)?





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