



Land Link

CENTER *for*
RURAL AFFAIRS



Strategies for Financing Beginning Farmers

A good overview of lending and credit for farmers is in *The Farmers' Guide to Agricultural Credit*, an online description of what lenders look for and how to prepare for borrowing money: <http://www.rafiusa.org/pubs/puboverview.html> (or \$10 from RAFI-USA, 919.542.1396).

Arrange Your Finances

Set Your Own Goals: Set short term objectives, and long-term goals for quality of life and what land/production will help you achieve it. Start by documenting what you want to achieve. Include:

- annual income
- enterprises
- methods of production
- quantity and quality of production

Run the Cash Flow: Run the numbers to know how one enterprise will support or feed off another. What happens if something goes wrong in one or more enterprises? Test some scenarios to adjust for a potential 10 percent sale price decline or 10 percent loss of production.

Collateral Thinking: What do you have to pledge as security or trade should something go desperately wrong.

Farming Experience: Where, what type, to what extent do you have experience/knowledge that you can follow through with getting the job done as proposed?

Rental Arrangements: Will there be rental arrangements used? How will they support your goals?

Down Payment: Do you have savings or other resources to commit or place at risk to achieve your goals?

Previous Ownership/Management: Have you previously owned or managed significant property that demonstrates your ability to undertake the proposed responsibility of assets to be owned and managed by you?

Improved vs. Unimproved Real Estate: Is it cost effective? Do you have the skills, financing or time to build facilities?

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Information and Funding Sources

General Production and Marketing Information: ATTRA is a free information source for sustainable farmers. ATTRA specialists will research and send you publications about your interest area. A number of topics are available online: <http://www.attra.org>, or by calling 800.346.9140.

Sources of Funding: At least five sources of potential funding are available including the local bank, Farm Credit Services, U.S. Department of Agriculture (USDA) Farm Service Agency (FSA), Aggie Bond programs, and Private Contracts

Beginning Farmer Financing Programs

- **Local banks.** Many banks participate with agencies in providing financing to beginning farmers including aggie bond programs and guarantee financing through USDA. Although it is uncommon, some banks have created local beginning farmer financing initiatives that link funds from depositors to a special lending pool available to beginning farmers. Inquire with your local bank if such a program is available.
- **Aggie Bond Programs.** Several states have created a tax-free bond program to assist beginners acquire farmland, buildings, equipment, etc. Some require management courses or business plans (a good idea for any investment). In Nebraska look at www.nifa.org or call 800.204.6432; for other states look here: <http://www.stateagfinance.org/directory.html>.
- **USDA Beginning Farmer Loan Programs.** USDA Farm Service Agency (FSA) is the traditional lender of last resort and has its roots in providing funds to beginning farmers. They provide loans with funding Congress appropriates each year with a portion targeted toward beginning farmers.
 - **Land Contract Guarantee Pilot**
FSA is testing a beginning farmer private contract guarantee program in 9 states – CA, IN, IA, MN, NE, ND, OR, PA, WI – through September 2007. Land in those states is eligible for guarantees to make ‘prompt payment’ of up to 2 annualized payments for a 10-year purchase contract.
 - **Operating – Direct Loan**
FSA provides subsidized interest rates on operating loans to beginning farmers and experienced farmers. A five-year line of credit is also available. “Graduation” to guaranteed or commercial credit is mandatory after 7 years. The 7 years can be consecutive, non-consecutive, or a combination thereof.
 - **Operating – Guaranteed Loan**
FSA guaranteed loans are available through local lenders or Farm Credit Services. While the financing is through the local bank, FSA provides a guarantee to the

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lender up to 95 percent. Interest rates cannot exceed the lender's average farm customer rate. In certain instances under the Interest Assistance Program, FSA will provide assistance in lowering the interest rate up to 4 percent.

- **Real Estate – Direct Loan**
Available strictly for real estate purchases, loans are available at subsidized interest rates to both beginning and experienced farmers.
- **Real Estate – Down Payment Assistance**
Assistance with a down payment is provided by FSA. FSA requires the beginning farmer to provide a 10 percent down payment and will then provide up to 30 percent toward the purchase, with payments stretched over a 10-year period. The remaining 60 percent then comes from conventional sources, such as the local lender or seller-financing, with amortized payment over a 30-year period.
- **Real Estate – Joint Financing 50/50**
This program does not require a down payment by the beginning farmer. FSA will provide up to 50 percent of the financing at a 5 percent interest rate.
- **Real Estate – Guaranteed**
This is similar to guaranteed operating loans, above.

For more information on FSA loan programs for beginning farmers, contact your county USDA FSA office or get an overview from the Center for Rural Affairs website:
http://www.cfra.org/resources/Publications/Beg_Farmer_loan_programs.htm.

- **Farm Credit Services “Young & Beginning” Program.** Farm Credit Services of America offers a Young & Beginning loan for less-established producers (<http://www.fcsamerica.com/3f2f8c63-2c99-415f-a24c-3b1581d3262d.aspx>). This program is designed for producers age 35 or younger, or with 10 years experience or less. Farm Credit Services offers real estate loans, operating loans, and insurance. In addition, it offers Business Education Reimbursements for business classes and financial management tools; Youth in Agriculture Loans of up to \$2,500 for students; and College Scholarships.
- **Other Beginning Farmer Finance Programs.** Various states provide beginning farmer finance programs. They range from direct loans for special types of projects to guarantee financing. A list of states and the types of programs they offer can be found at <http://www.stateagfinance.org/>. Contact your state department of agriculture for details in your state.
- **Beginning Farmer Tax Credit.** Available in Iowa and Nebraska, the tax program provides an incentive to current and retired farmers who rent agricultural assets to a beginning farmer. The owner receives a tax credit for several years based on the value of the lease. Learn more about Iowa's program at 515.281.6444, http://www.iada.state.ia.us/begin_farmer_tax.htm or Nebraska's program at 800.446.4071, <http://www.agr.state.ne.us/division/med/begfrm.htm>.

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- **Private Contracts.** Many property owners are willing to contract directly with a beginning farmer for sale of land, machinery, livestock, or other assets. These contracts can range from cash deals to share rent to work-in arrangements in which labor pays for part or all of the property. Examples are on the Center for Rural Affairs' website, www.cfra.org/issues/linking_strategies.htm or you can find case studies are at www.farmprofitability.org .

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