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FINANCING FARMING IN THE U.S.:

NINE CASE STUDIES OF
COMMUNITY DEVELOPMENT FINANCIAL
INSTITUTION LENDING IN THE FARM
PRODUCTION SECTOR



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► HARVESTING EFFECTIVE LENDING PRACTICES IN THE FARM FINANCING SECTOR

Financing Farming in the U.S. (FFUS) is a project designed to help increase the flow of capital into the small and midscale farming sector. The FFUS network is comprised of a number of small farm lenders and advisers from across the country that came together to explore strategies for improving the flow of capital to smaller scale, diversified farms.

The project takes a three-step approach toward this goal:

- Harvest in-the-field learning about small and midscale farm financing.
- Use resulting case studies and other information to build community of practice interaction among existing and emerging farm lenders.
- Support the lenders' efforts to address common challenges, such as the potential to tailor underwriting tools for lending into the small and midscale farm sector.

In June 2011, FFUS network members Susan Cocciarelli (Michigan State University Center for Regional Food Systems) and Patty Cantrell (Regional Food Solutions, Inc.) interviewed lenders from community development financial institutions (CDFIs) and other organizations with experience in the small and midscale farm sector. Interviews addressed the broad range of considerations involved in entering and participating in the sector as a lender, along with analysis of select loans, both successful and unsuccessful. Appendix A, the Production Agriculture Loan Risk Mitigation Checklist, offers lenders a guide for reviewing agriculture loans using the Five Cs of Credit, a method used by lenders to determine the creditworthiness of potential borrowers. This risk mitigation tool was built based on information gleaned from each case study's farm loan examples.

In consultation with research participants and other advisors, the project developed case studies and other informational pieces from the interviews. The project, with input from CDFI staff, made the pieces available to the Opportunity Finance Network, the trade association among CDFIs nationally, to use as part of the Financing Healthy Food Options Capacity Building Initiative.

This compilation of nine CDFI case studies provides the reader with profiles of community lenders actively providing financial products and services to borrowers in the food production sector. Appendix B offers an "at a glance" profile of all nine case studies.

NATURAL CAPITAL INVESTMENT FUND

The Natural Capital Investment Fund (NCIF), a CDFI and a private, non-profit, supporting organization to the Conservation Fund, approaches its mission of environmental stewardship, sustainable economic development, and social justice through its loans to independent, limited-resource farmers to purchase on-farm grain storage bins. The additional income from holding and selling grain at the most favorable market times helps stabilize farm income during a shift to more sustainable production practices. NCIF has also supported conventional farmers and key supply chain entities to encourage diversification into more sustainable agricultural practices.

NCIF's mission is to advance sustainable economic development, and to have a positive impact on human health and the natural environment through debt, equity financing, and technical assistance. NCIF was certified as a CDFI, offering debt and equity financing to small businesses since 2001. It is a certified Community Development Entity, is approved as a U.S. Department of Agriculture (USDA) Intermediary Re-lender, provides technical assistance, and has provided debt and equity financing to small businesses since 2001.

Loan Volume

- NCIF provided more than \$2 million in senior loans and subordinated debt to 24 businesses in 2010, leveraging more than \$11 million. NCIF also provided more than 900 hours of technical assistance to 88 emerging businesses. Since 2001, NCIF has lent or invested more than \$5 million in 72 businesses, leveraging an additional \$40 million and creating or retaining 350 jobs.

Parameters

- Debt or subordinated debt ranging from \$35,000–250,000; interest rates reflect risk.
- Stage: early to expansion-stage companies with market traction and growth opportunities. NCIF is an approved USDA Intermediary Relending Program lender in West Virginia.
- Sectors targeted: sustainable forestry and forest products, value-added and sustainable agriculture, renewable energy and fuels, eco- and heritage tourism, energy efficiency, natural medicines, green building, environmental services, recycling and water conservation.
- Geography: West Virginia, North Carolina, Southwest Virginia, and the Appalachian Regional Commission designated regions of Ohio, Kentucky, and Tennessee.
- NCIF is a wholly owned subsidiary of The Conservation Fund.

Farm Lending

Niche

NCIF works primarily with low-resource, minority farmers. It also works in agriculture because of the conservation and community benefits of independent, sustainable-agriculture farms. Agricultural production lending fits the triple bottom line that guides NCIF: environmental stewardship, sustainable economic development, and social justice. It further recognizes a particular need to support a sector that often does not fit many economic development programs; farming does not produce great numbers of jobs, which is the primary success measure for many programs. “NCIF tends to be the lender providing equity-like capital that takes more of the risk,” states Rick Larson, NCIF North Carolina Program Director. “Where we can, we like to partner with a traditional lender. What we have found in our agriculture lending on the production side is that we tend to take on more of the risk because we are fully exposed instead of partially exposed. That is something to pay attention to as a CDFI. There is a gap in agriculture lending.”

NCIF is motivated to understand gaps in farm production lending and the capacity of farmers to move toward more sustainable production practices. It partners statewide to address the sector's needs. According to Rick Larson, the Rural Advancement Foundation International-USA (RAFI-USA) documented that North Carolina farmers face a gap in appropriate agricultural finance. NCIF works to fill the niche. It has an institutional commitment to sustainable agriculture: offering direct financing, or bringing together farmers that don't have access to mainstream financing and agriculture lenders such as USDA Farm Service Agency (FSA) by offering products (the grain-bin cost share program) that might reduce risk.

For example, NCIF's strategic partnership with the North Carolina Department of Agriculture and Consumer Services (NCDACS) led to the development of a special lending program for limited-resource and minority farmers growing commodity grains. With the close cooperation of a range of partners—NCDACS, black farmer cooperatives, state and local resource providers, and private sector representatives—NCIF crafted a joint microloan/grant program that made on-farm

grain storage affordable for limited-resource farmers. NCIF utilized a wide range of funding sources, from foundations and the North Carolina Tobacco Trust Fund Commission to a farmland preservation trust fund, to finance the project (50% cost share grant + 45% microloan + 5% farmer equity). The grain bins funded through the program have given 20 farmers the ability to utilize futures contracts and sell grain when the market is most favorable. NCIF's long-term goal is to help these farmers use their increased farm revenues to explore diversification into sustainable agricultural practices. According to Marten Jenkins, NCIF President, "Pulling pieces together is the glue that makes these deals happen. We connect them to the resources, many of which were unknown to them. It's more than just the capital. Being an educated lender for the sector helps us determine how to solve someone's problems and move the deal forward."

Capacity Building

Assessing its particular fit and role in financing farming, NCIF has focused on being a lender or bridge for lending to farmers who are committed to sustainable agriculture. As NCIF has built its capacity, it did so by increasing its understanding of agriculture as a sector, as a part of the overall food system, which includes and requires other links in the supply chain from farm to table, such as processing and distribution. This brought NCIF in touch with people who are experts in sustainable agriculture and its components, enabling NCIF to build its loan review committee with the breadth and depth needed. "There is not a cookie-cutter approach to lending because there are so many variables," said Rick Larson. "I think that is one of the lessons. You really need to do a business plan to understand if there is a role for you as a CDFI and where in the supply chain it makes sense to do that lending. Know the whole sector; understand where the funding sources are for rural and urban agriculture. You will find your niche as you attempt to build partnerships and offer lending to borrowers trying to make it in the sector."

NCIF has taken the time to learn about the markets the farms are in and has built its capacity to review a project by understanding the role, capacity, and value of strategic partnerships. Because of its flexibility and partnerships, for example, NCIF has been able to tailor its grain bin program for limited-resource farmers to farmer cash flow. In addition to the obvious benefit of reducing the cost of storage by 50%, the grain bin loan is repaid once a year over five years, with the payment timed to best suit the farmer's harvest schedule.

Specific steps NCIF took to build its capacity and partnerships:

- Adding a high-level North Carolina Department of Agriculture official to its Board of Directors
- Developing an Agricultural Investment Committee specifically charged with reviewing agricultural requests
- Hiring an experienced agricultural lender to lead its lending efforts in Appalachian Ohio and Kentucky
- Participating in RAFI-USA grant reviews to gain familiarity with grassroots agricultural innovation in North Carolina
- Adding production farmers to NCIF's Advisory Committee

Key NCIF Partners:

- USDA FSA
- North Carolina Appalachian Sustainable Agriculture Project
- Rural Agriculture Foundation Initiative (RAFI-USA)
- Carolina Farm Stewardship Association
- Appalachian Center for Economic Networks in rural Ohio
- North Carolina Department of Agriculture and Consumer Services
- North Carolina Agricultural Development and Farm Land Preservation Trust Fund
- North Carolina Tobacco Trust Fund Commission
- Extension Services

Technical Considerations

Lending at agriculture-appropriate interest rates (particularly to limited-resource farmers) will require an ongoing source of low-cost capital and probably an integrated cost-share grant component to lower loan-to-value ratios. Developing a diverse portfolio of agricultural loans in terms of size and risk profile of farm will provide more stability in the long run for NCIF's agricultural loan portfolio. NCIF will continue to rely on sector-smart advisors and partners to gain market knowledge and mitigate risk. It has also factored in staff time on agricultural loans as a cost center. Most of the loan application preparation/business plan development and related technical assistance takes place with partners outside of NCIF. Small Business Development Center offices help farmers get their financials in order. Post-lending technical assistance is critical; NCIF is building its capacity to work with farmers after they get their loans, geared toward more operational support. According to Marten Jenkins, NCIF is building the capacity to finance agriculture production by partnering and learning how to pay for the transactions, a very time consuming approach initially, but one that helps reduce ongoing costs.

NCIF typically prices loans at prime plus 2%–3%, to reflect the risk it is taking as a subordinated lender. Pricing and understanding the market are big issues. Its agricultural lending takes into account the generally lower interest rate environment (and prevalence of grants) that characterizes lending to limited-resource farmers. As a result, NCIF's agricultural lending rates tend to be benchmarked to USDA FSA rates but are slightly higher to avoid competing with existing sources. Jenkins noted that “the farming business is very different from the perspective of cash flow, financial statement processes of other businesses. You're not only dealing with market risk but policy risk related to crop subsidy programs, weather, and all the other factors that characterize natural resource-based companies. We need staff and board to be comfortable with that.”

The most important priorities for NCIF in assessing agricultural loans:

- Farm track record
- Debt service coverage (current debt load of the farmer)
- Creditworthiness
- Sustainable agriculture practices and connections with advisory groups and resources (such as farm cooperatives, Natural Resource Conservation Services)

Loan Example

NCIF has learned that farm businesses need flexible capital to take advantage of macro trends. Its initial dairy loan necessitated their learning about how farmers need to access materials that were on sale. This immediacy of capital access was not the approach embraced by NCIF's existing loan review committee. Even though the borrower represented one of the strongest potential loan deals that came to NICEF, their loan committee composition was not comfortable with and therefore could not endorse how NCIF wanted to stage the borrower's debt. On paper, the borrower's cash flow was irregular and did not fit the common metrics equated with conventional dairy farming.

Farm Summary

- Borrower: Successful Eastern North Carolina tobacco farmer interested in diversifying his production and becoming an organic dairy farmer.
- Track record: Had undertaken other diversification (hogs, poultry) in the past, operated successfully year over year, and managed debt well.
- Loan committee approved loan in three tranches. After spending the first tranche and meeting financial requirements, the borrower requested an acceleration of the second and third tranches to enable him to take advantage of reduced prices for construction materials necessary for the dairy barn.
- The loan committee “got cold feet” at this point, despite the fact that the borrower had retired more than \$500,000 of debt since the first tranche was issued and met the milestones set by the committee. Ultimately, the loan committee's

issues were addressed, and the full amount of the loan was disbursed.

- Key issues for the committee: existing debt burden of the farmer, debt-to-equity ratio, difficulty in understanding the agriculture cash flow cycle.
- Outcome: The farmer successfully began milking more than 100 cows after 18 months of preparation, but he has been unable to land a contract with an organic milk processor. This is due to the lack of other producers in Eastern North Carolina that would make it feasible for buyers to collect milk. He has contracted with a conventional dairy milk processor and retains the ability to switch back to the organic market.

Loan Amount: \$250,000

Uses/Sources: calves, fencing and field preparation, dairy barn equipment and building materials

Interest Rate: 6.5%

Payment: quarterly payments; loan is current

Collateral: NCIF loan equates to roughly 38% of total purchase price of livestock, equipment and buildings. Collateral for the loan is a blanket lien on all assets of the dairy company and on all the assets of the owner's other businesses (farm, hog subsidiary, turkey subsidiary). Personal guarantees by the owner and his operating partner were required as well.

Total Package: \$250,000

Participants: Tobacco settlement funds

Primary Factors

Capacity: Cash flow

- NCIF considered debt service coverage and farm cash flow from diversified production.

Capacity: Farm Business Management Skills

- The borrower manages a highly diverse set of operations from tobacco to grain and has demonstrated the ability to manage this over years.
- His debt is also well managed.
- Borrower had also demonstrated the ability to access diverse financing resources.

Conditions: Getting to Market; Understanding Market

- In terms of the organic dairy, the borrower worked closely with his customer Organic Valley's technical assistance and marketing staff and network.
- He connected with and received technical assistance from Cooperative Extension in conducting market analysis.
- He had a plan for growing out the farm in stages, based on knowledge of herd growth, farm operations and infrastructure, and market receptivity.
- He also worked closely with Organic Valley's network to link to the market.

Conditions: Market Conditions

- The borrower's territory of the southeastern United States is a net importer of organic milk because there are not enough producers.
- Organic Valley worked with the local branch of American Farmland Trust to help connect with and provide

information about the market.

- Center for Environmental Farming Systems, a technical assistance provider and research farm with a dairy herd, was able to help supply the market.

Character

- NCIF assessed character by getting to know the borrower and his operation, including visits to the farm and outreach with resources/stakeholders. The borrower had great integrity and past success, and he fit the mission of NCIF: he wanted to diversify his conventional production with an organic dairy. There was a market need (the Southeast is a net importer of organic milk). However, the farmer's ability to pursue organic production successfully was dependent on a key external factor: whether another major milking operation would convert some of its herd or its entire herd to organic production.

Secondary Factors

Capital (Cash/Equity)

- The farmer had access to tobacco settlement monies, which he used to cover the remaining costs of the dairy operations. Since tobacco settlement dollars are distributed in pro rata amounts over a number of years, NCIF's loan was an opportunity to "front load" the process of building out the dairy operation. This turned out to be very important for the overall cost of the project, as the farmer was able to take advantage of the lower costs of construction materials resulting from the weakening of the housing industry associated with the economic downturn of 2009.

Collateral

- NCIF loan equates to roughly 38% of total purchase price of livestock, equipment, and buildings. Collateral for the loan is a blanket lien on all assets of the dairy company and on all the assets of the owner's other businesses (farm, hog subsidiary, turkey subsidiary). Personal guarantees by the owner and his operating partner were required as well.
- Cost-benefit: A lot of work, but it put NCIF in a more competitive position to lend large amounts of capital.
- Drawback: When it comes to financing farm production, NCIF tends to be the sole lender.

CALIFORNIA FARMLINK

California FarmLink (CA FarmLink), linking newer and retiring farmers through land access, is pioneering a "hybrid" approach to building the next generation of farmers through technical assistance, land-linking, equity, and debt to enable access to costly agricultural land in California.

CA FarmLink's mission is strengthen independent family farms and build sustainable food systems by helping small and midscale farmers to lease and purchase land, access capital, plan for farm succession, and improve business and financial management skills. Their core land-linking program matches retiring farmers with beginning and aspiring farmers. Since 2001, equity-building through matched savings program and the Farm Opportunities Loan Program are key program components. At present, CA FarmLink's application for CDFI certification is still in review.

LOAN VOLUME

- Since 2005, CA FarmLink closed 26 loans with 14 borrowers
- CA FarmLink provides loan origination and servicing
- Total loan portfolio is \$1.4 million

PARAMETERS

- Debt or subordinated debt ranges from \$5,000–\$100,000.
- Loans are tailored to operation type and its cash flow.
- Interest range: 6.5%–8.5%; 0.5%–1% higher for operating loans.
- Cash flow requirements: Current operations (three years), tax returns, balance sheet, profit and loss statement, projections (up to three years if in start-up phase), records of past production.
- Collateral: Routine for collateral to be farm equipment. To comply as USDA FSA lenders, it is imperative to take equipment as collateral.

Farm Lending

Niche

CA FarmLink's target population is beginning farmers with capital and collateral gaps, serving direct market/local retail. Land values necessitate leasing arrangements more than land purchase. Since 2001, equity-building has been at the heart of the organization's land-linking work through two complementary programs: Individual Development Accounts (IDA), a matched savings account program, and the Farm Opportunities Loan Program, which provides low-interest USDA FSA guaranteed loans to farmers who may not be immediately bankable by traditional lenders.

CA FarmLink is motivated to fill the gap that increasing farmland prices create on new farmers and their viability. The organization solicits private funding to match federal funding available to match a farmer's savings. The farmer saves an agreed-upon amount of money over a period of time, during which the farmer is also obliged to obtain training in business and financial management. The farmer's savings and the two-to-one match must go toward building an asset for the farm operation. Reggie Knox, CA FarmLink executive director explained, "Entering the lending arena arose from a lack of accessible capital to newer farmers, confirmed from data gathered on lending practices in mid- and northern California. Mainstream agriculture and bank lenders were turning down many beginning farmers. CA FarmLink tested the financial institution 'partner' pool by conducting a demand survey; the challenge was getting farmers in the pipeline that were 'borrower-ready.'"

For example, CA FarmLink's agriculture IDA is a matched savings program. One of the organization's IDA holders saved toward and used the IDA to purchase a 10-acre organic farm in its fourth year of operation in southern Monterey County, offered at \$250,000. CA FarmLink assisted the farm family in writing a business plan for potential lenders, and then helped identify needs of the title company, find an appropriate attorney to solidify a purchase agreement, and interface with lenders. The family used IDA funds for the down payment. By securing a land-use attorney to assist the family, CA FarmLink helped save the family at least \$9,000 in realtor fees. All together, this helped the family obtain a USDA FSA-guaranteed loan of \$175,000 from partner California Coastal Rural Development Corporation. Knox notes that the CA FarmLink staff "is continuously building capacity to meet and assess the needs of both borrowers and the sector in which they are trying to thrive."

Capacity Building

CA FarmLink's mission is about helping beginning farmers establish businesses. Through initial research, CA FarmLink determined that access to capital is a core problem. However, many of the farms did not have business plans, so there were borrower–lender issues on both sides. To bridge the gap in knowledge and capital access, CA FarmLink built its organizational capacity as both technical assistance providers and as lenders. CA FarmLink's long-term sustainability depended on the ability to build capacity to serve the gap yet not be dependent on philanthropic support.

Specific steps CA FarmLink took to build capacity and partnerships:

- Became a USDA FSA guaranteed lender, the first non-profit organization nationally in 23 years to be accepted as an

approved FSA lender.

- Currently working toward status as a rural microenterprise lender by applying for and receiving a USDA Rural Microenterprise Assistance Program grant.
- Built its loan loss reserve fund through grants instead of through program-related investments offered through foundations.
- Serves as a network convener to build farmer knowledge of regional services.
- Staff competencies include negotiating land leases, farm sales, and providing technical assistance in business planning and farm succession planning.

Key CA FarmLink Partners:

- Current financial institution partner is Santa Cruz Community Credit Union, a CDFI in Santa Cruz, CA. The credit union provides “back-end” support including loan documentation, closing, monitoring, disbursement, and collection.

Technical Considerations

Continuing to offer opportunities for building farm borrower equity or assets requires CA FarmLink to acquire ongoing subsidy and make sound lending decisions. CA FarmLink relies on key stakeholders such as banks, credit unions, the USDA FSA, and others to invest in the loan fund, serve on the loan committee, and provide ongoing forecasting in the financing industry.

Setting interest rates was a challenge. CA FarmLink did not want to price itself out of a competitive market but also needed to charge at a level commensurate with the amount of ongoing technical assistance that its borrowers needed. Assessing interest rates from key lending strata such as the USDA FSA, home equity loans, and credit card companies presented a good picture of the market. As CA FarmLink determined that its organizational strength is in land-linking and business operations technical assistance, staff continues to undergo professional development in loan packaging. “It takes effort to find out whether a loan will help or hurt a potential borrower. A lot of people think they need money but aren’t necessarily ready for a loan,” commented Knox.

The most important priorities for CA FarmLink in assessing agricultural loans are:

- Viability of business plan and market knowledge
- Cash flow (current and/or projected)
- Track record in the business
- Demonstrated commitment to the farm business

Loan Example

CA FarmLink points to getting to know the borrower as one of its key risk mitigation tools. Knox describes CA FarmLink’s approach to lending as one in which the organization attracts diversified sources of funds that then enable meeting the borrower’s business needs. Getting to know those business needs takes time, an investment CA FarmLink believes results in a low default rate.

Farm Summary

- Borrower: Successful sheep cheese/dairy operation interested in diversifying and expanding operations to include goat cheese during off-cycle for sheep.
- Track Record: Successful operator who had an extensive goat cheese market opportunity in California. Operator had track record of successful repayment of first loan.
- Issues: Very capital-intensive start-up operation.

- Loan committee saw several positive signs: Goat milking cycle opposite (seasonally) of sheep; consumer market for sheep and goat cheese is high-end.
- Outcome: Increased operation by 20 goats; debt provided ability to increase milk supply during off-cycle for sheep and reach narrow but high-margin market.

Loan Amount: \$50,000

Uses/Sources: Goats (20 goats), fencing, shelter, cheese molds/equipment

Term: 12 months

Interest Rate: 7.5%

Payment: Repayment structure tailored to operational cash flow

Collateral: Equipment

Total Package: \$50,000

Participants: Existing loan through another California-based community development financial institution; some support from parents. CA FarmLink prepared to help borrower get direct USDA FSA loan if she had not qualified for CA FarmLink loan.

Primary Factors

Capacity: Cash Flow

- Plan was to continue successful cash flow operations by filling milk production cycle gap
- Because loan was for ramping up operations, had to rely on character and projections
- Farmer was convincing about cash flow projections; listened very carefully to her research; visited cheese room operations; carefully chose each piece of equipment from across the world (micro equipment to fit a 6-stall dairy)
- Farm cash flow projections based on 2010 production and marketing track record were accepted even though expansion projections seemed high (over 30% projected expansion)
 - The business demonstrated profitability in current sheep cheese dairy operations (\$30,000 net profit in 2010)

Capacity: Farm Business Management Skills

- Farmer had good track record; sold \$23/pound sheep cheese to established markets
- Had track record of cheese-making
- Farmer was well-spoken; able to articulate operations, market understanding, and projections for entering the market. Follows same pattern of planning in current sheep business
- Followed all regulatory requirements: health board, licensing, good handling practices/food safety
- Trained as chef; attended culinary school
- Established relationships with high-end restaurants
- Good track record in sheep management
- Full-time farming operations; no off-farm income

Conditions: Getting to Market, Understanding Market

- Previous employment in creamery; understood market margins for cheese. Product fell in the competitive price range.
- Five years of market and breed research, including traveling abroad to learn about goat breed.
- Not many people will work so hard to attract the investment needed to ramp up. Very capital-intensive; analyzed different business models to determine what is most successful.
- Direct market potential: able to get into better, well-established farmers markets with product. Limited vendor accessibility because of saturation of general vegetable product. The fact that the product was in high demand meant that customers travelled purposefully to purchase the product where it was sold, enabling the product to be of high value to the borrower.
- Understood operation such that scale of operations fits market dimensions for her cheese product. Maintained demand by not overproducing. Scale was comfortable for her and workers to make a living.

Conditions: Market Conditions

- High, unmet demand for goat cheese served as catalyst for ramping up
- Demonstrated willingness to divulge contracts for cheese within market
- Market competition: High margin might attract competition, but this business is one of just a few in California
- Diversification and seasonality was good for business cash flow

Character

- Borrower had extensive training and background
- Borrower demonstrated committed work ethic, which was demonstrated in cash flow
- Borrower's business plan did not diverge from sheep operation success

Secondary Factors

Capital (Cash/Equity)

- Borrower had small amount of equity in buildings and dairy equipment
- Borrower produced tax returns, profit and loss statements, cash flow projections for up to 3 years

Collateral

- Collateral was in the form of parent co-signature on loan

CALIFORNIA COASTAL RURAL DEVELOPMENT CORPORATION

Thirty years of lending to the same types of farmers and crops has made the California Coastal Rural Development Corporation (CalCoastal) an expert on what to expect in an unpredictable industry.

California Coastal Rural Development Corporation is dedicated to providing financing to small farmers and businesses throughout California who lack access to capital and technical assistance. Its mission is to assist these enterprises to grow, thrive and prosper, enabling the overall economic development to our under served communities. CalCoastal formed in 1982, originally as part of a group of Latino sharecropper farmers who wanted to invest in a commercial produce cooler to support business development in their community of Latino strawberry farmers; it evolved into an agricultural lender to the same community. In the late 1980s, CalCoastal secured the ability to make guaranteed direct loans through the USDA FSA. FSA provides a 90% guarantee, and CalCoastal re-sells the loans in the secondary market. CalCoastal is the largest

FSA guaranteed lender in California. They also developed an intermediary relending program using USDA's Rural Development loans, and North American Development Bank and Small Business Administration (SBA) microloans.

LOAN VOLUME

- 90% in farm lending
- At peak in fiscal year 2009, CalCoastal made \$35 million in direct farm loans to about 60 clients. CalCoastal was still able to use some state loan guarantees.
- In 2010–2011, loan volume was approximately \$15 million to about 30 farmers.

PARAMETERS

- Niche for loans is between \$300,000 and \$1.1 million, although CalCoastal has made loans for less than \$300,000.
- FSA guarantee is limited, in direct loans, to no more than \$300,000.

Farm Lending

Niche

The bulk of CalCoastal's lending (approximately 85%) is to strawberry farmers, with the remaining to row crop farm lending (e.g., organic vegetables for urban farmers markets). Because of the recent economic downturn, CalCoastal has had to focus on existing farm borrowers. According to Karl Zalazowski, CalCoastal president, "In many cases in California, that [\$300,000] often isn't enough capital to get some borrowers started. For most strawberry farmers, the 'all-in' cost is from \$10,000 to \$15,000 per acre, just to get you to the point of harvest. Compare that to vegetable crops at about \$2,000 per acre all-in. We have to be selective because of limited-resources. We can't do \$100 million worth of lending because we don't have the cash capacity. FSA guarantees are key; the relationship is very strong."

The majority of its borrowers sell their crop to wholesalers, which are called sales companies and also known as "shippers," that then sell to retailers. These loans generally include crop assignments as collateral (see Farm Summary #2 loan example below for detail). A majority of CalCoastal's smaller farm borrowers sell into direct markets like farmers markets. These are mostly character loans given no possibilities of crop assignment.

CalCoastal's borrowers (both those selling to shippers and those selling to direct markets) are unable to get regular bank financing because the loans are labor-intensive and relatively small for California agriculture.

Capacity Building

CalCoastal has built its farm production lending capacity over many years. Lenders at CalCoastal are experienced in agricultural lending. For example, Jose Guerra, an agriculture loan officer at CalCoastal, has 20 years of experience and Zalazowski has 14 years. Zalazowski explained, "Agriculture is our business; it's number one. We've developed it over the last 30 years. It's based on relationships, and marketing is primarily word-of-mouth among farmers here; we haven't advertised. We have relationships with sales companies and with SBA and SBD [Small Business Development] Centers. The sales companies—often cooperatives of farmers that do both production and marketing—will refer loans to us. We also consult with them to see how the industry is moving and what the needs are out there. We finance many growers for sales companies. We're fortunate to have had farmers on both our board and on our loan committee who understand the area, the farmers ... it's a close community."

Technical Considerations

Borrowers need technical assistance in both production and business. Plenty of technical assistance is available in the area related to growing the crop but little, if any, is available for business planning, management, etc. Much technical assistance comes from companies that sell the fertilizer, pest control, and other such products, which does not provide an

objective technical knowledge base. CalCoastal had an agronomist on staff to provide that assistance at one time, when in a better financial position. Another challenge is that most university and similar resources are focused on large agricultural enterprises and not geared to the CalCoastal borrower, which is the small and underserved farmer in California.

Regarding risk, CalCoastal advises to not rely on credit scores or give them too much weight. CalCoastal warns against discounting a farmer's sophistication and capacity. It also suggests that structuring loans correctly depends on knowing the crop and the industry well. Zalazowski shared that CalCoastal's lending is relationship lending; the philosophy is to lend "the old fashioned way," in which loan officers get to know the borrower, and therefore get to know the industry.

To evaluate risk, CalCoastal advises consulting with the farm's vendors and checking the farm's past performance in paying vendors. Another indicator is how long a farm has been with a vendor. If a farmer goes from vendor to vendor, it is often because they cannot go back to the first vendor due to non- or late payment. The borrower's credit report provides a lot of information but does not distinguish between disruptions (e.g., medical emergency) versus chronic issues of late payment.

When evaluating character, CalCoastal spends time seeing how the farmer takes responsibility and mitigates risks. Gauging a farm's performance requires a sort of trend analysis, factoring in a range of reasons for good years and bad years, as no specific ratios or benchmarks are available. Guerra provided an example: "We had two very similar farmers: one was relatively new and the other existing. The existing farmer, based on his history, showed the capacity and the knowledge of the business and the crops, whereas the new farmer did not. The loans were relatively small and the acreage small, but at the same time, small mistakes really add up and can be costly. The new farmer did not make it. He blamed the weather, the weeds, the landlord, the neighbors, whereas the existing farmer anticipated things and worked markets (sales leads) in advance vs. just growing the crops. I will compare the farm's profitability, production, and credit report from one year to next, and over many years to gauge whether the enterprise is doing worse or getting better. If worse, you have to dig deeper and see what's wrong. Is it an individual financial situation? Is it on the production side? Was it the weather? Did the farm's prices change because of quality (higher, lower) or production volume (higher, lower)? You have to consider the whole picture because all these farms are different in size and where they are financially. Other than credit rating and debt coverage ratio, it's tough to say where a particular farm should be because the next person could be asking for the same amount of money but have a completely different crop plan, for example."

CalCoastal's loans look a lot like lines of credit in that borrowers draw on them as needed in the crop preparation/planting part of the year and pay back later in the selling season as revenue exceeds expenses. CalCoastal has explored revolving lines of credit but has learned the FSA-guaranteed portion cannot be sold in the secondary market, which ties up CalCoastal's cash balances. Therefore, CalCoastal does not offer revolving lines of credit. Zalazowski reported that CalCoastal has "approached FSA about this and [has] learned that [the U.S. Department of] Treasury will not allow [selling the guaranteed portion in secondary markets] because of its perception that it would create competition with treasury bonds. ... We would welcome support for revolving lines of credit; we could really use it. Instead, we try to make our operating loans like lines of credit with the borrower drawing funds as needed and paying back when possible (on a cycle that CalCoastal knows well and that is predictable). The problem is that if our borrowers draw \$10,000 and pay back \$7,000 right away, they can't get that \$7,000 again... so there's no incentive to pay down the loan; they just pay interest because they can't get that cash again if they re-paid it."

Loan Examples

On lending in the sector, "The economic meltdown of late has affected only certain industries," stated Guerra. "In farming, they face it every year, year in and year out; they face weather conditions, and they face competition within the industry and outside the industry. You always have to look out for one thing or another. It's a very difficult industry. You have to understand the crop, the industry, and the cycles to determine how to structure a loan. A long-term crop (e.g., in the ground

for three years) will give you more leeway in collections. With a short-term crop like spinach—35 to 45 days in the ground—you really have to be on spot from start to finish.”

Farm Summary #1

- Borrower sells primarily to farmers markets. They include a number locally, in the Salinas Valley, and some up to three hours away in the San Francisco Bay Area. Buyers at the markets are mostly residents, but restaurant buyers are interspersed among them; they look like retail customers.
- A broad variety of crops to market. The farm’s major anchor crop is strawberries. It also sells raspberries, carrots, green and red chard, beets, broccoli and some specialty vegetables (Asian vegetables, particularly sold in the Bay Area).
- Season: For this farmer, there is no end to the season; it just slows in winter and picks back up in spring through summer and fall.
- The borrower needs a loan for strawberry planting and other operating needs like land preparation, leases, and supplies (stakes, wire, twine, drip line). Strawberries require replanting every year for quality berries.

Loan Amount: \$50,000

Uses/Sources: Operating costs (preparation, planting, supplies)

Term: 1 year, with the borrower drawing funds as needed

Interest Rate: Farmer Mac Cost of Funds Index (COFI) plus 5%

Payment: Monthly interest-only payments on money drawn, with principal payments made as determined by the borrower’s cash flow, when cash flow begins to exceed expenses in the peak summer season.

Guerra explained, “The way it’s set up really works for these types of growers because the season ramps up slow in income, and once it starts going, it is actually really tough on cash flow. They have to buy more supplies (boxes, rubber bands, twine), so they need to make more investment. So the way the loan works is that they draw down as they need it. This loan we made in September, but the borrower didn’t take out funds until about October or November when preparing for planting. The borrower continued drawing into February and March and, by April, had peaked out the loan. Now the borrower should start paying down the loan over the summer. In a budget, we show the need for expenses much less in the summer and excess revenue applied to principal.”

Collateral: Equipment and crop proceeds

Total Package: \$50,000

Participants: None, except for Farmer Mac, which purchases the 90% guaranteed portion

Primary Factors

Capacity: Cash Flow

In this loan, the cash flow determinant is the major crop, strawberries. The borrower plants them in the fall. Harvest begins in May and peaks roughly in June but continues until November. Smaller crops (other produce) are also in consideration for cash flow, providing revenue year-round while the farmer grows and sells the bulk of his specialty crops in the summer.

Capacity: Farm Business Management Skills

This is a character loan. The individual has, in the past, paid early and made efforts to do so. The farmer has also borrowed from CalCoastal for 10–12 years. Loan amounts have never grown much—they are still in the \$40,000–60,000 range—but the farm comes to CalCoastal because it cannot get financing from a bank.

Other Considerations

This loan is difficult to monitor compared to #2 (see below), in which CalCoastal receives payment (or documentation of payment) from sales company that the grower supplies. In this case, the direct market grower is the source of information about expenses and revenues (90% cash sales). Guerra noted that it is difficult “to monitor and push to get paid off sooner than the loan documents indicate ... because we do have less control.”

Farm Summary #2

CalCoastal plays a key role in lending within the fresh market sector. The lag time between planting and harvest, even though planting occurs throughout the year as opposed to just once in many short-season regions of the country, still necessitates loan repayment around the harvest seasons.

- Borrower: husband and wife team
- Farm: 55 acres of strawberries
- Sell primarily to fresh market as part of a cooperative

Loan Amount: \$420,000

Uses/Sources: Ground preparation and planting at approximately \$8,000 per acre. Of that, land preparation is about \$650 per acre, and other investments are in addition (soil fumigation or alternative to it, fertilizer, plastic mulch, drip line, irrigation, and plants).

Term: 1 year

Interest Rate: Farmer Mac COFI plus 5

Payment: Monthly interest on money drawn. Principal payments after revenues exceed expenses, generally in the summer months. Determined by CalCoastal review of revenue and expenses (monthly before harvest and weekly during). Guerra explained that CalCoastal’s loans resemble a line of credit; the borrower gets the full amount, but interest is charged on money drawn, so later draws are better for the borrower. Borrowers are expected to balance their capital needs. CalCoastal uses crop assignment to monitor the loan as money comes in. The borrower is required to bring in expense receipts during the term so CalCoastal can evaluate cash flow and payment terms. Guerra noted that this is a way of catching any “red flags” in business progress. Monitoring occurs weekly during harvest time and monthly during growing time.

Collateral:

- Primary: Crops and cash flow (CalCoastal takes a crop assignment from shipper)
- Secondary: Borrower’s current ratio (how much they put into operating)

According to Guerra, collateral, primary collateral is the crop. Production expenses are factored into overall revenue. Crop assignment is arranged by the farmer based on convenience or the arrangements made between farmer and product shipper. CalCoastal can be repaid either directly from the farmer or from the shipper, made payable to the farmer and to CalCoastal.

Total Package: \$420,000

Participants: FSA guarantee

Primary Factors

Capacity: Cash Flow

- Historical production: Quantity of crates per acre
- Projected production per acre
- Price per crate
- Debt service: Whether the borrower can cover term debt and pay off the loan

Capacity: Farm Business Management Skills

- Is it possible to see that this borrower is moving forward? Are they gradually borrowing less and earning rebates (e.g., cooling bonus as part of a cooperative) for improving production volume (getting bigger portion of profit sharing)?
- With future growth, can CalCoastal see the borrower financing 90% of operations? Guerra recounted that, “A couple of years back, we looked into whether each borrower was moving forward. One couple was not, and we had to make some guidelines about what a borrower’s production should be. Theirs was well below a sustainable level over the years and was eating at their equity. They needed approximately 4,500 crates per acre and were probably harvesting 2,800 to 3,000. With that volume, you can’t make it in a \$5 (net) market.”

Conditions: Getting to Market, Understanding Market

- Having a good sales company (shipper) that has been consistent, CalCoastal understands the supply chain within which the farmer operates. In California, the produce industry provides an opportunity to get into farming and sales. If businesses are highly leveraged and, if markets dip, farmers with long-term relationships with sales companies have a distinct advantage. CalCoastal looks for farmers who have had long-term relationships with sales companies even if the farmer is deeply leveraged, financially.

Conditions: Market Conditions

- Knowing the market is essential: fresh-to-market, processed-to-market, and the potential return to the farmer and marketing strategies for each. Guerra referenced the Salinas-Watsonville area growers who try to sell the majority of their crop—90% or more—to fresh market. A business decision has to be made, as fresh markets are not necessarily as lucrative as processed (frozen) berries, based on fresh market costs such as cooling, transportation, and labor. Lenders like CalCoastal try to understand market conditions in order to determine whether or not the farmer has approached the potential market knowing the post harvest costs associated with whether product goes into fresh or into markets necessitating slightly processed fresh product.

Character

- Borrower for long term, about 6 years
- Borrower is saving money

Secondary Factors

Capital (Cash/Equity)

- Current ratio: Enough working capital is invested
- Review balance sheet item by item and verify certain items, especially current assets and current liability. How much

is the farmer putting in the ground compared to what CalCoastal is putting into the operation? What does the balance sheet look like from one year to the next?

Collateral

- 90% of these loans are on leased ground, so no real estate is available for collateral
- The more money the borrower has in operating capital, the stronger the loan is

CRAFT3

Craft3 is a CDFI serving Oregon and Washington. It applies experience with natural resource–based economies to new farmers and regional food markets and maximizes a collaborative and targeted approach to the sector’s development.

Craft3’s mission is to promote economic opportunity and a healthy environment for the urban and rural communities of Oregon and Washington. Craft3 was formed in 1995 by ShoreBank Corporation and Ecotrust. In 2007, the original organization merged with Cascadia Revolving Fund and became Enterprise Cascadia, then became Craft3 in 2012. The largest non-bank CDFI in the Pacific Northwest, it has more than \$164 million in capital assets under management.

LOAN VOLUME

Craft3 has invested in more than 1,150 borrowers comprised of business, social ventures, and civic ventures that represent new strategies for economic security and ecological health. It has provided more than 200 clients with expert advice in matters concerning business strategy, non-profit organizational capacity, new product development, and real estate development. It has made capital investments and services affecting more than 4,050 jobs and leveraged more than \$412 million in additional investment by others. According to Mark Bowman, Craft3 senior vice president, “In the region, we’d be considered the largest and most capable serving these [new agricultural] investments. Most other CDFIs in the two states serve very specific pockets; they may only do microloans or urban loans.”

PARAMETERS

- Craft3 approaches debt with the lens of maximizing the return for the farm as opposed to minimizing risk to the CDFI. Bowman describes Craft3 as a CDFI trying to approach the sector by “stepping out a bit further,” yet not minimizing the risk on a deal. As with many CDFIs, a portion of Craft3’s capital resources is unrestricted, both on the debit and equity side, which enables a bit more flexibility in the capital it deploys to projects.
- Craft3 operates to achieve triple bottom line metrics. Craft3 is guided by that mission, working to be able to explain that investment has multiple benefits, leveraging other activity and community investment.

Farm Lending

Niche

Craft3’s roots are in coastal Oregon and Washington around natural resource based economies; food systems and production agriculture have been part of its work from the start. In the mid ‘90s, Craft3 focused on modernizing fishery, farming, and forestry as a strategy to move enterprises toward value-added products, as these particular industries were changing in regulatory and market contexts.

Craft3 invests in new opportunities in local and regional food and farm products and the potential for smaller, diverse, and younger farm enterprises to grow and strengthen rural economies. Bowman noted that “getting involved requires working it on both ends, from the consumer retail end and from the farming end. The hardest row to hoe is the middle ground; the regional-scale agricultural market infrastructure (aggregation, processing, distribution) is the hardest component to get.”

With agriculture, Craft3 targets geographic areas where partners and others are focusing efforts, such as farmland preservation. One example is an area on the Olympic Peninsula where two valleys come together. The goal, with partners, was to preserve this land for farming and forestry opportunities because of great soils, water resources, and other resources. Craft 3 did not want housing development to move into those valleys, so they targeted those valleys as a focused area of work, developing relationships with farmers and foresters there and working with partners that provide services to make existing farms more viable, including retaining area agriculture to supply local markets.

Capacity Building

A number of loan officers at Craft3 have conducted rural lending around environmentally-centered businesses such as forestry and farming. Bowman is the lead and strongest lender in rural and agricultural activity. Bowman was raised in farming in California's Central Valley, worked for Farm Credit Services in production lending for 10 years, and studied agriculture at San Luis Obispo State University on the Central Coast. Bowman recounted that, when he began at Craft3, "our mission around economic, environmental, and social concerns ('triple bottom line') and working in the rural areas, with farmers, foresters and fisheries, was a natural fit. Farming is a part of our natural resource based economies. ... What's different now is that instead of working conventional farmers who can get commercial or Farm Credit System credit, we're working largely with nontraditional farmers (organic, micro-scale, value-added, etc.), and capital is not readily available."

Craft3's management is granted loan approval authority up to \$150,000. A management-appointed credit committee is granted approval authority up to \$350,000. A board-appointed credit committee must approve loans greater than \$350,000, while the Board of Directors must approve loans in excess of \$1.8 million.

Loan committee members do not have to have specific farming knowledge. Staff brings information as a way to enhance education through the lending experience itself, an attempt to bridge existing knowledge with what they believe are farming sector commonalities. As with many CDFIs moving toward the farming sector, Craft3 has found the need for a strong partner base in targeted communities; these partners also play a key role in helping the CDFI not to overextend its lending capacity.

CDFIs also need to set aside some capital for trying creative new models, such as pools with higher risk tolerance or higher loan loss reserve. Community support is another consideration: partnerships built on experience and trust for not only sharing risk, but assisting in development of and ongoing support for the enterprises. "If it's nontraditional farming, then you need nontraditional partners that can help you think through creative models that you don't traditionally see, that you haven't exposed yourself to yet. A lot of early stage development [of borrowers] comes from land trusts that work with farmers and foresters with the goal of working lands preservation. They fully understand that to make that happen, you have to have viable businesses," stated Bowman.

Craft3 engages partners and resources such as the following:

- Land trusts
- Conservation districts
- Farmers markets
- Food cooperatives
- Washington State University extension offices (instrumental partners)
- Various extension agencies that conduct crop commodity and cost studies
- Farm and farmland efforts like Jefferson County LandWorks Collaborative
- Bank referrals
- Direct consulting projects, which put Craft3 in touch with borrowers and related projects, such as a small creamery that will source local farm milk

Craft3 contracted to consult on a USDA Rural Business Enterprise Grant on a project to move a local creamery to a property on which it could expand significantly. Craft3 developed a financing model that allowed investors to purchase the property and develop the creamery, including a dairy herd to supply it. In the future, Craft3 may enlist bridge financing if debt is needed. The consulting contract helps build a component of the regional food system, which may create future business from the developers and/or local businesses that will grow as a result. Margaret Kirby, development manager at Craft3, noted that the organization does not provide traditional technical assistance but, in the daily course of lending, provides expertise through an extensive network of relationships and partners, and a high level of advice and counsel to businesses as they go through the process of seeking financing. Craft3 has also provided direct consulting services in the agriculture sector around business planning, developing markets, and branding; this builds engagement in projects in which borrowers are involved or from which they benefit. Bowman stated, "We always like community investments that make our loans stronger and our positions stronger ... that just strengthen the deal completely."

Technical Considerations

Land tenure:

Many new and beginning farmers are tenants. Craft3 tries to get them onto their own land (see loan example below) or into leases that allow them to build assets. In developing leases with farmers, Craft3 has to take into consideration the following:

- Debt service reduction in lease (if there is a mortgage on the property, can require that the tenant's rent is applied to it and credited as equity).
- Conservation easement on the property that a local land trust can facilitate, for instance, with federal grant dollars. The post-conservation easement land value is less because the easement restricts uses, which helps buy down the value of the property and can apply to the mortgage.
- Lenders can also work with the farmers to build land equity by helping them access programs, such as from the local conservation district, that support investments in riparian zone protection and other such natural resource protections. These investments build assets that the farm can market to environmentally-conscious customers.

Repayment:

Craft3 works to protect the farmer's cash flow. Therefore, structuring loans around development time frames and seasonal time frames works best.

- The seasonality of product is a critical component in determining farm product yields year-to-year; this yield is dependent on many factors. The lender has to create production budgets that account for when crops are harvested, thus producing revenue and build repayment around those time frames.
- Lenders must also understand the development cycle of an agricultural product. For instance, if someone invests in a cranberry bog, lenders must understand that it will not start producing until the fourth year and will not produce in full until the seventh year; thus, there may be interest-only payments for a time, which would increase to some principal and interest around Year 4 and full principal and interest around Year 7.

Ratios/Benchmarks:

In this sector, it is nearly impossible to use set ratios or benchmarks, but some valuable farm model components serve to minimize risk:

- Community Supported Agriculture farms vary a great deal from place to place. Much of the variation is in product mix, the type of person involved, the CSA's season(s), whether the CSA combines sales offerings with other farmers, the size of the operation, and costs. The key factor is the CSA farmer's relationship with customers and marketing capacity with this customer base. For example, one way for a CSA to build this base is to, first, focus on farmers market sales where the farmer can market themselves and their farm and build relationships with customers and the community; once established, they can succeed with a CSA more easily because they have relationships with

customers.

- For a small farmer who wants to increase direct sales options, diversifying the connection with and number of customers are critical. Extending the season to ensure consistency and volume become longer-term goals.

Loan Example

Craft3's approach to lending is to connect the importance or relevance of the businesses to the overall well-being of the community, which includes both the economy and the environment. The loan review committee approaches each loan by addressing the survivability of the business and how that business relates to the well-being of each person on the committee. Credit, therefore, goes beyond helping the person asking for the loan; the loan committee represents the larger community and is deciding on whether the loan will have positive effects in the community, not just benefit the one business receiving the loan.

Farm Summary

- A young farmer in the Port Townsend, WA, (Chimacum Valley) area approached Craft3 for assistance purchasing 23 acres of farmland to move a growing, direct-market produce operation from leasing land (2 acres) to owning land.
- Craft3 knew her as a quality, reliable, and creative farmer and marketer but also recognized that she needed time to build assets before burdening her operation with land purchase debt.
- Craft3 approached the local land trust, which it knew had considered launching a separate for-profit organization to purchase and hold land under threat of development (land trusts are not able to hold both conservation easements and a simple title on a parcel at the same time).
- The land trust formed the separate LT Resources, which borrowed the purchase price from Craft3.
- The deal involved lease payments by the farmer that apply to the LT Resources debt and simultaneously build equity for the farmer.

Loan Amount: \$220,000 to LT Resources for land the farmer leases, with payments applying to the mortgage and building equity for the farmer

Uses/Sources: Land purchase

Term: Amortization with a 60-month loan term

Interest Rate: 8.5%

Payment: Fully amortized

Any development and improvements the farmer makes accrue to her farm as an asset, so if the property is sold to someone else, she can claim the value. Any debt service principal reduction is a reduction in the eventual purchase price to her. She has done so well that she will close the deal later in Year 3, rather than Year 5, to buy the property herself.

Collateral: The 23-acre financed parcel and blanket Uniform Commercial Code

Participants:

- Working capital from Farm Credit System: According to Bowman, Craft3 invests in long-term resources to buy the property, which allows the farmer, as a tenant farmer, to seek operating funds from the Farm Credit System for necessary working capital. This was possible because the farmer did not have the burden of real estate debt.
- Individual community investors: With Craft3 as a lead investor, and based on the farmer's good relationships with

customers, individuals have loaned money for equipment and irrigation, for example, and some have taken repayment in cash and/or products. One investor traded funding for an acre of the farmer's leased land to conduct micro-crop development.

Bowman shared that “the community, when it sees organizations like ours stepping forward with this individual, having done our due diligence—this brings a level of comfort that prompts individuals to say, ‘I want to participate. I love it here. How can I invest in her?’ ... When you can bring in community partners (organizations, individuals), it brings down the cost of funds for the borrower; the blended interest rates are lower, and community investments take subordinated positions, simple promissory notes ... all knowing Craft3 is the financial eyes and ears on the deal.”

- Other partners: Conservation district and others have worked with farmer to rehabilitate property for salmon habitat and other natural resource protections, which build the farm's assets.

Primary Factors

Capacity: Cash Flow

- The loan was to the land trust–related LT Resources.
- The land trust is a strong, seasoned entity on the Olympic Peninsula.
- The farmer, who pays monthly rent, is a year-round farmer, which means she has higher cash flow seasons but does bring in year-round revenue and thus is able to make monthly payments.
- Had her farming been more seasonal, Craft3 would have structured her rent and subsequent debt service more seasonally. An example of that would be interest-only payments for a portion of the year and interest with larger principal payments during the higher cash flow months.

Capacity: Farm Business Management Skills

Bowman commented that Craft 3 noticed, “At her two-acre level three years ago, that she was someone we wanted to invest in. The problem was just that she was young and not farming long enough to develop enough cash from two acres to have enough equity for a down payment. Also, we wanted her to focus on farming and the transition from two to 23 acres, different soils, etc. We told her to just focus on being a good farmer first.”

- Since the land purchase deal, the farmer has demonstrated her capacity to service debt on the property and work with mortgage-holder LT Resources to build the land as a community asset. For example, she has developed a conservation easement on the property that fits her farming model while limiting development to projects that protect the environment and keep the land in farming.

Character

- Before moving to the new property, the farmer was doing well, rotating crops five times a year, always replanting, selling at farmers markets and differentiating herself with her personal and farm story, which helped her build a strong customer base.

FORGE, INC.

Financing Ozarks Rural Growth and Economy, Inc. (FORGE) is a CDFI located in the Ozark Mountains of northwest Arkansas. FORGE serves that region's small farms and rural businesses with a focus on building sustainable agriculture and communities. Founded by organic farmers and supporters, FORGE aims to increase the productive capacity of a piece of land as part of its overall belief that healthy land means healthy livestock and orchards, which in turn keeps people on the land and maintains agriculture as part of the region's economy and culture.

FORGE, through its community based lending activities, seeks to promote community development and enhance the quality of life and economic sustainability of agrarian communities by linking investors with borrowers, urban and rural communities, consumers with producers, and low-income groups with basic affordable credit. FORGE was founded in 1988 by a group of organic farmers from throughout the Ozarks bioregion of Arkansas, Missouri, and Oklahoma. Organic farmers were concerned that those wanting to incorporate sustainable agricultural practices into their farming systems were being hindered by a lack of affordable capital. One of FORGE's solutions was to form a revolving loan fund that would be sensitive to the needs of small farmers. Over time, FORGE members realized that agriculture was only one rural community need. The loan program began to include businesses that provide services and stable employment opportunities to families living in rural areas. In 1998, FORGE became a SBA microlender and now offers technical assistance to start-up businesses.

LOAN VOLUME

- \$1,800,000 in debt circulation with a total of 270 loans since 1989
- Agriculture production loans represent 30% of FORGE's portfolio
- FORGE's borrower default rate is <1%

PARAMETERS

- Parameters, many times, are based on the culture, economics, and need in the region. According to Charles Stockton, FORGE director and senior loan officer, "The person who currently has a 30–40 head dairy operation and needs a shed ... [is] going to gross \$40,000–\$50,000 that year; not hard to make that loan. Another farmer who wants to buy cattle but doesn't own anything and has no infrastructure—this is a much harder loan to make. I have to determine whether they would grind it out if conditions got bad."
- Farmers generally have many assets but significant cash flow challenges. Other small businesses typically do not have assets but do have cash flow. FORGE loans are well-collateralized but are structured around repayment ability, given that farmers' intermittent income means they have a hard time making monthly payments. Farmers need small payments over long periods of time.
- FORGE works with the fact that some farm borrowers have no credit at all, not just bad credit. The organization uses credit reports to distinguish borrowers and makes allowances for bad credit when it reflects a life situation, such as a lack of health insurance with mounting medical bills. In these circumstances, FORGE will take medical bill expenses out of the calculation.
- For those midscale farms that struggle for annual positive cash flow, there is a need to look at off-farm income. FORGE staff believes it is important to address "the person's whole life package," not just farming projects.

Farm Lending

Niche

Originally, FORGE's niche was capital access for organic farmers in the region. Most area farmers are priced out of big agriculture markets, and banks were not lending to smaller scale agriculture. Now, more established organic farmers are able to obtain conventional financing. FORGE's niche is still making loans in the \$10,000–\$70,000 range to small enterprise farms and housing loans, two of the key indicators of small town viability. Farm loans are typically for small livestock operations and for truck farming, which have been a central part of the regional and cultural economy. Key stakeholders are the community, the farmers, FORGE members, investors, and the land. Past efforts to market the fund diluted its mission by attracting a high number of people wanting car loans. FORGE determined that this was negative marketing. FORGE's reputation in the sustainable agriculture sector helps people find them. Stockton shared that "FORGE doesn't look at agriculture as a sector. It's part of the culture. We have \$2 million to lend; we don't market our loan fund; we talk with whoever comes through the door. It's just part of trying to help the smaller business community and residents of small towns stay alive."

According to Stockton, competition within the banking industry to support a six-month loan to plant and harvest crops is low. The Ozarks are not known as a place for a lot of seasonable crop production. The typical agriculture borrowers are established farmers who want to build a shed, install an electric fence for a grazing system, build a pond, or purchase additional equipment. FORGE also serves young people without land who do not come from a farming background and are trying to purchase land. These loans are more difficult, but FORGE is willing to assist new farmers as they learn.

Capacity Building

FORGE's capacity to make long-term loans comes from an established lending track record and from member and investor support for sustainable agriculture in the region. Long-term, low-interest loans become long-term community investments. On paper, FORGE takes risks, but groups like Catholic Charities and other individual investments annually contribute about \$800,000 toward the total \$1.8 million loan pool.

According to Stockton, some investors' perception of risk is to equate Federal Deposit Insurance Corporation (FDIC) insured status with solvency. FORGE's track record demonstrates what is considered sound lending, which is evidenced in a loan default rate of less than 1%. Repeat borrowers enable FORGE to use the difference to offset some administrative expenses.

FORGE has expanded beyond technical assistance in organic farming to encompass other sustainable business support, such as solar water heaters and solar panels. FORGE's board composition reflects both agriculture and other sustainable practice expertise.

Steps taken to increase FORGE's capacity as a lender:

- FORGE is a SBA microlender.
- FORGE hired a Certified Public Accountant as a staff person, not just relying on that skill set on its loan review committee.
- FORGE continues to make smaller loans to help build the knowledge base of the farmer as a stepping-stone to larger-scale debt.

Partnerships help farmers leverage dollars for larger amounts of debt needed to support good ideas. FORGE is not a USDA FSA guaranteed lender and has a small staff that makes financing decisions. FORGE depends on relationships with the following:

- USDA FSA
- SBA
- USDA Rural Development
- Individual and regional charities, foundations, and private individuals
- Other organizations in the region, such as ATTRA (also known as the National Sustainable Agriculture Information Service) and Southern Sustainable Agriculture Working Group, which provide technical and policy assistance

Stockton summarizes by sharing that FORGE make loans to farms that have solid income. These farms may or may not be bank-eligible, but if the farm uses sustainable growing or ranching practices, FORGE's mission is to assist them to become viable. A farm transitioning from conventional to sustainable practice is a transition process that FORGE deems worthy of investment. These farms also serve as FORGE's marketing strategy. Supporting the production practice of sustainable farming communicates to others that FORGE is investing in the health of a community for all its residents.

Technical Considerations

With regard to the decision-making process, FORGE staff execute loans under \$20,000. Both staff and individual loan committee members review loans from \$20,000 to \$50,000. The entire loan review committee reviews requests over \$50,000.

FORGE adds value for smaller farms pursuing retail and value-added opportunities, such as free-range chickens, grass fed beef, and orchards. The organic market is becoming harder to penetrate because established, larger-scale USDA Organic Certified farms compete with the local market. According to Stockton, "Farm equipment is good collateral. It holds its value, and you can sell it in a rural community."

In addition to and in conjunction with the loan program, FORGE provides business-specific technical assistance. These programs include classroom studies in subjects such as how to write a business plan, how to market products and services, and how to manage finances. Programs are offered to current and prospective borrowers as well as the general public. FORGE can also provide mentors to new or struggling business owners and, through a network of contacts, help business owners find trained professionals when they need specific assistance with legal, financial, or strategic challenges.

The most important priorities for FORGE in assessing loans:

- Farm track record
- Off-farm income
- Farmer experience, knowledge, and use of credit

Loan Examples

"I won't bring a loan application to the loan committee that I don't endorse," Stockton asserted.

Farm Summary #1

- Borrower: Experienced livestock farmer with long history of successful farming
- Issue: Local bank calling in line of credit
- Circumstance: Farmer had gone through divorce, which forced him to "re-purchase" his farm
- Decision-maker: FORGE ran Uniform Commercial Code search that showed farmer had equipment as collateral

Loan Amount: \$13,000

Uses/Sources: Pay off bank line of credit

Term: 36 months

Interest Rate: 6.5%

Collateral: Stock trailer, haying equipment, and welder

Total Package: \$13,000

Participants: None

Primary Factors

Capacity: Cash Flow

- Farmer had demonstrated successful cash flow from past operations

Capacity: Farm Business Management Skills

- Farmer managed highly successful livestock operations
- Farmer was committed to rebuilding farm

Conditions: Getting to Market, Understanding Market

- Farmer owned conventional livestock operations with continued market access

Conditions: Market Conditions

- Region continues to offer a viable market for livestock

Character

- FORGE has found that divorce is one of the most devastating economic traumas to a farm. After considering this farmer's years of successful tenure, FORGE was willing to help him rebuild.

Secondary Factors

Capital (Cash/Equity):

- The farmer had no liquid assets (cash), so collateral was a major factor in making the loan decision.

Collateral

- FORGE took an equity position in farm equipment (stock trailer), land, and the home.

Farm Summary #2

- Farm family is successful as truck farmers operating a 20-acre vegetable, fruit, and free-range chicken farm
- Issue: Farmers wanted to expand market penetration by planting orchard
- Concern: Will take 6 years before bearing fruit for market
- Decision: Make the loan based on track record

Loan Amount: \$20,000

Uses/Sources: Equipment and fencing

Term: 6-year loan

Interest Rate: 5.75%

Payment: Equal monthly payment

Collateral: Second mortgage holder on land

Total Package: \$20,000

Participants: SBA loan

Primary Factors

Capacity: Cash Flow

- Both farm operators (husband and wife) have off-farm income
- Looking at farm financials, FORGE believed they could make the monthly payment
- These and other factors counterbalanced the farm's cash flow challenge with high debt from purchasing land when land prices were at their highest in recent years.

Capacity: Farm Business Management Skills

- Successful truck farmers; farmers market vendor
- Current on real estate loan with local bank
- Farm operators had history of paying off debt

Conditions: Getting to Market, Understanding Market

- Farm operators had successful and extensive working relationship with market brokers
- Based on recognized market opportunity, farmers requested money as a form of investment in planting an orchard to take advantage of growing fruit market

Conditions: Market Conditions

- Region is both an established and lucrative market for fruits and vegetables

Character

- Farm operators are well-known in the community and have successfully borrowed in the past. They also have a positive track record in truck farming.

Secondary Factors

Capital (Cash/Equity):

- The farm operators had little cash available. They purchased the farm when land prices were high (overvalued). The FORGE loan provided an opportunity to pay off other costly lines of credit and to "front-load" the process of starting an orchard as an investment strategy to take advantage of growing markets for fresh product.

Collateral

- FORGE took a second lien position on the mortgage.

Stockton noted, "We make loans to farms so they can have a solid income. A farm is still a business. Is what they are planning to do going to generate enough money to pay you back? With a farm, you need time. They are not going to pay you back overnight."

FRESNO COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION

The Fresno Community Development Financial Institution (Fresno CDFI) has fourteen years of experience with refugee and immigrant farmers and new lending capital. These combine to help Fresno CDFI keep a strong hand in small farm lending while diversifying its portfolio to reach the broader low-income business community.

Fresno CDFI's purpose is to stimulate reinvestment in urban and rural neighborhoods in the City and County of Fresno.

Fresno CDFI does this through a partnership of neighborhood residents, the business community, representatives of local government and financial institutions, and other interested persons working together through a professionally staffed, neighborhood-based, nonprofit corporation. From 1994 to 2009, approximately 90% of the Fresno CDFI portfolio was in small, mostly refugee/immigrant farming. This concentration came by circumstance. The Fresno CDFI's parent organization was the Fresno County Economic Opportunities Commission (EOC), which provided microloans to refugees through funding from the Office of Refugee Resettlement. Blong Lee, Fresno CDFI manager explained, "Because of where we are, which is a major agricultural county, and because of the refugees' background, more than 90% of the participants through the microenterprise development program came in to do small farming." In 2008, the program formed the separate Fresno CDFI to serve the general low-income community after the initial influx of refugees influenced Fresno CDFI's decision to diversify its portfolio. At least 50% of the portfolio is still in small farm lending, much of which carried over from the original microenterprise development program. The CDFI now has some low-income African-American and Hispanic applicants also in farming loans. Fresno CDFI's default rate is higher on farm loans, averaging 11%–12%, while other loans are at a 2% default rate. This is attributable to the general riskiness of agriculture combined with capacity challenges of the refugee/immigrant community.

LOAN VOLUME

- Since 1994, Fresno CDFI and its parent organization EOC have served 317 rural businesses through the provision of technical assistance and loans, infusing more than \$3.3 million of financing into rural areas.
- Fresno CDFI makes, on average, about 23 loans per year to small farmers with a current average loan size of \$10,000 to \$15,000; its previous average was \$8,000 per loan.

PARAMETERS

- Fresno CDFI can now make loans up to \$50,000, depending on the capital pool from which it is drawing.
- Designated loan and loan loss reserve capital:
 - SBA microloans (first three in 2011).
 - USDA Rural Microentrepreneur Assistance Program: Loans of up to \$50,000 available to qualifying businesses that have fewer than 10 employees and are located in an unincorporated area or a city with a population under 50,000.

Farm Lending

Niche

Fresno CDFI's niche is refugee and immigrant farmers. It has begun expanding to general low-income small business needs, including farming. Its typical borrower raises 10–12 varieties of crops, primarily vegetables, on 6–12 acres. The smaller farms in the portfolio are 5–10 acres and the largest two or three have 50–60 acres.

Capacity Building

Fresno CDFI consults with local and regional farm and business resource organizations and stakeholders. Staff is experienced with refugee/immigrant farmers, with loans over a 17-year history focused on that group. Staff has limited farm production knowledge but is able to work with partners for that, such as University of California (UC) Extension small farm advisors and others in the sector. UC Extension helps with field technical assistance, providing training in the areas of food safety, packing, and fertilization. UC Extension small farm advisors also assist the borrowers with pest control and other issues related to crop production.

Technical considerations

Because the crops grown by these small farmers are not insured by any of the federal crop insurance program, losses due to weather or other natural disaster are not covered. This places great risk on the small farmers and on Fresno CDFI as

lender. Thus, Fresno CDFI requires that the small farmers participate in the USDA Farm Services Noninsured Crop Disaster Assistance program. The cost is minimal and provides coverage up to 50% of the value of the crops in the event of a loss.

To assist borrowers with marketing, Fresno CDFI works with several agriculture-related efforts in the region. One is the “Buy Fresh Buy Local” campaign spearheaded by the Community Alliance with Family Farmers and supported by the State of California. Other organizations, including the Fresno Metro Ministry and the County of Fresno, are working on a campaign to provide fresh and healthy food to low- and very-low-income communities and to prevent obesity and curtail other health issues related to the lack of nutritious food. Slow Food USA and Roots of Change are also working on this issue through regional and statewide efforts.

Technical considerations

Generally, Fresno CDFI makes loans in December and January, in time for land preparation and planting. Harvest begins as early as April and extends through November. Interest and principal is deferred until harvest. Repayment dates depend on cash flow projections based on harvest projections. Fresno CDFI works to ensure payments are within cash flow so as not to put strain on the farmer’s finances. Payoff is expected in 12 months, with payments spread over four to five months of harvest. Fresno CDFI’s spread is prime plus 0%-4%.

Fresno CDFI also invests in basic borrower capacity building: bookkeeping, taxes, records, business planning, and basic marketing. Fresno CDFI further works to develop markets for its borrowers and their marketing infrastructure. Evidence is seen in the two established farmers markets in Fresno with USDA Farmer’s Market Promotion Program funding support. This benefits local low-income residents by increasing downtown locations, one close to a Women, Infants, and Children (WIC) program office for ease of redeeming fresh fruit and vegetable vouchers. These outlets also provide an alternative market channel for the farmers. Other major markets are three hours away (Los Angeles or the Bay area), which are costly travel expenses for businesses and consumers alike. Through partnerships with Citibank and others, Fresno CDFI is working to establish a marketing cooperative and infrastructure (cold storage, transportation and marketing/sales support) for local smaller scale farmers by combining public and private resources. By leveraging the U.S. Department of Treasury’s Healthy Food Financing Initiative, the collaborative goal is to provide better access for communities with low access to fresh and healthy food and to help local producers gain access to institutional markets, giving them higher margins on the sale of their produce.

Fresno CDFI realizes that their borrowers must understand their business. To help their borrowers help themselves succeed long-term, the organization’s top priority in assessing agriculture loans is to communicate the borrower’s responsibility in the provision of key financial information, such as tax returns, how they intend to pay the loan in the case of no crop insurance, and verification of a land lease agreement.

Loan Example

According to Lee, Fresno CDFI views agriculture as a key portfolio sector; however, diversifying the farming businesses in that portfolio helps Fresno CDFI from “putting all its eggs in one basket.”

Farm Summary

A young Laotian woman producing Asian specialty vegetables on 10 leased acres and selling to two wholesalers in addition to cash buyers. It is her second loan, after successfully paying off her first loan.

Loan Amount: \$15,000

Uses/Sources: Operating loan for supplies, etc.

Term: 12 months

Interest Rate: 7.25% (prime plus 4%)

Payment: Two payments of equal amount in harvest months of August and September 2011

Collateral: Uniform Commercial Code¹ lien on crops, equipment, and two clear-title vehicles valued at \$17,000

Total Package: \$39,820 needed

Participants: \$14,520 pre-loan investment by borrower; \$10,300 from projected cash flow

Primary Factors

Capacity: Cash Flow

- Cash flow is based on estimated yield per crop per acre and an average price of product by the box.
- This loan's projected net income was \$28,952 after projected expenses and a 15% loss figured into gross revenue.
- Fresno CDFI sits down with borrowers and works out a crop plan for the year.
- Estimates are based on crops the borrower intends to grow, how many acres or rows (if operation is less than 1 acre), and resulting number of boxes (box size, expected price ranges). Projections use lowest, medium, and highest prices.

Capacity: Farm Business Management Skills

- This borrower has more than 3 years' experience, and family will help with labor. She has also successfully paid off a loan for \$10,000 in the previous year.
- Fresno CDFI considers a borrower to be an "existing" operation if they have gone through at least one farming cycle. It also recognizes as experience farming the borrower may have done with a relative or friend; many farmers do this before starting their own farm business.

Conditions: Market Conditions

- An issue with a fairly homogenous community of borrowers and farming in general is overproduction. Many farmers plant the same or similar crops and will plant more when prices are good, causing prices to fall with excess supply. Fresno CDFI can see and predict this and tries to communicate it to borrowers. It is currently considering capping the total amount it will loan for certain products in any given year as a way to send a market signal through lending.
- Fresno CDFI will monitor prices in the markets, crops in the market, and other such issues by consulting UC Extension small farm advisors, talking with wholesalers, and asking growers about prices this week, last week, etc.

Character

- This borrower has a good repayment history.
- Fresno CDFI will also use personal and neighbor references. In a small immigrant community, people often know each other well. Peer and community pressure to comply, to pay off the loan, is also a factor.
- For credit history and other financial information, Fresno CDFI must work around the fact that many refugee/immigrant borrowers do not speak or read English and many have no official credit history or history of filing taxes. The job becomes one of educating borrowers about these factors in U.S. business life while engaging unconventional sources for credit references, such as retailers in the neighborhood who may have knowledge of the borrower's payment practices from having sold to them on credit. Fresno CDFI will also look at phone bills and other monthly bills both to check on the borrower and to communicate to the borrower that these records count.

Secondary Factors

Capital (Cash/Equity):

- This borrower had \$3,500 cash on hand and \$8,000 from friends and family.
- Fresno CDFI looks for 10%–20% equity in the loan and will finance the balance needed.
- If this equity stake is not possible, Fresno CDFI will require a strong co-signer or guarantor.
- Fresno CDFI will look at loan to value ratio with exceptions based on the borrower's credit and past history.
- Fresno CDFI tries to track accounts receivable, more for payment timing than amount, which can influence cash flow and repayment ability. It will ask for quarterly financials, but these are often difficult for borrowers to provide and staff generally have to do them for the borrowers.
- Another challenge is with days receivable, for example, and revenues in the cash sales environment. Many borrowers do not report cash sales, so Fresno CDFI has to rely on what they report in their tax returns for farming (IRS Schedule F).

Collateral

- Collateral comes as liens on vehicles, sometimes requiring co-signers on loans.
- Most borrowers are farming on leased land. Fresno CDFI will require proof of lease, which is not collateral but an assurance they have access to the land and know what it will cost.
- A Uniform Commercial Code 1 lien on crops, or a crop assignment if selling to wholesaler, is important; a crop assignment allows Fresno CDFI to receive agreed payment direct from the wholesaler for the borrower.

According to Lee, the majority of time, collateral is an automobile title. Lee noted, "Fresno CDFI loans are not a one-to-one loan to value deal, but it's important that the borrower have some skin in the game. Collateral, even a small amount, communicates the seriousness of the deal for both sides."

NEW MEXICO COMMUNITY DEVELOPMENT LOAN FUND

The New Mexico Community Development Loan Fund (the Loan Fund) is a CDFI and nonprofit lender to individuals, nonprofit organizations, and private businesses, including women and minority-owned businesses, entrepreneurs with disabilities, and Native American enterprises. The Loan Fund makes loans to production agriculture as a natural component of its rural lending and a logical extension of its mission.

The Loan Fund provides loans and assistance to improve the economic and social conditions of New Mexicans, operating with respect, fairness, and integrity. In 1989, members of the New Mexico Conference of Churches helped create the New Mexico Community Development Loan Fund after taking part in a "Hands Across America" initiative. That experience served as a foundation for seeking out solutions to poverty in New Mexico. The Loan Fund was CDFI certified in early 1990, made its first loan in 1990, and was recertified in 2005.

LOAN VOLUME

- The Loan Fund set new records for number and volume of small business loans in 2009, despite the economic downturn.
- In 2010, The Loan Fund marked its 20th year of financing and supporting entrepreneurs throughout New Mexico by making \$6.4 million in small business loans, compared to \$3.3 million in 2008.
- Over the past 20 years, The Loan Fund has made loans totaling \$41 million to nearly 1,000 businesses.

PARAMETERS

- Loans range from \$5,000 to over \$350,000.
- Loan ceiling policy limits loan amounts. The Loan Fund and client determine the client's repayment capacity.

George Kenefic, director of the Loan Funds' Enterprise Empowerment program said, "We subscribe to the 'no sin' business definition/limitation published by SBA and USDA. In this context, we probably would not fund a winery or a brewery (alcohol production as a primary business), or a bar (sale of alcohol, primary business), but would fund a restaurant that served beer/wine/liquor, or a food store that included beer/wine/liquor among its stock."

Farm Lending

Niche

Several agriculture and food initiative paths crossed, prompting Kenefic to determine that agriculture could add value to the predominantly small rural business economy in New Mexico. Participating in the statewide New Mexico Farm to Table initiative, Kenefic and colleagues determined that, if they were going to offer financing to support enterprise development in agriculture, it had to fit the culture of their target market: entrepreneurs reluctant to borrow money. With a predominance of Hispanic and indigenous persons farming small acreage with small crop yields, gaining confidence by building trust was key.

The motivating issues for assisting a new generation of farmers were that the average age of the New Mexico farmer is increasing significantly and that farmers were not able to make a living on cash crops. A strategic decision was made to reach the smaller scale budding farmer and provide technical assistance and capital support throughout the stages of the business's life. About 80% of the Loan Fund's business is in the Albuquerque–Santa Fe population center (which contains 60% of the state population on 15% of the state's land area). However, 80% of its outreach is in rural areas (40% of the population lives on 85% of the state's land area).

Agriculture does not comprise a large percentage of the Loan Fund's portfolio; however, the Loan Fund recognizes agriculture as a business opportunity for the rural population it serves. Kenefic characterized the Loan Fund's borrowers as small business and nonprofit organizations such as restaurants, art galleries, small transportation companies, flower shops, assisted living facilities, daycare, and urban Native American health care centers. New Mexico is primarily a rural state with predominantly small producers, according to Kenefic, so smaller acreage farms with smaller yields or herds means that the Loan Fund is truly a small rural business lender.

Capacity Building

Building capacity to lend was not an issue for the Loan Fund, which has a track record of successful small scale lending. Rather, it was building relationships with a target population whose historical experience with debt providers was damaging. Says Kenefic, "We wanted to show them and community groups like Farm to Table, a regional food systems group, that the Loan Fund was not out to take land or private assets. The Loan Fund was able to participate in collaborative efforts among trusted organizations, creating tools not necessarily initially in the form of financial capital but in the development of needed social capital that led to trust building."

Being involved in Farm to Table's collaborative effort enabled the Loan Fund to expand its lending reach. It connected with New Mexico State University's Sustainable Agriculture Science Center at Alcalde and with the Northern New Mexico Pueblos. There are groups that have foregone the casino route to economic development, focusing more on ecotourism and agriculture. Where capital and technical assistance were needs, the Loan Fund was poised to respond. "We want to build our capacity to help create this new generation of producers and help them reach the market, Kenefic explained. "But

we can't do it on our own. What do we know about raising bees or growing apples? Building our capacity meant knowing where our strengths were and connecting with those who had relevant strengths.”

Specific steps the Loan Fund took to build its capacity and partnerships:

- Joining the New Mexico Farm to Table initiative.
- Engaging in consumer research to determine export and import ratio of consumable products: 98% of what is grown in New Mexico is exported; approximately 95% of what is consumed is imported.
- Determining that, to reach the targeted population, the Loan Fund needed to shift loan parameters (built on urban retail services model) as well as create a separate pool of funds in which the capital source would not expect a high return on investment. This enabled the Loan Fund to tailor debt to this sector as “patient capital.”

Key Loan Fund partners:

- Farm to Table (statewide convener of food system stakeholders)
- New Mexico State University Extension offices and staff
- New Mexico State University's Sustainable Agriculture Science Center at Alcalde, an experiment station focused on sustainable agriculture
- Pueblos, the Native community, which owns the land on which many potential borrowers live and work
- USDA Rural Development
- Senior Corps of Retired Entrepreneurs

Technical Considerations

The Loan Fund provides business consulting through the life of the loan, which is typically 3–5 years. The Loan Fund services all loans in-house, tracking repayment, and assisting borrowers to build their business acumen. Kenefic comments, “We want to make loans to help people, not sink them ... so we work to make sure their businesses are viable ... we work with them to develop, if not a formal business plan, a plan of action around a proposed business idea that focuses on the economic viability. ... We work on a one-to-one basis, also in the classroom setting.”

The Loan Fund has a diverse portfolio of individual and nonprofit organization loans. However, its core business is community development. The Loan Fund maintains that providing debt for entrepreneurship is a pathway to community development.

Loan Examples

The Loan Fund has not established agriculture lending as a top priority. Yet, they are proactive in reaching out to borrowers that represent the economy of the community.

Farm Summary

- In 2005, the head beekeeper for an established apiary was presented with the opportunity to take over the business.
- The Loan Fund provided a loan to buy additional hives and honey extraction equipment such that the business was able to increase production levels.
- Beekeeper initially had to supplement income from the business with side jobs in construction and remodeling.
- Today, that is no longer the case. Steady income growth, in spite of a down economy and the recent bee die-off, has caused the business to flourish.
- Beekeeper is currently in the process of applying for new financing with The Loan Fund to acquire land to expand the business.

Loan Amount: Less than \$20,000

Uses/Sources:

- In total, two loans to this borrower:
 - First loan to purchase an existing business and working capital
 - Second loan provided more working capital

Term: 3–5 years, with adjustments and refinancing along the way

According to Cathy Sorenson, the Loan Fund community development officer, providing a permanent working capital loan is actually a term installment loan for 3–5 years. If the borrower requires additional working capital during the course of the loan, the Loan Fund generally combines the previous loan with the new working capital portion.

Interest Rate: Generally 9%–10%

Payment: Equal monthly payments on principal and interest

Sorenson noted that “the Loan Fund is familiar with seasonal repayment needs (for example, tourism businesses) and routinely structures loans to accommodate. The borrower in this case preferred equal monthly principal and interest payments.”

Collateral: Used, free and clear vehicles and a small existing piece of vacant property. For this borrower, the CDFI considered character, collateral, and proven cash flow in that order of priority.

Primary Factors

Capacity: Cash Flow

- Uses global cash flow (business and personal cash flow). The rationale for global cash flow is based on the Loan Fund being a relationship lender, rather than a transactional lender. The Loan Fund also provides technical assistance to help borrowers avoid getting into financial difficulties.

Capacity: Farm Business Management Skills

- In this case, the Loan Fund was confident about capacity, primarily because the borrower worked for the previous owner of the operation for a number of years. Borrowers are required to provide a very detailed narrative of their duties, management history, and these on-farm experiences must match the business plan.
- The borrower’s experience as a beekeeper, and demonstrated knowledge and effort underscored capacity and added to what the Loan Fund considered as character.
- The Loan Fund needed to understand and get assurance for questions like: What if bees fly away? What about the epidemic of bees dying? The farmer educated them about the situation and how he was handling farm issues. According to Kenefic, “Skills, knowledge, and experience as a beekeeper became the collateral. The rest was a bunch of wooden crates.”

How the loan is repaid through business growth is based on knowledge and capacity. Sorenson stated, “He’s good at marketing. He works hard at that; gets in stores, [wins] prizes at fairs, all of which helps market product. He knows the things he needs to do. It’s important to us that the borrower understands his/her product and the limitations and challenges faced.”

Conditions: Getting to Market, Understanding Market

- Had a track record for successful marketing, always getting product in stores, winning prizes in competitive food events. Kenefic shared, “The thing is, his honey is so superior to anything we could find commercially. The issue is more a matter of getting people to taste it within a general radius he could easily manage. Once you’ve tasted it, you know it’s a premium brand for sure, even though not nationally known. We also counseled him on pricing it right; don’t give it away.”

Conditions: Market Conditions

- Beekeeping is a needed industry in a competitive market.
- The borrower had a track record of product quality and, understanding market conditions for the product, knew where the product would sell.

Character

- In this particular case, the borrower had no credit score. All expenses were cash transactions.
- The Loan Fund has worked with him in building credit to both establish and achieve a very good credit score. Adds Sorenson, “A lender uses the credit bureau primarily to assess a borrower’s character. Does the borrower pay bills on time, or let them slip, or not pay them at all? Sometimes a borrower has experienced a significant negative financial event, such as divorce, job loss, etc. As long as this was a specific point in time in the past, and the borrower has gotten back on track, we will be able to work with them.”

Secondary Factors

Collateral

- Two vehicles owned, free and clear
- Mortgage on real estate

Summarizes Sorenson, “We are a cash flow lender. ... Collateral is simply a credit enhancement. Yet it’s so important for a borrower to have skin in the game.”

THE PROGRESS FUND

The Progress Fund is a Pennsylvania-based CDFI. It includes agriculture as major market niche through proof of concept approach, beginning with agriculture cooperative, and then moving into equity investments in community supported agriculture.

The Progress Fund creates economic opportunity by lending needed capital and providing entrepreneurial coaching to small businesses in the travel and tourism industry in Pennsylvania, West Virginia, Western Maryland, and Appalachian Ohio. The Progress Fund’s goal is to build wealth and create living-wage jobs in its rural market area. The Progress Fund maximizes its impact by targeting businesses that see opportunity in the tourism industry or are family farmers who grow and sell local foods.

LOAN VOLUME

Since its 1997 inception, The Progress Fund has helped 206 small businesses, created or retained 2,352 living-wage jobs, supported over \$58.7 million of new investment through its lending, offered 12,980 hours of entrepreneurial coaching, and its clients have generated \$149 million in business revenues

PARAMETERS

- Loans range from \$20,000–\$750,000

Farm Lending

Niche

In 2007, agriculture was considered in a strategic plan within the larger focus of tourism to revitalize small communities. The Progress Fund saw a niche in farming as a strategy to retain the area's farmers. The Progress Fund offers loans and equity investments, technical assistance, and tools to help farmers become more marketable. It is exploring the most effective way to continue to support the local food movement. A farming cooperative anticipating lucrative market opportunity in nearby metropolitan centers such as Washington, D.C., and Pittsburgh sought out The Progress Fund as a potential lender whose mission may encompass the farmers' business venture.

The Progress Fund also tied agriculture to success in tourism to assist in the revitalization of small communities in its service area. The philanthropic community was very supportive of The Progress Fund's efforts as it explored its role in sustainable communities and rural support.

Entering the rural funding market with a few loans, The Progress Fund made a strategic decision to expand beyond nine counties in Pennsylvania into 39 counties in West Virginia, eastern Ohio and western Maryland (Appalachian area). Its market niche became tourism and agriculture. According to David Kahley, The Progress Fund's president and CEO, "There is too much at stake in Pennsylvania. We are losing our farmland at a faster rate per capita than any other state in the Union. Maybe our financing of locally grown products will be a valuable tool, but maybe not. We are still in the trial-and-error and learning phases."

Capacity Building

The Progress Fund proceeded with "proof of concept" by investing in tourism, which became a large opportunity cluster for southwest Pennsylvania. People started to see the relationship between agriculture and tourism as supporting businesses that could benefit the small town economy and environment. It began with loan to a farmers' cooperative, and The Progress Fund has made loans to a dairy branching into cheese making, to winemakers growing local grapes, and to community supported agriculture operations.

The Progress Fund's success in financing small tourism-based businesses helped build a reputation of capability to solve financing gaps in the region. This also gave staff and the board confidence in the organization's ability to make a difference. Private, philanthropic support enabled The Progress Fund to hire a consultant to examine the local food chain. Offers Kahley, "While the local food movement is interesting, it is hard to break into. Farmers are reluctant to borrow repeatedly, but then there are those farmers who have debt in fancy equipment. Making a change to sustainable farming practices takes time and money, and they don't have a lot of information about the surety of the markets."

Findings:

- Numerous foundations wanted an opportunity to invest in entities that shared their missions, such as environmental protection.
- The Progress Fund aligned its lending priorities with state priorities to be eligible for public funding, and supported by foundations with environmental and sustainability missions.
- The Progress Fund found that the regional food supply chain is very hard for farmers to penetrate. There is no infrastructure for small scale, locally grown foods. The organization found that trying to push local foods into the existing food distribution system, scaled for huge volumes, presented a significant challenge. The Progress Fund is looking for different or new distribution channels in which the farmer can sell directly to the consumer. At the same

time, experience demonstrated that farmers were reluctant to borrow money, unless for specific items such as equipment.

Strategic partnerships include the following:

- Private retail (grocery chain) committed to local agriculture, with organizationally-driven mandate of sourcing local product (10–15% of food sold is sourced locally).
- Pennsylvania Association of Sustainable Agriculture (PASA), the state agriculture development network.
- Cohorts in local foods movement. For example, through a relationship with Red Tomato, a regional distribution company, The Progress Fund learned about the sector as it transitioned to brokering products.

Technical Considerations

“This is where we spend most of our time with a borrower,” says Kahley. “Every case is different. The Progress Fund starts with building a relationship with the borrower, getting to know the business, and determining if it fits with The Progress Fund’s mission. Then it looks at the structure of the business. Technical assistance starts with helping the borrower describe the business.”

Character analysis is equated with how well the borrower’s plan is thought out. Evaluation of the loan risk is based on land value. The Progress Fund is most concerned about business cash flow and prefers to see supplemental income during start-up phases. Land value is a secondary concern. The Progress Fund requires sufficient collateral to ensure the borrower will not consider defaulting but does not require an overabundance of collateral.

The Progress Fund has the following borrower expectations:

- Reasonable operation experience: direct experience or similar transferable skills needed in the new venture are required
- No bankruptcies, unless there were exceptional circumstances (e.g., health issues) that were out of the borrower’s control at the time
- Farm experience: either grew up on a farm, studied small-scale operations, and/or had direct operations experience through working or internships

Loan Servicing, Other Considerations:

- All loans are serviced in-house
- Annual requirement of business financials and personal tax returns

According to Kahley, The Progress Fund does not see a need for different credit criteria for agricultural businesses than for other businesses; the organization retains the fundamentals of character and cash flow. In addition, The Progress Fund has not established specific programs for different types of businesses. Although attracting 33 sources of funding for CDFI lending activities, each carrying distinct requirements, The Progress Fund does not turn those stipulations into specific programs into which the borrowers must fit. Instead, staff deals with the restrictions internally, asking the borrower to share business issues, and then staff tries to tailor loans to meet credit needs.

Loan Examples

The Progress Fund’s approach is to be strategic about its overall lending program, which includes each individual agriculture-based loan.

Farm Summary #1

- Sixteen-member organic grower cooperative
- Farmers created cooperative to sell more competitively in major metropolitan areas to meet restaurant and other retail demand
- Already had strength in Washington, D.C., market
- Needed warehousing, cooling space, and upgraded transportation
- Local community bank was willing to finance building renovation but not transportation, was unfamiliar with cooperative structure, and was unsure how to garner repayment in case of default among multi-farmer operation
- Hiring of operations manager was a good sign of organizational capacity
- The Progress Fund took into consideration market penetration of organic production

Loan Amount: \$65,000 loan from The Progress Fund

Uses/Sources: Building renovation, leasehold equipment, machinery, and working capital

Term: Bridge loan: six months, no interest; rest of loan package reflected financing terms of the community bank and state loan fund (see total package below)

Interest Rate: Interest rate matched bank interest prime rate; The Progress Fund does not charge a higher amount for risk.

Payment: Monthly payment of interest and principal

Collateral: Equipment, second and third positions on property

Total Package: \$380,000

- \$75,000 State Agriculture Enterprise Loan fund, building renovation
- \$200,000 community bank real estate and construction loan
- \$40,000 owner equity

Participants: Local community bank, Pennsylvania State Loan Program for Agriculture Enterprise, The Progress Fund

Primary Factors

Capacity: Cash flow

- Demonstrated ability to generate revenue to cover equipment loan
- Had positive past cash flow on current operation

Capacity: Farm Business Management Skills

- Cooperative was purposefully kept small, with little overhead
- Members had intrinsic value of being together
- Had track record of working successfully together for several years
- Had borrowed previously from bank
- Had acquired good credit rating
- Hired operations manager, which demonstrated organizational knowledge

Conditions: Getting to Market, Understanding Market

- Growing market penetration through years of good performance in urban and metropolitan areas
- Increasing growth potential through past performance in the market
- Growth demanded new equipment and storage for increased product: signs of healthy industry
- Had distinct market and demonstrated value to produce at volume needed to supply demand

Conditions: Market Conditions

- Market demonstrated demand for greater supply of organic product, especially in major metropolitan areas
- More retail outlets presenting opportunity for product volume

Character

- Sixteen-member cooperative that had track record of producing and collaborating
- Track record of filing taxes
- Good reputation in community
- Generated profit

Secondary Factors

Capital (Cash/Equity):

- Owner equity (cash)
- Owner equity in building

Collateral

- Equipment
- Building

Farm Summary #2

- Third-generation dairy farmer decided to make cheese
- Popular product locally
- Started selling to Whole Foods
- Needed to increase product supply
- The Progress Fund encouraged borrower to explore market possibilities because the business was in growth mode
- Business needs: increased milk supply, marketing, and operational dollars
- Characteristic of cheese production: for aged cheddar product, needed to age product for at least a year, so needed operational capital to ramp up supply

Loan Amount: \$78,200 from The Progress Fund

Uses/Sources:

- Sources of capital available: USDA and state funding for CDFIs
- Use of funds: working capital, milk supply (purchased from parents), marketing, and office software

Term: Bridge loan: 10-year adjustable-rate loan

Interest Rate: 6%

Payment: Term loan, monthly payment with adjustable rate every three years; 84-month note, straight-on interest and principal

Collateral: First position in cattle; first position in inventory; first position in equipment

Total Package: \$80,790

Participants: \$78,200 Progress Fund loan plus 1% origination fee from borrower

Primary Factors

Capacity: Cash flow

- Primary factor was off-farm income. Borrower's spouse worked off-farm as well as on-farm to help supplement cash flow.

Capacity: Business Management Skills

- Background in dairy farm operations
- Track record in business among community members
- Paid taxes
- Lots of land in family
- Good credit report
- Good track record with previous financial institutions; no bankruptcy

Character

- Strong work ethic
- Commitment to the business
- Sought out small business development center for help with business plan

Conditions: Getting to Market, Understanding Market

- Diverse networks of business support
- Increased market diversification
- Growing to storefront operation

Conditions: Market Conditions

- Market demonstrated demand for greater supply of cheese in Pittsburgh area
- Large base of food consumers (healthy, local, good)
- More retail outlets presenting opportunity for product volume
- Good track record with previous financial institutions; no bankruptcy

Secondary Factors

Capital (Cash/Equity):

- Minimum of 5% cash or equity equivalency in business and/or minimum of closing costs, or major improvements in property

Collateral

- First position in cattle; first position in inventory; first position in equipment

UCEDC

UCEDC is a New Jersey economic development corporation starting in farm production lending with loans to immigrant farmer selling produce at farmers markets in New York City.

UCEDC is a nonprofit CDFI that fosters economic growth by providing financial and technical assistance to new and existing businesses with emphasis on benefiting underserved people and communities. UCEDC has been a certified CDFI since 2000, a SBA lender since 1983, a SBA microlender since 1994, a partner with the New Jersey Economic Development Authority (EDA), and a technical assistance provider in business development.

LOAN VOLUME

In 2010, the UCEDC-EDA partnership supported 45 businesses across New Jersey with more than \$1 million in loans. This assistance, which is expected to leverage over \$2.3 million in total investment in the state's economy, is helping to spur the creation of nearly 200 new jobs and ensure the retention of more than 230 existing jobs. Of the businesses assisted, 10 are minority owned, 19 are women-owned, and 14 are startup companies.

PARAMETERS

- Maximum loan amount \$150,000 (with \$50,000 maximum for SBA microloan component)
- Will pursue new opportunities with SBA beyond current microloan fund status:
 - SBA 7A lender with amounts up to \$250,000
 - SBA 504 program with deals in the millions of dollars

Farm Lending

Niche

UCEDC's first production agriculture loan was made in 2011 (see below). The loan came through a referral from a commercial bank. UCEDC was also recently referred a loan for a winery, which the organization is pursuing. UCEDC is interested in becoming a USDA microlender. To do so, it needs loans in rural census tracts for the USDA microloan program, which has not happened for UCEDC in the past. Ellen McHenry, UCEDC senior director of financial programs said, "We feel, if we have a couple of these loans going forward, we can put together more of a marketing plan, and have dollars set aside for agricultural loans."

Capacity Building

UCEDC considers itself well-staffed and capitalized to take on agricultural lending. It also finds that agricultural lending fits its small business/underserved borrower mission. Further, UCEDC recognizes a need and a niche in the growth of agricultural and local food businesses that face a lack of agricultural lending in urbanized New Jersey. UCEDC believes it can play a role in making both small and larger deals (e.g., gap financing and participation loans). "I don't think we will have cost or capacity needs because we have three lenders on staff, or three and a half lenders," said McHenry. "We have a full infrastructure in place (software, administration, marketing, etc.) for loan programs. Maybe we'll need more of a targeted marketing plan and work going out to the bankers in the agricultural area. Even if we weren't able to get USDA dollars for lending, we have loan dollars to lend to all comers."

UCEDC's challenge is in understanding agriculture and how to structure deals accordingly. On the lender's first agricultural loan, McHenry reported that the "only challenge was understanding what their needs are and trying to structure it a little

differently. For example, in the process, we learned about John Deere equipment dealers' practice of requiring payment once a year, not monthly, to allow for farmers' up-and-down seasonal income. If we can participate in some manner that induces the bank to do a deal that they might not necessarily do, because we might help reduce their exposure, [that] is how we would add value. Unlike some other bank products, we have no pre-payment penalties. We're more of a flexible lender than the [other] dollars that are out there."

Technical Considerations

UCEDC is just beginning agricultural lending and has yet to make contact with many resources and partners. Thus far, it has engaged the following:

- SBA (currently offers SBA 503 microloans, but seeking opportunities to offer SBA 7A and 504 program status to enable larger loans)
- Grow NYC, a nonprofit program in the region supporting immigrant farmer development
- Association for Enterprise Opportunities, which has rural lenders among its members

UCEDC plans to reach out to chambers of commerce for referrals, continue working with Grow NYC, build its farmland preservation contacts for referrals and deals, pursue promotion through EDA, and build in-house marketing capacity.

Loan Examples

UCEDC's loan committee reflects their community. It is comprised of people of all "walks of life" who volunteer their time, reflecting the urban and regional communities within which UCEDC makes its capital available.

Farm Summary

- Immigrant produce farmer, based in New Jersey, serving seven New York City Greenmarket locations
- Farmer leases 48 acres, including three acres of greenhouse space.
- Farmers produces a range of fruits and vegetables: four acres broccoli and cauliflower, one acre garlic, two and a half acres strawberries, one acre asparagus, two acres tomatoes, half an acre watermelons, one acre small fruits, and other miscellaneous produce.
- Background: The farmer has an agricultural engineering degree from his home country of Mexico and industry experience there working with small farmers. He came to the U.S. in 2000. He is a well-regarded participant in Grow NYC's New Farmer Development Project.

Loan Amount: \$15,000

Uses/Sources: Borrower provided \$2,000 equity toward total \$17,000 for used plow and operating capital to cover propane purchase and two months of utilities during the off season.

Term: 9 months

Interest Rate: 9% (Note: UCEDC has preset rates for different types of borrowers. It charges 9% for businesses that have been in operation two years or more.)

Payment: Equal monthly payments

Collateral: Personal guarantee and life insurance policy for amount and term of loan, along with a first lien on three motor vehicles

Total Package: \$30,000–35,000 total loaned, after including \$10,000–15,000 for payroll

Participants:

- Regional Business Assistance Corporation (RBAC) provided separate loan for additional payroll needs. RBAC is a longtime partner with UCEDC. McHenry recruited RBAC to participate and provided a loan write-up to reduce RBAC's costs; this reflects an ongoing reciprocal arrangement in their collaborative lending. RBAC also has a Spanish-speaking staff and constituency and an added interest in making a loan to the Mexican immigrant farmer.

Primary Factors

Capacity: Cash Flow

The first loan to an urban farmer offered posed challenges to UCEDC. Since there was no precedent to help determine capacity, learning about the 12-month cash flow of a farm operation was a priority. "I had to figure out what his true cash flow was going to be," noted McHenry. "I couldn't just do 12 months of income and expense projections because he was going to have ongoing fixed costs and variable cost during his growing season; it's not a question of this is the income in May and it goes up 10%."

- Borrower provided information about gross sales at farmers markets to show that cash flow during selling season is typically high enough to cover repayment.
- McHenry had awareness of high-dollar New York City markets, including knowledge of a past successful UCEDC borrower selling pickles at Greenmarkets and what that business's cash flow and growth looked like.
- Farmer's tax returns provided historical income and expense data.

Capacity: Farm Business Management Skills

- Assessing farm business capacity required getting to know the borrower and his operation, including visits to the farm and outreach with resource organizations and stakeholders.
- UCEDC's loan committee flexible enough to work on a character loan basis.

Character

- UCEDC's assessment of character was complicated by immigration technicalities that raised many questions, such as whether the operation qualified as a startup or an existing business, whether the farmer qualified as a documented immigrant under a federal loan program, and whether the technicalities would affect his lease term, which would affect the loan term. "I can't lend as much to start ups. ... All my programs are federal funded dollars, so I need them to be documented people. ... Another challenge I had [was that] the loan couldn't be any longer than his green card or his lease, which were different," stated McHenry.

"These are character loans," McHenry added. "The farmer's accountant put together a package for him (financial statement, tax returns, copies of minutes), and the borrower provided me with a lot of material that had been written about him through Grow NYC and letters of recommendation. I asked a lot of questions and learned by making and serving the loan."

APPENDIX A: PRODUCTION AGRICULTURE LOAN RISK MITIGATION CHECKLIST

CRITERIA	Yes	No	NI*	Notes
I. Capacity				
<i>Track Record</i>				
Loans repaid				
Consistent sales volume				
Consistent debt range				
Taxes paid				
<i>Operations Experience</i>				
Background in industry				
Farm cycle experience				
Experience level in farm product diversity				
<i>Business Acumen</i>				
Expansion mode				
Full on-farm income				
Divergent financing resources				
Detailed operation narrative				
II. Capital				
Cash/equity requirements				
Off-farm income				
Family guarantor				
Loan-to-product volume ratios				
Consistency in balance sheet history				
Profitability based on tax returns				
Demonstrated product cycle-generated revenue				
III. Character (Commitment)				
History as borrower				
Savings history				
Production management training				
Success in seeking out markets				
Credible references				
Reputation in industry				
Work ethic				
Diversity in TA support sought				
Rebuilding after economic downturn/difficulty				
Social and civic engagement				
IV. Collateral				
Credible source loan co-sign				
Crop assignment from shipper				
Equipment, trailers, vehicle, crop liens				
Second lien on home mortgage				
Buildings				
Stock (livestock)				
Personal guarantee; life insurance interest				
V. Conditions (market/sector)				
Good standing with vendors/shippers				
Product quality and competitiveness				
High diversification of marketable product				
Purchase or sales agreements				
Signed land lease agreement				

*Need Information

APPENDIX B: COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION PROFILES “AT A GLANCE”

CDFI	Natural Capital Investment Fund	California FarmLink	CalCoastal	Craft3	FORGE, Inc.	Fresno CDFI	New Mexico Loan Fund	The Progress Fund	UCEDC
Date Formed; Structure	2001; CDFI	2005; 501(c)(3)	1982; CDFI	1995; CDFI	1988; CDFI	2008; CDFI	1989; CDFI	1997; CDFI	2000; CDFI
Mission	Environment stewardship, sustainable economic development, social justice	Linking new farmers with land transfer options	Finance smaller scale, limited-resource farming operations	Economic and environmental health	Economic and environmental health	Stimulate reinvestment in urban and rural neighborhoods	Improve economic and social conditions of New Mexicans	Creating economic opportunity through focus on niche and creating living-wage jobs	Small business development in disinvested communities
Primary Borrower	Limited-resource and minority farmers	Beginning or first-generation farmers	Latino strawberry farmers	Tenant farmers; non-traditional (micro-scale, value-added)	Organic and smaller scale farmers with cash flow problems	Refugee and immigrant farmers	Native American and Hispanic small farm operators	Smaller scale farmers trying to penetrate more local retail markets	Immigrant farmers
Mission-Sector Link	Targeted sectors: sustainable forestry, value-added; renewable energy and fuels; eco-heritage tourism; green building; natural medicines	Farmland accessibility; assisting in the transfer of land between retiring farmers and newer, first-generation farmers	Agriculture is central to community economic development and significant economic driver in region	Serves significant geographic region with focus on maintaining land for ongoing agriculture	Founded by organic farmers; primary link is sustainable agriculture practices to maintain land health; serves key role in bridge lending	Geographic region is major agricultural economy; links immigrants with farming through microenterprise development	Small farm lending is link to connecting new rural farmers with urban businesses and population centers	Agriculture is major market niche as part of state tourism sector development and marketing	Role of agriculture in urban markets; linking rural agriculture opportunities with urban population centers
Primary Issue Facing Sector	Twofold: limited-resource farmers lacked financing to transition to sustainable agriculture practices; and CDFI had limited staffing capacity to deal with intricacies of smaller scale agriculture	Land values high; borrower inexperience; capital inaccessible to newer farmers	Farmers unable to access financing through traditional bank financing options; loan-underwriting expense outweighs overall amount financed	Existing farms: farm viability depends on maintaining land as agriculture; farmer profile outside commercial or FCS credit	Lack of affordable capital for operations or expansion	Extremely low-income; typically resource-poor, but with significant agricultural background	New generation of farmers; majority have no credit history or credit adverse	Smaller scale farmers needed flexible capital; major capitalization gap for tourism industry; smaller scale farmers difficulty penetrating larger scale food chain	Referral from banks prompted interest in becoming USDA microlender; lack of agriculture lending in urbanized New Jersey

CDFI	Natural Capital Investment Fund	California FarmLink	CalCoastal	Craft3	FORGE	Fresno CDFI	NM Loan Fund	The Progress Fund	UCEDC
Lending Parameters	Debt or subordinated debt: \$35,000–\$250,000	\$5,000–\$100,000	\$300,000–\$1.1 million	Subordinated debt	\$10,000–\$70,000; Address “whole life cycle” of farm	Up to \$50,000	Based on ability to repay; range: \$5,000–\$350,000	\$20,000–\$750,000	Up to \$150,000
CDFI Strength	Local and regional resource collaboration in NC, price loans above prime, board support, staffing, acquired food system knowledge; serve as bridge lender	Technical assistance; FSA guaranteed lender; farmer network convener statewide	Relationship-based lending; marketing word of mouth and SBADC	Strength in loan officer and committee expertise; loan committee expertise	Track record, member and investor support for sustainable agriculture; experienced loan officers and loan review committee	Staff experience with population; partner relationship increases sector knowledge capacity	Track record in lending; knowledge of population culture; market availability; member of statewide Farm to Table food system group	Proof of concept by investing in tourism; track record developed linking agriculture and tourism as impacting small town viability; private philanthropy support	Staffing and capitalization Challenge: sector knowledge
Key Partners	USDA, state of North Carolina, farm development organizations, philanthropy	USDA and local credit union CDFI	USDA	Land trusts, conservation districts, farmers cooperatives, Extension	Community members, farmers, investors	SBA, USDA Farm Advisors Extension	New Mexico Conference of Churches, SBA, Native Community	PASA, State ag, private philanthropy, other CDFIs	SBA, Grow NYC, Rural Business Assistance Corp.
Lending Position	Primary or collaborator; usually subordinated debt	Partner with USDA FSA and CDFI	Primary	Subordinate	Primary	Primary: 50% of lending for agriculture micro-enterprise	Primary	Depends on loan; primary and subordinate	Primary currently

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