BEGINNING FARMERS: FINDING THE MONEY YOU NEED

OCTOBER 2017

MICHIGAN STATE UNIVERSITY | Center for Regional Food Systems

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Suggested Citation

Tyler, S., Waterman, B., (2017) *Beginning Farmers: Finding the Money You Need.* East Lansing, MI. Michigan State University Center for Regional Food Systems. Retrieved from: http://foodsystems.msu.edu/resources/beginning-farmers-finding-the-money-you-need

Acknowledgements

Thank you to our reviewers, Mike Hamm and Susan Smalley, and our authors, Shakara Tyler and Ben Waterman.

The authors would like to thank Andrea Weiss of CRFS for communications leadership, Kelsey Grimshaw of CRFS for digital publishing, Robin Miner-Swartz for proofreading and Güd Marketing for graphic design.

Support for this work comes from the USDA Beginning Farmers Rancher Development Grant Program supported by the National Institute of Food and Agriculture, U.S. Department of Agriculture, under award number 2015-70017-2286.

BEGINNING FARMERS: FINDING THE MONEY YOU NEED

INTRODUCTION

> **This guide is meant to provide a road map to loan readiness.**

Beginning farmers everywhere are the pulse of our society. With unlimited enthusiasm and tenacity, beginning farmers are jumping into the agricultural sector, ready to grow food to feed their families, communities, and the world. However, one significant obstacle often halts this effort: access to financial capital and readiness to pursue the appropriate financing route for your farm business. Ask yourself:

- What are your financial capital needs to support your farm business?
- Are you prepared to approach lenders with all their requirements?
- Are you interested in exploring beyond conventional sources of financial capital?

This guide[1] is meant to provide a road map to loan readiness and conventional and alternative credit access for beginning farmers. Access to financial capital is one of the largest obstacles for beginning farmers. Startup farms and businesses in operation for more than four years face obstacles to attaining financial capital. Before we jump into financial capital options, let's first become familiar with the basics.

1 Some of the information that follows was presented by Ben Waterman as part of full-day workshop, hosted by partner organizations under this grant, aimed at helping beginning farmers understand land tenure options, financial and investment readiness, finding and assessing land, and negotiating with investors and landowners.

WHAT IS CAPITAL?

Capital, in broad terms, can mean cash, equipment, land, people, community support, knowledge, and labor. These components reflect the various types of capital: human, natural, ecological, built, political, social, financial, and cultural (Figure 1). However, in most cases, when someone speaks of capital, they are referring to financial capital.

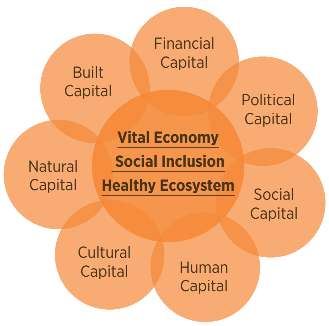

Figure 1: Various types of capital.[2] Courtesy of Cornelia Flora, Iowa State University.

The Five C's of Credit

Many lenders examine the Five Cs of Credit when they consider a loan application. Think about how each would apply to you.

1. **Capacity to repay.** This refers to the cash flow necessary to honor the repayment schedule.

2. **Collateral.** This is the borrower's pledge to the lender in exchange for the loan—usually possessions such as a house or car. Collateral is used to secure loans through lien, which is the lender's legal claim to a borrower's collateral. Unsecured loans such as credit card balances have no collateral requirement but often carry high interest rates.

3. **Character.** This includes determinants that can be used to judge the borrower such as image, business plan, thorough recordkeeping, and credit scores. In many instances, character is quantified with the borrower's credit score.[3]

4. **Capital contribution.** This is a measurement of gross income and current amount of debt. It shows how much skin you have in the game.

5. **Conditions.** Plausible environmental factors of the growing season. Are you growing bananas or are you growing leafy greens? The lenders want to know that your conditions make sense for your farming operation.

6 Steps to Take Before Applying for Financial Capital

1. **Ensure stability of land tenure arrangement**
2. **File Schedule F**
3. **Secure a business checking account**
4. **Request your most recent credit report from the three major credit bureaus**
5. **Develop a three- to five-year business plan**
6. **Keep accurate production and sales records**

1. **Ensure stability of land tenure arrangement,** whether land is purchased or leased, because the land is the most valuable asset to your farm operation.

2. **File Schedule F[4]:** Profit or Loss from Farm form with the IRS creates a track record of your farm revenue. Lenders use them when they perform "due diligence" in assessing your borrower eligibility.

3. **Open and use a business checking account** to separate business accounting from personal accounting.

4. **Request your most recent credit report** from the three major credit bureaus. **Know your credit history** in case you may have to dispute mistakes or explain parts that may be perceived as unfavorable.

2 Cornelia Flore, Iowa State University

3 Credit Reports and Scores. Retrieved July 24, 2017, from usa.gov/credit-reports.

4 File Schedule F. n.d. Retrieved July 24, 2017, from irs.gov/pub/irs-pdf/i1040sf.pdf.

5. **Develop a three- to five-year business plan** to demonstrate, as the potential borrower, your marketing plan, backup plan for crop or market loss, and risk mitigation tools such as crop insurance and pricing protection. Your business plan should have a well-thought-out mission, vision, goals, objectives, personal balance sheet with assets and liabilities, and cash flow analysis. Lenders look at these income and cash flow projections, along with other financial statements such as balance sheets, to assess a farm's track record and future potential.

6. **Keep accurate production and sales records,** and use them to inform the continuous development of your business plan and overall loan readiness. Lenders will want to see what and how you are producing and marketing when determining borrower eligibility for financing.

These steps are vital because they keep you cognizant of what you are doing, where you're going with your farm business, and how you want to get there. You will have greater chances of obtaining financing the more informed you are. If you want credit, you have to talk the business of credit. Taking these steps will help lenders decide if they should invest in your farm business and determine how much risk you pose. Loan approval will depend upon how well you present yourself, your business, and your financial needs.

Before approaching a lender, be clear about your answers to three basic questions: 1) Exactly how much money do you need? 2) Why do you need it? 3) How will you pay it back? Your chances of receiving a loan will depend on how prepared you are to answer these questions.

WHAT ARE SOME TYPES OF CONVENTIONAL FARM LOANS?

Financial capital for a farm operation usually is used in four ways: operating expenses, investment capital, family living, and risk mitigation. Before applying for a loan, a farmer needs to know what the money will be used for and what type of loan is needed.

Short-term Operating Loans: Otherwise known as a "line of credit," these loans cover annual expenses, such as seed or fertilizer. The loan is paid back in full within one year.

Intermediate-term Loans: These loans are for longer than one year and typically cover capital expenses, such as machinery, equipment, fencing, or small infrastructure projects that depreciate over time.

Long-term, Farm Ownership Loans: These are loans for larger infrastructure, such as barns, housing, or real estate. The payback period can be as long as 40 years, depending on how the loan is structured.

Conservation Loans: These loans are used to install conservation practices. For example, USDA Natural Resources Conservation Service might provide cost-share to implement a conservation practice, but they might provide the payment only on a reimbursement basis. The farmer can get a conservation loan through Farm Service Agency to pay for the practice up-front, and the reimbursement from NRCS can help pay back the loan.

Guaranteed Loans: Sometimes lenders won't make a loan to a farmer if there is too much risk involved, however they will move forward with the loan if another financial institution "guarantees" the loan, or promises to step in and help pay back the loan in the event the farmer defaults on the loan payments.

WHAT ARE THE VARIOUS TYPES OF FARM LOANS PROVIDED BY FEDERALLY REGULATED AGRICULTURAL LENDERS?

The USDA offers a variety of farm loans to farmers who are unable to get financing from commercial lenders. Two types of loans are provided: direct and guaranteed. Direct loans are serviced by Farm Service Agency (FSA) using federal funds generated by the Farm Bill. Guaranteed loans are serviced by commercial lenders (such as a farm credit lender) with FSA guaranteeing up to 95 percent of the principal, interest, and other expenses against loss of the loan.

FSA Farm Loan Programs Chart

TYPE OF LOAN	MAXIMUM LOAN AMOUNT	TERMS AND RATES
Direct Farm Ownership	$300,000	• Term: Up to 40 years • Interest rate: fixed**
Direct Down Payment	The lowest of the following: • 45% of the farm or ranch purchase price • 45% of the appraised value up to $225,000	• Term: Up to 20 years • Interest rate: fixed**
Direct Operating	$300,000	• Term: 1 to 7 years • Interest rate: fixed**
Direct Emergency	The lowest of the following: • 45% of the farm or ranch purchase price • 45% of the appraised value up to $225,000	• Term: 1 to 7 years (possibly up to 20 years) for non-real estate purposes • Up to 40 years for physical losses on real estate • Interest rate: fixed**
Guaranteed Farm Ownership	The maximum loan amount is adjusted annually for inflation*	• Term: Up to 40 years • The interest rate is negotiated by you and your lender.
Guaranteed Operating	The maximum loan amount is adjusted annually for inflation*	• Term: 1 to 7 years • The interest rate is negotiated by you and your lender.
Guaranteed Conservation	The maximum loan amount is adjusted annually for inflation*	• Term: Up to 20 years • The interest rate is negotiated by you and your lender.
Land Contract Guarantee	A maximum purchase price of $500,000 on a new land contract	• Term: Contract payments must be amortized for a minimum of 20 years with equal payments during the term of the guarantee. The guarantee period is 10 years. • Interest rates must be fixed and cannot exceed the direct farm ownership interest rate plus 3 percentage points.

*To determine the maximum loan limit for the current year, please check with your local FSA loan officer at offices.sc.egov.usda.gov/locator/app or the website at fsa.usda.gov/Internet/FSA_File/guaranteed_farm_loans.pdf.

**Direct loan interest rates are adjusted monthly and are posted online at fsa.usda.gov/FSA/webapp?area=home&subject=fmlp&topic=fir and at your local FSA office. Once your loan is closed, the interest rate is fixed at the rate in effect on the date of loan approval or loan closing, whichever is lower.

Source: Farm Service Agency. USDA. n.d. Your Guide to FSA Farm Loans fsa.usda.gov/Internet/FSA_File/fsa_br_01_web_booklet.pdf.

Unlike other conventional loans, FSA is responsible for providing credit counseling and supervision to its direct borrowers by helping applicants evaluate adequacy of their assets and their financial and production management and goals.[5] While these federal loans are meant to assist farmers who cannot obtain financing elsewhere, these are still conventional loans given the terms and conditions involved such as collateral, interest rates, and monetary repayment.

Another federally regulated lender is the Farm Credit System (FCS), created by Congress, which provides a network of independent, member-owned lenders across the U.S. It is a network of cooperatively organized banks and associations that are owned and controlled by their borrowers, similar to credit unions. GreenStone Farm Credit Services provides short-, intermediate- and long-term loans, equipment and building leases, life insurance, crop insurance, and accounting and tax services throughout Michigan and northeast Wisconsin.

5 Farm Service Agency. USDA. n.d. Your Guide to FSA Farm Loans. Retrieved February 22, 2017. fsa.usda.gov/Internet/FSA_File/fsa_br_01_web_booklet.pdf

GreenStone provides relaxed underwriting standards and loan terms for the following:

Farm Operating Loans: Short-term farm operating loans finance daily business operations. Part-time farmers with off-farm employment and full-time producers also can use this financing for living expenses, education, unexpected medical expenses, hedging account financing, etc.

AgDirect® Equipment Financing: Available at equipment dealers, at auctions (traditional or online), and for private-party equipment purchases with options to buy, lease, or refinance.

Real Estate Loans: Finance or refinance farmland purchases, land contracts, farm land improvements, and agricultural structures.

Government regulations influence both FSA and the Farm Credit System (FCS), providing formulas for their calculations of risk. This influences the extent to which they can provide loans to beginning farmers with neither startup capital nor equity in their farm business.

WHAT ARE THE ADVANTAGES AND DISADVANTAGES[6] FOR EACH CONVENTIONAL LENDING TYPE (Large Commercial Banks, Federally Regulated Lenders, Local/Regional Banks, Agricultural Credit Unions)?

LARGE COMMERCIAL BANKS

Advantages:

- May provide larger loans, depending on eligibility

Disadvantages:

- Standard, lengthy application process
- Substantial collateral and down payment requirements
- Lack of technical assistance associated with loan packages
- Relatively few loan officers with farm-lending expertise

FEDERALLY REGULATED LENDERS (FSA AND FCS)

Advantages:

- Multi-faceted loan programs specifically designed for farmers
- FSA has money specifically set aside for beginning farmer loans
- Relationship lending**

Disadvantages:

- Must have been disapproved by another lender
- Standard, lengthy application process
- Collateral and down payment requirements

LOCAL/REGIONAL BANKS

Advantages:

- Fewer fees on loan transactions (depending)
- Relationship lending**

Disadvantages:

- Collateral and down payment requirements (depending)
- Higher risk as potential borrower may mean more collateral needed and/or a higher interest rate

CREDIT UNIONS

Advantages:

- Fewer fees on loan transactions (depending)
- Relationship lending**

Disadvantages:

- Collateral and down payment requirements (depending)
- Higher risk as potential borrower may mean more collateral needed and/or a higher interest rate

****Relationship lending:** The lender gathers specific borrower information (credit score, business plan, personal and business history, etc.) used to determine loan eligibility, and the lender develops a relationship with the borrower throughout the loan inquiry and management periods to ensure optimal success of loan use.

6 Advantages and disadvantages depend on individual situations and may be perceived differently by different people.

WHAT ARE SOME TOOLS TO ASSIST WITH FINANCIAL AND BUSINESS PREPAREDNESS?

Borrowers always should be realistic and well-versed about their business—its strengths and weaknesses from internal factors and its opportunities and threats from external factors. Listing these factors is known as a S.W.O.T analysis. Once the factors have been identified, farmers can build on their strengths and the opportunities that they identify.

What about the weaknesses and risks identified through a S.W.O.T. analysis? Every farmer should consider risk management strategies for their farm business. While it is impossible to eliminate risks, there are many ways to reduce and manage them. Managing risk not only stabilizes the farm business, but it also reassures lenders, who need to assure repayment. Farming is a risky business, but there are ways to manage each type of farming risk.

FARMING RISKS	MANAGEMENT STRATEGIES
Production	Crop insurance
Market or price	Pricing protection
Financial	Business planning
Institutional or legal	Tax advice, legal representation, liability insurance
Human or personal	Insurance: health, life, disability, etc.

Crop insurance is one of the key tools to manage risk in farming. Some lenders may require it. Seeking professional tax advice, legal representation, and liability insurance are all highly recommended. Some agricultural lenders provide technical assistance in addition to loans during the land or asset purchase/sale period.

When approaching lenders, having an existing relationship is ideal. Prior to submitting a loan application, you should attempt to have multiple interactions with your lender and seek advice from them as you prepare your loan application.

Farmers also should be aware of the law of leverage when presenting a loan request to lenders.

EXAMPLE: USING DEBT AS LEVERAGE

- You need $4,000 worth of fertilizer.
- You get a 20% discount by placing an early order (Fertilizer cost = $4,000 - $800 = $3,200)
- You do not have cash in the bank at the time the early order needs to be placed, but you will have the $4,000 on hand later.
- Your lender has approved you for a 1-year loan of $4,000 at 5% interest and minimal time/hassle to close on and maintain the loan. (Interest cost = $4,000 x .05=$200)

How much money do you save by taking on the debt?

WHAT IS ALTERNATIVE FINANCING?

Unlike most conventional financing, such as bank and government loans, alternative financing can be a fruitful option for those interested in more flexible loan terms and more fluid definitions of profit. For many alternative lending strategies, such as community development financial institutions (CDFI) and crowdsourcing, a profit is a valuable return or gain that is not always financial. Social impact is heavily weighed. Alternative financing can meet the needs of farms with lack of collateral or inadequate credit history. According to some financial consultants, alternative financing often works best as complementary to conventional financing. One advantage associated with this type of lending strategy is "patient capital," which can be considered a loan with more flexible terms, stronger relationships, and shared risks and rewards with lenders/investors. Some disadvantages are complexity of the loan arrangement—often requiring extra legal and accounting advice—and considerable time spent maintaining relationships. Another disadvantage is that federal and state securities laws can govern limits to soliciting investors, depending on what type of alternative financing is available.

WHAT ARE SOME TYPES OF ALTERNATIVE FINANCIAL CAPITAL ACQUISITION STRATEGIES?

Loans from Individuals

When obtaining loans from individuals, you should craft promissory notes with legal advice. Family and friend loans usually are perceived to be ideal mechanisms for financing due to the flexible payment arrangements and keeping money at the community level. It also can simplify the access-to-capital process. This strategy may be considered a type of community financing where money is exchanged directly between farmers, food processors, and other entities within your communities. Even if you are planning to borrow from a family member or friend, while they may not run a credit check on you, they'll want to know your repayment ability, your past payment performance, and what you plan to do with the money.

LOANS FROM INDIVIDUALS

- Loans are distinct from gifts and need to be documented.
- A "zero-interest" loan likely will be considered a gift in the eyes of the IRS.
- Low- or zero-interest loans are possible; refer to the IRS "Below-Market Loan Rules."
- Sky is the limit regarding creative terms, but seek counsel to understand legal and tax implications.

For example, your sister agrees to loan you the $6,000 you need to purchase seeds, irrigation equipment, and other necessary items for your upcoming farm season. You negotiated a 1% interest rate with a flexible repayment plan to be paid in full over the next two years. The IRS may consider this to be a "gift or demand loan," for which you will be responsible for the payment of interest at the Applicable Federal Rate (AFR) and an additional payment in an amount equal to the forgone interest.[7] You and your sister sign a legally consulted promissory note to protect you both. In favorable conditions, you repay the loan amount and forgone interest by the end of the loan term.

7 Internal Revenue Service. IRS. Below-Market Loans. n.d. Retrieved July 24, 2017, from taxmap.ntis.gov/taxmap/pubs/p535-017.htm.

PROMISSORY NOTES

If you are looking to protect yourself as the borrower and also protect the lender, consider crafting a promissory note to creatively set the repayments terms of community financing arrangements.

A promissory note is a formal contract between parties. It is a written, signed, unconditional promise to pay a certain amount of money on demand at a specified time or over a period of time. A promissory note is used to memorialize a promise to pay a sum of money by a future date in exchange for a loan or various financing at present.

For more information, consult a legal adviser and visit the "Guide to Financing the Community Supported Farm."

Revenue-based Financing or Royalty Financing

Revenue-based financing is debt financing with a twist. It is a loan with a promissory note where repayment of the loan is tied to a percentage of the farm's revenue. Instead of measuring repayment by a fixed interest percentage of the loan amount, the return amount is negotiated, and that amount is paid through an agreed-upon percentage of revenue. Revenue-based agreements can provide the kind of flexibility or "patient capital" designed to help a farmer maintain cash flow during seasonal fluctuations or mitigate risk during down periods. These agreements can be tailored to the needs of the business and the investors. Instead of a fixed interest rate of return and fixed monthly payment, the parties agree to a total repayment amount above the original loan to be paid over time, pursuant to the agreed-upon percentage of revenues.

The farm's Income Tax Schedule F: Profit or Loss from Farming provides the farm's income and expenses to calculate the revenue-based payment.

DEBT/INCOME RATIO

The percentage of monthly gross income that goes toward paying debts.

Be mindful of the amount of revenue put into repaying debts compared to the amount put back into the business. While repaying debt is important, it is crucial that the business has enough financial capital to operate successfully aside from debt repayment.

This is typically referred to as balancing the front-end and back-end ratios. Percentages allocated to both ends will vary by case (farm type, scale, etc.) Consult your lender about optimal percentage rates for balancing debt repayment and business operating expenses.

Advantages:

- Flexible repayment schedule based on revenues can accommodate seasonal fluctuations in sales

Disadvantages:

- Must comply with federal and state securities laws
- Necessary to pay for legal and/or tax services in crafting financing conditions with lender

Crowdfunding

Crowdfunding is the most common type of crowdsourcing (collaborative generation of ideas and services), raising the needed capital to finance a business.[8] More specifically, it is a practice of collecting small sums of money from a large number of people to raise needed financial capital. As a network-based funding strategy, it boils down to convincing your friends, family, and community to invest in your business. There are several models of crowdfunding: debt, equity, reward-based, and donation.[9] Debt-based models promise a return of investment to funders. Equity crowdfunding guarantees a share of the business for investors. Reward-based crowdfunding provides a prize or reward of service or goods to each funder. Donation crowdfunding does not promise a return of the money, earnings, interest, or a reward.[10] Rather, it depends on a shared belief in the cause by investors.

Advantages:

- Large sum of capital raised in short period of time
- Expands accessibility to donors and investors with varying levels of financial resources, and encourages both small and large monetary contributions
- Increases the support base of funders with a vested interest in the success of the business.
- May be more likely to fund nontraditional farm models
- Community buy-in can transform into a seed list of potential clients, and the process allows for the collection of data about target customers[11]

Disadvantages:

- Rewards-based crowdfunding proceeds generally taxed as income
- Significant time and solid strategy needed to create a winning campaign
- Less than half of crowdfunding campaigns are successful

8 Crowdfunding Vs. Crowdsourcing: What is the difference. (2015). Retrieved March 1, 2017, from mytopbusinessideas.com/crowdfunding-vs-crowdsourcing/

9 New Funding Sources for Food-Related Business. (2015). Retrieved March 1, 2017, from foodsystems.msu.edu/resources/food_business_funding_sources

10 Crowdfunding for Entrepreneurs. (2015). Retrieved March 1, 2017, from timetoreconsider.com/resources

11 Valdez, Juan. (2017). The Beginners Guide to Crowdfunding a Farm. Retrieved August 1, 2017, from university.upstartfarmers.com/blog/the-beginners-guide-to-crowdfunding-a-farm.

Individual Development Accounts (IDA)

Agricultural IDAs are matched savings account programs. For every contribution the farmer makes, a lending entity matches that amount, effectively doubling (or tripling) its value.[12] An Agricultural IDA program in Michigan helped farmers differentiate between a purchase and an investment, enabling farmers to invest in their farms without having to take out loans.[13] Farmers in the program accomplished goals such as investing in land and reliable equipment, finishing a farm business plan, connecting directly with institutions to procure product contracts, securing loans through USDA FSA, and building relationships with other farmers who helped provide valuable cost of production advice.

Advantages:

- Help secure a higher eligibility ranking for other loan sources, such as the USDA FSA program[14]
- Ag IDA holders may be less likely to take out loans or use high-interest rate credit cards for small purchases or for paying property taxes[15]

Disadvantages:

- IDAs are usually small, below $4,000
- Income limits required for IDAs make higher-income farmers who exceed cash flow and asset requirements ineligible
- Opportunity to participate in an IDA is quite rare

Community Development Financial Institutions (CDFI)

A certified Community Development Financial Institution (CDFI) is a specialized organization that works in market niches underserved by traditional financial institutions. CDFIs provide a unique range of financial products and services in economically distressed target markets, including investments to small startup or expanding businesses in low-income areas. CDFIs include regulated institutions such as community development banks and credit unions, and non-regulated institutions such as loan and venture capital funds.[16] As a type of credit union, many CDFIs on average offer lower rates on loans and fewer fees. CDFI lenders usually are mission driven, with relationship-type lending structures. Many are entering the agricultural or environmental stewardship sector, given the emergent popularity of food systems.[17]

CALCULATING REPAYMENT RISK

Amortization: Established schedule for paying off debt over time through regular payments.

Sensitivity analysis means adjusting your projected budget to see how unanticipated changes could affect it. For example, decrease income by 10 percent and increase expenses by 10 percent to see if that still allows loan payments.

How much can you reasonably pay to the lender, when and how often?

Advantages:

- Wide range of lending parameters from $10,000 to $350,000[18] can work to many farmers' advantage, especially those with little to no credit history and inexperience with borrowing money
- Many CDFIs offer technical assistance with financial lending and can serve as a bridge or intermediary lender to larger lenders such as an FSA or a private bank[19]

Disadvantage:

- Some CDFIs may lack of farm sector knowledge,[20] which could severely disadvantage farm borrowers
- Many farmers may find no CDFI serving their area since many CDFIs serve specific geographic regions

12 Individual Development Accounts: Helping beginning farmers and ranchers finance their agricultural endeavors. (2014). Retrieved July 24, 2017, from sustainableagriculture.net/publications/grassrootsguide/farming-opportunities/individual-development-account/

13 Cocciarelli, S., (2009) SW Michigan Beginning Farmer Entrepreneur Initiative Van Buren County MSU Extension. Retrieved July 24, 2017, from foodsystems.msu.edu/uploads/files/IDApage-Evaluation.pdf.

14 Same as above.

15 Same as above.

16 CDFI Fund. (2015). Retrieved July 24, 2017, from cdfifund.gov/programs-training/Pages/default.aspx.

17 For a list of Michigan CDFIs and other similar lenders, see: New Funding Sources for Food Related Businesses. Retrieved July 24, 2017, from foodsystems.msu.edu/uploads/files/food_business_funding.pdf.

18 Cocciarelli, S. (2013). Financing Farming in the US: Bolstering Community Lending Capacity for Small to Midsized Farms. Retrieved July 24, 2017, from foodsystems.msu.edu/uploads/files/ffus-community-lending.pdf.

19 See Cocciarelli (2013).

20 See Cocciarelli (2013).

Federal and Philanthropic Funding

Several programs provide money to beginning farmers for specific purposes, either through direct loans or ecological capital of some sort. Government, academic, and nonprofit institutions use federal and philanthropic dollars to provide financial and ecological capital to farmers who qualify for distinct programs with varying objectives and processes. Some examples are below:

The Michigan Good Food Fund (MGFF)[21] is a statewide initiative from which beginning farmers can obtain money. The public-private partnership loan and grant fund was jump-started in 2012 by a $3 million federal Healthy Food Financing Initiative (HFFI) award provided to Capital Impact Partners, a nonprofit certified CDFI, serving as the MGFF manager. Farm cooperatives, in addition to individual farm businesses, are eligible to apply for loans.

Advantages:

- Interest rates, collateral, or down payments depend on specific lending circumstances
- Lending criteria for these loans aim to expand access, ensure equity, create jobs, promote environmental stewardship, increase local sourcing, and drive economic development

21 Michigan Good Food Fund. (2015). Retrieved July 24, 2017, from foodsystems.msu.edu/uploads/files/MGFF_FAQ_10_2014.pdf.

22 Environmental Quality Incentives Program. Retrieved July 24, 2017, from nrcs.usda.gov/wps/portal/nrcs/main/national/programs/financial/eqip/.

KEEP IN MIND

Take extreme caution in constructing CSA membership agreements to avoid illegalities of securities laws, and consult an attorney, if necessary.

National Resource Conservation Service (NRCS) Environmental Quality Incentives Program (EQIP)

The Environmental Quality Incentives Program (EQIP)[22] is a voluntary program that provides financial and technical assistance to agricultural producers to plan and implement conservation practices that improve soil, water, plant, animal, air, and related natural resources on agricultural land and non-industrial private forestland. EQIP also may help producers meet federal, state, tribal, and local environmental regulations.

Advantages:

- Majority of costs for conservation-based projects can be funded through this program
- Financial assistance accompanied by technical assistance can enhance optimal use of ecological capital sources such as hoop houses on the farm

Disadvantages

- Conservation program criteria may not align with farm management plan

Multiyear Community Supported Agriculture (CSA) Shares

CSA shares serve as prepayment for goods and services via membership fees, and multiyear models enable customers to prepay for more than one growing season.

Advantages:

- Attain the funds needed for farm operation in advance of delivering a non-cash return
- Offer customer fixed and predefined bonuses or discounts for prepayment of weekly or biweekly food shares

Disadvantages:

- Funds cannot be used to finance startup costs and should not legally be considered as an investment in the farm business due to federal and national security laws. For more information on the securities of using CSA shares as financing, see the segment "What are some useful resources for financial and business preparedness?" in this guide.

WHAT ARE SOME USEFUL RESOURCES FOR FINANCIAL AND BUSINESS PREPAREDNESS?

AG Plan[23] is a free business planning website that provides templates for various farm operations, sample business plans, and secure sharing with consultants and other reviewers. It is hosted by the Center for Farm Financial Management at the University of Minnesota.

Building a Sustainable Business[24] is a publication developed by the Minnesota Institute for Sustainable Agriculture with support from USDA's Sustainable Agriculture Research and Education program. It provides worksheets to guide strategic planning and other aspects of business development, real farm business profiles, and other helpful resources to help measure benchmarking strategies and amortization schedules to meet lenders' criteria for financing.

Guide to Financing the Community Supported Farm,[25] a University of Vermont Extension publication, details options and considerations for crafting unconventional financial arrangements. It addresses legal, accounting, environmental, and social considerations relevant to pursuing customized financial agreements, and it contains examples of farms that have used alternative financing.

The table below depicts the information shared above. Prioritization of these various options depends on your farm's specific needs and desires. For more information on prioritization strategies for financial capital acquisition, see Scale of Production tool 9.0.

Financial Capital Types, Ranges and Borrower Eligibility (Traditional)

TYPES OF FINANCIAL CAPITAL	TYPICAL RANGE[26]	BORROWER ELIGIBILITY REQUIREMENTS
FSA – Federally Regulated Agricultural Lender	\$10,000 – \$50,000	• At least 3 years of farm management experience and no more than 10 years for beginning farmer loans • Unable to obtain credit elsewhere at reasonable rates • Operate a family farm with majority of the physical labor and management provided by applicant • Have not received debt forgiveness Additional requirements exist for specific loans. See FSA guide referenced below for full list of requirements.
GreenStone (FCS)	\$10,000 – \$50,000	• A young farmer is one who is 35 years old or younger • A beginning farmer is one who has 10 or fewer years of experience • A small farmer is one who generates less than \$250,000 in annual gross sales from production agriculture Additional requirements exist for specific loans. See GreenStone website for full list of requirements.
National Commercial Banks	\$20,000 – \$50,000	Varies by bank
Local/Regional Bank	\$5,000 – \$25,000	Varies by bank
Agricultural Credit Unions	\$5,000 – \$30,000	• Be a credit union member • Must live in geographical area

23 AgPlan. (2016). Retrieved July 24, 2017, from agplan.umn.edu/.

24 Building a Sustainable Business. n.d. Retrieved July 24, 2017, from misa.umn.edu/Publications/BuildingaSustainableBusiness/.

25 The Guide to Financing the Community Supported Farm. (2017). Retrieved July 24, 2017, from uvm.edu/newfarmer/?Page=business/community-supported-farm-guide.html&SM=business/sub-menu.html.

26 It is recommended that beginning farmers do not borrow more than \$50,000 due to the risks involved in repayment while just starting a farm business.

Financial Capital Types, Ranges and Borrower Eligibility (Alternative)

TYPES OF FINANCIAL CAPITAL	TYPICAL RANGE	BORROWER ELIGIBILITY REQUIREMENTS
Family and friend loans	$100 –$10,000	Varies by situation
Community Development Financial Institutions (CDFI)	$10,000 – $50,000	No strict borrowing or eligibility requirements
Beginning Farmer and Rancher Individual Development Account (IDA)	$2,000 – $10,000	• Those who do not have significant financial resources or assets and have an income less than 80 percent of the median income of the state in which they live, or 200 percent of the most recent annual Federal Poverty Income guidelines • Must also agree to complete a financial training program
Crowdfunding	$500 – $50,000[27]	No strict borrowing or eligibility requirements
MI Good Food Fund	$5,000 – $6,000,000	• For full list of requirements by loan type, see migoodfoodfund.org/financing/

27 Within the 10-year scope of beginning farmers, those in farming for more than five years could potentially raise more than $50,000 if crowdfunding occurs on a regular basis and other circumstances such as business sales are optimally successful.

Resources

Loan Readiness

- AgPlan (2016)
  agplan.umn.edu/
- Building a Sustainable Business
  misa.umn.edu/Publications/BuildingaSustainableBusiness/
- The Guide to Financing the Community Supported Farm
  uvm.edu/newfarmer/?Page=business/community-supported-farm-guide.html&SM=business/sub-menu.html
- Instructions for filing IRS Schedule F form
  irs.gov/pub/irs-pdf/i1040sf.pdf.
- IRS Below-market Loans Description
  taxmap.ntis.gov/taxmap/pubs/p535-017.htm

Financial Capital Lenders

- Your Guide to FSA Farm Loans
  fsa.usda.gov/Internet/FSA_File/fsa_br_01_web_booklet.pdf
- Michigan Good Food Fund. (2015)
  foodsystems.msu.edu/uploads/files/MGFF_FAQ_10_2014.pdf
- Environmental Quality Incentives Program
  nrcs.usda.gov/wps/portal/nrcs/main/national/programs/financial/eqip/
- For crowdfunding resources see, "The Beginners Guide to Crowdfunding a Farm" at university.upstartfarmers.com/blog/the-beginners-guide-to-crowdfunding-a-farm
- For general food business funding see New Funding Sources for Food-Related Business at foodsystems.msu.edu/resources/food_business_funding_sources

For more general information, visit foodsystems.msu.edu *or email Shakara Tyler at* tylersh1@msu.edu *or Ben Waterman at* ben.waterman@uvm.edu.

Author Biographies

Shakara Tyler is a PhD candidate at Michigan State University and an Underserved Farmer Development Specialist at the MSU Center for Regional Food Systems. She currently assists underserved farmer groups—farmers of color, beginning farmers, and women farmers—with developing their farm businesses. She has worked extensively with Black farmers on alternative financial capital acquisition as a strategy for recruiting and retaining the U.S. population of Black farmers.

Ben Waterman holds a B.S. in Conservation of Soil, Water, and the Environment from the University of Maryland. He became interested in sustainable agriculture issues after working on coffee farms in Costa Rica and dairy farms in Russia. He and his wife served as agricultural extension agents in the Peace Corps in Malawi. They now operate a diversified farm in Johnson, Vermont. Ben has traveled throughout the nation and across Vermont assessing soil fertility, water systems, and landscapes in the context of farm viability. His interests include cross-cultural communications, the building trades, and trombone. He is excited to be a part of the center's team in coordinating services for beginning farmers and developing the New American Farmer program.

MICHIGAN STATE UNIVERSITY | Center for Regional Food Systems

CRFS envisions a thriving economy, equity, and sustainability for Michigan, the country, and the planet through food systems rooted in local regions and centered on Good Food: food that is healthy, green, fair, and affordable. Its mission is to engage the people of Michigan, the United States, and the world in applied research, education, and outreach to develop regionally integrated, sustainable food systems. CRFS joins in Michigan State University's pioneering legacy of applied research, education, and outreach by catalyzing collaboration and fostering innovation among the diverse range of people, processes, and places involved in regional food systems. Working in local, state, national, and global spheres, CRFS' projects span from farm to fork, including production, processing, distribution, policy, and access.

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