National Sustainable Agriculture Coalition

July 25, 2011

Gary Van Meter, Acting Director
Office of Regulatory Policy
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090.

Sent via email: reg-comm@fca.gov

Re: Comment: FCA 76 Fed. Reg. 30280 (May 25, 2011)

Dear Mr. Van Meter:

The National Sustainable Agriculture Coalition (NSAC) is grateful for the opportunity to submit comments on the Farm Credit Administration (FCA) Proposed Rule to amend its regulation to require Farm Credit System (FCS) lending institutions to emphasize borrower diversity as part of their business plan, including young and beginning farmers, small and medium-sized farms serving local and regional food markets, and socially disadvantaged and limited resource farmers.

NSAC is an alliance of grassroots organizations that advocates for federal policy reform to advance the sustainability of agriculture, food systems, natural resources, and rural communities. Our vision of agriculture is one where a safe, nutritious, ample, and affordable food supply is produced by family farmers who make a decent living pursuing their trade, while protecting the environment, and contributing to the strength and stability of their communities. Many NSAC organizations include small and mid-sized producers who serve local and regional markets, as well as beginning and socially disadvantaged famers and ranchers among their members.

The Need for Diversified Borrower Portfolios

There is a growing demand for locally produced food in urban and rural communities across the nation, so much so, that in many cases demand for fresh fruits and vegetables and local meat and dairy products often outstrips local supply. This is especially true in rural areas dominated by commodity production agriculture. The burgeoning demand for local food creates a huge opportunity and urgent need for small and medium-scale diversified producers who grow for local and regional food markets, including beginning and ethnically diverse farmers.

According to the most recent Census of Agriculture, farmers that grow food for local markets tend to be younger, operate on a smaller scale, and have more diversified production systems. They are also more likely to come from a non-farming background and typically have fewer initial assets, such as land, crops and livestock, to invest into their start-up farming enterprise. For this reason, access to credit is absolutely critical to these emerging businesses, and obtaining sufficient start-up capital represents one of the biggest challenges for small and mid-sized farmers who wish to expand their operations to better serve local markets, or young farmers who desire to enter the profession of farming.

110 Maryland Avenue NE, Suite 209 • Washington, DC 20002-5622
p (202) 547-5754 f (202) 547-1837 • www.sustainableagriculture.net

The farmers that make up this segment of potential borrowers are somewhat distinct from traditional borrowers that some FCS institutions may have historically included in their lending portfolios, and some lending institutions may therefore be less familiar with the unique challenges and specific needs of smaller, high-value, diversified production systems. It is absolutely critical that FCS lending institutions become more capable over time of enhancing current levels of outreach to these traditionally underserved markets, and are able to offer a variety of appropriate business products and financial services that are tailored to this distinct borrower pool.

Women farmers now make up nearly 14 percent of total farm operators, and there is a growing number of ethnically diverse and immigrant farmers who depend on access to credit and financial training to start and operate a successful farming enterprise.[1] According to the last census, roughly 17 percent of farms in the United States are either operated by women, racial or ethnic minorities including American Indians or Alaskan Natives, Asians, Blacks or African Americans, Native Hawaiians or other Pacific Islanders, and Hispanics/Latinos. This constitutes a sizable and growing market segment that has traditionally been underserved by FCS institutions, and which offers huge potential for increasing the diversity of a lender's portfolio.

It is the role of the Farm Credit System to provide financial assistance to creditworthy farmers and ranchers who might otherwise be unable to secure a loan. As such, the FCS currently supplies nearly 40 percent of all U.S. farm financing. This proposed regulation has the capacity to bring millions of dollars of capital and business services to small and mid-sized local food producers, and perhaps also to leverage other sources of capital for the task of rebuilding our local and regional food system infrastructure. Additionally, FCS lending institutions can have a huge impact on growing the next generation of farmers, by incorporating diversity and inclusion into their lending portfolio by prioritizing lending to young and beginning farmers, including limited resource and ethnically diverse farmers and ranchers.

Recommendations

Access to credit is one of the largest barriers to entering farming or transitioning existing commodity operations into diversified production needed to serve local markets. It is essential that FCS lending institutions are familiar with, and receptive to, the unique needs of these underserved groups as they exist within their local lending markets. NSAC supports FCA's efforts to diversify the FCS loan portfolio and would ask that in defining what needs to be included in FCS marketing and human capital plans that you consider the following recommendations.

1. Baseline Analysis of Local Food Producers

In order to make any progress in diversifying FCS lending to local and regional food producers, it is essential to first have a baseline upon which progress can be measured. The amended regulation should include a requirement that each FCS institution **conduct a baseline analysis of producers who market primarily to "local and regional food" markets as defined by the 2008 Farm Bill**[2]

[1] USDA 2007 Census of Agriculture

[2] Section 6015 of the Food, Conservation, and Energy Act (FCEA) of 2008 creates the Locally or Regionally Produced Agricultural Food Products loan program by amending Section 310B(g) of the Consolidated Farm and Rural

by number of borrowers, and other key characteristics including:

> (a) The analysis/baseline should include the number of borrowers and the total loan volume for producers who sell a majority of their product within the Farm Bill's definition of local and regional food, i.e., the food is produced, distributed and sold to the final user in-state or within 400 miles of the originating farm; and
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> (b) The analysis should also include a variety of other important characteristics, including:

- farm size by gross sales, type, age and sex of operator and secondary operator, owner, or tenant;
- number of producers, volume of production, and total existing FCS loan volume to farms engaged in on-farm value-added production and processing of farm products produced principally on the farm;
- number of producers, volume of production, and total existing FCS loan volume to producers who are members/owners of value-added coops/businesses;
- number of producers, volume of production, and total existing FCS loan volume to farms engaged in specialty crop production;
- number of producers, volume of production, and total existing FCS loan volume to farms that market through mid-tier value chains;
- number of producers, volume of production, and total existing FCS loan volume to certified organic producers; and
- number of producers, volume of production, and total existing FCS loan volume to farms that direct market a significant share of their production to directly to consumers, stores, restaurants, or institutional kitchens.

2. Baseline Analysis of Socially Disadvantaged Farmers

Likewise, it is important for each FCS institution to have a snapshot of current lending practices to socially disadvantaged farmers and ranchers in order to set and measure progress towards appropriate lending target goals. The amended regulation should include a requirement that each FCS institution **conduct a baseline analysis of producers who meet the farm bill definition of "socially disadvantaged farmer and rancher"** by number of borrowers, by loan volume, and other key characteristics. Upon collecting this data, FCS institutions should seek to evaluate to what extent their borrower base is reflective of the market segmentation characterized by their geographic territory. Steps should be made by FCS institutions, their leadership boards and the Farm Credit System Diversity Workgroup to close whatever gap may exist to the greatest extent possible.

3. Establish Investment Goals

Once baseline analysis has been conducted on these traditionally underserved groups, FCS institutions will be better informed of the relative size and key characteristics that each of these groups of potential borrowers represents. We recommend that FCA set minimum investment targets, and allow individual FCS institutions to internally set higher goals depending on the size of

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Development Act, codified at 7 U.S.C. Section 1932(g). It defines local and regional food as foods produced either in-state or transported less than 400 miles from the origin of the product.

these target populations in their geographic lending territories. The amended regulation should therefore **specify an investment goal for local and regional food producers of not less than 10% of each institution's capital within 5 years, and higher for areas with higher target populations within their geographic lending area.**

In the same manner, the amended regulation should **establish geographically specific target lending rates for socially disadvantaged farmers and ranchers to reflect the actual composition of the nation's and that region's farmers**.

4. Design an Outreach Plan

Historically, not all FCS institutions have been equally aggressive in reaching out to local food producers and beginning and socially disadvantaged farmers and ranchers. To help ensure adequate outreach to effectively increase lending to these underserved groups the amended regulation should **include a requirement that each FCS institution design and measure its progress in implementing a plan for conducting outreach to local and regional food producers and beginning and socially disadvantaged farmers and ranchers**. FSA should also require this outreach plan and periodic progress reports to be made available to the public, and a system devised in order to solicit and respond to public comment. FCS institutions should also engage local stakeholders and representatives of these underserved groups in the development of this outreach plan to ensure that the distinct concerns of these target populations are considered and effectively incorporated into an institution's outreach strategy.

5. Diversify Farm Credit System Board

Diversification requires effective representation. It is essential that the leadership boards charged with overseeing the operations and practices of FCS lending institutions actively incorporate the unique perspectives of these traditionally underserved markets. We therefore recommend that FCS institutions reach out to and actively solicit the participation of these underserved groups on their executive boards by amending FSA regulations to require FCS lending institutions to **include a commitment to adding local and regional food producers and beginning and socially disadvantaged farmers and ranchers to FCS boards**.

6. Offer Appropriate Financial Products

It is not enough for FCS institutions to set internal investment targets or design strategies on how to best recruit more diverse borrowers unless they also offer products and services in their lending portfolios that are appropriate and responsive to the needs of these traditionally underserved groups. The amended regulation should require FCS institutions, as part of their marketing plans, to **develop lending and business support products with terms and benefits appropriate for local and regional food producers and beginning and socially disadvantaged farmers and ranchers**. Institutions may wish to consider, as part of their outreach plan, what products and services are most useful for each of these distinct market segments, and whether or not new products and services need to be developed to better serve these producers.

7. Workforce Training on Underserved Markets

Once appropriate products and services have been identified and developed for local lending markets, it is equally important that loan officers who directly interact with these underserved groups are knowledgeable and capable of providing these products. The amended regulation should require FCS institutions, as part of their human capital plan, to **provide staff development training to personnel across the full spectrum of lending, accounting, farm transfer and business planning services appropriate for serving local and regional food producers and beginning and socially disadvantaged farmers and ranchers.**

8. Assessment of Strengths and Weaknesses of Broader Local and Regional Food Infrastructure

The amended regulation should include a requirement as part of the marketing plan, to **conduct an inventory of strengths and weaknesses of local and regional food infrastructure** (aggregation, packing, processing, distribution, etc.) **and an FCA plan for how to use FCS local and regional food producer financing to leverage other public and private capital** necessary to address the larger weaknesses in the rest of the local and regional food supply chain. This will help prioritize funding towards the most critical infrastructure needs of local communities in order to expand business opportunities for local food producers, and take advantage of existing but untapped support for local and regional food systems.

9. Resolve Conflict with Lending Restrictions to Part-time Farmers

While NSAC fully supports the Proposed Rule to increase borrower diversity within the FCS, we would like to point out that the amended regulation will create an internal conflict in the goals of the Farm Credit Administration, pursuant to the lending restrictions placed on part-time farmers as codified in Section 613.3005 of FSA regulations. Part-time farmers now make up the majority of individuals farming today, with over 55 percent of all farmers listing a primary occupation other than farming.[3] **If it is truly FCA's intent to increase the diversity of FCS institutions' lending portfolios, the issue of how to better serve the needs of part-time farmers, many of whom are young and beginning farmers or small farmers who serve local markets, will need to be resolved**. Access to credit is especially important to beginning farmers and local and regional food producers who depend on access to capital early in their farming careers in order to make their farming operation profitable in the long-term, and we urge FCA to solicit additional public comment to address this profound issue.

[3] USDA 2007 Census of Agriculture

As stated in the rationale for the proposed amendment, agriculture in America is becoming more diverse, and NSAC commends FCA for taking the lead to ensure that its lending institutions better reflect and more successfully meet the needs of an increasingly diversified lending market.

NSAC fully supports this Proposed Rule, and encourages the swift implementation of the amended regulation that will help diversify the FCS loan portfolio, and expand agricultural opportunities for a growing number of small and mid-sized farmers and ranchers growing food for local and regional markets, as well as other traditionally underserved markets.

Thank you for considering our viewpoint and positions on the Proposed Rule.

Sincerely,

Ferd Hoefner

Ferd Hoefner, Policy Director
National Sustainable Agriculture Coalition

Juli Obudzinski

Juli Obudzinski, Policy Associate
National Sustainable Agriculture Coalition