



CAPITAL FOR BEGINNING FARMERS AND RANCHERS ACT

To better-serve the early-stage financing needs of diversified crop and livestock-based operations

Background

Beginning farmers face significant start-up costs in their first years of operation and need time to accumulate working capital and develop their production and marketing systems. In addition to annual operating credit needs, new farms also have substantial intermediate credit needs to establish their financial management systems, accumulate equipment, and build their business infrastructure for crop records, payroll, food safety, regulatory requirements, and more.

Under current FSA underwriting practices, the above start-up costs are financed as part of annual operating loans. The current annual operating loans structure isn't conducive to intermediate credit needs and the accumulation of production income because the repayment terms are too short.

The consequences of FSA's current loan policies are:

- Borrowers under-invest in critical start-up capacities and prolong the period of time in which they are operating without good financial and administrative systems
- Borrowers have limited ability to accumulate working capital and build equity
- Borrowers are more likely to need to restructure their operating loans because their annual cost of capital is higher than their annual production income, and overhead and startup expenses

Bill Summary

The *Capital for Beginning Farmers and Ranchers Act (S.2797, H.R.5367)* addresses these issues by creating a new pilot loan product specifically designed to work alongside an annual operating loan and amortize the cost of early-stage developmental investments over the appropriate period of time. Key features of the new loan program include:

- FSA and guaranteed intermediate farm loans with a repayment term between 3 and 10 years, which may be used to assist with initial assets and the development of production and management systems;
- A loan limit of \$100,000 for both direct and guaranteed development loans;
- Reduced collateral requirements of not greater than 100% loan-to-value;
- Flexible principal repayment as determined by FSA based on year-end cash flow and borrower plans, but not less than 1% of the remaining balance annually;
- Robust technical assistance for development loan borrowers addressing farm and ranch management issues; and
- Evaluation and reporting that measure pilot program success.

Endorsed by: California FarmLink, Agriculture and Land-Based Training Association, California Certified Organic Farmers, California Association for Micro Enterprise Opportunity, California Coastal Rural Development Corporation, National Sustainable Agriculture Coalition

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