Testimony of
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Introduction

Chairman Crawford, Ranking Member Costa, and Members of the Agriculture Subcommittee on Livestock, Rural Development and Credit, thank you for this opportunity to provide information about credit availability in rural America.

My name is Brett Melone. I am a loan officer with California FarmLink. FarmLink is a non-profit lender based in Santa Cruz, California. FarmLink is also a member of the National Sustainable Agriculture Coalition. My remarks reflect the credit needs of farmers in California as well as nationally.

Both of my parents worked in agriculture when I was growing up in South Florida. I have dedicated my professional career to supporting the success of beginning, minority and small farmers, primarily in California, though I have been involved in national policy efforts, and spent a number of years living in Latin America as well. My commitment to these farmers comes from my first-hand knowledge of their ability to make a living in agriculture, provide jobs for others, feed the country, and steward our natural resources. This is what I am passionate about, and it is clear to me that a key factor in this farmer population being able to realize these goals is their ability to access capital.

Much has been done over the last several decades to create programs that provide business development services and access to credit programs for small businesses. Since the financial crisis this effort has increased. Microloans are now part of the vernacular for anyone that is interested in economic development. Crowd funding is also becoming commonplace. We are even hearing more about policy efforts to allow Direct Public Offerings, where individuals who are not certified investors can invest their savings in "Main Street" or in our case, regional farms.

Despite all of this activity and progress, there are still gaps between what farmers with $1 million or less in revenue can access in terms of capital. FarmLink recognized these gaps several years ago, and is now in its fourth year of direct lending to small, sustainable farmers. In 2011 we obtained Standard Eligible Lender status with the Farm Service Agency, and began making Rural Microentrepreneur Assistance Program loans. In 2013 we became a certified Community Development Financial Institution, one of just a handful nationwide that focus on agricultural lending.

California FarmLink is a statewide nonprofit serving Low-Income Targeted Populations (LITP) throughout the state of California with three regional offices in the North Coast, Central Valley and Central Coast. FarmLink's mission is to link independent farmers and ranchers with the land and financing they need for a sustainable future. FarmLink provides business development services, microloans, small business loans and small lines of credit.

FarmLink serves a target market across California of immigrant and other underserved beginning and small farmers. Since 2011, FarmLink has made more than 80 loans, deploying $1.5 million in capital to farmers, with an average loan size of $25,000, and loan size range of $5,000 to $100,000. In 2012, 63% of FarmLink's clients were at or below 80%

of the Area Median Income (AMI) and approximately 24% were very low-income, at or below 30% AMI.

There are very few sources of small agricultural loans available to low-income and beginning farmers. The target market has a difficult time securing land and/or financing due to: limited history as entrepreneurs; limited traditional collateral; no or limited credit history; small loan size required; language or cultural barriers; and non-traditional marketing and business models.

The barriers to entry and to gaining stability for new and beginning farmers are formidable. According to the 2012 USDA Census of Agriculture, the average age of California's farmers has increased to 60. At the same time, beginning farmers lost ground. From 2007 to 2012, California lost more than 6,000 beginning farmers, a 23% drop, largely due to the economic downturn starting in 2008.

FarmLink knows from experience that the first five years of farming are the most critical. Many start-up farmers have developed solid production skills, but have not developed an ideal mix of market options, economies of scale, or business savvy to survive. While the number of beginning farmers declined over the last five years, the number of Latino farmers, many of them immigrants, increased by 8% to almost 10,000 farmers throughout California. In fact Latinos comprise about 70% of FarmLink's borrowers and 40% of farmers who receive one-on-one technical assistance on finances and land tenure.

Clearly, small farmers lack capital to expand. In a 2011 survey of 1,000 beginning farmers conducted by the National Young Farmers Coalition, 78% identified lack of capital as the biggest challenge to achieving success.[1] As the number of small and beginning farmers continues to grow, the financial products and technical assistance services offered by FarmLink are essential to ensure that these growers succeed.

FarmLink has made more than half of its loans in Monterey and Santa Cruz counties where farm labor income is seasonal and closely tied to minimum wage, creating endemic poverty in spite of chronic, seasonal labor shortages. Unemployment in Monterey County peaked at 17.5% two years ago in the winter months and peaked this past winter at 15%. Workers earning subsistence wages turn to self-employment in agriculture as a way to increase their income. These small and beginning farmers need access to capital and technical assistance to start, stabilize, or expand their farming business.

FarmLink's technical assistance services and financial products have a strong focus on higher risk populations. FarmLink development services focus on farm financing, cash flow projections, credit counseling, financial management and land access strategies. Our experience shows that one-on-one technical assistance and training is effective in helping farmers establish, operate and expand strong farm businesses and access and manage loans.

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[1] Shute,"L.L."(2011) Building a Future with Farmers: Challenges Faced by Young, American Farmers and a National Strategy to Help Them Succeed;

National Credit Context

FarmLink is part of a nascent movement of CDFI's working with farmer networks, and in particular, farmer networks that serve beginning farmers, farmers of color, immigrant farmers, and other farmers that have difficulty accessing credit through traditional means.

Current research funded by the Kellogg Foundation and being conducted by Michigan State University's Center for Regional Food Systems has documented the fact that very few farmer networks, and in particular farmer of color networks, are aware of the mission, structure and function of CDFIs. At the same time, even those CDFIs that have taken steps to increase their agricultural lending admit to having limited knowledge of the farming sector.

This research points to the need to be intentional, at a national level, to build the capacity of CDFI and other community lenders to serve agriculture. Specifically, the research recommends creating an agricultural lending caucus among CDFI's and Farmer of Color Networks that focuses on the development of short and long term policies and best practices, including designated funding for farmer network projects modeled after the Healthy Food Financing Initiative.

Due to the cost of making micro and small loans, most banks and commercial lenders don't want to make them. Building a pipeline of viable loans requires relationships with farming communities that commercial lenders generally lack. It takes time, in the form of technical assistance, to get the applicants to a point where they are ready to apply, and the underwriting requires knowledge of direct and alternative markets, that commercial lenders typically don't have.

Important Federal Policy Changes

Policy changes within the USDA, and in large part led by this committee, have created opportunities for FarmLink and other community-based lenders, to begin to address the need for capital among this underserved farmer population.

On behalf of California FarmLink, the National Sustainable Agriculture Coalition, and NSAC's member organizations, and the farmers that we serve, I'd like to genuinely thank the members of this committee for their commitment to improving and increasing access to capital for beginning, small and minority farmers.

The FSA Microloan program that started out as a pilot program is now permanent – thanks to the efforts of this committee during debate of the 2014 Farm Bill. Microloans made to beginning and veteran farmers will now be exempt from the term limits that otherwise apply on all direct operating loans. This important change will allow these farmers to continue to take advantage of federal credit resources as they continue to grow their farm operations in the future.

Additionally, the Microloan Cooperative Lending Pilot Projects provision will allow USDA to work with non-profit community lenders to expand access to microloans and financial training for small, beginning, veteran and socially disadvantaged farmers.

The increased priority on lending to beginning and socially disadvantaged farmers through FSA Direct and Guaranteed Farm Ownership and Operating loan programs will increase access to capital for these farmer groups. In addition, increased flexibility in determining what types of experiences should count towards the “farm management experience” requirement for direct farm ownership loans will further expand access to these loans.

The lower interest rate for Joint Financing (or Participation) loans that bring together farmers, USDA, and a private lender in order to leverage scarce federal credit appropriations with private lending resources will harnesses the power of leveraging and will allow FSA to serve more farmers for the same amount of federal appropriations.

We also thank the farm bill conference committee for continuing mandatory funding the Rural Microentrepreneur Assistance Program (RMAP) at the 2008 Farm Bill level of $15 million over the five year cycle. This program has been essential to FarmLink’s ability to make loans to beginning, immigrant and small farms in California. In addition to the direct spending of $3 million per year, we would like to see discretionary funding of $3.3 million in FY15, consistent with the USDA request, and more robust discretionary funding in subsequent years. I urge you to work with your colleagues on the Appropriations Committee to get the $3.3 million request into the FY15 bill. Furthermore, we believe greater flexibility is needed in how the formula for technical assistance funds is applied, and urge you to work with USDA to achieve a workable solution to this problem.

As the first organization in the country to offer agricultural IDAs, and a champion of the effort to establish a national program, we were pleased to see the reauthorization of the Beginning Farmer and Rancher Individual Development Accounts (BFRIDA) Pilot Program, designed to help beginning farmers and ranchers of limited means finance their agricultural endeavors through business and financial education and matched savings accounts. As the age of the average American farmer continues to rise, now is the time to launch this important new credit tool, and I urge you to work with your colleagues on the Appropriations Committee to fund this program in FY15.

We’d also like to thank your colleagues on the Agricultural Appropriations Subcommittee for increasing funding for FSA direct loans. Historically low interest rates and lower default rates certainly have helped a great deal in increasing loan volume. In addition, agency leadership and staff are doing a great job increasing access to credit to farmers, despite dwindling staffing resources. For the first time in recent memory, there is no backlog in the number of farmers who have been approved but not yet received direct loans. As FSA seeks to continue access to credit for farmers who have not historically used FSA loans (including a growing number of microloans to smaller, diversified farms selling to local and regionally markets), it will be imperative to ensure FSA has the administrative and staffing support to service and provide technical assistance on the larger loan portfolio each office will likely carry.

The 2014 Farm Bill authorized USDA to develop Whole Farm Revenue Protection (WFRP). WFRP is a welcome and long-awaited addition to the risk management toolkit for sustainable and organic diversified farming operations, a segment of American agriculture that has historically been underserved by traditional crop insurance. Crop insurance is an important tool that lenders look at to evaluate a farmer's perceived risk in their farming operation. We therefore commend USDA for responding quickly under its new Farm Bill authority to develop WFRP in time for the 2015 crop insurance year. In order to avoid suffering the same under-utilization as AGR and AGR-Lite, and to provide an appropriate and accessible risk management option for all producers in all states, it is critical that USDA develop and swiftly implement a plan to expand WFRP nationwide.

Finally, revisions to and renewal of Section 6025 of the 2014 Farm Bill, Strategic Economic & Community Development hold promise for supporting regionally significant economic development efforts. Local and regional governments are taking steps to support agriculture and rural economic development through planning efforts, and this program will leverage those efforts in synergistic ways. We urge you to work with local and regional partners to shape this program.

Strategic Partnership

Increasing consumer demand for local food and a growing recognition of the role of food systems in addressing rural economic development, public health, climate change preparedness, veteran transition to civilian life, among many other national issues, is driving farmer demand for micro and small loans all across the country.

FarmLink and FSA are strategic partners in facilitating access to credit. FSA's role as the lender of last resort/first opportunity is very complementary to FarmLink's role as an agriculturally-focused CDFI making relatively high risk loans. While there are loans that we would potentially both make, and thus be competing with one another, the reality is that FSA is reaching those farmers that feel comfortable going into the USDA Service Center, and FarmLink, as a community-based lender, is going to where borrowers are, in the field, and providing technical assistance to help them be loan-ready.

The power of leverage that comes with providing loan guarantees is tremendous. The Cooperative Lending Pilot Project represents an important opportunity to build on this leverage.

For example, the current drought in California is affecting farmers in diverse ways, depending on where they are located, and what their options for accessing water are in each location. California FarmLink is working to facilitate access to credit for these farmers who have water emergencies. Where possible, California FarmLink is making bridge loans to finance irrigation and water efficiency projects supported by the Environmental Quality Incentives Program cost-share. California FarmLink expects to begin conducting water audits later this summer for farmers, and connecting them with financing for irrigation and water development projects based on audit findings.

California FarmLink is also developing a farm mortgage product, in response to the growing demand and need we see from farmers in our region. We look forward to working with FSA to create a product that will serve the needs of our target market and ensure affordable and stable land tenure for the next generation of California farmers.

Farmer Profiles

In addition to the loans that FarmLink has made with FSA guarantees, which are an important part of our portfolio, have ranged from $25,000 - $100,000, and include a diversity of production systems and business models, there are other ways that we support each other's efforts to facilitate access to credit.

The borrower target market for FSA and California FarmLink has some overlap, and each also has a distinct market. By way of example, this becomes clear by considering a few examples of mutual referrals:

- A well-established Community Supported Agriculture farm in Fairfield had obtained two FSA direct operating loans and was then referred to FarmLink in hopes of graduating to more conventional financing. They obtained an annual operating loan with an FSA guarantee from FarmLink for the 2013 season. For the 2014 season the borrower was able to "graduate" to a loan with Farm Credit West, benefitting from a lower interest rate and more flexible terms.

- A 12-acre direct market diversified organic fruit and vegetable operation in Humboldt County applied for a microloan from their local FSA office. For reasons that are not completely clear, the applicant was denied, but was referred to California FarmLink. FarmLink made an equipment and operating loan totaling $21,000.

- The FSA Farm Loan Officer in Modesto recently referred a borrower to FarmLink that has reached the term limit on FSA Direct Operating Loans, having received 7 years of Direct Operating Loans, and then an additional 2 years on waiver. FarmLink is likely to finance this bee operation, with the benefit of knowing the type of credit risk they represent.

- A start-up aquaponics operation in the Bay Area sought an operating loan from FarmLink. The borrower was a returning veteran who had completed a training program and apprenticeship, but his experience was not sufficient to meet FarmLink's underwriting standards. FarmLink referred the applicant to FSA, where he was able to obtain a microloan to launch his operation, producing specialty vegetables to restaurants.

These are just a few examples of farmers that have benefitted from the FSA-FarmLink relationship.

Key Policy Recommendations

As this committee evaluates the current state of agricultural credit across the country, we would like to recommend a few ways that Congress and USDA could better meet the credit needs of our nation's farmers – especially those beginning, minority and small farmers who have struggled over the years to find adequate credit options needed to finance their farms.

First, we would urge the leaders of this committee to sponsor an amendment to the Agriculture Appropriations bill to fund IDA's for the 2015 fiscal year. This is a program that this Committee authorized in the new farm bill. USDA sees this program as a key tool they need to recruit a new generation of farmers and has requested an initial $2.5 million to jumpstart the program next year. The Senate also recognized this need and the value this program could serve, and matched the administration's request.. I therefore strongly urge you to consider sponsoring an amendment to the appropriations bill in order to launch this important and long overdue credit resource for new farmers, and follow through on the House's commitment to this program.

Second, we would also urge the leaders of this committee to work with stakeholders to shape Section 6025 - Strategic Economic & Community Development. This updated provision prioritizes the funding of projects that are consistent with an adopted regional economic or community development plan. It will be important for the success of this program to be shaped by regional partners.

Third, we would urge the leaders of this committee to work with USDA to expand coverage of Whole Farm insurance nationwide as soon as possible. The 2014 Farm Bill mandated a pilot program because organic and diversified vegetable growers have been pretty much excluded from federal crop insurance. We believe the congressional intent in the 2014 Farm Bill was to make the program available to farmers in the major organic and specialty crop growing areas -- that would without question include Monterey and Santa Cruz counties. The pilot as currently described by USDA, relies on the current AGR and AGR-Lite designations for geographic coverage and crop specifics – which excludes key agricultural regions in California and other parts of the country. The lack of this risk management tool places these farmers and their creditors at a distinct disadvantage, relative to farmers who can access this program. We therefore urge you to work with USDA to expedite the process of making this program apply nationwide as soon as feasible.

Fourth, we urge this committee to work with your colleagues on the Appropriations Committee to increase discretionary spending for Rural Microenterprise Assistance Program (RMAP). In addition to the direct spending of $3 million per year that this committee provided in the farm bill, we would like to see an additional $3.3 million in discretionary funding for FY15 as requested by USDA, in order to meet the high demand for small business loans that exist in Rural America. This too would be a high priority amendment to the pending FY15 agriculture appropriations bill.

Fifth, we urge this committee to work with USDA to provide greater flexibility in the application of the formula that determines technical assistance grant awards under Rural Microenterprise Assistance Program (RMAP). We believe greater flexibility is needed in how the formula for technical assistance funds is applied. RMAP partners -- like FarmLink – are at a distinct disadvantage in accessing technical assistance funds because they emphasize annual operating loans -- with the associated faster pay down of those loans, followed by those funds being revolved out in the form of new loans – rather than longer-term equipment and infrastructure loans.

Finally, we urge leaders of this committee to work with stakeholders and USDA to shape the Microloan Cooperative Lending Pilot Projects. The bulk of loans that FarmLink has made to date have been microloans. We have not sought guarantees on loans less than $25,000, due to the underwriting costs and guarantee fee. We are optimistic about the promise of this pilot program that may open new opportunities to make microloans while providing the much-needed technical assistance microloan applicants typically require, along with additional risk mitigation features. We are eager to see the new intermediary microlending option that this committee authorized rolled out across the country, and would urge you to work with USDA to ensure this option is available as soon as possible.

Conclusion

The face of agriculture in this country is undergoing dramatic transformations. Our Federal support structure and safety net has been adapting in response to these changes, and must continue to do so if we aspire to be efficient with our limited natural and financial resources, increase equity and fairness in our delivery of programs, and embrace those who seek to produce our food, fiber and fuel, now and in the future.

Thank you for the opportunity to provide this testimony on behalf of beginning, small and immigrant farmers and ranchers across the country. I look forward to answering any questions you have about their credit needs, and California FarmLink's efforts on their behalf.