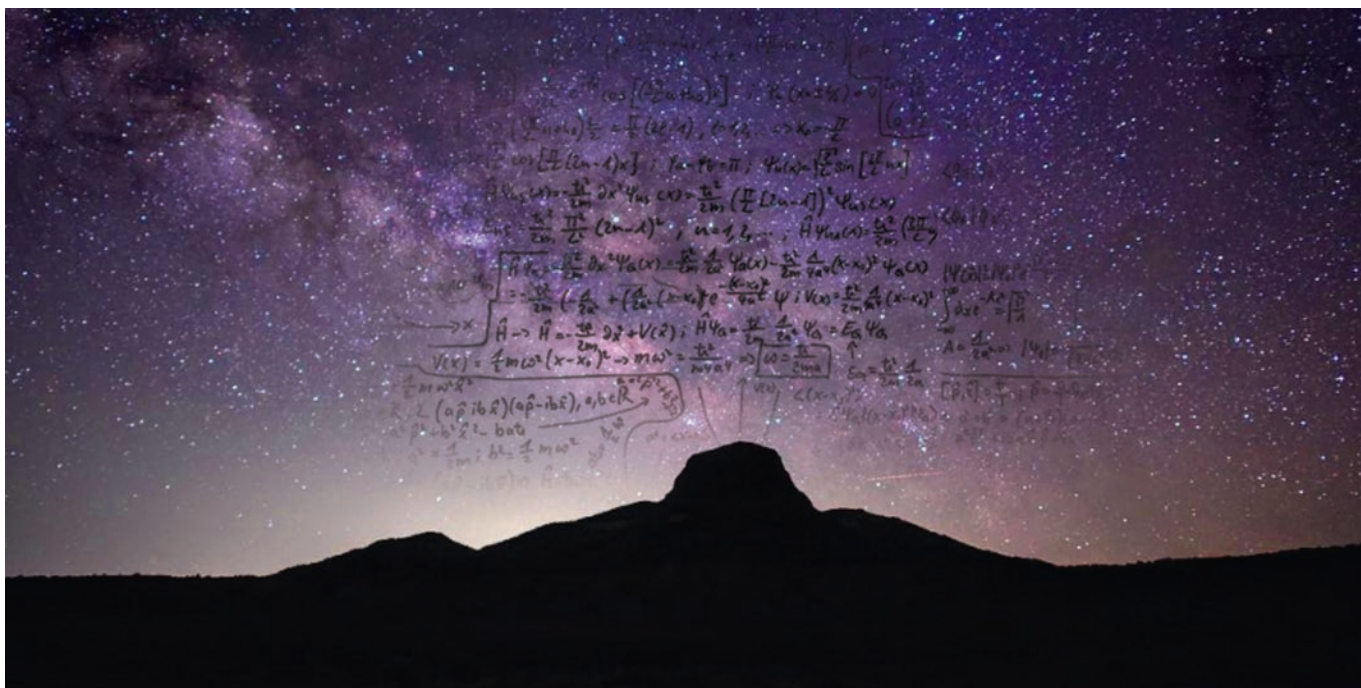


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NEW MEXICO LOCAL AGRICULTURE CAPITAL STUDY

Prepared for The Thornburg Foundation and DreamSpring
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BUREAU OF BUSINESS
& ECONOMIC RESEARCH

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EXECUTIVE SUMMARY

NM is a rural state with over 50% of land classified as agricultural in nature. Agriculture is an important part of the economy as well as the culture. The vast majority of farms and ranches in the state are small enterprises with over 75% reporting revenues under \$10,000 per year (82% report revenues under \$50,000 and 93% report revenues under \$100,000). Although more than half of farms are located in the northwestern part of the state (nearly three-quarters are in the north), the southeastern part of the state generates half of all revenues (the two southern districts account for nearly 75% of revenues). Although the majority of farms include female operators (60%) and the majority of farms have at least one operator that is either Hispanic/Latino or Native American, these operations account for less than one-third of agricultural land and approximately 25% of production (as measured by market value). Farmers and ranchers at or near retirement age (55 years or older) account for 75% of agricultural producers in the state with individuals under the age of 35 accounting for 11% of producers.

The Farm Credit System lenders (NM Farm Credit and Ag New Mexico) and commercial banks account for approximately 80% of agricultural loans; these lenders are effective in ensuring that medium and large agricultural businesses are adequately capitalized and are able to access all the conventional financing for which they qualify. The USDA's Farm Services Agency (FSA) exists to provide credit and other financial support to farmers and ranchers that otherwise cannot qualify for conventional loans. The FSA's lending accounts for less than 5% of the total agricultural loan market. In contrast, the environment is starkly different for many small (particularly young, beginning, socially disadvantaged) farmers and ranchers whom experience a paucity of credit options.

A survey of New Mexico agricultural producers showed that 60% of participants indicated that they own their land outright and have no outstanding debt. Roughly 4 in 5 respondents indicated that they received 100% of the funds for which they applied. Almost 3 out of 4 respondents reported 10 or more years of experience. Nearly half of survey respondents feel they are able to access all the credit they need and at competitive rates (46%) and 40% of respondents feel that there is abundant agricultural credit. The results became more nuanced when controlled for race with White farmers/ranchers being nearly two times more likely to be satisfied with credit availability and conditions. Two out of three respondents indicated that they would not accept private equity investments (12% indicated they would accept equity from private investors). Future research might focus specifically on attitudes of young, beginning, and socially disadvantaged groups to better understand the experiences of these groups, particularly among Native American farmers/ranchers, given the limited sample size.

The legal history involving federal agricultural programs suggests that socially disadvantaged (women, minorities, veterans) groups in particular have been systematically excluded from participation in federal agricultural support programs, including access to loans. Federal Acts and legislation mandating the governance and use of Native American trust lands have also prevented Native farmers/ranchers and entrepreneurs from accessing credit. Federal survey data and recent mortgage lending also point to unequal access to credit for persons of color. Class action legal settlements won by socially disadvantaged groups have likely not rectified the reality of unequal credit access.

There are other sources of capital other than loans that should be considered. Section 4 of this study explores the different types of equity and alternative financing movements that have become increasingly popular in the last couple of decades. These funding types are Slow Money, Crowdfunding, Impact Investing, and Community Development Financial Institutions (CDFIs). Providers of alternative and microfinance have innovated some of the most interesting financial products and initiatives for small businesses and farmers alike.

There are specific practices at the policy level as well as the individual lender level that could be adopted to facilitate the growth of the small, beginning, young, socially disadvantaged farmers that must be cultivated in order to grow a healthy local food system in NM. These include a variety of local policy and funding solutions, including the formation of a state agricultural finance program, more assistance to borrowers in accessing and qualifying for federal programs, and more technical support (e.g. Equity building and credit building programs). For the individual lender, becoming a qualified loan intermediary for USDA, Small Business Administration (SBA), and state programs are at the top of the list.

The Appendices of this report entail various grant information, lending tools and resources, and related agricultural finance information.

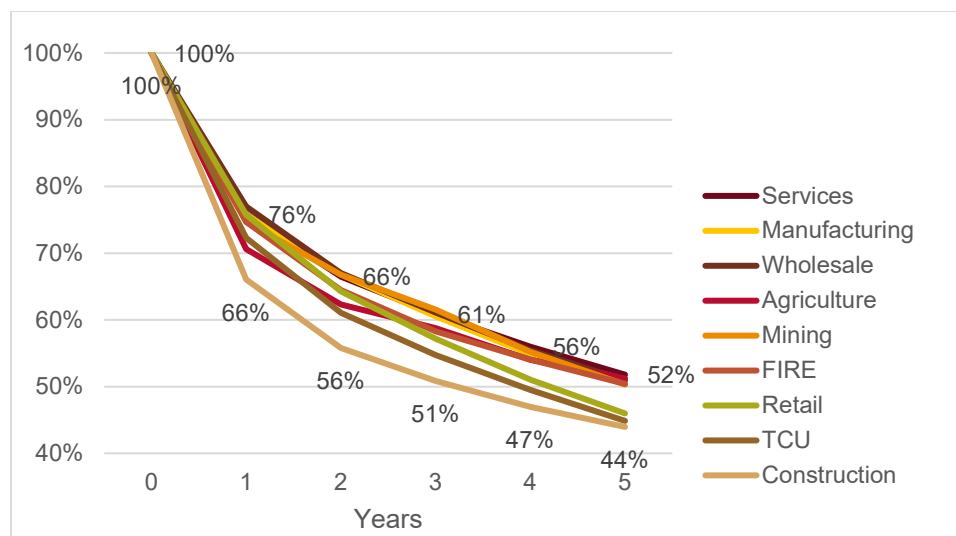
INTRODUCTION

The purpose of this study is to illuminate the discussion on the availability and accessibility of capital to agricultural producers in New Mexico while identifying effective policies and practices for supporting and developing local food systems. Access to capital is a critical and necessary component for all businesses, from the smallest micro-enterprise to the largest multi-national corporation, without which, financing daily operations, much less, business expansions would be impossible.

This study is based on a handful of premises. First, small businesses, particularly startups, face challenging business conditions, which causes most conventional lenders to consider them too risky to qualify for a loan. According to the Small Business Administration, roughly

half of small businesses fail before reaching the 5-year mark.¹ The failure rate is even higher for some industrial sectors and for the smallest firms.² (Figure 1)

Figure 1. Small Business Survivor Rate (Firms w/ <500 Employees), 2009-2014



Source: U.S Census Business Dynamics Statistics.

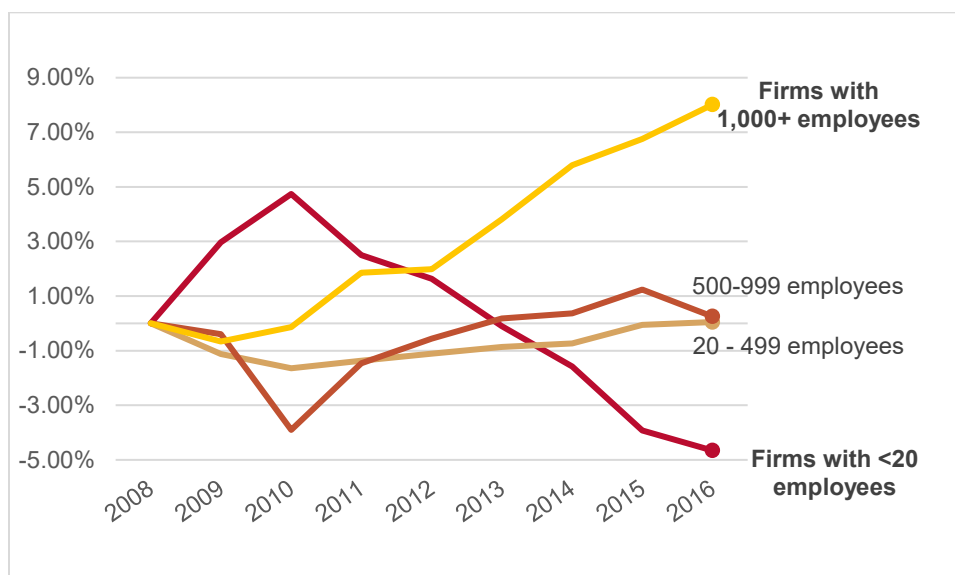
Business consolidation has been a strong trend over the last several decades. Retail, for example, where many locally-owned shops have gradually disappeared, unable to compete with the “big box” stores stand out in particular. Other sectors undergoing significant consolidation include broadcasting, aviation, health care, and finance. Notably, banking consolidation accelerated during the Global Financial Crisis, which also has implications for credit conditions for small businesses. Namely, many community banks were acquired and rolled into larger regional banks after 2008. These community banks tend to be more intimately familiar with the local markets they serve, therefore more likely to lend to small businesses. This consolidation trend likely has contributed to tighter credit conditions for small businesses even as the economy expanded over the last decade. Additional evidence of the challenging environment faced by small firms, the Census employment data by firm-size suggests that large firms’ share of employment has grown while the contribution of small firms has declined in the last decade. This implies growth for large firms and flat to negative growth in employment among small firms. (Figure 2)

¹A small business in the U.S. is defined as a firm with fewer than 500 employees.

(<https://www.sba.gov/sites/default/files/advocacy/Frequently-Asked-Questions-Small-Business-2018.pdf>)

² The Federal Reserve Bank considers firms with annual revenues of \$100,000 or less.

Figure 2. Growth in Number of Firms by Firm Size, 2008-2016



Source: U.S Census, County Business Patterns.

Second, lending in the agriculture sector is highly specialized, which makes it difficult for lenders and equity providers without experience and knowledge in farming or ranching to underwrite and monitor loans based in this sector efficiently and effectively on a large scale. For example, agriculture banks are well versed on the risks inherent to agriculture, many of which are beyond the control of even the most skilled operators. For example, farmers and ranchers must contend with unpredictable weather conditions, plant and animal diseases, pests, market fluctuations for the price of agricultural commodities, volatility in the cost of inputs.

Drought, flooding, unseasonably cold temperatures, and extreme snowstorms are all weather factors that can cause significant losses for farmers and ranchers large and small. For example, there was the severe snowstorm that hit the day after Christmas in 2015 that killed in excess of 20,000 cows in West Texas and Eastern New Mexico, causing substantial losses. Another example is the irrigation water shortage caused by drought in the summer of 2017, which had a measurable impact on the Hatch green chile crop, negatively impacting producer incomes in the southern part of the state. Agricultural banks are staffed with financial professionals who, in addition to their degrees in accounting and banking, also have varied agricultural training and experiences. For example, many individuals in the credit departments of banks catering to agricultural producers may have degrees in agriculture sciences and/or come from farming or ranching families.

Still, even the savviest agricultural bankers cannot avoid portfolio difficulties when their borrowers face challenging financial conditions. The USDA regularly estimates profit margins for agricultural producers. According to recent estimates, 70% of all farms generate profit

margins of 10% or less, which brings us to the third premise of this study.³ That is, it is difficult to make substantial profits in agriculture, particularly among small farms. The percentage of farms making margins of 10% or less is even higher for small family farms and ranches, which the USDA defines as operations generating annual gross farm cash income of \$350,000.⁴ These small family farms are broken into three groups: Low-sales, Off-farm occupation, and Retirement farms. The percentage of these farms with margins of 10% or less are: 77.9%, 76.3%, and 62.8%, respectively. Because even the most skilled operators need help managing the various risks inherent to agricultural production, the federal government has created several organizations since the 19th century with the explicit purpose of supporting U.S. farmers so that they do not fail.

The formation of these agriculture-related federal agencies dates as far back as Abraham Lincoln's administration. Famously, having grown up in a farming family, Lincoln knew the difficulties faced by farmers. Shaped by these experiences, he helped to create the USDA to provide farmers with education and technical assistance to improve their productivity and viability. The Farm Services Agency (FSA), one of the main agencies at the USDA, was born out of the Great Depression to provide a safety net for farmers to help them survive economic collapse during the Great Depression. This agency provides subsidies to support commodity prices, emergency relief for qualifying natural disasters (severe weather, fire, drought, disease), and credit to farmers who cannot otherwise qualify for conventional financing at below market interest rates. The federal government also created, funded, and supported the Farm Credit System, a Government Sponsored Enterprise, for the express purpose of ensuring that farmers have access to credit throughout all phases of the business cycle. This brings us back to one of the main premises of this study, that small businesses, i.e. small agricultural businesses/operations, are more capital constrained .

The national data suggests that small businesses are not able to easily access all the credit they demand. Conditioned to maximize their profits while minimizing their risks, conventional lenders consider the potential downside of these small firms is over-sized relative to the potential returns they could gain from banking these borrowers. As a result, small businesses are in effect shut out from the conventional credit markets at a greater rate than medium and large businesses. Many small businesses must resort to alternative sources of credit.

Farmers and ranchers are not immune to the same small business bias that small businesses in other industrial sectors experience. Small producers frequently fail to clear the underwriting

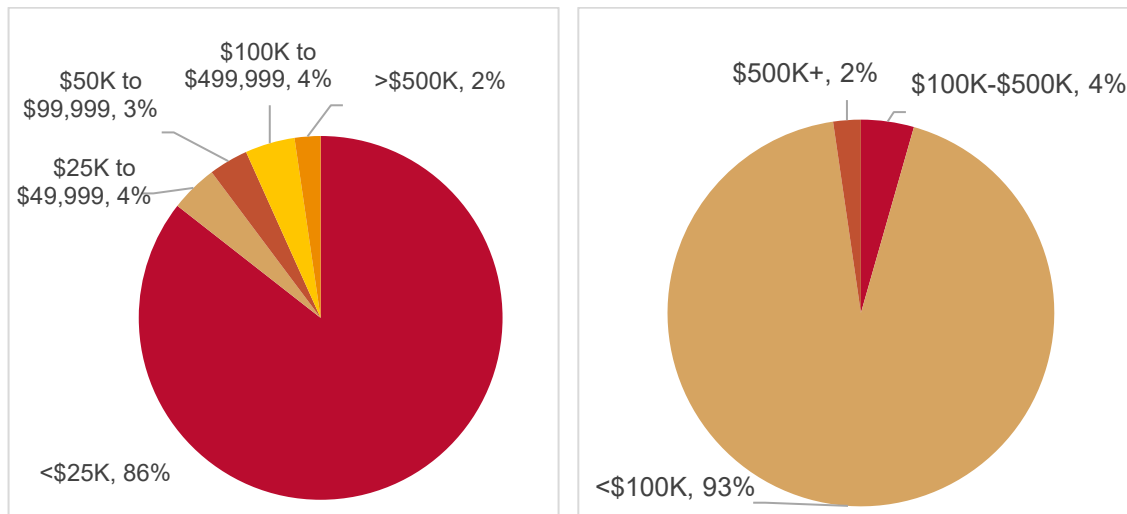
³ Operating Profit margin (OPM) = $100 \times (\text{net farm income} + \text{interest paid} - \text{charges for unpaid labor and management}) / \text{gross farm income}$. For All farms 18.3% generate OPMs >25%, 7.8% earn OPMs of 10-25%; ratios are not calculated for 3.7% of the population due to negative GFCIs.

⁴ The USDA uses the gross farm cash income (GFCI) for this determination. The GFCI is the sum of the farm's crop and livestock sales, Government payments, and other farm-related income.

review of conventional agricultural lenders for many of the same reasons of small non-agricultural businesses, including: lack of collateral, insufficient cashflows and verifiable income, poor credit or lack of credit history, and lack of verifiable farm operating experience. Importantly, many startups requiring small loans cannot even meet the minimum loan size threshold of commercial agricultural banks, the Farm Credit System lenders, and the Farm Services Agency (the credit arm of the USDA).

The challenges small businesses face when seeking capital is particularly important for framing the conditions experienced by farmers and ranchers in New Mexico where 83% of producers generate annual sales of less than \$20,000 (93% generate less than \$100,000). (Figure 3) This statistic suggests that the vast majority of producers in the state are not just small businesses but micro firms (businesses that generate \$100K or less annually). This fact will be important when reviewing the credit condition data for small and micro firms later in this report. In addition, because agricultural producers in New Mexico are already predominantly on the “micro” end of the small business spectrum (and on the “Low-sales” side of the USDA scale), potential policies must consider a variety of programs and services in addition to accessible and abundant capital.

Figure 3. Size of Farming/Ranching Operations in NM as Measured by Annual Sales

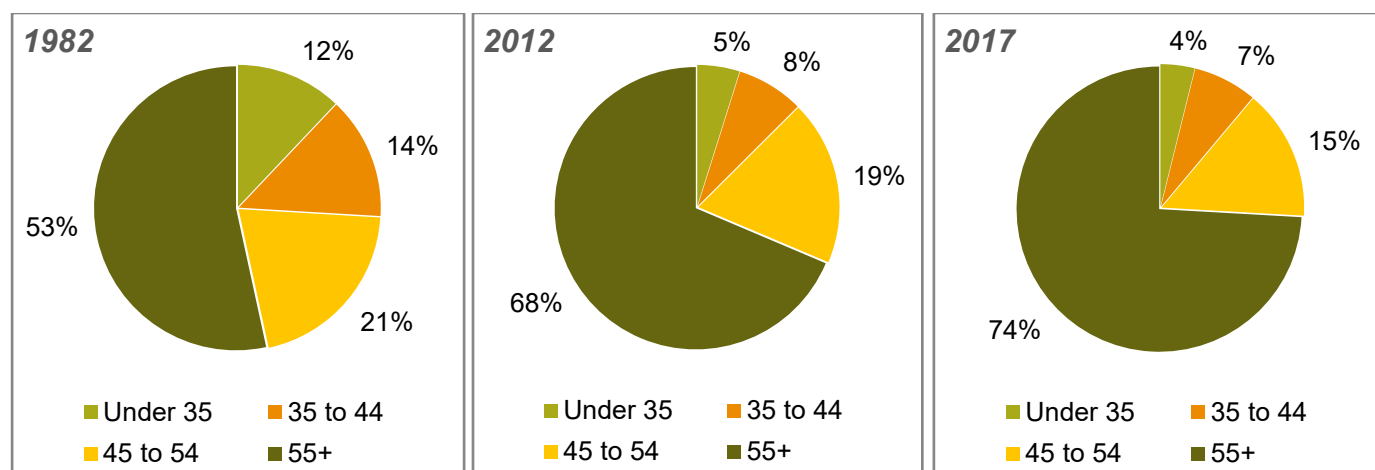


Source: 2017 Census of Agriculture, New Mexico, Volume 1, Chapter 1, Table 1(AC-17-A-31).

For the sake of understanding the landscape of agricultural producers in New Mexico, it is worth reviewing the age statistics for operators. Over the last 25 years, compounded by the aging baby boomers exiting the labor force, young and recent entrants into the New Mexico labor force have overwhelmingly chosen occupations other than agriculture. This is not too surprising given that farming and ranching entails a fair amount of startup costs and capital requirements, not to mention the need to access agricultural land, which have been steadily escalating in value as competing uses have driven prices up over the last several decades.

These trends have contributed to a situation where three out of four Principal Operators are at, or approaching, retirement age as of the most recent (2017) Census of Agriculture. (Figure 4)

Figure 4. NM Principal Operators by Age Group (1982, 2012, 2017)*



Source: USDA NASS, 2017, 2012, 1982 (Table 52. Selected Producer Characteristics).

*USDA switched to "Primary Producer" from "Principal Operator" in the 2017 Census.

Given the demographic wave of aging farmers, efforts to support agriculture are largely about figuring out how to support the future agriculture producers who are most likely either young, beginning, or both. The demographics of future farmers who will need to emerge to replace the retiring population may have specific characteristics in common, namely, they may have limited operational experience, scarce startup funds, and limited credit histories. These aspiring producers will not likely be able to qualify for conventional sources of credit, from commercial lenders or government supported creditors/programs alike, until they have a certain level of experience, credit history, and some savings for startup funds. The literature also shows that, as will be discussed in this report, what the USDA calls socially disadvantaged groups (women, racial/ethnic minorities, and veterans) have effectively been shutout from conventional and government supported sources of agricultural lending and other supports due to racially-biased practices.

In order to replenish the stock of ag producers, but also for the sake of addressing how to best support the future of the local food system in New Mexico, policy considerations should focus on beginning, young, and socially disadvantaged farmers/ranchers specifically. Therefore, the discussion is as much about what specific programs these producers and aspiring producers need to grow and develop as producers as it is about access to capital.

Communities across the country that appear to have managed to achieve some success in providing capital to local agricultural producers have done so by approaching the topic less from a purely finance perspective but, rather, more from an economic development approach

and from the approach that they are building their local food systems and local producers. This cannot happen without investment in the communities and the individuals who are just starting out and those who will be the future producers. Communities throughout the U.S. who have experienced measurable successes in building their local food systems have not depended entirely on federal agriculture programs but have drawn on other sources of federal funds as well as local funding, philanthropic sources of funding, as well as some private capital to effect more community led initiatives. Additionally, communities on the vanguard of tackling these issues are not only focusing on the small, young and beginning producers but also seek to be informed by social injustices and racial inequities, and to use this information to shape policies and programming to target these demographics specifically.

Finally, an important component of this study was interviewing individuals working in the local agriculture and agricultural finance community for the purpose of understanding the landscape. In response to urgings from members of the community we have included historical background information on credit conditions but also agriculture in the state. Specifically, we have included a brief section at the beginning of this report as well as additional background information interspersed where it made sense to do so.

1. NM Agricultural Heritage: Past and Present

Archaeological evidence traces the first human residents in New Mexico back to at least 12,000 years ago around the end of the last Ice Age. Using archaeological methods, the first signs of agriculture in New Mexico date back to around 3200 B.C. (5,200 years ago) in New Mexico's Mogollon highlands located in the southwestern part of the state where corn and squash were present. Needless to say, the Anasazi, Mogollon, and Hohokam had developed agricultural practices and traditions well in advance of the first European explorers and settlers.⁵ It is obvious why many of the Indigenous pueblos specifically chose to inhabit areas along the Rio Grande Valley, the largest and most fertile watershed in the state, going as far back as 1000 A.D. These first farmers were using a number of practices that were well-suited to the arid New Mexico climate. Some of these technologies included companion planting and inter-cropping, crop rotation, lithic-mulching, and water management technologies and practices (irrigation wells, floodwater and water diversions, waffle beds, terracing, and *acequia* systems). All these practices are used today to varying degrees in New Mexico and other parts of the Southwest.⁶

⁵ Torrez, Robert. *Ancient Peoples of New Mexico*. NM State Records Center and Archives. 2013.

⁶ Keibler, Christina. *Insights From Traditional Farming Practices*. NM Farmers Markets. 2019. Crop rotation helps to prevent the degradation of soil quality, companion planting and inter-cropping creates biodiversity, repels unwanted bugs, attracts beneficial insects, reduces the risk of crop failure, helps to increase soil quality, suppresses the proliferation of weeds, while maximizing arable land use.

The Indigenous inhabitants of North America already employed various game management practices, even maintaining guilds of bison and other large game so as to preserve healthy stocks that would replenish themselves. The first large Spanish expeditions into New Mexico brought with them the seeds of modern day ranching and the practice of animal husbandry and domestication. In response to early reports by European expeditions for gold and other precious metal riches, the Spanish explorers of 1540 included among their ranks of Spanish soldiers various types of livestock. However, it wasn't until the first group of European settlers arrived in 1598, who reportedly brought with them goats, oxen, sheep, mules, hogs, bovine, and horses, that the practice of ranching took hold.⁷ Interestingly, during the Spanish and Mexican periods (1598 – 1848), the early ranchers primarily raised sheep for their wool, milk, and meat.

Prior to the annexation of New Mexico by the United States in 1848, nearly all the 60,000 souls inhabiting the land were of Indigenous, Mestizaje (Indigenous, Mexican, and Spanish ancestry), and Spanish descent. The majority of the state's citizens were engaged primarily in farming and ranching with a small sector engaged in retail and export-oriented trade as well as some mining. The fruits, vegetables, and livestock grown by the inhabitants in this period were primarily for consumption by the New Mexican citizenry.

Notably, it wasn't until the second half of the 1800's during the U.S. territorial period that cattle ranching emerged on a large scale. Previously, most livestock ranching was engaged in sheep herding. An interesting historical fact is that it wasn't until the cessation of the so-called Apache Wars (1849-1886) that the modern day cattle and dairy industries were able to expand in the grasslands and Great Plains regions located in the eastern and southern parts of the state, areas previously controlled by the Jicarilla and Mescalero.

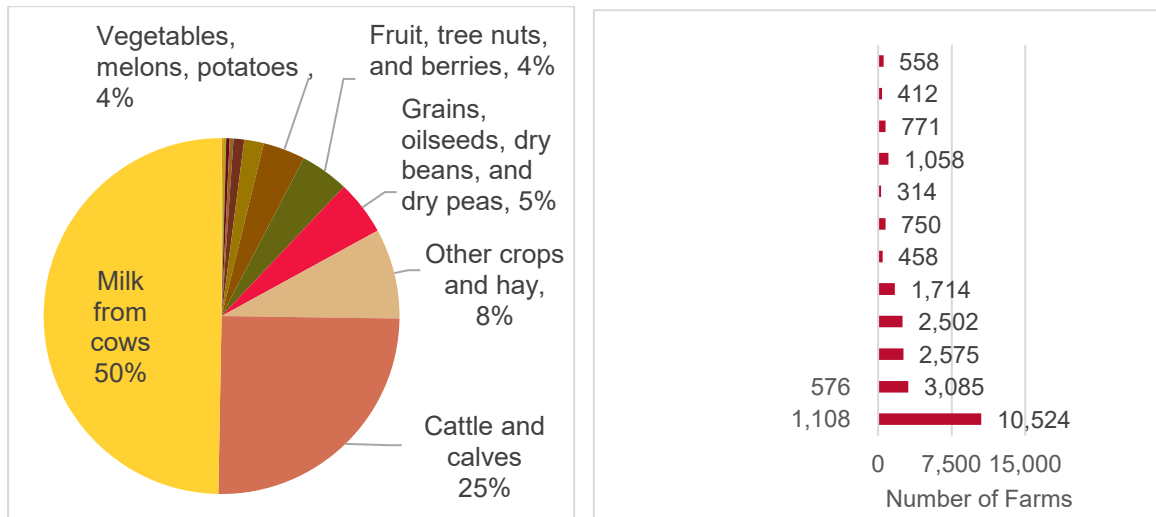
Present Day Agricultural Economy in New Mexico

As measured by the dollar value of production, Dairy is the most important commodity in New Mexico, which generates \$1.25 billion in annual sales and accounts for half (50%) of agricultural sales in the state. Cattle and calves are the second largest commodity at \$631 million or 25%. Hay and alfalfa (Other crops and hay) are a distant third at \$206 million (8%). Vegetables, melons, potatoes account for \$96.3 million annually, or 4% of state-wide sales. In terms of land holdings, one-third of farms in New Mexico are 9 acres or less and half are under 50 acres. (Figure 5)

⁷ Culbert, James I. *Cattle Industry of New Mexico*. *Economic Geography*. Vol 17, No. 2. Clark University. 1941. The first European colonists to arrive in New Mexico in 1598, led by Juan de Onate, listed in their inventory on departure from Zacatecas, Mexico 846 goats, 198 oxen, 2,517 sheep, 316 horses, 41 mules, 53 hogs, 1,300 cattle. Various sources have credited Onate's expedition with introducing wheat, barley, lettuce, cabbage, peas, chile, onions, carrots, turnips, garlic, radishes, cucumbers and various herbs and spices.

More than 3 out of 4 (76%; 18,686) of the Farms/Ranches in New Mexico report less than \$10,000 in annual revenues with 43% (10,524) reporting revenues of less than \$1,000. There are only 1,522 operations (6%) that make \$20,000 to \$49,999, and 1,058 (4%) that make \$50,000 to \$99,999 per year. Importantly, 93% of farms in New Mexico generate under \$100,000 in annual revenues. This number is important given that small businesses with under \$100,000 in annual sales are considered micro firms. (Figure 5)

Figure 5. Production by Commodity Type and Producers by Size



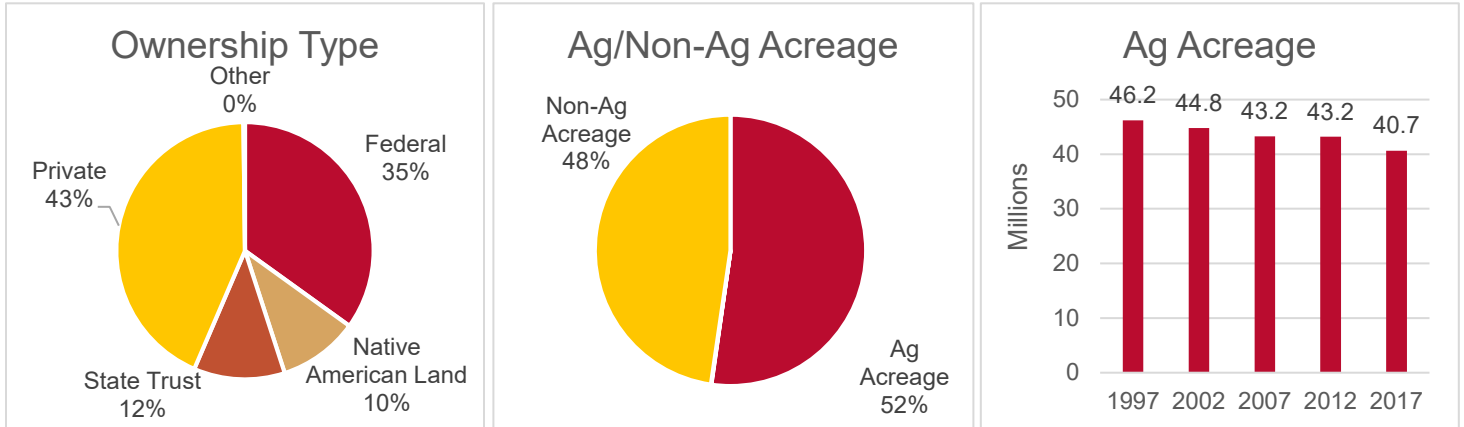
Source: NMDA State Agriculture Overview, 2017.

NM Agriculture by Land and Geography

The Agriculture sector contributes approximately 10,000 jobs to New Mexico's economy (1.25% of total employment) and approximately \$900 million in annual wages. From a purely economic perspective, this is an important sector given the number of families and individuals that depend on farming or ranching as either their primary or a supplemental source of income.

Over half of the land in New Mexico is defined as agricultural, yet nearly half (47%) is part of the Federal or State trust lands (US Forest Service, Bureau of Land Management, NM State Land Office, NM State Parks, or military bases). Private individuals own 43% of land in NM, the Federal Government controls over one-third, Native American trust lands account for 10%, and state trust lands total 12%. According to the most recent USDA National Agricultural Statistics Service (NASS) survey, there are 40.6 million agricultural acres across 25,044 farms with 52% of all acreage in New Mexico considered agricultural. It is worth noting that the agricultural land base in New Mexico has declined by over 5.5 million acres over the last twenty years, averaging an annual acre loss of 275,000 and a 12% decline. (Figure 6)

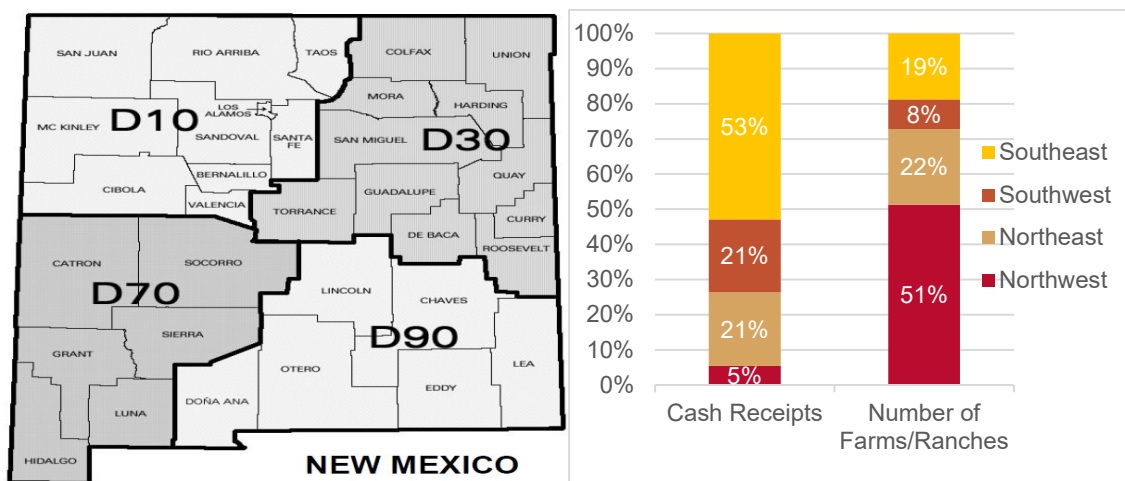
Figure 6. Agricultural Acreage in NM and Land Ownership by Type



Source: USDA NASS, 2017 (Table 1. Selected Producer Characteristics).

The United States Department of Agriculture (USDA) groups farms in the state by district, which corresponds, roughly, to the four geographic quadrants of the state. According to the USDA agricultural census, half (51%) of the farms/ranches in the state are located in District 10, which includes Taos, Rio Arriba, Santa Fe, Sandoval, Bernalillo, and Valencia; these six counties are also where the northern stretch of the Rio Grande Valley runs. District 10 also includes the Chama and San Juan watersheds, as well as the McKinley, Cibola, and San Juan counties. A fourth of farms/ranches are in the northeast (22%). Approximately 19% and 8%, respectively, are situated in the southeast and southwest. (Figure 7)

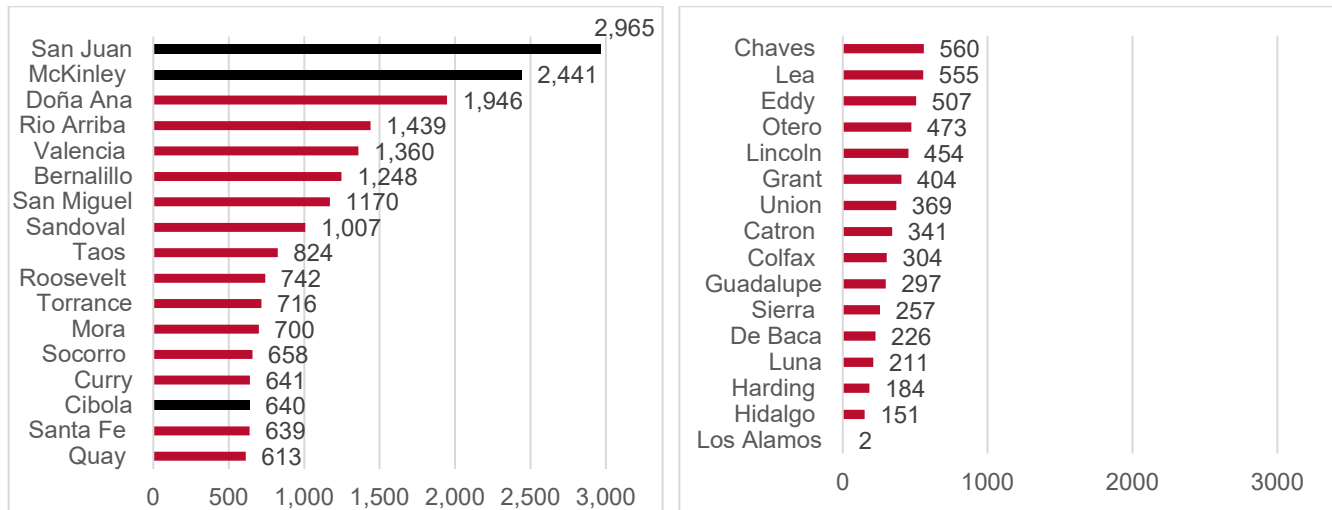
Figure 7. Agricultural Producers by USDA District in NM



Source: USDA NASS, 2017 (Table 1. County Summary Highlights).

The counties with the largest number of farming operations are San Juan (2,965), McKinley (2,441), Doña Ana (1,946), Rio Arriba (1,439), Valencia (1,360), Sandoval (1,007), Bernalillo (1,248), and Taos (824). (Figure 8)

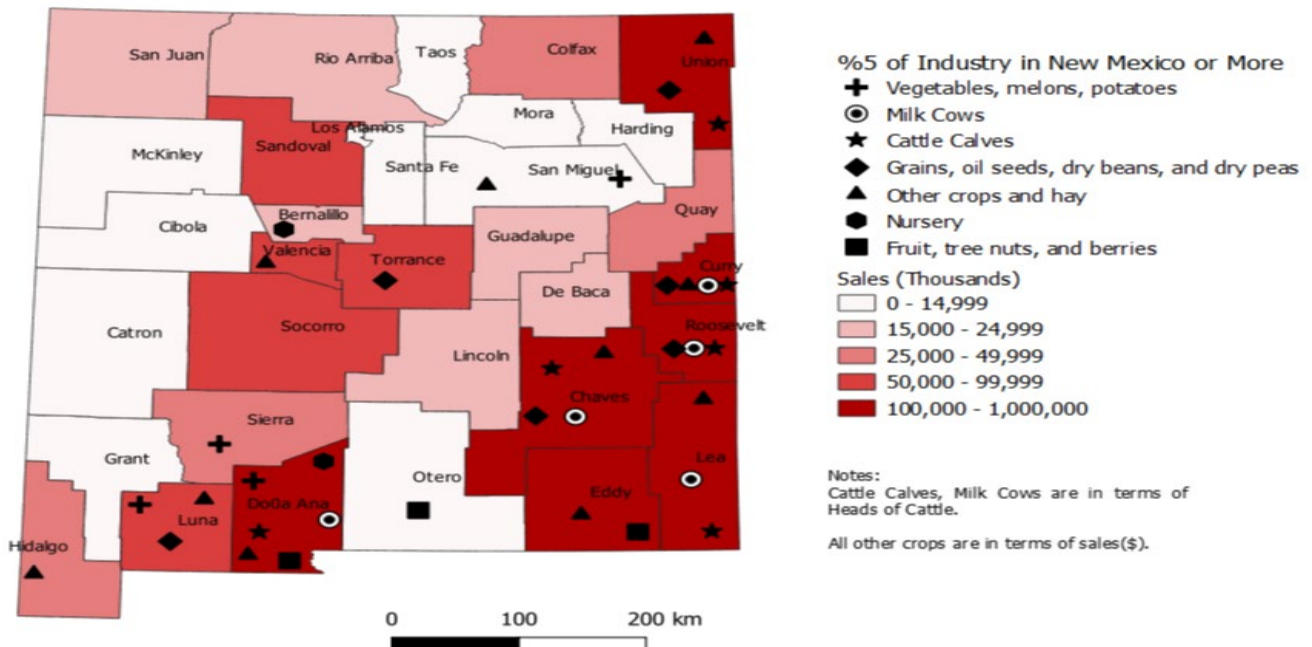
Figure 8. Number of Agricultural Producers by County



USDA NASS, 2017 (Table 1. County Summary Highlights).

The following map in Figure 9 represents annual sales by county, overlain with the key agriculture sectors for the most productive counties as measured by annual sales. Roughly 70% of agricultural sales in New Mexico are generated by counties located in the south and eastern parts of the state. Counties accounting for the largest percentage of NM's sales are Curry (18%), Chaves (15%), Doña Ana (14%), Roosevelt (10%), Lea (7%), and Eddy (5%), where more than 90% of the state's dairy cows and more than half (53%) of the state's Cattle and calves are located. Due in large part to the pecan industry, Doña Ana (66%), Eddy (13%), and Otero (6%) are the largest Fruit, tree nuts, and berries producers, accounting for about 85% of sales in the state for this commodity group. Doña Ana (32%), Luna (19%), and Sierra (6%) account for more than half of the state's Vegetables, melons, potatoes industry group; San Miguel accounts for 22%.

Figure 9. Annual Sales by County



Source: USDA, NASS 2012.

Current Demographic Statistics for NM Farmers & Ranchers: Age, Gender & Race

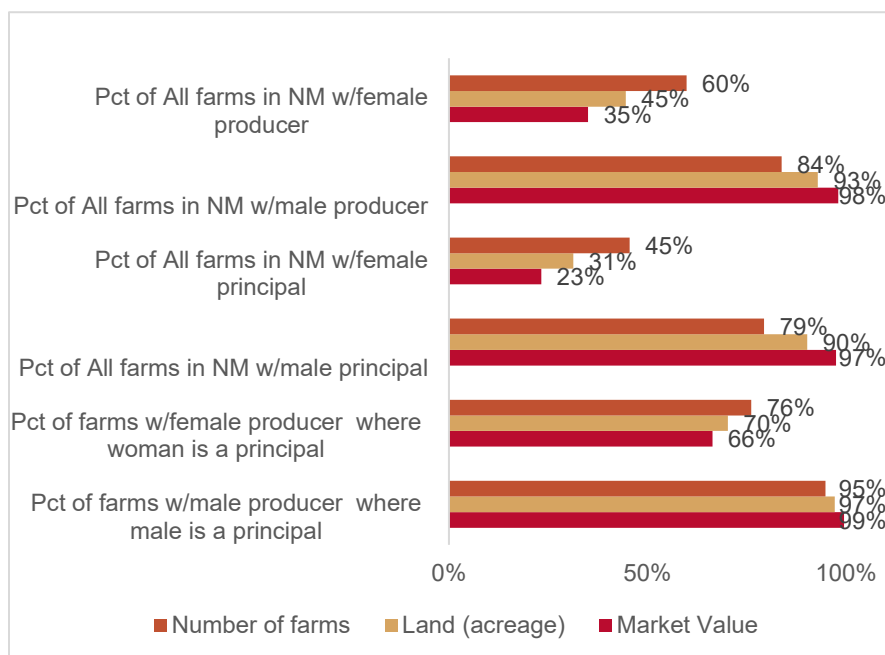
In New Mexico, by the 2017 agricultural census, nearly 9 out of 10 farmers were 45 years and older (1 in 10 was under the age of 45 years), and 45% of farmers were 65 or older. The percentage of NM farmers 55 years and older increased from 1 out of 5 in 1987 to 3 out of 4 by 2017. Farmers 35 years and younger decreased from 1-in-4 to less than 5% from 1987 to 2017. NM agricultural producer age statistics are comparable to national averages where younger generations have opted to pursue other career opportunities, thus failing to replace aging farmers. Importantly, some argue that the national programs have failed to provide sufficient support to young and beginning farmers.⁸

More than half of all farmers (57%) have a primary occupation other than farming. Farming is one of the most taxing occupations given the number of hours spent farming in addition to hours worked in a second job outside the farm business. While just over one-third of producers worked full-time (36%) on their farms/ranches, over one-fourth (27%) worked 1 to 199 days off the farm, and one-third (36%) worked 200 or more days. Put another way, roughly 2/3rds of agricultural producers worked either part-time or full-time in addition to their growing/ranching activities. (USDA, NASS 2017)

⁸ Primary/principal operators.

Of the 25,044 farms statewide, 45% have female principal producers. Farms with female principal producers account for 31% of agricultural acreage in the state and 23% of the statewide Market Value of agricultural products sold. It should be noted that the female spouses of many Principal Operators share in the farming duties and even ownership of the farm/ranch but may not be listed/considered principals. (Figure 10)

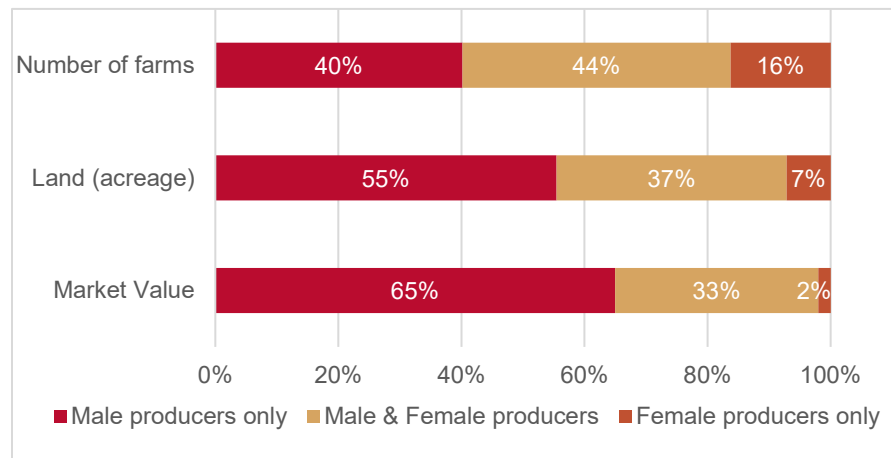
Figure 10. NM Producers by Gender (Number of Farms, Acreage, MV of Products)



Source: USDA NASS, 2017. (Table 55. Male Producers - Selected Farm Characteristics; Table 57. Female Producers - Selected Farm Characteristics)

In New Mexico, nearly half of farms/ranches (44%) report that they have at least one male and one female producer. Forty percent of farms list a male producer only and 16% report a female producer only. Notably, male only farms account for 55% agricultural acreage and 65% of the total market value of production. Farms that are female only account for 7% of land and 2% of production. (Figure 11)

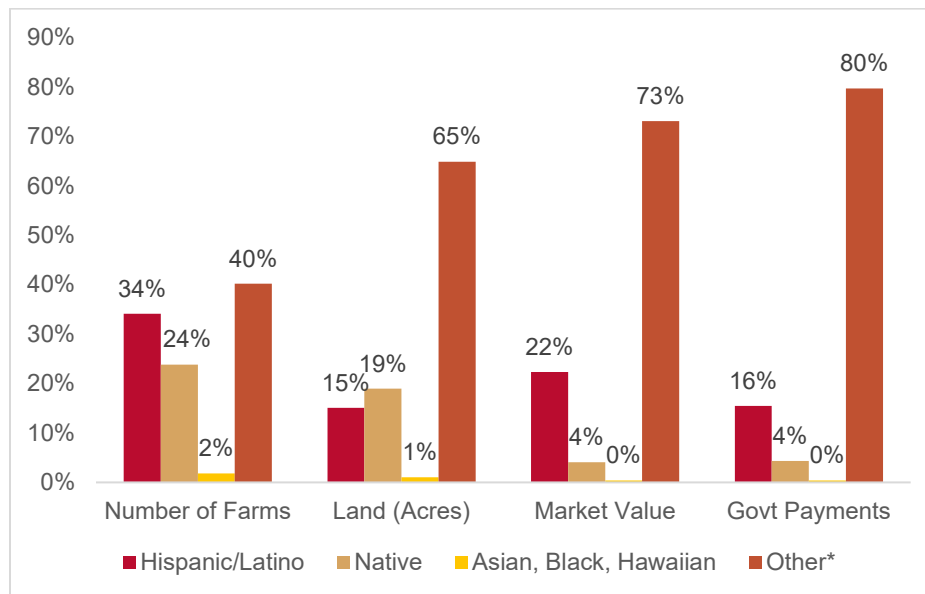
Figure 11. NM Producers by Gender (Number of Farms, Acreage, MV of Products)



Source: USDA NASS, 2017. (Table 55. Male Producers - Selected Farm Characteristics; Table 57. Female Producers - Selected Farm Characteristics)

Figure 12 shows that 36% of the primary operators for the 25,044 farms in New Mexico identify as Hispanic/Latino; Hispanic/Latino producers farm/ranch 15% of the 40.66 million agricultural acres in the state, generate 22% of the \$2.58 billion production (as measured by the market value), and receive 16% of the \$63.66 million in government payouts in New Mexico. Along the same lines, approximately 24% of farms have at least one operator that identifies as American Indian or Alaska Native; these farms account for 19% of agricultural acreage, and 4% of the market value of agricultural goods sold and government payouts, respectively. Farms with Asian, Black or Native Hawaiian operators account for approximately 2% of farms, and less than 1% of agricultural acreage, MV of agricultural goods sold, and government payouts. The balance of these farms that do not identify with any of these races/ethnicities account for 40% of farms/ranches, 65% of agricultural acreage, 73% of agricultural goods sold, and 80% of government payouts. (Figure 12)

Figure 12. NM Producers by Race (Number of Farms, Acreage, MV of Products, Government Payouts)



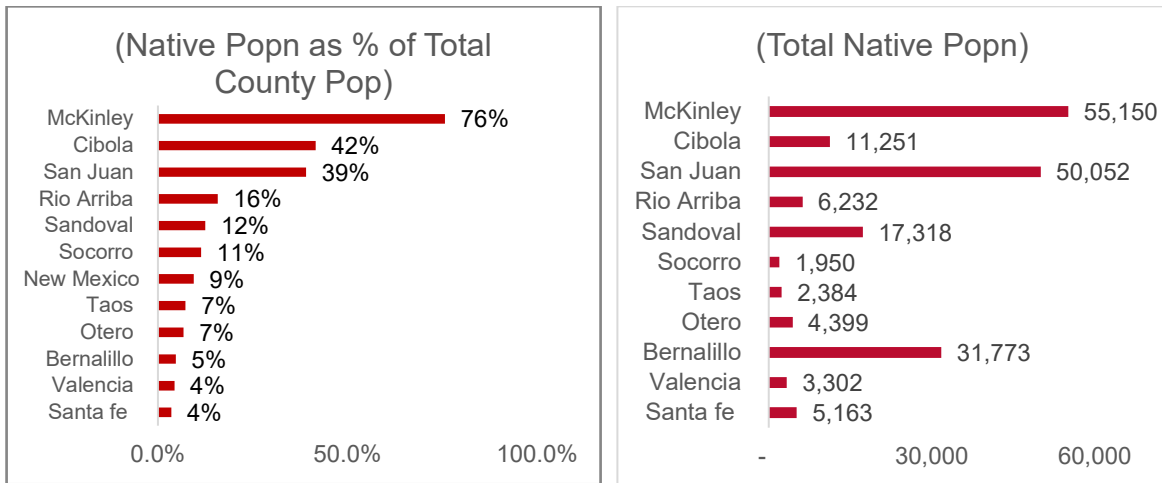
Source: USDA NASS, 2017 (Table 59. Hispanic, Latino, or Spanish Origin Producers - Selected Farm Characteristics; Table 62. Selected Farm Characteristics by Race of Principal Producers).

*Farms/ranches whose operators do not identify as Hispanic/Latino, Native, Asian, Black, or Hawaiian Native.

Located in the northwest corner of the State, McKinley, San Juan, and Cibola counties have the largest Native American populations per capita, accounting for more than half (59%) of the State's Indian population, where 76%, 42%, and 39%, respectively, identify as American Indian. The Navajo, Zuni, Acoma, Laguna nations are located in these counties. The balance of the state's Native American population are also located in District 10, which includes Bernalillo, Sandoval, Rio Arriba, Taos, Valencia, and Santa Fe counties where all nineteen of the state's Pueblos are located. Only Ysleta del Sur and the Mescalero Apache Nation in Otero County are located outside District 10. The Native American population in District 10 accounts for 93% of the State's Native American population.⁹ (Figure 13)

⁹ The All Pueblo Council consists of Acoma, Cochiti, Isleta, Jemez, Laguna, Nambe, Ohkay Owingeh, Picuris, Pojoaque, Sandia, San Felipe, San Ildefonso, Santa Ana, Santa Clara, Santo Domingo, Taos, Tesuque, Ysleta Del Sur (TX), Zia, Zuni.

Figure 13. American Indian Population by NM County

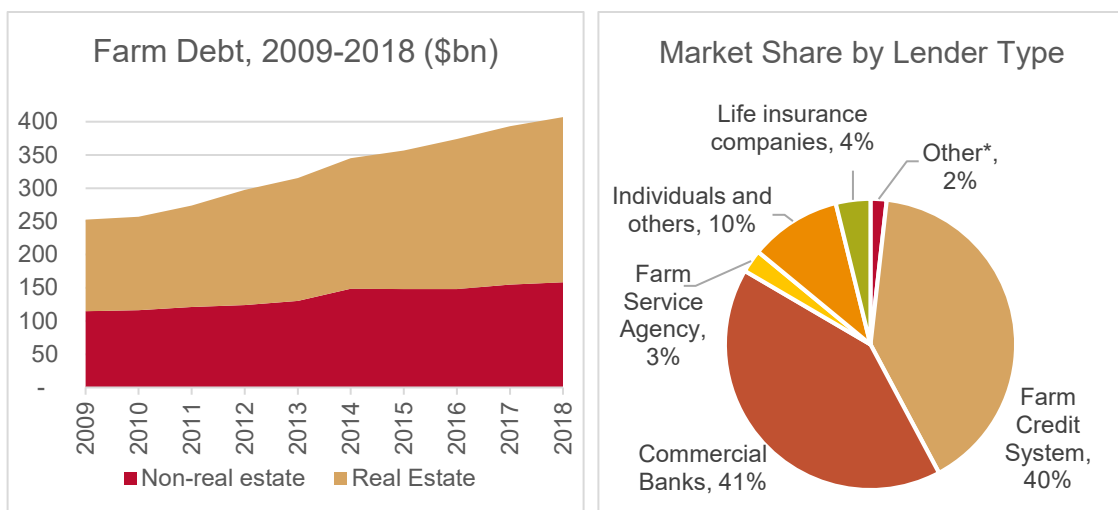


Source: U.S. Census, American Community Survey, 5YR estimates (Table B02001)

2. Agricultural Lending Overview

Agricultural credit in the U.S. is a robust market, exceeding \$400 billion in outstanding loans. Based on USDA ERS data, commercial banks and Farm Credit System (FCS) lenders accounted for over 80% of farm debt, each accounting for 41% and 40%, respectively. Individuals and others supply 10%, life insurance companies 4%, and USDA-FSA 3% of loans. Other lenders (Farmer Mac and Commodity Credit Corporation) accounted for the remaining 2%. (Figure 14)

Figure 14. U.S. Agricultural Loan Market (\$) and by Lender Type

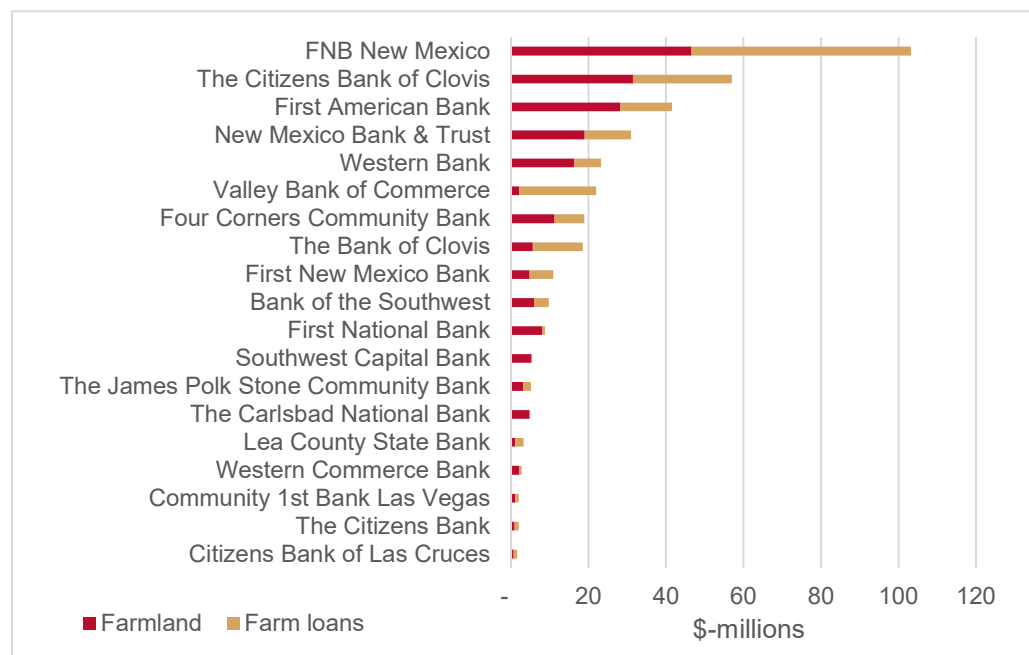


Source: USDA Economic Research Service, Farm Income and Wealth Statistics, 2009-2018.

The USDA ERS does not collect state level agricultural loan data, making it difficult to measure the size of the agricultural loan market in New Mexico and to identify market share by lender type. Along the same lines, nationally chartered banks do not segregate their NM agricultural loan portfolio in their periodic reports, instead aggregating this information with their national totals. Nevertheless, the Farm Credit Service (FCS) lenders and the Federal Depository Insurance (FDIC) data for state chartered commercial banks helps to shed some light on the market size in New Mexico. According to FCS financial statements, the outstanding loan portfolios for these two lenders is \$1.85 billion, while state chartered commercial banks hold \$372 million, and the USDA's Farm Service Agency's portfolio totaled \$41 million.¹⁰ If the 40% market share of FCS lenders at the national level is representative of Ag NM and NM Farm Credit's share, then the State's agricultural loan market is \$4.65 billion; it is worth noting that one NM GSE lender estimates that the FCS lenders account for an even greater share in the State of New Mexico, which would cause the total market number to be lower.

Among the state chartered commercial banks, four lenders account for nearly two-thirds of the (state-chartered bank) market share. The largest is First National Bank-New Mexico whose agricultural loan portfolio exceeds \$104 million. The Citizens Bank of Clovis portfolio totals \$57 million, First American Bank's portfolio totaled \$41 million, and New Mexico Bank & Trust \$31 million. (Figure 15)

Figure 15. Outstanding Agricultural Loans for State Chartered Banks in New Mexico



Source: FDIC Call Reports, 2017.

¹⁰ All 2017 figures.

See Appendix 1 of this report for profiles of lenders with substantial agricultural lending portfolios in the state.

Market shares aside, the existence of the Farm Credit System has been critical to ensuring the flow of credit to farmers and ranchers in the U.S. in times of market and economic stress as well as during normal times. In 1916, Congress and President Woodrow Wilson took a major step to ensure that there would be adequate credit available to agricultural producers at reasonable interest rates by passing the Federal Farm Loan Act. The FFLA created the first government-backed banks with the purpose of ensuring that U.S. farmers had reliable access to adequate credit at reasonable interest rates. Since then the federal government has intervened to varying degrees to support U.S. agriculture by providing direct and indirect supports in order to prevent the wide spread failure of individual farmers in the U.S. The Farm Credit System, as it is known today, was born out of the Great Depression when banks were failing en masse. President Franklin D. Roosevelt ordered two bills be drafted with the purpose of providing emergency financing to farmers on the verge of losing their farms and to establish a comprehensive and reliable system of farm credit. The newly formed FCS helped farmers avoid default on their loans and the inevitable loss of their farms by allowing them to restructure their debt. Reportedly, 40,000 farmers applied for loan restructuring in the first few months after the System's creation.¹¹

The second major "emergency" intervention occurred in the mid-1980's when macro factors combined to cause widespread agricultural loan defaults and record foreclosures. The fatal mix of farmland values falling by more than 50% in some cases, record high interest rates aimed at combatting the out-of-control inflation of the 1970's, soaring oil prices in the early 1980's, and a collapse in agricultural commodity prices (due to oversupply from overproduction and a trade war with the Soviet Union) all contributed to the agricultural crisis of the 1980's. Measures and funding approved by Congress helped to mitigate the severity of the crisis by guaranteeing new loans and through the adoption of processes that facilitated the restructuring of individual farmers' debt to help keep them on their farms. These measures resulted in significant losses for FCS lenders (not to mention sizable losses to commercial lenders).

Outside of the 1980's and other periods of stress the Farm Credit System banks are able to generate healthy profits. During normal market conditions the FCS system works quite well, while endeavoring to mitigate farm and credit losses during times of economic and financial stress. Because the FCS is a Government Sponsored Enterprise, the system was initially created and supported by the government and has the implicit backing of the federal government. By virtue of their strong balance sheets, FSC lenders are able to access the bond

¹¹Farm Credit Administration. (<https://www.fca.gov/about/historical-highlights-of-fca-and-the-fcs>)

market to raise funds to make new loans to agricultural producers on an ongoing basis, thus ensuring the flow of capital to agricultural producers during all phases of the credit/market cycles. Structured as cooperatives, these lenders generate sufficient profits and are self-funded and self-supporting, distributing dividends to members in an average year. NM FCS key financial ratios are depicted in the following table. Accounting for approximately 88% of System outstanding loans in New Mexico the Farm Credit (NMFC) portfolio has managed charge-offs of less than 0.05% annually over the last five years through their rigorous underwriting standards and risk management. Ag NM charge-offs were even lower during the same time-period. FCNM and Ag NM's Return on average member equity averaged 7.6% and 6.8%, and Net interest of 2.7% and 2.6%, respectively. (Figure 16)

Figure 16. NM FCS Outstanding Loan Portfolios & Key Financial Ratios, 2013-2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>5-Yr. Avg.</u>
Outstanding loans:						
Farm Credit NM	1,649,572	1,644,229	1,514,360	1,389,278	1,351,030	-
Ag NM	220,353	205,881	191,192	174,461	165,033	-
Net charge-offs (recoveries) as a percentage of average earning assets:						
Farm Credit NM	0.08%	0.01%	0%	-0.02%	0.14%	0.04%
Ag NM	0%	0.40%	0%	0%	-0.30%	0.02%
Return on average assets:						
Farm Credit NM	1.69%	1.42%	1.72%	2.13%	1.86%	1.76%
Ag NM	1.20%	0.98%	1.10%	1.10%	1.50%	1.18%
Return on average member's equity:						
Farm Credit NM	7.35%	6.33%	7.15%	8.99%	8.50%	7.66%
Ag NM	7.00%	5.80%	5.70%	6.10%	9.50%	6.82%
Net interest income as a percentage of average earning assets:						
Farm Credit NM	2.68%	2.68%	2.69%	2.82%	2.80%	2.73%
Ag NM	2.6%	2.5%	2.7%	2.7%	2.7%	2.64%

Source: 2017 Annual Financial Statements for Farm Credit NM and Ag NM.

Given that FCS lenders are technically banks, and because all bankers are highly risk averse, which means they avoid nascent and low income farming operations, the FCS primarily serves established farming operations that generate reasonable revenues and profits.

The Farm Services Agency serves to fill the gaps in the credit market, providing credit to agricultural producers experiencing some form of economic or financial challenges at the micro-level and that cannot qualify for FCS loans, much less commercial financing. The FSA itself was born out of hard economic times. Often referred to as the "lender of last resort" for farmers/ranchers that cannot secure financing from commercial banks or otherwise, the modern day FSA is organized into 5 areas: Farm Programs (Production, Emergencies, Price Support, Conservation & Environment), Commodity Operations (Price Discovery, Stabilize & Support farm income and prices), Management, State Operations, and Farm Loans. The FSA requirements for qualifying for credit are somewhat relaxed compared to commercial banks,

including FCS lenders, given that their objective is to provide access to credit for established farmers experiencing economic or financial stress in *normal* market environments. The FSA also helps established farmers access emergency assistance, including credit, in the aftermath of natural disasters and extreme climatic events.

The FSA makes direct loans and guarantees up to 95% of loans made by qualified lenders. The two main product types offered by the FSA are farm ownership (FO) and operating loans (OL). FSA loan officers wear many hats, serving as credit counselors, technical assistance advisors, and workout specialists. This has become increasingly true as local FSA staff shared anecdotal experiences with researchers that suggest the loan processing personnel have been shrinking in the last decade due to federal budget reductions. Fewer loan underwriters and originators contribute to increasing processing times while limiting the number of applications that can be processed. The maximum loan amount for FSA is \$300,000, which is not sufficient for medium to large farmland purchases. FSA loan terms are limited to 6-years for direct operating and 10-years for ownership loans, however, there is no term limit to guaranteed loans.

FSA Outstanding Loan Obligations for the U.S. fell by nearly \$1 billion from 2016 to \$5.475 billion in 2018, reportedly due in part to lower demand. The FSA loans in New Mexico totaled a little over \$45 million in 2018; in this year the approval rate was 70%, which was higher than the 2017 rate of 60%. The approval rate for Direct Farm Ownership loans was 56% compared to 70% for Direct Operating Loans and 91% for Guaranteed loans. Guaranteed loans account for the majority of outstanding loans at 57% (39% FO and 18% OL), followed by: Direct Farm Ownership (23%), and Direct Operating Loans (19%). (Figure 17)

Figure 17. Outstanding Farm Services Agency (FSA) Loans for NM by Type, 2018

	Number	Amount (\$1,000)	Percent	Approval Rate
Direct OL	176	8,782	19%	70%
Direct FO	58	10,591	23%	56%
Guaranteed OL	31	8,180	18%	*
Guaranteed FO	31	17,716	39%	*
Emergency	0	0	0	-
Total	296	45,269	100%	70%

*The combined approval rate for Guaranteed OL and FO was 91%

Source: Farm Services Agency, *Fiscal Year 2018 Executive Summary for NM and Loan Applications by State Report*.

Although the FSA effectively serves many established farmers and ranchers, many still cannot qualify for FSA loans. Reasons for failing to qualify for these loans include: loan amounts are below the minimum loan requirements, lack of farming and operating experience, poor credit or no credit. Reasons for declination are along the same lines as many small and emerging

businesses that also have trouble accessing credit. This is discussed further in the following section.

Importantly, in an attempt to reach more small farms the FSA launched its Microloan program in January 2013 with the goal of better serving the needs of small, beginning, veterans, and socially disadvantaged groups (women and racial and ethnic minorities). The program is intended to be more convenient and accessible to groups not traditionally served by FSA credit programs, featuring a streamlined application process, more flexible criteria for farming experience and the reporting of production history, and relaxed collateral requirements. The maximum microloan size is \$50,000. In New Mexico, in 2018, the FSA counted 12 loans to Socially Disadvantaged Farmers (women and minority) in the amount of \$12 mm, 21 Beginning Farmers (\$21 mm), and 2 Veterans (\$1,728,000).¹²

3. Small Businesses Credit Conditions

The Federal Reserve Bank (FRB) system regularly administers credit surveys to banks that lend to agricultural producers. The objective of these surveys is to assess market trends and credit conditions from the perspective of lenders. Types of data collected include: loan demand, availability of funds, loan repayment rates, loan renewals/extensions, land values, interest rates offered, credit standards, farm income, crop prices, etc. These data are important for understanding key asset and product prices that impact the financial strength of borrowers and their ability to repay loans. Unfortunately, there is a dearth of data focused on assessing agricultural borrower attitudes about the accessibility and availability of credit. The Federal Reserve Bank system also collects annual surveys from small businesses across a broad sample of industry sectors. Information collected includes attitudes about borrowers' experiences accessing capital, whether they were able to secure all the capital they required, as well as demographic data (credit risk, annual revenues, industry type, race/ethnicity). Absent borrower-specific agriculture data, and because farms are considered agricultural businesses, the experience of a broad sectoral sample of small businesses, including small agricultural businesses, does help to shed light on the experience of small agricultural producers.

Using the FRB small business survey, among small employer firms, that is firms with 1-500 employees, the results show that many of these businesses experience difficulties accessing sufficient credit. Nearly one-third (30%) of all respondents listed "credit availability" as a key financial challenge for their business. For respondents securing loans in the last 12 months, more than half (54%) obtained less than the amount for which they applied, 20% received only

¹² All 2018 numbers.

some (1%-50% of the amount requested), and 23% received none of the amount they sought to borrow.^{13 14}

New businesses (0-5 years of operating history), businesses with revenues under \$100,000 per year, and firms that are considered medium- to high-risk by lenders were even more likely to report difficulties accessing credit. Seventy percent of small and 61% of young firms reported that they experienced financing shortfalls. Firms with “Medium” or “High” credit risks were often unable to access all or any of the financing they sought. For example, 50% of firms with “High” credit risk and 26% with “Medium” credit risk received 0% of funds requested. Importantly, these respondents include firms with limited or no credit histories (i.e. young entrepreneurs, immigrants, and anyone operating primarily in a cash economy).

Reasons for why applicants were denied credit are important for understanding the most influential challenges faced by small businesses. Low credit scores and insufficient credit histories were the two most frequent reasons for denial at 37% and 35%, respectively. Too much debt (26%), insufficient collateral (25%), and weak business performance (19%) also played an important role for credit denial.

The Federal Reserve Bank system also collects and compiles survey data for small businesses that are defined as Nonemployer Firms, that is firms that have no full- or part-time employees. Among these firms, 71% generate \$100,000 or less, 26% earn \$100,001 to \$1 million, 2% generate >\$1 million in annual revenues. Nonemployer firms are economically important to the U.S. economy given that they account for 81% of all small businesses and generate \$1.2 trillion in annual sales.¹⁵

Among small businesses, nonemployer firms have the greatest difficulty accessing credit, particularly young firms and those with low revenues. Forty percent of firms generating \$100,000 or less had their loan applications rejected, receiving none of the loan amount they requested. Twenty-nine percent received some of the amount they requested and nearly one-

¹³ Federal Reserve Bank of New York. *Small Business Credit Survey: Report on Employer Firms*. 2017.

The Federal Reserve Banks sponsoring the Employer Firms report were: Atlanta, Boston, Chicago, Cleveland, Dallas, Kansas City, Minneapolis, New York, Philadelphia, Richmond, St. Louis, San Francisco. The survey yielded 8,169 responses from small employer firms. This survey was sponsored by all twelve of the Federal Reserve banks and data was collected from businesses in all 50 states and the District of Columbia. Among respondents, eighteen percent of respondents have annual revenues of \$100,000 or less; half (51%) of respondents generate revenues of \$100,000-\$1M, 31% of respondents have revenues in excess of \$1M.

¹⁴ In their *2017 Year-End Economic Report* the National Small Business Association reached similar conclusions, reporting that 27% of small businesses are not “able to obtain adequate financing.”

¹⁵ Federal Reserve Bank of New York. *Small Business Credit Survey: Report on Nonemployer Firms*. 2018.

The most recent Nonemployer survey and report was completed in 2018 and was a national collaboration of the 12 banks. Responses were collected from 5,547 small businesses in all 50 states and the District of Columbia. These firms may have more than one owner working for the business; forty-four percent of nonemployers use contract workers.

third (31%) received the entire amount. Firms generating revenues in excess of \$100,000 had better success securing financing with 37% receiving the full amount they requested, 35% receiving partial funding, and 28% receiving none of the funds they requested. In the FRB's assessment, 38% of respondents had their funding needs met, 16% experienced a shortfall and 46% may have unmet funding needs because they are either discouraged or debt averse.¹⁶

In an attempt to understand data trends, the FRB developed an index to assess the importance of profitability in credit success. They found that larger-revenue nonemployer firms (those generating \$100,000 or more per year) are more likely to be profitable (profitability index=50%) compared to smaller-revenue (<\$100,000) nonemployer firms (-8%).¹⁷ With more large firms generating a net profit, these businesses are more likely to not only qualify for loans but the full requested amount than firms that generating losses.

4. NM Agricultural Producer Survey

National studies like the FRB small business surveys do a good job explaining national trends, however, the aggregate information lacks specifics on the local and regional level. An important component of our study was to assess the experience and attitudes of New Mexican agricultural producers in accessing credit. The BBER survey was designed to capture a broad sample by type size, type, and geography. The survey was largely a first attempt to get a high level overview of the experience of all producers in the state.

Locations where surveys were collected in person included growers markets, local agriculture email list servers (Quivira, NM First), agriculture conferences (Quivira), and telephone interviews. Sources used to identify agricultural producer contact information were the ReferenceUSA database, NM Growers Market Association publicly available information, other publicly available data including farm websites and social media, and Craigslist.

Some respondents terminated the interview before fully completing the survey while others Declined to Respond (DR) to some of the questions. All surveys that were considered valid were included in the analysis, however, DR's were not included for the sake of calculating percentages. Surveys were offered in English and Spanish (there were 13 surveys completed by Spanish speakers).

A total of 227 surveys were collected and deemed complete. Approximately 25% were collected in person, 10% were completed via email (via Survey Monkey), and two-thirds were

¹⁶ Federal Reserve Bank of New York, 2018. Discouraged firms are those that did not apply for financing because they believed they would be turned down.

¹⁷ The index is the share profitable minus the share not profitable.

completed over the phone. There were 93 declinations (including those that asked for BBER to call back at a specific time, yet were unavailable when the call back occurred), 16 were incorrectly identified as agricultural producers, 5 were no longer in the agricultural production business, 21 requested or were emailed a URL to the survey. Forty-five of the telephone numbers were either disconnected, no longer in service, or the wrong number. BBER was able to complete approximately one survey for every 5 telephone contacts made. There were a little over 2 declinations for every 10 contacts made over the phone.

Methodology & Design

This study employed a mixed mode approach to collecting panel data. Past studies have demonstrated that presenting multiple survey modes serves to improve response rates.¹⁸ Specifically, the modes used were telephone solicitations, internet requests sent via email to be completed using Survey Monkey, and face-to-face. The in-person surveys help to offset low response rates for telephone and internet modes. Academic research has critiqued the use of more than one mode of data collection, the greatest critique being increased error due to what is commonly referred to as mode effects. Our methodology helped to limit mode effects by writing survey questions in a manner that will work well across modes.¹⁹ Additionally, our methodology took care to ensure the mirroring of questions and cues across modes. BBER researchers decided that, with the aforementioned tradeoffs in mind, the benefits of a mixed-mode approach offset any disadvantages associated with using more than one delivery medium.

Producer and Loan Characteristics

The survey sample drew evenly from the four agricultural districts in New Mexico as defined by the USDA. Fifty-five surveys (27%) were collected from ranchers/farmers with 10 years or less in average agriculture experience (this number dropped to 39 or 19% for respondents with less than 10 years). Twenty-four farmers/ranchers (12%) had experience of 5 years or less, and 10 farmers had 3 years or less average experience. Seventy-three percent had over 10 years' experience, two-thirds had over 20 years' experience, over half had over 25 years' experience.

Fifty-six percent of respondents (127) indicated that either they or their spouses have employment outside the farm. Twenty-five percent of respondents (54) indicated that both they and their spouses have either Full-Time or Part-Time employment outside the farm. Nine percent of respondents (20) indicated that they AND their partners/spouses work Full-Time outside the farm. Twenty-five percent of respondents (57) indicated that they receive retirement income.

¹⁸ de Leeuw (2005); Dillman, (2009).

¹⁹ Dillman, chapter 6 (2000).

Sixty percent of respondents (119) indicated that they work 40+ hours on the farm/ranch per week, 50% work at least 50 hours per week, and 27% of respondents work 30 hours or less.

Importantly, of the 192 producers that responded to the question about their outstanding debt, 60% (116) reported to have no outstanding debt. Seventy-six (40%) of participants responded that they do have outstanding debt. For those with debt, approximately one-fourth (46) have balances of less than \$100,000. Fifteen respondents (8%) have \$100,000 to \$199,999 in debt. Four respondents have \$200,000 to \$499,999 in debt.

One-third of loans (16) received in the last 12 months were for an amount of \$500 or less, 44% of loans were for under \$15,000, and two-thirds of loans were for under \$50,000.

Of the 48 respondents securing loans in the last 12 months, more than half (56%, 27) secured Lines of Credit. Eight (8, 9%) respondents secured land loans. Four (4, 4.5%) of the loans secured were short-term in nature (12 months or less), and four (4) were 12+ months. Only one respondent applied for an agricultural grant and one person secured a new credit.

Among the respondents who secured a loan in the last 12 months, 78% received 100% of the amount for which they applied. Five (5) individuals (11%) received 60% or less, 3 respondents indicated that their loan application was rejected.

Nearly one-third (31%) of respondents received loans from commercial banks. Nearly one-third (29%) of respondents received loans from Agricultural banks. Twenty percent of respondents received loans from the USDA/FSA. Ten percent of respondents received loans from other sources, including USAA, Northern NM Rural Development, Valencia County, Valencia County SWC, and family friends.

Eighty-six percent of respondents either have a mortgage or own their land outright. More than half of respondents (60%) own their land outright. Fourteen percent responded that they have some type of a lease on the land that they are farming/ranching.

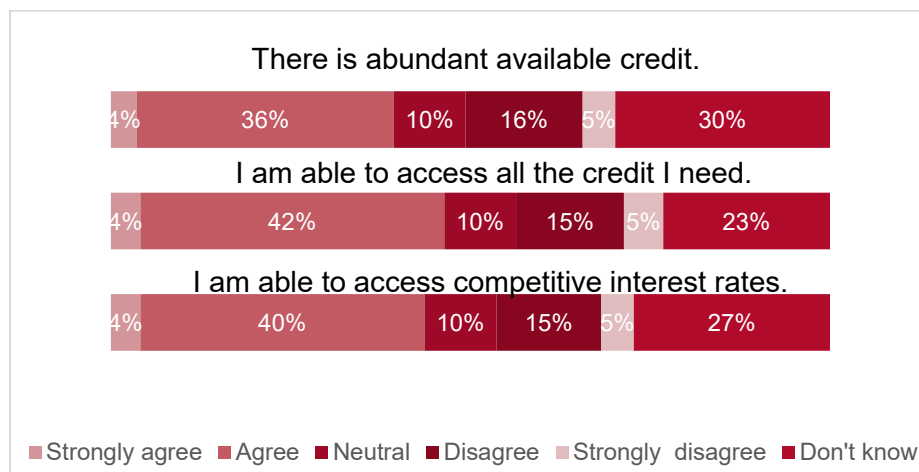
Approximately half (49%) of survey respondents are Very Familiar or Familiar with the Farm Services Agency. Forty-one percent of respondents are Very Familiar or Familiar with NM Farm Credit and 38% are familiar with the broader Farm Credit Services. Twenty-eight percent of respondents were Very Familiar or Familiar with the American Farm Bureau. Twenty-three percent of respondents were Very Familiar/Familiar with Nusenda. Among the commercial banks, First NM Bank is the most recognized bank with 17% of respondents Very Familiar or Familiar.

Twelve percent of respondents said they are likely to apply for a loan with NM Farm Credit. Eleven percent are likely to apply for a loan with Farm Credit Services. Ten percent are likely to apply for a loan with USDA/FSA. Seven percent are likely to apply for a loan with First NM Bank. Responses to this question suggest that respondents are reluctant to apply for loans no matter who the lender is unless necessity dictates.

Borrower Perceptions on Accessibility of Credit

When asked about whether there is abundant available credit, 40% agreed, 10% were neutral, 21% disagreed, and 30% did not know. Forty-six percent of respondents felt that they are able to access all the credit they need, 10% were neutral, 20% disagreed, and 23% did not know. Forty-six percent of respondents felt that they are able to access competitive interest rates, 10% were neutral, 15% disagreed, and 27% did not know. (Figure 18)

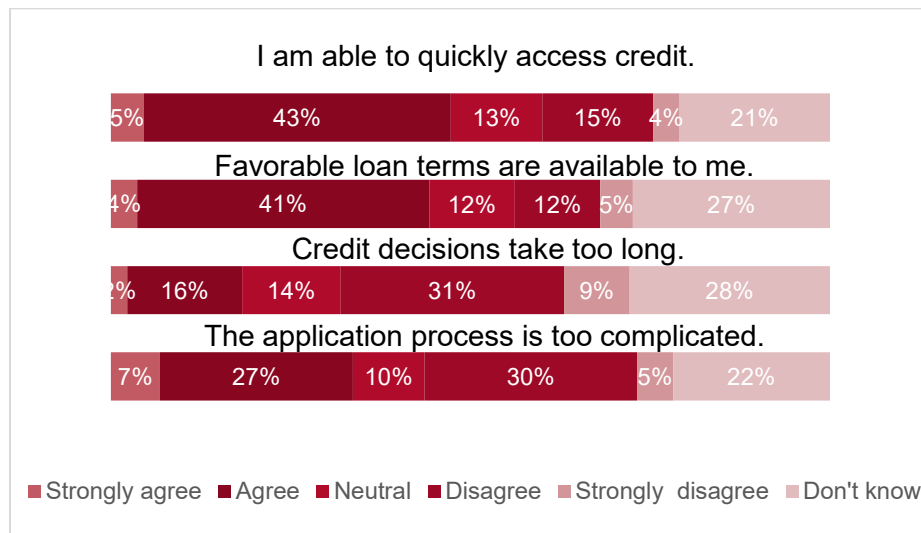
Figure 18. Availability and Accessibility of Credit



Source: UNM Bureau of Business and Economic Research, 2018-2019

When asked about the speed and ease of the application process, 48% of respondents felt that they are able to quickly access credit, 13% were neutral, 19% disagreed, and 21% did not know. Forty-five percent of respondents felt that favorable loan terms are available to them, 12% were neutral, 17% disagreed, and 27% did not know. Only 18% of respondents felt that credit decisions take too long, 14% were neutral, 40% disagreed, and 28% did not know. Thirty-four percent of respondents felt that the application process is too complicated, 10% were neutral, 35% disagreed, and 22% did not know. (Figure 19)

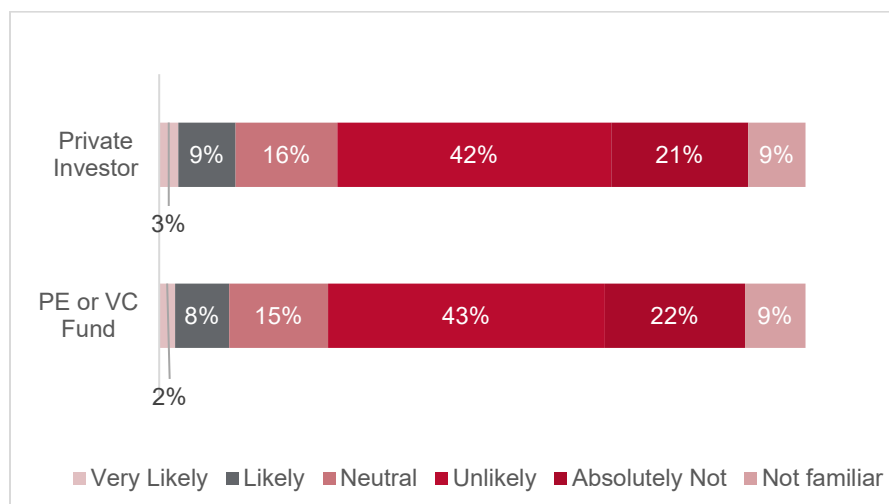
Figure 19. Speed and Ease of Application Process



Source: UNM Bureau of Business and Economic Research, 2018-2019

When asked whether they would accept equity capital, approximately two-thirds of respondents said that they are not likely to accept investment capital from Private Investors or PE/VC Funds. Over 40% responded that they absolutely would not accept private capital, 12% responded that they would accept capital from a private investor and 10% would be receptive to PE/VC capital. Nine percent of respondents were not familiar with private capital financing. (Figure 20)

Figure 20. Willingness to Accept Private Capital (Individual or PE/Venture Capital)



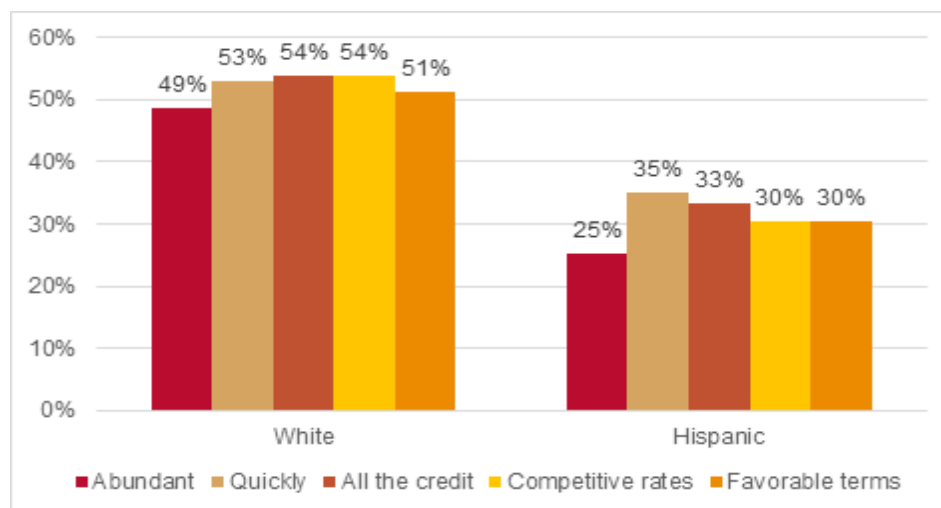
Source: UNM Bureau of Business and Economic Research, 2018-2019

We also controlled for race, ethnicity, and nationality to understand whether these factors played a role on the credit experiences of farmers. Although the sample was limited, the data suggests that immigrant farmers generally do not access the formal credit markets. We

collected surveys from 13 Spanish speaking individuals with 12 of the 13 respondents indicating that they have not received a loan in the last twelve months and 10 of the 13 indicating they have not applied for a loan (the remainder declined to respond to this question). Seven of the respondents indicated that they do not have any debt, one person indicated he has \$5,000 to \$9,999 in debt, and the remainder declined to respond. Although we did not ask respondents if they were U.S. born, these respondents were likely immigrants since Spanish-speaking New Mexicans born in the U.S. are typically fluent English speakers as well.

We also reviewed responses to the questions about the abundance and availability by race and found that 49% of White producers agreed that there is abundant available credit compared to 25% for Hispanics. Along the same lines, 53% of White producers agreed that they are able to quickly access credit compared to 35% for Hispanics. Fifty-four percent of White producers agreed that they are able to access all the credit they need compared to 33% for Hispanics. Fifty-four percent of White producers agreed that they are able to access credit at competitive rates compared to 30% for Hispanics. Fifty-one percent of White producers agreed that favorable loan terms are available to them compared to 30% for Hispanics. (Figure 21)

Figure 21. Credit Abundance (White v. Hispanic/Latino)

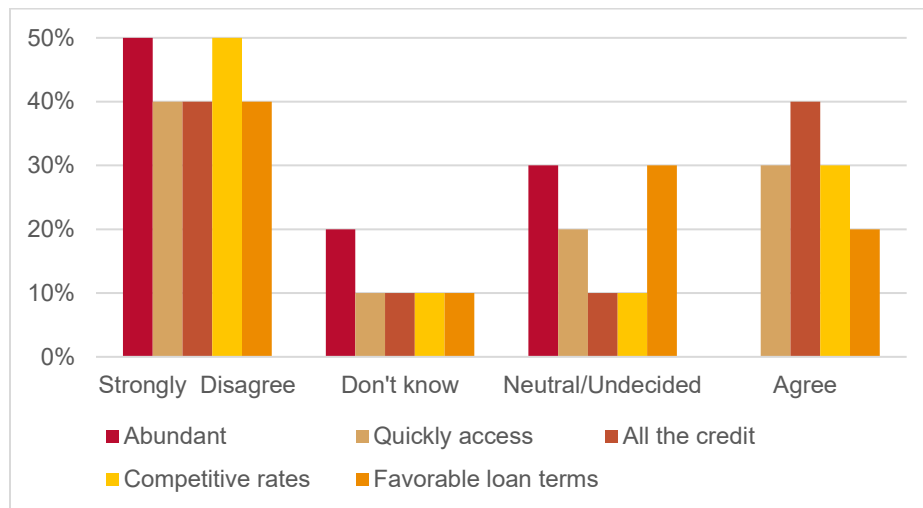


Source: UNM Bureau of Business and Economic Research, 2018-2019

Again, although the sample of young and beginning farmers was limited, we sought to understand whether age and experience played a role in the credit experience for NM agricultural producers. For the 10 respondents who had 3 years of experience or less, we considered their responses on credit availability, abundance, and the process they experienced. Half (5 out of 10) of respondents disagreed that there is abundant available credit (0 Agree, 3 Did not know, and 2 were neutral/undecided). Half of respondents disagreed

(4 strongly disagreed) that they are able to quickly access credit (3 agreed, 2 did not know, and 1 was neutral/undecided). Four out of ten respondents disagreed that they are able to access all the credit they need (4 agree, 1 did not know, and 1 was neutral/undecided). Five out of ten respondents disagreed that they are able to access credit at competitive rates (3 agreed, 1 did not know, and 1 was neutral/undecided). Four out of ten respondents disagreed that favorable loan terms are available to them (2 agreed, 1 did not know, and 3 were neutral/undecided). (Figure 22)

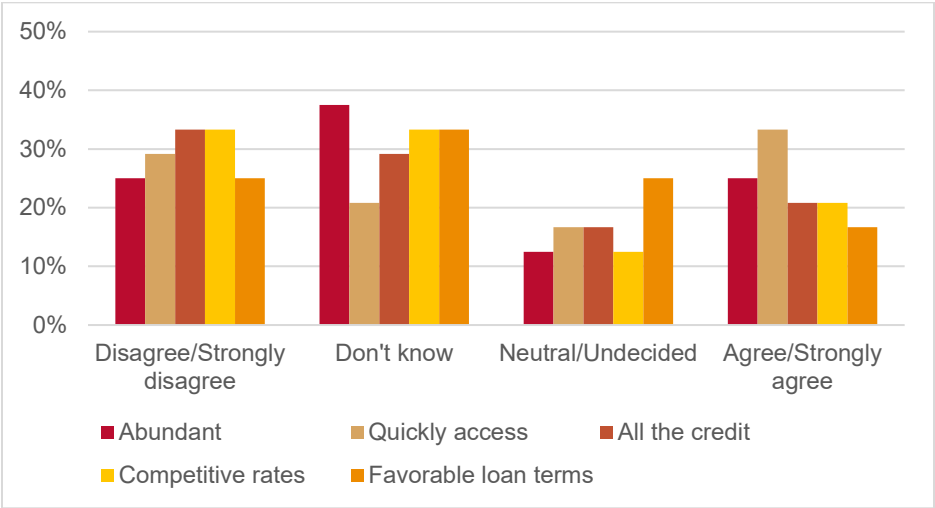
Figure 22. Credit Abundance for Producers with 3 Years' Experience or Less



Source: UNM Bureau of Business and Economic Research, 2018-2019

For the 24 farmers/ranchers with 5 years' experience, the number that responded that they disagreed decreased by about half (relative to those with 3 years' experience or less); in contrast, those responding that they agreed declined by about 5-7 points; those responding that they don't know nearly tripled. (Figure 23)

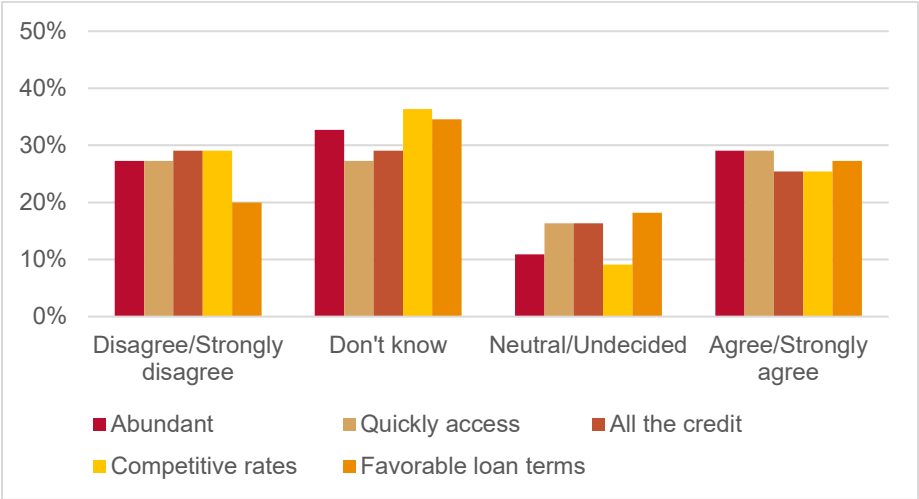
Figure 23. Credit Abundance for Producers with 5 Years' Experience or Less



Source: UNM Bureau of Business and Economic Research, 2018-2019

For the 55 farmers/ranchers with 10 years' experience or less, 27% of respondents disagreed that there is abundant available credit (29% agree, 33% did not know, and 11% were neutral/undecided). The response rate was the same when asked if they are able to quickly access credit, except slightly more respondents were neutral/undecided. Approximately 30% of respondents disagreed that they are able to access all the credit they need (25% agreed, 29% did not know, and 16% were neutral/undecided). Approximately 30% of respondents disagreed that they are able to access credit at competitive rates (25% agreed, 36% did not know, and 9% were neutral/undecided). Twenty percent of respondents disagreed that favorable loan terms are available to them (27% agreed, 35% did not know, and 18% were neutral/undecided). (Figure 24)

Figure 24. Credit Abundance for Producers with 10 Years' Experience or Less



Source: UNM Bureau of Business and Economic Research, 2018-2019

Survey Takeaways and Future Work

The survey results show that over 40% of respondents feel that credit conditions and the terms they are able to access are favorable, roughly 20% disagree, and nearly one-third don't know (probably because they do not have a need to access the credit markets). The majority of these respondents are established/experienced and older individuals, who constituted the majority of responses. The large sample of producers matching this demographic is supported by national and local demographic data, which show that most farmers (74%) are over the age of 55. In fact, many producers in New Mexico either own their farms outright and/or do not have a need to access the credit markets. The latter is possibly due to other sources of nonfarm income from either the principal operator, their spouses, or both.

The affirmative attitude that credit is abundant and accessible is more muted among Hispanics/Latinos, and young/beginning producers, although the sample is limited for the latter group. We did not have good success accessing Native American producers, perhaps because the distribution networks for these individuals and groups do not reach as far as other racial groups -- that is these farmers may grow primarily for consumption in their communities. Future work should attempt to understand and assess the experiences and attitudes of young, beginning, and farmers of color (particularly Native Americans) in New Mexico.

Roughly 10-12% of respondents are likely to accept equity capital while nearly two-thirds responded that they were not likely to do so.

Importantly, this survey was conducted on a limited time frame with a small budget. We acknowledge that we were not able to be all-inclusive in our outreach and that there may be some selection bias. Therefore, the level of precision, and findings must be understood to provide high level characteristics and rough distributions across categories. The survey was not intended to be a definitive assessment of borrower attitudes but, rather, a preliminary assessment for where future work should focus resources. But, also, to begin to assess how the experience of local producers fits with national trends and attitudes to assist with the coordination and formation of potential policy responses.

This next section attempts to examine the national data and literature in order to inform some of the gaps in the local data as it relates to the experience of young and beginning producers, women and minorities in accessing capital.

5. Experiences of Women and Racial Minorities in Accessing Capital in the U.S.

Publicly available government statistics generated by the federal agencies responsible for agricultural programs are difficult to access as it relates to gender and racial equity. For example, the FSA does not publish loan and grant data according to the racial identity of recipients. Although it is difficult to have a quantitative data focused discussion, there are other sources of information that help to illuminate the discussion. The battle for racial equality fought by farmers of color and female farmers (against the federal agencies responsible for administering supports to agricultural producers) is perhaps best told through the legal history.

Although segregation had officially ended in 1955, the exclusion of Blacks and other racial and ethnic minorities was so ingrained in national institutions, efforts to bring racial and social equality only achieved limited success by the 1990's.²⁰ Pre-civil rights, Blacks and other minority farmers were at best unaware, "largely disconnected from farm [USDA] support programs" because they were not afforded access to these programs.²¹ In 1965 the US Commission on Civil Rights identified specific practices and examples of discrimination "in both program delivery and the treatment of employees." Civil rights abuses were so egregious that reports published in the early 1980's and a decade later in 1990 found that the USDA practices were actively contributing to declining farm ownership among minorities. One of the main mechanisms for granting access to USDA programs and credit were elected county committees. The composition of these committees were almost entirely composed of White males. A 1997 study found that 94% of all county committees had no female or minority representation and only 36 of the 101 counties with the largest concentration of minority farmers had at least one minority county committee member; the Southwest region, which includes New Mexico, Arizona, Colorado, California and Texas had the largest minority and female representation with minority membership on these committees totaling: 2% Hispanics, 1% Asian-American, 2% American Indian, and 9.6% female.²²

Efforts to ensure racial equity and to enforce the unbiased allocation of USDA program funding and support has gone through many different phases. Under the Reagan administration

²⁰ Although the ratification of the 15th Amendment in 1870 following the Civil War prohibited states from denying male citizens the right to vote based on "race, color or previous condition of servitude", poll taxes and literacy tests were used to deny African Americans and other racial groups from exercising their right to vote. At the height of the civil rights movement, the passage of the 24th Amendment in 1964 and the Voting Rights Act of 1965 were ratified with the goal of eliminating these discriminatory practices used to deny Blacks the right to vote.

²¹ Grim, Valerie. *Black Participation in the Farmers Home Administration and Agricultural Stabilization and Conservation Service, 1964-1990*. Agricultural History, Vol. 70, No. 2, Twentieth-Century Farm Policies. Spring 1996. pp. 321-336.

²² USDA Civil Rights Action Committee. *Civil Rights at the United States Department of Agriculture*. February 1997.

(1981-1989) the USDA eliminated their civil rights division completely under the auspices of budget cutting measures. In this period USDA officials admitted to tossing discrimination complaints in the trash without ever investigating or responding while new complaints were in effect ignored. These practices largely remained in place under George H.W. Bush (1989-1993). President Clinton (1993-2001) revived efforts to address civil rights problems at the USDA by restoring the civil rights division at the USDA and hosting listening sessions that documented incidents of ongoing discrimination and exclusion from USDA programs. During George W. Bush's presidency (2001-2009) the USDA discontinued field investigations, limiting inquiries to investigations over the phone and most of these claims were allowed to expire by reaching the statute of limitations.²³

A study commissioned by Oxfam in 2007 probably best summarizes the headwinds encountered by persons of color in accessing U.S. farm programs. The study used USDA NASS data and the findings of civil rights commissions to show that White farmers received 2.5x more in farm payments than Black farmers. Payments averaged \$9,300 per White farmers receiving support compared to \$3,460 for Blacks. Additionally, the processing time for African American farmers was three times longer than for White farmers in some southern states. Other documented forms of exclusion stem from being left off newsletter mailing and other distribution lists that communicated information about USDA benefits. In the aftermath of hurricanes Katrina and Wilma some farmers of color were incorrectly informed that no disaster or emergency assistance was available. The Oxfam study provides additional documented examples of discrimination in the federal government's agricultural support programs, including commodity supports, which subsidize commodity crops like wheat, corn, rice, soybeans, and cotton grown by a "relatively few large farms, virtually all of which are owned by whites." Fruits, vegetables, and livestock, crops typically grown by producers of color, are not eligible for commodity price supports.^{24 25}

With limited successes gained from pushing for administrative reforms, women and farmers of color resorted to legal courses of action. In 1997 Timothy Pigford and 400 other plaintiffs filed a class action lawsuit against the USDA alleging racial discrimination against Black farmers. Plaintiffs alleged that the agency discriminated against them on the basis of race and failed to investigate or properly respond to complaints. In April 1999, Judge Paul L. Friedman of the US District Court for the District of Columbia approved a settlement agreement reached between the plaintiffs and the federal government. A claims process was established and the settlement details follow. As of December 2011, just under 16,000 (69%) of the 22,900 eligible

²³ NCRS (USDA), Civil Rights at USDA: A Backgrounder on Efforts by the Obama Administration. (https://www.ncrs.usda.gov/Internet/FSE_DOCUMENTS/nrcs142p2_011689.pdf)

²⁴ Oxfam America. *Shut Out: How US farm programs fail minority farmers*. 2007.

²⁵ Historic and ongoing undercounting of producers of color is to the detriment of farmers of color, particularly among Native Americans on Indian reservations. These data are used to determine farm support funding priorities. Underrepresentation contributes to reduced funding for producers of color. (Oxfam, p. 6)

claimants had final adjudications approved for a total of approximately \$1.06 billion in cash relief, tax payments, and debt relief. In February 2010, Attorney General Holder and Agriculture Secretary Vilsack reached a follow-up settlement commonly referred to as Pigford II for claimants that missed the deadline or reported deficiencies in representation by class counsel. The funds allocated for rewards was \$1.25 billion. Under Pigford II, nearly 40,000 claims were filed, 34,000 (85%) were deemed complete and timely. An estimated 18,000 (53%) of claimants received rewards in excess of \$1 billion.²⁶

In 1999 Native American farmers filed their own lawsuit against the USDA on the grounds that the USDA had discriminated in the administration of farm benefits on the basis of race while failing to investigate these complaints. (*Keepseagle vs. Vilsack*) This lawsuit was settled 11 years later in October 2010. The settlement allocated \$680 million in cash settlements and an additional \$80 million for farm loan debt forgiveness. There were over 4,300 claims submitted by the 2012 deadline and 3,600 claims approved. These claimants received \$238 million, leaving \$380 million in undisbursed settlement funds that became the subject of additional litigation and negotiations. A supplemental disbursement was made to the original 3,600 successful claims in the amount of \$76 million (including IRS tax payments), bringing the cash payout to \$314 million. As part of the additional litigation and negotiations, \$38 million went to non-profit organizations serving Native American farmers and ranchers, and \$266 million was placed in the newly created Native American Agriculture Fund, a trust dedicated exclusively to serving Native American farmers and ranchers.

Hispanic and women ranchers and farmers filed separate lawsuits against the U.S. Department of Agriculture (USDA) in 2000 (*Garcia vs. Vilsack and Love vs. Vilsack*), also claiming that they were discriminated against by the USDA in administering farm benefit programs on the basis of race, ethnicity, and gender. They also claimed that the Department of Agriculture had failed to investigate discrimination complaints. The Food, Conservation, and Energy Act of 2008, or more commonly known as the 2008 Farm Bill, U.S. Congress approved provisions that directed all pending claims and class actions against the USDA by socially disadvantaged farmers/ranchers be resolved in an expeditious and just manner.²⁷ Congress followed this up with the Claims Settlement Act of 2010 and the USDA and Department of Justice established in February 2011 an administrative claims process to resolve discrimination allegations.

The Hispanic and Women claims process made available \$1.33 billion for cash awards and tax relief, and provided debt relief of up to \$160 million by cancelling debts for eligible loans. Out of the approximately 54,000 claims submitted 22,000 (40%) were determined “timely and complete” and moved to adjudication; nearly half (10,361) were denied for fraud concerns.

²⁶ Cowan & Feder, *The Pigford Cases: USDA Settlement of Discrimination Suits by Black Farmers*.

²⁷ *Food, Conservation, and Energy Act of 2008*, Pub. L. No. 110-246, 14011

With the filing period expiring in June 2015, less than one-third of the adjudicated claims were approved for an award; cash, tax relief, and debt relief payments totaled \$207.4 million; cash awards totaled \$160 million; tax relief totaled \$40.37 million; debt relief totaled \$7 million. Only 14% of the settlement amount was disbursed.²⁸

There are also non-agriculture credit analogs in the home mortgage and small business loan markets that help to fill in some of the details related to the experience of minorities in accessing credit. Despite the passage of the Fair Housing Act of 1968 and the Community Reinvestment Act (1977), racially discriminatory lending practices persisted through the 1980's and 1990's. Some argue that these practices continue in the present time. One recent study by *Reveal* at [The Center for Investigative Reporting](#), found statistical evidence that suggests African Americans and Latinos continue to be routinely denied conventional mortgage loans at rates far higher than their white counterparts.²⁹ This is notable given that the federal Fair Housing Act banned racial discrimination in lending more than 50 years ago. Recent class action legal settlements charging specific lenders of racial discrimination in a handful of U.S. cities also provides evidence of the continued struggle of minorities in accessing credit in the present time. Recent settlements include: [Liberty Bank \(2018\)](#), BancorpSouth (2016), Associated Bank (2015), Hudson City Savings Bank (2015), Wells Fargo (2012). Other active litigation includes discrete lawsuits filed against Wells Fargo in Philadelphia and Sacramento.

The Federal Reserve Bank (FRB) small business surveys also collects and compiles data to evaluate the experience of Minority-Owned Businesses. In the most recent study completed in 2016, they found that among employer firms, White owners are more likely to receive financing regardless of credit risk. Among "Low risk" respondents, "full financing approval" was received for 68% of White applicants compared to 40% for Minorities. Among "Medium or high risk" respondents "full financing approval" was received for 32% of White applicants compared to 21% for Minorities. Importantly, 40% of Black-owned firms did not apply for financing because they were discouraged compared to 14% for White-owned firms; 22% of Hispanics and 21% of Asians responded that they were discouraged.³⁰

Minorities also have more trouble accessing credit than White-owned businesses among nonemployer firms. Survey results showed that minority-owned businesses are more likely to identify credit availability as a financial challenge; 26 percent of White borrowers reported credit as challenging compared to 56% for Black-owned businesses, 44% for Hispanics, and

²⁸United States Department of Agriculture, Office of the Inspector General. *Hispanic and Women Farmers and Ranchers Claim Resolution Process*. Audit Report 50601-0002-21. March 2016.

²⁹ Aaron Glantz and Emmanuel Martinez, *Modern-day redlining: How banks block people of color from homeownership*, *Reveal, The Center for Investigative Reporting*. February 2018.

³⁰ The 2016 survey yielded responses from 7,916 employer firms with race/ethnicity information in 50 states and the District of Columbia. Minority-owned businesses with revenues of \$1M or less were more likely to report "Credit availability" as a "financial challenge": Asian (42%), Black (58%), Hispanic (45%), White (32%).

41% among Asian-Americans. Overall, the survey results showed that White business owners were more likely to obtain financing regardless of credit score. Notably, among “Low risk” businesses 75% of White respondents received “at least some financing” compared to 55% for Black respondents. The disparity was also apparent but less extreme for “Medium or high risk” businesses where 45% of White respondents received “at least some financing” compared to 39% for Black respondents. Minorities are more likely to apply for a loan with an online lender compared to White-owned businesses (16%): Asian (21%), Black (32%), Hispanic (36%). It is worth noting that firm size and profitability also has specific racial outcomes with 17% of White-owned firms generating revenues of \$100,000 or less compared to 42% for Black-owned firms, 21% Asian-American, and 24% for Hispanics. When controlled for whether or not a firm was profitable, 57% of White-owned firms were profitable, compared to 42% of Black-owned, 51% of Asian-owned, and 51% of Hispanic-owned firms.

The survey results as it relates to Native American farmers in New Mexico were inconclusive given the low response rate. However, various studies focusing on the experiences of Native Americans in accessing all types of credit are relevant to this discussion. We think the topic is extremely important given the numerically, socially, and culturally important Native communities in New Mexico. The following section reviews the national literature focusing on credit conditions for Native Americans in an attempt to help illuminate the local discussion.

6. Credit Conditions Experienced by Native American Communities

This section begins with a brief discussion on federal policy as it relates to Native American lands, which is crucial to understanding challenges experienced by many Native agricultural producers and businesses/entrepreneurs.

As some American historians have astutely pointed out, the history of the United States is centered on the land. Prior to European contact the Indigenous civilizations were largely agrarian mixed with the practice of foraging of wild plant and animal resources. In the words of historian Roxanne Dunbar-Ortiz: from the beginning of human history in the United States, the land was about “who oversaw and cultivated it, fished waters, maintained its wildlife.” Even during the periods when the territory was under Spanish and Mexican rule the settlements in New Mexico were primarily agrarian. Following the arrival of the first European settlers, land increasingly became a commodity that could be broken into many parcels that could be bought and sold within the market economy. Post U.S. annexation, conflicts around the land and its resources became more about who controlled and owned the land for the purpose of production within the context of the emergent U.S. market economy.

Between 1600 and 1800, the U.S. government entered into treaties with Native nations that relocated them from their ancestral lands to designated reservations that were often considered “remote” or “inhospitable” to European settlers. From the time the U.S. won its independence in the late 1700’s the federal government negotiated treaties with the individual sovereign American Indian nations to establish borders and to define conditions of behavior between parties.

The Dawes Act, which was passed in 1887 with the goal of encouraging tribal members to assimilate into white culture and to adopt individual land ownership practices had specific implications for Native land holdings. The Act parceled reservation land into 80- to 160-acre allotments to individual tribal members and was responsible for removing 90 million acres of tribal lands from Indian ownership with holdings declining to 48 million acres³¹ (from 138 million) between 1887 and 1934. Under the Act, 60 million “surplus” acres of Indian land were sold or transferred to non-Indians and another 30 million acres were lost due to the Burke Act. A former General Accounting Office (GAO) Director, Anu Mittal, summarizes the effects of the Dawes Act succinctly in her testimony to Congress in 2011: “Since the early days of colonization, Indian lands have diminished significantly, in large part because of federal policy. By 1889, Indian lands had been reduced to about 140 million acres, largely on reservations west of the Mississippi River. Federal policy encouraging assimilation in the late 1800s and early 1900s further reduced Indian lands by two-thirds, to about 49 million acres by 1934.”³²

The Burke Act of 1906 accelerated the loss of tribal lands by granting a patent in fee simple to individual Natives that were deemed ‘competent and capable.’ The implication was that the associated land would be removed from the federal trust status, which would free up the land to be sold on the private market [to non-Indians] while becoming subject to taxation. Often, the newly patented Indian owners did not know that the land was subject to taxation and after a period of unpaid taxes, local and federal governments sold the lands to cover unpaid taxes, which became known as the “forced fee patent process”.³³ These policies created the checkerboard pattern of ownership along the western and southwestern regions of the Navajo Nation (San Juan, McKinley, and Sandoval counties) where land was sold or transferred to non-Indian parties but remained within reservation boundaries. These federal policies that converted Indian lands to private legal status created a host of complications.³⁴

³¹ An area equivalent to the size of the states of Idaho or Washington.

³² Mittal, Anu K. *Observations on Some Unique Factors that May Affect Economic Activity on Tribal Lands*. U.S. General Accounting Office (GAO-11-543T). (<https://www.gao.gov/products/GAO-11-543T>)

³³ Bartecci, D. *The History of “Competency” as a Tool to Control Native American Lands*. Pine Ridge Project. February 19, 2007.

³⁴ Other examples of the appropriation of Native lands by the federal government for official purposes, include the taking of land for military bases, and the creation of Japanese-American internment camps during WWII on tribal lands.

In a seminal 2001 study, the U.S. Treasury identified several barriers to capital encountered by Native Americans. The study found that the cumbersome and slow pace of government decision making as it relates to encumbering trust land, inflexible bank lending rules and regulations, lack of credit histories, and the limited capital and collateral (home equity, stock holdings, or other assets) all prevent Native Americans from being able to access credit. In addition, since home mortgages are one of the most common forms of collateral to obtain loans, low levels of homeownership represents a significant barrier for many Native Americans seeking to access business [and agricultural] loans.³⁵

Recent studies provide evidence that many of the problems identified by the 2001 U.S. Treasury study persist today. The University of Arizona Native Nations Institute (NNI) reviewed existent data on the topic as recently as 2017. The NNI found that many Native Americans do not access credit at the same rate as non-Natives with Native business owners less likely to secure financing from banks, qualify for mortgage loans, or to utilize Small Business Administration loans.³⁶ An additional feature of the capital landscape for Natives, the First Nations Development Institute (FNDI) contends that certain market agents contribute to a vicious cycle of Natives to get on the sound financial footing needed to qualify for conventional financing and embark on entrepreneurial enterprises; for example, Native Americans are targeted by predatory lenders, as evidenced most visibly by these companies opening operations on or near the boundaries of many Native communities. These lenders charge exorbitant interest rates and strip borrowers of their assets, and undermine their ability to build wealth and credit histories.³⁷

Understanding the trust status of Native lands is fundamental to understanding the difficulty that Native Americans face when attempting to access capital markets for agricultural, business pursuits, and for economic development purposes. One of the greatest barriers to capital access is the fact that Native Americans do not have unfettered legal ownership to

³⁵ US Department of the Treasury. *The Report of the Native American Lending Study: Community Development Financial Institutions Fund*. 2001.

³⁶ The University of Arizona Native Nations Institute. *Access to Capital and Credit in Native Communities: A Data Review*. 2017. Home Mortgage Disclosure Act (HMDA) data shows that applicants from counties that contain reservation land are more likely than residents of counties without reservations to be denied mortgage credit and within reservation-containing counties, AI are even more likely than Caucasians to experience denials. Small Business Loans (SBAs) are also under-utilized given that the number of SBA-guaranteed loans to Native-owned businesses constituted less than 1% of the total number of SBA-guaranteed loans; annual proportions ranged from 0.62 to 0.82 percent whereas AI account for approximately 2.1 percent of the total US population.

³⁷ Dewees, Sarah and Mottola, Gary. *Race and Financial Capability in America: Understanding the Native American Experience*. FINRA Investor Education Foundation. April 2017. The lack of integration into the market economy, and the cultural (and geographic) isolation of many Native Americans also hinders Native Americans from accessing the capital markets. A 2015 FINRA Investor Education Foundation National Financial Capability study found evidence that Native Americans are less likely to learn about managing finances from parents and that they exhibit less confidence in their financial proficiency [than White peers]. Furthermore, Natives experience higher levels of financial fragility and distress than non-Natives, which makes their chances of qualifying for financing less likely.

Native lands held in trust by the federal government. The federal government took title to tribal and individual Native American land dating back to the 1800's, purportedly to "stop scam land sales and egregious tax seizures by state governments."³⁸ The federal government essentially holds the legal title while the tribe or the individual (trustee) is the beneficial title holder.³⁹ Because trust lands are highly restricted, the beneficial owners are required to secure the approval of the Bureau of Indian Affairs (BIA) before the lands can be used for any economic endeavor, including agricultural production.⁴⁰

Many entrepreneurs, academics, and activists have lobbied for Natives to hold the legal title of their own lands, arguing that as long as this structure remains in place it will continue to impede economic development for these communities. Lance Morgan, the CEO of the Winnebago Tribe economic development corporation, has argued that the inability of Natives to use trust lands as collateral for loans, to sell, or lease these lands without federal government approval -- which requires lengthy wait times for their requests to wind their way through the labyrinthine federal bureaucracy -- results in enormous economic loss and underdevelopment.⁴¹

The trust status of Native lands has additional implications for the accessing of capital markets and other sources of (tax) revenues. Because Native lands are exempt from state and local taxes and zoning laws, tribal governments often do not have the legal structures in place to be able to levy property and other taxes to raise revenues to support infrastructure, schools, and other basic services. Additionally, the federal government's authority over Native lands extends to the subsurface mining and mineral rights.

From the lender/capital market perspective, banks/creditors avoid investments on trust lands because trust lands cannot be used as collateral for loans. Moreover, curtailed powers of taxation limits the ability of tribes to issue bonds to pay for important projects that are fundamental to economic development activities, including those in the agricultural sector.^{42,43}

The individual land ownership of Indian land is also problematic in that land values and the legal title becomes highly fractionated. For example, after six generations the ownership of a 160-acre parcel of land originally owned by a single person will have 243 heirs (assuming

³⁸ Morgan, Lance. *Ending the curse of trust land*. Indian Country Today. March 18, 2005. Lance Morgan, the CEO of Ho-Chunk, Inc, the economic development corporation of the Winnebago Tribe of Nebraska, is one of the most outspoken proponents of returning the ownership and legal title of tribal land to Native American tribes and individuals.

³⁹ *Carcieri v. Salazar*.

⁴⁰ Dewees, Sarah and Sarkozy-Banoczy, Stewart. *Investing in Native Community Change: Understanding the Role of Community Development Financial Institutions*. 2008.

⁴¹ Morgan, 2005

⁴² Morgan, 2005.

⁴³ Clarkson and Murphy, 2016.

three heirs per person per generation). In some instances, a given parcel of land can have thousands of heirs/owners. Importantly, the interests are undivided and the land itself is not physically divided. With so many owners, land use is compromised since consensus from a majority of parcel owners is required in order to do anything with the land. Productive uses of land in the form of business development, the construction of homes, or agriculture become nearly impossible.^{44,45,46}

Because agriculture is capital intensive, Native agriculture is hamstrung without access to abundant credit. Importantly, the lack of credit often compels tribes to lease their land to non-Indians in order to generate any economic return.^{47,48} There are, however, groups doing important work in these areas.

The Navajo Nation and the University of Arizona have researched the topic and are pursuing various food system and food sovereignty initiatives.⁴⁹ The First Nations Development Institute has also researched the topic and supports programs, including the Native American Food Sovereignty Alliance project.⁵⁰ A Native agriculture CDFI was established in the last few years, which seeks to make loans throughout Indian Country. The group is called [Akiptan](#) and has products that target youth and startups specifically. Other Native CDFIs lending in New Mexico have likely funded agricultural loans to Native producers. Focused future research on Native agricultural finance and food sovereignty in New Mexico could help bring more attention, gather information, and support efforts in this area.

The mestizo descendants of both Native and Spanish/Mexican ancestors have had a similar experience to recognized Native American tribes with respect to access to capital. These families lost ranching and farming land granted under the Spanish (1598-1821) and Mexican (1821-1846) governments post U.S. annexation (1848) and the ensuing U.S. colonization. The land claims system that was setup during territorial period (1850-1912) was responsible for ratifying private claims while largely ignoring the communal land grants. Many of the private land claims were not adjudicated. Although some of these Spanish and Mexican land grants are still in existence today, the legal ownership of much of the communal and privately-held lands were not recognized by the U.S. government, which resulted in these lands reverting to

⁴⁴ Indian Tenure Land Foundation. (<https://iltf.org/land-issues/issues/>)

⁴⁵ This fractionated ownership also dilutes the potential income from these private Indian land holdings. For example, under the same scenario of 243 heirs after 6 generations, for a \$1,000 annual lease or dividend on a given parcel, the 243 heirs/owner will yield \$4.12 per year. Some have pointed out that this individual amount is less than what it costs the federal government to process the payment. Indian Tenure Land Foundation (Indian Tenure Land Foundation).

⁴⁶ Dewees, Sarah and Sarkozy-Banoczy, Stewart. *Investing in Native Community Change: Understanding the Role of Community Development Financial Institutions*. 2008.

⁴⁷ Morgan, 2005.

⁴⁸ Clarkson and Murphy, 2016.

⁴⁹ Dine Policy Institute. *Dine Food Sovereignty*. April 2014.

⁵⁰ First Nations Development Institute. (<https://www.firstnations.org/>)

the public domain or being acquired by private individuals, including land speculators.⁵¹ Active Spanish/Mexican land grant heirs also struggle to access capital for many of the same reasons as Native American tribes given that there is no single land holder and these grants cannot be used as collateral to secure a loan.

7. Equity and “Alternative” Sources of Capital

This study has thus far focused on credit financing. This next section discusses other sources of capital. Although credit is the most typical source of financing for agricultural producers, these “equity” and “alternative” strategies are important sources of financing for farmers, ranchers, and policy makers to consider. Private foundations pursuing specific social and policy objectives, private market agents, and individual investors alike have sought to employ these modes of investment.

The high cost of issuing equity securities typically makes equity financing inaccessible to small businesses/agricultural producers. Most private equity investors do not even consider investing in businesses below a certain threshold. For example private equity investors pursuing opportunities with small companies, depending on the sector, will not even consider a company with less than \$5 million in annual EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization); even the most risk loving Venture Capital firms might only invest in a startup tech company that has a viable product, a technology prototype, or some intellectual property. The minimum threshold for businesses seeking public equity financing is even higher than private, especially in the era of Sarbanes Oxley.

Equity Financing/Crowdfunding

Because private equity (PE) investors typically do not consider investing in opportunities below minimum thresholds, and given the relatively small capital needs of small farm startups, PE is generally not a viable source of capital for most agricultural producers, particularly in New Mexico. Moreover, with the over-sized targets – that is annualized returns of 20-30% and cash-on-cash return of 3x and higher – most Venture Capital and other early stage private equity investors would never consider putting money with a small, especially beginning, farmer or rancher.

One of the most compelling strategies that has emerged to provide entrepreneurs and small businesses with equity-like financing is the Crowdfunding phenomenon. There are various niches that have emerged that fall under the Crowdfunding umbrella. Rewards-based Crowdfunding, also known as “micro-patronage”, allows groups and individuals to obtain

⁵¹ Correia, David. *Land Grant Speculation in New Mexico during the Territorial Period*. 48 *Natural Resources Journal*. 867. 2008. (<https://digitalrepository.unm.edu/nrj/vol48/iss4/4>)

contributions from a large group of people, typically for artistic or creative projects, using online platforms like [Gofundme](#), [Indiegogo](#), and [Kickstarter](#) in exchange for some type of a thank you gift for donors (e.g. a bumper sticker, t-shirt, or coffee mug). These platforms are also used to raise funds for health care expenses, funeral arrangements, or replacement costs for fires, flooding, etc. Other popular platforms are, [ioby](#) for community-based projects, and [Pubslush](#) for books. For-profit enterprises sometimes use these platforms to raise funds for startup or specific equipment costs. Recent examples of agricultural producers seeking funding using one of these platforms are: [Five Finger Farms](#), [Lettuce Love Farm](#), [Vertu Farm](#). [Barnraiser](#) is a platform that focuses on obtaining donations for food-oriented enterprises, groups, and organizations. Recent projects raising funding include a new [greenhouse](#) for Seattle Urban Farm Co. and a new [tractor](#) for Tubby Creek Farm. Many of these platforms, as well as third parties, provide resources to help fundraisers launch their own campaigns. For example, [Barnraiser](#) offers an online guide to crowdfunding as well as [Indiegogo](#) and [Fundable](#).

An important regulatory advance in allowing equity capital providers to connect with businesses seeking capital is the [Jumpstart Our Business Startups \(JOBS\) Act](#). Passed by Congress and signed into law in 2012, the JOBS Act seeks to encourage funding of small businesses by easing many of the securities regulations. The act allows private companies to announce and advertise that they are seeking investors, which was not allowed by regulations prior to the JOBS Act. Under [Regulation A](#), a 2016 amendment to the JOBS Act, companies can offer and sell securities to the public under two tiers. Under Tier 1, companies can raise up to \$20 million in a 12 month period. Tier 2 companies can raise up to \$50 million in any 12-month period.⁵²

Pursuant to the JOBS Act, Crowdfunding intermediaries must register with the Securities and Exchange Commission (SEC) as a broker or as funding portal and become a member of a national securities association (FINRA). A list of regulated funding portals is available on the

⁵² Regulation A requires that “all investors must be provided with, or given information to access, and offering circular.” Offering materials must be qualified by the staff at the SEC. Tier 1 offerings also must be qualified by state securities regulators in the states in which the company plans to sell securities. Tier 1 offerings do not have to be audited by an independent accountant and they do not have ongoing reporting requirements other than a final report on the status of the offering. Tier 2 offering materials have to be audited by an independent auditor and companies are required to file with the SEC semiannual, annual, and interim current reports upon the occurrence of certain enumerated events.

There is no dollar limit on how much individuals can invest with a single company under Tier 1. There is no limit on how much accredited investors can invest with Tier 2 offerings; if individuals are not accredited investors, they are limited to no more than 10% of the greater of the person’s, alone or together with a spouse, annual income or net worth (excluding the value of the person’s primary residence and any loans secured by the residence). An individual will be considered an accredited investor if he or she: earned income that exceeded \$200,000 (or \$300,000 together with a spouse) in each of the prior two years, and reasonably expects the same for the current year, or has a net worth over \$1 million, either alone or together with a spouse (excluding the value of the person’s primary residence and any loans secured by the residence (up to the value of the residence)).

[FINRA](#) website. Popular online equity crowdfunding platforms include [seedinvest](#), [Wefunder](#) and [localstake](#), and [EquityNet](#). With some of these platforms, investors can decide what types of investments/securities (Revenue Share Loans, Preferred Equity, Convertible Debt, Traditional Loans) they would like to invest. Recent agriculture-related investments on these platforms include [Nextdoorganics](#) and [Element Farms](#).

It is our sense that the requirements are still too complex and restrictive for small individual farmers and ranchers to raise capital under the 2012 Act and Regulation A, and the dearth of data on the experience of equity seekers under the 2012 JOBS Act given the relatively newness of the regulations, makes this avenue an interesting prospect but still uncharted waters.

There are also online platforms that allow companies to advertise fundraising efforts to the general public. One such intermediary is [Fundable](#). Investors make either binding or nonbinding pledges through these advertising platforms and the companies follow up with the investors directly outside the platform to make arrangements for the transmittal of funds (check, electronic transfer) and deliver share certificates. Other platforms use the crowdfunding model exclusively for making loans. Such providers include [LendingClub](#) and [Funding Circle](#). Funding Circle advertises that they have made \$9.5 billion loans to 68,000 small businesses globally.

Agriculture-related debt and equity crowdfunding is still in its earliest stages, especially when compared to other more developed business sectors like consumer goods or tech. In our review of literature we came across ag-tech funds targeting capital from accredited investors and one platform that seeks to raise capital for agriculture land equity investments, however, there is little in terms of crowdfunding for small farmers seeking equity investors apart from the rewards-based platforms.

An important source of capital for agricultural producers in several states is what is referred to as “Slow Money”. Woody Tasch popularized the concept when he founded his Slow Money 501(c)3 in 2009 for the purpose of “catalyzing the flow of capital to local food systems, connecting investors to the places where they live.” Specifically, the Slow Money (SM) movement seeks to invest in local, sustainable, and organic food, farming, and ranching enterprises with individual investments primarily located in the U.S. Local SM groups are organized as informal networks and/or investment clubs. There are 27 [local groups](#) in 18 states, including Colorado, California, Texas, as well as Australia, Canada, and France.⁵³

According to the *2014 State of the Sector Report*, Slow Money has made more than \$293 million in over 968 deals from 2009-2013. More than half (56%) of funds came from Investment

⁵³ *Slow Money: State of the Sector Report, Investing in Small Food Enterprises*. 2014.

Funds (Beartooth Capital, New Resource Bank, Renewal Funds, Coastal Enterprises Inc.); 16 percent was contributed by Family Offices, Foundations (13%), Slow Money Investors (11%), Non-Slow Money Angels (3.5%), Slow Money Investment Clubs (0.12%). Most of the deals completed in this period (60%) were for less than \$100,000 and 60% of the total dollars invested was in deals of \$1 million or more. These investments have been made across the supply chain with roughly one-third allocated to Farmland/Ranchland (36%) and another one-third to organic brands (34%); just under 10% has been invested in Farming or Ranching Operations (9%), Processing (8%), and Distribution or Aggregation (9%); 4% has been invested in other types of deals. In terms of agriculture sectors where these funds were invested, half was made in Produce (48%), 25% went to Beef and Other Meat, 10% grains, 10% dairy, and 7% other.

Seventy percent of SM investments were made as loans and most were for amounts under \$100,000. Twenty percent was equity and 10% was other (loan guarantees, PRIs, royalties, convertible debt). Roughly two-thirds (67%) of investors expect holding periods to last 1-6 years. SM investment clubs are primarily making loans of three years or less. The Colorado Food Investments, a Boulder-based SM club, makes loans for terms of 3 years, 3%, and with no collateral.

There does not appear to be any SM affiliated groups located in New Mexico, however, there may be a relatively new nonprofit called the Grant County Gila Investment Opportunity Network that seeks to invest local member assets locally. Unfortunately, we were unable to find any detailed information about this group or their activities.

Impact Investing, another important source of capital for environmentally and socially conscience businesses and organizations has helped to capitalize ventures globally. There are wide ranging approaches to Impact Investing. The Global Impact Investing Network (GIIN) identifies several core elements: “investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending on investors’ strategic goals.” The GIIN estimates there is \$502 billion in impact investing assets worldwide.⁵⁴ The actual Impact Investment strategies take many shapes and forms. One such example is loans to social entrepreneurs at below market interest rates. For example, offering a 3-year 0.5% interest rate to a woman-owned business that employs veterans and/or formerly-homeless/homeless individuals. An impact-oriented private equity investment might involve an equity investment in a for-profit business that has a social or environmental mission; a microfinance institution

⁵⁴ Abhilash Mudaliar and Hannah Dithrich, *Sizing the Impact Investing Market*. Global Impact Investing Network. April 2019.

offering loans to social enterprises is one example. Other types of Impact Investments are recoverable grants and guarantees.

Sustainable Agriculture has been identified as an emerging investment theme in the realm of Impact Investing. However, most of these opportunities are small sector or portfolio theme allocations within large diversified portfolios.⁵⁵ For example, Calvert Impact Capital allocates a small slice of one of their diversified portfolio to sustainable agriculture. Still, these large investment funds have difficulty reaching most medium and small U.S. agricultural producers. For example, the Calvert investments are aimed primarily at supporting [microfinance organizations](#) and nonprofit [social enterprise groups](#) that seek to provide financing and training to small agricultural producers in sub-Saharan countries with the recipients of Calvert capital ostensibly going primarily to farmers located in emerging global economies like Kenya and Uganda. The underlying assets in Impact Investment portfolios are typically investments with companies or groups doing microfinance, namely loans. Therefore, Impact Investment funds are not necessarily a good source of capital for small and beginning farmers.

One startup investment company marketing itself as an Impact Investment firm that attempts to bridge U.S. farmers and ranchers seeking equity capital with investors seeking to support sustainable agriculture is [Harvest Returns](#). Harvest launched in 2016 and thus far focuses on Private Placements with returns generated from crop harvests. Harvest considers themselves a middle-market capital provider (versus microfinance deals) and appears to be trying to marry its online platform (similar to investment-oriented Crowdfunding) with Impact Investment principles. Their investment minimum is as low as \$5,000 and the average investment size is \$25,000. Investors receive regular updates on the progress of their investments, annual distributions once crops are harvested, and online access to tax documents. Agricultural producers receive their funding after the full amount of their deal is raised. Most deals range between \$500,000 to a few million. At this stage the company appears to be targeting accredited investors. The company currently has agreements in place to list agriculture investments in Texas, Arizona, Florida, Brazil, and Belize. Harvest Returns lists a handful of deals on their platform that have been completed. Completed Harvest investments include a hydroponic produce farm in Kentucky (\$520,000 raised, \$10,000 minimum investment, est. IRR of 11%), a grass-fed cattle ranch in Georgia (\$510,000 raised, \$10,000 minimum investment, est. IRR of 8%), and an organic cacao farm in Belize (\$105,000 raised, \$5,000 minimum investment, estimated IRR of 10.9%).⁵⁶

⁵⁵ The Food and Agriculture Organization defines Sustainable Agriculture as “agriculture that conserves land, water, and plant and animal genetic resources, and is environmentally non-degrading, technically appropriate, economically viable and socially acceptable.”

⁵⁶ AgDaily. *Need some capital upfront? May want to hit up Harvest Returns*. August 7, 2017. (<https://www.agdaily.com/news/need-capital-upfront-harvest-returns/>).

Community Development Financial Institutions (CDFIs) could easily fit into a category of their own given that these organizations are frequently organized as nonprofits, while making both equity and credit investments, and pursuing economic development objectives in low-income communities. The Riegle Community Development and Regulatory Improvement Act of 1994 was established by Congress for the purpose of promoting economic revitalization and community development in low-income neighborhoods throughout the U.S. that had historically experienced limited access to financial resources. The creation of CDFIs was premised on the idea that in order for a community to thrive economically, it requires access to basic financial services, affordable credit, and investment capital. As a result, CDFIs ought to seek to expand economic opportunity in low-income communities by providing access to financial products and services for local residents and businesses.

In the words of the national association for CDFIs, the Opportunity Finance Network (OFN), CDFIs are “100% dedicated to delivering responsible, affordable lending to help low-income, low-wealth, and other disadvantaged people and communities so that they may join the economic mainstream. By financing community businesses – including small businesses, microenterprises, nonprofit organizations, commercial real estate, and affordable housing – CDFIs spark job growth and retention in hard-to-serve markets across the nation.” The OFN guides claim that because they are profitable but not profit-maximizing, they put community first, not the shareholder.

There are presently over 1,000 CDFIs operating nationwide and they can be structured as banks, credit unions, loan funds, microloan funds, or venture capital providers.⁵⁷ According to the OFN website, there are nine CDFIs serving and operating in the New Mexico area. These are DreamSpring (formerly ACCION), Clearinghouse CDFI, Homewise, Inc., LiftFund, The Loan Fund, Local Enterprise Assistance Fund (LEAF), Rural Community Assistance Corporation, Shared Capital Cooperative, and the Ventana Fund.⁵⁸ The number is probably higher given that there are others like Nusenda’s Co-Op Capital not on the list as well as a handful of Native American CDFIs. Although a systematic analysis has not been completed of the portfolios for the CDFIs serving New Mexico, DreamSpring has made a few loans to food-related businesses and The Loan Fund portfolio includes at least an apiary business that produces honey for local consumption. Ostensibly, most of the food-related businesses receiving CDFI loans in New Mexico are value-added, packaged food companies like salsa companies and local bakeries.

There are a handful of agriculture-oriented CDFIs in other parts of the country. Michigan State University’s Center for Regional Food Systems worked with 9 CDFIs with some exposure to agriculture-related borrowers, some of these with material experience and allocations. The

⁵⁷ www.cdfifund.gov.

⁵⁸ <https://ofn.org/cdfi-locator>.

lenders most committed to the agriculture sector and that continue to have large agriculture portfolios, include Natural Capital Investment Fund (WV), California Coastal Rural Development Corporation, Forge Inc. (AR), Access Capital (CA), UCEDC (NJ), and California FarmLink. Each of these CDFIs has their own unique approach to agricultural lending. California FarmLink, whom we discuss in greater detail in the following section, probably has the most robust agricultural lending operations. Each of these CDFIs has learned important lessons related to making loans in the agricultural sector. The next two sections, which deal with policy and individual lender best practices, delve into some of the meat of their experiences.

8. Best Practices - Policy/Food System Approach

Given that nearly all of the federal agricultural supports go to large producers with a paucity of funds available for small producers, barring a drastic change in federal policy, local governments, policy makers, and nonprofits and foundations have been forced to become more active and creative with respect to funding/financing local agriculture and with providing support for small, beginning, and socially disadvantaged producers. Many states have already adopted specific measures and continue to innovate other tools and resources for supporting and growing their local food systems and new producers, of which capital availability access is but one component, albeit an important one. The following section reviews some of these initiatives pursued by other states, localities, and community groups/nonprofits endeavoring to grow their local foods systems. Given the limited scope and funding for this project, this section is not meant to be comprehensive in nature but a high-level overview that might lead to more focused future research.

State and Local Agricultural Finance Initiatives and Agricultural Credit Programs

As discussed previously in this report, the USDA has struggled to provide adequate credit and farm support access to small, beginning, women-owned/operated, and Farmers of Color. Needless to say, small individual states like New Mexico have little influence on how the USDA allocates funding, much less determining the criteria used for the granting of farm supports and credit. Many states have resorted to expanding their own agricultural financial support resources.

Specifically, several states in the U.S. have started their own agricultural loan funds by issuing bonds backed, funded, and/or guaranteed by local tax revenues. State agricultural finance programs may have their own credit departments, or they can partner with local lenders to originate, underwrite, and service these loans with repayment of principal and interest guaranteed by the state up to certain levels (e.g. 85%). Additionally, some states work with the FSA/USDA which guarantees the interest and principal of these loans up to 90%. Understanding that many small farmers are low-resource/low-income, some states will offer

special loan terms. For example, some states will supplement a borrower's down payment, thereby helping farmers qualify for a loan more readily. Another such tool, participation loans help borrowers lacking equity or collateral resources. Some states also incentivize lenders to make agricultural loans by purchasing a portion of term loans, thus reducing a lenders exposure/risk. Finally, other states will work with lenders to offer below market interest rates, especially beneficial for borrowers who typically only have access to high interest loans. This is made possible through the use of federally and/or state tax-exempt bonds as the source of funding for loanable funds.

The following are states with relatively robust credit programs intended to not just support but boost local agriculture. [Idaho State Department of Agriculture](#) offers various financial resources including loans, block grants, trade expansion grants, low-interest transportation loans, and down payment assistance. The [Illinois Finance Authority](#) – a state finance entity not unlike the NM Finance Authority -- offers robust loan guarantee programs, including: Agri-Debt Restructuring, Agri-Industry, Specialized Livestock, and Working Capital loans. The Kentucky Governor's Office took an even more hands-on approach to supporting local agriculture in this state. The sitting governor at the time established his own executive department called the [Governor's Office of Agricultural Policy](#) (GOAP) in 1998 to provide grants, incentives, and low-interest loans to help farmers and agribusinesses grow and scale-up. The Kentucky GOAP programs are run through the [Agricultural Finance Corporation](#). The Kentucky agricultural loan program includes participation loans for Ag Infrastructure, Beginning Farmers, Vet Medicine, Ag Processing.⁵⁹

For further research, a list of locally supported and locally run programs are located in Appendix 2 (State, Municipal, Private and Nonprofit Agricultural Finance Initiatives).

Programmatic Support for Beginning, Young, Socially Disadvantaged: State-backed Beginning Farmer Programs, Equity Building, Tech Assistance/Loan Readiness

A 2015 study conducted by the Center for Regional Food Systems at Michigan State University captures well these challenges faced by Farmers of Color (Susan Cocciarelli, et.al., *The CDFI-Farmers Of Color Capital Access National Project*). Using a case study approach, Cocciarelli evaluated data from farmers in a handful of states in the western and southern parts of the country. Researchers found evidence that Farmers of Color (FOC) were struggling to overcome institutional racism and a history of discrimination, specifically as it relates to access to capital. These challenges were due in part to lack of access and support with complex processes and applications. The study concluded that FOC have lagged behind White farmers in gaining access to state and federal programs, resources, and financing, and

⁵⁹ Idaho (<https://agri.idaho.gov/main/marketing/financial-assistance/>)

Illinois (<https://www.il-fa.com/programs/agriculture>)

Kentucky (<https://agpolicy.ky.gov/finance/Pages/loan-programs.aspx>)

are more likely to be under-resourced and to generate significantly less revenue than their White counterparts with many of these farmers finding themselves in the “start-up” stages and operating in the informal economy.

As the literature suggests, many young, beginning, women-owned, and minority-owned businesses are unable to access credit at the same rate as non-minority owned businesses. Many of these small farming operations are cash-based businesses and lack banking histories, much less credit histories. These small farming operations also struggle to generate even the most meager profits as evidenced by USDA NASS data. Because Young, Beginning, and Socially Disadvantaged farmers are by and large small, low-income farms that encounter the greatest historical (and current) headwinds, many states and local governments have acted to create their own directed programming targeting these groups. Some of these programs offer operating, equipment and farm purchase loan programs. Illinois, Kentucky, Idaho (mentioned above) offer Beginning farmer loans as well as Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, Pennsylvania, and South Dakota to name a few.

Aggie Bonds are one tool used by several states to finance loan programs, specifically young and beginning farmer programs. According to the Council of Development Finance Agencies there are at least sixteen states that have aggie bond programs that offer loan programs to assist beginning farmers and ranchers with eligible purchases of farmland, equipment, buildings, and livestock. Aggie Bond programs are generally run by the state agriculture department or similar authority that may work with private lenders to administer the loan programs.⁶⁰

As discussed in Section 7 of this report (Equity and Alternative Sources of Capital) some groups and nonprofits seeking to facilitate better access to capital in order to build local food systems have created CDFIs specializing in agriculture. These nonprofits endeavor to fill some of the gaps in nationally funded programs as well as private lending. One of the most well-known examples is the California FarmLink, which funds itself through government contracts, grants, and private foundations to provide comprehensive services to agricultural producers in California, including helping small- and mid-sized farms access capital – particularly organic farmers, beginning farmers, immigrants, women, and farmers of color. This nonprofit is laser focused on their objective of supporting the next generation of farmers and ranchers by being the premier micro-lender in California. With their focus on underserved people and markets, FarmLink became a CDFI in 2013. In order to best serve these borrowers, which are frequently shutout of the credit markets, they offer more flexible credit criteria than traditional lenders and are able to work with borrowers even if they have little or no credit, are in their first few seasons as a farmer, or have smaller loan needs.

⁶⁰Council of Development Finance Agencies
(<https://www.cdfa.net/cdfa/cdfaweb.nsf/0/3515CC91CAB651C1882579360059F5E7>)

Importantly, rather than charging rates considerably higher than conventional lenders like some microlenders and CDFIs, FarmLink offers low-interest USDA FSA guaranteed loans, through the Farm Opportunities Loan Program, to farmers who may not otherwise be immediately bankable by traditional lenders. Types of loans include operating costs, equipment and infrastructure, farmer and farm labor housing, conservation projects, land purchase, lines of credit. Outstanding loans total over \$2 million and range from 1,500 to \$1.4M with the average loan averaging \$37,275.

Although the political climate has become increasingly hostile towards immigrant workers, some groups have come to the conclusion that there are good reasons for supporting immigrant farmers. While many young Americans are choosing occupations other than farming, thus failing to replace the large number of retiring farmers, migrant families can contribute meaningfully to rebuilding the stock of farmers in the US. A few groups in the U.S. work with immigrant families that view farm ownership as not just a good way to make a living but a viable path to self-sufficiency. Some immigrants may have farmed in their home countries or have experience working in the U.S. as a farmworker; for these individuals and families, owning/operating their own farm is a good alternative to enduring some of the most hazardous conditions for workers in the U.S.⁶¹

There are a handful of programs that work with migrant workers. [The New American Farmer Project](#) at the University of Vermont recognizes resettled refugee and immigrant farmers as integral members of the Vermont food system, and seeks to provide access and resources to these families and individuals as a strategy to grow local agriculture production in the state. GrowNYC includes migrant individuals and families in their [FARMroots](#) beginning farmer program. In addition to offering technical assistance and formal classes GrowNYC helps individuals and families start their own farm businesses with farm succession, land transfer, and access to capital.⁶² Formerly known as the Fresno CDFI, Access Plus Capital, got its start working with migrant entrepreneurs located in the heart of California's agricultural industry with

⁶¹ Farm laborer is among those jobs that receive the 3-D designation (Dirty, Dangerous, and Difficult). According to the US Department of Labor farmworkers are at high risk for fatalities and injuries, work-related lung diseases, noise-induced hearing loss, skin diseases, and cancers associated with chemical use and prolonged sun exposure. According to the Bureau of Labor Statistics there were 258 work-related deaths in the agriculture sector in the US in 2017, or 24 per 100,000 workers. This is higher than the national average of 3.5 per 100,000 and more than 2.5x greater than the total number of fatalities for Police and sheriff's patrol officers (95), which has the reputation of being one of the most dangerous occupations in the US labor force. Despite the often hazardous working conditions for many farmworkers, the federal minimum wage is only \$7.25 (undocumented migrant farmworkers are paid less). Migrant workers often end up in farm/ranch laborer jobs because the typical low-wage, American workers will opt for other jobs that are less dirty/dangerous/difficult like working for a fast food restaurant. On a related note, farmers in some states like Arizona, Idaho, and Washington actually use prison inmates as farm labor, paying them a fraction of the federal minimum wage. (Stian Rice, *How Anti-Immigration Policies Are Leading Prisons to Lease Convicts as Field Laborers*. Pacific Standard. June 7, 2019.

⁶² The New American Farmer Project (<https://www.uvm.edu/extension/sustainableagriculture/new-american-farmer-project>); GrowNYC/FARMroots (<https://www.grownyc.org/farmroots/nfd>).

the establishment of the Refugee Microenterprise Program, assisting clients with business plan development, marketing and other business technical assistance. Although the CDFI has since diversified their portfolio into other sectors, at least half of the portfolio is still in farm lending. California FarmLink also works with immigrant farmers as a strategy to build their local food system.

An additional finding of the *CDFI-Farmers Of Color Capital Access National Project* was that capital access programming should be designed to acknowledge and mitigate systemic barriers. In other words, providers of capital “need to meet borrowers where they are in terms of business stage/development and provide tools so that they can advance along the development continuum.” Being such, technical assistance is critical to supporting readiness to borrow. One such tool is Individual Development Accounts. One of the greatest obstacles encountered by Beginning, Young, and Minority farmers is the formation of savings and assets, building credit histories, and developing personal and financial capabilities, which enable them to qualify for agricultural financing. Individual Development Accounts have been effective in helping low-resource families and individuals. Since their inception 40 years ago, IDA’s have been heralded by the nonprofit sector for helping to improve homeownership, business, health care and education outcomes, and to reduce poverty, IDA’s have only been adopted by groups seeking to build local food systems in the last decade.

State agricultural departments and organizations working to build sustainable local food systems have experimented with agricultural IDA’s. California FarmLink published a guide to other groups considering agricultural IDA’s. The guide includes the “nuts and bolts” of starting an agricultural IDA program, including an organizational readiness/self-assessment, fundraising guidance, as well as several templates (IDA participant agreement, financial institution agreements, fundraising documents, etc.). USDA funding for agricultural IDAs is dependent on what US lawmakers manage to negotiate in the Farm Bill. However, there are sources of funding other than USDA monies that make agricultural IDA’s possible.⁶³ States that have experimented with IDA programs include [Michigan](#), [Vermont](#), and California (FarmLink). Prosperity Works has been working to fund IDA’s here in New Mexico with measured success and could be a good resource and/or collaborator for an agriculture-oriented IDA program.⁶⁴

⁶³ Other organizations with experience in agricultural IDA programs include: Center for Rural Affairs (<https://www.cfra.org/>), Land Stewardship Project (<https://landstewardshipproject.org/>), Northwest Michigan Council of Governments (<https://www.networksnorthwest.org/>).

California FarmLink published *A Guide to Developing and Operating an Agricultural Individual Development Account (IDA)*. 2014. (<https://drive.google.com/file/d/1PDUxhTPgO6rZLi6A7XqvrSFI1-Yq7YNa/view>)

⁶⁴ Michigan State University (https://www.canr.msu.edu/resources/emerging_farmers_initiative_and_agriculture_individual_development_accounts); The University of Vermont Youth Agriculture (<https://www.uvm.edu/extension/youth/youth-agriculture-ida>); Prosperity Works (<https://www.prosperityworks.net/>).

Low-resource farmers often need assistance completing applications to access important grant funding. This can come in the form of matching funds for equipment like hoop houses, etc. The AFSC and the Center for Southwest Culture are two local examples of groups that work with producers to access grant funding. Southwest Culture, in particular, strives to provide producers with equipment, and other necessary inputs so as to not be dependent on loans. Some state agriculture and economic development governments help producers to access grant funding. One example is the [Louisiana Agricultural Economic Development Assistance](#) program, which helps to market USDA programs and help producers complete applications. The USDA provides grants to organizations that provide outreach and technical assistance and training to beginning farmers/ranchers.⁶⁵ Appendix 3 of this report includes a list of agricultural grant information and opportunities.

9. Best Practices - Individual Capital Providers

Because medium-sized and larger producers are better able to access conventional financing from established agricultural banks and global banks, this section focuses on effective practices employed by providers of capital that aim to reach small and beginning farmers. Upon review of the literature and data, it is our sense that return-oriented lending and equity models are only one small piece of the puzzle to ensuring that local agricultural producers are adequately capitalized. Rather, there is a whole web of activities needed to ensure that small and beginning producers, many of these low-resource, are adequately equipped to launch and sustain viable farming operations. Much is already being done locally here in New Mexico. This section reviews specific practices for individual providers of agricultural capital, with particular focus on effective agricultural practices employed by lenders with significant agriculture portfolios, as well as those that are just starting out or would like to venture into this market segment. This section also considers practices that act to build the capacity of small and beginning producers by helping them to be able to qualify for conventional financing.

Planning, Self-Assessment, Build and Strengthen Local Agriculture Network/Partnerships, Become a Provider of (or Conduit for) Technical Assistance

There are a handful of practices lenders expanding into agriculture might consider useful as they begin building their capacity. These lenders might start by assessing their strengths, areas of organizational opportunity, and where they might like to augment their capabilities. Questions may consist of organizational commitment, readiness, and market intelligence. The Michigan State University Center for Regional Food Systems (CRFS) developed a checklist to assist with this type of assessment. Questions posed include: what connections does the lender have with agriculture-related technical assistance providers, is there internal operational

⁶⁵ Louisiana (<http://www.ldaf.state.la.us/about/in-the-community/economic-development/>).

and technical capacity that can be allocated to the agricultural lending, what resources are available to develop an agricultural lending program, what is the projected annual interest income from agricultural lending activity, is there commitment among the leadership and pledged funding to grow and support the program? The full CRFS checklist is located at the end of this report under the “Agriculture Lender Tools & Resources” section.

If the firm does not already have an agriculture-focused person on staff, the lender may consider hiring a banker or credit underwriter that has significant agricultural lending experiences. Hiring the right person from the local agricultural community to head-up a nascent agricultural lending program can help to accelerate the development of these activities. Prior to making agriculture-related loans en masse, the lender may decide to form an agriculture credit committee. This committee may consist of individuals from the local agriculture credit community, local USDA officials, local farmers/ranchers, individuals active in the local agriculture community with experience in either lending or production.

Strong local networks and partnerships are critical for a number of reasons. These relationships are critical not just for sourcing purposes but for learning and navigating the landscape. Having relationships and/or formal partnerships with groups and organizations that work directly with producers has a number of benefits. For example, by working with local co-operatives and other groups that support producers, a lender can make recommendations to borrowers seeking to grow their revenues by expanding their distribution. Relationships with NM representatives at the Farm Services Agency (FSA), USDA Rural Development, Natural Resource Conservation Resources (NCRS), the NMSU agricultural extension office, UNM Sustainability Studies Program, the local Small Business Development Corporation (SBDC) will be helpful for directing borrowers to the various entities that can help them to access critical grant funding or pathways that will help them to build and expand their agricultural businesses.

Capital providers to agricultural producers who have had measurable success working with small and beginning farmers are those that are directly connected with efforts to build local food systems. Some of these lenders have adopted full-service approaches to building the capacity of local farmers through technical assistance and by helping them to connect with local food system networks. The types of TA required by small and beginning farmers are both business-related as well as agricultural in nature. This includes business skill development like market analysis, marketing plans, accounting, business plan development, as well as agriculture-related technical assistance. CalCoastal RDC (CCRDC), for example, employs an agronomist. California FarmLink provides estate planning consulting, farm transition planning (including tax and legal related advisement and referrals), as well as farming technical

assistance.⁶⁶ Technical support for lenders engaged with and committed to growing local food systems may also assist with helping applicants to connect with and access other sources of capital that are more appropriately suited to them. For example, California FarmLink helps borrowers apply for direct USDA FSA loans if they are not qualified for one of their loan products; CCRDC provides support to borrowers with accessing crowdfunding like Kiva and Slow Money networks where appropriate.

Agriculture-focused microlenders that do not have robust operational capabilities may elect to work with local lending partners to provide operational support. For example, the California FarmLink partners with a local CDFI credit union to provide lending back office support, including loan documentation, closing, monitoring, disbursement, and collection.

In New Mexico, the [NMSU Agricultural Extension](#) program is one of the key providers of technical assistance to producers. There are representatives assigned to all 33 counties in the state. There also are [Jicarilla](#) and [Tri-State Navajo Nation](#) offices as well as a Tribal Extension office that serves the entire state. There is a broad network of organizations in New Mexico that seek to provide technical assistance and other types of support to farmers. Some of these offer some support around access to capital, either in the form of grant funds, loans, support applying for funding, or referrals to lenders. A few of these organizations even offer their own loan programs. The following are a handful of groups that have been particularly effective in providing technical assistance to agricultural producers as well as capital access/financial support.

In Bernalillo County, the [Grow The Growers \(GTG\)](#) program, offers comprehensive farm training and business acceleration through classroom instruction, internships, and mentoring. They also provide continuing education opportunities as well as lease Bernalillo County Open Space farmland to program participants. GTG does not have its own loan program but rather disseminates information on established agricultural loan programs and makes referrals, including to the FSA and Farm Credit Services.

[Agricultura](#) seeks to provide access to local produce through its cooperative network while also promoting nutrition and economic development. In addition to the coop network services (aggregation, marketing, processing & packaging, delivery, payment collections & distributions), Agricultura also provides technical assistance in the form of group discussions on topics like soil health, business practices, food safety regulations, and pest and weed management. Members are able to access small business loans through the South Valley Economic Development Center.

⁶⁶ Susan Cociarelli, *Financing Farming in the US: Nine Case Studies of Community Development Financial Institution Lending in the Farm Production Sector*. Michigan State University, Center for Regional Food Systems. September, 2013.

The [Center of Southwest Culture \(CSC\)](#) accesses various sources of grant funding, including USDA, to help Native American and Latino/a farmers with startup costs. The CSC also provides program participants with access to equipment, technical assistance, helps to facilitate the matching of agricultural landowners with farmers. They also assist with legal contracts and insurance. Southwest Culture works with farmers in Bernalillo, Valencia, McKinley, and San Miguel counties. CSC operating revenues come from various private and public sources of funding.

The [American Friends Service Committee New Mexico \(AFSC\)](#) provides technical support around farming techniques and market access and builds infrastructure for small organic farmers in New Mexico, including passive solar cold frames, wash stations, and cold storage units. AFSC also administers a farm to school program for the state of New Mexico to link local farmers with area school districts. The AFSC was involved with establishing Co-ops and starting various programming in Bernalillo, Dona Ana, Rio Arriba, and Mora counties. They also make their curriculum and training manuals available online in Spanish and English. Programming is primarily supported by disbursements from the AFSC's endowments. They do not get involved with helping farmers apply/access loans or grants but do help facilitate the pairing of landowners and farmers. Other groups working around the state are the [NM Growers Market Association \(NMFMA\)](#), the [Santa Fe Farmers Market Institute \(SFFMI\)](#), and [La Semilla](#) in Dona Ana County and El Paso.

Develop Agriculture Appropriate Underwriting Practices, Underwriting Tools

Many credit underwriting practices for small business loans are applicable across industrial sector types. For example credit repayment histories/history as a borrower, savings history, existence of a co-signer/guarantor, existence of collateral (auto title, crops or crop assignment, equipment or home title or mortgage).⁶⁷ However, there are a handful of practices that are specific to making loans in the agriculture sector. For example, a lender would likely need to know: does the producer have long-standing relationships with purchasers (including contracts in place with wholesale purchasers, CSAs, etc.), details on land leases, certifications (e.g. organically grown), insurance coverage specifics (food safety, accident, liability, etc.) what is the farmer/rancher's production track record, what are producer(s) sources of off-farm income, what are the producers experience and knowledge. A lender may also seek to assess the character of the applicant with references (personal, neighbor, purchaser/distributor) in order to understand the reputation of the applicant in the industry/community.

The "Agriculture Lender Tools & Resources" section (following the appendices of this report) provides various tools and forms for collecting information useful for making loan decisions and

⁶⁷ Lenders making agriculture microloans emphasize that having a one-to-one asset match is not required but it is important that borrower have skin in the game.

for structuring loans, including the following: “Production Agriculture Loan Risk Mitigation Checklist”, “Agricultural Cash Flow Statement Template”, “Agricultural Balance Sheet Template”, “Appraisal of Chattel Property Work Sheet.” These tools are useful for the initial assessment but also the ongoing monitoring of agricultural loans. For example, NM Credit employs Chattel Appraisers to visit farming/ranching operations to verify and assess the age/life of equipment used for collateral as well as to verify the crops/livestock detailed in loan applications. Other types of tools might involve helping low-resource (beginning, young, socially disadvantaged) farmers with loan readiness (e.g. developing and documenting their financial history). The Shreveport Credit Union developed a form that helps farmers maintain a record of daily sales, estimates cost of production and income, and projects cash flow. This tool helps producers who transact largely in cash to be able to document and track their sales and expenses.

FSA forms and worksheets can be helpful resources for lenders considering entering the agricultural market to better understand the types of information that are pertinent when underwriting these types of loans. These applications and forms are publicly available online. We have also included select information at the end of this report after the appendices in the section entitled “Farm Services Agency Resources.”

Offer Competitive Rates and Agriculture Appropriate Loan Terms

A critical component to making loans to small producers is offering interest rates and repayment schedules that are competitive, fair and suitable in order to ensure repayment. Lenders specializing in agricultural loans may employ a variety of methods for setting rates as well as determining repayment schedules. Because many small farmers may not generate any/significant positive cash flows outside of the main harvest season, thus cash can be tight except for a few months out of the year when they are harvesting and selling their crops. As a result, many lenders will link repayment to when a producer is generating positive cash flows. Some offer monthly interest only payments with principal + interest payments occurring during the peak months. Still, others require even payments occurring monthly or quarterly. Some of these deal terms are depicted in Figure 25 for lenders specializing in agriculture.

Figure 25. Interest Rates, Fees, & Repayment Schedules Offered by Agricultural CDFIs/Microlenders

<i>Lender</i>	<i>Repayment Schedule</i>	<i>Indicative Rate</i>	<i>Fees</i>
CalCoastal RDC*	Principal repayment inked to seasonal CFs, otherwise interest only.	8.72%	3.35%***
Craft3	Linked to seasonal CFs.	7-12%	1-2%***
California FarmLink	Linked to seasonal CFs.	7%	1-2%
UCEDC**	Equal monthly payments.	3.5-8.5%	

*Rates tied to national indices (e.g. Farmer Mac Cost of Funds Index +5%)

**Rates dependent on size of loan, age of business, owner's expenses, financial performance.

***Plus closing costs.

Sources:

<https://www.farmermac2.com/historical-cost-of-funds-index-cofi-net-yields/>

<https://www.craft3.org/Borrow/foodag>

<https://www.californiafarmlink.org/loans/loan-types-and-terms/>

<https://ucedc.com/loans/loan-products/>

The durations of loans vary depending on the nature of the loan, with the operating capital loans often lasting only a year, equipment loans up to 7 years, and land loans being amortized over several decades. One CDFI specializing in loans to agricultural producers, FORGE Community Loan Fund, seeks to keep payments low with long amortization periods. Agriculture equipment companies typically allow for annual payments, John Deere for example. Some lenders may need to be flexible, restructuring loan repayment from time to time. For example, one lender we spoke to will sometimes accept future deliveries of produce as payment towards loan interest and principal.

Become a Loan Intermediary for Federal and State-backed Agricultural Finance Programs

Qualified loan intermediaries (e.g. the FSA or USDA Rural Development) are able to offer the most attractive rates to producers. From the lender's perspective, these are low risk given that the federal government can guarantee loan losses up to 90-95%. From the borrower perspective, the interest rates on these loans are among the lowest with the FSA typically offering below market interest rates. California Coastal is a rural development corporation (CCRDC) that is qualified to make guaranteed direct loans through the USDA FSA, the North American Development Bank (NADB) and the Small Business Administration (SBA). CCRDC and California FarmLink also offer authorized intermediary relending programs for USDA Rural Development loans (e.g. Microenterprise Assistance Program).

Relationship Lending

Many lenders making loans to small producers do not rely on credit scores alone or give them too much weight. Some will utilize credit reports to differentiate borrowers with bad credit from those with no or limited credit histories, however, lenders working in this sector may give a

greater weight to relationships when underwriting loans to small agricultural producers. For example CCRDC consults with farm's vendors to assess past performance in paying balances owed and to understand how long a farmer has been with a vendor (going from vendor to vendor is generally not a good sign due to non- or late-payment). Interpreting borrowers' financial histories is also nuanced. For example, late payments due to family illness or injury can be explained as a patch of bad luck compared to financial underperformance related to poor operating results.

Coop Capital (Nusenda) is a good local New Mexico example of relationship lending. Coop works with a number of nonprofits: Two food-related groups are Three Sisters Kitchen and Street Food Institute (SFI). Coop allows these groups to source and process these loans while Nusenda is responsible for the servicing and back-office aspects of the loan origination and oversight. This model is innovative in that these groups bank with Nusenda and their checking and savings deposits are used to guarantee the loans. The capital of these nonprofits are first at risk, followed by Coop and investor capital. These rates are quite low at 5-6%. Credit reports are reviewed but credit decisions do not hinge on borrower credit histories or lack thereof. Rather, Coop depends on the relationships that their partners have with borrowers both in the underwriting as well as the ongoing oversight of these loans for repayment. Applicants must be active participants in the partners' programs. For example, SFI participants take culinary and food safety courses in addition to receiving small business technical support.

10. Recommendations

Policy Recommendations:

- Consider pursuing a state-backed agricultural finance department. Many states run these programs in connection with their agriculture departments or state finance authorities. This may involve capitalizing loan funds that target small, beginning, and socially disadvantaged producers. Operating, equipment, land loans, state guaranteed loans, and FSA guaranteed loans might all be part of the offerings. Possible sources of funding could involve aggie bonds or federal/state tax exempt bonds issued by the state. The state agricultural finance department might work with the NM Department of Agriculture and the NM Finance Authority on structuring these deals and issuing the bonds. In lieu of creating an agricultural finance program from the ground up, consider working with/funding state entities that already have loan origination and underwriting competencies to begin making agriculture-oriented loans. This may involve the cultivation of a team of agriculture credit specialists embedded with one of these entities (e.g. NM Finance Authority, NM Mortgage Finance Authority, or a third-party nonprofit/private lender). The group could eventually spin-off as a free-standing organization or department within NMDA, for example.
- Encourage and support existing lenders to become qualified FSA loan intermediaries. Once lenders become intermediaries, they can offer low interest rates, which is critical to growing future producers who are often low-resource and small, beginning, young, socially disadvantaged.
- Provide more assistance in applying and qualifying for grants. This can occur through nonprofits and governmental entities. The USDA provides grant funding for this type of work.
- Provide more assistance for small, beginning, young, and socially disadvantaged farmers in accessing and qualifying for FSA loans; this involves loan readiness (e.g. equity building). There are USDA and private grants that exist and could be leveraged to support these activities.
- Work with local agriculture groups to secure federal funding to provide more technical assistance to producers.
- Seek more state and municipal funding to support programs that grow the local food system, specifically young, beginning, and socially disadvantaged farmers/ranchers. The Bernalillo County Grow The Growers program is a good example of dedicated funding raised through property taxes.

- Consider seeking private foundation or public funds to create an agricultural Individual Development Account program for young, beginning, and socially disadvantaged farmers.
- Work with local economic development groups and governmental entities to include local agriculture as an economic development issue, not just an agricultural issue.
- Evaluate the merits and consider supporting the formation of a full-service, local CDFI that is primarily focused on agriculture (e.g. California FarmLink).
- Explore possible state partners for raising funds to capitalize agricultural loan funds: NM Finance Authority, NM Small Business Investment Corporation, the State Investment Council via the economically targeted investment fund (Severance Tax Permanent Fund).
- Provide direct support and funding to Native American agricultural producers and organizations. Possible funding sources for such activities might come from the state, private foundations, federal grants, or the Keepseagle (settlement) Trust Fund
- Explore the benefits of launching a Community Development Corporation or other community development/economic development structures focused specifically on agriculture/food system development.
- Consider forming a Slow Money chapter in New Mexico. This would involve attracting local investors to capitalize the fund and volunteers to serve on the credit committee and organizational oversight committees, as well as networking with the national organization.
- Consider providing support to help NM producers interested in listing on equity-oriented crowdfunding platforms like wefunder.com, localstake.com, Barnraiser, etc. to gain experience and assess the suitability of these funding sources. This may involve compiling resources that will assist NM producers in launching their own campaign and making this information publicly available online. Explore possible grant funding to support such efforts.
- Deepen national networks, learning best practices from peers in neighboring states (e.g. the Financing Farming in the U.S. initiative and the CDFI-FOC Capital Access National Project). Participate with national collaborative learning communities specifically on access to capital (MSU Center for Regional Food Systems, IDA programs, Farmers of Color learning groups). If not already affiliated, consider becoming an active member

with national associations like the National Council of State Agricultural Finance Programs (NCOSAFP).

- Provide indirect supports and incentives to young, beginning, and socially disadvantaged farmers, such as student loan forgiveness. Senator Tom Udall co-sponsored a bill in 2018 that sought to provide relief to young/beginning producers. This bill did not pass but has been re-introduced by Senator Murphy (D-CT). States can also create and fund their own programs. The state of [New York](#) has such a program. New York's program forgives up to \$10,000 per year for qualified loans with a maximum of \$50,000. The [National Young Farmers Coalition](#) advocates on this issue and provides resources to farmers and policy makers alike. These types of programs places a career in agriculture within reach for many low-income, young, beginning, and socially disadvantaged farmers.
- Help to ensure that young, beginning, and socially disadvantaged farmers are able to access low-cost health care through the Affordable Care Act or the state Medicaid program. Young farmers rank health care as the most helpful policy. The U.S. Department of Labor consistently ranks farming as one of the most dangerous occupations in the country. According to the current [National Young Farmers Survey](#), without affordable health care options, many farmers forego insurance, risking financial ruin and straining the labor needs of startup farm businesses.⁶⁸ New Mexico was among the 19 states that expanded Medicaid service, however, many farmers may not know where to go for support or guidance on applying/qualifying for these benefits. Policy makers should assess how to best ensure that agricultural producers are able to access affordable health care insurance. Initiatives like these helps to bolster the financial viability of local farmers and ranchers.
- Consider commissioning an in-depth study researching and assessing the needs of young, beginning, socially disadvantaged farmers/ranchers in New Mexico.

⁶⁸ National Young Farmers Coalition. *Results and Recommendations From the National Young Farmer Survey*. November 2017. (<https://www.youngfarmers.org/wp-content/uploads/2018/02/NYFC-Report-2017.pdf>)

Recommendations for Existing Lenders Seeking to Venture into Agricultural Loans:

- Consider completing a self-assessment to understand the organizational resources available, competencies, and commitment to making agricultural loans.
- Hire experienced agricultural loan officer/credit underwriter staff that can also serve as the agricultural loan program manager. In addition to leading the group internally, this person might also be responsible for community outreach.
- Deepen local agriculture networks. This can involve serving on agriculture-related loan and grant committees to gain familiarity with established and grassroots agricultural endeavors. These networks are critical to supporting beginning, young, socially disadvantaged, low-resource farmers.
- Assess commitment to providing technical assistance to local agricultural producers/borrowers. If the TA is not provided in-house, local food system networks will be critical for making effective referrals.
- Develop tools and underwriting practices to support agriculture-specific lending activities (the following appendices include various forms and tools that could be adapted and utilized).
- Consider forming an advisory committee that includes production farmers and other individuals involved with the local agriculture community.
- Consider forming an agricultural credit committee specifically charged with reviewing agricultural requests for loans. Members of the committee might include NMDA staff and/or local USDA representatives.
- Become an approved USDA Intermediary Relending Program. This will enable lenders to offer loans at lower interest rates, which is critical to supporting low-resource, small, beginning, young, socially disadvantaged producers.⁶⁹

⁶⁹ USDA Rural Development (<https://www.rd.usda.gov/programs-services/intermediary-relending-program>).

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Appendix 1. NM Agricultural Lender Profiles⁷⁰

[NM Farm Credit](#)

NM Farm Credit is part of the Farm Credit Services network, which is a Government Supported Enterprise (GSE) that is cooperatively owned and funded by the sale of bonds in the financial markets. FCS was created in 1916 by Congress with the mandate of serving agriculture-related borrowers; Congress initially funded and created the regulatory framework, however, the Coop is now self-supporting and profitable. NM Farm Credit makes loans to creditworthy farmers. With an outstanding loan portfolio of \$1.6 billion (2017) they estimate they will make \$300-400 million in new loans. This lender has 5 branches, 32 loan officers, full-time appraisers, and a risk team.

[Ag New Mexico Farm Credit](#)

Ag New Mexico Farm Credit is a rural lending cooperative that provides loans to farmers, ranchers, and people in the rural parts of the state. The bank was chartered in 1934 to make production loans throughout the state at a time when ag producers did not have a reliable source of short-term credit. Became a full-service lender in 2001 as an Agricultural Credit Association, and extended lending to include mortgage loans. Outstanding loans totaled \$220,353,000 in 2017. Loan products range from variable, fixed, adjustable, LIBOR-based and prime-based interest rates; in addition to operating and land loans, the cooperative also makes mortgage loans.

[USDA Rural Development](#)

The USDA Rural Development (RD) seeks to help improve the economy and quality of life in rural America by promoting economic development efforts and by supporting loans to businesses through banks, credit unions and community-managed lending pools. RD offers loans, grants and loan guarantees to support essential services such as housing, economic development, health care, first responder services and equipment, and water, electric and communications infrastructure. RD offers technical assistance and information to help agricultural producers and cooperatives get started and improve the effectiveness of their operations. RD provides technical assistance to help communities undertake community empowerment programs. RD also helps rural residents buy or rent safe, affordable housing and make health and safety repairs to their homes. RD's loan portfolio totals \$216 billion and targets \$38 billion in loans, loan guarantees and grants through its programs in a given fiscal year.

⁷⁰ Rabobank and Eastern Equitable Insurance Co. have also come up in conversations, however, data on their lending activities are not available. These two institutions do not report their portfolio by state but nationally.

[FNB – New Mexico](#)

FNM-NM was originally established under the name of The First National Bank in Clayton in 1964. In 1996 the bank changed its name to The First National Bank of New Mexico as it prepared to open new branches in other parts of the state. In 2015, the bank changed the name again to FNB-New Mexico. FNB-New Mexico has experienced significant growth, opening branch locations in Angel Fire, Clayton, Logan, Raton, Santa Rosa, Tucumcari, Dalhart (TX), Albuquerque (Loan Production Office). The bank is a wholly owned subsidiary of Union Bancshares Inc.

[The Citizens Bank of Clovis](#)

Citizens Bank of Clovis operates as a subsidiary of CBC Inc. Incorporated on January 7, 1916, with capital stock of \$25,000, The Citizens Bank of Clovis has become one of the largest independent financial institutions in East-Central New Mexico with over \$350,000,000 assets and capital in excess of \$38,000,000. Kent Carruthers has served as the president of the bank since 1986. The Bank specializes in serving farmers engaged in producing wheat, milo, corn, cattle, and dairy and offers Trust department. The bank has full service branches in Clovis, Fort Sumner and Texico (including drive-up tellers and ATM locations), as well as a Loan Production Office in Ruidoso.

[First American Bank](#)

FAB is an independent community bank providing business and personal banking products and services. In addition to making agricultural and oil & gas loans the bank also offers a suite of other services, including: treasury management, merchant services, employee benefit plans, small business administration loans. The bank was founded in 1903 in Artesia as The First National Bank and changed its name in 2009. Branch locations in Alamogordo, Albuquerque, Artesia, Bayard, Carlsbad, Chaparral, Hobbs, Hurley, Las Cruces, Lovington, Rio Rancho, Roswell, Ruidoso, Silver City, Rio Rico (AZ). First American Bank operates as a subsidiary of First Artesia Bancshares, Inc. The 2017 financial statements lists total assets of \$1,072,280,857 with \$644,315,007 in loans.

[Nusenda Credit Union](#)

Nusenda offers personal and business financial services to its members. The company offers checking, savings, money market, and individual retirement accounts; share certificates; signature and personal, auto, and commercial loans; home equity loans and lines of credit options; mortgages; and credit cards. It also provides mobile and Internet banking, cash management, and investment services. Formerly known as New Mexico Educators Federal Credit Union, the FCU changed its name to Nusenda Credit Union in February 2015. The company was founded in 1935 and is based in Albuquerque, New Mexico. CU assets were \$2,059,444,727 by year-end 2017. The CU has locations in Santa Fe, Socorro, Taos, Los Lunas, and 16 branches in the Albuquerque Metro Area.

Local Microloan Offerings

[Co-Op Capital \(Nusenda\)](#)

Partners include: SVEDC, Three Sisters, Partnership for Community Action, Street Food Institute, Family Independence Initiative.

[La Montanita Capital \(LAM Fund\)](#)

The La Montanita Fund (LAM Fund) was launched in 2010 to make small loans to local farmers and producers and is collateralized directly by Co-op members (purchasing shares in the fund) as well as the Co-op. Applicants must be active vendors with the Co-op. The application fee is \$25, the interest rate is 5%, and the standard term is 1-3 years. Applicants also pay a 5% application fee (e.g. the fee on a \$1,000 loan would be \$50). The finance committee, composed of Co-op board members, reviews applications and makes decisions to approve. The Fund has the capacity to originate up to \$200,000 in loans. Based on conversations with Co-op staff the average processing time is 60 days; there were three outstanding loans as of the fall 2018.

[NM Farmers Market Association \(NMFMA\) - Sandia Area CU](#)

NMFMA partners with the Permaculture Guild and Sandia Area Federal Credit Union to provide loans to members of the NMFMA (1 year minimum membership) ranging from \$500-\$3,000 for terms of 40 months. The interest rate offered as of May 2019 was 6%. [Loan guidelines](#) are available on the NMFMA website. No collateral is required and there is no application fee.

[Santa Fe Farmers Institute \(SFFI\) - Guadalupe CU](#)

SFFI makes loans to cover operating expenses, improve farming infrastructure, extend the growing season with hoop houses, etc. Any current vendor at the SF Farmers' Market is eligible to apply for a loan ranging from \$250-\$5,000. Loans up to \$10,000 are considered on a case-by-case basis. The interest rate offered is 6% with 3% used to cover administrative costs and 3% recycled back into the loan fund. The Institute partnered with Guadalupe Credit Union in 2017 to oversee the underwriting and management of the loans portfolio. The institute loaned \$28,776 in funds and has made 187 loans totaling \$688,690 since the inception of the program in 2008. The Institute also offers financial literacy courses.

[Whole Foods Local Producer Loan Program](#)

Whole Foods makes loans to local growers with an existing vendor relationship in targeted loan amounts between \$10,000 and \$100,000 who meet Whole Foods Market's [Quality Standards](#) and standards for animal welfare. Qualifying loans are for expansion and capital expenditures (e.g., buy more animals, invest in new equipment and infrastructure, or expand crops), not operating expenses. Applicants must have a viable business plan, collateral, and

adequate cash flow to service debt. Monthly payments required. Loan amounts not to exceed 80% of total project costs.

Appendix 2. State, Municipal, Private and Nonprofit Agricultural Finance Initiatives

California Coastal Rural Development Corp

<https://www.calcoastal.org/>

Georgia Development Authority

<https://www.gdaonline.com/>

Colorado Agricultural Development Authority

<https://cadafarmloan.com/>

Idaho State Department of Agriculture

<https://agri.idaho.gov/main/marketing/financial-assistance/>

Illinois Finance Authority

<https://www.il-fa.com/programs/agriculture>

Iowa Agricultural Development Authority

<http://www.iowafinanceauthority.gov/IADD>

Kansas Development Finance Authority

<https://www.kdfa.org/BeginningFarmer>

Kentucky Agricultural Finance Corporation

<https://agpolicy.ky.gov/finance/Pages/default.aspx>

Louisiana Agricultural Finance Authority

<http://www.ldaf.state.la.us/about/in-the-community/economic-development/>

Maryland Agricultural and Resource-Based Industry Development Corp

https://www.marbidco.org/pages/programs_loans/loan_programs.htm

Minnesota Rural Finance Authority

<https://www.mda.state.mn.us/financebudget/agfinance>

Missouri Agricultural & Small Business Development Authority

<https://agriculture.mo.gov/abd/financial/>

Montana Department of Agriculture

<https://agr.mt.gov/Topics/Grants>

Great Falls Montana Development Authority

<https://growgreatfallsmontana.org/>

Nebraska Investment Finance Authority

<https://www.nifa.org/farmer>

The Bank of North Dakota

<https://bnd.nd.gov/>

Chester County Economic Development Council

<https://ccedcpa.com/services/agriculture-economic-development/>

Oklahoma Department of Agriculture

<https://www.oda.state.ok.us/mktdev/loans.htm>

Pennsylvania Department of Agriculture

<http://www.pagrows.pa.gov/loans.aspx>

South Dakota Department of Agriculture

<https://sdda.sd.gov/ag-development/financial-assistance-programs/>

Utah Department of Agriculture and Food

<http://www.ag.utah.gov/markets-finance/agriculture-loans.html>

Vermont Agricultural Credit Corporation

<https://www.veda.org/financing-options/vermont-agricultural-financing/vermont-agricultural-credit-corporation/>

Wisconsin Housing and Economic Development Authority

<https://www.wheda.com/Business-Lending/Financing-Products/>

Beginning, Young, Socially Disadvantaged Farmer Initiatives

Pennsylvania Next Generation Farmer Program

<https://dced.pa.gov/programs/next-generation-farmer-loan-program/>

Iowa Finance Authority Beginning Farmer Loan Program

<http://www.iowafinanceauthority.gov/Public/Pages/PC202LN48>

Natural Capital Investment Fund

<https://www.ncifund.org/what-we-do/strategic-initiatives/farmers-of-color>

The New American Farmer Project

<https://www.uvm.edu/extension/sustainableagriculture/new-american-farmer-project>

GrowNYC/FARMroots

<https://www.grownyc.org/farmroots/nfd>

Kansas

<https://www.kdfa.org/BeginningFarmer>

Minnesota

<https://www.mda.state.mn.us/financebudget/agfinance>

Missouri

<https://agriculture.mo.gov/abd/financial/>

Montana

<https://agr.mt.gov/Topics/Grants>

Nebraska

<https://www.nifa.org/farmer>

Pennsylvania

<http://www.pagrows.pa.gov/loans.aspx>

South Dakota

<https://sdda.sd.gov/ag-development/beginning-farmers-ranchers/>

Idaho

<https://agri.idaho.gov/main/marketing/financial-assistance/>

Illinois

<https://www.il-fa.com/programs/agriculture>

Kentucky

<https://agpolicy.ky.gov/finance/Pages/loan-programs.aspx>

California Coastal Rural Development Corporation

<https://www.calcoastal.org/>

Forge Inc

<https://www.forgefund.org/>

Access Capital

<https://www.accesspluscapital.com/>

UCEDC

<https://ucedc.com/>

California FarmLink

<https://www.californiafarmlink.org/>

Appendix 3. Agricultural Grant Programs and Other Incentives

USDA Rural Development

The USDA Rural Development offers various grants and loans for small businesses and communities. Some of the activities the USDARD funds are technical support (business plan development, feasibility studies, etc.) for microentrepreneurs and the assistance forming and capitalizing revolving loan funds. The following are a sample of these grant programs below:

Socially-Disadvantaged Groups Grant

Objective is to provide technical assistance to socially disadvantaged groups through cooperatives and Cooperative Development Centers. Maximum grant size is \$175,000. Grants must be used to provide technical assistance to SDA groups in rural areas. Examples of technical assistance include: feasibility studies, business plans, strategic planning. Maximum grant size is \$175,000. The total funding for this program is \$3,000,000.

Rural Microentrepreneur Assistance Program

Provides loans and grants to Microenterprise Development Organizations (MDOs). MDOs provide training and technical assistance to microloan borrowers and micro entrepreneurs. Provide microloans to help microenterprises startup and grow through a Rural Microloan Revolving Fund. Organizations eligible to be an MDO are nonprofits, federally recognized Tribes, Institutions of higher education.

Rural Business Development Grants

Grants intended to support targeted technical assistance, training and other activities leading to the development or expansion of small and emerging private businesses in rural areas which will employ 50 or fewer new employees and less than \$1 million in gross revenue. Eligible applicants include: towns, communities, state agencies, authorities, nonprofits,

institutions of higher education, federally recognized tribes, rural cooperatives. Grants range from \$10,000 to \$500,000.

Water & Waste Disposal Loan & Grant Program

<https://www.rd.usda.gov/programs-services/water-waste-disposal-loan-grant-program/nm>

Rural Energy for America Program Renewable Energy & Energy Efficiency

https://www.rd.usda.gov/files/RD_FactSheet_RBS_REAP_RE_EE.pdf

Community Facilities Direct Loan & Grant Program

<https://www.rd.usda.gov/programs-services/community-facilities-direct-loan-grant-program/nm>

Renewable Energy Systems & Energy Efficiency Improvement Loans & Grants

<https://www.rd.usda.gov/programs-services/rural-energy-america-program-renewable-energy-systems-energy-efficiency/nm>

Rural Business Investment Program

<https://www.rd.usda.gov/programs-services/rural-business-investment-program/>

Value Added Producer Grants (VAPG)

<https://www.rd.usda.gov/programs-services/value-added-producer-grants/nm>

USDA Grants

The following are the USDA's main offerings for farm and ranch operators and organizations working in connection with agricultural producers.

[Beginning Farmer and Rancher Development Program \(BFRDP\)](#)

Provides grants to organizations that train, educate, and provide outreach and technical assistance to new and beginning farmers on production, marketing, business management, legal strategies and other topics critical to running a successful operation.

[Farmers Market and Local Food Promotion Program](#)

Previously known as the Farmers Market Promotion Program the FMPP supports development and marketing activities for farmers markets, food hubs, roadside stands, agri-tourism activities and other producer to consumer markets. This support can help small and mid-sized farmers access markets.

Rural Cooperative Development Grant Program (RCDG)

The RCDG supports Rural Cooperative Development Centers, which in turn, provide technical assistance to individuals and entities improving the economic condition of rural areas by supporting startup, expansion or operational improvement of rural cooperatives and other business entities.

Certification for Small and Very Small Producers of grass-fed beef

This program is administered by USDA's Agricultural Marketing Service (AMS), is tailored to meet the needs of small scale livestock producers and the growing grass fed beef industry. It allows small and very small scale producers to certify that their animals meet the requirements of the grass fed marketing claim standard, helping them differentiate themselves and communicate value to their customers. As part of USDA-wide efforts to create more opportunities for small scale livestock producers, AMS is targeting producers that market 49 cattle or less each year by designing a less costly application process for these producers to use the USDA Certified Grass-Fed claim.

Value Added Producer Grants

VAPG program funds can help farmers and ranchers develop new products, create and expand marketing opportunities, and increasing producer income. Priority is available for small and mid-sized family farms, beginning and socially disadvantaged farmers, and veterans.

Federal-State Marketing Improvement Program (FSMIP)

<https://www.ams.usda.gov/services/grants/fsmip>

Foreign Market Development Program (FMD)

<https://www.fas.usda.gov/programs/foreign-market-development-program-fmd>

Emerging Markets Program (EMP)

<https://www.fas.usda.gov/programs/emerging-markets-program-emp>

Market Access Program (MAP)

<https://www.fas.usda.gov/programs/market-access-program-map>

Specialty Crop Research Initiative (SCRI)

<https://nifa.usda.gov/funding-opportunity/specialty-crop-research-initiative-scri>

Organic Agriculture Research and Extension Initiative (OREI)

<https://nifa.usda.gov/funding-opportunity/organic-agriculture-research-and-extension-initiative>

Farmers Advocating for Organic (FAFO)

<https://www.instrumentl.com/grants/farmers-advocating-for-organics-fund-grant>

Technical Assistance for Specialty Crops (TASC)

<https://www.fas.usda.gov/programs/technical-assistance-specialty-crops-tasc>

Risk Management Education Program (RME)

<http://sustainableagriculture.net/publications/grassrootsguide/credit-crop-insurance/risk-management-education-program/>

National Organic Certification Cost Share Program (NOCCSP)

<https://www.fsa.usda.gov/programs-and-services/occsp/index>

Quality Samples Program (QSP)

<https://www.fas.usda.gov/programs/quality-samples-program-qsp>

Specialty Crop Block Grant Program

<https://www.ams.usda.gov/services/grants/scbgp>

Natural Resources Conservation Services

Conservation Stewardship Program

<https://www.nrcs.usda.gov/wps/portal/nrcs/detail/national/programs/farmbill/?cid=stelprdb1242683>

Environmental Quality Incentives Program

<https://www.nrcs.usda.gov/wps/portal/nrcs/main/national/programs/financial/eqip/>

Technical Service Providers

<https://www.nrcs.usda.gov/wps/portal/nrcs/detail/national/programs/technical/tsp/?cid=stelprdb1042981>

Grant Clearinghouses and Other Grant Programs

The [National Institute of Food and Agriculture Funding Database](#) is a searchable database for research in agriculture.

The [Sustainable Agriculture Research & Education \(SARE\)](#) receives funding from the USDA and strives to provide decentralized competitive grants and education programs. A list of [NM recipients](#) is available online.

Community Food Projects Competitive Grants Program

<https://nifa.usda.gov/program/community-food-projects-competitive-grant-program-cfpcgp>

Benefits.gov

<https://www.benefits.gov/>

ATTRA Sustainable Agriculture

<https://attra.ncat.org/funding/>

USA.gov

<https://www.usa.gov/>

Catalog of Federal Domestic Assistance (CFDA)

<https://beta.sam.gov/search?index=cfda>

Forest Products Marketing Unit (FPMU)

<https://www.fpl.fs.fed.us/research/units/fpmu/index.shtml>

Western Sustainable Agriculture Research and Education

<https://www.westernsare.org/Grants/Types-of-Grants>

https://wsaregrants.usu.edu/grants/docs/CFP_PRE.pdf

Foundation Center

<http://foundationcenter.org/>

Western US Agricultural Trade Association

<https://www.wusata.org/>

Appendix 4. Additional Agricultural Finance and Food System Resources

Akiptan

<https://www.akiptan.org>

ATTRA Sustainable Agriculture

<https://attra.ncat.org/funding/>

Michigan State University Center for Regional Food Systems
<https://www.canr.msu.edu/foodsystems/>

W.K. Kellogg Foundation's Food and Community Initiative

California FarmLink
<https://www.californiafarmlink.org/>

National Sustainable Agriculture Coalition
<http://sustainableagriculture.net/>

Community Alliance with Family Farmers
<https://www.caff.org/>

Kitchen Table Advisors
<http://www.kitchentableadvisors.org/>

Land Trust Alliance
<https://www.landtrustalliance.org/>

Mandela Partners
<https://www.mandelapartners.org/>

Natural Capital Investment Fund
<https://www.ncifund.org/>

National Young Farmers Coalition
<https://www.youngfarmers.org/>

North Coast Opportunities
<https://www.ncoinc.org/>

Northern California Community Loan Fund
<https://communityvisionca.org/>

Soil Born Farms Urban Agriculture & Education Project
<https://soilborn.org/>

Practical Farmers of America
<http://sustainableagriculture.net/>

National Council of State Agricultural Finance Programs

<https://www.stateagfinance.org/>

New England Small Farms Institute and the Farm School

<https://www.smallfarm.org/index.php>

University of Vermont Center for Sustainable Agriculture

<https://www.uvm.edu/extension/sustainableagriculture>

Viva Farms and Cascade Harvest Coalition

<https://vivafarms.org/>

Self-Help Food System Loans

<https://www.self-help.org/business/loans/all-business-loans/foodsystemloans>

Healthy Food Financing Initiative – Reinvestment Fund

<https://www.reinvestment.com/initiatives/hffi/>

Michigan Good Food Fund

<http://migoodfoodfund.org/>

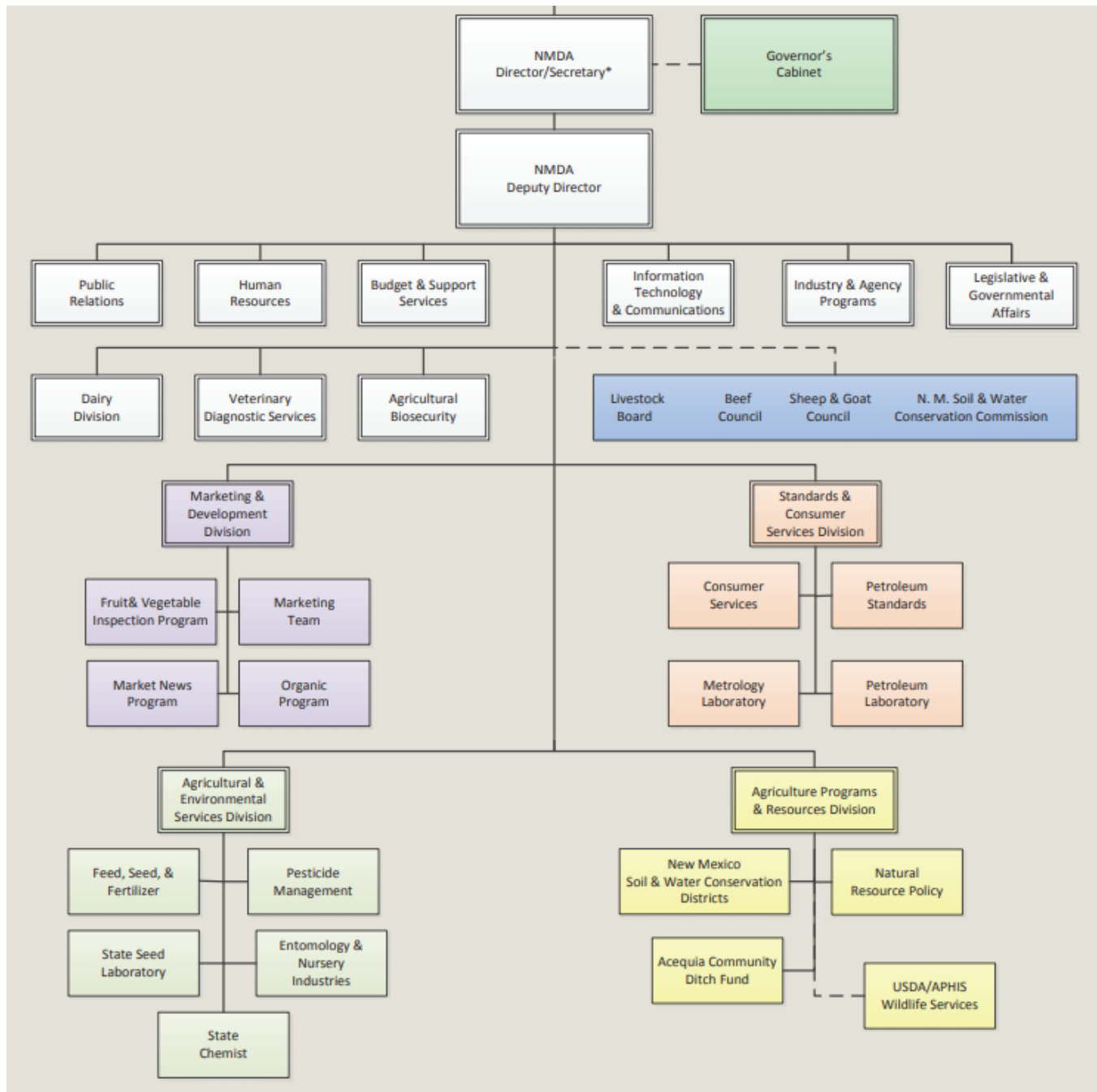
CDFA Food Systems Finance Center

<https://www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/foodsystems.html>

Rural Community Assistance Corporation

<https://www.rcac.org/impact/annual-report/>

Appendix 5. NM Department of Agriculture Org Chart



AGRICULTURAL LENDER TOOLS & RESOURCES

CDFI Self-Assessment Tool: Small/Medium Scale Agriculture Sector Lending
(Taken from the Financing Healthy Food Options: Implementation Handbook)

I. Mission

Is an agricultural lending program in alignment with CDFI's core mission?	☐ Yes	☐ No
Has the CDFI designated the agriculture (ag) sector as a strategic priority?	☐ Yes	☐ No

II. Market Analysis – The Landscape

Is there demand from the market/sector to engage in agricultural lending?	☐ Yes	☐ No
Is there competition from other lenders/financial institutions in the sector?	☐ Yes	☐ No
Is there competition from other lenders/financial institutions for funding for the ag lending program?	☐ Yes	☐ No
What is the size of the borrower market?		
What is the risk profile of the average borrower?		
Does the CDFI have connections with TA, business development services (BDS) and other resources in the ag sector?	☐ Yes	☐ No
What is the political environment?*		

III. Capacity

Does the CDFI have internal resources to do market outreach and data collection to develop ag lending program?	☐ Yes	☐ No
Does the CDFI have internal operational capacity to manage an ag lending program?	☐ Yes	☐ No
Does the CDFI have internal lending staff resources to develop an ag lending program?	☐ Yes	☐ No
Does CDFI have agricultural underwriting/lending experience?	☐ Yes	☐ No
Is the CDFI willing to develop ag lending capacity--through training, hiring staff, etc?	☐ Yes	☐ No
Does the CDFI have a staff champion for the ag sector?	☐ Yes	☐ No
Does the CDFI currently have staff with industry knowledge of the ag sector?	☐ Yes	☐ No

Will the CDFI need to raise funds for ag lending program?	☐ Yes, to support lending staff	☐ Yes, to capitalize loan fund	☐ No
---	--	---	-----------------------------

Would the CDFI consider developing an ag TA program in house?	☐ Yes	☐ No
---	------------------------------	-----------------------------

CDFI Self-Assessment Tool, continued

IV. Financial Analysis

What is the risk tolerance of the CDFI in ag lending?	☐ High	☐ Medium	☐ Low
Does the CDFI have financial resources to develop an ag lending program?	☐ Yes	☐ No	
Does the CDFI have internal loan capital for an ag lending program?	☐ Yes	☐ No	
Does the CDFI have internal loan loss reserves for an ag lending program?	☐ Yes	☐ No	
Potential sources of ag lending funds.	☐ Federal	☐ State	☐ Financial Institution
	☐ Foundation/Donor	☐ Other	
Annual projected interest income from ag lending activity?	☐ High	☐ Medium	☐ Low
What is the organizational risk?	☐ High	☐ Medium	☐ Low
Are their costs associated with source of ag lending funds?	☐ Yes	☐ No	
Is the CDFI able/willing to do multiple deal structures in this sector (e.g. sub-debt, othe partnerships, direct, pari passu)?	☐ Yes	☐ No	
Can the CDFI provide flexible repayment schedules based on borrower cash flow?	☐ Yes	☐ No	

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				
Sock (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

Source: Modified form Michigan State University, Center for Regional Food System.

Agricultural Cash Flow Statement Template

You may use your own cash flow statement or this one provided by IFA.

Agricultural Cash Flow Statement					
					
Name(s) _____		For Year _____			
Part I - Cash Inflows					
Crop Revenues		Livestock Revenues		Other Revenues	
Cor		Cattle & Calves		Nonfarm income #1	
Soybeans		Swine		Nonfarm income #2	
Wheat		Dairy Products		Ag. Program Payments	
Hay & Straw		Poultry		Custom Work	
Other Crops		Breeding Livestock		Sales of Capital Items	
		Other Livestock		Other	
Subtotals	\$ -		\$ -		\$ -
Total Cash Inflows				\$ -	
Part II - Cash Outflows					
Production Expenses					
Car and truck expenses		Rents & leases			
Chemicals		a. Machinery & equipment			
Conservation expenses		b. Other (land, animals, etc.)			
Custom hire		Repairs & maintenance			
Feed expense		Seed & plant			
Fertilizer and lime		Storage & warehousing			
Freight and trucking		Supplies purchased			
Gasoline, fuel, and oil		Taxes (Real estate)			
Insurance		Utilities			
Interest		Vet. & Medicine			
a. Mortgage		Other Expenses			
b. Other					
Labor					
Total Production Expenses				\$ -	
Part II - Other Cash Outflows					
		Annual Family Living expenses *			
		Purchases of Capital Items			
		Principal Payments on term debt			
		a. Intermediate debt			
		b. Long-term debt			
Total Cash outflows				\$ -	
Cash Position				\$ -	
*Family living expenses should include all family living expenses: health & life insurance/ college tuition/ income taxes/ etc.					

Source: Illinois Finance Authority.

Agricultural Balance Sheet Template

You may use your own balance sheet or this one provided by IFA.

Agricultural Balance Sheet Consolidated Farm Business and Personal Statement			
Name(s)			
Name(s)			
Address			
		Date of Statement	
Current Assets		Current Liabilities	Value
Cash & checking accounts	\$	Accounts payable	\$
Savings accounts & time deposits		Notes payable	
Marketable stocks & bonds		Prin. & Int. due within 12 mo. on I.T. loans	
Accounts & notes receivable		Prin. & Int. due within 12 mo. on L.T. loans	
Market livestock		Cash rent payable	
Crops & feed		Accrued income and Social Security Taxes	
Investment in growing crops		Credit card balances	
Prepaid expenses		Other	
Supplies			
Hedging account equity			
Other			
Total Current Assets	\$ -	Total Current Liabilities	\$ -
Intermediate Assets		Intermediate Liabilities	Value
Machinery, equipment, & trucks		Principal due beyond 12 mo. on machinery	
Leased machinery & equipment		Capital lease payments due beyond 12 mo.	
Breeding livestock		Prin. due beyond 12 mo. on breeding stock	
Notes receivable		Principal due beyond 12 mo. on notes	
Personal vehicles		Loans on personal vehicles	
Cash value of life insurance		Life Insurance policy loans	
Retirement accounts		Other	
Stocks & bonds not readily marketable			
Household goods			
Other			
Total Intermediate Assets	\$ -	Total Intermediate Liabilities	\$ -
Long Term Assets		Long Term Liabilities	Value
Farm Real Estate Owned		Farm Real Estate Mortgages	
Non-Farm Real Estate		Non-Farm Real Estate Mortgages	
Other		Other	
Total Long Term Assets	\$ -	Total Long Term Liabilities	\$ -
		Total Liabilities	\$ -
		Net Worth	\$ -
Total Assets	\$ -	Total Liabilities + Net Worth	\$ -
We hereby certify that this statement is accurate, true, and complete.			
Signature (applicant)	Date signed	Signature (co-applicant)	Date signed



Appraisal of Chattel Property Work Sheet (FSA)

This form is available electronically.

FSA-2160 (12-31-07)		U.S. DEPARTMENT OF AGRICULTURE Farm Service Agency						Position 1	
APPRAISAL OF CHATTEL PROPERTY									
1. Name (Applicant/Borrower)									
2. ITEM OR CLASS OF LIVESTOCK									
A. Item No.	B. Quantity	C. Kind-sex	D. Breed	E. Color	F. Weight or Average Weight	G. Age or Age Range	H. Brands or other Identification	I. Value/Head	J. \$ Value
1.									
2.									
3.									
4.									
5.									
6.									
7.									
8.									
9.									
10.									
11.									
12.									
13.									
14.									
15.									
16.									
17.									
18.									
19.									
20.									
3. Total Value of Livestock									\$

4. ITEM OF FARM AND OTHER EQUIPMENT								
A. Item No.	B. Quantity	C. Description	D. Manufacturer	E. Size and Type	F. Condition	G. Year of Manufacture	H. Serial Number	I. \$ Value
1.								
2.								
3.								
4.								
5.								
6.								
7.								
8.								
9.								
10.								
11.								
12.								
13.								
14.								
15.								
16.								
17.								
18.								
19.								
20.								
21.								
5. Total Value of Equipment								\$
6. Total Value of Appraised Property (Total Livestock + Total Equipment)								\$
7. Date Prepared		8. Signature				9. Name		

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Other Agricultural Underwriting Resources

FinDev Gateway

<https://www.findevgateway.org/agrifin-tools>

U.S. Department of Treasury Handbook on Agricultural Lending

<https://www.occ.treas.gov/publications/publications-by-type/comptrollers-handbook/agricultural-lending/pub-ch-agricultural-lending.pdf>

USAID Lending to the Agriculture Sector Toolkit

<https://www.agrifinfacility.org/sites/agrifin/files/vberisha/51/Lending%20to%20the%20Agriculture%20Sector%20-%20A%20Toolkit%20-%20USAID%202012-12-04.pdf>

Opportunity Finance Network: How to Effectively Underwrite Small & Emerging Farms

https://www.cdfifund.gov/Documents/Web%2012%20Underwriting%20food%20producers%20Webinar_06272012.pdf

California FarmLink Fillable Business Health Assessment

https://www.californiafarmlink.org/wp-content/uploads/wpallimport/uploads/storage/documents/Resources/business_health_assessment/fillable_business_health_assesment.pdf

FARM SERVICES AGENCY RESOURCES

FSA Loan Products & Terms

<u>Program</u>	<u>Maximum Loan Amount</u>	<u>Rates and Terms</u>	<u>Use of Proceeds</u>	<u>Current Rates*</u>
Direct Farm Ownership (FO)	300,000	*Rates based on agency borrowing costs *Term up to 40 years	*Purchase farm Construct buildings or other capital improvements *Soil and water conservation *Pay closing costs	4.125%
Direct Farm Ownership Participation (FO)	300,000	*Rate is direct FO rate less 2% with a floor of 2.5% if at least 50% of loan amount provided by other lender *Term up to 40 years	Same as direct FO	2.500%
Direct Farm Ownership Microloan (FO ML)	50,000	*Rates based on agency borrowing costs *Term up to 25 years	*Same as Direct FO	4.125%
Direct Down Payment Farm Ownership Program	The lesser of 45% of: *the purchase price the appraised value \$667,000 (not to exceed \$300,000)	*Rate is direct FO rate less 4% with a floor of 1.5% *Term up to 40 years *Down payment of at least 5%	*Purchase of farm by a beginning or underserved farmer	1.500%
Direct Operating (OL)	300,000	*Rates based on agency borrowing costs *Term from 1 to 7 years	*Purchase livestock, poultry, equipment, feed, seed, farm chemicals and supplies *Soil and water conservation *Refinance debts with certain limitations	3.750%
Direct Operating Microloan (ML)	50,000	*Rates based on agency borrowing costs *Term from 1 to 7 years	Same as direct OL	3.750%
Direct Emergency	100% actual or physical losses \$500,000 maximum program indebtedness	*Rate is based on the OL rate plus 1% with a cap of 3.75% *Term from 1 to 7 years for non-real estate purposes *Term up to 40 years for physical losses on real estate	*Restore or replace essential property *Pay all or part of production costs associated with the disaster year *Pay essential family living expenses *Reorganize the farming operation *Refinance debts with certain limitations	3.750%

Farm Services Agency Loan Products & Terms (Cont.)

<u>Program</u>	<u>Maximum Loan Amount</u>	<u>Rates and Terms</u>	<u>Use of Proceeds</u>	<u>Current Rates*</u>
EZ Guarantee	100,000	Same as Guaranteed Operating or Guaranteed Farm Ownership	Same as Guaranteed Operating or Guaranteed Farm Ownership	
Guaranteed Operating	\$1,399,000 (Amount adjusted annually for inflation)	*Rate determined by the lender *Term from 1 to 7 years *Loan guarantee fee is 1.5%	Same as direct OL	
Guaranteed Farm Ownership	\$1,399,000 (Amount adjusted annually for inflation)	*Rate determined by the lender *Term up to 40 years *Loan guarantee fee is 1.5%	Same as direct FO except loan may be used to refinance debts	
Guaranteed Conservation Loan (CL)	\$1,399,000 (Amount adjusted annually for inflation)	*Rate determined by the lender *Term not to exceed 30 years, or shorter period, based on the life of the security *Loan guarantee fee is 1.5% *Eligibility requirements expanded to include large and financially strong operations	*Implement any conservation practice in an NRCS-approved conservation plan *May be used to refinance debts related to implementing an NRCS-approved conservation plan	
Land Contract (LC) Guarantee	The purchase price of the farm cannot exceed the lesser of: *\$500,000 *The current market value of the property	*Rate cannot exceed the direct FO interest rate plus 3% *Amortized over a minimum of 20 years with no balloon payments during the first 10 years of loan *Down payment of at least 5%	*Sell real estate through a land contract to a beginning or underserved farmer *Guarantee is with the seller of the real estate	
Socially Disadvantaged (SDA) and Beginning Farmers				
Beginning Farmers/Ranchers				
Native American Tribal Loans				
Youth Loans	\$5,000	*DL with a max of \$5,000 *Must be 10-20 y.o. *Sponsor required (e.g. 4H, FFA, instructor)		

*Source: FSA website; rates current as of October 1, 2018.

FSA Sample Loan Document List

1. [FSA-2001, Microloan Application \(Including Beginning Farmer and Ranchers\).](#)
2. [FSA-2002/2003, Three-Year Production History.](#)
3. [FSA-2005, Creditor List.](#)
4. [FSA-2006, Property Owned and Leased.](#)
5. [FSA-2037, Farm Business Plan Worksheet Balance Sheet.](#)
6. [FSA-2038, Farm Business Plan Worksheet Projected/Actual Income and Expense.](#)
7. [FSA-2302, Description of Farm Training and Experience.](#)