



# The Use of FSA Credit by Young and Beginning Farmers



## Farm Foundation/ERS Conference on Emerging Research on Beginning Farmers and Ranchers



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# Young/Beginning Farmers & Farm Policy

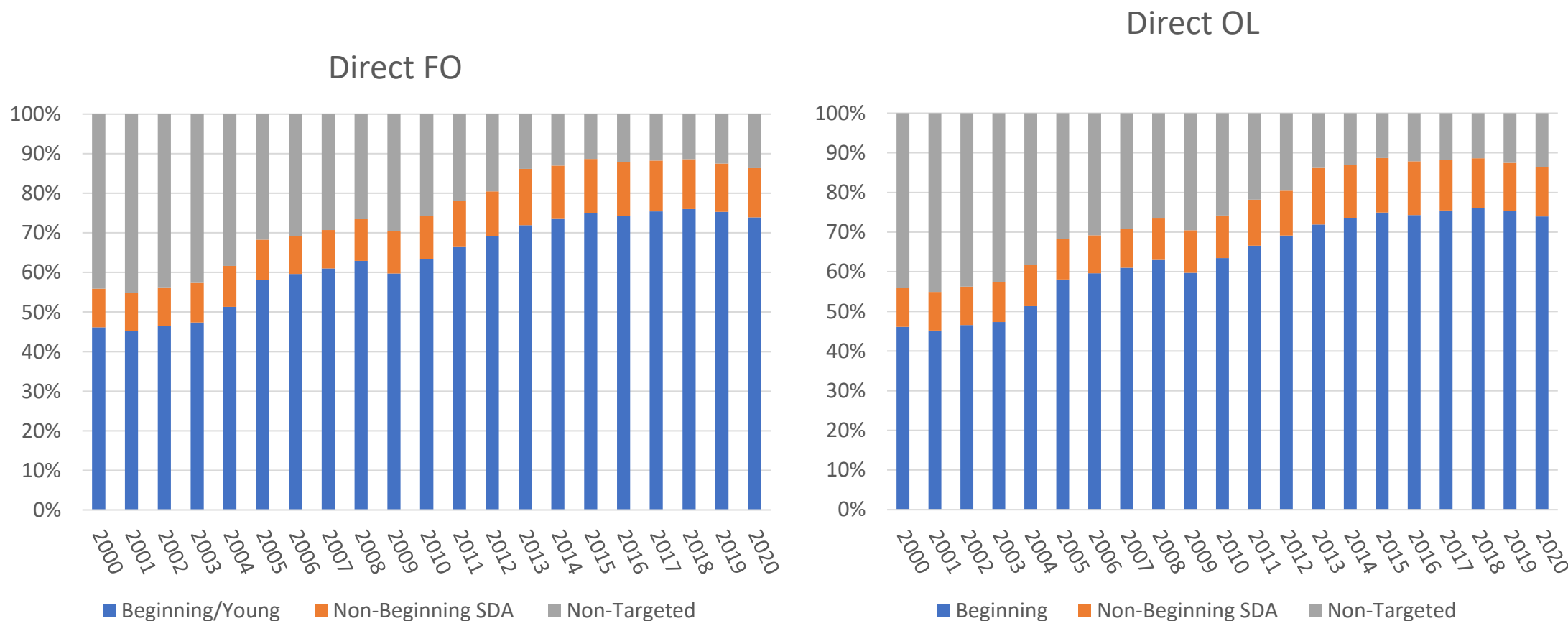
- Maintain continuity of production.
  - *Who is going to farm the land?*
- Informational asymmetries
  - Lack of a proven track record for young/beginning farmers may amplify other credit shortcomings.
- USDA provision of credit to qualified beginning farmers and ranchers should reduce these obstacles.
  - Direct (Originated and serviced by FSA and provided through FSA offices).
  - Guaranteed (Originated and serviced by commercial lenders but guaranteed by USDA).





# Most FSA Direct Loans Targeted by Beginning & Socially-Disadvantaged Groups

% of Total Borrowers Receiving Loans



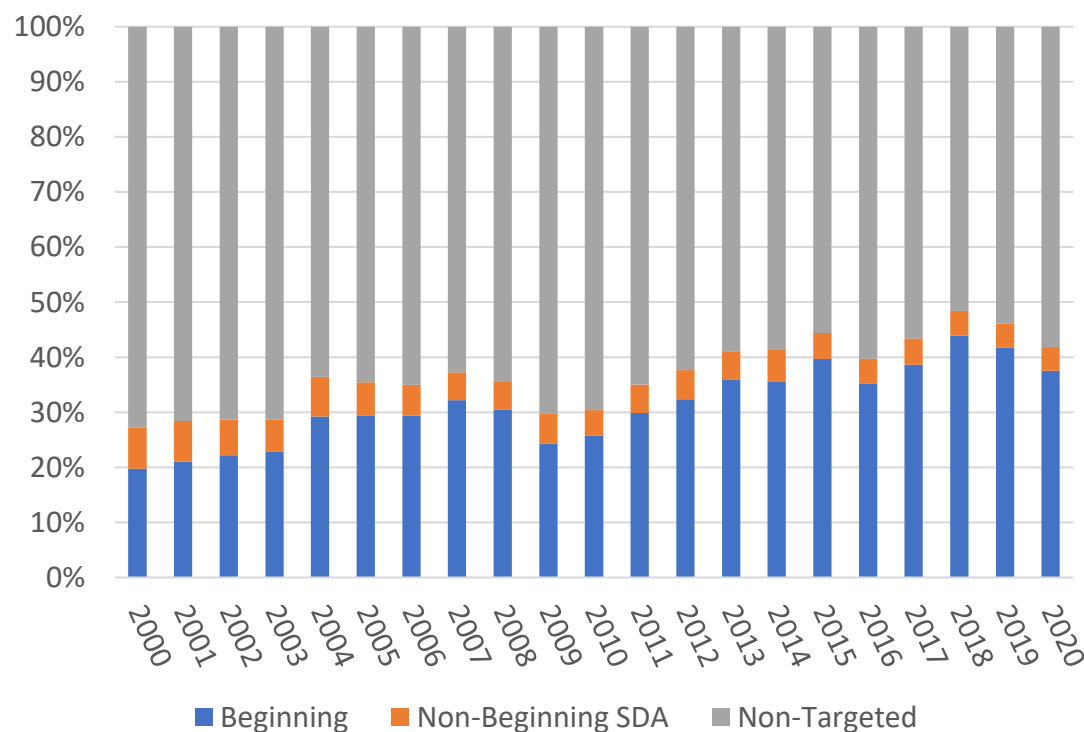
Source: USDA FSA OBFN database



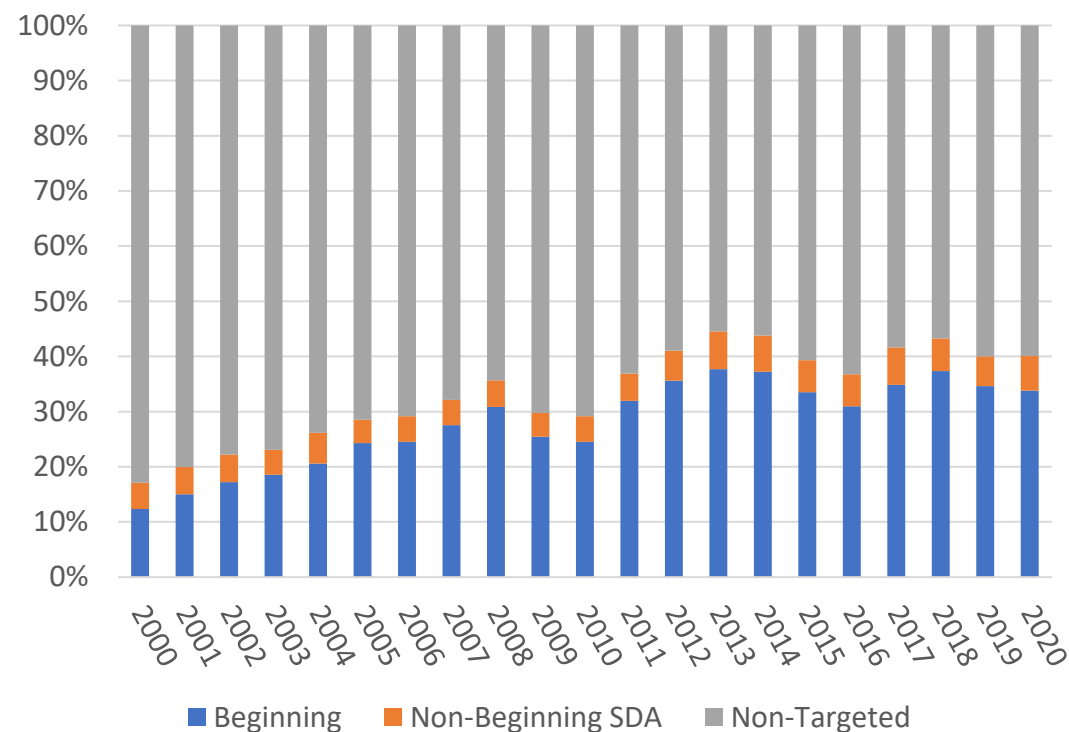
# Over 1/3<sup>rd</sup> of FSA Guaranteed Borrowers Members of Targeted Group

% of Total Borrowers Receiving Loans

Guaranteed FO



Guaranteed OL



Source: USDA FSA GLS database



# Who Can Receive an Beginning Farmer Loan?

- In addition to standard eligibility for all applicants:
  - Has not operated a farm for more than 10 years;
  - Substantially participates in the operation;
  - For farm ownership loans, the applicant cannot own a farm greater than 30 percent of the average size farm in the county, at time of application.
  - If the applicant is an entity, all members must be related by blood or marriage, and all entity members must be eligible beginning farmers.
- Develop a feasible business plan
  - Cash flow, adequate security, profitability (i.e. creditworthiness)
  - And, be unable to obtain commercial credit at reasonable rates and terms.



# Beginning Farmers & FSA Credit

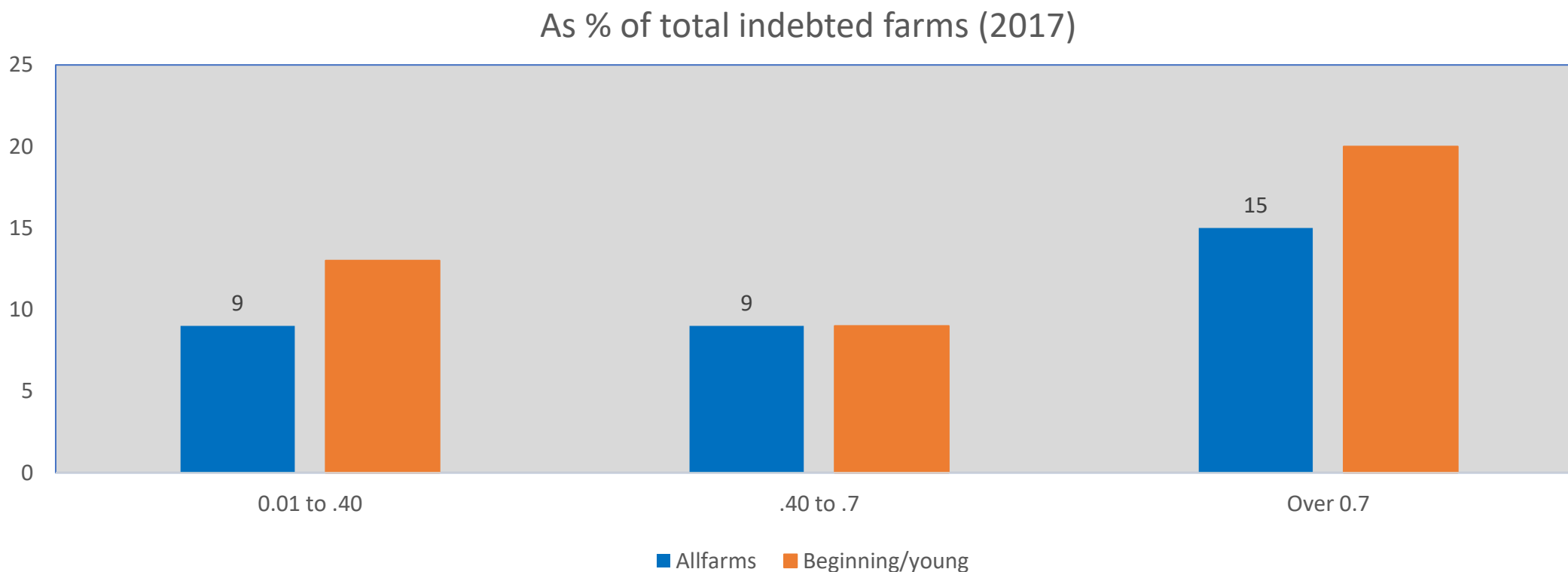
Using data which combined FSA farm loan data with the ARMS survey provides a profile of beginning/young farmers who utilized either direct or guaranteed loan programs.

## **FSA Market Penetration=**

$$\frac{\text{\# of farms with either a direct or guaranteed loan during the year (FSA data)}}{\text{\# of farms with at least \$100 of interest expense and \$5,000 in sales (ARMS)}}$$



# Beginning/Young Farmers Reliance of FSA Credit by Debt-Asset Class

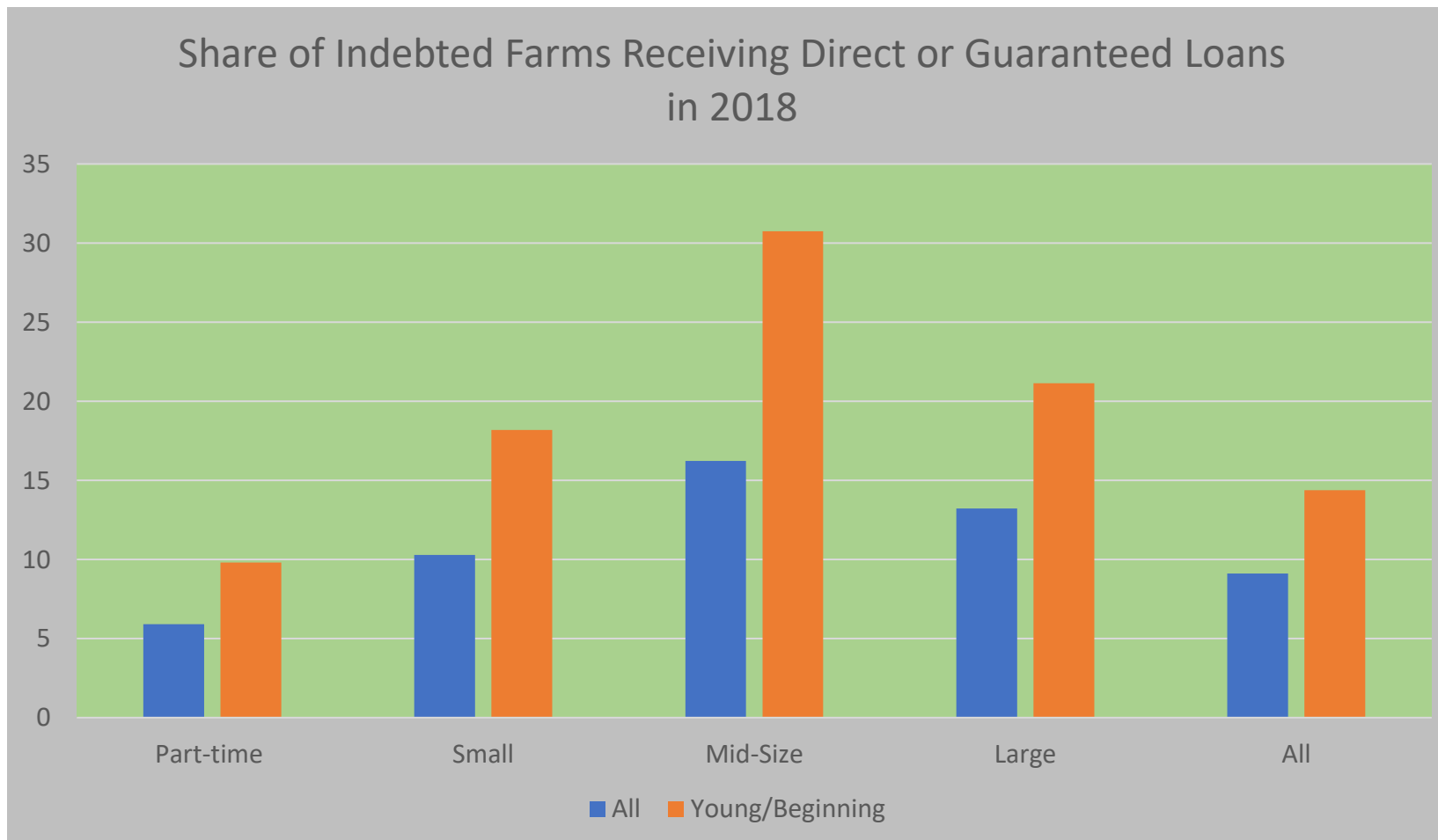


Source: USDA ARMS 2018 and FSA OBFN and GLS Databases, 2018





## Young and Beginning Farmers Operating Mid-Size Farms More Reliant of FSA Credit



Small farms--\$100,000 to \$350,000 in sales or < \$100,000 and primary occupation =farmer  
Medium--\$350,000 to \$1.0 million in sales

Large-Over \$1.0 million in sales  
Family farms exclude nonfamily entities

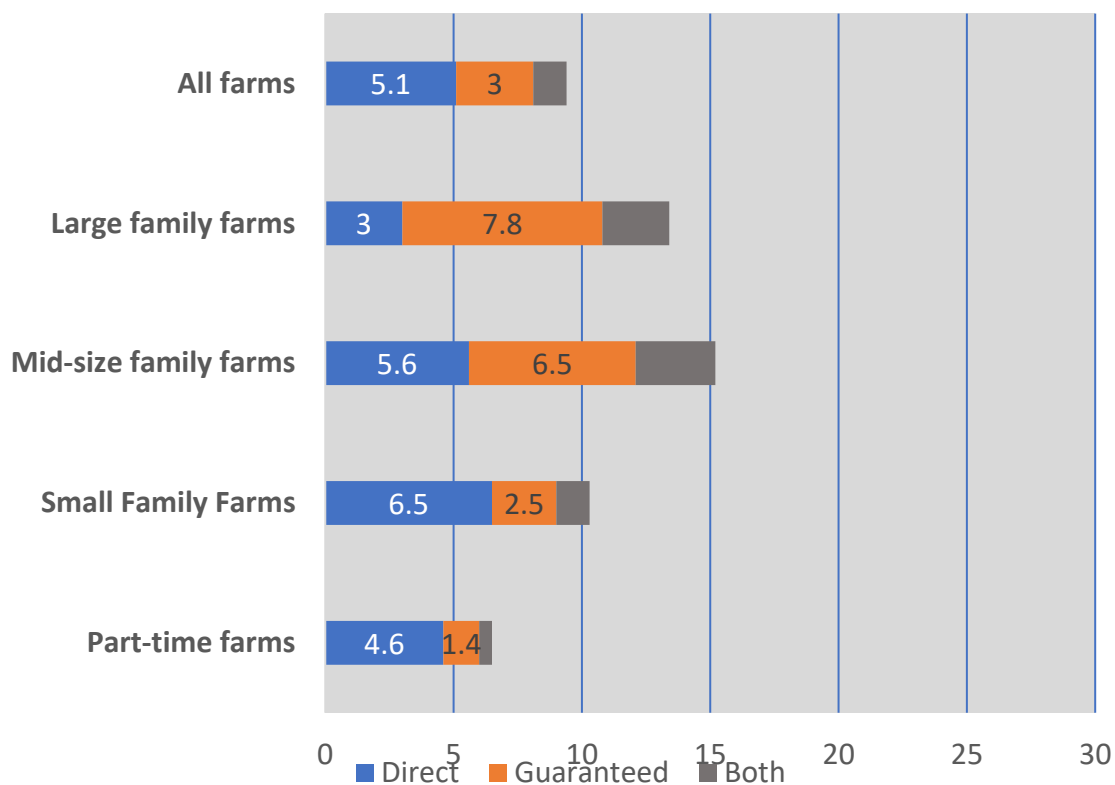
Source: USDA ARMS and FSA OBFN and GLS Databases



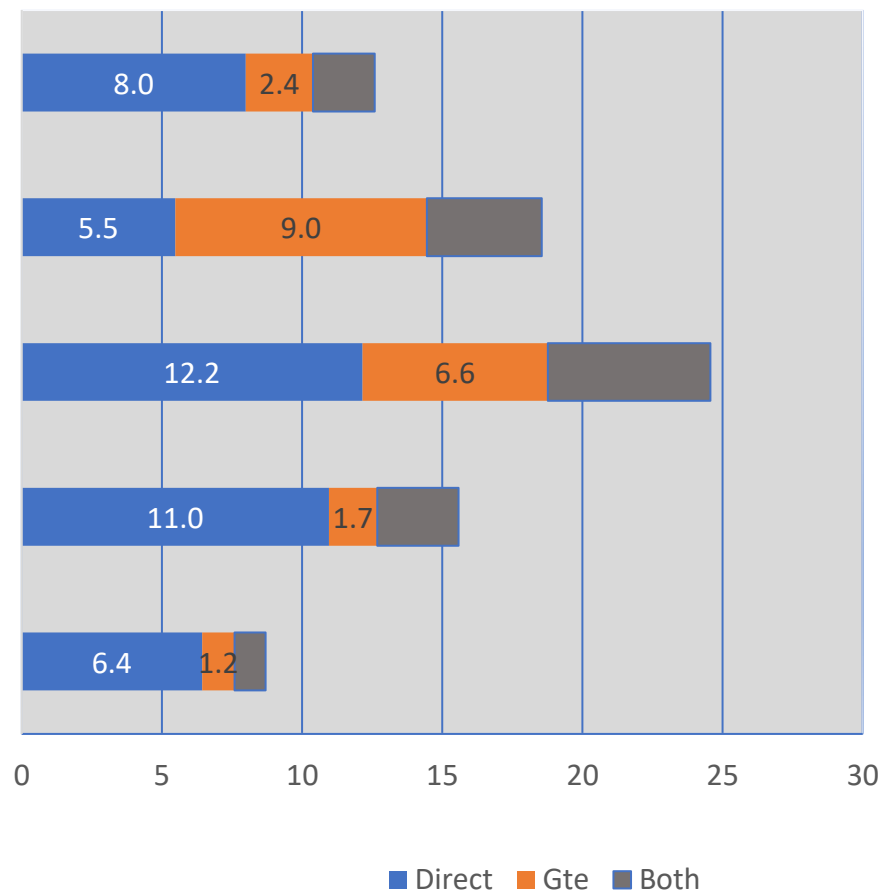


# Share of Indebted Farms Receiving FSA Credit (2015-2018 Avg.)

## All indebted farms



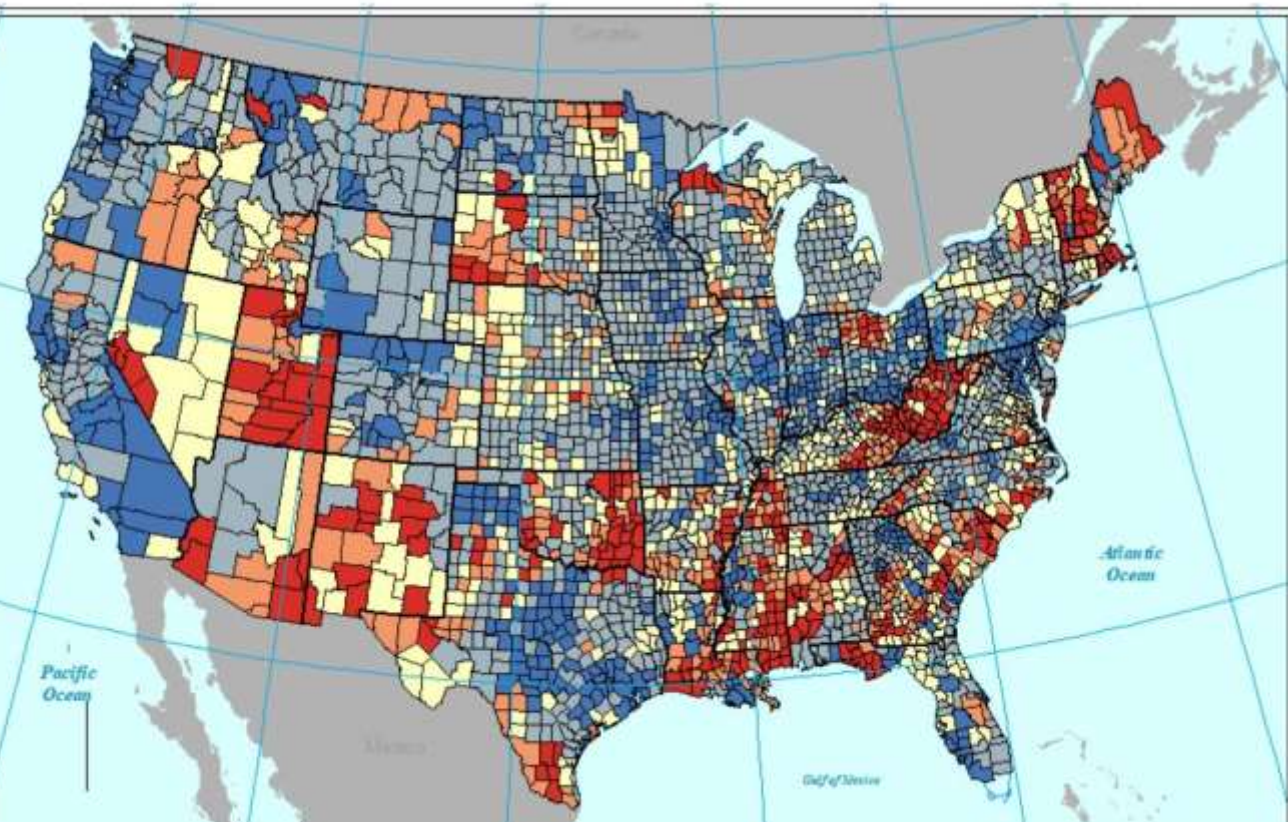
## Young or beginning



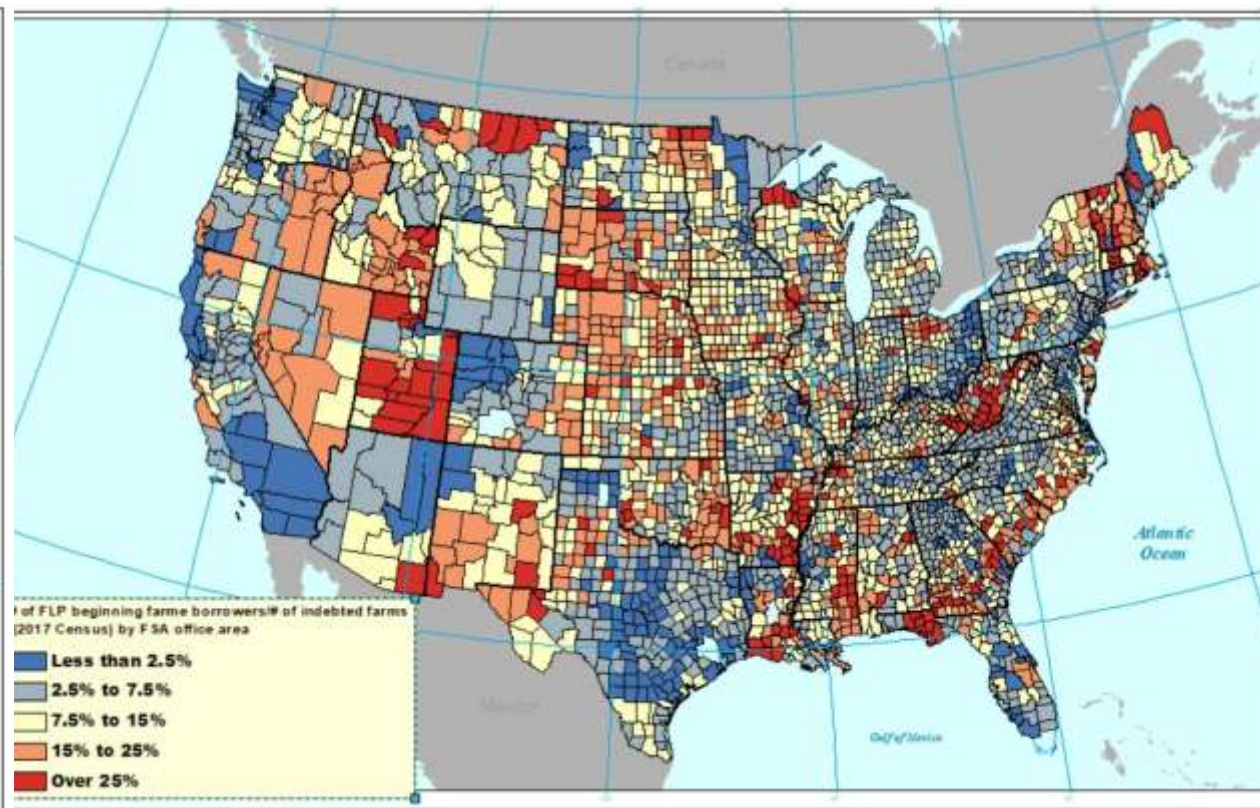
Source: USDA ARMS and FSA OBFN and GLS Databases

# Young & Beginning Farmer Demand Reflects Overall Market Presence

All Indebted Farms



All Indebted Beginning/Young Farmers

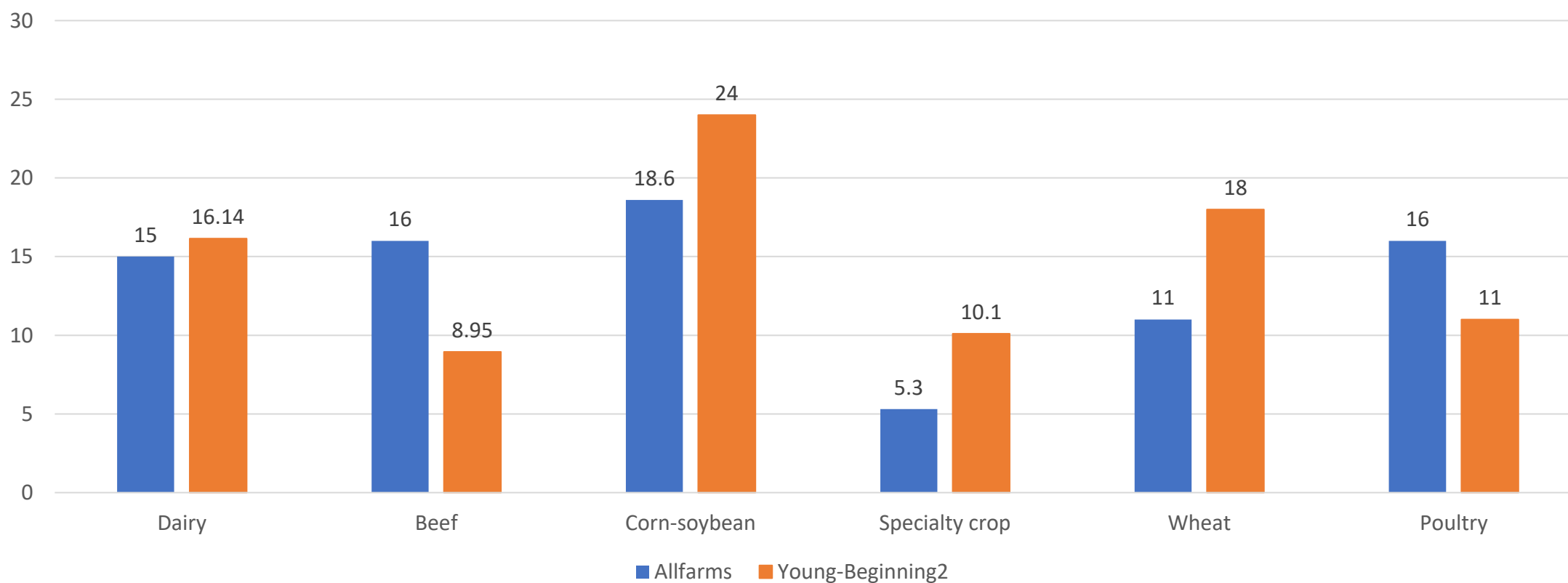


Sources: 2017 Census Agriculture & FLP Loan Data Files, 2017



# Young Beginning Farmers Reliance of FSA Credit by Farm Type

As % of total indebted farms (2017)



Source: USDA ARMS and FSA OBFN and GLS Databases



# Summary

- Credit constraints may be accentuated for beginning/young farmers.
- The USDA direct and guaranteed credit programs appear to play an important role in providing credit, especially to groups of beginning farmers more likely to face credit constraints.
- This study focused on effectiveness-reaching the intended groups. But what is needed is more of an outcome approach.