



Creating small-farm financing solutions

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1400 Independence Avenue SW, Stop 0522  
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Submitted electronically to: [www.regulations.gov](http://www.regulations.gov)

**Re: Proposed Rule, Department of Agriculture, Farm Service Agency, 7 CFR Part 761 and 764 Microloan Operating Loans**

Dear Mr. Bonnet:

The Carrot Project, a part of the nonprofit Third Sector New England, is grateful for the opportunity to submit comments to the USDA-FSA on the proposed rule to amend its regulations to allow for microloans. We commend the USDA-FSA for focusing on microloans and the growing agricultural sector such a rule change is designed to serve. FSA is a tremendous asset in this field and a microloan program can only improve its ability to serve a dynamic sector that is growing rapidly. We are supportive of USDA-FSA work and the proposed microloan (ML) rule, but are concerned about specific elements of the proposal that may affect its ultimate success. As outlined in the proposed rule, we believe the program could be improved to support this growing sector optimally. Our concerns fall into three categories: opportunities to collaborate and support existing programs focused on microloan borrowers, the assumption of the complexity of farm operations; and suitability of eligibility requirements.

The Carrot Project supports sustainable farms and farm-related businesses through alternative financing programs combined with business technical assistance. All the businesses we work with have had difficulty accessing traditional forms of financing. The majority of them are beginning farms grossing from \$30,000 to \$80,000 in their first few years of operation; our average term loan size is \$12,000. Our programs serve no one type of farm; our participants include: diversified animal operations, CSAs, farms with value-added products, small-animal operations, and greenhouse enterprises. We work collaboratively with private investors and non-profit and commercial lenders, including the Vermont Community Loan Fund, Coastal Enterprises, Inc., MassDevelopment (the Massachusetts finance and development authority), and Salisbury Bank and Trust. Our programs operate in Massachusetts, Vermont, Maine, northwest Connecticut and eastern New York. Building on our loans programs, we also provide assistance to lenders wishing to work in the sector and participate in collaborative research on profitability, impacts, and benchmarking.

## OPPORTUNITIES TO COLLABORATE AND SUPPORT EXISTING PROGRAMS FOCUSED ON MICROLOAN BORROWERS

USDA recognizes the tremendous need to support beginning farmers and their growth so that they are able to both take over established farming businesses and begin new enterprises. Others have also recognized this need. Nonprofit loan funds and community development finance institutions are addressing this need in increasing numbers, as exemplified by organizations such as The Carrot Project and California Farm Link and are supported by private investors, individuals, the US Small Business Administration, USDA Rural Development, and the US Treasury's CDFI Fund. In addition, there are many county and regional economic development agencies that provide agricultural loans to this sector.

For example, through the Financing Healthy Food Options program, the U.S. Treasury's CDFIs Fund is supporting community development finance institutions around the country to lend to different sectors of the food tier, including production agriculture. One of their initiatives, in which we participated, as part of Financing Farming in the U.S., a project team hosted by Michigan State University's Center for Regional Food Systems, was the development of a first-in-the-nation training on farm production lending for community development finance institutions.

**We strongly encourage USDA-FSA to link with these institutions, sections of USDA, and non-profits to collaborate and find the most cost-effective way to support farmers in a particular region or service area.** In the case of non-profits and CDFIs, some are strong in lending, some in technical assistance, and some in both. For those that are lending, access to an FSA guarantee program for microloans could be tremendously beneficial. Those with intimate knowledge of the smaller diversified farms in their regions might serve as links with other nonprofits that assist beginning farmers with the type of guidance and support needed for successful applicants. Because most of these organizations are supported by funds other than USDA-FSA, collaboration offers the possibility to extend USDA-FSA's budget while utilizing existing know-how within a community or region.

## COMPLEXITY OF FARM OPERATIONS

**The proposed rule assumes that ML applicants will be similar to existing youth borrowers. Based on our lending and technical assistance experience with our applicants and prospective applicants, we think the small farms likely to apply for a ML are not necessarily similar to youth operations.** The farms we work with have complex operations in that they constitute multiple enterprises and cost centers within a single operation. This adds not only to the complexity of managing production cycles and multiple points of sale, but also to complexity on the financial side — particularly regarding effective management of cash flow and borrower capacity to use that management to make decisions about the operation. If farm operations receiving microloans are more complex, the amount and type of supervision they need will be greater, and will also require in-depth knowledge of such operations by FSA Loan officers.

**In several places, the proposed rule reflects the assumption that, although the financial risk for the group of borrowers may be higher, there will be cost savings in supporting the applicants that will make the overall cost of the program similar to costs of USDA-FSA's existing programs. We urge you to reevaluate this assumption.** Our experience shows us that there is no correspondence between loan size and the amount of work needed to assist an applicant or borrower to apply for and repay a loan, and to meet business goals successfully.

The majority of the farmers we work with have not grown up on farms, but most have approximately four to six years of farming experience working for others in positions of increasing responsibility. There is rarely any question that the applicant has the skills to manage the production side of an operation. In general, applicants' greatest weakness is understanding and using their financials to manage their businesses. It is our experience that the amount of time necessary to (1) support these applicants in production of an investment-ready application, and (2) bring them to a point at which they're able to use their financials to manage their operations effectively, is greater, not less, than that required for a larger, more-established operation (which, under normal conditions, would not seek a microloan). The lesson we've learned is that size of loan is often in inverse proportion to the level of support and shepherding necessary for success.

Approximately 25% of our portfolio comprises well-established businesses that have run into (usually personal) difficulties and are temporarily unable to obtain bank financing. Although these farms are significantly larger, the amount of time we spend on these borrowers is, on average, significantly less than that spent with borrowers owning their first businesses. The exception to this rule is for beginning farm owners who have acquired an adequate combination of business and farming skills, and who are extremely entrepreneurial in their thinking, planning, and ability to assess and react to difficult situations. We have never seen an applicant with only one or two years of experience who sails through the application process and about whom we have no reservations regarding the strength of his or her production and business management experience and will not need a significant amount of support and monitoring.

#### SUITABILITY OF ELIGIBILITY REQUIREMENTS

**Overall, the modifications of the eligibility requirements are sound. However, two stand out as problematic: non-itemized cash flow statements and the apprenticeship program.** Non-itemized cash flow statements may be sufficient to analyze an applicant with one or two crops grown under established and well-known conditions. However, analyzing a complex, multi-enterprise farm without the submission of itemized cash flow statements will put the loan officer at a significant disadvantage. With variations in the seasonality of the different enterprises and the flow of expenses and revenue, it is extremely important to see them as stand-alone operations, in addition to appreciating how they fit together into one operation. It is difficult to understand the operation and assess the judgment and thinking processes of the borrower without this detail. **We recommend an itemized cash flow statement requirement for consideration of operations with multiple enterprises or crops, and/or other complex features.**

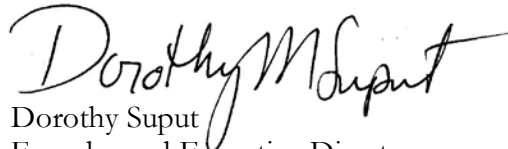
**Though we are in agreement with the idea behind the apprenticeship program and with the critical importance of supporting new farmers, the apprenticeship program as described in the proposed rule is incongruous. We urge USDA-FSA to consider an alternative approach to meeting this requirement including collaborating with the above mentioned non-profits with an established knowledge base serving the targeted community.** In some instances, it will be unrealistic for a farmer in a competitive market to learn from another serving the same (or a similar) market. There are extensive apprenticeship programs for small diversified farmers, but the experience they are least likely to have is exposure to the financial and business management side of an operation. Most, if not all, apprenticeship programs place participants on farms belonging to someone else in exchange for apprentices gaining experience — not to support them as they launch their own operations. Finally, how will FSA evaluate the trainer or whether an apprenticeship, as described, will actually meet the needs of the farmer? From where will the trainer receive support and trainer training? To the end of creating as few application conditions as possible, but still ensuring a

successful business, some modification of this requirement would consider an applicant's strengths. For example, if an applicant has a strong production background and little financial or business management experience, then the latter might be the focus of the apprenticeship, training program, or mentorship. Goals of an apprenticeship would be more easily met were they narrower in scope. The type of apprenticeship and its rigor should complement the type and complexity of the business venture proposed, as well as applicant skills and experience.

We appreciate this opportunity to comment on the Proposed Rule and are encouraged by FSA's support of micro-borrowers. In summary, the proposed program is an important step, but could be strengthened by coordination with and support of existing programs targeting microborrowers, provisions for a more nuanced approach to the materials required for submission, and a reevaluation of the type of borrower likely to participate in the program.

Please do not hesitate to contact me with any questions at 617.666.9637 or [dsuput@thecarrotproject.org](mailto:dsuput@thecarrotproject.org).

Sincerely,

A handwritten signature in black ink that reads "Dorothy M. Suput". The signature is written in a cursive style with a large, prominent "D" at the beginning.

Dorothy Suput  
Founder and Executive Director  
The Carrot Project