

Questions from Microloan Webinar April 10th, 2013

Eligible Loan purposes

Q. Can I obtain a loan for:

- fencing for a grazing livestock operation
- trellising
- building a shed/small barn be eligible if the total project cost is under \$35,000
- maple sugar shack and processing equipment
- a multitude of different purposes? Certified kitchen, fencing, hoop house, livestock and equipment?
- commercial kitchen to process value-added products like jams and pickles
- part-time labor
- bees and bee equipment
- milking equipment and pasteurization equipment
- the purchase of land and a micro loan?

A. The answer to all of the above questions is yes with a few caveats. The operation must be for production agriculture grown in sufficient quantity to be recognized in the community as a family farm. We have established a minimum level of agricultural sales as \$1,000 of gross annual product, either in the past or projected in your plan. When you borrow money for processing your product (maple shack, commercial kitchen, pasteurizing equipment) at least 51% of the product must have been produced on your farm. FSA does not state a minimum acreage requirement and does not monitor zoning of your property. You, the applicant, would be required to make sure that you are operating a legal purpose on your property. You can apply for both land purchase and operating funds, with a combination of farm ownership loan and a microloan. Keep in mind that a farm ownership loan requires 3 years of experience and past records. If you are just starting a business, you would not qualify for a farm *ownership* loan yet.

Grant programs

Q. What grants and matching grants can use in conjunction with microloans for ie. Forestry, orchard, tree nursery, tools, labor costs, trails excavation, liming, and limb trimming?

A. A participant shared a website for a grant opportunity for pastured livestock.

<http://www.fundafarmer.org/> We also discussed seeing what cost-share programs are available through Natural Resource Conservation Service www.nrcs.usda.gov There may be opportunities for value added grants through rural development http://www.rurdev.usda.gov/BCP_VAPG.html Also make sure you are familiar with any



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opportunities that are available through your State Department of Agriculture. You can also refer to <http://grants.gov/>.

Credit Elsewhere and Acceptable Credit

Q. I do not understand the eligibility requirement about being “unable to obtain credit elsewhere.” I have an acceptable credit history. What is considered an acceptable credit score?

A. There are actually three questions so I will take them separately. The requirement about credit elsewhere has to do with your ability to obtain financing from a conventional or private source at rates and terms you can afford. Sometimes you can obtain credit but the terms are such that you cannot afford them. Being required to use credit cards does not constitute an ability to obtain suitable credit elsewhere. We are referring to your current lender, the farm credit system or a typical lender in your area. Acceptable credit history is shown in the manner in which you make your payments. We do not use credit scores to determine whether you have acceptable credit history. If you have circumstances that were beyond your control that affected your payment history, you should bring that to the attention of the loan officer. We discussed obtaining your own credit report prior to your appointment. Under the Fair Credit Reporting Act, all individuals in the United States are entitled to receive one free credit report from each credit bureau every year. The Annual Credit Report service is the only way to order the free credit reports from Experian, TransUnion and Equifax. Consumers can use the website, call 877-322-8228 or mail a completed Annual Credit Report request form to Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281. <https://www.annualcreditreport.com> If you order a free report every four months from a different reporting company, you can keep track of your credit all year long. Be careful to not go through a company who wants to charge you for this information.

Application Process (mentors, experience and managerial ability)

Q. Is a mentor someone chosen by FSA, or someone I choose?

A. The applicant chooses the mentor and FSA will review your choice.

Q. Can you pay the mentor with some of the money?

A. This is kind of a tricky question. It was never the intent to have a mentorship be a paid position but there isn't anything that specifically prohibits it. Any applicant needing a mentor should strive to locate a suitable person that will not charge.



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Q. Would corporate banking managerial experience qualify with a proper mentor?

A. Possibly. Everyone's situation will be different. If you can demonstrate that managing a financial institution gave you practical experience in running a business then it may very well be determined to be acceptable. Your mentor would then provide the valuable agricultural production experience.

Q. How do you show you have experience? It's been years since I had 4H experience. I have gone through CCE farming classes. Would that count?

A. You may satisfy the managerial ability requirement with **any** combination of education, on-the-job training and farm experience, or by meeting **just 1** of these criteria. The level of management ability required will depend on the complexity of the operation and the amount of the loan request. The authorized agency official will consider each application on a case-by-case basis.

The Cornell Small Farms Program's Beginning Farmer online courses are accredited by FSA as a borrower training program. We didn't touch very much on borrower training but even with a mentor, FSA may require you to take borrower training to learn about production or financial particulars of your business. Visit <http://nebeginningfarmers.org/online-courses> Courses are 6 weeks long and cost \$200. Completion of a course may satisfy the FSA's requirement for your training in either production or financial management.

Application Process

Q. If a partnership, do both partners need to apply for the microloan?

A. The operator of the farm must apply for the loan. If a farm is operated by a partnership, then the partnership must apply, and each partner must also provide information and qualify. This is the same for a corporation or LLC. The operator of the farm must apply, but each member of the organization must also qualify and provide their financial information and credit information.

Q. What if you are working an old farm assisting in its re-development but it is not a partnership

A. You must be the operator of the farm in order to apply for a microloan. If you are an employee, or even a volunteer, you cannot borrow money to assist this farm. If you were responsible for producing a commodity on this farm and you had control of that part of the property where you were producing the commodity, then you could apply.

Q. Will my off farm income be considered when applying for this loan?



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A. Your off farm income is considered with respect to repayment ability in the farm plan. Many small farms also need to work off of the farm in order to cash flow both their family living and their farm. If your off farm income is very high, you will need to demonstrate why you cannot obtain credit elsewhere.

Q. Is there a template for a farm plan?

A. We do not have a formalized template for the applicant's farm operating plan. Some applicants go to an extension site and use a template business plan and submit that with their application. Whatever makes sense for your understanding of what your operation will produce will be acceptable. If you cannot fit the description on the application form, simply write "see attached". Once the application has been accepted, the loan officer will work with the loan applicant to prepare a farm business plan. The applicant will receive a copy of the plan and it will be reviewed a year after loan closing. Many excellent sites exist on the web. An example of two sites are- <http://www.beginningfarmers.org/farm-business-planning/> and <http://nebeginningfarmers.org/farmers/planning-2/business-plan-templates/>

Q. If I borrow money for multiple purposes, do I obtain all of the loan proceeds at once?

A. FSA commonly operates on a multiple disbursement system. At loan closing, the funds that are needed immediately are ordered and often deposited in an account that you designate. You then call the office when you need the next agreed upon disbursement. An example would be, at loan closing you might be planning to purchase a tractor. A check would be ordered for the agreed amount of the tractor. Several months later, you might need to purchase your irrigation equipment. A check would then be ordered for that.

Rates and Terms

Q. If you were planning an operation that was starting livestock by purchasing young livestock to breed and sell or if you were to buy trees, plants for a nursery and it would be a while before being able to sell product from your effort, what kinds of time limits are available for loans for this?

A. Loans for operations that are start-up and will not have an income right away will have their repayment ability determined by a farm plan that is developed jointly with the FSA loan officer and the applicant. The loan must also match the expected useful life of the collateral used for security. The applicant repays an annual OL when income becomes available. The repayment period will normally be within 12 months, or no more than 18 months after the date of loan closing, if necessary, when marketing plans extend beyond 12 months; for example, when crops or livestock take longer than 12 months to mature.



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- Q.** For a small diversified operation, eg. Blueberries, Maple, and Honey; eg. To increase blueberry planting, buy maple equipment, and buy bees, can you get one loan with same payback for entire plan, or does it depend upon the actual items you are planning to get?
- A.** When the funding request contains both short and long term uses, separate loans will be written. If a loan is for annual operating expense, that loan will be for a shorter term and have different collateral requirements. For loans for equipment, the loan will be written for a period of time to match the useful life of the collateral, up to 7 years.
- Q.** Please talk a bit about terms of the microloan (interest rates, how many months/years the borrower typically has for repaying the loan, do you usually ask for annual/twice a year/monthly payments, etc.)
- A.** Interest rates are set every month based upon the cost of borrowing money. Once the loan is closed, the interest rate remains fixed for the life of the loan. Payments are due annually, but the loan officer will set the payment date based upon when the income is expected. Farmers that received their farm income monthly (like a milk check) usually pay monthly. Farmers that sell bedding plants will often pay the bulk of their payment in June after spring sales. Pumpkin growers usually pay in November.

Miscellaneous Questions

- Q.** Why does a Microloan sit in place while other loans are completed although there are no available funds for them?
- A.** Funding is a complicated issue. Because direct loans come from the US treasury, they are appropriated and allocated from Congress. Loans are processed in date order and unfortunately, sometimes there is a delay in funding.
- Q.** What is the time frame to receive the funds, once the microloan application is submitted and approved?
- A.** Congress has mandated that the loan officer must approve or deny a loan within 60 days of receiving a complete application. Many loan officers work through approvals in significantly less time than that. If funding is available, and if the loan is complete, money is available right after loan closing.
- Q.** Cumulative max total of any/all microloans at any one time is \$35,000, is that correct?
- A.** The answer to that is correct. A borrower can only have \$35,000 outstanding operating debt at any one time to have a microloan. Down the road, if an applicant's credit needs increase, the regular operating loan limit is \$300,000.



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- Q.** What if you have an issue with a county office, what do you do?
- A.** FSA takes very seriously their commitment to rural farmers and ranchers around the country. If an applicant has an issue that they would like to discuss, they can respond to the “ask fsa” portion on the FSA website http://askfsa.custhelp.com/app/utils/login_form/redirect/ask. If an applicant believes that they have been discriminated against, they can contact the Office of the Assistant Secretary for Civil Rights, Information Research Service, on (202) 260-1026 or (866) 632-9992 (toll free) or send an email to the Office of the Assistant Secretary for Civil Rights at CR-INFO@ascr.usda.gov.



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