



THE DEPUTY SECRETARY OF AGRICULTURE
WASHINGTON, D.C.
20250-0100

DATE: June 17, 2010
FROM: USDA Deputy Secretary Kathleen A. Merrigan
SUBJECT: Farm Service Agency support for local and regional food systems

A handwritten signature in cursive script, reading "Kathleen A. Merrigan".

The continued development of local and regional food systems presents exciting opportunities for economic growth in rural communities. Many of the Department of Agriculture's (USDA) most popular programs can be better leveraged to ensure that more wealth stays in rural communities while also promoting sustainable agricultural practices that help protect our nation's most precious resources. To that end, this memorandum sheds new light on creative ways to take advantage of programs administered by the Farm Service Agency to support local and regional food systems, as well as the farmers and ranchers who supply them. Special attention is given to the ways in which the 2008 Farm Bill has made the Farm Service Agency's programs even more relevant to proponents of local and regional food systems. Finally, this memorandum serves as a reminder that the Farm Service Agency continues to provide a robust network of support for all types of farmers and ranchers through its county office system; with more than 2,200 county offices, the Farm Service Agency can provide personalized service to America's diverse farming community, no matter where a producer resides. See: <http://offices.sc.egov.usda.gov/locator/app>.

Programs administered by the Farm Service Agency that deserve a closer look:

- (1) Farm Storage Facility Loans
- (2) Farm Loan Programs
- (3) Conservation Programs

Please share this information with your colleagues and partners. Thank you for all you do to facilitate access to fresh, healthy food and to help rural communities become economically and environmentally self-sustaining.

(1) Farm Storage Facility Loans

Constructing on-site storage facilities can enhance economic returns for producers by giving them greater control of their product—from seed to sale. FSA Farm Storage Facility Loans can finance the construction of both on-site storage and minimal processing facilities. The 2008 Farm Bill expanded this program to include authority for vegetable and fruit (including nut) producers to take advantage of these loans. See:

<http://www.fsa.usda.gov/FSA/webapp?area=home&subject=prsu&topic=flp-fp>

Examples of uses of a Farm Storage Facility Loan (FSFL):

- For the first time, fruit and vegetable producers can receive a FSFL to construct a cooling and storage facility on-site. Imagine picking your vegetables the night before taking them to the market, rather than being forced to do same-day harvesting and sale.
- Farmers can increase their market power by storing and selling their own product, rather than relying on warehouses as their only storage and sale option. An FSFL would be especially useful for those commodity producers with on-site processing capabilities. Producers might consider coupling a Farm Service Agency FSFL with Rural Development's Value-Added Producer Grant Program to support on-site processing.

Eligibility

Eligible commodities for Farm Storage Facilities Loans include fruits, vegetables, nuts, lentils, chickpeas, dry peas, peanuts, rice, soybeans, sunflower seeds, corn, wheat, oats and barley. Eligible borrowers are those producers of eligible crops who can demonstrate a need for additional storage and comply with USDA provisions on highly-erodible land and wetlands. Types of qualifying facilities include new cold storage buildings; permanent grain storage, handling and drying equipment; new foundations; and some renovations of existing storage facilities. Loan terms of 7, 10, or 12 years are available, with a down payment of at least 15 percent, a maximum of \$500,000 per structure, with interest rates comparable to Treasury Securities. Consult your local Farm Service Agency county office for more details at <http://offices.sc.egov.usda.gov/locator/app>. For a full list of eligible crops and more details, visit <http://www.fsa.usda.gov/FSA/webapp?area=home&subject=prsu&topic=flp-fp>

(2) Farm Loan Programs

The suite of credit assistance programs administered by the Farm Service Agency (FSA) can be used to establish or expand a diverse range of farming and ranching operations. FSA Farm Loan Programs can be used to support exciting new trends in Rural America, including the spread of value-added, direct sale, organic, and specialty crop operations. Participants in FSA loan programs benefit not only from access to credit, but from one-on-one financial consultation, including assistance in developing a viable farm business plan. Urban producers also have access to FSA loan programs, with the exception of the youth loan described below which is restricted to rural residents.

Additionally, the 2008 Farm Bill enacted special provisions to make even more credit opportunities available to beginning farmers and ranchers, youth farmers and ranchers, and traditionally underserved farmers and ranchers, including women, African American, Hispanic and Latino, Native American, and Asian and Pacific Islander producers.

See: <http://www.fsa.usda.gov/FSA/webapp?area=home&subject=fmlp&topic=landing>

Examples of approved FSA loan applications include:

- High School senior, Kyle Heylens, of South Dakota applied for and received an FSA Youth Loan to begin a Red Angus livestock operation.
- When traditional agricultural lenders wouldn't provide credit for young couple Laura Frerichs and Adam Cullip to begin a CSA operation, FSA helped them to finance their forty acre organic farm. Loon Organics, of Minnesota, is now in its sixth farming season, growing over thirty-five different vegetable crops.

FSA Farm Loan Programs provide a variety of loan types for every need. Producers can obtain either guaranteed or direct loans for ownership or operating needs. Direct emergency loans are also available for farmers and ranchers to assist in recovering from natural disasters.

Guaranteed Loans: The Guaranteed Loan Program allows qualified applicants who otherwise would not meet standard lending criteria to obtain credit from commercial and farm credit lenders. Participating lenders can use the Guaranteed Loan Program to strengthen a loan's viability through a guarantee of up to 95 percent of the loan amount. The loan limit for guaranteed loans is \$1,112,000 (amount adjusted annually based on inflation). Farmers interested in guaranteed loans should apply through a conventional lender.

Direct Loans: FSA offers the Direct Loan Program for those farmers and ranchers who are not financially ready to obtain financing from commercial credit sources. Direct farm loans are government-funded, and made by FSA. The loan limit for loans under the Direct Loan Program is \$300,000 for ownership and \$300,000 for operating for a possible total of \$600,000 (except for Emergency Loans). Farmers interested in applying for a direct loan should contact the local FSA Service Center.

- Farm Ownership Loans (FO). FO loans can be used to purchase farmland, build or repair buildings and other fixtures, and promote soil and water conservation. Guaranteed FO Loans may also be used to refinance qualified debt.
- Operating Loans (OL). OL loans can be used to purchase or lease items needed for a successful farm operation, such as: livestock, farm equipment, feed, seed, fuel, farm chemicals, and insurance. OL loans can also be used to pay for minor improvements to buildings, for costs associated with land and water development, for family subsistence, and to refinance debts, under certain conditions.

- Emergency Loans (EM). EM loan funds may be used to 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, and refinance debts.
- Youth Loans. FSA makes loans up to \$5,000 to individual rural youths (who are less than 21 years of age) to establish and operate income-producing agricultural-related projects of modest size in connection with their participation in 4-H clubs, FFA, and similar organizations. Youth loans may be used to buy livestock, equipment, and supplies; buy, rent, or repair tools and equipment; and pay operating expenses for running the project.

Eligibility

Farmers and Ranchers who are not quite ready to obtain financing from commercial lending sources can apply for direct and guaranteed loans. Eligible applicants are those producers who, after obtaining the loan, will own and operate their own farming or ranching operations, can project a business plan that shows the ability to repay all expenses plus the requested loan(s), and can offer security of at least equal value to the loan requested. Loan terms of 1 to 7 years are available for operating loans with up to 40 years available for loans to purchase real estate. For complete listing of all eligibility requirements, consult your local Farm Service Agency county office, which can be found here: <http://offices.sc.egov.usda.gov/locator/app>.

(3) Conservation Programs

The conservation programs administered by the Farm Service Agency (FSA) have long helped producers to protect environmentally sensitive land, decrease erosion, restore wildlife habitat and safeguard ground and surface water. In addition to supporting producers in their roles as stewards of the land, these conservation programs open the door to important economic opportunities for America's farmers and ranchers. I will focus, here, on three forms these economic opportunities can take:

- First, ecotourism and agritourism;
- Second, the value-added effect of sustainably produced goods;
- And, third, encouragement for farmers who help establish the next generation of America's farmers.

See: <http://www.fsa.usda.gov/FSA/webapp?area=home&subject=copr&topic=landing>

Ecotourism & Agritourism: Many producers use FSA conservation programs, such as the Conservation Reserve Program (CRP), to nurture wildlife habitat on land not currently in production. A significant number of entrepreneurial and civic-minded producers derive additional income from opening this land to hunters and fishers. The 2008 Farm Bill provides additional support for this through the Voluntary Public Access Program, through which FSA can award grants to State and Tribal governments to encourage public access to private farm and ranch land. Others recognize that conservation practices have the added benefit of further beautifying farmland, thereby making it even more appealing to those interested in ecotourism

and agritourism. An increasing number of farmers earn additional income from agritourists who are interested not only in a product, but in the experience of reconnecting with the land and learning about America's farms. See: http://www.fsa.usda.gov/Internet/FSA_File/tribalgov.pdf

Examples of how producers have used the Conservation Reserve Program (CRP) to create additional sources of income through ecotourism and agritourism:

- David and Carol Gillen of White Lake, South Dakota have a portion of their 4,000 acre operation enrolled in CRP and open this land to pheasant hunting. The additional income from the pheasant hunting and the CRP payments allow the couple to maximize the income from their marginal land while simultaneously providing nesting and winter habitat for pheasants and other game on their farm. Without the winter habitat provided on their land, large numbers of wildlife would have perished during the unusually severe 2009-2010 Winter.

In South Dakota, the Gillens aren't the only ones who have realized the economic opportunities created by conservation practices. There, pheasant hunting on private lands generates more than \$219 million dollars for the state's economy, and South Dakota farmers have encouraged the pheasant population to swell to the highest levels in 50 years.

Value-Added: While implementing these conservation measures might require a producer to have less land in production at a given time, the producer can often earn a greater profit for a sustainably produced product. In other words, conservation practices, in addition to preserving the land for generations to come, can also have a value-added effect.

Examples of producers who have used FSA conservation programs for a value-added effect:

- Donald and Joanne Hosking are improving the lives of 9 million people without ever leaving their dairy farm in Delaware County, New York. They're also improving their product. The Hosking's participate in the New York City Watershed Conservation Reserve Enhancement Program (CREP) that is improving drinking water for New York City-area residents. The Hoskings planted a 2,400-foot livestock laneway, and an 8,000-foot fence that kept their cattle out of the stream while ensuring the animals have a sufficient water supply. Donald is very satisfied with CREP's results: "The water system works well and the cows have plenty of good water to drink. The trees and shrubs are fantastic and some, after two years, are five feet tall. There's an increase in songbirds and other wildlife. And the biggest benefit is the improvement in our cattle's health since they are out of the wet, swampy areas."
- Grayson Natural Foods is a value-added livestock production business located in Grayson County, Virginia. With the help of FSA conservation programs, the five farmers who formed Grayson Natural Foods were able to transform their traditional livestock operations into an environmentally and economically sustainable one. Now, they enjoy great success and even supply nearby Wake Forest University with environmentally responsible beef.

NEW! Encouraging Beginning and Socially Disadvantaged Farmers: The 2008 Farm Bill introduced the Transition Incentives Option Program under the existing Conservation Reserve Program (CRP) and provided \$25 million to fund it. Under this program, retiring farmers can help establish the next generation of America's farmers and ranchers, encourage sustainable farming practices, and continue to earn income for their families. The Transition Incentives Option Program provides two additional years of CRP payments to producers who lease or sell farmland that is exiting the CRP program to beginning and socially disadvantaged farmers who utilize sustainable grazing or crop production methods. Given the aging of America's farmers coupled with the ceiling placed on CRP enrollment, it is likely the Transition Incentives Option Program will help match junior and senior farmers. As always, for more information contact your local FSA office.

Eligibility

Conservation programs generally require land ownership or operation for at least one year prior to program enrollment with certain exceptions; that land be cropland planted for a certain period of time and remain capable of planting; meets certain federal or state conservation priorities or environmental thresholds; and is removed from conventional agriculture production from a period ranging from 10 to 15 years. Eligibility and requirements vary depending on the program. For specifics, please see:

<http://www.fsa.usda.gov/FSA/webapp?area=home&subject=copr&topic=landing>