DEC 8 2000

Dr. Hazell Reed
Chair
USDA Advisory Committee on
Beginning Farmers and Ranchers
Delaware State University
1200 North Dupont Highway
Dover, Delaware 19901-2277

Dear Dr. Reed:

Thank you for your letter of May 31, 2000, to Secretary Glickman on behalf of the Advisory Committee on Beginning Farmers and Ranchers (Committee). We were pleased to receive the Committee's additional recommendations and are glad to report on our progress in addressing the Committee's earlier motions. I apologize for the delay in responding.

I will address the Committee's recommendations in the order they appeared in your letter.

(1) Adequate funding for Farm Service Agency (FSA) loans.

In recognition of the continuing demand for credit, a total of more than $4.7 billion is available for FSA's farm loans programs in fiscal year (FY) 2001. This level of funding exceeds the amount obligated for loans in the last several years, including FY 2000. However, a shortfall of direct farm ownership (FO) loan funds may occur in FY 2001. If necessary, we will consider using any available transfer authorities to supplement direct FO funding.

(2) The Department of Agriculture (USDA) should champion changes in the law concerning State "Aggie Bond" programs in the pending tax legislation.

The Committee specifically encouraged Secretary Glickman's support of H.R. 1810 and S. 1038, which would exempt Aggie Bonds from State volume caps on Industrial Revenue Bonds. Your earlier letter also encouraged changing the Federal tax law to allow FSA guarantees on Aggie Bonds.

While the Secretary generally supports these bills and the Committee's recommendations, I should point out that the requested changes are not within the authority of the Secretary of Agriculture, but rather fall under the Department of the Treasury's jurisdiction. The Department of the Treasury is generally opposed to expansion or exemptions of volume caps and did not look favorably on the pending legislation.

As you may know, Aggie Bonds were discussed during a hearing of the U.S. House of Representatives' Subcommittee on Empowerment and Subcommittee on Rural Enterprises, Business Opportunities, and Special Small Business Problems on November 3, 1999. The Administrator of USDA's Economic Research Service (ERS) testified before the Subcommittees on the aging of agriculture and the participation of young producers in farming. The ERS Administrator discussed funding sources available to beginning farmers, making specific reference to the Aggie Bond program, its limited size, and the small number of producers that are helped through this program. In followup to the testimony, the ERS Administrator shared with the Subcommittee chairmen the Secretary's responses to your initial six recommendations, commenting specifically on H.R. 1810 and S. 1038.

(3) USDA should conduct a comprehensive assessment of FSA's beginning farmer and rancher programs.

The Committee specifically recommended that Secretary Glickman schedule a meeting with representatives from USDA agencies, the USDA Advisory Committee on Small Farms, and the Beginning Farmer and Rancher Advisory Committee's Subcommittee to discuss modifying the annual National Agricultural Statistics Service's survey of farmers to enhance the knowledge base on beginning farmer and rancher issues. This is an excellent suggestion, and the appropriate agency officials have been contacted to arrange the meeting consistent with the Federal Advisory Committee Act.

You also recommended that USDA include beginning farmer and rancher issues in future research and extension competitive grant program requests for proposals. In FY 2000, USDA's Cooperative State Research, Education and Extension Service (CSREES) awarded nearly $18.2 million in grants to projects aimed at promoting farm efficiency and profitability. A grant of $1.7 million was awarded to the New England Small Farm Institute for their proposal titled *Growing Northeast Farmers: A Regional Service Providers Consortium*. The Consortium will establish an integrated service infrastructure to ensure the viability of the region's next generation of small and family farmers. Also, a $65,000 grant was awarded to the University of Arkansas for a project titled *Modeling U.S. Bank Guaranteed Lending to Family, Beginning and Socially Disadvantaged Farmers*. USDA will continue to consider beginning farmer issues in future grant awards.

You further recommended allocating discretionary funds to a university, firm, or other non-Government organization to conduct research on FSA loan programs to beginning farmers and ranchers. USDA was under a very tight discretionary spending limitation in FY 2000 and will continue to be in FY 2001. However, USDA could consider funding this type of study if discretionary funds are available.

(4) **USDA should become more involved in promoting Federal-State beginning farmer and rancher partnerships.**

We have been informed that since 1993, 16 States with beginning farmer programs have signed memorandums of understanding with FSA to provide joint financing to beginning farmers and ranchers. FSA officials are currently working to conclude Memorandums of Understanding with several other States that have recently enacted beginning farmer programs. Secretary Glickman has instructed FSA to contact their State officials (in areas where there are currently no beginning farmer programs) and encourage them to work with their respective State Departments of Agriculture to assist beginning farmers through Federal-State cooperation. FSA State offices were also asked to advise State Departments of Agriculture on the assistance for developing beginning farmer programs that is available through the National Council of State Agricultural Finance Programs.

Concerning the Committee's other recommendation on this issue, USDA is willing to work with the Committee to develop future legislative proposals to make the Federal-State partnership more attractive to States.

(5) **USDA should assure that adequate trained staff is available in FY 2000 in FSA offices where heavy demand for loans is expected.**

You specifically recommended that Secretary Glickman encourage cross-training of FSA employees at the county level, hire additional qualified loan officers, and be prepared to replace personnel in the future. We agree that there is a need for cross-training of FSA county office employees. For the past few years, FSA officials have instructed State and county office staff on their role in delivering FSA programs and their cross-training priorities. The success of cross-training has varied tremendously from office to office because of the differences in employee skill levels and other program priorities. Further, cross-training efforts are often hindered by the number of ad hoc programs FSA is required to implement each year. However, cross-training of FSA employees remains a priority when it is necessary to meet the needs of local customers.

As mentioned in Secretary Glickman's letter of February 1, 2000, FSA has hired more than 100 employees in the last year to administer the farm loan programs. However, these new employees cannot immediately assume all of the responsibilities associated with the title of loan officer because of the complexities of FSA programs. New hires must spend an extensive period of time working with seasoned employees to learn the intricacies of FSA regulations and the programs' governing statutes. Therefore, hiring additional staff does not always provide a quick remedy to improve customer service. You may be assured that FSA officials will continue to look at detailing experienced employees to areas where loan demand is heavy and hiring additional personnel as the budget allows.

Further, the Clinton Administration is very concerned about the substantial number of Federal employees that are eligible for retirement in the next several years. As you noted, this includes approximately 30 percent of FSA farm loan employees. President Clinton recently directed all Federal department heads to fully integrate human resources management into planning, budgeting, and mission evaluation processes, and to clearly state specific human resources management goals and objectives into strategic and annual performance plans so that potential personnel crises can be averted. USDA recognizes the urgency of this issue and has taken steps to address it so that all USDA customers continue to receive needed benefits and services.

(6) USDA should continue to support full funding of the Small Farmer Outreach, Training and Technical Assistance (section 2501) Program.

The Committee specifically recommended that Secretary Glickman support full funding by endorsing a recommendation of the National Commission on Small Farms (Commission) report regarding increased funding for this program.

Secretary Glickman has supported full funding for the section 2501 program during his tenure as Secretary of Agriculture. Because it is an election year, the Secretary will not formally submit budget initiatives to OMB for FY 2002. However, USDA will look for opportunities to discuss and recommend to incoming Administration officials that they support the increased funding requested by the Commission report.

The Committee also suggested that USDA provide support and assistance to create sources for alternative financing for minority farmers where the need exists and to remove the impediments in the Farm Credit Administration (FCA, regulators for the Farm Credit System) which prevent financing for underserved groups.

USDA is not aware of any specific impediments within FCA that would prevent financing to minorities or beginning farmers. If you could provide more specific examples or information, USDA would be pleased to look into the matter and respond further.

In the interim, it may interest you to know that FCA held its annual symposium during May 24-26, 2000, in Washington, D.C. The agenda included two programs (*Seeking out Young, Beginning, Small and Minority Farmers* and *Ensuring Borrower Rights*) which focused on reaching out to beginning farmers and ideas for improving minority participation.

In the past few years, USDA has worked closely with the Farm Credit System on beginning and minority farmer issues. On July 13, 2000, FSA representatives met with officials of the Farm Credit Council (FCC, the industry trade representatives for the Farm Credit System), to discuss available programs and ideas for creating additional opportunities for these producers. The Council agreed to send a representative from the Farm Credit System to the next meeting of your Committee. Also, FCC plans to conduct a comprehensive study on young and beginning farmers nationwide beginning in January 2001.

(7) **Term Limits.**

The Committee recommended developing a legislative proposal increasing the term limits for direct operating loans from 7 to 10 years and eliminating disaster years from the calculation of the 10-year and 15-year limits for direct and guaranteed loans, respectively.

On June 20, 2000, President Clinton signed into law the Agricultural Risk Protection Act of 2000, (2000 Act), which suspended all term limits on FSA direct and guaranteed operating loans until December 31, 2002. In the interim, Congress plans to reevaluate term limit requirements for the loan programs. We have been extremely concerned about the effect of term limits on family farmers and are very pleased with Congress' action to include this provision in the 2000 Act.

(8) **Interest Assistance (IA).**

The Committee recommended that USDA "take the appropriate steps to utilize IA in States where it is not currently used; make beginning farmers a higher priority with regard to IA; and establish IA for 5 years to beginning farmers without requiring an annual review."

On June 15, 2000, a group of stakeholders representing the lending industry, secondary market, and FSA met to discuss numerous issues involving the FSA Guaranteed Loan Program. One of the topics discussed was the use and availability of IA. The stakeholders recommended that FSA research the usage of IA to determine the reasons for its concentration in certain States. They also recommended that FSA provide IA to all beginning or minority farmers.

FSA officials agree that the concentration of IA usage by a small number of States is cause for concern. The Agency is researching the usage discrepancies and will take action to address misuse of the program. FSA officials also intend to explore why a majority of States do not take full advantage of interest subsidy. Your suggestion for providing IA to new producers for a 5-year period will be considered.

(9) **Borrower Training.**

The Committee recommended FSA "undertake a comprehensive review of the borrower training program" and look at ways of improving it.

USDA appreciates the Committee's suggestion and recognizes that, in some areas, the borrower training program may not be very successful. Some changes to the program are currently underway that may be of interest to the Committee. Under existing regulations, FSA cannot require applicants who have previously received a training waiver or satisfied training requirements to complete training. Proposed regulations, however, will allow FSA to require these direct loan applicants to complete training when (1) the proposed loan is to finance a new enterprise for which the applicant has not had production training, or when (2) an assessment of the borrower's operation indicates that additional production or financial management training is needed. FSA anticipates that this change will improve a farmer's chance for success by ensuring that the producer has some of the necessary skills to better manage the operation.

Improvements to the borrower training program, while important, have not been a high priority given the other critical demands on the FSA staff and the limited number of personnel available to administer the loan programs. After receiving your recommendation, however. Secretary Glickman asked FSA officials to determine what options might be available for reviewing the program's performance within resource constraints. Carolyn Cooksie, FSA's Deputy Administrator for Farm Loan Programs, assured the Secretary that, when time allows, her staff will take a more comprehensive look at borrower training issues and will research other "effective" training models to determine if certain elements can be adapted to improve the existing borrower training program.

(10) Downpayment Farm Ownership Loan Program.

The Committee recommended that USDA consider a legislative proposal to lengthen the repayment period for the FSA-financed portion of loans made under the Downpayment Farm Ownership Loan Program.

The downpayment program was established in FY 1994. After the number of loans peaked in FY 1995, there has been a sharp decline in demand for this program. With the current economic trends in farming, many FSA applicants are unable to provide the required 10 percent downpayment or to show repayment on the FSA-financed portion. Your recommendation could therefore provide a means for increasing participation in the program. FSA will consider a legislative proposal to lengthen the term, taking into consideration the increased subsidy cost to the Government.

(11) Crop Insurance.

The Committee recommended that Secretary Glickman support legislation to "provide higher subsidy rates on crop insurance coverage to beginning farmers and ranchers and to increase their actual production history to 110 percent of the county average so that they can obtain operating loans."

During the 1995 through 1998 crop years, the Risk Management Agency (RMA) conducted a pilot program of assigned yields for new producers, as required by the Federal Crop Insurance Act of 1994. The legislation required that the pilot provide new producers without yield histories a yield guarantee for multiple-peril crop insurance that was greater than the guarantee that other farmers without established yield histories would receive. One rationale for the pilot program was that the standard method for setting a farm operation's yield guarantee, in the absence of a yield history, may make it difficult for a beginning farmer to obtain credit.

RMA conducted the pilot program in 32 counties in 10 States for the 1995 through 1998 crop years. In assessing the effectiveness of the program in making credit available, the Economic Research Service (ERS) found that although crop insurance is one consideration during a loan application review, a borrower's balance sheet is usually the most important factor. The level of the insurance guarantee did not seem to be critical. Almost all of the lenders who were contacted by ERS stated that a slight increase in yield guarantee was unlikely to change a loan decision. Based in part on the finding of the ERS review, RMA discontinued the pilot program at the end of the 1998 crop year.

Provisions of the 2000 Act make crop insurance coverage more affordable for all producers through increased subsidies for buy-up protection. Under the 2000 Act, the subsidy for 65/100 insurance (coverage/price) increases from 42 percent to 59 percent. For 50/100 insurance (coverage/price), the 2000 Act provides 67 percent subsidy, an increase of 22 percent from the existing subsidy level. In addition, administrative fees for all crop insurance coverage levels (not just for catastrophic coverage) are waived beginning with the 2001 crop year for limited resource farmers.

(12) Training for Young Beginning Farmers and Ranchers.

The Committee recommended that USDA design and encourage model programs to train high school students in farm operation and management in cooperation with FFA, 4-H, and other organizations.

One source of funds currently available for this type of training is USDA's Secondary Agriculture Education Challenge Grants Program. Under this competitive grants program, grants may be awarded to any public secondary school or 2-year post-secondary institution (that awards an associate's degree) that has made a commitment to teaching agriscience and agribusiness in order to encourage more young Americans to pursue and complete a baccalaureate or higher degree in the food and agricultural sciences and ensure a qualified workforce to serve the food and agricultural sciences system.

In the most recent competition held in 2000, eligible schools could receive up to $20,000 for an individual project and $30,000 for joint projects with cooperating schools. One of the targeted need areas supported in 2000 aimed to promote new and improved curricula and instructional materials to increase the quality of teaching programs in agriscience and agribusiness. This grant program also promotes linkages within and among various public secondary schools; public secondary schools and 2-year postsecondary institutions: or public secondary schools and baccalaureate or higher degree granting institutions.

Also, the 2000 Act mandates USDA, acting through CSREES, to establish a program under which competitive grants are made to public and private entities (including land grant colleges, cooperative extension services, and colleges or universities) to educate agricultural producers about risk management activities. Funds totaling $5 million will be available for grants under this program in FY 2001.

The 2000 Act also stipulates that RMA may enter into partnerships with CSREES, the National Oceanic and Atmospheric Administration, and other entities to provide producers with training and informational opportunities so they will be better able to use financial management, crop insurance, marketing contracts, and other risk management tools. RMA may use up to $20 million per year for this purpose in FY's 2001 through 2003.

Section 133 of the 2000 Act further requires RMA to establish a program under which crop insurance education and information is provided to producers in States, as determined by the Secretary, where there is a low level of crop insurance participation and availability and where producers are underserved by the Federal crop insurance program. The 2000 Act provides for $5 million to be used for this purpose in FY 2001.

Again, thank you for the hard work and careful thought you and the Committee put forth in formulating these recommendations. Although a number of challenges lie ahead, we are confident that with the Committee's help USDA can make significant progress in improving our programs for new farm operators, as well as encouraging more people to enter the industry.

Sincerely,

August Schumacher, Jr.
Under Secretary for Farm and
Foreign Agricultural Services