



THE NEW ENGLAND SMALL FARM INSTITUTE

The Honorable Ann M. Veneman, Secretary
U.S. Department of Agriculture
Washington, D.C. 20250

October 1, 2001

Dear Secretary Veneman,

On behalf of the USDA Advisory Committee on Beginning Farmers and Ranchers, I offer congratulations on your appointment as Secretary of Agriculture. The Committee looks forward to working with you and your Department to enhance opportunities and services for our next generation of farmers and ranchers.

The Committee met on June 19-20, 2001 in Washington, DC. It was the Committee's third meeting since initial members were appointed in 1999. As in past meetings, Committee members discussed a wide range of issues of importance and concern regarding new farmers and ranchers.

At this meeting, it produced a set of recommendations for consideration by your Department. Many of these recommendations are also included in a draft Beginning Farmer and Rancher Act (BFARA) that was reviewed and endorsed by the Committee, and is being promoted for inclusion in the 2002 Farm Bill. The Committee's current recommendations are included below, and a summary of the BFARA is enclosed with this correspondence.

1. USDA should seek adequate funding for FSA loans. The Committee recommends \$200 million for direct farm ownership (FO) loans to meet farmers' needs in FY 2002 and FY 2003. There has been a shortfall of direct FO loans over the last few years. We urge you to help secure an increase as the FY 2002 bill moves through Congress and to recommend a \$200 million program level in the FY 2003 USDA budget proposal. The Committee understands our proposed increase for FY 2002 would require less than \$2 million in actual appropriated dollars, yet would increase loan fund availability by 65%.

2. USDA should champion changes in the law concerning first time farmer/rancher tax-exempt agricultural bond ("aggie bond") programs. We specifically recommend changes to the existing IRS regulations that prohibit federal guarantees on federally tax-exempt bonds. Aggie Bonds should be placed on equal footing with several other federal programs that are exempt from the tax law prohibiting guarantees. Also, Aggie Bonds should be exempted from the state volume caps on Industrial Revenue Bonds to increase

their availability nationwide. BFARA would specifically authorize USDA to make loan guarantees in conjunction with Aggie Bonds. Senators Grassley and Baucus have sponsored a bill to exempt Aggie Bonds from state volume caps and may be interested in a companion tax bill to allow FSA loan guarantees on Aggie Bonds. We urge you to support these efforts and to provide leadership within the Administration to promote these changes.

3. USDA should consider a legislative proposal to amend several provisions of FSA loan programs. We recommend: lengthening the repayment period for the FSA financed portion of loans made under the downpayment loan program from ten to twenty years; increasing the size of the FSA portion of the overall loan from 30% to 40%; reducing the interest rate from 4% to 3%; and reducing the borrower's minimum down payment requirement from 10% to 5%. Also, we recommend revising FSA's restrictions on refinancing to allow lenders to provide bridge financing when FSA is temporarily out of direct farm ownership loan funds, or allowing lenders to instead finance the entire loan amount, including what would have been the FSA share, using interest assist funds.

4. USDA should conduct a comprehensive assessment of FSA beginning farmer and rancher programs. Such an assessment would include follow up to a meeting held in 2001 with National Agricultural Statistics Service, Economic Research Service and Committee members to further investigate options and methods to collect and analyze data about beginning farmers and ranchers. The Committee also encourages USDA to allocate discretionary funds to a university, firm, or non-governmental organization to conduct a user survey and related research on FSA loan programs to beginning farmers and ranchers.

5. USDA should do more to promote Federal-State partnerships and state beginning farmer and rancher programs. In FY 2000, in response to a prior recommendation from this Committee, the former USDA Secretary sent a letter to the Governors of the 34 States without Federal-State Beginning Farmer Partnerships, informing them of USDA beginning farmer programs and the availability of the Partnership. In FY 2001, the FSA Deputy Administrator for Farm Loan Programs wrote to FSA State officials encouraging them to work with their State Departments of Agriculture to assist beginning farmers and ranchers through Federal-State cooperation. The Committee respectfully suggests that the Secretary write State Departments of Agriculture to encourage the development of such programs and partnerships, and another letter be sent to state FSA directors in states without programs to encourage them to work with their State Departments of Agriculture.

6. USDA should assure that adequate, trained staff is available in FSA offices, particularly where heavy demand for loans is expected. Training should encompass customer service and skills to respond to the cultural, racial and language diversity within the new farmer and rancher constituency.

7. We urge the Secretary to advocate for a beginning farmer and rancher development initiative that supports new and established local and regional training, education, outreach, and technical assistance programs such as those listed in the BFARA e.g., mentoring and apprenticeship programs, land linking, entrepreneurial training, etc.

8. USDA should continue to support full funding of the Small Farmer Outreach, Training and Technical Assistance (Section 2501) Program. The Committee recommends that funding be increased to \$10 million for FY 2002. In addition, the Committee encourages USDA to provide support and technical assistance to create sources for alternative financing and encourage the Farm Credit Administration to review and remove impediments in its regulations, in particular the limitation imposed on financing the full credit needs of part-time farmers (many of whom are beginning farmers and ranchers that require off-farm income to be viable), which prevents serving underserved groups. We urge you to support an increase in farm bill authorization to \$20 million and to recommend the same figure in the FY 2003 USDA budget proposal.

9. The Secretary is encouraged to develop a legislative proposal to increase the graduation requirements (term limits) for direct operating loans from 7 to 10 years. The Committee also urges the elimination of disaster years from the calculation of the 10-year and 15-year limits for direct and guaranteed loans.

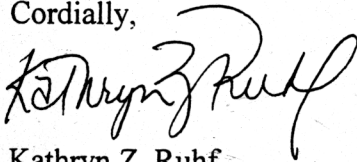
10. USDA should take administrative action to make serving beginning farmers and ranchers a priority for the interest assist (IA) program. In addition, appropriate steps should be taken to expand IA to states where it is currently underutilized. We also urge your support for legislative changes, included in BFARA, to reserve the highest interest rate reduction for beginning farmers and ranchers and to target interest assistance to moderate-sized loans.

11. FSA should undertake a comprehensive review of the borrower training program. Specific emphasis should be placed on concerns in the area of waivers, cost, and number of vendors available, also looking at ways to partner with Risk Management Agency's education programs and other agencies and organizations to devise innovative improvements to the program. With regard to waivers, the Committee urges adoption of clear, consistent and transparent waiver criteria based primarily on a demonstration of functional equivalency. We also urge your support for a legislative change in the farm bill to provide authority to waive the 3-year farming/ranching requirement for direct farm ownership loans based on successful completion of borrower training.

12. USDA should encourage model programs to train high school and community college students in farm operation and management in cooperation with Future Farmers of America, 4-H, Risk Management Agency, and other programs.

We very much appreciate your consideration of these recommendations and we look forward to hearing from you. If you have any questions or would like to discuss any of the recommendations further, I and other Committee members would be pleased to meet with you. On behalf of the USDA Advisory Committee on Beginning Farmers and Ranchers, and our future farmers and ranchers, I thank you for your efforts.

Cordially,

A handwritten signature in black ink, appearing to read "Kathryn Z. Ruhf". The signature is written in a cursive, flowing style.

Kathryn Z. Ruhf

Chair, USDA Advisory Committee on Beginning Farmers and Ranchers

Attachments:

Committee members

Draft Beginning Farmer and Rancher Act

Cc: Committee members

Under Secretary J.D. Penn

BEGINNING FARMER AND RANCHER ACT OF 2001
Section-by-Section Summary

Section 1 - Short Title and Table of Contents

Section 2 - Findings and Purposes

Title I - Research, Training, and Outreach

Section 101 - Beginning Farmer and Rancher Development Program

Establishes a Beginning Farmer and Rancher Development Program to support new and established local and regional training, education, outreach, and technical assistance initiatives whose purpose is to foster new farming opportunities. Examples of the types of services such initiatives provide include:

- mentoring, apprenticeship, and internship programs
- resource and referral services
- "land link" assistance for retiring and new farmers and ranchers
- education and outreach related to farm/ranch exit strategies
- information on innovative farm/ranch transfer models
- entrepreneurship and business training
- model land leasing contracts
- financial management training
- whole farm planning
- conservation assistance for beginning operators
- risk management education
- diversification and alternative marketing strategies
- curricula development, and
- other similar means of assisting beginning farmers and ranchers.

The program is --

- Funded through a new mandatory spending account, with annual amounts starting at \$20 million and increasing to \$40 million over 5 years.
- Administered by the Cooperative State Research, Education, and Extension Service (CSREES) on a competitive basis (open to all institutions and organizations), with 25% non-federal matching requirements.
- Targeted especially to collaborative local, state, and regionally-based networks and partnerships that may include Extension, community-based, non-governmental

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organizations, relevant USDA and state agencies, universities, community colleges, and other appropriate partners.

Special emphasis is given to projects or programs that address the needs of limited resource and minority beginning farmers and farmworkers who are becoming farm/ranch operators.

Proposals submitted to the BFRDP should demonstrate that the proposed initiative focuses on gaps in current beginning farmer and rancher programs and services and should include information on how the proposal would help leverage additional resources.

A national multi-agency and multi-stakeholder Administrative Council for the BFRDP includes representatives from CSREES, NRCS, RBCS, RMA, FSA, National Farm Transition Network, National Council of State Agricultural Finance Programs, National Association of State Agricultural Loan Programs, and other national, state, or local organizations and coalitions with expertise in operating beginning farmer and rancher programs. The council is responsible for issuing requests for proposals, providing oversight for the proposal evaluation and award process, and for program monitoring and evaluation.

Section 102 - Beginning Farmer and Rancher Research and Extension Program

Establishes a new Beginning Farmer and Rancher Research and Extension Program as part of Section 406 of the Agricultural Research, Extension, and Education Reform Act of 1998 (AREERA) - Integrated Research, Education, and Extension Competitive Grants Program activities. The initiative dedicates its resources to researching, developing, and disseminating farm tenure, transfer, succession, finance, development, management, production, and marketing models and strategies that foster new farming and ranching opportunities. Emphasis is given to innovative farm transfer tools, low capital investment approaches to farming, optimal use of skilled labor and management, high value and value-added production and marketing methods, and other similar means of getting successful independent family farms started. Administered by CSREES on a competitive basis (open to all institutions and organizations), the program is authorized to receive \$10 million per year.

Section 103 - Fund for Rural America

Amends FAIR Act to specifically include beginning farmer and rancher research, education, and extension grants as eligible uses for Fund for Rural America research spending and beginning farmer and rancher programs as eligible recipients of Fund for Rural America rural development spending.

Section 104 - Initiative for Future Agriculture and Food Systems

Amends AREERA to specifically include beginning farmer and rancher research, education, and extension grants as eligible uses for Initiative for Future Agriculture and Food Systems funds.

Section 105 - Risk Management Education

Amends risk management education program to include a subsection on beginning farmer and rancher risk management strategies, including farm transition alternatives, equity financing, conservation investments, marketing and diversification strategies, and value-added production. The products developed under this subsection would be specifically tailored to the needs of beginning farmers and ranchers.

Title II - Credit Programs

Section 201 - Reservation of Loan Funds for Beginning Farmers and Ranchers

Reauthorizes without amendment the Consolidated Farm and Rural Development Act's (Con Act) loan fund targeting features for direct and guaranteed farm ownership and operating loans.

Section 202 - Transfer Authority

Reauthorizes without amendment the Con Act's late-year transfer authority to move unused guaranteed operating loan funds to beginning farmer down payment and beginning farmer farm ownership loan accounts.

Section 203 - Beginning Farmer and Rancher Down Payment Loan Program

In order to make the down payment program more flexible, extend its reach to a greater number of potential borrowers, and increase significantly the total number of customers served by any given overall direct farm ownership loan funding level, this section amends the down payment loan program to:

- require the borrower to make a down payment of "not less than 5% of the purchase price" (rather than the existing fixed 10%)
- increase the size of the FSA loan from 30% to 40% of the purchase price
- increase the duration of the FSA portion of the loan from 10 years to 20 years
- reduce the interest rate on the FSA portion of the loan from a fixed 4% to 3% or half the regular DFO interest rate, whichever is less.

Directs that performance goals be established for each state with significant direct farm ownership lending levels to increase the percentage of total farm ownership loan funds used for down payment loans with a goal of reaching or exceeding the statutory "reservation of funds" level within three years.

Provides that when a down payment loan has been approved by FSA and FSA is out of direct farm ownership funds, the private lender in a down payment loan transaction may elect to provide all the financing using an "interest assist" guaranteed loan.

Provides that when a down payment loan or a 50/50 participation loan has been approved by FSA but FSA funding is not available in a timely fashion, lenders may provide bridge financing of the FSA component and FSA is authorized to refinance the bridge loans when FSA additional funding becomes available.

Section 204 - Interest Assisted Guaranteed Loans

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Amends the "interest assist" program to (a) give qualified beginning farmers and ranchers, including minority and other socially disadvantaged farmers and ranchers, priority for new interest assisted operating loans, (b) for new interest assisted operating loans, limit the maximum 4% interest rate reduction to loan amounts of up to \$100,000 to beginning farmers and ranchers, including minority and other socially disadvantaged farmers and ranchers, with a 2% interest rate break for all loans up to \$300,000 to beginning farmers and ranchers and all other qualified borrowers, (c) provide flexibility with respect to beginning farmer and rancher interest assisted loans to allow positive cash flows, and (d) provide an option for multiyear interest assistance for beginning farmers and ranchers not to exceed 5 years.

Section 205 - Aggie Bonds

Authorizes guaranteed loans to be used in conjunction with state beginning farmer program first time farmer ("aggie bond") loans, subject to enactment of corresponding changes to the IRS code. Expresses sense of Congress in support of tax law changes to allow such guarantees and to exempt aggie bonds from the volume cap on industrial revenue bonds.

Section 206 - Inventory Land Sales

Lengthens the statutory timelines for inventory land sales so that land is available for sale to beginning farmers for no less than one complete normal land sale season. Adds a directive to maximize beginning farmer and rancher opportunities by splitting or joining inventory parcels to appropriate sizes. Also strengthens requirements for advertising land availability. Retains the current 18 month lease option.

Section 207 - Borrower Training

Continues the current borrower training requirement and program. In order to reduce wide interstate variation on waivers, improve the effectiveness of the loan programs, and enhance the success of the farming operations, directs the Department to develop clear, consistent, and transparent waiver criteria, based primarily on demonstration of functional equivalency. Provides authority for FSA to waive the three year farming requirement if the training is taken and successfully completed.

Section 208 - Pilot Projects

A - Beginning Farmer and Rancher Equity Assistance

On a pilot basis, authorizes the Department to offer beginning farmers and ranchers equity-enhancing start-up assistance in annual payments for up to five years in amounts not to exceed the total cost to the government of average FSA beginning farmer operating loans for a similar duration. Qualified beginning farmers and ranchers

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opting to participate in the program must meet FSA eligibility criteria, submit a suitable farm plan, provide a partial cash match, and be willing to forgo eligibility for FSA direct operating loans at the same time.

B - Land Contract Pilot

Authorizes a pilot project to test the effectiveness of loan guarantees for contract land sales from private land sellers to qualified beginning farmers and ranchers in cases where the loan meets all underwriting criteria for guaranteed loans and a bank or other lending institution serves as escrow agent.

C - Guaranteed Lease Pilot

Authorizes a pilot to encourage landlords to lease land to beginning farmers and ranchers and to provide flexibility in obtaining equipment and facilities leases. In pilot areas, FSA will guarantee 90% of annual payments due lessor if the lessee is a qualified beginning farmer or rancher and the cash rent is at or below market price, 90% of lease payments or residual value of equipment under lease, and 90% of loss on default of a facilities lease.

D - Value-Added Farm Coop Loan Program

Establishes on a pilot basis a direct participation loan program to provide low interest, limited duration federal loans in combination with private financing to assist beginning farmers and ranchers gain a stake in value-added agricultural coops. Also tests the use of interest-assisted guaranteed loans for beginning farmers and ranchers to use to enter value-added agricultural coops.

Title III - Conservation Programs

Section 301 - Farmland Protection Program

Amends the federal Farmland Protection Program, which provides matching grants to state and local farmland easement purchase programs, to incorporate a preference for farmland protection programs that integrate concern for future farmers and ranchers, not just saving farmland and open space. State and local programs would receive extra ranking points in the fund allocation process if they require or encourage farm/ranch transfer and succession plans on the part of the easement payment recipient. Likewise, individual easement offers that incorporate farm transfer and succession plans would also receive funding priority.

Section 302 - Conservation Incentive Programs

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Amends conservation incentive programs to provide an option for up-front, lump sum payments to qualified beginning farmers and ranchers in return for full term contracts for conservation practice installation and environmentally-sound management according to the terms of the particular conservation incentive program. The lump sum payments should equal the net present value of the stream of all future payments under the particular conservation program. Also provides authority for the Department to establish beginning farmer and rancher target participation rates and/or bonuses/incentives for beginning farmer and rancher participants in particular conservation incentive programs.

Title IV - Rural Business and Cooperative Development Programs

Section 401 - Rural Business and Coop Development Programs

Amends rural business and coop development programs to include explicit eligibility for beginning farmer projects as well as projects that incorporate substantial participation by beginning farmers and ranchers.

Section 402 - Farm Coops

In instances where USDA is delivering financial assistance (loans, loan guarantees, etc.) to value-added agricultural coops, provides authority to the Department to provide incentives to coops that reserve at least 10% of membership in the coop for qualified beginning farmers and ranchers.



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 8 2002

Ms. Kathryn Z. Ruhf
Chair
USDA Advisory Committee on
Beginning Farmers and Ranchers
The New England Small Farm Institute
Post Office Box 937
Belchertown, Massachusetts 01007-0937

Dear Ms. Ruhf:

Thank you for your letter of October 1, 2001, to Secretary Veneman, on behalf of the Advisory Committee on Beginning Farmers and Ranchers (Committee). We were pleased to receive your recommendations and draft legislation, the "Beginning Farmer and Rancher Act." The Secretary asked me to respond, and I apologize for the delay in replying to your letter.

As you may be aware, many of the Committee's recommendations have been incorporated into the provisions of either the House or Senate version of the Farm Bill. However, some of the Committee's recommendations are outside the scope of the Department of Agriculture (USDA), as well as the scope of the House and Senate Agriculture Committees. For example, the Committee recommended that USDA guarantee loans to beginning farmers when the loans are backed by "Aggie Bonds." USDA currently has authority to guarantee loans backed by "Aggie Bonds," and the Senate version of the Farm Bill includes a clarification of this authority. However, changes to Federal tax laws are necessary before this authority may be implemented.

You may be assured that USDA will be working with Congress on passage of a Farm Bill, which includes adequate assistance to beginning farmers and ranchers. Once again, thank you for the Committee's recommendations and your continued interest in USDA programs for beginning farmers and ranchers.

Sincerely,

A handwritten signature in cursive script that reads "James R. Moseley".

James R. Moseley
Deputy Secretary