DEC 1 0 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 June 21, 2002, to Secretary Veneman, on behalf of the Advisory Committee on Beginning Farmers and Ranchers (Committee). I was pleased to receive the Committee's recommendations and commend you and the other members on your commitment to helping beginning farmers and ranchers. The Secretary asked me to reply to your letter.

I will address each of the recommendations as they appeared in your letter.

(1) The Department of Agriculture (USDA) should include funding for the Beginning Farmer and Rancher Development Program in the fiscal year (FY) 2004 budget.

Thank you for your suggestion regarding funding for this program. USDA is pleased that the authority was included in the Farm Security and Rural Investment Act of 2002 (2002 Act). The Cooperative State Research, Education, and Extension Service (CSREES) strives to support the development of agricultural technology that benefits American agriculture and the American public as a whole. As the budget is developed for FY 2004 and beyond, CSREES will continue to consider all the tools available in its portfolio to address the needs of beginning farmers and ranchers, including the new Beginning Farmer and Rancher Development Program.

(2) The Risk Management Education (RME) program should target beginning farmers and ranchers.

The Risk Management Agency (RMA) has established RME programs in States identified as "underserved," including all New England States, along with Utah, Wyoming, and Nevada. RMA recognizes that beginning farmers represent an important target for these education programs. The Agency will seriously consider the Committee's recommendation to more specifically encourage the funding of programs for beginning farmers and ranchers in future "Requests for Applications (RFA)."

(3) The Initiative for Future Agriculture and Food Systems (IFAFS) competitive grants program should encourage awards to projects that directly benefit new farmers and ranchers.

USDA is pleased that the 2002 Act included substantial new resources for this program, which is administered by CSREES. As you probably are aware, the FY 2003 House Agriculture Appropriations Bill precludes USDA from administering the program in FY 2003. The Senate Agriculture Appropriations Bill provides $60 million in "integrated programs" to be used to administer the purposes of IFAFS. Once a final funding level for FY 2003 is established, CSREES will publish a new RFA taking into account changes made to the program in the 2002 Act and comments submitted by stakeholder organizations. While the needs of small farmers and landowners were woven throughout the past two IFAFS programs, the "Farm Efficiency and Profitability" program was especially relevant to those interested in developing research and education programs specifically targeted to beginning farmers.

(4) USDA should promote partnerships with organizations that purchase easements on farmland.

We see this potential partnership as an innovative and constructive means for helping beginning farmers and ranchers. I have instructed Farm Service Agency (FSA) officials to enter into memoranda of understanding with agencies and organizations that purchase easements on farmlands, if such agencies and organizations are willing to do so. We agree that such a partnership involving FSA's Downpayment Farm Ownership (FO) loan program could improve the affordability of land purchases for beginning farmers and ranchers.

(5) The Committee strongly supports FSA's authority to refinance bridge loans and encourages public input into implementation.

FSA issued a notice to its field offices on July 2, 2002, to implement Section 5002 of the 2002 Act, which permits the refinancing of a temporary bridge loan under certain circumstances. This option will allow farmers to obtain needed financing in situations where a shortage of funds prevents FSA from closing an approved direct FO loan.

(6) The Committee supports the 2002 Farm Bill requirement for FSA to target not less than 15 percent of guaranteed operating loan interest assistance (IA) funds to beginning farmers and ranchers.

Since FY 1994, FSA has targeted not less than 15 percent of the total IA allocation to beginning farmers and ranchers. In FY 2002, 11 percent of the total IA allocation was utilized to these producers. In accordance with the 2002 Act, FSA will continue to target not less than 15 percent of the allocation to beginning farmers and ranchers.

(7) USDA should champion changes in the law concerning Aggie Bonds.

As you know, the 2002 Act reiterated that USDA has the authority to guarantee loans made with Aggie Bonds, but changes to the Federal Tax Code are necessary before this authority may be implemented. I will instruct FSA officials to schedule a meeting with officials from the Department of the Treasury to discuss the mandate of the 2002 Act.

(8) USDA should review the FSA borrower training program.

FSA is drafting a proposed rule that will make some improvements to the borrower training program. Under existing regulations, FSA cannot require applicants who have previously received a training waiver, or who satisfied training requirements, to complete the training. The proposed regulation, however, will allow FSA to require these direct loan applicants to complete training when: (1) the proposed loan is to refinance a new enterprise for which the applicant has not had production training, or (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 producer's chance for success by ensuring that the producer has some of the necessary skills to better manage the operation. These changes, along with others, will be made based on comments FSA receives from the public during the rulemaking process. I have instructed FSA officials to discuss with Risk Management Agency (RMA) officials the role RMA could play in providing borrower training.

(9) The Committee concurs with the intent described in the Conference report language (2002 Farm Bill) concerning FSA farm ownership loans to farmers and ranchers who have participated in the business operations of a farm or ranch for not less than 3 years.

This provision of the 2002 Act was temporarily implemented with FSAs July 2, 2002, notice to its field offices. FSA provided interim guidance as to what criteria could be used in determining "participation in business operations of a farm or ranch for not less than 3 years." To allow for public comment on this issue, FSA will publish a proposed rule on the participation requirement in the near future. The Committee is invited to comment during the 60-day comment period.

(10) The Committee recommends that more than five States, representing a balance of all geographical regions of the U.S., be used to develop the FSA land contract sales pilot project authorized in the 2002 Act, and that the Department seek public input on implementation of this program from the Advisory Committee.

Your recommendation has been forwarded to FSA officials for their consideration. As you know, the 2002 Act requires FSA to make a determination as to whether guarantees of contract land sales present a risk that is comparable with the risk associated with guarantees to commercial lenders. FSA recently completed a study of the risk presented by guarantees of contract land sales, and a decision was made to proceed with the pilot program

(11) The Natural Resources Conservation Service (NRCS) should implement beginning farmer and rancher incentives in conservation programs.

NRCS will issue proposed regulations to implement the programs under its responsibility for public comment. Your suggestions will be taken into account along with other comments received during the rulemaking process. NRCS is committed to expanding conservation assistance to beginning farmers and ranchers.

(12) NRCS should consider beginning farmers and ranchers in the Farmland Protection Program.

The State NRCS office, often working in conjunction with the State Technical Committee and others interested in farmland protection, rank submitted Farmland Protection Program (FPP) proposals each time a funding cycle occurs. Your suggestion to consider farm or ranch transfer and succession plans in future FPP proposal ranking processes has been forwarded to the national FPP program manager for consideration.

(13) USDA should include $205 million for FSA direct Farm Ownership loans in its FY 2004 budget proposal.

The amount of farm ownership funds requested will be carefully considered based on the need to meet applicant demand and the overall allowances within the USDA budget.

(14) USDA should take a strong role in promoting Federal-State Beginning Farmer Program partnerships.

In the next few months, a USDA official will send letters to the State Departments of Agriculture in States where there is no Federal-State beginning farmer partnership (with a copy to the FSA State Executive Directors) and will encourage them to develop beginningfarmer and rancher programs. We will also inform them of the opportunities for partnerships with existing Federal programs.

(15) The Committee recommends that USDA assure that adequate, trained staff is available in FSA offices at all levels.

We acknowledge that staffing shortages in some offices is a concern. FSA is attempting to obtain additional staffing to help alleviate this situation.

(16) USDA should support full funding of the Section 2501 Program.

For FY 2003, the House Agriculture Appropriations Bill recommends $8.243 million for the Section 2501 program and the Senate Agriculture Appropriations Bill recommends $3.493 million. USDA is currently in the final stages of preparing the FY 2004 Administration's Budget and will consider your input in the process. Recently, responsibility for the administration of the 2501 program was transferred to CSREES. On November 6, 2002, CSREES published a Request for Proposals for the 2501 program in the Federal Register (67 Fed. Reg. 67, 587), which incorporates the important changes in eligibility that were passed as part of the 2002 Act.

(17) FSA should examine and report on the borrower training program.

As mentioned earlier, proposed changes will be made to the borrower training program, which we hope will improve the program's effectiveness. I have instructed FSA, as time permits, to obtain data on the use of the program to determine if other changes are needed.

(18) Recommend that USDA 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, other agencies, and non-profit organizations.

As you point out, there are several new and existing programs through which youth development programs can be conducted to benefit beginning farmers and ranchers. The role of youth in rural communities has never been more apparent than in this year when 4-H is celebrating its 100th anniversary. Certainly, as you also mention, partnerships with youth organizations will be critical in recruiting young farmers and ranchers into the industry. Secretary Veneman has been speaking with youth from across the country as part of the Leaders of Tomorrow initiative and has discovered among America's youth a strong excitement about the opportunities in agriculture. CSREES, through 4-H and other youth development programs, will seek to engage America's youth in the challenges facing the food and fiber production system.

(19) The Committee recommends that the Secretary encourage cooperation between the Farm Credit System and FSA to improve delivery of programs to beginning farmers and ranchers.

In June of this year, FSA held a guaranteed loan program stakeholders meeting in San Diego, California. Officials from the Farm Credit System and the banking industry attended the meeting, which centered around improving the guaranteed program through discussion and suggestion. Stakeholders felt that more proactive steps needed to be taken to encourage lenders to provide credit to beginning farmers. Many suggestions were offered, and FSA is considering changes to its guaranteed program to make beginning farmer loans more attractive to lenders.

(20) USDA should address certain FSA provisions. Specifically, the Committee recommends that the Secretary give full consideration to clarifying and educating producers on understanding the requirements of maintaining beneficial interest, and its relationship to FSA farm program payments. Further, we request that county FSA offices make Form CCC-701 a standard signature form for all producers in their annual signup.

We realize there could be some confusion regarding the beneficial interest provision in relation to a producer's eligibility to receive a loan deficiency payment (LDP) on an eligible commodity. However, this provision is not a new eligibility requirement for USDA program benefits. Because of the low commodity prices, the marketing assistance loan program and, consequently, the LDP program became important tools for producers. With the vast increase in LDP requests, we found that there was some confusion regarding the beneficial interest provision. For that reason, FSA began an aggressive campaign to educate producers through town meetings, news releases, fact sheets, newsletters, and producer mailings which stressed not only the importance of maintaining beneficial interest in the commodity when requesting an LDP, but also the availability of other USDA program benefits.

With respect to your suggestion to make Form CCC-701 a standard signature form for all producers, we cannot comment on this form because it is not in USDA's database. However, we surmise that you may be requesting FSA to incorporate the CCC-709, Direct Loan Deficiency Payment Agreement, and CCC-633 LDP, Loan Deficiency Payment Certification and Application, into one form. The CCC-709 was developed specifically for producers who would otherwise be ineligible for an LDP with respect to their commodity. To combine the forms now would be even more confusing to producers who have become familiar with the use of each form.

Once again, thank you for the Committee recommendations and your continued interest in USDA programs for beginning farmers and ranchers.

Sincerely,

J.B. Penn
Under Secretary
Farm and Foreign Agricultural Services

Update on Committee Recommendations

March 24, 2004

1. **Beginning Farmer Development Program (CSREES) should be funded.** No funding has been made available.

2. **Risk Management Education Program (RMA).** The Committee recommended to the Secretary that USDA's Risk Management Agency (RMA) specifically state in their "Request for Proposals" for grant applicants that proposals targeted to beginning farmers and ranchers be encouraged. In a Federal Register notice published June 13, 2003, RMA adopted the recommendations and also stated that higher scores would be given to applicants that were sensitive to the needs of beginning farmers and ranchers and to those who planned to partner with organizations that assist beginning farmers and ranchers. In August 2003, several evaluation panels met to review the proposals. On October 8, 2003, USDA issued a press release stating that $24.7 million in risk management partnership agreements were awarded for outreach and education opportunities. At least 7 organizations assisting beginning farmers and ranchers received grants.

3. **Initiative for Future Agriculture and Food Systems (CSREES) grants should encourage awards to projects that directly benefit new farmers and ranchers.** Funding no longer authorized.

4. **USDA should promote partnerships with organizations that purchase easements.** FSA official met with American Farmland Trust representatives in June 2003 to discuss potential MOU. Follow up required.

5. **Committee supports FSA's authority to refinance bridge loans.** Implemented by notice to FSA offices on July 2, 2002. Published in a Final Rule on February 18, 2003.

6. **Committee supports Farm Bill requirement for FSA to target not less than 15 percent of guaranteed operating loan interest assistance (IA) funds to beginning farmers and ranchers.** FSA has done so since Fiscal Year (FY) 1994. In FY 2003, 13 percent of IA funds and 17 percent of IA loans went to beginning farmers and ranchers. In FY 2004, FSA received approximately 35 percent fewer guaranteed interest assistance funds.

7. **USDA should champion changes in the law concerning Aggie Bonds.** FSA officials and Wayne Nelson (President, Communicating for Agriculture), met with Treasury officials in March 2003, to explain the rationale for a change in the law

that would allow FSA guarantees on tax-exempt bonds, and why it would be such a benefit for beginning farmers and ranchers. Treasury officials have no interest in supporting a change to the law.

8. **USDA should review the borrower training program (review consistency, adequacy, uniformity of training Nationwide; notify Committee if no opportunity for public comment; coordinate with RMA to provide training.)** FSA briefed the Committee today on borrower training, and mentioned there is a section on it in FSA's streamlining regulations that were published as a proposed rule on February 9, 2004. The public can comment through April 9, 2004.

9. **Committee concurs with intent of Farm Bill language concerning FSA farm ownership loan eligibility for beginning farmers and ranchers who have participated in the business operations of a farm or ranch for not less than 3 years.** Implemented by Notice to FSA offices July 2, 2002. Proposed rule for public comment published April 9, 2003. Final Rule implemented effective March 5, 2004. It added a definition of "participated in the business operations of a farm or ranch" and states that an applicant must have participated in the business operations of a farm or a ranch for at least 3 years out of the 10 years prior to the date the application is submitted.

10. **Committee recommends that FSA land contract sale pilot program consist of more than 5 geographically balanced states.** Program implemented in September 2003 in Indiana, Pennsylvania, Wisconsin, Iowa, Oregon, and North Dakota. No loans as of yet. However, last week a Letter of Interest to obtain a guarantee was signed by a seller in Wisconsin. There is another potential interested seller in Wisconsin. North Dakota has done outreach, but there has been no interest. Oregon has done a lot of outreach, has had five inquiries, and recently sent a "Letter of Interest" to a seller who has inquired about the program. It is very likely the seller will participate.

11. **NRCS should implement beginning farmer and rancher incentives in conservation programs (special incentives, monitor activities, report to Committee).** Addressed by NRCS today.

12. **NRCS should consider beginning farmers and ranchers in the Farmland Protection Program (special ranking bonuses for applications having farm/ranch transfer and succession plans, bonus points for plans benefiting beginning farmers/ranchers as transferees or when applicant is beginning farmer/rancher)** NRCS published a final rule dated May 16, 2003, adding a definition of "Farm Succession Plan". Under ranking consideration and proposal selection, an example of national criteria that State Conservationists could consider include "history of an eligible entity's commitment to assisting beginning farmers and ranchers, to promoting opportunities in farming and ranching, and to farm and ranch succession

transfer." The rule also stated that NRCS may place a higher priority on farms or ranches that have a farm succession plan or similar plan established to encourage farm viability for future generations (addressed by NRCS today).

13. **USDA should include $205 million for FSA direct FO loans in its FY 2004 budget proposal.** In FY 2004, FSA obligated $168.6 million in direct FO funds, $124.3 million of which went to assist beginning farmers and ranchers. For the FY 2005 budget, USDA requested $200 million. The Office of Management and Budget concurred with that request.

14. **USDA should take a strong role in promoting Federal-State Beginning Farmer Partnerships (contact State Departments of Agriculture and FSA offices to encourage partnerships).** FSA notified all Governors and FSA State Offices (where partnerships had not been created) in writing in 2003. Last fall the State of Kentucky received $20 million dollars to assist beginning farmers and ranchers. As a result, FSA signed an MOU with the Kentucky State Beginning Farmer Program on October 2, 2003. On March 1, 2003, FSA signed an MOU with the Vermont State Beginning Farmer Program.

15. **USDA assure that adequate, trained staff is available in FSA offices at all levels.**

    - Within the last year, FSA has established a mentoring program for Farm Loan Chiefs (they oversee FSA loan programs in their respective state). This program consists of experienced Farm Loan Chiefs from certain states providing training to newly established Farm Loan Chiefs.

    - FSA just completed nationwide videoconference training for county office farm loan program technicians, which was received very positively by attendees. Training for those who missed the session is available on-line.

    - FSA continues to provide farm loan officer training nationwide. This training consists of loan program orientation and Credit and Financial Analysis training sessions. Loan officers are required to review direct loan making and servicing and guaranteed loan making and servicing training modules. After reviewing each module, they must complete an exam. After all module reviews and individual exams are completed, they must take a comprehensive exam covering all modules. Acceptable scores must be achieved in order to receive loan approval authority.

    - FSA has regional recruiting teams actively participating in recruiting efforts at local agricultural colleges and job fairs, in order to promote USDA as a promising career and to recruit top-notch loan officers.

16. **USDA should support full funding of the Section 2501 program (Outreach, Training and Technical Assistance for minorities and women (CSREES)).** In FY 2004, USDA received $5.9 million in funding for the 2501 program. USDA requested $5.9 million in the FY 2005 budget, which is the amount that the President's budget reflects.

17. **FSA should examine and report on the borrower training program** (Discussed by FSA today).

18. **Recommend that USDA encourage model programs to train high school and community college students in farm operation and management (ensure education of beginning farmers and ranchers through outreach; prevent Ag education from being removed from Department of Education).** CSREES solicited grant applications in FY 2004 for the Secondary and Two-Year Postsecondary Agriculture Education Challenge Grants Program. This program seeks to (1) promote and strengthen secondary education in agriscience and agribusiness, and (2) promote complementary linkages in these education programs in order to advance excellence in education and encourage more young Americans to pursue and complete a degree in the food and agricultural sciences. CSREES states that there could be components of farm operation and management in this program.

19. **Recommend Secretary to encourage cooperation between the Farm Credit System and FSA to improve program delivery to beginning farmers and ranchers.** FSA representatives have met with the Farm Credit Administration (FCA) to discuss beginning farmer issues, how FSA could increase participation in assisting beginning farmers and ranchers, and actions FCA has taken as a result of a General Accounting Office (GAO) audit concerning Young, Beginning and Small (YBS) farmers. FCA is the regulator for FCS. On September 15, 2003, FCA published a rule proposing to amend its' regulations governing FCS's mission to provide sound and constructive credit services to YBS farmers and ranchers. This proposed rule was a follow-up to FCA's Advance Notice of Proposed Rulemaking dated September 23, 2002, regarding whether changes were necessary to enhance the FCS's service to YBS farmers and ranchers, as a result of the GAO audit. The Designated Federal Official for the Committee submitted comments stating that FSA supported any FCA effort designed to help this segment of producers, and recommended that FCA establish specific goals with regard to the number of guaranteed loans made to beginning farmers and ranchers by FCS institutions.

    Since Fiscal Year 2002, FSA has established goals for each State to increase the number of direct and guaranteed loans to beginning farmers and ranchers. In its proposed rule of September 15, 2003, FCA proposed to require that each direct lender association establish annual quantitative targets for credit to YBS farmers and ranchers, which the rule states could include loan volume, loan number, and percentage goals. They also proposed to require annual qualitative YBS goals, which the rule states would include FCS taking full advantage of opportunities for coordinating credit and services offered to qualified YBS farmers by other Governmental and private sources. On March 11, 2004, the FCA board approved a final rule designed to enhance the FCS's service to young, small and beginning farmers and ranchers (discussed earlier today by FCA officials).

20. **Provide education to farmers on FSA farm program payments.** FSA conducted an aggressive education campaign.