Beginning operations are exploring nontraditional financing models (see call out box). Given the high capital needs and low margins of the agricultural sector, beginning farmers have particular challenges in securing sufficient credit from traditional sources so they can build successful businesses. This is because they are 1) less likely to have established sales and cash flow records, 2) more likely to use differentiated market strategies, including local food channels for which there are fewer government programs available to manage production and financial risk, and 3) less likely to own adequate collateral to secure traditional loans. We include two definitions of beginning farmers: 1) all operators are beginning (all beginning) and 2) operations where one or more, but not all, operators are beginning (some beginning).

This fact sheet explores the loan portfolios of beginning producers and how they differ from established producers. This fact sheet explores the role of these programs for beginning and established operations. Across all operations, traditional commercial lenders hold the majority (52%) of loan balances, but there are shares also held by Farm Credit (29%), input suppliers (8%), personal relationship finance (6%), FSA (5%), Federal/state financing (1%), and credit cards (<1%).

Key Takeaways:
- Beginning operations hold a higher share of their total loan balance from FSA, Federal/state financing, and credit cards than established operations.
- Long-term loans from these less traditional credit options are more important for operations where all operators are beginning farmers compared to both operations with some beginning farmers and established operations.
- Targeted FSA programs seem to have effectively supported beginning farmers, but unexpected use of credit cards and reliance on input suppliers suggest more opportunities to improve access to capital.

Operations with all beginning farmers utilize FSA to fund long-term debt more than both operations with some beginning farmers and established operations.

When they choose (or feel compelled) to use long-term credit sources, operations with all beginning operators are more dependent on nontraditional credit sources (FSA, Federal/state financing, input suppliers, personal relationship finance, credit cards) than both operations with some beginning farmers and established operations.

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Data and Approach

Data is from the 2013-2016 U.S. Department of Agriculture’s (USDA) Agricultural Resource Management Survey (ARMS), the USDA’s primary source of information on the financial condition of U.S. farm businesses. It is an annual, nationally representative survey that targets farms in the 48 contiguous states, with a focus on the core agricultural states.

Figure 2. Proportion of U.S. beginning and established producers selling through local food markets with and without crop insurance, by market channel.

» Violin plots allow us to visualize how the distribution of loan balance shares differ for beginning and established farmers across lender groups.

» The loan balance shares in the graphs are wider where there is a higher proportion of the sample and thinner where there is a lower proportion of the sample.

Nontraditional Financing

Traditional commercial lending includes savings and loan associations, commercial banks, Farmer mac (provides a secondary market for agricultural credit), and credit unions.

Federal/state financing includes small business administration (SBA) and state and county government lending agencies.

Input suppliers include implement dealer financing corporations, input suppliers, co-ops and other merchants, and contractors.

Farm service agency (FSA) offers loans to help farmers and ranchers get the financing they need to start, expand or maintain a family farm.

Farm credit supports rural communities and agriculture with reliable, consistent credit and financial services.

Personal relationship finance includes life insurance, individuals for whom any land in an operation was bought under a mortgage or deed or trust, and individuals for whom any land in an operation was bought under a land purchase contract.

Pairwise tests comparing beginning to established farmers are statistically significantly different for all lender types.

Input supplier credit is most commonly used by beginning and established farmers.

Higher balance shares were reported for FSA, Federal/state financing, and credit cards among beginning farmers.

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