

Statement of
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For the Credit Hearing
Of the
Subcommittee on Conservation, Credit, Energy, and Research
U.S. House of Representatives Committee on Agriculture

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Good morning Chairman Tim Holden and Members of Conservation, Credit, Energy and Research Agriculture Subcommittee. Thank you for the opportunity to testify on credit and beginning farmer issues which are critically important to agriculture and rural communities. My name is Karen Stettler and I serve as Director of the Land Stewardship Project's Farm Beginnings program. My testimony today is on behalf of the Land Stewardship Project and the Sustainable Agriculture Coalition.

The Land Stewardship Project (LSP) was founded in 1982 and is guided by a mission to foster an ethic of stewardship for farmland, promote sustainable agriculture, and to develop sustainable communities. LSP is primarily a rural membership organization which works nationally, and in Minnesota, focusing on farm and environmental issues. Our work encompasses three primary program areas: a Community Based Food System program which supports local and regional food systems and efforts that connect farmers and consumers; a Policy and Organizing Program which organizes people to successfully impact corporate and government policies that affect their lives at the federal, state and local level; and a Farm Beginnings program aimed at training and assisting new farmers getting started on the land.

LSP's Farm Beginnings program is a farmer-led educational training and support program designed to help people who want to evaluate and plan their farm enterprise. Individuals enrolled in the program participate in a 10 month course where they attend classes focused on values clarification, goal setting, whole farm planning, business plan development, as well as attendance of on-farm workshops highlighting low-cost, sustainable farming methods. While enrolled in the Farm Beginnings program, participants are also paired with existing farmers who serve as mentors. Since 1997 when LSP started the Farm Beginnings program, over 300 people have graduated from the course. Of those graduates 60 percent are currently farming.

For the purpose of my testimony today I will focus on the following points:

- opportunities that are available for new farmers and ranchers in agriculture;
- obstacles beginning farmers and ranchers face in getting started; and
- public policy solutions to help address some of the barriers beginning farms face such as struggles to obtain reasonable credit and the lack of access to beginning farmer and rancher education and training programs.

The Land Stewardship Project's depth of knowledge on these issues is rooted in the real experiences of our members and communities in which we work. I hope my testimony is informative as policy options are evaluated to increase the vitality and opportunities in rural America.

Opportunities in Agriculture

Great opportunities in agriculture now exist because of advances in emerging markets and an increasing consumer demand for a variety of local or value-added agriculture products. Beginning farmers and ranchers are well positioned to take advantage of these opportunities. These new entrepreneurs are often more flexible in responding to markets, able to take on more risk but lower debt loads than many conventional enterprises. In our experience, the new

entrepreneurs also bring diverse backgrounds but a common spirit of determination to the profession of farming.

The growth in organic agriculture over the last ten years is one of the most remarkable advances in our food system. Consumer demand for organic food has grown 15-20 percent a year over the past decade. With such a growing consumer demand for organic food, the need for organically-certified producers is immense, with imports growing due to a lack of sufficient U.S. production. New farmers and ranchers are well positioned to take advantage of this and other similar burgeoning markets high quality, differentiated products that support family farming and the environment. New farmers and ranchers are less bound by previous commitments to and investments in conventional farming operations, giving them more flexibility in responding to growing markets. The pricing structure of organic and other premium markets also allow beginning farmers to start with lower equity and on smaller scales, building their farming enterprises one step at a time.

Other premium markets are also expanding. Currently companies such as Niman Ranch Pork Company are paying premiums above the cash market price for livestock that is raised naturally, without antibiotics, and to a specified animal husbandry standard. Growth in this area is evident. Chipotle Mexican Grill, a food chain who sources Niman Ranch Pork, just opened their 600th restaurant nationwide. In testimony provided to the Minnesota State Legislature by Chipotle Mexican Grill marketing consultant Mike Fuller on a package sustainable agriculture bills the message was clear, “We’re really proud to offer naturally raised meats but we can’t get enough of it,” said Fuller. “We’ve proven there is a demand for this kind of food and funding these research initiatives would make it possible for us to get more of these products locally.”

Fuller went on to explain how the restaurant chain cannot get enough Niman Ranch pork to meet their demand. For individuals willing to raise livestock at consumer-driven animal wellness standards great opportunities exist. Other emerging premium markets include the growth of demand for grass-fed beef, which because of specific feeding regimens results in health benefits associated with high levels of omega 3 fatty acids. Because specific feeding regimens take greater management skills, beginning farmers and ranchers who are often starting with fewer animals have an added advantage: the ability to focus more time on individual care of livestock. Being able to reap the rewards of premium markets such as Niman Ranch Pork Company and grass-fed beef allows new farmers and ranchers to grow their farming operations and to succeed.

In addition there is an increase in consumer interest in purchasing food through emerging local and regional marketing systems. This phenomenon is gaining traction and has allowed new farmers to capture more of the consumer dollar for the products they sell. The growth in Community Supported Agriculture farms, farmers’ markets, and direct marketing opportunities of farm products to consumers and restaurants has expanded in recent years.

Lastly, the potential of sustainable farm-based energy cropping systems is an exciting and new development in agriculture. There is still much to learn about sustainable biomass systems, but new farmers may be well positioned to get in on the ground floor and take advantage of new energy crops.

Desire to Farm

Not only are there increasing opportunities in agriculture, but our experiences and the experience of other organizations working with beginning farmers and ranchers leads us to believe we are experiencing a boom in the number of people who desire to farm.

According to John Baker, Beginning Farmer Center Administrator for Iowa State University and the President of the National Farm Transition Network, the ratio of qualified and potential successors desiring to farm and those farmers who are willing to provide such an opportunity by transferring the operation is 10 potential successors to every 1 farmer. Marion Bowlan, Director of Pennsylvania Land Link, reports that since 1994 when they established their database which connects individuals looking for land to farm with landowners interested in selling or renting, the ratio of successors to existing farmers is 3 to 1. LSP's Farm Beginnings program faces a similar situation. Often times we've had to turn away potential students due to large demand and classes at full capacity. After offering Farm Beginnings in Minnesota for 10 years, we have in no way outstripped demand for the program. The 2006-07 class includes the greatest numbers of participants we've ever had and inquires about the next session continue to be made. In response to demand, we have also now helped start Farm Beginnings classes in Illinois, Missouri and Nebraska.

Obstacles Beginning Farmers and Ranchers Face

Despite opportunities in agriculture, beginning farmers and ranchers continue face a number of very significant barriers to getting started. A changing landscape in rural America requires a new paradigm when considering what public policies can reinvigorate the countryside. For starters, new farmers and ranchers are much more diverse than previous generations. In addition to next-generation farmers from multi-generational farms and ranches, this new generation includes former farm workers, people from non-farming backgrounds such as mid-life career-changers, and college graduates who have chosen farming as their first career. They include more women than ever, as well as families with Hispanic, Somali, Hmong, and Eastern European backgrounds.

Whether or not they are from a farming background, this diverse new generation of farmers and ranchers faces a set of very difficult challenges and needs. Adequate access to credit, training, technical assistance, land, and markets are critical to their success. For socially disadvantaged farmers, many of whom may have faced bias and discrimination and who are historically underserved by USDA programs, the obstacles can be especially difficult to overcome.

For my testimony today I will concentrate on just two of the many barriers and struggles beginning farmers and ranchers confront that are connected but also present their own unique qualities:

- Difficulty beginning farmers and ranchers experience when attempting to obtain affordable credit.
- A lack of support networks and educational and training programs for new farmers and ranchers.

Barriers to Accessing Credit

One struggle beginning farmers and ranchers face when seeking funds for land acquisition or operating capital is accessing reasonable credit. This Subcommittee and Committee has demonstrated great leadership since the 1990 Farm Bill and the 1992 Agricultural Credit Act in formulating new credit policies that attempt to serve beginning farmers and ranchers. In general, our evaluation of current Farm Service Agency (FSA) lending provisions, including the Beginning Farmer and Rancher Down Payment Loan Program and farm ownership and operating loan targeting provisions, are working reasonably well, though their effectiveness can be improved with some policy modifications in the new farm bill.

In our view, though, one of the most important hurdles to obtaining credit for beginning farmers is getting them to the point where they can apply for FSA loans or credit from private lenders. Farmers, including beginners, need to do careful preparation and planning before approaching an institutional or private lender. Helping beginning farmers develop the tools and know-how to do sound business planning is the best way to assist farmers in achieving affordable credit.

In 2002-03, the Land Stewardship Project conducted a Farmer Lenders Survey which was sent to 1,550 sustainable farmers, agriculture lenders and agriculture educators. The survey focused on the perception, knowledge, and practice concerning sustainable agriculture and credit-related issues. With a 39% response rate the surveys provided useful insight that fortified our assumptions to the barriers farmers and beginning farmers face when trying to access credit either from an institutional or private lender.

According to the farmer respondents nearly two-thirds use a local source for credit. This relationship between local banks and farmers appears to be where the majority of lending takes place. The symbiotic relationship between local banks and farmers is critical in rural America. The survey also found that when assessing major barriers to accessing credit 25 percent of farmer respondents chose lack of external funding as the major challenge they faced in implementing sustainable agricultural practices.

From our experiences in the Farm Beginning program, where we work intimately with a segment of farmers often in desperate need of credit, some of the more common struggles we hear from participants attempting to obtain FSA loans are:

- the volume of paper work and application process is overwhelming and daunting enough to turn people away;
- the lack of technical assistance in guiding applicants through the process;
- a lack the knowledge and tools needed to develop business plans; and
- there is a need for education of FSA and other lenders about the broadening variety of farm enterprises.

Responses from lenders to our survey were consistent from what we had heard from FSA loan officers: one of the biggest barriers to providing credit to all farmers was a lack of an appropriate business plan.

Through our Farm Beginnings work we have run into cases where new farmers are trying alternative enterprises or production systems that do not fit traditional lending patterns and therefore they struggle to obtain credit. One family LSP worked with in Wisconsin was starting an alternative enterprise that included an on-farm bakery and use of permaculture (a long-term cropping rotation). In 2003, the family decided to expand their farming enterprise. A total of 16 different banks turned the family away despite the solid business plan they had prepared. After unsuccessful attempts to obtain credit the couple resorted to more desperate measures and financed their expansion on credit cards. In 2005, under duress, the family participated in a continuing education class following up on the Farm Beginnings course they had taken in 2000. After redrafting their farm business plan and working through a network of friends, they were able to sit down with a FSA loan officer and finally get a loan.

In many cases working with Farm Beginnings graduates we have found that obtaining sufficient amounts of credit takes a creative approach and a number of different lending options bundled together. For example, one option that a number of Farm Beginning graduates take advantage of is the use of a partnership between the Land Stewardship Project and Heifer International. The partnership allows beginning farmers to secure livestock loans. Through the livestock loan farmers build equity. This added equity allows for greater leveraging power when accessing credit through a lender. We have had graduates who receive a livestock loan and build equity for a number of years and then use that equity to leverage credit through a participation loan from a local lender in conjunction with an FSA loan.

Both scenarios above contain a common thread to their success, a connection to a community based organization providing networks and training to overcome barriers that beginning farmers face when trying to obtain credit. One obvious solution to helping farmers overcome hurdles to obtaining credit is support for additional community-based beginning farmer and rancher education and training programs.

Building equity through livestock loans or saving through development accounts puts farmers in a better position to access credit whether through FSA or a local lender.

A Lack of Beginning Farmer and Rancher Education and Training Networks

One of the most underserved communities in agriculture is beginning farmers and ranchers. The lack of educational and training programs when compared with the number and diversity of individuals interested in farming is astounding.

Perhaps the most critical component to succeeding in farming is having clear expectations and realizations of what new farmers and ranchers can accomplish when they start. Financial and entrepreneurial training programs can assist new farmers and ranchers with goal setting; marketing and communication skills development; whole farm decision-making; and financial monitoring including assets management, credit preparation and cash flow assessment.

In addition, educational and training programs for beginning farmers and ranchers lends to a framework that builds networks between farmers. Mentor/apprentice relationships can provide new farmers and ranchers with a sounding board as they get started on the land. The value of on-

farm experience can be irreplaceable for new farmers and ranchers. Unfortunately few such apprenticeship programs exist.

Beginning farmer and rancher training programs run by community-based organizations in partnership with local, state, and federal agencies and institutions are increasingly important as the supply of future farmers diversifies beyond the sons and daughters of multi-generation farm families. The few sparsely distributed partnerships and training courses across the nation that exist are operating on shoe-string budgets and largely surviving because of the dedication of talented instructors and strong community bonds. If there ever was a place to make an argument for the infusion of federal support for long-term economic development and stability, beginning farmer and rancher training programs present a very case. The 2007 Farm Bill represents an important and timely opportunity to make this investment in the future of rural America.

Public Policy Solutions to Support Beginning Farmers

Over the next two decades, an estimated 400 million acres of agricultural land will be transferred to new owners and will either remain in production or be converted to non-agricultural uses. The future health and vitality of agriculture and the food system will depend on public policies that encourage a new generation of farmers and ranchers to work in agriculture.

The 2007 Farm Bill should include a major, cross-cutting initiative that addresses in a comprehensive fashion the needs of beginning farmers and ranchers. The “Beginning Farmer” initiative should provide beginning farmers and ranchers with tools they need to successfully enter farming or ranching, to be good stewards, to be innovative and entrepreneurial, and to be better able to respond to the rapidly changing demands of the marketplace.

Since 1990, Congress has begun to incorporate provisions into the farm bill that are specific to beginning farmers and ranchers, especially in the area of farm credit. These existing efforts should be improved and expanded. We recommend the following revisions and additions.

Beginning Farmer and Rancher Down Payment Loan Program

The Down Payment Loan Program was established by the 1992 Agricultural Credit Act and implemented by USDA beginning in 1994. The special loan program reflects the dual realities of increasingly scarce federal resources and the significant cash flow requirements of most new operations. It combines the resources of the Farm Service Agency, the beginning farmer, and a commercial lender or private seller. Because the government’s share of the total loan cannot exceed 40 percent of the price, limited federal appropriated dollars can be spread to more beginning farmers.

Under the program, FSA provides a down payment loan to the beginning farmer of up to 40 percent of the farm’s purchase price or appraised value, whichever is less. This loan is repaid in equal installments for up to 15 years, at a 4 percent interest rate, and is secured by a second mortgage on the land.

The beginning farmer must provide an additional 10 percent of the purchase price in cash as a down payment. The total purchase price or appraised value, whichever is less, cannot exceed \$250,000. The remaining 50 percent of the purchase price must be financed by a commercial lender or a private seller on contract. This financing may use assistance from a state beginning farmer program, which can frequently provide lower interest rates and longer repayment terms than other loans from commercial lenders. The loan or contract must be amortized over a 30-year period but can include a balloon payment due anytime after the first 15 years of the note.

A commercial loan (either farm ownership or operating) made to a borrower using the down payment loan program may be guaranteed by the FSA up to 95 percent (compared to the regular 90 percent) of any loss, unless it has been made with tax-exempt bonds through a state beginning farmer program.

Throughout the 90s this program was quite successful in creating new farming starts, though loan making activity has slowed in recent years as interest rates have remained fairly low. Since its inception, the program has made down payment loans to help 2,728 new farmers purchase their first land, for a loan volume of \$124 million. In the recent years, however, low interest rates have made the Down Payment interest rate differential too small to make much difference and therefore has reduced the attractiveness of the partnership approach. As a result, the vast majority of direct loans have returned to the traditional 40-year 100 percent government financing loan approach or to 50/50 partnership loans between FSA and banks.

The 2007 Farm Bill should make several adjustments to the program, including most importantly setting the interest rate at 4 percent below the regular direct farm ownership interest rates or one percent, whichever is greater. This change will better accomplish what the Committee originally intended when it wrote the program during a period of high interest rates. We commend the Administration for addressing this issue in their farm bill proposal. In our view, however, the floating rate proposal is superior to the Administration's proposal for a flat 2 percent interest rate because it will not contract the number of loans that can be made in high interest rate years.

We also support these additional changes to the program:

- The maximum allowable sales price should be (a) changed to maximum allowable portion of sales price eligible for the down payment loan, and (b) increased from \$250,000 to \$500,000 to reflect the new land market realities since the law originally passed in 1992.
- The borrower down payment requirement should be reduced to not less than 5 percent, with the FSA portion increasing to 45 percent, and loan repayments should be deferred for the first year. These two changes were also recommended by the Administration.
- In order to maximize the number of borrowers who can be served and to promote graduation of borrowers from government to commercial loans, the down payment program and the 50/50 joint financing participation loans should be made the first choice option for real estate loans in all regions of the country.

Loan Fund Reservations for Beginning Farmers

The 1990 and 1996 Farm Bills and the 1992 Agricultural Credit Act introduced a number of loan fund set-asides and preferences for beginning farmers and ranchers. For instance, 70 percent of all direct farm ownership (DFO) loan funds appropriated by Congress each year are designated for beginning farmers and ranchers, with 60 percent of that total designated for Beginning Farmer and Rancher Down Payment loans. For direct operating loans (DOL), the set-aside is 35 percent. Guaranteed ownership (GFO) and operating loan (GOL) funds targets are 25 percent and 40 percent, respectively. Each of these loan set-asides are released for other types of borrowers at set times during the year if the demand from beginning farmers and ranchers does not fully subscribe the money. Guaranteed operating loan funds that are unused toward the end of each fiscal year are transferred to beginning farmer and rancher down payment and other real estate loans.

The existing statutory loan fund set-asides and inventory preferences should be continued in the 2007 Farm Bill, but with modifications:

- In its farm bill proposal, the Administration has recommended increasing the 70 percent DFO target to 100 percent and the 35 percent DOL target to 70 percent. While we fully endorse the focus on beginning farmers, we believe these proposals go a bit too far, potentially excluding otherwise qualified small family farms from securing loans. We propose instead that the DFO target be raised to no less than 75 percent and the DOL target to no less than 50 percent. We also propose that the GFO target be increased from 25 to 40 percent.
- FSA should be given greater flexibility to respond to fluctuating demand for different types of loans by changing the 60 percent reservation for Down Payment Loans to a two-thirds reservation for the combination of Down Payment Loans and joint financing 50/50 partnership loans. So, in our proposal, at least 75 percent of total direct farm ownership loan funds would be reserved for beginning farmers and ranchers, but at least two-thirds of that total (i.e., half of total DFO loan funds) would in turn reserved for the combination of down payment loans and joint financing loans through April 1 of each fiscal year.

Direct Ownership and Operating Loan Limits and Loan Authorization Levels

Loan limits determine the maximum amount of dollars that an applicant can borrow from FSA. Direct farm ownership (DFO) loans, which finance the purchase or improvement of real estate, currently have a \$200,000 loan limit. Direct operating loans (DOL), which are used to finance production expenses, machinery, equipment, vehicles, and livestock, also have a limit of \$200,000. These limits were most recently updated in the late 1970s and early 1980s. Land, production and capital costs have increased significantly since that time. The current loan limits are no longer meeting the needs of all family-sized and beginning farmers and ranchers who otherwise qualify under the “no credit elsewhere” test.

The 2007 Farm Bill should increase both the direct farm ownership and operating loan limitations from \$200,000 to \$300,000. We do not support the idea of combining the two limits into a single, higher limit. Since most borrowers are operating loan borrowers, a single, higher cap will very likely lead to moving direct lending in the direction of serving fewer, larger farm borrowers. Without a very significant increase in appropriations for direct operating loans, this

would leave many borrowers on the waiting list, unable to access operating credit. We believe, on balance, a \$100,000 increase in both the ownership and operating limits will help update the caps without threatening a large decrease in the number of borrowers being served.

While the farm bill does not set the actual funding levels for these programs, it is true that the current authorized loan funding levels were set with current loan limits in mind. If loan levels are updated and increased, as they should be, the loan authorization levels should also be changed at the same time. We recommend an increase the loan authorization program levels for direct ownership loans from \$205 million a year to \$350 million and for direct operating loans from \$565 million to \$850 million.

Graduation and Term Limits

Under current law, there are restrictions – referred to as term limits – on the number of years a borrower can be enrolled in the FSA direct and guarantee loan programs. The term limits for direct loan programs are seven for operating loans and ten years for ownership loans. There is also a 15-year term limit on guaranteed loans, though Congress has temporarily waived the provision. Once the term limit is reached, a borrower must be able to graduate to private, commercial lender at commercial rates or risk being unable to sustain their operation. Term limits do not have any exclusions or extensions for events such as natural disasters or export bans or other circumstances beyond a producer’s control.

The idea behind term limits is good – that farmers will be able to graduate from direct loans to guaranteed loans to commercial loans over a period of time. Congress passed term limits in part due to past abuses in which some producers simply became lifelong government borrowers by default. However, the hard and fast limits are increasingly viewed as arbitrary and an overly rigid in light of the uncertainties of agricultural production.

The 2007 Farm Bill should re-emphasize and strengthen the borrower training program, loan supervision and regular loan assessment rules, market placement and graduation procedures, and the family-sized farm test and no credit elsewhere test. Congress should direct the agency to issue rules and performance criteria that will ensure these existing elements of the program are more fully utilized. The goal should be to maintain a system that from day one has as its objective starting successful farming operations and graduating borrowers to commercial credit in the shortest period of time possible.

On the basis of having those systems in place and fully funding loan officer staffing and staff training requirements, Congress should eliminate term limits. Properly applied, the existing training, loan assessment, market placement, and family-sized farm and no credit elsewhere limitations are effective in ensuring FSA credit is playing its proper role of providing temporary assistance. With the proper protections and directives in place, farm loan officers should be allowed to do their jobs and make sound loans to qualified borrowers on a temporary basis without the imposition of arbitrary term limits.

FSA Pilot Projects

In the last farm bill, Congress adopted the **Beginning Farmer and Rancher Land Contract** pilot program to allow USDA to provide loan guarantees to sellers who self-finance the sale of land to beginning farmers and ranchers. The pilot program is currently operating in PA, WI, IA, IN, ND, MN, NE, OR, and CA. The program is structured to provide the seller of the land a “prompt payment” guarantee. The guarantee would cover two amortized annual installments or an amount equaling two amortized annual installments. For a variety of reasons, including an overall reduction in land contract sales as land prices escalate and tax sheltering possibilities increase for landowners, the pilot has seen very modest interest and participation. Nonetheless, the concept seems quite sound and we recommend it become part of permanent law as a regular nationwide program option in the new farm bill, with the following changes:

- The current 2-year limit on payment guarantee created by regulation should be extended to three years.
- The land seller should be given the option of choosing either the 3-year prompt payment guarantee or a standard 90 percent guarantee of the outstanding principle.

The new farm bill should create a new pilot program to start building a USDA-run counterpart to the most urban-oriented Individual Development Account program run by the Department of Health and Human Services. A **Beginning Farmer and Rancher IDA pilot program** would use special matched savings accounts to assist those of modest means to establish a pattern of savings and to promote a new generation of farmers and ranchers. The account proceeds may be used toward capital expenditures for a farm or ranch operation, including expenses associated with purchases of land, buildings, equipment, infrastructure, or livestock, or toward acquisition of training. IDA programs specifically targeted to beginning farmers are currently underway in Michigan and California.

Each pilot project would involve an organization, agency, or partnership that would be chosen on a competitive basis to administer the IDA program. The pilots would target limited resource farmers including minority and immigrant farmers. IDA participants attend workshops on business planning, cash-flow projections, understanding credit reports, farm tax rules, and other topics throughout the program. The program would help each participant identify their asset goals related to developing their farm businesses. Many programs would also help connect beginning farmers with opportunities to lease or buy farmland.

Each pilot project would offer savings plans that match dollars saved by the participants, generally on a 3:1 matching basis. Participants would be committed to saving a certain amount each month for several years, so that by the end of the program they would have funds to put toward a down payment on a farm, or to purchase farm or processing equipment or animals. Savings may also be used to qualify the beginning farmer for public or private agricultural loan packages, for use as the borrower’s down payment for the FSA Beginning Farmer and Rancher Down Payment Loan Program. Given the IDA’s connection to future lending, we propose the pilot be run by the loan making division of FSA.

The proposed Individual Development Accounts pilot project begins to address two critical issues – helping new farmers build equity and preparing them to access credit. With this recommendation, I conclude my testimony as it relates specifically to credit needs and recommended policy changes.

However, as I have already suggested, more needs to be done to address the needs of beginning farmers and ranchers than just making credit available on appropriate terms. I will conclude my testimony by highlighting a few additional policy opportunities to aid beginning farmers.

Beginning Farmer and Rancher Development Program

In the last farm bill, Congress authorized the Beginning Farmer and Rancher Development Program (BFRDP), declaring it the first USDA program other than farm credit/debt financing programs targeted specifically to beginning farmers and ranchers. To be administered by USDA's Cooperative State Education and Extension Service (CSREES), this competitive grants program will fund education, extension, outreach and technical assistance initiatives directed at new farming opportunities. Unfortunately, the direct farm bill funding for the program was deleted in conference and no appropriated funds have been forthcoming, so the program has yet to get off the ground. In our view, no single beginning farmer proposal in the new farm bill is as important as providing direct funding of at least \$25 million a year for this critical new program.

The BFRDP is targeted especially to collaborative local, state, and regionally based networks and partnerships to support financial and entrepreneurial training, mentoring and apprenticeship programs, "land link" programs, innovative farm transfer and transition practices, and education and outreach activities to assist beginning farmers and ranchers. Such networks and partnerships may include: cooperative extension; community-based and non-governmental organizations; relevant USDA and state agencies; universities; community colleges; and other appropriate partners. Not less than 25% of funds appropriated for this program are targeted to limited resource and socially disadvantaged beginning farmers and ranchers and to farm workers seeking to become farmers or ranchers. There is a 25% cash or in-kind matching requirement. Grant terms may not exceed three years.

The program also establishes education teams, made up of representatives of colleges and universities, cooperative extension, non-governmental organizations, and agencies, whose task is to develop curriculum and educational modules geared to different regions and farming systems for use in a variety of educational settings and available online. The curriculum and educational modules could include segments on new markets, new crops, and value-adding enterprises.

Conservation Incentives for New Farmers and Ranchers

The conservation title of the 2002 Farm Bill authorized the Secretary of Agriculture to provide special incentives to beginning farmers and ranchers and limited resource producers to participate in federal agricultural conservation programs. This provision has resulted in several limited offerings by NRCS through farm bill conservation programs, including a funding set-aside under the Conservation Innovation Grants program and ranking points for farm transition planning under the Farm and Ranch Land Protection Program. More far reaching special incentives were unfortunately not adopted, despite the new farm bill authority.

The 2002 Farm Bill also established a maximum cost share rate of 90 percent, a 15 percent cost-share differential or bonus relative to the regular maximum rate, for beginning farmers and ranchers and limited resource farmers in the Conservation Security Program (CSP) and the

Environmental Quality Incentives Program (EQIP). This cost-share bonus was unevenly implemented from state-to-state.

The intent of these provisions is to help achieve two important public policy goals: help get new farmers and ranchers get started while encouraging them from the outset to adopt whole farm conservation plans and strong conservation systems. Adoption of sustainable systems is often far easier at the beginning of an operation's history than later on once a system is in place and then needs to be changed or retrofitted.

Setting aside conservation funding for beginning farmers and ranchers makes good sense for the nation, as it will assist the new generation of Americans farmers in establishing effective conservation systems on their farms at the beginning of their farming career. Similarly, assisting socially disadvantaged farmers in establishing and maintaining conservation systems and practices on their farms secures more effective conservation on the land and provides better access to these programs for a historically underserved community.

We recommend that the new farm bill continue the cost-share differential and clarify the language to ensure even and consistent implementation. We also recommend that the special incentives authority be continued, but strengthened. We also concur with the Administration that the new farm bill should reserve conservation funding for beginning farmer and for socially disadvantaged farmers. We suggest the reservation of funds be for the first four months following the date of availability, and that at least ten percent of total funding for each farm bill conservation program targeted to beginning and at least ten percent targeted to socially disadvantaged farmers and ranchers. Within that reserve, a higher maximum allowable technical assistance percentage should be provided to better address the conservation planning needs of new and socially disadvantaged farmer and ranchers.

Beginning Farmer Research Priority

Very little federal research funding currently is dedicated to new farming opportunities, farm transfer and succession, farm transition, and entry, or new farm-oriented production, conservation, marketing, value-added, or viability issues. In relation to the aging of American agriculture, the funding for research and extension on these issues seems paltry indeed. The emerging generation of farmers includes both people with farm backgrounds and those without. Of those without farm backgrounds, many are coming to farming as a second or third career change. They are ethnically and culturally diverse and interested in a wide-range of crop and livestock systems. There is a large need for research, development and diffusion of models for new farmer training, land transition, making rental land accessible as an entry option, accessible, lower risk production start-up options, alternative marketing strategies, and alternative financing strategies. The 2007 Farm Bill should include language in the research title making beginning farmer and rancher (including socially disadvantaged and immigrant farmer and rancher), farm transfer and farm entry, new marketing alternatives, and related issues a priority research area. The new farm bill should incorporate specific language designating a new national integrated program area for these issues within the national competitive grants programs and within risk management education programs.

Conclusion

I appreciate the chance to provide the Committee with testimony that reflects the realities experiences of farmers we work with at the Land Stewardship Project. We hope our testimony is informative as the Committee evaluates policy options to address credit needs in rural America and how to best support new farmers and ranchers who will be integral parts of our nation's food and agriculture system. There are good opportunities in farming today: growth in local and regional markets, organics and other value-added products, and – hopefully very soon – energy crops. Because of this, there is real opportunity for beginning and transitioning farmers. We believe a beginning farmer initiative along the lines of what we have suggested within the new farm bill will address key obstacles to beginning farmers and provides smart, cost-effective start-up support and incentives for America's next generation of family farms.

**Committee on Agriculture
U.S. House of Representatives
Information Required From Non-governmental Witnesses**

House rules require non-governmental witnesses to provide their resume or biographical sketch prior to testifying. If you do not have a resume or biographical sketch available, please complete this form.

- 1. Name: Karen Stettler**
- 2. Business Address: Land Stewardship Project 180 East Main, P.O. Box 130, Lewiston, MN 55952**
- 3. Business Phone Number: 507-523-3366**
- 4. Organization you represent: Land Stewardship Project**
- 5. Please list any occupational, employment, or work-related experience you have which add to your qualification to provide testimony before the Committee:**

Director, Farm Beginnings, Land Stewardship Project
Director, Community Education, St. Charles, Minnesota
Instructor, Community Education, Peace Corps in Thailand

- 6. Please list any special training, education, or professional experience you have which add to your qualifications to provide testimony before the Committee:**

Sirolli Institute Enterprise Facilitation Training- Entrepreneurial Training
Masters in Experiential Education

- 7. If you are appearing on behalf of an organization, please list the capacity in which you are representing that organization, including any offices or elected positions you hold:**

Director of Farm Beginnings®, Coordinator/ Facilitator of FB Courses, Coordinator of the Livestock Loan Program, and in my ninth year of working with beginning farmers in an education, training and networking capacity.

PLEASE ATTACH THIS FORM OR YOUR BIOGRAPHY TO EACH COPY OF TESTIMONY.

