



Creating small farm financing solutions

**Lessons Learned:  
2009 Microloan Fund for New England Farmers  
June 2009**

**SUMMARY**

*Lessons Learned: 2009 Microloan Fund for New England Farmers* provides initial reflections on implementation of the Microloan Fund for New England Farmers, a partnership between Strolling of the Heifers and The Carrot Project, working with Chittenden Bank. This report provides insights into program setup and implementation for others doing similar work, and reflects evaluation comments from farmers that applied and received financing; farmers that inquired about the program, but didn't apply; Loan Review Committee members; and the Program Oversight Committee. It is organized into sections related to the functions and results of the Program Oversight Committee, the Loan Review Committee, and the application process. Implementation of the program went exceedingly well, yet there is room for improvement in administrative processes and documentation, publicity (especially in Massachusetts), strengthening technical assistance, and the loan application and process. This report is funded by a NESARE 2008 Sustainable Communities Grant.

In its first year, the Microloan Fund for New England Farmers unrolled in four counties of Western Massachusetts (Hampden, Hampshire, Franklin, and Berkshire), and in Vermont. The goal of the Microloan Fund for New England Farmers is to address the difficulty that some New England farmers have in obtaining credit for projects that improve their operations and increase their income, as well as to meet emergency needs. The loan fund's primary focus is on loans to small-sized farms that use sustainable or organic methods (or are moving toward them), and that are selling at least a portion of their products to local markets. Eligibility is limited to farms with 250 or fewer acres in active production, and annual gross revenue of \$250,000 or less. Loan applications for amounts ranging from \$1,000 to \$10,000, for terms of up to five years, are accepted.

**PROGRAM OVERSIGHT COMMITTEE**

The Program Oversight Committee included representatives from each of the partnering organizations — The Carrot Project, Chittenden Bank, and Strolling of the Heifers. Its role is to oversee program development and implementation. The group met frequently in the fall of 2008 to develop the partnership agreements and program details. During the application period, individual members were active in different aspects of the program, but the committee didn't meet again until June 2009 to complete a midyear evaluation, and to discuss plans for the fall and for 2010.

**A FUNCTIONING PARTNERSHIP**

The Program Oversight Committee functioned very well. This success can be attributed to the shared goal of implementing the Microloan Fund for New England Farmers, and to open and

frequent communication while drafting the agreements for implementing the program. Those agreements included a partnership agreement between Strolling of the Heifers (SOTH), The Carrot Project, and Chittenden Bank, and one between SOTH, The Carrot Project, and each investor. While drafting these agreements, adequate time was allotted to ensure that organizational needs were met by the separate documents and any questions or conflicts resolved. This included allowing each organization's board and legal departments or representatives time to vet multiple drafts of the agreement and to consider its implications. In addition, overt acknowledgment of the pilot nature of the program, and of the expectation that aspects of the program could and would change, allowed us to test program features and to move forward. The result is positive working relationships and a program based on the strengths of the various partners.

Though all three partners were involved with program development and oversight, one reason the partnership worked well is because the project built upon the strengths of the different organizations. For example, Strolling of the Heifers was responsible for general publicity and for producing benefit concerts to build the assets of the fund through the loan loss reserve account; Chittenden Bank handled loan underwriting, loan closings, and documentation; and The Carrot Project was responsible for coordinating and facilitating the program, including recruiting volunteers for the Loan Review Committee, farmer outreach, and securing investor commitments. To maximize the program's effectiveness, additional planning and clarification are needed in the fundraising, publicity, and administrative areas.

#### **FUNDRAISING FOR CAPITAL**

The fundraising for capital to secure the loans was a success. Our initial goal was \$100,000, which was later raised to \$150,000 to correspond to the cap set by Chittenden Bank for 2009. The Carrot Project (TCP) raised \$160,000. SOTH raised \$50,000 from two major donations and the two benefit concerts for the loan loss reserve account. The rest was secured from private investors through The Carrot Project. With only one round of fundraising for capital behind us, it is difficult to state with confidence the reasons for our success. However, we built on the connections and skills of each organization, used a variety of approaches — benefit concerts, sponsorships, and investments — and started reaching out to prospective funders and investors more than a year ahead of our requests for commitments. These can only have helped our fundraising success.

The agreement drafted for investors was of equal importance to, and developed simultaneously with, the partnership agreement (between SOTH, TCP, and Chittenden Bank). Research covered several important considerations: investors' needs, community investment standards and practices, the need for and amount of the loan loss reserve account, and how investments would be attributed to different loans (i.e., how risk would be distributed). The investors' agreement was also vetted by two prospective investors before its finalization. For the first year, the loan loss reserve account is 30 percent of the total, and individual investments are at risk only after the loan loss reserve account is depleted. After that, any default amounts "shall be reduced on a prorated basis proportional..." to an investor's commitment. Our partnership with a well-known and respected bank, where investors' deposits would be insured by the FDIC and loans would be made with bank approval, as well as the

depth of knowledge and expertise of the Loan Review Committee, were important factors in obtaining investments.

#### ADMINISTRATION

Overall administration of the loan fund has gone well in that there have been no major issues, and investors and farmers have received the information and documentation needed. However, two different organizations, The Carrot Project and Chittenden Bank, were communicating with investors and farmers at different stages of the process. For seamless communication to occur, additional clarity on roles, a timeline, and a definitive client-transfer process are needed. Now that we have been through the process once, it will be much easier to establish a step-by-step procedure for processing applications and investments. Administration from farmers' perspectives is addressed below in the Application Process section. We will also determine if a simpler, less-cumbersome method of securing loans across multiple investments is possible.

#### PUBLICITY

Publicity was carried out jointly by Strolling of the Heifers and The Carrot Project. Increased publicity is needed overall, but especially in Massachusetts, where we expected need to be greatest, but received many fewer applications. This will be addressed by both a longer application period and building on what worked such as increasing the number of e-newsletters where the application period is announced and expanding upon articles in local newspapers. The other areas for improvement are increased clarity around messaging and agreement on clear outreach targets for each organization.

We have started to address the need to strengthen outreach in Massachusetts by obtaining the outreach list used by the Massachusetts Department of Agricultural Resources, with the goal of ensuring that we adequately coordinate outreach with organizations working in different parts of Western Massachusetts. Additional organizations for outreach in Vermont have also been identified. In addition, we are already setting fall and winter application deadlines so outreach can begin as soon as possible.

One challenge of publicity is how best to represent the loan fund. It is a partnership of two different organizations, which now has one lending partner but is likely to have more. In different media markets, the involved organizations are known for certain activities, and may be more- or less-well-known in different regions of New England. An overly strong association of the project with one organization may make learning about the program difficult and confusing for applicants — because it is only a part of what each organization does. One solution may be mounting a website specifically for the loan fund, where inquiries would be directed to different partners based on the type of information being sought.

## LOAN REVIEW COMMITTEE

### ROLE

The Loan Review Committee comprises six members selected to represent farmers (both produce and livestock), agricultural lenders, and agricultural business technical assistance experts. An excerpt from the Loan Review Committee's job description describes the role of the committee.

The role of the Loan Review Committee is to review prequalified applicants to the Microloan Fund and refer qualified borrowers to Chittenden Bank. Funds will be dispersed from Chittenden on the recommendation of the Loan Review Committee. At their discretion and in cooperation with Chittenden, the Loan Review Committee may review applications that do not qualify based on the mission and criteria. They are also *de facto* ambassadors for the program and can serve in a formal or informal role to respond to questions about the program.

In addition, the job description described each committee member's individual role, for each state or only one, and expectations of committee members as well as a timeline for activities. The committee had a chair whose role included making a decision when consensus was not reached and facilitating committee conference calls. The committee was staffed by The Carrot Project.

Overall, the Loan Review Committee worked as expected in successfully approving loans to send to Chittenden Bank. Its success can be attributed to the careful recruitment process and the committee's opportunity to shape their roles. However, the committee was untested relative to the tight review timeline because of the number of applicants. One area that was tested and requires improvement is the need for a backup plan in the case of a conflict of interest, which did occur with the committee chair. Ideally, there would be an acting committee chair to replace the committee chair when his or her participation is not possible.

## APPLICATION PROCESS

### LOAN REVIEW COMMITTEE AND PROGRAM OVERSIGHT COMMITTEE MEMBERS

The Loan Review Committee's comments about the application process were generally positive. This is likely due to: the careful process for setting up the application and application process; opportunities for the committee members to comment on the application and process; and the application having already been vetted during the pilot investment project carried out by The Carrot Project in 2007. Suggestions for improvements might include: modifying the application to get better information (particularly on the debt load of applicants); an expanded time frame for the application process; conducting evaluations sooner after the end of the application period; improved business technical assistance; and simplifying application language.

## BUSINESS TECHNICAL ASSISTANCE

Most of the improvement to technical assistance would be greater provision of it, given the relative lack. Farmers (and particularly beginning farmers) have significant need for resources that can help them decide if it makes sense to apply for a loan (i.e., is it in the farmer's best interests), and then assist in completing an application. In addition to the resources now listed on our website ([www.thecarrotproject.org/farmer\\_resources](http://www.thecarrotproject.org/farmer_resources)), we are planning to boost the educational content of the workshops held during the application period, and make it clearer in our outreach that technical assistance is available to assist with the decision to apply for credit and with the application itself.

## FARMERS THAT INQUIRED BUT DID NOT APPLY

The following table displays the number of farmers that inquired about the microloan program, but did not apply, and the reasons for those decisions. Beyond expanding the geographic scope of the program and providing clearer support to applicants that do not understand the process, we do not have control over their reasons for not applying. The workshop attendees' reasons for not applying were similar. Farmers with mature farming operations did not apply because of: the loan maximum; uncertainty that they would get around to it; the interest rate; and the paperwork associated with the small amount of financing available. The beginning farmers that attended the workshop were either not ready to apply for financing or did not understand the application.

| <b>INQUIRIES: FARMERS' REASONS FOR NOT APPLYING</b>         | <b>#</b> |
|---|----------|
| Not eligible because of county (4) or non-profit status (1) | 5        |
| Not enough time   | 4        |
| Service provider inquiry (DOA, NRCD, etc.)                  | 3        |
| Interest rate too high/couldn't afford to borrow more       | 2        |
| No response   | 2        |
| Unsure/lost track of it                                     | 1        |
| Family illness  | 1        |
| Application too complicated                                 | 1        |
| Not ready to apply  | 1        |
| Used other financing  | 1        |

### *Farmer Applicants*

The following are four out of five applicants' responses to evaluation questions. In general, based on their willingness to recommend the program to others, their experiences were positive. However, they also pointed to a few areas for improvement. Perhaps the most important was clarity between the Loan Review Committee and Chittenden Bank about providing flexible financing (such as delayed payments), and about what would trigger additional insurance requirements for an applicant. The process for conveying the need for flexible payment options was unclear, as was whose responsibility it was to make decisions on granting such options. Another helpful suggestion was to provide paperwork to the applicant, after the application has been processed and accepted, that outlines timing and next steps. There was some concern the amount of time between the application deadline and the loan approval. This could be changed by switching from a Loan Review Committee

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to a smaller, more-nimble, one- or two-person decision-making entity, or by having a rolling admissions process instead of application deadlines. These were both rejected for the first year; the latter is unlikely to occur with a volunteer committee and the same staffing levels. Alternatively, this situation could be addressed by working with a lender that plays a more active role in loan applicant due diligence, as we are exploring in other parts of New England.

### **1. Were the application and process understandable? Why or why not?**

- The application was very clear and approachable and seemed flexible enough. The process of granting the loan was made easier by direct contact with you and Arne, and the fact that you were able to visit our farm. The final steps, including the insurance requirement, were not immediately clear.
- Yes.
- Yes, it was very clear. The expectations were clear and it was advantageous that [I] already had a biz [business] plan in place.
- Yes, the process was very clear cut and easy to follow.

### **2. What three things would you rate highest about applying for and participating in the microloan program to date? Please provide details.**

- It was farmer friendly. There is an intention to support farmers in their endeavors, unlike [with] traditional bank loans. It wasn't an incredibly scrutinizing experience. It was user friendly.
- (1) Its ability to be only ag[riculture]; (2) the terms; (3) putting more emphasis on character than credit for the 5 Cs (lending criteria normally used by banks)
- (1) The opportunity to use a small loan for small capital. We were feeling pretty strapped and a bit stuck, after having done a good amount of planning, and recognizing our next steps, but not [being] clear how we could get the funds needed to make [them] happen; (2) the sense of cooperation between all parties. We really felt as if we were supported, and that our success was all of our [everyone's] concern; (3) the terms seem fair and approachable for our circumstance.
- Thoroughness of the process of review — from pre-app to app to farm visit. Seamless interface with loan bank. Friendly and supportive personnel to deal with all along the way.

### **3. What three things would you rate lowest about the process? Please provide details.**

- Not competitive [interest rates] with other places.
- Chittenden Bank was just closing a deal that was already done. Worked really well.

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- A little more flexibility around loan repayment. The way FSA [does it] — you owe one payment a year and much more advantageous to a farm to make lump payments and then evaluate loan at the end of the year. Now, paying \$200/month. Would have to talk to the bank to work it out. Didn't sound like it would be easy.
- (1) The management practices on a farm; (2) the length or timeliness.
- (1) We weren't clear immediately that repayment would need to begin immediately. In fact, because the final closing process was delayed, we will begin repayment within just a week or so of receiving the loan. Some delay might have been helpful; (2) the requirement for insurance above our existing policy. This will slightly reduce the overall value of the loan; (3) I can't think of a third thing to rate low at this point.
- I don't really have any criticisms of the process. The only issue might be the time lapse between when the pre-apps are due and when the money actually comes through.

**4) Did the application process seem transparent, i.e., did you understand what would happen when and how soon, and were your questions addressed? Why or why not?**

- Yes, the process seemed transparent. The only surprises were mentioned above.
- No, initially the process sounded a little more simple; your analysis process made Farm Credit look easy, considering amount.
- Been in business for a while. If a new person, don't think it could have been clear. Sheet of paper with each step of the process that details it more clear ... all steps.
- Yes, it was transparent and I consistently felt like I knew where we were in the process and what would happen next.

**5. What would you recommend to improve the process? Please provide any details.**

- No. It helped him at a critical time. Really achieved what needed. Got equipment, money to pay help, and ...
- Perhaps another session to sit down with a loan officer and go over the details of repayment and terms.
- I'd like to be productively helpful here but I really found the whole process quite user friendly and simple. Maybe I've been working with the federal government too long :)

**6. Would you recommend the program to another farmer? Why or why not?**

- Without hesitation.
- Yes, I already have.

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- Yes, and we have. Primarily because I feel there are many small farmers in need of small loans for capital after having established the basic business model. Also, because the project and loan process is grounded locally, and based on personal contact and communications.
- Definitely. It filled a very important need for us — i.e., being able to purchase an important piece of equipment that would have been too small for a standard loan.

**Please feel free to add any additional comments.**

- There is a generation of young people eager to farm, however they do not know where to turn; a good place for your program.

**The Carrot Project** is dedicated to providing financing for small- and mid-sized farms, limited-resource farmers, and those using ecologically sound practices. We are incubating financing programs, while connecting farmers to business technical assistance, by joining community-based lenders, investors, non-profits, and farmers, and helping them create alternatives that provide financing and help farmers thrive.