Food Producers
Case Studies

Date of Publication: June 4, 2012

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Case Studies for Food Producers

This document presents five case studies involving Community Development Financial Institutions (CDFIs) that are actively providing financial products and services to borrowers in the food production sector. Below is a brief summary of each case study:

California Coastal (Cal Coastal)	Thirty years of lending to farmers has made the California Coastal Rural Development Corporation (Cal Coastal) an expert on financing small scale farms. This case study highlights non revolving lines of credit loan made to a small strawberry farmers, and how it was structured to accommodate the start up expenses and revenue cycle.
UCEDC	This New Jersey CDFI began its farm production lending with a loan to an immigrant farmer selling produce at farmer's markets in New York City. This case study highlights some of the lessons learned about the business and financing needs of the farmer.
Fresno CDFI	Fourteen years of experience with refugee and immigrant farmers, combined with new lending capital, has enabled Fresno CDFI to keep a strong hand in small farm lending while diversifying its portfolio to reach the broader low-income business community. This case study examines how Fresno CDFI was able to help a smaller scale vegetable farmer become viable, while protecting its capital against risks of default.
Natural Capital Investment Fund (NCIF)	The Natural Capital Investment Fund (NCIF) approached farm production lending in accordance with its mission of environmental stewardship, sustainable economic development and social justice. This case study details NCIF's loans to independent limited resource farmers to purchase on-farm grain storage bins. The additional income from holding and selling grain at the most favorable market times helps stabilize farm income during a shift to more sustainable production practices. NCIF has also supported conventional farmers and key supply chain entities to encourage diversification into more sustainable agricultural practices.
Craft3	With its roots in the natural resource-based economies of coastal Oregon and Washington, Craft3 invests in new opportunities in local and regional food and farm products and recognizes the potential for smaller, diverse, and younger farm enterprises to grow and strengthen rural economies. This case study examines an innovative farmland mortgage deal, highlighting Craft3's collaborative and creative approach to addressing land tenure and asset challenges for beginning farmers.

Cal Coastal offers non-revolving lines of credit to state's smaller strawberry farms

By Susan Cocciarelli and Patty Cantrell

California Coastal Rural Development Corporation
Salinas, California

Description: California Coastal Rural Development Corporation (Cal Coastal) is a California-chartered financial development corporation financing smaller farmers since 1982 in the counties of Monterey, Santa Cruz, San Benito, South Santa Clara, San Luis Obispo, Santa Barbara, and Ventura.

Website: www.calcoastal.org

Loan Volume: Approximately 90% of Cal Coastal's lending is in agriculture. At its pre-recession peak in fiscal 2009, Cal Coastal made $35 million in direct farm loans to about 60 clients. Cal Coastal was then still able to make use of the California State Trust Fund, which is no longer available. In 2010-11, loan volume was approximately $15 million to about 30 farmers; in 2011-12, loan volume will be approximately $25 million as Cal Coastal has been able to secure a line of credit from Rabobank, NA to replace the California State Trust Fund.

Farm Loans: Cal Coastal's farm lending niche is in loan amounts between $300,000 and $1.1 million, which reflects the size of small farms in California's "salad bowl to the nation" agricultural economy. Cal Coastal uses USDA Farm Service Agency (FSA) guarantees. FSA provides a 90% guarantee, and Cal Coastal re-sells the guaranteed portion of these loans in the secondary market; the unguaranteed portion is funded via the Rabobank line of credit Cal Coastal is the largest FSA guarantee lender in California.

Impact/Outcomes: Cal Coastal originated in 1982 when a group of farmer cooperatives decided to invest in a commercial produce cooler to support business development in their community of Latino strawberry growers. Cal Coastal then evolved into an agricultural lender serving as an intermediary relender using USDA Rural Development and Small Business Development microloan funds. Borrowers sell a diverse selection of fruits and vegetables to community members directly through farmers' markets, produce brokers and some grocery stores in multiple counties. Cal Coastal achieved the status of largest USDA Farm Service Agency guarantee lender in California. Their niche borrowers are Latino farmers unable to obtain get regular bank financing. These farmers provide word of mouth marketing to bring customers to the CDFI. Cal Coastal has also achieved a reputation with sales companies and cooperatives of farmers that handle both production and marketing, who frequently refer farm borrowers.

The California Coastal Rural Development Corporation is a significant provider of capital for an underserved segment of smaller farm borrowers in the state, particularly Latino strawberry growers along the Central Coast of California. Even as it has grown, however, Cal Coastal's personal lending approach to its limited-resource borrowers has remained core.

"Our lending is relationship lending," said President Karl Zalazowski. "We do things the old fashioned way, where you get to know the borrower, you get to know the industry." He says Cal Coastal is also fortunate to have had farmers on its board and loan committee who understand the area. "It's a close community," he said.

Cal Coastal also works closely with sales companies, or wholesalers known as shippers. "The sales companies – often cooperatives of farmers that do both production and marketing – will refer loans to us," Zalazowski said. "We also consult with them to see how the industry is moving and what the needs are."

About 85% of Cal Coastal's lending is to strawberry farmers, the majority of which produce for sales companies. These loans require crop assignments from the sales companies as collateral, by which the sales company makes crop proceeds payable to both Cal Coastal and the grower jointly.. The rest goes to farmers raising organic vegetables to sell at urban farmers markets, e.g. character loans with little possibility of crop assignment.

Senior Agricultural Loan Officer Jose Guerra adds that it's important to understand the crop, the industry and the cycles to determine how to structure a loan. "A long-term crop, e.g. in the ground for three years, will give you more leeway in collections," he said. "With a short term crop like spinach — 35 to 45 days in the ground – you really have to be on the spot from start to finish." In addition, he said, "You have to consider the whole picture because all these farms are different in size and financial characteristics. Other than credit rating and debt coverage ratio, it's tough to say where a particular farm should be because the next person could be asking for the same amount of money but have a completely different crop plan."

Cal Coastal's loans operate as non-revolving lines of credit in that borrowers draw on them as needed in the crop preparation/planting side of the year and pay back later in the selling season as revenue exceeds expenses. Strawberry growers, for example, must plant every year for a steady, quality crop. Cal Coastal would like to offer actual revolving lines of credit but is not able to now given limitations with its use of FSA guarantees, Zalazowski said. "The problem is that if our borrowers draw $10,000 and pay back $7,000 right away, they can't get that $7,000 again … so there's no incentive to pay down the loan; they just pay interest because they can't get that cash again if they re-paid it."

Financing levels are also very different between strawberry and diversified crop operations. "For most strawberry farmers the 'all-in' cost is from $10,000 to $15,000 per acre (late fall), just to get you to the point of harvest (late spring)," said Zalazowski. "Compare that to vegetable crops at about $2,000 per acre all-in."

A recent loan to a husband-and-wife team growing strawberries on 55 acres, for the fresh produce market through a sales company, is typical. Cal Coastal loaned $420,000 for one year, with interest payments on money drawn until harvest income becomes available for principal payments. In most cases, Cal Coastal will tie the borrowers' loan interest rate to the Farmer Mac Cost of Funds Index. (www.farmermac.com).

Collateral is a crop assignment from the sales company, as well as the farm's current assets. "The current ratio is important because we're lending so much that we need to know how much they're [the farmers] putting into the crop," Guerra said. 90% of these loans are on leased ground, so no real estate is available for collateral. According to Guerra, "The more money they (the farmers) have in operating capital, the stronger the loan is. Crop assignments are also valuable for monitoring the loan, Guerra said. "We require the borrower to bring in their financials during the term so that we can look at it and make sure we're getting repayment (revenue above expenses). But also it's a way of catching any red flags: Is the farmer having an issue with growing, are they behind schedule on harvest, maybe the plants need attention?"

Cal Coastal clearly puts significant work into every loan, offers a rich historical perspective on agricultural lending, understands the obstacles that confront newer farmers, and yet, does not discount a farmer's sophistication and capacity to capture new markets. As Jose Guerra reminds, farmers are both tenacious and resourceful: "The economic meltdown of late has affected only certain industries. In farming, they face it every year, year in and year out. You always have to look out for one thing or another."

New Jersey CDFI makes its first farm production loan

By Susan Cocciarelli and Patty Cantrell

UCEDC
Union, New Jersey

Description: UCEDC is a certified Community Development Financial Institution (CDFI) and an Economic Development Corporation (EDC) lending statewide since 2005.

Website: www.ucedc.com

Loan Volume: Since its inception, UCEDC has loaned a total of $13 million to start-ups and existing businesses throughout New Jersey, helping to fund $167 million in projects and create or retain approximately 5,000 jobs.

Farm Loans: UCEDC's first production agriculture loan was in 2011 to a Mexican immigrant farmer with established produce sales at seven farmer's markets in New York City, all of which were part of GrowNYC's Greenmarket urban farmer's market network. UCEDC made a $15,000 operating capital loan to the farmer for nine months at 9% interest, primarily for propane and a used plow needed to get strawberries and other crops growing for sales later in the season.

Impact/Outcomes: A 2011 farm loan provided UCEDC with the opportunity to learn about the small and mid-sized diversified farming sector; build relationships with new partners including the referral bank who continues to refer agriculture-related applicants; leverage its tools to enable the borrower's access of an additional $15,000 to meet payroll; reach communities with fresh, healthy food as the borrower expanded his market presence in 7 urban farm markets; and start a rural lending track record to qualify as a provider of financing through federal farm and rural programs.

For some time UCEDC had been interested in accessing federal financing programs related to rural areas but had not yet found a way to qualify given its urban and suburban portfolio. That changed in 2011 when one of the commercial banks it works with referred a farm loan application to UCEDC.

"I never thought of doing an agricultural loan," said Ellen McHenry, senior director of financial programs at UCEDC. "This opens up so much to me … I never really considered how much farmland financing is needed, for example." Now UCEDC has some experience and a basis for pursuing farmland and other agricultural loans, she said. "We feel if we have a couple of these loans going forward we can put together more of a marketing plan and set aside dollars for agricultural loans."

In addition to being a new market opportunity, agricultural lending fits UCEDC's nonprofit mission as a business development and financial partner to underserved low- to moderate-income communities. The farm loan it made after the commercial bank's referral is a good example of how UCEDC's lending can have multiple impacts, she said. The operating capital loan to a Mexican immigrant produce grower not only helps build his business and role as a local employer but also brings benefits back to the community through fresh, healthy food that the farm brings to market. "It comes full circle on our mission," she said.

UCEDC's initial farm loan experience was a learning process that highlighted opportunities and challenges going forward. The primary factor McHenry says she wrestled with was projecting the farm's capacity to repay its loan based on cash flow. "My challenge was understanding what their needs are and trying to structure the loan a little differently," she said. "I couldn't just do 12 months of income and expense projections because he was going to have ongoing fixed costs and variable costs during his growing season."

McHenry used gross sales information from the borrower to determine that cash flow during the summer selling season was more than adequate for repayment. She was also familiar with the success of other vendors at New York City's Greenmarkets. The farmer's tax returns provided historical income and expense data.

UCEDC ultimately set up monthly payments over nine months on the $15,000 loan to the farmer primarily for utilities needed to operate three acres of greenhouses ahead of prime summer selling months. The farmer leases 48 acres in New Jersey and sells a broad range of fruits and vegetables year-round, including strawberries, garlic, broccoli and cauliflower, asparagus and various other small fruits.

Determining the farm's capacity in terms of business management skill was another area that required a relatively substantial investment of time, getting to know the farm, the farmer and his market. "These are character loans," McHenry said of the need to build a relationship with the borrower rather than rely on credit scores. She made multiple visits to the farm and conducted interviews with those involved, such as the nonprofit Grow NYC organization, which helps immigrant farmers build their operations through its New Farmer Development Project.

Grow NYC helped McHenry understand how the Greenmarkets work for producers and how Grow NYC supports its farmers through the business development and growth process. Grow NYC was also able to verify the borrower's past experience as a small farm business advisor in Mexico and his degree in agricultural engineering. Nevertheless, paperwork complications that confused the borrower's immigration status and lease agreement nearly shut down the loan process. Federal programs that UCEDC uses require clear documentation of residency and lease terms and visa terms that match the loan's terms.

Once McHenry was confident in the borrower, including his immigration and lease situation, she also came to understand the urgency of financing his upfront operating costs. She convinced UCEDC's president and vice president to process the loan under their internal lending authority for loans less than $35,000 rather than wait another month for a loan committee meeting or risk refusal by the group of advisors not yet familiar with agricultural operations. "This guy needs to buy a plow and pay his propane right now … we didn't want to eat another 30 days," she said. Further, UCEDC helped the borrower access an additional $15,000 in financing to meet payroll needs. UCEDC did this by providing their loan write-up and other documentation to longtime partner, the Regional Business Assistance Corporation (www.rbacloan.com) encouraging and helping them to match the original $15,000 loan.

McHenry says that, while it was a significant amount of work for a nine-month $15,000 loan, she expects the learning and relationship building involved will lead to referrals, as well as help UCEDC with promotion of its services and fundraising opportunities.

The experience also provided fodder for UCEDC's further work developing its approach to the sector. UCEDC is looking at other products and deals, such as lines of credit or participation in land purchase loans. Another objective is to help smaller agricultural borrowers qualify for future commercial loans and lines of credit by reporting their performance through the Credit Builders Alliance, a service developed by the Association for Enterprise Development.

Experience with Refugees Helps FRESNO CDFI Tailor its Approach

By Susan Cocciarelli and Patty Cantrell

Fresno Community Development Financial Institution (Fresno)
Fresno, CA

> **Description:** Fresno is a certified Community Development Financial Institution (CDFI) providing debt financing to stimulate investment in urban and rural neighborhoods in the City and County of Fresno. The CDFI's parent organization is the Fresno County Economic Opportunities Commission (FCEO).
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> **Website:** www.fresnocdfi.com
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> **Loan Volume**: Since 1994, FCEO and the Fresno CDFI have served 317 rural businesses through the provision of technical assistance and loans, infusing over $3.3 million of financing into rural areas. Fresno CDFI makes about 23 loans per year on average to small farm operations with an average loan size between $10,000-$15,000.
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> **Farm Loans:** With 14 years of experience, Fresno's farm loan niche is refugee and immigrant farmers. These farmers typically raise 10-12 crop varieties on 6-12 acres, although Fresno has 50-60 acre farms in its portfolio.
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> **Impact/Outcomes:** Focusing on building borrower capacity and building market infrastructure, Fresno helped establish two city-based farmers' markets in partnership with the USDA Farmers Market Promotion Program. These markets serve the dual purpose of income generation for farmers as well as providing access to fresh product for local low-income residents. Through a partnership with Citibank, Fresno established marketing cooperative and cold storage facilities. Fresno leverages U.S. Department of Treasury Community Development Financial Institutions Fund's Healthy Food Financing to assist cooperative member access to institutional markets that bring higher margins on produce sales.

An influx of refugees in the Fresno area motivated FCEO to form the Fresno CDFI in 2008. According to Blong Lee, Fresno CDFI Manager, "because we are a major agricultural county, and because of refugee backgrounds, more than 90% of those participating in our microenterprise development program came in to do small farming." However, FCEO took efforts to diversify its portfolio. Says Lee, "Agriculture is still very much a part of the plan, but as we diversify, we can serve larger populations such as low-income African Americans and Hispanics applying for farm loans."

Agriculture production, totaling $5.3 billion in 2007, is the primary industry in Fresno County. Helping smaller scale farmers become viable demanded that Fresno CDFI build its capacity to serve smaller scale farmers and to protect their capital against risks of default. "We consult with local and regional farm and business resource organizations and stakeholders to increase market knowledge, and encourage borrowers to seek out technical assistance through the University of California ("UC") Extensions' network of small farm advisors", says Lee. According to Lee, since the crops grown by these small farmers are not insured by any of the federal crop insurance programs, losses place great risk on small farmers and Fresno as a lender. Thus, Fresno requires that small farmers utilize the USDA Farm Services Non-insured Crop Disaster Assistance Program.

Viable farms must have responsive markets. Lee connects Fresno with the "Buy Fresh. Buy Local" campaign spearheaded by the California Alliance for Family Farmers, the Fresno Metro Ministry and the

County of Fresno, Slow Food USA, and Roots of Change, all of whom are promoting a campaign to provide fresh and healthy food to low- and very-low-income communities and to prevent obesity and curtail health issues related to the lack of nutritious food.

Generally, Fresno CDFI makes loans in December and January in time for land preparation and planting. Harvest may begin as early as April and typically extends through November. According to Lee, Fresno tailors its loans so that interest and principal payments are deferred until harvest-time. Repayment dates depend on cash flow projections based on harvest projections. Fresno works to make sure payments are due within the anticipated cash flow availability to avoid putting strain on the farmer's finances. Payoff is expected in 12 months, with payments spread over four to five months of harvest.

Lee uses the 5 "Cs" of credit analysis when determining loan viability. Cash flow is very important. "We sit down with the borrowers to determine the crop plan for the year", shares Lee. Estimates are based on intended crops and number of acres. "The number of 'boxes' translates into expected price ranges, and we project using the lowest, medium and highest prices," states Lee. Borrowers should have at least three years experience, but an "existing" operator has to have at least gone through one farming cycle.

A prominent risk issue associated with a fairly homogenous farmer-borrower community is overproduction. According to Lee, "everyone is planting about the same thing when prices are good, causing prices to fall with excess supply. We can predict this, and will share this with the borrower. We keep tabs on market price and volume by conferring with UC Extension, wholesalers, and by asking growers about weekly prices. This is then passed on to the borrower for use in their overall crop plan." Borrower character doesn't necessarily equate with "good repayment history". Rather, if borrowers have no official credit history, Fresno relies on peer and community pressure to pay off the loan, as well as checking history of paying monthly bills. "Our job becomes one of educating borrowers that these are factors in successful U.S. business life," says Lee.

As an example, after successfully paying off her first loan, a 23-year old Laotian woman producing Asian specialty vegetables on one leased acre and selling to two wholesalers in addition to cash buyers, presented Fresno with an opportunity to tailor a loan for farm success. The Laotian farmer needed an operating loan for supplies, totaling $15,000. Fresno structured the 12-month, 7.25% interest loan to two repayments in equal amounts for the harvest months of August and September.

Having a good repayment history, $3,500 cash on hand and $8,000 guaranteed from friends, Fresno financed the balance needed. This borrower is representative of Fresno's farm borrowers in that they farm on leased land. Fresno requires proof of the lease as assurance of land access and lease cost. In this case, a crop assignment allowed Fresno to receive an agreed upon payment direct from the wholesaler for the borrower. Collateral involved taking a lien on an existing vehicle. Says Lee, "More than 90% of the time, we take car titles as collateral. It's often not a one-to-one loan to value, but that doesn't matter so much as long as they have a little skin in the game to demonstrate they are serious about the business."

Creating access to capital for smaller scale farmers enables Fresno to reach its mission of community revitalization and creating access for healthy food in both urban and rural California.

New Farm Loan Product at Natural Capital Investment Fund

By Susan Cocciarelli and Patty Cantrell

Natural Capital Investment Fund (NCIF)
Shepherdstown, West Virginia

Description: NCIF is a certified Community Development Financial Institution (CDFI) and Community Development Entity (CDE) providing debt and equity financing to small businesses in West Virginia, North Carolina, Southwest Virginia, and the Appalachian Royal Commission designated regions of Ohio, Kentucky and Tennessee since 2001.

Website: www.ncifund.org

Loan Volume: Since its inception, NCIF, an approved US Department Of Agriculture Intermediary Re-lender, has provided more than $5 million to 72 businesses, leveraging an additional $40 million and creating or retaining 350 jobs.

Farm Loans: NCIF farm loans target farmers desiring to convert from conventional farming to sustainable farming practices. Sectors include value added products, sustainable diversified crops and dairy operations.

Impact/Outcomes: With the close cooperation of a range of partners, NCIF crafted a joint micro-loan/grant program that made on-farm grain storage affordable for limited resource farmers. NCIF used a wide range of funding sources to finance the project, from foundations and the North Carolina Tobacco Trust Fund Commission to a farmland preservation trust fund. The grain storage bins enabled 20 mostly African-American farmers to make use of futures contracts to sell grain when markets were most favorable.

NCIF is motivated to understand gaps in farm production lending and the capacity of farmers to move toward more sustainable production practices. "Historically, farmers came to us with ideas on how to partner with appropriate organizations," said Marten Jenkins, NCIF President. "But staffing capacity and the intricacies of small scale agriculture challenges the financing side. A farm is very different than a small business."

NCIF entered the sector by first assessing its particular fit and financing role within the overall food system. The effort brought NCIF in contact with sustainable agriculture experts, helping the fund build needed breadth and depth into its loan review committee. NCIF sought out partners to address the farm production sector's needs, which has enabled NCIF to be pro-active rather than the lender of last resort. Its partnership base includes national organizations such as USDA, state agencies such as the North Carolina Department of Agriculture and Consumer Services, and local services through the Small Business Development Center.

Rick Larson, NCIF North Carolina Program Director, cites information from the regionally based organization RAFI-USA that documented how North Carolina farmers face a gap in appropriate agricultural finance. "We see ourselves as helping to fill the niche," Larson said. "We have an institutional commitment to sustainable agriculture. We can offer direct financing, or we can bring together farmers that don't have access to mainstream financing along with agriculture lenders such as USDA Farm Service Agency and offer products that might reduce risk."

NCIF has been able to meet a triple bottom line mission — sustainable economic development, environmental stewardship, and social justice — through debt, equity financing, and technical assistance. An example of such packaging is NCIF's loan program for limited resource and minority farmers growing commodity grains. NCIF tailored its grain bin program taking into consideration the timing of and projected farm operations cash flow. The program is a combination of a 50%cost share grant, a microloan for 45%, and 5%farmer equity. In addition, repayment is scheduled for once a year over a period of five years, with payment timed to match the farmer's harvest schedule. This approach is a departure from most micro lending programs, and has been key to the effort's success.

The grain bin lending experience led NCIF to work directly with a successful North Carolina tobacco farmer motivated to diversify his business by transitioning to organic dairy production. NCIF built a relationship with the farmer, observing his operations and analyzing his business plan well before making the loan. NCIF stresses four priorities in assessing agricultural loans: The farm's track record, the farmer's current debt load, creditworthiness, and sustainable agriculture practices in use. Based on this assessment, NCIF made the loan to help the farmer transition to organic dairying. The total loan package is $250,000 at an interest rate of 6.5 % on quarterly payments, with collateral equivalent to 38 % of the total purchase of livestock, equipment and buildings. Collateral for the loan is a blanket lien on all assets of the dairy company and on all assets of the owners' other businesses.

With these loan experiences and significant partnership building, NCIF continues to build its capacity to make agricultural loans. One significant step was the addition in early 2011 of a lender with extensive prior agricultural lending experience.

NCIF has also developed a pragmatic and proactive approach to the sector. "Lending at agriculture-appropriate interest rates, particularly to limited resource farmers, will require an ongoing source of low-cost capital and probably an integrated cost-share grant component to lower loan-to-value ratios," Larson explained. NCIF aims to develop a diverse portfolio of agricultural loans in terms of size and risk profile for long-run portfolio stability. It will also continue to rely on sector-smart advisors and partners to gain market knowledge and mitigate risk.

Pricing and understanding the market are big issues for example. NCIF's agricultural lending takes into account the generally lower interest rate environment and prevalence of grants that characterizes lending to limited resource farmers. As a result, NCIF benchmarks its agricultural lending rates to USDA Farm Service Agency rates, offering its loans at a slightly higher rate to avoid competing with existing sources.

NCIF has found that the farm business is very different from other businesses, especially in calculating cash flow. President Marten Jenkins explains: "Not only are we dealing with market risk but policy risk related to crop subsidy programs, weather, and all the other factors that characterize natural resource-based companies." It was imperative that NCIF staff and board understand and have a comfort level with this, he said, because NCIF is focused on supporting farmers at the production level, especially newer or limited resource farmers. "We are building the capacity to finance agricultural production by partnering and learning how to pay for the transactions, which are very time consuming, so that agricultural lending is not an on-going cost."

CRAFT3 innovative farmland deal helps tenant farmers buy land

By Susan Cocciarelli and Patty Cantrell

CRAFT3
Ilwaco, Washington

Description: Craft3, formerly Enterprise Cascadia, is a Community Development Financial Institution serving urban and rural communities of Oregon and Washington. Formed in 1995 by ShoreBank Corporation and Ecotrust, Craft3 currently has more than $164 million in capital assets under management.

Website: www.craft3.org

Loan Volume: Craft3 has invested in more than 1,149 borrowers comprised of business, social and civic ventures that represent new strategies for economic security and ecological health. Its capital investments and services have helped to create or retain more than 4,050 jobs and leveraged more than $412.9 million in additional investment.

Farm Loans: Craft3's roots are in the natural resource-based economies of coastal Oregon and Washington; food systems and production agriculture have been part of its work from the start. With agriculture Craft3 targets geographic areas where partners and others are focusing their efforts, such as in farmland preservation. It invests in new opportunities in local and regional food and farm products and the potential for smaller, diverse, and younger farm enterprises to grow and strengthen rural economies.

Impact/Outcomes: An innovative farmland mortgage deal demonstrates Craft3's collaborative and creative approach to addressing land tenure and asset challenges for beginning farmers. It points to ways in which CDFIs can leverage the capacity of regional land trust, local residents, conservation partners and others to help promising farm entrepreneurs build equity in land-based farm assets and grow their local food businesses without the burden of overwhelming debt.

Many new and beginning farmers are tenants. Craft3 tries to get them onto their own land or into leases that allow them to build assets, said senior vice president Mark Bowman. In the 2008, Craft3 seized an opportunity to both build a local farm's future and try an innovative land tenure approach.

A young woman farming in the Chimacum Valley near Port Townsend, WA approached Craft3 for assistance in purchasing the 23 acres of farmland she currently leased. This farmland supported a successful and growing direct-market produce operation, and the farmer had plans to expand her operation long term. Craft3 knew her as a quality, reliable, and creative farmer and marketer, but also recognized that she needed time to build assets before burdening her operation with land purchase debt.

"We saw at her two-acre level three years ago that she was someone we wanted to invest in," Bowman said. "The problem was just that she was young and not farming long enough to develop enough cash from two acres to have enough equity for a down payment. Also we wanted her to focus on farming, and on the transition from two to 23 acres, given different soils etc.," he said. "We told her to just focus on being a good farmer first."

Craft3 approached the local land trust, which had previously considered launching a separate for-profit organization to purchase and hold land under threat of development. Forming the for-profit, LT

Resources, enabled the land trust to both hold the conservation easement and simple title on a parcel simultaneously. LT Resources partnered with Craft3, taking out a $220,000 fully amortized 60-month mortgage on the farmland parcel with Craft3 at 8.5%interest.

Craft3 structured the deal such that the farmer's lease payments apply directly to the mortgage and build equity for the farmer. In addition any improvements the farmer makes accrue to her as an equity investment in the farm, so if the property is sold to someone else she can claim the value.

The good news for Craft3, LT Resources, and the farmer is that she has done so well with her business in the meantime that she closed the deal to buy the property at the end of Year 3, two years ahead of the 60-month bridge loan schedule.

Her success comes in part because the farmland deal allowed the young farmer to access other financing and resources for operating and growth needs. Without the burden of real estate debt, for example, she was able to secure a working capital loan from the Farm Credit System. In addition, customers and others in the community have loaned her money for such things as equipment and irrigation. Other partners, such as the local conservation district, have worked with the farmer to rehabilitate the property for other forms of food production, such as a salmon habitat, which resonates with customers who care about environmental stewardship.

Bowman explains the community investment dynamic that Craft3's initial action can spur: "The community, when it sees organizations like ours having done our due diligence, develops a level of comfort that prompts individuals to say, 'How can I invest in her?' When you can bring in community partners (organizations, individuals), it brings down the cost of funds for the borrower. The blended interest rates are lower, and community investments take subordinated positions, like simple promissory notes, knowing Craft3 is the financial eyes and ears on the deal."

The young farmer in this case was able to make monthly lease payments because she has developed year-round farm income despite higher cash flow seasons. Bowman said Craft3 would have set up payments on a more seasonable basis if it had been otherwise.

"You don't want to jeopardize the farmer's cash flow," he said. Lenders must, therefore, structure loans around development timeframes and seasonal timeframes. "The lender has to do production budgets that account for when crops are coming off (harvest = revenue) and build repayment around those timeframes," he said. Lenders must also understand the development cycle of an agricultural product. "If someone invests in a cranberry bog, you have to understand that it won't start producing until the fourth year and then not in full until the seventh year," he said. "So you may have to have interest only payments for a time, then ramp up to some principal and interest around Year 4 and full principal and interest around Year 7."

To get started, Bowman suggests lenders put some capital aside for trying creative new models, or set up pools with higher risk tolerance or higher loan loss reserve. And if it's nontraditional farming, he said, "then you need nontraditional partners that can help you think through creative models that you don't traditionally see, that you haven't exposed yourself to yet."