

Conservation Loan Guarantee Program

Expanding Stewardship by Leveraging Dollars

More Conservation on the Ground

Conservation on working farms and ranches is constrained by inadequate and inflexible long term financing options. American Farmland Trust proposes a conservation loan guarantee program that will:

- Help producers secure the funds needed to implement conservation and environmental practices;
- Allow producers to repay the amortized loan over time and avoid large lump sum outlays;
- Make loans available at, or below, market rates;
- Use existing private financial markets; and
- Assist producers whether or not direct financial assistance is available from existing conservation programs.

Status Quo: Insufficient Funding Limits Conservation

Many farmers and ranchers, regardless of size, need a source of financing to meet the increasing land stewardship expectations that our society places on them. While USDA offers several forms of financial assistance, some producers are unable to access these programs because their conservation needs differ from current program priorities. Sometimes producers are unable to receive assistance within the necessary time frame (such as to meet state and local regulations). Producers need an additional governmental conservation tool to help them address their stewardship goals.

Farmers and ranchers have indicated that high conservation-system costs can limit their ability to apply suitable measures or practices. Examples might be an upgrade to an irrigation system that could significantly improve water conservation in drought-prone areas, or a manure management system that requires significant initial capital not covered by programs such as EQIP. Irrigation systems, animal waste systems, and other conservation measures are often expensive and must be installed at one time to be effective.

Often, farm conservation plans are only partially implemented, with the last practice or two deferred or phased in over many years due to high costs or the lack of available financial assistance.

A Program to Complement and Leverage Other Conservation Efforts

A guaranteed loan program for conservation would offer a new element to conservation programs in the future by meeting the needs of producers at a reasonable cost while yielding significant environmental benefits to the public. Benefits include:

- **Capital for conservation implementation.** Systems could be implemented upon loan approval, whether or not cost-shared or a priority in other conservation programs. Full financing would avoid cash-flow related delays or the need to implement conservation systems in stages over time—accruing benefits to the producer and the public more quickly.

- **Costs spread out over time.** The producer is not forced to come up with large amounts of cash at the time of conservation system implementation as amortization would allow repayment over the term of the loan, improving the producer's cash flow.
- **Provides a favorable interest rate for the producer.** A reduced interest rate saves costs and allows for lower payments.
- **Uses the existing credit system.** Producers would be using familiar financial institutions such as their personal bank, farm credit bank or other lending institution, while the loans would be guaranteed by USDA through secondary financial markets.
- **Leverages USDA dollars.** \$50 million in annual funding could provide up to \$1 billion in loan principal to be invested in conservation systems.
- **Helps all producers.** Enables all producers—including small, beginning, and limited resource producers—to finance conservation systems without locking up assets needed for normal operating loans.

Conservation Loan Guarantee Program— How it Works

For producers, the first step is to determine conservation needs. After a conservation system or practice is certified by USDA's Natural Resources Conservation Service as suitable to address the identified resource concerns, the producer takes the certification to a lending institution of choice to seek a conservation loan. Upon approval, the loan would be issued to cover the installation cost, and the loan documents would reflect the payments over a specified term and interest rate. The term would be based on the conservation system life up to a maximum of ten years. The interest rate would be based on the market rates less a rate reduction of five, four, or three percent provided by USDA for loan values of under \$100,000, from \$100,000 to \$500,000, and over \$500,000 respectively. Payments on the loan would not begin for one year.

If the producer were able to receive cost share assistance from a USDA conservation program for a portion of the conservation measures to be applied, then the loan would be available to help the producer amortize the share of the project costs that would otherwise need to come from the producer's cash assets.

With a USDA-guaranteed conservation loan, a producer can install needed conservation systems while repaying the loan over time, whether in conjunction with other available programs or not. It provides the opportunity to make monthly or annual payments at advantageous terms over the life of the conservation system applied.

For more information about this or any of the policies recommended in *Agenda 2007*, please visit AFT's Web site at www.farmland.org or send an email to info@farmland.org.