



# Financing a Farm Operation

## Guide to Farming in New York State

**#4**  
Revised  
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If you're a new farmer, your chances for success will be greater if you can avoid going into debt to finance your farm operation, since your initial profits can be reinvested in the farm rather than paying the bank. Think carefully and creatively about your options, and resist temptations to buy more and better equipment than you really need. Too many promising operations have been sunk by over-capitalization. Of course, some operations will benefit from a loan, especially if they have a solid business plan that exhibits a realistic strategy for paying it off. Here are a few loan options:

### **Farm Service Agency Beginning Farmer and Rancher Program** - [www.fsa.usda.gov](http://www.fsa.usda.gov) 315-477-6300

The Farm Service Agency (FSA) provides direct and guaranteed loans to beginning farmers and ranchers who are unable to obtain financing from commercial credit sources.

A beginning farmer or rancher is an individual or entity who: (1) has not operated a farm or ranch for more than 10 years; (2) meets the loan eligibility requirements of the program to which he/she is applying; (3) substantially participates in the operation; and, (4) for farm ownership loan purposes, does not own a farm greater than 30 percent of the average size farm in the county. All applicants for direct farm ownership loans must have participated in business operation of a farm for at least 3 years. If the applicant is an entity, all members must be related by blood or marriage, and all stockholders in a corporation must be eligible beginning farmers.

### **Commercial Banks**

Most banks have a commercial lending department to handle business loans, but few banks have an agricultural lending department prepared to work with agricultural business. Check with your bank to see if they write agricultural loans (most will if you have a Farm Service Agency or Small Business Administration guarantee).

Following is a partial list of NY banks with known agricultural lending departments:

Farm Credit - [www.farmcredit.com](http://www.farmcredit.com) - click on NY; NY listings include: <http://firstpioneer.com> (860-741-4380) and [www.farmcreditwny.com](http://www.farmcreditwny.com) (585-815-1900)

M&T - [www.mandtbank.com](http://www.mandtbank.com) 800-724-2440

NBT Bank - <http://nbtbank.com> 800-NBT-BANK

### **Micro-Enterprise Loan Funds or Revolving Loans Funds for Small Business**

Some county governments have micro-enterprise loan funds with attractive interest rates and repayment terms that can be used to finance farm operations. Check with your county Planning and Economic Development Agency/Dept. to find out if they have micro-enterprise loans funds that you might qualify for.

### **Residential Finance or Using Your Own Equity**

While many banks are unwilling to lend money to an individual to purchase a herd of goats, for example, almost all banks offer home equity loans and/or other personal loans that you could use for your agricultural business. Home equity and personal loans may carry higher interest rates than business or farm loans available through the above sources. Be sure to check rates and terms. *Never finance a business using credit cards as interest rates are enormous and, if payments are not made, can quickly spiral out of control.*

If purchasing equipment or supplies (machinery dealers, a farmer selling animals, etc.) ask the vendor about their credit options and terms, as they may be more liberal than a commercial bank because they can easily seize and make use of the asset if payment is not made. Again, be sure you know the interest rates and terms.

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### Custom Hiring

Instead of purchasing machinery or specialized buildings, beginning farmers should evaluate options for local custom hire opportunities. It is better to hire someone to provide a service than to buy expensive equipment.

For example, would a neighboring farmer be willing to work your fields? This would avoid the time and expense of purchasing and maintaining machinery. Is there a commercial kitchen available for processing? This would avoid the expense and regulation of building a commercial kitchen.

### Farm Credit's FarmStart Program

First Pioneer Farm Credit has launched a program called FarmStart – visit [www.firstpioneer.com/finance/L3/getting\\_started.htm](http://www.firstpioneer.com/finance/L3/getting_started.htm) and click on FarmStart. FarmStart is a new venture with a mission to provide investments of working capital in farm businesses and farmer cooperatives that show sound promise for business success. The program can make loans to beginning farmers who wouldn't meet Farm Credit's internal credit standards. It requires no down payment or equity for five-year loans up to \$50,000, as long as the business cash flows and seems to have a good chance of succeeding.

**New York Beginning Farmer Loan Program** - [www.nysefc.org](http://www.nysefc.org) - click on Program and scroll down to NY Environmental Facilities Beginning Farmer Loan Program. Call 800-200-2200 to speak to the Beginning Farmer Project Manager at the Environmental Facilities Corporation (EFC).

The New York Beginning Farmer Loan Program (NYBFLP) provides low-cost financial assistance to Beginning Farmers in New York State (NYS) for the purchase of agricultural property and equipment to help start a farming business or to facilitate inter-generational transfer of a farm business.

The assistance is in the form of tax incentives to Lenders who make loans to qualified Beginning Farmers. This allows Lenders to pass assistance on to the Beginning Farmer in the form of lower interest rates on loans. Tax-exempt "Aggie Bonds" are used to finance the low-interest loans. With the NYBFLP, the Beginning Farmer will save money because of the reduced interest rate paid over the term of the loan.

In order to take advantage of this program, the Beginning Farmer works with their Lender (who is willing and able to purchase EFC's Aggie Bond to fund the Beginning Farmer's loan) to arrange the terms of a loan. Loan terms include the farmer's credit evaluation, security, collateral and length of loan, interest rate, etc. The loan will ultimately be the Beginning Farmer's obligation to the Lender, as in a normal loan. After the terms are set, both the Beginning Farmer and the Lender jointly apply to the NYBFLP. While the NYBFLP loan maximum is \$250,000, there is no minimum NYBFLP loan amount. The maximum term of the loan is up to 40 years, as determined by the useful life of the equipment or property being financed.



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