

FINANCING RURAL AMERICA: CHALLENGES IN ACCESS TO CAPITAL

Sub-Theme: Financing the Farm Business

Amy Pint Durand & Chelsea Breza-Berndt

AgStar Financial Services, ACA Mankato, Minnesota UNITED STATES

Abstract:

When one thinks of rural America, a traditional farm growing corn, soybeans, or wheat and cattle or hogs may be what comes to mind. However, rural America is an incredibly diverse and ever-changing landscape of rural residences, hobby farms, and large scale operations with operators of varied age and cultural background. To layer further complexity on this melting pot of diversity, advances in technology have opened more doors for streamlined efficiency and increased production. In order for producers to successfully reach operational and growth goals, access to capital that meets customized needs is imperative.

AgStar Financial Services has recognized this need and zeroed in on a niche market with rural residential properties. With access to bond-based lending via the Farm Credit System, AgStar can offer long-term fixed rates on real estate loans in situations where other lenders may be unable to. AgStar services over \$1 billion in home mortgage loan volume alone, and holds over \$551 million of that volume directly in their portfolio. The diverse in-house portfolio of rural residential properties includes bare land home sites, construction financing, primary and secondary residences, recreational property, and home equity loans. The portfolio lending program focuses on properties with significant agricultural features, full-time farm sites, and various types of unique property. As of 12/31/16 \$329.5MM of volume, or 59.77% of the aggregate volume in the portfolio, was on a long-term fixed rate. The entire portfolio has a delinquency rate of 2.1% across all \$551 million which is consistent with national mortgage delinquency rates. Small (less than \$250,000 of annual gross farm income), young (under the age of 35), and beginning (less than ten years of farming experience) farmers often face similar challenges as rural residents when it comes to accessing capital. Young farmers or those with startup operations may not have robust balance sheets, an abundance of collateral, or a relationship history with a lender willing to take a chance on them.

AgStar has recognized a need in rural America in this area, and has tailored lending programs accordingly. Young, small, and beginning farmers are subject to relaxed underwriting standards compared to established farmers, can receive interest rate breaks, and receive individualized attention and counseling for record keeping. Additionally, AgStar has a character loan program that gives loan officers the ability to make loans of less than \$75,000 to young beginning farmers with no underwriting except a credit check, based on the overall character of the borrower, family history, community involvement, and other intangibles.

The poster shall demonstrate how these specialized lending programs offer more reliable and enhanced access to capital for unique market segments. It will utilize the extraction of data from internal databases to draw conclusions regarding the success of these programs and offer ideas to peers for diversified agricultural lending.

Keywords: Finance; Capital; Rural; Efficiencies