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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

COMMUNITY AND ECONOMIC DEVELOPMENT DIVISION

May 14, 1982

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The Honorable Richard E. Lyng
Deputy Secretary of Agriculture

Dear Mr. Lyng:

Subject: Assistance to Beginning Farmers

Within the last several years, concern has been raised about the barriers faced by beginning farmers in obtaining financing to enter agriculture. This concern has been discussed in Department of Agriculture (USDA) and other publications and has resulted in bills being introduced in the Congress and in laws being passed by States to assist beginning farmers. However, organized information is lacking on the magnitude of the beginning farmer problem and the extent to which current programs address this problem.

This report identifies USDA data available nationwide within county offices of the Agricultural Stabilization and Conservation Service (ASCS) and the Farmers Home Administration (FmHA) which could be used to help evaluate Federal programs and legislative proposals directed at beginning farmers. We are recommending that USDA modify ASCS farm data tabulation to develop a beginning farmer profile. Because the data already exists this modification can most likely be accomplished with existing resources and without reprograming current USDA funding levels. We believe that this information will not only help USDA describe the elements of the problem and evaluate the impact of existing programs but could also improve the Congress' ability to deliberate the need for more specific legislation targeted at beginning farmers.

OBJECTIVES, SCOPE, AND METHODOLOGY

Concern with the attrition of farms in the United States as shown by USDA reports, Federal legislation, and State programs prompted us to review the efforts to help beginning farmers. Our methodology for reviewing this situation and the Federal response included literature and legislative research; an analysis of county-level FmHA and ASCS records and computation of farmer replacement rates in Morgan County, Colorado; interviews with agricultural officials in the 50 States; interviews with Colorado, Montana, and North Dakota farmers; and interviews with USDA, Small Business Administration (SBA), and Farm Credit Administration (FCA) officials.

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FEDERAL AND STATE PROGRAMS WHICH ASSIST BEGINNING FARMERS

The Federal Government and many States have programs to help people enter and stay in farming. Federal programs consist primarily of loans and loan guarantees. Most State programs are also loan and loan guarantee programs; however, two State programs provide land for use by new farmers. USDA has not evaluated the impact of Federal and State programs and therefore would have difficulty in making knowledgeable decisions about the direction and size of these programs and the need for new legislation.

Federal efforts to provide financing to beginning farmers date to the 1930's with FmHA's predecessor. FmHA's basic farm ownership and farm operating loan programs remain the primary financing programs available to beginning farmers. Additional Federal efforts include programs in SBA and in FCA and its system.

Many bills introduced in the 96th and 97th Congresses target or would have targeted assistance to the beginning farmer if enacted. (See enc. I for examples of such bills.) At least 14 States have enacted State programs which assist the beginning farmer. (See enc. II.)

Farmers Home Administration

FmHA administers a number of programs, two of which, the farm ownership loan program and farm operating loan program, are particularly applicable to persons wishing to enter farming who are unable to obtain credit elsewhere. One of several objectives of the farm ownership loan program is to assist eligible applicants to become owner-operators of family farms. The operating loan program's purpose is to provide the credit necessary for family farmers to conduct successful operations. In the 19 years ended in 1980, both programs more than tripled in dollars lent (from $457 million in 1962 to $1.8 billion in 1980). In the same period, the total number of ownership and operating loans dropped from 86,500 loans (1962) to 45,200 loans (1980). This paralleled the drop in total number of farms.

Because statistics are not kept on the number of qualified FmHA applicants who do not receive loans, the unfilled demand by potential beginning farmers is not known. Our work in Morgan County, Colorado (see enc. III), illustrates that there may be a large number of qualified individuals wishing to enter farming through FmHA programs who cannot because FmHA has not been able to serve them. During fiscal years 1979 and 1980, and the first half of fiscal year 1981, 31 persons applied for loans to the Morgan County FmHA office. Of these, only one received a loan from FmHA. Of the others, one submitted a plan that was rejected and, as of April 1981, eight were still awaiting availability of funds from FmHA and one had withdrawn because funds were not available. The other 20 did not submit a final proposal to FmHA. The FmHA county supervisor stated that the lack of sufficient loan funds and the need to process higher priority loans, such as emergency loans, prevented the county office from serving most of the qualified people wishing to enter farming by using farm ownership and farm operating loans.

Data accumulated currently does not allow FmHA to identify the effect of these two programs on the number of farmers who are able to enter farming. National FmHA officials told us that they do not accumulate data showing how many people, wishing to enter farming through farm operating and farm ownership loans, met the eligibility requirements and were not helped. FmHA could use this information to assess the effectiveness of the programs and to determine the potential effect of proposed legislation on the number of beginning farmers.

Small Business Administration

In 1976 the Congress gave SBA authority to begin making loans to farmers. Persons wishing to enter farming could obtain financing through SBA's nondisaster loan programs. Most of SBA's non-disaster loans to farmers were made under the Small Business Loan Program which authorizes loans to help start, expand, or modernize a business and to provide a line of credit to finance seasonal working capital requirements.

SBA does not accumulate statistics on the number of persons who were loaned money to begin farming or those wishing to begin who were qualified but not given loans. SBA officials told us they believed the number of SBA loans made to farmers had been small.

Farm Credit Administration

FCA like FmHA and SBA has not accumulated data on beginning farmers it has helped or persons wishing to begin farming whom it could not help. It is therefore difficult to determine the effect of FCA programs on beginning farmers or on those wishing to begin farming.

Unlike FmHA, FCA is not intended to help only those who cannot obtain credit elsewhere. The equity and cash requirements of the FCA organizations are higher and more restrictive than those of FmHA and SBA. Because of this, a limited resource beginning farmer would probably not be able to obtain credit from FCA organizations and would have to rely on FmHA or SBA. However, in December 1980 the Congress passed the Farm Credit Act Amendments of 1980 (Public Law 96-592) which targeted FCA credit to beginning farmers. The amendments required each Federal land bank association and production credit association--members of the FCA system--to prepare a program for furnishing credit and related services to young, beginning farmers. The act also required FCA to report annually on these services. As of January 1982 a report had not yet been prepared under this requirement.

State programs

In recent years State governments and legislators have become more concerned about the ability of beginning farmers to obtain financing. Before 1976, according to State officials we contacted, only three States had programs to help people begin farming. In 1981 14 States had existing programs and during 1981 9 more States were considering such programs. State officials we talked with cited the increased costs to start farming as a major reason for initiating State efforts. They cited accelerated capital requirements and high interest rates as prohibitive to beginning farmers and emphasized the need for people to enter farming.

For the most part, the States' efforts are in the form of loans or loan guarantees to beginning farmers for purchase of farms or farm equipment. Two States, Alaska and Hawaii, sell or lease State land rights to beginning farmers in addition to providing loans to beginning farmers. Minnesota and North Dakota encourage farm sales to beginning farmers through income tax incentives.

In nine States funding for these programs is based on the sale of tax-free revenue bonds. Four States finance their efforts through State appropriations and one, North Dakota, through the State's land bank.

DATA ON BEGINNING FARMERS IS AVAILABLE BUT NOT TABULATED

Information about the number, age, length of time individuals operate farms, and their entering and exiting dates would be valuable to policymakers in describing farm success patterns; identifying opportunities for new farmers; describing the beginning farmer problem; and evaluating the type, target, and size of farm programs. This information would help address such questions as the following:

--What is the effect on the farm sector of current efforts to assist new and beginning farmers enter farming?

--What type of programs are most effective in supporting the farm sector?

--Is there a need to change the size, type, and target of farm assistance programs to make them more effective?

Data currently available includes 5-year census information on the numbers of farms and farmers in various categories. Information about changes in categories such as farmer age and farm size by State and size of county is collected. Such information, while useful, does not provide a complete picture of the dynamics of the changes. For example, according to USDA (ERS Technical Bulletin No. 1625), there was a decrease in farmers from 3.6 million in 1964 to 2.9 million in 1974. Although these statistics indicate a decline in farmers, they do not indicate how many people entered or exited farming during the period. Based on the two statistics, the possibilities range from a complete turnover (that is, 3.6 million farmers or more left and 2.9 million or more entered) to no turnover (that is, 700,000 farmers left and none entered). Neither of these figures are correct and the answer lies somewhere between.

USDA uses a technique called age cohort analysis to predict trends in numbers of farmers and to determine the rate at which farmers are replaced. Age cohorts are groupings of farmers by the decade in which they were born. Age cohort analysis traces net increases or decreases in those groupings through successive agricultural censuses. USDA uses the net changes in age cohorts to compute farmer replacement rates. It assumes that farmers enter the industry at age 35 or less, expand their farms from age 35 to age 54, and retire from farming from age 55 on. Although we believe that USDA's age cohort analysis is useful for predicting future trends in total farmers, using it to compute rates at which farmers are being replaced is inadequate because it uses only changes by age group. Without knowing the rate of entry or the rate of exit during the period, USDA can only determine the change in the farmer population. USDA cannot determine whether new farmers are entering at a changing rate or whether farmers are staying in business longer or leaving earlier. If these figures on farmer changes were available, policymakers could use this information to better target programs.

Although there are Federal programs which aid beginning farmers, there currently is little data that shows the effect of helping beginning farmers. The States with programs that help get people started in farming also lack data on how their efforts affect farm numbers. In fact, no State had data on replacement rates, and only a few knew how many beginning farmers they had helped.

We analyzed farmer demographic changes in Morgan County, Colorado, by tabulating the farm record cards available at the ASCS county office. Such cards are available nationwide in county ASCS offices. The results of the analysis are not representative of Colorado or the United States. They represent only Morgan County for the period January 1974 to March 1981. We present the analysis to demonstrate that information about farmer entry/exit rates can be obtained.

During the period analyzed, 85 percent of the farmers in Morgan County who left farming were replaced by entering farmers (310 entered and 364 exited). In 1974 there was a total of 1,008 farmers in the county, so that the 364 who exited represented a turnover rate of 36 percent. Most who entered, stayed in farming; only about 13 percent entered and exited during the period. According to FmHA officials in Morgan County, there were potential farmers willing to enter the industry who had located farms for purchase but who were unable to obtain financing and, as a result, did not enter. In fact, FmHA's Morgan County office was able to successfully assist only 1 out of 10 qualified and approved candidates from October 1978 through March 1981. Therefore, if aid had been given to the other approved candidates, the Morgan County farm sector would probably be different than it is now. This is so because according to our interpretation of ASCS and FmHA county records in Morgan County,

--there were opportunities (farms available) for beginning farmers;

--there were potential willing entrants; and

--based on past evidence in Morgan County, most potential farmers who would have entered would have remained in farming.

Knowing such information, policymakers could design an approach to help beginning farmers.

To make informed decisions about helping beginning farmers, data can be obtained similar to our Morgan County data. If ASCS farm ownership cards were used to record the exit date of a farmer leaving the farm and the entry date of the beginning farmer and were periodically tabulated, then policymakers would have a better estimate and profile of the numbers of farmers entering and numbers of farmers leaving. This would be a statistical tool which could be used to design programs to help beginning farmers.

CONCLUSIONS

Concern with the farm sector has resulted in programs in 14 States to assist beginning farmers, and in the introduction of 11 bills in the 96th and 97th Congresses to target Federal programs to beginning farmers.

The current USDA analysis of farm trends describes net changes in farm numbers. The analysis does not provide data on numbers of farmers entering or leaving farming. Also, there is little data on the impact of existing farm programs on beginning farmers or the farm sector.

Without an understanding of the changes in the farmer population (changes in numbers of farmers by age, location, and type of operation) and an understanding of the impact of existing programs on the beginning farmers, it is difficult for the Congress to consider changes to farm programs that would successfully assist the beginning farmer.

Raw data is available nationwide at county ASCS and FmHA offices which can be used to determine the numbers of farmers entering and leaving farming and to obtain information about numbers of people wishing to enter farming. This data could be collected and tabulated by USDA within existing resources and could provide farmer demographic information, a profile of the beginning farmer situation, a basis for evaluating existing programs' impact on beginning farmers, and data for evaluating proposed legislation.

RECOMMENDATIONS

We recommend that USDA

--analyze trends in farmer numbers and target Government programs to the desired group of farmers,

--revise the ASCS recordkeeping system to tabulate available data on farmers entering and leaving the agricultural sector (See enc. III.),

--tabulate data on qualified persons applying for loans to enter farming through Federal programs and the number actually receiving loans, and

--evaluate the impact of existing programs which help farmers enter the agricultural sector.

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We are sending copies of this report to the heads of the agencies concerned with farmer viability. We will also make copies available to interested organizations as appropriate and to others upon request.

We appreciate the cooperation of USDA personnel provided to us during this review.

Sincerely yours,

Brian P. Crowley
Senior Associate Director

Enclosures - 3

EXAMPLES OF BILLS INTRODUCED IN THE 96TH AND 97TH CONGRESSES TO AID BEGINNING FARMERS

S. 582, 96th Congress, 1st session (1979)
Farm Entry Assistance Act

To provide Federal assistance to entering farmers through State agencies by Federal guarantees of no more than 90 percent of the principal and interest of loans.

H.R. 1910, 96th Congress, 1st session (1979)
Farmers Entry Assistance Act

To provide financial assistance to entering farmers through State agencies by Federal guarantees of no more than 90 percent of the principal and interest of loans.

H.R. 2977, 97th Congress, 1st session (1981)
Beginning Farmers Assistance Act of 1981

To establish a program to provide loan guarantees to State agencies for loans to beginning farmers (individuals who have not purchased or owned a family farm in the 10-year period preceding application for the loan).

H.R. 7548, 96th Congress, 2d session (1980)
Farm Credit Act Amendments of 1980 (Public Law 96-592)

Requires Federal land bank associations and production credit associations to prepare a program for furnishing credit and related services to young, beginning farmers. Also requires Federal land banks and Federal intermediate credit banks, from which production credit associations receive most of their funds, to report annually on the operations and achievements under such programs.

S. 1465, 96th Congress, 1st session (1979)
Farm Credit Act Amendments of 1979

Same as H.R. 7548

H.R. 568, 97th Congress, 1st session (1981)
Small Business and Family Farm Preservation Act of 1981

To amend the Internal Revenue Code to decrease amounts of gift and estate taxes on small businesses and family farms.

H.R. 964, 97th Congress, 1st session (1981)
Family Business, Ranch, and Farm Protection Act of 1981

To amend the Internal Revenue Code to reduce death taxes on farms, ranches, or businesses in which heirs participated in the operation of the business, farm, or ranch.

H.R. 1083, 97th Congress, 1st session (1981)

Same abstract as H.R. 964.

H.R. 1915, 97th Congress, 1st session (1981)

Same abstract as H.R. 964.

H.R. 2373, 97th Congress, 1st session (1981)
New Homestead Act of 1981

To amend the Consolidated Farm and Rural Development Act to require that not less than a specified percentage of FmHA real estate loans be for acquisition of family farms.

H.R. 2982, 97th Congress, 1st session (1981)
Family Enterprise Preservation Act

To amend the Internal Revenue Code to reduce a decedent's estate by amounts for property used in farms or other trades and businesses.

STATE EFFORTS TO HELP BEGINNING (note a) FARMERS

State	Year initiated	Amount authorized (millions)	Description
Alabama	1980	$35	State loans to farmers through private lending institutions. Funded by tax-free revenue bonds. Farmers must obtain FmHA 90-percent loan guarantee.
Alaska	1960	$22.5	State loans directly to farmers. Funded by State appropriations. Sales of agricultural rights to State land to farmers at lower-than-market prices.
Arkansas	1981	$100	State loans to farmers through private lending institutions. Funded by tax-free revenue bonds. Farmers must obtain FmHA 90-percent loan guarantee.
Georgia	1980	$100	State loans to farmers through private lending institutions. Funded by tax-free revenue bonds. Farmers must obtain FmHA 90-percent loan guarantee.
Hawaii	1972	$14	State loans directly to farmers. Funded by State appropriations. Leases of State land to farmers at lower-than-market prices.
Indiana	1981	not yet determined	State loans to farmers through private lending institutions. Funded by tax-free revenue bonds. Farmers must obtain FmHA 90-percent loan guarantee.
Iowa	1980	$150	State loans to farmers. Funded by tax-free revenue bonds. Farmers must obtain FmHA 90-percent loan guarantee.

a/State efforts are principally toward young and beginning farmers.

State	Year initiated	Amount authorized	Description
		(millions)	
Louisiana	1980	$25	State loans to farmers through private lending institutions. Funded by tax-free revenue bonds. Farmers must obtain FmHA 90-percent loan guarantee.
Minnesota	1976	$10	State guarantee of 90 percent of farmers' loans. Funded by State appropriations. Waiver of State income tax on interest from seller-sponsored loans for sales to beginning farmers.
Missouri	1974	$1.5	State loans directly to farmers.
North Dakota	1978	$14	State Bank loans directly to farmers who obtain FmHA assistance. Waiver of State income tax on gains on farm sales or leases to beginning farmers.
Oklahoma	1980	$50	State loans to farmers through private lending institutions. Funded by tax-free revenue bonds. Farmers must obtain FmHA 90-percent loan guarantee.
Texas	1980	$10	State guarantee of 90-percent of farmers' loans. Funded by tax-free bonds.
Virginia	1981	not yet determined	State loans to farmers through private lending institutions. Funded by tax-free revenue bonds. Loan guarantee or insurors not yet determined.

MORGAN COUNTY, COLORADO, ASCS AND FmHA AGENCIES

ASCS

At the Morgan County ASCS office, we used the Farm Record Cards, Tract Books, and Data for Farm Reconstitution Forms to identify farmers who had entered or left farming during the period January 1974 through March 1981. Using these records we also identified the number of farmers in business at the end of 1978 and at the time of our review. ASCS uses the Farm Record Cards to show the current ownership and use of all farmland in the county. The cards are updated continually to reflect changes in ownership or operators of the land. Tract Books show the current owners and operators of all farmland by tract number.

When updating the Farm Record Card for changes in operator or owner, ASCS changes the card and does not keep a record on the card of the previous owner and operator. By changing the procedure to keep a record of previous owners and operators, ASCS would easily be able to identify new farmers in the county as well as farmers who left farming.

Analysis of Morgan County farmers and replacement rates disclosed that from 1974 to March 1981, 85 percent of the exiting farmers were replaced by new farmers. During the period 1979 to March 1981, there was very little change in total number of farm operators--a decrease of 2 from 956 to 954. However, while the net change in farm numbers was slight, there was a relatively large volume of entering and exiting farmers with a 97-percent replacement rate--74 entered and 76 exited. During the period 1974 through 1978, however, there was an even larger turnover with 29 percent (288) of all farm operators leaving farming in Morgan County. The number of entering farmers during the period was not quite as large (236); only 82 percent of the exiting farmers were replaced. The following table summarizes this data.

Farmer Replacement Rate
Morgan County, Colorado
1974 - March 1981

1974 - March 1981

Total	
1,008	Farm operators, 1974
310	Farm operators entered
364	Farm operators left
954	Farm operators, March 1981
(54)	Increase (decrease)
85%	Replacement rate (note a)

1974 - 1978

Total	
1,008	Farm operators, 1974
236	Farm operators entered
288	Farm operators left
956	Farm operators, 1978
(52)	Increase (decrease)
82%	Replacement rate

1979 - March 1981

Total	
956	Farm operators, 1979
74	Farm operators entered
76	Farm operators left
954	Farm operators, March 1981
(2)	Increase (decrease)
97%	Replacement rate

a/The replacement rate is calculated by dividing the number of farms operators that entered by the number of farm operators that left; e.g.: 1974-1981 Total: $\frac{\text{310 entered}}{\text{364 left}}$ = 85 percent.

FmHA

We reviewed FmHA records and analyzed requests for farm operating or farm ownership loans from persons wishing to enter farming during fiscal years 1979 and 1980 and the first half of fiscal year 1981. There were 31 requests and FmHA made 1 loan. The table below summarizes the number of FmHA loan applications and FmHA's disposition of these applications.

Applications Received By FmHA From Beginning Farmers: FY 79, FY 80, And First Half FY 81

	FY 79	FY 80	FY 81	Total
Number of applications	17	7	7	31
Number of loans made	1	0	0	1
Number of rejected or incomplete applications	11	5	5	21
Number of applicants not served because of unavailability of funds or staff for processing	4	2	2	8
Number of applications withdrawn	1	0	0	1