

**Statement of Gary Matteson  
To The  
Farm Credit Administration  
Regarding  
Service to Young, Beginning and Small Farmers**

**November 13, 2002**

My name is Gary Matteson. My family and I grow flowers in Epsom, New Hampshire and market them in the New England region. I serve on the Board of Directors of First Pioneer Farm Credit and as a member of the CoBank-Northeast Farm Credit Regional Council. I am a “small” farmer as defined by the Farm Credit Administration, and when I started with Farm Credit I was also considered a young and beginning farmer by FCA definitions.

The CoBank – Northeast Farm Credit Regional Council coordinates public policy initiatives for five Farm Credit organizations that serve agriculture in the Northeast – First Pioneer Farm Credit, Farm Credit of Western New York, Farm Credit of Maine, Yankee Farm Credit and CoBank. My comments will focus on the programs of First Pioneer Farm Credit, but the other Northeast Farm Credit Associations have similar programs and a strong commitment to support young, beginning and small farmers as part of our mission to improve the quality of life in rural America.

First Pioneer Farm Credit, ACA is a customer owned cooperative headquartered in Enfield, Connecticut and serves over 9400 farmer members in the states of Connecticut, Massachusetts, New Hampshire, New Jersey, New York, and Rhode Island. Our total loan volume is in excess of \$1.5 billion. Our market share in the region we serve is over 60%.

First Pioneer’s Young, Beginning, and Small Farmer Program (YBS) provides services to over 400 farmer members with interest rate and financial service incentives. First Pioneer provides a specific funding allocation for YBS activities, which the Board has increased annually.

First Pioneer has a very high market penetration in the YBS farmer market segment. Expanded eligibility and scope of lending terms combined with innovative new structures will be required to further increase First Pioneer’s ability to service this unique market segment.

**Board of Directors Commitment to Young, Beginning and Small Farmer Initiatives**

First Pioneer’s Board of Directors is actively involved in the YBS Program. YBS activity is not seen as merely an act of regulatory compliance or administrative reporting – it is an important part of our commitment to the future of agriculture in our region.

First Pioneer’s Board has undertaken substantial YBS initiatives because we felt they were right for serving the needs of all of our stakeholders. We are proud that these initiatives preceded and

are well in excess of regulatory requirements. First Pioneer has been a consistent and reliable source of credit and financial services for the YBS market.

First Pioneer Board members are passionate about the YBS program and feel a personal stake in the program because in many cases they were themselves “young, beginning, and small” operators and have a first hand understanding of the need for a program.

The First Pioneer Board carefully monitors the YBS program. The Board receives detailed quarterly updates on the incentives provided to members under the program. The reports include a breakdown of specific incentives by each of our fifteen offices including a listing of each new loan in each quarter. The Board also receives a detailed annual report on program effectiveness.

In addition to the activities of the full board, a separate YBS Board Committee meets frequently to review the program and refine policies to maximize benefits to members. The committee recently directed management to focus incentives on farm management areas such as tax preparation, farm records and consulting.

A recent initiative recommended by the committee and adopted by the First Pioneer Board would establish a Starter Farmer Program. This concept is now under discussion with FCA. This initiative would be funded by an initial Association endowment and is intended to operate on a self-sustaining basis. The new program would be directed at young farmers who would not qualify for loans under traditional credit underwriting standards. Our experience has been that Starter Farmers often cannot obtain operating credit at reasonable rates. Simply stated, the program would provide operating credit in cases where deserving young farmers would otherwise be forced to use alternative funding to operate, such as high interest credit cards. The purpose of this new program is to reduce and isolate risk by providing a separate pool for Starter Farmer funding so that First Pioneer's overall credit quality does not suffer.

### **First Pioneer’s Young, Beginning and Small Farmers Program**

Benefits under First Pioneer’s current YBS program include both direct interest rate assistance and special incentives for financially related services. First Pioneer offers members a full array of financially related services. This expertise is particularly valuable to Young, Beginning, and Small farmers.

First Pioneer’s YBS program offers a number of special incentives. While the incentives may vary depending on the specific farm situation, the following programs are used extensively:

Interest Rate Assistance The rate charged on loans in the program is often discounted from the standard rate charged for similar loans. The amount of loan volume eligible for interest rate assistance is \$30 million.

FSA Fee The Association often pays the initial fees (typically 1% of the loan amount) incurred with a Farm Service Agency loan guarantee. The ability to effectively utilize

available FSA programs is essential when working with YBS farmers. First Pioneer, as an FSA Preferred Lender, has extensive experience working with FSA guarantees. Currently \$43 million of loans in our YBS program are supported by FSA guarantees.

Appraisal Fee Appraisal fees are often waived by the Association under our YBS program. Waiving appraisal fees helps to minimize closing costs for loans.

Consulting Fee Fees associated with a limited consulting engagement are often waived. Management consulting is often essential for starting farmers.

Tax Preparation Fee The fee for tax preparation is often discounted. Agricultural tax issues are often complicated and are particularly challenging for new operators.

Farm Records and Management Software Discounts are available for products and services sold to eligible YBS members. Accurate tax, accounting and payroll records are a valuable training tool for sound business and tax planning.

First Pioneer also provides educational and training opportunities for YBS borrowers. For example, consulting and tax professionals have conducted risk management seminars for YBS farmers and First Pioneer directly sponsors YBS farmers to attend agricultural and management training.

The commitment of First Pioneer the other Northeast Farm Credit institutions is also illustrated by the Northeast Farm Credit AgEnhancement Program. Through this program, we have provided grants for projects and events to strengthen and promote the industries we serve. One of the biggest areas of support has been for youth activities ranging from state and regional FFA and 4-H activities to local organizations and events. These programs are helping to develop the next generation of young and beginning farmers and are an integral part of serving our mission relating to YBS.

### **Limitations on the YBS Program**

Loans in the YBS program are subject to First Pioneer's standard credit underwriting criteria. As a result, some potential YBS borrowers do not qualify for loans. Simply relaxing the credit underwriting standards for YBS loans could result in an increase in high-risk credit overall. Poor credit quality will, in turn, result in regulatory criticism and will impede First Pioneer's ability to serve all members. First Pioneer is able to mitigate some credit concerns through the use of FSA guarantees, but not all loans qualify for FSA assistance.

Ideally, high-risk credit could be isolated with a separate subsidiary entity. This would allow Farm Credit institutions to better serve YBS candidates who do not meet standard credit underwriting requirements. A subsidiary structure for the Starter Farmer program would also allow Farm Credit institutions to jointly offer incentives and services to YBS borrowers. A

subsidiary structure could also attract investments from other agribusinesses. Formation of subsidiary entities for this and other purposes should be allowed by FCA.

First Pioneer is also limited by existing eligibility and scope of lending requirements for part-time farm loans. FCA restrictions are especially difficult to explain to potential new borrowers and impede effective marketing of the YBS program. The part-time farmer distinction prevents us from serving many potential YBS Program candidates that are starting an operation even as they continue to have significant off-farm income.

### **Recommendations To Enhance Service to Young, Beginning and Small Farmers**

To enhance YBS programs we recommend consideration of a number of initiatives:

Eligibility and Scope of Lending Eligibility restrictions for part-time farmers should be eliminated. The part-time farmer restrictions are particularly burdensome for YBS farmers. This change will eliminate the existing gray area on eligibility that hinders the service we can provide to the YBS market.

Maintain High Underwriting Standards and Allow Alternative Lending Structures Any regulatory mandate that Farm Credit institutions make loans to high-risk borrowers will conflict with existing underwriting standards and ultimately undermine Farm Credit's mission to improve the quality of life in rural America and on the farm. Although we consider YBS activity to be essential to our cooperative's future we do not believe it should erode the Association's credit quality. To address this potential conflict, we propose that FCA allow the use of subsidiary entities to provide funding for high-risk YBS loans. A subsidiary would enable First Pioneer to create our planned Starter Farmer Program. Through this subsidiary we could limit liability and isolate high-risk credit. Using a subsidiary structure in this way could also allow for cooperative efforts by associations to provide services and incentives. Since not all associations provide financial services, this type of joint activity would bring a wider choice of services to YBS farmers throughout Farm Credit.

Avoid Fixed Goals and Standards There are a variety of approaches within Farm Credit to serve YBS farmers. The scope, loan volume, and market share of YBS programs differ significantly. Setting fixed goals and standards designed to cover all System institutions will be very difficult and may penalize associations with a high YBS market share. Financially related services often do not get adequate consideration as part of a YBS program and should be better recognized by FCA.

Extensive Reporting and Monitoring Changes Are Unnecessary The current level of monitoring and reporting for YBS programs is adequate. Additional administrative burdens will only serve to divert efforts from valuable YBS activity. Reporting requirements can be refined as technology advances, but no major reporting enhancements are necessary.

Existing YBS Regulations and Guidance Are Adequate Meaningful enhancements to YBS programs will be based on FCA's willingness to consider changes in eligibility, scope, and new lending structures such as Starter Farmer subsidiaries. Fundamental changes are not needed in the existing YBS lending guidelines.

The best evidence that a broad overhaul of regulations is unnecessary is the thriving YBS programs that currently exist in Farm Credit. As a Board member, I am proud of what we have done with the First Pioneer YBS program. I know that the other Northeast Farm Credit directors are also pleased with their YBS work. Additional regulation or oversight in this area will discourage development of innovative YBS offerings and runs the risk of having Farm Credit associations perform just to meet FCA minimum requirements.

Thank you for the opportunity to testify on this important topic. I look forward to your questions.

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