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# Agricultural Revolving Loan Fund Running Dry

## Could Alaska face a land without agriculture?

By Deborah Jeanne Sergeant

If things don't change soon, the State-run Agricultural Revolving Loan Fund (ARLF) will be shuttered. Although other programs and lenders exist, nixing the 58-year-old ARLF will decrease funding available to an already precarious agricultural industry.

Banks generally do not lend to farms because in case of default, the land may be used only for farming, rendering it nearly valueless. Alaska farmers use the three main lending institutions in the state: Agricultural Revolving Loan Fund (ARLF), a State-run program; U.S. Department of Agriculture Farm Services Agency (FSA), a program operated by the federal government; and (AARC), a private, nonprofit lender.

In an industry accustomed to relying upon credit for supplies and equipment upgrades until the harvest or slaughter, cash has been especially tight during the downturn.

"In the last few years, our funds have diminished," said Candy Easley, loan officer with ARLF. "Unless it's recapitalized, there won't be enough funds."

### The Missing Link

Losing ARLF is like kicking out one leg from a three-legged stool.

"Each program serves a different need and we cross-participate with each other," Easley explained.

Established in 1953, ARLF, as a revolving loan fund, focuses on development. Many of its loans are larger loans for funding a new farm that's clearing land, operations that add a processing plant for its goods or some other large-scale venture. ARLF caps its loans at \$1 million.

FSA is more geared toward beginning farmers. Because they lack collateral, obtaining a

standard bank loan to start their ag business is next to impossible. FSA also serves people with credit issues or other problems that impede their ability to get a traditional loan.

AARC is the most conservative of the three ag lenders because of the amount of funds they possess. Its high-qualifications standards make it tougher for obtaining a loan.

AARC loan officer Steve Gallagher confirmed the agency will continue to lend to farmers despite the credit crunch.

"We're increasing our funds by partnering with Farm Service Agency's funds so we don't run out," he said. "They used to be the 'lender of last resort' and now they're the 'lender of first opportunity' because of the financial crisis in the Lower 48."

### Three to Completion

Easley believes because farms rarely need only one kind of loan, it's important to the industry that all three ag lenders are well-funded. For example, a farm may need a FSA loan to buy dairy cattle, an ARLF loan for adding a creamery and milking equipment and an AARC loan for building a farmhouse.

Once a farm has been established, it make operate for decades, depending upon farm credit, to cover operating expenses and to replace and upgrade equipment as it wears out or as the farm expands. They will need to buy seed, feed, fuel and other supplies they cannot afford until the harvest comes in.

"It's a fragile lending scenario," Easley said. "We work together and there's not hundreds and hundreds of farms. It's a big state with a small ag community."

### Dwindling Funds

The funds have dwindled because ARLF was set up to revolve, but it hasn't. It has not received general funding since 1986 and \$12 million total has been siphoned from the coffers to supply the Alaska Division of Agriculture's operating expenses since 2004.

As for ARFL, it's been living on its hump, selling off its assets. The organization has less than \$5 million left and generates only \$.5 million in interest based upon its portfolio. Easley said it takes \$1 million to operate, so farmers will have only \$4 million to borrow in 2011.

"That's not enough money to revolve when you're loaning approximately \$2.5 million in new loans," Easley said. "There's not enough money, so depending upon the amount of loans

taken out, that's going to be the factor, and depending upon if no loans going bad. In a year, we won't have that \$2.5 million to loan out."

The Alaska Board of Agriculture and Conservation is lobbying for support from the Legislature to recapitalize ARFL.

"Whether it happens or the conditions under which it happens I don't know," Easley said. "We're at risk for not being able to provide development funds or operating funds within the next year."

She estimates with an average farm purchase of \$300,000 to \$500,000, ARFL will be able to fund about four before the funds dry up.

### Slow Death

Twenty years ago, ARFL employed 15; for the past seven years, Easley has worked alone.

"If the State wants to promote the development of agriculture and maintain the existing level of agriculture, then they really need to recapitalize and reaffirm their support to finance ag in this state," Easley said. "I think that before they fund it, they need to decide the goals."

Amy Pettit, Alaska Department of Agriculture development specialist on the Food Policy Council in Palmer, said that the increase in small-scale production indicates a growing opportunity for farmers, fueled by "people becoming more interested and concerned with how it was grown where and how it got to them," she said.

In 2005, the Department of Agriculture recognized 13 farmer's markets. By 2010, the number had risen to 29.

### "Endless Opportunities'

"There could be more and more farmers could be utilizing the facilities available and if there were more facilities, we could use more farmers. We could use more farmers in Alaska. There's endless opportunity."

Previously from Kansas, Pettit recalls her former state's number of listed farmers: 44,000. Alaska's 680 farms is very low, especially considering the state's size.

The output of Alaska's farms is low also. Only 320 of Alaska farms are making more than \$10,000 per year.

"They're supplementing their income with non-farm work," Pettit said. "It's a budding industry."

But unless the industry can obtain sufficient funding, it will stagnate. Bryce Wrigley, president of Alaska Farm Bureau, operates Wrigley Farms in Delta Junction, where he raises 1,000 acres of barley.

"I think that ARLF, the primary lender of the state, needs to be recapitalized," he said. "Dump \$10 million in there. Their policies should change so any operation expenses of the Department of Ag should come out of the general fund not the ARLF loan fund."

Wrigley fears for the future not only of Alaska's farmers, but also the state's food supply.

"We're going to allow our capability to produce our own food slip away from us and that's not going to be recoverable," he said. "It's estimated that the average farmer feeds 153 people apiece. That's good productivity. But when you consider a 300 million population and 2 million farmers, we're barely making enough food for our nation."

He compared America's reliance upon other nations for oil with the possibility of depending upon them for a majority of our food.

"I remember the oil embargo lines in the '70s," he said. "Suppose we have to wait in lines at the grocery stores for food?"

Should the state's food supply lines become interrupted with a major catastrophe, "we would be in a world of hurt," he said. "We're trying to put in place those growth mechanisms to cover ourselves in the case of emergency. We can grow those things that would result in a diet that would preserve life."

Infrastructure to process, market and distribute those goods is also a part of the ag picture in Alaska.

"We don't have a miller in the state and flour is basic," Wrigley said. "Our challenge maybe isn't so much the credit crunch, although that could change. Our challenge is in putting the raw product we can grow into the hands of the consumers with adequate processing and distribution marketing."

***Here are the differences and similarities among Alaska's agricultural lenders:*****Alaska Rural Rehabilitation Corporation - Variable rate**

ARRC offers conservative financing with a focus on moderate operating loans, chattel loans and farm land purchase financing. Current interest rates are varied 5 percent to 9 percent, determined by applicant's credit and collateral and no loan fees with terms of up to 20 years. The majority of the loans are closed at the 5 percent. Their rates are adjustable every two years with no cap.

**USDA Farm Services Agency - Fixed rate**

FSA offers financing if other credit is unavailable with some program loan funds targeted specifically for disasters, beginning farmers and socially disadvantaged farmers.

**Farm Credit Services - Variable rate**

Farm Credit Services offers conservative financing with FSA guarantees and has only made a few agricultural loans in Alaska over the years. Their interest rates are variable rates with a cap and presently range 3.85 percent to 8.3 percent and loan fees from no fee to 2 percent with a maximum 20-year term. Borrowers may be eligible for 0.5 percent to 0.7 percent annual interest refund. There may be prepayment penalties.

**Commercial Fishing & Agriculture Bank - Variable rate**

CFAB has had no agricultural loan activity in years. Their loan programs are primarily for the fishing and tourism industries. Their variable rates are not competitive for agricultural loans at 7.25 percent to 8.5 percent and 1 percent loan fee with a maximum 20-year term.

**Agricultural Revolving Loan Fund - Fixed rate**

The ARLF currently offers 3 percent short-term; one-year, 4 percent intermediate term up to seven years and 4.5 percent long-term up to 30 years.