Agricultural lenders recently surveyed in the upper Midwest indicated a mixed sense of optimism for the future of organic and sustainable farming and an unequivocal willingness to learn more about them. The current level of understanding of these farming practices among lenders is often low, however. This, combined with an undertone of skepticism, could limit lender participation in this growing market.

Lender Attitudes Toward Organic and Sustainable Farming

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The perception that there will be further growth in this unique farming sector, especially in organics, is no longer subject to dispute. Dimitri and Greene document growth in organic retail food sales of at least 20 percent per year since 1990. That growth was projected to become even stronger as a result of USDA organic standards implemented in October 2002. Furthermore, the principal crops grown in the upper Midwest are corn and soybeans, for which USDA's Economic Research Service found acreage certified for organic production to have doubled between 1992 and 1997. It doubled again between 1997 and 2001.

Surveyed lenders recognized this potential with a professed open-mindedness to financing it. This welcoming attitude, however, isn't getting across to farmers. Furthermore, a closer look at the comments of 195 lenders show a conflicting outlook on the future of farming, different loan criteria for new

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farming practices, a bleak or uninformed sense of the profitability of such methods, the strong likelihood of unhelpful loan thresholds, and considerable room for education about this potential client pool.

The Survey

Questionnaires were sent to 530 agricultural lenders in Minnesota and Wisconsin during the fall of 2002. Thirty-seven percent of those surveyed responded. Two out of three responding lenders were loan officers at independent local banks. The remaining third, for the most part, worked for local branches of regional or national banks, the Farm Credit Service and the Farm Service Agency. Nine out of 10 respondents were male, and about half were between the ages of 41 and 50; almost all were under age 60. Nearly half had at least 20 years of experience in agricultural lending. Three out of four respondents were raised on a farm, and 30 percent continued to farm at the time of the survey.

The survey instrument consisted of 37 questions designed to solicit information on the degree to which lenders understood the concepts of sustainable and organic agriculture. Information on loans outstanding for these types of farms and for policies regarding those loans also was sought. Policies concerning loans for conventional farming also were solicited so that comparisons could be made. Other questions revealed general attitudes toward new farming practices and, of course, general background on the respondents.

Results

Some of the results indicate a good match between lender attitudes and financing the anticipated continued growth in sustainable and organic farming enterprises. For example, nine out of 10 respondents said lenders are neutral toward sustainable farming practices, and this was substantiated when every lender responded that they were either “open” or “somewhat open” to financing them. Lenders are moderately versed in sustainable agriculture terms, and about half indicated good relationships with sustainable farmers already.

A closer look, however, presents a more clouded picture. For example, in a companion survey of 730 farmers using sustainable practices in Minnesota and Wisconsin, two out of three indicated a bright outlook for their methods of farming. Only one in five lenders surveyed here shared that conviction.

At least part of those reservations appears to stem from concerns over profitability. One in three respondents was of the opinion that sustainable farming was less profitable than conventional farming, a third felt that conventional and sustainable agriculture were competitive, and another third said they didn't know enough to have an opinion. As one farmer said at a subsequent meeting with lenders, it would be difficult to feel confident in lenders who have a dim or conflicted view of their future and little faith in the profitability of their choices.

> *Lenders considered themselves simply uninformed about, rather than biased against, sustainable and organic production.*

More than half the respondents gave additional criteria for their would-be customers if sustainable or organic practices were on the table. When asked their reasons for denying a typical agricultural loan, lenders gave an expected response: cash flow, equity and credit history. But when asked for reasons for denying a loan they considered sustainable, one out of two lenders indicated they expect the additional requirements of market and business plans, a guaranteed market and proof of management skills. Lenders said they consider this to be a new field and therefore a risk that requires additional information. In follow-up meetings to the survey, lenders indicated they already have plenty of information on conventional production. For this reason, they considered themselves simply uninformed about, rather than biased against, sustainable and organic production.

Surveyed lenders also acknowledged that while they prefer at least three years of historic financial statements, they aren't getting them from many of their conventional farmer customers: just four in 10 of them prepared financial statements and fewer than two in 10 prepared a business plan. In the companion survey of sustainable farmers, eight in 10 included financial statements in their application. One can easily conclude from these numbers that the lack of a business plan is more likely to be forgiven for conventional rather than sustainable farmers.

A final question of interest concerned the outlook for various types of farming in the markets served by agricultural lenders. While

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many saw considerable growth in organic and sustainable farming, twice as many (82 percent) saw a future involving biotechnology. It is worth noting that new national organic standards specifically prohibit the use of biotechnology, and sustainable farmers view consumer discomfort with biotechnology as favorable to them. Lenders, on the other hand, were likely to see biotechnology as the future of farming. Most lenders (72 percent) also believed that there will be fewer new farmers in the future. In contrast, the survey of sustainable farmers showed that almost 20 percent of responding farmers have been managing for sustainability for less than five years and the same percent is 40 years old or younger.

Discussion

There is evidence that lenders may be overestimating their ability to take full advantage of the anticipated growth in organic and sustainable farming. Surveyed lenders see themselves as open-minded and ready to work with all types of farmers. But three in four respondents have not attended a sustainable agriculture class or field day in the past five years. Many don't understand the concepts or methods of sustainable organic farming, and they are unclear as a group as to its future. They hold possible biases in both profitability projections and loan evaluation practices. Loan thresholds can be significant obstacles for the smaller-scale sustainable or organic farm customer.

In the companion survey of sustainable farmers, the issues that farmers face with would-be lenders came through clearly. While 56 percent of responding farmers reported good relationships with lenders, only one-third of them were satisfied with the relevant knowledge of their lenders, and just four in 10 farmers found their lenders open to their ideas. This lukewarm response is not surprising, perhaps, but farmer experiences at the bank are clearly a problem if the new market is to be fully exploited.

In a series of round-table meetings with lenders and farmers to present results from the survey, we are starting to see that the problem is not insurmountable. In fact, it is best addressed in a very straightforward way – education. What might be perceived as a bias against new farming practices might be no more than a lack of familiarity with those practices and related research.

Consider, for example, the issue of profitability raised by so many of the lenders surveyed. A recent study by Porter et al. showed equal profits for farmers engaged in conventional vs. organic corn and soybean production. Lower inputs offset lower yields in the organic fields. The results are especially significant in that they hold without applying organic price premiums. Organic milk production, too, presents an opportunity to show positive results in today's depressed dairy economy. At the same time, the belief is widespread that farmers producing most conventional farm commodities would not be profitable without substantial government support.

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Who better to teach lenders about farming than farmers themselves? Lenders already depend on farmers as an important source of information. During the round-table meetings following the survey, lenders expressed considerable interest in opportunities that bring them to farms as well as bring relevant lending insight into their own offices. In fact, this already happens to some degree. One farmer said of her two bankers, "We've been able to teach them, but we walk in very well prepared."

Lenders and farmers involved in developing the survey questions for the most part had solid relationships with one another. At the same time, they acknowledged the relative rarity of their good fortune and the need to open doors to others. "Lenders are skeptical and so are the neighbors," said one participant in a private conversation. People need encouragement and support to take on these new enterprises – as lenders, financial planners and new farmers.

Conclusion

There is solid evidence concerning both the growth in, and the profitability of, sustainable and organic farming enterprises. Can we safely assume that lenders would like to see such farmers succeed in part due to fruitful relationships at the bank? The survey results presented here unveiled prevailing attitudes and practices that will make it difficult for lenders to fully capitalize on the growth in nontraditional farming practices. Yet lenders say it is their responsibility to learn about what their customers want to do. Mitigating the skepticism and lack of awareness with on-farm tours for lenders, business plan workshops for farmers and more face-to-face time on the subject will be important parts of any program to ensure maximum benefits from new farming practices for farmers and lenders. **jal**

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