PROJECT ABSTRACT

Microloans for Farmers

Personalized outreach to farmers increases successful small-business loan applications

Agency Objective. Provide information on the USDA Microloans program to farmers.

Background. The U.S. Department of Agriculture's, (USDA) Farm Service Agency (FSA) launched the Microloan program in January 2013 to better serve the needs of small farms, beginning farmers, and farmers from historically socially disadvantaged groups.[60] As their name suggests, these loans are smaller than other direct operating loans, with an initial maximum of $35,000 that was raised to $50,000 in November 2014. The loans are designed to be more convenient and accessible to nontraditional producers who might lack the business and credit history that traditional clients of the direct operating loan program have. This includes a streamlined application process and relaxed requirements for collateral and previous experience in farming.

Methods. In collaboration with the Farm Service Agency (FSA), the USDA's Economic Research Service and the Office of Evaluation Sciences (OES) designed an outreach letter that provided information on the benefits of the Microloan program, personalized contact information for local loan officers, and a shortened web address for accessing more information.* The letters were sent in late April to farmers in a random sample of zip codes in nine states: Alabama, Arkansas, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, and Tennessee. Farmers who were interested in Microloans were encouraged to follow up by calling, emailing, or visiting their local county FSA offices to discuss options with an FSA loan officer. Letters were sent to all farms in 1,848 treatment zip codes.

Results. The letter increased the number of successful applicants for Microloans. The number of farms that apply for and receive a Microloan is small compared to the overall population of farms—131 farms in control zip codes, or approximately 0.09 percent, applied for and received a Microloan between late April and July 2015. In the treatment group, that figure increased to 165 farms, or 0.11 percent of all farms in treatment zip codes, a difference of 0.02 percentage point ($p < 0.05$, 95% CI [0.00, 0.05]).

Consistent with this result, data collected by FSA on activity at county offices indicate that the letters increased the amount of Microloan-related activity in FSA county offices. Approximately 1.8 percent of the recorded activity in FSA county offices from late April through July of 2015 had to do with Microloans. Of those customers who gave information about themselves when they inquired about Microloans, 2.85 percent of the office activity was generated by Microloans in zip codes that did not receive letters, while 4.90 percent of the office activity was generated by Microloans in zip codes that received letters, a difference of 2.05 percentage points ($p < 0.01$).

Conclusion. Providing actionable information to new farmers can increase access to Microloan credit.

[60] USDA News Release 0010.13. http://www.fsa.usda.gov/FSA/printapp?fileName=nr_20130115_rel_0010.html&newsType=newsrel

* Dean Karlan collaborated with OES on this project.