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USDA Microloans for Farmers: Participation Patterns and Effects of Outreach

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What Is the Issue?

USDA's Farm Service Agency (FSA) launched its Microloan program in January 2013 with the goal of better serving the needs of small farms, beginning farmers and ranchers, farmers and ranchers from historically socially disadvantaged groups (or SDA—women and racial and ethnic minorities), and veterans. The maximum size of a Microloan was originally set at \$35,000 and was raised to \$50,000 in November 2014 by the Agricultural Act of 2014. Compared to FSA's traditional Direct Operating Loans (DOLs), which have a maximum limit of \$300,000, Microloans are designed to be more convenient and accessible to groups not traditionally served through FSA's credit programs. Other features of the Microloan program include a streamlined application process and more flexible requirements for farming experience and the reporting of production history to qualify for a loan.

This report analyzes the composition of Microloan recipients, both overall and across the targeted groups, and also compares them with recipients of Microloan-sized traditional DOLs (small operating loans (small OLs)). ERS researchers also assess the number and composition of new FSA direct loan borrowers whom the Microloan program attracted during its first 3 years. These are then compared with those of small OLs. Finally, researchers test the effect of disseminating targeted information about the Microloan program on farmers' interest in and receipt of Microloans.

What Did the Study Find?

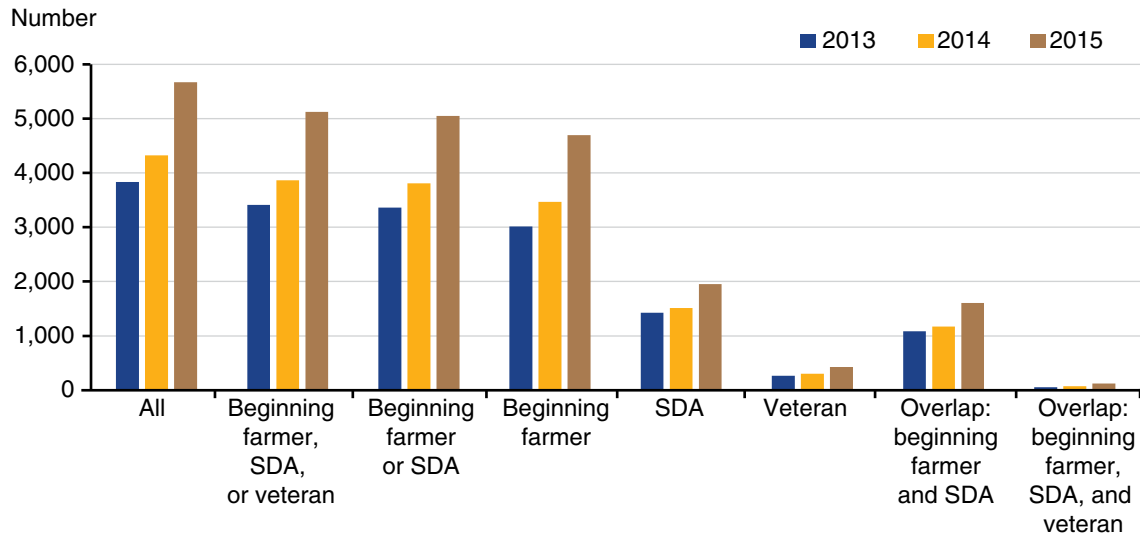
From January 2013 to November 2015, the Microloan program grew from 3,833 loans with total loan obligations of \$88.8 million in 2013 to 5,674 loans and total loan obligations of \$162.2 million in 2015 (through mid-November). During this time, some broad patterns appeared:

- Farmers belonging to targeted groups received 89 percent of all Microloans, of which beginning farmers accounted for the majority, at 81 percent of all Microloans. SDA farmers accounted for 35 percent of all Microloans, and 79 percent of those were received by borrowers who were also beginning farmers.
 - Farmers in targeted groups received a larger share of Microloans than of small OLs.
 - However, they also received a sizeable share (82 percent) of small OLs, with 74 percent going to beginning farmers and 26 percent to SDA farmers.

A comparison of borrowers who received Microloans and small OLs reveals the extent to which new borrowers participated in the Microloan program:

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Number of Microloans received, 2013-2015



Note: SDA = socially disadvantaged applicant

Source: USDA, Economic Research Service analysis of Farm Service Agency's loan obligation data, through November 10, 2015.

- In 2013-15, Microloans attracted 8,182 borrowers who were new to FSA's direct loan programs—substantially exceeding the 1,228 new borrowers who received small OLs during that time.
- The number of Microloans received by new borrowers also substantially surpassed the number of new borrowers (3,606) who received small OLs in 2010-12—the 3 years preceding the introduction of the Microloans program. This difference suggests the Microloan program likely attracted new borrowers who would not have received traditional DOLs if Microloans hadn't existed.
- New borrowers also received a much larger share of Microloans (59 percent) than of small OLs, either during 2013-15 (13 percent) or 2010-12 (25 percent).

To test whether increasing potential borrowers' awareness of the Microloan program also increases interest in and uptake of Microloans, ERS researchers, in collaboration with FSA and USDA's National Agricultural Statistics Service (NASS), conducted an experiment (using a randomized controlled trial (RCT) approach) in spring 2015 in nine Southern States. Farmers in some ZIP Codes received a letter detailing the benefits of the Microloan program and how to obtain more information about it, while farmers in other ZIP Codes did not. Results showed that:

- The letters more than doubled the share of inquiries about the Microloan program at FSA county offices, from 2.64 percent to 5.54 percent.
- The share of borrowers receiving Microloans increased by 27 percent in ZIP Codes that had received the letters relative to ZIP Codes that had not.

How Was the Study Conducted?

This study was conducted using FSA direct loan data, collected during the course of FSA's loan-making operations and containing information on borrower and loan characteristics. Analysis from the 2012 Census of Agriculture, which is conducted by NASS, and the 2014 Tenure, Ownership and Transition of Agricultural Land (TOTAL) survey, which is jointly conducted by NASS and USDA's Economic Research Service (ERS), were used to facilitate comparisons to all farms.

The experiment (using outreach letters) was conducted cooperatively with FSA and NASS, targeting a wide audience of potential new borrowers from the NASS mailing list. Analysis of the outcome used (1) new FSA Receipt for Service data (collected under the 2014 Farm Bill) to track the effect of outreach on interest in the Microloan program, and (2) FSA's direct loan data to track the number and locations of Microloans that were eventually received.