Integrated Investment Incentives for Conservation Program

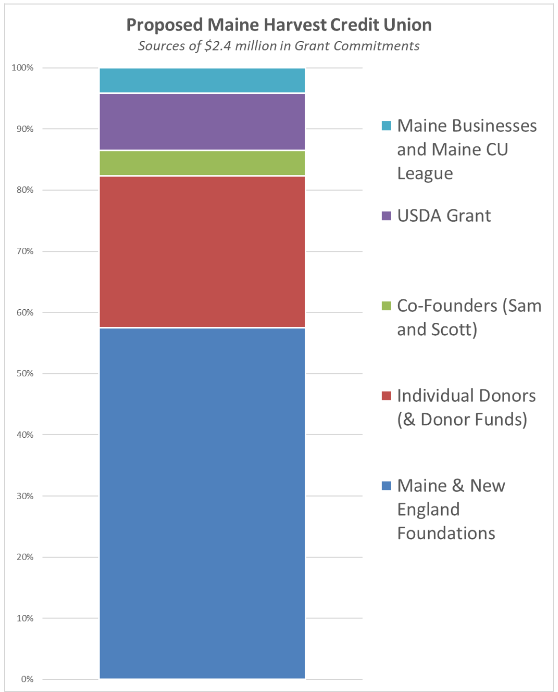
NRCS Conservation Innovation Grant #69-3A75-17-327

PROJECT SUMMARY

This grant brought together the technical resources of the **Maine Organic Farmers and Gardeners Association (MOFGA)**, the country's oldest and largest state organic farming organization, and the nascent **Maine Harvest Federal Credit Union (MHFCU)**, an innovative, agriculturally focused, cooperatively-owned credit union, in a project designed to promote environmental protection through the development of specialized loan products which support conservation practices. MOFGA also set out to field test the **NRCS Resource Stewardship and Evaluation Tool (RSET)** – which was later incorporated into and superseded by the **Conservation Assessment Ranking Tool (CART)** – to determine their effectiveness in developing broad-based conservation planning.

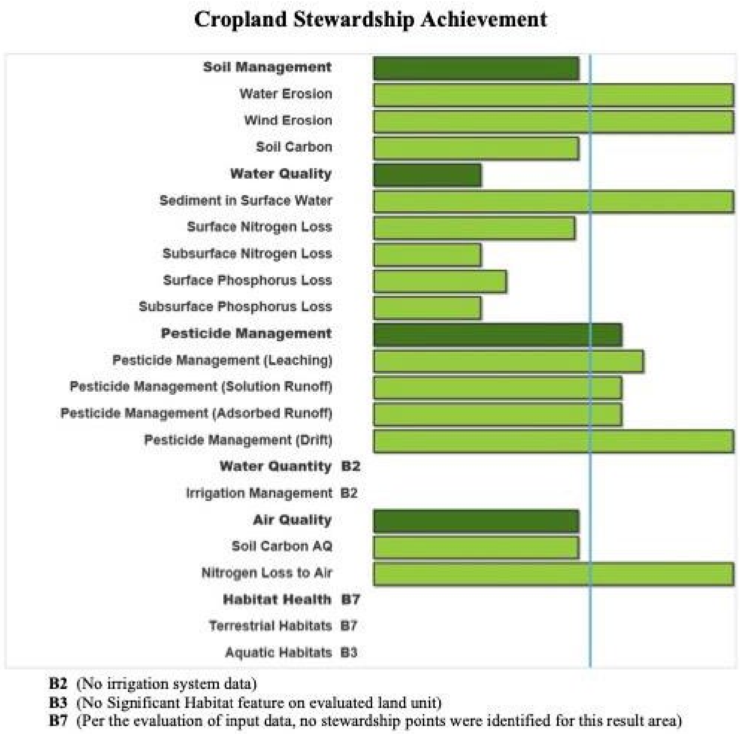
Planting the Seeds

The MHFCU completed raising $2.4 million in initial start-up grant capital in late fall of 2018. This enabled them to complete the final parts of their charter application, and on August 14, 2019 Maine Harvest Federal Credit Union was officially issued its credit union charter from the National Credit Union Administration (NCUA). **This finalized the creation of the nation's first deposit taking institution specifically created to serve the financing needs of small farms.**



MHFCU initial funding structure

As the MHFCU pursued its accreditation process, MOFGA established a system for exploring and assessing the Resource Stewardship and Evaluation Tool (RSET) platform through NRCS partnership and training. RSET was designed to compare a farm's attributes and activities to NRCS' stewardship thresholds for five natural resource concerns: soil management, water quality, water quantity, air quality, and wildlife habitat. Then, RSET would provide the results of the evaluation in an easy-to-read, colorcoded bar graph that shows how a producer's management decisions affect the natural resources under their care.



Example benchmark graph from RSET assessment

Why?

Maine has seen explosive growth in both the number of new, small farms as well as the percentage of young farmers coming into the business: a 13.6 % increase in the number of Maine farms (2007-2012 USDA), and a 39% increase in the number of farm operators 35 years or younger. In general, these are first generation farmers with little to no experience with NRCS programs.

These farmers often have competing and more pressing short term and long-term investment needs which take precedence over conservation investment. Due to their small size, they often lack the financial background to prepare required loan documents and frequently they cannot access traditional credit sources because of marketplace or government lending qualifications.

GOAL ONE

To promote increased use of NRCS conservation programs and assessment measures in combination with new methods of financing conservation improvements. The Project will provide NRCS applicants with innovative financing options for implementing proposed programs.

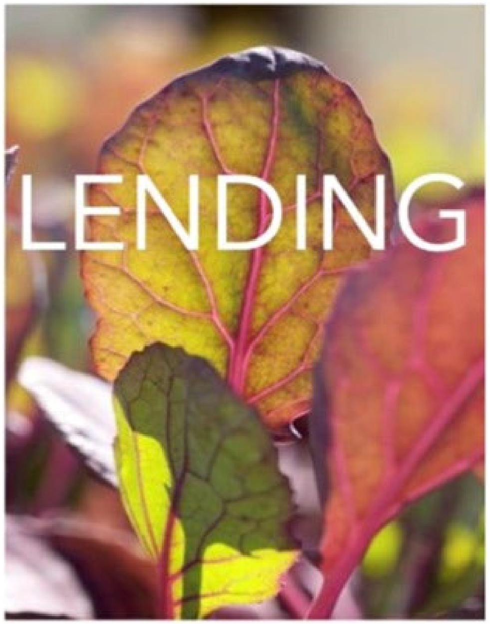
Goal One necessitated the accomplishment of Goal Four (the creation of the Maine Harvest Federal Credit Union) – with the MHFCU charter received in 2019. This chartering was critical and required to pursue all following goals of this Conservation Innovation Grant.

The original objectives outlined in Goal One included two proposed programs – the Conservation Assessment and Investment Program (CAIP) and the Conservation Based Mortgage Program (CBMP).

Conservation Assessment and Investment Program (CAIP)

The CAIP proposed offering Conservation Loans to prospective NRCS applicants to allow them to finance NRCS improvements "up front" prior to receiving reimbursement from NRCS. Per National Credit Union Administration (NCUA) regulations, all lending must be secured by collateral. During the MHFCU chartering process (2013-2019) the MHFCU believed an approved USDA/NRCS grant would be sufficient collateral to provide farmers with a loan to finance conservation improvements. Unfortunately, in the final "Letter of Understanding and Agreement" signed on July 31, 2019 it was codified that the NCUA would limit acceptable collateral to only three areas: Real estate, Equipment, and Deposits.

Consequently, the MHFCU was not able to finance these specific types of improvements and there were no assessments possible related to this type of lending. However, the ability to lend on land (the CBMP, below) meant other main goals were being met: MHFCU received its charter, land financing was a needed product and would include the prioritization of conservation goals, and the RSET testing could proceed.



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Conservation Based Mortgage Program (CBMP)

The CBMP proposed incentivizing new small farm mortgage borrowers at MHFCU to get an NRCS resource assessment as part of their mortgage application. Borrowers were given the option to commit to environmental assessments using RSET or another approved NRCS tool in return for subsidies for closing costs, fees and interest.

Despite significant delays in the chartering process – as outlined in progress reports – the **MHFCU approved and closed five land loans** during the 18-month period of April, 2020 through September, 2021. Each of these loans was eligible and received a subsidy covered by the CIG grant at closing in return for agreeing to a conservation assessment. All accepted this offer and were referred to MOFGA or, after the end of the investigatory working period of the grant on June 30, 2021, to NRCS. Because land financing closing costs (such as agricultural appraisals and legal fees) increased significantly during the pandemic, incentives to offset these costs proved to be both helpful to farmers and effective in starting a conversation about conservation strategies.

The MHFCU developed a fact sheet and lending brochure outlining the CBMP, a website banner to reach new borrowers visiting the MHFCU website, a press release announcing the new program, and a dedicated newsletter which reached over 800 recipients with a 17% click rate (Appendix A).

Financial Technical Assistance

As a mission-oriented, cooperatively structured credit union, the MHFCU views education as a core part of all outreach. The MHFCU conducted presentations through other organizations where MHFCU provided general technical assistance on financing, including the CBMP as appropriate. **MHFCU partnered primarily with Maine Farmland Trust (MFT) and MOFGA as organizational sponsors through four main events. These events (listed in blue in Appendix A) reached 106 individuals.**

The MHFCU also responded to all lending inquiries and provided, when appropriate, a general technical assistance discussion as part of describing the MHFCU's own loan products and the CIG-funded incentives. These one-on-one meetings would typically focus on educating borrowers on the requirements for borrowing (e.g., completed application, solid business plan, financial statements, tax returns, etc.) and the requirements for the land in question to be assessed with the RSET/CART tools. **Based on MHFCU closing volumes, these conversations reached approximately 15 individuals eligible for land financing during the second half of the grant period, once accreditation was achieved.**

Both individual meetings and outreach events were adversely impacted by the ongoing COVID-19 pandemic. The largest planned in-person group events – the Common Ground Fair in Unity, Maine in

September (2020) and the Maine State Ag Show in Augusta, Maine in January (2021) – were canceled or moved to a virtual format.

GOAL TWO

To determine the effectiveness of RSET in developing broad-based conservation planning.

As described in progress reporting, there were several delays encountered throughout the span of the project. MOFGA training in the RSET program was undertaken in 2018 with NRCS employees from Maine and New Hampshire. Though the RSET program was still in development, MOFGA, ME-NRCS and NH-NRCS were made aware at that time that RSET would be incorporated into, and superseded by CART, which similarly to RSET was also early on in its development as a program in functionality and accessibility.

As the timeline for a publicly accessible version of RSET, and the development and adoption of CART were not certain, MOFGA and ME-NRCS pursued security clearance for MOFGA staff as an NRCS affiliate, which was finalized in spring 2019. Given the communicated MHFCU delays in obtaining accreditation, and therefore the inability to perform assessments with prospective borrowers, MOFGA staff undertook mock RSET assessments of planned land units (PLU) tracts on farms that had previously participated in NRCS programs for ease of accessing PLU tracts already viewable with RSET. The mock assessments allowed MOFGA staff to explore and assess the practical utility of RSET, while minimizing new files in the NRCS system that might be confused with typical NRCS conservation planning activity, a concern identified by ME-NRCS.

After achieving the necessary credentialing, the MHFCU alerted MOFGA staff that they would be prioritizing the CBMP lending, and pursued development and publicization of that lending option in early 2020. At the same time, NRCS switched all conservation planning to Conservation Desktop (a secure USDA service) and it became apparent that the first CBMP borrower pursuing a conservation assessment could not have their farm brought into RSET for evaluation because the land had not been previously mapped by NRCS. MOFGA staff, with the assistance of ME-NRCS, performed an exploratory CART assessment of the farm. Due to accreditation delays, borrowers being directed for assessments from the MHFCU CBMP program were greatly limited, and recognizing the inability to bring new farms (not previously mapped by NRCS) into the system for RSET assessments, MOFGA staff undertook virtual sit-in sessions on ME-NRCS CART assessments in early 2021 to continue evaluating the assessment programs before the close of the extension of the grant's active work period.

Despite the many obstacles and delays, MOFGA staff achieved their best understanding possible of the practical application potential for RSET and CART – as described in the attached Technical Report (Appendix E). This was accomplished through a hands-on RSET training (three PLU tracts) with NH-NRCS, mock RSET assessments (five PLU tracts across two farms), exploratory CART assessment of the MHFCU CBMP borrower that took advantage of the assessment program within the timeline of the grant project (five PLU tracts), and sitting in on ME-NRCS CART assessments (ten PLU tracts) for a total of **23 environmental assessments of PLU tracts**.

GOAL THREE

To test the effectiveness of using environmental benchmarks along with financial incentives (e.g. reduced loan payments) to boost adoption of conservation practices particularly among beginning farmers.

Because of the legal roadblocks encountered around pursuing the Conservation and Assessment Program (CAIP), testing the ultimate adoption of conservation practices was not possible. However, through the Conservation Based Mortgage Program (CBMP), borrowers received the offer of a subsidy in exchange for the commitment to performing RSET or CART assessments – 100% of the eligible borrowers eligible accepted this offer. This introduced borrowers to an environmental assessment that would help them review their baseline evaluation, with guidance that further engagement with NRCS could help them identify practices they could implement to improve their assessment score regarding conservation benchmarks and possible resources for implementing improvements.

Due to the accreditation delays, the ability to follow up with borrowers on the implementation of any recommendations from these assessments did not fall within the timeframe of this grant. Additionally, one borrower, for example, scored very well with their existing land management practices and was not interested in exploring additional improvements.

There were significant challenges in matching the eligibility of borrowers to the RSET and CART tools. As referenced in the Technical Report (Appendix E), based on the designed use of the tools, assessments could only be performed on lands already under the management of the potential borrower, suiting them most productively to refinancing, or, more importantly in respect to the needs of new farmers seeking long term land access, to lease holders that have been managing land that they seek to purchase.

GOAL FOUR

To finalize the creation of the Maine Harvest Credit Union and launch the nation's first deposit taking institution specifically created to serve the financing needs of small farms.

The Maine Harvest Federal Credit Union was officially issued its credit union charter number on August 14, 2019 by the National Credit Union Administration (NCUA). The Final Charter Application was approximately 1,100 pages and followed a series of "Steps" laid out by the NCUA. While this is an 18-step process, two key parts of this application are attached:

1. "Field of Membership (Step 3)" (Appendix C): This document is attached and includes the portion of our application that lays out the MHFCU Field of Membership, or who MHFCU is being created for and who will be able to join MHFCU.
2. "Business Plan (Steps 9-15)" (Appendix B): and related documents. This lays out the MHFCU's entire business plan including the Conservation Based Mortgage Program (CBMP). Step 10 also references the required $2.4 million in initial capital required to be raised.

Together these sections represent the core of the MHFCU's submitted application. Most of the remainder of the application was supporting documentation such as grant commitment letters, support letters from various stakeholders, and sample vendor contracts.

The MHFCU remains the only deposit-taking institution focused on improving a local food system.

CONCLUSION

The original proposal laid out in 2017 was a legitimately optimistic and ambitious one, without knowing of the accreditation delays to come and the COVID-19 pandemic. With the gift of hindsight, every major aspect of the program – starting the Maine Harvest Federal Credit Union, creating two entirely new lending programs, and testing developing software in conjunction with those programs – were all very new, unpredictable, and difficult goals. Linking them together made it even more challenging.

However, even with those challenges, significant accomplishments can be celebrated, thanks to this Conservation Innovation Grant. The Maine Harvest Federal Credit Union was indeed formed – the first of its kind – and was able to support farmers with mortgage subsidies while introducing them to NRCS conservation planning. The Maine Organic Farmers and Gardeners Association was able to perform valuable analysis of RSET and CART, learning and sharing important lessons on the tools' accessibility, output, regional application, and their potential to be used in conjunction with loan products supporting farmers. MOFGA and MHFCU are grateful for the opportunity to explore these important questions as both organizations continue to seek to help Maine farmers and the stewards of this land thrive.

MORE ABOUT THE PARTNERS

Maine Organic Farmers and Gardeners Association (MOFGA)

Formed in 1971, the Maine Organic Farmers and Gardeners Association (MOFGA) is the oldest and largest state organic organization in the country. MOFGA is a broad-based community that educates about and advocates for organic agriculture, illuminating its interdependence with a healthy environment, local food production, and thriving communities.

MAINE ORGANIC FARMERS AND GARDENERS

Maine Harvest Federal Credit Union (MHFCU)

Over the last 100 years, Maine (like many other states) lost many of the community-based financial institutions that understood small farms and food businesses. In 1920, Maine had more than 200 locally-headquartered banking institutions; by 2017, Maine only had about 35. While many credit unions were also created during this period, most were not set up to lend to small farms and food producers. Maine Harvest Federal Credit Union, a not-for-profit financial cooperative, was created to fill the gap left by this trend. MHFCU offers business loans, regular share savings, and regular CDs, focused on filling a gap in the local farming and food production financing market.

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APPENDICES

APPENDIX A: Maine Harvest Federal Credit Union Materials

- Page 1: MHFCU Marketing Data - Events
- Page 2-3: MHFCU Lending Brochure
- Page 4: MHFCU NRCS CIG Fact Sheet (supplement for Lending Brochure)
- Page 5: Website screenshot of CBMP grant advertisement
- Page 6: CBMP Press Release
- Page 7: CBMP Email Announcement

APPENDIX B: Maine Harvest Federal Credit Union Business Plan

APPENDIX C: Maine Harvest Federal Credit Union Field of Membership

APPENDIX D: Maine Harvest Federal Credit Union Letter of Understanding and Insurance Certificate

APPENDIX E: MOFGA Technical Report