



**VERMONT ECONOMIC
DEVELOPMENT AUTHORITY**

Vermont Agricultural Credit Corporation
Vermont Small Business Loan Program
Vermont 504 Corporation

September 10, 2019

To: Members of Joint Fiscal Committee
Senator Ann Cummings, Chair
Representative Catherine Toll, Vice-Chair

CC: Adam Greshin, Commissioner of Finance and Management
Steven Klein, Chief Fiscal Officer
Theresa Utton-Jerman, Senior Staff Associate

From: Cassie Polhemus, CEO

Re: VEDA's Farm Operating Loan Program 2018 ("FOLP 2018")

Background:

The 2018 Legislative Special Session approved a one-time appropriation of \$250,000 from the General Fund to VEDA (Sec. C.1000(a)(11) of Act 11). The appropriation is "*...to be used by VEDA's agricultural subsidiary the Vermont Agricultural Corporation (VACC) ... for a loss reserve in the 2018 Farm Operating Program which provides Vermont cow dairy farmers with loans to spring operating and related needs including refinancing debt.*"

Per the requirements of the legislation, VEDA was to make an initial report on program design and use of funds to the 2018 July Emergency Board. This initial reporting unintentionally did not take place. VEDA has not used any of the appropriation and has not yet made a formal request for the funds. VEDA designed and implemented the loan program (described below) and will make a formal request for the funds following submission of this report.

The appropriation was made in response to the long period of low milk prices causing severe financial challenges for dairy farmers.

VACC 2018 FOLP Program Summary:

VACC started making loans under the program in the spring of 2018. To date, VACC has originated 34 loans totaling over \$2.6 million in principal with an average loan size of approximately \$78,000. The maximum loan amount for the program is \$150,000. VACC subsidizes the interest rate on the loans for the first two years, offering a rate 1.25% to 1.5% below VACC's other loan programs. Terms are generally 5 years. Loan guarantees from Farm Service Agency (FSA) are obtained if eligible, however only five of the 34 loans originated to date have FSA guarantees, due either to FSA timing or eligibility constraints. While the 2018 spring planting needs have passed, we continue to receive loan applications from dairy farmers

VEDA: TEL (802) 828-5627 • **VACC:** (866) 828-3276
FAX (802) 828-5474 • 58 EAST STATE STREET, SUITE 5, MONTPELIER, VERMONT 05602-3044

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needing to refinance vendor accounts carrying high interest rates. More details on the program can be found on VEDA's website: <https://www.veda.org/financing-options/vermont-agricultural-financing/vermont-agricultural-credit-corporation/-0>

The chart below summarizes the FOLP 2018 portfolio as of 8/31/19 by credit risk rating classification. To date we have not charged off any loans in the 2018 FOLP program (classified as "Loss"), however we do anticipate the portfolio to sustain losses over time as the dairy economy continues to face challenges. There is one account classified as "Doubtful" which indicates a loss has been calculated based on collateral and payment inadequacy. Over fifty percent of the portfolio is risk rated below "Acceptable" and it is likely we will use the full \$250,000 appropriation for loan loss reserves over time.

Risk Rating	Principal Balance 8/31/19	Loan Loss Reserve	# Loans
Acceptable	\$878,596	\$0	14
Special Mention	\$898,856	\$0	12
Substandard	\$530,463	\$0	7
Doubtful	\$28,536	\$28,500	1
Loss (Charged Off)	\$0	\$0	0
Totals	\$2,336,451	\$28,500	34

I am happy to answer any questions or provide additional information at any time.