Mr. Chairman, members of the committee, thank you for the opportunity to speak to you today. I am Steve Saltzman, a commercial loan officer for the Self-Help Credit Union. Self-Help was founded in 1980 and has provided more than $6 billion in financing to help people start businesses and purchase homes. Self-help has over 90,000 members and we operate branches in Asheville, Durham, Greensboro, Kinston, Laurinburg, Penrose, Rosman, Wilmington and Wilson. We have a particular interest in rural lending and to businesses that create jobs.

We salute you for tackling this issue. We think this is important for the public health reasons Professor Ammerman described, but just as importantly for its impact on economic development and job creation.

We believe there is a lot of opportunity in this sector.

Our goal is to help North Carolina’s food producers reach North Carolina grocery stores and food distributors. The objective is to make it economically viable for more grocers to buy fresh produce grown by North Carolina farmers, as opposed to that shipped in from some far off land. We want to find a way for someone living in Rosman to buy local produce instead of produce grown out-of-state or out of the country without having to drive twenty miles to do so. We believe that increasing consumer access to local produce is good for North Carolinians overall, and particularly good for our farmers as well as job creating businesses like processors.
and distributors. Broadening the reach of local growers and producers will help create jobs in rural areas.

I’d like to take a moment to describe a loan Self-Help made recently that helps illustrate the opportunity we see in this space.

In 2004, Sandi Kronick was on staff at the Carolina Farm Stewardship Association. CFSA and other community partners helped Sandi to secure funding to launch a food distributorship called Eastern Carolina Organics. Her company helps small and medium sized farmers earn more income by growing higher value crops and selling them to grocery stores and restaurants.

Sandi shares ownership of her company with her 15 most active farmers. Over the last 10 years, Eastern Carolina Organics has helped sell almost $17 million worth of crops grown in North Carolina, and paid local farmers more than $13 million. Here is a map showing the location of all Eastern Carolina Organics’ member farms.
Eastern Carolina Organics had grown to the point where it was too large for its leased warehouse space in Chatham County. Self-Help lent this food distributorship $1 million to buy a warehouse so it could expand its business. Since moving to the new warehouse Eastern Carolina Organics has doubled its workforce and now employs 12 people who all receive full benefits.

The distributorship also leases space to four other growing food businesses, including Firsthand Foods, which distributes North Carolina-raised pork and cattle. None of these businesses were large enough to purchase space of their own. But because of the support that Eastern Carolina Organics is able to provide, these businesses have access to loading docks, coolers and fork lifts to aid in effective and efficient distribution. Further, they have the opportunity to collaborate with likeminded businesses and are positioned for expansion.

Eastern Carolina Organics’ warehouse is located in a low-income neighborhood in Durham that was desperate for investment and economic activity. Encouraged by Sandi’s success, other businesses are now moving into this neighborhood. So the warehouses success is helping create a positive economic spillover effect.

This is not a loan that most lenders could or would make, largely because this is a new type of food industry loan. Since this is relatively untested waters for a lender, a loan officer must spend significantly more time evaluating new types of collateral, such as a food warehouse and equipment, and estimating less tested income streams and cash flows, such as the marketability of small farm produce revenue.
For more conventional lenders, it's often not cost efficient to try and create a niche lending market like this. So, after successfully obtaining funding to partially offset our losses, Self-Help has committed to more fully exploring financing food loans.

Our goal is to help the market develop to the point that it will become attractive to conventional lenders.

We tried something similar with lending to charter schools, and it worked. When Self-Help started its charter school facilities lending in 1997, charter schools needed facilities loans but conventional lenders were not comfortable with the market, the collateral and were uncertain about the legislative environment so it was difficult for them to assess and price risk. Recognizing this need, Self-Help began making charter school facilities loans. The loans have performed extremely well. Today Self-Help has a charter school loan portfolio of over $200 million and it is not uncommon for a conventional lender to refinance our borrowers because they have seen the loan performance results. That, in turn, frees up funds for Self-Help to lend to borrowers in other new lending markets.

For Self-Help, these types of niche lending are exactly where we want to take risk. We seek to help create a viable lending market that spurs economic activity and eventually attracts more conventional lenders. As a community development lender, we seek to lending solutions that work and that help prove broader market viability. For this food lending initiative we hope to demonstrate how lenders can assess, price for and mitigate risks while ensuring that the businesses involved can afford credit and strengthen their financial health.

We would be glad to work with you as the committee explores ways that the legislature and, potentially, the executive branch can help these sorts of small business owners and farmers grow while also helping increase access to locally grown produce. In particular, we think that effective and efficient risk capital programs could help spur lending to small farms and food processors, and we would like to work with you and the Department of Commerce to explore this potential.

We believe that this is a promising area of economic growth for North Carolina, particularly in rural parts of the state. Based on NC’s strong agricultural history and infrastructure, the state is well poised to continue to develop policies and programs that create jobs while also addressing important health needs for people in food deserts. We thank the committee and are glad to provide any additional information or input.