



United States  
Department of  
Agriculture

Farmers  
Home  
Administration

Washington  
D.C.  
20250

FmHA AN No. 1245 (1940)

August 21, 1985

SUBJECT: FmHA Loans for New and Expanding Dairy Enterprises

TO: State Directors, District Directors and  
County Supervisors

PURPOSE/INTENDED OUTCOME

This AN clarifies FmHA AN No. 1057(1940), FmHA loans for New and Expanding Dairy Enterprises, which expired July 31, 1985.

COMPARISON WITH PREVIOUS AN

This AN reissues AN No. 1057(1940) issued August 7, 1984. There are no major changes from the previous AN.

IMPLEMENTATION RESPONSIBILITIES

Questions continue to be raised about FmHA loans for dairy production. Special policy guidance from the National Office is still appropriate concerning FmHA's lending practices for loans to establish new dairy enterprises or to expand existing facilities. Surplus production continues to be a substantial cost to the taxpayers. FmHA is involved with many dairy farmers who have serious financial problems.

It is essential that all aspects of FmHA involvement in financing be carefully analyzed when processing applications for new or expanded dairy enterprises. Prior to making loans to new producers or for new or expanded herds or facilities, FmHA will assess the overall economic stability of the dairy industry in the area and consider the following:

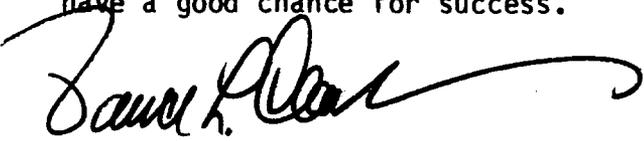
1. Any indication of restrictions that processors may place upon producers in the area of the proposed loan.
2. The number of farms in the area that have vacant or inoperative dairy facilities due to economic or other conditions.

EXPIRATION DATE: August 31, 1986

FILING INSTRUCTIONS: Preceding  
FmHA Instruction 1941-A

3. Check very thoroughly sales of comparable farms with dairy facilities in the area to determine the obsolescence factor and the value of the dairy facility to the farm.
4. FmHA must be acutely aware of the danger of overexpansion in certain areas and the adverse affect of overproduction on present FmHA borrowers and other producers.
5. Loans for new producers or new or expanded herds or facilities will not be made.
  - a. To purchase or lease dairy headquarters facilities without adequate land resources for feed production customary for the area.
  - b. When a realistic cash flow does not reflect a borrowers ability to repay.
  - c. When the industry production level will be increased in the area, applicant management skills are weak and without prospects for sufficient improvement, or where labor requirements exceeds those needed to operate a family farm.
  - d. If the applicant does not have an immediate need for the farm income.
  - e. Where the existing facility is already an economical unit and is providing an adequate standard of living for the family.
  - f. Unless the new start replaces an operation that is discontinuing dairying, such as a transfer from one family member to another or one dairy farmer to another.
  - g. To re-establish operators that have discontinued operating a dairy farm.
  - h. If the land and buildings for new starts are not suitable for a dairy farm without major expenditures.
  - i. To convert from other enterprises to dairying.

It is very important that each application for a dairy enterprise be carefully analyzed considering the above items and other circumstances pertinent to your area. The operator must be fully qualified, the security must be completely adequate, the terms must be appropriate and, most of all, the operator must have a good chance for success.

  
VANCE L. CLARK  
Administrator