



May 13, 1982

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SUBJECT: FmHA Loans for New and Expanding
Dairy Enterprises

TO: State Directors, District Directors and
County Supervisors

Various questions have been raised, several States have established policy guidelines, and others have requested policy guidance from the National Office concerning FmHA's lending practices with regard to loans for the establishment of new dairy enterprises or the expansion of existing facilities. Dairy production continues to increase and the gap between production and consumption is the largest it has been since the early 1960's. Surplus production is accumulating in Government warehouses at an alarming cost to the taxpayers. FmHA is involved with many dairy farmers who have serious financial problems and are selling their dairy farms voluntarily or by foreclosure sales.

We believe it is most essential that all aspects of FmHA involvement in financing must be very carefully analyzed when processing applications for new or expanded dairy enterprises. The following items, plus others pertinent to your area, should be considered:

- I. Prior to making loans to new producers or for new or expanded facilities, FmHA should assess the overall economic stability of the dairy industry in the area and consider the following:
 1. Any indication of restrictions that processors may, for any reason, place upon the 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.
 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.

EXPIRATION DATE: June 30, 1983

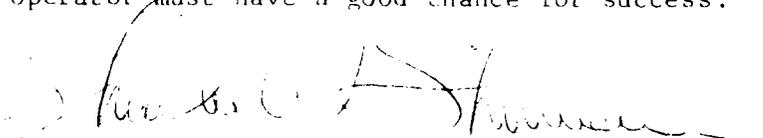
FILING INSTRUCTIONS: Preceding
FmHA Instruction 1941-A



5. Loans for new producers or new or expanded facilities will not be made,

- a. To purchase or lease dairy headquarters facilities without adequate land resources for a proper and realistic feed production balance customary for the area.
- b. Where a realistic cash flow plan does not reflect the borrower can meet operating and fixed expenses and pay required debt payment at the available interest rate.
- c. That exceed the industry production level for the area, management ability of the applicant or the labor available within the family-size 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 conveying a family operation.
- g. To re-establish operators that have discontinued operating a dairy farm.
- h. If the land and buildings are not suitable for a dairy farm without major expenditures.
- i. To convert from other enterprises to dairying.

We believe it is very important that each application for a dairy enterprise or any other highly specialized 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.


CHARLES W. SHUMAN
Administrator