



United States
Department of
Agriculture

Farmers
Home
Administration

Washington
D.C.
20250

FmHA AN No. 1220 (1940)

June 19, 1985

SUBJECT: FmHA Poultry Loans

TO: State Directors, District Directors and County Supervisors

PURPOSE/INTENDED OUTCOME: The purpose of this Administrative Notice (AN) is to continue and update the previous policy guidance concerning FmHA's lending practices involving poultry operations.

COMPARISON WITH PREVIOUS AN: This AN updates and replaces AN No. 1018 (1940) issued May 10, 1984, which expired on April 30, 1985.

IMPLEMENTATION RESPONSIBILITIES:

POLICY GUIDANCE FOR BROILER, LAYER AND TURKEY ENTERPRISES FOR FmHA LOAN APPROVAL OFFICIALS:

FmHA loan approval officials must carefully analyze all aspects of FmHA involvement in providing the financing for poultry enterprises. The following items plus others pertinent to your area, should be considered:

- I. Prior to making loans to new producers for new facilities, FmHA should assess the overall economic stability of the poultry industry in the area and consider the following:
 1. Any indications that processors may, for any reason, restrict the area in which they will place a contract to not include the area of the proposed loan.
 2. The number of farms in the area (including FmHA inventory properties) that have vacant poultry facilities due to economic conditions or do not have a contract due to surplus production.
 3. Check very thoroughly comparative sales of farms with poultry facilities in the area to determine the obsolescence factors and the value of the poultry facilities to the farm.

EXPIRATION DATE: May 31, 1986

FILING INSTRUCTIONS: File
Preceding FmHA Instruction
1941-A

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4. FmHA must be acutely aware of the danger of overexpansion in certain areas and the adverse effect of overproduction on present FmHA borrowers and other producers. To the extent possible, the determination must be made that the FmHA loan(s) under consideration will not result in surplus production under foreseeable circumstances.
- II. Many poultry producers are part-time farmers who have significant off-farm income. To be determined eligible, the record must clearly show that the applicant operates the farm, and does not substitute significant hired labor for the applicant's family to have a standard of living considered reasonably adequate for the area.
- III. Due to a number of factors, including changes in design required by processors, some poultry houses and facilities have security value and a useful life significantly less than other farm buildings of comparable cost, with very limited or no alternative uses. In addition, the real estate security for poultry loans is frequently small tracts of land. In most cases, the repayment period for real estate poultry loans should be substantially less than our maximum 40-year authority.
- IV. Environmental factors are very important in a poultry operation. Buildings should be located so as not to interfere with the quality of life of the neighbors nor create a nuisance in the community. Adequate waste management is an essential factor for the success of poultry operations. The applicable provisions of FmHA Instruction 1940-G, "Environmental Program", must be met.
- V. In determining repayment ability and overall soundness of the operation, loans should not ordinarily be based on production at continuous maximum capacity and prices. It is not unusual for processors to not immediately replace flocks during periods of surplus production.

We believe it is most important that each application for a poultry loan be very 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 term must be appropriate and, overall, the operator must have a reasonable chance for success.

Dwight O. Calhoun
DWIGHT O. CALHOUN
Acting Associate Administrator