



United States
Department of
Agriculture

Farmers
Home
Administration

Washington
D.C.
20250

FmHA AN NO. 1018 (1940)

May 10, 1984

SUBJECT: FmHA Poultry Loans
Reissue of AN 806 (1940) dated January 26, 1983

TO: State Directors, District Directors
and County Supervisors

Various questions have been raised and requests for policy guidance have been received concerning FmHA's lending practices involving poultry operations - broilers, layers and turkeys. We believe it is most essential that all aspects of FmHA involvement in financing must be very carefully analyzed when processing applications 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 farms.
 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, does not substitute significant hired labor for the applicant's family to have a standard of living considered reasonably adequate for the area.

EXPIRATION DATE: April 30, 1985

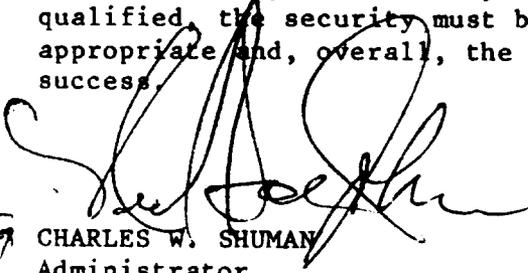
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- III. Due to a number of factors, including changes in design required by processors, some poultry houses and facilities have security value and a useful life significantly less than other farm buildings of comparable cost, with very limited or no 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. Adequate waste management is obviously essential to successful poultry operations. Each loan docket will contain a detailed waste management plan approved by the appropriate local official, if required, or by the Soil Conservation Service or the Cooperative Extension Service.
- V. The location of the enterprise may also affect the success of the operation. Applicants must be advised to locate the buildings so as to not interfere with the quality of life of their neighbors nor create a nuisance in the community.
- IV. 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.


For CHARLES W. SHUMAN
Administrator