

For: State and County Offices

Considering New Enterprises in Farm Plans

Approved by: Deputy Administrator, Farm Loan Programs



1 Overview

A Background

As a result of economic conditions in the farm sector, many farmers continue to experience a cost-price squeeze. FSA applicants and borrowers are impacted by this situation because they are smaller operators with substantial debt. Many of these borrowers and applicants are looking to new enterprises to take advantage of market niches and increase profitability. These enterprises often have different cost structures and rates of return than traditional farm enterprises.

Application of an applicant or borrower’s existing cost structure and profit margins to new enterprises in the farm planning process can result in denial of FSA assistance that may prevent the applicant from making a positive change in their operation.

B Purpose

This notice provides guidance on the consideration of new enterprises in the farm planning process.

C Contact

If there are questions about this notice:

- County Offices shall contact State Offices
- State Offices shall contact Orlando C. Kilcrease, LMD at 202-720-1632.

Disposal Date	Distribution
August 1, 2004	State Offices; State Offices relay to County Offices

2 Action

A Reviewing and Evaluating FSA 431-2

When reviewing FSA 431-2 that includes a new enterprise, the Authorized Agency Official shall **not** assume that historical cost structures and rates of return for existing enterprises apply to the proposed new enterprise. According to FmHA Instruction 1924-B, Section 1924.56, trends, mutually agreed upon improvements and changes, and current costs and prices will be considered. Since new enterprises are **not** a part of the applicant's history, reliable sources, such as enterprise budgets from Extension Service and Land Grant Universities, are acceptable documentation to support farm plans. Such plans must use acceptable State or county average production levels. However, local conditions (soil productivity, climate, etc.) that will affect the enterprise and current realistic income and expense information shall also be considered when county or State averages are used.

B Farm Assessments

A farm assessment, as required in FmHA Instruction 1924-B, Section 1924.55, is critical when an applicant or borrower adds a new enterprise. The farm assessment shall be completed jointly with the applicant as required before any decision on a farm plan that includes a new enterprise.

C Technical Assistance

Applicants shall be provided with technical assistance or encouraged to obtain it. Sources of technical assistance include Extension Service, Land Grant Universities, State programs, USDA 2501 grant recipient organizations and institutions, and private consultants. Program loan cost contracting funds are available and may be used to procure technical assistance for applicants planning new enterprises if public sector institutions (Extension Service, State Government, Land Grant Universities, etc.) **cannot** provide the assistance necessary.

D FSA 431-2 Used in Loan Making Approval/Denial Decisions

FSA 431-2, that includes a new enterprise used to make a loan approval/denial decision, will be based on accurate, verifiable, reliable, and realistic information. FSA 431-2 for existing farm operations/enterprises without changes will be based on a typical year's plan of operation. When FSA 431-2 does **not** reflect a positive cash flow, the Authorized Agency Official shall meet with the applicant and discuss both FSA 431-2 and the reason for the denial in detail before sending written notification of the adverse decision.

Note: FSA 431-2 will continue to be documented and revised according to the guidance and instructions in FmHA Instruction 1924-B, Section 1924.56.