



A Poultry Grower's Guide to FSA Loans



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Purpose of this Guide

This guide will walk you through the **decision making process**, help you weigh the **risks and benefits** of investing in a poultry operation, and understand the FSA Loan application process step-by-step.

This guide was written especially for farmers who are:

- Considering buying or building a contract poultry operation
 - Considering an upgrade to an existing operation
 - Or anyone who wants to learn more about the Farm Service Agency (FSA) Loan Programs.

If you are a farmer and have questions or would like to talk to someone about your business plans, call RAFI-USA and ask to speak to our Farmer Advocacy or Contract Ag. Reform Program Staff.

www.rafiusa.org

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Investing in a poultry operation is a big decision. The choices you make in this process, including what type of loan to apply for and even if you want to take this path at all, will have significant outcomes for your farm and family for years to come. For some people, a poultry contract has been a successful business; for others, it has led to the loss of farms and assets, which are historically important to their families. It is essential that you make this decision with a clear evaluation of the best information possible.

Before assessing your eligibility for an FSA Direct Loan or Guaranteed Loan, you should first consider if going into debt is a financially sound option for your family and your business. Poultry, and other large livestock facilities, require an extremely high level of financing, often in excess of \$1 million. These loans frequently affect the whole farm and household beyond just the livestock operation. For this reason, the first section of this guide covers practical information and recommended steps you should take to understand the risks and potential benefits of borrowing to build, buy, or expand a poultry operation.

While this guide is written specifically for poultry farmers, it may also be useful to non-poultry farmers considering financing their operations through FSA loans. We recommend this guide be used as a basis in conjunction with other sources of information, such as USDA or FSA websites, and information obtained by contacting your local FSA Loan Manager.

Setting your goals

Before you start the process of applying for loans, it is important that you and your family are clear about your **goals**. It is critical that you **sit down, write out** your goals, and **discuss** them as a family. All family members affected by this decision should be part of the goal setting process, and should agree that the goals you create reflect what is important for the family.

Try starting the process by **being specific**. What do you want your life to be like? How do you want to spend your days? Here are some examples of specific goals that other farmers have told us before:

“I want to bring my son or daughter back to the farm, and for them to take it over when my time is done.”

“I want to stay on the farm and not work in town.”

“I want to go to my daughter’s volleyball games.”

“I want to work with my Dad and for him to be part of the farm even though he is getting older.”

These are all important goals we have heard from farm families. In this first stage, voice all goals, from all family members, without judgment. Often a young member of the family will say that their goal is to be able to spend more time with Mom or Dad. This is very important, as “family time” often becomes secondary to more practical issues. Whatever the goals, get them all out.

Once you have fleshed out and written down all goals, examine them. Some goals you have written down may actually be *ways to achieve something more important*. For example, “I want to make more money” may actually be a way to achieve another goal, like spending more time with family. Once you examine all the family goals you may find more than one way to achieve a final goal, or may find that goals have different value to different family members.

Once you have discussed your goals, they will probably condense into a smaller list. Goals often include passing on the farm to the next generation, the ability to spend time working, playing, or worshipping together, without the worry of paying bills. Now, you can start to **prioritize** your goals. Which is most important? When discussing and considering these goals, remember **the wellbeing of the family** is the most important aspect to consider. Start assigning importance to each goal. Ask, “How does this goal impact the wellbeing of my family?” **Eliminate** goals from your list that would harm your family wellbeing.

Once you have a final list of goals, use these as guideposts to make good decisions along the way and indicate if you are moving in the right direction. When times get hard, and they will, carefully crafted goals will bring your family together to focus on what is really important.

Approaching the decision

Borrowing the money to invest in a large-scale agricultural operation is a huge decision, and can change your life for good or ill. There are three questions that need to be asked, and answered “yes”, before you borrow money. Just because money **CAN** be made in a specific enterprise does not mean that **YOU WILL** make money, or that it fits well with your skills, goals, and family life.

The first question is **“Is this new business, including loans and other costs, a good investment of our time and resources?”** There must be confidence that the business is sound before you go forward. Making money from a business is different from making money *and* paying off debt. How confident are you that this will earn more money than the business costs?

The second question is **“Do we have the resources, such as money, time and knowledge, to make this work?”** For most farm families, there is no shying away from hard work. Hard work is one characteristic required for successful farm, no matter what the operation. However, you also have to think through what else is drawing on your time and efforts. Who will keep the books? Who will manage the houses? Look closely at what work will need to be done, from start to finish, and how this business fits with your skills, your family, and your goals. Does this business move you toward your family’s goals?

Third is **“Financially, does this specific package, including loans and other costs, give us our best chance at achieving our goals?”** Could you earn the same money at another job, without borrowing such large amounts in debt? Having a loan that takes a specific piece of land as collateral is different from a loan that takes all of your land, including your home, as collateral. Will you earn enough from this business to pay the business mortgage, all expenses from the business, and still achieve the goals you and your family laid out?



Red Flags

In our experience at RAFI, we have seen farmers take on more debt than they could handle without realizing it upfront. Some situations that got farmers in the most trouble are listed below. If any of these things are true of your operation, it does not mean your plan will fail, but it does mean you should have backup plans and personal savings in case of difficult times.

The following are examples of risky situations that require additional planning:

- Planning to pay off land and cover family living expenses with income from a contract chicken farm.
- Putting all of your family's assets, including your home and farm, as collateral on the loan for the contract chicken farm.
- Not having a significant amount of savings or other income to cover business and family expenses in case of disease, weather catastrophes, or changes in your contract. (In these hard times, many farmers have resorted to using credit cards for utility bills or other expenses, which can turn into a cycle of debt that paralyzes your operation.)
- Not having a diversified operation. Multiple sources of income can stabilize your operation through down times. Depending on a chicken contract for the majority of your income can expose you to significant risks.
- Failing to properly account for depreciation in your cash flow or business plan. You are able to write off **depreciation** on your new equipment, but the amount you save on your taxes in your write off **should not be used as if it is cash income**. You will need to plan for your equipment to wear out and require updating. Depreciation write offs should be saved to replace or repair the depreciated asset. If your income or cash flow projections in the first 5 to 10 years of your operation are positive only because of depreciation write offs, then you need to reconsider if this business is sustainable.

If you find yourself in any of these situations, you may want to contact a farmer advocate to discuss your business plans before proceeding.

Confirmation Bias

Confirmation bias refers to a tendency in all of us to only seek out information or evidence that confirms what we already believe. This can impair the decision-making process. Once we make an initial decision, we seek out and emphasize information that **confirms** that decision. We tend to not value information that contradicts our decision. We see confirmation bias every day. For example, think of how car dealerships offer test drives, or allow you to keep the vehicle overnight. After the customer visualizes themselves in that car, they tend to stop critically considering whether the vehicle is the best fit for them. Once

you see yourself there, you tend to shut out critical voices or other options.

The same is true of a farm investment. The tractor dealership will give you hats and fancy brochures, and the chemical company will paint the picture of perfect crops. The same is true of poultry contracts.

The difference is that buying a vehicle or a tractor doesn't carry the same financial burden or risk as signing a poultry contract and borrowing money to build a poultry farm. In making a decision this big, you **can't afford** confirmation bias. You need to actively force yourself to seek out information **outside your potential integrator**, to carefully consider all possibilities of the operation. A farmer once told us, "I am open minded, but I am hard headed." That makes sense, and is a good approach to take.

As you look at an opportunity, it is often easy to see your potential success. Many people will make money if you sign the contract and take out the loan; such as the poultry companies, the bank, and the people selling you equipment. These people will do their best to ensure you see the investment in the best possible light. However, it is **your responsibility**, and **yours alone**, to evaluate the risk of starting a poultry farm, and consider what could be lost. Remember, company representatives have the company's best interest in mind, banks have the bank's best interest in mind, and poultry equipment companies have their best interest in mind. **ONLY YOU** have your, and your family's, best interest in mind.



Introduction to farm loans

Most farmers take out loans to run their operations. Loans are often as much a part of farming as the weather. Farm loans generally come in two types, based on the length of time of the loan and what the loan is used to purchase.

Operating loans are short-term loans to purchase inputs to produce a product, whether crops or livestock, that will be paid back when the product is sold. Most operating loans last the duration of the production cycle, frequently a single season.

Ownership loans are longer-term loans, generally more than 5 years and extending as long as 40 years, for the purchase of major assets like farmland. Ownership loans are similar to home mortgages, paying off over a longer period of time. Collateral on ownership loans is generally based on a loan to value ratio, which is the percentage of the value of the asset being purchased that is being borrowed. If the entire value of the asset is being borrowed, the bank will generally require additional collateral to cover the possibility of loss.

Sources of farm loans

There are three major sources of farm loans; private banks, private banks with an USDA guarantee, and USDA direct loans. Different banks have different levels of comfort with farm loans, and may have specialties within their farm loan portfolio. It is important to work with a banker who has deep understanding of the operation that you are borrowing for, and the current status of the industry.

If the farmer cannot qualify for a private loan from a bank, the bank may be able to get an FSA Guarantee. In this case, the bank is still the lender, but the USDA's Farm Service Agency (FSA) agrees to pay up to 90% of the principle of the loan to the bank if the borrower is unable to repay the loan. Note that this guarantee is for the bank, not the borrower, and that it means that the risk of the loan is great enough that the bank is unwilling to take the risk without the additional protection.

The following sections have more detailed information about Direct and Guaranteed Loans.

Introduction to FSA Loans:

The Farm Service Agency (FSA) is an agency of the U.S. Department of Agriculture (USDA). The goal of the FSA loans program is to help farmers get access to credit they need so that they can weather difficult times, or build their farming operations, business skills and credit scores. The FSA can make loans to eligible farmers, but only if farmers have been unable to get a loan from other lenders. FSA loans are not intended to be used for long-term credit needs, but instead for short-term credit needs, eventually “graduating” from the FSA to private lenders. They are meant to be used when farmers need one-time credit, but cannot access it elsewhere.

FSA offers Direct loans, and they also can Guarantee a loan that another lender is making to a farmer. The following definitions of these programs come from “*Your Guide to FSA Farm Loans*”, a useful guide produced by FSA available at:

https://www.fsa.usda.gov/Internet/FSA_File/fsa_br_01_web_booklet.pdf

Direct Loans: When FSA makes a Direct loan to a farmer, they are the lender. The farmer is FSA’s client in this case, and FSA loans money directly to the farmer. Direct loans are made and serviced by FSA using federally appropriated money and under federal guidelines. FSA has the responsibility of providing credit counseling and supervision to its direct borrowers by helping applicants evaluate the adequacy of their real estate and facilities, machinery and equipment, financial and production management, and goals.

Guaranteed Loans: When FSA Guarantees a loan, a private bank or entity is the actual lender. This means FSA does not loan any money to the farmer, the farmer’s bank or Farm Credit or credit union does. The FSA oversees the bank, and the bank manages the loan with the farmer. Guaranteed loans are made and serviced by commercial lenders, such as banks, or the Farm Credit System. FSA guarantees the lender’s loan against loss, up to 90 percent of the remaining principal. FSA has the responsibility of approving all eligible loan guarantees and providing oversight of the lender’s activities.

The FSA provides both operating and ownership loans, either direct or guaranteed. These different types of loans available from FSA are explained in more detail in section p. 33.

[FSA Loans Programs](https://www.fsa.usda.gov/programs-and-services/farm-loan-programs/index) are also explained on the FSA website, available at this link:

<https://www.fsa.usda.gov/programs-and-services/farm-loan-programs/index>

Is a Guaranteed Loan Less Risky for Me?

The short answer is: No. FSA Guaranteed Loans lower the risk to your bank in offering you the loan. They do not lower your risk, and they do not guarantee that you will be able to make your payments. If you are unable to keep making your payments on time, you may default on your loan. This means you are not able to pay the loan back but you still owe money to the bank. In this case, your bank and FSA would be entitled to foreclose on any assets you used as collateral to get the loan – which could be your farm or home. If these assets are not worth enough money to cover the amount you still owe the bank, FSA will pay the bank back up to 90% of the remaining debt. The FSA uses federal tax dollars assigned to the agency by Congress for these programs. The Guaranteed loan lowers the risk that the bank would lose money, but not you. If the FSA does have to pay the bank back for your remaining debt, the amount they pay the bank may transition over into a federal debt for you. In addition, your credit score will be negatively impacted by defaulting on your loan, which may impact your ability to get loans or other forms of credit in the future.

Helping farmers get access to credit that is otherwise unavailable is the primary purpose of these programs. You still need to assess your financial health and take seriously the risk of taking on significant debt, even if you are able to get an FSA guaranteed loan.

Small Business Administration Loans

The Small Business Administration (SBA) is also a government agency that offers Direct and Guaranteed Loans, and has recently begun to offer loans for poultry operations. They have several different loan programs, including loans for real estate & equipment, disaster loans, and general small business loans. The SBA loan limits are higher than FSA loan limits, as high as \$5,000,000, but they also come with different criteria. To be eligible for an SBA loan, your operation must create jobs or meet other public policy goals such as energy reduction or alternative fuels.

In this guide we do not cover SBA Loans in detail. For some operations, SBA loans may be an attractive alternative to FSA Loans because the higher loan limits can allow you to build a bigger operation. The trend in the poultry industry is toward having larger farms, and several farmers are seeking to put up 8 or 10 house poultry operations. This would not be feasible under the FSA loan limits, unless you were able to contribute significant personal capital for constructing the houses.

If you plan to consider SBA loans as an option, keep this in mind:

- **SBA is not an agricultural lender**, and has significantly less experience with agricultural or poultry loans than FSA.

- **Larger debt does NOT necessarily equal larger profits.** The poultry industry offers a very tight margin, and large debts can tie up all of your family's capital for decades. Larger debt DOES guarantee higher risk for you and your family.
- Over the years the **FSA has instituted specific guidelines for contracts and banks** to ensure that the farmers they work with are at least getting a feasible interest rate, and at least have a chance at making the income promised in the pro-forma from the company. SBA may not have these same requirements in place, which could increase your risk.



Critical First Step: Understand the Risks Before Financing your Farm

Before you start a loan application, the first step is to carefully consider the risks of taking on significant debt, and make sure that you are financially prepared to take that step. Loans used for poultry operations can be very large, especially if you are considering buying or building a farm. On average new poultry farm construction loans are over \$1 million dollars. In order to get loans this big, you may need to put your house or other assets up as collateral for the loan. If you are not able to pay the loan back, the bank may be able to foreclose on your home or other assets. This significantly increases your risk.

Know the company and the industry first

Before buying or building a poultry operation, and even before adding on to or upgrading an existing operation, you should talk to others who have done the same thing about their experience, and learn about the viability and reliability of the industry.

- Talk to your neighbors and other farmers who have worked with this company or made the same investments. Did it work for them? Why or why not?
- If a company is recruiting new farmers or adding new houses in an area, go to every meeting and educate yourself about the company and its history. In order to make a good business investment, you should learn as much as you can about the company. Some important questions to ask are:
 - Have they shut down any plants in other regions in the past?
 - How much are they investing in your area?
 - Is the company doing well?
- You should also look up information about the poultry industry and its relevant regulations. At the end of this guide in Appendix 2 you will find links to websites where you can find regulation information for different states. Some important questions to ask are:
 - What laws would protect your rights as a farmer and contractor?
 - What regulations would you have to meet in order to construct and run a poultry operation?
 - Are there other companies in your area that you could grow for if something didn't work out with this company?

Know the business, does it fit your lifestyle?

Raising poultry is often described by farmers as a 24/7 job. While farmers are not in the houses all day every day, they have to be on-call at all times in case something goes wrong.

- Ask other poultry farmers about their daily routines. How do they handle emergencies?
- What are the typical hours they tend to the chickens? How many late nights, early morning, or all “midnight” days are they pulling?
- Ask about their paychecks if you can. How regular is their pay? How much does their pay vary? How much control do they have over their pay? Are they earning enough from the poultry business to meet all their goals?
- Ask about their relationship with their integrator. What’s their relationship with their field tech like? How does the company handle their complaints?
- Talk to your family about the responsibility of being present on the farm at all times and make a plan for how to handle family events out of town if necessary.

Know your options – Are there other companies you could work with?

Poultry is a very geographically specific industry. Most companies do not want to offer contracts to farmers that are further than 50 to 60 miles from their processing or feed facilities, because it costs them extra money to drive feed and chicks to/from these farms. The result is that in some areas in the US poultry market farmers have only 1 or 2 companies to choose from. According to USDA data, in areas where farmers had only 1 integrator to work with they were paid on average 8% less than in areas where farmers had 4 or more integrators to choose from.

- Is the marketplace competitive in your area, meaning are there more than 4 integrators nearby that you could go to for a contract?
- If you signed a contract with one company, are the requirements for houses and facilities significantly different than the other companies in your area? Would you be able to switch to a contract with a different company?

Can you Manage Your Risk or Buy Insurance for your Operation?

Many farmers are familiar with the idea of crop insurance, and with how important it can be for their own security and for obtaining credit. In many cases, lenders expect farmers to

obtain crop insurance in order to be approved for a loan, because it guarantees the farmer will have at least a certain amount of income, even in the event of a catastrophic loss, which will allow them to cover their debts. In other words, if you're growing corn and you take out an insurance policy on that crop, you will be guaranteed at least a minimum income from the insurance claim even if a storm wipes out your crop before the harvest. This would allow you to stay current on your debts.

It is very important to realize that there is no form of “crop insurance” available for raising poultry. While Hazard Insurance and insurance on physical structures is certainly available and will be expected by lenders, it is not possible for farmers to insure the chickens because the company owns the chickens, not the farmer.

This can add significant risk to your business in times of emergencies. For example, if a tornado were to take out several of your chicken houses, you would be able to file insurance claims on the structures. You could even get an Emergency Loan from FSA for physical damages. But in addition to physical damage, you will likely spend several weeks without a flock – and you will have lost the flock you had at the time, before you were paid for it. But without any form of “crop” insurance for the chickens, you would not be able to recoup the lost revenue. You also would not be able to get an Emergency Loan for the amount of revenue you lost.

This means that you will need to have your own private financial cushion to be able to survive inevitable emergencies. Disease, weather related events, family illnesses – many things can happen while you are managing a poultry operation. Without the option of crop insurance, you will need to be sure that you have enough cash in savings to cover your debt, mortgage, and business and living expenses for several months in order to get through emergency situations.

If you are considering getting into the poultry business for the first time, you will want to carefully consider all of the risks. Use our checklist in Appendix 3 as a resource to inform your decision making process. This checklist is based on our expanded guide, *Questions to Ask Before Signing a Poultry Contract*, available for download on our website: www.rafiusa.org.



Getting Ready to Apply for a Loan

FSA loans are approved based on two determinations: your **eligibility** to apply, and the **feasibility** of your operation. Your eligibility is determined based on criteria that FSA has pre-set for different categories of loans (for example, your previous experience as a farmer.) You must meet all eligibility criteria before FSA will consider your application. The feasibility of your loan is determined by reviewing your business plan and cash flow. In this section we will discuss how to prepare yourself for the loan application process, and the basics about how to assess your financial resources, and what you need to consider before applying.

Steps of the loan evaluation:

In evaluating your loan application, a bank or FSA will take the following steps into consideration.

Eligibility – do you qualify to apply for the loan (for example: are you actually a farmer, and do you have the required experience.)

Feasibility – is there a clear path to loan repayment, and, if something were to go wrong with the operation, is there the ability to stay current on the loan.

Collateral – If you were unable to make loan payments, what property would the bank take ownership of to recoup the value of the loan? Any time property is placed in collateral of a loan, it is at risk of loss if something were to happen that prevented the repayment of the loan.

Understanding Collateral: What Happens if you Can't Pay Your Debt

Loans are a form of credit, like credit cards. But the difference is that for most credit cards, you do not have to promise the bank that they will have rights to your property – like your house, land, or vehicles – if you can't pay them back, in order to get the card. Credit cards are known as “**unsecured**” **credit** – and as a result, they usually have much higher interest rates, and are not a good option for financing large projects like farm operations. Loans on the other hand usually require that farmers put up some or all of their property as collateral, as a way to assure the bank that they will get their money back one way or another. This lowers the risk to the bank, and thus loans usually have lower interest rates than credit cards. When a borrower signs over rights to their property to a lender in order to get a loan, the loan is known as a form of “**secured**” **credit**, and the properties are known as “**security properties**” or **collateral**.

If you have put up collateral to get a loan, this means that your lender can claim that collateral if you can't meet the agreement for paying back the loan. If the collateral is sold, the lender can claim the profits from selling it. For example, if your house is used as collateral on a farm loan and you are unable to keep up with the payments for that loan, the bank may be able to foreclose on your house in order to get their money back. Missing payments is one way for a borrower to **default on their loan**, or be unable to meet the loan agreement.

There are other ways to wind up in default that are not related to having late payments, including failing to get insurance on a security property. If you go into default because you don't comply with part of the loan agreement, this kind of default is called **non-monetary default**. It is very important that you understand the loan agreement and all of the obligations you'll need to meet before you take out a loan. If you do wind up getting a loan, these obligations will be outlined in detail in the master promissory note, the closing documents, and the acceleration clause. In order to understand them thoroughly, you will need to talk through them with an attorney of your choosing. It may be beneficial to have the same attorney review your mortgage closing documents as reviews your poultry contract, thereby ensuring the two agreements support each other.

Down payments and Assets: What you bring to the table

If you plan to get a loan at any bank, you will need to put up **assets as collateral**, make a significant down payment, or do a combination of both. Making a **down payment** means that at the time of getting the loan, you already pay in cash for a portion of the total amount. For many banks, there is a 25% down payment required for a poultry farm ownership loan. This can add up to a pretty significant amount of cash. If you do not have that cash available, you may still be able to secure the loan through putting up your assets as collateral.

If you are applying for an FSA Guaranteed or Direct loan, it is worth realizing that FSA requires all their loans are at least 100% collateralized, and can require that they be up to 150% collateralized. This means that as the borrower, you must promise FSA the rights to various assets that add up to the total value, or even more than the total value, of the loan they are giving you, in order for the loan to go forward. So if you are taking out a \$1 million loan, you will need to have \$1 million - \$1.5 million as collateral listed on the loan.

The balance between the amount of down payment and the amount of collateral you have to put up is called the **loan to value ratio**. That refers to the amount of the loan, compared to the value of the asset being purchased with that loan. Increasing the down payment reduces the amount of the loan. The larger the down payment you bring in cash, the less collateral will be required.

There are many different types of assets that you can use as collateral for a loan. These include property and land, dwellings, etc. If you plan to apply for a loan, it is important to first assess the value of your existing assets. You can get an idea of their value in a couple different ways:

- Recent appraisal: If you have ever had a loan on your facility or property, you would have had an appraisal of its value at that time.
- Tax value: When you pay property taxes, a total value for your property is assessed by the government. Look at your most recent property taxes, and make sure you are looking at the original value, not a discounted value. This number is not precise, but it can give you a ballpark idea of the value of your assets.

Should I put my house on my loan as collateral?

While it is a fairly common practice, it is **extremely risky and should be avoided** in any way possible. Farmers often put their home up as collateral for a loan because it may be one of the most valuable assets they own, and when they are trying to meet a collateral requirement it looks like a good idea at first. Sometimes farmers put their home on the loan because it is built on the same piece of property as their farm and they can't separate it. Regardless of the reasons, it is always a high-risk solution and should be avoided. Many farmers lose their farm, their family land, and their home every year because of problems beyond their control – like natural disasters, industry cut backs, or unexpected changes in price. In the worst-case scenarios farmers lose everything, even the roof over their family's heads. This causes more than just financial strife for families and can be a deeply upsetting experience. This trauma can be avoided by keeping your home off the loan in the first place.

Find any way possible to avoid putting your house on the loan as collateral. Use other land, property or assets, even if that means dividing property tracts to keep your home separate. If you have no other option than to put your house on the loan to get better collateral numbers, then that may be a sign that you are not financially in a stable enough position to get the loan.

When asked about using his personal home for collateral on a poultry loan, one farmer RAFI has worked with replied, “I would tell any other farmer getting into this, don’t do it! Know the bankruptcy laws for your state and start your business with these in mind. Plan for the worst-case scenario. You have to be sure that no matter what you can keep your home.”

Disclosing Liabilities and Debts

In addition to assessing your assets, before you apply for a loan you should also know exactly how much you owe to other lenders. You will have to disclose this information on any loan application, so it is better to get it ready ahead of time. Farmers often have a few different loans at the same time. You may have a home mortgage, a car or truck loan, a farm ownership loan, and a farm operating loan for example.

It is very important to keep track of what assets and property have been used as collateral on which loans. If you have already used a tract of property as collateral for one loan, banks call this having a **“lien against your collateral.”** You must report any existing liens against your collateral to the bank when they are considering your new loan. In general banks do not want to take a **second position** to another bank over collateral – so usually the same piece of property cannot be used as collateral on two different loans. (There may be some exceptions to this.)

Before you go into any bank to apply for a loan, assess your current debts and know how much you owe to whom. This can include debts such as credit cards, medical or hospital debts, back taxes, and contracts or agreements with other individuals. To prepare for applying for a loan, make a list of any debts and current payment agreements. One way to get a full picture of your current debts is to order a credit report. The bank will order one as well, and it is better for you to see what they will see before they see it. The next section explains more about your credit score, and how to access it yourself.

Know your credit score

Whether you're approaching a private bank or FSA, your credit score and credit history will impact whether or not you can get a loan. Your **credit score** is a number on a range between 350 and 850 that tells banks how responsible you have been with credit in the past. Your score is tracked by 3 different credit companies, TransUnion, Experian, and Equifax, and made available to banks when you apply for a new loan or line of credit. These companies look at many different aspects of your borrowing habits. Late payments in the past will have a significant negative impact on your credit score, but so will other details – like keeping a high balance on your credit cards.

When banks check your credit, they get a full **credit report (or credit history)** from these companies. The report will include detailed information like how many accounts you have, how much you owe on them, and how long they have been opened as well as your payment history if you've had late payments in the past. If you've been shopping around for a loan recently, the total number of credit checks banks and lenders have made into your credit will show up on your report as well.

Banks will use this information to determine whether or not they should give you a new loan. The first step to understanding your credit and where you stand before getting a loan, is to check your credit score yourself. You can do that online for free at several different websites. There are several scam websites and companies that may try to charge you in exchange for basic information about your credit. You do NOT need to pay for a copy of your credit report. There are plenty of online services for reviewing your credit for free.

You have the right to request a full report of your credit once a year directly from each of the 3 credit companies. For more information on requesting your free credit reports, call 1-877-322-8228, or visit the Federal Trade Commission's website about accessing your free reports: <https://www.consumer.ftc.gov/articles/0155-free-credit-reports>.

Repairing Your Credit Score and Avoiding Scams

If you have negative information on your credit report that is true and honest, there is little you can do about it other than wait for it to be removed. Different types of negative information stay on your report for different amounts of time. A bankruptcy, for example, may stay on your report for 10 years, but credit checks by banks may be removed in 1 to 2 years. If you have legitimate negative information on your credit report, the best plan is to develop a debt repayment plan that you can handle, and be responsible in managing credit going forward. In time your score will recover.

In some cases, banks and credit reporting companies can make errors on your credit report. For example, you might find outdated information still on your report that should have been removed, and that outdated information could be lowering your credit score. In addition, in cases of identity theft, a drop in credit score may be a first indication that someone else has abused your credit identity. It is important to check your credit reports carefully and ensure that they are accurate, in order to have the highest score you can.

If you find inaccurate or unfamiliar information in your report, you can dispute this at no cost directly with the credit companies – Equifax, Experian and TransUnion. You can dispute these errors online or by sending them a letter. The Federal Trade Commission provides sample letters for disputes and a step by step guide to defending your own credit from errors at this website: <https://www.consumer.ftc.gov/articles/0058-credit-repair-how-help-yourself>.

As you start looking into your credit score, you may come across advertisements or offers for credit repair services. Beware of scams when you see these ads. Regardless of what these ads may promise, no one can legally remove truthful, accurately reported negative information from your credit report. Some of these scam companies may be selling social security numbers or offering bad advice in exchange for a fee. According to the Federal Trade Commission's advice, you will know it's a fraud if the company:

- Insists you pay them before they do any work on your behalf
- Tells you not to contact the credit reporting companies directly
- Tells you to dispute information in your credit report — even if you know it's accurate
- Tells you to give false information on your applications for credit or a loan
- Doesn't explain your legal rights when they tell you what they can do for you

For more information on current credit repair scams to look out for and your rights in credit, visit their website: <https://www.consumer.ftc.gov/articles/0225-credit-repair-scams#Know>

How will my credit score affect my loan application?

Negative information in your credit report or a low credit score will certainly impact your chances of getting a loan at decent terms. For private banks, the Farm Credit System and credit unions, a bad credit report or a low credit score may be a non-starter for your loan application.

The purpose of the Farm Service Agency loan programs, both Direct and Guaranteed, is to extend credit to farmers who need it who cannot otherwise obtain that credit through other lenders. FSA does not consider your credit score itself, but they do look at your credit history. FSA may be more willing than other private lenders to overlook negative information in your credit history, if your loan application – including your cash flow and business plan – is well developed. If negative information in your credit history is more than 3 years old, and you can demonstrate responsible credit and business practices, FSA may be able to overlook past credit score problems. However, problems with your credit history may also have an impact on the financial feasibility of your operation. For example if you are carrying significant debt and have been unable to pay it off in the past, you must disclose this on your FSA application. Even if FSA may overlook your previous payment delinquencies for your eligibility, your current debt load may still make it hard for your business plan to cash flow and could result in your loan being denied.

Understand Your Poultry Contract Terms Before Getting a Loan – Talk to a lawyer

Before you get a loan, it is vitally important that you understand the terms of your contract. Contracts can be long and complicated documents. You should take your contract to a lawyer who has worked with poultry farmers before. Discuss the contract with your lawyer

in detail. These are some of the important questions to ask your lawyer about the terms of the contract:

- 1) What are your rights if the company terminates your contract? Do you have the right or ability to appeal, or the right to compensation for damages or losses?
- 2) On what grounds & in what scenarios can the company terminate your contract? Do they include a clause allowing them to terminate your contract for economic necessity?
- 3) How are disputes settled (example: what if you disagree with the company about the quantity of feed delivered?)?
- 4) Does the company require “binding arbitration” or do they allow you to opt-out?
- 5) Would the contract require you to sacrifice your right to a jury trial, or ask you to sign away your right to join a legitimate lawsuit in the future?
- 6) Does the contract specify how the company will handle upgrades?
- 7) Who has responsibility and liability for environmental damages?
- 8) Would the contract penalize you for acting on your basic freedoms, such as the right to freely associate with other farmers, the right to freely express your opinions, or the right to take photos and pictures of your operation?

A complete list of questions to ask before borrowing money for a poultry farm can be found in Appendix 3.

How will you be paid?

As you review your contract, carefully read the explanation of how your flock pay will be calculated, as well as any addendums that affect your pay.

Most standard poultry industry contracts use a system for calculating farmer pay called the tournament system. While some contracts use a base pay tied to square footage in your chicken houses, most contracts determine pay based on your ranking within the tournament system. In order to estimate your cash flow and income estimates, and evaluate if this is a good business for you, it is critical that you first understand the pay system used by the company, and what factors impact your pay.

The Tournament System Payment works like this:

- 1) The company owns the chickens, you do not. The company provides a farmer with the inputs necessary to raise the birds. The company provides the farmer with feed, medications & veterinary care, and will deliver the chicks to your farm at the start of each flock.

- 2) At the end of the flock, the company will send a catch crew to gather up the chickens. The company catch crew will drive the chickens to the company processing facility and weigh them there. You have the right to watch the birds be weighed if you request it.
- 3) The company tracks the amount, and costs, of all inputs delivered to your farm. The company will calculate the total amount spent on each farmer for a flock – the value of all chicks, feed, medications & vet care, etc. sent to your farm during a flock.
- 4) The company will evaluate the total cost of inputs sent to your farm to the total pounds you produced in that flock. This is a way of measuring your “efficiency.” They will use an equation to generate your “settlement cost,” or how much you cost the company to produce one pound of meat. The “settlement cost” is the cost of company owned inputs (chicks, feed, medication, etc.) per pound of chicken produced.
- 5) Farmers with flocks picked up during the same week will be grouped into the same tournament pool.
- 6) The company will evaluate the settlement costs for all farms within a tournament pool, and calculate the average settlement cost for that tournament pool.
- 7) Then, the company ranks farmers in the tournament pool according to their settlement costs. The farmer with the most expensive settlement cost will be on the bottom, and the farmer with the least expensive settlement cost will be on the top. It is important to note, that the settlement cost is the cost to the company.
- 8) The farmer who had the average settlement costs (or performance) will receive the base pay promised in the contract, with no bonus or deduction.
- 9) Farmers who were more expensive than average, and are lower in the tournament pool, will make **less** than the base pay. Farmers who were less expensive than average, and are ranked higher in the tournament pool, will make **more** than the base pay.

Note Deductions made from farmers producing under the average settlement costs (i.e. who have higher than average settlement costs) fund the bonuses made to farmers’ producing better than the average settlement costs (i.e. have lower than average settlement costs).

It is important to realize that while your management skills and hard work are essential, other factors have a **significant** impact on your paycheck. Many factors, such as: the quality of the feed received, the health of chicks placed, the timing of each flock, the density of each flock, equipment or farm upgrades, medications, weather factors, and other factors **are outside your control**, but still **heavily affect** your paycheck.

What is a Flock Assignment and what system is best for my farm?

If you are financing your poultry operation with a loan from a bank, you will most likely have an assignment on your flock paycheck. This means that your bank (or FSA if it's a direct loan) will directly receive a portion of your paycheck before it ever reaches your bank account. Your company will pay the bank directly out of your flock paycheck.

Normally this is set up so that the amount taken out of each check is 1/5 of your total annual loan payment, so that after 5 flocks your annual payment is complete. However, in some areas, assignments have been set up to be a percentage of the farmer's paycheck, rather than fixed amount. This may seem like an attractive idea, because it means you would pay less in low earning flocks and more in high earning flocks. However, the percentage-based assignment checks have exposed farmers to very risky situations in the past and should be avoided.

For example, if you have several high earning flocks in one year, you may wind up getting ahead on your loan payments. But if you need that extra money to pay for things like utilities or living expenses, you will not be able to get it back from the bank. Some farmers have realized, when it was already too late, that they were thousands of dollars ahead on their loan payments, but did not have enough cash to cover other business expenses or pay back other debts. This can destabilize your business plan.

This situation can be avoided by practicing good financial management. **Always keep track of your debts. Know how much you owe, and how much you have paid back.** Keep track after each flock. Do not assume it is taken care of.



Establishing Cash Flow

Your cash flow for your business is not the same thing as your income, but it is equally important to consider when looking into a farm investment. Cash flow is basically cash coming in compared to cash going out. When you develop a **cash flow projection**, you are evaluating when you will be receiving payments, and when you will have expenses, so you can check your ability to make steady debt payments and find out when you may have surpluses and deficits in your available cash over a period of time.

Before starting an actual loan application, you will need to work out what your estimated cash flow for your operation would be. This is a critical step for two reasons. One is that you will need to demonstrate an adequate cash flow in order to get a loan. The second, and more important reason, is that you will need to assess for yourself if this business will really allow you enough income and adequate cash flow to be financially healthy.

Some farmers have gotten into financial trouble at this step by not looking carefully at all the expenses and possibilities. If your focus is just to present a good looking cash flow in order to get a loan, without carefully checking all the details, you may find yourself with a large amount of debt and a failing business plan after a couple of years that puts your collateral in jeopardy.

You will need to make sure that your cash flow takes into consideration all realistic expenses you will have, and that you can reasonably expect to run your business and cover your necessary expenses for you and your family.

To get started, you will need to get certain information together. In this section we explain what kind of information you will need, and some sources to get it from. You will then need to plug in the numbers and make some estimates of your own. We have included a sample worksheet for calculating your cash flow in Appendix 1. Our worksheet is a starting point. It may not include everything you need, and should be adapted to your circumstances. (For additional assistance in understanding cash flow, contact us at 919-542-1396 and ask to speak with staff members in our Farm Advocacy team.)

Step 1: Get realistic estimates for your projected income. Whether you are starting a new operation, buying an existing farm, or upgrading with new equipment, the company you will be working with should provide you with your draft contract before you get your loan. You need to be able to review it before you sign any loan documents. This is because your contract will contain information about your pay – including how it will be calculated (per pound, per square foot, etc.) and about how much you can expect to make, based on information such as the density or number of birds per flock, and the number of flocks per year.

If you are building new construction or making an upgrade, you may also receive pro-forma or sample cash flow estimates from the company. If you have not received these, you

should ask for these estimates. These can be very helpful, but must be reviewed carefully. You should not take a company's sample cash flow estimate for granted – you must adjust it to include your own estimates.

If you are buying an existing farm, the previous owner or the company may provide you with information about the farm's past financial performance, and/or future income projections. You can use these in the same way as the company's estimates.

Once you have your unsigned contract and any relevant income projections or estimates in hand, check the following before proceeding:

- Do the income projections match up with specific guarantees in your contract?
- Does the contract guarantee the number of flocks that you would need in order to make the income projected in the pro-forma estimate?
- Does the contract guarantee the density or number of birds per flock that you would need in order to make the income projected in the pro-forma estimate?
- Does the contract guarantee an unchanging base pay per flock that would allow you to consistently meet your projected income estimates?

If the contract guarantees these things, you can proceed with using the company estimates as a guide. But in many standard industry contracts, these guarantees are not present. Many companies retain the right to change the number of flocks you get per year, the number of days between flocks, the number of birds in each flock, or the weight of birds that you are raising at any time. In addition, many contracts pay farmers based on a tournament system that does not guarantee a solid base pay per flock. Under a tournament system, roughly half the farmers in the tournament pool will make less than the base pay promised in the contract each flock. If your contract does not have firm guarantees, or uses a tournament payment mechanism, you will need to make sure you plan for variability in pay. In developing your cash flow projection, you should adjust the company estimates to ensure that you are accounting for variability in your financial planning. (Steps to doing this are included in our worksheet in Appendix 1).

When looking at the possible range in income estimates, you will need to become familiar with how the payment process works in your contract. Some companies use what they call a **“floor” payment**, which is the absolute minimum pay per pound or per flock that a farmer can make. This is *not* the same thing as the **“base pay,”** which is the amount written into the contract, and corresponds to the average pay per pound for any given flock. Read through your contract and its addendums and find the floor or minimum payments, keep these in mind for reference as you develop your cash flow projections.

Step 2: Get realistic estimates for your flock-to-flock and annual expenses. If you have a pro forma cash flow or income estimate from the company, it likely will also contain an estimate of costs of production. Similarly, if you are buying a farm from another farmer, they may be able to give you information about the costs of production.

When you receive information about costs of production, make sure the estimates include at least the following categories:

In the past, several Universities and Cooperative Extension offices have produced estimates of their own for broiler operation costs of production. Contact your local Extension office to find out if they have additional, current information about local costs for broiler production.

A very important step in understanding what your costs of production will be, is to talk to other farmers in your area. Some complexes have higher costs than others (such as fuel, litter management vs. opportunity for litter sales, or utility costs due to weather). Make sure you get estimates for flock costs from farmers in your area so you know what to expect.

Step 3: Expect the unexpected – develop multiple cash flow projections. Now that you have gathered the necessary information, use our worksheet in Appendix 1 as a guide and develop cash flow projections. Remember that even the best plans change. Specifically, flock paychecks for broiler producers tend to be highly variable. Plan for ups and downs by developing multiple cash flow projections, based on different possible scenarios.

The following section uses company provided costs to create an estimated cash flow for a prospective poultry farmer, or pro forma cash flow. This “pro forma” uses average costs and payments to estimate yearly income of a new poultry farmer. However, life rarely follows the estimates a person makes, and you should prepare for the possibility of less than ideal returns.

How to use pro forma cash flow & income estimates provided by your company:

The following chart is summarized from a sample projected income analysis (often referred to as a pro forma income estimate) given to prospective farmers by a major poultry integrator in 2017. In Appendix 4 of this guide, we have provided the full company pro forma, as well as detailed cash flow scenarios based on the company estimates.

Companies generally provide income estimates based on averages, but because of how farmer payment mechanisms work (see the tournament pay explanation in the previous section) **pay variability is almost unavoidable in broiler production.** The number of flocks placed per year, the density of flocks placed, or the size of chicken being raised may change, resulting in large pay variation from “average” estimates. As a result, your paycheck may vary by thousands of dollars, with little change in effort or skill on your part. Income estimates can be helpful guides, but they are **not guarantees.**

Cost/Income, Cash Flow Estimates – Summary (See Appendix 4 for full detail)					
	Company Based Estimates	Farmer-Based Estimates*	High-Performance Estimates**	Low-Performance Estimates[†]	Disease Outbreak Estimates[*]
Est. Loan Amount	\$966,000.00	\$966,000.00	\$966,000.00	\$966,000.00	\$966,000.00
Est. Gross Income	\$164,212.48	\$164,212.48	\$170,592.12	\$158,328.88	\$155,661.40
Est. Yearly Loan Payment	\$94,668.20	\$94,668.20	\$94,668.20	\$94,668.20	\$94,668.20
Est. Yearly Farmer Costs	\$36,400.00	\$79,700.00	\$79,700.00	\$79,700.00	\$79,700.00
Est. Yearly Net Income	\$33,144.28	\$-10,155.72	\$-3,776.08	\$-16,039.32	\$-18,706.80

Where do the numbers in this chart come from?

*Farmer-based estimates: these are cost estimates created by consulting current poultry farmers on the costs they have experienced while operating their poultry farm.

**High-performance estimates: these are cost/income estimates created using current farmers' cost estimates, combined with real-world examples of farmers' pay when they "out-perform" tournament averages.

[†]Low-performance estimates: these are cost/income estimates created using current farmers' cost estimates, combined with real-world examples of farmers' pay when they "under-perform" tournament averages.

* Disease outbreak estimates: these are cost/income estimates created using current farmers' cost estimates, combined with real-world examples of farmers' pay when they experience a "disease outbreak" in a flock. The disease outbreak significantly impacts their pay.

While the costs of operating your farm may not significantly vary from one flock to the next your pay may. Using these cash flow estimates will help you better understand all costs associated with operating a poultry farm, and safeguard your business. Remember, while your pay varies your loan payment will remain constant. It is important to consider if an under-performing flock will allow you to pay back your loan and operating costs.

Note: When starting a poultry farm, there are fixed investments you can expect to make. For example, you can expect to need a wash sprayer for your poultry farm. The total purchase price of that wash sprayer is roughly \$5,000. However, these costs would not be reflected in your yearly operating expenses as they are one-time investment necessary to operate the farm. This list of fixed investments is not all-inclusive, but does include some of the most commonly needed items for poultry farming. These investments **HAVE NOT** been added into the estimated yearly operating costs, and should be separately considered when estimating the cash flow, or starting cost, of the farm.

Fixed-Intermediate Investments:		Useful Life
Wash Sprayer	\$5,000	5 years
Caking equipment	\$15,000	7-10 years
Tractor w/ front-end loader & mower	\$45,000	20+ years
Manure storage & composting shed	\$2,500	Life of Facility
Total:	\$67,500	

For a full explanation of these cost/income, cash flow estimates, please refer to Appendix 4.



Will this be a good investment?

A poultry operation is a serious investment. Now that you have considered potential income and cash flow, you should also consider this: **is investing in a poultry operation the best use of my time, money, and capital resources?** When investors put money into the stock market, they try to choose stocks that they think will have a high profit return on investment. You are facing the same decision. Getting a loan is likely to tie up your capital and assets for a long time. If you put assets up as collateral for a loan, you will not be able to leverage those assets for other purposes until you have paid off your chicken loan. You will also be spending a lot of your time raising chickens. Thus, you want to make sure before you start, that you are going to get a good return for your hard work. Even if the cash flow balances out, you could still have a negative return on your investment. There may be other farming operations or business ventures that would offer a better return.

To assess this, you may want to calculate your estimated **return on investment**. This is basically the ratio of the money you earn or lose, compared to the actual cost of your investment or to your actual time spent working on the operation.

When considering if operating a poultry farm is a good return on your investment, a simple way to analyze the investment would be to compare the poultry operation to a standard, wage-paying job requiring *no* investment be made on your part. If we consider a very low paying job, say just above minimum wage at \$8.00 per hour, a person would gross roughly \$16,640, and would net approximately \$14,950 by working 40 hours a week for 52 weeks per year. Now, consider that the low-wage paying job **does not** require large loans, collateral, and has a direct relationship between hours worked and pay earned.

You may want to look for alternative options in your area before investing in a poultry operation. Be sure that you are satisfied with your decision before continuing in your loan application process.

Co-signers

In some cases, if you have low credit or other limitations and cannot get a loan by yourself, you may be able to get a loan by having someone else agree to back you up if you can't pay the loan back. This person is generally referred to as a **co-signer**. They will also sign for the loan, and agree to guarantee the debt.

Before anyone co-signs a loan, they should make sure they can afford to pay for the debt if it is called in full. Lenders can legally require co-signers to pay for the debt if the borrower can't, including late fees and other charges that the borrower incurred. Lenders can use all forms of debt collection to get the money from the co-signer, including suing them or garnishing their wages.

In addition, the loan will show up on the co-signer's credit report as well as on the borrower's credit report. Even if the borrower is paying off the loan on time, the co-signer may not be able to get other forms of credit as long as they have this large liability on their credit report. If the loan goes into default because the borrower cannot pay it back, this might lower the co-signer's credit score as well as the borrowers.

It is risky for a co-signer to guarantee the entire amount of the loan. In some cases, a co-signer may be able to limit their liability to a specific piece of the collateral. This is more responsible and safer for the co-signer, but must be spelled out very clearly in the loan documentation. If you are considering your options in finding a co-signer, be sure to review the situation carefully with an attorney. (NOTE: The FSA has several classifications for *types* of co-signers, including **co-borrowers, co-signers, and guarantors**. Each classification involves slightly different obligations legally. Be sure to review this information in detail with your attorney and with your FSA loan officer to fully understand your and your co-signers responsibilities.)

State and federal regulations

The last important step before making a final decision to get a loan for a poultry operation, is to find out if you will be able to meet all of the necessary state and federal regulations required. These will be different from state to state, but will include requirements related to waste and litter management, cleanup of dead birds, and where you can legally build your facilities. The easiest way to find out what regulations affect your operation is to call your state regulatory offices directly. Please refer to Appendix B for a listing of state regulatory agencies, and their contact information.



Are you Eligible for an FSA Direct or Guaranteed Loan?

If you have decided to apply for a loan for a poultry operation or an upgrade, the first step is to talk to your bank. You may be able to get the loan you need from a private bank, or through the Farm Credit System. Ask other farmers in your area about their experiences with local banks, and about which banks are willing to finance poultry operations.

If you are unable to get approved for the loan that you need at reasonable rates and terms¹, through a private bank or the Farm Credit System, then you may be eligible for an FSA Direct or Guaranteed loan. For example, maybe you are struggling to find a loan that will cash flow *and* allow for family living expenses. Or, you may have been approved for a loan, but it does not meet your needs because of a very high interest rate. In these situations, you may be able to get a better loan through FSA.

FSA has different general eligibility requirements for direct and guaranteed loans. This section explains those general requirements. If you do not meet one of these requirements, you should discuss your situation with an FSA loan officer before applying for the loan.

For any loan: FSA Farm Number

The first step in considering your eligibility for an FSA loan of any kind, is demonstrating that you are authorized to operate your farm in the state where it is located. You will need to bring either a lease, rental agreement, or proof of ownership for the property to the FSA office. The loan officers will be able to register you in their system, and will give you a farm number, which you will use on any loan application.²

Borrower Training³

In order to apply for a Direct FSA loan, you must have the education or financial experience necessary to manage the loan. If your FSA loan officer decides it is necessary, FSA requires that applicants be willing to complete a borrower training course within two years of the closing on your loan. In many cases this requirement will be waived, based on your prior experience in business or financial management. (Local FSA officers will have more information about what is required in your situation.)

General limitations on FSA loans⁴:

For both Direct and Guaranteed FSA loans, the following limitations apply:

- The funds must be used for operations located in the United States
- If funding requirements for your operation exceed the maximum amount that FSA can loan through a Direct or Guaranteed loan or a combination of the two, the

¹ 764.101.e Availability of Credit Elsewhere

² 764.252.d.(2) Farm Number

³ 764.252 Eligibility Requirements

⁴ 764.102 General Limitations

applicant must be able to get the rest of the amount that is needed from another source. FSA will not approve a loan that covers only part of the operation's expenses unless the farmer can demonstrate that they have funding arrangements for the rest that they need as well.

Eligibility for Direct Loans

FSA has a set of criteria that you must meet before being able to apply for a direct loan. Direct loans can be for farm ownership, operating expenses or emergency situations. Some criteria are specific to the type of direct loan, and others apply to all types of direct loans. The following chart includes eligibility criteria as listed by FSA, published in “Your Guide to FSA Farm Loans,” available at:

https://www.fsa.usda.gov/Internet/FSA_File/fsa_br_01_web_booklet.pdf

(For a more detailed description of eligibility requirements, read section 764.101 in subpart c of Title VII in the Agricultural Credit Act, which provides the regulation for FSA loan eligibility.)

Eligibility Requirement for all Direct Loans	Examples of successfully meeting these criteria for starting a poultry operation	Examples of ways to document meeting this criteria
I have the training, education, or experience that will enable me to effectively manage my farm or ranch	● A degree in poultry science ● Experience working on and/or managing a poultry farm ● Experience raising other livestock ● Experience working on a diversified farm that raised poultry or livestock	● Degree or proof of coursework ● Schedule F from tax returns demonstrating farm income & expense management ● Tax returns or pay slips demonstrating wages for farm work related to poultry
I am a citizen of the United States, a non-citizen national, or a qualified alien.	● Born in the US ● Moved to the US legally and became a permanent resident	● Passport ● Birth Certificate ● Green Card ● Qualifying US visa
I possess the legal capacity to obtain a loan.	You do not have to have documentation for this criteria, as long as you are of sound mind and are legally able to sign for yourself.	
<i>(Table continued from p. 28: Eligibility criteria for Direct Loans)</i>		
Eligibility Requirement for all Direct Loans	Examples of successfully meeting these criteria for	Examples of ways to document meeting

	starting a poultry operation	this criteria
I do not have a conviction related to controlled substances	In order to be eligible, neither you as the applicant nor any entity member on your farm can have been convicted of cultivating, growing, producing, harvesting or storing controlled substances in the past 5 crop years. ⁵	
I am unable to obtain credit elsewhere at reasonable rates and terms.	● You must have already tried to obtain a loan from a private bank or the Farm Credit System and been denied, ● OR you were approved for a loan, but only at terms that are unreasonable. ● Unreasonable terms can mean: a high interest rate that does not allow your loan to cash flow in a way that enables you to cover family living expenses.	● For Direct and Guaranteed loans, you do not need to provide documentation of denials from other banks. You will self-certify on your application that you were unable to obtain credit at reasonable rates and terms elsewhere.
I can show that I have a good credit history (I pay my bills on time) or, if I do not, I can show that my failure to pay my bills was due to circumstances beyond my control, was infrequent, or did not happen recently.	● You have a good credit report, ● OR: problems in your credit past happened more than <u>3 years</u> ago (for example, previous late payments) and you can demonstrate good credit habits since then. ● Problems in your credit history were related to a specific event you couldn't control, like a weather disaster, layoff, or accident. (NOTE that debt may still have an impact on the feasibility of your loan.)	● In addition to your credit report, any documentation that supports your explanation for poor credit (in case of weather related instances, a county disaster declaration or other weather documentation. in case of an accident, hospital bills. In case of a layoff or contract termination, letter of termination, etc.)
<i>(Table continued from p. 28: Eligibility criteria for Direct Loans)</i>		
Eligibility Requirement for all Direct Loans	Examples of successfully meeting these criteria for	Examples of ways to document meeting this

⁵ 2 FLP – P.108 Eligibility

	starting a poultry operation	criteria
I have not had a recent foreclosure or business failure.	Previous foreclosures are treated by FSA in the same way as judgments or late payments – if they happened more than <u>3 years</u> in the past, FSA will not hold them against you in eligibility to apply for a loan.	
My operation is a family farm or ranch, and the majority of the physical labor and management is provided by me, a family member, or another entity member.	● You and your family work the farm. You may hire labor, but you are managers & owners directly. ● You and your family are present on the farm, make important decisions about the farm. ● You and/or family provide the majority of the labor.	● Farm logs ● Letters from neighbors ● Schedule F tax returns demonstrating you or family member's management of farm income & expenses ● Articles of incorporation (if incorporated)
I have not received debt forgiveness (caused FSA to lose money) on another direct or guaranteed loan.	If you have received debt forgiveness from FSA in the past, contact an FSA loan officer for additional guidance or clarification.	
I will not be behind on any debt (other than a debt under the Internal Revenue Code of 1986) that I owe to the US Government when the loan is closed.	This criteria includes debts owed to FCIC subsidized crop insurance, which is treated as a federal debt. If you have outstanding debt on crop insurance, you will be ineligible for an FSA loan. FSA cannot make an additional loan if you are delinquent on your current loans. Your loans must be current as of the date of closing your FSA loan.	

<i>(Table continued from p. 28: Eligibility criteria for Direct Loans)</i>		
Eligibility Requirement for all Direct Loans	Examples of successfully meeting these criteria for	Examples of ways to document meeting this

	starting a poultry operation	criteria
<i>For farm ownership loans only.</i> I have participated in the business operations of a farm or ranch for at least 3 out of the last 10 years.	● You must have played a role in <i>management</i> of a farm for 3 out of the last 10 years, not just working in farm labor ● Having financial risk in a farm business that you are managing and operating ● If you have military experience, you can substitute that for 1 of the 3 required years, IF your rank was E5 or above - must still have 2 additional years of farm management	● Schedule F from tax returns that demonstrate your role in managing farm income & expenses, not just farm wages ● Letters from neighbors describing your role on the farm you managed ● Documentation of farm purchases & sales in your name such as seeds, chemicals, livestock ● Form DD214 for military discharge demonstrating rank, if using military experience ● (For crop) Documentation of pesticide application permit
<i>For beginning farmer or rancher targeted funds only:</i> I have operated a farm or ranch for 10 years or less.	● You have worked on farms all your life but have only managed, owned or had financial risk in a farm business for 10 years or less.	● Schedule F tax returns demonstrating management of farm expenses & income for 10 years or less
<i>For beginning farmer or rancher targeted funds only:</i> If I currently own a farm or ranch, it is less than 30% of the average farm size in my county.	● Your “farm” is the land and enterprises that you own. ● Your farm acreage can be over the 30% mark <i>after</i> closing the loan and making the new purchase, but not before. (For reference, the average farm size in the US 434 acres in the 2012 census. North Carolina: 164 acres.)	● Look up the average farm size in your county. You do not need to provide documentation of the average farm size in your county as FSA will check this information internally. ● Provide documentation of the total land acreage you own.

(Table continued from p. 28: Eligibility criteria for Direct Loans)

Eligibility Requirement	Examples of successfully	Examples of ways to
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for all Direct Loans	meeting these criteria for starting a poultry operation	document meeting this criteria
<i>For down payment loans only:</i> I can make a cash down payment of at least 5% of the purchase price for the farm or ranch I want to buy, and its price is less than \$500,000.	Making a down payment means having cash on hand, ready at the time of signing the loan.	
<i>For emergency loans only:</i> My operation is in a county that has a disaster designation, and it has not been more than 8 months since the designation was declared. I suffered a production loss (at least 30%) or a physical loss due to the designated disaster.	● Following a flood, tornado, drought, or other disaster the governor of your state declared your county in a state of emergency ● AND you had physical damage such as fences down, trees down or flood damage to equipment ● or you had a production loss, for crops and other products	Pictures of damage, before you start cleanup (this is critical documentation for insurance claims as well)

Security Requirements for All FSA Direct Loans⁶

All loans must be secured by assets having a value of at least 150% of the loan amount, unless you do not have assets that add up to 150%, or unless your operation meets certain limited exceptions. If you do not have 150% collateral value, you must have a minimum of 100% of the loan value in assets. If the applicant's assets do not provide adequate security (meaning the minimum 100% of the value of the loan), the agency may accept a co-signer, or interest in property not owned by the applicant. The agency is allowed to, and often times will take a lien on all assets that are not essential to the farming operation over \$5,000 in value. These “non-essential” assets do not count toward the 150% security.

What this means is: to get a Direct loan from FSA, you must have collateral (see p.34 for an explanation of collateral) that is equal in value to 100% of the amount you are requesting as a loan. If you need a loan of \$100,000, you must put up enough property, land, farm structures, etc. that in total add up to a value of at least \$100,000.

⁶ 764.103-764.106 Security Requirements

While 100% is *required*, if you have other available farm assets (such as a tractor or other equipment) that are not already collateralized in reaching 100% of the value of your loan, FSA will take a lien on these assets as well, up to 150% of the value of your loan. In the case of the \$100,000 loan, FSA will take a lien on up to \$150,000 worth of farm assets, if they are available.

Keep in mind; FSA is considered the **“lender of last resort.”** That means that the regulations are written to discourage farmers from coming to FSA if they could potentially have other means to finance their operation, including for example, selling assets that are not required for that farming operation. An example of a **non-essential asset** is a second home, beach house, a boat, or other luxury asset not used in the farming operation. According to the regulation, FSA may take a lien on any non-essential assets valued at over \$5,000 and this will *not* count toward the %150 collateral. This means that in some cases, FSA could take a lien on all farming assets up to 150% of the value of your loan, and *in addition* take a lien on any luxury or non-essential assets over \$5,000.

However, there are important exceptions to the 150% security rule. If you are able to adequately secure the loan at 100%, some of these exceptions may apply.⁷

- If you need the asset (tractor, equipment, breeding stock etc.) to get credit elsewhere for other farming operations from other sources,
- Your personal home, household contents, small tools and personal vehicles can be excepted from the 150% rule. This is an important step for farmers to take to avoid risking their homes in debt.
- Working capital accounts (meaning other bank accounts that you're regularly using) and retirement accounts may also be excepted.

Lien Positions on Assets Between FSA and your Private Bank

In some cases, you may use the same chattel (equipment or breeding stock) as collateral on more than one FSA Direct loan, or on a combination of Direct and Guaranteed loans⁸. In some cases, FSA will take a second position on this collateral to a private bank. This may allow for more flexibility in securing your loan. Ask your Loan Officer for additional details.

⁷ 764.106 Exceptions to Security Requirements

⁸ 764.105 Chattel as Security

Eligibility for Guaranteed Loans

As with Direct loans, you must meet certain criteria before you can apply to Guaranteed loans. The following chart includes eligibility criteria as listed by FSA, published in “Your Guide to FSA Farm Loans,” available at:

https://www.fsa.usda.gov/Internet/FSA_File/fsa_br_01_web_booklet.pdf

Eligibility requirements for Guaranteed Loans	Examples of successfully meeting these criteria for starting a poultry operation	Examples of ways to document that you meet this criteria
I am a citizen of the United States, a non-citizen national, or a qualified alien.	● Born in the US ● Moved to the US legally and became a permanent resident	● Passport ● Birth Certificate ● Green Card ● Qualifying US visa
I possess the legal capacity to obtain a loan.	This simply means you are not mentally incapacitated, and do not need a legal guardian to sign for you.	
The lender will not approve my loan with reasonable terms and rates without an FSA guarantee.*	You are unable to get a loan that has reasonable terms and rates (for example, to pay your bills and cover your living expenses) from a private bank or the Farm Credit System without the guarantee.	For Direct and Guaranteed loans, you do not need to provide documentation of denials from other banks. You will self-certify on your application that you were unable to obtain credit at reasonable rates and terms elsewhere.
I have not received debt forgiveness (caused FSA to lose money) on another direct or guaranteed loan.	If you have received debt forgiveness from FSA in the past, contact an FSA loan officer for additional guidance or clarification.	

<i>(Table continued from p. 34: Eligibility criteria for Guaranteed Loans)</i>		
Eligibility requirements for Guaranteed Loans	Examples of successfully meeting these criteria for starting a poultry operation	Examples of ways to document that you meet this criteria
My operation is a family farm or ranch, and the majority of the physical labor and management is provided by me, a family member, or another entity member.*	● You and your family work the farm. You may hire labor, but you are managers & owners directly. ● You and your family are present on the farm, make important decisions about the farm. ● You and/or family provide the majority of the labor.	● Farm logs ● Letters from neighbors ● Schedule F tax returns demonstrating you or family member's management of farm income & expenses ● Articles of incorporation (if incorporated)
I will not be behind on any debt (other than a debt under the Internal Revenue Code of 1986) that I owe to the US Government when the loan is closed.	● FSA cannot make an additional loan if you are delinquent on your current loans. Your loans must be current as of the date of closing your FSA loan.	

Special Security Requirement for all Guaranteed Loans

In addition to the Security Requirements laid out in the general section, there are certain requirements that apply only to Guaranteed Loans. One in particular is worth mentioning here. This may not impact your loan application process, but it is important to keep in mind if you are pursuing a joint financing arrangement (getting both a direct loan from your bank and an FSA guaranteed loan):

In some cases, you may use **chattel** (breeding stock or equipment) as security on more than one loan. For example you may use the same chattel as security on a loan directly from your bank, *and* on an FSA guaranteed loan from the same bank. In this case, if you were to default on your loans, the bank would be *required* to apply the value of the chattel to your guaranteed loan first. This is important to know ahead of time. If you were to default on your loan, you could be left with a lingering federal debt if the bank uses the security chattel to pay off their own direct loan first. Working with FSA Preferred lenders is a good

way to avoid confusion, as Preferred Lenders have experience with the FSA loan system. (For more information about finding Preferred lenders, see p. 51).

What types of loans are available, and what is best for my farm?

There are many different types of loans. We have mentioned some briefly in this guide already - like Farm Ownership (FO) Loans, Operating Loans (OL) and loans for equipment. These types of loans can be made either by private lenders, Farm Credit System, Direct from FSA, or from another lender but Guaranteed by FSA.

In some situations, you may need to combine different types of loans in order to get the amount and type of credit you need.

Different types of loans also come with different **loan terms**. The loan term is the number of years that the loan will be set up for. Throughout the years of your loan term, you will pay back the loan according to a payment plan. In addition, different types of loans come with different agreements for **interest rates**. Interest is charged by banks, and FSA. Interest is an amount that you pay back, in addition to the amount of your loan itself. Interest is calculated as a certain percentage of what you owe every year. Having longer loan terms (like 30 or 40 years) can mean having lower payments, but it can also mean that you will pay more in interest. Shorter loan terms (like up to 7 years) are typically for equipment or operating expenses.

Who determines your terms and interest rate?

For Direct Loans, FSA is the lender. Thus FSA sets the interest rate. For Guaranteed Loans, the bank or lender sets the interest rate and terms, following certain FSA guidelines. The interest rate FSA offers you for Direct loans is the agency's standard rate. This rate is adjusted monthly, and posted online at: www.fsa.usda.gov/FSA/webapp?area=home&subject=gfmlp&topic=fir

You can also ask your local FSA Loan Officer for current Direct Loan interest rates. Once your loan is closed, the interest rate for direct loans will be fixed at the rate in effect on the date of loan approval, or of loan closing, whichever is lower.

However, it is useful to note that for Direct Loans, **FSA also offers a limited resource interest rate**, which is available to applicants who are unable to develop a feasible plan at regular interest rates. This interest rate may be lower and may help you if your loan does not cash flow at the agency standard rate.

The exact term of your loan will be determined based on your ability to repay, up to the term limit for that type of loan. Your loan officer will determine this, according to your cash flow and income. In no circumstances can an FSA Farm Ownership loan have a term longer than 40 years from the original note, even under restructuring.

Interest Rates

Interest rates can be negotiated in different ways, depending on the type of loan you get. For Direct FSA loans, the interest rates will most often be fixed, which means that for the entire course of your loan, the interest rate will remain the same. This is the most reliable type of interest rate, and helps you maintain a stable budget. There are other types of interest rates you may encounter, such as:

Fixed interest rate: Interest rate stays the same throughout the entire term of your loan (unless you refinance.)

Floating interest rate: FSA Guaranteed loans come with interest rates that are negotiated by your bank rather than by FSA. Therefore, the FSA guidelines requiring that interest rates are fixed do not apply. In some cases, your bank may offer you a floating interest rate, which means that it is subject to change over time. In some cases, floating interest rate loans may be slightly cheaper than fixed interest rate loans. However, you may take a significant risk if the interest rates increase during the term of your loan. Increasing interest rates can have a significant impact on your payments and on your ability to meet the debt obligations.

Why Are Balloon Payments Risky for Your Farm?

Balloon loans are increasingly common in poultry production, and are offered by many private banks. In a balloon loan, you will be set up with manageable payments over a short term (often 3 years) and a fixed interest rate initially. But after the 3 years, the entire remainder of the loan will be due in one very large payment, referred to as a balloon payment.

Often what farmers do when their balloon payment comes up, is refinance that remaining debt into a new loan. Banks who offer balloon loans will often renew the loan on the same structure – so another 3-year term with manageable payments will end in a large balloon payment.

Balloon loans are high risk for several reasons. First, **you are unable to lock in an interest rate for the duration of your loan.** Every time the loan term runs out, you reset in a new loan and your interest rate can change. Banks may take advantage of this to continuously increase your interest rate if possible. This means you will be unable to predict the total amount of payments you'll have to make over the long term.

Secondly, **there is no guarantee that your bank will renew the loan after your balloon payment is due.** Many farmers find themselves in stressful situations every 3 years wondering if their bank will renew their loan, or call in their debt. If the bank refuses to

renew the loan, and you are unable to pay the entire balloon payment, you must either find another bank to finance that debt or your bank will begin to liquidate your assets to claim what you owe them.

And finally, **watch out for banks that offer balloon loans with significant upfront fees.** Getting a loan always involves paying some fees for loan origination, but some banks charge significantly larger fees upfront than others do. These fees are rolled into your loan amount. You will have to pay off these fees before you begin to pay down the principal amount of your loan. For many farmers, after the 3-year term is up, they have only paid down the fees and interest – and have not paid down the principal amount of their loan. After 3 years your equipment is older and the value of your operation may have changed. In this risky situation, you may find yourself “**under water**” on your loan, meaning that you owe more than the value of your collateral. This will make any other banks highly unlikely to step in to help you refinance your loan, thus you are completely dependent on your original bank to renew the balloon loan structure.

Balloon loans are a high-risk option and should be avoided wherever possible.



Types of Loans Available from FSA

This section will help you understand in greater detail what types of loans are available from FSA, and with what rates and terms, so you can better determine what would be appropriate for your operation.

FSA offers a variety of loans including: Farm Ownership loans (FO), Operating Loans (OL), Emergency Loans, Conservation Loans, Micro Loans of up to \$50,000, and others. In this guide we explain three of the most commonly types and their requirements. For more information about loans such as Conservation Loans and Micro Loans, talk to your FSA Loan Officer directly or read these helpful guides:

- Your Guide to FSA Farm Loans (Published by USDA): https://www.fsa.usda.gov/Internet/FSA_File/fsa_br_01_web_booklet.pdf
- The Farmer's Guide to FSA Microloan Program (Published by Farmers' Legal Action Group, 2014): <http://www.flaginc.org/wp-content/uploads/2014/06/20140602-FSA-Microloan-Guide-FINAL.pdf>

Farm Ownership (FO)

Farm Ownership (FO) loans may only be used to buy or enlarge a farm, or make a down payment on a farm, or make improvements on a farm such as building or servicing structures, and other brick and mortar projects. It's important to note that if the farm you want to improve is leased, you must have a lease agreement that will extend through the useful life of the purchase or improvement. According to FSA's description, they "will help you purchase or enlarge a farm or ranch, construct a new or improve an existing farm or ranch building, pay closing costs, and pay for soil and water conservation and protection."⁹ In order to be successful in obtaining a Farm Ownership loan, you must be able to show that you will have everything you need in place at the closing of the loan to run your operation, including structures and equipment.

What if FSA doesn't have money for my Farm Ownership Loan?

Remember that the total amount of money that FSA can use to give farmers Farm Ownership loans is determined each year by Congress, which also sets maximum limits on this pool of money. In some years, the total amount of money that is set aside for Farm Ownership loans may be already spent by FSA by the time your application comes in. It is worth noting that in some cases a farmer's Farm Ownership application may still be approved, even if FSA has already run out of money for the year. In this case, a **Bridge Loan**

⁹ Your Guide to FSA Farm Loans: https://www.fsa.usda.gov/Internet/FSA_File/fsa_br_01_web_booklet.pdf

may be possible. A private lender can put the money up for your loan upfront, and FSA will pay them back when the next amount of money is released for their use by Congress.¹⁰

Additional Eligibility Requirement for Farm Ownership Loans:

- In addition to meeting all of the eligibility criteria for the Direct or Guaranteed loan as described in the previous section, applicants for Farm Ownership loans cannot have had a previous Direct Farm Ownership Loan through FSA outstanding for more than 10 years.¹¹

Type of Loan	Maximum Loan Amount¹²	Rates and Terms¹³
Direct Farm Ownership	\$300,000	Term: Up to 40 years Interest rate: fixed
Direct Down Payment (for Farm Ownership. Beginning farmers and Socially Disadvantaged Farmers are eligible for this kind of loan.)	The <u>lowest</u> of the following: ● 45% of the farm or ranch purchase price ● 45% of the appraised value ● \$300,000	Term: Up to 20 years Interest rate: fixed
Guaranteed Farm Ownership	The maximum loan amount is set annually, and adjusted each year for inflation. (as of this publication in 2017, the maximum was \$1,399,000.)*	Term: Up to 40 years Interest rate: negotiated by you and your lender.

*Talk to your FSA loan officer to find out this year's annual loan limit, or visit:
https://www.fsa.usda.gov/Internet/FSA_File/guaranteed_farm_loans.pdf

Operating Loans (OL)

Operating Loans (OL) can cover necessary expenses associated with improving the profitability of your farm. According to FSA's description, "operating loans will help you purchase livestock and equipment and pay for minor real estate repairs and annual operating expenses." This is including but not limited to: feed, seed, fertilizer, pesticides, farm supplies, repairs and improvements, cash rent, and family living expenses. This can

¹⁰ 764.151 Farm Ownership Loan Uses

¹¹ 764.152 Eligibility Requirements for Farm Ownership

¹² 761.8 Loan Limitations

¹³ 764.154 Rates and Terms for Farm Ownership

also include scheduled principle and interest payments on term debt, provided the debt is for an authorized FO or OL purpose. In addition, OL loans can cover costs associated with conservation practices, or costs associated with OSHA compliance, borrower training costs. Operating loans can also cover significant equipment or upgrade purchases.¹⁴ (Other uses are described in: 7 CFR, 764.251.)

Graduation from FSA Direct Operating Loans: 7 years (+2 more with a case-by-case waiver)

Farmers can close Direct Loans with FSA in no more than 7 years, and possibly 9 years with a waiver. Within any given single year a farmer may get more than 1 FSA Direct Loan, there is no limit on the number of loans closed within a year. Each individual Direct Loan can have a term of multiple years. The term amount of individual loans does not affect the farmer's graduation from the Direct Loan Program.¹⁵

This means that if a farmer takes out any Direct Loans in 2017, regardless of how many Direct Loans they take out and regardless of the term limits of each of the loans, that counts as 1 year towards that farmer's graduation from the Direct Loan Program.

Once a farmer has received FSA Direct Loans in 7 different calendar years, they are considered “graduated” from the program. They can however apply for a waiver, and on a case-by-case basis they may be granted a one-time waiver for a period of 2 years, allowing you to apply for Direct Loans for another 2 years.¹⁶

Term Length of a Direct Operating Loan:

In most cases, an operating loan will be for a one-year annual period. An annual Direct Operating Loan may be extended up to 18 months under certain circumstances. But if the loan is taken out to cover chattel, which are expenses such as equipment and breeding stock, it may have a longer term, up to but not longer than 7 years.¹⁷

Type of Loan	Maximum Loan Amount	Rates and Terms
Direct Operating	\$300,000	Term: 1 to 7 years Interest rate: fixed
Guaranteed Operating	The maximum loan amount is set annually, and adjusted each year for inflation. (as of this publication in 2017, the maximum was \$1,399,000.)*	Term: 1 to 7 years, according to your lender's procedure Interest rate: negotiated by you and your lender.

¹⁴ 764.251 Operating Loan Uses

¹⁵ 764.252.e Graduation required after 7 years

¹⁶ 764.252.e(4) Waiver to graduation - 3FLP P 202

¹⁷ 764.254

*Talk to your FSA loan officer to find out this year's annual loan limit, or visit:
https://www.fsa.usda.gov/Internet/FSA_File/guaranteed_farm_loans.pdf

Assets and Security Requirements for FSA Operating Loans

In general, an operating loan must be secured by a first lien on all property or products acquired or produced with loan funds. For crop producers, this normally means that FSA would have a lien against their crop once it is harvested. But for contract poultry producers, this works differently. As a contract producer, you will not at any point own the product, the birds themselves.

Emergency Loans

At times you may need access to credit to recover from an emergency. FSA does offer a special category of emergency loans. According to the FSA description, "emergency loans will help you if you suffered a qualifying loss caused by natural disasters that damaged your farming or ranching operation.¹⁸ Emergency loan funds may be used to restore or replace essential property, or any farming asset that is essential to your operation that has been damaged. It can also be used to pay all or part of production costs associated with the disaster year, which can include legal or technical service fees related to disaster recovery. In addition it can be used to pay essential family living expenses, replace household contents that were damaged, reorganize the farming operation, and replace lost working capital or refinance certain debts.

FSA only offers direct emergency loans, and does not offer the option of guaranteeing emergency loans from other lenders.

Additional Eligibility Requirements for Emergency Loans¹⁹:

- You must submit an application within 8 months of the date that the disaster is declared or designated.
- For production loss, you must have had a loss of yield of at least 30% to be eligible.
- For physical losses, you must have had general hazard insurance on the physical property at the time of the disaster. You must be able to document the damage of any physical loss.
- You must have been the owner or operator of the farm at the time of the disaster.
- If you were leasing the land, you must have been leasing it at the time of the disaster, and your lease must extend beyond the term of the loan – to show that you will be using that land throughout the repairs.
- If you will terminate your lease before the term of the loan, the lessor must provide a mortgage on that real estate to FSA to secure the loan.

¹⁸ 764.351 Emergency Loan Uses

¹⁹ 764.352 Eligibility for Emergency Loans

- If you are applying as an entity rather than an individual, you must be able to demonstrate your intent to continue to farm after the disaster.
- Emergency loans can be made for up to \$500,000. If you are requesting a loan larger than \$300,000, you will need to provide *two* letters from private banks or Farm Credit declining your request for a loan.
 - If you're requesting an emergency loan of *less* than \$100,000 on the other hand, FSA may waive the requirement for you to submit a letter of declination from an outside bank.

Type of Loan	Maximum Loan Amount	Rates and Terms
Direct Emergency	The <u>lowest</u> of the following: ● 100% actual or physical losses ● The amount required to restore the operation to its pre-disaster condition ● \$500,000	Term: typically 1 to 7 years, but possibly up to 20 years for non-real estate purposes. OR: Up to 40 years for physical losses on real estate (FSA determines the terms based on ability to repay and the type of loss.) Interest rate: Fixed

How does FSA Calculate Loss for an Emergency Loan?

It is very important to realize that, as we discussed on p. 15 of this guide, it is not possible to get insurance for your birds if you have a poultry contract because you technically do not own the birds, the integrator does. In the event of a catastrophe or weather disaster, you would be able to apply for an emergency loan for physical losses. Unlike with lost crops, you may *not* be able to get an emergency loan for lost revenue, because you do not own the birds.

For crops and other products from your farm, the value you can get an emergency loan for is calculated following these steps:

- (1) Subtract the disaster yield from the normal yield to determine the per acre production loss;
 - (2) Multiply the per acre production loss by the number of acres of the farming operation devoted to the crop to determine the volume of the production loss;
 - (3) Multiply the volume of the production loss by the market price for such crop as determined by the Agency to determine the dollar value for the production loss; and
 - (4) Subtract any other disaster related compensation or insurance indemnities received or to be received by the applicant for the production loss.
- (d) For a physical loss loan, the applicant's total eligible physical losses will be calculated as follows:

- (1) Add the allowable costs associated with replacing or repairing chattel covered by hazard insurance (excluding labor, machinery, equipment, or materials contributed by the applicant to repair or replace chattel);
 - (2) Add the allowable costs associated with repairing or replacing real estate, covered by hazard insurance;
 - (3) Add the value of replacement livestock and livestock products for which the applicant provided:
 - (i) Written documentation of inventory on hand immediately preceding the loss;
 - (ii) Records of livestock product sales sufficient to allow the Agency to establish a value;
 - (4) Add the allowable costs to restore perennials to the stage of development the damaged perennials had obtained prior to the disaster;
 - (5) Add, in the case of an individual applicant, the allowable costs associated with repairing or replacing household contents, not to exceed \$20,000; and
- Subtract any other disaster related compensation or insurance indemnities received or to be received by the applicant for the loss or damage to the chattel or real estate. ²⁰

Special Security Requirements for Emergency Loans:

Security for Emergency Loans can be based on income, rather than equity, which is a little different from FO and OL loans. When adequate security is not available after the disaster, the loan may be approved, if the applicant has a reasonable plan to repay the loan. This process will involve demonstrating income – see the box above for limitations related to poultry ownership. (For more specific information, see 7 CFR 764.355.)²¹



²⁰ 764.353 Emergency Loan Limitations

²¹ 764.355 Security for Emergency Loans

Finding the Right Lender for an FSA Guaranteed Loan

FSA works with many different lenders to guarantee the loans that they give to farmers, but they group lenders into categories. FSA has set up three main categories of lenders: Preferred, Certified and Standard lenders. The basis for sorting lenders into these three categories is the lender's experience and track record with managing FSA loans.²² If your local bank is unwilling or unable to give you the loan or credit that you need, you may want to seek out a Preferred lender to make the process of your FSA guarantee application easier.

Preferred lenders: have worked extensively with FSA in the past, are already familiar with the process, and can move through the FSA application more efficiently than a certified or standard lender. While all three categories of lenders are held to the same requirements, FSA puts in place fewer review steps for preferred lenders because of their proven success and responsibility in handling FSA loans. Preferred lenders can use their own administrative systems, and can write the loans according to their own system. This can be a time saver for farmers working with preferred lenders. For this reason, your loan application will be most efficient when working with a preferred lender.

Certified lenders: have less flexibility than preferred lenders, but are still recognized for their successful track record in managing FSA loans. Certified lenders may be able to develop their own forms for example, and will have to submit less information to FSA for review as compared to standard lenders.

Standard lenders: are the basic participant level in the FSA loans programs. To become a Standard Lender, they must first demonstrate experience with managing and servicing farm loans. However these lenders may have less experience with the FSA loan application process and program.

To find a list of FSA's current preferred and standard lenders, you will need to talk to your local FSA loan office. FSA loan officers make this list available to farmers upon request.²³ <https://www.fsa.usda.gov/programs-and-services/farm-loan-programs/guaranteed-farm-loans/lender-types/index>

²² 762.101c Lender Classification

²³ 762.101b Lenders List

Combined Loan Limits, Participating Loans and Joint Financing

FSA has loan limits in place that put a maximum cap on certain types of loans, as was discussed in the Direct, Guaranteed and Emergency Loan sections. For example, the maximum amount that FSA can give as a Direct loan is \$300,000. That maximum applies to the limit for any single Direct Loan, but it is **also the maximum amount that a farmer can owe FSA for Direct Loans at any point in time**. For example: assume that you take out a loan in 2017 for \$300,00, and start to pay it off. By 2019 you have paid off \$100,000 of the loan, and still owe FSA \$200,000. If you were to apply for a new Direct Loan through FSA in 2019, you could only apply for a Direct loan up to \$100,000 – because you cannot owe FSA more than \$300,000 for Direct Loans at any point in time.²⁴

If your operation requires a loan larger than this, you may pursue what is referred to as a **joint financing arrangement**. You may be able to get an FSA Direct Loan for \$300,000 plus an FSA guaranteed loan through your private lender to make up the difference.

This approach may reduce the total amount you are asking from your private bank, making the loan package easier to approve. It may also have benefits because of lower interest rates for the FSA direct loan, which helps bring down the total interest you pay overall.

FSA Loan Limits – Maximum debt to FSA for a single loan, or total at any point in time:

Maximum loan limits are subject to change. The limits listed below were current as of the publication of this document in XX, 2017.

Type of Loan	Maximum Limit
Guaranteed Operating Loan	\$1,399,000
Direct Operating Loan	\$300,000
Guaranteed Farm Ownership Loan	\$1,399,000
Direct Farm Ownership Loan	\$300,000
Direct Emergency Loan	\$500,000
Operating Loans: Maximum for any combination of Direct and Guaranteed	\$1,399,000
Farm Ownership: Maximum for any combination of Direct and Guaranteed	\$1,399,000

²⁴ 764.253 & 764.102 Eligibility, General Limitations - 3FLP

Type of Loan	Maximum Limit
Operating Loan PLUS Farm Ownership Loan: Maximum possible (EX: \$300,000 Direct OL + \$1,399,000 Guaranteed FO)	\$1,699,000
Operating Loan PLUS Farm Ownership PLUS Emergency Loan: Maximum possible in any FSA Loan Combination. (EX: \$300,000 Direct OL + \$1,399,000 Guaranteed FO + \$500,000 EM)	\$2,199,000

The FSA loan application: Step by Step

If you have already tried to get a loan through your bank and have been refused, and you have already reviewed the eligibility criteria and know that you are eligible for an FSA Direct or Guaranteed loan, you are ready to apply. Keep in mind that the FSA loan options are tools to lower the risk of your bank, to make it more favorable for them to offer you the loan and thus open up your access to credit. FSA Guarantees do not lower *your* risk, if your business is struggling or if you are late on payments. In fact, FSA loans may open up an additional liability for you in the event of a default if your collateral doesn't cover the full amount of debt you owe.

Getting Help with your loan application

FSA loan officers are available and required by USDA to provide technical assistance to farmers if needed to help them complete application forms, and identifying sources of information required for the FSA application.²⁵ In addition to FSA loan officers, Cooperative Extension Agents and other farmer advocacy organizations and non-profits, such as RAFI-USA, are available to assist farmers in this process. Your local FSA loan officers may be able to direct you to additional resources for support in your area.

Once you are ready to apply, the process will look like this:

²⁵ 3FLP.P41

Step 1: Environmental Assessment (for new construction)

A critical step in the FSA Loan application process is to work with your FSA Loan Officer (or with your bank, if applying for an FSA Guaranteed Loan) to complete an Environmental Assessment of your operation. This will involve several steps, which may be different depending on the size, type, and location of your operation. The application form with a checklist of much of the information in the Environmental Assessment is available here: <https://www.rd.usda.gov/files/RD1940-20.pdf>

The first step is for your FSA Loan Officer to collect basic information about your operation, and conduct a pre-screening. For this step you may need to provide maps, estimates of total production, a contract or letter of intent, indications of production methods and other information to your Loan Officer.

As no FSA loans can be used for the manipulation of wetlands, part of the pre-screening is to determine if your operation is on high, dry ground, or may need further assessment before going forward. If your Loan Officer determines it necessary, either the Natural Resources Conservation Service or the Army Corps of Engineers or the will need to make a determination. You will need to apply for this assessment with their offices, and in some cases this process may take several months. You and your Loan Officer may continue on to additional steps in the application process.

Step 2: Historic Preservation (for new construction)

If it's deemed necessary, your FSA Loan Officer will send maps of your land to the Historic Preservation Office to ensure that your construction would not interfere with any protected areas. Their approval will be sent directly to your FSA loan manager, you do not need to apply yourself to the Historic Preservation Office.

Step 3: Fish and Wildlife (for new construction)

Depending on where your farm is located, your FSA Loan Officer may also need to notify the Fish and Wildlife Office to review the area regarding any possible disturbance of endangered species. Your loan officer will inform you if this is necessary, and what they will need to make this happen.

Step 4: Waste Management Plan CNMP

Whether you are building new construction or not, if your operation will have poultry or livestock you will need to supply a Comprehensive Nutrient Management Plan (CNMP) along with your application. This is often referred to as a “waste management plan.” This is a critical step that requires planning ahead. Large livestock and poultry operations can generate a large amount of waste. This can be an advantage if you are able to sell the waste for fertilizer, or if you can use it on your own fields. But excess or overflow waste can cause toxic problems for your land and your neighbors if neglected. It is critical that your CNMP be well planned.

CNMP – Comprehensive Nutrient Management Plan: You will need to demonstrate that you have a way to manage the large quantities of waste that your operation will generate. In most cases, this involves demonstrating that you have access to and control of enough land to spread the waste on, without risking over application. The amount that you can spread will be determined based on your local or statewide indexes. States will use different indexes – like the Nitrate or Phosphorus index – to assess how much waste you can spread on a given amount of land.

Ask your local Cooperative Extension agent or State Veterinarian for more information.

There are some tools available online to help farmers in developing your CNMP. Your local Extension agent may be able to direct you to additional resources. This website has some helpful information: <http://www.purdue.edu/agsoftware/mmp/>

Further steps may be required depending on the scale of your operation. Depending on how many animals will be on your farm, you may need to complete a process to collect public comment on establishing your operation. Contained animal feeding operations (CAFOs) are broken into three categories: Small CAFOs, Medium CAFOs, and Large CAFOs. If your operation will be small or medium, your FSA loan officer can supply a **supported categorical exclusion** to your operation, so you will not need to conduct a process for public comment. But if your operation will qualify as a Large CAFO, you will need to complete a process of collecting public comment on your operation for FSA to consider. You can find the classifications of CAFOs at this website:

<https://www.nrcs.usda.gov/wps/portal/nrcs/main/national/plantsanimals/livestock/afo/>

As of publication of this guide, **the following are the classifications for broiler operations:**

Small CAFO: less than 37,500 birds

Medium CAFO: 37,500 – 124,999 birds

Large CAFO: 125,000 birds

If you will be establishing a Large CAFO of more than 125,000 birds, you will need to obtain a **Finding Of No Significant Impact (FONSI)** from FSA before proceeding. This process includes posting information about your planned operation in a public newspaper or other news source, and allowing members of the public to submit comments to FSA. Your Loan Officer will collect these, and FSA will make a determination with consideration of the comments as to whether your application will proceed.

Step 5: Contract or Letter of Intent from Integrator

In order for FSA to give Direct loan, they must receive a copy of your contract or a letter of intent from your integrator stating certain conditions about the contract. If you are applying for a Direct loan from FSA, your contract must be for at least a 3-year duration at a minimum. In addition, your contract must guarantee either the number of birds and/or flocks necessary to maintain the income level projected in your cash flow for those 3 years. Ask for a copy of your contract and make sure that this information is clearly stated, and that your cash flow matches the guarantees in your contract. (See our section on developing a cash flow projection on page 26.)

In the case of Guaranteed loan, FSA technically has the same requirements as Direct loans, but the responsibility to ensure these are met is on the shoulders of your bank and not FSA. FSA will not specifically check the contract or ask for a letter of intent, but your bank should receive these documents. Your bank will sign an agreement that they have verified that these requirements are met by the integrator, and then FSA will issue their conditional commitment for the Guarantee.

Step 6: Repayment Ability and Farm Operating Plan

In order for your application to be successful, you must demonstrate that your plan is feasible. USDA has defined a “**feasible plan**” as being:

“A plan is considered feasible when an applicant or borrower's cash flow budget or farm operating plan indicates that there is sufficient cash inflow to pay all cash outflow. If a loan approval or servicing action exceeds one production cycle and the planned cash flow budget or farm operating plan is atypical due to cash or inventory on hand, new enterprises, carryover debt, atypical planned purchases, important operating changes, or other reasons, a cash flow budget or farm operating plan must be prepared that reflects a typical cycle. If the request is for only one cycle, a feasible plan for only one production cycle is required for approval.”²⁶

²⁶²⁶ 761.2 Abbreviations and Definitions

The assessment of feasibility is based on your Farm Plan. This is one of the most important sections in your application, and often one of the most difficult challenges for farmers.

If you have a history in farming at your current operation, you will use your current and previous production numbers to fill out your Farm Plan. If you do not have a history to draw on, you will need to use outside resources such as pro-forma estimates provided by the company or by a university to establish expected income and cash flow.

To complete this section of your application, you will fill out forms FSA 2037 and FSA 2038. Appendix 5 contains a sample farm plan for a poultry operation that takes into consideration the standard expenses and possible cash flow.

Step 7: Security Requirements

In your application, you must demonstrate that you meet the security requirements for the loan you are applying for. Keep in mind that the core requirement for all FSA loans is: you must put up collateral (securities) of at least 100% of the value of the loan you are applying for, and up to 150% if it is available, with some exceptions. For a more detailed description of security requirements see p.38.

Step 8: The approval process

After your application has been submitted, FSA will begin the review process. If your application was incomplete, FSA must notify you within 10 days of receiving your application.²⁷ As soon as you receive this notice, you will need to compile the missing information as quickly as possible. FSA will send two notices regarding incomplete applications. Ten days after the second notice, your application will be withdrawn if you do not send in the requested information.

If your application was complete, FSA will begin by reviewing first your eligibility, and then the feasibility of your plan. If they find that you do not meet the requirements for approving a loan (as described in earlier sections of this guide, p.33 - 41) you will receive a notice that your loan has been denied. If you meet all the requirements, your loan will be approved.

²⁷ 764.52 Processing incomplete application

Step 10: What to do if your loan is denied or changed

If your loan application is denied, you may be able to appeal the decision, but your options are very time sensitive. If you do not respond within the window of time given after your loan is denied, you will lose your appeal rights.

It is important to note that *decisions* made by FSA are appealable, but the *regulations* are not.²⁸ If your loan application was denied because you failed to turn in the \$16 fee for credit check, that is not appealable. That is a requirement in the regulations. But if your loan application was denied because FSA deemed that you did not have sufficient farming experience based on the documentation you provided, you would be able to request reconsideration, and if that is not successful, to appeal the decision with the National Appeals Division, providing additional documentation if necessary.

If FSA denies your loan, you will receive what is referred to as an adverse decision letter or a denial. This letter will contain an explanation of your options in the appeals process. Refer to your letter for more specific information in your case.

In general, the options you have are:²⁹

- 1) You may **request a reconsideration meeting** with the FSA decision maker. You must make this request usually within 30 days of the date you receive the decision letter. At the meeting, you can present additional documentation or information to explain why you believe they reached their decision in error.
- 2) If the decision does not change, you will be notified and will have 30 days to **request mediation** and/or appeal. *Note that during mediation, the 30-day clock stops but does NOT reset.* If you request mediation on day 28 after receiving your notice from the reconsideration meeting, and you are unsatisfied with the outcome of mediation, you will only have 2 more days to file for an appeal. If you want to pursue mediation or appeal, do so quickly! **Mediation** is a process of resolving a disagreement. A trained, neutral mediator is appointed to help two parties consider all available options and attempt to agree on a solution. If your state has a mediation program that is approved by the USDA, this agency will participate in the mediation. Contact your local FSA office to find out who the approved mediators in your area are.
- 3) If you are unsatisfied with the outcome of mediation, you can **appeal the FSA decision**. An **Appeal** is a process in which you present evidence to USDA's National

²⁸ 7 CFR Part 11

²⁹ 7 CFR Part 78

Appeals Division to show that the agency's decision is wrong. To file an appeal, you must request an appeal postmarked no later than 30 days after your denial or adverse decision letter. You should mail your request for an appeal to:

**National Appeal Division,
PO Box 1508
Cordova, TN 38088**

You have the right to not be discriminated against. The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the base of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract), because all or part of the applicant's income derives from any public assistance program.

If you feel that the adverse decision in your case was made on a basis of discrimination, you may want to reach out to a farmer advocate, or someone who can help you make your case in the mediation and appeals process. Contact RAFI's Farmer Advocacy staff for more information and referrals: 919-542-1396.



Keeping up with Loan Obligations

If your loan is approved, depending on the type of loan, you will have certain responsibilities to keep up with during the duration of your loan. For example, if you have a term loan that is several years long and is based on securities, you will have several responsibilities for maintaining those securities. Failure to do so could cause you to enter Non-Monetary Default, which happens when a borrower fails to comply with their obligations under the loan agreement, and can result in foreclosure or FSA laying claim to the assets put up as collateral. Therefore, it is critically important to fully understand your obligations, and keep up with any check-ins with FSA that are required during the term of your loan. Common obligations that most borrowers must comply with while paying back FSA loans include (but are not limited to):

- You must pay any necessary fees required by the agency for lien search reports, or for executing, filing or recording financial statements, credit checks, or other fees. Failure to pay fees on time from the start of the process can constitute valid denial of loan application.
- You must maintain and protect your collateral securities. This means taking proper care of equipment and structures. If your security is chattel, such as breeder stock, you must allow FSA to inspect and account for the animals. You must allow FSA access to your property in order to inspect and account for securities.
- You must pay any and all taxes on property and security.
- **IMPORTANT:** You also must maintain insurance coverage as specified by FSA in your loan agreement. This may include general hazard insurance, crop insurance, or other forms of insurance depending on your operation and type of loan. Many farmers do not realize that a failure to maintain consistent insurance coverage can result in non-monetary default and put them at risk of losing their assets.³⁰

³⁰ 765.202, Servicing the Loan

Trouble Repaying your Loan: Restructuring and Default

Depending on your situation and what your trouble is, different types of restructuring may be available to you to reduce your payments and help your operation cash flow:

Consolidation – this is the combining of your loans into a single larger loan with a single payment and, possibly, different repayment terms. Consolidation could reduce your monthly debt payment to a more manageable amount.

Rescheduling – a type of loan restructuring where a new loan, with a balance equal to the outstanding balance of the “old” loan, replaces the “old” loan, with new repayment terms and usually a lower payment amount.

Deferment – the lender agrees to temporarily reduce or suspend your principal debt payment obligations, but not interest payment obligations. At the end of the deferment period, you are required to resume making full mortgage payments. You may also hear the term “**forbearance**” used, which describes a similar, but different process.

Interest rate reduction – a reduction in the stated interest rate for the remaining original life of the debt.

Write down – a lender reduces the value of the principal owed on a mortgage, when the value of said mortgage exceeds the value of the property mortgaged by the loan.

Conservation contract – the farm is placed under a management plan for conservation, recreation, and wildlife purposes. The land may not be used for agricultural purposes during the life of the contract. Only certain lands are eligible, and are subject to terms and plans appropriate to the land.

What to do first if you are having trouble making payments

If you are having trouble keeping up with your loan repayment schedule for any reason, remember that communication with your loan officer or with your lender is very important. Being proactive in assessing your situation and your options is key, and can save you thousands of dollars in the long run. If you would like help reviewing your finances and considering your options, you may want to contact a Farmer Advocate. You can contact RAFI's Farmer Advocacy team by calling: 919-542-1396 and selecting the options to speak to members of our Contract Agriculture Reform Program.

What Happens if Your Loan Goes Bad

If you are unable to repay your loan on time, you may go into Default.

If your loan is still fully collateralized, when your loan goes bad the bank or FSA will move to **foreclose** on your properties or liquidate your assets that are part of your collateral. From the first notice of your default, the bank will specify a certain amount of time before they begin to liquidate securities. **If you have received a notice, you should contact a Farmer Advocate and/or an attorney to understand your rights and responsibilities.**

If the bank or FSA has liquidated your available securities, and there is still debt that remains, there may be the possibility of seeking a **debt settlement agreement**. Debt settlement is the process of negotiating with creditors to reduce overall debts in exchange for a lump sum payment. In a successful settlement, the bank or lender agrees to reduce a percentage of the overall debts. A farmer advocate can help you assess the possibility of a debt settlement. Contact RAFI's Farmer Advocacy team by calling: 919-542-1396 and selecting the options to speak to members of our Contract Agriculture Reform Program.

Even if you are able to reach a settlement, if you still owe on your loan after the liquidation of assets this may become a lasting **federal debt**. If your loan was a Guaranteed Loan, after liquidation FSA will pay your bank back up to 90% of the remaining debt. Your bank is obligated by their agreement with FSA to pursue the other 10%, by trying to collect it from you in collections. Your bank is unable legally to write off or forgive your debt, even in bankruptcy.

It is very important to realize that in the application process, you acknowledge that if you default on the FSA Direct or Guaranteed loan, the default amount may transfer into a direct federal debt. A federal debt may be collected through the garnishing of wages, tax returns, social security and other means.

In Conclusion:

Taking out a loan is a large responsibility with significant risk. It can be a step to a new future for your farm and your family, but you must make this decision carefully and weigh all your options first. If you have additional questions or would like assistance in considering your options, contact RAFI's Farmer Advocacy team by calling: 919-542-1396 and selecting the options to speak to members of our Contract Agriculture Reform Program.

Appendix 1: Cash Flow Worksheet

This worksheet can help you get started estimating your cash flow for your operation. This is set up to compare your income and your expenses for a poultry operation over 1 year. If your income is likely to change in the future (due to changing housing tiers, contract type, bird size, number of houses, etc.) make sure you develop a cash flow projection for that time period as well.

To make sure your cash flow and projected income will be enough to cover your bills, complete the following steps:

Develop a cash flow projection for 1 year using the exact income projection as stated in company materials.

Develop secondary cash flow projections for the same year, changing the variables that are not guaranteed in your contract. This allows you to look at what would happen to your income in a year if you had the following scenarios:

- 1 less flock in a year as a result of longer layouts, disease, slowing of production
- Loss of housing premium, lower tier payment (depending on contract)
- Decrease in bird density (ex: if going antibiotic free, or slowing of production)

If your contract uses tournament payment, develop 2 additional cash flow projections for the same year, changing your pay-per-pound annual average to reflect a low tournament performance (lower than base pay) and high tournament performance (higher than base pay).

Remember that any of these scenarios are possible, and multiple scenarios could happen at once. If your cash flow projection is only positive in the first step, or when using the above base pay estimate, that is a sign that this business may be too high risk for you. You are likely to find yourself losing money. If you have a positive cash flow even in less ideal scenarios and even at times of a lower than base pay performance, you will have more security in covering your expenses.

INCOME (poultry operation only)	Previous year total	Jan – Feb	March – April	May – June	July – Aug	Sept – Oct	Nov – Dec	Total Projected
Contract income estimate								
Litter sales where possible*								
Gov. payments (EQIP, other)								
TOTALS:								

** You may be able to use litter as a fertilizer on your farm. The ability to sell your litter is not guaranteed. It depends on the market in your area. Ask other farmers about their experience before estimating income for litter sales.*

EXPENSES (poultry operation only)	Previous year total	Jan – Feb	March – April	May – June	July – Aug	Sept – Oct	Nov – Dec	Total Projected
Debt or loan payment(s) & assignments								
Fees or bank costs								
Repairs, maintenance								
Labor (hired - \$)								
Labor (yours)**								
Land (rent or value)								
Fuel								
Utilities								
Water or well maintenance								
Insurance (farm owner's, collapse, income, health)								
Litter management								
Shavings								
Generator								
Booster pumps								
Medicator								
Carcass disposal (composter, freezers, incinerator, etc.)								
Caking equipment								
Tractor, front-end loader, blade								
Manure spreader								
Wash sprayer								
Mower & trimmers								
Road fill & grading								
Pest & rodent control								
TOTALS:								

Cash flow projection:

Put in totals from completed sections above:	Previous year	Jan – Feb	March – April	May – June	July – Aug	Sept – Oct	Nov – Dec	Total Projected
INCOME totals								
EXPENSE totals								
Cash flow: (INCOME total minus EXPENSE total)								

*** Labor: Some may choose not to include your own labor as an expense in establishing cash flow for your poultry operation, assuming that net income will represent your return to labor. If you omit labor as an expense in the projection, you may find yourself working for negative returns down the road. It is standard practice in business planning to include labor as an expense. To determine a value, estimate the number of hours you will work for each period and multiply by at least minimum wage.*

Appendix 2: State Regulatory Agencies

- **Alabama**
Alabama Dept. of Agriculture & Industries
800-642-7761
334-240-7100
<http://agi.alabama.gov/>

Alabama State Veterinarian
334-240-7255 ext. 1
334-240-7253
<http://www.agi.alabama.gov/divisions/animal-health#contact>
- **Arizona**
Arizona Dept. of Agriculture, Meat and Poultry
602-542-4373
<https://agriculture.az.gov/category-terms/meat-and-poultry>
Arizona State Veterinarian
602-542-4293
<https://agriculture.az.gov/office-state-veterinarian>
- **Arkansas**
Arkansas Livestock and Poultry Commission
501-225-1598
<http://www.aad.arkansas.gov/arkansas-livestock-and-poultry-commission>
Arkansas State Veterinarian
501-907-2400
- **California**
California Dept. of Agriculture
916-654-0466
<https://www.cdfa.ca.gov/ahfss/>
California State Veterinarian
916-900-5000
- **Colorado**
Colorado Dept. of Agriculture
303-869-9130
<https://www.colorado.gov/pacific/aganimals>
Colorado State Veterinarian
Keith.Roehr@state.co.us
- **Connecticut**
Connecticut Dept. of Agriculture
860-713-2500
<http://www.ct.gov/doag/site/default.asp>
Connecticut State Veterinarian
860-713-2505
<http://www.ct.gov/doag/cwp/view.asp?a=1367&Q=259102&doagPNavCtr=|#39911>
- **Delaware**
Delaware Dept. of Agriculture, Poultry & Animal Health

302-698-4500

<http://dda.delaware.gov/poultryah/index.shtml>

Delaware State Veterinarian

heather.hirst@state.de.us

- **Florida**

Florida Dept. of Agriculture and Consumer Services

800-435-7352

<http://www.freshfromflorida.com/Divisions-Offices/Animal-Industry>

Florida State Veterinarian

850-410-0900

- **Georgia**

Georgia Dept. of Agriculture

404-656-3600

<http://agr.georgia.gov/animal-industry-division.aspx>

Georgia State Veterinarian

404-656-3671

<http://agr.georgia.gov/livestock-poultry.aspx>

- **Idaho**

Idaho Dept. of Agriculture

208-332-8540

<http://www.agri.idaho.gov/AGRI/Categories/Animals/animalHealth/indexhealthmain.php>

Idaho State Veterinarian

bill.barton@agri.idaho.gov

- **Illinois**

Illinois Dept. of Agriculture

217-524-6858

<https://www.agr.state.il.us/animals>

Illinois State Veterinarian

217-782-4944

- **Indiana**

Indiana State Board of Animal Health

317-544-2400

<http://www.in.gov/boah/index.htm>

Indiana State Veterinarian

bmarsh@boah.in.gov

- **Iowa**

Iowa Dept. of Agriculture

515-281-5321

<http://www.iowaagriculture.gov/animals.asp>

Iowa State Veterinarian

515-281-8601

<http://www.iowaagriculture.gov/animalIndustry.asp>

- **Kansas**

Kansas Dept. of Agriculture

785-564-6700

<http://agriculture.ks.gov/divisions-programs/meat-and-poultry-inspection>

Kansas State Animal Health Commissioner
785-564-6616

- **Kentucky**
Kentucky Dept. of Agriculture
502-573-0282
<http://www.kyagr.com/statevet/livestock-and-poultry.html>
Kentucky State Veterinarian
502-573-0282 opt. 3
- **Louisiana**
Louisiana Dept. of Agriculture
225-922-1234
<http://www.ldaf.state.la.us/animal-health/poultry-egg-programs/>
Louisiana State Veterinarian
225-925-3962
<http://www.ldaf.state.la.us/animal-health/veterinary-health-division/>
- **Maine**
Maine Dept. of Agriculture
207-287-3200
http://www.maine.gov/dacf/ahw/animal_health/index.shtml#contact
Maine State Veterinarian
207-287-7615
- **Maryland**
Maryland Dept. of Agricultural Resources
410-841-5700
http://www.maine.gov/dacf/ahw/animal_health/index.shtml#contact
Maryland State Veterinarian
410-841-5810
- **Massachusetts**
Massachusetts Dept. of Agricultural Resources
617-626-1000
<http://www.mass.gov/eea/agencies/agr/animal-health/poultry/>
Massachusetts State Veterinarian
617-626-1795
- **Michigan**
Michigan Dept. of Agriculture
800-292-3939
http://www.michigan.gov/mdard/0,4610,7-125-1572_2875_31943---,00.html
Michigan State Veterinarian
averillj1@michigan.gov
- **Minnesota**
Minnesota Dept. of Agriculture
651-201-6000
<http://www.mda.state.mn.us/animals/livestock.aspx>
Minnesota State Veterinarian
651-296-2942
<https://www.bah.state.mn.us/>

- **Mississippi**
Mississippi Dept. of Agriculture
601-359-1100

Mississippi State Veterinarian
601-359-1170
<http://www.mbah.state.ms.us/>
- **Missouri**
Missouri Dept. of Agriculture
573-751-4211
<http://agriculture.mo.gov/animals/>
Missouri State Veterinarian
573-751-3377
<http://agriculture.mo.gov/animals/health/staff.php>
- **Montana**
Montana Dept. of Agriculture
406-444-3144
<http://liv.mt.gov/default.mcp>
Montana State Veterinarian
406-444-2043
- **Nebraska**
Nebraska Dept. of Agriculture
402-471-2341
<http://www.nda.nebraska.gov/animal/index.html>
Nebraska State Veterinarian
402-471-2351
- **Nevada**
Nevada Dept. of Agriculture
775-353-3601
http://agri.nv.gov/Animals/Animal_Home/
Nevada State Veterinarian
775-738-8076
[http://agri.nv.gov/Resources/Staff_Listings/Animal_Industry - Staff_Listing/](http://agri.nv.gov/Resources/Staff_Listings/Animal_Industry_-_Staff_Listing/)
- **New Hampshire**
New Hampshire Dept. of Agriculture
603-271-3551
<http://www.agriculture.nh.gov/divisions/animal-industry/>
New Hampshire State Veterinarian
603-271-2404
<https://www.agriculture.nh.gov/contact/staff.htm>
- **New Jersey**
New Jersey Dept. of Agriculture, Animal Health
609-671-6400
<http://www.nj.gov/agriculture/divisions/ah/>
New Jersey State Veterinarian
manoel.tamassia@ag.state.nj.us
<http://www.nj.gov/agriculture/divisions/ah/about/contacts.html>

- **New Mexico**
575-646-3007
<http://www.nmda.nmsu.edu/>
New Mexico State Veterinarian
505-841-6161
<https://www.nmlbonline.com/animalhealth>
- **New York**
New York Dept. of Agriculture and Markets
518-457-3880
<https://www.agriculture.ny.gov/AI/Alpoultry.html>
New York State Veterinarian
518-457-3502
<https://www.agriculture.ny.gov/AI/AlHome.html>
- **North Carolina**
North Carolina Dept. of Agriculture and Consumer Markets
919-707-3180
<http://www.ncagr.gov/meatpoultry/>

North Carolina State Veterinarian
919-733-7601
<http://www.ncagr.gov/vet/poultry/index.htm>
- **North Dakota**
North Dakota Dept. of Agriculture
701-328-2231
<https://www.nd.gov/ndda/program/poultry>
North Dakota State Veterinarian
701-328-2657
<https://www.nd.gov/ndda/program/animal-health>
- **Ohio**
Ohio Dept. of Agriculture
614-728-6220
<http://www.agri.ohio.gov/animal/>

Ohio State Veterinarian
tforshey@agri.ohio.gov
- **Oklahoma**
Oklahoma Dept. of Agriculture, Food and Forestry
405-521-3864
<http://www.oda.state.ok.us/food/poultry.htm>
Oklahoma State Veterinarian
405-522-6141
<http://www.oda.state.ok.us/ais/>
- **Oregon**
Oregon Dept. of Agriculture
503-986-4550
<https://www.oregon.gov/ODA/programs/AnimalHealthFeedsLivestockID/AnimalImportExport/Pages/Poultry.aspx>
Oregon State Veterinarian
503-986-4680
<https://www.oregon.gov/ODA/programs/AnimalHealthFeedsLivestockID/Pages/AboutAHID.aspx>

- **Pennsylvania**
 Pennsylvania Dept. of Agriculture
 717-787-4737
<http://www.agriculture.pa.gov/Protect/AHDCommission/Pages/default.aspx>
 Pennsylvania State Veterinarian and Director
 717-772-2852
<http://www.agriculture.pa.gov/Protect/AHDServices/Pages/default.aspx>
- **Rhode Island**
 Rhode Island Dept. of Environmental Management, Division of Agriculture
 401-222-2781 ext. 4500
<http://www.agriculture.pa.gov/Protect/AHDServices/Pages/default.aspx>
 Rhode Island State Veterinarian
scott.marshall@dem.ri.gov
- **South Carolina**
 South Carolina Dept. of Agriculture
 803-734-2210
<http://agriculture.sc.gov/>

 South Carolina State Veterinarian
 803-788-2260
<http://www.clemson.edu/public/lph/>
- **South Dakota**
 South Dakota Dept. of Agriculture
 1-800-228-5254
<http://sdda.sd.gov/>
 South Dakota State Veterinarian
 605-773-3321
dustin.oedekoven@state.sd.us
- **Tennessee**
 Tennessee Dept. of Agriculture
 615-837-5299
<https://www.tn.gov/agriculture/article/ag-farms-livestock-resources-poultry>
 Tennessee State Veterinarian
 615-837-5120
<https://www.tn.gov/agriculture/article/ag-businesses-statevet>
- **Texas**
 Texas Dept. of Agriculture
 512-463-7476
<https://www.texasagriculture.gov/Home/ProductionAgriculture.aspx>
 Texas State Veterinarian and Executive Director
 512-719-0704
<http://www.tahc.state.tx.us/>
- **Utah**
 Utah Dept. of Agriculture and Food
 801-538-4943
<http://ag.utah.gov/food-safety-consumers/egg-poultry-grading.html>
 Utah State Veterinarian
 801-538-7162
<http://ag.utah.gov/divs-progs/27-about-udaf/375-animal-industry-division.html>

- **Vermont**
 Vermont Agency of Agriculture
 802-828-2421
http://agriculture.vermont.gov/animal_health
 Vermont State Veterinarian
 802-828-2426
http://agriculture.vermont.gov/animal_health/animal_regulations
- **Virginia**
 Virginia Dept. of Agriculture and Consumer Services
 804-786-3501
<http://www.vdacs.virginia.gov/animals-meat-and-poultry.shtml>
 Virginia State Veterinarian
 804-692-0601
<http://www.vdacs.virginia.gov/about-division-of-animal-and-food-industry-services.shtml>
- **Washington**
 Washington State Dept. of Agriculture
 360-902-1800
<http://agr.wa.gov/Portals/An/>

 Washington State Veterinarian
 360-902-1878
<http://agr.wa.gov/FoodAnimal/AnimalHealth/>
- **West Virginia**
 West Virginia Dept. of Agriculture
 304-558-3550
<http://www.agriculture.wv.gov/divisions/regulatoryandenvironmental/Moorefield/Pages/Poultry.aspx>
[X](#)

 West Virginia State Veterinarian / Director of Animal Health
 304-538-2397 or 304-558-2214
<http://www.agriculture.wv.gov/divisions/animalhealth/Pages/Contacts.aspx>
- **Wisconsin**
 Wisconsin Dept. of Agriculture, Trade, and Consumer Protection
 608-224-5012
<https://datcp.wi.gov/Pages/Farmers.aspx>
 Wisconsin State Veterinarian and Administrator of the Division of Animal Health
 608-224-4872
<https://datcp.wi.gov/Pages/Farmers.aspx>
- **Wyoming**
 Wyoming Dept. of Agriculture
 307-777-7321
<http://wyagric.state.wy.us/divisions/chs/meat-a-poultry-program>
 Wyoming State Veterinarian
 307-777-7515
<https://wlsb.state.wy.us/public/animal-health>

Appendix 3: Questions to Ask Before Signing a Poultry Contract

1. How much do I **really** know about poultry farming?
Have you worked on a poultry farm? How much do you know about the costs/bills of a poultry farm?
2. Do I have a copy of my contract I can review **before** I borrow money?
Did the company give you a copy of your contract to review before borrowing money?
3. Are **all** company promises outlined in my contract?
Understand, **only** obligations outlined in the contract are guaranteed. Employee verbal commitments are not legally binding.
4. Have I consulted an **attorney** to explain my contract to me?
These contracts are written by company lawyers, so you should find your own to look out for you.
5. How much **collateral** are you being asked to secure the borrowed funds?
What are you being asked to use as collateral for this debt? How would you pay for this debt if you weren't poultry farming? Are you willing to lose your collateral, land, home etc.?
6. What is **the length** of your contract and **the terms**?
What are the conditions under which your contract could be terminated? Is your contract "flock-to-flock?"
7. What is the length of your debt payment? If your contract is terminated before finishing your debt payment, who is responsible for your remaining debt?
8. What is the company entitled to change under your contract? What are your options if you are **not satisfied** with the company changes?
9. How does your contract handle **equipment upgrades**? How much do these upgrades generally cost? Will you have to borrow more money to complete these upgrades?
10. Does your contract guarantee a **minimum** income per year? Does your contract account for inflation or increased production costs? What if your flock placement or density were to change?
11. Are you compensated for **"Acts of God," disease, or other disaster**? Is there insurance available in your area?

12. Is your contract pay system a “**square-footage**” contract? Is there “**performance pay**” or a “**tournament**” ranking system? How do these pay mechanisms affect your income? How much can your pay vary under these pay schemes?
13. Does the company guarantee the **quality** of its inputs? Are all feeds, chicks, medication, etc. the same? How can you verify this quality?
14. Does the company comply with its legal duty to allow you to **view the weighing**?
15. Does your contract outline a **grievance** or **dispute resolution** procedure? Can you appeal that decision?

Most Importantly!

16. Have you talked to a **current** poultry farmer? How many have you talked with? What do they think of the business? Would they borrow money to start a new farm? Would they recommend poultry farming to the children?

After answering all these questions, in detail, you should have enough information to make a decision.

Also, please use our expanded guide, *Questions to Ask Before Signing a Poultry Contract*, available online at:

http://www.flaginc.org/wp-content/uploads/2013/03/PoultryQuestionsRAFIFLAG_2005.pdf

Appendix 4: Sample Pro forma Cash Flow and Cost Estimates

This appendix contains several examples of cash flow estimates. As we discuss throughout this guide, it is critically important that you take the time to figure out what your cash flow situation would be in different scenarios – when things are exactly as the company predicts, and when things change.

The first cost/income estimate in this section (Example A) comes directly from materials provided to farmers by North Carolina-based poultry companies in 2017.

Following Example A, in Examples B – G, we have made adjustments to the numbers provided by the company in Example A to reflect real farmer experiences, and different possible scenarios.

How to use this Appendix: We encourage you to read through these examples to get an idea of how much your income and cost can vary from the estimates provided to you by your company. These examples will highlight how much your income may change if factors in your contract change, such as the number of flocks or your performance in the tournament.

If your company provides pro forma estimates, we strongly encourage you to develop the same cash flow scenarios based on those estimates as we have in this appendix. This will give you a better idea of the full range of possible income and expenses that you are facing.

EXAMPLE A: Actual Company Provided Estimates

Contract type: Small Bird

Houses: 4 houses, 42ft x 500ft, 21,000 sq. ft. each

Total sq. ft. capacity: 84,000

Total bird capacity: 119,600

Flocks per year: 6.4 (NOTE: The total number of flocks per year is *not guaranteed* in the contract and may change from year to year.)

Estimated Construction Cost:

Houses (\$93,000 each)	\$372,000.00
Equipment (\$83,000 each)	\$332,000.00
Grade, Fills & Permits	\$36,000.00
Wells, pumps, wiring & plumbing above ground	\$19,000.00
In-house electrical (\$18,000)	\$72,000.00

each)	
Outside electrical & plumbing (\$4,000 each)	\$16,000.00
Generator, 30kw per house	\$36,000.00
Alarm system	\$5,000.00
Utility hookup	\$5,000.00
Gravel for lanes & load out	\$15,000.00
Composter/incinerator	\$12,000.00
Misc.	\$10,000.00
SUBTOTAL	\$930,000.00
Construction interest	\$16,000.00
Loan origination/closing cost, attorney fees, title insurance etc.	\$20,000.00
TOTAL EST. CONSTRUCTION COST	\$966,000.00

Estimated Operating Expenses (Costs of production) Per Year

Electric (\$0.19/sq. ft.)	\$15,960.00
Insurance (\$0.04/sq. ft.)	\$3,400.00
Clean out/shavings	\$750.00
Crust out	\$2,950.00
Property taxes	\$5,440.00
Repairs, misc. (\$0.03/sq. ft.)	\$2,500.00
PLT, Insecticide (\$0.06/sq. ft.)	\$5,400.00
TOTAL EST. OPERATING EXPENSE/ YEAR	\$36,400.00

Estimated Income Per House, based on:

Chick placement Number: 30,000 x house (Total chick placement is *not guaranteed* in the contract and may change from flock to flock.)

Livability: 0.965 (Livability will change from flock to flock depending on impact of disease, feed quality, management and other factors)

Birds Sold: 28,950

Avg wt: 4.35 (Average weight of birds will change slightly between flocks depending on when your birds are picked up)

Pounds sold per house: 125,933

Base pay: 0.0480

Pay per pound (Base pay +/- Settlement Cost): 0.0480*

Flock pay per house: \$6,045

+ Housing relevant premiums for housing type (estimated \$249.9) and sign-on supplements for the first five years, this flock pay estimate came to **\$6,414.55, PRE TAX.**

(Not all integrators offer tiered premiums for housing or supplement payments. Each company structures their pay calculations a little differently. Make sure you understand what factors impact your pay each flock.)

In this case, the company is using the **base pay** to calculate this estimate. This is a reasonable average. However, because of the way tournament payment works, in every flock roughly ½ of farmers grouped together in a pool will make less per pound than the base pay, and ½ will make more per pound. It is important to realize this. The flock pay per house here is an estimate based on average ranking in the tournament, and not a minimum or guaranteed base per flock. Roughly ½ of the farmers in the tournament will make less than this estimate per house for this flock.

Based on these factors, the company documents state that the estimated Net PRE TAX Cash Flow for this operation would look like this:

Year	Year 1-5	Year 6-15
Estimated Contract Income (Gross)	\$164,212.48	\$160,555.10
Net income after estimated annual principal & interest payments & estimated expenses	\$33,144.28	\$29,467.10

EXAMPLES B-G: Adjusting the Company Provided Estimates

In the following examples, we take the information provided in Example A above, and develop cash flow scenarios based on actual farmer experiences. This allows us to see how resilient the farm business will be when things change.

Also, we include fixed investment costs and cash flow estimates created by the University of Maryland extension office. The U. of Maryland extension estimates provide another reference source to compare the costs of operating a poultry farm. First, we will provide a pro forma which more accurately reflects the costs a farmer can typically expect to pay in the course of operating a poultry farm (Example B). Next, we provide the estimates for a high-performance flock, a low-performance flock, a flock with disease outbreak, and the

two estimates from the U. of Maryland extension office. In creating Examples C-E, we use the expanded cost estimates from Example B as the basis for farm operating costs. We do this to better illustrate the real-world situations farmers have experienced.

Example B. Expanded Company Provided Estimates

Contract type: Small Bird

Houses: 4 houses, 42ft x 500ft, 21,000 sq. ft each

Total sq. ft capacity: 84,000

Total bird capacity: 119,600

Flocks per year: 6.4 (The total number of flocks per year is not usually guaranteed in the contract and may change from year to year. If you are applying for an FSA loan, FSA requires that the contract be a minimum of 3 years, and that during that 3 years the contract must guarantee the number of birds or flocks necessary in order to maintain income projected in the loan application. Check your contract for this information.)

Estimated Construction Cost:

Houses (\$93,000 each)	\$372,000.00
Equipment (\$83,000 each)	\$332,000.00
Grade, Fills & Permits	\$36,000.00
Wells, pumps, wiring & plumbing above ground	\$19,000.00
In house electrical (\$18,000 each)	\$72,000.00
Outside electrical & plumbing (\$4,000 each)	\$16,000.00
Generator, 30kw per house	\$36,000.00
Alarm system	\$5,000.00
Utility hookup	\$5,000.00
Gravel for lanes & load out	\$15,000.00
Composter/incinerator	\$12,000.00
Misc.	\$10,000.00
SUBTOTAL	\$930,000.00
Construction interest	\$16,000.00
Loan origination/closing cost, attorney fees, title insurance etc.	\$20,000.00
TOTAL EST. CONSTRUCTION COST	\$966,000.00

Estimated Operating Expenses (Cost of Production) Per Year

Electric (\$0.19/sq. ft)	\$15,960.00
Heating Fuel	\$15,000.00*
Insurance (\$0.04/sq. ft.)	\$3,400.00
Clean out/shavings	\$750.00**
Shavings/sawdust	\$4,500.00*
Equipment fuel	\$2,500.00*
Crust out	\$2,950.00
Property taxes	\$5,440.00
Repairs, misc. (\$0.03/sq. ft.)	\$2,500.00
PLT, Insecticide (\$0.06/sq. ft.)	\$5,400.00
Pest & rodent control	\$300.00*
Hired Labor	\$18,000.00*
Equipment repairs & maint.	\$3,000.00*
EXPANDED TOTAL EST. OPERATING EXPENSE/YEAR	\$79,700.00*

*Expenses added from real-world farmer experiences.

**This figure has been discussed as variable depending on the use of the shavings. Used shavings could be sold, used on farm, or exchanged with neighboring farmers for clean out performed. Therefore, this figure should be researched individually.

Up-Front Fixed Expenses: When starting a poultry farm, there are fixed investments you can expect to make. For example, you can expect to need a wash sprayer for your poultry farm. The total purchase price of that wash sprayer is roughly \$5,000. However, these costs would not be reflected in your yearly operating expenses as they are one-time investments necessary to operate the farm. The following list of fixed investments is not all inclusive, but does include some of the most commonly needed items for poultry farming. These investments **HAVE NOT** been added into the estimated yearly operating costs, and should be considered separately when estimating the farm's cash flow.

Fixed-Intermediate Investments:

Wash Sprayer	\$5,000	Useful Life
Caking equipment	\$15,000	5 years
Tractor w/ front-end loader & mower	\$45,000	7-10 years
Manure storage & composting shed	\$2,500	20+ years
Total:	\$67,500	Life of Facility

Estimated Income Per House, based on:

Chick placement Number: 30,000 x house (Total chick placement is not guaranteed in the contract and may change from flock to flock.)

Livability: 0.965 (Livability will change from flock to flock depending on impact of disease, feed quality, management and other factors)

Birds Sold: 28,950

Avg wt: 4.35 (Average weight of birds will change slightly between flocks depending on when your birds are picked up)
Pounds sold per house: 125,933

Base pay: 0.0480
Pay per pound (Base pay +/- Settlement Cost): 0.0480*
Flock pay per house: \$6,045

+ Housing relevant premiums for housing type (estimated \$249.9) and sign-on supplements for the first five years, this flock pay estimate came to **\$6,414.55, PRE TAX.**

(Not all integrators offer tiered premiums for housing or supplement payments. Each company structures their pay calculations a little differently. Make sure you understand what factors impact your pay each flock.)

In this case, the company is using the **base pay** to calculate this estimate. This is a reasonable average. However, because of the way tournament payment works, every flock roughly ½ of the farmers who are grouped together in a pool will make less per pound than this base pay, and ½ will make more per pound. It is important to realize this. The flock pay per house here is an estimate based on average ranking in the tournament, and not a minimum or guaranteed base per flock. Roughly ½ of the farmers in the tournament will make less than this estimate per house for this flock.

Based on these factors, the farmer estimated Net PRE TAX Cash Flow for this operation would look like this:

Year	Year 1-5	Year 6-15
Estimated contract income (Gross)	\$164,212.48	\$160,555.10
Est. yearly principal & interest payment	\$94,668.20	\$94,668.20
Expanded est. yearly operating expenses	\$79,700.00	\$79,700.00
Net income after estimated annual principal & interest payments & expanded estimated expenses	\$-10,155.72	\$-13,813.10

Example C. High-Performance Estimates

Contract type: Small Bird

Houses: 4 houses, 42ft x 500ft, 21,000 sq. ft each

Total sq. ft capacity: 84,000

Total bird capacity: 119,600

Flocks per year: 6.4 (The total number of flocks per year is not usually guaranteed in the contract and may change from year to year. If you are applying for an FSA loan, FSA requires that the contract be a minimum of 3 years, and that during that 3 years the contract must guarantee the number of birds or flocks necessary in order to maintain income projected in the loan application. Check your contract for this information.)

Estimated Construction Cost:

Houses (\$93,000 each)	\$372,000.00
Equipment (\$83,000 each)	\$332,000.00
Grade, Fills & Permits	\$36,000.00
Wells, pumps, wiring & plumbing above ground	\$19,000.00
In house electrical (\$18,000 each)	\$72,000.00
Outside electrical & plumbing (\$4,000 each)	\$16,000.00
Generator, 30kw per house	\$36,000.00
Alarm system	\$5,000.00
Utility hookup	\$5,000.00
Gravel for lanes & load out	\$15,000.00
Composter/incinerator	\$12,000.00
Misc.	\$10,000.00
SUBTOTAL	\$930,000.00
Construction interest	\$16,000.00
Loan origination/closing cost, attorney fees, title insurance etc	\$20,000.00
TOTAL EST. CONSTRUCTION COST	\$966,000.00

Estimated Operating Expenses (Cost of Production) Per Year

Electric (\$0.19/sq. ft)	\$15,960.00
Heating Fuel	\$15,000.00*
Insurance (\$0.04/sq. ft)	\$3,400.00
Clean out/shavings	\$750.00**
Shavings/sawdust	\$4,500.00*

Equipment fuel	\$2,500.00*
Crust out	\$2,950.00
Property taxes	\$5,440.00
Repairs, misc (\$0.03/sq. ft)	\$2,500.00
PLT, Insecticide (\$0.06/sq. ft)	\$5,400.00
Pest & rodent control	\$300.00*
Hired Labor	\$18,000.00*
Equipment repairs & maint.	\$3,000.00*
EXPANDED TOTAL EST. OPERATING EXPENSE/ YEAR	\$79,700.00*

*Expenses added from real-world farmer experience

**This figure has been discussed as variable depending on the use of the shavings. Spent shavings could be sold, used on farm, or exchanged with neighboring farmers for clean out performed. Therefore, this figure should be researched individually.

Note: When starting a poultry farm, there are fixed investments you can expect to make. For example, you can expect to need a wash sprayer for your poultry farm. The total purchase price of that wash sprayer is roughly \$5,000. However, these costs would not be reflected in your yearly operating expenses as they are one-time investments necessary to operate the farm. This list of fixed investments is not all inclusive, but does include some of the most commonly needed items for poultry farming. These investments **HAVE NOT** been added into the estimated yearly operating costs, and should be considered separately when estimating the farm's cash flow.

Fixed-Intermediate Investments:

Wash Sprayer	\$5,000	Useful Life 5 years
Caking equipment	\$15,000	7-10 years
Tractor w/ front-end loader & mower	\$45,000	20+ years
Manure storage & composting shed	\$2,500	Life of Facility
Total:	\$67,500	

Estimated Income Per House, based on:

Chick placement Number: 30,000 x house (Total chick placement is not guaranteed in the contract and may change from flock to flock.)

Livability: 0.965 (Livability will change from flock to flock depending on impact of disease, feed quality, management and other factors)

Birds Sold: 28,950

Avg wt: **4.55** (Average weight of birds will change slightly between flocks depending on when your birds are picked up)

Pounds sold per house: **131,722.5**

Base pay: 0.0480

Pay per pound (Base pay (.0480) +/- Settlement cost **(+.0100)**): **0.0580***

Flock pay per house: **\$7,639.91**

+ Housing relevant premiums for housing type (estimated \$249.9) and sign-on supplements for the first five years, this flock pay estimate came to **\$8,009.46, PRE TAX.**

(Not all integrators offer tiered premiums for housing or supplement payments. Each company structures their pay calculations a little differently. Make sure you understand what factors impact your pay each flock.)

Based on these factors, the farmer estimated Net PRE TAX Cash Flow for this operation would look like this:

Year	Year 1-4	Year 5 (High Performance)	Year 6-15
Estimated contract income (Gross)	\$164,212.48	\$170,592.12	\$160,555.10
Est. yearly principal & interest payment	\$94,668.20	\$94,668.20	\$94,668.20
Expanded est. yearly operating expenses	\$79,700.00	\$79,700.00	\$79,700.00
Net income after estimated annual principal & interest payments & expanded estimated expenses	\$-10,155.72	\$-3,776.08	\$-13,813.10

Note: This flock estimate was designed to reflect a high-performance flock, or a flock that performs above the tournament average. There are many factors affecting the performance of a flock, namely the age of laying hen, breed of chicks, feed, etc. In year 5, you can see the financial impact having **only one** high-performing flock in a single year. Again, this estimate was designed using the real-world experiences of contract growers.

Example D. Low-Performance Flock

Contract type: Small Bird

Houses: 4 houses, 42ft x 500ft, 21,000 sq. ft each

Total sq. ft capacity: 84,000

Total bird capacity: 119,600

Flocks per year: 6.4 (The total number of flocks per year is not usually guaranteed in the contract and may change from year to year. If you are applying for an FSA loan, FSA requires that the contract be a minimum of 3 years, and that during that 3 years the contract must guarantee the number of birds or flocks necessary in order to maintain income projected in the loan application. Check your contract for this information.)

Estimated Construction Cost:

Houses (\$93,000 each)	\$372,000.00
Equipment (\$83,000 each)	\$332,000.00
Grade, Fills & Permits	\$36,000.00
Wells, pumps, wiring & plumbing above ground	\$19,000.00
In house electrical (\$18,000 each)	\$72,000.00
Outside electrical & plumbing (\$4,000 each)	\$16,000.00
Generator, 30kw per house	\$36,000.00
Alarm system	\$5,000.00
Utility hookup	\$5,000.00
Gravel for lanes & load out	\$15,000.00
Composter/incinerator	\$12,000.00
Misc.	\$10,000.00
SUBTOTAL	\$930,000.00
Construction interest	\$16,000.00
Loan origination/closing cost, attorney fees, title insurance etc	\$20,000.00
TOTAL EST. CONSTRUCTION COST	\$966,000.00

Estimated Operating Expenses (Cost of Production) Per Year

Electric (\$0.19/sq. ft)	\$15,960.00
Heating Fuel	\$15,000.00*
Insurance (\$0.04/sq. ft)	\$3,400.00
Clean out/shavings	\$750.00**

Shavings/sawdust	\$4,500.00*
Equipment fuel	\$2,500.00*
Crust out	\$2,950.00
Property taxes	\$5,440.00
Repairs, misc (\$0.03/sq. ft)	\$2,500.00
PLT, Insecticide (\$0.06/sq. ft)	\$5,400.00
Pest & rodent control	\$300.00*
Hired Labor	\$18,000.00*
Equipment repairs & maint.	\$3,000.00*
EXPANDED TOTAL EST. OPERATING EXPENSE/ YEAR	\$79,700.00*

*Expenses added from real-world farmer experience

**This figure has been discussed as variable depending on the use of the shavings. Spent shavings could be sold, used on farm, or exchanged with neighboring farmers for clean out performed. Therefore, this figure should be researched individually.

Note: When starting a poultry farm, there are fixed investments you can expect to make. For example, you can expect to need a wash sprayer for your poultry farm. The total purchase price of that wash sprayer is roughly \$5,000. However, these costs would not be reflected in your yearly operating expenses as they are one-time investments necessary to operate the farm. This list of fixed investments is not all inclusive, but does include some of the most commonly needed items for poultry farming. These investments **HAVE NOT** been added into the estimated yearly operating costs, and should be considered separately when estimating the farm's cash flow.

Fixed-Intermediate Investments:

Wash Sprayer	\$5,000	Useful Life 5 years
Caking equipment	\$15,000	7-10 years
Tractor w/ front-end loader & mower	\$45,000	20+ years
Manure storage & composting shed	\$2,500	Life of Facility
Total:	\$67,500	

Estimated Income Per House, based on:

Chick placement Number: 30,000 x house (Total chick placement is not guaranteed in the contract and may change from flock to flock.)

Livability: 0.965 (Livability will change from flock to flock depending on impact of disease, feed quality, management and other factors)

Birds Sold: 28,950

Avg wt: **3.95** (Average weight of birds will change slightly between flocks depending on when your birds are picked up)

Pounds sold per house: **114,352.5**

Base pay: 0.0480

Pay per pound (Base pay (.0480) +/- Settlement cost **(-.0080)**): **0.0400***

Flock pay per house: **\$4,574.10**

+ Housing relevant premiums for housing type (estimated \$249.9) and sign-on supplements for the first five years, this flock pay estimate came to **\$4,943.65, PRE TAX.**

(Not all integrators offer tiered premiums for housing or supplement payments. Each company structures their pay calculations a little differently. Make sure you understand what factors impact your pay each flock.)

Based on these factors, the farmer estimated Net PRE TAX Cash Flow for this operation would look like this:

Year	Year 1-4	Year 5 (Low Performance)	Year 6-15
Estimated contract income (Gross)	\$164,212.48	\$158,328.88	\$160,555.10
Est. yearly principal & interest payment	\$94,668.20	\$94,668.20	\$94,668.20
Expanded est. yearly operating expenses	\$79,700.00	\$79,700.00	\$79,700.00
Net income after estimated annual principal & interest payments & expanded estimated expenses	\$-10,155.72	\$-16,039.32	\$-13,813.10

Note: This flock pay estimate was designed to reflect a low-performance flock, or a flock that performed under the tournament average. There are many factors affecting the performance of a flock, namely age of laying hen, breed of chicks, feed, etc. In year 5, you can see the financial impact having **only one** low-performing flock in a single year. Again, this estimate was designed using the real-world experiences of contract growers.

Example E. Estimates of Disease Outbreak in a Flock

Contract type: Small Bird

Houses: 4 houses, 42ft x 500ft, 21,000 sq. ft each

Total sq. ft capacity: 84,000

Total bird capacity: 119,600

Flocks per year: 6.4 (The total number of flocks per year is not usually guaranteed in the contract and may change from year to year. If you are applying for an FSA loan, FSA requires that the contract be a minimum of 3 years, and that during that 3 years the contract must guarantee the number of birds or flocks necessary in order to maintain income projected in the loan application. Check your contract for this information.)

Estimated Construction Cost:

Houses (\$93,000 each)	\$372,000.00
Equipment (\$83,000 each)	\$332,000.00
Grade, Fills & Permits	\$36,000.00
Wells, pumps, wiring & plumbing above ground	\$19,000.00
In house electrical (\$18,000 each)	\$72,000.00
Outside electrical & plumbing (\$4,000 each)	\$16,000.00
Generator, 30kw per house	\$36,000.00
Alarm system	\$5,000.00
Utility hookup	\$5,000.00
Gravel for lanes & load out	\$15,000.00
Composter/incinerator	\$12,000.00
Misc.	\$10,000.00
SUBTOTAL	\$930,000.00
Construction interest	\$16,000.00
Loan origination/closing cost, attorney fees, title insurance etc	\$20,000.00
TOTAL EST. CONSTRUCTION COST	\$966,000.00

Estimated Operating Expenses (Cost of Production) Per Year

Electric (\$0.19/sq. ft)	\$15,960.00
Heating Fuel	\$15,000.00*
Insurance (\$0.04/sq. ft)	\$3,400.00
Clean out/shavings	\$750.00**

Shavings/sawdust	\$4,500.00*
Equipment fuel	\$2,500.00*
Crust out	\$2,950.00
Property taxes	\$5,440.00
Repairs, misc (\$0.03/sq. ft)	\$2,500.00
PLT, Insecticide (\$0.06/sq. ft)	\$5,400.00
Pest & rodent control	\$300.00*
Hired Labor	\$18,000.00*
Equipment repairs & maint.	\$3,000.00*
EXPANDED TOTAL EST. OPERATING EXPENSE/ YEAR	\$79,700.00*

*Expenses added from real-world farmer experience

**This figure has been discussed as variable depending on the use of the shavings. Spent shavings could be sold, used on farm, or exchanged with neighboring farmers for clean out performed. Therefore, this figure should be researched individually.

Note: When starting a poultry farm, there are fixed investments you can expect to make. For example, you can expect to need a wash sprayer for your poultry farm. The total purchase price of that wash sprayer is roughly \$5,000. However, these costs would not be reflected in your yearly operating expenses as they are one-time investments necessary to operate the farm. This list of fixed investments is not all inclusive, but does include some of the most commonly needed items for poultry farming. These investments **HAVE NOT** been added into the estimated yearly operating costs, and should be considered separately when estimating the farm's cash flow.

Fixed-Intermediate Investments:

Wash Sprayer	\$5,000	Useful Life 5 years
Caking equipment	\$15,000	7-10 years
Tractor w/ front-end loader & mower	\$45,000	20+ years
Manure storage & composting shed	\$2,500	Life of Facility
Total:	\$67,500	

Estimated Income Per House, based on:

Chick placement Number: 30,000 x house (Total chick placement is not guaranteed in the contract and may change from flock to flock.)

Livability: **0.948** (Livability will change from flock to flock depending on impact of disease, feed quality, management and other factors)

Birds Sold: **28,440**

Avg wt: **3.87** (Average weight of birds will change slightly between flocks depending on when your birds are picked up)

Pounds sold per house: **110,062.80**

Base pay: 0.0480

Pay per pound (Base pay (.0480) +/- Settlement cost (-.0125)) = **0.0355***

Flock pay per house: **\$3,907.23**

+ Housing relevant premiums for housing type (estimated \$249.9) and sign-on supplements for the first five years, this flock pay estimate came to **\$4,276.78, PRE TAX.**

(Not all integrators offer tiered premiums for housing or supplement payments. Each company structures their pay calculations a little differently. Make sure you understand what factors impact your pay each flock.)

Based on these factors, the farmer estimated Net PRE TAX Cash Flow for this operation would look like this:

Year	Year 1-4	Year 5 (Disease)	Year 6-15
Estimated contract income (Gross)	\$164,212.48	\$155,661.40	\$160,555.10
Est. yearly principal & interest payment	\$94,668.20	\$94,668.20	\$94,668.20
Expanded est. yearly operating expenses	\$79,700.00	\$79,700.00	\$79,700.00
Net income after estimated annual principal & interest payments & expanded estimated expenses	\$-10,155.72	\$-18,706.80	\$-13,813.10

*Expenses added from real-world farmer experience

**This figure has been discussed as variable depending on the use of the shavings. Spent shavings could be sold, used on farm, or exchanged with neighboring farmers for clean out performed. Therefore, this figure should be researched individually.

Note: This flock estimate was designed to reflect disease outbreak within the flock. Diseases generally seen in chicken flocks include dermatitis, hepatitis, yolk sac infection, etc. These diseases impact both the livability and end weight of chickens, thereby affecting your pay in multiple ways. Depending on the disease, your flock may experience decreased livability (meaning less birds survive to processing), your flock may put on less weight (resulting in less total pounds produced), or your flock may experience a die off later in their growth cycle (meaning birds die after having consumed days of high-cost feed). Each of these scenarios increases your farm's production costs to the company, thereby lowering your pay. In year 5, you can see the financial impact having **only one** diseased flock in a single year.

This estimate was created with the assistance of current, contract poultry farmers, based on their real-world experiences with disease outbreak. While some may claim these outbreaks are the fault of the farmer, often these diseases originate before chicks are delivered to the farm and are, therefore, outside the control of a grower.

Example F. University of Maryland extension office

FARM BROILER PRODUCTION FIXED INVESTMENT COST

FOUR HOUSES 60' X 550'

SQUARE FEET OF ALL 4 HOUSES	144000	FLOCKS/YEAR	6.8
SQUARE FEET PER HOUSE	36000	BIRD DENSITY	0.8
NUMBER OF BIRDS/HOUSE	45,000	BIRDS/YEAR	1224000
NUMBER OF BIRDS/FLOCK	180000	NUMBER OF HOUSES	4

FIXED INVESTMENT	UNIT	QUANTITY	PRICE	TOTAL	DOLLARS/SQFT
HOUSE & EQUIPMENT	HOUSE	4	\$332,000	\$1,328,000	\$9.22
GENERATOR, WIRING, & ALARM	HOUSE	4	\$8,400	\$33,600	\$0.23
GENERATOR & SWITCH	FARM	1	\$26,500	\$26,500	\$0.18
SITE PREPARATION****	HOUSE	4	\$25,000	\$100,000	\$0.69
TRACTOR LOADER BLADE & MOWER	FARM	1	\$35,000	\$35,000	\$0.24
MANURE STORAGE & COMPOSTER**	FARM	1	\$2,500	\$2,500	\$0.02
VEGETATIVE SHELTERBELT**	FARM	1	\$1,300	\$1,300	\$0.01
WELL AND WATER SYSTEM	HOUSE	4	\$5,500	\$22,000	\$0.15
STONE	FARM	1	\$28,000	\$28,000	\$0.19
TOTAL INVESTMENT				\$1,576,900	\$10.95

**Assumes cost share is obtained from NRCS, etc

***Cost will depend on soil types

Does not include Land investment cost

Example G. University of Maryland extension office

FARM BROILER PRODUCTION CASH FLOW

FOUR HOUSES 60' X
600'

SQUARE FEET OF ALL FOUR HOUSES	144000	FLOCKS/YEAR	6.8
SQUARE FEET EACH HOUSE	36000	BIRDS/YEAR	1224000
NUMBER OF BIRDS/HOUSE	45000	BIRD DENSITY	1
NUMBER OF BIRDS/FLOCK	180000	NUMBER OF HOUSES	4

ITEM	UNIT	QUANTITY	PRICE	TOTAL	\$/SQF T
CASH RECEIPTS					
GROWER PAYMENTS*	PER SQUARE FOOT	144000	\$0.33	\$323,136	\$2.24
LITTER	TONS	\$360	\$12	\$4,320	\$0.03
GROSS INCOME (TOTAL CASH RECEIPTS)				\$327,456	\$2.27
CASH (Variable) EXPENSES					
ELECTRICITY	FLOCK	6.8	\$5,294	\$36,000	\$0.25
TELEPHONE/ALARM		1	\$1,200	\$1,200	\$0.01
SUPPLIES AND MISCELLANEOUS	HOUSE	4	\$1,250	\$5,000	\$0.03
BUILDING & EQUIPMENT REPAIRS	HOUSE	4	\$1,250	\$5,000	\$0.03
CRUST OUT/WINDROW/CLEANOUT	FLOCK	6.8	\$1,500	\$10,200	\$0.07
PROPERTY TAXES	YEAR	1	\$9,000	\$9,000	\$0.06
INSURANCE	YEAR	1	\$7,200	\$7,200	\$0.05

TOTAL CASH (Variable) EXPENSES				\$73,600	\$0.51
FIXED EXPENSES					
MORTGAGE PAYMENT	15 YEARS	QUARTERLY	5.5%	\$151,627	\$1.05
EQUIPMENT PAYMENT - TRACTOR, LOADER, BLADE, MOWER	6 YEARS	QUARTERLY	5%	\$7,955	\$0.06
TOTAL LOAN PAYMENTS		YEARLY		\$159,582	\$1.11
NET INCOME		YEARLY		\$94,274	\$0.65
NET INCOME		PER HOUSE		\$23,568.53	\$0.16

*Guaranteed
payment from
Integrator
Cost of land not
included

Appendix 5: Sample FSA Forms 2037 & 2038

(Begins on following page.)