

## **Suspending Guaranteed and Direct Loans To New Poultry and Hog Facilities**

Over 25,000 Americans and many farm and rural organizations are calling for the suspension of direct and guaranteed loans to new and expanding specialized hog and poultry facilities. The Farm Service Agency (FSA) is providing loans for farmers to build these facilities, at a time when overproduction in those sectors is greatly depressing prices (for hogs) and leading to contract cancellations and abusive contract terms (for poultry).

When similar over-supply circumstances have existed in the past, FSA has placed restrictions on or suspended issuance of federal direct and guaranteed loans. On May 10, 1984, USDA's Farmers Home Administration (FmHA) issued a directive to its State Directors, District Directors and County Supervisors requiring that poultry loan guarantees be closely scrutinized to assure that the loans were not contributing to the problem of overexpansion and oversupply of poultry houses in the area.

USDA issued a directive on January 8, 1999 suspending all direct and guaranteed loan financing for the construction of specialized hog facilities, citing concerns that FSA loans could exacerbate the crisis of oversupply and low prices that were affecting the hog industry. This suspension of lending was extended through numerous subsequent directives. Below is a statement USDA made in 1999 when describing why it was suspending loans to new and expanding hog facilities.

*"It is inconsistent with USDA policies for FSA to continue to finance construction of additional production facilities through direct loans and loan guarantees while other agencies within USDA expend resources to ameliorate over-supply conditions."*

*Federal Register-January 1999*

### **This same action and leadership is needed now.**

USDA is also using taxpayer dollars for bonus pork and poultry buys in order to stabilize prices resulting from the very overproduction that USDA is facilitating through these loans. On March 31st, USDA committed to a \$25 million bonus pork buy, and in September, another \$30 million. On December 23, 2008, USDA announced an emergency purchase of over 60 million pounds of chicken products, at a cost of over \$42 million to create a market for surplus product.<sup>1</sup>

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<sup>1</sup> United States Department of Agriculture Food Purchase Report, U.S.D.A. Agricultural marketing Service, December 23, 2008.

Despite the current overproduction situation and subsequent oversupply in the hog and poultry sectors, FSA loans are continuing to be made for specialized hog and poultry facilities, which necessarily increase production and depress prices. **Based on USDA data, FSA direct and guaranteed loans for new hog and poultry building construction for FY 2008 and 2009 totaled \$264,466,341.**

Also, on April 9th, a Missouri FSA area farm loan specialist confirmed that they were in fact continuing to guarantee new hog and poultry facilities. He also indicated that they were facing difficulties, particularly in the poultry industry, where the integrators were dropping contracts with existing producers, and then contracting with new producers.

Given the long-term nature of this oversupply/low-price situation and the drastic increases in cost of production, this situation is critical. Because the economic conditions faced by poultry and hog growers are so extreme and the contract terms so risky, USDA should not be encouraging new farmers to enter these sectors at this time. In general, FSA programs to give beginning farmers access to credit are well advised. However when those programs encourage beginning farmers to make large investments in high-risk operations, particularly in times of industry overproduction, the intent of the program is defeated.

Beginning farmers do have unique credit needs, but a healthy and well functioning marketplace and fair price for the animals they raise and sell is the best way to usher in a new generation of farmers and keep them engaged in agriculture for the long-term. Otherwise we're providing the same framework that existing farmers are facing -- long periods of low prices or abusive contract terms that leave farmers financially distressed and potentially defaulting on loans.

**USDA's Farm Service Agency should issue an administrative directive that places a suspension on issuance of any direct or guaranteed farm ownership or operating loans for the construction or expansion of a specialized hog or poultry production facilities**