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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548



B-114873

DEC 24 1974
12-24-74

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The Honorable William Proxmire
United States Senate

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Dear Senator Proxmire:

Your letter of August 23, 1974, requested that we (1) review the Farmers Home Administration's (FmHA) practices concerning credit reports for mortgage (housing) loans and agricultural (farm operating) loans; (2) determine whether there were differences in the rates of default between these types of loans, and (3) determine whether losses on agricultural loans could be reduced if FmHA required credit reports before making such loans.

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In his letter to you, your constituent, Mr. Don Ogden, expressed concern that FmHA required credit reports on housing loans but not on farm operating loans. He said that he had learned that FmHA field offices were not authorized to order credit reports on farm operating loans.

We discussed these matters with FmHA officials and reviewed various FmHA regulations, instructions, and other pertinent data at FmHA headquarters. On September 11, 1974, we told your office of our preliminary findings and agreed to furnish you a letter summarizing this information.

FmHA'S PRACTICES IN OBTAINING CREDIT REPORTS

FmHA instructions authorize county and assistant county supervisors to obtain credit reports from credit reporting companies for both housing and farm operating loans. FmHA uses credit reporting companies selected by the Department of Housing and Urban Development each year on a bid basis. For fiscal year 1975, contract costs for such reports range from \$5 to \$9. Enclosure I shows the type of information FmHA requires contractors to provide for credit reports on individuals.

According to FmHA officials, credit reports for housing loans are generally obtained from credit reporting companies; for farm operating loans, FmHA county supervisors generally make the credit

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analyses themselves. However, the officials said that county supervisors sometimes obtain credit reports for farm operating loans from credit reporting companies when they believe circumstances warrant them. For example, the officials said a credit report might be obtained if the loan applicant was new to the area or was a questionable risk.

FmHA officials said that county supervisors, who receive training in making credit analyses, generally make the credit analyses for farm operating loans because they must not only obtain information on applicants' credit histories, which credit reporting companies obtain on housing loans, but must also determine whether the enterprises will be profitable and produce enough income to repay the loans. FmHA instructions provide for the additional determination on a farm operating loan application to help insure the enterprise's repayment capability.

The instructions state that, when the county supervisor reviews a farm operating loan application, he is to verify the information furnished by the applicant and obtain the additional information needed to properly evaluate the applicant's qualifications and credit needs. This may include verifying information with informed sources, such as creditors, bankers, merchants, employers, and landlords, and also visiting the applicant's farm. The county supervisor usually at least is to obtain information concerning the applicant's

- reputation for honesty and for meeting financial obligations,
- financial condition,
- farm background and experience,
- farm (its size, quality, and suitability for the use proposed),
- other resources, and
- health.

Along with the application, the above information is given to the FmHA county committee--consisting of three persons who know local farming and credit conditions--which determines whether the applicant is eligible. If the committee determines an applicant eligible, he is to develop, with the county supervisor's assistance,

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a farm and home plan (see enc. II) to help make the best use of land, labor, livestock, capital, and equipment. The plan is to guide the applicant in operating the farm and to help insure that he will have enough income to meet operating and living expenses and to repay the loan and other debts.

DIFFERENCES IN DELINQUENCY RATES

FmHA headquarters office records on loan repayment delinquencies--technically, borrowers who are delinquent are in default of their loan contracts--showed that, as of June 30, 1974, about 8 percent of FmHA's housing loans and about 15 percent of its farm operating loans were in a delinquent status. According to FmHA officials, data on the number of FmHA loans which have been fore-closed would have to be obtained from the more than 1,700 FmHA county offices.

FmHA officials said that housing and farm operating loans were quite different and, therefore, comparisons between the delinquency rates of the two programs were not very meaningful. They said that farm operating loans were generally for income-producing farming enterprises whose repayment capabilities were affected by climatic conditions and by the prices of goods bought and sold. Applicants for housing loans, however, generally must have a relatively stable income which is adequate to repay the loan.

According to FmHA officials, the difference between the delinquency rates of the two types of loans is not necessarily attributable to the different sources of credit analyses, but instead to differences in loan purposes and, consequently, the degree of risk involved. Some other agricultural loans--such as farm ownership loans--for which credit analyses are also generally made by county supervisors have a lower delinquency rate than the housing loans. As of June 30, 1974, the delinquency rate for farm ownership loans was about 6 percent.

REDUCING LOSSES ON LOANS

Your request that we determine whether losses on agricultural loans could be reduced if FmHA required credit reports before making such loans apparently followed from Mr. Ogden's statement that FmHA did not require credit reports on farm operating loans. As discussed on page 1, FmHA requires the county supervisor or a credit reporting company to make a credit analysis on each farm operating loan.

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Even if information on the sources of the credit analyses on delinquent or foreclosed farm operating loans were obtained, it would be extremely difficult to associate any differences in delinquency or foreclosure rates with sources of the credit analyses because of the other factors--particularly crop and livestock production and market conditions--that can affect the repayment of farm operating loans.

As requested by your office, we have not obtained formal comments on this report from the Department of Agriculture.

Sincerely yours,

Comptroller General
of the United States

Enclosures - 2

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Enclosure I

Fm HA Instruction 410.2
Exhibit B

STANDARD FACTUAL DATA REPORT

(No reference shall be made in this report to race, creed, color, or national origin.)

1-A.	Do name and address agree with information shown on request for report? If not, explain below	1-A.	
B.	Approximate age of subject	B.	
C.	Marital status - number of dependents	C.	Dependents:
D.	Length of time married	D.	
E.	Did you learn of any separation or divorce	E.	
2-A.	Name of employer	2-A.	
B.	Position held - length of present employment	B.	Years _____
C.	Has his employment status changed within the past two years?	C.	
3-A.	Name of Wife's employer	3-A.	
B.	Position held - length of present employment	B.	Years _____
C.	Has employment status changed within the past two years?	C.	

REMARKS: 1. Amplify his business history. (This report shall contain information as to the subject's previous employment status, location, and salary, if there has been a change in employment status within the past two years.)

2. The reporting bureau certifies that: (a) public records have been checked for suits, judgments, foreclosures, garnishments, bankruptcies, and other legal actions involving the subject with the results indicated below; or, (b) equivalent information has been obtained through the use of a qualified public records reporting service with the results indicated below. (Give details). (The records of real estate transfers which do not involve foreclosure may be excluded).

3. The reporting bureau certifies that the subject's credit record in the payment of bills and other obligations has been checked: (a) through the credit accounts extended by the designated credit grantors under the Classes and Trades identified in the contract for

Enclosure I

FmHA Instruction 410.2
Exhibit B
Page 2

the community in which the subject resides with the results indicated below;
or (b) through accumulated credit records of such credit grantors of the
community in which the subject resides, with the results indicated below.

<u>Kind of Business</u>	<u>Selling</u>	<u>High Credit</u>	<u>Owing</u>	<u>Past Due</u>	<u>Monthly Installments</u>	<u>Paying Record</u>
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Report for: _____

Prepared by: _____
Name of reporting bureau City State

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FARM AND HOME PLAN

COUNTY Enclosure II

NAME OF HUSBAND			NAME OF WIFE			ADDRESS			
AGES OF PERSONS IN HOUSEHOLD	HUSBAND	WIFE	SONS	DAUGHTERS	OTHERS	TOTAL ACRES (OWNED) (RENTED)	CROP ACRES (OWNED) (RENTED)	OPERATED SAME FARM LAST YEAR? <input type="checkbox"/> YES <input type="checkbox"/> NO	WRITTEN LEASE? <input type="checkbox"/> YES <input type="checkbox"/> NO
TERMS OF LEASE						PERIOD OF LEASE			
						19__ TO 19__			

A. FINANCIAL STATEMENT AS OF , 19__

PROPERTY OWNED			DEBTS OWED								
REAL ESTATE (LOCATION): FARM	ACRES	VALUE \$	NAME AND ADDRESS OF CREDITOR	FINAL DUE DATE	INTEREST RATE	ANNUAL INSTAL.	AMOUNT DELINQ	UNPAID BALANCE			
			LIENS ON REAL ESTATE:								
OTHER REAL ESTATE								\$	\$		
TOTAL REAL ESTATE								\$	\$		
LIVESTOCK:		NO.	VALUE								
LIVESTOCK HELD FOR SALE			\$								
DAIRY COWS				TOTAL LIENS ON R. E.					\$	\$	\$
BEEF COWS				LIENS ON CHATTELS AND CROPS:							
OTHER CATTLE									\$	\$	\$
BROOD SOWS AND GILTS											
OTHER HOGS											
EWES											
OTHER SHEEP											
POULTRY											
TOTAL LIVESTOCK			\$						\$	\$	\$
MACHINERY AND EQUIPMENT:											
TRUCK(S): YR. MAKE			\$								
TRACTOR(S): YR. MAKE											
MAJOR ITEMS OF EQUIPMENT											
			TOTAL LIENS CHATTELS & CROPS					\$	\$	\$	
			JUDGMENTS:								
								\$	\$	\$	
OTHER FARM MACHINERY				TOTAL JUDGMENTS:					\$	\$	\$
TOTAL MACHINERY AND EQUIPMENT			\$	TAXES DUE: REAL ESTATE \$					PERSONAL \$		
OTHER PERSONAL PROPERTY:		QUAN. OR NO.	VALUE	INCOME & SOCIAL SECURITY \$					TOTAL TAXES DUE \$		
CROPS HELD FOR SALE			\$	ALL OTHER DEBTS (DOCTOR, STORE, ETC., DESCRIBE)							
GROWING CROPS									\$		
FEED											
SEED AND SUPPLIES											
AUTO YR MAKE											
HOUSEHOLD GOODS											
CASH ON HAND											
BONDS AND INVESTMENTS											
ACCTS OWED US—COLLECTIBLE											
TOTAL OTHER PERSONAL PROP.			\$						TOTAL OTHER DEBTS \$		
TOTAL PROPERTY OWNED			\$						TOTAL ALL DEBTS \$		

1. TOTAL OF CASH ON HAND, CROPS AND LIVESTOCK HELD FOR IMMEDIATE SALE, AND INCOME TO BE RECEIVED IN IMMEDIATE FUTURE	\$		
2. DEBTS AND EXPENSES WE WILL PAY FROM ABOVE CASH AND INCOME (Itemize)	\$		
3. CASH CARRY-OVER FOR NEXT YEAR'S OPERATIONS AFTER PAYING THESE DEBTS	\$		
4. NET WORTH (TOTAL PROPERTY OWNED MINUS TOTAL ALL DEBTS)	BEGINNING OF YEAR	END OF YEAR	INCREASE OR DECREASE
5. TOTAL LAND DEBT	\$	\$	\$
6. TOTAL DEBTS OTHER THAN LAND	\$	\$	\$
PERIOD COVERED BY PLAN: FROM	19__	TO	19__

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NOTE: All "actual" data to be completed by end of crop year

B. CROPS, PASTURE, ETC.—PRODUCTION AND SALES

CROPS, PASTURE, ETC. (SEE PROGRAM PRECEDING, ETC.)	PLANNED					ACTUAL					CASH INCOME	
	ACRES	YIELD PER ACRE	OPERATOR'S SHARE			ACRES	YIELD PER ACRE	OPERATOR'S SHARE				
			FARM USE	UNITS FOR SALE	DOLLAR SALES			FARM USE	UNITS FOR SALE	SOLD		©
1											\$	\$
2												
3												
4												
5												
6												
7												
8												
9												
10												
11												
12												
13												
14. FERTILIZER, SEEDS AND ROADS												
15. TOTAL (ENTER TABLE J, LINE 1)											\$	\$

C. LIVESTOCK AND PRODUCTS—PRODUCTION AND SALES

LIVESTOCK AND PRODUCTS AND MISCELLANEOUS PRODUCTS (PREVIOUS PRESENTS)	PLANNED					ACTUAL					CASH INCOME	
	NO.	PROD. PER ANIMAL	OPERATOR'S SHARE			NO.	PROD. PER ANIMAL	OPERATOR'S SHARE				
			FARM USE	UNITS FOR SALE	DOLLAR SALES			FARM USE	UNITS FOR SALE	SOLD		©
1											\$	\$
2												
3												
4												
5												
6												
7												
8												
9												
10												
11												
12												
13. MILK (LBS.)												
14. EGGS (DOZ.)												
15. TOTAL (ENTER TABLE J, LINE 2)											\$	\$

