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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

JAN 30 1970

CIVIL DIVISION

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Dear Mr. Smith:

The General Accounting Office has reviewed the manner in which the Farmers Home Administration (FHA) measured the progress made by borrowers in raising and maintaining their income and living standards as a result of receiving financial assistance under the Economic Opportunity (EO) Loan Program. Our review involved primarily an examination of the 1969 study made by FHA in measuring the progress of EO loan borrowers. The results of the FHA study were released to the public in a Department of Agriculture press release dated July 22, 1969. Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Our review was made primarily because of a distinct difference in conclusions between the Department's press release (see appendix) and our report to the Congress (B-130515, August 21, 1969), both of which were concerned with the impact of the EO Loan Program on individual EO loan borrowers. The press release indicated that, on the average, EO loan borrowers had made substantial gains as a result of the EO Loan Program. Our report to the Congress, however, pointed out that, on the basis of our findings and those of the Economic Research Service, only minimal gains could be attributed to the EO Loan Program.

On the basis of our review of the 1969 study, we concluded that FHA did not properly evaluate the impact of the EO Loan Program because, in measuring the progress made by EO borrowers, FHA recognized not only income obtained from the loan enterprise but also income obtained from other sources. We believe that the gains, which FHA reported as being attributable to the EO Loan Program, were overstated as a result of including the income from all sources.

The FHA 1969 study covered 2,977 borrowers in 50 States and Puerto Rico who had been in the EO Loan Program up to 3 years. The results of this study showed that borrowers in the program for 3 years at December 31, 1968, had greater family income gains than

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those borrowers in the program for 1 or 2 years. The results of the study showed also that borrowers with loans for agricultural purposes and loans for nonagricultural purposes after 3 years in the program increased their net income an average of $1,100 and $1,350, respectively, since receiving loan assistance.

In determining the progress made by each EO borrower, FHA included income from all sources--(a) farms, (b) nonagricultural enterprises, (c) income of the family, including wages and salaries, and (d) public assistance--to arrive at gross income. From the gross income, all expenses--for (a) farm operation and (b) nonagricultural enterprises--were deducted to arrive at the net income. A comparison was then made between the borrower's net income for the year before receiving an EO loan and the net income for calendar year 1968. The difference in net income between the 2 years was considered by FHA to represent the extent of progress made by the borrower.

We examined 250 progress reports of EO loan borrowers included in the 1969 study. We found that 85 percent of these reports included nonenterprise income and that FHA recognized this income in measuring borrowers' progress. We believe that income related to the loan enterprise should be considered separately in measuring the extent of progress made by EO loan borrowers.

The following 3 cases illustrate the manner in which FHA measured the progress of EO borrowers.

Borrower A

FHA approved an EO loan of $540 to Borrower A for agricultural purposes on September 8, 1966. The loan funds were to be used to purchase one acre of land, young sows, hog wire, and for miscellaneous expenses. According to information furnished us by FHA, the loan funds were used essentially as proposed.

The net incomes of Borrower A were computed by FHA as follows:

	Year before loan	1968
Gross income:		
Farm income	$1,050	$1,100
Other income, including wages and salaries	1,010	3,200
Total	2,060	4,300
Farm operating expenses	800	740
Net income	$1,260	$3,560

In the above computation, FHA determined that Borrower A experienced an increase of $2,300 ($3,560 less $1,260) in net income. We found, however, that the increase in income was almost entirely attributable to nonfarm employment and that such income had no relationship to the loan enterprise. The increase in net income from the farming operation, including the loan enterprise, was only $110.

Borrower B

FHA approved an EO loan of $2,100 to Borrower B for a nonagricultural enterprise on April 15, 1966. The loan funds were to be used to establish a restaurant and gasoline station. According to information furnished us by FHA, $1,500 was returned by the borrower and the remaining $600 was used to purchase land and a tractor.

The net incomes of Borrower B were computed by FHA as follows:

	Year before loan	1968
Gross income:		
Wages and salaries	$3,440	$3,700
Public assistance	--	1,800
Total	3,440	5,500
Expenses	--	--
Net income	$3,440	$5,500

In the above computation, FHA determined that Borrower B experienced an increase of $2,060 ($5,500 less $3,440) in net income. We found that the increase in income was not related to the loan enterprise.

In our opinion, Borrower B did not experience any increase in net income as a result of the EO Loan Program.

Borrower C

FHA approved EO loans totaling $2,200 to Borrower C for agricultural purposes. The loans were approved for $1,650 on March 4, 1965; $350 on May 13, 1965; and $200 on March 21, 1966. The loan funds were to be used to purchase cows, sows, fencing, feed, seed, fertilizer, a tractor, and for miscellaneous expenses. According to information furnished us by FHA, the loan funds were used essentially as proposed.

The net incomes of Borrower C were computed by FHA as follows:

	Year before loan	1968
Gross income:		
Social security, pension, and wages	$2,340	$4,000
Farm operating expenses	--	100
Net income	$2,340	$3,900

In the above computation, FHA determined that Borrower C experienced an increase of $1,560 ($3,900 less $2,340) in net income. We found that the increase in income was not attributable to the loan enterprise. In our opinion, Borrower C did not experience any increase in net income as a result of the EO Loan Program. According to FHA records, Borrower C was delinquent $553.14 (principal and interest) on his loans as of December 31, 1968.

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In addition to FHA recognizing nonenterprise income in measuring borrowers' progress, we noted that the changes in net income reported by FHA did not take into account the borrower's obligation to repay the EO loan principal since payment of principal has no bearing on net income. We commented on this matter on page 16 of our report to the Congress. We pointed out that consideration should be given to this factor in determining the amounts that borrowers have left from net income to pay living expenses and to raise their standard of living. We continue to believe that recognition should be given to this matter in measuring and reporting the progress made by borrowers.

We believe that, in measuring and reporting the progress of EO loan borrowers, a distinction should be made between increases in income resulting from the loan enterprise and from other sources such as wages, pensions, and public assistance. Increases in income from other sources should be identified and shown separately. In addition, we believe that loan repayments should be recognized in determining whether borrowers have made any progress in raising and maintaining their income and living standards. In our opinion, a more accurate disclosure of the impact and effectiveness of the EO Loan Program would result if FHA's program evaluation system recognized these factors in measuring borrowers' progress.

You recognized a need for improvement in the agency's program evaluation system, as discussed on page 56 of our report to the Congress. We recommend that the aforementioned factors be included as part of your program evaluation system. We would appreciate being advised of action taken on this recommendation.

Copies of this report are being sent to the Inspector General, Department of Agriculture.

Sincerely yours,

Victor L. Lowe

Victor L. Lowe
Associate Director

Mr. James V. Smith, Administrator
Farmers Home Administration
Department of Agriculture

UNITED STATES DEPARTMENT OF AGRICULTURE

Fredericks DU 8-~~7945~~ 7437
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Washington, July 22, 1969

Economic Opportunity (EO) Loan Borrowers Show Family Living Gains:

Progress in the battle against rural poverty after three full years is showing some tangible gains among the nation's low-income farm and nonfarm families, according to a report released today by Secretary of Agriculture Clifford M. Hardin.

The report, by USDA's Farmers Home Administration, shows that active borrowers on economic opportunity loan program three years recorded greater family living gains than those who have been with the program only a year or two.

Greater gains, however, were made by those rural families who received loans to develop small, nonagricultural business enterprises rather than those families who used the credit to improve their small farming operations. Borrowers who used combined agricultural and non-agricultural loans also showed greater gains than strictly agricultural loan recipients.

The FHA survey was made last winter of active borrowers in the 50 states and Puerto Rico who had EO loans up to three years, since 1965. It did not include borrowers who dropped out or are otherwise no longer with the opportunity loan program.

Borrowers with nonagricultural loans after three years increased their net income on the average of $1,350 over the amount they had before assistance by the program. Those with agricultural loans during the same time realized on the average $1,100 more net income than they had before joining the program.

The nonagricultural borrowers showed net income of $3,840 after three years on the program compared to $2,950 net income of agricultural borrowers after three years.

Rural families who received combined agricultural and nonagricultural EO loans after three years averaged $1,370 more in net income in 1968 than in the year before receiving the EO loan. Their net income of $3,490 was less than the $3,840 of nonagricultural borrowers and greater than the $2,950 of agricultural borrowers in the same period.

Negro borrowers after three years on the program increased their net income on the average of $1,480 with nonagricultural EO loans. The survey also studied economic opportunity loan progress of American Indians, whites with Spanish surnames and low-income rural families in Puerto Rico.

Other parts of the study revealed:

-- that farmers on the program three years had on the average $310 more in net worth than those with just a year's experience.

-- about 25 percent of the loans in the survey were made to Negro borrowers with most of the funds going to finance agricultural enterprises.

-- that borrowers on the program only a year were able to have public assistance payments reduced as much as $190 on the average.

In addition to advancing credit, Farmers Home Administration provides a technical and management assistance program for opportunity loan borrowers. It administers the program through 1,600 county-level offices throughout the nation in cooperation with the Office of Economic Opportunity.

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