B-114873
1-23-70
4=

REPORT TO THE CONGRESS

Assessment Of Fees For Processing Loan Applications Would Help Recover Program Costs Of The Farmers Home Administration

B-114873

Department of Agriculture

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

JAN. 23, 1970

715-36

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

B-114873

To the President of the Senate and the
Speaker of the House of Representatives

In this report we point out that the assessment of fees for processing loan applications by the Farmers Home Administration, Department of Agriculture, would help recover program costs. Our review was made pursuant to the Budget and Accounting Act of 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Bureau of the Budget, and to the Secretary of Agriculture.

Elmer B. Staats

Comptroller General
of the United States

Contents

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

ASSESSMENT OF FEES FOR PROCESSING LOAN APPLICATIONS WOULD HELP RECOVER PROGRAM COSTS OF THE FARMERS HOME ADMINISTRATION, DEPARTMENT OF AGRICULTURE B-114873

D I G E S T

WHY THE REVIEW WAS MADE

The Farmers Home Administration makes direct and insured rural housing loans to farmers and other rural residents to finance the purchase, construction, improvement, repair, or replacement of dwellings and essential farm service buildings.

The numbers and amounts of these loans in recent years have increased greatly--5,287 loans for $40.7 million in fiscal year 1960 to 54,655 loans for $491.3 million in fiscal year 1968. The Farmers Home Administration expects to make about 174,000 loans totaling about $1.3 billion in 1970. (See pp. 16 and 17.)

The Farmers Home Administration performs a number of services without charge to the applicant in processing a rural housing loan application: obtaining credit information on the applicant, reviewing detailed plans and specifications for proposed construction, and making appraisals of loan security.

In view of the general policy of the Government that Federal agencies charge a fee for services they perform when such services provide recipients with special benefits beyond those which accrue to the public at large, the General Accounting Office (GAO) examined into (1) why the Farmers Home Administration was not charging a fee and (2) the benefits that might accrue to the Government if a fee were charged.

FINDINGS AND CONCLUSIONS

The Farmers Home Administration was not assessing fees to applicants for rural housing loans to recover its costs of processing loan applications because it believed (1) that the Congress intended that no fees be charged and (2) that such loans are made to low-income families who would be unable to pay a fee.

GAO believes that the adoption of a policy of assessing fees is necessary to conform to the general policy of the Government. (See pp. 9 and 10.)

Charges for processing loan applications are generally assessed under other Federal housing loan programs--notably those of the Federal Housing Administration and the Veterans Administration. The majority of applicants for Farmers Home Administration rural housing loans had incomes of from $6,000 to over $10,000 which were substantially above the established poverty level for rural families. In many instances, the incomes compared favorably with those of applicants for housing loans under a major housing program of the Federal Housing Administration. (See pp. 11 to 14.)

GAO was unable to determine from the available records the actual cost of processing a rural housing loan because the agency's accounting system did not accumulate program costs on a routine basis. To obtain an estimate of the fees that might be involved, GAO applied the fees currently charged for processing applications for housing loans by the Federal Housing Administration to the projected loan volume of the Farmers Home Administration for fiscal year 1970. On this basis, the assessment of fees for processing rural housing loans would result in revenues amounting to between $6.1 and $7.8 million annually. (See p. 15.)

The Farmers Home Administration also performs services similar to those provided applicants for rural housing loans when it processes applications for other types of loans that involve the acquisition of real property. The applicants for these loans are not required to pay fees for the services provided in processing loan applications. The Farmers Home Administration projected that it would make about 23,000 such loans for fiscal year 1970, totaling about $624 million.

GAO believes that the overall Government policy of assessing fees to recipients of special benefits may also be applicable to these other types of loans involving the acquisition of real property. (See pp. 19 and 20.)

RECOMMENDATIONS OR SUGGESTIONS

The Administrator, Farmers Home Administration, should:

--Establish and assess a fee which will, to the extent practicable, recover the costs of processing applications for rural housing loans.

--Require that the costs of processing applications for rural housing loans be reviewed periodically and that the fees be adjusted, to the extent practicable, for increases or decreases in such costs. (See p. 18.)

The agency should also review its policy of not charging fees for processing applications for other types of loans involving the acquisition of real property. (See p. 20.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Administrator, Farmers Home Administration, advised GAO that the agency would:

--Adopt the GAO recommendation relating to the charging of fees for rural housing loans. (See p. 18.)

--Reappraise the agency's approach to fees on other programs at the time it develops fee schedules for the rural housing loan program. (See p. 20.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report is being submitted to the Congress to inform it of GAO's views on the need for Farmers Home Administration to adopt the Government's general policy that Federal agencies charge a fee for services they perform when such services provide recipients with special benefits beyond those which accrue to the public at large.

CHAPTER 1

INTRODUCTION

The General Accounting Office made a review of the policy of the Farmers Home Administration of not assessing fees for services provided in processing the applications of farmers and other rural residents for loans to finance the purchase of homes and related farm service buildings in rural areas. We also made a limited examination of the services provided by the Farmers Home Administration in processing applications for loans under other programs involving the acquisition of real property. Our review did not include a general evaluation of the administration of loan programs by the Farmers Home Administration. The scope of our review is described on page 21.

ORGANIZATION OF FARMERS HOME ADMINISTRATION

The Farmers Home Administration was established on November 1, 1946, pursuant to the Farmers Home Administration Act of 1946 (60 Stat. 1062), to simplify and improve credit services available to farmers and to promote farm ownership. Pursuant to this act, the responsibility for administering various loan programs of predecessor agencies was delegated to the Administrator of the Farmers Home Administration by the Secretary of Agriculture.

The Farmers Home Administration maintains 41 State offices--which serve the 50 States, the District of Columbia, Puerto Rico, and the Virgin Islands--and about 1,670 county offices. Each State office is headed by a State director who is responsible for all program operations within his territorial jurisdiction. The county offices, each under the supervision of a county supervisor, are located throughout the country to serve all agricultural counties. Applications for all loans are made to the county offices, whose operations are subject to review by district supervisors and other State office officials.

A county committee, consisting of three members, at least two of whom must be farmers, is appointed by the State director for each county office area. The primary responsibility of these county committees is to review and certify the eligibility of applicants for loans and to establish the maximum amount of credit that may be extended to each applicant. The county supervisor is responsible for reviewing each loan application and for furnishing the county committee with sufficient information to enable the committee to adequately determine an applicant's eligibility. The agency's instructions provide that loans up to $20,000 be approved by the county supervisors and that loans of $20,000 and up be approved by the State director and/or the Washington headquarters.

Principal officials of the Department of Agriculture responsible for the administration of matters discussed in this report are listed in appendix II.

STATUTORY AUTHORITY AND ADMINISTRATIVE REQUIREMENTS FOR RURAL HOUSING LOANS

The Farmers Home Administration is authorized by title V of the Housing Act of 1949, as amended (42 U.S.C. 1471), to make direct and insured housing loans to farmers and other residents of rural areas and small rural communities which have populations of not more than 5,500 and are not closely associated with urban areas. Direct loans are made from the Rural Housing Direct Loan Account, and insured loans are made from the Rural Housing Insurance Fund. After making insured loans, the Farmers Home Administration sells the notes to private investors with the provision that the loans are guaranteed by the Government in the event that individual borrowers default.

Sections 502, 503, and 504 of title V of the Housing Act of 1949, as amended, authorize loans to individuals to buy, build, improve, or repair rural homes. The interest rates on these loans vary, depending on the recipients' age and annual income. Senior citizens receive 4-percent interest loans. As of March 1969, applicants who have low-to-moderate annual incomes receive 5-1/8-percent interest loans. Applicants who have above-moderate annual incomes receive 7-1/4-percent interest loans, which include a 1-1/2-percent insurance charge. The loan repayment periods, which vary on the basis of the type of loan, range generally from 10 years on repair loans to 33 years on major home purchase loans.

Sections 515 and 516 of the act authorize loans to individuals and groups such as nonprofit organizations and associations made up of farmers for the purpose of building, improving, or repairing rental housing for senior citizens and low-to-moderate income families and other housing for domestic farm labor. The interest rates on these loans vary depending on the type of loan and source of loan funds. Although loan repayment periods vary depending on loan type and source of funds, farm labor housing loans may be repaid over periods of up to 33 years and rental housing loans may be repaid over periods of up to 50 years.

The act provides that rural housing loans be made to individuals who are unable to obtain the financing they need from other credit sources at reasonable rates and terms. Instructions of the Farmers Home Administration state that, in order to be eligible for a rural housing loan, an applicant must have the ability to repay the loan.

In processing a rural housing loan application, Farmers Home Administration personnel perform a number of services. These services include (1) obtaining credit information on the applicant, (2) reviewing detailed plans and specifications for proposed construction work, and (3) making appraisals of loan security. The cost of these services, which are provided without charge to loan applicants, are paid from the agency's salary and expense appropriations.

The numbers and amounts of rural housing loans made in recent years have increased significantly. For example, in fiscal year 1960, the Farmers Home Administration made 5,287 loans amounting to about $40.7 million. These amounts increased to 54,655 loans and $491.3 million during fiscal year 1968. Further, Farmers Home Administration projections for fiscal year 1970 indicate an increase to about 174,000 loans totaling about $1,295.8 million.

Farmers Home Administration financial reports show that, for fiscal year ended June 30, 1968, the rural housing loan program incurred an operating loss of about $22 million. For the 9 months ended March 31, 1969, the reports show that the program incurred an operating loss of about $20 million. These losses resulted primarily because (1) the interest rate charged by the Farmers Home Administration on loans made to rural housing borrowers was substantially less than the interest rate which the Federal Government had to pay on its borrowings to obtain the funds used in making the loans and (2) there were significant costs involved in administering the program, including the costs of processing loan applications.

CHAPTER 2

FEES NOT ASSESSED FOR PROCESSING

RURAL HOUSING LOANS

The Farmers Home Administration was not assessing fees to applicants for rural housing loans to recover its costs of services provided in processing the loan applications because it believed (1) that the Congress intended that no fees be charged and (2) that such loans are made to low-income families who would be unable to pay a fee. We believe that the adoption of a policy of assessing fees is necessary to conform to the general policy of the Government that, where a service provides recipients with special benefits above and beyond those which accrue to the public at large, a charge should be imposed to recover, to the extent practicable, the cost to the Government of providing that service.

Charges for processing loan applications are generally assessed under other Federal housing loan programs, and our review showed that the majority of applicants for rural housing loans had incomes which exceeded the established poverty levels for rural families. These incomes, in many instances, compared favorably with those of applicants for housing loans under a major housing program of the Federal Housing Administration.

The number of rural housing loans has increased significantly in recent years and is expected to reach about 174,000 and total about $1.3 billion in 1970. Because the Farmers Home Administration's accounting system does not accumulate program costs on a routine basis, we could not determine from available records the actual costs of processing an application for a rural housing loan. To obtain an estimate of the fees that might be involved, we applied the fees currently charged for processing applications for housing loans by the Federal Housing Administration to the projected loan volume of the Farmers Home Administration for fiscal year 1970. On this basis, the assessment of fees for processing rural housing loans would result in revenues amounting to between $6.1 and $7.8 million annually.

The details of our review, together with our recommendations and the comments of the Farmers Home Administration, are discussed below.

AUTHORITY TO ASSESS FEES FOR PROCESSING RURAL HOUSING LOAN APPLICATIONS

Title V of the Independent Offices Appropriation Act, 1952 (31 U.S.C. 483a), states that it is the sense of the Congress that any work, service, publication, document, benefit, privilege, or similar thing of value or utility performed, provided, prepared, or issued by any Federal agency to or for any person, except those engaged in official Government business, shall be self-sustaining to the full extent possible. It authorizes the head of each Federal agency to prescribe such fee, charge, or price, if any, as he shall determine to be fair and equitable, taking into consideration direct and indirect costs to the Government, value to the recipient, and public policy or interest served.

The act also provides that executive agencies' actions be in accordance with any policies prescribed by the President. In this respect, the President assigned to the Bureau of the Budget (BOB) certain responsibilities relative to a "user charges program." Pursuant to the delegation of authority, BOB has issued policy guidance to the executive departments and agencies.

BOB's current policy pronouncement--BOB Circular No. A-25, dated September 23, 1959--states that the provisions of the circular cover all Federal activities which convey special benefits to recipients above and beyond those accruing to the public at large. The circular states also that a reasonable charge should be made to each identifiable recipient for a measurable unit or amount of Government service or property from which he derives a special benefit. The circular provides that, with certain exception, all collections from such charges be deposited in the general fund of the Treasury as miscellaneous receipts.

In addition to the above general criteria, subchapter III of title V of the Housing Act of 1949, as amended (42 U.S.C. 1472), provides that rural housing "loans made or insured under this subchapter shall be conditioned on the borrower paying such fees and other charges as the Secretary of Agriculture may require."

The Administrator of the Farmers Home Administration advised us by letter dated April 1, 1969, that the Farmers Home Administration policy of not assessing fees was based primarily on what the agency believed to be the intent of the Congress as expressed in the Consolidated Farmers Home Administration Act of 1961. The Administrator stated that, in passing the 1961 act, the Congress repealed earlier legislation which made assessment of fees mandatory and gave the Secretary of Agriculture discretionary authority to assess such fees as he may require.

Inasmuch as the mandatory fees were applicable to only farm loans and the 1961 act pertained specifically to the Farm Ownership Loan Program rather than the Rural Housing Loan Program authorized under title V of the Housing Act of 1949, as amended, we discussed this matter with officials of Department of Agriculture's Office of General Counsel. We were advised that the philosophy of not assessing fees, which was derived from the 1961 act, had also been applied to the Rural Housing Loan Program.

In our opinion, the decision of the Farmers Home Administration to not assess fees to recover the costs of processing applications for rural housing loans is not consistent with the general policy of the Government as set forth in the Independent Offices Appropriation Act of 1952 and BOB Circular No. A-25.

CHARGES FOR PROCESSING LOAN APPLICATIONS ARE ASSESSED UNDER OTHER FEDERAL HOUSING PROGRAMS

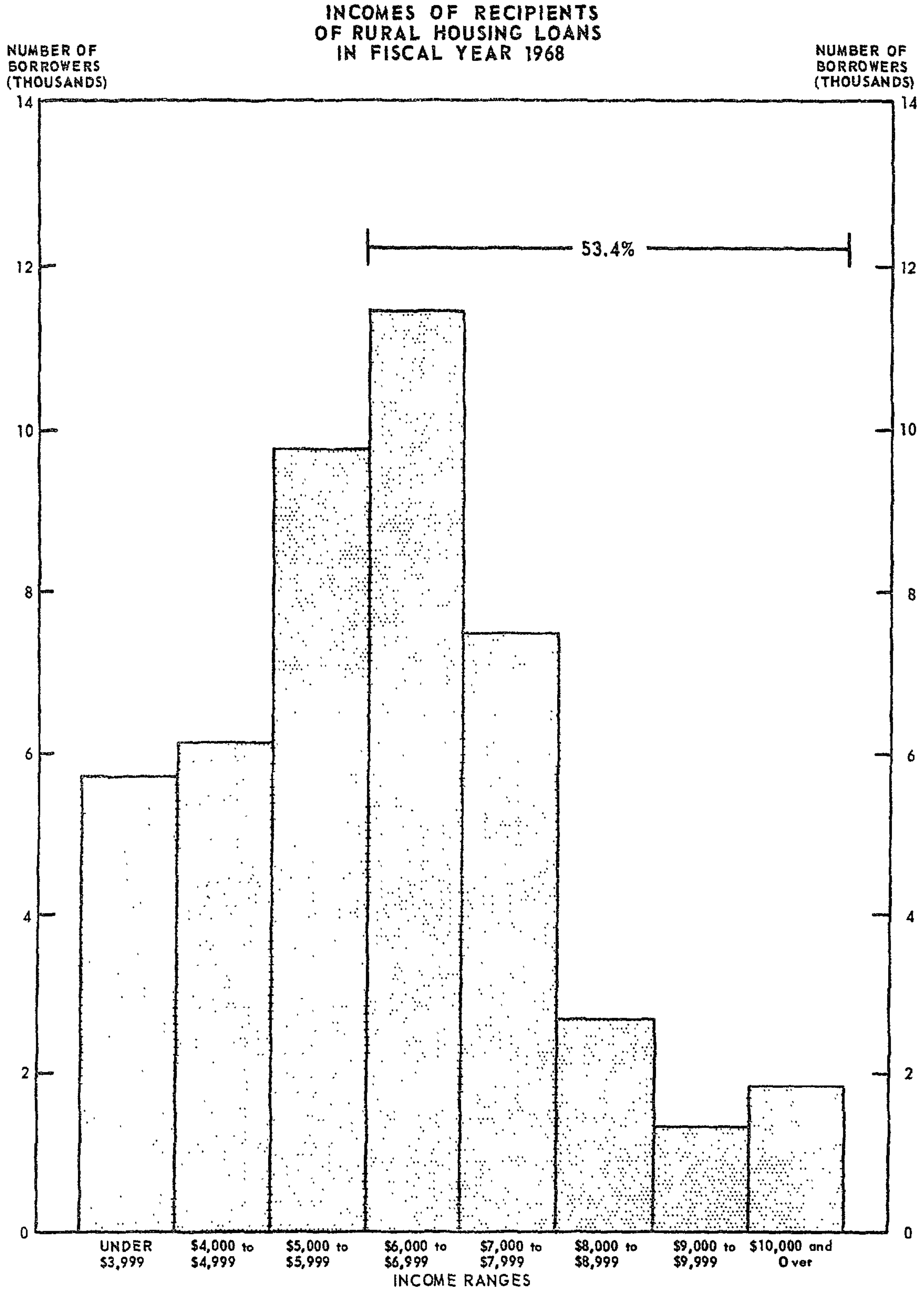
Charges for processing loan applications are generally assessed under other Federal housing programs. We found that the majority of the applicants for Farmers Home Administration rural housing loans had incomes which exceeded the established poverty level for rural families and that the incomes compared favorably in many instances with the incomes of applicants for housing loans under a major housing program of the Federal Housing Administration.

During our review, the Director of Farmers Home Administration's Rural Housing Loan Division, advised us that a basic reason for the policy of not assessing fees for processing applications for rural housing loans was that the Farmers Home Administration's basic objective is to assist low-income families who would be unable to pay a fee.

Our review, however, of a Farmers Home Administration analysis of the incomes of the recipients of rural housing loans made during fiscal year 1968 showed that, of the 46,407[1] loan recipients, 24,771 or 53.4 percent had annual incomes of from $6,000 to over $10,000, which is substantially above the current poverty level income established by the Department of Labor for rural farm and nonfarm families. For example, the poverty income level established for a farm family of five is $3,500 and for a nonfarm family of five is $4,200. The following chart illustrates the ranges of annual incomes of loan recipients in fiscal year 1968.

---

[1]Farmers Home Administration records show that 92 percent of these loan recipients were nonfarm families.


INCOMES OF RECIPIENTS
OF RURAL HOUSING LOANS
IN FISCAL YEAR 1968
NUMBER OF BORROWERS (THOUSANDS)
NUMBER OF BORROWERS (THOUSANDS)
14
12
10
8
6
4
2
0
53.4%
UNDER $3,999
$4,000 to $4,999
$5,000 to $5,999
$6,000 to $6,999
$7,000 to $7,999
$8,000 to $8,999
$9,000 to $9,999
$10,000 and Over
INCOME RANGES

The Farmers Home Administration administers certain loans for the Federal Housing Administration, Department of Housing and Urban Development, under section 235 of the Housing and Urban Development Act of 1968. This section was authorized to assist lower income families to become homeowners in rural areas. The rate of interest on these loans, which depends on family size and annual income, may be as low as 1 percent.

Under the terms of a written agreement between the Department of Housing and Urban Development and the Department of Agriculture, the Farmers Home Administration performs certain services, such as appraisals, inspections, and credit and architectural reviews, in connection with applications for the section 235 loans. The agreement provides that the Farmers Home Administration charge loan applicants a $35 or $45 fee for its services. These are the same rates charged by the Federal Housing Administration for its home loans. (See p. 14.) The agreement stipulates that the Farmers Home Administration will retain the revenues from these fees to offset part of the cost of administering section 235 loans.

The retention of fees to offset part of the cost of administering the loan program is in accordance with authority granted the Federal Housing Administration by title I of the National Housing Act of 1934, as amended (42 U.S.C. 1702).

We found that, for the 63 loans the Farmers Home Administration had approved as of April 25, 1969, under the section 235 loan program, the average total annual income of the loan recipients was $4,966. The income range for this entire group, all of whom were assessed fees, was $1,786 to $7,863.

Consequently, under the current practices followed by the Farmers Home Administration, rural residents in the lower income range are required to pay application fees for section 235 loans; whereas, other rural residents with comparable or substantially higher incomes are not required to pay fees for rural housing loans.

Also, the Federal Housing Administration and the Veterans Administration assess charges for processing housing loan applications. For example, with each application for mortgage insurance, the Federal Housing Administration requires the payment of a $35 fee on existing construction or a $45 fee on proposed construction. The fees cover the cost of reviewing architectural designs, making appraisals, reviewing loan applications, and reviewing mortgagor credit. Data published by the Federal Housing Administration showed that almost 50 percent of the 364,909 mortgages insured in 1968 under section 203b of the National Housing Act were made to applicants with annual incomes ranging from $4,000 to $10,000. This income range was similar to that of applicants for loans from the Farmers Home Administration. (See p. 12.)

We discussed the assessment of fees with officials of a limited number of rural private lending institutions and were advised that these institutions generally charged a fee to cover the cost of their appraisals in connection with rural real estate loans. The appraisal fees charged ranged from $10 to $30. Some of these institutions also charged a fee to cover other loan processing costs.

Various Farmers Home Administration officials were of the opinion that most rural housing loan applicants could afford to pay a reasonable service charge. The Assistant Administrator for Real Estate Loans advised us that most applicants could probably afford to pay a $40 to $50 service charge.

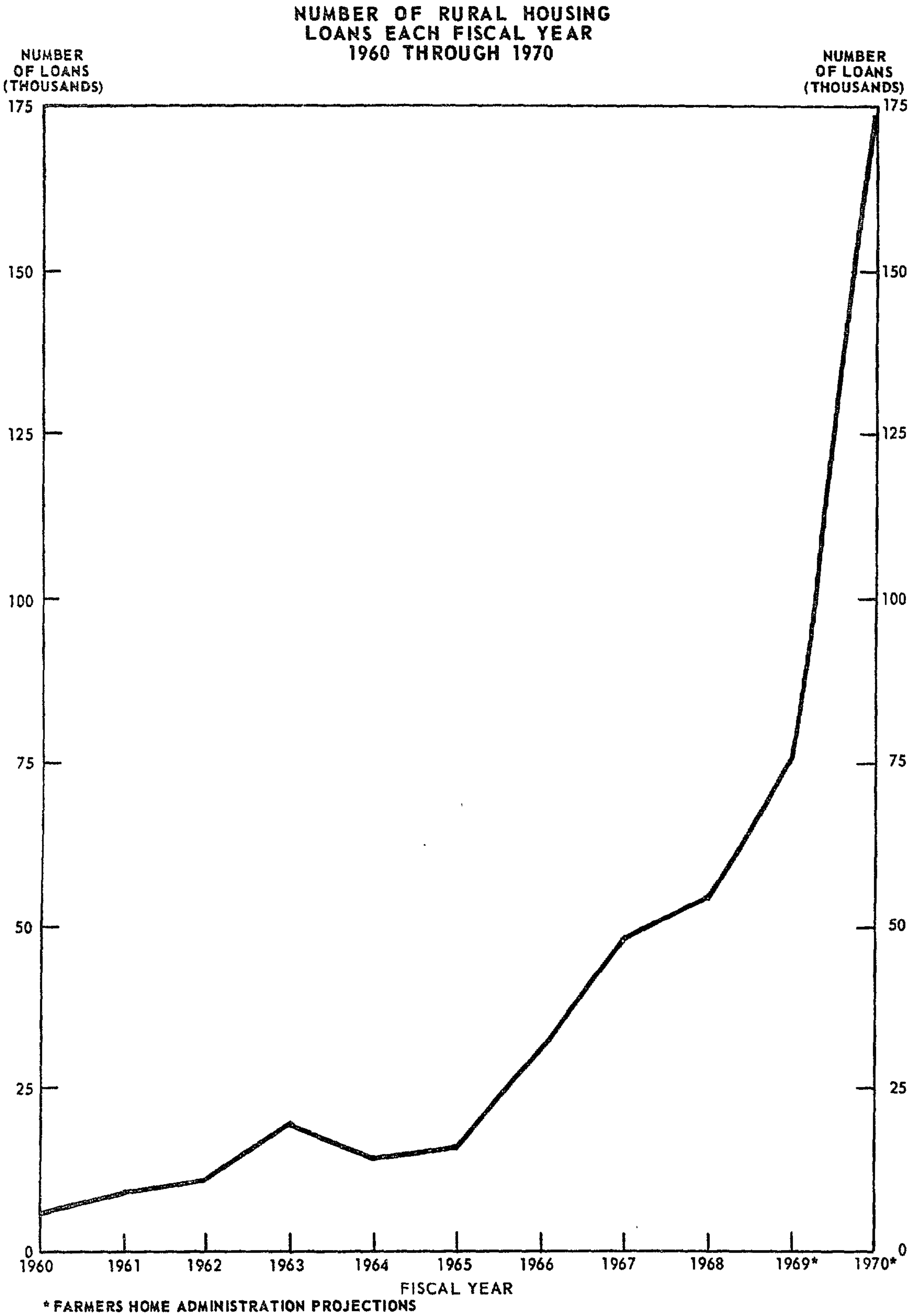
ASSESSMENT OF FEES WOULD HELP RECOVER PROGRAM COSTS

The number and total dollar volume of rural housing loans have increased substantially since fiscal year 1960. Further, the Farmers Home Administration estimates that the program will continue to increase at a rapid rate in the future.

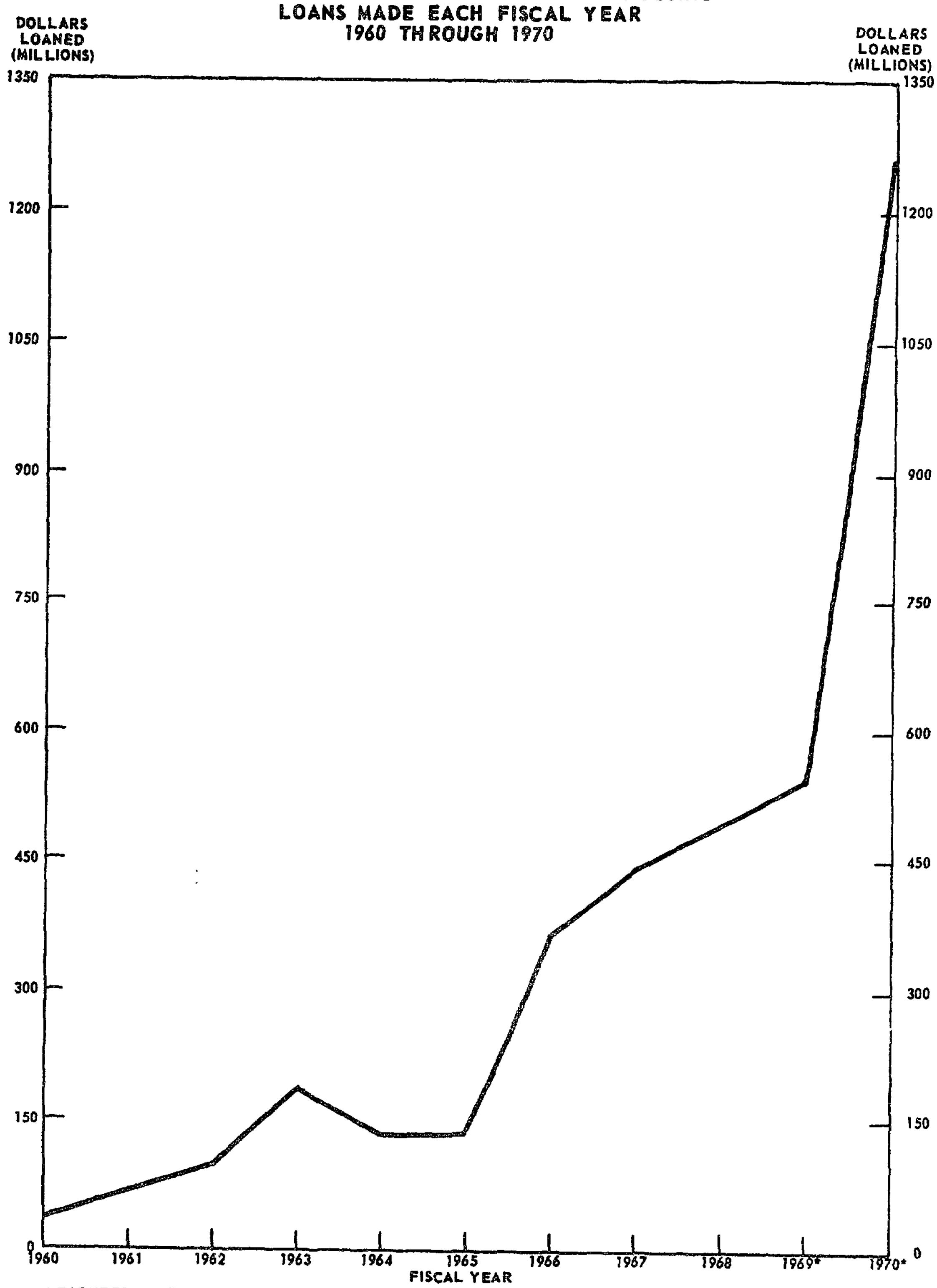
The number and total dollar volume of loans made in fiscal years 1960 through 1968 and the Farmers Home Administration estimates for fiscal year 1969 and 1970 are shown in the charts on pages 16 and 17.

We, as well as the Farmers Home Administration, were unable to determine from the available records the actual cost of the services performed in processing a rural housing loan because the Farmers Home Administration's accounting system does not accumulate program costs on a routine basis.

The Farmers Home Administration projected that during fiscal year 1970 the agency would make 173,590 rural housing loans totaling about $1.3 billion. To obtain an estimate of the fees that might be involved, we applied the fees of $35 and $45 currently charged to individuals for processing applications for housing loans by the Federal Housing Administration to the above projected loan volume for fiscal year 1970. On this basis, the assessment of fees for processing rural housing loans would result in revenues amounting to between $6.1 and $7.8 million annually.


NUMBER OF RURAL HOUSING LOANS EACH FISCAL YEAR 1960 THROUGH 1970
NUMBER OF LOANS (THOUSANDS)
175
150
125
100
75
50
25
0
1960
1961
1962
1963
1964
1965
1966
1967
1968
1969*
1970*
FISCAL YEAR
* FARMERS HOME ADMINISTRATION PROJECTIONS

DOLLARS LOANED ON ALL RURAL HOUSING
LOANS MADE EACH FISCAL YEAR
1960 THROUGH 1970



* FARMERS HOME ADMINISTRATION PROJECTIONS

CONCLUSIONS

We concluded that, in accordance with established Government policy, the Farmers Home Administration should assess fees for processing applications for rural housing loans. We believe that the assessment of such fees would be fair to applicants for rural housing loans, in view of the special benefits they receive, and would result in making the rural housing loan program consistent with other Federal housing loan programs. Also, the assessment of fees would help to recover the costs to the Government of the services provided in processing applications for rural housing loans.

RECOMMENDATIONS

We recommend that the Administrator, Farmers Home Administration, establish and assess a fee which will recover, to the extent practicable, the costs of processing applications for rural housing loans. We recommend also that the costs of processing applications be reviewed periodically and that the fees be adjusted, to the extent practicable, for increases or decreases in such costs.

AGENCY COMMENTS

The Administrator, Farmers Home Administration, advised us by letter dated August 29, 1969 (see app. I), that the Farmers Home Administration would adopt our recommendation relating to the charging of fees for rural housing loans.

The Administrator stated that the agency recognized that more recent amendments to the Housing Act provided an updated expression of congressional intent in the housing field and that the agency's housing program had grown from a minor to a major program. The Administrator stated also that Farmers Home Administration would start a study of costs to develop a fee schedule for housing loans to satisfy the criteria in BOB Circular No. A-25.

The Administrator advised us also that Farmers Home Administration would submit a legislative proposal through clearance channels proposing that the Congress give Farmers Home Administration authority to use housing loan fees to offset part of the administrative costs of the housing programs.

CHAPTER 3

FEES NOT ASSESSED UNDER

OTHER LOAN PROGRAMS ADMINISTERED

BY THE FARMERS HOME ADMINISTRATION

The Farmers Home Administration performs services similar to those performed for applicants for rural housing loans when it processes applications for individuals and groups obtaining other types of loans that involve the acquisition of real property, such as farm ownership loans, soil and water loans, recreational facilities loans, and grazing association loans. These loans are made pursuant to the Consolidated Farmers Home Administration Act of 1961, as amended (7 U.S.C. 1924), and section 307 of this act provides that the borrowers shall pay such fees and other charges as the Secretary of Agriculture may require.

Applicants for these loans are not required by the Farmers Home Administration to pay fees for the services provided by the agency in processing loan applications. The agency's policy of not assessing fees has been based primarily on what the agency believed to be the intent of the Congress as expressed in the Consolidated Farmers Home Administration Act of 1961. (See p. 10.) We did not make a detailed review of these loan programs to determine what other reasons, if any, may exist for not assessing applicants a fee for processing their loan applications.

As discussed on page 10, however, the 1961 act made the establishment of fees discretionary with the Secretary of Agriculture. In our opinion, the overall Government policy of assessing fees to recipients of special benefits, as stated in the Independent Offices Appropriation Act of 1952 and BOB Circular No. A-25, may also be applicable to the other loan programs of the Farmers Home Administration.

In view of the volume of loans made under these programs, as shown below, the assessment of fees would result in the collection of substantial amounts to help recover program costs.

Program	1968 Number of loans	1968 Amount of loans (in millions)	1969 (note a) Number of loans	1969 (note a) Amount of loans (in millions)	1970 (note a) Number of loans	1970 (note a) Amount of loans (in millions)
Farm ownership	10,814	$205.0	16,500	$300.0	20,130	$365.0
Soil and water:						
To individuals	1,327	6.0	1,700	5.5	575	2.5
To associations	1,050	164.9	1,157	187.4	1,247	186.5
Recreational facilities:						
To individuals	-	-	750	15.0	750	15.0
To associations	226	23.9	202	30.1	229	30.1
Grazing (to associations)	99	13.1	170	25.0	157	25.0
Total	13,516	$412.9	20,479	$563.0	23,088	$624.1

[a]Estimated by Farmers Home Administration.

RECOMMENDATION

We recommend that the Administrator, Farmers Home Administration, review the agency's policy of not charging fees for processing loan applications under programs carried out pursuant to the 1961 act, in light of the applicable provisions of the Independent Offices Appropriation Act of 1952 and the requirements of BOB Circular No. A-25.

AGENCY COMMENTS

The Administrator, Farmers Home Administration, advised us that Farmers Home Administration would reappraise the agency's approach to establishing fees on other loan programs at the time work is started on the development of a fee schedule for housing loans.

CHAPTER 4

SCOPE OF REVIEW

Our review was made at the Farmers Home Administration headquarters office in Washington, D.C.; the Finance Office in St. Louis, Missouri; the State office in Lexington, Kentucky; and various county offices located in Kentucky, Ohio, and Indiana.

Our examination consisted of a review of pertinent legislation and the policies and procedures under which the Farmers Home Administration was making rural housing and other types of loans involving the acquisition of real property to farmers and other rural residents. We also reviewed the policy and procedures followed by the Federal Housing Administration and the Veterans Administration concerning the assessment of fees for processing housing loans.

We examined rural housing loan volume statistics and data on the annual incomes of rural housing loan recipients. We interviewed various Farmers Home Administration officials to inquire into the cost of processing loans and the basis for Farmers Home Administration's loan processing fee policy. We also interviewed representatives of 17 rural banks and other private lending institutions to inquire into their practices regarding assessing charges for housing and farm loan services.

APPENDIXES

UNITED STATES DEPARTMENT OF AGRICULTURE
FARMERS HOME ADMINISTRATION
WASHINGTON, D.C. 20250

OFFICE OF THE ADMINISTRATOR

AUG 29 1969

Mr. Victor L. Lowe
Associate Director
General Accounting Office
Room 6639, South Agriculture Bldg.
Washington, D. C.

Dear Mr. Lowe:

This will reply to your letter of June 9 requesting our comments on a proposed report to Congress on assessing charges for processing rural housing loans by the Farmers Home Administration. The report specifically recommends that the Farmers Home Administration establish and assess reasonable fees for processing rural housing loans and that this agency review its policy of not charging fees for other types of loans.

This reply will cover the position of FHA with respect to all of its loan activities. Subtitle A of the Consolidated Farmers Home Administration Act and Title V of the Housing Act of 1949, contain similar language on the subject of fees and charges reading substantially as follows: "The borrower shall pay such fees and other charges as the Secretary may require." This language, which is permissive, supersedes the language in Section 12(d) of Title I of the old Bankhead-Jones Farm Tenant Act which made the charging of certain fees mandatory in connection with insured farm ownership loans. Other statutes authorizing FHA loans for relatively smaller programs do not expressly contain the permissive "fees and other charges" authority.

In considering the question of fees we need to examine the purpose and eligibility requirements of FHA credit programs. Generally speaking, FHA by legislation is directed to provide credit services to farmers, ranchers and others who "are unable to obtain sufficient credit elsewhere to finance their actual needs at reasonable rates and terms (or upon terms and conditions which they could be reasonably be expected to fulfill)". By this definition and by other provisions of law it is abundantly clear that the Congress intended for the FHA to provide a supplementary source of credit and not a general overall source of credit. FHA loans are tailored to meet the credit needs of applicants who cannot obtain credit elsewhere. It is consistent with the statutes that the Administrator of FHA determined to eliminate the charging of fees when Congress enacted the Consolidated Act with its permissive language relating to fees.

We recognize that more recent amendments to the Housing Act, particularly Sections 235 and 236, provide an updated expression of Congressional intent in the housing field. This housing precedent is significant because the housing program in FHA has grown from a minor to a major program (it now accounts for more than half of the FHA new loan activity). We accept the recommendation in the report relating to the charging of fees for housing loans and we are starting a study of costs to develop a fee schedule for housing loans which will satisfy the criteria in Bureau of the Budget Circular A-25.

There is a fundamental difference between the loan making processes of Farmers Home Administration and HUD/VA, and this will need to be recognized in constructing the FHA housing loan fee schedule. Farmers Home Administration loans are made initially with Federal funds and Government personnel carry out all functions associated with the processing of the loan through disbursement. This contrasts with the "insured" loan procedures of HUD and VA under which a private lender processes the loan application and disburses private funds. HUD/VA personnel make the appraisal; and, all other work associated with processing the loan is done by the mortgagee (the private lender). The borrower pays the Government for the appraisal and he pays the private lender for processing the loan. Farmers Home does both parts of the job (under both HUD and Farmers Home procedures legal fees for closing the loan are paid for by the borrower to the attorney).

Concurrent with the work that is being started on the development of a fee schedule for housing loans, we will reappraise the agency approach to user fees on other programs. The issue raised by your report is of a substantive character and gives us the opportunity to consider revisions in our approach to funding the administrative costs of the FHA program.

We are starting a legislative proposal through clearance channels proposing that Congress give us authority to use housing loan fees to offset part of the administrative costs of the housing programs; and, we will develop proposals on other loan programs as may be appropriate.

Sincerely,

Administrator

PRINCIPAL OFFICIALS OF THE DEPARTMENT OF AGRICULTURE RESPONSIBLE FOR THE ADMINISTRATION OF MATTERS DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
SECRETARY OF AGRICULTURE:		
Clifford M. Hardin	Jan. 1969	Present
Orville L. Freeman	Jan. 1961	Jan. 1969
ASSISTANT SECRETARY OF AGRICULTURE FOR RURAL DEVELOPMENT AND CONSERVATION:		
Thomas K. Cowden	Apr. 1969	Present
John A. Baker	Mar. 1961	Jan. 1969
ADMINISTRATOR, FARMERS HOME ADMINISTRATION:		
James V. Smith	Jan. 1969	Present
Howard Bertsch	Apr. 1961	Jan. 1969
ASSISTANT ADMINISTRATOR FOR REAL ESTATE LOANS:		
Henry F. Lowe	Oct. 1967	Present
Henry F. Lowe (acting)	Jan. 1967	Oct. 1967
Julian Brown	Jan. 1965	Jan. 1967
Bernard Polk	Apr. 1962	Jan. 1965
DIRECTOR, RURAL HOUSING LOAN DIVISION:		
Louis D. Malotky	Apr. 1962	Present

U.S. GAO Wash., D.C.