



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

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CIVIL DIVISION

AUG 28 1970

Dear Mr. Smith:

The General Accounting Office is making a review of the manner in which State and county offices of the Farmers Home Administration (FHA) are carrying out their financial management policies and procedures for administering the various loan programs of FHA. As part of this review, we have examined the practices followed by your field personnel for appraising real property pledged as security for a loan.

The Senate Committee on Appropriations, Department of Agriculture and Related Agencies, previously has expressed an interest in the practices followed by FHA in appraising real property. In this connection, Senate Report 1370, dated July 12, 1966, which accompanied the Department of Agriculture and Related Agencies Appropriation Bill, 1967, contained comments regarding FHA appraisal activities. The report pointed out that:

--the Committee was concerned about action taken by FHA to disperse the important appraisal responsibility for real estate loans to over 1,632 county office supervisors.

--in the Committee's view, appraisal functions of all specialized loan programs should not be delegated to county offices except in special cases, but retained at a level within the State organization wherein qualified appraisal capability is located.

Also, Conference Report 1867, dated August 23, 1966, which also accompanied the Department of Agriculture and Related Agencies Appropriation Bill, 1967, contained the suggestion that FHA carefully review the results of the dispersal of appraisal activities to county offices to be sure that the interests of both the borrower and the Government are adequately protected.

During our current review of the practices followed by FHA in appraising real property, we noted that, prior to January 1970, FHA instructions prohibited county supervisors from approving real estate loans made in connection with property the supervisors had appraised. However, in January 1970, FHA revised its instructions to authorize county supervisors to approve real estate loans for nonfarm tracts up to \$25,000 in connection with property they have appraised.

We were advised by FHA officials that the procedural change would speed up the loan approval processing time which had been adversely

affected by the increased workload in the county offices. We were advised also that the FHA State office and district personnel would continue to review, to the extent possible, the unassisted appraisals during supervisory visits to the county offices.

The Federal Assistance Review Staff, Department of Agriculture, issued a report in February 1970, on simplified processing of grant, loan, cooperative agreement, and technical assistance programs. This report pointed out that FHA's January 1970 procedural change would result in a 14-day reduction in the processing time for approving a rural housing loan application.

While we recognize that this change may expedite the time in processing a loan application at the county level, we believe this change has weakened the internal control of FHA's lending activities, as it relates to the separation of the appraisal and loan approval functions. Since the majority of nonfarm rural housing loans are for less than \$25,000 each, and in view of the expected growth in the rural housing loan program, it would appear that the procedural change is not in the best interest of the Government or in accord with the interest previously expressed by the Senate Committee on Appropriations, Department of Agriculture and Related Agencies.

In our opinion, there should be a separation of responsibilities between the appraisal and the loan approval functions. An FHA employee should not be allowed to appraise real estate and make a loan on the same property.

RECOMMENDATION

Accordingly, we recommend that the FHA instructions be revised to require that appraisals on nonfarm tracts be made by an employee who is not involved in approving a loan on the same property.

We would appreciate being advised of the specific actions taken or planned pursuant to our recommendation.

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

Sincerely yours,



Victor L. Lowe
Associate Director

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