



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548



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CIVIL DIVISION

MAR 1 8 1972

*Rel. 6-30-83
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Dear Mr. Smith:

The General Accounting Office has completed a survey of the farm ownership and operating loan programs of the Farmers Home Administration (FHA). Our survey was performed at FHA's headquarters office in Washington, D.C., FHA State offices in Illinois and North Carolina, two county offices in each State, and the FHA Finance Office in St. Louis, Missouri.

On the basis of our survey, during which we reviewed 18 farm ownership loans totaling \$487,730 and 38 operating loans totaling \$295,730, we concluded that the programs were appropriately administered at the locations visited regarding (1) the borrower's ability to obtain credit elsewhere, (2) the adequacy of loan security, (3) the borrower's compliance with loan closing conditions, (4) the borrower's graduation to other sources of credit, and (5) the refinancing of existing debts.

During the course of our survey, FHA revised its instructions concerning advances of funds under the operating loan program so that interest on all initial advances will accrue from the date of the promissory note rather than from the date of the check as required previously. This revision will reduce interest costs to operating loan borrowers.

Also we discussed with FHA headquarters officials the possibility of greater use of multiple advances under the programs. The use of multiple advances would provide increased assurance that cash advances of Government funds to the borrowers are limited to the minimum amounts needed and are timed to be in accord with the borrowers' actual cash requirements. The officials agreed to study this matter further.

In view of the actions already taken or planned by your agency, we do not plan to review the farm ownership and operating loan programs further or to make any recommendation at this time. We would, however, appreciate being advised of the results of the study regarding the use of multiple advances.

Copies of this letter are being sent to the Office of the Inspector General.

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