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Briefing Report To The Chairman, Committee on Agriculture, Nutrition, and Forestry, United States Senate

January 1986

FARMERS HOME ADMINISTRATION

Financial and General Characteristics of Farmer Loan Program Borrowers

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RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION

B-221106

January 2, 1986

The Honorable Jesse A. Helms
Chairman, Committee on Agriculture, Nutrition, and Forestry
United States Senate

Dear Mr. Chairman:

Your letter of September 6, 1985, expressed concern over the American farmers' growing reliance on the resources of the Farmers Home Administration (FmHA). You noted that FmHA's outstanding farm loan portfolio has increased from about $6 billion in 1978 to almost $28 billion in 1985. With the Congress addressing the issue of financial stress in U.S. agriculture, including FmHA's future role in assisting additional farmers, you asked GAO to inform your Committee of the current financial condition of both FmHA borrowers and the farm loan portfolio. This report and another report entitled Farmers Home Administration: An Overview of Farmer Program Debt, Delinquencies, and Loan Losses (GAO/RCED-86-57BR, Jan. 1986) respond to your request.

FmHA's computerized data base, the Farmer Program Management Information System (FARMS), contains certain financial and general characteristics of borrowers, such as debt load and cash flow, the type and size of farm operations, and demographic data. FARMS, started in 1983, uses information obtained from FmHA loan documents on borrowers who have received loans for (1) farm ownership, (2) annual operating expenses, (3) emergency disaster losses, and (4) soil and water development and conservation. Although FARMS does have some limitations (see p. 46), it is the most complete source of financial information available on FmHA borrowers. FmHA said this information is representative of all FmHA farmer program borrowers on a national basis but is not projectable to individual states or counties.

This briefing report presents information on a total of 65,893 FmHA borrowers who received 117,366 farm loans during 1983 and 1984 (about 53 percent of all farm loans made during that period). The first section of the report provides information on borrower assets and liabilities, debt-to-asset ratios, and equity positions. The second section discusses the cash flow position of the borrowers; the third section provides general characteristics of borrowers including farm type, size, and demographic data.

Section four of the report is our observations related to our analyses of the FARMS data, and section five provides details on the scope, methodology, and data limitations of our work.

FmHA acts as the federal government's "lender of last resort" and, as such, is expected to serve farmers under a high degree of financial stress. This report highlights the seriousness of this financial stress. Specifically, for borrowers in the FARMS data base we found that

--The average borrower had a debt-to-asset ratio of 83 percent. Twenty percent of the borrowers had debt-to-asset ratios of over 100 percent, which means they are technically insolvent. An additional 31 percent of the borrowers had debt-to-asset ratios between 70 and 99 percent, which means they are having extreme financial problems. (See p. 10.)

--In the first half of 1985, FmHA made new loans to 7,213 technically insolvent borrowers for about $763 million while 12,047 borrowers having extreme financial problems received new loans for another $1.2 billion. (See p. 14.)

--The average borrower had a yearly negative cash flow of about $56,000. Fifteen percent of the borrowers had a positive cash flow. (See pp. 20 and 22.)

FmHA is faced with the dilemma of providing credit to high-risk farmers while also protecting the government's financial interest. To assist farmers in difficult economic times, FmHA revised its servicing policy in February 1982 to allow borrowers to obtain additional farm loans without considering the borrowers' ability to repay prior debts. This policy allowed many farmers to stay in business. However, it also resulted in FmHA's lending money to many farmers who had limited ability to repay those loans.

As of June 30, 1985, FARMS borrowers owed a total of $8.1 billion in FmHA farm loans of which $5.1 billion was owed by borrowers in extreme financial difficulty or technical insolvency. FmHA stated that the FARMS data are representative of the financial condition of all its farm borrowers and as such estimated that over $14 billion of its $28 billion farm loan portfolio is owed by borrowers in extreme financial difficulty and thus in jeopardy of default.

With more of its farm loan portfolio becoming at risk, FmHA again revised its servicing policy in November 1985. This new, more restrictive policy requires a borrower to be current on loan payments before additional credit will be provided.

We did not test the validity of the FARMS data base. We did obtain agency comments on the results of our work. FmHA officials agreed with the information contained in the report, and the comments provided have been incorporated where appropriate.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after its issue date. At that time we will send copies to the Secretary of Agriculture, the Administrator of the Farmers Home Administration, the Director of the Office of Management and Budget, and other interested parties. If you have additional questions or if we can be of further assistance on this issue, please contact me on (202) 275-5138.

Sincerely yours,

Brian P. Crowley

Brian P. Crowley
Senior Associate Director

Contents

ABBREVIATIONS

ERS	Economic Research Service
FARMS	Farmer Program Management Information System
FmHA	Farmers Home Administration
GAO	General Accounting Office
MBF	Master Borrower File
OIG	Office of Inspector General
USDA	U.S. Department of Agriculture

SECTION 1

STATEMENT OF ASSETS AND LIABILITIES, DEBT-TO-ASSET RATIO, AND EQUITY POSITION OF FmHA FARMER LOAN PROGRAM BORROWERS

Table 1.1

Statement of Assets and Liabilities for FARMS Borrowers[a]

	Average	Median	Number of borrowers
Property owned/assets			
Real estate	$181,900	$135,000	52,109
Livestock	39,400	25,000	44,928
Machinery and equipment	58,000	40,000	63,033
Personal property	33,600	20,000	63,432
Total	$262,700	$190,000	64,869
Debts owed/liabilities			
Liens on real estate	$125,400	$ 85,000	48,664
Liens on chattel and crops	88,800	60,000	59,681
Judgments	21,300	100	9,149
Taxes	2,300	600	18,676
Other debt	14,000	5,000	46,015
Total	$193,700	$135,000	63,406
Equity	$73,400	$40,000	63,288[b]
Debt-to-asset ratio	83%	70%	63,288[b]

[a]The totals are not equal to the sum of their parts because figures were rounded and not all data elements applied to all borrowers.

[b]Of the 65,893 FARMS borrowers analyzed, 63,288 reported sufficient data to compute a debt-to-asset ratio and equity position.

Source: GAO analysis of 1983 and 1984 FARMS data.

Statement of Assets and Liabilities

A number of different ways exist to determine the financial position of farmers. One measure is a statement of assets and liabilities that contrasts the amount of money the farmer has invested to the amount owed creditors. The FARMS data indicates that real estate represents the major component of the borrower's assets. The next largest asset group is machinery and equipment. Liens on real estate represent the largest liability followed by liens on chattel and crops.

As will be shown in a later section of this report, FmHA's principal loan activity occurs in the areas of farm ownership (i.e. real estate) and annual operating loans. Normally, farm ownership loans are secured by real estate liens while operating loans are secured by liens on chattel and crops.

Two commonly used measures to summarize a borrower's financial position are the debt-to-asset ratio and equity (net worth) position. The debt-to-asset ratio, which compares the value of a farmer's assets to the amount of money owed to creditors, is one of the primary measures to determine whether a borrower will have cash flow difficulties. Equity represents the net worth of the farm operation; or stated differently, equity is the value of property owned above the amount of debt associated with it.

As shown in table 1.1, the average debt-to-asset ratio for 63,288 FARMS borrowers was 83 percent. The average equity position of the FARMS borrowers was a positive $73,400. A positive equity indicates that the borrower could obtain cash by selling some assets or by using the equity as collateral for additional borrowing.

Because FmHA provides credit to many different types of borrowers, all FmHA requests for information do not apply to all borrowers. In addition, responses that are provided can vary widely depending on the type and size of the borrower's farm operation. This variance can distort an arithmatic average, so table 1.1 also provides the median values for responding borrowers. The median value is the point at which half of the borrowers had responses of greater than the value and half of the borrowers had responses less than the value. For example, table 1.1 shows that the median value for livestock was $25,000. This means that half of the 44,928 borrowers who reported that they owned livestock responded that the livestock's value exceeded $25,000 and half of the responding borrowers had livestock valued at less than $25,000. The average value of livestock for all responding borrowers was $39,400.

Further analyses of a borrower's financial position, as shown by the debt-to-asset ratio and equity position, is provided in tables 1.2 through 1.6.

Table 1.2

FARMS Borrowers' Debt-to-Asset Ratio

Financial status of borrower	Debt/asset ratio (percent)	Number of borrowers	Percent of borrowers
Technically insolvent	100 and over	12,448	20
Extreme financial problems	70 to 99	19,743	31
Serious financial problems	40 to 69	20,076	32
No apparent financial problems	under 40	11,021	17
Total		63,288	100

Source: GAO analysis of 1983 and 1984 FARMS data.

Table 1.3

FARMS Borrowers' Debt-to-Asset Ratio by Cash Farm Sales

Cash farm sales	Average debt/asset ratio	Number of borrowers	Percent of borrowers
$ 0 to $ 49,999	77	20,873	33
$ 50,000 to $499,999	86	41,813	66
$500,000 and over	95	602	1
Total	83	63,288	100

Source: GAO analysis of 1983 and 1984 FARMS data.

Debt-to-Asset Ratio

The debt-to-asset ratio indicates the farm's overall financial soundness and risk-bearing ability. The Department of Agriculture's (USDA) Economic Research Service (ERS) Information Bulletin Number 495, dated July 1985, segregates debt-to-asset ratios into four categories.

Under 40 percent. Generally few financial problems and very strong net worth (no apparent financial problems).

40-69 percent. Problems meeting principal repayment but adequate net worth (serious financial problems).

70-99 percent. Problems meeting principal repayment and current interest due with declining net worth (extreme financial problems).

100 percent or more. Severe problems meeting principal and interest commitments. The farms are technically insolvent and sale of the farm's assets would not be sufficient to retire its debts (technically insolvent).

The ERS report states that at current prices, farming costs, and asset values, most farms start having difficulties meeting principal repayment commitments at debt-to-asset ratios of around 40 percent. Above 70 percent, farmers generally have problems meeting their interest and principal repayment commitments. With debt-to-asset ratios above 70 percent, many farms start sliding toward insolvency. The final critical point is insolvency where the total debts of the farm exceed the total value of owned assets. At this point, a farm generally cannot meet either interest or principal payments; and the value of assets, if sold, would not be enough to retire the debts.

Table 1.2 shows that 20 percent of the FARMS borrowers are technically insolvent. In contrast, USDA reported in January 1985 that about 3 percent of all farmers in the United States had debt-to-asset ratios of over 100 percent. An additional 31 percent of the FARMS borrowers are having extreme financial problems with debt-to-asset ratios of between 70 and 99 percent while USDA classified 7 percent of all U.S. farmers in that category.

Table 1.3 shows that when classified by cash farm sales, all categories of FARMS borrowers are, on average, experiencing extreme financial problems.

Table 1.4

Total Loan Amount Outstanding on All FmHA Farm Loans Owed by FARMS Borrowers as of June 30, 1985

Financial status of borrower	Debt/asset ratio (percent)	Number of borrowers	Number of loans	Loan amount outstanding (millions)
Technically insolvent	100 and over	11,658	61,082	$2,214
Extreme financial problems	70 to 99	18,488	81,521	2,910
Serious financial problems	40 to 69	18,723	68,796	2,143
No apparent financial problems	under 40	9,998	30,394	870
Total		58,867	241,793	$8,137

Source: GAO analysis of 1983 and 1984 FARMS data and FmHA's Master Borrower File as of June 30, 1985.

Total Loan Amount Outstanding on All FmHA Farm Loans Owed by FARMS Borrowers as of June 30, 1985

The FARMS data base does not contain specific information on all FmHA farm loans owed by a borrower. For example, loans made under FmHA's Economic Emergency program are not specifically identified in the FARMS system. To obtain information on the total number and value of FmHA farm loans owed by FARMS borrowers, we obtained a copy of FmHA's Master Borrower File as of June 30, 1985. This file is a computerized data base containing selected information that includes the type and value of all outstanding direct FmHA farm loans and the status of payments due on these loans. The Master Borrower File does not contain information on a borrower's assets, other liabilities, income, and expenses. This information is only collected by the FARMS system.

As shown by the difference in the number of borrowers in table 1.2 and table 1.4, not all FARMS borrowers were included on the Master Borrower File. For example, some 1983 and 1984 FARMS borrowers were out of business by June 1985.

Our analysis showed that 11,658 FARMS borrowers, classified as technically insolvent, owed about 61,000 loans with outstanding unpaid principal of over $2.2 billion. An additional 81,521 loans, with outstanding unpaid principal of about $2.9 billion, were owed by 18,488 FARMS borrowers classified as having extreme financial problems. Thus, in June 1985 FmHA had about 142,000 loans totaling over $5.1 billion outstanding to FARMS borrowers who were in extreme financial difficulty.

Table 1.5

New Loans Made to FARMS Borrowers, January 1 through June 30, 1985

Financial status of borrower	Debt/asset ratio (percent)	Number of borrowers	Number of new loans	Amount of loans (millions)
Technically insolvent	100 and over	7,213	18,668	$ 763
Extreme financial problems	70 to 99	12,047	32,790	1,254
Serious financial problems	40 to 69	11,179	27,399	963
No apparent financial problems	under 40	5,155	10,559	333
Total		35,594	89,416	$3,313

Source: GAO analysis of 1983 and 1984 FARMS data and FmHA's Master Borrower File as of June 30, 1985.

New Loans Made to FARMS Borrowers, January 1 through June 30, 1985

Table 1.5 provides a comparison of FARMS borrowers with FmHA's Master Borrower File data base as of June 30, 1985, and shows that 18,688 new loans totaling about $763 million were made to technically insolvent borrowers during the first 6 months of calendar year 1985. An additional 32,790 new loans, for $1,254 million, were made to borrowers with extreme financial problems. Loans made to these borrowers characterize the high risk nature of FmHA lending.

By statute, FmHA is directed to make loans primarily to family farmers who are unable to obtain credit from other lenders at reasonable rates and terms. Responding to the downturn in the agricultural economy during the early 1980's, FmHA, in February 1982, liberalized its loan servicing policy to allow borrowers to obtain additional (new) financing without showing the ability to repay prior loans. This policy revision allowed FmHA to continue with delinquent and problem loan borrowers, provided the following conditions were met:

(1) The borrower acted in good faith by demonstrating sincerity and honesty in meeting agreements and promises made with and to FmHA.

(2) The borrower had been unable to pay accounts as scheduled, due primarily to circumstances beyond his/her control.

(3) The borrower had applied the improvements and key management practices spelled out in the Farm and Home Plan (FmHA planning document prepared by the farmer to develop a farm budget) or identified in the cash flow schedules.

(4) The borrower had properly maintained chattel and real estate security and properly accounted for the sale of security, including crops, livestock, and livestock production.

(5) The borrower developed a farm budget, projecting realistic production, commodity prices, and family living and production expenses. The budget showed that all current production expenses, reasonable family living expenses, and accruing interest on current production loans could be repaid from the current planned income. Borrowers were not required to show that they could pay principal and interest on other loans.

In November 1985 FmHA issued a policy directive that revised its loan servicing policy toward delinquent and problem borrowers. The new policy is more restrictive, requiring a borrower to be current on loan payments before additional credit will be provided.

Table 1.6

Equity Position of FARMS Borrowers

Equity category	Average within category	Borrowers within category	Percent
Negative equity			
-$500,001 or more	-$728,300	335	1
-$ 50,001 to -$500,000	- 277,100	4,691	7
-$ 10,001 to -$ 50,000	- 29,800	4,831	8
-$ 1 to -$ 10,000	- 4,600	2,573	4
Total		12,430	20
Positive equity			
$ 1 to $ 10,000	$ 5,100	5,143	8
$ 10,001 to $ 50,000	29,800	16,409	26
$ 50,001 to $500,000	269,900	27,911	44
$500,001 or more	699,300	1,395	2
Total		50,858	80
Total	$ 73,400	63,288	100

Source: GAO analysis of 1983 and 1984 FARMS data.

Equity Position of FARMS Borrowers

As stated previously equity represents the value of assets beyond the amount owed. Table 1.6 shows that the average equity of FARMS borrowers is about $73,400. However, 20 percent of the borrowers have a negative equity and an additional 8 percent have less than $10,000 equity.

As shown in the following tables, FARMS borrowers are experiencing significant yearly cash flow shortfalls, which will further undermine their future equity position.

SECTION 2

CASH FLOW POSITION OF FmHA FARMER LOAN PROGRAM BORROWERS

Table 2.1

Cash Flow Statement for FARMS Borrowers[a]

	Average	Median	Number of borrowers
Crop income	$67,300	$45,000	55,899
+ Livestock income	53,500	30,000	44,235
+ Conservation payments & other farm income	9,000	5,000	23,536
= Total cash farm income	$98,300	$75,000	64,530
- Cash farm operating expenses	72,900	60,000	64,321
= Net cash farm income	$25,700	$20,000	64,298
+ Nonfarm income	12,000	10,000	46,833
= Total net cash income	$34,200	$25,000	64,692
- Cash family living expenses	11,000	15,000	63,130
= Net cash income	$23,500	$15,000	64,728
- Debt repayment due this year	83,300	55,000	61,932
= Cash surplus/ shortfall	-$56,000	-$30,000	64,930[b]

[a]The totals and subtotals are not equal to the sum of their parts because figures were rounded and not all data elements applied to all borrowers.

[b]Of the 65,893 FARMS borrowers analyzed, 64,930 reported sufficient data to compute a cash flow statement.

Source: GAO analysis of 1983 and 1984 FARMS data.

Cash Flow Statement for FARMS Borrowers

Cash flow statements provide information on the source of cash income, both farm and nonfarm, and indicate the farm's overall ability to pay current production expenses, service principal and interest payments on farm debt, and provide for family living needs. The cash flow measure used in table 2.1 is a short-run measure since it does not take into account depreciation of assets or a return on owner-operator components such as labor, land, and machinery.

Table 2.1 shows FARMS borrowers reported total cash farm income of about $98,000 and operating expenses of about $73,000, which result in a net cash farm income of about $26,000. After considering nonfarm income and family living expenses, the borrowers reported about $24,000 available to repay debts due of about $83,000, or a net cash shortfall of about $56,000.

The data source in FARMS used to develop the cash flow statement was a planning document entitled the Farm and Home Plan. The plan is prepared by the farmer to develop a farm budget that projects production, commodity prices, and living expenses. FmHA officials noted that as a planning document used in the loan approval process, the data tend to be optimistic. As such, they believe that our analyses of cash farm operating expenses and cash family living expenses are conservative. They stated that more realistic estimates of farm operating expenses could be about 85 to 90 percent of total cash farm income and of family living expenses would be about $20,000. If these numbers are more accurate, the average cash shortfall of an FmHA farm borrower would increase by another $24,000 to about $80,000 per year.

In addition to average values, table 2.1 provides the median values for responding borrowers. The median value is the point at which half of the borrowers had responses greater than the value and half of the borrowers had responses less than the value. The median shows the variance in responses caused by the wide range of farm types and sizes serviced by FmHA.

Tables 2.2 through 2.5 provide further analyses of cash flow, including details on the number of FARMS borrowers with a cash surplus or shortfall, their nonfarm income, and annual debt repayment.

Table 2.2

FARMS Borrowers With a Cash Surplus or Cash Shortfall

	Cash surplus or shortfall	Number of borrowers	Percent of borrowers
Negative Cash Flow	-$100,001 or more	11,740	18
	-$ 50,001 to -$100,000	11,883	18
	-$ 10,001 to -$ 50,000	22,578	35
	-$ 1 to -$ 10,000	8,885	14
Total			85
Positive Cash Flow	$ 0 to $ 10,000	4,752	7
	$ 10,001 to $ 50,000	3,618	6
	$ 50,001 to $100,000	788	1
	$100,001 or more	686	1
Total			15
Total		64,930	100

Source: GAO analysis of 1983 and 1984 FARMS data.

FARMS Borrowers' Cash Surplus or Shortfall

Table 2.2 shows that 85 percent of the FARMS borrowers providing sufficient data to make the calculation have a negative cash flow.

FmHA officials stated that lending to farmers with a cash flow exceeding $50,000 probably took place under the emergency disaster loan program. Emergency disaster loans are made as a result of national disasters such as drought, floods, and hailstorms. Such loans are not restricted to family farmers who cannot get credit elsewhere.

Table 2.3

FARMS Borrowers' Annual Debt Repayment

Annual debt repayment due	Number of borrowers	Percent of borrowers
$ 0 to $ 29,999	19,370	31
$ 30,000 to $ 59,999	14,968	24
$ 60,000 to $ 89,999	9,253	15
$ 90,000 to $119,999	5,638	9
$120,000 or more	12,703	21
Total	61,932	100

Source: GAO analysis of 1983 and 1984 FARMS data.

FARMS Borrowers' Annual Debt Repayment

Table 2.3 shows that about one third of the 61,932 responding FARMS borrowers reported a debt repayment due of less than $30,000, while about 20 percent reported debt repayment due of $120,000 or more. The nature of this debt, that is who provided the loans and the terms and conditions of the loans, is not captured by the FARMS system. However, total debt repayment due is supposed to represent all of the borrower's debt, not just the FmHA portion.

Table 2.4

Amount of Nonfarm Income for FARMS Borrowers

Amount of nonfarm income	Number of borrowers	Percent of borrowers
$ 0 to $ 9,999	25,011	53
$10,000 to $19,999	14,443	31
$20,000 to $29,999	4,899	11
$30,000 to $39,999	1,358	3
$40,000 and over	1,122	2
Total	46,833	100

Source: GAO analysis of 1983 and 1984 FARMS data.

Table 2.5

FARMS Borrowers Classed by Cash Farm Sales

Farm classification	Cash farm income/sales	Number of borrowers	Percent of borrowers
Small farms	$ 0 to $ 49,999	21,391	33
Medium farms	$ 50,000 to $499,999	42,529	66
Large farms	$500,000 and over	610	1
Total		64,530	100

Source: GAO analysis of 1983 and 1984 FARMS data.

Nonfarm Income for FARMS Borrowers

Farmers can improve their cash flow and sustain their operations by augmenting farm income with nonfarm income. Table 2.4 reports nonfarm income levels for FARMS borrowers. About 53 percent of the 46,833 borrowers who reported nonfarm income had amounts of less than $10,000, while 2 percent reported nonfarm income of over $40,000.

FmHA officials stated that lending to farmers with nonfarm income exceeding $40,000 probably took place under FmHA's emergency loan programs that are not restricted to family farmers who cannot get credit elsewhere. FmHA stated that for the most part, these borrowers were larger than family-size farmers.

FARMS Borrowers Classed by Cash Farm Sales

The family-size farm is the primary target classification for FmHA's farm loan programs. Family-size commercial farms are defined by ERS as having farm income of from $50,000 to $500,000. Table 2.5 shows that about two thirds of the 64,530 responding borrowers fit this definition.

SECTION 3

GENERAL CHARACTERISTICS OF FmHA FARMER LOAN PROGRAM BORROWERS

Table 3.1

Type of Loan Assistance Provided to FARMS Borrowers, Calendar Years 1983 and 1984

FmHA loan program	Number of loans by program	Dollar amount by program (millions)	Percent of total dollars
Farm ownership	10,075	$ 738	17
Operating	79,593	2,701	62
Emergency disaster	26,857	886	20
Soil and water	841	14	1
Total	117,366	$4,339	100

Source: GAO analysis of 1983 and 1984 FARMS data.

Type of Loan Assistance to FARMS Borrowers, Calendar Years 1983 and 1984

Table 3.1 shows the number of loans received by FARMS borrowers during 1983 and 1984 by type of FmHA farmer loan program. During this period FARMS borrowers primarily received annual operating loans, which accounted for over 60 percent of the dollar value of all loans made to these borrowers. As previously noted, the FARMS system does not include specific information on economic emergency loans.

Table 3.2

Average Amount of Individual Loans to FARMS Borrowers, Calendar Years 1983 and 1984

Loan amounts	Number of loans	Average loan amount	Percent of loan dollars
$ 1 to $ 9,999	23,667	$ 5,634	20
$ 10,000 to $ 19,999	24,614	14,355	21
$ 20,000 to $ 99,999	62,505	46,044	53
$100,000 to $149,999	4,248	115,324	4
$150,000 and over	2,332	208,001	2
Total	117,366	$ 36,975	100

Source: GAO analysis of 1983 and 1984 FARMS data.

Table 3.3

Total Loans Made to Individual FARMS Borrowers, Calendar Years 1983 and 1984

Loan amounts	Number of borrowers	Average loan amount per borrower	Percent of borrowers
$ 1 to $ 9,999	7,448	$ 5,680	11
$ 10,000 to $ 19,999	8,699	14,584	14
$ 20,000 to $ 29,999	7,221	24,460	11
$ 30,000 to $ 49,999	10,786	38,931	17
$ 50,000 to $ 79,999	10,780	63,549	17
$ 80,000 to $139,999	11,426	103,350	18
$140,000 and over	7,952	214,783	12
Total	64,312[a]	$ 67,477	100

[a]Of the 65,893 FARMS borrowers analyzed, 64,312 reported data o the dollar amount of their loans.

Source: GAO analysis of 1983 and 1984 FARMS data.

Average Amount of Individual Loans to FARMS Borrowers, Calendar Years 1983 and 1984

Table 3.2 shows that the average individual loan made to a FARMS borrower in calendar years 1983 and 1984 was about $37,000, with over half of the loans received being between $20,000 and $99,999.

Total Loans Made to Individual FARMS Borrowers, Calendar Years 1983 and 1984

Since an individual borrower can obtain more than one loan, we added all the loans made to a FARMS borrower during 1983 and 1984 to determine the average amount of funds received. Table 3.3 shows that the average FARMS borrower received loans totaling about $67,500 during the period.

Table 3.4

Personal Characteristics of FARMS Borrowers

	Number of borrowers	Percent
RACE/ETHNIC		
White	62,285	95
Black	2,267	3
Amer. Ind.	430	1
Hispanic	524	1
Asian	108	-
No response	279	-
Total	65,893	100
BORROWER TYPE		
Individual	60,486	92
Partnership	2,019	3
Corporation	430	1
Cooperative	5	-
No response	2,953	4
Total	65,893	100
EDUCATION LEVEL		
Elementary (8 years or less)	6,911	11
High school (4 years or less)	37,246	57
College (6 years or less)	16,386	25
College (more than 6 years)	279	-
No response	5,071	7
Total	65,893	100

	Number of borrowers	Percent
SEX		
Male	17,556	27
Female	651	1
Family unit	45,623	69
Other	1,826	3
No response	237	-
Total	65,893	100
MARITAL STATUS		
Married	54,500	83
Separated	566	1
Unmarried	9,069	14
No response	1,758	2
Total	65,893	100
VETERAN		
Yes	14,826	23
No	49,300	75
No response	1,767	2
Total	65,893	100

Source: GAO analysis of 1983 and 1984 FARMS data.

Personal Characteristics of FARMS Borrowers

Table 3.4 shows that FARMS borrowers were primarily white, married, and non-veterans; considered themselves a member of a family unit; had a high school education; and considered their farming operation a sole proprietorship.

Table 3.5

Types of Farming Operations of FARMS Borrowers

Overall summary	Number of borrowers	Percent of borrowers
Agricultural production - crop	39,256	66
Agricultural production - livestock	20,337	34
No response	6,300	-
Total	65,893	100
Agricultural Production - Crop		
Cash grains	17,157	29
Field crops, except cash grains	9,489	16
Vegetables and melons	394	1
Fruits and tree nuts	622	1
Horticultural specialties	147	-
General farms, primarily crop	11,447	19
Total	39,256	66
Agricultural production - livestock		
Livestock, except dairy, poultry, and animal specialties	7,587	13
Dairy	7,598	13
Poultry and eggs	684	1
Animal specialties	165	-
General farms, primarily livestock	4,303	7
Total	20,337	34

Source: GAO analysis of 1983 and 1984 FARMS data.

Types of Farming Operations of FARMS Borrowers

Table 3.5 shows that about two thirds of the FARMS borrowers were engaged in crop production, while the remaining one third reported being engaged in livestock and dairy operations.

Tables 3.6 and 3.7 provide a further breakdown of the types of farms that the borrowers operated.

Table 3.6

Type of Farm Operation: Crop

	Number of borrowers	Percent of borrowers
Cash grains		
Wheat	2,932	5
Rice	589	1
Corn	4,079	7
Soybeans	7,010	12
Miscellaneous	2,547	4
Total	17,157	29
Field crops, except cash grains		
Cotton	3,802	6
Tobacco	4,011	7
Sugar crops	174	-
Irish potatoes	243	1
Miscellaneous	1,259	2
Total	9,489	16
Vegetables and melons		
Vegetables and melons	394	1
Fruits and tree nuts		
Berry crops	83	-
Grapes	59	-
Tree nuts	82	-
Citrus fruits	9	-
Deciduous tree fruits	322	-
Miscellaneous	67	-
Total	622	1
Horticultural specialties		
Ornamental floriculture and nursery products	98	-
Food crops grown under cover	12	-
Miscellaneous	37	-
Total	147	-
General farms, primarily crop		
General farms, primarily crop	11,447	19
Total	39,256	66

Source: GAO analysis of 1983 and 1984 FARMS data.

Table 3.7

Type of Farm Operation: Livestock

	Number of borrowers	Percent of borrowers
Livestock, except dairy, poultry, and animal specialties		
Beef cattle feedlots	401	1
Beef cattle except feedlots	3,731	6
Hogs	2,255	4
Sheep and goats	194	-
Miscellaneous	1,006	2
Total	7,587	13
Dairy		
Dairy farms	7,598	13
Poultry and eggs		
Broiler, fryer, and roaster chickens	412	-
Chicken eggs	142	-
Turkeys and turkey eggs	63	-
Poultry hatcheries	6	-
Miscellaneous	61	-
Total	684	1
Animal specialties		
Fur-bearing animals and rabbits	27	-
Horses and other equines	27	-
Miscellaneous	111	-
Total	165	-
General farms, primarily livestock		
General farms, primarily livestock	4,303	7
Total	20,337	34

Source: GAO analysis of 1983 and 1984 FARMS data.

SECTION 4

GAO OBSERVATIONS

GAO OBSERVATIONS

FmHA is faced with the dilemma of providing credit to high-risk farmers while at the same time protecting the government's, and ultimately the taxpayers', financial interests.

By statute, FmHA is directed to make loans to family farmers who cannot obtain sufficient credit elsewhere to finance their actual needs at reasonable rates and terms. As such, it was expected that FmHA would provide financial assistance to high-risk borrowers. On the other hand, FmHA is also tasked to use generally accepted sound loan-making practices to ensure that its loans have a reasonable chance of being repaid or that sufficient collateral exists to have an adequately secured loan if the borrower defaults.

As agricultural economic conditions worsened in the early 1980's, FmHA found itself with loan requests from farmers who had limited loan repayment ability. In an effort to assist farmers who were dealing with difficult farm credit conditions, FmHA, in February 1982, revised its loan servicing policy to allow borrowers to obtain additional (new) financing without showing the ability to repay prior loans. This policy, which became known as the continuation policy, stated that FmHA would continue to work with present borrowers who, among other things, have a reasonable chance to repay any new loan.

In March 1983 the Department of Agriculture's Office of Inspector General (OIG) issued an audit report stating that FmHA loan-making policies had resulted in additional loans to borrowers who could not repay prior indebtedness and had little or no chance of repaying current production loans. In responding to that report, the FmHA Administrator justified this continuation policy by stating

> "The Agency's objective in adopting the 1982 policy, and it continues to be the Agency's objective, was to continue with the vast majority of our borrowers and to spread out the number of cases requiring legal action or forced liquidation over a period of several years, taking action first on the most seriously delinquent and hopeless problem case borrowers. If the Agency had taken a firm stand against all its delinquent borrowers and had forced a large number of those borrowers out of business over a relatively short period of time, it would have driven down the value of real estate and chattel security for FmHA as well as other agricultural lenders. This would not only have caused a further downturn in the agricultural economy, but would also have aroused political concerns which might very well have resulted in legislation mandating the Agency to temporarily cease all foreclosure actions, provide moratoriums on loan payments, forgive principal and

interest or mandate other unsound credit management policies. . . . We agree with OIG that the February 1982 policy has resulted in FmHA continuing with borrowers, in some cases, who are seriously delinquent and may not be able to work their way out of these financial problems. However, we believe the policy is within the legislative intent of the Consolidated Farm and Rural Development Act and is representative of the Agency's mission to sustain agricultural production and provide credit to farmers who are unable to finance their operations through commercial and private credit sources."

The result of FmHA's continuation policy is a farm loan portfolio that contains a large number of loans that are highly susceptible to default.

As shown in table 1.4, over half of the 63,288 FmHA FARMS borrowers included in our analyses had debt-to-asset ratios of 70 percent or greater, classifying them as having extreme financial problems. During the first 6 months of 1985, FmHA's continuation policy allowed over $2 billion to be loaned to about 19,000 of these borrowers. About $763 million of this amount constituted new loans made to over 7,000 technically insolvent borrowers. As of June 30, 1985, about 30,000 FARMS borrowers we analyzed were in extreme financial difficulty or technically insolvent. These borrowers had outstanding loans totaling more than $5.1 billion with $2.2 billion of that amount being owed by technically insolvent borrowers. These figures represent only a portion of the $28 billion farm loan portfolio outstanding to all FmHA farm borrowers as of June 30, 1985.

In September 1985 we showed the results of our analyses to officials of FmHA farmer loan programs. They concurred that the results of our work were accurate. Subsequently, in a November 1985 meeting of all state directors, FmHA presented information on debt-to-asset ratios that they projected to all 264,000 FmHA farmer loan program borrowers. The information was based on an FmHA analysis of the FARM's data base and concluded that 20 percent, or 52,000 farm borrowers, were technically insolvent. Another 33 percent, or about 86,000 borrowers, were categorized as in extreme financial difficulty with debt-to-asset ratios of between 70 and 99 percent. Of the remaining 126,000 borrowers, 31 percent were classified as having serious financial problems and 16 percent were considered to have no apparent financial problems.

FmHA's analyses, which included some 1985 data on the financial condition of its borrowers, produced generally the same results as our analyses. FmHA believes that the FARMS data is representative of the financial condition of all its farm borrowers and as such estimated that over $14 billion, or over half of its $28 billion farm loan portfolio, is in jeopardy of default.

On November 1, 1985, FmHA issued a directive that terminated the continuation policy. The new loan servicing policy requires borrowers to be current on loan payments before additional credit will be provided. FmHA stated that the new policy and related new regulations provide FmHA borrowers with clear, consistent, and predictable guidelines on how their loan accounts will be serviced by the agency. FmHA stated that the new servicing regulations let borrowers know, in advance, what servicing choices are available to them and how they may take advantage of these choices. FmHA added that borrowers who are delinquent on their loans as of December 31 of each year will receive a notice of their delinquency and the notice will advise them of the servicing choices available such as the rescheduling or deferral of payments due. However, if, after all servicing actions required by FmHA regulations have been considered and it has been determined that taking such action will not cure the borrower's default or delinquency, a borrower's loan account will be liquidated.

FmHA implemented its revised servicing policy in November 1985. As a result of this action, FmHA estimates that about 75,000 of its borrowers will receive a "Notice of Intent To Take Adverse Action" sometime in early 1986. This notice will allow borrowers to ask for servicing actions that can make them current on their loan payments and enable them to stay in business. However, FmHA believes that about 36,000 of these borrowers, who have not made a loan payment in over 3 years, have little chance of becoming current and most likely will fail.

As FmHA implements its more restrictive servicing policy, it is still faced with the dilemma of finding an appropriate balance between acting as the lender of last resort for farmers who cannot get credit elsewhere while at the same time protecting the government's financial interests through sound loan-making practices.

SECTION 5

OBJECTIVES, SCOPE, AND METHODOLOGY;

DATA LIMITATIONS

OBJECTIVES, SCOPE, AND METHODOLOGY

As requested in your September 6, 1985, letter, our overall objective was to provide the Senate Committee on Agriculture, Nutrition, and Forestry with information on the financial condition of current FmHA farmer loan program borrowers. Specifically we agreed to provide, in briefing report format, information on borrower debt load, cash flow, and general characteristics. As agreed with the Committee, we limited our review to analyses of existing data bases to provide as much valid information as possible by December 31, 1985.

The primary data source used in our review was FmHA's Farmer Program Information System, also known as the FARMS data base. We obtained a July 1, 1985, copy of this data base, which was started by FmHA in 1983. FARMS was designed to capture certain financial and other characteristics of FmHA's farm borrowers. We conducted our own computer analyses of the data and identified 65,893 individual borrowers who had received FmHA farm loans during 1983 and 1984. We sorted, tabulated, arrayed, and averaged financial information on these borrowers using various production, sales, debt, asset, and personal characteristics. Only 63,288 of the borrowers had reported sufficient information to make the debt-to-asset ratio computations. We did not analyze 1985 FARMS data because at the time of our review only limited information was available.

For a more complete picture of a borrower's financial condition and FmHA's total lending to FARMS borrowers, we also obtained a June 30, 1985, copy of FmHA's Master Borrower File data base. The Master Borrower File contains selected information on all active borrowers and loans in FmHA's total farm loan portfolio but no information on borrower assets, other liabilities, income, and expenses.

DATA LIMITATIONS

The FARMS data base has three basic data limitations. The data base is not a statistical sample of all FmHA farm borrowers and thus is not statistically projectable to the nation. The FARMS system obtains its data input from FmHA county supervisors, but not all field offices have reported on all borrowers. However, because of the substantial number of borrowers reported in the system, FmHA officials believe the data is representative of all of its farm borrowers but not projectable to the individual state and county levels.

Second, FARMS was not designed to collect specific information on economic emergency loans, one of the five major FmHA farm loan programs, because the program expired in September 1984. The system does contain data on borrowers with (1) farm ownership, (2) operating, (3) emergency disaster, and (4) soil and water loans. The FARMS system does include the amount of economic emergency loan debt in data on total borrower debt without identifying specific sources of that overall debt. The economic emergency loan program represents $4.2 billion, or 15 percent of FmHA's entire farm loan portfolio, as of June 30, 1985.

Third, one of the major data sources for the FARMS system is FmHA's Farm and Home Plan. The Farm and Home Plan is a planning document used by the farmer to develop a farm budget that projects production, commodity prices, and family living and production expenses. Used as a planning document, the data tend to be optimistic as evidenced by FmHA's statement that our analysis of borrower farm operating expenses and family living expenses may be conservative. The result of this may be an optimistic presentation of a borrower's financial condition.

We conducted several comparisons of the FARMS data base with FmHA's Master Borrower File to determine how representative FARMS data were to total FmHA lending activities during 1983 and 1984. We found that

--The FARMS data contained at least one reported borrower in 87 percent of the counties in which FmHA made loans.

--The 65,893 borrowers we identified from the FARMS data represented 56 percent of all borrowers who received loans of the type reported in FARMS during the time period.

--The above borrowers received 53 percent of all loans made in the time period.

--The FARMS data accounted for 50 percent of the total dollars loaned during the time period.

The following tables provide details on the coverage of the FARMS data base.

Table 5.1

Comparison of All Borrowers Who Received FmHA Loans to Those Reported in the FARMS Data Base, Calendar Years 1983 and 1984

State	Borrowers from MBF	Borrowers from FARMS
Alabama	2,353	1,009
Alaska	3	1
Arizona	428	46
Arkansas	5,240	2,707
California	1,234	531
Colorado	821	512
Connecticut	162	72
Delaware	124	77
Florida	1,087	205
Georgia	3,392	1,776
Hawaii	109	59
Idaho	1,485	541
Illinois	6,280	4,536
Indiana	2,760	960
Iowa	7,921	5,301
Kansas	2,574	1,512
Kentucky	5,825	4,136
Louisiana	4,174	2,558
Maine	1,150	717
Maryland	601	296
Massachusetts	253	138
Michigan	2,490	1,219
Minnesota	3,965	2,511
Mississippi	4,824	1,767
Missouri	6,218	4,631
Montana	1,223	736
Nebraska	2,636	1,687
Nevada	112	51
New Hampshire	71	27
New Jersey	343	125
New Mexico	564	275
New York	2,156	718
North Carolina	3,789	2,408
North Dakota	3,980	2,824
Ohio	2,457	900
Oklahoma	3,946	2,247
Oregon	792	266
Pennsylvania	1,678	858
Puerto Rico	918	210
Rhode Island	34	15
South Carolina	1,827	753
South Dakota	5,499	2,672
Tennessee	3,965	2,136
Texas	7,153	5,231
Utah	508	264
Vermont	478	305
Virgin Islands	7	3
Virginia	1,937	638
Washington	799	348
West Virginia	801	417
Wisconsin	3,663	1,783
Wyoming	354	164
Total	117,146	65,893
Percent of total		56
Total counties with FmHA loans	3,056	2,669
Percent of total		87%

Source: GAO analysis of 1983 and 1984 FARMS data and FmHA's Master Borrower File (MBF) as of December 31, 1984.

Comparison of All Borrowers Who Received FmHA Loans to Those Reported in the FARMS Data Base

Table 5.1 shows the geographic coverage of the FARMS data base in relation to all FmHA farm loan program activity for calendar years 1983 and 1984. The table shows that the 65,893 borrowers in the FARMS system represented about 56 percent of the total FmHA borrowers for the period. In addition, one or more FARMS respondents were shown from 2,669 of the 3,056 counties (87 percent) where FmHA made farm program loans in calendar years 1983 and 1984.

Table 5.2

Comparison of FARMS Data Coverage to All FmHA Farmer Program Loans, Calendar Years 1983 and 1984

	All FmHA loans[a]	FARMS data	FARMS as percent of all
Number of counties	3,056	2,669	86.7
Number of borrowers	117,146	65,893	56.2
Number of loans	220,957	117,366	53.1
Loan Amount (millions)	$8,736	$4,339	49.6

[a]To compare FARMS data on borrowers who received loans during 1983 and 1984 with all farm loan activity during the period, we used FmHA's Master Borrower File data base as of December 31, 1984. We also compared the information on only farm ownership, operating, emergency disaster, and soil and water loan programs from each data base because those are the only program loan types reported in FARMS.

Source: GAO analysis of 1983 and 1984 FARMS data and FmHA's Master Borrower File as of December 31, 1984.

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