

**GAO**

Briefing Report to the Chairman,  
Committee on Agriculture, Nutrition, and  
Forestry, United States Senate

November 1986

**FARMERS HOME  
ADMINISTRATION**

**Loan-Servicing Efforts  
Focus on Continually  
Delinquent Borrowers**



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Resources, Community, and  
Economic Development Division

B-224797

November 12, 1986

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

Dear Mr. Chairman:

Your April 10, 1986, letter asked for information on the extent that Farmers Home Administration (FmHA) borrowers are continually delinquent on their farm loans. We defined continually delinquent as those borrowers that were delinquent as of June 30 in each of 3 consecutive years--1984, 1985, and 1986. Our review shows the following:

- Of approximately 261,000 total FmHA farm borrowers, 50,033 were continually delinquent. About 34,600 of these borrowers, or 13 percent of the total farm borrowers, accounted for 78 percent of the total \$6.8 billion delinquent payments owed FmHA as of June 30, 1986.
- Of the 50,033 continually delinquent borrowers, 8,043 had discontinued or were discontinuing farming as of July 1986. According to FmHA records, 41,983 of the remaining delinquent borrowers were still actively farming. Information was not available on the status of the other seven continually delinquent borrowers.
- Of the 41,983 continually delinquent borrowers actively farming, 25,441 had not made a loan payment on at least one loan since 1983 or earlier, and 1,364 had never made a payment on any of their FmHA loans.
- Emergency disaster loans accounted for 63 percent of the total delinquent amounts owned by the 41,983 active continually delinquent borrowers.

Section 2 of this report provides more detailed information on delinquent borrowers.

You also requested information on FmHA's implementation of its November 1985 revised loan-servicing regulations for delinquent farm borrowers. To obtain this information, we reviewed FmHA actions in the state of Missouri, which was judgmentally selected because of its high number of

delinquent borrowers. Our survey showed that FmHA had sent about 2,600 loan-servicing notices to farm borrowers with loan defaults. These borrowers accounted for \$147.5 million in delinquent payments. We made a study of 191 of these borrowers which showed that as of May 1986, 22 borrowers had loan defaults resolved through FmHA servicing actions, 15 borrowers had resolved loan defaults on their own, and 68 had liquidated or were liquidating their farm operations. Defaults of the remaining 86 borrowers had not yet been resolved. Section 3 provides more detailed information on FmHA loan-servicing activities.

Section 4 provides information on the financial condition of 14,649 farmers that became FmHA direct loan (government-funded) borrowers during the period June 1985 to June 1986. Generally, these new borrowers are financially stressed, having an average debt-to-asset ratio of 70.6 percent. By comparison, all other existing FmHA farm borrowers had an average debt-to-asset ratio of 88.6 percent. The Department of Agriculture's Economic Research Service states that farmers with debt-to-asset ratios above 70 percent generally have problems meeting their interest and principal repayments. As a result, many of these farms start to slide toward insolvency.

Information in this report was obtained from six FmHA automated data files and from all county offices in Missouri as well as the state office. For our case studies, we examined selected borrower files in seven FmHA Missouri county offices. We did not test the validity of FmHA's data files. Details on our scope, methodology, and data limitations are discussed in section 1.

We obtained oral agency comments on the results of our work, and the agency agreed with the reported information. The agency comments have been incorporated where appropriate.

As agreed with your office, we are sending copies of this report to the Secretary of Agriculture; the Administrator, Farmers Home Administration; the Director, Office of Management and Budget; and other interested parties. If you have further questions regarding information contained in this report, please contact me at (202) 275-5139 or Mr. John Harman of my staff at (202) 475-4880.

Sincerely yours,



Brian P. Crowley  
Senior Associate Director

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ABBREVIATIONS

FARMS      Farmer Program Information System

FmHA      Farmers Home Administration

GAO      General Accounting Office

RCED      Resources, Community, and Economic Development  
Division

USDA      U.S. Department of Agriculture



SECTION 1

INTRODUCTION

## INTRODUCTION

### BACKGROUND

The U.S. Department of Agriculture's (USDA) Farmers Home Administration (FmHA) makes direct loans (government-funded) and guarantees some loans made by private lenders primarily to family farmers who are unable to obtain credit from other lenders at reasonable rates and terms. As such, FmHA serves as a "lender of last resort" to farmers and is the federal government's primary provider of farm credit. We recently issued three reports on FmHA's farm loan portfolio and financial characteristics of its borrowers.<sup>1</sup> When viewed together these reports reveal a dismal financial picture of FmHA's farm program loan portfolio and the average farm borrower.

As of June 30, 1986, about 36 percent, or 92,914, of FmHA's 260,969 farm program borrowers were delinquent on their loans. The delinquent amounts owed by these borrowers totaled over \$6.8 billion, and 79 percent of this amount was over 3 years delinquent. Delinquent dollars as a percent of total outstanding principal has increased from 4.5 percent in 1980 to about 24 percent in 1986. Delinquent borrowers' outstanding loan principal of \$14.1 billion accounted for about one half of the portfolio's \$27.8 billion total outstanding principal.

The average FmHA borrower is financially stressed as indicated by borrower ratios of total outstanding debts to total

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<sup>1</sup>Information on Delinquent Borrowers in Farmers Home Administration Major Farmer Loan Programs (GAO/RCED-85-71, Feb. 6, 1985), Farmers Home Administration: An Overview of Farmer Program Debt, Delinquencies, and Loan Losses (GAO/RCED-86-57BR, Jan. 2, 1986), and Farmers Home Administration: Financial and General Characteristics of Farmer Loan Program Borrowers (GAO/RCED-86-62BR, Jan. 2, 1986).

assets. FmHA data available for about 96,000 borrowers shows that these borrowers have an average debt-to-asset ratio of 87 percent, indicating extreme financial problems. About 20 percent of these FmHA borrowers had debts exceeding their assets and therefore were technically insolvent.

Recognizing this deteriorated financial situation and in response to borrowers' legal challenges of FmHA's loan-servicing actions, FmHA issued new loan-servicing regulations in November 1985. These regulations are intended to provide borrowers, particularly delinquent ones, with clear and consistent guidelines on how their accounts would be serviced. The regulations are more restrictive than prior policy guidelines, which allowed borrowers to obtain additional FmHA operating financing without showing an ability to repay prior loans. Under FmHA's revised loan-servicing policy, borrowers must show an ability to repay all prior loans before obtaining additional FmHA financing.

Section 2 of this report supplements previously reported FmHA borrower information by providing financial and other data on a group of continually delinquent borrowers--defined as those delinquent as of June 30, 1984, June 30, 1985, and June 30, 1986. These borrowers account for the majority of FmHA's deteriorated farm loan portfolio and are the focus of FmHA's revised loan-servicing regulations. Implementation of the revised servicing regulations in Missouri is discussed in section 3 of this report.

The future financial condition of FmHA's farm loan portfolio depends, in part, on the financial condition of farmers that are becoming FmHA borrowers. Section 4 of this report provides information on farmers who became FmHA direct loan borrowers during a 1-year time period--June 30, 1985, to

June 30, 1986--and how they compare financially with existing FmHA borrowers.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objective was to answer the following four questions asked by the Chairman, Senate Committee on Agriculture, Nutrition, and Forestry, in his April 10, 1986, request:

- How many borrowers have continued to be delinquent for a number of years?
- What is the borrowers' current status as it relates to their farming activity?
- When did these borrowers last make a loan payment?
- What is the overall financial condition of these continually delinquent borrowers?

Subsequently, we further agreed to provide the Chairman with information on the implementation of FmHA's revised loan-servicing regulations and financial information on farmers that had recently become FmHA borrowers.

To respond to the Chairman's initial questions, we conducted a computer analysis using six FmHA data files. The first three data files were the FmHA's Master Borrower Files as of June 30, 1984, June 30, 1985, and June 30, 1986, which were used to produce FmHA's "Active Borrowers Delinquent Report" (FmHA report code 616) for the respective dates. These files contain borrower-specific data on outstanding loan principal amounts, delinquent amounts, loan program type, and other financial loan information. FmHA used the fourth and fifth

files to produce its March and July 1986 reports, "Status Report of Farmer Program Accounts" (FmHA report code 540). We used these files to report borrower loan information as of March 20 and July 16, 1986. This information included payment date, delinquency status, and other account status information, such as bankruptcy. The sixth data file used was FmHA's Farmer Program Information System (FARMS) as of July 1, 1986. The FARMS data file contains historical financial and other information for approximately 107,000 individual FmHA borrowers that is not available from the other files. The data elements we primarily used were asset, liability, cash income, and cash expense.

We first identified FmHA borrowers that were delinquent as of June 30, 1984, June 30, 1985, and June 30, 1986, from the Master Borrower Files. This group of 50,033 "continually delinquent" borrowers was then matched against the July 1986 "Status Report of Farmer Program Accounts" data file to obtain additional automated, borrower financial information as of July 16, 1986. We further matched the 50,033 borrowers with the FARMS data base to obtain selected information on borrower assets, liabilities, income, and expenses. We limited the FARMS information to the data reported for 1983, 1984, 1985, and 1986 and used the latest data reported for an individual borrower. FARMS data were further limited because information on borrowers is not reported by all FmHA county offices.

To obtain information on farmers that had recently become FmHA borrowers, we identified borrowers that were on the Master Borrower File as of June 30, 1986, and not on the file as of June 30, 1985. New borrowers and existing farm program borrowers as of June 30, 1986, were matched with the FARMS data base as of July 1, 1986, and the June 30, 1986, Master Borrower

File to obtain loan and other financial information for comparison.

We also reviewed FmHA's new loan-servicing regulations and other documents pertaining to the regulations. To review the regulations' implementation, we judgmentally selected Missouri as a case study because of its high number of delinquent borrowers. We obtained information on loan-servicing notices sent to 2,587 borrowers from 74 FmHA county offices in Missouri. Loan payment information for the 2,587 borrowers was obtained from the March 1986 "Status Report of Farmer Program Accounts" data file.

We selected seven Missouri county offices for visits on a judgmental basis, attempting to obtain a balance between offices with small, medium, and large numbers of borrowers. At the 7 county offices, we randomly selected and reviewed a total of 191 borrower files from a universe of 262 borrowers that had been sent loan-servicing notices. Financial and other loan-servicing information was obtained from borrowers' files.

#### DATA LIMITATIONS

The information contained in this report primarily comes from FmHA automated data files. We performed limited testing of the validity and reliability of these data in one Wisconsin and one Minnesota county office. These offices were judgmentally selected on the basis of borrowers' having loans in a variety of financial conditions. We judgmentally selected and reviewed 53 borrower files in these counties. This review indicated that our analysis and characterization of FmHA Master Borrower data and borrower status data were reasonably accurate for the two counties. This testing, however, was insufficient to render an opinion on the reliability of the automated files used to obtain



all of the information contained in the report. However, FmHA officials believe the data presented in this report is representative of its borrowers.

As discussed in our prior reports,<sup>2</sup> minor differences have occurred between the results of our analysis and FmHA-reported information because of differences between our and FmHA's programming and format methodology. These differences were not significant when viewed in the aggregate.

The FARMS data base does not contain information on all FmHA farmer program borrowers. Borrowers that are represented in the data base are not statistically sampled and therefore not statistically projectable to the nation. A final limitation is that the FARMS system relies primarily on information contained in borrowers' Farm and Home Plans. These plans are used to develop individual farm budgets, and the financial information they contain tends to be optimistic.

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<sup>2</sup>GAO/RCED-85-71, Feb. 6, 1985; GAO/RCED-86-57BR, Jan. 2, 1986; and GAO/RCED-86-62BR, Jan. 2, 1986.



SECTION 2

CONTINUALLY DELINQUENT FmHA BORROWERS

ACCOUNT FOR MOST DELINQUENT LOAN AMOUNTS

### SECTION SUMMARY

- ° 50,033 continually delinquent FmHA borrowers--those delinquent as of June 30, in 1984, 1985, and 1986--accounted for 54 percent of all delinquent borrowers and 87 percent of all delinquent loan amounts as of June 30, 1986.
  - 34,644 of the 50,033 continually delinquent borrowers accounted for 78 percent of all delinquent amounts.
- ° Continually delinquent borrowers are concentrated in midwestern and southern states.
- ° About 16 percent of the 50,033 continually delinquent FmHA borrowers had discontinued or were discontinuing farming by July 1986.
- ° Of 41,983 remaining active borrowers, 25,441 had not made a cash loan payment on at least one loan since 1983, and 1,364 had made no payments on any of their loans.
- ° Emergency disaster loans accounted for 63 percent of total delinquent amounts owed by the 41,983 active continually delinquent borrowers.
- ° 44 percent of continually delinquent borrowers are technically insolvent.

CONTINUALLY DELINQUENT FmHA BORROWERS  
ACCOUNT FOR MOST DELINQUENT LOAN AMOUNTS

SECTION SUMMARY

A group of continually delinquent FmHA borrowers constitute a majority of the total number of delinquent farm borrowers and account for a majority of FmHA's delinquent farm loan amounts. About 19 percent, or 50,033, of FmHA's approximately 261,000 total direct loan farm program borrowers could be classified as continually delinquent as of June 30, 1986. These 50,033 borrowers were delinquent on June 30 for 3 consecutive years-1984, 1985, and 1986. As of July 16, 1986, 41,983 of the continually delinquent borrowers were in an active loan status and still farming according to FmHA records.

The group of 50,033 continually delinquent borrowers accounted for approximately 54 percent of all 92,914 FmHA delinquent farm borrowers and 87 percent of all delinquent FmHA farm program loan amounts as of June 30, 1986. About 34,644 of the 50,033 borrowers had over 3-year old delinquent loan payments and accounted for 78 percent of all delinquent payments. By July 1986, about 16 percent, or 8,043 of the 50,033 borrowers, had discontinued or were in the process of discontinuing farming. For the remaining 41,983 borrowers in active loan status, about 61 percent, or 25,411, had not made a cash payment on at least one of their loans since 1983 or earlier. A group of 1,364 borrowers had not made cash payments on any of their loans. Emergency disaster loans were the dominant type of loan owed by continually delinquent borrowers. These loans accounted for about 63 percent of all delinquent amounts owed by the 41,983 active borrowers.

The continually delinquent borrowers were located primarily in midwestern and southern states. Three states--Texas, Georgia, and Mississippi--had the greatest number of these borrowers. About 44 percent of the continually delinquent borrowers had debt-to-asset ratios which indicated that they were technically insolvent, compared with 17 percent for other FmHA farm program borrowers. Continually delinquent borrowers had an average annual debt repayment due of \$150,706, compared with \$71,260 for other FmHA farm program borrowers.



Table 2.1

Continually Delinquent Borrowers' Payments Due  
as of June 30, 1984

<u>Delinquency</u> <u>age</u>	<u>Borrowers</u> <sup>a</sup>	<u>Payments due/</u> <u>not made</u> <sup>b</sup> (millions)
Over 3 years	18,016	\$2,528.5
2-3 years	10,775	861.6
1-2 years	9,292	352.1
1 year or less	<u>11,950</u>	<u>172.7</u>
Total	<u>50,033</u>	<u>\$3,914.9</u>

<sup>a</sup>Borrowers with multiple loans are categorized by their oldest delinquent amount as of June 30. Subsequent borrower loan payments may reduce delinquency age classification.

<sup>b</sup>Amounts are for all loans of categorized borrowers.

Table 2.2

Continually Delinquent Borrowers' Payments Due  
as of June 30, 1986

<u>Delinquency</u> <u>age</u>	<u>Borrowers</u> <sup>a</sup>	<u>Payments due/</u> <u>not made</u> <sup>b</sup> (millions)
Over 3 years	34,644	\$5,284.9
2-3 years	7,887	445.2
1-2 years	3,299	106.8
1 year or less	4,203	74.8
Total	<u>50,033</u>	<u>\$5,911.7</u>

<sup>a</sup>Borrowers with multiple loans are categorized by their oldest delinquent amount as of June 30. Subsequent borrower loan payments may reduce delinquency age classification.

<sup>b</sup>Amounts are for all loans of categorized borrowers.



CONTINUALLY DELINQUENT  
FARM PROGRAM BORROWERS

There were 50,033 FmHA farmer program borrowers who were delinquent on June 30, in each of 3 years--1984, 1985, and 1986. These continually delinquent borrowers accounted for about 54 percent of the 92,914 total delinquent farm program borrowers and were about 19 percent of all 260,969 FmHA farm program borrowers as of June 30, 1986. Payments of \$5.9 billion due but not made by the 50,033 borrowers were about 87 percent of the \$6.8 billion total farm program delinquent amounts owed FmHA as of June 30, 1986. Delinquent amounts increased for these borrowers from 1984 to 1986 as their delinquent dollar amounts increased from \$3.9 billion to \$5.9 billion, respectively.

Continually delinquent borrowers in the "over 3 years" delinquency age category accounted for about 78 percent of all \$6.8 billion delinquent farm program dollars as of June 30, 1986. Borrowers in this age category increased from 18,016 in 1984 to 34,644 in 1986, and their delinquent payments increased from \$2.5 billion to over \$5.2 billion.



GEOGRAPHIC LOCATION OF  
CONTINUALLY DELINQUENT BORROWERS

Continually delinquent borrowers are geographically concentrated in midwestern and southern states. (See fig. 2.1.) Approximately 40 percent of the 50,033 continually delinquent borrowers were located in 7 states--Texas, Georgia, Mississippi, Arkansas, Missouri, Louisiana, and Minnesota. Appendix I provides a listing of all continually delinquent borrowers by state or territory.

Table 2.4

Loan Status of Continually Delinquent Borrowers  
as of July 16, 1986

<u>Borrower loan status</u>	<u>Borrowers</u>	<u>Borrower percent</u>	<u>Payments due/ not made<sup>b</sup></u>	<u>Outstanding principal amount</u>
			------(millions)-----	
Bankruptcy action pending	4,658	9	\$ 651.6	\$ 864.5
Foreclosure action pending	2,851	6	427.8	570.7
Account in debt collection status	272	1	177.4	154.6
Court action pending	<u>262</u>	<u>&lt;1</u>	<u>37.5</u>	<u>40.9</u>
Sub-total	8,043	16	1,294.3	1,630.7
Borrowers in active loan status	<u>41,983</u>	<u>84</u>	<u>4,645.8</u>	<u>7,276.3</u>
Total	50,026 <sup>a</sup> =====	100 =====	\$5,940.1 =====	\$8,907.0 =====

<sup>a</sup>Loan status information not available for 7 of the 50,033 continually delinquent borrowers.

<sup>b</sup>Amount includes delinquent principal and interest.

LOAN STATUS OF CONTINUALLY  
DELINQUENT BORROWERS

Approximately 16 percent of the continually delinquent borrowers had loans classified by FmHA indicating that they will discontinue as FmHA borrowers and that their farming operations may be sold. These 8,043 borrowers had loans classified as pending bankruptcy, foreclosure or other court action, or had their loan accounts in debt collection only status and were no longer active FmHA borrowers. Full repayment of their loans is unlikely. Outstanding principal owed by the 8,043 borrowers totaled \$1.6 billion and delinquent loan payments about \$1.3 billion.

According to FmHA records, 41,983 continually delinquent borrowers were in an active loan status indicating they were still farming. Financial information on their loans is presented in tables 2.5 through 2.8.

Loan status information was not available for 7 of the 50,033 continually delinquent borrowers.

Table 2.5

Delinquent Payments and Principal Amounts Owed by  
Continually Delinquent Borrowers by  
Date of Last Cash Payment as of July 16, 1986

<u>Date of last cash payment</u>	<u>Borrowers<sup>a</sup></u>	<u>Payments due/ not made<sup>b</sup></u>	<u>Outstanding principal amount<sup>b</sup></u>
		----- (millions) -----	
No cash payment <sup>c</sup>	1,364	\$ 56.3	\$ 214.0
1977	320	45.7	42.4
1978	742	173.6	166.3
1979	1,872	425.8	451.9
1980	3,194	733.1	809.8
1981	7,056	1,200.3	1,551.0
1982	6,215	729.8	1,086.0
1983	6,042	503.1	951.1
1984	5,116	354.1	722.0
1985	5,554	272.5	761.5
1986	<u>4,508</u>	<u>151.5</u>	<u>520.3</u>
Total	<u>41,983</u>	<u>\$4,645.8</u>	<u>\$7,276.3</u>

<sup>a</sup>Borrowers with multiple loans are categorized by oldest date of last cash payment.

<sup>b</sup>Amounts are for all loans of categorized borrowers.

<sup>c</sup>No cash payments for all loans of individual borrowers.

## CASH PAYMENTS BY DELINQUENT BORROWERS

Many continually delinquent borrowers had not made recent cash payments on their loans. About 61 percent, or 25,441, of the 41,983 active continually delinquent borrowers had not made a cash payment on at least one loan since 1983 or earlier. Their loans comprised the majority of outstanding principal and delinquent amounts owed by the continually delinquent borrowers still farming. The outstanding loan principal owed by the 25,441 borrowers was about 70 percent of the over \$7.2 billion total, and the delinquent loan amount was about 82 percent of the \$4.6 billion total. Another 1,364 borrowers had not made a cash payment on any of their loans. Outstanding principal owed by these borrowers totaled \$214 million and delinquent payments totaled \$56.3 million. (The year FmHA approved loans for these 1,364 borrowers is shown in table 2.7.)

Table 2.6

Delinquent Payments and Outstanding Principal Owed  
by Continually Delinquent Borrowers by  
FmHA Farm Loan Program as of July 16, 1986

<u>Program</u>	<u>Payments due/ not made</u>	<u>Outstanding principal amount</u>
	----- (millions) -----	
Farm ownership	\$ 258.0	\$ 989.9
Operating	691.1	938.4
Emergency disaster	2,939.3	3,970.2
Economic emergency	730.9	1,307.5
Soil and water	<u>26.5</u>	<u>70.3</u>
Total	<u>\$4,645.8</u>	<u>\$7,276.3</u>



TYPE OF LOANS OWED BY  
CONTINUALLY DELINQUENT BORROWERS

Emergency disaster loans accounted for the majority of the outstanding principal and delinquent amounts owed by the 41,983 active continually delinquent borrowers. About 55 percent of the over \$7.2 billion total outstanding principal and about 63 percent of the \$4.6 billion total delinquent amounts were for emergency disaster loans.

The \$2.9 billion in delinquent emergency disaster loan amounts (which includes delinquent principal and interest) also represented about 74 percent of the \$3.9 billion outstanding principal for these loans. Similarly, delinquent operating loan payments also represented about 74 percent--or \$691.1 million--of the \$938.4 million in outstanding principal. Additional information on outstanding principal and delinquent amounts by loan type and date of last cash payment is contained in appendixes II through V.

Table 2.7

Delinquent Amounts and Outstanding Principal  
by Year for Loans Made to 1,364 FmHA Borrowers  
With No Loan Payments as of July 16, 1986

<u>Year loan made</u>	<u>Payments due/ not made</u>	<u>Outstanding principal amount</u>
	-----(millions)-----	
1986	\$ 0.0 <sup>a</sup>	\$ 15.9
1985	10.6	108.8
1984	6.6	29.4
1983	12.9	27.2
1982	7.2	10.3
1981	11.6	14.2
1980	3.9	4.8
1979	2.9	3.1
1978	0.2	0.1
1977	0.1	0.1
Prior to 1977	0.2	0.1
No date available	<u>0.1</u>	<u>0.0<sup>a</sup></u>
Total	<u>\$56.3</u>	<u>\$214.0</u>

<sup>a</sup>Amount less than \$50,000.

LOAN AGE AND AMOUNTS OWED FOR  
CONTINUALLY DELINQUENT BORROWERS  
THAT HAD NOT MADE ANY LOAN PAYMENTS

A group of 1,364 continually delinquent borrowers had not made payments on any of their FmHA loans. Loans made in 1983 or earlier accounted for 69 percent of the total \$56.3 million delinquent amount. Because of accrued interest, loans made in 1978 or earlier had delinquent payments exceeding the original loan amount. The more recent loans, however, accounted for the majority of outstanding loan principal for the 1,364 borrowers. Loans made in 1986 and 1985 had principal amounts totaling \$124.7 million, or about 58 percent, of the \$214 million outstanding principal.

Table 2.8

Selected Farm Operation Financial Data for  
FmHA Farm Program Borrowers as of July 1, 1986  
(Contrasts Continually Delinquent Borrowers  
and Other Borrowers)

	Continually delinquent borrowers (average) <sup>a</sup>	Other farm program borrowers (average) <sup>b</sup>
Total cash farm income	\$109,889	\$98,265
Total expenses		
Cash farm operating expenses <sup>c</sup>	90,007	75,070
Cash family living expenses	11,623	11,463
Total net cash farm and nonfarm income	26,916	30,416
Annual debt repayment due	150,706	71,260

Note: The totals are not equal to the sum of their parts because not all data elements applied to all borrowers.

<sup>a</sup>Average based on FARMS data available for approximately 13,000 FmHA borrowers.

<sup>b</sup>Average based on FARMS data available for approximately 78,000 FmHA borrowers.

<sup>c</sup>Includes interest expense that is also included in annual debt repayment due.

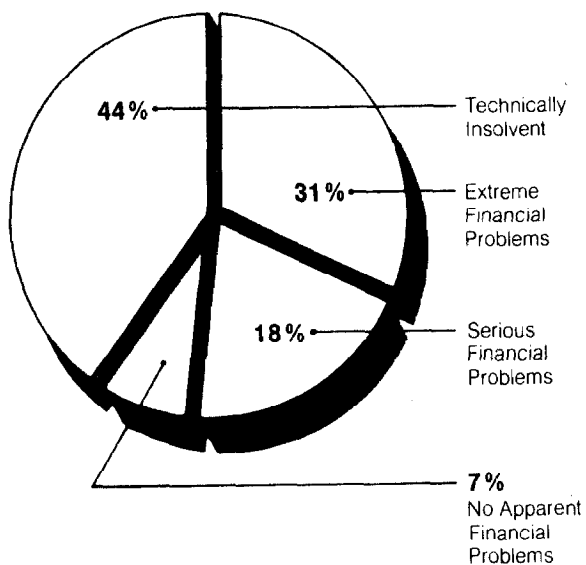
SELECTED FINANCIAL DATA  
FOR CONTINUALLY DELINQUENT BORROWERS

Available data for approximately 13,000 continually delinquent FmHA borrowers indicate that their average farm operation was faced with an annual debt repayment that was about \$79,000 greater than other FmHA farm borrowers. Continually delinquent borrowers also had about \$3,500 less net cash farm and nonfarm income for debt repayment and greater average farm operating expenses than other borrowers.

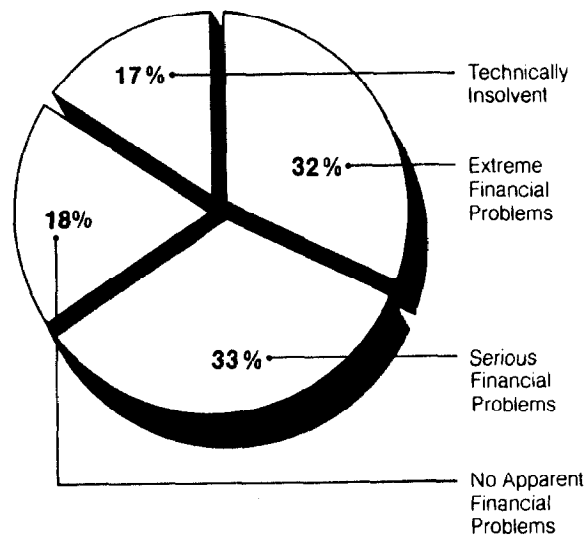
Figure 2.2

Comparison of Debt-to-Asset Ratios for Continually Delinquent and Other FmHA Farm Program Borrowers as of July 1, 1986

Continually Delinquent Borrowers<sup>a</sup>



Other FmHA Borrowers<sup>b</sup>



Debt-to-Asset Ratio in Percent	Terminology
100 and over	Technically insolvent
70 to 99	Extreme financial problems
40 to 69	Serious financial problems
Under 40	No apparent financial problems

Source: USDA's Economic Research Service Information Bulletin 495, dated July 1985, which segregates debt-to-asset ratios into four categories.

<sup>a</sup>Ratios based on FARMS data available for 13,073 FmHA borrowers.

<sup>b</sup>Ratios based on FARMS data available for 77,917 FmHA borrowers.

DEBT-TO-ASSET RATIOS FOR SELECTED  
CONTINUALLY DELINQUENT BORROWERS

Debt-to-asset ratios for approximately 13,000 continually delinquent FmHA farmer program borrowers shows that they are more financially stressed than other FmHA borrowers. The debt-to-asset ratio is an indication of a borrower's farm operations' overall financial soundness and risk-bearing ability. As the ratio increases, debt repayment becomes more difficult. About 44 percent of the continually delinquent borrowers were technically insolvent--or had a debt-to-asset ratio of 100 and over--compared with 17 percent of other FmHA borrowers. For these borrowers, the value of their assets, if sold, would not be enough to repay total indebtedness.

Only 7 percent of the continually delinquent borrowers had ratios indicating no apparent financial problems. This compares with 18 percent of other FmHA farm program borrowers.





SECTION 3

DELINQUENT BORROWERS RECEIVE LOAN-SERVICING NOTICES

UNDER REVISED FmHA REGULATIONS--MISSOURI CASE STUDY

## SECTION SUMMARY

- ° FmHA loan-servicing regulations revised in November 1985 provided for systematic treatment of delinquent borrowers and more restrictive lending criteria for operating loans.
- ° Implementation of loan-servicing regulations in Missouri during February 1986 resulted in loan-servicing notices being sent to about 2,600 borrowers with \$147.5 million in delinquent loan payments.
  - Delinquent borrowers' accounts must be made current or accounts will be liquidated--borrower assets sold to recover FmHA loan funds.
  - FmHA loan-servicing actions, such as rescheduling or deferral of loan payments, may bring borrowers' accounts current.
- ° A case study of 191 of the approximately 2,600 Missouri borrowers showed that 38 percent were technically insolvent--their total outstanding debts exceeded total assets.
- ° As of May 1986, FmHA loan-servicing notices sent to these 191 borrowers had resulted in the following: 22 borrowers had their loan defaults resolved through FmHA servicing actions, 15 borrowers had resolved defaults on their own, and 68 borrowers had liquidated or were liquidating their farm operations. Defaults of the remaining 86 borrowers had not yet been resolved.

DELINQUENT BORROWERS RECEIVE LOAN-SERVICING NOTICES  
UNDER REVISED FmHA REGULATIONS--MISSOURI CASE STUDY

SECTION SUMMARY

On November 1, 1985, FmHA issued revised loan-servicing regulations that provided for the systematic servicing of delinquent borrower accounts. The revised regulations were issued as a result of borrowers' legal challenges to FmHA's loan-servicing actions. Under the revised regulations delinquent FmHA borrowers, including continually delinquent borrowers discussed in section 2, should be contacted by FmHA county offices and provided with clear and consistent guidelines on how their loan accounts would be serviced. Loan-servicing includes rescheduling or deferral of loan payments or other actions to bring delinquent loan accounts current. If accounts cannot be made current through servicing, delinquent borrower loan accounts will be liquidated--borrower assets sold to recover FmHA loan funds.

The financial deterioration of FmHA's farm loan portfolio also prompted FmHA in November 1985 to terminate its liberal loan-servicing "continuation policy."<sup>1</sup> This policy was implemented in 1982 to assist financially stressed farmers by allowing them to obtain additional operating financing without showing the ability to repay prior loans. While this policy kept some borrowers operating, it contributed to large FmHA financial losses when delinquent borrowers' accounts were liquidated.<sup>2</sup> Under FmHA's revised loan-servicing policy,

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<sup>1</sup>GAO/RCED-86-57BR, Jan. 2, 1986, and GAO/RCED-86-62BR, Jan. 2, 1986.

<sup>2</sup>Farmers Home Administration: Federally Acquired Farm Property Presents a Management Challenge (GAO/RCED-86-88, June 13, 1986).

borrowers must be current on loan payments before additional credit is provided.

Implementation of the revised loan-servicing regulations began in February 1986. As a result in Missouri, loan-servicing notices were sent to about 2,600 borrowers. These borrowers had been more than \$100 delinquent for at least one year or had otherwise defaulted on their loan agreements. The borrowers' delinquent loan payments totaled \$147.5 million as of March 1986.

FmHA initially placed delinquent borrowers into one of three categories: those that had not made a loan payment since December 31, 1982, or earlier; those having made a loan payment after this date; and those with nonmonetary loan violations, such as selling loan collateral without FmHA authorization. Loan-servicing notices, asking for a response within 30 days, were then sent to these borrowers. Those with delinquencies prior to 1982 and those in nonmonetary default were notified of FmHA's intent to take adverse action if they did not respond. Borrowers with more recent delinquencies were later provided this notice if they did not contact FmHA.

Our case study of 191 of the approximately 2,600 borrowers sent servicing notices showed that virtually all had financially stressed operations and 38 percent had debt-to-asset ratios indicating they were technically insolvent.

As of May 1986, 68 of the 191 borrowers had liquidated or were in some form of farm operation liquidation. However, 37 borrowers were able to cure their loan defaults either by FmHA servicing actions (22 borrowers) or by their own initiatives (15 borrowers). Resolution of servicing notices sent to the remaining 86 borrowers had not been completed. Of the 191 borrowers, 59 were no longer actively farming.



Table 3.1

Outstanding Principal, Delinquent Amounts Owed,  
and Loan-Servicing Notices Sent to  
Missouri Farm Program Borrowers  
as of March 20, 1986

<u>Borrower loan status/category<sup>a</sup></u>	<u>Total borrowers<sup>b</sup></u>	<u>Payments due/ not made</u>	<u>Outstanding principal<sup>b</sup></u>
		----- (millions) -----	
Delinquent, no payment since Dec. 31, 1982/ Category 1	843	\$ 85.5	\$127.8
Delinquent, payment made after Dec. 31, 1982/ Category 2	1,456	41.0	132.7
Nonmonetary default and other status <sup>c</sup>	<u>288</u>	<u>21.0</u>	<u>30.4</u>
Total	<u>2,587</u>	<u>\$147.5</u>	<u>\$290.9</u>

<sup>a</sup>Loan status as of January 10 1986.

<sup>b</sup>Financial data available for only 2,587 of 2,598 borrowers that were sent servicing notices. Data include all borrower loans, delinquent or current.

<sup>c</sup>Includes borrowers in bankruptcy or noncompliance with loan agreement provisions such as selling loan collateral without FmHA authorization or discontinuing farming.

LOAN-SERVICING NOTICES SENT TO  
MISSOURI BORROWERS WITH LOAN DEFAULTS

Stemming from the implementation of FmHA's revised loan-servicing regulations in Missouri, servicing notices were initially sent to approximately 2,600 borrowers by county offices during February and March 1986. Delinquent borrowers who had not made a payment on at least one loan since December 31, 1982, were classified into category 1 and sent three notices and a letter directing them to respond to the FmHA county office within 30 days. (See app. VII.) The notices sent included a listing of loan-servicing options available to them (app. IX) and a notice of FmHA's intent to take adverse action (app. X) if they did not respond within 30 days. A third notice--borrower acknowledgement of FmHA's notice of intent to take adverse action--was also sent (app. XI). The 843 Missouri borrowers classified into category 1 had delinquent amounts totaling \$85.5 million, or about 58 percent, of the \$147.5 million total delinquent amount for all Missouri borrowers sent servicing notices. The \$85.5 million delinquent amount was about two thirds--67 percent--of the outstanding loan principal indicating the severe delinquency of these borrowers.

Borrowers that were less delinquent--those having made a payment after December 31, 1982--were classified into category 2 and sent one notice and a letter (app. VIII) asking them to contact the FmHA county office within 30 days for an appointment to discuss their loan delinquency. The loan-servicing option notice was sent to these borrowers but not an adverse action or acknowledgement notice. If category 2 borrowers did not resolve their loan defaults by March 14, 1986, they were to be sent the two additional notices sent to category 1 borrowers--an adverse action and acknowledgement notice. The 1,456 Missouri borrowers classified as category 2 had delinquent amounts totaling

\$41 million or about one half the delinquent amount owed by the 843 category 1 borrowers. The delinquent amount, as a percentage of outstanding principal, was also less--31 percent--than the 67 percent for category 1 borrowers.

Borrowers not classified into either category 1 or 2 but who had defaulted on a loan were sent the three loan-servicing notices without a cover letter. This included borrowers in bankruptcy or in non-monetary default for selling loan collateral or borrowers who were discontinuing farming. These 288 Missouri borrowers had delinquent loan amounts totaling \$21.0 million, which was 69 percent of their outstanding loan principal amount.

Loan payment data for Missouri borrowers sent FmHA loan-servicing notices are provided in table 3.2.





Table 3.2

Date of Last Cash Payment for Missouri Borrowers Sent  
Loan-Servicing Notices as of March 20, 1986

Borrowers in FmHA servicing category<sup>a</sup>

<u>Date of last cash payment</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Nonmonetary default/ other</u>	<u>Total borrowers<sup>b</sup></u>	<u>Payments due/ not made</u>  (millions)
No cash payment <sup>c</sup>	15	104	8	127	\$ 29.6
1977	10	0	1	11	0.3
1978	7	0	5	12	0.3
1979	28	0	8	36	0.9
1980	78	1 <sup>d</sup>	23	102	4.1
1981	307	2 <sup>d</sup>	41	350	15.4
1982	307	4 <sup>d</sup>	45	356	22.9
1983	32 <sup>e</sup>	340	43	415	21.7
1984	21 <sup>e</sup>	388	45	454	21.5
1985	18 <sup>e</sup>	378	51	447	20.5
1986	20 <sup>e</sup>	239	18	277	10.3
Total	<u>843</u>	<u>1,456</u>	<u>288</u>	<u>2,587</u>	<u>\$147.5</u>

<sup>a</sup>Servicing category based on loan payment status as of January 10, 1986.

<sup>b</sup>Financial data available for only 2,587 of 2,598 borrowers that were sent servicing notices.

<sup>c</sup>No cash payment for all loans of individual borrowers.

<sup>d</sup>Number of category 2 borrowers with last cash payments in 1982 or earlier appears inconsistent with revised loan-servicing regulations but incidence rate is not significant.

<sup>e</sup>Number of category 1 borrowers with last cash payments in 1983 or later appears inconsistent with revised loan-servicing regulations, but a timing difference exists between FmHA categorization and GAO's analysis. FmHA categorization based on January 10, 1986, borrower loan payment status and GAO analysis based on March 20, 1986, status. Borrower payments between January 10 and March 20, 1986, would change last cash payment dates.

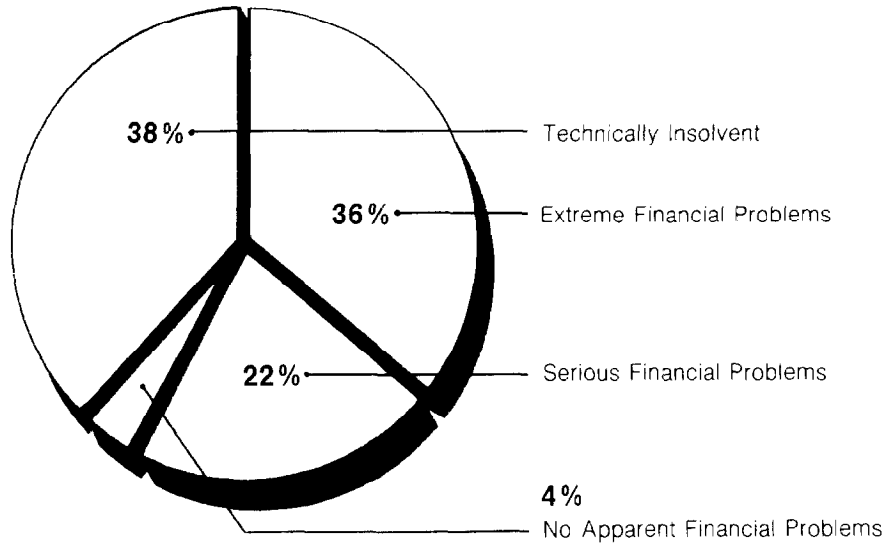
LAST CASH PAYMENTS BY MISSOURI FmHA BORROWERS  
SENT LOAN-SERVICING NOTICES

The last cash payment dates of Missouri borrowers generally reflect that borrowers delinquent for more than 3 years were given priority FmHA attention by being sent adverse action notices. The majority, about 87 percent, of the borrowers in category 1 had last cash payment dates of 1982 or earlier as of March 20, 1986. As indicated in the previous section, the approximately 850 category 1 borrowers were asked to respond to FmHA county offices within 30 days or face adverse action--foreclosure--by FmHA. Category 2 borrowers were delinquent for a shorter length of time, and 92 percent had last cash payment dates in 1983 or later. The approximately 1,450 category 2 borrowers were provided loan-servicing options but were initially not subject to timely adverse FmHA action.

About 5 percent of the borrowers--127 of 2,587--had not made a cash payment on any of their loans. However, their \$29.6 million delinquent payments represented about 20 percent of the total \$147.5 million delinquent amount owed by the 2,587 Missouri borrowers.

Figure 3.1

Debt-to-Asset Ratios for Selected Missouri Borrowers Sent  
Loan-Servicing Notices as of March 20, 1986



Debt-to-Asset Ratio in Percent	Terminology
100 and over	Technically insolvent
70 to 99	Extreme financial problems
40 to 69	Serious financial problems
Under 40	No apparent financial problems

Source: USDA's Economic Research Service Information Bulletin 495, dated July 1985, which segregates debt-to-asset ratios into four categories.

Note: Ratios, based on 1983 or later financial data, were available for 157 of the 191 reviewed Missouri borrowers.

DEBT-TO-ASSET RATIOS  
FOR SELECTED MISSOURI BORROWERS  
SENT SERVICING NOTICES

Debt-to-asset ratios for 157 of 191 case-study Missouri borrowers that received servicing letters indicate that virtually all had financially stressed farming operations. Approximately 38 percent had ratios of 100 percent or greater, indicating they were technically insolvent. Another 36 percent had ratios indicating extreme financial problems, and 22 percent had serious financial problems. About 4 percent of the borrowers had ratios that did not indicate financial problems, yet these borrowers were delinquent on their FmHA loans.

Table 3.3

Status of FmHA Loan Servicing Actions  
for Selected Missouri Borrowers

<u>Loan-servicing status</u>	<u>Borrowers in FmHA servicing category</u>			<u>Total</u>
	<u>Category 1</u>	<u>Category 2</u>	<u>Nonmonetary default/ other</u>	
FmHA loan-servicing appointment or servicing action pending	21	48	7	76
Delinquency cannot be resolved by loan servicing/further action pending	5	5	0	10
Delinquency resolved by loan servicing	8	14	0	22
Delinquency resolved by other borrower action	0	14	1	15
Voluntary conveyance of borrowers' property to FmHA in process	16	9	5	30
Foreclosure of borrowers' property in process	10	9	1	20
Other status <sup>a</sup>	<u>6</u>	<u>8</u>	<u>4</u>	<u>18</u>
Total	<u>66</u>	<u>107</u>	<u>18</u>	<u>191</u>

Note: Information developed for 191 of the 2,598 Missouri borrowers that were sent servicing notices. Status documented during the period April through May 1986.

<sup>a</sup>Loan in collection status, borrowers' property in FmHA inventory, or borrower cannot be located.







LOAN-SERVICING STATUS  
FOR SELECTED MISSOURI BORROWERS

Servicing actions had not been completed by May 1986 for a large portion (86 of 191) of the selected Missouri borrowers that had been sent FmHA servicing notices. Further servicing actions, such as initiating FmHA foreclosure procedures or resolving borrowers' requested servicing options or appeals, had not been completed. Of the 191 borrowers, 68 had liquidated or were liquidating their farm operations through voluntary conveyance or foreclosure or were in some other nonactive status.

Loan delinquencies were resolved for 37 of the 191 borrowers with 22 resulting from FmHA servicing actions. Most of the 22 borrowers FmHA helped were in category 2, which indicates that their last loan payment was in 1983 or later. Only 8 of the 66 category 1 borrowers, those not having made a loan payment since 1982 or earlier, were helped by loan servicing.

Of the 191 borrowers, 59 were no longer farming, and FmHA's servicing actions will likely focus on completing the liquidation of their accounts. Some of these borrowers had left farming in 1982 or earlier and 39 had left before 1985.



SECTION 4

NEW FmHA FARM PROGRAM BORROWERS

ARE UNDER FINANCIAL STRESS

### SECTION SUMMARY

- ° From June 1985 to June 1986, 14,649 farmers became direct loan FmHA borrowers.
- ° New FmHA borrowers were financially stressed but not as stressed as existing FmHA borrowers.
  - New borrowers had an average debt-to-asset ratio of 70.6 compared with 88.6 for existing borrowers.
- ° Approximately 55 percent of the loan principal owed by new borrowers was for operating loans and 27 percent was for farm ownership loans.
- ° New borrowers were generally located in north central and south central states with Iowa, Wisconsin, and Minnesota having the largest number of new borrowers.

NEW FmHA FARM PROGRAM BORROWERS  
ARE UNDER FINANCIAL STRESS

SECTION SUMMARY

During the last 5 years, the declining farm economy has adversely affected many farmers, including FmHA borrowers that have been continually delinquent and those faced with difficult decisions under FmHA's new loan-servicing regulations. Financially stressed farmers that had previously been financed by banks and other private lenders were turned down for additional financing and have turned to FmHA as the lender of last resort.

During the period June 1985 to June 1986, 14,649 farmers became FmHA direct loan borrowers. Generally, these new borrowers are financially stressed but, on average, not as stressed as existing FmHA borrowers. New FmHA borrowers had an average debt-to-asset ratio of 70.6, indicating extreme financial problems. By comparison, existing FmHA borrowers, including continually delinquent borrowers, had an average debt-to-asset ratio of 88.6.

Approximately 55 percent of the principal owed by the 14,649 farmers that became FmHA borrowers was for operating loans and 27 percent was for farm ownership loans. The largest number, about 1,146, of the 14,649 new borrowers was located in Iowa, followed by Wisconsin with 1,133 and Minnesota with 961.

Table 4.1

Selected Financial Characteristics of  
"New" and Existing FmHA Farm Program  
Borrowers as of June 30, 1986

	<u>New</u> <u>borrowers<sup>a</sup></u>	<u>Existing</u> <u>borrowers</u>
Number of borrowers	14,649	246,320
Percentage of borrowers delinquent	9.1	37.2
Average outstanding principal amount	\$84,070	\$107,734
Average debt/asset ratio (percent)	70.6 <sup>b</sup>	88.6 <sup>b</sup>

<sup>a</sup>New borrowers defined as borrowers on the FmHA Master Borrower File as of June 30, 1986, but not as of June 30, 1985. FmHA farm program borrowers totaling 260,969 as of June 30, 1986, per GAO analysis.

<sup>b</sup>From available borrower FARMS 1983, 1984, 1985, and 1986 data as of July 1, 1986.

## NEW FmHA BORROWERS ARE FINANCIALLY STRESSED

Farmers that have recently become FmHA borrowers are, on average, in a financially stressed condition, but they are less stressed than other FmHA borrowers. The 14,649 new FmHA borrowers' average debt-to-asset ratio was 70.6 percent compared with 88.6 percent for other FmHA borrowers.

New borrowers were less indebted to FmHA, having an average loan principal amount outstanding of \$84,070 compared with \$107,734 for other FmHA borrowers. The new borrowers were also less delinquent on their loans than existing borrowers; they had a 9.1 percent delinquency rate compared with a 37.2 percent rate for existing borrowers.

Figure 4.1

Geographic Location of New FmHA Farm Program Borrowers  
as of June 30, 1986

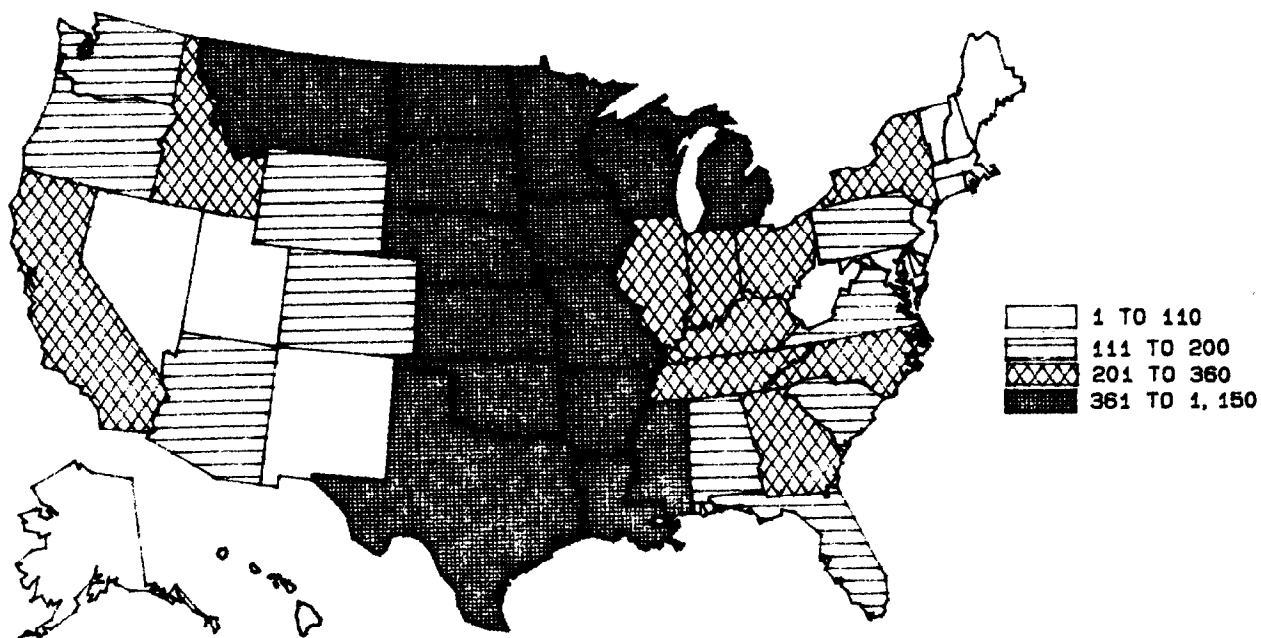


Table 4.2

Fifteen States With Greatest Number of  
New FmHA Farm Program Borrowers  
as of June 30, 1986

<u>State</u>	<u>Number of borrowers</u>
Iowa	1,146
Wisconsin	1,133
Minnesota	931
Texas	731
Nebraska	671
Louisiana	661
South Dakota	596
Kansas	554
Montana	477
Missouri	473
North Dakota	438
Mississippi	436
Arkansas	432
Oklahoma	407
Michigan	378



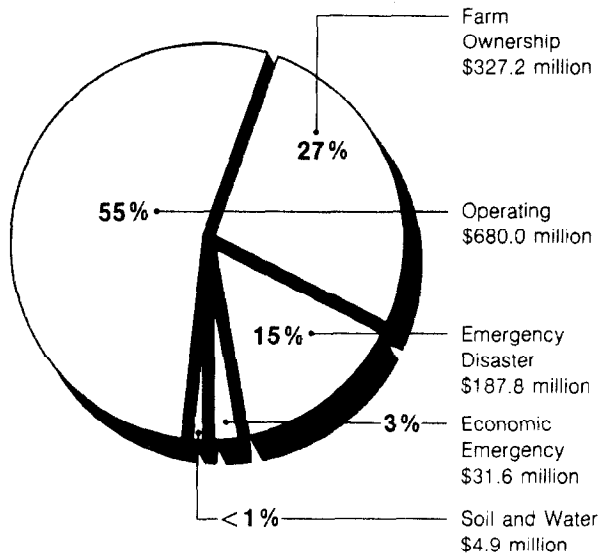
## GEOGRAPHIC LOCATION OF NEW BORROWERS

The states with the largest number of the 14,649 new FmHA borrowers from June 1985 to June 1986 were generally located in north central and south central states. Iowa had the largest number of new borrowers with 1,146, followed by Wisconsin with 1,133 and Minnesota with 931. Appendix VI is a listing of all new borrowers by state or territory.

Figure 4.2

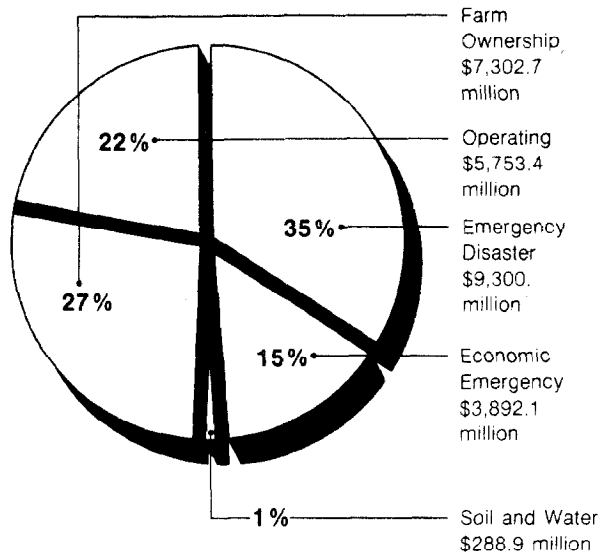
Principal Amounts Owed by New and Existing FmHA Borrowers by Farm Loan Program as of June 30, 1986

New Borrowers



Total \$1,231.5 million

Existing FmHA Borrowers



Total \$26,537.2 million

Note: Authority for the economic emergency loan program terminated Sept. 30, 1984. However, these loans may be assumed by new borrowers.

## NEW BORROWERS' LOAN TYPES

Approximately 55 percent of the 14,649 new borrowers acquired by FmHA from June 1985 to June 1986 obtained operating loans, and 27 percent obtained farm ownership loans. Operating loans accounted for about 22 percent of the outstanding principal of existing borrowers. New borrowers had a smaller proportion of emergency disaster loans than existing borrowers--15 percent versus 35 percent. They also had a relatively small percentage, 3 percent, of economic emergency loans. Authority for this loan program expired on September 30, 1984; however, existing loans may be assumed by new borrowers, which would account for this percentage.



CONTINUALLY DELINQUENT FMHA BORROWERS BY STATE/TERRITORY  
AS OF JUNE 30, 1986

<u>State/territory</u>	<u>Continually delinquent borrowers</u>	<u>State/territory</u>	<u>Continually delinquent borrowers</u>
Alabama	1,038	Nevada	64
Alaska	0	New Hampshire	6
Arizona	426	New Jersey	195
Arkansas	2,232	New Mexico	253
California	984	New York	1,056
Colorado	517	North Carolina	1,668
Connecticut	22	North Dakota	1,345
Delaware	33	Ohio	826
Florida	1,075	Oklahoma	1,568
Georgia	3,589	Oregon	507
Guam	6	Pennsylvania	414
Hawaii	17	Puerto Rico	445
Idaho	925	Rhode Island	6
Illinois	1,161	South Carolina	1,037
Indiana	1,415	South Dakota	1,351
Iowa	1,618	Tennessee	1,614
Kansas	1,192	Texas	3,984
Kentucky	671	Utah	80
Louisiana	2,176	Vermont	32
Maine	331	Virgin Islands	17
Maryland	144	Virginia	995
Massachusetts	29	Washington	427
Michigan	838	West Virginia	121
Minnesota	2,122	Wisconsin	1,185
Mississippi	3,505	Wyoming	161
Missouri	2,179		
Montana	634		
Nebraska	1,797		
		Total	<u>50,033</u>

OUTSTANDING PRINCIPAL AMOUNTS OF CONTINUALLY DELINQUENT BORROWERS  
BY LOAN PROGRAM AND DATE OF LAST CASH PAYMENT  
AS OF JULY 16, 1986

<u>Date of last cash payment</u>	<u>Program</u>					<u>Total</u>
	<u>Farm ownership</u>	<u>Operating</u>	<u>Emergency disaster</u>	<u>Economic emergency</u>	<u>Soil and water</u>	
	----- (millions) -----					
1986	\$143.3	\$236.3	\$ 383.4	\$ 170.9	\$ 7.4	\$ 941.3
1985	144.1	175.7	476.0	194.5	8.8	999.1
1984	118.1	122.2	429.2	171.4	7.5	848.4
1983	127.8	80.7	523.2	178.8	7.9	918.4
1982	103.9	44.1	491.3	161.7	8.1	809.1
1981	95.2	30.8	458.8	154.1	8.0	746.9
1980	32.4	14.5	196.0	62.2	3.5	308.6
1979	15.7	6.7	86.4	15.7	2.0	126.5
1978	4.1	3.4	26.2	0.8	0.3	34.8
1977	2.0	1.8	3.9	a	0.1	7.8
No cash payment	<u>203.3</u>	<u>222.2</u>	<u>895.8</u>	<u>197.4</u>	<u>16.7</u>	<u>1,535.4</u>
Total	<u>\$989.9</u>	<u>\$938.4</u>	<u>\$3,970.2</u>	<u>\$1,307.5</u>	<u>\$70.3</u>	<u>\$7,276.3</u>

<sup>a</sup>Economic Emergency Loan Program not authorized until 1978.

OUTSTANDING PRINCIPAL AMOUNTS FOR LOANS WITH NO CASH PAYMENTS MADE BY  
CONTINUALLY DELINQUENT BORROWERS  
AS OF JULY 16, 1986

Year loan made	Program					Total
	Farm ownership	Operating	Emergency disaster	Economic emergency	Soil and water	
----- (millions) -----						
1986	\$ 14.4	\$ 55.5	\$ 43.0	\$ 9.3	\$ 1.0	\$ 123.2
1985	73.2	71.1	144.8	54.9	5.1	349.1
1984	30.7	35.6	118.5	35.9	2.3	223.0
1983	39.1	32.5	114.6	34.9	1.4	222.5
1982	16.7	14.0	88.8	5.7	1.8	127.0
1981	14.5	5.6	252.6	21.4	2.6	296.7
1980	8.5	3.9	72.5	20.4	1.7	107.0
1979	3.9	1.3	36.8	14.8	0.5	57.3
1978	1.7	1.7	19.9	0.1	0.3	23.7
1977	0.2	0.4	3.5	0.0	0.0 <sup>a</sup>	4.1
Prior to 1977 or date not available	<u>0.4</u>	<u>0.6</u>	<u>0.8</u>	<u>0.0</u>	<u>0.0<sup>a</sup></u>	<u>1.8</u>
Total	<u>\$203.3</u>	<u>\$222.2</u>	<u>\$895.8</u>	<u>\$197.4</u>	<u>\$16.7</u>	<u>\$1,535.4</u>

<sup>a</sup>Rounded amount less than \$50,000.

DELINQUENT AMOUNTS OWED BY CONTINUALLY DELINQUENT BORROWERS  
BY LOAN PROGRAM AND DATE OF LAST CASH PAYMENT  
AS OF JULY 16, 1986

<u>Date of last cash payment</u>	<u>Program</u>					<u>Total</u>
	<u>Farm ownership</u>	<u>Operating</u>	<u>Emergency disaster</u>	<u>Economic emergency</u>	<u>Soil and water</u>	
	----- (millions) -----					
1986	\$ 27.8	\$137.2	\$ 221.5	\$ 70.2	\$ 2.0	\$ 458.7
1985	29.9	134.5	315.9	97.5	2.0	579.8
1984	30.7	111.6	322.5	95.0	2.7	562.5
1983	36.9	82.3	426.1	100.4	2.9	648.6
1982	34.1	48.8	429.0	108.2	3.6	623.7
1981	35.6	37.8	395.2	112.0	3.9	584.5
1980	13.3	19.2	189.5	48.4	1.9	272.3
1979	6.5	10.0	83.6	12.8	1.2	114.1
1978	1.8	5.4	27.8	0.6	0.2	35.8
1977	1.1	2.9	4.4	a	0.1	8.5
No cash payment	<u>40.3</u>	<u>101.4</u>	<u>523.8</u>	<u>85.8</u>	<u>6.0</u>	<u>757.3</u>
Total	<u>\$258.0</u>	<u>\$691.1</u>	<u>\$2,939.3</u>	<u>\$730.9</u>	<u>\$26.5</u>	<u>\$4,645.8</u>

<sup>a</sup>Economic Emergency Loan Program not authorized until 1978.



DELINQUENT AMOUNTS FOR LOANS WITH NO CASH PAYMENTS MADE BY  
CONTINUALLY DELINQUENT BORROWERS  
AS OF JULY 16, 1986

Year loan made	Program					Total
	Farm ownership	Operating	Emergency disaster	Economic emergency	Soil and water	
----- (millions) -----						
1986	\$ 0.0 <sup>a</sup>	\$ 0.0	\$ 0.0 <sup>a</sup>	\$ 0.0 <sup>a</sup>	\$ 0.0	\$ 0.0 <sup>a</sup>
1985	4.2	20.9	18.0	5.0	0.5	48.6
1984	4.4	23.3	40.9	10.7	0.5	79.8
1983	10.6	25.1	59.4	14.9	0.5	110.5
1982	6.8	15.0	69.0	4.1	0.9	95.8
1981	7.0	6.3	207.1	19.6	1.9	241.9
1980	4.1	4.7	71.7	19.0	1.2	100.6
1979	2.0	1.7	35.1	12.4	0.3	51.5
1978	0.8	2.7	17.9	0.1	0.2	21.7
1977	0.1	0.6	3.7	0.0	0.0 <sup>a</sup>	4.4
Prior to 1977 or date not available	<u>0.3</u>	<u>1.1</u>	<u>1.0</u>	<u>0.0</u>	<u>0.0<sup>a</sup></u>	<u>2.4</u>
Total	<u>\$40.3</u>	<u>\$101.4</u>	<u>\$523.8</u>	<u>\$85.8</u>	<u>\$6.0</u>	<u>\$757.3</u>

<sup>a</sup>Rounded amount less than \$50,000.

NEW FmHA BORROWERS BY STATE/TERRITORY  
AS OF JUNE 30, 1986

<u>State/territory</u>	<u>New borrowers</u>	<u>State/territory</u>	<u>New borrowers</u>
Alabama	177	Nevada	15
Alaska	1	New Hampshire	8
Arizona	122	New Jersey	24
Arkansas	432	New Mexico	80
California	303	New York	220
Colorado	136	North Carolina	295
Connecticut	21	North Dakota	438
Delaware	17	Ohio	250
Florida	136	Oklahoma	407
Georgia	254	Oregon	115
Guam	1	Pennsylvania	184
Hawaii	30	Puerto Rico	359
Idaho	243	Rhode Island	2
Illinois	353	South Carolina	117
Indiana	244	South Dakota	596
Iowa	1,146	Tennessee	269
Kansas	554	Texas	731
Kentucky	322	Utah	80
Louisiana	661	Vermont	42
Maine	78	Virgin Islands	3
Maryland	47	Virginia	157
Massachusetts	31	Washington	194
Michigan	378	West Virginia	104
Minnesota	961	Wisconsin	1,133
Mississippi	436	Wyoming	121
Missouri	473		
Montana	477		
Nebraska	671		
		Total	<u>14,649</u>

CATEGORY I LOAN-SERVICING LETTER

ADMINISTRATOR  
FARMERS HOME ADMINISTRATION  
WASHINGTON, D.C.

Dear Borrower:

This letter and the accompanying material is extremely important to you, since it concerns your loan(s) with the Farmers Home Administration. Please-----I urge you to read all of this carefully.

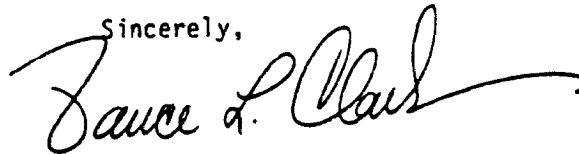
As you well know, your loan with us is seriously delinquent or has other serious problems connected with it. This situation requires immediate attention. New regulations adopted by the Farmers Home Administration require us to send you the enclosed letter. You now have 30 days in which to respond should you wish us to consider any of the alternate servicing actions outlined.

These are, of course, difficult times in agriculture and you now need to make some tough decisions as to your future. Your loan with us, which is in default, makes your decisions even more difficult.

We at the Farmers Home Administration will do what we can to help. You need to read carefully the attached material and to respond to us within 30 days so that we may meet with you and perhaps advise you as to what relief, if any, we may be able to offer.

Again----please read the enclosed information very carefully and return the required form to the local County FmHA office within the next 30 days.

Sincerely,



VANCE L. CLARK  
Administrator

CATEGORY 2 LOAN-SERVICING LETTER



United States  
Department of  
Agriculture

Farmers  
Home  
Administration

Dear Borrower:

This letter is extremely important to you since it concerns your loan with the Farmers Home Administration.

Our records indicate that your loan(s) with us were in default on December 31, 1985. This situation requires your immediate attention.

These are of course difficult times in agriculture and you now need to make some tough decisions as to your future. The status of your loan(s) with us makes your decisions even more difficult. We are enclosing Form FmHA 1924-14, (Farmer Program Borrower Servicing Options Including Deferrals and Borrower Responsibilities), which describes the options that may provide relief to your financial difficulty.

Please contact us within 30 days for an appointment so that we may meet with you and advise you as to what relief, if any, we may be able to offer. Our phone number and address is as follows:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Sincerely,

County Supervisor



Farmers Home Administration is an Equal Opportunity Lender.  
Complaints of discrimination should be sent to  
Secretary of Agriculture, Washington, D.C. 20250

NOTICE OF LOAN-SERVICING OPTIONS

FmHA 1924-14  
(Rev. 9/85)

UNITED STATES DEPARTMENT OF AGRICULTURE  
FARMERS HOME ADMINISTRATION

## NOTICE

FARMER PROGRAM BORROWER SERVICING OPTIONS INCLUDING  
DEFERRALS AND BORROWER RESPONSIBILITIES**Servicing Options**

All borrowers are expected to repay their loans according to planned repayment schedules. However, sometimes borrowers will not be able to pay as scheduled. If this happens, you may inquire about the following servicing options:

## I. Deferral:

An approved delay in making regularly scheduled payments. Such a delay may be granted if FmHA finds that, due to circumstances beyond your control, you are temporarily unable to continue making the scheduled payments on such loan(s) without unduly impairing your standard of living. A more detailed description is available at any FmHA Office.

## II. Limited Resource Program:

The Farmers Home Administration (FmHA) has authority to make limited resource farm ownership and operating loans to qualified applicants.

The program provides credit at an interest rate which is lower than FmHA's regular interest rate.

In addition to making loans at reduced interest rate, borrowers with existing farm ownership and operating loans who qualify as limited resource operators may have their loans rewritten at the lower interest rate.

## III. Consolidation:

Combining and rewriting similar type loans made for operating purposes at new rates and terms.

## IV. Rescheduling:

Rewriting loans made for operating purposes at the interest rate of the original note or current loan rate, whichever is the lesser.

## V. Reamortization:

Rewriting loans made for real estate purposes at the interest rate of the original note or current loan rate, whichever is the lesser.

## VI. Subordination of the FmHA lien to the lien of another creditor.

## VII. Restructuring the business and debt by selling a portion of your assets.

If you would like additional information regarding any of the above items and how to apply you should contact the FmHA County Supervisor. You will be asked to attend a conference with the FmHA County Supervisor and you must furnish the information necessary for FmHA to make a decision on your request. The County Supervisor can advise you of the information needed for a decision.

FmHA 1924-14 (Rev. 9/85)

**FARMER PROGRAM BORROWER RESPONSIBILITIES**

Please read carefully the following summary of major FmHA requirements. Farmer Program insured borrowers should understand what the Farmers Home Administration (FmHA) expects of them and how FmHA can be of better service. This is *not* a complete list of all responsibilities of an FmHA borrower; this highlights only *some* of those responsibilities.

**RESPONSIBILITIES CONSIST OF, BUT ARE NOT LIMITED TO, THE FOLLOWING:**

- PAYMENTS:** Payments are due as agreed upon in the note(s). It is essential that payments be made on time. Extra payments are encouraged whenever possible.
- SECURITY:** The loan(s) is secured by a Financing Statement and Security Agreement and/or a real estate mortgage or other security instruments (depending upon the type of loan or security). These instruments give FmHA a valid lien on crops, chattels, land, etc., as applicable.
- USE OF LOAN FUNDS:** FmHA loan funds will be used for the purpose(s) shown on the Farm and Home Plan or other plan of operation acceptable to FmHA, and/or Development Plan in cases of real estate improvements.
- RELEASES AND SALES:** The Form FmHA 1962-1, "Agreement For The Use of Proceeds/Release of Chattel Security," which you signed is the agreement between FmHA and you which explains what sales you plan to make, approximately when and to whom those sales will be made, and how the proceeds from those sales will be used. You must inform FmHA if you want to make any sales which are not listed on the form, if you want to sell to a purchaser not listed on the form, or if you make a sale and you receive an amount of proceeds different from the amount listed on the form. It may be a violation of Federal criminal law to make sales which have not been authorized on Form FmHA 1962-1 or to fail to account for sales proceeds.
- CHANGES IN OPERATION:** FmHA agreed to lend you money based on facts which you supplied about your operation. If any changes occur in your operation you should notify the FmHA County Supervisor at once.
- VIOLATION OF RESPONSIBILITIES:** Violation of any of the above responsibilities may result in denial of further FmHA assistance, and could cause your FmHA loan(s) to be accelerated.

NOTICE OF INTENT TO TAKE ADVERSE ACTION

UNITED STATES DEPARTMENT OF AGRICULTURE  
FARMERS HOME ADMINISTRATION

Form FmHA 1924-25  
(Rev. 2-86)  
Notice of Intent to Take Adverse Action

\_\_\_\_\_ (Date)

Dear:

As outlined below, your account with Farmers Home Administration (FmHA) is delinquent or there are other problems affecting your borrowing relationship with us.

We need to jointly attempt to work out a satisfactory solution to your credit problems through the various servicing options available. For your information and review, we have included with this material a copy of the FmHA notice entitled "Farmer Program Borrower Servicing Options Including Deferrals and Borrower Responsibilities" (Form FmHA 1924-14).

This notice requires a response from you within 30 days, using the attached Form FmHA 1924-26. That form offers you the opportunity to request consideration for a number of servicing options. Further details are provided below.

We have conducted a review of your Farmers Home Administration (FmHA) loan accounts and determined the following where checked:

- You are presently \$ \_\_\_\_\_ behind schedule on your FmHA loan installments which is a violation of your note and mortgage and/or security agreement.
- You have made unapproved disposition(s) of property that is covered by security instruments which secure your FmHA indebtedness. The property in question is \_\_\_\_\_ (Describe property)
- You have stopped farming or ranching which is a violation of your loan agreements.
- You have \_\_\_\_\_ (insert the reason(s) for the proposed adverse action)

If the above listed violation(s) is not corrected by one or more of the actions described in the attached Form FmHA 1924-26, FmHA will need to accelerate your FmHA debts and eventually foreclose on your real estate and/or chattels. This may include repossessing your chattels or in other ways proceeding against property you own in which FmHA has a security interest or terminating the release of sales proceeds.

You may, with regard to your Operating, Economic Emergency, Emergency, Farm Ownership, Soil and Water, Special Livestock, Economic Opportunity, Rural Housing for farm service buildings, and/or Recreation loan(s), apply for servicing options, including deferrals, that are explained in the enclosed Form FmHA 1924-14, "Notice-Farmer Program Borrower Servicing Options Including Deferrals and Borrower Responsibilities." Please read this form carefully.

If you wish to apply for any of the servicing options you must complete Part I of the enclosed Form FmHA 1924-26, sign the form, and return the form to the address listed on the letterhead of this notice within 30 days after you receive this notice. We will then arrange a conference with you to develop financial statements and farm operating plans which FmHA will use to make a determination on your request for servicing options. If you do not choose to attend the conference, you have the opportunity to appeal any adverse decision.

At the conference you will be given the opportunity to present information you believe will show you are eligible for the servicing option(s) you requested. FmHA will make a decision on your request based on the information submitted by you, the information in your FmHA case file and the plans developed by you and FmHA at the conference. Such a decision will be in writing and, if the decision is adverse, FmHA will explain how to appeal the decision and to have an appeal hearing. Such a hearing will cover both the denial of your request for servicing alternatives and other adverse actions FmHA intends to take against you as indicated above.

If you do not wish to request servicing options, you have the opportunity for a conference and to appeal the adverse action(s) FmHA intends to take. In this case, you should complete only Part II of Form FmHA 1924-26, sign the form and return it to the address shown in the letterhead of this notice within 30 days after you receive this notice. You may appear in person, with or without an attorney or other representative, to present your information. The hearing officer will be an FmHA employee who has not been previously involved in your case. The hearing officer will arrange a mutually convenient time and place for the appeal hearing.

Several methods of curing defaults or liquidating your FmHA loan accounts are available. If you prefer to use one of those methods listed in Part III (Curing Defaults) or Part IV (Liquidation Action) of Form FmHA 1924-26, check the appropriate box, sign the form and return it to the address listed in the letterhead of this notice within 30 days of receipt of this notice.

Please note that Form FmHA 1924-26 must be postmarked within 30 days of the day you received this notice. If you fail to respond to this notice by completing, signing and returning Form FmHA 1924-26 in the prescribed time, FmHA will need to accelerate your FmHA debts and eventually foreclose on your real estate and/or chattels without further notice or right of administrative appeal by you.

*(The following paragraph applies for individual borrowers only)*

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age *(provided that the applicant has the capacity to enter into a binding contract)*; because all or part of the applicant's income is derived from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The Federal agency that administers compliance with this law is the Federal Trade Commission, Equal Credit Opportunity, Washington, D.C. 20580.

Sincerely,

---

FmHA County Supervisor

Enclosures:

Form FmHA 1924-14

Form FmHA 1924-26

FmHA 1924-25  
(REVERSE)

★ U.S. GOVERNMENT PRINTING OFFICE 1986 490-936/47912/FMHA



BORROWER ACKNOWLEDGEMENT OF FmHA  
NOTICE OF INTENT TO TAKE  
ADVERSE ACTION

United States Department of Agriculture  
Farmers Home Administration

FORM APPROVED  
OMB NO. 0575-0111  
Expiration date avail. on request.

Form FmHA 1924-26  
(Rev. 2-86)  
Borrower Acknowledgement of  
Notice of Intent to Take  
Adverse Action

\_\_\_\_\_  
(Date)

County Supervisor, FmHA

This acknowledges that I(we) received your Notice of Intent to Take Adverse Action dated \_\_\_\_\_.

(Complete Part I, II, III, or Part IV and Part V)

I. Servicing Actions

I(we) request FmHA to consider the following servicing actions (check one or more):

- A. \_\_\_\_\_ Rescheduling
- B. \_\_\_\_\_ Reamortization
- C. \_\_\_\_\_ Consolidation
- D. \_\_\_\_\_ Deferral
- E. \_\_\_\_\_ Limited Resource
- F. \_\_\_\_\_ Subordination
- G. \_\_\_\_\_ Restructuring the business and debt by selling a portion of my(our) assets

I(we) understand that if, after I(we) attend a mandatory conference with FmHA and present necessary information, FmHA denies my(our) request, I(we) will be given the opportunity to appeal. If I(we) fail to attend the mandatory conference, I(we) will be given the opportunity to appeal the adverse action.

(If you completed this part, proceed to Part V)

II. Appeal

I(we) do not wish to apply for the servicing options in Part I above. I(we) understand that I(we) may attend a conference and/or appeal FmHA's intended adverse action and I(we) wish to have the appeal hearing handled as follows:

(check appropriate box)

- A. \_\_\_\_\_ I(we) request a conference with FmHA. I(we) understand that if I(we) fail to schedule or attend this conference, I(we) may also request an appeal hearing if I(we) have indicated by checking box B, C or D below.
- B. \_\_\_\_\_ I(we) request an appeal hearing and I(we) believe FmHA's intended action is wrong for the following reason(s):

I(we) am(are) enclosing the following information for the hearing officer's consideration (itemize specific documents.)

- C. \_\_\_\_\_ I(we) request an appeal hearing and I(we) will present information at the hearing which I(we) believe will prove FmHA's decision is incorrect.

This information is to be collected by FmHA from the borrower in order to learn whether the borrower wants to apply for specific loan servicing options, to appeal FmHA's intended actions, to cure the default or to liquidate. The information is required so that FmHA understands what actions the borrower wishes to pursue. This statement is furnished pursuant to P.L. 96-511.

D. \_\_\_\_\_ I(we) will not attend an appeal hearing but request the hearing officer to review the existing written record, and based on the review, determine whether FmHA's decision is correct.

E. \_\_\_\_\_ I(we) do not want to appeal the intended action and waive my(our) right to do so.

(If you completed this part, proceed to Part V)

III. Curing Defaults. (Complete this only if you have checked none of the boxes in I or II above).

I(we) do not wish to request a servicing option in Part I or to appeal the intended adverse action as allowed in Part II. I(we) wish to take the following action to correct the security agreement violations noted in Form FmHA 1924-25 and request a conference with you to discuss this action.

A. \_\_\_\_\_ Pay my(our) delinquent loan accounts current.

B. \_\_\_\_\_ Make restitution to FmHA for unauthorized disposition of security.

I will take this action within 60 days of the date this Form FmHA 1924-26 is postmarked. If I cannot accomplish this action within the 60 days, FmHA will proceed to take adverse action against me, and I will not be allowed to appeal the adverse action.

(If you completed this part, proceed to Part V)

IV. Liquidation Actions. (Complete this only if you have checked none of the boxes in I, II, or III above).

I(we) do not wish to request a servicing option in Part I, appeal the adverse action as permitted in Part II, or correct the security agreement violations as permitted in Part III. I(we) wish to take the following action to liquidate my (our) FmHA accounts and request a conference with you to discuss this action.

A. \_\_\_\_\_ Sell my (our) security for cash.

B. \_\_\_\_\_ Convey my (our) security to FmHA.

C. \_\_\_\_\_ Transfer my (our) security to someone who will assume the FmHA debt.

D. \_\_\_\_\_ Refinance my (our) debt with another lender.

I will take this action within 120 days of the date this Form FmHA 1924-26 is postmarked. I understand that I may be considered for FmHA debt settlement should sale, transfer, or conveyance of secured property fail to satisfy my(our) entire FmHA debt. I understand that if I cannot accomplish this action within 120 days, FmHA will proceed to take adverse action and I will not be allowed to appeal that action.

(Proceed to Part V)

V. Certification

I(we) hereby request one of the above actions. I(we) understand that if I(we) do not request any of the actions in Parts I, III, or IV or desire an appeal hearing in Part II, FmHA may proceed to take immediate action on my(our) loan accounts.

Sincerely,

\_\_\_\_\_  
(Signature of borrower)

\_\_\_\_\_  
(Signature of borrower)

FmHA 1924-26  
(REVERSE)

\* U.S. GPO 1986-0-490-936/47917

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Requests for copies of GAO reports should be sent to:

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Gaithersburg, Maryland 20877

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