

GAO

Report to the Chairman, Subcommittee
on Agricultural Credit, Committee on
Agriculture, Nutrition, and Forestry, U.S.
Senate

February 1993

FARMERS HOME ADMINISTRATION

Final Resolution of Farm Loan or Servicing Appeals



148467

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United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-249622

February 10, 1993

The Honorable Kent Conrad
Chairman, Subcommittee on
Agricultural Credit
Committee on Agriculture,
Nutrition, and Forestry
United States Senate

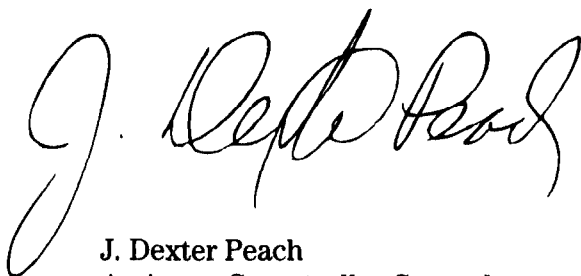
Dear Mr. Chairman:

This report responds to your request for a review of the final resolution of farm loan decisions that, through the Farmers Home Administration's (FmHA) appeals process, were remanded to FmHA's lending officials for reconsideration. We are recommending that the Secretary of Agriculture take several actions to improve the results of the appeals process.

As arranged with your office, we are sending copies of this report to the appropriate Senate and House committees; interested Members of Congress; the Secretary of Agriculture; the Acting Administrator, FmHA; the Director, Office of Management and Budget; and other interested parties. We will also make copies available to others upon request.

This work was performed under the direction of John W. Harman, Director, Food and Agriculture Issues, who can be reached on (202) 275-5138 if you or your staff have any questions. Major contributors to this report are listed in appendix VI.

Sincerely yours,



J. Dexter Peach
Assistant Comptroller General

Executive Summary

Purpose

In deciding on about 7,700 appeals of Farmers Home Administration (FmHA) loan or loan-servicing decisions, hearing officers ruled that lending officials had not made correct decisions in about 40 percent of the cases. Such rulings require that FmHA's lending officials reconsider the applications and again decide whether to offer the appellants loans or loan-servicing.

In response to concerns raised by the Chairman, Subcommittee on Agricultural Credit, Senate Committee on Agriculture, Nutrition, and Forestry, about the high rate of reversed or modified decisions—referred to as remanded decisions—GAO reviewed the final resolution of appeals of FmHA's farmer program loan decisions to determine (1) whether appellants received the loan actions requested after FmHA's lending decisions were remanded for reconsideration and (2) whether the loans and loan-servicing were received in a timely manner. To answer these questions, GAO conducted nationwide surveys of FmHA's actions on remanded loan-making and loan-servicing appeals.

Background

FmHA, an agency of the U.S. Department of Agriculture (USDA), operates loan programs that supplement credit available to farmers from other agricultural lenders. Applicants for FmHA's loans or existing borrowers can appeal most adverse loan decisions made by FmHA's lending officials. In July 1988 FmHA established the National Appeals Staff (NAS) to hear and rule on appeals of loan decisions by FmHA's lending officials. When an NAS hearing officer rules in favor of an appellant and remands a loan decision, FmHA is required to reconsider the loan application. FmHA's national office in Washington, D.C., monitors actions regarding remanded decisions through its computerized Implementation of Reversed and Modified Appeals Decisions (IRMAD) tracking system.

From July 1988 through December 1990, about 11,500 appeals of FmHA's farmer program loan decisions were filed with NAS. In ruling on these cases, NAS upheld the decisions of FmHA's lending officials in about 4,600 cases and remanded about 3,100 cases for reconsideration. GAO's survey results represent an estimated population of about 2,900, or about 94 percent, of the appeals that were remanded to FmHA lending officials. The remaining cases were either concluded or withdrawn without hearing officers' decisions or were being processed at the time of GAO's review.

Results in Brief

GAO estimates that 49 percent of the 2,900 appellants whose cases were remanded received at least part of their requested loan or loan-servicing. FmHA reconsidered and denied loans or loan-servicing for 19 percent of the appellants. Another 14 percent did not receive a loan or loan-servicing oftentimes because they failed to follow through with their applications after the cases were remanded or because they rejected FmHA's offers. Actions for the remaining 18 percent of the appellants were still pending at the time of GAO's review.

FmHA's lending officials have not provided loans or loan-servicing to appellants in a timely manner. While FmHA's regulations generally specify time frames for completing actions on initial loan and loan-servicing applications, the agency has not established time frames for completing actions on remanded decisions. To gauge the timeliness of actions on remanded loan-making and loan-servicing decisions, GAO used 60 days and 90 days, respectively. These time frames, which are 15 days shorter than FmHA's standards for completing agreements on initial loan applications and on loan-servicing applications involving delinquent debts, recognize that FmHA would already have some of the data needed for processing remanded cases. Using these standards, GAO estimates that only 34 percent of the appellants who received loans and loan-servicing had their appeals processed in a timely manner. Appellants not providing information in a timely manner was the primary reason cited by FmHA officials for delays in completing the process.

Principal Findings

Resolution of Appeals

GAO estimates that, of the approximately 680 remanded loan-making appeals, 41 percent of the appellants received all or part of the loan they requested after reconsideration; 26 percent were denied loans again for various reasons, including an applicant's inability to demonstrate the capability to repay the loan; 26 percent did not receive loans because of their own actions or inactions, such as failing to follow through with their applications after the cases were remanded; and 8 percent of the appellants' remanded cases were pending at the time of GAO's review.

GAO also estimates that, of the approximately 2,220 remanded loan-servicing appeals, 52 percent of the appellants received the loan-servicing they had applied for or some other servicing after FmHA

reconsidered their applications; 17 percent were denied loan-servicing again for various reasons, including a delinquent borrower's failure to demonstrate an ability to repay restructured debt; 10 percent did not receive loan-servicing because of their own actions or inactions, such as not providing FmHA with information that was needed to complete the processing of their applications; and 21 percent of the appellants' remanded cases were pending at the time of GAO's review.

Timeliness of Loans and Loan-Servicing

FmHA has established time frames for completing actions on initial loan and loan-servicing applications. However, FmHA has not established time frames for completing actions on loan-making and loan-servicing appeals that are remanded to county offices. After conferring with FmHA's lending officials, GAO used periods of 60 days and 90 days to estimate whether loans and loan-servicing, respectively, were made on remanded cases in a timely manner. These time periods begin when an FmHA county office has been notified of a remanded appeals case and end when the loan-making or loan-servicing action has been completed. These time periods are 15 days shorter than the time periods called for in FmHA's regulations, which were in effect during GAO's review, for reaching initial agreements on loans and servicing cases involving delinquent debts—a recognition that some of the initial application data could be used with minimal update when FmHA's lending officials reconsider remanded decisions.

GAO estimates that, of the 277 appellants who received loans, about 79 percent waited more than 60 days after their applications were remanded before they received the loans. GAO also estimates that, of the 1,158 appellants who received loan-servicing, about 64 percent waited more than 90 days for the servicing to be completed. Furthermore, GAO estimates that it took longer than 1 year for about 10 percent of the appellants to receive loans and about 11 percent to receive loan-servicing.

The reason most commonly cited by FmHA's lending officials for delays in completing actions on remanded loan-making and loan-servicing cases was that appellants were late in providing information needed to complete the processing of their applications. Other reasons frequently cited for delays on remanded cases were that (1) FmHA officials were either late in processing or approving the applications or they did not obtain all the information they needed in one request and (2) loan funds were not available at the time of loan approval. Also, the wording in some hearing officers' decision letters may have contributed to delays by causing

lending officials to wait for appellants to contact them before they started to process remanded decisions.

Regardless of the causes of delays, FmHA's managers cannot effectively oversee the timely resolution of appeals because IRMAD does not accurately categorize the status of appeals. These inaccuracies result from FmHA's failure to clearly define the status categories into which remanded cases may fall.

Recommendations

To improve the management of the agency's farm loan programs and the results of its appeals process, GAO recommends that the Secretary of Agriculture direct the FmHA Administrator to clearly define the status categories used to track the status of remanded decisions in IRMAD. Chapter 3 contains two other GAO recommendations aimed at improving the timeliness of actions on remanded appeals, including (1) developing specific time standards for completing actions on remanded loan-making and loan-servicing decisions and (2) clarifying instructions contained in hearing officers' decision letters.

Agency Comments

In commenting on a draft of this report, FmHA identified the actions that it planned to take on GAO's recommendations to better define IRMAD status categories and to clarify hearing officers' decision letters. FmHA did not specifically address the recommendation to develop time standards. Specific FmHA comments and GAO's evaluation are discussed in chapter 3.

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Abbreviations

FmHA	Farmers Home Administration
GAO	General Accounting Office
IRMAD	Implementation of Reversed and Modified Appeals Decisions
NAS	National Appeals Staff
USDA	U.S. Department of Agriculture

Introduction

The Farmers Home Administration (FmHA) makes loans to qualified family-size farmers who cannot obtain credit elsewhere at reasonable rates and terms. Applicants or existing borrowers not satisfied with FmHA's decisions on their applications for loans or loan-servicing can appeal most of these decisions through a process that is administered by FmHA's National Appeals Staff (NAS). From July 12, 1988, through December 31, 1990, about 11,500 appeals of FmHA's farm loan decisions were filed with NAS.¹ In ruling on these cases, NAS remanded 3,087 appeals to FmHA's lending officials for reconsideration.²

Background

FmHA, the credit agency for agriculture and rural development in the U.S. Department of Agriculture (USDA), operates loan programs to assist family farmers. FmHA provides financial assistance to farmers through direct loans and guarantees on loans made by other agricultural lenders, such as commercial banks and the Farm Credit System. FmHA's primary legislative authority for lending federal money and for guaranteeing farm loans made by other lenders comes from the Consolidated Farm and Rural Development Act, as amended (P.L. 87-128, Aug. 8, 1961).

To be eligible for a direct loan, a borrower must be unable to obtain commercial credit at reasonable rates and terms. To obtain a loan guarantee, a lender must certify that it is unwilling to make the loan without a guarantee. As such, FmHA lends money and guarantees loans to borrowers who are not considered creditworthy by others.

FmHA operates the loan programs through its national program office in Washington, D.C.; a finance office in St. Louis, Missouri; and a field office structure comprising 46 state offices, about 260 district offices, and about 1,900 county offices throughout the nation. FmHA's county supervisors, who manage the county offices, have extensive responsibility and authority for administering the agency's farm programs, including approving and servicing loans as well as managing farm inventory properties obtained as a result of loan defaults. FmHA's district directors are to provide guidance and supervision to county supervisors within designated geographic areas, and state directors are to administer and

¹In addition to handling appeals involving farm loan decisions, NAS also handles appeals involving FmHA's other loan programs, such as its rural housing loan program. However, as requested, this report focuses only on farm loan cases.

²In this report, we refer to NAS' appeal decisions that reverse or modify FmHA's initial loan-making and loan-servicing decisions as remanded decisions.

oversee operations within one or more states. Also, district and state directors have approval authority for certain farm loans.

The Agricultural Credit Act of 1987 (P.L. 100-233, Jan. 6, 1988) required the establishment and maintenance of a national appeals staff within FmHA to hear and determine formal appeals of loan decisions made by FmHA's lending officials, including county supervisors, county committees, district directors, and state directors. The NAS staff, which operates independently of FmHA's officials making program decisions, assumed responsibility for the administrative appeals process on July 12, 1988.

FmHA's Farm Loans

FmHA is supposed to serve as a temporary source of credit for family farmers, and its regulations provide that borrowers should eventually overcome their financial difficulties and graduate to non-FmHA sources of credit for their financial needs. As of June 30, 1992, FmHA's farm loan portfolio totaled \$20.5 billion, of which \$15.9 billion was in direct loans and \$4.6 billion was in guaranteed loans.

FmHA's loans are made for farm operations and farm ownership. Farm operating loans—direct and guaranteed—are authorized for various purposes, such as buying feed, seed, fertilizer, livestock, and farm equipment; paying family living expenses; and refinancing existing debt. Direct operating loans may not exceed \$200,000, including any outstanding principal on other direct farm operating loans. Guaranteed operating loans may not exceed \$400,000 in total outstanding loan principal. When a farm operating loan is made, collateral must be provided as security.

Farm ownership loans—direct and guaranteed—are authorized for various purposes, such as buying and improving farmland; constructing, repairing, and improving farm buildings; and refinancing existing debt. Direct and guaranteed farm ownership loans are limited to a maximum amount of \$200,000 and \$300,000, respectively, including any outstanding principal on other farm ownership loans, soil and water loans, and recreation loans. When a farm ownership loan is made, real estate or a combination of real estate and chattel property must be provided as security.³

In addition to farm operating and farm ownership loans, FmHA makes several other types of direct farm loans, including emergency disaster loans and soil and water loans. Emergency disaster loans are for farmers

³Chattel property, as opposed to real estate, is personal property used in farming operations for the production of income, including such property as trucks, tractors, and other major equipment.

whose operations have been substantially damaged by adverse weather or by other natural disasters. These loans are intended to assist farmers in covering actual losses incurred so that they can return to normal farming operations. Soil and water loans are made to help farmers and ranchers develop, conserve, and properly use land and water resources.

FmHA's Loan Approval and Servicing

The FmHA county office is the local contact point for individuals to apply for FmHA's financial assistance. The FmHA county supervisor accepts farmer program loan application documents and is responsible for reviewing and verifying the information submitted; determining, along with the county committee,⁴ the applicant's eligibility to participate in the loan program; evaluating the applicant's repayment ability; and approving the application. The FmHA county supervisor is also responsible for servicing direct loans, which includes visiting borrowers and assisting them in developing farming plans and collecting loan payments. Commercial lenders are responsible for servicing the guaranteed loans; county supervisors are responsible for monitoring commercial lenders' servicing.

Furthermore, the Agricultural Credit Act of 1987 allows FmHA to use several loan-servicing options for eligible delinquent farmer program borrowers. First, the act provides primary loan-servicing (restructuring) options in which loan terms, interest rates, and amounts, can be revised so the borrowers can continue farming. Under this option, a delinquent borrower's debt may be written down (reduced) until the borrower demonstrates the ability to repay the loans. Second, if a delinquent borrower does not qualify for restructuring, the act provides an option allowing for the borrower to pay FmHA an amount equal to the adjusted value of the collateral securing the borrower's loans. The term "net recovery value buy-out" is used to describe this payment. Under this option, when the buy-out payment is made, a delinquent borrower's debt obligation to FmHA ends, and FmHA writes off (forgives) outstanding debt. Third, borrowers whose loans are not restructured and those who do not buy out their debt are subject to foreclosure by FmHA on the collateral securing their loans. The act provides preservation loan-servicing options allowing borrowers to reacquire their farms or farm homesteads from FmHA in the event of foreclosure. Additionally, through a separate process—referred to as debt settlement, borrowers who generally are no longer in farming may reach a negotiated agreement with FmHA in which

⁴An FmHA county committee consists of three members, two elected by local farmers and one designated by FmHA, to review and certify the eligibility of applicants for farmer program loans and to assist the local FmHA office in other farmer program loan decisions.

they agree to pay FmHA specified amounts to settle their outstanding debts and FmHA writes off (forgives) the difference.

FmHA's Appeals Process

The Consolidated Farm and Rural Development Act, as amended, grants extensive appeal rights to individuals who disagree with FmHA's decisions on loan-making and loan-servicing applications. Specifically, through an administrative appeals process, FmHA's applicants or existing borrowers can appeal most of FmHA's loan-making and loan-servicing decisions. For example, denial of loan eligibility is an appealable decision, as are loan-servicing decisions involving delinquent debt.

NAS is responsible for administering FmHA's appeals program, including hearing and ruling on appeals arising from FmHA's loan decisions. In an effort to maintain the independence of the appeals process, NAS' hearing officers report to the NAS Director and are not under the direction or control of FmHA's program officials. The NAS Director reports to the FmHA Administrator.

In ruling on appeals, hearing officers may either uphold FmHA's initial loan decisions or remand the cases to the lending officials for further consideration. Furthermore, as we reported in April 1991, some appeals may be concluded or withdrawn without appeal hearings or decisions because appellants fail to appear at hearings or because FmHA and the appellants reach prior agreements on the loan decisions.⁵

When an appeal hearing officer remands an FmHA decision, this does not necessarily mean that the appellant will receive the loan or servicing that was originally denied. Instead, FmHA is required to reconsider the loan application. For example, the extent to which FmHA will restructure delinquent debt depends in part on the appraised value of loan collateral property. If a county office's loan-servicing decision involving delinquent debt is remanded because such an appraisal was outdated, FmHA would be required to obtain a new appraisal and reconsider a delinquent borrower's loan-servicing application.

FmHA's procedures also provide for reviews of hearing officers' decisions when appellants or lending officials disagree with the decisions. Specifically, if a hearing officer upholds an FmHA loan decision, an appellant can request that the appeal decision be reviewed by the FmHA

⁵Farmers Home Administration: Information on Appeals of Farm and Housing Loan Decisions (GAO/RCED-91-106, Apr. 9, 1991).

state director in the appellant's state of residence or by the NAS Director. Also, if an appellant is not satisfied with the result of a state director's review, the appellant can request an NAS Director's review. Likewise, an FmHA county supervisor who disagrees with a hearing officer's decision may refer the case to state office officials who, in turn, may submit a request for review to FmHA's national office program officials. If the national office officials concur, the review request is then forwarded to the NAS Director for consideration. The NAS Director's decision subsequently may be reviewed by FmHA's Administrator.

From July 12, 1988—the inception of the appeals program—to December 31, 1990, FmHA's applicants and existing borrowers filed 11,507 appeals of FmHA's farmer program loan decisions. NAS' hearing officers had issued 4,644 decisions that upheld FmHA's lending decisions and remanded 3,087 of these cases for reconsideration. The remaining 3,776 cases were concluded or withdrawn without a hearing, usually because appellants failed to appear at scheduled hearings or because prior agreements were reached with FmHA, or were in process during our review.

Objectives, Scope, and Methodology

In a March 18, 1991, letter, the Chairman, Subcommittee on Agricultural Credit, Senate Committee on Agriculture, Nutrition and Forestry, asked us to review the final resolution of FmHA's farmer program appeals that were remanded to lending officials. More specifically, the Chairman asked us to determine (1) whether appellants received the loan or servicing requested after FmHA's lending decisions were remanded for reconsideration and (2) whether the receipt of loans and servicing was timely.

To obtain data on how FmHA's farmer program appeals were being resolved, we first obtained from FmHA a computerized record of the 3,087 decisions that had been remanded by hearing officers from July 1988 through December 1990. From this universe, we then selected a probability sample of 788 remanded loan-making and loan-servicing cases. We conducted two nationwide mail surveys: one of loan-making appeals and a second of loan-servicing appeals. Survey questionnaires were mailed on September 20, 1991, to FmHA's lending officials responsible for handling the sample cases after the appeals had been remanded for reconsideration. Appendix I contains additional information on our survey methodology, and appendixes II and III contain copies of the questionnaires used.

We used the survey results to make estimates for the universe of 2,900 remanded cases that we expect would have provided information had we

attempted to survey all 3,087 decisions in the agency's data base. Our estimated percentages for all remanded loan-making and loan-servicing appeals have relatively small sampling errors (generally less than 5 percentage points). However, in many instances, we estimate percentages for smaller groups or subpopulations of appeals. Our estimates for these smaller groups can have substantially larger sampling errors (i.e., 10 percentage points or more). Because of the potentially large sampling error, the reader should be cautioned about concluding that two estimated percentages indicate a true difference without considering the magnitude of the sampling error of the estimates as provided in appendix IV.

In addition, respondents also supplied documentation supporting some of the critical facts in their response to the survey questionnaires. We used these documents to verify the consistency of certain responses and to extract additional data for our analysis. Furthermore, several of our survey questions addressed the reasons why appellants did not receive loans or loan-servicing and why delays occurred in processing such actions. In some cases, the respondents cited actions or inactions on the part of appellants as the reason why loans or loan-servicing was not received or why it was delayed. We followed up on these responses by contacting the respondents to obtain additional information and support for their answers. Specifically, in each sample case, we requested documentation to support why and how the appellants caused the denials or delays. We used these data to analyze the extent that appellants may have contributed to the subsequent denial of or delay in receiving loans or servicing.

Because FmHA had not adopted time frames for completing loan-making and loan-servicing actions after hearing officers remanded appeals cases for reconsideration, we used 60-day and 90-day time frames for loan-making and for loan-servicing, respectively, to estimate whether loans were made in a timely manner. We used these time frames after conferring with FmHA headquarters and field office lending officials. These time frames are generally consistent with those established by FmHA for initial loan-making applications and for initial loan-servicing applications involving delinquent debt, less 15 days because some of the initial application data do not have to be completely revised. For example, in a loan-making case, the Farm and Home Plan that contains an applicant's financial and production information can be used with minimum update. In a loan-servicing case, a current appraisal can be reused. FmHA's officials agreed that these time frames were reasonable.

We supplemented our nationwide survey of appeal resolutions with on-site reviews of judgmentally selected appeal cases at five FmHA county offices—one in Arkansas, Georgia, North Dakota, South Dakota, and Texas. We selected these states because they had the highest number of remanded appeals from July 1988 through December 1990. Also, these states provided geographical dispersion of FmHA's actions on remanded decisions. Within each state, the county office that had the most remanded appeals in our sample was selected for detailed review. At these county offices, we reviewed loan and appeal files and interviewed FmHA's officials to determine (1) specific actions taken to implement the remanded decision, (2) how appellants' requests for assistance were resolved, and (3) the timeliness of providing loans and loan-servicing. A total of 23 appeal cases were reviewed at these five county offices. We also interviewed 22 appellants to obtain their views of how the appeals were handled.

We conducted our review from May 1991 through October 1992 in accordance with generally accepted government auditing standards. In August 1992, we testified before the Subcommittee on Agricultural Credit, Senate Committee on Agriculture, Nutrition and Forestry, on the preliminary results of this review.⁶

FmHA reviewed a draft of this report. The agency's comments are contained in appendix V.

⁶Farmers Home Administration: Resolution of Loan Appeals (GAO/T-RCED-92-91, Aug. 10, 1992).

Resolution of Remanded Loan-Making and Loan-Servicing Appeals

We estimate that about half of the 2,900 appellants whose appeals were remanded to FmHA's lending officials between July 1988 and December 1990 received farmer program loans or servicing after reconsideration.¹ We also estimate the following:

- Nineteen percent were denied again by FmHA's lending officials after the request was reconsidered. Generally, these appellants were denied again because they did not qualify for the loans or servicing (i.e., they could not show the ability to repay the debt).
- Fourteen percent did not follow through with their loan or loan-servicing applications or they rejected FmHA's offers. In some cases, appellants apparently no longer needed the loans or they did not want the servicing that FmHA offered.
- Eighteen percent had their applications pending at the time of our review. Generally, these appellants had applications pending because of subsequent appeals they filed.

Of the 2,900 remanded decisions, we estimate that about 680 involved appeals of loan-making decisions, while the remainder involved appeals of loan-servicing decisions. Appellants were slightly more successful in receiving loan-servicing than in receiving loans.

Additionally, our survey indicated that FmHA's lending officials seldom requested that hearing officers' decisions be reviewed by FmHA's state directors—an option available if lending officials believe that implementing remanded appeal decisions will result in unauthorized loan or servicing actions. This low percentage may in part reflect the fact that, according to our survey, FmHA's lending officials were oftentimes satisfied with the quality of the hearing officers' decisions.

Disposition of Remanded Loan-Making Appeals

Slightly over 40 percent of the estimated 684 appellants whose cases were remanded by hearing officers received loans after their applications were reconsidered by FmHA's lending officials—about 27 percent received the total loan amount they requested, and about 13 percent received a portion of what they requested. Conversely, as table 2.1 shows, we estimate that 175 appellants, or about 26 percent, were again denied loans by FmHA's lending officials, and 180 appellants, or about 26 percent, failed to pursue the loans or rejected offers. The remaining 8 percent had applications pending with FmHA's lending officials during our review.

¹This report presents estimates for remanded loan-making and loan-servicing cases on the basis of sampling. The sampling errors for our estimates are contained in appendix IV.

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Loan-Servicing Appeals**

Table 2.1: Resolution of Remanded Loan-Making Appeals

Status of loan applications	Estimated number	Estimated percent
Approved and appellants received loans	277	41
Denied	175	26
Rejected by appellants ^a	180	26
Pending	51	8
Total	684^b	100^b

Note: Unless noted otherwise, the figures shown in this table and in all other tables in this report are based on GAO's sampling and estimates.

^a"Rejected by appellants" covers those cases in which appellants did not follow through with their loan applications after they were remanded for reconsideration (e.g., appellants withdrew loan applications or no longer needed the loans).

^bItems do not add to total because of rounding.

The following provides information on appellants who did not receive loans as a result of their appeals.

Reasons Why Loan-Making Cases Were Denied

FmHA officials who responded to our questionnaires cited several reasons why loan-making applications were denied after reconsideration. The reasons cited most frequently were that (1) appellants still did not qualify for FmHA financial assistance—i.e., an estimated 49 percent of the appellants could not demonstrate the ability to pay farm operating and family living expenses, meet other debt payments, and repay the requested loan—and (2) appellants and FmHA were unable to reach agreement on the Farm and Home plans—i.e., an estimated 38 percent of the appellants could not reach agreement with FmHA on the proposed farming operation or the projected production, income, or expenses that would result from the operation. Other reasons why FmHA denied loans on remanded cases included appellants' lack of sufficient collateral to secure the loans and appellants' failure to provide lending officials with information that was requested to complete the processing of the loan applications.

Other Reasons Why Appellants Did Not Receive Loans

We estimate that about 26 percent of the appellants whose appeals were remanded for reconsideration did not receive loans because they failed to pursue them or rejected offers. For example, in some cases, according to the FmHA officials who responded to our questionnaires, appellants (1) did not follow through with their loan applications or (2) elected not to provide FmHA with needed information. In other cases, as table 2.2 shows,

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appellants did not receive loans because they no longer needed the loan funds (e.g., some appellants no longer needed operating loan money to buy seed and fertilizer since the annual planting season had ended).

Table 2.2: Appellants' Actions or Inactions That Resulted in Their Not Receiving Loans

Action or inaction	Estimated number ^a	Estimated percent of rejected cases
Appellants withdrew loan applications	77	43
Appellants did not provide requested information	48	27
Appellants no longer needed loans	46	25

^aRespondents sometimes stated more than one action or inaction. Furthermore, they sometimes specified an action not shown in this table. As a result, these responses do not add to the number of loans rejected by appellants (180) shown in table 2.1.

Finally, we estimate that about 8 percent of the appellants did not receive loans because their remanded loan-making applications were pending at the time of our review. This often occurred because appellants filed additional appeals while their remanded applications were being reconsidered—i.e., in about 57 percent of the cases, respondents cited other appeals as the reason why remanded cases were pending—and because of a variety of miscellaneous reasons, such as the need to establish new regulations and procedures to implement the provisions of the Food, Agriculture, Conservation, and Trade Act of 1990 (P.L. 101-624, Nov. 28, 1990), commonly referred to as the 1990 Farm Bill.

Resolution of Remanded Loan-Servicing Appeals

About 52 percent of the estimated 2,221 borrowers whose cases were remanded by hearing officers to FmHA received loan-servicing after their applications were reconsidered—37 percent received the servicing they requested, and 15 percent received some other servicing. Additionally, as table 2.3 shows, we estimate that 370 appellants, or 17 percent, were again denied servicing by FmHA's lending officials, and 232 appellants, or 10 percent, did not pursue loan-servicing or rejected FmHA's servicing offer. The remaining 21 percent had applications pending with FmHA's lending officials during our review.

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Table 2.3: Resolution of Remanded Loan-Servicing Appeals

Status of servicing applications	Estimated number	Estimated percent
Approved and appellants received servicing	1,158	52
Denied	370	17
Rejected by appellants ^a	232	10
Pending	461	21
Total	2,221	100

^a“Rejected by appellants” covers those cases in which appellants did not pursue loan-servicing after their applications were remanded for reconsideration or rejected FmHA’s servicing offers.

The following provides information on appellants who did not receive loan-servicing as a result of their appeals.

Reasons Why Loan-Servicing Cases Were Denied

FmHA’s officials who responded to our questionnaires cited several reasons why loan-servicing applications were denied after reconsideration. Among those was that appellants still did not qualify for restructuring—i.e., appellants could not show the ability to repay restructured debt or FmHA’s potential recovery on the delinquent debt was greater by offering appellants net recovery value buy-out instead of restructuring. Other reasons why FmHA denied loan-servicing on remanded cases, as table 2.4 shows, were that (1) appellants and FmHA were unable to reach agreement on the appellants’ Farm and Home plans (i.e., the proposed farming operation or the projected production levels, income, or expenses), (2) appellants failed to provide lending officials with information that was requested to complete the processing of the servicing applications, and (3) appellants started bankruptcy procedures.

Table 2.4: Reasons Why Remanded Loan-Servicing Cases Were Denied

Reason denied	Estimated number ^a	Estimated percent of denied loans
Appellants did not qualify for restructuring	187	51
Unacceptable Farm and Home Plan	129	35
Appellants failed to provide requested information	67	18
Appellants started bankruptcy	40	11

^aRespondents sometimes stated more than one reason for denial. Furthermore, they sometimes specified an action not shown in this table. As a result, these responses do not add to the number of denied loan-servicing cases (370) shown in table 2.3.

Other Reasons Why Appellants Did Not Receive Loan-Servicing

We estimate that about 10 percent of the appellants whose appeals were remanded for reconsideration did not receive loan-servicing because they failed to pursue servicing or because they rejected FmHA's offers—e.g., restructuring, net recovery value buy-out, or preservation servicing. In other cases, according to the FmHA officials who responded to our questionnaires, as table 2.5 shows, appellants (1) elected not to provide FmHA with needed information or (2) started bankruptcy proceedings.

Table 2.5: Appellants' Actions or Inactions That Resulted in Their Not Receiving Loan-Servicing

Action or Inaction	Estimated number ^a	Estimated percent of rejected cases
Appellants did not provide requested information	87	37
Appellants started bankruptcy proceedings	62	27
Appellants rejected FmHA's offers	51	22

^aRespondents sometimes stated more than one action or inaction. Furthermore, they sometimes specified an action not shown in this table. As a result, these responses do not add to the number of rejected loan-servicing cases (232) shown in table 2.3.

Finally, the remanded loan-servicing applications of about 21 percent of the appellants were pending at the time of our review. As with loan-making cases, this often occurred because appellants filed other appeals—i.e., in about 43 percent of the pending cases, respondents cited the filing of additional appeals by appellants as the reason why remanded applications were pending. Other reasons why cases were pending included appellants' being slow in providing information that FmHA needed to complete processing the loan-servicing applications and a variety of miscellaneous reasons, such as delays caused by the involvement of USDA's Office of General Counsel in reviewing certain legal issues in some cases (i.e., whether delinquent borrowers were eligible to have their debts restructured).

Lending Officials' Opinions on Hearing Officers' Decisions

Our survey disclosed that FmHA's lending officials referred only about 10 percent of the remanded appeals cases to FmHA's higher-level officials for review. Lending officials can request such reviews when they believe that implementing remanded appeal decisions will result in unauthorized loan or servicing actions. Additionally, FmHA county officials who responded to our surveys generally expressed satisfaction with various key aspects of hearing officers' decisions, including whether applicable laws and FmHA regulations were followed, relevant issues were considered, and decisions were based on accurate information.

Lending Officials' Request for Higher-Level Reviews of Hearing Officers' Decisions

If a county official disagrees with a hearing officer's decision (i.e., the lending official believes that implementing the appeal decision will result in an unauthorized loan or loan-servicing), the lending official can recommend that the appropriate FmHA state director review the hearing officer's decision. However, our review disclosed that county officials seldom requested that FmHA's state directors review hearing officers' decisions. Specifically, we estimate that, as table 2.6 shows, review requests were made in only 10 percent of the remanded cases.

Table 2.6: Estimated Percentage of Remanded Cases in Which Lending Officials Requested Reviews of Hearing Officers' Decisions

County official requested higher-level review	Percent of loan-making appeals	Percent of loan-servicing appeals	Percent of total appeals
Yes	11	10	10
No	89	90	90
Total	100	100	100

Note: The percentages in this table are based on 694 loan-making, 2,230 loan-servicing, and 2,924 total cases. The number of loan-making and loan-servicing cases is greater than the totals in tables 2.1 and 2.3, respectively, because we included about 20 remanded cases in which FmHA's lending officials recommended a review of the hearing officers' decisions and, upon review, the hearing decisions were overturned.

Furthermore, even when review requests were made by lending officials, our review disclosed that hearing officers' decisions were seldom overturned. Specifically, of the approximate 290 cases in which review requests were made, we estimate that in only about 7 percent of the cases were hearing officers' decisions overturned.

Opinions of FmHA's Lending Officials on Hearing Officers' Decisions

FmHA's county officials rated the overall quality of 60 percent of the hearing officers' decisions as average or above. Furthermore, as table 2.7 shows, we estimate that in 58 percent of the remanded cases, county officials were satisfied that hearing officers used applicable laws and FmHA's regulations in reaching appeal decisions and that in 66 percent of the cases, only the relevant issues of the appeals were considered. In a third key area—whether decisions were based on accurate and substantiated information—36 percent of the county officials said that the decisions on loan-making were satisfactory and 57 percent said the decisions on loan-servicing were satisfactory.

**Chapter 2
Resolution of Remanded Loan-Making and
Loan-Servicing Appeals**

Table 2.7: Estimated Percentage of Remanded Cases In Which Lending Officials Viewed Hearing Officers' Decisions as Satisfactory or Unsatisfactory

Adequacy of decisions	Percent of loan-making appeals	Percent of loan-servicing appeals	Percent of total appeals
Followed laws and FmHA regulations			
Satisfactory	53	60	58
Unsatisfactory	42	34	36
Total	94^a	94	94
Considered only issues addressed in appeal			
Satisfactory	65	66	66
Unsatisfactory	27	28	28
Total	93^a	95^a	94
Based on accurate information			
Satisfactory	36	57	52
Unsatisfactory	54	38	41
Total	89^a	95	93

Note: The percentages in this table are based on 595 loan-making, 1,912 loan-servicing, and 2,507 total cases. The number of loan-making and loan-servicing cases is less than the totals in tables 2.1 and 2.3, respectively, because only respondents to our questionnaires who were employed in the appropriate FmHA county offices at the time of the appeal hearings were asked to answer our opinion questions. Also, because some of these respondents did not provide opinions on our quality questions, the percentages shown are less than 100 percent.

^aItems do not add to total because of rounding.

Loans and Loan-Servicing Are Frequently Not Received in a Timely Manner

FmHA does not have standards for completing action on loan and loan-servicing cases that are remanded to lending officials for reconsideration. Therefore, to estimate whether remanded loan and loan-servicing appeals were completed in a timely manner, we used a 60-day and a 90-day standard, respectively, after conferring with FmHA lending officials. Our standard measured the length of time from the date when the FmHA county office received the hearing officers' decisions until the date when the loan or servicing was completed. Using these standards, we estimate that FmHA's lending officials provided financial assistance in a timely manner to about one-third of the 1,435 appellants who received loans or loan-servicing after their cases had been remanded for reconsideration. Furthermore, we estimate that 11 percent of the appellants who received financial assistance had to wait more than 1 year after their cases were remanded to FmHA's lending officials for reconsideration before they received the assistance.

FmHA's county supervisors cited various reasons for the delays in providing financial assistance—e.g., appellants were late in submitting to FmHA the information that was needed to complete the processing of the applications and FmHA was late in processing and approving applications. Also, the wording in hearing officers' decision letters may have contributed to delays. For example, we estimate that about 76 percent of the letters instructed appellants to contact the FmHA county offices to continue the loan-making or loan-servicing process. Consequently, some county officials apparently waited for contacts from appellants despite FmHA's regulations that require lending officials to notify appellants and to continue the loan process. Furthermore, FmHA's managers are unable to accurately track the timeliness or status of actions on remanded loan-making and loan-servicing cases because the agency's computerized tracking system does not provide specific information on when or if remanded cases result in loans or servicing.

Appellants Are Not Receiving Loans in a Timely Manner

FmHA's regulations provide that initial loans are to be completed within 75 days after complete application packages are received in county offices—60 days are provided to process the applications and 15 days to make the loans. However, FmHA does not have time frames for completing action when hearing officers remand cases for reconsideration.¹ FmHA's

¹The 1990 Farm Bill required FmHA to implement remanded appeal cases within a reasonable period of time after hearing officers' decisions. In publishing regulations in April 1992, FmHA (1) required that its lending officials implement hearing officers' decisions within 60 days and (2) defined implement as the next step in the loan-making or loan-servicing process that would have occurred if the initial application had not been denied and an appeal filed.

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lending officials told us that, since much of the data that are submitted with the initial application could be used with minimal update, the full 75 days generally would not be needed. Instead, they said that 60 days should be sufficient to complete action on remanded loan decisions—45 days to reconsider the application and 15 days to complete action on the loan. Using this standard, we estimate that about 79 percent of the estimated 277 appellants who received loans waited an excessive amount of time. The time required to complete actions on the remanded loans ranged from less than 1 month to over 2 years for the 277 appellants, and it took at least 4 months for about half of the appellants to receive loans.

As table 3.1 shows, appellants did not receive direct or guaranteed loans in a timely manner.

Table 3.1: Timeliness of Appellants' Receipt of Loans by Type of Loan

Loan type	Estimated number of appellants who received loans	Estimated percentage of loans taking more than 60 days
Direct	221	84
Guaranteed	56	63
Total	277	79

Furthermore, many of the appellants had to wait an extended period before they received the loans. Specifically, we estimate that loan-closing for about 47 percent of the appellants took 4 months or more from the time of the hearing officers' decisions. Also, loan-closing for 10 percent took more than 1 year.

Appellants Are Not Receiving Loan-Servicing in a Timely Manner

As with loan-making, FmHA has not established time frames for completing actions when hearing officers remand servicing cases for reconsideration. However, FmHA does have time frames for completing actions on initial loan-servicing of delinquent borrowers' debts. For example, under the regulations that were in effect at the time of our review, FmHA had (1) 60 days to determine whether delinquent borrowers would be offered restructuring or net recovery value buy-out and (2) 45 days to reach agreement with borrowers who were offered restructuring or to finalize cases involving buy-out. FmHA's lending officials told us that, since much of the data that are submitted with the initial applications could be used with minimal update, generally 90 days should be sufficient to complete agreements on remanded loan-servicing cases—45 days to reconsider the applications and 45 days to reach agreement or complete the servicing.

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Using this standard, we estimate that about 64 percent of the estimated 1,158 appellants who received loan-servicing had to wait an excessive amount of time. The time required to complete actions on remanded loan-servicing appeals ranged from less than 1 month to over 2 years, and took at least 5 months for about half of the appellants to receive loan-servicing.

Generally, as table 3.2 shows, appellants did not receive loan-servicing, such as restructuring or net recovery value buy-out, in a timely manner.

Table 3.2: Timeliness of Appellants' Receipt of Loan-Servicing by Type of Servicing

Servicing received	Estimated number of appellants receiving servicing	Estimated percentage of servicing taking more than 90 days
Debt restructuring	399	76
Net recovery value buy-out	422	67
Debt settlement	165	68
Other ^a	171	26
Total	1,158^b	64

^aIncludes, for example, loan-servicing decisions covering FmHA's release of loan funds, proposed changes in the subsidized interest rates charged to certain borrowers, and a small number of cases involving preservation loan-servicing.

^bItems do not add to total because of rounding.

Furthermore, many of the appellants had to wait an extended period before they received servicing. Specifically, we estimate that loan-servicing for about 50 percent of the appellants took 5 months or more from the date of the hearing officers' decisions. Also, loan-servicing for about 11 percent took more than 1 year.

Reasons Why Appellants Did Not Receive Loans and Servicing in a Timely Manner

According to FmHA's lending officials who responded to our surveys, the most common reason for delays in completing actions on remanded loan-making and loan-servicing cases was that appellants were slow in providing information that FmHA needed to complete the processing of their applications. Respondents also said that loan-making and loan-servicing cases were delayed because FmHA was slow in processing and approving some applications. Other factors that may have contributed to delays included (1) the confusing wording in hearing officers' decision letters and in FmHA's guidance to lending officials on when to continue

processing remanded applications and (2) unreliable information on the timeliness of actions on remanded cases.

Lending Officials' Views on Reasons for Delays

The most common reason why loans took more than 60 days to close, estimated in 42 percent of the responses by FmHA lending officials, was that some appellants were late in providing county officials with the information they needed to complete the processing of loan requests. Also, the lack of direct loan funds to lend to some appellants whose applications had been approved is estimated as the reason for the delays in 17 percent of the responses. Two other reasons, estimated in a total of 14 percent of the responses, were that FmHA's county officials were either slow in processing the cases after they had been remanded or that they did not ask appellants in a single request for all the information that was needed to process the application.

Likewise, FmHA's lending officials said appellants' being late in providing information was the most common reason, estimated in 33 percent of the responses, why loan-servicing cases took more than 90 days. Three other reasons, estimated in a total of 15 percent of the responses, were that FmHA's (1) county officials were slow in processing and approving applications, (2) state officials were late in approving loan-servicing decisions, and (3) state officials requested that county offices provide information about the remanded cases more than one time.

Because FmHA's county officials who responded to our surveys frequently attributed the cause of delays to appellants, we recontacted and requested supporting documentation from the respondents who said that appellants' being late in providing information was the only reason for the delays. On the basis of this follow up, we estimate that 39 percent of the county officials would have provided documentation to support their responses; about 41 percent would have provided documentation but, in our opinion, it would not adequately support the view that appellants caused the delays; and about 20 percent would have been unable to provide supporting documentation.

Confusion Caused by Guidance in Hearing Officers' Decision Letters and in FmHA's Regulations

Confusing guidance in hearing officers' decision letters to appellants and to FmHA's county supervisors may have also contributed to delays in processing remanded loan and loan-servicing applications. FmHA's regulations state that county supervisors must contact appellants within 15 days after receiving notice of the hearing decisions. However, some

decision letters, which are sent to appellants and county supervisors, stated that appellants should contact county supervisors to continue processing the applications. As a result, some county supervisors may have waited for appellants' contacts before continuing to process the applications. For example, because the supervisor at one county office waited for an appellant to contact his office before continuing to process a loan-servicing application, the appellant did not receive servicing until more than 90 days after the county office received notice of the hearing decision. We estimate that 220 of the 277 loan-making decision letters and 868 of the 1,158 loan-servicing decision letters contained confusing guidance.

Another source of delay associated with some decision letters may have been created by clauses stating that hearing officers' decisions were not administratively final until 12 days after the letters were received. While the intent of this statement is to allow time for a higher-level review of a hearing officer's decision, it has been interpreted by some county supervisors as a 12-day waiting period before they need to start reconsidering the case. For example, one county supervisor told us that he has delayed starting action for 12 days on all remanded appeals that were returned to his office. We estimate, on the basis of our analysis of decision letters, that 108 of the 277 loan-making letters and 367 of the 1,158 loan-servicing letters stated that hearing officers' decisions were not administratively final until 12 days after the letters were received.

**FmHA Does Not Have
Reliable Data on the
Timeliness of Loans and
Servicing**

FmHA established the Implementation of Reversed and Modified Appeals Decisions (IRMAD) computerized system in February 1990 to track lending officials' actions on hearing officers' decisions. However, IRMAD does not contain specific information showing when or if appellants actually received the requested loans or loan-servicing after reconsideration.

Officials in FmHA's state offices, referred to as state appeals coordinators, are responsible for entering data into the IRMAD system to show the status of actions on appeal decisions. However, because FmHA has not clearly defined the various status categories into which remanded cases may fall, state appeals coordinators make subjective judgments on the basis of information they receive from county officials to determine and record the status of actions, including when and if hearing officers' decisions are implemented.

In some cases, the entries by the state appeals coordinators do not accurately reflect the status of actions. For example, one status category—appeal decision implemented—could be interpreted to indicate that action on the cases has been completed. However, the appeals coordinator in one of the five states where we conducted field work told us that he enters the date that a county official notifies an appellant of the hearing officer's decision as the implementation date. The coordinator in a second state viewed this category to mean the initial actions taken by FmHA county officials to continue processing the appeal cases after they were remanded, such as contracting for an appraisal of loan security property. A third coordinator said she uses as an implementation date the date that a county official starts a detailed analysis of an application on a remanded case, such as the date when an updated appraisal is received and the local official starts a detailed analysis of the loan-servicing application.

Additionally, at the start of our review, FmHA provided us with a record of all remanded appeals from its computerized appeals' data base. In selecting the random sample for our survey questionnaires from this data base, we found errors, such as cases that were categorized as (1) loan-making that were actually loan-servicing (and vice versa), (2) operating loans that were actually ownership loans (and vice versa), and (3) direct loans that were actually guaranteed loans (and vice versa). For example, on the basis of the errors that we found in selecting our sample, we estimate that 23 percent of the loan-making cases and 3 percent of the loan-servicing cases were incorrectly coded.

Conclusions

While FmHA's lending officials have finalized loans and loan-servicing on slightly more than 1,400 appeals cases that were returned to them for reconsideration, the resolution of these cases generally has been slow. To be fair, not all of the delays have been the lending officials' fault; some, and perhaps much, of the delays have been due to appellants' being late in providing needed information.

FmHA has not established time standards for completing action on remanded appeals. While such standards in and of themselves would not necessarily reduce time frames for the process, they would establish common expectations for field offices and provide criteria for managers to use in determining when timeliness problems warranted action.

Hearing officers' decision letters may have contributed to delays in completing actions on remanded loan-making and loan-servicing

applications. In particular, because of the instructions in some of these letters, some FmHA county officials waited for appellants to contact them before starting to process remanded decisions rather than starting immediately.

Finally, FmHA's managers cannot effectively oversee the timely resolution of appeals because they lack an information system that accurately categorizes the status of remanded appeal decisions. More specifically, FmHA's IRMAD cannot be used to determine whether appellants ultimately receive the loan-making or loan-servicing action they appealed or, if so, how long it took because FmHA has not sufficiently defined the status categories of the system. Currently, a case categorized in the "appeal decision implemented" status could mean anything from notifying an appellant of the hearing officer's decision to making a loan or completing loan-servicing. Beyond these definition problems, IRMAD also suffers from erroneous data entries. This further erodes the system's reliability.

Recommendations to the Secretary of Agriculture

To further improve the management of the agency's loan programs and results of its appeals process, we recommend that the Secretary of Agriculture direct the FmHA Administrator to develop specific time standards for completing actions on remanded loan-making and loan-servicing decisions.

To help ensure timely actions on remanded decisions, we recommend that the Secretary of Agriculture direct the FmHA Administrator to clarify NAS hearing officers' decision letters to specify the responsibilities of and actions required by FmHA's lending officials and appellants.

To help ensure that FmHA managers can effectively oversee the timely resolution of remanded appeal decisions, we recommend that the Secretary of Agriculture direct the FmHA Administrator to clearly define each of the status categories in the IRMAD system.

Agency Comments and Our Evaluation

In commenting on a draft of this report (see app. V), FmHA identified actions that it planned to take on two of our recommendations. Specifically, FmHA agreed that appeal decision letters need to be clarified and said that it planned to revise the letters to inform appellants that lending officials would contact them to implement the remanded decisions. FmHA added that the letters should not discuss the specific actions that will be taken in response to the remanded decisions. FmHA also

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stated that it planned to include examples, which will cover the range of possible outcomes for remanded appeals cases, as part of the definition for each status category in the IRMAD system.

FmHA's comments did not specifically address our recommendation calling for time standards to be developed for completing actions on remanded loan-making and loan-servicing decisions. FmHA discussed a regulatory change in response to the 1990 Farm Bill and said that its lending officials are required to implement hearing officers' decisions within 60 days. FmHA added that "implement" means taking the next step in the loan-making or loan-servicing process that would have occurred if the initial application had not been denied and an appeal filed. While this requirement establishes a standard for taking initial action on remanded appeals cases, it does not, as we have recommended, establish a standard for completing actions on such cases.

Survey Methodology

To determine whether the Farmers Home Administration's (FmHA) farmer program appellants received the loan actions that they requested after FmHA decisions were remanded and to determine if these actions were timely, we selected a nationwide stratified random sample of remanded loan-making and loan-servicing appeals for review. To select the sample, we obtained a computer file from FmHA that contained all loan appeals with remanded decisions from July 12, 1988, through December 31, 1990. We then selected independent samples totaling 788 cases from two populations of remanded appeal actions—loan-making and loan-servicing. Both samples were stratified by loan type, and consisted of five strata for loan-making appeals and two strata for loan-servicing appeals. Table I.1 shows the universe and sample sizes for the seven strata.

Table I.1: Universe and Sample Sizes of Remanded Appeal Decisions

Type of appeal	Universe	Sample
Loan-making		
Direct operating	304	140
Direct ownership	292	140
Direct other ^a	69	69
Guaranteed operating	54	54
Guaranteed ownership	19	19
Subtotal	738	422
Loan-servicing		
Direct	2,333	350
Guaranteed	16	16
Subtotal	2,349	366
Total	3,087	788

Note: In some cases, a selected sample appeal involved both loan-making and loan-servicing activities. On the basis of the survey responses, we estimated that appeals involving both types of loans occurred in about 1.5 percent of the cases. For appeals involving both types of loans, we limited our data collection and analysis to the loan type shown in FmHA's data base.

^aIncludes natural disaster emergency loans and soil and water loans.

During our review, we found that FmHA's data base did not always correctly classify the type of appeal. Because we used the actual appeal type for the cases we sampled to make our estimates of the number of each type, they will differ from the numbers shown in the data base. Had the data base been perfect, our estimates could have been more precise, and we would have had to qualify fewer of our sampling error estimates.

Questionnaire Design

To collect data to determine whether farmer program appellants received the loan actions they requested after FmHA decisions were remanded and if these actions were timely, we used survey instruments, mailed on September 20, 1991, to the FmHA county supervisor responsible for each appellant's loan files. We designed separate questionnaires for loan-making and loan-servicing appeals. Copies of the two survey instruments appear in appendixes II and III.

In developing the questionnaires, we discussed our questions with various FmHA state and county office officials to ensure that the questions were consistent with the overall operation of the loan-making, loan-servicing, and appeals processes and to ensure that inconsistent responses were minimized. We also pretested the surveys with county supervisors at 13 FmHA county offices in Arkansas, Louisiana, Texas, and Virginia. These pretests were conducted individually, in person with two of our staff and one FmHA county office lending official. We observed the respondents' completion of the survey instruments, and then discussed the respondents' answers to ensure that our questions were interpreted as we planned. During this debriefing, we targeted the discussion to identify ambiguities, incorrect use of technical language, potential bias, or other problems such as wording of the questions or the format used. We incorporated changes in our survey instrument where appropriate.

We received 752 useable responses from the 788 sampled appeal cases. Table I.2 shows the response rates for each of our sampling strata.

Table I.2: Response Rates by Sample Strata

Type of appeal	Sample	Responses	Response percentage
Loan-making			
Direct operating	140	136	97
Direct ownership	140	132	94
Direct other ^a	69	68	99
Guaranteed operating	54	51	94
Guaranteed ownership	19	19	100
Loan-servicing			
Direct	350	330	94
Guaranteed	16	16	100

^aIncludes natural disaster emergency loans and soil and water loans.

Data Validation Procedures

To validate our data base of survey responses, we used several quality assurance procedures. Specifically, we (1) examined each returned questionnaire for consistent answers according to a set of criteria developed while designing the survey; (2) telephoned respondents, as appropriate, to discuss any answers that seemed to be contradictory; (3) compared respondents' answers with documentation on each sampled loan supplied by the respondent as part of our survey; (4) keyed the data with a 100-percent verification technique; and (5) verified an additional 10 percent of the keypunched data by tracing the data to the source questionnaires.

After the data were keyed, we administered an additional series of computer consistency checks to test the reasonableness of the survey responses. Where answers did not meet our consistency criteria, we reexamined survey responses and made follow-up telephone calls for clarification as needed.

Loan-Making Survey

U.S. General Accounting Office

GAO Survey of Appeal Resolutions for Loan Making

Introduction

The U.S. General Accounting Office (GAO), an independent agency of the U.S. Congress, is studying the resolution of farm loan making decisions that were reversed or modified through FmHA's appeal process. This survey concerns these decisions. We are also conducting a survey of FmHA's decisions regarding loan servicing.

This survey is being sent to FmHA county offices having loan appeals that were chosen to comprise a nationwide sample. We cannot obtain this information about the resolution of individual loan-making actions without your assistance. Each questionnaire should take only 15 or 20 minutes to complete. It requests information on the loan appeal identified at the top of the next column. Many questions can be answered simply by checking a box. There is also space for additional comments if you would like to expand upon your answers.

The cover letter that accompanies this survey mentions additional documentation that we need from your office. This documentation is described more fully on page 8 of the survey. Please return it in the enclosed envelope with your survey.

If you have any questions concerning this survey, please call Jim Sheppard or Sy Mitchell, of our Dallas regional office, at (214) 855-2600. If the return envelope is missing, please mail your responses to

James C. Sheppard
U. S. General Accounting Office
1445 Ross Avenue, Suite 1500
Dallas, TX 75202

Thank you for your help.

Please answer the questions in this survey for the following loan-making appeal:

(Place label here.)

1. Does this appeal decision concern a loan-making application? (Check one.)

1. Yes → Please continue with survey.

2. No → STOP! Please return survey to us so that we can correct our files. Thank you.

2. Do you have all the files in your county office for this appeal decision? (Check one.)

1. Yes → Please continue with survey.

2. No → STOP! Please call Jim Sheppard or Sy Mitchell at (214) 855-2600 and tell him that you need to retrieve these files in order to fill out the survey.

3. Did this appeal also concern loan servicing? (Check one.)

1. Yes → Please answer the questions in this survey only for the loan-making aspects of this appeal.

2. No → Please continue with survey questions.

**Appendix II
Loan-Making Survey**

Information on Applicant's Loan

4. Please fill out columns (A), (B), and (C) in the chart below to indicate the type and amounts of loan(s) involved in this appeal decision.

Type of loan	(A) Did the appeal involve this type of loan?	(B) Amount of loan involved in appeal decision	(C) Loan amount actually received by applicant
a. Insured operating loan	1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No	\$ _____ _____	\$ _____ _____
b. Insured farm ownership loan	1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No	\$ _____ _____	\$ _____ _____
c. Insured emergency loan	1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No	\$ _____ _____	\$ _____ _____
d. Guaranteed operating loan	1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No	\$ _____ _____	\$ _____ _____
e. Guaranteed farm ownership loan	1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No	\$ _____ _____	\$ _____ _____
f. Other (Please specify.)	1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No	\$ _____ _____	\$ _____ _____

5. Which of the following aspects of the loan request was reversed or modified by this appeal decision? (Check one.)

- 1. Applicant's eligibility
- 2. Loan feasibility
- 3. Both feasibility and eligibility
- 4. Other (Please specify.)

6. If applicant received only a portion of the loan originally requested, please check the reasons below that best explain why. (Check all that apply.)

- 1. Does not apply to this loan
- 2. Applicant unable to repay full amount
- 3. Applicant changed operations; lesser amount needed
- 4. Other (Please describe.)

Review of Hearing Officer's Decision

7. Did the county office recommend a review of the hearing officer's decision? (Check one.)

1. Yes → → → → → → → → → →

2. No → Go to next page.

8. Was the hearing officer's decision reversed or modified by the review? (Check one.)

1. Yes → Please skip to Question 14 on page 7.

2. No → Go to next page.

**Appendix II
Loan-Making Survey**

Dates of Activities after Appeal Decision

9. Please enter the dates below, where applicable. Please place a check mark in columns D or E for missing information or dates that do not apply to this appeal decision. (Enter month, day, and year, for example, "05 15 91.")

	(A)	(B)	(C)	(D)	(E)
	Month	Day	Year	If date is missing, check here.	If date does not apply, check here.
a. What is the date of the appeal decision letter?					
b. When did the county office receive the appeal decision letter? (date stamp by county office)					
c. [If applicable] When did the county office first notify the applicant that processing of this loan application resumed?*					
d. [If applicable] When was this loan approved?					
e. [If applicable] When was this loan denied (after the appeal decision)?					
f. [If applicable] When was this loan application withdrawn?					
g. [If applicable] When did the applicant reject this loan?					
h. [If applicable] When did this loan actually close?					

* Means of notification could include letter, phone call, or visit.

Please remember to check columns D or E above for information that is not available or does not apply.

**Appendix II
Loan-Making Survey**

Current Status of the Loan Application

10. Which of these five answers best summarizes the resolution of the appeal decision? *(Check one.)*

- 1. Applicant received total loan amount as requested
- 2. Applicant received only a portion of the loan amount requested
- 3. Applicant's loan was denied again
- 4. Applicant rejected offer or failed to pursue loan application
- 5. Applicant's loan is still pending

11. *If the loan was closed more than 60 days after the date your county office received the appeal decision letter, which of the following best describes why? (Compare the dates in Question 9, parts a, b, and h to see if dates are more than 60 days apart.) (Check all that apply.)*

- 1. *Does not apply: Loan closed within 60 days*
- 2. *Does not apply: Applicant received no loan or loan decision still pending*
- 3. Applicant filed other appeal(s)
- 4. Applicant was late with information
- 5. County office was late processing paperwork
- 6. County office did not ask applicant for all needed information in a single request
- 7. FmHA state/district office was late with approval
- 8. FmHA state/district office requested information multiple times from county
- 9. Loan funds were not available
- 10. Other *(Please specify.)*

**Appendix II
Loan-Making Survey**

12. *If applicant received no loan as a result of the appeal, which of the following reasons best describe why? (Check all that apply.)*

- 1. *Does not apply: Applicant did receive loan or application still pending*
- 2. *Loan denied: Application still not feasible after reconsideration*
- 3. *Loan denied: Farm and Home Plan unacceptable*
- 4. *Loan denied: Appraisal showed insufficient collateral*
- 5. *Applicant started bankruptcy procedures*
- 6. *Applicant withdrew loan application*
- 7. *Applicant no longer needed loan*
- 8. *Applicant rejected offer*
- 9. *Applicant failed to respond to FmHA's notice requesting additional information*
- 10. *Other (Please specify.)*

13. *If applicant's loan is still pending, which of the following reasons best describe the causes for the delay? (Check all that apply.)*

- 1. *Does not apply: Loan is closed or applicant received no loan*
- 2. *Applicant filed other appeal(s)*
- 3. *Applicant was late with information*
- 4. *County office was late processing paperwork*
- 5. *County office did not ask applicant for all needed information in a single request*
- 6. *FmHA state/district office was late with approval*
- 7. *FmHA state/district office requested information multiple times from county*
- 8. *Loan funds were not available*
- 9. *Other (Please specify.)*

**Appendix II
Loan-Making Survey**

Quality of Appeal Decision

In Questions 14, 15, and 16, you are asked about the appeal decision that reversed or modified the loan-making decision. In some cases, this decision could have been made by the National Appeals Staff rather than by the hearing officer.

14. In your opinion, was the hearing officer's decision satisfactory or unsatisfactory in each of the following areas? (Check one for each row.)

NOTE: If you were not employed in this county office at the time of the appeal hearing, please check this box and skip to Question 17.

	Satisfactory (1)	Unsatisfactory (2)	Uncertain/ No basis to judge (3)
a. Followed FmHA's applicable regulations and laws			
b. Considered only the issues addressed in the appeal			
c. Based decision solely on accurate and substantiated information			
d. Please describe any other noteworthy aspects of the hearing officer's decision.			

15. In your opinion, what was the overall quality of the hearing officer's appeal decision? (Check one.)

- 1. Excellent
- 2. Good
- 3. Average
- 4. Poor
- 5. Very Poor
- 6. No basis to judge

16. Sometimes new information is presented at the appeal hearing that might have changed the county supervisor's decision. Were you given ample opportunity to reconsider such new information, if any, prior to the hearing officer's decision? (Check one.)

- 1. Does not apply: No new information introduced at hearing relevant to county's decision
- 2. Yes, was given ample opportunity
- 3. No, was not given ample opportunity
- 4. No hearing was held

**Appendix II
Loan-Making Survey**

List of Documentation Needed

17. In addition to this survey, we need a copy of the documentation listed below, as applicable to this appeal and its implementation. Please indicate whether or not you will enclose each type of documentation. (Check one for each row.)

	Will enclose (1)	Will not enclose (2)	Does not apply (3)	If you are unable to provide applicable documentation, please explain below.
	<i>(Check one for rows a through e.)</i>			
a. Decision letter(s) from hearing officer on applicant's appeal, including Appeal Summary				
b. Promissory note(s)				
c. Letter or other notice of loan denial or withdrawal of application				
d. County supervisor's letter recommending a review of the appeal decision				
e. Letter showing final resolution of the county supervisor's recommendation for a review of the appeal decision				

**Appendix II
Loan-Making Survey**

18. Please give us the following information in case we need to contact you for additional information.

Name: _____

Title: _____

Commercial phone number:

(____) _____

PLEASE NOTE: We are unable to access you on an FTS number.

19. Thank you. Please add any other comments below.

Thanks for completing this survey.
Please return your survey form(s)
and supporting documentation in the
return envelope provided.

FAF:150312:9/91

Loan-Servicing Survey

U.S. General Accounting Office

GAO Survey of Appeal Resolutions for Loan Servicing

Introduction

The U.S. General Accounting Office (GAO), an independent agency of the U.S. Congress, is studying the resolution of farm loan servicing decisions that were reversed or modified through FmHA's appeal process. This survey concerns these decisions. We are also conducting a survey of FmHA's decisions regarding loan making.

This survey is being sent to FmHA county offices having loan appeals that were chosen to comprise a nationwide sample. We cannot obtain this information about the resolution of individual loan-servicing actions without your assistance. Each questionnaire should take only 15 or 20 minutes to complete. It requests information about the loan appeal identified at the top of the next column. Many questions can be answered simply by checking a box. There is also space for additional comments if you would like to expand upon your answers.

The cover letter that accompanies this survey mentions additional documentation that we need from your office. This documentation is described more fully on page 7 of the survey. Please return it in the enclosed envelope with your survey.

If you have any questions concerning this survey, please call Jim Sheppard or Sy Mitchell, of our Dallas regional office, at (214) 855-2600. If the return envelope is missing, please mail your responses to

James C. Sheppard
U. S. General Accounting Office
1445 Ross Avenue, Suite 1500
Dallas, TX 75202

Thank you for your help.

Please answer the questions in this survey for the following loan-servicing appeal:

(Place label here.)

1. Does this appeal decision concern a loan-servicing application? (*Check one.*)

1. Yes → *Please continue with survey.*

2. No → **STOP!** Please return survey to us so that we can correct our files. Thank you.

2. Do you have all the files in your county office for this appeal decision? (*Check one.*)

1. Yes → *Please continue with survey.*

2. No → **STOP!** Please call Jim Sheppard or Sy Mitchell at (214) 855-2600 and tell him that you need to retrieve these files in order to fill out the survey.

3. Did this appeal also concern loan making? (*Check one.*)

1. Yes → *Please answer the questions in this survey only for the loan-servicing aspects of this appeal.*

2. No → *Please continue with survey questions.*

Appendix III
Loan-Servicing Survey

Review of Hearing Officer's Decision

4. Did the county office recommend a review of the hearing officer's decision? (Check one.)

1. Yes → → → → → → → → → →

2. No → Go to next question below (Question 6).

5. Was the hearing officer's decision reversed or modified by the review? (Check one.)

1. Yes → Please skip to Question 13 on page 6.

2. No → Go to next question.

Loan Servicing Addressed by Appeal Decision

6. Which of the following types of loan servicing were reversed or modified in this appeal decision? (Check one.)

- 1. Eligibility for consideration of primary loan servicing
- 2. Restructuring of debt without write-down
- 3. Restructuring of debt with write-down
- 4. Net recovery value buy-out
- 5. Eligibility for consideration of preservation loan servicing
- 6. Homestead protection
- 7. Leaseback or buyback of farm property
- 8. Debt settlement
- 9. Other (Please specify.)

7. Which of the following types of loan servicing were received by the borrower after this appeal? (Check one.)

- 1. No loan servicing received by borrower to date
- 2. Restructuring of debt without write-down
- 3. Restructuring of debt with write-down
- 4. Net recovery value buy-out
- 5. Homestead protection
- 6. Leaseback or buyback of farm property
- 7. Debt settlement
- 8. Other (Please specify.)

**Appendix III
Loan-Servicing Survey**

Dates of Activities after Appeal Decision

8. Please enter the dates below, where applicable. Please place a check mark in columns D or E for missing information or dates that do not apply to this appeal decision. (Enter month, day, and year, for example, "05 15 91.")

	(A)	(B)	(C)	(D)	(E)
	Month	Day	Year	If date is missing, check here.	If date does not apply, check here.
a. What is the date of the appeal decision letter?					
b. When did the county office receive the appeal decision letter? (date stamp by county office)					
c. [If applicable] When did the county office first notify the borrower that processing of the loan-servicing application had resumed?*					
d. [If applicable] When was this assistance from loan servicing approved?					
e. [If applicable] When did the borrower receive this assistance from loan servicing?					
f. [If applicable] When was primary loan servicing denied (after the appeal decision)?					
g. [If applicable] When was net recovery value buy-out denied?					
h. [If applicable] When was preservation loan servicing denied?					
i. [If applicable] When was debt settlement denied?					

* Means of notification could include letter to borrower, 1951-S notice or attachment, phone call, or visit.

Please remember to check columns D or E above for information that is not available or does not apply.

Current Status of Loan Servicing

9. Which of these five answers best summarizes the resolution of the appeal decision? (Check one.)

- 1. Borrower received same assistance as covered in appeal decision
- 2. Borrower received different assistance from that covered in appeal decision
- 3. Borrower denied loan servicing again
- 4. Borrower rejected offer or failed to pursue loan servicing
- 5. Borrower's application for loan servicing is still pending

10. If loan servicing was received by the borrower more than 90 days after the date your county office received the appeal decision letter, which of the following best describes why? (Compare the dates in Question 8, parts a, b, and c to see if dates are more than 90 days apart.) (Check all that apply.)

- 1. Does not apply: Loan servicing received within 90 days
- 2. Does not apply: Borrower received no loan servicing or it is still pending
- 3. Borrower filed other appeal(s)
- 4. Borrower requested extension for financing
- 5. Loan servicing involved mediation
- 6. Borrower was late with information
- 7. Appraisal delayed loan servicing
- 8. County office was late in processing paperwork other than appraisal
- 9. County office did not ask borrower for all needed information in a single request
- 10. FmHA state office was late with approval
- 11. FmHA state office requested information multiple times from county
- 12. Loan servicing was suspended because of 1990 Farm Bill
- 13. Other (Please specify.)

**Appendix III
Loan-Servicing Survey**

11. *If borrower received no loan servicing as a result of the appeal, which of the following reasons best describe why? (Check all that apply.)*

1. *Does not apply: Borrower did receive loan servicing as a result of the appeal or still pending*
2. *Loan servicing denied: Borrower still did not qualify for primary servicing after reconsideration*
3. *Loan servicing denied: Farm and Home Plan unacceptable*
4. *Loan servicing denied: Purposes for release of funds, chattel, and real estate were unauthorized*
5. *New appraisal did not result in servicing offer acceptable to borrower*
6. *Borrower could not obtain financing*
7. *Borrower started bankruptcy procedures*
8. *Borrower withdrew application for servicing*
9. *Borrower rejected primary loan servicing offer*
10. *Borrower rejected offer for net recovery value buy-out*
11. *Borrower rejected preservation servicing offer*
12. *Borrower failed to respond to FmHA's request for additional information*
13. *Other (Please specify.)*

12. *If borrower's loan servicing is still pending, which of the following reasons best describe why? (Check all that apply.)*

1. *Does not apply: Loan servicing completed or borrower received no servicing*
2. *Borrower filed other appeal(s)*
3. *Borrower requested extension for financing*
4. *Loan servicing involved mediation*
5. *Borrower was late with information*
6. *Appraisal delayed loan servicing*
7. *County office was late in processing paperwork other than appraisal*
8. *County office did not ask borrower for all needed information in a single request*
9. *FmHA state office was late with approval*
10. *FmHA state office requested information multiple times from county*
11. *Loan servicing was suspended because of 1990 Farm Bill*
12. *Other (Please specify.)*

**Appendix III
Loan-Servicing Survey**

Quality of Appeal Decision

In Questions 13, 14, and 15, you are asked about the appeal decision that reversed or modified the loan-servicing action. In some cases, this decision could have been made by the National Appeals Staff rather than by the hearing officer.

13. In your opinion, was the hearing officer's decision satisfactory or unsatisfactory in each of the following areas? (Check one for each row.)

NOTE: If you were not employed in this county office at the time of the appeal hearing, please check this box and skip to Question 16.

	Satisfactory (1)	Unsatisfactory (2)	Uncertain/ No basis to judge (3)
a. Followed FmHA's applicable regulations and laws			
b. Considered only the issues addressed in the appeal			
c. Based the decision solely on accurate and substantiated information			
d. Please describe any other noteworthy aspects of the hearing officer's decision.			

14. In your opinion, what was the overall quality of the hearing officer's appeal decision? (Check one.)

- 1. Excellent
- 2. Good
- 3. Average
- 4. Poor
- 5. Very Poor
- 6. No basis to judge

15. Sometimes new information is presented at the appeal hearing that might have changed the county supervisor's decision. Were you given ample opportunity to reconsider such new information, if any, prior to the hearing officer's decision? (Check one.)

- 1. Does not apply: No new information introduced at hearing relevant to county's decision
- 2. Yes, was given ample opportunity
- 3. No, was not given ample opportunity
- 4. No hearing was held

**Appendix III
Loan-Servicing Survey**

List of Documentation Needed

16. In addition to this survey, we need a copy of the documentation listed below, as applicable to this appeal and its implementation. Please indicate whether or not you will enclose each type of documentation. (Check one for each row.)

	Will enclose (1)	Will not enclose (2)	Does not apply (3)	If you are unable to provide applicable documentation, please explain below.
	<i>(Check one for rows a through d.)</i>			
a. Decision letter(s) from hearing officer on borrower's appeal, including Appeal Summary				
b. FmHA documents showing that the borrower received loan servicing (such as old and new promissory notes, leaseback/buyback agreement, homestead protection program agreement)				
c. County supervisor's letter recommending a review of the appeal decision				
d. Letter showing final resolution of the county supervisor's recommendation for a review of the appeal decision				

**Appendix III
Loan-Servicing Survey**

17. Please give us the following information in case we need to contact you for additional information.

Name: _____

Title: _____

Commercial phone number:

(____) _____

PLEASE NOTE: We are unable to access you on an FTS number.

18. Thank you. Please add any other comments below.

Thanks for completing this survey.
Please return your survey form(s)
and supporting documentation in the
return envelope provided.

FAF:150312:9/91

Sampling Errors for Survey Estimates

Since we used a sample (called a probability sample) of remanded farmer program appeal decisions to develop our estimates, each estimate has a measurable precision, or sampling error, which may be expressed as a plus/minus figure. A sampling error indicates how closely we can reproduce from a sample the results that we would obtain if we were to take a complete count of the universe, using the same measurement methods. By adding the sampling error to and subtracting it from the estimate, we can develop upper and lower bounds for each estimate. This range is called a confidence interval. Sampling errors and confidence intervals are stated at a certain confidence level—in this case, 95 percent. For example, a confidence interval at the 95-percent confidence level means that in 95 out of 100 instances, the sampling procedure we used would produce a confidence interval containing the universe value we are estimating. The sampling errors for our estimates of the resolution of remanded appeals are contained in table IV.1. The sampling errors for our estimates of the timeliness of loan and loan-servicing receipt are contained in table IV.2.

Table IV.1: Sampling Errors at the 95-Percent Confidence Level for Estimates of the Resolution of Remanded Appeals

Description of estimate	Estimate	Sampling error
Resolution of Total Remanded Loan-Making and Loan-Servicing Appeals		
Total number of remanded loan-making and loan-servicing cases	2,905	55
Status: Loans or loan-servicing were		
Received	49%	4%
Denied	19%	3%
Rejected by appellants ^a	14%	2%
Pending	18%	3%
Resolution of Remanded Loan-Making Appeals		
Appellants received total loan amount requested	27%	4%
Appellants received part of loan amount requested	13%	3%
Status (table 2.1): Loans were		
Received	277	34
	41%	4%
Denied	175	27
	26%	4%
Rejected by appellants ^a	180	30
	26%	4%

(continued)

**Appendix IV
Sampling Errors for Survey Estimates**

Description of estimate	Estimate	Sampling error
Pending	51	17
	8%	2%
Total	684	42
Reasons why loans were denied		
Appellants did not demonstrate repayment ability	49%	8%
Unacceptable Farm and Home plans	38%	8%
Other reasons why loans were not received (table 2.2)		
Appellants withdrew loan applications	77	16 ^b
	43%	9% ^b
Appellants did not provide requested information	48	13 ^b
	27%	7% ^b
Appellants no longer needed loans	46	20
	25%	9%
Cases were pending because appellants filed additional appeals	57%	16% ^b
Resolution of Remanded Loan-Servicing Appeals		
Appellants received same loan-servicing that was covered in the appeal decision	37%	5%
Appellants received different loan-servicing from that covered in the appeal decision	15%	3%
Status (table 2.3): Loan-servicing was		
Received	1,158	113
	52%	5%
Denied	370	81
	17%	4%
Rejected by appellants ^a	232	66
	10%	3%
Pending	461	89
	21%	4%
Total	2,221	66
Reasons why loan-servicing was denied (table 2.4)		
Appellants did not qualify for restructuring	187	60
	51%	12%
Unacceptable Farm and Home plans	129	50
	35%	11%

(continued)

**Appendix IV
Sampling Errors for Survey Estimates**

Description of estimate	Estimate	Sampling error
Appellants failed to provide requested information	67	38 ^b
	18%	9% ^b
Appellants started bankruptcy	40	29 ^b
	11%	8% ^b
Other reasons why loan-servicing was not received (table 2.5)		
Appellants did not provide requested information	87	43
	37%	15%
Appellants started bankruptcy proceedings	62	36
	27%	13% ^b
Appellants rejected FmHA's offers	51	32
	22%	12%
Cases were pending because appellants filed additional appeals	43%	11%
Lending Officials' Opinions on Hearing Officers' Decisions		
County officials requested higher-level review of hearing officers' loan-making decisions (table 2.6)		
Yes	11%	2% ^b
No	89%	2% ^b
County officials requested higher-level review of hearing officers' loan-servicing decisions (table 2.6)		
Yes	10%	3%
No	90%	3%
County officials requested higher-level review of total loan-making and loan-servicing decisions (table 2.6)		
Yes	10%	2%
No	90%	2%
Number of cases in which review requests were made	290	65
Number of remanded appeals including those overturned upon review		
Loan-making	694	42
Loan-servicing	2,230	65
Total	2,924	53

(continued)

Appendix IV
Sampling Errors for Survey Estimates

Description of estimate	Estimate	Sampling error
Loan-making and loan-servicing cases in which hearing officers' decisions were overturned upon review	19	13
	7%	5%
Lending officials rated hearing officers' decisions average or above average	60%	4%
Lending officials' opinions on hearing officers' loan-making decisions (table 2.7)		
Followed laws and regulations		
Satisfactory	53%	5%
Unsatisfactory	42%	5%
Total	94%	2%
Considered relevant issues		
Satisfactory	65%	5%
Unsatisfactory	27%	4%
Total	93%	3%
Based on accurate information		
Satisfactory	36%	4%
Unsatisfactory	54%	5%
Total	89%	3%
Lending officials' opinions on hearing officers' loan-servicing decisions (table 2.7)		
Followed laws and regulations		
Satisfactory	60%	5%
Unsatisfactory	34%	5%
Total	94%	2%
Considered relevant issues		
Satisfactory	66%	5%
Unsatisfactory	28%	5%
Total	95%	2%
Based on accurate information		
Satisfactory	57%	5%
Unsatisfactory	38%	5%
Total	95%	2%
Lending officials' opinions on total loan-making and loan-servicing decisions (table 2.7)		
Followed laws and regulations		
Satisfactory	58%	4%
Unsatisfactory	36%	4%
Total	94%	2%

(continued)

**Appendix IV
Sampling Errors for Survey Estimates**

Description of estimate	Estimate	Sampling error
Considered relevant issues		
Satisfactory	66%	4%
Unsatisfactory	28%	4%
Total	94%	2%
Based on accurate information		
Satisfactory	52%	4%
Unsatisfactory	41%	4%
Total	93%	2%
Number of cases involving respondents who were employed in the FmHA county office at the time of appeal hearing		
Loan-making	595	44
Loan-servicing	1,912	94
Total	2,507	90

^aLoans "rejected by appellants" covers those cases in which appellants did not follow through with their loan applications after they were remanded for reconsideration (e.g., appellants withdrew loan applications or no longer needed the loans). Rejected loan-servicing covers those cases in which appellants did not pursue loan-servicing after their applications were remanded for reconsideration or rejected FmHA's servicing offers.

^bThe precision of these sampling errors must be qualified because, for example, there was no variation in the sampled cases within some of our sampling categories.

Table IV.2: Sampling Errors at the 95-Percent Confidence Level for Estimates of the Timeliness of Loan and Loan-Servicing Receipt

Description of estimate	Estimate	Sampling error
Timeliness of Loan and Loan-Servicing Receipt for Total Remanded Cases		
Appellants who received loans or loan-servicing	1,435	115
Appellants who received loans or loan-servicing in a timely manner	34%	5%
Appellants whose receipt of loans or loan-servicing took more than 1 year	11%	3%
Hearing officers' letters on loan-making or loan-servicing appeals instructing appellants to contact county offices	76%	5%
Appellants' Receipt of Loans		
Timeliness of loans received by loan type (table 3.1)		
Direct	221	31 ^a
Over 60 days	84%	5% ^a
Guaranteed	56	13 ^a
Over 60 days	63%	14% ^a

(continued)

Appendix IV
Sampling Errors for Survey Estimates

Description of estimate	Estimate	Sampling error
Total	277	34
Over 60 days	79%	6%
Appellants' receipt of loans took 4 months or more	47%	7%
Appellants' receipt of loans took more than 1 year	10%	3%
Appellants' Receipt of Loan-Servicing		
Timeliness of loan-servicing received by type of servicing (table 3.2)		
Debt restructuring	399	84 ^a
Over 90 days	76%	10% ^a
Net recovery value buy-out	422	87 ^a
Over 90 days	67%	11% ^a
Debt settlement	165	57
Over 90 days	68%	17% ^a
Other ^b	171	53
Over 90 days	26%	13% ^a
Total	1,158	113
Over 90 days	64%	6% ^a
Appellants' receipt of loan-servicing took 5 months or more	50%	7%
Appellants' receipt of loan-servicing took more than 1 year	11%	4%
Reasons Why Loans and Loan-Servicing Were Not Received in a Timely Manner		
Reasons why loans were not timely		
Appellants were late in providing information	42%	8%
Lack of direct loan funds to lend	17%	5%
County officials were slow in processing cases or did not ask for information in one request	14%	4% ^a
Reasons why loan-servicing was not timely		
Appellants were late in providing information	33%	8%
County officials were slow in processing cases, or state offices were late with approval or did not ask for information in one request	15%	6%
County officials provided documents that would show that appellants were late in providing information	39%	16%

(continued)

**Appendix IV
Sampling Errors for Survey Estimates**

Description of estimate	Estimate	Sampling error
County officials provided documents that would not show that appellants were late in providing information	41%	16%
County officials unable to provide documents that would show that appellants were late in providing information	20%	13% ^a
Hearing officers' letters contained confusing guidance		
Loan-making cases	220	32 ^a
Loan-servicing cases	868	109
Hearing officers' letters stated that decisions were not administratively final for 12 days		
Loan-making cases	108	23
Loan-servicing cases	367	81
Cases incorrectly coded in FmHA's data base		
Loan-making	23%	3%
Loan-servicing	3%	2%

Note: As discussed in chapter 3, we used a 60-day time frame for receipt of loans and a 90-day time frame for receipt of loan-servicing to estimate whether actions on remanded cases were completed in a timely manner.

^aThe precision of these sampling errors must be qualified because, for example, there was no variation in the sampled cases within some of our sampling categories.

^bIncludes, for example, loan-servicing decisions covering FmHA's release of loan funds, proposed changes in the subsidized interest rates charged to certain borrowers, and a small number of cases involving preservation loan-servicing.

Comments From the Farmers Home Administration

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



United States
Department of
Agriculture

Farmers
Home
Administration

Washington
D.C.
20250

DEC 29 1992

SUBJECT: U. S. General Accounting Office Draft Report RCED-93-28, "FARMERS HOME ADMINISTRATION: Final Resolution of Farm Loan or Servicing Appeals"

TO: John W. Harman
Director
Food and Agriculture Issues
Resources, Community, and Economic
Development Division
General Accounting Office

We have reviewed the subject draft report and offer the following comments:

See comment 1.

The recommendation concerning appeal decision letters appears to be based on audit findings that some appeal decision letters instruct FmHA to take further action while other appeal decisions instruct the borrower to contact FmHA.

We agree that some clarification in our appeal decision is necessary. Since it is the original FmHA decision that is being reversed in appeal, we believe that it is the Agency's responsibility to take corrective action. We propose that appeal decision letters reversing the Agency's determination, will state to the appellant that "the Agency will be contacting you shortly to implement the appeal decision."

See comment 1.

We do not recommend that appeal decision letters, in most instances, list specific actions to be taken by FmHA. This is beyond the scope of the National Appeal Staff (NAS) authority. FmHA program officials are responsible for processing of loan requests and servicing actions. As a result of the 1990 Farm Bill, a new paragraph was added to Section 1900.59 of FmHA Instruction 1900-B, on April 30, 1992. This addition contained the following language regarding implementation:

(d) Implementation. Except as noted in paragraph (c) of this section and §1900.61 of this subpart, the decision maker shall, upon having a case returned pursuant to the decision of a hearing officer, State Director or Director, National Appeals Staff, implement the appeal decision reversing the adverse decision within 60 days of receiving the decision. For the purpose of this section, "implementation" means the next step in a loan processing or loan servicing action, required by FmHA regulations, that would occur had no adverse decision been made and appeal filed.



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

Appendix V
Comments From the Farmers Home
Administration

2

See comment 1.

Because FmHA administers several different types of loan and grant programs, there are several variables that may enter into "implementation" of an appeal decision depending on the complexity of the case and the stage of processing, servicing or other action that was in effect when the appeal was filed. We believe the definition of "implementation" in the regulation as the "next step...that would occur had no adverse decision been made and appeal filed" is sufficient guidance for the majority of appeal cases. Exceptions could be handled as needed.

See comment 2.

On page 16 of the draft report several statements are made that require clarification. When a case is reversed in appeal, the Agency does not ordinarily formally withdraw the adverse decision, but rather continues with the processing of the request, taking the next step that would be required, as if no adverse decision had ever been made. The exception to this would be in a case where the appeal involved acceleration of the appellant's FmHA loans. In that instance, a reversed appeal decision would require the Agency to rescind the acceleration. Also, there are no provisions in the appeal regulations that provide for program officials to request a review of an NAS decision by the Administrator.

See comment 3.

See comment 4.

On page 38 of the draft report, comments are made regarding the statement in some hearing letters that the decision is not administratively final for 12 working days. This language is required in all hearing decisions that reverse the Agency, made after February 16, 1990, as required in Section 1900.61. Since the audit sample also reviewed appeal cases prior to that date, not all appeal reversals in the sample will show the same language. Furthermore, if the appropriate Assistant Administrator wishes to request a review under Section 1900.61, then taking no appeal implementation action would be proper. However, if the appropriate Assistant Administrator does not wish to request a review under 1900.61, there is no need to routinely wait for 12 working days to initiate the appeal decision.

See comment 1.

Concerning the definition of the status categories in the IRMA system, we feel the existing IRMAD categories adequately cover the range of possible outcomes of cases processed through the reversed and modified appeal life cycle. In response to the recommendation in the draft report, we propose an enhancement to expand our category definitions to include examples from cases processed.

The following are the IRMAD status categories presently residing in IRMAD:

- A. FmHA Action Required. This code is applied automatically to all appeal decisions that have been either reversed or modified. IRMAD receives this data daily and displays these cases to State Appeals Coordinators responsible for tracking and recording them appropriately. Implementation has not begun at this point.

**Appendix V
Comments From the Farmers Home
Administration**

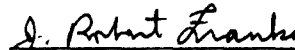
3

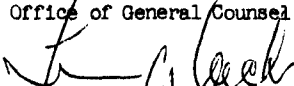
- B. FmHA Action in Progress. This code indicates that the Decision maker has reviewed the case, determined necessary actions and begun implementation.
- C. Action on Hold. This category indicates that a reversed or modified appeal is awaiting implementation after a meeting between the borrower or applicant and FmHA.
- D. Borrower/Applicant Action Required. This code indicates that the Decision maker has taken implementation action but is waiting for an action required by the borrower. Often additional information is required from a borrower or applicant to proceed with implementation. Until such information is obtained, a case would be included in this category.
- E. Appeal Decision Implemented. This category includes cases in which the appeal decision implementation has been completed and no further action is required by FmHA.
- F. Issue Withdrawn/Terminated. This category includes cases in which the borrower or applicant has voluntarily withdrawn or ended his appeal.

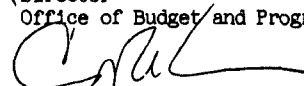


LA VERNE AUSMAN
Administrator

CONCUR:


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Office of General Counsel


STEPHEN B. DEWHURST
Director
Office of Budget and Program Analysis


ROLAND R. VAUTOUR
Under Secretary
for Small Community
and Rural Development

The following are GAO's comments on the December 29, 1992, letter from the Farmers Home Administration.

GAO Comments

1. We addressed this comment in the discussion of agency comments and our evaluation in chapter 3.
2. We clarified chapter 1 to show that remanded hearing officers' decisions require lending officials to reconsider the loan-making and loan-servicing applications that were initially denied.
3. We clarified chapter 1 to show that FmHA county supervisors who disagree with hearing officers' decisions may refer the cases to state office officials who, in turn, may submit review requests to FmHA's national office program officials. Also, we clarified chapter 1 to show that if the national office officials concur, the review requests are then forwarded to the NAS Director for consideration and that the NAS Director's decisions subsequently may be reviewed by FmHA's Administrator.
4. FmHA stated that its regulations provide that a remanded decision is not administratively final for 12 working days from the date of a hearing officer's decision. This standard allows time for a higher-level review of a decision. We agree with FmHA that those agency officials who (1) wish to request a review should not take action to implement a remanded decision until their request, if made, is considered and (2) do not wish to request a review should not routinely wait 12 days to begin action. Our point in chapter 3 is that some agency officials have interpreted the 12-day clause as added time before they need to start reconsidering the case.

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