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FARM PROGRAMS

Efforts to Achieve Equitable
Treatment of Minority
Farmers

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Resources, Community, and Economic
Development Division



Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to testify on the work we have done on the U.S. Department of Agriculture's (USDA) efforts to achieve equitable treatment of minority farmers. Our testimony today is based on our January 24, 1997, report.¹

Let me place our work in the context of concerns about this issue. As you know, the number of minority-owned farms is declining at a more rapid rate than other farms, which has called into question the treatment of minority farmers in receiving federal assistance. Furthermore, for a number of years, minority farmers have reported that USDA officials do not treat them in the same way as nonminority farmers in the conduct of USDA's programs, particularly in decisions made in the Department's county offices and district loan offices.

Because of these concerns, we were asked to review the efforts of USDA's Farm Service Agency (FSA) to treat minority farmers fairly. As we were nearing completion of our work, the concerns of several minority farmers were publicized, leading the Secretary of Agriculture to take a number of actions, including holding national and statewide forums on the treatment of minority farmers. At these meetings, minority farmers made a number of charges of discriminatory practices in USDA. For example, they charged that USDA officials deny them courtesy and respect while giving large-scale farmers service and loans. They also charged that the loans of minority and small farmers are not processed in a timely manner and that FSA is foreclosing on minority-owned farmers at a higher rate than on nonminority-owned farms. Finally, they stated that FSA lacks diversity in the state and county committee structure and county office staffing. While these efforts were underway, the Secretary suspended all foreclosures on farm loans. Our testimony today focuses on the work we did to (1) identify FSA's efforts to treat minority farmers in the same way as nonminority farmers in delivering program services; (2) examine the representation of minorities in county office staffing and on county committees in the counties with the highest number of minority farmers; and (3) examine data on the disposition of minority and nonminority farmers' applications for participation in the Agricultural Conservation Program and the direct loan program at the national level and in five county and five district loan offices for fiscal years 1995 and 1996. Because of the small number of

¹Farm Programs: Efforts to Achieve Equitable Treatment of Minority Farmers (GAO/RCED-97-41, Jan. 24, 1997).

offices we visited, we cannot generalize our findings to FSA's offices nationwide.

In summary, we found that the Farm Service Agency's Civil Rights and Small Business Development Staff (the Staff) oversees the agency's efforts to achieve fair treatment for minority farmers. In fiscal years 1995 and 1996, the Staff closed 28 complaints of discrimination against farmers on the basis of race or national origin and found discriminatory practices in 2 of the 28 cases. The Staff also conducted 13 management reviews of field offices and found no evidence of unfair treatment. Finally, according to the Staff, their training of all FSA personnel on civil rights matters will be completed by the end of 1997. We did not evaluate the quality and thoroughness of the staff's activities.

With respect to the representation of minority employees in the Farm Service Agency's field offices, USDA's database showed that, as of October 1996, 32 percent of the employees serving the 101 counties with the highest number of minority farmers are members of a minority group. Moreover, for the same period, 89 percent of these minority employees were either county executive directors or program assistants. Minority farmers make up about 17 percent of the farmer population in these counties. Furthermore, in 36 of the 101 counties, at least one minority farmer is a member of the county committee.

Finally, the applications of minority farmers for the Agricultural Conservation Program and for the direct loan program were disapproved at a higher rate nationwide than for nonminority farmers for October 1, 1994 through March 31, 1996. We found that disapproval rates for minority farmers were also higher at three of the five county offices and three of the five district loan offices we visited. However, our review of the information in the application files at these offices showed that decisions to approve or disapprove applications were supported by information in the files and that decision-making criteria appeared to be applied to minority and nonminority applicants in a similar fashion.

Background

Within USDA, FSA has the overall administrative responsibility for implementing agricultural programs. FSA is responsible for, among other things, stabilizing farm income, helping farmers conserve environmental resources, and providing credit to new or disadvantaged farmers. FSA's management structure is highly decentralized; the primary decision-making authority for approving loans and applications for a

number of agricultural programs rests in its county and district loan offices. In county offices, for example, committees, made up of local farmers, are responsible for deciding which farmers receive funding for the Agricultural Conservation Program (ACP). Similarly, FSA officials in district loan offices decide which farmers receive direct loans. These FSA officials are federal employees.

Under the ACP, FSA generally paid farmers up to 75 percent of a conservation project's cost, up to a maximum of \$3,500 annually.² FSA allocated funds annually to the states on the basis of federally established priorities. The states in turn distributed funds to the county committees on the basis of the states' priorities. Farmers could propose projects at any time during the fiscal year, and the county committees could approve the proposals at any time after the funds became available. Consequently, county committees often obligated their full funding allocation before receiving all proposals for the year.

The district loan offices administer the direct loan program, which provides farm ownership and operating loans to individuals who cannot obtain credit elsewhere at reasonable rates and terms. Each district loan office is responsible for one or more counties. The district loan office's agricultural credit manager is responsible for approving and servicing these loans. FSA accepts a farmer's loan application documents, reviews and verifies these documents, determines the applicant's eligibility to participate in the loan program, and evaluates the applicant's ability to repay the loan. In servicing these loans, FSA assists in developing farm financial plans, collects loan payments, and restructures delinquent debt.

For both the ACP and the direct loan program, as well as other programs, farmers may appeal disapproval decisions to USDA's National Appeals Division (NAD).

Ongoing Efforts to Enhance Minority Farmers' Participation in Farm Programs

FSA's efforts to achieve equitable treatment for minority farmers are overseen by the agency's Civil Rights and Small Business Development Staff through three separate activities. First, the Staff investigates farmers' complaints of discrimination in program decisions through its Civil Rights and Small Business Development Staff. During fiscal years 1995 and 1996, the Staff closed 28 cases in which discrimination was alleged on the basis

²Section 336 of the Federal Agricultural Improvement and Reform Act of 1996 (P.L. 104-127, Apr. 4, 1996), known as the 1996 farm bill, repealed the ACP and replaced it with the Environmental Quality Incentives Program. For fiscal year 1997, the new program will be administered jointly by FSA and the Department's Natural Resources and Conservation Service.

of race or national origin. In 26 of these cases, the Staff found no discrimination. In the other two cases, the Staff found that FSA employees had discriminated on the basis of race in one case and national origin in the other. At the time of review, USDA had not resolved how it would deal with the employees and compensate the affected farmers. As of January 7, 1997, the Staff had 110 cases of discrimination alleged on the basis of race or national origin under investigation. Ninety-one percent of these cases were filed since January 1, 1995.

Second, the Staff conducts management evaluations of FSA's field offices to ensure that procedures designed to protect civil rights are being followed. During fiscal years 1995 and 1996, the Staff evaluated management activities within 13 states. None of the evaluations concluded that minority farmers were being treated unfairly.

And third, the Staff provides equal employment opportunity (EEO) and civil rights training to its employees. Beginning in 1993, the Staff began to present revised EEO and civil rights training to all FSA state and county employees. About half of the FSA employees have been trained, according to the Staff, and all are scheduled to complete this training by the end of 1997. The training covers such areas as civil rights (program delivery) and EEO counseling, mediation, and complaints.

In addition to these activities, FSA has specific efforts to increase minority farmers' participation in agricultural programs. For example, since September 1993, the Small Farmer Outreach Training and Technical Assistance Program has assisted small and minority farmers in applying for loans. Over 2,500 FSA borrowers have been served by these efforts. FSA has also assisted Native American farmers by establishing satellite offices on reservations. More recently, in July 1996, FSA created an outreach office to increase minority farmers' knowledge of, and participation in, the Department's agricultural programs.

Employment of Minority Staff in County Offices and Representation of Minority Farmers on County Committees

In the 101 counties with the highest numbers of minority farmers, representing 34 percent of all minority farmers in the nation, FSA employees and county committee members were often members of a minority group.

Minority Employment in County Offices

As of October 1996, 32 percent of FSA's employees serving the 101 counties were members of a minority group. In the offices serving 77 of these counties, at least one staff member was from a minority group. Moreover, 89 percent of these minority employees were either county executive directors or program assistants. Minority farmers make up about 17 percent of the farmer population in these 101 counties.

In addition, 7 of the 10 county and district loan offices we visited had at least one minority employee. The executive directors of two county offices, Holmes, Mississippi, and Duval, Texas, were members of a minority group, as were the managers of two district loan offices, Elmore, Alabama, and Jim Wells, Texas, and the deputy managers of three district loan offices, Holmes, Jim Wells, and Byron, Georgia.

The number of minority employees could change as FSA continues its current reorganization. FSA plans to decrease its field structure staff from 14,683 in fiscal year 1993 to 11,729 in fiscal year 1997—a change of about 20 percent. We do not know how this reduction will affect the number of minority employees in county and district loan offices.

Minority Representation on County Committees

We found that for the 101 counties with the highest numbers of minority farmers, 36 had at least one minority farmer on the county committee. In the five county offices we visited, two committees had minority members and the other three had minority advisers. We have previously reported on this issue. In March 1995, in *Minorities and Women on Farm Committees* (GAO/RCED-95-113R, Mar. 1, 1995), we reported that minority farm owners and operators, nationwide, accounted for about 5 percent of those eligible to vote for committee members, and about 2 percent of the county committee members came from a minority group.

Reasons Provided for Disapprovals of ACP and Direct Loan Applications

According to FSA's data, applications for the ACP for fiscal year 1995 and for the direct loan program from October 1994 through March 1996 were disapproved at higher rates nationwide for minority farmers than for nonminority farmers. To develop an understanding of the reasons for disapprovals, we examined the files for applications submitted under both programs during fiscal years 1995 and 1996 in five county and five district loan offices. We chose these offices because they had higher disapproval rates for minority farmers or because they were located in areas with large concentrations of farmers from minority groups. We chose the ACP and the direct loan program because decisions on participation in these programs

are made at the local level. In addition, nationally, these programs have higher disapproval rates for minority farmers than for nonminority farmers.

Reasons for Disapproval of ACP Applications

Nationally, during fiscal year 1995, the disapproval rates for applications for ACP funds were 33 percent for minority farmers and 27 percent for nonminority farmers. We found some differences in the disapproval rates for different minority groups. Specifically, 25 percent of the ACP applications from Native American and Asian American farmers were disapproved, while 34 percent and 36 percent of the applications from African American and Hispanic American farmers, respectively, were disapproved.

To develop an understanding of the reasons why disapprovals occurred, we examined the ACP applications for fiscal years 1995 and 1996 at five county offices. (See attachment I for the number of ACP applications during this period from minority and nonminority farmers in each of the five counties, as well as the number and percent of applications that were disapproved.)

When ACP applications were received in the county offices we visited, they were reviewed first for compliance with technical requirements. These requirements included such considerations as whether the site was suitable for the proposed project or practice, whether the practice was still permitted, or whether the erosion rate at the proposed site met the program's threshold requirements.

Following this technical evaluation, if sufficient funds were available, the county committees approved all projects that met the technical evaluation criteria. This occurred for all projects in Dooly County and for a large majority of the projects in Glacier County. In Holmes County, the county committee ranked projects for funding using a computed cost-per-ton of soil saved, usually calculated by the Department's local office of the Natural Resources Conservation Service. The county committee then funded projects in order of these savings until it had obligated all funds.

In the remaining two counties, Russell and Duval, the county committees, following the technical evaluations, did not use any single criterion to decide which projects to fund. For example, according to the county executive director in Russell County, the committee chose to fund several low-cost projects submitted by both minority and nonminority farmers

rather than one or two high-cost projects. It also considered, and gave higher priority to, applicants who had been denied funds for eligible projects in previous years. In contrast, the Duval county committee decided to support a variety of farm practices. Therefore, it chose to allocate about 20 percent of its funds to projects that it had ranked as having a medium priority. These projects were proposed by both minority and nonminority farmers.

In the aggregate, 98 of 271 applications from minority farmers were disapproved in the five county offices we visited. Thirty-three were disapproved for technical reasons and 62 for lack of funds. FSA could not find the files for the remaining three minority applicants. We found that the applications of nonminority farmers were disapproved for similar reasons. Of the 305 applications for nonminority farmers we reviewed, 106 were disapproved. Fifty-three were disapproved for technical reasons and 52 for lack of funds. FSA could not find the file for the remaining applicant. Approval and disapproval decisions were supported by material in the application files, and the assessment criteria used in each location were applied consistently to applications from minority and nonminority farmers.

Reasons for Disapproval of Direct Loan Applications

Nationally, the vast majority of all applicants for direct loans have their applications approved. However, the disapproval rate for minority farmers is higher than for nonminority farmers. From October 1994 through March 1996, the disapproval rate was 16 percent for minority farmers and 10 percent for nonminority farmers. We found some differences in the disapproval rates for different minority groups. Specifically, 20 percent of the loan applications from African American farmers, 16 percent from Hispanic American farmers, 11 percent from Native American farmers, and 7 percent from Asian American farmers, were disapproved.

To assess the differences in disapproval rates, we examined the direct loan applications for fiscal years 1995 and 1996 at five district loan offices. (See attachment II for more detailed information on direct loan disapproval rates in five district offices.)

Our review of the direct loan program files in these locations showed that FSA's decisions to approve and disapprove applications appeared to follow USDA's established criteria. These criteria were applied to the applications of minority and nonminority farmers in a similar fashion and were

supported by materials in the files. The process for deciding on loan applications is more uniform for the direct loan program than for the ACP.

The district loan office first reviews a direct loan application to determine whether the applicant meets the eligibility criteria, such as being a farmer in the district, having a good credit rating, and demonstrating managerial ability. Farmers who do not demonstrate this ability may take a course, at their own expense, to meet this standard. If the applicant meets these criteria, the loan officer determines whether the farmer meets the requirements for collateral and has sufficient cash flow to repay the loan. These decisions are based on the Farm and Home Plan—the business operations plan for the farmer—prepared by the loan officer with information provided by the farmer. If the collateral requirements and the cash flow are sufficient, the farmer generally receives the loan.

In the five district loan offices we visited, 22 of the 115 applications from minority farmers were disapproved. Twenty were disapproved because the applicants had poor credit ratings or inadequate cash flow. One was disapproved because the applicant was overqualified and was referred to a commercial lender. In the last case, the district loan office was unable to locate the loan file because it was apparently misplaced in the departmental reorganization. However, correspondence dealing with this applicant's appeal to NAD indicates that the application was disapproved because the applicant did not meet the eligibility criterion for recent farming experience. NAD upheld the district loan office's decision. The Department allows all farmers to appeal adverse program decisions made at the local level through NAD. The division conducts administrative hearings on program decisions made by officers, employees, or committees of FSA and other USDA agencies.

The applications of nonminority farmers that we reviewed were disapproved for similar reasons. Of the 144 applications from nonminority farmers we reviewed, 15 were disapproved. Nine were disapproved because of poor credit ratings or inadequate cash flow; five were disapproved because the applicants did not meet eligibility criteria; and one was disapproved because of insufficient collateral.

Additionally, in reviewing the 129 approved applications of nonminority farmers, we did not find any that were approved with evidence of poor credit ratings or insufficient cash flow.

We also wanted to obtain information on whether FSA was more likely to foreclose on loans to minority farmers while restructuring or writing down loans to nonminority farmers. Between October 1, 1994, and March 31, 1996, we found only one foreclosed loan for a—nonminority farmer—in the five district loan offices we reviewed. We also found 62 cases in which FSA restructured delinquent loans. Twenty-two of these were for minority farmers.

Finally, the amount of time FSA takes to process applications from minority and nonminority farmers is about the same. Nationwide, from October 1994 through March 1996, FSA took an average of 86 days to process the applications of nonminority farmers and an average of 88 days to process those of minority farmers. More specifically, for African Americans, FSA took 82 days; for Hispanic Americans and Native Americans, 94 days; and for Asian Americans, 97 days.

This completes my prepared statement. I will be happy to respond to any questions you may have.

Agricultural Conservation Program Disapproval Rates in Five County Offices

County office	Minority applications			Nonminority applications		
	Total applications	Disapproved applications	Percent disapproved	Total applications	Disapproved applications	Percent disapproved
Russell, Alabama	18	11	61	96	47	49
Dooly, Georgia	5	0	0	29	0	0
Holmes, Mississippi	28	16	57	88	38	43
Glacier, Montana	74	9	12	47	6	13
Duval, Texas	146	62	42	45	15	33

Direct Loan Disapproval Rates in Five District Offices

District office	Minority applications reviewed			Nonminority applications reviewed		
	Total applications	Disapproved applications	Percent disapproved	Total applications	Disapproved applications	Percent disapproved
Elmore, Alabama	30	7	23	22	3	14
Byron, Georgia	20	9	45	45	9	20
Holmes, Mississippi	39	5	13	29	0	0
Glacier, Montana	4	0	0	7	1	14
Jim Wells, Texas	22	1	5	41	2	5

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