United States General Accounting Office

GAO

Report to the Honorable Chet Edwards, House of Representatives

May 1998

FARM SERVICE AGENCY

Status of the Farm Loan Portfolio and the Use of Three Contracting Provisions for Loan Servicing

GAO/RCED-98-141

GAO

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

Resources, Community, and
Economic Development Division

B-279552

May 5, 1998

The Honorable Chet Edwards
House of Representatives

Dear Mr. Edwards:

The Farm Service Agency (FSA), a lending agency within the U.S. Department of Agriculture (USDA), provides financial assistance to farmers and ranchers who are unable to obtain commercial credit at reasonable rates and terms.[1] This report responds to your request for selected information on FSA's direct farm loan program. In particular, we are providing information on the levels of outstanding principal on active direct farm loans at the end of fiscal years 1995 through 1997, including the amounts owed by delinquent borrowers, and the amount of debt written off by FSA through the debt settlement process in each of these fiscal years. Additionally, as you requested, we have summarized information on FSA's use of three statutory provisions enacted in the mid-1990s that authorize FSA to contract with (1) private attorneys for legal assistance in resolving delinquent farm loan accounts, (2) private lenders for assistance in servicing farm loan borrowers' accounts, and (3) private collection agencies for assistance in collecting delinquent farm loans.

Results in Brief

The size of the Farm Service Agency's direct farm loan portfolio has decreased in recent years. The outstanding principal on active farm loans totaled about $11.4 billion in September 1995, $10.5 billion in September 1996, and $9.7 billion in September 1997.[2] The percentage of the portfolio held by delinquent borrowers—those who were at least 30 days past due on loan repayment—also decreased. In September 1995, delinquent borrowers held 40.7 percent of the outstanding principal on direct farm loans; the delinquency rates for 1996 and 1997 were 34.2 percent and 28.2 percent, respectively.

The Farm Service Agency wrote off about $380 million for almost 2,000 borrowers in fiscal year 1997 through its debt settlement process, which essentially represents the agency's final resolution of unpaid loans and generally occurs after loan-security property has been liquidated.

[1]FSA administers the farm loan programs that historically were operated by USDA's Farmers Home Administration. In this report, we refer to these loan programs as FSA's programs.

[2]Direct loans totaling about $560 million, $830 million, and $780 million were made in fiscal years 1995 through 1997, respectively.

Previously, the agency had written off about $860 million and $780 million in fiscal years 1996 and 1995, respectively. Of the more than $2 billion that was written off during the 1995-97 period, most—81.5 percent—was written off with no payments to the agency by the borrowers at the time of debt settlement. The extent of these write-offs underscores the high risks associated with the agency's farm loans.

To date, the Farm Service Agency has made only limited use of one of the three new loan-servicing authorities it was given in the mid-1990s. Specifically, it has contracted with private attorneys to obtain legal assistance in resolving delinquent farm loan accounts in two states and has no plans to expand its use in other states. In regard to the other two authorities, the Farm Service Agency has not contracted with private lenders or with private collection agencies and is not actively considering such contracting. Agency officials said they have not used these new contracting authorities more extensively because, among other things, they can obtain assistance from the departments of Justice and the Treasury or they can perform the servicing functions with their own personnel.

Background

FSA, established by the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994 (P.L. 103-354, Oct. 13, 1994), provides, among other things, direct government-funded loans to farmers and ranchers who are unable to obtain financing elsewhere at reasonable rates and terms. For example, direct farm ownership loans are made for buying farm real estate and making capital improvements. Direct farm operating loans are made for purposes such as buying feed, seed, fertilizer, livestock, and farm equipment and paying family living expenses. Additionally, emergency disaster loans are made to farmers and ranchers whose operations have been substantially damaged by adverse weather or other natural disasters.

When a borrower does not repay his or her loans, FSA has various tools to resolve the delinquency, such as (1) restructuring the loans, which may include reducing debt; (2) allowing a borrower who does not qualify for restructuring to make a payment for less than the amount owed, which results in FSA's forgiving the balance; and (3) reaching a final resolution of the debt that may or may not include a payment by the borrower, which also results in debt forgiveness. The Consolidated Farm and Rural Development Act, as amended (P.L. 87-128, Aug. 8, 1961), which is referred to as the Con Act, is the basic authority for the farm loan programs.

Outstanding and Delinquent Loans Have Declined in Recent Years

Table 1 shows that as of September 30, 1997, about 110,000 borrowers owed FSA about $9.7 billion on active direct farm loans; these figures represent 9.5 percent fewer borrowers and 14.8 percent less debt compared with those of September 1995.[3] About 18,600 borrowers were delinquent at the end of September 1997; these borrowers owed about $2.7 billion, or 28.2 percent of the total outstanding principal.[4] This delinquency rate is an improvement from the delinquency rates in September 1996 and 1995, which were 34.2 percent and 40.7 percent, respectively. Table 1 also shows that borrowers with larger amounts of debt had higher delinquency rates than borrowers owing smaller amounts. In 1997, for example, about 72 percent of the principal held by borrowers with loans totaling $500,000 or more was held by delinquent borrowers, whereas about 25 percent of the principal held by borrowers with loans totaling less than $500,000 was held by delinquent borrowers.

[3]The information presented in this report covers the outstanding principal owed on active direct farm loans and excludes inactive loans, such as those involved in bankruptcy or foreclosure proceedings.

[4]If a borrower was delinquent (at least 30 days past due on loan repayment) on any farm loan, the principal on all farm loans held by the borrower was totaled to calculate the amount owed by the delinquent borrower.

Table 1: Amount and Percentage of Outstanding Direct Farm Loans Owed by Delinquent Borrowers, September 30, 1995, Through September 30, 1997

Dollars in millions

	Outstanding principal		Owed by delinquent borrowers		Percentage owed by delinquent borrowers	
Year and range of borrowers' debt	**Amount**	**Number of borrowers**	**Amount**	**Number of borrowers**	**Percentage of debt**	**Percentage of borrowers**
1997						
Borrowers owing less than $500,000	$9,000.3	109,332	$2,238.9	18,022	24.9	16.5
Borrowers owing $500,000 or more	695.6	787	498.5	536	71.7	68.1
Total	**$9,695.9**	**110,119**	**$2,737.5**[a]	**18,558**	28.2	16.9
1996						
Borrowers owing less than $500,000	$9,603.0	114,779	$2,905.8	23,623	30.3	20.6
Borrowers owing $500,000 or more	854.8	935	672.3	693	78.6	74.1
Total	**$10,457.8**	**115,714**	**$3,578.1**	**24,316**	34.2	21.0
1995						
Borrowers owing less than $500,000	$10,213.7	120,484	$3,625.5	28,669	35.5	23.8
Borrowers owing $500,000 or more	1,166.0	1,227	1,002.0	1,000	85.9	81.5
Total	**$11,379.7**	**121,711**	**$4,627.5**	**29,669**	40.7	24.4

[a]Figures do not add to total because of rounding.

Source: GAO's analysis of records from FSA's Finance Office.

Borrowers in a small number of states accounted for a disproportionate share of the total delinquent debt in FSA's farm loan portfolio. For example, borrowers in five states owed slightly over 40 percent of the total delinquent debt at the end of fiscal year 1997. This compares with about 36 percent and 34 percent at the end of fiscal years 1996 and 1995, respectively. Appendix I provides information on the five states with the most delinquent debt in each of these 3 fiscal years.

Large Amounts of Debt Written Off Through Debt Settlements

FSA incurs losses when it writes off the direct farm loans of delinquent borrowers through its debt settlement process, which essentially represents the agency's final resolution of unpaid loans and generally occurs after loan-security property has been liquidated.[5] In fiscal year 1997, FSA wrote off about $380 million through debt settlements, which is down from the more than $860 million written off in fiscal year 1996 and $780 million written off in fiscal year 1995.[6] In total, about 7,600 borrowers had slightly more than $2 billion written off during this 3-year period.

FSA has the following four options for resolving debts in its debt settlement process:

- **Adjustment**. A borrower agrees to make, at some time in the future, one payment, or a series of payments, that is less than the amount owed.
- **Compromise**. The debt is satisfied when a borrower makes an immediate single lump-sum payment that is less than the amount owed.
- **Cancellation**. The debt is written off without any payment made, and the borrower is released from further liability because FSA believes that the borrower has insufficient potential to make additional payments.
- **Charge-off**. The debt is written off without any payment made, and FSA ends collection activity, but the borrower is not released from liability for the amount owed.

Table 2 summarizes the amount of debt written off during the fiscal year 1995-97 period through each of the four debt settlement options. As the table shows, a comparatively small number of borrowers who had a large amount of debt written off accounted for a substantial portion of the write-offs. In 1997, for example, 182 borrowers, or about 9 percent of those whose debts were written off, had $500,000 or more forgiven; these borrowers received about 48 percent of the total debt forgiveness.

[5]FSA also provides debt forgiveness as a result of bankruptcy rulings and through its loan-servicing process of either restructuring a borrower's debt or allowing a borrower to make a buyout payment that is based on the value of loan-security property. During fiscal year 1997, FSA forgave about $120 million for about 550 borrowers as a result of bankruptcy, restructuring, and buyouts.

[6]Some of the farm loans that were written off during fiscal years 1995 and 1996 were done so by USDA's Loan Resolution Task Force, which is no longer in existence.

Table 2: Debt Written Off by FSA in Debt Settlements, Fiscal Years 1995-97

Dollars in millions

	Borrowers with less than $500,000 written off		Borrowers with $500,000 or more written off		Total	
Year and settlement type	Number of borrowers	Debt written off	Number of borrowers	Debt written off	Number of borrowers	Debt written off
1997						
Adjustment	78	$ 8.3	13	$ 11.4	**91**	**$ 19.7**
Compromise	254	28.0	25	32.1	**279**	**60.1**
Cancellation	1,281	145.8	122	115.0	**1,403**	**260.8**
Charge-off	167	15.9	22	24.1	**189**	**40.0**
Total	**1,780**	**$198.1**	**182**	**$182.6**	**1,962**	**$380.6**
1996						
Adjustment	89	$ 9.6	10	$ 7.4	**99**	**$ 17.0**
Compromise	378	44.2	56	89.1	**434**	**133.3**
Cancellation	1,518	183.0	247	349.0	**1,765**	**532.0**
Charge-off	188	20.7	34	158.7	**222**	**179.4**
Total	**2,173**	**$257.5**	**347**	**$604.2**	**2,520**	**$861.6**
1995						
Adjustment	147	$ 14.5	9	$ 9.8	**156**	**$ 24.3**
Compromise	458	55.9	52	64.5	**510**	**120.4**
Cancellation	2,029	254.7	269	336.6	**2,298**	**591.4**
Charge-off	166	16.9	24	30.6	**190**	**47.5**
Total	**2,800**	**$342.1**	**354**	**$441.6**	**3,154**	**$783.7**

Note: Figures sometimes do not add to totals because of rounding.

Source: GAO's analysis of records from FSA's Finance Office.

Borrowers in a small number of states accounted for a disproportionate share of the write-offs. Specifically, borrowers in the five states with the most write-offs each year received about 48 percent of the total write-offs during this 3-year period. Appendix II provides information on the five states with the most write-offs during each of these 3 fiscal years.

Use of Loan-Servicing Contracting Authorities Has Been Limited

Three statutory provisions were enacted in the mid-1990s that provide FSA with discretionary authority to contract for loan-servicing assistance. These provisions authorize, but do not require, contracting with (1) private attorneys to obtain legal assistance in resolving delinquent farm loan accounts, (2) private lenders to obtain assistance in servicing farm loan borrowers' accounts, and (3) private collection agencies to obtain assistance in collecting delinquent farm loans. FSA has made little use of these authorities: It has contracted with private attorneys in only two states; it has not contracted with private lenders or with private collection agencies and is not actively considering doing so.

Authority to Contract With Private Attorneys

The Farmers Home Administration Improvement Act of 1994 (P.L. 103-248, May 11, 1994) gave FSA discretionary authority to contract with private attorneys to assist in resolving delinquent farm loan accounts. The process for using the new contracting authority generally starts with a request for legal assistance from an FSA state office to FSA's Farm Credit Programs at headquarters. Farm Credit Programs then refers the request to USDA's Office of General Counsel (OGC), which after its review may refer the matter to the Department of Justice. Justice, in consultation with FSA and USDA's OGC, reviews the situation to see if (1) the farm loan cases can be handled by the U.S. Attorney's office that has jurisdiction for the area, (2) the cases can be referred to a private attorney under contract with Justice, or (3) FSA should use its authority to contract with a private attorney. FSA is required to obtain the approval of both OGC and Justice before it can enter into a contract with a private attorney. Once OGC and Justice have approved FSA's request for contracting, FSA's state office solicits bids and subsequently enters into contracts, with OGC providing legal advice to the contracting office.

To date, FSA has contracted with private attorneys to obtain assistance in resolving delinquent farm loan accounts in only two states—Louisiana and New Jersey—and has no plans to expand its use in other states. Specifically, following the process described above, FSA's Louisiana state office entered into contracts with nine law firms to handle foreclosure cases in October 1995. As of February 1998, two of the nine firms were no longer under contract. According to FSA's state officials, the agency canceled one contract at the law firm's request and the other because of noncompliance with the terms of the contract. Through February 10, 1998, FSA had referred a total of 156 foreclosure cases to the law firms. Sixty-four of these cases had been settled, with collections totaling $2.2 million; borrowers in another nine cases had filed for bankruptcy; and the remaining cases were ongoing. The cost of legal services was about $58,000, excluding the attorneys' reimbursable expenses, such as court filing fees. Concerning New Jersey, USDA officials told us that FSA's New Jersey state office contracted with a law firm after approval by the U.S. Attorney's office with jurisdiction there. No farm loan cases in New Jersey had been referred to the private law firm, and the USDA officials said they anticipate that none will be.

Little consideration has been given within USDA for additional contracting by FSA because its needs for legal assistance are being satisfied by Justice. In two states, Justice has been referring problem farm loan cases to private attorneys that it has under contract. Specifically, according to a Justice official, the Department has referred such cases in the middle district of Florida since March 1993 and the southern district since January 1994—both before FSA received its contracting authority. The Justice official also told us that farm loan foreclosure cases in the northern district of New York are being handled by private attorneys under contract with Justice. FSA and OGC officials said that FSA has additional legal needs in New York, which will probably also be met by referring cases to private attorneys under contract with Justice. The OGC official also said that USDA discussed FSA's legal needs in Idaho with Justice, and, as a result, the U.S. Attorney's office has increased legal action on farm loan cases in that state.

Finally, state law can have a considerable bearing on FSA's legal needs involving problem farm loan cases. Specifically, when state law provides for nonjudicial foreclosure—that is, when judicial process is not needed for a lender to foreclose the loan-security property of a delinquent borrower—FSA has less need for legal assistance than when state law requires judicial process in foreclosure cases. According to USDA officials, about half of all states allow nonjudicial foreclosure.

Authority to Contract With Private Lenders

The Federal Agriculture Improvement and Reform (FAIR) Act of 1996 (P.L. 104-127, Apr. 4, 1996) gave FSA discretionary authority to contract with private lenders to assist in servicing outstanding loans, including contracting for one or more pilot projects to test the concept. To date, FSA has not used this authority and is not actively considering its use.

Agency officials told us that the new contracting authority is not needed for three reasons. First, they stated that USDA's recent reorganization of various farm program functions and offices has resulted in an increased number of field staff available to service farm loan borrowers. While this may be true, we note that FSA continues to have problems in servicing farm loans. Specifically, our review of FSA's internal control reviews during fiscal year 1997 found that the agency's field officials do not always follow FSA's own loan-servicing standards. For example, as table 3 shows, FSA's rates of noncompliance on four key loan-servicing standards ranged from about 17 to 29 percent.

Table 3: Results of FSA's Internal Control Reviews Covering Four Key Loan-Servicing Standards, Fiscal Year 1997

FSA's loan-servicing standard	Number of cases in which the standard applied	Percentage of noncompliance
FSA credit manager assessed borrower's operation with input from the borrower	953	29.3
Year-end analysis of borrower completed and documented	1,113	25.2
FSA credit manager followed up with borrower on progress in improving operations	985	18.1
Credit counseling and training addressed in year-end analysis of borrower	886	16.7

Source: FSA's internal control review reports for fiscal year 1997.

The problems identified in FSA's fiscal year 1997 internal control reviews were not unique. For example, FSA's internal control reviews in fiscal years 1995 and 1996 showed a total 20.6-percent rate of noncompliance with the requirement that field staff analyze borrowers' operations and assist in planning, a 20.3-percent rate of noncompliance with the requirement that annual chattel inspections be performed to ensure that security property is being maintained, and a 16.8-percent rate of noncompliance with the requirement that office and field visits with borrowers be documented to reflect adequate supervision.

FSA's officials acknowledged that the agency has a problem with loan servicing. They said that the agency's field staffs, which now include people who had previously worked on USDA's farm payment programs but not on the farm loan programs, need to be specifically assigned to work on farm loans and trained in credit matters. They anticipate that these actions will be taken in the future.

The second reason cited by FSA's farm loan officials for not contracting with private lenders is because they use other discretionary authority to contract with entities besides lenders for some servicing of farm loans, such as with local management consulting firms and accounting firms to review borrowers' operations and financial reports and with local appraisal companies to appraise property used as security for loans. We confirmed that FSA has employed such contractors for some loan-servicing activities.

Finally, FSA's farm loan officials said they have not contracted with private lenders because such contracting would increase their cost of operating the farm loan programs. FSA has not, however, estimated either the cost or potential benefits of loan-servicing assistance.

The statutory provision authorizing contracting with private lenders required USDA to report to the Congress by September 30, 1997, on its experience in using contracts. USDA did not file this report because it did not contract with any private lenders for loan-servicing assistance.

Authority to Contract With Private Collection Agencies

The FAIR Act also gave FSA discretionary authority to contract with private collection agencies to assist in collecting on unpaid accounts. However, as of March 1998, FSA had not contracted with private collection agencies for assistance, and FSA's officials are not actively considering such contracting. The officials said they are not using this authority because, before FSA can contract with private collection agencies, it must complete the Con Act's servicing requirements, as discussed below, that apply to borrowers with delinquent loans. However, because this process often takes more than 180 days, FSA is required to transfer delinquent accounts to the Department of the Treasury for collection action, which precludes FSA from contracting for the services itself. This transfer is in accordance with the Debt Collection Improvement Act of 1996 (DCIA)—section 31001 of P.L. 104-134, Apr. 26, 1996—which was enacted shortly after FSA was given its authority to contract with private collection agencies.

When a borrower misses a loan payment, the Con Act's requirements and FSA's implementing regulations provide the following process for servicing the delinquent loan. Specifically, when a borrower is 90 days past due on a scheduled payment, FSA is to formally notify the borrower of its available loan-servicing options, such as the possibility of restructuring the outstanding loans. Generally, the delinquent borrower has 60 days to apply for servicing. If the borrower applies for restructuring, FSA has 90 days to process the application and to notify the borrower if he or she qualifies for restructuring. After notification, FSA has 45 days to offer to restructure the borrower's debts. If the borrower did not qualify for restructuring, the borrower has 90 days to make a buyout payment to FSA that is based on the value of property used as security for the loan.

When the borrower does not apply for servicing or when the borrower does apply but restructuring or a buyout does not occur, FSA will demand full repayment of the debt. If the payment is not made, FSA starts the liquidation phase of its servicing, which may include foreclosure action, and then debt settlement.

FSA's farm loan officials told us that the agency needs to complete its loan servicing for borrowers, including debt settlement, before it could consider private collection services. Furthermore, in debt settlement, only delinquent borrowers whose debts are charged off by FSA remain liable for the unpaid amounts of their loans and would be subject to debt collection action. However, because of the time required for servicing delinquent accounts, most of these borrowers have been delinquent for at least 180 days. As a result, under the DCIA, FSA is required to transfer the accounts to Treasury for collection action.[7] Once the accounts are transferred, Treasury may refer these borrowers to one of the private collection agencies that it has contracted with for collection action.[8] USDA officials also said that Treasury officials have told them to forward any accounts that are less than 180 days delinquent, after the loan security has been liquidated, for referral to one of Treasury's collection contractors.

At the time of our review, none of FSA's farm loan accounts had been or were ready to be transferred to Treasury, nor was Treasury ready to receive delinquent accounts. FSA officials told us that the agency has to complete two tasks before any accounts can be transferred. First, FSA has to modify the format of its automated farm loan record system because the current format does not meet Treasury's requirements. Second, each borrower whose debt was charged off has to be reviewed by FSA's field offices to ensure that the account qualifies to be transferred—for example, the borrower is not in litigation, foreclosure, or bankruptcy, and the statute of limitations on pursing collections has not expired. FSA officials estimated that both the modification of their automated system and the review of the borrowers would be completed by September 1998.

Agency Comments

We provided a draft of this report to USDA and met with Department officials to obtain their comments. These officials included the Farm

[7]The DCIA requires executive branch agencies to transfer to Treasury the accounts of borrowers who are at least 180 days delinquent. The act has certain exceptions to this transfer requirement, such as the accounts of borrowers who are in litigation or foreclosure.

[8]In 1997, Treasury contracted with 13 private collection agencies for assistance in collecting on delinquent loans owed to the federal government.

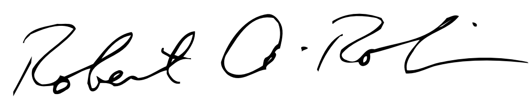
Service Agency's Deputy Administrator for Farm Credit Programs and the Director of the Loan Servicing and Property Management Division and the Office of General Counsel's Associate General Counsel for Rural Development. The USDA officials generally agreed with the material contained in the report and offered technical corrections and suggestions for clarifying the report. We made these corrections and incorporated their suggestions as appropriate.

We performed our work from January through April 1998 in accordance with generally accepted government auditing standards. Our scope and methodology are discussed in appendix III.

As agreed, unless you publicly announce its contents earlier, we plan no further distribution of this report until 14 days from the date of this letter. At that time, we will send copies of this report to the appropriate Senate and House committees; interested Members of Congress; the Secretary of Agriculture; the Administrator of FSA; the Director, Office of Management and Budget; and other interested parties. We will also make copies available to others upon request.

Please call me at (202) 512-5138 if you or your staff have any questions. Major contributors to this report are listed in appendix IV.

Sincerely yours,



Robert A. Robinson
Director, Food and
Agriculture Issues

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Abbreviations

Con Act	Consolidated Farm and Rural Development Act
DCIA	Debt Collection Improvement Act of 1996
FAIR Act	Federal Agriculture Improvement and Reform Act of 1996
FSA	Farm Service Agency
GAO	General Accounting Office
OGC	Office of General Counsel
USDA	U.S. Department of Agriculture

Outstanding and Delinquent Loans in the Five States With the Highest Amounts of Delinquent Debt

This appendix provides information on the Farm Service Agency's (FSA) active direct farm loans in the five states with the highest amounts of delinquent debt. Tables I.1, I.2, and I.3 show the total amount of outstanding principal and the portion owed by delinquent borrowers at the end of fiscal years 1997, 1996, and 1995, respectively. The tables also provide this information for borrowers in two ranges of outstanding principal—those owing less than $500,000 and those who owe $500,000 or more.

Table I.1: Five States With the Highest Amount of Outstanding Direct Farm Loans Owed by Delinquent Borrowers, as of September 30, 1997

Dollars in millions

	Outstanding principal		Owed by delinquent borrowers		Percentage owed by delinquent borrowers	
State and range of borrowers' debt	**Amount**	**Number of borrowers**	**Amount**	**Number of borrowers**	**Percentage of debt**	**Percentage of borrowers**
Texas						
Borrowers owing less than $500,000	$760.6	7,765	$382.8	3,028	50.3	39.0
Borrowers owing $500,000 or more	54.5	68	48.4	60	88.8	88.2
Total	**$815.1**	**7,833**	**$431.2**	**3,088**	52.9	39.4
Mississippi						
Borrowers owing less than $500,000	$292.1	4,438	$139.1	1,140	47.6	25.7
Borrowers owing $500,000 or more	80.7	85	76.2	78	94.5	91.8
Total	**$372.7**	**4,523**	**$215.3**	**1,218**	57.8	26.9
California						
Borrowers owing less than $500,000	$233.7	1,701	$ 82.7	485	35.4	28.5
Borrowers owing $500,000 or more	143.1	80	114.3	58	79.9	72.5
Total	**$376.8**	**1,781**	**$197.0**	**543**	52.3	30.5
Oklahoma						
Borrowers owing less than $500,000	$381.6	5,340	$117.8	1,025	30.9	19.2
Borrowers owing $500,000 or more	24.2	34	12.7	18	52.7	52.9
Total	**$405.8**	**5,374**	**$130.5**	**1,043**	32.2	19.4
New York						
Borrowers owing less than $500,000	$280.2	2,753	$ 96.7	699	34.5	25.4
Borrowers owing $500,000 or more	38.6	49	27.0	33	69.9	67.3
Total	**$318.8**	**2,802**	**$123.7**	**732**	38.8	26.1

Note: Figures sometimes do not add to totals because of rounding.

Source: GAO's analysis of records from FSA's Finance Office.

Table I.2: Five States With the Highest Amount of Outstanding Direct Farm Loans Owed by Delinquent Borrowers, as of September 30, 1996

Dollars in millions

	Outstanding principal		Owed by delinquent borrowers		Percentage owed by delinquent borrowers	
State and range of borrowers' debt	**Amount**	**Number of borrowers**	**Amount**	**Number of borrowers**	**Percentage of debt**	**Percentage of borrowers**
Texas						
Borrowers owing less than $500,000	$790.5	8,052	$420.9	3,386	53.3	42.1
Borrowers owing $500,000 or more	66.0	76	62.2	70	94.2	92.1
Total	**$856.5**	**8,128**	**$483.1**	**3,456**	56.4	42.5
Mississippi						
Borrowers owing less than $500,000	$334.1	4,883	$167.6	1,436	50.2	29.4
Borrowers owing $500,000 or more	90.9	97	87.2	91	95.8	93.8
Total	**$425.0**	**4,980**	**$254.8**	**1,527**	59.9	30.7
California						
Borrowers owing less than $500,000	$237.9	1,720	$ 83.3	492	35.0	28.6
Borrowers owing $500,000 or more	174.6	103	139.4	75	79.9	72.8
Total	**$412.5**	**1,823**	**$222.7**	**567**	54.0	31.1
Oklahoma						
Borrowers owing less than $500,000	$408.9	5,636	$168.0	1,564	41.1	27.8
Borrowers owing $500,000 or more	30.1	39	25.0	32	83.0	82.1
Total	**$439.0**	**5,675**	**$193.0**	**1,596**	44.0	28.1
North Dakota						
Borrowers owing less than $500,000	$468.7	4,460	$132.9	992	28.3	22.2
Borrowers owing $500,000 or more	16.5	23	14.8	20	89.5	87.0
Total	**$485.3**	**4,483**	**$147.7**	**1,012**	30.4	22.6

Note: Figures sometimes do not add to totals because of rounding.

Source: GAO's analysis of records from FSA's Finance Office.

Table I.3: Five States With the Highest Amount of Outstanding Direct Farm Loans Owed by Delinquent Borrowers, as of September 30, 1995

Dollars in millions

	Outstanding principal		Owed by delinquent borrowers		Percentage owed by delinquent borrowers	
State and range of borrowers' debt	**Amount**	**Number of borrowers**	**Amount**	**Number of borrowers**	**Percentage of debt**	**Percentage of borrowers**
Texas						
Borrowers owing less than $500,000	$798.7	8,264	$421.6	3,207	52.8	38.8
Borrowers owing $500,000 or more	91.8	109	83.8	97	91.3	89.0
Total	**$890.5**	**8,373**	**$505.3**	**3,304**	56.8	39.5
Mississippi						
Borrowers owing less than $500,000	$344.0	5,158	$191.8	1,563	55.8	30.3
Borrowers owing $500,000 or more	138.6	144	133.4	138	96.2	95.8
Total	**$482.7**	**5,302**	**$325.2**	**1,701**	67.4	32.1
California						
Borrowers owing less than $500,000	$244.9	1,788	$ 93.1	527	38.0	29.5
Borrowers owing $500,000 or more	243.7	134	218.7	107	89.7	79.9
Total	**$488.6**	**1,922**	**$311.8**	**634**	63.8	33.0
Oklahoma						
Borrowers owing less than $500,000	$420.1	5,703	$185.0	1,561	44.0	27.4
Borrowers owing $500,000 or more	46.6	52	40.8	45	87.6	86.5
Total	**$466.8**	**5,755**	**$225.8**	**1,606**	48.4	27.9
South Dakota						
Borrowers owing less than $500,000	$479.6	5,994	$182.2	1,554	38.0	25.9
Borrowers owing $500,000 or more	27.5	37	24.4	32	88.8	86.5
Total	**$507.0**	**6,031**	**$206.6**	**1,586**	40.7	26.3

Note: Figures sometimes do not add to totals because of rounding.

Source: GAO's analysis of records from FSA's Finance Office.

Loans Written Off Through Debt Settlements in the Five States With the Highest Amounts of Write-Offs

This appendix provides information on write-offs of direct farm loans by FSA in settling delinquent borrowers' debts through the debt settlement process in the five states with the highest amounts of write-offs. Tables II.1, II.2, and II.3 show the total amount of debt written off for borrowers who have undergone debt settlements during fiscal years 1997, 1996, and 1995, respectively. The tables also provide this information for borrowers by two ranges of write-offs—those who received less than $500,000 and those who received $500,000 or more in debt forgiveness.

Table II.1: Five States With the Most Debt Written Off by FSA in Debt Settlements, Fiscal Year 1997

Dollars in millions

	Borrowers with less than $500,000 written off		Borrowers with $500,000 or more written off		Total	
State and settlement type	**Number of borrowers**	**Debt written off**	**Number of borrowers**	**Debt written off**	**Number of borrowers**	**Debt written off**
Texas						
Adjustment	0	$ 0	1	$ 0.7	**1**	**$ 0.7**
Compromise	12	1.5	1	0.9	**13**	**2.4**
Cancellation	96	14.4	18	17.7	**114**	**32.1**
Charge-off	0	0	0	0	**0**	**0**
Total	**108**	**$15.9**	**20**	**$19.3**	**128**	**$35.2**
Mississippi						
Adjustment	1	$ 0[a]	0	$ 0	**1**	**$ 0[a]**
Compromise	17	1.9	2	2.0	**19**	**3.9**
Cancellation	84	10.3	14	12.5	**98**	**22.8**
Charge-off	19	3.7	6	4.0	**25**	**7.7**
Total	**121**	**$15.9**	**22**	**$18.5**	**143**	**$34.5**
Louisiana						
Adjustment	2	$ 0.2	1	$ 0.9	**3**	**$ 1.1**
Compromise	25	3.7	1	0.7	**26**	**4.4**
Cancellation	100	9.5	9	6.8	**109**	**16.3**
Charge-off	14	1.1	3	2.5	**17**	**3.6**
Total	**141**	**$14.5**	**14**	**$11.0**	**155**	**$25.5**
California						
Adjustment	1	$0.3	0	$ 0	**1**	**$ 0.3**
Compromise	2	0.1	2	3.0	**4**	**3.1**
Cancellation	20	2.4	8	8.8	**28**	**11.2**
Charge-off	3	0.5	2	6.8	**5**	**7.3**
Total	**26**	**$3.3**	**12**	**$18.5**	**38**	**$21.8**
Georgia						
Adjustment	4	$0.5	1	$ 0.7	**5**	**$ 1.2**
Compromise	19	2.6	5	6.3	**24**	**8.9**
Cancellation	48	5.2	7	4.7	**55**	**9.9**
Charge-off	2	0.1	0	0	**2**	**0.1**
Total	**73**	**$8.3**	**13**	**$11.7**	**86**	**$20.0**

Note: Figures sometimes do not add to totals because of rounding.

[a]Less than $50,000.

Source: GAO's analysis of records from FSA's Finance Office.

Table II.2: Five States With the Most Debt Written Off by FSA in Debt Settlements, Fiscal Year 1996

Dollars in millions

	Borrowers with less than $500,000 written off		Borrowers with $500,000 or more written off		Total	
State and settlement type	**Number of borrowers**	**Debt written off**	**Number of borrowers**	**Debt written off**	**Number of borrowers**	**Debt written off**
California						
Adjustment	4	$0.8	1	$ 0.7	**5**	**$ 1.5**
Compromise	3	0[a]	7	16.8	**10**	**16.8**
Cancellation	40	6.4	23	53.7	**63**	**60.1**
Charge-off	5	0.9	8	125.6	**13**	**126.5**
Total	**52**	**$8.2**	**39**	**$196.8**	**91**	**$205.0**
Mississippi						
Adjustment	2	$ 0.3	0	$ 0	**2**	**$ 0.3**
Compromise	17	2.2	7	11.6	**24**	**13.8**
Cancellation	130	16.6	42	71.2	**172**	**87.8**
Charge-off	12	1.1	7	10.5	**19**	**11.6**
Total	**161**	**$20.1**	**56**	**$93.3**	**217**	**$113.5**
Louisiana						
Adjustment	3	$ 0.6	0	$ 0	**3**	**$ 0.6**
Compromise	76	9.9	5	5.1	**81**	**15.0**
Cancellation	156	19.1	10	11.3	**166**	**30.4**
Charge-off	50	5.1	9	10.8	**59**	**15.9**
Total	**285**	**$34.6**	**24**	**$27.2**	**309**	**$61.8**
Texas						
Adjustment	0	$ 0	0	$ 0	**0**	**$ 0**
Compromise	10	1.5	5	7.4	**15**	**8.9**
Cancellation	71	11.3	28	38.7	**99**	**50.0**
Charge-off	0	0	0	0	**0**	**0**
Total	**81**	**$12.8**	**33**	**$46.1**	**114**	**$58.9**
Arizona						
Adjustment	0	$ 0	0	$ 0	**0**	**$ 0**
Compromise	1	0[a]	0	0	**1**	**0**[a]
Cancellation	20	3.7	20	52.0	**40**	**55.7**
Charge-off	0	0	1	1.8	**1**	**1.8**
Total	**21**	**$3.7**	**21**	**$53.8**	**42**	**$57.5**

Note: Figures sometimes do not add to totals because of rounding.

[a]Less than $50,000.

Source: GAO's analysis of records from FSA's Finance Office.

Table II.3: Five States With the Most Debt Written Off by FSA in Debt Settlements, Fiscal Year 1995

Dollars in millions

	Borrowers with less than $500,000 written off		Borrowers with $500,000 or more written off		Total	
State and settlement type	**Number of borrowers**	**Debt written off**	**Number of borrowers**	**Debt written off**	**Number of borrowers**	**Debt written off**
Texas						
Adjustment	4	$ 0.3	0	$ 0	**4**	**$ 0.3**
Compromise	39	5.2	3	1.6	**42**	**6.8**
Cancellation	306	45.2	52	64.9	**358**	**110.1**
Charge-off	1	0.1	1	0.8	**2**	**0.8**
Total	**350**	**$50.8**	**56**	**$67.3**	**406**	**$118.1**
California						
Adjustment	7	$ 1.2	0	$ 0	**7**	**$ 1.2**
Compromise	4	1.6	4	9.4	**8**	**11.0**
Cancellation	31	5.8	18	44.6	**49**	**50.4**
Charge-off	0	0	4	13.8	**4**	**13.8**
Total	**42**	**$8.7**	**26**	**$67.9**	**68**	**$76.5**
Louisiana						
Adjustment	7	$ 1.0	0	$ 0	**7**	**$ 1.0**
Compromise	67	7.9	4	4.2	**71**	**12.1**
Cancellation	181	25.4	19	19.4	**200**	**44.8**
Charge-off	5	0.8	0	0	**5**	**0.8**
Total	**260**	**$35.0**	**23**	**$23.6**	**283**	**$58.6**
Mississippi						
Adjustment	1	$ 0.5	0	$ 0	**1**	**$ 0.5**
Compromise	14	2.1	2	2.2	**16**	**4.3**
Cancellation	95	14.7	17	20.7	**112**	**35.4**
Charge-off	1	0[a]	1	1.5	**2**	**1.5**
Total	**111**	**$17.3**	**20**	**$24.4**	**131**	**$41.7**
Georgia						
Adjustment	8	$ 1.2	3	$ 4.9	**11**	**$ 6.1**
Compromise	22	3.6	7	10.3	**29**	**13.9**
Cancellation	63	7.6	5	6.7	**68**	**14.2**
Charge-off	2	0.3	1	0.6	**3**	**0.9**
Total	**95**	**$12.6**	**16**	**$22.4**	**111**	**$35.1**

Note: Figures sometimes do not add to totals because of rounding.

[a]Less than $50,000.

Source: GAO's analysis of records from FSA's Finance Office.

Objectives, Scope, and Methodology

As requested, our objectives were to assess (1) the levels of outstanding principal on active direct farm loans at the end of fiscal years 1995 through 1997, including the amounts owed by delinquent borrowers; (2) the amount of debt written off by FSA through the debt settlement process in fiscal years 1995 through 1997; and (3) FSA's use of three statutory provisions enacted in the mid-1990s that authorize FSA to contract with private attorneys for legal assistance in resolving delinquent farm loan accounts, private lenders for assistance in servicing farm loan borrowers' accounts, and private collection agencies for assistance in collecting delinquent farm loans.

To address the first two objectives, we obtained and analyzed information in the computerized databases in FSA's St. Louis Finance Office and in the agency's various financial reports on the farm loan portfolio. As requested, this effort included compiling information on borrowers who owe less than $500,000 and those who owe $500,000 or more, the five states with the highest amounts of delinquent debt, borrowers who received write-offs of less than $500,000 and those who received write-offs of $500,000 or more, and the five states with the highest amounts of write-offs. We did not verify the accuracy of the information contained in these databases or reports.

To address the third objective, we reviewed the three statutory provisions and their legislative histories. We interviewed FSA's officials, including the Deputy Administrator for Farm Credit Programs, the Director of the Loan Servicing and Property Management Division, and the Director of the Financial Management Division; and the U.S. Department of Agriculture's (USDA) Associate General Counsel for Rural Development. Additionally, concerning the authority to contract with private attorneys, we discussed contracting by the Department of Justice with its Director of Debt Collection Management; and we reviewed the executive memorandum for USDA and Justice on FSA's contracting, USDA's and FSA's operating documentation, and statistical information we obtained from FSA's Louisiana state office. On contracting with private collection agencies, we reviewed the requirements of the Debt Collection Improvement Act of 1996 concerning the transfer of delinquent accounts to the Department of the Treasury and guidance issued by Treasury on using the private collection agencies that it has under contract.

Our work was performed from January through April 1998 in accordance with generally accepted government auditing standards.

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