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May 1986

FARMERS HOME ADMINISTRATION

Debt Restructuring Activities During the 1984-85 Farm Credit Crisis

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

May 16, 1986

RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION

B-222815

The Honorable Cooper Evans
House of Representatives

The Honorable Charles E. Grassley
Chairman, Subcommittee on Administrative
Practice and Procedure
Committee on the Judiciary
United States Senate

As requested in your letters of March 28 and May 3, 1985, and modified in subsequent discussions, this briefing report provides information on the Farmers Home Administration's (FmHA) debt restructuring activities with private lenders to meet the 1984-85 farm credit crisis. You were concerned that FmHA had not made extensive use of debt restructuring to improve the financial condition of farmers. The results of our work show that FmHA responded to the 1984-85 farm credit crisis by substantially increasing its debt restructuring activities with private lenders between fiscal years 1984 and 1985.

Much of the information contained in this briefing report was presented to Congressman Evans in a formal briefing on January 22, 1986. The report has five sections and contains

--a description of FmHA's debt restructuring activities, including the loan programs and types of loans used to help farmers restructure their farm debt;

--information on the magnitude of FmHA debt restructuring and the substantial increase in this activity between fiscal years 1984 and 1985;

--case-study profile information on borrowers' farm income, debt-to-asset ratios, average loan amounts, and other related financial statistics in four FmHA county offices;

--comments from FmHA officials, national banking associations, and local lending institutions across six states on why private lenders were or were not participating in FmHA's debt restructuring activities; and

--details on the scope, methodology, and data limitations of our work.

Information in this report was obtained from FmHA farmer program reports; loan files from four FmHA county offices in the states of Iowa, Minnesota, and Texas; and interviews with officials of FmHA, national banking associations, commercial banks, and the Farm Credit System. We obtained agency comments on the results of our work, and the agency agreed with the information contained in the report. The comments provided have been incorporated where appropriate.

As agreed with your offices, we are sending copies of this report to the Secretary of Agriculture, the Administrator of the Farmers Home Administration, the Director of the Office of Management and Budget, and other interested parties. If you have additional questions or if we can be of further assistance on this issue, please contact me on 202-275-5138 or Jim Wells of my staff on 202-475-4880.

Brian P. Crowley
Senior Associate Director

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ABBREVIATIONS

FmHA	Farmers Home Administration
GAO	General Accounting Office
RCED	Resources, Community, and Economic Development Division

SECTION 1

DESCRIPTION OF FmHA DEBT RESTRUCTURING ACTIVITIES DURING THE 1984-85 FARM CREDIT CRISIS

DESCRIPTION OF FmHA DEBT RESTRUCTURING ACTIVITIES DURING THE 1984-85 FARM CREDIT CRISIS

During the 1984-85 farm credit crisis, farmers were having serious difficulties arranging financing to plant their crops. FmHA, an agency of the U.S. Department of Agriculture (USDA) and the federal government's primary source of farm credit, responded to help these farmers by (1) making direct (government-funded) loans to new borrowers who could not get necessary credit elsewhere and (2) offering loan guarantees to private lenders for loans made to family farmers who did not participate in FmHA programs and who were generally having financial difficulty and might not qualify for the loans without federal guarantees.

FmHA makes and guarantees loans under several farmer loan programs. FmHA uses two loan programs--farm operating and ownership--to assist private lenders to help farmers restructure their farm debt. Farm operating loans are made to family-size farmers for essential operation purposes such as (1) purchasing machinery, equipment, or livestock, (2) paying annual operating and/or family living expenses, (3) refinancing debts incurred for any authorized operating loan purpose other than FmHA debts, and (4) paying other creditors. Operating loans are usually secured by chattel mortgages on feed, crops, livestock, machinery, or other elements of production. Farm ownership loans enable family-size farmers lacking other resources of credit to buy, improve, or refinance farm real estate. Ownership loans are normally secured by either a first or second mortgage on the farm real estate.

We concentrated our review on the debt restructuring activities by which the FmHA assisted private lenders to help farmers stay in business. We focused on initial borrowers who did not have an FmHA guaranteed or direct farm operating or ownership loan at the time of loan application. According to FmHA officials, a very high percent of these initial guaranteed and initial direct loans were made to help farmers restructure their debt with private lenders. In addition to restructuring farm debt with private lenders, FmHA helped some 45,000 of its 270,000 existing borrowers restructure their FmHA debt in fiscal year 1985 through reamortizing, rescheduling, and setting-aside of debt.

FmHA provides debt restructuring assistance through two types of guaranteed loans--regular and debt adjustment program--and direct loans. Basically, the two guarantees differ in that a regular guarantee is available to private lenders with farm loans that are high risk but are adequately secured and whose borrower has a positive cash flow. The debt adjustment program guarantee assists both farmers and lenders where generally no alternative exists but eventual liquidation. Under both types of guarantees, the restructuring of the farmers' debt occurs when the private lenders and borrowers agree to a plan that contains a positive cash flow over an extended repayment period. Direct loans also help farmers restructure their debt with private lenders by providing refinancing and/or supplemental credit that the private lenders will no longer provide.

REGULAR GUARANTEED LOANS

To obtain a regular farm operating and/or ownership loan guarantee from FmHA, a private lending institution must certify that it is unwilling to provide credit to, or continue with, a borrower in the absence of a guarantee. The private lender must provide information showing that the borrower has a break-even cash flow and adequate security to cover the guarantee. In addition, the private lender (1) provides the loan money; (2) sets the interest rate to be charged (which generally approximates or is slightly above the current prime rate) in accordance with FmHA regulations; (3) establishes the amount of credit to be extended; (4) establishes repayment terms in accordance with FmHA requirements; and (5) takes responsibility for servicing the loan. In return, FmHA offers a guarantee of up to 90 percent of the loan amount not to exceed a funding limit of $400,000 for operating and $300,000 for ownership loans.

Operating loan terms usually range from 1 to 7 years, according to loan purpose, with a maximum repayment period of 15 years. Farm ownership loans may be repaid within 40 years.

DEBT ADJUSTMENT PROGRAM GUARANTEED LOANS

The debt adjustment program represents one of the four Farm Credit Initiatives announced by the President on September 18, 1984. Implemented as a modification to FmHA's existing regular guaranteed loan program, the debt adjustment program's objective is to provide lenders with loan guarantees that enable them to continue providing credit to their eligible farm borrowers who do not have adequate security and/or ability to repay their loans without debt adjustment. Eligible loans are those that, at the time of refinancing, are classified as substandard or worse, that is, only loans identified as problem loans by the lender or the lender's supervising agency will be considered for a guarantee.

The same funding limits and rules for regular guarantees apply to the debt adjustment program guarantees. However, to obtain a debt adjustment program guarantee of up to 90 percent, a lender must permanently write off a minimum of 10 percent of the principal and interest outstanding on each borrower's loan and/or reduce the interest to a level that results in a break-even cash flow that will, over the life of the loan, equal the required 10-percent write-off. Additionally, lenders applying for debt adjustment program guarantees (1) must show that the borrower's operation will have a minimum positive cash flow of 100 percent (break-even) for at least 5 years and (2) may charge a fixed or variable interest rate.

The debt adjustment program operating loan guarantees are usually for 7 years with possible extended repayment terms of up to 15 additional years, whereas farm ownership loan guarantees must be repaid within 40 years from the date of the original note.

DIRECT LOANS

FmHA's direct farmer program loans are made from the Agricultural Credit Insurance Fund, a revolving fund established in the 1940's. The interest rates for direct loans are set periodically by the Secretary of Agriculture and vary according to the cost of money to the government. Interest rates and repayment terms are determined by the borrower's ability to repay and based on the purpose for which the loan is made. FmHA personnel first consider each applicant for either a farm operating or ownership loan at the regular interest rates, currently 10.25 or 10.75 percent, respectively. However, an applicant who cannot repay the loan at the regular interest rate can be considered for a limited resource loan at subsidized interest rates of 7.25 percent for an operating loan and 5.25 percent for an ownership loan. The funding limit for direct operating and ownership loans is $200,000.

Loans made for annual operating expenses are usually for 1 year, but rescheduled or consolidated loans may have a maximum repayment period of 15 years. The maximum repayment term for farm ownership loans is 40 years.

SECTION 2

NATIONAL STATISTICS ON FmHA's FARM DEBT RESTRUCTURING ACTIVITIES DURING FISCAL YEARS 1984 AND 1985

Table 2.1

National Statistics on FmHA's Farm Debt Restructuring Activities by Loan Program for Fiscal Years 1984 and 1985[a]

Type of loan	Number of loans	Amount of loans (millions)
Debt adjustment program[b]		
Operating, 1985	397	$57
Ownership, 1985	25	4
Total	422	$61
Initial regular guaranteed		
Operating, 1985	7,635	$914
Operating, 1984	805	97
Increase (percent)	6,830 (848%)	$817 (842%)
Ownership, 1985	406	$61
Ownership, 1984	240	39
Increase (percent)	166 (69%)	$22 (56%)
Total, 1985	8,041	$975
Total, 1984	1,045	136
Increase (percent)	6,996 (669%)	$839 (617%)
Initial direct		
Operating, 1985	31,093	$1,936
Operating, 1984	23,874	980
Increase (percent)	7,219 (30%)	$ 956 (98%)
Ownership, 1985	5,393	$540
Ownership, 1984	5,900	536
Increase (percent)	(507) (-9%)	$ 4 (1%)
Total, 1985	36,486	$2,476
Total, 1984	29,774	1,516
Increase (percent)	6,712 (22%)	$ 960 (63%)

[a]These statistics are from FmHA's Status of Loan and Grant Obligations/Allotments or Distributions Report and do not agree with data in app. I and II. See sec. 5 for data limitations.

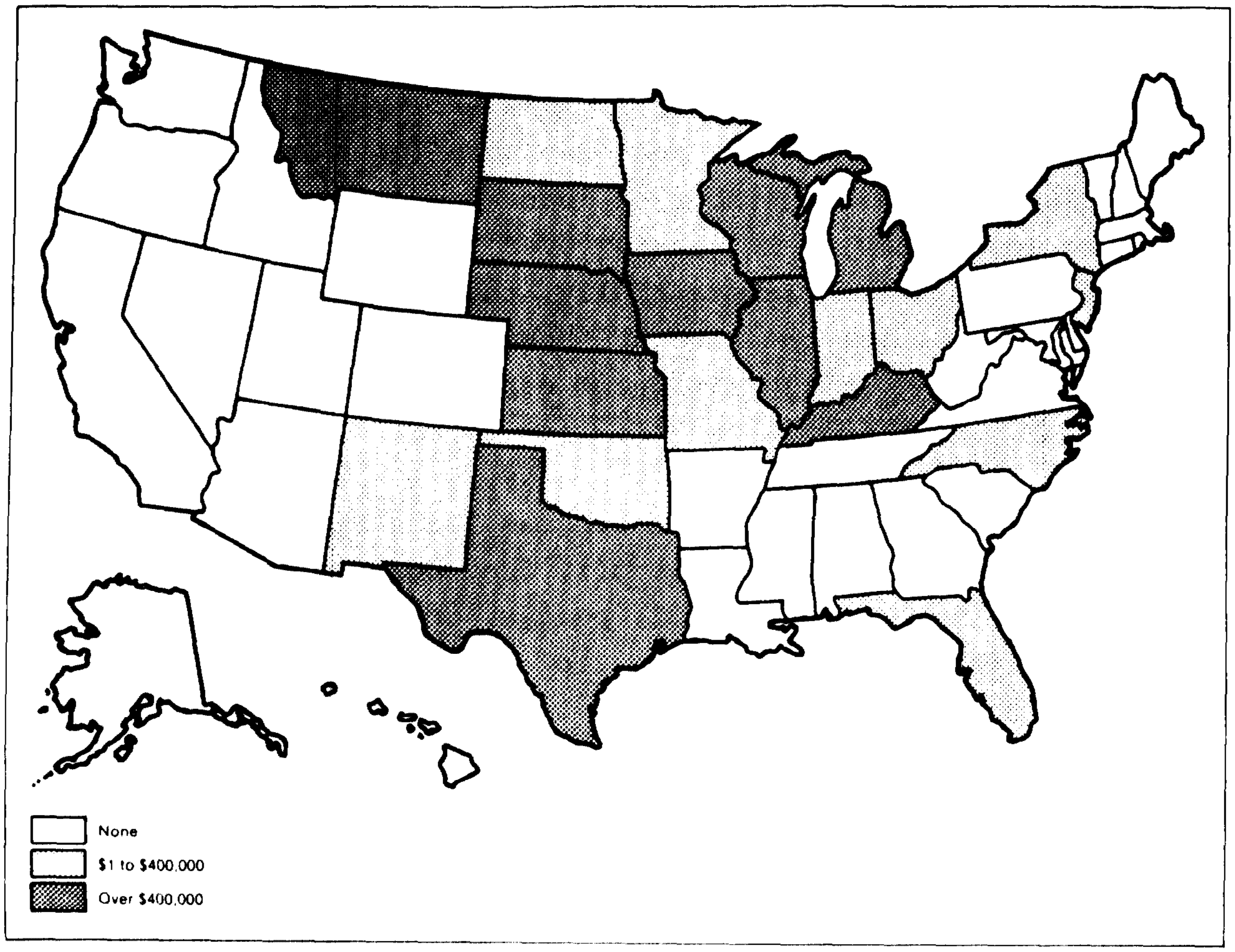
[b]Not in effect in 1984.

FmHA's FARM DEBT RESTRUCTURING ACTIVITIES INCREASED SUBSTANTIALLY BETWEEN FISCAL YEARS 1984 AND 1985

Overall, FmHA's debt restructuring activities increased substantially between fiscal years 1984 and 1985. Total initial regular guaranteed operating and ownership loans increased over 600 percent in both the number of loans and dollar amounts, with operating loan activity increasing over 800 percent. Initial direct loans increased substantially, though at a lesser rate than initial regular guaranteed loans. Debt adjustment program loans represented only a small portion of debt restructuring activity in 1985.

Of the 422 debt adjustment program loans FmHA guaranteed in fiscal year 1985, lenders wrote off, from borrowers' loan principal and interest, about 24 percent or $21.4 million. About 57 percent ($12.2 million) of the total debt adjustment program write-off was principal.

Figure 2.1: FmHA Debt Adjustment Program Operating Loan Activity--Nationwide Distribution, Fiscal Year 1985



Source FmHA Status of Loan and Grant Obligations/Allotments or Distributions Report

NATIONWIDE DISTRIBUTION OF FmHA's DEBT ADJUSTMENT PROGRAM OPERATING LOAN ACTIVITY

Most of the $57 million in debt adjustment program operating loans made in fiscal year 1985 occurred in the midwestern section of the United States. Two states, Iowa and South Dakota, accounted for about 62 percent of the total. Ten states had debt adjustment program operating loan amounts over $400,000 each and accounted for about 97 percent of the total operating loan amount.

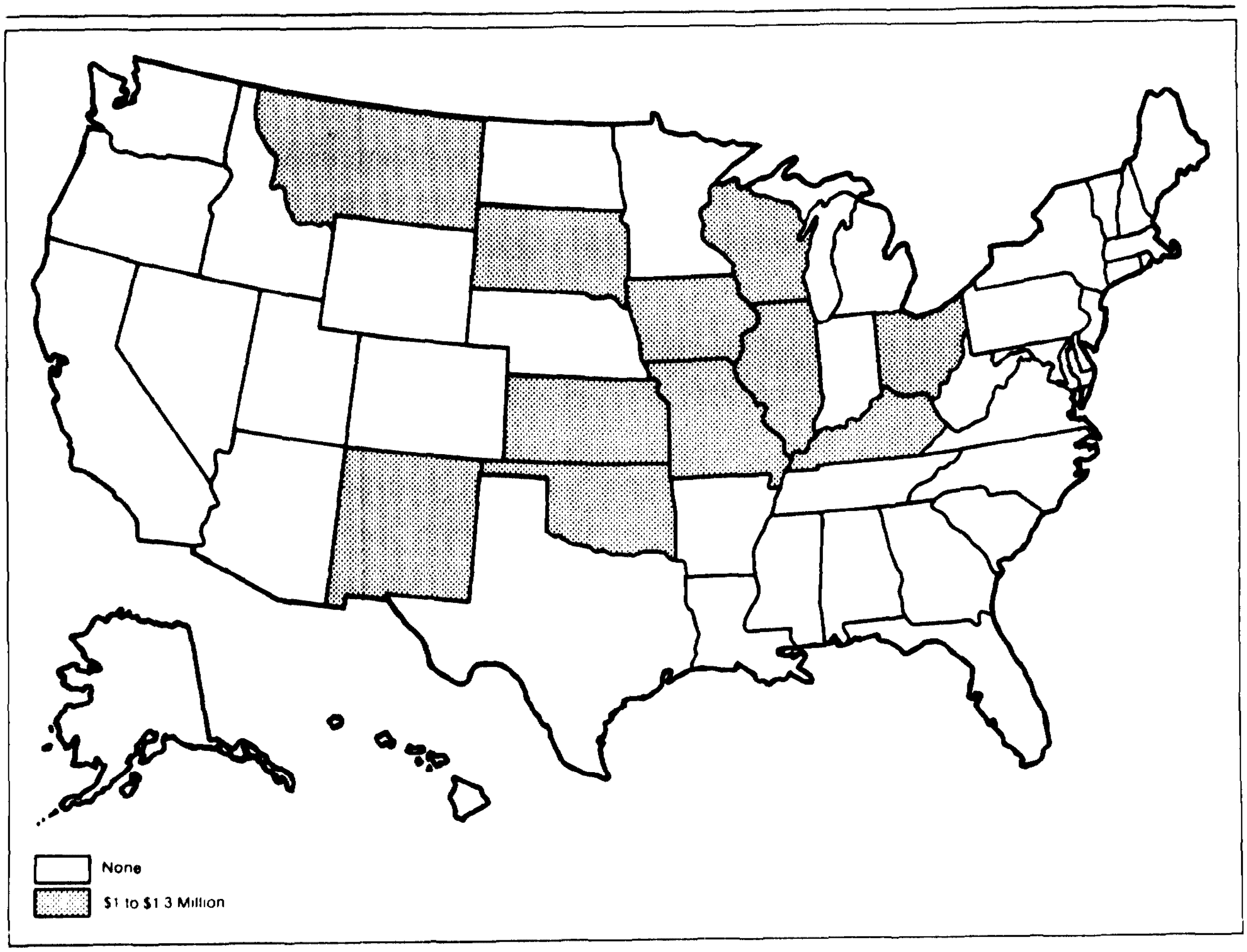
Table 2.2

Ten States With the Largest Debt Adjustment Program Operating Loan Amounts (fiscal year 1985)

State	Amount of loans	Percent of total loan amount
Iowa	$21,837,300	38
South Dakota	13,572,750	24
Kansas	6,839,890	12
Nebraska	5,958,050	10
Illinois	1,730,380	3
Michigan	1,486,340	3
Montana	1,238,830	2
Wisconsin	1,094,690	2
Texas	890,470	2
Kentucky	708,710	1

Source: FmHA Status of Loan and Grant Obligations/Allotments or Distributions Report.

Figure 2.2: FmHA Debt Adjustment Program Farm Ownership Loan Activity--Nationwide Distribution, Fiscal Year 1985



Source: FmHA Status of Loan and Grant Obligations/Allotments or Distributions Report

NATIONWIDE DISTRIBUTION OF FmHA's DEBT ADJUSTMENT PROGRAM OWNERSHIP LOAN ACTIVITY

About 65 percent of the $4.2 million in debt adjustment program ownership loans made in fiscal year 1985 was from three midwestern states. Eleven states accounted for all the debt adjustment program ownership loan amount.

Table 2.3

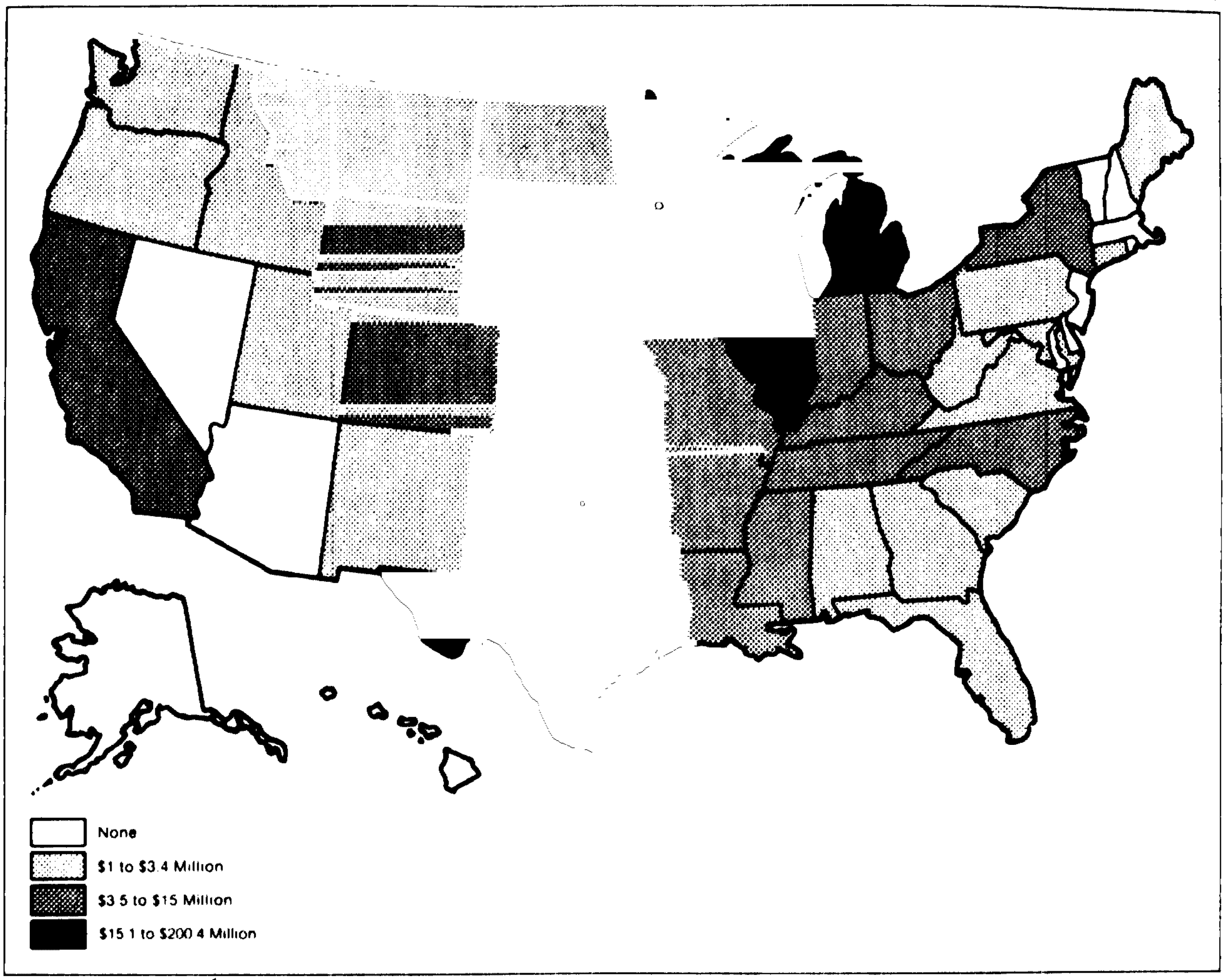
States With Debt Adjustment Program Ownership Loan Amounts (fiscal year 1985)

State	Amount of loans	Percent of total loan amount[a]
Iowa	$1,217,200	29
Kansas	982,640	23
Illinois	529,000	13
Wisconsin	300,000	7
Ohio	252,600	6
Montana	209,750	5
Oklahoma	204,000	5
South Dakota	193,000	5
Kentucky	155,000	4
Missouri	108,000	3
New Mexico	72,200	2

[a]Total does not add to 100 percent because of rounding.

Source: FmHA Status of Loan and Grant Obligations/Allotments or Distributions Report.

Figure 2.3: FmHA Initial Regular Guaranteed Operating Loan Activity--Nationwide Distribution, Fiscal Year 1985



Source: FmHA Status of Loan and Grant Obligations/Allotments or Distributions Report

NATIONWIDE DISTRIBUTION OF FmHA's INITIAL REGULAR GUARANTEED OPERATING LOAN ACTIVITY

Most of the $914 million in initial regular guaranteed operating loans in fiscal year 1985 was made in the midwestern and southwestern regions of the United States. Three midwestern states had loan amounts over $100 million each and together accounted for about 53 percent of the total.

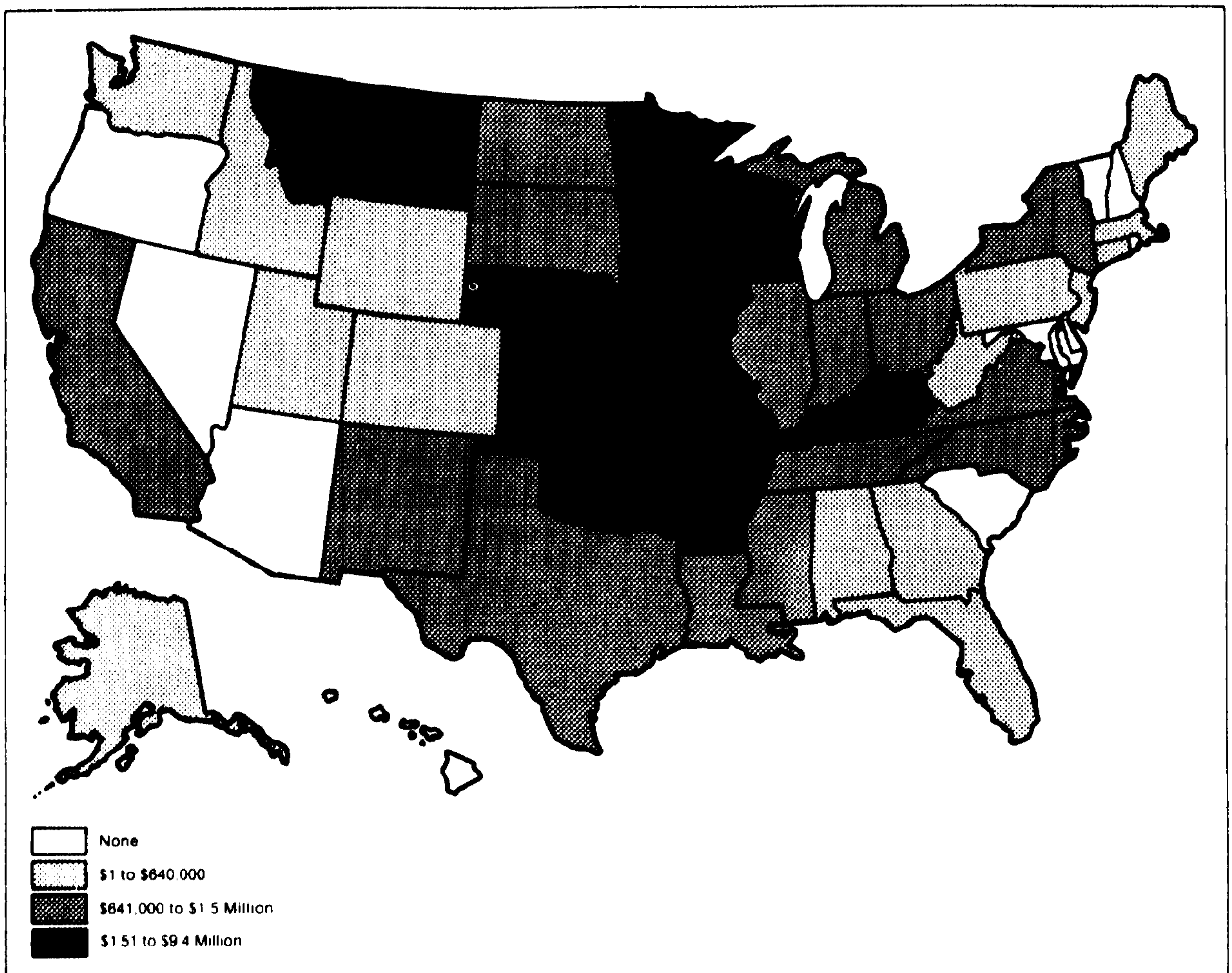
Table 2.4

Ten States With the Largest Initial Regular Guaranteed Operating Loan Amounts (fiscal year 1985)

State	Amount of loans	Percent of total loan amount
Iowa	$200,318,950	22
Minnesota	155,995,480	17
Nebraska	128,210,700	14
South Dakota	79,541,400	9
Wisconsin	43,329,430	5
Michigan	40,422,560	4
Oklahoma	36,817,500	4
Kansas	29,906,680	3
Texas	29,567,290	3
Illinois	22,176,030	2

Source: FmHA Status of Loan and Grant Obligations/Allotments or Distributions Report.

Figure 2.4: FmHA Initial Regular Guaranteed Farm Ownership Loan Activity--Nationwide Distribution, Fiscal Year 1985



Source: FmHA Status of Loan and Grant Obligations/Allotments or Distributions Report

NATIONWIDE DISTRIBUTION OF FmHA's INITIAL REGULAR GUARANTEED OWNERSHIP LOAN ACTIVITY

Four midwestern states accounted for about 44 percent of the $61 million in initial regular guaranteed farm ownership loans made in fiscal year 1985. Ten states accounted for 69 percent of the total.

Table 2.5

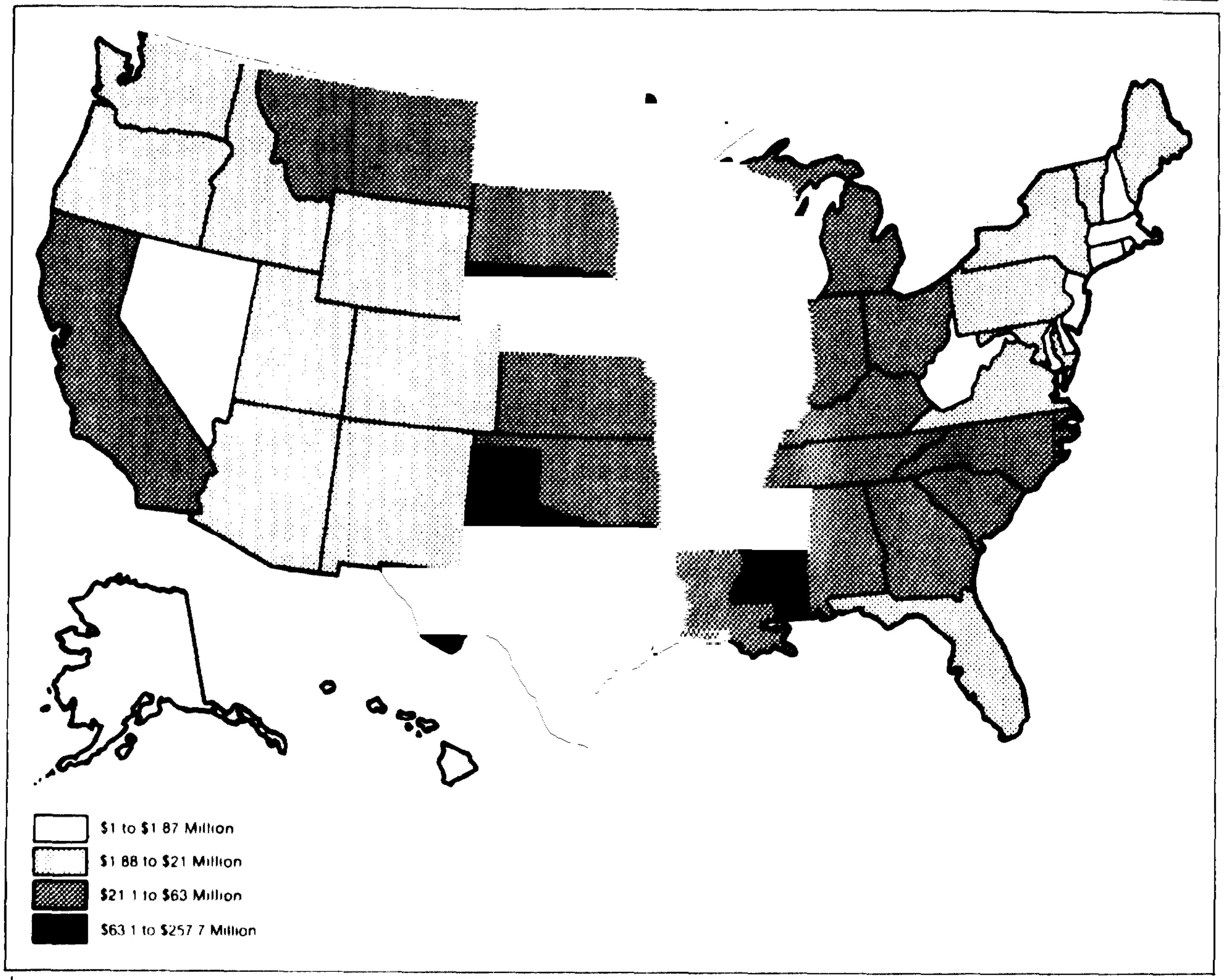
Ten States With the Largest Initial Regular Guaranteed Ownership Loan Amounts (fiscal year 1985)

State	Amount of loans	Percent of total loan amount[a]
Nebraska	$9,367,500	15
Wisconsin	7,021,120	11
Minnesota	5,768,760	9
Iowa	5,183,830	8
Oklahoma	3,449,630	6
Kentucky	3,339,620	5
Montana	3,314,470	5
Missouri	1,833,880	3
Arkansas	1,677,500	3
Kansas	1,516,000	2

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

Source: FmHA Status of Loan and Grant Obligations/Allotments or Distributions Report.

Figure 2.5: FmHA Initial Direct Operating Loan Activity--Nationwide Distribution, Fiscal Year 1985



Source: FmHA Status of Loan and Grant Obligations/Allotments or Distributions Report

NATIONWIDE DISTRIBUTION OF FmHA's INITIAL DIRECT OPERATING LOAN ACTIVITY

Most of the $1.9 billion in initial direct operating loans made in fiscal year 1985 was from the midwestern and southwestern regions of the United States. Four states, three from the Midwest and one from the Southwest, accounted for about 37 percent of the total.

Table 2.6

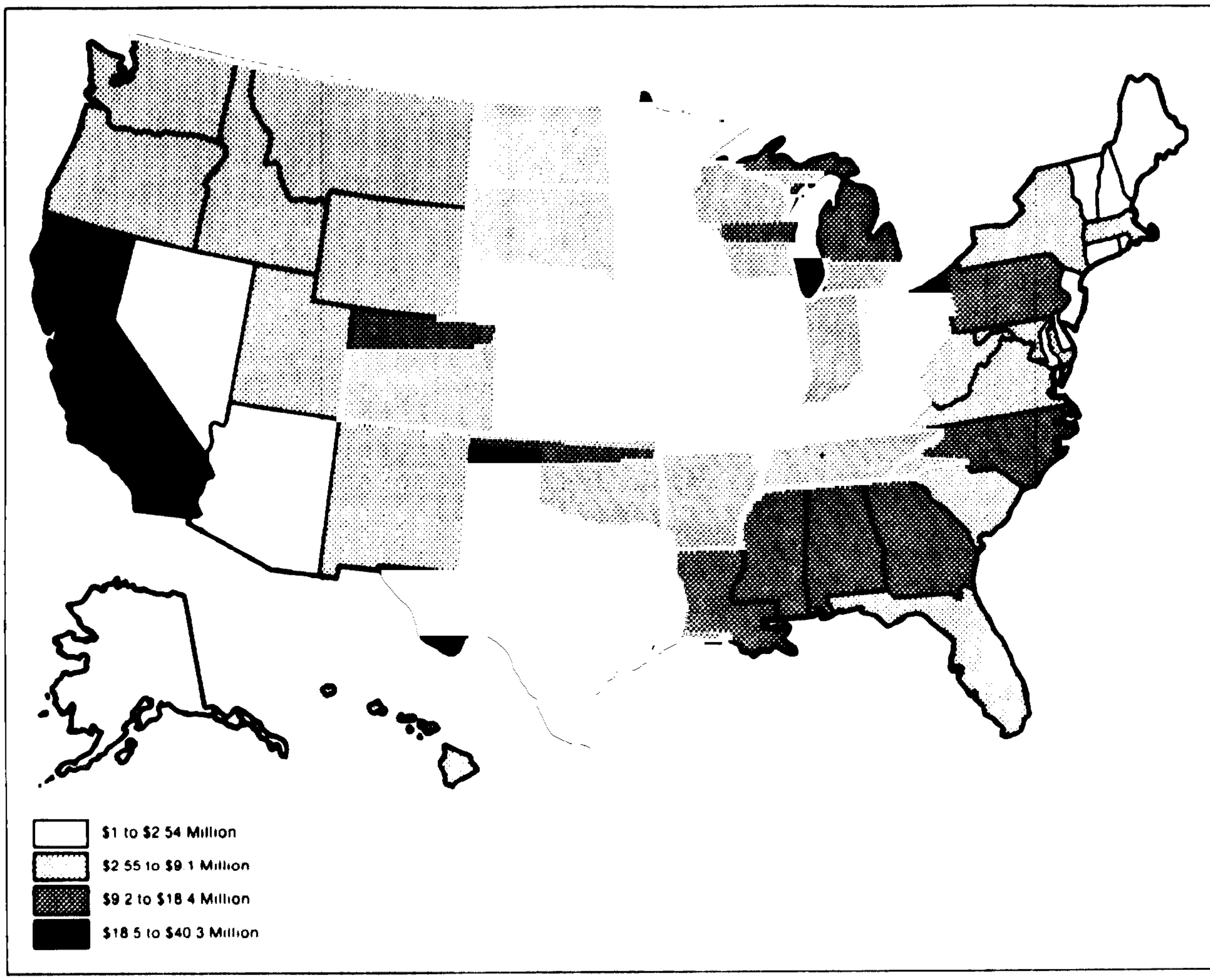
Ten States With the Largest Initial Direct Operating Loan Amounts (fiscal year 1985)

State	Amount of loans	Percent of total loan amount[a]
Iowa	$257,676,420	13
Wisconsin	208,228,150	11
Minnesota	125,662,840	6
Texas	125,024,190	6
North Dakota	98,676,370	5
Nebraska	96,690,820	5
Illinois	79,261,230	4
Mississippi	73,930,700	4
Arkansas	70,016,260	4
Missouri	68,945,520	4

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

Source: FmHA Status of Loan and Grant Obligations/Allotments or Distributions Report

Figure 2.6: FmHA Initial Direct Farm Ownership Loan Activity--Nationwide Distribution, Fiscal Year 1985



Source FmHA Status of Loan and Grant Obligations/Allotments or Distributions Report

NATIONWIDE DISTRIBUTION OF FmHA's INITIAL DIRECT OWNERSHIP LOAN ACTIVITY

Although 7 of the 10 states having the highest fiscal year 1985 initial direct ownership loan amounts were from the midwestern section of the United States, the $540 million in initial direct farm ownership loans was more evenly distributed throughout all 50 states than were the debt adjustment and initial regular guaranteed loan amounts. Twenty-five states had initial direct ownership loan amounts over $9.2 million each and accounted for approximately 83 percent of the total.

Table 2.7

Ten States With the Largest Initial Direct Ownership Loan Amounts (fiscal year 1985)

State	Amount of loans	Percent of total loan amount
Iowa	$40,255,230	8
Illinois	30,640,390	6
Minnesota	25,637,190	5
Nebraska	23,204,280	4
Texas	22,588,410	4
Missouri	21,556,840	4
Kentucky	20,187,770	4
Kansas	19,834,210	4
California	19,093,820	4
Ohio	18,711,390	3

Source: FmHA Status of Loan and Grant Obligations/Allotments or Distributions Report

SECTION 3

INFORMATION ON BORROWER AND LOAN CASE-STUDY PROFILES

Table 3.1

FmHA's Debt Restructuring Activity
in Case-Study County Offices

Activity	Ankeny, Iowa	Parkersburg, Iowa	Mankato, Minnesota	Abilene, Texas	Total
	FmHA county offices				
Debt adjustment program guarantees					
Applications received	3	6	2	8	19
Applications rejected	0	1	0	2	3
Applications withdrawn/pending	0	0	0	0	0
Loans approved	3	5	2	6	16
Borrowers reviewed by GAO	3	5	2	6	16
Initial regular guarantees					
Applications received	48	26	120	17	211
Applications rejected	20	7	27	2	56
Applications withdrawn/pending	4	1	18	1	24
Loans approved	24	18	75	14	131
Borrowers reviewed by GAO	18	18	30	14	80
Initial direct loans					
Applications received	69	27	154	6	256
Applications rejected	25	8	55	0	88
Applications withdrawn/pending	4	0	68	1	73
Loans approved	40	19	31	5	95
Borrowers reviewed by GAO	25	19	20	5	69

FmHA's DEBT RESTRUCTURING ACTIVITY IN COUNTY OFFICES SELECTED FOR CASE STUDIES

Table 3.1 shows FmHA's loan activity for debt adjustment and initial regular guarantees and initial direct loans at the four county offices where we performed our case studies to obtain borrower and loan profile information. During fiscal year 1985, these four offices received applications from 486 borrowers for operating and ownership loans under the above type loans and approved loans to 242 borrowers--236 operating and 6 ownership. About 30 percent of the borrowers' loan applications were rejected and 20 percent were either withdrawn or pending.

We reviewed the loan files of 80 initial regular guaranteed borrowers in the four county offices. These 80 borrowers had a total of 109 loans, 47 of which had been made to refinance existing farm debt and 62 to finance 1985 operating expenses. Seven of the borrowers who received loans to finance 1985 operating expenses also received loan guarantees under the debt adjustment program to refinance existing debt. We also reviewed 69 borrowers with initial direct loans. These borrowers received 79 loans, 50 (63 percent) of which were made to refinance existing debt.

The profile information for debt adjustment program borrowers and loans is based on our review of all these loans in the four case-study county offices. The profile information for initial regular guarantee and initial direct borrowers and loans was obtained through sampling and can be projected only to the four individual county offices. Our sampling methodology is explained in section 5 and appendix IV.

Table 3.2

Average Income Information for Borrowers With Debt Adjustment Program Loans[a]

	FmHA county office			
	Ankeny, Iowa	Parkersburg, Iowa	Mankato, Minnesota	Abilene, Texas
	(average)			
Total farm income	$214,558	$175,688	$299,842	$76,201
- Farm operating expenses	164,185	134,231	219,217	44,386
= Net farm income	$50,373	$41,457	$80,625	$31,815
+ Nonfarm income	6,000	5,044	600	11,724
= Total net income	$56,373	$46,501	$81,225	$43,539
- Family living expenses	14,467	12,529	12,000	14,667
= Net income[b]	$41,907	$33,972	$69,225	$28,872

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

[b]Net income in this table does not consider debt repayment in the respective loan year. The net income shown represents the amount available to service debt and for profit.

Source: FmHA county office loan files.

INCOME AND EXPENSES FOR BORROWERS WITH DEBT ADJUSTMENT PROGRAM LOANS

Analyzing income and expenses provides information on the source of cash income, both farm and nonfarm, and indicates the borrower's overall ability to pay current production expenses, pay principal and interest payments on farm debt, and provide for family living needs. The average net incomes computed in tables 3.2, 3.3, and 3.4 are for the short run since they do not take into account depreciation of assets or a return on owner-operator components such as labor, land, and machinery. In addition, these income figures do not consider the amount of debt to be paid in the respective loan year because this information was not available in the case files for all borrowers. Net income shown represents the amount available to service debt and for profit. All debt adjustment program, initial guaranteed, and initial direct loan borrowers were required to have a positive cash flow in order to obtain a loan guarantee or a direct loan from FmHA.

Table 3.2 shows that the average reported total farm incomes of borrowers with debt adjustment program loans in the four county offices ranged from about $76,000 to $300,000. After deduction of their average reported farm operating expenses, their average net farm incomes ranged from about $32,000 to $81,000. However, after inclusion of average nonfarm incomes and a deduction of average family living expenses, the borrowers' net incomes ranged from about $29,000 to $69,000.

Table 3.3

Average Income Information for Borrowers With Initial Regular Guaranteed Loans[a]

	FmHA county office			
	Ankeny, Iowa	Parkersburg, Iowa	Mankato, Minnesota	Abilene, Texas
	(average)			
Total farm income	$229,162	$211,484	$182,112	$64,123
- Farm operating expenses	166,934	149,885	140,851	37,366
= Net farm income	$62,228	$61,599	$41,287	$26,758
+ Nonfarm income	8,780	2,532	6,652	17,398
= Total net income	$71,008	$64,131	$47,939	$44,155
- Family living expenses	16,244	13,152	13,407	12,107
= Net income[b]	$55,666	$50,982	$34,532	$32,048

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

[b]Net income in this table does not consider debt repayment in the respective loan year. The net income shown represents the amount available to service debt and for profit.

Source: FmHA county office loan files.

INCOME AND EXPENSES FOR BORROWERS WITH REGULAR GUARANTEED LOANS

As shown in table 3.3, the average reported total farm incomes of borrowers with initial regular guaranteed loans in the four county offices ranged from about $64,000 to $229,000. After deduction of their average reported farm operating expenses, the borrowers' average net farm incomes ranged from about $27,000 to $62,000. However, after inclusion of average nonfarm incomes and a deduction of family living expenses, the borrowers with initial regular guaranteed loans had net incomes that ranged from about $32,000 to $56,000.

Table 3.4

Average Income Information for Borrowers With Initial Direct Loans[a]

	FmHA county office			
	Ankeny, Iowa	Parkersburg, Iowa	Mankato, Minnesota	Abilene, Texas
	(average)			
Total farm income	$148,763	$168,592	$144,416	$80,770
- Farm operating expenses	119,728	128,413	121,565	43,960
= Net farm income	$29,035	$40,179	$22,851	$36,810
+ Nonfarm income	6,532	6,155	9,799	22,000
= Total net income	$35,567	$46,333	$32,650	$58,810
- Family living expenses	15,558	12,149	12,321	12,040
= Net income[b]	$21,254	$34,184	$20,945	$46,770

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

[b]Net income in this table does not consider debt repayment in the respective loan year. The net income shown represents the amount available to service debt and for profit.

Source: FmHA county office loan files.

INCOME AND EXPENSES FOR BORROWERS WITH INITIAL DIRECT LOANS

Table 3.4 shows that the average reported total farm incomes of borrowers with initial direct loans in the four county offices ranged from about $81,000 to $169,000. After deduction of their average reported farm operating expenses, the borrowers' average net farm incomes ranged from about $23,000 to $40,000. However, after including average nonfarm incomes and deducting family living expenses, borrowers with initial direct loans had incomes that ranged from about $21,000 to $47,000.

Table 3.5

Debt-to-Asset Ratios of Debt Adjustment Program Borrowers

	FmHA county office			
	Ankeny, Iowa	Parkersburg, Iowa	Mankato, Minnesota	Abilene, Texas
	(percent)			
County office average debt-to-asset ratio	87	106	87	100
Category of debt/asset ratios (percent)	(number of borrowers)			
0 to 39	0	0	0	0
40 to 69 (serious)	1	1	0	1
70 to 99 (extreme)	1	3	2	3
100 and over (technically insolvent)	1	1	0	2

DEBT-TO-ASSET RATIOS OF BORROWERS WITH DEBT ADJUSTMENT PROGRAM LOANS

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

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

<u>40 to 69 percent</u>. Problems meeting principal repayment but adequate net worth (serious financial problems).

<u>70 to 99 percent</u>. Problems meeting principal repayment and current interest due with declining net worth (extreme financial problems).

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

An intended effect of FmHA's debt restructuring activities, particularly the debt adjustment program, is to provide assistance to borrowers who are experiencing financial difficulty. As the debt-to-asset ratio tables show, FmHA assisted a high percentage of borrowers who were either technically insolvent or having extreme financial problems. For example, 25 percent of the debt adjustment program borrowers were technically insolvent prior to obtaining their loans, with debt-to-asset ratios of 100 percent or more; an additional 56 percent were having extreme financial problems, with debt-to-asset ratios of 70 to 99 percent. The average debt-to-asset ratios for all the debt adjustment program borrowers in the four county offices ranged from 87 to 106 percent. In contrast, the Department of Agriculture reported in January 1985 that only about 3 percent of all farmers in the United States had debt-to-asset ratios over 100 percent and that only 7 percent had debt-to-asset ratios of 70 to 99 percent.

Table 3.6

Debt-to-Asset Ratios of Initial Regular Guaranteed Borrowers

	FmHA county office			
	Ankeny, Iowa	Parkersburg, Iowa	Mankato, Minnesota	Abilene, Texas
	(percent)			
County office average debt-to-asset ratio	65	90	70	97
Category of debt/asset ratios (percent)	(number of borrowers)			
0 to 39	0	0	2	1
40 to 69 (serious)	16	3	35	4
70 to 99 (extreme)	8	12	33	6
100 and over (technically) insolvent)	0	3	5	3

DEBT-TO-ASSET RATIOS OF BORROWERS WITH INITIAL REGULAR GUARANTEED LOANS

The majority of the borrowers who had obtained initial regular guaranteed loans were either having extreme financial problems or were technically insolvent, with debt-to-asset ratios ranging from 70 to over 100 percent. The percent of borrowers with extreme financial problems ranged from a low of 33 percent in one county office to a high of 67 percent in another county office. In three of the four county offices, eleven borrowers were technically insolvent, with debt-to-asset ratios of 100 percent or more.

Table 3.7

Debt-to-Asset Ratios of Initial Direct Borrowers

	FmHA county office			
	Ankeny, Iowa	Parkersburg, Iowa	Mankato, Minnesota	Abilene, Texas
	(percent)			
County office average debt-to-asset ratio	76	82	73	54
Category of debt/asset ratios (percent)	(number of borrowers)			
0 to 39	0	1	0	0
40 to 69 (serious)	14	4	14	5
70 to 99 (extreme)	24	10	14	0
100 and over (technically insolvent)	2	4	3	0

DEBT-TO-ASSET RATIOS OF BORROWERS WITH INITIAL DIRECT LOANS

Three of the four county offices approved initial direct loans to borrowers who were technically insolvent or were having extreme financial problems. Percentages of loans made to these borrowers ranged from a low of 55 percent to a high of 74 percent among the three offices.

Approving initial direct loans to such borrowers may not be typical of most FmHA county offices. However, an analysis of data from FmHA's Farmer Program Management Information System on 89,416 new direct loans FmHA approved for existing borrowers during the first 6 months of calendar year 1985 showed that 18,688 (21 percent) were made to technically insolvent borrowers and 32,790 (37 percent) were made to borrowers with extreme financial problems.

Table 3.8

Nonfarm Income of Case-Study Borrowers

Nonfarm income by loan type	Number of borrowers by county office: Ankeny, Iowa	Parkersburg, Iowa	Mankato, Minnesota	Abilene, Texas
Debt adjustment program				
$ 0 to $ 9,999	3	4	2	4
$10,000 to $19,999	0	1	0	2
$20,000 to $29,999	0	0	0	0
$30,000 to $39,999	0	0	0	0
$40,000 and over	0	0	0	0
Total	3	5	2	6
Initial regular guaranteed				
$ 0 to $ 9,999	13	17	50	8
$10,000 to $19,999	7	0	15	3
$20,000 to $29,999	3	1	8	2
$30,000 to $39,999	1	0	0	0
$40,000 and over	0	0	2	1
Total	24	18	75	14
Initial direct				
$ 0 to $ 9,999	29	16	19	3
$10,000 to $19,999	6	3	6	1
$20,000 to $29,999	3	0	5	0
$30,000 to $39,999	0	0	1	0
$40,000 and over	2	0	0	1
Total	40	19	31	5

NONFARM INCOME OF CASE-STUDY BORROWERS

Nonfarm income can improve a farmer's cash flow and help sustain farm operations. In the four county offices, none of the debt adjustment program borrowers reported nonfarm income exceeding $20,000, and about 81 percent of them reported nonfarm income of less than $10,000. In addition, most of the county offices' borrowers with initial regular guaranteed and initial direct loans reported nonfarm income of less than $10,000. Three of the county offices had borrowers who reported nonfarm income of $40,000 or more.

Table 3.9

Farm Classification of Case-Study Borrowers Based on Cash Farm Sales

Farm classification by loan type	Number of borrowers by county office: Ankeny, Iowa	Parkersburg, Iowa	Mankato, Minnesota	Abilene, Texas
Debt adjustment program				
Small farms $ 0 to $ 49,999	0	0	0	5
Medium farms $50,000 to $499,999	3	5	2	1
Large farms $500,000 and over	0	0	0	0
Total	3	5	2	6
Initial regular guaranteed				
Small farms $ 0 to $ 49,999	0	1	7	13
Medium farms $50,000 to $499,999	24	17	68	1
Large farms $500,000 and over	0	0	0	0
Total	24	18	75	14
Initial direct				
Small farms $ 0 to $ 49,999	5	1	5	3
Medium farms $50,000 to $499,999	34	17	26	2
Large farms $500,000 and over	1	1	0	0
Total	40	19	31	5

FARM CLASSIFICATION OF CASE-STUDY BORROWERS

The Department of Agriculture's Economic Research Service classifies farm size on the basis of cash farm sales. In determining the amount of cash farm sales for borrowers, we used actual cash farm sales for calendar year 1984 where available; however, when 1984 cash farm sales were not available, we used projected cash farm sales for calendar year 1985. Table 3.9 shows that about 69 percent of the debt adjustment program borrowers had cash farm sales within the medium-size farm range. An additional 31 percent of the debt adjustment program borrowers had cash farm sales less than $50,000. Although the number of initial regular guaranteed and initial direct loan borrowers with medium-size farms varied by county office from 7 to 100 percent, most borrowers reported or projected cash farm sales of $50,000 to $499,999. Only two borrowers reported cash farm sales greater than $500,000.

Table 3.10

Type of Farming Operations of Case-Study Borrowers

Agricultural production by loan type	Number of borrowers by county office			
	Ankeny, Iowa	Parkersburg, Iowa	Mankato, Minnesota	Abilene, Texas
Debt adjustment program				
Crop	2	1	0	1
Livestock	0	1	0	0
Crop and livestock	1	3	2	5
Total	3	5	2	6
Initial regular guaranteed				
Crop	7	5	25	4
Livestock	0	0	0	0
Crop and livestock	17	13	50	10
Total	24	18	75	14
Initial direct				
Crop	13	2	6	1
Livestock	0	0	0	0
Crop and livestock	27	17	25	4
Total	40	19	31	5

TYPE OF FARMING OPERATIONS OF CASE-STUDY BORROWERS

About 69 percent of the debt adjustment program borrowers were engaged in both crop farming and livestock operations. In addition, about two thirds or more of the borrowers with initial regular guaranteed and initial direct loans in each county office were engaged in both crop farming and livestock production. The remaining borrowers crop farmed solely with the exception of one debt adjustment program borrower who conducted only livestock operations.

Table 3.11

Farm Holdings Maintained by Case-Study Borrowers

Farmed acreage by loan type	Number of borrowers by county office: Ankeny, Iowa	Parkersburg, Iowa	Mankato, Minnesota	Abilene, Texas
Debt adjustment program				
Owned acreage only	0	0	0	0
Leased acreage only	0	2	1	2
Owned and leased acreage	3	3	1	4
Total	3	5	2	6
Initial regular guaranteed				
Owned acreage only	0	1	7	0
Leased acreage only	7	7	20	6
Owned and leased acreage	17	10	48	8
Total	24	18	75	14
Initial direct				
Owned acreage only	0	4	3	1
Leased acreage only	8	7	5	0
Owned and leased acreage	32	8	23	4
Total	40	19	31	5

FARM HOLDINGS MAINTAINED BY CASE-STUDY BORROWERS

Table 3.11 shows that most borrowers were leasing acreage to farm in addition to farming acreage they owned. A smaller portion of the borrowers farmed leased acreage only, and an even smaller group of borrowers farmed only their own acreage. For example, 69 percent of the borrowers with debt adjustment program loans were leasing additional acreage to farm. The percentages of borrowers with initial regular guaranteed loans that were leasing additional acreage to farm ranged from a low of 56 percent in one county office to a high of 71 percent in another county office. The percentages of borrowers with initial direct loans who were leasing additional acreage to farm ranged from a low of 42 percent in one county office to a high of 80 percent in two county offices.

Table 3.12

Loan History of
Case-Study Borrowers

Loan history by loan type[a]	Number of borrowers by county office			
	Ankeny, Iowa	Parkersburg, Iowa	Mankato, Minnesota	Abilene, Texas
Debt adjustment program				
Previous FmHA loan history	3	1	1	3
No previous FmHA loan history	0	4	1	3
Total	3	5	2	6
Initial regular guaranteed				
Previous FmHA loan history	7	2	27	4
No previous FmHA loan history	17	16	48	10
Total	24	18	75	14
Initial direct				
Previous FmHA loan history	14	1	11	4
No previous FmHA loan history	26	18	20	1
Total	40	19	31	5

[a]Any type of FmHA loan in the past.

LOAN HISTORY OF CASE-STUDY BORROWERS

Table 3.12 shows that 50 percent of the debt adjustment program borrowers had some type of previous FmHA loan history. In most county offices, however, the majority of borrowers with initial regular guaranteed and initial direct loans had no previous FmHA loan history of any type.

Table 3.13

Profile of FmHA Debt Adjustment Program Case-Study Loans
(fiscal year 1985)

Operating loan characteristics[a]	FmHA county office: Ankeny, Iowa	Parkersburg, Iowa	Mankato, Minnesota	Abilene, Texas
Range				
Debts refinanced				
low	$115,700	$ 98,758	$105,446	$ 47,000
high	568,400	190,000	561,350	105,000
average	331,867	155,552	333,398	67,002
Write-off percentage				
low	10%	10%	10%	10%
high	35%	78%	11%	65%
Write-off dollars				
low	$ 11,570	$ 14,700	$11,813	$ 5,035
high	199,400	119,000	40,000	43,000
average	80,707	42,515	25,907	20,149
Loan terms				
low	5 years	7 years	5 years	5 years
high	7 years	7 years	7 years	7 years
Loan rates				
low	11%	10%	9.25%	13%
high	13%	12%	13.25%	13.50%
Number				
Principal write-offs	1 of 3	0 of 5	0 of 2	6 of 6
Interest write-offs	2 of 3	2 of 5	1 of 2	0 of 6
Principal and interest write-offs	0 of 3	3 of 5	1 of 2	0 of 6

[a]No farm ownership loans were guaranteed under the debt adjustment program in these county offices.

PROFILE OF FmHA DEBT ADJUSTMENT
PROGRAM CASE-STUDY LOANS

Table 3.13 shows that the average amount of debt refinanced for debt adjustment program borrowers with operating loans ranged from a low of $67,000 in one county office to a high of about $333,000 in another county office. In three county offices interest rate write-offs were made while in one county office only principal write-offs were made. The percentage of write-offs ranged from the required 10 percent to a high of 78 percent on one borrower's loan.

Table 3.14

Profile of FmHA Initial Regular
Guaranteed Case-Study Loans
(fiscal year 1985)

Range of loan characteristics by program	FmHA county office: Ankeny, Iowa	Parkersburg, Iowa	Mankato, Minnesota	Abilene, Texas
Amounts				
Operating				
low	$ 25,000	$ 8,500	$ 8,000	$ 5,500
high	350,000	345,700	316,600	100,000
average	116,046	93,220	74,989	43,701
Ownership				
low	$121,930	no	$155,000	no
high	121,930	loans	155,000	loans
Terms				
Operating				
low	1 year	1 year	1 year	1 year
high	7 years	7 years	7 years	7 years
Ownership				
low	40 years	no	30 years	no
high	40 years	loans	30 years	loans
Rates (percent)				
Operating				
low	11	12	7	13
high	13.50	14.80	14.30	15
Ownership				
low	10.25	no	12	no
high	10.25	loans	12	loans

PROFILE OF FmHA INITIAL REGULAR
GUARANTEED CASE-STUDY LOANS

Table 3.14 provides loan characteristics on initial regular guaranteed operating and ownership loans made to borrowers during fiscal year 1985. Only two of the four county offices guaranteed initial farm ownership loans and these offices had only one loan each.

Table 3.15

Profile of FmHA Initial
Direct Case-Study Loans
(fiscal year 1985)

Range of loan characteristics	FmHA county office: Ankeny, Iowa	Parkersburg, Iowa	Mankato, Minnesota	Abilene, Texas
Amounts				
Operating				
low	$ 37,850	25,200	$ 9,850	$ 29,000
high	200,000	176,280	200,000	136,000
average	105,005	85,060	57,998	96,000
Ownership				
low	$100,000	$ 67,000	no	no
high	100,000	148,000	loans	loans
Terms				
Operating				
low	1 year	1 year	1 year	5 years
high	7 years	7 years	7 years	7 years
Ownership				
low	40 years	40 years	no	no
high	40 years	40 years	loans	loans
Rates (percent)				
Operating				
low	7.25	7.25	7.25	10.25
high	10.25	10.25	10.25	10.25
Ownership				
low	5.25	5.25	no	no
high	5.25	5.25	loans	loans

PROFILE OF FmHA INITIAL DIRECT CASE-STUDY LOANS

Table 3.15 provides loan characteristics on initial direct farm operating and ownership loans made during fiscal year 1985. Only two county offices made farm ownership loans. One county office made one loan and the other county office made three loans, all at the limited resource loan rate of 5.25 percent.

SECTION 4

FmHA AND LENDER COMMENTS ON FmHA's DEBT RESTRUCTURING ACTIVITIES

FmHA AND LENDER COMMENTS SOLICITED ON FmHA's DEBT RESTRUCTURING ACTIVITIES

We discussed FmHA's debt restructuring activities with FmHA officials in the national office, 6 state offices, and 12 district and 10 county offices in these 6 states. We also discussed these activities with officials of three national lending associations and 46 local lending institutions across the 6 states. We wanted to determine why lenders were or were not working with FmHA to help farmers restructure their debt through either debt adjustment program guarantees, regular guarantees, or direct FmHA loans. As discussed in section 2, lenders were relying more on regular guarantees and direct FmHA loans than on debt adjustment program guarantees to restructure debt.

Table 4.1

Source of Comments on FmHA Debt Restructuring Activities

FmHA	National office
	State, district, and county offices in Iowa, Kansas, Minnesota, South Dakota, Texas, and Wisconsin.
National lending associations	American Bankers Association Independent Bankers Association of America Farm Credit Council
Local lending institutions	Commercial banks and Farm Credit System lenders in Iowa, Kansas, Minnesota, South Dakota, Texas, and Wisconsin.

COMMENTS ON LOW USE OF DEBT ADJUSTMENT PROGRAM GUARANTEES

The primary reasons given for the low utilization in debt adjustment program guarantees were

--lenders were reluctant to permanently write off the equivalent of at least 10 percent of a borrower's loan principal as required by the debt adjustment program regulations for a loan guarantee;

--regular guarantees were more useful than debt adjustment program guarantees because they served the same purpose of restructuring debt but did not require a permanent debt write-off, although some lenders were doing so to meet regular guarantee requirements for collateral and/or cash flow; and

--lenders were concerned that their other, more financially sound borrowers who were not eligible for the debt adjustment program may request equal treatment in reducing their debt.

COMMENTS ON USE OF DEBT ADJUSTMENT PROGRAM AND REGULAR GUARANTEES

Lenders who utilized debt adjustment program and regular guarantees did so primarily for the following same reasons:

--Their borrowers had become bad credit risks because of insufficient collateral or cash flow and required write-offs of debt and/or guarantees for the lenders to continue providing credit.

--Bank examiners had classified a number of their borrowers' loans as being problem loans, and guarantees were obtained to provide better security for these loans to help move them out of the problem classification.

COMMENTS ON USE OF DIRECT LOANS TO RESTRUCTURE DEBT

Although a substantial increase in guaranteed loan activity occurred between fiscal years 1984 and 1985, lenders continued to refer increasing numbers of borrowers to FmHA to obtain debt restructuring assistance through direct loans that helped refinance existing debt as well as supplemented private financing. The primary reasons given for the utilization of direct loans rather than guaranteed loans were the following:

--Direct loans were the desired credit instrument for problem borrowers who were unlikely to resolve their financial difficulty with the use of guarantees.

--Lenders were reluctant to write off debt to obtain debt adjustment program guarantees.

--Additional paperwork and lengthy processing time were required for guarantees.

SECTION 5

OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES, SCOPE, AND METHODOLOGY

On March 28, 1985, Congressman Cooper Evans requested that GAO investigate and analyze the functioning and effectiveness of the FmHA and the President's Debt Restructuring Program in meeting the 1984-85 farm credit crisis. On May 3, 1985, Senator Charles Grassley, Chairman, Senate Judiciary Subcommittee on Administrative Practice and Procedure, joined in this request.

In subsequent meetings with Congressman Evans and congressional staff, we agreed to provide

- --national and state statistics on the number and amount of debt adjustment program, initial regular guaranteed, and initial direct loans that FmHA made in fiscal year 1985 to primarily restructure existing debt held by commercial banks and Farm Credit System lenders;
- --borrower and loan profile information from FmHA county offices in Iowa, Texas, and Minnesota on the debt adjustment program, initial regular guaranteed, and initial direct loans made to borrowers in fiscal year 1985; and
- --comments on FmHA's debt restructuring activities obtained through interviews with officials of commercial banks, Farm Credit System lenders, and the FmHA at the national, state, and local levels.

To provide national and state statistics on FmHA's loan activity, we obtained copies of FmHA's Farm Credit Initiative Report (implemented to collect information on the President's Debt Initiative Program) and Status of Loan and Grant Obligations/ Allotments or Distributions Report (referred to as the 205 Report), which contains information on all FmHA farmer program loans. We obtained information on the debt adjustment and initial regular guaranteed loan activity (applications received, rejected, approved, and pending) from the Farm Credit Initiative Report. We also obtained information on the number of approved debt adjustment, initial regular guaranteed, and initial direct loans and related loan obligations from the 205 Report. We did not verify the validity of this information but relied on FmHA's opinion as to the best source of data available.

To obtain profile data on borrowers and the types of FmHA loans they received, we visited four FmHA county offices. The county offices visited were located in Ankeny and Parkersburg, Iowa; Mankato, Minnesota; and Abilene, Texas. We selected these county offices because they had activity in all three types of loans used to restructure farm debt. In Parkersburg and Abilene, we reviewed loan files of all borrowers with debt adjustment, initial regular guaranteed, and initial direct loans approved during fiscal year 1985. In Ankeny and Mankato, we reviewed loan files of all borrowers with debt adjustment program loans approved during fiscal year 1985 but reviewed only a random sample of borrowers with initial regular guaranteed and initial direct loans because of the larger volume of such loans in these offices. We have projected the results of our sample reviews only to the respective offices from which the samples were drawn. Projections were made at the 95-percent confidence level as explained in appendix IV.

We also obtained comments from the county supervisors about various borrowers' loans and county offices' loan activity. The profile data presented in this report were taken from FmHA loan files and reflect both actual and/or projected figures as reported by the borrowers for either 1984 or 1985. We did not verify the validity of this information.

To obtain comments on FmHA's debt restructuring activities, we visited FmHA's national office; state offices in Iowa, Kansas, Minnesota, South Dakota, Texas, and Wisconsin; and 12 district and 10 county offices across these 6 states. We also met with officials from 46 commercial and Farm Credit System lending institutions in the same 6 states. In addition, we met in Washington, D.C., with officials of the American Bankers

Association, Independent Bankers Association of America, and Farm Credit Council. We used structured interviews to ensure consistency in the data collected. Although their comments cannot be construed to apply to all FmHA offices or lenders, they nevertheless provide some insight into (1) why lenders were or were not using the debt adjustment program, (2) the extent of farm debt restructuring taking place, and (3) where the restructuring is occurring and why.

DATA LIMITATIONS

During our review we determined that the Farm Credit Initiative and 205 Reports contain some differences in the numbers and dollar amounts of debt adjustment and regular guaranteed loans that were approved. FmHA officials told us that the 205 Report contained the most accurate information available even though it also included some incorrect information on debt adjustment and regular guaranteed loans, primarily because of coding errors. We discussed the differences with FmHA officials, and they concurred that because some FmHA county and state offices had not updated their reports (1) some debt adjustment loans were miscoded, (2) some loans listed in the Farm Credit Initiative Report may have been rejected or withdrawn before approval, and (3) dollar amounts were not listed for some approved loans. Although FmHA headquarters officials said they have instructed the state and county offices to verify and/or update the loan data that were submitted for fiscal year 1985, and some updated loan data have been provided and included in this report, the Farm Credit Initiative Report still contains some numbers and dollar amounts that are not accurate. FmHA officials stated, however, that the data limitations should not affect the overall information presented in this report.

FmHA DEBT ADJUSTMENT PROGRAM
LOAN ACTIVITY BY STATE[a]
(fiscal year 1985)

State	Loan applications			Loan amounts[b]	
	Received	Rejected	Approved	Operating	Ownership
Alabama	4	1	1	$ 223,000	$ 164,500
Alaska	0	0	0	0	0
Arizona	2	0	0	0	0
Arkansas	0	0	0	0	0
California	1	0	1	0	0
Colorado	2	1	0	0	0
Connecticut	0	0	0	0	0
Delaware	0	0	0	0	0
Florida	2	0	1	86,307	0
Georgia	4	0	1	147,500	300,000
Hawaii	0	0	0	0	0
Idaho	11	6	2	0	158,000
Illinois	44	13	26	2,974,315	751,000
Indiana	4	0	0	0	0
Iowa	273	65	164	21,020,830	1,731,630
Kansas	84	25	53	5,611,572	793,880
Kentucky	10	2	5	553,150	385,500
Louisiana	0	0	0	0	0
Maine	0	0	0	0	0
Maryland	0	0	0	0	0
Massachusetts	0	0	0	0	0
Michigan	11	0	7	1,612,259	0
Minnesota	61	9	14	1,418,980	0
Mississippi	0	0	0	0	0
Missouri	9	3	6	640,220	59,980

State	Loan applications: Received	Rejected	Approved	Loan amounts[b]: Operating	Ownership
Montana	5	0	4	$ 858,243	$ 39,000
Nebraska	52	8	20	4,815,300	474,501
Nevada	0	0	0	0	0
New Hampshire	0	0	0	0	0
New Jersey	1	0	1	0	0
New Mexico	2	1	1	0	72,200
New York	3	0	2	535,849	0
North Carolina	1	0	1	103,573	0
North Dakota	2	2	1	700,175	0
Ohio	10	2	6	815,900	332,009
Oklahoma	12	0	3	296,800	163,200
Oregon	2	0	0	0	0
Pennsylvania	1	1	0	0	0
Rhode Island	0	0	0	0	0
South Carolina	1	2	0	0	0
South Dakota	90	12	67	9,291,388	193,000
Tennessee	2	0	1	0	0
Texas	30	3	13	1,029,188	0
Utah	3	1	0	0	0
Vermont	0	0	0	0	0
Virginia	0	0	0	0	0
Washington	1	0	1	0	0
West Virginia	0	0	0	0	0
Wisconsin	17	3	14	1,405,840	388,600
Wyoming	2	1	0	110,000	0
Total	759	161	416	$54,251,187	$6,007,000

[a]Some state information may be inaccurate or incomplete. See sec. 5 for an explanation.

[b]Loan amounts shown in sec. 2 are from FmHA's Status of Loan and Grant Obligations/Allotments on Distributions Report and differ from the loan amounts in this appendix. See sec. 5 for an explanation.

Source: FmHA's Farm Credit Initiative Report

FmHA INITIAL REGULAR GUARANTEED LOAN ACTIVITY BY STATE[a] (fiscal year 1985)

State	Loan applications			Loan amounts[b]	
	Received	Rejected	Approved	Operating	Ownership
Alabama	23	4	12	$ 1,878,420	$ 359,000
Alaska	1	0	1	0	300,000
Arizona	0	0	1	74,900	0
Arkansas	115	25	73	11,807,002	4,759,000
California	26	7	16	3,844,411	540,000
Colorado	47	21	28	3,122,094	480,000
Connecticut	1	0	3	418,300	0
Delaware	0	0	0	0	0
Florida	14	6	9	1,313,300	282,130
Georgia	41	3	22	1,932,245	0
Hawaii	0	0	0	0	0
Idaho	50	17	22	3,096,675	57,000
Illinois	456	74	312	26,686,234	1,287,850
Indiana	207	67	97	9,069,661	915,500
Iowa	2,893	570	2,006	206,408,516	11,309,310
Kansas	463	96	299	27,499,654	1,187,600
Kentucky	106	9	94	7,052,534	2,193,761
Louisiana	122	35	84	8,174,194	352,250
Maine	6	0	6	228,500	50,000
Maryland	3	1	2	40,000	0
Massachusetts	1	0	1	0	270,000
Michigan	407	73	295	40,154,598	581,140
Minnesota	2,528	454	1,669	152,605,084	4,033,980
Mississippi	66	4	60	11,064,390	746,040
Missouri	233	70	76	7,840,809	1,483,400

State	Loan applications Received	Rejected	Approved	Loan amounts[b] Operating	Ownership
Montana	87	12	40	$ 9,864,211	$ 3,288,220
Nebraska	1,807	286	1,083	109,969,694	9,054,200
Nevada	0	0	0	0	0
New Hampshire	0	0	0	0	0
New Jersey	0	0	0	31,460	0
New Mexico	22	4	15	2,914,200	862,000
New York	74	3	39	3,948,894	1,253,500
North Carolina	86	8	71	5,811,000	553,500
North Dakota	219	48	142	13,183,180	860,500
Ohio	175	45	90	12,088,200	295,980
Oklahoma	321	50	187	31,716,831	2,136,687
Oregon	32	0	26	3,398,597	0
Pennsylvania	101	2	6	356,500	140,200
Rhode Island	0	0	0	0	0
South Carolina	19	1	17	2,664,170	0
South Dakota	1,103	225	742	85,866,158	2,300,600
Tennessee	64	8	43	4,667,390	937,210
Texas	263	48	162	24,316,104	477,000
Utah	12	2	10	1,102,180	200,000
Vermont	0	0	0	0	0
Virginia	23	0	12	710,000	1,307,000
Washington	25	5	10	1,968,233	120,000
West Virginia	5	0	3	518,200	125,000
Wisconsin	633	103	332	35,454,073	7,645,560
Wyoming	51	4	27	5,189,201	189,000
Total	12,931	2,390	8,245	$880,049,997	$62,934,118

[a]Some state information may be inaccurate or incomplete. See sec. 5 for an explanation.

[b]Loan amounts shown in sec. 2 are from FmHA's Status of Loan and Grant Obligations/Allotments on Distributions Report and differ from the loan amounts in this appendix. See sec. 5 for an explanation.

Source: FmHA's Farm Credit Initiative Report

FmHA INITIAL DIRECT LOAN
ACTIVITY BY STATE[a]
(fiscal year 1985)

State	Operating loans Approved	Operating loans Amounts	Ownership loans Approved	Ownership loans Amounts
Alabama	552	$ 27,817,750	124	$ 9,876,400
Alaska	1	47,600	1	50,000
Arizona	54	5,093,000	7	1,012,800
Arkansas	1,125	70,016,260	157	14,934,780
California	318	26,684,750	148	19,093,820
Colorado	195	13,928,570	76	9,574,430
Connecticut	25	1,483,830	20	2,046,800
Delaware	20	1,421,400	16	1,744,400
Florida	166	8,863,710	52	4,379,380
Georgia	823	54,220,510	104	10,375,180
Hawaii	30	1,215,430	22	3,763,530
Idaho	242	16,421,640	57	6,773,870
Illinois	1,648	79,261,230	310	30,640,390
Indiana	551	31,958,510	168	18,388,040
Iowa	3,298	257,676,420	358	40,255,230
Kansas	943	49,394,710	223	19,834,210
Kentucky	805	28,880,630	236	20,187,770
Louisiana	1,078	60,383,170	90	10,835,180
Maine	66	1,896,580	30	2,185,000
Maryland	63	2,453,780	24	2,597,450
Massachusetts	20	837,160	23	2,673,770
Michigan	554	34,835,400	85	9,641,160
Minnesota	1,934	125,662,840	223	25,637,190
Mississippi	1,013	73,930,700	149	11,745,870
Missouri	1,390	68,945,520	250	21,556,840

State	Operating loans Approved	Operating loans Amounts	Ownership loans Approved	Ownership loans Amounts
Montana	293	$ 25,358,370	50	$ 6,467,170
Nebraska	1,858	96,690,820	201	23,204,280
Nevada	25	1,305,410	4	387,000
New Hampshire	10	397,000	10	849,960
New Jersey	41	1,490,040	18	2,309,650
New Mexico	161	10,182,950	44	4,598,130
New York	360	20,664,680	102	9,037,440
North Carolina	966	31,917,910	195	16,417,210
North Dakota	1,515	98,676,370	150	14,470,130
Ohio	686	52,525,020	150	18,711,390
Oklahoma	842	62,997,740	179	16,564,280
Oregon	156	12,295,620	46	5,980,110
Pennsylvania	231	12,045,350	90	10,903,830
Rhode Island	4	56,800	4	271,040
South Carolina	408	21,427,110	80	7,373,570
South Dakota	808	33,078,820	136	12,182,770
Tennessee	762	33,569,070	214	15,847,140
Texas	1,793	125,024,190	204	22,588,410
Utah	103	5,287,550	34	3,089,490
Vermont	70	4,012,850	28	2,534,500
Virginia	260	11,052,640	85	8,011,630
Washington	178	12,719,220	63	8,022,460
West Virginia	121	1,851,340	46	3,756,820
Wisconsin	2,181	208,228,150	158	16,710,130
Wyoming	75	6,306,440	26	2,900,870
Total	30,821	$1,932,492,560	5,270	$532,992,900

[a]Some state information may be inaccurate or incomplete. See sec. 5 for an explanation.

Source: FmHA Status of Loan and Grant Obligations/Allotments or Distributions Report (205 Report)

SAMPLING METHODOLOGY AND ASSOCIATED SAMPLING ERRORS

This appendix further describes our sampling plan discussed in section 5 and provides the sampling errors associated with our statistical samples of borrowers with initial regular guaranteed and initial direct loans made during fiscal year 1985 in the two FmHA county offices where we sampled these loans--Ankeny, Iowa, and Mankato, Minnesota. For Ankeny, Iowa, our sample included 18 of 24 borrowers with initial regular guaranteed loans and 25 of 40 borrowers with initial direct loans. For Mankato, Minnesota, our sample included 30 of 75 borrowers with initial regular guaranteed loans and 20 of 31 borrowers with initial direct loans.

Because we reviewed a statistical sample of borrowers' records, each estimate developed from the sample has a measurable precision, or sampling error. The sampling error is the maximum amount by which the estimate obtained from a statistical sample can be expected to differ from the characteristics of the true universe. Sampling errors are usually stated at a certain confidence level--in this sample, 95 percent. This means that the chances are 19 out of 20 that, if we reviewed the loan files of all borrowers in the county office, the results would not differ from the estimates obtained from our sample by more than 5 percent.

The estimates derived for the Ankeny, Iowa, and Mankato, Minnesota, offices and their associated sampling errors at the lower and upper boundary limits for the 95-percent confidence level are shown on the following pages. The tables are numbered to correspond with tables 3.6 through 3.12 in section 3.

Table 3.6a

Category of debt/ asset ratios (percent)	Ankeny, Iowa Estimate	Lower limit	Upper limit	Mankato, Minnesota Estimate	Lower limit	Upper limit
0 to 39	0	0	1	2	1	9
40 to 69	16	13	18	35	26	45
70 to 99	8	6	11	33	23	42
100 and over	0	0	1	5	2	12
mean	65	60	70	70	64	76
median	61	55	67	68	60	75

Table 3.7a

0 to 39	0	0	2	0	0	2
40 to 69	14	10	19	14	10	18
70 to 99	24	19	28	14	10	18
100 and over	2	1	5	3	1	6
mean	76	71	80	73	68	78
median	79	73	84	71	65	77

Table 3.8a

Nonfarm income by loan type	Ankeny, Iowa Estimate	Lower limit	Upper limit	Mankato, Minnesota Estimate	Lower limit	Upper limit
Initial regular guaranteed borrowers						
$ 0 to $ 9,999	13	11	16	50	40	58
$10,000 to $19,999	7	5	9	15	9	24
$20,000 to $29,999	3	1	5	8	3	16
$30,000 to $39,999	1	1	3	0	0	5
$40,000 and over	0	0	1	2	1	9
Initial direct borrowers						
$ 0 to $ 9,999	29	24	32	19	15	22
$10,000 to $19,999	6	4	10	6	4	10
$20,000 to $29,999	3	1	7	5	3	8
$30,000 to $39,999	0	0	2	1	1	4
$40,000 and over	2	1	5	0	0	2

Table 3.9a

Farm classification by loan type	Ankeny, Iowa Estimate	Ankeny, Iowa Lower limit	Ankeny, Iowa Upper limit	Mankato, Minnesota Estimate	Mankato, Minnesota Lower limit	Mankato, Minnesota Upper limit
Initial regular guaranteed borrowers						
Small farms $ 0 to $ 49,999	0	0	1	7	3	16
Medium farms $50,000 to $499,999	24	23	24	68	59	72
Large farms $500,000 and over	0	0	1	0	0	5
Initial direct borrowers						
Small farms $ 0 to $ 49,999	5	3	9	5	3	8
Medium farms $50,000 to $499,999	34	30	36	26	23	28
Large farms $500,000 and over	1	1	5	0	0	2

Table 3.10a

Agricultural production by loan type	Ankeny, Iowa Estimate	Ankeny, Iowa Lower limit	Ankeny, Iowa Upper limit	Mankato, Minnesota Estimate	Mankato, Minnesota Lower limit	Mankato, Minnesota Upper limit
Initial regular guaranteed borrowers						
Crop	7	5	9	25	17	35
Livestock	0	0	1	0	0	5
Crop and livestock	17	15	19	50	40	58
Initial direct borrowers						
Crop	13	9	17	6	4	10
Livestock	0	0	2	0	0	2
Crop and livestock	27	23	31	25	21	27

Table 3.11a

Farm acreage by loan type	Ankeny, Iowa Estimate	Lower limit	Upper limit	Mankato, Minnesota Estimate	Lower limit	Upper limit
Initial regular guaranteed borrowers						
Owned acreage only	0	0	1	7	3	16
Leased acreage only	7	5	9	20	13	30
Owned and leased acreage	17	15	19	48	38	56
Initial direct borrowers						
Owned acreage only	0	0	2	3	1	6
Leased acreage only	8	5	12	5	3	8
Owned and leased acreage	32	28	35	23	19	26

Table 3.12a

Loan history by loan type	Ankeny, Iowa Estimate	Lower limit	Upper limit	Mankato, Minnesota Estimate	Lower limit	Upper limit
Initial regular guaranteed borrowers						
Previous FmHA loan history	7	5	9	27	19	37
No previous FmHA loan history	17	15	19	48	38	56
Initial direct borrowers						
Previous FmHA loan history	14	10	19	11	8	15
No previous FmHA loan history	26	21	30	20	16	24

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