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COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

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RELEASED SEP 12 1975

The Honorable Bill Alexander  
House of Representatives

Dear Mr. Alexander:

In accordance with your March 26, 1975, request and subsequent discussions with your office, we reviewed several matters relating to the emergency loan program administered by the Department of Agriculture's Farmers Home Administration. The program is authorized by subtitle C of the Consolidated Farm and Rural Development Act, as amended.

We made our review before the enactment of Public Law 94-68, August 5, 1975, which amended subtitle C of the Consolidated Act. Before this amendment, the Secretary of Agriculture was required to designate any area in the United States, Puerto Rico, and the Virgin Islands as an emergency area if he found that

--there existed in such area a general need for agricultural credit and

--the need for such credit in such area was the result of a natural disaster.

Your major concern related to disaster designations for counties in Arkansas' first congressional district early in 1975. We discussed the results of our inquiries with your office on June 3, 1975, and provided your office with copies of our recent reports on the emergency loan program. The results of our inquiries are summarized in the enclosure.

As agreed with your office on June 3, 1975, we did not review the Farmers Home Administration's regulations to implement changes in the emergency loan program authorized under Public Law 93-237 in view of the then pending legislation (S. 555) which was subsequently enacted as Public Law 94-68.

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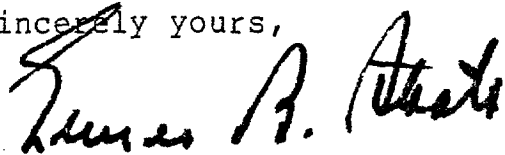
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Our review included interviews with Department officials in Washington, D.C., and at the State and county levels in Arkansas, including the Farmers Home Administration county supervisors in 10 of the 12 counties in Arkansas' first congressional district which were designated as disaster areas on March 21 and 27, 1975. We also reviewed pertinent legislation, regulations, policies, procedures, and records at agency headquarters.

We discussed the report contents with agency headquarters officials. As your office requested, however, we did not obtain formal comments on this report from the Department.

Sincerely yours,

A handwritten signature in black ink, appearing to read "James A. Atchefs". The signature is written in a cursive style with a large initial "J".

Comptroller General  
of the United States

Enclosure

SUMMARY OF RESULTS OF  
INQUIRIES INTO FARMERS HOME ADMINISTRATION'S  
EMERGENCY LOAN PROGRAM

Prior to enactment of Public Law 94-68 (89 Stat. 381) August 5, 1975, section 321 of the Consolidated Farm and Rural Development Act, as amended (7 U.S.C. 1961 (supp. III)), required the Secretary of Agriculture to designate any area in the United States, Puerto Rico, and the Virgin Islands as an emergency area if he found that

- there existed in such area a general need for agricultural credit and
- the need for such credit in such area was the result of a natural disaster.

Whenever the Secretary made the designation, the U.S. Department of Agriculture's (USDA's) Farmers Home Administration (FmHA) could make emergency agricultural loans at a 5-percent interest rate in those designated areas to cover losses resulting from disasters to enable farmers, ranchers, and oyster planters to continue their operations.

Emergency loans could be made for property damage or for severe production losses which occurred as a result of a disaster. To qualify for a production-loss loan under FmHA's regulations, an applicant's loss had to be substantially greater than would have been expected from normal fluctuations in yields. FmHA required that the applicant sustain a minimum loss of 10 percent of the dollar value of normal production which was generally determined on the basis of the prior 2 years' production.

Maximum terms of these loans were 5 years for operating expenses; 7 years for machinery, breeding livestock, and home furnishings; 20 years for real estate restoration; and 33 years for farm housing restoration. Applicants were required to provide security with enough equity to reasonably protect the Government's interest.

Emergency loans were not to be made for more than the actual loss sustained or to (1) produce new crops, (2) pay off debts on equipment not essential to the farm operation, or (3) replace luxury items. Supplemental loans could be made when the initial emergency loan was for less than the amount of the actual loss sustained.

DESIGNATION PROCESS

FmHA regulations in effect at the time of our review required the FmHA county supervisor to submit a Report of Natural Disaster (disaster report) to the county governing body or its representative and to the FmHA State Director immediately upon becoming aware of the occurrence of any natural disaster causing major property loss, damage, or injury, including severe production losses in his county regardless of whether or not emergency loans would be needed.

When the county supervisor was able to obtain complete information on the actual damage and losses caused by the natural disaster, he was required to submit a Report of Natural Disaster for Consideration in Designating Emergency Loan Area (designation report) to the county governing body. The designation report was to be accompanied by the comments of the county USDA emergency board, usually made up of officials of USDA's Extension Service, Soil Conservation Service, and Agricultural Stabilization and Conservation Service, as well as the FmHA county supervisor.

Although the county supervisor "triggered" the designation process by submitting the designation report to the county governing body, the formal process was initiated by the county governing body when it approved the report and forwarded it to the Governor. The Governor, in turn, submitted a request for a disaster designation to the Secretary of Agriculture.

DISASTER DESIGNATIONS FOR  
THE 12 ARKANSAS COUNTIES

The 12 counties in Arkansas' first congressional district were designated as disaster areas on March 21 and 27, 1975, mostly as the result of drought, excessive rainfall, and freeze experienced at various times throughout the 1974 growing season. These adverse weather conditions affected the quality and yield of the crops.

The schedule on page 3 shows the dates of the various designation processing steps for the 12 counties. As shown, the dates of the county governing bodies' requests to the

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Governor for the designations--the start of the formal designation process--ranged from January 30 to March 4, 1975. FmHA officials told us that Congressman Bill Alexander's requests to the Secretary of Agriculture on December 30, 1974, and on March 14 and 18, 1975, to designate the counties expedited the designation process.

Dates of Designation Processing Steps for  
Arkansas Counties in the First Congressional District

<u>County</u>	<u>Disaster report (note a)</u>	<u>County USBA emergency board meeting</u>	<u>Designation report recommended by</u>			<u>Designation requests</u>		<u>Designation of emergency loan area by Secretary of Agriculture</u>
			<u>County supervisor</u>	<u>State Director</u>	<u>National Office</u>	<u>County governing body to Governor</u>	<u>Governor to Secretary of Agriculture</u>	
Clay	2/14/75	2/20/75	2/24/75	2/27/75	3/13/75	2/24/75	3/ 5/75	3/21/75
Craighead	1/24/75	2/12/75	2/13/75	2/24/75	3/17/75	2/14/75	2/19/75	3/21/75
Crittenden	1/27/75	2/11/75	2/14/75	2/24/75	3/17/75	2/27/75	3/ 5/75	3/21/75
Cross	1/28/75	2/ 6/75	2/ 6/75	2/24/75	3/17/75	2/20/75	3/ 5/75	3/21/75
Greene	1/30/75	2/13/75	2/14/75	2/24/75	3/17/75	2/14/75	2/19/75	3/21/75
Lee	1/28/75	1/24/75	1/27/75	2/24/75	3/ 4/75	1/30/75	2/19/75	3/21/75
Mississippi	1/24/75	1/23/75	2/20/75	2/24/75	3/17/75	3/ 4/75	3/ 5/75	3/21/75
Monroe	none	2/14/75	2/24/75	2/27/75	3/13/75	2/26/75	3/ 6/75	3/27/75
Phillips	none	2/12/75	2/12/75	2/24/75	3/17/75	2/13/75	2/19/75	3/21/75
Poinsett	1/27/75	2/ 5/75	2/ 5/75	2/24/75	3/17/75	2/ 6/75	2/19/75	3/21/75
St. Francis	none	2/12/75	2/13/75	2/24/75	3/17/75	2/14/75	2/19/75	3/21/75
Woodruff	1/30/75	2/24/75	2/27/75	3/ 3/75	3/13/75	2/27/75	3/ 5/75	3/21/75

<sup>a</sup> The county supervisors used memorandums, instead of the prescribed FmHA form, at the request of the State FmHA office.

The summary of the results of our inquiries relating to the specific questions raised by Congressman Alexander and his office follows.

Must FmHA county supervisors have specific instructions from district, State, or national FmHA or USDA officials to initiate requests for disaster designations, or have they sufficient authority to begin the essential work at the local level and transmit such a request to the State FmHA office?

FmHA county supervisors do not need specific instructions from higher level FmHA or USDA officials to initiate requests for disaster designations. Three of the 10 county supervisors we interviewed said that they had in fact initiated the designation process without receiving any specific instruction from either the national or State offices.

In accordance with FmHA regulations, a disaster designation was to be approved by both the county governing body, which initiated the formal process, and the State Governor. FmHA county supervisors, however, triggered the disaster designation process by compiling information on farm losses and on the need for agricultural credit and submitting the designation report to the county governing body. If the county governing body agreed that the county should be designated as a disaster area, it forwarded the report to the Governor who, in turn, submitted a request for a disaster designation to the Secretary of Agriculture.

Under the practices followed by USDA, are disaster designation activities now given the priority which emergency programs and disaster situations warrant?

According to FmHA officials, the national office, which has a staff working on the emergency loan program full time, gives disaster designations top priority. At the State and county levels, the State director, on the advice of the chief of farmer programs, determines whether county office employees will give disaster designations and emergency loan processing priority over other programs and assignments. Of the 10 county supervisors, 9 said that, in accordance with State office instructions, they gave top priority to the disaster designation activities in question. All but three, however, said that they did not begin the process until they received a January 22, 1975, request from the FmHA State office in Arkansas to consider the need for the disaster designations.

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The one county supervisor who did not give top priority to disaster designations explained that, because the county was without a full-time county supervisor for about 1 month before he was assigned to the position on February 10, 1975, there was a backlog of business, particularly applicants in need of farm operating loans, that took up a great deal of his time. He said that, because of this, his first priority was to get the operating loans processed and work on the designation report when he had the chance.

USDA permits its employees to exercise a wide degree of latitude in making judgments about the priority to be given a natural disaster, such as occurred in Arkansas, i.e., a series of conditions building up to a situation that results in losses due to poor crop yields and quality rather than sudden physical damage. With such latitude, the priority given to disaster designation activities could vary, depending on the employee's judgment of the urgency of the situation.

Has USDA in any way discouraged the employees of FmHA from carrying out required procedures for gathering data and submitting it expeditiously for completion of formal processing of disaster designations?

No. Applicable records and our discussions with FmHA officials at the national, State, and county levels indicated that the opposite is true.

On January 22, 1975, the FmHA State office in Arkansas, at the request of the national office, directed the county supervisors to consider the need for the disaster designations by gathering the information for the designation report. Three of the 10 county supervisors said that they had begun the process before receiving the State office's request. All 10 county supervisors said there was no pressure from any source to delay the start of the processing.

What conditions brought about the months of delay in the Secretary of Agriculture's making disaster designations as requested for Arkansas?

Prior to enactment of Public Law 94-68, section 321 of the Consolidated Farm and Rural Development Act required that there be a general need for agricultural credit resulting from a natural disaster before the Secretary designated any area to be eligible for FmHA emergency loans. FmHA regulations required that, in making this determination, an estimate of the losses resulting from the disaster be made. Once the estimate was made, the county supervisor polled local lenders to determine whether sufficient credit was available to cover the amount of losses. Because the losses experienced in the 12 counties in Arkansas were due to the poor quality and yield of the crops rather than actual physical destruction, FmHA county supervisors waited until the harvest was in before making the required estimates.

On March 21, 1975, the Secretary designated 11 of the 21 counties in Arkansas' first congressional district as disaster areas, and on March 27 he extended the designation for Monroe County 1/. (See p. 3.)

According to an FmHA official, the remaining nine counties were not designated at that time because the county judges, who were representatives of the county governing bodies, told FmHA that losses due to the adverse weather conditions were not great enough to warrant emergency loan designation requests.

The March 1975 disaster designations for the 12 counties were mostly the result of drought, excessive rainfall, and freeze experienced at various times throughout the growing season. These adverse weather conditions affected the quality and yield of the crops produced. County supervisors told us that they had to wait until the crops were substantially harvested, the cotton was ginned, and the rice was dried before they could assess what effect, if any, the adverse weather conditions had on crop quality and yield. Estimated losses were developed on the basis of these assessments.

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Monroe County was previously designated on October 10, 1974, as a result of excessive rainfall and drought which occurred during May, June, and July 1974.



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The counties, where harvesting is usually completed for soybeans and cotton by mid-November and rice by late October, also experienced an unusually late harvesting of their major crops because of the adverse weather conditions. The county supervisors said that harvest completion in the counties for soybeans ranged from early November to mid-January, cotton from late December to mid-March, and rice from late September to late December.

FmHA national, State, and county officials told us that, in addition to the time it took to estimate losses and to poll local lenders to determine whether there was a general need for agricultural credit, the requirement to obtain approval from county governing bodies and the State Governor and the heavy workload in the FmHA county offices contributed to the length of the designation process.

Our analysis of the time required to process the designation requests in the 12 counties showed that it took from 5 to 27 days from the time the county supervisors submitted their designation reports to the county governing bodies until the Governor submitted the designation requests to the Secretary of Agriculture. The additional time taken to obtain the Secretary's approval ranged from 16 to 30 days. (See p. 3.)

Regarding county office workload, only 1 of the 10 county supervisors said that he did not give disaster designations priority because of his workload. (See p. 5.)

An FmHA State official told us that the national office would not look favorably upon a county's being designated as a disaster area when, subsequent to the designation, only a few applications for emergency loans were received. This indicated that there was no general need for agricultural credit in the area as then required by law. The small number of applications received from farmers in the 12 counties as of July 1975 could, on this basis, indicate that the need for agricultural credit might have been met through commercial sources. A schedule of the estimated and actual applications for each of the 12 designated counties follows.

County	Estimated number of emergency loans likely to be made (note a)	Estimated applications-- April 17, 1975 (note b)	Status of applications as of July 1975				
			Re-ceived	Ap-proved	Re-jected	With-drawn	Pend-ing
Clay	50	5	1	-	-	1	-
Craighead	35	12	7	7	-	-	-
Crittenden	50	5	1	-	-	1	-
Cross	10	6	1	1	-	-	-
Greene	50	40	6	5	1	-	-
Lee	75	10	3	2	-	1	-
Mississippi	50	12	10	2	-	4	4
Monroe	30	15	5	1	1	-	3
Phillips	50	25	24	5	2	2	15
Poinsett	150	12	4	-	-	-	4
St. Francis	100	3	5	3	-	-	2
Woodruff	30	6	2	-	-	2	-
Total	<u>680</u>	<u>151</u>	<u>69</u>	<u>26</u>	<u>4</u>	<u>11</u>	<u>28</u>

a These estimates, based on the county supervisor's general survey and discussions with knowledgeable persons in the area, were included on the designation reports made to the county governing bodies. (See p. 2.)

b Estimates made by county supervisors subsequent to the Secretary's designation.

What, if any, steps in the procedures now used for preparing and approving disaster designation requests may be eliminated to shorten the time required for handling these matters?

Public Law 94-68, which amended subtitle C of the Consolidated Farm and Rural Development Act, eliminated the provision that there be a general need for agricultural credit and added a credit elsewhere provision. A USDA official said that eliminating the general need provision should simplify the designation process by eliminating the polling of private lenders in the area to determine whether adequate credit is available before designating the area for emergency loans. FmHA national officials said that eliminating this provision would speed up the process by at least 15 days.

Under the credit elsewhere provision, a requirement for most FmHA loan programs, a borrower will only be able to obtain a loan if he is unable to obtain enough credit from

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other sources at reasonable rates and terms. FmHA national officials said the inclusion of this provision generally will not lengthen the processing time of the emergency loan applications.

In addition, FmHA is currently reviewing its regulations to determine what else can be done to help expedite the designation process.

Has the Office of Management and Budget participated in any way in USDA decisions for implementing and operating the emergency loan program? If so, how?

Office of Management and Budget (OMB) involvement in USDA decisions for implementing and operating FmHA's emergency loan program appears to have been minimal.

Although USDA correspondence pertaining to the emergency loan program between January 1970 and June 1975 showed that OMB had made several inquiries concerning this program, the USDA official responsible for liaison with OMB on matters concerning the emergency loan program said that, at least since January 1973, OMB's involvement in the program has been that of concurrence in USDA decisions.

For example, in a May 1975 letter, OMB asked USDA to determine effective ways to tighten up the program administration, especially to distinguish between chronic and extraordinary emergency conditions. The USDA official said, however, that USDA had already started to work on this matter in January 1975 and that OMB was apprised of this fact.

Have security requirements been appropriately interpreted by FmHA county supervisors, particularly in Lee and Phillips Counties?

Prior to enactment of Public Law 94-68, section 324 of subtitle C of the Consolidated Act provided that the Secretary of Agriculture prescribe the security requirements for emergency

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loans 1/. Under the requirements prescribed in FmHA regulations, emergency loans for production losses generally had to be fully secured. Although a first lien was not necessarily required, the security must have been adequate to protect the Government's interest. A loan that did not exceed 1 year and \$2,500 could be secured by a second lien on upcoming crops or other collateral provided that repayment was adequately secured by such lien. A loan that did not exceed 7 years and \$25,000 could be secured by the best obtainable lien on farm machinery and livestock, provided that there was adequate equity to fully secure the loan. A loan that exceeded 7 years or \$25,000 was required to be fully secured by equity in farm real estate.

According to an FmHA State official, many of the individuals in the 12 counties were unable to obtain loans because of a lack of adequate security. The security problem was not confined to any one county; 6 of the 10 county supervisors, including those in Lee and Phillips Counties, said that they were experiencing this problem. None of the 10 county supervisors said they required a first lien on the security.

In the six counties with security problems, the major problem was applicants already heavily in debt. To circumvent this problem, some county supervisors hoped to get lien holders to agree to division-of-income agreements and subordinations of interest in their liens. One county supervisor was trying to provide some of the farmers with combination emergency and operating loans.

The FmHA State official said that Lee and Phillips Counties were two of the counties hardest hit by the security requirements because the farmers were more heavily in debt and were among the poorest financially in the State.

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As amended by Public Law 94-68, section 324 states that emergency loans will be secured by the best security available.