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REPORT TO THE CONGRESS

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Recreational Projects Financed By Farmers Home Administration Provide Benefits To A Limited Number of Rural Residents

B-114873

Department of Agriculture

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

AUG.23,1971

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114873

To the President of the Senate and the
Speaker of the House of Representatives

This is our report pointing out that recreational projects financed by the Farmers Home Administration, Department of Agriculture, provide benefits to a limited number of rural residents.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget, and to the Secretary of Agriculture.

Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

RECREATIONAL PROJECTS FINANCED BY THE FARMERS HOME ADMINISTRATION PROVIDE BENEFITS TO A LIMITED NUMBER OF RURAL RESIDENTS 358
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D I G E S T

WHY THE REVIEW WAS MADE

The Farmers Home Administration (FHA), Department of Agriculture, makes loans to public and nonprofit organizations for the development of rural recreational projects under three loan programs. The programs are

--the association recreation loan program,
--the resource conservation and development loan program, and
--the rural renewal loan program.

Objectives of these programs are not only to provide rural residents with outdoor recreational projects but also to generate additional substantial, tangible benefits for the rural communities, such as the attraction of industry.

Types of recreational projects for which loans may be made under the programs include golfing facilities, lakes, swimming pools, rodeo arenas, and baseball diamonds.

From the inception of the association recreation loan program in 1962 and of the other two programs in 1966, FHA made loans totaling about $98.1 million through December 31, 1969.

The General Accounting Office (GAO) made a review to determine the effectiveness of the loan programs in providing rural residents with outdoor recreational projects and whether the bases on which the loans were made had established adequately the eligibility of the organizations for the loans.

In setting the scope of its review, GAO took into account the audit of FHA's association recreation loan program by the Office of the Inspector General (OIG), Department of Agriculture. GAO's review covered 24 organizations in five States.

FINDINGS AND CONCLUSIONS

Benefits provided to a limited number of rural residents

FHA made loans to many organizations for recreational projects that provided benefits to a limited number of rural residents. Loans were made for recreational projects which:

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--Served only a small percentage of the residents of rural areas. (See p. 9.)

--Served primarily urban, rather than rural, residents. (See p. 10.)

--Had membership restrictions which limited the use of recreational facilities to organization members only.

--Had fees that were beyond the ability of many rural residents to pay. (See p. 12.)

In many instances the loans did not contribute effectively to the program objective of providing rural residents with outdoor-oriented recreational projects.

Loans made for golfing projects best illustrate the limited benefits to rural residents under the recreational loan programs.

Of the $94.3 million in loans made under the association recreation loan program through December 31, 1969, $79.1 million was for golfing projects. GAO's review of 14 of these golfing projects--located in rural areas having a total of 247,000 residents--showed that only 3.8 percent of the residents were members of the organizations receiving the loans. (See p. 9.)

Administration of program

FHA needs to strengthen its procedures and practices for determining the eligibility of organizations for recreational projects. Contrary to its instructions, FHA made loans to organizations for recreational projects which:

--Competed with existing or planned facilities. (See p. 15.)
--Included land excess to project needs. (See p. 19.)
--Included clubhouses not modest in design, size, or cost. (See p. 20.)
--Had memberships inadequate to support the projects. (See p. 22.)

FHA also made loans to organizations without adequately verifying whether the organizations' projected revenues would be sufficient to meet operating expenses and loan repayments. (See p. 24.)

Curtailment of recreational loan programs

Substantial changes in the scope of the recreational loan programs have taken place in recent years.

In fiscal year 1970 FHA made loans totaling $7 million under its principal program--the association recreation loan program--contrasted with loans of $23.9 and $18.3 million in fiscal years 1968 and 1969, respectively.

For fiscal year 1971 FHA estimated that loans totaling $2 million would be made principally to those organizations to which loans previously had been made. In its fiscal year 1972 budget request to the Congress, FHA did not request any funds for this program. (See p. 28.)

Conclusions

Many of the projects financed under FHA's recreational loan programs have provided benefits to a limited number of rural residents. The principal reasons are:

--The need for an organization to have members who are assessed initiation fees and annual dues for a project to be financially feasible.

--The limitation on the number of memberships in an organization.

--Restrictions which preclude the use of an organization's facilities by nonmembers.

Such restrictions, coupled with the lack of ability or desire of rural residents to pay an organization's membership fees and dues, have limited participation in the facilities by rural residents.

The decrease in the scope of FHA's recreational loan programs is, in GAO's opinion, the result of an increasing realization by FHA that the programs, as presently constituted, are not meeting program objectives.

In view of the limited extent to which the recreational loan programs have served rural residents, GAO believes that congressional consideration of the future course of recreational loan programs is desirable. (See pp. 28 and 29.)

RECOMMENDATIONS OR SUGGESTIONS

In its report on an audit of the association recreation loan program, OIG made a number of recommendations to FHA for correcting the problems discussed above. (See p. 26.)

GAO generally concurs with the recommendations made to FHA by OIG for improving the administration of this loan program. In view of the actions taken or planned by FHA, GAO is not making any recommendations to FHA. (See p. 28.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Administrator, FHA, stated that FHA had started action early in fiscal year 1970 to discontinue making further loans for golfing facilities, to provide more funds for higher priority programs, such as the rural water and sewer program, and for the various reasons discussed in this report.

The Administrator stated also that the association recreation loan program had been placed in a standby position for fiscal year 1972. FHA will consider the program's future in connection with its plans for redevelopment of rural areas. (See app. I.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

GAO is recommending that the Congress, in its continuing evaluation of FHA programs, consider the matters discussed in this report with a view to determining whether the recreational loan programs should be continued and, if so, what form the programs should take. (See p. 29.)

Contents

ABBREVIATIONS

FHA	Farmers Home Administration
GAO	General Accounting Office
OIG	Office of the Inspector General, Department of Agriculture

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--The need for an organization to have members who are assessed initiation fees and annual dues for a project to be financially feasible.

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--Restrictions which preclude the use of an organization's facilities by nonmembers.

Such restrictions, coupled with the lack of ability or desire of rural residents to pay an organization's membership fees and dues, have limited participation in the facilities by rural residents.

The decrease in the scope of FHA's recreational loan programs is, in GAO's opinion, the result of an increasing realization by FHA that the programs, as presently constituted, are not meeting program objectives.

In view of the limited extent to which the recreational loan programs have served rural residents, GAO believes that congressional consideration of the future course of recreational loan programs is desirable. (See pp. 28 and 29.)

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MATTERS FOR CONSIDERATION BY THE CONGRESS

GAO is recommending that the Congress, in its continuing evaluation of FHA programs, consider the matters discussed in this report with a view to determining whether the recreational loan programs should be continued and, if so, what form the programs should take. (See p. 29.)

CHAPTER 1

INTRODUCTION

The Farmers Home Administration makes loans to public and nonprofit organizations for the development of rural recreational projects under three loan programs--the association recreation, the resource conservation and development, and the rural renewal loan programs.

Our review was directed toward determining the effectiveness of the loan programs in providing rural residents with outdoor recreational projects and whether the bases on which the loans were made had established adequately the eligibility of organizations for the loans.

In setting the scope of our review, we took into account the audit coverage of FHA's association recreation loan program by the Office of the Inspector General. OIG's findings and recommendations are summarized in chapter 4.

ORGANIZATION OF FHA

FHA maintains 41 State offices--which serve the 50 States, the District of Columbia, Puerto Rico, and the Virgin Islands--and about 1,700 county offices. Each FHA State office is headed by an FHA State director who is responsible for all program operations within his territorial jurisdiction. The FHA county offices, each under the supervision of an FHA county supervisor, are located throughout the country to serve all agricultural counties. Applications for all loans are made to the county or State offices. County office operations are subject to review by FHA district supervisors and other FHA State office officials.

STATUTORY AUTHORITY FOR MAKING RECREATIONAL LOANS TO PUBLIC AND NONPROFIT ORGANIZATIONS

The Consolidated Farmers Home Administration Act of 1961 (7 U.S.C. 1926) authorizes the association recreation loan program. Under the program FHA makes loans to public and nonprofit organizations for development of recreational projects which primarily serve farmers, ranchers, farm laborers, farm tenants, and other rural residents. Before a loan may be made, FHA is to determine that the organization is unable to obtain sufficient credit elsewhere at reasonable rates and terms. Loans may be made for periods not to exceed 40 years, at interest rates not to exceed 5 percent per annum, and in amounts not to exceed $4 million.

Title III of the Bankhead-Jones Farm Tenant Act (7 U.S.C. 1010) authorizes FHA to make resource conservation and development loans and rural renewal loans to local public agencies or private nonprofit organizations for development of recreational projects in areas designated by the Secretary of Agriculture. Rural renewal projects are to be located in low-income rural areas.

Resource conservation and development loans and rural renewal loans may be made in amounts not to exceed $250,000 and for periods not to exceed 30 years. The interest rate is based on the average rate payable by the Treasury on its marketable public obligations outstanding at the beginning of the fiscal year in which the loans are made. The interest rate for such loans in fiscal year 1970 was 3.342 percent per annum.

According to FHA instructions, the objectives of the recreational loan programs are to provide rural residents with outdoor-oriented recreational projects and/or to generate other substantial, tangible benefits for rural communities, such as the attraction of industry.

RECREATIONAL LOANS MADE
TO PUBLIC AND NONPROFIT ORGANIZATIONS

FHA records available at the time of our review showed that, from the inception of the association recreation loan program in 1962 and of the other two programs in 1966, about $98.1 million of recreational loans were made to organizations, through December 31, 1969, as follows:

Loan program	Loan amounts Made	Repaid	Outstanding
Association recreation	$94,320,000[a]	$3,088,000	$91,232,000[b]
Resource conservation and development	2,767,000	36,000	2,731,000
Rural renewal	992,000	5,000	987,000
Total	$98,079,000	$3,129,000	$94,950,000

[a]The Treasury Department restricted FHA from using its loan authority to make loans to tax-exempt municipalities; consequently the bulk of association loans were made to private nonprofit organizations.

[b]Excludes unpaid advances of $2,566,000 from FHA to associations for delinquent principal, interest, taxes, and miscellaneous items.

FHA records show that 197, or 27 percent, of the 730 borrowers under the three loan programs were delinquent in paying their loans by $2.8 million at December 31, 1969. The number of borrowers and the number of those delinquent on their outstanding loans at December 31, 1969, were as follows:

Type of loan	Number of borrowers	Number of borrowers delinquent	Percent delinquent
Association recreation	699	194	28
Resource conservation and development	27 ?	2	7
Rural renewal	4	1	25
Total	730	197	27

CHAPTER 2

RECREATIONAL PROJECTS HAVE PROVIDED BENEFITS TO A LIMITED NUMBER OF RURAL RESIDENTS

FHA made loans to many organizations for recreational projects that provided benefits to a limited number of rural residents. Specifically, loans were made for projects which:

--Served only a small percentage of the residents of rural areas.

--Served primarily urban, rather than rural, residents.

--Had membership restrictions and fees that resulted in the availability of the facilities to a limited number of rural residents.

We concluded that, in many instances, the loans did not contribute effectively to the programs objectives of providing rural residents with outdoor-oriented recreational projects for their direct use.

Our review covered 24 organizations in five States. Loans totaling $4.8 million were made to 23 of the organizations during the period January 1964 through December 1969 for the development of rural recreational projects, such as golfing facilities, fair exhibit buildings, lakes, swimming pools, rodeo arenas, and baseball diamonds.

OIG, in January 1970, issued its report covering a review of association recreation loans made to 107 organizations in 14 States. The report pointed out that a number of the loans had been made for projects which served primarily urban, rather than rural, communities and/or which did not serve recreational needs in the rural communities.

The following sections discuss the types of loans made by FHA for recreational projects that provided only limited benefits to rural residents.

PROJECTS SERVED ONLY A SMALL PERCENTAGE OF THE RESIDENTS OF RURAL AREAS

To obtain broad use by residents of rural areas of recreational facilities financed with Government funds, FHA instructions require that membership in recreational projects be representative of the areas benefiting from the projects. Through December 31, 1969, FHA had made association recreation loans totaling $94.3 million to 704 organizations for the development of recreational facilities, as follows:

Type of facility	Number of borrowers	Amount of loan
Golfing (note a)	510	$79,130,790
Swimming	58	4,187,500
Other (note b)	136	11,002,000
Total	704	$94,320,290

[a]Such projects often include related facilities, such as clubhouses, tennis courts, and swimming pools.

[b]Such as baseball diamonds; water, shooting, and winter sports facilities; and recreation centers.

Loans totaling $3 million for the development of golfing projects had been made to 14 of the 24 organizations included in our review. The 14 projects were located in rural areas having a total population of 247,000, of which only 3.8 percent were members of the organizations. A very small percentage of the members in most of the golfing projects were farmers, ranchers, farm laborers, and farm tenants.

Following are examples of projects that served only a small percentage of rural residents.

Example 1

An association loan of $275,000 was made to an organization for the development of a golf course, clubhouse, swimming pool, and tennis court.

The county to be served by this project was entirely rural and had a population of 38,000. FHA files showed that about 1 percent of the rural residents of the county were being served by this project.

Example 2

An association loan of $245,500 was made to an organization for the development of a golf course, clubhouse, swimming pool, and tennis court.

The county to be served by this project was entirely rural and had a population of 10,500. FHA files showed that about 4 percent of the rural residents of the county were being served by this project.

PROJECTS SERVED PRIMARILY URBAN, RATHER THAN RURAL, RESIDENTS

Both our review and OIG's review revealed a number of instances in which FHA, contrary to its instructions, had made loans to organizations for recreational projects serving primarily urban, rather than rural, residents.

FHA instructions require that a recreational project be located in a rural area and serve primarily farmers and rural residents. To be eligible for financial assistance, an applicant for a loan must demonstrate to FHA that at least two thirds of its membership will be residents of a rural area. FHA defines a rural area as (1) open country or (2) an incorporated or unincorporated town, a village, or another place which does not have a population exceeding 5,500.

Following are examples of loans made to organizations for projects serving primarily urban, rather than rural, residents.

Example 3

An association loan of $60,000 was made to an organization for the construction of a fair and exhibit building and miscellaneous recreational facilities and for the refinancing of a loan on an existing fairground building owned by the organization.

The buildings are on land owned by, and adjacent to, a city having a population of 10,000. The organization has a 99-year lease with the city for the land.

The membership list submitted to FHA showed that 63 percent of the organization's members were from the urban, rather than the rural, area.

Example 4

An association loan of $619,000 was made to an organization for the development of a golf course, a clubhouse, a swimming pool, a tennis court, and related facilities.

The project was located about 3 miles from a city having a population of 60,000. The organization's membership list furnished to FHA showed that 64 percent of its members were from the urban, rather than the rural, area.

PROJECT MEMBERSHIP RESTRICTIONS AND FEES RESULTED IN AVAILABILITY OF FACILITIES TO A LIMITED NUMBER OF RURAL RESIDENTS

Both our review and OIG's review revealed that FHA had made recreational loans to a substantial number of organizations which had membership restrictions and fees that resulted in the recreational facilities being available to a limited number of the rural residents.

For association loans totaling $90.9 million made to 682 organizations from September 1962 through August 1, 1969, for the development of recreational projects, FHA records showed that:

--59 organizations limited the number of members that could join.

--48 organizations had restrictions which precluded the use of the facilities by nonmembers.

--473 organizations required initiation fees and/or annual membership dues, ranging from $51 to $200 and over, that were beyond the ability of many rural residents to pay.

OIG's report on its review of association recreation loans made to 107 organizations stated that (1) 28 organizations limited the number of members that could join them and (2) 21 organizations did not allow nonmembers to use the facilities. The report stated also that most of the organizations had some type of restriction on the use of facilities by nonmembers and that most of the organizations having golfing projects had membership fees and dues that were beyond the ability or desire of lower income residents to pay.

Following are examples of projects of organizations which had membership restrictions and fees which resulted in the availability of the facilities to a limited number of rural residents.

Example 5

An association loan totaling $240,000 was made to an organization for the development of a golf course, clubhouse, swimming pool, and tennis court.

At the time of our review, the organization's membership was closed at 250 members; 24 persons were on a waiting list to become members.

Example 6

A resource conservation and development loan totaling \$37,000 was made to an organization for the development of a swimming pool, tennis court, and picnic area.

The FHA files showed that the organization had only 121 members and that it did not permit nonmembers to use the facilities.

Example 7

An association loan totaling \$125,500 was made to an organization for the construction of a golf course, clubhouse, swimming pool, and picnic area.

The organization established an initial membership fee of \$500. The median family income for the area served by the project was about \$3,100. An official of this organization stated that only 25 percent of the population in the area could afford the membership fees and that the organization was experiencing problems in obtaining new members.

Example 8

A rural renewal loan totaling \$250,000 was made to an organization for the development of an 18-hole golf course, a clubhouse, and a picnic area.

FHA's records indicated that the project, to be financially feasible, would require 300 members paying annual dues of \$120 each. At the time we completed our fieldwork, the organization had only 179 members. The median family income for the county served by the project was \$1,921. Also 71 percent of the residents of the area had incomes below the poverty-income level established by the Department of Labor for rural farm and nonfarm families. For example, the poverty-income level for a farm family of five is \$3,500 and for a nonfarm family of five is \$4,200.

In September 1970, subsequent to the completion of OIG's fieldwork and at about the time we completed our fieldwork, FHA revised its instructions to provide that loans not be made for golfing projects. FHA determined that available loan funds should be used for loans under higher priority programs, such as the rural water and sewer loan program.

CHAPTER 3

NEED TO STRENGTHEN ADMINISTRATION

OF RECREATIONAL LOAN PROGRAMS

FHA needs to strengthen its procedures and practices for determining the eligibility of organizations for recreational projects. Contrary to its instructions, FHA made loans to organizations for recreational projects which:

--Competed with existing or planned facilities.

--Included land excess to project needs.

--Included clubhouses not modest in design, size, or cost.

--Had memberships inadequate to support the projects.

Also FHA made loans to organizations for recreational projects without adequately verifying whether the organizations' income goals for their projects provided for sufficient revenues to meet operating expenses and loan repayments. The income goals were used by FHA as bases for determining whether the proposed projects had reasonable prospects for financial success.

OIG's report pointed out similar weaknesses for 57 of the 107 projects included in its review of FHA's association recreation loan program.

The following sections discuss each of these areas in detail.

PROJECTS IN COMPETITION WITH EXISTING OR PLANNED FACILITIES

FHA instructions provide that loans not be made to finance recreational projects which will either duplicate or compete with existing or planned public or private recreational facilities. Of the 24 projects included in our review, however, eight competed with existing or planned facilities.

We believe that the FHA loans for these projects were made because FHA State and county officials, at the time that they were processing the loans, did not adequately consider the effect that existing similar facilities would have on the financial success of the projects and that, in some instances, FHA's headquarters office did not provide adequate assistance to its State offices in arriving at decisions concerning these loans.

OIG's review revealed six instances where FHA had financed recreational projects that were in direct competition with existing facilities or did not seem to serve needs in the communities.

Following are examples of loans approved for projects which duplicate or compete with existing facilities.

Example 9

Association loans totaling $110,000 were made to organization A through 1966 for the development of a nine-hole golf course, clubhouse, swimming pool, and tennis court. Loan repayment feasibility was based on 160 members. In June 1967 the organization had 235 members.

In August 1967 organization B, located 19 miles from organization A, applied to FHA for a resource conservation and development loan to finance a similar project.

The president of organization A, in a letter in September 1967, asked the FHA State director to seriously consider the obvious adverse competitive influence that organization B's golf course and another proposed golf course nearby would have on organization A's golf course. He also stated that organization A's board of directors was of the opinion that, if the two proposed projects materialized, they might cause serious financial difficulties for organisation A and perhaps force the organization into receivership.

The State director made numerous inquiries of FHA's headquarters office concerning the question of competition that would exist between organization A's golf course and organization B's proposed golf course. The FHA

Administrator advised the State director that he must make the determination as to the feasibility of making a loan to organization B, the organization's need for the loan, and whether the loan should be made.

Despite the objections by organization A, a loan for $189,500 was made to organization B in December 1968. Records at the FHA State and county offices did not contain any explanation or justification for the approval of the loan to organization B.

In August 1969 the FHA county supervisor prepared a special recreational loan report on organization A. This report was forwarded to the FHA State director and to the FHA headquarters office. It pointed out that the membership of organization A had decreased to a point where the organization was handicapped in operating and maintaining its golf course. The report pointed out also that the loss of membership was due to the opening of organization B's golf course in an adjoining county.

By June 1970 organization A's membership had decreased from 235 to 115 members and organization B had attained a membership of 210 members, of which 43 previously were members of organization A.

Example 10

The sponsor of a proposed 18-hole golf course inquired of the FHA State office concerning an association loan to finance the proposed project to be located 7 miles from a city having a population of 24,000. In February 1968 the FHA State office advised the sponsor that FHA would not approve such a loan because the proposed golf course would duplicate or compete with two existing nine-hole courses in the immediate area and an 18-hole course then under consideration.

In July 1968, however, the State office forwarded the sponsor's application for a loan to the FHA headquarters office. Although the FHA headquarters office raised numerous questions regarding the sponsor's eligibility for a loan for a project that would duplicate or compete with existing golfing facilities, the State director, on May 5, 1970, approved a $300,000 loan for the project.

On May 15, 1970, we met with an FHA headquarters official to discuss the proposed project. The official agreed that the sponsor's eligibility for a loan for the project was questionable and stated that the FHA State office would be requested to reexamine into the sponsor's eligibility for a loan.

On March 26, 1971, the loan was closed by the FHA State office. An official of the FHA headquarters office advised us that the FHA State office had closed the loan on the basis that it had determined that the financial success of the proposed golfing project would not be affected by the existing golfing facilities in the immediate area.

The fact that this proposed golfing project will duplicate existing facilities in its immediate area raises serious questions concerning its probable financial success. Past experience has shown that FHA recreation loan borrowers have had financial difficulties in maintaining what would have been financially successful projects if similar private or public facilities had not been located in the immediate area of their projects. (See example 9, p. 16.)

LAND EXCESS TO PROJECT NEEDS

FHA instructions provide that recreational loans not be made to an organization for the purchase of land in excess of a project's needs or for the subdivision of land for the sale of homesites. If a loan is made to an organization that acquires excess land due to the owner's unwillingness to sell a smaller tract than that desired, the organization, under FHA's instructions, is required to make arrangements to dispose of the land as soon as practicable.

Of the 24 organizations included in our review, five organizations used a portion of their loan funds for the purchase of excess land. OIG's review revealed eight instances where FHA had financed recreational projects which were promoted by real estate speculators interested primarily in realizing personal benefits, rather than in providing recreation for rural residents.

Following are examples of projects for which loan funds were used to purchase land in excess of project needs.

Example 11

Through May 1969 rural renewal loans totaling $250,000 were made to an organization for the purchase of 614 acres of land for the development of recreational facilities, such as camping and picnic areas, a trailer park, and a boat ramp. In its request, the organization advised FHA that it planned to sell summer homesites.

At the time of our fieldwork, the organization had developed recreational facilities, including a boat ramp, a trailer park, camping sites, and a picnic area. The organization had sold eight lots for summer homesites, was planning a subdivision of 111 lots, and had leased 243 of the 614 acres to an organization for the development of an 18-hole golf course, a clubhouse, and a swimming pool. FHA made an association loan of $330,000 to the leasing organization to finance the construction of the facilities.

Example 12

A rural renewal loan totaling $250,000 was made to an organization for the purchase of 400 acres of land and for the development of a recreational project consisting of an 18-hole golf course, a clubhouse, and various other facilities.

The golf course and related facilities occupied about 250 acres; the remaining 150 acres were excess to the project's needs. At the time we completed our fieldwork, the organization had requested permission from the FHA headquarters office to sell homesites on the excess land.

CLUBHOUSES NOT MODEST IN DESIGN, SIZE, OR COST

FHA instructions provide that construction of authorized clubhouses be limited to those of modest design, size, and cost essential to the successful operation of the facilities. According to the instructions, snack bars, showers, rest rooms, lockers, and pro shops are the basic necessities for a clubhouse; dining rooms, restaurant-type kitchens, liquor bars, and dance areas are not considered necessary for outdoor-oriented recreational facilities. The instructions state that the total cost of a clubhouse and related facilities, including all furniture and fixtures, should not exceed $50,000.

Of the 14 golf projects included in our review, nine had clubhouse facilities which FHA officials told us they considered to be unnecessary for outdoor-oriented recreation purposes. FHA records showed that the cost of these clubhouses ranged from $51,000 to $90,000 and that their size ranged from 3,200 to 7,700 square feet. (See app. II for photographs of facilities that were not considered essential for outdoor recreational projects.)

OIG's review revealed that FHA had financed 31 recreational projects, each of which had a clubhouse that was not modest in design, size, or cost. Of these 31 clubhouses, OIG indicated that four had cost in excess of $100,000 each and that most of the clubhouses contained liquor bars and restaurants.

Following are examples of rural recreational projects which had clubhouses considered by FHA to be excessive in design, size, or cost.

Example 13

An association loan of $170,380 was made to an organization for the development of a nine-hole golf course, clubhouse, swimming pool, and tennis court.

The organization's records showed that the clubhouse and pro shop, which contained about 7,000 square feet of floor space, cost about $90,000, including furnishings and fixtures. The clubhouse contained a liquor bar, restaurant-type kitchen, and 1,600-square-foot ballroom and dining area.

Example 14

Resource conservation and development loans totaling $198,700 were made to an organization through December 1968 for the development of a nine-hole golf course, clubhouse, tennis court, and swimming pool.

The organization's records showed that the clubhouse had cost about $86,000. The clubhouse, which contained about 4,000 square feet of floor space, included a pro shop, a liquor bar, a restaurant-type kitchen, a 1,300-square-foot dining area, and furniture and fixtures.

INADEQUATE MEMBERSHIP TO SUPPORT PROJECTS

To ensure that a rural recreational project is financially feasible, FHA requires an organization, prior to the closing of a loan, to have a sufficient number of members to enable the organization to generate adequate revenues to meet annual operating expenses and loan repayments.

Contrary to this requirement, FHA made loans to nine of the organizations included in our review without requiring the organizations to meet FHA-established membership requirements. Also OIG's review of loans to 107 organizations revealed that 12 organizations did not have sufficient members at the time the loans were closed and that they were unable to sufficiently increase the number of members to place their projects in a financially sound position.

Following are examples of organizations that did not meet FHA's membership requirements.

Example 15

An association loan of $65,000 was made to an organization to acquire and improve an existing nine-hole golf course. FHA required that the organization have 70 members. The organization's records indicated that 100 members were necessary to meet its annual financial obligations.

The organization's membership list submitted at the time the loan was closed showed only 67 members. The FHA county supervisor advised us that he had accepted the membership list of 67 members without verification because, in general, the entire community was in favor of the project.

According to the county supervisor, the organization had only 47 paying members. At the time of our fieldwork, the organization was delinquent on repayment of its loan and its membership had decreased to 33 members.

Example 16

Association loans of $295,000 and $50,000 were made to an organization through June 1969 for the development of an

18-hole golf course, a clubhouse, a swimming pool, a lake for a water system, and playgrounds with picnic facilities.

Prior to closing the loan of $295,000 in May 1967, the FHA Acting Administrator advised the FHA State director that (1) the organization should have a sufficient number of members pledging annual dues to generate revenue adequate to meet the indebtedness, operate and maintain the facilities, and maintain a required reserve and (2) income from other than membership dues was not dependable and should not be considered.

The loan of $295,000 was made to the organization on the basis of an operating budget submitted in April 1967. The budget showed estimated annual operating expenses, including loan repayments, of $54,000; annual income of $38,000 from membership dues of 256 members at about $150 each; and an annual operating deficit of $16,000. On the basis of members' paying annual dues of about $150 each, we estimated that the organization should have had 110 additional members to ensure sufficient revenues to meet the estimated annual operating expenses.

FHA made an additional loan of $50,000 to the organization in June 1969 to complete the construction of the facilities, although the organization at that time did not have sufficient membership to support the project.

At the time of our fieldwork, the organization had only 245 members and, as of January 1, 1970, was delinquent $14,000 on its loan repayments.

INADEQUATE VERIFICATION OF ESTIMATED PROJECT INCOME FROM SOURCES OTHER THAN MEMBERSHIP FEES

FHA made loans to two organizations for rural recreational projects without verifying whether the organizations' planned income goals for the projects would provide sufficient revenues to meet their operating expenses and loan repayments. The income goals were used by FHA as bases for determining whether the proposed projects had reasonable prospects for financial success. We found that the two organizations' actual incomes were substantially below the planned income goals and that both organizations were unable to meet their FHA loan payments. The details on one project follow.

Example 17

Association loans of $1,232,000 were made to an organization through March 1968 for the development of a lake and resort facilities.

In January 1965 an initial loan of $850,000 was made for purchasing 3,800 acres of land and for developing a 1,500-acre lake, including constructing a dam. In March 1968 an additional loan of $382,000 was made for installing main water and sewer lines, for constructing roads, and for developing a cabin and homesite area.

In addition, the Economic Development Administration, Department of Commerce, made a grant of $269,500 to finance part of the project's costs.

The organization estimated that annual income to meet annual operating expenses and loan repayments totaling $73,000 would be derived from the following sources.

300 members at $100 each	$ 30,000
Entrance fees for 63,000 cars	132,000
Commercial leases	36,500
Total	$198,500

Prior to closing the initial loan in January 1965, the FHA headquarters office requested the FHA State office to verify the reliability of the estimated annual income of $132,000 from car entrance fees. The FHA State director advised the FHA headquarters office that the best information available on the use of similar facilities indicated that the annual income of $132,000 was not out of line with the income obtained from similar facilities in the area. The State director also reported that the most encouraging feature was the number of persons willing to build facilities under lease agreements.

The FHA State and/or county office files did not contain any support for the State director's information regarding the annual income of $132,000 from car entrance fees. Income entrance fees did not materialize, except for $4,200 in 1969. As of May 1970 no commercial leases to build facilities had been made. The organization's membership dues have been the principal source of income for the project. At January 1, 1970, the organization was delinquent $128,840 on its loan repayments.

CHAPTER 4

INTERNAL AUDIT OF FHA'S ASSOCIATION

RECREATION LOAN PROGRAM

OIG issued an audit report in January 1970 covering its review of FHA's association recreation loan program in 14 States. OIG reviewed loans, totaling $19 million, made to 107 associations in the 14 States from inception of the program in September 1962 through August 31, 1969. OIG's report stated that loans had been made to 57 organizations for projects that:

--Had restricted membership.

--Did not meet the objectives of the program as to eligibility, need, and/or feasibility.

--Had clubhouses that were not modest in design, size, or cost.

With regard to loans' not meeting program objectives, OIG's report pointed out numerous instances where loans had been made to organizations that (1) served primarily urban, rather than rural, communities, (2) did not serve recreational needs in the communities, as indicated by a lack of membership in the organizations from their beginning, and/or the existence of similar recreational projects in the immediate area, (3) were organized to promote real estate developments, and/or (4) did not otherwise meet the intent of the loan program. The report indicated that, in most cases, more realistic determinations by FHA officials as to the need and feasibility of the loans would have precluded the making of the loans.

OIG's report recommended, among other things, that the Administrator, FHA:

--Implement a monitoring system at FHA's headquarters office for determining, on a timely basis, whether FHA State offices were carrying out national FHA loan-making policies properly and uniformly.

--Strengthen FHA's instructions by requiring that organizations' membership lists and/or membership agreements be verified as to the accuracy of the lists and adequacy of agreements to ensure sustaining memberships.

--Expand FHA's instructions to incorporate specific guidelines to be used in determining the need and/or feasibility of a recreational facility in a rural community, the differentiation between rural and urban areas, the rural population and membership needed to sustain a facility, the effects of competition by existing facilities, and the average membership indebtedness.

--Determine the recreational needs in the areas from which applications for loans are received for use in determining the need and feasibility of applicants' requests and for ensuring that loan funds are allocated on a priority basis to applicants with the greatest needs.

--Clarify FHA's instructions to prohibit organizations from purchasing real estate for resale.

--Provide appropriate guidelines for the construction of modest clubhouses, covering such items as cost, square feet of floor space per member, and facilities that must be included and indicating items that cannot be included.

The FHA Assistant Administrator for Management advised OIG by letter dated May 11, 1970, that FHA was in general agreement with the findings and recommendations included in its report. He stated that FHA had discontinued accepting applications for recreational loans and that, before it resumed making such loans, FHA would revise its instructions under which recreational loans were administered.

CHAPTER 5

CONCLUSIONS, AGENCY COMMENTS, AND

MATTER FOR CONSIDERATION BY THE CONGRESS

CONCLUSIONS

We generally concur with OIG's recommendations to FHA for improving the administration of the association recreation loan program. In view of the actions taken or planned by FHA, we are not making any recommendations to FHA.

We believe that our findings, together with OIG's findings, demonstrate that many of the projects financed under FHA's recreational loan programs have provided benefits to a limited number of rural residents. The principal reasons are:

--The need, for a project to be financially feasible, for an organization to have members who are assessed initiation fees and annual dues.

--The limitation on the number of memberships in an organization.

--Restrictions which preclude the use of an organization's facilities by nonmembers.

Such restrictions, coupled with the lack of ability or desire of rural residents to pay an organization's membership initiation fees and annual dues, have limited participation in the facilities by rural residents.

Substantial changes in the scope of the recreational loan programs have taken place in recent years. In fiscal year 1970 FHA made loans totaling $7 million under its principal program--the association recreation loan program--contrasted with loans of $23.9 and $18.3 million in fiscal years 1968 and 1969, respectively. For fiscal year 1971 FHA estimated that loans totaling $2 million would be made principally to those organizations to which loans previously had been made. In its fiscal year 1972 budget request to the

Congress, FHA did not request any funds for the association recreation loan program.

As stated previously, FHA issued new instructions to its FHA State and county offices in September 1970 to provide that loans not be made for golfing projects. FHA determined that available loan funds should be used for loans under higher priority programs.

The decrease in the scope of, and other changes in, FHA's recreational loan programs are, in our opinion, the result of an increasing realization by FHA that the programs, as presently constituted, are not meeting their objectives.

AGENCY COMMENTS

The Administrator, FHA, in commenting on a draft of this report (see app. I), stated that FHA had started action early in fiscal year 1970 to discontinue making further loans for golfing projects, to provide more funds for higher priority programs, such as the rural water and sewer program, and for the reasons indicated by us. He stated also that the association recreation loan program had been placed in a standby position for fiscal year 1972 and that FHA would consider the program's future in connection with FHA's plans for redevelopment of rural areas.

MATTER FOR CONSIDERATION BY THE CONGRESS

In view of the limited extent to which the recreational loan programs have served rural residents, we recommend that the Congress, in its continuing evaluation of FHA programs, consider the matters discussed in this report with a view to determining whether the recreational loan programs should be continued and, if so, what form the programs should take.

CHAPTER 6

SCOPE OF REVIEW

Our review was made at the FHA headquarters office in Washington, D.C.; at the FHA Finance Office, St. Louis, Missouri; at the FHA State offices in Arkansas, Missouri, New Mexico, North Carolina, and Virginia; and at 22 FHA county offices in the above five States.

We reviewed pertinent legislation and FHA policies and procedures for making recreational loans to public and nonprofit organizations. We examined, in detail, into loans made to 24 organizations. Our major considerations in selecting these loans were (1) the amounts of loans made to the organizations from January 1966 and (2) whether the organizations' recreational facilities were representative of the types of facilities authorized for financing under FHA's recreational loan programs. We discussed these loans with FHA State and county officials and interviewed officials of the organizations which had received the loans.

We also examined an internal audit report by OIG on its review of recreational loans to 107 associations in 14 States, including Colorado, Florida, Idaho, Illinois, Iowa, Kentucky, Louisiana, Mississippi, Montana, North Carolina, South Dakota, Texas, Washington, and Wisconsin. Our review in North Carolina was limited to loans for rural renewal projects, because OIG's review had included association loans.

APPENDIXES

UNITED STATES DEPARTMENT OF AGRICULTURE
FARMERS HOME ADMINISTRATION
WASHINGTON, D.C. 20250

OFFICE OF THE ADMINISTRATOR

APR 2 1971

SUBJECT: Proposed Report to the Congress on the Effectiveness and Administration of Rural Recreation Loan Programs Under FHA

TO: Bernard Sacks, Assistant Director
Civil Division, GAO

We appreciate the opportunity to comment on the draft report.

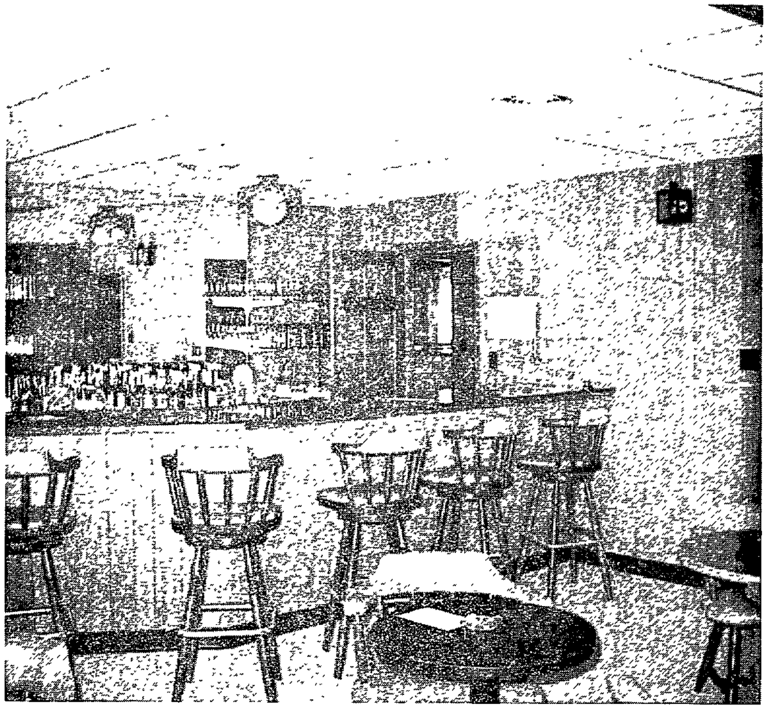
In order to provide more funds for higher priority programs such as rural community water and sewer systems and for the reasons listed in the draft report, this Administration moved early in FY 1970 to eliminate further loans for golfing facilities.

Further, it reduced the program to $2 million in FY 1971 and has placed it in a standby position for FY 1972.

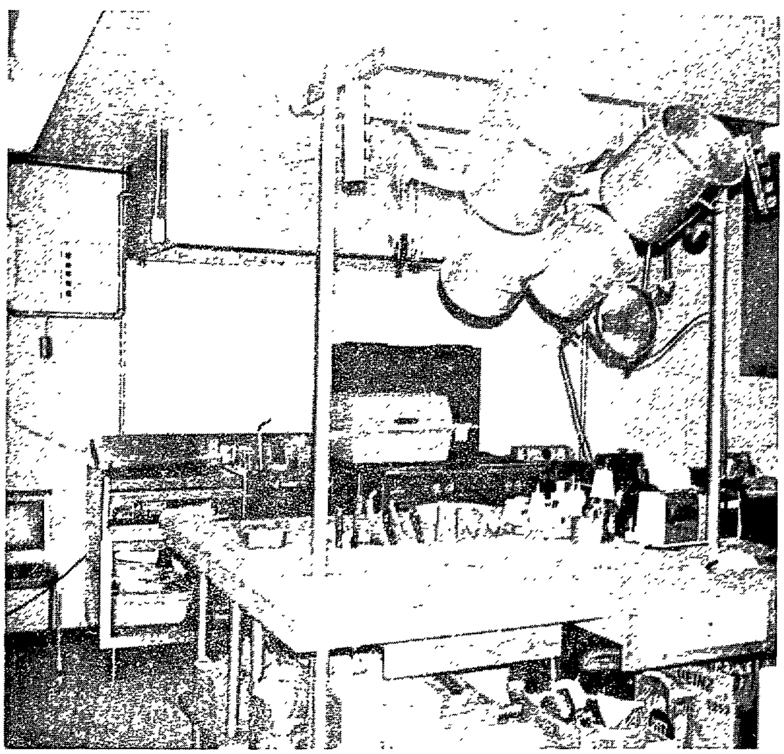
We will consider the future of this program in connection with the Administration's plans for redevelopment of rural areas.

JAMES V. SMITH
Administrator

PHOTOGRAPHS OF UNNECESSARY FACILITIES

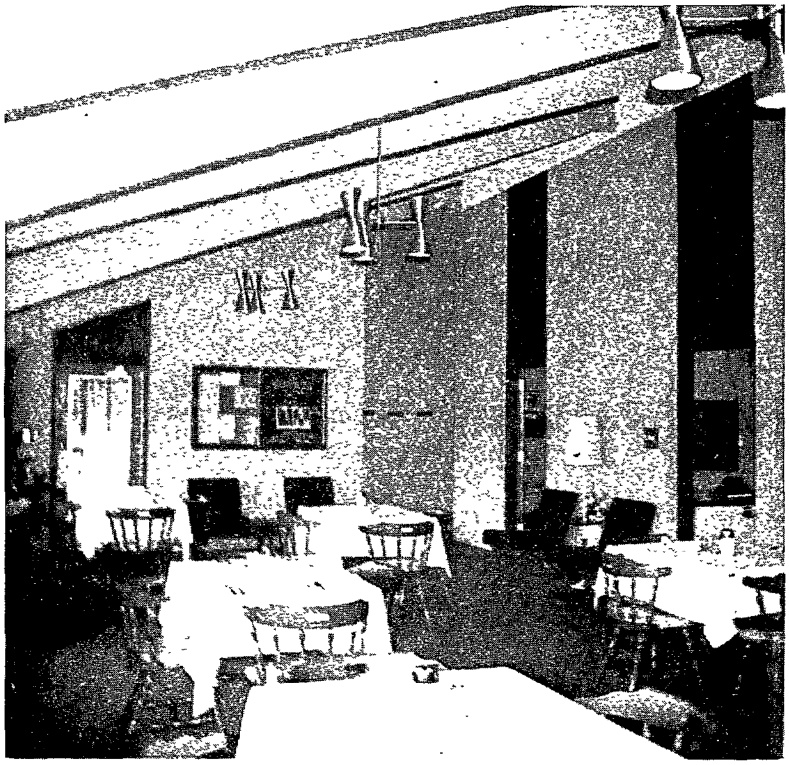


Liquor bar

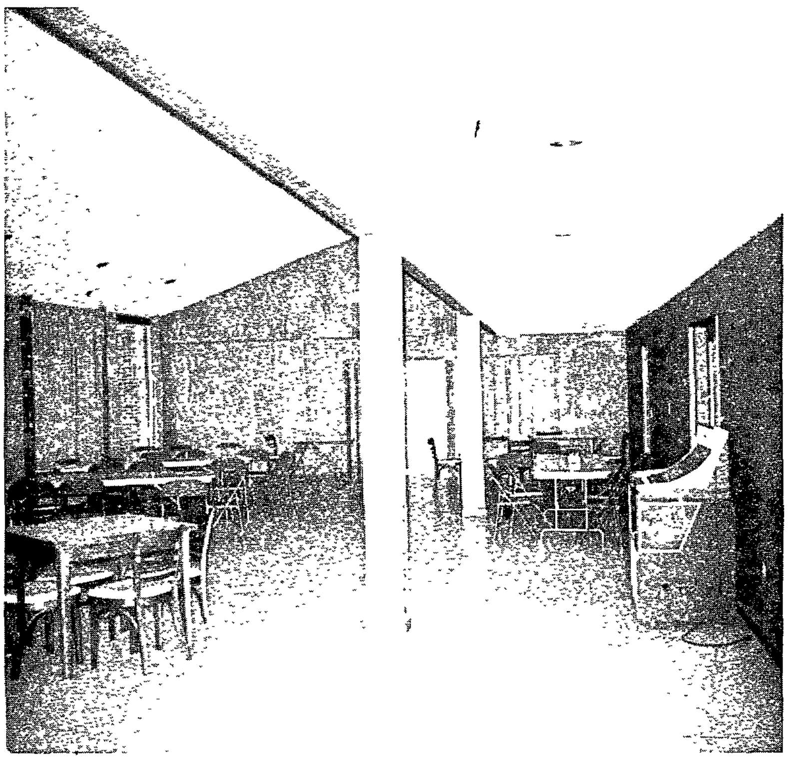


Restaurant-type kitchen

PHOTOGRAPHS OF UNNECESSARY FACILITIES



Dining room



Dance floor

PRINCIPAL OFFICIALS OF THE DEPARTMENT OF AGRICULTURE RESPONSIBLE FOR ADMINISTRATION OF THE MATTERS DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
SECRETARY OF AGRICULTURE:		
Clifford M. Hardin	Jan. 1969	Present
Orville L. Freeman	Jan. 1961	Jan. 1969
ASSISTANT SECRETARY OF AGRICULTURE FOR RURAL DEVELOPMENT AND CONSERVATION:		
Thomas K. Cowden	Apr. 1969	Present
John A. Baker	Mar. 1961	Jan. 1969
ADMINISTRATOR, FARMERS HOME ADMINISTRATION:		
James V. Smith	Jan. 1969	Present
Howard Bertsch	Apr. 1961	Jan. 1969

U.S. GAO, Wash., D.C.

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