RESTRICTED — Not to be released outside the General Accounting Office except on the basis of specific approval by the Office of Congressional Relations.

110389

REPORT BY THE

RELEASED

Comptroller General

OF THE UNITED STATES

10,931

Farmers Home Administration And Small Business Administration Natural Disaster Loan Programs: Budget Implications And Beneficiaries

The volume of Farmers Home Administration and Small Business Administration loans for disaster assistance surged to almost $6 billion in fiscal year 1978. This was due largely to widespread drought conditions, low interest rates, and broadening of the Small Business Administration's disaster assistance loan program to include farmers.

Loans were made in every state. Farmers were the principal borrowers, accounting for 88 percent of the amount loaned. GAO believes many loan recipients could get credit from other sources. Generally, there is no assurance the loans were used for disaster-related needs.

The report was requested by Senators Edmund S. Muskie and Henry Bellmon.

110389

CED-79-111
AUGUST 6, 1979

110389

5-060049

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

B-167790

Chairman and Ranking
Minority Member
Committee on the Budget
United States Senate

In response to your request, we examined the disaster loan operations of the Small Business Administration and the Farmers Home Administration for fiscal year 1978. You also asked us to compile a listing of other disaster assistance programs available to farm and nonfarm businesses and individuals and the eligibility requirements and benefits they offer. This report summarizes the results of our work in these areas. As agreed with your office, another report will cover the basic design of Federal disaster policy and recommended program changes.

As arranged with your office, unless you publicly announce the contents earlier, no further distribution of this report will be made until 30 days after the report date. At that time, we will send copies to interested parties and make copies available to others upon request.

Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT
TO THE SENATE COMMITTEE ON
THE BUDGET

FARMERS HOME ADMINISTRATION AND SMALL BUSINESS ADMINISTRATION NATURAL DISASTER LOAN PROGRAMS: BUDGET IMPLICATIONS AND BENEFICIARIES

D I G E S T

In fiscal year 1978, the Small Business Administration (SBA) disaster assistance loan volume increased from $200 million in fiscal year 1977 to a record $2.5 billion, and Farmers Home Administration (FmHA) disaster assistance loans increased from $1.2 billion in fiscal year 1977 to $3.4 billion. The increase caused a severe impact on the SBA budget but had little impact on the FmHA budget. This was due primarily to the different means used to finance the programs. (See pp. 7 and 8.)

Three factors primarily accounted for the increase in Federal disaster assistance loan activity in fiscal year 1978.

--Widespread extreme weather conditions, especially drought, affected much of the Nation and drove up farm disaster assistance loan activity.

--Lowering of interest rates provided borrowers a strong incentive for obtaining the SBA and FmHA disaster assistance loans rather than obtaining the loans from their usual credit source.

--A broadening of SBA's disaster assistance loan program to include farmers' crop production losses.

Eighty-eight percent of the disaster assistance loans in fiscal year 1978 went to farmers. Borrowers were from every State but, naturally, more loans went to agricultural areas. An estimated $3 billion of the disaster assistance loans in fiscal year 1978 were made at a 3-percent interest rate while the Government cost of money, based on FmHA's average, was 8.3 percent. (See pp. 8, 9, and 26.)

Tear Sheet. Upon removal, the report cover date should be noted hereon.

GAO could not determine what correlation existed between disaster severity and the amount of loans made because a uniform factor for measuring disaster severity could not be found. (See pp. 11 to 15.)

The need for SBA to make natural disaster assistance loans to farmers seems questionable since FmHA has developed an expertise for dealing with farmers' unique needs, such as crop production losses. FmHA's and SBA's different methods in dealing with farm production losses have created a situation where farmers can shop for the most lucrative deal. For instance, FmHA required a minimum loss, while SBA did not. (See pp. 15 to 22.)

GAO reviewed a sample of loans and found the average net worth was $180,000 for the sampled FmHA farm borrowers and $270,000 for the sampled SBA farm borrowers. Farm size averaged about 750 acres for the FmHA borrowers and 850 acres for the SBA farm borrowers, including rented land. (See pp. 27 and 28.)

Many loans in GAO's sample apparently went to borrowers who could get credit from other sources. This was true for both SBA and FmHA disaster assistance loans, even though FmHA has a test to screen out those who can get credit elsewhere. GAO found the FmHA test was widely ignored or received only cursory attention. FmHA loan recipients who can get credit elsewhere should be referred to other sources to refinance their loans. (See pp. 28 to 34.)

Generally, little or no assurance exists that disaster assistance loans are not used in frivolous ways, particularly by wealthier borrowers. Limiting the disaster assistance loans to borrowers unable to obtain credit elsewhere could target the loans to disaster-related needs. (See pp. 34 and 35.)

In conjunction with this study, GAO compiled a list of other Federal disaster assistance programs available to farm and nonfarm businesses and individuals describing eligibility requirements and benefits offered. (See app. II.)

PREVIOUSLY MADE RECOMMENDATIONS STILL VALID

On May 25, 1978, GAO issued a report (CED-78-118) which included the following recommendations regarding the FmHA and SBA disaster assistance loan programs. The problems that prompted the recommendations in the earlier report still exist. Accordingly, these recommendations are still valid.

--The Small Business Act should be amended so that SBA would no longer be authorized to make disaster assistance loans to farmers. (See p. 24.)

--If the Small Business Act is not amended in this manner, the Congress should require that the two agencies work together to achieve consistency between their programs to avoid overlapping and duplicating efforts. (See p. 24.)

--To avoid unnecessary costs and interference with traditional sources of agricultural credit, the Congress should maintain FmHA's credit-elsewhere requirement and, if SBA is to continue making disaster assistance loans to farmers, enact legislation to impose a similar requirement on SBA's program. (See p. 36.)

--The Secretary of Agriculture should direct FmHA to propose legislation to the Congress revising the agency's minimum loss eligibility criteria so that the percent of loss determining eligibility is applied to the gross income from all farm enterprises and the loan is made only for the amount of the loss which exceeds that percentage. (See p. 17.)

At the time of GAO's previous report, SBA had no strong feelings about whether farm borrowers should be unable to obtain credit elsewhere, but it believed nonfarm business disaster assistance loans should be exempt from this criterion. SBA has continued to make disaster loans, regardless of the availability of credit elsewhere. However, in a statement before the Senate Select Committee on Small

Business on April 24, 1979, SBA's Deputy Administrator revised the agency's position by proposing a test for credit elsewhere on SBA's disaster assistance loan program for businesses similar to that applied by FmHA on its borrowers. (See p. 36.)

FmHA's enabling legislation limits eligibility for disaster assistance loans to farmers unable to obtain credit elsewhere. However, as noted earlier, GAO found the FmHA test was widely ignored or received only cursory attention. (See pp. 28 and 29.)

The Department of Agriculture has not proposed legislation to implement GAO's recommendation for changing the agency's minimum loss eligibility criteria. In response to the previous GAO report, FmHA stated that the Congress, in its best judgment, determined that the disaster assistance loan eligibility criteria would not be changed.

Under procedures soon to be implemented, FmHA will deduct 10 percent of production losses from disaster assistance loan amounts. In taking this action, FmHA recognized the need to consider normal variations in crop production from year to year; however, this action does not fully implement the GAO recommendation.

RECOMMENDATION TO THE CONGRESS

In view of the Department of Agriculture's reluctance to propose legislation to change the minimum loss eligibility criteria, the Congress should strengthen the criteria in the FmHA program in the manner described in the previous GAO report. The Congress needs to take this action if it wishes to restrict disaster loans to the amount of loss that exceeds drops in farm income in 1 year that would normally be expected in a farm operation.

Further, if SBA continues to make disaster assistance loans to farmers, the Congress should also establish in this program the same minimum loss eligibility criteria

that was recommended in the previous report for the FmHA program. (See p. 24.)

RECOMMENDATIONS TO THE SECRETARY OF AGRICULTURE

The Secretary should direct the FmHA Administrator to clarify FmHA's test for credit elsewhere for all county supervisors and review all disaster assistance loans made in fiscal year 1978 for possible referral to other credit sources. (See p. 37.)

AGENCY COMMENTS

In commenting informally on this report, FmHA and SBA officials agreed that SBA should be out of the farm disaster assistance loan business. FmHA officials stated, however, that they did not want SBA's farm disaster assistance loan portfolio of existing borrowers to be transferred for servicing to FmHA. FmHA officials further stated that since the SBA loans were made according to laws and regulations different from FmHA's, collecting and servicing the SBA accounts would be a difficult task. SBA officials expressed no strong opinion concerning the transfer of the SBA portfolio of farm disaster assistance loans to FmHA and felt a satisfactory arrangement could be worked out between the two agencies. (See p. 25.)

FmHA officials did not fully support GAO's recommendation for revising the minimum loss eligibility criteria because they believed more time-consuming calculations would be required. However, FmHA was going ahead with its plans to deduct 10 percent of production losses from disaster assistance loan amounts. FmHA officials recognized that this step would not fully implement the GAO recommendation. (See p. 25.)

GAO believes its recommendation for revising the minimum loss eligibility criteria for the disaster assistance loans will not delay loan processing to any significant degree. FmHA already requires its applicants to provide most of the information needed to carry out the recommended approach. (See p. 25.)

SBA officials agreed that if FmHA has minimum loss eligibility criteria for farm production losses, then SBA should also have criteria which is consistent with FmHA's. (See p. 25.)

FmHA officials agreed with GAO's recommendation for clarifying for all county supervisors the test for credit elsewhere. Although they believe the present method of implementing the test is good and workable, they acknowledge that the problems GAO noted do exist in isolated cases and recognize the need to clarify the procedures. FmHA officials also agreed to review disaster assistance loans made in fiscal year 1978 for possible referral to other credit sources. (See p. 37.)

STUDY OF DESIGN OF FEDERAL DISASTER ASSISTANCE POLICY

GAO was asked also to conduct an inquiry into the basic design of Federal disaster assistance policy and recommend program changes. GAO plans to answer this portion of the request in a separate report.

Contents

		Page
DIGEST		i
CHAPTER		
1	INFORMATION ON THE FARMERS HOME ADMINISTRATION AND SMALL BUSINESS ADMINISTRATION DISASTER ASSISTANCE LOAN PROGRAMS	1
	Introduction	2
	FmHA disaster assistance loan program	2
	SBA disaster assistance loan program	4
	Scope of review	5
2	BUDGET IMPACT OF FmHA AND SBA DISASTER ASSISTANCE LOAN PROGRAMS	7
	FmHA financing	7
	SBA financing	7
	Budget impact of different financing methods	7
	How higher interest rates can lower Government loan costs	8
	Conclusions	10
3	WHY DISASTER ASSISTANCE LOAN VOLUME INCREASED	11
	Widespread drought conditions	11
	Low interest rates	13
	Differences in SBA and FmHA disaster assistance loan programs	15
	Differences in eligible applicants	15
	Differences in farm production losses and physical property losses	16
	FmHA's inequitable minimum loss eligibility requirement	17
	Loss computation procedures	18
	Differences in loan amounts and repayment terms	20
	Some farmers "went shopping" for Government loans	21
	Some borrowers obtained two loans	22
	Additional factor influencing loan volume	23

CHAPTER		Page
	Conclusions	23
	Recommendation to the Congress	24
	Agency comments	25
4	BENEFICIARIES INCLUDE MANY WHO CAN GET CREDIT ELSEWHERE--LOAN USES UNCERTAIN	26
	Program beneficiaries	26
	Borrower financial profiles	27
	FmHA's credit-elsewhere test	28
	Credit-elsewhere test not uniformly applied	29
	SBA lacks a credit-elsewhere test	30
	Other sources of credit	31
	Examples of farm borrowers who could obtain credit elsewhere	33
	Examples of nonfarm businesses that can get credit elsewhere	34
	Use of loan proceeds uncertain	34
	Conclusions	35
	Recommendations to the Secretary of Agriculture	37
	Agency comments	37
APPENDIX		
I	Letter dated December 15, 1978, from Senator Edmund S. Muskie and Senator Henry Bellmon	38
II	Information on other disaster assistance programs available to victims of natural disasters	41
III	Distribution of disaster assistance loans by State in fiscal year 1978	64
IV	Additional examples of farm borrowers who could obtain credit elsewhere	66

ABBREVIATIONS

FmHA	Farmers Home Administration
GAO	General Accounting Office
SBA	Small Business Administration

CHAPTER 1

INFORMATION ON THE FARMERS HOME ADMINISTRATION AND SMALL BUSINESS ADMINISTRATION DISASTER ASSISTANCE LOAN PROGRAMS

On December 15, 1978, the Chairman and the Ranking Minority Member of the Senate Committee on the Budget requested that we conduct a study of the Small Business Administration (SBA) and Farmers Home Administration (FmHA) disaster assistance loan program operations in fiscal year 1978. (See app. I.) The request was prompted by the large increase in loan volume in 1978, which created budget problems and raised questions about the appropriateness of the current disaster loan programs.

We were asked to answer the following questions concerning both farm and nonfarm borrowers.

--What were the reasons for the increase in SBA disaster assistance loan volume during fiscal year 1978? In particular, how was the level of demand affected by the decrease in interest rates, the addition of crop damage as an eligible category of business loss, and the severity of disasters in 1978 compared to disasters in other years? (See p. 11.)

--What was the correlation between the severity of an area's disaster losses and the amount of loans received? What factors appear to account for the observed patterns? 1/ (See p. 11.)

--To what extent could loan recipients have secured credit elsewhere? (See p. 28.)

--Who were the beneficiaries by income group, type and size of business, and location? (See pp. 27 and 28.)

1/Our analysis of the correlation between the severity of an area's disaster losses and the amount of loans received for a period of several years did not produce a uniform measure of disaster severity. Therefore, we did not determine what correlation exists between severity and loan amount.

--For what purposes were loan proceeds used? (See p. 34.)

Because the SBA and FmHA disaster assistance loan programs interact with other Federal programs, we were asked to compile a listing of other disaster assistance programs available to farm and nonfarm businesses and to individuals as a result of natural disasters. (See app. II.)

Our review principally concerns SBA's Disaster Loan Program for physical losses and FmHA's Emergency Loan Program for production losses. Both SBA and FmHA have other disaster loan programs, but these two are the primary programs for natural disaster victims. Hereafter, unless noted, we refer to these two programs as disaster assistance loan programs.

We were asked also to conduct an inquiry into the basic design of Federal disaster assistance policy and recommend program changes. We plan to answer this portion of the request in a separate report.

INTRODUCTION

Traditionally, the Farmers Home Administration in the Department of Agriculture has been the primary source of Federal disaster assistance loans to farmers, while the Small Business Administration has provided disaster assistance to other sectors of society. The Small Business Act created SBA and specifically prohibited it from duplicating programs of other Federal agencies. This arrangement remained in effect until June 1976 when Public Law 94-305 amended the act, giving SBA the authority to make its loan programs available to farmers.

Following enactment of Public Law 94-305, SBA made its regular business loans available to farmers. However, loans were not made to farmers who suffered crop losses due to natural disasters, as SBA felt that this type of loss did not qualify for its disaster assistance loan program. In June 1977, SBA revised its position and made farmers eligible for both physical property damage and crop loss loans.

FmHA disaster assistance loan program

The FmHA disaster assistance loan program is carried out through more than 1,750 FmHA county offices located throughout the United States. County supervisors process loan applications submitted by farmers, ranchers, and aquaculture operators who have suffered property damage or a severe crop

loss as a result of a natural disaster. When a county supervisor completes processing, the application is submitted to a committee consisting of three local citizens. The committee then must certify that the applicant meets the eligibility requirements for the loan.

To be eligible for an emergency loan, the applicant must

--be a citizen of the United States;

--be an established farmer doing business as an individual, partnership, cooperative, or corporation;

--be the owner-operator of or tenant managing the farm;

--be unable to obtain credit elsewhere; and

--have sustained a production loss of at least 20 percent in some basic part of the farming operation. 1/

When a 20-percent loss in a basic farm operation has occurred, a disaster assistance loan can be obtained for losses in other farm operations if the losses can be attributed to the natural disaster. There is no minimum loss requirement for the losses in the other farm operations.

Once a farmer qualifies for a disaster assistance loan covering production losses, FmHA can make annual operating loans during the disaster year and for 5 successive years following the disaster. These loans are to be repaid on an annual basis. In addition, FmHA can make the farmer major adjustment loans

--for construction or improvement of homes, buildings, and other essential facilities;

--to purchase livestock, poultry, and other animals; and

--to pay costs necessary to reorganize the farm and place it on a basis equal to what it was before the disaster.

1/A basic part of the farming operation is any single enterprise which normally generates sufficient income to be considered essential to the success of the total farming operation. Before January 1979, FmHA defined a basic enterprise as one which comprised at least 25 percent of the farm's total income.

Repayment terms vary depending on the purpose of the loan but cannot exceed 40 years. Our analysis does not cover the annual operating or major adjustment loans.

The current interest rate is 5 percent for FmHA disaster assistance loans. During fiscal year 1978, however, the interest rate was 3 percent for the first $250,000 and 5 percent for loan amounts over $250,000. Repayment terms are set up to 7 years for crop and livestock production losses but can be rescheduled for 7 additional years. There is no statutory limitation on the amount that can be loaned to a farmer. Both the annual operating and major adjustment loans are made at the prevailing market rate of interest.

SBA disaster assistance loan program

The SBA disaster assistance loan program is available to all disaster victims, including businesses of any size, type, or form of organization; homeowners and tenants; nonprofit organizations; churches; and social clubs. Until passage of Public Law 94-305 in June 1976, farmers were not eligible for the SBA loan programs.

SBA operates its disaster loan program through its central office in Washington, D.C., and about 100 permanent field offices throughout the Nation. Unlike FmHA, SBA does not maintain an extensive network of county offices. Therefore, when a sudden disaster strikes, SBA staffs a temporary office at the disaster location with employees from permanent offices and temporary personnel hired to assist with the particular disaster. In the case of a disaster which occurs over an extended period and geographic area, such as drought, SBA usually does not establish a temporary office. However, in accordance with an internal agreement, SBA is to coordinate with the FmHA county supervisors to ensure that disaster victims are aware of the assistance available through the SBA program.

The SBA loan application can be filed at either a temporary or permanent office but is customarily processed and acted on through one of the permanent offices located in each State. Exceptions to this arise when the loan request exceeds $500,000, in which case regional office approval is required.

The interest rates charged to SBA borrowers are determined annually based on the average annual interest rate on all interest-bearing obligations of the United States. On October 1, 1978, the rate was set at 7-3/8 percent, eliminating the 3-percent rate which had been in effect during fiscal

year 1978 for the first $250,000. There is no statutory limitation on the amount that can be loaned. Farmers who obtain SBA disaster assistance loans can obtain FmHA's annual operating and major adjustment loans by showing that they could qualify under the FmHA criteria for a disaster assistance loan.

SCOPE OF REVIEW

Our review was made primarily at FmHA and SBA headquarters offices in Washington, D.C.; 5 SBA and 5 FmHA State offices; and 10 FmHA county offices in Alabama, Georgia, Louisiana, Texas, and Virginia. We also performed work at the headquarters offices of the Federal Disaster Assistance Administration and the Economics, Statistics, and Cooperatives Service, Department of Agriculture. We also visited county offices of the Agricultural Stabilization and Conservation Service, Department of Agriculture.

We interviewed officials of these Federal agencies, commercial banks, and Production Credit Associations. We also interviewed recipients of disaster loans in the five States visited. We reviewed legislation, agency policies and procedures, crop production statistics, and other reports on Federal disaster assistance loans.

In selecting the States to include in our analysis, we chose five States with high levels of loan activity for SBA and FmHA farm disaster assistance loans and SBA nonfarm disaster assistance loans. In each State, we selected at least two counties which showed high levels of loan activity in both programs. Using a systematic sampling method, we selected a sample of loan files to determine the financial status of the borrowers, the average loan size and term, the extent to which the borrowers could have secured credit elsewhere, and how the loan proceeds were used. While the sample cannot be projected to the universe, we found no evidence of these loan files being atypical. We also reviewed other files brought to our attention by agency personnel as additional examples of borrowers who could obtain credit elsewhere. In total, we examined more than 750 loan files out of a universe of about 44,000 in five States.

We coordinated our work with the internal audit groups of SBA and the Department of Agriculture. We found that they have a combined effort underway to check for borrowers who may have received disaster assistance loans from both agencies. This effort is continuing with the completion date still uncertain.

In addition, Agriculture is reviewing a sample of disaster assistance loans made in Texas which are for amounts over $1 million. The review is to determine if the loan recipients could have obtained credit elsewhere and is scheduled for completion early in fiscal year 1980.

CHAPTER 2

BUDGET IMPACT OF FmHA AND SBA DISASTER ASSISTANCE LOAN PROGRAMS

In fiscal year 1978, the SBA and FmHA disaster assistance loan volume increased severalfold over the previous year. SBA's disaster loans (of which disaster assistance loans for physical losses are one part) increased from $200 million in fiscal year 1977 to $2.5 billion in fiscal year 1978, while FmHA's emergency loans (of which disaster assistance loans for production losses are one part) increased from $1.2 billion in fiscal year 1977 to $3.4 billion in fiscal year 1978. The SBA increase caused budget problems; however, the FmHA increase had little budget impact. This is due primarily to the different methods used to finance the programs, which are discussed below.

FmHA FINANCING

The FmHA Emergency Loan Program is financed through the Agricultural Credit Insurance Fund, which is a revolving fund arrangement. Loans are made through the revolving fund, which is replenished by receipts from loan repayments and funds raised through the sale of securities to the Federal Financing Bank. When loan volume is greater than the amount available in the revolving fund, FmHA sells securities to raise the necessary amount to meet the demand. The securities are backed by loans held by FmHA.

SBA FINANCING

SBA also finances its Disaster Loan Program through a revolving fund. Like FmHA, SBA uses loan repayments into the revolving fund to make additional loans. However, SBA is not authorized to raise money through the sale of securities. Therefore, when loan demand exceeds the amount available in the revolving fund, SBA must request a supplemental appropriation to meet the demand. Naturally, additional appropriations strain the SBA budget.

BUDGET IMPACT OF DIFFERENT FINANCING METHODS

For fiscal year 1978, SBA received a $115 million appropriation for the Disaster Loan Program. The subsequent large increase in loan activity in 1978 exceeded both the amount initially appropriated and loan repayments, thus requiring supplemental appropriations of more than $2 billion. On the

other hand, the FmHA Emergency Loan Program was able to finance its large increase in loan volume through the sale of securities to the Federal Financing Bank, which is an off-budget transaction. This does not mean, however, that the SBA program is more costly. In fact, the cost items associated with each program--interest subsidies, loan defaults, and program administration--are basically the same. The actual program costs for each will vary depending on the amount of loan activity and loan defaults.

SBA made disaster loans totaling $2,569,482,000 in fiscal year 1978, 1/ although it only had $530,800,000 available from appropriations and loan repayments. Therefore, it had to request supplemental appropriations for an additional $2,038,682,000 to meet loan demand. FmHA made emergency loans totaling $3,411,800,000 in fiscal year 1978. 2/ To meet this need, FmHA obtained additional moneys from the Agriculture Credit Insurance Fund, which is an off-budget revolving fund financed through the sale of securities and loan repayments from all FmHA farmer loan programs.

Therefore, one program has a greater budget impact due primarily to the methods used to finance the operations when, in actuality, the costs are similar. However, other factors relating to differences in the management of the two programs exist which do have substantial budget impact and also result in increased costs. These factors are discussed in chapters 3 and 4.

HOW HIGHER INTEREST RATES CAN LOWER GOVERNMENT LOAN COSTS

The 3-percent interest on FmHA and SBA disaster assistance loans in fiscal year 1978 aided borrowers through reduced interest expense and smaller loan payments, as compared with loans at conventional interest rates. The Government, however, has incurred significant costs in making these loans because it must borrow the loan funds at interest rates higher than 3 percent. In addition, the low interest rate can be an incentive to borrow. (See ch. 3.)

1/SBA's disaster assistance loans for physical losses comprised about $2.4 billion of this amount. The remainder is spread among numerous other programs.

2/FmHA's disaster assistance loans for production losses comprised about $1.4 billion of this amount. The remainder is comprised of FmHA's emergency operating, major adjustment, and physical property damage loans.

During fiscal year 1978, FmHA and SBA made disaster assistance loans totaling about $6 billion, an estimated $3 billion of which was loaned at 3 percent. Based on FmHA's estimated interest rate of 8.3 percent as the cost of Government borrowing, the interest subsidy cost to the Government of these 3-percent loans during the first year of their existence will be about $159 million. The effect various rates would have had on the first-year interest cost incurred by the Government for fiscal year 1978 disaster assistance loans made by SBA and FmHA is shown below.

Interest rate	First-year subsidy cost
(percent)	(000,000 omitted)
3	$159
4	129
5	99
6	69
7	39
8	9

If the 1978 loans had been made at the Government's cost of borrowing, borrowers still would have benefited substantially. For example, in 1978 interest rates for loans from commercial sources were between 9 and 10 percent. The following table shows the benefits possible to the borrowers in the first year if the total $6 billion had been loaned at 8.3 percent rather than at the private market rates of 9, 9.5, and 10 percent.

Federal Government's cost of money	Commercial interest rates	Interest cost to borrowers	Benefits to borrowers
(percent)		(000,000 omitted)	
8.3	-	$498	
	9.0	540	$ 42
	9.5	570	72
	10.0	600	102

The first-year interest benefits possible to the borrowers range from $42 million to $102 million if loans were made at the Government's cost of money rather than at the commercial rates. In this situation, the Government's only costs would be administering the program and absorbing any loan defaults.

Another important factor in determining disaster assistance loan costs for the Government is the Federal income tax deduction allowed for interest expenses. The deduction allows disaster assistance loan recipients who itemize their Federal income tax deductions to avoid the Federal tax on income used to pay interest expenses. Because the income tax rate is graduated, such deductions are worth relatively more for individuals with higher taxable incomes than for individuals with lower taxable incomes.

CONCLUSIONS

The SBA disaster assistance loan program has a greater budget impact than the FmHA program due to the different methods used to finance the programs. Both the FmHA and SBA disaster assistance loan programs are financed with revolving funds, and for both programs loan repayments go back into the revolving funds to make additional loans. However, when loan volume is greater than the amount available in the revolving funds, the programs obtain additional money through different methods. FmHA sells securities to the Federal Financing Bank. This method minimizes the impact of higher loan volume on the FmHA budget. In contrast, SBA must request a supplemental appropriation to meet increased loan volume, which puts strain on the SBA budget.

While the SBA program has the greater budget impact, the two programs' cost items are similar. These cost items are interest subsidies, loan defaults, and program administration. Actual program costs for each will vary depending on the amount of loan activity and loan defaults.

Subsidized interest rates for the disaster assistance loans are a significant cost to the Government not only due to the subsidy, but also because the low rates can be an incentive to borrow. An estimated $3 billion in disaster loans in fiscal year 1978 were made at a 3-percent interest rate while the Government's cost of money, based on FmHA's average, was 8.3 percent. Thus, in the first year alone, these 3-percent loans will cost the Government $159 million for interest subsidies. In addition, the interest payments are deductible for those borrowers who itemize deductions on their Federal income tax returns.

CHAPTER 3

WHY DISASTER ASSISTANCE LOAN VOLUME INCREASED

Three factors primarily led to the surge in Federal disaster assistance loan activity in fiscal year 1978. One was widespread drought conditions. Another was the Congress lowering interest rates for disaster loans in 1977. The third was the broadening of SBA's disaster assistance loan program for physical losses to include crop production losses by farmers. Since all three events occurred during a short timespan, we were unable to determine the separate impact each had on the level of loan activity.

WIDESPREAD DROUGHT CONDITIONS

A major factor influencing the demand for farm disaster loans was the severe and widespread drought which occurred during 1976 and 1977. More than 2,000 counties in 36 States (about two-thirds of the Nation's counties) were classified as drought disaster areas. (See illustration on following page.) In fiscal year 1977, about 400 disaster designations and declarations were made. 1/ Because of the drought's severity, the Secretaries of Agriculture, Commerce, and the Interior and the SBA Administrator formed an interagency drought emergency coordinating committee to coordinate their agencies' drought disaster assistance programs.

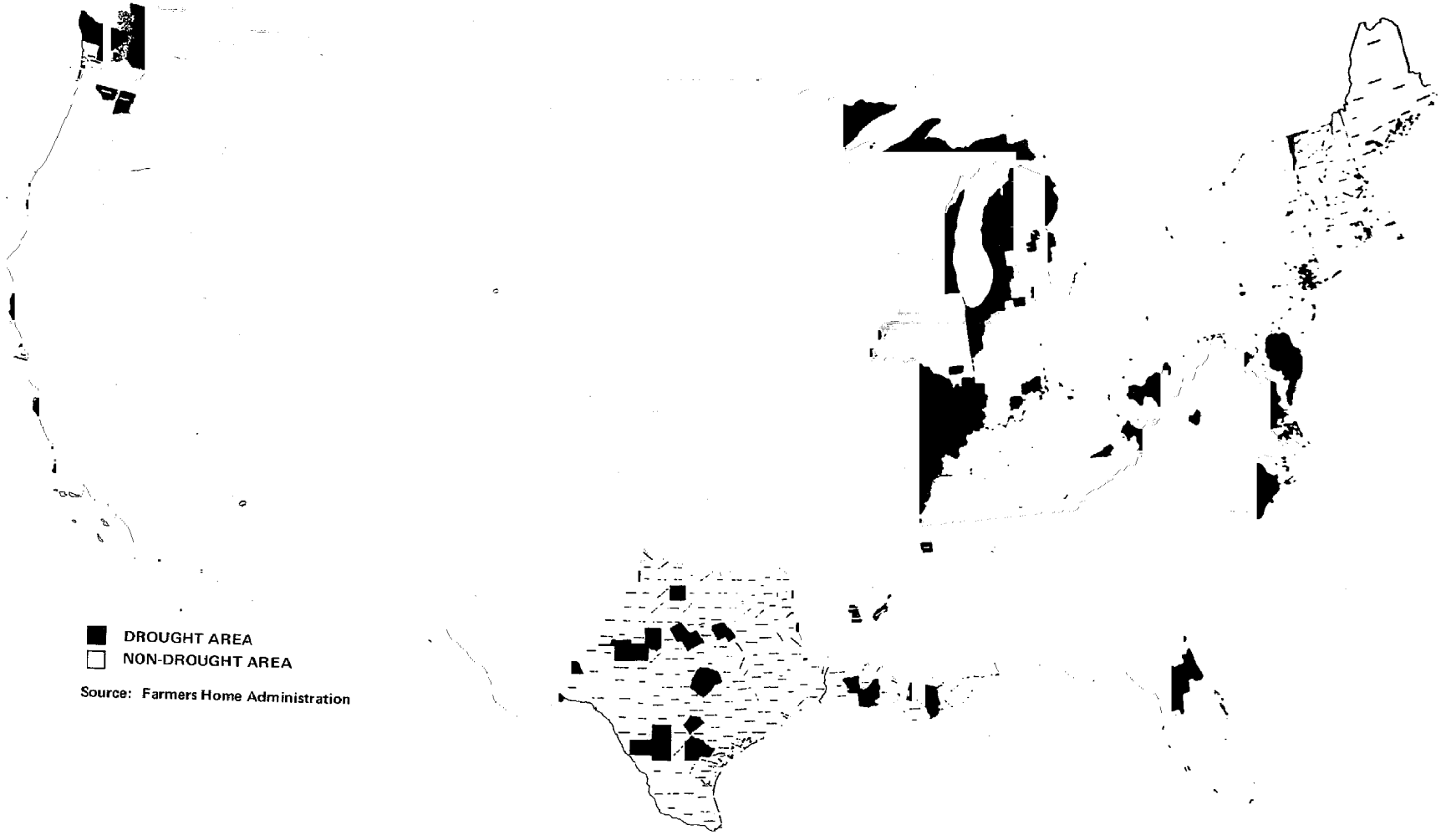
As a result of the drought disaster declarations, many of the Nation's farmers became eligible for FmHA and SBA disaster assistance loans in fiscal year 1978. During fiscal year 1978, farmers accounted for $5.2 billion, or 88 percent, of the total $5.9 billion SBA and FmHA disaster assistance loan volume. (See p. 26.)

We could not determine what correlation exists between disaster severity and the amount of loans made because a uniform measure of disaster severity could not be found. Nevertheless, the drought's impact is evident in reported crop yields in affected areas. In the table on page 13 yield statistics for one crop (corn) are shown for several States

---

1/Includes disaster designations and declarations made when the President declares an emergency or major disaster, the SBA Administrator designates a disaster area, and the Secretary of Agriculture designates a disaster area.

Areas In U.S. Where Disaster Assistance Loans Were Available Because Of Drought 1976-77



Source: Farmers Home Administration

which demonstrate the drought's impact during 1977 in those States. 1/ These States and many others also had reduced yields in other crops, such as cotton, hay, peanuts, and sorghum.

State	1976	1977 (note a)	1978
	-------(bushels per acre)-------		
Georgia	62	24	50
Alabama	60	29	50
Florida	60	35	52
Texas	120	98	100
North Carolina	80	51	76
South Carolina	74	36	55

a/Figures are for crop years extending from Jan. to Dec. Thus, with the fiscal year beginning Oct. 1, disaster assistance loan volume in fiscal year 1978 reflects the increased demand due to lower 1977 crop year yields.

LOW INTEREST RATES

A second factor which increased the level of disaster assistance loan activity during this period was a change in the interest rates charged for disaster assistance loans. In August 1977, Public Law 95-89 authorized a reduction in the interest rates for both the SBA and FmHA disaster assistance loans with the new interest rates retroactive to disaster loans made on or after July 1, 1976, and before October 1, 1978.

An interest rate of 3 percent was set for loans of up to $250,000 covering business property damage and crop production losses. For amounts over $250,000, the FmHA rate was set at 5 percent and the SBA rate at 6-5/8 percent. For damage to private residences and personal property, the rates were set as follows:

1/Corn was chosen as an example due to the extreme impact the drought had on this crop.

--One percent on the first $10,000.

--Three percent on the amount over $10,000 but less than $40,000.

--Five percent at FmHA and 6-5/8 percent at SBA on amounts $40,000 and above.

Lower interest rates for disaster assistance loans appear to increase loan demand. A March 5, 1979, Congressional Budget Office cost estimate for a House bill proposed to lower interest rates (H.R. 90) reported that demand for disaster assistance loans would be greater because of the lower interest rates provided for in the bill. According to the Congressional Budget Office, loan demand by homeowners and nonagricultural business disaster victims increases 2 percent for each percentage point decrease in interest rates and demand for agricultural loans increases 7.5 percent for each percentage point decrease in interest rates.

Two measurable changes occurred in farm lending by Production Credit Associations which may have been due in part to the attractiveness of low-interest rate loans available from SBA and FmHA in fiscal year 1978, according to a Farm Credit Administration report to the Congress. First, lending activity continued a growing trend but at the slowest rate experienced since the early 1970s. Second, collection rates increased over the rates of recent years as Government funds allowed farmers to make earlier payments on their debt obligations.

SBA and FmHA loan officials also felt that low interest rates contributed to the increased disaster assistance loan volume during fiscal year 1978. Illustrating this point, one farmer with whom we talked stated he could have obtained credit elsewhere "* * * but I would have been a fool to have paid 9 percent or 10 percent when I could get 3 percent."

Our review of borrowers' loan files also suggests that businesses, particularly farmers, are using Government disaster loans rather than their normal sources of credit. This is discussed in more detail in chapter 4.

As shown in the following hypothetical example, during the period of high disaster assistance loan activity in fiscal year 1978, victims could save large amounts of interest costs by obtaining subsidized rather than conventional loans. Such savings provided a strong incentive for persons to take advantage of Federal disaster assistance loans.

Interest Savings Available to Borrowers of Government-Subsidized Loans

Agency	Loan amount	Interest rate	Period of loan	Interest saved for period of loan (note a)
		(percent)	(years)	
FmHA	$250,000	3		
	150,000	5		
Total	$400,000		7	$112,788
SBA	$250,000	3		
	150,000	6-5/8		
Total	$400,000		7	$101,958

a/Based on an assumed average interest rate of 10 percent for conventional loans.

DIFFERENCES IN SBA AND FmHA DISASTER ASSISTANCE LOAN PROGRAMS

A third event affecting loan activity was the broadening of SBA's disaster assistance loan program in June 1977 to include crop production losses. Given a choice of two programs from which to obtain disaster assistance loans, farmers found they could shop for the more lucrative deal. In comparison with FmHA, SBA's requirements for obtaining a loan proved to be less stringent. Moreover, borrowers could get loans from SBA when they could not from FmHA, and SBA also offered larger loans for longer terms than FmHA.

We previously reported that the many differences between the two agencies' disaster programs made it difficult for them to coordinate their efforts and can result in confusing and inequitable situations for farmers (CED-78-118, May 25, 1978). Some major program differences contributing to increased disaster assistance loan volume are discussed in the following sections.

Differences in eligible applicants

SBA can make disaster assistance loans to farm operations that are ineligible for FmHA disaster assistance loans. To be eligible for an FmHA disaster assistance loan an applicant must be an established farmer who is a citizen of the United

States doing business either as an owner-operator or tenant-operator. An established farmer is defined as one who was participating in the operation and management of the farm at the time of the disaster, spends a substantial portion of time in carrying out the farming operation, and is recognized in the area as a farmer. Any operation that involves an outside, full-time, hired manager or management service does not qualify for an FmHA disaster assistance loan.

In contrast, SBA's disaster assistance loan program is not restricted to established farmers or U.S. citizens. Corporations and partnerships not directly engaged in farming may qualify. Others who own farmland and have someone else managing it may qualify for SBA's disaster assistance loans.

Differences in farm production losses and physical property losses

In determining eligibility, FmHA recognizes the differences between physical losses and production losses. FmHA requires a minimum loss before an applicant is eligible for a production loss loan. No minimum loss is required for the physical property damage loans that FmHA makes. FmHA's instructions provide the following definitions:

--Physical loss: Damage to or destruction of physical property, including farmland (except sheet erosion); structures on the land, such as buildings, fences, dams, etc.; machinery, equipment, and tools; livestock; harvested crops; and supplies.

--Production loss: The reduction from normal production of yield per acre and/or quality of crops produced, of quality and/or quantity of livestock products produced per animal unit, and of weight gain and/or natural increase in numbers of livestock units.

In contrast to FmHA, SBA treats physical property losses and crop production losses almost identically for determining eligibility and the amounts of loans. For production losses, SBA determines the amount of a loan with a simple declaration of losses based on an established yield. SBA has minimum loss criteria in determining whether a specific county shall be designated as a disaster area by its Administrator. However, once a designation has been made, SBA has no minimum loss criteria in individual cases within the designated disaster area.

FmHA's inequitable minimum loss eligibility requirement

FmHA's staff must confirm that a production loss exceeds a minimum amount before disaster assistance loan eligibility is determined. According to the FmHA Administrator, the minimum loss eligibility requirement has been adopted to allow for normal departures from established yields due to variations in weather. However, once eligibility is established, farmers can then receive loans for the entire amount of the loss, not just that part of the loss which exceeds declines in income attributable to normal variation in yields due to weather.

To be eligible for an FmHA disaster assistance loan for a production loss during fiscal year 1978, the applicant must have suffered an uninsured and/or otherwise uncompensatable loss of at least 20 percent of a normal year's gross income in a basic enterprise as a direct result of the designated disaster. FmHA defined a basic enterprise as a single enterprise comprising at least 25 percent of farm income. Examples of single enterprises used by FmHA are all cash field crops, all cash fruit crops, beef operations, and dairy operations. Under this procedure, for instance, an eligible farmer must sustain at least a 20-percent loss in all cash field crops and normal income from the crops must be at least 25 percent of the normal year's total gross farm income.

In May 1978, we reported that FmHA's procedure was inequitable. Two farmers who suffered close to the same percentage of loss could be treated very differently under the FmHA program. We recommended a fairer approach that would apply the minimum loss eligibility criteria of 20 percent, or some other percentage, against the entire farm income rather than on only a portion and would deduct this minimum loss amount in calculating the maximum amount of the loss loan for which farmers are eligible.

FmHA took no action to implement our recommendation, which would require proposing legislation to the Congress. Instead, FmHA in January 1979 eliminated the 25-percent gross income test for determining a basic single enterprise. The term "single enterprise" also was redefined to mean each individual crop (e.g., corn, wheat) instead of categories of enterprises (e.g., all cash field crops). FmHA also administratively changed its procedures so that eligible borrowers no longer have to offset enterprises which have losses with those which have above normal gross incomes.

A comparison of FmHA's new procedure with our recommended approach shows FmHA's shortcomings. For instance, the FmHA

procedure could still result in inequities because a small difference in the percentage of an enterprise's loss could determine the farmer's eligibility for a loan covering almost all losses and no account is taken of offsetting gains in other areas. Under our proposed method, loans may be made only for losses which exceed the qualifying minimum loss and only if all farm income is taken into account. Thus, no crucial cutoff would determine who could get sizable loans and who could not. For example, a farmer who lost 20 percent would be eligible for a loan covering the entire 20 percent loss, while a farmer who lost 19 percent would be eligible for no loan at all. Further, the farmer who lost 20 percent in one area, and therefore qualified for assistance, might have actually experienced a gain in another area of operation while the one who lost 19 percent, and received no assistance, might have had no compensating gain.

Loss computation procedures

After establishing loan eligibility, FmHA and SBA also used different procedures for computing farm production losses and the maximum loan for which a farmer might qualify. One of the principal differences is that FmHA computed losses by deducting gross income for the disaster year from the normal year's gross income for each farm enterprise. SBA's method of computing losses and the amount of a loan does not recognize total farm income since it considers only those crops affected by the disaster. The significance of the different methods is illustrated in the following hypothetical example, in which FmHA would make the farmer a $14,000 loan and SBA would make a $20,000 loan.

Comparison of FmHA and SBA Loss Computation Methods for Fiscal Year 1978

Cash crops	Disaster year acreage	Unit price	Disaster year: Yield per acre	Disaster year: Gross income	Normal year: Yield per acre	Normal year: Gross income	Gain/ (loss)
Corn	100	$2.00/bu.	30 bu.	$ 6,000	40 bu.	$ 8,000	-$ 2,000
Cotton	100	$0.60/lb.	200 lbs.	$12,000	500 lbs.	$30,000	-$18,000
Soybeans	100	$6.00/bu.	30 bu.	$18,000	20 bu.	$12,000	$ 6,000
			Total loss for single enterprise computed by subtracting gains from losses (FmHA loan amount)				-$14,000
			Total only for crops suffering losses (SBA loan amount)				-$20,000

In May 1978, we recommended that the amount of a loan be computed by considering the entire farm income rather than only a portion. In January 1979, FmHA administratively changed its procedures so that eligible borrowers no longer have to offset enterprises which have losses with those which have above normal gross incomes. This brings its loss computations more in line with SBA's procedures. In the above example, FmHA would make a $20,000 loan. Under procedures soon to be implemented, FmHA in this example would make an $18,000 loan because it plans to deduct 10 percent of the production loss from the loan amount. Although this FmHA action recognizes the need to consider normal variations in crop production, neither the SBA nor FmHA procedures for computing losses, and hence, loan amounts, are consistent with our recommendation since the entire farm income is not considered.

Differences in loan amounts and repayment terms

Our sample of 750 loan files for SBA and FmHA disaster assistance loan borrowers shows SBA farm borrowers receive larger loans and longer terms than FmHA farm borrowers. The average size of FmHA loans in our sample was $55,700. The average size of SBA farm loans in our sample was $64,800. SBA nonfarm business loans averaged $47,400 and homeowner loans averaged $9,000.

In part, we believe the larger SBA farm loans are explained by its less stringent requirements for obtaining a loan. As we show in chapter 4, SBA's borrowers also tend to have larger operations.

The average repayment terms for FmHA loans in our sample was 8 years. SBA repayment terms averaged 9 years for farm loans, 15 years for nonfarm business loans, and 10 years for homeowner loans.

Of course, longer loan repayment terms increase the Government subsidy. The effect of various loan terms in fiscal year 1978 for a hypothetical $50,000 loan on the subsidy costs to the Government is illustrated on the following page.

Period of loan (years)	Total interest payments at 3 percent	Total interest payments at 8.3 percent	Government subsidy to borrower for loan term
6	$5,400	$15,500	$10,100
7	6,200	17,900	11,700
8	7,000	20,400	13,400
9	7,800	22,900	15,100
10	8,600	25,500	16,900

(Note: All figures rounded to nearest $100.)

SBA's regulations provide that loan repayment terms should be set at the shortest period possible in relation to the applicant's repayment ability. We reported in May 1978 that, despite this requirement, in the majority of cases the repayment term granted was what the applicant requested. In our current review, we found SBA's implementation of this regulation to be spotty. While loan terms appeared limited for some borrowers, other borrowers received longer loan repayment terms even though their repayment ability appeared superior.

Some farmers "went shopping" for Government loans

Based on a questionnaire to SBA and FmHA farm borrowers, GAO reported in May 1978 that 14 percent of FmHA respondents and 7 percent of the SBA respondents applied to both agencies for disaster assistance. Questionnaires were sent to a random sample of 802 farmers in Georgia, Florida, Iowa, and South Carolina who had loans approved under FmHA's and SBA's disaster programs. By cross-checking loan files at the two agencies as part of our current review, we also found other instances of applicants who had applied to both agencies.

The differences between the two programs allow loan applicants to shop for larger loans. Another way applicants could increase loan amounts is to decrease their disaster year yield estimates and increase the acres of affected crops. By reviewing both agencies' loan application files, we found some loan applicants who were estimating higher losses when they applied for SBA loans than when they applied for FmHA loans. The applicants also claimed more acres were planted.

Some examples of how these applicants shopped for larger loans follow.

--One farmer first applied to FmHA and then to SBA for a crop loss loan. The data used on the SBA application showed more acres planted and a more severe loss. This resulted in SBA approving a $43,000 loan while FmHA would have limited the loan to $32,000.

--Two other farmers changed the acreage planted and crop yields on their FmHA and SBA applications. By making these changes, one farmer qualified for a $78,000 SBA loan instead of a $46,000 loan; the other qualified for a $61,000 SBA loan instead of a $31,000 loan.

--Another farmer withdrew his FmHA application upon being informed that he did not meet the minimum loss criterion. He had only a 5-percent loss of $1,800. He then went to SBA and received a $9,000 loan. The difference can be attributed to the increase in the number of acres planted which were reported to SBA.

--FmHA rejected another farmer because losses were below the minimum 20 percent. However, the farmer later applied to SBA and claimed a 40-percent loss. SBA made him a $55,000 loan.

Some borrowers obtained two loans

Some borrowers obtained loans from both SBA and FmHA. In Georgia, for instance, we noted three borrowers who obtained disaster loans from both agencies. Two of the borrowers had already been identified by FmHA, which had requested that one of the loans be repaid. At the time of our review, one borrower had repaid the SBA loan and the other had been allowed a year to repay the FmHA loan. Regarding the third borrower, the FmHA county supervisor said he would request that one of the loans be repaid. The county supervisor told us that he has no way to determine if a borrower has obtained loans from both agencies and that two of the cases were identified only because a former SBA employee began working at FmHA and remembered them.

We believe this situation will continue as long as SBA and FmHA both make disaster loans to farmers.

ADDITIONAL FACTOR INFLUENCING LOAN VOLUME

FmHA officials believe another factor which may have influenced fiscal year 1978 disaster assistance loan volume was a heightened awareness by farmers of the benefits offered through the loan programs. This heightened awareness was a result of a $5,000 forgiveness feature of a disaster assistance loan program that was used several years ago, according to the FmHA officials.

CONCLUSIONS

Three factors primarily accounted for the increase in Federal disaster assistance loan activity in fiscal year 1978. First, widespread extreme weather conditions, especially drought, affected much of the Nation and drove up farm disaster assistance loan activity. A second factor was the lowering of interest rates, providing borrowers a strong incentive for seeking SBA and FmHA disaster assistance loans rather than loans from their usual credit sources. The third factor was the broadening of SBA's disaster assistance loan program to include farmers' crop production losses.

The need to have both FmHA and SBA making natural disaster assistance loans to farmers seems highly questionable. FmHA has over the years developed the expertise and a network of offices for dealing with farmers' unique needs, such as crop production losses. In contrast, SBA has developed the expertise to handle loans to disaster victims suffering primarily physical property damage. Also, SBA has fewer field offices.

FmHA's and SBA's use of different methods in dealing with farm production losses has created a situation where farmers can shop for the most lucrative deal. Unlike FmHA, SBA does not have a minimum loss requirement which recognizes normal variances in crop production. Therefore, farmers who cannot qualify under the FmHA program can still obtain a loan through the SBA program. Furthermore, during fiscal year 1978 farmers could obtain larger loans through the SBA program because SBA computed the loan amount using only those crops which suffered losses rather than deducting the crop gains from the crop losses as FmHA did. FmHA, however, changed its procedures to make them more similar to SBA's, which results in FmHA now being able to make loans to farmers even if those farmers had gains in some enterprises.

In our previous report (CED-78-118), we recommended that the Congress amend the Small Business Act so that SBA no longer makes disaster assistance loans to farmers.

If the Congress decided not to amend the Small Business Act in this manner, we recommended that it require the two agencies to work together to achieve consistency between the programs and to avoid overlapping and duplicative efforts.

We also recommended that the Secretary of Agriculture direct the FmHA Administrator to propose legislation to the Congress revising FmHA's minimum loss eligibility criteria so that (1) the percent of loss determining eligibility is applied to the gross income from all farm enterprises and (2) the amount of the loss loan is made only to the extent the loss exceeds such percentage.

In response to the requirements in section 236 of the Legislative Reorganization Act of 1970, SBA generally agreed with the conclusion that it should not continue in the farm loan business.

FmHA has not proposed legislation to address our recommendations for changing the agency's minimum loss eligibility criteria. In response to the requirements in section 236 of the Legislative Reorganization Act of 1970, FmHA stated that the Congress, in its best judgment, determined that the disaster assistance loan eligibility criteria would not be changed. However, FmHA planned to deduct 10 percent of production losses from disaster assistance loan amounts.

We believe our recommendations are still valid.

RECOMMENDATION TO THE CONGRESS

In view of the Department of Agriculture's reluctance to propose legislation to change the minimum loss eligibility criteria, the Congress should strengthen the criteria in the FmHA program in the manner described in the previous GAO report. The Congress needs to take this action if it wishes to restrict disaster loans to the amount of loss that exceeds drops in farm income in 1 year that would normally be expected in a farm operation.

Further, if SBA continues to make disaster assistance loans to farmers, the Congress should also establish in this program the same minimum loss eligibility criteria that was recommended in the previous report for the FmHA program.

AGENCY COMMENTS

FmHA and SBA officials agreed with our recommendation that SBA should be out of the farm disaster assistance loan business. FmHA's officials stated, however, that they did not want SBA's farm disaster assistance loan portfolio of existing borrowers to be transferred for servicing to FmHA. The FmHA officials further stated that since the SBA loans were made according to laws and regulations different from FmHA's, collecting and servicing the loans would be a difficult task. SBA expressed no strong feelings concerning the transfer of its portfolio of farm disaster assistance loans to FmHA for servicing. The officials expressed the opinion that this matter could be settled satisfactorily through discussions between the two agencies.

The FmHA officials did not fully support our recommendation for revising the minimum loss eligibility criteria because they believed more time-consuming calculations would be required. However, FmHA was going ahead with its plans to deduct 10 percent of production losses from the disaster assistance loan amounts. The officials recognized that this step would not fully implement our recommendation.

We believe our recommendation for revising the minimum loss eligibility for the disaster assistance loans will not delay loan processing to any significant degree. FmHA already requires its applicants to provide most of the information needed to carry out our recommended approach.

The SBA officials did not comment on the specific details of what the minimum loss eligibility criteria should be, but they agreed that if FmHA has such a criteria for farm production losses, then SBA should also have a criteria which is consistent with FmHA's.

CHAPTER 4

BENEFICIARIES INCLUDE MANY WHO CAN GET CREDIT ELSEWHERE-- LOAN USES UNCERTAIN

Farmers were the principal beneficiaries of disaster assistance loans in fiscal year 1978. Loans went to borrowers from a wide range of financial categories and every part of the Nation.

Many borrowers who could get credit from other sources received the low-interest disaster assistance loans. This is true not only for SBA loans but also for FmHA loans, even though FmHA has a test to screen out loan applicants who can get credit elsewhere.

We found little or no assurance that the disaster assistance loans are used for disaster-related needs.

PROGRAM BENEFICIARIES

Eighty-eight percent of the disaster assistance loan dollars went to farmers in fiscal year 1978. The following table shows how the loans were distributed.

Distribution of Disaster Assistance Loans by Type of Borrower (note a)

	Farm	Business	Homeowner
	(billions)		
SBA	$1.8	$.3	$.4
FmHA	3.4	-	-
Total	$5.2	$.3	$.4
Percent	88	5	7

a/Figures include all FmHA emergency loans and SBA disaster loans.

Borrowers were from every State, but naturally more loans went to agricultural areas. Appendix III provides a listing of loan volume by State for each program.

BORROWER FINANCIAL PROFILES

Table 1 shows the average financial profiles of SBA and FmHA disaster loan borrowers whose files we reviewed. In comparison with FmHA borrowers, SBA farm borrowers tend to have higher incomes, more assets, greater net worth, and larger farms. Only SBA makes disaster assistance loans to nonfarm businesses and homeowners.

Table 1

Average Financial Profiles of SBA and FmHA Borrowers in Sample

	FmHA borrowers	SBA borrowers		
		Farm	Business	Homeowner
Gross income	$100,296	$101,515	$139,786	$18,189
Current assets	$ 34,804	$ 62,230	$ 95,952	$14,956
Total assets	$367,989	$434,073	$182,609	$76,042
Current liabilities	$ 49,419	$ 82,107	$ 22,891	$ 5,514
Total liabilities	$185,207	$164,949	$ 78,494	$19,197
Net worth	$184,073	$271,672	$104,616	$57,968
Size of farm (note a)	752 acres	849 acres		

a/Includes rented land.

Table 2 shows the ranges of gross income and net worth of SBA and FmHA borrowers whose loan files we reviewed.

Table 2

Range of Financial Profiles of FmHA and SBA Borrowers

	FmHA borrowers	SBA borrowers Farm	SBA borrowers Business	SBA borrowers Homeowner
	(percent)			
Gross income				
0 -$ 24,999	26	23	58	80
25,000 - 49,999	20	19	16	16
50,000 - 74,999	10	14	5	1
75,000 - 99,999	9	10	0	2
100,000 - 124,999	11	7	5	0
125,000 - 149,999	5	5	5	0
150,000 - 174,999	4	4	0	0
175,000 - 199,999	2	3	0	0
200,000 and over	14	15	11	0
Total	100	100	100	100
Net worth				
Negative	8	2	10	6
0 - $ 99,999	47	33	60	78
100,000 - 199,999	17	24	15	11
200,000 - 299,999	7	15	5	1
300,000 - 399,999	5	8	0	2
400,000 - 499,999	3	5	5	1
500,000 - 999,999	7	8	5	2
1,000,000 - 1,999,999	2	3	0	0
2,000,000 and over	4	1	0	0
Total	100	100	100	100

Note: All columns may not add to 100 percent due to rounding.

FmHA'S CREDIT-ELSEWHERE TEST

According to the Consolidated Farm and Rural Development Act, FmHA emergency loan applicants must be unable to obtain financing elsewhere. This eligibility requirement is known as the "credit-elsewhere test." The applicant's equity in real estate, chattels, and other assets should be considered

by the FmHA county supervisor in determining the ability to obtain credit from private and cooperative sources, according to FmHA's regulations.

Credit-elsewhere test not uniformly applied

Our examination of FmHA's disaster assistance loans made in fiscal year 1978 found the credit-elsewhere test was generally not used at all or received only cursory attention. In one State, a letter from the State FmHA office to county and district officials stated, "It is to be assumed when [an] applicant applies for [a disaster assistance] loan that he cannot obtain other credit on terms satisfactory to his needs." This message was widely interpreted to mean that no credit-elsewhere test would be used.

Even in some areas where a credit-elsewhere test was used, we found it to be weak. One county supervisor explained that he tried to document every loan file with evidence that credit was unavailable even when he believed that some applicants could get credit from other sources. He told us that pressure from the State office made it clear to him that he was to make the disaster assistance loans liberally. Another county supervisor did not analyze applicants' financial statements and only infrequently consulted with lending institutions concerning the applicants' credit worthiness. A banking official in another county told us that he would readily give a customer a loan rejection letter to assist in getting a 3-percent disaster assistance loan from FmHA. Indeed, one credit denial letter indicated the applicant had requested to be refused by stating, "This is to inform you that the [bank] has carefully considered your application for a loan, and we declined your application per your request." An official of the lending institution that provided the letter told us the borrower could have secured a loan anywhere and actually did not need a loan.

In one county we visited, the FmHA credit-elsewhere test appeared to work for screening out loan applicants who could get credit elsewhere. The FmHA county supervisor and a local commercial lender agreed that for the credit-elsewhere test to work, FmHA county supervisors must work closely with other lenders, be aware of their loan terms, and be familiar with the types of customers to whom commercial loans may be made. Usually, the county supervisor informed people inquiring about disaster assistance loans that FmHA has a credit-elsewhere requirement, and some did not bother to apply as a result.

FmHA can require a borrower to refinance a disaster assistance loan under its current procedures. In keeping with its basic role of a lender of last resort, FmHA regulations require a review of all borrowers' financial situations--after 10 years in the case of loans secured by real estate, and after 5 years in the case of loans secured by nonreal estate--to determine if the borrowers are able to obtain credit from other sources. Under this procedure, known as graduation, those determined to be able are referred to other credit sources to refinance their disaster assistance loans. Borrowers can also be required to refinance their loans before the regularly scheduled graduation reviews if other satisfactory credit is available to them. Because our sample included only loans made in 1978, none of the loans have been scheduled for review by FmHA county supervisors until fiscal year 1983.

SBA LACKS A CREDIT-ELSEWHERE TEST

The Disaster Relief Act of 1970 (15 U.S.C. 636(a)) provides that SBA may make disaster assistance loans without regard to whether financial assistance is available from private sources. Accordingly, SBA has no credit-elsewhere test for its loan program. This is a significant difference between the FmHA and SBA programs.

Because there is no credit-elsewhere test, SBA made loans to many borrowers who, in our opinion, could have financed their operations with their own resources or through other lending institutions. Although technically this is not an abuse of the program, we believe it is a questionable use of Government resources.

SBA's primary criterion for loan approval is the applicant's repayment ability; that is, the borrower's operation must generate sufficient income to provide SBA with reasonable assurance that the loan will be repaid. Under SBA's repayment criterion, the best loan prospects are generally the wealthier applicants who are least in need of assistance.

In our previous report (CED-78-118), we recommended that the Congress enact legislation to impose a credit-elsewhere requirement on SBA's disaster loan program if the agency continued making the loans to farmers. In response to the requirements in section 236 of the Legislative Reorganization Act of 1970, SBA had no strong feelings about whether farm borrowers should be unable to obtain credit elsewhere, but it believed disaster assistance loans to nonfarm businesses should be exempt from this criterion.

SBA later changed its position. In a statement before the Senate Select Committee on Small Business on April 24, 1979, SBA's Deputy Administrator said the agency now strongly believes a credit-elsewhere test should be applied to SBA disaster business loans, similar to that currently applied by FmHA on its borrowers. The Deputy Administrator further stated:

> "We are convinced * * * that a profit making business which generates income should first seek credit for disaster assistance from private lending sources. SBA's primary function, on the other hand, should be to direct its resources to those whose needs cannot be met by the private sector. Most businesses already have established relationships with private lenders and therefore a 'no credit elsewhere' test would not be unduly burdensome."

OTHER SOURCES OF CREDIT

Farmers--the principal recipients of disaster assistance loans in fiscal year 1978--have several sources of credit available to them. Statistics from the Department of Agriculture's Economics, Statistics, and Cooperatives Service show that the total U.S. farm debt as of January 1979 is $72.2 billion for real estate and $58.2 billion for nonreal estate purposes. The proportion of farm debt held by various types of lenders is shown below.

	Percent of farm debt held	
	Real estate	Nonreal estate
Commercial banks	11.9	43.3
Farmers Home Administration	6.1	8.5
Federal Land Banks	33.9	-
Production Credit Associations	-	23.1
Life insurance companies	13.8	-
Commodity Credit Corporation	-	8.6
Individuals, SBA, and others	34.3	16.5

One important source of farm credit is the Farm Credit System. Using 508 Federal Land Bank Associations and 426 Production Credit Associations throughout the country, the system makes loans with repayment terms up to 40 years to farmers, ranchers, rural homeowners, and certain farm-related

businesses. Loans are made for a variety of purposes, including purchasing farm property, rural homes, and real estate needed for farm-related businesses; purchasing equipment, machinery, and livestock; and refinancing existing mortgages, paying other debts, and financing other needs of the borrower.

Other credit sources could have loaned money to many recipients of SBA and FmHA disaster assistance loans. For instance, an official from a local lending institution in Virginia reviewed financial profile statistics we gathered on unidentified FmHA and SBA borrowers in his area. Based on this review, he provided the following estimates on how many loans the lender could make.

	Number lender could make	Loan dollars	Number lender could not make	Loan dollars
FmHA	11	$ 276,380	20	$227,900
SBA	37	2,065,800	10	353,900
Total	48	$2,342,180	30	$581,800

As the above analysis indicates, many farm borrowers of low-interest Government disaster assistance loans could get credit elsewhere. For the sampled loans reviewed by the lending official, 80 percent of the low-interest loan dollars went to borrowers who could obtain credit elsewhere.

The availability of credit elsewhere for borrowers in our sample varied from State to State. In our sample from Texas, we estimated 38 percent of SBA's loan dollars and 29 percent of FmHA's loan dollars went to individuals who could obtain credit elsewhere based on our discussions about borrowers with lending institutions and agency officials. In Georgia, at least 33 percent of the SBA borrowers and 21 percent of the FmHA borrowers in the sample could get credit elsewhere based on our estimates. Among 130 farm disaster loans reviewed in Louisiana, we identified 10 borrowers (8 percent) with questionable need for SBA or FmHA disaster assistance loans. In Alabama, we found 41 percent of our sampled FmHA and SBA disaster loan recipients could probably get credit from other sources.

In some instances, commercial banks could extend credit for only short-term (repayment terms up to 12 months) operational loans. However, Production Credit Associations and Federal Land Bank Associations generally offered repayment

terms comparable with the SBA and FmHA disaster assistance loans.

EXAMPLES OF FARM BORROWERS WHO COULD OBTAIN CREDIT ELSEWHERE

Examples of farm borrowers who we believe could obtain credit elsewhere follow. Some of these examples were selected in our sample; others were referred to us by agency personnel. (Additional examples are in app. IV.)

--A businessman who also operates several farms borrowed $408,000 for 3 years from SBA due to the 1977 drought. Financial statements reported $950,000 annual gross income, $42 million total assets, and $38 million net worth. Other credit information showed the individual had credit with major banking institutions at the prime rate plus 1 percent. The Government's subsidy over the life of the loan amounts to $33,000. 1/

--A businessman/attorney who earned more than $84,000 in annual nonfarm income obtained an FmHA disaster assistance loan of $58,000 for 7 years. The borrower has a net worth of $983,000, including equity in 2,300 acres of land. In addition to real estate and other long-term assets, the borrower had cash on hand, bonds, cash value on life insurance policies, and other current assets of $389,000. Loan funds were disbursed directly to the borrower with no verification of use by FmHA. The Government's subsidy over the life of the loan amounts to $14,000.

--One SBA borrower, who was identified by SBA officials as a member of one of the State's most influential families and a large landowner, received a $299,000 disaster loan for 5 years to cover production losses due to the drought. The applicant reported a net worth of $700,000; however, the loan officer commented in his report that the applicant's financial statements were grossly understated. Representatives of local lending institutions unanimously agreed that a borrower with this financial position could have easily obtained credit elsewhere. The Government's subsidy over the life of the loan amounts to $45,000.

1/Based on FmHA's estimated 8.3-percent Government cost of borrowing in fiscal year 1978.

--A farmer with $367,900 in gross income from farming received a $123,400 FmHA loan for 5 years. His net worth was $2,600,000. He had current assets of $277,000, of which $275,000 was in cash and $2,000 was in accounts receivable. The farmer had $1 million in nonfarm real estate and $2,500,000 in corporate interests. In addition to the farming operations, the borrower was part owner and operator of a grain elevator. According to FmHA officials and private lending institutions, the borrower could have easily obtained credit elsewhere. The Government's subsidy over the life of the loan amounts to $21,000.

EXAMPLES OF NONFARM BUSINESSES THAT CAN GET CREDIT ELSEWHERE

Our sample included a few nonfarm businesses that received SBA disaster assistance loans. The following are examples of nonfarm businesses which benefited from SBA disaster assistance loans even though they probably could get credit elsewhere or finance their own operations.

--A corporation suffered a flood loss estimated at $852,000 and applied to SBA for relief. SBA loaned the corporation $785,000 to be repaid over 26 years at 3 percent ($250,000) and 6-5/8 percent ($535,000). While this corporation alone had annual sales of $10.5 million and a net worth of $1.3 million, it is a wholly owned subsidiary of a parent company with a net worth of $14.5 million. The parent company's other assets were unaffected by the disaster. The Government's subsidy over the life of the loan amounts to $438,000.

--A manufacturing company whose inventory was destroyed in a flood applied for an SBA disaster assistance loan. It received a $500,000 loan for 20 years. Half of the loan was at 3 percent and the other half at 6-5/8 percent in accordance with SBA regulations. The company's application showed its latest financial data included $17.7 million in sales and $5.7 million of net worth. The Government's subsidy over the life of the loan amounts to $247,000.

USE OF LOAN PROCEEDS UNCERTAIN

Generally, little or no assurance exists that disaster assistance loans are not used in frivolous ways, particularly by wealthier borrowers. In some instances, FmHA requires its

borrowers to have checking accounts supervised by agency personnel who monitor the use of the loans. However, many disaster assistance borrowers were simply issued checks for the full loan amount. SBA requires borrowers to certify how the disaster assistance loans will be used. For farm borrowers, SBA also required that the loan proceeds be divided with half intended for debt reduction and half intended for the next year's planting costs. For the debt reduction half of the loan, the loan checks were written jointly to a creditor and the loan recipient. However, the other half of the loan went directly to the recipient without any restrictions.

We talked with several farm borrowers as a part of our review, and generally they said that their loans were used for farm expenses. However, a few borrowers were known by agency officials or local lenders to have used their low-interest disaster assistance loans to purchase higher interest-bearing certificates of deposit. We could not determine how the loans were actually used.

Tighter controls could be implemented on the use of disaster assistance loans by issuing joint payee checks for the entire loan amount. Even this action would not completely safeguard against disaster assistance loans being used for non-disaster-related purposes, since the parties merely need to endorse the checks to cash them. To some extent, such controls could also add to the administrative burden of processing the loans.

Limiting the disaster assistance loans to borrowers unable to obtain credit elsewhere is another way of targeting the loans to disaster-related needs. This is based on the premise that these borrowers would probably be more inclined to use the disaster assistance loans to stay solvent, whereas wealthier borrowers may have the financial flexibility to use them for a variety of purposes.

CONCLUSIONS

A major difference between the FmHA and SBA disaster assistance loan programs is FmHA's credit-elsewhere test to screen out applicants who are able to obtain credit from other sources. SBA has no similar test.

The low interest rate of disaster loans and the ease in getting large loans created strong incentive for borrowers to obtain Government disaster assistance loans rather than rely on their normal credit sources. Many of the loans we reviewed were made to borrowers who could have obtained credit

elsewhere. This is particularly true of FmHA and SBA farm borrowers even though FmHA requires a credit-elsewhere test. The FmHA test was widely ignored or ineffectively implemented in the loans we reviewed.

An effective test for credit elsewhere can direct Federal lending to those borrowers most in need and unable to obtain credit from commercial sources and thus prevent the Government from competing with the private sector. In addition, by reducing the number of disaster assistance loans made, the Government could save substantial interest costs.

Because SBA's program does not include a test for credit elsewhere and because FmHA's test for credit elsewhere was not uniformly applied, many farmers who could have financed their own operations or obtained financing from commercial sources have instead received federally subsidized loans. Since FmHA's credit elsewhere test was not uniformly applied, a need exists for clarifying the credit-elsewhere requirements for all county supervisors and reviewing the fiscal year 1978 disaster assistance loans for possible referral to other credit sources.

In our previous report (CED-78-118), we recommended that the Congress decide whether it should be the policy of the Federal Government to make disaster assistance loans to farmers who are able to obtain credit from non-Federal sources. Further, to avoid unnecessary costs and interference with traditional sources of agricultural credit, we recommended that the Congress maintain the credit-elsewhere test for FmHA's disaster assistance loans and that, if SBA is to continue making disaster assistance loans to farmers, legislation be enacted requiring SBA to make the loans only to farmers unable to obtain credit from non-Federal sources.

In response to the requirements in section 236 of the Legislative Reorganization Act of 1970, SBA had no strong feelings about whether farm borrowers should be unable to obtain credit elsewhere, but it believed nonfarm business disaster assistance loans should be exempt from this criterion. SBA has continued to make disaster assistance loans, regardless of the availability of credit elsewhere. However, in a statement before the Senate Select Committee on Small Business on April 24, 1979, the SBA Deputy Administrator revised the agency's position by proposing to impose a test for credit upon SBA's disaster assistance loan program for businesses similar to that applied by FmHA on its borrowers.

We believe our recommendations are still valid.

RECOMMENDATIONS TO THE SECRETARY OF AGRICULTURE

We recommend that the Secretary direct the FmHA Administrator to clarify FmHA's test for credit elsewhere for all county supervisors and review all disaster assistance loans made in fiscal year 1978 for possible referral to other credit sources.

AGENCY COMMENTS

FmHA officials agreed with our recommendation for clarifying FmHA's test for credit elsewhere for all county supervisors. They also agreed to make early reviews of disaster assistance loans made in fiscal year 1978 for possible referral to other credit sources. FmHA officials believed the present method of implementing the credit-elsewhere test is a good and workable method. However, they said they were aware of isolated instances of the problems we noted.

EDMUND S. MUSKIE, MAINE, CHAIRMAN
WARREN G. MAGNUSON, WASH.
ERNEST F. HOLLINGS, S.C.
ALAN CRANSTON, CALIF.
LAWTON CHILES, FLA.
JAMES ABOUREZK, S. DAK.
JOSEPH R. BIDEN, JR., DEL.
J. BENNETT JOHNSTON, LA.
WENDELL R. ANDERSON, MINN.
JAMES R. SASSER, TENN.
HENRY BELLMON, OKLA.
ROBERT DOLE, KANS.
JAMES A. MC CLURE, IDAHO
PETE V. DOMENICI, N. MEX.
SAM I. HAYAKAWA, CALIF.
H. JOHN HEINZ III, PA.

JOHN T. MC EVOY, STAFF DIRECTOR
ROBERT S. BOYD, MINORITY STAFF DIRECTOR

United States Senate

COMMITTEE ON THE BUDGET
WASHINGTON, D.C. 20510

December 15, 1978

Honorable Elmer B. Staats
Comproller General of the United States
GAO Building
441 G Street, N.W.
Washington, D.C. 20548

Dear Elmer:

The Small Business Amendments of 1977 (P.L. 95-89) authorized deep interest subsidies for SBA disaster loans and Farmers Home emergency loans. Shortly after this legislation was enacted, crop damage was declared eligible for SBA disaster assistance. Subsequently, in FY 1978, SBA disaster loan volume shot up from an average of about $0.2 billion annually to a record of $2.5 billion, and Farmers Home emergency loans increased from about $0.7 billion annually to $3.4 billion. This unanticipated explosion in lending created severe problems for the Federal budget and raises serious questions as to whether the design of the current disaster loan program -- as exemplified by the FY 1978 disaster lending -- is appropriate.

The Senate Budget Committee has been deeply concerned about runaway spending in these programs, and we have strongly opposed legislation, such as H.R. 11445, to extend unreasonably large disaster loan subsidies with interest rates substantially below the government's cost of borrowing, which itself represents a significant subsidy to program recipients. The reasons for our concern are outlined in the attached floor statements.

The President's decision to pocket veto H.R. 11445 opens for the 96th Congress an opportunity and challenge to redesign Federal disaster relief programs so that they operate within acceptable budgetary constraints, and provide proper aid to disaster victims who are truly in need.

To assist a Congressional review of disaster spending, we hereby request the General Accounting Office to carry out a study consisting of three parts:

1. Analysis of SBA disaster loan operations in FY 1978. This section should consist of a comprehensive audit of the SBA disaster loan program in FY 1978. The audit should address, but not necessarily be limited to, the following questions:

Honorable Elmer B. Staats
December 15, 1978
Page 2

- What were the reasons for the increase in SBA disaster loan volume during FY 1978? In particular, how was the level of demand affected by the decrease in interest rates, the addition of crop damage as an eligible category of business loss, and the severity of disasters in 1978 compared to disasters in other years?

- Who were the beneficiaries, by income group, type and size of business, and location?

- What was the correlation between the severity of an area's disaster losses and the amount of loans received? What factors appear to account for the observed patterns?

- To what extent could loan recipients have secured credit elsewhere?

- For what purposes were loan proceeds used?

Because SBA disaster lending interacts closely with other Federal programs, such as those of FmHA, the report should also describe other disaster assistance programs available to farm and non-farm businesses, their eligibility requirements and the benefits they offer. We request that GAO collect and analyze relevant data for SBA and FmHA that are both national and subnational, farm and non-farm, before and after the program changes made in 1977.

2. An inquiry into the basic design of Federal disaster policy. The second section of the study should broadly consider what the Federal role in disaster policy should be. What principles are relevant in delineating the Federal role in disaster aid and in specifying particular program provisions? What types of beneficiaries should be aided? How should the Federal role vary with the type of disaster?

3. Recommended program changes. The third section of the study should include GAO recommendations for changes in Federal disaster loan programs. Questions considered under this section should include, but not necessarily be limited to, the following. Should eligibility be restricted to businesses and individuals who cannot obtain credit from other sources? Should Federal loans for the repair or replacement of luxury facilities, such as swimming pools, be prohibited? Should loans for damage to homes and personal

Honorable Elmer B. Staats
December 15, 1978
Page 3

property be targetted on low-income individuals? How can the Federal Government avoid assuming risks that should properly be borne by private individuals and firms? What rates of interest should be charged on Federal disaster loans? What categories of loss are appropriate for Federal relief? Is there wasteful duplication of effort between the Farmers Home Administration and the Small Business Administration in making disaster loans to farmers? Are there circumstances under which other methods of dealing with agricultural disasters, such as crop insurance, would be preferable to the current disaster loan programs?

Senate Budget Committee staff have advised us, based upon discussions with the staff of your Community and Economic Development Division, that our request will be handled in two separate reviews. We understand that the Community and Economic Development Division will be responsible for the first section and the Program Analysis Division for the second . Please request the staffs of these two Divisions to coordinate their work with Allan Mandel of the Budget Committee staff. A plan for carrying out the project should be developed and submitted for our review as soon as feasible.

The results of the studies should be made available to the Committee in May 1979 to be used in preparing possible congressional hearings and considering legislation to reform Federal disaster relief programs. Interim reports should be submitted as major phases of the reviews are completed. In any event, we would like the final reports by July 1979.

Thank you for your cooperation in this matter.

Sincerely,

Henry Bellmon
Ranking Minority Member

Edmund S. Muskie
Chairman

Enclosures

INFORMATION ON OTHER DISASTER ASSISTANCE PROGRAMS AVAILABLE TO VICTIMS OF NATURAL DISASTERS

We were asked to prepare a listing of Federal disaster assistance programs available to farm and nonfarm businesses. We have expanded this listing to include programs available to individuals.

This listing focuses on programs which are initiated by weather-related natural disasters and are not available without a formal declaration of disaster from a Federal agency. Also, certain programs under Federal agencies which have their own authorities allowing them to provide assistance without a formal declaration have been included when they assist victims of weather-related natural disasters. All these programs provide their assistance to individuals and businesses rather than State and local governments.

There is also a wide range of assistance available to State and local governments, primarily under the authorities of the Disaster Relief Act of 1974. Specifically, the President may direct any Federal agency to use its resources in support of State and local efforts. A listing of many of these available services is provided.

Name	:	Economic Injury Loan Program.
Purpose	:	To assist a business which has suffered substantial economic injury as a result of a natural disaster.
Federal agency	:	Small Business Administration.
Legislation	:	Small Business Act, 7(b)2; P.L. 85-536; Disaster Relief Act of 1970, P.L. 91-606.
Program initiation	:	A Presidential declaration of a major disaster, a declaration by the SBA Administrator, or certification by a State Governor that businesses in the State have suffered substantial economic injury.
Eligibility	:	To be eligible, an applicant must meet the SBA criteria of a small business and must furnish proof of the economic injury claimed.
Benefits	:	The program provides for direct or guaranteed loans to eligible business concerns. There is no limit to the amount of these loans, although they may not exceed the amount of loss, and amounts in excess of $500,000 must be approved by the Administrator. The interest rate is 3 percent on the first $25,000 and an amount determined by the Treasury based on the average interest rate on all interest-bearing obligations of the United States on the remainder. Private credit must be used to the greatest extent feasible prior to approval of SBA assistance. Loans may be used for working capital and to pay financial obligations which the borrower would have been able to pay if a disaster had not occurred.

Name	:	Emergency Conservation Measures.
Purpose	:	The program is designed in part to assist farmers in rehabilitating farmland which has been damaged by wind, erosion, floods, hurricanes, drought, or other natural disaster.
Federal agency	:	Agricultural Stabilization and Conservation Service (ASCS), Department of Agriculture.
Legislation	:	Third Supplemental Appropriations Act, 1957, P.L. 85-58; and subsequent appropriations acts.
Program initiation	:	Subject to availability of funds, an ASCS County Committee is authorized to implement the program for eligible farmers. Drought assistance must be approved by the Director, ASCS.
Eligibility	:	Any owner, landlord, tenant, or sharecropper on a farm or ranch who bears a part of the cost of rehabilitation of farmland damaged by disaster.
Benefits	:	Under this program, the Government provides up to 80 percent of the cost of rehabilitating disaster-damaged farmland. Primary assistance for drought damage is in the area of helping the farmer provide for immediate water needs. Assistance in excess of $10,000 must be approved by the Director, ASCS.

Name	:	Federal Crop Insurance Corporation.
Purpose	:	To ease the financial blow to farmers caused by production losses due to unavoidable causes.
Federal agency	:	Federal Crop Insurance Corporation (FCIC), Department of Agriculture.
Legislation	:	Title V of the Agricultural Adjustment Act of 1938, P.L. 75-430.
Program initiation	:	Holders of insurance coverage who incur an eligible production loss file a claim with FCIC.
Eligibility	:	This is a voluntary program available to any farmer who has an insurable interest in a crop in a county where insurance is available on that crop.
Benefits	:	The Federal crop insurance program is currently available in parts of 39 States, or 1,517 counties, on 23 crops. When the growing season starts, FCIC calculates a minimum production level in pounds, bushels, or other commodity unit for the participating farmer. The minimum level established is never more than, but usually less than, 75 percent of the average yield for the farm. Therefore, a farmer receives no insurance benefits unless losses exceed at least 25 percent of normal production. The farmer selects one of several optional prices for calculating losses. Insurance premiums are then established based on the calculated production level, the selected price, and the risks of the area. When production falls below this predetermined insured level because of unavoidable causes, the farmer may file a claim for loss reimbursement from FCIC.

Name	:	Disaster Payments Plan.
Purpose	:	To stabilize farm income by compensating farmers growing certain crops when because of a natural disaster they are prevented from planting or suffer losses in production.
Federal agency	:	ASCS, Department of Agriculture.
Legislation	:	Agriculture and Consumer Protection Act of 1973, P.L. 93-86; Rice Production Act of 1975, P.L. 94-214; Food and Agriculture Act of 1977, P.L. 95-113; P.L. 95-156; P.L. 81-439.
Program initiation	:	When growers of upland cotton, wheat, rice, or feed grains are prevented from planting or suffer a loss of any portion of normal crop acreage due to a natural disaster.
Eligibility	:	Growers of wheat, rice, upland cotton, or feed grain.
Benefits	:	The Disaster Payments Plan is free insurance for growers of four eligible crops and is meant to supplement the protection offered by crop insurance. Payments are made for low yield and prevented planting. The amount of crop loss for which farmers can be compensated is determined by ASCS based on established acreage and yield formulas for particular geographic areas. The payment rate is established by law. Disaster payments for prevented planting provide the farmer with approximately 25 percent of the normal return on a crop if a disaster had not occurred. Low yield payments in conjunction with Federal crop insurance, in areas where it is available on the four disaster payments crops, come close to returning the cost of production to the farmer.

Name	:	Rural Housing Disaster Loans.
Purpose	:	To assist farm and rural families who experience a loss from a natural disaster that was not of sufficient magnitude to warrant a disaster designation by the Secretary of Agriculture or the Administrator of the Small Business Administration.
Federal agency	:	Farmers Home Administration, Department of Agriculture.
Legislation	:	Title V of the Housing Act of 1949.
Eligibility	:	Loans may be made to farm and nonfarm families to repair or replace dwellings damaged or destroyed by a natural disaster that was not designated in either a Presidential or Secretarial declaration of disaster, and are unable to obtain credit from other sources.
Benefits	:	Loans at an interest rate of 5 percent may be made to eligible applicants for periods up to 33 years for the repair or replacement of buildings damaged or destroyed as a result of a natural disaster.

Name	:	Emergency Feed Program
Purpose	:	To reimburse livestock owners for a portion of the cost of feed purchased to replace that which is normally produced on the farm and which, because of an emergency, is purchased in quantities larger than would normally be made.
Federal agency	:	Department of Agriculture.
Legislation	:	Section 1105, Food and Agriculture Act of 1977, P.L. 95-113.
Program initiation	:	The Secretary of Agriculture can make the program available to any eligible farmer.
Eligibility	:	To be eligible, a farmer must have suffered a substantial loss of feed production because of a disaster, must not have sufficient feed for the livestock for the period of emergency, and must be forced to purchase feed grain in larger than normal quantities.
Benefits	:	Under the Emergency Feed Program, the Government shares up to 50 percent of the cost of additional feed grain purchases made necessary by a natural disaster.

Name	:	Emergency Livestock Feed Program.
Purpose	:	To prevent the liquidation or culling of livestock herds due to production losses of feed grains caused by natural disasters.
Federal agency	:	ASCS, Department of Agriculture.
Legislation	:	Section 407, Agricultural Act of 1949; Agriculture Act of 1970; Agricultural and Consumer Protection Act of 1973; Federal Disaster Relief Act of 1974.
Program initiation	:	A declaration of emergency by the Secretary of Agriculture.
Eligibility	:	Livestock producers in declared disaster areas are eligible if they (1) suffer a substantial loss of livestock feed normally produced on the farm, (2) do not have sufficient feed for eligible livestock for the emergency period, (3) are required to make feed purchases in quantities larger than normal because of the emergency, and (4) are unable to obtain sufficient feed through normal channels without undue financial hardship.
Benefits	:	Authorization for this program is permanent, although the program ceased to operate in 1976. It was replaced under authority of the Federal Disaster Relief Act of 1974 with the hay transportation assistance program, the cattle transportation assistance program, and the emergency feed program. When the program is in effect, the Secretary of Agriculture is authorized to make available to farmers in disaster declared areas grain, hay, or other livestock forage purchased through the facilities of the Commodity Credit Corporation.

Name	:	Flood Insurance.
Purpose	:	To enable individuals in designated flood-prone areas to purchase insurance against losses from physical damage caused by these hazards.
Federal agency	:	Federal Emergency Management Agency.
Legislation	:	Housing and Urban Development Act of 1968, P.L. 90-448.
Program initiation	:	After incurring an insured loss, a policyholder would file a claim with the Federal Emergency Management Agency.
Eligibility	:	Owners of all buildings and/or of their contents in communities that are participating in the National Flood Insurance Program.
Benefits	:	Property owners may buy flood insurance at a subsidized rate if their residence or business is located in a designated flood hazard area.

Name	:	Aid to Major Sources of Employment.
Purpose	:	These loans are meant to enable an industrial or commercial enterprise which constitutes a major source of employment in an area suffering a major disaster declared by the President, and which is no longer in substantial operation as a result of the disaster, to resume operations.
Federal agency	:	Small Business Administration (SBA).
Legislation	:	Section 237, Disaster Relief Act of 1970, P.L. 91-606.
Program initiation	:	A Presidential declaration of a major disaster.
Eligibility	:	To be eligible, a business must lie within a major disaster area and employ 1,000 or more people, or 10 percent of the community, or 10 percent of the total work force in an industry.
Benefits	:	Eligible businesses may receive 7(b)1 physical disaster loans or 7(b)2 economic injury loans without dollar limitation to enable them to resume operations and restore the economy of the area. Loan payments may be deferred for a period of 3 years.

Name	:	Adjustment to Federal Loans--Veterans Administration (VA).
Purpose	:	To provide assistance whenever a residential property which secures a loan guaranteed by VA is damaged or destroyed by a major disaster.
Federal agency	:	Veterans Administration.
Legislation	:	Section 233, Disaster Relief Act of 1970, P.L. 91-606.
Program initiation	:	A Presidential declaration of a major disaster.
Eligibility	:	When property which secures a VA loan is damaged or destroyed in a major disaster, the property owner may seek assistance.
Benefits	:	The Administrator will make a case-by-case determination on the benefits to be offered and can extend forbearance or indulgence, as the facts of the case may warrant. The Administrator can also provide counseling as to the availability of other assistance provided by Federal, State, and local agencies.

Name	:	Adjustment to Federal Loans--Housing and Urban Development (HUD).
Purpose	:	To provide assistance due to the loss or destruction of property which secures a HUD obligation because of a major disaster.
Federal agency	:	Department of Housing and Urban Development.
Legislation	:	Section 236(b), Disaster Relief Act of 1970, P.L. 91-606.
Program initiation	:	A Presidential declaration of a major disaster.
Eligibility	:	Owners of a property which secure a HUD obligation when that property is damaged or destroyed by a major disaster.
Benefits	:	The Secretary of Housing and Urban Development may refinance any note or obligation held by her. The Secretary may authorize a suspension in the payment of principal and interest charges and an additional extension in the maturity of any such loan for a period not to exceed 5 years.

Name	:	Rural Electrification and Telephone Loan Adjustment.
Purpose	:	The Rural Electrification Administration (REA) makes loans to assure that people in rural communities have access to reliable electrical and telephone service. In the event the systems constructed with these loans are damaged as a result of a disaster, REA may make an additional low-interest loan or adjust the payments of the current loan in order to assure the viability of the system.
Federal agency	:	Rural Electrification Administration, Department of Agriculture.
Legislation	:	Rural Electrification Act of 1936; Section 236(a), Disaster Relief Act of 1970, P.L. 91-606.
Eligibility	:	Any loan recipient of a program administered by the Rural Electrification Administration.
Benefits	:	The Secretary of Agriculture is authorized to adjust the terms of loans to borrowers under programs administered by REA and to extend the maturity date up to 40 years from the date of the loan when necessary because of loss, destruction, or damage due to a major disaster. Additional loans may be made at the discretion of the REA Administrator to borrowers who have experienced extreme hardship. These loans are made at a 2-percent interest rate.

Name	:	Individual and Family Grant Program.
Purpose	:	The grant program provides funds to disaster victims to meet necessary expenses and needs caused by a major disaster for which other governmental assistance is either unavailable or inadequate.
Federal agency	:	Federal Disaster Assistance Administration (FDAA), Department of Housing and Urban Development.
Legislation	:	Disaster Relief Act of 1974, P.L. 93-288.
Program initiation	:	A Presidential declaration of a major disaster.
Eligibility	:	In order to qualify for an individual or family grant, applicants must certify that they have applied to other governmental disaster assistance programs and that they have been found to be unqualified or that the assistance received has not satisfied their existing expenses or needs.
Benefits	:	Grants of up to $5,000 are available to eligible applicants to meet necessary expenses or serious needs. Types of expenses or needs deemed eligible include medical and dental expenses, funeral expenses, housing and personal property needs, and transportation needs. The Regional Director may make a determination on other requests for assistance.

Name	:	Temporary Housing Assistance Program.
Purpose	:	To provide housing assistance to individuals and families displaced by a major disaster.
Federal agency	:	Federal Disaster Assistance Administration (FDAA), Department of Housing and Urban Development.
Legislation	:	Disaster Relief Act of 1974, P.L. 93-288.
Program initiation	:	Presidential declaration of a major disaster.
Eligibility	:	Temporary housing assistance may be made available to those individuals and families whose dwellings have been destroyed, rendered uninhabitable, made inaccessible, or who have been otherwise displaced as a result of a major disaster.
Benefits	:	FDAA may provide either substitute housing which meets the eligible individual's or family's minimum temporary housing needs, or assistance in repairing or restoring that portion of an owner-occupied dwelling which will allow the owner and family to reoccupy the dwelling quickly. Temporary housing will be provided rent free for up to 12 months for eligible recipients. Those eligible for temporary housing who elect to participate in the minimal repair program must be able to complete repairs within 30 days of authorization. The cost of the repairs cannot exceed that necessary to house the individual or family for a period of 12 months.

Name	:	Indian Acute Distress Donation Program.
Purpose	:	To assist Indian tribes who suffer an acute shortage of grain, hay, or other livestock forages as the result of a natural disaster.
Federal agency	:	ASCS, Department of Agriculture.
Legislation	:	Section 407, Agricultural Act of 1949; Executive Order 11336.
Program initiation	:	By the Secretary of Agriculture upon request of the Bureau of Indian Affairs
Eligibility	:	Members of Indian tribes are eligible for assistance following the determination of the Secretary of Agriculture that the economic distress of the needy members of an Indian tribe is materially increased by severe drought, flood, hurricane, blizzard, or other natural disaster.
Benefits	:	Assistance is in the form of donations of Commodity Credit Corporation-owned feed grains with freight and handling paid to one or more central points by the Corporation.

Name	:	Emergency Watershed Protection.
Purpose	:	To restore and improve any land in a watershed that has been damaged by flood, fire, or any other natural disaster.
Federal agency	:	Soil Conservation Service, Department of Agriculture.
Legislation	:	Flood Control Act of May 17, 1950, P.L. 81-516.
Eligibility	:	Any landowner who sustains a "sudden impairment" of land in a watershed caused by any natural disaster is eligible if emergency measures for runoff retardation and soil erosion prevention are needed to safeguard lives or property.
Benefits	:	The program provides for grants to landowners to reduce hazards to watersheds. In the past, the program has been used almost exclusively for flood damage.

Name	:	Food Stamp Program.
Purpose	:	To assist low-income households who are unable to purchase adequate amounts of nutritious food as a result of a major disaster.
Federal agency	:	Food and Nutrition Service (FNS), Department of Agriculture.
Legislation	:	Section 409, Disaster Relief Act of 1974, P.L. 93-288.
Program initiation	:	A Presidential declaration of a major disaster.
Eligibility	:	Households in disaster areas that are in need of food assistance because of reduction in or inaccessibility of income or resources resulting from a major disaster.
Benefits	:	Eligible applicants may receive food coupons for any period prescribed by FNS up to 30 days. Assistance may be continued beyond this period based on normal certification procedures.

Name	:	Timber Sales Contract.
Purpose	:	To provide relief to individuals holding a valid timber purchase contract with either the Department of Agriculture or the Department of the Interior when a major physical change, caused by a single event and not due to the negligence of the purchaser, results in additional cost.
Federal agency	:	U.S. Forest Service, Department of Agriculture; U.S. Park Service, Department of the Interior; Federal Disaster Assistance Administration.
Legislation	:	Disaster Relief Act of 1974, P.L. 93-288.
Eligibility	:	Holders of Timber Sales Contracts with the Department of Agriculture or the Department of the Interior.
Benefits	:	If holders of timber sales contracts with either of the Departments of Agriculture or the Interior suffer a physical loss due to unavoidable causes, such as forest fires, they are entitled to a cost adjustment. If they incur additional costs due to unavoidable causes, such as slides or washouts, they are entitled to a cost adjustment on their contracts.

Name	:	Unemployment Assistance.
Purpose	:	To provide for the payment of unemployment assistance benefits to individuals whose unemployment is caused by a major disaster and to provide employment services to those individuals.
Federal agency	:	Department of Labor.
Legislation	:	Disaster Relief Act of 1974; P.L. 93-288.
Program initiation	:	A Presidential declaration of a major disaster.
Eligibility	:	Workers who no longer have a job, cannot work because of an injury, are unable to reach their jobs, or have become the major supporters of their households because the head of the household has died as a direct result of a major disaster.
Benefits	:	Workers found eligible for disaster unemployment assistance are entitled to compensation for all weeks of unemployment during a disaster assistance period, payable at a rate computed for a week of total unemployment under applicable State law. They are also eligible for employment services, including counseling, referrals to suitable work opportunities, and suitable training to assist them in obtaining reemployment in suitable positions as soon as possible.

Programs That Provide Services to State and Local Governments Which Have Suffered Losses Due to Natural Disasters

1. Debris Removal - Section 403, the Disaster Relief Act of 1974, P.L. 93-288. The President may authorize any Federal agency to remove debris and wreckage resulting from a major disaster when determined to be in the public interest.

2. Fire Suppression Assistance - Section 417, the Disaster Relief Act of 1974, P.L. 93-288. Following a determination by the Administrator of the Federal Disaster Assistance Administration (FDAA), the FDAA or another Federal agency designated by FDAA can provide grants and other assistance for the suppression of any fire on publicly or privately owned forest or grassland which threatens to become a major disaster.

3. Fire Suppression and Emergency Rehabilitation of Indian Lands - The Act of May 27, 1955, P.L. 84-46 authorizes the Bureau of Indian Affairs to provide advisory and specialized services to be used in the prevention and suppression of wildfires and emergency rehabilitation of burned areas of Indian forest and rangeland. When rehabilitation is needed, treatment may include planting, seeding, erosion control, rodent control, and fencing.

4. Flood Fighting and Rescue Operations - P.L. 84-99. The U.S. Army Corps of Engineers is authorized to provide emergency assistance to State and local governments when their resources are being utilized to the maximum extent possible. Assistance does not include removal of temporarily constructed flood control works or reimbursement for funds expended in flood fighting efforts.

5. Food, Water, and Shelter - Sections 305 and 306, the Disaster Relief Act of 1974, P.L. 93-288. Following a Presidential declaration of a major disaster or emergency, the FDAA can provide specialists to assist and advise local governments in surveying the availability of food and supplies; supervising the storage, transportation, and distribution of consumer goods and commodities; sheltering operations; and providing potable water for emergency drinking and cooking purposes.

6. Protection, Evacuation, Search, and Rescue - Sections 305 and 306, the Disaster Relief Act of 1974, P.L. 93-288. Following a Presidential declaration of a major disaster

or emergency, the FDAA is authorized to request appropriate Federal agencies to provide assistance in maintaining law and order; medical evacuation; refugee evacuation; and aerial and mobile search and rescue.

7. Public Transportation - The Disaster Relief Act of 1974, P.L. 93-288. The FDAA is authorized, following a Presidential declaration of a major disaster, to provide transportation to governmental offices, supply centers, stores, post offices, schools, major employment centers, and such other places as may be necessary.

8. Crisis Counseling - Section 413, the Disaster Relief Act of 1974, P.L. 93-288, authorizes the National Institute of Mental Health to provide professional counseling services to victims of major disasters in order to relieve mental health problems caused or aggravated by a major disaster or its aftermath.

9. Health, Medical, and Sanitation - The Disaster Relief Act of 1974, P.L. 93-288 authorizes appropriate Federal agencies requested by the FDAA to provide services to victims of a major disaster or emergency. Possible services may include:

--Trained specialists to plan and supervise health education programs to include basic sanitation, personal health, and field sanitation training.

--Early care to the injured or sick.

--Hospitalization for personnel when temporary hospital facilities are required.

--Mass immunization.

--Personnel and equipment to prepare necessary graves registration records, and to supervise and establish temporary cemetaries.

--Aircraft for aerial spraying operations to control pestilence during disaster operations.

--Specialists to assist and advise local governments in establishing programs for the control, treatment, and prevention of existing diseases.

--Victim identification.

10. Legal Services - Section 412, the Disaster Relief Act of 1974, P.L. 93-288, authorizes the President to secure advice and assistance from appropriate Federal agencies and State and local bar associations when he determines that low-income individuals are unable to secure adequate legal services as a consequence of a major disaster.

APPENDIX III

DISTRIBUTION OF DISASTER ASSISTANCE

LOANS BY STATE IN FISCAL YEAR 1978

State	SBA loans (note a)		FmHA loans (note b)	
	Volume	Dollars (millions)	Volume	Dollars (millions)
Alabama	2,484	$119.63	3,843	$127.81
Alaska	2	.01	-	-
Arizona	475	9.61	280	24.86
Arkansas	250	8.04	1,484	44.98
California	21,459	211.40	727	110.33
Colorado	21	.67	1,050	55.64
Connecticut	578	7.14	24	.86
Delaware	-	-	71	2.91
District of Columbia	-	-	-	-
Florida	1,318	65.07	1,158	65.14
Georgia	9,108	408.71	6,731	321.57
Hawaii	24	.43	2	.01
Idaho	238	14.76	1,336	81.41
Illinois	190	1.10	787	24.21
Indiana	519	10.67	276	16.35
Iowa	14,354	340.55	5,858	152.24
Kansas	1,995	46.95	1,462	49.46
Kentucky	422	8.84	165	4.63
Louisiana	6,993	68.73	1,620	57.35
Maine	1,431	14.80	599	26.49
Maryland	14	.22	186	5.49
Massachusetts	8,707	102.18	52	2.51
Michigan	853	21.02	1,513	70.24
Minnesota	1,235	9.38	1,841	63.02
Mississippi	1,726	107.98	8,046	328.30
Missouri	4,382	75.66	1,938	58.13
Montana	117	1.02	1,374	82.78
Nebraska	2,066	40.06	2,970	118.77
Nevada	-	-	51	2.91
New Hampshire	354	4.64	-	-
New Jersey	2,241	22.23	118	3.45
New Mexico	1	.01	379	17.17
New York	28,882	97.10	5,897	174.74
North Carolina	2,007	59.10	7,700	169.66
North Dakota	77	.57	5,748	202.09
Ohio	41	.57	378	18.84

State	SBA loans (note a)		FmHA loans (note b)	
	Volume	Dollars	Volume	Dollars
		(millions)		(millions)
Oklahoma	19	$ .12	865	$ 58.50
Oregon	456	2.70	522	32.42
Pennsylvania	1,959	56.67	300	6.76
Rhode Island	1,131	11.92	11	.04
South Carolina	2,417	119.58	2,510	80.39
South Dakota	131	1.54	4,498	159.01
Tennessee	2,206	100.24	789	43.35
Texas	1,954	86.59	5,096	223.25
Utah	-	-	420	11.00
Vermont	-	-	257	4.11
Virginia	933	20.22	4,976	170.53
Washington	1,426	56.70	575	31.00
West Virginia	339	8.24	97	2.49
Wisconsin	278	5.79	1,610	56.54
Wyoming	37	.28	831	47.24
Puerto Rico	907	2.45	94	.75
Virgin Islands	541	2.56	3	.07

a/Includes only the SBA disaster assistance loans for physical losses which account for $2.4 billion of SBA's total fiscal year 1978 Disaster Loan Program lending of $2.5 billion.

b/Includes all FmHA emergency loans of which disaster assistance loans for production losses account for $1.4 billion of the total $3.4 billion.

ADDITIONAL EXAMPLES OF FARM BORROWERS WHO COULD OBTAIN CREDIT ELSEWHERE

In chapter 4 we discuss SBA and FmHA disaster assistance loan recipients who could obtain credit elsewhere. The following are additional examples of farm borrowers who we believe could get credit from other sources.

--A farmer and business operator applied for an FmHA disaster assistance loan after suffering crop losses in the drought. A $56,000 disaster assistance loan was granted for 7 years at 3-percent interest. The farm and business provided the operator with a $276,000 gross annual income and a $762,000 net worth. The Government's subsidy over the life of the loan amounts to $13,000.

--A farmer with a $277,000 gross annual income and a $529,000 net worth received a $64,000 disaster assistance loan for 7 years at 3 percent from FmHA due to a drought. The Government's subsidy over the life of the loan amounts to $15,000. FmHA personnel believe the farmer used the loan to purchase a certificate of deposit yielding a higher interest rate.

--One borrower with a $1.1 million net worth obtained an 8-year, $81,000 SBA disaster assistance loan, had more than $93,000 cash on hand, and $50,000 worth of other current assets available. The borrower farmed over 1,100 acres of land valued at $778,000 with a mortgage of only $15,000. The loan file showed that of the $81,000 borrowed, $15,000 was paid to a bank to reduce debt and the remaining $66,000 was disbursed directly to the borrower to use for working capital. A bank official told us that the borrower put the SBA loan funds in a certificate of deposit. The Government's subsidy over the life of the loan amounts to $22,000.

--Another borrower who had a net worth of $873,000 obtained a $98,000 FmHA disaster assistance loan with a 7-year repayment period. Of the loan amount, $42,000 was used for debt reduction and $56,000 was disbursed to the borrower for working capital. This borrower owned 1,200 acres of land valued at $840,000, with an outstanding mortgage of only $25,000. The borrower had total assets of $946,000 with total liabilities of

only $73,000, a ratio of assets over liabilities of 13:1. The Government's subsidy over the life of the loan amounts to $23,000.

--A doctor with a net worth of $3.2 million and an annual net profit from his private practice of $120,000, received a $500,000 SBA disaster assistance farm loan with a repayment period of 15 years. The doctor owns 1,600 acres of land, an industrial plant, and numerous rental properties. In addition to the doctor's real estate holdings and other long-term assets, he had more than $325,000 in cash on hand, marketable securities, and other current assets. The Government's subsidy over the life of the loan amounts to $88,000.

--A farmer owning 1,000 acres received a $16,000 SBA disaster assistance loan for 5 years. The farmer had $19,000 in cash and $11,000 in accounts receivable. Assets totaled $1.5 million and the net worth was $1.1 million. He was a local bank director. The Government's subsidy over the life of the loan amounts to $3,000.

--The president and principal owner of a multimillion dollar corporation, with plants or sales offices in six States and two countries, received a $500,000 SBA disaster assistance farm loan for losses suffered in the drought. The borrower is an officer, partner, or director in at least six other companies and has interest in additional businesses. The borrower has a net worth of $4.8 million and annual gross nonfarm income is from salaries, dividends, interest, rents, director's fees, profits realized from partnerships, and small business corporations, etc. When the borrower applied for the loan, he requested a 20-year repayment period; however, the request was denied and the repayment period was approved for 15 years. An SBA official noted on the loan approval sheet that the farming losses do not reflect the overall operations of the borrower. He added that the borrower has a very strong operation financially and that repayment should be no problem. The borrower protested the 15-year repayment period and asked for reconsideration. SBA decided in favor of the borrower and changed the repayment period to 20 years. This did not end the borrower's efforts to hold the low-interest money as long as

possible. When the first annual installment was due, he mailed SBA a check for the accrued interest and requested that the principal amount due be deferred 1 year because of 1978 crop losses. This time SBA ruled against the borrower based on substantial other income that the borrower had available to pay SBA obligations. The Government's subsidy over the life of the loan amounts to $247,000.

--A corporation that was not primarily engaged in farming obtained an FmHA disaster assistance farm loan of $90,000 for 7 years. In fact, the business of farming was not mentioned in the corporation's charter. The four owners of the corporation have a combined net worth of about $3 million. In addition to the individuals' interest in the corporation, real estate, and other long-term assets, they had cash on hand and marketable stocks of more than $3.7 million. Their assets included a substantial ownership in two rural banks. The Government's subsidy over the life of the loan amounts to $21,000.

--A doctor whose practice is in a major metropolitan area owned some rural farmland. The doctor claimed crop losses due to the drought disaster and received a $118,000 SBA disaster assistance loan at 3-percent interest for 12 years. The doctor reported a net worth of $567,000 and an annual income of $132,000. The Government's subsidy over the life of the loan amounts to $49,000.

--A farmer with a $220,000 annual gross income and a $1.2 million net worth received a $180,000 SBA disaster assistance loan at 3 percent for 9 years. This farmer is also a local government official, owns a nonfarm business, and is considered an excellent credit risk by a professional credit service. The Government's subsidy over the life of the loan amounts to $55,000.

--A farmer with a net worth of $982,000 and an annual income of $304,000 received a $122,000 SBA disaster assistance loan for 8 years due to the drought. The farmer himself told us that he could obtain the money from a commercial bank instead of SBA. The Government's subsidy over the life of the loan amounts to $33,000.

--A farmer with $2,210,000 equity in a 6,300-acre farm and disaster year gross cash income of $908,000 received a $500,000 disaster assistance loan from SBA for 20 years. This borrower's total assets exceeded $5 million. SBA officials and officials of lending institutions stated that this borrower could have easily obtained credit from other sources. The Government's subsidy over the life of the loan amounts to $247,000.

--A farmer with equity in his 720-acre farm of $360,000 and no current or long-term liabilities received a $22,000 SBA disaster assistance loan for a period of 5 years. The borrower had $114,100 in current assets which included $3,500 in cash, $21,000 in accounts receivable, and $32,000 in certificates of deposit. According to both SBA and officials of lending institutions, this borrower could have definitely obtained a loan through other sources. The Government's subsidy over the life of the loan amounts to $4,000.

--A farmer with equity of $315,700 in his farm and $415,800 in disaster year income, received a 7-year, $70,200 FmHA disaster assistance loan. The farmer's current assets totaled $822,100 which consisted of $8,900 in cash, $725,000 in bonds, $6,000 in feed, and $82,300 in crops held for sale. According to lending institution officials, this borrower could have obtained credit elsewhere. The Government's subsidy over the life of the loan amounts to $16,000.

--A farmer with a net worth of more than $1,200,000 and disaster year profits of $98,000, received a 10-year SBA disaster assistance loan for $133,900. The borrower worked a 3,600-acre farm in which he had equity of more than $800,000. His current assets totaled nearly $340,000, consisting of $59,800 in cash, $67,000 in stocks and bonds, $65,200 in accounts receivable, and $147,800 of stored crops. Lending institutions, including SBA, indicated the borrower would have no problem in securing the necessary credit from other sources. The Government's subsidy over the life of the loan amounts to $45,000.

--A farmer with $379,000 equity in his farm and a net worth in excess of $2,700,000 received a $85,200 SBA

disaster assistance loan for 10 years. Lending institution officials noted that the borrower was far more wealthy than the above figures indicate because the farmer had valued his land far below the average farmland value in the area. The Government's subsidy over the life of the loan amounts to $29,000.

--A farmer with nearly 1,000 acres of land, $39,000 in cash, and a net worth in excess of a quarter million dollars received a $83,000 SBA disaster assistance loan for a 10-year period. Local lending officials stated that the farmer used the SBA proceeds as a down payment on real estate. The Government's subsidy over the life of the loan amounts to $28,000.

--FmHA made a $60,000 disaster assistance loan for 20 years to a farmer with a net worth of more than $266,000 and no current liabilities. Local banking officials stated that the borrower had invested the loan proceeds in certificates of deposit. The Government's subsidy over the life of the loan amounts to $44,000.

(068070)

Single copies of GAO reports are available free of charge. Requests (except by Members of Congress) for additional quantities should be accompanied by payment of $1.00 per copy.

Requests for single copies (without charge) should be sent to:

U.S. General Accounting Office
Distribution Section, Room 1518
441 G Street, NW.
Washington, DC 20548

Requests for multiple copies should be sent with checks or money orders to:

U.S. General Accounting Office
Distribution Section
P.O. Box 1020
Washington, DC 20013

Checks or money orders should be made payable to the U.S. General Accounting Office. NOTE: Stamps or Superintendent of Documents coupons will not be accepted.

PLEASE DO NOT SEND CASH

To expedite filling your order, use the report number and date in the lower right corner of the front cover.

GAO reports are now available on microfiche. If such copies will meet your needs, be sure to specify that you want microfiche copies.

AN EQUAL OPPORTUNITY EMPLOYER

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

OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE, $300

POSTAGE AND FEES PAID
U. S. GENERAL ACCOUNTING OFFICE

U.S.MAIL

THIRD CLASS