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Farmers Home Administration's
Implementation of the Agricultural
Credit Act of 1987 and Sales of
Farm Inventory Property

Statement of
John W. Harman, Director
Food and Agriculture Issues
Resources, Community, and Economic
Development Division

Before the
Subcommittee on Agricultural Credit
Senate Committee on Agriculture,
Nutrition, and Forestry

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Mr. Chairman and Members of the Subcommittee:

We are pleased to discuss the preliminary results of our work on the Farmers Home Administration's (FmHA) implementation of the debt servicing provisions of the Agricultural Credit Act of 1987 and the sales of farm inventory properties. Our study of FmHA's implementation of the Agricultural Credit Act, which is being conducted at the request of the Chairman, Senate Committee on Agriculture, Nutrition, and Forestry, is nearing completion. The Chairman agreed that we could provide the Subcommittee with preliminary results from this work. Our study of farm inventory properties, which is being conducted at your request, was started in January 1990.

In summary, FmHA estimated in March 1988 that debt forgiveness through implementation of the Agricultural Credit Act would total $9.4 billion. As of November 30, 1989, approved debt forgiveness totaled $1.8 billion.

Our preliminary work on FmHA's implementation of the debt servicing provisions of the Agricultural Credit Act at 10 county offices showed that:

-- slightly over one-third of the eligible delinquent borrowers qualified to (1) have their debt restructured or (2) pay FmHA an amount equal to the adjusted value of the collateral securing the debt--referred to as net recovery value buy-out. Nearly all of the remaining borrowers did not apply for servicing or did not submit complete applications.

-- about 35 percent of the borrowers who qualified for servicing were offered restructuring, with and without debt write-down, and about 65 percent were offered net recovery value buy-out. Borrowers' debt obligations to
FmHA are ended if they pay the buy-out amount, which is usually much less than the amount of their outstanding debt.

-- only 9 percent of the restructured borrowers had favorable financial potential for future successful farming operations. The remaining 91 percent of the restructured borrowers had such high debt-to-asset ratios and/or low cash flow margins that their potential appeared limited for successful farming operations without continued FmHA financial assistance.

-- borrowers whose delinquency was due to circumstances within their control or who did not act in good faith in connection with the terms of their FmHA loans—referred to as bad faith borrowers—have been allowed to buy out their FmHA debt at the net recovery value of their collateral and receive substantial debt write-offs. Also, bad faith borrowers will be eligible to reacquire their farmland, or farm homestead, if FmHA forecloses on their properties.

-- FmHA does not consider unsecured assets in computing the amount and type of debt relief to offer borrowers. The act does not require FmHA to consider unsecured assets, but not doing so reduces the debt recovery by the government.

-- nondelinquent borrowers may seek the act's benefits by becoming delinquent on their FmHA loans in the future.

Our limited work on FmHA sales of farm inventory properties at two FmHA county offices showed that the market value and productivity value differ on the average by about two percent for the FmHA properties we reviewed. Furthermore, most properties were sold to farmers to expand existing farming operations.
In presenting this testimony, I will refer to several charts with statistics that we developed on both assignments. Appendixes I and II provide these detailed statistics.

**FmHA's Implementation of the Debt Servicing Provisions of the Agricultural Credit Act**

We initiated a study in December 1988 evaluating what actions FmHA was taking to implement the debt servicing provisions of the Agricultural Credit Act of 1987 and the impact of implementation on the agency's farmer program delinquent borrowers. Our report on this work will be issued to the Chairman, Senate Committee on Agriculture, Nutrition, and Forestry in the spring of this year.

Throughout 1989, we discussed debt servicing activities with FmHA headquarters and field officials and reviewed the debt servicing actions of 10 FmHA county offices--one in each of the 10 selected states. We selected the 10 states with the largest number of debt servicing notification packages sent by FmHA to delinquent borrowers. The 10 states, in order of the number of notification packages sent, are: Texas, Mississippi, Louisiana, Georgia, Minnesota, Missouri, Oklahoma, North Dakota, Tennessee, and South Dakota. We selected one county office with a high number of delinquent borrowers in each state. The results of our work apply only to the offices we reviewed and cannot be projected to the 10 states or the nation overall.

**Background on the Agricultural Credit Act**

In January 1988, when the Agricultural Credit Act was enacted, FmHA estimated that borrowers were delinquent on $11.4 billion of its $26 billion direct farm loan portfolio. According to the agency, about 85,000 of its 242,000 farmer program borrowers were
delinquent and another 33,000 were in bankruptcy, foreclosure, or some other "inactive" status.

The Agricultural Credit Act allowed FmHA to use several loan servicing options to restructure or reduce debts of farmer program borrowers who were 180 days or more delinquent. FmHA can restructure a delinquent borrower's debt, including writing down debt, to an adjusted value of the collateral securing the debt (net recovery value). Borrowers who are unable to develop a feasible plan of operations with restructuring can pay FmHA the net recovery value buy-out amount and end their FmHA debt obligation. Furthermore, borrowers can reacquire their farms or farm homesteads from FmHA in the event of foreclosure under the act's preservation servicing program.

FmHA designed a computer program for county offices to use in analyzing key information to determine how borrowers' loans could be serviced. The program compared the present value of borrowers' restructured loans with the net recovery value of the collateral securing the loans. The act provided for restructuring when the present value of a borrower's restructured debt equaled or exceeded the net recovery value the government would receive from foreclosure and liquidation of the collateral. Conversely, the act provided for buy-out when the present value of the restructured loans was less than the net recovery value of collateral.

Servicing Notifications and Applications

The preliminary results of our review showed that in November 1988 FmHA mailed notices of the act's loan servicing options to more than 66,400 borrowers who were 180 days or more delinquent. On a national basis, about 50 percent of those notified applied for servicing. Chart 1 shows that at the 10 county offices we reviewed, 1,272 borrowers were initially notified of the options.
Of the 1,272 eligible borrowers, 569, or 44 percent, applied for servicing.

Chart 2 shows that at the county offices we reviewed, borrowers did not apply for servicing primarily because they (1) were inactive borrowers who generally were no longer farming, (2) chose to negotiate a settlement of their FmHA debt rather than servicing under the act, or (3) chose to pay their FmHA delinquent debt current or in full.

Servicing Decisions

Nationally, as of June 30, 1989, FmHA offered restructuring with debt write-down and buy-out with debt write-off to 7,509 borrowers. At that time, FmHA had not compiled national statistics showing the number of borrowers who were restructured without debt write-down. In January 1990, FmHA reported that, as of November 30, 1989, the number of serviced borrowers had increased to 9,637 borrowers--4,608 borrowers offered restructuring with debt write-down and 5,029 borrowers offered buy-out with debt write-off. An additional 9,599 borrowers were offered restructuring without debt write-down.

At the county offices we reviewed, chart 3 shows that, as of June 30, 1989, 474 borrowers qualified for servicing and 8 borrowers had eligibility decisions pending. Chart 4 shows that county staffs denied servicing for 87 of the 569 borrowers for a variety of reasons; the primary reason was that the borrowers submitted incomplete applications.

Of the 474 borrowers who qualified for servicing, 166 borrowers were offered restructuring and 308 borrowers were offered buy-out. However, 5 of the 166 borrowers who were offered restructuring did not accept the offers and 35 of the 308 borrowers offered buy-out did not accept the offers or were involved in
mediation at the time of our review. Of the 161 restructured borrowers, 84 were restructured without debt write-down and 77 were restructured with debt write-down.

**Amount and Type of Debt for Serviced Borrowers**

Borrowers with large, moderate, and small amounts of FmHA debt, and with most types of FmHA farm program loans, were serviced. For example, chart 5 shows that while 19 borrowers at the county offices we reviewed had FmHA debt of $1 million or more before servicing, 243 borrowers had FmHA debt of less than $250,000. Also, chart 6 shows that 61 percent of the borrowers had a combination of loan types which included an emergency loan (economic and/or disaster) and at least one other loan type, such as a farm ownership or a farm operating loan. While 15 percent of the borrowers had only emergency loans, 24 percent did not have an emergency loan.

**Costs of Servicing**

Implementation of the Agricultural Credit Act has been at a substantial cost to the government. In March 1988, FmHA estimated that debt forgiveness through write-downs and write-offs would total $9.4 billion. Nationally, as of June 30, 1989, FmHA had approved write-downs and write-offs that total almost $1.4 billion. In January 1990, FmHA reported that, as of November 30, 1989, approved debt forgiveness had increased to a total of $1.8 billion.

Chart 7 shows that at the county offices we reviewed, $91 million, or almost two-thirds of the total $139 million debt of delinquent borrowers who were offered servicing, was written down or written off. The write-down offered 77 restructured borrowers totaled $13 million, or about $169,000 on average, and the write-off offered 273 buy-out borrowers totaled $78 million, or
about $286,000 on average. The amount of debt that FmHA offered to write down or write off for the 350 borrowers in these county offices varies widely. For example, chart 8 shows that while the offers to 114 borrowers would result in $250,000 or more forgiven—including 10 borrowers with $1 million or more forgiven—the offers to 236 borrowers would result in less than $250,000 forgiven.

The following case illustrates the costs of debt servicing. A borrower, who is no longer farming, owed FmHA almost $805,000 on 10 natural disaster emergency and three farm operating loans. He had about $73,000 worth of equipment as collateral for the 13 loans. He had not made a payment to FmHA on the emergency loans since 1983 and on the farm operating loans since 1985. FmHA offered to write off $738,928 of his debt.

Financial Soundness of Restructured Borrowers

At the time of our field work, data was available to analyze the financial condition of 160 of the 161 restructured borrowers. Our analysis indicates that 9 percent of the 160 restructured borrowers had favorable financial potential for successful farming operations. The remaining 91 percent had such high debt-to-asset ratios and/or projected low cash flow margins for the upcoming year that their potential for successful farming operations without continued financial assistance appeared limited. For example, chart 9 shows that 77 percent of the restructured borrowers had debt-to-asset ratios of 71 percent or higher—nearly one-half of the 160 borrowers were technically insolvent with debts exceeding assets. Chart 10 shows that 59 percent of the restructured borrowers had cash flow margins of $100 or less. One restructured borrower had a $2 cash flow, a 222 percent debt-to-asset ratio, and a $246,000 negative net worth after restructuring which included a $50,000 debt write-down.
FmHA stops analyzing a borrower's restructuring options as soon as a positive cash flow is reached. This is the point at which the present value of the restructured loans equals or exceeds the recovery the government would receive from an involuntary liquidation or foreclosure on the security. However, this approach is a primary reason many borrowers remain financially weak following restructuring.

In addition, FmHA based its restructuring decisions on borrowers' projections of farm income and expenses which may not accurately reflect borrowers' financial conditions. FmHA state and county officials we interviewed in each selected state expressed concern about the ability of some restructured borrowers to continue farming operations without continued FmHA financial support. Also, some restructured borrowers expressed concern about their ability to repay their restructured debt and to continue farming without additional FmHA financial assistance. Furthermore, about 14 percent of the 569 borrowers who applied for servicing at the 10 county offices we reviewed requested additional FmHA loans at the time they applied for servicing.

**Borrowers Who Act in Bad Faith Are Eligible for Some Servicing**

FmHA borrowers who act in bad faith\(^1\) are not eligible for restructuring, but they are eligible for net recovery value buy-out and for reacquiring their farms through the leaseback/buyback option or their farm homesteads through the homestead protection option. As part of our work examining implementation of the

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\(^1\)We use the phrases "borrowers who act in bad faith" and "bad faith borrowers" to refer to those FmHA delinquent borrowers whose delinquency was due to circumstances within their control or who did not act in good faith in connection with the terms of their FmHA loans.
Agricultural Credit Act, we issued Farmers Home Administration: Loan Servicing Benefits for Bad Faith Borrowers (GAO/RCED-90-77FS, Nov. 29, 1989). This report provides examples of FmHA delinquent borrowers who have acted in bad faith and who have received benefits, or will be eligible to receive benefits, under the provisions of the act.

FmHA determined that borrowers acted in bad faith because of various actions, such as (1) selling or otherwise disposing of property that was securing loans without FmHA approval; (2) repaying other lenders more than required and, at the same time, becoming delinquent on FmHA loans; (3) abandoning the property that was securing FmHA loans; and (4) having resources available that could have been, but were not, used to make FmHA loan payments.

In January 1990, FmHA provided members of Congress with a list of 218 bad faith borrowers throughout the country that it said had committed fraud, waste, or conversion of security property and who were involved in net recovery value buy-outs. Forty-two of those borrowers had bought out their debt at a net recovery value and 58 other borrowers were in the process of buying out their debt. These borrowers have bought out, or have the opportunity to buy out, their debt for much less than the amount of their outstanding debt. These 100 borrowers include 8 borrowers who bought out or were in the process of buying out their debt that will result in a write-off of more than $1 million each. For example, one borrower who FmHA said committed fraud owed $11.8 million and was offered a $1.1 million net recovery value buy-out. This borrower will receive a $10.7 million write-off of his FmHA debt if he pays the buy-out amount. In addition, 118 borrowers on the national list were offered net recovery value buy-out, but they did not accept the buy-out offer. These borrowers will be eligible to reacquire their farmland, or farm homestead, if FmHA forecloses on their properties.
Assets Which Do Not Secure FmHA Debt Are Not Considered in Servicing Decisions

The Agricultural Credit Act does not provide FmHA specific authority to include unsecured assets in calculating servicing for delinquent borrowers. As a result, FmHA does not consider borrowers' assets that are not pledged as security for FmHA debts when computing the type and amount of debt relief to offer delinquent borrowers. Excluding unsecured assets in servicing computations increases the amount of debt forgiveness and reduces the amount of recovery FmHA receives when borrowers buy out their debt at the net recovery value of collateral.

The following case illustrates borrowers who had unsecured farm and nonfarm assets that were not considered in calculating the net recovery value buy-out amount. In this example, the FmHA county supervisor did not consider a borrower's unsecured assets of $21,000 in cash and 19 acres of land that the borrower had reported on his servicing application. In June 1989, the borrower paid FmHA $72,405—the net recovery value buy-out amount—to settle his outstanding debt of $166,000. The borrower received a $93,595 debt write-off. FmHA would have saved at least $21,000 if it had applied this cash amount to reduce the borrower's debt in processing his restructuring application. The borrower would still have qualified for net recovery value buy-out, but the government's loss would have been less. Also, FmHA might have realized additional savings by considering the value of the borrower's 19 acres of unsecured land.

Nondelinquent Borrowers May Seek the Act's Benefits

FmHA borrowers who are current on their loan payments are not eligible for the restructuring with debt write-down or net recovery value buy-out with debt write-off options of the Agricultural
Credit Act. Some borrowers and FmHA officials told us that since the act provides benefits only to delinquent borrowers it has created an incentive for nondelinquent borrowers to become delinquent on their FmHA debt to qualify for loan servicing. Some nondelinquent borrowers told us that they were looking for ways to become delinquent in order to have their FmHA debt reduced. Borrowers who intentionally become delinquent may be disqualified from restructuring if county office staff determine that they caused their delinquency by not using available resources to pay their FmHA debt. However, FmHA county supervisors may be unable to deny debt servicing to such borrowers because of difficulties in concluding that borrowers caused their own delinquencies.

Nondelinquent borrowers, upon seeing that delinquent borrowers have their cost of farming reduced through the various servicing options, may also seek to qualify for the act's benefits. For example, a borrower who was current on his $451,028 FmHA debt had annual payments of $48,765. A delinquent borrower in the same community, who had FmHA debt of $932,940, had an annual payment of about $81,625. The delinquent borrower was about $163,250 behind in payments. FmHA forgave the delinquent borrower's entire debt through a $0 net recovery value buy-out. As a result, the delinquent borrower has no FmHA loan payments, but the current borrower must continue to pay his $48,765 annual payment.

SELLING PRICE OF FmHA FARM INVENTORY PROPERTY

As you know, we initiated a study in January 1990 to evaluate the sale of farm inventory property at a fair market or capitalization (productivity) value and the impact of the sales price on beginning farmers. During January and February 1990, we held discussions with FmHA headquarters officials and state officials in Minnesota and Iowa, and reviewed farm inventory property sales at two FmHA county offices--one in Minnesota and one
in Iowa. The results of this work to date are limited and apply only to the offices we reviewed; they cannot be projected to the two states we visited or the nation overall.

The Food Security Act of 1985 and the Agricultural Credit Act provide FmHA with guidance on selling farm inventory property. The Food Security Act provides that FmHA sell farm inventory property to operators of not larger than family-size farms. The Agricultural Credit Act provides FmHA with a ranking order for selling property to previous borrower-owners, members of their families, previous operators, or other family-size farm operators. Borrowers whose real property has been taken into FmHA inventory have the option of purchasing the entire farm property (this is referred to as the buyback option) or the farm homestead, including farm buildings and up to 10 acres of land (this is referred to as the homestead protection option).

Farm inventory property is sold to FmHA-eligible borrowers and operators of family-size farms at the lesser of market value or capitalization value—a price that reflects the average annual income that may reasonably be generated from farming the property. Homestead property, on the other hand, is sold at the market value of the property.

In pricing farm property, FmHA makes an appraisal which consists of three estimates of property value in determining a recommended market value. The first estimate is based on comparable property sales, the second on income generated from both comparable properties sold and the appraised property, and the third is a summation value of land by soil type and buildings on the land.

In calculating the capitalization value, a capitalization rate is determined based on the income generated from comparable properties sold. This rate is stated as a percent and is
calculated by dividing the net income from a comparable property by the sales price. To determine the capitalization value for the appraised property, the expected net income from the property is divided by the capitalization rate.

The three appraisal values—the comparable market value, capitalization value, and summation value—are then considered in determining a recommended market value. The final property price is then the lower of the capitalization value or the recommended market value. If the recommended market value and the capitalization value vary as much as five percent, FmHA regulations require that the appraisal will be reviewed by an appraiser designated by the FmHA state director to determine if the appraisals are supported by comparable sales data.

We examined the selling price of 15 properties in two county offices. These properties had an average 170 acres and were sold at an average price of $66,172 during the period January 1989 through January 1990. Chart 11 shows that for 7 of the 15 properties, the market value was less than the capitalization value by an average of $1,374 or about 2 percent of the $57,000 average selling price. The difference in values ranged from $100 to $4,400. For 5 of the properties the capitalization value was less than the market value by an average of $1,247 or about 2 percent of the $70,115 average selling price. The difference in values ranged from $162 to $2,884. For the remaining 3 properties, which had an $81,000 average selling price, the market and capitalization values were the same.

Eight of the 15 properties were purchased by farmers to expand their existing operations and 7 were purchased by the former owner and FmHA borrower. Of the 8 purchased to expand operations, 2 were farmers who were leasing property for existing operations and were purchasing land for the first time. County supervisors at both offices we visited stated that inventory properties are
generally not appropriate for beginning farmers because of the poor condition of the property, such as farm buildings that had deteriorated and land that had not been cultivated in a number of years. Also, the properties may be better suited for other non-farming purposes as illustrated by 7 of the properties which had conservation easements placed on them while in FmHA inventory. These 7 properties had a total of 1,270 acres, but 354 acres, or 28 percent, were placed under easement. In one case, the entire property, consisting of 80 acres, was placed under easement.

In conclusion, our preliminary work on FmHA's implementation of the debt servicing provisions of the Agricultural Credit Act at 10 county offices showed that while many delinquent borrowers have been offered restructuring or net recovery value buy-out, most delinquent borrowers did not apply for servicing or did not submit complete applications. Many of the borrowers who qualified for servicing were offered restructuring, with and without debt write-down, however, most serviced borrowers were offered net recovery value buy-out. Our work also showed that only a small percentage of the restructured borrowers had favorable financial potential for future successful farming operations. The vast majority of restructured borrowers do not have such potential without continued FmHA financial assistance.

Furthermore, bad faith borrowers have been allowed to buy out their FmHA debt at the net recovery value of their collateral, which is usually much less than their outstanding debt. Bad faith borrowers will also be eligible to reacquire their farmland, or farm homestead, if FmHA forecloses on their properties.

Mr. Chairman, this completes my prepared statement. I would be happy to respond to any questions.
STATISTICAL INFORMATION ON DELINQUENT BORROWERS
AT 10 FmHA COUNTY OFFICES REVIEWED BY GAO

Chart 1: Eligible Borrowers Who Applied for Debt Relief

<table>
<thead>
<tr>
<th>Borrowers eligible initially</th>
<th>Borrowers to receive notification packages</th>
<th>Borrowers initially applied for servicing</th>
<th>Percent of eligible borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,293</td>
<td>1,272&lt;sup&gt;a&lt;/sup&gt;</td>
<td>569</td>
<td>44</td>
</tr>
</tbody>
</table>

<sup>a</sup>Notification packages were subsequently sent to 14 of the 21 additional eligible borrowers. Our analysis was based on 1,272 borrowers who were initially sent notification packages.

Chart 2: Reasons Borrowers Did Not Apply for Servicing

<table>
<thead>
<tr>
<th>Inactive farmers&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Requested debt settlement&lt;sup&gt;b&lt;/sup&gt;</th>
<th>Repaid debts&lt;sup&gt;c&lt;/sup&gt;</th>
<th>Reason unknown</th>
<th>Total&lt;sup&gt;d&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>309</td>
<td>155</td>
<td>67</td>
<td>172</td>
<td>703</td>
</tr>
</tbody>
</table>

<sup>a</sup>Includes those borrowers who are no longer farming and those in bankruptcy, foreclosure, or collection-only status with little or no collateral.

<sup>b</sup>According to FmHA officials, borrowers who requested debt settlement usually are no longer farming.

<sup>c</sup>Includes borrowers who paid their delinquent debt current and those who repaid their total outstanding debt.

<sup>d</sup>We did not determine the reason all borrowers did not apply for servicing. However, 5 of the 35 borrowers we interviewed told us they were confused by FmHA's notification and application package.
Chart 3: Borrowers Who Had Debt Servicing Offered and Completed as of June 30, 1989

<table>
<thead>
<tr>
<th></th>
<th>Net recovery value buy-out</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Offered</td>
<td>Completed</td>
</tr>
<tr>
<td>Number of borrowers</td>
<td>166</td>
<td>96</td>
</tr>
</tbody>
</table>

*a* In total, 569 borrowers applied for servicing; the 474 total does not include servicing offers that were pending for 8 borrowers and servicing that was denied for 87 other borrowers as of June 30, 1989.

Chart 4: Reasons Borrowers Were Denied Servicing

<table>
<thead>
<tr>
<th>Ineligible</th>
<th>Incomplete application</th>
<th>Borrower caused deceaseda</th>
<th>Borrower caused delinquencyb</th>
<th>Otherc</th>
<th>Tc.al</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of borrowers</td>
<td>65</td>
<td>8</td>
<td>7</td>
<td>7</td>
<td>87</td>
</tr>
<tr>
<td>Percent of borrowers</td>
<td>75</td>
<td>9</td>
<td>8</td>
<td>8</td>
<td>100</td>
</tr>
</tbody>
</table>

*a* Deceased borrowers' estates that applied for servicing are not eligible for primary servicing but may qualify for preservation servicing.

*b* These borrowers were not eligible for primary servicing and did not qualify for net recovery value buy-out.

*c* Includes borrowers who did not meet FHA eligibility requirements for various reasons, such as failure to reaffirm their debt after bankruptcy.
APPENDIX I

Chart 5: Borrowers by Range of Borrower Debt Prior to Loan Servicing

<table>
<thead>
<tr>
<th>Range of Debt (Dollars in Thousands)</th>
<th>$1 to 99</th>
<th>$100 to 249</th>
<th>$250 to 499</th>
<th>$500 to 999</th>
<th>$1,000 and over</th>
<th>Total (^a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of borrowers</td>
<td>106</td>
<td>137</td>
<td>127</td>
<td>45</td>
<td>19</td>
<td>434</td>
</tr>
<tr>
<td>Percent of borrowers</td>
<td>24</td>
<td>32</td>
<td>29</td>
<td>10</td>
<td>4</td>
<td>100(^b)</td>
</tr>
</tbody>
</table>

\(^a\) We did not record debt prior to servicing for 40 eligible borrowers in two counties who had declined FHA's servicing offer or were in mediation. We also did not record information for the eight borrowers whose servicing offers were pending.

\(^b\) Total does not add due to rounding.

Chart 6: Serviced Borrowers by Type of Loans

<table>
<thead>
<tr>
<th>Borrowers with no emergency loans</th>
<th>Borrowers with only emergency loans</th>
<th>Borrowers with a combination of loans</th>
<th>Total (^a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of borrowers</td>
<td>106</td>
<td>64</td>
<td>264</td>
</tr>
<tr>
<td>Percent of borrowers</td>
<td>24</td>
<td>15</td>
<td>61</td>
</tr>
</tbody>
</table>

\(^a\) We did not determine loan type for 40 eligible borrowers in two counties who had declined FHA's servicing offer or were in mediation. We also did not record information for the eight borrowers whose servicing offers were pending.
APPENDIX I

Chart 7: Borrowers and Amount of Debt: Debt Reduction, by Servicing Category

Dollars in millions

<table>
<thead>
<tr>
<th></th>
<th>Primary servicing</th>
<th>Net recovery</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Without write-down</td>
<td>With write-down</td>
<td>buy-out</td>
</tr>
<tr>
<td>Number of borrowers</td>
<td>84</td>
<td>77</td>
<td>273</td>
</tr>
<tr>
<td>Percent of borrowers</td>
<td>19</td>
<td>18</td>
<td>63</td>
</tr>
<tr>
<td>FHA debt before servicing</td>
<td>$13</td>
<td>$26</td>
<td>$100</td>
</tr>
<tr>
<td>FHA debt written down or off</td>
<td>—</td>
<td>$13</td>
<td>$78</td>
</tr>
</tbody>
</table>

*aWe did not compile servicing information for 40 eligible borrowers in two counties who had declined FHA's servicing offer or were in mediation. We also did not compile information for the eight borrowers whose servicing offers were pending.

Chart 8: Borrowers by Range of Write-downs and Write-offs

<table>
<thead>
<tr>
<th>Range (Dollars in Thousands)</th>
<th>$1 to $99</th>
<th>$100 to $249</th>
<th>$250 to $499</th>
<th>$500 to $999</th>
<th>$1,000 and over</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of borrowers</td>
<td>121</td>
<td>115</td>
<td>75</td>
<td>29</td>
<td>10</td>
<td>350</td>
</tr>
<tr>
<td>Percent of borrowers</td>
<td>35</td>
<td>33</td>
<td>21</td>
<td>8</td>
<td>3</td>
<td>100</td>
</tr>
</tbody>
</table>

*aWe did not compile servicing information for 40 eligible borrowers in two counties who had declined FHA's servicing offer or were in mediation. We also did not compile information for the eight borrowers whose servicing offers were pending.
APPENDIX I

Chart 9: Borrowers by Farm Income/Solvency Categories After Restructuring

<table>
<thead>
<tr>
<th>Favorable</th>
<th>Marginal solvency</th>
<th>Total²</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-40%</td>
<td>41-70%</td>
<td>71-100%</td>
</tr>
<tr>
<td>Number</td>
<td></td>
<td></td>
</tr>
<tr>
<td>of borrowers</td>
<td>6</td>
<td>30</td>
</tr>
<tr>
<td>Percent</td>
<td>4</td>
<td>19</td>
</tr>
</tbody>
</table>

²Excludes five borrowers who did not accept restructuring offers and one borrower whose financial data was not available at the time of our review.

³Nine of these 30 borrowers had a high cash flow margin, suggesting a more favorable potential for successful farming operations than indicated solely by their debt-to-asset ratio. These nine borrowers when combined with the six borrowers in the favorable category results in a total of 9 percent of the 160 restructured borrowers having the potential for successful farming operations.

Chart 10: Borrowers by Cash Flow Margin After Restructuring

<table>
<thead>
<tr>
<th>Positive Cash Flow Margin</th>
<th>$0 to $10</th>
<th>$11 to $100</th>
<th>$101 to $1,000</th>
<th>$1,001 to $10,000</th>
<th>$10,000 and over</th>
<th>Total²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of borrowers</td>
<td>63</td>
<td>32</td>
<td>15</td>
<td>30</td>
<td>20</td>
<td>160</td>
</tr>
<tr>
<td>Percent of borrowers</td>
<td>39</td>
<td>20</td>
<td>9</td>
<td>19</td>
<td>13</td>
<td>100</td>
</tr>
</tbody>
</table>

²Excludes five borrowers who did not accept restructuring offers and one borrower whose financial data was not available at the time of our review.
### Chart 11: Comparison of Market and Capitalization Values for Inventory Properties

<table>
<thead>
<tr>
<th>Valuation relationship</th>
<th>Number of properties</th>
<th>Average value difference</th>
<th>Range of value difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market value less than capitalization value</td>
<td>7</td>
<td>$1,374&lt;sup&gt;a&lt;/sup&gt;</td>
<td>$100 to $4,400</td>
</tr>
<tr>
<td>Capitalization value less than market value</td>
<td>5</td>
<td>$1,247&lt;sup&gt;a&lt;/sup&gt;</td>
<td>$162 to $2,884</td>
</tr>
<tr>
<td>Market value equals capitalization value</td>
<td>3</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>

<sup>a</sup>Equals 2 percent of the average selling price.