



United States
Department of
Agriculture

Farmers
Home
Administration

Washington
D.C.
20250

December 28, 1981

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SUBJECT: Audits of the Limited Resource Program

TO: All State Directors, District Directors
County Supervisors and Farmer Program Chiefs

Recent audits which have been completed by the General Accounting Office (GAO) and the Office of Inspector General (OIG) have revealed some serious deficiencies in the administration of the limited resource operating and farm ownership loan program.

The OIG has found that limited resource loans were made to ineligible applicants and farmers who did not have repayment ability or the potential to become successful. The most frequent examples of ineligible applicants cited by the OIG were those whose Farm and Home Plans displayed projected cash balances sufficient to pay installments at the regular interest rates and those with little or no prior training or farming experience. In other cases, the Farm and Home Plans showed insufficient cash flow to meet farm operating and family living expenses and to pay debts.

Both offices noted a lack of guidance to borrowers from county supervisors in the areas of farm and home planning, supervising and servicing of limited resource loans. Income and expense projections were found to be either incorrect or did not realistically reflect the applicants actual circumstances. Despite the complex problems facing limited resource borrowers, such as underdeveloped managerial ability, limited education and low production, County, District and State Offices had not given sufficient priority in the supervision of these loans. In many cases, needed annual farm visits were not made, year-end analyses were not done and program reviews by State and District Offices were not performed to determine the effectiveness of county office administration of the limited resource program.

In response to these findings, please consider the following:

1. County Supervisors are required to perform a complete analysis of all initial limited resource borrowers in accordance with FmHA Instruction 1924-B, Section 1924.60, and we suggest that an analysis be performed for all limited resource borrowers. In addition, more attention must be given to the supervisory and management needs of all limited resource borrowers and applicants. This includes emphasis on long range planning, additional supervisory farm visits and security inspections in accordance with FmHA Instruction 1941-A, Section 1941.4 (g) and 1943-A, Section 1943.4 (g).

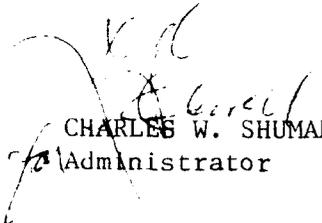
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FmHA Instruction 1941-A



2. Farmer Program Chiefs and District Directors are requested to schedule program reviews of county offices to insure that the intent of the limited resource program is being met. These reviews should concentrate on those offices with the largest limited resource loan and servicing activity.
3. State and District Offices must provide training to employees who demonstrate insufficient knowledge in farm and home planning, loanmaking, supervision and servicing.

Instructions are being revised to further define eligibility requirements for limited resource applicants and to provide additional guidance for sound loanmaking.


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Administrator