U.S. Department of Agriculture

Office of Inspector General
Southwest Region

Audit Report

Farm Service Agency
Socially Disadvantaged Borrower
Foreclosures – Farm Program Loans

Report No. 03601-49-Te
June 2009

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250

June 8, 2009

REPLY TO
ATTN OF: 03601-49-Te

TO: Douglas J. Caruso
Administrator
Farm Service Agency

THROUGH: T. Mike McCann
Director
Operations Review and Analysis Staff

FROM: Robert W. Young /s/
Assistant Inspector General
for Audit

SUBJECT: Socially Disadvantaged Borrower Foreclosures – Farm Program Loans

Under the 2008 Farm Bill, Congress directed the Office of Inspector General (OIG) to "determine whether decisions of the [Department of Agriculture (USDA)] to implement foreclosure proceedings with respect to farmer program loans made under subtitle A, B, or C of the Consolidated Farm and Rural Development Act … to socially disadvantaged farmers or ranchers during the 5-year period preceding [June 18, 2008] were consistent and in conformity with the applicable laws (including regulations) governing loan foreclosures."[1, 2] Congress required that we report our findings no later than June 18, 2009.

For purposes of FSA's farm loan programs, socially disadvantaged groups are women, African Americans, American Indians, Alaskan Natives, Hispanics, Asian Americans, and Pacific Islanders.[3] Various lawsuits have been filed containing allegations that USDA discriminated against

[1] Public Law 110-246, *Food, Conservation, and Energy Act of 2008*, title XIV, subtitle A, section 14002(b)(1), dated June 18, 2008.
[2] Subtitles A, B, and C represent three types of direct loans—farm ownership, farm operating, and emergency loans [Title 7, *United States Code* (U.S.C.), section1922; 7 U.S.C. 1941; and 7 U.S.C. 1961] administered by the Farm Service Agency (FSA). A socially disadvantaged farmer or rancher is defined by statute as one who is a member of a socially disadvantaged group. A socially disadvantaged group is, in turn, defined as a group whose members have been subjected to racial, ethnic, or gender prejudice because of their identity as a member of a group without regard to their individual qualities [7 U.S.C. 2003(e)].
[3] FSA *Handbook* 3-FLP, Direct Loanmaking, (Revision 1), dated December 31, 2007.

members of socially disadvantaged groups regarding farm loan programs, including but not limited to allegations regarding loan making and/or loan servicing.[4]

In order to meet the mandated deadline of June 18, 2009, we limited our review to whether FSA followed its established process in servicing and foreclosing on loans to socially disadvantaged borrowers, and whether the agency's process was consistent and in conformity with applicable laws and regulations. We did not determine if borrowers were eligible for their loans, nor did we review FSA's loan making process.

For fiscal years (FY) 2003 through 2007, each year, on average, there were about 75,500 borrowers who had direct loans—of these, about 14,300 were socially disadvantaged. Of the 800 borrowers FSA foreclosed on during the same period,[5] 185 were socially disadvantaged. OIG selected a statistical sample of 146 borrowers—socially disadvantaged and non-socially disadvantaged—who were foreclosed on during this 5-year period. (See exhibit B for details concerning our sampling methodology.)

We also expanded our review to include the loan restructure process, which is a part of loan servicing. When borrowers become delinquent on their payments or are otherwise financially distressed, they are given the opportunity to adjust their loans so they can continue making payments and are not forced to sell the property used to secure the loans. Since the opportunity to restructure a loan offers borrowers an alternative to foreclosure, we looked at restructured loans to determine if socially disadvantaged borrowers were treated similarly to non-socially disadvantaged borrowers. Of the 1,271 borrowers whose loans were restructured from FYs 2003 through 2007, we reviewed a statistical sample of 87 borrowers.[6] (See exhibit B.)

Based on our review, we found that FSA's foreclosure and restructure process was consistent and in conformity with applicable laws, regulations, policies, and procedures. We found that the process itself was in conformity with applicable laws and regulations, and that FSA generally applied that process consistently to individual borrowers. Moreover, when we compared how FSA restructured and foreclosed loans to socially disadvantaged and non-socially disadvantaged borrowers, we found that the borrowers were processed consistently.

Although we did identify some instances where FSA was not technically in conformity with laws, regulations, policies, or procedures, the exceptions were not significant and were usually a matter of timing. For example, we found a few cases in which a letter notifying borrowers that they were delinquent was not timely sent out, but the letter was eventually sent before the next loan servicing action occurred. Moreover, we found that these exceptions affected non-socially disadvantaged borrowers as well as socially disadvantaged borrowers.

---

[4] Timothy C. Pigford v. Tom Vilsack, Secretary of Agriculture, Civil Action No. 97-01978; George B. Keepseagle, et al. v. Tom Vilsack, Secretary of Agriculture, Civil Action No. 99-03119; Rosemary Love, et al. v. Tom Vilsack, Civil Docket No. 1:00-cv-02502 (JR), U.S. District Court for the District of Columbia; Guadalupe Garcia, et al. v. Tom Vilsack, Civil Docket No. 1:00-cv-02445 (JR), U.S. District Court for the District of Columbia; and In re Black Farmers Discrimination Litigation, Civil Misc. Docket No. 08-0511 (PLF), U.S. District Court for the District of Columbia (Pigford II).

[5] There were 800 borrowers foreclosed on in the contiguous 48 States during this time period. Eleven borrowers in Alaska, Hawaii, Puerto Rico, and Guam were excluded from consideration due to the small number of borrowers and to audit resources. (Alaska [0 socially disadvantaged borrowers, 2 non-socially disadvantaged borrowers], Hawaii [3,2], Puerto Rico [3,0], Guam [1,0].)

[6] We limited our sample of borrowers with restructured loans to those locations where we were already reviewing the 146 foreclosed borrowers.

BACKGROUND

FSA's mission is to equitably serve all farmers, ranchers, and agricultural partners through the delivery of effective, efficient agricultural programs for all Americans. As part of that mission, FSA makes and guarantees loans to farmers and ranchers to purchase farmland and finance agricultural production.

FSA makes and services direct farm loans including farm ownership, farm operating, and emergency loans. Farm ownership loans may be used to purchase or enlarge a farm or ranch, purchase easements or rights of way needed in the farm's operation, erect or improve buildings, implement soil and water conservation measures, and pay closing costs. Farm operating loans may be used to purchase livestock, including poultry, and farm equipment, or to pay annual farm operating expenses such as feed, seed, fuel, fertilizer, chemicals, and insurance. Emergency loans are used to help producers recover from production and physical losses due to drought, flooding, other natural disasters, or quarantine.

Within FSA, the process of making loans is distinct from the process of servicing loans—loan making and loan servicing are handled by different divisions with different personnel. Restructure and foreclosure actions are part of loan servicing.

When borrowers cannot make scheduled payments on their loans, or are otherwise financially distressed, Federal law provides a process by which the borrowers' loan accounts can be serviced to avoid foreclosure and liquidation.[7] This process is known as restructuring the loan. Borrowers can be considered for restructure of their loan (i.e., rescheduling, reamortization, consolidation, deferral, or write-down of the amount owed) as long as the Government will receive an equal or greater net return than it would realize through foreclosure.

To determine if a borrower's loan can be restructured, FSA uses loan servicing software called the Debt and Loan Restructuring System (DALR$). Based on financial information provided to FSA by the borrower, and entered into DALR$ by FSA, DALR$ performs debt and loan restructuring analysis on distressed borrowers or delinquent Government loans to determine optimal debt restructuring alternatives. It then develops a restructuring plan that is advantageous to the Government and the borrower. If DALR$ indicates that a plan for restructuring the loan cannot be developed, State-sponsored mediation or a meeting of creditors is offered. If restructure is not possible after mediation, the borrower has the opportunity to purchase the debt at the current market value of the security and any non-essential assets. The remainder of the debt is written off when the buyout is accomplished. If the borrower is unable to take advantage of the buyout option, FSA is required to proceed with foreclosure in an effort to recover as many tax dollars as possible.

OBJECTIVE

The objective of the audit was to determine whether the Department's decisions to implement foreclosure proceedings with respect to socially disadvantaged borrowers were consistent and in conformity with the applicable laws and regulations governing loan foreclosures.

---

[7] Public Law 100-233, *Agricultural Credit Act of 1987*, title VI, section 617, dated January 6, 1988.

SCOPE AND METHODOLOGY

Our audit covered FSA direct farm ownership loans, direct farm operating loans, and direct emergency loans that had been restructured or had been foreclosed on from FYs 2003 through 2007. FSA provided the foreclosure and restructure universe data. We refined the data to remove inaccuracies such as multiple foreclosure sale dates and incorrect tax identification numbers and to exclude duplicates, third-party foreclosures, and borrowers outside the audit scope.

For each year our audit covered (FYs 2003-2007), there were, on average, about 75,500 borrowers with direct loans, about 14,300 of whom were socially disadvantaged. The foreclosure universe was defined as borrowers with FSA foreclosures. Of the 800 borrowers[8] the agency foreclosed on during the same period, 185 were socially disadvantaged. The audit universe consisted of 356 foreclosed borrowers in the 138 locations where there was at least one socially disadvantaged borrower.[9] From this audit universe, we sampled 146 borrowers at 60 locations using a two-stage sampling process. (See exhibit B.)

Our audit also included a review of borrowers with restructured loans to determine if the restructure proceedings were consistent and in conformity with applicable laws and regulations. The audit restructure universe was defined as borrowers whose loans were restructured during the same period (FYs 2003-2007) and who were in the same locations as the foreclosed borrowers in our audit universe. This universe consisted of 1,271 borrowers, of whom 306 were socially disadvantaged farmers and ranchers. From the 60 locations we were already visiting to review foreclosures, we sampled 258 restructures. We reviewed restructures in the first 20 locations, but then halted our stop-or-go sampling after 87 restructures because we found that the number and significance of the exceptions were low. (See exhibit B for more details on our sampling plan and analysis of results.)

To accomplish our audit objective, we interviewed FSA national and State office officials and analyzed supporting documentation obtained from these offices as well as from the county offices. Specifically, we:

- Determined the applicable laws, regulations, policies, and procedures for farm loan servicing;
- Confirmed the Office of the General Counsel's (OGC) role in reviewing FSA loan servicing regulations, policies, and procedures;
- Reviewed documentation related to national and State office oversight activities; and
- Became familiar with FSA's automated systems for farm loan servicing.

Fieldwork began in June 2008 and ended in March 2009. We performed file reviews of FSA's farm loan program records for selected borrowers and followed up with FSA State officials as deemed necessary. In an effort to make the file reviews consistent among our review sites, we developed and used a pro forma document to conduct and record the results of our reviews of each of the borrower files. However, since the loan servicing actions may have begun as much as 20 years earlier, the FSA State officials we interviewed were often not aware of the circumstances surrounding the loan servicing actions. Since 1997, FSA has required all foreclosure cases to be reviewed and cleared by its civil rights staff at the State offices.

---

[8] There were 800 borrowers foreclosed on in the contiguous 48 States during this time period. Eleven borrowers in Alaska, Hawaii, Puerto Rico, and Guam were excluded from consideration due to the small numbers and cost of travel. Loan servicing actions for many of the borrowers may have begun prior to FY 2003 and, for some, as far back as 1988.

[9] The audit universe of 356 borrowers contained 185 socially disadvantaged and 171 non-socially disadvantaged borrowers.

Initially, we planned to perform our fieldwork where each of the selected foreclosed borrower's files were located. We made the decision to exclude from the sampling process the 11 borrowers from Alaska, Hawaii, Puerto Rico, and Guam due to audit resources and the small number of borrowers at those locations. Subsequently, we determined that, due to the number of individual locations we would have needed to visit in order to review the selected borrowers' files, all the files would be transferred to seven centralized sites. The review teams worked at FSA's State offices in Little Rock, Arkansas; Alexandria, Louisiana; College Station, Texas; Jackson, Mississippi; Harrisburg, Pennsylvania; Athens, Georgia; and Columbia, Missouri.[10] The seven sites were chosen based on the general locations of the files. (See exhibit C.)

Given the ongoing civil rights lawsuits, we interviewed attorneys from OIG's Office of Counsel, OGC, and the Department of Justice to determine how we should proceed if we needed to communicate with borrowers who were complainants in such lawsuits against USDA. Ultimately, however, we did not find it necessary to contact any borrowers during the audit.

For the foreclosures and the restructures in our sample, we also verified the data FSA employees entered into the agency's DALR$ software, which is used to determine if a loan may be restructured. We verified this data because an input error could result in borrowers being foreclosed on when other options were available. We found no significant discrepancies in the data entered into DALR$, and none of the identified data input errors affected the restructuring determinations. Since we found no significant data discrepancies and FSA had established appropriate oversight procedures, we are not reporting these discrepancies, nor are we making recommendations concerning DALR$ data entry.

DALR$ was replaced by the Web-based eDALR$ program in April 2008, prior to the beginning of our audit. Since DALR$ was superseded, we did not perform a separate review of its application controls. We did, however, perform a separate review of application controls over eDALR$. Our review was designed to determine if there were adequate controls over this Web-based servicing software. We found that the software had adequate controls in place and was operated in accordance with National Institute of Standards and Technology guidance.

We conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. The evidence obtained provides a reasonable basis for our conclusions based on our audit objective.

DETAILS

Our review disclosed that the Department's foreclosure and restructure processes were generally consistent and in conformity with applicable laws and regulations, and that socially disadvantaged and non-socially disadvantaged borrowers were treated consistently when their loans were restructured or foreclosed. To reach this conclusion, we analyzed FSA's loan servicing process to identify critical points where an agency employee might not conform with law, regulation, policy, and procedure. We called these critical points "key events." For the foreclosure process, we identified 28 such key events; for the

[10] One socially disadvantaged borrower (foreclosure) file was unavailable during the time of our field visits. The file had been damaged by floodwater and was being restored. The file was eventually sent for our review to the Bell County, Texas, FSA Office in Belton, Texas, which is physically proximate to our Temple, Texas, field office.

restructure process, we identified 10 key events.[11] (See exhibit A for a complete descriptive list of key events.)

Foreclosures

We selected a statistical sample of 60 counties with 146 borrowers having foreclosure actions, including 78 socially disadvantaged foreclosed borrowers and 68 non-socially disadvantaged borrowers. (See exhibit B.)

For each of the 146 borrowers, we looked at the 28 key events where FSA might not conform to laws, regulations, policies, and procedures, either by not taking an action or by doing so outside an established time frame. Of the 4,088 total key events[12] for these 146 borrowers, we found that FSA did not technically conform to laws, regulations, policies, and procedures only 31 times (26 borrowers). For instance, the agency did not send a notification to a borrower or sent it late. Not only was the rate of exception low, but for the two key events with more than three exceptions per event (events #1 and #10), analysis of the exceptions indicates we cannot conclude there is a significant difference between the socially disadvantaged and non-socially disadvantaged borrower groups. For 11 of the other 26 key events, the numbers of exceptions (1 to 3) were very low and were comparable between the two groups. (See exhibits A, B, and D.) In general, we found that the foreclosure process was in conformity with applicable laws and regulations and that FSA generally applied that process consistently to individual borrowers.

Key Event #1: Did FSA send the primary notice of loan servicing by the 18th of the month?

For key event #1, we determined whether FSA sent the primary loan servicing package to delinquent borrowers (90 days past due on payments) in a timely manner, which we defined as by the 18th of the month following the month in which the borrower becomes delinquent.[13, 14] This event is key because it is the moment when FSA informs borrowers that they have become delinquent on their loan and notifies them of actions they can take to avoid foreclosure.

For the 146 foreclosed borrowers in our sample, FSA did not timely send the servicing package to 9 borrowers (from 3 to 15 days late for 8 borrowers[15]), 5 of whom were socially disadvantaged. FSA officials agreed that these packages should have been sent

[11] The foreclosure and the restructure processes share some of the same key events since these two processes are not mutually exclusive. Before FSA can foreclose on a borrower, the agency must first determine if a restructure is feasible.
[12] 4,088 total key events equals 28 key events multiplied by 146 borrowers.
[13] Title 7, *Code of Federal Regulations* (CFR), chapter XVIII, part 1951, section 907(c), January 1, 2000, edition. Farmers Home Administration Instruction 1951-S, section 1951.907(c), dated March 14, 1997. (The regulation specifies that the servicing notification should be sent within 15 days of receiving the Finance Office monthly status report. We allowed 3 additional days for county offices to receive the monthly status report.)
[14] FSA may also send the loan servicing package to borrowers that are in non-delinquent status such as current financially distressed.
[15] One of the socially disadvantaged borrowers was notified 127 days late. Although FSA did send out a loan servicing package at the borrower's request on February 19, 2002, after the borrower became financially distressed, FSA later did not timely send out the required loan servicing package when the borrower became delinquent. The notification of delinquency should have been sent out by November 18, 2002, but was not sent until March 25, 2003. The file showed, however, that the agency was communicating with the borrower during this period. For example, FSA made at least two visits to the borrower's farm and was working with the borrower to restructure the borrower's loan.

out timely. Our analysis[16] of these nine exceptions did not indicate that there were any statistically significant differences in treatment for socially disadvantaged borrowers compared with non-socially disadvantaged borrowers.

Based on our sample, we can project these results onto the audit universe of borrowers on whom FSA foreclosed in FYs 2003 through 2007. We estimate that 6.2 percent of the socially disadvantaged borrower files (or 11 to 12 of 185) do not indicate the primary loan servicing packages were sent on time. Similarly, we estimate that 4.9 percent of the non-socially disadvantaged borrower files (or 8 to 9 of 171) do not indicate the packages were sent on time.

Although FSA did not timely conform to this regulation and procedure for the nine borrowers, the agency did eventually send out the loan servicing packages and the borrowers were allowed the required amount of time before the next step in the foreclosure process was taken.

Key Event #10: Did FSA send timely notification of its determination that the debt cannot be restructured?

For key event #10, we determined whether FSA timely informed borrowers that their loans could not be restructured, which the agency should have done within 15 days after the decision was made.[17] This event is key because it is the moment when FSA informs borrowers that the agency cannot restructure their loans and notifies them of the options available to them.

For the 146 foreclosed borrowers in our sample, FSA did not timely send notification of its determination that a feasible plan could not be developed to restructure loans to 3 borrowers (from 17 to 56 days late), and did not send it at all to 2 borrowers. Of the five borrowers who did not timely receive their notification, four were socially disadvantaged.

FSA officials agreed that these five notifications were not sent out or were not sent on time. However, from our analysis of these five exceptions, we cannot conclude there were any statistically significant differences in treatment for socially disadvantaged borrowers compared with non-socially disadvantaged borrowers.

Based on our sample, we can project these results onto the audit universe of borrowers FSA foreclosed on from FYs 2003 through 2007. We estimate that 5.0 percent of the socially disadvantaged borrowers (9 to 10 of 185) were notified after 15 days. Similarly, we estimate that 1.2 percent of the non-socially disadvantaged borrowers (2 to 3 of 171) were notified after 15 days. Even though there is an absolute difference of 3.8 percent

[16] We examined individual means and confidence intervals and performed a paired difference test. The paired difference test was applied to the difference in the number of exceptions between socially disadvantaged and non-socially disadvantaged borrowers, paired by location. (See exhibit B.)

[17] 7 CFR XVIII, part 1951, section 909(h)(3), January 1, 1989, edition. Generally, the regulations provide that, if the DALR$ calculations indicate a feasible plan of operation *cannot* be developed, the servicing official will, within 15 days from the date of the determination that the borrower's debt cannot be restructured as requested, send to the borrower by certified mail, return receipt requested, the ''Notification of Adverse Decision for Primary Loan Servicing, Mediation or Meeting of Creditors and Other Options" and attach thereto a printout of the DALR$ calculations.

between the two values (5.0 percent and 1.2 percent), comparing the two groups with a "paired difference test"[18] and a "difference of the means test"[19] does not indicate a statistically significant difference between the socially disadvantaged and non-socially disadvantaged borrower groups in the handling of key event #10.

Although FSA did not timely conform to this regulation and procedure for the five borrowers, the agency did eventually notify the borrowers that their loans could not be restructured.[20]

Overall, we found that the number of exceptions in processing these foreclosures was small and that there was no statistically significant difference in treatment when foreclosing on socially disadvantaged farmers and ranchers compared to their non-socially disadvantaged peers. For 11 of the 28 key events where the exception rate was very low (1 to 3 exceptions), we could not draw meaningful conclusions comparing how socially disadvantaged farmers and their non-socially disadvantaged peers were treated based on such a small number of exceptions.[21] (See exhibits A, B, and D, where all exceptions are discussed.) For all key events, these exceptions were not significant enough for us to conclude that the Department's decisions to implement foreclosure proceedings were not consistent and in conformity with applicable laws and regulations.

<u>Restructures</u>

Since the opportunity to restructure a loan offers borrowers an alternative to foreclosure, we looked at restructures to determine if socially disadvantaged borrowers were treated similarly to non-socially disadvantaged borrowers. Our review was intended to determine if restructure proceedings were consistent and in conformity with applicable laws and regulations.

We reviewed a statistical sample including 87 borrowers who restructured their loans and determined that, for each borrower, there were 10 key events where FSA might not conform to law, regulation, policy, and procedure, either by not taking an action or by doing so outside an established time frame. Of the 870 key events for these 87 borrowers, we found that FSA did not technically conform with laws, regulations, policies, or procedures only 18 times (16 borrowers—4 socially disadvantaged, 12 non-socially disadvantaged). We consider this a very low exception rate. Each of the exceptions noted was related to the timeliness of FSA's actions. FSA officials agreed that the actions were not performed on time. (See exhibits A and E.)

Based on our statistical analysis of the individual key events, we cannot conclude there is a difference in treatment between the socially disadvantaged and non-socially disadvantaged borrower groups. (See exhibit B.) Although FSA did not timely conform to regulations and procedures for the 16 borrowers, the agency did eventually take the required actions, and the borrowers' loans were restructured.

---

[18] A paired difference test is applied to the difference in the number of exceptions between socially disadvantaged and non-socially disadvantaged borrowers, paired by location. (See exhibit B.)
[19] We applied the "difference of the means test" to the average exception rates of the two borrower groups. (See exhibit B.)
[20] Two borrowers were not sent notification that they were not eligible for debt restructuring, but were subsequently notified of such adverse decision at the next event in the foreclosure process.
[21] For the remaining 15 events, no exceptions were noted.

OIG concluded that the Department's decisions to implement foreclosure proceedings with respect to socially disadvantaged borrowers were generally consistent and in conformity with applicable laws and regulations. For the exceptions noted, our evidence does not indicate that socially disadvantaged farmers and ranchers are treated differently from their non-socially disadvantaged counterparts when their direct loans are considered for restructure, or are foreclosed. The noted exceptions involved timeliness issues, which were eventually corrected.

We are therefore making no recommendations at this time.

Exhibit A – *Key Events and Results*

		Foreclosure Exceptions		Restructure Exceptions[22]	
Event No.	Description of Key Event/Test	SDA[23]	Non-SDA	SDA	Non-SDA
1	Did FSA send the notice of loan servicing availability by the 18th of the month?	5	4	1	3
2	Did FSA allow the borrower 60 days to submit an application for direct loan assistance?	0	0	0	1
3	In cases where the borrower's application for direct loan assistance was incomplete, did FSA follow up with the borrower?	0	0	0	0
4	Did FSA wait 60 days before sending the borrower the notice of intent to accelerate and notice of borrower's rights?	1	0	0	0
5	If the borrower requested homestead protection after receiving the notice of intent to accelerate and notice of borrower's rights, did FSA send the borrower the notice of consideration for homestead protection?	0	0	0	0
6	Did FSA send the borrower an offer to restructure the debt within 60 days?	1	1	2	8
7	Did FSA allow the borrower 45 days to respond to the offer to restructure debt?	0	0	0	0
8	After appeal, did FSA allow the borrower another 45 days to accept the offer to restructure debt?	0	0	0	0
9	Did FSA process the debt restructure within 45 days?	1	0	1	1
10	Did FSA send the notice of adverse decision for primary loan servicing to the borrower within 15 days?	4	1	0	1
11	Did FSA allow the borrower 45 days to request mediation?	0	0		
12	Did FSA send the borrower the notice of intent to accelerate and notice of borrower's rights?	0	0		
13	Did FSA send the borrower the notice of intent to accelerate and notice of borrower's rights when the borrower did not respond to or declined the offer to restructure debt?	0	0		
14	Did FSA send the homestead protection notification when the borrower did not respond to the offer to restructure the debt or declined the offer?	0	0		
15	Did FSA determine whether the borrower was eligible for homestead protection?	0	1		
16	Did FSA accelerate the borrower's debt and foreclose on the borrower's security?	0	0		
17	Did the county office complete and sign the loan servicing checklist?	0	2		
18	Did the State office review and sign the loan servicing checklist?	1	2		
19	Did the county office receive approval to accelerate the borrower's debt?	0	1		
20	Did FSA send the acceleration notice (demand for payment) to the borrower?	1	0		
21	Did the county office receive approval from the State office to liquidate or sell security?	0	0		
22	Did FSA advertise the sale of the real estate being foreclosed?	0	1		
23	Did FSA sell or account for the chattel (machinery, equipment, crops) security?	0	0		
24	In cases where FSA received notice the borrower filed bankruptcy before FSA sent the notice of loan servicing availability to the borrower, did FSA send correspondence to the borrower's attorney within 15 days of receiving the notification?	1	0		
25	Did FSA allow the attorney 60 days to respond to correspondence?	0	0		
26	When FSA received notice the borrower filed bankruptcy after FSA had already sent the notice of loan servicing availability to the borrower, did FSA send correspondence to the borrower's attorney within 15 days of receiving the notification?	1	2		
27	Did FSA proceed with acceleration (demand for payment) prior to liquidation (selling security)?	0	0		
28	Did FSA handle unusual situations such as conservation contracts appropriately?	0	0		
		16	15	4	14
		31		18	

[22] Generally speaking, events 11 – 28 do not apply to restructures.
[23] SDA = socially disadvantaged.

Exhibit B – *Sampling Plan and Analysis of Results*

Purpose of the Sampling

The statistical sampling summarized here supported the audit of whether the Department's decisions to implement foreclosure proceedings with respect to SDA borrowers were consistent and in conformity with the applicable laws and regulations governing loan foreclosures.

We employed both two-stage and cluster sampling[24] for selecting records for review. The measures evaluated were pass-fail attributes related to the performance of specific loan servicing actions. This exhibit summarizes our audit universe, sample design, and results.

Audit Universe

In FYs 2003 through 2007, there were 811 borrowers with FSA loan foreclosures. Of those borrowers, 11 were located in Alaska, Hawaii, Puerto Rico, and Guam; these 4 States and territories were excluded from the audit. The remaining 800 borrowers had foreclosed loans serviced in 441 locations.[25] Only 138 locations contained at least 1 foreclosure involving a borrower FSA classified as part of an SDA group:

- Female,
- African American,
- Hispanic,
- Asian/Pacific Islander, or
- American Indian/Alaskan Native.

We focused on compliance in the servicing of SDA borrowers' loans (SDA loans) resulting in foreclosure. We defined the audit universe as those 138 locations that, based on FSA data, contained at least 1 SDA loan foreclosure in the specified time period. To have a basis for comparison, we also examined the servicing of non-SDA foreclosed loans. This universe of 138 locations contained 185 SDA borrowers and 171 non-SDA borrowers, as highlighted in the table below. We make no projections for locations or borrowers outside of the defined universe.

BORROWER CATEGORY	LOCATIONS	FORECLOSURES
All	441	800
SDA	**138**	**185**
Non-SDA in an SDA Foreclosure Location		**171**
Non-SDA not in an SDA Foreclosure Location	303	444

[24] In a two-stage sample, large units (i.e., locations) are randomly selected first (primary-stage selection); then individual units (i.e., borrowers) are selected randomly from the selected larger units (secondary-stage selection). A cluster sample is a special case of two-stage sampling in which all of the individual units in the selected first stage units are selected.

[25] Throughout this exhibit, we use "location" to mean a State and county combination.

The audit universe for loan restructuring was limited to the same SDA locations identified for the foreclosure testing. The universe of 138 locations included 1,271 borrowers with restructured loans in FYs 2003 through 2007.

BORROWER CATEGORY	LOCATIONS	RESTRUCTURES
All in an SDA Foreclosure Location	138	1,271
SDA in an SDA Foreclosure Location	**138**	**306**
Non-SDA in an SDA Foreclosure Location		**965**

Sample Design and Sample Size

To test compliance with loan servicing criteria, we designed a test of attributes, where each attribute corresponded to a required servicing action, defined as "key events" in this audit. During the audit, loan servicing records for these key events were reviewed and exceptions noted. An exception is any error, deviation, or other measure of non-compliance with a particular criterion. Each borrower file could contain one exception for each criterion applicable to the case. Therefore, a borrower file could contain multiple exceptions, each related to a different criterion. Exceptions were assigned only if OIG determined a particular criterion applied to a particular borrower and the handling was non-compliant. Where OIG determined a particular criterion did not apply to a particular borrower, the record was considered compliant, i.e., no exception was assigned to that borrower/criterion combination.

We had two categories of borrowers, SDA and non-SDA, as well as two categories of servicing actions, foreclosure and restructure, we wished to test. We chose a multi-stage sample design with location selected at the first stage. Borrowers were selected at the second stage.

To determine sample size, we began by assuming we would not encounter an exception rate exceeding 30 percent on any tested criterion. While we had no prior information regarding the potential magnitude of exceptions for the criteria planned for testing, we had no reason to anticipate extremely high rates of non-compliance. We desired a confidence level of 95 percent with a precision on the proportion not greater than ±8 percent for the 30 percent exception rate. In other words, if the observed exception rate was in fact 30 percent, then the 95 percent confidence interval would be no wider than 22 percent to 38 percent. Lower exception rates would result in narrower (tighter) confidence intervals.[26] Using the parameters above, we calculated sample size for a simple random[27] sample of borrowers from the SDA foreclosure universe of 185 and, using the standard formula for calculating sample size for a proportion for simple random samples,[28] arrived at a desired sample size of 75 SDA borrowers.

[26] For example, a sample size sufficient to provide +/-8 percent precision on a 30 percent error rate would be expected to provide +/-4 percent precision on a 5 percent error rate.
[27] Also known as unrestricted random.
[28] Sample size = $[Np(1-p)] / [(N-1)(B/z)^2 + p(1-p)]$, where: N = Universe size (185 borrowers); p = exception rate allowed for in planning (0.30); B = desired precision (0.08); z = 1.96 for 95 percent confidence level. We chose to calculate sample size based on borrowers and then to see how many locations that generated, rather than calculating sample size based on locations, because we expressed the planned-for exception rate and the desired precision in terms of percentage of borrowers rather than percentage of locations.

For the key-event testing of foreclosures, we included all borrowers in the selected locations. Therefore, both the SDA foreclosure group and the non-SDA foreclosure group were cluster samples.[29]

To determine the number of locations needed to generate the desired sample of 75 SDA borrowers, we first put the 138 locations into random order.[30] Then, starting with the first location thus randomly selected, we progressed through the random list of locations accumulating the count of SDA borrowers in each location until the total reached or exceeded 75. This process produced a total of 60 locations,[31] with 78 SDA borrowers on the FSA foreclosure listing.

Of the 60 locations, 32 did not have any non-SDA borrowers; the remaining 28 locations contained a total of 68 non-SDA borrowers on the FSA listing.

For loan restructures, we determined there were 689 borrowers with restructured loans in the sample of 60 locations. Some locations contained a large number of borrowers with restructured loans. Therefore, we selected a random sample of six borrowers for each location that had more than six borrowers. SDA and non-SDA borrowers were not separated in advance for this selection of the six borrowers. For all 60 selected locations, this generated a total of 258 borrowers to review, which proved to be prohibitive within the time frame allowed to perform the audit. Therefore, we approached the test of restructured loans as a stop-or-go sample, based on the number of exceptions found in the first 20 locations in the random sample. The first 20 locations included 213 borrowers; the two-stage selection process resulted in a sample of 87 randomly selected borrowers in those 20 locations.[32]

Because not all restructured loans were reviewed at a given location, this was a two-stage sample rather than a cluster sample.

Results

Overall, the review found very few exceptions for the procedural key events tested. We show the raw totals below to illustrate the generally low numbers of exceptions observed. We noted that just over half of the foreclosure key events with exceptions had broad applicability, while the remainder applied only to a few specific loans; for restructures, four out of the five events with exceptions were broadly applicable. For both foreclosures and restructures, the key events that were broadly applicable to SDA borrowers were the same as those for non-SDA borrowers. For many of the key events tested, we found no exceptions in either group, and we did not include those key events in the tables below.

[29] A cluster sample is a special case of a two-stage sample. In a cluster sample all units (borrowers, in this audit) are selected in the second stage.
[30] We used the Excel "randbetween" function to select random numbers for each location.
[31] We reached exactly 75 SDA borrowers at the fifty-seventh location selected. We chose to continue to the sixtieth random location, for a total of 78 SDA borrowers, to provide some coverage of other combinations of the unknown parameters.
[32] We originally had 88 borrowers in the restructure sample. For 1 of the 88 borrowers, we received an incorrect file. We dropped the borrower from the sample, resulting in a sample of 87.

Foreclosure Key Event	SDA Raw Data (from review of 78 SDA borrowers with foreclosures)		Non-SDA Raw Data (from review of 68 non-SDA borrowers with foreclosures)	
	Event Applied	Exceptions	Event Applied	Exceptions
1: Did FSA send the notice of loan servicing availability by the 18th of the month?	68	5	56	4
4: Did FSA wait 60 days before sending the notice of intent to accelerate and notice of borrower's rights to the borrower?	43	1	40	0
6: Did FSA send the borrower an offer to restructure the debt within 60 days?	2	1	1	1
9: Did FSA process the debt restructure within 45 days?	1	1	0	0
10: Did FSA send the notice of adverse decision for primary loan servicing to the borrower within 15 days?	11	4	9	1
15: Did FSA determine whether the borrower was eligible for homestead protection?	15	0	12	1
17: Did the county office complete and sign the loan servicing checklist?	66	0	55	2
18: Did the State office review and sign the loan servicing checklist?	67	1	52	2
19: Did the county office receive approval to accelerate the borrower's debt?	67	0	53	1
20: Did FSA send the acceleration notice (demand for payment) to the borrower?	63	1	56	0
22: Did FSA advertise the sale of the real estate being foreclosed?	47	0	33	1
24: In cases where FSA received notice the borrower filed bankruptcy before FSA sent the notice of loan servicing availability to the borrower, did FSA send correspondence to the borrower's attorney within 15 days of receiving the notification?	3	1	3	0
26: When FSA received notice the borrower filed bankruptcy after FSA had already sent the notice of loan servicing availability to the borrower, did FSA send correspondence to the borrower's attorney within 15 days of receiving the notification?	7	1	13	2
Totals for 13 Key Events with Exceptions	**460**	**16**	**383**	**15**

In aggregate, the 2 borrower groups were almost equal across the 28 foreclosure key events: for the 78 SDA borrowers, we found 16 exceptions; for the 68 non-SDA borrowers, we found 15 exceptions.

Restructure Key Event	SDA Raw Data (from review of 18 SDA borrowers with restructures)		Non-SDA Raw Data (from review of 69 non-SDA borrowers with restructures)	
	Event Applied	Exceptions	Event Applied	Exceptions
1: Did FSA send the notice of loan servicing availability by the 18th of the month?	11	1	35	3
2: Did FSA allow the borrower 60 days to submit an application for direct loan assistance?	16	0	61	1
6: Did FSA send the borrower an offer to restructure the debt within 60 days?	16	2	58	8
9: Did FSA process the debt restructure within 45 days?	16	1	58	1
10: Did FSA send the notice of adverse decision for primary loan servicing to the borrower within 15 days?	0	0	1	1
Totals for 5 Key Events	**59**	**4**	**213**	**14**

In the restructures category, the raw total of 14 errors for 69 non-SDA borrowers appears considerably higher than the 4 errors for 18 SDA borrowers; however, the SDA error rate is comparable to the percentage of SDA borrowers in the sample (18 SDA borrowers / 87 total borrowers = 0.21; 4 SDA exceptions / 18 total exceptions = 0.22).

Foreclosure Servicing Projections

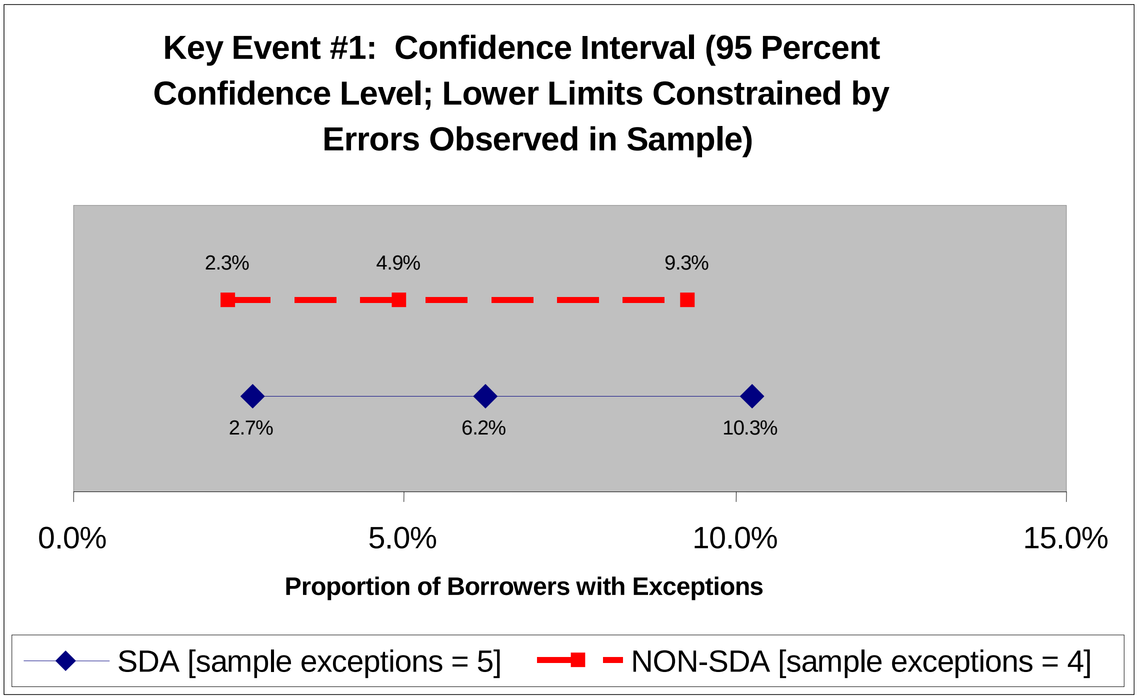
To determine compliance with applicable laws and regulations, we projected these outcomes from the sample data to the audit universe. We first projected the averages and associated 95 percent confidence intervals for each key event. We used the cluster sample evaluation methodology[33] for events with several errors. For events with three or fewer errors in the borrower category (SDA or non-SDA, individually), we calculated upper error limits using the inverse beta function,[34] due to the rare occurrence of exceptions. In addition, we compared the results for the two borrower groups. However, the groups are not independent because the same locations are used for each. Therefore, we determined the critical value and test statistics for the paired difference experiment,[35] also called the random block experiment, using the locations as the "blocks."

Of the foreclosure key events with exceptions, we typically found only one or two exceptions, and only five foreclosure key events showed exceptions in both the SDA group and the non-SDA group. We present below the projected proportions of both SDA and non-SDA borrowers with exceptions for the two foreclosure key events with more than three total exceptions.[36] The results for these two key events illustrate two conditions of particular interest: (1) key event #1, with a total of nine exceptions, had the greatest number of exceptions; (2) key event #10, had the largest observed difference in the number of exceptions between the SDA and non-SDA borrowers. All other key events had lower projected numbers of exceptions in the audit universe and a smaller difference in the number of exceptions between the two groups. Therefore, these two key events represent the most extreme foreclosure servicing cases within the audit.

Foreclosure Servicing Key Event #1: Did FSA send the notice of loan servicing availability by the 18th of the month?

Key event #1 had the largest number of exceptions in the sample, five in the SDA borrower group and four in the non-SDA borrower group. The projected exception rates are 6.2 percent for the SDA group and 4.9 percent for the non-SDA group.[37] The key event #1 projections below illustrate that, even though the groups had several exceptions, the near-equality in the number of exceptions and in the number of borrowers per group produces point estimates and confidence intervals[38] that are similar.

[33] Scheaffer, Mendenhall, and Ott, 1990, *Elementary Survey Sampling*, 4th edition, Belmont, CA: Duxbury Press. We used the unbiased method for two-stage sample, from chapter 9, with zero variation within the clusters.
[34] We first used the EXCEL "BETAINV" function to obtain results consistent with the binomial distribution. We then included finite population correction factors consistent with the hypergeometric distribution.
[35] McClave, Benson, Sincich, 1998, *Statistics for Business and Economics*, 7th edition, Upper Saddle River, NJ: Prentice Hall.
[36] The "three total exceptions" refers to the combined total for SDA and non-SDA borrower groups.
[37] These values do not match a simple computation of exceptions divided by borrowers because of the effects of the cluster sample. Specifically, the projected 6.2 percent for the SDA case comes from: (5 exceptions) ÷ (60 SDA locations in the sample) × (138 SDA locations in the universe) ÷ (185 SDA borrowers in the universe). The non-SDA value, 4.9 percent, comes from: (4 exceptions) ÷ (28 sample locations that had non-SDA borrowers) x (59 universe locations that had non-SDA borrowers) ÷ (171 non-SDA borrowers in the universe).
[38] The point estimate, reported as the single value representing the projected outcome resulting from the sample, is an average value that takes into account the sample design factors. In this audit, the two-stage design is the source of the design factors. It is not any more likely an outcome than any other point in the confidence interval. The confidence interval is the point estimate plus and minus the probability-based uncertainty value calculation from variation among the sampled borrowers and locations. All samples have inherent uncertainty. The width of the confidence interval is indicative of the variability



The asymmetry[39] in the illustrated intervals occurs because the lower bounds shown are the "observed minimum" bounds. These are calculated as the number of exceptions observed in the sample divided by the number of borrowers in the audit universe for the corresponding borrower group (i.e., 5 SDA borrowers with exceptions / 185 borrowers in the SDA universe = 2.7 percent for SDA, and 4 non-SDA borrowers with exceptions / 171 borrowers in the non-SDA universe = 2.3 percent for non-SDA).[40] Because the observed minimums are higher than the corresponding lower bounds of the 95 percent confidence intervals (2.2 percent and 0.6 percent, respectively), we chose to show the observed values.

Based on the sample results, we project that between 2.7 percent and 10.3 percent of the SDA foreclosure borrower files will not indicate that the package was sent timely, i.e., by the 18th of the month following the delinquency. Our point estimate is that 6.2 percent of the SDA borrower files will not indicate that the package was sent timely. This point estimate equates to between 11 and 12 of the 185 SDA foreclosure borrowers in the audit universe.

Based on the sample results, we project that between 2.3 percent and 9.3 percent of the non-SDA foreclosure borrower files will not indicate that the package was sent timely, i.e., by the 18th of the month following the delinquency. Our point estimate is that 4.9 percent of the non-SDA borrower files will not indicate that the package was sent timely. This point estimate equates to between 8 and 9 of the 171 non-SDA foreclosure borrowers in the audit universe.

associated with the results obtained in the sample.

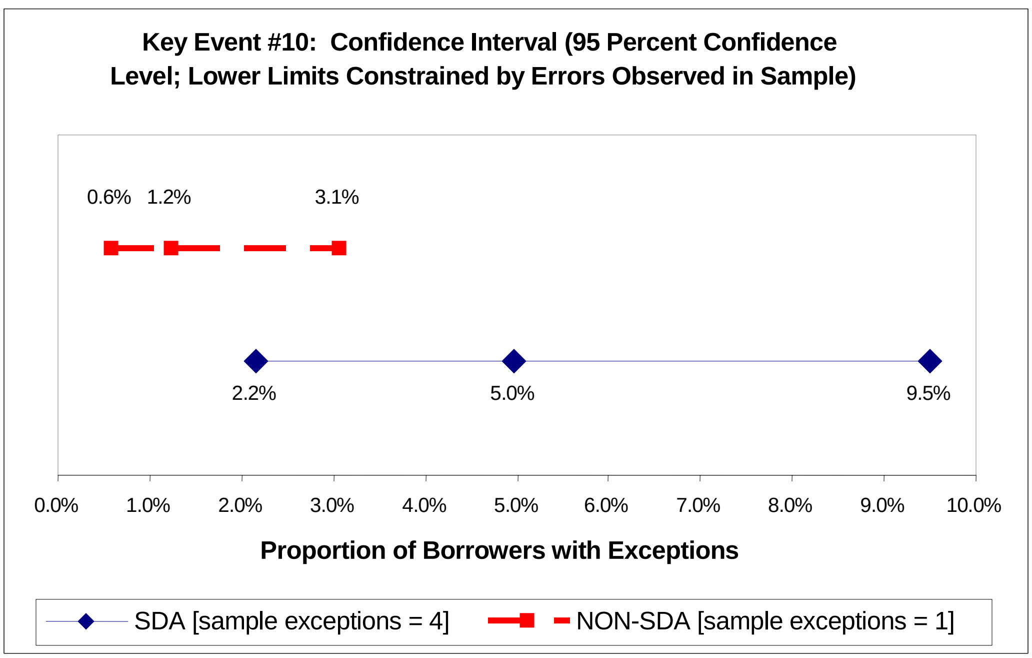
[39] Confidence intervals without the constraint would be symmetrical around the point estimate.

[40] The "observed minimum "is not affected by design factors. It is simply the lowest percent of borrowers with a loan servicing exception that is possible, based on the observed number of exceptions.

With the complete overlap of the confidence intervals, we might conclude immediately that there is no difference in the treatment of the two borrower groups for key event #1. Because the two samples are not independent, however, we also test the null hypothesis that the averages of the two groups are equal using a paired difference methodology. This test is applied to the difference in the number of exceptions between SDA and non-SDA borrowers, paired by location. We find that the test statistic value of 0.40 does not exceed the critical value of 2.00, indicating that we have insufficient evidence to reject the null hypothesis. In other words, we cannot say the handling of key event #1 was different between the two borrower groups.[41]

<u>Foreclosure Servicing Key Event #10</u>: Did FSA send timely notification of determination that the debt cannot be restructured?

Key event #10 shows the only foreclosure event for which the difference in the number of exceptions between the two borrower groups was greater than two. Even with four exceptions for the SDA group and one exception for the non-SDA group, we still observed overlap between the 95 percent confidence intervals. As with key event #1, the lower bounds shown are the observed minimum values rather than the lower bounds of the 95 percent confidence interval (for SDA, 2.2 percent observed versus 0.5 percent for the confidence interval; for non-SDA, 0.6 percent observed versus -0.6 percent for the confidence interval).[42]



Based on the sample results, we project that between 2.2 percent and 9.5 percent of the SDA foreclosure borrower files will show that the required notification was not sent within 15 days of the determination

[41] Conclusion is for level of significance (alpha) = 5 percent, or confidence level of 95 percent.
[42] Calculated lower bounds can go negative. This is just the result of the variability found in the sample results compared to a low point estimate. A larger sample might have produced a tighter interval. We elected to show the observed minimum values, since they were higher than the calculated lower bounds.

of a non-feasible plan. Our point estimate is that 5.0 percent of the SDA foreclosure borrower files will show notification times exceeding 15 days. This point estimate equates to between 9 and 10 of the 185 SDA foreclosure borrowers in the audit universe.

Based on the sample results, we project that between 0.6 percent and 3.1 percent of the non-SDA foreclosure borrower files will show that the required notification was not sent within15 days of the determination of a non-feasible plan. Our point estimate is that 1.2 percent of the non-SDA borrower files will show notification times exceeding 15 days. This point estimate equates to between 2 and 3 of the 171 non-SDA foreclosure borrowers in the audit universe.

While the confidence intervals for key event #10 overlap, they do so much less than do the confidence intervals for key event #1. If these same results had come from independent samples, i.e., not using the same locations, we might rely solely on the overlapping condition to indicate there is an inconclusive result regarding any difference in the two groups. However, because the two samples are not independent, we need to consider whether another test provides better information.

Therefore, we test the null hypothesis that the averages of the two groups are equal using the paired difference methodology, applied to the difference in the number of exceptions between SDA and non-SDA borrower groups, paired by location. We find that the test statistic value of 1.51 does not exceed the critical value of 2.00, indicating that we have insufficient evidence to reject the null hypothesis. Based on this test, we cannot reject the hypothesis that the two groups were treated the same with respect to this key event.[43]

We noted that this key event falls into the category of events that are not broadly applicable to borrowers in the foreclosure servicing sample. Both the number of exceptions and the number of loans to which the event applies are very small. This results in conditional[44] exception rates considerably higher than those calculated as universe averages. Specifically, the SDA conditional exception rate, given that key event #10 applied, is 36 percent, from 4 exceptions out of 11 loans. The corresponding non-SDA conditional exception rate is 11 percent, from one exception out of nine loans.[45] Therefore, we tested for a significant difference between the conditional exception rates.

We noted there were very few borrowers, in very few locations, to whom key event #10 applied. Also, the applicability generally occurred in different locations for SDA compared to non-SDA borrowers. Only 1 of the 17 locations to which this event applied had both SDA and non-SDA borrowers. Therefore, for the test of the conditional exception rates, we compared the SDA and non-SDA groups as though they were independent. Using only these 17 locations, the test for a difference of the average exception rates yielded a test statistic of 1.63. The critical value for 15 degrees of freedom[46] at the primary stage is 2.131. Because 1.63 is less than 2.131, this test, too, indicates that we cannot say that the handling of the two groups was different with respect to this key event.[47]

[43] Conclusion is for level of significance (alpha) = 5 percent, or confidence level of 95 percent.
[44] A conditional probability is the probability an event occurs given that some other event has already occurred. Here, the “condition” is that the key event applies to a borrower. The conditional probability of an exception is the probability of an exception given that the event applied to the borrower. This is an issue only for events with very low applicability, meaning, they did not apply to most borrowers.
[45] The proportions adjusted to include the two-stage sample design factors are 29.8 percent for SDA and 4.9 percent for non-SDA.
[46] Degrees of freedom for 10 SDA locations = 10 - 1 = 9. Degrees of freedom for 7 non-SDA locations = 7 - 1 = 6. Degrees of freedom for the difference of the averages = 9 + 6 = 15 degrees of freedom.
[47] Conclusion is for level of significance (alpha) = 5 percent, or confidence level of 95 percent.

In summary, we are unable to establish a difference between the handling of SDA and non-SDA loan servicing actions for key event #10. Any effect on overall compliance from this event would be extremely small based on the very limited number of borrowers to which this event applies.

Restructure Servicing Projections

We also projected the restructure results to the audit universe of 138 locations. The averages and associated 95 percent confidence intervals for each borrower group and key event were determined using a two-stage sample evaluation methodology.[48] Because of audit deadlines, we limited our sample number of locations to the first 20 locations selected, based on initial indications that the error rates were low. We later determined that error rates for a few key events were higher than initially thought, which resulted in poorer achieved precision than targeted at the sample design stage.

As we did with foreclosures, we show the restructure servicing results for the events reflecting more than three exceptions in the raw data for the combined borrower groups. Therefore, we show results for key events #1 and #6 in the table below. For key event #1, the SDA interval 0.3 percent to 7.3 percent is entirely contained within the non-SDA interval 0.3 percent to 12.8 percent. For key event #6, the non-SDA interval 0.8 percent to 12.9 percent is completely contained within the SDA interval 0.7 percent to 23.1 percent.

We include in the table below the results for the two borrower groups separately, based on the data acquired. We also include the combined results as a measure of overall compliance in servicing loan restructures.

Restructure Review Summary		SDA	Non-SDA	Combined
Number of borrowers in audit universe of 138 locations		306	965	1271
Number in 60 locations selected		147	542	689
Number in 20 locations selected		49	164	213
Number in sample of 20 locations		18	69	87
Key Event #1:				
Point Estimate[49]	Fraction with an exception	2.4%	5%	4.4%
	Number with an exception	7	48	56
95 percent confidence interval [lower limit constrained by observed minimum[50]][49]	Fraction with an exception	0.3% to 7.3%	0.3% to 12.8%	0.3% to 10.5%
	Number with an exception	1 to 22	3 to 123	4 to 133

[48] Scheaffer, Mendenhall, and Ott, 1990, *Elementary Survey Sampling*, 4th edition, Belmont, CA: Duxbury Press.
[49] Because of the two-stage sample design, SDA projections and non-SDA projections may not add to the combined projections.
[50] Observed minimum equals number of errors observed in sample divided by number of borrowers in group in audit universe.

Exhibit B – Page 10 of 10

Restructure Review Summary		SDA	Non-SDA	Combined
Key Event #6:				
Point Estimates[49]	Fraction with an exception	9.6%	6.8%	7.6%
	Number with an exception	29	66	97
95 percent confidence interval [lower limit constrained by observed minimum for SDA and Non-SDA columns][49]	Fraction with an exception	0.7% to 23.1%	0.8% to 12.9%	2.2% to 13.0%
	Number with an exception	2 to 71	8 to 125	28 to 166

Conclusion

For both SDA and non-SDA borrowers, we observed exceptions to loan servicing standards for both foreclosure and restructure events. However, based on the sample results, we find insufficient evidence to conclude that the SDA and non-SDA borrower groups were treated differently for either foreclosure or restructure events.

Exhibit C – Review Sites

Review Sites	25 States For Which Borrower Files Were Reviewed	Foreclosure Borrower Files	Restructure Borrower Files
Little Rock, Arkansas	Arkansas	22	21
Alexandria, Louisiana	Louisiana	33	7
College Station, Texas	Texas	31	7
Jackson, Mississippi	Mississippi	12	0
Harrisburg, Pennsylvania	Maine	2	6
	Massachusetts	4	6
	New Jersey	4	5
	New York	5	0
	Vermont	1	3
	Virginia	1	0
	West Virginia	1	6
		18	26
Athens, Georgia	Alabama	1	3
	Florida	5	0
	Georgia	1	0
	North Carolina	5	7
	South Carolina	4	0
	Tennessee	3	1
		19	11
Columbia, Missouri	Michigan	2	6
	Ohio	1	0
	Wisconsin	2	0
	California	1	0
	Minnesota	1	6
	Missouri	1	4
	North Dakota	2[51]	0
	Oklahoma	1	0
		11	16
Total		**146**	**87**

[51] One socially disadvantaged borrower file was unavailable during the time of our field visit. The file had been damaged by floodwater and was being restored. The file was eventually sent for our review to the Bell County, Texas, FSA Office in Belton, Texas, which is physically proximate to our Temple, Texas, field office.

Exhibit D – *Results by State and County - Foreclosures*

		SDA Borrowers	SDA Exceptions by Event Number									Non-SDA Borrowers	Non-SDA Exceptions by Event Number								
State	County		1	4	6	9	10	18	20	24	26		1	6	10	15	17	18	19	22	26
AL	PICKENS	1										0									
AR	BENTON	1										2									
AR	CALHOUN	1										0									
AR	CRITTENDEN	2										0									
AR	HEMPSTEAD	1										1									
AR	HOWARD	2					1					2									
AR	LAWRENCE	1										1									
AR	LEE	1										2		1							
AR	LITTLE RIVER	1										1									
AR	SEVIER	1										1									
AR	WOODRUFF	1										0									
CA	STANISLAUS	1										0									
FL	DADE	1										2	1								
FL	MARION	2					1	1				0									
GA	IRWIN	1										0									
LA	AVOYELLES	1	1									1									
LA	CADDO	1	1									0									
LA	EAST CARROLL	1										3									
LA	OUACHITA	2										0									
LA	RICHLAND	1										5									1
LA	ST. LANDRY	2										2	2								
LA	WEST CARROLL	7					2					7									
ME	SOMERSET	1										1	1								
MA	WORCESTER	2										2					1	1			
MI	ALCONA	1	1									0									
MI	BERRIEN	1	1									0									
MN	WEST OTTER TAIL	1										0									
MS	BOLIVAR	1										4									
MS	PEARL RIVER	1										4									
MS	YAZOO	1										1									
MO	MISSISSIPPI	1										0									
NJ	CUMBERLAND	1										3									
NY	ST. LAWRENCE	2	1									3									
NC	CUMBERLAND	1										0									
NC	EDGECOMBE	1										0									
NC	PASQUOTANK	1										0									
NC	PERSON	1										1									
ND	SIOUX	2									1	0									
OH	HURON	1										0									
OK	PUSHMATAHA	1										0									
SC	CLARENDON	1										0									
SC	LEE	1										2									
TN	DYER	1										0									
TN	GILES	1										0									
TN	ROBERTSON	1										0									

Exhibit D – Page 2 of 2

			SDA Exceptions by Event Number										**Non-SDA Exceptions by Event Number**								
State	**County**	**SDA Borrowers**	**1**	**4**	**6**	**9**	**10**	**18**	**20**	**24**	**26**	**Non-SDA Borrowers**	**1**	**6**	**10**	**15**	**17**	**18**	**19**	**22**	**26**
TX	BAILEY	1										**4**									1
TX	DAWSON	3		1								**8**			1	1	1	1	1	1	
TX	HENDERSON	1										**0**									
TX	HUDSPETH	1										**1**									
TX	JIM WELLS	1							1			**0**									
TX	LEON	1										**0**									
TX	LIMESTONE	1										**0**									
TX	PECOS	2										**0**									
TX	PRESIDIO	2										**0**									
TX	UPTON	1										**2**									
TX	ZAPATA	1			1	1						**1**									
VT	WINDSOR	1										**0**									
VA	BRUNSWICK	1										**0**									
WV	MARSHALL	1								1		**0**									
WI	OCONTO	1										**1**									
Totals		**78**	**5**	**1**	**1**	**1**	**4**	**1**	**1**	**1**	**1**	**68**	**4**	**1**	**1**	**1**	**2**	**2**	**1**	**1**	**2**

We reviewed all 78 SDA and 68 non-SDA borrowers.

Exhibit E – *Results by State and County - Restructures*

		SDA	SDA Exceptions by Event Number			Non-SDA	Non-SDA Exceptions by Event Number				
State	**County**	**Borrowers**	**1**	**6**	**9**	**Borrowers**	**1**	**2**	**6**	**9**	**10**
AL	PICKENS	1				2	1				
AR	HEMPSTEAD	2		1		4					
AR	HOWARD					3			1	1	
AR	LEE	3				3					
AR	LITTLE RIVER	3				3			1		
LA	OUACHITA					1					
LA	ST. LANDRY					6	1				
ME	SOMERSET, PT	2				4					
MA	WORCESTER, PT	1				5			2		
MI	ALCONA	1		1		5					
MN	WEST OTTER TAIL	1				5					
MO	MISSISSIPPI	1				3					
NJ	CUMBERLAND					5					
NC	EDGECOMBE					6					
NC	PERSON					1	1				1
TN	DYER					1					
TX	HUDSPETH	1				5			1		
TX	LEON	1	1			0					
VT	WINDSOR	1			1	2			1		
WV	MARSHALL					6		1	2		
Totals		**18**	**1**	**2**	**1**	**69**	**3**	**1**	**8**	**1**	**1**