

1951-S

For: State and County Offices

**Reviewing Borrower Cases Before Offering  
Primary Loan Servicing or Net Recovery Buyout**

Approved by: Acting Deputy Administrator, Farm Credit Programs



**I Overview**

**A  
Background**

An OIG review of accounts approved for Primary Loan Servicing (PLS) and Net Recovery Buyout (NRB) under FmHA Instruction 1951-S revealed that significant changes to a borrower's operation occurring after receiving the application were not always identified and considered before closing the servicing action.

**B  
Purpose**

The purpose of this notice is to:

- direct Agriculture Credit Managers to contact borrowers before any offer of PLS loan restructuring or NRB
- establish a clear policy on when a borrower's application should be updated and changes to the proposed servicing considered.

<b>Disposal Date</b> December 1, 1996	<b>Distribution</b> State Offices; State Offices relay to County Offices and Ag Credit Teams
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## Notice FC-18

### 2 Reviewing Borrower Cases

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#### A

##### Contacting Borrowers

Before mailing FmHA Instruction 1951-S, Exhibit B or Exhibit F, offering to restructure an account, or mailing FmHA Instruction 1951-S, Exhibit A, Attachments 5A and 6A or Attachments 5 and 6, offering NRB, the Agriculture Credit Manager shall contact the borrower.

- The purpose of this contact is to confirm that no changes have occurred in the operation that may substantially affect the outcome of the proposed servicing action.
  - The contact may be a telephone call, a field visit, or an office visit.
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#### B

##### Documenting Results

Document the results of this contact in the case file. Do not use the information obtained to routinely update the loan servicing application. Only update application information when there is sufficient evidence that the operation has changed significantly from the time the initial application was submitted. When significant changes have occurred, revise the Farm and Home Plan and DALR\$ accordingly. See subparagraph C to determine whether an operation has changed significantly.

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#### C

##### Determining Significance of Changes

The following situations, which are not all-inclusive, represent significant changes under which the application and servicing outcome should be reconsidered.

- The Agriculture Credit Manager can document that the borrower knowingly provided false information on his or her PLS application; this includes unauthorized disposition or neglect of chattel security or waste of real estate security property.
- The borrower's situation has changed so dramatically that the proposed servicing action would not fulfill the purpose of the loan.

**Example:** The borrower has switched to an enterprise that is so different from the original that the Farm and Home Plan is no longer accurate. For example, a switch from dairy to beef, poultry to hogs, alfalfa to corn, etc.

**Example:** The term of the Farm and Home Plan, upon which the DALR\$ Analysis Report is based, has expired.

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2 Reviewing Borrower Cases (Continued)

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C  
Determining  
Significance of  
Changes  
(Continued)

**Example:** The borrower has quit farming.

**Example:** The borrower has entered into a contract to sell the property, or a significant portion of it, after the application for PLS was received.

**Example:** The borrower's operation depends on leased land, but the leases expired or were canceled after the application for PLS was received.

- Something occurs to cause a significant reduction in the value of the security, thus reducing the net recovery value.

**Example:** The borrower has a herd of beef cattle and a significant number of the animals were killed by disease or other natural disaster that could not be avoided by the borrower.

**Example:** Property owned, either chattel or real estate, including fixtures, is destroyed or severely damaged in a natural disaster or a fire, and insurance is inadequate.

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D  
Timely  
Processing

In no case shall the review cause an unreasonable delay in processing the loan servicing application.

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