



United States
Department of
Agriculture

Farmers
Home
Administration

Washington
D.C.
20250

FmHA AN No. 1306 (1951)

December 6, 1985

SUBJECT: Debt Set-Aside Reviews

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

PURPOSE/INTENDED OUTCOME:

We have determined that the results of recent OIG audits and the Special Operations Review required by AN 1207(1951) make it necessary to review all debt set-asides granted. This memorandum sets forth the guidelines to be followed in this review to assure consistency within and between States. County Offices will begin their reviews upon receipt of this AN and the Automation Supplement to FmHA Instruction 1951-A. Reviews must be completed prior to the end of the loan making season. Corrections must be completed prior to the end of FY 1986.

COMPARISON WITH PREVIOUS AN:

AN 1265(1951) titled "Debt Set-Aside Program Deficiencies" suspended corrective actions on debt set-aside until further guidance was provided. This AN, in conjunction with the Automation Supplement, provides the necessary guidance to review and correct debt set-asides.

IMPLEMENTATION RESPONSIBILITIES:

COUNTY OFFICE RESPONSIBILITIES

Set-Asides to be Reviewed.

1. No review will be made of those cases audited by OIG where FmHA agreed to and did make corrections or where no exceptions were found.
2. No review will be made of those cases where the amount of set-aside granted is insignificant. The amount of set-aside granted is insignificant if the amount of interest savings to the borrower during the set-aside period will be \$1,000 or less. Calculate this by multiplying the amount of principal set aside times the interest rate on the note set aside times 5.

EXPIRATION DATE: November 30, 1986

FILING INSTRUCTIONS: Preceding
FmHA Instruction 1951-A



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3. All other cases will be reviewed in accordance with the terms of this AN. All supporting calculations and documentation for set-asides granted will be reviewed, calculations verified on the IBM Displaywriter in the State Office and corrective actions taken.

"Typical Year" Plan Review

During OIG's review of debt set-aside, the most extensive and critical problems identified concerned the preparation of a "typical year" Farm and Home Plan. Therefore, you should assure that the Farm and Home Plan on which set-aside was based accurately reflects a typical year's operation during the set-aside period; and that there is documentation detailing how the typical year was determined.

The County Supervisor must use FmHA Instruction 1951-A, Section 1951.41 and the Automation Supplement to FmHA Instruction 1951-A to review and, if necessary, correct the "typical year" Farm and Home Plan used when granting the debt set-aside. The Automation Supplement clarifies the definition of "typical year" plan in Section 1951.41. The Supplement refers to this plan as a "12 month representative plan" to distinguish between the "typical year" definition used in Section 1951.41 and other FmHA Instructions. The Supplement also provides guidance for calculating FmHA and non-FmHA debt repayment for the 12 month representative plan. The County Supervisor MUST document whether the plan originally prepared for determining set-aside is in accordance with Section 1951.41 and the Automation Supplement or if corrections to the plan are necessary. Corrections must be completed prior to preparation of the Data Sheets referred to below. The County Supervisor should assure that the plan was prepared using production records and State Office published prices in accordance with Section 1951.41(c)(2). The 12 month representative plan used for determining eligibility for set-aside must be identified as the "Typical Year Plan."

Regulations vs. Policy Statements

Your review must be based on regulations in effect at the time the set-aside was approved; not on later policy statements. For example, the use of maximum terms is current policy but regulations do not require this. If a set-aside being reviewed was granted based on less than maximum terms, it must be reviewed the same way. Any set-asides approved after the policy change will be based on maximum terms.

Preparation of Data Sheets

The County Supervisor will prepare Data Sheets 1 and 2 for the IBM Displaywriter Farmer Program Servicing Action System which are contained in the September 26, 1985, (Revision 2) Automation Supplement. It is very important that the Automation Supplement be followed when preparing the Data Sheets. Attachment 1 of this memorandum contains special

instructions for obtaining loan status information when there has been activity on any loan after the original set-aside date. After the County Office completes the Data Sheets, they will be sent to the State Office for data entry and verification of debt set-aside calculations. The State Office will return a Servicing Action Report (SAR) to the County Office.

Interpretation, Retention and Corrections

Upon receipt of the SAR, the County Supervisor will verify the accuracy of data input, and compare the output with the set-aside amount previously granted. The computer printout will be made a part of the borrower's county office file.

If the difference between the amount of set-aside originally granted and the amount of potential set-aside in the SAR results in an increase or decrease in interest savings to the borrower of \$1,000 or less, corrections are not necessary. Document your calculations in the borrower's file.

All corrections and cancellations (except those in accordance with FmHA Instruction 1951-A, Section 1951.41(g)) will be processed in accordance with FmHA Instruction 1951-L and are to be completed by the end of FY 86.

When excessive debt set-aside has been granted, it is considered to be an unauthorized interest subsidy for the purposes of FmHA Instruction 1951-L. Where the Instruction refers to repayment of unauthorized assistance, it will mean correction or cancellation of debt set-aside. Page 1 of Exhibits A and B will be revised accordingly. Instead of stating that a certain amount must be repaid, Exhibits A and B will state how much of the debt set-aside was unauthorized. Item 1 on page 2 of Exhibit B should be revised to read, "You may correct the necessary documents within 60 days from the date of this letter." Exhibit D will not be applicable.

In addition to the account adjustments and reporting requirements of Section 1951.568, the following will be done:

1. If a set-aside is being corrected to allow either an increase or decrease in the amount, send one Form FmHA 1951-14, "Debt Set-Aside," and Form FmHA 1951-14A, "Full Debt Set-Aside Installment Information," (fully set aside loans only) to the Finance Office for each borrower. Write "CORRECTED" across the top, underline in red and staple together. The amount of debt set-aside listed as the "Total Set-Aside Portion" on Exhibit F of FmHA Instruction 1951-A will be revised and initialed by the County Supervisor and the borrower. All effective dates will be the date the original set-aside was granted.

2. If a set-aside is being cancelled, send one Form FmHA 1951-6, "Borrower Account Description Flag," for each borrower and one Form FmHA 440-57A, "Supplemental Installment Information," for each loan affected to the Finance Office. Again, please staple all forms together. All effective dates will be the date the original set-aside was granted.

You must be very sure that an error has been made before you correct a borrower's account. If a correction is made, this means that the set-aside was in error at the time it was granted. See Regulations vs. Policy Statements above. If a cancellation or correction must be made, use the maximum servicing authorities to limit the hardship of our errors to the borrower. New deferral authorities contained in FmHA Instruction 1951-A enable us to achieve results similar to set-aside during the next five years.

If additional costs are incurred such as for releasing or re-filing documents, these will not be charged to the borrower's account. These costs will be coded as a "K" transaction and identified by fund code only on Form FmHA 2024-1; Standard Form 1034 should state that these are non-recoverable costs charged to the Government, but will show the borrower's name and case number for county office identification.

Ideally, the borrower should be notified that the set-aside was granted improperly and will have to be corrected as soon as possible after the review is done. In all cases, borrowers will be notified no later than at the time of their annual analysis, when a subsequent request for financial or servicing assistance is made or in time for corrections to be completed prior to the end of FY 86, whichever is earliest.

Loan Applications

If the County Supervisor receives a loan application and no set-aside review has been done, or if a review has been done which shows the amount of set-aside granted is incorrect, the application will not be processed until the following steps are taken: (1) If no review has been done, it will be done immediately; (2) If a review shows the amount of set-aside granted is correct, the application will be processed; (3) If a review shows the amount of set-aside granted is incorrect, the County Supervisor will refer to FmHA Instruction 1951-L to notify the borrower that the set-aside was granted improperly and will have to be corrected. These loan applications will be held until all necessary corrections have been made in accordance with FmHA Instruction 1951-L.

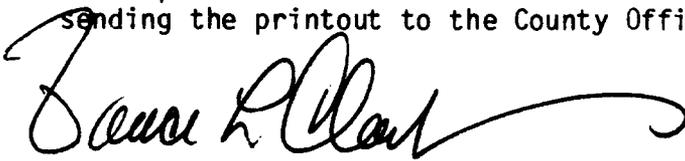
Applications on hand, for which processing has been started, will be reviewed immediately; and the application will be handled as indicated above.

STATE OFFICE RESPONSIBILITIESPlan for Completion of Reviews

Each State should set up a plan to assure completion of all reviews prior to the end of the loan making season. The State plan for doing reviews should insure that the SAR is provided to the County Supervisor prior to the time an analysis is done on a borrower. The plan should also provide for "rush" reviews if a borrower needs additional financial assistance.

Servicing Action Reports (SAR)

The Farmer Program Chief or Farmer Program Specialist designated by the State Director will be responsible for accuracy of input data and resulting calculations on the IBM Displaywriter SAR. They should compare the Data Sheets with this computer printout before returning the printout to the County Office. Those SARs the system was unable to complete due to data input problems will contain a WARNING at the end of the report. These problems should be resolved and the report recalculated before sending the printout to the County Office.



VANCE L. CLARK
Administrator

AttachmentSTATE DIRECTORS AND FARMER PROGRAM CHIEFS PLEASE NOTE:

1. Our October 28, 1985, memorandum to you referred to an October 29, 1985, memorandum on Debt Set-Aside. The October 29, 1985, memorandum was never issued. This is being issued in its place.
2. Estimated Time Requirements Analyses for Debt Set-Aside Reviews for your use in planning reviews will be sent under separate cover.
3. The Automation Supplement to FmHA Instruction 1951-A is the same document which has previously been referred to as a "User's Manual."

Sent by Electronic Mail on Dec. 9, 1985, at 12:14 pm. by DASD (IMPS). A copy of this communication will be distributed by the Finance Office to District and County Offices.

Special Instructions for Completing Data Sheets 1 and 2
When Reviewing Debt Set-Asides Previously Granted

DATA SHEET 1

When reconstructing the borrowers "12 month representative plan", the Displaywriter Farmer Program Servicing Acting System provides a mechanism to consider new loans or advances which will be made on or after the set-aside date. This is Item 8 of Data Sheet 1. The system will consider these new loans and advances in computing the payments due in the 12 month representative plan (See pages 6 and 7 of the automation supplement for specific details). For the purpose of reviewing set-asides, use this item to show the new loans and/or advances known or planned as of the date of the original set-aside. The intent is to reconstruct the 12 month representative plan as of the original set-aside date.

DATA SHEET 2

For the purpose of reviewing the amount of set-aside previously granted, the County Office should complete all the information on Data Sheet 2 of the Automation Supplement. The loan status information (principal balance, interest accrual, interest accrual date, loan interest rate) should be taken from the record of loan status information retained by the County Office when the original set-aside was computed. Later reschedulings or reamortizations will not be considered when completing Data Sheet 2; use the loan status information as described above.

Loans made after the effective date should not be included in Data Sheet 2. The intent is to provide the loan information as it existed on the original set-aside date.

The Finance Office is not able to automatically reconstruct the loan status information for loans on which there has been any activity between the original set-aside date and the date of the inquiry. Therefore, do not call the Finance Office for status information on such loans.

In those cases where the County Office records do not contain complete loan status for a particular loan on the original set-aside date they should refer to the latest Transaction Record (FmHA Form 451-26) dated prior to the original set-aside date for the appropriate status information.