United States Department of Agriculture

Farmers Home Administration

Washington D.C. 20250

FmHA AN No. 1974 (1951)

August 29, 1989

SUBJECT: Agricultural Credit Act of 1987 - Finance Office Interim Transaction Processing Guidance

TO: State Directors, District Directors, and County Supervisors

ATTENTION: Farmer Program Chiefs and ADP Coordinators

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to provide interim transaction processing guidance for the Agricultural Credit (AG) Act of 1987. Processing these AG Act-related transactions will ensure the calendar year-end reporting of loan transaction activity to the Internal Revenue Service (IRS) and to the borrower. This AN addresses only regulations concerning insured farmer program loans.

COMPARISON WITH PREVIOUS AN:

This AN supplements FmHA AN No. 1809 (1951), Agricultural Credit Act of 1987 - Interim Transaction Processing Guidance, dated October 14, 1988, and FmHA AN No. 1934 (1951), Agricultural Credit Act of 1987 - Finance Office Interim Transaction Processing Guidance, dated June 7, 1989.

IMPLEMENTATION RESPONSIBILITIES:

Effective September 6, 1989, software capabilities will be available for Farmers Home Administration (FmHA) field offices to manuscript net recovery buyout (3Q) and shared appreciation writedown (3R) transactions. The software implementation date for the manuscripted transactions to be updated to the accounting system is November 30, 1989. At the present time, the 1951-S operational file should include all approved FmHA forms for

EXPIRATION DATE: March 31, 1990

FILING INSTRUCTIONS: Preceding FmHA Instruction 1951-S

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processing the related accounting transactions to accomplish the loan servicing actions of the Debt and Loan Restructuring System (DALR$) Analysis Report. The following guidance is being issued for processing these transactions.

Processing 3Q Transactions. This is a two transaction accounting procedure requiring the processing of the net recovery buyout payment for the net recovery value and processing the 3Q transaction to write off the remaining loan balances. The interim procedure for processing net recovery buyout payments and 3Q transactions is as follows:

- For interim processing, the 51-S flag does not need to be removed to manuscript the 3Q transaction.

- Determine if both the 3Q and the associated net recovery buyout payment have the same effective date. THIS IS ESSENTIAL. The payment date and the effective date of the net recovery buyout must be the same date, otherwise, the 3Q transaction when processed will not write off the remaining loan balances.

- Determine if the net recovery buyout payment equals the net recovery buyout amount on the DALR$ Analysis Report. Also, determine if the net recovery buyout payment amount plus the writeoff amount equals the total unpaid loan balances on DALR$ Analysis Report as of the effective date of the writeoff action.

- Manuscript the 3Q transaction in accordance with the Automated Discrepancy Processing System (ADPS) documentation. Do not complete the "process code" data input field. The 3Q will be held in suspense on ADPS pending release of the update application software in November. A key to manuscripting the 3Q properly is the loan order. The 3Q should be manuscripted to apply the debt writeoff beginning with the loans with the least amount of security per Attachment 2 of FmHA AN No. 1934(1951-S) dated June 7, 1989.

- The Finance Office loan servicing teams will need a copy of the ADPS Recap/Resequence (recap) screen after the 3Q has been manuscripted. Before sending a copy of the recap screen to the Finance Office, make sure the associated net recovery buyout payment is coded correctly to process to the proper loan number(s). If not coded correctly, write the correct loan number(s) on the recap screen printout alongside each payment listed. Net recovery buyout payments are applied in a manner similar to extra payments as set forth in Sections 1951.9(b) and (c) of FmHA Instruction 1951-A. They should be applied first to pay off the interest and principal on loan(s) in lien priority order.

Mail the recap screen to the Finance Office loan servicing team mail code (FC-340XX).

o When the loan servicing teams receive the recap screen, they will make any changes required to the loan coding of the payment and process the payment.

o In submitting net recovery buyout payments for loans written off in the future, prepare a Form FmHA 451-2, Schedule of Remittances, showing the application to be applied first to the loan with the most amount of security. Net recovery buyout payments should be sent in as normal collections with a loan coding of G (Extra).

o An equity recapture account must be established for borrowers buying out the real estate securing their loan at net recovery value. If any payments have been submitted which are to be applied to the equity recapture account, this should be notated as "Equity Recapture Account Payment" on the recap screen. This will prevent application of the payment prior to implementation of the transaction to establish the amount of equity recapture account (transaction code 3V). In the future, monies collected for application to the equity recapture account will be coded on the Form FmHA 451-2 as a miscellaneous collection (Code 21 - Other). Make a notation on the form that the collection is for the equity recapture account.

Single Family Housing Equity Recapture. The equity recapture account transactions as set forth in Section 1965.26(c)(2) of FmHA Instruction 1965-A will be held in suspense in the 1951-S pending operational file. The capability to manuscript and process this type of 3Q transaction will not be available until November 30, 1989.

Processing 3R Transactions. This is a two transaction accounting procedure requiring the processing of a reamortization or reschedule (1M) and processing the 3R transaction. In addition, normal collections or payments may have been received dated subsequent to the shared appreciation agreement. The interim procedure for processing the 1M, 3R, and cash payments is as follows:

o For interim processing, the 51-S flag does not need to be removed to process the 1M or to manuscript the 3R.

o Manuscript and process 1M transaction(s). The 1M transaction(s) will establish a new loan number(s).

o Manuscript the 3R transaction in accordance with ADPS documentation. Do not complete the "process code" data input field. The transaction will be held in suspense

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Conservation Easements (3H) Transactions. At this time there are no plans for giving field offices the capability to process the 3H transaction. The interim procedure for processing the 3H is as follows:

- o Mail the Finance Office loan servicing team a copy of the Form FmHA 1951-47, Farmer Programs, Noncash Credit for Purchase of Easement Rights. Also mail a copy of the DALR$ Analysis Report.

- o If there are any other loan servicing or restructuring actions required (i.e., shared appreciation, deferral), mail the Finance Office loan servicing teams the forms associated with those actions.

Procedural Comment on "51-S" Flag. Form FmHA 1951-6, Borrower Account Descriptive Flag, was revised to include a flag entitled "Automation of FmHA Instruction 1951-S Requirements Pending." The flag appears as "51-S" on the account information (AI) status screen in the mnemonic FLAG and on reports such as Report Code (RC) 540, Status Report of Farmer Program Accounts. The accounts with a 51-S flag are not considered delinquent on RC 540.

The 51-S flag should only be placed on a borrower's account after servicing actions have been approved by FmHA and accepted by the borrower in accordance with the regulations implementing the AG Act of 1987. The 51-S flag should remain on the account until all software has been developed and the AG Act-related servicing transactions are processed to the accounting system.

County Supervisors will immediately review farmer program borrowers on RC 540 and RC 580 and make a comparison with the accounts in the 1951-S operational file, to determine if accounts are properly coded 51-S. Any improperly coded accounts will be immediately corrected. The review of the coding of the accounts will be completed within 30 days of receipt of this AN. District Directors and Program Review Assistants will follow up to ensure the reviews are completed. Accounts which should be flagged 51-S are as follows:

- o Accounts pending processing of net recovery buyout to the accounting system.

- o Accounts pending processing of shared appreciation writedown to the accounting system.

- o Accounts pending processing of loan deferral to the accounting system.

- o Accounts pending processing of conservation easement to the accounting system.

pending release of the software application to process 3R transactions in November.

o The Finance Office loan servicing team will need a copy of the ADPS Recap/Resequence (recap) screen after the 3R has been manuscripted. Before sending a copy of the recap screen to the Finance Office, check to make sure all payments are coded correctly to process to the proper loan number. If not coded correctly, write the correct loan numbers on the recap screen printout alongside each payment listed. Mail the recap screen to the Finance Office loan servicing team mail code (FC-340XX).

o When the loan servicing teams receive the recap screen, they will make any changes required to the loan coding of the payment and process the payment after the 3R processes.

o Payments for loans receiving a deferral in conjunction with a shared appreciation writedown must be annotated as "Deferral Payments" on the recap screen.

Farmer Program Deferrals. The capability to process the loan deferral to the accounting system will not be available until March 1990. As a result, perform the following interim procedures:

o Process a 1M to reamortize or reschedule the loan being deferred. The 51-S flag does not need to be removed to process the 1M. The 51-S flag should stay on the account until the software capability to process the deferral is implemented. The effective date of the 1M and the deferral must be the same.

o If payments for a loan pending the processing of a deferral are on the ADPS discrepancy file, send the loan servicing team a copy of the ADPS recap screen. Special action will be taken by the Finance Office to include these payments on calendar year-end statements. Make sure all payments are coded correctly to process to the proper loan number because a new loan number(s) was established when the 1M transaction(s) processed. If not coded correctly, write the correct loan numbers on the recap screen printout alongside each payment listed. Mail the recap screen to the Finance Office loan servicing team mail code (FC-340XX).

o When submitting payments in the future for loans that will have a deferral, prepare Form FmHA 451-2 as a miscellaneous collection (Code 21 - Other). Specify the fund code and loan number and make a note on the form that the loan is pending deferral.

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o Accounts pending processing of single family housing equity (1965.26(c)(2)) to the accounting system.

If you have any questions regarding these interim procedures, Farmer Program Chiefs and State Office ADP Coordinators or designees should call the User Training Support Section at FTS 262-6333 or commercial (314) 539-6333. District and County Offices should contact their Farmer Program Chief, State ADP Coordinator, or designee.

NEAL SOX JOHNSON
Acting Administrator

Sent by Time Delay Option to States at 1:30 pm on 8/31; to District at 3:30 pm on 8/31; and Counties at 8:30 am on 9/1 by ASD.