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Farmers
Home
Administration

Washington
D.C.
20250

August 25, 1981

SUBJECT: Servicing and Supervision of Loans

TO: All State Directors, FmHA

Latest information from the Finance Office shows, as of June 30, 1981, FmHA had an outstanding principal balance of \$50.9 billion. This is an all time high. Lending to date puts this amount above \$51 billion. As of June 30 there was over \$1.8 billion delinquent which is more than FmHA had outstanding in 1962.

FmHA was established as a Government agency to meet objectives that have been established for each loan program we administer. We have two resources to carry out these objectives — credit and supervision. They are both absolutely necessary and of equal importance. Supervision without credit and credit without supervision will not reach our objectives and protect the Government's interest.

FmHA has had an enviable record regarding losses. On active programs, our records show losses at six-tenths of one percent of total advances since inception of the programs. What has made this record is FmHA's supervision of loans. Programs that provide loans up to 100 percent of the present market value of security to borrowers who are unable to get credit elsewhere and are based on repayment ability cannot go unsupervised.

In recent years, our historical credit-supervision balance has been tilted toward credit. We have an urgent need to restore this balance. FmHA has had a reputation as an efficient and effective agency, having a high degree of reliability in not only reaching the loan objectives with borrowers but protecting the security interest of the Government. We must sustain this reputation.

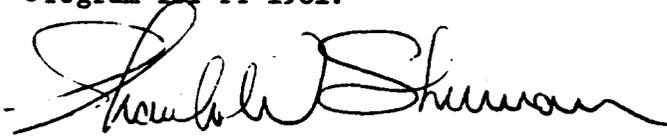
Attached to this AN is material prepared by each loan section giving delinquency reduction goals and citing, by instruction number and paragraph, the requirements for the supervision and servicing of FmHA loans so employees will have no doubt about the procedural requirement.

FmHA servicing and supervising instructions, when adequately carried out, have proven to be effective. Servicing and supervision are why so many of our borrowers have become successful. Supervision and servicing are why our loss today is only six-tenths of one percent. Most of the money that is on the books now has been advanced in the past four to five years. Losses on these advances will not start showing up for another two to three years. If FmHA does not start supervising and servicing loans according to these instructions, we will not reach our objectives in regard to the borrowers. Of equal importance is the fact that FmHA losses could be tremendous.

EXPIRATION DATE: June 30, 1982

FILING INSTRUCTION: Preceding
FmHA Instruction 1900-A

I anticipate reducing loan funds allocated to those states whose delinquency is higher than deemed appropriate as was done for the Single Family Housing Program for FY 1981.

A handwritten signature in cursive script, appearing to read "Charles W. Shuman".

CHARLES W. SHUMAN
Administrator

Attachments

FARMER PROGRAM SUPERVISION AND SERVICING

It has become abundantly clear that the supervision provided FmHA farm loan borrowers and the overall servicing of these accounts must be dramatically improved to assist these farmers become successfully established, pay their loans and graduate to other sources of credit. Otherwise, these objectives will not be met, borrower failures will increase substantially and the Government will suffer a huge and unacceptable level of loss in its farm loan programs. We cannot let this happen. The appropriate procedure and this AN are to be used by State Directors, State Farmer Program staffs, District Office staffs and County Office staffs in implementing a coordinated effort to supervise and service farm loan accounts.

A number of areas need special emphasis when discussing our responsibility for supervision and servicing. Foremost is the development of realistic farm plans with applicants and borrowers. Whether FmHA or other forms are used, the documents provide the foundation for establishing a satisfactory understanding and working relationship with borrowers.

Most applicants and borrowers need our professional input in assisting them develop plans that are sufficiently detailed for us to determine whether the financial statement is complete, the production planned is attainable, the income and expense estimates are reasonably accurate, the loan planned reflects actual needs, the security is adequate and that there is sufficient debt paying ability. In addition, and extremely important, the farm plan is the basic document in exercising release authority for income from normal and basic security.

Maximum use must be made of other than FmHA resources to assist borrowers overcome their management problems. Borrowers will be encouraged to seek technical and management advice from USDA and State agencies and other organizations, including paid consultants, farm management associations, farmer organizations and other groups.

Borrowers can only be successful when they satisfactorily pay their debts to FmHA and other creditors. They must completely understand from the beginning the debt payment plan, especially the relative priority position of FmHA debts. FmHA must move aggressively to collect its loans, consistent with agreed plans. To accomplish satisfactory collections with minimum effort, it is of paramount importance that borrowers understand initially they are to account to the County Office for income from security. County staffs are to be most prudent in use of release authority - collect as planned, release for authorized purposes as planned.

Successful borrowers will use FmHA credit for a relatively short time and then graduate to another credit source. Again, borrowers must understand from the beginning that FmHA is a temporary source of credit and that they will be requested and expected to move on when adequate credit is otherwise available to them.

Several Instructions provide the authorities and responsibilities for conducting FmHA's supervision and servicing activities. The State Director, District Director and County Supervisor responsibilities include the following:

State Director and StaffFmHA Instruction -Responsibilities

- 1924.62 May supplement FmHA Instruction 1924 B to: Assure that management assistance is effectively accomplished; Assign responsibilities to District Directors and other members of the State staffs; Obtain information about the performance of individual borrowers; Assure that key farm management practices are established in each county office
- 1951.7 (b) (4) State Directors may assign additional employees to county offices having large collection-only caseloads.
- 1960.4 (c) Delinquency reviews will be included in State plans of work.
- 1960.5 State Office staff will participate in sufficient delinquency reviews to keep currently informed on borrower problems.
- 1960.5 (c) State Directors will develop a State delinquency review form.
- 1960.13 (b) State Director is responsible for seeing that servicing actions are accomplished. Loan Chiefs and Specialists will review sample of delinquent and problem cases on each visit to a county office.
- 1962 A Contains authorities for servicing, care and liquidation of FmHA chattel security. Also covers handling of deceased borrowers bankruptcies, set-offs, and requirements for handling civil and criminal actions.
- 465.1 The State Director's authorities for servicing actions under FmHA Instruction 465.1 can be redelegated to the extent stated in Paragraph XXVI. These authorities are for transactions exceeding level of County Supervisor and District Director plus responsibilities to: Determine actions necessary to protect the Government's interest and authorize County Supervisors to take possession of security (465.1 II B 1); Authorize a bid to be placed at sale under prior lien foreclosure after determining that a substantial recovery can be made by acquiring and reselling the security (465.1 II C 1); Sell redemption rights for its value if determination made not to redeem such property (465.1 II C 1 e); Release valueless liens (465.1 XVI D); Accelerate accounts (465.1 XVII C); Approve accelerated repayment

FmHA Instruction

Responsibilities

465.1

agreement (465.1 XVII G); Make determinations on assignment of promissory notes and security instruments outside the program (465.1 XXII).

District Director and Staff

1902.2 (f)(1) and 1902.8

Authorize District Directors to require use of Supervised Bank Account and to take all related actions.

1951.3

Provide for giving guidance and supervision to County Supervisors on servicing.

1951.7 (b)(5)(i)(ii) and (iv)

Review all collection-only cases each year with County Supervisor, jointly agree on servicing action, establish a plan for the servicing, and review progress on visits to County offices.

1960.4 and 1960.5

District Director and County Supervisor will annually review delinquent and other problem cases. Include review in District plan of work. Record review results. Report to State Director as review are completed.

1960.13 (a)

Follow-up on county office servicing of delinquent accounts on visits to County Office.

1962.3

Has responsibility for carrying out policies servicing and liquidation of chattel security.

1962.3 (a)

The District Director is authorized to redelegate authority to qualified employees.

1962.40

Recommends action in liquidation cases.

1962.49

Includes responsibility and requirements for handling cases involving civil and criminal actions

465.1

The District Director is responsible for approving numerous transactions exceeding the approval authority of the County Supervisor. These include subordination and consent, lease or severance of security, disposition of proceeds, transfer of security, etc. In addition, the District Director is responsible for: Reviewing divorce actions case submitted by the County Supervisor for advice and concurrence (465.1 II D); Authorizing County Supervisor to take possession of the security in non-foreclosure cases (465.1 II B 1); Making recommendations to the State Director on Problems Case Report (465.1 XVII B). The District Director is also responsible to assist County Supervisor with advice and guidance in carrying out those responsibilities cited in 465.1.

County SupervisorFmHA InstructionResponsibilities

1902.2 (f) and 1902.8	Authorizes County Supervisors to require use of Supervised Bank Accounts and take all related actions.
1924.56	Will provide credit counseling to applicants and borrowers.
1924.57 (c)	Will assist the applicant or borrower in completing plans of operation.
1924.58 (b) (2)	Will assist borrowers in selecting, establishing and maintaining recordkeeping systems.
1924.59 (b)	Will select the appropriate method of supervision for each borrower.
1924.59 (d)	Make at least one visit a year to problem borrowers and to borrowers indebted less than one full crop year.
1924.60 (a)	Will assist the borrower evaluate the farm operation.
1924.60 (c)	Will conduct an annual analysis on certain borrowers.
1951.3	County Supervisors are responsible for servicing all County Office accounts. Full use will be made of the County Office Management System.
1951.6 (c)(2) and (3)	County Supervisor selects FO and S&W borrowers to be on direct payment card system through the county office or direct to the Finance Office.
1951.7 (b)(2)	County Supervisor will contact the Federal Government agency employing a collection-only borrower to arrange for payment.
1951.7 (b)(5)(i),(ii) and (iii)	Will review collection-only caseload with District Director, jointly agree on servicing actions, establish a plan for the servicing and include in monthly calendars collection-only servicing.
1951.7 (c) and (d)	Will notify all borrowers of the dates and amounts due on their accounts, using Form FmHA-3, "Reminder of Payment to be Made", or similar form.

County SupervisorFmHA InstructionResponsibilities

- 1951.25 (a) and (b) Provides for the County Supervisor to make initial and subsequent reviews of limited resource FO and OL loans to determine the interest rate to be charged.
- 1951.33 Authorizes County Supervisors to process and approve consolidations, rescheduling and deferral on OL loans and EM and EE loans made operating purposes.
- 1951.40 Authorizes County Supervisors to process deferment and reamortization of FO, S&W and RL loans and EE and EM loans for real estate purposes.
- 1960.4, 1960.11, 1960.12 With District Director annually review all delinquent and other problem cases. Record review results. Review will be discussed with the county committee. Cases will be supervised and serviced according to agreed plans.
- 1960.12 (d) County Supervisor will conduct a complete analysis of all delinquent and problem borrowers who will continue farming.
- 1962 A Contains authorities for servicing, care and liquidation of FmHA chattel security. Also covers handling of deceased borrowers, bankruptcies, set-offs, and requirements for handling civil and criminal actions.
- 465.1 The County Supervisor is responsible for informing each borrower of their responsibilities in connection with the loan, seeing that the security is being properly maintained and accounted for, and for servicing the security in accordance with this Instruction. When a borrower fails to maintain, protect or account for the security as required by the loan documents or makes unauthorized disposition or use of any security, prompt action will be instituted to protect the FmHA's interests. The County Supervisor will obtain any legal advice needed from the Office of the General Counsel (OGC) through the State Director.

Attached are delinquency goals for your State for the major farm loan programs. We believe these figures are attainable with sufficient effort at all levels within FmHA.

580(1900)

Alabama	<u>No. Delinquent</u> <u>March 31, 1981</u>	<u>Goal</u> <u>March 31, 1982</u>
Farm Ownership	686	515
Soil and Water	73	46
Operating	1,009	708
Emergency	1,541	1,236
Economic Emergency	405	335

580(1900)

Alaska	<u>No. Delinquent March 31, 1981</u>	<u>Goal March 31, 1982</u>
Farm Ownership	20	15
Soil and Water	0	0
Operating	1	0
Emergency	0	0
Economic Emergency	0	0

580(1900)

Arizona	<u>No. Delinquent March 31, 1981</u>	<u>Goal March 31, 1982</u>
Farm Ownership	181	136
Soil and Water	43	27
Operating	281	197
Emergency	239	192
Economic Emergency	113	94

580(1900)

Arkansas	<u>No. Delinquent March 31, 1981</u>	<u>Goal March 31, 1982</u>
Farm Ownership	774	581
Soil and Water	203	125
Operating	978	686
Emergency	1,281	1,027
Economic Emergency	832	689

580(1900)

California	<u>No. Delinquent March 31, 1981</u>	<u>Goal March 31, 1982</u>
Farm Ownership	186	139
Soil and Water	67	42
Operating	340	239
Emergency	396	317
Economic Emergency	307	254

580(1900)

Colorado	<u>No. Delinquent March 31, 1981</u>	<u>Goal March 31, 1982</u>
Farm Ownership	298	224
Soil and Water	37	23
Operating	317	222
Emergency	333	267
Economic Emergency	362	300

580(1900)

Delaware	<u>No. Delinquent March 31, 1981</u>	<u>Goal March 31, 1982</u>
Farm Ownership	25	19
Soil and Water	1	1
Operating	35	24
Emergency	20	16
Economic Emergency	28	23

580(1900)

Maryland	<u>No. Delinquent March 31, 1981</u>	<u>Goal March 31, 1982</u>
Farm Ownership	60	45
Soil and Water	2	2
Operating	132	94
Emergency	41	33
Economic Emergency	87	72

580(1900)

Florida	<u>No. Delinquent March 31, 1981</u>	<u>Goal March 31, 1982</u>
Farm Ownership	389	292
Soil and Water	49	31
Operating	856	601
Emergency	938	752
Economic Emergency	460	381

58(1900)

Georgia	<u>No. Delinquent March 31, 1981</u>	<u>Goal March 31, 1982</u>
Farm Ownership	771	579
Soil and Water	242	151
Operating	1,397	981
Emergency	3,398	2,726
Economic Emergency	759	629

580(1980)

Hawaii	<u>No. Delinquent March 31, 1981</u>	<u>Goal March 31, 1982</u>
Farm Ownership	22	17
Soil and Water	3	2
Operating	52	37
Emergency	13	10
Economic Emergency	1	0

580(1900)

Idaho	<u>No. Delinquent March 31, 1981</u>	<u>Goal March 31, 1982</u>
Farm Ownership	639	479
Soil and Water	194	121
Operating	724	508
Emergency	373	299
Economic Emergency	738	611

580(1902)

Illinois	<u>No. Delinquent March 31, 1981</u>	<u>Goal March 31, 1982</u>
Farm Ownership	397	298
Soil and Water	60	38
Operating	842	591
Emergency	507	407
Economic Emergency	693	574

580(1900)

Indiana	<u>No. Delinquent March 31, 1981</u>	<u>Goal March 31, 1982</u>
Farm Ownership	363	272
Soil and Water	21	13
Operating	595	418
Emergency	212	170
Economic Emergency	669	554

580(1900)

Iowa	<u>No. Delinquent March 31, 1981</u>	<u>Goal March 31, 1982</u>
Farm Ownership	201	151
Soil and Water	16	10
Operating	719	505
Emergency	580	465
Economic Emergency	630	522

580(1900)

Kansas	<u>No. Delinquent March 31, 1981</u>	<u>Goal March 31, 1982</u>
Farm Ownership	505	379
Soil and Water	50	31
Operating	609	427
Emergency	430	344
Economic Emergency	452	375

580(1902)

Kentucky	<u>No. Delinquent March 31, 1981</u>	<u>Goal March 31, 1982</u>
Farm Ownership	510	383
Soil and Water	150	125
Operating	867	608
Emergency	460	369
Economic Emergency	617	511

580(1900)

Louisiana	<u>No. Delinquent March 31, 1981</u>	<u>Goal March 31, 1982</u>
Farm Ownership	353	265
Soil and Water	42	26
Operating	1,036	726
Emergency	1,330	1,067
Economic Emergency	385	319

580(1900)

Maine	<u>No. Delinquent March 31, 1981</u>	<u>Goal March 31, 1982</u>
Farm Ownership	404	303
Soil and Water	9	6
Operating	845	593
Emergency	383	307
Economic Emergency	107	89

580(1900)

Massachusetts	<u>No. Delinquent March 31, 1981</u>	<u>Goal March 31, 1982</u>
Farm Ownership	33	25
Soil and Water	3	2
Operating	51	36
Emergency	16	13
Economic Emergency	40	33