

UNITED STATES DEPARTMENT OF AGRICULTURE

FARMERS HOME ADMINISTRATION

WASHINGTON, D.C. 20250

January 23, 1981

SUBJECT: Special Servicing of Delinquent and
Problem Case FmHA Farm Borrowers

TO: All State Directors, Farmer Program Chiefs,
District Directors, County Supervisors, and
Director, National Finance Office

This corrected copy of AN 481 (1960-A) replaces both the printed and electronically transmitted copies of AN 481 (1960-A) dated December 22, 1980, which contain several errors and omissions. They should be destroyed and replaced with this corrected copy.

This AN is to provide guidance in determining the corrective actions that may be taken by FmHA in servicing delinquent and problem cases.

Whenever a borrower's problems are severe, and particularly when deferral, rescheduling and reamortization authorities set out in FmHA Instruction 1951-A are determined to be inadequate to overcome the borrower's difficulties, the account may be serviced as a problem case in accordance with the provisions of FmHA Instruction 1960-A. A determination concerning the corrective actions to be taken should be made and thoroughly documented in the borrower's case file. The FmHA is authorized to continue to provide supervisory and financial assistance to such borrowers.

Problem case reviews will be conducted in accordance with the provisions set out in 1960.4, and a determination made by appropriate officials on what corrective actions are necessary and feasible. The review should consider the borrower's attitude, as evidenced by past performance, toward FmHA supervisory and financial assistance and should show that the borrower has acted in good faith in trying to meet agreements with FmHA.

The problem case report should indicate whether or not the borrower has made a determined effort to keep FmHA loan accounts current and whether or not delinquency(ies) resulted from conditions beyond the borrower's control such as severe economic distress (i.e., low prices and/or high production costs), and/or a natural disaster(s) which has caused abnormally low production.

The report should also indicate whether or not the borrower applied recommended and recognized farm production and financial management practices, and whether or not the borrower properly maintained and accounted for security/property.

FILING INSTRUCTIONS
Preceding FmHA Instruction
1960A

EXPIRATION DATE: January 23, 1982

When determining whether or not corrective action will be in the best interest of the Government and the borrower, the following guidelines should be considered:

a. When the review shows that a borrower has:

- i. Sufficient equity value in real estate, livestock, livestock products, crops and chattels to fully secure existing FmHA debts and any additional financial assistance contemplated by FmHA, without relying on "repayment ability" as security, and
- ii. Sufficient income that will, as a minimum, repay the principal and interest on a new FmHA loan which is necessary to meet essential annual family living expenses and annual farm operating expenses necessary to carry out the planned farming operation as projected on a realistic Farm and Home Plan;

The corrective action will include sufficient financial assistance to meet essential annual family living and farm production needs. Such corrective action will be on a year to year basis in an effort to assist the borrower in reestablishing a viable farming business.

b. When a review shows that a borrower:

- i. Does NOT have sufficient equity value in real estate, livestock, livestock products, crops, and chattels to fully secure existing debts and any additional financial assistance contemplated by FmHA, but
- ii. Does have sufficient income that will, as a minimum, repay the interest accruing on ALL loans in a lien position SUPERIOR to FmHA, and the interest accruing on all loans owed FmHA, plus the principal and interest accruing on a new FmHA loan which is necessary to meet essential annual family living expenses and annual farm operating expenses necessary to carry out the planned farm operation, as projected on a realistic Farm and Home Plan;

The corrective action will include sufficient financial assistance to meet essential annual family living and farm production needs. This corrective action may be taken in anticipation of liquidation.

The borrower will be notified in writing of the FmHA corrective action(s) to be taken. This notice will inform the borrower of the serious financial conditions observed and of the importance of working closely with FmHA in carrying out the plans set forth in the Farm and Home Plan developed for the current year. This notice will also advise the borrower that FmHA is providing supervisory and financial assistance on a year to year basis and that the farming operation will be evaluated at the end of the production season for the purpose of determining whether or not FmHA can continue to finance the operation for another year.

Borrowers who cannot be helped by corrective actions will be referred to the County Committee for recommendation as to the appropriate action to take in satisfaction of the indebtedness to FmHA.

Liquidation is to be taken only after the authorized rescheduling, reamortizing and/or deferring actions set out in FmHA Instruction 1951-A are considered and found to be inadequate to overcome the borrower's difficulties and corrective actions provided for in 1960-A are found not to be in the best interests of the Government and the borrower.

THIS AN APPLIES ONLY TO DELINQUENT AND PROBLEM CASE BORROWERS.

/s/
KENNETH LATCHOLIA
Administrator