



United States  
Department of  
Agriculture

Farmers  
Home  
Administration

Washington  
D.C.  
20250

FmHA AN No. 1808 (1951)

October 6, 1988

SUBJECT: Internal Revenue Service Offset

TO: All State Directors, District Directors,  
Rural Housing Chiefs, and County Supervisors, FmHA

Purpose/Intended Outcome:

The purpose of this AN is to provide field offices with a list of borrowers who will receive Internal Revenue Service (IRS) offset letters and to provide information concerning removing these borrowers from offset.

Comparison with Previous AN:

AN 1788 dated August 29, 1988, required field offices to remove borrowers from consideration for IRS offset based on a number of criteria. The criteria from AN 1788 will be used in conjunction with this AN to make additional deletions.

Implementation Responsibilities:

Deletions resulting from AN 1788 have been processed, and a new list has been prepared based on field office submissions. These borrowers, who are listed on the attached printout titled "Borrowers Sent 60-Day Due Process Notice for IRS/Credit Bureau Referral," will receive IRS offset letters. Also, unless their names are deleted, these borrowers will be referred to credit bureaus.

County Supervisors will ensure that the list is carefully reviewed and retained. If any borrowers on the list are not eligible for offset, or become ineligible, a line must be drawn through that borrower's name ONLY, not through the case number. Borrowers will be removed for any of the reasons listed on AN 1788.

Deletions will be made through December 9, 1988. On that date, the County Supervisor will ensure that the list is copied and the original returned to the Chief, Computer Resources Branch, Mail Code FC-353, in the Finance Office. Deletions must be made in a manner that allows the name and case number deleted to be read. The list may be returned before that date only if all borrowers have been deleted.

If the list is mailed after that date, the Finance Office may not be able to process the list in time to remove borrowers from offset.

EXPIRATION DATE: January 31, 1989

FILING INSTRUCTIONS:  
Preceding FmHA Instructions 1951-C



Farmers Home Administration is an Equal Opportunity Lender.  
Complaints of discrimination should be sent to:  
Secretary of Agriculture, Washington, D.C. 20250

1808(1951)

In addition, a copy of the letter sent by the Finance Office to all borrowers proposed for offset is attached. That letter provides the borrower with appeal rights. County Supervisors will be responsible for promptly determining the validity of appeals. If the appeal is valid, the borrower will be removed from the list. If the County Supervisor determines the appeal to be without merit, the borrower will remain on the list. In either case, the borrower will be immediately informed of the decision. The County Supervisor will use the attached sample letter to notify the borrower of the decision on the appeal.

FmHA's involvement in IRS offset this year is dependent upon passage of legislation extending the program. The borrowers are advised of this fact in their notification letter.

Please call Bob Nelson at (202) 475-4705 (FTS 475-4705) with any questions.



VANCE L. CLARK  
Administrator

Attachment

1808(1951)

(Inside Address)

Dear (Name of Borrower):

[ ] We have reviewed the information you submitted and have requested that your name be removed from IRS records. No offset will be exercised against your refund and you will not be reported to a credit bureau at this time.

[ ] We have reviewed the information you submitted and do not agree with you. We believe that your FmHA debt is legally enforceable and that you are at least 3 months behind in your payments. Your name will remain on IRS records and offset will be exercised against your refund. In addition, information concerning your account will be reported to a credit bureau.

Sincerely,

County Supervisor



United States  
Department of  
Agriculture

Farmers  
Home  
Administration

Washington  
D.C.  
20250

1808(1951)

Dear FmHA Borrower:

Our records indicate that you are more than 3 months delinquent on a debt to the Farmers Home Administration (FmHA). During 1986, 1987, and 1988 the Internal Revenue Service (IRS) collected many delinquent payments by deducting the amount of the debt from income tax refunds to which delinquent borrowers were entitled. The law does not now authorize the IRS to make such deductions in 1989. However, Congress is considering legislation that would again allow Federal agencies to refer debts to the IRS for collection by offset against tax returns. If this legislation is passed, FmHA plans to collect delinquent amounts through offset, and will refer information concerning your account to IRS. All amounts collected will be applied to your loan.

The legislation under consideration provides that any Federal agency that is owed a past-due, legally enforceable debt will notify the IRS of the amount of the debt. A Federal agency, before notifying the IRS, must notify the taxpayer that the Agency plans to refer the debt to IRS for offset, determine that the debt is past-due and legally enforceable after providing the taxpayer at least 60 days in which to present evidence to the contrary, and make reasonable efforts to collect the debt. This letter is to comply with these requirements.

If you are married, filing a joint income tax return, and you incurred this debt separately from your spouse who has no legal responsibility for the debt and who has income and withholding and/or estimated tax payments, he or she may be entitled to receive his or her portion of the joint refund.

Such taxpayers filing joint returns should contact the IRS before filing their return regarding the steps to take to protect the share of the refund which may be payable to the non-obligated spouse.

If you feel you should not be reported for offset you have 60 days from the date of receipt of this letter to provide written information to your local FmHA County Supervisor to show that offset should not be exercised. For example, you will not be reported if you have brought the account to less than 3 months delinquent, or if you have agreed to bring the account current and FmHA has officially agreed to that plan. Also, you may be exempted if the debt has been discharged in bankruptcy, you are under the jurisdiction of a bankruptcy court, or it is determined that FmHA is not legally entitled to collect the debt at this time. The County Supervisor will review the information you provide and notify you of the final decision regarding the offsetting of your IRS refund.



Farmers Home Administration is an Equal Opportunity Lender.  
Complaints of discrimination should be sent to:  
Secretary of Agriculture, Washington, D.C. 20250

1808(1951)

We strongly urge you to bring your account current. If your account is less than 3 months delinquent at the the end of 1988, you will not be reported.

If you are reported for IRS offset, your account will be reported to consumer credit reporting agencies. You have the same 60 day period from receipt of this letter to file a written request with your local FmHA County Supervisor for a review of the status of your account and any information that is proposed to be reported to credit agencies. Once reporting begins it will be continued and updated monthly for 7 years. The amounts listed on the reverse reflect the status of your FmHA loan(s) based on payments received by FmHA's Finance Office.

ALL CONTACTS WITH FMHA ARE TO BE DIRECTED TO THE FMHA COUNTY OFFICE SERVICING YOUR LOAN.

Sincerely,



Acting Administrator  
FmHA



United States  
Department of  
Agriculture

Farmers  
Home  
Administration

Washington  
D.C.  
20250

FmHA AN No. 1809 (1951)

October 14, 1988

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

TO: State Directors, District Directors, and  
County Supervisors

ATTENTION: Farmer Program Chiefs

PURPOSE/INTENDED OUTCOME:

The purpose of this administrative notice (AN) is to provide interim transaction processing guidance to be followed with issuance of the regulations implementing the Agricultural Credit Act of 1987. Significant modifications to the application software are necessary with the changes brought about by the Act. This AN addresses only regulations concerning insured farmer program loans; guidance concerning the state mediation program and guaranteed loans will be issued at a later date.

The Agency can no longer process certain transactions using current computer software applications based on the new regulations being published. In those areas where no transaction currently exists, new transactions are being developed. Even though certain transactions cannot be processed to the automated accounting system, all loan making and servicing actions should be completed in accordance with the new regulations. This AN advises you of the modifications required to existing transactions and what new transactions must be developed as a result of the Act.

COMPARISON WITH PREVIOUS AN:

No previous AN has been issued on this subject.

IMPLEMENTATION RESPONSIBILITIES:

Interim Processing Procedures. 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 will be placed on a borrower's account after servicing

EXPIRATION DATE: September 30, 1989

FILING INSTRUCTIONS:  
Preceding FmHA  
Instruction 1951-S



Farmers Home Administration is an Equal Opportunity Lender.  
Complaints of discrimination should be sent to:  
Secretary of Agriculture, Washington, D.C. 20250

actions have been approved by Farmers Home Administration (FmHA) and accepted by the borrower in accordance with the regulations implementing the Agricultural Credit Act of 1987, and remain until software has been developed and the servicing transaction processed on the accounting system. The flag will appear as "51-S" on the account information status screen and reports such as Report Code 540, Status Report of Farmer Program Accounts. The accounts with a 51-S flag will not be considered delinquent on Report Code 540.

The purpose of the flag is to suspend most loan activity on accounts until the software to process the transactions has been implemented. For example, normal collection procedures should be followed; however, the 51-S flag will suspend crediting of the collection transactions to the borrower's account on the automated accounting system until the modifications to the software have been implemented. Descriptive code 6 on Form FmHA 1951-6 has been changed from "Transfer Pending" to "Automation of FmHA Instruction 1951-S Requirements Pending." After completing Form FmHA 1951-6 and entering Transaction Code 5G, Establish Descriptive Code, with a code 6, a 51-S flag will be established on the borrower's account. DO NOT PROCESS TRANSACTION CODE 5G WITH A DESCRIPTIVE CODE 6 UNTIL THE APPROPRIATE SERVICING ACTION HAS BEEN APPROVED BY FmHA AND ACCEPTED BY THE BORROWER. The following transactions will process on an account with a 51-S flag.

- 1A - Loan Obligation Only
- 1B - Loan Obligation with Check Request
- 1C - Check Request
- 1D - Cancellation of Loan Obligation Only
- 1E - Check Cancellation - Obligation Retained
- 1J - Check Cancellation and Check and Obligation Cancellation on Closed Loans
- 1Y - Check and Obligation Cancellation
- 5E - Establish Suspend Code
- 5F - Remove Suspend Code
- 5G - Establish Descriptive Code
- 5H - Remove Descriptive Code

All other transactions attempting to process on an account with a 51-S flag will reject for discrepancy code 09,09,09,00.

Installment Due Dates. Form FmHA 1940-17, Promissory Note, was revised to allow the first installment on Farmer Program loans to be scheduled up to 18 months from the date of the loan. The revision also allows the installment due date to be any day except February 29. This will allow installments to be aligned with anticipated cash flow. The following transactions are being modified to include these provisions and should not be processed to the automated accounting system until the software is implemented: Transaction Code 1F, Loan Closing; Transaction Code 1G, Credit Sale; and Transaction Code 1M, New Rates and Terms (includes assumptions, reamortizations, reschedules, and consolidations). All appropriate forms should be completed and a

51-S flag should be established on the borrower's account. These forms should be held in the field office until notification is received that the appropriate software has been implemented. New loans can be obligated and a check can be requested; however, the 51-S flag will prevent processing of the loan closing to the automated accounting system until the installment due date modifications have been implemented.

Capitalization of Interest over 90 Days Past Due. FmHA Instruction 1951-S, Farmer Program Account Servicing Policies, includes a provision of the Consolidated Farm and Rural Development Act which provides that interest less than or equal to 90 days past due cannot be capitalized. It will be set up as a separate noninterest bearing account with equal installments divided over the remaining life of the loan.

Transaction code 1M is being modified to include these provisions. In addition, modifications are being made to the account information status screen to include the capitalized and the noncapitalized amounts as of the effective date input to the automated accounting system. The modification to the account information status screen is scheduled to be implemented during October 1988. The changes to transaction code 1M are scheduled to be implemented during December 1988. All appropriate forms should be completed and a 51-S flag should be established on the borrower's account. These forms should be held in the field office until notification is received that the appropriate software has been implemented.

Capitalization of interest 90 days past due is currently applicable only to Farmer Program loans; other loan programs may be affected as Agency regulations are revised.

Farmer Program Deferrals. FmHA Instruction 1951-S provides that the loan deferral program will allow partial deferrals including deferral of noncapitalized interest and deferrals for less than 5 years. The loan deferral transaction is being modified to include these provisions. All appropriate forms should be completed and a 51-S flag should be established on the borrower's account. These forms should be held in the field office until notification is received that the appropriate software has been implemented.

Conservation Easements. FmHA Instruction 1951-S provides for acquisition of an easement for the purpose of conservation, recreation, or wildlife. A new transaction is being developed that will provide a noncash credit to the borrower's loan(s). All appropriate forms should be completed and a 51-S flag should be established on the borrower's account. These forms should be held in the field office until notification is received that the appropriate software has been implemented.

Debt Restructuring. FmHA Instruction 1951-S provides for writing down principal and interest under a debt restructuring program to ensure that borrowers will be able to continue farming and ranching operations. Dependent upon the borrower's circumstances, the restructure will be treated as a net recovery buyout or shared appreciation. A new transaction is being developed to process the debt write down and to create the equity recapture account. All appropriate forms should be completed and a 51-S flag should be established on the borrower's account. These forms should be held in the field office until notification is received that the appropriate software has been implemented.

Outreach Program for the Socially Disadvantaged. FmHA Instruction 1943-A, Insured Farm Ownership Loan Policies, Procedures, and Authorizations, was revised to include loans for socially disadvantaged groups. The two types of assistance codes to be used for these loans are 30 (FO Loan - Socially Disadvantaged Groups - Limited Resource) and 31 (FO Loan - Socially Disadvantaged Groups). The software required to obligate and request checks for these types of loans was implemented September 14, 1988. Loan closing forms (e.g., Form FmHA 440-57) should be completed for these types of loans and held in the field office until notification is received that the appropriate software has been implemented.

Interim Filing Instructions. Since there will be numerous transactions that cannot currently be processed to the automated accounting system, the following interim filing instructions should be followed. A 1951-S pending operational file should be set up in each field office in borrower name and loan number sequence. A copy of the unprocessed transaction forms should be filed in this new operational file with normal distribution made according to the forms manual insert. The borrower's case file should have a statement in Position 2, showing that there is a 1951-S transaction pending. Further guidance concerning which transactions can be processed to the automated accounting system will be provided as the software changes are implemented.

Interim Processing Summary. It is imperative that transaction code 5G be processed to establish the 51-S flag in order to ensure that transactions will not process to the borrower's account until appropriate software changes are implemented. Suspending transaction activity to the automated accounting system will allow processing the transactions requiring modification, new transactions, and subsequent transactions

(e.g., collections) at a later date in the proper chronological order. As stated previously, while the transactions cannot currently be processed to the automated accounting system, all loan making and servicing actions should be completed in accordance with the new regulations. Further guidance will be provided as the software changes are implemented.

A handwritten signature in cursive script, appearing to read "Vance L. Clark", with a long, sweeping flourish extending to the right.

VANCE L. CLARK  
Administrator