

UNITED STATES DEPARTMENT OF AGRICULTURE

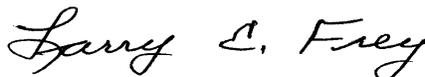
Farm Service Agency
Oregon State Office
7620 S.W. Mohawk Street
Tualatin, OR 97062-8121

**Oregon Notice
FLP - 126**

For: County Offices

Classification of Farm Loan Programs (FLP) Borrower Accounts

Approved By: State Executive Director



LEF:RBP:th

1 Overview

A

Background

The Office of Management and Budget requires all Federal Agencies to have a loan classification system. Objectives include accessing the quality of the loan portfolio, estimating losses, improving management and determining eligibility for graduation.

Section 2006.1103 (c) of FmHA Instruction 2006-W requires servicing officials to ensure that all FLP borrower accounts are reviewed and classified annually prior to October 1.

County Committee Certification has been removed from the classification process.

B

Purpose

The purpose of this Oregon Notice is to:

- remind servicing officials of the need to review and classify borrower accounts by October 1 annually
- provide guidance on the proper methodology for completion of Form FmHA 2006-20 or computer printout facsimile
- remind servicing officials of the monthly reporting requirement.

FILING: Preceding FmHA Instructions 2006-W and 1951-F

<p>Disposal</p> <p>September 30, 2004</p>	<p>Distribution</p> <p>STO, DD, COR, COC, COF - Including FLP</p>
--	--

2 Account Classifications

A

Annual Updates

For both classification and graduation purposes, Section 2006.1103 (c) of FmHA Instruction 2006-W requires a classification and review of each FLP borrower's operation, credit history, and eligibility for continued assistance by the earlier of either October 1 of each year, or when one of the following actions occur:

- the borrower obtains a new loan from FSA or another lender
 - the borrower becomes delinquent or otherwise is in default, and the loan will not be restructured or bought-out
 - at least one of the borrower's loans is restructured or adjusted through bankruptcy
 - the Agency subordinates its lien to that of another lender
 - a financial analysis or year-end analysis is completed in connection with some other loan making or servicing action.
-

B

Monitoring Progress

In January and July of each year, each County Office will be sent a Report Code 736, "Annual Review and Classification of Farm Loan Borrowers."

CEDs, FLMs, and other Agency Officials will use this report to:

- identify, post to the Management of Agriculture Credit (MAC) system, and calendar classifications to be completed
- monitor and evaluate progress in completing all required reviews by the earlier of October 1 or other date indicated in paragraph 2 A above
- record the date of each classification review as it is completed.

Report Code 736 will be filed and maintained in each County Office's FLP 9-4 "Borrower Case Classification (1904)" Operational File (formerly the 2006-W Operational File) in the County Office operations file system.

See Part 4 and Exhibit 40.5 of FSA Handbook 25-AS for further guidance on the FLP portion of the County Office operations file system.

Continued on the next page

2 Account Classifications, (Continued)

C
Information
Considered

Agency Officials are to request FLP applicants and borrowers to provide current financial information, production information, and a cash flow projection annually as required by Section 1924.55 (d) of FmHA Instruction 1924-B and Section 1951.260 (a)(4) of FmHA Instruction 1951-F.

Classifications, therefore, will generally be based on a current financial statement and cash flow. There are three exceptions, however, as shown in the following table:

IF...	THEN...
the borrower is classified as "commercial" or "standard" and only required to submit updated financial information every-other year	the same financial statement and cash flow projection may be used for two review periods.
the borrower's accounts are flagged as Bankruptcy Action Pending (BAP), Foreclosure Action Pending (FAP), Subject to Approved Adjustment (SAA), Court Action Pending (CAP), or are Non-program (NP) or Judgement accounts	the accounts should be classified based on the best and most current financial and security status available, (such as Court records, third party information, etc.).
the borrower refuses to provide current financial information when requested	

Note: Failure to provide requested financial information constitutes a borrower's failure to keep agreements with the Agency, and must be handled as a non-monetary default. If the financial information is requested for graduation purposes, the notice requirements of FmHA Instruction 1951-S do not apply. [See Section 1951.264 (b) of FmHA Instruction 1951-F].

3 Classification Methodology

A

New Loan or Servicing Action

Sections 2006.1103 and 2006.1104 of FmHA Instruction 2006-W require borrower account classifications to be based on a financial statement and cash flow projection *which reflects the results of any new loan or servicing action*. This includes:

- changes to the applicant or borrower's assets and liabilities shown on the Balance Sheet (Table A) resulting from any assets purchase or acquired with loan funds, liabilities created with new loans made, or changes in liabilities resulting from refinancing or loan restructuring
- changes to the applicant or borrower's debt service requirements shown as the Amount Due This Year (Table K) resulting from any new loans made or loan restructuring actions taken
- changes to FSA's collateral position resulting from any subordination or loan restructuring actions taken.

Continued on the next page

3 Classification Methodology, (Continued)

B
Data Entry and Documentation

An automated Farm and Home Plan can be temporarily "revised" to generate an accurate borrower classification. *Classifications are made as of the date the new loan or servicing action is completed.* The automated Farm and Home Plan and Balance Sheet developed at the beginning of the applicant or borrower's business year, however, *should not be revised*, as it will corrupt the 5-year history maintained in the System 36 database for that borrower. To properly "reclassify" a borrower after loan making or servicing actions are completed, servicing officials must use the "Working Plan" feature of the automated Farm and Home Plan system as shown in the following table.

Step	Action
1	Copy the current Farm and Home Plan as a "Working Plan."
2	<p>Update the liability side of the Balance Sheet on the Working Plan to reflect the new financial changes resulting from the loan making or servicing action.</p> <p>Once the liability side of the Working Plan has been updated, Column 2 of Table K on the Working Plan will equal Column 3 on Table K of the original Farm and Home Plan used for the loan making or servicing action.</p>
3	Update the asset side of the Balance Sheet on the Working Plan to reflect the intended use of any loan proceeds.
4	<p>Print the "Summary Table" of the Working Plan as documentation for the new borrower account classification.</p> <p>The "Summary Table" is Option 2 of the Farm and Home Plan Print Menu.</p>
5	Update the information for Part I A, [the FSA Security Margin (FSM) portion], of the new borrower account classification to reflect the value of all security and the borrower's total FSA debt that will exist after the loan or servicing action is completed.
6	Print the new borrower account classification making sure that it reflects the Farm Security Margin and updated asset and liability information after the loan or servicing action is completed.
7	Attach (staple) the hardcopy of the Summary Table to the new automated Form FmHA 2006-20, "Classification of Farmer Programs Borrower Account," that was generated from the revised Working Plan. (Don't forget to delete the working plan after everything has been printed.)

4 COC Certification and Reporting

A
**Completed
Classifications List**

The number of borrowers classified will be reported on a monthly basis through the System 36 "Farm Monthly Management Report."

Exhibit 1 of this Oregon Notice may be reproduced and used as the monthly Tally Card in case a manual Tally Card is used.

Section 1905.5 of FmHA Instruction 1905-A describes the use and maintenance of Tally Cards in the Management System Card Box.

B
Monthly Tally

On or before the last working day of each month, the classification activity will be reported for the month through the System 36 "Farm Monthly Management Report" and will be entered on the monthly "Borrower Reviews and Classifications Completed" list.

C
Monthly Reporting

The number of borrowers classified will be reported for the month through the System 36 "Farm Credit Monthly Management Report" in accordance with Section 2006.1103 (c)(4) of FmHA Instruction 2006-W.

D
**October 1
Completion Date**

FLMs, FLOs, and CEDs must schedule requests for financial information from borrowers, schedule classification reviews, and plan their work so that classifications for **ALL** borrowers are completed prior to October 1 of each year in accordance with Section 2006.1103 (c)(4) of FmHA Instruction 2006-W.

5 ADPS Transaction Entry and Filing

A

ADPS Transaction

Within 10 days of the completion of a borrower account review and classification on Form FmHA 2006-20 (following the methodology stated in paragraph 3 B of this Oregon Notice), the CED or other Agency Official shall ensure that:

- an 8N Transaction is processed through the ADPS system to properly update the Agency's records, even if the classification has not changed
- a hard copy print-out of the 8N Transaction is stapled to Form FmHA 2006-20 and the Summary Table of the Farm and Home Plan mentioned in Steps 4 and 7 of the table shown in paragraph 3 B of this Oregon Notice
- Form FmHA 2006-20 with its attachments, is filed chronologically in Position 2 of the borrower's County Office file.

B

Operational Files

After certification and execution of the completed monthly "Farm Management Report," the certified list will be filed and maintained with Report Code 736 in the County Office's FLP 9-4 "Borrower Case Classification (1904)" Operational File (formerly the 2006-W Operational File) referenced in paragraph 2 B of this Oregon Notice.

The date that each borrower's classification review was completed will be entered on the most recent Report Code 736 maintained in the FLP 9-4 Operational file.

See Part 4 and Exhibit 40.5 of FSA Handbook 25-AS for further guidance on the FLP portion of the County Office operations file system.

6 Monitoring and Contacts

A

DD and FLM Monitoring

During normal visits to County Offices, District Directors and Farm Loan Managers shall review, monitor, and assure the scheduled completion of each fiscal year's borrower classification review in each County Office.

This should be accomplished by:

- reviewing the activity reported on the monthly "Farm Monthly Management Report."
- reviewing the activity completed and that yet to be completed as shown in the monthly "Borrower Reviews and Classifications Completed" lists and Reports Code 736 filed in the County Office's FLP 9-4 Operational file
- reporting unresolved deficiencies to the State Executive Director and Farm Loan Chief.

B

Contacts

CEDs should address any questions they have concerning this Oregon Notice or borrower account classification to their District Director or Farm Loan Manager.

District Directors and Farm Loan Managers should address any questions they may have to the Farm Loan Chief or a Farm Loan Specialist in the STO.
