



United States
Department of
Agriculture

Farmers
Home
Administration

Washington
D.C.
20250

FmHA AN No. 2581 (1924)
July 13, 1992

SUBJECT: Borrowers that Bought Out at Net Recovery Value and
Subsequently Apply for Farmer Programs Insured
Loan Assistance

TO: State Directors, District Directors, and
County Supervisors

ATTN: Farmer Programs Chiefs and Underwriting Staffs

PURPOSE/INTENDED OUTCOME:

The purpose of this AN is to satisfy a management decision reached with the Office of Inspector General (OIG). The intended outcome is to prevent the improper extension of Farmer Programs insured loan assistance to former insured borrowers that bought out at the net recovery value.

COMPARISON WITH PREVIOUS AN:

No previous AN has been issued on this subject.

IMPLEMENTATION RESPONSIBILITIES:

OIG found numerous cases where a borrower's plan, which resulted in the buyout offer, had overstated expenses and understated income. The same borrower's plan for an insured loan, which was made simultaneously or subsequent to the buyout, understated expenses and overstated income in order to project a feasible plan of operation.

Therefore, when an insured loan application involves a former FmHA borrower that bought out at the net recovery value, County Supervisors must ensure that all information on the new application is verified, and that the plan of operation is in fact feasible. The subsequent loan must be reviewed in conjunction with the plan used for final disposition under FmHA Instruction 1951-S, and the County Supervisor must document the results of the review in the applicant's case file.

EXPIRATION DATE: July 31, 1993

FILING INSTRUCTIONS:
Preceding FmHA
Instruction 1924-B



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Underwriters, or other designees of the State Director, must review all applications of this type before the loan is approved by executing Form FmHA 1940-1, "Request for Obligation of Funds." They also must document in the applicant's case file that the decision to provide credit to the net recovery buyout borrower is proper and factually supported.

Beginning in Fiscal Year 1993, all subsequent insured loans closed to the borrowers after May 14, 1991, will be reviewed at the National Office at the time of the State's regularly scheduled Coordinated Assessment Review (CAR). The review findings will be included as a separate section of the CAR report.

If there are questions, State Office personnel may contact the Farmer Programs Loan Making Division, Insured Loans Branch at (202) 720-1648. County and District personnel should contact the appropriate State Office personnel..

This AN may not be revised and reissued by State Directors without prior written approval by the Assistant Administrator, Farmer Programs, unless modification is necessary to comply with State law.



LA VERNE AUSMAN
Administrator

Sent by Time Delay Option to States on 7/14/92 at 12:00 pm; to Districts on 7/14/92 at 2:00 pm; and Counties on 7/14/92 at 4:00 pm by GSS.