



United States
Department of
Agriculture

Farmers
Home
Administration

Washington
D.C.
20250

February 26, 1982

SUBJECT: Handling of Debt Settlement Actions

TO: State Directors, District Directors,
County Supervisors and Director, Finance Office, FmHA

We have completed our annual review of the debt settlements approved by State Directors during the past year. Many of the problems and discrepancies which were prevalent in last year's review have not been corrected. State Directors are requested to take affirmative action to assure that the debt settlements they approve are prepared and processed correctly. The following is a list of the major discrepancies that were found:

1. A majority of the debt settlements submitted to the Finance Office are for small amounts due to inaccurate payoff balances. More time and care must be taken in determining correct amounts. Examples are:
 - a. Computation of payoff amount inaccurate.
 - b. Wrong payoff balance received from the inquiry station.
 - c. Costs paid by voucher such as caretaker's fees are not being charged to the account prior to calculating a payoff.
 - d. Daily interest accrual figures wrong.
 - f. The interest credit agreement is cancelled but the daily interest accrual is not increased.
 - g. Interest is not figured properly when payment checks are returned because of insufficient funds.
2. State Directors are exceeding their approval authority in some cases.
3. Debt settlements continue to be approved by employees who are not authorized to approve such actions. Only the State Director or the Acting State Director has the authority to approve debt settlements when the indebtedness is less than \$25,000 including principal, interest and other charges.

EXPIRATION DATE: September 30, 1982

FILING INSTRUCTIONS: Preceding
FmHA Instruction 456.1



4. Settlements have been approved for cancellation because of bankruptcy on Form FmHA 456-2 when the borrower and spouse are both obligated but only one has been adjudicated bankrupt.
5. Deceased borrower settlements are being approved on Form FmHA 456-2 by cancellation when only one of the co-obligors is deceased.
6. Debts are being charged off when the financial statement indicates a substantial net worth and an annual income greatly in excess of the borrower's expenses. The documentation of facts necessary to support the borrower's lack of repayment ability is frequently inadequate.
7. Some States are not promptly settling eligible accounts. This increases the Government's cost of handling and servicing the accounts and indicates that District Directors and County Supervisors are not servicing these accounts as intended by FmHA Instruction 1951.7(b)(5).
8. Debts are being charged off when they qualify for cancellation. Debts should only be charged off when they cannot be settled under other provisions of FmHA Instruction 456.1.
9. Debts are being cancelled under the authority for disappeared debtors without sufficient justification. Frequently, the documentation to substantiate the settlement action is practically nonexistent. It is apparent that increased efforts must be made to comply with FmHA Instruction 456.1 V B.
10. Deficiencies in the preparation of debt settlement forms:
 - a. Form FmHA 456-1 is approved without the required certification by the county committee.
 - b. The County Supervisor has not signed Form FmHA 456-1 recommending approval or rejection of the settlement.
 - c. Forms FmHA 456-1 and 456-2 have been forwarded to the Finance Office without the State Director's signature.
 - d. Carbon copies of debt settlement forms have been forwarded to the Finance Office rather than the original as required by FmHA Instruction 456.1 XV C and XVI B.
 - e. Where there are co-obligors on the promissory note, Part III of Form FmHA 456-1 should indicate both incomes. If one borrower has no income it should be indicated.

The following additional problems involving debt settlements submitted to the National Office have been observed:

1. Debt settlements were submitted without the summary prescribed in FmHA Instruction 456.2.

2. Compromise and adjustment offers of insignificant amounts have been submitted. It is not FmHA policy to accept token offers.

3. Debts are not being accelerated at the time liquidation is approved as prescribed in FmHA Instructions 1955.15(d)(2) and 1962.40(c). This can delay a debt settlement action and cause a greater loss to the Government.

4. The statute of limitation runs out before legal action is requested. FmHA Instruction 1927-A should be followed to protect the interest of the Government.

5. Security is not being accounted for as required in FmHA Instruction 1962.18(c).

Adequate time should be allotted at State and District staff and training meetings to review this notice and the debt settlement activities in your State.



CHARLES W. SHUMAN
Administrator