



United States
Department of
Agriculture

Farmers
Home
Administration

Washington
D.C.
20250

December 9, 1982

■
SUBJECT: Adjustment of Debts When
Borrowers are in Bankruptcy

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

Questions have been raised regarding our policy on the adjustment of debts when borrowers are in Chapter 11 or Chapter 13 bankruptcy proceedings, and a reorganization plan provides for adjusting the FmHA debts.

FmHA personnel do not have the authority to accept or reject a reorganization plan on behalf of the United States for bankrupt borrowers filing Under Chapter 11 or Chapter 13 when the plan calls for part of the FmHA debt to be forgiven. FmHA Instructions 456.1, 465.1 and 1962-A do not authorize the adjustment of debts of borrowers who have filed under Chapters 11 or 13.

Plans submitted by debtors under Chapters 11 and 13 must be sent to the State Director who will refer them to the United States Attorney through the Regional Attorney. When the plan calls for the adjustment of a debt to FmHA the State Director will provide the Regional Attorney with a recommendation on acceptance or rejection of the plan.

Even if the United States Attorney objects to a plan the Bankruptcy Court can invoke a "cramdown" and confirm the plan in Chapter 11 and most Chapter 13 cases.

The U. S. Attorney will advise the FmHA State Director through the Regional Attorney as to approval or rejection of the borrower's reorganization plan. Upon notification of an approval, the State Director will notify the Finance Office by memorandum of the terms and conditions of the bankruptcy reorganization plan including any adjustment of the borrower's debt. This will also be done in "cramdowns" imposed by the courts. Send a copy of the memorandum to the National Office.

Michael E. R...

for
CHARLES W. SHUMAN
Administrator

EXPIRATION DATE: September 30, 1983

FILING INSTRUCTIONS: File
Preceding FmHA Instruction 456.1

