



United States
Department of
Agriculture

Farmers
Home
Administration

Washington
D.C.
20250

FmHA AN No. 912 (1960)

October 3, 1983

■
SUBJECT: Servicing Delinquent Farmer
Program Loans in FY 1984

TO: State Directors, All Program Chiefs,
District Directors, and County Supervisors

NOTICE: This AN updates, revises and replaces AN No. 756(1960) dated
October 8, 1982.

The servicing and supervision of delinquent Farmer Program loans continues as our top priority in program management. Based on a Finance Office report of June 30, 1983, FmHA had an outstanding insured principal loan balance of \$58.1 billion with \$4.4 billion delinquent. The Farmer Program portfolio alone accounted for 95% of this delinquent sum. Therefore, at all levels of this Agency we must direct our resources to making a concentrated effort to assist delinquent farm borrowers and to protect the Government's interest in these accounts.

The 1984 FY policy contained in this AN must be fully explained to borrowers. Discussions and agreements made between FmHA and the borrower must be completely documented in writing in the case file and summarized in a letter to the borrower. Attachment A to this AN will be used to document the basis for any agreements.

I. BASIC POLICY:

The adequate servicing and supervision of delinquent Farmer Program loans to assist borrowers to overcome financial and management difficulties and to protect the Government's interest continues as a prime concern of the Administration. FmHA at all levels will make every effort possible to assist financially pressed farm borrowers to overcome their difficulties. Borrowers and the agricultural community must be assured that we understand delinquent borrower problems; and that we will continue working with them on a fair but firm basis, using all our authorities to assist them to remain in farming when their farming operations are feasible. Within the broad authorities of this Agency it should be possible to continue assistance, including additional loans or subordinations for annual financing, to most delinquent borrowers.

EXPIRATION DATE: September 30, 1984

FILING INSTRUCTIONS: Preceding
FmHA Instruction 1960-A



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Secretary of Agriculture, Washington, D.C. 20250

2. Undersecured delinquent loans:

These borrowers have been delinquent on their FmHA loan(s) for more than a year, their existing FmHA loan(s) are not fully secured.

In these cases, annual production expense assistance essential to continue the operation may be provided when the borrower has agreed to implement needed improvements as set forth on the annual plan and the typical year plan which shows that all production expenses for the year, including any loan(s) made for production expenses and interest for that loan, can be repaid from the year's income.

As provided in FmHA Instruction 1960.12 (e), the County Supervisor will hold a discussion with all borrowers determined eligible for annual production assistance and will advise them by letter of their serious financial condition, the importance of carrying out the plan as developed for the 1984 crop year, and that FmHA is continuing to provide assistance for their operation on a year-to-year basis. They will be advised that their farm operation will be evaluated at the end of the production season. If they repay the loan, FmHA will consider further assistance to continue their operation.

3. Borrowers who were assisted under AN 756 but who were unable to fulfill the requirements of AN 756:

There will be those borrowers who were unable to fulfill the requirements as set out in paragraphs II B 1 and 2 of FmHA AN 756 (1960) dated October 8, 1982, but who still can meet the criteria of paragraph II A of this AN for consideration of continuing assistance.

In making a determination to continue with these borrowers the following will be considered.

a. Secured delinquent loans:

- (i) Their existing FmHA and other debts and any proposed loans are fully secured and will be at the end of the production season.

III Servicing Actions

- A. The 1984 delinquency and problem case reviews, prescribed in FmHA Instruction 1960-A, will be completed as soon as possible. These reviews must clearly identify the reason(s) for the borrower's problem(s). A realistic, workable servicing strategy will be developed. This strategy must establish what actions will be taken, including further assistance, and the dates these actions will be completed. The borrower will be notified by letter of the results of the review and of any future actions to be taken. At the time of the reviews, the District Director will schedule periodic followups to ensure accomplishment of the planned corrective actions.
- B. The 1984 plan and typical plan must be realistic, taking into consideration the borrower's past documented performance, the history of the farm's production, marketing conditions and the improvements and adjustments planned for the operation.
- C. In determining whether additional assistance will be provided to a borrower, consideration will be given to rescheduling, reamortizing and deferring the borrower's loans, along with any other FmHA servicing authorities that will enhance the borrower's chances for success. This consideration will be reflected in the running record and/or plan of operation, will show the actual calculations and summarize the comparison of repayment ability. When a deferment is granted, borrowers must fully understand that interest continues to accrue and that future annual installments must be increased. In situations where these actions will not improve loan repayment ability of our borrowers, FmHA may carry borrowers delinquent for the 1984 crop year provided the criteria set forth in this AN can be met in each individual case.
- D. In all feasible cases, borrowers will obtain all or a portion of their operating credit needs from other lenders. All appropriate field personnel will remain informed of current lending policies of the local agricultural lenders. A close working relationship with these lenders will be maintained to ensure that FmHA loans are made only when needed credit is not otherwise available. Borrowers who received a subordination will be serviced in accordance with AN 847(1962) dated May 17, 1983 or its subsequent replacement.

Addressees will review the requirements set forth in this AN with their staffs. District Directors will immediately develop plans for implementing and monitoring these requirements. State Directors will meet with the District Directors to review these plans. State Directors will continuously monitor this activity to insure that the policy set forth herein is complied with.

Upon receipt of this AN, County Supervisors will arrange to discuss its provision with agricultural lenders and agricultural business leaders in their county office areas.



CHARLES W. SHUMAN
Administrator

Attachment

To be sent by electronic mail dated October 3, 1983 at 4:25 p.m. by DASD(IMPS).
A copy of this communication will be distributed by the Finance Office to all District and County Offices.

- (ii) A current and typical year plan using realistic production averages, prices and expenses will be developed. Additional assistance can only be considered if these plans can show repayment of any new loan plus ability to make payments of maturing installments to FmHA and other lenders. All existing rescheduling, reamortization and deferral authorities will be considered in developing the plans.
- (iii) If criteria in paragraph II B 3a(i) and II B 3a(ii) cannot be fully met, the borrower(s) loan(s) would be serviced under paragraph II B 2.

b. Undersecured delinquent loans:

- (i) A current plan, using realistic production averages, prices, and expenses, will be developed and must show that annual production expenses and annual production loans needed, plus interest accruing on those loans, can be repaid from the year's income; and
- (ii) Careful consideration must be given to the borrower's projected financial situation at the end of the production season. Accruing interest on all indebtedness, plus depreciation are important factors to be considered; or
- (iii) If the borrowers situation as projected for the end of the production season will be eroded to the point where there is no chance of a substantial recovery, the borrower's loan(s) will be serviced under paragraph II B 4.

4. Severe delinquent loans:

These borrowers have been delinquent on their FmHA loan(s) for more than 1 year. Their severe overall problems cannot be corrected through the use of any FmHA servicing authorities, including subordinations, and/or any nonFmHA services available in the community. Liquidation action will be taken on these cases in accordance with appropriate FmHA regulations.

II Criteria for Continuing Assistance to Delinquent Borrowers.

A. Additional assistance will be considered only for those borrowers who meet the following requirements.

1. Have acted in good faith by demonstrating sincerity and honesty in meeting their agreements and promises made with FmHA;
2. Have been unable to pay their accounts as scheduled due primarily to circumstances beyond their control;
3. Have applied production and financial management practices that are considered by FmHA as acceptable and suitable for their type of operations; and
4. Have properly maintained chattel and real estate security and properly accounted for the sale of security property, including crops, livestock and livestock production.

B. As an aid in determining the servicing action most appropriate for each delinquent Farmer Programs borrower and to decide whether additional assistance should be made, guidance is provided below.

1. Secured delinquent loans:

These borrowers have been delinquent on their FmHA loan(s) for 1 or more years. Their existing FmHA loan(s) and any proposed assistance will be fully secured.

Additional assistance may be provided to these borrowers, pursuant to FmHA regulations, to assist them to continue their operations when specific actions will be taken to resolve their problems. In each case, a current and typical year Farm and Home Plan or Coordinated Financial Statement (CFS) will show that undeferred installments on any new assistance and maturing installments on existing FmHA and other lender loans can be paid from the planned year income. Typical year plans must reflect positive action that will be taken to improve the operation. The plans must show that any delinquent FmHA and other lender principal and interest can be paid current in a reasonable period of time. When the borrower's plans do not indicate enough income to meet these requirements, the borrower may be provided annual production loans as set forth in paragraph II B 2.

Borrower Name _____ Case No. _____
County _____ Type(s) of Loans _____

Security: Real Estate _____ Chattels _____

CRITERIA FOR CONTINUING ASSISTANCE TO DELINQUENT BORROWERS:

1. Has the borrower acted in good faith, demonstrated sincerity and honesty in meeting agreements and promises made with FmHA?

Yes ___ No ___ : Provide specific information and reference.

2. Has the borrower been unable to pay their accounts as scheduled due primarily to circumstances beyond their control?

Yes ___ No ___ : Provide specific information and reference.

3. Has the borrower applied production and financial management practices considered by FmHA as acceptable and suitable for their type of operation?

Yes ___ No ___ : Provide specific information and reference.

4. Has the borrower properly maintained chattel and/or real estate security and properly accounted for the sale of security property, including crops, livestock and livestock production?

Yes ___ No ___ : Provide specific information and reference.

5. Does the borrower have a reasonable chance to repay the current year's production loan plus interest accruing on such loan(s) (excluding interest due and accruing on capital and/or carry-over debts)?

Yes ___ No ___ : Provide specific comments and reference to the current year's plan of operations in each case.

6. Has the borrower been advised of FmHA's authority to consolidate, reschedule, reamortize and defer? Form FmHA 1924-14 signed and in file?

Yes ___ No ___

7. Comments on use of servicing authorities in item 6. How applied or why they are not used in this case.

8. If an RH loan is involved, has the borrower been advised of a moratorium possibility?

Yes ___ No ___ : State when, how, and if not, why.

9. Additional comments to support determinations for continuation or not continuing with borrower. Provide specific comments and references regarding the borrower's situation, and how conditions do or do not meet criteria set forth in FmHA AN No. ___ (1960).
