

For: State and County Offices

Noncash Credit for Debt Cancellation Conservation Contracts

Approved by: Deputy Administrator, Farm Loan Programs



1 Overview

A

Background

FmHA Instruction 1951-S, Exhibits H and J-1 contain conflicting instructions for the application of the noncash credit when a borrower receives a debt cancellation conservation contract.

B

Purpose

This notice provides guidance on how to apply a noncash credit when a borrower receives a debt cancellation conservation contract.

C

Contact

If there are any questions about this notice, contact James P. Fortner, LSPMD, Guaranteed Loan Servicing and Inventory Property Branch.

Disposal Date

September 1, 1999

Distribution

State Offices; State Offices relay to County Offices

Notice FLP-13

2 Applying Noncash Credit

A

Priority

Because of the conflicting instructions regarding application of the noncash credit, FmHA Instruction 1951-S, Exhibit J-1, Section IV(D) shall govern.

According to the guidance in FmHA Instruction 1951-S, Exhibit J-1, Section IV(D), borrowers eligible for a conservation contract shall have their noncash credit applied as follows:

- eligible loans shall be selected in the order of lowest security margin according to FmHA Instruction 2006-W.1104(a)
 - for loans with equal security priority, the secondary selection shall be for the loan with the largest amortization factor determined according to FmHA Instruction 1951-S, Exhibit J-1, Attachment 1, Section IV(D).
 - the Debt and Loan Restructuring System (DALR\$) software application shall be used to properly calculate the amount of conservation contract debt cancellation and loan liability.
-

3 Handling the Conservation Contract Calculated by DALR\$

A

Using DALR\$ When Borrowers Are Current but Not Financially Distressed

If the borrower is current with FSA and is **not** financially distressed, the conservation contract calculated by DALR\$ shall be handled as follows:

- for all existing FSA loans entered into the “Existing Loan” screen, the “Servicing Action” field shall be coded as “Y”

Note: This will allow DALR\$ to consider all loans for restructuring and only restructure those loans if necessary to obtain a feasible plan.

- DALR\$ will write down debt according to FmHA Instruction 1951-S, Exhibit J-1, Section IV(D)
 - any loans that receive a debt write down associated with conservation contract debt cancellation shall not be restructured with a new payment and term. The current payment amount and schedule will remain unchanged and a noncash credit shall be applied to the particular loan
 - if the borrower requests restructuring with a new payment and term, follow subparagraph B.
-

Continued on the next page

Notice FLP-13

3 Handling the Conservation Contract Calculated by DALR\$ (Continued)

B

Using DALR\$ When Borrowers Are Current but Financially Distressed

If the borrower is current with FSA and is financially distressed, the conservation contract calculated by DALR\$ shall be handled as follows:

- for all existing FSA loans entered into the “Existing Loan” screen, the “Servicing Action” field shall be coded as “S”

Note: This will allow DALR\$ to consider all loans for restructuring and only restructure those loans necessary to obtain a feasible plan.

- DALR\$ will write down debt according to FmHA Instruction 1951-S, Exhibit J-1, Section IV(D)
 - existing FSA loans shall be restructured to the extent necessary to obtain a feasible plan. Any loans that receive a debt write down associated with conservation contract debt cancellation shall be restructured and a new payment amount and term shall be calculated.
-

C

Using DALR\$ When Borrowers Are Delinquent

If the borrower is delinquent, the conservation contract calculated by DALR\$ shall be handled as follows.

- For all delinquent FSA loans entered into the “Existing Loan” screen, the “Servicing Action” field shall be coded as “D”.

All other FSA loans shall be coded as either “S” for Servicing Required or “Y” for Consider Servicing.

Note: This will allow DALR\$ to consider all loans for restructuring and only restructure those loans necessary to obtain a feasible plan.

- DALR\$ will write down debt according to FmHA Instruction 1951-S, Exhibit J-1, Section IV(D).
 - Existing FSA loans shall be restructured to the extent necessary to obtain a feasible plan. Any loans that receive a debt write down associated with conservation contract debt cancellation shall be restructured and a new payment amount and term shall be calculated.
-

Notice FLP-13

4 Handling the Noncash Credit

A

Noncash Credit for Delinquent Borrowers

For delinquent borrowers eligible for a conservation contract, the noncash credit shall be handled as follows:

- the loans shall be rescheduled, reamortized, and restructured using DALR\$
- the 3H transactions must be processed by the Finance Office for delinquent borrowers
- before the Finance Office can process the 3H transaction, the servicing office must process Transaction Code 1M, New Rates and Terms, to reamortize or reschedule the loan with the same effective date as the conservation contract

Note: This does not apply to loans receiving both a conservation contract and a writedown with a shared appreciation agreement (SAA).

- if any loans will receive both a conservation contract and a writedown with an SAA (Transaction Code 3R), process a 1M reamortization, a 3H transaction, then the 3R transaction, using the same effective date
 - the servicing office must submit a copy of the DALR\$ report, FmHA 1951-47, and copies of all rescheduled/reamortized notes.
-

B

Noncash Credit for Current Borrowers

For a current borrower eligible for a conservation contract, the noncash credit shall be handled as follows:

- the noncash credit, as calculated by DALR\$, shall be applied to the borrower's account
 - the 3H transaction for a current borrower can be processed by the servicing office. This also includes current borrowers whose accounts may have been rescheduled, reamortized, or restructured with the use of DALR\$.
-