

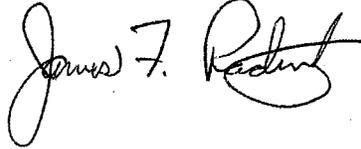
UNITED STATES DEPARTMENT OF AGRICULTURE

Farm Service Agency
Washington, DC 20250

**Direct Loan Servicing – Special
and Inventory Property Management
5-FLP**

Amendment 21

Approved by: Acting Deputy Administrator, Farm Loan Programs



Amendment Transmittal

A Reasons for Amendment

Subparagraph 4 A has been amended to add a reference to 7 CFR 767.251.

Subparagraph 42 A has been amended to state that FSA will make the DSA program available to borrowers when a county has been designated a disaster area.

Subparagraph 42 B has been amended to provide that Exhibit 10 shall be sent out the first workday after the first designation of a calendar year.

Subparagraphs 408 C, 496 A, 497 A, 498 A, and 499 D have been amended to add FSA-2569.

Subparagraph 534 D has been amended to ensure that FSA 2562 is completed correctly by the County Office and the account has been properly flagged “ACL”.

Note: FSA-2562 and instructions have been updated to show beginning and ending dates and also to add DLS into the purpose and Automation-Related Transactions.

Subparagraph 952 B has been amended to state that the authorized agency official will obtain civil rights clearance before classifying debt as CNC.

Exhibit 10 has been amended to show that a borrower can apply for DSA anytime a disaster designation is issued in local publications.

Exhibit 11 has been amended to show changes in or updates to flags that need to be recorded in the accounting system.

Amendment Transmittal (Continued)

Page Control Chart		
TC	Text	Exhibit
	1-1, 1-2 1-5, 1-6 2-1, 2-2 11-1, 11-2 11-13 through 11-30 14-31 through 14-34 14-37, 14-38 15-5, 15-6 24-3, 24-4	1, pages 3, 4 10, page 1 11, pages 1, 2

Part 1 Introduction and Purpose

1 Purpose and Sources of Authority

A Handbook Purpose

This handbook is designed to assist FSA in understanding the following:

- regulations governing:
 - direct loan servicing – special
 - inventory property management
- roles and responsibilities in implementing those regulations and other responsibilities in direct loan servicing – special and inventory property management.

B Sources of Authority

The sources of authority for this handbook include the following:

- 7 CFR Part 3; 7 CFR Part 1951, Subpart C; 7 CFR Part 1956, Subpart B; 31 CFR Part 285; and 31 CFR Parts 901 through 904 for internal administrative offset, Federal salary offset, debt settlement, cross-servicing (including AWG), TOP, and Federal claims collection standards
- 7 CFR Part 766 for servicing borrowers who are financially distressed or delinquent
- 7 CFR Part 767 for managing, leasing, and selling inventory property
- various laws and statutes passed by Congress, including CONACT and DCIA.

C Regulation References

Text in this handbook that is published in the CFR is printed in **bold** text. The CFR citation is printed in brackets in front of the text. The references and text:

- are intended to highlight the requirement in the CFR
- may be used to support adverse FSA decisions.

Note: Cross-references printed in bold are citing a CFR section. The handbook paragraph or subparagraph where the cross-referenced CFR text can be found in is printed in nonbold text in parenthesis (within the bold text).

Example: Subparagraph 103 C provides “[**7 CFR 766.105(b)**] (1) **The Agency will attempt to achieve a 110 percent debt service margin for the servicing options listed in paragraphs (a)(2) through (4)** (subparagraph B) **of this section.**”

Note: The text “**paragraphs (a)(2) through (4) of this section**” refers to 7 CFR 766.105 (a)(2) through (4). The nonbold reference indicates that 7 CFR 766.105(a) is included in subparagraph 103 B.

2 Related References

A Related FSA Handbooks

The following FSA handbooks concern FLP.

IF the area of concern is about...	THEN see...
appeals and mediation	1-APP.
civil rights compliance and administration for FSA programs	18-AO.
common management and operating provisions for program management activities, functions, and automated applications, such as forms that cannot be accepted by FAX	1-CM.
direct loan making	3-FLP.
direct loan regular or routine servicing	4-FLP.
--disaster designations	1-DIS.--
employee development and training	6-PM.
environmental requirements	1-EQ.
general and administrative regulations governing FLP, and implementing NAD final determinations	1-FLP.
guaranteed loan making and servicing	2-FLP.
the Emergency Loan Seed Producers Program, Horse Breeder Loan Program, Indian Tribal Land Acquisition Program, Special Apple Loan Program, Land Contract Guarantee Program, and servicing of minor loan programs	6-FLP.
personnel management, such as employee conflict of interest	3-PM.
policies and procedures for the acquisition of supplies, equipment, and services	27-AS.
procedures for collecting, maintaining, or disclosing data or information about an individual	3-INFO.
procedures for making records available to the public, other Federal agencies, and Congress	2-INFO.
processing collections and canceling loan checks and payments	3-FI.
State and county organization and administration policies, procedures, principles, and standards, such as work organization	16-AO.
State and county records management	25-AS.

--Notes: See 1-DIS for information on the disaster designation process.--

RD Instruction 1940-G must be used along with 1-EQ.

See RD Instructions 1951-C and 1956-B for information on administrative offset and debt settlements, respectively.

B Helpful Links

The Helpful Links web site at <https://arcticocean.sc.egov.usda.gov/flp/InformationalLinks?Action=HelpfulLinks&caller=index> provides links to useful web sites.

3 FLP Forms (Continued)

E State Office Modified National Forms

State and County Offices shall use national forms unless their use is prohibited by State law. If modification to a national form is required to comply with State law, the State Office shall submit a copy of the national form showing the necessary modifications, through the State Directives Management System.

Note: State-specific forms based on national forms will be made available on the FFAS Employee Forms/Publications Online Website at <http://intra3.fsa.usda.gov/dam/ffasforms/forms.html> with the same form number as the national form, followed by the State acronym.

F State-Created Forms

State Offices may create forms, as necessary, when a national form is not available. State-created forms shall be assigned a 5-digit number establishing linkage to the appropriate FLP handbook, followed by the State acronym, according to the following.

IF the form pertains to...	THEN the form number shall be...
more than one FLP handbook	FSA-2000-1 ST, FSA-2000-2 ST, FSA-2000-3 ST, etc.
1-FLP	FSA-2100-1 ST, FSA-2100-2 ST, FSA-2100-3 ST, etc.
2-FLP	FSA-2200-1 ST, FSA-2200-2 ST, FSA-2200-3 ST, etc.
3-FLP	FSA-2300-1 ST, FSA-2300-2 ST, FSA-2300-3 ST, etc.
4-FLP	FSA-2400-1 ST, FSA-2400-2 ST, FSA-2400-3 ST, etc.
5-FLP	FSA-2500-1 ST, FSA-2500-2 ST, FSA-2500-3 ST, etc.
6-FLP	FSA-2600-1 ST, FSA-2600-2 ST, FSA-2600-3 ST, etc.

Notes: “ST” represents the appropriate State acronym.

Before using State forms imposing information collections on 10 or more persons per year, State Offices shall work with the National Office to obtain OMB approval.

SED shall issue State supplements, as applicable, to address the use of all State-specific and State-created forms.

Exception: State-specific FSA-2029’s do not require State supplement issuance.

*--G Other Sources of Forms

FSA does **not** provide forms that establish an agreement or contract between applicants/borrowers and third parties only, such as leases. Advise applicants/borrowers to obtain these forms from other sources, such as Extension Service, on-line services, attorney, etc.--*

4 Agency Exception Authority

A General

***--[7 CFR 766.401, 767.251] On an individual case basis, the Agency may consider--* granting an exception to any regulatory requirement or policy of this part if:**

(i) The exception is not inconsistent with the authorizing statute or other applicable law; and

(ii) The Agency's financial interest would be adversely affected by acting in accordance with published regulations or policies and granting the exception would resolve or eliminate the adverse effect upon its financial interest.

Authority for granting approval of an exception is held only by the Administrator and DAFLP.

A decision as to whether an exception request will be submitted will be at FSA's discretion and is not appealable.

A request for an exception to program regulations should not be pursued under normal servicing conditions. FSA considers requests submitted under extraordinary circumstances only.

B Submitting Exception Requests

SED must submit an exception request by e-mail to DAFLP at **RA.dcwashing2.FSA-AdmException**. The e-mail subject should read "Administrator's Exception to (cite 5-FLP subparagraph) – (Borrower's Name and State)". An **encrypted** attachment must fully describe the status of the account including:

- a brief background on the case
- total outstanding FSA indebtedness, loan types, and amounts
- current status of the account

Note: If it is delinquent, where is it in Primary Loan Servicing?

- type of security (chattel or real estate) and estimated value
- prior liens
- proposed plan of action that warrants the exception request
- what procedure is to be waived

Part 2 Disaster Set-Aside (DSA)**41 Purpose****A Intent of DSA**

[7 CFR 766.51] (a) DSA is available to borrowers with FLP program loans who suffered losses as a result of a natural disaster.

(b) DSA is not intended to circumvent other servicing available under this part.

(c) Non-program loans may be serviced under this subpart for borrowers who also have FLP program loans.

--FLP loans that may be serviced under this part are FO, OL, CL, SW, EM, EE, ST, RL, and--
RHF. NP's may be serviced under this part for borrowers who also have any program loans as noted in this subparagraph.

Note: YL's are **not** eligible for servicing under this part.

DSA is only intended to relieve some of the borrower's immediate and temporary financial stress caused by a disaster. When the operation has demonstrated that it cannot make the payments due and requires restructure, primary loan servicing under Parts 3 and 4 will be used. DSA will not be used to circumvent the servicing available under Parts 3 and 4.

42 Notifying Borrowers of DSA

A When FSA Must Notify Borrowers

When the President, the Secretary of Agriculture, or the Administrator designates a county as *--a disaster area, FSA will make the DSA program available to its borrowers.--*

FSA will notify a borrower of DSA availability only if both:

- the borrower was an FLP borrower at the time of the disaster
- the borrower actively operated a farm in a county designated a disaster area or a county contiguous to a designated county.

FSA will not notify borrowers whose FLP loans have been accelerated, restructured after the disaster, have only NP's or YL's, or are paying FSA under a debt settlement agreement.

B How FSA Notifies Borrowers

Borrowers will be notified of DSA availability by sending out Exhibit 10 on the first *--workday after the first disaster designation of a calendar year. This will inform all eligible borrowers that the DSA program is available during disaster designations. The letter will list all outstanding disaster designations at the time.--*

Part 11 Bankruptcies, Civil and Criminal Cases, and Judgments

Section 1 Bankruptcy

401 FSA Actions When Borrower Files for Bankruptcy

A Suspending Loan Servicing

If a borrower files bankruptcy, the authorized agency official will suspend all pending special servicing and collection actions, but will continue to monitor the account and conduct regular servicing to protect the interests of the Government.

B Flagging the Account

Upon notification that the borrower has filed bankruptcy, the authorized agency official will *--flag the account as “BAP” by using FSA-2562 and processing a 5G transaction. The “BAP” flag will remain on the account until 1 of the following occurs:--*

- bankruptcy is dismissed
- borrower is discharged, no longer under court jurisdiction, and FSA has no remaining loan collateral from which collection can be made
- the case has been closed.

Note: The “51-S” flag must be removed with a 5H transaction before a “BAP” flag can be established (Exhibit 11).

C Notifying the Borrower’s Attorney of Loan Servicing Options if Borrower Was Not Previously Notified

[7 CFR 766.301] If a borrower files for bankruptcy, the Agency will provide written notification to the borrower’s attorney with a copy to the borrower as follows:

(a) The Agency will provide notice of all loan servicing options available under Subpart C (Part 3) of this part, if the borrower has not been previously notified of these options.

Within 15 calendar days of receiving a notice of bankruptcy, the authorized agency official will send all borrowers and the borrowers’ attorney Exhibit 34, the appropriate notice, and the response form according to subparagraph 67 A. If the borrower does **not** have an attorney, the borrower only will receive the FSA forms.

401 FSA Actions When Borrower Files for Bankruptcy (Continued)**D Notifying the Borrower's Attorney of Servicing Options if the Borrower Was Previously Notified**

[7 CFR 766.301(b)] If the borrower received notice of all loan servicing options available under Subpart C (Part 3) of this part prior to the time of bankruptcy filing but all loan servicing was not completed, the Agency will provide notice of any remaining loan servicing options available.

If FSA notified the borrower of primary loan servicing before the borrower filed for bankruptcy and some servicing options are still available, the authorized agency official will send Exhibit 34 and the appropriate servicing forms along with any required application *--forms to all borrowers and the borrowers' attorney (if the borrowers have no attorney, then all notifications and timeframes will apply to the borrowers only) explaining what options--* remain. Servicing and servicing timeframes suspended on the date the borrower files for bankruptcy resume on the date the attorney receives Exhibit 34. If no servicing options remain, send Exhibit 34 to inform the borrower and attorney that no primary loan servicing options remain.

If the borrower or borrower's attorney does not request any remaining servicing options, the authorized agency official will not take any further action to liquidate the account until the stay is lifted and they are notified by the State Office.

E Referring a Bankruptcy to the State Office

The authorized agency official will inform the State Office of any developments in the borrower's bankruptcy case, but will take no action against the security unless directed by SED.

SED should issue a State supplement describing what information is to be forwarded to the State Office in the event of a borrower filing bankruptcy. SED may issue additional State supplements as required to comply with State laws with regional OGC guidance/advice.

408 Acceptance of Conveyed Property From Trustee in Bankruptcy**A Conditions for Acceptance of Conveyed Property**

FSA may accept conveyance of property by the Trustee in a bankruptcy case if:

- the automatic stay has been lifted
- conveyance will permit a substantial recovery of FSA debt
- FSA will acquire title free of all liens and encumbrances except for FSA's liens
- conveyance is in FSA's interest.

SED is authorized to accept a conveyance of property to the Government.

B Fees Connected With the Conveyance

FSA may voucher and charge to the borrower's account any necessary and proper fees approved by the Bankruptcy Court in connection with the conveyance. Before paying a fee to a trustee for a Trustee's Deed in excess of \$1,000 for FLP loans, the authorized agency official must obtain approval from the Administrator. SED will process payment of fees as outlined in 4-FLP, Part 6.

C Deeds

Conveyance of the borrower's property to FSA may be by a Trustee's Deed instead of *-FSA-2569 if, upon advice of OGC, FSA determines that such a deed is necessary to obtain--* clear title.

D Crediting the Borrower's Account

FSA will credit the borrower's account after accepting a conveyance of property. If the market value of the acquired property equals or exceeds the debt, the account is satisfied. If the debt exceeds the market value of the acquired property, FSA will credit the account by the market value of the security.

E Property Acquisition Reporting Requirements

FSA will report property acquisitions according to Part 14.

409-420 (Reserved)

Section 2 Voluntary Conveyance of Real Property

496 Before Receiving Conveyance Offers of Real Property

A Borrower Meeting

Before accepting the conveyance of real estate, FSA will schedule a meeting with the borrower to discuss FSA's conveyance requirements, and ensure that FSA has provided a loan servicing notification package to the borrower according to paragraph 66.

--The authorized agency official will provide the borrower with FSA-2569, FSA-2570, RD 1956-1, and a list of the requirements to make a complete conveyance offer.--

The authorized agency official will inform the borrower that:

- voluntary conveyance is a method of liquidation

Note: The borrower must liquidate, convey, or do a combination of both for all real property and chattel that secures the borrower's FSA loans.

- any equity in the property to be conveyed may be lost through conveyance as FSA will ensure that all debts and expenses associated with the account are paid before any equity distribution
- FSA may place "right of access" easements to other property, deed restrictions, and/or easements on the property if the property contains wetlands or historic structures or is located on a flood plain according to Part 22

Note: These restrictions may affect the price of the property if the borrower purchases the property under the Homestead Protection Program, and may affect FSA's net recovery value.

- there could be tax consequences

Note: FSA does not give tax advice. The borrower should consult a tax professional or the IRS for any guidance on this issue. FSA does not release proceeds for income taxes. The property is owned by the borrower and the borrower is responsible for any capital gains taxes.

- FSA may determine that it is able to accept the conveyance of the real estate security, but is unable to approve RD 1956-1 that was submitted with the conveyance offer.

Note: In these cases, FSA will accept the conveyance and deny the debt settlement application. See subparagraph 499 F for additional guidance.

497 Real Property Conveyance Application Requirements**A Application**

[7 CFR 766.353(a)] The borrower must supply the Agency with the following:

[7 CFR 766.353(a)] (1) An Agency application form;

The borrower must complete and submit FSA-2570.

[7 CFR 766.353(a)] (2) A current financial statement. If the borrower is an entity, all entity members must provide current financial statements;

[7 CFR 766.353(a)] (3) Information on present and future income and potential earning ability;

[7 CFR 766.353(a)] (4) A warranty deed or other deed acceptable to the Agency;

--The borrower must provide FSA-2569. The authorized agency official does not record the-- deed until FSA accepts the conveyance.

[7 CFR 766.353(a)] (5) A resolution approved by the governing body that authorizes the conveyance in the case of an entity;

An entity must provide a resolution approved by the organization's governing body unless the entity is a joint operation of a husband and wife when both are liable. The resolution must identify the officials authorized to execute the offer and deed on behalf of the borrower. If shareholder approval is required, the resolution must confirm that the entity has obtained shareholder approval.

497 Real Property Conveyance Application Requirements (Continued)**A Application (Continued)**

[7 CFR 766.353(a)] (6) Assignment of all leases to the Agency. The borrower must put all oral leases in writing;

The borrower must put oral leases, including all terms and conditions, in writing and assign all leases to FSA. If a borrower is leasing land on which FSA holds a security interest to a third party for income, FSA will receive all lease proceeds after the conveyance. See 4-FLP, Part 5 for handling lease proceeds.

[7 CFR 766.353(a)] (8) Complete debt settlement application in accordance with subpart B of 7 CFR part 1956 before or in conjunction with the voluntary conveyance offer if the value of the property to be conveyed is less than the Agency debt; and

The borrower must complete and submit RD 1956-1 with all required supporting documentation for debt settlement, unless the value of the voluntary conveyance security fully satisfies the FSA debt. * * *

--The debt settlement application will be processed according to paragraph 955. The-- applications for voluntary conveyance and debt settlement will normally be approved or denied together; however, the voluntary conveyance application can be approved while denying the debt settlement application if SED believes it to be in the Government's best interest.

[7 CFR 766.353(a)] (9) Any other documentation required by the Agency to evaluate the request.

498 Additional Requirements**A Other Use Rights**

If water rights, mineral rights, development rights, or other use rights encumbered by FSA *-are not included in FSA-2569, or other guidance is needed, the authorized agency official--* refers the case to SED to obtain OGC guidance as required on the appropriate documents needed to transfer these rights to FSA. SED may issue a State supplement as required.

B Obtaining an Appraisal

The authorized agency official will obtain an appraisal of the property to establish its current market value. The appraisal must be based on the “as is” market value according to 1-FLP, Part 6 and must not include potential deed restrictions or easements FSA may place on the property.

C Conducting a Due Diligence Review

The authorized agency official will arrange to conduct a due diligence review to assess environmental risk according to 1-EQ. A qualified agency official will conduct the due diligence review to determine whether FSA requires a more detailed environmental review. The cost of any hazardous waste or other environmental clean-up identified by the due diligence review may be considered by FSA, but will not usually be included in Exhibit 37 as clean-up is usually not required for sale of the property.

D Obtaining a Title Search**[7 CFR 766.353(a)(7)] Title insurance or title record for the security, if available;**

The authorized agency official will conduct a new lien search, according to the standard procedures used in the borrower’s State and the State supplement issued according to subparagraph 462 B, if adequate title information is not available in the borrower’s case file.

The borrower will pay the cost of all title searches or it will be charged to the borrower’s account. * * *

499 Processing the Borrower's Conveyance Offer (Continued)**C Prior and Junior Liens (Continued)**

If the borrower does not satisfy all junior liens, the loan approval official may contact junior lienholders to negotiate the most favorable settlement possible and determine whether it is in FSA's best interest to settle the lien.

SED must approve all junior lien settlements.

The authorized agency official will charge any payments on junior liens to the borrower's account.

D Rejecting the Conveyance

If the approval official determines that FSA should not accept the conveyance, the authorized agency official will deny the conveyance, clearly stating the reasons for the rejection, *--offering appeal rights under 1-APP, and returning the original FSA-2569 and FSA-2570 to the borrower. A copy of FSA-2569 and FSA-2570 will be retained in the case file.--*

E Accepting the Conveyance

If the approval official determines that FSA should accept the conveyance, FSA-2570 will be executed.

F Accepting the Conveyance and Rejecting the Debt Settlement Application

In cases where FSA accepts the conveyance offer and denies the debt settlement application, the authorized agency official will encourage the borrower to negotiate an acceptable debt settlement offer.

The authorized agency official will advise the borrower that:

- after all debt settlement appeal rights have been concluded, and the conveyance has been completed, the borrower will be notified of any remaining account balance
- if the borrower does not pay the remaining account balance, any administrative offset (including IRS tax refunds, Federal salaries, Federal contractor/vendor payments, Federal benefit payments such as Social Security, and State income tax refunds for States participating in centralized offset through TOP) will continue
- the debt may also be referred to Treasury's cross-servicing program where Treasury may pursue collection by garnishing the borrower's wages. Treasury adds a collection fee for all monies it collects.

Negotiating an acceptable debt settlement with FSA should be strongly encouraged to avoid collection actions on the remaining balance and additional collection fees by Treasury.

500 Closing the Real Property Conveyance**A Recording the Deed**

The authorized agency official will forward the deed and release of lien to the closing agent with instructions for closing the conveyance, recording the deed, and releasing the lien provided no new liens have been recorded since the title search.

The closing agent will provide a certification of title to FSA after recording the deed. The title must have no other liens or encumbrances except for those previously approved by FSA.

B Junior or Unauthorized Liens

If the closing agent discovers junior or other unauthorized liens, the closing agent provides the authorized agency official with the lienholder's name, amount of lien, date recorded, and the recording information. The closing agent will return the unrecorded deed to the authorized agency official and await further instructions.

The authorized agency official will notify the borrower of the lien, inform them that they are responsible for resolving the situation, and establish a 30-calendar-day deadline for the resolution or the voluntary conveyance will be denied. The conveyance will not be closed unless the unauthorized liens are removed. In the meantime, FSA will proceed with required servicing actions with no delay.

C Charging the Borrower's Account

[7 CFR 766.353(d)(1)] The Agency will charge the borrower's account for all recoverable costs incurred in connection with a conveyance in accordance with § 765.203 (4-FLP, Part 6) of this chapter.

The authorized agency official will charge the borrower's account for all recoverable costs *--and expenses in connection with the conveyance according to 1-FLP, Exhibit 25. These--* costs may include taxes and assessments, other liens, closing agent fees, and any other authorized costs.

534 Accelerating a Borrower's Loans**A Approving Acceleration**

DD will review the problem case file and if the account meets the acceleration criteria according to paragraphs 532 and 533, the account will be accelerated.

B Returning the File

If DD does not concur with acceleration or the file is not complete, the file will be returned to the authorized agency official with a request for additional information or instructions for additional servicing actions.

C Proceeding With Acceleration

[7 CFR 766.355(a)(2)] The Agency accelerates all of the borrower's loans at the same time, regardless of whether each individual loan is delinquent or not.

DD accelerates all the borrower's loans and any shared appreciation agreements, unless the borrower meets either of the following conditions:

- if the borrower is in default because of a failure to graduate, DD will send the file through the State Office to obtain OGC's concurrence before acceleration
- if the borrower is in military service, DD will confer with SED for review and instructions.

D Mailing the Acceleration Notice

DD will send Exhibit 49, 50, or 51, as appropriate according to State instructions, to the borrower by certified and regular mail on the same day. Exhibit 49, 50, or 51 will be sent to the last known address of the entity and each obligor who signed any promissory notes. For American Indian borrowers whose real estate security is located within Federally recognized reservation boundaries, see subparagraph 537 C for letters when accelerating a loan and notifying the borrower's Tribe.

DD will:

- send the authorized agency official a copy of Exhibit 49, 50, or 51 sent to the borrower
- *--ensure that FSA-2562 is completed correctly--*
- submit FSA-2562 to the State Office to flag the account "ACL".

Note: The ACL flag (Exhibit 11) will be removed when the account is paid in full, debt settled, or decelerated for any reason.

534 Accelerating a Borrower's Loans (Continued)**E Contacting Prior Lienholders**

After FSA accelerates the loans, the authorized agency official may contact any prior lienholders. In general, contacting prior lienholders may be most appropriate, although not required, in nonjudicial foreclosure States. In judicial foreclosure States, lienholders are contacted as part of the legal process. State supplements may be issued for additional guidance on the notification of prior lienholders.

FSA may:

- give the prior lienholder the opportunity to foreclose
- join in the action if the lienholder wants to foreclose
- foreclose and handle the prior liens by either:
 - settling the prior liens before foreclosing
 - foreclosing subject to the prior liens.

The authorized agency official will consult the State Office to seek guidance and recommend the option that results in the greatest net recovery to FSA.

952 CNC Debt

A Required Notification

Before classifying debt as CNC, borrowers must receive the following:

- all applicable loan servicing notices
- RD form letter 1951-C-1
- 60-day due process letter sent as part of the TOP screening procedure in Exhibit 15
- Exhibit 44 or 45.

Note: Any applicable timeframes about the information in this subparagraph must have expired.

B Debt Eligibility and Classification

The authorized agency official will:

- use FSA-1956-20 to determine CNC eligibility
- submit FSA-1956-20 to the State Office through DD
- *--obtain civil rights clearance as set forth in 1-FLP, subparagraph 41 H--*
- ensure that eligible debts are classified CNC using transaction code 3K, class of write off code 5.

Debt that is **not** eligible for CNC may be eligible for debt settlement. For example, after consultation with the regional OGC, the determination may be made that the debt is not eligible for CNC in a community property State where 1 obligor received a Chapter 7 bankruptcy discharge and another co-obligor did not. However, the still liable co-obligor would like to debt settle the loans. See paragraph 955 for debt settlement.

The authorized agency official will monitor debt that is **not** eligible for CNC or debt settlement until it is paid in full, or eligible for CNC or debt settlement.

--953 Cross-Servicing*A Authority**

Referring CNC debt to Treasury for cross-servicing is required by DCIA.

B Action

As part of cross-servicing, Treasury sends debts to its contracted PCA's to perform various collection actions, such as calling debtors, sending letters to debtors, skip tracing, and negotiating debt settlement offers. In some cases, Treasury may use its own employees to perform some of these tasks.

The authorized agency official will follow the guidance in Exhibit 16 to refer debt to Treasury for cross-servicing.

Notes: Because of FLP's automated referral processes, FLP debts must be referred to TOP before they are referred to cross-servicing. FLP debt must also remain at TOP to stay at cross-servicing. Therefore, while debts are at cross-servicing, they are also at TOP and subject to offsets, such as administrative offset of Federal benefit payments and Federal salary offset. See Exhibit 15 for TOP information.

Debts referred to cross-servicing may be eligible for AWG. See paragraph 954 and Exhibit 36 for AWG information.

954 AWG**A Authority**

AWG is authorized by DCIA. According to 7 CFR 3.53(a), USDA has determined that AWG will be used to collect delinquent debt.

B Action

Debts are generally eligible for AWG if agencies have AWG procedures in place. DAFLP is using USDA-wide regulations for AWG, which can be found at 7 CFR Part 3, Subpart E. See Exhibit 36 for FLP internal procedures and guidance about AWG.

Note: At this time, Treasury is administering AWG through the cross-servicing program. Therefore, a separate referral to AWG is **not** required.--*

Reports, Forms, Abbreviations, and Redelegations of Authority (Continued)

Forms (Continued)

Number	Title	Display Reference	Reference
FSA-2523	Denial of Primary Loan Servicing for Borrowers Who Received Form FSA-2512 and Applied for Servicing		116, 229, 322
FSA-2524	Borrower Response to Denial of Primary Loan Servicing for Borrowers Who Received Form FSA-2512 and Applied for Servicing		116, 229, 322
FSA-2525	Intent to Accelerate for Borrowers Who Received Form FSA-2510 or FSA-2514 and Did Not Apply for Servicing or Did Not Accept Servicing		85
FSA-2526	Borrower Response to and Intent to Accelerate for Borrowers Who Received Form FSA-2510 or FSA-2514 and Did Not Apply for Servicing or Did Not Accept Servicing		85
FSA-2529	Negotiated Appraisal Agreement		230
FSA-2535	Conservation Contract		Text
FSA-2537	Notification of Consideration for Homestead Protection		281
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FSA-2539	Homestead Protection Program Agreement		283, 284
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FSA-2545	Borrower Notification of Shared Appreciation		344
FSA-2547	Shared Appreciation Agreement Recapture Reamortization		67
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FSA-2560	Request for Statement of Account		536

Reports, Forms, Abbreviations, and Redelegations of Authority (Continued)

Forms (Continued)

Number	Title	Display Reference	Reference
FSA-2561	Statement of Account		536
FSA-2562	Borrower Account Description Flag		67, 248, 401, 421, 534, 567, Ex. 11
FSA-2569	Warranty Deed		408, 496-499
FSA-2570	Offer to Convey Security		284, 496, 497, 499, 500, 516, 517
FSA-2571	Agreement for Voluntary Liquidation of Chattel Security		464, 465, 516, 518, 581
FSA-2572	Agreement of Secured Parties to Sale of Security Property		581
FSA-2574	Confirmation Reorganization Plan Worksheet		404, 406
FSA-2576	Notice of Judgment		567, 568, 582, 604
FSA-2580	Primary and Preservation Loan Servicing Checklist		67, 533
FSA-2581	Inequitable Treatment Review Data		533
FSA-2585	Acquisition or Abandonment of Secured Property		708, Ex. 66
FSA-2587	Advice of Property Acquired		568, 743
FSA-2588	Acquired Property Maintenance		568
FSA-2591	Lease of Real Property		281, 284, 568, 743
FSA-2592	Invitation, Bid and Acceptance Sale of Real Property by the United States		776, 778, 782
FSA-2593	Standard Sales Contract Sale of Real Property by the United States		778
FSA-2594	Advice of Inventory Property Sold		778
FSA-2595	Quitclaim Deed		778
FSA-2596	Bill of Sale "A" (Sale of Government Property)		780
FSA-2597	Farmer Programs Noncash Credit for Purchase of Easement Rights		197
IRS Form 1098	Mortgage Interest Statement		Ex. 16
IRS Form 1099-C	Cancellation of Debt		406
NRCS-CPA-026	Highly Erodible Land and Wetland Conservation Determination		81
RD 1956-1	Application for Settlement of Indebtedness		Text, Ex. 16

Notification of the Availability of the Disaster Set-Aside Program

*--

This Exhibit may only be revised by SED.

(Use Agency Letterhead format with local return address.)

NOTIFICATION OF THE AVAILABILITY OF THE
DISASTER SET-ASIDE PROGRAM

Dear

The Disaster Set-Aside (DSA) program could be available to you if your operation has suffered losses as a result of a natural disaster and you cannot pay all of your expenses, debts to other creditors and FSA farm loan payments.

Under the DSA program, you may be eligible to delay any or all of your FSA farm loan payments due this year or next (but not both). This payment will be moved to the end of your loan to be paid on or before the final due date. Loans with less than 2 years remaining are not eligible. DSA will only be approved if all farm loan payments will be up-to-date after the payments are set aside.

You can apply for DSA anytime you note, from local publications, that your county has an active disaster designation. To apply for DSA, you must provide this office with a letter, signed by all parties liable for the debt, requesting DSA and your actual production, income and expense records for the last three years. FSA might request additional information later if it is needed to make an eligibility decision. Complete applications must be submitted to FSA before your account becomes 90 days past due and prior to the end of the disaster designation.

Note: FSA will take a lien on all your assets (with few exceptions) if your account has become past due at the time DSA is closed.

Current Disaster Designations

Date Declared	Code	Disaster Description	Final Date to Apply
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For more information, please contact this office.

Sincerely

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Account Description Flag and Code Reference

A General Information

This exhibit provides guidance on using account description flags and paragraph references for each flag.

B Agency Official Responsibilities

Agency officials shall review the RC 540 Report monthly to determine if a servicing action is needed and if accounts are appropriately flagged or coded. Particular attention should be given to flagged accounts since the payment status cannot always be reported correctly for reasons such as payments being held in suspense or transactions not being processed.

C Establishing and Removing Flags

To establish an account flag, FSA-2562 will be completed and a 5G transaction will be processed in DLS through the Manage Flags function under Customer Management. To remove an account flag, FSA-2562 will be completed and a 5H transaction will be processed in DLS.

D Flag Priority and Reference Table

A maximum of 4 flags can be recorded in the accounting system for each borrower subject to certain limitations. However, only 3 flags will be reported on the RC 540 Report. Flags will be reported based on priority as indicated in this table.

*--

Display Priority	Flag	Description	Reference
1	OAC1	Office of Adjudication and Compliance Accepted	1-FLP, Paragraph 41
2	CAP	Court Action Pending	Paragraph 421
3	TPJ	Third Party Judgment (FLOO Only)	Paragraph 421
4	BAP	Bankruptcy Action Pending	Paragraph 401
5	51-S	Primary Loan Servicing	Paragraph 67
6	DSA	Debt Set-Aside	Historical Code
7	DEF	Deferral (FSA-2562 process in ADPS)	Paragraph 248
8	FAP	Foreclosure Action Pending	Paragraph 567
9	SAA	Subject to Approved Adjustment (FLOO Only)	Paragraph 404
10	OAC7	Office of Adjudication and Compliance Resolved	1-FLP, Paragraph 41
11	ACL	Accelerated	Paragraph 534

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Note: An account may be classified as “CO” according to subparagraph E. “CO” is not a flag; “CO” is a classification code that has display priority over all flags when displayed on the RC-540 Report.

Account Description Flag and Code Reference (Continued)

E Special Classification Code “CO”

The purpose of special classification code “CO” is to ensure that farm program payments to discharged borrowers are not offset. County Offices may assign or remove “CO” classification *--codes according to paragraphs 406 and 407. To:--*

- establish the “CO” classification code through ADPS, a 5B transaction will be processed
- remove the “CO” classification code through ADPS, a 5A transaction will be processed.

Accounts with the “CO” classification must be monitored for proper coding and servicing.