

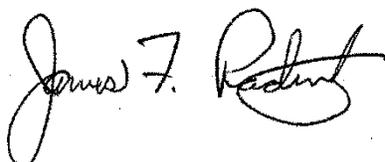
UNITED STATES DEPARTMENT OF AGRICULTURE

Farm Service Agency
Washington, DC 20250

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

Amendment 26

Approved by: Acting Deputy Administrator, Farm Loan Programs



Amendment Transmittal

A Reasons for Amendment

Subparagraphs 44 A, 194 A, and 344 A have been amended to update information about DLS.

Subparagraphs 46 G, 48 A, 131 A and B, 145 A, 160 B, 197 C and D, 246 B, 247 B, 248 B, 249 D, 322 C, 343 E, 344 B, 346 F, and 365 C and D have been amended to update information about DLS and related transactions.

Subparagraph 229 C has been amended to update a reference to 1-APP

Subparagraph 403 C has been amended to update the web site address to obtain a Proof of Claim (B10).

Exhibit 2 has been amended to include a note about borrower training under the “nonmonetary default” definition.

Exhibit 11 has been amended to correct the description for the “DEF” flag.

Exhibit 16 has been amended to specify the authority used for debt settlement of accounts.

Amendment Transmittal (Continued)

Page Control Chart		
TC	Text	Exhibit
	2-3, 2-4	1, pages 5, 6
	2-9, 2-10	2, pages 19, 20
	4-1, 4-2	11, pages 1, 2
	4-31, 4-32	16, pages 9, 10
	4-51, 4-52	
	5-11, 5-12	
	5-23, 5-24	
	6-37, 6-38	
	6-61 through 6-66	
	8-3	
	9-5 through 9-8	
	9-11 through 9-16	
	9-43, 9-44	
	9-45	
	11-5, 11-6	

43 DSA Applications

A Requests for DSA

[7 CFR 766.54(a)] (1) A borrower must submit a request for DSA in writing within eight months from the date the natural disaster was designated.

(2) All borrowers must sign the DSA request.

(3) All FLP loans must be current or less than 90 days past due at the time the application for DSA is complete.

B Required Financial Information

[7 CFR 766.54(b)] (1) The borrower must submit actual production, income, and expense records for the production cycle in which the disaster occurred unless the Agency already has this information.

(2) The Agency may request other information needed to make an eligibility determination.

The borrower must also provide any documentation required to support the farm operating plan as required in paragraph 45, such as 3 years of production, income and expense records.

44 Application Tracking

A Tracking DSA Requests

The authorized agency official must date stamp the borrower's DSA request on the date *--FSA received it. The application will be inputted and tracked through to completion in--* DLS under Security Instruments Other Workflows.

The authorized agency official must, at a minimum, record the following in DLS:

- borrower's name
- date FSA received the borrower's request
- eligibility determination date
- eligibility determination
- date the borrower signed FSA-2501
- disaster designation code
- total amount set-aside.

46 DSA Approval (Continued)**E Installments To Be Set-Aside**

[7 CFR 766.58] (a) The Agency will set-aside the first installment due immediately after the disaster occurred.

(b) If the borrower has already paid the installment due immediately after the disaster occurred, the Agency will set aside the next annual installment.

F Interest Accrual

[7 CFR 766.59(a)] (1) Interest will accrue on any principal portion of the set-aside installment at the same rate charged on the balance of the loan.

(2) If the borrower's set-aside installment is for a loan with a limited resource rate and the Agency modifies that limited resource rate, the interest rate on the set-aside portion will be modified concurrently.

[7 CFR 766.59(b)] The amount set-aside, including interest accrued on the principal portion of the set-aside, is due on or before the final due date of the loan.

G Recording DSA

--The authorized agency official will use FSA-2501 as the source document to complete the DSA SI Other workflow to create and submit the 5S – Record Disaster Set-Aside DLS transaction. FLOO borrower account status reports and inquiry screens will reflect the amounts set-aside for each loan. An ISA identifier will be displayed on RC 540 for loans with DSA.--

H Security Requirements

[7 CFR 766.56] If the borrower is not current on all FLP loans prior to the borrower executing the appropriate DSA Agency documents, the borrower, and all obligors in the case of an entity, must execute and provide to the Agency a best lien obtainable on all their assets except those listed under section 766.112(b) (paragraph 211).

47 Adverse Determinations**A Notifying Borrowers of Adverse Determinations**

DSA applications that do not meet all DSA requirements will be rejected and the borrower will be notified of the decision and provided appeal rights according to 1-APP.

48 Canceling and Reversing DSA

A Canceling DSA

[7 CFR 766.60] The Agency will cancel a DSA if:

[7 CFR 766.60(a)] The Agency takes any primary loan servicing action on the loan;

If FSA later restructures the borrower's loan, the authorized agency official must cancel DSA *--with a 5T – Cancel Disaster Set-Aside transaction when processing the restructuring through DLS Special Servicing.--*

[7 CFR 766.60(b)] The borrower pays the current market value buyout in accordance with § 766.113; or

[7 CFR 766.60(c)] The borrower pays the set-aside installment.

--If the borrower pays the set-aside installment, the office shall contact FLOO to process the DSA cancellation with a 5T – Cancel Disaster Set-Aside transaction in DLS.--

B Reversing DSA

[7 CFR 766.61] If the Agency determines that the borrower received an unauthorized DSA, the Agency will reverse the DSA after all appeals are concluded.

If FSA determines that the borrower received unauthorized DSA assistance, the borrower will be notified and meetings scheduled according to Part 10.

If FSA still believes DSA was unauthorized after the meetings and once any borrower appeals have been exhausted in FSA's favor, FSA will reverse the set-aside by reinstating the borrower's original payment terms as if FSA had never granted DSA to the borrower. In reversing DSA, the authorized agency official must:

- notify FLOO in writing to reverse DSA
- attach this notification to FSA-2501, which should remain stapled to the promissory note or assumption agreement.

If a borrower becomes financially distressed or delinquent after FSA reverses DSA, the authorized agency official services the borrower's account according to Parts 3 and 4.

Part 4 Primary Loan Servicing Programs

Section 1 Consolidation and Rescheduling

131 Eligibility and Loan Terms

A Loans Eligible for Consolidation

[7 CFR 766.107(a)] The Agency may consolidate OL loans if:

- (1) The borrower meets loan servicing eligibility requirements in § 766.104 (paragraph 102);
- (2) The Agency determines that consolidation will assist the borrower to repay the loans;
- (3) Consolidating the loans will bring the borrower's account current or prevent the borrower from becoming delinquent;
- (4) The Agency has not referred the borrower's account to OGC or the U.S. Attorney, and the Agency does not plan to refer the account to either of these two offices in the near future;
- (5) The borrower is in compliance with the Highly Erodible Land and Wetland Conservation requirements of 7 CFR Part 12, if applicable (see 6-CP);
- (6) The loans are not secured by real estate;
- (7) The Agency holds the same lien position on each loan;
- (8) The Agency has not serviced the loans for unauthorized assistance under subpart F (Part 10) of this part; and
- (9) The loan is not currently deferred, as described in § 766.109 (Section 3), or set-aside, as described in subpart B (Part 2) of this part. The Agency may consolidate loans upon cancellation of the deferral or DSA.

eDALR\$ will be used to determine whether consolidation will be used and if a repayment plan can be developed.

--When a restructure is processed, DLS transaction codes 5T – Cancel Disaster Set-Aside and 5Y – Cancel Loan Deferral will be sequenced to process before the 1M – Loan Consolidation/Reschedule transaction in DLS Special Servicing.--

131 Eligibility and Loan Terms (Continued)

B Loans Eligible for Rescheduling

[7 CFR 766.107(b)] The Agency may reschedule loans made for chattel purposes, including OL, CL, SW, RL, EE, or EM if:

- (1) The borrower meets loan servicing eligibility requirements in §766.104 (paragraph 102);**
- (2) Rescheduling the loans will bring the borrower's account current or prevent the borrower from becoming delinquent;**
- (3) The Agency determines that rescheduling will assist the borrower to repay the loans;**
- (4) The Agency has not referred the borrower's account to OGC or the U.S. Attorney, and the Agency does not plan to refer the account to either of these two offices in the near future;**
- (5) The borrower is in compliance with the Highly Erodible Land and Wetland Conservation requirements of 7 CFR part 12, if applicable; and**
- (6) The loan is not currently deferred, as described in § 766.109 (Section 3), or set-aside, as described in subpart B (Part 2) of this part. The Agency may reschedule loans upon cancellation of the deferral or DSA.**

eDALR\$ will be used to determine whether a repayment plan can be developed.

--When a restructure is processed, DLS transaction codes 5T – Cancel Disaster Set-Aside and 5Y – Cancel Loan Deferral will be sequenced to process before the 1M – Loan Consolidation/Reschedule transaction in DLS Special Servicing.--

C Loan Terms

[7 CFR 766.107(c)] (1) The Agency determines the repayment schedule for consolidated and rescheduled loans according to the borrower's repayment ability.

(2) Except for CL and RL loans, the repayment period cannot exceed 15 years from the date of the consolidation and rescheduling.

(3) The repayment schedule for RL loans may not exceed 7 years from the date of rescheduling.

(4) The repayment schedule for CL loans may not exceed 20 years from the date of the original note or assumption agreement.

Section 2 Reamortization

145 Eligibility and Loan Terms

A Loans Eligible for Reamortization

[7 CFR 766.108(a)] The Agency may reamortize loans made for real estate purposes, including FO, SW, RL, SA, EE, RHF, CL and EM if:

- (1) The borrower meets the loan servicing eligibility requirements listed in § 766.104 (paragraph 102);
- (2) Reamortization will bring the borrower's account current or prevent the borrower from becoming delinquent;
- (3) The Agency determines that reamortization will assist the borrower to repay the loan;
- (4) The Agency has not referred the borrower's account to OGC or the U.S. Attorney, and the Agency does not plan to refer the account to either of these two offices in the near future;
- (5) The borrower is in compliance with the Highly Erodible Land and Wetland Conservation requirements of 7 CFR part 12, if applicable; and
- (6) The loan is not currently deferred, as described in § 766.109 (Section 3), or set-aside, as described in subpart B (Part 2) of this part. The Agency may reamortize loans upon cancellation of the deferral or DSA.

eDALR\$ will be used to determine whether a repayment plan can be developed.

--When a restructure is processed, DLS transaction codes 5T – Cancel Disaster Set-Aside and 5Y – Cancel Loan Deferral will be sequenced to process before the 1M – Loan Reamortization transaction in DLS Special Servicing.--

145 Eligibility and Loan Terms (Continued)

B Loan Terms

[7 CFR 766.108(b)] (1) Except as provided in paragraph (b)(2), the Agency will reamortize loans within the remaining term of the original loan or assumption agreement unless a feasible plan cannot be developed or debt forgiveness will be required to develop a feasible plan.

(2) If the Agency extends the loan term, the repayment period from the original loan date may not exceed the maximum number of years for the type of loan being reamortized as set forth below, or the useful life of the security, whichever is less.

(i) FO, SW, RL, EE real estate type, and EM loans made for real estate purposes may not exceed 40 years from the date of the original note or assumption agreement.

(ii) EE real estate-type loans secured by chattels only may not exceed 20 years from the date of the original note or assumption agreement.

(iii) RHF may not exceed 33 years from the date of the original note or assumption agreement.

(iv) SA loans may not exceed 25 years from the date of the original Shared Appreciation note.

--(v) CLs may not exceed 20 years from the date of the original note or assumption agreement.--

Section 3 Deferrals

159 Conditions and Operating Plans**A Conditions for approving Deferrals**

[7 CFR 766.109(a)] The Agency will only consider deferral of loan payments if:

- (1) The borrower meets the loan servicing eligibility requirements of §766.104 (paragraph 102);**
- (2) Rescheduling, consolidation, and reamortization of all the borrower's loans, will not result in a feasible plan with 110 percent debt service margin;**
- (3) The need for deferral is temporary; and**
- (4) The borrower develops feasible first-year deferral and post-deferral farm operating plans subject to the following:**
 - (i) The deferral will not create excessive net cash reserves beyond that necessary to develop a feasible plan.**

FSA does not allow net cash reserves for capital purchases beyond those required to develop a feasible plan, as such purchases are not considered operating expenses.

 - (ii) The Agency will consider a partial deferral if deferral of the total Agency payment would result in the borrower developing more cash availability than necessary to meet debt repayment obligations.**

--eDALR\$ will be used to determine whether a repayment plan can be developed.--

B First Year Plan

The plan developed according to subparagraph 81 H is the first year plan of the deferral.

C Post-Deferral Plan

A post-deferral plan is developed to project the borrower's operations for the year following the deferral period according to subparagraph 160 A.

160 Deferral Period and Associated Restructuring

A Deferral period

[7 CFR 766.109(b)] (1) The deferral term will not exceed 5 years and will be determined based on the post- deferral plan that results in the:

(i) Greatest improvement over the first year cash available to service FLP debt;

(ii) The shortest possible deferral period.

(2) The Agency will distribute interest accrued on the deferred principal portion of the loan equally to payments over the remaining loan term after the deferral period ends.

Deferrals are beneficial only if the cash available to service the borrower's FSA debt increases in the year after the deferral period ends.

In some cases, such as in a major reorganization of the operation, debt structure, or essential development, it may be necessary to develop and consider plans for multiple years.

B Associated Loan Servicing

[7 CFR 766.109(d)] (1) The Agency must cancel an existing deferral if the Agency approves any new primary loan servicing action.

(2) Loans deferred will also be serviced in accordance with §§ 766.107, 766.108 and 766.111 (paragraphs 131, 145, and 172), as appropriate.

--When a restructure is processed, the DLS transaction code 5Y – Cancel Loan Deferral will be sequenced to process before the 1M – Loan Consolidation/Reschedule/Reamortization transaction in DLS Special Servicing.--

FSA-2026 rescheduled, reamortized or consolidated for the deferral will show “zero” as the installment due during the period of the deferral if the whole note is deferred. The authorized agency official will determine the amount of interest that will accrue during the deferral period and the installments using eDALR\$ and calculations provided in FSA-2026 instructions.

193 Amount of Debt Canceled by Conservation Contract (Continued)

C Debt Forgiveness

The debt reduced through FSA-2535 is **not** considered debt forgiveness under CONACT.

194 Processing Conservation Contract Request

A Applying for Conservation Contract

--All requests for conservation contracts must be tracked using DLS Special Servicing.--

A borrower who is delinquent, financially distressed, or in nonmonetary default and is interested in receiving loan servicing, including a conservation contract, must submit:

- a loan servicing application package according to paragraphs 81 and 82
- an aerial photo or map of the borrower's land that delineates the proposed conservation area according to subparagraph 82 B.

A current borrower who is not financially distressed may request a conservation contract by submitting:

- all the information and documentation required to develop feasible plan according to 1-FLP, Part 8
- an aerial photo or map that delineates the proposed conservation area according to subparagraph 82 B.

194 Processing Conservation Contract Request (Continued)

B Processing a Delinquent or Financially Distressed Borrower's Request

- *--If the borrower is eligible for loan servicing, the authorized agency official uses eDALR\$--* to determine which loan servicing program or combination of programs may enable the borrower to develop a feasible plan.
- *--When using eDALR\$ to process a loan servicing application that includes a request for a conservation contract, the authorized agency official shall input into eDALR\$ the contract--* term and conservation acreage.
 - The authorized agency official should determine the financial effect of the different *--contract lengths by running the 3 contract term scenarios on eDALR\$, such as 10-, 30-, and 50-year contract terms. By varying the contract term and holding all other eDALR\$ input parameters constant, the authorized agency official and borrower may compare--* the magnitude of debt cancellation across contract terms.
 - The authorized agency official also should vary the conservation acreage to determine the effect of changing the size of the proposed conservation contract area. The authorized agency official extrapolates the size of the proposed conservation area from the area marked on the borrower's aerial photo or map. For each contract term that enables a borrower to develop a feasible plan, the authorized agency official should record the minimum conservation acreage that is needed to create a feasible plan.

Example: A delinquent borrower applies for loan servicing and indicates an interest in FSA-2535. The aerial photo the borrower submits indicates the proposed *--conservation area is 1,000 acres. Using eDALR\$, the authorized agency official determines that the borrower can develop a feasible plan if the borrower accepts FSA-2535 for 30 or 50 years. eDALR\$ indicates that a 50-year contract reduces the borrower's debt by \$20,000, while a 30-year contract reduces the borrower's debt by \$12,000. By adjusting the number of acres inputted into eDALR\$, the--* authorized agency official determines that at a minimum, the borrower has to place 700 acres of land into a conservation easement under a 30-year contract or 500 acres of land into a conservation easement under a 50-year contract to develop a feasible plan.

197 Handling Noncash Credit (Continued)**C Processing Noncash Credit for a Delinquent Borrower**

*--The authorized agency official will use FSA-2597 as the source document to complete the 3H – Conservation Contract transaction in DLS Special Servicing.

Before the 3H transaction can be processed in DLS, the authorized agency official must process a 1M transaction to reamortize or reschedule the loan with the same effective date as FSA-2535.

This process does **not** apply, however, to loans receiving both a conservation contract and a write-down with SAA. If any loan receives both a conservation contract and write-down with SAA, the authorized agency official must process a 1M transaction, 3H transaction, and 3R transaction in DLS, using the same effective date.

D Processing Noncash Credit for a Current Borrower

The authorized agency official will use FSA-2597 as the source document to complete the 3H – Conservation Contract transaction in DLS Special Servicing.--*

198 Rights and Responsibilities Under Conservation Contract**A Borrower's Rights Under Conservation Contract**

Unless explicitly prohibited by FSA-2535 or a conservation contract management plan, the borrower has the right to:

- prevent trespassing by the general public and control public access to the conservation contract property
- use the conservation contract property for recreational purposes, including hunting and fishing

198 Rights and Responsibilities Under Conservation Contract (Continued)**A Borrower's Rights Under Conservation Contract (Continued)**

- receive economic gain from the leasing of the conservation contract property for recreational use, including hunting and fishing, pursuant to applicable State and Federal hunting and fishing regulations
- retain oil, gas, minerals, and geothermal resources beneath the conservation contract property, provided that the extracting activities are established outside the conservation contract's boundaries and do not adversely affect the conservation contract property
- record title, along with the right to convey and transfer title.

B Borrower's Request for Government Authorization Under FSA-2535

If the borrower wants to pursue any action on the land covered by a conservation contract not explicitly allowed by the terms and conditions of FSA-2535, the borrower must obtain the Government's written authorization in advance. The borrower must make the request for authorization in writing.

To provide the borrower authorization, the authorized agency official must:

- determine that the proposed action does not violate a conservation contract's terms and conditions
- receive the written concurrence of the conservation contract management authority if the authority is outside FSA
- develop and approve a revised conservation contract management plan with the participation of the conservation contract review team.

The authorized agency official consults with SED and OGC as necessary.

C Responsibilities and Enforcement Under FSA-2535

Borrower responsibilities, FSA's rights, and contract enforcement will be according to the provisions of FSA-2535.

199-210 (Reserved)

229 State Mediation and Voluntary Meeting of Creditors**A Introduction**

The FSA representative can make no agreement with the borrower that does not comply with FSA regulations or policies. Further, FSA is not obligated by the terms of the mediation agreement if the terms are contrary to Federal statute, regulations, handbooks, notices, or instructions.

[7 CFR 766.114(a)] A borrower who is unable to develop a feasible plan but is otherwise eligible for primary loan servicing may request:

[7 CFR 766.114(a)] (1) State-certified mediation; or

This also applies to USDA certified mediation States.

[7 CFR 766.114(a)] (2) Voluntary meeting of creditors when a State does not have a certified mediation program.

[7 CFR 766.114(b)] Any negotiation of the Agency's appraisal must be completed before State-certified mediation or voluntary meeting of creditors.

Within 15 calendar days of determining that the borrower is ineligible or cannot develop a feasible plan, the authorized agency official will offer the borrower mediation or a voluntary meeting of creditors through FSA-2523 and FSA-2524 or FSA-2521 and FSA-2522, as appropriate.

B States With Certified Mediation Programs

If the borrower requests mediation, FSA will participate regardless of the participation of the other creditors.

FSA participates in mediation under the same terms as other creditors, including payment of mediation fees if required.

SED will designate an Agency representative to represent FSA in the mediation. SED sets the authority limit of the representative and arranges for preparation of the FSA representative.

SED will issue a State supplement detailing State Certified Mediation requirements.

229 State Mediation and Voluntary Meeting of Creditors (Continued)**C States Without Certified Mediation Programs**

--SED will contract with qualified mediators within their State according to 1-APP, Part 5.--

The mediator will schedule the meeting of creditors and encourage the borrower's other creditors to participate.

It is expected the mediator will:

- conduct the meeting according to accepted mediation practices
- advise, counsel, and facilitate the development of an agreement
- demonstrate good human relation skills, ability to resolve problems, and settle disputes
- remain neutral
- review the proposed solution to determine whether it can be effectively implemented
- review the participants' obligations, including but not limited to confidentiality
- promote good faith discussions.

D Documenting Mediation or Voluntary Meeting of Creditors

At the conclusion of mediation or a voluntary meeting of creditors, the mediator will provide SED with a written document signed by the parties in attendance, which specifies the outcome of the meeting and any agreements reached. The mediator provides a copy of this document to the participating creditors and to the borrower. The authorized agency official will file a copy of this document in the borrower's case file.

Section 3 Closing**246 Closing Consolidated/Rescheduled Loans****A Introduction**

eDALR\$ adds the amount of accrued interest and any outstanding protective advances to the principal balance at the time of rescheduling according to Exhibit 17.

B Closing Rescheduled Loans

The authorized agency official will:

- ensure that the payments on FSA-2026's match the final eDALR\$ report
- mark the existing promissory note or assumption agreement "rescheduled" and attach it to the new FSA-2026
- file the new FSA-2026 according to 25-AS
- file a copy of the new rescheduled FSA-2026 with the copy of the existing promissory note or assumption agreement in position 2 of the borrower's case file
- provide a copy of the new rescheduled FSA-2026 to the borrower at closing
- file the original eDALR\$ report in position 3.

--A 1M – Loan Reschedule transaction will be processed in DLS Special Servicing to record the rescheduled loans.--

247 Closing Reamortized Loans**A Introduction to Reamortization**

eDALR\$ adds the accrued interest and any outstanding protective advances to the principal balance at the time of reamortization according to Exhibit 17.

B Closing Reamortized Loans

The authorized agency official will:

- ensure that the payments on FSA-2026's match the final eDALR\$ report
- mark the existing promissory note or assumption agreement "reamortized" and attach it to the new FSA-2026
- file the new FSA-2026 according to 25-AS
- file a copy of the new reamortized FSA-2026 with the copy of the existing note or assumption agreement in position 2 of the borrower's case file
- provide a copy of the new reamortized FSA-2026 to the borrower at closing
- file the original eDALR\$ report in position 3.

--A 1M – Loan Reamortization transaction will be processed in DLS Special Servicing to record the reamortized loans.--

SED will issue a State supplement ensuring that existing liens and title insurance or opinions are extended and preserved.

248 Closing Deferred Loans**A Introduction to Deferrals**

FSA will also reschedule or reamortize, as applicable, all loans deferred through primary loan servicing.

FSA may defer all or part of a loan according to eDALR\$.

B Closing Deferrals

The authorized agency official will:

- ensure that the payments on FSA-2026's match the final eDALR\$ report
- complete the addendum to FSA-2026 addressing repayment of deferred interest according to FSA-2026 instructions
- mark the existing promissory note or assumption agreement "rescheduled/reamortized with full/partial deferral," as appropriate, and attach it to the new FSA-2026
- file the new deferred FSA-2026 according to 25-AS
- file a copy of the new note with the copy of the existing promissory note or assumption agreement in position 2 of the borrower's case file
- provide a copy of the new deferred FSA-2026 to the borrower at closing
- file the original eDALR\$ report in position 3.

--1M and 5W – Record Loan Deferral transactions will be processed in DLS Special Servicing to record the deferred loans as well as record the "DEF" flag on the account. These transactions will be created and processed in the correct sequence by DLS Special Servicing.--

248 Closing Deferred Loans (Continued)

C Ongoing Servicing of Deferrals

Review the * * * FLOO quarterly status report to determine borrowers who have deferrals expiring.

Review the borrower's financial progress during the annual analysis according to paragraph 161.

Send the borrower a letter 6 months before the expiration of the deferral stating the amount and due date of the first payment.

--After all deferrals on a borrower's account have expired, the "DEF" flag (Exhibit 11) will be converted to a "DEF3" flag by FLOO. This flag is not required to be removed and is used to indicate which accounts have previously been serviced with deferral servicing actions. If all deferrals on an account must be canceled before their expiration, the "DEF" flag must be-- removed from the account by completing FSA-2562 and processing a 5H transaction.

249 Closing Write-Downs**A Introduction**

FLP loans can be fully or partially written down.

Loans that are partially written down must be fully restructured. FSA will also reschedule, reamortize, or defer, as applicable, all loans written down through primary loan servicing according to paragraphs 247, 248, and/or this paragraph.

B Closing Write-Down

The authorized agency official will:

- *--ensure that the payments on FSA-2026's match the final eDALR\$ report--*
- mark the existing promissory note or assumption agreement "Satisfied by Approved Debt Writedown" if the loan is completely written down or "Restructured with Partial Debt Writedown" if the loan is partially written down, and attach it to the new FSA-2026
- attach the promissory note, if required, to the new FSA-2026
- file FSA-2026 according to 25-AS
- provide a copy of the new FSA-2026 to the borrower at closing
- *--file the original eDALR\$ report in Position 3.--*

249 Closing Write-Downs (Continued)**C SAA Required**

[7 CFR 766.201] (a) The Agency requires a borrower to enter into a SAA with the Agency covering all real estate security when the borrower:

- (1) Owns any real estate that serves or will serve as loan security; and**
- (2) Accepts a writedown in accordance with section 766.111 (paragraph 172).**

FSA requires FSA-2543 when debt is written down on a loan secured by real estate.

See Part 9, Section 1 for details on servicing SAA's.

A borrower will execute FSA-2543 and it will remain attached to the new FSA-2026. Copies of FSA-2543 will be attached to all copies of FSA-2026.

D Processing Write-Down

--The authorized agency official will process a 3R – Shared Appreciation Writedown transaction in DLS Special Servicing to record the write-down and to establish an equity-- record for the debt written down. The equity record will establish an account for the amount of the SAA recapture that may come due.

E Additional Security Required

The borrower must agree to additional liens on available security according to paragraph 211.

FSA's real estate and chattel liens will be maintained by cross collateralization even if all real estate or chattel type loans are written off.

250-280 (Reserved)

322 Processing a Buyout at Current Market Value**A Notifying Borrower of Buyout**

The authorized agency official will notify the borrower of the opportunity to buyout the FSA loans at current market value by sending the borrower a copy of the signed eDALR\$ Report, along with FSA-2521 and FSA-2522 or FSA-2523 and FSA-2524 showing the buyout amount by certified mail.

B Timeframe for Borrower to Pay Buyout Amount

[7 CFR 766.113(b)] After the Agency offers current market value buyout of the loan, the borrower has 90 days from the date of Agency notification to pay that amount.

If the borrower exercises the right to an independent appraisal, negotiation of appraisal, reconsideration, mediation, or appeal, the 90-calendar-day time limit will start on the day the borrower receives the final Agency and/or NAD decision.

C Processing Buyout Payment

If the borrower accepts FSA's buyout offer, the borrower must pay the entire buyout amount according to 4-FLP, subparagraph 65 F. The buyout amount will be established by *--processing a 3Q – Market Value Buyout transaction in DLS Special Servicing after the--* payment has been processed. The payment will be submitted as “other collection” according to 3-FI. The borrower's security instruments will be released according to 4-FLP, subparagraph 65 F. The borrower's original promissory notes will be marked “satisfied at current market value” and returned to the borrower.

D Borrower Nonresponse or Inability to Pay Current Market Value

If the borrower does not accept FSA's buyout offer and FSA has a lien on the home of the borrower or any person that pledged their home as collateral, homestead protection will continue to be processed according to Part 7. If the borrower does not elect or is not eligible for homestead protection or does not pay the FLP account current, FSA will, after conclusion of all appeals, accelerate the borrower's account according to Part 15.

The borrower can also still apply for debt settlement according to RD Instruction 1956-B.

323-340 (Reserved)

343 Determining Amount of Shared Appreciation Due (Continued)**C Calculating Shared Appreciation (Continued)**

[7 CFR 766.202(a)(3)] (ii) It is an improvement to the real estate with a useful life of over one year and is affixed to the property, the following conditions must be met:

(A) The item must have been capitalized and not taken as an annual operating expense on the borrower's Federal income tax returns. The borrower must provide copies of appropriate tax returns to verify that capital improvements claimed for shared appreciation recapture reduction are capitalized.

(B) If the new item is affixed to the real estate as a replacement for an item that existed on the real estate at the time the SAA was originally executed, only the value added by the new item will be deducted from the market value.

The authorized agency official will use Exhibit 26 to calculate the amount of shared appreciation due and file a copy of Exhibit 26 in the borrower's case file.

D Payment of Recapture

[7 CFR 766.203] (a) The borrower must pay on the due date or 30 days from Agency notification, whichever is later:

(1) Seventy-five percent of the appreciation in the real estate security if the agreement is triggered within four years or less from the date of the writedown; or

(2) Fifty percent of such appreciation if the agreement is triggered more than four years from the date of the writedown or when the agreement matures.

(b) If the borrower sells a portion of the security, the borrower must pay shared appreciation only on the portion sold. Shared appreciation of the remaining portion will be due in accordance with paragraph (a) of this section.

(c) The amount of recapture cannot exceed the amount of the debt written off through debt writedown.

343 Determining Amount of Shared Appreciation Due (Continued)

E When Shared Appreciation Is Not Due

If the authorized agency official determines that no shared appreciation is due, the authorized agency official will:

- document this finding in the borrower’s case file
- mark SAA “Satisfied”, make a copy for the case file, and return the original to the borrower
- release the lien instruments securing SAA if the security instruments do not secure other FSA-2026’s or SAA’s
- *--process a 3V – Equity Receivable transaction in DLS to record that no shared--* appreciation is due and close the equity receivable record.

The authorized agency official will send the borrower a letter with supporting calculations (Exhibit 26) stating that no SAA recapture is due.

344 Notifying Borrower That Shared Appreciation Is Due**A FSA Review of Expiring SAA's**

To allow for appraisals and consideration of capital improvements, the authorized agency official will begin determination of the SAA recapture amount due approximately 6 months before the maturity of SAA. The authorized agency official will contact the borrower with FSA-2544 to determine whether any improvements have been made that meet the required criteria. If there is any shared appreciation due according to paragraph 343, the borrower will be notified according to subparagraph B. If no SAA recapture is due, FLM or SFLO will wait until SAA has matured and complete the actions in subparagraph 343 E.

--Use the DLS SI Other Shared Appreciation Amortization workflow to track and monitor the SAA processing to completion.--

B Borrower Notification of Shared Appreciation Due

The authorized agency official will notify the borrower of any SAA recapture due at least 60 calendar days before the maturity date of the agreement or if any of the events described in paragraph 342 occur by use of FSA-2545. This notification will include:

- the amount of the SAA recapture due
- the date the SAA recapture is due, which is the latter of the maturity of SAA or 30 calendar days from the borrower's receipt of the letter
- how FSA calculates the amount due
- the borrower's options for repaying the shared appreciation amount, including:
 - FSA's offer to consider amortization of the amount due as NP if the borrower cannot pay the amount due
 - a list of items required for a complete application for amortization
 - the application due date
 - borrower's appeal rights.

--After all appeal rights have been concluded, FSA will process a 3V – Equity Receivable transaction in DLS to establish the recapture due.--

344 Notifying Borrower That Shared Appreciation Is Due (Continued)**C Complete Application for Shared Appreciation Amortization**

The borrower has 60 calendar days from the date of FSA-2545 to submit a complete application to amortize the shared appreciation amount according to paragraph 346. If the application is submitted while the borrower is disputing the recapture amount, the final decision on the application will not be made until all dispute resolution options are concluded.

For the application for shared appreciation amortization to be complete, the borrower must submit:

- FSA-2001
- records showing the borrower's actual income, production, and expenses, including income tax returns and supporting documents for the most recent 3-year period
- verifications of debts and nonfarm income according to 3-FLP, subparagraph 42 A
- proper fee for a credit report
- any other items determined by the authorized agency official as necessary for completing FBP.

At 30 calendar days, the authorized agency official will notify the borrower the following 1 time in writing:

- of all required items that the borrower has not submitted
- the final due date by which the borrower must submit all items
- that no further reminders will be sent and that the borrower will be in default if the amount is not paid or amortized.

D Borrower Does Not Pay Shared Appreciation Due

The borrower is in nonmonetary default if the amount is not paid or amortized by the due date. The borrower will be notified according to Part 3 after all dispute resolution is concluded. Servicing will continue to liquidation if the recapture is not paid or amortized.

346 Amortizing Shared Appreciation (Continued)**D Amortized Loan Interest Rate**

[7 CFR 766.205(a)] The interest rate for Shared Appreciation Payment Agreements is the Agency's SA amortization rate.

E Amortized Loan Security

The Shared Appreciation Payment Agreement must retain the same security position of the original notes identified in SAA. SED will issue a State supplement on maintaining FSA's lien position. The authorized agency official will take the best obtainable lien on all assets according to subparagraph 211 A. The Shared Appreciation Payment Agreement does not have to be fully secured if the borrower meets all requirements in subparagraph A and the borrower provides the best lien obtainable on all assets.

The authorized agency official will close the Shared Appreciation Payment Agreement at the interest rate in effect at the time of approval and according to the requirements listed in subparagraphs F through I and 3-FLP, Part 16.

F Amortized Loan Processing

The authorized agency official will mark SAA "Amortized," attach it to the new FSA-2026, and file the original promissory note and its copies according to 25-AS. The copies of the new FSA-2026 and SAA will be filed in position 2 of the borrower case file.

If a Shared Appreciation Payment Agreement becomes due because of a partial sale of security and SAA has not yet matured, the authorized agency official will attach a copy of SAA to the new FSA-2026.

--The authorized agency official will process a 3O – Equity Receivable Amortization transaction in the DLS SI Other Shared Appreciation Amortization workflow to record the Shared Appreciation Payment Agreement.--

346 Amortizing Shared Appreciation (Continued)**G Amortized Loan Approval**

The authorized agency official will use FSA-2025 to notify the borrower of approval of shared appreciation agreement amortization. FSA-2026, with all covenants relating to graduation, credit elsewhere, restrictions on leasing, and FLP operating requirements removed, will be used as the loan agreement.

H Amortized Loan Application Denied

If amortization cannot be approved, the authorized agency official will deny the application to amortize the shared appreciation amount and servicing will continue according to Part 3 as the borrower is in nonmonetary default.

I Servicing SA

[7 CFR 766.204(b)] If the borrower later becomes delinquent or financially distressed, reamortization of the Shared Appreciation Payment Agreement can be considered under subpart C (Part 3) of this part.

If the borrower has other program loans, the Shared Appreciation Payment Agreement will be considered as a part of the overall restructure process, but can only be reamortized.

Borrowers who do not have any program loans will be notified according to subparagraph 67 A.

Shared Appreciation Payment Agreements cannot be consolidated, deferred, or written down.

--The DLS SI "Other Shared Appreciation (SA)" workflow shall be completed upon satisfaction of the SA amortization loan.--

347 (Reserved)

363 Determining Amount of Recapture Due

A Obtaining a Current Appraisal

If the former borrower sells or transfers Recapture Agreement security, the authorized agency official will obtain an appraisal of the real estate security as of the date of transfer according to 1-FLP, Part 6 to determine the amount of recapture due.

If the former borrower is selling or conveying a portion of the security, the authorized agency official will obtain a current appraisal on only that portion of the security being sold or transferred. FSA may require 1 or more appraisals to determine the amount of recapture that may be due from a partial sale as described in subparagraphs 343 B and 361 B.

B Determining Amount of Recapture Due

The authorized agency official will determine and document the amount of recapture due according to the calculations on NRBRA.

364 Notifying Borrower That Recapture Is Due

A Notifying Borrower Recapture Is Due

After the authorized agency official determines that the real estate security has been sold or conveyed, the borrower should be notified of the recapture amount due. The disposition of security will be processed according to 4-FLP, Part 7.

365 Processing Net Recovery Recapture

A Collection if Recapture Is Due

If the authorized agency official determines that recapture is due because the former borrower sold or conveyed the security the County Office will accept and process the Net Recovery Recapture payments as a miscellaneous collection payment code 16.

The Net Recovery Recapture Agreement and mortgage are satisfied after the former borrower pays the full recapture amount and FSA credits this amount to the former borrower's account.

The authorized agency official will mark the Net Recovery Recapture Agreement with "Recapture Agreement Satisfied," return it to the former borrower, and release the security instruments.

B Borrower Does Not Pay Recapture Amount Due

[7 CFR 766.206(b)(3)] If the former borrower does not pay the amount due, the Agency will liquidate the Net Recovery Buyout account in accordance with Subpart H (Part 12) of this part.

If the former borrower fails to pay the recapture amount due, the authorized agency official will notify the former borrower of appeal rights according to 1-APP and accelerate the former borrower's Net Recovery Recapture Agreement and mortgage according to Part 15 at the conclusion of any appeal.

C No Recapture Is Due

If the authorized agency official determines that no recapture is due after the sale or conveyance of the security property, the authorized agency official will:

- mark NRBRA with "Recapture Agreement Satisfied" and return it to the former borrower
- release the security instruments
- *--process a 3V – Equity Receivable transaction in DLS to close the equity record.--*

365 Processing Net Recovery Recapture (Continued)

D Recapture Agreement Expires

[7 CFR 766.206(b)(4)] If the former borrower does not sell or convey the real estate within the 10-year term, no recapture is due.

If the authorized agency official determines that the former borrower has not sold or conveyed the property and the Recapture Agreement expires, FSA will notify the former borrower in writing that:

- NRBRA has expired
- there is no recapture due.

The authorized agency official marks the Recapture Agreement, “Recapture Agreement Satisfied”, and returns it to the former borrower, and releases the security instruments.

--The authorized agency official processes a 3V – Equity Receivable transaction in DLS to-- close the equity record.

366-380 (Reserved)

403 Filing Proof of Claim**A Role of the State Office**

In a bankruptcy case, the State Office will determine whether FSA has security for the debt and whether the debtor has other assets from which FSA could make a substantial collection. In making this determination, the State Office should request additional information as needed from the authorized agency official.

B Actions for Borrower Under Chapter 7 With No Loan Security or Other Assets

Unless otherwise advised by OGC, if FSA cannot make a substantial recovery from the security and other assets, the State Office will return the file and related material to the authorized agency official. The State Office will provide the authorized agency official with a memorandum indicating SED's determination and advising that FSA will not file a proof of claim unless the authorized agency official learns that the debtor has assets not previously identified.

The deadline for filing claims in a bankruptcy proceeding is 90 calendar days from the first date set for the meeting of creditors, except governmental units, such as FSA, shall be timely filed if the Proof of Claim is filed 180 calendar days after the date of the order of relief. If FSA learns before the deadline that the borrower has previously unreported assets, the authorized agency official will resubmit the case to the State Office.

C Actions for Borrower Under Chapters 7, 11, 12, or 13 With Potential for Substantial Recovery

When working with a borrower under Chapter 7, 11, 12, or 13 and there is potential for substantial recovery, the State Office will prepare Proof of Claim (B10) found at ~~*--http://www.uscourts.gov/uscourts/RulesAndPolicies/rules/BK_Forms_Current/B_010.pdf--*~~ or other form approved by OGC to submit a proof of claim. The proof of claim covers all of the borrower's indebtedness to FSA and any SAA's.

The identification of FSA security and Proof of Claim will be submitted to OGC and the U.S. Attorney. Central Intake Facilities will be used if required.

If the proof of claim is submitted to OGC, SED will identify in a memo the security that FSA took for each FLP loan.

If SED knows that the U.S. Attorney has obtained a judgment against the borrower, SED will notify OGC even though the debt has been charged off.

SED, on OGC's advice, will instruct the authorized agency official about actions to take with respect to meetings of creditors.

SED will take no other actions without OGC's or DOJ's approval.

403 Filing Proof of Claim (Continued)***--D Chapter 13 Bankruptcies When FSA Has a Lien on the Debtor's Principal Residence**

Because of Federal bankruptcy rule notification requirements in Chapter 13 bankruptcies where FSA has a lien on the debtor's principal residence and the case is still under court jurisdiction, OGC will be specifically notified when 1 of the following occurs:

- FSA plans on making any changes in the planned payments or interest rate on the account
- FSA plans on charging any recoverable cost items to the account
- FSA receives a notice from the trustee or debtor that payment has been made in full.

The Federal bankruptcy rules require FSA to serve upon the debtor, debtor's counsel, and trustee a notice of any payment changes, including any changes resulting from interest rate or escrow account adjustments, at least 21 calendar days before the new amount is due.

FSA must also serve upon the debtor, debtor's counsel, and trustee a notice of any fees, expenses, or charges incurred after the bankruptcy petition was filed that are recoverable against the borrower, within 180 calendar days of the date that the fees, expenses, or charges were incurred.

If FSA receives a notice that payment has been made in full, the Government must, within 21 calendar days, file and serve the debtor, debtor's counsel, and trustee a notice for either of the following:

- agreeing that full payment has been made
- itemizing any required cure or post-petition amounts that are unpaid.

Notices must be cleared through OGC unless other arrangements have been made.--*

404 Adjustment of Debts When Borrowers Are in Bankruptcy**A Referral and Recommendation to SED**

The authorized agency official will send to SED any plans submitted by debtors. SED will refer the plans to the U.S. Attorney through OGC.

SED will provide OGC with a recommendation to accept or reject any debtor's plan that calls for adjustment of FSA debt.

B FSA Actions After Court Confirms Plan

Upon receiving notification of the bankruptcy reorganization plan confirmation, SED will notify FLOO of the terms and conditions of the plan including any adjustment of the FSA debt, using FSA-2574. SED should attach to FSA-2574 a copy of the reorganization plan, signed order of confirmation, and discharge order if applicable.

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

Abbreviations Not Listed in 1-CM

The following abbreviations are not listed in 1-CM.

Approved Abbreviation	Term	Reference
51-S	5-FLP Special Loan Servicing Pending	67, 401, Ex. 11
ACL	Accelerated	534, Ex. 11
ALJ	Administrative Law Judge	Ex. 36
ARA	Alternative Repayment Agreement	Ex. 36
AWG	administrative wage garnishment	1, 126, 433, 434, 954, 955, Ex. 15, 16, 36
BAP	Bankruptcy Action Pending	401, Ex. 11, 15
CAP	Court Action Pending	421, Ex. 11, 15
CL	Conservation Loan	41, 131, 145, Ex. 2, 17
CO	Collection Only	406, Ex. 11
CNC	currently not collectible	433, 950-953, 955, 956, Ex. 15, 16, 36
CONACT	Consolidated Farm and Rural Development Act	1, 193, 537, 955, Ex. 2, 16, 36
DEF	Deferral	248, Ex. 11
DMS	Debt Management Services	Ex. 16
eDALR\$	electronic Debt and Loan Restructuring System	Text, Ex. 17
FAP	Foreclosure Action Pending	567, Ex. 11, 15
FLMAC	Farm Land Market Advisory Committee	Ex. 17
HML	high, medium, low	901
ISA	installment Set-Aside	46, 48, 131
ITLAP	Indian Tribal Land Acquisition Program	2, 537
LR	limited resource	132, 146
NP	nonprogram loan	Text
NRBRA	Net Recovery Buyout Recapture Agreement	321, 361, 363, 365
NRV	net recovery value	102, 321
PCA	private collection agency	953, 956, Ex. 2, 16, 36
PRG	Program Reporting Group	433, Ex. 15, 16
RH	rural housing	Ex. 79
SA	shared appreciation loan	66, 67, 102, 145, 146, 191, 346
SAA	shared appreciation agreement Note: When reference is made to a signed agreement as a condition of receiving debt writedown.	197, 249, 343, 344, 346, 403, Ex. 2, 4, 25, 26

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

Abbreviations Not Listed in 1-CM (Continued)

Approved Abbreviation	Term	Reference
SAA	subject to approved adjustment Note: When reference is made to the financial “flag”/designation for an account where FSA has approved a borrower’s debt settlement offer as documented on RD 1956-1.	172, 249, 343, 404, 406, Ex. 11, 15
SCRRG	State Civil Rights Review Group	533
SEC	State Environmental Coordinator	802, 821, 837, 839
SI	Security Instrument	344, 346
SOL	Statute of Limitations	126, 127
ST	softwood timber loan	41
TPJ	third party judgment	421, Ex. 11, 15
YL	youth loan	41, 42, 68, 132

Re delegations of Authority

None.

Definitions of Terms Used in This Handbook (Continued)**Modification**

A modification is a proposed change in the structure of the bankruptcy plan. The Court generally handles any requests for modifications.

Mortgage

Mortgage is a legal instrument giving the lender a security interest or lien on real or personal property of any kind. The term “mortgage” also includes the terms “deed of trust” and “security agreement.”

Negligent Servicing

Negligent servicing is servicing that fails to include those actions that are considered normal industry standards of loan management or comply with the lender’s agreement or the guarantee. Negligent servicing includes failure to act or failure to act in a timely manner consistent with actions of a reasonable lender in loan making, servicing, and collection.

Negotiated Sale

Negotiated sale is a sale in which there is a bargaining of price or terms, or both.

Net Recovery Buyout Recapture Agreement

A net recovery buyout recapture agreement is an agreement that requires a borrower who bought out a loan at the net recovery value of the security to pay the Agency any appreciation if the borrower sells or otherwise disposes of the security during the 10 years following the buyout.

Definitions of Terms Used in This Handbook (Continued)

Net Recovery Value

Net recovery value of Agency security is the market value of the security property, assuming that the lender in the case of a guaranteed loan, or the Agency in the case of a direct loan, will acquire the property and sell it for its highest and best use, less the lender's or the Agency's costs of property acquisition, retention, maintenance, and liquidation.

Net recovery value of non-essential assets is the appraised market value of the non-essential assets less any prior liens and any selling costs that may include such items as taxes due, commissions, and advertising costs. However, no deduction is made for maintenance of the property while in inventory.

Non-Essential Assets

Non-essential assets are assets in which the borrower has an ownership interest, that:

(1) Do not contribute to either of the following:

- (i) Income to pay essential family living expenses, or
- (ii) The farming operation; and

(2) Are not exempt from judgment creditors or in a bankruptcy action.

Nonmonetary Default

A borrower is in nonmonetary default when it is determined that the borrower has not acted in good faith, commits an act of fraud, waste or conversion, or fails to meet loan agreement requirements for reasons other than being delinquent.

*--**Note:** Failure to complete required borrower training is **not** nonmonetary default. See 3-FLP, subparagraph 474 C.--*

Non-Program (Assistance) Loan

Non-program loan is a loan on terms more stringent than terms for a program loan that is an extension of credit for the convenience of the Agency, because the applicant does not qualify for program assistance or the property to be financed is not suited for program purposes. Such loans are made or continued only when it is in the best interest of the Agency.

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 whether 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 DLS)--*	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

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.

Collection Through Cross-Servicing and Debt Settlement of Uncollectible Debt (Continued)

3 Account Resolution After Referral to Cross-Servicing (Continued)

B Action (Continued)

Step	Office	Action
1 (Cntd)	State Office (Cntd)	<p style="text-align: center;">Cancellation</p> <p>The account balance may be considered for cancellation when all:</p> <ul style="list-style-type: none"> • of the loans eligible for referral to the cross-servicing program have been referred but returned for the debtor and any co-debtors • payments have been received from any compromise or adjustment offers negotiated by Treasury. <p>The account balance will be canceled if there are no known collections that FSA will receive through AWG, TOP (including Federal salary offset), or FSA’s internal administrative offset process. Known collections are from payments that FSA is certain it will receive from AWG or from offsets in the near future, such as Social Security benefits, Federal salary, farm program payments, etc., for an amount sufficient to reduce the overall balance of the debt.</p> <p>In some cases, a partial cancellation according to paragraph 956 may be in the Government’s best interest.</p> <p>*--Canceling a debtor’s account balance will be completed under the authorities set forth in RD Instruction 1956-B, section 1956.84(a)--* or RD Instruction 1956-B, Exhibit B, as appropriate. If 1 or more of a debtor’s loans have been canceled using the debt cancellation authority under the Federal Claims Collection Standards, the remaining account balance may be canceled under RD Instruction 1956-B. If a debtor has received debt forgiveness under CONACT authorities, such as a write-down through primary loan servicing, the remaining account balance may be canceled according to RD Instruction 1956-B, Exhibit B.</p>

Collection Through Cross-Servicing and Debt Settlement of Uncollectible Debt (Continued)

3 Account Resolution After Referral to Cross-Servicing (Continued)

B Action (Continued)

Step	Office	Action
1 (Cntd)	State Office (Cntd)	<p style="text-align: center;">Cancellation</p> <p>SED's shall:</p> <ul style="list-style-type: none"> • process the loan cancellation as appropriate using RD 1956-1 • prepare a memorandum advising FLOO, PRG of the cancellation • FAX the signed memorandum to FLOO, PRG. <p>Note: The State Office shall obtain any necessary concurrence before canceling the debt.</p> <p>When canceling remaining loan balances owed on debts compromised by Treasury:</p> <ul style="list-style-type: none"> • document the information about the compromise on RD 1956-1 • process transaction code "3K" using class of write off code "1" for the compromised debt • process transaction code "3K" using class of write off code "4" for the balance of the debt returned as uncollectible • the effective date for all 3K transactions shall be the date SED or DAFLP signed RD 1956-1.