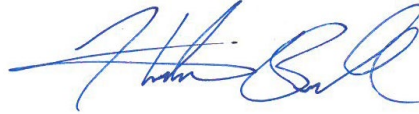


UNITED STATES DEPARTMENT OF AGRICULTURE

Farm Service Agency
Washington, DC 20250

Direct Loan Servicing – Debt Collection and Resolution 7-FLP	Amendment 18
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Approved by: Deputy Administrator, Farm Loan Programs



Amendment Transmittal

A Reasons for Amendment

Subparagraphs 202 B, 202 C, and 223 B have been amended to specify the documentation requirements that must be completed before referring a debt to Cross-Servicing.

Subparagraphs 406 A and 408 F have been amended to replace Exhibit 35 with FSA-2729.

Exhibit 2 has been amended to update the definition of Certified Mail.

Exhibit 17 has been amended to update the Timeframe for Quarterly Referrals to TOP.

Exhibit 35 has been withdrawn.

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Part 7 Servicing Unsecured Account Balances and CNC Classification**201 Servicing Requirements for Unsecured Account Balances****A Issuing FSA-2716 and FSA-2717**

After all security has been liquidated, and all proceeds have been applied to the account, the authorized agency official will send FSA-2716 and FSA-2732 to all liable borrowers.

In cases of voluntary liquidation and/or third party foreclosures, FSA loans might not have been delinquent at the time of sale. As appropriate, the authorized agency official will ensure that all applicable loan servicing and offset notices are sent according to Parts 2, 3, and 4.

For conveyance and according to 5-FLP, subparagraphs 497 A and 517 A, the authorized agency official can accept a borrower's conveyance offer and deny a borrower's debt settlement request that was submitted with the conveyance offer. In these cases, after all appeal rights have been concluded and the conveyance has been processed, the authorized agency official will send FSA-2717 to all liable borrowers for any remaining account balance.

If FSA loans were not delinquent at the time of conveyance, the authorized agency official will ensure that all applicable offset notices are sent according to Parts 2, 3, and 4.

***--Note:** If the account has not been accelerated or is not fully matured, see 5-FLP Part 15 to determine if 5-FLP Exhibit 48 must be sent.--*

B Continued Servicing

The authorized agency official will determine whether the debt can be classified as CNC if borrowers do **not**:

- pay the debt in full or submit a completed FSA-2732 within 30 calendar days of the date on FSA-2716
- pay the debt in full within 30 calendar days of the date on FSA-2717.

Internal administrative offset, TOP, and Federal salary offset will continue until the delinquency is cured.

C No Remaining Liable Borrowers

If there is a remaining account balance and there are no liable borrowers for the debt because of bankruptcy discharge, death, etc., the authorized agency official will prepare FSA-2731 recommending cancellation according to Part 12.

202 CNC Classification

A Required Notification Before CNC

Before classifying debt as CNC, borrowers must have received the following:

- all applicable loan servicing notices
- FSA-2701, FSA-2702, or previous authorized form, as applicable
- 60-day due process letter (Exhibit 7) sent by RDBCSO as part of the TOP screening procedure in Part 4
- FSA-2716 or FSA-2717 or previous authorized form, as applicable
- acceleration notice unless all accounts have been fully matured.

Note: See 5-FLP, Part 15 for acceleration process.

- If State law considers voluntary conveyance offers and the completion of FSA-2732 as the borrower's acknowledgment that the debt is fully due and payable, an Acceleration Notice is not required. SED should work with OGC on State supplement if needed.
- Any applicable timeframes about the information in this part must have expired and all security liquidated, conveyed, released, or otherwise resolved.

B Determining CNC Eligibility and Classification Processing

The authorized agency official will:

- use FSA-2720 to determine CNC eligibility
- submit CNC eligible debt on FSA-2720 to the State Office through DD
- ensure that eligible debts are classified CNC using transaction code 3K, class of write off code 5
- *--submit electronic copies of all original promissory notes to the State Office, including all previously restructured promissory notes--*
- ensure that original promissory notes are retained in a fireproof cabinet or fireproof safe

Note: A CNC classification is not a debt settlement. The promissory notes are needed to prove continued liability for the debt.

- ensure that CNC debt is referred to cross-servicing for collection according to Part 8.

Note: See restrictions for CNC associated with discrimination complaints in 1-FLP, subparagraph 41 K.

202 CNC Classification (Continued)

C CNC Proof of Debt

FSA must provide proof of debt to Treasury before referring debts for cross-servicing.

Subparagraph 202 B requires the authorized agency official to submit electronic copies of all *--original promissory notes to the State Office, including all previously restructured promissory notes. These copies serve as sufficient proof of debt. According to subparagraph 223 B,--* State Offices are responsible for sending the proof of debt by email to Treasury at pod.responses@fiscal.treasury.gov before referring the debt to DMB for cross-servicing.

It is recommended that FLC’s manage the filing and storage of their State’s proof of debt records through a shared mailbox within Microsoft Outlook. FLC’s may work with FPAC to establish the shared mailbox within Microsoft according to the following recommendations:

- the mailbox should be titled “[insert state] CNC Proof of Debt”
- access to the shared mailbox should include the FLC and at least 1 other FLP staff member that is responsible for cross-servicing
- the FLC should ensure that, at a minimum, CNC proof of debt folders are established for each calendar year and that auto archive is turned off within each folder.

The following table provides the steps to turn off Microsoft Outlook auto archive for:

- Classic Outlook

Step	Action
1	Right-click on the folder which you do not wish to have emails automatically archived.
2	Click “Properties”.
3	Click “Policy”.
4	Under “Retention Policy”, Select “Never Delete”.
5	Under “Online Archive”, Select “Never”.
6	Click “OK” to save your changes.

- New Outlook

Step	Action
1	Right-click on the folder which you do not wish to have emails automatically archived.
2	Click “Assign Policy”.
3	Under “Archive Policy”, Select “Personal never move to archive”.
4	Under “Retention Labels”, Select “Never Delete”.

223 Cross-Servicing Process

A TOP Screen Certification

The referrals of debt to cross-servicing and TOP are separate processes. However, a debt must have been certified to TOP to be referred for cross-servicing. The information on the TOP screens is used to validate eligibility for both processes.

B Referring Debt to Cross-Servicing

If the debt is determined to be eligible for CNC according to Part 7, the State Office must:

- forward proof of debt documents to pod.responses@fiscal.treasury.gov

Notes: This must be completed before FAXing FSA-2721 to DMB for referral to cross-servicing.

*--The proof of debt documents consist of the original promissory note and all previously restructured promissory notes.

The e-mail will contain the following:

- subject line: Proof of Debt for [Borrower's name], Loan # [Fund Code(s) and Loan Number(s)]
- body: Please see the attached Proof of Debt for [Borrower's name] - Loan # [Fund Code(s) and Loan Number(s)]. If you have any questions, please contact [State POC].--*
- process transaction code "3K" in ADPS with a class of write off code "5" for all debt types except leases, TPJ's, and equity receivables
- refer debts to cross-servicing by completing and FAXing FSA-2721 to DMB to the ECM FAX number in 1-FLP subparagraph 5 D
- submit FSA-2721 to DMB by the 15th of each month to ensure that debts are included in the end of the month referral

Note: Borrowers and co-borrowers (including liable spouses) shall be listed on FSA-2721 with their TIN's and must be referred at the same time. The debtor's last known address will be provided on FSA-2721 if TIN cannot be identified. This debt will be referred to cross-servicing manually. Debts without TIN cannot be referred to TOP.

- respond to each dispute on the debt.

223 Cross-Servicing Process (Continued)

B Referring Debt to Cross-Servicing (Continued)

Note: Multiple disputes on the same debt may be received because Treasury and 2 different PCA's to collect the debt. If Treasury does not receive FSA's dispute response within 60 calendar days, the debt will be returned as uncollectible.

The State Office will also receive notification from DMB when the following occur:

- compromises are offered
- initial cross-servicing payments are received
- debts are returned from cross-servicing
- debt has been resubmitted per State Office request.

405 Debt Settlement Requested by Borrower/Debtor (FSA-2732) (Continued)**F LexisNexis (Continued)**

- large monetary or complex debt settlement applications
- restructures where FSA will not be fully secured
- disappeared borrowers where FSA efforts have not been successful as provided in 5-FLP, subparagraph 67 C. The FBP running case record must detail the unsuccessful efforts previously taken by servicing officials.

Note: Requests should not be made for routine servicing actions.

All requests must include a detailed statement of need and background of the borrower's FSA servicing actions.

Note: Unless OGC provides a written opinion in support of a search, FSA should not request asset searches for borrowers who filed bankruptcy, as the bankruptcy records contain a detailed list of the borrower's assets.

*--SED must submit a request by email to DAFLP at **SM.FSA.DCWa7.DirectLoans** or fsa-directloans@usda.gov. The email subject should read "LexisNexis – (Borrower's Name and State)".--*

406 Review Timeframes and Responsibilities**A FLM**

--Within 30 calendar days, loan approval official will review all relevant information and-- forward to DD, a debt settlement package containing the following:

- memorandum with FLM's recommendation
- FSA-2732 and any applicable forms:
 - FSA-2735
 - FSA-2737
 - FSA-2731 for co-debtors who are not required to sign FSA-2732 and FSA-2735
 - FSA-2490 for deceased borrowers
 - FSA-2080 for release of liability.

Note: Any related release of liability, such as a withdrawing joint obligor, must be approved using FSA-2080, and the transaction must be correctly processed **before** processing any approved debt settlement. This will ensure that the withdrawing joint obligor does not receive IRS Form 1099-C. For additional information, see 4-FLP, Part 8; 4-FLP, paragraphs 231 and 251; and 5-FLP, paragraph 84.

406 Review Timeframes and Responsibilities (Continued)**A FLM (Continued)**

- FSA-2733 and supporting documentation, including asset investigation
- ***--Note:** FSA-2729 may be used as an optional guide to document asset investigation--* and/or search (item 14A on FSA-2733).
- relevant and applicable servicing office files.

B DD

Within 30 calendar days of receiving the debt settlement package, or within 60 calendar days of the borrower submitting all needed information (whichever is less), the **DD** will:

- review the case file
- sign FSA-2733
- forward the debt settlement package to the State Office.

C State Office

Within 30 calendar days of receiving the debt settlement package, or within 90 calendar days of the borrower submitting all needed information (whichever is less):

- **FLP State Office Review Official and Farm Loan Chief** will review the debt settlement package and sign FSA-2733, before it is presented to SED
- **SED** will sign all applicable forms and letters to:
 - approve the borrower's request for debt settlement, or
 - deny/reject the borrower's request and provide appeal rights, or
 - recommend the debt settlement be approved by the Administrator or DOJ.

D Referrals to DOJ and FLP National Office

Referrals to:

- DOJ will be processed according to Exhibit 34
- DAFLP to use the Administrator's approval authority will include:
 - the memorandum from SED recommending approval
 - the debt settlement package
 - a legal opinion from the Regional Attorney addressing the statute of limitations, if applicable
 - any additional information requested by DAFLP and/or the Administrator.

408 Approval and Rejection (Continued)

F Requesting Exception Authority for Debt Settlement

[7 CFR 761.408] **Administrator authority. On an individual case basis, the Agency may consider granting an exception to any requirement of this part if:**

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

(b) The Agency's financial interest would be adversely affected by acting in accordance with this part and granting an exception would resolve or eliminate the adverse effect upon its financial interest.

SED must submit an exception request by e-mail to DAFLP at **SM.FSA.DCWa2.AdmException** or **adminexception@wdc.usda.gov**. The e-mail subject should read "Administrator's Exception to (7-FLP, paragraph (include paragraph number)) – (Borrower's Name and State)". An attachment must fully describe the status of the account, including the following:

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

Note: If the account is delinquent, where is it in PLS?

- type of security (personal property or real estate) and value
 - prior liens
 - proposed plan of action that warrants the exception request
 - what procedure is to be waived
 - the adverse effect to FSA resulting from compliance with the regulation and how it would be eliminated or minimized through the exception
 - how the action is in the best financial interest of the Government
 - additional information SED thinks is needed to review the case
 - a Farm Business Plan credit action pertaining to the requested exception, including but not limited to:
 - appropriate environmental review, if needed
 - credit presentation demonstrating all other feasibility, eligibility, and security requirements are met for the request; documentation should also be included
- *--regarding asset search (FSA-2729).--*

409 Payments and Servicing - Approved FSA-2732**A Payments**

Debtors must submit compromise and lump sum payments within 45 days calendar of being notified that their debt settlement offer was approved.

Once the borrower complies and makes all payments as agreed under the approved adjustment offer, all remaining loan balances, if any, will be canceled with a 3K, CWC, 2 transaction.

B Failure to Pay

***--[7 CFR 761.407] (a) Failure to pay any compromise amount approved by FSA by the date agreed will result in cancellation of the compromise agreement.**

(b) Failure to pay debt adjustment amounts approved by FSA by the dates agreed will result in cancellation of the adjustment agreement.

(c) A debtor who has entered into an agreement under this subpart (Part 12) may request that FSA extend a repayment date for 90 days. The debtor must provide information that supports the basis for the request at the time the request is made.

(d) If a debtor is delinquent under the terms of an adjustment agreement and FSA determines the debtor is likely to be financially unable to meet the terms of the agreement, the existing agreement may be cancelled and the debtor may be allowed to apply for a different type of settlement more consistent with the debtor's repayment ability.

(e) If an agreement is cancelled, any payments received will be retained as payments on the debt owed.

Failure to pay any compromise or adjustment amount approved by the Agency by the date(s) agreed will result in cancellation of the agreement with appeal rights under 1-APP.

SED's may delegate to FLC, FLS, DD, FLM, and/or SFLO authority to cancel delinquent adjustment agreements--*

Reports, Forms, Abbreviations, and Redelegations of Authority

Reports

None.

Forms

This table lists the forms referenced in this handbook.

Number	Title	Display Reference	Reference
FSA-2004	Authorization to release Information		405
FSA-2005	Creditor List		405
FSA-2014	Verification of Income		405
FSA-2015	Verification of Debts and Income		405
FSA-2028	Security Agreement		402
FSA-2037	Farm Business Plan Worksheet Balance Sheet		62, 405, Ex. 8
FSA-2038	Farm Business Plan Worksheet Projected/ Actual Income and Expense		62, 405, Ex. 8
FSA-2045	Record of the Disposition of FSA Security/Release of Proceeds		402
FSA-2065	Annual Statement of Loan Account		224
FSA-2080	Release From Personal Liability		401, 406, 408
FSA-2490	Deceased Borrower Report		404, 405, 406
FSA-2510	Notice of Availability of Loan Servicing to Borrowers Who Are 90 Days Past Due		408
FSA-2514	Notice of Availability of Loan Servicing to Borrowers Who are in Non-Monetary Default		408
FSA-2701	Notice of Intent to Collect by Administrative Offset		22, 62, 107, 202, Ex. 8, 13
FSA-2702	Notice of Intent to Collect by Administrative Offset for Non-Borrower Entity		22, 62, 107
FSA-2707	Alternative Repayment Agreement for Administrative Offset or TOP		62, Ex. 8
FSA-2710	Notification of Salary Offset		22, 134, 135, Ex. 8
FSA-2711	Alternative Repayment Agreement for Federal Salary Offset		134, 135, Ex. 8

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

Forms (Continued)

Number	Title	Display Reference	Reference
FSA-2716	Notice Advising of Potential Referral to Treasury for Cross-Servicing and the Availability of Debt Settlement		22, 201, 202, 242, 408
FSA-2717	Notice Advising of Potential Referral to Treasury for Cross-Servicing		22, 201, 202, 242
FSA-2720	Checklist for “Currently Not Collectible” Debt		202, 221, 223, 353, 404
FSA-2721	List of Currently Not Collectible (CNC) Debts Eligible To Be Referred to Treasury for Cross-Servicing		104, 223, 226, 353
FSA-2722	Update to TOP and Cross-Servicing Information		104, 105, 106, 222, 223, Ex. 19
FSA-2723	TOP Delete Only		104, 105
FSA-2727	Youth Loan (YL) Debt Forgiveness		401
FSA-2729	Asset Search		406, 408
FSA-2731	Cancellation of Debt Without Application	Ex. 39	Text, Ex. 34
FSA-2731A	Cancellation of Debt Without Application (Continuation)	Ex. 39	404
FSA-2732	Debt Settlement Application		Text, Ex. 34, Ex. 39
FSA-2733	Review, Certification and Recommendation on Debt Settlement Application		405, 406
FSA-2735	Household Income and Expense Worksheet		405, 406
FSA-2737	Notice Advising of Decision on Debt Settlement Applications		406, 408
IRS Form 1098	Mortgage Interest Statement		224
IRS Form 1099-C	Cancellation of Debt		406

Definitions of Terms Used in This Handbook (Continued)

Borrower (or Debtor)

Borrower (or debtor) is an individual or entity that has an outstanding obligation to the Agency or to a lender under any direct or guaranteed FLP loan, without regard to whether the loan has been accelerated. The term “borrower” includes all parties liable for such obligation, including collection-only borrowers, except for debtors whose total loans and accounts have been voluntarily or involuntarily foreclosed, sold or conveyed, or who have been discharged of all such obligations owed to the Agency or guaranteed lender.

Borrower (or Debtor) – for DCIA purposes, from 7 CFR 3.3

Borrower and debtor have the same meaning and refer to a person who owes a delinquent, nontax debt to the United States.

Cancellation

Cancellation means the final resolution of an FLP debt without receiving payment in full. Any amounts still owed, after applying payments in accordance with approved adjustment and compromise agreements, is canceled. The amount canceled is reported to the IRS pursuant to § 3.90 of this title and applicable IRS requirements.

Centralized Administrative Offset – from 7 CFR 3.3

Centralized administrative offset means referral of a debt to the Treasury Offset Program (TOP) to collect debts that creditor agencies have certified pursuant to 31 U.S.C. 3716(c), 3720A(a), and applicable regulations for offset of payments made to a debtor by Federal agencies other than USDA. Centralized offset also includes offset of payments made by States pursuant to 31 U.S.C. 3716(h) and 31 CFR 285.6.

Certified Mail

Certified mail is a delivery service offered by USPS that allows the sender proof of mailing, as well as proof of delivery.

Notes: Certified mail service provides the following:

- *--mailing receipt as confirmation an item was sent a unique identifier (tracking number) for the mail piece
- requires a signature from the addressee.

Return Receipt is an additional feature that provides the sender with proof of delivery (the recipient’s signature and information about the delivery address, if different, and date and time of delivery). Return Receipt service is available electronically or by paper using PS Form 3811. Return Receipt must be purchased at the time of mailing and is required to be used to track all letters and notifications requiring certified mail. Either method (electronic or paper) is acceptable.--*

Definitions of Terms Used in This Handbook (Continued)

Chapter 7

A Chapter 7 bankruptcy involves liquidation of the debtor's assets. The proceeds from liquidation are applied to the court-allowed debt.

Chapter 11

A Chapter 11 bankruptcy is a business reorganization form of bankruptcy. The debtor has an exclusive right to file a reorganization plan within 120 calendar days after filing for bankruptcy. After the 120-calendar-day period, the debtor loses the exclusive right to file a reorganization plan, and others may file a plan. This chapter is generally discharged at closing. The plan does not have to be concluded within a specific timeframe.

Chapter 12

A Chapter 12 bankruptcy provides special debt repayment relief for family farmers and family fishermen. This chapter is targeted to family farmers with 50 percent of gross income from farming. The farmer's debt must not exceed \$3.237 million and 80 percent of the farmer's debts must originate from farming. The debtor must file a plan within 90 calendar days after the First Meeting of Creditors. The court determines the point of discharge (usually at the end of the third or fifth year). The reorganization plans must be paid out in 5 years.

Chapter 13

A Chapter 13 bankruptcy involves reorganization for wage-earners. The debtor must have regular income. A portion of that income will be set aside for distribution to creditors by the trustee. The plan is generally filed at time of petition and must be paid out in 5 years. The court determines the point of discharge, which is usually at the end of the third or fifth year.

Chattel Security

Chattel security is property that may consist of, but is not limited to: Crops; livestock; aquaculture species; farm equipment; inventory; accounts; contract rights; general intangibles; and supplies that are covered by financing statements and security agreements, chattel mortgages, and other security instruments.

Timeframe for Quarterly Referrals to TOP

The following is a timeframe for quarterly referrals to TOP.

*--

Process	Date(s)
FY 2026 2nd Quarter TOP Referral	
New selection <u>1/</u>	December 20, 2025 <u>3/</u>
Critical pre-letter screening	December 24, 2025 to January 07, 2026
FO mails 60-day due process letters <u>4/</u>	January 12, 2026
Pre-certification screening	January 12, 2026 to March 19, 2026
Certification <u>2/</u>	March 20, 2026
FY 2026 3rd Quarter TOP Referral	
New selection <u>1/</u>	March 28, 2026
Critical pre-letter screening	March 31, 2026 to April 10, 2026
FO mails 60-day due process letters <u>4/</u>	April 14, 2026
Pre-certification screening	April 14, 2026 to June 19, 2026
Certification <u>2/</u>	June 20, 2026
FY 2026 4th Quarter TOP Referral	
New selection <u>1/</u>	June 27, 2026
Critical pre-letter screening	June 30, 2026 to July 10, 2026
FO mails 60-day due process letters <u>4/</u>	July 14, 2026
Pre-certification screening	July 14, 2026 to September 18, 2026
Certification <u>2/</u>	September 19, 2026
<p>Notes: The letter process and pre-certification screening did not happen on October 4, 2025, because of the government shutdown.</p> <p>RDBCSO did not process the certification on December 20, 2025, because the borrowers selected in September were not sent a letter because of the government shutdown.</p> <p>Pre-certification screening is January 12, 2026, through March 19, 2026, for borrowers that would have been referred to TOP during the first quarter of FY 2026 if the government had not shut down.</p>	

- 1/ This includes all debts that appear eligible on ADPS, even if deleted in prior quarterly process.
- 2/ Loans with no delete code are moved from the “Borrower Eligible (N)” screens to the “Certified (Y)” Screens.
- 3/ The FY 2026 1st Quarter Certification is run on the same day as the FY 2026 2nd Quarter Selection.
- 4/ Copies of the 60-day due process letters will not be sent to FSA Offices. A copy can be requested from RDBSCO by emailing fsa-directloans@usda.gov, if needed for appeals and litigation. Refer to Exhibit 7 for information contained in the notification.--*

