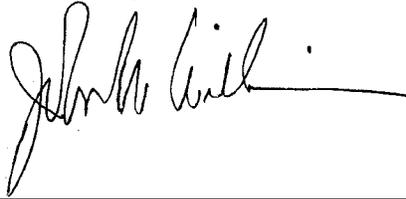


For: KCFO and State and County Offices

**2005 Calendar Yearend Critical Information About FLP Direct and Guaranteed
Loan Payment Activity**

Approved by: Deputy Administrator, Management



1 Overview

A Purpose

This notice provides:

- critical dates related to yearend processing of FLP payment activity
- processing information for all calendar yearend reports and statements mailed to:
 - Servicing Offices
 - all borrowers.

Note: No other information about FLP calendar yearend will be provided.

B Contact

State Offices shall direct questions about this notice to KCFO, Loan Operations Division (LOD) (St. Louis), Program Reporting Branch (PRB) at 314-539-2494.

Disposal Date December 1, 2006	Distribution KCFO and State Offices; State Offices relay to County Offices
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Notice FI-2732

2 KCFO/LOD (St. Louis) Action

A Suspending Transactions

As of **COB, December 28, 2005**, the ability to process the following transactions on the Automated Discrepancy Processing System (ADPS) for direct and guaranteed loans will be suspended:

- Transaction Code (TC) 4A, Change in Case Number and Loan Number
- TC 4D, Change in Case Number, Name, and Address
- TC 4F, Change in Loan Number
- TC 4G, Assumption Agreement - Same Rates and Terms
- TC K4, Equity Agreement Matured.

KCFO/LOD (St. Louis) will resume processing these transactions on **January 12, 2006**. Look for daily screen messages on ADPS.

B Preparing FmHA 1951-9 and IRS Forms

By January 31, 2006, KCFO/LOD (St. Louis) will prepare and mail the following forms to:

- all FLP borrowers and Servicing Offices, according to Exhibit 1:
 - FmHA 1951-9, Annual Statement of Loan Account
 - IRS 1098, Mortgage Interest Statement
- applicable FLP borrowers, according to Exhibit 2:
 - IRS 1099-A, Acquisition or Abandonment of Secured Property
 - IRS 1099-C, Cancellation of Debt
 - IRS 1099-G, Certain Government Payments
 - IRS 1099-INT, Interest Income
 - IRS 1099-MISC, Miscellaneous Income.

Note: Manual loan statements will be prepared for guaranteed loan borrowers that had offset collections. Also, IRS 1099-C's for applicable guaranteed loan losses will be prepared and mailed by KCFO/LOD (St. Louis) by January 31, 2006.

Program Loan Accounting System

Notice FI-2732

2 KCFO/LOD (St. Louis) Action (Continued)

C FLP Collections Entered on the AS400/System 36

By **December 30, 2005**, State and County Offices that use the AS400/System 36, Cash Receipts Application shall transmit all FLP payments recorded with dates of credit before January 1, 2006. **These payments are scheduled to be included on FmHA 1951-9 for calendar year 2005 if processed by January 10, 2006.**

Note: See 3-FI for instructions on how to process FLP payments to the Cash Receipts Application.

Payment data with 2005 dates of credit, that are not processed to ADPS by the January 10, 2006, cutoff date, will be recorded on the 2006 statements. IRS 1098 will reflect this payment data in the 1st quarter correction process scheduled for April 2006.

D Availability of Terminals

Terminals will be available for entering transactions according to the following table.

Date	Transaction
Mondays through Fridays, 6 a.m. to 6 p.m. c.s.t., including the cutoff day. Tuesday, January 10, 2006, 6 a.m. to 6 p.m. c.s.t.	Provides additional time for initial transaction entry and discrepancy correction before preparing the annual statements.
Wednesday, January 11, 2006.	No update to Program Loan Accounting System (PLAS) or Guaranteed Loan System (GLS) is scheduled for the evening of January 11, 2006. Transactions recorded through the terminals on January 11, 2006, will be scheduled for update on the evening of January 12, 2006.

Notice FI-2732

2 KCFO/LOD (St. Louis) Action (Continued)

E Acquisitions or Abandonment

State and County Offices shall use RD 1992-6 as a substitute for IRS 1099-A according to Forms Manual Insert RD 1992-6. The FLP borrower receives 1 copy and KCFO/LOD (St. Louis) shall receive the other copy no later than **January 6, 2006**. The information on the KCFO/LOD (St. Louis) copy is data converted and merged with the IRS 1099-A acquisition data reported to IRS in February 2006. It is critical that all spaces on RD 1992-6 be completed. All incomplete forms will:

- **not** be included in the 2005 reporting to IRS
- be returned to the Servicing Office for correction.

By **January 31, 2006**, IRS 1099-A will be mailed to FLP borrowers whose secured property was acquired during calendar year 2005. See Exhibit 2.

F Debt Cancellation

By **January 31, 2006**, IRS 1099-C will be mailed to applicable direct and guaranteed loan borrowers. See Exhibit 2.

G Grants

For tax year 2005, all grant recipients will receive IRS 1099-G. By January 31, 2006, IRS 1099-G will be mailed to grant recipients with valid addresses recorded on PLAS. IRS 1099-G, generated with invalid addresses, will be mailed to the appropriate State Office to distribute immediately to the grant recipients. See Exhibit 2.

H Interest Income

By **January 31, 2006**, KCFO/LOD (St. Louis) will manually prepare and mail IRS 1099-INT to borrowers for interest paid when program payments were offset in error under the internal administrative offset program and a refund was issued. See Exhibit 2.

I Miscellaneous Income

By **January 31, 2006**, KCFO/LOD (St. Louis) will manually prepare and mail IRS 1099-MISC to each individual who received an FSA payment in a nonclass action discrimination claim settlement. See Exhibit 2.

Notice FI-2732

2 KCFO/LOD (St. Louis) Action (Continued)

J Default Charges and Credits

Loans dated before July 1, 1973, are subject to default charges. If a loan subject to these charges is delinquent on January 1, 2006, and remains delinquent on April 1, 2006, the loan will be analyzed to determine whether default charges should be established. The loans are programmatically defaulted, if appropriate, in mid April. A printout of the online History Screen reflecting the 3C and 1R transactions, along with the AI Status Screen accrued as of the effective date of the 3C/1R transaction, may be used for documentation. If a final payment is to be collected on a loan of this type between April 1, 2006, and the date the default is processed to the account, contact the appropriate loan servicing technician in KCFO/LOD (St. Louis) to determine the unpaid loan balance.

K Corrections to IRS Forms

Corrections to initial calendar yearend IRS reporting will be issued in the month after the end of each quarter in calendar year 2006. Accounting activity not included on calendar yearend IRS reporting, because of cutoff dates, will be reflected on first quarter correction forms.

Note: There is no correction process for FmHA 1951-9's. Any 2005 and previous years corrections processed to the borrower's account after the cutoff date will be reflected on the 2006 FmHA 1951-9.

Completing FmHA 1951-9

A Introduction

KCFO/LOD (St. Louis) will prepare FmHA 1951-9 for calendar year 2005. FmHA 1951-9's are produced in the following 2 segments:

- borrower
- Servicing Office.

Both segments have 2 copies. The segments are distributed as follows:

- 2 white copies of FmHA 1951-9 are printed for the borrower segment; 1 white copy is mailed directly to the borrower and the other is mailed to the applicable Servicing Office for filing in the borrower's folder
- 1 white and 1 green copy of FmHA 1951-9 are printed for the Servicing Office segment; **the white copy is to be distributed to the borrower, if appropriate** and the green copy shall be filed in the borrower's folder.

Note: The Servicing Office segment contains FmHA 1951-9's for borrowers with the special conditions shown in this exhibit, subparagraph D. Both copies are sent to the Servicing Office for review.

Copies of statements that the Servicing Office receives for their files shall be filed in alphabetical order for convenience.

B PLAS Interface with Service Center Information Management System (SCIMS)

A new process was implemented in September 2005, to programmatically update PLAS names and addresses with SCIMS names and addresses. All open loans, without suspend codes, judgments, 2004 and 2005 Currently Not Collectible loans, and new obligations name and address fields on PLAS have been updated to reflect the names and addresses in SCIMS.

Note: PLAS and GLS interface no longer exists. Address changes for borrowers with both direct and guaranteed loans must be made in SCIMS and GLS.

SCIMS addresses are now being used for the mailing of FmHA 1951-9's and IRS forms. Servicing Office diligence in keeping SCIMS current will help ensure the timely delivery of these very important mailings to borrowers and reduce FSA operating costs.

If a borrower calls after the FmHA 1951-9's have been mailed at the end of January, stating that they have not received their annual statement, verify their address in SCIMS and update accordingly. The Servicing Office should then provide a copy of the annual statement to the borrower.

Any Borrower Copy FmHA 1951-9 that is returned to KCFO/LOD (St. Louis) as undeliverable will be mailed to the Servicing Office or State Office for address correction in SCIMS and distribution to the borrower.

Additionally, because of the SCIMS to PLAS name and address conversion, co-borrower names **will not** appear on the FmHA 1951-9's and IRS forms of the aforementioned updated loan types. However, co-borrower names may appear on statements in which the loan name and address was not updated with the SCIMS data.

Completing FmHA 1951-9 (Continued)

C Explanation of FmHA 1951-9 Items

The following table provides an explanation of selected items on FmHA1951-9.

Note: The “Items” that are bolded indicate where changes were made for the 2005 statements.

Item	Explanation
FYLN	This final year of loan legend appears above the Date of Loan. The FYLN for advance loans will be the 2-digit year from the Date of Loan.
Total Loan Payments	Total cash payments applied to interest and principal for each FLP loan during calendar year 2005. This amount does not include noncash applications or payments for 2005 processed after January 10, 2006 .
Total Paid on All Loans This Year	Total cash payments applied to interest and principal for all FLP loans during calendar year 2005. This amount does not include noncash applications or payments for 2005 processed after January 10, 2006 .
Loan Activity	Total loan activity processed during calendar year 2005.
Loan Balance	Unpaid interest and principal balances as of December 31, 2005. Unpaid interest includes: <ul style="list-style-type: none"> • unpaid interest on advances • noncapitalized interest • deferred interest • deferred noncapitalized interest • installment set-aside interest. Unpaid principal includes any balance due on advances by FSA, as well as any installment set-aside principal, equity record balances, and 1 percent insurance charge, if applicable.
Next Amount Due	The loan’s next scheduled installment amount. “ALL DUE” will be displayed if the loan is any of the following: <ul style="list-style-type: none"> • in the FYLN • Fully Matured • the TPOF is greater than the Next Installment Due Amount.
Date Due	The due date of the next installment. No “Date Due” will be displayed if the Next Amount Due is “ALL DUE”
Payment Status	If behind, the amount the loan is behind schedule as of December 31, 2005. If on schedule or ahead, it will simply state “On Schedule” and no amount.
Interest Paid	This field is highlighted on the form and is the amount of cash payments applied for prior years and 2005. The amount may be negative for certain loans that have payments reversed from the account.
Taxes Paid	This includes all taxes paid by FSA and charged to the borrower’s account.

Completing FmHA 1951-9 (Continued)

C Explanation of FmHA 1951-9 Items (Continued)

Item	Explanation
Borrower Activity	The total activity for all loans.
Borrower Balance	This is the total unpaid interest and principal balance for all loans as of December 31, 2005.
Mortgage Interest (1098 Section)	<p>The mortgage interest paid amount, reported to IRS on IRS 1098, will be provided to all individual-type borrowers for each loan secured by real estate that had interest payments applied to the account during the calendar year. The interest paid amount only reflects payments applied to the account with 2005 dates of credit.</p> <p>Any transactions processed after January 10, 2006, that affect the 2005 interest amount, could result in a corrected IRS 1098. Changes to amounts previously reported for calendar year 2004 and 2003 may also result in a correction. The quarterly corrected IRS 1098 may require the borrower to file an amended tax return. If borrowers request assistance for filing their tax returns, advise them to contact a tax consultant.</p>

Note: Cash advances dated January 2006 may appear on 2005 FmHA 1951-9's because of the multiple advance features of the loan disbursement system.

Completing FmHA 1951-9 (Continued)**D Reviewing FmHA 1951-9**

After receiving the green and white copy of FmHA 1951-9 for the Servicing Office segment, the Servicing Office shall review FmHA 1951-9's that reflect the following conditions:

- currently not collectible
- writeoffs
- acquired property
- judgment
- foreclosure action pending
- court action pending
- bankruptcy action pending
- subject to approved adjustment
- collection only
- no address available on the SCIMS files.

Note: Mail the white copy of FmHA 1951-9 from the Servicing Office segment to the borrower, if appropriate, after reviewing each case.

Completing IRS Forms

A Explanation of IRS Forms

Servicing Offices will receive lists, for the year ending December 31, 2005, of FLP borrowers reported on IRS 1099-A, IRS 1099-C, IRS 1099-G, and copies of IRS 1099-INT and IRS 1099-MISC.

Note: KCFO/LOD (St. Louis) shall also report this information to IRS and to the borrower.

IRS Form	Explanation
1099-A	<p>Will be provided to IRS and the affected borrowers:</p> <ul style="list-style-type: none"> • whose secured property was acquired as a full or partial satisfaction of their debt during calendar year 2005 • reported on RD 1992-6 during calendar year 2005. <p>Servicing Offices will receive a list identifying each borrower and the unpaid principal and market value reported to IRS and the borrower.</p>
1099-C	<p>Will be provided for each guaranteed loan loss eligible for offset and each direct loan that had a discharged debt through a writeoff, shared appreciation writedown, net recovery buyout, or writeoff of a lease account during calendar year 2005. Writeoffs processed with a class of writeoff code of 5, that are currently not collectible (CNC - borrower not released from liability), and equity receivable writeoffs are not reported to IRS. The total amount of debt canceled with an effective date in 2005 will be reported on IRS 1099-C. The amount includes:</p> <ul style="list-style-type: none"> • guaranteed loan loss principal and interest written off • principal discharged from the note and advance • interest discharged from the note and advance • noncapitalized interest • deferred interest • deferred noncapitalized interest. <p>Servicing Offices will receive a list that identifies each borrower and the amount of discharged debt reported to IRS and the borrower.</p>
1099-G	<p>Will be provided to all recipients of grant funds during calendar year 2005. Grant disbursements with 2005 check dates will be reported. Servicing Offices will receive a list that identifies each grant recipient and the disbursed amount reported to IRS and the borrower.</p>

Completing IRS Forms (Continued)

A Explanation of IRS Forms (Continued)

IRS Form	Explanation
1099-INT	Will be provided to IRS for direct and guaranteed loan borrowers who received interest income on refunds made under the internal administrative offset program. A copy will be mailed to the borrower and the local Servicing Office. To receive IRS 1099-INT, a borrower must have a type of applicant code (APCD on the ADPS MI status screen) of 1 (Individual) or 2 (Partnership), and interest paid of \$10.01 or more.
1099-MISC	Will be provided to IRS for individuals who received payments from FSA for a nonclass action, discrimination claim settlement. A copy will be mailed to the individual and the local Servicing Office.

B Corrections

All activity processed after January 12, 2006, that affects amounts initially reported to IRS, could result in the generation of corrected IRS 1098, IRS 1099-A, IRS 1099-C, or IRS 1099-G. The corrected IRS form may require the borrower to file an amended tax return. If borrowers request assistance in filing their return, advise them to contact a tax consultant.