

**For:** Financial Services Center and State and County Offices

**2006 Calendar Yearend Critical Information About  
FLP Direct and Guaranteed Loan Payment Activity**

**Approved by:** Acting 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 the Financial Services Center (FSC), Farm Loan Operations Office (FLOO) (St. Louis), Program Reporting Group (PRG) at 314-539-2494.

<b>Disposal Date</b>	<b>Distribution</b>
December 1, 2007	FSC and State Offices; State Offices relay to County Offices

## Notice FI-2781

### 2 FSC/FLOO (St. Louis) Action

#### A Suspending Transactions

As of **COB, December 27, 2006**, 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.

FSC/FLOO (St. Louis) will resume processing these transactions effective **January 11, 2007**. Daily screen messages will be provided on ADPS.

#### B Preparing FmHA 1951-9 and IRS Forms

FSC/FLOO (St. Louis) will prepare and mail the following forms by **January 31, 2007**, 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.

**Notes:** Manual Statements of Guaranteed Offset Receivables will be prepared for guaranteed loan borrowers who were eligible for offset during tax year 2006. These statements will be mailed by FSC/FLOO (St. Louis) by **January 31, 2007**, to the borrower and to the applicable servicing office.

According to National Office request, the USDA FSA Automated System Telephone Number, 1-888-518-4983, has been placed on the Annual Statement of Loan Account, as well as all IRS forms. This number replaces PRG's direct telephone number.

**Notice FI-2781**

**2 FSC/FLOO (St. Louis) Action (Continued)**

**C FLP Collections Entered on AS400/System 36**

By December 29, 2006, State and County Offices that use AS400/System 36, Cash Receipts Application, shall transmit all FLP payments recorded with dates of credit **before January 1, 2007. These payments are scheduled to be included on FmHA 1951-9 for calendar year 2006 if processed to the borrower's account by January 9, 2007.**

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

**Payment data with 2006 dates of credit, which are not processed to ADPS by the January 9, 2007, cutoff date, will be recorded on the 2007 statements. IRS 1098 will reflect this payment data in the first quarter correction process scheduled for April 2007. Corrected FmHA 1951-9's are not issued.**

**D Availability of Terminals**

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

<b>Date</b>	<b>Transaction</b>
Terminals will be available Monday through Friday, 6 a.m. to 6 p.m. c.s.t., including the cutoff day.	Provides additional time for initial transaction entry and discrepancy correction before preparing the annual statements.
Wednesday, January 10, 2007	<b>No</b> update to the Program Loan Accounting System (PLAS) or Guaranteed Loan Servicing is scheduled for the evening of January 10, 2007. Transactions recorded through the terminals on January 10 will be scheduled for update on the evening of January 11, 2007.

## Notice FI-2781

### 2 FSC/FLOO (St. Louis) Action (Continued)

#### E Acquisitions or Abandonments

State and County Offices shall use RD 1992-6 as a substitute for IRS 1099-A, when they become aware of an abandonment, and the acquisition will **not** be processed within 6 months, according to RD 1992-6, Forms Manual Insert instructions. The FLP borrower receives 1 copy and FSC/FLOO (St. Louis) shall receive the other copy no later than **January 4, 2007**. Information on the FSC/FLOO (St. Louis) copy is data converted and merged with IRS 1099-A acquisition data reported to IRS in February 2007. It is critical that all spaces on RD 1992-6 be completed. All incomplete forms will:

- **not** be included in the 2006 reporting to IRS
- be returned to the servicing office for correction.

IRS 1099-A will be mailed to FLP direct borrowers whose secured property was acquired during calendar year 2006 by **January 31, 2007**. See Exhibit 2.

#### F Debt Cancellation

IRS 1099-C will be mailed to applicable FLP direct and guaranteed loan borrowers by **January 31, 2007**. See Exhibit 2.

#### G Grants

For tax year 2006, all grant recipients will receive IRS 1099-G. IRS 1099-G will be mailed to grant recipients with valid addresses recorded on PLAS by **January 31, 2007**. 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

FSC/FLOO (St. Louis) will manually prepare and mail IRS 1099-INT by **January 31, 2007**, to FLP direct and guaranteed 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

FSC/FLOO (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 by **January 31, 2007**. See Exhibit 2.

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### 2 FSC/FLOO (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, 2007, and remains delinquent on **April 1, 2007**, it 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, 2007, and the date the default is processed to the account, then contact the appropriate loan servicing technician in KCFO 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 2007. 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. Any 2006 and previous years' corrections processed to the borrower's account **after** the cutoff date will be reflected on 2007 FmHA 1951-9.

## Completing FmHA 1951-9

### A Introduction

FSC/FLOO (St. Louis) will prepare FmHA 1951-9 for calendar year 2006. FmHA 1951-9's are produced in the following 2 segments:

- borrower
- servicing office.

Both segments have 2 copies and are distributed as follows.

- Two white copies of FmHA 1951-9 are printed for the borrower segment. One white copy is mailed directly to the borrower and the other white copy is mailed to the applicable servicing office for filing in the borrower's folder.
- One white and 1 green copy of FmHA 1951-9 are printed for the servicing office segment. The servicing office segment contains FmHA 1951-9 for borrowers with the special conditions in subparagraph D. Both copies are sent to the servicing office for review. **The white copy is to be distributed to the borrower, if appropriate, in a non-windowed envelope if mailed.** The green copy shall be filed in the borrower's folder.
- Copies of statements that the servicing office receives for their files will be in alphabetical order for their 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 (CNC) loans, and new obligations name and address fields on PLAS were updated to reflect the names and addresses in SCIMS. PLAS names and addresses are continually updated by SCIMS, as applicable.

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

If a borrower calls **after** 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 provide a copy of the annual statement to the borrower.

Any borrower copy of FmHA 1951-9 that is returned to FSC/FLOO (St. Louis) as undeliverable will be mailed to the servicing office or State Office for address correction in SCIMS and distribution to the borrower.

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

**B PLAS Interface With Service Center Information Management System (SCIMS)  
(Continued)**

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

**C Explanation of FmHA 1951-9 Items**

The following table provides an explanation of selected items on FmHA 1951-9.

**Note:** The “Items” that are bolded indicate where changes were made for the 2006 statements.

<b>Item</b>	<b>Explanation</b>
Final Year of Loan (FYLN)	This FYLN legend appears above the “Date of Loan”. FYLN for advance loans and judgment 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 2006. This amount does not include noncash applications or payments for 2006 processed <b>after January 9, 2007</b> .
Total Paid on All Loans This Year	Total cash payments applied to interest and principal for all FLP loans during calendar year 2006. This amount does not include noncash applications or payments for 2006 processed <b>after January 9, 2007</b> .
<b>Loan Activity</b>	Total loan activity processed during calendar year 2006.
Loan Balance	<p>Unpaid interest and principal balances as of <b>December 31, 2006</b>.</p> <p>Unpaid interest includes the following:</p> <ul style="list-style-type: none"> <li>• unpaid interest on advances</li> <li>• noncapitalized interest</li> <li>• deferred interest</li> <li>• deferred noncapitalized interest</li> <li>• installment set-aside interest.</li> </ul> <p>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.</p>

Completing FmHA 1951-9 (Continued)

C Explanation of FmHA 1951-9 Items (Continued)

Item	Explanation
Next Amount Due	<p>The loan’s next scheduled installment amount. “ALL DUE” will be displayed for any of the following:</p> <ul style="list-style-type: none"> <li>• loans fully matured</li> <li>• loans in FYLN</li> <li>• total payoff is greater than the “Next Installment Due Amount”</li> <li>• there is an acceleration (ACL) flag.</li> </ul>
Date Due	<p>The date of the next installment due. No “Date Due” will be displayed if there is an ACL flag on the account.</p>
Payment Status	<p>If behind, then the amount the loan is behind schedule on December 31, 2006. If on schedule or ahead, then it will simply state “On Schedule” and no amount. If account is flagged “ACL”, then no payment status will be reflected.</p>
Interest Paid	<p>This field is highlighted on FmHA 1951-9 and is the amount of cash payments applied for <b>before</b> and during 2006. The amount may be negative for certain loans that have payments reversed from the account.</p>
Taxes Paid	<p>This includes all taxes paid by FSA and charged to the borrower’s account.</p>
All Loan Activity	<p>The total activity for all loans.</p>
Borrower Balance	<p>This is the total unpaid interest and principal balance for all loans as of <b>December 31, 2006</b>.</p>
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 2006 dates of credit.</p> <p>Any transactions processed <b>after January 9, 2007</b>, which affect the 2006 interest amount, could result in a corrected IRS 1098. Changes to the amount or amounts previously reported for calendar years 2005 and 2004 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 2007 may appear on 2006 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:

- CNC
- accelerated
- write-offs
- acquired property
- judgment
- foreclosure action pending
- court action pending
- bankruptcy action pending
- subject to approved adjustment
- collection only
- no address available on SCIMS files.

**Note: Mail the white copy of FmHA 1951-9 from the servicing office segment to the borrower in a non-windowed envelope, 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, 2006**, 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:** FSC/FLOO (St. Louis) shall also report this information to IRS and the borrower.

<b>IRS Form</b>	<b>Explanation</b>
1099-A	<p>Will be provided to IRS and the following affected FLP borrowers:</p> <ul style="list-style-type: none"> <li>• whose secured property was acquired as a full or partial satisfaction of their debt during calendar year 2006</li> <li>• reported on RD 1992-6 during calendar year 2006.</li> </ul> <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 write-down, net recovery buyout, or writeoff of a lease account during calendar year 2006. Write-offs processed with a class of writeoff code “5”, which are (CNC - borrower not released from liability), and equity receivable write-offs are <b>not</b> reported to IRS. The total amount of debt canceled with an effective date in 2006 will be reported on IRS 1099-C. The amount reported includes the following:</p> <ul style="list-style-type: none"> <li>• guaranteed loan loss principle and interest written off</li> <li>• principal discharged from the note and advance</li> <li>• interest discharged from the note and advance</li> <li>• noncapitalized interest</li> <li>• deferred interest</li> <li>• deferred noncapitalized interest.</li> </ul> <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 <b>all</b> recipients of grant funds during calendar year 2006. Grant disbursements with 2006 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)**

<b>IRS Form</b>	<b>Explanation</b>
1099-INT	Will be provided to IRS for FLP 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 <b>must</b> 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 <b>from FSA</b> 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 9, 2007**, which affects amounts initially reported to IRS, could result in generating 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, then advise them to contact a tax consultant.