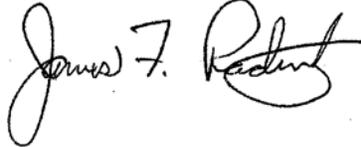


UNITED STATES DEPARTMENT OF AGRICULTURE

Farm Service Agency
Washington, DC 20250

Regular Direct Loan Servicing 4-FLP	Amendment 27
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Approved by: Deputy Administrator, Farm Loan Programs



Amendment Transmittal

A Reasons for Amendment

Subparagraph 116 A has been amended to correct items required to be completed on FSA-2001.

Subparagraphs 267 A, 268 B, and 282 A have been amended to replace reference to “SCIMS” with “MIDAS Business Partner.”

Exhibit 25.5 has been amended to update references and the e-mail address for NFAOC, PRB.

Page Control Chart		
TC	Text	Exhibit
	6-31, 6-32	1, page 3
	10-3, 10-4	25.5, pages 1, 2
	11-1, 11-2	

Section 2 Subordinations

116 Requesting Subordinations

A Borrower Application

[7 CFR 765.205 (a)] The borrower must submit the following, unless it already exists in the Agency's file and is still current as determined by the Agency:

[7 CFR 765.205 (a)] (1) Completed Agency application for subordination form;

FSA-2001 with the exact, full legal name in the following, as applicable:

- Part A, item 1, or
- Part B, items 1 and 13, or
- *--Part C, items 1 and 14, and
- Part D, items 4A and 4B, and--*
- Part F.

FSA-2060 will also be required for real estate subordination requests.

[7 CFR 765.205 (a)] (2) A current financial statement, including, in the case of an entity, financial statements from all entity members;

FSA-2037, FSA-2038, or any other format approved by FSA containing the same information.

[7 CFR 765.205 (a)] (3) Documentation of compliance with the Agency's environmental regulations contained in subpart G of 7 CFR part 1940;

AD-1026.

See 1-FLP, subparagraph 222 C for guidance to identify potential wetlands that may be impacted by the proposed action.

[7 CFR 765.205 (a)] (4) Verification of all non-farm income;

[7 CFR 765.205 (a)] (5) The farm's operating plan, including a projected cash flow budget reflecting production, income, expenses, and debt repayment plan; and

[7 CFR 765.205 (a)] (6) Verification of all debts.

A credit report is required unless current credit information is already contained in the borrower's case file or is otherwise available. The credit report fee will be paid by FSA unless the borrower has also applied for an FLP loan.

See 3-FLP, subparagraph 42 A for the verification process of non-farm income and debts.

116 Requesting Subordinations (Continued)

B Processing Subordination Requests

--The authorized agency official will enter the following information into DLS and use it to track and monitor subordination requests:--

- date the application is received
- applicant name
- type of assistance requested
- subordination amount requested.

267 Servicing Options for Program Loan Accounts**A Continuation**

[7 CFR 765.451(a)] Following the death of a borrower, the Agency will continue the loan with any individual who is liable for the indebtedness provided that the individual complies with the obligations of the loan and security agreements.

--The authorized agency official will process applicable changes to MIDAS Business Partner and DLS to change any name, account number, or case number.--

B Transfer and Assumption

[7 CFR 765.451(b)] The Agency will continue the loan with a person who is not liable for the indebtedness in accordance with subpart I of this part.

See Part 9 for more information on transfer and assumptions.

C Net Recovery Buyout Agreements and FSA-2543's

If an unmatured net recovery buyout agreement or FSA-2543 exists at the time of the borrower's death, see 5-FLP, subparagraph 342 A or 361 B.

D Liquidation

If a deceased borrower's farm loan accounts cannot be paid in full, voluntarily liquidated, resolved through continuation with existing obligors, or transferred to a third party, the authorized agency official will comply with subparagraph 100 B before proceeding according to 5-FLP, paragraph 66.

268 Servicing Options for NP Accounts**A General Policy**

When a borrower with only NP's dies, FSA shall determine whether the borrower's NP's may be continued or assumed by another party. If NP's cannot be continued or assumed, FSA shall liquidate NP's according to 5-FLP, Part 16.

B Continuation with a Jointly Liable Borrower

[7 CFR 765.452(a)(1)] The Agency will continue the loan with a jointly liable borrower if the remaining borrower continues to pay the deceased borrower's loan in accordance with the loan and security instruments.

--The authorized agency official shall process applicable changes to MIDAS Business Partner and DLS to change the borrower's name and case number.--

C Transfer and Assumption

[7 CFR 765.452(b)] A deceased borrower's loan may be assumed by an individual not liable for the indebtedness in accordance with subpart I of this part (Part 9).

[7 CFR 765.452(a)(2)] The Agency may continue the loan with an individual who inherits title to the property and is not liable for the indebtedness provided the individual makes payments as scheduled and fulfills all other responsibilities of the borrower according to the loan and security instruments.

See subparagraph 248 C for information on continuing or assuming a loan.

D Security Transfer Beyond Heirs

[7 CFR 765.452(c)] (1) The Agency will not continue a loan for any subsequent transfer of title by the heirs, or sale of interests between heirs to consolidate title; and

(2) The Agency treats any subsequent transfer of title as a sale subject to requirements listed in subpart I of this part (Part 9).

269-280 (Reserved)

Part 11 Borrowers Entering the Armed Forces

281 General

A Act Impact

The Servicemembers Civil Relief Act of 2003 and the Ronald W. Reagan National Defense Authorization Act for Fiscal Year (FY) 2005 both affect FSA loan servicing. The Servicemembers Civil Relief Act of 2003 authorization affects FLP borrowers on active duty at all times whereas the requirements of the Ronald W. Reagan National Defense Authorization Act for Fiscal Year (FY) 2005 are only implemented during a time of a war or national emergency as declared by the President or Congress.

282 Servicemembers Civil Relief Act of 2003**A Interest Rate**

Subject to paragraph 283, FSA may not charge interest exceeding 6 percent on existing FLP debt if the borrower enters full-time active military duty.

Upon learning that a borrower enters active duty, the authorized agency official shall send a notification letter to the borrower stating that the interest rate on their FSA loans will not exceed 6 percent while the borrower is on active military duty. The borrower shall submit written notice and a copy of the military orders calling the service member to military service and any orders further extending military service. The interest rate change will be effective with the date the military service started (as verified in the military orders submitted by the borrower).

If the borrower's interest rate is already lower than the 6 percent rate, the borrower will be notified that FSA will not increase the borrower's interest rate.

Adjustments to the interest rate based on military service must be processed by NFAOC, DLD only; therefore, the authorized agency official should send a memorandum to NFAOC, DLD that confirms the military service of the borrower and the effective date of that service.

-In addition, the authorized agency official shall process applicable changes to MIDAS Business Partner to change the borrower's address to the address at which FSA may-- contact the borrower while on active military duty or the address of a designated power of attorney.

B Penalty for Violations

Violations of the Servicemembers Civil Relief Act of 2003 are misdemeanors. Knowingly violating the provisions of the Servicemembers Civil Relief Act of 2003 is punishable by fines, imprisonment for not more than 1 year, or both.

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

Abbreviations Not Listed in 1-CM

The following abbreviations are not listed in 1-CM.

Approved Abbreviation	Term	Reference
AI	account information	65
APCD	type of applicant code	Ex. 25.5
CFS	Central Filing System	102
CL	conservation loan	Text, Ex. 2
CNC	currently not collectible	Ex. 25.5
CONACT	Consolidated Farm and Rural Development Act	1, Ex. 2
GL	guide letter	2
NFAOC, DLD	National Financial and Accounting Operations Center, Direct Loan Division	61, 62, 64, 65, 97, 146, 282, 283, Ex. 52, 53
NFAOC, PRB	National Financial and Accounting Operations Center, Program Reports Branch	Ex. 25.5
NP	nonprogram loan	16, 46, 62, 266, 248
NRBRA	Net Recovery Buyout Recapture Agreement	97
PF	Payoff Balance	65
PIN	personal ID number	63
PLS	primary loan servicing	61
RC	report code	Text, Ex. 25.5
SAA	Shared Appreciation Agreement	117, Ex. 2
ST	softwood timber loan	16, 196, 246
TDCLCR	Term Debt and Capital Lease Coverage Ratio	32
VRU	Voice Response System	63

Delegations of Authority

SED's may redelegate their authority to approve subordinations or releasing and refiling lien instruments instead of subordination to FLC, FLS, or DD.

IRS Forms, Corrections, and Reports

A IRS Forms

County Offices receive reports for the year ending December 31 of FLP borrowers reported on IRS 1099-A, IRS 1099-C, IRS 1099-G, and copies of IRS 1099-INT and IRS 1099-MISC with *--the form mailed to the borrower, as applicable.

Note: NFAOC, PRB reports this information to IRS and the borrower.--*

The following forms are mailed out by **COB January 31** of each year.

IRS Form	Explanation
1098	<p>IRS 1098:</p> <ul style="list-style-type: none"> • is attached to FSA-2065 for the annual yearend reporting • applies only to loans secured by real estate only or secured by real estate and chattel.
1099-A	<p>IRS 1099-A is sent to IRS and the affected FLP borrowers:</p> <ul style="list-style-type: none"> • whose security property was acquired as a full or partial satisfaction of their debt during the calendar year • reported on FSA-2585 during the calendar year. <p>Note: Use FSA-2585 as a substitute for IRS 1099-A when State and County Offices become aware of an abandonment and the acquisition will not be processed within 6 months. The borrower *--receives 1 copy and NFAOC, PRB receives the other copy through e-mail at RD-MOSTL-NFAOC-PRB@stl.usda.gov no later than the first workday in January. Contact information is available in 1-FLP, subparagraph 5 E. The information on the NFAOC, PRB copy is data converted and merged with the IRS 1099-A--* acquisition data reported to IRS * * *. It is critical that all spaces on FSA-2585 be completed.</p> <p>County Offices receive RC 960 that identifies each borrower, the unpaid principal, and market value of the acquired or abandoned property reported to IRS and the borrower.</p>

IRS Forms, Corrections, and Reports (Continued)

A IRS Forms (Continued)

IRS Form	Explanation
1099-C	<p>IRS 1099-C is provided to each borrower with a direct loan that had debt discharged through a writeoff, shared appreciation write-down, net recovery buyout, or writeoff of a lease account during the calendar year. Writeoffs processed with a class of writeoff code “5”, which are CNC (borrower is not released from liability), and equity receivable writeoffs are not reported to IRS. The total amount of debt canceled with an effective date in the calendar year will be reported on IRS 1099-C. The amount includes the following:</p> <ul style="list-style-type: none"> • deferred interest • deferred noncapitalized interest • interest discharged from the note and advance • noncapitalized interest • principal discharged from the note and advance. <p>County Offices receive RC 970 that identifies each borrower and the amount of discharged debt reported to IRS and the borrower.</p>
1099-G	<p>IRS 1099-G will be provided to all recipients of grant funds during the calendar year. Grant disbursements with current year check dates will be reported.</p> <p>IRS 1099-G generated with invalid addresses will be mailed to the appropriate State Office to distribute immediately to the grant recipients. Servicing offices will receive RC 980 that identifies each grant recipient and the disbursed amount reported to IRS and the borrower.</p>
1099-INT	<p>IRS 1099-INT is provided to IRS for direct loan borrowers who received interest income (interest paid) on refunds made under the Internal Administrative Offset Program.</p> <p>*--Note: NFAOC, PRB mails a copy to the borrower and the County Office.--*</p> <p>IRS 1099-INT is sent to borrowers who must have APCD on the ADPS MI Status Screen of “1”, “Individual”, or “2”, “Partnership”, and interest paid of \$10.01 or more. These forms are prepared manually.</p>
1099-MISC	<p>IRS 1099-MISC is provided to IRS for individuals who received payments from FSA for a nonclass action, discrimination claim settlement. A copy is mailed to the individual and the County Office. These forms are prepared manually.</p>