



Building Rural America
National Association of Credit Specialists
of the
USDA – Farm Service Agency
Loan Servicing Committee

THE LOAN SERVICING COMMITTEE MET AT THE MENGER HOTEL IN SAN ANTONIO, TX, ON JUNE 25-27, 2018 TO REVIEW RESOLUTIONS SUBMITTED BY THE MEMBERSHIP.

THE FOLLOWING RESOLUTIONS ARE RECOMMENDED FOR ADOPTION

Resolution 1

CONCERN: As of July 1, 2017, credit bureaus are no longer reporting/listing tax liens or civil judgments. This causes a concern for creditors as the removal of these items falsely inflate borrower's credit reports while also eliminating information needed for an effective analysis of applicant's creditworthiness and may impact feasibility of applications.

With the removal of these items from the credit report, it will necessitate physical searches of courthouse records or ability to subscribe to a central reporting system used by some county courts.

PROPOSED SOLUTION: Where in use, allow for government subscriptions to the on-line systems of county records.

If lien search is not completed by FSA staff, provide the ability to contract with 3rd party to complete lien searches of county courthouses prior to approval of servicing actions.

Resolution 2

CONCERN: When an account is debt settled using form FSA 2732, the approval official then sends Form FSA 2737 to the debtor. However, Paragraph 407B (second paragraph) requires the approval official to notify the debtor in writing of the approximate amount that will be reported to the IRS. Form FSA 2737 has no space on the form for this notification, thereby requiring the approval official to send out two items of correspondence to the debtor. This is duplicative, time consuming and is likely confusing to some debtors.

PROPOSED SOLUTION: Modify form FSA 2737 to allow for the information required in 7 FLP Paragraph 407B to be inserted into the form letter that goes to the debtor.

Resolution 3

CONCERN: County offices have received feedback from borrowers regarding a specific field on their FSA-2065, Annual Statement of Account. The field in question is the Payment Status. The borrower's information reflects they are "on schedule", when in fact the loan is substantially ahead of schedule. FSA employees have an "Instructions for Preparation" sheet for the FSA-2065, Annual Statement of Loan Account. The guidance for the field in question is: "If behind,

then the amount the loan is behind schedule on December 31, YYYY. 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. The Payment Status field on the FSA-2065 is confusing to borrowers as they receive no description of what the field represents, how it is completed, or the status of the account.

PROPOSED SOLUTION: Choice of three Proposed Solutions:

Display an accurate status of account on the FSA-2065 if the account is, in fact, ahead of schedule, or

Include a comment on the FSA-2065 instructions that explains how this field is completed, or

Remove the information altogether with regard to payment status.

Resolution 4

CONCERN: 2FLP Par 357D states that a Lender's bid at a foreclosure sale should be at a minimum, the lesser of the net recovery value or the unpaid guaranteed loan balance. However, if there is a prior lienholder involved, Lender should add the amount owed to the prior lienholder in the bid calculations in determining a bid amount that protects the Government's interests.

PROPOSED SOLUTION: Revise the current regulations to provide guidance and clarification when there is a prior lienholder involved.

THE FOLLOWING RESOLUTIONS ARE RECOMMENDED FOR NON-ADOPTION:

Resolution 5

CONCERN: Servicing operating loans that mature with a balloon payment due when borrowers cannot pay in a lump sum. Many of these balloon payments across the Agency are necessary to set up a direct operating loan (D-OL) on an amortization longer than seven years for financing longer life collateral.

- A. Amortizations longer than seven years are commonly used in industries such as dairy on D-OL's to help the cash flow of SDA and beginning farmers. Starting agricultural ventures often require large capital purchases in the first few years of business.
- B. Several FSA customers pay faithfully each month and are currently unable to continue the same payment when their note balloons without having to go through a lengthy rescheduling process.
- C. Many FSA employee and customer hours are spent getting a complete servicing application, preparing a new credit presentation, and running eDALRs to obtain approval. Efficiencies of FSA staff are lost in the current process of servicing ballooned notes.

PROPOSED SOLUTION: Add a streamlined servicing process as another Primary Loan Servicing Program under Part 4 of 5-FLP. Applicants would need to meet the following requirements:

Would need to meet all requirements outlined in 5-FLP paragraph 102 excluding item 102D

Borrower must be current on all payments to the Farm Service Agency

Has not experienced any significant changes to their operation since the closing of the original note

Presents an updated, positive cash flow plan reflecting the ability for repayment to FSA and all creditors

Did not receive primary loan servicing in the previous year

Meets all other requirements and eligibility criteria for loan rescheduling as outlined in 5-FLP Part 4

There have been no major changes to the original loan security, nor are there any pending security issues

A note addendum will be completed that will continue the loan at the existing rate and payment schedule until paid in full according to the original amortization. Addendum will be attached to the original note. Although it's understood that this requires a statutory change to 5-FLP, we believe this should be added to the list of future changes to be requested. If the goal is to keep FSA the customer-driven Agency, let's help our field employees and customers with a more streamlined servicing process focused on efficiency and exceptional service.

REASON FOR NON-ADOPT: Statutory issue. Committee believes that this level of restructure needs to include Primary Loan Servicing Review and analysis of the financial information as required by 5-FLP.

Respectfully submitted by the 2017/2018, Farm Loan Program Loan Making Committee:

Jessica Smith, Zone A

Kay A. McCoy, Zone B - Chairperson

Nathan Denney, Zone C

Teresa Foust, Zone D