

Form FHA 021-4

UNITED STATES DEPARTMENT OF AGRICULTURE  
RURAL DEVELOPMENT  
HARRISBURG, PENNSYLVANIA

TO: State Office Area Office	STATE PROCEDURE NOTICE	ISSUE NO. 252 DATE: 12/3/99
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RURAL DEVELOPMENT MANUAL CHANGE

PA Instruction 1902-A

**GENERAL: The Debt Collection**

Improvement Act (DCIA) of 1996 requires that all Federal payments be made by EFT by January 1999. The Development Office of the Deputy Chief Financial Officer (DCFO)(formerly known as the Finance Office) developed an automated interim process for EFT/ACH loan and grant disbursements, which is now available for use.

This instruction was written to provide guidance in the implementation and use of EFT/ACH procedures in Pennsylvania for Community Facilities, Rural Utilities Service and Rural Business Service loans and grants.

INSERT:  
Exhibit A  
RD Instruction 1902-A

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ELECTRONIC FUNDS TRANSFER/AUTOMATED CLEARING HOUSE (EFT/ACH)BACKGROUND:

The Debt Collection Improvement Act (DCIA) of 1996 requires that all Federal payments be made by EFT by January 1999. The Development Office of the Deputy Chief Financial Officer (DCFO)(formerly known as the Finance Office) developed an automated interim process for EFT/ACH loan and grant disbursements, which is now available for use.

This Instruction was written to provide guidance in the implementation and use of EFT/ACH procedures in Pennsylvania for Community Facilities, Rural Utilities Service and Rural Business Service loans and grants.

LETTERS OF CONDITIONS/LETTERS OF AGREEMENT:

In order to meet the requirements of the Debt Collection Improvement Act (DCIA) of 1996, all future Letters of Conditions and Letters of Agreement for Community Facilities, Rural Utilities Service and Rural Business Service loans and grants will include the following provision:

"Debt Collection Improvement Act (DCIA) of 1996:

The Debt Collection Improvement Act (DCIA) of 1996 requires that all Federal payments after January 1, 1999 must be made by Electronic Funds Transfer/Automated Clearing House (EFT/ACH). Borrowers or grantees receiving payments by EFT will have funds directly deposited to a specified account at a financial institution with funds being available to the recipient on the date of payment. The borrower/grantee should complete Form SF-3881, Electronic Funds Transfer Payment Enrollment Form, for each account where funds will be electronically received. The completed form(s) must be received by Rural Development at least thirty (30) days prior to the first advance of funds. Rural Development expects funds to be deposited into institutions insured by the FDIC, FSLIC or NCUA and that accounts will be properly collateralized for amounts over \$100,000."

DELIVERY OF THE LETTER OF CONDITIONS/LETTERS OF AGREEMENT:

A copy of Form SF-3881 should be furnished to the borrower/grantee at the time of delivery of the Letter of Conditions/Letter of Agreement for each account (loan/grant) which will be established for the borrower/grantee.

If the Letter of Conditions/Letter of Agreement is delivered to an entity who has received no prior Rural Development assistance and who will be establishing new accounting information on the EFT System for the loan/grant, it will be necessary for both the borrower/grantee and the financial institution to expeditiously complete the form and return it to the Area Office. The

Area Office should then establish the account information in the EFT System, after notification from the State Office that funds have been obligated.

If an existing borrower/grantee is receiving a subsequent loan/grant and they have already furnished their financial account information for prior loans/grants, they can confirm at the time of delivery of the Letter of Conditions/Letter of Agreement that the account information remains unchanged by writing "No Change" in both the payee and Financial Institution sections of Form SF-3881 and signing the form. The Area Office should then establish a new account(s) under the new loan/grant number, using the routing and bank account numbers previously provided, after notification from the State Office that funds have been obligated.

Form(s) SF-3881 should be retained in Position 2 in the borrower/grantee's official file.

#### PLEDGES OF COLLATERAL:

Funds deposited into borrower/grantee's accounts are considered to be the borrower/grantee's responsibility. Letters of Conditions will contain language which states that Rural Development expects their funds to be deposited into institutions insured by the FDIC, FSLIC or NCUA and that their accounts will be properly collateralized for amounts over \$100,000. Rural Development Instructions do not require the completion of our Form Letter 1902-A-2, "Designated Financial Institution - Collateral Pledge" for borrower/grantee's private accounts.

However, funds deposited into a Supervised Bank Account must meet the requirements of Treasury Circular 176 and RD Instruction 1902-A, including the pledge of collateral.

#### ESTABLISHING THE BORROWER/GRANTEE'S ACCOUNT(S) ON THE EFT/ACH SYSTEM:

Following the obligation of funds, the information obtained from Form SF-3881 (routing and bank account numbers, etc.) and the loan/grant number obtained from PLAS should be entered into the EFT database. A verification of the validity of the routing and account numbers will be generated and forwarded to the financial institution, which is allowed a fourteen (14) day response time. Only after this verification process has been completed and the EFT account validated will the Area Office be allowed to process a check request using the automated IC transaction through ADPS.

By establishing the loan/grant accounts and the attendant financial account information on the EFT System as soon as possible after obligation of funds, Area Offices will avoid delays at the time of fund disbursement. The account will already have been validated and the Area Office will be able to successfully process the "IC" transaction two days prior to the date of fund disbursement. For "IC" transactions processed prior to 5 PM CST, funds should be available in the borrower/grantee's account on the second business day after the date of the "IC" transaction. For example, a IC processed on Tuesday afternoon should result in funds available in the account Thursday. (Holidays, Saturdays and Sundays are not considered business days.)

While the first Electronic Funds Transfer can be received within 17 days from the initial input, it is recommended that Area Offices allow at least 30 days in case of problems.

All EFT/ACH requests that were previously either faxed or telephoned to the Finance Office by the field offices without utilizing EFT were performed on a manual basis. They are not yet established on the EFT database. Borrowers/grantees with undisbursed balances should be identified and contacted to obtain the necessary information for establishing their account(s) on the EFT System. The Finance Office has suggested that the financial accounting information for these borrowers/grantees be collected verbally, since previous EFT/ACH requests have presumably been manually processed for most of them. Area Offices should contact the borrower/grantee and verbally complete the form, including the name and telephone number of the ACH Coordinator for the financial institution, and enter the information into the EFT System.

If an error is made in establishing the account or ordering the transfer of funds, a paper check will be issued automatically and should arrive in approximately one week. If the funds do not appear in the borrower/grantee's account on the second business day following the "1C" transaction date, Area Offices should contact the Deputy Chief Financial Officer (DCFO) to track the request and determine what the error may be.

#### ORDERING FUNDS FOR CLOSINGS:

Effective immediately, all closings must be consummated (debt instruments executed) prior to funds being deposited to a borrower/grantee's bank account via EFT/ACH. Area Offices should work closely with borrowers/grantees and closing attorneys to reach an understanding of the sequence of events prior to closing.

The borrower/grantee's account information must already have been validated in the EFT/ACH system prior to ordering funds. If not, there will be a fourteen (14) days time lapse before the first advance of funds can be drawn.

When ordering funds for closings, particularly those with bond accounts, be aware the EFT disbursement will be available on the second business day following the date of request. Area Offices should arrange for a "pre-closing" at which all documents will be signed and then held by bond counsel. The "pre-closing" should be held at least two working days prior to the closing date so that a "1C" transaction can be processed and funds will arrive on the closing date.

When an emergency exists, the EFT/ACH (next-day funds) and wire transfer (same-day funds) processes are still available on a case-by-case basis, but if either of these methods is used the prior approval of the Program Director is required.

For further guidance on processing EFT/ACH transactions, consult the Electronic Funds Transfer Handbook (available through the Intranet) or call your program division in the State Office.