PART 1951 - SERVICING AND COLLECTIONS

Subpart R - Rural Development Loan Servicing

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§ 1951.851 Introduction.

(a) This subpart contains regulations for servicing or liquidating loans or other assistance made by the Rural Business-Cooperative Service or its successor agency under the IRP and the RMAP. All debt settlement cases under this subpart will be settled in accordance with the debt settlement provisions set forth in 7 CFR part 1956, subpart C. The provisions of this subpart supersede conflicting provisions of any other subpart. (Revised 06-23-17, PN 499.)

(b) This Subpart also contains regulations for servicing the existing Rural Development Loan Fund (RDLF) loans previously approved and administered by the U.S. Department of Health and Human Services (HHS) under 45 CFR Part 1076. This action is needed to implement the provisions of Section 1323 of the Food Security Act of 1985, P.L. 99-198, which provides for the transfer of the loan servicing authority for those loans from the HHS to the U.S. Department of Agriculture (USDA).

(c) These regulations do not negate contractual arrangements that were previously made by the HHS, Office of Community Services (OCS), or the intermediaries operating relending programs that have already been entered into with ultimate recipients under previous regulations.

(d) The loan program is administered by the Rural Development National Office. The Director, Business and Industry Division, is the point of contact for servicing activities unless otherwise delegated by the Administrator.

(e) Rural Development will input the necessary data via terminal screens into the Rural Community Facility Tracking System (RCFTS) on the RDLF loans. If Rural Development so desires. Form RD 2033-34, "Management System Card - Business and Industry," may be prepared in accordance with RD Instruction 2033-F. (Added 6-27-90, PN 138)

§ 1951.852 Definitions and abbreviations.

(a) General definitions. The following definitions are applicable to the terms used in this Subpart.
(1) **Intermediary (Borrower).** The entity receiving Rural Development loan funds for relending to ultimate recipients. Rural Development becomes an intermediary in the event it takes over loan servicing and/or liquidation.

(2) **Loan Agreement.** The signed agreement between Rural Development and the intermediary setting forth the terms and conditions of the loan.

(3) **Low-income.** The level of income of a person or family which is at or below the Poverty Guidelines as defined in Section 673(2) of the Community Services Block Grant Act (42 U.S.C. 9902(2)).

(4) **Market value.** The most probable price which property should bring, as of a specific date in a competitive and open market, assuming the buyer and seller are prudent and knowledgeable, and the price is not affected by undue stimulus such as forced sale or loan interest subsidy.

(5) **Principals of Intermediary.** Includes members, officers, directors, and other entities directly involved in the operation and management of an intermediary organization.

(6) **Ultimate recipient.** The entity receiving financial assistance from the intermediary. This may be interchangeable with the term "subrecipient" in some documents previously issued by HHS.

(7) **Rural area.** Includes all territory of a State that is not within the outer boundary of any city having a population of twenty-five thousand or more.

(8) **State.** Any of the fifty States, the Commonwealth of Puerto Rico, the Virgin Islands of the United States, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands.

(9) **Technical assistance or service.** Technical assistance or service is any function unreimbursed by Rural Development performed by the intermediary for the benefit of the ultimate recipient.
§ 1951.852(a) (Con.)

(10) Working capital. The excess of current assets over current liabilities. It identifies the liquid portion of total enterprise capital which constitutes a margin or buffer for meeting obligations within the ordinary operating cycle of the business.

(b) Abbreviations. The following abbreviations are applicable:

B&I - Business and Industry
CSA - Community Services Administration
EIS - Environmental Impact Statement
HHS - U.S. Department of Health and Human Services
IRP - Intermediary Relending Program
OCS - Office of Community Services
OIG - Office of Inspector General
OGC - Office of the General Counsel
RDLF - Rural Development Loan Fund
USDA - United States Department of Agriculture

§§ 1951.853 - 1951.854 [Reserved]

§§ 1951.855 - 1951.858 [Reserved]

§ 1951.859 Terms of loans.

(a) No loans shall be extended for a period exceeding 30 years. Principal payments on loans will be made at least annually. The initial principal payment may be deferred not more than 3 years.

(b) The terms of loan repayment will be those stipulated in the loan agreement and/or promissory note.

§ 1951.860 [Reserved]
§ 1951.866 Security.

(a) Loans from RDLF intermediaries to ultimate recipients. Security requirements for loans from intermediaries to ultimate recipients will be negotiated between the intermediaries and ultimate recipients. Rural Development concurrence in the intermediary's security proposal is required only when security for the loan from the intermediary to the ultimate recipient will also serve as security for the Rural Development loan.

(b) Additional security. The Rural Development may require additional security at any time during the term of a loan to an intermediary if, after review and monitoring, an assessment indicates the need for such security.

(c) Appraisals. Real property serving as security for all loans to intermediaries and for loans to ultimate recipients serving as security for loans to intermediaries will be appraised by a qualified appraiser. For all other types of property, a valuation shall be made using any recognized, standard technique for the type of property involved (including standard reference manuals), and this valuation shall be described in the loan file.
§ 1951.881 Loan servicing.

(a) These regulations do not negate contractual arrangements that were previously made by the HHS, Office of Community Services (OCS), or the intermediaries operating relending programs that have already been entered into with ultimate recipients under previous regulations. Preexisting documents control when in conflict with these regulations. The loan is governed by terms of existing legal documents of each intermediary. The RDLF/IRP intermediary is responsible for compliance with the terms and conditions of the loan agreement. Other than 7 CFR 1951.709(d)(1)(B)(iv), intermediaries receiving an unauthorized loan or using their revolving fund for unauthorized purposes will be serviced in accordance with 7 CFR part 1951, subpart O.

(b) Each intermediary will be monitored by Rural Development based on progress reports submitted by the intermediary, audit findings, disbursement transactions, visitations, and other contact with the intermediary as necessary.

(c) Loan servicing is intended to be preventive rather than a curative action. Prompt follow-up on delinquent accounts and early recognition of potential problems and pursuing a solution to them are keys to resolving many problem loan cases.

(d) Written notices on payments coming due will be prepared and sent to the intermediary by the Rural Development Finance Office approximately 15 days in advance of the due date of the payments. A copy of the notice will be sent to the Rural Development Administrator or designee.

(e) If the scheduled payment is not made by the intermediary within 30 days after due date of the payment, the Finance Office will send a past due notice to the intermediary. The notice will show the late charge amount, if applicable, and the interest amount past due. The late charge amount, if applicable, and the interest past due amount will be capitalized as principal due 30 days after the due date of the monthly payment unless existing loan documents prior to this regulation state otherwise. If the loan documents state when late charge amounts or interest accruals are to be capitalized, the loan documents will prevail.
(1) A per diem amount will be shown on the late notice sent to the intermediary. The Finance Office will send this notice to the Administrator or designee 30 days after the past due notice has been sent to the intermediary and the account remains delinquent. Thereafter, further notices by Rural Development designee will be sent to the intermediary on the late payments or any further payments until the account is in a current status.

(2) The Finance Office will notify the Administrator or designee on any payments due from the delinquent intermediary. It will be the responsibility of the Administrator or designee to follow up on delinquent payments to bring the account to a current status.

(3) A copy of any correspondence or notice generated by the Administrator or designee on any delinquent loan will be sent to the Finance Office.

(4) Interest will be computed on a 365-day basis unless legal documents state otherwise.

(f) It is the responsibility of the Finance Office to maintain complete accounting records for each intermediary. The Finance Office will:

(1) Coordinate with the Administrator or designee to assure that interest and principal payments received are in accordance with the promissory notes and its companion documents, and the effective amortization schedule. If the payments received appear to be incorrect, the Finance Office will advise the Administrator or designee. The Administrator or designee will take the necessary action to clear the issue and promptly advise the Finance Office of the proper accounting procedure.

(2) Send monthly statements to the National Office reflecting all payments received to date on each borrower.

(3) Send to the Administrator or designee a monthly summary of all intermediary loans as follows:
§ 1951.881(f)(3) (Con.)

(i) Number and amount of all loans.

(ii) Total advanced on all loans.

(iii) Total interest and principal received on the loans.

(iv) Total outstanding balance on all loans.

(4) Prepare reamortization schedules needed as a result of restructuring any loans and send to the Administrator or designee.

(5) Furnish in writing to the Administrator or designee a per diem amount on the actual interest amount due when requested by the Administrator.

(g) It is the responsibility of the Administrator or designee to:

(1) Review and analyze the semiannual report of the intermediaries and reconcile same to the annual audits.

(2) Review the annual audits of the intermediaries.

(3) Review the semiannual reports of the intermediaries and take appropriate action when necessary.

(4) Follow up on delinquent intermediaries to bring the account current.

(5) Notify the Finance Office in writing when a loan is determined to be uncollectible in order for the Finance Office to make provisions for an appropriate timely entry to the loss account.

(6) Furnish to the Finance Office the necessary information to produce reamortization schedules.

(7) Provide the Finance Office a copy of any correspondence in regard to the restructuring of the loans.

(8) Review reamortization schedules, the schedule will then be forwarded to the intermediary.
RD Instruction 1951-R
§ 1951.881(g) (Con.)

(9) Confirm account balances. Payment history of loans and any other related matter will be furnished to the requesting party, (i.e. third party auditing firms) if warranted and proper. If there are discrepancies in any loan balances being confirmed, the Finance Office should be consulted before the Administrator or designee writes the requested parties.

(10) Furnish upon request by the Finance Office, the information necessary to help reconcile account balances, obtain evidence of payments made by the borrower, and any other related data necessary to keep the financial records correct and in balance.

(11) Answer Congressional and other correspondence.

(12) Review intermediary's plans, cash flow projections, balance sheets, and operating statements.

§ 1951.882 Field visits.

The Agency will conduct field visits to the IRP/RDLF intermediaries and document the report on Form RD 1951-5, "Intermediary Relending Program/Rural Development Loan Fund/Rural Microentrepreneur Assistance Program Field Visit Review." Field visits should be conducted on an annual basis for loans classified under § 1951.885 (c), (d), (e) and (f). For loans classified under § 1951.885 (a) and (b), field visits may be conducted tri-annually once the loan has been determined to be seasoned. The Agency considers a loan "seasoned" when current payments have been made for at least 24 months on the fully amortized payment amount. For borrowers with multiple loans, an unseasoned loan may not require an annual site visit provided every other loan owed by the intermediary in the IRP program can be classified under § 1951.885 (a) and (b). In addition, to qualify for tri-annual site visits, an intermediary must comply with servicing requirements contained in § 1951.883 (a)(1) and (a)(4) and the Agency did not find any significant findings in its last field visit. Field visits resulting in significant findings will require at least an annual visit in the Agency’s follow-up requirements.

(a) During or in preparation for field visits to RDLF/IRP intermediaries by Rural Development personnel, the following loan servicing activities are to be performed:

(1) Review what is being done to inform eligible applicants of the program's existence.
(2) Obtain current and proper financial information and analyze for trends on all RDLF/IRP intermediaries. Also determine if there is a sufficient interest rate spread between the interest rate charged the intermediary and the interest rate charged the ultimate recipients to cover the administrative costs, including bad debts of operating the program.

(3) Include in the write-ups of the field visit any issues or problems not resolved from the last visitation in the agenda.

(4) Review credit elsewhere information (has the ultimate recipient been refused funds by other sources?) to determine if this information is in the files.

(5) Observe collateral and its condition, maintenance, protection and utilization by the intermediary or ultimate recipient.

(6) Review the process for handling loan proceeds to assure they are deposited in an interest-bearing account or time deposit in a bank or other financial institution fully protected by Federal or State insurance.

(7) Review materials to determine if the purpose of the program is being fulfilled; i.e., loan funds are being used in accordance with Rural Development policies, procedures, the approved work plan and the Loan Agreement.

(8) A report of the visit will be made on "RDLF/IRP Review Summary Sheet," or otherwise documented and included in the loan file in the format of the "RDLF/IRP Review Summary Sheet." The report should include an opinion on the financial condition of the intermediary based upon the review of the annual audited financial statement, periodic financial statements, and observations made during the visit and other sources.

(9) Determine if the ultimate recipients' files are complete, organized, and current.

(10) Any instructions, directions, or corrective action should be confirmed by letter to the intermediaries.
(b) All intermediaries are required to provide an annual audited financial statement as well as a summary sheet of their lending program on each ultimate recipient receiving Federal funds. The summary sheet of their lending program on each ultimate recipient should include but not be limited to: the borrower's name and address, type of business, use of loan funds, loan amount, date of note, outstanding balance, date of final payment, interest rate, amount and type of collateral, insurance information, loan status, and the date of Agency approval, if applicable.

(c) The intermediary should perform an analysis on its ultimate recipients and follow up in writing on any servicing action required. A copy of the analysis will be provided to the Agency for those ultimate recipient loans funded with Agency IRP loan funds.

§ 1951.883 Reporting Requirements:

(a) Intermediaries are to provide the Agency with reports as required in their respective loan agreements, applicable statutes and as required by the Agency. The report shall include the following:

(1) An annual audit; dates of audit report period need not necessarily coincide with other reports on the RDLF/IRP. Audits shall be due 90 days following the audit period. Audits must cover all of the intermediary's activities. Audits will be performed by an independent certified public accountant or by an independent public accountant licensed and certified on or before December 31, 1970, by a regulatory authority of a State or other political subdivision of the United States. An acceptable audit will be performed in accordance with generally accepted auditing standards and include such tests of the accounting records as the auditor considers necessary in order to express an opinion on the financial condition of the intermediary. The Agency does not require an unqualified audit opinion as a result of the audit. Compilations or reviews do not satisfy the audit requirement. The Agency’s review of the audit should document the analysis done on
§ 1951.883(a)(1) (Con.)

a review of the balance sheet, current liabilities, and income statements over the last 3 fiscal years. The review should document the findings of the analysis in the areas of increases or decreases in revenues, expenses or balance sheet line items. The analysis should document that the audit meets the requirements as described in § 1951.883(a)(1) and that the borrower is on a sustainable path. A record of the analysis of the audit should be kept in the servicing file for the life of the loan.

(2) Quarterly or semiannual reports (due 30 days after the end of the period).

(i) Reports will be required quarterly during the first year after loan closing and, if all loan funds are not utilized during the first year, quarterly reports will be continued until at least 90 percent of the Agency IRP loan funds have been advanced to ultimate recipients. Thereafter, reports will be required semiannually. Also, the Agency may require quarterly reports if the intermediary becomes delinquent in repayment of its loan or otherwise fails to fully comply with the provisions of its work plan or Loan Agreement, or the Agency determines that the intermediary’s IRP revolving fund is not adequately protected by the current sound worth and paying capacity of the ultimate recipients.

(ii) These reports shall contain information only on the IRP revolving loan fund, or if other funds are included, the IRP loan program portion shall be segregated from the others; and in the case where the intermediary has more than one IRP revolving fund from the Agency a separate report shall be made for each of the IRP revolving funds.

(iii) The reports will include, on a form provided by the Agency. Information on the intermediary's lending activity, income and expenses, financial condition, and a summary of names and characteristics of the ultimate recipients the intermediary has financed.
§ 1951.883(a)(2)(iii) (Con.)

(3) An annual report on the extent to which increased employment, income and ownership opportunities are provided to low-income persons, farm families, and displaced farm families for each loan made by such intermediary.

(4) Proposed budget for the following year. The proposed budget is the annual budget of projected income and proposed administrative costs as described in RD Instruction 4274-D, § 4274.332(b)(2). The Agency’s review of the budget shall include verifying the following:

(i) The budget should be completed annually following the federal fiscal year.

(ii) The budget proposes income and expenses for the fund in the coming fiscal year and derives a net income figure by subtracting the income from the expense, including the annual principal payment on the IRP loan. The income section of the

Budget includes line items for every area of income including but not limited to:

(1) Interest from ultimate recipients and deposits;

(2) Fee income relating to application processing and closing;

(3) Late fees; and

(4) Any other miscellaneous income not related to (1) through (3) of this paragraph (Principal repayment collected).

(d) The Expense Section of the budget includes line items for every area of expense including, but not limited to:

(1) Employee related expenses including salaries, benefits, travel and training costs;

(2) Costs relating to application processing and closing;

(3) Interest Expense for both Agency debt and any other debt secured with the funds;

(4) Professional Services including accounting and audit costs;
§ 1951.883(d) (Con.)

(5) Bad Debt allowance;

(6) Pro-rated rent and overhead;

(7) Marketing; and

(8) Any other miscellaneous income not related to (1) through (7) of this paragraph.

(e) If the proposed net fund income after principal payment is a negative number, the approval authority is the state’s program director or other delegated approval authority. Negative fund budgets should only be approved in situations where the intermediary is incurring temporary expenses that are affecting the budget. Negative fund budgets should not be approved for multiple years as they can adversely impact the long term viability of the fund.

(f) Other reports as the Agency may require from time to time.

(g) Intermediaries shall report to the Agency whenever an ultimate recipient is more than 90 days in arrears in the repayment of principal or interest.

§ 1951.884 Revolved Funds.

For ultimate recipients assisted by the intermediary with PmHA or its successor agency under Public Law 103-354, revolved funds derived from IRP funds shall be required to comply with the provisions of these regulations and/or loan agreement.
§ 1951.885 Loan classifications.

All loans to intermediaries in the Agency portfolio will be classified by the Agency at loan closing and again whenever there is a change in the loan which would impact on the original classification. No one classification should be viewed as more important than others. The uncollectability aspect of Doubtful and Loss classifications is of obvious importance. However, the function of the Substandard classification is to indicate those loans that are unduly risky which may result in future losses. Substandard, Doubtful and Loss are adverse classifications. The special mention classification is for loans which are not adversely classified but which require the attention and follow-up of Rural Development. The Agency’s loan collateral is the assets of the revolving loan fund. In order to determine the adequacy of the collateral, field staff must analyze the ratio of assets to liabilities of the revolving loan to determine the loan classification. The information to calculate the ratio must be taken from Lenders Interactive Network Connection (LINC). The calculation of assets must distinguish performing assets (loans owed to intermediary that are either current or ahead) from non-performing assets (loans owed to intermediary that are delinquent or write-offs) before dividing assets over liabilities. All cash categories should be included in the asset category. The loans will be classified as follows:

(a) Seasoned loan classification. To be classified as a seasoned loan, a loan must:

(1) Have a remaining principal loan balance of two thirds or less of the original aggregate of all existing loans made to that intermediary.

(2) Be in compliance with all loan conditions and Rural Development regulations.

(3) Have been current on the loan(s) payments for 24 consecutive months.

(4) Be secured by collateral which is determined to be adequate to ensure there will be no loss on the loan. The Agency considers the collateral to be adequate if the ratio of minimum assets divided by liabilities results in a ratio of 1.20 or higher.
§ 1951.885 (Con.)

(b) **Current non-problem classification.** This classification includes those loans which have been current for less than 24 consecutive months and are in compliance with the loan conditions and Rural Development regulations, and are not considered to pose a credit risk to Rural Development. These loans would be classified as seasoned but for the "24 months" and "two-thirds" requirements for seasoned loans. The Agency considers this standard as being meet when \( \frac{\text{minimum assets}}{\text{liabilities}} \) results in a ratio of 1.0 or more but less than 1.20.

(c) **Special mention classification.** This classification includes loans which do not presently expose Rural Development to a sufficient degree of risk to warrant a Substandard classification but do possess credit deficiencies deserving Rural Development's close attention because the failure to correct these deficiencies could result in greater credit risk in the future. This classification would include loans that may be high quality, but which Rural Development is unable to supervise properly because of an inadequate loan agreement, the condition or lack of control over the collateral, failure to obtain proper documentation or any other deviations from prudent lending practices. Adverse trends in the intermediary's operation or an imbalanced position in the balance sheet which has not reached a point that jeopardizes the repayment of the loan should be assigned to this classification. Loans in which actual, not potential, weaknesses are evident and significant should be considered for a Substandard classification.
(d) **Substandard classification.** This classification includes loans which are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans in this classification must have a well-defined weakness or weaknesses that jeopardize the payment in full of the debt. If the deficiencies are not corrected, there is a distinct possibility that Rural Development will sustain some loss. The Agency considers a loan substandard when minimum assets divided by liabilities results in a ratio of .85 or more but less than 1.0. Loans classified in this category will be required to provide quarterly reporting as described in § 1951.883 (a)(2) (i) until subsequent reporting shows improvement in the assets/liabilities of 1.0 or greater. They may also be subject to posting additional collateral as described in RD Instruction 4274-D, § 4274.338 (b)(8). All borrowers who fail to provide timely and complete reporting into the LINC system when required will be automatically put into this classification category. In addition, all borrowers who fail to comply with servicing requirements contained in § 1951.883 (a) (1) and (a (4) will also be rated in this category.

(e) **Doubtful classification.** This classification includes those loans which have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, based on currently known facts, conditions and values, highly questionable and improbable. The Agency considers a loan doubtful when minimum assets divided by liabilities results in a ratio of less than .85. Loans classified in this category will be subject to additional servicing as it applies to classifications in § 1951.885 (d) of this section. Field staff should also pursue transfers to another eligible entity utilizing procedures described in § 1951.889.

(f) **Loss classification.** This classification includes those loans which are considered uncollectible and of such little value that their continuance as loans is not warranted. Even though partial recovery may be affected in the future, it is not practical or desirable to defer writing off these basically worthless loans.

§§ 1951.886 - 1951.888 [Reserved]

§ 1951.889 **Transfer and assumption.**

(a) All transfers and assumptions must be approved in advance in writing by Rural Development. Such transfers and assumptions must be to an eligible intermediary.
§ 1951.889 (Con.)

(b) Available transfer and assumption options to eligible intermediaries include the following:

(1) The total indebtedness may be transferred to another eligible intermediary on the same terms.

(2) The total indebtedness may be transferred to another eligible intermediary on different terms not to exceed those terms for which an initial loan can be made to an organization that would have been eligible originally.

(3) Less than total indebtedness may be transferred to another eligible intermediary on the same terms.

(4) Less than total indebtedness may be transferred to another eligible intermediary on different terms.

(c) The transferor will prepare the transfer document for Rural Development's review prior to the transfer and assumption.

(d) The transferee will provide Rural Development with a copy of its latest financial statement and a copy of its annual financial statement for the past 3 years if available; its Federal Tax Identification number; organizational charter; minutes from the Board of Directors authorizing the transaction; certification of good standing from the Secretary of State or whatever regulatory agency oversees nonprofit corporations for that State or Commonwealth where the entity is headquartered; and any other information that Rural Development deems necessary for its review.

(e) The assumption agreement will contain the Rural Development case number of the transferor and transferee.

(f) When the transferee makes a cash downpayment in connection with the transfer and assumption, any proceeds received by the transferor will be credited on the transferor's loan debt in inverse order of maturity.
RD Instruction 1951-R
§ 1951.889 (Con.)

(g) The Administrator or designee will approve or decline all transfers and assumptions.

§ 1951.890 Office of Inspector General and Office of General Counsel referrals.

When facts or circumstances indicate that criminal violations, civil fraud, misrepresentations, or regulatory violations may have been committed by an applicant or an intermediary, Rural Development will refer the case to the appropriate Regional Inspector General for Investigations, OIG, USDA, in accordance with RD Instruction 2012-B (available in any Rural Development office) for criminal investigation. Any questions as to whether a matter should be referred will be resolved through consultation with OIG and Rural Development and confirmed in writing. In order to assure protection of the financial and other interests of the Government, a duplicate of the notification will be sent to the OGC. OGC will be consulted on legal questions. After OIG has accepted any matter for investigation, Rural Development staff must coordinate with OIG in advance regarding routine servicing actions on existing loans.

§ 1951.891 Liquidation; default.

(a) In the event that Rural Development takes over the servicing of the ultimate recipient of an intermediary, those loans will be serviced by this regulation and in accordance with the contractual arrangement between the intermediary and the ultimate recipient. Should the Rural Development determine that it is necessary or desirable to take action to protect or further the interests of Rural Development in connection with any default or breach of conditions under any loan made hereunder, the Rural Development may:

(1) Declare that the loan is immediately due and payable.

(2) Assign or sell at public or private sale, or otherwise dispose of for cash or credit at its discretion and upon such terms and conditions as Rural Development shall determine to be reasonable, any evidence of debt, contract, claim, personal or real property or security assigned to or held by the Rural Development in connection with financial assistance extended hereunder.
§ 1951.891(a)(Con.)

(3) Adjust interest rates, use fixed or variable rates, grant moratoriums on repayment of principal and interest, collect or compromise any obligations held by Rural Development and take such actions in respect to such loans as are necessary or appropriate, consistent with the purpose of the program and this Subpart. The Administrator will notify the Rural Development Finance Office of any change in payment terms, such as reamortizations or interest rate adjustments, and effective dates of any changes resulting from servicing actions.

(b) Failure by an ultimate recipient to comply with the provisions of these regulations and/or loan agreement shall constitute grounds for a declaration of default and the demand for immediate and full repayment of its loan.

(c) Failure by an intermediary to comply with the provisions of these regulations or to relend funds in accordance with an approved work plan or loan agreement shall constitute grounds for a declaration of default and the demand for immediate and full repayment of the loan.

(d) In the event of default, the intermediary will promptly be informed in writing of the consequences of failing to comply with loan covenant(s).

(e) Protective advances to the intermediary will not be made in lieu of additional loans, in particular working capital loans. Protective advances are advances made by Rural Development for the purpose of preserving and protecting the collateral where the intermediary has failed to and will not or cannot meet its obligations. TheAdministrator or designee must approve in writing all protective advances.

(f) In the event of bankruptcy by the intermediary and/or ultimate recipient, Rural Development is responsible for protecting the interests of the Government. All bankruptcy cases should be reported immediately to the Regional Attorney. The Administrator must approve in advance and in writing the estimated liquidation expenses on loans in liquidation bankruptcy. These expenses must be considered by Rural Development to be reasonable and customary.
(g) Liquidation, management, and disposal of inventory property will be handled in accordance with Subparts A, B, and C of Part 1955 of this Chapter.

§§ 1951.892 - 1951.893 [Reserved]

§ 1951.894 Debt settlement.

Debt settlement of all claims will be handled in accordance with subpart C of part 1956 of this chapter. (Revised 06-23-17, PN 499.)

§ 1951.895 [Reserved]

§ 1951.896 Appeals.

Any appealable adverse decision made by Rural Development which affects the borrower may be appealed upon written request of the aggrieved party in accordance with Subpart B of Part 1900 of this Chapter.

§ 1951.897 Exception authority.

The Administrator may, in individual cases, grant an exception to any requirement or provision of this subpart which is not inconsistent with an applicable law or opinion of the Comptroller General, provided the Administrator determines that application of the requirement or provision would adversely affect the Government's interest. The basis for this exception will be fully documented. The documentation will: demonstrate the adverse impact; identify the particular requirement involved; and show how the adverse impact will be eliminated.

§§ 1951.898 - 1951.899 [Reserved]

§ 1951.900 OMB Control Number.

The information collection requirement obtained for this part is pending OMB approval at the time of this rule's publication in the Federal Register. (Revised 04-01-16, SPECIAL PN.)