

FLP STREAMLINING

4-FLP, DIRECT LOAN SERVICING—REGULAR AND 5-FLP, DIRECT LOAN SERVICING—SPECIAL



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4-FLP

INTRODUCTION

Welcome to the final course developed for FLP Streamlining. In this course, you will learn about the contents of the new 4-FLP and 5-FLP handbooks and policy changes in loan servicing.

4-FLP, Direct Loan Servicing—Regular, covers the routine servicing of FLP loans. 5-FLP, Direct Loan Servicing—Special and Inventory Property Management, covers the servicing options available to borrowers who are delinquent, financially distressed, or otherwise in default on the loan, as well as the management and disposition of inventory property. In this lesson, you will review the layout of 4-FLP and the policy changes related to its content. You will review 5-FLP in the next lesson.

The handbooks you will be using throughout this course do not become effective until the date reflected on the Amendment Transmittal and at the bottom of each page of the handbook. 4-FLP and 5-FLP should not be used for any loan servicing decision or action prior to the effective date. **The handbooks have been provided in advance of the effective date for training purposes only.**

SOURCES OF 4-FLP CONTENT

The policies and procedures in 4-FLP were derived from the following FmHA and RD Instruction Manuals and the applicable Code of Federal Regulations (CFR) subparts.

FmHA/RD Instruction Manual	Title	Supporting CFR
450.5	Change of Borrower's Address, Transfer of Loan Records, and Related Loan Servicing Actions	N/A
1925-A	Real Estate Tax Servicing	7 CFR 1925, Subpart A
1950-C	Servicing Accounts of Borrowers Entering the Armed Forces	7 CFR 1950, Subpart C
1951-A	Account Servicing Policies	7 CFR 1951, Subpart A
1951-D	Final Payment on Loans	7 CFR 1951, Subpart D
1951-F	Analyzing Credit Needs and Graduation of Borrowers	7 CFR 1951, Subpart F
1951-J	Management and Collection of Non-Program Loans	7 CFR 1951, Subpart J*
1962-A	Servicing and Liquidation of Chattel Security	7 CFR 1962, Subpart A*
1965-A	Servicing Real Estate Security for Farmer Program Loans and Certain Note-only cases	7 CFR 1965, Subpart A*

*Only certain provisions from 7 CFR 1951, Subpart J; 7 CFR 1962, Subpart A; and 7 CFR 1965, Subpart A, have been incorporated into 4-FLP.

Note: FmHA instructions that were published as Memorandums of Understanding (MOUs) are not addressed above. Any MOU that will be used after streamlining has been incorporated into 4-FLP as Exhibit.

**EXERCISE: USING THE
TABLE OF CONTENTS**

4-FLP contains 13 parts. Refer to the Table of Contents to familiarize yourself with the handbook’s layout and the information included in each part, and answer the following questions. Refer to the appendix for the correct answers to the exercises and knowledge checks.

In which paragraph will you find the requirements for borrower graduation?

- A. Paragraph 31
- B. Paragraph 46
- C. Paragraph 63
- D. Paragraph 123

Select the correct answer to the following question.

In which paragraph will you find guidance for servicing program loans of deceased borrowers?

- A. Paragraph 100
- B. Paragraph 162
- C. Paragraph 247
- D. Paragraph 267

POLICY CHANGES

Now that you have reviewed the general layout of 4-FLP, you will review the policy changes implemented through FLP Streamlining.

You may look up the related requirements in your handbook using the referenced paragraph or subparagraph number displayed in each table.

**PART 3, LIMITED
RESOURCE LOANS**

Part 3 describes the process for reviewing limited resource loans.

Before Streamlining	After Streamlining	Reference
The Agency’s ability to change the interest rate for a limited resource loan was limited to no more than once per quarter.	The limitation was eliminated. The Agency may change a limited resource interest rate any number of times during the year, provided the appropriate requirements are met.	Subparagraph 31 B

PART 4, BORROWER GRADUATION Part 4 describes the requirements and process for borrower graduation.

Before Streamlining	After Streamlining	Reference
The Agency could not transfer its lien to a new lender when a borrower graduated.	The Agency may assign its lien to a new lender when a borrower graduates, and all FLP debt will be paid in full, after obtaining consent from OGC.	Subparagraph 47 F

EXERCISE: PART 5, BORROWER PAYMENTS Part 5 provides guidance on the application of payments received from borrowers. It eliminates inconsistencies to ensure that least secured loans are paid first.

Review Part 5 to complete the following statement.

A regular payment will be applied first to:

- A. Non-delinquent FLP installments
- B. Delinquent FLP installments
- C. Annual operating loans
- D. Any future FLP installments due

PART 6, PROTECTING FSA'S SECURITY INTERESTS Part 6 describes policies on general security preservation and lien protection, subordinations, junior liens, severance agreements, and the release of liens without monetary consideration.

Before Streamlining	After Streamlining	Reference
The term of consecutive leases for real estate security could not exceed 3 years.	The term of consecutive leases has been extended to 5 years when the leasee is related by blood or marriage. For all others, the 3-year term remains.	Subparagraph 99 E
The Agency allowed only one subordination of chattel security.	The Agency may allow a second subordination of chattel security, when necessary, to enable the borrower to obtain crop insurance.	Subparagraph 118 B

PART 7, DISPOSITION OF SECURITY Part 7 describes the policies and requirements for the disposition of chattel and real estate security.

Before Streamlining	After Streamlining	Reference
Borrowers were allowed to use up to \$10,000 of the proceeds received from the sale of real estate security to develop land they did not own, but that was essential to the operation.	This option has been eliminated as an authorized use of proceeds. (Authorized use of proceeds is addressed in Paragraph 197.)	Not referenced
Borrowers who disposed of chattel security without prior authorization could make restitution or ask the Agency to post-approve the disposition. One post-approval could be granted for each period covered by the agreement for the use of proceeds, thus allowing one unauthorized disposition each year.	Borrowers may make restitution or ask the Agency to post-approve the disposition one time only. Any subsequent violation or uncured first violation will be taken into consideration by the Agency, when making eligibility determinations for future requests for assistance.	Paragraphs 181–183

PART 9, TRANSFERS OF REAL ESTATE AND CHATTEL SECURITY Part 9 describes the policies for the transfer of security and the assumption of debt.

Before Streamlining	After Streamlining	Reference
The maximum term for a Non-program loan, when an ineligible applicant assumed an outstanding debt or purchased inventory property, was 15 years.	The Agency schedules repayment of Non-program loans secured by real estate for 25 years or less, based on the applicant’s repayment ability.	Subparagraph 248 E

CHECK YOUR UNDERSTANDING Choose whether the following statements are true or false under 4-FLP policies.

Statements
<input type="checkbox"/> You may change a borrower's limited resource interest rate at any time provided all appropriate requirements are met.
<input type="checkbox"/> You may not assign the Agency's lien to a new lender when borrowers graduate their loans to commercial credit.
<input type="checkbox"/> The term of consecutive leases for real estate security has been extended to 5 years when the leasee is related by blood or marriage.
<input type="checkbox"/> Borrowers are not allowed to use the proceeds received from the sale of real estate security to develop land they do not own.

SUMMARY

In this lesson, you reviewed the structure of 4-FLP and learned about the policy changes to regular loan servicing. Key points to remember are:

- The Agency may change a borrower's limited resource interest rate any number of times during the year, if appropriate requirements are met.
- The Agency may assign its lien to the new lender when a borrower's debt is paid in full through graduation, after obtaining OGC consent.
- Policies regarding application of regular payments have been clarified to eliminate inconsistencies and ensure that least secured loans are paid first.
- The term of consecutive leases for real estate security has been extended to 5 years when the leasee is related by blood or marriage.
- The Agency may allow a second subordination of chattel security when necessary to enable the borrower to obtain crop insurance.
- Borrowers may not use the proceeds from the sale of real estate security to develop land they do not own.
- Borrowers who dispose of chattel security without prior authorization may make restitution or ask the Agency to post-approve the disposition only once. Any subsequent violation or uncured first violation will be taken into consideration by the Agency, when making eligibility determinations for future requests for assistance.
- The Agency may schedule loan repayment of Non-program loans secured by real estate for up to 25 years, based on the applicant's repayment ability.

TRANSITION

Good job! You have completed the 4-FLP lesson.

5-FLP

INTRODUCTION In this lesson, you will review the layout of 5-FLP and policy changes related to its content.

SOURCES OF 5-FLP CONTENT The policies and procedures in 5-FLP were derived from the following FmHA and RD Instruction Manuals and the applicable Code of Federal Regulations (CFR) subparts.

FmHA/RD Instruction Manual	Title	Supporting CFR
1951-J	Management and Collection of Non-Program Loans	7 CFR 1951, Subpart J*
1951-L	Servicing Cases Where Unauthorized Loan or Other Financial Assistance was Received—Farmer Programs	7 CFR 1951, Subpart L
1951-S	Farm Loan Programs Account Servicing Policies	7 CFR 1951, Subpart S
1951-T	Disaster Set-Aside Program	7 CFR 1951, Subpart T
1955-A	Liquidation of Loans Secured by Real Estate and Acquisition of Real and Chattel Property	7 CFR 1955, Subpart A
1955-B	Management of Property	7 CFR 1955, Subpart B
1955-C	Disposal of Inventory Property	7 CFR 1955, Subpart C
1962-A	Servicing and Liquidation of Chattel Security	7 CFR 1962, Subpart A*
1965-A	Servicing Real Estate Security for Farmer Program Loans and Certain Note-Only Cases	7 CFR 1965, Subpart A*

*Only certain provisions from 7 CFR 1951, Subpart J; 7 CFR 1962, Subpart A; and 7 CFR 1965, Subpart A, have been incorporated into 5-FLP.

Note: FmHA Instructions that were published as MOUs are not addressed above. Any MOU that will be used after streamlining has been incorporated into 5-FLP as Exhibit.

**EXERCISE: USING THE
TABLE OF CONTENTS**

5-FLP contains 22 parts. Refer to the Table of Contents to familiarize yourself with the handbook’s layout and the information included in each part, and answer the following questions.

In which paragraph will you find the general eligibility requirements for a conservation contract?

- A. Paragraph 102
- B. Paragraph 131
- C. Paragraph 191
- D. Paragraph 531

Select the correct answer to the following question.

In which paragraph will you find guidance for selling real estate acquired into inventory?

- A. Paragraph 442
- B. Paragraph 476
- C. Paragraph 721
- D. Paragraph 778

POLICY CHANGES

Now that you have reviewed the general layout of 5-FLP, you will review the policy changes implemented through FLP Streamlining.

You may look up the related requirements in your handbook using the referenced paragraph or subparagraph number displayed in each table.

**PART 3, SECTION 1,
NOTIFYING
BORROWERS OF LOAN
SERVICING**

Revisions were made to the notification requirements to expedite the process of servicing loans and resolving delinquent accounts. Changes made to the primary loan servicing (PLS) notification requirements and forms used, include:

Before Streamlining	After Streamlining	Reference
<p>Borrowers were notified of the availability of loan servicing when:</p> <ul style="list-style-type: none"> • FSA denied a request for the release of proceeds from the sale of chattel security • A current borrower decided to voluntarily liquidate 	<p>The requirement to send notification of PLS under these two conditions was eliminated. (Borrowers who must be provided notification of PLS are addressed in paragraph 66.)</p>	<p>Not referenced</p>
<p>Borrowers were notified of loan servicing using a combination of Exhibit A and Attachments 1, 2, 3, or 4 depending on their status as financially distressed, delinquent, or in non-monetary default.</p>	<p>Separate and distinct forms have been developed to address loan servicing options available, based on the borrower's status as financially distressed, delinquent, or in non-monetary default.</p>	<p>Paragraph 67</p>
<p>The initial notification provided to borrowers in non-monetary default included a Notice of Intent to Accelerate. No further notification was required prior to acceleration if the borrower did not respond.</p>	<p>Non-monetary default borrowers will be provided initial notification according to subparagraph 67 A. Those who do not respond to the initial notification, will be sent a separate Notice of Intent to Accelerate according to paragraph 85.</p>	<p>Subparagraph 67 A Paragraph 85</p>

**EXERCISE:
BORROWER
NOTIFICATION**

Select the correct answer to the following question.

Which form should borrowers who are in non-monetary default receive?

- A. FSA-2510
- B. FSA-2512
- C. FSA-2514
- D. FSA-2521

PART 3, SECTION 2, COMPLETING THE LOAN SERVICING APPLICATION This Section describes the policies and requirements for a complete loan servicing application.

Before Streamlining	After Streamlining	Reference
Borrowers were required to submit 5 years of financial and production records when applying for loan servicing.	Borrowers are now required to submit only 3 years of records.	Subparagraphs 81 D and E

PART 3, SECTION 3, LOAN SERVICING PROCESSING AND REQUIREMENTS This Section includes the requirements for determining eligibility and notifying the borrower of the servicing decision.

Before Streamlining	After Streamlining	Reference
To be eligible for PLS, the borrower had to agree to meet the borrower training requirements.	The Agency eliminated borrower training as an eligibility requirement for PLS. (Eligibility requirements are addressed in paragraph 102.)	Not referenced
Current regulations and Instruction Manuals do not address provisions of Section 515(h) of the Federal Crop Insurance Act, regarding the impact of crop insurance violations on eligibility for Federal benefits.	A requirement has been added that the borrower must not be ineligible due to a Federal Crop Insurance violation. Note: This requirement has also been added to eligibility for Disaster Set-Aside in subparagraph 45 A.	Subparagraph 102 H
The notification offering restructuring of the account included appeal rights. Delinquent borrowers who did not accept the offer were then sent a Notice of Intent to Accelerate, which also provided appeal rights.	The notification offering restructuring of the account no longer includes appeal rights. Any appeal regarding the offer to restructure will be handled jointly with an appeal regarding the Notice of Intent to Accelerate.	Subparagraph 116 B
The Agency sent delinquent borrowers who could not develop a feasible plan a separate notice offering mediation or a voluntary meeting of creditors (Exhibit E of FmHA Instruction 1951-S).	Borrowers have retained the right to request mediation or a voluntary meeting of creditors; however, this option has been incorporated into the Notice of Intent to Accelerate.	Subparagraph 116 B

**PART 4, PRIMARY
LOAN SERVICING
PROGRAMS**

The following changes have been made to available loan servicing options.

Before Streamlining	After Streamlining	Reference
The Agency could consolidate operating loans secured by real estate under certain conditions.	The Agency cannot consolidate operating loans secured by real estate.	Subparagraph 131 A
Financially distressed and delinquent borrowers could be considered for the Softwood Timber Loan Program.	The Softwood Timber Loan Program has been eliminated.	Not referenced
Limitations on the availability of servicing options for youth loan borrowers were not clear.	Clarified that primary loan servicing options available to youth loan borrowers are limited to rescheduling and deferral.	Subparagraphs 4 A and 132 A
The maximum deferral period was 5 years, however, no guidance was provided regarding how to determine its length. As a result, the Agency often automatically granted borrowers 5-year deferrals.	The maximum deferral period continues to be 5 years, but the Agency will grant the shortest deferral term that shows the greatest improvement over the first year cash available to service FLP debt.	Subparagraph 160 A

Deferral Period

Since the length of the deferral period affects the interest accrual and the payment amount after deferral, a longer deferral period increases the interest accrual and the post-deferral payments. A shorter deferral period benefits the borrower by minimizing interest accrual.

**EXERCISE: PLS
PROGRAMS**

Select the correct answer to the following question.

Which of the following servicing options are available for youth loans?

- A. Rescheduling, limited resource rates, deferral, and writedown
- B. Rescheduling, deferral, and writedown
- C. Rescheduling and deferral
- D. Disaster set-aside, rescheduling, and deferral

**PART 5,
CONSERVATION
CONTRACT**

Part 5 describes policies for entering into a Conservation Contract.

Before Streamlining	After Streamlining	Reference
Non-program loans could not be considered for a Conservation Contract.	Non-program loans may be considered for a Conservation Contract, if the borrower also has a program loan.	Subparagraph 191 A
The value of structural improvements made to the property that did not promote conservation, recreation, or wildlife could be considered when calculating the amount of debt reduction to be received.	The market value of the property, less the contributory value of any structural improvements, will be used to determine the amount of debt reduction.	Paragraph 193

**PART 6, COMMON
REQUIREMENTS AND
FINAL PROCESSING**

Part 6 describes requirements that are common to all loan servicing options.

Before Streamlining	After Streamlining	Reference
The exceptions to security requirements pertaining to loan making were also applicable to loan servicing.	The exceptions to the lien on all assets requirements applicable to loan servicing are provided in Subparagraph 211 C.	Subparagraph 211 C
Therefore, when restructuring loans, the lien on all assets requirement did not include the borrower’s personal residence, if it was located on a separate tract from the farm.	The limitation on the borrower's personal residence was removed.	

**PART 8, CURRENT
MARKET VALUE
BUYOUT**

Part 8 describes the requirements for a current market value buyout.

Before Streamlining	After Streamlining	Reference
A loan must have been at least 90 days past due before a borrower could be considered for a current market value buyout.	The 90-day requirement has been eliminated, and any delinquent borrowers may be considered for current market value buyout.	Subparagraph 321 B

**PART 10,
UNAUTHORIZED
ASSISTANCE**

Part 10 provides the policy for handling unauthorized assistance.

Before Streamlining	After Streamlining	Reference
The Agency often allowed a borrower that received unauthorized assistance to continue with the loan but split it into two components: One for the authorized portion of the loan and a second for the unauthorized portion.	The Agency will attempt to collect the unauthorized loan within 90 days. If the borrower is unable to repay the entire amount, the Agency may convert the loan to a Non-program loan if the borrower did not intentionally provide incomplete or false information when applying for assistance. If the borrower is able but refuses to repay, the Agency will send the non-monetary default primary loan servicing notices.	Part 10

**PART 21, DISPOSAL
OF INVENTORY
PROPERTY**

Part 21 includes guidance on the disposition of inventory property.

Before Streamlining	After Streamlining	Reference
Real estate was classified as "suitable" or "surplus" even though legislative changes in 1996 revised the requirements for selling inventory and eliminated the need for the terms.	These terms are not used in 5-FLP.	Not referenced

**CHECK YOUR
UNDERSTANDING**

Choose whether the following statements are true or false.

Statement
<input type="checkbox"/> Borrowers who are in non-monetary default receive the same notification as those in monetary default.
<input type="checkbox"/> A borrower must agree to meet borrower training requirements to be eligible for PLS.
<input type="checkbox"/> Borrowers are required to submit 3 years of financial and production records when applying for loan servicing.
<input type="checkbox"/> The Softwood Timber Loan Program has been eliminated.
<input type="checkbox"/> When restructuring a loan, a lien will be taken on all assets, including a borrower's personal residence even if it is located on a separate tract from the farm.
<input type="checkbox"/> A borrower must be more than 90 days past due to be considered for current market value buyout.

SUMMARY

In this lesson, you reviewed the structure of 5-FLP and learned about the policy changes to servicing options available to borrowers who are financially distressed or delinquent. You also learned about changes to the management and disposition of inventory property. Key points to remember are:

- Borrowers receive a notification of servicing options specific to their status as financially distressed, delinquent, or non-monetary default.
- Borrowers are required to submit 3 years of financial and production records when applying for loan servicing.
- Borrower training was eliminated as an eligibility requirement for PLS.
- The Agency cannot consolidate operating loans secured by real estate.
- The Softwood Timber Loan Program was eliminated.
- A borrower's Non-program loans may be considered for a Conservation Contract if the borrower also has program loans.
- The market value of the land, less the contributory value of any structural improvements, will be considered in determining the amount of debt reduction through a Conservation Contract.
- The Agency may obtain a lien on a personal residence located on a separate tract from the farm.
- Any delinquent borrower may be considered for a current market value buyout.
- The Agency will no longer continue unauthorized loans on program terms.
- Real estate inventory property is no longer classified as "suitable" or "surplus."

TRANSITION

Congratulations! You have completed the FLP Streamlining: 4-FLP, Direct Loan Servicing—Regular and 5-FLP, Direct Loan Servicing—Special course.

Appendix: Answer Key

4-FLP

**EXERCISE: USING THE
TABLE OF CONTENTS
PAGE 2**

4-FLP contains 13 parts. Refer to the Table of Contents to familiarize yourself with the handbook's layout and the information included in each part, and answer the following questions.

In which paragraph will you find the requirements for borrower graduation?

- A. Paragraph 31
- B. Paragraph 46
- C. Paragraph 63
- D. Paragraph 123

CORRECT RESPONSE

The correct answer is B. You will find the requirements for borrower graduation in paragraph 46.

Select the correct answer to the following question.

In which paragraph will you find guidance for servicing program loans of deceased borrowers?

- A. Paragraph 100
- B. Paragraph 162
- C. Paragraph 247
- D. Paragraph 267

CORRECT RESPONSE

The correct answer is D. You will find guidance for servicing program loans of deceased borrowers in paragraph 267.

**EXERCISE: PART 5,
BORROWER
PAYMENTS
PAGE 3**

Part 5 provides guidance on the application of payments received from borrowers. It eliminates inconsistencies to ensure that least secured loans are paid first.

Review Part 5 to complete the following statement.

A regular payment will be applied first to:

- A. Non-delinquent FLP installments
- B. Delinquent FLP installments
- C. Annual operating loans
- D. Any future FLP installments due

CORRECT RESPONSE

The correct answer is C. The Agency applies regular payments first to annual operating loans. See subparagraph 62 A.

**CHECK YOUR
UNDERSTANDING
PAGE 4**

Choose whether the following statements are true or false under 4-FLP policies.

Statements	True/False
You may change a borrower's limited resource interest rate at any time provided all appropriate requirements are met.	True
You may not assign the Agency's lien to a new lender when borrowers graduate their loans to commercial credit.	False
The term of consecutive leases for real estate security has been extended to 5 years when the leasee is related by blood or marriage.	True
Borrowers are not allowed to use the proceeds received from the sale of real estate security to develop land they do not own.	True

5-FLP

**EXERCISE: USING THE
TABLE OF CONTENTS
PAGE 7**

5-FLP contains 22 parts. Refer to the Table of Contents to familiarize yourself with the handbook's layout and the information included in each part, and answer the following questions.

In which paragraph will you find the general eligibility requirements for a conservation contract?

- A. Paragraph 102
- B. Paragraph 131
- C. Paragraph 191
- D. Paragraph 531

CORRECT RESPONSE

The correct answer is C. You will find the general eligibility requirements for a conservation contract in paragraph 191.

Select the correct answer to the following question.

In which paragraph will you find guidance for selling real estate acquired into inventory?

- A. Paragraph 442
- B. Paragraph 476
- C. Paragraph 721
- D. Paragraph 778

CORRECT RESPONSE

The correct answer is D. You will find guidance for selling real estate acquired into inventory in paragraph 778.

EXERCISE:

Select the correct answer to the following question.

**BORROWER
NOTIFICATION
PAGE 8**

Which form should borrowers who are in non-monetary default receive?

- A. FSA-2510
- B. FSA-2512
- C. FSA-2514
- D. FSA-2521

CORRECT RESPONSE

The correct answer is C. Borrowers in non-monetary default should receive FSA-2514, Notice of Availability of Loan Servicing to Borrowers who are in Non-Monetary Default.

**EXERCISE: PLS
PROGRAMS
PAGE 10**

Select the correct answer to the following question.

Which of the following servicing options are available for youth loans?

- A. Rescheduling, limited resource rates, deferral, and writedown
- B. Rescheduling, deferral, and writedown
- C. Rescheduling and deferral
- D. Disaster set-aside, rescheduling, and deferral

CORRECT RESPONSE

The correct answer is C. Rescheduling and deferral are the only servicing options available for youth loans.

**Check Your
Understanding
Page 12**

Statement	True/False
Borrowers who are in non-monetary default receive the same notification as those in monetary default.	False
A borrower must agree to meet borrower training requirements to be eligible for PLS.	False
Borrowers are required to submit 3 years of financial and production records when applying for loan servicing.	True
The Softwood Timber Loan Program has been eliminated.	True
When restructuring a loan, a lien will be taken on all assets, including a borrower's personal residence even if it is located on a separate tract from the farm.	True
A borrower must be more than 90 days past due to be considered for current market value buyout.	False