

SUBJECT: Collateral Reconciliation

TO: State Directors, Rural Development

ATTN: Business Programs Directors

PURPOSE/INTENDED OUTCOME:

In order to facilitate an orderly liquidation an accounting of collateral must be kept by the lender. Reconciliation of the collateral is essential to the orderly liquidation process. A current collateral listing can be compared to the collateral taken at loan inception. Proper documentation will prevent the reoccurring problems that are being experienced in the liquidation process and will ensure all collateral has been accounted for. The purpose of this AN is to clarify information needed.

COMPARISON WITH PREVIOUS AN:

No previous AN has been issued.

IMPLEMENTATION RESPONSIBILITIES:

RD Instruction 4279-A, section 4279.30(a)(1)(iv), states: "The lender is responsible for: "obtaining valid evidence of . . . collateral in accordance with sound lending practices." Lenders should complete an inventory accounting of all collateral items prior to the disbursing of loan proceeds. Lender and Agency files should be documented to include a complete collateral listing.

EXPIRATION DATE:
February 28, 2005

FILING INSTRUCTIONS:
Preceding RD Instructions 4279-A and 4287-B

In addition, RD Instruction 4287-B, section 4287.157(d) provides that the lender's liquidation plan must include a full and complete list of all collateral including any personal and corporate guarantees. The Lender's Agreement, Form 4279-4, paragraph IV., Servicing, C. 6., states: ". . . if personal or corporate guarantees are part of the collateral, current financial statements from such loan guarantors will be obtained and copies provided to USDA at such time and frequency as required by the loan agreement or Conditional Commitment for Guarantee."

The State Office is responsible for following up with the lender when personal financial statements are not submitted on a timely basis. The Lender's Agreement, Form 4279-4, paragraph IV., Servicing, C. 1., states that the lender is responsible for: "Obtaining compliance with the covenants and provisions in the note, loan agreement, security instruments and any supplemental agreements and notifying, in writing, USDA and the borrower of any violations. None of the aforesaid instruments will be altered without USDA's prior written concurrence."

Any questions or comments should be directed to the Business and Industry Division Servicing Branch, (202) 690-4103.

JOHN ROSSO
Administrator
Rural Business-Cooperative Service