

PART 1904 - BORROWER CASE CLASSIFICATION

Subpart B - Classification of Single Family Housing Borrower Accounts

§1904.51 Purpose.

(a) This subpart prescribes the policies and procedures for the classification of all active Single Family Housing (SFH) borrower accounts. As used in this subpart, SFH includes Section 502 and Section 504 Rural Housing (RH) loans in addition to nonprogram (NP) loans for a Single Family residence. This subpart does not apply to Guaranteed Housing loans. Borrowers who have both RH and Farmer Program (FP) accounts will be classified in accordance with RD Instruction 2006-W. Office of Management and Budget Circular A-129 requires all Federal Agencies which have loan programs to implement a loan classification system. The objectives of the system are to:

- (1) assess the quality of the Agency's loan portfolio;
- (2) estimate loan losses to the government;
- (3) assess the need for special loan servicing; and
- (4) improve the management of the Agency's loan programs.

(b) Borrower account classification is an internal administrative function and will not directly affect the borrower in a positive or negative manner. The County Office staff will not disclose SFH borrower account classifications to Credit Bureaus or other lenders. A borrower's account classification will not affect the borrower's eligibility for future Rural Development assistance. Account classifications are not appealable.

§1904.52 Definitions.

As used in this subpart, the following definitions apply:

(a) Security value. Market value of the security based on the most recent appraisal minus any prior liens. If the most recent appraisal is more than 5 years old or if the market value of the security has changed significantly since the last appraisal, the County Supervisor will estimate security value based on the current market conditions. New appraisals are not required solely for the purpose of classification.

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(b) Estimated loss amount. The unpaid Rural Development loan balances plus the estimated liquidation allowance minus the estimated security value. For the purpose of classifying SFH accounts the estimated liquidation allowance will be considered to be 10 percent of the estimated security value. The data automation system will calculate the estimated loss amount, based upon the security value, as provided by the County Supervisor, and the unpaid Rural Development loan balance, as shown in the system records.

(c) Security.

(1) Secured. Security value is equal to or greater than existing unpaid Rural Development loan balances (and any prior liens) and a valid mortgage, deed of trust, or leasehold exists on property. (Revised 02-05-92, PN 181).

(2) Undersecured. Security value is less than amount of existing unpaid Rural Development loan balances (and any prior liens) and a valid mortgage, deed of trust, or leasehold exists on property. (Revised 02-05-92, PN 181).

(3) Unsecured. Any loan where there is no security; i.e. Section 502 or 504 Note-Only or Collection Only.

(d) Security value and code. To properly classify each borrower's account(s), the County Supervisor will enter the security value as defined in §1904.52 (a) and the security code as noted below for each borrower through the Automated Discrepancy Processing System, using the 8N transaction. The following security codes are to be entered:

(1) Enter code 1 for first mortgage or deed of trust on real estate.

(2) Enter code 2 for junior mortgage or deed of trust on real estate.

(3) Enter code 3 for promissory note only.

(e) Classification category. An estimate of the degree of risk associated with an account. The following classification categories and codes are used for SFH borrower accounts:

(1) Problemless (Classification Code 6).

(i) A monthly payment account - an account which is current or 1 to 3 scheduled installments past due and is secured; or

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(ii) An annual payment account - an account which is current or is past due by not more than 25 percent of the scheduled installment and is secured.

(2) Substandard (Classification Code 7).

(i) A monthly payment account - an account which is current or 1 to 3 scheduled installments past due and is unsecured or undersecured; or

(ii) An annual payment account - an account which is current or is past due by not more than 25 percent of the scheduled installment and is unsecured or undersecured; or

(iii) A monthly payment account - an account which is more than 3 scheduled installments past due and is secured; or

(iv) An annual payment account - an account which is past due by more than 25 percent of the scheduled installment and is secured.

(3) Loss (Classification Code 8).

(i) A monthly payment account - an account which is more than 3 scheduled installments past due and is unsecured or undersecured; or

(ii) An annual payment account - an account which is past due by more than 25 percent of the scheduled installment and is unsecured or undersecured.

(All Collection Only are classified as a loss.)

§1904.53 County Supervisor responsibilities.

The County Supervisor will verify the accuracy of the classification of all SFH accounts in his/her office.

§1904.54 Methodology.

The methodology for classifying accounts is based on Rural Development's loan security position and the payment status of the account. The County Supervisor will determine the security value and security code. The estimated loss amount and classification code will be automatically computed.

§1904.55 Establishing and changing classifications.

(a) The classification of existing borrowers will be reviewed annually between June 30 and September 30. The County Supervisor will not be responsible for monitoring the classification of SFH borrowers other than during the review period. The County Office will receive an annual classification report from the Finance Office containing all SFH borrowers as of June 30. The County Supervisor will review this report to ensure that all existing SFH borrowers are classified correctly. If, during the annual review, the County Supervisor determines that a borrower's circumstances have changed sufficiently to require reclassification, the County Supervisor will determine the security value and security code before September 30.

(b) All new SFH Section 502 and 504 borrowers and NP loans for a Single Family residence will be classified during the next review period after the loan is closed. The County Supervisor will use the annual classification report to identify any SFH borrowers not previously classified. (Revised 11-12-93, SPECIAL PN.)

(c) If for some reason the County Office must correct the database for selected loan classification data, manual override capability is available via the 8N transaction.

§1904.56 District Director responsibilities.

The District Director will review the classification of SFH borrowers as part of the normal supervisory reviews conducted in each County Office. The District Director will ensure that all new borrowers are classified correctly and that all borrowers previously classified are reviewed annually and reclassified if necessary.

§1904.57 State Director responsibilities.

(a) Implementation. The State Director will ensure that all County Supervisors and District Directors understand the classification system, and their respective responsibilities.

(b) Monitoring.

(1) Ensure that District Directors include reviews of account classifications in their County Office visits and evaluation reviews.

(2) Include a review of account classifications as part of the County Office program reviews conducted by the State Office housing staff.

§§1904.58 - 1904.100 [Reserved]