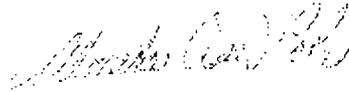


For: State and County Offices

Servicing Shared Appreciation Agreements (SAA's)

Approved by: Acting Deputy Administrator, Farm Loan Programs



1 Overview

A

Background

Borrowers sign SAA when they receive debt writedown. SAA's are for 10 years, unless certain actions trigger possible collection within the 10-year time period. Borrowers are notified of possible monies due, 6 months before the expiration date; however, it might be helpful if periodic reminders are sent before that time. Periodic reminders can assist borrowers in making financial plans to accommodate possible recapture payment under SAA, and can be an aid to local offices when assisting borrowers in developing financial plans.

B

Purpose

This notice provides a sample letter (Exhibit 1) which can be used as a periodic reminder to borrowers of possible recapture monies due under SAA.

Disposal Date

June 1, 1998

Distribution

State Offices; State Offices relay to County Offices

2 Reminder Letter

A Recapture

Borrowers who received debt writedowns after 1989 signed SAA's which provided that they would pay recapture, if any, according to 7 CFR 1951.914. Possible recapture is calculated at the **earliest** of the following occurrences:

- 5 months before the 10-year expiration date of SAA
 - the real estate property is conveyed, with the exception of transferring title to the spouse upon the death of a borrower
 - FSA loans are repaid
 - the borrower or spouse ceases farming.
-

B Sending Reminder Letters

Reminder letters can be sent at anytime; however, because the first group of SAA's signed in 1989 will begin expiring in about 2 years, County Offices may want to begin sending reminders. This will allow the borrowers an opportunity to begin planning for payment of possible recapture.

Reminder letters sent 8 years after SAA is signed will allow borrowers a sufficient amount of time to actively begin seeking credit from another lender if it appears that recapture will be due.

Reminder letters sent 5 years after SAA is signed will provide a sufficient reminder of possible recapture due, in order to assist borrowers in developing 5-year plans.

Sample Letter for Reminding Borrowers of SAA Obligation

Borrower's Address

Dear (Borrower):

Our records indicate that on (date), the Farm Service Agency (formerly the Farmers Home Administration) wrote down \$ _____ of your debt. In processing this writedown, you signed a 10-year Shared Appreciation Agreement (SAA) in relation to the real estate you pledged as security for the FSA debt. We have enclosed a copy of your SAA for your reference.

This letter is intended to remind you of your potential obligation to repay all, or a portion, of the debt that FSA wrote down. In accordance with the SAA, you agreed to pay appreciation, if any, in the value of the property up to the amount of the debt written down. Recapture will be due if the property you pledged as security has appreciated in value when any one of the following events occurs:

- 1 - 10 years have passed since you signed the SAA
- 2 - title to the real estate is conveyed
- 3 - your FSA loans are repaid
- 4 - you cease farming.

If you believe your property has increased in value since your writedown, you will need to consider this potential liability as you make your future plans. The amount of repayment is 75 percent of any appreciation if one of the events numbered 2 through 4 above occurs during the first 4 years of the SAA, and 50 percent of any appreciation if one of the events occurs during the balance of the 10-year period or at the expiration of the SAA. The amount of repayment cannot exceed the amount of debt written down.

If you would like more information on how the SAA may affect you and what options are available, please contact this office to discuss it further.

Sincerely,

Loan Servicing Official

Enclosure