



United States
Department of
Agriculture

Farmers
Home
Administration

Washington
D.C.
20250

FmHA AN No. 1495 (1955)

November 6, 1986

SUBJECT: Consideration for Taking Farm Property into Inventory

TO: All State Directors, State Directors at Large, Farmer Program Chiefs, District Directors, County Supervisors and Director, Finance Office, FmHA

PURPOSE/INTENDED OUTCOME

The purpose of this AN is to provide guidance on the advisability of taking farms into Farmers Home Administration (FmHA) inventory, and the servicing of present FmHA inventory farms that are subject to prior lien. Certain parts of the previous AN on this subject, AN 1434 (1955), dated June 30, 1986, are clarified and the worksheet for determining equity recovery has been modified.

COMPARISON WITH PREVIOUS AN

This AN replaces FmHA AN 1434 (1955), dated June 30, 1986, and provides guidance to determine if farm property merits being taken into Government inventory.

IMPLEMENTATION RESPONSIBILITY

Extreme caution should be observed in determining whether FmHA should pay prior and/or junior liens in order to accept a voluntary conveyance or to accept a voluntary conveyance subject to a prior lien. In addition, the same consideration should be given to establish a maximum bid at a prior lienholder foreclosure sale or determining if the Government's redemption rights should be exercised. Several items should be considered in the decision process including the following:

1. Current market value of the farm.
2. Local farmland price trends. For the period 1981-1985, land prices in the U.S. have decreased by an average of 19 percent. In some States the decrease has been nearly 50 percent. From April 1984 to April 1985, the value decreased nationwide by 12 percent and several States have experienced a decrease of over 20 percent.
3. Amount of all prior and junior liens and the accruing interest.
4. Direct costs to the Government associated with the acquisition, management and sale of the farm.
5. The estimated holding period before the property can be sold out of inventory.
6. Capitalization value (Section 1955.106 of FmHA Instruction 1955-C).

EXPIRATION DATE: October 31, 1987

FILING INSTRUCTION: Preceding
FmHA Instruction 1955-A



Farmers Home Administration is an Equal Opportunity Lender.
Complaints of discrimination should be sent to:

If the FmHA junior lien has neither present nor prospective value or if its enforcement would likely be ineffectual or uneconomical, FmHA should NOT accept the voluntary conveyance and SHOULD release the lien as valueless under FmHA Instruction 1965-A, Section 1965.25 (d). Release of valueless judgement liens must have the consent of the Office of General Counsel before State Director approval.

Third party foreclosure actions and requests by the borrower(s) to make a conveyance to a prior lienholder should be approached solely on the basis of prospective value. Release of redemption rights will be in accordance with FmHA Instruction 1955-A, Section 1955.13.

In those cases where FmHA acquired the property subject to a prior lien and it is now determined that there is no present equity in the property for the Government, FmHA may convey its title to the prior lienholder in accordance with FmHA Instruction 1955-C, Section 1955.149 (a) with prior concurrence from the FmHA Administrator. The material needed for submission to the National Office is the same as set out in FmHA Instruction 1965-A, Section 1965.25 (d) along with the State Director's recommendations. FmHA may also stop making payments and allow the prior lienholder to foreclose.

The attached worksheets, number one for voluntary conveyances and number two for prior lienholder foreclosures/conveyance to prior lienholder, should be used to determine if equity exists and a recovery can be made before consideration is given to taking farm property into Government inventory.



VANCE L. CLARK
Administrator

Attachments

1495(1955)

WORKSHEET FOR ACCEPTING INVENTORY PROPERTY
NUMBER ONE - VOLUNTARY CONVEYANCE

The following estimate should cover the full time it is estimated that FmHA would have the property in inventory.

1. MARKET VALUE OF PROPERTY
(Part 7, Form FmHA 422-1) \$ _____

2. CAPITALIZATION VALUE OF PROPERTY
(Part 5, Form FmHA 422-1) \$ _____

ESTIMATED HOLDING PERIOD IN YEARS _____

3. ADDITIONS
Annual Rent _____ x Holding Period _____ = _____

Annual Royalties _____ x Holding Period _____ = _____

Other Annual Income _____ x Holding Period _____ = _____

Annual % Land Appreciation _____ x Holding Period _____ = _____

Other (Describe) _____ = _____

TOTAL ADDITIONS \$ _____

4. DEDUCTIONS:

a) Total Prior Lienholder Indebtedness (P and I) = _____

b) Other Acquisition Costs (taxes presently owed, closing costs, junior liens) = _____

Total Annual Taxes & Assessments _____ x Holding Period _____ = _____

d) Annual Building Depreciation _____ x Holding Period _____ = _____

e) Annual Management Costs _____ x Holding Period _____ = _____

f) Total Essential Repairs to Secure & Resell = _____

g) Annual % Land Decrease (if applicable) _____ x Holding Period _____ = _____

h) Total Anticipated Resale Expenses (Commissions, Advertising, etc.) = _____

i) Interest Cost

I. Market value listed in #1 above plus all anticipated inventory non-recoverable costs (items 4c, 4e, 4f, and 4h). = _____

II. Total Interest Cost

I. _____ x Cost @ 10% x Period _____ = _____

j) Other (describe) _____ = _____

k) Value Loss (if any)

Market Value _____ - Capitalization Value _____ = _____ *

TOTAL DEDUCTIONS (items a through k) \$ _____

5. RECOVERY VALUE END OF HOLDING PERIOD

1. _____ +3. _____ -4. _____ = \$ _____
Market Value Total Additions Total Deduction Recovery Value

* See FmHA Instruction 1955-C, Section 1955.107. When a surplus property is anticipated being sold by Section 1955.107 (b), (c), or (d), a Value Loss deduction is not applicable.

1495(1955)

WORKSHEET FOR ACCEPTING INVENTORY PROPERTY
NUMBER TWO - PRIOR LIENHOLDER ACTIONS

The following estimate should cover the full time it is estimated that FmHA would have the property in inventory.

- 1. MARKET VALUE OF PROPERTY
(Part 7, Form FmHA 422-1) \$ _____
- 2. CAPITALIZATION VALUE OF PROPERTY
(Part 5, Form FmHA 422-1) \$ _____

ESTIMATED HOLDING PERIOD IN YEARS _____

3. ADDITIONS

Annual Rent _____ x Holding Period _____ = _____

Annual Royalties _____ x Holding Period _____ = _____

Other Annual Income _____ x Holding Period _____ = _____

Annual % Land Appreciation _____ x Holding Period _____ = _____

Other (Describe) _____ = _____

TOTAL ADDITIONS \$ _____

4. DEDUCTIONS:

a) Total Prior Lienholder Indebtedness (P and I). = _____

b) Other Acquisition Costs (taxes presently owed, auction costs, etc.) = _____

c) Annual Taxes & Assessments _____ x Holding Period _____ = _____

d) Annual Building Depreciation _____ x Holding Period _____ = _____

e) Annual Management Costs _____ x Holding Period _____ = _____

f) Total Essential Repairs to Secure & Resell = _____

g) Annual % Land Decrease (if applicable) _____ x Holding Period _____ = _____

h) Total Anticipated Resale Expenses (Commissions, Advertising, etc.) = _____

market value
the amount of FmHA debt which is secured by security (e.g. property) covered by the surplus being released in

i) Interest Cost

I. Total FmHA debt secured by real estate subject to the third party action, plus items 4a and 4b, plus all anticipated inventory non-recoverable costs (items 4c, 4e, 4f, and 4h). FmHA debt secured by other security should be excluded here-in. = _____

II. Total Interest Cost

I. _____ x Interest Cost @ 10% x Holding Period _____ = _____

j) Other (describe) _____ = _____

k) Value Loss (if any)
Market Value _____ - Capitalization Value _____ = _____ *

TOTAL DEDUCTIONS (items a through k) \$ _____

5. RECOVERY VALUE END OF HOLDING PERIOD

1. _____ +3. _____ -4. _____ = \$ _____
Market Value Total Additions Total Deduction Recovery Value

* See FmHA Instruction 1955-C, Section 1955.107. When a surplus property is anticipated being sold by Sections 1955.107 (b), (c), or (d), a Value Loss deduction is not applicable.