



United States
Department of
Agriculture

Farmers
Home
Administration

Washington
D.C.
20250

FmHA AN No. 2073 (1955)

March 27, 1990

SUBJECT: Calculating the Net Recovery Value on
Farmer Programs Real Estate Security

TO: State Directors, District Directors
and County Supervisors

ATTN: Farmer Program Chiefs

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to provide guidance in the completion of Exhibit G of Subpart A of FmHA Instruction 1955-A. The intent of this AN is to correct the weaknesses noted by Office of Inspector General in the completion of Exhibit G.

COMPARISON WITH PREVIOUS AN:

No previous AN has been issued on this subject.

IMPLEMENTATION RESPONSIBILITIES:

Attached is a detailed line by line instructions for the completion of Exhibit G of FmHA Instructions 1955-A. The major changes in the completion of the work sheet are:

1. The use of the lower of the recommended market value or the capitalization value.
2. The addition of survey and administrative costs to the expenses of acquiring of the property.

EXPIRATION DATE: March 31, 1991

FILING INSTRUCTIONS:
Preceding FmHA
Instruction 1955-A



Farmers Home Administration is an Equal Opportunity Lender.
Complaints of discrimination should be sent to:
Secretary of Agriculture, Washington, D.C. 20250

If you have any questions, please contact David R. Spillman of
Farmer Programs Loan Servicing and Property Management Division
at FTS 475-4012 or commercial (202) 475-4012.



LA VERNE AUSMAN
Administrator

Attachment

Sent by Time Delay Option to States at 9:00 on 3/29/90; to Districts
at 11:00 on 3/29/90 and Counties at 1:00 on 3/29 by ASD.

INSTRUCTIONS FOR THE COMPLETION OF EXHIBIT G TO
FmHA INSTRUCTION 1955-A

1. Market Value - Market value of the property will be the lower of the recommended market value listed on Form FmHA 422-1, Part 7 or the capitalization value as listed on Form FmHA 422-1, Part 5. These values may be based on other authorized appraisal reports.

Estimated Holding Period in Years - The estimated holding period can vary widely from one property to another due to many factors such as location, physical condition, time required to resolve borrower's leaseback/buyback rights, etc. Normally, the estimated holding period will be taken from calculations prepared by each State as required in Exhibit I of FmHA Instruction 1951-S for the average holding period. However, in situations where states have no suitable inventory properties, or have a very limited number of suitable properties for which the holding time is not representative, the average of the holding periods of surrounding states should be used. The reasons for using a holding period longer or shorter than the average for a specific property should be well documented in the running case record.

- 2a. Annual Rent - This is only applicable for cases where a lease or rental agreement is in effect at the time the work sheet is prepared and the lease is expected to continue after FmHA acquires title to the property.
- 2b. Annual Royalties - This is only applicable for cases when the property is earning royalties at the time the work sheet is prepared and is expected to continue after FmHA acquires title to the property.
- 2c. Other Annual Income - This will include any other reliable source of income generated by the property which is expected to continue after FmHA acquires title to the property.
- 2d. Annual Land Appreciation - This will be the same as determined by each State in accordance with Exhibit I of FmHA Instruction 1951-S.
- 2e. Value Gained due to Restrictions - This is the value added to the property due to any proposed restrictions that will be placed on the use of the farm, such as wetland and floodplain conservation easements, once the property is in FmHA's inventory.

- 2f. Other - Any other income which is expected to continue after FmHA acquires title to the property.

"Total Additions" is the sum of lines 2a through 2f.

- 3a. Total Prior Lien Holder Indebtedness - This is the present unpaid principal and accrued interest owed the prior lienholders. The information should be obtained in writing from the prior lienholder as near to the date of preparation of this work sheet as possible. Adjustments for daily interest accrual should be made to the projected acquisition date.
- 3b. Other Acquisition Costs - The County Supervisor should evaluate each tract and include any cost that will be incurred to permit the Government to obtain clear title to the property such as:
1. The projected cost of the survey to identify conservation easements, etc.
 2. Administrative costs. These will be determined in accordance with Paragraph (A)(2) of Exhibit I of FmHA Instruction 1951-S.
 3. Past due taxes, closing costs, junior liens, or any assessments due, etc.
- 3c. Annual Taxes - Annual taxes will be taken from Part 1 (K) of Form FmHA 422-1.
- 3d. Annual Building Depreciation - Depreciation will be calculated from Part 2 of Form FmHA 422-1. For example, contributory value divided by Remaining Useful Life equals Annual Building Depreciation.
- 3e. Annual Management Costs - These costs will be determined in accordance with Paragraph (A)(1) of Exhibit I of FmHA Instruction 1951-S.
- 3f. Total Essential Repairs to Secure and Resell - These costs will be determined by the County Supervisor in accordance with Section 1955.64(a)(3) of FmHA Instruction 1955-B.
- 3g. Annual Land Depreciation - This information will be the same as determined by each State in accordance with Exhibit I of FmHA Instruction 1951-S.
- 3h. Total Anticipated Resale Expenses - This will be the same as determined for each County Office in accordance with Exhibit I of FmHA Instruction 1951-S.

- 3i. Total Interest Cost - The market value is taken from line 1 of this work sheet. The regular operating (OL) loan interest rate is the rate in effect when the work sheet is completed. The regular OL interest rate more nearly reflects the Government's costs of money.
- 3j. Value Loss Due to Restrictions - This is the loss of value to the property due to restrictions that will be placed on the use of the property, such as wetland and floodplain conservation easements, once the property is in FmHA's inventory.
- 3k. Hazard Waste Clean-up Costs - The County Supervisor will conduct a complete on-site inspection of the property to identify any hazardous wastes located on the property (i.e., stored chemicals, trash dumps, under ground storage tanks, etc.). If any hazardous wastes are identified, the County Supervisor will contact the State Environmental Coordinator for assistance in determining an estimated clean-up costs.

"Total Deductions" is the sum of lines 3a through 3k.

"Recovery Value End of Holding Period" equals the Market Value plus Total Additions less Total Deductions.

NOTE:

To assure the accuracy and content of this exhibit, the State Director or his designee should review and sign the exhibit as reviewer.

The completed and signed copy of Exhibit G will be filed in the borrower's case file.

If there is no recovery value for the Government, FmHA WILL NOT accept a voluntary conveyance, bid at foreclosure sale, or pay prior or junior liens.

To establish the amount of the Government's bid at a foreclosure sale, the positive recovery value will be added to the total prior liens.