FORM FmHA-OR 021-46 (5-96)

TO	U.S. DEPARTMENT OF AGRICULTURE FARM SERVICE AGENCY 7620 S.W. Mohawk Street Tualatin, Oregon 97062-8121 STATE PROCEDURE NOTICE	MANUAL WSC	ISSUE NO. 21
		DATE October 2, 2001	
		DISTRIBUTION CODE	
		"W" NATIONAL OFFICE	
		"S" STATE OFFICE	
		"D" DISTRICT OFFICES	
		"C" COUNTY OFFICES	

OREGON MANUAL CHANGE

INSERT OR INSTRUCTION 1951-S (SDC)

SERVICING AND COLLECTIONS - Farm Loan Program Account Servicing Policies. Exhibit I of OR Instruction 1951-S has been updated and revised in accordance with Section 1951.909 (f) and Exhibit I of FmHA Instruction 1951-S, and the corrected guidance provided in Notice FLP-223. These revisions establish the revised net recovery value constants for Oregon's administrative liquidation costs by loan type as provided in Notice FLP-223. The administrative liquidation costs for the various loan types have all been changed to $732. The changes in the net recovery value constants for the administrative liquidation costs by loan type need to be **immediately entered** in the DALR$ system as such with an **effective** date of **October 2, 2001**.

REMOVE	INSERT
Pages 1, 2, and 5 of Exhibit I	Pages 1 (Rev. 1), 2 (Rev. 1), and 5 (Rev. 1) of Exhibit I

NOTICE (SDC)

PARAGRAPH NOTATIONS ON NATIONAL PROCEDURES. The notation "State Supplement" will be made on the margin of each paragraph of the National Instruction that has been supplemented by any Oregon Instruction on this State Procedure Notice.

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GUIDELINES FOR DETERMINING ADJUSTMENTS FOR NET RECOVERY VALUE OF COLLATERAL

This Exhibit to OR Instruction 1951-S provides FLP servicing officials with guidance for use in calculating the net recovery value of collateral.

I. <u>State Executive Director Responsibilities</u>.

Section 1951.909 (f) and Exhibit I of FmHA Instruction 1951-S require the State Executive Director to establish annual guidelines for determining adjustments to be used in arriving at the Net Recovery Value of Farm Loan Program collateral. In accordance with Exhibit I, net recovery adjustments for County Offices in Oregon are as shown below. Servicing officials must immediately *enter and maintain the preceding net recovery value constants* in the DALR$ program, and cause all entries to be *verified by another employee* in the County Office. An example of the current entries that should appear is shown in the example on Page 5 of this Exhibit.

A. <u>Real Estate Costs</u>

1) Months Held In Inventory. Based on the June 30, 2001 Report Code 597, "Farm Credit Programs Inventory," (adjusted to exclude surplus properties, property sales, properties involved in litigation, properties identified for fee-simple title transfer, properties leased, and previous litigation and lease periods while in the Government's inventory), the average holding period for suitable properties is **10.18 months**.

2) Sales Commission Rate. The sales commission rate for real property will be 6 percent (6.0 %) of the current market value of the security property, as this is the standard Blanket Purchase Agreement cost for a real estate auctioneer's commission on suitable property not sold to beginning farmers.

3) Cost Per Advertisement. Advertising costs to market farm inventory property will be $274.00 per advertisement for a weekly published newspaper. This is the per advertisement cost figure to be entered DALR$ as a net recovery value constant. It will result in the DALR$ system calculating the total minimum advertising cost for the holding period as specified in Section 1955.107 (a) of FmHA Instruction 1955-C.

4) Rate of Change in Value. The Farm Land Market Advisory Committee (FLMAC) required by paragraph I A 4) of Exhibit I of FmHA Instruction 1951-S has projected that farm land in Oregon will experience a zero percent (0.0 %) increase per annum for the holding period.

5) Management Charges. No State or District wide contracts for management of inventory farms are in effect. The statutes and regulations contained in FmHA Instruction 1955-C envision that the Agency will immediately move to advertise inventory farms for sale to beginning farmers within 15 days of acquisition, and sell any unsold inventory farms by auction within 105 days of acquisition. Because of this short timeframe, no management income or expenses will be projected unless the property has special characteristics or is of the type that it will require management services until sold. Examples of these unique properties could include orchards or other specialty enterprises where management services will clearly enhance and be beneficial for the sale of the property.

B. <u>Chattel Costs</u>

1) Months Held in Inventory. FSA rarely acquires chattel property. Therefore, the average holding period for chattel property will be zero (0.0) months.

2) Sales Commission Rate. The average sales commission charged by auctioneers in Oregon for the sale of farm machinery, equipment, and livestock is 10 percent. The sales commission for chattel property will therefore be 10 percent (10.0 %) of the market value of chattel property.

3) Other Sales Cost. There are no other sales costs that are typically applied as a percentage of sales price when selling chattel property in Oregon.

4) Rate of Change in Value. Because FSA rarely acquires chattel property and the resulting average holding period for chattel property is zero, the annual percentage rate of change in value for chattel property will also be zero (0.0 %).

C. <u>Legal and Administrative Cost</u>

1) Administrative liquidation costs for each loan type. These costs are based upon the Agency's FY 2001 Delphi Study and the 2001 GS-11 Step 1 pay rate for the "rest of the U.S." They are as follows:

Operating Loan	$ 732
Farm Ownership/Soil and Water Loan	$ 732
Emergency/Economic Emergency Loan	$ 732
Rural Housing Loan	$ 732

Note: Enter RHF loans in DALR$ as fund code 46, even though these loans have been changed to fund code 41.

III. Income

Income will be added to net recovery value only when it is certain that income will in fact be received. As a result, lease income will generally not be included. The Agency has no contracts in place for management services from which management contract management income could be received. In addition, the Agency has no authority to lease property, except for a maximum 18 month lease to beginning farmers selected for purchase of inventory farms. If there is a lease already in effect at the time the calculations are being made, and it is advantageous for the Government and future owners of the property to leave the lease in place so that it continues after FSA acquires title, only then can lease income be considered. The amount of any mineral or oil and gas lease income or royalty income will be based upon the historical record of such income generated by the property. Income will not be considered for chattel property.

IV. Depreciation

Depreciation will be calculated by dividing the summation value of the buildings or improvements by the useful life remaining. This calculation must be documented in the running case record. There will be no depreciation cost for chattels.

Example
(Rev. 10-02-01, OPN No. 21)

Debt and Loan Restructuring System 6.4

NET RECOVERY CONSTANTS — Page 1 of 1

Effective Date: **10/02/01** Entered By: **ph** Verified By: **bp**

PROPERTY COSTS

REAL ESTATE		CHATTEL	
Months Held in Inventory:	**10.18**	Months Held in Inventory:	**0.00**
Sales Commission Rate:	**6.00 %**	Sales Commission Rate:	**10.00 %**
Cost Per Advertisement:	**274.00**	Other Sales Cost Rate:	**0.00 %**
Rate of Change in Value:	**0.00 %**	Rate of Change in Value:	**0.00 %**

ADMINISTRATIVE LIQUIDATION COSTS

Operating Loan:	**732**	Real Estate and Chattel:	**3000**
Farm Ownership/Soil and Water Loan:	**732**	Chattel Only:	**1125**
Emergency/Economic Emergency Loan:	**732**	Real Estate Property Mgmt:	**318**
Rural Housing Loan:	**732**		

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