



June 30, 1986

SUBJECT: Consideration for Taking Farm Property into Inventory

TO: All State Directors, 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.

COMPARISON WITH PREVIOUS AN

This AN replaces FmHA AN 1368(1955) dated March 14, 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 establishing 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 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: June 30, 1987

FILING INSTRUCTION: Preceding
FmHA Instruction 1955-A



1434(1955)

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 its valueless lien under FmHA Instruction 1965-A, Section 1965.25(d). Release of valueless judgment liens or valueless statutory redemption rights must have the consent of OGC before State Director approval.

If FmHA has no equity as a junior lienholder, the farm may be conveyed 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 worksheet should be used to determine if substantial equity exists and a substantial recovery can be made before consideration is given to take farm property into Government Inventory.



VANCE L. CLARK
Administrator

Attachment

WORKSHEET FOR ACCEPTING INVENTORY PROPERTY

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

Rent _____ x Holding Period _____ = _____

Royalties _____ x Holding Period _____ = _____

Other yearly income _____ x Holding Period _____ = _____

Yearly % Land Increase _____ x Holding Period _____ = _____

Other (Describe) _____ = _____

TOTAL ADDITIONS \$ _____

4. DEDUCTIONS:

Payment of Prior Liens = _____

Other Acquisitions Costs = _____

Taxes & Assessment: _____ x Holding Period _____ = _____

Depreciation _____ x Holding Period _____ = _____

Management Costs _____ x Holding Period _____ = _____

Essential Repairs to Secure & Resell = _____

Yearly % Land Decrease _____ x Holding Period _____ = _____

Resale Expenses (Commissions, Advertising, etc.) = _____

INTEREST COST

A. Total Debt Owed FmHA _____

B. Interest Costs at 10% _____ x Holding
Period _____

Total Interest Cost A. _____ x B. _____ = _____

Other (Describe) _____ = _____
Value Loss (if any)
(Market Value _____ - Capitalization Value _____) = _____

TOTAL DEDUCTIONS \$ _____

5. POTENTIAL MARKET VALUE \$ _____

1. _____ + 3. _____ - 4. _____