**UNITED STATES DEPARTMENT OF AGRICULTURE**
Farm Service Agency
100 USDA, Suite 102
Stillwater, Oklahoma 74074-2653

OK Notice FLP-502

**For**: County Offices

**1951-S**

# Determining Adjustments For Net Recovery Value of Collateral

Approved by: State Executive Director

## 1 OVERVIEW

*A*
**Background**

FmHA Instruction 1951-S, Exhibit I to Subpart S directs the State Executive Director's to specify costs which are determined to be consistent state-wide, and provide specific guidance on the determination of costs which are somewhat consistent within the state, but may vary on a county to county or property to property basis.

*B*
**Purpose**

This Notice is issued to provide the guidance and data as required by FmHA Instruction 1951.909(f) and Exhibit I of FmHA Instructions 1951-S. This guidance and data will provide a uniform method for determining the Net Recovery Value of FSA Collateral.

*C*
**Contact**

Any questions concerning this Notice should be directed to the Farm Loan Programs Branch in the State Office.

*Continued on next page.*

| **Disposal** | **Distribution** |
|---|---|
| October 30, 2005 | Farm Loan Programs Teams and County Offices |

## 1 OVERVIEW,

*Continued*

*D*
**Filing Instructions**

This Notice Replaces OK Notice FLP-431, dated October 22, 2003. File this Notice in chronological order with FLP series Notices and where FmHA Instructions are available, a copy should be filed preceding FmHA Instruction 1951-S.

*E*
**Pen and Ink Changes**

Change line 2 of OK Instruction 1951-S, par. 1951.909(f)(2) to read "OK Notice FLP-502 to this instruction will be used to supplement Exhibit I to FmHA Instruction 1951-S."

**Exhibit 1**

## Guidelines For Determining Adjustments for Net Recovery Value of Collateral,

This Exhibit provides guidance to Farm Loan Programs Managers for determining factors to be used in adjusting current market value.

The following will provide the necessary factors needed for calculating net recovery from involuntary liquidations. Guidelines for determining these factors are as outlined in Exhibit I of the FmHA Instruction 1951-S. The factors will be input in the Debt and Loan Restructuring System (DALR$) and will be used for calculating Net Recovery Value for each borrower requesting Primary Loan Service Programs.

Farm Loan Programs Managers should refer to FmHA Instruction 1951-S, Section 1951.909(f) for additional guidance in determining net recovery value from involuntary liquidation. The net recovery value of nonessential assets will be determined in accordance with FmHA Instruction 1951-S, Section 1951.910(a)(1).

Supervised Bank Account (SBA) funds, accounts receivable (government payments) and cash on hand from security sales will be entered as current assets and no administrative cost will be deducted from these funds.

| Administrative Liquidation Cost | |
|---|---|
| Operating Loan | $ 1,080.00 |
| Farm Ownership/Soil and Water | $ 1,080.00 |
| Emergency/Economic Emergency | $ 1,080.00 |
| Rural Housing (use for RHF loans only) | $ 1,080.00 |
| Real Estate Property Management Cost | $ 303.00 |
| Real Estate or Chattel/Real Estate Costs | $ 1,500.00 |
| Chattel Only Costs $ | $ 1,000.00 |

**Guidelines For Determining Adjustments for Net Recovery Value of Collateral,** *continued*

| | Real Estate Costs |
|---|---|
| 1 | Management Costs: |
| | Contracts for management costs have not been used in the management of inventory farms; however, caretaker contracts for mowing of farmsteads have been used. If the real estate has a farmstead located on the property, a caretaker expense of $303.00 a year may be allowed. |
| 2 | Average Holding Period 5.50 Months |
| 3 | Resale Expenses |
| | (a) Sales Commissions – Zero<br>Exclusive listing agreements or contracts for auctioneers' services for the sale of inventory farms have not been used. FSA normally disposes of inventory farms without the assistance of brokers or auctioneers. Therefore, sales commission expenses are not authorized.<br><br>(b) Repair Costs<br>Farm Loan Programs Managers will establish repair cost for each property based on their analysis of the property and review of Part 4 of the Appraisal Report - Farm Tract (Form FmHA 1922-1). Zero is recommended unless the analysis of the property indicates a need to repair windows, doors, or minor roof repair. Guidance will be requested from the Director of the Farm Loan Programs Section prior to using the cost of major repairs. Cost of major improvements will not be considered as a repair cost in determining Net Recovery Value. |
| 4 | There is an anticipated increase in farm land values. This factor was established by the Oklahoma Farm Land Market Advisory Committee (FLMAC). 1% |
| 5 | Depreciation - The amount of depreciation will be limited to actual summation value and the estimated life of only the essential improvements. References should be made to Exhibit I to Subpart S. |
| 6 | Taxes - This amount will be the actual taxes on each property for the past year and the amount will be obtained from the County Treasurer. |
| 7 | Advertising - This cost will be $420.00. |
| 8 | Income during inventory per month - This must be based only on actual leases in effect on the property when calculations are being made. This will also include the past 12 month average from oil/gas royalties and other minerals. |

**Guidelines For Determining Adjustments for Net Recovery Value of Collateral,** *continued*

All existing chattel security such as livestock, equipment, crops, FSA subsidy payments and other tangible or intangible items must be considered when determining net recovery value. The above chattel costs will be used as the liquidating cost for all chattels and personal property.

| Chattel Cost | | |
|---|---|---|
| 1 | Inventory Holding Period | 0 |
| 2 | Management Cost | 0 |
| 3 | Taxes | 0 |
| 4 | Depreciation | 0 |
| 5 | Repairs | 0 |
| 6 | Other Expenses (including Advertising and Sale Preparation) | 0 |
| 7 | Increase/Decrease in Value | 0 |
| 8 | Sales Commission | 10.0% |
| 9 | Income | 0 |

**Guidelines For Determining Adjustments for Net Recovery Value of Collateral,** *continued*

## SUMMARY OF NET RECOVERY VALUE - CONSTANTS

This data will be used for every computation of Net Recovery Value. Percentage presented as decimals. (10% = .10)

EFFECTIVE DATE (MM-DD-YY): 11-01-04

| REAL ESTATE FACTOR | | CHATTEL SECURITY FACTOR | |
|---|---|---|---|
| Months Held in Inventory: | 5.50 | Months Held in Inventory: | 0 |
| Sales Commission Rate | 0 | Sales Commission Rate: | 10% |
| Costs per Advertisement | $420 | Other Sales Cost Rate: | 0 |
| Rate of Change in Value (percentage increase or decrease; for decrease use minus sign) | 0 | Rate of Change in Value (percentage increase or decrease; for decrease, use minus sign) | 0 |

| ADMINISTRATIVE LIQUIDATION COSTS | |
|---|---|
| OL | $ 1,080.00 |
| FO/SW | $ 1,080.00 |
| EM/EE | $ 1,080.00 |
| RH | $ 1,080.00 |
| Real Estate Property Management Costs: | $ 303.00 |
| Real Estate or Chattel/Real Estate Costs: | $ 1,500.00 |
| Chattel Only Costs: | $ 1,000.00 |