

For: State and County Offices

Interest Rate Reduction of Existing Shared Appreciation (SA) Payment Agreements

Approved by: Deputy Administrator, Farm Loan Programs



1 Overview

A

Background

On August 18, 2000, FmHA Instruction 1951-S, sections 1951.909(e)(2)(viii)(A) and 1951.914(e)(6) were revised to reduce the interest rate on Shared Appreciation Agreement (SAA) recapture from the nonprogram interest rate to the Homestead Protection interest rate. Section 818 of the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2001 (2001 Appropriations Act), which became effective on October 28, 2000, states that the interest rate on amortized SAA recapture will be the Homestead Protection interest rate minus 100 basis points (1 percent). Section 818 of the 2001 Appropriations Act also required that the interest rate on existing SA loans be reduced to this rate. Notice FLP-179, issued on December 12, 2000, provided notification of the interest rate to be used when amortizing or reamortizing SAA recapture on or after the date of the notice. In addition, Notice FLP-179 provided that guidance would be issued about the procedures to convert existing SA loans to the new interest rate.

B

Purpose

This notice:

- supplements Notice FLP-179
- establishes the procedures for reducing the interest rate on SAA recapture amortized before issuance of Notice FLP-179 to the Homestead Protection interest rate minus 1 percent.

C

Contact

If there are any questions about this notice, State Offices shall contact Michael Cumpton, LSPMD at 202-690-4014.

<p>Disposal Date</p> <p>July 1, 2002</p>	<p>Distribution</p> <p>State Offices; State Offices relay to County Offices</p>
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Notice FLP-198

2 Future Revision of Existing CFR and Instruction

A

Revision of SA Loan Designation

To distinguish between other FLP debts in which new funds have been obligated, the following changes will be made in the designation of SA debts:

- SA loans will be referred to as SA amortized payments
- SA notes will be referred to as SA payment agreements.

Note: Changes to the terminology used in FmHA Instruction 1951-S are forthcoming.

B

Interest Rate Reduction

The interest rate on all SA payment agreements established before receiving notification of the interest rate reduction in FLP-179 will be reduced to the Homestead Protection interest rate minus 1 percent. The effective date of the interest rate change on the payment agreement will be October 28, 2000.

County Offices shall:

- **calculate** the revised payments using Exhibit 1 if a payment has been made on the SA amortized payment since October 28, 2000
 - **calculate** the revised payments using Exhibit 2 if a payment has not been made on the SA amortized payment since October 28, 2000
 - **enter** the revised payment schedule on the Shared Appreciation Payment Allonge, Exhibit 3, and attach the completed Exhibit 3 to the existing SA payment agreement.
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Borrower Notification

County Offices will send a letter similar to Exhibit 4 to all borrowers who had SA amortized payment as of October 28, 2000, along with a copy of Exhibit 3, to notify the borrowers of the new interest rate and the reduced payments for the remainder of the SA payment agreement term.

Continued on the next page

Notice FLP-198

2 Future Revision of Existing CFR and Instruction (Continued)

D

Finance Office Notification

Changes to the SA payment agreement interest rate and payments should be submitted as a problem case to the Finance Office. A copy of Exhibit 3 should be attached to the problem case. The Explanation of Problem Case should indicate the Homestead Protection interest rate minus one percent and the new payment information. A new loan number will be assigned by the Finance Office for the modified SA payment agreement. If the SA payment agreement is delinquent, the Problem Case will inform the Finance Office that the interest rate should be changed but the payment amount should remain unchanged. This action will correct the interest rate and allow servicing to continue under FmHA Instruction 1951-S.

E

Finance Office Action

Upon receipt of the problem case and applicable attachments, the Finance Office will reverse all transactions processed after the effective date of the 2001 Appropriations Act, adjust unpaid interest to zero, reamortize the SA amortized payments (only unpaid principal will be reamortized), adjust unpaid interest and reprocess reversed transactions.

Calculations of the Payments to be Shown on the Allonge

The following are calculations of the payments to be shown on the allonge when a payment has been made since October 28, 2000.

Step 1. Amortize current Principal over the remaining term of the SA Payment Agreement at the Homestead Rate -1%. = _____

Step 2. $(\frac{\text{_____}}{\text{Days Since Last Payment}} / 365) \times \text{_____} \times \text{_____} = \text{_____}$
Current Principal Homestead Rate- 1%
Balance

Step 3. _____ + _____ + _____ = _____
Amount from Amount from Interest on Date of **Amount of**
Step 1 Step 2 Last Payment Which **Next Payment**
Was not Paid by
Payment

Step 4. $(\frac{\text{_____}}{\text{Days Until Next Payment}} / 365) \times \text{_____} \times \text{_____} = \text{_____}$
Scheduled on Payment Current Principal Homestead Rate- 1%
Agreement Balance

Step 5. _____ + _____ + _____ - _____ = _____
Current Principal Amount from Amount from Amount from **Projected Principal**
Balance Step 2 Step 4 Step 3 **After Next Payment**

Step 6. The **Projected Principal After the Next Payment** should be amortized over the term remaining from the time of the next scheduled payment. This will be the annual payment for the remaining term as shown on the allonge.

Calculations of the Payments To Be Shown on the Allonge

The following are calculations of the payments to be shown on the allonge when a payment has **not** been made since October 28, 2000.

Step 1. $(\frac{\text{Days from October 28, 2000 to Next Planned Payment}}{365}) \times \text{Current Principal Balance} \times \text{Payment Agreement Interest Rate} =$ _____

Step 2. $(\frac{\text{Days from October 28, 2000 to Next Planned Payment}}{365}) \times \text{Current Principal Balance} \times \text{Homestead Rate- 1\%} =$ _____

Step 3. _____ - _____ = _____
 Amount from Step 1 Amount from Step 2

Step 4. _____ - _____ = _____
 Amount of Next Scheduled Payment on Payment Agreement Amount from Step 3 **Amount of Next Payment**

Step 5. _____ + _____ + _____ - _____ = _____
 Current Principal Balance Accrued int. on 10/28/00 Amount from Step 2 Amount from Step 4 **Projected Principal After Next Payment**

Step 6. The **Projected Principal After the Next Payment** should be amortized over the term remaining from the time of the next scheduled payment. This will be the annual payment for the remaining term as shown on the allonge.

Shared Appreciation Payment Allonge

Name _____ Case Number _____

Date of Allonge _____

In accordance with the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2001, the Farm Service Agency (FSA) has reduced the interest rate on your shared appreciation payment agreement to the FSA's Homestead Protection interest rate minus 1 %. This allonge is attached to the Promissory Note for FSA number _____ and modifies the Promissory Note as described below. All other provisions of the Promissory Note described above remain in full force and effect.

New Number _____

As of October 28, 2000, interest will accrue at an annual rate of 5.5 percent. Principal and interest shall be paid in _____ installments as indicated below on or before the following dates:

\$ _____ on _____; \$ _____ on _____;

and _____ thereafter on _____ of each _____ until the principal and interest are fully paid except that the final installment of the entire indebtedness evidenced hereby, if not sooner paid, shall be due and payable _____ years from the date of this note.

Borrower

FSA Servicing Official

Example of Letter To A Borrower Who had An SA Payment Agreement

The following is an example of a letter to a borrower who had an SA Payment Agreement as of October 28, 2000.

[Date]

Dear [Borrowers Name]

In accordance with the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2001, the annual interest rate on your Shared Appreciation (SA) Payment Agreement was reduced to 5.5 percent effective October 28, 2000. This will reduce the annual payment on your agreement numbers [insert number of SA agreements]. Two copies of the Allonge, which is an attachment and modification of your promissory note, are enclosed. Please sign both copies. One copy should be returned to this office in the envelope enclosed. The second copy should be kept with your copy of the Agreement. As you can see, the next and all future payments have been reduced.

Please contact this office at [County Office Number] if you have any questions.

Sincerely,