

**For:** State and County Offices

**Administrative, Chattel, Real Estate, and Property Management Costs for  
the Debt and Loan Restructuring System (DALR\$)**

**Approved by:** Acting Deputy Administrator, Farm Loan Programs



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**1 Overview**

**A Background**

To determine eligibility for write-down, FSA must:

- determine the net recovery value of the security and other property by accounting for involuntary liquidation costs
- compare the net recovery value of the security and other property with the net present value of the restructured loan.

**Note:** The calculations must be implemented by December 31, 2018, and are a part of several 5-FLP updates and changes that will be issued in a future handbook amendment.

**B Purpose**

This notice provides:

- administrative liquidation costs for each loan type
- guidance for determining chattel and real estate costs
- a worksheet for determining property management costs.

**C Contact**

If there are any questions about this notice, State Offices shall contact Lee Nault by either of the following:

- e-mail to [lee.nault@wdc.usda.gov](mailto:lee.nault@wdc.usda.gov)
- telephone at 202-720-6834.

<b>Disposal Date</b>	<b>Distribution</b>
October 1, 2019	State Offices; State Offices relay to County Offices

## Notice FLP-793

### 2 Action

#### A Administrative Liquidation Costs

The administrative liquidation costs for each loan type are provided in the following table.

Loan Type	Calculation	Cost
OL	$(3063 \div 60 = 51.05) \times \$25.43 =$	\$1,298.00
FO/SW	$(3063 \div 60 = 51.05) \times \$25.43 =$	\$1,298.00
EM/EE	$(3063 \div 60 = 51.05) \times \$25.43 =$	\$1,298.00
RH (used for RHF loans only)	$(3063 \div 60 = 51.05) \times \$25.43 =$	\$1,298.00

**Note:** Costs were calculated using the most recent Delphi study for the average number of minutes (3,063) spent on a liquidation activity by FSA employees. Minutes were converted to hours and multiplied by the 2018 GS-11/1 hourly pay rate to determine costs. The Delphi study is a nationwide survey and forecasting tool that records averages of times and actions on FSA accounts.

#### B Legal Liquidation Costs

Legal liquidation costs will be determined for real estate and chattel foreclosures, as well as chattel-only foreclosures. These costs estimate liquidation costs for Government attorney time for foreclosure cases in both judicial and nonjudicial foreclosure States and will vary by State. Legal liquidation cost estimates should be determined based on the costs that have been incurred during past liquidations in that State. U.S. Attorney Office costs should only be included in States where judicial foreclosures are required.

#### C Determining Chattel Costs

Chattel costs are determined based on the following.

- “Months Held in Inventory”. FSA rarely acquires chattel property because it can be sold much more quickly and easily than real estate. Therefore, the average holding period for chattel property will be zero, unless the Administrator approves chattel acquisitions and determines that chattels do have a holding period.

**Note:** If significant acquisitions occur and a chattel holding period becomes necessary, State Offices will contact the National Office for guidance while providing detailed information about the acquisition and planned disposal of the chattel property.

- “Sales Commission Rate”. FLM will conduct a survey of auctioneers to determine the average commission rate for chattel sales in the area.

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### 2 Action (Continued)

#### C Determining Chattel Costs (Continued)

- “Other Sales Costs”. These are miscellaneous costs typically incurred when selling acquired chattels. County Offices should request State Office guidance in unusual cases.
- “Rate of Change in Value”. This is a yearly percentage decrease or increase in the value of the property. The normal rate of change in value of chattels will be zero as FSA rarely acquires chattel property.

#### D Real Estate Costs

The analysis for liquidation and disposition costs should, as a minimum, address the following items and considerations.

- “Months Held in Inventory”. The average holding period will be .45 years (165 calendar days).
- “Sales Commission Rate”. A study will be conducted to determine the typical method for disposing of FSA inventory farms in the State. The findings will be used to determine whether FSA normally disposes of inventory farms without the assistance of brokers or auctioneers. If a County Office is covered by an exclusive listing agreement or contract for auctioneering services, commissions will always be included as the rate specified on the listing agreements or contracts in effect for the County Office.
- “Cost Per Advertisement”. The authorized agency official will contact at least 1 local newspaper to obtain a cost for advertising inventory farms according to 5-FLP, paragraph 781.
- “Rate of Change in Value”. Yearly percentage decrease or increase in value is the rate of change in value. To provide a fair assessment of projected trends in farm land values, SED will use the Farm Land Market Advisory Committee (FLMAC).

**Note:** See subparagraph E for the FLMAC composition and purpose.

- “Management Charges”. In situations where State or district-wide contracts for management of inventory farms are in effect, SED will specify those rates to be used in management cost calculations. Generally, those costs should be specified on an annual per-acre basis or annual income percentage basis. If there are no area-wide contract rates for some or all counties, State Office guidance should be given on how to calculate rates based upon local costs. This guidance should include customary management activities and their frequency to promote a consistent approach.

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### 2 Action (Continued)

#### E FLMAC

FLMAC will consist of the following members or representatives:

- SED
- NRCS State Conservationist
- Extension Specialist from a land grant university, if available, or other NIFA employee with knowledge of the farm real estate market.

Data obtained from EIP-51R may be useful to FLMAC in determining the annual percentage of decrease or increase in land values.

FLMAC will meet at least annually and will consider the following information:

- the actual change in farm land values in the State during the previous year, as indicated in the most recent Agricultural Land Values and Market Situation Outlook Report issued by ERS
- current conditions in the State and national agricultural economics
- availability and cost of credit to purchase farm land
- the amount of repossessed farm land held by FSA, the Farm Credit System, and other private sector lenders
- any special conditions that would affect farm land values in the State
- any studies or research conducted by the State agricultural university or similar scholarly source.

If the State has agricultural regions with discernable differences, FLMAC should, if possible, determine anticipated value changes on a regional basis. FLMAC's meetings and decisions, including the basis for those decisions, will be documented, retained in the State Office as part of the State supplement file, and provided to interested parties upon request. Before providing the FLMAC determinations to FSA Field Offices, SED will contact SED's in surrounding States to determine whether FLMAC's findings are fairly consistent with those of surrounding States. If there are significant differences, SED may reconvene FLMAC to reconsider the findings.

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**2 Action (Continued)**

**F State Supplement**

SED's will issue a State supplement to:

- address the estimated costs and average holding period to be used in making calculations of net recovery value
- provide the factors to use in adjusting market value.

**Note:** The State supplement shall be issued after completing the cost analysis, but no later than **December 31, 2018**.

**G Determining Property Management Costs**

The property management cost is the administrative cost of managing a property while the property is being held in FSA inventory. The cost will be deducted in cases involving real property. The following worksheet is used to calculate the property management costs. Delphi data standards are used and average actions per month per the national average from the Delphi study for required actions per property are also put into the formula. Complete the worksheet by using the average holding period of inventory property determined according to subparagraph D. An example has been completed based on national average data with an average holding period of .45 years.

<b>Step</b>	<b>Action</b>		
1	( <u>2.58</u> X <u>.45</u> = <u>1.161</u> )	Average Actions Per Property/Year	Average Yearly Holding Period
			Loan actions per Holding Period
2	( <u>180</u> ÷ <u>60</u> = <u>3</u> )	Delphi Data for Real Estate Loan Actions	Minutes/Hour
			Hours
3	( <u>1.161</u> X <u>3</u> X <u>25.43</u> = <u>88.57</u> )	Amount from Step 1	Amount from Step 2
			2018 GS 11/1 Hourly Pay
			Cost of Loan Actions
4	( <u>648</u> ÷ <u>60</u> = <u>10.8</u> )	Delphi Data for Inventory Actions	Minutes/Hour
			Hours
5	( <u>10.8</u> X <u>25.43</u> = <u>274.64</u> )	Amount from Step 4	2018 GS 11/1 Hourly Pay
			Cost of Inventory Actions
6	( <u>88.57</u> + <u>274.64</u> = <u>363.00</u> )	Amount from Step 3	Amount from Step 5
			Administrative Costs for Inventory Property (rounded to nearest \$)