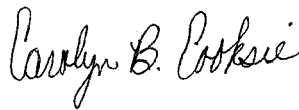


For: State and County Offices

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

Approved by: Deputy Administrator, Farm Loan Programs



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.

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 (Exhibit 1).

C Contact

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

- e-mail at lee.nault@wdc.usda.gov
- telephone at 202-720-6834.

Disposal Date	Distribution
October 1, 2009 10-9-08	State Offices; State Offices relay to County Offices

Notice FLP-516

2 Action

A Administrative Liquidation Costs

The administrative liquidation costs for each loan type are provided in the following. These constants are for all versions of DALR\$.

Loan Type	Calculation	Cost
OL	$(3063 \div 60 = 51.05) \times \$23.07 =$	\$1,178.00
FO/SW	$(3063 \div 60 = 51.05) \times \$23.07 =$	\$1,178.00
EM/EE	$(3063 \div 60 = 51.05) \times \$23.07 =$	\$1,178.00
RH (used for RHF loans only)	$(3063 \div 60 = 51.05) \times \$23.07 =$	\$1,178.00

Note: Costs were calculated using the FY 2004 Delphi study and the 2008 GS-11/1 hourly pay rate.

B 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 significant acquisitions occur and the Administrator determines that chattels do have a holding period.

Note: If significant acquisitions occur and a chattel holding period becomes necessary, States 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.
- “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.

Notice FLP-516

2 Action (Continued)

C 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 5 1/2 months (165 days). National Office guidance may be requested if a longer holding period is required.
- “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”. FLM 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, each SED will use the Farm Land Market Advisory Committee (FLMAC).

Note: See subparagraph D 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. Such guidance should include customary management activities and their frequency to promote a consistent approach.

D 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 CSREES employee with knowledge of the farm real estate market.

Data obtained from EIP-51R and FSA-326 may be useful to FLMAC in determining the annual percentage of decrease or increase in land values.

Notice FLP-516

2 Action (Continued)

D FLMAC

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

- 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
- amount of repossessed farm land held by FSA, the Farm Credit System, and other private sector lenders
- any special conditions which would affect farm land values in the State
- any studies or research conducted by the State Agricultural University or similar scholarly source.

FLMAC should, if possible, determine anticipated value changes on a regional basis within the State, if the State has agricultural regions with discernable differences. 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 if FLMAC’s findings are fairly consistent with those of surrounding States. If there are significant differences, SED may reconvene FLMAC to reconsider the findings.

E 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
- to provide the factors to use in adjusting current market value
- according to 1-AS.

Note: The State supplement shall be issued after completing the cost analysis, but no later than **November 28, 2008**.

Notice FLP-516

2 Action (Continued)

F Determining Property Management Costs

Use Exhibit 1 to calculate the property management costs. Exhibit 1 has been completed based on national average information from the Delphi study. Insert the average holding period of inventory property as determined according to subparagraph C.

Note: An average holding period of 5 1/2 months (165 days) will be used unless special guidance and administrators exceptions have been requested.

Worksheet for Determining Property Management Costs

Use the following to calculate the property management costs. The following example has been completed based on national average data. The Delphi data standards for the calculation have been entered and the average actions per month have also been entered based upon a national average from the Delphi study for required actions per property. An average holding period of 5 1/2 months has been used.

Step	Action
1	$\left(\frac{.215}{\text{Average Actions Per Property/Month}} \times \frac{5.5}{\text{Average Holding Period}} = \frac{1.1825}{\text{}} \right)$
2	$\left(\frac{180}{\text{Delphi Data for Real Estate Loans}} \div \frac{60}{\text{}} = \frac{3}{\text{}} \right)$
3	$\left(\frac{1.1825}{\text{Amount from Step 1}} \times \frac{3}{\text{Amount from Step 2}} \times \frac{23.07}{\text{2008 GS 11/1 Hourly Pay}} = \frac{81.84}{\text{}} \right)$
4	$\left(\frac{648}{\text{Delphi Data for Inventory Actions}} \div \frac{60}{\text{}} = \frac{10.8}{\text{}} \right)$
5	$\left(\frac{10.8}{\text{Amount from Step 4}} \times \frac{23.07}{\text{2008 GS 11/1 Hourly Pay}} = \frac{249.16}{\text{}} \right)$
6	$\left(\frac{81.84}{\text{Amount from Step 3}} + \frac{249.16}{\text{Amount From Step 5}} = \frac{331.00}{\text{Administrative Costs for Inventory Property}} \right)$