

**UNITED STATES DEPARTMENT OF AGRICULTURE  
RURAL DEVELOPMENT**

<b>Rural Business Cooperative Service</b>	<b>601 Business Loop 70 West</b>	<b>(573)876-0976</b>
<b>Rural Housing Service</b>	<b>Parkade Center, Suite 235</b>	<b>FAX (573)876-0977</b>
<b>Rural Utilities Service</b>	<b>Columbia, MO 65203</b>	<b>TDD (573)876-9480</b>

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For Administrative Use Only	Missouri RD AN No. 1405 (HB-1-3550)
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December 20, 2002

TO: All Local and Area Offices  
Missouri

FROM: Gregory C. Branum  
State Director, Rural Development

SUBJECT: Calculating Recapture on Direct Single Family Housing  
Loans with Early Payoffs

PURPOSE/INTENDED OUTCOME: To provide guidance on determining appraised value and calculating subsidy recapture in cases where subsidized borrowers have unknowingly paid off their direct Single Family Housing (SFH) loans early and are being notified of recapture due. As a result of the way payments were applied in the past, many borrowers with older accounts will pay off their loans earlier than the maturity date.

COMPARISON WITH PREVIOUS AN:

This administrative notice replaces MO AN 1388 dated February 7, 2002.

IMPLEMENTATION RESPONSIBILITIES:

Until January 1990, subsidized payments were applied based on the reduced interest rate as calculated by the Interest Credit Agreement. Applying the monthly installment at a reduced interest rate was equal to having a substantial curtailment credited each month. Additional reductions of principal were compounded until 1990 when the subsidized payment was changed so that interest accrued based on the note rate.

An example of the impact this earlier policy is having is that in the early 1980's many borrowers obtained loans with high interest rates of 13 and 13.5 percent and received subsidy at a 1 percent interest rate. With payments being applied at the lower interest rate, the principal balance was reduced several years earlier than the actual maturity date of the loan. The longer a loan received the benefit of a 1 percent accrual, and the higher the corresponding note rate, the greater the reduction in loan term. At this time, many of these borrowers are unknowingly making the final installment with payment of their regularly scheduled mortgage payment.

These early payoffs are creating issues in field offices when a borrower unexpectedly pays off their loan early and is informed that they owe an enormous amount of recapture. When a loan is paid in full, borrowers are automatically notified by letter (by CSC) that they have 60 days to submit an appraisal for calculation of recapture. The letter also informs the borrower that they

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will receive a 25 percent discount if they elect to pay the recapture owed within 60 days. The following guidance will hopefully provide a more efficient method of handling these unusual cases.

### PROPERTY VALUATION

The initial version of the Subsidy Repayment Agreement (1979) indicates the amount of subsidy to be repaid the Government will be based on the appraised value determined by the Agency. An appraisal or assessed value may be used if you believe that would adequately reflect market value. However, if an assessed value is used, a statement from the field office indicating that the assessed value accurately reflects the market value should be included. In Missouri, the CDM will first inspect the property and then contact the County Assessor's office and determine if the assessed value adequately reflects (within 5%) the market value of the property. If it does, then you will use the assessed value. If the assessed value does not accurately reflect the market value, then an appraisal must be obtained. This will be completed by our in-house appraisers, if possible, or an outside appraiser. Either process is acceptable.

If an outside appraisal is needed, the Agency will incur the cost and the borrower will not be charged. THIS ONLY APPLIES TO THE LOANS WITH UNEXPECTED EARLY PAYOFFS AND THE ESTABLISHMENT OF A RECAPTURE RECEIVABLE. Costs associated with obtaining an appraisal in these instances will be paid from recoverable Program Loan Cost Funds using the "Direct Loan Financing Account" (R funds) and coded "S1B1". The borrower's name and account number should not be included on the AD-838 form. We do, however, recommend including the property address as well as a statement indicating the charge is for an appraisal. Field office staff will review the appraisals and the Centralized Servicing Center (CSC) will accept their value determinations.

### CUSTOMER NOTIFICATION – CSC AND FIELD OFFICE INTERFACE

Revised notification letters were developed to clarify the explanation of why recapture is due; and to inform borrowers of the process they should follow relative to payment of subsidy recapture. An explanation of how the borrower may receive consideration for capital improvements is also addressed in the revised letter. The time allotted for these borrowers to pay recapture owed is extended to 120 days; otherwise, the recapture will be deferred and set up as a receivable account. Copies of these letters are attached for your information.

When CSC becomes aware that an account has paid off **in this fashion** (not a refinance or sale), they will task the field using Task #590 *P & I PIF/Recap Receivable Established*. **DO NOT RELEASE THE SECURITY INSTRUMENTS.** The expiration timeframe will be 60 days. At the

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same time, Task #589 *Early Payoff Notification* will be sent to the State Office queue. The expiration timeframe will be 45 days to allow for follow-up before the 60 days expire. This will be an indication that Letter #1, the “Congratulations” letter, has been sent from CSC and that the field should begin the process to have the market value established. An appraisal/valuation should not be completed until the borrower has indicated whether they are seeking credit for capital improvements. Local offices will establish a 10-day (from date of the #590 queue) follow-up for the capital improvement form. If the form is not received, the local office will contact the borrower directly for this information and at the same time arrange for an appraisal/valuation. You will have a total of 60 days to provide the market valuation to CSC. Once market value is determined, a request for calculation of recapture should be faxed to the Payoff Section at 314-206-2113. The packet should contain a cover letter stating the purpose of the request, a contact person, fax number and a copy of all supporting documentation.

CSC will send Letter #2 giving the borrower 120 days to either pay the calculated recapture amount owed, or defer payment. CSC will also fax a copy of the letter to the local office. The case file should be marked as a recapture receivable account. Settlement values used by CSC can be viewed on the RHCD Recap Calc screen. If the borrower pays the recapture, the field will get the standard queue to prepare the release.

**Attachments**

Letter #1 Congratulations Letter, Payoff Letter #1

Letter #2 Payoff Letter 2

Capital Improvements Credit

<b>EXPIRATION DATE:</b> 12/31/03	<b>FILING INSTRUCTIONS:</b> Appendix 7 of Rural Development HB-1-3550
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