

Module 11: Servicing of SFH Direct Loans
Learning Activity
Activity #2 – Calculating Net Recovery Value



This practice activity provides you with a fictitious, but realistic scenario. In the scenario Mr. Broke, has been transferred and needs to sell his home. The details are provided and you must provide a reasoned response regarding whether to short sell or foreclose after calculating the Net Recovery Value.

Activity #2 Instructions:

- ✓ Read the scenario below.
- ✓ Complete the Net Recovery Value (NRV) calculation using the net recovery worksheets (Complete the calculation for a foreclosure on the property AND as if Mr. Broke were to sell to this buyer under a short sell situation.)
- ✓ Evaluate the situation based upon information and procedures established for this situation in HB-1-3550.
- ✓ Prepare a response to the question based upon the information and calculation results.
- ✓ Discuss your response with your trainer.

Mr. Broke has been transferred to Guam and needs to sell his home immediately. He has a buyer for \$78,900. The home appraised for \$80,000. His Rural Development debt is more than the appraised value. There is a prior leveraged lien holder debt of \$17,200, which includes interest and expenses through the projected date of closing. If the short sale is approved, it will close immediately because it is a cash buyer and there is no holding period. The property taxes are current; last year they were \$500. There are no junior lien holders. His account is current. In addition to a 6% real estate commission, the seller's closing costs are estimated at \$2,243.

If the property were to be foreclosed and become REO property, the government would have selling expenses totaling \$5,300 (6% commission on appraised value plus \$500 closing costs). The estimated holding costs would be 180 days at \$12.35 (daily interest accrual) as this property is located in a remote rural area in economic distress. The administrative costs would be \$2,000 for an appraisal, foreclosure costs, and advertising. The management costs would be \$1,100 for securing (changing locks), maintaining (lawns/snow), utilities, and ½ years taxes that will be pro-rated when the REO is sold.

Question to Answer:

Which is more advantageous to the Government, the short sale or to foreclose?

Why?

