

SFH Guaranteed Servicing

July 3, 2024

Guidance on Foreclosures impacted by the 8th Circuit “Show Me” ruling

The purpose of this announcement is to provide guidance for servicers completing foreclosures after the 8th Circuit issued an order affirming a federal court decision in the *Show Me State Premium Homes v. McDonnell* (July 2023) that has an impact on federal liens after the foreclosure sale. The USDA Mortgage Recovery Advance (MRA) is a federal lien.

Handbook Chapter 18 guidance:

As outlined in Chapter 18 Section 18.11 Managing the Foreclosure Process [7 CFR 3555.306]: The servicer must manage the foreclosure process so that the property is liquidated in a cost effective, expeditious, and efficient manner. In states where more than one foreclosure method is available, the limits listed are based on the method that is most cost effective in reducing legal fees and interest expense.

Guidance around 8th Circuit ruling:

- When available, servicers should use the less expensive non-judicial foreclosure method.
- If there are **no** excess funds available after the foreclosure sale that could be applied to the MRA, the servicer should prepare the lien release documents based on any requirements of the jurisdiction and send them to USDA for review and execution.
- If there **are** excess funds available after the foreclosure sale that could be applied to the MRA, the funds should be applied to the MRA until the funds have been exhausted. The servicer should then prepare the lien release documents based on any requirements of the jurisdiction and send them to USDA for review and execution.