

JULY 2008

Primary and Preservation Loan Servicing for Delinquent FSA Borrowers

When FSA borrowers are unable to make scheduled payments on their farm loan programs debt to the agency because of reasons beyond their control, Federal law provides a process by which their FSA loan accounts may be serviced to avoid foreclosure and liquidation.

- When a borrower becomes 90 days past due on an FSA loan account, the Agency provides a servicing packet outlining available options.
- Borrowers who respond with a completed application within 60 days from receipt of the packet are considered for restructuring of the debt -- rescheduling, reamortization, consolidation, deferral, or write-down of the amount owed -- as long as FSA will receive an equal or greater net return than it would realize through foreclosure.
- Borrowers who are not delinquent, but will not be able to make their next payment, may request the servicing packet at any time and may qualify for all of the options noted above, except write-down. (Federal law limits debt forgiveness to one instance of no more than \$300,000.)
- Calculations to determine appropriate servicing options are made by the Debt and Loan Restructuring System (DALR\$), a sophisticated computer program, using information provided by the borrower.
- The account may be restructured if a feasible plan is possible. If DALR\$ indicates that no feasible plan is possible, State-sponsored mediation or a meeting of creditors is offered.
- If restructuring is not possible after mediation, the borrower may have the opportunity to buyout the debt at the current market value of the security and any non-essential assets. The remainder of the debt is written off when the buyout is accomplished.
- If the borrower is unable to take advantage of the buyout option, FSA is required to proceed with foreclosure in an effort to recover as much as possible. In certain situations, borrowers may avoid foreclosure by voluntarily conveying the security property to the Government in full satisfaction of the debt.
- Prior to such a conveyance or foreclosure, and again if FSA takes the property into inventory, borrowers are provided the opportunity to apply to lease with option to purchase their homestead and up to 10 adjoining acres of land, including farm buildings. To take advantage of Homestead Protection, borrowers must meet certain statutory requirements concerning farm income and continuous occupation of the property. The Agency will make every effort to allow qualified borrowers to remain in their homes.

For More Information

For more information about FSA and its programs, visit your local FSA office or online at: <http://www.fsa.usda.gov>.

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