



## Primary and Preservation Loan Servicing for Delinquent FSA Borrowers

When FSA borrowers are unable to make scheduled payments on their debt to the Government due to reasons beyond their control, Federal law provides a process by which their loan accounts can be serviced to avoid foreclosure and liquidation.

- When a borrower becomes 90 days past due (60 days delinquent) on an FSA loan account, the Agency provides an informational packet outlining its servicing authorities.
- Those who respond with a completed application within 60 days are considered for restructuring of the debt -- rescheduling, reamortization, consolidation, deferral, or writedown of the amount owed -- as long as the Government 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 can qualify for all of the options noted above except writedown.
- 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.
- If the account can be restructured, with or without a writedown, this step will be taken. (Federal law limits debt forgiveness to one instance of no more than \$300,000.) 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 has the opportunity to purchase the debt at the current market value of the security and any nonessential 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 many tax dollars 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 or purchase their homestead and up to 10 acres of land, including farm buildings. To take advantage of the Preservation Loan Servicing Program, 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.

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