

Trouble Repaying your Loan: Restructuring and Default

Depending on your situation and what your trouble is, different types of restructuring may be available to you to reduce your payments and help your operation cash flow:

Consolidation – this is the combining of your loans into a single larger loan with a single payment and, possibly, different repayment terms. Consolidation could reduce your monthly debt payment to a more manageable amount.

Rescheduling – a type of loan restructuring where a new loan, with a balance equal to the outstanding balance of the “old” loan, replaces the “old” loan, with new repayment terms and usually a lower payment amount.

Deferment – the lender agrees to temporarily reduce or suspend your principal debt payment obligations, but not interest payment obligations. At the end of the deferment period, you are required to resume making full mortgage payments. You may also hear the term “**forbearance**” used, which describes a similar, but different process.

Interest rate reduction – a reduction in the stated interest rate for the remaining original life of the debt.

Write down – a lender reduces the value of the principal owed on a mortgage, when the value of said mortgage exceeds the value of the property mortgaged by the loan.

Conservation contract – the farm is placed under a management plan for conservation, recreation, and wildlife purposes. The land may not be used for agricultural purposes during the life of the contract. Only certain lands are eligible, and are subject to terms and plans appropriate to the land.

What to do first if you are having trouble making payments

If you are having trouble keeping up with your loan repayment schedule for any reason, remember that communication with your loan officer or with your lender is very important. Being proactive in assessing your situation and your options is key, and can save you thousands of dollars in the long run. If you would like help reviewing your finances and considering your options, you may want to contact a Farmer Advocate. You can contact RAFI's Farmer Advocacy team by calling: 919-542-1396 and selecting the options to speak to members of our Contract Agriculture Reform Program.

What Happens if Your Loan Goes Bad

If you are unable to repay your loan on time, you may go into Default.

If your loan is still fully collateralized, when your loan goes bad the bank or FSA will move to **foreclose** on your properties or liquidate your assets that are part of your collateral. From the first notice of your default, the bank will specify a certain amount of time before they begin to liquidate securities. **If you have received a notice, you should contact a Farmer Advocate and/or an attorney to understand your rights and responsibilities.**

If the bank or FSA has liquidated your available securities, and there is still debt that remains, there may be the possibility of seeking a **debt settlement agreement**. Debt settlement is the process of negotiating with creditors to reduce overall debts in exchange for a lump sum payment. In a successful settlement, the bank or lender agrees to reduce a percentage of the overall debts. A farmer advocate can help you assess the possibility of a debt settlement. Contact RAFI's Farmer Advocacy team by calling: 919-542-1396 and selecting the options to speak to members of our Contract Agriculture Reform Program.

Even if you are able to reach a settlement, if you still owe on your loan after the liquidation of assets this may become a lasting **federal debt**. If your loan was a Guaranteed Loan, after liquidation FSA will pay your bank back up to 90% of the remaining debt. Your bank is obligated by their agreement with FSA to pursue the other 10%, by trying to collect it from you in collections. Your bank is unable legally to write off or forgive your debt, even in bankruptcy.

It is very important to realize that in the application process, you acknowledge that if you default on the FSA Direct or Guaranteed loan, the default amount may transfer into a direct federal debt. A federal debt may be collected through the garnishing of wages, tax returns, social security and other means.

In Conclusion:

Taking out a loan is a large responsibility with significant risk. It can be a step to a new future for your farm and your family, but you must make this decision carefully and weigh all your options first. If you have additional questions or would like assistance in considering your options, contact RAFI's Farmer Advocacy team by calling: 919-542-1396 and selecting the options to speak to members of our Contract Agriculture Reform Program.