Default Process/Timeline
USDA Government Guaranteed Loans

Rural Business-Cooperative Service ("RBS") Government Guaranteed Loans
Closed with Note Dates on or After August 2, 2016

Background:

***For loans closed on or after August 2, 2016, the lender or the Agency will issue an interest termination letter ("ITL") to the Holder(s) establishing the termination date for the interest accrual. The guarantee will not cover interest to any Holder accruing after the greater of: 90 days from the date of the most recent delinquency effective date as reported by the Lender or 30 days from the date of the interest termination letter. In 100% of cases, the ITL must be issued by the Lender or the Agency.**

Under the new regulations, the Lender and the Agency must maintain open lines of communication when the situation arises where the borrower is experiencing financial distress.

The lender will contact the USDA State Office in the region of origination to keep the Agency fully apprised of the borrower's status. In addition, the Lender will keep all secondary market Holders informed of the borrower's status.

During this time, Lender and Agency may identify any feasible "work-out plan" to cure the borrower delinquency/ default. Any proposed plan must be presented to the secondary market Holder(s) and the USDA for review and formal concurrence. With approval by all appropriate parties, the Lender will issue a Modification Agreement for borrower execution. The borrower will abide to the terms and conditions of this Agreement.

If there no viable work-out plan in place and the borrower cannot cure the delinquency/default, the Lender should proceed to maximize recovery. Recovery may result in foreclosure and liquidation.

As a final action step, the Lender or the USDA will submit the interest termination letter to each Holder in the secondary market. The letter will clearly identify the date that interest will terminate. The Agency will not remit any interest beyond this date.

Holder(s) must initiate the demand process immediately upon receipt of this letter.

Sample Case and Timeline

Definition: Default occurs when the borrower fails to perform under any covenant of the Note. **Failure to repay the loan** is the most common form of borrower default.

Sample Calendar:

- **January 1st: The Borrower fails to make the required principal & interest payment.**

  The Borrower is technically in default status based on the terms and conditions of the Promissory Note. Holder(s) make inquiry to the Lender to learn the details of the borrower's delinquency status. Lender indicates they are working diligently with the borrower to bring loan into a current status.

- **Between January1st and March 1st:**

  Past due payments remain outstanding. The Lender works closely with the Borrower and the USDA to identify a viable work-out plan; unfortunately, there is no remedy to cure the default. USDA encourages the Lender to move forward with foreclosure/liquidation proceedings. Lender also keeps secondary market holders apprised of borrower's failure to cure the default.

- **March 1st: Lender or Agency issues and submits Interest Termination Letter to respective Holder(s) in the secondary market.**

  The Interest Termination Letter clearly identifies that the interest accrual will cease on April 1st (sample boilerplate letter attached). The letter should be submitted via email to all Holder(s). Immediately upon receipt of the ITL, the Holder(s) of guaranteed portion of the loan can initiate the formal written demand to the originating Lender to repurchase the guaranteed portion of the loan. The Holder will concurrently send a copy of the demand letter to the USDA.

- **March 1st or March 2nd: The Lender has the option to repurchase the unpaid guaranteed portion of the loan from the Holder or deny the Holder's request.**

  Even though the Agency encourages the Lender repurchase, the majority of the originating Lenders defer to the Agency to repurchase the guaranteed portion of the loan from the respective Holder(s) in the secondary market. Based on this short timeline, it is critical to obtain the Lender's immediate written response. Lender should respond on same day but no later than the day following day of Holder's formal written demand.

  Option #1: Lender schedules the repurchase of the loan from Holder(s) on

  March 15th:

  The Holder(s) will receive the guaranteed principal balance ("par amount") plus accrued interest from the last interest paid to date up to but not including the date of repurchase. In our example**, interest will be paid to March 15th.**

  Option #2: The Lender chooses to deny the Holder's request.

  Lender must respond to Holder's demand in a very timely manner (no later than day following the date of Holder's demand or March 3rd). Holder will make demand upon the Guarantor, the United States Department of Agriculture ("USDA"). The claim/demand to the Agency is submitted on March 3rd.

- **April 1st:** The USDA will repurchase from the holder the unpaid guaranteed principal balance ("par amount") plus accrued interest up to but not including the date of repurchase of April 1st. Payment is coordinated between the Agency and the Holder in the form of a Fed Funds wire, a check, or an ACH credit, with a wire being the most common vehicle of payment.

Very important notice:

The guarantee will not cover interest to any Holder accruing after the greater of:

90 days from the date of the most recent delinquency effective date as reported by the Lender or 30 days from the date of the interest termination letter. In this example, the ITL reflected an interest termination date of April 1^{st}; therefore, **the Agency will not pay accrued interest beyond April 1^{st}.**

It is imperative for the Holder to make timely demand and follow up with the Lender and Agency to avoid any loss of interest.

FTN Financial Acquires Coastal Securities

On April 3, 2017, FTN Financial acquired the assets of Houston-based broker/dealer Coastal Securities, Inc. Coastal has been a national leader in the securitization, trading, and sales of SBA 7(a) securities since the program's inception in 1985. Coastal has also been a major source of liquidity in the secondary market for SBA/USDA guaranteed loan products — buying on average over $2 billion annually. With the acquisition, FTN Financial will build upon Coastal's successes through its extensive distribution platform, liquidity, and capital position.