

## Default Process/Timeline USDA Government Guaranteed Loans

### Rural Business-Cooperative Service (“RBS”) Government Guaranteed Loans Closed with Note Dates Prior to August 2, 2016

**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 1<sup>st</sup>:** **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.
- **March 1<sup>st</sup>:** **The Borrower is in default for 60 days.** The Holder 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. The agency encourages the Lender’s repurchase of the guaranteed portion of the loan.
- **April 1<sup>st</sup>:** **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 in the secondary market.
  - Option #1: The Lender repurchases the loan on April 1<sup>st</sup> ;** therefore, the Holder 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 April 1<sup>st</sup>.**
  - Option #2: The Lender chooses to deny the Holder’s request;** therefore, the Holder will make demand upon the Guarantor, the United States Department of Agriculture (“USDA”). The claim/demand to the Agency is submitted on April 1<sup>st</sup>.
- **May 1<sup>st</sup>:** 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 May 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 Loan Note Guarantee **will not** cover the interest to the Holder accruing **after 90 days** from the date of the original demand letter to the lending institution requesting the repurchase of the guaranteed portion of the loan. In our example, the demand to the Lender was submitted on March 1<sup>st</sup>; therefore, **the Agency will not pay accrued interest beyond June 1<sup>st</sup>. It is imperative for the Holder to make timely demand to avoid any loss of interest.**

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