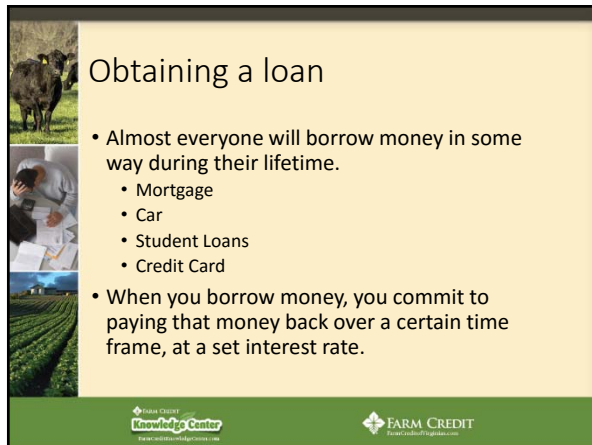




Distressed Loans
What they are and how to manage them

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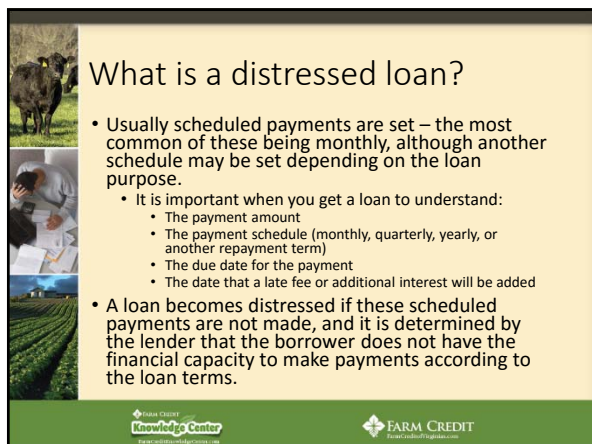


Obtaining a loan

- Almost everyone will borrow money in some way during their lifetime.
 - Mortgage
 - Car
 - Student Loans
 - Credit Card
- When you borrow money, you commit to paying that money back over a certain time frame, at a set interest rate.

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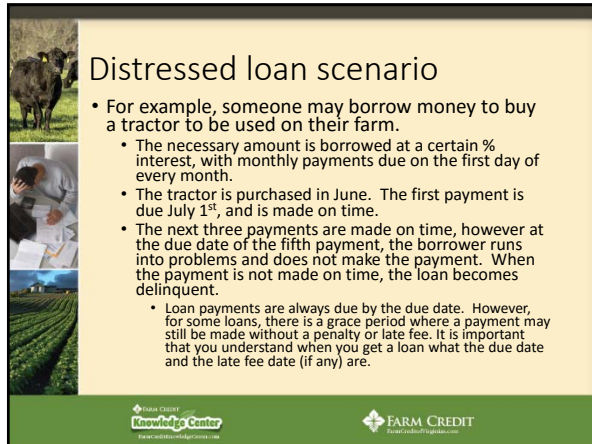


What is a distressed loan?

- Usually scheduled payments are set – the most common of these being monthly, although another schedule may be set depending on the loan purpose.
 - It is important when you get a loan to understand:
 - The payment amount
 - The payment schedule (monthly, quarterly, yearly, or another repayment term)
 - The due date for the payment
 - The date that a late fee or additional interest will be added
- A loan becomes distressed if these scheduled payments are not made, and it is determined by the lender that the borrower does not have the financial capacity to make payments according to the loan terms.

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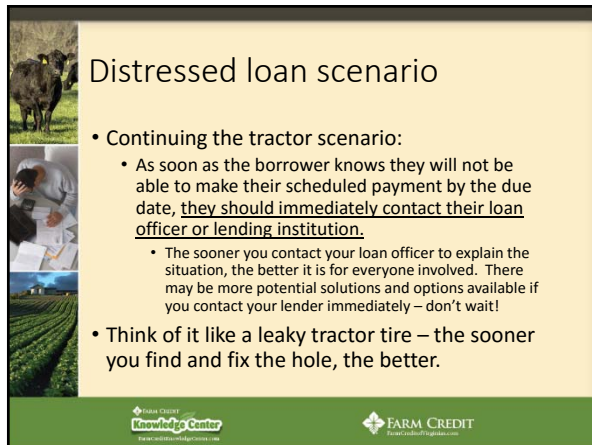
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Distressed loan scenario

- For example, someone may borrow money to buy a tractor to be used on their farm.
 - The necessary amount is borrowed at a certain % interest, with monthly payments due on the first day of every month.
 - The tractor is purchased in June. The first payment is due July 1st, and is made on time.
 - The next three payments are made on time, however at the due date of the fifth payment, the borrower runs into problems and does not make the payment. When the payment is not made on time, the loan becomes delinquent.
 - Loan payments are always due by the due date. However, for some loans, there is a grace period where a payment may still be made without a penalty or late fee. It is important that you understand when you get a loan what the due date and the late fee date (if any) are.

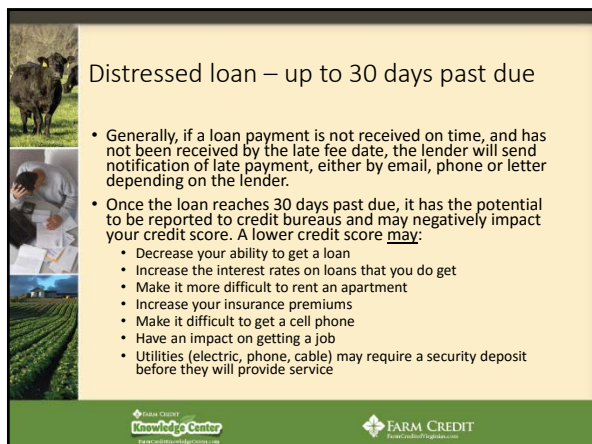
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Distressed loan scenario

- Continuing the tractor scenario:
 - As soon as the borrower knows they will not be able to make their scheduled payment by the due date, they should immediately contact their loan officer or lending institution.
 - The sooner you contact your loan officer to explain the situation, the better it is for everyone involved. There may be more potential solutions and options available if you contact your lender immediately – don't wait!
- Think of it like a leaky tractor tire – the sooner you find and fix the hole, the better.


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Distressed loan – up to 30 days past due



- Generally, if a loan payment is not received on time, and has not been received by the late fee date, the lender will send notification of late payment, either by email, phone or letter depending on the lender.
- Once the loan reaches 30 days past due, it has the potential to be reported to credit bureaus and may negatively impact your credit score. A lower credit score may:
 - Decrease your ability to get a loan
 - Increase the interest rates on loans that you do get
 - Make it more difficult to rent an apartment
 - Increase your insurance premiums
 - Make it difficult to get a cell phone
 - Have an impact on getting a job
 - Utilities (electric, phone, cable) may require a security deposit before they will provide service


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Distressed loan – more than 30 days past due



- Once a payment is more than 30 days past due, the penalties, fees and potential consequences become more severe.
- For secured loans, which are loans that have collateral, a lender may start proceedings to collect the debt by selling collateral.
- For unsecured loans, such as credit cards, a lender may start proceedings to file a judgement.


 



Distressed loans – take away



- No matter what type of loan you have, the most important thing to remember is to communicate with your lender as soon as possible.
- Remember that leaky tractor tire? There are steps that can be taken to help find and “plug” the leak, and the sooner you start, the better off you will be!

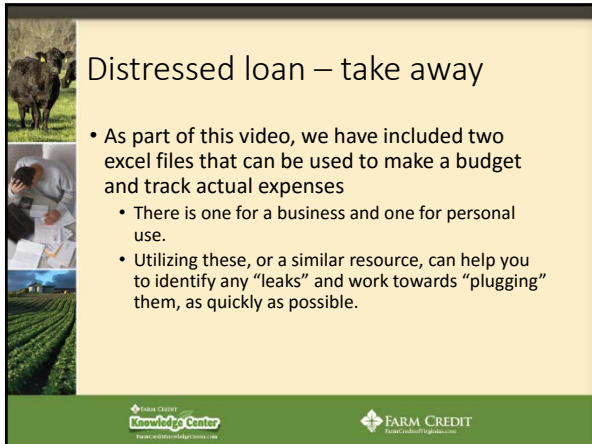
 



Distressed loans – take away

- One of the most important things you can do from a financial standpoint is keep a good record of monthly, quarterly, bi-annual and annual bills as well as income.
- Preparing a monthly budget, and comparing that each month to your actual income and spending can help to identify problem areas quickly.



Distressed loan – take away

- As part of this video, we have included two excel files that can be used to make a budget and track actual expenses
 - There is one for a business and one for personal use.
 - Utilizing these, or a similar resource, can help you to identify any “leaks” and work towards “plugging” them, as quickly as possible.

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Distressed loans – take away

- Lenders realize that bad things can happen to good people, and they will work with you as much as they can to help should you face difficulties in making your payments.

For more information or to speak with your loan officer, contact your local Farm Credit office. To find the contact information for your local office, you can visit

<http://www.farmcreditofvirginias.com/locations.aspx>

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