RHS administers a direct loan program where the U.S. Department of Agriculture extends the loan and remains the owner of the loan at all times, including during foreclosure. You deal with the single Customer Service Center (formerly the “Centralized Servicing Center”) in St. Louis, Missouri, 800-793-8861. It is easier to get assistance if you have your account number handy.

RHS offers a number of special servicing programs designed to assist you, but only when your mortgage payments are at least two months overdue. Apply for these special servicing options quickly, because foreclosure can start just a month later.

Payment Assistance. You may be eligible for payment subsidies, referred to as “interest credit” or “payment assistance.” The subsidies are set yearly and reduce the amount of interest you have to pay. If your income drops during the year, you can lower your payments by documenting this promptly with the Customer Service Center. Much but not all your payment subsidies are added back on to the principal balance owed if you sell the property, so that the amount you owe may not even go down over time.

Payment Moratorium. A payment moratorium is available when circumstances beyond your control mean that you are temporarily unable to continue making full payments without substantially impairing your standard of living. Courts are divided as to whether you can apply for a payment moratorium after RHS has decided to foreclose.

Under a payment moratorium your monthly payments may be reduced or suspended, based on need, for up to two years. Eligibility for the moratorium program is reviewed at least once every six months and you should be provided with sixty days’ notice before the moratorium is terminated.

When the moratorium is terminated, your monthly payments are recalculated based on the balance at that time. If you are unable to afford the payments after they are recalculated, some or all of the interest that came due during moratorium may be canceled.

Delinquency Workout Agreement. A “delinquency workout agreement” allows you, over a period of no more than two years, to get caught up on delinquent payments by paying a portion of the delinquent amount in addition to your scheduled mortgage payment.

Protective Advance. A “protective advance” is an RHS advance of money to pay your taxes or insurance and then recalculates the loan balance and payments. The RHS may demand the advance’s repayment within one year or amortize the advanced amounts over the loan’s remaining life.

Loan Modification. Sometimes repayment plans are not feasible because your finances have suffered a long-term setback and will not recover. In such a situation the RHS can add onto your principal balance the unpaid interest and escrow advances (but not foreclosure costs, late fees, and other administrative expenses). Because the length of the repayment term of RHS direct loans cannot be extended for any substantial additional time, these modifications almost invariably increase your monthly payment.

Short Sale and Deed in Lieu of Foreclosure. A short sale allows you to satisfy the full debt owed to the government with the proceeds of a sale, even if the sale proceeds are less than the amount of the debt. RHS must approve short sales and the price must meet RHS requirements related to the value of the property and size of the total debt. RHS may set time limits for the completion of the sale. The short sale is overseen by a local RHS office and not by the centralized Customer Service Center.

If you apply for debt forgiveness and the application is approved, a deed in lieu of foreclosure allows you to transfer the home voluntarily to the government in return for a release of all liability for the debt. The RHS typically looks at this as the last option, when a short sale cannot be arranged.

In a short sale and in a “deed-in-lieu,” follow the correct procedures to make sure you are not liable for the remaining debt after the sale proceeds are deducted, particularly when your RHS subsidies are added back onto the debt when you sell the home or provide a deed in lieu. Otherwise the federal government aggressively pursues these remaining balances. Submit an application with current financial information to RHS. If approved, you will receive written confirmation of the release of liability from the full debt. More information about short sales and deeds in lieu is found earlier in this chapter’s section on Fannie Mae and Freddie Mac short sales and deeds in lieu.

Appeals. You can appeal certain RHS decisions, such as a denial of a moratorium application or the commencement of foreclosure. You lose the right to appeal if you do not act within the required time (usually 30 days from notice of the
decision). Appeal options include mediation or a formal hearing before a USDA hearing officer.

Source: National Consumer Law Center, Surviving Debt [50th NCLC Anniversary Edition], updated at www.nclc.org/library
Source URL: https://library.nclc.org/sd/1707