

interest of the Federal Government and tenants and when the following conditions are met.

(i) The Agency determines that the borrower will be unable to meet their obligations without a reduction in monthly payment installments; and

(ii) The Agency is satisfied that the security, including the potential income for debt service, will be adequate to protect the Agency's interest over the term of the reamortization and that the reamortization will not adversely affect the Federal Government's lien priority.

(2) When the reamortization will extend the term of the repayment period more than 5 years beyond the scheduled final payment date, the borrower must obtain an "as-is" value-in-use appraisal of the housing project conducted in accordance with subpart P of this part. The Agency will not approve a reamortization unless the appraisal indicates the security is adequate for the principal and interest being reamortized.

(3) The Agency may approve reamortization of a loan at the existing note rate, or the current interest rate at the time of reamortization closing or approval, whichever is less.

(4) Loan reamortization may be used to:

(i) Restructure loan repayments to prevent or correct a compliance violation or cure a default caused by circumstances beyond the borrower's control in situations where the borrower is otherwise in compliance with Agency requirements;

(ii) Repay principal, outstanding interest, overage, and advances made by the Agency for recoverable cost items when less than full payments were authorized under the provisions of an Agency approved workout agreement;

(iii) Restructure a borrower's loan payments in conjunction with an incentive package developed in accordance with § 3560.656 to prevent prepayment of the loan;

(iv) Restructure an existing loan in conjunction with a subsequent loan for rehabilitation;

(v) Bring a delinquent account current in the case of a loan transfer and assumption when all equity available has been used to pay delinquent amounts and a delinquency balance remains; or,

(vi) Restructure remaining debt when a portion of the property serving as loan security is sold and there is a need to reestablish the financial stability of the housing project.

(c) *Loan writedowns.* A loan writedown is a reduction of a borrower's debt approved by the Agency.

(1) Loan writedowns will only be approved when they are in the best interest of the Federal Government and when the following conditions exist:

(i) Sound management of the housing project is evident or unsound management practices are proposed for correction in accordance with an Agency approved workout agreement;

(ii) The housing project's financial stability is being affected by conditions beyond the borrower's control, such as market weaknesses, unforeseen site problems, or natural disasters; and

(iii) There are no previous writedowns of indebtedness associated with the housing project.

(2) Prior to Agency approval for a loan writedown, the borrower must obtain an "as-is" value-in-use appraisal of the housing project conducted in accordance with subpart P of this part. The Agency will not approve a loan write-down unless the appraisal indicates the Federal Government's interests are secured at the proposed writedown level.

(3) Loan writedowns may be used to allow for a loan transfer and assumption for less than the total amount of outstanding debt.

§ 3560.456 Liquidation.

Prior to any servicing action which might lead to the acquisition of real property by the Agency, the Agency must complete a due diligence report to assess any potential contamination of the property from hazardous substances, hazardous wastes, or petroleum products. The borrower must cooperate with the Agency in the development of this report.

(a) *Acceleration.* When a borrower is in monetary or non-monetary default, the Agency will accelerate the loan unless the Agency decides other enforcement measures are more appropriate.

(1) If the borrower does not pay the full account balance and meet the other terms of the acceleration notice within the time period set forth in the acceleration notice, the Agency will foreclose or acquire the security property through deed in lieu of foreclosure.

(2) The Agency will suspend interest credit and rental assistance immediately following the issuance of an acceleration notice.

(3) The Agency will not accept partial payment of an accelerated loan unless required by state law.

(b) *Voluntary liquidation.* After acceleration, borrowers may voluntarily liquidate through either of the following mechanisms:

(1) The Agency will accept a deed in lieu of foreclosure to the security property when it is in the best interest of the Federal Government.

(2) Prior to an acceptance of a deed in lieu of foreclosure, the borrower must satisfy all junior liens on the property and pay all real estate taxes or assessments which are or will become a lien on the property. If the borrower provides the Agency with evidence that borrower has insufficient funds to satisfy the junior liens and pay taxes and assessments, the Agency will pay what cannot be paid by the borrower if it is in the best interest of the Federal Government.

(3) If a junior lienholder makes an offer in the amount of at least the net recovery value, the Agency may assign the note and mortgage to such lienholder after all appeal rights have expired.

(4) The borrower is responsible for all expenses associated with liquidation and acquisition and will not be released from liability until the account is satisfied in full.

(c) Foreclosure.

(1) The Agency will initiate foreclosure when a borrower is in monetary or non-monetary default and foreclosure is in the best interest of the Federal Government.

(2) When a junior lienholder foreclosure does not result in payment in full of the Agency debt but the property is sold subject to the Agency lien, the Agency will liquidate the account as an unauthorized transfer.

(d) Acquisition of chattel properties.

(1) The Agency will accept voluntary conveyance of chattel property only when the borrower can convey ownership free of other liens and the Agency has agreed to release the borrower from further liability on the account.

(2) If the Agency decides to accept an offer of voluntary conveyance of chattel property, the borrower must provide an itemized listing of each chattel property item being conveyed and provide title to vehicles or other equipment, where applicable.

§ 3560.457 Negotiated debt settlement.

(a) *Borrower proposals to settle debt.* A borrower who cannot pay the full amount of loan payments may propose an offer to settle an outstanding debt for less than the full amount of that debt. The Agency may approve a negotiated debt settlement only in cases where a default is evident and doing so is in the best interest of the Federal Government and tenants.

(b) *Required information.* Borrowers requesting debt settlement must submit