

RLSS and Handling Bankruptcies

When dealing with high-risk loans, sooner or later your agency will likely be faced with a borrower who has filed for bankruptcy. In general, when a borrower files for bankruptcy, and your agency receives legal notification of that filing, the account is “frozen” until the outcome is determined. The following recommendations are based on routine lending procedures, but we recommend you defer to your own attorney or auditor for the best advice.

There are several steps to be taken in GMS-RLSS software to accommodate the bankruptcy.

- 1) Review the Loan Master file for interest calculation. If the loan is set as Daily interest, it will not need to be edited. If it is set as Amortized, you will want to edit it to Daily interest, at least until further information regarding the bankruptcy is received.
- 2) Using menu option Loan Activity, enter a zero repayment. Use the date the bankruptcy was filed as the activity date, enter zero under activity total, and enter the previous paid-thru and next payment due dates as the new paid-thru and next pay due dates for this activity. This posting will result in the loan history “accruing” any interest due through the date of the bankruptcy, and the screen should reflect a positive number in the “accrued interest” field. You may want to use the notes section of the screen to document the bankruptcy filing.
- 3) Return to the Loan Master file and change the interest percentage to zero (0.0%) so the loan will not accrue interest until further information is received regarding the bankruptcy.

The court may request a document as proof of claim toward the bankruptcy. Utilizing Loan Payoff, found on your Features menu, a document may be printed that reflects the principal balance and interest that has accrued through the date entered in step #2 above.

Once the bankruptcy is settled, you should receive a statement informing you of the amount awarded your claim by the court, along with an interest rate, if any, that may now be applied to the loan. If the new interest rate is zero, no activity needs to be recorded. If a revised rate is now in effect, repeat step #2 above, using the date interest is reinstated as the activity date, and then edit the Loan Master File to reflect the new interest rate. When payments resume, be prepared to see part of the payment applied to accrued interest. This will be reflected as a negative number within the “accrued interest” field on the activity screen.

If the loan was set to Amortization prior to the bankruptcy, once the above steps are taken the Loan Master file may be changed from Daily interest back to Amortized.