**Q 8013. What is the difference between recourse and nonrecourse debt?**

A “debt” arises by virtue of the receipt of money or acquisition of property by an individual who has a corresponding obligation to repay the creditor/lender in money or money’s worth. The terms “recourse” or “nonrecourse” describe the creditor/lender’s ability to pursue legal collection action against a defaulting debtor.

In the case of a default of a recourse debt (whether the debt is secured or unsecured), the creditor has the legal right to sue the debtor personally to satisfy any deficiency. So, in the case of a secured recourse loan, if the fair market value of property is not sufficient to pay the outstanding balance, the debtor remains personally liable to satisfy the deficiency. Conversely, with respect to a default of a nonrecourse debt (which is always secured by property), the creditor’s remedy is limited to the property securing the debt. Stated differently, beyond surrendering the secured property to the creditor, the debtor has no personal obligation to repay the loan even if the secured property is not sufficient to pay off the entire debt.

***Example*:** In 2015, Asher purchases raw land for $100,000 financed entirely with the proceeds of a 10 year recourse loan secured by the land. Until the maturity date of the loan in 2025, only interest payments were required. In 2018, Asher defaults on the loan (fails to make the required interest payments) and the lender forecloses. After crediting the fair market value of the land (which had declined to $70,000) against the loan, there remains a balance of $30,000. Because the debt is recourse, however, the lender may sue Asher personally to secure payment of the deficiency from his other assets.

In the alternative, if Asher’s loan was nonrecourse, the only collection option available to the lender is foreclosure or accepting a deed in lieu of foreclosure. Beyond that remedy, the lender may not pursue a legal action against Asher in order to collect the $30,000 deficiency. In other words, the transfer of the secured property to lender is deemed to satisfy the loan regardless of the outstanding balance.