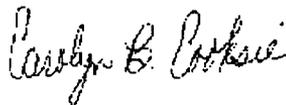


For: State and County Offices

**Using Operating Loan (OL) Funds for Real Estate Repairs and Improvements**

Approved by: Deputy Administrator, Farm Loan Programs



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**1 Overview**

**A**

**Background**

FSA revised 7 CFR Part 1980, Subpart B and Part 1941, Subpart A to implement changes made by the Federal Agriculture Improvement and Reform Act of 1996. These changes removed from Sections 1941.16 and 1980.175(c) the paragraph limiting OL funds used for improvements and building repairs to \$15,000.

**B**

**Purpose**

This notice clarifies treatment of OL funds used for improvements and repairs to real estate.

**C**

**Contacts**

State Offices shall direct questions about this notice to LMD.

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**Disposal Date**

July 1, 1999

**Distribution**

State Offices; State Offices relay to County Offices

## Notice FC-201

### 2 Authorized OL Purposes

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#### A Regulation

7 CFR Part 1980, Subpart B and Part 1941, Subpart A describe authorized loan purposes for the Guaranteed and Direct Operating Loan programs. Included among these purposes are loans for:

- paying costs associated with reorganizing a farm or ranch to improve its profitability
- purchasing farm or ranch equipment
- paying annual operating expenses
- paying farm, ranch or home needs.

This language permits OL funds to be used for real estate improvements or repairs in certain cases. Before the latest revision, both guaranteed and direct loan regulations limited real estate improvements and repairs to \$15,000 annually. The present regulations do not include this limit.

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#### B Program Purpose

The Consolidated Farm and Rural Development Act provides that the Agency make OL loans for different purposes than the Farm Ownership (FO) program. FO purposes include making capital improvements to a farm or ranch. Since Congress appropriates money for the Agency to lend under separate programs, the Agency must ensure that this money is used only for purposes which Congress intended.

While the purchase of real estate is expressly prohibited for the OL Program, it is reasonable to permit some OL funds to be used for repairs and minor improvements to real estate within the loan purposes established in the regulations.

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