

**For:** State Offices

**Interest Accrual Calculations on Guaranteed Loans**

**Approved by:** Acting Deputy Administrator, Farm Loan Programs



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**1 Overview**

**A**

**Background**

Recent National Office reviews have revealed discrepancies in the calculation of interest accrual when paying loss claims or interest assistance claims, or repurchasing guaranteed loans.

**B**

**Purpose**

This notice provides guidelines for:

- calculating interest on guaranteed loans
- lender’s responsibilities
- FSA responsibilities.

**C**

**Contacts**

Address questions about this notice as follows:

- County Offices shall contact the State Office
- State Offices shall contact Mary Ann Romero, LSPMD, at 202-720-3103.

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**2 Action**

**A**

**Discussion**

7 CFR 762.130 states, in part, that the lender will use its own promissory notes, line of credit agreements, real estate mortgages, and security agreements if the:

- forms meet FSA requirements

Continued on the next page

<b>Disposal Date</b>	<b>Distribution</b>
December 1, 2002	State Offices

## Notice FLP-233

### 2 Action (Continued)

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#### A

##### Discussion (Continued)

- documents comply with State law and regulation
- principal and interest repayment schedules are stated clearly in the notes and are consistent with the conditional commitment.

When the lender submits a guaranteed loss claim or an interest assistance claim, the lender must provide, as an attachment to the claim, items listed in 2-FLP, subparagraphs 228 A and 359 C and paragraph 360, as applicable, and its calculation of:

- unpaid accrued interest
  - advances
  - payments
  - periods of time
  - interest rates
  - principal balance.
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#### B

##### Repurchases

If the holder demands the Government purchase the guaranteed portion of the loan, FSA will only pay interest that accrues based on **the accrual method established by the terms of the promissory note**. The FSA representative will select a proposed settlement date no later than 30 calendar days from the date of the holder's demand letter to FSA. FSA will forward, to the holder, payment of the unpaid principal and interest accrued through the proposed payment date.

The Authorized Agency Official must review all documents submitted as required by 2-FLP, subparagraph 375 C, to ensure consistency before authorizing payments.

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#### C

##### Loss Claims

The maximum amount FSA will pay the lender under the guarantee will be based on the loss sustained by this lender on the guaranteed portion of the principal balance and interest calculated on the loan as **indicated by the accrual method established in the promissory note**.

**Note:** To expedite payment, Authorized Agency Officials may forward RD 449-30 to the Finance Office by mail, FAX, or e-mail. Payment can be processed by electronic funds transfer by attaching a memorandum to RD 449-30 with the electronic transfer routing number, lender's deposit account number, and type of account.

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## Notice FLP-233

### 2 Action (Continued)

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#### D

#### Interest Assistance

The maximum amount of interest assistance that FSA will reimburse the lender for the claim period is:

- 4 percentage points per year
- calculated using the average daily principal balance (ADPB). ADPB is calculated by multiplying the principal balance times the number of days it is outstanding. The sum of the daily principal balances is then divided by the total calendar days outstanding for a partial year or 365 calendar days for a full year.

#### Example:

Date	Number of Days	Principal Balance	Total
June 12 - August 2	51	\$15,000	\$ 780,000
August 3 - September 28	57	\$10,000	\$ 570,000
September 29 - October 29	31	\$12,000	\$ 372,000
<b>Total</b>	139		\$1,722,000

**Note:** \$1,722,000 divided by 139 = \$12,388.49 ADPB for the partial year as indicated in this table.

The lender will use the method (360, 365, or 360/365) indicated by the promissory note for calculating interest for the borrower. Some methods result in a slightly higher interest payment by the borrower; however, this is irrelevant to the amount FSA is allowed to pay, which is fixed by law at 4 percent. If a lender indicates a 360/365 accrual method in the promissory note, 365 will be placed in RD 1980-19, item 28 or RD 1980-47, item 10, and interest will be paid on a straight 365-calendar-day basis.

- An interest assistance claim submitted with interest accrual based on 360 and then multiplied by 365 is not acceptable.

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**Notice FLP-233**

**2 Action (Continued)**

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**D**

**Interest Assistance (Continued)**

- If a loan is closed on a 365-calendar-day basis, interest that accrues on February 29 is not recognized by the Finance Office computer system and will not be paid.
- The system does not count the first day of the claim period. The ending day of a claim period becomes the first day on the next claim period.

**Interest assistance will be calculated and paid according to the formulas indicated in this table.**

<b>Full Year</b>
ADPB x 4 percent
<b>Note:</b> Interest basis is not an issue.
<b>Example:</b> \$100,000 x 4 percent = \$4,000
<b>Partial Year (360-Calendar-Day Basis)</b>
ADPB x 4 percent x [(# months in the claim period x 30 calendar days) + additional days in excess of a month] ÷ 360
<b>Note:</b> Convert all months to 30 calendar days. The system does not count the first day of the claim period. The ending day of a claim period becomes the first day on the next claim period.
<b>Example:</b> Claim period is March 1 through June 5 (3 months x 30 calendar days = 90 + 5 - 1 = 94 calendar days). \$100,000 x 4 percent = \$4,000 x 94 calendar days ÷ 360 = \$1,044.44 interest assistance payment
<b>Partial Year (365-Calendar-Day Basis)</b>
ADPB x 4 percent x actual days in the claim period ÷ 365
<b>Note:</b> Count actual days in the month. The system does not count the first day of the claim period. The ending day of a claim period becomes the first day on the next claim period.
<b>Example:</b> Claim period is March 1 through June 5, which equals 97 - 1 calendar days. \$100,000 x 4 percent = \$4,000 x 96 calendar days ÷ 365 = \$1,052.05 interest assistance payment

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