

**For:** State and County Offices

**Emergency Advances for Guaranteed Loans**

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



**1 Overview**

**A**

**Background**

2-FLP does **not**:

- provide guidance about emergency advances when the statutory loan limits have been reached
- cover the application of interest assistance on an emergency advance.

Recent field office inquiries indicate a need for a more thorough explanation of the emergency advance provision.

**B**

**Purpose**

This notice provides guidance for emergency advances as they relate to:

- conditions for authorization
- statutory loan limits
- loan ceilings
- interest assistance.

**C**

**Contact**

Address questions about this notice as follows:

- County Offices shall contact the State Office
- State Offices shall contact Larry Purnell, LSPMD, at 202-720-4938.

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<b>Disposal Date</b>	<b>Distribution</b>
December 1, 2003 12-13-02	State Offices; State Offices relay to County Offices

## Notice FLP-287

### 2 Action

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#### A

##### Discussion

7 CFR 762.146(a) and 2-FLP, paragraph 283 state, in part, that in cases of a guaranteed line of credit (LOC), lenders may make emergency advances. 2-FLP, paragraph 283 also provides the conditions under which the advances can be made.

In addition to the conditions established in 2-FLP, paragraph 283, an emergency advance may be considered when an aberration has caused expenses to exceed the original budgeted amount and the advance is necessary to avoid significant damage to or loss of the loan security.

2-FLP, paragraph 283 requires that emergency advance funds be used for authorized operating loan purposes. An emergency advance may not be used for the following:

- to pay a carryover of an existing line
  - for annual operating expenses for a subsequent year.
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#### B

##### Statutory Loan Limits

When a proposed advance would cause the loan to exceed the statutory loan limit, the standard eligible lender (SEL), the Certified Lender Program (CLP) lender, and the Preferred Lender Program lender may not advance under the guarantee. As an alternative, the lender may make a nonguaranteed loan. Before making a nonguaranteed loan, SEL and CLP lenders must:

- obtain FSA concurrence
- complete a cash flow.

**Note:** The cash flow projection must show that the borrower can repay the advance plus the outstanding principal and interest due on LOC.

Where liquidation is imminent, advances will be made as protective advances.

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**2 Action (Continued)**

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**C**

**LOC Limits**

Lenders may make an emergency advance when LOC has reached the ceiling. The advance will be made under LOC and not as a separate note. The lender will charge the borrower the full note interest rate on the emergency advance.

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**D**

**Interest  
Assistance**

An emergency advance made to a borrower on interest assistance is not and cannot be covered under the existing FSA 1980-64. Therefore, the lender will charge the full note interest rate on the emergency advance and the advance cannot be used as part of the average principal balance calculation for the lender's interest assistance claim. Average principal balance calculations cannot include calculations that exceed the maximum loan amount upon which the interest assistance was based.

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