

**For:** State and County Offices

**Interest Accrual Calculations on Guaranteed Loans**

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



**1 Overview**

**A**

**Background**

Interest accrual calculations for FSA guaranteed loans continue to be an area of concern for lenders and FSA officials.

**B**

**Purpose**

This notice provides guidelines for:

- calculating interest on guaranteed loans
- calculating interest assistance payments for loans with an interest rate below 4 percent.

**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.

<b>Disposal Date</b>	<b>Distribution</b>
January 1, 2004	State Offices; State Offices relay to County Offices
3-10-03	<b>Page 1</b>

## Notice FLP-296

### 2 Guidelines for Calculating Interest

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#### A

##### Using Lender Documents to Submit Claims

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
- documents comply with State law and regulations
- 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

##### Repurchasing Guaranteed Portion of Loan

If the holder demands that FSA 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 Authorized Agency Official 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, before authorizing payments.

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### 2 Guidelines for Calculating Interest (Continued)

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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 the 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 using any of the following:

- mail to USDA/Farm Service Agency  
Loan Operations Division  
P.O. Box 200003  
St. Louis, MO 63120-0003
- FAX to either of the following:
  - 314-539-3111 for states 01-32
  - 314-539-6447 for states 33-64
- e-mail to **FLIP@kcc.usda.gov**.

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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### 2 Guidelines for Calculating Interest (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).

**Notes:** Calculate ADPB 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.

Following is an example of a partial year calculation for ADPB.

Date	Number of Days	Principal Balance	Total
June 12 - August 2	51	\$15,000	\$765,000
August 3 - September 28	57	\$10,000	\$570,000
September 29 - October 29	31	\$12,000	\$372,000
Total	139		\$1,707,000

\$1,707,000 divided by 139 = \$12,280.58 ADPB for the partial year.

The lender can use the method (360, 365, 360/365), as 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.
- 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.

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**2 Guidelines for Calculating Interest (Continued)**

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**D**

**Interest Assistance (Continued)**

- The Guaranteed Loan System (GLS) 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-Day Base)</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-Day Base)</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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**2 Guidelines for Calculating Interest (Continued)**

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**E**

**Interest  
Assistance Loans  
With Interest  
Rates Below  
4 Percent**

The "ADD Interest Asst Claim" transaction in GLS programmatically calculates the interest assistance payable by multiplying the ADPB entered by 4 percent. However, FSA cannot pay an interest assistance claim in excess of the interest that has accrued during the claim period.

To process an interest assistance payment when the interest rate has averaged below 4 percent, Authorized Agency Officials must determine the ADPB by completing the following:

- total the interest that accrued at the note rate
- divide the total accrued interest by 4 percent to calculate an adjusted ADPB.

The Authorized Agency Official shall then enter the agency-adjusted ADPB in the "Avg. Prin Balance" field to process the interest assistance claim.

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