

**§ 1779.25**

(7) Initial operating expenses, including interest, for a period ordinarily not exceeding one year when the applicant is unable to pay such expenses;

(8) The purchase of existing facilities when it is necessary either to improve service or prevent the loss of service; and

(9) Refinancing non-Agency debts incurred by, or on behalf of, an applicant when all of the following conditions exist:

(i) The debts being refinanced are a secondary part of the total loan unless the debt being refinanced is an Agency direct loan;

(ii) The debts were incurred for the facility or service being financed or any part thereof; and

(iii) Arrangements cannot be made with the creditors to extend or modify the terms of the debts so that a sound basis will exist for making a loan.

(10) Refinancing Agency debts.

**§ 1779.25 Ineligible loan purposes.**

Loan funds may not be used to finance:

(a) Facilities which are not modest in size, design, and cost;

(b) Loan or grant finder's fees;

(c) The construction of any new combined storm and sanitary sewer facilities;

(d) Any portion of the cost of a facility which does not serve a rural area;

(e) That portion of project costs normally provided by a business or industrial user, such as wastewater pretreatment;

(f) Rental for the use of equipment or machinery owned by the applicant;

(g) For other purposes not directly related to operating and maintenance of the facility being installed or improved; or

(h) The payment of a judgment which would disqualify an applicant for a loan under § 1779.20(a).

**§ 1779.26 [Reserved]**

**§ 1779.27 Lenders.**

(a) *Eligible lenders.* Eligible lenders may participate in the loan guarantee program. These lenders must be subject to credit examination and supervision by an appropriate agency of the United States or a State that supervises and

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regulates credit institutions. A lender must have the capability to adequately service loans for which a guarantee is requested. Eligible lenders are:

(1) Any Federal or State chartered bank or savings and loan association;

(2) Any mortgage company that is a part of a bank holding company;

(3) Co-Bank, National Rural Utilities Cooperative Finance Corporation, Farm Credit Bank of the Federal Land Bank, or other Farm Credit System institution with direct lending authority authorized to make loans of the type guaranteed by this part;

(4) An insurance company regulated by a State or National insurance regulatory agency;

(5) State Bond Banks or State Bond Pools; and

(6) Other lenders that possess the legal powers necessary and incidental to making and servicing guaranteed loans involving community development-type projects. Lenders under this category must be approved by the National Office prior to the issuance of the loan guarantee.

(b) *Conflict of interest.* When the lender's officers, stockholders, directors, or partners (including their immediate families) or the borrower, its officers, stockholders, directors, or partners (including their immediate families) own, or have management responsibilities in each other, the lender must disclose such business or ownership relationships. The Agency will determine if such relationships are likely to result in a conflict of interest. This does not preclude lender officials from being on the borrower's board of directors.

**§ 1779.28 Transfer of lenders or borrowers (prior to issuance of Loan Note Guarantee).**

(a) Prior to issuance of the loan guarantee, the Agency may approve the transfer of an outstanding Conditional Commitment for Guarantee from the present lender to a new eligible lender: Provided, That:

(1) The former lender states in writing why it does not wish to continue to be the lender for this project;

(2) No substantive changes in ownership or control of the borrower has occurred;