

§§ 1941.85–1941.87

every effort to refinance the existing purchase contract.

(4) The purchase contract must not be subject to summary cancellation on default and must not contain any other provisions which might jeopardize either the Government's security position or the borrower's ability to repay the loan.

(5) The contract holder must agree, in writing, to give the Government notice of any breach by the purchaser, and must also agree to give the Government the option to rectify the conditions which amount to a breach within 30 days. The 30 days begin to run on the day the Government receives the written notice of the breach.

[51 FR 13448, Apr. 21, 1986, as amended at 56 FR 67480, Dec. 31, 1991; 58 FR 26680, May 5, 1993]

§§ 1941.85–1941.87 [Reserved]

§ 1941.88 Insurance.

(a) *Catastrophic Risk Protection (CAT) insurance requirement.* Applicants must obtain at least the CAT level of crop insurance of coverage for each crop of economic significance, as defined by the Federal Crop Insurance Corporation, if such coverage is offered. The applicant can meet this requirement by either:

(1) Obtaining at least the CAT level of coverage or,

(2) Waiving eligibility for emergency crop loss assistance in connection with the uninsured crop. EM loss loan assistance is not considered emergency crop loss assistance for purposes of this waiver.

(b) *Crops.* Crop insurance is a good management tool. Loan approval officials will, therefore, during the loan making process, encourage all borrowers who grow crops to obtain and maintain Federal Crop Insurance Corporation (FCIC) crop insurance or multi-peril crop insurance, if it is available.

(1) When OL loan funds are to be used as the primary source of financing for the ensuing year's crop production expenses, and such crop(s) will serve as security for the loan, and crop insurance is purchased by the borrower, FmHA or its successor agency under Public Law 103-354 requires and "As-

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signment of Indemnity" on the borrower's crop insurance policy(ies).

(2) When FmHA or its successor agency under Public Law 103-354 is not the primary lender for annual crop production expenses, but has or will have a security interest in the crop(s), and the applicant has purchased or will purchase crop insurance, an "Assignment of Indemnity" is taken by FmHA or its successor agency under Public Law 103-354, if the primary lender chooses not to do so.

(3) When the payment of crop insurance premiums is not required until after harvest, the premiums may be paid by releasing insured crop(s) sale proceeds, but not withstanding the limits in §§ 1962.17 and 1962.29(b) of subpart A of part 1962 of this chapter. If the borrower's crop losses are sufficient to warrant an indemnity payment, the premium due will be deducted by the insurance carrier from such payment.

(c) *Chattels and real estate.* Chattel property that secures OL loans must be covered by hazard insurance unless the Agency determines that coverage is not readily available or the benefit of the coverage is less than its cost. When insured, chattel property must at least be covered at its tax or cost depreciated value, whichever is less. Real property must be covered by general hazard and flood insurance in accordance with subparts A and B of part 1806 of this chapter.

(d) *Public liability and property damage.* Borrowers should be advised of the possibilities of incurring liability and encouraged to obtain public liability and property damage insurance, including insurance on a customer's property in the custody of the borrower.

(e) *Mortgage clause.* When insurance is required on property serving as security, Form FmHA or its successor agency under Public Law 103-354 426-2, "Property Insurance Mortgage Clause (Without Contribution)," or a standard mortgage clause in general use in the area will be attached to or printed in the policy and will show the United States of America (Farmers Home Administration or its successor agency

RHS, RBS, RUS, FSA, USDA

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under Public Law 103-354) as mortgagee or secured party.

[43 FR 55883, Nov. 29, 1978, as amended at 47 FR 33486, Aug. 3, 1982; 53 FR 35691, Sept. 14, 1988; 58 FR 26680, May 5, 1993; 62 FR 9355, Mar. 3, 1997; 62 FR 28618, May 27, 1997]

§§ 1941.89-1941.91 [Reserved]

§ 1941.92 Check delivery.

The County Supervisor will receive and deliver loan checks. On receipt of a loan check, and after arrangements have been completed for loan closing, the applicant will be promptly notified on Form FmHA or its successor agency under Public Law 103-354 440-8, "Notice of Check Delivery." Loan funds will be disbursed in accordance with subpart A of part 1902 of this chapter.

[43 FR 55883, Nov. 29, 1978, as amended at 58 FR 26681, May 5, 1993]

§ 1941.93 [Reserved]

§ 1941.94 Supervised bank accounts.

If a supervised bank account is required, loan funds will be deposited following loan closing. Supervised bank accounts will be established in accordance with subpart A of part 1902 of this chapter.

[53 FR 35692, Sept. 14, 1988]

§ 1941.95 [Reserved]

§ 1941.96 Changes in use of loan funds.

(a) *Approval of changes.* County Supervisors, or their delegates, are authorized to approve changes in the purposes for which loan funds are to be used provided:

(1) The change is consistent with authorities, policies and limitations for making loans, and

(2) The change will not adversely affect either the workings of an on-going operation or the Government's interest.

(b) *Recording changes.* When changes are made in the use of loan funds, the installments on Form FmHA or its successor agency under Public Law 103-354 1940-17, "Promissory Note," will not be revised. When funds loaned for the purchase of capital goods are to be used for annual recurring production expenses, the funds will be repaid in accordance with the terms for such uses

in subpart A of this part. Appropriate changes with respect to the repayments will be made in table K of Form FmHA or its successor agency under Public Law 103-354 431-2, "Farm and Home Plan," also on Form FmHA or its successor agency under Public Law 103-354 1962-1, "Agreement for the Use of Proceeds/Release of Chattel Security," and initialed by the borrower. Appropriate notations will be made in the "Supervisory and Servicing Actions" section of the Management System Card.

[43 FR 55883, Nov. 29, 1978, as amended at 45 FR 16166, Mar. 13, 1980; 53 FR 35692, Sept. 14, 1988; 54 FR 47959, Nov. 20, 1989]

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