

§ 1902.3

in a supervised bank account for future disbursement as appropriate.

(2) When a large number of checks will be issued in the construction of a dwelling or other development. In such cases, loan and grant disbursements will be requested in accordance with 7 CFR part 2018, subpart D as necessary, deposited in a supervised bank account, and disbursed as necessary to suppliers, sub-contractors, etc.

(3) Association loan and grant funds made on a multiple advance basis may be deposited in a supervised bank account when required by State statutes or when determined necessary by the loan approval official.

(4) Supervised bank accounts may be used when needed as defined in paragraph (a)(5) of this section to ensure the correct expenditures of all or a part of loan and grant funds, borrower contributions, and borrower income. Such accounts will be limited in amount and duration to the extent feasible through the prudent disbursement of funds and the prompt termination of the interests of Rural Development and other lenders when the accounts are no longer required.

(5) When it is determined by the Servicing Official that special supervision is needed in the management of the borrower's finances, funds may be deposited in a supervised bank account. This supervisory technique will be used for a temporary period to help the borrower learn to properly manage his/her finances. Such a period will not exceed 1 year unless extended by the Servicing Official.

(b) Program instructions provide information as to the type of note to be utilized and the method of handling advances and the interest accrued.

(c) The debt instruments executed at the time of loan closing constitute an obligation on the part of the Government to disburse all funds at one time or in multiple advances, provided the funds are for purposes authorized by the Government at the time of loan closing. This obligatory commitment takes priority over any intervening liens or advances by other creditors, regardless of the provisions of the State laws involved.

[70 FR 59225, Oct. 12, 2005]

7 CFR Ch. XVIII (1-1-08 Edition)

§ 1902.3 Procedures to follow in fund disbursement.

(a) The Servicing Official will determine during loan approval the amount(s) of loan or grant disbursement(s)—full or partial—and will process the request to the appropriate automated system in accordance with 7 CFR part 2018, subpart D.

(b) When Treasury check(s) are delivered to the Servicing Official, the Servicing Official will make sure that the name of the borrower and the amount(s) of check(s) coincide with the request on file. The Servicing Official should be sure that the check is properly endorsed to ensure payment to the intended recipient. Examples of such restrictive endorsements are:

(1) "For Deposit only to Account No. (Number of Construction Account) of (Name of Borrower) in (Name of Financial Institution)."

(2) "Pay to the order of (3rd party payee)"—(Contractor, Developer, Sub-Contractor, Building Supply House, etc.) for the purpose of _____.

(c) When necessary, and only under the circumstances listed in § 1902.2, the Servicing Official will establish, or cause to be established, a supervised bank account. Funds deposited in a supervised bank account are to be recorded and accounted for on Form RD 402-2, "Statement of Deposits and Withdrawals".

[46 FR 36106, July 14, 1981, as amended at 53 FR 26588, July 14, 1988; 53 FR 35670, Sept. 14, 1988; 54 FR 39727, Sept. 28, 1989; 70 FR 59226, Oct. 12, 2005]

§ 1902.4 Establishing MFH reserve accounts in a supervised bank account.

(a) *General requirements.* All MFH borrowers required to maintain reserve accounts must place the reserve accounts in a supervised bank account(s) which meets the following requirements:

(1) *Countersignature requirements.* The reserve account must require that any funds withdrawn be countersigned by an authorized FmHA or its successor agency under Public Law 103-354 official.

(2) *Restrictions on collateral.* The financial institution holding the reserve account must ensure that the funds are