

RD AN No. 4726 (1902-A, 1942-G, 1951-R,  
4274-D, 4280-A, 4280-D)

August 15, 20113

SUBJECT: Collateralization of Revolving Fund Bank Accounts

TO: State Directors, Rural Development

**PURPOSE/INTENDED OUTCOME:**

This Administrative Notice (AN) provides guidance for Rural Development staff responsible for servicing revolving bank accounts and one method of ensuring the proper collateralization of those accounts.

**COMPARISON WITH PREVIOUS AN:**

No previous AN has been issued on this subject.

**IMPLEMENTATION:**

RD Instruction 4274-D, section 4274.332(b)(5) Intermediary Relending Program (IRP), RD Instruction 4280-D, section 4280.311(g)(2)(iii) Rural Microentrepreneur Assistance Program, RD Instruction 4280-A, Guide 3 Rural Economic Development Loan and Grant Program, and the United States Department of Agriculture (USDA) regulation 7 CFR 3015, section 3015.12 and section 3019.22 which applies to all USDA grants including the Rural Business Enterprise Grants, Rural Microentrepreneur Assistance Program grants, and Rural Economic Development Grants requires the intermediary to deposit funds in an account covered by the Federal Deposit Insurance Corporation (FDIC) and, where required, any balance exceeding the FDIC coverage to be fully collateralized with U.S. Government obligations.

EXPIRATION DATE:  
August 31, 2014

FILING INSTRUCTIONS:  
Preceding RD Instruction 1902-A,  
1942-G, 1951-R, 4274-D, 4280-A,  
and 4280-D

In the past, intermediaries choosing to establish a noninterest-bearing transaction account at one institution would be covered by the Transaction Account Guarantee Program (TAG) for amounts exceeding \$250,000. Under the TAG program they were fully covered and no collateral pledge was necessary. This authority expired and we must now return to collateralizing amounts exceeding \$250,000 maintained at one institution. In accordance with 31 CFR part 202, the Agency has the authority to retain Government funds outside Treasury's cash account by placing it in a designated depository account. The V-408 account has been established as Rural Development's designated depository account by the Department of Treasury. This account resides in the Federal Reserve Bank and is necessary to ensure the security of Government funds. In the case of the IRP, the funds although disbursed to an intermediary, are still Government collateral, and must be deposited in an insured account or collateralized.

Collateralization can be accomplished by following RD Instruction 1902-A, section 1902.7 which explains the process for pledging collateral for funds deposited in supervised bank accounts. Even though revolving fund accounts are not considered supervised bank accounts, the process for pledging collateral to the Treasury V-408 account located in the Federal Reserve Bank is the same. The servicing official should complete RD Form Letter 1902-A-2 "Designated Financial Institution – Collateral Pledge." The letter should be either faxed to Linda Price at (202) 260-6225 or e-mailed to [linda.price@wdc.usda.gov](mailto:linda.price@wdc.usda.gov). The amount to be collateralized should be either the highest average daily balance for the past 6 months or the outstanding loan balance, whichever is less.

RD Instruction 1951-R, section 1951.882(a)(6), requires Rural Development staff, during field visits, to review the intermediary's processes to ensure that funds are deposited in an account fully protected by Federal or State insurance or collateralized. You must review each intermediary's handling of cash in the revolving fund during your servicing visit to ensure that they are in compliance.

For additional questions, contact Mel Padgett, Loan and Grant Analyst at (202) 720-1495 or [melvin.padgett@wdc.usda.gov](mailto:melvin.padgett@wdc.usda.gov).

*(Signed by LILLIAN E. SALERNO)*

LILLIAN E. SALERNO  
Administrator  
Rural Business-Cooperative Service