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**Comptroller General  
of the United States**

Washington, D.C. 20548

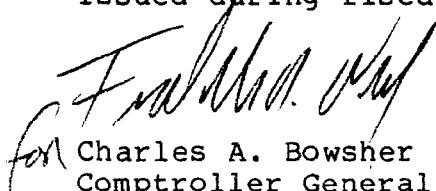
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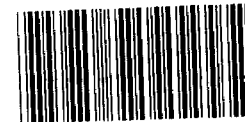
November 10, 1988

To the President of the Senate and the  
Speaker of the House of Representatives

Section 408(b)(3)(I) of the Rural Electrification Act of 1936, as amended on December 22, 1987, by the Omnibus Budget Reconciliation Act of 1987 (Public Law 100-203), requires us to annually review the interest rate charged to borrowers, referred to as the cost of money rate, as determined by the Governor of the Rural Telephone Bank (RTB) for the preceding fiscal year. We are to report to the Congress on the accuracy of the interest rate determination within 15 days of receiving it. On October 20, 1988, we received RTB's initial rate determination, which was subsequently revised on October 28, 1988. Both the initial and revised determinations resulted in establishing RTB's fiscal year 1988 cost of money rate at 5.00 percent. We reviewed the rate determination and found it to be in accordance with the requirements of section 1411(c) of the Omnibus Budget Reconciliation Act of 1987, and 7 CFR Part 1610.

Enclosure I provides specific information about our review of the rate determination, including our assessment of RTB's interpretation of one provision of the legislative formula for establishing the rate. Enclosure II is a copy of RTB's revised interest rate notice along with the details of its calculation of the interest rate to be applied to loans issued during fiscal year 1988.

*For*   
Charles A. Bowsher  
Comptroller General  
of the United States



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Enclosures

GAO/AFMD-89-30

043851/137298

GAO ANALYSIS OF RTB RATE INTERPRETATION

As part of our review, we traced the dollar amounts and rates used in calculating the interest rate charged to borrowers, referred to as the cost of money rate, to source documents and recomputed the calculation. We noted no discrepancies in the revised calculation.

We also compared the method used to calculate the cost of money rate with the requirements established in section 1411(c) of the Omnibus Budget Reconciliation Act of 1987 (the "act") and the provisions of 7 CFR Part 1610 (the "regulation"). We are highlighting one point regarding the act's definition of "the amounts received by the bank during the fiscal year from the issuance of class B stock."<sup>1</sup> The act's language regarding amounts received by the bank could be interpreted as meaning either total receipts or total receipts less any related rescissions (refunds) for class B stock. Rescissions occur when the total drawdown of funds is less than the loan commitment at the end of the commitment period, or earlier, if the borrower requests a reduction or termination of the commitment. RTB interpreted "amounts received" as its receipts from the issuance of class B stock, net of rescissions. Specifically, its regulations define the term as "the amount of cash received during the fiscal year for the purchase of class B stock, plus the amount advanced to borrowers by the bank during the fiscal year for such purchases, less any class B stock that is rescinded during the fiscal year."

The calculated cost of money rate for fiscal year 1988 would be 4.89 percent instead of 4.98 percent if the \$1,775,721 of rescissions were not subtracted in the calculation. For the current year, RTB's interpretation had no effect on the rate determination because either method would have resulted in rates lower than the minimum 5.00 percent cost rate allowable by law. We concur with RTB's interpretation of the amounts received from the issuance of the class B stock because it results in a cost of money rate which is based upon the amount actually available to RTB during the fiscal year.

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<sup>1</sup>As a condition of obtaining loans, all RTB borrowers must purchase class B stock equal to 5 percent of their loan commitment. The full amount must be purchased concurrent with their first drawdown of funds, regardless of the size of that initial drawdown.

RURAL TELEPHONE BANK

DETERMINATION OF THE 1988 FISCAL YEAR

INTEREST RATE ON RURAL TELEPHONE BANK LOANS

**AGENCY:** Rural Telephone Bank, USDA.

**ACTION:** Correction of notice of 1988 fiscal  
year interest rate determination.

**SUMMARY:** This notice revises information previously published in the Federal Register on October 25, 1988, (53 FR 42938) regarding the Rural Telephone Bank's Fiscal Year 1988 cost of money rate. Due to additional data received, the amounts for total Fiscal Year 1988 advances, issuances of Class B and C stock, and the excess of total advances over stock issuances and debentures have been revised and are provided in Table 1.

The Bank's Fiscal Year 1988 cost of money rate, however, did not change as a result of the revisions. The calculated cost of money rate remains at 4.98%; and since it remains less than the minimum rate allowed under 7 U.S.C. §948(b)(3)(A) the cost of money rate remains set at the minimum rate of 5.00%. Thus, except for loans approved from October 1, 1987 through December 21, 1987 where borrowers elected to remain at interest rates set at loan approval, all loan advances made from December 22, 1987 through September 30, 1988 under Bank loans approved on or after October 1, 1987 shall bear interest

at the rate of 5.00%.

**FOR FURTHER INFORMATION CONTACT:** F. Lamont Heppe, Jr., Chief, Loans and Management Branch, Telecommunications Staff Division, Rural Electrification Administration, Room 2250, South Building, U.S. Department of Agriculture, Washington, D.C. 20250, telephone number (202) 382-9550.

**SUPPLEMENTARY INFORMATION:** The revised calculation of the Bank's cost of money rate for Fiscal Year 1988 is provided in Table 1. The methodology required to calculate the cost of money rate is established in 7 CFR 1610.10(c). The revised calculation includes the following corrections:

1. Rescissions of loan funds advanced in Fiscal Year 1988 for Class B stock were given as \$1,592,799 and should be \$1,775,721. Fiscal Year 1988 issuance of Class B stock was given as \$8,802,151 and should be \$8,619,229.

2. Fiscal Year 1988 issuance of Class C Stock was given as \$16,976 and should be \$18,449.

3. Total Fiscal Year 1988 loan advances were given as \$119,696,353 and should be \$119,488,367.

4. The excess of Fiscal Year 1988 loan advances over amounts received from

issuances of Class A, B, and C stocks and debentures and other obligations was given as \$82,167,226 and should be \$82,140,689.

In addition, Table 2 of the previously published notice contains a misprint. The Fiscal Year 1980 (advances x cost rate)/total advances was given as .05 and should be 1.054. This correction is provided in Table 2. Also, the calculated figures in the last column of Tables 1 and 2 have been carried out to additional decimal places to indicate clearly that the numbers add up to the total.

TABLE 1  
RURAL TELEPHONE BANK FY 1988  
COST OF MONEY RATE

SOURCE OF BANK FUNDS	AMOUNT	COST RATE	AMOUNT X COST RATE	AMOUNT X RATE / ADVANCE
FY 1988 Issuance of Class A Stock	\$28,710,000	2.00%	\$574,200	0.4805%
FY 1988 Issuance of Class B Stock	\$8,619,229	0.00%	\$0	0.0000%
FY 1988 Issuance of Class C Stock	\$18,449	8.50%	\$1,568	0.0013%
FY 1988 Issuance of Debentures and other Obligations	\$0	--	\$0	0.0000%
Excess of Total Advances Over 1988 Issuances	\$82,140,689	6.55%	\$5,380,215	4.5027%
<b>Total FY 1988 Advances</b>	<b>\$119,488,367</b>		<b>CALCULATED COST OF MONEY RATE</b>	<b>4.98%</b>
			<b>MINIMUM COST RATE ALLOWABLE</b>	<b>5.00%</b>

TABLE 2  
RURAL TELEPHONE BANK  
HISTORICAL COST OF MONEY

FISCAL YEAR	BANK COST OF MONEY	BANK LOAN ADVANCES	ADVANCES X COST RATE	(ADVANCES X COST RATE) / TOTAL ADVANCES
1974	5.01%	\$111,022,574	\$5,562,231	0.362%
1975	5.85%	\$130,663,197	\$7,643,797	0.498%
1976	5.33%	\$99,915,066	\$5,325,473	0.347%
1977	5.00%	\$80,907,425	\$4,045,371	0.263%
1978	5.87%	\$142,297,190	\$8,352,845	0.544%
1979	5.93%	\$130,540,067	\$7,741,026	0.504%
1980	8.10%	\$199,944,235	\$16,195,483	1.054%
1981	9.46%	\$148,599,372	\$14,057,501	0.915%
1982	8.39%	\$112,232,127	\$9,416,275	0.613%
1983	6.99%	\$93,402,836	\$6,528,858	0.425%
1984	6.55%	\$90,450,549	\$5,924,511	0.386%
1985	5.00%	\$72,583,394	\$3,629,170	0.236%
1986	5.00%	\$71,852,383	\$3,592,619	0.234%
1987	5.00%	\$51,974,938	\$2,598,747	0.169%
<b>TOTAL ADVANCES</b>		<b>\$1,536,385,353</b>	<b>COST OF MONEY RATE</b>	<b>6.55%</b>