



United States
General Accounting Office
Washington, D.C. 20548

140043

Comptroller General
of the United States

B-159292

November 14, 1989

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 30, 1989, we received RTB's rate determination, which established RTB's fiscal year 1989 cost of money rate at 5.00 percent, the minimum rate allowable by the Rural Electrification Act of 1936, as amended. 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. We traced the dollar amounts and rates used in calculating the cost of money rate to RTB records and recomputed the calculation.

Enclosed is a copy of RTB's interest rate notice along with the details of its calculation of the interest rate to be applied to loans issued during fiscal year 1989.

We are sending copies of this report to the Director of the Office of Management and Budget, the Secretary of the Treasury, the Secretary of Agriculture, and the Board of Directors of the Rural Telephone Bank.

Charles A. Bowsher
Comptroller General
of the United States

Enclosure

DEPARTMENT OF AGRICULTURE

Rural Telephone Bank

7 CFR Part 1610

DETERMINATION OF THE 1989 FISCAL YEAR
INTEREST RATE ON RURAL TELEPHONE BANK LOANS

AGENCY: Rural Telephone Bank, USDA.

ACTION: Notice of 1989 fiscal year interest
rate determination.

SUMMARY: In accordance with 7 CFR 1610.10, the Rural Telephone Bank's Fiscal Year 1989 cost of money rate has been established at 5.00%. 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 October 1, 1988 through September 30, 1989 under Bank loans approved on or after October 1, 1987 shall bear interest at the rate of 5.00%.

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The calculation of the Bank's cost of money rate for Fiscal Year 1989 is provided in Table 1. Since the calculated rate (4.87%) is less than the minimum rate allowed under 7 U.S.C. §948(b)(3)(A), the cost of money rate is set at the minimum rate of 5.00%. The methodology required to calculate the cost of money rate is established in 7 CFR 1610.10(c).

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 cost of money rate methodology develops a weighted average rate for the Bank's cost of money by considering total fiscal year loan advances; the excess of fiscal year loan advances over amounts received in the fiscal year from issuances of Class A, B, and C stocks, debentures and other obligations; and the costs to the Bank of obtaining funds from these sources. During Fiscal Year 1989, the Bank paid the following dividends: the dividend on Class A stock was 2.00% as established in amended section 406(c) of the Rural Electrification Act; no dividends were payable on Class B stock as specified in 7 CFR 1610.10(c); and the dividend on Class C stock was established by the Bank at 8.5%.

ENCLOSURE

ENCLOSURE

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The total amount received by the Bank in Fiscal Year 1989 from the issuance of Class A stock was \$28,710,000. Total advances for the purchase of Class B stock and cash purchases for Class B stock were \$4,955,025. Rescissions of loan funds advanced for Class B stock amounted to \$1,071,815. Thus, the amount received by the Bank from the issuance of Class B stock, per 7 CFR 1610.10(c), was \$3,883,210 ($\$4,955,025 - \$1,071,815$). The total amount received by the Bank in Fiscal Year 1989 from the issuance of Class C stock was \$11,614.

The Bank did not issue debentures or any other obligations during Fiscal Year 1989. Consequently, no cost was incurred related to the issuance of debentures subject to 7 U.S.C. §948 (b)(3)(D).

The excess of Fiscal Year 1989 loan advances over amounts received from issuances of Class A, B, and C stocks and debentures and other obligations amounted to \$64,442,123. The cost associated with this excess is the historical cost of money rate as defined in 7 U.S.C. §948(b)(3)(D)(v). The calculation of the Bank's historical cost of money rate is provided in Table 2. The methodology required to perform this calculation is described in 7 CFR 1610.10(c). The cost of money rates for fiscal years 1974 through 1987 are defined in section 408(b) of the RE Act, as amended by Pub. L. 100-203, and are listed in 7 CFR 1610.10(c) and Table 2 herein.

Dated: OCT 26 1989

Jack Van Mark
Acting Governor, Rural Telephone Bank

TABLE 1
RURAL TELEPHONE BANK FY 1989
COST OF MONEY RATE

SOURCE OF BANK FUNDS	AMOUNT	COST RATE	AMOUNT X COST RATE	(AMOUNT X RATE) / ADVANCES
FY 1989 Issuance of Class A Stock	\$28,710,000	2.00%	\$574,200	0.5917%
FY 1989 Issuance of Class B Stock	\$3,883,210	0.00%	\$0	0.0000%
FY 1989 Issuance of Class C Stock	\$11,614	8.50%	\$987	0.0010%
FY 1989 Issuance of Debentures and Other Obligations	\$0	--	\$0	0.0000%
Excess of Total Advances Over 1989 Issuances	\$64,442,123	6.44%	\$4,150,073	4.2764%
Total FY 1989 Advances	\$97,046,947			
		CALCULATED COST OF MONEY RATE		4.87%
		MINIMUM COST RATE ALLOWABLE		5.00%

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	0.336%
1975	5.85%	\$130,663,197	\$7,643,797	0.462%
1976	5.33%	\$99,915,066	\$5,325,473	0.322%
1977	5.00%	\$80,907,425	\$4,045,371	0.244%
1978	5.87%	\$142,297,190	\$8,352,845	0.504%
1979	5.93%	\$130,540,067	\$7,741,026	0.467%
1980	8.10%	\$199,944,235	\$16,195,483	0.978%
1981	9.46%	\$148,599,372	\$14,057,501	0.849%
1982	8.39%	\$112,232,127	\$9,416,275	0.569%
1983	6.99%	\$93,402,836	\$6,528,858	0.394%
1984	6.55%	\$90,450,549	\$5,924,511	0.358%
1985	5.00%	\$72,583,394	\$3,629,170	0.219%
1986	5.00%	\$71,852,383	\$3,592,619	0.217%
1987	5.00%	\$51,974,938	\$2,598,747	0.157%
1988	5.00%	\$119,488,367	\$5,974,418	0.361%
TOTAL ADVANCES		\$1,655,873,720	COST OF MONEY RATE	6.44%

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