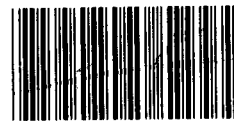




United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-159292



145308

November 15, 1991

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 November 1, 1991, we received RTB's rate determination, which established RTB's fiscal year 1991 cost of money rate at 5.43 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. 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 1991.

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. Bowshe *for*
Comptroller General
of the United States

Enclosure

GAO/AFMD-92-28



United States
Department
of Agriculture

Rural
Electrification
Administration

Office
of the
Administrator

Washington,
D.C.
20250

NOV 01 1991

The Honorable Charles A. Bowsher
Comptroller General of the United States
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Bowsher:

Section 408(b)(3)(D) of the Rural Electrification Act of 1936 (RE Act), as amended, requires the Governor of the Rural Telephone Bank, within 30 days after the end of each fiscal year, to determine the cost of money rate for the fiscal year. Section 408(b)(3)(H) states, "Within 5 days after determining the cost of money rate for a fiscal year, the Governor shall ... (ii) furnish a copy of the determination to the Comptroller General of the United States."

Enclosed is a copy of the determination made by the Governor for fiscal year 1991 in accordance with the applicable section of the RE Act. We call your attention to Section 408(b)(3)(I) of the RE Act which states "The Comptroller General shall review, on an expedited basis, each determination a copy of which is received from the Governor and, within 15 days after the date of such receipt, furnish Congress a report on the accuracy of the determination."

The above referenced sections of the RE Act were added by Public Law 100-203, The Omnibus Budget Reconciliation Act of 1987.

Sincerely,

Enclosure

DEPARTMENT OF AGRICULTURE**Rural Telephone Bank****7 CFR Part 1610****DETERMINATION OF THE 1991 FISCAL YEAR****INTEREST RATE ON RURAL TELEPHONE BANK LOANS****AGENCY:** Rural Telephone Bank, USDA.**ACTION:** Notice of 1991 fiscal year interest rate determination.

SUMMARY: In accordance with 7 CFR 1610.10, the Rural Telephone Bank's Fiscal Year 1991 cost of money rate has been established at 5.43%. 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, 1990 through September 30, 1991 under Bank loans approved on or after October 1, 1987 shall bear interest at the rate of 5.43%.

The calculation of the Bank's cost of money rate for Fiscal Year 1991 is provided in Table 1. Since the calculated rate (5.43%) is greater than the minimum rate (5.00%) allowed under 7 U.S.C. §948(b)(3)(A), the cost of money rate is set at the rate of 5.43%. The methodology required to calculate the cost of money rate is established in 7 CFR 1610.10(c).

FOR FURTHER INFORMATION CONTACT: Matthew P. Link, Acting Director, Rural Telephone Bank Management Staff, Rural Electrification Administration, Room 2832, South Building, U.S. Department of Agriculture, Washington, D.C. 20250, telephone number (202) 720-0530.

Enclosure

Enclosure

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 1991, 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 percent.

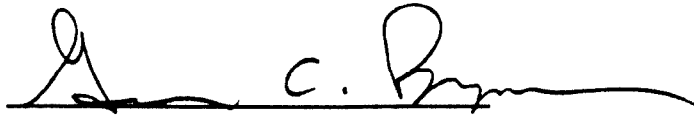
The total amount received by the Bank in Fiscal Year 1991 from the issuance of Class A stock was \$28,709,627. Total advances for the purchase of Class B stock and cash purchases for Class B stock were \$3,730,353. Rescissions of loan funds advanced for Class B stock amounted to \$1,327,176. Thus, the amount received by the Bank from the issuance of Class B stock, per 7 CFR 1610.10(c), was \$2,403,177 (\$3,730,353 - 1,327,176). The total amount received by the Bank in Fiscal Year 1991 from the issuance of Class C stock was \$3,569.

The Bank did not issue debentures or any other obligations during Fiscal Year 1991. 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 1991 loan advances over amounts received from issuances of Class A, B, and C stocks and debentures and other obligations amounted to \$132,026,702. 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: 10/30/91

A handwritten signature in black ink, appearing to read "Gary C. Byrne", with a long horizontal flourish extending to the right.

Gary C. Byrne,
Governor, Rural Telephone Bank

**TABLE 1
RURAL TELEPHONE BANK FY 1991
COST OF MONEY RATE**

Source of Bank Funds	Amount	Cost Rate	Amount X Cost Rate	(Amount X Rate) / Advances
FY 1991 Issuance of Class A Stock	\$28,709,627	2.00%	\$574,193	0.3520%
FY 1991 Issuance of Class B Stock	\$2,403,177	0.00%	\$0	0.0000%
FY 1991 Issuance of Class C Stock	\$3,569	8.50%	\$303	0.0002%
FY 1991 Issuance of Debentures and Other Obligations	\$0	--	\$0	0.0000%
Excess of Total Advances Over 1991 Issuances	<u>\$132,026,702</u>	6.28%	\$8,291,277	<u>5.0822%</u>
Total FY 1991 Advances	<u>\$163,143,075</u>	CALCULATED COST OF MONEY RATE		<u>5.43%</u>
		MINIMUM COST RATE ALLOWABLE		<u>5.00%</u>

**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	0.299%
1975	5.85%	\$130,663,197	\$7,643,797	0.411%
1976	5.33%	\$99,915,066	\$5,325,473	0.286%
1977	5.00%	\$80,907,425	\$4,045,371	0.217%
1978	5.87%	\$142,297,190	\$8,352,845	0.449%
1979	5.93%	\$130,540,067	\$7,741,026	0.416%
1980	8.10%	\$199,944,235	\$16,195,483	0.870%
1981	9.46%	\$148,599,372	\$14,057,501	0.756%
1982	8.39%	\$112,232,127	\$9,416,275	0.506%
1983	6.99%	\$93,402,836	\$6,528,858	0.351%
1984	6.55%	\$90,450,549	\$5,924,511	0.318%
1985	5.00%	\$72,583,394	\$3,629,170	0.195%
1986	5.00%	\$71,852,383	\$3,592,619	0.193%
1987	5.00%	\$51,974,938	\$2,598,747	0.140%
1988	5.00%	\$119,488,367	\$5,974,418	0.321%
1989	5.00%	\$97,046,947	\$4,852,347	0.261%
1990	5.00%	\$107,694,991	\$5,384,750	0.289%
TOTAL ADVANCES		<u>\$1,860,615,658</u>	COST OF MONEY RATE	<u>6.28%</u>