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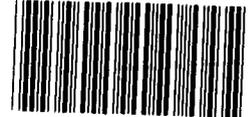


United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-159292

November 2, 1990



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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 19, 1990, we received RTB's rate determination, which established RTB's fiscal year 1990 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 1990.

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

GAO/AFMD-91-32

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DEPARTMENT OF AGRICULTURE

Rural Telephone Bank

7 CFR Part 1610

DETERMINATION OF THE 1990 FISCAL YEAR

INTEREST RATE ON RURAL TELEPHONE BANK LOANS

AGENCY: Rural Telephone Bank, USDA.

ACTION: Notice of 1990 fiscal year interest rate determination.

SUMMARY: In accordance with 7 CFR 1610.10, the Rural Telephone Bank's Fiscal Year 1990 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, 1989 through September 30, 1990 under Bank loans approved on or after October 1, 1987 shall bear interest at the rate of 5.00%.

The calculation of the Bank's cost of money rate for Fiscal Year 1990 is provided in Table 1. Since the calculated rate (4.75%) 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, Telephone Loans and Management Staff, 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 1990, 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%.

The total amount received by the Bank in Fiscal Year 1990 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 \$8,688,650. Rescissions of loan funds advanced for Class B stock amounted to \$1,033,871. Thus, the amount received by the Bank from the issuance of Class B stock, per 7 CFR 1610.10(c), was \$7,654,779 (\$8,688,650 - \$1,033,871). The total amount received by the Bank in Fiscal Year 1990 from the issuance of Class C stock was \$10,066.

The Bank did not issue debentures or any other obligations during Fiscal Year 1990. Consequently, no cost was incurred related to the issuance of debentures subject to 7 U.S.C. § 948 (b)(3)(D).

Enclosure

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The excess of Fiscal Year 1990 loan advances over amounts received from issuances of Class A, B, and C stocks and debentures and other obligations amounted to \$71,320,146. 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 16 1990

Gary C. Byrne

Governor, Rural Telephone Bank

**TABLE 1
RURAL TELEPHONE BANK FY 1990
COST OF MONEY RATE**

<u>Source of Bank Funds</u>	<u>Amount</u>	<u>Cost Rate</u>	<u>Amount X Cost Rate</u>	<u>(Amount X Rate) / Advances</u>
FY 1990 Issuance of Class A Stock	\$28,710,000	2.00%	\$574,200	0.5332%
FY 1990 Issuance of Class B Stock	\$7,654,779	0.00%	\$0	0.0000%
FY 1990 Issuance of Class C Stock	\$10,066	8.50%	\$856	0.0008%
FY 1990 Issuance of Debentures and Other Obligations	\$0	---	\$0	0.0000%
Excess of Total Advances Over 1990 Issuances	\$71,320,146	6.36%	\$4,535,961	4.2119%
Total FY 1990 Advances	\$107,694,991	CALCULATED COST OF MONEY RATE		4.75%
		MINIMUM COST RATE ALLOWABLE		5.00%

**TABLE 2
RURAL TELEPHONE BANK
HISTORICAL COST OF MONEY**

<u>Fiscal Year</u>	<u>Bank Cost of Money</u>	<u>Bank Loan Advances</u>	<u>Advances X Cost Rate</u>	<u>(Advances X Cost Rate) / Total Advances</u>
1974	5.01%	\$111,022,574	\$5,562,231	0.317%
1975	5.85%	\$130,663,197	\$7,643,797	0.436%
1976	5.33%	\$99,915,066	\$5,325,473	0.304%
1977	5.00%	\$80,907,425	\$4,045,371	0.231%
1978	5.87%	\$142,297,190	\$8,352,845	0.477%
1979	5.93%	\$130,540,067	\$7,741,026	0.442%
1980	8.10%	\$199,944,235	\$16,195,483	0.924%
1981	9.46%	\$148,599,372	\$14,057,501	0.802%
1982	8.39%	\$112,232,127	\$9,416,275	0.537%
1983	6.99%	\$93,402,836	\$6,528,858	0.372%
1984	6.55%	\$90,450,549	\$5,924,511	0.338%
1985	5.00%	\$72,583,394	\$3,629,170	0.207%
1986	5.00%	\$71,852,383	\$3,592,619	0.205%
1987	5.00%	\$51,974,938	\$2,598,747	0.148%
1988	5.00%	\$119,488,367	\$5,974,418	0.341%
1989	5.00%	\$97,046,947	\$4,852,347	0.277%
TOTAL ADVANCES		\$1,752,920,667	COST OF MONEY RATE	6.36%