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GAO

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

Comptroller General
of the United States

B-159292

November 19, 1992

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 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 this interest rate determination within 15 days of receiving it. In addition, due to the passage of the Federal Credit Reform Act of 1990, RTB must calculate a second cost of money rate. In accordance with Public Law 100-203 and the Federal Credit Reform Act of 1990, RTB now calculates the following two rates: (1) the interest rate used for advances made during fiscal year 1992 on loans approved prior to fiscal year 1992 (referred to as loans from the liquidating account) and (2) the interest rate used for advances made during fiscal year 1992 on loans approved on or after October 1, 1991 (referred to as loans from the financing account).

On November 4, 1992, we received RTB's rate determinations, which established RTB's fiscal year 1992 cost of money rates at 6.14 percent and 7.38 percent for advances from the liquidating account and financing account, respectively. We reviewed these rate determinations and found them 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 rates to RTB records and recomputed each calculation.

Enclosed is a copy of RTB's interest rates notice along with the details of its calculations of the rates to be applied to loans issued during fiscal year 1992.

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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.

Donald H. Chapin for
Charles A. Bowsher
Comptroller General
of the United States

Enclosure

United States Department of Agriculture
Rural Telephone Bank
Washington, D.C. 20250

NOV 4 1992

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 the 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 1992 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,

James B. Huff Sr.
JAMES B. HUFF, SR.
Governor

Enclosure

DEPARTMENT OF AGRICULTURE

Rural Telephone Bank

7 CFR Part 1610

DETERMINATION OF THE 1992 FISCAL YEAR

INTEREST RATES ON RURAL TELEPHONE BANK LOANS

AGENCY: Rural Telephone Bank, USDA.

ACTION: Notice of 1992 fiscal year interest rates determination.

SUMMARY: In accordance with 7 CFR 1610.10, the Rural Telephone Bank fiscal year 1992 cost of money rates have been established as follows: 6.14% and 7.38% for advances from the liquidating account and financing account, respectively (fiscal year is the period beginning October 1 and ending September 30).

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 during fiscal year 1992 under bank loans approved prior to fiscal year 1992 shall bear interest at the rate of 6.14% (the liquidating account rate). All loan advances made during fiscal year 1992 under bank loans approved during fiscal year 1992 shall bear interest at the rate of 7.38% (the financing account rate).

The calculation of the Bank's cost of money rates for fiscal year 1992 for the liquidating account and the financing account are provided in Tables 1a and 1b. Since the calculated rates are greater than the minimum rate (5.00%) allowed under 7 U.S.C. §948(b)(3)(A), the cost of money rates for the liquidating account and financing account are set at 6.14% and 7.38%, respectively. The methodology required to calculate the cost of money rates is established in 7 CFR 1610.10(c).

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

SUPPLEMENTARY INFORMATION: The Federal Credit Reform Act of 1990 ("Credit Reform") (2 U.S.C. §661a, et seq.) implemented a system to reform the budgetary accounting and management of Federal credit programs. Bank loans approved on or after October 1, 1991, are accounted for in a different manner than Bank loans approved prior to fiscal year 1992. As a result, the Bank must calculate two cost of money rates: (1) the cost of money rate for advances made from the liquidating account (advances made during fiscal year 1992 on loans approved prior to fiscal year 1992) and (2) the cost of money rate for advances made during fiscal year 1992 on loans approved on or after October 1, 1991 (otherwise referred to as loans from the financing account).

The cost of money rate methodology is the same for both accounts. It develops a weighted average rate for the Bank's cost of money considering total fiscal year loan advances; the excess of fiscal year loan advances over amounts received in the fiscal year from the issuances of Class A, B, and C stocks, debentures and other obligations; and the costs to the Bank of obtaining funds from these sources.

Sources and Costs of Funds - Liquidating Account:

During fiscal year 1992, the Bank was authorized to pay 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 7.5%.

In accordance with Section 406(a) of the RE Act, the Bank did not issue Class A stock in fiscal year 1992. Total advances for the purchase of Class B stock and cash purchases for Class B stock were $2,229,747. Rescissions of loan funds advanced for Class B stock amounted to $1,230,997. Thus, the amount received by the Bank from the issuance of Class B stock, per 7 CFR 1610.10(c), was $998,750 ($2,229,747 - 1,230,997). The total amount received by the Bank in fiscal year 1992 from the issuance of Class C stock was $4,525.

The Bank did not issue debentures or any other obligations related to the liquidating account in fiscal year 1992. 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 1992 loan advances from the liquidating account over amounts received from issuances of stocks, debentures, and other obligations amounted to $83,937,547. 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 for 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.

<u>Sources and Costs of Funds - Financing Account</u>:

During fiscal year 1992, the Bank was authorized to pay 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 7.5%.

In accordance with Section 406(a) of the RE Act, the Bank did not issue Class A stock in fiscal year 1992. Total advances for the purchase of Class B stock and cash purchases for Class B stock were $193,155. Since there were no rescissions of loan funds advanced for Class B stock, the amount received by the Bank from the issuance of Class B stock, per 7 CFR 1610.10(c), was $193,155. No amounts were received in fiscal year 1992 from the issuance of Class C stock associated with the financing account.

During fiscal year 1992, issuances of debentures or any other obligations related to the financing account were $2,471,259.89 at an interest rate of 7.63% and $1,501,836.87 at an interest rate of 7.37%.

The Bank did not have an excess of fiscal year 1992 loan advances from the financing account over amounts received from issuances of stocks, debentures, and other obligations. Consequently, no cost was incurred related to excess of advances over amounts received from issuances subject to 7 U.S.C. §948(b)(3)(D)(v).

Dated: OCT 28 1992

James B. Huff, Sr.
James B. Huff, Sr.
Governor, Rural Telephone Bank

TABLE 1a - LIQUIDATING ACCOUNT RURAL TELEPHONE BANK COST OF MONEY RATE

Source of Bank Funds	Amount	Cost Rate	Amount X Cost Rate	(Amount X Rate) / Advances
FY 1992 Issuance of Class A Stock	$0	2.00%	$0	0.0000%
FY 1992 Issuance of Class B Stock	$998,750	0.00%	$0	0.0000%
FY 1992 Issuance of Class C Stock	$4,525	7.50%	$339	0.0004%
FY 1992 Issuance of Debentures and Other Obligations	$0	--	$0	0.0000%
Excess of Total Advances Over 1992 Issuances	$83,937,547	6.21%	$5,212,522	6.1367%
Total FY 1992 Advances	$84,940,822	CALCULATED COST OF MONEY RATE		6.14%
		MINIMUM COST RATE ALLOWABLE		5.00%

TABLE 1b - FINANCING ACCOUNT RURAL TELEPHONE BANK COST OF MONEY RATE

Source of Bank Funds	Amount	Cost Rate	Amount X Cost Rate	(Amount X Rate) / Advances
FY 1992 Issuance of Class A Stock	$0	2.00%	$0	0.0000%
FY 1992 Issuance of Class B Stock	$193,155	0.00%	$0	0.0000%
FY 1992 Issuance of Class C Stock	$0	7.50%	$0	0.0000%
FY 1992 Issuance of Debentures and Other Obligations: *	$2,471,260	7.63%	$188,557	4.6486%
	$1,501,837	7.37%	$110,685	2.7288%
Excess of Total Advances Over 1992 Issuances	$0	n.a.	$0	0.0000%
Total FY 1992 Advances	$4,056,250	CALCULATED COST OF MONEY RATE		7.38%
		MINIMUM COST RATE ALLOWABLE		5.00%

** Amount borrowed represents cash advances of $3,863,095 plus Class B stock of $193,155 less the subsidy of $83,153 (2.05% of advances).*

TABLE 2
RURAL TELEPHONE BANK
HISTORICAL COST OF MONEY
LIQUIDATING ACCOUNT

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	0.275%
1975	5.85%	$130,663,197	$7,643,797	0.378%
1976	5.33%	$99,915,066	$5,325,473	0.263%
1977	5.00%	$80,907,425	$4,045,371	0.200%
1978	5.87%	$142,297,190	$8,352,845	0.413%
1979	5.93%	$130,540,067	$7,741,026	0.383%
1980	8.10%	$199,944,235	$16,195,483	0.800%
1981	9.46%	$148,599,372	$14,057,501	0.695%
1982	8.39%	$112,232,127	$9,416,275	0.465%
1983	6.99%	$93,402,836	$6,528,858	0.323%
1984	6.55%	$90,450,549	$5,924,511	0.293%
1985	5.00%	$72,583,394	$3,629,170	0.179%
1986	5.00%	$71,852,383	$3,592,619	0.178%
1987	5.00%	$51,974,938	$2,598,747	0.128%
1988	5.00%	$119,488,367	$5,974,418	0.295%
1989	5.00%	$97,046,947	$4,852,347	0.240%
1990	5.00%	$107,694,991	$5,384,750	0.266%
1991	5.43%	$163,143,075	$8,858,669	0.438%
TOTAL ADVANCES		$2,023,758,733	COST OF MONEY RATE	6.21%