



Rural Utilities Service

Telecommunications Program

1400 Independence Ave.
Washington, DC 20250
www.usda.gov/rus/telecom

Presented by:
Roberta D. Purcell
Assistant Administrator
Telecommunications Program





Who we are...

The **RUS Telecommunications Program** assists the private sector in developing, planning, and financing the construction of telecommunications infrastructure in *Rural America*.





Who we are...

Loans for all Telecommunications Purposes...

The RUS program is dedicated to lend to the limits of the RE Act definition of ‘telephone service’. We have changed our regulations to provide the greatest amount of flexibility necessary to meet the challenges of ensuring that high-quality, affordable, advanced services are deployed in rural America.





Who we are...

*The Programs We Administer for
Rural America...*

- Infrastructure Loans
- Broadband Loans and Grants
- Distance Learning and
Telemedicine Loans and Grants
- Weather Radio Grants
- Local TV Loan Guarantees
- Digital Translator Grants





Financing Tools...

A Variety of financing options are available:

Infrastructure Loans

- *Hardship Loans*
- *Treasury Rate Loans*
- *Rural Telephone Bank Loans*
- *Federal Financing Bank Loans*

Broadband Loans

- *4% Loans*
- *Treasury Rate Loans*
- *Guaranteed Loans*





Infrastructure ... *Eligibility*



Who is eligible?

Commercial or nonprofit corporations or limited liability companies (LLC) that are providing or propose to provide telecommunications service to rural areas.



Infrastructure ... *Loan Purposes*



How may funds be used?

Loans may be used to build new and modernize existing telecommunications networks in rural areas:

- ▶ New Construction
- ▶ Expansions
- ▶ Refinancing
- ▶ Improvements
- ▶ Acquisitions



Infrastructure ...

Types of Loans

Hardship Loans:

| | |
|-----------------------------|---|
| Interest Rate: | 5% Fixed |
| Amortization Period: | Up to 35 years; determined by useful service life |

To qualify, an entity must have:

| | |
|--------------------------|----------------------------|
| Proposed Density: | 4 subscribers or less; AND |
| Projected TIER: | Between 1.0 and 3.0 |

FY 2003 Authorized Loan Level: \$75 million



Infrastructure ...

Types of Loans

Cost-of-Money Loans:

| | |
|-----------------------------|---|
| Interest Rate: | Treasury rate; fixed at advance |
| Amortization Period: | Up to 35 years; determined by useful service life |

To qualify, an entity must have:

| | |
|--------------------------|-----------------------------------|
| Proposed Density: | 15 subscribers or less; OR |
| Projected TIER: | Between 1.0 and 5.0 |

Always made concurrently with RTB loans.

FY 2003 Authorized Loan Level: \$300 million



Infrastructure ... *Types of Loans*

Rural Telephone Bank Loans:

| | |
|-----------------------------|---|
| Interest Rate: | Cost of capital to RTB |
| Amortization Period: | Up to 35 years; determined by useful service life |

To qualify, an entity must have:

| | |
|--------------------------|-----------------------------------|
| Proposed Density: | 15 subscribers or less; OR |
| Projected TIER: | Between 1.0 and 5.0 |

Made concurrently with Cost-of-Money loans.

Borrowers must purchase stock in an amount of 5% of RTB loan.

FY 2003 Authorized Loan Level: \$175 million



Infrastructure ...

Types of Loans

Federal Financing Bank Loans:

| | |
|-----------------------------|---|
| Interest Rate: | Treasury rate plus 1/8th% |
| Amortization Period: | Up to 35 years; determined by useful service life |

To qualify, an entity must have:

| | |
|--------------------------|-------------|
| Proposed Density: | Any |
| Projected TIER: | 1.2 or more |

Billed quarterly rather than monthly.

FY 2003 Authorized Loan Level: \$120 million



Infrastructure ... *Types of Loans*

Federal Financing Bank - Advantages!!!

- ▶ Loan is 100 percent guaranteed.
- ▶ Guaranteed loan may be made simultaneously with a Hardship loan and/or concurrent RUS Cost of Money and RTB loans.



Infrastructure ...

Types of Loans

Federal Financing Bank - Advantages!!!



Great flexibility - An entity can:

Take a “short-term” advance and roll it over every 3 months or any multiple of 3 months up to the maturity date of the loan.

Go long-term at any rollover date, or at time of the advance.

Each advance can have a different maturity period!

Call options provide additional flexibility!!



Financing Tools...

Interest Rates as of June 27, 2003:

| | 20-Year | 10-Year | 7-Year |
|----------------------|--------------|--------------|---|
| Hardship | 5.00% | 5.00% | 5.00% |
| Cost of Money | 4.43% | 3.42% | 2.93% |
| RTB | 5.00% | 5.00% | 5.00% |
| FFB | 4.56% | 3.55% | 1.16% <i>(1-Year)</i>  |
| | | | 1.01% <i>(90-day)</i>  |



Broadband... *Purpose and Eligibility*

Broadband – Section 601 of RE Act...



To provide loans and loan guarantees for the cost of construction, improvement, and acquisition of facilities and equipment for broadband service in eligible rural communities.



Broadband... *Service Eligibility*



What is broadband service?

- ▶ It is technology neutral;
- ▶ It must provide high-quality data transmission service and may provide voice, graphics, and video; and
- ▶ It must enable a subscriber to transmit and receive at a rate of no less than 200 kilobits per second.



Broadband...

Purpose and Eligibility



Who is eligible?

A legally organized entity providing or proposing to provide service to any incorporated or unincorporated place that:

- ▶ Has no more than 20,000 inhabitants;
- ▶ Is not located in an area designated as a standard metropolitan statistical area; and
- ▶ Has sufficient authority to enter into a contract with RUS and carry out the purposes of the loan.



Broadband...

Purpose and Eligibility



Who is eligible?

State or local governments are eligible only if, no later than 90 days after publication of 7 CFR Part 1738, no other eligible entity is already offering or has committed to offer broadband service in that community.



Broadband...

Purpose and Eligibility



Who is not eligible?



Individuals;



Partnerships; and



Any entity serving more than 2% of the telephone subscriber lines installed in the United States.



Broadband...

Purpose and Eligibility



How may funds be used?

- ▶ New construction and improvements to existing facilities;
- ▶ Broadband facilities leased under the terms of a capital lease (limited to 2 years);
- ▶ Facilities that RUS determines are necessary to serve subscribers **located in** eligible rural communities that are **located outside** of eligible rural communities;



Broadband...

Purpose and Eligibility

Eligible Purposes ...

- ▶ Acquisitions; and
- ▶ Refinancing existing Telecommunications Program debt made under the RE Act.



Broadband...

Purpose and Eligibility

Ineligible Purposes ...

- ▶ To acquire the stock, facilities, or equipment of an affiliate;
- ▶ To finance customer terminal equipment or inside wiring not owned by the borrower;
- ▶ To finance vehicles not used primarily in construction;



Broadband...

Purpose and Eligibility

Ineligible Purposes ...

- ▶ To finance broadband facilities leased under an operating lease;
- ▶ To finance systems not designed to RUS' specifications;
- ▶ To finance mergers or consolidations; and
- ▶ To pay for operating costs.



Broadband... *Financing Portfolio*



Mandatory Funding ...



Budget Authority -

FY 02 - 05: \$20 million per year

FY 06 - 07: \$10 million per year



Estimated Loan Levels -

FY 02 - 05: \$728 million per year

FY 06 - 07: \$364 million per year



Broadband... *Program Budgets*

Broadband Programs:

| Program | 2003 | 2004 <i>(proposed)</i> |
|---------------------------|----------------------|-------------------------------|
| Loans (Farm Bill): | | |
| Treasury Rate | \$1,295 million | |
| 4 Percent | \$ 80 million | |
| Guaranteed | <u>\$ 80 million</u> | |
| | \$1,445 million | |
| Loans (Approps): | | \$418 million |
| Grants: | \$ 10 million | \$ 2 million |



Broadband... *Financing Portfolio*



What types of loans are available ?

- ▶ Private lender guarantees (up to 80% of the total loan amount);
- ▶ Direct 4% loans; and
- ▶ Direct Treasury Rate loans.





Broadband... *Financing Portfolio*

Direct 4% Loans ...

- ▶ Are made to serve communities that are:
 - ! Unserved;
 - ! Have a population less than 2,500; and
 - ! Are located in a county with per capita personal income that is less than or equal to 55% of the national per capita income.



Broadband... *Financing Portfolio*

Direct 4% Loans ...

- ▶ Are made to service areas with a maximum population density of 10 persons per square mile, calculated as the total number of persons in the service area divided by the square miles of the service area; and
- ▶ Are made for no more than \$5 million



Broadband... *Financing Portfolio*

Direct Treasury Rate Loans ...

- ▶ Bear interest at the cost of money to the Treasury for comparable maturities (approximately 4.5%).

The interest rate is set at the time of each advance of funds



Broadband... *Financing Portfolio*

Loan Guarantees ...

- ▶ Bear interest at a rate set by the lender; and
 - ! The interest rate must be fixed and must be the same for the guaranteed and unguaranteed portion of the loan.

- ▶ Are made for no more than 80 percent of the amount of principal.



Broadband... *Financing Portfolio*

Loan Terms and Conditions ...

- ▶ Loans are made for a term equal to the expected useful service life of the facilities financed;
- ▶ Interest is payable on funds advanced each month as it accrues;
- ▶ Principal payments are due within 1 year of the date of the first advance;



Broadband... *Financing Portfolio*

Loan Terms and Conditions ...

- ▶ The minimum amount of a loan that RUS will consider is \$100,000;
- ▶ Maximum loan amounts apply only to the direct 4% loans; and
- ▶ RUS requires a first lien on the borrower's assets.