Information and Regulatory Affairs, Office of Management and Budget, Attention: Desk Officer for USDA, room 3201, NEOB, Washington, DC 20503.

## Background

On August 5, 1994, at 59 FR 39972, the Rural Electrification Administration (REA) proposed several amendments to pre-loan regulations affecting both insured and guaranteed electric loans pursuant to the Rural Electrification Act of 1936, as amended (7 U.S.C. 901 et seq.) (RE Act). These amendments are intended to enhance the delivery of customer service by facilitating the application process for borrowers, and reducing administrative costs to the Government. Key provisions of the proposed rule include lengthening the allowable construction financing period for many electric loans; substantially revising the requirement that borrowers achieve and maintain certain levels of equity; and clearly listing the documents required for a complete loan

Since publication of the proposed rule, the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994 (Pub. L. 103-354, 108 Stat. 3178) (Reorganization Act) has been enacted. The Reorganization Act requires in section 232(a) that the Secretary of Agriculture (Secretary) establish and maintain within the Department of Agriculture the Rural Utilities Service (RUS). Section 232(c)(1)(A) requires that the Secretary carry out through RUS electric loan programs authorized under the RE Act. Secretary's Memorandum 1010-1, Reorganization of the Department of Agriculture, issued October 20, 1994, abolished REA and established RUS. On December 27. 1994, the Department of Agriculture published a notice in the Federal Register at 59 FR 66517 announcing this reorganization. In other words, RUS is the successor to REA with respect to electric loan and loan guarantee programs under the RE Act.

Rules formerly published by REA were reassigned to RUS pursuant to a final rule published in the Federal Register on December 27, 1994, at 59 FR 66438. Therefore, this final rule culminating a rulemaking proceeding initiated by REA is being published by RUS. According to 7 CFR 1710.3 of the rule changing nomenclature, the terms "RUS bulletin" and "RUS form" have the same meaning as the terms "REA bulletin" and "REA form, "respectively.

The period for public comments on the REA proposed rule expired October 4, 1994. Twenty-one comments were received from individual borrowers, associations representing borrowers, a lender that provides supplemental financing to electric borrowers, and an engineering consulting firm. In general, comments expressed support for the proposed rule. A number of comments addressed specific provisions.

## Loan Period

The first of the amendments in the proposed rule lengthens the allowable loan period to 4 years for both insured and guaranteed loans for the construction of distribution and transmission facilities and for improvements to generation facilities. The loan period, sometimes referred to as the financing period, means the period of time during which the facilities included in a loan application will be constructed. In the past, loans to distribution borrowers were limited to a 2 year loan period, and loans to power supply borrowers to a 3 year period. Some borrowers needed to apply for loans every 2 or 3 years in order to meet their financing needs. RUS believes that allowing a longer loan period will, in the long run, significantly reduce loan application costs to Agency customers, including RUS borrowers and supplemental lenders, as well as loan processing costs to the Government. Borrowers will still have the option of applying for loans for a shorter period, if they so desire, and RUS reserves the right to limit loans to a period of less than 4 years under certain circumstances.

Most commentors supported the changes proposed. Several requested that RUS allow more loan fund advances on a municipal rate loan made for a longer loan period. The proposed rule at 7 CFR 1714.6(a)(2) would allow up to 6 advances from a municipal rate loan if the loan period is 2 years or less, and up to 8 advances if the loan period is longer than 2 years. A limit on the number of loan fund advances from municipal rate loans was first set forth in the rule published December 20, 1993, at 58 FR 66260, that established the municipal rate loan program. As noted in the preamble to this rule at 58 FR 66261, the limit was intended to provide borrowers with financial flexibility, while minimizing the administrative costs to the Government of tracking multiple advances, each bearing its own interest rate, interest rate term, and rollover maturity date. Agency research conducted before publication of the 1993 rule indicated that the vast majority of loans were fully advanced in 6 or fewer advances.

The comment period on the 1993 rule closed on March 21, 1994, and no

comments on were received on limiting the number of advances. RUS believes that 8 advances from a municipal rate loan with a 4 year loan period will allow the borrowers sufficient flexibility. Because hardship rate loans and guaranteed loans bear a single interest rate for the entire amount, and there are no interest rate terms or rollover maturity dates associated with these loans, there is no limit on the number of advances.

One commentor, an engineering consulting firm, opposed a 4 year loan period. The commentor questioned RUS' ability to maintain adequate engineering oversight over facilities constructed under a longer construction work plan (CWP). RUS is confident that electric system reliability will not suffer as a result of a longer financing period. RUS reserves in, § 1710.106(f), the right to approve a loan period shorter than the period requested by the borrower if a loan for the longer period would fail to meet RUS requirements for loan feasibility and security.

## Fund Advance Period

In conjunction with lengthening the allowable loan period, the rule proposed lengthening the fund advance period, which is the period during which RUS may advance funds to the borrower from an insured loan. Agency policy first promulgated in 1984 provides that the fund advance period terminates automatically 4 years after the date of the loan contract. To allow borrowers to complete construction projects based on a loan period of more than 2 years, the rule proposed, in § 1714.56, that funds from insured loans approved on or after the effective date of the rule may be advanced for a period beginning on the date of the loan note and lasting 1 year longer than the loan period, provided that the fund advance period may not be shorter than 4 years. In other words, if the loan period is 3 years or less, the fund advance period would terminate 4 years after the date of the loan note; if the loan period is 4 years, the fund advance period would terminate 5 years after the date of the note. The Administrator may approve an extension of the fund advance period if the borrower meets the requirements of § 1714.56(c).

Several commentors expressed support for the proposed change. One commentor suggested that the fund advance period be calculated from the date of the first advance, rather than from the date of the loan note. RUS believes, as stated in the preamble to the proposed rule, that, dating the fund advance period from the date of the loan note assists both the borrower and RUS,