

limitation would increase new loans for rural areas. Please discuss the benefit and/or detriment to using this type of limitation.

5. The regulation contemplates monitoring compliance with terms of the guarantee through qualified third parties acting as agents for the guarantor but hired by the lender obtaining the guarantee. Does this mechanism provide adequate protection of the guarantor's interest? Are other mechanisms available that present fewer potential conflicts of interest while relying primarily on qualified private sector monitors?

6. Does the program envisioned by the rule adequately minimize the financial risk to taxpayers? If not, what changes should be made to best reduce the risk while still providing the kind of guarantee program envisioned by Congress?

7. Issuance of a guarantee may provide an incentive for recipients to reduce the quality of their lending/management policies and practices. Does the rule adequately ensure that the recipient's management and lending practices are sound, effective, and minimize default risk?

8. Is the accompanying economic analysis for this rule objective and does it provide a reasonably complete assessment of each significant cost and benefit of the rule?

List of Subjects in 7 CFR Part 1720

Electric power, Electric utilities, Loan program—energy, reporting and recordkeeping requirements, Rural areas.

For reasons set out in the preamble, RUS proposes to amend chapter XVII of title 7 of the Code of Federal Regulations by adding a new part 1720 to read as follows:

PART 1720—GUARANTEES FOR BONDS AND NOTES ISSUED FOR ELECTRIFICATION OR TELEPHONE PURPOSES

Sec.

- 1720.1 Purpose.
- 1720.2 Background.
- 1720.3 Definitions.
- 1720.4 General standards.
- 1720.5 Eligibility criteria.
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- 1720.7 Application evaluation.
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- 1720.13 Limitations on Guarantees.
- 1720.14 Nature of guarantee; acceleration of guaranteed bonds.
- 1720.15 Equal opportunity requirements.

Authority: 7 U.S.C. 901 *et seq.*; 7 U.S.C. 940c.

§ 1720.1 Purpose.

This part prescribes regulations implementing a guarantee program for bonds and notes issued for electrification or telephone purposes authorized by section 313A of the Rural Electrification Act of 1936 (7 U.S.C. 940c–1).

§ 1720.2 Background.

The Rural Electrification Act of 1936 (the “RE Act”) (7 U.S.C. 901 *et seq.*) authorizes the Secretary to guarantee and make loans to persons, corporations, states, territories, municipalities, and cooperative, non-profit, or limited-dividend associations for the purpose of furnishing or improving electric and telephone service in rural areas. Responsibility for administering electrification and telecommunications loan and guarantee programs along with other functions the Secretary deemed appropriate have been assigned to RUS under the Department of Agriculture Reorganization Act of 1994 (7 U.S.C. 6941 *et seq.*). The Administrator of RUS has been delegated responsibility for administering the programs and activities of RUS, see 7 CFR § 1700.25. Section 6101 of the Farm Security and Rural Investment Act of 2002 (Pub.L. 107–171) (FSRIA) amended the RE Act to include a new program under section 313A entitled Guarantees for Bonds and Notes Issued for Electrification or Telephone Purposes. This measure became law on May 13, 2002, and directs the Secretary of Agriculture to promulgate regulations that carry out the Program.

§ 1720.3 Definitions.

For the purpose of this part:
Administrator means the Administrator of RUS.

Applicant means a bank or other lending institution organized as a private, not-for-profit cooperative association, or otherwise on a non-profit basis, that is applying for RUS to guarantee a bond or note under this part.

Bond Documents means the trust indenture, bond resolution, guarantee, guarantee agreement and all other instruments and documentation pertaining to the issuance of the guaranteed bonds.

Borrower means any organization that has an outstanding loan made or guaranteed by RUS for rural electrification or rural telephony under the RE Act, or that is seeking such financing.

Concurrent Loan means a loan that a guaranteed lender extends to a borrower for up to 30 percent of the cost of an eligible electrification or telephone purpose under the RE Act, concurrently with an insured loan made by the Secretary pursuant to section 307 of the RE Act.

Federal Financing Bank means a government corporation and instrumentality of the United States of America under the general supervision of the Secretary of the Treasury.

Guarantee means the written agreement between the Secretary and a guaranteed bondholder, pursuant to which the Secretary guarantees full repayment of the principal, interest, and call premium, if any, on the guaranteed lender's guaranteed bond.

Guarantee Agreement means the written agreement between the Secretary and the guaranteed lender which sets forth the terms and conditions of the guarantee.

Guaranteed Bond means any bond, note, debenture, or other debt obligation issued by a guaranteed lender on a fixed or variable rate basis, and approved by the Secretary for a guarantee under this part.

Guaranteed Bondholder means any investor in a guaranteed bond.

Guaranteed Lender means an applicant that has been approved for a guarantee under this part.

Investment Grade Rating means a bond rating of “BBB – ” or higher or “Baa3” or higher, or its equivalent, assigned by a rating agency.

Loan means any credit instrument that the guaranteed lender extends to a borrower for any electrification or telephone purpose eligible under the RE Act, including loans as set forth in section 4 of the RE Act for electricity transmission lines and distribution systems (excluding generating facilities) and as set forth in section 201 of the RE Act for telephone lines, facilities and systems.

Loan documents means the loan agreement and all other instruments and documentation between the guaranteed lender and the borrower evidencing the making, disbursing, securing, collecting, or otherwise administering of a loan.

Program means the guarantee program for bonds and notes issued for electrification or telephone purposes authorized by section 313A of the RE Act as amended.

Rating Agency means a bond rating agency identified by the Securities and Exchange Commission as a nationally recognized statistical rating organization.