

## Assistance for Rural Electric Utilities

Reliable, affordable electricity is essential to rural Americans for their economic well-being and quality of life. The USDA Rural Development electric program provides leadership and capital to upgrade, expand, maintain, and replace America's vast rural electric infrastructure. Under the authority of the Rural Electrification Act of 1936, USDA makes direct loans and loan guarantees to electric utilities to serve customers in rural areas.

The Electric Program makes loans and loan guarantees to finance the construction of electric distribution, transmission and generation facilities -- including system improvements and replacements required to furnish and import electric service in rural areas -- and for demand-side management, energy conservation programs, and on- and off-grid renewable energy systems.

USDA Rural Development makes loans to corporations, states, territories and subdivisions, and agencies such as municipalities, people's utility districts, and cooperative, nonprofit, limited-dividend, or mutual associations that provide retail electric service to rural areas or supply the power needs of distribution borrowers in rural areas. USDA Rural Development also provides financial assistance to rural communities with extremely high energy costs to acquire, construct, extend, upgrade, and otherwise improve energy generation, transmission, or distribution facilities. USDA Rural Development services approximately 700 active electric borrowers in 47 states.

Most USDA-financed systems have a two-tiered organizational structure. Retail consumers are members of the distribution cooperative that provides electricity directly to their homes and businesses. Most distribution cooperatives, in turn, are members of power supply cooperatives, also called "generation and transmission" or "G&T" cooperatives, which generate and/or procure electricity and transmit it to the distribution member systems.

### ***Rural Electrification Direct and Guaranteed Loans and Grants***

The USDA Rural Development Electric Program offers the following sources of financing assistance: Hardship Loans, Municipal Rate Loans, Treasury Rate Loans, Guaranteed Loans, and Assistance to Rural Communities with Extremely High Energy Costs (loans and grant assistance). The primary differences between the programs are the qualifying criteria and the interest rate for each type of financing.

***Hardship Loans*** are used to finance electric distribution and sub-transmission facilities at the 5 percent hardship rate to qualified borrowers. These direct loans are made to applicants that meet rate-disparity thresholds and whose consumers fall below average per-capita and household income thresholds. In addition, Hardship loans can be made to qualified applicants if the Administrator determines that the borrower has suffered a severe unavoidable hardship, such as a natural disaster.

***Municipal Rate Loans*** are used to finance distribution and subtransmission facilities of both distribution and power supply borrowers, including, under certain circumstances, the implementation of demand-side management and energy conservation programs. The interest rate is based on interest rates available in the municipal bond market for similar maturities. In most cases, borrowers are required to seek supplemental financing for 30 percent of their capital requirements under this program. Borrowers may choose from several loan maturity alternatives with associated varying interest rates, which track investment securities and change quarterly.

**Treasury Rate Loans** are used to finance distribution and subtransmission facilities of both distribution and power supply borrowers, including, under certain circumstances, the implementation of demand-side management and energy conservation programs. The standard interest rate on direct Treasury rate loans is established daily by the United States Treasury. Borrowers may select interest rate terms for each advance of funds. The minimum interest rate term is 1 year. Interest rate terms are limited to terms published by the United States Treasury.

**Guaranteed Loans** are provided by USDA Rural Development primarily through the Federal Financing Bank (FFB), National Rural Utilities Cooperative Finance Corporation (CFC), and the National Bank for Cooperatives (CoBank). The FFB is an agency within the Treasury Department, providing funding in the form of loans for various government lending programs, including the guaranteed loan program. FFB loans are guaranteed by USDA and are available to all electric borrowers. FFB interest rates are fixed to the prevailing cost of money to the United States Treasury, plus an administrative fee of one-eighth of 1 percent. Under this program, loans are executed by the borrower and FFB, CFC, or CoBank, with payment of principal and interest guaranteed by USDA. CFC and CoBank rates are negotiated between the lender and the borrower.

**Assistance to Rural Communities with Extremely High Energy Costs** provides grants and loans to be used to acquire, construct, extend, upgrade, and otherwise improve energy generation, transmission, or distribution facilities serving communities in which the average residential energy expenditure for home energy is at least 275 percent of the national average. Eligible entities are persons, State and local governments, and federally recognized Indian tribes and tribal entities. As of this printing only grant assistance has been appropriated.

In addition, grants and loans may be provided to the Denali Commission, a State-Federal rural development entity, to improve energy facilities serving high-energy-cost communities in Alaska. Interested communities may apply to the Denali Commission.

There is a statutory cap of 4 percent on planning and administrative expenses for funds made available under these programs.

**Renewable Energy Projects**, including renewable energy systems, such as solar, wind, hydropower, biomass, or geothermal, can be financed through Guaranteed Loans.

## **Applying for assistance**

Further information and assistance in applying for USDA Rural Development electric program assistance is available from Rural Development's two regional offices:

Northern Regional Division – (202) 720-1420

Southern Regional Division – (202) 720-0848

Or write to:

USDA Rural Development  
STOP 0705  
1400 Independence Avenue, SW  
Washington, DC 20250-0705

Information is also available on our Website at <http://www.usda.gov/rus/electric/index.htm>

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