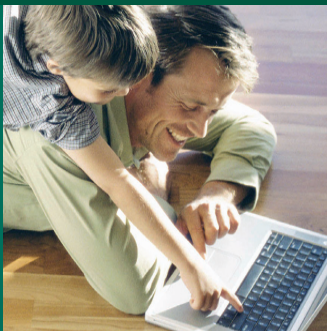


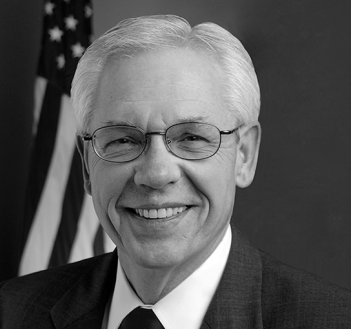
Rural Broadband



USDA Rural Development: Bringing Broadband to Rural America



Committed to the future of rural communities.



Broadband is a High Priority

USDA Rural Development is committed to fulfilling the President and Congress' goal of bringing affordable broadband to all rural Americans. This is a high priority. Broadband is a transformative technology. It allows rural communities to dramatically enhance the quality of health care and education. It gives every rural business access to regional, national, and international markets. It reduces barriers of time and distance, levels the playing field, and makes rural communities better places to live, work, and raise a family.

Rural America is diverse and so is the broadband program. USDA Rural Development tailors solutions to the needs of individual communities. We have financed technologies including fiber to the home, DSL, wireless, broadband over power lines, and hybrid fiber/coax systems. We are eager to work with startup companies as well as established providers and stand ready to consider innovative financing arrangements. Our mission is to increase economic opportunity and improve the quality of life in rural America. Broadband is essential to both of these goals, and we will not rest until the job is done.

A handwritten signature in black ink, which appears to read "Thomas Dorr". The signature is stylized and fluid.

Thomas Dorr
Under Secretary

Rural Broadband



As an agency of the U.S. Department of Agriculture, Rural Development is focused on improving the quality of life for rural Americans. In essence, Rural Development provides individuals, communities, and businesses with the financial assistance needed to address the unique needs of rural America. It offers programs in housing, utilities, business development, and community facilities/public safety. By improving the quality of life in rural America, it no longer is a sacrifice for the next generation to return home and raise their families in a safe and comforting environment. Rural Development provides increased economic opportunities so people who choose to live in small towns can compete on a global level.

PROGRAM HISTORY

USDA Rural Development's involvement with broadband began in 2000 with a broadband pilot program, established with the help of a \$100 million loan program authorized by the President of the United States and Congress. The program provided loan funds to rural communities with up to 20,000 residents. During the first year, Rural Development approved 12 loans for the entire \$100 million. In addition, an extra \$80 million was provided by the Agriculture Appropriations Act of 2002, and a total of 16 loans were approved during the second year of the pilot program.

In total, the pilot program delivered 28 loans with \$180 million based in 20 States. The pilot program was successful because it allowed the agency to quickly implement a program and get an idea of what the needs and interests were for broadband.

The program has, and will continue, to facilitate deployment of broadband in rural areas. Currently, 40 percent of the projects financed under this program are successfully completed. However, the pilot approach did



Rural Broadband

The broadband loans serve a total 1,263 communities of 582,000 household subscribers.

not include the risk-mitigating rules that are in place today with regard to equity and loan security. As a result, approximately 30 percent of the pilot loans defaulted. Rural Development continues to work with these borrowers to negotiate financial arrangements to repay the loans. Rural Development used the experience as a learning tool by applying those valuable lessons learned to the Broadband Loan Program that exists today.

CURRENT PROGRAM

The current USDA Rural Development Broadband Program was established by the 2002 Farm Bill. The program is designed to facilitate the delivery of broadband services to rural America, ensuring that the organization is making sound lending decisions and positively investing taxpayer dollars.

Since its inception, the program has approved 70 loans in 40 states, totaling over \$1.22 billion. The broadband loans serve 1,263 communities with a total of 582,000 household subscribers. Approximately 40 percent of these communities were unserved at the time of the loan approval, and an additional 15 percent had only one provider.

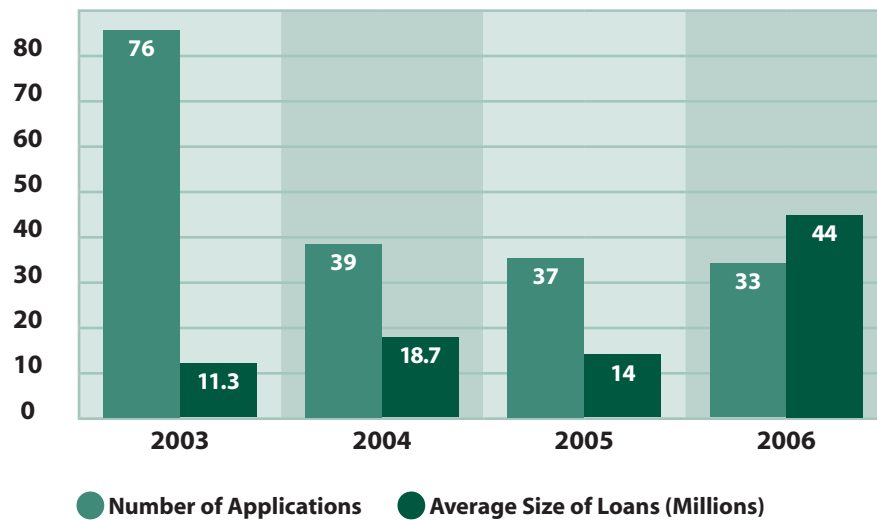
Moreover, the current portfolio of active projects serves 987 communities with 38 loans in progress, 15 in initial start-up phase, and 5 loans rescinded. There are eight completed projects in Kansas, Louisiana, Michigan, North Dakota, Nebraska, South Dakota, Texas, and Washington.

The program is committed to bringing solutions to rural America and works hard to ensure that approved loans are likely to result in new service to rural residents and businesses. As of April 2007, the program received and reviewed nearly 200 applications. More than 100 were returned because applicants were unable to generate the minimum equity required to support the project and/or had incomplete or unsubstantiated business plans.



Over time, the number of returned applications has decreased as USDA Rural Development provided tools and assistance to loan applicants.

NUMBER OF APPLICATIONS VS. SIZE OF LOAN



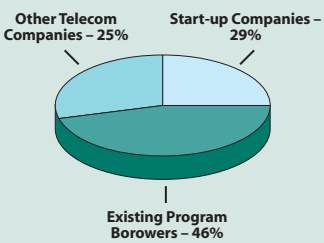
Demand to participate in the program is high, with pending fund requests currently at \$981 million. Compared with previous years, fewer applications are being filed, but the requests that come in are for multicomunity or larger regional projects. Therefore, the average size of loans requested is increasing.



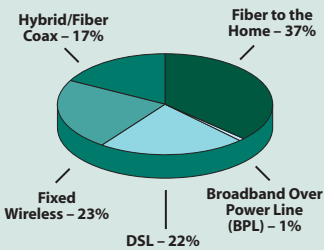
Success Across Rural America

TECHNOLOGIES/TYPES OF ORGANIZATIONS
 As the Rural Development Broadband Program is "technology neutral," a variety of technologies have been deployed by its borrowers. In addition, USDA Rural Development makes loans to diverse organizations.

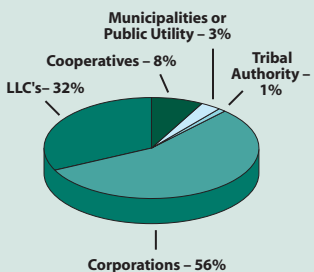
Types of Business Models



Technologies Approved



Types of Organizations



The following are two examples of how broadband positively affected rural communities in Michigan and Kansas. Broadband technology brought much needed growth and opportunity for businesses, residents, and students.

AIR ADVANTAGE

February 2003

Two Broadband Loans – \$1,528,000

Two Community Connect Grants – \$433,708

Air Advantage, founded in 2002, provides high-speed wireless Internet service to Michigan's "thumb" area. Scott Zimmer, president of Air Advantage, worked with schools and saw the need for students to have broadband access. Zimmer investigated how to make it happen. USDA Rural Development came to the rescue and assisted Air Advantage with two Community Connect Grants and two Broadband Loans. Air Advantage now serves 3,500 customers in four counties in Michigan, with another 1,000 customers projected under the second Broadband Loan.

The 300 miles of wireless backbone and 2,500 square miles of coverage have improved the lives of many rural Michigan residents. One facility that benefited from the broadband technology is the Columbia Township Library. What was once a one-room schoolhouse converted into a library in 1965 is now a brand new library that offers a host of services to local residents. Since 2005, the library computer lab has averaged more than 350 users (out of 605 area residents) per month. In addition, the increased use of the library and computer lab has given the facility an opportunity to offer community programs, such as a young reader program and community outreach programs.

Another successful result of the broadband technology involves the implementation of a distance learning program with seven school districts. This project has connected the schools via wireless broadband technologies and has allowed them to share teacher resources, giving



students more educational opportunities. The distance learning program would not be available without the equipment obtained through the Distance Learning and Telemedicine Grant Program from USDA Rural Development. Some key offerings that have come about because of this program are foreign language and Advanced Placement courses that were not offered to students previously. Distance learning makes these courses available to all Huron County students because one teacher in one district can provide instruction to students in multiple districts.

There are more than 50 students in Huron County enrolled in college-level courses while attending high school. These dual enrollment options are available because of the distance learning equipment. This program prepares the student for college, eliminates the need for driving up to 60 miles for this instruction, and permits the student to participate in these courses.

Thanks to Air Advantage and USDA Rural Development, the citizens of rural Michigan now have extensive opportunities to grow and thrive in their community.

NEX-TECH

November 2004

Two Broadband Loans – \$6,574,000

Nex-Tech, a subsidiary of Rural Telephone, a leader in the telecommunications industry, has brought broadband, video, and voice services to towns throughout rural Kansas and has changed the future of these towns indefinitely. The Broadband Loans through USDA Rural Development allowed Nex-Tech to bring high-speed data connections to communities that had little or no connectivity. As a result of these long- and short-term economic benefits, these towns flourished.

Broadband technology allowed businesses to grow and expand, which provided a catalyst to hire and train more workers from the area. Prior to

“I could write a book about all of the wonderful things Rural Development has done for our company and our communities.”

– Scott Zimmer



Nex-Tech, these businesses were using a slow dial-up connection that was not an efficient means of meeting business demands. The future development of these businesses relied on broadband becoming available, and some companies were even considering relocating if they did not get access.

For example, Osborne Industries, a company that has been in operation for more than three decades, was considering leaving the town of Osborne due to the lack of broadband availability. Since Nex-Tech's overbuild, Osborne Industries has expanded its product line and is able to reach markets throughout the United States, Canada, Europe, and Asia. Transitioning to electronic files has made ordering, servicing, and accounting more efficient. The company supports 112 employees.

Fiber optics and broadband Internet have played an important role in attracting and retaining residents and businesses to the Phillips County area. Since the new technology, there has been a slight increase in school enrollment across the three school districts in the county. The population is estimated to be increasing with new home construction on the rise and a variety of businesses that are expanding and relocating to the area. For instance, a \$54 million ethanol plant that employs 34 people was built in Phillipsburg after broadband became available.

Numerous improvements have been made with regard to high-speed Internet connections, allowing businesses to operate more efficiently and allowing executives to work from home through a virtual private network (VPN). Nex-Tech and USDA Rural Development understand the importance of community development and have a long-term vision for rural communities by continuing to grow and expand their advanced data services to reach more residents.

Program Improvements



Although the Broadband Program is working as Congress intended with \$1.22 billion invested to date, changes are being made to improve results.

Under the current Broadband Program, USDA Rural Development has:

- Reduced processing times from an average of 331 days to 181 days.
- Reallocated 11 employees from other program areas to ensure pending applications are reviewed sooner.
- Improved access to program information by:
 - Creating a new USDA Rural Development Web link on the Federal Communications Commission (FCC) rural homepage.
 - Redesigning the program Web site for easier navigation and improved usability.
 - Posting weekly information about pending and approved broadband loans on the program Web site.
 - Posting a Traditional Borrower listing that allows applicants to identify areas that may be ineligible for funding.

In addition, the Program is reviewing its processes and procedures to identify improvement or streamlining opportunities.



Steps Toward Change

USDA Rural Development is committed to improving the Broadband Loan Program's effectiveness. To better meet the needs of rural America, Rural Development has proposed a series of improvements to the Broadband Program. The proposed rule modifications are designed to:

- Promote deployment to rural areas with little or no service.
- Limit funding in urban areas where a significant share of the market is served by incumbent providers.
- Ensure that residents in funded areas get broadband access more quickly.
- Clarify and streamline the equity and marketing survey requirements.
- Increase the transparency of the application process.
- Promote a better understanding of all application requirements.
- Ensure that projects funded are keeping pace with increasing demand for bandwidth.

ADVOCATE FOR RURAL AMERICA

USDA Rural Development is the advocate for rural America and has been for many decades. Its Broadband Program supports that effort with its vision for rural communities — to have access to affordable, reliable, advanced communications services to provide a healthy, safe, and prosperous place to live and work. With the continued support and dedicated efforts of USDA Rural Development employees along with the residents of the rural communities they assist, this vision is becoming a reality.

Over the years, USDA Rural Development has established expertise in the broadband arena and employed a team-focused approach to improving life in rural communities. Currently, the Broadband Program is administered by a staff of engineers and loan analysts who understand the industry and its unique challenges. Existing USDA Rural Development distribution

Advocate for Rural America



systems also support the broadband effort with field representatives and offices in all 50 states. The program staff provides financial and engineering support to applicants prior to and after filing, while state offices, field representatives, and headquarters staff conduct broadband workshops frequently to inform potential applicants and community leaders about the program and the benefits of broadband. To date, the program has conducted 23 broadband workshops in addition to many other outreach events.

LOOKING FORWARD

USDA Rural Development is committed to the future of rural communities, ensuring they are great places in which to live, work, and raise families. It has made great progress in bringing broadband to rural America, but there is much more to do. The organization will continue to refine the Broadband Program so that more rural residents and businesses can receive the economic and social benefits that broadband creates in their communities. In addition, it will continue to rely on the close support and dedicated efforts of the residents within those rural communities to help facilitate those investments. With this partnership, broadband will be an integral part of life in rural communities across the country, providing the economic benefits of the city with the high quality of life typically found in the heart of rural America.



Committed to the future of rural communities.