

bear interest at a single rate for each interest rate term. All interest rates applicable to municipal rate loans will be increased by one eighth of one percent (0.125 percent), if the borrower elects to include in the loan agreement a prepayment option (call provision), allowing the borrower to prepay all or a portion of an advance on a date other than a rollover maturity date. However, no interest rate for any advances of a loan to a borrower who qualifies for the interest rate cap may exceed 7 percent.

(b) *Hardship rate loans.* All advances of funds on hardship rate loans shall bear interest at a rate of 5 percent.

(c) *Application procedure.* The borrower's board resolution submitted with the loan application must indicate whether the application is for a municipal rate loan, with or without the interest rate cap, or a hardship rate loan. If the application is for a municipal rate loan, the board resolution must also indicate whether the borrower intends to elect the prepayment option.

[58 FR 66260, Dec. 20, 1993, as amended at 67 FR 16969, Apr. 9, 2002]

§ 1714.5 Determination of interest rates on municipal rate loans.

(a) RUS will post on the RUS website, Electric Program HomePage, a schedule of interest rates for municipal rate loans at the beginning of each calendar quarter. The schedule will show the year of maturity and the applicable interest rates in effect for all funds advanced on municipal rate loans during the calendar quarter and all interest rate terms beginning in the quarter. All interest rates will be adjusted to the nearest one eighth of one percent (0.125 percent).

(b) The rate for interest rate terms of 20 years or longer will be the average of the 20 year rates published in the Bond Buyer in the 4 weeks specified in paragraph (d) of this section for the "11-Bond GO Index" of Aa rated general obligation municipal bonds, or the successor to this index.

(c) The rate for terms of less than 20 years will be the average of the rates published in the Bond Buyer in the 4 weeks specified in paragraph (d) of this section in the table of "Municipal Mar-

ket Data—General Obligation Yields" for Aa rated bonds, or the successor to this table, for obligations maturing in the same year as the interest rate term selected by the borrower.

(d) The interest rates on municipal rate loans shall not exceed the interest rate determined under section 307(a)(3)(A) of the Consolidated Farm and Rural Development Act (7 U.S.C. 1927(a)(3)(A)) for Water and Waste Disposal loans. The method used to determine this rate is set forth in the regulations of the Farmers Home Administration (FmHA) at 7 CFR 1942.17(f) (1) and (4). Pursuant to the FmHA rule, the interest rates are set using as guidance the average of the Bond Buyer Index for the four weeks prior to the first Friday of the last month before the beginning of the quarter. Information about the Bond Buyer is available by writing Bond Buyer, One State Street Plaza, New York, NY 10004-1549, or by calling 1-800-982-0633.

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§ 1714.6 Interest rate term.

(a) *Municipal rate loans.* Selection of interest rate terms shall be made by the borrower for each advance of funds. The minimum interest rate term shall be one year. RUS will send the borrower written confirmation of each rollover maturity date and the applicable interest rate.

(1) The initial interest rate term will begin on the date of the advance. All rollover interest rate terms will begin on the first day of a month, and except for the last interest rate term to final maturity, shall end on the last day of a month. All terms except for the initial interest rate term on an advance, and the last term to final maturity shall be in yearly increments.

(2) The following limits apply to the number of advances of funds that may be made to the borrower on any municipal rate loan:

(i) If the loan period is 2 years or less, not more than 6 advances;

(ii) If the loan period is more than 2 years, not more than 8 advances.

(3) For the initial interest rate term of an advance, a letter from an authorized official of the borrower indicating