

## § 1703.21

(8) To pay the salaries of any employee or owner of the Borrower, its subsidiaries, or affiliates. This restriction does not prohibit the use of loan or grant funds for printing and similar costs for project feasibility studies it has prepared, commissioned or purchased if specifically approved by the Administrator. This restriction is subject to the operating expense allowance for revolving loan funds set forth in §1703.22 (a)(6);

(9) To fund feasibility studies and technical assistance as set forth in §1703.18 independently of projects which are funded under the zero-interest loan and grant program;

(10) For community antenna television systems or facilities except as provided in §1703.17(d) of this subpart;

(11) For proposed projects located in areas covered by the Coastal Barrier Resources Act (16 U.S.C. 3501 *et seq.*); or

(12) For anything other than an approved purpose.

(b) [Reserved]

[59 FR 11707, Mar. 14, 1994, as amended at 59 FR 53930, Oct. 27, 1994]

### § 1703.21 Limitations on the use of zero-interest loan and grant funds.

(a) A borrower may not charge interest for the use of the proceeds of the zero-interest loan provided under this program; however, it may charge reasonable loan servicing charges, reasonable legal fees involved in providing the RUS funds to the recipient, and the amount paid for an irrevocable letter of credit made payable to RUS and issued on behalf of the borrower that guarantees repayment of an RUS zero-interest loan, all as determined by the Administrator. A borrower may require the recipient of a pass-through-loan to provide and/or obtain adequate security for the zero-interest loan funds.

(b) A borrower must calculate any costs to charge in connection with the use of grant funds under this program for the project and must temporarily deposit the grant funds in accordance with 7 CFR parts 3015, Uniform Federal Assistance Regulations, and 3016, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, as appropriate. Grant funds will be dis-

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bursed to the Borrower in accordance with §1703.61(b).

(c) A borrower may not make a profit from any zero-interest loan or grant provided from the subaccount, with the exception of the \$500 interest income exclusion in paragraph (d) of this section.

(d) The Borrower may not requisition zero-interest loan funds unless those funds are deposited into the Borrower's RUS construction fund trustee account. The Borrower will be required to set up a separate Federally insured account called the Rural Economic Development Account, if loan funds are not expected to be disbursed within two months after receipt from RUS. All interest earned on temporarily deposited zero-interest loan funds in excess of \$500 per 12-month period must be used for approved purposes or returned to RUS. Interest earned in excess of \$500 per 12 month period and returned to RUS will not be used to reduce the Borrower's principal indebtedness. Grant funds will be disbursed by RUS in accordance with 7 CFR parts 3015 and 3016, and §1703.61(b).

(e) The borrower may not condition the receipt of the proceeds of a zero-interest loan or grant under this subpart with the requirement that the recipient take electric or telephone service from the borrower.

[57 FR 44317, Sept. 25, 1992, as amended at 59 FR 11708, Mar. 14, 1994]

### § 1703.22 Revolving loan program.

Grant funds under this section will be provided only to RUS Borrowers on a non pass-through basis. RUS Borrowers will, in turn, provide loans to foster rural economic development in accordance with this subpart and the specific requirements of this section.

(a) *General.* Grant funds disbursed to RUS Borrowers to establish revolving loan programs under this section are subject to the following requirements:

(1) The uses, restrictions and limitations for zero-interest loans set forth in §§1703.17, 1703.20 and 1703.21 respectively;

(2) Loans made by RUS Borrowers initially lending grant funds disbursed by RUS are limited to types of projects specified in §1703.18 (d), (e), (f), (g) and

(h). Loans may also be made for feasibility studies and technical assistance in accordance with §1703.18 (b) and (c), respectively, but only for those types of projects specified in this paragraph (a)(2). Loans made from repayments of the initial loans made by RUS Borrowers may be used for any rural economic development purpose in accordance with a prior agreement between the Borrower and RUS;

(3) All other requirements relevant to zero-interest pass-through loans and grants outlined in this subpart, except the minimum size of a zero-interest loan as specified in §1703.28(f);

(4) The initial loans made from the revolving loan fund using the grant funds must carry an interest rate of zero percent; however, loans made from repayments of the initial loan may carry an interest rate in accordance with prior agreement with RUS. In either case, the Borrower may charge reasonable loan servicing fees;

(5) The Borrower will provide a board resolution certifying a commitment to provide and maintain additional funding to the revolving loan fund in an amount no less than 20 percent of the RUS grant approved. The Borrower will provide documentation that the additional funding has been deposited in the appropriate account in §1703.22(h)(1) prior to grant disbursement. This requirement does not pertain to supplemental funding requirements for individual projects as set forth in §1703.23. Additional funding required in this paragraph pertains only to borrowers establishing revolving loan funds, with the following provisions:

(i) Use of additional funding is subject to requirements set forth in paragraph (b) of this section and with RUS concurrence;

(ii) Individual projects funded under this section are subject to supplemental funds requirements set forth in §1703.23;

(iii) At the Borrower's option with RUS concurrence, all or a portion of the additional funding may be used to assist project owners receiving funding from Federal grant funds under this section to meet their supplemental funding requirements set forth in §1703.23 of this subpart. Such addi-

tional funding will be deemed as Federal funds and accounted for in accordance with paragraph (h)(1)(i)(A) of this section for electric borrowers or paragraph (h)(1)(ii)(A) of this section for telephone borrowers, as appropriate;

(iv) At the Borrower's option, all or a portion of the additional funding may be retained as non-Federal funds, for any rural economic development project(s), subject to paragraph (g) of this section and RUS concurrence. Additional funding committed as non-Federal will be accounted for in accordance with paragraph (h)(1)(i)(E) of this section for electric borrowers or paragraph (h)(1)(ii)(E) of this section for telephone borrowers, as appropriate;

(6) Grant funds will only be provided to an RUS Borrower for a revolving loan program when a proposed budget submitted to RUS demonstrates and the Borrower agrees in writing that no more than 10 percent of grant funds received are used to cover operating expenses of the revolving loan program. Operating expenses include the costs of administering the revolving loan fund and the provision of technical assistance to project owners. All proceeds in excess of those needed to cover authorized expenses, as described above, must revert to the revolving fund and be available for re-lending for eligible projects. Budgets which reflect expenses incurred in operating the fund must be submitted to RUS annually;

(7) The Borrower may charge reasonable loan servicing charges. For purposes of this section, loan servicing charges must not exceed an amount equal to the sum of one percent per year of the outstanding principal on the first day of each year on each project owner's zero-interest loan which is made from the RUS grant proceeds;

(8) The Borrower will submit documentation indicating that potential projects which are eligible for funding have sufficiently progressed in the planning stage to allow grant funding approved for a revolving loan program to be requisitioned by the Borrower, disbursed by RUS, and loaned to recipients within 3 years of the date of grant approval by RUS. Grant funds that have not been requisitioned within 3

years will be cancelled, unless the Administrator has approved an extension in writing. Grant funds will be disbursed by RUS in accordance with paragraphs (d) and (g) of this section;

(9) If the revolving loan program is terminated, further disbursement of grant funds will be cancelled. Repayments of loans made using grant funds which have been disbursed will be used in accordance with the Borrower's rural development plan;

(10) Payment of creditors which provide interim or construction financing to a viable project for eligible purposes as set forth in §1703.18 of this subpart may be authorized. Refinancing for the sole purpose of replacing higher interest conventional financing with zero-interest revolving loan funds is not authorized.

(b) *The Borrower's rural development plan.* RUS requires that the revolving loan program be administered in accordance with a rural development plan, developed by the Borrower and approved by RUS. The plan must be of sufficient detail to provide RUS with a complete understanding of what the Borrower intends to accomplish by administering a revolving loan program. The rural development plan will provide the mechanics of how the revolving loan funds will be disbursed to the project owner. The rural development plan must outline the Borrower's plans for administering the revolving loan program, during the initial period when RUS grant funds are lent by the Borrower and after the revolving fund becomes non-Federal in accordance with paragraph (g) of this section. The plan must outline the following:

(1) Specific objectives for the revolving loan program, revolving loan operating procedures, lending parameters, maximum and minimum loan amount, and types of projects to be funded;

(2) Documentation of Borrower's coordination of lending activities with other local entities that provide financing for rural economic development projects. Such documentation will indicate that the Borrower will not compete with, but supplement other sources of legal financing;

(3) Eligibility criteria if other than outlined in this subpart;

(4) The application process and method of disposition of the funds to the project owner; and

(5) A procedure for monitoring the project owner's accomplishments and reporting requirements by the project owner's management.

(c) *The Borrower's scope of work.* Borrowers applying for grant funding under this section must submit a scope of work to RUS. Applications for grants under this section will be evaluated for funding based on the Borrower's rural development plan in paragraph (b) of this section and the scope of work. The scope of work must contain the following items:

(1) Documented need for grant funds. The Borrower must identify a sufficient number of rural development projects of the type specified in §1703.18 (d), (e), (f), (g), and (h) which are currently being planned requiring zero-interest loans equal to the amount of grant assistance requested from RUS. These projects may be supported with a community facilities plan, or other development plan, prepared by local community leaders in cooperation with the Borrower. For each project, the Borrower will submit information required under §1703.34;

(2) Documented authority and ability of the Borrower to administer a revolving rural development loan program in accordance with the provisions of this subpart. The Borrower must provide a complete listing of all personnel responsible for administering this program along with a statement of their qualifications and experience;

(3) Documented ability of the Borrower to commit financial resources under the control of the Borrower to assist in the establishment of a rural development revolving loan program. This should include a statement of the sources of funding for the administration of the Borrower's operations, as well as financial and technical assistance for projects;

(4) Documentation that the Borrower has secured commitments of significant financial support from public agencies and/or private organizations for supplemental funding to support a rural development loan program;

(5) A list of proposed fees and other charges the Borrower will assess the projects it funds; and

(6) The Borrower's rural development policy for non-Federal funds in accordance with paragraphs (b) and (g) of this section.

(d) *Grant processing and approval.* Applications for grants to establish revolving loan funds will be reviewed in accordance with §§1703.45 and 1703.46, and with the Borrower's rural development plan and scope of work outlined in paragraphs (b) and (c) of this section. Grants will be processed in accordance with §§1703.58 and 1703.59.

(e) *Disbursement of grant funds.* Borrowers are not authorized to commence projects to be funded under this section until those projects have been submitted for authorization in accordance with paragraph (c)(1) of this section, or the projects have been submitted for authorization subsequent to grant approval in accordance with paragraph (e)(2) of this section. RUS grant funds will be disbursed on a reimbursement basis. However, upon written justification by borrowers and approval by the Administrator, borrowers unable to fund projects under reimbursement provisions, for financial or other extraordinary reasons, may receive grant funds under the special disbursement method by submitting unpaid invoices from project owners, and grant funds will be disbursed to borrowers and passed directly to project owners. In either case, RUS grant funds will be disbursed in accordance with the provisions of 7 CFR Part 3015, Uniform Federal Assistance Regulations, the applicable requirements of this subpart, the administrative provisions outlined in paragraph (g) of this section, and the following requirements:

(1) Only projects authorized by RUS in accordance with paragraphs (c)(1) and (e)(2) of this section, for which adequate documentation is submitted, including receipts for expenditures under the reimbursement method or unpaid invoices under the special disbursement method, as applicable, and certification of approved purposes, will be considered for disbursement;

(2) A project which was not submitted prior to grant approval in accordance with paragraph (c)(1) of this

section, may be authorized for funding subsequent to grant approval. A project which is authorized for funding under this paragraph will be considered for disbursement at the first allowable time period after project authorization in accordance with paragraphs (e)(3) and (e)(4) of this section. Project authorization after grant approval is subject to the following requirements:

(i) The project meets the specific objectives for the Borrower's revolving loan program as outlined in paragraph (b)(1) of this section;

(ii) The Borrower presents evidence that the project requested for authorization can be funded prior to projects which were authorized prior to grant approval in accordance with paragraph (b)(1) of this section; and

(iii) RUS approves the project for funding in accordance with §1703.34;

(3) Under the reimbursement method, grant funds requisitioned for individual projects in increments of less than \$100,000, or less than 25 percent of the amount approved for the revolving loan fund, whichever is less, may be disbursed semi-annually. Submission periods for requisitioning grant funds on a semi-annual disbursement basis will be 14 days commencing from the 6-month anniversary date of grant approval. Grant funds under the special disbursement method will be requisitioned in accordance with the applicable provision in paragraph (e)(4) of this section;

(4) For the reimbursement method, grant funds requisitioned for individual projects in increments of \$100,000 or greater, or at least 25 percent of the amount approved for the revolving loan fund, whichever is less, may be submitted for disbursement at any time. Under the special disbursement method, grant funds of less than \$100,000 may be requisitioned for disbursement at any time. However, the minimum requisition will be \$50,000, or the total grant award, whichever is less.

(f) *Reporting requirements.* (1) The Borrower must maintain financial management systems and retain financial records in accordance with 7 CFR part 3015, Uniform Federal Assistance Regulations.

(2) Borrower records must include an accurate accounting and source documentation to support each transaction

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involving the revolving loan fund. Records are subject to a rural economic loan review as set forth in §1703.66(g).

(3) SF-269, "Financial Status Report," and a revolving loan program activity report will be required of all Borrowers on an annual basis. Reports will be submitted no later than 90 days after December 31 of each year. The program activity report will contain an aggregate list of projects funded, the amount funded for each project, the project repayment schedule, a brief description of each project, the project objectives, whether or not the project has been completed, and the projected number of jobs created or saved by each project. Reports under this paragraph will be required until all grant funds have been disbursed and projects completed.

(4) A performance report will be required for each project funded on an annual basis. Performance reports will be due no later than 90 days after December 31 of each year. Performance reports will be submitted until one year after project completion. Project performance reports will contain the following:

(i) A comparison of actual accomplishments during the reporting period to the objectives established for the project and, if not attained, reasons why established objectives were not met;

(ii) Problems, delays, or adverse conditions which will materially affect attainment of planned project objectives, prevent the meeting of time schedules or objectives, or preclude the attainment of project work elements during established time periods. This disclosure shall be accompanied by a statement of the action taken or contemplated to resolve the situation;

(iii) Projected accomplishments for the next reporting period, if applicable; and

(iv) Status of compliance with any special conditions for project funding, if applicable.

(5) Borrowers must report and remit interest earned on advances of grant funds deposited in interest accounts to RUS on a quarterly basis in accordance with 7 CFR part 3015, Uniform Federal Assistance Regulations.

(g) *Non-Federal funds.* Once all RUS-derived grant funds have been utilized by the Borrower to fund rural development projects according to the provisions of this section and the applicable provisions of this subpart, loans made by the Borrower thereafter from repayments to the revolving loan fund shall not be considered as being derived from Federal funds and the requirements of these regulations will not be imposed on the Borrower or project owners. However, the Borrower will, as a condition for receiving a grant under this section, agree to the following conditions:

(1) To maintain a revolving loan account to promote rural economic development in accordance with the Borrower's rural development plan for non-Federal funds submitted in accordance with paragraph (b) of this section;

(2) To maintain the additional funding supplied by the Borrower in accordance with paragraph (a)(5) of this section and interest earnings within the revolving loan fund;

(3) Approval may be granted by the Administrator to terminate the revolving loan program, or modify the requirements set forth in paragraphs (g)(1) and (g)(2) of this section, upon written request and justification by the Borrower. Should the Borrower terminate the revolving loan program without obtaining approval by the RUS Administrator, the Borrower will return the amount of the original grant to RUS.

(h) *Administrative provisions.* The requirements of this paragraph set forth the procedures for accounting, requisitioning and disbursement of Federal funds, those funds initially disbursed for projects which may be funded in accordance with an approved rural development plan and scope of work submitted by the Borrower. Disbursement of grant funds will be approved on a reimbursement basis after the grant agreement is executed by RUS and the Borrower, the applicable provisions of this subpart are met, subject to disbursement restrictions in paragraph (e) of this section, and the requirements in paragraphs (h) (1) through (3) of this section.

(1) *Accounting requirements.* Accounting will be performed in accordance

with 7 CFR part 1767, Accounting Requirements for RUS Electric Borrowers, or 7 CFR part 1770, Accounting Requirements for RUS Telephone Borrowers, as appropriate. The Borrower will maintain accounts for the revolving funds as follows:

(i) *RUS electric Borrowers.* (A) A general ledger Account 131.13, “Cash-General—Economic Development Grant Funds.” The Borrower will debit this account in an amount equal to the amount of the grant received from RUS, any additional funds deemed Federal from the Borrower as required by paragraph (a)(5)(iii) of this section, and all other funds advanced for the project, regardless of the source, if controlled by the Borrower. The Borrower will credit this account for all expenditures made with Federal funds on behalf of the rural development project.

(B) A general ledger Account 124.1, “Other Investments—Federal Economic Development Loans.” The Borrower will debit this account in the amount of Federal funds the Borrower advances to non-associated organizations for authorized rural economic development projects. For each debit in this account, a corresponding credit will be made in Account 131.13 in paragraph (h)(1)(i)(A) of this section. This account will be credited with repayments of loans made with Federal economic development grant funds.

(C) A general ledger Account 123.3, “Investment in Associated Companies—Federal Economic Development Loans.” The Borrower will debit this account in the amount of Federal funds the Borrower advances to associated organizations for authorized rural economic development projects. For each debit in this account, a corresponding credit will be made in Account 131.13 in paragraph (h)(1)(i)(A) of this section. This account will be credited with repayments of loans made with Federal economic development grant funds.

(D) Account 421, “Miscellaneous Non-operating Income.” The Borrower will credit this account in the amount of grant funds disbursed by RUS resulting from an approved requisition request in accordance with paragraph (h)(2) of this section.

(E) A general ledger Account 131.14, “Cash-General—Economic Develop-

ment Non-Federal Revolving Funds.” The Borrower will debit this account with any additional funds deemed non-Federal from the borrower as required by paragraph (a)(5)(iv) of this section, cash received from the repayment of loans made from accounts in paragraphs (h)(1)(i)(B), (h)(1)(i)(C), (h)(1)(i)(F), and (h)(1)(i)(G) of this section. The Borrower will credit this account to reflect loans made for rural economic development projects from non-Federal funds from accounts specified in paragraphs (h)(1)(i)(F) and (h)(1)(i)(G) of this section.

(F) A general ledger Account 124.2, “Other Investments—Non-Federal Economic Development Loans.” The Borrower will debit this account in the amount of non-Federal funds the Borrower advances to non-associated organizations for authorized rural economic development projects. For each debit in this account, a corresponding credit will be made in Account 131.14, in paragraph (h)(1)(i)(E) of this section. This account will be credited with repayments of loans made from non-Federal economic development funds.

(G) A general ledger Account 123.4, “Investment in Associated Companies—Non-Federal Economic Development Loans.” The Borrower will debit this account in the amount of non-Federal funds the Borrower advances to associated organizations for authorized rural economic development projects. For each debit in this account, a corresponding credit will be made in Account 131.14, in paragraph (h)(1)(i)(E) of this section. This account will be credited with repayments of loans made from non-Federal economic development funds.

(H) A general ledger Account 171 “Interest and Dividends Receivable.” The Borrower will debit this account with the amount of interest earned on the revolving loan fund. The Borrower will credit this account and debit the appropriate cash account when the cash is received.

(I) A general ledger Account 419, “Interest and Dividend Income.” The Borrower will credit this account with the amount of interest earned on the revolving loan fund.

(ii) *RUS telephone Borrowers.* (A) A general ledger Account 1130.4, “Cash—

General Fund—Economic Development Grant Funds (Class A Companies)”, or Account 1120.14, “Cash—General Fund—Economic Development Grant Funds (Class B Companies).” The Borrower will debit the appropriate account in an amount equal to the amount of the grant received from RUS, any additional funds deemed Federal from the Borrower required by paragraph (a)(5)(iii) of this section, and all other funds advanced for the project, regardless of the source, if controlled by the Borrower. The Borrower will credit the appropriate account for all expenditures made with Federal funds on behalf of the rural development project.

(B) A general ledger Account 1402.4, “Other Investments in Nonaffiliated Companies—Federal Economic Development Grant Loans.” The Borrower will debit this account in the amount of Federal funds the Borrower advances to nonaffiliated organizations for authorized rural economic development projects. For each debit in this account, a corresponding credit will be made in the appropriate account in paragraph (h)(1)(ii)(A) of this section. This account will be credited with repayments of loans made from Federal economic development grant funds.

(C) A general ledger Account 1401.1, “Other Investments in Affiliated Companies—Federal Economic Development Grant Loans.” The Borrower will debit this account in the amount of Federal funds the Borrower advances to affiliated organizations for authorized rural economic development projects. For each debit in this account, a corresponding credit will be made in the appropriate account in paragraph (h)(1)(ii)(A) of this section. This account will be credited with repayments of loans made from Federal economic development grant funds.

(D) Account 7360, “Other Non-operating Income (Class A Companies)”, or Account 7300, Non-operating Income and Expense (Class B Companies), as appropriate. The Borrower will credit these accounts, as appropriate, in the amount of grant funds disbursed by RUS resulting from an approved requisition request in accordance with paragraph (h)(2) of this section.

(E) A general ledger Account 1130.5, “Cash—General Fund—Economic De-

velopment Non-Federal Revolving Funds (Class A Companies)”, or Account 1120.15, “Cash—General Fund—Economic Development Non-Federal Revolving Funds (Class B Companies)”, as appropriate. The Borrower will debit the appropriate account with any additional funds deemed non-Federal from the Borrower as required by paragraph (a)(5) of this section, cash received from the repayment of loans made from accounts in paragraphs (h)(1)(ii)(B), (h)(1)(ii)(C), (h)(1)(ii)(F), and (h)(1)(ii)(G) of this section. The Borrower will credit the appropriate account to reflect loans made for rural economic development projects from non-Federal funds from accounts specified in paragraphs (h)(1)(ii)(F) and (h)(1)(ii)(G) of this section.

(F) A general ledger Account 1402.5, “Other Investments in Nonaffiliated Companies-Non-Federal Economic Development Grant Loans.” The Borrower will debit this account in the amount of non-Federal funds the Borrower advances to nonaffiliated organizations for authorized rural economic development projects. For each debit in this account, a corresponding credit will be made in the appropriate account in paragraph (h)(1)(ii)(E) of this section. This account will be credited with repayments of loans made from non-Federal economic development funds.

(G) A general ledger Account 1401.2, “Other Investments in Affiliated Companies—Non-Federal Economic Development Grant Loans.” The Borrower will debit this account in the amount of non-Federal funds the Borrower advances to affiliated organizations for authorized rural economic development projects. For each debit in this account, a corresponding credit will be made in the appropriate account in paragraph (h)(1)(ii)(E) of this section. This account will be credited with repayments of loans made from non-Federal economic development funds.

(H) A general ledger Account 1210, “Interest and Dividends Receivable.” The Borrower will debit this account with the amount of interest earned on the revolving fund loan. The borrower will credit this account and debit the appropriate cash account when the cash is received.

(I) A general ledger Account 7320, "Interest Income (Class A Companies)", or Account 7300.2, "Interest Income (Class B Companies)", as appropriate. The Borrower will credit this account with the amount of interest earned on the revolving fund loans.

(2) *Requisition requirements.* Grant funds may be requisitioned by RUS Borrowers in accordance with disbursement requirements in paragraph (e) of this section. Borrowers will be fully reimbursed for funds expended for approved projects funded. For each completed project, the Borrower will submit the following for reimbursement:

(i) Standard Form 270, "Request for Advance of Reimbursement";

(ii) Copies of cancelled checks and other verifiable source records supporting the transactions; and

(iii) Certification and evidence that the project costs to be reimbursed are for a project which has been authorized by RUS and are authorized costs for that project.

(3) *RUS review.* Requisition requests will be evaluated for compliance with loan purposes previously submitted by the Borrower for project authorization in accordance with paragraphs (c)(1) or (e)(2) of this section, compliance with the Borrower's rural development plan, accounting documentation submitted in paragraph (h)(1) of this section, and the cancelled checks and source records submitted.

[59 FR 11708, Mar. 14, 1994, as amended at 59 FR 38341, July 28, 1994; 59 FR 53931, Oct. 27, 1994]

**§ 1703.23 Supplemental funds requirements for zero-interest loans and grants.**

The Administrator will not select an application unless the project will receive supplemental funds in an amount at least equal to 20 percent of the RUS zero-interest loan and grant to be provided to the project, as determined by the Administrator. Supplemental funds as used in this section may come from the project owner in the form of equity funds, private sources, state and local government sources, other Federal Government sources, the borrower or other sources. Only supplemental funds that will be provided to the project after the date RUS receives the bor-

rower's completed application may be used to satisfy this requirement. Supplemental financing must be verified and committed to the project in form and substance satisfactory to the Administrator before RUS will advance any funds.

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**§ 1703.25 Significance of RUS financing to the total project cost.**

Selection of applications will be based on a preference for applications requesting RUS financing which will be at least equal to 5 percent of the total project costs, as determined by the Administrator. Projects costs will be based on the amount that would be spent over the first 2 years after the first advance of RUS funds for the component or phase of the undertaking for which the borrower is requesting RUS funds, as determined by the Administrator. The Administrator may determine that a component or phase, especially actions necessary to initiate a larger project, constitute a distinct project for the purposes of this section.

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**§ 1703.27 Owner's equity in the project.**

The Administrator may require, as a condition to RUS financing, that the owner(s) of the project invest equity capital if determined to be financially necessary, based on an RUS financial analysis and sound lending practices.

**§ 1703.28 Maximum and minimum sizes of a zero-interest loan or grant application.**

(a) The maximum size of an application that will be considered for funding under this subpart during a fiscal year will be 3 percent of the projected total amount available for the zero-interest loans or grants under section 313 of the Act during that fiscal year, rounded to the nearest \$10,000. This determination will be made by the Administrator for each fiscal year.

(b) Regardless of the projected total amount that will be available, the maximum size may not be lower than \$200,000.

(c) The projected total amount available during a particular fiscal year is calculated as the sum of the projected