

You have asked me here today to talk about the Rural Development Broadband Loan program that was authorized in the 2002 Farm Bill. Several of you expressed thoughts on that program when I testified before, and I appreciate your interest and support.

There is nothing else on the horizon today that offers rural communities the opportunity for economic development and the improved quality of life like the communications revolution, especially broadband. Broadband accessibility is as fundamental for the future of rural communities as railroads and highways were more than a century ago. In today's digital, global economy, broadband and telecommunications cannot be separated from each other.

Information Technology (IT) is producing a dramatic decentralization of information sources. Data can be shared easily across great distances.

To an unprecedented degree people are going to have choices about where to live and how to work. The same is true of businesses. From a rural development perspective, this leverages "Place." It lets you live locally and compete globally.

People no longer need to be in the same building or the same state so they can talk, look at business proposals, or view live pictures of their grandchildren. Business structures, manufacturing, and distribution networks can be located where ever people want to live and work.

This Administration recognizes the potential and the need to seize the opportunity. We are making significant progress toward President Bush's call for universal, affordable access to broadband technology by 2007.

Building broadband is the beginning of this process, not the end. For broadband to have an impact on rural communities, they have to know how to use this technology in their day to day activities. Small businesses and individuals in remote communities can now be just a click away from the global market place. This technology opens doors for business, education and better medical service. With the correct technology and connectivity, you can do business with anyone in the world.

For the Broadband loan program, we adopted the Federal Communications Commission's (FCC) Advanced Services definition of 200 kb in both directions. Moreover, since 2003, we have seen great technological changes in the delivery of high speed communications services.

As I have told some of you before, in the town of Waynesboro, Georgia, my office had broadband. My mechanic, who is located about 100 yards down the road, does not. In my conversation with him, he told me he needs it for his business to locate parts and communicate with customers and suppliers. We have found that car dealerships will move their business if broadband is not available in a town. My wife still tells me on a regular basis that we do not have broadband at my house.

WHAT DOES RURAL DEVELOPMENT OFFER TO BRING BROADBAND TO RURAL CITIZENS?

The programs under the authority of the USDA Rural Development that play a role in bringing

high-speed telecommunications services to Rural America include the telecommunications infrastructure loan program, authorized in 1949, the Rural Broadband Access Loan Program, authorized by the 2002 Farm Bill, the Community Connect Broadband Grant Program, funded through the Distance Learning and Telemedicine Authority, and the Distance Learning and Telemedicine Grant Program, which makes use of high speed telecommunications to provide better quality medical care and improved learning opportunities.

The Rural Broadband Access Loan Program began making loans in 2003. To date, we have approved 57 loan applications for an approximate total of \$872 million to build out broadband access in rural America. The demand for the program remains strong, and we have improved the application process to ensure that we respond to all applications as quickly and as efficiently as possible. Our specialists have reviewed all applications received under this program, and one-third of those applications met the eligibility requirements and received approval for funding. For fiscal year 2006, over \$900 million in broadband loan funding is available for new applications.

The applications that have been approved cover a wide range of technologies including digital subscriber line, fiber to the home, hybrid fiber coax, wireless and broadband over powerline facilities. Of the loans that have been approved approximately 23 percent have been to start-up entities. Other entities receiving loans include existing independent telephone companies, rural telephone cooperatives, cable companies and broadband providers.

Statistics compiled from the approved loans indicate that 41 percent of the communities included in the applications did not have access to broadband service, and in 49 percent of the communities not all residents had access to high speed communications services. The average "take rate" (percentage of those subscribing) for the unserved communities are projected to be 42 percent of households passed and for the underserved communities 12 percent of households passed. (The 12 percent comes from both new users and users that switch from other providers. Information is not yet available for how much overall community use has increased.)

As good stewards of the taxpayers' money, we must make loans that are likely to be repaid. One of the challenges in determining whether a proposed project has a reasonable chance of success is validating the market analysis of the proposed service territory and ensuring that sufficient resources are available to cover operating expenses throughout the construction period until such a time that cash flow from operations become sufficient.

The loan application process that we have developed ensures that the applicant addresses these areas and that appropriate resources are available for maintaining a viable operation. It does no one any good to make a bad loan - not the applicant, not the rural citizens, and not the taxpayer. With this program, and USDA's other rural development programs, we are making an investments in the futures of these communities.

The broadband program authorized by the 2002 Farm Bill has been a challenge. It is a major new program. We are in the third year of loans. Since I was sworn in as Administrator, I have been working with our staff, looking at both the process and the structure of the broadband program. With this review of all aspects of the broadband program, we will make the changes

we can to make this program more user friendly while protecting the taxpayer investment in broadband deployment.

In addition, USDA Rural Development requires any infrastructure built under the traditional telecommunications program to be capable of at least 1 Mbps. This requirement has been in place since the mid 1990s to ensure quality service to rural citizens. USDA's goal is to provide the best quality service possible at a reasonable price for rural citizens.

BROADBAND SUCCESS STORIES

Over a third of the Community Connect Broadband Grants made by USDA Rural Development--27 out of 75--have gone to tribal entities. Other communities with the challenges of distance and time have benefited from this program.

? As one example, the Havasupai--down in the bottom of the Grand Canyon--is the last community in the United States to get mail by mule. In 2005, USDA presented a check for \$1.3 million to install wireless broadband Internet service.

? In Hughes, Alaska, a native village of 78 people received funds for a Community Connect grant for that isolated community.

? One of our recipients, Air Advantage in Michigan, won a U.S. Chamber of Commerce award for their service to the communities receiving broadband service through USDA funding.

Projects like these open the door to economic development. In Hughes, for example, the village is going to use its website to facilitate the sale of arts and crafts as well as value-added seafood products. Residents will also be able to earn income by providing data processing services. Videoconferencing will enhance educational and health care options.

The USDA Broadband programs fit well with not only the other infrastructure programs in electric power and water, but all of the Rural Development initiatives in housing, businesses, community services and cooperative development for stronger rural communities. Improvements in the quality of life for rural citizens, as well as economic development opportunities improve as communities participate in the digital global economy.

The Pew Foundation has done a number of studies on rural broadband deployment. A report that was released in February of 2006, reports some different trends than we have seen in previous years. In the past, we have seen figures that indicated Internet usage was tied to income, education and age.

The numbers we are seeing in this report indicate that availability is the number one factor affecting Internet usage. If broadband service is available, rural citizens and businesses seem to have as high a usage rate as any urban area.

There are some other issues. On average, it costs three times more to provide service to rural customers, than customers located in urban areas. Availability and affordability cannot be separated.

? Competition improves affordability, and often, the quality of service.

Lack of density and the remote nature of many communities add problems not found in urban areas. Problems such as dealing with environmental challenges or providing wireless service through mountainous areas add to the cost of deployment.

SUMMARY

This is a dynamic industry. It seems like someone comes in my office almost once a week with the latest and greatest way to deploy broadband. Broadband is not an end in itself. It is a tool to be used. It helps to bridge the barriers of time and distance that rural America has faced through the years.

This is an exciting time. One village or town ... one business ... one family at a time, Rural America is transforming.

It will not happen overnight--but if we do our jobs right, I am convinced that smaller cities, small towns, and rural areas, have a bright future ahead.

Thank you again for this opportunity to discuss this important part of the USDA Rural Development program.