



FEDERAL COMMUNICATIONS COMMISSION

47 CFR Part 54

[WC Docket Nos. 10-90, 18-143, 19-126, 24-144; AU Docket Nos. 17-182, 20-34; GN Docket No. 20-32; FCC 24-127; FR ID 276861]

Connect America Fund et al.

AGENCY: Federal Communications Commission.

ACTION: Final rule.

SUMMARY: In this document, the Federal Communications Commission (the Commission) makes targeted modifications to the requirements for letters of credit (LOCs) that recipients of Universal Service Fund (USF) high-cost support awarded through a competitive process must obtain.

DATES: Effective [INSERT DATE 30 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER], except for §§ 54.315(c)(2)(i)(B); 54.804(c)(2)(i)(B); 54.1016(a)(2)(i)(B); and 54.1508(c)(1)(ii) which shall be effective August 25, 2025.

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SUPPLEMENTARY INFORMATION: This is a summary of the Commission's Report and Order and Order (*Order*) in WC Docket Nos. 10-90, 18-143, 19-126, 24-144; AU Docket Nos. 17-182, 20-34 and GN Docket No. 20-32; FCC 24-127, adopted on December 11, 2024, and released on December 13, 2024. The full text of this document is available at the following Internet address: <https://www.fcc.gov/document/fcc-modifies-letter-credit-rules-facilitate-broadband-buildout-0>.

I. Discussion

In this document, the Commission makes targeted modifications to the requirements for

letters of credit that recipients of USF high-cost support awarded through a competitive process must obtain. These changes are intended to facilitate accelerated broadband deployment in the areas where it is needed most, while continuing to safeguard our investment of limited USF dollars. First, the Commission modifies its bank eligibility rules for programs that award high-cost support through a competitive process, which will allow winning bidders to obtain qualifying letters from United States banks that meet the “well capitalized” criteria established by Federal bank supervisory agencies. This change will increase the number of banks qualified to issue letters of credit compared to the Commission’s prior standard, which required a B- or better Weiss safety rating, while also ensuring that the Commission only accept letters of credit from financially stable banks. Second, the Commission allows Rural Digital Opportunity Fund (RDOF) support recipients to reduce the value of their letters of credit to one year of their annual support if they have deployed service to 10% of their required locations by the end of their second year of support. Finally, the Commission allows Connect America Fund Phase II (CAF II) support recipients that have met all of their reporting and deployment obligations to similarly reduce the value of their letters of credit consistent with the RDOF rules. Reducing the required letter of credit values for qualifying RDOF and CAF II support recipients will facilitate broadband deployment by reducing the amount of capital providers must maintain for the required letters of credit.

The record provides broad support for the Commission to use a standard other than a Weiss B- safety rating for banks to qualify to issue letters of credit. The record also broadly supports reducing the required letter of credit values to one year of support for (1) RDOF providers that have deployed service to 10% of their required locations within a State by the end of their second year of support and (2) CAF II support recipients that have met all of their reporting and deployment obligations.

The Commission first finds its relevant high-cost programs should continue to use a reliable benchmark to assess an issuing bank’s financial stability. As a threshold matter, several

commenters argued that no evaluation of a bank's reliability is necessary, and that any federally insured bank should be eligible to issue program LOCs. The Commission disagrees. As the Commission explained in 2016, allowing any federally-insured bank to issue program LOCs would require Commission staff to "conduct a comprehensive review of every bank to determine whether it has adequate safety and soundness." The Commission continues to believe that some assurance of a bank's stability beyond being federally-insured is necessary, and that this assurance will enhance the reliability of the LOCs that are issued, and, by extension, the integrity of its programs that rely on those LOCs.

The Commission next decides the appropriate standard to ensure a bank's financial health. Commenters disagreed about whether the Commission should continue to use the Weiss ratings, with some arguing that the Weiss ratings were opaque and fundamentally unreliable, while others believe the Commission should continue to use the Weiss ratings to minimize disruption. Commenters also had a number of different proposals for alternative methods of evaluating a bank's suitability to issue program LOCs. The Bank Policy Institute argued that if the Commission sought to evaluate a bank's suitability to issue program LOCs, it should require the bank to be "well capitalized," which is "the federal supervisory framework's highest tier of capitalization." Other commenters suggested that a bank should only need to be "adequately capitalized," a less stringent standard than "well capitalized." Bank of America suggested that a United States bank should be allowed to issue program LOCs if it had either: (1) a Weiss rating of B- or higher, or (2) a long-term unsecured credit rating issued by a widely-recognized credit rating agency that is equivalent to a BBB- or better rating by Standard & Poor's.

Based on the Commission's review of the record, it eliminates the use of the Weiss ratings as the standard for United States banks to be considered "acceptable to the Commission" for purposes of issuing qualifying program LOCs. The Commission modifies its rules to make a bank "acceptable to the Commission" if it is a United States bank insured by the Federal Deposit Insurance Corporation (FDIC) that meets the criteria to be considered "well capitalized" as

determined by the FDIC, the Federal Reserve, and the Office of the Comptroller of the Currency (OCC). Applying the well capitalized criteria used by these agencies will provide the Commission with assurance that the United States banks issuing program LOCs will have sufficient capital to promptly honor those LOCs in the event that the Commission needs to recover payment due to a default.

Federal bank regulators are required by statute to promulgate regulations ensuring that a bank maintains adequate capital. The financial condition of United States banks is supervised by one of three agencies: the FDIC, the Federal Reserve, and the OCC. Each agency has promulgated nearly-identical criteria to determine a bank's capitalization status and whether it is "well capitalized." Based on the four publicly-available metrics used by these agencies, a bank's capitalization status can be well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, or critically undercapitalized. For a bank to be well capitalized, the regulations also require a confirmation from the bank that it is not subject to certain regulatory actions from its supervising agency.

The Commission finds that these established criteria are appropriate metrics by which it can determine that a banking institution is financially stable and has sufficient assets relative to its liabilities. Furthermore, like the Weiss bank safety ratings, the metrics that determine whether a bank is well capitalized are accessible—in this case in the electronic Code of Federal Regulations, and a bank's well capitalized status is not confidential supervisory information and is publicly available, which will assist both the Commission and the Universal Service Administrative Company (USAC or the Administrator) in determining whether a support recipient's letter of credit complies with program rules. Relying on these criteria will promote transparency in how banks may qualify to issue LOCs for Commission high-cost support programs because the standards for the metrics are established by regulation. Further, as stewards of the USF, the Commission has a responsibility to ensure that its programs' expenditures are protected while minimizing disruption for support recipients and their banks,

and it concludes that using these criteria will achieve its obligations.

As an additional safeguard, when future LOCs are submitted by program recipients to demonstrate compliance with the Commission's rules, it will also require a certification from a United States bank's officer that the bank meets the criteria to be considered well capitalized by at least one of the FDIC, the Federal Reserve, or the OCC. The Commission directs the Administrator to confirm the bank's status as well capitalized based on the four publicly-available metrics. The certification from a United States bank's officer will also serve as confirmation that the bank is not subject to any of the enhanced regulatory scrutiny set forth in the banking agencies' rules that would remove a bank from well capitalized status.

Numerous commenters supported the Commission using well capitalized as the appropriate standard. The Commission disagrees with the commenters who argued that banks that are merely "adequately capitalized" under the financial regulations should also be allowed to issue program LOCs. The Commission concludes that allowing only banks that are well capitalized, which is the highest tier of capitalization among the banks that are federally supervised, will provide an appropriate level of assurance that the LOCs that are issued can be relied upon, if needed. Although there are no regulatory penalties associated with being adequately capitalized instead of well capitalized, banks that are adequately capitalized but not well capitalized are subject to additional requirements, such as more frequent examinations, and a bank would need to exceed the well capitalized standard to avoid certain capital restrictions. To avoid any marginal risk associated with institutions that do not meet the well capitalized standard, and because the vast majority of United States banks are well capitalized, the Commission believes that requiring this highest tier of capitalization best balances its need for assurances of a bank's financial stability while allowing a large number of banks to issue program LOCs.

The Commission disagrees with commenters who contend that it should continue to use the Weiss ratings. The Commission believes, based on its experience and the record before it,

that the use of the Weiss bank safety ratings has ultimately burdened RDOF and CAF II recipients and their banks, and the significant number of banks whose Weiss safety rating has fallen below a B- has forced numerous recipients to incur additional time and expense to obtain LOCs from different banks or to obtain a waiver of our rules. Since there are more banks that are well capitalized—a criteria that also provides the Commission an appropriate level of assurance regarding the bank’s financial stability—than there are banks that have a Weiss bank safety rating of B- or better, modifying the Commission’s bank qualification standard will allow for more flexibility for program support recipients to obtain and maintain LOCs from the bank of their choice without sacrificing program integrity. There appear to be more than 4,000 banks that are “well capitalized” under the Federal rules, which makes it unlikely that the Commission’s rule change would lead to disruption for program support recipients, as it expects that any bank that has a Weiss bank safety rating of B- or better will also be well capitalized.

Nor does the Commission find it reasonable or necessary to permit reliance on banks with Weiss safety ratings of C- or better, as some commenters suggested. While lowering the permissible minimum rating from B- to C- would likely allow more United States banks to issue program LOCs, the Commission believes that such a change is rendered unnecessary given its adoption of the well capitalized criteria, which, as explained in this document, allows more banks to qualify to issue LOCs than the current Weiss B- rating threshold. Accordingly, the Commission declines to continue to use the Weiss bank safety ratings at any level.

Finally, the Commission declines to adopt the alternative methods of evaluating a bank’s reliability that were proposed in the record. The Commission notes that adopting Bank of America’s proposal of allowing United States banks with a “long-term unsecured credit rating issued by a widely recognized credit rating agency that is equivalent to a BBB- or better rating by Standard & Poor’s” would leave many smaller banks ineligible to issue program LOCs, as many of these smaller institutions are not rated by large Nationally Recognized Statistical Rating Organizations. Preventing smaller banks from issuing program LOCs would run counter to the

Commission's original goal of "expand[ing] the eligibility of banks to lower barriers to participation in the auction for entities that may not otherwise be able to obtain a letter of credit from a smaller pool of banks." Instead, allowing United States banks that are "well capitalized" to issue program LOCs will best benefit program recipients by allowing them to obtain and maintain LOCs from a larger pool of United States banks while still serving the LOC requirement's purpose of supporting program integrity by enabling the Commission to recover funding if needed.

Transition Period. The Commission will provide a transition period of six months from the effective date of this document, during which providers may continue to obtain and maintain program LOCs and rely upon the existing waiver of the Commission's rule requiring a Weiss bank safety rating of B- or better. To enable this transition, on its own motion, the Commission extends the Wireline Competition Bureau (the Bureau's) waiver of the rules requiring a Weiss bank safety rating of B- or better for those banks that previously qualified to issue letters of credit to support recipients until the end of this transition period. Without a waiver extension, impacted support recipients would be required to obtain new letters of credit under the existing rules even though a new standard will soon be in place. Generally, the Commission's rules may be waived for good cause shown. Waiver of the Commission's rules is appropriate only if both: (1) special circumstances warrant a deviation from the general rule, and (2) such deviation will serve the public interest. The Commission believes that both circumstances are present here, because permitting the existing waiver to lapse prior to the effective date of the amended rules would require support recipients to incur significant costs and administrative burdens to obtain new letters of credit, even though their existing letters of credit may well meet the well capitalized standard that will soon be in effect. A waiver will serve the public interest by minimizing burdens on support recipients and permitting them to focus on ensuring that they are prepared to comply with the amended rules by the end of the transition period.

Additionally, support recipients whose letter of credit comes from a bank that no longer

meets the Commission's criteria as of the effective date of the *Order's* adoption can continue to rely on the existing letter of credit until such letter of credit expires. Put differently, if the support recipient's LOC is from an ineligible bank, based on the rule the Commission adopts herein, it will nonetheless consider the LOC compliant until it expires and is up for renewal. Additionally, banks will not need to certify that they are well capitalized until the rules the Commission adopts in this document become effective.

In the *Letter of Credit NPRM (LOC NPRM)*, 89 FR 55542, July 5, 2024, the Commission sought comment on allowing an RDOF recipient to lower the value of its LOC when it deployed service to 10%, rather than 20%, of its required locations by the end of its second year of support. After considering the record, and the advantages of this proposal, the Commission adopts this rule change.

Commenters almost universally supported this change and argued that allowing an RDOF support recipient to reduce the value of its LOC to one year of support after deploying service to 10% of required locations by the end of its second year of support would free up capital to facilitate more broadband deployment, while still requiring proof of substantial network construction. The Coalition of RDOF Winners supported allowing an LOC's value to be reduced if a support recipient had deployed service to 10% of locations by the end of its second year of support, but also argued that the support recipient should be allowed to reduce its LOC upon certification that it has met its deployment obligations, rather than needing to wait for USAC to verify that deployment.

One commenter, GeoLinks, disagreed and argued that lowering this threshold could introduce risk with regard to RDOF support recipients that had only completed a "minimal amount of network construction," and that 10% was not evidence of sufficient network construction to justify an LOC reduction. GeoLinks also argued that there were alternative ways, such as accelerated disbursement of RDOF support, to more efficiently facilitate accelerated broadband deployment. However, the Commission does not find GeoLinks' arguments

persuasive.

GeoLinks has not provided specific examples of the type of behavior that would lead the Commission to conclude that the LOC reduction it adopts in this document would introduce risk. Based on the Commission's experience administering RDOF and other high-cost programs, deploying service to 10% of required locations by the end of the second year of support shows sufficient progress and sufficiently demonstrates a provider's intent to fulfill its deployment obligations. Further, the permitted reduction in the value of the LOC will alleviate financial burdens and in turn facilitate faster broadband expansion by freeing up capital that can be directed to deployment. Also, the concerns raised by GeoLinks are mitigated by the fact that this change has no impact on the other required deployment milestones; all RDOF support recipients still must deploy qualifying service to 40% of their required locations by the end of their third year of support, and then continue to progressively meet their next obligations, in order to maintain an LOC at an amount equal to one year of support. Moreover, this adjustment does not change the amount owed in the event that the Commission must recover funds from a support recipient due to noncompliance.

At the same time, the Commission declines to allow an RDOF support recipient to lower the value of its LOC upon certification of deploying service to at least 10% of its locations by the end of its second year of support, rather than upon USAC's verification of deployment. While the Coalition of RDOF Winners argues that USAC's verification process can be lengthy, the verification process, which may include follow-up questions and requests for further documentation from USAC, is critical to ensuring that reported broadband deployment is actually occurring. The Commission has previously encouraged support recipients to report their deployment on a rolling basis, and to certify their deployment and start the verification process as soon as they are able. Once that verification is complete, the support recipient may obtain and maintain an LOC at a lower value as long as it continues to meet its deployment and reporting obligations.

The Commission also declines Talkie Communications, Inc.'s request to further modify (or waive) its rules to allow RDOF support recipients that were authorized to receive funding during the first quarter of 2022 to immediately reduce the value of their LOCs to one year of their support *upon certification* of deploying service to at least 10% of their required locations. Talkie Communications' request would permit it and other potentially similarly positioned recipients to unilaterally reduce the value of the LOC even before USAC could conduct a verification.

The relief provided in this document, which will allow providers to lower the value of their LOCs to one year of support only upon the completion of the verification process, strikes the appropriate balance between relieving burdens on providers and ensuring that support recipients only reduce the values of their letters of credit after their deployment progress has been verified by an independent source, rather than relying on the recipient's self-certification. Even though the Commission denies Talkie's additional request, the changes the Commission makes in this document will enable Talkie to lower the value of its LOC sooner than it otherwise would have been able under the originally adopted rule.

Additionally, the Commission is mindful that allowing for the reduction of an LOC before any verification process has been completed could ultimately undermine the critical role that the verification process plays in ensuring that RDOF support recipients deploy service to their required locations and preserving carriers' incentive to fully cooperate during the verification process. Moreover, there is ultimately no financial penalty for recipients who pass the verification process. Other providers, to remain compliant with our LOC rules, have been required to obtain new LOCs at increased values during the pendency of USAC's verification process, and those support recipients were then able to lower the values of their LOCs upon the successful completion of that process.

In the *LOC NPRM*, the Commission sought comment on allowing all CAF II support recipients that met each of their deployment and reporting obligations to follow the RDOF LOC

rules, which allow support recipients that have met each of their deployment obligations to lower the value of their LOCs to one year of their total support, in contrast with the more modest reductions permitted under the CAF II LOC rules. All commenters supported this proposal, which the Commission now adopts.

In 2022, when the Bureau sought comment on extending the waiver of the CAF II LOC rules, it proposed limiting that waiver with a more “tailored” approach by permitting application of the waiver to those recipients that have deployed the supported broadband networks as required. The Bureau ultimately adopted this proposal, reasoning that the Commission will most likely need to draw on the LOCs of the CAF II support recipients that have failed to comply with the program’s deployment obligations, reporting requirements, and other program rules and deadlines. Therefore, when deciding to extend the waiver applying the RDOF letter of credit rules to the CAF II program, the Bureau limited the waiver relief *only* to the CAF II recipients with the lowest risk of non-compliance as measured by the program’s deployment and reporting milestones. Accordingly, all CAF II support recipients that are currently following the RDOF’s LOC rules have met each of their deployment and reporting deadlines.

The Commission will continue to allow those CAF II recipients that have met each of their deployment and reporting deadlines to maintain LOCs under the RDOF rules. These recipients have shown that they are in compliance with the requirements of the CAF II program, and that this reduction in the LOC amount will serve the public interest by freeing up additional capital for these recipients, which will allow them to more efficiently deploy broadband service throughout their service areas.

Since the Bureau’s existing waiver will end before the Commission’s amendments to § 54.315(c)(1) of its rules take effect, the Commission extends, on its own motion, the existing waiver to permit CAF II recipients that have met each of their deployment and reporting obligations to maintain LOCs pursuant to the RDOF rules until the amended rule takes effect. Since the Commission’s rules will soon be changed and will at that point be consistent with the

existing waiver for certain CAF II support recipients, it will serve the public interest to avoid requiring those providers from incurring the costs to increase their letters of credit due to the end of the current waiver, only to be permitted to lower them again when the rule changes adopted in this document become effective.

The Commission declines to adopt several other proposals from commenters for the reasons explained in the following.

LOC Requirement Term. In its comments, the Wireless Internet Service Provider Association (WISPA) argued that once a CAF II or RDOF support recipient meets its 80% deployment obligation, it should be allowed to retire its LOC. The Commission disagrees. While meeting its 80% deployment obligation is evidence of substantial progress, the Commission believes that the security the LOC provides remains necessary until a recipient has completed all of its deployment obligations. The Commission notes, however, that RDOF support recipients, and CAF II recipients that have met all of their deployment and reporting obligations, are able to reduce the value of their LOCs to one year of support as long as they have met their previous deadlines, which will undoubtedly reduce the financial burden of maintaining those LOCs.

Credit Unions. The Commission also declines at this time to adopt any eligibility requirements for credit unions to issue program LOCs. While credit unions may meet a “well capitalized” standard similar to the one the Commission relies upon for banks, based on the record and further review of how to determine whether a credit union is “well capitalized”, the Commission believes the administration of this standard would pose additional challenges for the Administrator to verify a credit union’s capitalization status as compared to the status of United States banks that are insured by the FDIC. The inclusion of credit unions is therefore not sufficiently supported by the record and the Commission declines to make this change at this time.

Surety Bonds. The Commission also declines to allow surety bonds in lieu of LOCs. The

Commission has previously considered and declined to accept performance bonds for the programs, concluding that “[LOCs] permit the Commission to immediately reclaim support that has been provided in the event the recipient is not furthering the objectives of universal service by complying with the Commission’s rules or requirements. They also have the added advantage of minimizing the possibility that the support becomes property of a recipient’s bankruptcy estate for an extended period of time, thereby preventing the funds from being used promptly to accomplish our goals.” While some commenters supported allowing performance bonds instead of LOCs, the Commission’s previously articulated concerns regarding the potential complications of relying on performance bonds continue to be persuasive, and such changes seem unnecessary when the support recipients in the programs at issue are already able to obtain LOCs, with the rule amendments made earlier in the *Order*. In addition to these concerns, allowing surety bonds to be used in the middle of an ongoing program would not lead to efficient and effective program administration.

LOC Requirements on Tribal Lands. Finally, the National Tribal Telecommunications Association argues for Tribal-specific modifications to our LOC requirements to facilitate broadband deployment on Tribal lands. While the Commission is mindful of the specific challenges that some Tribal carriers may face, the record does not show the need for wholesale changes at this time to facilitate deployment on Tribal lands, and the Commission believe that those challenges are best addressed on an individual basis. Additionally, making wholesale changes to our rules in the middle of an ongoing program would be unnecessary and could create confusion for support recipients. Given the difficulties some Tribal carriers have collateralizing assets to support a LOC, however, the Commission will consider waiving the relevant LOC requirements on an individual basis consistent with its waiver standard, and the Commission does not foreclose examining in future support programs whether Tribal carriers should be permitted to rely on alternatives to LOCs.

II. PROCEDURAL MATTERS

A. Paperwork Reduction Act Analysis

This document does not contain new or substantively modified information collection requirements subject to the Paperwork Reduction Act of 1995 (PRA), Public Law 104-13. In addition, therefore, it does not contain any new or modified information collection burden for small business concerns with fewer than 25 employees, pursuant to the Small Business Paperwork Relief Act of 2002, Public Law 107-198, *see* 44 U.S.C. 3506(c)(4). A non-substantive change was approved by the Office of Management and Budget (OMB) on January 15, 2025.

B. Congressional Review Act

The Commission has determined, and the Administrator of the Office of Information and Regulatory Affairs, OMB, concurs, that this rule is non-major under the Congressional Review Act, 5 U.S.C. 804(2). The Commission will send a copy of the *Order* to Congress and the Government Accountability Office pursuant to 5 U.S.C. 801(a)(1)(A).

As required by the Regulatory Flexibility Act of 1980 (RFA) an Initial Regulatory Flexibility Analysis (IRFA) was incorporated in the *LOC NPRM* released in June 2024. The Commission sought written public comment on the proposals in the *LOC NPRM*, including comment on the IRFA. No comments were filed addressing the IRFA. This Final Regulatory Flexibility Analysis (FRFA) conforms to the RFA.

The *Order* makes targeted modifications to the requirements for LOCs that recipients of USF high cost support awarded through a competitive process must obtain. Rapidly deploying broadband to areas that currently do not have access to it is a key goal of the Commission's high cost programs that award support through competitive bidding processes. In order to ensure that the Commission's investments are protected, it requires support recipients to obtain and maintain LOCs.

The *Order* takes steps to ensure that USF high-cost support recipients have a wider range

of banks from which they can obtain and maintain LOCs by modifying requirements that apply to recipients of USF high-cost support awarded through competitive mechanisms to define a United States bank as “acceptable to the Commission,” if it is insured by the FDIC and if it meets the criteria to be considered “well capitalized” by Federal bank supervisory agencies. Additionally, the Commission allows RDOF support recipients to lower the value of their LOC if they’ve deployed service to 10% of their required locations, rather than 20%, by the end of their second year support, and it allows CAF II support recipients that have met each of their deployment and reporting obligations to follow the RDOF’s LOC rules. Each of these changes will free up capital for program support for small and other recipients, and will help them more efficiently deploy broadband services in areas that need it.

The RFA directs agencies to provide a description of and, where feasible, an estimate of the number of small entities that may be affected by the rules adopted herein. The RFA generally defines the term “small entity” as having the same meaning as the terms “small business,” “small organization,” and “small governmental jurisdiction.” In addition, the term “small business” has the same meaning as the term “small business concern” under the Small Business Act.” A “small business concern” is one which: (1) is independently owned and operated; (2) is not dominant in its field of operation; and (3) satisfies any additional criteria established by the Small Business Administration (SBA).

Small Businesses, Small Organizations, and Small Governmental Jurisdictions. The Commission’s actions, over time, may affect small entities that are not easily categorized at present. The Commission therefore describes, at the outset, three broad groups of small entities that could be directly affected herein. First, while there are industry specific size standards for small businesses that are used in the regulatory flexibility analysis, according to data from the SBA Office of Advocacy, in general a small business is an independent business having fewer than 500 employees. These types of small businesses represent 99.9% of all businesses in the United States, which translates to 33.2 million businesses.

Next, the type of small entity described as a “small organization” is generally “any not-for-profit enterprise which is independently owned and operated and is not dominant in its field.” The Internal Revenue Service (IRS) uses a revenue benchmark of \$50,000 or less to delineate its annual electronic filing requirements for small exempt organizations. Nationwide, for tax year 2022, there were approximately 530,109 small exempt organizations in the U.S. reporting revenues of \$50,000 or less according to the registration and tax data for exempt organizations available from the IRS.

Finally, the small entity described as a “small governmental jurisdiction” is defined generally as “governments of cities, counties, towns, townships, villages, school districts, or special districts, with a population of less than fifty thousand.” U.S. Census Bureau data from the 2022 Census of Governments indicate there were 90,837 local governmental jurisdictions consisting of general purpose governments and special purpose governments in the United States. Of this number, there were 36,845 general purpose governments (county, municipal, and town or township) with populations of less than 50,000 and 11,879 special purpose governments (independent school districts) with enrollment populations of less than 50,000. Accordingly, based on the 2022 U.S. Census of Governments data, the Commission estimates that at least 48,724 entities fall into the category of “small governmental jurisdictions.”

Small entities potentially affected by the rules herein include Wired Telecommunications Carriers, Local Exchange Carriers (LECs), Incumbent Local Exchange Carriers (Incumbent LECs), Competitive Local Exchange Carriers (CLECs), Interexchange Carriers (IXCs), Local Resellers, Toll Resellers, Other Toll Carriers, Prepaid Calling Card Providers, Fixed Microwave Services, Cable and Other Subscription Programming, Cable Companies and Systems (Rate Regulation), Cable System Operators (Telecom Act Standard), Radio and Television Broadcasting and Wireless Communications Equipment Manufacturing, Satellite Telecommunications, Wireless Telecommunications Carriers (except Satellite), All Other Telecommunications, Wired Broadband Internet Access Service Providers (Wired ISPs),

Wireless Broadband Internet Access Service Providers (Wireless ISPs or WISPs), Internet Service Providers (Non-Broadband), All Other Information Services.

The *Order* modifies existing reporting, recordkeeping, and compliance obligations for USF high-cost recipients awarded through competitive mechanisms. Specifically, the Commission adopts an alternative method of evaluating a bank's ability to provide a LOC to winners of Auction 903 and 904 support, along with winners of 5G Fund auctions. These recipients will now be required to obtain LOCs from United States banks that are insured by the FDIC and that meet the criteria to be considered "well capitalized" by Federal bank supervisory agencies, instead of relying on Weiss bank safety ratings, which limit the number of acceptable banks. The *Order* will allow more banks to issue program LOCs, and will allow small and other program support recipients to lower the value of the LOCs they are required to maintain. The Commission also allows Auction 904 support recipients who have deployed service to at least 10% of their required locations by the end of their second year of support to lower the value of their LOCs. Finally, the Commission allows Auction 903 support recipients that have met their deployment and reporting obligations to maintain LOCs in accordance with Auction 904's rules.

The changes in the *Order* are intended to reduce the administrative burden on small and other recipients of Auctions 903 and 904 support and 5G Fund support. The changes will allow support recipients, including small entities, to minimize their expenses by maintaining their existing LOC with the bank that issued it, instead of obtaining a new one. As a result of these changes, if there is an economic impact on small entities, the Commission expects the impact to be a positive one. These changes would not add any additional compliance requirements for small entities, or additional costs for professional skills, because support recipients are already required to maintain LOCs under the current rules.

The requires an agency to provide, "a description of the steps the agency has taken to minimize the significant economic impact on small entities...including a statement of the factual, policy, and legal reasons for selecting the alternative adopted in the final rule and why each one

of the other significant alternatives to the rule considered by the agency which affect the impact on small entities was rejected.”

The Commission has considered the economic impact on small entities in reaching its final conclusions and taking action in this proceeding. The rules that the Commission adopts in the *Order* will provide greater certainty and flexibility for small and other carriers. For example, the Commission now allows any bank that is “well capitalized” to evaluate a bank’s fitness to issue program LOCs, instead of using the previously required Weiss ratings. This will expand the pool of eligible banks which will increase the flexibility for all program support recipients, including small entities.

The Commission also considered alternatives to its existing rules, by seeking comment on alternative standards that could be used to evaluate the health and suitability of a bank. For example, Bank of America proposed an alternative method of determining a bank’s eligibility that includes the current Weiss rating of B- or better or a long-term unsecured credit rating issued by a widely-recognized credit rating agency that is equivalent to a BBB- or better rating by Standard & Poor’s, which is the requirement for non-U.S banks. WISPA proposed that CAF II or RDOF support recipients that met 80% of their obligations should be allowed to retire their LOCs, instead of the current requirement for completing all deployment obligations. Other alternatives proposed allowing banks that were “adequately capitalized” or those with lower Weiss ratings to issue LOCs. The Commission disagrees with these and other alternative proposals. The “well capitalized” standard allows the Commission to honor its responsibility to ensure that its programs’ expenditures are protected, while minimizing disruption for support recipients and their banks. Retaining the requirement that support recipients maintain LOCs until all deployment obligations are met provides security that funding is protected until these obligations are complete. Some alternative proposals would reduce the ability of smaller banks to be eligible to provide LOCs, which is counter to our goal of expanding eligibility of banks, and may lower barriers to participation for small and other entities. In light of the economic

burdens that auction support recipients could face by being required to obtain new LOCs from different banks, the Commission considered the most effective ways of allowing those support recipients to maintain their LOCs with the banks that originally issued them, as long as they are confident that the bank's economic health is sufficient. This change will free up capital to support small and other recipients which will allow them to more efficiently deploy broadband service.

The Commission also allowed RDOF support recipients that deployed service to 10% of their required locations by the end of their second year of support to reduce the value of their LOC to one year of their total support, upon USAC's verification. Commenters opposed to these changes did not provide alternatives or specific examples of behavior that would lead the Commission to conclude this reduction would be inappropriate. Further, the USAC verification process is critical to ensuring that broadband deployment is actually occurring. Finally, the Commission allowed Auction 903 support recipients that have met all of their deployment and reporting obligations to continue to follow the RDOF's LOC rules, which will allow small and other Auction 903 support recipients that have met their obligations to free up additional capital and more efficiently deploy broadband service.

III. ORDERING CLAUSES

Accordingly, IT IS ORDERED, pursuant to the authority contained in sections 4(i), 5(c), 214, 254, 303(r), and 403 of the Communications Act of 1934, as amended, 47 U.S.C. 154(i), 155(c), 214, 254, 303(r), and 403, and §§ 1.1, 1.3, and 1.421 of the Commission's rules, 47 CFR 1.1, 1.3, and 1.425, that the Order IS ADOPTED.

IT IS FURTHER ORDERED, pursuant to sections 1, 4(i), 5(c), and 254 of the Communications Act of 1934, as amended, 47 U.S.C. 151, 154(i), 155(c), 254, and § 1.3 of the Commission's rules, 47 CFR 1.3, that 47 CFR 54.315(c)(2)(i)(B), 54.804(c)(2)(i)(B), and 54.1508(c)(1)(ii) of the Commission's rules ARE WAIVED to the limited extent provided herein and pursuant to § 1.103(a) of the Commission's rules, 47 CFR 1.103(a), such waiver SHALL BE

EFFECTIVE upon release.

IT IS FURTHER ORDERED that the Petition for Waiver filed by Talkie Communications, Inc., is DENIED as described herein.

IT IS FURTHER ORDERED that part 54 of the Commission's rules IS AMENDED as set forth in this document, and that rule amendments to §§ 54.315(c)(2)(i)(B); 54.804(c)(2)(i)(B); 54.1016(a)(2)(i)(B); and 54.1508(c)(1)(ii) SHALL BE EFFECTIVE six months after publication of this item in the *Federal Register*.

IT IS FURTHER ORDERED that part 54 of the Commission's rules IS AMENDED as set forth in this document, and that all other rule amendments SHALL BE EFFECTIVE 30 days after publication in the *Federal Register*.

List of Subjects in 47 CFR Part 54

Communications common carriers, Health facilities, Infants and children, Internet, Libraries, Puerto Rico, Reporting and recordkeeping requirements, Schools, Telecommunications, Telephone, Virgin Islands.
Federal Communications Commission.

Marlene Dortch,
Secretary.

For the reasons discussed in the preamble, the Federal Communications Commission amends 47 CFR part 54 as follows:

PART 54—UNIVERSAL SERVICE

1. The authority citation for part 54 continues to read as follows:

Authority: 47 U.S.C. 151, 154(i), 155, 201, 205, 214, 219, 220, 229, 254, 303(r), 403, 1004, 1302, 1601-1609, and 1752, unless otherwise noted.

2. Amend § 54.315 by adding paragraph (c)(1)(iii) and revising paragraph (c)(2)(i)(B) to read as follows:

§ 54.315 Application process for Connect America Fund phase II support distributed through competitive bidding.

* * * * *

(c) * * *

(1) * * *

(iii) A recipient that has met each of its deployment and reporting obligations may obtain a new letter of credit that follows the Rural Digital Opportunity Fund’s rules as set forth in § 54.804(c)(1)(v).

(2) * * *

(i) * * *

(B) That is well capitalized, as defined by Federal bank regulations promulgated by the Federal Deposit Insurance Corporation, the Federal Reserve, and the Office of the Comptroller of the Currency; or

* * * * *

3. Amend § 54.804 by revising paragraph (c)(2)(i)(B) to read as follows:

§ 54.804 Rural Digital Opportunity Fund application process.

* * * * *

(c) * * *

(2) * * *

(i) * * *

(B) That is well capitalized, as defined by Federal bank regulations promulgated by the Federal Deposit Insurance Corporation, the Federal Reserve, and the Office of the Comptroller of the Currency; or

* * * * *

4. Amend § 54.1016 by revising paragraph (a)(2)(i)(B) to read as follows:

§ 54.1016 Letter of credit.

(a) * * *

(2) * * *

(i) * * *

(B) That is well capitalized, as defined by Federal bank regulations promulgated by the Federal Deposit Insurance Corporation, the Federal Reserve, and the Office of the Comptroller of the Currency; or

* * * * *

5. Amend § 54.1508 by revising paragraph (c)(1)(ii) to read as follows:

§ 54.1508 Letter of credit for stage 2 fixed support recipients.

* * * * *

(c) * * *

(1) * * *

(ii) That is well capitalized, as defined by Federal bank regulations promulgated by the Federal Deposit Insurance Corporation, the Federal Reserve, and the Office of the Comptroller of the Currency; or

* * * * *

