

**Background**

Originally, the mandated that subgrantees provide a letter of credit (LOC) equivalent to 25% of the subaward amount meeting eligibility requirements consistent with those set forth in to ensure project completion and safeguard federal investments.

However, on October 23, 2023, the bank eligibility requirements of were , thereby allowing a broader set of financial institutions to issue qualifying letters of credit.

**Letter of Credit and Performance Bond Requirements**

Below outlines the two routes that subgrantees can use to meet the BEAD program bonding obligations:

Letter of Credit	Performance Bond
Subgrantees provide a LOC equivalent to 25% of the subaward amount	Performance bonds equal to 100% of the subaward may be used in lieu of the LOC
<ul style="list-style-type: none"> <li>• Any United States Credit Union (as opposed to solely U.S. banks) may issue the LOC so long that the Credit Union:               <ul style="list-style-type: none"> <li>○ is insured by the National Credit Union Administration; and</li> <li>○ has a credit union safety rating issued by Weiss of B- or better.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• During the application process, each prospective subgrantee submits a letter from a federally approved surety company (listed in <a href="#">Treasury Circular 570</a>) confirming they will provide a performance bond and stating its dollar amount.</li> <li>• Before signing a subgrantee agreement, the subgrantee must obtain a performance bond that meets the approval of the Eligible Entity and is valued at 100% of the subaward amount.</li> <li>• If a subgrantee opts for a performance bond, they do not need to provide a legal opinion stating that a LOC wouldn't be considered part of their assets in bankruptcy.</li> </ul>

**Reduction of LOC/Performance Bond Requirements Upon Meeting Milestones and Additional Criteria**

The requirement for an initial LOC of 25% of the subaward amount or a performance bond of 100%, can be lowered as subgrantees reach specific project milestones and follow these requirements:

- Funds are issued on a reimbursement basis consistent with Section IV.C.1.b of the NOFO;
- Reimbursements occur every six months or less; and
- The subgrantee maintains a LOC or performance bond of at least 10% of the subaward until all locations are built or the project period ends, whichever occurs first.

DOM has determined that a subgrantee may reduce the value of the LOC or performance bond in accordance with the following limitations:

1. Upon demonstrating to the satisfaction of the Eligible Entity that it has **received approval of the budget, compliance documentation, and submission of the engineering design certified by a professional engineer**, a subgrantee may obtain a new letter of credit, renew its existing letter of credit, or reduce the performance bond amount so that it is valued at **no less than 25 percent of the award amount**.
2. Upon demonstrating to the satisfaction of the Eligible Entity that it has **completed the buildout of 25 percent of locations** to be served by the project, a subgrantee may obtain a new letter of credit, renew its existing letter of credit, or reduce the performance bond amount so that it is valued at **no less than 20 percent of the award amount**.
3. Upon demonstrating to the satisfaction of the Eligible Entity that it has **completed the buildout of 35 percent of locations** to be served by the project, a subgrantee may obtain a new letter of credit, renew its existing letter of credit, or reduce the performance bond amount so that it is valued at **no less than 15 percent of the award amount**.
4. Upon demonstrating to the satisfaction of the Eligible Entity that it has **completed the buildout of 60 percent of locations** to be served by the project, a subgrantee may obtain a new letter of credit, renew its existing letter of credit, or reduce the performance bond amount so that it is valued at **no less than 10 percent of the award amount**.
5. Upon demonstrating to the satisfaction of the Eligible Entity that it has **completed the buildout of 75 percent of locations** to be served by the project, a subgrantee may obtain a new letter of credit, renew its existing letter of credit, or reduce the performance bond amount so that it is valued at **no less than 10 percent of the award amount**.
6. **Upon 100% project completion**, the letter of credit and performance bond requirements will be released.

**Additional Considerations for Low Earth Orbit Capacity Subgrants**

The [BEAD Restructuring Policy Notice](#) was released on June 6, 2025. The Policy Notice modifies and replaces certain requirements outlined in the BEAD NOFO. Specifically, the Policy Notice sought to incentivize LEO providers to reach out to potential subscribers to encourage adoption.

DOM has determined that an LEO subgrantee may reduce the value of the LOC or performance bond in accordance with the following limitations:

1. Upon demonstrating to the satisfaction of the Eligible Entity that it has **received certification that service is available to each location in the project area and provides a narrative explaining their outreach strategy to potential subscribers to encourage adoption**, a LEO subgrantee may obtain a new letter of credit, renew its existing letter of credit, or reduce the performance bond amount so that it is valued at **no less than 50 percent of the award amount**.
2. Upon demonstrating to the satisfaction of the Eligible Entity that the **subscription rate reaches at least 25% of all locations in the project area**, a LEO subgrantee may obtain a new letter of credit, renew its existing letter of credit, or reduce the performance bond amount so that it is valued at **no less than 25 percent of the award amount**.
3. **Upon the subscription rate reaching at least 50% of all locations in the project area**, the letter of credit and performance bond requirements will be released.

Regardless of the subscription rate, the LOC may be terminated four years after the LEO Capacity Subgrantee certifies that it can initiate broadband service within 10 business days of a request to any covered BSL in the project area.