

Association of Communication Engineers/Rural Utilities Service Seminar

Loan Application Problems: A Closer Look

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May 5, 2010



Committed to the future of rural communities.

Loan Application Problems: A Closer Look

- I. Consistency across Data Sources
- II. Affiliated Companies
- III. Financial Projections

Loan Application Problems: A Closer Look

- I. Consistency across Data Sources - Application
 - A. Engineering Consultants
 - B. Attorney
 - C. Accountant/Financial Consultant
 - D. Cost Consultant

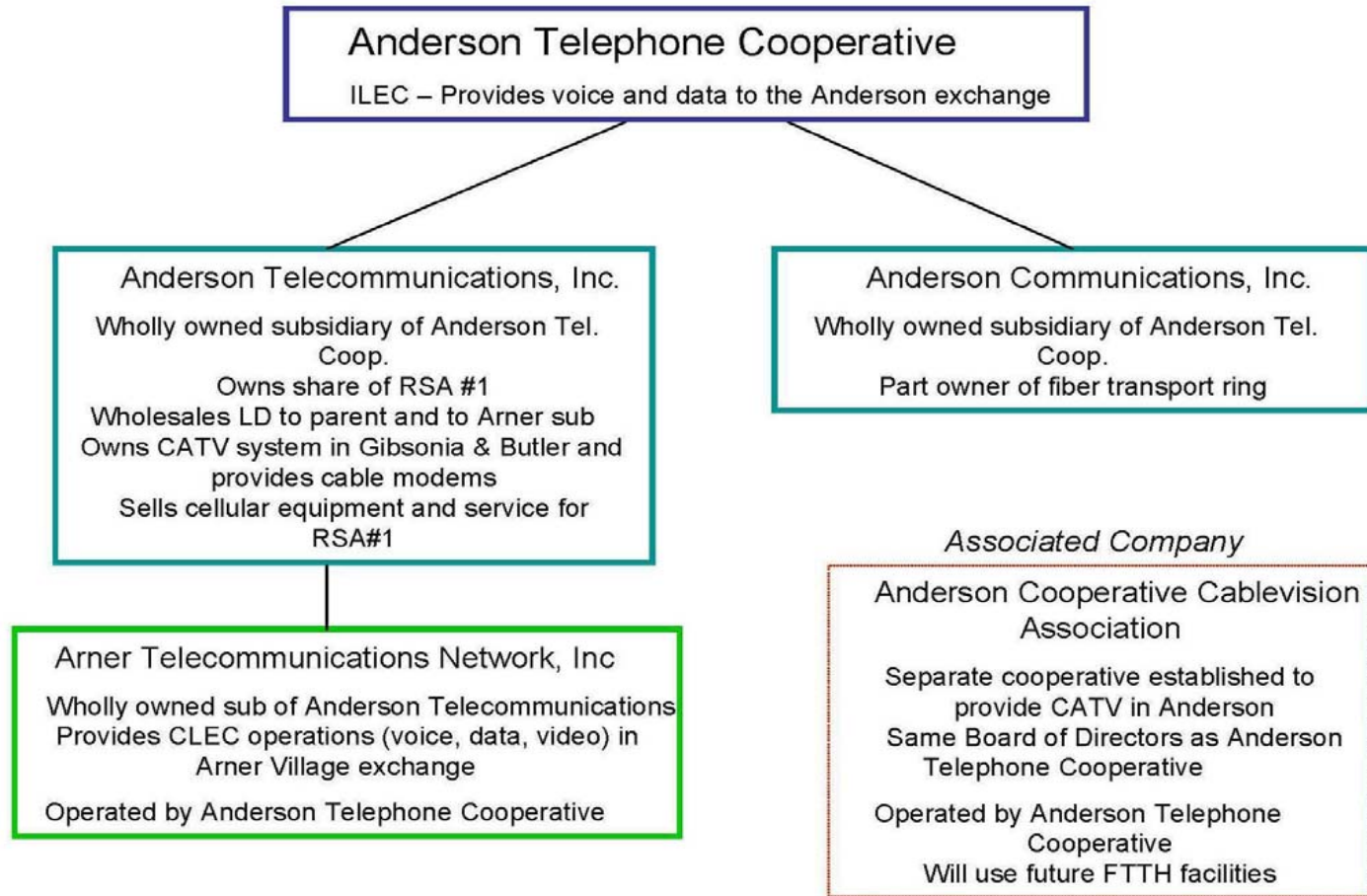
Loan Application Problems: A Closer Look

- I. Consistency across Data Sources - Non-application
 - A. CPA Audit
 - B. DCS Operating Report
 - C. Secretary of State
 - D. Company website

Loan Application Problems: A Closer Look

- II. Affiliated Companies - Who Are You?
 - A. Family of Companies
 - B. Preloan Opinion - subsidiaries
 - C. CPA Audit – immediate subsidiaries
 - D. Website
 - E. Loan Design: Narrative and Organizational Diagram

Loan Application Problems: A Closer Look



Loan Application Problems: A Closer Look

II. Affiliated Companies – Why Do We Care?

- A. Engineering Issues
- B. Competition Analysis
- C. Legal Issues: Security and Compliance
- D. Financial Arrangements & Projections

Loan Application Problems: A Closer Look

III. Financial Projections

A. Stand-alone not Consolidated

B. Agrees with DCS Operating Report

1. Based on Bulletin 1744-2 (see http://www.usda.gov/rus/telecom/publications/pdf_files/1744-2.pdf)
2. Suggested Format - like Part B of Op. Rpt.

Loan Application Problems: A Closer Look

Your existing Income Statement comes from the Operating Report.

| | | | |
|---|------------|----------------------|--|
| USDA-RUS | | BORROWER DESIGNATION | |
| OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS | | PERIOD ENDING | |
| INSTRUCTIONS- See RUS Bulletin 1744-2 | | | |
| PART B. STATEMENTS OF INCOME AND RETAINED EARNINGS OR MARGINS | | | |
| ITEM | PRIOR YEAR | THIS YEAR | |
| 1. Local Network Services Revenues | | | |
| 2. Network Access Services Revenues | | | |
| 3. Long Distance Network Services Revenues | | | |
| 4. Carrier Billing and Collection Revenues | | | |
| 5. Miscellaneous Revenues | | | |
| 6. Uncollectible Revenues | | | |
| 7. Net Operating Revenues (1 thru 5 less 6) | | | |
| 8. Plant Specific Operations Expense | | | |
| 9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization) | | | |
| 10. Depreciation Expense | | | |
| 11. Amortization Expense | | | |
| 12. Customer Operations Expense | | | |
| 13. Corporate Operations Expense | | | |
| 14. Total Operating Expenses (8 thru 13) | | | |
| 15. Operating Income or Margins (7 less 14) | | | |
| 16. Other Operating Income and Expenses | | | |
| 17. State and Local Taxes | | | |
| 18. Federal Income Taxes | | | |
| 19. Other Taxes | | | |

Loan Application Problems: A Closer Look

Make your projections look like the Operating Report!

| ITEM | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|------|------|------|------|------|------|------|------|
| 1. Local Network Services Revenues | | | | | | | | |
| 2. Network Access Services Revenues | | | | | | | | |
| 3. Long Distance Network Services Revenues | | | | | | | | |
| 4. Carrier Billing and Collection Revenues | | | | | | | | |
| 5. Miscellaneous Revenues | | | | | | | | |
| 6. Uncollectible Revenues | | | | | | | | |
| 7. Net Operating Revenues (1 thru 5 less 6) | | | | | | | | |
| 8. Plant Specific Operations Expense | | | | | | | | |
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| 19. Other Taxes | | | | | | | | |

Loan Application Problems: A Closer Look

III. Financial Projections (continued)

C. Assumptions vs. Explanations

1. Multiple Assumptions, such as
 - a. Inflation Rate
 - b. Subscriber Growth
 - c. Number of Employees
2. One comprehensive explanation

Loan Application Problems: A Closer Look

- **Problem**

- I. Consistency across Data Sources
- II. Affiliated Companies
- III. Financial Projections

- **Solution**

- I. Review and Compare Data Before Submission
- II. Organizational Diagram which agrees with data sources plus narrative
- III. Projected income statement like Part B of Operating Report with explanations for estimates