

Association of Communication Engineers/Rural Utilities Service Seminar

Loan Application Process

Shawn Arner

Deputy Director, Northern Division

Rural Utilities Service

Telecommunications Program

202.720.1025 / shawn.arners@wdc.usda.gov

May 5, 2010



Committed to the future of rural communities.

Loan Application Process

Loan Demand – Traditional Program

- FY 2010 Funding: \$690 Million
 - \$145M Hardship (Fixed 5%)
 - \$250M Treasury Rate
 - \$290M FFB
- Loan Demand / Status:
 - \$231M in loans made as of 4/30/10
 - \$459M remaining
 - 39 Applications in DC totaling \$722M

Loan Application Process

Processing Times: FY 2009

- 38 Loans Processed
- Average Processing Time: 7.2 Months
 - From: Time of Application Received in DC
 - To: Time of Loan Committee Approval
- 21 Loans processed in less than 7.2 Months
- 17 Loans took longer than 7.2 Months
- Shortest Time: 2 Months
- Longest Time: 13 Months

Loan Application Process

Loan Processing Steps

- Stage 1: Pre-application
 - Loan Design Preparation and Review with GFR
 - GFR Adds supplementary documentation and findings
 - GFR Submits 3 copies of Completed Package to DC HQ.
- Stage 2: Application Completeness Review
 - Assigned to RUS Loan Specialist and Engineer
 - Review Meeting with GFR and DC HQ scheduled within 10 days of receipt in DC.
 - Applicant informed of result via letter: either Complete or Incomplete

Loan Application Process

Loan Processing Steps

- Stage 3: Project / Loan Review
 - Engineering Cost Study
 - Technical Review of Project
 - Addresses Environmental
 - Establishes Loan Budget
 - Engineering Approval Letter Sent to Loan Applicant
 - Feasibility Study
 - 5 year financial Projection
 - Must Support a TIER of at least 1.0
 - Preparation of Loan Packet / Findings for Loan Committee Review

Loan Application Process

Loan Processing Steps

- Stage 4: Loan Committee Review
 - Assistant Administrators Loan Committee
 - Consists of 6 Voting Members – Director Level
 - Presentation of Loan Application Packet
 - Approval granted by a majority
 - Senior Loan Committee
 - In general, only required for Loans \$25M and higher
 - Consists of 5 Voting Members: The Administrator, the Asst Admin for Telecom, the Asst. Admin for Electric, the Asst. Admin for Water, Senior Program Advisor
 - Approval granted by a majority

Loan Application Process

Loan Processing Steps

- Stage 5: Loan Offer and Closing
 - Offer Letter Sent to Applicant
 - Upon Approval of AALC and SLC, if applicable
 - Includes Draft Loan Agreement
 - Applicant given 21 days to Accept
 - Loan Documents Sent to Applicant
 - Generated and Sent Upon Borrower Acceptance of Offer Letter
 - All Documents to be executed by Borrower and returned to RUS with Legal Opinion from Attorney
 - RUS Final Review and Release of Funds
 - Review and clearance of submitted Documents
 - All Release of Funds Conditions must be met
 - Congrats – Release of Funds for Advance – notification letter sent

Loan Application Process

Loan Prioritization

- The Ideal: First In / First Out
- The Reality: “Good” Applications are Processed First
- What is a “Good” Application?
 - Application that is Complete or Nearly Complete on arrival
 - Thoroughly describes the existing financial situation and projections
 - Thoroughly describes the project to be built

Loan Application Process

Application Derailment: Common Problems

- Financial Statements and Projections
 - Expense Forecast
 - Non-Operating / Non-Regulated Income Forecasts
 - Detailed and Logical Explanation of basis for the Forecast
 - If projection varies widely from historical: must explain
 - If projection does not agree with basis of Forecast: Problem!
 - Base year of the financial forecast does not agree with Operating Report: Problem!

Loan Application Process

Application Derailment: Common Problems

- **Subscriber Projections**
 - Industry Trend has been Access Line Decrease
 - Must provide explanation of basis for subscriber projection
 - Projections that vary widely from historical must be explained
 - If base year of subscriber forecast does not match Operating Report:
Problem!
 - Typical Reasons for projections:
 - Loss of 2nd lines for computer use
 - Loss due to mobile wireless
 - Loss due to outward migration
 - Gain due to economic development
 - Gain due to new services

Loan Application Process

Application Derailment: Common Problems

- **Subsidiary/Affiliates/Non-reg Activities**
 - Contained in Non-Op. or Non-Reg. Inc.
 - Insufficient detail of how services are provided
 - DSL / Internet Services / Data Services
 - Video Services
 - Long Distance
 - Cellular Service
 - CLEC Activities
 - What do we need?
 - Who provides each service (Loan Applicant, Subsidiary / Affiliate)
 - What is provided?
 - Are agreements between entities in place?
 - Where are the services provided?

Loan Application Process

Application Derailment: Common Problems

- Discussion of Competition
 - Provide details of Coverage and Rates Charged
 - Extent of Competition for each service
 - Discussion of your penetration rates (for Video, DSL, etc)
 - Marketing plan
 - GFR provides Summary Data to Support Application
- Use of Prior Loan Funds
 - Discussion of Status of prior loan projects
 - Revisit continued need for older unused funds
 - Rescission of Unused Funds

Loan Application Process

Application Derailment: Common Problems

- Refinancing (1735.21)
 - We can only refinance outstanding debt if the current lender refuses to share a lien with RUS; or
 - The loan isn't feasible with existing debt but is feasible if RUS refinances (rare)
 - Up to 40% of the loan may be for refinancing

Loan Application Process

Uncommon (but significant) Problems

- Loan Contract / Mortgage Violations
- Delinquent Payment / Repeated Late Pay
- Exceed Allowable Distributions
- Distributions / Advances to Affiliates
- Accounts Receivable is really Long Term Debt
- Lack of latest Operating Report
- Lack of latest Audit

Loan Application Process

QUESTIONS?