

Association of Communication Engineers/USDA Rural Development Seminar

Getting It: Making The Application Process Work

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Rural Development Utilities Program
Telecommunications Program

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Committed to the future of rural communities.

Getting It: Making The Application Process Work

LOAN PROCESSING STEPS

- PRELOAN ACTIVITIES AND SUBMISSION
 - LOAN DESIGN (3 COPIES) AND O.P. LAYOUT
 - GFR ADDS OTHER DOCUMENTATION
 - 3-WAY MEETING & RUS REVIEW TEAM

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LOAN PROCESSING STEPS

- **ENGINEERING COST STUDY**
 - TECHNICAL REVIEW
 - ESTABLISHES LOAN BUDGET
 - APPROVAL LETTER TO BORROWER
- **FEASIBILITY STUDY**
 - FINANCIAL PROJECTIONS: 5-YEAR FORECAST
 - PREPARE LOAN PACKET

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LOAN PROCESSING STEPS

- **LOAN COMMITTEES**
 - **ASSIST. ADMINISTRATOR'S LOAN COMMITTEE**
 - DIRECTOR – SOUTHERN DIVISION
 - DIRECTOR – NORTHERN DIVISION
 - DIRECTOR – BROADBAND DIVISION
 - DIRECTOR – ADVANCED SERVICES DIVISION
 - PROGRAM ADVISOR
 - CHAIR – DEPUTY ASST. ADMIN., TELECOMM.

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LOAN PROCESSING STEPS

- SENIOR LOAN COMMITTEE
 - ASST. ADMIN., TELECOMMUNICATIONS
 - ASST. ADMIN., ELECTRIC
 - ASST. ADMIN., WATER & ENVIRONMENTAL
 - SENIOR PROGRAM ADVISOR
 - CHAIR - ADMINISTRATOR

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LOAN PROCESSING STEPS

- TERM LETTER SENT TO BORROWER
- LOAN DOCS SENT TO BORROWER
- RELEASE OF FUNDS

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LOAN APPLICATION

- **SYSTEM DESIGN**
 - CURRENT DESIGNS
 - TRANSITIONAL DESIGNS
 - FTTP DESIGNS
 - WIRELESS SYSTEMS

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LOAN APPLICATION

- **DISCUSS DECISION PROCESS**
 - **WHY YOU PICKED THIS SYSTEM DESIGN**
 - **TRANSITION PLAN**
 - **SERVICE OFFERINGS – PROVIDE DETAILS ON PLANS, RATES, ETC.**
 - **HOW YOUR TECHNOLOGY ADDRESSES COMPETITION**

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LOAN APPLICATION

- **SUBSCRIBER PROJECTIONS**
 - WHY WE NEED ACCURATE PROJECTIONS
 - NEGATIVE SUB GROWTH IS NOT CAUSE TO DENY A LOAN!
 - DETAILED DESCRIPTION OF PAST GROWTH
 - DETAILED DESCRIPTION OF FUTURE GROWTH

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LOAN APPLICATION

- **SUBSCRIBER PROJECTIONS (CONT'D)**
 - **WHAT WE TYPICALLY SEE:**
 - **LOSS OF 2ND LINES FOR COMPUTER USE**
 - **LOSS DUE TO MOBILE WIRELESS**
 - **LOSSES TO COMPETITORS**
 - **LOSSES DUE TO ECONOMY**
 - **GAINS DUE TO ECONOMIC DEVELOPMENT**
 - **GAINS DUE TO NEW SERVICES**

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LOAN APPLICATION

- ADDRESSING COMPETITION
 - DETAILED DISCUSSION ON COMPETITORS
 - CLECs
 - CABLE TV
 - BROADBAND PROVIDERS
 - MOBILE WIRELESS PROVIDERS
 - SATELLITE PROVIDERS

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LOAN APPLICATION

- **ADDRESSING COMPETITION (CONT'D)**
 - **DETAIL COVERAGE & RATES CHARGED**
 - **DISCUSS IMPACT OF COMPETITION ON YOUR REVENUES**
 - **DISCUSS YOUR MARKETING PLAN**
 - **MAY NEED SENSITIVITY STUDIES IF IMPACT IS GREAT**

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LOAN APPLICATION

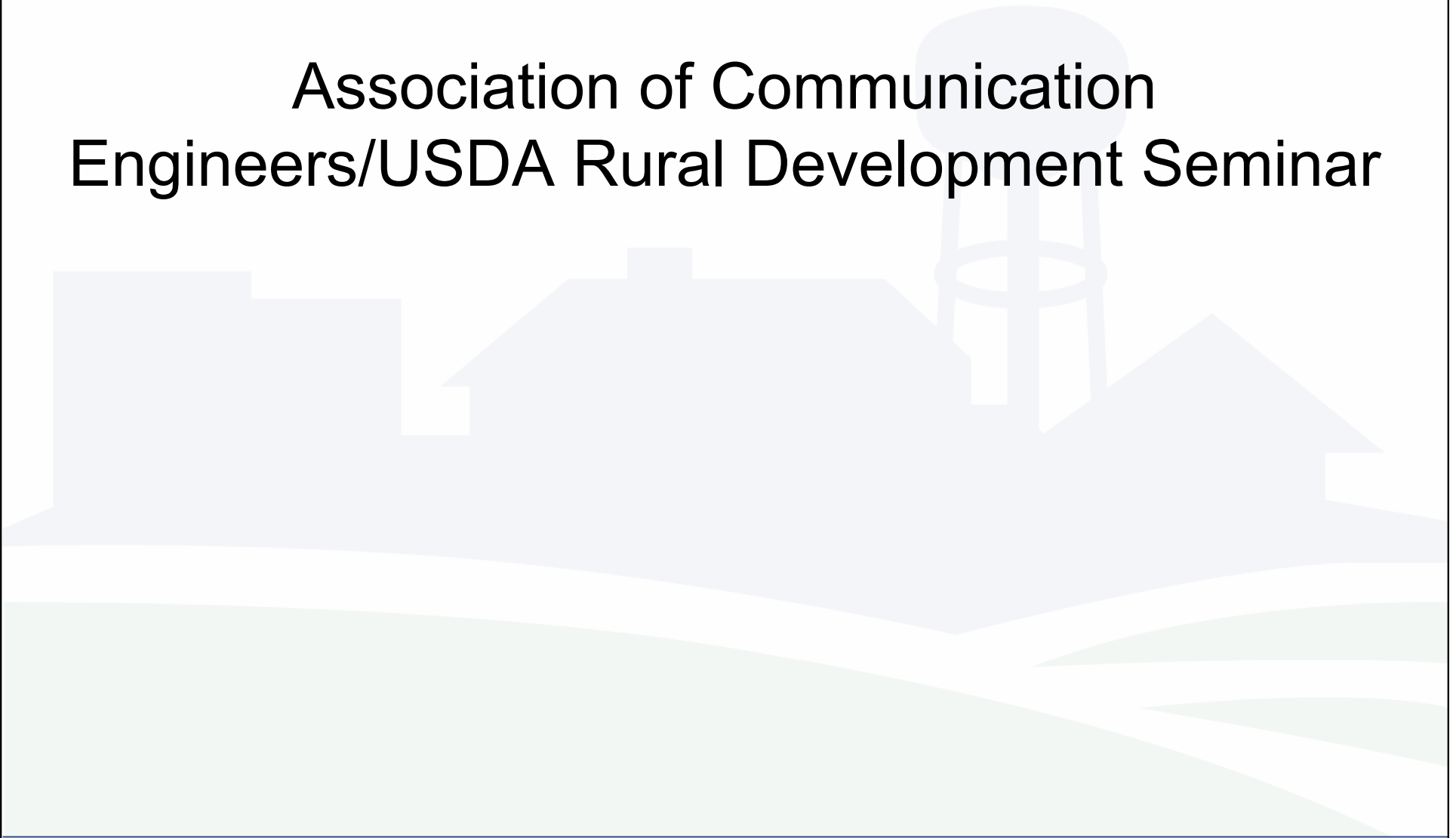
- **FINANCING VIDEO SERVICE**
 - WE CANNOT FINANCE CATV SERVICE
 - CAN'T FINANCE EQUIPMENT DEDICATED TO CATV SERVICE
 - ANALOG/DIGITAL HEADEND
 - DISCREET VIDEO TRANSMISSION EQUIPMENT
 - SET TOP CONVERTERS FOR CATV SERVICE
 - WE CAN FINANCE TRIPLE PLAY, WITH ABOVE RESTRICTIONS

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LOAN APPLICATION

- **ADDITIONAL INFORMATION, AS REQUIRED**
 - **SERVING NATIVE AMERICAN RESERVATIONS**
- **WE ARE DEVELOPING NEW APPLICATION GUIDE**

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LOAN APPLICATION

- Subs, Affiliates & Non-Reg Activities
 - DETAIL RELATIONSHIPS THAT IMPACT TELCO
 - MAY INCLUDE CATV, INTERNET, LONG DISTANCE, WIRELESS, VIDEO, DATA, ETC.
 - NON OP. INC.: LINE 27 OF INC. STATEMENT
 - NON REG. INC.: LINE 30 OF INC. STATEMENT

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LOAN APPLICATION

- Subs, Affiliates & Non-Reg Activities (CONT'D)
 - DISCUSS FINANCIAL VIABILITY OF EACH
 - HOW DO THESE ACTIVITIES COMPLEMENT BORROWER'S REGULATED ACTIVITIES
 - DISCUSS YOUR MARKETING PLAN AND HOW THESE ACTIVITIES HELP TO ADDRESS COMPETITIVE PRESSURES

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LOAN APPLICATION

- **Subs, Affiliates & Non-Reg Activities
(CONT'D)**
 - **NEED INCOME PROJECTIONS FOR THESE ACTIVITIES.**
 1. **FIVE YEARS, YEAR BY YEAR**
 2. **BREAK OUT EACH SOURCE OF NON. OP. & NON-REG. INC.**
 3. **EXPLAIN PROJECTIONS**

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LOAN APPLICATION

- **Subs, Affiliates & Non-Reg Activities
(CONT'D)**
 - **WILL NEED DETAILED ASSUMPTIONS IF:**
 1. **OPERATION IS NOT PROFITABLE**
 2. **FORECASTED OPS. VARY SUBSTANTIALLY FROM CURRENT PERFORMANCE**
 3. **FEASIBILITY OF LOAN CONTINGENT UPON THESE OPERATIONS**

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HYPOTHETICAL SUB. & NON-REG FORECAST

	2007	2008	2009	2010	2011	2012
DIVS.	25K	30K	30K	35K	35K	40K
SUB A	100K	200K	300K	375K	485K	550K
SUB B	-500K	-450K	-435K	-450K	-460K	-490K
SUB C	-500K	-425K	-350K	-230K	-90K	25K

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FEASIBILITY ISSUES

- **EXPENSE FORECASTS**

- IN SOME CASES, WHEN SUBS. ARE PROJECTED TO DECLINE, BORROWERS SHOULD SUBMIT PROJECTIONS FOR THE FOLLOWING EXPENSE ITEMS:
 1. PLANT NONSPECIFIC OPERATIONS
 2. CUSTOMER OPERATIONS
 3. CORPORATE OPERATIONS
 4. TAXES, EXCLUDING FIT
 5. PLANT SPECIFIC OPERATIONS

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FEASIBILITY ISSUES

- WE ARE DEVELOPING A NEW FEAS. STUDY
 - EXISTING STUDIES BASED UPON PER SUB. FACTORS & PROJECT TO 5TH YEAR ONLY
 - NEW FEAS. STUDY WILL BE BASED UPON YEARLY PRO-FORMA INCOME STATEMENTS, BALANCE SHEETS & CASH FLOW STATEMENTS

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FEASIBILITY ISSUES

- **TIER ISSUES**
 - REGULATIONS REQUIRE THAT BORRwers MAINTAIN A TIER OF AT LEAST 1.0 DURING FORECAST PERIOD
 - WE ARE PROPOSING TO ELIMINATE THIS TIER MAINTENANCE REQUIREMENT.

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LEGAL ISSUES

- **DOCUMENTS**

- DOCUMENTS EXECUTED WITH ALL LOANS APPROVED SUBSEQUENT TO 2003 PROVIDE FOR AN EXPIRATION DATE 5 YEARS FROM THE DATE OF THE NOTE
- SOME BORROWERS, PRIMARILY START UP ENTITIES, MAY BE REQUIRED TO ESTABLISH A PLEDGED DEPOSIT ACCOUNT IN LIEU OF THE STANDARD CONSTRUCTION FUND ACCCOUNT
- DOCUMENTS ARE NOW STANDARDIZED RESULTING IN FASTER PREPARATION
- BORROWERS WILL RECEIVE A DRAFT LOAN AGREEMENT PRIOR TO LOAN APPROVAL & MUST PROVIDE CONCURRENCE

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LEGAL ISSUES

- **PROBLEMS WITH ATTORNEY’S OPINION**
 - ELECTRONIC COPY OF PROPERTY SCHEDULE MUST ACCOMPANY PRE-LOAN OPINION
 - ANY DEVIATION FROM THE STANDARD FORM OF POST LOAN OPINION WILL RESULT IN SUBSTANTIAL DELAYS IN RELEASE OF FUNDS