

Rural Utilities Service, USDA

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ownership of the toll line facilities before loan funds for improvement of those facilities will be advanced.

[54 FR 14626, Apr. 12, 1989. Redesignated at 55 FR 39395, Sept. 27, 1990]

§ 1735.101 With nonloan funds.

When an acquisition is limited to toll line facilities and loan funds are not involved, RUS approval of the acquisition is not required. The borrower, however, shall submit to RUS for its approval all concurrences with the connecting companies involved and any other proof of ownership of the toll facilities required by RUS.

[54 FR 14626, Apr. 12, 1989. Redesignated at 55 FR 39395, Sept. 27, 1990]

PART 1737—PRE-LOAN POLICIES AND PROCEDURES COMMON TO INSURED AND GUARANTEED TELECOMMUNICATIONS LOANS

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Subpart A—General

§ 1737.1 General statement.

(a) This part prescribes policies, procedures and responsibilities relating to applications for RUS loans to finance the improvement and extension of telephone service in rural areas. Requirements for both initial and subsequent loans are discussed, with differences pointed out.

(b) This part sets forth the policies, procedures, and requirements of RUS

during the period from the receipt of a completed loan application until the advance of funds. This part sets forth the factors RUS considers in determining the characteristics of a loan, such as the amount of the loan, and conditions to the advance of funds. Involved in this determination are:

A loan budget, feasibility study, characteristics letter, loan recommendation, and release of funds. This CFR part supersedes all RUS Bulletins that are in conflict with it.

(c) See 7 CFR part 1735 on general loan policies, 7 CFR part 1737 for details on submitting a loan application, and 7 CFR part 1744 on the advance of funds.

§ 1737.2 Definitions.

As used in this part:

Access line means a transmission path between user terminal equipment and a switching center that is used for local exchange service. For multiparty service, the number of access lines equals the number of lines/paths terminating on the mainframe of the switching center.

Acquisition means the purchase of another telephone system, lines, or facilities whether by acquiring telephone plant in service or majority stock interest of one or more organizations.

Administrator means the Administrator of RUS.

Area Coverage means the provision of adequate telephone service to the widest practical number of rural users during the life of the loan.

Advance of funds means the transferring of funds by RUS to the borrower's construction fund.

Borrower means any organization which has an outstanding loan made or guaranteed by RUS, on which is seeking such financing.

Characteristics letter means the letter informing the borrower of the characteristics of the proposed loan before the loan is recommended.

Feasibility study means the pro forma financial analysis performed by RUS to determine the economic feasibility of a loan.

Forecast period means the time period beginning on the date (base date) of the borrower's balance sheet used in preparing the feasibility study and ending

on a date equal to the base date plus the number of years estimated in the feasibility study for the completion of the project. Feasibility projections are usually for 5 years, see §1737.70(a). For example, the forecast period for a loan based on a December 31, 1990 balance sheet and having a 5-year estimated project completion time is the period from December 31, 1990 to December 31, 1995.

Guaranteed loan means a loan guaranteed by RUS under section 306 of the RE Act bearing interest at a rate agreed to by the borrower and the lender.

Hardship loan means a loan made by RUS under section 305(d)(1) of the RE Act bearing interest at a rate of 5 percent per year.

Initial loan means the first loan made to a borrower.

Interim construction means the purchase of equipment or the conduct of construction under an RUS-approved plan of interim financing.

Interim financing means funding for a project which RUS has acknowledged will be included in a loan, should said loan be approved, but for which RUS loan funds have not yet been made available.

Loan means any loan made or guaranteed by RUS.

Project means the improvements and telephone facilities financed by a particular RUS loan.

RE Act means the Rural Electrification Act of 1936, as amended (7 U.S.C. 901 et seq.).

RUS cost-of-money loan means a loan made under section 305(d)(2) of the RE Act bearing an interest rate as determined under 7 CFR 1735.31(c). RUS cost-of-money loans are made concurrently with RTB loans.

Release of funds means determination by RUS that a borrower has complied with all of the conditions prerequisite to the advances as set forth in the loan contract to the extent deemed necessary by RUS for approval of the use of loan funds and any required equity or other nonloan funds.

Reserves means loan or nonloan funds that have not been encumbered. Funds are encumbered when they have been set aside for by RUS for a particular loan purpose.

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RTB loan means a loan made by the Rural Telephone Bank (RTB) under section 408 of the RE Act bearing an interest rate as determined under 7 CFR 1610.10. RTB loans are made concurrently with RUS cost-of-money loans.

Rural area means any area of the United States, its territories and possessions (including any area within the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau) not included within the boundaries of any incorporated or unincorporated city, village or borough having a population exceeding 5,000 inhabitants. The population figure is obtained from the most recent data available, such as from the Bureau of the Census and Rand McNally and Company. For purposes of the “rural area” definition, the character of an area is determined as of a time the initial loan for the system is made.

Special project means facilities involving investment in excess of \$100,000 for any single subscriber.

Subscriber means the same as access line.

Subsequent Loan means any loan to a borrower which has already received a loan.

Telephone service means any communication service for the transmission or reception of voice, data, sounds, signals, pictures, writing, or signs of all kinds by wire, fiber, radio, light, or other visual or electromagnetic means and includes all telephone lines, facilities and systems to render such service. It does not mean:

- (1) Message telegram service;
- (2) Community antenna television system services or facilities other than those intended exclusively for educational purposes; or
- (3) Radio broadcasting services or facilities within the meaning of section 3(o) of the Communications Act of 1934, as amended.

Times Interest Earned Ratio (TIER) means the ratio of a borrower's net income (after taxes) plus interest expense, all divided by interest expense. For the purpose of this calculation, all amounts will be annual figures and interest expense will include only inter-

est on debt with a maturity greater than one year.

[54 FR 13356, Apr. 3, 1989. Redesignated at 55 FR 39396, Sept. 27, 1990, as amended at 56 FR 26598, June 10, 1991; 58 FR 66256, Dec. 20, 1993]

§ 1737.3 Availability of RUS forms.

Single copies of RUS forms and publications cited in this part are available from Administrative Services Division, Rural Utilities Service, United States Department of Agriculture, Washington, DC 20250. These RUS forms and publications may be reproduced. The terms “RUS form”, “RUS standard form”, and “RUS specification” have the same meanings as the terms “REA form” “REA standard form”, and “REA specification”, respectively, unless otherwise indicated.

[54 FR 13356, Apr. 3, 1989. Redesignated at 55 FR 39396, Sept. 27, 1990, and amended at 59 FR 66441, Dec. 27, 1994]

§§ 1737.4–1737.9 [Reserved]

Subpart B—Preapplication Stage

§ 1737.10 Initial contact.

Initial loan applicants seeking assistance should write the Rural Utilities Service, United States Department of Agriculture, Washington, DC 20250. A field representative will be assigned by RUS to visit the applicant and discuss its financial needs and eligibility. Existing borrowers initiate the contact directly with their assigned field representative. Borrowers consult with RUS field representatives and headquarters staff, as necessary.

§ 1737.11 Preapplication determinations.

Before submitting an application to RUS, the borrower should consider the following:

- (a) *Area to be served.* The proposed service area should neither include subscribers already receiving adequate service from another telephone system nor leave out unserved pockets of potential subscribers who have indicated an interest in service and are located between the proposed system and neighboring systems. See 7 CFR 1735.11 on Area Coverage and 7 CFR 1735.12 on Nonduplication. In establishing service

area boundaries, borrowers should consider the location of adjoining systems, natural boundaries such as rivers and mountains, and economic and cultural features such as trading and community centers.

(b) *Number of subscribers.* The borrower must estimate the number of subscribers that will request service from the proposed system.

(c) *Acquisitions.* A borrower considering an acquisition should refer to 7 CFR 1735.20 and RUS Bulletins 320–4, 321–2, 325–1, and 326–1.

(d) *Mergers and consolidations.* A borrower considering a merger or consolidation should refer to 7 CFR 1735.19.

(e) *Refinancing.* Restrictions on the use of loan funds for refinancing are contained in 7 CFR 1735.21.

(f) *Service for nonrural subscribers.* In some situations, RUS loan funds may be used to finance facilities to serve nonrural subscribers. See 7 CFR 1735.13.

(g) *Loan amount.* The initial loan request is based on the borrower's best estimate of financing needs. RUS requires detailed studies by the borrower to complete the application and the initial estimate is subject to revision.

(h) *Loans for a portion of a system.* If it is impractical to finance facilities to provide adequate service throughout the borrower's entire telephone service area, RUS will consider a loan application to finance improvements to a portion of a borrower's system.

(i) *Telecommunications modernization plan.* A borrower applying for hardship or concurrent RUS cost-of-money and RTB loans should refer to 7 CFR part 1751, subpart B.

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§§ 1737.12–1737.19 [Reserved]

Subpart C—The Loan Application

§ 1737.20 [Reserved]

§ 1737.21 The completed loan application.

(a) The completed loan application consists of four parts:

- (1) A completed RUS Form 490.
- (2) A market survey called the Area Coverage Survey (ACS).

(3) The plan and associated costs for the proposed construction, called the Loan Design (LD).

(4) Various supplementary information specified in 7 CFR 1737.22.

(b) The RUS field representative assists the borrower in assembling this information. Certain information is required from initial loan applicants but usually not from borrowers seeking subsequent loans. Borrowers are to submit all information in paragraph (a) of this section to their RUS field representatives, who will review and then forward the packages to RUS headquarters.

(c) RUS will make a determination of completeness of the application package and will notify the borrower of this determination within 10 working days of receipt of the information at RUS headquarters. If the application package is not complete, RUS will notify the borrower of what information is needed in order to complete the application package. If the information required to complete the application package is not received by RUS within 90 working days from the date the borrower was notified of the information needed, RUS may return the application package to the borrower. Returned applications are without prejudice and borrowers may resubmit the completed application.

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[54 FR 13356, Apr. 3, 1989. Redesignated at 55 FR 39396, Sept. 27, 1990, as amended at 56 FR 26598, June 10, 1991]

§ 1737.22 Supplementary information.

RUS requires additional information in support of the loan application form. The information listed in paragraphs (a), (b), and (c) of this section must be submitted as part of the loan application as specified in 7 CFR 1737.21.

(a) The following must be submitted by all initial loan applicants. Borrowers seeking subsequent loans must submit any changes in these items since they were last submitted.

- (1) Name of attorney and manager, and certified copies of board resolutions selecting them.
- (2) Certified copy of articles of incorporation showing evidence of filing

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with the Secretary of State and in county records.

(3) Certified copies of bylaws and board minutes showing their adoption.

(4) Certified sample stock certificates.

(5) Amounts of common and preferred stock issued and outstanding.

(6) Names, addresses, business affiliations, and stockholdings of the manager, officers, directors, and other principal stockholders (those owning at least 20 percent of borrower's voting stock).

(7) Certified copies of real estate deeds showing all recording information.

(8) Service agreements, such as for management or system maintenance.

(9) Certified copies of existing leases, except those for vehicles, furniture and office equipment, and computer equipment.

(10) Certified copies of existing franchises.

(11) Information on any franchises required as a result of the proposed loan project.

(12) Federal Communications Commission (FCC) authorizations.

(13) Certified copy of a certificate of convenience and necessity (or its equivalent), or information demonstrating the nonduplication of reasonably adequate facilities, for all areas in the loan project.

(14) For toll, operator office, traffic, and EAS agreements, the names of all parties to the agreement, the type of agreement, and the effective and termination dates of the agreement and annexes, and the exchanges involved.

(15) Copies of rate schedules. (A copy of the tariff must be available for review by the RUS field representative.)

(16) Executed copy of RUS Form 291, "Certification of Nonsegregated Facilities".

(17) A sketch or map showing the existing and proposed service areas.

(18) Executed assurance that the borrower will comply with the Uniform Relocation Assistance and Real Property Acquisitions Policies Act of 1970, as amended (see 49 CFR 24.4).

(19) A certification (which is included on RUS Form 490, "Application for Telephone Loan or Guarantee") that the borrower has been informed of the

collection options listed below that the Federal government may use to collect delinquent debt. RUS and other government agencies are authorized to take any or all of the following actions in the event that a borrower's loan payments become delinquent or the borrower defaults (OMB Circular A-129 defines "delinquency" for direct or guaranteed loans as debt more than 31 days past due on a scheduled payment):

(i) Report the borrower's delinquent account to a credit bureau.

(ii) Assess additional interest and penalty charges for the period of time that payment is not made.

(iii) Assess charges to cover additional administrative costs incurred by the Government to service the borrower's account.

(iv) Offset amounts owed to the borrower under other Federal programs.

(v) Refer the borrower's debt to the Internal Revenue Service for offset against any amount owed to the borrower as an income tax refund.

(vi) Refer the borrower's account to a private collection agency to collect the amount due.

(vii) Refer the borrower's account to the Department of Justice for litigation in the courts.

(20) A certification, signed by the president of the borrower, that the borrower is participating in the State's telecommunications modernization plan (for additional information concerning the plan, see 7 CFR part 1751, subpart B). This certification is not required if the borrower is seeking a guaranteed loan.

All of the actions in paragraph (a)(19) of this section can and will be used to recover any debts owed when it is determined to be in the interest of the Government to do so. The notification and the required form of certification in paragraph (a)(19) of this section are included on RUS Form 490, Application for Telephone Loan or Guarantee.

(b) The following must be submitted by all initial loan applicants and borrowers seeking subsequent loans:

(1) Certified financial statements for the last 3 years.

(2) Toll settlement statements and related data.

(3) Present exchange rates and any pending changes.

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(4) Borrower's Environmental Report (BER)—See 7 CFR part 1794.

(5) A "Certification Regarding Lobbying" for loans, or a "Statement for Loan Guarantees and Loan Insurance" for loan guarantees, and when required, an executed Standard Form LLL, "Disclosure of Lobbying Activities," (see section 319, Public Law 101–121 (31 U.S.C. 1352)).

(6) Executed copy of Form AD–1047, "Certification Regarding Debarment, Suspension, and Other Responsibility Matters—Primary Covered Transactions" (see appendix A to 7 CFR part 3017).

(7) Borrower's determination of loan maturity, including information noted in §1735.43(a) of this chapter as required.

(8) Approved depreciation rates for items under regulatory authority jurisdiction.

(9) A statement that the borrower is or is not delinquent on any Federal debt, such as income tax obligations or a loan or loan guarantee from another Federal agency. If delinquent, the reasons for the delinquency must be explained and RUS will take such explanation into consideration in deciding whether to approve the loan. RUS Form 490, "Application for Telephone Loan or Guarantee," contains a section for providing the required statement and any appropriate explanation.

(10) Any other supporting data required by the Administrator.

(c) The following must be submitted for all borrowers requesting funds for refinancing:

(1) Copies of all bonds, notes, mortgages, and contracts covering outstanding indebtedness proposed to be refinanced.

(2) For each note or bond, the name of the creditor, original amount of debt and amount as of last year-end, purpose of debt, dates incurred and due, interest rates, and repayment terms.

(3) Justification for refinancing and evidence that the use of loan funds is necessary and incidental to furnishing or improving rural telephone service. See 7 CFR 1735.21.

(d) Borrowers requesting loan funds for acquisitions should refer to RUS

7 CFR Ch. XVII (1–1–03 Edition)

bulletins 320–4, 321–2, 325–1, and 326–1 for requirements.

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§§ 1737.23–1737.29 [Reserved]

Subpart D—Preloan Studies—Area Coverage Survey and Loan Design

§ 1737.30 General.

In support of a loan application, the borrower shall prepare and submit to RUS: (a) A market forecast to determine service requirements (the Area Coverage Survey) and (b) engineering studies to determine the system design that provides service most efficiently (the Loan Design). The RUS field representative confers with the borrower and its engineer to schedule the completion and submission of these studies.

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§ 1737.31 Area Coverage Survey (ACS).

(a) The Area Coverage Survey (ACS) is a market forecast of service requirements of subscribers in a proposed service area.

(b) The objective of the ACS is to determine the location, number and telephone service requirements of subscribers in a service area. RUS will use the ACS to appraise the proposed plan for area coverage and to determine the largest practical number of rural subscribers which can be served on an economically feasible basis. Preparation of the ACS requires:

(1) A field survey of the service area to locate and identify on maps all business and residential establishments, whether currently served or not. The location and identification of future establishments are also recorded on the maps.

(2) A forecast of the number of telephone subscribers, in the entire service area, by exchange, grade and class of service, projected for the end of the 5-year study period.

(c) The results of the survey and forecast shall be:

(1) Shown on maps (maps for those service areas previously financed by RUS do not have to be included in the ACS provided that the borrower's records contain sufficient information as to subscriber development to enable cost estimates for the proposed facilities to be prepared);

(2) Tabulated on RUS Form 569 "Area Coverage Survey Report," or its equivalent; and

(3) supported by a narrative (see § 1737.32(f)(1)(ii)) containing information on the bases for the service requirement forecasts in each exchange.

(d) Guidelines on preparing an ACS are provided in RUS Telecommunications Engineering and Construction Manual section 205.

(e) The RUS field representative reviews and approves the borrower's ACS. The borrower should make sure this is done before proceeding with the Loan Design in order to prevent unnecessary expense should the ACS not be approved. The borrower's engineer must use the RUS-approved ACS in preparing the Loan Design.

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§ 1737.32 Loan Design (LD).

(a) A loan application requires supporting data collectively called a "Loan Design." The LD contains a forecast of service requirements and a narrative with supporting exhibits. Most of the items included in the LD are similar for all loan applications. However, as noted below, there are certain additional requirements for initial loans and for any exchange areas not previously financed by RUS, and other additional requirements for subsequent loans for areas previously financed by RUS. The LD must conform to the borrower's state telecommunications modernization plan unless the borrower is seeking a guaranteed loan (for additional information concerning the plan, see 7 CFR part 1751, subpart B).

(b) Because of the importance and complexity of the engineering studies necessary for the LD, it should be prepared by a competent experienced telecommunications engineer. While the LD is subject to RUS approval, the bor-

rower's selection of an engineer to perform preloan work is not. Note: The borrower's selection of an engineer to perform postloan work is subject to RUS approval. This should be considered when selecting a preloan engineer, if the same individual or company is to perform both services. See 7 CFR 1753.17.

(c) An LD for initial loans or for any exchange areas not previously financed by RUS requires an Outside Plant Design that provides:

(1) The most economical and practical design for a telephone system that meets immediate service demands; and

(2) The basis for orderly expansion of the system to serve the widest practical number of rural establishments.

(d) The LD for a subsequent loan (which only includes areas previously financed by RUS) does not require a detailed Outside Plant Design. The detailed Outside Plant Design for these subsequent loans may be completed for RUS review and approval after loan approval, but before staking is started and plans and specifications are prepared. By scheduling preparation of the outside plant design closer to preparation for construction, the need for redesign resulting from changing conditions and its attendant costs are reduced.

(e) Guidelines on preparing an LD are provided in RUS Telecommunications Engineering and Construction Manual section 205.

(f) The LD shall include a narrative, several exhibits, and a certification, as explained below:

(1) *Narrative.* This section discusses the following topics, as appropriate.

(i) *General.* The purposes and amount of the proposed construction and both immediate and long range plans must be covered. The source and amount of any nonloan funds to be used for this construction must be discussed.

(ii) *Subscriber data.* The basis for the subscriber forecast, including any unusual factors expected to influence growth, must be discussed. Reasons for growth projections which vary from historic trends must be explained.

(iii) *Proposed construction.* All proposed construction must be described

fully. Reference to the BER must be made here.

(iv) *Service area.* For subsequent loans only, proposed construction which is not within the boundaries of prior loan projects must be discussed. New areas to be served (even if from existing exchanges) must be shown on maps submitted with the proposal.

(v) *Toll and EAS.* Proposed new toll or extended area service (EAS) facilities, including any changes from the existing trunking arrangements, must be described fully. Minutes of meetings and correspondence with connecting companies, and connecting company concurrences, if any, must be included.

(vi) *Radio telephone service.* Proposed radio telephone service must be discussed. Results of studies demonstrating demand and/or need must be included as an exhibit.

(vii) *Special projects.* Facilities involving investment in excess of \$100,000 for any single subscriber must be discussed fully. Contractual arrangements with the subscriber, including a termination agreement providing for (A) the full recovery by the borrower of its capital costs of the facilities no later than the maturity date of the note representing the loan, (B) the immediate repayment of all remaining capital costs, if terminated, and (C) repayment to RUS of the outstanding amount of the special note shall be submitted. Usually a separate short-term note is prepared for loans to finance Special Projects.

(viii) *Investment in nonrural areas.* (A) For initial loans, or loans for areas not previously financed by RUS, the borrower must fully discuss proposed improvements or expansions in an exchange serving a community over 5,000 population. The name of the community, the number of existing and projected new subscribers by grades of service within the community, detailed cost estimates of the facilities involved, and information sufficient to establish the necessity for the use of loan funds must be provided.

(B) For subsequent loans, the borrower must fully discuss as specified in paragraph (f)(1)(viii)(A) of this section proposed improvements or expansions in an exchange serving a community over 5,000 population which had a population of more than 5,000 at the time

the facilities to serve the community were first financed by RUS. The population determination is based on the corporate limits or boundaries of unincorporated areas in existence at the time the facilities to serve the community were first financed by RUS.

(C) For subsequent loans, the borrower shall state whether the population of a community, which is currently more than 5,000, was considered rural at the time RUS first financed the facilities to serve the community. Detailed cost estimates are not required if the population was considered rural at the time RUS first financed facilities to serve the community, see 7 CFR 1735.13(d).

(ix) *Prior loan project.* For subsequent loans only, the reason for and amount of additional loan funds needed to complete construction in progress which was part of a prior loan project in central office areas not included in the current LD must be discussed fully.

(x) *Route miles.* Route miles of outside plant in central office areas not shown on RUS Form 495 must be provided.

(xi) *Future plans.* Where the loan application is to finance part of a system-wide upgrading plan, plans for those remaining exchanges not included in the current loan proposal must be discussed.

(2) *Exhibits.* (i) An RUS Form 569, "Area Coverage Survey Report," or its equivalent shall be included for the total system and for each exchange in which system improvements or additions are proposed.

(ii) An RUS Form 495, "Construction Cost Estimates," or its equivalent shall be prepared for each exchange in which system improvements or additions are proposed. An explanation of the method used in developing these cost estimates must be included.

(iii) RUS Form 494, "Loan Design Summary," or its equivalent shall be prepared for each loan. This must show all expected 5-year construction costs, loan and nonloan.

(iv) A schematic trunking diagram shall be included showing the number and type, length, ownership and make-up of existing and proposed toll and EAS trunks, plus transmission and traffic data for each trunk group.

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(v) Detailed outside plant design maps must be submitted for all central office areas of initial loan applicants and for areas not previously served by existing borrowers or financed by RUS. These design maps must be in sufficient detail to substantiate the construction cost estimates.

(vi) For subsequent loans only, if a change in system boundaries is proposed, a map must be furnished showing present and proposed boundaries, and existing establishments and subscribers in the new areas.

(vii) Any other special exhibits needed to support particular items in the loan proposal must be included.

(3) *Certification.* The following certification shall be signed by a principal of the engineering firm and the borrower:

We, the undersigned, certify that the data in this Loan Design are correct to the best of our knowledge and belief and reasonably reflect the cost to serve the subscribers as proposed on the Forms 569, "Area Coverage Survey Report," which are integral parts hereof, and that this Loan Design adheres to RUS engineering and construction standards and practices.

(g) The RUS field representative shall review and make a recommendation on each LD.

(1) After completion of the LD, the borrower arranges a meeting with its engineer and RUS's field representative to review:

(i) Design and cost estimates.

(ii) Reserves available from prior loans, if any, or internally generated funds which may be applied against the requirements of the current application.

(2) One copy of RUS Form 567, "Checklist for Review of Loan Design," completed and signed by the borrower's engineer must be attached to the LD submitted to the RUS field representative.

(3) The RUS field representative recommends acceptance of the LD as the basis for RUS financing.

(4) Three copies of the final LD with the RUS field representative's recommendation are then sent to the relevant Area Office in RUS. A fourth copy is retained by the RUS field representative.

(5) A transmittal letter from the borrower must accompany the LDs, re-

questing that the application previously submitted be amended so as to be consistent with the approved LD.

(6) Final approval of the LD is given by the relevant Area Office in RUS. To be approved, the LD must be cost effective, include appropriate technology, and provide area coverage.

(7) Upon receipt of the LD and any other required information, RUS makes a preliminary analysis of the loan proposal. Before final consideration of the loan, RUS reviews the results of its preliminary analysis with the borrower.

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[54 FR 13356, Apr. 3, 1989; 54 FR 16194, Apr. 21, 1989. Redesignated at 55 FR 39396, Sept. 27, 1990; 58 FR 66256, Dec. 20, 1993]

§§ 1737.33-1737.39 [Reserved]

Subpart E—Interim Financing of Construction of Telephone Facilities

§ 1737.40 General.

(a) Under special circumstances a borrower may request that RUS approve interim financing for interim construction. This subpart describes the circumstances in which RUS will consider approving interim financing of construction, the information to be submitted to RUS to support the borrower's request, RUS's requirements relating to interim construction, and related matters.

(b) For a borrower to preserve the option of obtaining loan funds for reimbursement of interim financing, it must obtain prior RUS approval of its interim financing plan and follow the procedures in 7 CFR 1737.41 and 7 CFR 1737.42.

(c) RUS will approve interim financing only for projects which must be performed immediately.

(d) RUS approval of interim financing is not a commitment that RUS will make loan funds available.

(e) Equal employment opportunity requirements apply to interim construction. See RUS Bulletin 320-15.

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§ 1737.41 Procedure for obtaining approval.

(a) The borrower shall submit to the RUS Area Office a written request for approval of interim financing. This request shall include:

- (1) A description of the construction proposed under interim financing.
- (2) An explanation of the urgency of proceeding with the proposed construction.
- (3) An estimate of the cost.
- (4) The source of funds to be used for interim financing.

(b) RUS will not approve interim financing until it has reviewed and found acceptable:

- (1) All of the information required under § 1737.21; or
- (2) The following documents:
 - (i) The loan application (RUS Form 490) clearly marked “in support of interim financing request.”
 - (ii) The Loan Design (LD), or the portion thereof that covers the proposed construction if the completed LD is not available. See 7 CFR 1737.32.
 - (iii) Evidence that the borrower has satisfied the requirements of 7 CFR part 1794 applying to the proposed interim construction.
 - (iv) A statement that the borrower is or is not delinquent on any Federal debt, such as income tax obligations or a loan guarantee from another Federal agency. If delinquent, the reasons for the delinquency must be explained and RUS will take such explanation into consideration in deciding whether to approve the interim financing, see 7 CFR 1737.22(b)(9).
 - (v) A “Certification Regarding Lobbying” for loans, or a “Statement for Loan Guarantees and Loan Insurance” for loan guarantees, and when required, an executed Standard Form LLL, “Disclosure of Lobbying Activities,” (see section 319, Pub. L. 101-121 (31 U.S.C. 1352)).
 - (vi) Executed copy of Form AD-1047, “Certification Regarding Debarment, Suspension, and Other Responsibility Matters—Primary Covered Transactions” (see appendix A to 7 CFR part 3017).
 - (vii) Any other supporting data required by the Administrator.

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(c) RUS will not approve a borrower’s request for approval of interim financing if, in RUS’s judgment:

- (1) The proposed interim financing does not comply with the requirements of this subpart.
- (2) The proposed interim construction will not qualify for RUS financing.
- (3) The proposed interim financing presents unacceptable loan security risks to RUS, or otherwise is not in the best interests of RUS.

(Approved by the Office of Management and Budget under control number 0572-0079)

[54 FR 13356, Apr. 3, 1989. Redesignated at 55 FR 39396, Sept. 27, 1990, as amended at 56 FR 26599, June 10, 1991; 59 FR 54381, Oct. 31, 1994]

§ 1737.42 Procedure for construction.

(a) If RUS approves the interim financing, interim construction shall be conducted in accordance with 7 CFR Part 1753, 7 CFR 1788, RUS Bulletin 320-15, and RUS Bulletins 381-1, 381-2, 381-4, 381-7, 381-8, 381-9, 381-10, 381-11, 381-13, 382-1, 382-2, 382-3, 383-1, 383-4, 384-1, 384-2, 384-3, 385-1, 385-2, 385-3, 385-4, 385-5, 385-6, 387-1, 387-2, 387-3, 387-4, and 387-5) except for the following:

- (1) All sellers and contractors invited to bid must be informed that funds from sources other than RUS will be used to pay for construction.
- (2) Contracts involving the interim construction must contain a provision, in form and substance satisfactory to RUS, stating that RUS is not committed to lend or advance funds to finance the project.
- (3) Contracts will not be approved by RUS until the borrower demonstrates to RUS’s satisfaction that funds from sources other than RUS will be available when needed to pay invoices submitted in accordance with contract payment terms.

(4) The borrower shall not begin interim construction until all necessary licenses, permits, and other governmental approvals have been obtained.

(b) After RUS loan funds are released, the borrower can obtain reimbursement for interim financing by submitting a Financial Requirement Statement. See 7 CFR Part 1744, subpart C (or RUS Bulletin 327-1).

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(1) The first advance of loan funds to a borrower that has received interim financing approval generally will be limited to funds to repay any interim financing indebtedness and such additional amounts as RUS deems necessary. RUS will make no further advances of loan funds until the borrower has submitted evidence, in form and substance satisfactory to the Administrator, that (i) any indebtedness created by the interim financing and any liens associated therewith have been fully discharged of record and (ii) the borrower has satisfied all other conditions on the advance of additional loan funds.

(2) If the source of funds for interim financing is the borrower's internally generated funds, the borrower may request reimbursement of those funds along with advances for other purposes on the first Financial Requirement Statement.

[54 FR 13356, Apr. 3, 1989; 54 FR 16194, Apr. 21, 1989. Redesignated at 55 FR 39396, Sept. 27, 1990]

§§ 1737.43–1737.49 [Reserved]

Subpart F—Review of Application Procedures

§ 1737.50 Review of completed loan application.

(a) The completed loan application consists of:

(1) A completed RUS Form 490, "Application for Telephone Loan or Loan Guarantee;"

(2) A completed certification Form AD-1047, "Certification Regarding Debarment, Suspension, and Other Responsibility Matters—Primary Covered Transactions," (see appendix A to 7 CFR part 3017);

(3) A market survey called the Area Coverage Survey (ACS);

(4) The plan and associated costs for the proposed construction, called the Loan Design (LD);

(5) Evidence that the borrower is participating in a telecommunications modernization plan in the state where the proposed construction will occur, unless the borrower is seeking a guaranteed loan; and

(6) Various supplementary information.

See 7 CFR part 1737 for additional information.

(b) RUS shall review the completed loan application, particularly noting subscriber data, grades of service, extended area service (EAS), connecting company commitments, commercial facilities, system and exchange boundaries, and proposed acquisitions. RUS shall review the LD to determine that the system design is acceptable to RUS, that the design is technically correct, that the cost estimates are reasonable, and that the design provides for area coverage service. RUS shall also review the population and incorporation status of all communities served or to be served by the borrower to determine if any nonrural areas are served and if municipal franchises are required. Any RUS lending for nonrural areas must be in accordance with 7 CFR part 1735. RUS shall also check the "List of Parties Excluded from Federal Procurement of Nonprocurement Programs", compiled, maintained and distributed by General Services Administration, to determine whether the borrower is debarred, suspended, ineligible, or voluntarily excluded (see 7 CFR 3017.505).

(c) RUS will notify the borrower if RUS recommends major changes in subscriber projections, design, cost estimates, or other significant matters. RUS will not continue loan processing until RUS and the borrower agree on all major changes.

[54 FR 13356, Apr. 3, 1989; 54 FR 16194, Apr. 21, 1989. Redesignated at 55 FR 39396, Sept. 27, 1990; 58 FR 66256, Dec. 20, 1993]

§ 1737.51 Approval of loan design.

RUS shall notify the borrower when the preloan data concerning the system design and costs and subscriber projections have been approved. If found acceptable, RUS will approve the LD with any required changes. A copy of the approved LD, with any significant changes, as determined by RUS, will be returned to the borrower.

§§ 1737.52–1737.59 [Reserved]

Subpart G—Project Cost Estimation Procedures

§ 1737.60 Telephone loan budget.

(a) RUS shall prepare a “Telephone Loan Budget” (RUS Form 493) showing all costs for the proposed project and the amount of loan and nonloan funds to be used. The budget shall show, as applicable, amounts for central offices, outside plant and station equipment, right-of-way procurement, land, buildings, removal costs, special projects, engineering, vehicles and work equipment, office equipment, operating funds, refinancing with loan funds, debt retirement with nonloan funds, acquisitions, and contingencies. The amounts budgeted, exclusive of prior loan reserves, generally shall be rounded to the nearest \$1,000.

(1) If the loan is to be made by the Rural Telephone Bank (RTB) or concurrently with RTB, the budget shall include the amount required for the purchase of RTB Class B stock. This is 5 percent of the amount to be borrowed from RTB for all purposes other than the purchase of RTB Class B stock. The borrower may elect to use nonloan funds for all or part of this requirement.

(2) The amount of funds included in any loan shall be limited for certain items:

(i) Operating funds for working capital or current operating deficiencies shall be included only in cases of financial hardship as determined by the Administrator.

(ii) Contingencies shall not exceed 3 percent of the total amount of loan funds to be used for construction, engineering, operating equipment and operating funds.

(b) RUS shall prepare the cost estimates based on the data in RUS Form 494, “Loan Design Summary,” and RUS Form 495, “Construction Cost Estimates,” or their equivalents, and other parts of the LD submitted by the borrower, and on other pertinent information. See subpart D of this part. The amounts included in the proposed budget shall be the estimated costs, less the value of materials and supplies on hand or acquired that can be used in

the proposed construction. The cost estimates in the LD may be adjusted by RUS in consultation with the borrower. See §1737.50(c).

(c) Generally, the new loan shall be reduced by any required equity funds and funds available in reserves no longer needed for prior loan purposes to determine the proposed loan requirement.

(d) When amounts are available in reserves no longer needed for prior loan purposes, RUS may, at its option, deny further advances of these funds if they will be used to finance projects in the proposed loan.

(e) The budget shall also show, if applicable, the reserves for each budget item as of the date of the latest RUS Form 481, “Financial Requirement Statement,” submitted by the borrower. To ensure that sufficient funds are included in the budget to finance all proposed construction, RUS includes in the budget any funds deposited by the borrower for approved interim financing.

§ 1737.61 Cost allocation for rural and nonrural areas.

(a) Pursuant to the requirements in 7 CFR part 1735, if loan funds are proposed for facilities to serve subscribers in nonrural areas, RUS shall allocate costs between rural and nonrural areas. This allocation will be used to determine whether the use of loan funds in nonrural areas is necessary and incidental to furnishing and improving telephone service in rural areas. Cost estimates shall be provided by the borrower in the LD. See subpart D of this part. RUS will use the following method to review the cost breakdowns and to determine their appropriateness:

(1) The costs of facilities associated directly with particular subscribers shall be allocated to those subscribers.

(2) The costs of facilities that serve both rural and nonrural subscribers shall be allocated based on the relative number of rural and nonrural subscribers receiving service from those facilities.

(3) When a borrower’s exchange that includes a nonrural community will have an extended area of service (EAS) with other exchanges of the borrower, the breakdown of subscribers and funds

in the allocation for rural and nonrural areas included in the proposed loan shall show the number of rural and nonrural subscribers and the costs to serve each group, as determined per paragraphs (a)(1) and (a)(2) of this section, in the subject exchange and in all exchanges connected by EAS.

(b) If RUS determines that costs cannot be adequately allocated using the procedures in paragraphs (a)(1) through (a)(3) of this section, RUS shall, on a case by case basis, allocate costs between the rural and nonrural subscribers using whatever methodology it deems reasonable. All allocations in paragraphs (a) and (b) of this section shall be documented.

§§ 1737.62–1737.69 [Reserved]

Subpart H—Feasibility Determination Procedures

§ 1737.70 Description of feasibility study

(a) In connection with each loan RUS shall prepare a feasibility study that includes sections on consolidated loan estimates, operating statistics, projected telecommunications, plant, projected retirement computations, and projected revenue and expense estimates (including detailed estimates of depreciation and amortization expense, scheduled debt service payments, toll and access charge revenues, and local service revenues). Normally, projections will be for a 5-year period and used to determine the ability of the borrower to repay its loans in accordance with the terms thereof. RUS will not require borrowers to raise local service rates. Local service revenue projections will be based on the borrower's existing local service rates or regulatory body approved rates not yet in effect but to be implemented within the Forecast period. In the latter case, if a borrower is not required to obtain regulatory body approval for the implementation of such rates, RUS will require a resolution of the board of directors indicating when those rates will be in effect.

(b) RUS makes loans only to rural telephone systems that are financially feasible. RUS shall consider the factors discussed in paragraphs (c) through (j)

of this section in determining feasibility.

(c) The revenue and expense estimates for the feasibility study generally will be based on the borrower's operating experience provided that:

(1) Adjustments are made for any nonrecurring revenues and expenses that are not representative of the borrower's past operations and would thus make the borrower's experience data inappropriate for the forecast; and

(2) Adjustments are made for any special or new characteristics or other considerations deemed necessary by the Administrator.

(d) [Reserved]

(e) Depreciation expense will be determined using depreciation rates appropriate to the normal operation of the borrower, based on:

(1) The borrowers regulatory body approved depreciation rates; and

(2) Where such rates as described in paragraph (e)(1) of this section do not exist for items which the borrower is seeking financing, the most recent median depreciation rates published by RUS for all borrowers. RUS will publish such depreciation rates annually in RUS's "Statistical Report, Rural Telephone Borrowers."

(f) Projected scheduled debt service payments will generally be based on all of the borrower's outstanding and proposed loans from RUS and all other lenders as of the end of the feasibility Forecast period (i.e. for a 5-year Forecast period, the amount of debt outstanding in year 5).

(g) The financial and statistical data are derived from RUS Form 479, "Financial and Statistical Data for Telephone Borrowers," or for initial loans, the data may be obtained from the borrower's financial statements and other reports, and from other information supplied with the completed loan applications (see 7 CFR 1737.21 and 1737.22).

(h) When, in RUS's opinion, the borrower's operating experience is not adequate or the borrower's current operations are not representative, the estimates in the feasibility study normally will be developed from state and regional standards based on the experience of RUS borrowers. These standards are included in the Borrower's

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Statistical Profile (BSP), which is revised annually by RUS. If the borrower's operating experience is not the basis for one or more per-subscriber estimates used in the feasibility study, the estimates generally may not vary from the standard by more than 20 percent to reflect the particular characteristics of the loan applicant. Any variation from the standard shall be documented.

(i) In cases where these per-subscriber standards do not represent a reasonable forecast of a particular borrower's operations (for example, when a variation greater than 20 percent is necessary), estimates based upon a special analysis of the borrower's projected operations shall be used. The special analysis will accompany the feasibility study.

(j) When it is reasonably expected that a subscriber, classified as a special project, may discontinue service, a second feasibility study will be prepared, for comparison purposes, omitting revenues and expenses from this subscriber.

(k) RUS may obtain and review commercially available credit reports on applicants for a loan or loan guarantee to verify income, assets, and credit history, and to determine whether there are any outstanding delinquent Federal or other debts. Such reports will also be reviewed for parties that are or propose to be joint owners of a project with a borrower.

(l) If it is determined that loan feasibility cannot be proven as described in this section, the loan application will be returned to the borrower with an explanation. A borrower whose application has been returned will have 90 working days, from the date the application was returned, to revise and re-submit its application. If a revised application is not received by RUS within the 90-day period described above, the application will be canceled and a new application will need to be submitted if the borrower wishes further consideration.

[54 FR 13356, Apr. 3, 1989. Redesignated at 55 FR 39396, Sept. 27, 1990, as amended at 56 FR 26599, June 10, 1991; 58 FR 66256, Dec. 20, 1993; 62 FR 46872, Sept. 5, 1997]

§ 1737.71 Interest rate to be considered for the purpose of assessing feasibility for loans.

(a) For purposes of determining the creditworthiness of a borrower for concurrent RUS cost-of-money and RTB loans, the Administrator shall assume that the loans, if made, would bear interest at the Treasury rate on the date of determination as described in paragraph (b) of this section. If the Treasury rate exceeds 7 percent, the interest rate used to determine eligibility for the RUS cost-of-money loan will be 7 percent.

(b) The 30-year Treasury rate will be used in all feasibility studies for loans with a final maturity of at least 30 years. A straight-line interpolation between other Treasury rates will be used to determine the rate used in feasibility studies for loans with final maturities of less than 30 years.

(c) The Treasury rate will be obtained each Tuesday, or as soon as possible thereafter, from the Federal Reserve. The rate for the current week, from the column labeled "This week" in the Federal Reserve statistical release, will be used from that Wednesday through the following Tuesday.

(d) As used in this section, the "date of determination" means the date of the feasibility study used in support of the loan recommendation.

[58 FR 66257, Dec. 20, 1993]

§§ 1737.72–1737.79 [Reserved]

Subpart I—Characteristics Letter

§ 1737.80 Description of characteristics letter.

(a) After all of the studies and exhibits for the proposed loan have been prepared, but before the loan is recommended, RUS shall inform the borrower, in writing, of the characteristics of the proposed loan. The purpose of the characteristics letter is to inform the borrower and obtain its concurrence, before further consideration by RUS of the loan approval and the preparation of legal documents relating to the loan, in such matters as the amount of the proposed loan, its purposes, rate of interest, loan security requirements, and other prerequisites to the advance of loan funds. The letter,

whether or not concurred in by the borrower, does not commit RUS to approve the loan on these or any other terms.

(b) The Forecast of Revenues and Expenses and a copy of RUS Form 493, "Telephone Loan Budget," shall be enclosed with the characteristics letter. This copy of the budget shall be subject to change by RUS with the borrower's agreement.

[54 FR 13356, Apr. 3, 1989. Redesignated at 55 FR 39396, Sept. 27, 1990, as amended at 56 FR 26600, June 10, 1991]

§§ 1737.81–1737.89 [Reserved]

Subpart J—Final Loan Approval Procedures

§ 1737.90 Loan approval requirements.

(a) In addition to requirements set forth in 7 CFR part 1735, 7 CFR part 1737 and other applicable parts of 7 CFR chapter XVII, the following are certain additional requirements that must be met before RUS will approve a loan:

(1) If the borrower had 100 or more employees as of the prior December 31, it must submit the current annual Employer Information Report EEO-1, Standard Form 100, as required by the Department of Labor; see 29 CFR 1602.7 through 1602.14.

(2) The borrower must be in compliance with regulations on non-discrimination. See 7 CFR part 1790 (or RUS Bulletin 320-19).

(3) For subsequent loans, RUS must determine whether the borrower's accounting records are adequate. If the records are not adequate, as determined by RUS based on Generally Accepted Accounting Principles or other accounting conventions as deemed necessary by RUS, a provision will be included in the loan contract requiring the borrower to improve its records to an adequate level.

(4) The borrower must not have any receivables, loans, guarantees, investments, or other obligations that are contrary to the mortgage provisions or any RUS regulations including, but not limited to, 7 CFR part 1758 (or RUS Bulletins 320-4, 320-22, 321-2, 322-2, 323-1, or 326-1). If the borrower has any of these items, the loan contract shall

contain a provision requiring that they be eliminated prior to the release of funds. See 7 CFR part 1744 for conditions under which RUS will provide a shared first lien and/or a lien accommodation for non-RUS lenders.

(5) RUS must make a determination on flood insurance requirements. In accordance with the National Flood Insurance Act of 1968, as amended by the Flood Disaster Protection Act of 1973, as amended (the "Flood Insurance Act"), RUS shall not approve financial assistance for the acquisition, construction, repair or improvement of any building or any machinery, equipment, fixtures or furnishings contained or to be contained in any such building located in an area which has been identified by the Director of the Federal Emergency Management Agency (the "Director of FEMA") pursuant to the Flood Insurance Act as an area having special flood hazards unless:

(i) Flood insurance has been made available, pursuant to the Flood Insurance Act, in the area in which the acquisition, construction, repair or improvement is proposed to occur; and

(ii) The borrower has obtained flood insurance coverage with respect to such building, machinery, equipment, fixtures or furnishings as may be required pursuant to the Flood Insurance Act.

Accordingly, a finding shall be made on whether loan funds will be used to finance buildings, machinery, fixtures or furnishings located in an identified special flood hazard area. If loan funds are to be used in such a special flood hazard area, a provision will be included in the loan contract restricting the release of funds until all the requirements of the Flood Insurance Act have been satisfied.

(6) All environmental requirements must be met (see 7 CFR part 1794).

(b) [Reserved]

[54 FR 13356, Apr. 3, 1989. Redesignated at 55 FR 39396, Sept. 27, 1990, as amended at 56 FR 26600, June 10, 1991]

§ 1737.91 Approval.

(a) A loan is approved when the Administrator, or whoever is delegated authority, signs the administrative findings and the letter to the borrower announcing the loan.

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(b) If the loan is not approved, RUS shall notify the borrower, in writing, of the reasons.

§ 1737.92 Loan documents.

Following approval of the loan, RUS shall forward the necessary loan documents to the borrower for execution, delivery, recording, and filing, as directed by RUS. See 7 CFR part 1758 for details (or RUS Bulletins 320-4, 320-22, 321-2, 322-2, 323-1, or 326-1).

§§ 1737.93–1737.99 [Reserved]

Subpart K—Release of Funds Procedure

§ 1737.100 Prerequisites to the release and advance of funds.

(a) Standard prerequisites to the advance of funds, generally applied to all loans, are set forth in Article II of the form of loan contract attached as appendix A to 7 CFR part 1758. Additional prerequisites may be added on a case by case basis to the loan contract.

(b) Before any loan funds can be advanced, RUS must approve a release of funds.

(c) RUS approves the release of funds only after it determines that all prerequisites to the advance of loan funds have been met or funds should be advanced even though certain loan contract prerequisites remain unsatisfied.

(d) Following release approval, loan funds and related nonloan funds may be advanced in accordance with 7 CFR part 1744.

(e) The borrower may be required to discharge indebtedness and/or to close acquisitions before advances are made for construction purposes. In such cases, the borrower shall submit evidence that these actions have been completed. If the evidence is satisfactory to RUS, RUS shall allow the remaining loan funds to be advanced in accordance with 7 CFR part 1744.

(Approved by the Office of Management and Budget under control number 0572-0085)

§ 1737.101 Amounts spent for preloan activities.

If the borrower desires to credit amounts spent for preloan activities against any equity or general funds required by the loan contract, it shall

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submit an itemized statement of such expenditures to the Area Office. These expenditures will be accounted for on RUS Form 503, “Release of Telephone Loan Funds,” if RUS determines that the amounts spent are reasonable based on normal industry practice and that the procedures set forth in 7 CFR part 1737, subpart D, have been complied with. Statements of preloan expenditures will be verified as to accuracy by loan fund audits.

(Approved by the Office of Management and Budget under control number 0572-0085)

§§ 1737.102–1737.109 [Reserved]

PART 1741—PRE-LOAN POLICIES AND PROCEDURES FOR INSURED TELEPHONE LOANS [RESERVED]

PART 1744—POST-LOAN POLICIES AND PROCEDURES COMMON TO GUARANTEED AND INSURED TELEPHONE LOANS

Subpart A [Reserved]

Subpart B—Lien Accommodations and Subordination Policy

Sec.

1744.20 General.

1744.21 Definitions.

1744.22–1744.29 [Reserved]

1744.30 Automatic lien accommodations.

1744.31–1744.39 [Reserved]

1744.40 Act purposes.

1744.41–1744.49 [Reserved]

1744.50 Non-Act purposes.

1744.51–1744.54 [Reserved]

1744.55 Application procedures.

1744.56–1744.59 [Reserved]

APPENDIX A TO SUBPART B OF PART 1744—
STATEMENT, CERTIFICATION, AND AGREEMENT OF BORROWER’S PRESIDENT OF BOARD OF DIRECTORS REGARDING REFINANCING AND REFUNDING NOTES PURSUANT TO 7 CFR 1744.30(c)

APPENDIX B TO SUBPART B OF PART 1744—
CERTIFICATION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT REGARDING NOTES TO BE ISSUED PURSUANT TO 7 CFR 1744.30(c)

APPENDIX C TO SUBPART B OF PART 1744—
STATEMENT, CERTIFICATION, AND AGREEMENT OF BORROWER’S PRESIDENT OF BOARD OF DIRECTORS REGARDING NOTES TO BE ISSUED PURSUANT TO 7 CFR 1744.30(d)

APPENDIX D TO SUBPART B OF PART 1744—
CERTIFICATION OF INDEPENDENT CERTIFIED