

2019

**SUPPORTING STATEMENT**

**OMB Control No. 0572-0100**

**7 CFR Part 1717, Subparts R and S,  
Lien Accommodations and Subordinations**

**This package is submitted under a regular clearance as an extension of a currently approved collection.**

**A. JUSTIFICATION**

**1. Explain the circumstances that make the collection of information necessary.**

The Rural Utilities Service (RUS) is a credit agency of the U.S. Department of Agriculture. The Rural Electrification Act (RE Act) of 1936, 7 U.S.C. 901 *et. seq.*, as amended, authorizes and empowers the RUS Administrator to make loans in the several States and Territories of the United States for rural electrification and the furnishing of electric energy to persons in rural areas who are not receiving central station service. The RE Act also authorizes and empowers the RUS Administrator to provide financial assistance to borrowers for purposes provided in the RE Act by accommodating or subordinating loans made by the National Rural Utilities Cooperative Finance Corporation, the Federal Financing Bank, and other lending agencies.

OMB Circular A-129, Policies for Federal Credit Programs and Non-tax Receivables, requires Government lending agencies to prescreen loan applicants to determine credit worthiness and ability to repay. Agencies shall manage credit programs and all non-tax receivables in accordance with their statutory authorities and the provisions set forth in OMB Circular A-129 to protect the Government's assets, and to minimize losses in relation to social benefits provided ((I)(4)(a)).

Furthermore, the RE Act authorizes and empowers the Administrator to make, or cause to be made, studies, investigations, and reports concerning the condition and progress of the electrification of the several States and Territories; and to publish and disseminate information with respect thereto. Information supplied by borrowers forms the basis of many of these reports.

A key component in RUS's objective is to facilitate and support borrowers' efforts to obtain private sector financing of their capital needs, to allow borrowers greater flexibility in the management of their business' affairs without compromising Agency loan security, and to reduce the cost to borrowers, in terms of time, expense and paperwork, of obtaining lien accommodations and subordinations.

Lien accommodations and subordinations, 7 CFR 1717, is divided into two subparts. Subpart R deals with lien accommodations and subordinations for 100 percent private financing of electric facilities and other purposes.

There are three different types of private financing: 1) financing of electric facilities, including equipment and systems; 2) refinancing of existing secured debt; and, 3) financing of rural development investments.

Subpart S deals with lien accommodations for concurrent supplemental loans required in connection with the Agency insured loans.

**2. Indicate how, by whom, and for what purpose the information is to be used. Except for a new collection, indicate that actual use the Agency has made of the information received from the current collection.**

Reporting Requirements approved under this collection package, OMB Control Number (0572-0100) are as follows:

**Form AD-1047, “Certification Regarding Debarment, Suspension, and Other Responsibility Matters Primary Covered Transactions. (Form approved under OMB # 0505-0027; Burden accounted for under this collection – OMB # 0572-0100)** USDA regulations published at 7 CFR Part 3017 implement the government-wide debarment and suspension system for USDA’s non-procurement transactions. Applicants for SEARCH grants are required to provide certification under these regulations. Form AD-1047 may also be used to obtain the required certification.

**Written - Advance and Normal Approval of 100 Percent Private Financing** Parts of 7 CFR 1717.855 & .856 provide criteria whereby distribution borrowers are able to receive advance approval for a lien accommodation or subordination for 100 percent private financing of distribution and sub-transmission facilities. Advance approval means that RUS approves the request automatically once the Agency is satisfied that the borrower meets requirements for advance approval. In all cases, if other lenders secured under the Agency mortgage have the right of approval of lien accommodations and subordinations, their approval would also be required.

The qualification criteria include financial tests in terms of equity, Times Interest Earned Ratio (TIER), Debt Service Coverage (DSC), and the ratio of net utility plant to total outstanding long-term debt.

In addition, the borrower's board of directors must agree to implement any required increases in rates. There must be no pending litigation against the borrower and no threatened action by third parties that would have a material adverse effect. The borrower must be current on all financial obligations and not in default under the Agency mortgage or loan contract and the borrower must be in compliance with Agency requirements on accounting, irregularities, and financial reporting and recordkeeping.

Advance approval is not authorized for lien accommodations or subordinations for financing bulk transmission and generation facilities mainly because such construction may require an Environmental Assessment (EA) or an Environmental Impact Statement (EIS). Preparation of these documents normally require additional time beyond that allowed for advance approval. Power supply borrowers are not eligible for advance approval because few, if any of them, are able to meet the financial tests, and also because the financial conditions and requirements of these borrowers generally are more complex and diverse than is the case of distribution borrowers.

Approximately 48 percent of distribution borrowers qualify for advanced approval. The information and documents required in the application are significantly less than in the case of “normal review”. Since the Agency’s review is limited to verifying that the borrower meets requirements for advance approval, the time required for Agency review and action is also substantially reduced. The regulation states that the Agency acts on these applications within 45 days of receiving a complete application satisfactory to the Agency.

7 CFR 1717 is responsive to public comment that the Agency retain the flexibility to grant lien accommodations and subordinations in the case of borrowers that are not able to meet the objective criteria for advance approval. These borrowers must demonstrate, in a long-range financial forecast, that their system is economically viable and that the proposed loan is financially feasible. The timeframe for Agency action in these cases is 90 days after receiving a complete application satisfactory to the Agency. In both the case of advance approval and normal review, if a new mortgage or mortgage amendment is required, the proposed timeframe for the Agency to execute these documents is 30 days, once satisfactory documents are received.

#### **Written - Refinancing of Existing Secured Debt**

A portion of 7 CFR 1717.857 establishes criteria whereby both distribution and power supply borrowers may qualify for advance approval for a lien accommodation or subordination for loans to refinance existing debt secured under the Agency mortgage. Under the advance approval process, the Agency automatically approves the request once satisfied that the borrower met the requirements for advance approval. This would eliminate uncertainty and substantially reduce the time requirement for qualified applicants to obtain a lien accommodation or subordination for refinancing. A subordination is available only if the lien of the mortgage has been subordinated with respect to the assets securing the debt being refinanced.

The qualification criteria for advanced approval in the case of refinancing are designed to identify those refinancing that are a priority in the Government’s interest. The criteria are designed to limit the Agency’s credit exposure to the point it was before the refinancing; to prevent the repayment of loan principal from being pushed off into the future, which could increase the borrower's future debt burden and increase uncertainty about its ability to repay; to ensure that the borrower's annual cost of the debt, on a present value basis, is reduced as a result of the refinancing to strengthen the borrower's repayment ability; and, to limit uncertainty about the Agency’s credit exposure and risk.

The timeframe for the Agency to act on an application for advance approvals is 15 days upon receipt of a complete and satisfactory application. The timeframe for Agency action on applications subject to normal review is 30 days.

A supplemental loan made concurrently with an RUS insured loan is refinanced and the refinancing is not deemed a prepayment if the principal amount of the refinancing loan is not less than the principal amount of the loan being refinanced, and the weighted average life of the refinancing loan is materially equal to the weighted average remaining life of the loan being refinanced. Under these circumstances, no proportional prepayment of the concurrent Agency insured loan is required. The refinancing loan, once made, is itself considered a concurrent loan with regard to provisions of the mortgage and Agency regulations, including provisions governing any future prepayments.

#### **Written - Lien Subordination for Rural Development Investments**

Under 7 CFR 1717.858, the RUS borrower is encouraged to consider investing in financially sound projects likely to have a substantial effect on economic development and employment in rural areas. It is recommended that such investments be made through an independent subsidiary of the borrower in order to clearly separate the financial risks and the revenues and costs of the rural development enterprise from those of the borrower's electric utility business. The separation of financial interests and risks is consistent with requirements of most state public service commissions.

RUS subordinates or releases its lien on the stock held by a borrower in a subsidiary whose primary business directly contributes to or supports economic development and employment in rural areas, as defined in Section 13 of the RE Act, when requested by a lender to the subsidiary, other than the borrower. This provides support to provide financing of rural development investments by allowing the lender to obtain a first lien on the stock held by the borrower in the subsidiary. To limit the financial risks to a borrower's utility system and to discourage possible undisclosed cross subsidization of rural development activities by electric rate payers, the Agency does not lien accommodate or subordinate for loans made directly to a borrower for rural development purposes.

#### **Written – Access of Handicapped to Buildings Certification**

Under §1717.850(h)(2)(i), RUS borrowers are required to provide the Agency with a certification by the project architect that the buildings will be constructed that the facilities will be readily accessible to and usable by person with handicaps in accordance with the appropriate laws cited in the regulation.

#### **Written - Safety and Performance Standards Certification**

Under §1717.850(f), RUS borrowers must certify that they comply with RUS standards regarding facility and system planning and design construction, procurement and the use of materials accepted by RUS as required by the borrower's mortgage, loan contract, or other agreement with RUS, and as further specified in RUS regulations.

**REPORTING REQUIREMENTS APPROVED UNDER OMB CONTROL NUMBER 0572-0032**

Under §1717.901, *Early Approval of Lien Accommodations for Supplemental Financing*, supplemental lenders may request a lien accommodation early in the process for concurrent supplemental loans required in connection with an Agency insured loan, rather than waiting until funding is available for the loan.

The borrower must request early approval and certify that the funds are needed and will be drawn before insured loan funds are expected to be available, assuming the concurrent insured loan is approved. Since the early approval process involves some duplication of Agency effort in reviewing first the lien accommodation request, and later the insured loan request, it would not be necessary for the Agency to incur this extra expense unless the borrower actually needed the supplemental funds as soon as the accommodation was approved. If the borrower intends to wait until the concurrent insured loan is approved and its funds advanced, there is little or no justification for early approval of a lien accommodation for the concurrent supplemental loan.

The timeframe for RUS to act on a lien accommodation is 90 days upon receipt of the request for early approval and a complete and satisfactory application. The Agency's approval of the lien accommodation ensures that the concurrent insured loan would also be approved.

Borrowers requesting lien accommodations for supplemental financing under §1717.901 use the following forms:

**RUS Form 740c, Cost Estimates and Loan Budget for Electric Borrowers (Burden accounted for under OMB Control # 0572-0032).**

This form together with its attachments lists the construction, equipment and facilities and other cost estimates from the construction work plan or engineering and cost studies and the sources of financing for each component. The following information will be attached to the Form 740c: description of funds and materials; useful life of facilities financed by the loan; reimbursement schedule; and location of consumers. Each of these attachments is explained at 7 CFR 1710.401(a)(3).

**RUS Form 740g, Application for Headquarters Facilities (Burden accounted for under OMB Control # 0572-0032).**

This form is used to list the individual cost estimates from the construction work plan or other engineering study that support the need for RUS financing for any office, warehouse and service type facilities included.

**Written - Financial and Operating Report for Distribution Borrowers and Financial and Operating Report for Power Supply - (Burden accounted for under OMB Control # 0572-0032).**

These collections serve two purposes. A submission containing recent month end data is submitted as part of an application for a RUS loan; the information is used to evaluate the

borrower's creditworthiness. An annual submission, which is required by the borrower's mortgage, is used to monitor loan security, verify compliance with debt covenants and statutory requirements, and compile the Agency's annual reports. Borrowers are submitting this data using the Data Collection System (DCS). The DCS provides electronic signature capability, eliminating the need for a signed certification with the operating report submission and uses standard web page technology.

**3. Describe whether, and to what extent, the collection of information involves the use of automated, electronic, mechanical, or other technological collection techniques or other forms of information technology, e.g. permitting electronic submission of responses, and the basis for the decision for adopting this means of collection.**

RUS is committed to complying with the E-Government Act, to promote the use of the Internet and other information technologies to provide increased opportunities for citizen access to Government information and services, and for other purposes. The Agency has identified this collection as one that will offer the public the ability to provide some of the required information to the Agency electronically. Borrowers electronically submit their Financial and Operating Report for Distribution Borrowers and/or Financial and Operating Report for Power Supply via DCS. The Agency must receive original copies of all other forms.

**4. Describe efforts to identify duplication. Show specifically why any similar information already available cannot be used or modified for use for the purposes described in Item 2 above.**

The required information is available only from individual borrowers, and a great deal of it is project specific. Much of the information is collected and analyzed by any prudent business in the course of its operations, and some is prepared by an electric utility as part of a petition to its State Regulatory Authority. Whenever possible, RUS merely requires copies of information the borrower has prepared for another purpose.

Also, much of the information necessary to make a determination on a lien accommodation or lien subordination application has already been submitted by the applicant when the applicant originally applied for Agency loans. When this is the case, RUS does not require that the applicant re-submit the information.

**5. If the collection of information impacts small businesses or other small entities (item 5 of OMB Form 83-I), describe any methods used to minimize burden.**

All but 10% of the electric borrowers meet the Small Business Administration criteria for a small business. RUS has made every effort to ensure that the burden on these small entities is the minimum necessary to effectively administer the agency programs.

**6. Describe the consequences to Federal program or policy activities if the collection is not conducted or conducted less frequently, as well as any technical or legal obstacles to reducing burden.**

The required documents are prepared by the borrower, the lender, and the Agency only when a borrower applies for a lien accommodation or lien subordination, or to give the Agency notice of actions that affect the Government's guarantee. Less frequent collection would prevent the Agency from accomplishing statutory goals.

**7. Explain any special circumstances that would cause an information collection to conduct in a manner:**

- a. Requiring respondent to report information more than quarterly.  
There is no requirement to respond more frequently than quarterly.
- b. Requiring written response in less than 30 days.  
There is no requirement to respond in less than 30 days.
- c. Requiring more than an original and two copies.  
There is no requirement of more than original and two copies to be submitted.
- d. Requiring respondent to retain records for more than 3 years.  
Record retention requirements shall be in accordance with 7 CFR 1767.
- e. In connection with a statistical survey, that is not designed to produce valid and reliable results that can be generalized to the universe of study.  
This collection is not a survey.
- f. Requiring use of a statistical sampling which has not been reviewed and approved by OMB.  
There are no such requirements.
- a. Requiring a pledge of confidentiality.  
This is no requirement of a pledge of confidentiality.
- b. Requiring submission of proprietary trade secrets.  
There is no requirement to submit propriety trade secrets.

**8. If applicable, identify the date and page number of publication in the Federal Register of the agency's notice soliciting comments on the information collection. Summarize public comments received and describe actions taken by the agency in response to these comments. Describe efforts to consult with persons outside the Agency to obtain their views on the availability of data, frequency of collection, the clarity of instructions and recordkeeping, disclosure, reporting format (if any), and on data elements to be recorded, disclosed, or reported.**

A notice requesting comments was published on October 31, 2018, at 83 FR 54705. There was one public comment which did not address the collection of information and associated burden.

The Agency's regional offices maintain close contact with borrowers through both general field representatives and a headquarters staff and conducts seminars for borrowers. Suggestions and comments are always considered by the Agency. In addition, the following individuals were contacted for comments:

Lance R. Adkins  
General Manager  
Farmers' Electric Cooperative, Inc. of New Mexico P.O. Box 550  
Clovis, NM 88102-0550  
575-762-4466

The borrower stated they found the information they need to submit to be readily available. The instructions are clear concerning what is needed to request a Lien Accommodation.

Jennifer McRoberts  
Office Manager  
Fleming-Mason Energy Corporation  
P.O. Box 328  
Flemingsburg, KY 41041-0328  
606-845-2661

The borrower stated that the RUS and CFR Websites are very accessible. Instructions and record keeping instructions are explained by RUS GFR or program staff are clear and useful.

Janice Hedgepeth  
Manager of Human Resources  
Salt River Electric Cooperative Corporation  
P.O. Box 609  
Bardstown, KY 40004-0609  
502-350-1521

Overall the borrower believes that the collection and reporting requirements are reasonable.

**9. Explain any decision to provide any payment or gift to respondents, other than re-enumeration of contractors or grantees.**

Payments or gifts are not provided to respondents.

**10. Describe any assurance of confidentiality provided to respondents and the basis for the assurance in statute, regulation, or Agency policy.**

This information collection does not require confidentiality.

**11. Provide additional justification for any question of a sensitive nature, such as sexual behavior or attitudes, religious beliefs, and other matters that are commonly considered private.**

This information collection includes no questions of a sensitive nature.

**12. Provide estimates of the hour burden of the collection of information.**

The average number of respondents for this collection is 1 which is the same number of respondents in the previous collection. The total annual responses for this collection is 2 which is the same as the previous collection. The total burden hours for this collection is 18.75 burden hours which is a decrease from 19.25 in the previous collection.

The collection is summarized as follows:

<b>Regulation</b>	<b>Number of Respondents</b>	<b>Total Annual Responses</b>	<b>Burden Hours per Response</b>	<b>Total Annual Burden Hours</b>
<b>7 CFR 1717</b>	<b>1</b>	<b>2</b>	<b>9.375</b>	<b>18.75</b>
<b>Reporting requirements approved under this collection package</b>				
<b>OMB Control Number</b>				
<b>0572-0100.</b>				

RUS estimates the cost to be \$1,201.39 to the respondents to comply with this regulation. The cost is based on receiving an *average* of 1 request for lien accommodations and

subordinations per year. The Agency estimates that for each request, approximately 80 percent of the required time is professional time and 20 percent is administrative support time.

The wage rates for the two wage categories are selected from the Department of Labor, Bureau of Labor Statistics, May 2017 National Occupational Employment and Wage Estimates located at [https://www.bls.gov/oes/current/naics3\\_221000.htm](https://www.bls.gov/oes/current/naics3_221000.htm) were used as the basis for the cost estimates. The National Industry was NAICS 221100 Electric Power Generation, Transmission and Distribution. Data provided by the Bureau of Labor Statistics indicates that employer cost for employee benefits for the private industry was 31.7% of wages. See; Bureau of Labor Statistics Employer Costs for Employee Compensation – June 2018, <https://www.bls.gov/news.release/ecec.nr0.htm>. After calculating employer cost for employee benefits, total wage rates for a Professional Administrative Service Manager (11-3011) time an hourly wage of \$54.81 is used. For Administrative Support Workers (43-000) time an hourly wage of \$24.03 is used. The calculation for annualized estimated respondent cost is shown below:

Job Position	Hours Required	Hourly Wage/Benefit	Cost
Professional Administrative Service Manager	15	\$72.18	\$ 1,082.70
Administrative Support Worker	3.75	\$31.65	\$ 118.69
Total Respondent Cost			\$ 1,201.39

**13. Provide an estimate of the total annual cost burden to respondents or record keepers resulting from the collection of information: (a) Total capital and start-up cost component (annualized over its expected useful life); and (b) Total operation and maintenance and purchase of services component.**

There are no capital/start-up or operation/maintenance costs and purchase of services components involved with this collection.

**14. Provide estimates of annualized cost to the Federal Government.**

The annual estimated cost to the Federal Government for collection and evaluation of this information is \$3,844.44. All documents submitted to RUS must be carefully reviewed and analyzed by the RUS staff. The Agency receives approximately 1 response per year and is estimated to take 48 hours per response for a GS-13-5 and 12 hours per response for review and processing by the Agency. The wage categories used for calculating

Federal costs are based on the OPM salary schedule GS. The GS 13, Step 5 hourly salary is \$52.66 and with the addition of cost of benefits (at 36.25%) is \$71.75. The GS 6, Step 5 hourly salary is \$22.46 and with the addition of cost of benefits (at 36.25%) is \$30.60. The calculation for annualized estimated government cost is shown below:

Job Position	Hours Required	Hourly Wage/Benefit	Cost
GS-13/5	48	\$72.18	\$ 3,464.64
GS-6/5	12	\$31.65	\$ 379.80
Total Federal Government Cost			\$ 3,844.44

**15. Explain the reasons for any program changes or adjustments reported in items 13 or 14 of the OMB Form 83-I.**

This renewal package requests an extension of a currently approved collection. There is no change in the regulations, program operations, other than salary rates however, we no longer require the submission of a board resolution which reduced the total burden hours by .50 for this collection.

**16. For collection of information whose results will be published, outline plans for tabulation and publication.**

RUS has no plans to publish the information collected under the provisions of these programs.

**17. If seeking approval to not display the expiration date for OMB approval of the information collection, explain the reasons that display would be inappropriate.**

No such approval is sought.

**18. Explain each exception to the certification statement identified in item 19 on OMB 83-I.**

There are no exceptions requested.

**19. Collection of information Employing Statistical Methods.**

This information collection does not employ statistical methods.