



Rural Development

Rural Utilities Service

Telecommunications
Program

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OPEN LETTER FROM THE ASSISTANT ADMINISTRATOR

May 10, 2016

To all Telecommunications Loan Applicants and Borrowers:

On March 30, 2016, the FCC released a Report and Order, Order and Order on Reconsideration, and Further Notice of Proposed Rulemaking, reforming the universal service program for rate-of return carriers (the "Order"). The Rural Utilities Service (RUS) recognizes that this may have a significant impact on the revenues for loan applicants and existing borrowers.

In order to consider applications for the remainder of this calendar year, RUS will require that applicants under the Infrastructure Loan Program and the Broadband Loan Program take the impact of the Order into consideration in preparing their projections of network access revenues, whether found on the Schedule "S" (for those using the pro-forma workbook) or in the Income Statement section of the application (for those using the online application system, "RDApply"). RUS already requires a detailed narrative which supports the projections. The narrative should now also include details on the following:

- Explain if A-CAM appears to be advantageous for the applicant and whether the projections were based on model-based support or the legacy approach. If the projections were based on legacy but the applicant is inclined to elect model-based support, estimated changes to the revenues as a result of that election should be provided as well.
- If the applicant expects to remain on legacy support, which values for the Rate of Return were assumed in the revenue projections? Have any budgetary control scenarios been considered?
- Identify any unsubsidized competitors in the applicant's area, with a special focus on any that meet or exceed the 85% overlap threshold in one or more census blocks. Where appropriate, discuss the expected loss of revenues due to the competition, both customer revenue and universal service support.

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- Discuss any expected impacts on revenues of the Opex or Capex limitations.
- Discuss the ways in which the Loan Design addresses the Broadband Deployment Obligations required by the Order.
- Identify any other impacts of the Order that the applicant considers noteworthy that have not been addressed above.

RUS recognizes that the full impact of the Order may not be known for some time. Accordingly, for the time being any new loans approved will include a condition allowing RUS to require updates of the financial forecast prior to the expiration date of the loan. RUS may limit advances if these updates indicate a material adverse effect in the financial condition of the borrower. In addition, in accordance with our practice since early 2012, quarterly financial reports will be required as a condition on all new loans, so that RUS may closely monitor the financial situation of our borrowers.

For any existing borrowers that fail to meet the TIER requirements in their loan documents or experience any other material adverse effects that necessitate the preparation of corrective action plans and/or pro-forma financial forecasts, those plans and forecasts will also need to address all of the items listed above.

We look forward to working with all of our borrowers during this transition period. We are committed to our mission of funding the provision of new and improved telecommunications service in rural areas, and these steps will allow us to continue to process loans and advance funds to meet that mission.



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