

RD AN No. 4830 (4279-B)  
May 9, 2017

TO: Acting State Directors, Rural Development  
ATTN: Business Programs Directors  
SUBJECT: Business and Industry Guaranteed Loan Program  
Loan Terms for Cell Towers

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to provide guidance on determining appropriate loan terms for guaranteed loans involving cell towers under the Business and Industry (B&I) Guaranteed Loan Program.

COMPARISON WITH PREVIOUS AN:

There is no previous guidance.

IMPLEMENTATION RESPONSIBILITIES:

In accordance with RD Instruction 4279-B, section 4279.126(b), a loan's maturity will take into consideration the use of proceeds, the useful life of assets being financed and those used as collateral, and the borrower's ability to repay the loan. The Agency has established that the maximum loan term length under the B&I Guaranteed Loan Program for cell towers will not exceed the useful life of the cell tower or 15 years, whichever is less. In addition, for collateral calculation, cell towers must be assigned less value than multi-purpose machinery and equipment due to their specialized nature in accordance with RD Instruction 4279-B, section 4279.131(b)(1).

The Agency is taking the position that cell towers are machinery and equipment to align with Generally Accepted Accounting Principles. Moreover, cell tower projects represent significant risk to the Agency that warrants loan terms to be kept at no more than 15 years.

EXPIRATION DATE:  
May 31, 2018

FILING INSTRUCTIONS:  
Preceding RD Instruction 4279-B

AGENCY GUIDANCE FOR CREDIT REVIEW:

**Cash flow:** Cell tower owners rent space on the towers to cellular service providers. This rental income is the revenue stream used by the borrower to repay the loan. The Agency is at significant risk when projects take several years to reach positive cash flow and during this prolonged period cash flow is insufficient to repay the loan. The industry standard is for short-term lease agreements of 5 years or less, which is far shorter than the loan repayment period. This lack of long-term contractual revenue represents a significant risk to the Agency. In accordance with RD Instruction 4279-B, section 4279.131, the Agency will only guarantee loans that are sound and that have a reasonable assurance of repayment. Section 4279.131(a) states: “The ability to repay a loan from the cash flow of the business is the most important consideration in the loanmaking process.... Do not approve loan guarantee requests that do not show repayment ability.” When reviewing loans for cell towers, the Agency must carefully review cash flow projections and assumptions for reasonableness and repayment ability.

In accordance with RD Instruction 4279-B, section 4279.161(b)(19), the Agency may require any additional information needed to make a decision. Accordingly, the Agency may require more than 2 years of projections to ensure cash flow will be sufficient to repay the loan. Suggested risk mitigation measures include requiring a minimum of lease commitments prior to loan closing in an amount adequate to support debt repayment without principal deferral and requiring a debt service reserve account controlled by the lender, to be established prior to loan closing, which will last at least until the borrower expects to achieve positive cash flow.

**Loan term:** RD Instruction 4279-B, section 4279.126(b), states: “A loan’s maturity will take into consideration the use of proceeds, the useful life of assets being financed and those used as collateral, and the borrower’s ability to repay the loan.” This means that when the use of proceeds includes more than one asset type, the loan repayment period must be calculated using a weighted average that takes into consideration the proportion of loan proceeds used for real estate not to exceed 30 years, machinery and equipment not to exceed 15 years, and working capital not to exceed 7 years. The Agency has posted an Excel spreadsheet on Sharepoint in the B&I Processing folder that will calculate blended loan terms. If a cell tower loan uses proceeds for cell tower equipment and installation as well as working capital to establish a debt service reserve account, the blended loan term may be considerably shorter than 15 years.

**Collateral discounting:** Cell towers occupy a niche market. Cell towers serve one purpose: to hold antenna at an elevated level to improve reception. Therefore, the Agency considers cell towers as specialized machinery and equipment. Specialized equipment has minimal value upon liquidation, which puts the Agency at significant risk of loss. RD Instruction 4279-B, section 4279.131(b)(1), states: “Specialized buildings or equipment will be discounted greater than multi-purpose facilities or equipment.” Section 4279.131(b)(1)(ii) states: “A maximum of 70 percent of cost or current fair market value will be given to machinery, equipment, and furniture and fixtures and will be based on its marketability, mobility, useful life, specialization, and

alternative uses, if any.” Because the Agency considers all cell towers to be specialized machinery and equipment, cell towers must be given less value than multi-purpose machinery and equipment. Specifically, the discounted collateral value for the loan must be at least equal to the loan amount when the value for cell towers is given less than 70 percent of cost or current fair market value as determined by a chattel appraisal.

***Documentation for collateral:*** Do not accept a real estate appraisal as documentation of the cell tower value. In accordance with RD Instruction 4279-B, section 4279.144, lenders must obtain chattel appraisals when the value of the machinery and equipment exceeds \$250,000, unless the chattel is newly-acquired equipment and the value is supported by a bill of sale. In all cases, a lender must properly secure its interest in the loan collateral. The Project Summary collateral section should clearly document the cell tower’s contributory value as specialized machinery and equipment and the discount factor used.

If you have any questions, please contact the B&I Loan Processing Branch at (202) 690-4103.

***/s/ CHAD PARKER***

CHAD PARKER  
Acting Administrator  
Rural Business-Cooperative Service