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.

§ 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 borrower’s 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