§ 1717.858 Lien subordination for rural development investments.

(a) Policy. RUS encourages borrowers to consider investing in financially sound projects that are likely to have a positive effect on economic development and employment in rural areas. In addition to the guidance set forth in §1717.651, RUS recommends that such investments be made through a 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. This should reduce credit risks to the borrower’s primary business, and minimize the possibility of undisclosed cross subsidization of the rural development enterprise by electric rate payers.

(b) Lien subordination. RUS will consider subordinating or releasing 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. To be eligible for said lien subordination or release:

(1) The borrower must be current on all of its financial obligations and be in compliance with all provisions of its mortgage and loan agreement with RUS; and

(2) In the judgment of RUS, the borrower must be able to repay all of its outstanding debt, and the security

was made concurrently as supplemental financing required by RUS in connection with an RUS insured loan, the refinancing will not be considered a prepayment under the RUS mortgage, and no proportional prepayment of the concurrent RUS insured loan will be required, provided that the principal amount of the refinancing loan is not less than the amount of loan principal 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. The refinancing loan shall be considered a concurrent loan.

[58 FR 53843, Oct. 19, 1993, as amended at 60 FR 67410, Dec. 29, 1995]
forall outstanding loans made to the borrower by RUS, including loans guaranteed by RUS, must be adequate, after taking into account the proposed subordination or release of lien.

(c) Application contents. Applications for a lien subordination or release of lien for rural development investments must include the following information and documents:

1. A resolution of the borrower’s board of directors requesting the lien subordination or release of lien;
2. A certification by an authorized official of the borrower that the borrower is current on all of its financial obligations and is in compliance with all provisions of its mortgage and loan agreement with RUS;
3. A description of the facilities or other purposes to be financed and the projected effects on economic development and employment in rural areas;
4. The borrower’s financial and statistical report, the data in which shall not be more than 60 days old when the complete application is received by RUS;
5. If requested by RUS, a long-range financial forecast providing financial projections for at least 10 years, in form and substance satisfactory to RUS, which demonstrates that the borrower’s system is economically viable and that the borrower will be able to repay all of its outstanding debt and meet all other financial obligations;

6. A discussion of the borrower’s compliance with RUS requirements on accounting, financial reporting, record keeping, and irregularities (see §1717.854(c)(5)). RUS will review the case and determine the effect of any noncompliance on the feasibility and security of RUS’s loans, and whether the requested lien subordination or release of lien can be approved;
7. If any buildings are to be constructed with the proceeds of the loan to be made to the subsidiary:

(i) A certification by the project architect that the buildings will be designed and constructed in compliance with Section 504 of the Rehabilitation Act of 1973 as amended (29 U.S.C. 794), as applicable under that Act, and that the facilities will be readily accessible to and usable by persons with handi-
caps in accordance with the Uniform Federal Accessibility Standards; and
(ii) A written acknowledgement from a registered engineer or architect regarding compliance with seismic provisions of applicable model codes, as required by 7 CFR 1792.104;
8. A certification by an authorized official of the borrower that flood hazard insurance will be obtained for the full value of any buildings, or other facilities susceptible to damage if flooded, that will be located in a flood hazard area;
9. Form AD-1047, Certification Regarding Debarment, Suspension, and Other Responsibility Matters—Primary Covered Transactions, as required by 7 CFR part 3017;
10. A report by the borrower stating whether or not it is delinquent on any Federal debt, and if delinquent, the amount and age of the delinquency and the reasons therefor; and a certification, if not previously provided, that the borrower has been informed of the Government’s collection options; and
11. Other information that RUS may require to determine whether all of the applicable provisions of this subpart have been met.

§ 1717.859 Application process and timeframes.

(a) General.

1. Borrowers are responsible for ensuring that their applications for a lien accommodation or subordination are complete and sound as to substance and form before they are submitted to RUS. RUS will not accept any application that, on its face, is incomplete or inadequate as to the substantive information required by this subpart. RUS will notify borrowers in writing when their applications are complete and in form and substance satisfactory to RUS. A copy of all notifications of borrowers cited in this section will also be sent to the private lender.

2. It is recommended that borrowers consult with RUS staff before submitting their applications to determine whether they will likely qualify for advance approval or normal review, and to obtain answers to any questions about the information and documents required for the application.