UNDERWRITING CRITERIA FOR THE LOCAL TELEVISION LOAN GUARANTEE PROGRAM

I. *Demonstrable and Reasonable Assurance of Repayment*

As required by the Launching Our Communities' Access to Local Television Act of 2000 (the Act), all Loans guaranteed by the LOCAL Television Loan Guarantee Board (the Board) under the LOCAL Television Loan Guarantee Program (the Program) must offer a demonstrable and reasonable assurance of repayment. To comply with this requirement, the Board must determine, based on all available information, that demonstrable and reasonable assurance exists that the Applicant will be able to repay the Loan in accordance with the proposed Loan repayment schedule.

The factors considered in making such a determination vary, depending upon the size and character of the Project being financed. Usually, these factors relate to the nature of the Project seeking financing; the nature of the Collateral to be pledged, capacity of the Project to generate sufficient revenues through user fees or other dedicated sources of revenues to service its debt; and the Applicant involved. Should the Board determine the Project's revenues, the Collateral to be pledged, and/or the Applicant's financial position and prospects are not sufficiently strong to meet the requirement of demonstrable and reasonable assurance of repayment, the Board will deny the application.

In general, the Board will only approve transactions that:

A. Achieve the statutory goals of the LOCAL Television Loan Guarantee Program, and

B. Attain the Board's standards for creditworthiness:

   1. Meeting the standards of the financial community in terms of viability, security, and legal structure;
   2. Proving to be technically, financially, and economically feasible; and
   3. Having the institutional, managerial, and structural capacity to carry out the Project.

The Board may choose not to approve Loan Guarantees for all applications even if they meet the standards listed above. The priority criteria that will be used to rank applications are detailed in the statute, and are not in the underwriting criteria addressed in this document.

II. *Application Documentation and Information Requirements*

This section details the documentation the Board will require in making its statutorily mandated creditworthiness determination. It also specifies other documentation required from the Lender as well as the Applicant and any designated Affiliates. In addition to the documentation submitted by the Applicant, the Board shall use all information at its disposal to evaluate and make determinations on applications. The Applicant shall be required to provide, at a minimum:

A. *Background Information.* The application shall provide background information on the Applicant (and any Affiliates), the Lender, and other relevant parties, including a description of any existing or proposed financial and contractual arrangements among the parties to the agreement (e.g., Affiliates, syndicates/consortiums).

1. Applicant: The Applicant must provide at least the last three years of audited financial statements as prescribed in the regulations. If the Applicant has not been in existence for three years, then audited financial statements must be provided from the Applicant's date of inception. If the Applicant is a special purpose entity (SPE) formed for the purpose of the Project, then the Applicant must provide at least the last three years of audited financial statements of the shareholders or partners of the SPE and, as applicable, the Articles of Incorporation, Deed of Partnership or Articles of Organization for the SPE. The Applicant must also provide management credentials.

2. Affiliate(s): In addition, the Applicant must submit a listing of all Affiliates of the Applicant that describes the nature of the Applicant's relationship to each Affiliate. If an Affiliate has been designated by the Applicant as a source of credit support, then the Applicant must provide at least the last three years of the Affiliate's audited financial statements and an analysis of the Affiliate's credit support. Documentation should include: proof that the Affiliate is sufficiently capitalized as well as evidence of the strength, extent, limitations, and priority of the credit enhancement relative to the other obligations of the Affiliate. (See Section V.B. for evaluation criteria.)

3. Lender or Agent: In addition to the specific Lender requirements detailed in Section II.F. and V.C. below, the Applicant must provide the name of each Lender, a detailed explanation of the financing structure, the terms and conditions of the proposed Loan as reflected in the Term Sheet, and other documentation detailing the Lender's: financial strength/history, management experience, monitoring and oversight plan, experience with other Federal Programs, and any other material information. If the Lender intends to sell participations in the Loan, a plan of syndication must be submitted as part of the application that details the Lender's approach and track record with similar transactions.

B. *Feasibility Studies/Business Plan.* The Applicant must demonstrate its expertise, financial strength, and legal authority to undertake the Project, demonstrating within its business plan detailed analyses on: performance capabilities, service capacity, authorization to manage the financial obligations as appropriate, fee implementation, as well as disclosure of all commitments. In addition to a description of its overall business plan and related requirements, the Applicant shall submit all feasibility studies related to economic, financial, and technological analyses, as well as construction, performance, demand, and financing structure risk assessments undertaken in preparing the Project business plan. The business plan must also include a marketing strategy, and must detail risk mitigation strategies as well as provide a comprehensive Project implementation plan, which addresses the staffing, management, and oversight and monitoring of the Project's development, construction, and operations and maintenance. (See Section IV. for evaluation criteria.)

1. Economic and Financial Feasibility Analysis: The business plan should include a review of economic and financial factors affecting the business in general and the Project in particular. Applicants should refer to economic and financial conditions in the past three years and expectations of such conditions in the future including; the adequacy and stability of the Project's customer base, the potential demand for the new service(s), the sensitivity of the business to economic cycles, future capital needs, the adequacy, competitiveness, and affordability of service fees, an overview of the prevailing economic and demographic trends in the target service area, and information on programming content and costs. Information regarding the customer base should include information on the number of subscribers, subscriber churn, subscriber acquisition cost or cost per gross added, subscriber penetration, geographic concentration of customers, nature of terms of customer contracts, customer technical support, and customer satisfaction and retention.

2. Technical Feasibility Analysis: A technical feasibility study, based upon sufficiently detailed engineering information, must be provided to demonstrate the technical viability of the Project as directed in the Program regulations. This analysis should include, at a minimum, a description of the proposed service area, a description of all facilities and services and the capabilities of all equipment and facilities to be used to deliver the signals, identification of the digital signal quality and capacity, compatibility with existing systems or devices, and other factors, as applicable.

C. *Plan of Finance.* The Applicant shall provide, at a minimum, a detailed plan of finance for the Project. The plan of finance must identify and explain all sources and uses of funds, including, but not limited to, any payments to Affiliates or shareholders of the Applicant, estimated Project costs, and proposed terms.

D. *Pro-Forma Financial Forecast.* The Applicant shall submit a pro-forma financial forecast, covering the term of the proposed Loan and including balance sheets, income statements, and cash flow statements that include the calculation of debt service coverage, with an explanation of assumptions. These projections must be prepared in accordance with Generally Accepted Accounting Principles (GAAP) and should discuss such issues as the effects of inflation, competition, ongoing repair and replacement needs, technological obsolescence, working capital requirements, and other factors that may affect the potential Borrower's ability to meet its debt service obligations.

E. *Term Sheet.* The Applicant and the Lender shall submit a signed Term Sheet, demonstrating the Lender's commitment.

F. *Lender's Analysis.* The Applicant shall require the Lender to submit the Lender's detailed analysis of the creditworthiness of the transaction at the time of application and any supporting due diligence documentation, including a complete underwriting analysis of the Project (assessing Applicant creditworthiness and Project feasibility). The analysis should reflect a standard of care by the Lender that demonstrates they have exercised the due care and diligence as would be exercised by a responsible and prudent banking institution when analyzing a secured loan of such banking institution's own funds without a Guarantee.

G. *Collateral.* The Applicant shall provide a detailed description and valuation of all Collateral to be used to secure the Loan. This valuation shall be supported by an independent, third party appraisal for existing assets, and/or adequate cost substantiation for assets to be constructed for purposes of the Project, and in all cases shall be acceptable to the Board. Such a valuation should address, at a minimum, pledged assets of the Applicant, any designated Affiliate of the Applicant, or both as identified in the Loan Documents, including primary assets to be used in the delivery of the service for which the Loan is guaranteed. For examples of acceptable Collateral, see Section VI.A. The Applicant also must provide a depreciation schedule (as classified under and in accordance with GAAP) for the major assets pledged as Collateral in order for the Board to determine the economically useful life of the primary assets to be used in delivery of the signals concerned. Appraisals of real property must be prepared by State licensed or certified appraisers, and be consistent with the "Uniform Standards of Professional Appraisal Practice," promulgated by the Appraisal Standards Board of the Appraisal Foundation.

H. *Credit Rating Opinion.* For proposals of $15 million or more, the Applicant shall be required to obtain and submit to the Board a preliminary credit rating opinion letter on the proposed transaction at the time of application, prepared by a nationally recognized statistical rating organization (rating agency) approved by the Board. This preliminary credit rating opinion shall be based on the financing structure proposed by the Applicant for the Project absent the Federal Guarantee, without regard to recovery expectations. In addition, Applicants for Loans less than $15 million that have a credit rating shall provide that credit rating to the Board. The Board will utilize this preliminary credit assessment (for Loans over $15 million) or an existing credit rating (for Loans less than $15 million) to assist in evaluating the creditworthiness of the proposed transaction and determining whether it provides a reasonable assurance of repayment. A Loan Guarantee may be issued only if the Board receives a final credit rating opinion letter from the rating agency on the Loan that is acceptable to the Board.

I. *Regulatory Requirements.* The Applicant must provide documentation that all necessary and required regulatory and other approvals, spectrum licenses, and delivery permissions for the Loan and the Project have been applied for or obtained. To the extent the Applicant's anticipated Project revenues rely on regulatory approvals, the Board will require the Applicant to provide details on the nature of the approval, the Applicant's justification for expecting such an approval, the track-record of the Applicant in obtaining such approvals, and the Applicant's contingency plan in the event that the approval is delayed. No guaranteed loan funds will be advanced until all such approvals, licenses, and permissions have been obtained. Additionally, as applicable, the Applicant must show that it has the legal right to set fees or rates for the Project and the capacity to implement fee increases. If there is an appropriate regulatory body with discretion over fees or rates, it must be identified in the application. The Applicant will be required to submit documentation on any licensing or franchise agreements to demonstrate compliance with Section III.H.6 below.

III. Overview of Applicant Loan Terms

This section outlines the general Loan terms to be addressed by the Applicant. The Board will evaluate these terms to determine the prospects that the Applicant and the Lender will be in a position to meet their obligations under the Loan Documents. In general, the Loan shall have terms that are, in the judgment of the Board, consistent in material respects with the terms of similar obligations in the private capital market.

A. *Term.* As required by statute, the term of the Loan shall be the lesser of 25 years from the date of closing of the Loan, or the economically useful life, as determined by the Board, of the primary assets to be used in the delivery of the local signals. An Applicant shall provide documentation sufficient for the Board to determine the economically useful life of the primary assets to be used in delivery of the signals concerned.

B. *Disbursement and Repayment Schedule.* Funds will be disbursed in accordance with the sources and uses of funds schedule provided in the plan of finance and in the Loan Documents. An Applicant must provide documentation demonstrating that the schedule and amount of repayments of principal and the payment of interest with respect to the Loan are consistent with the business plan and the plan of finance, protect the financial interests of the United States, and are reasonable. In all cases, the repayment schedule and final maturity of the guaranteed portion of the Loan principal shall be the same as that for the unguaranteed portion of the Loan principal.

C. *Interest Rate.* The reasonableness of an interest rate will be determined with respect to current average yields on outstanding obligations of the United States with remaining periods of maturity comparable to the term of the Loan sought to be guaranteed, and additional interest costs commensurate with the overall credit quality of the Loan. The Board will reject an application to guarantee a Loan if it determines the interest rate of such Loan to be unreasonable. This determination will be based on the Board's comparison of the:

   1. Difference, or interest rate spread, between the interest rate on the Loan sought to be guaranteed and the current average yield on outstanding marketable obligations of the United States of comparable maturity; and

   2. The interest rate spread between the rates on recently issued and similarly rated and structured obligations and the current yields on outstanding marketable obligations of the United States of comparable maturity.

D. *Loan Security.* The Loan must be collateralized such that the financial interests of the United States are protected. The assessed value of the Collateral must be at least equal to the unpaid balance of the Loan Amount throughout the life of the Loan. See Section VI for related Collateral requirements.

E. *Legal Authority.* The Applicant, Affiliate(s), and Lender must demonstrate that they are authorized to undertake the obligations as specified in the Loan Documents. The legal analysis must establish that necessary national, state, and local legal and regulatory requirements applicable to the site(s) are met. (See Section IV.E.2 for evaluation criteria.)

F. *Minimum Agent Hold.* A Lender may distribute the risk of a portion of a Loan by sale of participations in accordance with the Program regulations. However, as the "Agent" under the Loan syndication, the Lender must hold an interest in a Loan equal to at least the lesser of $25 million or fifteen percent of the aggregate amount of the Loan.

G. *Eligible Uses.* The proceeds of the Loan may be used only to finance the acquisition, improvement, enhancement, construction, deployment, launch, or rehabilitation of the means by which Local Television Broadcast Signals will be delivered to a Nonserved Area or Underserved Area.

H. *Ineligible Uses.*

1. Expenses and Licenses: The proceeds of the Loan shall not be used for operating, advertising, or promotion expenses, or for the acquisition of licenses for the use of spectrum in any competitive bidding.

2. Transfer to Affiliates: The Applicant shall not transfer proceeds of the Loan to any Affiliate(s).

3. Designated Market Areas: The Board will not fund a Project that is designed primarily to serve one or more of the top 40 Designated Market Areas.

4. Weather Warnings: The Board will not fund a Project that would alter or remove National Weather Service warnings from Local Television Broadcast Signals.

5. Certain Cable Systems: No Loan Guarantee may be granted or used to provide funds to a Project that extends, upgrades, or enhances the services provided over any cable system to an area that, as of the enactment of the Act, is covered by a cable franchise agreement that expressly obligates a cable operator to serve such area.

The Board will take the necessary measures to ensure that the proceeds of any Loan guaranteed by the Board are used only for the purposes for which the Loan Guarantee was approved. Additionally, the Board may attach other conditions to the approval of a Loan Guarantee, as it deems appropriate.

IV. General Project Evaluation Criteria for the Board

This section outlines the criteria that the Board will generally apply to evaluate Project proposals. In each case the Board will maintain high standards of credit and risk analysis. Given the variety of applications for financing that the Board may be considering, the Board will have the flexibility to exercise its judgment on a case-by-case basis and may apply additional criteria where appropriate.

The Applicant for the Loan Guarantee shall have submitted a detailed proposal to the Board meeting all of the requirements prescribed in the regulations governing the Program. A key element of the proposal is the Applicant's business plan. The Project must be a logical part of a well-articulated, long-term strategy that promotes the most effective use of integrated resources, including capital. The business plan is a focal point in the evaluation of credit risk, and the service area must be able to sustain a level of user fees that, along with other dedicated sources of revenue, are sufficient to service all Project-related debt, cover operations and maintenance costs, and fund all reserves, as specified in the Loan Documents. The sensitivity analysis, conducted as part of the feasibility studies, must indicate sufficient financial strength to ensure uninterrupted debt servicing for the term of the debt.

Specific areas that the Board will consider include, but may not be limited to, the following:

A. *Statutory Requirements.*

1. Requirement: As required under the Act, the Board may only approve Projects that meet specific statutory requirements.
2. Board Considerations: Therefore, Loan Guarantees approved by the Board shall be for financing specific Projects authorized under the statute and described in the Program regulations, and meet all of the prescribed terms and conditions.
3. Competition Determination: A Loan shall not be guaranteed unless the proposed Project, as determined by the Board in consultation with the National Telecommunications and Information Administration (NTIA), is not likely to have a substantial adverse impact on competition that outweighs the benefits of improving access to Local Television Broadcast Signals in a Nonserved Area or Underserved Area and is commercially viable.

B. *Financial Structure & Plan of Finance.*

1. Requirement: In evaluating a proposed Loan, the Board will require that Applicants have allocated sufficient financial resources to ensure that the Project can reliably generate forecasted revenues and that debt service obligations are adequately insulated from below-forecast results.
2. Board Considerations: Therefore, the financial structure, and specifically the plan of finance, must include adequate cash resources available on a reserve basis for contingencies as well as to meet ongoing working capital requirements.

C. *Project Contractual Framework.* While not a requirement, in some cases, a Project may rely on contracted revenue arrangements to enhance credit quality (e.g., long-term purchasing/servicing agreements). In these cases, the Board will require that such agreements provide adequate Lender protections, which in the opinion of the Board, provide reasonable assurance that Project-generated cash flows will not be interrupted or discontinued. In addition, the Board will require that the contracted customer credit strength be sufficiently strong to undertake the commitment embodied in the Loan Documents.

D. *Market Risk*.

1. Requirement: Prior to approving a Loan Guarantee, the Board will seek assurance on the stability and adequacy of the Applicant's customer base.
2. Board Considerations: The Board must assess the adequacy and stability of the Project's customer base, the potential demand for the new service(s), the sensitivity of the system to economic cycles, future capital needs, and the adequacy, competitiveness, and affordability of service fees. The Board will look to understand the market in which the proposed Project will compete, including how it is structured, competitive behavior within the structure, existing barriers to entry, how technological change has and will influence the market, and the Applicant's plan for penetrating the market and maintaining market share.

E. *Regulatory Risks.*

1. Requirement: The Board will seek to have the Loan sufficiently insulated from regulatory issues, which could delay the Project's revenue generation or interrupt operations.

2. Board Considerations: Accordingly, a legal and regulatory analysis must demonstrate that the Project meets all existing and necessary national, state, and local legal and regulatory requirements applicable to the site or sites. The legal and regulatory analysis must also demonstrate that the Project is sufficiently insulated from reasonably foreseeable changes in the regulatory environment (e.g., changes in law). The Board will require that all necessary and required regulatory provisions and other approvals, spectrum licenses, and delivery permissions have been received for the Project under the Loan prior to the approval of a Loan Guarantee. In cases where the requirement cannot be reasonably met, the Board will require that the licenses and permits be in place before the disbursement of funds is permitted.

F. *Technical Criteria.*

1. Requirement: The Board will require that the proposed Loan be sufficiently insulated from the technical risk of the Project.

2. Board Considerations: Accordingly, the proposed business plan must fully address technical risks to ensure reliability and performance. Key considerations will include:

   a. *Engineering and Design:* The Project design, technology and cost shall be appropriate for Projects of similar type and size for a particular service area. Appropriate new designs and technologies will be acceptable so long as the technology risk is addressed to the satisfaction of the Board. To the extent new technologies or scaled-up versions of previously proven technologies are to be utilized, the Board will consider the record of similar technologies, the complexity of the proposed design changes, and the expertise and experience of the technology vendor supporting the change.

   b. *Construction:* The Board shall be adequately protected against Project construction risk including: construction delays, changes in scope, budget overruns, completion risk, and systems performance. The Applicant's proposal must clearly articulate how construction risks will be sufficiently mitigated. The Board will favorably view an Applicant's allocation of risk through contracts to parties best able to manage those risks (e.g., construction contractors under fixed price contracts).

   c. *Operations and Maintenance:* The Applicant must provide a comprehensive operations and maintenance plan for the term of the guaranteed Loan. The Applicant must demonstrate experience in planning, budgeting, operating, and maintaining the type of system/technology proposed under the financing. Appropriate least-cost solutions shall be encouraged for all aspects of the Project, especially its operation and maintenance.

V. Board Criteria for Evaluating the Applicant, Affiliate(s), Lender

This section outlines the criteria that the Board will generally apply to evaluate the Applicant, Affiliate(s), and Lender. In each case the Board will require the participants to possess the financial strength and technical knowledge as needed to implement the proposed Project. Given the variety of applications for financing that the Board may be considering, the Board shall have the flexibility to exercise its judgment on a case-by-case basis and may apply additional criteria where appropriate.

As part of its proposal, the Applicant shall have submitted a detailed description of the participants in the Project, including the Borrowing entity, any Affiliates designated for the purpose of supporting the Project's creditworthiness, and the Lender, which shall disburse and oversee funds under the Guarantee Program. Specific requirements for these participants include, but may not be limited to, the following:

A. *Applicant.* As illustrated by the business plan submitted with the application, the Applicant must demonstrate the expertise, financial strength, and legal empowerment to undertake the Project. Specifically:

1. <u>Performance Capabilities:</u> The Applicant and its contractual partners must be able to demonstrate the technical, managerial, and financial capabilities to perform their respective obligations within the Project.
2. <u>Service Capacity:</u> In the Board's assessment of project management, the Applicant must demonstrate that it has the capacity to provide service at a reasonable price, implement capital improvement programs, and undertake the necessary accounting and financial reporting requirements specified by the Board.
3. <u>Authority:</u> The Applicant must demonstrate that it is empowered to assume and discharge financial obligations deriving from the Loan Documents, especially obligations for receiving, maintaining and managing funds, as well as making payments on the Loan. The Applicant must provide evidence of its legal existence and authority to execute the Loan Documents under the proposed Loan and perform the activities proposed under the Project. Such evidence must include Articles of Incorporation and bylaws of incorporated Applicants; other types of Applicants should submit appropriate documentation for their forms of organization. If the Applicant is a SPE formed for the purpose of the Project, then the Applicant must provide a copy of the Deed of Partnership or Articles of Organization for the SPE.
4. <u>Fee Implementation:</u> As appropriate, the Applicant must show that it has the legal right to set fees or rates for the Project and the capacity to implement fee increases.
5. <u>Financial Strength/History:</u> As indicated by its financial history, the Applicant must have a track record of consistent financial performance, demonstrating the Applicant's ability to undertake a Project of the scale contemplated in the proposal.
6. <u>Financial Resources:</u> The Applicant's financial resources must be adequate to support the needs of the Project. The Applicant must be sufficiently capitalized with satisfactory equity levels necessary to adequately insulate the Lender from the

potential failure of the Project to meet expectations or from situations unrelated to the Project or the proposed Loan.

7. Commitments: The Applicant must disclose all reasonably foreseeable financial obligations, contingent liabilities, or other commitments that could affect its financial health over the proposed financing term. At the Board's request, the Applicant must take all reasonable measures to insulate the Project and the Loan from external factors that could affect timely payment of principal and interest. The Board may ask for additional detailed information on commitments where it is deemed necessary.

B. *Affiliates.* In undertaking the Project, the Applicant may rely on Affiliates to provide services to implement the Project and/or to support the overall creditworthiness of the Loan. To the extent that such Affiliates are utilized, the Board will consider the following:

1. Project Roles: Subject to the eligibility criteria and restrictions described in III.H.2. above, if Affiliates are utilized in implementing the Project, the Board will require the Applicant to provide information sufficient to evidence that the relationships are comparable to those that would be achieved under "arms length negotiations."

2. Affiliate Credit Support: If the Applicant is utilizing an Affiliate to support the credit quality of the Loan (provide credit enhancement), the Board will:

    a. Require that the Affiliate's financial resources are adequate to support the needs of the Project as indicated by the Applicant. The Affiliate must be sufficiently capitalized and have sufficiently low correlation between its default risk and that of the Applicant's to adequately insulate the Lender from default conditions arising from the failure of the Project to meet expectations or from situations unrelated to the Project or the proposed Loan.

    b. In evaluating the credit support, consider the extent, limitations, and priority of the credit enhancement from an Affiliate. The strength of the credit enhancement will be evaluated in the first instance based on the identified Collateral securing the enhancement, if any. If the credit enhancement represents an unsecured pledge of the Affiliate, then the overall credit strength of the Affiliate, its existing encumbrances, and the seniority of the potential claims by other creditors will be used to determine the value, if any, that must be accorded to the credit enhancement.

    c. For Projects whose creditworthiness is backed by a credit enhancement from an Affiliate, impose financial covenants with respect to the Affiliate that are usual and customary for the type of transaction contemplated by the Loan.

C. Lender.[1] In assessing the Lender's expertise, financial strength, and legal authority to finance the Project, the Board will specifically examine:

1. Financial Strength/History: The Lender's regulatory capital ratios, in the case of banking institutions, or net worth ratios, in the case of other institutions;

[1] "Lender" would mean the "Agent" in the event that there are participations in the loan.

2. Management: Whether the Lender possesses the ability to administer the Loan, including experience with loans to telecommunications companies, as well as the Lender's experience and procedures for addressing default situations;
3. Monitoring and Oversight Program: The performance of the Lender's loan portfolio, including its current delinquency rate and the Lender's charge out rate expressed as a percentage of outstanding loans for its current fiscal year;
4. Experience with Federal Programs: The scope, volume and duration of the Lender's activity in administering federally guaranteed loans.
5. Syndication Plan: If the Lender intends to sell participations in the Loan, a plan of syndication must detail the Lender's approach and track record with similar transactions. The Board may require additional information on the syndication plan based on its initial review.
6. Eligibility: The Lender must be an eligible Lender, as defined in the Program regulations, and have the legal authority to finance the Project.
7. Additional Information: The Lender will be required to submit any other information the Board deems material to its assessment of the Lender.

VI. Board Evaluation of Security Package / Collateral

A. *Types of Collateral.*

The Board shall require that Projects financed with a Loan guaranteed under the Program be secured with Collateral and a security package (hereafter collectively referred to as "Collateral") acceptable to the Board. The Board in its discretion may require that the Projects be secured with fixed assets, Project cash flows, other assets of the Applicant, or a combination of such Collateral. Acceptable pledged Collateral shall consist solely of assets of the Applicant, any designated Affiliate of the Applicant, or both as identified in the Loan Documents, including primary assets to be used in the delivery of the service for which the Loan is guaranteed. Such assets may include, but are not limited to, the following:

1. Tangible assets, including current assets (cash, accounts receivable, inventory), reserve funds, land, buildings, machinery, fixtures, and equipment;
2. Assignments of all relevant contractual agreements, including contractual rights to certain cash flows, marketing arrangements, third-party guarantees, insurance policies, contractors' bonds, and other agreements or rights that may be of value;
3. All permits and governmental approvals necessary to carry out and operate the required equipment or service; and
4. Other assets, which in the judgment of the Board possess Collateral value suitable for securing the Loan, including a pledge of all or a part of the Applicant's ownership interest in the Project or company.

B. *Evaluating the Collateral.*

The valuation of the Collateral provided in Section II.G is subject to review and approval by the Board. The acceptable minimum level of Collateral will increase with the Board's assessment of the Loan's default risk, and must be sufficient to adequately protect the interests of the United States under a Loan default. The same Collateral will secure the entire Loan, including both the guaranteed and unguaranteed portions. The Board's evaluation of the proposed Collateral for the Loan will be based on several factors, including but not limited to, the following:

1. The expected value of the pledged Collateral in the event of default with specific consideration given to the residual value of Project assets to third-parties and the liquidity of such assets;
2. The cash flow characteristics of the Project;
3. The contractual characteristics of the Project to the extent Project-related agreements underpin the Project's estimated cash flows;
4. The competitiveness of the Project's economics and the associated certainty of cash flows in the future; and
5. The creditworthiness of any designated Affiliate(s) that provides services to the Applicant or provides any credit support.

C. *Ongoing Collateral Assessment.*

As required by statute, prior to approving a Loan Guarantee, the Board shall require that the value of the Collateral pledged be at least equal to the unpaid balance of the Loan Amount, and if the value of the Collateral provided by the Applicant is less than that amount, then the Board will require additional Collateral, equal in value to the shortfall, be provided by the Applicant or any Affiliate designated by the Applicant.

Once the Loan Guarantee is made, the Board shall require that the value of the Collateral shall at all times be at least equal to the unpaid balance of the Loan Amount. In order to ensure that the value of the Project Collateral is properly maintained, the Board, through the Guarantee Agreement, shall provide for ongoing inspection and valuation of the Collateral. If the Collateral value at the measurement date is less than the unpaid balance of the Loan Amount, the Borrower or its designated Affiliate(s) will be required to post additional acceptable Collateral to cover any deficit as prescribed under the Loan Documents. If the financial structure of the Project or the financial condition of the Borrower precludes the posting of additional Collateral, the Board will take remedial actions as provided in the Guarantee Agreement, which could include accelerating debt service payments.

D. *Lien Priorities.*

Upon the Board's approval of a Loan Guarantee under the Act, the Administrator shall have liens on assets securing the Loan, which shall be superior to all other liens on such assets, and the value of the assets (based on a determination satisfactory to the Board) subject to the liens shall be at least equal to the unpaid balance of the Loan Amount, or that value approved by the Board. With respect to a Loan guaranteed under the Act, the

Administrator and the Lender shall have a perfected security interest in assets securing the Loan that are fully sufficient to protect the financial interests of the United States and the Lender.

VII. Required Covenants

As required by statute, the Board shall require the Applicant to not make any discretionary dividend payments that impair its ability to repay obligations guaranteed under the Act, to remain fully capitalized until the Loan is repaid, to submit to the statutorily required annual audit of its financial position, and to meet the other terms and conditions for the Loan Guarantee required by statute. In addition, the Board will require typical finance covenants as part of the guarantee package, as well as others, in order to fully protect the financial interests of the United States throughout the life of the Loan. These shall include positive and negative covenants that are usual and customary for the type of transaction proposed.

Attachment: Working Group Checklist for Underwriting Documentation

Documentation	"X"
A. Background Information on the Applicant/Lender/Other Relevant Parties	
a. Description of parties to the agreement, including consortiums/Affiliates	
b. Financial condition (e.g., audited financial statements, 3rd party commitments, etc.)	
c. Management experience (including Federal Government experience)	
B. Feasibility Studies (Business Plan)	
a. Economic, financial, technological analyses	
b. Risk assessments – construction, performance, demand, financing structure	
C. Plan of Finance	
a. Sources and uses, cost estimates, contingencies, and reserve funds	
b. Details of pledged security and liens, and cash flows	
D. Term Sheet	
a. Letter of commitment (Lender/Applicant)	
b. Relevant terms, conditions, payment structure, covenants, reps, warranties, insurance, etc.	
c. Loan structure, equity requirements, and related information (see Plan of Finance)	
E. Lender's Credit Analysis and Other Due Diligence	
Stress testing assumptions and use of ratios or other financial standards, etc.	
F. Independent Collateral Valuation	
Appraisal of Collateral by licensed/certified appraiser, etc.	
G. Credit Opinion (if applicable)	
For proposals that are $15 million or over, preliminary opinion and final rating opinion	
For proposals that are less than $15 million, an existing rating, if it is available	