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Dialogue: Frank Montero

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In this edition of "Dialogue," Fletcher, Heald & Hildreth co-managing partner Frank Montero and [*Radio Ink* Vice President and General Manager, Deborah Parenti] discuss areas of growth for Hispanic radio in today's economic and demographic world, ideas that can bring more capital into minority ownership, and much more.

How many Hispanic stations are broadcasting in America today? What are your growth estimates for the next 5-10 years?

If we focus on AMs and FMs in the 50 states and DC, I'd say over 600 full-power, licensed, commercial stations are predominantly programmed in Spanish. Growth is difficult to project because the economic downturn has thrown most projections out the window. In the past 5-10 years, much of the growth has been in the southeast, northwest, and midwest. Much of that growth was a reflection of job availability. It remains to be seen if there will be new demographic shifts as those job markets dry up.

I don't think growth in the Spanish radio markets will necessarily be what it has been in the past 10 years. Still, there are many underserved Spanish radio markets, and we will continue to see radio broadcasters and advertisers looking to tap that market.

Outside large metros where population obviously is a major factor, what drives the format in smaller markets?

In the smaller emerging markets, you frequently see small religious, evangelical AMs emerge as the Latino population begins to grow. Music stations will begin to cater to the tastes of the newly arrived population. Later, as the market matures, you may see an FM with syndicated programming and more progressive Spanish formats focused on a younger audience.

Are Hispanic formats growing outside their traditional listener base?

The U.S. Latino population is young and we are seeing crossover Spanish formats that appeal to this younger audience who may like Hip Hop or Urban formats, in addition to

more traditional Spanish formats. These cross-over formats – such as Hurban or Rock en Espanol or Reggaeton – are fast-paced, with announcers that speak in both English and Spanish and frequently play music in both languages.

In terms of programming, are there different social mores within the Hispanic audience? Do programmers need to draw a different line at Hispanic stations?

I believe so. Some communities are more conservative than others and some have different tastes and preferences. Spanish is a language, not a format. Any programmer in Spanish radio has to know his or her audience, the social mores of the community, and the geographic distribution of that audience.

Do you favor the minority tax certificate? Why? What form would you want it to take?

I do. In fact, I testified before the House Ways and Means Committee in 1995 to support the old tax certificate. In its day, it was an amazingly elegant mechanism for putting broadcast stations into the hands of minorities. However, I think the biggest mistake these days is to assume that a return of the tax certificate will be a silver bullet to help promote minority ownership in broadcasting. While I greatly promote its return, we should remember that the tax certificate gets its strength from the prospect of deferring capital gains tax. Very few station owners have capital gains to shelter these days.

What are your suggestions for boosting minority ownership in broadcasting?

The biggest obstacles for minority ownership have traditionally been access to capital and access to deal flow. With the current economic slump, the capital access problem is worse than ever. Ironically, however, the deal flow problem may be somewhat less of an issue because there's so much underpriced inventory on the market. As result, you're seeing an increase in seller financing to make up for the capital shortfall.

I've been a proponent of a measured relaxation in the foreign ownership rules to allow more offshore capital to finance domestic broadcast acquisitions. This would be especially helpful for Spanish-language broadcasters because there are many Spanish and Latin American financial concerns and program suppliers that would welcome the opportunity to team with U.S. broadcasters to capitalize on the growing U.S. Latino market.

A relaxation of the prohibition on collateralizing spectrum would improve the flow of capital into the market, especially from smaller regional lenders that may be frightened by the overleveraged nature of broadcasting and the inability to effectively collateralize the debt.

I believe other legislative and regulatory changes need to be explored to promote capital into the market and assist minority ownership and funding, including a lifting or relaxation of the FCC's foreign ownership restrictions and a re-examination of the FCC's prohibition on allowing lenders and investors to collateralize loans with the spectrum and the FCC license.