Overview of Loan Programs
Focus on OneRD Guarantee

Rural Utilities Service
Water and Environmental Programs
I would like to briefly discuss our existing direct loan and grant programs before we focus our presentation today on the new OneRD Guaranteed Loan Program, which was recently revised and updated. The direct loan and grant program is our largest funding program designed to serve the most rural and needy programs with affordable financing options.
Water and Waste Disposal Programs

- WEP Direct Program finances water, sewer and solid waste utilities to provide affordable services to rural communities with populations of 10,000 or less. WEP invested $2.09 billion in rural communities in FY 2020 to impact 2.1 million rural residents.

- WEP can finance the acquisition, construction or improvement of:
  - Drinking water sourcing, treatment, storage and distribution
  - Sewer collection, transmission, treatment and disposal
  - Solid waste collection, disposal and closure
  - Storm water collection, conveyance and disposal

- WEP is administered in partnership with 47 State Offices and hundreds of field offices throughout rural America.

- Our Direct loan and grant programs can assist eligible communities and systems located in areas with populations of 10,000 or less.
- WEP invested over $2 billion in rural communities in FY 2020 to impact 2.1 million rural residents. 80% of our recipients are public bodies, while 18% are made up of non-profit organizations, and 2% were Native American Tribes and organizations.
- WEP can finance almost anything involved with drinking water, wastewater, storm water, or solid waste.
- Programs are administered in partnership with 47 State Offices and hundreds of field offices located throughout rural America.
- Estimated 1st Quarter FY22 interest rates: 2.125%, 1.75%, 1.25%
Our direct program return of investment in the rural areas has shown much success. Highlights of our direct program in FY 2020 include: populations served (over 2 million in FY 2020), new connections for those who did not have access to public water (over 15,000), miles of line installed or improved (over 3,700 miles of line), percentage of projects alleviating health or sanitary issues (over 65% of our projects) and leveraged funding from our funding partners.
This map highlights where our direct program borrowers were located. You can see the green dots representing our borrower portfolio is located in the rural population centers of each State.
WEP Water and Waste Disposal Direct Programs’ Impact
FY 2010 – FY 2020

- 2,168 counties served in all 50 states and 4 territories
- 24,764,684 rural residents received new or improved water and waste disposal service
- 9,172,105 households and businesses benefited by improved service
- Average annual household income of population served = $36,709
- Rural communities served:
  - 84% 5,000 or less population
  - 70% 2,500 or less population
  - 55% 1,500 or less population
  - 44% 1,000 or less population
- $19.6 billion invested to build new or improved infrastructure
  - 66% loan; 34% grant
  - 23% ($4.5 billion) leveraged with other non-federal funding sources
    - $156 million in Guaranteed Loans with private lenders (.81%)
    - $1.1 billion in Applicant Contribution (5.74%)
    - $47 million in Project Tap Fees (.24%)
    - $3.15 billion in Other Non-USDA Funding (16.21%)
- $298 million in technical assistance funds provided to rural communities
  - 554,068 technical assistance visits

Over the past decade we have served over 24.7 million rural residents with new or improved water and waste disposal service with over 9.1 million households and businesses benefited.

84% of all projects served rural communities under 5,000 population with a loan to grant ratio of 66/34%.
<table>
<thead>
<tr>
<th>WEP Water and Waste Disposal Programs’ Impact</th>
<th>FY 2010 – FY 2020 – Indiana</th>
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<tbody>
<tr>
<td>• <strong>62</strong> counties served</td>
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<td>• <strong>5,536</strong> rural residents received new or improved water and waste disposal service</td>
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<td>• <strong>157,637</strong> households and businesses benefited by improved service</td>
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<tr>
<td>• <strong>$570 million invested to build new or improved infrastructure</strong></td>
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<td>• 70% loan; 30% grant</td>
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<tr>
<td>• 7.7% ($44 million) leveraged with other non-federal funding sources</td>
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<tr>
<td>• <strong>9,896</strong> technical assistance visits</td>
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<tr>
<td>Project Population</td>
<td>Percentage</td>
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<td>--------------------</td>
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<tr>
<td>5,000 or less</td>
<td>79%</td>
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<tr>
<td>2,500 or less</td>
<td>57%</td>
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<tr>
<td>1,500 or less</td>
<td>29%</td>
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<tr>
<td>1,000 or less</td>
<td>21%</td>
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- **Average MHI $41,104**
- Average monthly household water costs $44.72
- Average monthly household wastewater costs $55.74
- **0.00% delinquency rate**
I would like to focus our attention now on the OneRD Guaranteed Loan Program, which was recently published October 1, 2020. While our guaranteed program has been around longer than some may be aware of, some changes have been implemented and we can now serve areas we have never served before, and we can serve them in different ways.
USDA Rural Development has standardized its guaranteed loan-making in four programs:

- Water and Waste
- Community Facilities
- Business and Industry
- Rural Energy for America

Rural Development has improved its loan guarantee application procedures. They are now standardized across these four programs which is why we called it the OneRD Guarantee Loan Initiative. This means that all four programs (Water and Waste, Community Facilities, Business and Industry, and Rural Energy for America) share the same documents and processing procedures.

We partner with lenders to finance water and waste disposal projects in rural areas. The lender makes the loan and applies to the Agency for a guarantee to cover potential loss.
Eligible Borrowers

- Public Body
- Non-Profit Organizations
- Indian Tribes on Federal and State reservations
- Other Federally recognized Indian Tribes
Benefits to Commercial Lenders

- Meets Community Reinvestment Act (CRA) requirements
- Reduced lender risk with 80% guarantee on loss
- Guaranteed loan portion does not count against lending limits
- Required deposit reserves can be used to fund the guaranteed portion of the loan
- Interest rate may be fixed or variable.
- 100% financing allowed
- Can be sold on secondary market

• (Review Slide Content)
The regulation now sets a clear maximum total debt limit by program as seen on this slide. For example, if a borrower had an existing guaranteed loan with outstanding principal for $10 million, then the maximum additional loan amount could not exceed $40 million for a combined debt of $50 million in WEP.

Also, the definition of rural is now the same across all four programs at 50,000 population. Per the 2018 Farm Bill, this is a major change and opportunity for CF & Water and Waste Programs. Contiguous areas and strings are attached to the ineligible areas so please check our eligibility maps (website on our last slide).

Under OneRD, lenders have a single point for obtaining lender approval across all four programs. This includes regulated and non-regulated lenders as well as approval for non-regulated lenders serving tribal trust lands. Once a lender has been issued a Lender’s Agreement under OneRD, they can submit an application for any of the four OneRD programs.
Why is that area off by itself ineligible?

This happens to areas that are considered not a rural area because of population density and they are attached to the urbanized area of a city or town of greater than 50,000 by a “string” area (typically an interstate or major highway) that is two census blocks or less wide. Strings can be cut with Administrator approval. A cut request is an area-wide request and is effective until the next decennial Census.

A link to this website is available from our homepage. It is the best site to use to determine if an area is eligible. See link on last slide.

Contiguous Areas are areas adjacent to the ineligible areas over 50,000 population that are considered a part of the ineligible area. Strings may be a few blocks or miles away separated by also considered a part of the ineligible areas.
One RD provides lenders with new and expanded options to better serve their customers and business needs.

- As requested by lenders, OneRD offers a way to obtain a guarantee prior to construction or project completion. The lender will pay an additional fee for this option and provide additional documentation to help mitigate risk to the Agency if the lender wants the LNG prior to construction or project completion.
- We have standardized debt refinancing options across the programs where statute allows – this impacts the CF, Water and Waste & B&I programs. And the regulation also expands the options for debt refinancing, including the refinancing of certain rural hospital debt.
Eligible Project Purposes:

➢ Refinancing our Direct Loans with emphasis now on:
  ❖ Refinancing up to 100% to other lenders
  ❖ Refinancing unguaranteed lender debt not to exceed 50% of proposed loan
  ❖ Refinancing Agency Direct and Guaranteed loans up to 100%
    ✓ Refinancing must be for eligible project costs, improve cash flow and have a minimum debt service coverage ratio (DSCR) of 1.1 times, and may be stand alone projects.

➢ Emergency Repairs
➢ IDEM Violations

• (Review Slide Content)
Eligible Project Purposes: Otherwise Improve

- Purchase of necessary equipment to maintain, protect, operate, or use for the eligible facility such as vehicles, computers, meters and pumps, SCADA.

- The purchase of existing eligible facilities, when necessary, to either improve or prevent the loss of service provided the price paid for the facility is fair and reasonable and not directly related to the dollar amount of any debt to be retired by the seller.

- Payment of tap fees and other utility connection charges as provided in utility purchase contracts.

- Let’s talk a little more about otherwise improve and what that includes. The definition of “Otherwise Improve” in this regulation includes: (Review Slide Content)
In addition to the eligible project costs already covered, construction loans can also include:

❖ Costs of acquiring interest in land or rights.
❖ Purchasing or renting equipment.
❖ Initial operating expenses for new facilities, typically one year.
❖ Cost of additional borrower labor to install and extend service.
❖ Interest incurred during construction for interim financing.
❖ Professional service fees
❖ Lender Fees
❖ Guaranteed Loan fees to the Agency

• Guarantee loans may also include: (Review Slide Content)
The new regulation has several significant or major policy changes we would like to highlight for you now. Wherever possible, the regulation standardizes provisions across all four programs and streamlines processes.

- Under OneRD, there is one approach to credit reviews with a focus on reviewing the commercial lender’s credit evaluation. The approach is not as prescriptive as the current regulations, but rather focuses on the 5 C’s of credit utilized in the commercial loan process.

- There will be one annual notice that will be issued prior to the start of the Fiscal Year that sets fees and guarantee percentages for each program which we will highlight in this presentation.

- The guarantee percentage and fees will apply to all loans for that fiscal year, and will be set by program in an annual notice prior to the FY. While the guarantee percentage by regulation can be a maximum of 90%, for FY 21 the maximum was set in the annual notice at 80%.

These changes will provide lenders with consistency and certainty going into each
The new regulation also streamlines technical documentation requirements. Specifically, there is no Agency prescribed format for engineering and architectural documents and the lender must perform due diligence or assume the risk if there is a loss claim. We will also highlight some major changes in engineering documentation for this program.
Commercial Lender’s Loan

A. Borrower applies for loan to commercial lenders.
   1. Regulated Lenders (FDIC) (Federal or State supervision and credit examination)
   2. Non-Regulated Lenders – Rural Development (Agency) must approve

B. Non-regulated lenders
   1. Must be Agency approved.
   2. For more information, visit: https://www.rd.usda.gov/onerdguarantee

C. Lender makes the loan and Agency reviews the Lender’s credit analysis for approval.

For this program, the commercial lender is the applicant to USDA. The program provides credit enhancement with a guarantee to help finance water and wastewater systems.

Regulated Lenders are under federal or state supervision and credit examination such as (FDIC) and could include:
- Federal and State chartered banks
- Credit Unions
- Savings and Loan Associations
- Savings Banks
- Farm Credit Bank
- Bank for Cooperatives
- Mortgage Companies
- The National Rural Utilities Cooperative Finance Corporation
- State bond banks or State bond pools.
Commercial Lender’s Loan Process: LNG Issued After Project Completion

- Rates negotiated with Lender can either be fixed, variable, or combination.
- Term negotiated with Lender up to maximum of 40 years.
- Lender and Borrower should establish reasonable reserves.
- Lender applies to Agency for Guarantee.
- Agency issues a Conditional Commitment (CC)
- Lender monitors construction and pays for services provided.
  - Lender can close loan and apply for guarantee upon certification that (CC) requirements were satisfied and construction is complete.
- Agency issues Loan Note Guarantee (LNG)
- Lender holds loan or can sell portion on secondary market.

- Let’s go over the conventional process with the Loan Note Guarantee issued after project completion. (Review steps in slide)
### Commercial Lender’s Loan Process: LNG Issued Prior to Completion of Project

- Rates negotiated with Lender can either be fixed, variable, or combination.
- Term negotiated with Lender up to maximum of 40 years.
- Lender and Borrower should establish reasonable reserves.
- Lender applies to Agency for Guarantee.
- Agency issues a Conditional Commitment (CC)
- Lender can close loan and apply for guarantee upon certification that (CC) requirements were satisfied
  - **Agency issues Loan Note Guarantee (LNG)**
  - Lender monitors construction, provides monthly construction reports, and pays for services provided, and certifies construction is complete after completion of project.
  - Lender holds loan or can sell portion on secondary market.

- The lender may also pay an additional fee to get the Loan Note Guarantee prior to completion of the project. This step allows the lender to get the additional security on their loan prior to project completion to satisfy the collateral requirements of the (FDIC). The process is the same except for what is highlighted here.
The guarantee fee is 1.0% x loan amount x percentage of guarantee. This is a one-time fee which may be included in the loan.

The Periodic Guarantee Retention Fee is required for loans obligated in that FY when the fee is identified to maintain the validity of the loan note guarantee. This fee may be passed on to the borrower from the lender. Typically higher fees for more risky type loans to help cover losses. You will note that WWD is the only program exempt from this fee due to lower risk loans.

While the regulations allow for a loan guarantee percentage up to 90%, for FY 22 the guarantee percentage was set at 80% for all loan types. That could change in future years by program.

The additional fee for issuance of the Loan Note Guarantee prior to construction completion fee is charged to the lender only if they want that additional benefit. This additional fee cannot be passed on to the borrower as it is a benefit to the lender.
Engineering Documentation: Simplified

- Defined as: a document, normally prepared by the borrower’s consulting engineer or other qualified party, that describes the existing system, and proposes a specific course of action from an engineering perspective.
  - No Agency format required or Agency review
  - Relies on State and local permitting and approval.
  - No modest in size, design and cost requirements.
  - No alternatives to construction.
  - No life cycle cost analysis.
  - No Davis Bacon Wage Rates required by Agency, but State may require.
  - Customer use analysis not required to compute (EDU’s)

- Reliance on Lender documentation and underwriting of loan with historical trend analysis and reasonable projected revenues and expenses budgeting for reasonable reserves.
- The Agency does not underwrite these loans and simply evaluates the Commercial Lenders credit analysis.
- (COVER ALL CONTENTS ON SLIDE)
American Iron and Steel (AIS) Requirements

AIS started with Section 746 of Title VII of the Consolidated Appropriations Act of 2017 (Public Law 115-31) and has been included in each Consolidated Appropriations act ever since.

- Requires that iron and steel products used in projects funded by the Water and Waste Disposal programs be produced in the United States. WEP may allot up to .25% of program funds to support AIS administrative, outreach and monitoring activities

Executive Order 13788, “Buy American and Hire American” April 18, 2017. Requirements include:
  - Implement Buy American laws
  - Monitor compliance
  - Report
  - Minimize waivers

Executive Order 13858 of January 31, 2019, Strengthening Buy-American Preferences for Infrastructure Projects
  - Encourages recipients to maximize use of Iron and Steel (as well as aluminum, cement, and other manufactured products) produced in the U.S.
  - Applies to all types of federal assistance
  - Report

AIS requirements are outlined here which started under Section 746 of Title VII of the Consolidated Appropriations Acts of 2017, and has been included in each Consolidated Appropriations act ever since
National Environmental Protection Act (NEPA)
CatEx Example Projects

➢ 7 CFR part 1970.53 – Categorical Exclusions without Report
  • Purchase of systems or land acquisition (where no or minimal change in the use of the land is proposed)
  • Purchase of vehicles and equipment (where no or minimal change in operations is proposed). This would also include water meters, SCADA, etc.
  • In-kind replacement of piping including upsizing required by Federal or State Regulations
  • Upgrading/replacement an existing well and appurtenances to restore production in existing commercial well fields
  • Water meters (source/master), service connections to new users (from existing systems).
  • Emergency generators

The Agency has determined that some actions, individually or cumulatively, do not have a significant effect on the human environment. These are referred to as being categorically excluded (or “categorical exclusions” or CatExs or CEs). The CatExs without report shown here do not normally require an applicant to submit a formal environmental report, documentation to show a lack of extraordinary circumstances (per 7CFR1970.52) is required with the application. These type of projects lend themselves to a more expeditious review by RD Staff.

Based on the review of the project description, the Agency may request additional environmental documentation from the applicant at anytime, specifically if the Agency determines that extraordinary circumstances may exist or sufficient documentation ruling out extraordinary circumstances has not been provided by the applicant.
How to File a OneRD Guaranteed Loan Application

To file an application, lenders are encouraged to complete the following steps:

2. Review the OneRD Guarantee Loan Initiative Lender Guide.
3. Download the Application for Loan Guarantee Form which outlines the complete application package and the Lender’s Agreement Form.
4. Email a completed application to your local state office or upload to the cloud vault if you are a multi-state lender.

❖ Please note that the agency is prohibited from guaranteeing a project funded with tax-exempt financing. We can guarantee the taxable portion of the project financing.

The Agency is making resources available to help lenders get started on their applications to programs under the OneRD Guarantee Loan Initiative.

Resources will be added to the website link listed in this slide as they become available. To file an application for programs under this initiative, lenders are encouraged to complete the following steps:

1. Download the 5001-1 – Application for Loan Guarantee Form, which outlines the complete application package, and the 5001-2 – Lender’s Agreement Form.
2. Review the final rule to ensure your application meets requirements under the initiative. General application requirements can be found in Subpart D of the regulation and starts at §5001.301.
3. Email a completed application to your local state office.

As a lender, we encourage you to register to attend on-going live and recorded webinars to learn more about the new processes under the initiative.

The program goal is to process the lender’s application within 30-days from the receipt of a complete application.
FY 2020 WEP Guaranteed Loan Performance

**Lenders**
- The Bradford National Bank
- CoBank
- First State Bank
- Freedom Financial Bank
- Live Oak Bank
- United Community Bank

**States**
- IL, IN, IA, FL, LA, OK, TX, UT

- **20 loans**
- **$27.9 million**

Our top lenders and which states we got loans from.
This slide compares our old regulation to the revised new OneRD program regulations.

- **Change in % guarantee.**
- **LNG available prior to project completion with small fee.**
- **More refinancing options and authority for other improvements.**
- **No Agency engineering review.**
- **Population increase from 10,000 to 50,000**
- **QUESTIONS????**
Public-Private Partnerships are needed to support water infrastructure needs.

**Eligible population increase to 50,000 – new opportunities!**

WEP provides co-funding to leverage public-private funds:
- Guaranteed loans can be combined with USDA’s direct loan program with applicants below 10,000 population.
- Blended rate for borrowers and greater affordability for users.
- Guarantee of 80%; 1% guarantee fee to lenders (no annual fee)

- Interim construction financing by commercial lenders.
- Graduation of current borrowers to private capital.
- Refinance to improve interest rates/loan terms/liquidity.

Public-Private Partnerships available with key highlights:
- Combo direct loans available with guaranteed loans to communities under the direct population limit of 10,000. Remember, only 16% of our direct loans were for communities with 5,000 to 10,000 population, so plenty of opportunity there.
- Combo loans can have a blended interest rate.
- Interim loans.
- Refinancing / Graduation
Contact Information – Thanks for Your Participation!

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USDA Rural Utilities Service Website – Water and Environmental Programs
• https://www.rd.usda.gov/programs-services/all-programs/water-environmental-programs

USDA Rural Development’s Website – Link to State Offices
• https://www.rd.usda.gov/about-rd/leadership/state-directors
• https://www.rd.usda.gov/browse-state

USDA Rural Development’s Website – Link to OneRD Guarantee & (Eligibility Map)
• https://www.rd.usda.gov/onerdguarantee