Recommendations to the U.S. Department of Agriculture

Identifying Barriers in USDA Programs and Services; Advancing Racial Justice and Equity and Support for Underserved Communities at USDA

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Partners for Rural Transformation is a coalition of six Community Development Financial Institutions (CDFIs) that serve three-quarters of the country's persistent poverty counties, communities that are overwhelming rural and people of color. With headquarters in the Mississippi Delta, Appalachia, Native American communities, the Deep South, the Rio Grande Valley and regions in the Rural West, the Partners for Rural Transformation has a unique lens on the range of challenges these communities face, solutions to them, and deep connections with diverse local leaders who are dedicated to creating change.

The recommendations included here are rooted in decades of experience, which includes deploying over $2 billion, reaching millions of people who reside in persistent poverty communities.

Members of the Partners for Rural Transformation are lenders and participants in numerous federal initiative such as, but not limited to those run by the Small Business Administration, U.S. Department of Treasury, Federal Housing Finance Administration, U.S. Department of Housing and Urban Development, CDFI Fund, and U.S. Department of Agricultural, and the Environmental Protection Agency.

In these comments, Partners for Rural Transformations provides responsive comments regarding:

- Equity Assessments and Strategies
- Barrier and Burden Reduction
- Financial Assistance
- Stakeholder and Community Engagement

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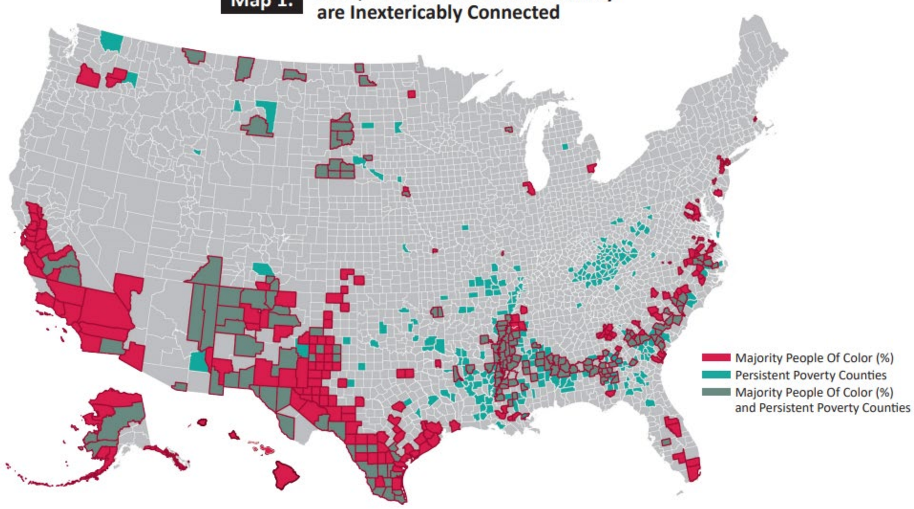
Executive Order 13985 aptly names persistent poverty areas as one among those which exemplify the definition of underserved.[1] Inclusive and equitable distribution of federal government resources to persistent poverty communities is a critical part of the strategy to transform these communities, which are predominantly rural and home to people of color, into areas of persistent prosperity for all. This comment focuses primarily on recommendations related to ensure equity in the federal government's reach to persistent poverty communities.

Setting the Context for Our Recommendations

Partners for Rural Transformation submits these comments against the backdrop of the existing underinvestment and economic disparities facing persistent poverty areas. As defined by the U.S. Treasury CDFI Fund, persistent poverty is defined as an area with a poverty rate of 20% or higher for 30 years in a row.[2] Of the country's 395 persistent poverty counties, eight out of ten are nonmetro and the majority (60%) of people living in persistent poverty counties are people of color. See Map 1.

Map 1. Race, Place and Persistent Poverty are Inexterically Connected



SOURCE: US Census Bureau American Community Survey (2017). US Treasury CDFI Persistent Poverty counties (October 2017).Hope Policy Institute Analysis.

Regions of deep and persistent poverty were not an accident – formed by policy choices that facilitated the acquisition of wealth and power among a select group through the enslavement of Africans and African Americans in the Mississippi Delta and Black Belt, the taking of land and life from tribal nations and Latinx people throughout the country and along the U.S./ Mexico border, and the extraction of natural resources from Appalachia. Today, the consequence of history manifest in other forms of distress and structural exclusion– high unemployment, a lack of access to banking services, a paucity of quality affordable housing and safe drinking water – yet all of which contribute to higher rates of premature death and lower health outcomes:

- 86% of persistent poverty counties have unemployment rates in excess of the national average;
- Three-quarters of the 158 counties nationwide that have household unbanked/underbanked rates at 1.5 times the national average are persistent poverty counties;
- Eighty-one percent (81%) of persistent poverty counties are in the bottom quartile of counties in terms of health outcomes; and
- Of the 395 persistent poverty counties, a "health related drinking violation" occurred in approximately 42% of the counties – nearly five percentage points higher than the rate nationally.

Importantly, solutions exist. For decades, members of Partners for Rural Transformation--CDFIs in some of the most economically distressed regions of the country--have been addressing the employment and housing, banking and infrastructure needs of local people and places.[3] Collectively, in the last 10 years alone, members of Partners for Rural Transformation, have deployed over $2 billion reaching millions of people who reside in persistent poverty communities. These investments have been in the form of mortgage lending, small dollar loans, community investments of hospitals and non-profit organizations, rural water systems, broadband, small business loans, housing counseling, and more.

Leveraging federal resources to reach small, nonmetro communities is a critical part of this strategy. The recent Paycheck Protection Program (PPP) is just one of many examples of how CDFIs rooted in persistent poverty areas ensure federal resources reach those otherwise bypassed by them. Through their individual PPP lending programs, three PRT members – HOPE, RCAC, and Communities Unlimited - collectively saved more than 17,000 jobs, deployed over $160 million in capital through more than 5,600 PPP loans. A majority of these loans went to small businesses owned by people of color. One-third of HOPE's PPP loan volume flowed to persistent poverty counties, as did more than a third of each of RCAC's and CU's PPP loans.

Despite evidence of solutions to meet the needs of rural, persistently poor communities, philanthropic, bank and federal investment in community and economic development in regions of persistent poverty dramatically lags behind investment in places with significantly more resources, perpetuating and exacerbating inequity.

- From 2010-2014, grant making in Appalachia, the Mississippi Delta and the Rio Grande Valley was around $50 per person – well behind the national average of $451 and $4,096 in San Francisco.[4] Analysis for Native Communities was not available.
- Bank investment trails in poor rural areas as well. In 2018, only 31 cents of every dollar borrowed by rural CDFIs was from a bank. In contrast, over half the borrowed funds from urban CDFIs were supplied by banks.[5]
- Federal investment for community development in rural areas remains well behind dollars available for community development in cities. From 1994-2001 the federal government

invested twice as much, per capita, on community development in metropolitan areas than in rural areas.[6]

A more detailed analysis of persistent poverty communities, and how CDFIs are change agents for economic opportunities within them, see the attached policy brief, Transforming Persistent Poverty in America: How Community Development Financial Institutions Drive Economic Opportunity. A virtual visit to the regions served by Partners for Rural Transformation, and leaders advancing change for their communities, can be found at PRT's YouTube Channel here: https://www.youtube.com/watch?v=EGZFb1zX5EA

USDA through its Rural Development arm, "is committed to helping improve the economy and quality of life in rural America," a mission PRT champions. However, overall, declining and frozen staffing levels at USDA Rural Development hinder the ability for the agency's resources to reach their maximum potential in underserved communities. Local USDA offices have been closed, and staff have been made to "rotate" to different regional offices, disrupting relationships and service times in local communities. USDA IT infrastructure has long been aging, which slows and disrupts service, as the agency itself knows. While the lift of the hiring freeze is welcome news, additional investment into the agency itself is necessary for it help heal up the inequities in rural America, particularly as they affect persistent poverty America.

Understandably, Congress, not USDA is in control of ensuring these investments, but a discussion of equity is not complete without acknowledgement of the overall level of investment and its effect on the ability to address inequity in rural America. There is no better agency, and no agency that has the breadth, to energetically address the inequities in rural economies and communities. In this critical moment, USDA must take the steps needed, with the intentionality and planning, that the moment requires. For example, PRT member Fahe proposed a policy plan to create jobs in home repair throughout much of rural America, patterned on USDA's successful Section 504 Repair program, which could contribute to rebuilding rural America's prosperity in bricks and mortar ways. This is just one of many examples, in addition to those included in more detail here, of the type of ambitious and expansive plans that USDA has the potential to undertake to ensure a prosperous and equitable rural America.

In light of this context, the Partners for Rural Transformations provides solutions to increase the federal government's equitable reach into persistent poverty areas, focusing on the following: comments regarding:

- Equity Assessments and Strategies
- Barrier and Burden Reduction
- Financial Assistance
- Stakeholder and Community Engagement

Equity Assessments and Strategies

Impact and reach into Persistent Poverty Counties should be a metric which federal agencies use to target and assess their impact.

Implementation of this recommendation is eased by the annual publication of persistent poverty counties. The list of persistent poverty counties is published annually by the CDFI Fund and easily available online as an excel spreadsheet.[7] Federal agencies should utilize this list to guide not only stakeholder engagement, assessment of potential impact, but also to assess and report on actual resource deployment after the fact.

There are multiple examples of federal legislation and regulation recognizing the unique challenges of persistent poverty communities. Several prioritize investments into persistent poverty counties and have reporting requirements as to how federal funds are deployed to reach persistent poverty counties. For example, the Consolidated Appropriations Act of 2021 references Persistent Poverty 18 times. In addition to Treasury and USDA, the Department of Commerce, the Environmental Protection Agency and the Department of Transportation all create funded preferences for persistent poverty areas. Specifically, the Committee Report for Agriculture, Rural Development, and Food and Drug Administration for the Consolidated Appropriations Act of 2021, "supports targeted investments in impoverished areas, particularly in persistent poverty counties."

Promising examples within USDA that could be expanded or replicated in other programs include:

- Community Facilities Re-lending Program: Though not proscribed by an enabling statute, U.S. Department of Agriculture (USDA) regulations for the program prioritizes lenders reaching persistent poverty counties. It requires participating lenders to both have demonstrated lending experience in persistent poverty counties, as well as demonstrate future ability to target investments there.[8]

- Rural Business-Cooperative Service Program: The enabling statute for the Rural Business-Cooperative Service Program, providing technical assistance and training grants to support rural business applications for USDA programs, provides: "In selecting recipients of grants under this section, the Secretary shall give priority to grants serving persistent poverty counties and high poverty communities, as determined by the Secretary."[9]

Specific recommendations include for expand the use of persistent poverty areas to guide federal agencies' prioritization and assessment of funds include but are not limited to:

- USDA should report on the amount of CARES Act, American Rescue Plan, and other COVID-19 relief funding that reaches persistent poverty counties. Understanding the extent to which persistent poverty areas benefited or were excluded from COVID relief aid provides a baseline of understanding for future recovery needs for these communities. For example, Partners for Rural Transformation provided specific recommendations of such a recommendation can and should be carried out in the deployment of the State Small Business Credit Initiative (SSBCI). These recommendations can be reviewed in detail in a recent policy brief, and can be applicable in the deployment of other funding streams for small businesses: Ensuring State Small Business Credit Initiative Funds Reach Persistent Poverty Communities.

- Govern stimulus funding with the 10-20-30 anti-poverty investment formula. This funding formula mandates that 10 percent of spending be disbursed to areas where 20 percent of the population has been below the poverty line for 30 consecutive years. This formula ensures that the geographic poverty concentrations receive the lifeblood of federal investment; something not guaranteed in the absence of the 10-20-30 formula.

- Robust local data collection tools. Effective equity and assessment strategies also require good, robust data that accurately reflect the reality of persistent poverty communities and the diversity of people who live there. As PRT member Fahe noted in their recent comments to the Census Bureau, "Rural communities, with their smaller populations, are in particular need of high quality, publicly available (de-identified) data in order to make planning decisions and to effectively deploy resources."[10] Utilizing this data is critical in decision making not only federal government agencies, but also non-profit and community based organizations, making decisions about resource allocation and investments in things like in housing, economic development, educational facilities, and recovery programs.

- Ensure formulas account for the reality of rural communities. When considering equity for persistent poverty, rural, and communities of color, USDA should evaluate when the agency or its program may be creating funding eligibility rules that will exclude these populations from access to resources. An example would be if a community development funding source has in place urban standard broadband requirements for project approval; while this high standard of broadband may be what rural areas should expect, such standards will in practice exclude poor rural projects from receiving consideration and assistance because the broadband is in fact not up to this standard.[11]

- USDA should consider a re-undertaking of review around the population size of the areas Rural Housing Services and USDA overall will serve. Over the years, many high needs areas have fallen out of the USDA eligible areas established, but are still too small to be considered urban or entitlement. All of the RHS programs are restricted to communities of under 20,000 people. This population requirement is stricter than the ones for Rural Business Service and Rural Utility Service which go up to 50,000. USDA has had proposals to increase its service to areas of up to 75,000, which would help reach more small towns that are still not wealthy and could benefit from assistance so they could stabilize.

Barrier and Burden Reduction

In light of the severe economic distress in persistent poverty areas, USDA should remove barriers to access to resources for investment in these areas.

The following are a few examples of barriers that disproportionately limit persistent poverty areas' access to federal resources. These barriers include, but are not limited to, eligibility formulas, local matches, and the reimbursement model of disbursing funding. A more exhaustive list can be found in PRT's brief, Federal Policy Priorities: Transforming Areas of Persistent Poverty into Persistent Prosperity.[12] Following these overarching programmatic barriers, this section also includes recommendations specific to Rural Housing Administration, and the Community Facilities Relenders Program.

- Waive local government matches for certain federal community development funding sources to increase their reach to persistent poverty areas. The issue of matching federal dollars is a problem in typical times for persistent poverty areas, and a near impossibility in the current climate of recovering from COVID-19 and natural disasters. Programs like HUD's HOME Program and USDA's Rural Development programs are used widely in persistent poverty regions and will be the type of program stymied by lack of matching dollars. Without a waiver, it is often be difficult to deploy these investments in exactly the type of place that needs it the most. Especially with programs like Rural Community Development Initiative Grants that are supposed to build capacity for rural areas, match requirements—predicated on having a certain amount of capacity to raise match—are a hindrance to communities of persistent poverty and to rural communities across the board.

A recent promising example, which could be replicated in other program areas and made permanent for persistent poverty areas, is the recent White House memorandum waiving the 25% non-federal match for FEMA Disaster Relief.[13]

- Move away from the reimbursement model of deploying assistance. As noted by PRT member, RCAC, in their response to the Office of Management and Budget's Request for Information on Racial Equity, "smaller communities or nonprofit organizations often have limited financial resources to pay upfront costs and must wait to be reimbursed by the federal government, even after the awards and the work plans have all been approved. The state and federal government often wants and needs nonprofit organizations to partner with them, however, the method of receiving the funds is often challenging and roadblocks exist. This leads to difficulties in small rural communities or organizations to cash flow the projects upfront and wait to get reimbursed. Most nonprofits do not have the cash flow to use, and operations can become a problem for partnering agencies."[14] The same challenges exist for smaller local governments in persistently impoverished regions. When a disaster strikes or the opportunity for a capital project comes along, there is often not extra cash flow to outlay in order to then seek reimbursement. Unfortunately, many federal relief aid and other resources are structured to be disbursed on a reimbursement basis.

  This reimbursement model favors well-resourced local governments and institutions, and may lead to disparate distribution of resources, particularly along rural, communities of color. As just one example, under the CARES Act Coronavirus Relief Fund, some states used their discretion to distribute local government aid on a reimbursement basis. Analysis of data in access to these funds in the state of Louisiana demonstrates the resulting disparity: Majority people of color parishes that are also rural and areas of persistent poverty received only a third (31%) of the funding allocated, where as their white counterparts received 74%. In dollar amounts, rural, persistent poverty, majority people of color parishes only received 6.9% of similarly situated white counties.[15] Similar challenges in accessing founds due to the reimbursement model occurred in Alabama's Black Belt[16] and in Texas.[17]

  A recent good example of addressing this inequity is in the U.S. Treasury's Interim Final Rule for the deployment of the Coronavirus State and Local Government Relief Funds authorized by the American Rescue Plan. In the guidance for States' distribution of these funds to non-entitlement jurisdictions, it specifically prohibits the use of the reimbursement model.[18]

- Increase support for Rural Broadband: Even before COVID, affordable high-speed internet was rural communities' lifeline to basic needs, such as education or online bill paying. For rural small businesses, it is their connection to access to national and international markets. [19] Unfortunately, years continue to pass without meeting small town and rural America needs. As USDA knows, the inequity of broadband coverage is a major issue for rural America, particularly persistent poverty rural America where a high percentage of the population is Americans of color. To remedy these inequities, USDA should continue to raise awareness of the need to fully invest in broadband. In addition, USDA should increase deployment of broadband resources as grant-based funded, rather than debt-based, to ensure its reach to economic distress areas, such as persistent poverty communities.

  Additionally, evaluation of broadband services should include four main components: ease of access, consistency of access, verifiable speed of service, and price of service. First, a household must have easy access to broadband services, meaning it should be able to obtain service in the same way as a household in a fully served area. Second, a household needs to be able to access service consistently and at the same quality every time. While wireless or satellite internet could be appropriate in some rural areas, in the mountainous, forested areas of Appalachia, for example, wireless service will do relatively less to help communities achieve consistent, affordable access. Third, minimum speeds need to be set looking to the future by installing fiber "Invest Right – Invest Once." Anything less cannot serve for many needed functions, and should not be considered broadband as me move into the middle part of the 21st century. Fourth, a household should be able to afford service and still have disposable income left over. PRT Member Fahe has developed a public policy position on broadband that can inform USDA staff as they seek to be part of equitably deploying broadband in the coming years.

Rural Housing Administration

The following section identifies barriers and burdens specific to Rural Housing Administration programs. If addressed, resources could better floor to persistent poverty communities, though enhanced partnerships and accessibility.

- Understaffed offices at USDA continue to cause concerns for the 502 Direct program. This program is meant to serve borrowers that are at or below 80% of the area median income, which includes a significant population of people of color in underserved communities. Based on the structure created for this program, a USDA Guaranteed loan can originate and close within 30 days or less, while a 502 Direct loan may take 90 days or more. This issue causes many in the mortgage industry to step away from offering this program. If USDA would consider streamlining similarly to the Guarantee program, which could be very effective based on the current use of Intermediaries, this could make a drastic change in who is served by the program. For example, the 502 Direct program should be opened to work more like the USDA Guarantee program allowing Intermediaries to schedule appraisals, pull credit reports, close in the Intermediaries name and sell the loans to USDA.

- USDA programs have varying views on allowances of medical collections, where the Guarantee program is more lenient than the 502 Direct program. The Guarantee program specifically states that medical debt is not required to be paid. In contrast, in the 502 Direct program, medical debt is considered unacceptable credit. Therefore, it requires payoff of the debt or a repayment plan and waiting 6 months for application post-payoff, or plan implementation if their credit is below 640—unless extenuating circumstances are determined to exempt a borrower from this requirement. This disparate treatment of medical debt underwriting between the different programs likely leads to disparate outcomes in who can access USDA mortgage assistance and who cannot, especially since both programs are open to people with credit scores below 640. For example, PRT member HOPE examined the impact of medical debt in places like the Mississippi Delta, finding the burdens of medical debt collections disproportionately concentrated in communities of color and yet, barely measurable in white communities.[20] These pre-existing racial disparities in the burdens of medical debt collections may be leading to racially disparate outcomes in the implementation of USDA's different standards for medical debt in its programs.
- USDA should assess and address the equity-stripping impact of the recapture provisions in the 502 program. For PRT member HOPE, the 502 recapture provision creates an illusory promise of the benefits of homeownership, particularly for low-income homeowners and people of color. HOPE is aware of numerous examples of 502 borrowers in the Mississippi Delta where the recapture provision has undermined people's ability to build equity in their home. Specifically, as currently implemented, if a 502 borrower does anything other than pay their mortgage exactly under terms of the mortgage they will be levied with a second lien in the amount of the interest credit provided at the time of the loan. This even happens when a borrower seeks to pay their loan off just a few months prior to the end of 33-year mortgage term. In one specific example, a family carried a $52,000 mortgage through the 502 program. After paying diligently on the loan for 32+ years, they paid off the last few months of their mortgage early, so they would not worry about lingering debt. Unfortunately, this early pre-payment had the opposite effect: even after paying for 32 years, they got a bill from USDA for $49,000 to recapture the interest credit. Now, rather than having a debt-free home for their children to inherit, they have a deficit. This is just one of many stories in the Delta. There are similar occurrences when borrowers pass away before the end of the mortgage term, their heirs are saddled with the USDA bill for the interest credit, or if before their death a long-term homeowner seeks to transfer title to a relative to pass along the equity they have built over many decades.
- 502 Direct should establish specific repair requirements as to what should be considered a "safety and soundness" issue. Since individuals in area offices are reviewing as they deem fit, some offices are very difficult and will make something as simple as replacing a toilet bolt (example provided by Fahe staff) an issue that could prevent a loan from closing. In lending environments like today's, this puts these borrowers at high risk of sellers walking away from a contract and in some cases, not being willing to accept USDA financed offers at all.
- USDA's new income banding is a welcome change. In the absence of Congressional reform to current standards for establishing eligibility based on Area Median Income (using the

national non-metro median income of the United States as an alternative floor), income banding has helped USDA better serve communities in states with concentrated rural poverty, such as in the deep South and Southwestern border states. The success of income banding shows the need for AMI reform as outlined by PRT in a forthcoming policy paper (but in the meantime see the following position paper for more info about the need to reform the AMI system, for USDA's information as it considers equity for the rural parts of states with the highest concentrations of persistent poverty.)

- USDA's capabilities to advance equity is enhanced by having partners to with the capacity and support to reach these borrowers. To help ensure that partnership and capacity to further equity in rural homeownership, we respectfully observe the following barriers.
    - The set-up of the 502 Packaging program continues to provide the Intermediaries no control over the back end of the loan process. This in turn means no control over earnings, which impacts the ability to bring on additional staff and maintain the level of customer service and turn times necessary to meet the goals of this USDA-intermediary partnership and reduce barriers to greater focus on equity. In the past, discussion has been requested around how Intermediaries may be inserted into the closing process to remedy this, as well as assist USDA offices that continue to operate on a reduced capacity. Some alternatives to consider could include:
        - Revisit allowing Intermediaries to access the 502 Direct Program in a similar fashion to how lenders access the 502 Guarantee program by pursuing the option to purchase closed loans from approved lenders (Intermediaries). This option would give Intermediaries control over the income stream of this work allowing for proper planning and growth, as well as providing additional capacity to USDA staff. Both of which are necessary for continuing the strength of this program.
        - Include funding in the USDA budget for salary or contract services to be paid to an Intermediary for capacity building on an annual basis.
        - Revisit fee allowances. While it is not the intention to over burden low income borrowers with significant loan costs, the current fee structure does not allow for Intermediaries to earn a fair wage for the work being completed. Sharing a fee with the Packaging entities, which in many cases is less than 1% of the loan balance (typical minimum industry standard) is not supportive of the Intermediaries piece of work. Packagers consistently express that for the origination and assistance they are offering borrowers, earning $1,500 is the minimum for them to remain actively engaged and willing to build a line of business around this program. With fee sharing, in order to maintain good Packagers, this does not leave much meat on the bone for Intermediaries, majority of which are earning $500 or less on each deal that closes. The current fee structure has not been revisited in nearly three years. USDA could consider the allowance of Intermediaries to charge a quality review fee that is allowable to be financed into the borrowers closing costs. By separating this cost from the origination fee, this provides the Intermediary the ability to collect those funds without frustration from Packaging entities that would be expected to come with an origination specific fee increase that was not offered directly to them to increase their own earnings, again impacting the Intermediaries ability to be

compensated fairly. Another thought to consider, is there whether there is any way to set up earnings to be paid out of the interest rate provided similarly to the way the Guarantee program functions.

    - Another piece of the work provided by Intermediaries that takes a significant amount of time is training and marketing development with Packagers. The current setup of the Program requires a three-day course be taken within one year of Qualified Employer approval. There are two primary issues with this setup. First, the full year allowance requires the Intermediaries to provide an overwhelming amount of training to organizations around just the basics of the loan program itself. Intermediaries have heard multiple times that by the time our Packagers are completing their class, they feel as though they have learned a minimal amount of new information due to the trainings they have had with our staff. Secondly, provided training consistently leaves Packaging staff unprepared for the expectations of an Intermediary, as well as how to "process" a loan package. USDA should consider a requirement of Packagers to complete a training that is focused solely on the processing and submission of a package. A fee could be collected by the training entity for this work versus the current expectation that a significant amount of time be spent around this work at the expense of the Intermediary.
    - Currently, all applications and USDA sites provide potential borrowers with the Intermediaries' information as their direct contact, not loan Packagers. An adjustment to these forms, as well as the USDA Packaging site, to provide links to the Intermediary's approved Packager lists by state could be beneficial in allowing this program to operate in the way it was built. It would be better with Packagers receiving the initial requests and Intermediaries serving as the quality control, not the originator. Once a borrower comes into contact with Intermediary staff, especially after already having reached out to USDA, they are not interested in continuing to be funneled around. USDA should smooth the process to more quickly put borrowers in touch with the Packager best able to help them directly.
  - Finally, in a similar vein to the above concerns, the announcement of the Intermediary's role with the roll out of USDA American Rescue Plan funding brought with it multiple concerns. Those include the significantly reduced fee available for an amount of work comparable to a new purchase package (with both document review as well as data entry), which must also be shared if a Packager is involved. Also, the additional burden on USDA staff that are already struggling in many areas to move loans to closing at a fair pace. Intermediaries were contacted by state offices requesting that we serve as the point of contact for their teams for these deals and have already seen borrowers come to us as advised by USDA. This expectation of the Intermediaries came without prior discussion or request for feedback on the feasibility. Intermediaries received notification of this expectation after launch, even to the tune of the first letters of eligibility being sent out to borrowers which included information around contacting Packagers or Intermediaries for assistance. In the future, a better practice would be to engage in conversation prior to the execution of a new program that could have significant impact on workloads, as well as changes the structure of already agreed upon earnings. In cases such as this, the capacity grant as suggested previously would

allow for preparation to implement these opportunities to continue to work with USDA without harming the capacity of partners to reach the low income borrowers around rural America.

Community Facilities Re-lending in Rural America

The Community Facilities Re-lending program began in 2016 to help support USDA deploy these much-needed funds, especially in persistent poverty areas. Deploying these funds successfully to these areas would contribute to greater equity in financing throughout the country. However, there are barriers in providing these services, as identified here. Additional written program guidance would be very helpful, and could cover topics including, but not limited to, the following:

- Relenders in different states receive widely varying guidance on the rules and parameters of the program. Some state offices are slow to issue eligibility determinations. USDA should urge state directors to expedite project eligibility decisions within 30 days, refer deals to Relenders when possible, and take other actions to assist Relenders. One or more Relenders have utilized CFRP loan proceeds to fund New Market Tax Credit ("NMTC") leverage loans, but some lenders are uncomfortable with the structure and collateral position (due to the indirect collateral position that the loan proceeds receive during the 7-year NMTC period). Ultimately, there is real estate collateral through assignments. Guidance should confirm that use of the CFRP loan proceeds for NMTC leverage loans is an appropriate and high-impact use of these funds. Rural NMTC projects have a harder time securing leverage loan financing because there are fewer lenders working in rural communities that make loans of the size and nature needed. Many NMTC projects are large, transformational projects, which the CFRP funds could leverage to catalyze significant outcomes in disadvantaged, high-distress rural communities.
- Consider whether service-area based (an identified service area includes an eligible census tract) and/or population-based (users of the facility meet low-income criteria) eligibility could be used to meet the 50%+ persistent poverty county or high poverty area criteria. One idea for consideration if for USDA to leverage the "targeted population" qualification under the CDFI Fund NMTC Program.
- Confirm that Relenders can sweep the excess interest rate spread in their accounts.
- Confirm that separate Deposit Account Control Agreements are not required for each CFRP project.
- Some Relenders have received guidance that CFRP funds cannot be utilized for refinancing. Confirm that CFRP funds cannot be utilized for the sole purpose of refinancing a CF project, but that up to 49% of CFRP loan proceeds may be utilized for project refinance.
- Loan participations: Loan participations among multiple Relenders have been prohibited, raising the cost to borrowers and complicating transactions on large projects. This prohibition caused the demise of at least one promising deal involving multiple lenders. It

is unreasonable for a borrower to be required to deal separately with several lenders. Changing this policy would expedite draw downs and help direct more of the program's resources to persistently poor counties and high poverty areas. USDA should conduct legal and procedural review of this prohibition, and look for a way to lift it if possible.

- Update USDA's payment system – SIPS – to include Community Facilities Currently, it is necessary to select 'Other' when making monthly payments and payments have been misapplied regularly, especially to RMAP, leading to effort to untangle. Relenders have tried regularly to get this fixed but the problem persists.
- Interest Rate: In today's low interest-rate environment, and given the pricing sensitivities of end borrowers, the rate is a barrier to CF funds deployment by Relenders. USDA should revisit the interest rate (2.375% fixed December 2016) and consider ways to allow Relenders to lock in a lower rate. This will enable greater deployment and minimize the competition with the USDA CF Direct program. Also, IRP offers 1% for largely business loans with terms of up to 30 years, and CFRP offers 2.375% for nonprofit and public sector facilities projects with terms up to 40 years. The latter typically has greater pricing sensitivity.
- Cash collateral account: USDA should review the requirement for a cash collateral account or irrevocable line of credit. We believe that the performance of these loans over the past five years is evidence that the risk assumptions made at the program's outset were much too conservative. This requirement adds additional costs to Relenders, which they must either absorb or pass on to their already price-sensitive end borrowers. Other USDA programs in which CDFIs participate (e.g., Intermediary Relending Program) have a much more limited security interest, which does not include a five-year debt service reserve or an interest in their net assets. Further, USDA underwrote CDFI Relenders in evaluating their participation, which we assume included their ability to service the debt requested. Many of them are Aeris-rated institutions with an investment-grade rating. We would recommend that the CFRP collateral requirements mirror that of the Intermediary Relending Program . However, if additional risk mitigation is required, in lieu of a cash collateral account or irrevocable line of credit, an agreeable liquidity covenant could be established to give USDA assurance that Relenders will be able to meet their debt obligations.
- Construction period: Funds cannot be used for construction, but many if not most CFRP projects involve construction, which forces Relenders to use/source other capital to bridge the construction period. While this can be an opportunity to engage other lending partners, it is also a hurtle. Many projects are large, making the capital requirements hard to overcome. And there is a concurrent time delay to draw down the CF funds while construction is completed, typically around 12-18 months, which Relenders must manage. USDA should allow the funds be eligible for use during construction. Structurally, this typically includes an interest only period, and once the project is complete the principal balance is termed out and begins amortizing.

Financial Assistance

CDFIs are critical conduits to ensure federally-funded financial assistance and capital reach persistent poverty communities.

Across various forms of capital resources, such as small business and mortgage loans, to community development financing, such as Low Income Tax Credits or New Market Tax Credits, or funding for water, broadband, and other infrastructure, CDFIs are well-positioned to ensure these resources can reach and be structured to benefit persistent poverty communities. Effective resource flow, even though CDFIs, requires both products structured to meet the needs of people, businesses, and institutions in persistent poverty communities, as well as addressing barriers mentioned in previous section.

Below are some non-exhaustive examples of improving the equitable distribution of federal financial assistance through effective partnerships with CDFIs with a proven track-record of serving and reaching persistent poverty communities.

- Increase funding for down payment assistance and preservation programs that expand homeownership opportunities for low- and moderate-income households in persistent poverty communities, particularly rural and communities of color. In addition to making funds available for these purposes, ensure the funding can be accessed and deployed by CDFIs to reach these hard to serve areas. As one example of a successful downpayment assistance program, between 2019 and 2020, through a NeighborWorks-funded down payment assistance program conducted in partnership with Wells Fargo, called NeighborhoodLIFT, PRT member HOPE provided down payment grants of up to $10,000 to 257 Mississippians, a quarter of which were in rural communities.
- Increase federal grant-based funding for critical infrastructure, such as expanded broadband and upgraded and expanded water and wastewater infrastructure. Water and wastewater systems in rural communities were struggling financially before COVID, which has worsened since then. Built in the 1950s and 1960s, these rural utilities are in dire need of repair, maintenance and upgrades. During COVID, most states halted water shut offs for non-payment, because washing hands is an essential preventative health measure. A May 2020 Rural Community Assistance Partnership national survey of water systems showed that more than 31% of systems surveyed said they could not continue to cover all costs for more than six months under current conditions. Current debt-based federal financing tools are simply not an option for systems that struggle with cash flow. To effectively expand critical lifelines to persistent poverty areas, federal funding, particularly through the U.S. Department of Agriculture, should be increased, with more grants than debt for operating support and infrastructure investments.

- Increase capital to CDFIs that serve persistent poverty areas. CDFIs that serve persistent poverty communities are involved at every rung of the economic mobility ladder. This includes access to basic financial services, such as a bank account and financial education; providing capital for future wealth building through homeownership and small business owners; and providing financing for critical community infrastructure, such as affordable housing, hospitals, healthy food systems and nonprofit organizations. Increasing federal funding in the form of grants to support CDFIs that serve persistent poverty areas is a critical part of the strategy to increase economic vitality and opportunity in these communities. Increased grant funding to to support the CDFI activities leads to job creation through small business lending, investments in local communities, financial education, wealth and stability creation, and access to fair credit options.

  Additionally, state, local, and federal program administrators of federal funding should allow CDFIs administer programs directly, and to utilize the funding as capital to increase lending capacity, volume, and impact to underserve regions. As good, but not exclusive example, of this is the original State Small Business Credit Initiative program, where several states contracted with CDFIs to administer the portions of the fund directly and retain the funds as capital at the program's conclusion.[21] Similar structures may be possible to replicate in other contexts, such as funding for downpayment assistance, capital projects, or infrastructure.

Stakeholder and Community Engagement

Meaningful engagement in persistent poverty areas requires ensuring a diversity of voices, building trusted relationships. CDFIs can be helpful in meeting these goals.

As noted in the comments to the OMBC by PRT member RCAC, "Rural looks different in different parts of the country, so ensuring representative voices from rural Appalachia, the Black Belt in the Southeast, the desert Southwest, the Mountain West, the rural Northeast, Indian Country, and the great plains are included in the conversation is necessary to get a true picture of the impact of a proposed policy on rural areas. The diversity of rural places in this country necessitates a broader range of stakeholders than are traditionally invited to participate to truly get a holistic rural perspective… Rural wellbeing should be supported through socially and culturally- appropriate outreach, flexible grant funding programs, and must be paralleled with technical assistance from local, trusted, and regional intermediaries who will provide meaningful engagement to meet the community's needs."[22]

CDFIs with a strong track record in serving persistent poverty communities are rooted in deep, meaningful relationships with people in the communities they serve. This includes not only individuals receiving financial services or counseling, but also community leaders, local government officials, leaders of state governmental agencies, and others. They also carry knowledge and history of the region, including lessons learned from previous challenges or successes in deployment of federal resources.

As such, federal government agencies seeking to ensure equitable deployment of resources in these communities, should look to CDFIs as a priority stakeholder. This outreach and engagement should be both on the front-end input of program designed and structure, as well as a conduit for outreach and technical assistance to ensure historically excluded communities can actually access the resources. Partners for Rural Transformation, collectively or its individual members, are a good resource to begin this outreach inquiry across federal programs and funding streams.

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