EXTEND USDA’S COMMUNITY FACILITIES RE-LENDING PROGRAM

What is USDA’s Community Facilities (CF) Re-Lending Program?

In 2016, the U.S. Department of Agriculture (USDA) launched the Community Facilities (CF) Re-lending Program to provide financing for essential community facilities in rural communities experiencing high and persistent poverty. The CF Re-lending Program adapted the existing CF Direct Loan Program by adding a role for an intermediary or re-lender to work with poorer communities of no more than 20,000 residents in accessing this long-term, low-cost debt. The re-lenders, many of which are CDFIs (community development financial institutions), were selected to participate based on their strong relationships with community leaders and their specialized expertise in lending in lower wealth markets. A total of $401 million was made available to 27 re-lenders.

How does it work?

The re-lenders assist community leaders in identifying eligible community facility projects and preparing applicants for financing for USDA review. Once a project is deemed eligible by USDA, the Department makes the funds available to the intermediary to re-lend to the borrower to finance the approved community facility project. Re-lenders originate, underwrite, and close the loans. As in the existing CF Direct Loan Program, funds may be used to purchase, construct, and/or improve community facilities, purchase equipment, and pay related project expenses. USDA funds are obligated to the re-lender at a low fixed interest rate for a 40-year term.

The Challenge

Numerous community facility projects have been completed and over $175 million in projects are in the pipeline, however implementation of the CF Re-lending Program has taken more time than originally anticipated. While financing of any kind in small, low-wealth markets poses challenges, implementation was also impacted by:

- Delays at the USDA: In standing up any new program, an agency will need time to retool procedures, develop guidelines, and revise its communications to program participants and other stakeholders. With the change in Presidential Administrations just months after re-lenders were chosen, there was a significant delay in re-lenders accessing the necessary guidance from the USDA to proceed with sourcing projects and submitting them to the USDA for approval. This uncertainty impacted the USDA state offices as well as the re-lenders and community leaders. Even after a year, some re-lenders reported lengthy delays in project approvals.

- Prohibition of using CF Re-lending funds on construction: Alternative sources of capital for the construction phase of CF Re-lending projects (typically 12–18 months) must be identified by the re-lender. CF Re-lending funds may be used for take-out financing after the construction phase but, cash flowing large construction projects limits a re-lender’s ability to finance other projects until construction is complete. As the 5-year authorization deadline nears (September 30, 2021), re-lenders are understandably hesitant to embark on new projects and run the risk of not being able to draw down CF Re-lending funds if the construction phase takes longer than anticipated.

Recommendation

OFN supports a five-year extension of the program through September 30, 2026, to allow re-lenders more time to access the full amount appropriated in 2016. There would be no new budget impact in FY 2021. Now that re-lenders and the USDA have moved beyond the initial implementation challenges, the program is poised to achieve its full potential by delivering needed community facility financing to the nation’s high poverty rural communities.
Project Spotlight: Orangeburg Consolidated School District 5 High School for Health Professions, Orangeburg, South Carolina

Located in a persistent poverty county, the Orangeburg Consolidated School District (OCSD) 5 High School for Health Professions is a bright spot in an underserved community. The South Carolina Community Loan Fund committed a $3,825,000 loan to OCSD 5 to cover the cost of acquiring real estate to serve as the new home for the school. The new facility offers state-of-the-art technology, including learning labs where students can gain hands-on experience in a variety of medical disciplines and a computer lab offering students access to technologically advanced computer equipment. The 16,500 square foot space is situated on more than seven acres of land that will allow the school to expand as needed.

The school enrolls 372 students, 99 percent of who receive free/reduced lunch. The school boasts a 98.5 percent graduation rate over its nine years of operation and many of its graduates have gone on to be the first students in their families to attend college. The project was approved by the USDA in October 2017 and drew down funds in June 2018.