

October 22, 2018

Secretary Sonny Perdue  
United States Department of Agriculture  
1400 Independence Drive, SW  
Washington, D.C. 20250

RE: File Reference 2018-19101

Dear Secretary Perdue:

The American Bankers Association<sup>1</sup> (ABA) appreciates the opportunity to comment on the United States Department of Agriculture (USDA) attempts to Implement Regulatory Reforms to Increase Access to Capital in Rural Areas.

Since the founding of our nation, banks played a vital role in providing agricultural credit to rural America. More than 5,000 banks – over 83% of the industry – reported agricultural loans on their books at year end 2017 with a total outstanding portfolio of over \$180 billion.<sup>2</sup> Banks are core stakeholders in efforts to promote economic growth and job creation in agriculture from coast to coast.

ABA works with USDA's various agencies, but the bulk of the relationship is with Farm Service Agency (FSA) Loan Programs and the Rural Development Guaranteed Loan Programs. Last year, the banking industry was part of the \$6.6 billion<sup>3</sup> in FSA loans and \$1.2 billion<sup>4</sup> in Rural Development loans. A close relationship between USDA and the banking industry provides more access to credit for farmers and rural America.

ABA has been building its relationship with Rural Development for many years. As this relationship develops into the future, the banking industry wants to ensure that Rural Development remains a cornerstone of USDA. It is important to recognize the possibility of Rural Development to be an avenue for banks to engage in public-private partnerships with USDA on both loan programs and rural infrastructure projects. ABA believes the creation of OneRD is a great opportunity to streamline and strengthen guaranteed loan programs within Rural Development. These programs need to remain strong into the future so lenders can provide adequate capital to rural America.

## **Changes to Rural Development Loan Programs**

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<sup>1</sup> The American Bankers Association is the voice of the nation's \$17 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2 million people, safeguard \$13 trillion in deposits and extend more than \$10 trillion in loans.

<sup>2</sup> ABA 2017 Farm Bank Performance Report.

<https://www.aba.com/Tools/Function/Ag/Documents/2017FarmBankPerformanceReport.pdf>

<sup>3</sup> United States Department of Agriculture Fiscal Year 2017 Budget Summary. Page 16.

<sup>4</sup> United States Department of Agriculture Fiscal Year 2017 Budget Summary. Page 37.

USDA should increase and strengthen Rural Development guaranteed loan programs, as these programs are used by banks to provide credit in rural America. USDA should consider increasing flexibility on funding Rural Development loan programs. Far too often, funding for one program will be completely used, while another program is untouched. Flexibility to shift funds between programs will help to solve this problem. Additionally, USDA should reintroduce preferred and certified lender programs to help streamline the loan origination process within Rural Development. By creating an avenue to streamline loan making, more banks will be involved with Rural Development loan programs and more opportunities to access credit will flow to farmers and rural communities. Lastly, there needs to be an increase in education about Rural Development loan programs. ABA has started the process of working with Rural Development, but there is a real need to educate lenders across rural America.

**Business and Industry Guaranteed Loan Program:** ABA believes the guaranteed loan programs within Rural Development need to remain in place for the future. These programs are not duplicative and help a different class of individuals than Small Business Administration loans. ABA is especially supportive of the Business and Industry Guaranteed Loan Program as it provides protection for lenders, making them more willing to extend credit to rural businesses. These loans are used to provide much-needed financing for economic development projects for rural businesses to purchase machinery and pursue business modernization. The USDA Business and Industry (B&I) Guaranteed Loan Program, and all programs of the USDA Rural Business Cooperative Service that complement the lending activities of private sector commercial banks are of vital importance to our nation's rural communities. The B&I program has historically realized full utilization and the program's delinquency rates are at an all-time low. The program works and should be strengthened, not ended. By having a government guarantee, this program is particularly useful for helping start up business or non-traditional businesses in rural America. However, lengthy delays are commonplace due to the lack of modernization in the program which is still hurting the ability for banks to produce more B&I guaranteed loans. Without Rural Development loan programs, innovative businesses in rural America may be left behind.

**Community Facilities Guaranteed Loan Program:** Another important Rural Development loan program is the Community Facilities Guaranteed Loan Program. This program relies on a partnership between the USDA and private lenders who provide vital capital for projects involving critical infrastructure and essential services in rural America such as hospitals and public safety services. The current over-emphasis by USDA on the Community Facilities Direct Loan program has become a very real threat to the continued viability of the Community Facilities Guaranteed Loan Program. The Direct Loan program excludes rural lenders in the private market because the USDA completely assumes the role of the lender with all risk and exposure assumed by the U.S. taxpayer. Today, only a fraction of program authority is allocated to the Guaranteed Loan Program compared to the Direct Loan Program (\$146 million versus \$2.2 billion; a 6%/94% split)<sup>5</sup>. We urge your support for strengthening the Community Facilities Guaranteed Loan Program to increase the participation of the banking industry in these types of loans.

**Rural Energy for America Program:** ABA believes the Rural Energy for America Program (REAP) Guaranteed Loan Program needs to remain strong into the future. However, USDA

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<sup>5</sup> United States Department of Agriculture Fiscal Year 2017 Budget Summary. Page 44.

should consider increasing the current cap of \$25 million on REAP as the cap is often too low for larger projects. Additionally, there needs to be better coordination with B&I as that will create more opportunities for combined loans.

**Water and Waste Disposal Loan Guarantees:** Bankers have not traditionally been very involved in Water and Waste Disposal Loan Guarantees. There are a number of factors that contribute to this, with the most important being that this type of loan will often be made once every 20 years or so in a small community. ABA fully supports the concept of repackaging current Water and Waste Disposal Direct Loans and converting those loans to guaranteed loans. This would open up additional access to credit by providing an avenue for institutions to become more involved with Water and Waste Disposal loans.

### **Competition with Direct Loans**

One issue that has been brought up by bankers is that Rural Development direct loans are often at a much lower interest rate than a guaranteed loan. This can make it uncompetitive for banks to create a guaranteed loan for the same project. This has led to fewer banks being involved in Rural Development guaranteed loans.

Rural Development should ensure that direct loans are made for projects that cannot obtain a guaranteed loan. Rural Development should not be in the business of competing with their lending partners. There should be constant monitoring within Rural Development Direct Loan programs to ensure the loans are made in the proper fashion.

### **Application Process**

The current process to apply for Rural Development loans is too cumbersome and time consuming. The creation of a Preferred Lender Program could greatly reduce the time needed to apply for and receive approval of Rural Development guaranteed loans.

The application process can also be improved by having loans of certain dollar amounts and categories be approved by the various levels within Rural Development. For example, a Water and Waste Disposal Loan Guarantee of less than \$5 million could be approved by the local Rural Development office, while a loan of greater than \$5 million would need to be approved by the national office. Additionally, there should be an option for lenders to send loan approvals to the national office if there have been approval issues at the local office. This would help to keep local projects locally controlled, but allow for a lender to move projects up the chain if necessary.

Lastly, there is a need to create more online application resources. Bankers, and lenders as a whole, are on the cutting edge of financial technology. They have policies and procedures in place to protect customer information while providing a high level of service to their customers. Rural Development needs to keep up with the technological advances made within the financial service industry. Most importantly, there should be an online application system. ABA believes this can be accomplished through the farmers.gov portal. By creating an online application system, lenders will be able to greatly streamline the loan making process while Rural

Development will be able to reduce approval time. Paper copies require time and cost to be printed, sent and processed. An online application and approval process will save time and money for both lenders and Rural Development.

## **Preferred Lender Program**

As Rural Development streamlines the loan making process for lenders, there needs to be an increased emphasis on creating and maintaining programs for lenders to use when making loans for Rural Development projects. ABA believes as part of the OneRD initiative, there should be a creation of three programs that work with lenders to streamline the loan making process. These programs would be modeled after the Farm Service Agency Standard Eligible Lenders (SEL), Certified Lender Program (CLP) and Preferred Lender Program (PLP).<sup>6</sup>

To increase lender participation, these loan programs should apply across the programs included in OneRD. For example, if a lender were to make one loan in Business and Industry, one loan in Community Facilities and one loan in Water and Waste Disposal, those loans should be counted as three Rural Development loans for the purpose of preferred lender qualification. This will encourage more lenders to make Rural Development loans.

ABA believes the SEL, CLP and PLP should be organized accordingly:

**SEL:** A SEL is the basic participant in the guaranteed loan program. SEL would be for lenders who have little or no experience with Rural Development guaranteed loans. This status is granted for the purpose of allowing lenders to make and service these loans. After a lender gains experience with the guaranteed loan program, it can apply for CLP or PLP status.

The SEL level allows lenders to enter into the Rural Development guaranteed loans while allowing Rural Development to ensure that lenders are following proper process and procedure while making Rural Development guaranteed loans. The SEL level is the most basic entrance into Rural Development guaranteed loan making and it will allow for both Rural Development and lenders to establish proper loan making protocols.

**CLP:** A CLP qualified lender is a lender that has a proven track record in making and servicing guaranteed loans. CLP would provide a streamlined process for lenders to make and approve loans. Much like the FSA CLP, Rural Development should allow CLP lenders to use their own forms (which are approved by Rural Development) while requesting a minimal amount of information from the lender.

To qualify as a CLP lender, lenders would be required to close at least five Rural Development guaranteed loans within a five year period. For the purposes of CLP qualification, any Rural Development loan within Business and Industry, Community Facilities, Rural Energy for America Program or Water and Waste Disposal Loan Guarantee Programs should be acceptable. Lastly, the lender should be able to use forms that are acceptable to Rural Development for processing, analyzing, securing and servicing Rural Development guaranteed loans.

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<sup>6</sup> <https://www.fsa.usda.gov/programs-and-services/farm-loan-programs/guaranteed-farm-loans/lender-types/index>

It is vital that CLP status allows lenders to use their own forms and processes. Additionally, the loans need to be approved in a guaranteed reasonable amount of time. Without an assurance of timely processing, banks will be less likely to use the program.

**PLP:** PLP will be the top status a lender can achieve. This status will allow lenders to have broad authority in making and servicing Rural Development guaranteed loans. Much like the FSA PLP, Rural Development should use PLP to streamline the loan making process and PLP lenders should have an expedited loan approval process. Additionally, lenders should be able to use their own credit management system.

To qualify as a PLP lender, lenders should be required to close at least 10 loans within a 10 year period. Like CLP, any Rural Development loan within OneRD would be used to qualify as a PLP lender.

The PLP status will be reserved for lenders who truly understand and utilize Rural Development guaranteed loans as a means to inject capital into rural America. ABA views PLP status as a way for institutions to differentiate themselves while creating expertise in a particular loan category. Due to this, it is vital for PLP status to be a means for streamlining the loan making process while giving lenders maximum flexibility when making Rural Development guarantee loans.

## **Coordination with other Guaranteed Loan Programs across the Federal Government**

There has been a great deal of progress made in better coordinating the loan making process across federal agencies. The best example of this is the Memorandum of Understanding (MOU) between USDA and the Small Business Administration.<sup>7</sup> Through this agreement, lenders have been able to make larger and better loans for their customers.

We encourage Rural Development to continue to create MOUs with guaranteed loan programs across the government. These partnerships will help to create greater flexibility for lenders, which ultimately helps their customers. By being able to combine multiple loan programs, lenders can finance larger projects, which only increases capital to rural America. Additionally, we encourage Rural Development to look into ways to partner with state and local economic development agencies. This will open up many opportunities that are currently untapped.

## **Future of Rural Development Guaranteed Loan Programs**

Banks will continue to partner with Rural Development in the guaranteed loan space. With the changes outlined above, there are real opportunities to improve the Business and Industry, Community Facilities, Rural Energy for America and Water and Waste Disposal Guaranteed Loan Programs. With all the changes outlined above, the most important will always be access to the programs. Creating online application platforms, streamlining the loan making and approval

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<sup>7</sup> <https://www.usda.gov/sites/default/files/documents/usda-sba-mou.pdf>

process and Preferred Lender Programs will all increase access to Rural Development Guaranteed Loan Programs, which helps to increase capital in rural America.

ABA values the opportunity to work with Rural Development on educating bankers about Rural Development Guaranteed Loan Programs and the possible uses of these programs, and ABA will continue to partner with Rural Development in this area. This education will need to occur not only at the national level, but also at the state and local level.

ABA would like to thank Secretary Perdue and his staff for the effort to create OneRD. The continued public-private partnership between banks and Rural Development is vital to getting capital to rural America and ABA looks forward to strengthening this relationship into the future.