



**Statement of Debra Nesbitt
Chair of the National Rural Lenders Association**

**Before the
Subcommittee on Commodity Markets, Digital Assets, and Rural
Development
Committee on Agriculture
U.S. House of Representatives**

Stakeholder Perspectives on USDA's Rural Development Programs

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Introduction

Chairman Johnson, Ranking Member Caraveo and members of the Committee, thank you for inviting me to testify today.

My name is Debra Nesbitt, and I am Chair of the National Rural Lenders Association (NRLA). I grew up on a dairy farm in a rural community outside of Asheville, NC, and began working with USDA programs in the late 1980s. In 1993, I went to work for USDA when the Farmers Home Administration was transitioned over to Rural Development. While having worked in banking for many years, I have also worked for non-profits and State government, and in doing so I have seen firsthand the benefits of Rural Development's programs to rural communities across the country.

In addition to being Chair of NRLA I am also the Vice President for Energy and Infrastructure at Live Oak Bank whose mission is to become America's small business bank. Live Oak, based in Wilmington, NC, has been one of the top three USDA lenders for the past several years and is the number one SBA lender in the country.

Background

NRLA was established in 2014 and has grown from 12 original members to an organization exceeding 80 members and represents hundreds of billions in lending activities. NRLA regards itself as the primary association focused on lending advocacy for rural communities and specifically for USDA Rural Development and Farm Service Agency guaranteed loan programs. Our membership includes banks, credit unions, Farm Credit system entities, and non-traditional lenders. NRLA's primary goal is to ensure the availability of capital and business opportunities for rural communities throughout the country.

NRLA members participate in all of Rural Development's guaranteed loan programs including the Community Facilities Guaranteed Loan Program, Biorefinery Assistance, Rural Energy for America Program (REAP) Loan Guarantees, Water and Waste Disposal Loan Guarantees, and the Business and Industry Loan Guaranteed program (B&I). These programs provide much needed loans to rural businesses; loans for infrastructure projects such as water and wastewater systems; loans for essential community services such as fire departments and medical facilities; and loans for renewable energy systems such as solar and anaerobic digesters.

Services Lenders Provide to Rural Communities Through Guaranteed Loans

The above-mentioned programs bridge the gap in financing for rural communities when a conventional loan may not fit. Many rural businesses are specialized and face obstacles in obtaining financing. The USDA guaranteed loan programs allow for longer loan terms that are fully amortizing and have no calls or balloons. With a guaranteed loan a community or business owner understands that they will be a partner in the loan with the lender and Rural Development for the long-term, with no surprises on rates or renewals of the loan. Most importantly, in difficult economic times many conventional lenders are not able or are unwilling to provide financing for rural business and the types of projects that are targeted for rural communities. In these cases, loan guarantee programs are essential to ensuring rural communities have access to capital. Eligible entities for the loans include non-profits, for profits, Tribal entities, and local governments.

In addition to providing credit for rural businesses, USDA guaranteed loans directly result in job creation, business efficiencies, reduced energy consumption, clean energy creation, and general investments that contribute to the long-term vitality of rural communities. All of this is done with a small investment from the federal government. Along with up-front guarantee fees and annual renewal fees on each loan, the federal government invests a small amount of dollars in the operation or execution of these programs. For example, in the current fiscal year the B&I program provides nearly \$47 in lending for every one federally appropriated dollar. Today, the \$1.8 billion loan authority that invests in rural communities' costs less than \$39 million. Alternatively, the REAP program, the Community Facilities program, and the Water and Wastewater program today cost no federal dollars to operate while supporting rural energy projects and bolstering essential local services.

To further illustrate the effectiveness of the program, below are a few examples of projects our members have funded:

North Avenue Capital provided a \$25 million B&I guaranteed loan in Ashland, KY, for a mining company to refinance debt, purchase new equipment and provide working capital. The company has 70 employees, and with the new loan added 30 more full-time employees.

Compeer Financial provided a Community Facilities guaranteed loan for a new non-profit hospital located in Cumberland, WI. The project cost around \$40 million and was a collaboration between local banks, USDA financing programs, and Farm Credit institutions. The original hospital was outdated and did not have capacity to provide

modern health care and limited use of new technology like CT and MRI machines. The new 96,000 square foot facility has provided positive and immediate impacts on the economy of the local communities.

U.S. Eagle Federal Credit Union and Madison One Credit Union Services Organization provided two B&I loans totaling \$13 million to finance the acquisition of a community hospital in Maricopa, AZ. This provided a new micro hospital in the community with a 24-hour emergency department, a digital imaging suite, and inpatient hospital beds.

Live Oak Bank made a Water/Wastewater guaranteed loan in Orangefield, TX to a non-profit water supply corporation in the amount of \$8.9 million to provide wastewater services to 900 additional customers. The system upgrades support the development of the community, reduced water contamination, and improved the quality of life for families.

A \$2.1 million REAP loan in Cologne, MN, for a 1-megawatt solar farm that features active sheep grazing below the solar panels. This was a win because it created a partnership between the solar company and the sheep farm, as well as an additional revenue for the sheep farm. The sheep grazing also removes the need to mow at the solar site, with the financing provided by Live Oak Bank.

In 2020, USDA Rural Development streamlined their guaranteed loan programs. This action has increased private investment in rural communities with more participation from lenders. Guaranteed loan programs now have a common application which reduces customer burden and adds ease and clarity to the loan process. We are also appreciative of changes to the last Farm Bill that made the definition of a rural area consistent across all Rural Development programs. Also, the local staff at RD area and State offices are vital to the success of the programs, and we appreciate our partnership with the area, State and National RD offices.

NRLA Farm Bill Priorities

Turning to the upcoming Farm Bill, NRLA has several priorities that would improve the delivery of guaranteed loan programs and increase benefits to rural communities.

We recommend that guaranteed loan lender fees for guaranteed loan programs be capped at 3 percent. Each year since the 2018 Farm Bill, NRLA has advocated for limits on the Secretary of Agriculture's discretion regarding lender fees at no more than 3 percent in annual appropriation measures. NRLA believes that fees in excess of 3 percent would adversely impact program utilization. A higher fee would cause the program to be too expensive for quality borrowers.

For guaranteed loans under the Rural Energy for America Program, we support increasing the loan size limit from \$25 million to \$50 million except for solar and wind projects. There is a shortage of financing for newer technologies such as farm-derived renewable natural gas, geothermal, standalone battery storage, renewable hydrogen, and refurbished hydroelectric dams. To fully support these technologies in rural communities, NRLA supports increasing the loan size limit to \$50 million. This will directly benefit farming operations and other rural businesses.

We also support giving USDA the authority to provide a 90 percent guarantee for Rural Energy for America Program loans under \$1 million. Increasing smaller loans to a 90 percent guarantee would assist smaller borrowers and boost lender participation. It would also help with emerging and more novel technologies.

Under current REAP authorities, financing for standalone battery storage is only eligible when it is paired with a renewable energy system. We believe this is a technical oversight and request that a correction or enhancement be made to allow financing of standalone battery storage in the REAP guaranteed loan program.

As a final recommendation for REAP, we request that the small business size standard for guaranteed loans be limited to the entity filing the application. Legislative authority for the REAP program does not include a definition for small business entities and USDA has mandated the small business definition criteria as established by SBA. SBA's definition includes both the entity making application for the program and any affiliated organizations, including parent companies. This structure has limited both customer use and the deployment of available dollars within the program. Additionally, companies who do not meet the SBA definition make application to other guaranteed loan programs that do not have the lending authority to support large numbers of energy projects. NRLA recommends a threshold of 1,000 employees for an entity making application for guaranteed loans under the REAP program.

The Biorefinery, Renewable Chemical, and Biobased Product Manufacturing Assistance Program provides loan guarantees up to \$250 million to assist in the development, construction, and retrofitting of new and emerging technologies for advanced biofuels, renewable chemicals, and biobased products. NRLA believes some improvements during reviews for these loans could improve participation in the program, and we urge Congress to have USDA provide clearer and detailed review criteria during the Phase 2 reviews for commercial technologies. The current process gives limited feedback from USDA technical staff and contributes to confusion and delayed actions. The Part 2 application process for each project should be customized to reflect detailed information on review criteria based on the technologies that are being used in the project.

Lastly, prior to the passage of the Fiscal Responsibility Act (FRA), we recommended that USDA revise their standard and flexibility regarding the application of the National Environmental Policy Act (NEPA) for all guaranteed loan programs. Borrowers, lenders, and agencies spend considerable financial and personnel resources on NEPA analyses and documentation. This environmental review has been, in application, duplicative of city, state, and U.S. Corp of Engineers review of projects. With the signing of the FRA and its inclusion of language that guaranteed loans are not a major Federal action, we believe this reduces the duplicative nature of NEPA regarding guaranteed loans. It is our hope that USDA will quickly issue a rulemaking consistent with FRA.

Conclusion

NRLA is dedicated to the long-term prosperity of rural America. Many NRLA member organizations reside in, are close to, or have historical ties to rural living and communities. As we

continue to offer credit to businesses and organizations in low populated areas, it is our goal to educate communities and work with entities to advance public and private services while also helping to diversify and maximize centers of income for businesses and secure prosperity for our fellow citizens who live in rural areas. To that end, we will continue to work with Congress and USDA to provide opportunities for business and nonprofit organizations to improve public services and grow the economic base of communities while creating job and job opportunities in rural towns throughout the U.S.

Thank you for the opportunity to provide testimony and I am happy to respond to any questions.