FEDERAL FINANCING OF RURAL FIRMS IN THE U.S.

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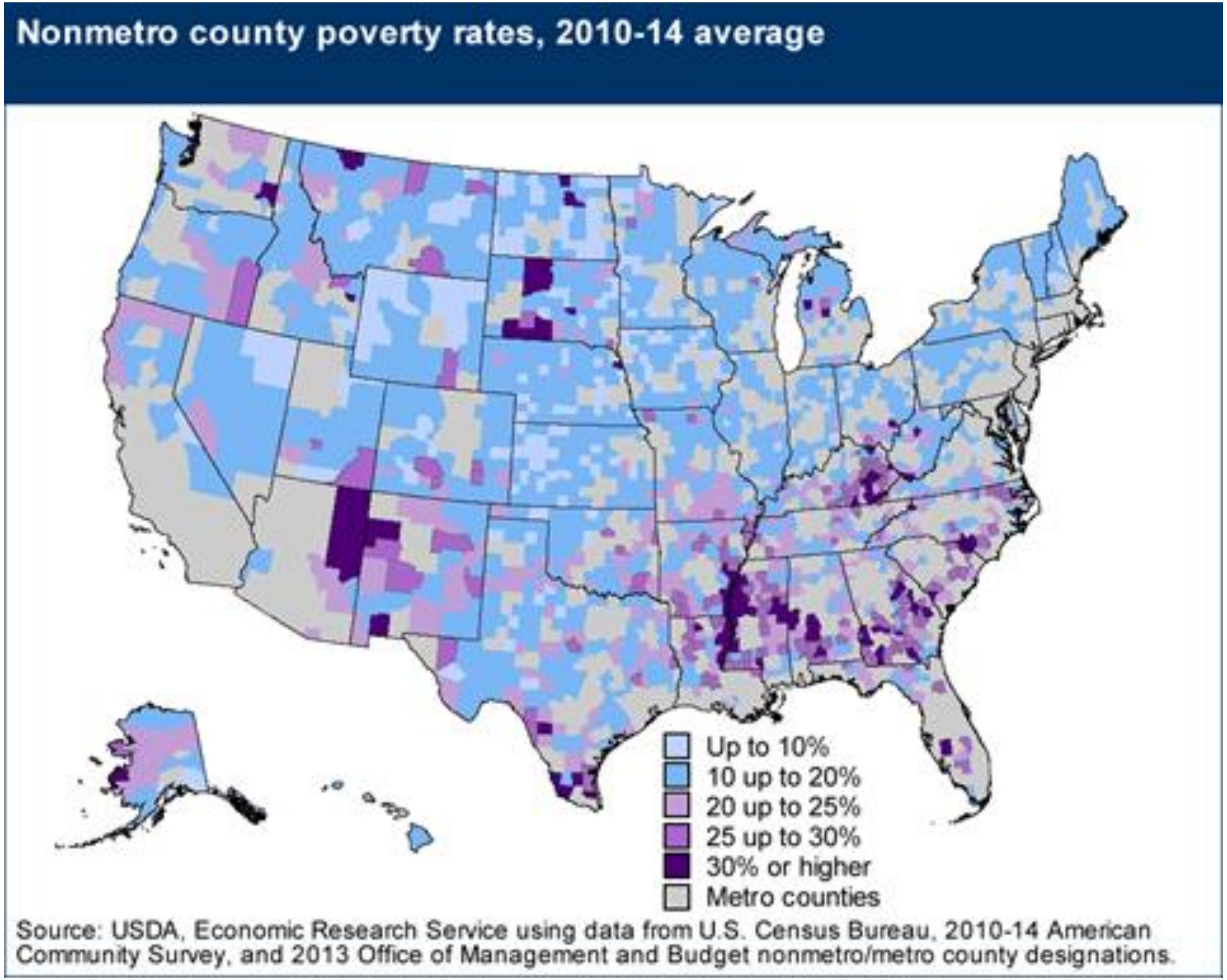
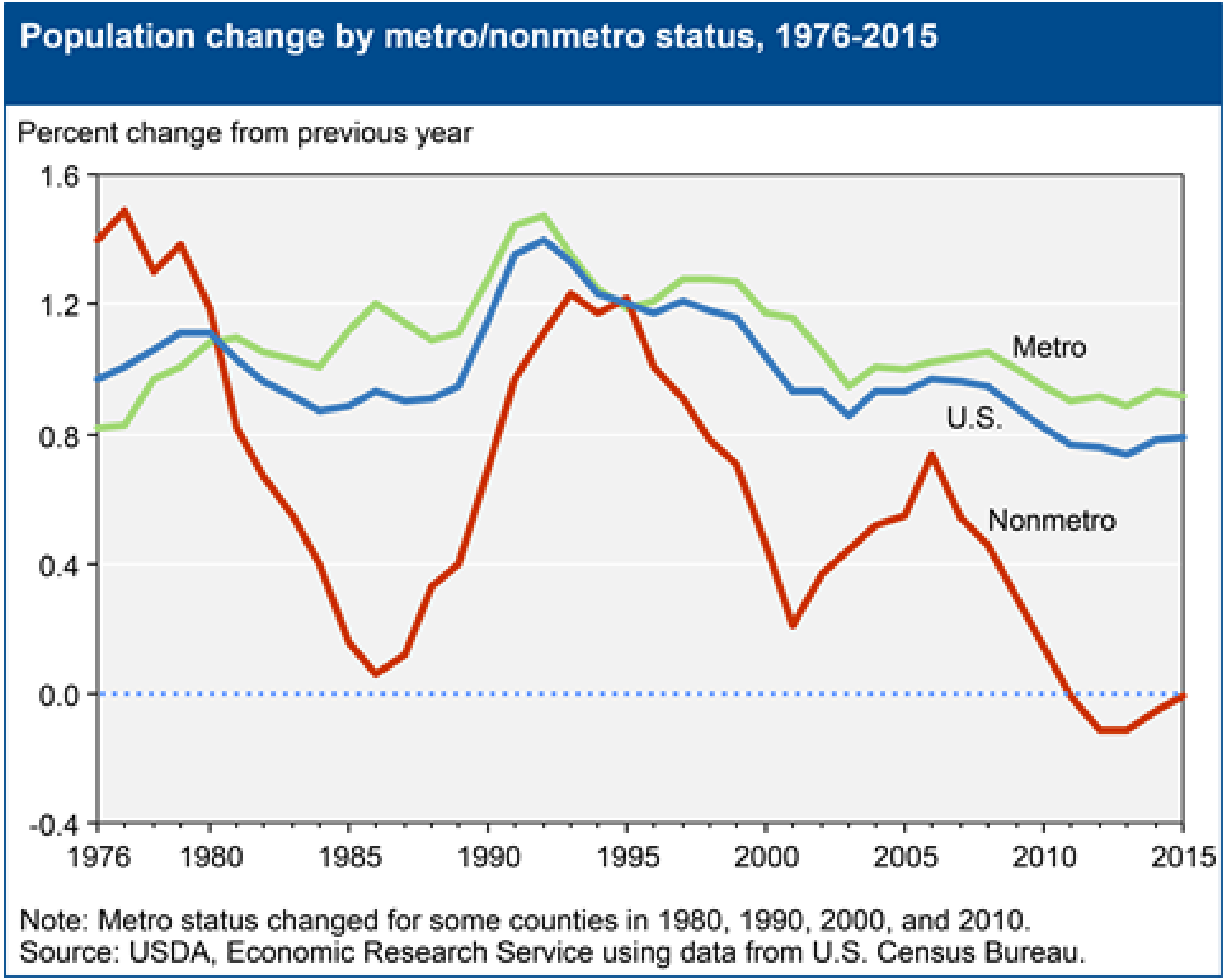
Doug O'Brien
White House Rural Council

- Short history of rural financing
- Current financing tools in the U.S.
- How programs are delivered
- How costs are determined
- Obama Administration use of programs for strategic economic development
- Future considerations


Nonmetro county poverty rates, 2010-14 average
Up to 10%
10 up to 20%
20 up to 25%
25 up to 30%
30% or higher
Metro counties
Source: USDA, Economic Research Service using data from U.S. Census Bureau, 2010-14 American Community Survey, and 2013 Office of Management and Budget nonmetro/metro county designations.



Population change by metro/nonmetro status, 1976-2015
Percent change from previous year
1.6
1.2
0.8
0.4
0.0
-0.4
1976
1980
1985
1990
1995
2000
2005
2010
2015
Metro
U.S.
Nonmetro
Note: Metro status changed for some counties in 1980, 1990, 2000, and 2010.
Source: USDA, Economic Research Service using data from U.S. Census Bureau.

Short History of Rural Financing in U.S.

- 1930's. In response to the Agricultural Depression, U.S. Federal government creates subsidized direct loan programs for farmers which includes financing of farm residences and operating costs.
- 1946. U.S. Government begins to guarantee farm loans made by private lenders.
- 1960's and 1970's. Programs to provide loans for communities to build water infrastructure and for small rural businesses are added.
- 1990's. New agency, Rural Development, is created to consolidate the non-farm loan programs which broadly focus on rural housing, infrastructure, and businesses.
- 2000's. Congress adds renewable energy as one new focus of Rural Development.
- 2010's. Obama Administration utilizes place-based approach with programs to utilize resources more strategically and focus them in the places with greatest need or that can make the greatest impact

Current financing tools in U.S. for rural communities and firms

- Tools:
  - Direct loans
  - Guaranteed loans
  - Grants
- Eligible entities
  - Rural communities
  - Non-profits
  - Home buyers
  - Businesses
- Eligible uses
  - Infrastructure (water, electric, telecommunications)
  - Housing
  - Business
  - Renewable energy
- General criteria (depending on program)
  - Population (< 10k, 20k, or 50k)
  - Area income
  - Firm's credit worthiness

How programs are delivered; size of portfolio

- Rural Development has 400 offices and 4000 people across the united states to deal directly with families, businesses, banks, communities, utilities.
- Maintains a “back office” of 500 people to manage portfolio and service loans.
- Portfolio currently at $215 billion, with new direct and guaranteed loans of about $38 billion per year.

How costs are determined

- When a program is established, a team of people estimate what the "subsidy score" will be by looking at variables that indicate how well the loans will perform
  - Built in subsidized low interest;
  - Likelihood of poor performing loans.
- As the loan program is implemented over time, the estimates are adjusted to reflect the historical performance of the portfolio, as well as changing circumstances for the future performance of the portfolio in the future.
- Subsidy rates range from 2 percent up to 10 percent or more
  - So the cost to the taxpayers for a $1 million loan equals anywhere from $20,000 to costing $100,000. Some loans actually gain money.

Obama Administration strategic use of programs

- The Obama Administration has endeavored to use these and other government programs in a more strategic way to:
  - Target resources where they are most needed;
  - Invest in places that can make the biggest impact.
- The approach recognizes that rural places are places of opportunity, but also very diverse.
  - The “place-based” approach responds to the local/regional vision and strategy for the region;
  - The federal government has robust engagement, including with staff on the ground, but it is in a supportive role.

Use of place-based policies

- Promise Zones:
  - 22 urban, rural, and tribal Promise Zones were selected through three rounds of national competition, in which applicants demonstrated a consensus vision for their community and its residents, the capacity to carry it out, and a shared commitment to specific, measurable results.
  - Chosen on the basis of combination of need and capacity.
  - Federal government provides an individual liaison on the ground, preferences for two dozen key federal programs, opportunities for partnership with local governments and nonprofits.
  - Rigorous metrics and data collection

Public financing strategies that are more strategic

- Financing of regional projects. Used current programs to setaside and preference in key programs for projects that are part of a regional strategy
    - Grants for job creation;
    - Grants and loans for water infrastructure;
    - Grants and loans for community facilities;
    - Loans for businesses.

- Public Private Partnerships
  - Rural Business Investment Companies
    - Private funds licensed by federal government to invest in rural and agricultural projects in a region
  - Improving the data and information sharing between Federal government and private sector to make it easier for private lenders/ investors to do business in rural places

Future considerations

- Considerations for the future:
  - Publicly sponsored financing mechanisms should be steered toward areas that have the greatest need and can make the greatest economic impact.
  - Investments should focus on increasing rural competitiveness; look to comparable and absolute advantages.
  - The amount of subsidy and capacity building provided should respond to the region's assets.
  - Collaboration is key. No one entity (Federal, local, non-profit or for profit) will have the ability to execute on a comprehensive strategy. Use programs to incent stakeholders to work together.
  - Capacity is key challenge. Some resources should be used to help firms and communities create deal-flow for both public and private projects.

White House Rural Council

Doug O’Brien
Senior Advisor for Rural Affairs
White House Domestic Policy Council
Doug.O’Brien@osec.usda.gov
202.294.1258