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Leveraging Bank Financing Using USDA's Community Facilities Loan Guarantee Program

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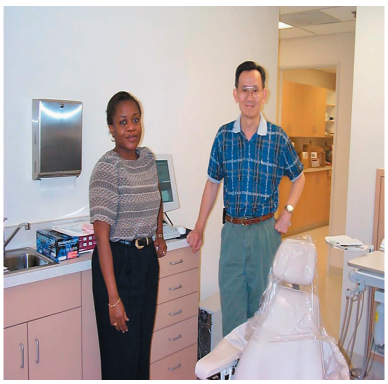

RCAC provided $5.8 million in financing to the Darin Camarena Health Centers (DCHC), in Madera, CA. This financing enabled DCHC to increase its capacity and programs by adding 17,475 sq. ft. to its existing clinic. This expansion enabled DCHC to offer dental care. Pictured here is one of the six new dental exam rooms.

Nonprofit service providers, revolving loan funds and rural communities continually face capital deficiencies. A program of the U.S. Department of Agriculture, Rural Development (USDA-RD) can help link communities in need with banks interested in investing in them.

USDA-RD may guarantee 90 percent of a loan made to a nonprofit provider of health, safety or social services to acquire or substantially rehabilitate a community facility in a rural area with a population under 20,000. (USDA-RD broadly defines "community facility" as improved real estate, which can include office space, a medical clinic, a childcare or adult day care health center, a shelter from abuse, a school, a fire/ambulance station, even a helicopter used for public benefit.) This guarantee can become the basis for a 100 percent guaranteed market rate investment for a bank.

Here's how. The Rural Community Assistance Corporation (RCAC) lending model combines the programs and resources of four entities: a service provider, a nonprofit loan fund, a government agency and a bank. These come together when (1) a provider wants to buy, build or rehabilitate a building to serve as a community facility; (2) USDA-RD guarantees 90 percent of a facility loan to the provider; (3) RCAC agrees to finance the non-guaranteed portion of the facility loan; and (4) a bank is willing to make a market-rate investment by participating in only the guaranteed portion of the facility loan. This article provides examples of how RCAC has successfully utilized this model to provide health centers in rural California and a domestic violence shelter in Oregon.

Advantages for all

Training staff to originate, process, and underwrite infrequent community facility loan requests or to service one or two facility loans can be costly for a commercial bank. Participating in a community facility loan with a qualified loan fund can thus offer a cost-effective way for banks to support under-capitalized communities.

For their part, nonprofit providers often have trouble financing facilities even if properly collateralized. Many nonprofits have limited assets, revenue streams dependent on uncertain government funding, problematic financial statements and overworked, underpaid staff. A loan guarantee can be the best way to overcome bankers' concerns.

In turn, mission-driven nonprofit loan funds can help profit-driven commercial banks safely invest in rural America. The typical loan fund's lending capital is infinitesimal when compared to that of a commercial bank. A bank's participation or investment enables a fund to leverage its lending capital many times over while at the same time making a rural investment that carries the full faith and credit of the U.S. government.

A rural bank or a larger bank with rural branches can participate in all or part of the guaranteed portion of the loan fund's facility loan. The loan fund retains the non-guaranteed portion of the loan and is responsible for loan servicing. Should a servicing issue arise, the revolving loan fund assists the provider in getting its loan back on track. The provider's monthly payments are made, prorated (10 percent to lender, 90 percent to investor) and forwarded via electronic funds transfer.

As an investment in the form of a participation certificate, liquidity is not an issue. The certificate may be sold in the secondary market, to another bank or back to the lead lender. As with any long-term investment, there is a risk that investor yield requirements are higher than the participated note rate at the time of the contemplated sale.

Each USDA-RD guaranteed loan is designed to meet the unique underwriting and structuring needs of nonprofit and local government borrowers. Under a memorandum of understanding, Bank of America participates in community facility loans originated, closed and serviced by RCAC.

RCAC's CFO, Kevin McCumber, notes: "The continued success of our community facility loan program will be a direct result of staffs' attention to detail, the banking community's willingness to be a participating lender and grant maker, and continued support from foundations and government agencies." Grantmakers providing early support for this program include The California Endowment and the Community Development Financial Institutions Fund.

The following three examples show how RCAC helps service providers access resources for facility ownership. (The amounts shown are approximations and are used only for illustrative purposes.)

Example 1: *RCAC provides an interim loan, which is repaid by its participated permanent loan.*

Columbia County Women's Resources Center built a $700,000 shelter from domestic violence in St. Helens, OR. Construction costs were covered by the city of St. Helens with an interim construction loan for $100,000 from RCAC. This project has strong community support, receiving a Community Development Block grant (CDBG) as well as grants from several local service organizations and the Federal Home Loan Bank's Affordable Housing Program, accessed through Bank of America. The final sources financing this facility were:

CDBG	$550,000
Affordable Housing Program	35,000
Other Grants	15,000
Bank of America – USDA guaranteed portion	90,000
RCAC – non-guaranteed portion	10,000
	$700,000

Example 2: *RCAC provides an interim loan, which is repaid by another permanent lender.*

United Indian Health Services (UIHS) is a health village serving nine local tribes in northern California. This $14.6 million project houses a program offering a new approach to health care that is culturally sensitive, integrating medicine with a sense of community, environment, art, and traditional Native American healing methods. Construction funds included a grant and loan provided by Humboldt Bank, an interim RCAC site improvement loan for $1,000,000, and grants from Bank of America and a number of foundations, including The California Endowment.

After RCAC demonstrated to Humboldt Bank that USDA-RD would guarantee a long-term loan for this project, the bank repaid RCAC and converted its interim loan to a long-term loan. In this case, the bank was willing to take the guaranteed and the non-guaranteed portion of this loan, given its long-standing relationship with UIHS and its familiarity with servicing long-term loans made to nonprofit organizations. The final sources financing this facility were:

USDA-RD – a direct loan	$ 4,500,000
Bank – USDA-RD guaranteed portion	4,050,000
Bank – non-guaranteed portion	450,000
Grants and donations	3,430,000
Borrower equity	2,178,000
	$14,608,000

Example 3: *RCAC and another lender provide an interim loan, with both repaid by its participated permanent loan.*

Darin M. Camarena Health Centers (DCHC) provides primary care and social services in Madera, CA, a medically underserved area. It needed $5.8 million to increase its family practice clinic space and add a six-room dental suite. National Cooperative Bank (NCB) Development Company and RCAC provided the interim construction loan. The final sources of financing were:

Bank of America – USDA guaranteed portion	$2,800,000
RCAC – non-guaranteed portion	700,000
The California Endowment – grant	500,000
Borrower equity, donations & other grants	1,800,000
	$5,800,000

McCumber sums up: “This lending model provides any bank serving rural communities an opportunity to support the mission of its local service provider, while realizing market-rate returns from a government-guaranteed investment. This is a form of credit enhancement that can be used for one loan or a dozen loans.”

For more information, call (916) 447-9832, or visit www.rcac.org.

Rural Community Assistance Corporation

Operating in 12 western states, Rural Community Assistance Corporation (RCAC) is a nonprofit organization dedicated to assisting rural communities achieve their goals and visions by providing training, technical assistance and access to resources.

RCAC's revolving loan fund can be an important resource for rural communities that have difficulties accessing capital markets. RCAC leverages funds from foundations, religious organizations, government agencies and traditional financial institutions to loan for housing, water-wastewater systems and community facilities. In 1996, the U.S. Treasury certified RCAC as one of the first Community Development Financial Institutions (CDFIs) in the country. In 1998 RCAC became the first approved nonprofit, non-banking lender to originate and service community facility loans insured by USDA-RD. Since then it has approved or closed 12 loans totaling nearly $10 million.

The fund is capitalized at $49 million, exclusive of its participations. Most of its lending capital goes to short-term housing, environmental infrastructure, and gap financing for community facilities while under construction or rehabilitation. A memorandum of understanding and master participation agreement between RCAC and Bank of America is a critical element in RCAC's long-term community facility loan program. When RCAC fully funds its current commitments, Bank of America's total participations will exceed $8 million.