

# Clean Water State Revolving Fund

Item C

July 22, 2021

Oregon Environmental Quality Commission meeting

# Presentation overview

---

- CWSRF 2020 Rulemaking background –  
Senate Bill 884
- CDFIs in brief
- Pass-through lending proposal

# Rulemaking background

---

In 2016, lawmakers allocated general funds to DEQ to address failing on-site septic systems. Recognizing the need for more resources, in 2019, Senate Bill 884 expanded the definition of eligible CWSRF borrowers, adding nonprofit Community Development Financial Institutions, certified by the US Department of Treasury, for the specific purpose of lending for:

- Septic repair
- Septic replacement
- Connection to a public sewer system

Implementing the bill requires the EQC to amend existing rules and adopt a new rule in [OAR chapter 340, division 054](#)

Prior to this statute change, only certain public entities were eligible borrowers for the Oregon CWSRF.

# Rulemaking timeline

---

## **Jan. 2020 – Aug. 2020**

- Rulemaking advisory committee meetings 1-3

## **Oct. 2020 – Dec. 2020**

- Public comment period

## **Jan. 2021**

- Informational presentation to EQC

## **March 2021**

- Rulemaking Advisory Committee Meeting 4

## **April 30 – June 1, 2021**

- Public comment period on revised proposal

## **June 1, 2021**

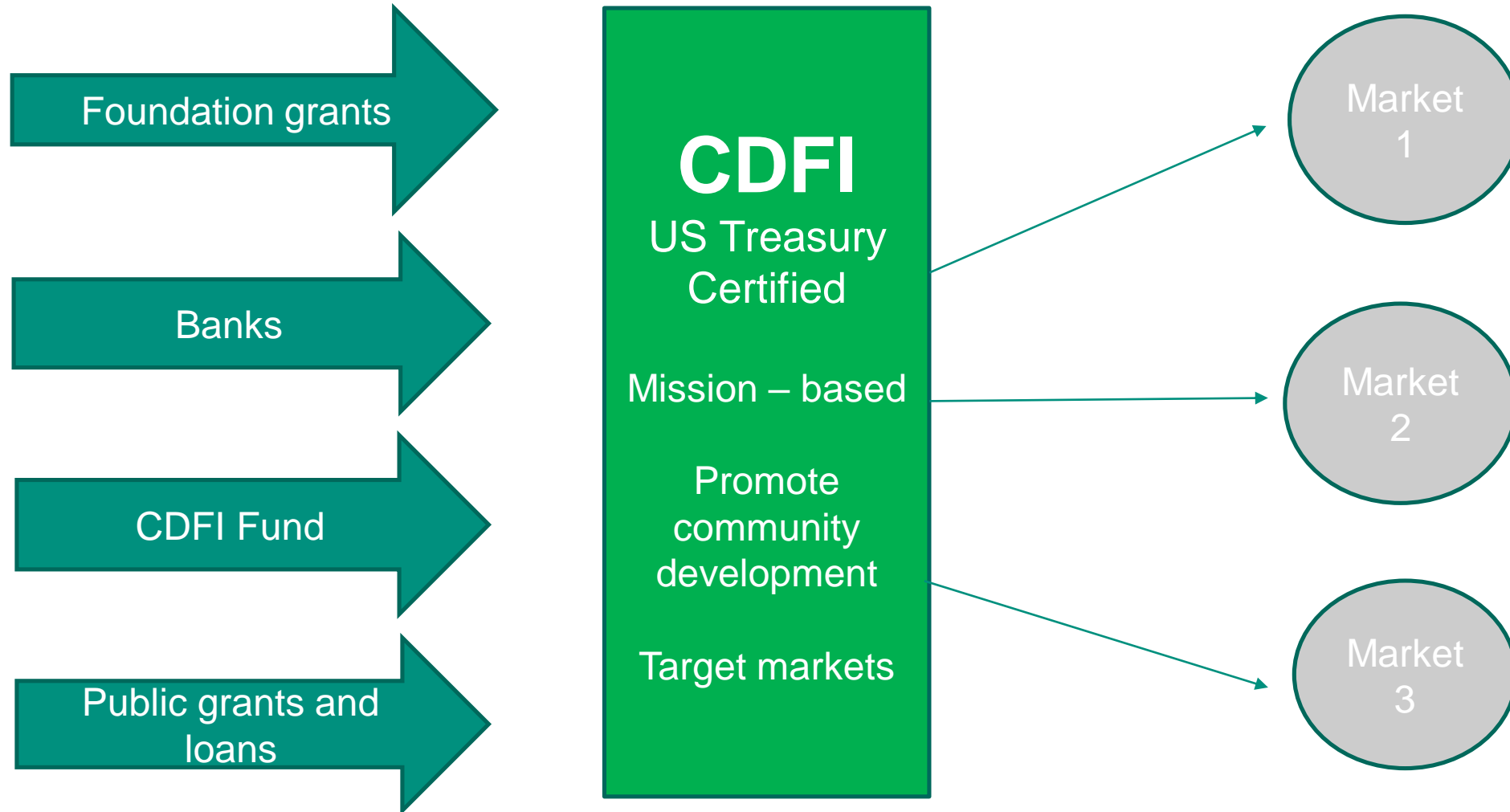
- Public hearing

# DEQ proposal

---

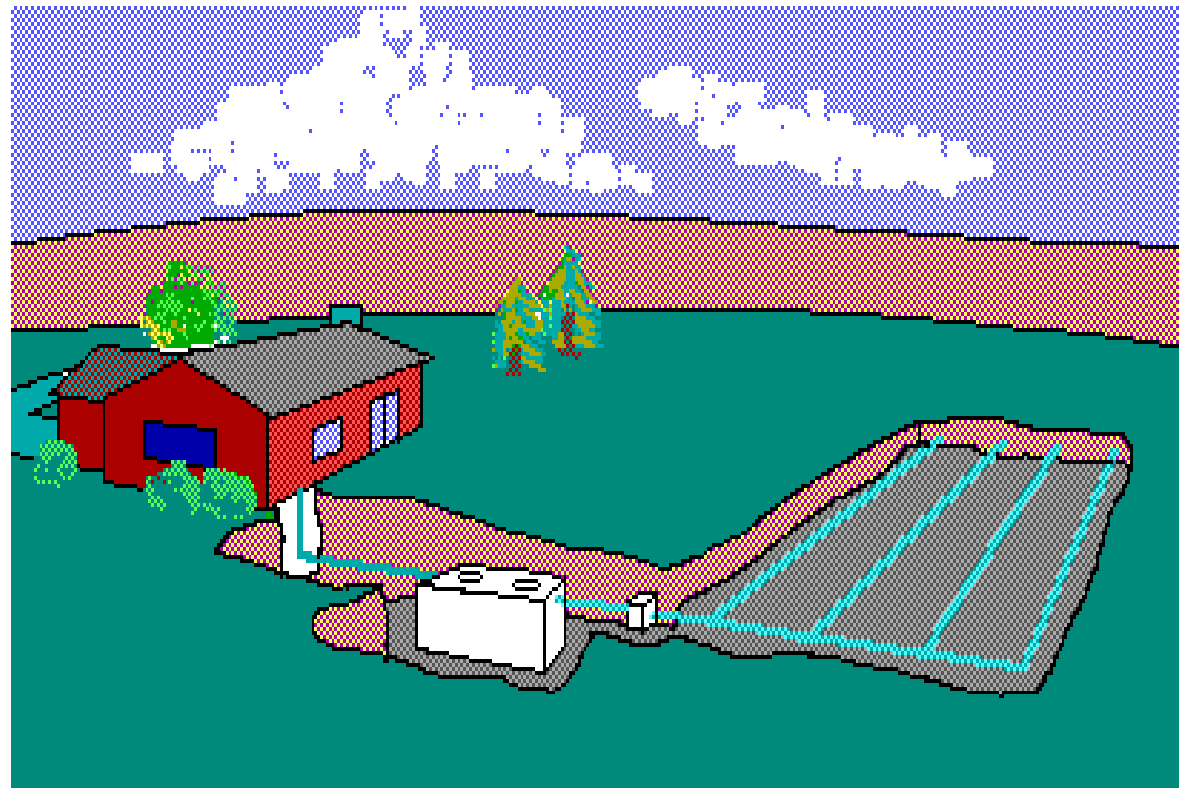
- Amend CWSRF rules to:
  - Clarify which CWSRF lending requirements apply to only public agency borrowers, only to CDFI borrowers, or apply to both.
  - Include CDFIs as a new eligible loan applicant and borrower for the specific purpose of financing the capital costs of CDFI sub-loans for repairing or replacing failing on-site septic systems, or for a sewer connection.
- Adopt a new rule, 340-054-0066, that articulates the loan conditions, terms and interest rates that apply to CDFI borrowers.

# How does a CDFI work?



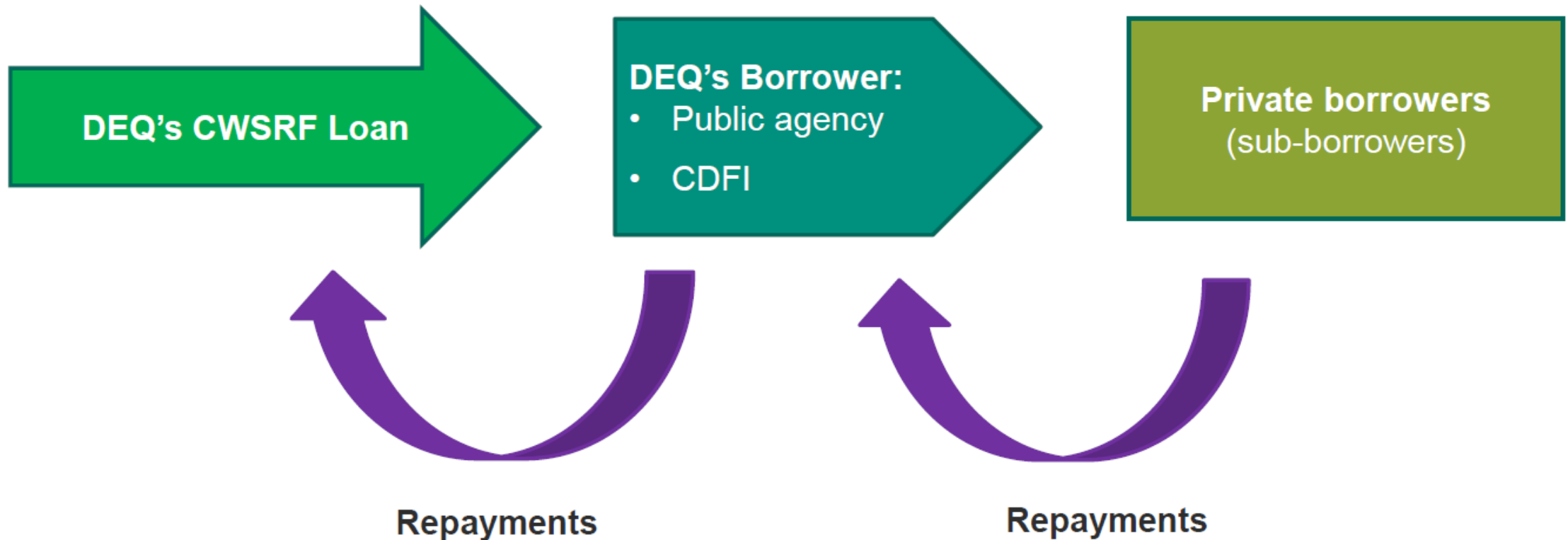
# Examples of CDFIs in Oregon

- Craft3
- Habitat for Humanity
- Innovative Changes
- Point West Credit Union
- Portland Housing Center



# How pass through lending works

---





# Rulemaking objectives:

---

- Increase available funding for failing septic systems as a strategy to improve water quality, particularly where they are a significant contributor to nutrient-related water quality problems.
- Provide loan terms to CDFIs that direct or incentivize them to make sub-loans that enable households to repay, potentially through principal forgiveness, lower rates and longer terms for low-income households.
- Design a lending program with the flexibility to work with other funding sources and that allows DEQ to assess this new program over time.
- Ensure consistent lending practices for all potential CDFI CWSRF borrowers.
- Protect the CWSRF loan fund integrity by mitigating unreasonable risk.

# Proposed framework – key elements

---

- Maximum loan amount – \$2M per CDFI, per year
- Total CDFI lending limit per state fiscal year – \$10M in aggregate
- Project period (loan disbursement period) – One year from date of loan agreement signature
- Principal forgiveness – 50% or \$500,000, whichever is less, passed on to sub-borrowers as increasing principal forgiveness to lower household incomes.
- CDFI use of funds – Restrict the asset to the CDFI's septic lending program exclusively; revenues cannot be used to fund other CDFI grant or loan programs

# Proposed framework – key elements

---

- Interest rates on a CDFI's sub-loans shall not exceed the weekly average of prime interest rates for the preceding quarter plus one percent.
- Fully amortized CDFI loan
- DEQ must secure a loan with pledged assets
- A loan loss reserve is necessary for a CDFI to cover its losses
- DEQ requires a debt service reserve for all CWSRF borrowers.

# Public comments

---

Three comments were received on the current proposal:

- One from a non-CDFI housing agency
- Two from CDFIs

The comments reflect that the CWSRF operates differently than other funding sources that CDFIs typically work with, which have lower rates and more grants.

# Recommendation

---

## **DEQ recommends that the Oregon Environmental Quality Commission:**

Adopt the proposed rules as seen on pages 1 through 36 of Attachment A as part of Chapter 340 of the Oregon Administrative Rules.

# Questions and discussion

---



# Recommendation

---

## **DEQ recommends that the Oregon Environmental Quality Commission:**

Adopt the proposed rules as seen on pages 1 through 36 of Attachment A as part of Chapter 340 of the Oregon Administrative Rules.