What is a pass-through loan?

In a pass-through loan, a CWSRF program makes a loan to another state or local government agency and that agency then lends the funds to private borrowers to address nonpoint source pollution. The town, county, or state agency reviews the project and the finances of each borrower. CWSRF loan funds are "passed-through" another government agency to private borrowers.

Pass-through loan programs benefit CWSRF programs, pass-through partners (towns, counties, and state agencies), and borrowers. These programs benefit CWSRF programs because they support high-priority nonpoint source projects and because they place risk and management responsibilities with program partners. Towns, counties, and state agencies benefit from pass-through programs because CWSRF funds support their nonpoint source priorities. Pass-through loans can offer two potential benefits to borrowers. First, pass-through loans are not provided by private lenders and, as a result, are likely to have lower interest rates. Second, local government agencies may have greater flexibility to provide loans to borrowers with relatively weak credit conditions if the borrower's nonpoint source project is a high priority for the state or local government agency.

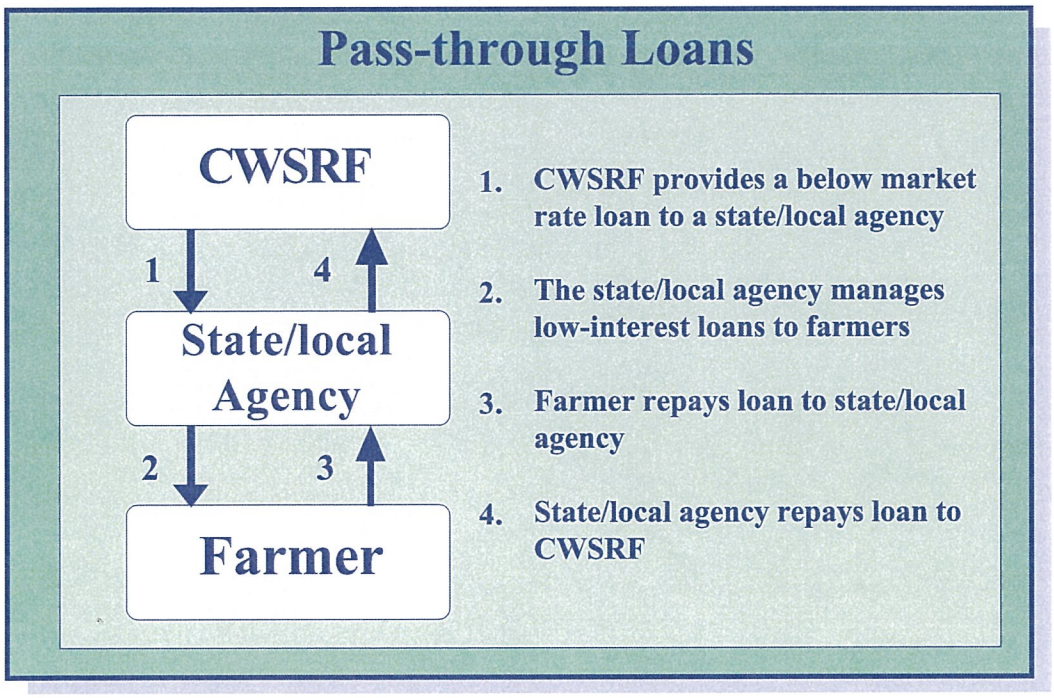


Figure 2. Pass-through program flow chart

Who has benefited from these programs and what have they funded?

CWSRF linked deposit and pass-through loan programs have supported borrowers implementing a variety of nonpoint source projects:

- Homeowners have implemented stormwater runoff best management practices and repaired or replaced failing on-site septic systems.
- Homeowner associations have addressed failing stormwater management facilities.
- Farmers have addressed agricultural runoff with a wide variety of agricultural best management practices including the construction of manure storage facilities, the restoration of filter strips and grassed waterways, and the use of conservation tillage equipment.

Ohio Case Study — Linked Deposit Loan Program

Ohio has used a linked-deposit loan program since 1993 to fund projects that support county watershed management plans. This program has funded more than 300 projects, including the repair of onsite wastewater treatment systems and the implementation of best management practices for agriculture, forestry, stormwater, and land development. The CWSRF program developed this program with the help of county soil and water conservation districts and local banks.

The CWSRF program implements its linked deposit loan program one county at a time. Each county's program is developed with two concurrent steps: the county soil and water conservation district develops a watershed management plan, and the CWSRF program and local financial institutions enter into agreements describing requirements and procedures for linked deposit loans.

Watershed management plans describe a watershed, identify sources of pollution, suggest actions that would address those pollution sources, prioritize water quality problems, identify sources of funding, and establish an implementation schedule. The county soil and water district's draft plan is reviewed by Ohio EPA and by a formal public review process. If Ohio EPA approves a plan after this review, the CWSRF program and the soil and water conservation district sign a memorandum of understanding that describes how these two entities will coordinate their implementation of the management plan.

At the same time that a watershed management plan is developed and reviewed, soil and conservation districts contact local banks to identify institutions that would like to participate in a linked deposit program. Interested banks enter into agreements with the CWSRF program that describe requirements and procedures for linked deposit loans.

Any borrower with a project that helps to implement a watershed management plan is eligible for a linked deposit loan. Participating banks review borrowers' credit using their own credit standards. If a bank approves a linked deposit loan, the CWSRF program purchases a CD of equal value from the bank. The CWSRF program accepts a CD interest rate that is five percentage points lower than the rate of a U.S. Treasury Note or Bond with the same term. The borrower's loan interest rate is also reduced by five percentage points. The bank makes semiannual payments of principal and interest to repay the CWSRF for its investment in the CD, and it makes these payments even if the borrower defaults on the linked deposit loan.

Massachusetts Case Study — Lending through Local Government

Since 1995, Massachusetts' Community Septic Management Program has used pass-through loans with local municipalities to fund the repair and replacement of failing septic systems. The program has funded more than 3,000 projects across the state. The CWSRF has developed this program with the cooperation of local municipalities.

Communities that participate in Massachusetts' Community Septic Management Program can borrow hundreds of thousands of dollars from the CWSRF program, but communities must first develop a septic management plan and procedures for a local betterment loan program (the community uses betterment assessments to secure the loans). Massachusetts provides grants of up to $20,000 to municipalities to support these planning activities and the administration of the program.

Massachusetts law defines a betterment assessment as a charge imposed on real property that receives a benefit from a public improvement. Municipalities have traditionally imposed betterments to pay for improvements such as roads, sidewalks and sewer lines. In the Community Septic Management Program, however, betterment agreements allow individuals to receive community support (a betterment loan) for septic system improvements, and the agreements allow communities to ensure that the loans are repaid as part of a property tax bill. The community can place a municipal lien on property if a homeowner defaults on a betterment loan.

Septic management plans identify and prioritize areas with septic systems that require monitoring, maintaining, and upgrading. As part of the planning process, communities develop maintenance schedules for septic systems, and they develop databases that track the inspection, maintenance, and upgrade of these systems. The Massachusetts Department of Environmental Protection reviews all community septic management plans.

Before a community can receive a CWSRF loan from the state, however, it also develops the framework for a local betterment loan program. Communities create administrative structures to manage the programs, devise a method for selecting priority projects, and work with their tax assessors to ensure that homeowners will repay their betterment loans as part of their local tax assessments.

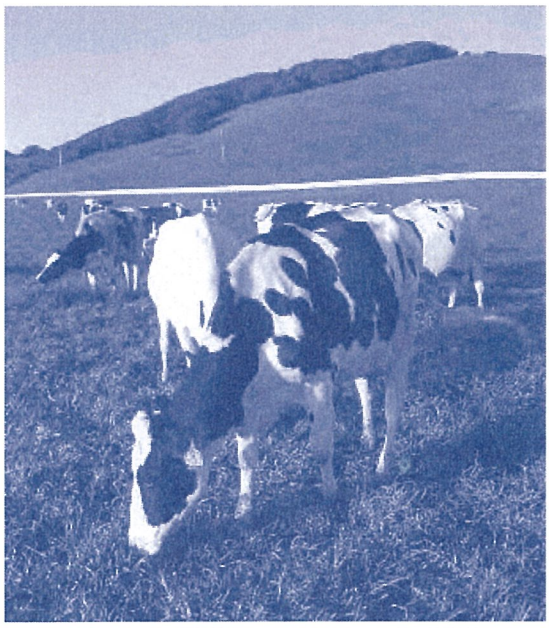
Communities that develop septic management plans and procedures for a local betterment loan program receive loans from the CWSRF program for 20 years at zero percent interest. Communities typically borrow $200,000 from this program. Homeowners typically receive twenty-year loans from communities at two to five percent interest. Communities can use interest accrued on betterment loans to support the administrative costs of the loan programs. Communities must begin to repay the CWSRF within one year after they have finished dispersing the proceeds of each CWSRF loan.

Missouri Case Study — Lending through State Agencies

Missouri's Nonpoint Source Animal Waste Treatment Facility Loan Program is a pass-through loan program that uses a state agency as a loan intermediary. Since 1995, the Missouri Agriculture and Small Business Development Authority (MASBDA) has borrowed $5 million from the CWSRF program, and MASBDA has used these funds to support the construction of 88 animal waste treatment systems for livestock and poultry producers. The agricultural operation of each borrower in this loan program produces fewer than 1,000 animal units -- concentrated animal feeding operations are ineligible.

Missouri's Nonpoint Source Animal Waste Treatment Facility Loan Program does not require a regional planning effort similar to the soil and water conservation plans required in Ohio' linked deposit program or the septic management plans required in Massachusetts' pass-through loan program. Engineers with Missouri's CWSRF program review each project application to ensure that CWSRF-financed structures and equipment support the goals of the program.

Missouri's CWSRF program provides 10-year loans to MASBDA that have a 1.8 percent interest rate. Individual agricultural producers access these resources by submitting applications to MASBDA. MASBDA reviews the financial component of each application, assessing cash flows and establishing security requirements. Borrowers must provide a dedicated source of repayment and a first or second deed of trust on their property. Agricultural producers typically receive 10-year loans from MASBDA that have interest rates from 5.3-5.8 percent. However, MASBDA does not offer construction financing for animal waste treatment systems. Typically, agricultural producers use loans from the Nonpoint Source Animal Waste Treatment Facility Loan Program to pay off construction loans from a private lender. MASBDA uses the repayments from agricultural producers to repay its loan from the CWSRF.



Case Study Contact Information

More information on the programs outlined in this update can be found on the state program web sites or by contacting the programs themselves.

Ohio Environmental Protection Agency
Div. of Environmental & Financial Assistance
Contact: Bob Monsarrat
Phone: 614-644-3655
Web site:
www.epa.state.oh.us/defa/linkdepo.html

Massachusetts Department of Environmental Protection
Massachusetts' Community Septic Management Program
Contact: Joseph McNealy
Phone: 617-556-1068
Web site: www.state.ma.us/dep/brp

Missouri Department of Agriculture
Animal Waste Facility Loan Program
Contact: Steve Townley
Phone: 573-751-1397
Web site: www.mda.state.mo.us/a2c.htm

For more information about the Clean Water Revolving Fund, or for a program representative in your State, please contact:

Clean Water State Revolving Fund Branch

U.S. Environmental Protection Agency

1201 Constitution Avenue, NW (Mailcode 4204M)

Washington, DC 20004

Phone: (202) 564-0752 **Fax:** (202) 501-2403

Internet: http://www.epa.gov/owm

Clean Water
State Revolving Fund

Office of Water July 2002 EPA 832-F-02-004

Clean Water

Everybody's Business

10 Things You Can Do to Prevent Stormwater Runoff Pollution

- Use fertilizers sparingly and sweep up driveways, sidewalks, and roads
- Never dump anything down storm drains
- Vegetate bare spots in your yard
- Compost your yard waste
- Avoid pesticides; learn about Integrated Pest Management (IPM)
- Direct downspouts away from paved surfaces
- Take your car to the car wash instead of washing it in the driveway
- Check car for leaks, and recycle motor oil
- Pick up after your pet
- Have your septic tank pumped and system inspected regularly

EPA United States Environmental Protection Agency

For more information, visit
www.epa.gov/nps or
www.epa.gov/npdes/stormwater

EPA
United States
Environmental Protection
Agency

EPA 841-F-03-003

Protecting Water Quality *from* URBAN RUNOFF

Clean Water Is Everybody's Business

In urban and suburban areas, much of the land surface is covered by buildings and pavement, which do not allow rain and snowmelt to soak into the ground. Instead, most developed areas rely on storm drains to carry large amounts of runoff from roofs and paved areas to nearby waterways. The stormwater runoff carries pollutants such as oil, dirt, chemicals, and lawn fertilizers directly to streams and rivers, where they seriously harm water quality. To protect surface water quality and groundwater resources, development should be designed and built to minimize increases in runoff.

The most recent National Water Quality Inventory reports that runoff from urbanized areas is the leading source of water quality impairments to surveyed estuaries and the third-largest source of impairments to surveyed lakes.

Did you know that because of impervious surfaces like pavement and rooftops, a typical city block generates more than 5 times more runoff than a woodland area of the same size?

How Urbanized Areas Affect Water Quality

Increased Runoff

The porous and varied terrain of natural landscapes like forests, wetlands, and grasslands traps rainwater and snowmelt and allows them to filter slowly into the ground. In contrast, impervious (nonporous) surfaces like roads, parking lots, and rooftops prevent rain and snowmelt from infiltrating, or soaking, into the ground. Most of the rainfall and snowmelt remains above the surface, where it runs off rapidly in unnaturally large amounts.

Storm sewer systems concentrate runoff into smooth, straight conduits. This runoff gathers speed and erosional power as it travels underground. When this runoff leaves the storm drains and empties into a stream, its excessive volume and power blast out streambanks, damaging streamside vegetation and wiping out aquatic habitat. These increased storm flows carry sediment loads from construction sites and other denuded surfaces and eroded streambanks. They often carry higher water temperatures from streets, roof tops, and parking lots, which are harmful to the health and reproduction of aquatic life.

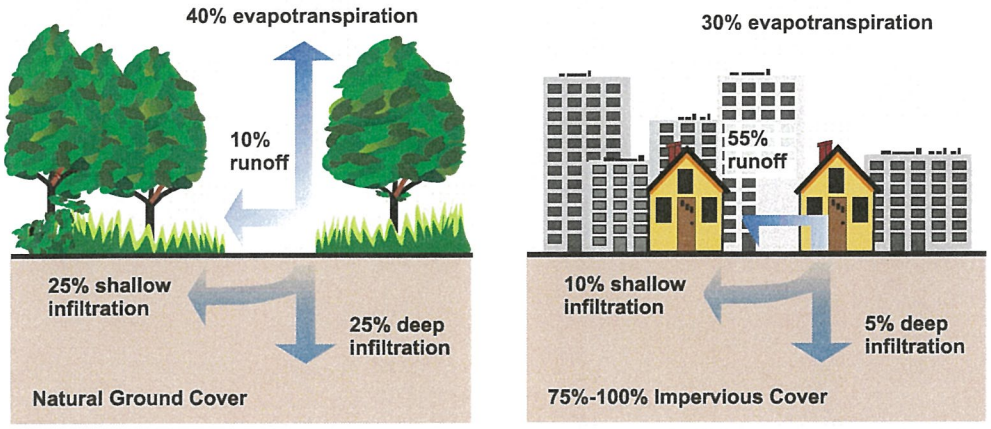
The loss of infiltration from urbanization may also cause profound groundwater changes. Although urbanization leads to great increases in flooding during and immediately after wet weather, in many instances it results in lower stream flows during dry weather. Many native fish and other aquatic life cannot survive when these conditions prevail.

Increased Pollutant Loads

Urbanization increases the variety and amount of pollutants carried into streams, rivers, and lakes. The pollutants include:

- Sediment
- Oil, grease, and toxic chemicals from motor vehicles
- Pesticides and nutrients from lawns and gardens
- Viruses, bacteria, and nutrients from pet waste and failing septic systems
- Road salts
- Heavy metals from roof shingles, motor vehicles, and other sources
- Thermal pollution from dark impervious surfaces such as streets and rooftops

These pollutants can harm fish and wildlife populations, kill native vegetation, foul drinking water supplies, and make recreational areas unsafe and unpleasant.



Relationship between impervious cover and surface runoff. Impervious cover in a watershed results in increased surface ruunoff. As little as 10 percent impervious cover in a watershed can result in stream degradation.