



the WPCLF Linked Deposit Program

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What is a linked deposit?

The linked deposit program is a mechanism for financing certain Water Pollution Control Loan Fund (WPCLF) projects. Instead of borrowing directly from the Fund, a linked deposit loan is made to the applicant by a private lending institution. The below-market interest rate for the loan is supported by a WPCLF-funded certificate of deposit with the lender. The Ohio WPCLF was the first SRF program in the nation to use linked deposits.

Linked deposits were first used by the Ohio EPA in 1993 in the Killbuck Creek watershed to establish an agricultural nonpoint source control program. The Ohio EPA has since expanded the availability of linked deposits to a wider variety of projects, such as urban stormwater runoff control, stream corridor restoration, forestry and land development best management practices, as described in the WPCLF Management System. In general, linked deposit loans are available to private organizations and individuals for nonpoint source projects, and for improvements such as the up-grade of failed on-lot wastewater treatment systems.

Agricultural linked deposits

Since the Killbuck watershed program was established, agricultural linked deposit loans have also been made in the Stillwater River, Black River, Indian Lake, and Darby Creek watersheds. These loans were designed to provide water quality improvements through agricultural best management practices (BMPs). Linked deposits loans have been awarded for BMPs such as manure storage facilities, which control animal waste runoff from entering streams, and the use of conservation tillage equipment, which reduces the amount of soil eroded from farm fields and deposited in water bodies. Other funded BMPs include filter strips and grassed waterways (which filter sediments out of runoff), fencing and alternative watering sources to keep livestock out of streams, and the construction of a wetland to treat process water from a dairy operation. These individually small projects can provide a large water quality improvement when implemented on a watershed-wide basis.

Developing a Nonpoint Source Watershed Financing Program

Interested county Soil and Water Conservation Districts (SWCDs) contact the Ohio EPA and express their interest in developing a nonpoint source program in their watershed. A Watershed Management Plan is developed which comprehensively discusses the nature of the watershed, the pollution sources that exist, solutions to those pollution sources, prioritization of where the emphasis should be placed, where funding will come from, and a schedule for implementation of the project. The writing of this Watershed Management Plan is often a collaborative effort involving the SWCDs, the Natural Resources Conservation Service, the Ohio EPA, and other groups or individuals working within the watershed. The Watershed Management Plan is then reviewed by the Ohio EPA.

The Ohio EPA drafts an assessment document which describes the environmental impacts of the actions of the proposed Watershed Management Plan, and issues this assessment for a 30-day public comment period. At the end of the comment period, the Ohio EPA usually then issues a Finding of No Significant Impact, and formally approves the Watershed Management Plan. A Memorandum of Understanding (MOU), based on the content of the Watershed Management Plan (WMP) is signed by the Ohio EPA and the SWCDs (or a Joint Board if one exists). This MOU describes how the entities will work together to implement the projects described in the WMP, and outlines each entity's responsibilities.

During the time period that the above is occurring, local banks are contacted (either by the Ohio EPA or by the SWCDs) to see if they would be interested in participating in the program in their watershed. Often, meetings are held to describe the program and answer questions. Once interested banks are identified, each bank enters into a Participating Bank Agreement with the Ohio EPA and the Ohio Water Development Authority (OWDA). These agreements describe exactly how the financial transactions will occur, as well as the procedures to be used and any banking requirements that must be met.

When the above four items (Watershed Management Plan, Finding of No Significant Impact, Memorandum of Understanding, and Participating Bank Agreements) are completed, the structure for the program is in place, and linked deposit loans can be awarded.

Awarding Agricultural Link Deposit Loans to Applicants (Flow Chart)

The steps for an agricultural nonpoint source loan are generally as follows:

- A land owner develops, with county Soil and Water Conservation District (SWCD) staff, an individual soil and water conservation plan that conforms with a watershed management plan developed for the watershed in which the land is located.
- The land owner obtains a Certificate of Qualification from the Board of Supervisors of the county SWCD, identifying the proposed improvements in the land's soil and

water conservation plan that are eligible for WPCLF Linked Deposit Program funding.

- The land owner applies for a loan from one of the local area banks participating in the WPCLF Linked Deposit Program.
- After the land owner presents the Certificate of Qualification, the bank evaluates the credit-worthiness of the land owner using its criteria. If these criteria are met, the bank then enters into a loan agreement with the land owner.
- The bank sends an investment request form, which identifies the land owner and the terms of the loan, and a copy of the land owner's Certificate of Qualification to Ohio EPA.
- Upon approval, Ohio EPA and the Ohio Water Development Authority (OWDA) deposit with the bank, through a certificate of deposit, funds equal to the face value of the loan to the land owner. The term of the deposit is equal to the term of the bank's loan with the land owner, but in no case is longer than 20 years.
- The interest rate on the certificate of deposit is discounted below the bank's normal cost of funds, as determined by a comparison to the interest rates of U.S. Treasury notes and bonds. The bank's repayment schedule in the certificate of deposit contains semi-annual payments of principal and interest to the WPCLF.
- The interest rate of the bank's loan to the land owner is reduced by the same amount as the discount the bank received from the WPCLF.

Some Features of the Agricultural Linked Deposit Program

- The Linked Deposit Program provides an economic incentive for farmers to voluntarily implement best management practices to control nonpoint source pollution. Voluntary efforts such as these may preclude the necessity for regulatory approaches.
- At the local level, the program is administered by the county SWCDs, which develop soil and water conservation plans, issue the Certificates of Qualification, and monitor the improvements. Farmers are familiar with their local SWCD and are used to working with them. The SWCDs have the existing expertise to recommend the BMPS which should be implemented on a particular farm.
- Land owners can work with the banks (assuming that they participate in the program) that they regularly do business with. Many farmers prefer to only work with the institutions that they have dealt with in the past.

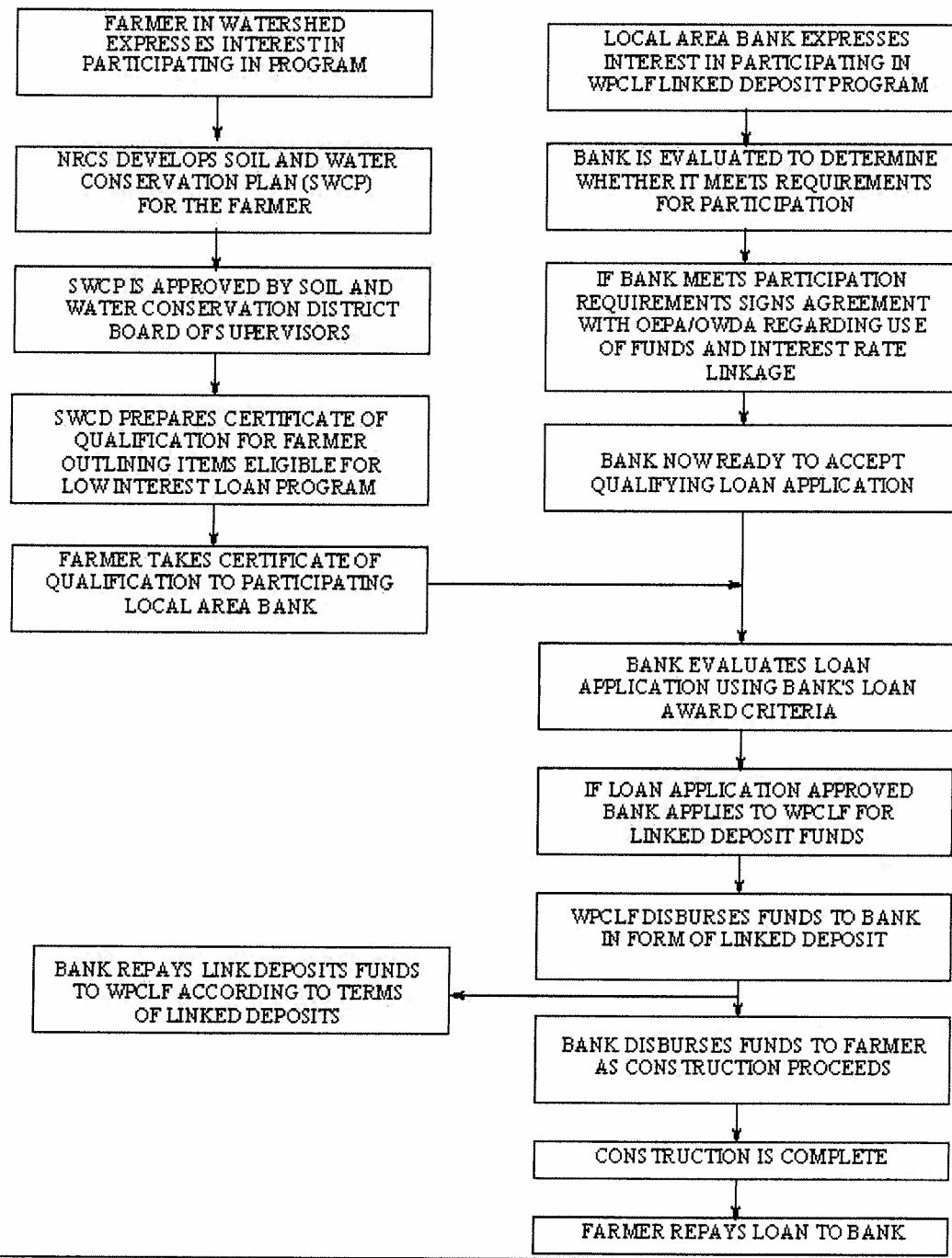
- The participating banks have the existing structure and experience to make and administer the loans. If this were not present, there would be an administrative expense on the part of the Ohio EPA to administer the loans.
- Participating banks earn the same amount of profit as they normally would on their other loans. In addition, the banks that participate can offer this as an additional service to their established agricultural customers.
- The WPCLF's Certificate of Deposit is insured by the FDIC, and thus is secure.
- The wire transfer of funds from the WPCLF to the participating bank normally occurs 1-2 days after the investment request form is received by the Ohio EPA. Thus, there is very little delay in the award of funds from the bank to the land owner.
- The reporting requirements of the SWCDs to the Ohio EPA are minimal. Ohio EPA requires a one-page report to be filed on a quarterly basis.

For more information about a WPCLF linked deposit loan, contact the Division of Environmental and Financial Assistance, Planning Section, at (614) 644-2798 or send us  e-mail.

 [DEFA's main page](#)  [WPCLF page](#)  [Ohio EPA's home page](#).

OhioEPA Division of Environmental and Financial Assistance

**WPCLF LINKED DEPOSIT PROGRAM
FOR
NONPOINT SOURCE AGRICULTURAL LOANS**



September 2007

Ohio Water Pollution Control Loan Fund Linked Deposit Programs

Introduction

Ohio EPA's Water Pollution Control Loan Fund (WPCLF) offers low-interest financial assistance for implementation of nonpoint source pollution control projects consistent with Ohio's Nonpoint Source Management Plan. One mechanism to provide this assistance is through a linked deposit loan from a participating financial institution whereby the WPCLF "buys down" the borrower's interest rate.

The Methods

There are two methods of providing linked deposit financial assistance.

A. Certificates of Qualifications (CQ)

After development of an acceptable Management Plan by the appropriate regulatory agency (either the County health department or the local Soil and Water Conservation District), the Ohio EPA enters into a Memorandum of Understanding with them whereby the appropriate agency reviews and approves specific projects and issues a

Certificate of Qualifications to the individual borrower which identifies eligible items and amounts.

Agricultural Best Management Practices: A landowner develops, along with the Soil and Water Conservation District (SWCD), an individual conservation plan that conforms with the watershed Management Plan developed for this purpose. Upon review and approval of the specific improvements, the SWCD issues the landowner a CQ.

Forestry Best Management Practices: A logging operation that is certified in the Ohio Forestry Association's Master Logger Program files a Silvicultural Operation and Management Plan with the appropriate SWCD. The logging operation then obtains a CQ from ODNR's Division of Forestry.

Onsite Septic System Improvements: A homeowner with a failing septic system presents a proposal to upgrade their onsite system to the County Health Department. The Health Department then reviews the proposal for

acceptability and consistency with the Countywide Home Sewage Management Plan developed for this purpose. Upon review and approval of the specific improvements, the Health Department issues the homeowner a CQ.

B. Letter of Approval and Authorization (LoAA)

This method is designed for stand-alone projects such as contaminated sites, animal feeding operations, biomass reuse and other privately owned projects. Upon Ohio EPA's decision to proceed (based on an initial review of the proposal), the project is added to the WPCLF project priority list. DEFA then reviews the proposed improvements and 1) identifies eligible items, and 2) assesses the environmental impacts of the proposed improvements. Ohio EPA will then issue a Letter of Approval and

Authorization (LoAA) to the applicant which identifies eligible items and amounts and authorizes the applicant to seek linked deposit financing from a participating bank.

The Process

The Ohio EPA has executed Participating Bank Agreements with many lenders in Ohio. The borrower will include either the CQ or the LoAA in its loan application to a Participating Bank. Based on its own review, the lender will approve the loan and notify Ohio EPA of the amount, term and interest rate. The WPCLF will invest in a Certificate of Deposit (CD) for the amount and term of the loan to the borrower. The rate on the CD will be discounted (based on a T-Bill rate) by up to 5 percent (the CD rate can never be less than 1 percent). The same discount is then "linked" to the loan to the qualified borrower. For example, if the lender's normal rate is 8 percent, the linked rate discount would result in an actual interest rate of 3 percent.

Additional Information

For more information, please refer to the most recent WPCLF Program Management Plan. You can also contact us at (614) 644-2798 or visit our Web page at: www.epa.state.oh.us/defa