



Rural Development

Office of the Administrator

Rural Business–Cooperative
Service
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Washington, D.C. 20250

TO: All National Office and Business Programs Staff
Rural Business–Cooperative Service (RBCS)
Rural Development

FROM: J.R. Claeys
Administrator
Rural Business–Cooperative Service

SUBJECT: Extension of the Temporary Administrative Pause on Biodigester
and Controlled Environment Agriculture Applications Pending
Continued Portfolio Performance Review

Purpose

The purpose of this Unnumbered Letter (UL) is to extend the temporary administrative pause—originally established for 90-days—on the acceptance, processing, and awarding of loan note guarantees across Rural Business–Cooperative Service (RBCS) programs for projects involving biodigesters and controlled environment agriculture (CEA), including vertical farming, hydroponics, aeroponics, and aquaponics.

Based on the continuing and significant risks identified during the initial review period, this UL formally extends the pause from April 14, 2026, through December 31, 2026. This extension is necessary to reduce the speed at which these projects are entering the portfolio, complete the comprehensive portfolio performance review as projects under construction come online, assess lender underwriting capability, and strengthen program safeguards before considering future applications involving these technologies, all of which will help protect RBCS’s interests and provide oversight by identifying common risk factors and strengthening our approach to guaranteeing loans in the future.

This UL does not establish new eligibility requirements and does not reflect a judgment on any specific applicant or technology.

Continuing to guarantee high risk projects—particularly those underwritten by lenders lacking expertise—threatens the long-term stability of the program and its capacity to fulfill its mission.

EXPIRATION DATE:
December 31, 2026

FILING INSTRUCTIONS:
Community/Business
Programs

Background

During the original 90 day review period, RBCS identified several persistent and escalating concerns requiring additional- time to address:

- Rapid expansion of biodigester and CEA projects in the portfolio.
- Insufficient lender underwriting expertise for these specialized and volatile sectors, leading to recurring weaknesses not observed in more conventional industries supported by RBCS.
- Twelve biodigesters remain in the construction phase and five applications are pending, representing substantial exposure to construction, commissioning, and operational ramp-up risk.
- Beyond the high delinquency rates already documented, additional projects are now drawing on loss payment reserves, demonstrating deteriorating cash flow and financial instability.
- One-third of the projects involve lenders currently paused or undergoing audits by the Agency, adding additional uncertainty regarding servicing quality and underwriting reliability.

Unlike other sectors where liquidation and corporate guarantees mitigate losses, biodigester and CEA projects are showing erosion of collateral, lower recovery values, and higher loss severity.

A recent snapshot shows Controlled Environmental Agriculture projects have a 40 percent delinquency rate inside the portfolio. Biodigesters have a 28 percent delinquency rate inside the portfolio. This is on top of realized losses.

Budgetary and Programmatic Impacts

The financial effects of these performance issues are immediate and substantial:

- The present subsidy rate of 1.09% requires an appropriation of \$19,750,000 to maintain current lending authority.
- The projected FY 2027 subsidy rate of 2.95% will require \$51,625,000, more than doubling the cost to taxpayers for the same level of lending authority.
- High fees will remain a barrier for many worthy projects as the alternative to appropriation is increased fees to lenders that are often passed on to borrowers. The current fee is 3% at issuance and 0.55% annually.

If unaddressed, these trends will lead to:

- Reduced capital available for deployment to rural America.
- A shift from rolling applications to application windows, delaying project development.
- Competitive scoring environments that may exclude viable and beneficial rural projects.
- Reduced program flexibility and diminished ability to respond to emerging rural business needs.

Need for Continued Pause

Given the data collected, the severity of emerging risks, and the lack of sector specific underwriting and servicing expertise across the lender base, it is clear that biodigester and CEA projects must be paused throughout the remainder of calendar year 2026.

This extended pause supports:

- Development of sector specific underwriting guidance;
- Assessment of lender eligibility, expertise, and oversight requirements;
- Strengthening collateral evaluation and loss mitigation expectations;
- Ensuring that future approvals reflect a sustainable and fiscally responsible approach.

The choice is clear: We can continue approving projects we have reason to believe will fail, or we can preserve capital for job creating rural projects we have strong confidence will succeed. This extension ensures that the latter prevails.

Implementation

Effective immediately:

1. The administrative pause on accepting, processing, or issuing loan note guarantees for biodigester and CEA projects is extended from April 14, 2026, through December 31, 2026, or until further guidance is issued.
2. State Program Directors shall continue monitoring their portfolios for sector specific risks, report recurring themes to the National Office, and prepare recommendations for potential updates to underwriting, servicing, and lender oversight procedures.
3. Business program staff are required to withdraw applications and notify the lender if they are paused due to this (or the preceding) UL.
4. Additional guidance relating to lender participation, underwriting expectations, collateral standards, and risk mitigation requirements will be issued upon completion of the extended review period.

This UL is effective upon issuance and remains in force until rescinded or superseded.

Questions should be directed to:

Dominick Lombardi, Special Assistant to the Administrator
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Appendix 1: FAQs: Administrative Pause on Biodigesters and Controlled Environment Agriculture (CEA) Applications

Following are Frequently Asked Questions regarding pausing the approval of CEA and Digester projects. The original UL can be found [here](#).

Why is the Agency pausing approval of Controlled Environment Agriculture (CEA) and biodigester projects?

Rural Development (RD) is reviewing historical losses and poor-performing loans in these two industries. RD has seen a substantial increase in delinquencies. This pause allows us to protect RD's interests and provide oversight by identifying common risk factors and strengthening our approach to guaranteeing loans in the future.

What is the Agency's definition of a biodigester?

A biodigester is a type of anaerobic digester that breaks down organic waste—such as food scraps, animal manure, agricultural residues, and municipal waste in the absence of oxygen. This process produces biogas (often used to power generators for electricity) and digestate, a nutrient-rich material that can be used as fertilizer.

What is the Agency's definition of Controlled Environment Agriculture (CEA)?

CEA refers to growing crops in a controlled environment to optimize plant growth and resource efficiency. Instead of relying on outdoor conditions, CEA uses technology to manage temperature, humidity, light, CO₂ levels, and water/nutrient delivery. These projects typically involve crops historically grown outdoors. For the purposes of the UL, CEA does not include certain well-established industries and practices, identified below. Examples of paused CEA projects include vertical farming, hydroponics, aeroponics, and aquaponics.

Are there areas of concern with these types of projects already identified by the Agency?

Yes. Common concerns include:

- Lack of construction oversight on complex projects. See 7 CFR 5001.205(e).
- Incomplete engineering design, including lack of process design, leading to inoperative facilities unless additional loans are provided. See 7 CFR 5001.202(b)(5)(iv).
- No offtake agreements/contracts for product sales or offtake agreements without fixed volumes, prices, or term to service the debt. See 7 CFR 5001.202(b)(5)(ii).
- Repayment plans based on tax credits without considering operational viability. See 7 CFR 5001.202(b)(2).
- No feedstock agreements and failure to account for price fluctuations. See 7 CFR 5001.202(b)(5)(i).

- In cases where there are multiple feedstock agreements, inadequate analysis of financial viability of the feedstock providers or availability of substitutes. See Anaerobic Digester Project/Biogas requirements for technical merit in 7 CFR Appendix E to Subpart D of Part 5001, at Section C(6).
- Insufficient analysis of working capital needs. See 7 CFR 5001.202(b)(2)(i).
- Excessive debt for projects with thin operating margins. See 7 CFR 5001.202(b)(2)(ii).
- Overly optimistic projections and lack of stress testing. See 7 CFR 5001.202(b)(6)(iv).

Are mushroom-growing operations included in the pause?

No. Mushrooms have historically been produced indoors, and the industry is well established. To the extent there are any outdoor mushroom operations, they would not count as CEA.

Are nurseries and traditional growing operations using greenhouses included in the pause?

No. The pause focuses on newer, emerging, and underdeveloped CEA projects. Traditional greenhouses used to reduce temperature risk are not included.

Is renewable natural gas from landfills included in the pause?

No. Landfill gas (and sewage treatment gas) projects are not paused because the gas is already present and only needs to be concentrated and processed. These projects remain eligible and are encouraged.

Does this pause affect applications already submitted?

Yes. Applications for CEA and biodigester projects will not be approved during the pause. Other OneRD applications, not involving CEA and biodigesters, are unaffected.

What happens after the pause?

Prior to re-starting approval of these projects, the Agency will issue updated guidance and risk mitigation measures before resuming approvals. Our goal is to ensure stronger underwriting standards and reduce risk for both lenders and borrowers.