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REAP Guaranteed Loan Program Overview

Rural Energy for America Program (REAP)

**PLEASE NOTE: This overview is largely based on Rural Development's Sec. 9006 program, which the 2008 Farm Bill reauthorized, revised and renamed to "Rural Energy for America Program" (REAP). Final regulations on the new REAP program are still pending, so changes are possible.*

Program Goal

Supports "gap" financing for rural small businesses and agriculture producers to produce & install or improve renewable energy systems (RES) and energy efficiency improvements (EEI). *The REAP guaranteed loan program is lender-driven. USDA guarantees the loan rather than lending directly. A commercial lender seeks the guarantee, and if approved, it makes (and services) the loan.*

Funds available

A REAP guaranteed loan can finance up to 75% of total project costs for RES or EEI energy projects.

"Combo" guaranteed loan + grant

The guaranteed loan may be combined with a REAP grant (for up to 25% of the project cost), but total REAP assistance cannot exceed 75% of the total project cost. (REAP grants are discussed in another information sheet.) An accompanying REAP guaranteed loan application may increase the likelihood of receiving a REAP grant.

Type of Assistance

Federal guarantee for lenders on loans for eligible energy projects:

- 85% (maximum) guarantee on loans up to \$600,000
- 80% (maximum) guarantee on loans from \$600,000 – \$5 million
- 70% (maximum) guarantee on loans from \$5 million – \$10 million
- 60% (maximum) guarantee on loans from \$10 million – \$25 million

Lender Benefits

- There is an active secondary market for REAP guarantees (e.g., SBA markets)
- The guaranteed portion of the loan is protected against loss by a Federal guarantee
- The guaranteed portion of the loan does not count against lending limits
- REAP guarantees help lenders satisfy Community Reinvestment Act (CRA) requirements.

Interest Rate, Term, Payment Structure, and Fees

Rate: Lender's customary commercial interest rate – negotiated by lender & business
Fixed or variable (but may not vary more often than quarterly)

Term: Working capital – 7 years maximum
Equipment – 20 years maximum (not to exceed useful life of collateral)
Real estate – 30 years maximum (not to exceed useful life of collateral)

Structure: Balloons are not permitted. Principal payments may be deferred till the project is operating.

Fees: Lender's reasonable and customary fees okay -- negotiated by lender & business
USDA charges a one-time guarantee fee equal to 1% of the guaranteed amount and an annual servicing fee of ¼ % of the principal balance owing as of December 31.

Authorized Use of Loan Funds

- Land, real estate improvements, retrofitting, equipment, working capital – for new or existing renewable energy projects (e.g. biofuel, biomass, anaerobic digester, solar, wind, geothermal) or energy efficiency projects.
- Energy audits, technical reports, feasibility study costs, other fees including loan fees & costs.

Loan Limitations

- REAP projects must be financially feasible & have established technical merit. Only commercially-available or pre-commercial technologies can be financed. No experimental or unproven systems.
- The replacement of an existing facility in order to achieve greater energy efficiency may be financed only when retrofitting cannot provide as great an energy benefit, as demonstrated in an energy audit.

- Ineligible purposes include: residential projects; debt refinancing; lines of credit; agricultural tillage equipment; used equipment (though remanufactured is OK); vehicles; application preparation fees
- Construction projects: Interim financing must be arranged as the REAP guarantee is issued only after development is completed and certified performing in accordance with technical requirements, plans, & specs. Construction loan funds should not be advanced until USDA has approved the project.

Lender Eligibility

- Most regulated lenders – Federal or State chartered bank; Farm Credit System; Bank of Cooperatives; Savings & Loan or Building & Loan Association; credit union; or insurance company
- Other lenders with commercial lending experience and financial strength may also be approved.

Borrower Eligibility

- The project must be in a rural area – i.e., outside 50,000+ cities & metropolitan statistical areas.
- Most types of enterprises qualify, new or existing, provided they are either:
 - » Small businesses – as defined by SBA at <http://www.sba.gov/size/summary-what-is.html>
 - » Agricultural producers – individuals or legal entities which receive at least 50% of their gross income from agriculture (crops, livestock, forestry products, hydroponics, nursery, & aquaculture). The SBA “small business” standard does not apply to agricultural producers.
 - » Utilities are typically excluded unless they are independent of government control and provide service to rural consumers on a cost-of-service basis without government/public funds/subsidy.
 - » *Nonprofits, tribes, and public bodies are ineligible.*
- Proprietorship, partnership, corporation, LLC, trusts, & cooperative organizational structures are eligible.
- Majority ownership must be held by US citizens or permanent residents.
- The borrower must own & manage the facility (though its operations may be contracted to a 3rd party)

Underwriting and Security Requirements

- The proposed operation must have realistic repayment ability, as further documented by:
 - » A technical report, professionally-prepared and detailing all aspects of the project. The technical report must be done by a licensed Professional Engineer (PE) on RES projects costing over \$400,000 and on EEI projects costing over \$200,000. The report must be peer-reviewed by another PE if the project costs more than \$1.2 million.
 - » A business-level feasibility study by a recognized independent consultant – on renewable energy generation proposals costing over \$200,000. (This is not required for energy efficiency proposals)
- The business and its owners must have a good credit history.
- The borrower must make an equity contribution (may be from a Federal grant) to the project equal to:
 - » 25% or more of the project cost – for loans over \$600,000
 - » 15% or more of the project cost – for loans up to \$600,000
 - » The market value of real estate equity pledged as collateral is counted toward this requirement.
- There must be adequate collateral. Junior liens are acceptable.
 - » Real estate – using 80% or less of the appraised value
 - » Equipment – using 60-80% or less of the appraised value
- Business interruption insurance is required – for loans over \$200,000
- Personal/corporate guaranties – normally from all proprietors, partners (except limited partners), or major shareholders (i.e., all those with a 20%-or-greater interest)
- Demonstrated financial need and inability to get credit elsewhere is **NOT** a requirement.

Application Process

- Lender & business submit a joint preapplication to USDA, indicating a willingness to make the loan.
- USDA meets with all parties at the project site and makes a preliminary determination of project acceptability, normally within 15 days.
- Lender & business submit their complete application, after which approval takes less than 60 days.
- USDA issues a conditional commitment, approving the guarantee subject to conditions.
- Loans up to \$10 million are approved locally.
- The lender closes the loan and, after meeting USDA's conditions, requests the guarantee.
- USDA issues the guarantee after verifying that all conditions have been met.

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