



Committed to the future of rural communities

Business & Cooperative Programs

SECTION 9007 RURAL ENERGY FOR AMERICA PROGRAM (REAP) - GUARANTEED LOANS

Overview

This program is designed to help agricultural producers and rural small businesses reduce energy costs and consumption, and help meet the Nation's critical energy needs. The program is administered by the Rural Business and Cooperative Program Division of the USDA Rural Development.

Need for Program

The primary purpose of the Renewable Energy and Energy Efficiency Program is to create an opportunity for rural economic development and growth. These opportunities include increasing local revenue, bolstering the local job market, and increasing the economic yield of land. This is achieved by expanding the existing private credit structure capability to make and service quality loans to provide lasting community benefits.

Benefits to Businesses

- ✓ Higher loan amounts, stronger loan application, less equity injection, lower interest rates and longer repayment terms assist businesses that may not qualify for conventional lender financing
- ✓ Assist businesses in stability, growth, expansion and rural employment

Benefits to Lenders

- ✓ Provide lenders with another tool to expand their loan portfolio
- ✓ Improve the economic and environmental living climate in rural communities
- ✓ Guarantee portion can be sold to enhance liquidity and increase profitability while limiting financial exposure
- ✓ Allows lender to make loans above its loan limits

Eligible Areas

Renewable Energy and Energy Efficiency loans can be guaranteed in cities or towns up to 50,000 population.

Eligible Borrowers

To be eligible, applicants must be an agricultural producer or rural small business.

An agricultural producer is defined as an individual or legal entity which receives at least 50% of its gross income from agriculture production.

An entity is considered a small business in accordance with the Small Business Administration's (SBA) small business size standards by NAICS code. (<http://www.sba.gov/size/index.html>).

Eligible Lenders

Most lenders are eligible, including national and state-chartered banks, Farm Credit System banks and savings and loan associations. Other lenders may be eligible if approved by USDA.

Eligible Project Costs

- ✓ Post-application purchase and installation of equipment (new, refurbished or remanufactured)
- ✓ Post-application construction or improvements
- ✓ Energy audits or assessments
- ✓ Permit or license fees
- ✓ Professional service fees
- ✓ Feasibility studies and technical reports
- ✓ Business plans
- ✓ Retrofitting
- ✓ Construction of a new energy efficient facility only when the facility is used for the same purpose, is approximately the same size, and based on the energy audit will provide more energy savings than improving an existing facility.
- ✓ Working capital
- ✓ Land acquisition

Ineligible Project Costs

- ✓ Agricultural tillage equipment, used equipment and vehicles
- ✓ Residential construction or improvements
- ✓ Fees associated with application preparation
- ✓ Refinancing
- ✓ Lines of Credit

Minimum and Maximum Loan Amount

Renewable Energy for America Program loans [or REAP loan and grant combined] will not exceed 75 percent of total eligible project costs. The minimum amount of a guaranteed loan made to a borrower will be \$5,000. The maximum amount of a guaranteed loan made to a borrower is \$25 million. Loans over \$10 million require National Office concurrence.

Loan Guarantee Limits

Maximum percentage applies to the entire loan.

- 85% for loans of \$600,000 or less
- 80% for loans greater than \$600,000 up to \$5 million
- 70% for loans greater than \$5 million up to \$10 million
- 60% for loans greater than \$10 million up to \$25 million

USDA Rural Development determines the percentage of guarantee based on:

- Borrower management
- Collateral
- Financial condition
- Lender's exposure
- Trends and conditions

Loan-to-Appraised Market Value Ratios

The maximum loan-to-appraised market value ratios are typically:

- 80% Real estate
- 60% Accounts receivable
- 60% Inventory
- 70% Machinery/Equipment

Specialized collateral warrants additional discounts and less advance rates.

Interest Rate

Interest rates for loans may be fixed or variable. The rate is negotiated between the lender and the borrower and will not be more than those rates customarily charged to other borrowers in similar circumstances. The variable rate must be tied to a nationally published rate. Variable rates cannot be adjusted more than quarterly.

Borrower Equity Requirements

For loans of \$600,000 or less, borrower shall demonstrate evidence of cash equity injection in the project of not less than 15 percent of eligible project costs. For loans over \$600,000, borrowers shall demonstrate evidence of cash equity injection in the project of not less than 25 percent of eligible project costs. The fair market value of equity in real property that is to be pledged as collateral for the loan may be substituted in whole or in part to meet the cash equity requirement.

Maximum Repayment Terms

- Working Capital 7 years
- Machinery and Equipment 20 years or useful life
- Real Estate 30 years
- Combined real estate and machinery & equipment must not exceed 30 years

Fees and Costs

There is a one-time guarantee fee not to exceed one (1) percent of the guaranteed principal amount and an annual renewal fee. The rate of the annual renewal fee is established in an annual notice published in the Federal Register. Fees are paid by the lender. The one-time guarantee fee may be passed on to the borrower. The annual renewal fee may not be passed on to the borrower. Other typical lender costs may also be incurred.

Feasibility Studies and Technical Reports

For Renewable Energy projects a business-level feasibility study will be required. The study will be completed by an independent qualified consultant and will include an evaluation of economic, market, technical, financial and management feasibility. Renewable Energy projects and Energy Efficiency projects will be required to submit a technical report. The technical report must demonstrate that the project design, procurement, installation, startup, operation, and maintenance of the renewable energy system or energy efficiency improvement will operate or perform as specified over its design life in a reliable and a cost-effective manner.

Appraisals

An appraisal report prepared by an independent, qualified fee appraiser will be required on property that will serve as collateral. Appraisals will be made in accordance with the accepted format and standards of the industry. Specialized appraisers will be required.

Collateral

All collateral must secure the entire loan. The discounted collateral value will normally be at least equal to the loan amount. Unconditional personal and corporate guarantees for those owners with an interest greater than 20 percent are required.

USDA Evaluation of Applications

- ✓ Borrower eligibility
- ✓ Project eligibility
- ✓ Project has technical merit
- ✓ Reasonable assurance of repayment ability
- ✓ Sufficient collateral and equity
- ✓ Compliance with all applicable statutes and regulations

Pre-application

USDA Rural Development strongly encourages the lender to submit a pre-application in order for the Agency to make a preliminary eligibility determination before the lender submits a full application. A pre-application guide may be requested from any USDA Rural Development Office or you may download the pre-application guide from the following link:

http://www.rurdev.usda.gov/ia/rbcs_guarantee_preapplication_form.pdf

Forms

Standard lender documents will be utilized. USDA Rural Development will have additional forms relating to the loan guarantee and other items to comply with Agency requirements.

Reports

Once the project has been constructed, the lender must provide the Agency periodic reports from the borrower for up to a maximum of 3 years.

Servicing/Liquidation

Annual financial statements are required. Lender services and liquidates with USDA concurrence.

For More Information

Contact a USDA Rural Development Area Office shown below.

<input type="checkbox"/> Iowa Falls	641/648-5181	<input type="checkbox"/> Indianola	515/961-5365
<input type="checkbox"/> Waverly	319/352-1715	<input type="checkbox"/> Atlantic	712/243-2107
<input type="checkbox"/> Tipton	563/886-6006	<input type="checkbox"/> Le Mars	712/546-5149
<input type="checkbox"/> Mount Pleasant	319/986-5800	<input type="checkbox"/> Storm Lake	712/732-1851
<input type="checkbox"/> Albia	641/932-3031	<input type="checkbox"/> Humboldt	515/332-4411

www.rurdev.usda.gov/ia