

USDA Rural Development
Rural Energy for America
(Section 9007)
Guaranteed Loan Program



Rural Energy for America Guaranteed Loan Program Purpose

- Creates opportunities for economic development for rural businesses by supporting/financing renewable energy and energy efficiency projects
- Expands the existing private credit structure by providing a credit enhancement via a loan guarantee.



Rural Development State Offices

- Each state has at least one dedicated Energy Coordinator to work with you on energy projects/applications
- Contact the Energy Coordinator early in the process
- [Click here to access Energy Coordinator list for your State](#)



Why Obtain a Loan Guarantee?

- Allows bank to lend beyond its legal lending limit
- Mitigates collateral & other perceived risk
- Secondary market yield
- Expand loan portfolio
- Fee income

Types of Lenders Who Participate

- Traditional Lenders – Federal or State chartered banks, Savings & Loans, Farm Credit banks, Credit Unions
- Other Lenders – that have legal authority, sufficient experience and financial strength to operate successful lending program

Lenders, cont.

- All lenders must have adequate experience and expertise to make, secure, service and monitor guaranteed loans
 - Experience with renewable energy or efficiency projects, as appropriate
- Program is not intended for marginal or substandard loans or relief of lenders having such loans

Eligible Borrowers

- **Ag Producers** – An individual or entity that receives 50 percent or more of their gross income from the production of agricultural products
- **Small Business** – An entity is considered a small business in accordance with the SBA small business size standards by NAICS codes

Eligible Technologies

- Renewable Biomass, bioenergy
- Anaerobic digesters
- Geothermal (electric and direct)
- Hydroelectric (30 megawatts or less)
- Hydrogen
- Wind
- Solar
- Ocean (including tidal, wave, current, and thermal)
- Energy Efficiency

Eligible Business/Project Locations

- Rural Area – Anywhere except within the boundaries of a city or town with more than 50,000 inhabitants or the urbanized area of that city or town
- **NOTE:** Ag producers are not subject to rural area restriction
- [Click here for Eligibility Website](#)



Eligible Project Costs

- Post-application purchase and installation of equipment (new, refurbished, or remanufactured), except agricultural tillage equipment, used equipment, and vehicles
- Post-application construction or improvements
- Energy audits or assessments,

Eligible Project Costs (con't)

- Permit and license fees
- Professional service fees, except for application preparation
- Feasibility studies and Technical Reports
- Business Plans and Retrofitting

Eligible Project Costs (con't)

- Construction of a new energy efficient facility under certain circumstances
- Working capital
- Land acquisition

Examples of Ineligible Purposes

- Improvement that will benefit Residences
- Lines of credit
- Lease payments
- Guarantee loans made by other Federal agencies
- Distribution or payment to an owner, beneficiary, or a close relative of the owner, when owner will remain an owner
- Federal tax-exempt obligations

Examples of Ineligible Borrowers

- Non-profits
- Governmental entities
 - Except electric utilities

Fees and Percentage of Guarantee

- Fees
 - Guarantee Fee – 1 percent (maximum)
 - Annual Renewal Fee – 0.50 percent (maximum)
 - Current FY12 Fees:
 - 1 percent guarantee fee
 - 0.25 percent annual renewal fee
- Percent of Guarantee Maximums
 - Greater than \$10 million – 60 percent
 - \$5 million up to \$10 million – 70 percent
 - \$600K up to \$5 million – 80 percent
 - \$600K or less – 85 percent



Guaranteed Loan Limits

- Minimum loan amount is \$5,000
- Maximum loan amount is \$25,000,000
- Loan amount cannot exceed 75 percent of the total eligible project costs

Loan Structure

- Negotiated by the lender and borrower
- Rates can be Fixed/Variable/Combination, but cannot vary more often than quarterly
- Origination fees and prepayment penalties are permitted
- No balloon payments

Maximum Loan Terms

- Real estate – must not exceed 30 years
- Machinery and equipment – must not exceed 20 years, or the useful life, whichever is less
- Working capital – must not exceed 7 years
- Blended terms must not exceed 30 years

Terms – First Installment

- Principal and interest will, if possible, be scheduled for payment after the project is operational and has begun to generate income

Personal/Corporate Guarantees

- Except for passive investors, unconditional personal and corporate guarantees are required from individuals and entities owning 20 percent or more interest in the borrower

Equity Requirement

- Cash Equity Injection
 - Loans greater than \$600K, require not less than **25 percent** of eligible project cost
 - Loans of \$600K or less, require not less than **15 percent** of eligible project cost
- Federal grant funds may be used to meet equity requirement

Collateral

- Must be sound and sufficient to protect interests of the lender and Agency (normally discounted value will be at least equal to the loan amount)
- Must be appropriately discounted
- Cannot secure unguaranteed portion with additional collateral

Discount Rates

- Real Estate – up to 80 percent
- Equipment – up to 70 percent
- Accounts Receivable – up to 60 percent
- Inventory – up to 60 percent
- Discount rates may be more conservative for energy projects/specialized equipment
- If more generous discounting is used, lender must provide justification

Appraisals

- Must use qualified/specialized appraiser
- Real estate appraisals must meet FIRREA and USPAP standards
- Chattel to be evaluated following normal banking practices
- Loans of \$600K or less, a complete summary appraisal may be completed in lieu of complete self-contained appraisal
 - Still must meet USPAP standards

Feasibility Study

- Feasibility studies are required for renewable energy system projects submitted by a start-up or existing business
 - RE projects with total eligible project cost of \$200K or less are exempt from this requirement
- Study must be completed by a qualified independent consultant

Technical Reports

- Required for all projects,
 - Scope and complexity based on eligible project cost and technology phase
- Commercially available and under \$200K
 - Simplified format
- Pre- commercially available technology and/or eligible project cost over \$200K
 - More complex

Environmental Review

- Environmental review process should be initiated as early as possible with RD office
- Complete Form RD 1940-20, Request for Environmental Information
- [Click here for environmental form](#)



Required Insurance

- The following insurance may be required:
 - Hazard
 - Life
 - Worker's Compensation
 - Flood
 - Other (business interruption, etc.)

Loan Application

- Energy Coordinators and/or Loan Specialists are available by phone and in person to work with you in preparing loan applications
- Decision-making is local for loans within delegated authority (\$5MM - \$10MM in most states)
- Energy guaranteed loan funding availability announced in a Notice in the Federal Register each fiscal year



Agency Reviews the Following

- Borrower Eligibility
- Loan Purpose Eligibility
- Repayment Ability
- Sufficient Collateral & Equity
- Compliance with Statutes and Regulations

Loan Approval

- Rural Development State Loan Committee meets to consider approving loan guarantee
- National Office Loan Committee approves loans above State's loan approval authority
- Approval typically takes no more than 30-60 days (depending on funding availability)

Conditional Commitment

- Establishes Agency loan requirements and conditions
- All conditions must be met before issuing the Loan Note Guarantee



Loan Note Guarantee

- Loan Note Guarantee is issued at closing or shortly after closing
- Loan Note Guarantee issued after construction complete/steady state operation achieved