

# **USDA Rural Development**

## **Rural Energy for America Program (REAP)**

### **Grants and Guaranteed Loans**



Committed to the future of rural communities.

# Applicant Eligibility

- 1) **Agricultural producer**
- 2) **Rural small business**

**Individuals with control must be citizens of the U.S. or reside in the U.S. after being legally admitted for permanent residence.**



# Project Eligibility

**1) Purchase of a renewable energy system**

**2) Making energy efficiency improvements**



# Project Eligibility

**The applicant must be the owner of the system, must control the project site, and must control the operation and maintenance of the proposed project.**



# Guaranteed Loan Funding

**The amount of the loan made available to an eligible project will not exceed 75% of the total eligible project costs.**

**When a loan guarantee is combined with a grant, the total of both is also limited to 75% of eligible project costs.**



# Guaranteed Loan Funding

- **The minimum amount of guaranteed loan to a borrower will be \$5,000**
- **The maximum amount of a guaranteed loan(s) to a borrower is \$10 million**



# Loan Guarantee Percentages

- **85% for loans \$600,000 or less;**
- **80% for loans greater than \$600,000 up to and including \$5 million;**
- **70% for loans greater than \$5 million up to and including \$10 million**



# Eligible Project Costs

**Must be an integral and necessary part of the system**

- 1. Post application purchase/installation of equipment;**
- 2. Post-application construction or improvements;**
- 3. Energy audits or assessments;**
- 4. Permit and license fees;**
- 5. Professional fees;**
- 6. Feasibility studies, Business plans and Technical reports**



# Ineligible Project Costs

- **Not an integral and necessary part of the renewable energy system or energy efficiency improvement.**
- **Agricultural tillage equipment, used equipment and vehicles;**
- **Residential projects (single family, multi-family and Bed & Breakfast);**
- **Fees for application preparation**



# Interest Rates

- **Negotiated between lender and applicant;**
- **May be fixed or variable;**
- **Variable rates tied to published indices;**
- **Subject to Agency review and approval**



# Maximum Terms of Loan

- **Real Estate - 30 years;**
- **Machinery/Equipment - 20 years or the useful life, whichever is less;**
- **Combination of Real Estate and Equipment – must not exceed 30 years;**
- **Working Capital - 7 years maximum**

# Conditions of Loan

- **First Installment of principal and interest will be scheduled when project is operational and borrower is generating income.**
- **No balloon payments – Loans are fully amortizing.**
- **Maturity of the loan is based on the use of proceeds, the useful life of collateral, and the borrower's ability to repay.**



# More Conditions of Loan

- **All loans guaranteed must be sound, with reasonably assured repayment;**
- **Guarantees are provided after considering your overall credit quality, the proposed terms and conditions of the loan, and the expected benefits of your project;**



# REAP Fee Percentages

- 1) A one-time guarantee fee of 1% of the guaranteed portion will be charged by USDA at the time the loan is closed.**
- 2) An annual renewal fee of up to 0.25% of the unpaid guaranteed portion will be collected every January 31st.**



# Equity Required

- 1) For loans  $>$  \$600,000 cash equity injection in the project of not less than 25% is required.**
- 2) For loans  $<$  \$600,000 cash equity in the project of not less than 15% is required.**

# Equity

- **Cash;**
- **Federal Grants;**
- **The market value of equity in real property that is to be pledged as real collateral for the loan may be substituted in whole or in part to meet the cash equity requirement.**

# Lien Priorities

- **The entire loan will be secured by the same security with equal lien priority for the guaranteed and unguaranteed portion of the loan.**
- **A parity or junior position may be considered provided that discounted collateral values are adequate to secure the loan.**



# Appraisals on Real Estate

- 1) For loans  $>$  \$600,000 a complete self-contained appraisal is needed along with a Lender completed Transaction Screen Questionnaire (TSQ) for undeveloped sites and Phase I or II on existing business sites;
- 2) For loans  $<$  \$600,000 a summary appraisal may be completed.



# **Personal and Corporate Guarantees**

**Except for passive investors, unconditional personal and corporate guarantees are required from those owners with a beneficial interest greater than 20%.**



# **Application for Loans < than \$600,000**

- **Use Form 4279-1A, “Application for Loan Guarantee, Short Form”**
- **Less information required to be submitted to USDA**



# **Application for Loans > than \$600,000**

- **Use Form 4279-1, Application for Loan Guarantee**
- **Documentation such as appraisals, credit reports, personal financial statements, and a comprehensive written analysis by the Lender must be provided to USDA.**



# Feasibility Study

- **A business level feasibility study will be required on all renewable energy system projects with total eligible project costs exceeding \$200,000.**
- **Must be completed by an independent qualified consultant.**



# Energy Audit

- **An energy audit is required for all energy efficiency improvement projects with total eligible costs exceeding \$50,000.**
- **Conducted by a qualified independent auditor, Certified Energy Manager or Professional Engineer.**
- **Audits performed by the applicant or the vendor are not considered independent.**



# Technical Report

- **Use Appendix A to RD Instruction 4280-B for projects with total eligible costs less than \$200,000.**
- **Use Appendix B to RD Instruction 4280-B for projects with total eligible costs exceeding \$200,000.**



# Professional Engineer

- **The services of a licensed professional engineer will be required for projects with eligible project costs exceeding:**
- **Renewable Energy- \$400,000**
- **Energy Efficiency- \$200,000**



# Benefits to the Lender

- **Increased Liquidity**
- **Increased Rate of Return**
- **Increased Confidence of Banking Regulators**
- **Improved Loan Portfolio Quality**
- **Only Unguaranteed Portion Counts Towards Legal Lending Limit**



# Benefits to the Borrower

- **Longer Term Loan**
- **Possibility of a Better Interest Rate**
- **Possibility of a Fixed Rate**
- **Improved Cash Flow**
- **Obtain a Larger Loan**
- **Establish Loan History with the Lender**

