



## RENEWABLE ENERGY & ENERGY EFFICIENCY GUARANTEED LOANS FOR FARMS & RURAL BUSINESSES

### RURAL ENERGY FOR AMERICA PROGRAM (REAP)

**Program Goal** Supports “gap” financing for *rural small businesses & agricultural producers* to purchase & install or improve renewable energy (RE) systems, and energy efficiency improvements (EEI). *The REAP guaranteed 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 RE or EEI projects. 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 \$5-10 million » 60% (maximum) guarantee on loans from \$10-25 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 until 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 *1/4% 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 structure 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)

To determine if the project location is in an eligible area, go to <http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do> and select Business Programs from the left side under "Property Eligibility". Then "click" the appropriate section depending on the program you are interested in. On the next page read and accept the disclaimer, then enter the street address of the business. If the property is shaded in gold, it is not eligible. You may need to wait a few minutes for the map to 'load.' What may initially appear eligible, might become ineligible after the map fully loads. **Agricultural producers do not need to be located in a rural area.**

**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 on RE projects costing over \$200,000 and on EEI projects costing over \$400,000. 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.

**Helpful links:** Additional REAP and other energy funding program information is on-line at: [www.rurdev.usda.gov/rbs/farmbill](http://www.rurdev.usda.gov/rbs/farmbill) and <http://www.rurdev.usda.gov/wa/>

For more information, or to get on our REAP notification list:

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