

TO: State Directors, Rural Development

ATTN: Business Programs Directors
State Energy Coordinators

SUBJECT: Loan Terms for Renewable Energy Systems

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to provide guidance on determining appropriate loan terms for guaranteed loans involving renewable energy systems under the Rural Energy for America Program (REAP) and Business and Industry (B&I) Guaranteed Loan Program.

COMPARISON WITH PREVIOUS AN:

There is no previous guidance.

IMPLEMENTATION RESPONSIBILITIES:

RD Instruction 4279-B, section 4279.126, provides the maximum loan terms for both REAP and B&I guaranteed loans. RD Instruction 4279-B, section 4279.126(a), states in part: “The maximum repayment for loans for real estate will not exceed 30 years; machinery and equipment repayment will not exceed the useful life of the machinery and equipment or 15 years, whichever is less; and working capital repayment will not exceed 7 years.” For loans on renewable energy systems consisting primarily of equipment permanently affixed to real estate, it is acceptable to consider a maximum repayment term similar to real estate in accordance with 4279-B, section 4279.126(a).

RD Instruction 4279-B, section 4279.126(b), states: “A loan’s maturity will take into consideration the use of proceeds, the useful life of assets being financed and those used as collateral, and the borrower’s ability to repay the loan.” In addition to fixed assets, the collateral for guaranteed loans involving renewable energy systems may include assignments of leases, contracts, and agreements including supply or feedstock agreements and purchase or off-take agreements. It should be noted that RD Instruction 4279-B, section 4279.131(b)(3), precludes intangible assets from serving as primary collateral.

EXPIRATION DATE:
December 31, 2017

FILING INSTRUCTIONS:
Preceding RD Instruction 4280-B and 4279-B

When considering the borrower's ability to repay, the term of the loan should enhance the borrower's repayment ability without incurring unnecessary risk to the Agency. Loans with longer repayment terms increase risk to the Government. Loans with too short a term will cause loan payments to be too high and may strain the borrower's cash flow to a point where any unforeseen expense may cause the borrower to default on the loan. Longer loan terms can be considered when eligible renewable energy system projects demonstrate long term repayment capacity and the loan cannot be repaid over a shorter period.

The provisions that REAP guaranteed loans use are similar to those outlined above. The provisions of both rules should be utilized when determining the appropriate term for a loan.

When processing loans under the B&I Guaranteed Loan Program where the borrower has only a leasehold interest in the land (an operating lease) and where the lessor is not a co-borrower on the loan, RD Instruction 4279-B, section 4279.113(c), requires the term of the lease to be equal to or greater than the term of the loan. It is also important to remember that financial statements must be prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Additional guidance may be found in the classification of balance sheet items table in Appendix B of RD Instruction 4279-B.

In summary, when considering appropriate loan terms for eligible renewable energy system projects, each project must be considered on its own individual merit. Projects that have a longer useful life could support longer loan terms if the loan cannot be repaid in a shorter term, while other projects with a significantly shorter useful life would require a shorter loan term.

If you have any questions regarding this AN, please contact Kevin Boone at (337) 262-6601, extension 133, or via e-mail at kevin.boone@wdc.usda.gov.

/s/ **SAMUEL H. RIKKERS**

SAMUEL H. RIKKERS
Administrator
Rural Business-Cooperative Service