



Obtaining a REAP Guaranteed Loan for "Large-Combo" Projects Rural Energy for America Program (REAP) Processing Guide and Application Checklist

"Large-Combo" Projects

"Large-combo" projects are:

- (1) Renewable energy or energy efficiency projects,
- (2) Total project cost is "large" – i.e., more than \$200,000, and
- (3) The business is simultaneously applying for a **REAP grant** and the business's lender is seeking a **REAP guaranteed loan** – i.e., "combination" or "combo" funding sources

Because the grant application prepared by the business provides the majority of the needed project information, the lender's application can be processed using a relatively streamlined submittal. (A more streamlined submission is allowed for projects costing \$200,000 or less – i.e. "small-combo" projects.) Lenders are of course responsible for all normal due diligence in their underwriting.

Maximum "Combo" Assistance (75% of the project cost)

REAP grant assistance is limited to 25% of the cost of the rural energy project, and the combined REAP assistance (grant + guaranteed loan) cannot exceed 75% of the project cost. For example, for a project that costs \$400,000, the following sources of funds could be used:

| | |
|-------------------|---|
| \$ 160,000 (40%)* | Bank loan with REAP guarantee (secured by energy M&E being financed) ** |
| \$ 100,000 (25%)* | REAP grant ** |
| \$ 100,000 | Oregon Business Energy Tax Credit (BETC) using pass-through option ** |
| \$ 20,000 | Electric utility incentives ** |
| <u>\$ 20,000</u> | Final cash outlay by business |
| \$ 400,000 | |

* "Combo" REAP assistance may never exceed 75% of project cost; here this rule is satisfied since the grant + loan = 65%.

** Most energy incentives (inc. REAP grants & guaranteed loans) are only disbursed after project completion.

The "Combo" Application Process

A "combo" REAP application package requires information from both the business and the lender. The lender's application consists of all of the items in Exhibit A, but in order for the guaranteed loan application to be complete, the business must also submit a complete REAP grant application.

☞ "Combo" applications receive expedited processing of both the grant & guarantee applications and bypass the lengthy & highly competitive national grant awards process.

More information about the REAP Program

USDA Rural Development-Oregon's energy web site – <http://energy.ruraloregon.biz> – has detailed information about all RD energy programs, forms for applying, application guides, templates, forms, and links to other Oregon funding sources.

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Exhibit A: Contents of a "Large-Combo" REAP Guaranteed Loan Application

The following items constitute a complete "Large-Combo" REAP guaranteed loan application.

Completed Jointly by the Lender and Applicant:

1. Form 4279-1A, "Application for Loan Guarantee (Short Form – One-Doc)" for loans ≤\$600,000 **or** Form 4279-1, "Application for Loan Guarantee" for loans >\$600,000. These forms are on-line at: <http://bankforms.ruraloregon.biz>

Completed by the Lender:

2. The lender's credit analysis of the proposed loan. This must include spreadsheets comparing the applicant's past and projected financial statements, analyzing financial ratios, and comparing the business with industry averages.
3. A draft of the lender's proposed loan agreement with the borrower. Please note that it must address all of the following issues:

Negative Covenants:

- Limitations on purchase or sale of equipment and fixed assets.
- Limitations on compensation of officers and owners.
- Restriction on dividend payments.
- Restrictions concerning consolidations, mergers, or other circumstances.
- Prohibition against assuming liabilities or obligations of others.
- Limitations on selling the business without the concurrence of the lender.

Financial Standards Covenants:

- Minimum working capital or current ratio requirement.
- Maximum debt-to-net worth ratio.

Reporting Requirements:

- Type and frequency of submission of financial statements. (*Note: The borrower and all guarantors must provide financial statements at least annually.*)
- The borrower must provide reasonable access to the energy project & its performance information during its useful life and allow periodic inspections by the lender and/or USDA

4. A current appraisal of the property to be taken as security – real estate, equipment, etc. Real estate appraisals should be complete summary reports and must comply with the Uniform Standards of Professional Appraisal Practices. Equipment appraisals should report both a fair market value and an orderly liquidation value. (*NOTE: USDA has some discretion to approve a REAP guarantee subject to an adequate appraisal.*)
5. Current (not more than 90 days old) financial statements on all owners of the business who will provide personal/commercial guaranties (normally, all owners with a 20%-or-more interest in the business).
6. Credit reports. A commercial credit report on the applicant business, plus credit reports on all proposed personal and corporate guarantors (including all owners with a 20%-or-more interest in the business).

Item 7 is only needed if the loan will be secured by real estate:

7. FEMA Form 81-93, "Standard Flood Hazard Determination" (flood zone certification)

Completed by the Applicant

The rural small business or farmer/rancher is responsible for submitting a complete REAP *grant* application, including a technical report on the energy project and environmental details about the project. The required contents are on-line at:

- ☞ <http://renewable.ruraloregon.biz> (for renewable energy)
- ☞ <http://efficient.ruraloregon.biz> (for energy efficiency)

Feasibility study. All renewable energy projects costing more than \$200,000 must be supported by an feasibility study – completed by an independent consultant agreed to by all parties – addressing the economic, market, technical, financial, and management feasibility of the project.