

RD AN No. 4728 (4280-A)  
August 15, 2013

SUBJECT: Rural Economic Development Loan and Grant Program  
Rural Economic Development Energy Efficiency Program  
Recovery Through Retrofit

TO: State Directors, Rural Development

**PURPOSE/INTENDED OUTCOME:**

This Administrative Notice (AN) is being issued to provide guidance on the use of Rural Economic Development Loan and Grant (REDLG) program loan funds in coordination with projects participating in Department of Energy's (DOE) Recovery Through Retrofit (RTR) pilot period, i.e., energy efficiency improvements to rural businesses and rural private residences.

**COMPARISON WITH PREVIOUS AN:**

This AN replaces RD AN No. 4656 (4280-A), dated May 7, 2012, which expired on May 31, 2013, with the subject, "Rural Economic Development Loan and Grant Program, Rural Economic Development Energy Efficiency Program, Recovery Through Retrofit."

**IMPLEMENTATION:**

On November 9, 2010, the Department of Agriculture (USDA) announced its support, along with other Federal agencies, and commitment to strengthening the home energy efficiency improvement industry. The eleven Departments and Agencies involved in the "Recovery Through Retrofit" effort are working with industry, academia, training providers, small businesses, and other partners to launch new tools, programs, and efforts to ensure their success. Secretary Vilsack announced USDA's partnership with DOE to help rural homeowners lower energy costs by making cost-effective improvements to their homes. Rural Development's Rural Economic Development Energy Efficiency (REDEE) effort is part of a government-wide RTR initiative.

EXPIRATION DATE:  
August 31, 2014

FILING INSTRUCTIONS:  
Preceding RD Instruction 4280-A



DOE selected rural electric cooperatives in South Carolina, Indiana, Virginia, and Texas to participate in the RTR initiative. The use of REDLG loan funds for projects that provide energy efficiency improvements to rural businesses and rural private residences is not limited to the RTR initiative and these four States.

The general structural concepts of the REDLG loan within the REDEE program are as follows: The Intermediary applies for and receives a REDLG loan and passes the loan to an Ultimate Recipient (UR). The UR will use the REDLG loan funds as working capital to administer the REDEE projects. The Intermediary or its affiliates may market the program and identify property owners to participate in the program. The UR may utilize contractors through, or on behalf of, the property owners and use REDLG loan funds to pay for the energy efficiency improvements. The property owner may pay for the energy efficiency improvements in a lump-sum or on a payment plan to the UR, or through their electric utility payments utilizing a portion of their energy savings. The local distribution cooperatives may collect payments and pay the UR. The UR repays their loan to the Intermediary, and in turn, the Intermediary repays its REDLG loan to the Agency.

RD Instruction 4280-A, section 4280.27(f), states in part, “Zero-Interest Loans may not be used: ... for residential purposes such as residential dwellings . . .” This section prohibits use of funds to finance the purchase of residential land sites, residential dwellings, and the construction of residential dwellings. Use of REDLG loan funds as working capital to an UR for energy efficiency improvements to residential dwellings is an eligible use of loan funds.

RD Instruction 4280-A, section 4280.27(c), addresses the restriction of using REDLG program funds. This section prohibits use of loan funds by the Intermediary, its affiliates, and other Intermediaries for purposes such as, but not limited to, generation and distribution of electricity, ancillary facilities, and administrative facilities and services. The proposed ultimate use of REDLG loan funds as working capital to an UR for energy efficiency improvements to residential dwellings is not in conflict with this section.

RD Instruction 4280-A, section 4280.27(d), states that REDLG program funds “may not be used to pay salaries of any employees or owner of the Intermediary and its affiliates.” However, RD Instruction 4280-A, section 4280.30(b), allows the Intermediary to charge customary and reasonable professional service fees in accordance with established standard fee schedules. Fees may also include services provided by affiliated entities and reasonable expenses the Intermediary has incurred from independent providers. The Intermediary may also charge reasonable loan servicing fees, which are limited to 1 percent per year of the principal amount outstanding on the loan.

The UR must be independent of the Intermediary and its affiliates and member cooperatives. RD Instruction 4280-A, section 4280.27(c), restricts the Intermediary and its affiliates from having an ownership or financial interest in the project.

The UR may be a new entity chartered or created by the Intermediary, or an affiliate of the Intermediary, solely for the purpose of the REDLG REDEE project. After it is established, the UR must be independent of the Intermediary and its affiliates. Examples in which a new entity could be an eligible REDLG UR are as follows: 1) the entity is incorporated by the Intermediary or its affiliates; or 2) the initial Board of Directors may be established by and include members of the Intermediary. Under these scenarios the UR's by-laws must provide that renewal or appointment of future Board members is under the control of the UR's Board (self-perpetual). The UR's by-laws cannot require Board members to be nominated by representatives of the Intermediary or its affiliates.

RD Instruction 4280-A, section 4280.3, defines "project" as: "The facility, equipment, or activity of the Ultimate Recipient that is funded under one of the Programs." As described above, the UR's activity funded with the REDLG loan is working capital to administer and carryout energy efficiency improvement projects. The requirements of RD Instruction 4280-A, section 4280.36, shall be applied as appropriate for this activity.

If you have any questions, please contact Ken Hennings, Branch Chief, Specialty Programs Division, Program Management Branch at (202) 690-3809.

*Signed by Lillian E. Salerno)*

Lillian E. Salerno  
Administrator  
Rural Business-Cooperative Service