



Committed to the future of rural communities.

# Rural Economic Development Loans (REDL)

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## **Purpose**

Provides zero-interest loans to electric and telephone utilities to promote sustainable rural economic development and job creation projects.

## **Eligibility and Disposition of Loan Proceeds**

- Zero-interest loans can be made to any electric or telephone utility that is not delinquent on any Federal debt or in bankruptcy proceedings.
- The utility is required to re-lend, at zero-percent interest, the loan proceeds to an eligible "third-party recipient" for the purpose of financing job creation projects and sustainable economic development within rural areas. A rural area is any area of the United States not included within the boundaries of any urban area, as defined by the Bureau of the Census.
- The utility receiving the zero-interest loan is responsible for repaying the loan in the event of delinquency or default by the third-party recipient.

## **Third Party Recipients**

Third-party recipients may be private or public organizations having corporate and legal authority to incur debt. If you are interested in a loan as a third-party recipient, you must apply to the Rural Electric Cooperative (REC) or Rural Telephone Cooperative (RTC) utility in your area.

## **Eligible Loan Purposes**

Zero-interest loans will be provided to third-party recipients to finance projects that promote economic development and job creation in rural areas. Examples include but are not limited to:

- Business expansions and business startups, including cost of buildings, equipment, machinery, land, site development, and working capital.
- Community infrastructure necessary for economic development and job creation purposes.
- Community facilities and services necessary for economic development and job creation purposes.
- Medical facilities and equipment to provide medical care to rural residents.
- Educational facilities and equipment to provide training and job enhancement skills to rural residents to facilitate economic development.
- Business incubator projects to assist in developing emerging enterprises.

## **Ineligible Loan Purposes**

Zero-interest loans will not be used by the utility or the third-party recipient for:

- Projects related to the sponsoring utility that would, in the judgment of Rural Development, create a conflict of interest, or present a potential for or the appearance of a conflict of interest.

- Project costs incurred by the third-party recipient prior to filing of the completed application with Rural Development.
- Refinancing or paying off any existing debt owed by the third-party recipient.
- Electric or telephone purposes related either to the utility or the third-party.
- Projects located in areas covered by the Coastal Barrier Resources Act or projects that would adversely impact the environment.
- Projects that will be used for residential purposes or entertainment purposes at the residential level.
- The purchase of an established business or operation or to primarily transfer property or real estate between owners without making substantial improvements or additions that will result in long-term job creation.
- Projects that will result in the transfer of existing employment or business activities from one area to another.

### **Availability of Funds and Loan Award Size**

USDA awarded over \$79 million in loans for FY 2012. The maximum loan amount for any one project is \$2 million. Applications will be accepted on a monthly basis through September 30th, 2014. Contact your local Rural Development State Office for more information.

### **Supplemental Financing Requirement for Third-Party Projects**

- Minimum requirement - 20 percent of the amount of the zero-interest loan. Priority will be given to third-party recipient projects with greater than 20 percent supplemental financing.
- No in-kind contributions accepted as supplemental financing.

### **Loan Repayment Terms between the Utility and Rural Development**

- The utility signs a ten-year promissory note, payable to the Government. Lesser term notes are acceptable.
- Note will carry a zero-interest rate.
- Principal repayment will be on a monthly basis.
- Deferral of principal payments may be included within the note term. The deferral period for an established third-party business will be limited to one year; for a startup business or community infrastructure project, two years.

### **Loan Repayment Terms between the Utility and Third-Party Recipient**

- Terms will mirror those provided by Rural Development to the utility.
- The third-party recipient will provide collateral to the utility that is acceptable to the utility.
- Reasonable loan servicing fees may be charged by the utility to the third-party recipient, not to exceed one percent a year on the unpaid principal balance of the loan.

### **A "Complete Application" must consist of: (Refer to 7 CFR 1703.34)**

- Standard Form 424, "Application for Federal Assistance" signed by the utility.
- The utility Board of Directors resolution requesting the third-party loan.
- Miscellaneous Federal forms and certifications as set forth in 7 CFR 1703.34.

- Narrative discussion of the third-party project consisting of the following:
  - "Selection Factors" as set forth in 7 CFR 1703.35
  - "Project Description" as set forth in 7 CFR 1703.36
  - Discussion regarding environmental impact of the third-party project.

### **Application Filing, Review, and Selection**

- Applications may be filed on any official workday at any Rural Development State Office.
- A simultaneous filing must also be sent to the State single point of contact for State and local governments, if applicable.
- Application selection is competitive. Applications are awarded priority points by Rural Development based on the selection factors, and the highest-ranked applications are selected for funding.

### **Selection factors considered in the award process:**

Some of the factors considered when making awards include:

- Nature of the project (business expansion or startup, community infrastructure, etc.).
- Direct job creation resulting from the proposed project.
- Long-term improvements in economic development resulting from the project.
- County economic conditions -- unemployment rate and per capital personal income.
- Number of long-term jobs to be created per \$100,000 of total project cost.
- Physical location of project in rural area of less than 2,500 people.
- Loan repayment ability of the third-party recipient based on its business plan.

### **For More Information Contact:**

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