



**Department of Energy**  
Washington, DC 20585

**SEP PROGRAM NOTICE: 10-08**  
**EFFECTIVE DATE: March 8, 2010**

**SUBJECT: GUIDANCE FOR STATE ENERGY PROGRAMS ON REVOLVING  
LOAN FUNDS AND LOAN LOSS RESERVES**

**PURPOSE**

To provide guidance to Department of Energy's (DOE's) State Energy Program (SEP) Grantees on revolving loan funds and loan loss reserves.

**SCOPE**

The provisions of this guidance apply to recipients of SEP funds, pursuant to Formula Grant or American Recovery and Reinvestment Act of 2009 (Recovery Act).

**LEGAL AUTHORITY**

SEP is authorized under Energy Policy and Conservation Act, as amended (42 USC 6321 et seq.). All grant awards made under this program shall comply with applicable law, including the Recovery Act, and other procedures applicable to this program.

**GUIDANCE**

**Eligibility of revolving loan funds**

A revolving loan fund is an eligible use of funds under the SEP Program to the extent that the activities supported by the loans are eligible activities under the program. The implementing regulations for SEP expressly identify revolving loan funds as an eligible use of SEP funds. 10 CFR 420.18(d).

**Leveraging Funds under the SEP: Purpose and Type of Leveraging under the SEP**

State arrangements for leveraging additional public and private sector funds, including rebates, grants, and other incentives, must be arranged to ensure that federal funds go to the "purchase and installation of energy efficiency and renewable energy measures." 42 USC 6322(d)(5)(A). The leveraging of funds may be accomplished through mechanisms such as partnerships with third party lenders, co-lending, third-party administration of loans, and loan loss reserves.

**Loan Loss Reserves under the SEP**

The use of SEP funds for a loan loss reserve is an eligible use of funds if the loan loss reserve is in support of a loan made by the Grantee or third party lenders that is for the "purchase and installation of energy efficiency and renewable energy measures." For loan loss reserves used to support loans made by third party lenders, the Grantee must

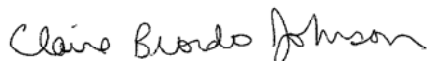
ensure the following conditions are met: (a) a Grantee shall have the right to review and monitor the loans provided by third party lenders to ensure that loans are being made for the “purchase and installation of energy efficiency and renewable energy measures”; (b) the financial obligation of the Grantee to third party lenders is limited to the amount maintained in the loan loss reserve; (c) any loan loss reserve not used in connection with loan losses paid to the third party lenders must be used by or at the direction of the Grantee and for an eligible use under the SEP, including capitalization of a revolving loan fund; and (d) under no circumstances shall funds from the loan loss reserve be released to a third party lender for its own use.

**Federal Character of Revolving Loan Funds under the SEP**

Generally, federal funds used to capitalize a revolving loan fund maintain their federal character in perpetuity. As a result, federal requirements that apply to the funds such as NEPA and the National Historic Preservation Act would be applicable at each revolution of the loan fund. Federal requirements that apply to Recovery Act funds, such as the Davis-Bacon Act requirements, Buy-American requirements, and Recovery Act reporting requirements would be applicable at each revolution of a loan fund that was funded through the Recovery Act.

The applicability of these federal requirements need not cause difficulty in administering a revolving loan fund program. DOE has previously provided guidance on streamlining compliance with NEPA and the National Historic Preservation Act. The templates that DOE has provided to States to obtain categorical exclusions under NEPA for subgrant programs could also be applied to revolving loan funds program. DOE has worked with the Advisory Council on Historic Preservation to provide States with programmatic agreements in order to streamline compliance with the National Historic Preservation Act requirements. Individual homeowners receiving loans under a revolving loan fund program would not be required to comply with the Davis-Bacon Act. Similarly, the Buy American requirements apply to “public buildings” and “public works” and thus would not be applicable to projects performed on individual homes.

The continuing federal character of the funds means that if the grantee decides to end a revolving loan fund program, any remaining funds would need to be returned to DOE or otherwise used by the grantee for an eligible purpose. Additionally, the grantee would not be required by DOE to replenish or replace any amounts which were lost to default. Loans involve risk by their very nature, so reasonable loss due to default of a borrower is an anticipated and allowable cost under a grant.



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