Revolving Loans

Revolving loan funds (RLFs) use a source of capital (typically offered by a state or local government) to make direct loans to borrowers for energy efficiency and renewable energy projects. As these loans are repaid, the proceeds flow back into the fund and become available for more loans.

Revolving loan funds can be managed internally by government agencies or by a third-party financial institution that uses the loan capital offered by the agencies to make loans on their behalf. In either case, the capital provider has the ability to set the loan terms and conditions.

Revolving Loan Fund Characteristics

Technology Focus	Energy Efficiency and Renewable Energy
Type of Measures Financed	Individual Product Installations or Whole-Building Upgrades
Target Sector(s)	Commercial & Industrial, Residential, Public, and Non-Profit
Compatible Funding Sources	Private Lenders, Bonds, or Public Funds
Security Required of Borrower	Unsecured for Smaller Loans (under $7,500 to $20,000), Property Lien for Larger Loans
Repayment Mechanism	Monthly Loan Payment Directly to Government Lender or to Third-Party Program Administrator
Complexity to Implement	Moderate
Role for State/Local Governments	Make Loans, Collect Monthly Loan Payments
Impact per Dollar of Public Funds	Moderate

Considerations for State and Local Governments

- RLFs allow the capital provider (most often the state or local government) significant control over loan terms, interest rates, and borrower credit requirements. However, loans with very low interest rates may not recover enough interest to cover the cost of fund management and loan defaults, slowly reducing the loan capital. Also, lower credit requirements increase the risk of loan defaults. If the RLF intends to sell the loans into the secondary market at any point, the loans must be written to conforming credit standards, which may limit interest rates, terms, and the risk profiles of borrowers. Considerations like these should be balanced with the goals of the fund to arrive at the optimal set of loan terms.
- RLFs in which more than one party is providing the loan capital must work out the loan terms and conditions amongst all capital providers.

Advantages	Disadvantages
• RLFs are the most flexible financing option in terms of capital source, target market, and underwriting criteria. • Many state and local governments already have experience managing revolving loan funds for other purposes (such as water treatment plants) and can readily set up an energy efficiency or renewable energy RLF. • RLFs that are set up and managed internally do not require external contracts or capital.	• Revolving loan funds absorb all losses from loan defaults. In commercial programs, loan defaults are not protected by the same level of security as is provided by a Property Assessed Clean Energy (PACE) lien. • During the initial round of lending, volume may ramp up quickly to meet demand. After that, new lending is constrained to the stream of repayments from the initial loans. For example, if a $1 million fund makes loans with a 10-year term and lends all $1 million in the first year, only $100,000 is repaid in the second year and is available for making new loans. • Administering a RLF program in-house may require significant staffing and resources. • Revolving funds do not offer as much initial leverage as other financing options. For instance, a $1 million RLF making 10-year loans can only fund $1 million in energy improvements initially, and will take 10 more years to fund the next $1 million. By contrast, a $1 million loan loss reserve can support initial funding of up to $20 million in improvements.

When to Use Revolving Loans

Revolving loan programs are well-suited for governments with experience administering loan programs, or for governments willing to contract with a third party to administer the program. RLFs are extremely flexible, can be modified to target any sector or market, and are a good option for programs targeting customers with limited access to capital.

Example Programs / Case Studies

SECO Texas LoanSTAR Program (State of Texas)

The Texas LoanSTAR Program is an RLF created by the Texas Energy Office in 1988, funded principally through petroleum violation escrow funds received from the federal government. Loans are targeted for public buildings, including state agencies, school districts, higher education, local governments, and hospitals. As of November 2007, the program had funded a total of 191 loans valued at over $240 million; as a result, recipients throughout the state have realized a combined energy savings of over $212 million. www.seco.cpa.state.tx.us/ls

Montana Alternative Energy Revolving Loan Program (State of Montana)

The Alternative Energy Revolving Loan Program was established in 2001 by the Montana legislature. It offers low-cost financing to homeowners, small businesses, non-profits, and government entities installing alternative energy systems and energy efficiency measures. Historically, the program was funded through air-quality penalties collected by the Montana Department of Environmental Quality, but recently the program received an infusion of more funding through various American Recovery and Reinvestment Act (ARRA) grants.
http://deq.mt.gov/energy/renewable/altenergyloan.mcpx

Resources & Guidance

Revolving Loan Funds: Basics and Best Practices – RLF best practices webinar from the National Renewable Energy Laboratory (NREL)
www.nrel.gov/applying_technologies/state_local_activities/pdfs/tap_webinar_20090826_booth.pdf (PDF, 19 pp. 629K)

Revolving Loan Funds and the State Energy Program – Detailed RLF information from the U.S. Department of Energy
http://www1.eere.energy.gov/wip/pdfs/sep_rlf.pdf (PDF, 14 pp. 511K)

Renewable Energy Loan Programs: Case Studies of State Support for Renewable Energy – Example state loan programs and features from the Berkeley Lab
http://eetd.lbl.gov/ea/emp/cases/RE_Loan_Programs.pdf (PDF, 9 pp. 332K)

Alabama SAVES – An example of an RLF working in conjunction with a loan loss reserve
www.alabamasaves.com