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DOE to Rely on Private Sector to Expedite Renewables Loan Guarantee Program

On October 7, 2009, U.S. Energy Secretary Steven Chu announced that the Department of Energy (“DOE”) will make a long-anticipated fundamental change in the administration of the Section 1705 loan guarantee program. The 1705 program was enacted as part of the American Recovery and Reinvestment Act of 2009 (the “Stimulus Act” or “ARRA”) for the purpose of accelerating the development of conventional renewable energy generation projects. The fundamental change, dubbed Financial Institution Partnership Program (“FIPP”), is designed to expedite the processing of loan guarantee applications.

Under FIPP, Eligible Lenders, not prospective borrowers, will apply for the DOE loan guarantee. According to the DOE solicitation that accompanied the announcement of the program, now “lender-applicants will have the lead role in developing the overall financial structure of the proposed project and the specific terms of the Guaranteed Obligation in the usual and customary manner of a lead lender or underwriter of a senior credit facility” In addition, DOE will no longer exclusively draw upon its own resources to perform due diligence activities necessary to ensure that an applicant for a loan guarantee is capable of repaying the underlying loan and that it meets other requirements of the 1705 program, but will substantially rely on private sector lenders to perform these functions.

DOE concurrently issued its first solicitation under the new FIPP program. In doing so, DOE hopes to fulfill the goal of the Stimulus Act to provide a short-term stimulus to the economy. By statute, loan guarantees under the Section 1705 Program can be awarded only to projects that start construction by September 30, 2011.

In light of the adoption of FIPP, Clean Tech clients who need the support of a federal loan guarantee to finance renewable energy projects and technologies should make contact with private sector firms who are prepared to work hand-in-hand with DOE.

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