May 4, 2011 – Financing Energy Efficient Retrofits in the Commercial Sector Webinar (text version)

Below is the text version of the Webinar titled "Financing Energy Efficient Retrofits in the Commercial Sector," originally presented on May 4, 2011. (Please note: portions of the transcript below may be incomplete where indicated with an underlined placeholder space. Please refer to the webinar presentation recording and slides for additional information.)

Operator:
Good afternoon, my name Sargon De Jesus, and I am with ERG, a contractor supporting the U.S. Department of Energy Better Buildings Programs. Thank you for participating in today's webinar on Financing Energy Efficient Retrofits in the commercial sector. The presenters that we have with us today are Dave Carey of Harcourt, Brown & Carey. Next will be Kathy Estes from the Oregon Department of Energy, and batting cleanup for us will be Larry Ostema of Abundant Power.

Before we get started, I'd like to go over a few logistical items. First off, all participants' phone lines right now have been put on universal mute to prevent any background noise such as shuffling papers, and whatnot. Secondly, if you haven't done so already, please enter your two or three-digit audio PIN, and you can find your audio PIN in the questions or control panel box on the right-hand side of your screen. This is the webinar interface there. To enter it, you just need to hit pound, then those two or three numbers, and then followed by pound again. And if you don't enter your audio PIN we won't be able to un-mute you during the webinar if you have a question, because we will open the lines during the Q&A period for those who request to ask their questions over the line.

So questions will be taken today at the end of individual presentations, and during the Q&A session if you have a question that you'd like to ask over the phone, just raise your hand virtually using the raised hand feature there, or you can just type your question into the questions box and say that you have a question. Or if you prefer to ask something in writing, you can just ask a question by typing it into that questions control panel box on the right-hand side of your screen as well. And you can do that at any time, and the presenters will get to those questions during the Q&A period.

The presentations from today's webinar along with a recording of this webinar and transcript will be posted to the Google site soon, probably within the next week or so. And with that, that covers the logistical basics. I'll hand it over to Dave Carey right now. Dave, are you on the line?

Dave Carey:
Yes, I am.

Operator:
Okay, let me switch the presentation and we'll get started.

Dave Carey:
Thanks, Sargon. Good morning, and good afternoon everyone. This is Dave Carey with Harcourt, Brown & Carey. And we're going to be discussing commercial financing for better efficiency today, and let me get started. There's our lead slide, and if we could go to the first slide.

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Over the last couple of months I have been doing a survey of financing programs sponsored by state governments to finance energy efficiency improvements. I did focus primarily on small commercial, but most programs that I identified financed both small and large commercial, so what you'll see in this presentation is a combination of the two.

The first slide here is just background. The way that I identified these programs – and as I said before, I'd like to restate, these are programs sponsored by state governments. So as you probably know, there's plenty of commercial programs financed by utility companies, but this is about state governments. I identified most of them through the DSIRE website, if you're familiar with that. The University of North Carolina runs it, so obviously a terrific website. Just a pitch for them. You can search based on the provider, the target market, the technologies, the services offered, and so on and so forth. So it's a very good way to build a database quickly.

The programs that I was looking for primarily were small commercial, and usually we define that, or it is defined as property up to 30,000 square feet or less, and that usually equates to a connected load of up to 150 kW. As I said before, in the end many of these programs were both large and small commercial, so they were included in the study, and in the end, as I said initially, too, there were twenty states that we identified that are sponsoring these programs.

The detailed information is on the Google website, and it's under financing, so you can see the details of all twenty of the programs if you go there. I will not go into that level of detail today, but what I'd like to do is show you the overview of what the survey included, what the commonalities were, and what the lessons learned by the folks running these programs.

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The key elements to financing programs for states are as follows. What is the authority under which the state was able to create the program? And I'll show you some of the detail on that in a few minutes. Who, in fact, is the program sponsor? In most cases, it is the state. What is the marketing technique to get the word out about the program? What is the product type? It is financing. These are generally considered installment loans. We'll talk a little bit about that. Who are the eligible borrowers, properties, and what is the security? Because that kind of more defines what the loan product looks like. What is the source of funds? Source of funds is extremely important because whoever is providing the money for the program usually sets the rules on underwriting and eligibility. So in a sense you can almost have source of funds first, because it tends to drive all the other features.

A very big operation, certainly for anyone considering one of these programs – a very big element rather is the operations. And the operations for loan program consists of taking an application, performing the underwriting, originating the loan, and originating consists of a group of different elements I'll describe in a minute. Servicing and collection.

Lastly loan performance is extremely important because you want to have a good estimate of what your losses would be and the losses are tied to the underwriting and the quality of your documentation. So those go hand-in-hand.

And finally, reporting. Whenever you run any kind of a program like this, obviously there's a lot of reporting. You want to make sure that all the stakeholders receive the information they need to receive.

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Operations. I wanted to break this down into a little more detail so you can see some of these elements. The August 1st one is the application process. Anyone interested in applying for the program needs to somehow input information to you, and usually there is some kind of an application. Those used to be hard copy. They're going to electronic form quickly, and that certainly can speed up the process. And that probably would make one think that the system is very important for a loan program that's extremely true. What you'd like to have is everything linked kind of A-to-Z so that all of the inputs and the outputs are flowing through the system, and you produce the reporting you need and the tracking you need, and run all the steps and so on and so forth. So as you'll see in lessons learned, the applications are from the first step in the process, but you'd like to have everything automated.

Underwriting the loan. Underwriting the loan decides pretty much who gets the loan, and what are the terms of the loan. And the three key elements to the underwriting are typically breaking down the detail on who is the borrower, what is the property, and what is the energy project. And oftentimes with just the straight loan, the lender doesn't get into what you're going to do with the money, but with these loans, they are directed towards making or enabling a project, so knowing what the project is is important.

Establishing the security, if there is any, for the loan. Loans can be unsecured even though with larger loans or commercial loans that's usually not as likely. So the security could be personal guarantees or it could go on to being a first lien or second lien, or with commercial loans it's even possible that they could be secured with receivables or possibly inventories, even though I wouldn't say we saw much of that. Typically these are first or second liens.

Documentation and processing. With any kind of a loan application there's usually verification of certain things. By the way, if it happened to be say a personal loan then verification of income is very important. Verification of employment. Things like that that you might be used to with a mortgage. So different types of documentation are very important usually for commercial loans as well.

And then lastly, the actual processing. So all the documentation has to be aligned, and then each one of the underwriting elements is screened to see that they meet the requirements, and finally at the end, either a decision yes is made, or oftentimes if there's a no, there's some kind of second step where more documentation possibly or clarification on certain input is needed. So that whole process is quite complex. Again, if it's automated, you can capture all the information there which is very important.

The next element is closing and funding. When the loan closes and all the documents are signed, the funding flows out to whoever the recipient is. All of that is documented. This could be somewhat more complex with the commercial energy project because oftentimes contractors are doing work, and there could be progress payments being made, so before payments are made, folks have to confirm with some kind of certification process that the work was either done in full or done in some schedule of value in which case there's a number of things. You know, more

documentation that needs to be completed before the funds can flow out to the different parties.

Boarding a loan to a servicing platform simply means that whatever has been collected on the individual loan is usually screened in some fashion and put onto the servicing system, and hopefully if this is all a single automated system, that's a fairly simply kind of uploading to the servicing system, but again, you know, depending on what you're working with it could vary.

Then the borrower is invoiced, and the remittances that are sent in are processed. There could be lockboxes, there could be flows of capital back out to investors, so the effects could be either fairly simple or very complex.

And then lastly, as servicing goes on from time to time payments are not made in a timely fashion, in which case loans become delinquent and some loans eventually go into default, and then there could be both delinquency and default management processes. So there could be quite a bit of detail here, and depending on whether you're doing it yourself or maybe your financial partner is doing it, it could be either fairly simple or very complex.

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So the commonalities. As I said, we looked at twenty different state programs of nice diversity across the entire U.S. The authority. Most commonly we saw the authorization for the states to sponsor programs came from the legislature. Sometimes it was from other areas, but that was the most common.

The sponsor. Inside the state the most common sponsors we saw were either the energy department or an economic development agency. We did see other departments, but those were far and away the most common.

Source of funds. ARRA, stimulus money that is, was often the source of funds that were probably the most common. But we also saw issuance of state bonds. We saw oil overcharge money that goes back to the '80s, and from time to time we saw programs funded with a utility charge.

The loan type. As I said before, an installment loan, and what that implies is that it's a fixed term. Generally a fixed interest rate, and there was a fixed payment. So it's a very straightforward loan. Typically I think the average we saw, I do say the average five to ten years, the average you would extrapolate from that is probably seven years. And so that means that the recipient of the loan is making a monthly payment every month for a seven-year period.

Incentive. What was the incentive that made this loan program a good motivator to get commercial clients out there to make energy improvements? And the most common incentive is a low interest rate, typically zero to 5%. I guess I should add, and I didn't put it here – well, it is down below. The typical term five to ten years. That is typically longer than a commercial lease or a loan would ordinarily be. We're more used to seeing kind of the three to seven years. So the term is a little bit longer.

The benefit there, even though the clients of the commercial enterprise pays more interest, the main benefit is of course, the payment becomes smaller. And if you think about it with most commercial properties obviously because they are

commercial, they are for profit, they're trying to have their revenue exceed their costs so they have a net income. So they're always looking for positive cash flow. The loan can be tremendously beneficial in that you know, let's say they're saving $1,000 a month. If their payment was less than the $1,000, then they have that positive cash flow, and that can make it very compelling. On the other hand, if they didn't have that, you know, if they had a shorter term maybe they would be paying a monthly payment of $1,200 instead of $1,000, and that's a lot less compelling.

So again, the incentive features we typically see are low interest rate, and of course, that means a lot to anyone. People are very focused on interest rates. It's a very simple thing to focus on because it is kind of an apples-for-apples. But positive cash flow in the end is, I would like to think is more important for a commercial enterprise because that's really how they make their decisions. And consequently the term coupled with a low interest rate allows the greatest likelihood of positive cash flow.

The underwriter. Underwriting is a very sophisticated process, and it's difficult for an economic development agency or an energy department to be able to do a good job of underwriting. And as I said, underwriting is very strictly tied to losses, so in many cases what we saw is that the sponsors had teamed up with a partner that had experience in underwriting. And I would say a bank partner was the most common. It doesn't need to be a bank. It could be a finance company. It could be leases, lease companies involved as well, and there could be other specialty partners that could play that role.

Maximum loan amount. On the programs that were deemed small commercial, $30,000 was kind of a typical number. A lot of these programs, probably half, allowed large commercial, and then the loan amounts could go up as high as – I think they went to $1 million. So there's quite a bit of variability there.

Loan term. We already talked about.

Fee. I guess I should have added this as another incentive. These fees ran quite low. Typically a flat charge of $200 often as an application fee, and then 1% of the loan amount was probably the most common. But those are very low fees for commercial loans, so that was very beneficial to the commercial enterprises that applied and probably should be considered another incentive as well.

And then lastly, loans are often defined by the form of security that they require, and we really saw a lot of variability here. So even though I'm calling this list commonalities, this isn't necessarily that much of a commonality. Some of the loans were unsecured, at least up to a certain dollar amount.

UCC, Uniform Commercial Code. Typo there. It should be UCC-1, which is Uniform Commercial Code filings. These are often called fixture filings, and it is a standard that can be used by a finance company, a financer, to demonstrate that they provided the financing.

Personal guarantees. Possibly first and second liens as I said were also common. I guess if I had to pick one, probably the second lien would be the most common against real estate, because in most cases, the real estate would have a first lien mortgage against it.

So those are the different forms of security, and I thought those were the key characteristics where we did see commonalities across the U.S. in these twenty programs.

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So what I'd like to conclude with is the lessons learned, and we are going to go on today with two other speakers. Kathy Estes is going to be talking about the program in Oregon, and she'll give you a good deal of detail on her program. She's actually run a program, so she'd have a lot of interesting things to say about lessons learned. Her program is a more conventional program.

And then later Larry Ostema is going to describe a program that he is running for Alabama that is somewhat on the leading edge, and you can hear about what Larry's experiencing on lessons learned for a very innovative program.

But here's what I kind of extracted from the twenty programs that we looked at. I don't think there's anything here that's too surprising. The first one is planning. After these last five or six slides, you can see there's a lot of elements to a loan program. And you know, one of the things that's really important about a loan program to keep in mind is that on the day you launch a loan program everything looks awfully good, almost regardless of how badly you've put it together. But then your trajectory of losses will eventually start to emerge, and it can take literally years before that happens. But you know, these programs are kind of ballistic. You pull the trigger at one point, and then over time something happens. Well, if you haven't done things well, what happens over time may not be very satisfactory. So it's very important that you kind of aim well with putting your program together.

So let's go through a couple of these things. I guess my big picture point was that programs are complex, they have many elements. Experienced partners. You know, it goes without saying but if you're putting together a loan program obviously folks like banks and finance companies do this for a living. They'd have a tremendous amount of insight. Selecting them can be difficult because if you don't know what you need, obviously you're going to go out there with an RP or something like that, but it can even be difficult to make a decision. So you know, that's where we consultants come in obviously. But that's one of the challenges you have. You need good partners. How do you pick them?

Information technology. I can't imagine anything more critical than this, and with technology being what it is today, you can have the technology kind of address and manage every element of your program, and you certainly want it to do that. If you have partners, then you're talking about security access both ways and so on and so forth. But the technology that you use for programs is tremendously valuable, and can make the difference between a good program and a program that's unmanageable.

Lastly in this group, if you're trying to get a low interest rate and one would think that you would be because if you don't have a low interest rate, your program is much less attractive and generates a lot less volume. So how can you do that?

There's lots of different ways. If you have funds, you can have various forms of credit enhancements. And what that means is that you could offer to cover some of the losses along with your partners. You could also use your funds to simply buy down an interest rate. Kind of a rule of thumb is that for every point that you buy

down the interest rate, let's say you buy it down from 10% to 9%, in doing that usually there's a cost associated with that, and that cost often is 2% of the loan amount. So to buy down the interest rate say 1% maybe it's a two, maybe a 3% cost. So if it's a $100 loan, then it's going to cost you $2 or $3 to get that 1% reduction in the interest rate.

So there's a lot of things could be done to enhance the interest rate and make the program more attractive, but that's an example. You can either do loan loss reserves where you're willing to cover some of the losses, or you could have an interest rate buy down.

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And my last slide is the underwriting. The underwriting again, and I've stressed this a couple of times before, but obviously it's incredibly important. The underwriting is the decision about who gets the loan, who doesn't, and oftentimes what the term of the loan might be. In other words, you might be willing to loan more to an applicant that has more desirable features. Underwriting is really about determining who has the ability to pay, and that they would in fact have the willingness to pay. And lastly, what is the value of the security that they're offering, if any? You could imagine that those are difficult decisions to make, and kind of evaluations to make.

So the first bullet obviously it needs to be well thought out before the program. It needs to be stuck to very carefully. Otherwise, if you allow a lot of gray area, then you're not sure, you know, what's causing losses in the future. And one of the problems would be that once you've determined that your underwriting let's say is too lack, then you might have very high losses that could damage the program going forward. On the other hand, if your underwriting is too severe, then you won't generate any volume, and you probably you know, will not have a successful program because you'll have too few borrowers.

There are all kinds of databases that can help your underwriter, whoever that is, underwrite. The one that you're probably aware of is the Fair Isaac Companies scoring method called the FICO score. And frequently with small commercial that will be employed to determine the credit quality of the owners of the enterprise. There's lots of other databases like Paydex that looks at how quickly your applicant pays other people. Dun & Bradstreet, they're oftentimes registered with that enterprise and you can get some background information and credit quality from those databases.

And then lastly, what you'll try to do probably is to combine all the elements of your underwriting into some kind of a scoring method so that you could weigh the different inputs and then finally come up with a decision, a credit score in the end that for your program, but there's lots of approaches for that.

Probably not something you'd do on your own, but if you have an experienced lending, financing partner, they could help you with that. So that is my presentation, and just to recap then, this was a survey done of twenty state-sponsored loan programs that finance commercial energy efficiency across the U.S. We produced a table with about twenty or thirty elements for each one of those twenty programs that is posted on the website. And what I've tried to do is tell you about what the typical elements of the program are, what the commonalities were, and finally what the lessons learned were. So thank you very much for listening. We appreciate you attending, and I'll turn it back to Sargon.

Operator:
Thanks, Dave. We had a couple of questions. Early on Betsy Siegel, I believe you had a question? You raised your hand. I don't know if that was intentional, but I'm going to open the line for you if do have a question.

Betsy Siegel:
No, I think that was unintentional. Sorry about that.

Operator:
Okay. Alright. Thanks, Betsy. We did have one written question from Desiree Citiross. She asks, for credit enhancements and loan interest rate buy downs, my understanding is that triggers Davis-Bacon labor standards, and I would like a little bit of clarification on that. Dave, would you care to answer that question?

Dave Carey:
To the extent I can. There are regulations for ARRA funds related to Davis-Bacon and I presume that's what is referring to. There's two documents out that gets into the detail on that. I do have both documents and I'd be glad to send them to anyone now, but I'd prefer not to try to opine on what those regulations say, because they are quite detailed. But that's a great point, and it is certainly something that anyone starting a program needs to look at those documents. Back to you, Sargon.

Operator:
Great. And one more question just came in. Michelle Rodriguez asks for a little bit of clarity on the difference between a loan loss reserve and the other method you mentioned.

Dave Carey:
Sure. And maybe I did address that at the end when I was speaking, but let me just start from the top. The idea of a loan loss reserve is it could be done in many, many forms. Let's say that these programs typically 1% to 2% total. So in other words, if you know, you loan out $10 million, 1% to 2% of that will never come back. So that dollar amount is not going to be returned to someone. Well, if it's your lending partner, they're going to raise the interest rate to compensate for that.

So what you could say is that well, listen, we'll cover some percent of the losses, and if the losses are expected to be 1% to 2% you probably need to be willing to cover a greater amount. The most common loan loss reserve that we see is 10%. So if you're a sponsor of a program, or you have someone else that would help you out with losses, then if someone were to say we'll cover the first 10% of losses, so when those losses occur, you would either pay for them directly or the funds that you're being repaid would not flow to you. So what that means is your lender partners or your partners are being protected and they would not incur those losses. And if they're not incurring those losses, then they don't need as high an interest rate.

Let me just throw some numbers out here. For a small commercial loan program that's in the marketplace, one that's not subsidized. Let's say that the average loan that they do is say $15,000, and that's typical small commercial program loans. The interest rate on that program might be around say 10% or a little bit lower, but the breakdown on that would be that it's probably costing the lender say around 5% or 6% to acquire the money to lend. They would then carry let's say 2% to cover losses, maybe 3%. They would cover 1½% to originate the loan, and 1½% we'll say

to service the loan. So that's kind of the buildup of what that would look like. And I don't know what that adds up to, but let's just pretend that it adds up to 10% and that's the interest rate you're going out at.

Well, if you offered a loan loss reserve that lender might then remove the 2% to 3% he was carrying in the interest rate for losses and you might be able to go out now with an interest rate 6.99 or 7.99. So you've dramatically improved that interest rate and it makes your program a lot more attractive. So that's a loan loss reserve. There's again lots of ways it could be done, but that's a simple example.

The other one is a buy down. And the buy down occurs at the beginning of the program. When that loan is originated and it is sold to whoever the investor is, usually there's an originator and an investor, and they're frequently different parties, and I guess it doesn't matter that much for the purposes of this discussion, but at any rate, someone is going to have that loan on their books. If you wanted to reduce the interest rate. Let's say whoever has the balance sheet where that loan sits, they need to earn a certain interest rate. Let's say, you know, 10%. If they buy the loan at 100¢ on the dollar, then they need to see that 10%. But if you were to pay them cash upfront of say 2%, so instead of buying the $10,000 loan at $10,000, they're buying it at $9,800, then it's possible that they could lower the interest rate that they would need to receive. Obviously they certainly should do that.

So by having that kind of an arrangement with them, you could be giving them money upfront on each loan, and usually for every 2% of the loan amount they can usually lower the interest rate by let's say around 1%. It varies a lot with the market, the loan size, and so on and so forth. So that's the second way that you could influence the interest rate.

So at a high level they're quite simple. The first one is loan loss reserve. That's when losses occur, you do cover it for whoever it is that holds the loan, so it's on the backend. And the other is a buy down on the frontend where you're making some cash available that you're essentially paying to whoever holds that loan, and they're agreeing to reduce the interest rate at the outside.

So two different ways that you can improve your interest rate, a loan loss reserve and a buy down. Hope that helps. Back to you, Sargon.

Operator:
Great. Thanks, Dave. I think that wraps up some of the questions from the first segment of today's webinar. We're going to transition over to Kathy Estes now, but if you guys have any other questions that you come up with that you'd like to direct to Dave, just go ahead and put them in the questions box and we can certainly get to them if we have time at the end of the webinar.

So Kathy, I'm going to hand it over to you.

Kathy Estes:
Excellent. Load me up there, and first of all, thank you very much for inviting me to chat with everybody on this webinar today. I'm here from the Oregon Department of Energy, and I have a background in lending, and before that I was actually a building contractor. So been around projects of all different kinds for many, many years.

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The Small-Scale Energy Loan Program, we call ourselves SELP. We've been around for a long time. We were enacted through a Senate joint resolution in 1979, and we were adopted via a vote of the people in May 1980, so we're kind of the granddad of state energy programs that involve a loan.

What I'm going to do today is I'm going to give pretty much a nuts and bolts overview of how the program works, and I'm not going to talk about a lot of our little subprograms that we have going. As anybody can imagine, over thirty years of a loan program, we've seen a lot of little other programs come in and go out, and they've interacted with us in some ways – sometimes in a big way, sometimes not in such a big way, but the basic program continues to be there and we're basically open for business for energy projects in the state of Oregon.

We raise state of Oregon general obligation bonds for our loan funds, and that's kind of an unusual method. We're one of the few in the nation that does that. And we raise three types of basic loans. Basic taxable bonds, and then we do two different types of tax exempt funding. One is for government purpose projects, and then the other one is very unique to our program in that we raise private activity bonds which are for energy efficiency and renewable energy that are tax exempt for private entities.

And the projects have to be vetted pretty thoroughly. We have to make sure that there's a demonstrated ability to repay the debt. But we do offer a little bit of an interest break as a result of that.

In the 09-11 biennium, legislature authorized us with another $250 million of additional bonding authority over and above our regular cap. Our cap is so high, we've never met it. The last three years or so we've raised about $43 million a year for loan funds.

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These are basic loan parameters. We do long-term funding, usually between ten and fifteen years. For some government purpose projects such as the university systems we will do twenty-year bonding. And then we also support our customers by providing technical expertise as well. We have auspices of the entire Department of Energy here with our engineers and our technical experts, and our policy experts to help support our borrowers and make sure that they've looked at all the different angles of their projects.

We have four basic types of loans that we can do for projects. If it conserves energy and the vast majority of our portfolio is for conservation and energy efficiency. We also support renewable energy, alternative fuels, and we have a few recycling projects in our books that save energy by reducing the embodied energy to create products.

Our program is no cost to the taxpayers. Our loan fees and our interests cover our program costs.

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And these are kind of how we do business. We're very easy to deal with. Our process is fairly straightforward and easy in that we have a simple application and then we just require additional information from our borrowers that put this through the underwriting process.

Where Dave earlier was talking about most loans being in the $15,000 to $30,000 category, most of our loans start at about $20,000. We don't do much under that because quite frankly it's not cost effective for our program. However, we do shine in other areas in that for instance, we're very flexible on terms and structure. We don't do construction financing right now. We only do takeout financing. But we're happy to work to issue a state commitment, a conditional commitment for say larger projects so that they can obtain their interim or their bridge financing.

We are required by statute to be fully secured. That's kind of jumping down to the last point, but it also speaks to the third point in that we can sort of decide what fully secured means. A lien on a property is always a preferred method, but sometimes that's not possible. I've secured loans on CDs, on letters of credit. We've had proficated collateral. We've used alternate property. So we can be pretty flexible and try to figure out what's going to work really well for our borrower so that we have the best chance of being repaid.

Our loan program can include most costs of the loan in addition to the project, in addition to the capital cost. We can fund soft costs such as the studies and designs, engineering, commissioning after the project is installed, and even re-commissioning later on down the road. So those are important pieces.

And as Dave mentioned, most loans they don't care what you spend it on. We care a lot. We want to make sure that we're doing really good projects for the state of Oregon. And what that comes down to is that sometimes we go through all of these processes, and then we end up not _____ the money in the end, but we feel great because the project has gone forward and we know that it's been a good project for our state. And to that end, we do provide a lot of technical help as I mentioned. We have an engineer right here on staff for the loan program in addition to the resources of the entire Department of Energy.

We're used to working with the utilities. We're used to working with the tax credit programs. Subordinate financing. Various things of that nature. But we have a good well-rounded way of looking at a project.

We don't portfolio our loans. We service them for the life. So once we have a borrower, they're ours, and we develop a long-term relationship with them.

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These are just a few of our numbers. The top two bullets are program-to-date, and then when you say where it says Public Sector, Private Sector, those are current figures. And as you can see, we're earning enough to make our net, but we also have losses that we need to deal with. So we have a good CPA on our team, and she keeps us straight, and make sure that we're doing the right things so our program stays healthy.

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I'm going to talk about just a few highlights for our projects. The vast majority as I said of SELP projects are conservation or efficiency projects. A good example of that would be right now we have about $100 million in portfolio loans for the Oregon University System which represents seven campuses here in the state, and those are for deferred maintenance on their energy systems.

The one that you see up there in front of you was a conservation loan for EasyStreet Online Services which is in Beaverton, Oregon, which is in Washington County, up near Portland, and that was a datacenter project. And they've incorporated a lot of really wonderful measures to bring down the cost of the datacenter and to be able to pass those savings on, and be able to compete well in the market.

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Finley Bio-Energy is a renewable project that we did, and it's a combined heat and power project. We did the original loan for them many years ago when they put in their first gensets. This most recent project brought in additional gensets to increase their power production, and then they were able to recover the waste heat and there's an onion-drying facility that's adjacent to the energy plant, and so they're using the heat to dry onions.

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Roth's is a series of markets throughout the Willamette Valley here in the Oregon area, and there's about twelve different supermarkets. It's a family-run business. And this project that you're seeing here was a photovoltaic array that was installed on their headquarters right here in Salem. What makes this one interesting is that Portland General Electric, one of our major investor-owned utilities, was working with the PUC and they've offered a Feed-in tariff program, and Roth's was able to secure a capacity reservation for their nearly 100 kilowatt system, and that project is in. It's running well. And it's great, because it's a family business, and they're committed to energy efficiency and to green power, and so we love having them in our portfolio.

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Food for Lane County is a nonprofit food bank that's in Lane County which is outside of Eugene, and that's in central Oregon in the Willamette Valley. This was the first time that SELP did a third party ownership for a project in that we have an owner that possesses the array, he's worked through all of the project as far as getting the payback together, working with the utilities for the power purchase agreement, and then he keeps the project through its payback period so that he can take advantage of the tax credits and the investment.

When the loan's paid off, his plan is to donate the array to the charity who he works with very closely, so that then they can either choose to net meter at that time, or they can continue just to collect the income that the solar array provides.

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The last one I'm going to talk about today is an interesting financing model in that Swalley Irrigation District, which is outside of Bend in Deschutes County, they came to me originally in about 2006 with their hydropower project. This would be – it's right on the irrigation canals, so it's not truly a run of the stream, but it's done with a little bit of a conduit diversion. And I worked with them and worked with them, and they were just wonderful to work with. And they ended up getting a really huge grant from Water Resources. And I would have loved to have had the big loan, the big $2 million loan, but they were able to secure that extra financing elsewhere, the extra dollars, and so what eventually we ended up doing was coming in and providing a little better than $200,000 just to close the gap between their grants and their internal funds, and be able to get that project going.

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There it is. It's running and it's beautiful. And of course, central Oregon, if anybody has been there, is just lovely. And so you can kind of see a beautiful blue sky.

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And there's my contact information. If anybody has questions, obviously a loan program as long as thirty years, as Dave mentioned, we have an amazing list of lessons learned, and processes that we use to work through our loan program to keep us in business this long. And I welcome online as well as offline contact. Give me a holler. I'll be glad to talk about the program. It's a great program that's great for my state. And I'll pass that to you then, Sargon.

Operator:
Thanks, Kathy. So we'll go on for about fifteen or twenty seconds if anyone has any questions. Looks like we just got one right now. Kathy, do you want to answer that?

Kathy Estes:
You know, it's not showing up on mine. Can you read it to me?

Operator:
Sure. Absolutely. What position does your loan take relative to the other loans on the buildings?

Kathy Estes:
It sort of depends on what the existing leverage is already. How far encumbered buildings are. We of course, love to have a first position, and there's been times when the first lien was so large that I didn't feel that a second lien would be prudent. And we've had primary mortgages subordinate to us because our loans aren't as big nearly as some of these building ones. But we've also had situations where the building owner says well gosh, you know, we really don't want to encumber building any further, what else can we do? So they set aside say a certificate of deposit, and generally it's close to or equal to dollar-for-dollar for the loan amount, or a letter of credit that, of course, waives the creditworthiness of the borrower.

We have guidelines about combined loan to value that we're pretty strict on, because we do want to try to mitigate, you know, potential loss in the beginning. You know, do it right in the beginning and then we don't have problems later on. Does that answer the question?

Operator:
I think so.

Kathy Estes:
Anybody else?

Operator:
So as people think about their questions, we can certainly transition over to Larry. Kathy, thank you very much for that presentation. If anyone else has any questions for Kathy or Dave, you can certainly submit them in the questions box as the webinar continues.

Kathy Estes:
Excellent. Well, I'll be here true to the end, so just shoot them my way.

Operator:
Great. Larry, are you there?

Larry Ostema:
Yeah.

Operator:
Okay. Well, it's time for our last presenter, Larry Ostema. Let's get started. Larry, the floor is yours.

Larry Ostema:
Great. I appreciate it, Sargon. Good afternoon everyone. My name is Larry Ostema with Abundant Power Solutions in Charlotte, North Carolina. What I wanted to talk about today is the Clean Energy financing program for commercial and industrial property in the state of Alabama that is being run by the Energy Division of the Alabama Department of Economic and Community Affairs, or ADECA.

ADECA took $25 million of the state energy program funds available to the state and decided to use it for this Clean Energy Revolving Loan Fund for the C&I or Commercial Industrial space. We were awarded the contract following an RFP through an administered program in partnership and on behalf of ADECA, and launched it at the end of last year, and we are in very much active marketing rollout and hopefully as soon as the end of this month, initial loan closing.

One of the things I wanted to emphasize on today's call are some of the unique elements of the program that ADECA has launched, and in our work with energy position, really come up with a program for the state that we feel is a balance of prudent and prudent loan techniques, or financing programs generally combined with some new models and structures to hopefully increase the uptake in the market as much as possible. This is, as state energy program funds, obviously an element of a stimulus, and should really drive the economic development and environmental benefits throughout the state.

We wanted to come up with something that, you know, again, was tried and true, but really was as broad as possible as far as an interest type of financing program across the sector and state.

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Really the goal is as simple as this. That we call the program AlabamaSAVES. SAVES is an acronym that stands for Sustainable And Verifiable Energy Savings. The AlabamaSAVES structure is a public-private partnership for enhancing business-as-usual lending practices for financial institutions working in the state, and offering attractive benefits for the lenders, and ultimately to the property owners, the borrower customers.

What we did, and we start to describe it on the next slide ––

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Are certain prescribed program elements that really reflected the goals of the state and the Energy Division of ADECA, and being that given the market needs in the state, the minimum loan size is $250,000 for the program. The maximum loan size is $4 million. The interest rate in the first year of the program is 1%. After one year it

is still going to be below market subsidized, so we're going to stop and see where rates trend, but it's 2% fixed in the initial launch.

Eligible projects are a combination of energy efficiency or renewable projects for existing facilities, or properties in the state. No residential, and no public facilities. Other than that, fairly broad and flexible as to the type of project can be financed.

The loan terms are up to ten years. Security very similar to what both Dave and Kathy have said, are very flexible. We're going to be looking at this on a one-off basis. It's not a prescribed security package where it fits or it doesn't. We're going to make sure it makes sense from a credit standpoint, but then match the financing and the security structure to what is more appropriate for that particular borrower.

On the program goals, I wanted to elaborate on that a little bit. We have a very strong goal and really mission that the energy savings from these projects would result in as close as possible to cash flow neutral benefit to the property host. Not just on a you know, theoretical spreadsheet on the day the loan closes, but actually as a performance over the life of that loan.

One of the ways that the program is seeking to ensure that is that we have some initial engineering that Abundant Power does as part of the overall credit package and the underwriting, we call it energy underwriting. So the property owner has to either have the project, the proposed project, reviewed by an approved independent engineer, or by an ESCO willing to do an energy service performance contract and to provide some financial guarantee for the performance of that equipment. Or if it is a larger company and has internal engineering capability that can self-certify.

But the real goal here is that at the end of the day this is a financing program, but it is the energy business. So we want to make sure that the loan is not only prudent from a credit standpoint, but also from a project standpoint.

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On the next slide now we start to go into some of the elements that we think are a little more unique, and have been tailored to match the interest in the state from the potential borrowers and project hosts.

We call this a leveraged revolving loan fund, and part of the public-private partnership is that half of the money is currently in just a straight plain vanilla revolving loan fund, so $12.5 million is available through ADECA for straight energy efficiency, low energy financing on the terms on the previous page.

The other half we have put into a credit enhancement mechanism whereby some of the dollars go to private financial institutions, lender partners, for low-loss or debt service reserves, and the other part of that money goes for interest rate buy downs to allow the private lender partners to actually have a loan that goes to the consumer at that 2% target interest rate. I'll go over a little bit more the details of how the $12.5 million credit enhancement piece works, but I wanted to mention that we work extensively with ADECA on financial models for what it would like with various iterations.

And to give you a little flavor of the summary of those models, if we had a $25 million revolving loan fund that was not bringing in product capital and leveraging the private partners, we had modeled out that after five years approximately $40

million would have been made available into the state through this program where you have some shorter-term payback loans that will already have recycled, and as principle comes back on other straight loan funds, about $40 million in aggregate could have been funded after five years. Over a twenty-year period it was around $120 million, maintaining a loss rate so that you keep the core available of the fund.

Using this leverage model and putting $12½ million into the credit enhancement piece, we had forecasted that over five years a little over $70 million would be available instead of just $40 million for the borrowers in the state, and the property owners, and over the twenty-year period the same amount of dollars would be available throughout the state.

There's less of the principle at the end because you have the interest rate buy down which reduces the monies, but generally it matches the same amount of money over twenty years.

Just to give you a comparison, if all of the money had gone into credit enhancement, there was no primary direct lending, the initial five-year period would have been forecast at $110 million with about $130 million at the end of twenty years. So bringing in the leverage with the private partners can accelerate the lending in the early stages of these type of finance mechanisms. Over time, however, the plain vanilla revolving loan time will catch up because you're not losing money to the interest rate buy down and the credit enhancement mechanisms. You know, every dollar that comes back goes out as opposed to just being leveraged.

But it was very interesting and I think it's playing out very much so, that the initial couple of years of this program with this leverage structure we get a lot more money out into the state.

So again, what we have structured is $12½ million is made available to the private partners. What they get effectively is $2 million held in escrow for them. It's not released to them, but it is held for them. Then about half of it would go to, at their choice, either a loan loss or debt service reserve. The other half is interest rate buy down funds, where we would calculate the difference between the market interest rate and the 2% target discounted over the life of the loan, and then the borrower gets a check for that in return for having a note. That is a 2% fixed rate note to the borrower.

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What this effectively does is gives each lender partner a 10% coverage on each loan. What we really wanted to do was really incent them to loan quickly. Again, because this is era, so they have twelve months to get all of the money lent that they have committed to attempt to lend based on the $2 million of credit enhancement. So we're asking for a 10X leverage on the debt service for loan loss reserve.

So again, to see some of the essential numbers, $2 million allocated for a member that's coming into the program, $1 million for the reserve amount. They have to lend 10X against that or get $10 million out in the first year. The other $1 million is for interest rate buy down. If by the end of the first year they have not made $10 million in loans, then the unused portion would be made available to other lender partners, or could go back to ADECA to direct lend in the Revolving Loan Fund. So that is the primary way to incent the lenders to be active in the program.

There is flexibility that ADECA could decide if the lending leverage partner side is working better than expected, and the revolving loan more traditional is not going as quickly to move some dollars over, otherwise, the reverse could happen where if some of the lenders do not get the full amount in, ADECA has the full ability to take those monies back and to lend them out directly to borrowers.

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On the next slide there are two other elements of this program that we think are unique when talking to DOE and some of the other states' programs, there's two different partners we've brought in, and those are both being announced today at an event in the state with some of the stakeholders and the borrowers that are interested in the program.

The first is we did a request for information recently and have selected an efficiency savings agreement partner, or ESA. Some people call it energy savings agreement model. What this is, is really a shared savings structure instead of a more traditional energy service company escrow performance contract where the property owner only pays if savings are truly realized. We after going through the RFI chose Metrus Energy out of San Francisco and they have done several ESA projects towards industrial concerns.

What they effectively do is they create the energy efficiency financing, or they structure it in such a way that the payments for the energy savings is really an operating expense, not a debt service. Now there's a lot of complicated accounting issues around that that's been addressed on this call, but generally it allows us to be at the accounting firm advice of the borrower the off balance sheet to the borrower.

One of the reasons why we looked into bringing in an ESA partner in the first place is we were getting some feedback in the state that there were a number of businesses that because of the recession had some credit challenges, but were seeing or were recovering their business, where they were cash flowing quite well, but they were probably not going to qualify for traditional bank financing. Given that this is off balance sheet, or at least potential off balance sheet, it opens up the type of borrowers that could be eligible for this that might not otherwise get bank financing.

And then also because of the shared savings aspect of it, we think it really aligns the interest of the escrow and the property owner where the savings are really literally paying for this over the time of the improvement of the assets. I certainly can take more questions on this, but that's just a high level of what we've done with ESA.

The other element of ESA that we find compelling is that they do not need as much credit enhancement as a traditional bank, so whereas we're seeing 10X lending interest on the bank side, using the ESA structure, the goal is a 20X leverage on the noncredit enhancements that the Metrus and its partners are going to be bringing into the state.

Finally, there's another marketing partner that we have selected. The company's is Efficiency Finance, and what they're doing is really focusing on the contractor channel. So in other words, the companies that exist in the state that in many cases have been working for twenty years at a plant, at a facility, at a commercial building, working with the facilities manager, otherwise the subcontractor to larger projects, but really know everything about a particular facility. That is not your traditional larger escrow channel. It's not how we sell energy efficiency at the CFO level. But it's

really what's happening at the facilities level, and this company has a big presence in the state. They come into the state and is really trying to drive origination of energy efficiency at scale through the existing network of contractors that already know that facility, know where the opportunities for improvements are, and aren't coming in cold, and just cold calling on and opportunity.

So we're going to be very actively monitoring that marketing partner that we think that with their connections into the local contractor channels in the state of Alabama that this is going to lead to some projects coming up very much in the short-term that would not have happened otherwise around the benefits of those property owners.

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Finally, this is the last slide then I'm happy to take any questions. There's a couple of additional elements of the program that again working with ADECA we wanted to be as flexible as possible. So on the first bullet there's certainly an option that if there is a larger project in the $4 million loan cap, that this financing program could be available for up to $4 million, and that a separate bond structure could be made available for the rest of the cost of that improvement. That could be done through some tax credit bonds, or other bond structures. We have also had extensive dialogues with utilities, and some interest on either construction financing, and then the program be more of a permanent finance mechanism, or doing a little bit more to directly incent some of the marketing efforts.

And finally there is the option to look at selling the loans if we wanted immediate liquidity prior to the time that the principle comes back. It's not currently contemplated, but it is something that is at least into the design of the program if the state and ADECA decide to you know, really get a lot of dollars out sooner and not later _____ payment.

And then just finally, as far as some of the mechanics of the credit and the underwriting, we performed the engineering streams as well as the initial credit, but the final decision is very much in partnership with the state, and the credit and loan governance committee is going to be active throughout the term of the loan.

A couple of lessons learned. One is the lender partners almost without exception every financial institution we talked to or expressed a lot of interest, and then kind of got cold. Some of them I think just felt that the dollar amount was too small. We were offering $2 million of credit enhancement dollars to them, and although the opportunity to get $10 million of loans that wouldn't have otherwise occurred in the state is compelling, it was requiring them to really get up to speed with energy lending. Banks backed out on that side. Though we have found success of _____ that are a few that were _____ _____ would understand energy lending. And there are two other lenders, more traditional commercial banks that are going to be announced soon, but they're going to be a little lighter touch than the full-blown lender participation agreement _____ _____.

So the lender partner definitely takes some work, but we're happy at this point we have three identified _____ that are likely to be announced very soon with the private-public partnership model both will be at work, but it takes a little more time than we initially had hoped for.

On the marketing side, we're finding that a lot of the actual projects in the pipeline right now are playing out with the demand analysis that we had done early on, which _____ _____.

So we felt there would be a lot of projects in the $250,000 to $500,000 range, and then a lot into kind of the $4 million. That is playing out. We don't have a lot in the pipeline of $500,000 and $2 million, but I think _____ $2 million and up is where the _____ are interested, and up to $500,000 is where the local _____ interested. So _____ still very interested in the nonprofit side, and the university and in _____.

And then the final other takeaway is the larger size projects because it is a large _____ cycle, typically involving _____ management of the company the _____ million loans are just taking longer than the ones that are $500,000 or less.

So I'd be happy to take questions now, but that is an overview of some of the unique elements of the Alabama program for ADECA and the state of Alabama.

Operator:
Great. Thanks, Larry. There were a couple of questions that came in. Actually one question. What do we know about energy performance and default rates on some of the projects you talked about? And how soon do we think 10% loss reserves can be brought down?

Larry Ostema:
Well, on the first it would have to be just by analogy to other project loans. Because _____ just launching. The first loan is expected to be closed at the end of this month. So I do not have data directly for the Alabama state's programs. And I'm sorry, Sargon, would you mind repeating the second part of the question as far as loan loss reserves?

Operator:
Sure. How soon – the question reads, how soon do we think 10% loan loss reserves can be brought down?

Larry Ostema:
When do we think that the marketplace will accept a leverage greater than 10X, and then we're going to see lenders being more aggressive. Is that?

Operator:
I couldn't tell you. Sorry.

Larry Ostema:
Assuming that's the question, I think really one of the beauties of the state energy programs as well as the EDCG programs is getting the data across the country with different types of programs, different sectors of the real estate industry, so that we can show this aggregated data to the capital markets so that hopefully the 10X leverage really is a thing of the past. You know, we very much believe that these programs are over collateralized and as long as prudent and strict lending and credit criteria are adhered to in the underwriting, these things are going to perform very well.

We modeled the 2% loss rate just based on our experience in looking at some other programs, but we certainly hope to be well below 1% on this. So with a secured

package we would be looking at _____ being secured for the most part, although there could be some creative guarantees, corporate guarantees, or even some project with other assets. So I think we will see the loan loss reserve needs diminish over time.

Now here inside it, it gets freed up as the loan gets repaid, so the lender partner either would originate new loans, or that money would revert back to ADECA as well as the principle reverting back to be able to go out again in a new leveraged amount, or in a direct loan.

Operator:
Okay. Thanks, Larry. Now we'll open it to the floor. If anyone has any questions about any of the presentations we've heard here today, don't hesitate to raise your hand, or submit a question in the questions box over on the right-hand side of your screen. We'll wait a couple of minutes to see if anyone has any questions.

Okay, well looks like you guys covered all the bases here in your presentations. People seem pretty satisfied. So we'll give another fifteen seconds here if you guys have any questions. Otherwise, I'd like to remind everyone that a copy of today's slide from these three presentations as well as a video and audio feed of today's webinar will be posted on the Google site within the next few days, so check for that.

Additionally, we do have some other upcoming webinars coming in the next few weeks. Let me go ahead and open those for you. Just a second. And you're welcome to join those as well. As you can see – that doesn't seem to be available right now. Excuse me.

But we do have a couple in the next couple of weeks including on March 18th, next Wednesday, there will be a webinar and I will shortly give you that topic. We've got a webinar on May 11th on Engaging Small Businesses and the Program Participants. As well, we won't be having a webinar on May 18th but there will be one the following week on May 25th. That's a part of evaluation webinar series. So check the insider blast that will be sent to you each week as well as the calendar on the website for details about those upcoming webinars and how to register.

Since we've got no more questions coming in, I want to thank you again for your participation today, and thank you to our three presenters. Dave Carey, Kathy Estes, and Larry Ostema. Thank you to the three of you for a very informative and enlightening presentation. So thank you all, and signing off.

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