Better Buildings Neighborhood Program Financing Peer Exchange Call: *Mid-course Refinements of Financing Strategies*

Call Slides and Discussion Summary

March 29, 2012

Agenda

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- Call Logistics and Attendance
  - Have you made any adjustments to your financing strategies based on implementation experience?
- Program Experience and Lessons:
  - New York: Jeff Pitkin, NYSERDA
  - San Diego: Jeremy Hutman, CCSE
- Discussion:
  - What has caused programs to refine financing strategies?
  - What are lessons for effectively adapting the financing approach?
  - How do changes in financing strategies affect other aspects of program schedules and delivery?

Participating Programs

- Austin, TX
- Chicago, IL
- Colorado
- Connecticut
- Kansas City, MO
- San Diego, California
- Maryland
- New York
- Seattle, WA
- Virginia
- Washington
- Whatcom County, WA
- Wisconsin

New York

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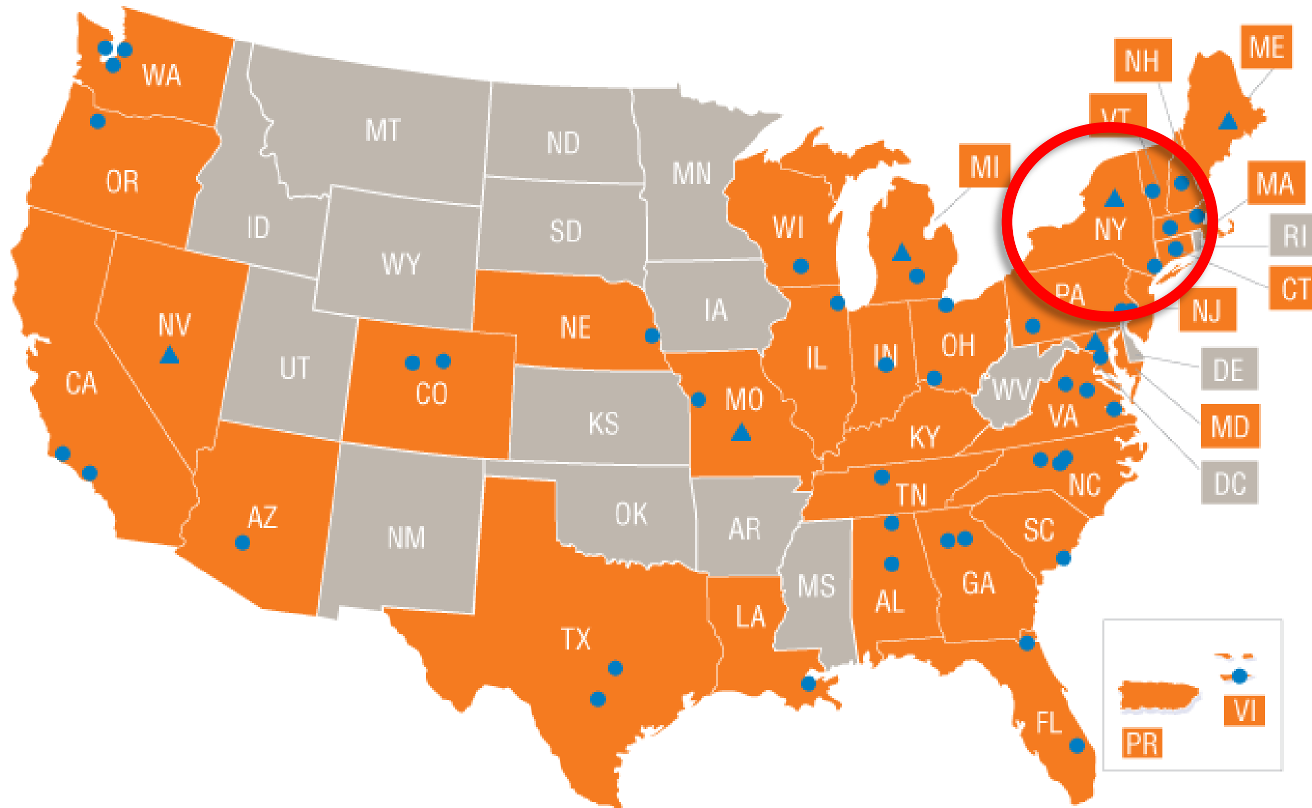

DOE Better Buildings Peer Exchange Call

Mid-Course Refinements of Financing Strategies

March 29, 1012

Jeff Pitkin, Treasurer
New York State Energy Research and Development Authority

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Green Jobs-Green New York Program

Financing Strategy

Sector: / Strategy	Residential	Small Business/ NFP	Multifamily Buildings
Direct Loans	Nov 2010		
On-Bill Recovery -Initial plan for single utility pilot - No legislation in 2010 -Legislation enacted Aug 2011	January 2012	(by May 2012)	(by May 2012)
PACE - Create statewide aggregation program	Put on hold with May 2010 FHA notices		
Participation Loans Lender loan with up to 50% NYSERDA participation at 0% interest		June 2011	June 2011

Added

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Loan Underwriting Standards

Tier1 loans

- Traditional FNMA standards – 640 FICO, 50% Debt:Income
- Aggregated and financed through capital markets

Tier2 loans

- Originated using alternate loan underwriting criteria (utility bill paying history, slightly relaxed debt-to-income criteria)
- Loans held in revolving loan fund
- Monitor loan performance 2-3 yrs, then added to pool of loans financed through capital markets with good performance
    - ❑ Standards revised 3 times since launch in response to application approval/denial rates and the % of total loans approved – “gradually lower the bar”
        - ❑ Increased D:I to 55%
        - ❑ Allowed D:I up to 70% with FICO 680+
        - ❑ Eliminated D:I for consumers qualifying for 50% incentive
    - ❑ Approval rate increased ~3% to 63%
    - ❑ Tier 2 ~10% of loan approvals
    - ❑ No appreciable difference on delinquencies between Tier 1 & 2 (limited history)

Capital Markets Financing Approach

- Aggregate loans and issue bonds using master trust structure
- Issue as Qualified Energy Conservation Bonds (QECBs)
  - QECB bonds provide 70% interest subsidy, resulting in lower loan rate
  - Once QECB bond volume cap exhausted, loan rates will be increased due to loss of subsidy
- Initial bond issuance $25 million
- Growing concern over revision of federal QECB subsidy
- New schedule to complete 1st bond issuance during 2012 (Oct) prior to federal action that would affect subsidy

Managing Changes

- Requires active monitoring
- Program design considerations
  - Impact to current program
  - Incremental/phased approach
- Communication to partners and stakeholders

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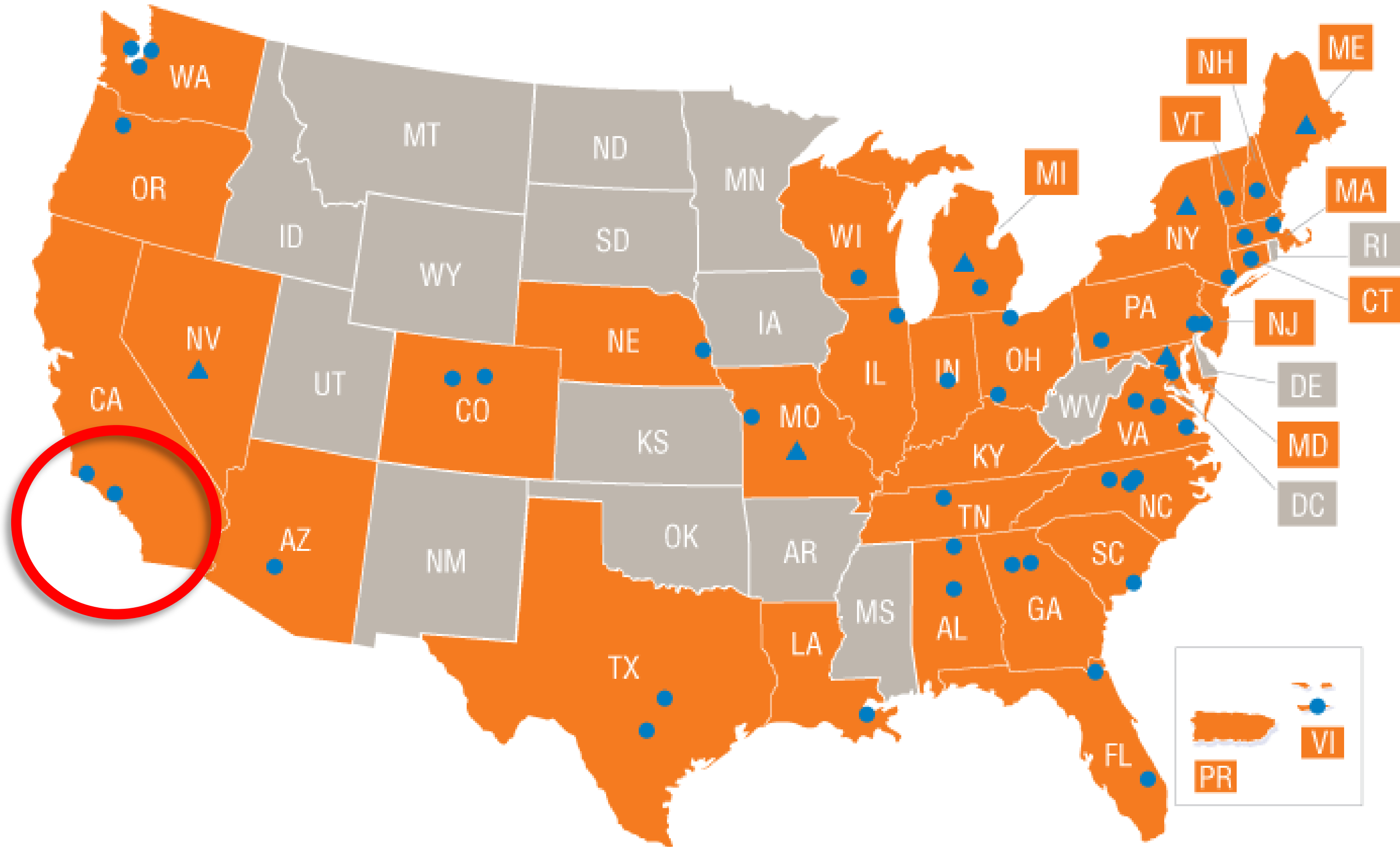
San Diego



May 27, 2011

Dear Lender:

The City is seeking a durable partnership to create an attractive home energy efficiency loan product. This RFP asks you to tailor a loan product for this need while structuring it so that the City bears the brunt of the risk for you.

This has been a learning process for the City. The first RFP released in February this year did not elicit the responses we had desired. Subsequently, we asked lenders why they did not respond with a proposal and how can we make it more attractive? We received valuable feedback and as a result have made significant modifications. The changes made fall into two areas. First, we have made it dramatically easier and less time consuming to submit a proposal, and second, we have made the program more malleable to fit lenders' needs.

1. We have made it easier to respond. We have taken a second look and removed many of the compliance clauses and required forms and certifications. We have also made the instructions for responding clearer (see section B.5 and section L) as well as dramatically simplifying and shortening the required submittal. As a result, we have cut the length of this RFP from 147 pages to 77 pages.

2. We have re-oriented our program expectations, and this RFP, to be more flexible and adaptable to the needs and capabilities or YOUR organization. Do not feel limited to the suggested parameters in this RFP. We welcome any and all submittals that meet the fundamental purpose of this program: to provide a loan product that is better suited to enabling home energy upgrades than what is currently available.

The City, via this RFP, asks you to put together a response that outlines how you might adapt this program to be attractive for your organization. If you read this RFP and conclude that your institution cannot produce a profitable program that meets the City's expectations, you are probably reading it too closely. Step back, get creative, and structure the City's credit enhancement in a way that makes this enticing for your institution. And don't give up if there are aspects of this program or RFP that you cannot find a way to address. [illegible] in your [illegible], and [illegible] proposal. If we like what we see otherwise, this gives the City the option to work around obstacles and find a solution.

[illegible] RFP, [illegible] may contact our Procurement Specialist, Leslie Valdez at (619) [illegible] or via email at [illegible]@sandiego.gov. To ensure a fair competitive bid process, please direct all communication solely through Ms. Valdez during the entire proposal process. Also, note that an optional Pre-[illegible] and written questions can be submitted to Ms. Valdez up until June 10th.

[illegible] to working together with you to establish a highly successful program… Happy proposing!

Sincerely,

Letter from City of San Diego to lenders describing new approach to financing RFP following initial solicitation that yielded no responses.

Drivers for Financing Refinements—and Program Responses

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- Driver: real or anticipated changes in laws and regulations
  - New York initially developed its program around PACE, but then needed to adjust
  - After program launch, New York State passed legislation allowing on-bill; the New York program adjusted to incorporate on-bill into its financing program
  - New York state accelerated QECB financing in anticipation that opportunity might go away
- Driver: low "uptake" by customers
  - Chicago household telephone survey found little interest in financing—and a general reluctance to take on more debt; needed rebates to get customers interested in the program
  - Whatcom County shifted budget away from its loan program when it found there was little demand (only 20%-30% of projects interested in financing)
  - New York and Seattle adjusted underwriting criteria to increase financing for lower income customers
    - Not finding differences in default rates
    - Found that utility payment history is strong indicator of repayment

Drivers for Financing Refinements—and Program Responses

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- Driver: lack of interest from financial partners
  - San Diego found that its RFP solicitation for a loan-loss reserve was too rigid, and it needed to shift from thinking about banks as contractors to thinking about them as partners; banks responded to a second, more flexible solicitation
  - Wisconsin found that the combination of an interest-rate buy down and loan-loss reserve—along with rigorous reporting—scared off banks; adjusted program to focus just on buy-down
- Driver: lack of interest from contractors
  - Contractors want "progress payments" throughout projects, not just at the end
  - San Diego changed its program to allow progress payments
    - Homeowners are on the hook to repay if project isn't completed
  - Seattle created a separate "mini" revolving line of credit to cover initial down payments for contractors (up to 50% of job cost)
    - Have underwriting standards for contractors
    - Contractors are on the hook to repay if project isn't completed

Lessons Learned

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- Actively monitor program activity and feedback: open communication with financial and contractor partners is important for understanding the need to refine programs
  - For example, Chicago gets contractor feedback through the Midwest Energy Efficiency Alliance
- Programs should market loans to contractors—if they don't like it, they won't sell it
  - Contractors want progress payments
  - Contractors like pre-qualification for homeowners so they can "close the deal" on-site
- Several programs have received feedback that financial partners are "scared off" by loan-loss reserve requirements

Lessons Learned

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- Consider including solar in financing options; it is hard to finance from savings, and it can open the door to interest in other EE upgrades
- Keep financing program RFPs short and flexible to encourage more lenders to apply
- “Weaning” customers off of rebates continues to be a challenge for many programs

Potential Future Call Topics

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- Experience and data on the performance of loans
- Success stories on projects, including the type of enhancements and financing
- How to make commercial energy efficiency financing programs sustainable
- Effective strategies for working with lenders
- Tying EE financing to home loans (HUD or FHA for refinancing or point-of-sale)