



Financial Vehicles within an Integrated Energy Efficiency Program



Financial mechanisms within Integrated Energy Efficiency Programs

Every successful energy efficiency program depends on four functional pillars

- Demand Creation
- Workforce training & certification
- EM&V, data collection, and continuous improvement
- **Financing**

Financing must address a broad spectrum of needs from small \$ reactionary replacement of HVAC equipment to large \$ carefully planned whole-building retrofits

- No one product is effective across the entire spectrum
- Multiple complementary products maximize the effectiveness of the portfolio
- Different product serve different market segments – residential/commercial/non profit etc. and different sub-segments with each (e.g., small commercial).

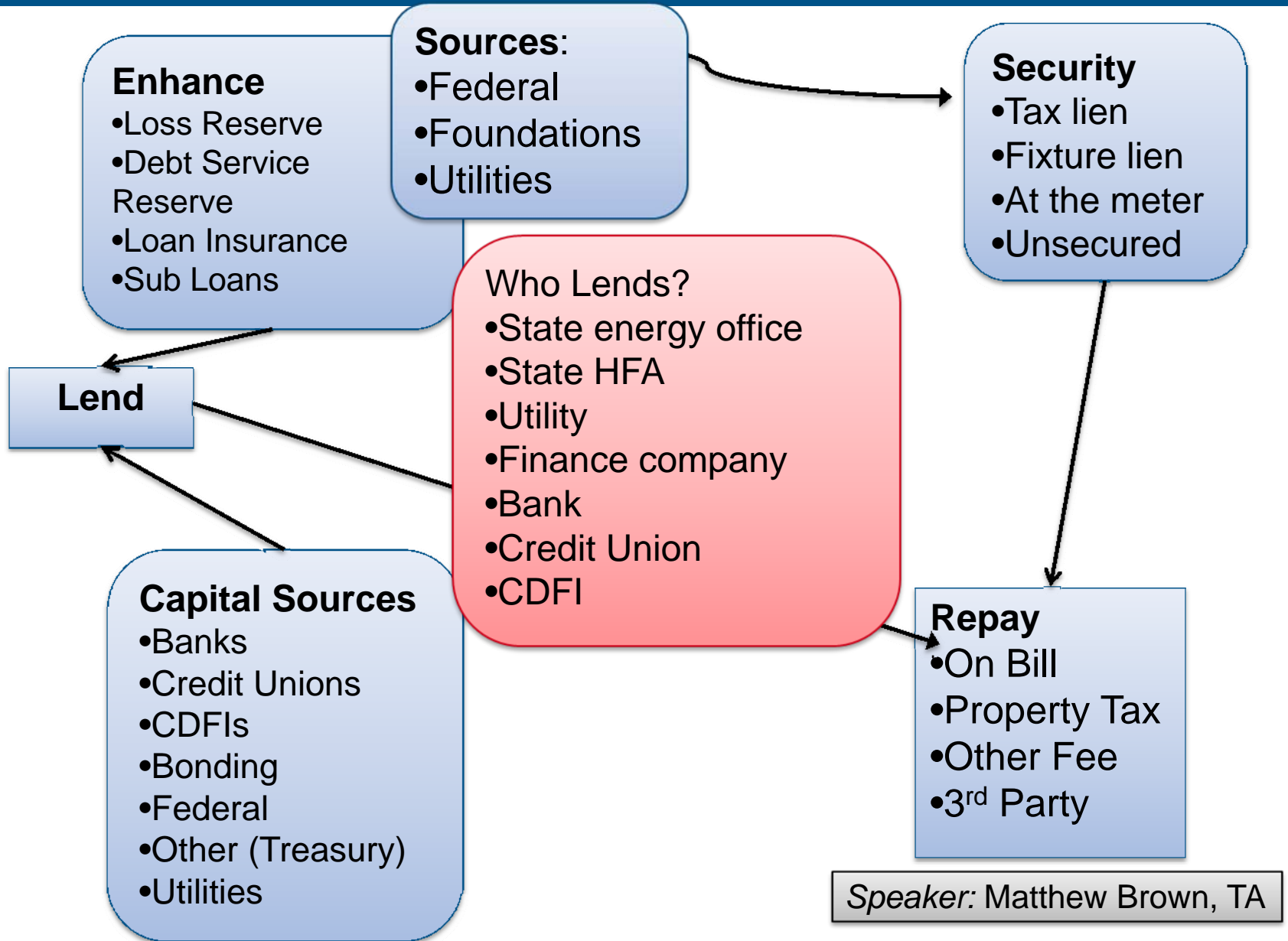
Financing programs allow payments on investments to be stretched out in time, the same way that the benefits created from the investments are accrued



The First Step is to Define Program Goals

Determine the Target Sector

- Residential
 - High or mid-level credit quality
 - Reactive or Whole house retrofits
 - Multi-tenant
- Commercial
 - Small business (Main street commercial, mid-size retail)
 - Large commercial
- Non-profit and institutional
 - Size of entity (very small non-profits may be hard to finance)
- Industrial
 - Keep in mind that many but not all industrial facilities may be able to self-finance
- In each case, consider potential for total impact on energy use reduction; some yield higher impact than others. Set up a set of guiding principles to decide what the program goals are.





PACE and QECB CREB Update

Speaker: Brandon Belford, DOE

New Guidance published on QECB's and CREB's

- Through the Recovery Act, Treasury allocated \$3.2 billion of QECBs to states, local and tribal governments to provide them with another method to fund energy efficiency programs. Treasury also allocated \$2.4 billion of New CREBs on a competitive basis for qualified renewable energy facilities, however the majority has already been awarded.
- QECBs and CREBs are tax credit bonds that were recently changed to direct subsidy bonds. What this means is that “qualified issuers” (States and local units of governments) can issue municipal bonds and while they pay investors a taxable coupon, they receive a direct rebate from the US treasury for a portion of taxable coupon (interest rate).
- QECB proceeds can fund energy efficiency programs in public, residential and commercial markets

The Opportunity

ARRA funds can be used to support the issuance of QECBs and CREBs, generating a much larger pool of capital to fund loans for energy efficiency than would be possible from original grant amounts.

FHA Title 1

Speaker: Stockton Williams, HUD

Title I Home Improvement Loans

Loans on single family homes may be used for alterations, repairs and for site improvements

- **Capital Source**
 - A property owner may apply at any lender (bank, mortgage company, savings and loan association, credit union) that is approved to make Title I loans.
 - HUD insures private lenders against loss on property improvement loans they make.
- **Maximum Loan Amount:**
 - Single family house - \$25,000.
- **Maximum Loan Term:**
 - Single family house - 20 years.
- **Interest Rate:** The interest rate is a fixed rate that is generally based on the most common market rate in the area. It is negotiable between the lender and the borrower, and may vary between lenders. Typically sub-7%.
- **Loan Security:** Any loan over \$7,500 must be secured by a mortgage or deed of trust on the property.
- **Loan Prepayment:** There is no prepayment penalty.

http://www.hud.gov/offices/hsg/sfh/title/ti_about.cfm



Partnership with Local Lenders

Speaker: Julie Bennett, Michigan Saves

Michigan Saves example:

- **ARRA Funds Employment**
 - Michigan Saves provides 5% loss reserve
- **Capital Source**
 - A local bank provides loan capital
 - The local bank owns the loans and has access to loss reserve.
 - *No plans currently to access to secondary markets*
- **Terms**
 - Loan terms out to 10 years for larger loans
 - Unsecured loans
 - Generally higher FICO scores
- **Administration**
 - Central loan origination through a national company that takes call and on line apps.
 - Local bank performs loan servicing and collection.



Partnership with a National Lender

The Pennsylvania approach

- **ARRA Funds Employment**
 - Loan loss reserve
 - Interest rate buy-down
- **Capital Source**
 - National lenders with access to secondary markets through aggregation of conforming loans
- **Administration**
 - National lenders with turnkey, existing loan processing operations
- **Terms**
 - Loan terms out to 10 years for larger loans
 - Unsecured loans
 - FICO scores >640 (50-60% of population qualifying)



CDFI Lending for Non-Profit and Commercial

Program under development in Colorado:

- **ARRA Funds Employment**
 - Loan loss reserve provided for qualifying loans (likely ~20%)
- **Capital Source**
 - CDFI would provide loan capital for EE retrofits in non-profit or commercial facilities
- **Administration**
 - CDFI conducts underwriting according to state Housing Finance Authority standard terms.
 - CDFI services and holds to maturity.
- **Terms**
 - Loan tenor extends 7-10 yrs
 - Energy audit required.



Develop an Action Plan

- Integrate finance activities with other aspects of energy efficiency programs
 - Demand creation
 - Workforce training & certification
 - EM&V, Data collection & continuous improvement
- Identify key milestones and decision points
- Plot expected timelines
- Plan for reporting and data collection
- Build risk assessment and mitigation plans



Support Resources

Department of Energy

- BetterBuildings Account Manager
- Technical Assistance Team
 - Dedicated consultants for investigating, designing, and implementing programs
 - Playbooks and implementation guides for emerging finance programs
 - Case studies
 - Sample RFPs
 - Sample lender agreements
 - Sample underwriting criteria
- Peer-to-Peer Networks
 - BetterBuildings Team

Stakeholder Groups

- NASEO / NACO / Council of Mayors
- Potential for consolidated RFP efforts



Questions





Thank You