

## CLEAN ENERGY FINANCE GUIDE, EDITION 3

### Attachment A

Residential Energy Efficiency Project Loans:

#### **PRELIMINARY/SAMPLE RESIDENTIAL EE LOAN TERM SHEET & UNDERWRITING CRITERIA**

This document provides a sample or preliminary term sheet for single family residential energy efficiency (EE) loans. The EE loan program (Program) would be initiated between a local government or other organization (contractor/vendor, nonprofit organization) and financial institution (FI) partner(s). These preliminary terms can provide a basis for discussions and negotiations with prospective FI partners. Final terms would be subject to negotiation and may vary between FI partners.

**Eligible Borrowers:** Single family residential property owners within the geographic target area of the Program. Target areas are: \_\_\_\_\_ [*name geographic areas*].

**Lender:** \_\_\_\_\_ (Financial Institution or “FI”) chartered to make loans in \_\_\_\_\_ [*name state*].

**Eligible Projects:** Energy efficiency projects, as defined by \_\_\_\_\_ [*name ARRA or other state criteria*], implemented in facilities of Eligible Borrowers (“Projects”). Eligible project costs include: equipment, labor and installation (turnkey service including bonding as applicable), project engineering and development, construction management, legal and financial, construction period interest, construction contingency, contractor overhead and profit, and reserve funds or equipment replacement reserves, as applicable.

A portion, up to 20%, of use of proceeds shall be allowed for non-EE projects. Projects will be implemented by \_\_\_\_\_ approved contractors with \_\_\_\_\_ providing construction management oversight and tracking.

**Minimum Loan:** estimated at \_\_\_\_\_ [\$2,000 to \$3,000] for residential.

**Maximum Loan:** to be negotiated with FI and determined case-by-case based on individual Borrower credit analysis; estimated at \$10,000 to \$15,000 for unsecured loans.

#### **Project Construction Financing:**

To be negotiated with FI and contractors. Estimated plan is that construction financing will be provided by contractors, with interest costs during construction will be capitalized. Thus, the Loan will be for term finance only and will disburse at and immediately following project completion and acceptance.

**Loan Tenors:** up to 10 years, to be determined. [NOTE: 15 years may be possible.]

**Payment Schedules:** Financing payment schedules shall be level payments of principal and interest.

**Prepayment Option:** Option to prepay the outstanding loans in whole without penalty is expected; partial prepayment options being investigated.

**Minimum Borrower**

**Capital Contribution:** To be determined case-by-case. Up to 100% financing for net project costs, net of applicable incentives (utility and other), shall be possible, but some Borrower capital contribution, e.g., 10%, may be required, case-by-case.

**Interest Rates:** Interest rates on the loans will be determined based on (i) market conditions and indices, to be established in negotiation with the FI; and (ii) Loan terms and risk weighting for Borrower credit, including application of loan loss reserve funds (LRF). Fixed interest rates are sought. Under current market conditions, and based on discussions to date with candidate FIs, estimated rates are as follows:

- a) for residential unsecured loans, \_\_\_\_\_%
- b) for residential secured loans, \_\_\_\_\_%

Rates will be fixed for each Loan at the time of loan application approval. FI will provide a published interest rate index as a benchmark for Loan pricing. Risk weighting of pricing is possible and can be applied.

**Loan Application & Documentation:**

Standard loan application and Loan document materials provided by the FI.

**Loan Servicing:** By FI.

**Estimated Underwriting**

**Criteria, Residential:** To be developed and finalized with FI. Indicative sample underwriting criteria, in addition to the LRF, are as follows.

- Confirmation of income
- Total debt-to-income (DTI) no greater than \_\_\_\_% [45% to 50%]. (will vary by FI)
- Note: DTI criterion can be raised to reflect the estimated energy cost savings associated with the project
- For unsecured loans, fixture filing (UCC-1) on project equipment.
- For secured loans (second/third mortgage or deed of trust), maximum loan-to-value will vary with Borrower credit score; expected range = 80% to 100%. [Note: In general, we will avoid secured loans and the need for appraisals and LTV criterion.]
- Minimum FICO credit scores of \_\_\_\_ [e.g., 620 to 640] (will vary by FI)
- Risk weighting of pricing is expected

**Project Reporting:** FI and borrowers will cooperate with the Program to gather information on achieved Project energy savings as required by the U.S. Department of Energy and the American Recovery and Reinvestment Act of 2009 (ARRA). This information will be gathered and reported by \_\_\_\_\_ [Program sponsor or contractor].