Better Buildings Residential Network Multi-Family & Low-Income Housing Peer Exchange Call Series: Loan Programs for Low- and Moderate-Income Households

March 13, 2014
Agenda

- Call Logistics and Introductions
- Featured Participants
  - Becca Harmon Murphy (Indianapolis Neighborhood Housing Partnership)
- Discussion:
  - What strategies or approaches has your program used to build interest in your loan programs for moderate- and low-income households? What has worked well, and why do you think it was effective?
  - What barriers or challenges has your program encountered in introducing energy efficiency to affordable housing? What unique obstacles are present in offering financing to low-income households?
  - What motivating factors did your program have that inspired you to begin offering loans to low- and moderate-income households?
  - What innovations or tactics has your program utilized to overcome barriers for affordable housing energy upgrades?
  - Has your program had experience with approaches that have not worked well? Are there any lessons learned about these approaches?

- Future Call Topics
Call Participants

- AFC First Financial
- Austin, TX
- Clean Energy Durham
- Maryland
- Chicago, IL
- EMpower Devices
- Greensboro, NC
- HUD Multi-Family Housing
- Indianapolis, ID
- National Housing Trust
- New Orleans, LA

- Nevada
- Philadelphia, PA
- Portland, OR
- Spirit Foundation
- St. Lucie County, FL
- Terra Green Community Development Corporation
- Vermont
- Virginia
Innovations in financing energy efficient homes: lessons from the field

EcoHouse

The mission of the Indianapolis Neighborhood Housing Partnership is to increase affordable and sustainable housing opportunities for individuals and families and serve as a catalyst for the development and revitalization of neighborhoods.
Indianapolis Neighborhood Housing Partnership, or INHP

Who we are:
• A privately funded non-profit, for 25 years
• A trusted, local, home ownership resource for Indianapolis
• A lender, a CDFI
• An educator
• A community partner and collaborator
What we do:

• Put home buyers and homeowners in a position of choice, by providing information and options
• Provide loan programs that fill market gaps
• Offer resources
• Make connections
• Serve low- and moderate-income families
EcoHouse bare basics

- INHP program marketing drives customers to the program
- It is a loan, that needs to be repaid
- You have to be eligible for the program and qualify for the loan
- Set contractors and fixed pricing
EcoHouse Program

- It’s a loan
  - Unsecured up to $8,000, with 6 year repayment
  - Fixed rate with monthly payments
  - Loan dollars are from a Revolving Loan Fund
Process

Borrower interest & application
- Eligible
- Qualified
- Informed
- Interested

Energy Audit/Scope
- Comprehensive inspection
- Measures identified
- Project Scope defined

Loan
- Bids obtained
- Loan approved
- Loan is closed
- Escrow is funded

Retrofit
- Retrofit begins
- Contractors are paid when energy measures are installed and inspected
EcoHouse Program

• **Eligible and Qualified**
  • Eligible
    • Homeowner in Indianapolis
    • Own & Occupy for the last 12 months
    • Household income at or below 120% AMI
  • Qualified
    • Credit
    • Income and ratios
    • Value and lien position

www.inhp.org 317-610-HOME (4663)
EcoHouse Program

- **Contractors and pricing**
  - Contractors through RFP process
  - Borrowers must use our contractors
  - Measures, criteria, efficiencies, and price are set with all contractors and flow to the audit
  - Partnership with a local retailer for appliances
EcoHouse Program

- **Incentives** for the measures with the best efficiencies

<table>
<thead>
<tr>
<th>INCENTIVES</th>
<th>measures</th>
<th>amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utility funded</td>
<td>Insulation &amp; sealing</td>
<td>50%, max. $1,600</td>
</tr>
<tr>
<td>Program funded</td>
<td>HVAC</td>
<td>33%, max. $1,500</td>
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</tbody>
</table>

Up to **$3,100 per project**
EcoHouse Program

Eligible measures
Insulation & Sealing
HVAC
Water Heater
Windows / Exterior Doors
Appliances

* incentive from local utility w/ be $1,600
~ incentive from program w/ be $1,500

### HOME ENERGY AUDIT REPORT

#### IMPROVEMENT SAVINGS

<table>
<thead>
<tr>
<th>Improvement</th>
<th>Customer Cost</th>
<th>Annual Savings</th>
<th>Payback (years)</th>
<th>SIR</th>
<th>Savings Percent</th>
<th>Lifetime Savings</th>
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<tbody>
<tr>
<td>Low Flow Shower Heads</td>
<td>$3.00</td>
<td>$46.00</td>
<td>0.1</td>
<td>97.6</td>
<td>3.51%</td>
<td>$327.60</td>
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<tr>
<td>Bathroom Aerators</td>
<td>$1.00</td>
<td>$10.80</td>
<td>0.1</td>
<td>67.6</td>
<td>0.81%</td>
<td>$75.60</td>
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<tr>
<td>Kitchen Aerators</td>
<td>$2.00</td>
<td>$10.80</td>
<td>0.2</td>
<td>33.8</td>
<td>0.81%</td>
<td>$75.60</td>
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<tr>
<td>Lighting</td>
<td>$16.00</td>
<td>$17.02</td>
<td>0.9</td>
<td>9.1</td>
<td>0.32%</td>
<td>$170.17</td>
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<tr>
<td>Air Sealing</td>
<td>$400.00</td>
<td>$44.07</td>
<td>9.1</td>
<td>1.7</td>
<td>3.59%</td>
<td>$881.43</td>
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<tr>
<td>Water Heater Improvement</td>
<td>$850.00</td>
<td>$91.51</td>
<td>9.3</td>
<td>1.2</td>
<td>6.86%</td>
<td>$1,281.18</td>
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<tr>
<td>Vaulted Ceiling Insulation</td>
<td>$810.00</td>
<td>$62.39</td>
<td>13.0</td>
<td>1.2</td>
<td>4.12%</td>
<td>$1,247.80</td>
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<tr>
<td>Window Improvement</td>
<td>$750.00</td>
<td>$44.85</td>
<td>16.7</td>
<td>0.9</td>
<td>3.91%</td>
<td>$897.03</td>
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<td>Above Grade Wall Insulation</td>
<td>$1,125.00</td>
<td>$62.90</td>
<td>17.9</td>
<td>0.8</td>
<td>4.68%</td>
<td>$1,258.08</td>
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<tr>
<td>Attic Insulation</td>
<td>$200.50</td>
<td>$8.17</td>
<td>34.3</td>
<td>0.4</td>
<td>0.56%</td>
<td>$163.34</td>
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<td>Cooling System Equipment Improvement</td>
<td>$3,300.00</td>
<td>$107.87</td>
<td>30.6</td>
<td>0.4</td>
<td>3.63%</td>
<td>$1,510.23</td>
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<td>Window Improvement</td>
<td>$8,400.00</td>
<td>$155.32</td>
<td>54.1</td>
<td>0.3</td>
<td>10.62%</td>
<td>$3,106.33</td>
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<td>Energy Star Clothes Washer</td>
<td>$500.00</td>
<td>$8.56</td>
<td>58.4</td>
<td>0.2</td>
<td>0.25%</td>
<td>$119.84</td>
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<tr>
<td>Energy Star Refrigerator (18 Cubic Ft)</td>
<td>$500.00</td>
<td>$7.20</td>
<td>69.4</td>
<td>0.2</td>
<td>0.21%</td>
<td>$100.80</td>
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<td>Heating System Equipment Improvement</td>
<td>$2,700.00</td>
<td>$15.30</td>
<td>176.5</td>
<td>0.1</td>
<td>1.19%</td>
<td>$306.02</td>
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<tr>
<td>extend plumbing stack through roof</td>
<td>$200.00</td>
<td>$0.00</td>
<td>-</td>
<td>0.0</td>
<td>0.00%</td>
<td>$0.00</td>
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<tr>
<td>Attic Insulation</td>
<td>$919.62</td>
<td>$0.00</td>
<td>-</td>
<td>0.0</td>
<td>0.00%</td>
<td>$0.00</td>
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<tr>
<td>tyvek and seal knee walls</td>
<td>$225.00</td>
<td>$0.00</td>
<td>-</td>
<td>0.0</td>
<td>0.00%</td>
<td>$0.00</td>
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<tr>
<td>Insulate and Weatherstrip Knee Wall Access</td>
<td>$110.00</td>
<td>$0.00</td>
<td>-</td>
<td>0.0</td>
<td>0.00%</td>
<td>$0.00</td>
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<td>install gable vents in both knee attics</td>
<td>$400.00</td>
<td>$0.00</td>
<td>-</td>
<td>0.0</td>
<td>0.00%</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

**DSM free**
Initial Program

**Program**
- Tiered criteria for unsecured and secured
- Higher interest rates
- Shorter loan terms
- more stringent credit requirements
- Lower CLTV

**Messaging**
- Greener and wants vs. needs
- Softer tone
- EcoHouse PROJECT
By fall of 2011 we knew we needed to make changes to the program. What we thought we knew by then:

- Homeowners were driven to our loan by needs and not any inclination to be more “green”  
  —Overwhelmingly about HVAC
- The tiered qualification between our secured and non-secured loan options was problematic
- Perception is everything with regard to a “high” rate
Program Tweaks

First round of program “tweeks”

• Credit score lowered to 580 on both programs
• Combined Loan-to-value raised
• Loan rates lowered
  — More affordable
  — More competitive
Program Tweaks

With a full 8 months of lending and data under our belts we knew:

- Customers made good decisions when the incentives made it easy to choose
- They would often want to replace a working but outdated, inefficient furnace / air conditioner but would not take the leap
- We had to look at a lot of candidates to find an interested, eligible and qualified candidate
Program Tweaks

Second round of program changes

• More tolerance for late payments, credit standards eased
• Loan term extended for affordability
• Further incentives offered for HVAC

Additionally, we began to explore the need and ways to pay for a counselor for those with shorter term issues

• Counselor hired 9/2012 - not a lot of success
Messaging Tweaks

• **Round 1**
  — “Needs” focus
    • Winter is coming
    • Furnace, etc. not working
    • Pocketbook

• **Round 2**
  — Needs *and* heavy Benefits
    • Project management
    • FREE
    • Deeper incentives
    • Discounts
  — Testimonials, people
Overcoming barriers

• # 1 barrier is credit – 38% not eligible due to credit barriers
• 55% of those have multiple credit issues preventing them from moving forward
EcoHouse
Loan Data

• Closed loans 132
• Completed projects 128
• Average Loan $7,700
• Average Project $8,100
• Average Incentive $1,870
• Average Income $40,150
• 58% include H & S issue resolution
  • Average cost $ 370
  • Average % of project .5%
Discussion

- What strategies or approaches has your program used to build interest in your loan programs for moderate- and low-income households? What has worked well, and why do you think it was effective?
- What barriers or challenges has your program encountered in introducing energy efficiency to affordable housing? What unique obstacles are present in offering financing to low-income households?
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- Has your program had experience with approaches that have not worked well? Are there any lessons learned about these approaches?
Discussion: Lessons Learned in Low- and Moderate-Income Loan Programs

- Confirm the client is interested, eligible and qualified before the energy audit.
  - Finding these clients requires assessing a large number of candidates.
- Single tier loan criteria allows clients to know what assistance they’re getting if approved.
  - Multiple tiers can result in clients falling out late in the loan process.
- Design messaging to reflect client motivations for energy efficiency retrofits.
  - Focusing on client needs for new heating systems and appliances can be more effective than ‘green’ messaging
  - Emphasize incentives, discounts and benefits.
  - Postcards were a more effective marketing tool than online/social media.
  - Target customers during season changes (Fall and Spring).
Discussion: Building Interest in Loan Programs

- Lowering the required credit score by a small margin can greatly increase the number of eligible candidates without increasing the default rate.
  - Some loan programs report higher default rates from clients with higher credit scores and more expensive home values.
- People are drawn to energy efficiency loans when they already need a household fix.
  - Contractors can be a source of loan program clients.
  - “If it’s not broken, don’t fix it” mentality prevails even when energy and cost savings are clear.
Incentives generate interest and make it easy for the customer to choose energy efficiency.
- Local utility partners can offer matching programs.
- Hit incentives hard in program marketing.

Longer loan terms and more tolerance for late payments increase program affordability and accessibility.

Make loan rates competitive.
- People perceive they should be getting same rates as they would from a bank.

Providing a counselor to help people with credit problems was not proven to be a successful strategy.
Discussion: Why offer low- and moderate-income loans?

- All home owners/renters should have the access to comfortable living and the ability to save money on utilities.
  - An energy efficient home shouldn’t be a luxury that just one part of the population can afford.
- Federal funding for weatherization can only touch a small number of homes.
- Low- and moderate-income market holds the most potential for loan programs.
  - These households have the highest need, most serious housing issues.
  - For a strategy of program activity, you just can’t ignore it.
Future Call Topics

- Call Topics for 2014
  - Outreach to Multi-Family Landlords and Tenants
  - Cost-Effective Modeling and Savings Projections for Multi-Family Projects

Please email other suggested call topics to peerexchange@rossstrategic.com