

# Financial Stakeholder Engagement Process

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# Financial Stakeholder Engagement Process:

- Step 1. Financial Program Design
- Step 2. Obtain Internal Agency Support
- Step 3. Lender Partner Analysis
- Step 4. Lender Meetings
- Step 5. Request for Proposals
- Step 6. Bidders Conference
- Step 7. Lender Selection
- Step 8. Negotiate Financing Facility  
and Prepare Implementing Agreements

# Key:

- Step #. [Name]
- Example of Document = deliverable
- Document/Meeting Elements

# Goals

- Overall goal is to work toward a point where the monthly payments for an energy efficiency upgrade would be offset by the energy savings
- Net zero to borrower
- Loss Reserve reduces Lender's risk
  - lower interest rates
  - lengthen loan tenors
- Municipality grows jobs, saves energy, lowers carbon consumption, gets banks lending again

# Step 1. Financial Program Design

- Define goals
  - Sustainability
  - Leverage
- Identify funding sources/amount going toward credit enhancement
- Consider the type of credit enhancement :
  - Loan loss reserve
  - Interest rate buydown
  - Subordinated lending
- Discuss pros and cons of credit enhancement leveraging impacts

# Copy of Design Document



## SustainableWorks Residential Energy Efficiency Loan Program

### Finance Structure Concept

SustainableWorks, a Washington 501(c)(3), is inviting Washington financial institutions to participate as a lender in its innovative energy efficiency (EE) retrofit program serving residential and small commercial property owners in the communities of King, Snohomish, Pierce, and Spokane counties. The program is targeting \$12 million in lending for EE equipment such as heating and ventilation systems, attic and floor insulation, and hot water heaters. The program will offer residential loans at an estimated average size of \$7,500 and \$20,000 for small businesses, with loan tenors of 10 – 15 years.

SustainableWorks received a \$920,000 credit enhancement grant (CE) from the Washington State Department of Commerce (Commerce) to be used as a loan loss reserve fund to support lending for EE projects. With loan loss reserves in place, the financial institution (FI) can broaden access to finance for borrowers by lowering interest rates, lengthening tenors, and expanding their underwriting criteria.

### Loan Loss Reserves for Energy Efficiency Lending

SustainableWorks would receive the grant of Commerce CE funds and would use the CE funds to establish a loan loss reserve fund (LRF) with the participating FI to support it to make EE project loans. The LRF is intended to enable the FI to offer longer terms, lower interest rates and broader access to finance. An indicative allocation to the FI is in the range of \$650,000+. With \$650,000 of CEF grant funds, we would expect to support at least \$6.5 million in lending, a leverage ratio of 10 to 1. This leverage ratio is conservatively low and can be increased with experience.

The LRF structure takes a “portfolio approach” to the credit structure of the EE loan program. The FI will be making a large number of relatively small EE loans. The LRF will support the whole EE loan portfolio and can be sized at a margin higher than the portfolio's estimated loan losses.

The LRF risk-sharing formula will have two main parameters. The first parameter is the ratio of the LRF funds to the total original principal amount of loans in the EE loan portfolio. Presently, we are thinking this will be in the range of 10%, which is the same as a leverage ratio of 10:1. The second parameter is the share of the losses that the LRF will pay. We are thinking in the range of 90%, which implies that a portion of the first losses will be borne by the FI and covered from their normal loss provisioning. Because all losses after the LRF is exhausted will be borne by the FI, FI incentives for good loan origination, administration and recoveries will be maintained. Therefore, to provide the most meaningful risk protection, we recommend that we consider paying 90-100% of the first losses with LRF funds. A lower leverage ratio means less lending per a given amount of LRF funds. This implies greater risk protection for the lender, which can result in relaxed underwriting requirements and approval of more loans. We need to discuss how such an LRF can support the FI to offer better terms, and broaden access to finance.

CE funds would be deposited with the partner FI pursuant to a “Loss Reserve Fund Agreement” (LRF Agreement) between SW and the FI. The LRF Agreement will create two accounts: a deposit account and a reserve account, both specifically defined in the LRF Agreement. Monies will first be placed in the deposit account. Then, on a monthly or quarterly basis, as the FI makes eligible EE loans, the agreed amount of funds for the LRF will be transferred from the deposit account to the reserve account. Once funds are transferred to



# Design Document - text

## SustainableWorks Residential Energy Efficiency Loan Program

### Loan Loss Reserves for Energy Efficiency Lending . . .

The LRF risk-sharing formula will have two main parameters. The first parameter is the ratio of the LRF funds to the total original principal amount of loans in the EE loan portfolio. Presently, we are thinking this will be in the range of 5-10%, which is the same as a **leverage ratio of 10 or 20:1**. The second parameter is the share of the losses that the LRF will pay. We are thinking in the range of 90%, which implies that a portion of the first losses will be borne by the FI and covered from their normal loss provisioning. Because all losses after the LRF is exhausted will be borne by the FI, FI incentives for good loan origination, administration and recoveries will be maintained. Therefore, **to provide the most meaningful risk protection, we recommend that we consider paying 80-90% of the first losses with LRF funds**. A lower leverage ratio means less lending per a given amount of LRF funds. This implies greater risk protection for the lender, which can result in relaxed underwriting requirements and approval of more loans. **We need to discuss how such an LRF can support the FI to offer better terms, and broaden access to finance.**



# Design Document - elements

- How much money is there?
- How can it be used most effectively?
- What are the elements of a loan loss reserve?
- Subordinated 0% On-Lending?
- Interest rate buydowns?

This document is a tool to discuss the program and help focus on a clearer design.



# Step 2. Obtain Internal Agency Support

The Financial Design will need internal support

- Schedule meetings with agency managers and elected officials
- Present a slide show and distribute Design Doc
- Explain benefits of credit enhancements
- Show success of this elsewhere
- Be attentive to questions and issues (e.g. legal)
- Goal: Develop internal champions

# Presentation to Managers

## - slide show -

### Introduction to LRFs

- Mobilizing third-party commercial lenders
- Providing partial risk coverage to lenders
- Loan loss agreement b/w Lender & Grantee



# Internal Presentation - elements

- Fully explain model
  - Bring in financial technical assistance if needed
- How can this use of grant funds best meet agency goals?
- Obtain clarity on agency procedures
  - Council approval?
  - Legal review?
  - Sole-source contracting prohibitions?
  - Procurement Department procedures?

# Step 3. Lender Partner Analysis

- Schedule lender meetings prior to issuing RFP
- Yields greater understanding and interest
- Research a list of local lenders and larger lenders with regional offices - FDIC and NCUA data
- Determine decision-makers in potential lender
- Partner relation begins with the first call
- Determine internal champion

# Lender Partner Analysis doc.

F46						
	A	B	C	D	E	F
1	<b>Partner Financial Institution Analysis</b>					
2						
3		<b>Source:</b> FDIC data, NCUA data				
4		<b>Process:</b> Banks have operating branches in SB County according to FDIC data.				
5		Credit Unions have corporate offices in Santa Barbara County				
6						
7	<b>Banks</b>	<b>Management Contact</b>	<b>Existing County Touch</b>	<b>Touch Point Contact</b>	<b>Number of Local Branches</b>	<b>Net Asset Value</b>
8	JPMorgan Chase Bank, National Association					
9	Wells Fargo Bank, National Association					
10	Bank of the West					
11	Armed Forces Bank, National Association					
12	U.S. Bank National Association					
13	First Bank					
14	Pacific Capital Bank, National Association					
15	Montecito Bank & Trust					
16	Union Bank, National Association					
17	Rabobank, National Association					
18	Northern Trust, National Association					
19	Heritage Oaks Bank					
20	Santa Lucia Bank					
21	Community West Bank, National Association					
22	Los Padres Bank					
23	Mission Community Bank					
24	Community Bank of Santa Maria					
25	Bank of Santa Barbara					
26	American Riviera Bank					
27	CapitalSource Bank					
28						
29	<b>Credit Unions</b>	<b>Management Contact</b>			<b>Number of Local Branches</b>	<b>Net Asset Value</b>
30	Santa Barbara County Federal Credit Union					
31	Santa Barbara Teachers Federal Credit Union					
32	Coast Hills Credit Unions					
33	Santa Maria Associated Employees Credit Union					
34	South Coast Community Credit Union					
35						

# Lender Partner Analysis

## - elements -

- Net assets
- Geographic scope and saturation
- Loan portfolio
- Annual report
- Decision-maker
- Internal champion
- Set meeting schedule

## Step 4. Lender Meetings

- Develop open dialogue on how the loss reserve will benefit the lender:
  - Provides partial risk coverage to lenders
  - Uses much of their current underwriting criteria
  - Fits in their current product offerings
  - Increases exposure to greater client base
  - Provides cross-sell opportunities for other lending products
  - Rides the “green wave”



## Step 4. Lender Meetings (cont.)

- While at the same time achieving your goals:
  - Lowers interest rate
  - Lengthens loan tenor
  - Allows larger unsecured loans
  - Reduces required credit score
  - Increases debt-to-income ratio
  - Increases or eliminates loan-to-value ratio
  - Lowers required customer capital contribution

# Lender Meeting - elements -

- Provide information, answer questions
- The Lender will want to know how much reporting will be expected—margins are small on these loans.
- Determine the other partners in the Program and how they will assist in its success

# Step 5. Request for Proposals (“RFP”)

- Modify existing Request for Proposals document, supplied by DOE, to meet municipality’s requirements and format.
- DOE TA can review and edit RFP, as needed, to facilitate favorable response by potential lenders and pique their interest and their creativity.

# RFP

## Residential Unsecured Financing Loan Loss Reserve Funds

Milwaukee

Nov. 4-5, 2010



# RFP - text -

## 4.2 Risk-Sharing Formula

The risk-sharing formula will have two main parameters:

The first parameter is the ratio of the LRF funds to the total original principal amount of Loans in the EE Loan portfolio. **Presently, we are thinking this will be 5%, which is the same as a leverage ratio of 20:1.**

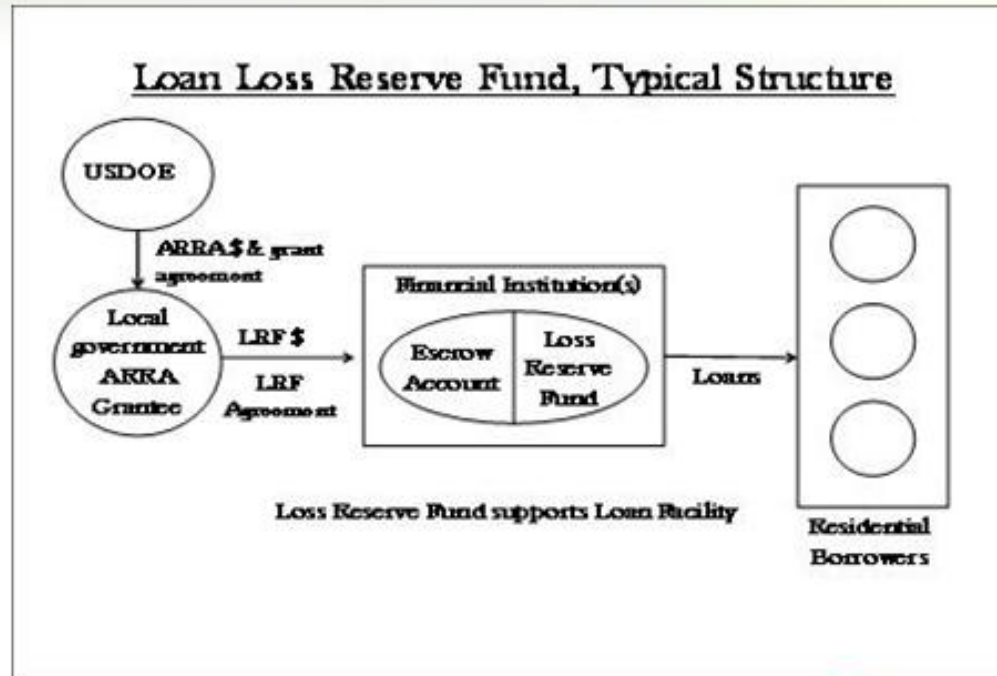
The second parameter in the risk-sharing formula is the share of losses that the LRF will pay. **We anticipate this will be less than 100%**, which implies that a portion of the loss will be borne by the FI and covered from its normal loss-provisioning. Because all losses after the LRF is exhausted will be borne by the FI, FI incentives for good Loan origination, administration, and recoveries will be maintained. Both of these parameters are to be proposed by the FI and will be defined in the final agreements among WECC, the FI, and the City.

# Step 6. Bidders Conference

- Formal presentation with question and answer period for potential lenders
- Present modified Lender slide show
- Post questions and answers on website

# Bidders' Conference slide show

## - Key Guidelines & Issues -





# Concept Proposal for Lender



October 15, 2010

**City of San Diego  
Loan Loss Reserve Supporting a  
Residential Energy Efficiency Loan Program**

**Concept Proposal for Prospective Partner Financial Institutions**  
*Draft for Discussion*

**Background & Summary Concept**

The San Diego region has received funding from local, state and federal sources, along with utility rate payers, to implement a comprehensive home energy efficiency (EE) upgrade investment Program. The City's main public policy goals with this Program are jobs, economic development and greenhouse gas emissions reductions. Many elements necessary for Program success are in place including financial incentives for home owners to invest in comprehensive EE upgrades, workforce development, quality assurance and marketing and outreach.

An essential part of the Program is to arrange financing solutions for participating homeowners, allowing them to overcome the first cost barrier and pay for EE improvements over time, matching energy cost savings with loan payments. To this end, the City seeks to identify and gather information from local financial institutions (FIs) -- local, regional and national commercial banks, credit unions and community development financial institutions -- interested in offering residential EE loan products as part of this Program.

For participating FIs, the Program can help develop residential EE lending as a profitable line of business and can offer:



# Bidders Conference - elements

- Provide information & answer questions for those unable to schedule individual Lender meetings
- Expect that participants will be more guarded
- Questions and answers are formal and will be published on the municipality's web page

# Step 7. Lender Selection

- Read and evaluate lender proposals
- Complete score sheets from RFP
- Evaluate scoring elements and compare proposals
- Pose further questions to proposers, as needed
- Select lender for further negotiations

# Proposer Scoring Sheet

## ATTACHMENT C

### Proposal Evaluation Scoring Sheet

City of Milwaukee Energy Efficiency Lending Program			
Financial Institution Request For Proposal: Proposer Evaluation Worksheet			
	Criteria	Point Value	Grade (0-100%)
			Score
	<b>FI Qualifications &amp; Experience</b>	<b>10</b>	
1	FI proposer experience & qualifications	5	
2	Skills of staff and proposed level of effort	5	
	<b>Energy Efficiency Loan Terms &amp; Underwriting</b>	<b>40</b>	
3	Interest rate & fee pricing	15	
4	Loan tenors	15	
5	Underwriting guidelines and security requirements	10	
6	Total amount of capital leverage		
	<b>Approach to Loan Loss Reserve (LLR)</b>	<b>30</b>	
7	Proposed risk-sharing formula for use of LLR leverage	10	
8	Response on other LFP Agreement terms	5	
9	Broadening access to finance: ability to achieve	15	
	<b>Approach to the Program &amp; Marketing</b>	<b>20</b>	
10	Loan marketing	5	
11	Number of accounts members	10	
12	Loan application approval origination procedures and accompanying web user interface	5	
	<b>Other</b>	<b>15</b>	
13	Match of FI's proposal with Program goals: Proposed methods for data collection and monthly reporting of program	5	
14	Proposed methods for data collection and monthly reporting of program	5	
15	Program sustainability fee structure	5	
	Total Points	115	
Evaluator Name & Date: _____			
Financial Institution Name: _____			
Contact Name(s): _____			

# Actual Results

Credit Score	Term	Rate
680 or above	up to 72 months	4.74%
	86 – 180 months	4.99%
679 – 640	up to 72 months	5.99%
	86 - 180 months	6.24%
639 – 601	up to 72 months	7.49%
	86 - 180 months	7.74%
600 and below	up to 180 months	8.74%

# Step 8. Negotiate Financing Facility and Prepare Implementing Agreements

- Come to final clarification on financing elements, based on lender's proposal:
  - Loan Elements
  - Loan Projections
  - Milestones
  - Risk-Sharing Formula
  - Account Structure
  - Disposition of Funds

# Loan Loss Reserve Agreement

**Kitsap Green Weatherization Program  
&  
RePower Bainbridge**

**Energy Efficiency Loan Loss Reserve Agreement**

**Kitsap County,  
City of Bainbridge Island,**

**and**

**Kitsap Credit Union**



# Loan Loss Reserve Agreement

## - text -

### Article I

**Definitions.** The following terms shall have meanings as defined:

...

“Loan(s)” shall be a loan(s) made by KCU for the purposes of financing Eligible Projects, using a form Loan agreement developed by KCU and approved by the Municipalities, and that meets the Terms, Conditions, and Underwriting Criteria in Annex B and the Project Eligibility Design Criteria in Annex C.

“Loss Amount” shall mean unpaid principal on a Charge-off Loan and shall not include any accrued interest.

“Loss Reserve Percentage” shall equal 5% of the principal amount of a Loan, as applied in Section 3.02, except as otherwise noted in Annex H.

“Loss Share Percentage” shall equal 90% (ninety percent) as applied in Section 3.04.

# Loan Loss Reserve Agreement

## - elements -

- Risk-Sharing Formula?
  - Ratio of (A) LRF funds to (B) total original principal amount of Loans in portfolio.
  - Share of first losses that LRF will pay, e.g., 90%
- Loan Elements?
  - Eligible borrowers
  - Eligible Projects
  - Loan application
  - Loan terms
  - Interest rate
  - Payment schedule
  - Loan size

# Loan Loss Reserve Agreement elements (cont.)

- Underwriting guidelines & security
  - Secured and/or unsecured?
  - Loan-to-value ratios ?
  - Borrower contribution?
  - Personal contribution?
    - utility rebates or incentives
    - other rebates and incentives
    - estimated energy cost-savings
  - UCC-1?

# Loan Loss Reserve Agreement elements (cont.)

- Definition of Escrow Account?
- Definition of the Reserve Account?
- Definition of Loss & Event of Loss?
- Interest on both the LRF and Deposit Accounts?
- Disposition of loan loss reserve funds at end of Loan period?
- Program Fees?
- Reprogramming Funds in the Escrow/Reflow Accounts?

# Program Agreement

## KITSAP GREEN WEATHERIZATION PROGRAM AND REPOWER BAINBRIDGE PROGRAM AGREEMENT

This Program Agreement ("Agreement"), dated [ ], 2010 is undertaken by:

The County of Kitsap, Washington (the "County"); the City of Bainbridge Island (the "City") incorporated under the laws of Washington State (together the "Municipalities"); and Kitsap Credit Union, a Washington State chartered not-for-profit financial cooperative, headquartered in Bremerton, WA ("KCU") (separately a "Party" and together the "Parties") to establish an Energy Efficiency Loan Program (the "Program").

### Recitals

- A. The Municipalities will be working with commercial and residential energy users in Kitsap County to prepare energy efficiency ("EE") projects ("Projects") that meet the requirements of various government grants that have funded this Program.
- B. The Municipalities intend to market the Program, develop customized energy efficiency investment plans for energy users, arrange for EE assessments and provide a list of approved contractors to complete EE projects, confirm eligibility of proposed Projects, assist with available rebates, and verify quality of completed Projects.
- C. KCU is in the business of providing loans, subject to credit approval of individual members.
- D. KCU will provide loan financing, based on agreed-upon underwriting criteria, directly to individual eligible residential and commercial members for EE measures ("Loans") and wishes to expand its EE finance activity in volume.
- E. KCU and the Municipalities wish to establish terms, conditions, and procedures for their cooperation in marketing and originating Loans, with the support of grant funding, and loan loss reserve protection or other credit enhancements mutually agreed upon by all parties to this agreement.

### Agreements

In consideration of the foregoing recitals and the mutual covenants set forth below, the Parties agree as follows:

1. **Loans.** KCU will provide and administer Loans to members desiring to finance a Project ("Members" or "Borrowers"). All estimated Loan terms and KCU duties regarding the Loans are defined in a separate agreement among the Parties. This Energy Efficiency Loan Program Agreement is attached for reference as Annex A.
2. **Management.** Each of the parties to this Agreement will designate a point person to manage the Program. If there are changes to a point person, each of the parties will be notified,

# Program Agreement - elements -

- Record-keeping
- Contact Persons
- Training
- Marketing Roles
- Process for Loan Approval
- Loan Closing and Disbursement

# Financial Stakeholder Engagement Process: *Steps Reviewed*

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# Thank You

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[www.eefinance.net](http://www.eefinance.net)

The following link contains earlier versions of the RFP and the Loan Loss Reserve Agreement:

[http://www2.eere.energy.gov/wip/solutioncenter/pdfs/revFinal\\_V3Ch15SixAttachmentsDec9.pdf](http://www2.eere.energy.gov/wip/solutioncenter/pdfs/revFinal_V3Ch15SixAttachmentsDec9.pdf)

The Clean Energy Finance Guide (“Playbook”):

<http://www2.eere.energy.gov/wip/solutioncenter/financialproducts/default.html>

