Drafting the RFP

Dan Clarkson
Vice President
Energy Efficiency Finance Corp.

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Section 1

- Determine the partners in the Program that will assist in the preparation and scoring of the RFP
- Scope of the Program: will it include Small commercial? Multi-family? Non-profits? My recommendation: Keep it simple.
- Determine the types of Credit Enhancements that will be used
- Expected services the Lender will provide
- The Lender will want to know how much reporting will be expected—margins are small on these loans.

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Impact on loan underwriting guidelines

- *Increase size of unsecured loans.*
  - *Are both secured and unsecured options contemplated?*
- *Extend tenors.*
- *Lower minimum credit score.*

Keep in mind the balance of Lender need for reduced risk and Municipality's need to broaden access to finance.

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2. Program Background

- Design outreach to increase uptake
- List typical Residential EE measures
  - 20% non-EE measures

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Loan Budget

Average Project Size	$8,000
Average Rebates and Incentives	$1,600
Average Loan Size	$6,400
Total # of Loans	1,000
Total Lending through 2012	**$6,400,000**

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Partners and Partner Roles

- Is there a local non-profit available?
- What is the Lender's capacity to provide?
- What is the utility involvement?

Program Partners Offer "One-Stop Shop"

Community Energy Challenge Partners

- Non-profit Sustainable Connections
- Community Action Agency – The Opportunity Council & The Building Performance Center
- City of Bellingham
- Whatcom County
- City of Ferndale
- Banner Bank
- Investor Owned Utility – Puget Sound Energy and Cascade Natural Gas
- EEFC

Marketing

- Goal: The dollar amounts of the estimated energy cost savings offset the amount of the monthly loan payments.
- *Lender's Existing Customers*.
- *Mortgage Refinancing*.
- *Other Market Aggregators*.

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Loans

- *Eligible borrowers*
- *Eligible Projects*
- *Loan application*
- *Loan terms*
- *Interest rate*
- *Payment schedule*
- *Loan size*

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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%

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Lending Calculations

Total Projects	2010-2011	1000
	2011-2012	1500
		2500
Percent of Projects Getting Loan		40%
Total # of Loans		1000
Average Size of Loan – Net rebates & incentives		$6,400
Total Residential Lending		$6,400,000

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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

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Loan Loss Reserve Funds

- "Portfolio approach" to credit structuring
- Achieve significant leverage of public funds, e.g. ARRA and other grants
- As a % of total loan portfolio principal = 2-10%
- Cover <u>first losses</u> on a <u>portfolio</u> of EE/RE loans
- EECBG & SEP funds can be used for LRFs

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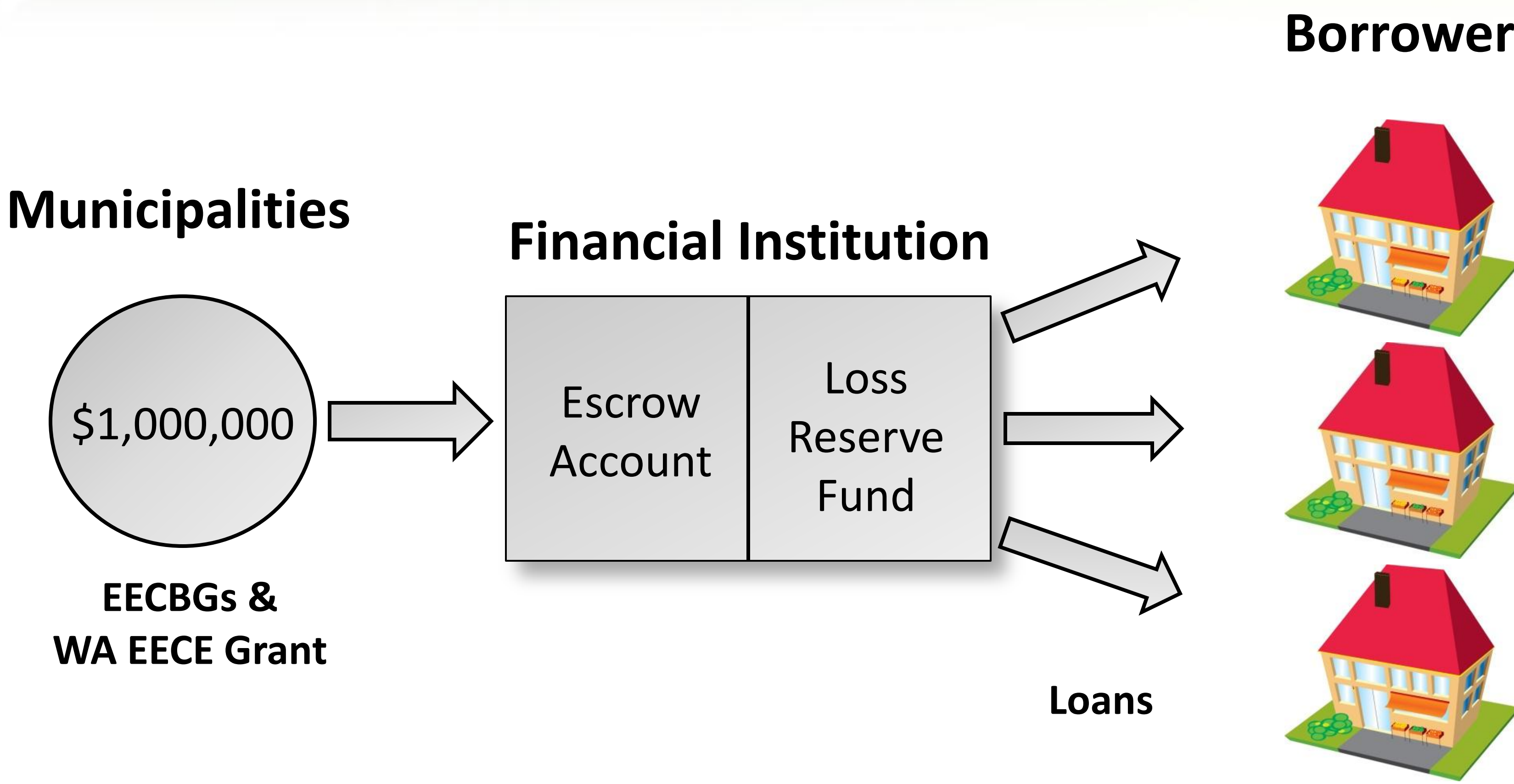
Loan Loss Reserves Leverage Commercial Finance



Total Target Number of Loans:
900 Residential & 75 Small Commercial

Risk-Sharing Formula, Main Components

- Ratio of (A) LRF funds to (B) total original principal amount of Loans in portfolio.

    A/B = first loss percentage

    B/A = leverage ratio
- Share of first losses that LRF will pay, e.g., 90%
- Trade-offs among the leverage ratio, risk sharing formula, Loan security and access to finance

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Sample Budget & Risk-Sharing Formula Calculations

1	LRF ARRA grant budget	$1,000,000
2	Grant funds for program development & operations	$100,000
3	Net funds for LRF escrow account	$900,000
4	"First Losses" as % of total original principal	5.00%
5	Share of first losses borne by LRF	90.00%
6	Share of first losses borne by FI partner	10.00%
7	Total lending that can be supported with this LRF risk-sharing formula	$20,000,000
8	Average portion of EE projects paid by loans (homeowners/utilities/others cover the remaining 20%)	80.00%
9	Total EE Project Investment that can be supported	$25,000,000
10	Leverage ratio #1 (LRF funds to total lending product size supported)	22.22
11	Leverage ratio #2 (LRF funds to total EE project investment supported)	27.78

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LRF

- 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

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Reprogramming Funds in the Escrow Account & Reflow Account

- March 31, 2011: $126,000 in Loans, based on 40 completed energy audits;
- June 30, 2011: $350,000 in additional Loans, based on 125 completed, additional energy audits;
- September 30, 2011: $546,000 in additional Loans, based on 225 completed, additional energy audits;
- December 31, 2011: $399,000 in additional Loans, based on 175 completed, additional energy audits;
- March 31, 2012: $546,000 in additional Loans, based on 225 completed, additional energy audits;
- June 30, 2012: $560,000 in additional Loans, based on 250 completed, additional energy audits

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Potential Impacts on Underwriting Criteria

Use of LRF can have the following results:

- Reduces required credit score
- Lowers interest rate
- Lengthens loan tenor
- Increases debt to income ratio
- Allows larger unsecured loans
- Increases or eliminates loan to value ratio
- Lowers required customer capital contribution

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Thank You

Dan Clarkson

206.310.8733

dclarkson@eefinance.net

www.eefinance.net

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