



BetterBuildings
Financing Peer Exchange Kick-off Call
Call Slides and Discussion Summary

April 28, 2011



- What are peer exchange calls?
- Call logistics and attendance
- Potential financing peer exchange topics
- Grant project go-around:
 - What sector is your financing program focused on (i.e., residential, commercial, public buildings, industrial)?
 - What type of financing strategies are you using?
 - Is your financing program up and running?
 - What are some key challenges or needs you have related to financing?
 - Any successful strategies?
- Next steps
 - Future call topics, call frequency, format, etc.

Potential Financing Peer Exchange Topics

- Strategies for driving demand for financial products
- Risk management, program monitoring and mid-course refinements
- Successful strategies for unsecured loan programs (including loan-loss reserves and revolving loan funds)
- Understanding and leveraging tax incentives
- Aggregation and sales of loan products into secondary markets
- Long-term sustainability of financing programs

Participating Grant Programs

- Los Angeles County, CA
- St. Lucie County, FL
- Chicago, IL
- Maryland
- New Hampshire
- Bedford, NY
- Cincinnati, OH
- Toledo-Lucas Co. Port Authority, OH
- Seattle, WA
- Wisconsin

Discussion Summary: U.S. DOE Update



- Updated guidance on the definition of “expenditure” for grant funds with regards to financing programs and third party administration now available
 - Be aware that local jurisdictions may have different definitions for third parties
 - It’s very important that loans be moved by the end of the contract period
 - Grantees should contact their contract officer and project officer to determine if their program qualifies for early expenditures
- List of institutions and lenders providing PowerSaver loans will be available in the next few weeks
 - PowerSaver loans are designed as a stand-alone product, but DOE anticipates that having BetterBuildings state and local governments work with lenders to facilitate access to the program will increase its success
 - Grantees interested in using PowerSaver loans should contact Chris Lohmann for the latest information from FHA and to connect with area lenders
 - More information on PowerSaver loans is available at:
<http://www2.eere.energy.gov/wip/solutioncenter/financialproducts/powersaver.html>

- Perceived value of debt service reserve fund to financial institutions, especially for the commercial sector
 - WI looking to implement a debt service reserve fund, with PACE, for commercial programs; debt reserve allows 12 months of principle and interest (P&I) payments to be set-aside as a reserve on a project by project basis
 - Challenge: Banks are reluctant/not interested. Similar experience in FL, OH, and NH
 - Debt service reserve perceived as too complicated
 - Some commercial clients claim they can get financing at low rates
 - Marketing as “Credit Enhancement” so it sounds less complicated
 - FL using grant funds for interest rate buy-downs instead
- Value of commercial PACE programs
 - WI looking for documentation to provide banks to help them determine how PACE fits within their credit policies

Discussion Summary: Challenges

- Rolling energy efficient financing for commercial buildings into loans during refinancing periods
 - OH looking for opportunity given cash flow impacts and increase to value
 - Challenge: In downturn, appraisals coming in lower than first loan; commercial sector looking at operating income relative to value
 - Key is to work with a bank that believes that upgrades increase performance and collateral
 - Resources:
 - HUD website on energy efficient mortgages:
http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/eem/energy-r
 - Commercial financing webinar on May 4

Discussion Summary: Challenges

- Variety in the commercial sector is a big challenge
 - How to address range (non-profit to industrial) in a structured fashion
 - Potential strategies: micro-targeting, blended rates
 - Easiest to get money out on multi-family projects given existing state energy programs
- Project-by-project vs. portfolio approach
 - Banks – small and large – want to look at each deal individually rather than as a portfolio
 - This can result in high transaction costs, but potentially better projects
- Other challenges
 - Competition from utilities (e.g., offering financing at lower interest rates)
 - Getting traction and attracting participation, even with very low rates (1%)
 - Banks only interested in larger deals
 - How to raise additional loan capital for residential loans (secondary markets?)
 - Long-term sustainability of financing programs

Discussion Summary: Strategies

- Loan loss reserve (Commercial and Residential)
 - Seattle will use loan loss reserve for small portion of a commercial loan product
 - OH looking at ways to provide loan loss reserve to get initial investments off the ground for residential programs from local impact investors, foundations, and governments; they are willing to provide capital at a lower rate (6.99%) than the local utility and large banks (best was a 10-year loan at 11-12% with a 740 minimum credit score), but have minimal tolerance for risk
 - NH: Loan loss reserve and energy rate buy-down with small local banks
- PACE programs (Commercial)
 - WI is currently working on city ordinances for commercial PACE; because of state statutes, funding would come from local FIs that the borrowers have relationships with. Targeting roll-out 3rd week in June
- Interest rate buy-downs (Residential, Small/Mid-sized Commercial)
 - FL launched program in November - financial institution does underwriting, the program buys-down the first 6%
 - Credit unions responded by offering 0% financing to qualified buyers
 - Have made 3 loans, 8 coming
 - FL ramping up marketing

- Blended rates (Commercial)

- NH is in the working stages of implementing a blended rate approach for commercial projects
 - Banks make the first loan, NH makes the second loan, the resulting blended interest rate more attractive to consumer and mitigates risk for bank; NH in subordinate position if borrower defaults
 - NH will report back on the outcomes of this approach
- MD developed a model to match private bank funds, but could not attract interest from credit unions and small community banks who 1) were not convinced there was demand, and 2) expressed concern regarding administrative issues (e.g. how to amortize and service the loans)
 - MD decided instead to direct lend and instead pair their energy efficiency loans with bank loans

- On-bill financing (Residential and Commercial)

- One-year-old program started in Portland (now statewide in OR) allows for on-bill payments of both residential and commercial loans

Discussion Summary: Strategies

- Revolving loan fund (Residential)
 - NH is administering a revolving loan fund (4%) for residential sector after blended model did not get traction; hoping to pair this with a rebate program from a sister agency
- Mortgage loan (Residential)
 - NH is developing an energy efficiency loan as a second tier loan
 - Bond funded, flexible rate (possibly 4%)
 - Target is first-time buyers looking to make upgrades before they move in
- Assess the market, then set-up the program
 - NH is putting together guidelines, assessing the commercial market, and working on deals with private banks to leverage funds
 - Initial findings: Banks are more willing to take risks when presented with something concrete that has good cash flow, etc.
- Incentives for energy performance contracting
 - OH has existing laws for school districts; OH is working with school boards to help through the process, and provide grant incentives and credit support

- Viable approaches in the commercial sector
 - Specifically, how to reach small commercial “Mom and Pop” types
 - Strategies for financing small-commercial (e.g. blended rate approaches)
- Energy efficient mortgages
- On-bill financing
- Performance contracting
- PACE programs to highlight
 - Sonoma is issuing residential and commercial PACE programs
- Resources to answer the “what’s in it for me” questions
 - Identify financing success stories that can be used for marketing and outreach, specifically to financial institutions, to convince them of project value