

Approaching Financial Institutions

Matthew H. Brown
Harcourt Brown Energy & Finance

John MacLean
Energy Efficiency Finance Corp.

EE Finance Program Development Sequence

1. Determine target sectors; set Program goals & EE investment targets
2. Organize delivery mechanisms & Program
3. Design EE financing structures & associated use of ARRA funds
4. ***Recruit & procure financial institutions***
5. ***Develop & negotiate financial partner agreements***
6. Operate program....

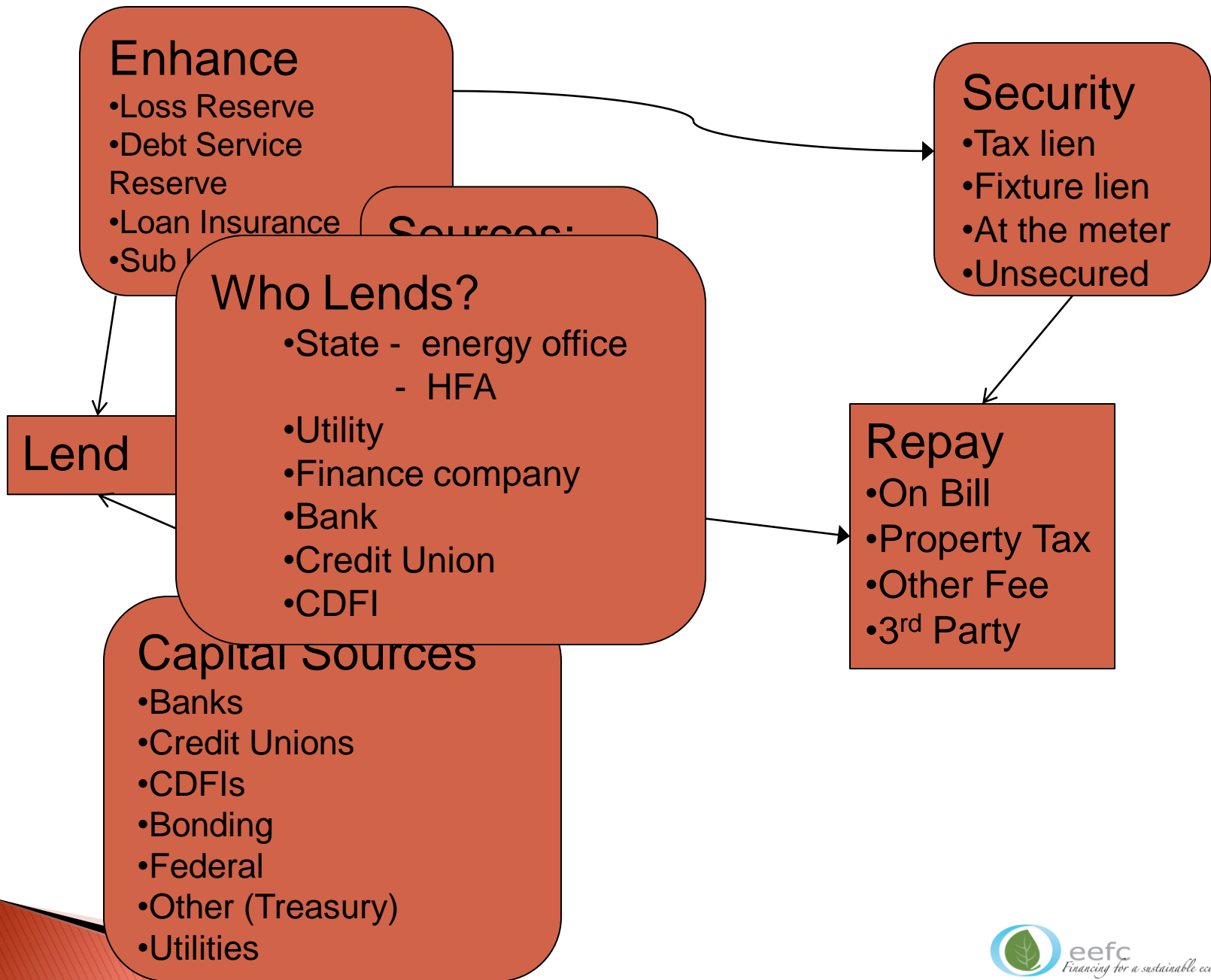
USDOE has technical assistance for all stages.

Presentation Outline

Today's focus: Recruiting/Procuring financial partners

- ▶ Review finance products & structures by sector
- ▶ Describe financing sources & FI research
- ▶ Outline FI recruiting/procurement processes & implementing agreements
- ▶ Q & A to address your structuring needs

Market Segment	Loan Product	Types of Financial Institutions (FIs)
Residential		
Single Family	<ul style="list-style-type: none"> loans, both secured and unsecured 	<ul style="list-style-type: none"> commercial banks credit unions specialized non-bank FIs & CDFI
Multi-Family	<ul style="list-style-type: none"> loans, both secured and unsecured tax-exempt bond debt possible for qualifying low-income housing ESCO 	<ul style="list-style-type: none"> commercial banks credit unions leasing companies bond purchasers
Commercial		
Small	<ul style="list-style-type: none"> loan/lease are typical 	<ul style="list-style-type: none"> commercial banks credit unions
Large (as well as industrial)	<ul style="list-style-type: none"> loan/lease Energy Savings Performance Contracting (ESCO) QECCBs possible Tax-exempt industrial development bonds for industry 	<ul style="list-style-type: none"> commercial banks credit unions specialized EE FIs contractors/ESCOs private equity investors
Institutional		
Government	<ul style="list-style-type: none"> tax-exempt bond tax-exempt lease ESCO 	<ul style="list-style-type: none"> Tax-exempt & lease purchasers capital markets transactions possible
501C (3)	<ul style="list-style-type: none"> tax-exempt bond 	<ul style="list-style-type: none"> Commercial banks



Who are the lender partners?

- ▶ **Banks:** both community and national.
- ▶ **Credit unions:** Understand small loans, community-minded.
- ▶ **Specialty Lenders:** Know energy finance very well
- ▶ **Community Development Financial Institutions (CDFI):** low cost, but limited capital
- ▶ **State-chartered Bond Authorities** (bond issuers, e.g., HFAs) & bond purchasers
 - Banks & funds for private placements
 - Investment banks to arrange capital markets bond sales
- ▶ **State Treasurer funds**

What will bring FIs to the table?

- ▶ Demand for loans – program to generate deal flow. (Many lenders hungry for quality loans).
- ▶ Creditworthy borrowers & lending structure
 - Credit enhancements can be applied
- ▶ Manageable transaction costs
- ▶ Well structured program
 - Clear distribution of roles and responsibilities in loan origination & administration
- ▶ A secondary market for loans (a place to sell the loans): important for some FIs

In other words: profitable, scalable business!

Steps to Recruit Financial Institutions

1. Conduct FI research: identify interested FIs
2. Structure financial products and use of ARRA funds
3. Develop FI Request for Proposal (RFP), if required
4. Conduct FI RFP process
 - Leave room for creative responses, at the same time ...
 - Provide initial structure concepts
5. Develop & negotiate implementing agreements with FIs

Financial Institution RFPs: Outline

- ▶ Program Background: e.g., partners, target market, lending goals, types of equipment, project economics, marketing, etc.
- ▶ Proposed structure & terms of financial products
- ▶ Use of ARRA grant funds
- ▶ Prescribe format for proposals
- ▶ RFP rules, procedures, schedule, evaluation criteria
- ▶ Implementing agreements, e.g., LRF Agreement

Draw the target well so proposers can hit a bull's eye!
Same information needed in sole source negotiation.

Financial Services Requested

- ▶ Assist in final structuring of the energy efficiency (EE) loan program, with program partners
- ▶ Originate and provide EE loans (“Loans”) to target sectors
- ▶ Manage loan loss reserves (LRF) or other use of grant funds
- ▶ Provide related Loan administration services
- ▶ Provide reports on Loan portfolio and LRF
- ▶ Potential additional services: marketing, manage Vendor network, expanded lending

EE Loan Terms: Outline Example

- 1) Eligible borrowers
- 2) Eligible projects
- 3) Loan application
- 4) Credit prescreening
- 5) Loan terms
- 6) Interest rate
- 7) Payment schedule
- 8) Loan size
- 9) Loan underwriting guidelines and security
- 10) Loan disbursement and flow of funds during project construction
- 11) Prepayment option

Loss Reserve Fund Agreement Terms

- Definition of Deposit Account & Reserve Account
- Reprogramming Funds in the Deposit Account
- Interest on both the LRF and Deposit Accounts
- Definition of Loss & Event of Loss
- Risk sharing formula; expanded lending & reset formula
- Responsibility for & Distribution of Recoveries
- Underwriting Criteria & Loan terms
- Reporting & Monitoring
- Availability Period
- Disposition of loan loss reserve funds at end of Loan period
- Program Fees
- Assignment of LRF

Items for FI to Include in a Proposal

1. Summary Financing Structure & Approach
2. Loan Interest Rates and Fee Pricing
3. Loan Terms, Tenors, Prepayments, etc.
4. Underwriting Guidelines
5. Loan Marketing
6. Loan Origination & Administration
7. Qualifications & Experience, Officers and Staffing
8. Other services
9. FI background and financial condition

Webinars

- ▶ Loan Loss Reserves
 - September 20th 2:00 – 3:15 pm Eastern

- ▶ Qualified Energy Conservation Bonds
 - September 22nd 3:00 – 4:30 pm Eastern

Sign up on the Solution Center