



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

BROUGHT TO YOU BY



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.



www.inhp.org • 317-610-HOME (4663)

Copyright 2011 Indianapolis Neighborhood Housing Partnership

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

INHP

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

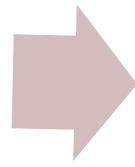
EcoHouse bare basics

- 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

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

INCENTIVES	measures	amount
Utility funded	Insulation & sealing	50%, max. \$1,600
Program funded	HVAC	33%, max. \$1,500

Up to \$3,100 per project

EcoHouse Program

HOME ENERGY AUDIT REPORT

Audit Date: 2/11

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

IMPROVEMENT SAVINGS

PROPOSED Improvement	Customer Cost	Annual Savings	Payback (years)	SIR	Savings Percent	Lifetime Savings
Low Flow Shower Heads	\$3.00	\$46.80	0.1	97.6	3.51%	\$327.60
Bathroom Aerators	\$1.00	\$10.80	0.1	67.6	0.81%	\$75.60
Kitchen Aerators	\$2.00	\$10.80	0.2	33.8	0.81%	\$75.60
Lighting	\$16.00	\$17.02	0.9	9.1	0.32%	\$170.17
* Air Sealing	\$400.00	\$44.07	9.1	1.7	3.59%	\$881.43
Water Heater Improvement	\$850.00	\$91.51	9.3	1.2	6.86%	\$1,281.18
* Vaulted Ceiling Insulation	\$810.00	\$62.39	13.0	1.2	4.12%	\$1,247.80
Window Improvement	\$750.00	\$44.85	16.7	0.9	3.01%	\$897.03
* Above Grade Wall Insulation	\$1,125.00	\$62.90	17.9	0.8	4.68%	\$1,258.08
* Attic Insulation	\$280.50	\$8.17	34.3	0.4	0.56%	\$163.34
~ Cooling System Equipment Improvement	\$3,300.00	\$107.87	30.6	0.4	3.63%	\$1,510.23
Window Improvement	\$8,400.00	\$155.32	54.1	0.3	10.62%	\$3,106.33
Energy Star Clothes Washer	\$500.00	\$8.56	58.4	0.2	0.25%	\$119.84
Energy Star Refrigerator (18 Cubic Ft.)	\$500.00	\$7.20	69.4	0.2	0.21%	\$100.80
~ Heating System Equipment Improvement	\$2,700.00	\$15.30	176.5	0.1	1.19%	\$306.02
extend plumbing stack through roof	\$200.00	\$0.00	-	0.0	0.00%	\$0.00
* Attic Insulation	\$919.62	\$0.00	-	0.0	0.00%	\$0.00
* tyvek and seal knee walls	\$225.00	\$0.00	-	0.0	0.00%	\$0.00
Insulate and Weatherstrip Knee Wall Access	\$110.00	\$0.00	-	0.0	0.00%	\$0.00
install gable vents in both knee attics	\$400.00	\$0.00	-	0.0	0.00%	\$0.00

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



Program Tweaks

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 “tweaks”

- 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?
- 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?

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.

Discussion: Building Interest (Cont.)

- 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*