Better Buildings Residential Network Financing Peer Exchange Call Series: *Lessons from On-bill Financing and Repayment Programs*

Call Slides and Discussion Summary

October 31, 2013

Agenda

- Call Logistics and Introductions
- Featured Participants
  - Jeff Pitkin, NYSERDA
  - Greg Leventis and Peter Thompson, Lawrence Berkeley National Labs
- Discussion:
  - What kind of consumer demand are programs seeing?
  - How has the performance of on-bill financing compared with other financing programs?
  - What lessons have programs learned?
- Future Call Topics Poll

Call Participants

- Austin Energy
- California Center for Sustainable Energy (San Diego, CA)
- Clinton Foundation
- Craft3 (Portland OR)
- Efficiency Maine
- Energy Fit Nevada
- Greater Cincinnati Energy Alliance
- Institute for Market Transformation
- Michigan Saves
- NYSERDA
- Richmond Region Energy Alliance (RREA)
- Southeast Energy Efficiency Alliance (SEEA)
- Wisconsin Energy Conservation Corporation

NY On-Bill Recovery Program Status

DOE Better Buildings Peer Exchange
10/31/2013

Jeff Pitkin, Treasurer
New York State Energy Research and Development Authority

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On-Bill Recovery Financing Program

- Legislation enacted Aug 2011; program launched Jan 2012
- Statewide program – 7 utilities
- Energy efficiency improvements for residential (owned) and small businesses (<= 100 employees) and not-for-profits
  - Governor signed legislation adding renewable technologies
- Transferability
  - Unless satisfied prior to sale (allows purchaser to require seller to payoff)
  - Seller must provide written notice to prospective buyer; responsible for arrears up to transfer
  - *Program Declaration* filed in clerk's office – not a lien; ensures notice to prospective purchaser
  - Title company performs property ownership search
- Installment charge is tariff charge
  - Consumer safeguards - termination of service; deferred payment arrangements
  - Installment charge subordinated to utility collection of service charges
  - Establishes process for off-bill billing if customer account is terminated without transfer
- Bill neutrality
  - Installment charges can't exceed 1/12th of <u>estimated</u> energy cost savings from <u>all</u> energy sources (allows oil/propane), including anticipated price escalations over loan term
- Fees paid to utilities to offset system changes & administration

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Residential OBR Terms

Loan Type	On-Bill Recovery Loan (Launched 1/30/2012)
Borrower eligibility	Owner and named on utility account
Loan Amt	Up to $13,000; $25,000 if payback period is 15 years or less
Loan Term	5, 10, or 15 years; Term may not exceed expected useful life of measures
Interest Rate	3.49% (2.99% prior to Jan 2013)
Cost Effectiveness Required	Loan installment charge may not exceed 1/12th of estimated annual energy cost savings

Loan Underwriting Approach

Tier1 loans

- Traditional FNMA standards
    - FICO 640+,
    - Debt:Income (DTI) < 50%
    - No bankruptcies 7 yrs
    - No outstanding judgments/collections > $2,500
- Aggregated and financed through capital markets

Tier2 loans

- Originated using alternate loan underwriting criteria
    - Current on mortgage for last 12 months
    - Current on utility bill for at least 2 consecutive months in each of last 2 years
    - Max 70% DTI (100% if customer is eligible for Assisted 50%/$5,000 subsidy)
    - No bankruptcies 5 yrs
    - No outstanding judgments/collections > $2,500
- Held in revolving loan fund until performance allows securitization

Third Party loan origination and servicing:

- Loan Originator: Energy Finance Solutions
- Master Loan Servicer: Concord Servicing Corporation

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Lessons Learned

- Subordination problematic for secondary markets financing
- Deferred payment arrangements result in lengthening repayment term – result in early chargeoffs
- Challenges with obtaining utility bill payment history for timely loan decisioning for Tier 2
- Property ownership verification results in slower approval process
- Current cost effectiveness rules slow down approval
- Lack of easy-to-use and reliable modeling tools creates bottlenecks
- Speed of loan and project approval critical

$24.3 M Bonds Issued

- Closed August 2013
- Secured by 3,263 Tier 1 residential EE loans ($29.2M)
  - Includes 879 OBR loans ($9.2 million)
- 126% Coverage ratio; 110% minimum required
- NYS Environmental Facilities Corp Guarantee
  - State Revolving Fund (Clean Water) program
  - Demonstrated nexus clean energy – clean water programs
  - US EPA concurrence received Mar 2013
  - Resulted in <u>AAA</u> rating based on EFC SRF rating
  - Funded reserve $8.5M (DOE Better Buildings grant) to protect EFC/SRF Guarantee; reduced pro-rata with bond principal payments
- Also used State QECB volume cap – Federal interest subsidy
- Taxable interest rate 3.2%; net rate after QECB < .5%
- Replicable national model

Upcoming LBNL On-Bill Report

- Case Studies:
  - NYSERDA
  - United Illuminating, Small Business Energy Advantage program (CT)
  - National Grid' (NY, RI and MA)
  - TVA, Energy Right Solutions (TN, KY, GA, MS, AL and NC)
  - PG&E, Energy Efficiency Loan Retrofit program (CA)
  - ECSC, Help My House (SC)
  - CEWO, on-bill loan programs (OR)
  - The Green Deal (United Kingdom)
  - PowerSmart loan programs (Manitoba, Canada)
  - Midwest Energy, How$mart loan program (KS)
  - Illinois Energy Efficiency Loan program (IL)
  - Georgia Environmental Finance Authority's EECBG-funded programs (GA)
- Final report will be available end of 2013 at www.lbnl.gov

Discussion: Lessons Learned

- The newness and structure of on-bill programs can create some challenges for private financing. Challenges for NYSERDA included:
  - *Limited track record*. Heard from financial institutions “you built an interesting mousetrap, but it’s too new.” Rating agencies prefer to see data for a portfolio that has gone through one cycle (e.g., 10-12 years). NYSERDA had difficulty getting information about comparable asset classes (e.g., time share loans) to show financial institutions.
  - *Subordination*. If customers couldn’t pay their full bills, utility charges got paid first, which created risk of non-payment of loans.
  - *Deferred payment arrangements*. Customers could arrange with the utility to defer full payment of utility bills, which then delayed repayment of loans.
  - *Transferability.* For NYSERDA, loans transferred from selling homeowners to buyers. In practice, this hasn’t created any problems with delinquency. Often, the loan is paid off at closing.
- NYSERDA found a solution by partnering with the State Revolving Loan fund for water projects to issue bonds for capitalizing a state loan fund rather than seeking financing in private markets.

Discussion: Lessons Learned

- Maine had an on-bill financing program for heat pumps.
  - Found that many homeowners preferred to pay out of pocket.
  - Concluded that financing programs do not necessarily transform markets on their own but they helped customers understand that energy efficiency improvements were investments in the home's value.
- On-bill financing programs in WA and OR have issued 3,000 loans. The loans are secured by a deed of trust and none have transferred to new owners when homes have sold.
  - Transfers of loans in New York may be more common because loans are not placed as a lien but as a "declaration instrument" that places an obligation on the utility account that is transferred unless paid off before sale.
- It is more common to find commercial on-bill programs than residential.
  - Commercial properties may have fewer issues with bill non-payment, deferrals, disconnection, etc.
- Where on-bill programs need to screen projects for cost-effectiveness, software tools can help.
  - In NY, cost-effectiveness calculation includes fees (and the loan amount includes cost recovery of fees).

Discussion: Lessons Learned

- To date, there have not been many secondary market sales of energy efficiency loans.
- Fixed transaction costs (e.g., rating fees, legal and structural costs) are often considerable for any traditional asset-backed securities market, so financial institutions need high loan volumes to create an adequate return.

Future Call Topics and Poll

- Upcoming Call:
  - Program Support through Socially Responsible Investing (Dec. 12)

- Which of the following previously suggested topics are of interest for future Financing calls?
  - Effective Loan Program Design and Integration - 54%
  - Project Performance Relative to Loan Performance- 31%
  - Commercial PACE - 8%
  - Options for Unsecured Debt- 8%
  - Other- 0%

Please chat in other suggested call topics or email them to peerexchange@rossstrategic.com