

Financial Vehicles within an Integrated Energy Efficiency Program

Better Buildings Webinar

July 29, 2010

2pm EST

Danielle Byrnett: Hi folks. Welcome to the first Better Buildings webcast. We're going to be having a series of these. It looks like we've got more than thirty grantees on the phone and hopefully also up online. If you're having any trouble, feel free to use the box on the right-hand side of your screen to let us know, and we'll see what we can do to help you out. Erin Jackson is going to describe how the webcast is going to be run and moderated and then we will get started very shortly thereafter with our presenters: Chris Lohmann, Stockton Williams, Julie Bennett, and Brandon Belford.

This is Danielle Byrnett if I didn't say that, Program Manager for Better Buildings. I wanted to thank you all for your active participation so far already with our Google Groups. Hopefully everybody has checked that out and if you haven't already logged in to see that we have pages with lots of information, FAQ, resource links that you all have sent us and that we have compiled and we will of course also be posting the slides from the web cast to the Google Group later today so you'll have access to that. And I wanted to give you a heads up about our next two webinar topics.

This time next week we will have a webcast about Home Performance with ENERGY STAR that will include some folks who run the Home Performance with ENERGY STAR program here in DC and also at least one if not more case studies of programs that are running across the country right now and what kinds of resources you might be able to leverage for your own programs through that. And then the following week we will be having a webcast on Marketing, thinking about the planning stage that will be comparable to this financing webcast. And with that I think I'm going to turn it over to Erin to describe what we're going to do today

Erin Jackson: Hi everybody, welcome, I just wanted to brief you on how the webinar is going to work and how the rest of the webinars will work as well, introduce our speakers, and tell you how to ask questions. This is just the beginning of many communication and collaboration opportunities we will offer you. We look forward to working together and insuring you have all the information you need. So be sure to ask lots of questions and work with us on that. Today's webinar is all about financing.

We have three Department of Energy experts: Chris Lohmann, Brandon Belford, and Stockton Williams. He'll be presenting. Chris is a Financial Specialist at DOE's Weatherization and Intergovernmental Program, which works on market transformation triggers barriers for cost effective adoption of renewable energy and energy efficiency technologies. He is part of the Financial Market Development Team and leads the Finance Technical Assistance Team. Brandon is also a Financial Specialist on the Recovery Act Team with the Office Energy Efficiency and Renewable Energy. Stockton Williams joins us from the US Department of Housing and Urban Development. He is the Director of Green Economies and also serves as the Senior Advisor for Living Cities,

a unique philanthropic collaborative of 22 of the world's largest foundations and financial institutions that over the last 18 years have invested more than 600 million dollars in American cities leveraged into 16 billion dollars, making a demonstrable difference in neighborhoods throughout the nation. We also have Julie Bennett who is the Vice President at Public Sector Consultants, a Lansing based public policy research and implementation firm. She serves as a Finance Manager for Michigan Saves, an organization of public sector consultant staff. I'm sure that they'll speak to their experience as well, as we move along in the webinar.

Chris and his team will be speaking for approximately 40 minutes, and you can ask questions throughout the webinar by posting them onto the little webinar block on the right-hand side of your screen, and we will collect all the questions and answer them live at the end of the session. You'll also have an opportunity to ask them live by virtually raising your hand at the end of the presentation. So I'll give you more instruction on that as we go. With that, I'm going to turn it over to Chris.

Chris Lohmann: Thank you very much Erin, and hello to everyone out there in webinar land. I appreciate the time that you're taking today. We're very excited to talk to you about the financing program aspect of your integrated energy efficiency programs, and with that I'd like to quickly talk about where we feel financing sort of fits in.

Slide: Financial mechanisms within Integrated Energy Efficiency Programs

Many of the best minds in this area will talk about four different pillars to a really effective integrated energy efficiency program. The demand creation which includes marketing and outreach, workforce training and certification that builds up contractors and other that can do the work; EM&V data collection; continuous improvement which really energizes and maintains the life of one of these programs. And then the fourth aspect is financing which is often kind of the fuel for this engine being able to... as I say in the bottom here, stretch out your payments on investments in the same way that the benefits are coming back on energy efficiency are coming into you, so it allows a small up front down payment by the bar or while the benefits are enjoyed over a long period of time, so are the payments. So it makes many of the projects very possible, when being able to afford it up front is impossible. Financing... you have to look at a very big spectrum of needs. There's everything from the middle of winter and your furnace is blown out and you need to react to it and replace it very quickly and it may be a small dollar figure, to the homeowner who's really interested in a really large whole home retrofit that they think out very carefully, plan, and do everything they possibly can, out to the even further: commercial or industrial building retrofits where you've got multimillion dollar projects that are hinging on very sophisticated financing. So there's a wide spectrum. No one product is perfect for the entire spectrum. For truly effective broad reaching integrated energy efficiency programs, the approach of using multiple complimentary products within a portfolio is often the most effective way to go. It doesn't necessarily mean that it has to start with multiple products right away. Starting with one particular product that's the right one to meet the program goals and then

building a system that allows other products to be plugged into that is probably the right way to go forward.

Slide: The First Step is to Define Program Goals

So they mention the first step often is: define your program goals. Determine the target sector, whether it's residential or commercial, non-profit, institutional or industrial and assess where within that particular sector you want to make a genuine impact. With our ARRA dollars we have some restrictions on us. It makes it very hard to go after the small business sector because of the Davis-Bacon [wage determinations]. Large commercial businesses can often afford a Davis-Bacon compliance project, but it does have an additional charge on top of it. A lot of what we'll talk about today is a focusing on the residential market because of those very reasons. ARRA dollars are a little easier to spend in the residential sector here. But keep in mind also that the industrial sector is extremely fertile area for energy efficiency. Working with industrial customers can be an extremely effective way to do it - tends to be a large deal size and have one-off deals, but that doesn't mean that it's any less effective. In a sense, what we're driving at here is residential is easier on the ARRA dollars, and it's also in a way that the big challenge out there, the big white whale, because you're talking about assimilating hundreds and thousands of home owners of houses across communities, across states, across the nation into some sort of an efficiently run program that allows us to get substantial energy efficiency work done across this very diverse landscape.

At this point I'm going to hand the speaking duties over to Matthew Brown who is one of the real leading experts on finance and developing energy finance programs around the country. He's working with several of you already on programs and will probably be working with several more of you before the year is out. He's coming to us from a remote location, so we'll just have audio from him and I'll be clicking for him. So, please forgive him for telling me what to click on the slide. So Matthew, with no further ado, why don't you start off.

Erin Jackson: Matthew, are you there?

Slide: Lending Flowchart

Chris Lohmann: We're having some technical difficulties, so I'm going to start talking through his slides and do the best I can with it. The activity here is all about lending money, but there are obviously a lot of things that have to go on to make it happen. First question you have to figure out is, who is actually lending the money? Where is the money coming from? Is it coming through the state energy office, housing finance authority? Is it coming through a utility or some sort of financial company or financial institution? Maybe a bank, maybe a credit union, or maybe a community development financial institution?

The repayment method is another one of your menu selections here. There's a lot of different ways to get it. Simply sending a check off to the bank with your balance and

interest payment each month is one way to do that, but folks have developed a lot more sophisticated ways to do it as well, on-bill being one of them if you have a partnership with the utility company, whether it's electrical or water or other sort of utility company. It's possible and many other programs have piloted it, successful programs where the repayment of the loan and interest is made directly on the utility bill. It comes with some challenges but plenty of benefits. Property tax, as everyone is probably well aware of now, is an aspect that's something we're working on very hard right now as part of the PACE or Property Assess Clean Energy effort -- terrific advantages of linking the liability for the investment directly to the very structure that carries the benefit of the energy efficiency investment being the house itself rather than the owner who may transfer. There are other ways to put these through, and of course then third parties who are simply collecting the payments.

Capital sources, again, is another major question here, and the reason we're framing it this way is because you have the same capital source and different repayment options or the same repayment option and different capital sources, depending on how you craft your program. Capital sources -- the first and initial one is a bank. Banks naturally have money that they lend. So do credit unions and GDFIs, but there's not just the money within their bank accounts themselves that are to be used for lending, but capital sources that they can tap into depending on how the financial structure of the program is set up. These financial institutions reach back into larger pots than investors who have large funds that they want to put into large coherent homogenous investments, and so pass that money through a bank as its retail phase to making loans to consumers. This is what we talked about when we mentioned secondary market.

There's also a capital source available to us in bonding. If a municipality, a state, or a government issues a bond for a substantial portion of money that can establish a loan pool which then that entity uses as the capital to make loans for energy efficiency financing. Using the interest paid on the energy efficiency loans to pay off the payments for the bonds themselves. And acting as an intermediary, the public can see it's using the bond market to make many, many, many small energy efficiency loans.

Federal lobbyists, they were talking here because we've got ARRA dollars that are being directed to you all to be put to the best use possible and many times those ARRA dollars can be used as the capital themselves or as credit enhancement to access other sources of capital. "Other" and "Treasury Department" are on here because specifically the Treasury Department has several programs that are aimed at developing green or otherwise energy efficient communities and Brandon Belford will be able to talk more in detail about that.

And lastly, here is utilities -- in many areas, the utility company will have either payments that they collect from their rate base or other sorts of fees that are collected for other services that are mandated to go into funds that are directed towards energy efficiency. So, there may be capital sources there at utility companies.

That capital source goes into that lending action and in order to make that really happen, then we often find that the need to enhance that capital in order to make that loan

possible. A loss reserve is when a portion usually ten or twenty percent of the entire loan amount is set aside as a rainy day coverage for the lender or the holder of that loan in the event that that loan might go sour -- best used on a portfolio basis, so you'll have millions and millions of dollars worth of loans all bundled together and then a loss reserve put against a percentage of loss against that portfolio, because it smoothes the risk an awful lot. But that's a way that we can make lending markets happen that otherwise wouldn't be happening now, purely on a profit motive.

Debt service reserve is a term that you'll hear for other sorts of lending activity. Particularly, you'll often hear it when it's a PACE program or a bonding program. This is a slightly modified type of loss reserve in a capital source situation where the public entity is responsible or the borrowers are responsible for steady payment of principle and interest. The debt service reserve is set aside in order to guarantee the investor, whether the investor in a bond or an investor in a pool of assets of PACE loans, a steady revenue that they're buying that aspect for. So the debt service reserve steps in to smooth out the principle and interest payments when there's a hiccup from some borrowers being unable to pay their debt, or being delinquent on paying it.

And then lastly, we've got here second to last: loan insurance. There is a market of potentially simply paying an insurer to guarantee a loan is good. Right now, naturally, that market is not as robust as it has been in the past because of the recent troubles of that market that insurers have gone through, but that does not mean that the concept and a well-balanced approach to that could not be taken some time in the future.

And sub loans, finally, is the simple ability for a public entity to take a secondary position on any loans, an appropriate percentage of that position, in order to make it sufficiently attractive for any lender. That subordinate position means essentially that if the loan is delinquent, if the loan defaults, the secondary folks take the first loss on it. Who eats up the losses first, protecting the primary loan holder, and that allows often a bank or lending institution to move forward on a less well known type of loan because their risk has been mitigated.

So finally the source of the enhancement can come from federal dollars, that's what we're talking about primarily today because of the ARRA dollars that we have available to us, but it can also be combined and leveraged with foundations and utilities that are obligated or through their own personal mission bound to finance and capitalize programs that do things like energy efficiency and community development.

So, the last piece here is that there's a measure of security there. Sometimes the enhancement is whether it's efficient or, on the other side of it, we design this so that the enhancement is of a short term duration during a transitional period and the loan program is set up with an additional security to it that is an intrinsic portion that will be part of it for long term, in fact forever. So in the case of PACE, you have an actual tax lien. You could potentially have a lien at a meter where the utility is holding responsible whoever owns the property or is a tenant of the property for that bill. And of course lastly is an

unsecured level of security, which is a consumer loan and comes with its own flexibilities and liquidities, but also it's of lower value to a potential investor.

Oh hello Matthew...

Matthew Brown: If you don't mind, I'll just jump in on that security piece and just add a little bit of color if that's ok.

Chris Lohmann: You bet. I apologize for forcing you to listen to me butcher your slide here.

Matthew Brown: No, you were doing well, as usual. So I just wanted to mention a couple things. First of all, the lien at the meter is kind of another way of saying that it's tied to disconnection. So that's in particular the idea that, if you have a utility that is operated in an on-bill repayment structure and that is tied to disconnection for failure to pay the principle and interest. That is actually pretty powerful mechanism from an investor's standpoint. It's also one that is not necessarily something a lot of utilities and certainly a lot of consumer advocates will like, so it's not going to be tremendously common, especially in the residential sector. I think that in the small commercial sector it will be much more common and something that we see right now.

But the fixture lien is another kind of a UCC filing that essentially attaches a lien on the piece of the fixture that's put in place. That's difficult to have in place with insulation, with furnace, with conduct ceiling and air ceiling, and so on. However, it does provide some measure of security when a property might be sold -- anybody is going to go in and see that the UCC filing is there attached to some piece of the property so it does provide some measure of security and there will be some level of cost that's going to be associated with this. What I've found is some lenders will feel like it's worthwhile, and some of them feel like the level of additional security you get isn't worth the time or the money, it'd 50-80 bucks for that kind of fixture. That's the additional color I guess I wanted to add there. Chris, it looks like you're just about done with this slide so let me finish up so you can continue the flow.

Chris Lohmann: Ok great, in fact I was skipping on to the next slide here and to introduce Brandon Belford who works here with me at the Department of Energy and has become our subject matter expert on PACE as well as the subject matter expert here within the Department on the bonds that are offered by the US Treasury Department, the QECB and the CREB. Brandon, I'm going to hand it over to you and allow you to give folks the update that you have, and I'm looking at Danielle right now, and would you like to do questions during this or hold off until the end? Ok we'll hold off questions 'til the end. Right, Danielle is telling me you can type in your questions at any time right now. We'll make sure that we capture them and we'll go through and do our best to answer all of them.

Slide: PACE and QECB CREB Update

Brandon Belford: Hey guys, so again this is Brandon Belford here at DOE Headquarters and again thanks for spending time with us this afternoon. I'll make my update relatively quickly so we can leave more time for specific questions, especially when it comes to any updates on PACE and where things are with QECB. But real quickly on the PACE front, I imagine the majority of you that are impacted and interested in PACE have been following closely with all of the news articles and updates that have been distributed throughout the community and folks on the hill, so I won't get into the background but effectively where things stand since I last spoke to you all here in DC earlier this month is that over the past week and a half or so there's been a lot of interest from folks on the hill both from the House and Senate to see if there is a way to get past this impasse we are currently facing with the regulators on senior lien position PACE programs. There have been a number of meetings and phone calls with folks from the Hill and regulators to see if there is a path forward. All I can say at this point is that there has been some progress made by the regulators with their overall understanding and approach and concern with PACE. We are waiting to hear back from them as a result of some meetings that took place yesterday afternoon. So, again I think that there's still a long way to go, but there's still a potential light at the end of the tunnel for PACE at some point.

That being said, we obviously came out when you guys were in town in DC and I had conversations afterwards with a number of you and other grantees that given the current regulatory environment it is prudent management of the Recovery Act to make sure we can all deliver on our stated goals here to start exploring alternative financing solutions and to tie that into what Chris was talking about earlier with respect to approaching better buildings and retrofit programs as an integrated energy efficiency program. I think that really ties in, and what we see in a number of grantees that are dealing with the uncertainty around PACE already start to implement is basically broadening their overall platform for delivering retrofits and retrofit financing products to their constituencies by developing that platform for which they not only have the workforce development, the EMNV, the contractor development, the demand creation component, but they also have a number of financing options that can be delivered to their constituents. Given where we currently stand with PACE that might mean that the initial efforts are towards some of the unsecured products that we'll hear about later, other products that our friends at HUD are working with us on, and other products with PACE potentially being able to be folded into that broader platform in the weeks and months to come if there is a resolution here in DC with the regulators. I guess that's all I'll say now on PACE and have follow-up questions at the end of the call and offline with those of you that are looking for more specific insights and questions.

With respect to QECB and CREBS, those being Qualified Energy Conservation Bonds and Clean Renewable Energy Bonds, I believe the majority of you have received guidance that we released last night/this morning. Basically what I previewed a couple weeks ago here in DC, the guide stating that the use of SEP, in your case the use of Block Grants and Better Building funds, to support QECB issuance is an eligible use under the Recovery Act. We see three primary purposes for those uses. One being debt service reserve fund which Chris alluded to earlier as well as capitalized interest funds and principal thinking fund payments. For those of you who aren't as familiar with the QECB

and CREB products, they're effectively tax credit bonds being run out of Treasury so a lot of this work we're doing in tandem with our friends across the Mall in the Treasury building, but it's a tax credit bond program, which recently was changed into a direct subsidy bond program, which effectively allows folks like yourself and other states and local municipalities to raise municipal debt and receive a significant rebate or grant from the US Treasury for a portion of the interest payments that you would deliver to investors. The other obvious attraction to this program is that as opposed to the traditional investor pool that municipal bonds go into, this product is able to be opened up into the taxable investor marketplace, which has significantly more capital to put to work at this time.

The opportunity for QECCB is obviously that it's \$3.2 billion and allocated by population amongst the states and local communities for a number of eligible activities -- those being publicly owned buildings, implementing green community programs (which can include loans and grants for residential and small commercial and more comprehensive energy efficiency programs), demonstration projects, mass community and related facility projects, public education campaigns, etc. A number of the activities that we presume you all will be pursuing can potentially have supplemental funding coming in through QECCB. There's obviously some challenge in implementation, in getting enough information to you all and to the marketplace about these bonds, and that's something that we are dedicated to working with you as well as folks on Wall Street to make sure that we have a product and a model for you all to access this program and leverage these QECCB dollars to bring in additional capital. I guess I will leave it at that and then pass it over to, I believe, Matthew Brown to go through some of these specific examples of unsecured financing programs.

Slide: FHA Title 1

Chris Lohmann: Actually Brandon our next speaker is... Ok, we were hoping to be joined by Stockton Williams who is with Housing and Urban Development (HUD) and who has been working very hard on finding ways that HUD can contribute to energy efficiency around the country, and obviously Stockton is still working very hard on doing that.

Let me give you a very quick overview: All of you who attended the conference here a couple weeks ago heard Stockton talk about what HUD is working on. HUD looked around and realized that they have a tool available that has been in their quiver for a couple of decades now called Title 1 Home Improvement Loan and they think they can use that to do energy efficiency work. Right now there is a Title 1 Home Improvement Loan Program with lenders across the country who are certified and set up to issue Title 1 loans for home improvements. It's a loan program that we could use right now. It's not a perfect loan program. There are reasons why the loan program has not had significant uptake on loans up 'til now, but it is a potential solution that with some work and some real focus on particular aspects of the program could be used as part of a really strong integrated energy efficiency program and we're working with our experts on the technical assistance team and the folks at HUD to figure out ways that the current program, as well

as a potential enhanced more energy efficiency focused program, can be used down the line.

So I've got up here a couple of bullets, straight off the HUD website, and the URL is down here at the bottom and we'll make sure you get that. A quick Google search on "HUD Title 1" yields that as well. Real briefly let me go over the current product. It's focused for home improvement so a property owner can go to one of many lenders in any particular locality the authority approved to make these Title 1 loans and be qualified. It's not the most rapid loan application process in the world. It's not the most consumer focused, but the reason why it isn't is because we have got tremendous government insurance behind it. HUD/The Federal Housing Authority insures every one of these loans up to a full 90% of the value of the loan. So, it means that these loans are secured by the federal government, and it's very easy to get capital to go behind these, up to at least the 90% level, probably beyond it. A single family has to take out a loan up to \$25,000; the term can be up to 20 years, so we're looking at a pretty good chunk of energy efficiency projects that can be covered by this. The interest rate tends to be extremely low. I typed in here sub-7% but depending on the region, depending on the lender and the borrower the range can be down in the 4, 5, or 6% range. Again, the important thing here is that the government is insuring this loan up to 90% so it brings its cost down significantly.

Loan security is mandated that any loan over \$7,500 is secured by a mortgage or deed of trust as a secondary lienient, so it does not run afoul of the Federal Housing Finance Authorities concern right now about subordination of primary mortgages, but it does add a small measure of security and it also adds a measure of accountability to the owner. If the home owner sells the property, you're immediately notified of the sale, and appropriate actions can be taken. And there's also no pre-payment penalty on the loan.

So you're welcome to go to the HUD website and learn more details. We are preparing a much more substantial workbook on both the current and the (hope to be very soon) more energy efficiency focused Title 1 program, and we'll be working with you all as we pioneer innovative ways that we can build programs around these basic financing mechanisms and drive your program goals and make a community transformation.

Slide: Partnership with Local Lenders

OK, so, in the spirit of moving on and looking at other potential examples, we've got a couple of examples here, and the first one I'm going to bring up here is going to be introduced to you by Julie Bennett, who is with Michigan Saves. Michigan Saves is a program that has received a tremendous amount of focus and work from a great deal of experts, and we're very excited about how much potential it has to start doing tremendous work very soon here. So without any further ado, I'll hand it over to Julie now who will give you a brief introduction to Michigan Saves.

Julie Bennett: Hi, great. Thank you so much. Can you hear me ok?

Chris Lohmann: Yes. At Headquarters we can certainly hear you.

Julie Bennett: Ok great. I'm kind of in a remote location in Northern Michigan so bear with me if you hear children at a pool screaming behind me - just ignore that. So Michigan Saves is the organization that's dedicated to making energy efficiency and renewable energy improvements easy and affordable for all energy consumers in this state. So I'm going to focus on the homeowner residential market, but we're also serving small business customers and municipalities, and I'm happy to talk with other grantees about that if that's the focus of your grant, at a later time. Michigan Saves is managed by a consulting firm in Lansing that I work for called Public Sector Consultants. We were initially funded through a grant from our Public Utility Commission last summer. We received about \$6.5 million in a grant that we're using for credit enhancements. We also received a grant from, and thanks to DOE, through the Better Buildings Initiative, and about \$2 million of that grant is going to be used for credit enhancements as well.

Moving forward, I thought I'd maybe just start by talking briefly about the process that we use, because I know just from talking to folks in DC that everyone's kind of in a beginning phase and we were fortunate to start this process last summer. So the way that we started this off of trying to develop a financing program was working through the associations of the major lenders: through the Credit Union League and the bankers association. We had multiple conversations with them and different lenders. We also had an informational meeting where we looked to those associations to bring interested lenders together for a meeting and that meeting featured Matthew Brown which was quite a draw to have an expert from more than 50 miles away come in to talk to folks to talk about this opportunity. It seemed like credit unions showed the most interest, and that's in large part due to the size of the loans that we're talking about, on average about \$6,000. It's hard to get a bank interested, although we've had more success with that recently. So we really just worked through the Credit Union League. They helped us convene a group of interested Vice Presidents of lending through different credit unions across the state, and together we designed the lender requirements for participation with our loss reserve, and we also designed the loan loss reserve agreement terms.

So we talked about what type the loans should be, what size, the terms, the rates, the reserve percentages, and we really used a collaborative process to do that. We're fortunate to have a lot of progressive credit unions in the state to work with us. So, what we ended up with is our home energy loan program that's about to launch in a month's time. These loans are for eligible energy saving home improvements that are performed by Michigan Saves authorized contractors. That's really critical and I'm sure there'll be more information on the contractor's side of these integrated programs. But having the ability to really qualify these contractors, making sure they've got the proper licenses and insurances and really providing that oversight and quality assurance, is key. Only improvements done by these authorized contractors and we both have the audit based whole home approach and the list of pre-qualified measures that customers can choose from. For the Better Buildings grant we're only doing the audit based approach, and so our loans are provided by a network of lenders, not just one, but we've got five credit unions and one bank that were working with. We're going to do another open enrollment

soon and let other lenders in, but so far that's what we're working with. These are unsecured personal loans. They range from \$1,000 to \$12,500. The maximum interest rate that any lender can charge is 7%. The term is a minimum of 1 year for every 1,000 dollars of the loan but once the loans are 5,000 or more, we're allowing the customers to stretch out the term to 10 years, which will really help get those monthly payments down.

Because we have a network of lenders and we want to make this kind of a kitchen table conversation and decision, we hired a third party called Lending Solutions Incorporated (LSI). They're a loan service provider. They work with a lot of lenders across the country and they're serving as the Michigan Saves application center and so the contractor and the borrower don't necessarily need to know what lender they're working with. It's a very streamlined process where the loan application will be taken by LSI and the decision is made within seconds of completing that process, and it's either by the phone or through a web-based system. The loans are closed then through whichever lender the borrower has chosen to go with, which is facilitated by that application center, and then the lender services the loan. We do have a pilot that is an on-bill program, but for our statewide program working with a bunch of different utilities we're just going with the straight lender service program at this time. Lenders also have to meet our minimum underwriting standards to be able to access the loss reserve. That's basically a FICO income threshold. FICO scores of 680 and higher are what we're looking for, although we are giving lenders an option to go as low as 640 and then the best income is 50% or less.

So for these loans, if the lender agrees to participate and can meet these requirements, are backed by the Michigan Saves loss reserve. The details behind that loss reserve are that each of the participating lenders gets their own dedicated reserve fund. They each get an advance from us of \$10,000 to start. Then after they make \$200,000 in loans, the reserve fund grows by 5% of each loan. So we're doing a 20 to 1 leverage here, with a 5% reserve fund. We gave them that advance just in case there are early losses before they're able to build up enough in their reserve fund. From that point forward, the reserve fund is reduced as losses are paid out and as loans are paid off and we have reports and just make adjustments so it's always 5% of the outstanding principle less than any claims that they've made. They can make claims for losses when the loans are 90 days past due, that's how we define a loan being in default. What they can claim is 80% of the loss, and that's for borrowers that have FICO 680. If the lender has chosen to serve customers that have lower credit scores, 640-679, they can only claim 70% of the loss. We've set aside \$3 million for this program, leveraged 20 to 1. We're hoping we'll leverage 60 million in loans. Now that we have the Better Buildings grant we've added another 2 million to this program which will leverage 40 million in loans.

We're just rolling this out. Our contractor training starts August 24th and we'll be able to accept loan applications starting September 16th. I think that's about all I wanted to cover. We have a small commercial pilot, we're working with the PDFI. We also have a municipal program, so I'm happy to talk with grantees about those. We're also talking with a third bank about a potential multi-state unsecured product, and I'd love to talk to other Better Building grantees about that as well if DOE would like to facilitate that.

Chris Lohmann: Fantastic. Thank you very much Julie. So let me give you some quick information on Michigan Saves in relation to what our next slide is going to be. Michigan Saves is a way of going forward by looking local first, finding some great local lenders, finding a bank with some capital in your local area, and putting together a program that serves your needs. It means you can start making loans. You can do it in ways that are best for your community if you can find those financial partners locally.

If one of the considerations you have is, “what happens when our capital source runs dry here, because it’s more of a finite capital source?” That may not be a concern for several years, but if it is or there’s a lack of local lending appetite for this type of program, or a lack of capital available locally, then you can consider partnering with a national lender.

Slide: Partnership with a National Lender

This is now being known as the Pennsylvania approach because of the pioneering work the state of Pennsylvania’s Treasurer has done in aggregating a large number of loans generated in Pennsylvania, and now selling them onto the capital markets. And this is essentially one of probably many, but at least the first, pioneering work to sell large bunches of energy efficiency consumer grade loans to the capital market which essentially represents a large, very liquid source of capital essentially inexhaustible from our perspective because we’re talking about energy efficiency being a relatively small, although potentially billions of dollars soon, but still is a relatively small blip on the market.

So, in the Pennsylvania approach you’re doing a similar thing that Julie’s doing in Michigan -- using your ARRA funds to create a loan loss reserve to smooth some of the unknowns and risks associated with the lender putting their money out. They’d be doing an interest rate buy-down to provide particular incentives to specific behaviors by certain borrowers, whether it’s to encourage them to have a more home holistic view to their energy efficiency upgrades or whether its to emphasis some other aspect of your program goals.

Capital source is the essential difference here. National lenders - and there are several of them out there that are either lending currently like this or are interested in becoming engaging in lending like this because they’re in similar activities right now and they’re interested in expanding themselves - these folks aren’t necessarily lending with their own money. What they are is an underwriting and a processing and a store front operation that deals with the borrowers, processes those loans, underwrites them appropriately, and then bundles those loans and sells them to investors that are looking for high grade, long term, stable, dependable returns off of loan products to match often which in one case is a pension firm to match their pension obligations that are long term steady payments out that they have to make. The administration of this sort of program is going to be typically 90-95% done by the lender because they’ve already got an operation set up. They’ve already got their processes and systems and personnel in place. It would be overseen by the grantee in this case, and the enforcement of the grantee’s program goals and needs is dovetailed nicely by the fact that the grantee holds the loan loss reserve.

That loan loss reserve is committed only by contract to loans that qualify. Those qualifying loans will have to qualify by virtue of meeting the requirements that the grantee puts on them that are structured to meet program goals. What we're seeing is, in this market, examples of loans programs that are operating now. The loan terms are going up to ten years, sometimes somewhat longer out. They're unsecured loans, meaning that they're not tied to the house, they're not tied to the meter, and they're not tied to any particular collateral. They're tied directly to the borrower's credit worthiness and they're using FICO scores primarily as the criteria for determining whether or not the loan can be made. There are advantages to this, and one advantage is that it does not take into account a house appraisal, and so someone with excellent credit, someone with excellent income and a job whose house happens to be under water because they bought it at the peak of the market is still eligible for a loan like this.

The FICO score does, however, mean that maybe only half of the population will qualify. We're looking at a population that is well-prepared to pay off a long term loan and make this a lending product that lenders are competing with each other to make and to hold. I know that many of you have heard this before, but I'll repeat it for those who haven't. What's interesting to note, however, is that by insisting on a high FICO score we're not necessarily doing a restriction on income. There are many studies that show that there's not a direct correlation between an income level and a FICO score. There are a substantial number of lower income folks who simply don't over extend themselves and have extremely good credit. They may not qualify for the largest loans because they simply do not have a substantial amount of income to justify an extremely large loan, but they may be a much better credit risk for a \$3, 4, 5,000 loan to replace their furnace than someone who earns 4 times their income but has a habit of defaulting on credit cards. And so, it's not simply a pure income level discriminator here, but on the other hand it must be recognized that if a good program goal is to deliberately bring home energy efficiency to lower income communities, this may not be quite the right tool for you.

Slide: CDFI Lending for Non-Profit and Commercial

Moving on. There's another very interesting program under development in Colorado, and I know a number of you are working on models that would incorporate many of these same aspects. And that is partnering with community development financing institutions to lend into the non-profit and/or commercial sectors. The ARRA funds here can be employed to provide a backdrop, a loan loss reserve, for the qualifying loans, or perhaps a subordinate position in some of the loans in order to magnify the number of loans that can be made while smoothing some of the risks for the CDFI. But the bulk of the capital source here would be provided by the CDFI, and that's one of the big reasons to partner with them because they do have a substantial amount of funds often that are focused on mission-critical sorts of lending rather than sheer profit like a typical bank. And so, they would provide the bulk of the capital. In the administration too, this would be done by them, leveraging the fact that they've already got people, processes, and systems in place that do underwriting and processing of loans - more often than not on the larger project bases, and that's why this comes around to being a non-profit or commercial sector play

because the CDFI's tend to be focused on a smaller number of deals of higher dollar value, and that's how they make sure that their overhead costs of underwriting and processing are captured without sinking the deal through their inefficiency.

So, the other portion of this is of course the CDFI is likely going to service and hold these loans to maturity. There's not a secondary market for this, and so the amount of capital that you can deploy is limited by the amount of capital that the CDFI has leveraged with the ARRA funds here. But nonetheless, with the right CDFI, with the right sort of funds behind them, there's a tremendous opportunity here to move into the non-profit and the commercial sectors (which are sectors that we haven't addressed with our other programs up to this point), and do some tremendous energy efficiency work. Loan tenor - in this particular program that's under development in Colorado, they're looking for 7-10 years so they can assure the payments can be reasonable for, in particular, the non-profits that are involved. Of course, a slew of both risk mitigators and program goal-oriented requirements are in here, including energy audits and other sorts of steps here.

Slide: Develop an Action Plan

So, we've talked to you a lot about a number of different ways, a number of different financial vehicles that can be employed here. It's not an exhaustive list that we've provided to you, but they are definitely ways that you can move forward, that other public entities have moved forward, and we're looking forward to helping you develop and pioneer ways to move forward here in the future.

I'm going to give you a quick slide here to refocus us once again on how we move forward, and an action plan here is absolutely critical. Everything about the finance activities needs to be integrated into the other three essential functions of an integrated energy efficiency program.

Demand creation, workforce, and EM&V. Finance touches and integrates all three of those at many different points and so the program really does need to be planned out in a holistic manner, in making sure that everything is fully integrated. You cannot do too much project management, identifying key milestones, decision points, and plotting out your expected timeline. What you'll find is that this integration not only means that you get to build a terrific salad with lots of different great features working well together, but it creates a need for both a high and an extremely granular level to understand the interdependencies of these different programs and particularly on a timing basis. A simple example being spending a tremendous amount of money on a great advertising program before financing website for loan application is obviously a waste, and likewise working with both of those to go forward before the contractors are available for home owners to get in touch with to do the work is also equally ineffective. So plotting out those timelines and their dependencies is absolutely essential.

Plan for the reporting and the data collection. This is a federal program obviously and will have its reporting burdens on it, but I want to encourage you all to look at this data collection as a really important way for you to monitor how well your program is doing,

and building learning loops where you're regularly able to take the pulse of your programs and see where things are doing well and where things are doing not as well and adapt and improvise as quickly as possible within your programs timeline. You're also going to be able to collect data and share with your peers here, who will be joining you on the webinar, and the kind of community that you all are building and the phenomenally special opportunity for you to make great, great improvements on your program.

Build risk assessment and mitigation plans. Look down the line and brainstorm what could go wrong and put together a quick plan that you know will get you over the worst of those challenges. Put it behind glass. Put up a big sign that says "break please in case of fire" and have that in your back pocket.

Slide: Support Resources

So, your support resources. As ever your first and best resource is your Better Buildings Account Manager. Use them. Lean on them. They can get you a wealth of resources here at the Department of Energy and elsewhere within the Federal Government. Your Technical Assistance Team, which many of you are already connected with, and if you're not connected with them, then contact your Account Manager and they will help you get connected with a Technical Assistance Team. They're a dedicated set of consultants which cover a wide range of expertise, including finance, but also marketing workforce and EM&V and they're available to you for free on the payroll of DOE. We're putting together playbooks and implementation guides for our webinars and aspects like this to help you particularly with the really new pioneering stuff like emerging financing programs, and we're going to be a conduit for you for sample RFT sample lender agreements sample underwriting criteria that can help you get this stuff going without having to reinvent the wheel at every step of the way. Your peer to peer networks will be absolutely invaluable to you. The Better Buildings team's working on those to provide to you. And then lastly I'd like to point out that there's a lot of other non-profits out there including your stakeholder groups, NASEO, NACO, the counties, the Council of Mayors who have a tremendous amount of resources, and specifically we're in discussions around the potential concepts here where some of these stakeholder groups may be able to play a role to help multiple grantees use a consolidated standardized RFT for some of these programs. If you have any particular ideas about that, about how a stakeholder group like a NASEO, NACO, or Council of Mayors could play in this, we'd love to hear it. We are talking about different concepts right now that could potentially create a standard RFT that is an opt-in for any grantee. You all, plus the formula recipients, the FTT recipients. If you're interested in a sort of off-the-shelf financing program or other type of program, we could create an RFT and one of these folks could then run that RFT for you, and have the rolodex of all the potential bidders on it, and then actually have a scoring system there that they could provide to you. This would hopefully save you a lot of time, both on the reinventing of the RFT and on turning it around because they may have just done that RFT the previous week for another grantee so they could get those results to you almost immediately.

Slide: Questions

With that I think that we are now at the big question mark time, which is time to open up for questions and so I'm going to turn it over to Erin now to moderate and Erin can turn a particular question over to any one of us.

Erin Jackson: Great, thanks. So, the first question that we have is - the Residential Unsecured Financing Playbook is useful, but can the guidance in it be applied to other financing mechanisms as well?

Chris Lohmann: Here's how I'll respond to that. What we've got right now is edition one of that playbook. Edition two is actually coming out this weekend. What I will say is that the way its set up right now was originally conceived in a relatively more modest way was to just look at that one particular program. What we recognize and what you've seen here in the webinar is a really wide range of programs that we could provide grantees help with, putting together, and so our goal is to expand out our breadth of financing programs that we treat in much of the same way, leveraging the common chapters there. So we don't have to repeat those, but at the same time adding in specific elements there that help grantees with the additional types of programs out there. Right now, our worksheet includes the programs that we've just talked about today and how to implement for you, and we are eager to hear from you, or anyone else out there, about other particular programs that would be useful for us to incorporate into that framework.

Unknown Speaker: If any of the grantees have material RFT contracts that they would like to share with us, we are trying to develop a common kind of database of sample RFTs, contracts, and so on, that you can share. We'd be very interested to see those and put them up for distribution to other grantees.

Erin Jackson: If you would like a sample RFT, that might be available through your Technical Assistance Program, just email your Account Manager and they can help you access them. I know that was another question we had from last night as well. Another question we had is more administrative, but that was will the presentation be made available via the Google Group and of course, yes, it will be. And if you have other questions, we will un-mute you. Just click the button on the "Go to Webinar" toolbar that looks like a hand. You can raise your hand virtually and we will un-mute you, and you can ask us a question.

So it looks like we have some other questions as well. So one question is for the Michigan Saves program - if the loans goes bad, does 80% then get reimbursed by the program, or is it limited to 5%?

Chris Lohmann: Julie, I'll give you a moment to do the mandatory un-mute of your phone, and then ask that you answer that question. If you need us to repeat it, we will.

Julie Bennett: Ok, so the 5% is the total reserve fund amount. So, the 5% refers to the amount that Michigan Saves sets aside of the total outstanding loan principle. The

recovery percentage, or the amount that the lender gets to claim for losses, is 80% of what they've lost. The percentages apply to two different things. One is how much we're setting aside as a rainy day fund, and then the other is how much they actually can claim from that rainy day fund.

Erin Jackson: Great. So the next question is, "What financing program will be made available for non-owner occupied multi-family housing?"

Chris Lohmann: We're all sitting here staring at each other hoping someone else will jump in to answer this question because this is a really thorny issue. It's a challenging one. There are obviously a lot of difficulties here. We're talking about the sometimes dislocation between who pays the utility bill and who has to pay for the investment on the building. We're talking about a common problem within this multi-family, tenant, owner occupied, or non-owner occupied market. There are tax credits out there but they're not aligned properly to help the commercial owners lend more, and the best I'm going to give you right now, unfortunately, is it's hard under ARRA because of Davis-Bacon, and it's hard because we don't have (within this program) the ability to change those tax incentives right away.

I will tell you, though, that there is a lot of focus on that right now. There's a lot of activity within conversations between the front office of the Department of Energy, the US Treasury Department, and a number of other agencies that are responsible for a solution. Now as you can tell, as soon as you start talking about multi-agency, and you start to talk about dislocation of incentives like this, it's not going to be an easy or quick solution. It's going to be something that can be worked out hopefully over the next year, I'd say. It will be difficult for it to be incorporated into a Better Buildings program. I'd say it would be very challenging. On the other hand there is iteration potential at the local level, and if you all are seeing even possibilities or hints of something that can work, we would love to dedicate some resources to help you investigate that. Tease it out, check the feasibility, and find out if there's a way that we can move forward on that, and if there are specific small hurdles that we can clear for you, we'll be eager to get behind those and push the rock along with you.

Erin Jackson: Ok the next question is, are there limitations to the use of subsidized loans for solar projects that include efficiency efforts? Hold on one second we're having a technical issue. I will move onto the next question while we get that fixed.

One question that came up is, how do you get access to the Google Group?" You should have received an email from us letting you know that the Google Group is available and you're already a part of it. If you have not had an email on this, you can email your Account Manager, and we can put you in touch with how to get access to the Google Group, because that is going to become your one stop shop for a lot of information, including today's presentation. Are there any other questions that we can answer while we're dealing with this technical issue to try and get that original question back up?

Matthew Brown: You know this is Matthew Brown. I just thought I was on, but I put myself on mute before. But just in relation to the question about multi-family buildings, I guess what I would suggest that there have been a limited number of programs that have been run through housing finance agencies and authorities in the states. I have some information on those materials, and I would be happy to send out to the folks that are on this call, about what some of those programs are. They can be sometimes a challenge, because the borrowers tend to be very often non-profit entities who are running these multi-family buildings, and who are the owners of these multi-family buildings. The cash flows on those buildings and from those owners are not necessarily the greatest. They can be a difficult kind of group to lend to. A lot of that again is done through certain community development lenders or through housing finance authorities.

Chris Lohmann: So if you're looking for any of those documents Matthew just referred to, please just email your Account Manager and they can get in touch with me and I'll make sure that the documents are made available to you.

Erin Jackson: Ok so the question we had was, are there limitations to the use of subsidized loans for solar projects that include efficiency efforts?

Chris Lohmann: Ok, so the question is, if I'm dicing the question right, how much efficiency has to be done for a loan to qualify under this program, and how much can the loan be devoted to solar, and if there's a ratio.

Erin Jackson: Robert, we actually just un-muted you if you'd like to chime in here, you can ask a question directly if that's the way you...

Robert: Sure... the text message was kind of cryptic. The gist is, this is more of a question to the rules and procedures of the grant itself rather than the financial experts, but you kind of seemed like you were going down the road but maybe is it a certain component or certain investment, savings to investment ratio that needs to be achieved? That was the terminology that back in the some of the guidance to co-mingle these... I mean we're getting requests "oh I want to include solar projects in here, in your enhanced financing tool," and we don't know exactly what to say when being asked that.

Erin Jackson: Ok, we'll need to follow up with our contracting specialists and then get back to you by email. We'll do that through your Account Manager, and we'll post whatever the answer is up on the Google Group as well after.

Robert: Great, that makes sense.

Erin Jackson: Another question that came through is, are the Google Group materials available only to grantees? And right now, only grantees are on the Google Group, so yes, they're only made available to grantees. But, we will have more public safety documents and tools that will be available soon, so hopefully that answers that question.

The next question is come from Amy T - are any programs using decision criteria for Better Buildings grants other than this pure financial FICO score. For example, grant potential for energy savings, readiness to proceed, already renovated buildings, that does not consider energy efficiency. Should we be anticipating over demand and watching out for efficiency questions of fairness?

We can un-mute her if you want.

Chris Lohmann: Yea, let's un-mute her. And then if you get cut off we can turn the computer screen around...

Erin Jackson: Amy, hold on a second. Ok, Amy it looks like you didn't sign in with your audio pin. So if you want to join in, use your phone and sign in with audio pin and you can speak to us.

Chris Lohmann: Ok, so I think I can answer this. And jump in obviously if you'd like to at any point to add something as I'm answering it. There is a clear difference between what we're going to use the FICO scores for and what we're using potential for energy savings, readiness to proceed, already renovated buildings does not consider energy efficiency. The FICO scores are purely used in the situation where you're making a loan to a consumer, a homeowner, in fact. And it's a small size loan, \$2,000 up to at most \$20,000, usually smaller than that, average around \$7,000. And the reason you use a FICO score is because it's cheap to acquire. It costs less than \$75 for a bank to run a credit check on you, come up with a FICO score, and have a kind of quantifiable reason why you either are, or are not, a good lending risk. And so it allows that loan to be made with the minimal of administrative overhead, and yield a pretty dependable default range on that loan, which is important when you're talking about a lending program that has millions and millions of dollars going into it, and it's made up of thousands and thousands of loans, and that underwriting and processing has to be repeated thousands and thousands of times over again.

When you're talking about things like potential for energy savings, readiness to proceed already renovated buildings, now you're talking about those really worthwhile examination that you're making for a larger scale project... an industrial or commercial building where it'll be a million dollars or multi-million dollars to renovate the building and do the great energy efficiency work. What's great about that is when you get to that scale, a couple thousand dollars for a really robust audit, couple thousand dollars worth of some smart folks' time making these kinds of criteria adjustments on which projects are the best, the best to proceed and all that – well that gets rolled into the total cost of a multi million dollar upgrade and that is in itself relatively efficient overhead, administrative overhead there, and it works on that model. It doesn't work on the small consumer loans; it works on the big ones. And in fact, you need it absolutely on the big ones because every big deal, every big loan, is extremely big loan is extremely different from the last one. You need these smart folks to dig in and make these criteria to judge which ones are the best ones to deploy our money on and which ones are going to get the most impact.

Erin Jackson: Great. Are there any other questions from folks online who? You can raise your hand or type it into the toolbar.

Slide: Thank You

Ok well with that, I want to thank everyone for being here, and thank you for being here Chris, Brandon, Matt, and Julie. This concludes today's webinar. If you have questions you would like to ask us, please just email your Account Manager and we'll be able to answer them right away and share them on the Google Group of course. Watch out for a registration link for next week's webinar that will come shortly, and we also probably will be sending a survey for today's webinar. So, if you can provide us with any feedback that would be great so that we can make any necessary improvements. Thank you for joining us. Have a wonderful evening, and goodnight.