[INSERT GRANTEE LOGO]

[NOTE: Numbers and any fictional names are used for illustrative purposes]

REQUEST for PROPOSALS (RFP)
for Residential Energy Efficiency Loan Facilities:
[ ] City

Proposal Due Date:	**September X, 2010 at XX:00 a.m.**
Send Proposals to:	**City of [ ]** **Office of Sustainability** **789 Main St** **[City], [State] 19890**

If you have questions about this RFP, please contact:

Lead Contact for RFP Questions & Communications:	Cary S. Ford, Projects Manager 800-123-4567, CFord@City.gov

1. Request for Proposals ("RFP")

Based on a grant from the [ ] State Energy Fund ("SEF"), the City of [ ] (the "City") is seeking a financial institution (FI) partner to participate in its city-wide energy efficiency initiative ("Program"). We are requesting proposals from FIs to provide the following services:

- assist in final structuring of the energy efficiency loan program, in collaboration with the City and its financial advisor, Energy Finance Corp. ("EFC");
- originate and provide energy efficiency ("EE") loans ("Loans") to residential energy users (and, possibly in the future, small commercial and non-profit energy users);
- manage a loan loss reserve fund ("LRF"), or other credit enhancement mechanism (see Section 5), funding for which shall be provided by the City to enhance the credit structure of the Loan portfolio;
- provide related Loan administration services, e.g., billing and collections; and
- provide reports on the Loan portfolio and LRF.

This RFP provides:

- Program background (Section 2);
- Proposed structure and terms of the proposed Loans (Section 3);
- Proposed structure of the LRF (Section 4);
- Prescribed format and content for FI proposals in response to this RFP (Section 5); and a
- Description of the RFP process that will lead to selection of FI partner and execution of implementing agreements for the LRF and for operating and marketing the Loan facilities (Section 6).

The proposer is asked to discuss all financial variables in its response to this RFP; and, for instance, where this document sets out an example percentage, ratio, or dollar figure, the proposer is asked to select an appropriate figure in its response. The bulk of these issues are addressed in Section 5.4.3 and discussed in greater detail in Sections 2, 3, and 4. The proposer may also choose to submit multiple options to reconcile trade-offs in its final response to the RFP. Selection of the FI will be a selection for negotiation—that is, the City and the FI will further refine the elements of the proposal to arrive at final agreements.

The RFP process will identify the FI(s) that can offer the lowest rates, longest tenors, broadest access to finance, the greatest marketing and geographical capacity, as well as the FI(s) with sufficient assets to meet the lending demand created by the City marketing and campaign efforts. The lender FI will be selected for negotiations, at which time the final structure of the loan loss reserve fund and, if applicable, the interest rate buydown budget will be solidified. The terms of the loans and credit enhancement budgets will be laid out in a Loan Loss Reserve Agreement between the City and the lender.

The LRF will be expected to have the following impact on loan underwriting guidelines:

- *Increase size of unsecured loans.* Unsecured loan sizes between $3,000 - $20,000 are expected, potentially utilizing a fixture filing (UCC-1) on installed equipment that will assure the lender's claim will be settled on a property sale, transfer, or refinancing event. Lenders may also choose to file a deed of trust on the property being improved but are not expected to include loan-to-value as an underwriting criterion.

- *Extend tenors.* Loan tenors are expected to be extended. For example a loan tenor of 5 years could be extended to 10 – 15 years, allowing for the monthly loan payment to closely match the energy savings.

- *Lower minimum credit score.* Credit score requirements could be as low as 600 to 650 or have no minimum, just adjusted rates. Alternative and holistic approaches to credit will be encouraged by FIs, some of whom have already demonstrated great interest in this approach. The assumption here is that although the potential borrower may have poor credit history, the willingness to improve their homes demonstrates willingness to pay and a higher personal investment in the project and the loan.

2. Background on the Energy Efficiency Program

2.1. The Program: The City, in conjunction with its partners, targets the development, financing, and implementation of energy efficiency projects in the residential sector. An essential part of the Program is to arrange financing solutions for participants, allowing them to overcome the first-cost barrier and pay for EE improvements over time, matching energy cost savings with Loan payments. EFC is serving as financial advisor to develop the financing component of the Program, evaluate and interview FI potential partners, and prepare the LRF implementing agreements. [A Local non-profit or community action agency Partner] ("Non-Profit") will be working with residential energy users to prepare energy efficiency projects that meet the requirements of the Program and the Grantors. Preparation of projects will include conducting facility energy audits, developing a customized energy action plan, assisting with available rebates, and lining up contractors and bids.

The City will devote up to $1,000,000 from its Credit Enhancement ("CE") grant, received from the SEF to provide loan loss reserves and/or other credit enhancements, including interest rate buydowns, to support energy efficiency financing. The partner FI will provide energy efficiency Loans to customers. The LRF structure takes a "portfolio approach" to the credit structure of the EE loan program. The FI will be making a large number of relatively small EE loans. The LRF will support the whole EE loan portfolio and can be sized at a margin higher than the portfolio's estimated loan losses.

The use of interest rate buydowns is also an acceptable use of SEF CE grant funds. Interest rate buydowns may be used to help stimulate target markets and increase the uptake of energy efficiency services offered by the City.

2.2. Target Markets & Projects. Initial target markets for the Loans are residential buildings in the City. Eligible FI proposers need to have the capacity to serve the City's residential housing community.

Target buildings will be identified by energy efficiency audits coordinated by the City and conducted in conjunction with utilities and other partners. Marketing partnerships are being established with equipment vendors and installers, project developers, and contractors. The Program will generate a flow of EE projects and market the selected FIs' financial products to customers.

Note: For further phases of the Program, the City is interested in an FI's capacity for financing energy efficiency projects in the small commercial and small non-profits sectors.

The typical sizes of single-family residential EE projects are expected to be in the range of $3-20,000 with an average Loan size of $6,600 estimated (after rebates and incentives). The Program targets up to $20 million in total lending over two years. Further description of target EE lending amounts is provided in Section 2.4.

2.3. Energy Efficiency Equipment. Many types of energy efficiency measures will be financed.

Typical Residential Energy Efficiency Measures include but are not limited to:

- Air duct sealing
- Appliance replacement
- air sealing building envelope
- insulation
- lighting
- hot water heater and piping insulation
- new central heating systems
- Double-paned windows

A complete definition of "eligible energy efficiency projects" will be developed based on energy savings and other qualitative and economic criteria developed by the City in consultation with equipment suppliers, consulting engineers, and utilities. Technical studies confirming that projects meet these criteria can be shared with partner FIs as part of Loan origination and appraisal.

In some cases, building owners will need to make non-EE repairs on the buildings in order to facilitate installation of the EE measures. For example, before attic insulation can be installed, it may be necessary to repair a faulty roof. Non-EE projects necessary to facilitate EE measures can be included in the Loans, up to a maximum percentage of 20% at the discretion of the City.

The City will make the final determination on project eligibility.

2.4. Target Lending Amounts. The City has prepared estimates of EE lending targets, summarized in the table below. Average utility rebates and incentives are estimated at 20% of the total project cost. The lending amounts are geared to a loan loss reserve fund of 5%, resulting in a target lending amount of approximately $20 million. Actual projects will vary significantly in cost. These budgets are based on the City's current staff and partner capacity, and a 40% rate of loan uptake versus self-finance, and are subject both to final negotiations with the partner FIs and to further adjustment and reprogramming during operations based on the experience and market response.

Loan Budget for 2010-2012

Average Project Size	$8,000
Average Rebates and Incentives	$1,600
Average Loan Size	$6,400
Total # of Loans	1,000
Total Lending through 2012	**$6,400,000**

Incentives and Rebates are estimated to pay for 20% to the total project costs.

2.5. Roles of the Program Partners. Main and suggested roles of the several Program partners are described below. Proposer is free to suggest other/additional roles as appropriate.

The City will provide:

- *Program Coordination.* Lead role to coordinate project implementation among all partners and parties.
- *CE Funding.* Up to $1,000,000 will be used for credit enhancement for energy efficiency Loans from the partner FI. The credit enhancement will be in the form of a 'loan loss reserve,' according to a formula to be negotiated, and/or other credit enhancements, including interest rate buydowns, to support energy efficiency financing. Based on a 5-10% leverage percentage, this amount can serve as an LRF for $10,000,000 - $20,000,000 in EE loans.

Sustainability for All will provide:

- *Program Design.* Lead Program design and assist the City, EFC, and the FI with initial financial structuring.
- *Reporting and Monitoring.* Contract with FI to collect, prepare, and submit Program reports to SEF as per agency requirements. Provide required reporting for SEF grant.
- *Marketing.* Organize & conduct marketing campaign for all sectors, coordinating with other partners. Conduct community-based neighborhood campaigns. This includes marketing the FI's Loan products.
- *Project Vetting*. [Non-Profit] will verify that projects meet EE and other germane standards before Loans can be approved.
- *Project Engineering & Development*. Coordinate delivery of engineering and project development services to interested customers. Develop and implement residential sector projects, organize audits, and evaluate and work with qualifying EE sub-contractors to implement projects.
- *Workforce Training.* Develop and implement the workforce training program.

[Non-Profit] is a mission-driven, not-for-profit organization. Its program costs are being paid by SEF funds, foundation grants, and utility sponsorship of its programs.

The FI will provide:

- *Creative Collaboration in Program Design*. Develop creative options to enhance and improve the Program.
- *Energy efficiency Loans.* Offer Loans according to the agreed range of terms and subject to FIs' credit approval.
- *Marketing.* Originate Loans and service the Program in cooperation with other Program partners. Marketing can be done through multiple channels (e.g., mailers to current mortgage holders, business account holders, and personal account holders).
- *Customer credit pre-screening services.* Focus Project development efforts with creditworthy customers to achieve high levels of access to Loans for customers.
- *Loan collections and administration.* Collect Loan payments and develop agreement to repossess energy efficiency equipment in event of Loan default, subject to Loan agreement terms with customers. Banks must follow their normal collection procedures and must outline these in their response to this RFP.

- *Reporting.* Information and coordination on success of Loans, collections activity in default situations, and other matters (subject to customer privacy policies).

Utilities will provide:

- *Energy efficiency audits.* Utilities will provide nominal incentives toward audits.
- *Financial incentives.* Provision of financial incentives (rebates) typically for 15-25% of EE project costs, according to the utility cost-effectiveness criteria.
- *Marketing.* Some marketing and education to customer base, along with providing some utility data.
- *Oversight.* Utilities will provide random inspections to serve as quality control for contractors.

Program Implementing Agreements. The selected FI would undertake two key agreements to implement this Program. First is a Loan Loss Reserve Agreement (LRF Agreement) between the FI and the City. Expected terms for the LRF Agreement are discussed in Section 4.3, below.

Second, an Energy Efficiency Loan Program Agreement among the FI, the City, and [Non-Profit], where the City acts as a Program coordinator, will be executed to define the respective roles of the parties in Program marketing and delivery, Loan origination, and reporting.

FIs will use their own form Loan agreements with borrowers, which form shall be subject to review by the City.

2.6. Loan Marketing. A common challenge to implementing EE measures is lack of financing, so the availability of the Loan can overcome this barrier and motivate participation. Further, the FI should have a goal to structure projects so that the dollar amounts of the estimated energy cost savings offset the amount of the monthly Loan payments to generate immediate positive cash flow. Thus, the Loan offer is integral to marketing.

Loan marketing will be integrated with the overall Program marketing. In addition, the following Loan marketing strategies and alliances are recommended and should be further explored and developed:

- *FI's Existing Customers*. The selected FI will market the Program to its existing portfolio of residential customers. The FI will identify customers, make contact, present the Program and bring them to the City or [Non-Profit] for project development services. These customers could be pre-screened for Loan eligibility. Even FIs that are not participating in the LRF mechanism can engage with the Program in this way.

- *Mortgage Refinancing.* There is an opportunity to piggyback EE investments with mortgage refinancing and incorporate the EE project investment into the new first mortgage principal, provided the project can be developed within the refinancing time frame.

- *Other Market Aggregators*. The Program and Loan offers can be marketed to entities that reach and manage multiple properties and property owners. These deserve special sales initiative and offer the opportunity for one high-level sale to result in an aggregated set of projects.

3. EE Loans

The goal of the Program is to offer EE Loans on attractive terms and longer tenors and broaden access to financing for EE projects in the City, initially. Only single family, residential Loans will be offered. While it is anticipated that unsecured Loans will be the primary form, more than one financial product may be offered for residential customers—both a secured (second or third mortgage lien) and an unsecured Loan product. The following list summarizes typical terms of the Loan products. These details will be finalized with the selected partner FI. Preliminary Loan product term sheets should be included in the RFP response.

- *Eligible borrowers*. Residential homeowners will be eligible to borrow under the Program. FIs should consider setting specific lending criteria that broaden access to credit for energy efficiency projects, based upon the credit enhancement provided by the LRF.

- *Eligible Projects*. All types of residential energy efficiency projects and equipment (see table in section 2.3 above) located in the City. The City will be responsible for applying State and utility standards to determine whether a project is eligible. Home repairs that enable EE investments will also be considered and can equate to 20% of the overall Loan.

- *Loan application*. Standard loan application materials will be provided by the FI. The City and other partners will collect information from property owners in the application process, coordinating with the FI. The Loan application will include an EE project investment plan and feasibility study specifying the intended measures to be implemented, their costs, estimated energy and cost savings, sources of financing, and contractor plan for implementing the works.

- *Loan terms*. For Residential, 7-15 year terms are planned, with 10 years being typical.

- *Interest rate*. Our starting assumption is that interest rates will be market-based for the type of loan product, or below, factoring-in the extra security offered by the loan loss reserve. Rates will be fixed for each Loan at the time of Loan application approval. FI will be asked to provide a published interest rate index as a benchmark for Loan pricing. However, the FI may include a proposal to use a portion of the funds as interest rate buy-downs, if this is perceived to increase participation in the lending program.

- *Payment schedule*. Monthly payments in arrears are anticipated, with Loans amortized "mortgage style," that is, level payments of interest and principal.

- *Loan size: minimum & maximum*. The City anticipates completing a total of 2500 projects over the next two years, enabled by $6,400,000 in lending (1000 loans, assuming a 40% rate of loan uptake versus self-finance). Milestones for lending will be agreed upon and set forth in the LRF Agreement.

The actual parameters for the minimum and maximum loan size will be determined in the LRF Agreement between the City and the FI partner; however, a $3,000 minimum Loan size is anticipated. The average project cost is expected to be ~$8,000, with, an average of approximately $1,600 of which is expected to be paid through rebates and incentives, leaving an average Loan amount of $6,400.

Total Projects	2010-2011	1000
	2011-2012	1500
		2500
Percent of Projects Getting Loan		40%
Total # of Loans		1000
Average Size of Loan – Net rebates & incentives		$6,400
Total Residential Lending		$6,400,000

- *Loan underwriting guidelines and security*. To be proposed by FI. Both secured and unsecured Loan products may be offered. For residential secured Loans, second and third mortgages are expected to be required with maximum loan-to-value ratios of up to 100% anticipated. Borrower contribution, if needed, can be paid by personal contribution, utility rebates or incentives, or other rebates and incentives. A prudent portion of estimated energy cost-savings can be included in this calculation. The FI can also file a UCC-1 on the installed equipment.

- *Loan disbursement & flow of funds during project construction*. To be developed with FI. The simplest method is a single loan disbursement to contractor, authorized by borrower, following completion and acceptance of the project. Methods for construction advances for larger projects will be investigated. Multiple projects may be grouped for implementation.

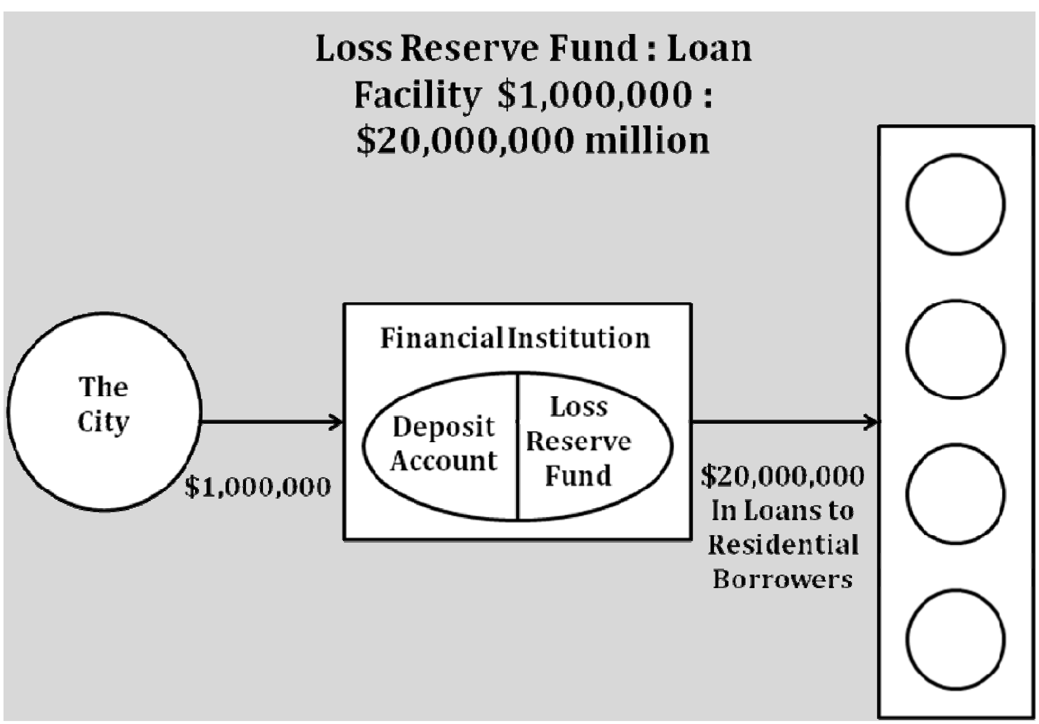
- *Prepayment option*. Option to prepay the outstanding Loans in whole without penalty will be sought. Partial prepayment option is not anticipated.

4. Use of CE Grant Funds

4.1 Loan Loss Reserve Fund. The City will devote an estimated $1,000,000 in CE funds from the grant the City received from SEF for credit enhancements to support the partner FI to make EE project Loans throughout the City. The LRF is intended to enable the FI to offer longer terms, lower interest rates, and broader access to finance. With $1,000,000 in LRF funds, we anticipate that the FI will to be able to lend from $10,000,000 up to $20,000,000 million, based on leverage ratios of between 10:1 and 20:1. This leverage ratio may be higher or lower, depending on the risk assessment by the FI respondent to this RFP. The LRF will support the whole EE Loan portfolio and is intended to be sized at a margin probably higher than the portfolio's estimated Loan losses.

SEF CE grant monies will be deposited with the partner FI pursuant to an LRF Agreement between the City and the FI. The LRF Agreement will create three accounts: an escrow account ("Escrow Account"), a reserve account ("Reserve Account"), and an account to house funds that are retired from the Reserve Account after Loans have been fully paid ("Reflow Account"), all specifically defined in the LRF Agreement. Monies ($1,000,000 of SEF CE grant funds) will first be placed in the Escrow Account at the participant FI. Then, for example, on a quarterly basis (the timing of the transfer is another variable that should be determined by proposer), as the FI makes eligible EE Loans, the agreed amount of funds for the loss reserve will be transferred from the Escrow Account to the Reserve Account. Once funds are transferred to the Reserve Account, they are available for the FI to draw on in the defined event of loss. The LRF structure takes a "portfolio approach" to the credit structure of the EE Loan program. The FI will be making a large number (up to 3000 in the next few years) of relatively small EE Loans. The goal of the credit enhancement is to create sufficient loss reserves—from LRF funds and the FI's own loss provisioning—to cover the estimated level of losses. With such reserves in place, in the event of a Loan default the lender will remain whole, at least to recover principal, at loss levels at or below the planned level.

The structure of the LRF is illustrated below:



4.2 Risk-Sharing Formula. The risk-sharing formula will have two main parameters:

The first parameter is the ratio of the LRF funds to the total original principal amount of Loans in the EE Loan portfolio. Presently, we are thinking this will be in the range of 5-10%, which is the same as a leverage ratio of 20:1 to 10:1.

- *Trade-offs among the leverage ratio, Loan security, and access to finance*. A lower leverage ratio means less lending per a given amount of LRF funds. This implies greater risk protection for the lender, which can result in relaxed underwriting requirements and approval of more Loans. Thus, there is a trade-off between the public goal of high leverage ratio versus the equally, or perhaps even more, important goal of creating broad access to finance. These trade-offs should be evaluated by the proposer and reflected in its final proposal. Proposals could offer up to three options on this point (e.g., one that maximizes interest rate and loan tenor, one that maximizes access to finance, and one that balances the two).

The second parameter in the risk-sharing formula is the share of losses that the LRF will pay. We anticipate this will be considerably less than 100%, which implies that a portion of the loss will be borne by the FI and covered from its normal loss-provisioning. Because all losses after the LRF is exhausted will be borne by the FI, FI incentives for good Loan origination, administration, and recoveries will be maintained. Both of these parameters are to be proposed by the FI and will be defined in the final agreements between the lender and the City.

4.3 LRF Agreement. To implement the finance program with the selected FI, an LRF Agreement will be executed by and between the FI and the City (depending on the proposal and the final terms of the LRF Agreement, the Program may also include a portion of funds used for interest rate buydowns). Key terms of the LRF Agreement include the following:

- *Definition of the Escrow Account.* The "Escrow Account" will house the original SEF CE grant monies deposited by the City with the partner FI. Funds in this account, and their transfer into the Reserve Account, will be controlled by an Escrow Agreement executed by and between the FI and the City.

- *Definition of the Reserve Account.* The "Reserve Account" is available to the FI to cover legitimate principle losses due to default that are otherwise unrecoverable using the FI's standard default recovery mechanism (see next bullet).

- *Definition of Loss & Event of Loss*. "Loss" will be defined as principal only on the Loan. "Event of Loss" will be tied to the definition of Loan default and acceleration under the FI's Loan Agreement with its borrower and will occur when the FI gives its acceleration notice to its defaulted borrower demanding all payments due under the Loan Agreement between FI and borrowers. A certain number of days after this event, *e.g.*, 30 days, then the FI can disburse funds from the Reserve Account to cover the agreed loss share, without obtaining further approval from the City. Any Reserve Account monies paid back to the FI to cover loan losses may be audited by a third party at the request and expense of the City.

- *Interest on Accounts***.** Interest shall accrue to the City on all accounts. Federal regulations state that all interest accrued must be used for eligible program purposes, and this includes "topping off" the LRF to enhance its sustainability over time.

- *Responsibility for and Distribution of Recoveries*. The FI will be responsible for recovery actions on defaulted Loans. Recovered monies, net of reasonable collections costs, will be distributed back to the Reserve Account in proportion to the FI's share of losses.

- *Underwriting criteria*. The parties will agree in advance on underwriting guidelines for the Loans. FI will be able to protect Loans through the Reserve Account that meet the underwriting criteria. Underwriting criteria can be adjusted during the course of the Program as a mutually re-negotiated and written amendment to the LRF Agreement. The terms of the Loans will be enumerated, including eligible borrowers, eligible projects, minimum and maximum Loan size, Loan tenors, etc.

- *Reporting & Monitoring*. The FI will provide regular monthly reports on the EE Loan portfolio, including the number and amount of outstanding Loans, payment performance, and collections, on all activities on the Escrow, Reserve, and Reflow Accounts. In each monthly report, the FI will also indicate any inchoate losses or acceleration notices.

- *Availability Period*. The timeframe for adding Loans to the portfolio and shifting funds from the Escrow Account to the Reserve Account will be defined and tied to the SEF CE grant requirements.

- *Disposition of Loan Loss Reserve Funds at end of Loan Period*. Funds will remain in the Reserve Account, the amount of which, in a fully subscribed portfolio, will be equal to the leverage ratio percentage times the amount of outstanding loans. When the amount of the loans in the Reserve Account drops below that reserve percentage, the amount in excess will be transferred to the Reflow Account for additional eligible uses under the DOE/SEF requirements. At this time, it is anticipated that funds transferred to the Reflow Account will be designated to support further EE lending or otherwise enhance credit for EE loans, unless otherwise determined by the City per the LRF Agreement (see bullet below on *Reprogramming Funds in the Escrow Account*). Distribution of funds from the Reserve Account to the Reflow Account will occur on the same schedule as funds are transferred under the availability period determined under the above bullet (presumptively monthly or quarterly—FIs should make a recommendation on this point in their response). When the EE Loan portfolio is fully retired (the conditions for this eventuality will also be spelled out in the LRF Agreement), all re-flow Reserve Account funds will be transferred back to the Reflow Account, and, from there the future use of the funds can be redirected by the City in accordance with SEF and federal DOE requirements. But at this time, the City anticipates that the monies in this Reflow Account will be on-lent for the purposes of EE energy projects.

    - Please consider whether, upon a lower-than-expected rate of default on the portfolio, the ratios in the LRF could be reduced.

- *Program Fees*. Under the Program, the partner FI will pay a 1% fee of the principal amount of all Loans added to the Loan portfolio. These fees can be added to the Loan and paid by the borrower and will be used by the City to pay Program development and operations costs. These fees also represent another source of income to make the Program sustainable and scaleable, and fees not used directly to cover development and operations costs will be added to the principle in the Reflow Account to increase the amount of LRF funds available for future EE lending.

- *Reprogramming Funds in the Escrow Account and the Reflow Account.* Funds in the Escrow Account and the Reflow Account belong to the City. As part of the negotiating process between the City and the FI, reasonable lending targets will be established. The City will have the option to re-allocate the funds in the Escrow Account, if the targets are not met, to a different credit enhancement. The Agreement will indicate the ability of the City to reprogram uses of these funds, as needed, to adapt to Program operating experience. Funds could be used for interest rate buy-downs and other incentives to increase marketability and uptake of Loans. <u>FIs are asked to give other creative ideas on how to use SEF CE grant monies in ways that will support financing and Program goals.</u> Please discuss these options, along with figures, if any, on the cost of buying down interest rates.

- *Accommodating the portfolio "ramp-up" period*. Before the portfolio builds up, a single loan loss can be a large percentage of the outstanding total Loan principal. Thus, in the beginning, a larger contribution to the Reserve Account may be negotiated to give the FI the necessary level of risk-sharing during the portfolio ramp-up period. The FI is asked to consider this in its response.

The LRF mechanism is not a loan guarantee; it uses the SEF CE grant funds to mobilize commercial lending by sharing risk with the partner FI, but it does not eliminate risk for the lender. There is no guarantor in this mechanism. The liability of the City is limited to the SEF CE grant funding provided only. The FI is at risk for the repayment of all Loan amounts in the EE Loan portfolio in excess of the loan loss reserves provided. Therefore, prudent lending origination and administration must be maintained. The Reserve Account must and will stay in place until the Loan portfolio is retired, at which point any remaining funds will be designated to support further EE lending or another use determined by the City.

- *Number of Participating FIs*. We expect to select one financial institution to serve the City's Program.

- *Alternative Uses of Funds – Interest Rate Buy-Downs.* It is intended that the CE grant monies will be used as loan loss reserves, but, based on program and residential market experience, grant funds may be used for interest rate buy-downs. In addition to the LRF, interest rate buy-downs have the ability to further reduce interest rates, improving the implementation of EE projects and the uptake of EE loans. This strategy may be necessary to improve the value proposition to the borrowers in this economic climate, ensuring that the CE grant supported loan facility is fully subscribed. An interest rate buy-down of 1% on 10-15 year loans could be considered for this purpose. The market response must be tested, and the existence of and the amount of the rate buy-down can be adjusted based on market experience. The cost of interest rate buy-downs are a function of the loan term and also will be priced to reflect assumptions on early loan prepayment. A price of 4.75% of loan principal to buy-down the interest rate by 1% on a 15 year loan is estimated. Interest rate buy-downs, if any, will be addressed in the LRF Agreement between the City and the partner FI. The agreed budget for interest rate buy-downs will be deposited with the FI. These funds would be drawn down by the FI as the loans are made to reduce the rate. The present value of the interest rate buy-downs are paid to the FI as the loans are originated. If funds are used as interest rate buy-downs, a separate Escrow Account will be opened for these funds for reporting and tracking purposes. This practice will be maintained for each credit enhancement mechanism.

The City aims to leverage the CE grant funds to the greatest extent possible, recognizing that interest rate buy-downs result in one-off spending of ARRA funds. However, if the customers of the City do not respond to the terms and rates offered by the selected FI, then a portion of the funds will be used as interest rate buy-downs or other credit enhancements, to ensure that projects are implemented.

- *Flexibility to Reprogram Funds*. SustainableWorks maintains the flexibility to reprogram all funds in order to further the program goals and to enable more EE projects. The City will continuously evaluate the Program's success in each community and region, gauging the effectiveness of the initial designated uses of funds. The City will retain the ability to shift funds from one designated use to another (e.g. LRF to interest rate buy-down or vice versa) or from one FI to another, provided the funds have not been tied directly to a Loan that supports an EE project.

The LRF Agreements will include a provision that will allow the City to retain this control over all funds (the Escrow Account and Reflow Account funds and interest rate buy-down funds). Until funds are moved from the Escrow Account to the Reserve Account, funds in the Escrow Account can be reprogrammed by the City. The LRF Agreement will also include a similar provision for interest rate buy-down funds.

5. RFP Process

5.1. RFP Schedule. [Designated personnel], of the City, will manage this process. Key steps and schedule for the RFP process are as follows:

RFP issued by the City	[Date]
Pre-bid Conference among financial institutions, representatives from the City, and the various other partners in the Program. This meeting is optional.	[Date]
Proposals due	[Date]
FI selected by the City for negotiations	[Date]
Target date to complete LRF Agreement and Program Agreement	[Date]

These dates are subject to change by the City. The City will notify all FIs that have submitted a notice of intent to propose of any changes.

5.2. *Question and Answer Procedures and Addenda*. Questions and answers will generally be handled in writing and distributed the responders. Any written questions shall be submitted to the City at the address specified for the receipt of proposals or to the following email: [xxx@City.gov]. Faxed questions or inquiries will be accepted. The City may modify this RFP prior to the date fixed for submission of proposal by issuance of an addendum to all proposers. Addenda will be numbered consecutively, the first being A-1.

5.3. Proposals will be due no later than [Date]. Proposals shall be addressed and delivered to the City of [ ], Office of Sustainability, 789 Main St., [City], [State] 19890. The City is not responsible for lost or misdirected proposals.

Verbal communications with the City are encouraged but shall not be binding on the City and shall in no way modify this RFP or excuse proposers from the requirements set forth in the RFP. Such modifications shall only be made in writing through RFP addenda as indicated above.

An optional "pre-bid" conference will be held at [Date] in **[**Address**]**. This conference is an opportunity for proposers to learn more about the Program and ask questions. The City, EFC, Non-Profit, and other relevant Program Partners will be in attendance.

The City's selection of a FI pursuant to this RFP process does not mean that the City accepts all aspects of the FI's proposal, modifications to which may be requested and agreed to during contract negotiations. Costs for preparing proposals are entirely the responsibility of each proposer and shall not be chargeable to the City. If the City is unable to reach an agreement with the FI originally selected, it will select the next highest-ranking respondent from the original list, without the need to go out for another RFP.

5.4. Form of Proposals.

5.4.1 *Instructions and Proposal Outline*. These instructions prescribe the formal and general content for proposals. Proposers are required to submit **electronic** copies of the following components:

- Cover letter
- Proposal: addressing energy efficiency Loan terms, LRF terms, credit underwriting, Loan marketing and FI staffing according to the Proposal Outline described below.
- Term Sheets for Loan Products

The City seeks to reduce waste in all our activities. Submittals shall be as PDF attachments to emails only.

5.4.2 *Cover Letter*. The cover letter transmitting the proposal must be executed by a responsible authorized official of the FI.

5.4.3 *Proposal Outline*. Proposals must address the following points:

Note: This is a competitive process. Proposers are asked to be creative in their proposals, addressing and suggesting trade-offs, submitting multiple options where reasonable, suggesting ranges, etc.—all aimed at achieving the fundamental goals of the Program and the SEF CE grants: to reduce energy usage through energy efficiency measures, to create green jobs, and to get FIs lending again, by offering the best loan terms (e.g., where possible the monthly loan payment amounts are offset by the energy cost savings) and broader access to loans (as practical, lowering barriers to lending so that more borrowers can utilize this Program).

a) *Loan Terms*. Please provide a summary description of energy efficiency Loan terms the FI can offer. We are interested to see the FI's ability and willingness to provide two types of loans: secured and unsecured. We are also interested to see the FI's willingness to consider different interest rates for different size loans in each of the sectors. For example, perhaps the FI would consider a lower interest rate for a larger loan. Please provide Loan Term Sheet(s) for this purpose. (See Annex 1 for example Loan Term Sheet).

b) *LRF Terms*. Please respond to the proposed LRF structure and terms, including FI's proposed LRF risk-sharing formula. Please identify and discuss briefly the FI's position on key points in the LRF Agreement, working off the terms described in Section 4.3, above, including:
   - Parameters of the risk-sharing formula
   - Separation and definitions of the Escrow and Reserve Accounts
   - Definition of Loss and Event of Loss
   - Disposition of funds at the end of the Loan period
   - the City Program fees
   - Portfolio ramp-up period
   - Reprogramming of funds in the Escrow Account and ideas for alternative uses of these funds to promote the Loans
   - Ideas on interest rate buy-downs

c) *Approach to Credit and Underwriting Guidelines*. Please provide a summary description of the FI's approach to (i) credit analysis of borrowers, (ii) underwriting guidelines and criteria for the energy efficiency Loan program, distinguished by customer market segment, and (iii) credit screening. Please address the Program goal of broadening access to finance and how the LRF can support this goal.

d) *Loan marketing, origination, and administration*. Please provide description of the FI's approach to Loan marketing, working jointly with the City and other Program partners. Describe the preferred roles of the FI in Loan marketing and origination. Further, please provide (i) a form Loan Application, (ii) a Loan origination procedures checklist, and (iii) a draft form Equipment/Energy Efficiency Project Loan Agreement.

e) *Qualifications & Experience, Officers and Staffing*. Please summarize your institution's qualifications and experience to undertake this Program, including current client base (market share) that can be targeted for marketing purposes. Please indicate names of officers who will play the following roles:

- Program Manager, headquarters, lead loan officer responsible for this Program who will provide the lead and primary point of contact for Loan origination;
- Senior FI Officer(s), who will negotiate and execute documents on behalf of the FI, be available if and as needed to discuss policy matters, and provide program leadership;
- Other staff, e.g., legal counsel, risk manager, assistants to the Program Manager within headquarters; and
- Indicate the number of branch officers who will be responsible for local Loan origination.

Please provide a brief resume of the Program Manager and, if desired, please also provide resumes of other key FI officers to be involved in the Program. Overall, please describe the level of effort and services the FI will devote and the general management approach the FI will take to make this Program succeed.

f) *Technical Assistance & Training Needs*. Please describe the FI's ideas, needs, and priorities for technical assistance and training. These needs can be discussed with the City and EFC for possible technical assistance support.

g) *Additional Statements and Materials*. Please feel free to add additional statements, ideas, and materials that demonstrate the FI's understanding of the Program goals and how the FI could implement the Program.

5.4.4 *Selection Process & Steps to Complete Agreements*.

a) *Evaluation.* Proposals will be reviewed by the City staff for completeness and scored and ranked by an Evaluation Committee. The Evaluation Committee will consist of representatives from the City, EFC, and other Program partners.

b) *Evaluation Criteria*. the City will evaluate proposals qualitatively according to the following criteria:

- Attractiveness of the proposed Loan terms, including pricing, tenor, security requirements, prepayment options, etc.;
- Response to proposed loan loss reserve terms and ability to utilize this to meet the Program objectives and the objectives of the DOE and SEF;
- Clarity and suitability of proposed Loan underwriting criteria and ability to meet the Program goal to broaden access to credit;
- Simplicity and ease of administration of underwriting criteria and Loan origination procedures and coordination with Program partners;
- Skills of staff, services, and level of effort the FI will provide to make this Program successful (FI should consider matching staffing with estimated loan volumes in the chart in Section 2.4);

- Numbers of current bank customers (commercial and residential), current numbers of mortgages and building loans/home improvement loans; and
- Additional statements, ideas and materials that demonstrate the FI's understanding of the Program goals and how the FI could implement the Program.

An evaluation worksheet is attached. The City will select one FI with which to proceed to negotiations. Please note: selection of the FIs will be a selection for negotiation—that is, the City and the FI will further refine the elements of the proposal to arrive at final agreements. If the City is unable to reach an agreement with the FI originally selected, it will select the next highest-ranking respondent from the original list, without the need to go out for another RFP.

5.4.5 Steps to Complete the LRF Agreement. Following selection of the FI with which to negotiate, the City proposes to proceed to negotiate the LRF Agreement. The City will provide the form of this agreement to start. Annexes to the LRF Agreement will include: (a) Loan Application Form; (b) Loan Origination Procedures Checklist, and (c) form Loan Agreement, among others. All terms of the term sheets and proposed agreements are subject to negotiation and change.

5.4.6 Steps to Complete the FI, City, and Non-Profit Program Agreement. Following selection of the FI with which to negotiate, the City will also prepare a draft Program Agreement for review and discussion with FI.

RFP Annexes
Annex A - Energy Efficiency Loans, Commercial, Draft Term Sheet
Annex B - Proposal Evaluation Scoring Sheet

REQUEST for PROPOSALS for FINANCIAL INSTITUTION SERVICES

Annex A: Draft Term Sheet for Energy Efficiency Loans, Residential

Borrowers: Eligible borrowers include owners of single-family residences in [the City].

Lender: FI, after having entered into LRF and Program Agreements with the City.

Use of Proceeds & Eligible Projects: Loans must fund investment in energy efficiency measures in buildings in [the City] that meet certain efficiency criteria (to be defined by the City), in energy efficiency projects, and/or in building repairs necessary to implement the energy efficiency improvements. Equipment engineering and installation costs will be eligible.

Sources of Funds: Borrower will contribute a minimum of __% [e.g., 20%] own funds toward total Project Costs. Energy efficiency grants can be considered as borrower equity.

Minimum Loan: $____ (FI requested to propose). A $3-5000 minimum Loan size is anticipated.

Maximum Loan: $____ (FI requested to propose).

Loan Term: FI requested to propose Loan term. Loan term will vary with the type of building (e.g. for residential, 7-15 year terms are planned, with 10 years being typical).

Payment Schedule: FI requested to propose payment schedule. Payment schedule suggested for consideration: interest-only grace period for up to six months (typical 3 months, estimated) matching the estimated construction period, followed by level monthly payments of principal and interest for the balance of the Loan term. Mortgage-style amortization would allow the payments to be level over the Loan term.

Interest Rate: FI requested to define range based on Loan size, borrower credit, security, the mitigated risk (loan loss reserve), and other criteria. Rates will be fixed for each Loan at the time of Loan application approval.

Prepayment Option: FI requested to propose borrower prepayment options.

Loan Disbursement: FI requested to propose disbursement terms. FI can propose disbursing the Loan in one or several installments. A simple method is a single Loan disbursement. The Loan may be disbursed into the account of contractor company(ies) performing the project works after the FI receipt of invoice for completed portion(s) of the project, which invoice shall be transferred and accepted for payment by borrower, after determination of completion by the City. Methods for construction advances for larger projects can be proposed. Loan disbursement on each project will be contingent upon approval by the City based upon sufficient verification of EE project completion and all reporting requirements. City may rely on Program partners to verify project completion.

Loan Repayment & Security: To be proposed by FI. Both secured and unsecured Loan products may be proposed by FI. Sources of security could include the following:

a) For residential secured Loans, a deed of trust may be required, with anticipated loan-to-value ratios of 80-85% and up to 100%. It is expected that a prudent portion of estimated energy cost-savings will be included in this calculation.

b) First security interest in installed equipment can be obtained, and FI may make a UCC-1 security filing.

c) LRF funds.

Underwriting Criteria: FI requested to propose underwriting criteria. Sample criteria are for the commercial borrowers are indicated below:

- No negative credit history; current on outstanding debts
- Current on utility bills
- Debt to income ratio of ____
- Ratio of debt to total assets of _________.
- Employment history - e.g. two years at current job
- Income verification
- Borrower's own funds contributing minimum ___% [e.g. 20%] of project capital costs

Loan Application: Borrower shall submit the following documents to the FI to apply for the Loan (to be determined by FI, examples follow):

1. Loan application (provided by FI and completed by borrower).
2. Taxes for last two years.
3. Other additional documents (to be defined by FI).

Loan Origination Procedures & Schedule: FI is requested to define Loan origination procedures and schedule, including FI response time for processing Loan applications, rendering credit decisions once complete information is received, and closing Loans on accepted applications.

Annex B – Proposal Evaluation Scoring Sheet

City Energy Efficiency Lending Program
Financial Institution Request For Proposal: Proposer Evaluation Worksheet

	Criteria	Point Value	Grade (0-100%)	Score
	FI Qualifications & Experience	**10**		
1	FI proposer experience & qualifications	5		
2	Skills of staff and proposed level of effort	5		
	Energy Efficiency Loan Terms & Underwriting	**30**		
4	Interest rate & fee pricing	10		
5	Loan tenors	10		
6	Underwriting guidelines and security requirements	10		
	Approach to Loan Loss Reserve	**25**		
7	Proposed risk-sharing formula	10		
8	Response on other LRF Agreement terms	5		
9	Broadening access to finance: ability to achieve	10		
	Approach to the Program & Marketing	**30**		
10	Loan marketing	10		
11	Number of accounts/members	15		
12	Loan origination procedures	5		
	Other	**5**		
12	Match of FI's proposal with Program goals:	5		
	Total Points	100		

Evaluator Name & Date: ____

Financial Institution Name: ____

Contact Name(s): ____