

# Drafting the RFP

Dan Clarkson  
Vice President  
Energy Efficiency Finance Corp.

# Section 1

- Determine the partners in the Program that will assist in the preparation and scoring of the RFP
- Scope of the Program: will it include Small commercial? Multi-family? Non-profits? My recommendation: Keep it simple.
- Determine the types of Credit Enhancements that will be used
- Expected services the Lender will provide
- The Lender will want to know how much reporting will be expected—margins are small on these loans.

# Impact on loan underwriting guidelines

- *Increase size of unsecured loans.*
  - *Are both secured and unsecured options contemplated?*
- *Extend tenors.*
- *Lower minimum credit score.*

Keep in mind the balance of Lender need for reduced risk and Municipality's need to broaden access to finance.

## 2. Program Background

- Design outreach to increase uptake
- List typical Residential EE measures
  - 20% non-EE measures

# Loan Budget

Average Project Size	\$8,000
Average Rebates and Incentives	\$1,600
Average Loan Size	\$6,400
Total # of Loans	1,000
<b>Total Lending through 2012</b>	<b>\$6,400,000</b>

# Partners and Partner Roles

- Is there a local non-profit available?
- What is the Lender's capacity to provide?
- What is the utility involvement?

# Program Partners Offer “One-Stop Shop”



# Community Energy Challenge Partners

- Non-profit Sustainable Connections
- Community Action Agency – The Opportunity Council & The Building Performance Center
- City of Bellingham
- Whatcom County
- City of Ferndale
- Banner Bank
- Investor Owned Utility – Puget Sound Energy and Cascade Natural Gas
- EEFC



# Marketing

- Goal: The dollar amounts of the estimated energy cost savings offset the amount of the monthly loan payments.
- *Lender's Existing Customers.*
- *Mortgage Refinancing.*
- *Other Market Aggregators.*

# Loans

- *Eligible borrowers*
- *Eligible Projects*
- *Loan application*
- *Loan terms*
- *Interest rate*
- *Payment schedule*
- *Loan size*

# Actual Results

Credit Score	Term	Rate
680 or above	up to 72 months	4.74%
	86 – 180 months	4.99%
679 – 640	up to 72 months	5.99%
	86 - 180 months	6.24%
639 – 601	up to 72 months	7.49%
	86 - 180 months	7.74%
600 and below	up to 180 months	8.74%

# Lending Calculations

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

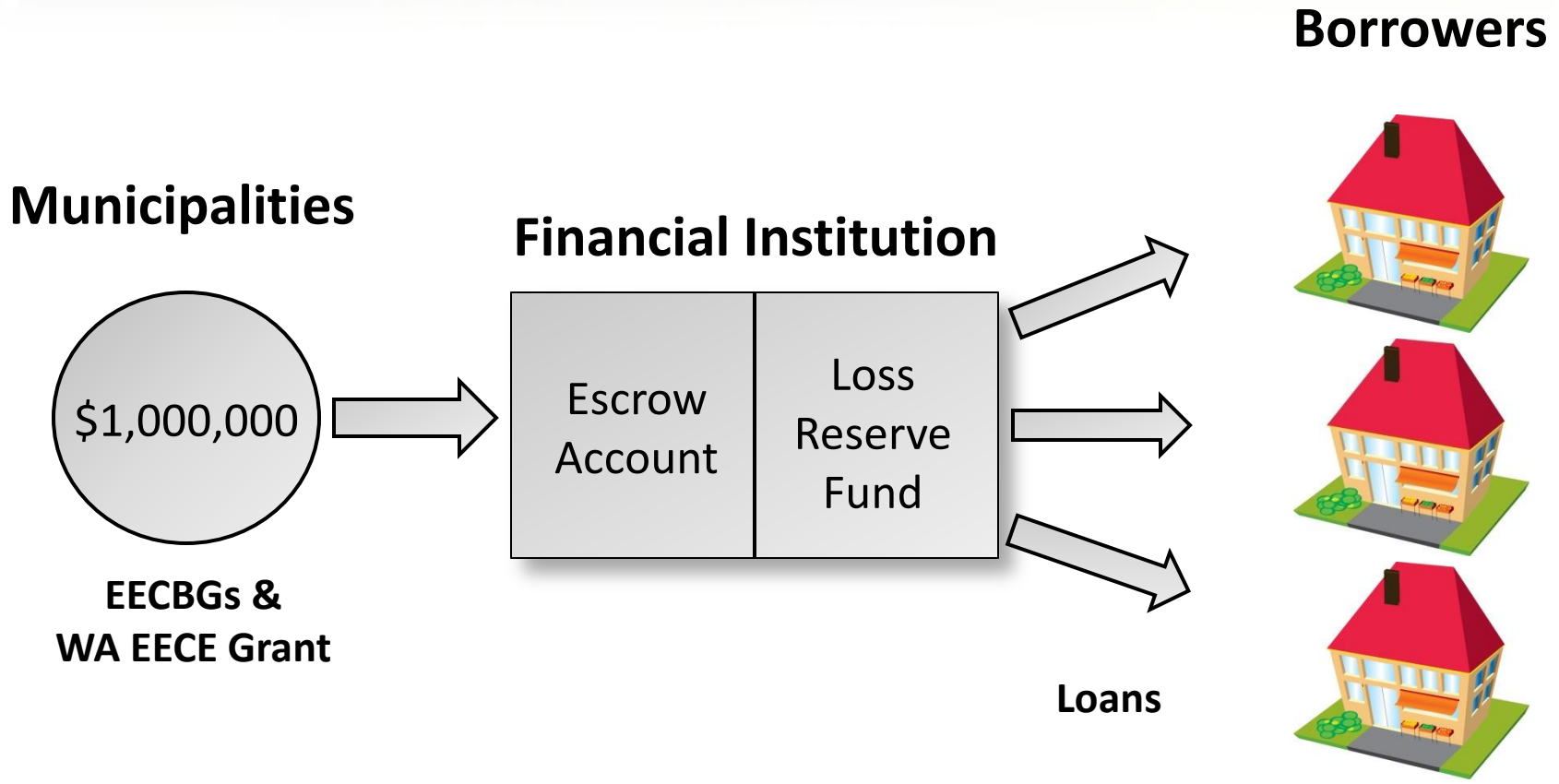
# Underwriting guidelines & security

- Secured and/or unsecured?
- Loan-to-value ratios ?
- Borrower contribution?
- Personal contribution
  - utility rebates or incentives
  - other rebates and incentives
  - estimated energy cost-savings
- UCC-1

# Loan Loss Reserve Funds

- “Portfolio approach” to credit structuring
- Achieve significant leverage of public funds, e.g. ARRA and other grants
- As a % of total loan portfolio principal = 2-10%
- Cover first losses on a portfolio of EE/RE loans
- EECBG & SEP funds can be used for LRFs

# Loan Loss Reserves Leverage Commercial Finance



Total Target Number of Loans:  
900 Residential & 75 Small Commercial

# Risk-Sharing Formula, Main Components

- Ratio of (A) LRF funds to (B) total original principal amount of Loans in portfolio.
  - A/B = first loss percentage
  - B/A = leverage ratio
- Share of first losses that LRF will pay, e.g., 90%
- Trade-offs among the leverage ratio, risk sharing formula, Loan security and access to finance

# Sample Budget & Risk-Sharing Formula Calculations

<b>1</b>	<b>LRF ARRA grant budget</b>	<b>\$1,000,000</b>
<b>2</b>	<b>Grant funds for program development &amp; operations</b>	<b>\$100,000</b>
<b>3</b>	<b>Net funds for LRF escrow account</b>	<b>\$900,000</b>
<b>4</b>	<b>"First Losses" as % of total original principal</b>	<b>5.00%</b>
<b>5</b>	<b>Share of first losses borne by LRF</b>	<b>90.00%</b>
<b>6</b>	<b>Share of first losses borne by FI partner</b>	<b>10.00%</b>
<b>7</b>	<b>Total lending that can be supported with this LRF risk-sharing formula</b>	<b>\$20,000,000</b>
<b>8</b>	<b>Average portion of EE projects paid by loans (homeowners/utilities/others cover the remaining 20%)</b>	<b>80.00%</b>
<b>9</b>	<b>Total EE Project Investment that can be supported</b>	<b>\$25,000,000</b>
<b>10</b>	<b>Leverage ratio #1 (LRF funds to total lending product size supported)</b>	<b>22.22</b>
<b>11</b>	<b>Leverage ratio #2 (LRF funds to total EE project investment supported)</b>	<b>27.78</b>

# LRF

- Definition of Escrow Account
- Definition of the Reserve Account
- Definition of Loss & Event of Loss
- Interest on both the LRF and Deposit Accounts
- Disposition of loan loss reserve funds at end of Loan period
- Program Fees
- Reprogramming Funds in the Escrow/Reflow Accounts

# *Reprogramming Funds in the Escrow Account & Reflow Account*

- March 31, 2011: \$126,000 in Loans, based on 40 completed energy audits;
- June 30, 2011: \$350,000 in additional Loans, based on 125 completed, additional energy audits;
- September 30, 2011: \$546,000 in additional Loans, based on 225 completed, additional energy audits;
- December 31, 2011: \$399,000 in additional Loans, based on 175 completed, additional energy audits;
- March 31, 2012: \$546,000 in additional Loans, based on 225 completed, additional energy audits;
- June 30, 2012: \$560,000 in additional Loans, based on 250 completed, additional energy audits

# Potential Impacts on Underwriting Criteria

Use of LRF can have the following results:

- Reduces required credit score
- Lowers interest rate
- Lengthens loan tenor
- Increases debt to income ratio
- Allows larger unsecured loans
- Increases or eliminates loan to value ratio
- Lowers required customer capital contribution

# Thank You

Dan Clarkson

206.310.8733

[dclarkson@eefinance.net](mailto:dclarkson@eefinance.net)

[www.eefinance.net](http://www.eefinance.net)