Energy Efficiency Financing
Lender Roundtable

SINGLE FAMILY LOAN PROGRAM

LENDER ROUNDTABLES
OCTOBER 24-28, 2014
The California Public Utilities Commission (CPUC) issued a decision on September 20, 2013, creating a series of new energy efficiency financing pilots with the following goals:

• Increase the flow of private capital to energy efficiency

• Kick start a new wave of financing

• Deploy approximately $66 Million for credit enhancements, direct marketing and collateral, program administration and contractor training
Electric and Gas Utility Service Territories
Available to customers of Investor-Owned Utility (IOU) service territories:

- PG&E, SCE, SoCal Gas, SDG&E

$30 million in credit enhancements available to participating financial institutions

Add financing charges directly to the utility bill for certain programs:

- “On-Bill Repayment” (OBR) for Multifamily and Non-Residential
- “Energy-Financing Line-Item Charge” (EFLIC) for the Single Family Program in PG&E territory

For OBR, allow disconnection of utility service to non-residential properties for failure to pay financing obligation. OBR financing obligations may be transferred to new occupants with consent of all parties.

Each pilot will run for at least two years (estimated through June 2017) and may be extended by the CPUC.
### The Pilots – Overview (cont.)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Pilot Type</th>
<th>Credit Enhancements</th>
<th>On-Bill Repayment</th>
<th>Disconnection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>Single Family</td>
<td>$21 million Loan Loss Reserve</td>
<td>Optional in PG&amp;E territory</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Master Metered Multifamily</td>
<td>$2 million Loan Loss Reserve, Debt Service Reserve</td>
<td></td>
<td>No</td>
</tr>
<tr>
<td>Non-Residential</td>
<td>Small Business Loan/Lease</td>
<td>$10 million Loan/Lease Loss Reserve</td>
<td>Loans – Yes, Leases – Optional</td>
<td>Loans -- Yes, OBR Leases -- Yes, Off-Bill Leases -- No</td>
</tr>
<tr>
<td></td>
<td>Non-Residential On-Bill Repayment</td>
<td>None</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>
California Hub for Energy Efficiency Financing

Data Manager

Anonymized Data

Loan/Lease Info and Periodic Reports

Master Servicer

ODR/EFLIC Billing Information

Account Info and ODR/EFLIC Payment Remittance

CAEATFA

Loss Reserve Allocation and Claim Instructions

Trustee

Loss Reserve and DSRF Payments

Participating Lenders

Rental (Non-ODR/Non-EFLIC)

IOUs

Energy (and ODR/EFLIC) Payments

Customer

Project Info

Customer Info

Contractors

Rental (Non-ODR/Non-EFLIC)

Repayment (Non-ODR/Non-EFLIC)
California Hub for Energy Efficiency Financing (CHEEF)

- IOUs
  - Energy (and OBR/EFLIC) Payments
  - Account Info and OBR/EFLIC Payment Remittance
- Customer
  - Project Info
  - Customer Info
- Contractors
- Participating Lenders
  - Repayment (Non-OBR/Non-EFLIC)
  - Loan/Lease Enrollment Applications and Claims
  - OBR/EFLIC Payments & Loss Reserve Reimbursements
Single Family Program Details
What is the Single Family Loan Program (SFLP)?

- Goal: help customers access lower-cost financing for energy efficiency projects by reducing risk to participating lenders
- Available to lenders such as banks, credit unions, CDFIs, and other finance companies
- Provides a loan loss reserve to cover loans for residential (1-4 units) energy efficiency projects such as:
  - Simple appliance or HVAC replacements
  - Comprehensive home energy improvements
- Customers are not required to participate in an IOU efficiency rebate or incentive program
What are the Benefits to Participating Lenders?

- Reach a growing, multi-billion dollar market
- Access to a Loan Loss Reserve (LLR) that may allow you to:
  - Mitigate losses
  - Access a wider range of potential borrowers
  - Offer more attractive interest rates and terms
- No fees for participation
- Build relationships with contractors to source new deals
- Benefit from a multi-million dollar marketing budget
  - Direct marketing
  - Marketing collateral and co-branding for lenders and contractors
The Single Family Loan Program Key Features

- Loan Loss Reserve:
  - Contribute **10%** of principal value to reserve for each enrollment
  - Contribute **20%** for low-to-moderate income (LMI) borrowers
  - Reimbursement of up to **90%** of charged-off principal, based on lender’s reserve balance
  - $10,000 initial contribution upon first loan enrollment to reduce early stage risk
  - Reserves capped at percentage of the outstanding portfolio
- **No fees** to lenders for participation or access to credit enhancement
- Contractor management system for high-quality projects and customer satisfaction
- Launch in **Q1 2015**
Participation Requirements

To participate, a lender must be one of the following:

a. An insured depository/credit union or CDFI defined by section 103 of the Riegle Act

b. A mortgage lender licensed by the California Department of Business Oversight

c. A finance lender licensed by the California Department of Business Oversight

Are these participation requirements inclusive enough to allow for multiple types of financial institutions to participate?
To participate, lenders will submit an application to the CHEEF with the following information:

- Lender name, address, contact information
- Type of lender (bank, credit union, CDFI, finance lender, etc.)
- Geographic lending area
- Names of lender’s regulatory and insuring agencies if applicable
- A description of the loan product, process, and any fees:
  - Including minimum and maximum loan amounts, collateral required (if any), interest rates (fixed or variable), loan terms, underwriting criteria, etc.
  - A description of how the loan products offered benefit from access to the loss reserve based on rate, term, underwriting, DTI, or other criteria
Participation Requirements for Finance Lenders

- Hold a **California Finance Lender license** in good standing with the California Department of Business Oversight.

- Have as one of its principal businesses the origination of consumer loans or retail installment contracts.

- Demonstrate a **proven ability to originate consumer loans or retail installment contracts** in accordance with all applicable laws.

- **Net worth in excess of $1,000,000** and assets that exceed 0.5% of assets under servicing.

- **Maintain quality control and management systems** to evaluate and monitor the overall quality of its loan or financing-related activities, including underwriting reviews.
Participation Requirements for **Finance Lenders: Insurance**

- General liability with limits of not less than $2,000,000 per occurrence for bodily injury and property damage liability combined
- Motor vehicle liability with limits of not less than $1,000,000 per accident
- Statutory workers’ compensation and employer’s liability coverage for all its employees who will be engaged in the performance of the contract
- Employer’s liability limits of $1,000,000 shall be required
- Coverage must be maintained throughout the term of the lender’s enrollment in the program
### Annual Submissions to Maintain Enrollment

<table>
<thead>
<tr>
<th>Financial Institution Type</th>
<th>Requirement</th>
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<tr>
<td><strong>Finance Lenders</strong></td>
<td>Audited financial statements</td>
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<td>Evidence of current licenses and insurance</td>
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<td>A statement describing material* changes from the initial application or</td>
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<td>indicating that all statements made in the application remain materially</td>
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<td><strong>Regulated Financial Institutions</strong></td>
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Participation Requirement Questions

• Summary of Requirements:
  • A description of the loan product, process, and any fees
  • A description of the impact of participation on the terms and underwriting of your loan products
  • Finance Lenders: experience, quality control systems, insurance, and other topics

Do you have any concerns with these requirements?
Eligible properties include:

- Single family homes (1-4 unit properties)
- Located in the service territory of a California IOU
- Rental properties allowed with landlord consent
Eligible Loans and Minimum Underwriting Criteria

- Loans must be term loans and may not include prepayment penalties
  - No lines of credit or refinancing of existing debt
- Retail installment contracts/dealer loans are eligible
- Maximum loan amount: $35,000
- Maximum loan interest rate: to be determined through workshops
  - 10%?
  - 10-year Treasury + 1,000 bps?
- Minimum FICO: 580
  - Income verification required for FICOs below 640
- Maximum debt-to-income: 50%

Will these provide you with sufficient flexibility to participate within your own lending guidelines? What is an appropriate maximum interest rate?
Loans enrolled with the Program may finance energy efficiency and demand response measures as well as other, related measures as follows:
Qualified Measures

- Eligible Energy Efficiency Measures (EEEMs) include those that are:
  - Eligible for efficiency rebates such as efficient HVAC systems, appliances, windows, insulation, etc.
  - Related costs such as installation, patching, painting, permits, and other legally required improvements
  - A full list of eligible measures, by utility territory, will be available online and included in contractor trainings
- Demand response measures including any measures financed to support a customer’s participation in an IOU demand response program
- Other related home improvements can include cabinets, fixtures, etc.
IOU Discussion on Eligible Energy Efficiency Measures List
Accommodating Ineligible Measures

- The Program may allow loans to be partially enrolled, where some of the loan proceeds could be used for ineligible measures
  - Loss reserve contribution amount could be based on eligible costs only
  - Loss reserve claims would be reimbursed based on the amount enrolled

Would partial enrollment of loans with ineligible measures be useful to you? What types of projects would you use partial enrollment for?
Loan and Measures Eligibility Questions

• How would you comply with the 70/30 EEEMs and Demand Response measures to “Other Improvements” requirement?
  • Have you participated in other programs where you had to track installed measures and use of loan proceeds?
• As proposed, contractors will prepare itemized invoices to demonstrate that the project meets this requirement. Do you have another suggestion for how to meet the requirement?
After a project is completed, a participating lender will submit an application to the CHEEF that will likely include the following documents (note: items in *italics* will be collected by the contractor):

- Loan enrollment form (basic loan, customer, project information, and lender certification of project eligibility)
- *Customer Information Releases* (authorization for energy use and other data needed for program evaluation)
- Certificate of completion
- *Info on contractor’s licenses and certifications and project description*
- Itemized invoice
- Bill impact estimate
- Building permit and final inspection (if required)
- Incentive/rebate forms (if applicable)
Proposed Data Required for Loan Enrollment (1)

Borrower Information:

• Name
• Address (Project Site)
• Date of Birth
• FICO Score
• Income, Debt and Debt-to-Income Ratio
Loan Information:

- Unique Identification Number
- Loan Type (Term Loan, 2nd Mortgage, Retail Installment Contract, etc.)
- Date Originated
- Loan Amount (Eligible and Total If Partially Enrolling)
- Interest Rate (Rate, Fixed or Variable)
- Secured or Unsecured (If Secured, Security Type)
- Fees
- Term of Loan and Maturity Date
- Monthly Payment Amount
Other Information to Be Collected from the Contractor:

• Electric and Gas Utility Account Information
• Property Information
• Itemized Invoice of Energy Efficiency and Other Improvements
• Anticipated or Actual Rebate/Incentive Amount and Relevant Reference Numbers
• Bill Impact Estimate
Enrollment and Data Questions

• Do you have concerns about the documentation or data required for enrollment of each loan?

• The program will require contractors to provide a *bill impact estimate*, describing the potential monetary savings resulting from the project. Do you have any concerns about providing consumers with this type of estimate?

• Do you have any concerns regarding data security and consumer privacy?
CAEATFA’s Master Servicer will receive all loan applications and information from participating lenders. CAEATFA has established the following requirements for the Master Servicer:

- Member of the National Automated Clearing House Association (NACHA) and follow all NACHA Operating Rules
- Minimum 3 years experience operating as a Master Servicer and managing data securely including annual SSAE 16 Type II reports on the firm’s internal controls
- A written set of policies related to Quality Assurance and Controls
• The Master Servicer will anonymize all loan and borrower data before providing it to any external parties
  • Scrubbing names, addresses, account numbers and other Personally-Identifiable Information (PII)
• Data published to the public by CAEATFA’s data manager will be aggregated such that individual borrowers cannot be identified indirectly
• Credit enhancement funds are provided by the IOUs for their respective customers

• Participating lenders will have a loss reserve account established for their benefit with the Trustee

  • If a lender works with borrowers in multiple IOU territories, it will have a separate reserve account for each IOU territory

  • The account(s) will include subaccounts for each pilot program in which the lender is participating

  • If a project is in split utility territory (gas and electric provided by different IOUs), loss reserve contributions will be split between the two accounts in proportion to the corresponding gas and electric savings
Upon approval of a request to enroll a loan, the CHEEF will:

- Notify the participating lender of loan enrollment
- Make a contribution to the participating lender’s loss reserve account held and managed by the Trustee

Lenders may request a loss reserve reservation to ensure funds will be available upon project completion and loan funding.
The Single Family Loan Program Key Features

- **Loan Loss Reserve:**
  - Contribute **10%** of principal value to reserve for each enrollment
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  - Reimbursement of up to **90%** of charged-off principal, based on lender’s reserve balance
  - $10,000 initial contribution upon first loan enrollment to reduce early stage risk
  - Reserves capped at percentage of the outstanding portfolio

- **No fees** to lenders for participation or access to credit enhancement

- Contractor management system for high-quality projects and customer satisfaction

- **Launch in Q1 2015**
Upon enrollment of a participating lender’s first loan, the CHEEF will fund the lender’s reserve account with an initial $10,000.

- Designed to cover early-stage losses, when the lender’s reserve balance would not otherwise be sufficient to cover a loss claim
- The pre-funding will not be replenished during the early stage loan period in the case of a loss claim
- The CHEEF will track how much would otherwise have been deposited in the reserve account as new loans close, and when that amount exceeds $10,000, the CHEEF will begin depositing new funds in the reserve
Loss Reserve Structure Questions

• Is the loss reserve structure familiar to you and to your investors? Are the proposed contribution and reimbursement levels adequate?

• Will the additional contribution for Low-to-Moderate Income (LMI) borrowers encourage you to make more loans in the LMI sector?

• Are there other approaches that we should take to encourage LMI lending?
• Do you have any concerns with loss reserve contributions being transferred on a monthly basis rather than loan-by-loan?

• Would loss reserve reservations be useful to you? If so, how long should a reservation last?

• What type of documentation could you submit as proof of a viable loan when requesting a reservation?

• Is the initial $10,000 contribution (pre-funding) useful to you and does it address an important problem?
Ongoing Reporting and Servicing

• Lenders will service their enrolled loans using their existing processes
  • Servicing requirements for loans enrolled in the EFLIC program will be developed in subsequent regulations

• Each month, lenders will provide a month-end report to the CHEEF on their enrolled loan portfolio including information for each loan on:
  • Loan status
  • Current balance
  • Charge off amount
  • Prepaid amount
Process for Filing a Claim

1. If a borrower becomes delinquent, the lender will use its collections process to bring the loan current.

2. If the loan is charged off, the lender may file a claim for loss reserve reimbursement by submitting the following information:
   - Loan enrollment number and other basic information about the loan
   - Amount and date of charge-off and amount of claim
   - Statement whether the loan is secured, and whether the FI commenced enforcement proceedings

3. Complete loss claims packages will be paid within 30 days.

4. For lenders participating in multiple IOU territories, claim reimbursements will be paid from their account associated with that IOU.

5. Lenders will refund claim reimbursements on recovered losses net of management and recovery costs.
Contractor Management: A Phased Approach

Phase 1: Initially, the program will leverage existing programs and certifications to manage contractors. Examples include:

- Energy Upgrade California: Home Upgrade
- Building Performance Institute (BPI)
- League of California Homeowners

Phase 2: The CHEEF will create a contractor management system to manage contractors and train them on the rules and requirements of the program. To participate contractors will:

- Attend a training on the program and financing basics
- Be licensed for all work they perform
- Have no outstanding liens or judgments against them
- Have current liability and workman’s compensation policies

Upon meeting these requirements, the contractor will be added to an online list of participating contractors.
Upon receiving a customer or lender complaint about a participating contractor, the CHEEF will:

1. Investigate the complaint and perform a site inspection if necessary;

2. Send the contractor a written warning, including opportunity to rectify the issue;

3. If a contractor receives $X$ unique complaints within $X$ days, the contractor may be suspended from starting any new projects for $X$ days;

4. If any additional complaints are received in this period, the contractor may be terminated from program participation.

Participating lenders will be notified of all suspension and termination actions. If complaints are related to significant health and safety concerns, this process may be accelerated.
Contractor Management Questions

• What do you currently do to manage the contractors you work with?

• Are there other contractor management systems or programs that should be included in phase 1?

• Would the contractor management system proposed for phase 2 be helpful to you for identifying and working with well-trained contractors?

• Would it be helpful for the contractor management system to track and address consumer complaints?
Center for Sustainable Energy
Discussion on Marketing, Education, Outreach and Training
Timeline

- **October 24th – 28th**: Lender and contractor roundtables
- **October 30th**: Roundtable comments due at 12 PM
- **November, 2014**: Formal regulatory workshops
- **December, 2014**: CAEATFA Board approval of regulations
- **January, 2015**: Regulations adopted
- **February, 2015**: Trustee, Master Servicer and Contractor Management infrastructure established.
- Program launch in February, 2015. Begin accepting lender applications and enrolling eligible loans.
NEXT STEPS

Please submit written comments to CAEATFA by noon on October 30th at CHEEF@treasurer.ca.gov.

For more information please visit http://www.treasurer.ca.gov/caeatfa/cheef/ or Contact Sarah Taheri at Sarah.Taheri@treasurer.ca.gov
Thank You