Single Family Loan Program

REGULATORY WORKSHOP

THURSDAY, DECEMBER 11, 2014
9:30AM – 12:00 PM
915 CAPITOL MALL, ROOM 587
SACRAMENTO, CA 95814
OR VIA WEBINAR

Live captioning is available at www.streamtext.net/text.aspx?event=CDIAC
Slides are available at: http://treasurer.ca.gov/caeatfa/cheef/sflp/index.asp
Welcome

In person attendees:
- Please sign in or leave a business card
- Come to the microphone for questions and comments
- Bathrooms:
  - Men: 3-4-1
  - Women: 3-2-5
- In case of emergency please walk down the stairs and meet in Capitol Park across 10th street

Webinar attendees:
- Please submit questions/comments through the webinar
Outline

1. Overview
2. Applying to participate as a financial institution or finance lender
3. Loan and project eligibility
4. Contractor eligibility and management
5. Loss reserve design
6. Reservations, pre-approvals and loan enrollment
7. Claims
8. Reporting, sale of loans, and termination/withdrawal
9. Marketing, education and outreach
10. Timeline and general questions/comments
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
The Pilots - Overview

- Available to customers of Investor-Owned Utility (IOU) service territories:
  - PG&E, SCE, SoCal Gas, SDG&E
- **Over $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
<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 and only in PG&amp;E territory</td>
<td>No</td>
</tr>
<tr>
<td>Master Metered Multifamily</td>
<td>$2 million Loan Loss Reserve, Debt Service Reserve</td>
<td>Yes</td>
<td>No</td>
<td></td>
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<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>Yes</td>
</tr>
<tr>
<td>Non-Residential On-Bill Repayment</td>
<td>None</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
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</tbody>
</table>
Goals of this workshop:

- Present draft regulations and proposed program design
- Receive your verbal and written comments and questions
  - Please review the draft regulation text and submit specific comments and suggestions – we want this program to work for you!
- Written comments due by 5PM on Wednesday, December 17th
- CAEATFA will incorporate comments received and post a revised draft of the regulations for additional public review in late December or early January
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
§1 – Definitions: Eligible Financial Institutions and Finance Lenders

**Eligibility to be a Participating Financial Institution (PFI):**

- An insured depository institution, insured credit union, or CDFI as defined in Section 103 of the Riegle Act (12 U.S.C. 4702)

**Eligibility to be a Participating Finance Lender (PFL):**

- License in good standing with the California Department of Business Oversight
Insurance coverage requirements as described in Section 3(a) of the draft regulations

Net worth in excess of $1MM and assets in excess of 0.5% of assets under servicing

Demonstrate experience in originating consumer loans or retail installment contracts and home improvement financing

Properly licensed in all jurisdictions where it does business

Quality control systems including underwriting reviews and consumer complaint resolution processes

Representations and warranties listed in Section 3(i) of the draft regulations
§4 - Loan Eligibility

Eligible Loans:

- Loans/Retail Installment Contracts with a defined term
- No open end loans, refinancing of existing debt, or loans for the purchase or construction of residential housing
- May not be enrolled in other government loss reserve or guarantee programs

Proceeds must be used for:

- At least 70% Eligible Energy Efficiency Measures (as determined by the IOU(s) servicing the property), other related costs such as installation, permitting, and legally-required improvements, and demand response measures
- Up to 30% other, related home improvements
- Loans may not fund solar or other distributed generation installations

Maximum Loan Amount:

- $50,000 per unit
- $35,000 for borrowers with no FICO score

Maximum Interest Rate: 10-Year Treasury + 1,000 BPS
Minimum FICO Score: 580
- Income verification required for Borrowers with scores between 580 and 640
- Borrowers with no FICO may be eligible provided they have no unexplained derogatory credit reports

Maximum Debt-to-Income (DTI): 55%

PFIs and PFLs may establish additional or more stringent underwriting criteria

PFIs and PFLs may also take a Borrower’s utility bill payment history into account when underwriting a loan
§1 – Definitions: Eligible Properties

Eligible Properties:

- 1-4 unit residential properties
- Receive gas and/or electric service from an IOU
- Rental properties are eligible with owner’s permission
§5 - Contractor Eligibility and Management

To be eligible Contractors must be properly licensed and:

- Approved to participate in EUC Home Upgrade or Advanced Home Upgrade; or,
- Approved by the League of California Homeowners; or,
- BPI Certified for the work performed; or,
- Part of a Participating Financial Institution or Finance Lender’s contractor management system that has been approved by CAEATFA (only for loans with that PFI or PFL)

Qualified Contractors must also attend a program training
Projects outside of IOU rebate/incentive programs will be subject to random inspections.

Contractors may be removed from participating in the program if projects are not installed in accordance with program requirements.
A Participating Financial Institution or Finance Lender may submit a contractor management system for CAEATFA’s approval for use in the Program by demonstrating:

- A requirement and procedure to verify proper licensing from CSLB
- A requirement for the contractor to maintain general liability insurance of at least $1MM and Workers’ Compensation Insurance to the extent required by law
- A procedure to verify the contractor has no outstanding unsatisfied judgments or liens
- Periodic recertification of contractors
- A quality control procedure for completed projects
- A procedure to remove contractors from eligibility
Are there other contractor management systems or well-qualified groups of contractors that should be considered for inclusion?
Eligible Energy Efficiency Measures (EEEMs)

- Any measure that is currently rebated or incentivized by an IOU efficiency program

- Lists will be provided on CAEATFA’s website

- For example:
  - SoCal Gas: Wall Insulation, \( \geq R-13 \)
  - SCE: Duct Replacement, \( \leq 6\% \) leakage to outside
  - SoCal Gas: Natural Gas Storage Water Heater, Energy Factor > 0.62, > 30 gallons
Demand Response Measures

Demand response measures are also eligible for inclusion.

What types of demand response measures might be financed?

How much do these measures typically cost?

Are there any demand response measures that a Borrower might do without participating in an IOU demand response program?
§10 – Project Requirements

** Measures may be installed by a Qualified Contractor who has received a program training OR a self-installer (the Borrower)

** All required permits and approvals must be obtained

** Installation of a Combustion Appliance requires a carbon monoxide alarm in the home

** Projects with comprehensive air sealing or substantial changes to the building envelope must receive a **Combustion Appliance Safety (CAS)** test from a BPI certified:
  - Building Analyst
  - Envelope Professional
  - Heating Professional
  - A/C and Heat Pump Professional
Questions Regarding Project Requirements

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Contractors will provide the Borrower with a Bill Impact Estimate for the project. For this requirement, the Contractor may use:

- His/her own estimate calculated using energy modeling software
- **Template To Be Developed:** Standardized bill impact estimates for commonly installed measures
  - May be available by climate zone, or climate zone grouping

- Any concerns with the Bill Impact Estimate?

- Would the proposed standardized estimate be useful/helpful in satisfying this requirement?
Loan Loss Reserve Design

- Separate Loss Reserve Account for each IOU territory
- 11% of principal contributed for each Enrolled Loan
- 20% contribution for Low-to-Moderate Income
- Rebate and Incentive Amounts will be factored out of the principal amount before determining the loss reserve contribution. For projects receiving:
  - a rebate: $500
  - an incentive: the anticipated incentive amount
- Loss Reserve Account balance adjusted quarterly to remain aligned with the outstanding balance of the Enrolled Loan portfolio
The loss reserve will cover up to 90% of the outstanding balance on a charged off Enrolled Loan.

1 year, 1st claim guarantee: If a Participating Financial Institution or Lender makes its first claim within 12 months of enrolling its first loan, it will be reimbursed without affecting its Loss Reserve Account balance.

Any recoveries on a claimed Enrolled Loan will be returned to the Program, net of reasonable collection costs.
A PFI or PFL may request a Loss Reserve Reservation to set aside funds for a proposed loan.

CAEATFA will also pre-approve proposed loans with some additional information on cost breakdowns.

1 business day for review and approval.

Funds may be reserved for up to 180 days and a PFI or PFL may request an additional 60 day extension.

Reserved funds will be released for new projects if no enrollment is submitted within this time period.
To request a **Loss Reserve Reservation**, submit the following information:

1. Loan ID
2. Project city and zip code
3. Indication of whether the borrower has low/moderate income
4. Anticipated loan amount
5. Name(s) of IOU(s) providing gas and/or electric service

To request a **Pre-Approval**, submit the following additional information:

6. IOU account number(s)
7. A detailed breakdown of proposed measures and costs
8. Name and eligibility type of the Qualified Contractor
9. Customer Information Standardized Request (CISR) form
§8 - Loan Enrollment (1): Timeline

- Submit to CAEATFA within 15 business days of receiving a Certificate of Completion from the contractor or Borrower

  - Is this sufficient time to submit a loan?

  - If complete, enrolled within 10 business days

  - Enrolled for up to 10 years
§8 - Loan Enrollment (2): Required Documents

- Loan Enrollment Form
- Certificate of Completion (from Contractor/Borrower)
- Customer Information Standardized Request (CISR Form)
- California Hub for Energy Efficiency Financing Release Form
- Itemized Invoice/List of Measures and Costs
The Loan Enrollment Form will include:

1. Name and contact info of PFI, Loan Officer
2. Loan ID
3. Project street address, city, county and zip code
4. Property Type
5. Name of IOU(s) providing gas and/or electric service
6. Borrower FICO range, income and DTI
7. Household income and number of persons in household
8. Loan Amount
9. Loan Type (term loan, second mortgage, etc.) (secured/unsecured?)
10. Date the certificate of completion was received by PFI/PFL
11. Term and maturity date
12. Interest rate (and whether fixed or variable)
13. Interest rate the loan would have received in the absence of the loss reserve
14. An estimate of the savings to the Borrower from lower-cost financing
15. Certification that the loan meets the program’s minimum underwriting criteria
Questions on Loan Enrollment Form

- What is the preferred way for CAEATFA to determine a borrower’s LMI eligibility?

- Is there any issue with providing:
  - Borrower income?
  - Household income and # of persons in household?

- Are there any issues with lenders providing a borrower’s debt-to-income ratio?

- How would you demonstrate the benefit of the loss reserve? Are there alternatives to the requirement that lenders provide estimates of savings on an individual loan basis?
§8 - Loan Enrollment (4): Certificate of Completion

The Certificate of Completion form will include:

1. Project street address, city, zip code
2. Name(s) of utility(ies) providing gas and/or electric service
3. IOU account number(s)
4. Info on rebate/incentives received or expected
5. Name, license and certifications of Qualified Contractor or indication that the project was completed by a Self-Installer
6. Permit numbers, if applicable
7. Contractor and Borrower certifications of project eligibility
8. Info on the contractor who performed CAS testing, if applicable
The California Hub for Energy Efficiency Financing Privacy Rights Disclosure and Release will require the Borrower to release certain information that will be:

- Provided to CAEATFA or contractors acting on its behalf
- Maintained by CAEATFA for the life of the loan
- Combined with energy usage data from the Borrower’s utility bill
- Released to the public in an anonymized and aggregated form
- This information may be released to other state agencies and the federal government pursuant to interagency agreements or where required by law
The Itemized Invoice may be prepared using the Contractor’s own invoice or using a template provided by CAEATFA.

The Invoice must include the following information:

- A detailed description of each Eligible Energy Efficiency Measure (EEEM) including:
  - Measure type
  - Efficiency rating
  - Whether it is a gas or electric measure, if applicable

- The installed cost of each EEEM

- A description of all other improvements installed and financed by the Eligible Loan, and the associated costs
A PFI or PFL must notify CAEATFA of charge off within 60 days

Claims accepted up to 6 months after charge off

CAEATFA will approve a claim within 30 days
   May defer additional 30 days if more information is required

Once approved, claim paid within 5 business days

Any recoveries on a claimed Enrolled Loan will be returned to the Program, net of reasonable collection costs
§9 - Claims

A claim will include the following information:

1. Unique ID for the Enrolled Loan (provided by CAEATFA)
2. Original principal amount
3. Charge-off amount and date
4. Claim amount
5. Indication of whether enforcement proceedings have commenced (for secured loans)
6. Priority relative to other claims pending with the program, if applicable
7. Certification that the PFI/PFL followed its standard methods for charging off the loan
§11 - Reporting

Quarterly reports submitted by the 15th of the following month, including the following information for each Enrolled Loan:

- Unique ID Number (provided by CAEATFA)
- Enrolled amount
- Total amount outstanding
- Delinquency status
- Any inchoate losses or acceleration notices

Yearly reports:

- Any material changes to information/certifications provided in application
- Finance Lenders only: evidence of current licenses, insurance
§12 - Sale of Enrolled Loans

- If the PFI or PFL is retained as servicer: **no change**
- If new servicer for Enrolled Loans:
  - The original PFI/PFL will report the sale within 3 business days
  - New servicer must be approved as a PFI/PFL by CAEATFA
  - New servicer will assume reporting and claim obligations
  - Loss Reserve Contributions will be transferred to the new PFI/PFL’s (servicer’s) Loss Reserve Account

- Will this structure be appropriate to allow for assignment/pledging of the loss reserve to subsequent investors?
§14 – Termination and Withdrawal

- PFIs/PFLs may withdraw at any time

- CAEATFA may terminate a PFI/PFL’s participation if the PFI/PFL:
  - Receives a cease and desist order or other regulatory sanction or action
  - Fails to abide by the Law or the program regulations
  - Fails to enroll a loan for a year after approval to participate
  - Has provided false or misleading information to CAEATFA

- Withdrawn or terminated PFIs/PFLs may not enroll any further loans, but may retain interest in Loss Reserve Account for previously enrolled loans, provided it submits the required reports.
$8 million is available for ME&O for the pilots

- Funds will support:
  - Training Contractors and other partners on how to use financing as a selling tool
  - Digital and direct marketing and advertising
  - Marketing and training videos
  - An online tool to assist customers in finding available financing options
  - Cooperative marketing campaigns
Feedback on the Financing ME&O tools

FEEDBACK NEEDED

- Would you like a tool that helps customers find financial products that are based on that customer’s eligibility?
- We would like more help making sure that the marketing materials designed for you are useful and helpful.
  - Please assist us by going to www.energyupgradeCA.org/financing
  - Complete two surveys
    - Contractors (available now)
    - Financial Institutions (in progress)
Timeline

- Late December/Early January:
  - Revised draft regulations provided for additional public comments
- January 20, 2015: Regulations go to CAEATFA’s Board for approval
- February 2015:
  - Regulations adopted
  - Trustee infrastructure established
  - Begin recruiting and training contractors
  - Begin enrolling and training FI/FLs and approving their internal contractor management systems
- March 2015:
  - Master Servicer infrastructure established
  - Begin enrolling loans
NEXT STEPS

Please submit written comments to CAEATFA by 5 p.m. on December 17th at CHEEF@treasurer.ca.gov.

For more information please visit http://www.treasurer.ca.gov/caeatfa/cheef/ or

Contact Noah Proser at Noah.Proser@treasurer.ca.gov
OR
Sarah Taheri at Sarah.Taheri@treasurer.ca.gov
Thank You