California Alternative Energy and Advanced Transportation Financing Authority
California Hub for Energy Efficiency Financing

Webinar Transcript

GoGreen Home Emergency Regulations Workshop
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[Editor's Note: This transcript has been prepared by the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA), which believes it to be a fair and accurate reproduction of the comments of the speakers.]

[Beginning of recorded material]

Kelly Delaney: Good morning. It is 10 am. We are going to wait just a minute extra for any stragglers.

(10:01:30) All right. Let's get started. Welcome to the GoGreen Home Public Workshop for proposed modifications to our GoGreen Home regulations.

There is a button at the bottom of the screen if you would like to toggle captions on or off.

My name is Kelly Delaney. I'm a program specialist with the GoGreen Home program. With me is my colleague Bill Heberger, he's the program manager, and Aaron Lingenfelter, he's a program analyst.

Throughout this presentation, if you have any questions, please feel free to type them into the Q&A box at the bottom of your screen or click the button to raise your hand and we will unmute you.

Workshop slides and the proposed regulations with the proposed modifications that we're going to discuss today are available at the link there on the page and Aaron is going to drop the link into the chat as well.

Just some brief background about who we are. We are the California Alternative Energy and Advanced Transportation Financing Authority, we are housed in the State Treasurer's Office, but we are authorized by the Public Utilities Commission to bring private capital to energy efficiency financing. So CAEATFA administers the CHEEF—the California Hub for Energy Efficiency Financing. There are 3 financing programs within this department: GoGreen Home, GoGreen Business and GoGreen Multifamily. Today we are going to be discussing GoGreen Home.

How GoGreen Home works is we partner with private lenders to offer attractive terms and loans for energy efficiency upgrades. So basically lenders, our Participating Lenders, work with our Participating Contractors to finance energy efficiency upgrades for homes and rental properties and for every loan that they enroll with us, we provide a loss reserve contribution. The more loans that they enroll with us, the larger their loss reserve grows and if there is a default on one of those loans, the

lender can make a claim against their loss reserve and be reimbursed up to 90% of the defaulted principle.

In exchange for us sharing this risk, we ask our lenders to offer better terms for borrowers such as longer interest rates, longer payback periods and access to larger amounts of capital and also broader credit approval. Our floor for an eligible FICO score is 580.

As I mentioned, these loans are open to homeowners and renters in the single family market, including townhomes, condos, mobile homes, and manufactured homes. Our typical measures are HVAC systems, windows, duct work, insulation and cool roofs.

We've seen a lot of growth over the past 2 years. Especially the last year, 40% of all of our loan volume that was enrolled across the entire history of the program was enrolled in fiscal year 2022/23 alone. Which is pretty impressive and speaks to some of the changes that we're going to be talking about today.

We also have a Microloan program that we launched in 2021. It's very recent and it is for loans under $5,000 and It's currently utilized a little bit by all of our lenders, but the majority of our Microloans come from our partners at Enervee who have partnered with Lewis and Clark Bank to run a marketplace for SoCal Gas and SoCal Edison to provide energy efficient appliances and equipment. With Lewis and Clark Bank they are offering Microloans at the point of sale, at checkout.

Across our entire Microloan program, not just with Lewis and Clark and Enervee, we've seen about 567 microloans. The loan size, again, is under 5,000 and our average loan size is about $1,500. And we're pleased to see that at least 30% of those loans go to renters.

So moving on to the changes that we're going to talk about today. This presentation is really going to highlight the most significant noteworthy additions and changes.

There are some bits of text clean up and clarifications that are not going to be covered in my presentation today but can be seen in the red-lined document which, again, is available at the link that Aaron dropped into the chat earlier. We are going to be accepting public comments until October 27th so that's this Friday. Then in November we are going to take this regulation package to CAEATFA's board for approval. Then in December we will start the actual emergency regulation process with the Office of Administrative Law.

We welcome your comments today. You can drop them here in the chat or we can take them over as an actual conversation. I'll stop at different points throughout this presentation to accept those comments, but you can also submit them via our email: cheef@treasurer.ca.gov or feel free to reach out to us at that email for a phone call. We will consider all comments and incorporate them as appropriate.

The purpose of these modifications is to support efficient redeployment and rebalancing of our Loss Reserve funding—that's the funding that I talked about earlier: every time a lender enrolls a loan with us, we contribute a portion of our own funds into a Loss Reserve for the Lender. Because we've seen so much growth, we are anticipating additional further growth in the coming years and we are proposing changes that will facilitate that. We are also proposing changes that will allow the GoGreen Home program to deploy funding from external parties as an Interest Rate Buy-Down to provide even lower rates to borrowers and drive uptake.

Let's start with an expanded definition of what a credit challenged borrower is. The GoGreen Home program offers a higher loss reserve contribution to borrowers with low credit scores and this is to incentivize our lenders to consider, more often, this riskier type of borrower. The current credit score range for eligibility as a credit challenged borrower is 580 to 640. This proposed modification will expand that range of eligibility for a credit challenged borrower to 700 from the existing 640.

This change is based on lender feedback and industry data indicating that the more accurate representation of a riskier credit score is actually about 680 and below. But lenders don't report actual credit scores to us. It's a privacy matter. They only report to us a bucket in which the borrower's credit score falls. We have long-established reporting buckets of 580 to 640 and 641 to 700 and so we chose to keep that ceiling at 700 so that our reporting will stay consistent going forward. And this change is really meant to better account for the risk that lenders face with borrowers with lower credit scores while staying congruent to our existing reporting structure.

This next slide is about a change to our loss reserve contribution methodology. So again, a quick refresh: every time a lender enrolls a loan with the GoGreen Home program we contribute a portion of our own funds to that lender's Loss Reserve account; the more loans a lender enrolls, the more that Loss Reserve balance grows. Lenders can make a claim against their Loss Reserve and be reimbursed if a borrower ever defaults on a loan. We have a specific methodology for calculating our contribution amounts. Currently it's 20% of the submitted loan amount if the borrower is considered underserved due to living in a low-income census tract, having a low household income, or being that credit-challenged borrower as I mentioned previously. All other loans receive an 11% contribution. We're making a number of proposed modifications here and a quick way to understand this slide is that we are changing the loss reserve contribution calculation method for standard loans while mostly keeping things as they are for Microloans because they are a very new loan product made available just in the last 2 years with light uptake. We just need a little bit more data to understand the impacts of these changes on the Microloan. Currently credit challenged borrowers only get a 20% contribution if the lender is enrolled in the credit-challenged program and specifically requests that 20% contribution due to the credit challenged status; we are just going to automate that. Briefly, we're removing the lenders credit challenged program. We decided, for simplicity, to just give the 20% contribution for all loans from all lenders if the borrower is reported as having a credit score in the range I just talked about: 580 to 700.

We're also removing low household income as another trigger for a 20% contribution. Our program experience over the last 7 years for our standard loans and Microloans has shown that household income is very rarely reported as a reason for the higher contribution rate because it's difficult for the lender to reliably obtain since the data can really only be requested of the individual making the loan application and not a household. We are similarly removing the 20% loss reserve contribution for borrowers in low-income census tracks who are receiving standard loans. 7 years of program data indicates that there's not much correlation between loan performance and low-income census tract.

We are keeping the 20% contribution for low-income census track borrowers for Microloans currently because, as previously mentioned, we'd like a little bit more loan performance data before we start making changes to that loan category.

The last change is for standard loans that are not receiving the 20% contribution for any of the reasons listed above, those shall receive a 5% contribution rather than the current 11% contribution. Microloans, however, will continue to receive an 11% contribution, again, until we have just a little bit more data.

These changes to our contribution method for standard loans are based on a very deep analysis of 7 years of loan performance and default data and claims data and were arrived at with much consultation with our participating lenders. This change is based on the acknowledgement of our lenders that 5% contributions for standard borrowers is an appropriate amount that will continue to provide adequate loss reserve coverage for our lenders but will ensure that more Loss Reserve funds are available to be deployed for more loans. As I mentioned previously, we've seen quite an uptick in loans over the previous year. We believe that we are about to reach a whole new level of scaling. So, again, we're making these changes to ensure that we have adequate Loss Reserve funds to meet that demand.

That is a lot of information and this is an interesting change, so I will pause for questions if there are any. Again, you can use the Q&A box or you can raise your hands on the Zoom panel to request to be un-muted.

Okay. Not seeing any questions, I'm going to move forward.

As I mentioned, we are removing the lender Credit-Challenged program where they received that 20% contribution only if they had separately enrolled in this program and specifically request this contribution. We're just going to automate this and give all loans to Credit-Challenged borrowers that 20% contribution. This will reduce complexity for our lenders and also for us as we process Enrolled loans— especially with the scale and uptake that we are anticipating.

This next modification is a meatier one, so I will pause again for questions at the end and I encourage all of our attendees to type them into the Q&A box if they have any. This modification establishes January 1st, 2024 as the start date for a new loan loss reserve rebalance method to come into effect. As is the nature of a revolving loan Loss Reserve credit enhancement structure, unused and unneeded Loss Reserve funds will be recaptured during an annual regular rebalancing in order to be redeployed for more loans.

Our current method is that once a loan is entirely paid off, the original loss reserve contribution amount gets recycled, out of the Lender's Loss Reserve account back to CAEATFA's account to be redeployed for more loans.

This means, however, that even while a loan's principle is being paid off over the many years, our loans can go up to 15 years, the amount of the loan requiring that Loss Reserve coverage goes down as principal is being paid off. But, that full Loss Reserve amount just sits in the Loss Reserve account. Because we're expecting strong growth moving forward, we have worked with our lenders very closely to identify what Loss Reserve coverage they actually need. We looked at our defaults data, our claims data and talked to our lenders a lot and have come up with this new method.

So, we're going to continue to annually rebalance the Loss Reserve accounts but instead of rebalancing based on only paid off loans, we're actually going to first recalculate the loan Loss Reserve contribution amount using the same formula that was used when calculating the original contribution. So if the Borrower was a Credit-Challenged Borrower, then the loan got a 20% contribution. If not credit

challenged, they get a 5% contribution. We're going to calculate that contribution again, but we're going to use the current outstanding principle instead of the original loan principle. So, instead of waiting until the entire principal of the loan is paid off, we're going to just calculate this annually based on the new outstanding principle for the loan.

Just to be clear, we're not recalculating the contribution. We're just looking at "If those loans were enrolled today, what contribution would they get?" The sum of that recalculated Loss Reserve contribution will be considered a target coverage balance or the ideal Loss Reserve balance that would provide an appropriate amount of coverage considering current outstanding principle as well as the borrower risk and any potential borrower defaults that a lender may experience based on our known history. If the current balance of the lenders Loss Reserve account is higher than this target coverage balance, that rebalance amount would be the difference between the current balance and the target coverage balance. We can see this in this Example 1 table. As we can see, at the time of rebalance the loss reserve has a hundred thousand dollars in it. Rebalancing based on current outstanding principle, we see that, If those all those loans were enrolled today, the coverage contribution would be $80,000. So that's our target coverage amount: $80,000. The difference, $20,000, is what will be rebalanced out of the account back to CAEATFA's holding account to be redeployed for more loans.

If the current balance of the Loss Reserve account is lower than the target coverage balance, because there may have been enough claims against the lost reserve to bring that balance down, no funds will be rebalanced out of the account. You can see that scenario here in Table 2. At the start of rebalance, the account has a balance of $70,000, due to multiple claims. Then we establish the target coverage balance to be $75,000 based on current outstanding principal. Because multiple claims have reduced that balance below that target coverage balance, there's not going to be a rebalance.

Some losses or contribution amounts will have been originally calculated and then again recalculated based on the borrowers credit score. For example, if they originally were not considered to be a Credit Challenged Borrower based on their credit score, that original loan was calculated with the 5% contribution amount. But borrowers credit scores can change over time and that changing credit score can reflect a change in their risk profile for the lender. So we will allow the lenders to run a soft pull on their borrowers credit scores and provide updated borrower credit scores if they wish. This is an option. The necessity of this new method is just to ensure that our lenders retain appropriate loss coverage while allowing CAEATFA to redeploy loan Loss Reserve funds more rapidly since the entirety of that initial loan loss reserve contribution will not be encumbered in the Loss Reserve account for the entire term of the loan. This new rebalance methodology more accurately reflects actual risk to lenders and the Loss Reserve coverage that they need. Again, this has been generated after much engagement with our GoGreen Home Lenders and much forecasting and analysis of past defaults and loan performance over the 7 years that GoGreen Home has been enrolling these loans and paying claims.

That is a lot of information about an interesting and significant change. I am going to pause again for questions. You can enter those in the Q&A box or raise your hand and we will unmute you and take your questions live.

Not seeing any questions, I'm going to move on, but you can come back to it.

Getting to the exciting stuff, CAEATFA has been approached about channeling outside funds to deploy interest rate buy-downs to increase the attractiveness and uptake of GoGreen Home loans and

incentivize particular types of projects such as heat pump installations or whole home retrofits. An interest rate buy-down is a payment made directly to a lender buying down the interest rate for the borrower. It's quite common in the lending world and is utilized by many financing programs like ours around the country.

There's an example project here on the right of the screen. In this example the interest rate buy-down is based on the number of Measures included in the project. So. If there's just a single particular measure, the loan qualifies for a buy-down to 2.99%. The borrower ends up saving $1,236 in total interest saved with the IRBD. They save quite a bit in interest and they also see a lower monthly credit payment. Similarly, if someone wants to do a much lower interest rate for incentivizing more measures, we would see a nice savings in the monthly payment and over $3,000 in total interest paid.

I see the question about the rebalance and I'm going to come back to that.

We are adding a new section to establish this process by which we would make IRBD funding available to lenders to participate and receive it. In this section, we state that when we receive IRBD funds from external parties, we will work with the source of the funds to develop what we're calling a term sheet outlining all the terms and criteria for accessing the IRBD funds. For example, the total amount of IRBD funding available, the target interest rate or amount of rate reduction available for loan eligibility criteria, such as the types of projects, borrowers, or properties that are eligible to receive the interest rate buy-down. CAEATFA statutes allow CAEATFA's board to adopt that IRBD term sheet via board resolution. We would take this term sheet to our board at our monthly meeting and accept public comment there. This ensures that there's a public process. We would also announce the availability of this funding to our interested parties list ahead of time.

Anyone that wishes to participate in an IRBD campaign would need to apply and participate and submit a signed application certifying that they understand the terms and the requirements of the IRBD as well as agreeing to the appropriate certifications and the indemnifications. This application will be created by CAEATFA and also approved by the board. It's not something that we can add to the regulations because it could be unique to each IRBD campaign, depending on the terms of the funder.

One important final note is that while IRBD funders might have their own requirements for an IRBD, some may want to use it only to incentivize a heat pump measure, others only care that the project gets an audit and that the financed measures were recommended in the audit. These are real-life examples that we've seen. While funders may have their own requirements, those requirements will never supersede or cancel out the GoGreen Home requirements. An IRBD for example would not be able to be made available to a borrower with a credit score below our 580 credit score minimum. Any funder requirements will just have to layer on top of our existing requirements.

I am going to answer the rebalance question in a second, but I just want to pause here and see if there are any questions about this new IRBD functionality.

Anne (Arquit Niederberger, Enervee SVP of Market Development), I see your question about the IRBD. New sources of funding have to use the same detailed reporting requirements for any loan that is submitted. Any loan with an IRBD would have to abide by GoGreen Home's reporting requirements.

Moving back to the rebalance question. "Will the change in borrower risk type from non-credit challenged to credit challenged simply reduce the rebalance amounts?" It could reduce the rebalance

amounts. If for example, if you have a $10,000 loan and got a 5% contribution and then a certain amount of it gets paid off and the borrower credit score drops to become a credit challenged borrower, you get a 20% contribution. It could potentially raise that target coverage ratio slightly. In that case, it the target coverage ratio was higher than the current balance of the loss reserve account, conceivably it could reduce that rebalance to be pulled out of the account.

If anybody wants to raise their hand and speak a question out loud, we are happy to take it.

Betty (Percifield, EVP at Dessert Valleys FCU), I see your question, “but it will not increase the amount in the account?” No, we're not recontributing or adding more funds. We're not recalculating to change our initial contribution. We are only recalculating to identify the target coverage amount and rebalance on based on the difference. It is somewhat complex; that's a fair question.

The last change that we're going to talk about today is small; it's mostly a clarification. We are adding a deadline into our regs for when interest rates are to be updated. Our maximum interest rate is updated every quarter based on the 10-year Treasury bond and we've heard from our lenders that sometimes it takes a little bit of extra time if they have more complex software systems and processes to make sure that that maximum interest rate is updated throughout their entire system. Therefore we are setting a timeline of 5 business days for participating lenders to update that new max interest rate.

That is the end of our proposed changes today and feel free to keep coming with those questions in the Q&A box. But for the takeaway: our changes today are largely about supporting scale. Allowing our changes to our Loss Reserve Contribution amount and our rebalancing methodology will allow us to deploy our Loss Reserve Contribution dollars more efficiently and quickly. The changes more accurately reflect borrower risk and show that the dollars can be recycled more efficiently and more quickly. Our new interest rate buy-down disbursement capability will, we believe, drive uptake. Borrowers, everybody, loves a low interest rate campaign. These are things that we think will continue to support and drive that growth and we're excited about that.

Thank you. Anne, sorry, I just saw your question now. Thank you again everybody for your comments and keep them coming. Please provide all final comments by this Friday, October 27th at 5 PM.

Anne to answer your question. “Do we have plans for an IRBD in 2024?”

We are talking with the potential funders about doing an IRBD in 2024. But I am not comfortable, at this time, speaking to them. A bit too early.

That brings our presentation to a close. I will stay on and take any more questions that come up. Otherwise, thank you so much for joining us. Happy Monday and we look forward to your further feedback this week.

Thank you all.