



**CHEEF**

CALIFORNIA HUB FOR ENERGY EFFICIENCY FINANCING

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# Partnering with the State-Administered Small Business Energy Efficiency Financing Program

## Opportunities for Microlenders

Presented by the State Treasurer's Office

# Today's agenda

- Introductions
- Temperature check: COVID-19 economic climate for microlenders and their clients
- Overview of the Small Business Energy Efficiency Financing (SBF) Program
- Partnership opportunities for microlenders with the SBF Program

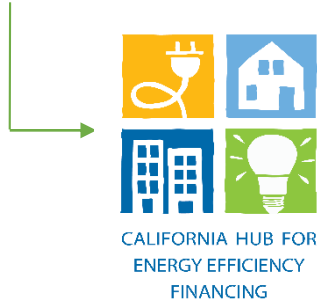
# Who we are



California State Treasurer's Office



California Alternative Energy & Advanced Transportation Financing Authority (CAEATFA, pronounced "kate-fuh")



**California Hub for Energy Efficiency Financing (the Hub)**



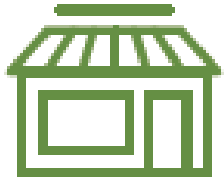
**Small Business Financing (SBF) Program**

The Hub was created by the **California Public Utilities Commission** (CPUC) to bring private capital into the energy efficiency (EE) marketplace.

The Hub launched its first EE financing program, serving homeowners and renters, in 2016. The **SBF Program** launched in September 2019.

# What is the SBF Program?

- ✓ Goal: to encourage more private investment in energy efficiency upgrades to California's **existing building stock**
- ✓ State-administered
- ✓ Supported by the Investor-Owned Utilities (IOUs) – PG&E, San Diego Gas & Electric, Southern California Edison and SoCalGas
- ✓ Uses IOU ratepayer dollars to fund a **credit enhancement** for participating finance companies to encourage lending to a broader base of borrowers



*There's lots more to tell! But first, we'd like to hear from you...*

# What are your experiences on the front lines of the COVID-19 economy?

## **How are your organizations faring?**

- Impacts foreseen and unforeseen on microlenders?
- Any unanticipated areas of activity?
- Availability of capital? Funding for operations?

## **How are your clients faring?**

- Closures? Strictly survival/downscaling? Any tactical or strategic pivoting at this point?
- In your experience, is the COVID-19 crisis following the same pattern as previous economic downturns?

# SBF Program Overview

- Financing for energy efficiency projects or equipment
- Serves **broad range** of businesses by size and industry
  - From mom & pop outfits to enterprises that meet SBA definition
  - Retail, food service, agriculture, offices, manufacturing and more. Program supports energy upgrades for cannabis operations.
- Open to **businesses and nonprofits** that **own or lease** their place of business (churches are included)
- Borrower must receive an energy bill from an IOU
- Can be combined with IOU rebates and incentives



# Opportunity for partnership



The SBF Program is seeking its first **microlender!**

- The program's current partners have a \$10,000 financing minimum per project
- There is a market need for financing for energy efficiency projects under \$10,000
- **There is a critical need for financing of \$5,000 and under**
  - IOUs' 0% interest On-Bill Financing (OBF) revolving loan program has a minimum of \$5,000
  - For smallest businesses, equipment failures (water heater, cooking equipment) may cost less than \$5,000 to replace
  - Small investments in lighting, refrigeration, water heating, and more can yield real savings

# Volume potential

## California has a lot of small businesses...

- Of the state's 1.5 million businesses, **1.1 million have fewer than 5 employees**
- In Southern California Edison territory alone, nearly 293,000 businesses use **less than 200 KW** per month – about 25% of the average U.S. household

## ... and they often need “small” investments for energy savings.

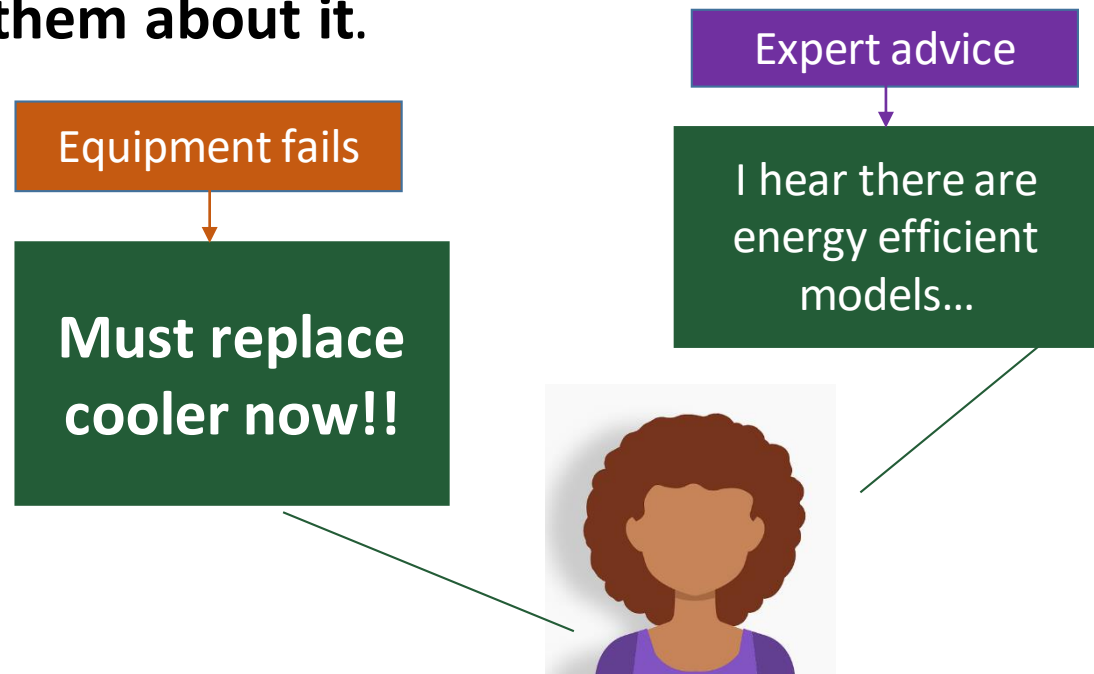
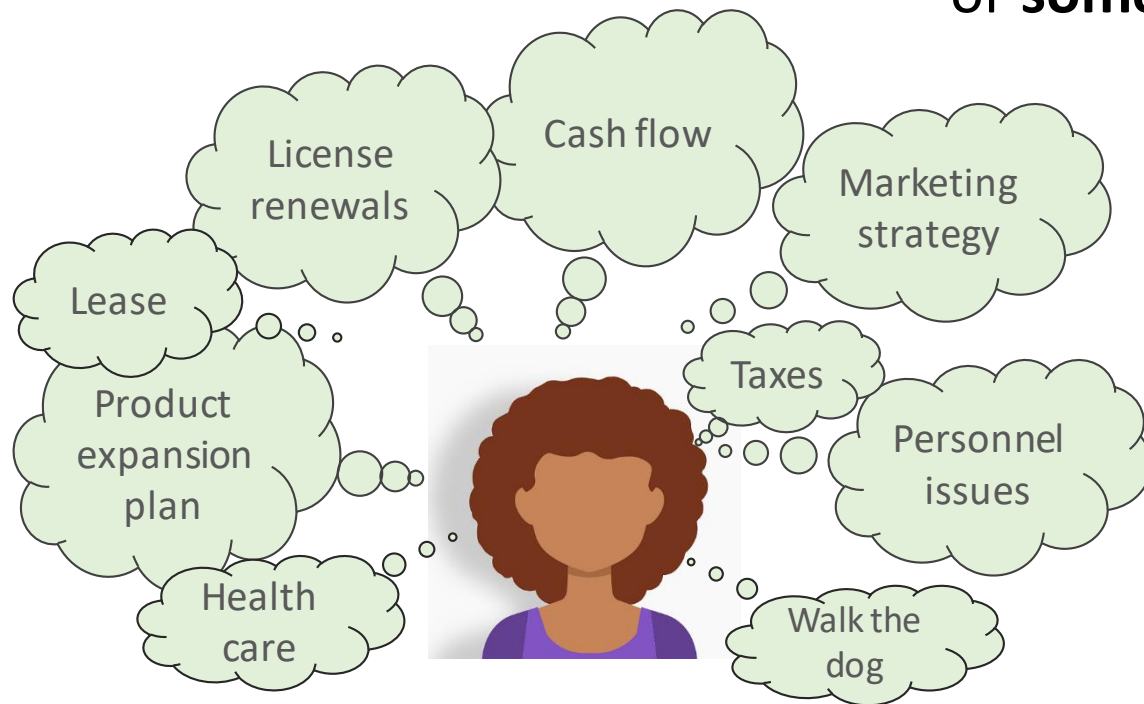
- Energy Star commercial dishwasher: ~\$4,000
- Energy Star commercial ice machine: ~\$4,500
- Energy Star 2-door refrigerator case: ~\$4,000
- Heat pump water heater, installed: \$3,600-\$4,600





# How will customers find you?

Most small business owners have many things on their mind.  
Energy efficiency isn't one of them until **something breaks**  
or **someone tells them about it**.



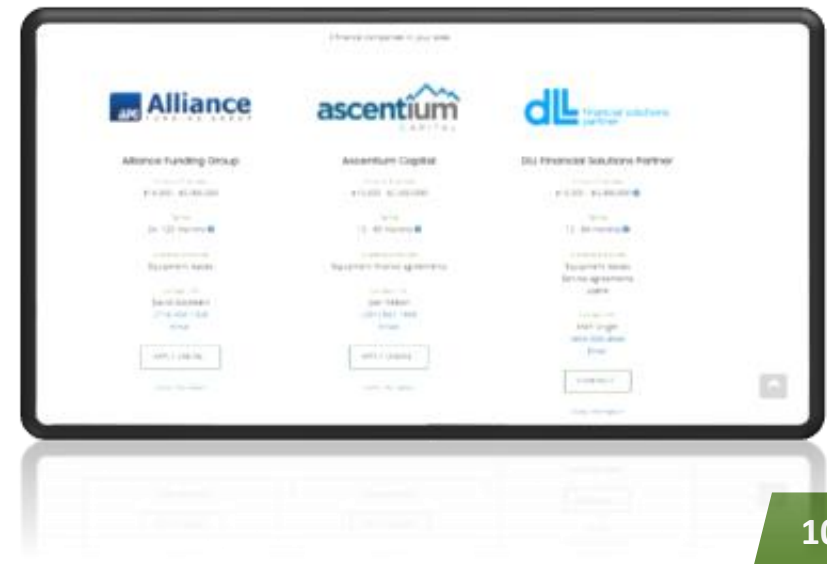
# Marketing support for lenders

SBF is integrated with the IOUs' own marketing efforts.

- ✓ IOUs refer customers to SBF Program when need is too small for On-Bill Financing (less than \$5,000)
- ✓ Potential for partnerships with implementers of specific IOU programs such as restaurant efficiency and demand response programs

GoGreenFinancing.com lists lenders in a user-friendly format so borrowers can find you.

- ✓ Geographic search by county
- ✓ Lender features listed
- ✓ Contact information and links
- ✓ Mobile-friendly



# SBF Program Partners



## Contractors

- Projects must be installed by an enrolled SBF Program Contractor\*
- Borrowers can choose from the program's roster of enrolled contractors, or request that their preferred contractor enroll in SBF
  - Contractor enrollment requires: 1-hour online training, application, and proof of insurance

## Project Developers

- Energy consultants, engineering firms, utility program implementers, nonprofits and others who can advise customers on energy efficiency upgrades
- Strong potential for lender partnerships with Project Developers for specific markets
  - Example: Grocery industry specialists

*\* Measures like appliances, lighting and refrigeration may be self-installed by borrower with oversight by a Project Developer*

# What can be financed through the SBF Program?



## 1. Energy efficiency measures

- Examples: Energy Star appliances, efficient HVACs, heat pump water heaters, LED lighting, smart thermostats, insulation, window sealing, low-flow showerheads, well pumps
- *Note: program supports decarbonization/fuel switching, e.g., gas to electric*

## 2. “Legally and practically required” measures related to installation

- Examples: code-required repairs, upgraded electrical panels, permits

## 3. Non-energy improvements (can comprise up to 30% of total financed amount and still be eligible for full credit-enhancement)

- Examples: landscaping, remodeling, equipment, furniture

# Program minimum underwriting criteria

1. Underwriter must conduct a credit check using a standard industry credit scoring service; **and**

2. Underwriter checks for positive operating profit (EBIT/EBITDA) or positive taxable income for last two years

**OR**

Customer has been in business at least 5 years

**OR**

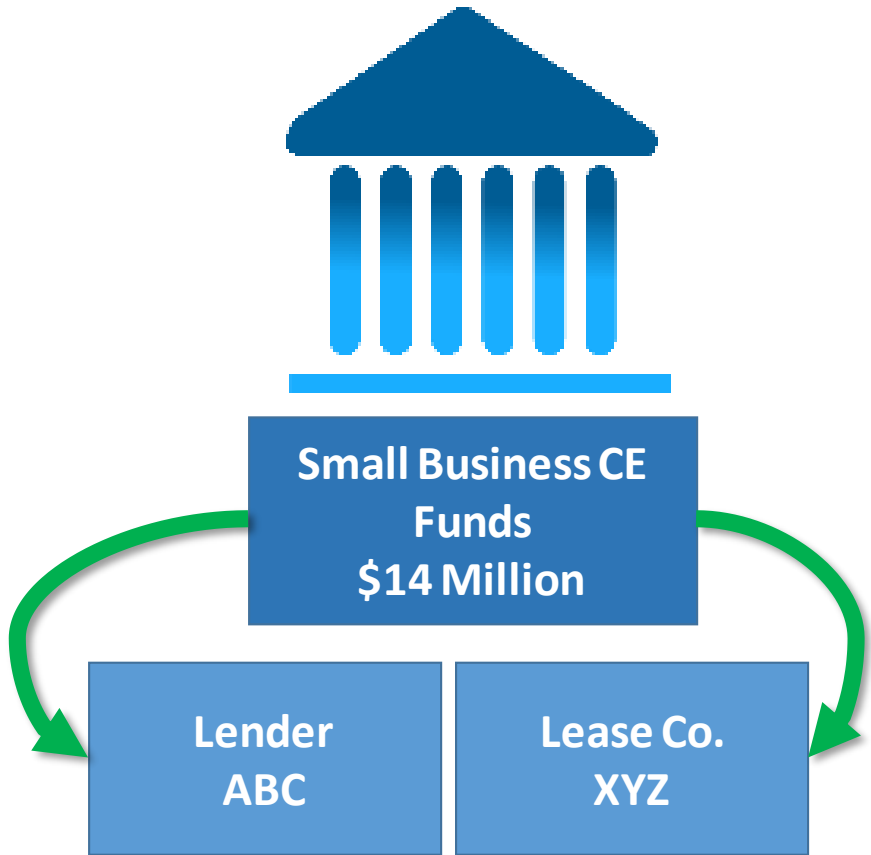
Customer provides a personal guarantee

👉 Lenders can set their own additional criteria. 👉

# Credit Enhancement is Structured as a Loss Reserve

## Loan Loss Reserve Structure:

- **Current budget:** \$14 million. CAEATFA can shift more funds to the Program if there is demand
- **Trustee accounts:** Designated Loss Reserve (LR) accounts set up for lenders at a Trustee Bank
- **No Cost** to Lender or Customer
- **Contributions:** Made to finance company's LR account within 10 days of receiving an eligible loan,
- **Access to funds:** In event of default, finance entity can file claim to recoup up to 90% of principal loss



# SBF Program's loss reserve contribution rate

Claim-Eligible Financed Amount	Contribution Rate
First \$50,000 of each agreement	20%
Next \$950,000	5%

- Up to \$1 million of each loan is “Claim-Eligible”
- Program makes a contribution to Lender's loss reserve account for each enrolled loan
- Lenders can access their loss reserve account in event of charge-off
- Program will pay 90% of charged-off amount if lenders have the funds in their account

## What this means for lenders making loans under \$10k:

Amount of loan	Contribution rate	Amount deposited into LR Account
\$5,000	20%	<b>\$1,000</b>
\$8,000	20%	<b>\$1,600</b>

# What could the CE allow you to do for SBF borrowers?

Benefits that SBF finance companies might offer in exchange for the credit enhancement:

## ✓ Better terms

- Lower minimums (offer loans starting at \$1,000 or \$2,500)
- Longer tenure/repayment period
- Lower rates
- Reduce or eliminate down payments or security deposits

## ✓ Approvals of more customers

- Reduce time-in-business requirements
- Expand access to certain industries
- Approve borrowers with less established credit



# And now, the question on all your minds...

## How much work is involved?

- No cost to participate in the SBF Program
- For CDFIs, straightforward application following product approval by CAEATFA
- CAEATFA pre-approves projects, so lender has certainty about the value of the loss reserve contribution prior to closing and funding
- Lenders and contractors each submit their own data to CAEATFA's online Project Platform
- Monthly lender reports to CAEATFA

# Interested in learning more?

- Visit [GoGreenFinancing.com](https://www.GoGreenFinancing.com)
- Read the [Small Business Financing Program Guide](#) for Program details
- **Or give us a call and let's talk!** We'd love to answer your questions and help you figure out how we can work together.

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**Thank you for your time!**