

California Hub for Energy Efficiency Financing

Quarterly Report and Program Status Summary

July 1, 2015 – September 30, 2015



CALIFORNIA HUB FOR
ENERGY EFFICIENCY
FINANCING

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Section 1: Background

Through a series of pilot programs spanning the residential, multifamily, and non-residential market sectors, CAEATFA is partnering with the California Public Utilities Commission (“CPUC”), the investor-owned utilities (“IOUs”)¹, and the Center for Sustainable Energy (“CSE”) to support the development of new, scalable, and leveraged financing products for consumers to help them produce deeper and broader energy efficiency projects than previously achieved through traditional program approaches. The pilots aim to bring broader access to private capital and will assist in removing the upfront cost barrier of financing for consumers to undertake energy efficiency retrofits.

In September 2013, the CPUC approved Decision 13-09-044 (“D.13-09-044”), which authorized two-year pilot programs to be supported by up to \$66 million of IOU ratepayer funds and serving four market segments; credit enhancements to lenders are intended for only the first three markets below:

- Single-family, with one-third of funds reserved for low and moderate income households,
- Multi-family, affordable housing with master meters,
- Small businesses, and
- On-Bill Repayment of financing by non-residential energy users, without credit enhancement.

The pilot programs were established with a myriad of goals, all of which are intended to support the State’s broader energy efficiency and environmental policy goals using an innovative approach. Primarily, the pilots are designed to:

- (a) attract a greater amount of private capital to the energy efficiency retrofit market by reducing risk to lenders;
- (b) broaden the availability of financing to individuals who might not have been able to access it otherwise; and,
- (c) address the upfront cost barrier to energy efficiency retrofit projects.

This report is responsive to D.13-09-044, Ordering Paragraph 21, which directs CAEATFA in conjunction with the IOUs to issue quarterly reports through the pilot period by program and on CHEEF operational expenses. The reports are to notify the CPUC of implementation progress and issues, the platform and space within which CHEEF functions take place, accounts and account managers associated with the CHEEF, database permission criteria and platforms, customer facing products, pilot program performance aggregate profile information regarding borrowers, and an overview of participating financial institutions. Appendix A of this report includes information on each of the above-listed data

¹ The IOUs consist of Southern California Gas Company, San Diego Gas and Electric Company, Southern California Edison, and Pacific Gas & Electric.

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points that are required pursuant to D.13-09-044.²

In March 2015, CAEATFA submitted a letter to Edward Randolph, CPUC Energy Division Director, to request that the Commission consider several changes to the pilot program design as identified in D.13-09-044. These recommendations were provided with the purpose of creating a more streamlined implementation and experience for program participants, as well as to support various market needs that may not have been considered in previous phases of program development. In a subsequent Assigned Commissioner and Administrative Law Judge's Ruling that included the letter as an attachment, it was noted that CAEATFA's letter would be treated as a Petition for Modification ("PFM") of Decision 13-09-044.³ Following this determination, the Commission issued Decision 15-06-008 ("D.15-06-008"), dated June 11, 2015, to partially modify Decision 13-09-044 and Resolution E-4680 implementing the energy efficiency financing pilot programs.⁴ D.15-06-008 sought to address adjustments to the financing pilots previously suggested by CAEATFA in its PFM. Most notably, D.15-06-008 extends the finance pilots' terms beyond 2015 so that each pilot is funded for a full 24 months of operation, based on the time that each pilot launches. D.15-06-008 also acknowledged that loans issued during the pilot terms will have ongoing administrative expenses beyond the pilot terms.

Decision 15-06-008 left several of the issues included in the PFM open until later resolution. The issues that were left unresolved under 15-06-008 were:

1. whether to broaden the scope of Eligible Energy Efficiency Measures ("EEEMs");
2. whether to remove a requirement that CAEATFA use a competitive bid process to select lease providers for small business pilots; and,
3. whether to expand the list of eligible financial products and credit enhancements support structures.

On June 16, 2015, the Commission issued a Notice of Prehearing Conference and Administrative Law Judge's Ruling Regarding Prehearing Conference Statements. A Prehearing Conference was held on

² D.13-09-044 directed that quarterly reports be issued beginning on January 31, 2014. However, CAEATFA did not receive approval by that date to operate in the role of CHEEF. Due to that circumstance, SoCalGas requested and the Commission granted a suspension of Ordering Paragraph 21 until the time the CPUC established a revised schedule of requirements. Although the CPUC has not provided further direction regarding the timing for issuing quarterly reports, CAEATFA issued the initial report in 2Q, 2015, which is in close proximity to the timing of implementing the first pilot program. See letter of SoCalGas to Paul Clanton dated January 24, 2014, and response of Paul Clanton to SoCalGas dated February 4, 2014 regarding this matter:

<http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M086/K120/86120334.PDF>.

³ Revised Assigned Commissioner and Administrative Law Judge's Ruling Re: California Alternative Energy and Advanced Transportation Financing Authority's Proposed Modifications to Decision 13-09-044 (Energy Efficiency Financing Pilots): <http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M148/K824/148824390.PDF>.

⁴ Decision 15-06-008 Partially Modifying Decision 13-09-044 and Resolution E-4680 Implementing Energy Efficiency Financing Pilot Programs:

<http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M152/K787/152787673.PDF>.

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July 6, 2015, regarding these remaining issues. A July 23, 2015 amended scoping ruling⁵ stated that the only issues the Commission would consider before the pilots have run were (1) whether to authorize financing for energy service agreements (“ESAs”) (related to issue 3 above), and (2), whether to dispense with the requirement for a competitive selection process for lessors of energy equipment. Issues deferred to after the pilots have run are:

- a. Whether to make EEEMs that are only eligible as part of package measures individually eligible for financing.
- b. Whether to mandate adoption of a single list of EEEMs statewide.

The assigned Commissioner also deferred consideration of whether CAEATFA could offer different types of financial support or credit enhancements besides Loan Loss Reserve and Debt Service Reserve Funds. The deferral was without prejudice to CAEATFA renewing its request when it had a more concrete proposal for Commission consideration.

It was concluded that (1) ESAs are eligible for OBR financing, and (2) CAEATFA may choose an open market approach based on standard lease company qualifications much like the Residential Energy Efficiency Loan Assistance (“REEL”) program to qualify lease providers to participate, and (3) the Commission is removing the requirements to competitively select lease providers for small business pilots.

⁵ Amended Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge Regarding Issues Remaining from the California Alternative Energy and Advanced Transportation Funding Authority March 9, 2015 Letter Requesting Changes To Decision 13-09-044, dated July 23, 2015 (Amended Scoping Memo).
<http://docs.cpuc.ca.gov/SearchRes.aspx?DocFormat=ALL&DocID=153414090>

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Section 2: Budget

The Decision directs the IOUs to allocate a total of \$65.9 million to the finance pilots over the initial pilot period. The breakdown of costs is as follows:

ITEM	FUNDING AMOUNT
1. CHEEF start-up cost (includes CAEATFA administrative and contracting costs)	\$ 5 million
2. Marketing, education, outreach	\$ 10 million
a. Statewide MEO plan	\$ 8 million
b. CAEATFA outreach and training to financial institutions and contractors	\$ 2 million
3. Residential pilots	\$28.9 million
a. Single family loan loss reserve	\$ 25 million
b. Energy Financing Line Item Charge (\$ to PG&E)	\$ 1 million
c. Multi-family debt service reserve fund	\$2.9 million
4. Non-residential pilots	\$ 14 million
a. Small business sector OBR with credit enhancement	\$ 14 million
i. Sub-pilot: OBR for lease providers	\$ 0
ii. Sub-pilot: Off-bill for lease providers	
b. Non-residential OBR without credit enhancement	
5. Information Technology (\$ to IOUs)	\$ 8 million
TOTAL FUNDING FOR EE FINANCING PILOTS	\$ 65.9 MILLION

To date, CAEATFA has expended approximately \$743,906.20 toward CHEEF administrative and contracting costs and \$42,386.32 toward marketing, education and outreach. Of the \$743,906.20 that has been expended toward CHEEF administrative and contracting costs, \$77,331.31 has been expended to cover costs directly associated with the master servicer (Concord Servicing Corporation) and the trustee (US Bank). This funding covers CAEATFA's expenditures from September 12, 2014 through September 30, 2015. It is expected that expenditures will significantly increase as the Master Servicer continues to develop its functionality and program activity begins to occur.

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As of July 1, 2015, CAEATFA received extended legislative budget authority to carry out the services of the CHEEF within the initial existing \$7 million budget through June 30, 2017.

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Section 3: CHEEF Infrastructure

This Section complies with the direction from the CPUC to provide updates on the “The platform and space within which CHEEF functions take place.”

CAEATFA is creating a streamlined, statewide platform for lenders and contractors to participate in the uptake of energy efficiency projects through increased access to financing. As the manager of the CHEEF, CAEATFA is developing uniform program requirements, standardized documentation and processes, and a central administrative entity to facilitate investment in energy efficiency projects and implementation of the pilot programs.

CHEEF Infrastructure

Central to the infrastructure needed to implement the CHEEF Pilot Programs are a Master Servicer, Trustee bank, Contractor Manager, Data Manager, and Technical Advisor. Below are descriptions of each of these roles and information on the current status as it relates to CAEATFA’s procurement processes.

- **Master Servicer.** The Master Servicer (MS) plays a key role in the daily administration of the program, accepting lender and loan enrollment applications, and processing on-bill repayment transactions. Through a competitive solicitation, CAEATFA selected Concord Servicing Corporation as the MS under a contract that became effective on April 23, 2015. CAEATFA Staff has continued worked to familiarize the MS with the Pilot Programs, specifically focused on developing the infrastructure for the Residential Energy Efficiency Loan Assistance Program (“REEL”) while simultaneously developing the foundation for on-bill repayment functionality.

The current contract with Concord Servicing Corporation is set to expire on December 31, 2015; CAEATFA Staff is currently in the process of preparing a contract extension for Concord Servicing Corporation that will extend the contract through December 2016.

- **Trustee Bank.** The Trustee holds the ratepayer funds provided by the IOUs to serve as credit enhancements under the various pilot programs. CAEATFA will maintain the integrity of ratepayer funding, and provide direction to the Trustee bank to transfer credit enhancement funds between IOU program holding accounts and participating lender accounts. The program regulations under development will identify the amount of credit enhancement funds available for each enrolled loan/lease, and will also identify the processes for payment of claims under the program.

Since the Trustee contract was approved by the Department of General Services on March 11, 2015, US Bank has worked with CAEATFA to establish (1) one holding account for each of the four IOUs; (2) one IOU program holding account for each IOU-program combination; (3) one IOU-program reservation account for each IOU-program combination and (4) one lender reservation account for each IOU program in which the lender chooses to enroll. As of

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September 30, 2015 all of the IOUs have transferred credit enhancement funds into their Holding Account.

The current contract with US Bank is set to expire on December 31, 2015. CAEATFA Staff is currently in the process of preparing a contract extension for US Bank that will extend the contract through December 2016.

- **Data Manager.** The Data Manager will receive Pilot Program data from the Master Servicer and other energy efficiency finance program administrators to prepare it for public presentation and use. The RFP for this service has not yet been released; CAEATFA staff is working to finalize the RFP and the data points being collected and transmitted under the program concurrently.
- **Contractor Manager.** The Contractor Manager will enroll and manage participating contractors, and will conduct quality control oversight of projects not participating in an IOU rebate/incentive program. The RFP for this service is under development, and is expected to be released in the December 2015/January 2016.
- **Lease Originators.** The Decision initially required the selection of up to four Lease Originators to participate as equipment lease providers in the small business lease pilots. Subsequently, CAEATFA has received guidance from the CPUC that removes the restrictions on lease providers and enables CAEATFA to move forward with an open market approach. CAEATFA has begun outreach to several equipment lease providers to understand their interest in the program, their products and services, and will incorporate them into the small business pilot regulations.
- **Technical Advisor.** The Technical Advisor will provide necessary expertise, outside of the scope possessed by the CHEEF. The RFO for this service is currently under development and being further refined. During this time, CAEATFA has been working in close collaboration with industry experts and stakeholders to obtain the relevant subject matter expertise and continues to receive support from Harcourt Brown & Carey, a long-time advisor on the pilots. CAEATFA anticipates that the Technical Advisor RFO will be released in early December 2015.

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Section 4: Program Development

Residential Energy Efficiency Loan Assistance Program

The Residential Energy Efficiency Loan Assistance (“REEL”) Program (previously referred to as the Single Family Loan Program) is the first in the sequence of the pilots to launch. The program regulations were approved by the Office of Administrative Law (“OAL”) and considered effective as of March 9, 2015. CAEATFA is able to statutorily adopt emergency regulations, which serves as a shortened rulemaking process. Under State law, emergency regulations are effective for an initial 180-day period, and may be re-adopted for two additional 90-day periods as an agency completes its regular rulemaking process. The REEL regulations were re-adopted with some amendments to incorporate early lessons learned in August 2015, and were effective September 8, 2015. CAEATFA intends to begin the regular rulemaking process – and incorporate additional streamlining and lessons learned under the program – in October 2015.

Although the REEL Regulations have been effective, loan enrollments in the program cannot occur until the Master Servicer has established its functionality, and processes and procedures are established to enable the enrollment of Participating Financial Institutions/Participating Finance Lenders and eligible loans. Once this functionality is established, CAEATFA can launch its process to enroll and train qualified contractors under the program.

In conjunction with CAEATFA, the MS has met with the IOUs to discuss overall program development, data collection, data transfer, and data storage functionality necessary for both the off-bill and on-bill pilots. The MS and CAEATFA have continued to work together to ensure the necessary infrastructure, processes, and procedures are in place in order to administer the Pilot Programs efficiently and effectively. The MS and CAEATFA are in the process of working on the development of a lender on-boarding and loan enrollment documents and processes and data transfers. Concord’s information technology department is also building out their database functionality to manage the day-to-day activity of the pilot programs. The MS and CAEATFA have also begun working through the on-bill lender interaction process.

CAEATFA has begun to recruit, enroll and train Participating Financial Institutions (“PFIs”) and Participating Finance Lenders (“PFLs”). As PFIs and PFLs enroll and establish functionality under the program, CAEATFA will train contractors to participate in the program. To date, CAEATFA has approved one PFL, Viewtech Financial Services (“Viewtech”) and one PFI, Valley Oak Credit Union. CAEATFA Staff is working with Viewtech and Valley Oak to prepare them for on-boarding loan enrollments with the Master Servicer. In addition, CAEATFA Staff is in the process of reviewing additional lender applications and continuing to engage prospective program participants. Staff expects to receive its first loan enrollment applications in December 2015.

As the basic foundations for on-bill functionality are established, The REEL Program regulations will be updated to incorporate the Energy Finance Line Item Charge for customers in PG&E service areas, and may also include other revisions resulting from lessons learned during CAEATFA’s experience onboarding lenders and contractors.

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On-Bill Repayment Programs

Several of the Pilot Programs will include On-Bill Repayment (“OBR”) as a key feature. CAEATFA staff is continuing to work with the IOUs and the MS to lay the foundation and establish the OBR infrastructure.

As OBR development is tied to several program implementation milestones, specific launch dates for the OBR pilots are not yet available. Critical to the development of the OBR infrastructure are the development and modification of the IOU information technology (“IT”) systems. In June 2015, the Commission approved Decision 15-06-008.⁶ This Decision revised the process and timeline for amending the IOUs’ existing OBR tariffs. It also aligned the timing for the IOUs to submit their IT Advice Letters outlining budget needs for development. The Decision directs CAEATFA and Commission Staff to work together to recommend changes to the OBR Tariffs; CAEATFA has been undergoing a process of soliciting feedback from interested stakeholders to determine where changes could improve the OBR process. Based on this revised timeline, the IOUs filed Advice Letters to modify their OBR tariffs and to identify funding needs for IT development in August 2015.

During Commission staff’s review of the Advice Letters, CAEATFA continues to meet with the IOUs and the Master Servicer to finalize the data exchange protocol, which balances the needs of all four IOUS within programmatic and technical constraints.

CAEATFA staff currently estimates that the OBR pilots are expected to launch in the third quarter of 2016; depending on the length of time for IT infrastructure build-out and sequential program development.

⁶ Decision 15-06-008 Partially Modifying Decision 13-09-044 and Resolution E-4680 Implementing Energy Efficiency Financing Pilot Programs, June 19, 2015:
<http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M152/K787/152787673.PDF>

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Section 5: Additional Information

More information on the CHEEF Pilot Programs is available on CAEATFA's website at <http://www.treasurer.ca.gov/caeatfa/cheef>. To receive notifications regarding workshops, regulations, and other items related to the CHEEF, please sign-up [here](#) for CAEATFA's listserve. Please direct inquiries on this report or generally on the CHEEF Pilot Programs to CAEATFA at (916)651-8157 or cheef@treasurer.ca.gov.

Appendix A: Reporting Components Required by D.13-09-044

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Below is a full list of data points required by D.13-09-044 to be submitted as part of this Quarterly Report. Many of these components are related to the implementation stages of the program. As detailed above, CAEATFA is in the process of establishing the basic infrastructure for implementing the financing pilots. Additional information will be provided in subsequent Quarterly Reports as program activity ramps-up.

- **The platform and space within which CHEEF functions take place**
 - See Section 3 on p. 5.

- **Accounts and account managers associated with CHEEF**

The following CHEEF accounts have been established with US Bank:

- CHEEF PG&E Holding Account
 - CHEEF PG&E REEL Program Account
 - CHEEF PG&E REEL Reservation Account
 - Valley Oak Credit Union PG&E REEL Loss Reserve Account
 - Viewtech PG&E REEL Loss Reserve Account

 - CHEEF SDG&E Holding Account
 - CHEEF SDG&E Program Account
 - CHEEF SDG&E Reservation Account
 - Valley Oak Credit Union SDG&E REEL Loss Reserve Account
 - Viewtech SDG&E REEL Loss Reserve Account

 - CHEEF SCE Holding Account
 - CHEEF SCE Program Account
 - CHEEF SCE Reservation Account
 - Valley Oak Credit Union SCE REEL Loss Reserve Account
 - Viewtech SCE REEL Loss Reserve Account

 - CHEEF SCG Holding Account
 - CHEEF SCG Program Account
 - CHEEF SCG Reservation Account
 - Valley Oak Credit Union SCG REEL Loss Reserve Account
 - Viewtech SCG REEL Loss Reserve Account
- **Database permission (and levels therein) criteria and platforms**
 - CAEATFA is still in the process of working with the Master Servicer to establish database infrastructure. No permissions have been set at this time.
 - **Customer facing products (such as websites/informational charts)**

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- CAEATFA maintains information about the pilots and related workshops, trainings, and events on its website: <http://treasurer.ca.gov/caeatfa/cheef/>. Information on Eligible Energy Efficiency Measures is available online at: <http://eeems.azurewebsites.net/>. CAEATFA is also working with the Center for Sustainable Energy to integrate messaging about the financing pilots within the Energy Upgrade California efforts (<https://www.energyupgradeca.org/en/>).
- **Transactions of various financial products administered by CHEEF and certain aggregate profile information about borrowers, project purposes/scope, financed amounts, etc.**
 - No transactions have occurred under the CHEEF programs yet.
- **Overview of participating FIs for the REEL program**
 - As of September 30, 2015, two lenders - Viewtech Financial Services and Valley Oak Credit Union- have enrolled in the Residential Energy Efficiency Loan Assistance Program. CAEATFA is currently processing applications from two more Eligible Financial Institutions, and conducting additional outreach.

Viewtech Financial Services anticipates offering their REEL product on a statewide basis through Retail Installment Contracts (RICs) offered to borrowers through the contractor. While Viewtech’s current rate on a non-REEL RIC ranges from 7.99% for borrowers with high FICO scores, up to 14.99% for those with lower FICO scores, the interest for the REEL product has been greatly reduced for those borrowers whose FICO scores fall into the lower end of the spectrum. Through the availability of the CE, Viewtech is able to offer a rate of either 7.99% or 8.99%.

Viewtech		
Borrower FICO	Non REEL RIC Rate Range	REEL loan or RIC Rate
780+	7.99%	7.99
720-779	7.49 to 9.99%	7.99
680-719	8.99 to 12.24%	7.99
640-679	11.99 to 14.99%	8.99
600-639	14.99%	8.99

The lower interest rates will result in customer savings for borrowers with FICO scores lower than 720, as shown here. For example:

- a Viewtech customer with a FICO score of 600, taking out a \$20,000 12-year loan, would save \$10,448 in interest over the life of the loan.

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- a Viewtech customer with a FICO score of 680, taking out a \$15,000 12-year loan, would save \$5,315 in interest over the life of the loan.

Valley Oak Credit Union is a regional credit union offering financial products and services in California's Central Valley, a region dominated by low-to-moderate income households according to the CA Department of Housing and Community Development. Valley Oak serves borrowers in Fresno, Kings, Madera, and Tulare counties and is eager to offer energy efficiency financing to its members in order to help them to reduce their energy consumption, improve their homes, and ultimately lower their cost of living expenses.

While Valley Oak does not currently offer an existing energy efficiency home improvement loan, a member seeking this type of financing would have applied for a "Personal" loan through the credit union at a rate of 8.95% for high FICO borrowers and at rates up to 15.95% for those with a lower FICO. With the availability of the CE they have been able to develop a loan product offering rates that range from 7.41% to 9.91%.

Valley Oak		
Borrower FICO	Non REEL Rate	REEL loan Rate
730+	8.95%	7.41
680-729	9.95%	7.91
640-679	11.95%	8.41
600-639	13.95%	8.91
580-599	15.95%	9.91

The lower interest rates will result in significant customer savings for credit-challenged borrowers. For example:

- a Valley Oak customer with a FICO score of 580, taking out an \$8,000 7-year loan, would save \$2,203.41 in interest over the life of the loan.
- a Valley Oak customer with a FICO score of 600, taking out a \$20,000 12-year loan, would save \$8,668.91 in interest over the life of the loan.