Approaching Financial Institutions

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1. Determine target sectors; set Program goals & EE investment targets
2. Organize delivery mechanisms & Program
3. Design EE financing structures & associated use of ARRA funds
4. **Recruit & procure financial institutions**
5. **Develop & negotiate financial partner agreements**
6. Operate program....

USDOE has technical assistance for all stages.
Today’s focus: Recruiting/Procuring financial partners

- Review finance products & structures by sector
- Describe financing sources & FI research
- Outline FI recruiting/procurement processes & implementing agreements
- Q & A to address your structuring needs
<table>
<thead>
<tr>
<th>Market Segment</th>
<th>Loan Product</th>
<th>Types of Financial Institutions (FIs)</th>
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</thead>
<tbody>
<tr>
<td><strong>Residential</strong></td>
<td></td>
<td></td>
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<tr>
<td>Single Family</td>
<td>• loans, both secured and unsecured</td>
<td>• commercial banks</td>
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<td></td>
<td></td>
<td>• credit unions</td>
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<td>• specialized non-bank FIs &amp; CDFI</td>
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<tr>
<td>Multi-Family</td>
<td>• loans, both secured and unsecured</td>
<td>• commercial banks</td>
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<td></td>
<td>• tax-exempt bond debt possible for qualifying low-income housing</td>
<td>• credit unions</td>
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<td></td>
<td>• ESCO</td>
<td>• leasing companies</td>
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<td></td>
<td></td>
<td>• bond purchasers</td>
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<tr>
<td><strong>Commercial</strong></td>
<td></td>
<td></td>
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<tr>
<td>Small</td>
<td>• loan/lease are typical</td>
<td>• commercial banks</td>
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<tr>
<td></td>
<td></td>
<td>• credit unions</td>
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<tr>
<td>Large (as well as industrial)</td>
<td>• loan/lease</td>
<td>• commercial banks</td>
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<td></td>
<td>• Energy Savings Performance Contracting (ESCO)</td>
<td>• credit unions</td>
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<td></td>
<td>• QECBs possible</td>
<td>• specialized EE FIs</td>
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<td></td>
<td>• Tax-exempt industrial development bonds for industry</td>
<td>• contractors/ESCOs</td>
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<td></td>
<td></td>
<td>• private equity investors</td>
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<tr>
<td><strong>Institutional</strong></td>
<td></td>
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<tr>
<td>Government</td>
<td>• tax-exempt bond</td>
<td>• Tax-exempt &amp; lease purchasers</td>
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<td></td>
<td>• tax-exempt lease</td>
<td>• capital markets transactions possible</td>
</tr>
<tr>
<td></td>
<td>• ESCO</td>
<td>• Commercial banks</td>
</tr>
</tbody>
</table>
Capital Sources
• Banks
• Credit Unions
• CDFIs
• Bonding
• Federal
• Other (Treasury)
• Utilities

Who Lends?
• State - energy office - HFA
  • Utility
  • Finance company
  • Bank
  • Credit Union
  • CDFI

Enhance
• Loss Reserve
• Debt Service Reserve
• Loan Insurance
• Subsidies

Security
• Tax lien
• Fixture lien
• At the meter
• Unsecured

Lend

Repay
• On Bill
• Property Tax
• Other Fee
• 3rd Party

• Other (Treasury)
• Utilities
Who are the lender partners?

- **Banks**: both community and national.
- **Credit unions**: Understand small loans, community-minded.
- **Specialty Lenders**: Know energy finance very well.
- **Community Development Financial Institutions (CDFI)**: low cost, but limited capital.
- **State-chartered Bond Authorities** (bond issuers, e.g., HFAs) & bond purchasers
  - Banks & funds for private placements
  - Investment banks to arrange capital markets bond sales
- **State Treasurer funds**
What will bring FIs to the table?

- Demand for loans – program to generate deal flow. (Many lenders hungry for quality loans).
- Creditworthy borrowers & lending structure
  - Credit enhancements can be applied
- Manageable transaction costs
- Well structured program
  - Clear distribution of roles and responsibilities in loan origination & administration
- A secondary market for loans (a place to sell the loans): important for some FIs

In other words: profitable, scalable business!
1. Conduct FI research: identify interested FIs

2. Structure financial products and use of ARRA funds

3. Develop FI Request for Proposal (RFP), if required

4. Conduct FI RFP process
   • Leave room for creative responses, at the same time ...
   • Provide initial structure concepts

5. Develop & negotiate implementing agreements with FIs
Financial Institution RFPs: Outline

- Program Background: e.g., partners, target market, lending goals, types of equipment, project economics, marketing, etc.
- Proposed structure & terms of financial products
- Use of ARRA grant funds
- Prescribe format for proposals
- RFP rules, procedures, schedule, evaluation criteria
- Implementing agreements, e.g., LRF Agreement
  - Draw the target well so proposers can hit a bull’s eye!
  - Same information needed in sole source negotiation.
Financial Services Requested

- Assist in final structuring of the energy efficiency (EE) loan program, with program partners
- Originate and provide EE loans ("Loans") to target sectors
- Manage loan loss reserves (LRF) or other use of grant funds
- Provide related Loan administration services
- Provide reports on Loan portfolio and LRF
- Potential additional services: marketing, manage Vendor network, expanded lending
EE Loan Terms: Outline Example

1) Eligible borrowers
2) Eligible projects
3) Loan application
4) Credit prescreening
5) Loan terms
6) Interest rate
7) Payment schedule
8) Loan size
9) Loan underwriting guidelines and security
10) Loan disbursement and flow of funds during project construction
11) Prepayment option
Loss Reserve Fund Agreement Terms

- Definition of Deposit Account & Reserve Account
- Reprogramming Funds in the Deposit Account
- Interest on both the LRF and Deposit Accounts
- Definition of Loss & Event of Loss
- Risk sharing formula; expanded lending & reset formula
- Responsibility for & Distribution of Recoveries
- Underwriting Criteria & Loan terms
- Reporting & Monitoring
- Availability Period
- Disposition of loan loss reserve funds at end of Loan period
- Program Fees
- Assignment of LRF
Items for FI to Include in a Proposal

1. Summary Financing Structure & Approach
2. Loan Interest Rates and Fee Pricing
3. Loan Terms, Tenors, Prepayments, etc.
4. Underwriting Guidelines
5. Loan Marketing
6. Loan Origination & Administration
7. Qualifications & Experience, Officers and Staffing
8. Other services
9. FI background and financial condition
Webinars

- Loan Loss Reserves
  - September 20th 2:00 – 3:15 pm Eastern

- Qualified Energy Conservation Bonds
  - September 22nd 3:00 – 4:30 pm Eastern

Sign up on the Solution Center