

**NASEO State Energy Financing Committee Call Notes
Thursday, May 3, 2012; 3-4pm ET**

Attendees:

Colorado	New York
Georgia	Oklahoma
Kentucky	Oregon
Maine	
Maryland	NASEO
Massachusetts	BPI
Michigan	Energy Programs Consortium (EPC)
New Hampshire	Summit Energy Strategies
New Jersey	

Welcome and Introductions

Jeff Pitkin, NYSERDA

Jeff Pitkin, Treasurer of NYSERDA and Chair of the NASEO State Energy Financing Task Force, opened the call and introduced the topic of residential energy efficiency loan programs. Jeff also welcomed NASEO’s Building Committee members to today’s call.

Announcements:

- NASEO Buildings Committee Webinar on May 9 at 3pm ET on a national ESPC database tool, currently being developed by LBNL and NAESCO, and how states can use that tool.
- NASEO Government Affairs call is May 16 at 2:30pm ET.
- Buildings Committee call on May 16, at 3:30pm ET to facilitate state discussion on DOE's proposed changes to Home Performance with ENERGY STAR.

Update on WHEEL

Mark Wolfe, Energy Programs Consortium (EPC)

Mark Wolfe from the Energy Programs Consortium (EPC) provided an update on WHEEL, which is a warehouse facility to aggregate and securitize unsecured energy efficiency loans on the secondary market. WHEEL has been working to initiate a secondary market program by promoting conforming underwriting standards among interested state programs to provide an alternative to Fannie Mae, who currently charges around 17% for these types of loans. If WHEEL can achieve lower rates (currently projecting ~10%), state loan programs would be able to reduce the amount of public subsidy to buy down interest rates and also be able to access more capital to issue more loans.

EPC and NASEO have been working with DOE and their General Counsel to find a way for states’ ARRA funds to fit into this program. EPC is optimistic that DOE’s GC will issue a favorable determination in the next few weeks. Presently, the way it might work for states is they can commit their funds in a loan loss reserve (LLR), with a reserve rate set preliminarily at 20%. We feel that this is a very conservative rate, and our expectation is that once banks get more comfortable with unsecured loans, that percentage will go down. Once the percentage is reduced, the funds will go back to the state. Citi Bank will be the eventual purchaser of the loans.

For states interested in getting involved, please contact Mark Wolfe (mwolfe@energiprograms.org). Once DOE has made its final determination, EPC will work with NASEO to provide full details to states through a webinar.

Massachusetts HEAT Loan

Ian Finlayson and Elise Avers, Massachusetts Department of Energy Resources
[See presentation slides online.](#)

The Home Energy Assistance Team (HEAT) Loan program has been around since 2006. It's a zero percent (0%) interest loan from participating lenders (typically small banks, and local credit unions). Loans are up to \$25,000 over a 7 year period for residential, and up to \$250,000 over a 7 year period for commercial. For residential loans, this program is part of the Mass SAVE program which requires a home energy assessment to participate.

MA uses a low cost program design (rates average around 5%) that is not dependent on a secondary lending market. The loans are held and serviced by participating banks and credit unions, and the interest rate buy-down is funded by our utility sponsored programs. In the future we expect to see larger loans and lower cost per loan. Heating system improvements are the most common energy efficiency improvement in our program, followed by hot water improvements.

Since 2006 the loan volume has increased exponentially, while average loan size increased more moderately, indicating both increasing loan size and a rising rate of new participants. Cumulative issuance of HEAT loans have been around \$85 million through 2011.

Based on their expertise and experience, the participating lenders determine homeowner eligibility for loans and the HEAT Loan program allows them that flexibility. For lenders, this extra effort and transaction cost is worth it because offering this loan product is a way they can acquire customers and build a relationship with them. The default rate has been below 0.75%, and the prepayment rate is also around 0.75%. Low levels of prepayment provide some certainty for lenders that the loans will provide at least a 7-year relationship with the customer, during which they can sell other products and services. There are currently around 50 participating lenders. [See a full list of lenders.](#)

We want to emphasize that this is a local model that relies on a local network and not a national secondary market, and may provide an alternative to a secondary market program. [See additional information on the HEAT Loan.](#)

Q&A / Discussion

1. Can the loan finance fuel switching from heating oil to natural gas?
 - It is not explicitly spelled out like that, but homeowners can finance high-efficiency furnaces, which may be gas instead of heating oil. Homeowners cannot finance bringing in a new gas line, however.
2. Who services these loans? Is the cost built into the 5%?
 - The rates were negotiated at ~5%. Lenders see value in this program and are willing to do their own servicing. After demonstrating a low default rate, banks were more receptive to increasing loan ceilings. We were able to negotiate up to \$25,000 for residential loans, up from \$15,000.
 - The ancillary benefits of a relationship between the borrower and lender has allowed us to continue to offer the product at a low interest rate.
3. Have you done analysis on the FICO spread? We've noticed that with anything above 750, banks are willing to be more flexible. Anything below 750, even if repayment is good, banks are skittish. Are your lenders reluctant with certain FICO scores?
 - We're within that same range though 750 is on high side for our program. Most lenders are comfortable with borrowers in the 700-720 range; there may be some in the high 600's (e.g. 680). I think these lower scores work because of the local, community aspect of the program.
4. What do you think accounts for the exponential growth in load volume? How can other states replicate such growth?

- The program has had enough time over the years for banks/credit unions to see value in this. Once we were able to show this as a successful model, we saw growth in the number of lenders and the loan amount. At the same time, energy efficiency programs have grown in MA, which has helped support demand.
 - We've also opened up the program guidelines to include additional eligible technologies, but also expanding the eligibility of borrowers. In the early years, we didn't have much volume, so it was difficult to prove that the default rate would remain low.
5. We have a similar program in Maryland, and we use buy-downs in our program as well. How do buy-downs factor into the cost effectiveness of MA's program?
 - We've learned that 0% loans are a very different proposition than even 1% loans in a debt-averse economy. For C&I customers, even 0% may not entice them because they are so unwilling to carry debt. However, we've found that 0% is the magic number for homeowners and has been a game-changer. Because 0% brings greater loan volume, utility support has been justified.
 6. How did you engage state/local banks and credit unions to get them on board?
 - The critical part is that it really is a 'community' of lenders, so people at one bank know people at another and they help spread the word about our program. Showing a track record and being able to point to peers who are participating often makes new lenders more comfortable.
 - The Mass Bankers Association also played a critical role in convening banks, introducing them to each other, and selling this program to their members.
 7. What is the source of funding for the interest rate buy-down?
 - Initially funding for the buy-down came from system benefit funds. Now we have other revenue streams (e.g. RGGI and forward capacity markets) that have helped move this program forward and expand several of our other utility-supported programs. You do need a good deal of seed-funding to buy-down the interest rate at least in the early years.
 8. How many states are looking at secondary market-based loan programs? Is anyone else doing a non-secondary market loan program?
 - Maryland – We have a hybrid program right now, which is at a critical juncture: the program was started with ARRA funds, and it's now under review with our utilities for ongoing support. We didn't have much luck attracting local credit unions, but we did find a lender who had a lot of experience with home improvement loans and brought that experience to provide an unsecured energy efficiency loan, which MD has bought down to a 6.99% interest rate. We're not seeing that interest rate negatively impact the loan volume because this is still the best rate out there for this kind of work. Our lender borrows the capital so that is why the rates are higher, but they service the loans themselves.
 - Oregon – We've working on a loan program backed with utility dollars in partnership with a CDFI. We have a 5.99% interest rate for a 10 year loan term, and our cap on the loan is \$5,000. This on-bill product targets moderate income homeowners and only applies for building shell measures. There is already another product that serves higher-income households, where the loan cap is up to \$12,500, but we found that the cost is too high for moderate income (~\$40 more per month on their bill). With the \$5,000 loan cap, that incremental cost is brought down to about \$2/month. The program hopes to ultimately demonstrate that energy efficiency loans are cost neutral to homeowners. On-bill loans in the state have a *very* low default rate, below 0.50%.
 - In Massachusetts, because the loans are not tied to the utility bill, there is a little more flexibility to increase loan sizes.

Upcoming Calls:

The next call is scheduled for Thursday, June 7th from 3:00 – 4:00pm ET and will present another state approach to residential energy efficiency financing from Vermont.