Green Jobs-Green New York Program and On-bill Recovery Financing Briefing

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Green Jobs Green New York Act of 2009
(enacted Oct 2009)

The Act directs NYSERDA to:

- Establish a revolving loan fund and innovative financing mechanisms to provide loans to finance energy efficiency improvements for:
  - Residential 1-4 family dwelling (up to $25,000*)
  - Multifamily buildings (program limit $5,000/unit or $500,000 per building)
  - Small business (<101 employees) and not-for-profit structures (up to $50,000*)
- Solicit constituency-based organizations to connect community members to the program
- Establish standards for energy audits and energy retrofit contractors
- Establish a schedule of fees for residential energy audits
  - Waived for households with income less than two times county median income
  - Prorated fee if income between two and four times county median
  - Consumer pays full fee if over four times county median
- Provide employment and training services to support the program.

* Amended by Power NY Act of 2011 (A.8510/S.5844)

GJGNY Funding

From Regional Greenhouse Gas Initiative (RGGI) auction allowance proceeds

Workforce Development	$8,000,000
Outreach and Marketing	$10,000,000
Energy Audits and Implementation Costs - Residential (1-4 family) - Multifamily - Small Commercial/NFP	$12,596,000 $4,400,000 <u>$10,400,000</u> $27,396,000
Financing: - Residential (1-4 family) - Multifamily - Small Commercial/NFP	$26,692,533 $11,292,550 <u>$13,274,917</u> $51,260,000
Program Administration & NYS Fee	$9,744,000
Program Evaluation	$5,600,000
Total	$112,0000,000

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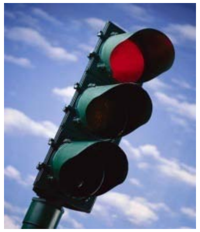
Additional GJGNY Funding

US DOE EECBG Better Buildings (Retrofit Rampup) Grant

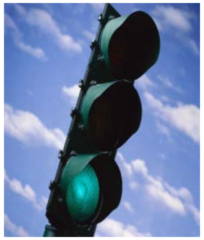
- $40M award, largest in nation
- Partnership award
  - $21.4M NYC Financing Program (large commercial)
  - $5M Long Island Green Homes consortium
  - $13.6M NYSERDA
- Grant allows use of 50% of funding for loan loss/debt service reserve
- 60% of State funding ($13.6M) must be subgranted to small local governments not EECBG formula eligible

Strategy: Multiple Forms of Financing



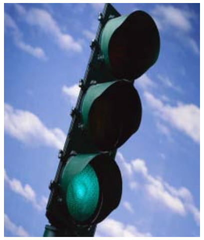
1. Property-assessment financing

- Original approach: create statewide aggregation working through participating municipalities under Municipal Sustainable Energy Loan Program legislation
- On hold due to FHFA/OCC notices



2. On-bill recovery financing

- June 2011 legislation authorizes statewide on-bill recovery charge mechanism: on-meter tariff obligation; shutoff provisions for failure to pay and consumer safeguards similar to utility charges



3. Direct loans

A. Unsecured residential loans
B. Participating loans – Small Business/NFP and Multifamily
C. PowerSaver secured loans

Multiple forms of financing allow consumer to select method that best fits their needs and will inform on consumer receptivity.

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Program Guidelines

Residential

- Based on existing Home Performance with ENERGY STAR® program
- Comprehensive energy audits and retrofits completed by BPI-accredited contractors
- 171 actively participating contractors
- Finance cost effective prequalified measures – Total Savings to Investment Ratio (SIR) > 1
- Extensive program QA/QC provides consumer safeguards
  - Independent review and approval of work scopes pre-implementation
  - Independent post-implementation inspection of 15% of projects
  - Dispute resolution process; contractor debarment

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Financing Approach
Residential

- Financing launched November 15, 2010
- Loans originated through participating financial institutions
  - Launched using single originator, Wisconsin Energy Conservation Corp d/b/a Energy Finance Solutions - current FNMA loan originator
  - Open up to multiple lenders in 2011
- Loans originated using NYSERDA loan underwriting standards
- Lender closes on loan and loan purchased by NYSERDA using $26M RGGI program funds
- Lender paid $175 origination fee by NYSERDA; can charge additional fee (financeable) to borrower if needed to cover costs
- Loans serviced by NYSERDA master loan servicer, Concord Servicing Corporation)
  - Experienced 3rd-party loan servicer with over 650,000 accounts managed
  - Monitors loan origination to ensure conformance with standards, and services the loans

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Loan Underwriting Standards

Two Loan Tiers:

- Tier1 loans: loans meet standards that can be financed in capital markets (FNMA standards)
  - These loans will be aggregated and financed through capital markets
- Tier2 loans: loans originated under alternate criteria (utility bill paying history) and slightly relaxed debt-to-income criteria
  - Initially issued as revolving loan fund
  - Monitor loan performance over time and added to pool of loans financed through capital markets

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Green Jobs-Green New York Program Residential Loan Underwriting Standards

"Tier 1" Loans Funded Though Capital Markets	"Tier 2" Loans Funded from Revolving Loan Fund
Credit score 640 or higher (680 or higher if self-employed for 2yrs or more; 720 or higher if self-employed less than 2yrs)	• Utility bill payments must be current for two consecutive months during each of the last two years; • No utility or mortgage payments more than 60 days late in the last two years; • Current on mortgage payments for the last year
Debt-to-income ratio up to 50%	Debt-to-income ratio up to 55% (up to 70% if FICO score 680+)
No bankruptcy with last 7 years	No bankruptcy within last 5 years
No outstanding collections, judgments or tax liens > $2,500	

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Loan Terms

- Unsecured loan
- 5,10,15 yr loan term
  - Term can't exceed life of measures
- ½% interest rate reduction for automated payment – improves payment performance
- Interest Rate 3.99%/3.49% for loans supported by QECB bonds
- After QECB bond volume cap exhausted, expected rate of 5.99%/5.49%

Capital Markets Financing Approach

- Aggregate loans and issue bonds using master trust structure
- Bonds supported by loan repayments and loan loss/debt service reserve ($9.3M from DOE EECBG Better Buildings grant)
- Proceeds used to fund additional program loans
- First issuance $25M (2011)
- Subsequent issuances will increase scale
- Anticipate A rating; ~5.7% (300 bps/3% over Treasury); ~10-12yr term
- Issue as Qualified Energy Conservation Bonds

Progress to Date
(As of 6/30/2011, Since 11/15/2010 Launch)

- 1,429 applications for financing received
  - 847 (59%) Pre-approved; 582 denied
  - Continued revisions to Tier 2 standards to improve penetration and reduce denials

- Approved loans: 820 (97%) Tier 1; 27 (3%) Tier 2

- 373 loans closed ($2,976,000)
- 158 loans approved awaiting closing ($1,302,000)

- 359 loans purchased ($2,863,000)
- 356 loans outstanding ($2,799,000)
  - Average loan $8,003
  - Weighted average original term 11.9 yrs
  - Weighted average coupon – 3.58%
  - Weighted average FICO score – 747
  - All accounts current

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Financing Approach

Small Commercial/NFP and Multifamily

- Loans originated through participating financial institutions
- Lender originates loan using its normal credit standards
- NYSERDA participates in loan by providing 50% of loan capital at no interest to lender
- Lender offers loan to borrower at 50% of normal rate
- Lender pays NYSERDA/Master Loan Servicer its prorata share of interest payments received
- NYSERDA and Lender share pro-rata on loan defaults
- Launched July 2011

PowerSaver Loan Pilot

- Selected in partnership with Energy Finance Solutions to offer financing as part of 2yr HUD pilot program
- 90% federally-insured loan for residential owner-occupied energy efficiency improvements
- Mortgage with not less than secondary lien
- Loan underwriting standards
  - FICO score 660+ (compared to GJGNY 640)
  - Debt:income < 45% (compared to GJGNY 50%/55%)
  - Property LTV up to 100%
- HUD grant to EFS to cover added costs of origination
- Offered at .5% reduction to unsecured loan – 3.49%/2.99%
- Working with EFS on rollout

On-Bill Recovery Financing

- Power NY Act of 2011 (A.8510/S.5844)
- Establishes an on-bill recovery charge for repayment of loans for energy efficiency improvements through GJGNY program for customers of: Central Hudson, Con Edison, NYSEG, National Grid, Orange & Rockland, Rochester Gas & Electric, and Long Island Power Authority
- Covers electric, gas, and heating fuel measures – charge placed on electric bill, unless the majority of savings result from gas measures, in which case charge billed on gas bill.

On-Bill Recovery Financing (Cont'd)

- Each loan secured by mortgage upon real property
  - Subordinate to any current or future mortgage on property
  - May not be used to force payment or foreclose
  - Prior to sale of property, seller must provide written notice to purchaser – mortgage will appear on title search
- Unless satisfied prior to sale, on-bill recovery charge survives changes in ownership – arrears at time of transfer are responsibility of incurring customer, unless expressly assumed by purchaser

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On-Bill Recovery Financing (Cont'd)

- Rights and responsibilities comparable to gas and electric charges – termination/reconnection of service, deferred payment agreements, adjustments to budget billing plans, and late payment charges
- Partial payment of utility bill first applied to utility charges, then on-bill recovery charge
- NYSERDA to establish standards for customer participation; consider alternative measures of creditworthiness that are prudent in order to include participation by customers who are less likely to have access to traditional sources of financing
- Monthly repayment charge cannot exceed 1/12th of projected energy savings

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On-Bill Recovery Financing (Cont'd)

- NYSERDA to provide notice to customers prior to closing stating:
  - the financial and legal obligations of accepting loan responsibilities
  - on-bill recovery charge will be billed by the customer's utility and failure to pay may result in termination of service
  - the customer may not lower energy costs over time, based on additional factors that contribute to monthly energy costs
  - complaints handled by NYSERDA;
  - and that the customer may cancel within 5 business days of signing loan agreement provided proceeds have not been disbursed.
- At least annually, NYSERDA shall provide information to utility for inclusion in customer's bill setting forth the amount and duration of remaining on-bill recover charges and providing NYSERDA contact information for resolving customer complaints.

On-Bill Recovery Financing (Cont'd)

Utilities shall use existing billing systems, to the extent practicable, and use funding from NYSERDA to defray costs directly associated with the program:

- NYSERDA to provide $500,000 [from US DOE Better Buildings grant] allocated on a pro-rata basis based on number of utility customers for costs directly associated with changes to billing systems to accommodate on-bill recovery charges
- NYSERDA pays a fee of $100 per loan to the applicable utility within 30 days of closing
- NYSERDA pays a fee of 1% of loan amount to the applicable utility within 30 days of closing

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On-Bill Recovery Financing (Cont'd)

- Process/timeline
  - Within 45 days Public Service Commission (PSC) shall commence proceeding to investigate implementation.
  - Within 150 days, PSC shall make a determination establishing billing and collection procedures for on-bill charges
  - Each utility to offer on-bill financing within 300 days
- Participation initially limited to .5% of each utility company's customers, but NYSERDA can petition to increase limit provided PSC finds that program has not harmed the company or its ratepayers
- PSC can suspend any utility's offering after conducting hearing and finding that there has been significant increase in arrears or disconnections directly related to on-bill recovery

Questions

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