

**HPwES Sponsor ACI Pre-
Conference Meeting
New Orleans, LA
May 4, 2015**



Session Agenda

Welcome - Steve Dunn, DOE

Energy Efficiency Financing Overview – Matthew Brown, Harcourt Brown and Carey

Offering EE Financing at the Point of Sale – Ken Yeager, AFC First

Financing from a HPwES Sponsor Perspective – Matt Fiscus, KY Home Performance

Role Play Scenarios : Contractor and Consumer and Program Sponsor and Utility

Role Play Interactive Breakout Discussions

**Valuing and Underwriting Energy Efficient Upgrades – Michael Freedberg, US
Department of Housing and Urban Development**

Key Takeaways – Andrew Isaacs, SRA/HPwES Finance Lead

Wrap Up and Closing Comments– Steve Dunn, DOE

Overview

- Session Goals and Objectives
- Presenters
- Session Structure

Session Goals and Objectives

Participants will learn *about*

- Financing **fundamentals** – why offer financing, sources of capital, working with lenders
- Effective **program design and practices**: efficient, scalable and sustainable
- Developing a compelling **value proposition**: more affordable, more comprehensive projects

Participants will learn *how to*:

- Identify **sources of capital** and match lending products to programs
- **Integrate** financing with home performance programs and contractors
- Avoid **common pitfalls** through tips, resources, and learning from peer experiences

Session Presenters

- Andrew Isaacs, SRA
- Matthew Brown, Harcourt Brown & Carey
- Matt Fiscus, Kentucky Housing Corporation
- Michael Freedberg, US Department of Housing and Urban Development
- Ken Yeager, AFC First

Thought for the Day

- Investments in residential energy efficiency upgrades offer **\$182 billion of investment potential**, much of it in single family properties
 - United States Building Energy Efficiency Retrofits, Market Sizing and Financing Models. Rockefeller Foundation, 2012

Some Statistics that Matter

- The Average American family savings account balance: \$3,800
- Percent of Americans with no savings at all: 25%
- Average household income: \$43,000
 - Average % of income spent on energy costs: 4%
 - Average % of income spent on energy costs by low income households: 14%
- Annual household energy costs: \$160 billion
- Households eligible for WAP: 40 million
- # of middle income households 38.5 million

Sources: Federal Reserve, US Census Bureau, Internal Revenue Service, Weatherization Assistance Program, Lawrence Berkeley National Lab



Residential EE Financing Overview

ACI Conference 2015



Harcourt Brown & Carey

ENERGY & FINANCE

Why Financing?

1. Increase Close Rates

- We have seen sales increase 20-40%

2. Sell Bigger Deals

- Financed projects tend to be 20-40% bigger than non-financed projects.



What Products are Available?

Mortgages

- Real Estate Secured
- Require an Appraisal
- Heavily Regulated
- Lowest Possible Interest Rates
- Longest Possible Terms
- Most Appropriate for Large \$\$\$

Unsecured Loans

- No Real Estate Security
- No Appraisal
- Higher Interest Rates
- Terms to 10 Years
- Convenient and Fast Closing
- Appropriate for \$25k and Up



Mortgages - What's Available?

- 203k
 - A renovation mortgage that allows a borrower to finance not only property costs but also renovations to that property.
 - Typical first mortgage terms: low rates and up to 30 years.
- Energy Efficient Mortgage (EEM)
 - A first mortgage where qualifications are adjusted to account for EE cost savings.

Despite decades of availability, neither of these has achieved significant market penetration.



Unsecured Loans - What's Available?

- AFC First
 - Single rate financing (9.9%), terms up to 10 years offered through contractors.
 - Easy application and close process.
- Kilowatt Financial
 - Risk adjusted rate financing
 - 7-14% rate, terms up to 10 year offered through contractors
 - Easy application and close process.



Unsecured Loans - What's Available?

- Credit Cards (Revolving Credit)
 - 23-25% rate often bought down by contractors to single digits. Buydown cost typically pass on to the customer.
 - VERY Easy application and close process.
- Other Programs: Michigan Saves, Massachusetts Heat Loan Program
 - Geographically limited
 - Rates and terms vary by geography



The Finance Offer...

- Select your finance partner
 - Tips for selecting a partner: Think about...
 - Approval Rates
 - Contractor support/resources
 - Interest rate, term, maximum financing amounts
 - Payment schedules
 - Streamlined application and approval process
- Integrate financing into the sales process
 - Offer financing with every proposal.
 - Sell on the basis of monthly payments, NOT interest rates.



What We Know Now and How We Know It...

We have been working with mortgages and unsecured loans since the 1990's

- Fannie Mae Energy Loan, HUD PowerSaver Program, Michigan Saves, California EE Finance and others.

Our Takeaway:

Any EE loan products must integrate into an existing stream of commerce.



The Result – Sticker Shock and Staying “On the Fence”



- Most homeowners purchase 1-2 HVAC or whole house improvement systems in their lifetime...usually after current system or improvements fail
- 3rd or 4th largest purchase a homeowner will ever make
 - Home
 - Vehicle
 - College
 - Home Improvement



BPI • GoldStar
CONTRACTOR



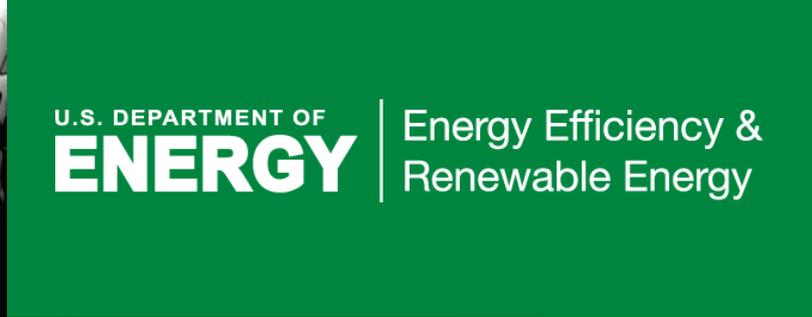
How are Most Large Capital Purchases Marketed and Paid for Today?

- “Promotional Financing” (Same as Cash, 0% for a limited time etc) may be a great sales tool for someone who already has the cash or for a smaller ticket item.
 - Are you selling \$1,000 big screen TVs? Or something a little more expensive?
 - How is your Cell Phone sold to you?
- **If you didn't have \$8,000 today how are you going to get it in 6 months to avoid 18 to 32% interest rates? Scary proposition for most consumers**
- Fixed Monthly Payment options allow you to bundle services and present Good/Better/Best Monthly Payment Options and show the offset with energy savings



BPI • GoldStar
CONTRACTOR





ACI Conference

KY Home Performance Contractor Centric program with Utility Rebates

May 4th, 2015



Contractor Centric Program – Contractor Needs

Turning homes into paying jobs!!



Contractor Centric Program – Financing Tools

Low monthly payments are the future!!

KHP Unsecured Loans				
Loan Amount	3.99%* 60 Months	4.99%* 84 Months	6.99%* 120 Months	9.99%* 120 Months
\$3,000	\$55.24	\$42.39	\$34.82	\$39.63
\$4,000	\$73.65	\$56.52	\$46.44	\$52.84
\$5,000	\$92.06	\$70.65	\$58.05	\$66.05
\$6,000	\$110.47	\$84.78	\$69.63	\$79.26
\$7,499	\$138.13	\$105.96	\$87.03	\$99.05
\$9,000	\$165.71	-	\$104.45	\$118.89
\$12,000	\$220.94	-	\$139.27	\$158.51
\$15,000	\$276.18	-	\$174.09	\$198.14

Using Utility rebates help profit margins!!

- * When used correctly its like “Free Money”.
- * Don’t be “underbid” use the rebate to lower quoted price.

Contractor Centric Program – Sales Tools

Homeowner reports close sales!!

HOME ENERGY EVALUATION REPORT

KY HOME
PERFORMANCE



Evaluation Date: 4/28/2015

Prepared for:

Jane Doe Test Home
1234 Test Street
Lexington, KY 40515

Prepared by:

Matt Fiscus
Hughes HVAC
1389 Hwy 638
Manchester, KY 40962
606-598-3470

Contractor Centric Program – Sales Tools

Homeowner reports close sales!!

HOME ENERGY EVALUATION REPORT

Evaluation Date: 4/28/2015

Project Summary

Total Cost for Improvements	\$7,000.00
Total Amount Financed through KHP	\$6,000.00
KHP Loan Incentive APR	6.99%
Example Monthly Payment*	\$69.63
Additional Qualifying Rebates (outside of KHP and not included in loan payment)	\$1,000.00
Evaluation Fee	\$0.00

*Example Monthly Payment based on 6.99% APR, 120 month term. Subject to credit approval by AFC First Financial Corporation. Other terms available.

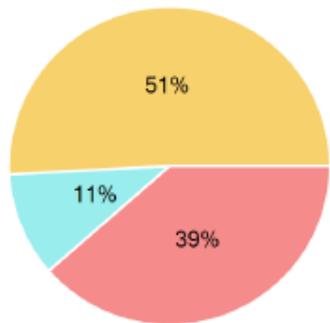
Contractor Centric Program – Sales Tools

Homeowner reports close sales!!

How Your Home Uses Energy

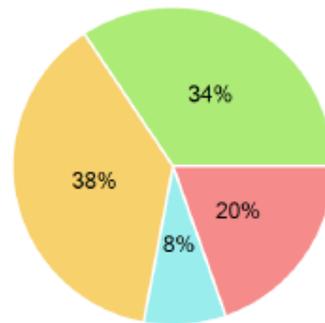
Fuel Type	Use	Unit Price	Cost	Savings
Electricity	17950 kWh	\$0.09	\$1,619	\$85
Natural Gas	2346 therms	\$0.85	\$2,000	\$1,160
Total for all fuels			\$3,619	\$1,245

Current Energy Cost



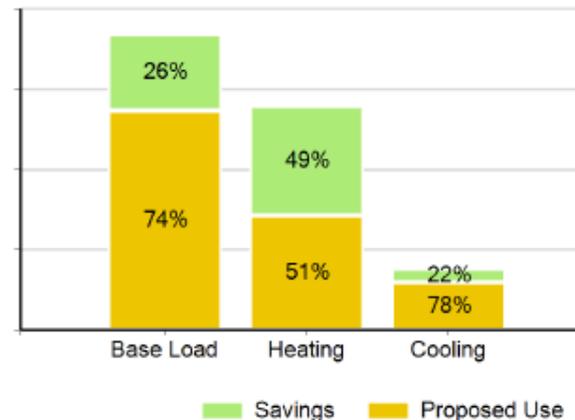
Heating Base Load
Cooling

Proposed Energy Cost



Heating Base Load
Cooling Savings

Use Comparison



Savings Proposed Use

Contact Information

Matt Fiscus
Kentucky Home Performance
mfiscus@kyhousing.org
Cell = 859-455-6188

Financing Home Energy Efficiency

UNDERWRITING AND APPRAISING HOME ENERGY UPGRADES

Michael Freedberg
Office of Economic Resilience
U.S. Department of Housing and Urban Development



How can financing stimulate energy efficiency upgrades?

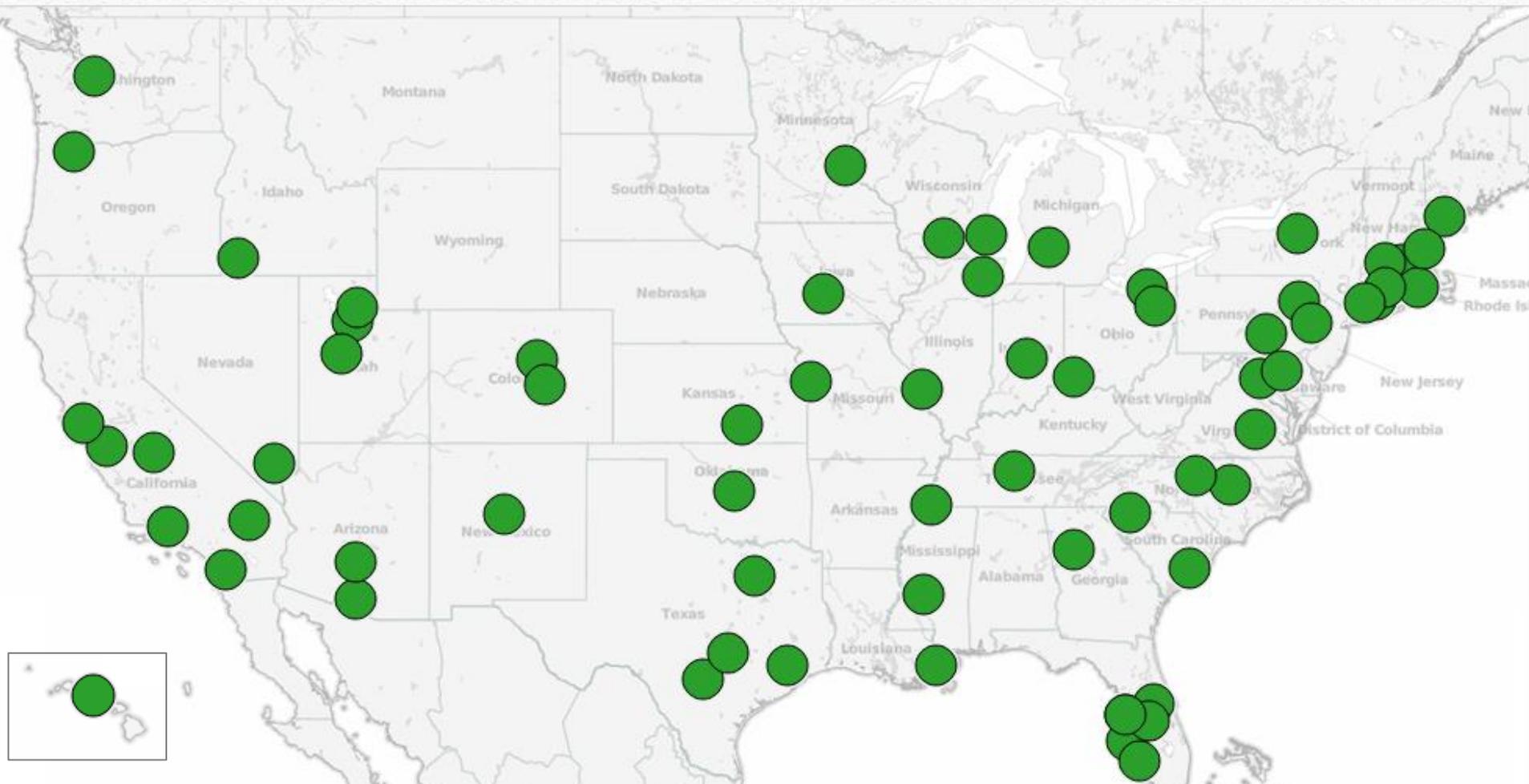
- Catch people when they are already in motion. They might be:
 - Buying a home
 - Refinancing a home
 - Upgrading or remodeling their home (with efficiency, solar, new kitchen, new roof)
 - Replacing failed equipment
- These loan products may (or may not) help people to pay for any of these four activities.



FHA Financing for Single Family Housing

Agency	Financing Program	What it Does
HUD	Energy Efficient Mortgage Program	Helps homebuyers or homeowners save money on utility bills by enabling them to finance the cost of improvements that will make their home more energy efficient
HUD	PowerSaver 203(k) Purchase Rehab Program	Enables homebuyers or homeowners to finance the cost of home improvements when buying a home or refinancing an existing mortgage
HUD	Title I Home Improvement Loan Program (PowerSaver pilot ends May 2015)	Enables homeowners to make cost effective, improvements to their homes, including energy efficiency improvements. Enables homeowners to borrow up to \$25,000 through a second mortgage for terms as long as 20 years – up to \$7,500 can be an unsecured consumer loan

Extensive Coverage of Green MLS Fields – 75 out of Top 100 population markets



About Tableau maps: www.tableausoftware.com/mapdata

Source: 2010 MLS survey by NAR Green REsource Council.

Energy Cost "Auto-Pop" in Chicago



Welcome **Becky R Realtor** for **Team Becky**

Contact

My MLS

Search

Listings

Reports

Forms

Setup

Search Results - Attached Single

List View

Refine Criteria



Full - Agent

Show



Quick



Advanced



E



showing 1 of 1 listings



Detached Single

Status: **NEW**

Area: **8021**

List Date: **06/26/2013**

List Dt Rec: **06/26/2013**

List Price: **\$399,900**

Orig List Price: **\$399,900**

Sold Price:

Directions: **Diversey West to Rockwell, North to Property**

Sold by:

Closed:

Off Market:

Year Built: **1920**

Dimensions: **37.5X125**

Ownership: **Fee Simple**

Corp Limits: **Chicago**

Coordinates: **N:2900**

W:2600

Rooms: **7**

Contract:

Financing:

Blt Before 78: **Yes**

Subdivision:

Township: **North Chicago**

Lst. Mkt. Time: **1**

Points:

Contingency:

Curr. Leased: **No**

Model:

County: **Cook**

Fireplaces:

Bathrooms **1 / 1**

(full/half):

Parking: **Garage**

Parking Incl. **Yes**

In Price:

Gar: **2**

Yes

si:

83/mo

Utility Costs: Elec. - \$770.60/yr, \$64.22/mo; Gas - \$1198.00/yr, \$99.83/mo

REMARKS: CHARMING 4 BED DEN, 1.5 BATH SINGLE FAMILY HOME ON LOT & A HALF IN DESIRABLE LOGAN SQUARE/AVONDALE LOCATION. REMODELED APPROX 10 YEARS AGO W/ NEWER HVAC, ELECTRIC, PLUMBING, H2O HEATER & ROOF. DIAG HDWD FLRS; LARGE EAT IN KITCHN W/ SS APPLS; HIGH CEILINGS; FULL BASEMENT; HUGE FENCED YARD W/ BLUE STONE PATIO; SECURITY SYS OVERSIZED 2 CAR GARAGE. CLOSE TO 90/94 & ALL LOGAN SQUARE/BUCKTOWN SHOPPING & RESTAURANTS!

More Information

Michael Freedberg , michael.freedberg@hud.gov

U.S. Department of Housing and Urban Development



Role Play Scenario I - Contractor and Customer

Consumer Gets:

- Project completed
- Affordable low monthly payments
- More comfortable energy efficient home
- Upgraded equipment
- More improvements
- Health and safety benefits
- Certified and screened contractors



Role Play Scenario I - Contractor and Customer

Contractor Gets:

- More sales
- Larger projects
- Overcomes objectives in the sales process
- Gets paid directly
- Happy customer and more referrals



Value Proposition For Contractors and Customers

- No cost to contractor to offer financing
- No financing cost to pass on to consumer
- Contractor can Save 5% - 10% -vs- other unsecured financing provider's products
- Example: \$5 Million annual financed
= \$250,000 or \$500,000 savings to contractor
- Long term fixed rates – no 36 month due to be paid by customers



Role Play Scenario II – Program Sponsor and Utility

Home Performance Program Gets:

- More HPwES projects
- Improved program metrics - more energy efficiency
- More products to offer contractors and consumers
- Ability to leverage funding
- Deeper energy retro-fits
- Nice way to compliment utility rebate programs

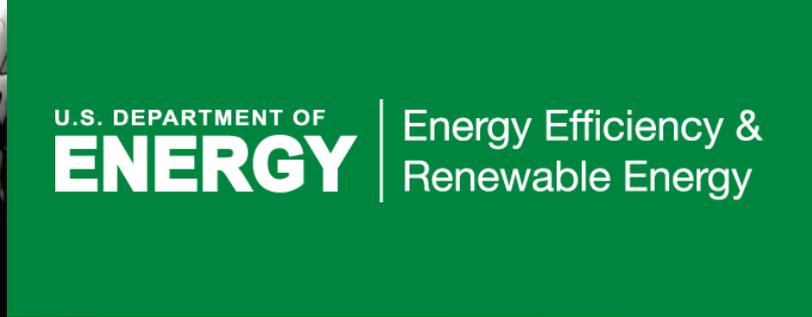


Role Play Scenario II – Program Sponsor and Utility



Utility Gets:

- Complimentary product that can be outsourced
- Higher conversion rates from audits to completed retro-fits
- More energy efficiency generated
- Deeper energy retro-fits
- Leveraged program funding
- Happier customers



ACI Conference

HPwES Partner Meeting Financing Breakout

May 4th, 2015

Best Practices: Integrating Financing into Home Performance

Conduct strategic planning - set program goals and objectives

- What is important to your program?
- Scale
- Improving conversion rates
- Leveraging funds

Define Your Target Market – Who are you marketing too?

- Proactive or reactive customers

Expand your contractor base to serve your target market

- Large or small companies?
- HVAC installers
- Plumbers
- Solar installers

Best Practices: Integrating Financing into Home Performance

Find the right contractors

- Contractors who already offer financing – have a better product(s)
- Recruit contractors with volume
- Contractors who need financing in their business model and get it
- Contractors targeting reactive customers
- Contractors targeting proactive customers where financing makes sense

Keep it simple

- Quick approvals
- Lender models that are appropriate for the contractor and consumer
- Offer longer terms w fixed rates – low monthly payments

Offer tiered financing to help meet program objectives

Best Practices: Integrating Financing with Home Performance

Consider offering a prescriptive “Path to Performance” in addition to whole-house

Seek other partners with mutual goals and objectives

- Utility integration to leverage energy evaluations and rebates in a thoughtful way
- Equipment Manufacturers – rebates can help close sales
- Other partners – State and City Programs and State HFA’s

Offer financing as a way to attract and provide value to contractors and consumers

Why HPwES Programs and their Contractors Should Offer Financing

Longer terms with competitive rates mean low monthly payments:

- Ability finance larger projects
- Consumers can add more energy efficient measures
- Consumers may select upgraded equipment

Contractors gets paid in a timely fashion – know they will be paid and paid quickly

Improves customer experience and satisfaction – more referrals for contractors

Offer financing at no cost to contractor and no financing costs to pass on to customer

Seek better executions than other unsecured financing available in the marketplace

- Contractor can save 5% to 10% over other unsecured financing available
- Long term fixed rates – no balance due to be paid by customers at the end of 24 or 36 months

What Contractors Will Ask About Your Financing

- Why should we offer financing?
- Why should we offer “your” financing?
- How can financing help me close more deals?
- What will it cost us to offer “your” financing?
- What types of financing products are available?
- How do we work with your program? (keep it simple)

Attract Contractors to Offer EE Financing at the Point of Sale

- How do we sign up with a lender and get started?
- How do we work with “your” lenders?
- How long does it take to get an approval and close a loan?
- How do consumers, the lender and my company work together?
- How can we offer financing along with utility and manufacture rebates and other subsidy and make it easy for the customer?
- How is “your” financing different or better then what we have?

The Opportunity – Embrace Change!

- Attract more contractors
- Become and award winning program through innovation
- Grow your contractor base – find the right contractors
- Increase conversion rates and complete more projects
- Generate greater energy savings
- Leverage your funding
- Increase energy efficiency and overall program metrics
- Partner with utility rebate programs to all succeed together

Summary and Next Steps

If you are getting started

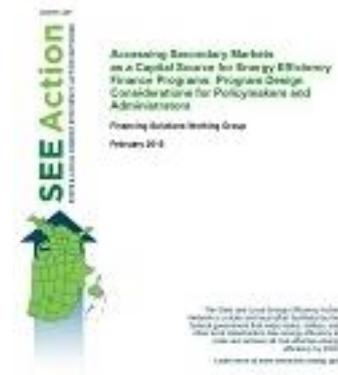
- Utilize DOE support resources (Solution Center), engage and learn from your peers
- Develop a compelling value proposition: low monthly payments, affordability, comfort and energy savings
- Engage lending partners early, and fully integrate the loan product offering into the home upgrade program, including utility incentives
- Consider a soft launch or pilot to test systems, workflows and processes

For programs that already have financing

- Review and streamline the process if needed – make it easy for contractors and homeowners
- Work with your contractors to integrate financing with the sales process
- Ensure sustainability: leverage private capital and/or develop strategies to recapitalize loan pools
- Include financing in data collection and program evaluation; track loan and energy performance of portfolio

Financing Support Resources

- Better Buildings Residential Program Solution Center
 - www.energy.gov/rpsc
 - Financing program design guidance, case studies, tips for success, resources
 - Updated regularly
- State and Local Energy Efficiency Action Network (SEE Action) Reports and Webinars:
 - <https://www4.eere.energy.gov/seeaction/>
 - *Accessing Secondary Markets as a Capital Source*
 - *EE Financing Program Implementation Primer*
 - *On-Bill Financing*



Contacts

- HPwES Staff
 - Jason Bogovich
 - Andrew Isaacs (Andrew.Isaacs@sra.com)
- DOE Staff
 - Steve Dunn (Steve.Dunn@ee.doe.gov)
- HUD Staff
 - Michael Freedberg (Michael.Freedberg@hud.gov)
- Harcourt Brown & Carey
 - Matthew Brown (Matthew.Brown@harcourtbrown.com)