



# Deep Impact: Non-traditional Approaches to Financing Efficiency

Wednesday, May 17

3:45 – 5 PM

# Panelists

- Ravi Malhotra, TBL Foundation
- Travis Yelverton, Southeast Energy Efficiency Alliance
- Joe Indvik, JDM Associates

**Travis Yelverton**

**Southeast Energy Efficiency Alliance**



**SEE EA**

SOUTHEAST ENERGY EFFICIENCY ALLIANCE

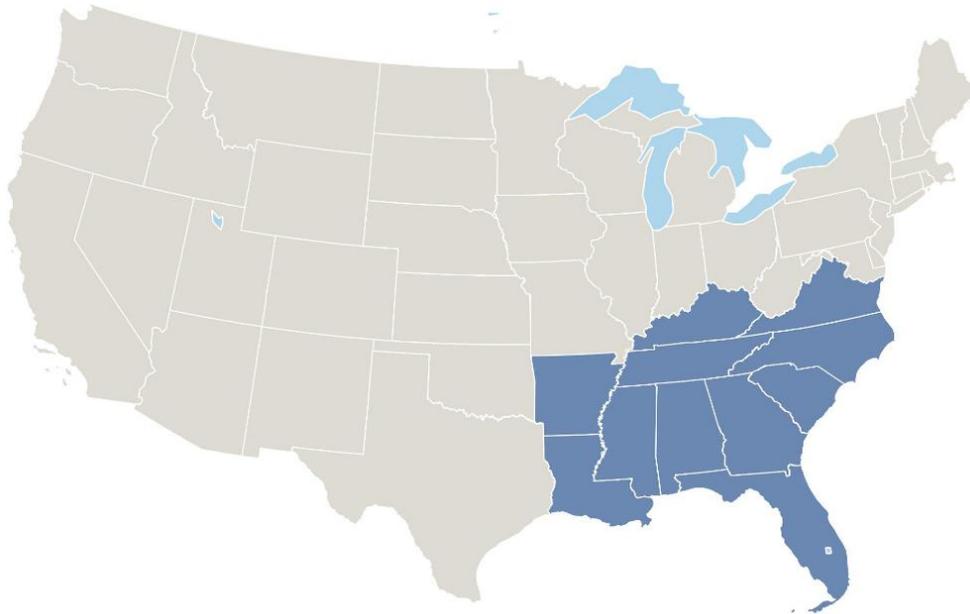
**WEBINAR SERIES**

**Energy Efficiency Programs  
and Community Reinvestment Act:  
Deep Dive Blending**  
May 17, 2017

**BETTER BUILDINGS SUMMIT**

# SEEA SERVES THE SOUTHEAST

The Southeast Energy Efficiency Alliance (SEEA) promotes energy efficiency as a catalyst for economic growth, workforce development and energy security. We do this through collaborative public policy, thought leadership, outreach programs, and technical advisory activities.



**Regional Energy  
Efficiency Organization**

**Eleven-state  
footprint**

**Non-profit,  
non-partisan**

# EE CRA OVERVIEW

## COMMUNITY REINVESTMENT ACT

- The Community Reinvestment Act (CRA), enacted by Congress in 1977
- Encourage commercial banks and savings associations to help meet the needs of borrowers in all segments of their communities LMI neighborhoods
- Institutions that receive FDIC insurance are evaluated to determine if the bank offers credit in all communities in which they are chartered to do business
- An institution's CRA compliance record is taken into account by the banking regulatory agencies when the institution seeks to expand through merger, acquisition or branching
- The law does not mandate any other penalties for non-compliance with the CRA



# EE CRA OVERVIEW

## STAKEHOLDERS AND PARTNER TARGETS

- Federal Deposit Insurance Corporation (FDIC)
- Office of the Comptroller of the Currency (OCC)
- Regulated Banks – Pre and Post CRA Examination
- Community Redevelopment Agencies
- City and County Board of Commissioners
- Local and Regional NGOs also working in EE or LMI Activities
- Local Utilities & Local Governments
- Area Licensed Contractors, Auditors
- State NGOs (e.g. Florida Redevelopment Association)



# EE CRA OVERVIEW

## PROGRAM DESIGN OVERVIEW

- Minimum and Maximum loan amounts
  - \$2000-2500 minimum recommended
  - \$10,000 - \$15,000 maximum
- Eligible activities
  - Energy Efficient and Weatherization upgrades
  - Equipment replacement allowed if choosing an Energy Star appliance
  - Audits may or may not be required, but also can be used in underwriting criteria
- Lending Terms
  - 12-84 months, likely unable to match up with useful life of larger equipment
  - Project still provides monthly energy savings for relief from new loan payments
  - Modest administrative fee at closing (<\$100)
  - Interest rates from 6% - 10%



# EE CRA OVERVIEW

## CHALLENGES TO PROGRAM DESIGN

- Crafting acceptable underwriting guidelines
  - Customer matrix which does not uncomfortably raise the program's risk profile, while also providing inclusion of LMI households eligible for CRA credits
- Forming beneficial alliances in each service area
  - Compliance with CRA is measured across all service areas where the bank has physical operations
  - Full compliance is not required in each individual service area, but as an aggregate of performance according to the bank's size and footprint
  - Alliances with local willing partners is necessary in each market, to include utilities, contractors, auditors for marketing and project quality



# EE CRA OVERVIEW

## BEST PRACTICES IN PROGRAM DESIGN

- Set underwriting guidelines which have sets of criteria for higher and lower dollar amounts
  - Ex \$2000 - \$5999 and \$6000 - \$15,000
- Set underwriting guidelines which are more favorable for projects which have been audited and expected to provide positive cash flow
- Initiate the program in a service area where bank officers have established community development contacts
  - Allows for incremental rollout as a pilot program
  - Local utilities and municipal contacts can be leveraged for outreach and for forming relationships with quality contractors in area
  - Contractors are likely to become the best pipeline for customers into the new program



# EE CRA OVERVIEW

## BEST PRACTICES IN PROGRAM DESIGN

- Marketing campaign for programs should be a combination of internal and external marketing
- Program participation can provide a beneficial mix of new and existing customers
- Previous EE programs have used a combo of various methods to reach these participants
  - Envelope stuffers in monthly statements
  - Billboards
  - Radio advertising
  - Postcard mailers
  - Workshops (education for customers and contractors)
  - Website integration and specialty websites
  - Local energy conscious and sustainability groups



# EE CRA OVERVIEW

## PROGRAM SUPPORT FROM SEEA

- Technical Support on program design
  - Best practices from similar established programs
  - Effective partnerships for marketing and consumer engagement
  - Underwriting criteria
  - Peer to peer learning opportunities from lenders experienced in this market
- Risk Mitigation and Credit Enhancement Opportunities
  - Loan Loss Reserves (LLR) [Preferred]
  - Interest Rate Buydowns (IRB)
    - \*\*Subject to required capital commitment leverage ratios*
    - \*\*Negotiable for specific engagement agreements*
    - \*\*Subject to funding availability*



# EE CRA OVERVIEW

## EE CRA OUTSIDE INVESTMENT OPTIONS

- Third Party Program Funding
  - Established CDFI entities already working in this space, multifamily and commercial properties
  - Qualified investments get immediate CRA credit
  - Up to Banks to determine best underwriting method(s) for selecting TPA for CRA investment
  - Market momentum could create new single purpose JVs or TPA entities to originate, underwrite, fund and service CRA investments



# EE CRA OVERVIEW

## NEXT STEPS TO EXPLORE

- Internal Capacity Assessment
  - Experience and staffing capacity for energy efficiency and program management
- Service Area Community Review
  - Institution footprint and most viable communities for pilot implementation
- Program Partner Assessment
  - Local Utilities
  - Local Government Councils
  - Area Contractors
  - Community Action and Redevelopment Agencies



# EE CRA OVERVIEW

## RECAP OF THE TAKEAWAYS

- Blending of EE and CRA an ideal multi win for Banks and LMI connected buildings (incl. related Stakeholders)
- Local Partnerships are key among City, County, Utilities, Contractors and Banks
- Increase CRA performance by creating internal or funding external EE programs with LMI goals
- Vertical connections with housing rehabilitation and community redevelopment entities can revitalize this aging housing stock





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**THANK YOU  
FOR JOINING US TODAY!**



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**Ravi Malhotra**

**TBL Foundation**



# Deep Impact: Non-traditional Approaches to Financing Efficiency

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# Introduction



Community Development Financial Institution (CDFI)



Financial Ally to Better Building Challenge



Property Assessed Clean Energy Lender in Texas

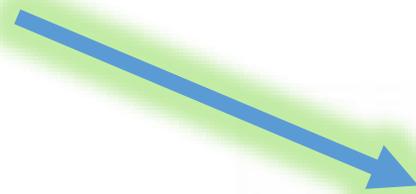


# Sources and Uses

## Sources

1. CRA:
  - ✓ Banks and Credit Unions
2. PRI/MRI:
  - ✓ Foundations
3. Crowd Funding:
  - ✓ FFF
  - ✓ Accredited/Institutional Investors
4. Government:
  - ✓ Grants
  - ✓ Loans

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## Uses

1. Financing of green retrofits:
  - ✓ Energy efficiency
  - ✓ Renewable energy
  - ✓ Water conservation
  - ✓ Health and safety upgrades



# PRI/MRI

## Program Related Investments

### 1. Substitute to Grants:

- ✓ Counts towards 5%

### 2. Return is not important:

- ✓ Competes against Grants

### 3. Longer Term:

- ✓ Up to 10 years

### 4. Credit Enhancement:

- ✓ Last money out / LLR
- ✓ LOC



## Mission Related Investments

### 1. From Endowment Fund:

- ✓ Competes with other investments
- ✓ Requires ~ Market returns
- ✓ Larger amounts possible



# Services

## 1. Financing of green rehabilitation of existing multifamily affordable housing

- ✓ Energy efficiency
- ✓ Renewable energy
- ✓ Water conservation
- ✓ Health and safety upgrades

## 2. Target Client:

- ✓ Small Urban MF Properties
- ✓ Rural MF Properties

## 3. Geographic Focus:

- ✓ Current - CO, NM and TX
- ✓ 3-Yr Plan – Serve Nationally



### **Green Investments in:**

1. Affordable Housing,
2. Climate Change, and
3. Economic Development



# Products

## 1. Off-Balance Sheet Financing

- ✓ Energy Performance Contract (EPC)
- ✓ PACE (Debt)
- ✓ PACE

## 2. Debt Financing

- ✓ Fixed rate, up to 10 years
- ✓ Variable rate, up to 25 years

## 3. Renewables

- ✓ Debt financing for PACE/PPA/Lease

## 4. Project Financing

- ✓ Access to multiple Financing Partners





# Why EE Financing Works

Current annual utility cost	\$100,000
25% utility savings due to Efficiency Upgrades	\$25,000
Reductions in O&M costs from EE retrofit	\$9,000
Increase in profits due to higher occupancy & lower turnover due to better comfort & safety	\$6,000
<b>Total Savings/Year</b>	<b>\$40,000</b>
Cost of capital	5%
<b>Increase in value of property</b>	<b>\$800,000</b>
Lifetime of retrofit measures (in years)	15
<b>Total Savings from EE retrofit</b>	<b>\$600,000</b>



# Case Study - Debt

## Financial Details

- Total Project Cost: \$316,000
- Loan: \$250,000 for 5 years at 4.5%
- Annual Savings: \$30,000
- Simple Payback on Loan = 8.33 Yrs

## Scope of Work

- Replace old boilers with 96% efficient boilers
- Add boiler pipe insulation
- Add attic & crawlspace insulation
- LED lighting upgrades



104 Units MFAH, 27 x 4-plexes, Senior Housing

# Case Study - EPC

## Financial Details

- Total Project Cost: \$287,000
- EPC financial at 10% for 15 years

## Scope of Work

- Low Flow Devices
- Windows and Doors
- Lighting
- Insulation



**100 Units PHA, Senior Housing**

# Case Study - PPA

## Scope of Work

- 250 kW of solar PV
- Car Port

## Financial Details

- Total Project Cost: \$665,000
- 20% prepay
- PPA at 8.8 cents/kWh for 15 years
- Debt at 6% for 15 years



**Public Housing, Solar Canopy**

# Case Study - PACE

## Scope of Work

- Heating and Cooling
- Lighting
- Windows
- 100kW Solar PV
- Low Flow devices

## Financial Details

Total Project Cost: \$955,000

- Solar PV Costs \$225,000 on PPA

PACE at 6% for 20 years



124 Units LIHTC, High Rise, Senior Housing

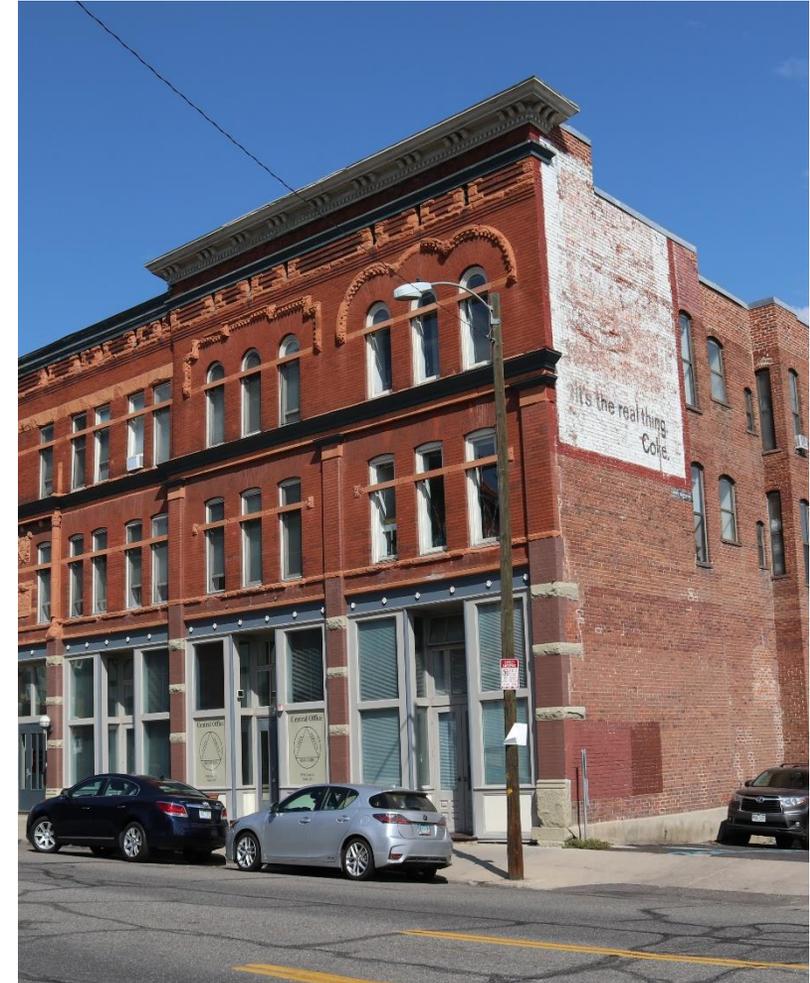
# Summary

- 100% of investments are CRA eligible
- Simultaneously impacts : affordable housing, climate change & community development
- ICAST and TBL Fund have a 15 year history of managing Green Retrofit projects
- Future opportunities lie with off-balance sheet financing including PACE, EPC, PFS and PPAs
- Innovation is using a CDFI and mission-based service providers to maximize impact



Thank you!

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Questions?

# Thank You

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