Energy Efficiency Programs and Community Reinvestment Act: Blending the Outcomes
April 27, 2017
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.
WELCOME TODAY’S GUESTS

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SEEA Consultant – EE CRA Engagement

Sheree Eddie
CEO, Jax Metro Credit Union

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CRA Specialist, BancorpSouth
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, including 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 (*Community Development Test*)
- 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
COMMUNITY REINVESTMENT ACT

• July 2016 Q&A posted by US Treasury Department to the Federal Register (Vol. 81, No. 142)

• Contains examples and clarifications related to the definition of Community Development loans
  • Loans for EE and water conservation for affordable housing and community facilities serving LMI residences were among examples given

• Qualified Investments for Community Development also discussed and clarified
  • Supports an organization or activity that covers an area that is larger than, but includes, the institution’s investment area

• SEEA and US DOE partner for outreach and education to promote EE loan programs as an additional tool for CRA compliance
CHALLENGES TO PROGRAM DESIGN

- 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

- 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
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%
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 DESIGN & IMPLEMENTATION

Sheree Eddie, CEO
Jax Metro CU
Home Performance Loans
Jacksonville, FL
Florida Chartered Credit Union
Organized 1935 by Jacksonville Utility Workers
Better Buildings Partnership formed 2011
Over 1.4 Million loaned for Home Performance
170 New Members
Average loan $8,510
1st Phase Loan Program

- 0% Interest Rate
- Zero Net Payment
- Zero Equity Required
- Unsecured
- Up to 10 yr. terms
- Amounts to $20,000

- $1.1 Million Loaned
- 116 home upgrades
- Average loan $9,583
- Average term 70 mos
- Average Payment $132
1st Phase – Lessons Learned

- Developing Partners
- Employee Training
- Proactive Green Lending
- Rapid Turn Around
- Home Owner Education
Industry Research

- Good Market Niche - little competition
- Promotes Membership Growth
- Opens opportunities for Cross Selling other Services
- Loans – Low to No Delinquency
- Partnership Opportunities
- Grants, Marketing & Technical assistance
- Energy Saving Community generates leads
Phase 2 Loan Program

Individual Measures - 15% savings individually
- Heat Pump Replacement
- Solar Water Heater
- Window Replacement
- Sealed Attic System

Package Measures – 15% collectively
- Heat Pump Water Heater
- Attic Air Sealing & Insulation
- Duct Repair or Replacement
- Off Grade Floor Insulation
- Tankless Water Heater
- Radiant Barrier or Reflective Roofing
- Window Film & Solar Screens
- Energy Star Appliances
## Phase 2 Home Performance LOC

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<thead>
<tr>
<th>Credit Grade</th>
<th>Margin + Prime</th>
<th>Final Rate</th>
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<tbody>
<tr>
<td>A+</td>
<td>2.75%</td>
<td>6%</td>
</tr>
<tr>
<td>A</td>
<td>3.75%</td>
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</tr>
<tr>
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<td>8%</td>
</tr>
<tr>
<td>C</td>
<td>5.75%</td>
<td>9%</td>
</tr>
<tr>
<td>D</td>
<td>6.75%</td>
<td>10%</td>
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<tr>
<td>E</td>
<td>7.75%</td>
<td>11%</td>
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<table>
<thead>
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<th>Amount Range</th>
<th>Payment % Balance</th>
<th>Payment Range</th>
<th>Term Range (Months)</th>
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<tbody>
<tr>
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<td>2.0%</td>
<td>$20 - $100</td>
<td>57-68</td>
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<td>$5,000 - $14,999</td>
<td>1.7%</td>
<td>$85 - $255</td>
<td>70-85</td>
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<tr>
<td>$15,000 - $20,000</td>
<td>1.6%</td>
<td>$250 - $320</td>
<td>72-93</td>
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</tbody>
</table>

- Add 1% WITHOUT Audit performed in recent 12 months
- Rate Adjusted QTR end based on Prime
- Payment fixed, terms change

Unsecured – No Equity Required
Line of Credit – 1 year draw
Payment established at advance
Challenges

Regulatory Barriers

- Lack of Reporting Models
- Limited Historical Track Record
- Negative Peer Modeling
- Challenges to Underwriting

Operating Barriers

- Meeting Quality Standards
- Sales vs. Actual Savings
- Educating Homeowners
- Quality Scope of Work well defined
EE CRA OVERVIEW

PROGRAM DESIGN & IMPLEMENTATION

Tracey Graham
BancorpSouth
Formerly with SEED
(Shreveport Energy Efficiency Division)
City of Shreveport, LA

• Partnerships & Process
• Marketing and Outreach
• Loan Portfolio Performance
EE CRA OVERVIEW

PROGRAM SUPPORT FROM SEEA

• Technical Assistance on program design
  • Best practices from similar established programs
  • Effective partnerships for marketing and consumer engagement
  • Underwriting criteria
  • Local Partners

• Network Connections to CRA Stakeholders
  • Peer to peer learning opportunities from lenders experienced in this market
  • Network opportunities with local agencies working in affordable housing support programs
  • Overviews of CDFI activity in the CRA space
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 can be eligible for 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 inclusion

• Vertical connections with housing rehabilitation and community redevelopment entities can revitalize an aging housing stock
THANK YOU

For more information please contact:

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Or

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