To: State Energy Offices and other Interested Parties

From: Elizabeth Bellis, Susan Rosenthal & Mark Wolfe

Re: Multifamily Energy Finance Feasibility Study Project Description/Findings from January 21, 2015 Meeting at the Surdna Foundation

Date: January 29, 2015

The following provides a summary and status report of the EPC’s study regarding the need for and feasibility of a new national finance program for energy efficiency and related improvements in multifamily buildings. This effort builds off EPC’s success in launching the Warehouse for Energy Efficiency Loans (WHEEL) in the single-family sector in 2014. It also includes a summary of key issues raised during the January 21 meeting held at the Surdna Foundation and next steps.

INTRODUCTION

How is WHEEL Different than Other State-Sponsored Single Family Energy Finance Programs?
Unlike many state-sponsored energy finance programs, any state, city or utility that wishes to participate in WHEEL and has funds to provide credit enhancement for unsecured loans originated in their jurisdiction or service area may join that program to facilitate the shared of goal of securitization-market scale (which requires millions in loan volume on a regular basis). In addition, WHEEL does not require homeowners to conduct comprehensive whole-house retrofits in order to participate in the program, but instead meets homeowners where they are (often simply a single-measure replacement of an item that has broken or energy work combined with some non-energy work) and encourages them to make more efficient and comprehensive decisions to obtain the subsidized loan pricing.

Can Multifamily Buildings be Included in WHEEL? During development of single-family WHEEL, EPC was frequently asked whether multifamily buildings could be included in the program. Although it was not possible to integrate multifamily buildings into the original single-family WHEEL program, now that that program has launched and is purchasing and aggregating loans for securitization from multiple states (with capital provided by Citi and PA Treasury and in partnership with Master Servicer Renewable Funding), EPC is able to circle back to the question of whether the WHEEL model could inform a new publicly-supported finance program for multifamily programs.

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1 Related improvements may include renewable installations, water-saving measures, resilience measures and/or health-related measures, as well as (to a limited extent) certain ancillary improvements to be completed in concert with the core project.
2 As a starting point, we will define “multifamily” properties as those that contain five or more residential dwelling units or those that contain two or more residential dwelling units and are not owner-occupied. We expect that our program may need to focus (at least initially) on a subset of this category, however, such as market-rate properties (including affordable market-rate properties) and LIHTC-financed properties.
3 1-4 unit, owner occupied, residential dwellings.
Is There a Need for a Multifamily WHEEL Project? To explore this question, we spoke with numerous multifamily advocates, state energy and housing officials, and private financial institutions to ask: Is there an unmet need that, if filled, would allow multifamily building owners to undertake more energy improvements? Is there an unmet need that, if filled (by state or local government or charitable or foundation support), would allow private financial institutions to participate in such a new financing program? At meetings such as the Network for Energy, Water and Health in Affordable Buildings (NEWHAB) meeting last October in Chicago, the answer from the multifamily community was a resounding yes. We need energy financing that understands our unique and challenging structural constraints, and existing programs are limited or difficult to work with in various ways that often kill deals.

State energy officials and utilities have been increasingly interested in the role of multifamily buildings in achieving energy efficiency and renewable goals, and in the importance of public sector involvement due to the often-challenging nature of the financial structure of these buildings. Yet state-supported efforts to date often have often been poorly subscribed. For example, as of January 2, 2015, the New York State Energy Research and Development Authority (NYSERDA) announced that it had discontinued its Green Jobs Green New York multifamily offerings due to lack of utilization.

There seems to be a disconnect between what is needed by multifamily building owners and managers and what has been provided to date by the marketplace and by state and local governments and utilities, but we were surprised to find that it was difficult even to find a comprehensive description of what is currently available to multifamily building owners, which might facilitate a concrete analysis of what program practices and terms have worked (and what has not worked) and why.

What Multifamily Energy Finance Programs Exist Currently? To fill the gap described above, Energy Programs Consortium is currently surveying existing multifamily energy finance programs and compiling the information into an extensive table (see Appendix A). Although the goal is for this survey to be comprehensive, the task is truly enormous and so our table is still very much incomplete. Few nationally available programs are listed, and few that do not require attaching the property as security, for example. Few (if any) state-supported (or other) multifamily finance programs publicly disclose loan volumes on their websites or other readily-accessible locations.

We hope that you will take a look at Appendix A and let us know if there is a program you are aware of that we have not included or if you have information about a program that is not included in the chart. We would like to update this table periodically and recirculate it, as we do with our table of known Qualified Energy Conservation Bonds (QECBs) in the regularly-updated EPC QECB Paper.

Is a Multifamily WHEEL Project Feasible? If indeed there is an unmet need for energy financing for multifamily buildings, the next question is whether the financing program(s) needed within the sector are in fact feasible. To explore this question, we met with representatives from 26 organizations on January 21, 2015 at the Surdna Foundation. See Appendix B: List of Participating Organizations & Appendix C: Agenda.

NEXT STEPS

The discussions demonstrated that there is significant opportunity for successful multifamily energy efficiency finance if the right partners are in place and the right financing levers are used. During the next 12 to 18 months, EPC will work with lenders, housing agencies, energy agencies and other organizations to develop a model for a sustainable multifamily retrofit loan product that will meet the financing

4 See http://www.energyprograms.org/2014/12/qecb-papers/.
requirements of the housing sector as well as the leveraging and energy savings metrics required by the state energy sector.

Specific tasks will include:

1. Conducting additional research to address specific questions raised during the January 21 meeting, specifically:
   
   - Lender constraints and requirements re secured and unsecured financing.
   
   - Lessons learned from existing finance programs including types of improvements they cover (energy efficiency, water, renewables, resilience, health, etc.), target market, uptake and best practices.
   
   - Barriers to successful provision and adoption of energy improvement financing in the multifamily market and various subsectors and how to overcome those barriers, including: lender consent, subsidy requirements, lack of performance data and lack of standardized contracts.
   
   - Identifying specific finance models that address the multifamily market (or specific subsectors thereof), and what might the specific terms of such programs need to be to see uptake while attracting public support and private capital including term of loan, rate to get uptake, minimum loan size, underwriting/determining creditworthiness without security, credible savings guarantee/M&V, resilience issues, ability to cover water/health measures as well as energy and origination and servicing limitations.

2. Organize an advisory group of key stakeholders representing state energy and housing agencies, lenders, and housing housing groups to help guide the development of the project. The advisory group will meet quarterly. Many of the groups that attended the January 21 meeting have expressed an interested in participating in this process.

3. Organizing additional meeting with key stakeholders throughout the course of the project period to determine the scope of the proposed loan product. We expect the stakeholder meetings to evolve into a project advisory group. In other words, in addition to energy measures, what types of water and other sustainability measures should be included and how to estimate the costs associated with installing those measures.

4. Working with no more than five states to pilot test the resulting product.

KEY ISSUES IDENTIFIED DURING THE JANUARY 21 MEETING

The discussion resulted in a wide range of opportunities for and barriers to the development of multifamily energy efficiency financing programs. While these key findings should not be considered non-negotiable factors in the multifamily market, they do provide potential paths forward for states, lenders, and other organizations interested in this area.

- Many existing state-sponsored programs have experienced disappointing uptake, in part because the program requirements are not compatible with multifamily building owner and manager needs and financing structures/timelines. Therefore, supporting an unsecured financing option even at a very competitive rate will not in and of itself guarantee sufficient uptake to obtain scale.
• Emergency replacements are usually funded out of building reserves, and if a building cannot do so it is probably not creditworthy for receiving a loan, so the single family WHEEL emergency replacement approach may not apply in the multifamily space.

• Unsecured financing is possible in the multifamily sector, even with certain large private bank partners, provided that sufficient and appropriate credit enhancement is available. In fact, unsecured financing is often preferable because it will facilitate ability to secure consent from senior lenders, but will likely be more expensive due to Basel III capital rules.

• Multifamily buildings are most ripe for energy and related improvements, and financing such work is most feasible, in connection with large capital events such as acquisition or refinancing. This is because the work can then be built into the mortgage or planned financing of the building.

• A broader “sustainability loan” that could encompass not only energy measures but also water, health/safety, and similar ancillary improvements, would be much more useful and appealing to the multifamily building owners. Such a loan also could cover more improvements and thus help programs achieve market-level scale more quickly.

• The ability to lend at terms up to 15 years could be important for LIHTC-financed buildings, and may be more expensive but doable (even working with large banks) provided sufficient credit enhancement is available.

• Rebate programs or energy programs that reimburse after the fact (particularly utility ones) will work for housing agencies because they can get bridge financing if it is financeable.

• Lenders regularly participate in deals that have some soft public subordinate debt so they can work with energy funds in the capital stack but it will require some revision to the Intercreditor Agreement and may require a Standstill Agreement.

• Building owners prefer a one-stop-shop to shepherd them from audit through operations and maintenance. Nonprofits represent the best opportunity to provide these services since the profit margins are not large enough to support ESCOs. There is a startup cost to creating these resources but they are cost effective once brought to scale if done well.

• The development of non-individualized programs for low-hanging fruit such as boiler replacement, retrocommissioning, and lighting, could increase the chances of programs getting scale. Custom-designed retrofits allow for more comprehensive upgrades but are more difficult to negotiate.
APPENDIX A: Multifamily Loan Programs Identified as of January 2015 (attached separately)

APPENDIX B: List of Participating Organizations

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<thead>
<tr>
<th>Organization</th>
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<tr>
<td>Applied Energy Group</td>
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<td>American Council for an Energy-Efficient Economy (ACEEE)</td>
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<td>Bank of America (BoA)</td>
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<td>Bostonia Group</td>
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<td>Citi Foundation</td>
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<td>Citigroup</td>
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<td>CT Green Bank</td>
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<td>Deutsche Bank</td>
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<td>Elevate Energy</td>
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<td>Energy Programs Consortium (EPC)</td>
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<td>Enterprise Community Partners</td>
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<td>Institute for Market Transformation (IMT)</td>
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<td>Kentucky Housing Corporation</td>
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<td>Living Cities</td>
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<tr>
<td>Local Initiatives Support Corporation (LISC)</td>
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<td>National Association of State Energy Officials (NASEO)</td>
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<td>National Cooperative Bank</td>
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<td>National Housing Trust (NHT)</td>
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<td>National Resources Defense Council (NRDC)</td>
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<td>New Ecology</td>
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<td>New York State Energy Research &amp; Development Authority (NYSERDA)</td>
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<td>NY Green Bank</td>
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<td>Rocky Mountain Institute (RMI)</td>
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<td>Southeast Energy Efficiency Alliance (SEEA)</td>
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<td>Stewards for Affordable Housing for the Future (SAHF)</td>
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<td>Surdna Foundation</td>
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<td>Washington State Housing Finance Authority</td>
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APPENDIX C: Agenda

Location: Surdna Foundation, 330 Madison Ave., New York, NY 10017
Date: Wednesday, January 21, 2015
Time: 10:00 am to 3:00 pm
Contact: Cassandra Lovejoy – 732-616-8761, clovejoy@energyprograms.org

Purpose: Develop the Framework for a State/Utility Sponsored Multi-State Unsecured Financing for Energy Improvements to Low-Income Multifamily Buildings (Multifamily WHEEL)

AGENDA

Greeting/Welcome
Mark Wolfe/Elizabeth Bellis, EPC
Allison Corwin, Surdna Foundation/David Terry, NASEO

Introductions
Each participant will have a few minutes to introduce themselves, their organization and their interest in multifamily WHEEL.

10:30 a.m. – Roundtable 1: What Can Banks Do?
• What institutional constraints do banks have?
• What requirements do programs have to meet?
• What do state energy and housing officials need to know when approaching a potential bank partner?

11:15 a.m. – Roundtable 2: What is Available Now?
• What finance programs are available for multifamily currently?
• What types of improvements do they cover (EE, water, renewables, resilience, health, etc.)?
• What sector(s) of the multifamily market do these programs target or address?
• How long have these programs been offered?
• What kind of uptake have they seen?
• Are there any best practices that may be identified to increase success?

12:15 p.m. – Roundtable 3: Discussion of Specific Barriers & Feasibility (Working Lunch)
Existing programs have identified numerous barriers to successful provision and adoption of energy improvement financing in the multifamily market and various subsectors, including:
• Lender Consent
• Need for Subsidy/PRI to Bridge Gap between What works for Property Owners and What Banks can Finance
• Finding Originators/Servicers & making it worth their while
• Lack of Performance Data/History to assist lenders in assessing risk
• Ability to standardize contracts/loans
Are there other barriers we can identify and attempt to address in any new finance program to be developed?
1:30 p.m. – Roundtable 4: What is Needed?
What finance programs are needed for the multifamily market (or specific sub-sectors thereof), and what might the specific terms of such programs need to be to see uptake while attracting public support and private capital?

- Term: 3, 5, 7 & 10 years?
- Rate to get uptake: 2% - 8%?
- Minimum loan size?
- Security (if any)/Recourse
- Underwriting/determining creditworthiness without security
- Credible savings guarantee/M&V
- Ability to cover water/health measures as well as energy
- Resilience?
- Origination and servicing

2:45 p.m. – Closing Remarks
Mark Wolfe/Elizabeth Bellis, EPC
Allison Corwin, Surdna Foundation