CLEAN ENERGY FINANCE GUIDE, THIRD EDITION

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Chapter 6.

Partners & Stakeholders: Roles and Potential Impact

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Moving a clean energy loan program successfully from concept to design to implementation involves grantees working with and understanding the perspectives of a wide variety of organizations. Some of those groups will play essential implementation roles, while others may simply have valuable information, interest, or contacts that help grantees come up with an appropriate design likely to succeed given local conditions. Knowing how to work with different partners and stakeholders requires an understanding of what motivates their actions. In other words, "What's in it for them?"

Chapters 5–11 of this Finance Guide focus on unsecured residential loan programs supported by funding from the American Recovery and Reinvestment Act of 2009 (ARRA), the State Energy Program (SEP), and the Energy Efficiency and Conservation Block Grant (EECBG) Program, which can be used to create loan loss reserve funds (LRFs), program rebates, and/or interest rate buydown pools. Concentrating on the single-family residential sector, this chapter looks at the organizations and groups that influence financing programs in that sector. They typically fall into three general categories:

- **Financing Partners/Agents:** Organizations with direct involvement in the lending and financing process. Those are the people who touch the money as it flows through the process.
- **Advisors and Enablers:** Organizations that provide direct technical assistance, financial planning, and management assistance services to grantees. They may help design and support the process, but do not directly handle the money. (Chapter 10 also has information on advisors and the roles they may play.)
- **Other Interested Parties:** Organizations that have an interest in or are affected by the loan programs, but are not necessarily directly involved in implementation. They may be people who are not paid for their opinions/advice and do not touch the money; nevertheless, they can have a major impact on how the money flows.

A. Financing Partners – Following the Money

The number and diversity of financing partners varies across residential loan programs. At one end of the spectrum, a local or regional financial institution may provide direct loans to existing customers with few if any other financial intermediaries. On the other end of the spectrum, a program such as Pennsylvania's Keystone Home Energy Loan Program (HELP)—which is designed to access the secondary market, leverage public funds, and provide a highly marketed "point of sale" loan product—depends on multiple organizations with direct financing and financial oversight roles. One way to illustrate the different financing actors involved in a program such as Keystone HELP is to "follow the money" and examine all of the different roles involved in moving money from the public sector and the capital markets to the residential consumers taking on clean energy retrofit projects.

Property-Owner/Borrower/Customer – Typically, the direct recipient of a loan. In some cases, however, the loan may be made directly to the contractor/installer on behalf of the borrower. The borrower is responsible for making the loan payments for the life of the loan (the term) and normally receives the financial benefit (the savings on energy bills) associated with the financed energy improvement.

Contractor/Installer/Vendor – Entity responsible for using loan proceeds to make an energy improvement that reduces energy consumption and provides comfort and financial benefit to the borrower. In many cases, the contractor plays a key role in marketing energy efficiency (EE) and renewable energy (RE) loans on behalf of financial institutions, including helping the borrower with the loan application process.

Loan Originator – Entity that approves loan and issues funds to the borrower. The loan originator role may be played by a variety of financial institutions including banks, community development financial institutions, credit unions, and nonbank financing companies. Some loan originators are investors interested in the investment value of the loans they originate, while many other originators are primarily interested in origination service fee revenues (in the form of a flat fee).

Loan Servicing Agent – Entity that collects recurring loan payments from the borrower. Often the loan originator will service the loan even after it is sold to another party. Loan servicing agents typically rely on servicing fees (either in the form of flat fees or interest surcharges) to cover their costs.

Third-Party Collection Agent – Normally, the loan servicing agent responsible for the administrative system of collecting loan payments. Some loan programs have, however, experimented with delegating certain collection responsibilities to third-party entities that have an existing relationship with the customer. For example, a utility that is currently collecting funds (monthly payments) from the borrower for an existing service, such as water or electricity, may agree to incorporate loan payment billing into its existing service payment infrastructure

Warehouse Facility Agent/Administrator – Entity that purchases loans from loan originators with the intent to resell the loans to the capital market. One of the developing warehousing agents for unsecured residential energy products in the country at this time is the Pennsylvania State Treasurer (PAST).

Investor – Any entity that views the loan payment stream from loans as a desirable medium- or long-term investment for its capital. In some cases, loan originators are the final and only investors; some lenders such as credit unions may originate loans with the intent of keeping them until maturity. In other cases, the loan originators will seek to resell the loans so that they have relatively little of their own funds invested in these EE/RE lending programs. While a warehouse agent such as PAST certainly views these loans as an investment, it typically will have limits on how much of its capital can be committed long term to these loans and will resell aggregated loans to long-term investors.

Fannie Mae, better known for its role in the home mortgage secondary market, currently plays a major financial role in the unsecured residential loan market as well. Over the past 10 years, Fannie Mae has been the largest purchaser of residential unsecured energy loans, thereby serving as one of the largest capital sources for most of the existing unsecured energy loans. The Fannie Mae energy loan program has not, however, been supported by a loan loss reserve fund credit enhancement; and those loans have been priced relatively high on the market (12%–15% charged to the loan originator).

Loan Loss Reserve Program Sponsor – Typically, a public body/entity for new financing programs supported by a loan loss reserve fund (LRF). In some cases, vendors, contractors, or investor-owned utilities also contribute monies to establish loan loss reserve funds. Many EECBG and SEP grantees are considering using a portion of their program funds to seed an LRF. A program sponsor will allocate public funds to loan programs to meet public policy objectives. Sponsors have different public policy priorities that will influence the terms they place on the use of their funds. For example, a public entity primarily interested in local economic development may push a loan program to be designed in a way that maximizes local workforce development (more training, more jobs). When LRF funds originate from an entity interested in the environment, the program may be designed primarily to maximize energy efficiency. If LRF funds come from or are controlled by a community assistance entity, then they may be used to expand loan access to lower income borrowers.

Loan Loss Reserve Fund Escrow Agent – Whoever owns the energy loan at a given moment in time and is assigned access to the LRF fund. Ideally, the majority of these funds should "sit untouched" during the life of the loan and be returned to the program sponsor. Procurement and financial oversight considerations will typically influence the choice of escrow agent, which can be a private bank or any public entity capable of maintaining and distributing funds.

- In the residential sector, the Michigan SAVES LRF product is designed to have a central LRF pool of funds, monies from which are distributed directly to lenders as energy loans are made to homeowners. Under this model, LRF funds not assigned to loans are managed by a central escrow agent, while the funds assigned to individual lenders are managed by the lenders themselves until all of their loans are retired, at which time they are required to return the unused LRF funds. Program officials in Michigan envision that many of the approved lenders will hold their loans to maturity and not necessarily seek to sell them on the secondary market.
- In the case of Keystone HELP, the LRF funds are held in escrow by the Pennsylvania State Treasurer (PAST), based on the idea that PAST will quickly warehouse/purchase loans originated by its approved lender. In most cases, the escrow agent is simply a fund manager who follows the LRF access terms as dictated under the program design and enabling documents (agreements between the lenders and program sponsors).

B. Assessing the Partnership and Stakeholder Landscape

The success of a clean energy loan program depends on many organizations and stakeholders that do not necessarily handle funds directly. Even financial institutions not directly involved in the financing process may have important information that can influence the design of the program. The table below lists some of the different actors, their potential role in or impact on an energy loan program, and, if appropriate, the types of information that grantees can gather from them to help design the program and craft beneficial partnerships.

Organization/Actor	Potential Role (Responsibilities) or Impact	Information from Actors to Inform the Energy Loan Program & Develop Working Partnerships
Financial Institutions, such as national and community banks, credit unions, community development financial institutions	• Program administrator • Loan servicer • Source of capital • Loan underwriter • Warehouser of loans prior to securitizing loans	• Existing energy loan programs • Existing loan programs • Level of interest in providing new loans • Community development goals or objectives
State Legislatures	• Sources of loan capital or credit enhancement capital, through appropriations of funds • Sources of ongoing operational funds • Approval of enabling legislation for public utility commissions (PUCs) to allow funding for financing programs	• Current energy-related legislative initiatives • Identification of energy advocates

Organization/Actor	Potential Role (Responsibilities) or Impact	Information from Actors to Inform the Energy Loan Program & Develop Working Partnerships
	• Approval of legislation to require utilities to develop financing programs • Approval of other policies to encourage development of energy efficiency (EE) or renewable energy (RE) technology (energy efficiency resource standards, public benefit funds, tax incentives, etc.)	
State-Chartered Bonding Authorities	• Program administration in some cases, meaning that bonding authorities may be able to originate loans and service loans • Sources of capital • Program marketing, especially to low-income households	• Existing, experienced bonding authority • Interest in playing expanded role in EE and RE
State Public Utility Commissions (PUCs)	• Authorization or requirements for regulated utilities to develop and run financing programs • Approval of utility EE or RE resource standards • Approval of rate structures that encourage EE or RE • Approval of utility-operated clean energy rebate or grant programs that may reduce loan amounts	• Interest in/support for pushing energy efficiency as part of Renewable Portfolio Standards (RPS)
Sustainable Energy Associations/Coalitions	• Marketing • Political support • Input into program design	• Capacity for and interest in supporting a loan program
Local Government Professional Staff (planners, building inspectors, economic development experts, attorneys)	• Program design • Program administration • Conducting audits before and after upgrades	• Capacity, expertise, and interest of staff
Local Government Elected Officials	• Local funding (capital and administration)	• Support for continued funding after grants are expended
Utilities (water, wastewater, electricity, solid waste)	• Payment collection in cases of on-bill repayment structures • Rebates for energy efficiency retrofits • Conducting audits before and after upgrades	• Interest in collecting loan payments via utility bill • Legal authority to collect energy loan payments and to take action for nonpayment • Existing energy efficiency programs • Willingness to provide usage data

Organization/Actor	Potential Role (Responsibilities) or Impact	Information from Actors to Inform the Energy Loan Program & Develop Working Partnerships
Other Advocacy Associations and Organizations (environmental organizations, contractor associations, etc.)	• Marketing to constituency • Additional contacts to help develop program (e.g., bank or contractor contacts) • Political support/opposition	• Identification of energy advocates with a vested interest in an energy loan program • Willingness to support program
Existing Weatherization Organizations	• Development of retrofit standards and programs • Support for new retrofit program	• Information on how existing programs complement, integrate with, or compete with new loan programs.
Vendors (Lowes, Home Depot, locally owned retail and wholesale suppliers)	• Marketing and consumer education • Installation support • Possible source of loan loss reserves	• Interest is participating in program
Contractors	• Program marketing • Measure installation • (Auditors/Others) Quality inspection at completion of work and certifying eligibility for payment	• Interest in participating in program • Current financing programs
Nonbank Investors	• Sources of capital • Secondary loan underwriter	• Investment goals and objectives, which may align with new energy loan programs
Technical Colleges	• Workforce development and training	• Existing training programs • Interest in new training programs
Regional Planning Organizations	• Program administrator • Convener of local governments	• Capacity to assist programs
Nonprofit Organizations	• Program administrator • Marketing	• Additional organizations likely to be interested in energy loan programs