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PENNSYLVANIA DEPARTMENT OF ENVIRONMENTAL PROTECTION
PENNSYLVANIA TREASURY DEPARTMENT
PENNSYLVANIA HOUSING FINANCE AGENCY



Pennsylvania's Keystone HELP

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U.S. Department of Energy

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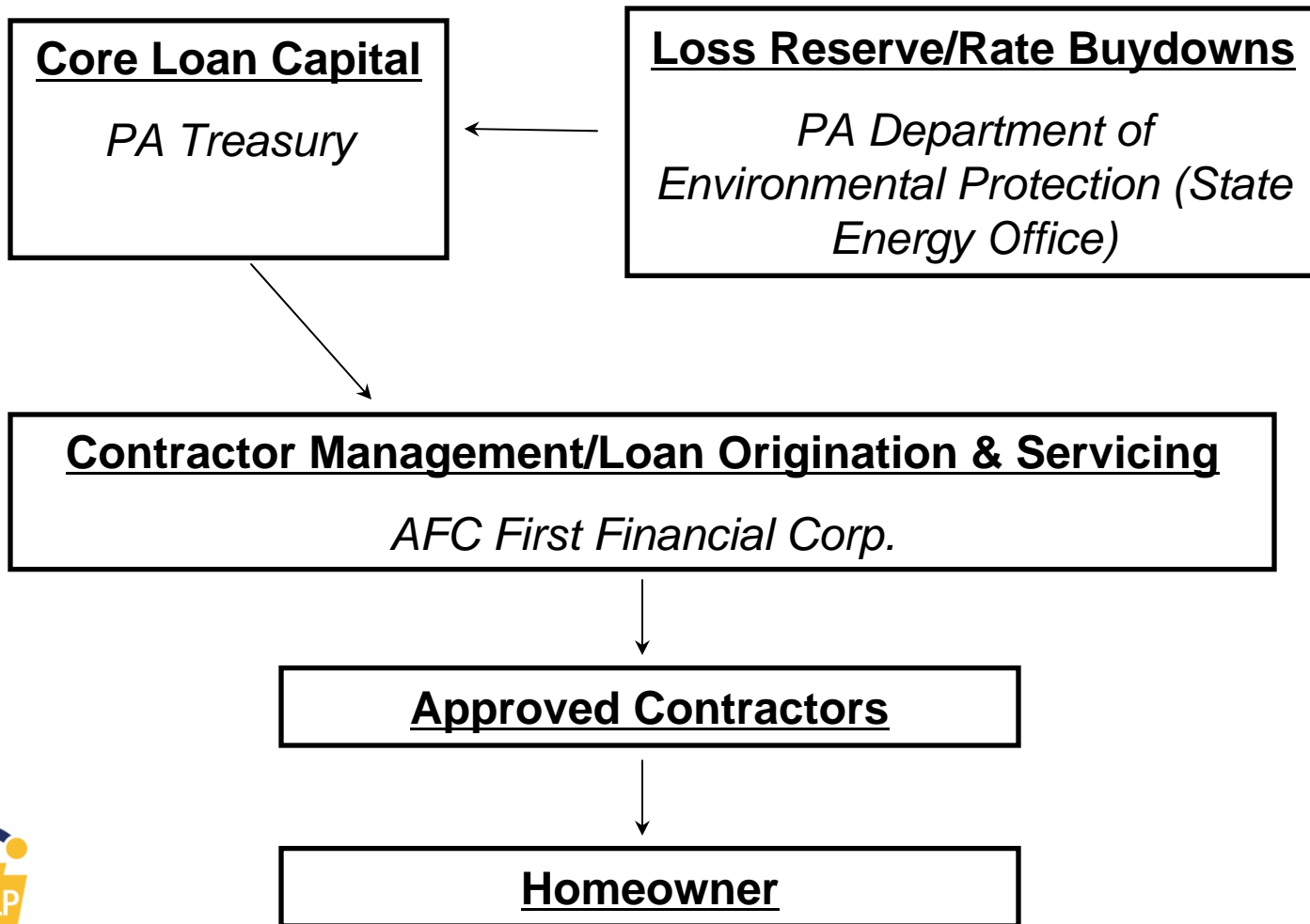
Keystone HELP® – A Unique Public/Private Partnership for Consumer Energy Efficiency Financing

- **Since 2006 Keystone HELP has provide low rate financing for energy efficiency improvements to over 4,600 Pennsylvania homeowners**
- Core investment capital is provided by PA Treasury, which earns an acceptable return on its investment
- Program is managed by specialty energy lender, AFC First, which administers lending process and oversees a network of over 1,500 contractors authorized to perform work under the program
- Total loans made are exceed \$30 million and Treasury is holding remaining balances of nearly \$20 million

Keystone HELP Filled a Financing Need in the Home Energy Efficiency Market

- In 2005 Treasury observed that consumers were unable to obtain easy, lower rate financing for home energy efficiency improvements, and were often paying credit card-level interest rates.
- Treasury believed that it was possible to offer reasonable financing at lower rates to consumers that still allow for security of the loan and reasonable return to investors.
- Working with a private sector partner, AFC First, Treasury focused on the point of sale.
 - Contractors have significant influence over the point of sale, oftentimes guiding consumers' decisions. This is even more likely to be true during **reactive** purchases when the consumer must make an emergency repair or replacement.
 - Keystone HELP is designed to make it as simple as possible for contractors to offer low-interest financing on energy-efficiency improvements.

Built on Public and Private Partners



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Leveraging External Capital

- **Keystone HELP 1 2006-2008**
 - Private Lender AFC First provides interim financing
 - Treasury purchases loans monthly (\$20 million total) (unsecured \$1,000 to \$10,000)
 - Loss Reserve provided by state agencies (\$900K)
 - Housing Finance Agency introduces complementary program for secured loans to \$35,000
- **Keystone HELP 2 2009 to current**
 - Private Lender AFC First provides interim financing
 - Treasury purchases loans monthly (\$10 million to date) (unsecured \$1,000 to \$15,000)
 - Rate enhancement, loss reserve , audit subsidy provided by DEP (state energy office)
 - Housing Finance Agency enhances complementary program for secured loans to \$35,000



Low Interest Loans to Middle Market Homeowners.....

Simply installing an energy efficient Energy Star (or equivalent) appliance offers an attractive rate to the consumer of 6.99%.

...While aggressive whole-house audits and improvements are offered at a rate of 4.99%.

Loan or Rebate for ENERGY STAR	Loan or Rebate for ADVANCED PERFORMANCE ENERGY STAR	Loan Unsecured or Secured WHOLE HOUSE IMPROVEMENT
<p>ENERGY STAR Air Source Heat Pumps</p> <p>ENERGY STAR Central AC Systems</p> <p>ENERGY STAR Boilers (All Fuels)</p> <p>ENERGY STAR Furnaces (All Fuels) <i>Must be ENERGY STAR certified except for indoor solid fuel burning furnaces (wood, coal etc.) which must have a minimum 78% AFUE.</i></p> <p>ENERGY STAR Water Heaters</p> <p>ENERGY STAR Ceiling Fans</p> <p>ENERGY STAR Programmable Thermostats</p> <p>ENERGY STAR Ventilating Fans</p> <p>ENERGY STAR Windows/Doors <i>With NFRC label, U factor .35 or less</i></p> <p>Air Sealing and Insulation (ENERGY STAR certification not required), provided that all of the following must be completed:</p> <ul style="list-style-type: none"> • Air sealing of the home and ducts is performed, and • Ceiling insulation installed achieves R-38 or better*, and • Floor insulation installed achieves R-25 or better* <p>* Unless structural limitations prevent achievement of these insulation levels, in which instances the maximum R-value that can be achieved is required.</p> <p>Work must be performed by an:</p> <ul style="list-style-type: none"> • Approved Contractor or • Trained Contractor or • Certified Contractor 	<p>Air Source Heat Pump SEER ≥ 15.0, EER ≥ 13.0, HSPF ≥ 9.0</p> <p>Central AC System Split Systems SEER ≥ 15.0, EER ≥ 12.5</p> <p>Central AC Package Systems SEER ≥ 14.0, EER ≥ 12.0</p> <p>Boilers (All Fuels) AFUE ≥ 95</p> <p>Furnaces (All Fuels) AFUE ≥ 95</p> <p>Alternative Energy Heating & Cooling Equipment or Systems - Excluding solar technologies</p> <ul style="list-style-type: none"> • Must be professionally installed by a tradesperson experienced with the installation requirements of the system; • Be permanently affixed inside the home; • Meet or exceed ENERGY STAR performance standards for comparable heating or cooling equipment, devices or appliances; • Have appropriate labels and listings (UL for electrical, NFPA for fire protection, ASME for pressure vessels, etc.); • Meet all applicable state and local building codes; • Not use waste products or materials as a fuel source <p>Geothermal Heat Pumps <u>CLOSED LOOP GEO-EXCHANGE SYSTEMS ONLY</u> EER ≥ 14.1, COP ≥ 3.3</p> <p>Air Sealing and Insulation (ENERGY STAR certification not required), provided that all of the following must be completed:</p> <ul style="list-style-type: none"> • Air sealing of the home and ducts is performed, and • Ceiling insulation installed achieves R-38 or better*, and • Floor insulation installed achieves R-25 or better*, and • Wall insulation installed achieves R-15 or better.* <p>* Unless structural limitations prevent achievement of these insulation levels, in which instances the maximum R-value that can be achieved is required.</p> <p><i>Improvements under this category must be both ENERGY STAR qualified (except insulation) and also meet the Advanced Performance standards as outlined above. They may also be eligible for Federal Tax Credits - consult your tax advisor.</i></p> <p>Work must be performed by an:</p> <ul style="list-style-type: none"> • Approved Contractor or • Trained Contractor or • Certified Contractor 	<p>Qualifying improvements consist of the comprehensive "Whole House" energy audit conducted by a Certified Auditor and the recommended energy improvements presented by the Certified Auditor as a result of the audit. Work must be performed by a Certified Contractor, or a Trained Contractor under the on-site oversight of a Certified Auditor.</p> <p>An initial energy audit is conducted, which recommends energy conservation measures and includes an overall home energy rating (HERS) index. Qualifying improvements are those that predict a minimum decrease of 25% from an original HERS index of more than 100 or a minimum decrease of 15% from an original HERS index of less than 100.</p> <p>A post construction audit is also conducted.</p> <p><i>Eligible Applicants will receive \$325 towards the cost of the energy audit from Keystone HELP upon completion of the post-construction audit.</i></p> <p>Work must be performed by a:</p> <ul style="list-style-type: none"> • Certified Contractor or • Trained Contractor under the on-site oversight of a Certified Auditor <p>Audit must be performed by a:</p> <ul style="list-style-type: none"> • Certified Auditor

...And a Viable Investment For Treasury

- Average Consumer Coupon of close to 8%
- Consistent return to Treasury of over 5%
- Original Average term approximately 7 years with actual expected loan life closer to 5 years
- Loan losses to date of less than 1%, exceptionally good for unsecured consumer loans with large independent loss reserve

As Program Has Grown, Treasury is Reaching Limits of Capitalization Ability

- Keystone HELP has financed over \$30 million worth of loans, attracting national attention as a model that is functionally sustainable and not fully dependent on significant infusions of outside grant funding.
- Unfortunately, Keystone HELP, as a unique asset class, has become a large enough portion of Treasury's investment portfolio that diversification limits are being reached.
- Treasury must therefore seek a buyer for Keystone HELP loans to reduce exposure and enable recycling.
- Treasury has been involved in extensive discussions with both regional and national players to develop a secondary market for energy efficiency loans in general and Keystone HELP in particular.

AFC First – A National Leader In Energy Efficiency Lending

- **AFC First Financial Corporation is an experienced specialty energy efficiency lender and the provider of the EnergyLoan® program..**
 - Founded in 1947 in Allentown, PA. AFC has processed over 50,000 energy efficiency loan applications.
 - Retail energy lending to consumer has been primary business since 1999.
 - AFC First is one of only three Fannie Mae approved Energy Lenders in the nation.
 - Currently lending in 20 states with over 2,000 Approved Contractors, Manufacturer, Utility and State and Municipal Partners, including CT Solar Lease
 - National lending capabilities with NOVA/Great Bear Bank platform



AFC First – A National Leader In Energy Efficiency Lending

- **AFC First Financial's key energy efficiency financing services include:**
 - Contractor Recruitment, Screening and Training
 - Loan Application Intake and Processing
 - Loan Servicing, Off and On Bill
 - Payments to Approved Contractors including Verification of Satisfactory Completion
 - Installed Equipment and Energy Savings tracking (e.g., PSD's Green Energy Compass)



The Facts About Financing

- In the current “Perfect Storm” of Energy Crisis and Credit Contraction, consumers more than ever need simple financing options to make energy improvements
- 70% of all Home Improvements up to \$15,000 are financed in one way or another, 90% of improvements greater than \$15,000 are financed
- Most consumers are motivated by necessity when it comes to energy efficiency (the *Reactive* consumer who needs to replace a broken furnace) – this is 90% of the energy efficiency market and can’t be ignored
- *Proactive* improvements are growing, but contractor and auditor base must grow faster to support this market
- Successful programs address both Reactive and Proactive Consumer
- Energy-efficiency improvements are most often sold, not bought
- Keep it simple for contractor and consumer – the goal is work performed and energy savings, not the number of audits conducted

What Has Worked and Where the Jury is Still Out

- **Simple, state funded monthly payment contractor driven programs have been the easiest to implement and are having the greatest success (NYSERDA, PA's Keystone HELP, CT Solar Leasing)**
- ***On-Bill* utility programs are a hot topic, but no real track record. Concerns: potentially increased delinquency through utility loan servicing, who takes the credit risk, post-home sale liability, etc.**
- **Real estate tax model, while a good concept, is highly localized and can only address a small part of the market (*Proactive* consumer only)**

A Successful Consumer Energy Efficiency Program....

- **Assists consumers in making better decisions regarding the energy efficiency of their home improvements** by providing affordable monthly payment options.
- **Recruits and trains contractors on how to better utilize special financing and monthly payment plans** to increase both their closing rates and market penetration for more energy efficient home improvements.
- **Utilizes state-of-the-art technology to provide maximum efficiency and customer service to both consumers and contractors** in loan origination, administration and loan servicing.
- **Provides consumers with efficient, knowledgeable and exceptional personal service** as it relates to the financing of their energy efficient home improvements.
- **Provides customers with a *special* financing program** that encourages them to choose higher efficiency improvements over lower efficiency items.
- **Provides measureable results** on energy savings resulting from improvements



How Do Americans Pay to Improve Their Homes' Energy Efficiency?



Two Types of Energy Efficiency Customers

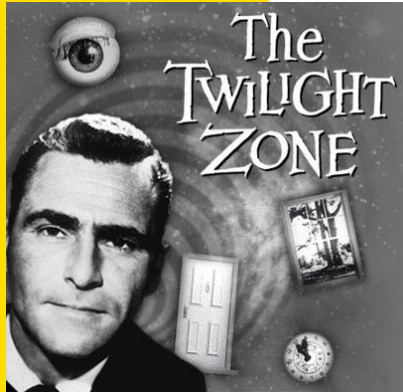
REACTIVE



PROACTIVE



REACTIVE Consumer - Welcome to the “Twilight Zone”



- Typical *urgent* HVAC or home repair installations (\$3,000 to \$15,000) are the consumer’s financing “twilight zone” - too big for a credit card, too small for a home equity loan.
- The vast majority of energy efficiency improvements
- Customer doesn’t want a lien on their home
- Time sensitive – consumer needs work done ASAP
- Contractor-Driven
- *Come-on or Teaser* (0% for 6 months type)
Financing is not the answer for a major capital purchase and can hurt contractor credibility
- Borrower wants longer term or lower rate than he can get from bank
- Solution: Unsecured point of purchase loan programs with (lower rates based on simple product qualification – ENERGY STAR)

PROACTIVE Consumer - The “Thinker”



- Typically larger loans, more than \$15,000 for *Whole House* improvements and Renewable Improvements such as Geothermal
- More project driven, less time sensitive
- Tax Credits are great, but only if you have the money in the first place
- More customer thought, engagement and foresight
- Limited home equity market constrains borrowers
- Solution: *Home Performance* model with Energy Audit, recommendations and lower rate than *Reactive* financing (PHFA model in PA)

Program Should Not Exclude, But Rather Incent

- Consider *Tiered Financing Approach* which accommodates both Reactive and Proactive Consumers
- Don't exclude the consumer who wants to install an ENERGY STAR or high efficiency improvements but doesn't have time to go through the whole audit protocol
- But...provide lower interest rate to the consumer who will do the Whole House improvement program
- Contractors have to “buy in” to the ease of the program and can't be put off by complexity – need to accommodate their customers
- Use simple, consumer recognized national standards such as ENERGY STAR for equipment standards – no need to “reinvent the wheel” or confuse the market



Keystone HELP® Addresses Both Reactive and Proactive

REACTIVE

EnergyStar Unsecured Loan

For ENERGY STAR qualified Heating, Cooling, Windows, Doors, Insulation and other qualified improvements that meet program standards

Amt: \$1,000 to \$15,000

Rate: 6.99%

3, 5 or 10 Year Term

Advanced Performance Unsecured Loan

For ENERGY STAR qualified Heating, Cooling, Windows, Doors, Insulation and other qualified improvements (except insulation) that meet the AP program standards

Amt: \$1,000 to \$15,000

Rate: 5.99%

3, 5 or 10 Year Term

Whole House Unsecured Loan with Certified Energy Audit

For improvements recommended by a certified Energy Audit with predicted minimum energy savings of 15% to 25% required, depending on your energy profile. One Certified Auditor must do all the work.

Amt: \$1,000 to \$15,000

Rate: 4.99%

3, 5 or 10 Year Term

Whole House Secured Loan with Certified Energy Audit

For improvements recommended by a certified Energy Audit with predicted minimum energy savings of 15% to 25% required, depending on home's energy profile. Up to 120% of home's value.

Amt: \$5,000 to \$35,000

Rate: 3.875% to 6.375%

10, 15 or 20 Year Term
plus \$325 Audit Credit

PROACTIVE



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Three Levels of Contractors

Approved Contractors have been reviewed for financial and ethical stability

Trained Contractors are Approved Contractors who have undergone additional training on building science and *Whole House* energy improvements, and are currently authorized to perform work under all rebate and loan programs.

Certified Contractors are Approved Contractors who have achieved BPI (Building Performance Institute) certification or accreditation. BPI is the nationally recognized designation for building and energy professionals who have undergone rigorous training on *Whole House* energy improvements. Certified Contractors are authorized to perform work under all rebate and loan programs.

	Companies
Approved	1139
Trained	360
Certified	69
Grand Total	1558



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Increasing Demand for Keystone HELP Loans

	Loans	Original Amount	Balance	Average Term	Average APR
2006	917	\$5,397,712	\$2,044,776	86.64	7.29
2007	1001	\$5,976,146	\$2,991,661	85.10	8.37
2008	1228	\$7,290,216	\$4,949,419	83.39	8.99
2009	1719	\$11,800,136	\$10,474,164	87.41	6.84
Grand Total	4865	\$30,464,210	\$20,460,020	85.78	7.78



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Effective Credit Standard based on Long Standing Fannie Mae Energy Guidelines

Credit Scores

MINIMUM FICO (CREDIT SCORE) - Each Borrower must have a minimum FICO - If there are multiple borrowers, the lower score (regardless of income) must be used for qualification	- 640 if salaried (or fixed income) - 680 if self-employed for at least 2 years - 720 if self-employed less than 2 years	LOAN AMOUNTS - <u>Minimum Loan Amount:</u> \$2,500 - <u>Maximum Loan Amount:</u> 720 Plus - \$20,000 680 to 719 - \$15,000 640 to 679 - \$5,000
BANKRUPTCY, FORECLOSURE, REPOSSESSION	None in last 7 years	
UNPAID COLLECTION ACCOUNTS, JUDGEMENTS, TAX LIENS	No more than \$2,500 total	
Loans may be declined or subject to further review if underwriter determines that FICO score or other factors are inconsistent with actual credit profile		

Income Verification Requirements

<u>SALARIED EMPLOYEES, PENSION, SSI INCOME ETC.</u>	<u>SELF EMPLOYED</u>
<u>Stated Income (No Verification Required)</u> - When the loan amount is less than \$4,000 - Or <u>any</u> loan amount if the FICO is greater than 680.	<u>Stated Income (No Verification Required)</u> - When the loan amount is less than \$4,000 - Or <u>any</u> loan amount if the FICO is greater than 680.
<u>Income Verification Required</u> - When the loan amount is greater than \$4,000 - And the FICO is less than 680	<u>Income Verification Required</u> - When the loan amount is greater than \$4,000 - And the FICO is less than 680
- One pay-stub with YTD earnings dated within 30 days of the application or award/benefit letter for SSI or pension showing income amount, payment frequency and start and end dates. Rental income verified by lease or Schedule E from tax return.	- Most recent federal income tax return (first 2 pages of 1040) plus Schedule C if applicable. Rental income verified by lease or Schedule E from tax return.
Note: Any "other" income (not primary income) which is being used to qualify the loan must be verified.	Note: Any "other" income (not primary income) which is being used to qualify the loan must be verified.

Debt To Income Ratio

<u>TOTAL MONTHLY OBLIGATIONS</u>	<u>TOTAL MONTHLY OBLIGATIONS TO TOTAL MONTHLY INCOME</u>
- Any loan which has a remaining term of less than 6 months may be excluded from the calculation - When revolving accounts do not show a minimum payments use the greater of 3% per month or \$10 - Real Estate taxes and homeowners insurance (if not included in the mortgage payment) must be included in ratio	All qualifying FICO scores - 50%

- 65% Approval Rates
- Available to all Income Classes, focus is on middle income borrower
- Average FICO score of over 730, well above national average of 690

Keystone HELP
HOME ENERGY LOAN PROGRAM

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Sound Underwriting, Mission Driven Borrower and Consultative Loan Servicing Means Low Losses

KEYSTONE HELP PA TREASURY PORTFOLIO DELINQUENCY AS OF 12/31/2009

	Count of Acct	Sum of Balance
30	16	0.31%
60	13	0.36%
90	7	0.14%
120	25	0.57%
Current	3863	98.62%
Grand Total	3924	100.00%

KEYSTONE HELP PA TREASURY PORTFOLIO CHARGE OFFS THROUGH 12/31/09 AS A PCT OF TOTAL ORIGINATIONS

	Originated	Charged Off
Loans	4866	35
Dollars	\$30,475,110	\$164,673 0.54%

As a comparison, according to Federal Reserve stats average consumer loan charge offs are in excess of 3.5%



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Program Delivery

The screenshot shows the homepage of the Keystone HELP program. At the top left is the logo for Keystone HELP, Home Energy Loan Program, powered by AFC First. To the right are logos for the Pennsylvania Department of Environmental Protection, PHFA (Pennsylvania Housing Finance Agency), and the Commonwealth of Pennsylvania. A contact number, (888) AFC FIRST, is displayed. A navigation bar contains links: WHAT IS KEYSTONE HELP?, ENERGY EFFICIENCY INFORMATION, APPLY NOW ONLINE, FIND AN APPROVED CONTRACTOR OR ENERGY AUDITOR, and INFORMATION FOR CONTRACTORS AND ENERGY AUDITORS. The main content area features a photo of a family and a cartoon house character, with the headline: "Pennsylvania's Special Loan and Rebate Program for Energy Efficiency Home Improvements". To the right of the photo is a vertical menu with links: What's Keystone HELP?, Eligible Improvements, Find a Contractor, Apply Now Online, and Apply By Phone (888) AFC FIRST. Below the headline is a section titled "You can improve the energy efficiency of your home....." with text describing special financing and rebates for ENERGY STAR rated improvements. It also mentions that homeowners can get a low cost loan or rebate for eligible improvements installed by a Keystone HELP Approved Contractor. Further text explains that qualifying homeowners can get the lowest cost financing and a \$325 cash energy audit credit for energy-saving "whole house" improvements performed by a Keystone HELP Trained or Certified Contractor. A "Save Energy, Save Money" section states that the program makes energy efficiency opportunities available to Commonwealth homeowners. Contact information is provided: (888) 232-3477. At the bottom, there are links to "Download a Keystone HELP Brochure/Application" and "Download Keystone HELP Program Guidelines". On the right side of the page, there is a promotional banner for the "PA Home Energy Conference 2009" held from March 18-19 at State College, PA, with a "Get more info" link. Below the banner is a list of events: "Learn About What's New with Keystone HELP - Free Update & Overview Webinars for Contractors" (March 6, 9, 10, 11, 12, 2009), "Home Performance 101 Training for Keystone HELP Contractors, Presented by PA Home Energy" (State College, PA, March 19, 2009), and "PA Home Energy Conference".

- Accept Applications Online via program website
- Through Integrated App on Contractors Website
- Call Center and Toll Free Numbers
- Utility Link and Call Center Direction

Proposed Enhancements

- Introduction of a *basic energy audit loan* category that will offer a much lower rate for a targeted audit and insulation/air sealing measures prior to, or in combination with, other energy-efficiency improvements. Available for unsecured loans up to \$15,000
- Maintain *comprehensive audit* program for larger secured loans, with potentially lower rate
- Expand contractor education/training BPI etc.
- Goal is design flexibility to allow consistency with any new federal programs such as Home Star



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Keep it Simple



- **Don't Get Caught in Red Tape**
 - **Energy Efficiency lending programs are competing against credit cards.**
 - **Most Consumers (and Contractors) will follow the path of least resistance even if it is more costly**
 - **Accomplish your goal (helping consumers install energy efficiency improvements) without overburdening contractors or consumers with complexity**