The Role of State, Local, Territorial and Tribal Governments in Energy Efficiency Loan Markets

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Size of Building Retrofit Opportunity

- Buildings are single biggest opportunity for efficiency in this country. Buildings account for approximately 44% of total energy consumption in the US.
- Most of that energy is provided in the form of coal-based electricity and natural gas, significant contributors of carbon, SO_2 and NO_x.
- Saving even 20% of total building energy would for an average homeowner, translate into a savings of approximately $450/yr., and for the country, approximately $50 Billion annually. (EIA estimate)

Keys to Accessing the Opportunity

- Each building owner/tenant has competing needs for retrofit dollars and cannot see the full benefit of its contribution to nation's energy scorecard.
- State, local, tribal and territorial governments must act together to aggregate the individual savings into a massive contribution to reducing the country's carbon footprint and reliance on imported energy resources.

Status of Primary Market

- Currently, energy efficiency loans (EELs) are facilitated by federal dollars through grants to governments.
- Residential: primarily utility-funded programs.
- Commercial: little commercial lending occurring at this time.

Benefits of a Secondary Market

- Promotes speed, scope and scale by involving private capital in EEL market.
- Promotes liquidity by providing lenders a risk management tool to balance their portfolios, an exit strategy and a transparent and reliable market price, thus increasing the number of lenders willing to participate in this market.
- Expanded market leads to significant cost reductions in manufacturing and installation.

Secondary Market Requirements

- Conformity
- Size
- Transparent risk

Elements of Conformity

- Must standardize major loan terms:
  - Secured or unsecured;
  - Size of loan ($1–$15,000; > $15,000<$250K)
  - Term of loan ($\leq$8 yrs; 9–15 yrs.; >15 yrs.)
  - Borrower credit and underwriting standards;
  - Terms relating to default, remedies, and credit enhancement facilities.
  - Measurement and Verification (M&V)

Elements of Volume

- Liquidity needed to establish a market and facilitate trading.
- Size of portfolio necessary to attract private capital. (>$15 MM)
- Leverage—use of federal funds to encourage private capital to enter this market is best accomplished through credit enhancement to provide volumes.

Role of Credit Enhancement

- Many forms including loan loss reserves, full and partial loan guarantees, subordinated debt, insurance, etc.
- Needed until market experience creates reliable data of loss history for various buckets of risk.

Obstacles

- Issues with OMB Circular A-87 and "bad debts."
- Coordination over various state, local, territorial and tribal entities to create a conforming loan template.