The Data Disconnect
Experiences in Secondary Markets Securitization

ACEEE Energy Finance Forum
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Background

Green Jobs-Green New York Act of 2009 (Oct 2009)

Finance energy efficiency improvements for:

- Residential 1-4 family dwellings (up to $25,000)
- Multifamily buildings (program limit $5,000/unit or $500,000 per building)
- Small business (<101 employees) and not-for-profit structures (up to $50,000)

Power NY Act of 2011 (Aug 2011)

Established innovative statewide on-bill recovery financing program

Offers consumer simplicity and **highly scalable/efficient** secondary capital markets financing approach

Funding

- $112 million RGGI proceeds; $51 million for revolving loan fund
- $9.3 million loan loss/debt service reserve (DOE Better Buildings Grant)

Residential Loan Portfolio Status 4/30/2013

	Unsecured Loan		On-Bill Recovery Loan		Total
Loans Issued/Outstanding	Tier 1	Tier 2	Tier 1	Tier 2	
Number of loans issued	2,227	243	712	78	3,260
Amount of loans issued	$20,313,363	$2,329,218	$7,585,557	$767,456	$30,995,595
Average Loan	$9,121	$9,585	$10,654	$9,839	$9,508
Average Interest Rate	3.59%	3.59%	3.00%	3.00%	3.45%
Avg Original Term (months)	142.3	159.3	173.2	172.3	151.1
Average FICO score	751	697	752	725	747
Current Balance of Loans	$17,841,177	$2,152,840	$7,464,654	$751,581	$28,210,251
Percent of Total	63.2%	7.6%	26.5%	2.7%	100.0%
Avg Term Remaining (months)	124.4	146.7	169.7	166.6	137.0

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Residential Loan Portfolio Status 4/30/2013

	Unsecured Loan		On-Bill Recovery Loan		Total
Delinquency Analysis					
Current	$17,835,799	$2,098,768	$7,252,516	$721,717	$27,908,800
% of total	99.97%	97.49%	97.16%	96.03%	98.93%
Past Due	$5,378	$54,071	$212,138	$29,864	$301,451
% of total	0.03%	2.51%	2.84%	3.97%	1.07%
Chargeoff Analysis					
Loans Charged off (>120DPD)	$64,798	$1,368	$5,402	$0	$71,568
% of loans issued	0.32%	0.06%	0.07%	0.00%	0.23%

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Capital Markets Financing Approach

- Issue as Qualified Energy Conservation Bonds using NYS allocation
  - QECB bonds provide interest subsidy (lesser of 70% of published federal tax credit rate or interest rate on bonds); dramatically lowers net interest rate on bonds
  - QECB bond issuance resulted in lower loan interest rate; Once QECB bond volume cap exhausted, loan rates will be increased due to loss of subsidy
- First issuance up to $24.3M - rated public issuance
- Target "A" rating

Team:
Financial Advisor – Lamont Financial Services
Underwriters – Citigroup, Jefferies & Co., Samuel A. Ramirez & Co.

Rating Agency Feedback

- Rating agency feedback - Minimum investment grade “achievable”
- Challenges with ABS vs Municipal bond structuring and rating
- Insufficient payment performance data
  - NYSERDA portfolio – avg paid term of about 1yr for avg 12yr loan term
  - Keystone HELP (PA) portfolio data
  - Summary performance data on NY loans issued in Fannie Mae portfolio
  - No comparable loss statistics on 15 yr consumer loans
- Unable to include OBR loans in first bond issue without jeopardy to rating
  Insufficient evidence of consumer and utility performance
- Unable to include QECB subsidy payment in ratings cash flow models
  Appropriation risk – resulted in lower advance rate (higher overcollateralization)
- Servicing risks – Primary servicer not rated; required backup servicer
- ABS turbo bond structure to address marketability
- Likely to achieve only BBB rating (~70% advance rate)

  $10M bonds with $14M in pledged loans and $9M of reserves and $1B balance sheet is BBB?

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Revision to Structure

- Collaboration with NYS Environmental Facilities Corporation
- Requested and received US EPA concurrence that energy efficiency is an allowable purpose under Clean Water State Revolving Fund

  Energy Efficiency -> Reduced Air Emissions -> Improved Water Quality
- Restructured as municipal bond structure
- Credit enhancement /guarantee from NYS Environmental Facilities Corporation through Clean Water State Revolving Fund
  - EFC can provide more flexibility in structuring than received through ratings process
- $24.3M Bonds will likely achieve AA- rating
- EFC/NYSERDA Board approval June 2013, issuance August 2013
- National replicable model through State Clean Water State Revolving Funds

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Summary

- Ratings challenges with new credits
  - Alternative non-rated placement may make sense in the near term for current scale
- It's about payment performance - not energy savings
- Structuring differences between ABS and municipal markets
- Bond market financing for clean energy may require governmental/ratepayer credit support in near term until sufficient performance history exists
- Need to create performance data availability
  - Prior discussions to create national system haven't materialized
  - May require some states to make their data available, even if not structured in consistent manner

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Questions

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