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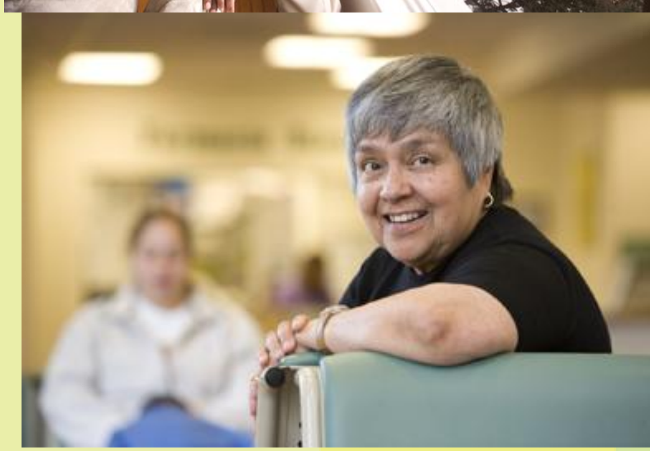

Agenda

- Introduction to ShoreBank’s energy finance programs
- Lessons learned from our 10+ years of energy lending
- A lender’s thoughts on the predominant energy finance models
- What’s next for energy finance

ShoreBank at a glance: who we are

- **Financial services**
  - Provide credit and deposit services to underserved neighborhoods in Chicago, Detroit, and Cleveland and throughout the Pacific Northwest
  - $3.9 billion in loans and investments to affordable housing developers, small businesses and community organizations; more than 65,000 units of housing refurbished
  - Created the first US-based "green" bank (ShoreBank Pacific - $230MM in assets)
- **Indirect investment activities and advisory services**
  - Advise financial institutions on how to strengthen underserved communities across the globe
  - Manage equity funds targeting development banks and microfinance institutions around the world
  - Counsel utilities, regulatory bodies, and governmental agencies on energy finance
- **Thought leadership**
  - Lead partner in the Portland Energy Works financing effort

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ShoreBank's Energy Loan Examples

- Direct Bank Lending
  - Homeowners' Energy Conservation Loan program
    - Offer free energy audit and financing of incremental costs of EE measures
    - Bank serves as energy efficiency advocate and program manager
- Subsidized Loan Programs
  - Utility supported loan program through nonprofit affiliate in Chicago
    - Open to homeowners <80% AMI
    - 50% grant/50% loan (loan up to $3k; 4% fixed; 5-year term)
    - Uses limited to air sealing, insulation, & necessary window replacement
    - Required use of leading weatherization (WAP) contractor
- On-bill Financing
  - Nonprofit affiliate in Portland is the lender for Portland Energy Works
    - Utility merely collects the loan payments (utility assumes no credit risk)
    - Allows for both natural gas/electric measures (financing charge on largest bill)

Lessons from the Field

- Low interest rates can be an effective marketing tool, but not a pre-requisite for success (our lending program used market rates)
  - Simplicity and expertise are more important
- Difficult to make EE investments "pay for themselves"
  - Better to look at cost effectiveness of incremental costs
- For lenders, rising utility costs are not as big a risk as other "life" issues (unemployment, divorce, health emergencies)
- Pricing is determined by risk and terms
  - Liquidity issues are just as important to banks as risk mitigation
  - Risk mitigation is important for ensuring availability at the moment

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Engaging Financial Institutions

- Lending is constrained at the moment, so selling EE programs as a mechanism for "reaching new customers" is not likely to be appealing
- Financial institutions do not believe the projected energy savings will materialize, so difficult to sell them on "enhanced cash flows"
- Currently, the financial institutions most involved in EE efforts are small, community banks/credit unions or nonprofit CDFIs not the large banks
  - Banks don't expect profitability on home equity portfolios until next year
- There is no "national" model, so terms will vary widely across the country

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Thoughts on the "hot" models today

- On-bill Financing
  - Program design will play a big role in determining whether private capital will participate
    - Can the utility shut off service for non-payment (if not, what other mechanisms are in place to enforce repayment?)
    - How will partial payments be handled (what about compensation for late payments?)
    - What risks does the lender face upon cessation (how will the consumer pay the balance?)
    - Are there issues with fair lending laws/other regulations
    - Will the process be so cumbersome that it erodes profitability
  - Complexities of system integration with banks' loan servicing infrastructure are not yet known

Private Finance Model (AFC/NYSERDA)

- Private lender provides financing directly to consumers for specific EE measures
  - In the past, largely involved interest rate buy-downs for unsecured loans or subordinate mortgages
  - Today, typically involves creating separate loss reserve to induce participation (loss percentage varies widely)
  - Move afoot to also provide take-out through secondary market mechanism (critical for scale and pricing)
  - Large banks more interested in buying pools than making individual loans
  - Banks are not likely to want to play enforcement role on installation/contractor selection & oversight

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Property Assessed Clean Energy (PACE)

- Municipality provides financing via property tax bill
  - Lenders merely purchase bonds floated by taxing district (no real relationship to the borrowers)
  - Led by the large commercial banks & sophisticated money managers
  - Underlying credit quality of municipality will be driving force in determining participation
  - Unlikely to be available for all localities
  - Big problems with mortgage giants (FNMA)

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The future of energy finance

- Greater reliance on partnerships with mission-driven lenders
  - CDFIs – e.g. ShoreBank Enterprise Cascadia
  - AFC First
  - Enterprise Community Partners/Green Communities
- Led by institutions outside of the commercial banking sector
  - Governments, utilities, finance companies, nonprofits
- Development of more sophisticated program designs
  - Movement away from interest rate buy-downs towards loss reserves, secondary markets, and guarantees

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Going forward

- Greater understanding of leveraging opportunities by commissions
  - Bad program design will make it very hard to attract private capital
  - Interest rate buy-downs are likely to be very expensive
- Financing experts should be involved early in program design
  - Creating a workable program requires input from financial services community
- Broader definition of success (beyond Kwh/BTUs saved and Total Resource Cost Recovery testing)
  - "Rate-payer" funded = "Tax payer" funded
  - What about jobs, economic equity, innovation
- Better coordination between utilities, government and philanthropy
  - These are complex programs that require a multitude of players
- **Bottom Line – Complexity is increasing and programs will extend well beyond rebates**

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