



Energy Efficiency Program Summary

Keystone Home Energy Loan Program (Keystone HELP)

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| Program Sponsor: | PA Dep't of Env't'l Prot., PA Treasury Dep't, PA Housing Finance Auth. | Program Administrator: | AFC First Financial |
| Program Location: | Pennsylvania | Eligibility: | Residential – 1 or 2 unit, primary residence earning < \$150,000/yr |
| Program Start: | 2005 | Program Type: | State Sponsored/Public Capital |

Program Description:

The program began in 2005 with funding from the State of Pennsylvania. AFC First Financial Corporation was selected to administer the program. The program is a conventional consumer loan program with a fixed rate, fixed term, and fixed payment.

AFC issues unsecured loans and then bundles and sells the assets back to the state. The state also maintains a loan loss reserve fund of 5% (\$900,000), which reduces interest rates by an estimated 1.5% to 2% and eliminates the need for loan insurance. Over the life of the program, default rates have averaged 1% per year.

AFC requires 4% interest for contractor training and recruitment, underwriting, origination, loan servicing and other administrative costs, while the Pennsylvania State Treasury requires a 5% return, enabling a rate of 8.99%. However, the state passed legislation (Alternative Energy Investment Fund Act) that provided funding for an additional interest rate buy-down. Thus, AFC is offering unsecured loans that begin at 6.99% for a 10-year term. Interest rates may be less if homeowner is willing to install high-efficiency systems or obtain advanced energy assessments from qualified contractors. Unfortunately, the Alternative Energy Investment Fund Act, which provided funds for the additional interest rate buy-down, is at risk from state budget cuts.

The cornerstone of AFC's program is a network of approved contractors. Contractors handle every aspect of the process, from initial homeowner outreach, to online loan applications, to final installation. The only interaction that AFC has with the homeowner is the monthly bill. AFC maintains a network of over 1,400 approved contractors in Pennsylvania (and is interested in expanding operations and building a network of approved contractors in Michigan). AFC prescreens contractors based on credit worthiness, Better Business Bureau complaints, and technical competency. AFC also sponsors additional training on building science and whole house energy improvements through a program titled "Home Performance 101."

The program has provided loans to more than 3,500 families in 3 years. An additional 6,500 homeowners have applied to the program in just the last four months, following its enhancement by the addition of rebates and even lower interest rates made possible with funding from the Alternative Energy Investment Act. The program has approved more than 1,400 Pennsylvania businesses as Approved Contractors under the program. Keystone HELP has been cited by ENERGY STAR, the Department of Energy and many other groups as a successful public-private partnership that leverages state money into private investment. In total, over \$30,000,000 of improvements have been made since the program's inception in 2005.

Financing & Financial Products:

AFC issues secured and unsecured loan products.
With unsecured loans, assets are bundled and sold back to the state.
The state maintains a loan loss reserve fund of \$900,000, which saves 1.5% to 2% on interest and provides loan guarantees up to a 5% default rate.
State legislation also provides an additional interest rate buy-down of 2%.
Over the life of the program, default rates have averaged 1% per year.

Financial Products

Loan for ENERGY STAR (*Unsecured*) - \$1k-\$15k – 6.99% for 3,5,10 years.
Loan for Advanced Performance ENERGY STAR (*unsecured*) - \$1k-\$15k – 5.99% for 3,5,10 years.
Renovate & Repair Loan for ENERGY STAR (*secured*) - \$5k-\$35k – 6.375%-8.875% for 10,15,20 years.
Whole House Improvement Loan (*unsecured*) - \$1-\$15k – 4.99% for 3,5,10 years.
Whole House Improvement Loan (*secured*) - \$5k-\$35k – 3.875%-6.375% for 10,15,20 years.

Marketing:

Contractor performs all marketing to homeowners.
AFC trains contractors to integrate Keystone HELP financing options into homeowner discussions.

Enrollment Process:

Customer hears of program through approved contractor.
Customer gets an estimate for qualifying improvements from their approved contractor.
Contractor completes the Keystone HELP Specification Sheet that details the qualifying improvements and sends the Spec Sheet to AFC for approval.
Contractor assists homeowner with online loan application.
AFC approves or denies loan application based on credit check (>640). 65% approval rate.
Upon loan approval and program enrollment, homeowner agrees to:

- Provide energy usage data for completion of the ENERGY STAR Home Energy Yardstick or equivalent;
- Grant access to utility and fuel consumption data to the Dep't of Env't'l Prot. or its designees for 12 months from the date of the loan (not applicable for Renovate and Repair ENERGY STAR Loan); and
- Complete a follow-up survey in approximately 12 months from the date of the loan.

Contractor implements qualifying improvements.
When the work is completed, the contractor and homeowner sign a completion certificate, which is sent to AFC.
AFC calls the customer to confirm project completion and pays the contractor upon customer authorization.

Audits:

Energy audit required for Whole House Improvement Loans ONLY, using Home Performance with ENERGY STAR standards.
Energy audit performed by Certified Auditor, hired by homeowner.

Predicted energy savings of 15–25% required, depending on home's energy profile.

| Implementation Criteria: | ENERGY STAR Eligible Improvements | Advanced Performance ENERGY STAR |
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| | Air Source Heat Pumps | Air Source Heat Pumps (SEER \geq 15, EER \geq 13, HSPF \geq 9) |
| | Central A/C Systems | Central A/C Systems (split) (SEER \geq 15, EER \geq 12.5) |
| | Boilers (all fuels) | Central A/C Systems (package) (SEER \geq 14, EER \geq 12) |
| | Furnaces (all fuels) | Boilers (all fuels) (AFUE \geq 95) |
| | Windows/Doors | Furnaces (all fuels) (AFUE \geq 95) |
| | Air Sealing & Insulation | Geothermal Heat Pumps (EER \geq 14.1, COP \geq 3.3) |
| | Ceiling Fans | Air Sealing and Insulation |
| | Programmable Thermostats | Alternative Energy Heating & Cooling Equipment or Systems (excluding solar technologies) |
| | Ventilating Fans | |
| | Water Heaters | |

Contractors, Training & Accreditation: There are three levels of contractors and one level of energy auditor certification under the program.

Approved Contractors have been reviewed for financial and ethical stability. Approved Contractors are authorized to perform work under all rebate and loan programs *except* the Whole House Improvement Loan programs.

Trained Contractors are Approved Contractors who are not BPI accredited but have undergone additional training on building science and “whole house” energy improvements (including RESNET -Residential Energy Services Network- certification or satisfactory completion of the “Home Performance 101” course). Trained Contractors are authorized to perform work under all rebate and loan programs. If they are performing work under the “Whole House Improvement Loan” program, they must be working under a Certified Auditor who provides on-site oversight of their work.

Certified Contractors are Approved Contractors who have achieved BPI 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.

Certified Auditors are Approved Contractors accredited by BPI and RESNET who have a HERS rater number or operate under a HERS provider, or are an approved audit provider under the PA Home Energy Home Performance with ENERGY STAR program. Certified Auditors may work independently from a contractor or they may be Certified Contractors who have also met the qualifications to perform as Certified Auditors.

Contracts: Homeowners sign contracts with contractor or auditor for services.
No contract between AFC and contractors.

**Repayment,
Collection &
Flow of Funds:**

Separate monthly bill from AFC – fixed payments for a fixed term.

AFC pays contractors once certification of completion is returned.

AFC has concerns with utility acting as collection agent for an on-bill program. Of particular concern is the fact that utilities generally have a statutory or regulatory requirement on the number of days (30–45 days) that must pass before disconnection (if the utility even has the power to disconnect for this purpose); whereas, a traditional loan servicer could begin issuing delinquency notices in as short as 7 days. AFC feels that the longer the wait before the threat of disconnection can be applied, the lower the chance that the homeowner will repay the loan. Furthermore, there is regulation/legislation being proposed in Michigan that would prevent disconnection from October through April. If passed, this regulation could prevent the participation of private lenders in an on-bill program.

AFC also raised the issue of partial payment. If the homeowner pays only a portion of the bill, how are the funds allocated? Typically, the utility would get paid first, with the efficiency loan being subordinate. AFC would like to see the utility bear some risk with regard to partial payments, by making the loan equal to the energy costs and splitting the partial payment equally.

**Program
Sustainability:**

Administrative costs are low (4%), due to centralized program administration, streamlined enrollment process and reliance on contractors for daily execution of the program. This is built into the interest rate for each loan product.

High volume, low frills, straightforward program with simple loan structure and repayment terms.

Program understands that most efficiency decisions by homeowners are reactionary, not proactive, and caters to the need.

Program components which lower interest rates are vulnerable to state budget cuts, which could end the purchase of the assets or eliminate the loan loss reserve fund.

KEYSTONE HOME ENERGY LOAN PROGRAM

Program Schematic

