Peer to Peer Conference Call: Energy Efficiency Financing

Lessons Learned from Craft3

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Objective of the Call

• Update on the Craft3 Energy Efficiency Financing Program

• Learn from Craft3 what capacity is needed

• Have the opportunity to ask questions directly to Craft3 on Energy Efficiency Financing
Craft3

- Non-profit 501(c)3 founded in 1995
- Community Development Financial Institution (CDFI)
- Mission to strengthen economic, ecological and family resilience in Pacific Northwest communities
- Washington and Oregon
- Current offices in
  - Ilwaco, Port Angeles and Seattle, Washington
  - Astoria, Bend and Portland, Oregon
Our Work

- Provide loans and assistance to those who lack access to financing
- Complement financial resources with expertise, networks and advocacy for our clients
- $166 million in total assets, $243 million in loans made
Craft3 Loan Products

• Commercial Loans
  • Business: for real estate, start-up and expansion of businesses;
  • Non-Profit: for affordable housing, community development projects, health care, childcare, environmental conservation, and human services initiatives; and
  • Conservation: for conservation organizations to acquire sensitive lands, restore habitat, and protect water quality are available.

• Consumer Loans
  • Energy Efficiency: To property owners to reduce CO2
  • Clean Water: To property owners to repair or replace failing systems
Craft3 Outcomes from Outputs

<table>
<thead>
<tr>
<th>ECONOMY</th>
<th>ENVIRONMENT</th>
<th>EQUITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Jobs Created and/or Retained</td>
<td>Linear Feet of Functioning Riparian Zone</td>
<td>People of Color and Women Entrepreneurs Assisted</td>
</tr>
<tr>
<td>Leveraged Third Party Investment</td>
<td>Acres of Land in Sustainable Management</td>
<td>Number of Low Income Families Assisted</td>
</tr>
<tr>
<td>Added Value of Products Locally Manufactured</td>
<td>Gallons of Water Diverted from Waste Stream</td>
<td>Local Tenures Supported</td>
</tr>
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Provided by: Craft3 Outcomes from Outputs
Single Family Residential Loan Product

- CO2 Matters: Energy reduction analysis
  - Recruit the greatest CO2 impact

- Low Touch Underwriting
  - *Non-Traditional*: Utility payment history, FICO >590
  - *On-bill Repayment*: 4 participating utilities
  - *IT Platform*: Linked to utilities and loan management

- Product Specifications
  - *Rate*: 5.99%
  - *Term*: up to 15 years (current portfolio predominantly 20 years)
  - *Security*: Current: UCC, Past: subordinated lien on property
  - *Servicing*: on bill of utility providing energy for heat
  - *Risk*: Cash funded loan loss reserve: 10%

Affordable: Goal is net zero impact on the family budget
Building the Market

**Goal:** Shift the residential energy efficiency market to an environment where action to improve the efficiency of homes is as easy as buying a car with better gas mileage.

- Standardized product offering with options
- Standardized & auditable performance rating
- Widely branded “outlets” for sales
- Affordable, easy to access financing terms
- Warranty and peace of mind (value proposition)

Ultimately, the product must remove obstacles to policy decisions that drive markets to “value” efficiency.
Delivery Partners

• Craft3 specializes in origination and servicing of loans, relies on partners to manage energy efficiency
• In both Oregon and Washington, collaborative approaches use local, state and federal resources to drive demand, aggregate incentives and provide quality assurance
• Oregon: Clean Energy Works Oregon, Washington: Community Power Works
• Both programs qualify pools of contractors and require compliance with workforce benefits agreements
### Craft3 Energy Efficiency Loan Portfolio Summary (as of 4/30/2013)

<table>
<thead>
<tr>
<th></th>
<th>Oregon</th>
<th>Washington</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Active Loans</td>
<td>1714</td>
<td>162</td>
<td>1,876</td>
</tr>
<tr>
<td>Value of Loans Outstanding</td>
<td>$21,519,130</td>
<td>$2,034,961</td>
<td>$23,554,091</td>
</tr>
<tr>
<td>Average Interest Rate</td>
<td>5.78%</td>
<td>4.25%</td>
<td>5.65%</td>
</tr>
<tr>
<td>Median Loan Individual Outstanding Loan Amount</td>
<td>$11,790</td>
<td>$11,370</td>
<td>$11,697</td>
</tr>
<tr>
<td>Median Loan Payment Amount</td>
<td>$86.77</td>
<td>$75.35</td>
<td>$86.05</td>
</tr>
<tr>
<td>Median Number of Payments Made by Active Borrowers</td>
<td>14</td>
<td>2</td>
<td>12</td>
</tr>
<tr>
<td>Average Number of Payments Made by Active Borrowers</td>
<td>15</td>
<td>2</td>
<td>14</td>
</tr>
<tr>
<td>Percentage of Loans Past Due (+60)</td>
<td>0.33%</td>
<td>0.12%</td>
<td>NA</td>
</tr>
<tr>
<td>Cumulative Write-offs to Date</td>
<td>$56,977</td>
<td>0%</td>
<td>NA</td>
</tr>
<tr>
<td>Current Problem Assets (Not Charged-off)</td>
<td>$50,902</td>
<td>0%</td>
<td>NA</td>
</tr>
<tr>
<td>Total Criticized Assets</td>
<td>$180,698</td>
<td>0%</td>
<td>NA</td>
</tr>
</tbody>
</table>
## Outcomes

<table>
<thead>
<tr>
<th>Access to Credit (Inclusion)</th>
<th>Access to Opportunity (Jobs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>% Borrowers &lt; Median HH Income</td>
<td>% of Loan $ Paid as Wages</td>
</tr>
<tr>
<td>% Borrowers Non-White</td>
<td>Average Wage</td>
</tr>
<tr>
<td>% Borrowers below 200% Fed. Poverty Level</td>
<td>% of Employees Women/Minority</td>
</tr>
<tr>
<td>% Subordinated Debt</td>
<td>% of Employees with Health Care</td>
</tr>
</tbody>
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Application

• Customer is directed to Craft3 online application

• Data entered, sent to Craft3 database for cleaning and loading into underwriting system

• Data appears in underwriting system, credit reports and utility payment histories are electronically ordered.
Origination

- Licensed mortgage originators review underwriting materials and produce a decision
- Applications are rated on a 0-4+ scale. Declines are forwarded to manager for review.
- Most loans are “unsecured” but historic portfolio is second mortgages.
- Contractors are informed of loan approvals immediately.
Funding

• Project approval documentation is received from customer via CEWO or CPW

• Disbursement is made directly to contractor via ACH

• In some cases a portion of the final payment is used to pay-off a contractor advance on the project.

• Payment information is forwarded to utility partner
Servicing

• Loan payments are placed on the borrower’s utility bill

• Craft3 receives daily/3x week payment information from each of the four utilities

• Each utility provides a monthly reconciliation of payments due to Craft3 and an electronic payment

• Non-performing loans are removed from the utility system after 90 days and dealt with directly by Craft3
The Quest For Liquidity

• **Mandate**: Develop a high output product with quality outcomes and demonstrate a capital market

• **Now**: $20MM pilot, Q2 2013: Replicable, marketable
  – Depository buyer (CU), purchase at par for true loan term (no-buy back), 30% insurance pool, assignment option on utility servicing rights

• **Challenges**: price point; portfolio performance; underwrite; maturities; market place

• **Bottom Line**: Liquidity must value the outcomes and the pace of achieving them
Questions
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