Memorandum

April 24, 2024

To: Board of Trustees

From: James Neal, Senior Program Manager for Finance Initiatives
Michael D. Stoddard, Executive Director

Re: Authorizing Flexibility in Financing Terms

Proposed Motion

Move to authorize the Executive Director to set financing terms within the guidance presented in this memo.

Background

Staff is developing plans to enhance its finance offerings. We are considering expanding eligibility for the types of upgrades and customers, adjusting existing loan terms, and setting terms for new finance initiatives under consideration for the future.

The Trust currently has available capital for residential and small business loans. The forthcoming federal funding from the EPA's Greenhouse Gas Reduction Fund (GGRF) will add significantly to the capitalization of the Efficiency Maine Green Bank initiatives. It is our intention that this will lead to an expansion of loan products and the types of projects and consumers we loan funds to.

It has been Staff's practice to bring proposed changes in loan terms to the Board for approval, recognizing that lending unsecured funds, in particular, involves a degree of risk for the organization. For example, in September 2022, the Board gave Staff the flexibility to increase interest rates for residential loans in a range from 4.99% to 8.99%. Giving Staff authority to set the interest range across a range helped to make the program more nimble in managing demand for these loans while advancing the objectives of the Trust's programs and serving the needs of the marketplace. Staff is now requesting that the Board give similar guidance to Staff to set various financing terms so that our finance initiatives are better able to adjust to market conditions and enhance our ability to leverage the funds to sustain our levels of capitalization.

Following is an overview of our considerations in designing financing terms for loans to qualifying customers:

- Controlling demand for loans – Properly monitoring and controlling the demand of finance initiatives is important. Initiatives may draw upon a variety of fund sources that have different limitations, requirements, and deployment schedules. Some sources may require better-than-market-rate terms while others might focus more on leveraging private market capital. The pace of program activity – whether too "hot" or too "cold" – might suggest the need for time-sensitive changes to financing terms to properly manage demand and available funds. In 2023, we experienced this urgency with home energy loans, when changes in demand nearly overextended available capital and required an intervention to adjust the terms by reducing maximum loan amounts, increasing interest rates, and limiting customer eligibility. With more funding expected and the opportunity for expanded loan initiatives, having flexibility to make changes to financing terms would be helpful.
- Leveraging capital – Staff see an increasing emphasis from funding providers on leveraging third party or private market capital. This is intended to amplify the available capital being deployed to energy

efficiency and renewable energy projects. With this emphasis, a variety of finance tools that Efficiency Maine has not previously employed, such as credit enhancements, participation agreements, subordinate debt, or asset purchase agreements, may play a greater role in the design of our finance products.

- Market variability – The market for financing of energy efficiency and renewable energy projects encompasses a wide variety of capital sources (e.g., federal government grants, private banks, corporate financing, charitable foundations, etc.) and is evolving. To preserve the attractiveness of our lending products, to satisfy requirements and limitations of fund sources, to increase predictability of demand, and to continue offering competitive solutions to the market, the Efficiency Maine Green Bank seeks to remain nimble across its available finance initiatives.

Proposed Flexibility in Financing Terms

Staff propose that the Board approve the following guidance to be followed by the Executive Director when setting the term length, interest rates, and borrowing amounts of Efficiency Maine Green Bank residential and commercial (any non-residential) finance initiatives. Any future changes to the guidance would require approval by the Board.

1. Term length – The term of a loan may not exceed the useful life of the underlying equipment to be financed.

   This approach is consistent with Efficiency Maine's finance initiatives thus far, such as the C-PACE program in which the term length is longer than other commercial loans. Our available term lengths have ranged between 3 years for small business loans up to 15 years for home energy loans.

2. Rates – The interest rates on Efficiency Maine Green Bank finance products may be adjusted so long as they do not exceed the greater of (a) Prime rate plus 400 basis points; or (b) 12.5%.

   Historically, the Efficiency Maine Green Bank has offered loans at an interest rate that has covered costs of origination, servicing and defaults. This interest rate has been about 5%. With the evolving interest rate climate and the growing need to deploy more funds to LIDAC borrowers and leverage private market capital, we are anticipating an interest rate for most finance initiatives between 6.99% and 9.99%. For reference, the current prime rate is 8.5%; it is the interest rate that commercial banks charge creditworthy customers and is based on the Federal Reserve's federal funds overnight rate. The first C-PACE program closing (which is borrowing capital from a private lender) had an interest rate of over 12%. To be able to account for origination costs, servicing costs, and potential losses and still yield program income (which is sometimes a requirement of fund sources), Staff estimates we need a 400-basis point buffer on top of the Prime rate to cover all expenses. This may also help maintain the attractiveness to private market capital. For consumer loans, Efficiency Maine, as a quasi-government agency, is not subject to the supervision or regulation of the Maine Bureau of Consumer Credit Protection (MBCCP). That said, lenders within the purview of the MBCCP are required to register as a supervised lender, a more stringent registration, if they provide interest rates higher than 12.5%. This is another reason we propose to limit the top end of interest rates to 12.5%.

3. Borrowing Amount – The borrowing amount for an individual project may be adjusted up to (a) $75,000 for consumer finance initiatives; (b) $200,000 for small business finance initiatives; or (c) $1,500,000 for individual commercial projects.

   Historically, based on the availability of funds, the Efficiency Maine Green Bank has offered consumer loans up to $15,000 and small business loans up to $35,000. By contrast, the first C-PACE project (a secured loan product that did not use capital from Efficiency Maine) was approximately $8 million. Going forward, we anticipate initially offering consumer loans up to $50,000, small business loans up to $100,000, and C&I loans up to $500,000 (including bridge capital). However, we recognize that there could be a role for our financing initiatives to fund larger projects using larger loan amounts. For instance, a comprehensive home energy project that included whole-home heat pumps, PV, energy storage, an EV charger and/or weatherization could surpass $50,000. If it appeared that there were a demand for consumer loans of this size, and that we could manage the risk with appropriate financing tools, we may want to offer larger loan amounts. A look at the comparative loan size allowed by other entities provides useful context. Competitive offerings, such as those by Mosaic Financial, allow residential consumer borrowing amounts up to or exceeding $100,000. For larger commercial projects, heat pump and VRF retrofit projects for C&I projects can exceed $500,000. The US Small Business Administration (SBA) and Finance Authority of Maine (FAME) offer loans or loan insurance with immediate decisions for projects up to $1.5 million. To start, Staff seeks authorization to raise the maximum loan levels up $75,000 for consumer loans, up to $200,000 for small businesses and up to $1.5 million for individual commercial projects.