

# Introduction to WHEEL

The Warehouse for Energy Efficiency Loans

June 13, 2012



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- A collaboration between EPC, Pennsylvania Treasury Department, Renewable Funding, and Citigroup Global Markets
  - Supported by NASEO
- WHEEL provides low-cost, large-scale private capital to state and local government and utility-sponsored residential energy efficiency loan programs
- Goal to create a secondary market for clean energy loans, which over time will deliver better financing terms with declining reliance on subsidy
  - WHEEL facilitates this by purchasing & aggregating loans to support the issuance of investment grade-rated securities
  - Bonds are sold to capital markets investors; sale proceeds recapitalize WHEEL allowing it to continue purchasing loans from participating programs
  - A robust secondary market will support more attractive financing with less dependence on public subsidy

# Why is WHEEL Necessary?

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- Effective energy efficiency financing programs require two sources of funding:
  - Credit enhancement funds to mitigate risk and support attractive financing
  - Senior capital to fund the majority of the loan principal
- Pennsylvania Treasury began its Keystone Home Energy Loan Program (Keystone HELP) expecting to hold loans to term
- However, the program's success presented a problem: Treasury would soon exhaust all the funds it was prepared to make available for this class of assets (~\$25M)
- Without additional available capital for new loans, HELP would need to stop offering financing for energy efficiency improvements
- Treasury soon realized that a functioning secondary market would be necessary to continue its own efforts, let alone scale up energy efficiency lending on a national basis
- WHEEL was designed to meet the capital needs of Keystone HELP and similar programs around the country

# Why Join WHEEL Now? Immediate Benefits!

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- Sustainable source of private capital
  - Simple, efficient way to deploy funds with a sustainable source of private capital
- Broadly available product
  - 640+ FICO; 5, 7 & 10 year terms; target rate to borrower <10%
    - Sponsors provide credit enhancement to achieve target rate to borrower
    - Sponsors can provide additional funds to further reduce rate
- Leverage and Program Income
  - Significant upfront leverage + potential for Program Income (stream of revenue returned to sponsors) that exceeds sponsor credit enhancement contribution
- Safe and effective use of public money
  - Sponsor downside risk limited to credit enhancement contribution
  - Creation of a robust secondary market for clean energy loans will lead to lower rates and less dependence on public subsidies
- Convenience and Flexibility
  - Participating in WHEEL is easy and straightforward. In addition, it has the flexibility to support existing programs and allows for programs to be designed to reflect local priorities

# Primary Roles and Responsibilities

Entity	Role	Responsibilities
EPC	Sponsor Relations	<ul style="list-style-type: none"> <li>▪ Outreach to states and other potential program sponsors</li> <li>▪ Ongoing sponsor relations and oversight of WHEEL program</li> </ul>
PA Treasury Dept.	Warehouse Investor* & Program Sponsor	<ul style="list-style-type: none"> <li>▪ Senior warehouse investor (along with Citi)</li> <li>▪ Manage ARRA funds for PA Dept. of Environmental Protection</li> <li>▪ Provider of loans via Keystone HELP</li> </ul>
Citi	Investment Bank & Warehouse Investor*	<ul style="list-style-type: none"> <li>▪ Senior warehouse investor (along with PA Treasury Dept.)</li> <li>▪ Assist issuer in structuring bonds for sale</li> <li>▪ Assist issuer in ratings process</li> <li>▪ Market bonds</li> <li>▪ Sell bonds to capital markets investors</li> </ul>
Renewable Funding	Issuer	<ul style="list-style-type: none"> <li>▪ Purchase and aggregate loans</li> <li>▪ Issue bonds</li> <li>▪ Engage rating agencies and facilitate ratings process</li> <li>▪ Engage investment bank (Citi)</li> <li>▪ Work with investment bank to structure and market bonds</li> </ul>
	Master Servicer	<ul style="list-style-type: none"> <li>▪ Responsible for protecting bondholder interests</li> <li>▪ Aggregate and report loan pool performance data</li> <li>▪ Manage loan pool accounting</li> <li>▪ Approve and oversee servicers and originators</li> </ul>

\*Subject to certain internal approvals.

# How WHEEL Works

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- **Step 1:** Sponsor deposits funds into custodial account
- **Step 2:** A loan is originated in sponsor's jurisdiction and funds are drawn to support the purchase of that loan (the "interest rate buy down")
- **Step 3:** WHEEL aggregates loans across all participating programs to create a bond for sale to capital markets investors
  - Bond sale proceeds recapitalize WHEEL allowing it to continue purchasing loans from participating programs
- **Step 4:** After private investors in bond are paid off, remaining cash flows generate "Program Income" for sponsors
- **Step 5:** Program Income is recycled to support future lending or repurposed for other qualified uses\*

\*The U.S. Department of Energy issued guidance approving the use of SEP and EECBG funds in WHEEL on June 4, 2012.

# Program Income

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- Program Income is a return provided to sponsors who participate in WHEEL
- After bondholders are paid off, remaining payments (net of servicing related expenses) from the underlying pool of loans will generate Program Income
- The amount of Program Income a sponsor receives is dependent on a few factors:
  - The size of a sponsor's contribution and its relative credit enhancement;
  - The overall performance of the aggregated loan pool; and
  - The performance of loans originated in the program sponsor's jurisdiction
- Excellent loan performance may result in Program Income that exceeds a sponsor's contribution
- Poor loan performance may result in no Program Income

# Loan Pricing and Credit Enhancement

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- Pricing terms provided to loan originators daily
  - Based on market conditions
  - Rate to borrower given current market conditions: <10%
  - Exact rates will vary due to differences in servicing related fees and other factors
    - Details specific to sponsor programs in one on one discussions
  - Sponsors may choose to provide additional credit enhancement funds to further reduce rate to consumers
- Tiered credit enhancement structure
  - Credit enhancement is determined by borrower credit profile (FICO)
  - Program Income may exceed sponsor credit enhancement contribution

# Moving Forward

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- Q&A
- Schedule One-on-One session with WHEEL Team
- Contacts:

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