

WHEEL: A Sustainable Solution for Residential Energy Efficiency

Introduction to the Warehouse for Energy Efficiency Loans (WHEEL)

The Energy Programs Consortium (EPC) and the National Association of State Energy Officials (NASEO), along with the rest of the WHEEL Team, are pleased to announce the establishment of WHEEL. The purpose of WHEEL is to provide low cost, large scale capital for state and local government and utility-sponsored residential energy efficiency loan programs. On June 13, 2012, the WHEEL Team conducted a webinar to introduce the program.¹ We are currently scheduling one-on-one meetings with parties interested in participating in WHEEL to discuss program details and next steps. Please contact Elizabeth Bellis (ebellis@energyprograms.org) or Cisco DeVries (cisco@renewfund.com) for additional information or to schedule a one-on-one meeting with the WHEEL Team.

WHEEL's strategic objective is to create a secondary market for residential clean energy loans and deliver the resulting benefits – a greater volume, and lower cost, of capital – to state and local energy loan programs. WHEEL facilitates secondary market sales by purchasing unsecured residential energy efficiency loans originated in participating programs. The loans are aggregated into diversified pools and used to support the issuance of rated asset backed notes sold to capital markets investors. Proceeds from these note sales will be used to recapitalize WHEEL, allowing it to continue purchasing eligible loans from state and local programs for future rounds of bond issuance.

Sponsors that choose to participate in WHEEL will realize numerous immediate and future benefits:

- **Sustainable source of private capital.** WHEEL purchases and aggregates energy loans to support the issuance of investment grade rated securities. This allows for both a national scale and a potentially unlimited amount of low cost capital to flow to participating programs. WHEEL offers sponsors a simple and efficient option to reduce their reliance on unsustainable, non-scalable and/or expensive sources of funding.
- **Broadly available product.** WHEEL supports a fixed-rate product (expected rate to borrowers <10%) that serves a wide range of consumers seeking to pursue energy improvement projects. Loans with 5, 7, and 10 year terms will be available to borrowers with 640+ FICO scores.²
- **Leverage public funds.** Sponsors will significantly leverage their public funds (ARRA, public benefit, utility, etc.) with a sustainable source of private capital.³
- **Program Income.** Excess cash flows from loan pools backing bonds will allow WHEEL to provide a return ("Program Income") to its sponsors. Overall loan performance will determine the amount, if any, of Program Income that sponsors will receive. Excellent performance will result in Program Income that exceeds a sponsor's original contribution of public funds.
- **Efficient use of public subsidy.** WHEEL is designed to reduce the cost of capital over time by expanding the public performance data available for these loans, familiarizing secondary market

¹ If you were unable to attend the webinar, an archived recording is available at <http://naseo.org/committees/financing/documents/2012-06-13-WHEEL.htm>

² Consumers will pay interest at a fixed rate for the term of the loans. The rate will be determined at the time of origination based on current market conditions.

³ The U.S. Department of Energy has approved the use of ARRA funds in the WHEEL program. See SEP Guidance dated June 4, 2012 and EECBG Guidance dated June 4, 2012.



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investors with the asset class, and achieving increasing economies of scale as more and more loans are sold into the warehouse. Strong loan performance will lead to greater investor demand, which will be reflected in lower rates for consumers.

- **Flexible options for sponsors.** WHEEL offers sponsors important flexibility to design their programs to reflect local priorities. Sponsors may provide additional buy down funds to reduce interest rates to borrowers even further, and may offer varying levels of incentives to encourage deeper energy conservation improvements.

How WHEEL Works

Step 1. Sponsor transfers ARRA or other public funds to a custodial account held for its benefit at a financial institution.

Step 2. When a loan is originated in the sponsor's jurisdiction, its public funds are drawn to support the purchase of the loan.

Step 3. During the aggregation period, WHEEL purchases – and holds – loans from all participating programs to create a bond for sale to secondary market investors.

Step 4. After private investors in the bond are paid off with the revenues from the loan pool, remaining cash flows from the loan pool will be returned as Program Income to sponsors.

- *The amount of Program Income paid to a sponsor will depend on its contribution relative to the size of the entire loan pool and the overall performance of the loan pool.*

Step 5. Program Income can be recycled to support future lending in the sponsor's jurisdiction or reallocated for other uses.

WHEEL Team

EPC, in collaboration with the Pennsylvania Treasury Department and Forsyth Street Advisors, started developing WHEEL over two years ago. In 2011, Renewable Funding and Citigroup Global Markets Inc. joined the WHEEL Team. The program, as described above, is the culmination of the WHEEL Team's efforts as well as negotiations with states, the U.S. Department of Energy and other stakeholders.

Citigroup Global Markets Inc.

Citi is a leading corporate and investment bank with expertise in alternative energy, securitization and warehouse finance. As a consistent leader in the asset-backed securitization market, Citi has extensive experience in financing consumer loans and in structuring and executing securitizations of new asset classes.

Energy Programs Consortium

EPC is a non-profit organization based in Washington, DC. EPC is a joint venture of NASCSP, representing the state weatherization and community service programs directors; NASEO, representing the state energy policy directors; NARUC, representing the state public service commissioners; and NEADA, representing the state directors of the Low-Income Home Energy Assistance Program.



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Pennsylvania Treasury

The Pennsylvania Treasury Department is the custodian for more than \$100 billion of public funds on behalf of the Commonwealth of Pennsylvania. Since 2006, the Department has provided capital to the Keystone Home Energy Loan Program. The Department's work on the development of WHEEL has been supported by Forsyth Street Advisors.

Renewable Funding

Renewable Funding specializes in design, administration, technology, and financing solutions for clean energy upgrade programs. Since 2008, the firm has worked with over 200 clients across the U.S. to structure and administer residential and commercial financing programs.

Contact Information

To schedule a one-on-one meeting with the WHEEL Team please contact Elizabeth Bellis or Cisco DeVries:

Elizabeth Bellis
Energy Programs Consortium
202-333-5915
ebellis@energyprograms.org

Cisco DeVries
President
Renewable Funding
510-451-7902
cisco@renewfund.com

