Introduction to WHEEL

The Warehouse for Energy Efficiency Loans

August 2012
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- A collaboration between EPC, Pennsylvania Treasury Department, Renewable Funding and Citigroup Global Markets
  - Supported by the National Association of State Energy Officials (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?

- 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
- 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!

- **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 Revenue**
  - Significant upfront leverage + potential for 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

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<th>Entity</th>
<th>Role</th>
<th>Responsibilities</th>
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| EPC                         | Sponsor Relations                | ▪ Outreach to states and other potential program sponsors
▪ Ongoing sponsor relations and oversight of WHEEL program                                               |
| PA Treasury Dept.           | Warehouse Investor* & Program Sponsor | ▪ Senior warehouse investor (along with Citi)
▪ Manage ARRA funds for PA Dept. of Environmental Protection
▪ Provider of loans via Keystone HELP                                                                   |
| Citi                        | Investment Bank & Warehouse Investor* | ▪ Senior warehouse investor (along with PA Treasury Dept.)
▪ Assist issuer in structuring bonds for sale
▪ Assist issuer in ratings process
▪ Market bonds
▪ Sell bonds to capital markets investors                                                                |
| Renewable Funding           | Issuer                           | ▪ Purchase and aggregate loans
▪ Issue bonds
▪ Engage rating agencies and facilitate ratings process
▪ Engage investment bank (Citi)
▪ Work with investment bank to structure and market bonds                                                  |
|                             | Master Servicer                  | ▪ Responsible for protecting investor and bondholder interests
▪ Aggregate and report loan pool performance data
▪ Manage loan pool accounting
▪ Approve and oversee servicers and originators                                                            |
| Approved Originators/       | Originate and Service Loans       | ▪ WHEEL works directly with approved loan originators and servicers
▪ WHEEL has already approved AFC First Financial to originate and service loans
▪ Additional originators/servicers can be approved as appropriate                                         |

*Subject to certain internal approvals.
How WHEEL Works

- **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”), which is primarily funded by senior warehouse capital

- **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 (if any) generate revenue for sponsors

- **Step 5**: Revenue from remaining cash flows 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, and in July 2012 the General Counsel provided that associated revenue from this structure would not be subject to SEP and EECBG guidelines.
Revenue

- Sponsors who participate in WHEEL may receive revenue from cash flows remaining after senior investors have been repaid.

- After bondholders are paid off, remaining payments (net of servicing related expenses) from the underlying pool of loans will generate revenue.

- The amount of revenue a sponsor receives is dependent on a few factors:
  - The size of a sponsor’s contribution and its relative credit enhancement;
  - The performance of loans originated in the program sponsor’s jurisdiction; and
  - The overall performance of the aggregated loan pool.

- Excellent loan performance may result in revenue that exceeds a sponsor’s contribution.

- Poor loan performance may result in sponsor receiving no revenue.
Loan Pricing and Credit Enhancement

- Pricing terms provided to loan originators
  - 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)
  - Revenue may exceed sponsor credit enhancement contribution
Moving Forward

- Schedule One-on-One session with WHEEL Team
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