

Northeast Sustainable Energy Association 2011 Conference

- The Future of PACE:
The Path Ahead for Local Finance Projects
 - A First Mortgage Lender's Perspective

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Boston, March 8, 2011

First Mortgage Financing

- Underwriting History: 2002 through 2007
 - Underwriting for all property types was aggressive
 - Properties were fully leveraged, some were over leveraged
 - Many properties cashed out their equity
 - Great opportunity to require cash out towards retrofit
 - Energy Efficiency had yet to really emerge
 - Where did the money go?
 - Sometimes back into the properties
 - Into an owner's pocket

Mortgage Financing

- Underwriting History 2008 – 2010
 - The mortgage financing world changed
 - Debt is much harder to come by
 - Underwriting has been severely restricted
- Energy Efficiency Emerges
 - Cost of oil spikes in 2008
 - New political environment – Hope for carbon reduction

PACE Financing Emerges 2008-9

- Timing is difficult
 - Lenders are licking their wounds
 - Real Estate has lost significant value
 - Foreclosures are way up
 - New lending is way down
- Idea for PACE is great
 - Save people money during a recession
 - Introduce new capital as the banks pull back

Priming the Mortgage

- Lender's see red
 - PACE obligation seen as a threat to full first mortgage repayment
 - Portfolios everywhere are underwater
 - PACE further depletes repayment in the event of foreclosure
 - Perspective may be flawed
 - PACE advocates see it as a viable option to a broken mortgage market

Residential vs. Commercial

- Issues are different
 - Residential loans are small – low risk, high LTV
 - Is there a perpetual source of capital for them?
 - Is there originations infrastructure to handle the demand for these loans?
 - Will it work across the income spectrum?
- Commercial
 - Scopes and loans are larger
 - Lien position is a greater concern

PACE – Part of the Solution

- In the absence of PACE, what will the lending community do?
- How can we engage the broader markets to take on energy efficiency as a part of the process?
- The math is clear – energy savings can cover the cost of the debt required to do the work

Retrofit Financing Solution: Make it part of Mortgage Delivery System

- The majority of buildings have 2 things in common:
 - They all use energy
 - They all have a mortgage
- Make benchmarking & retrofit part of loan process
 - Train Loan Officers to benchmark
 - Audit – 3rd party report like an Appraisal or a Phase One
- To get to retrofit at scale – financing is key
 - The money is in the private sector
 - Awareness will increase and demand will grow
 - Just like Phase Ones

The CPC Green Initiative Launched September 17, 2009

- **Simple**
 - Financing available for building owners to retrofit
 - CPC One Stop Shop: Construction and permanent financing blended with public incentives
- **Sensible**
 - Improve property cash flow & increase value
 - Add retrofit to the standard mortgage process
- **Sustainable**
 - Increase efficiency, improve performance of buildings
 - Provide a better living environment for residents

CPC Loan Production to Date

- Closed to date
 - 14 loans
 - 1,395 units
 - \$29,588,000 – CPC dollars
 - \$19,954,000 – subsidy and incentives
- Pipeline
 - 19 loans
 - 1,551 units
 - \$49 million CPC dollars
 - \$33 million subsidy and incentives
- Dead Deals
 - 42 loans, 2,529 units
 - \$72 million – CPC, \$3 million subsidy and incentives

Why is this Opportunity Attractive

- Works for all properties types seeking a mortgage
- No added step to access capital for energy related work
- Considers the entire building holistically
 - Retrofit part of overall physical needs
 - Doesn't pull energy out as a separate unit
- Downside
 - People want and need to retrofit when they don't need a mortgage
 - PACE is a good alternative here

How Do We Get There?

- Demand for retrofit has to increase
 - Owners are not going to independently do this on any large scale
- Need to overcome “retrofit apathy”
 - Lenders require it (like a Phase One)
 - Government regulation
 - Green Reinvestment Act (GRA) like CRA
 - Oil and utility prices spike permanently and drive conservation