



STATE OF VERMONT
OFFICE OF THE STATE TREASURER

TO: House Committee on Commerce and Economic Development
Senate Committee on Economic Development, Housing and General Affairs
Senate Committee on Finance

FROM: Beth Pearce, State Treasurer *Beth*

DATE: December 16, 2013

RE: Report on Sec. 8a. of Act No. 87 of 2013
Credit Facility for Residential Energy Efficiency Loans

This memorandum provides the State Treasurer's report detailing the steps taken to establish a credit facility of up to \$6.5 million to implement the financing of energy efficiency improvements to residential dwellings in Vermont, and to minimize the associated administrative costs.

As of December 16, 2013, the Treasurer's Office has completed loan agreements with NeighborWorks® of Western Vermont for up to \$2 million, and with the Vermont Housing Finance Agency (VHFA) for \$2.8 million, and is working with Efficiency Vermont to potentially negotiate a loan agreement in the amount of \$1.7 million for residential energy efficiency loans for a pilot thermal efficiency program for middle income (up to 120% of median income) single-family households, beginning in 2014. If this latter agreement is successfully completed, this will close out the full \$6.5 million authorized under Act No. 87; if it is not, both NeighborWorks® and VHFA have indicated a desire and a willingness to find additional uses for some or all of the remaining financing authorization.

NeighborWorks®

NeighborWorks® has a successful track record of helping 627 Rutland County homeowners make their homes more energy efficient. On average, these homeowners are saving approximately \$1,000 per year in energy costs and reducing their carbon emissions by over 5,300 pounds per year. NeighborWorks® has provided energy efficiency loans to 146 of these homeowners, for a total volume of \$1.7 million. No loans have been charged off and the delinquency rate as of December 2012 is zero. Of the 146 loans originated, 25% have been to households earning less than 80% of Area Median Income.

In order to continue financing these efforts, and to assist NeighborWorks® in expanding its efforts to the rest of Vermont, the Treasurer's Office and NeighborWorks® completed a loan agreement on October 4, 2013. NeighborWorks® received the first tranche of financing in the amount of \$250,000 via a promissory note on October 22. The funds were loaned at a rate of 2.00 percent, to be repaid quarterly on the 15th of January, April, July and October, commencing January 15, 2014. Principal prepayments may occur on any interest payment date, and all principal is due to be repaid by October

15, 2023, corresponding to a loan term of approximately ten years. Based upon NeighborWorks® experience with similar programs, the loan repayments are expected to have an average life of five years, and as such the 2.00 percent loan rate corresponds to the 5-year U.S. Treasury Note yield plus 0.60 percent.

Per the terms of the loan agreement, NeighborWorks® must lend to homeowners at a rate not greater than 3.00 percent above the corresponding rate on borrowings from the Treasurer's Office. Assuming a repayment schedule with an average life of five years, NeighborWorks® would be expected to collect less than \$1,650 in administrative fees over the life of a \$10,000, ten-year loan. We believe these administrative fees are reasonable, especially in the context of a program that originates and is required to service numerous individual loans of relatively small dollar amounts.

VHFA

The Treasurer's Office and VHFA completed a loan agreement on December 6, and VHFA requested a single tranche of financing in the amount of \$2,800,000 via a promissory note which will be funded on January 15, 2014. The funds will be loaned at a rate of 2.76 percent, to be repaid semiannually on the 15th of February and August each year, commencing August 15, 2014. Principal repayments will occur on a set amortization schedule with the final payment due February 15, 2024, corresponding to a loan term of approximately ten years. The average life of the VHFA loan amortization is approximately seven years, and as such the 2.76 percent loan rate corresponds to the 7-year U.S. Treasury Note yield plus 0.60 percent.

This \$2.8 million loan was integral to VHFA's 2014 ABC Multifamily Bond transaction in the amount of \$20,162,820, which involved financing for 12 projects, representing 329 units of housing. The \$2.8 million will be used to finance energy efficiency improvements for projects representing 111 units of housing at Wright House in Shelburne and Bardwell House in Rutland. In addition, the State is providing moral obligation to support bonds which will, among other things, fund rehabilitation that also includes energy efficiency improvements at Rail City in St. Albans and Richmond Terrace in Richmond.

VHFA's weighted average loan yield to borrowers was 6.49 percent for the 2014 ABC Bonds, and its aggregate borrowing cost was 4.78 percent, for a spread of 1.71 percent. This spread pays for VHFA's servicing costs over the life of the loans, is within the legal guidelines for loans of this type, and is in line with similar such previous financings completed by VHFA.

I am extremely pleased with the results of our efforts under Act No. 87 thus far, and look forward to continuing to work with the General Assembly, our partners at NeighborWorks®, VHFA, and Efficiency Vermont, and with other prospective borrowers to continue to promote and finance residential energy efficiency improvements in the State of Vermont.

Please contact me at beth.pearce@state.vt.us or 828-1452, or my Deputy, Steve Wisloski, at stephen.wisloski@state.vt.us or 828-5197 with any questions regarding this report.

cc: Ludy Biddle, NeighborWorks® of Western Vermont
Sarah Carpenter, Vermont Housing Finance Agency
Peter Adamczyk, Vermont Energy Investment Corporation