Efficiency First Comments on the PowerSaver Pilot Program
December 27, 2010

On behalf of 1,141 companies, employing over 14,000 people, composing the nations home performance workforce Efficiency First, recommends the following changes to the PowerSaver program. This program comes at a time when energy bills are rising and the ability of homeowners to access credit and or pay for energy improvements is diminished. This loan program can help both homeowner and the energy efficiency industry at a critical time. Efficiency First proposes the following changes to the PowerSaver loan product. Our goals in proposing these changes include:

- Improved consumer access to quality energy savings information as part of the improvement purchasing process,
- Continued expansion of the home performance whole house approach to saving energy,
- Improved loan performance for FHA and their lender partners,
- Improved energy performance data as part of a process of continuing to improve the performance of the home performance industry.

These goals can be achieved by expanding access to whole house energy audits delivered by qualified service providers. The infrastructure for providing these audits continues to expand through the private market and through utility and programs such as the Better Buildings grantees. It is important that the PowerSaver loans continue to support this market expansion. The opportunity for HUD to support the whole house home performance market is large, if the necessary changes are made. The converse is also possible. Unless care is taken, the PowerSaver program could end up supporting the installation of single measure solutions, while having a negative impact on the delivery of whole house solutions and market transformation.

The basic changes proposed here attempt to provide qualified whole house home performance service providers with differentiated access to the PowerSaver loan product in return for their ability to meet a higher set of standards, with the energy audit and the energy audit results being at the core of the additional requirements. These services can provide customer and FHA additional value without requiring changes to existing business process.

Within the context of the Home Performance retrofit market, unsecured loans make up the majority of the loan activity. Separate standards for secured and unsecured loans can be used

to create an effective and streamlined unsecured loan product that builds on the success of existing loan programs.

We look forward to ongoing productive engagement with HUD staff on the development and deployment of the PowerSaver loan product.

Accurate Energy Savings Prediction

The use of an energy audit can improve the ability of the consumer to choose improvements with the best return on their investment and also be used to screen for improvements that meet standards of cost and benefit to the consumer. Accurate prediction of savings will allow consumers to place more trust in investment decisions that depend on savings predictions and for the secondary market to recognize actual savings and their impact on loan performance.

The standards for the energy audits can draw upon existing RESNET Comprehensive Energy Audit and BPI Energy Audit Standards, the transition to include the proposed DOE work practice guidelines, calculation standards in development by BPI (due February 2011) and software approval criteria in development by RESNET (due January 2011).

Appraisal / Energy Audit options

The use of the energy audit and the SIR requirements for savings performance should eliminate any requirement for appraisals in the unsecured loan products.

A requirement for a Savings to Investment Ratio[1] can be used when a comprehensive energy audit and performance simulation is conducted. For example, if 75% of the loan is required to be energy improvements, require that the energy improvements be shown to be cost effective using a Savings to Investment Ratio calculation. This approach is frequently used by utility and other programs that have cost effectiveness requirements so it is not a significant market barrier. Net Present Value lifetime savings can also be provided to support consumer decision making.

The due diligence of the risk of the loan should relate directly to the loan's purpose. A common standard across all federal programs would bring consistency and credibility to the savings numbers. Instead of an appraisal, a home energy assessment from either a RESNET or BPI Certified auditor using HERS BESTEST approved software demonstrating completed results with a SIR of .75 or higher provides the additional value. Energy assessment, contractor credentials and the Quality Assurance process all go together to minimize risk. Should market conditions warrant a need for recent sales comparables, using the Automated Valuation Method for appraisal of the property as this appraised value will provide the secondary market with a strong product to purchase. This home energy assessment is in compliance with the EPA Home Performance with Energy Star program.

[1] http://cfr.vlex.com/vid/436-21-savings-investment-ratio-19616786

Utility Bill Analysis

Make it a requirement that the homeowners sign a disclosure to allow access to utility bills, pre and post installation, to the contractor and any third party that will evaluate the pilot programs. Pre-installation energy bills can bind any energy assessment to the usage of house at a point in time. This is important to prevent the gaming of savings estimates. Post installation access to bills allows for the actual savings analysis. This analysis combined with the payment performance and SIR calculation from the assessment is essential if energy efficiency loans are to receive the appropriate rating in the secondary market. Billing data collection is already a part of the DOE Better Buildings data collection requirements.

Dealer loans

Home performance contractors are a select group with required credentials and utility or state program registrations. Their ability to aid the homeowner in the application and processing of loan documents will be critical to the success of the loan program.

Probably the most limiting aspect of the proposed PowerSaver loans is the proposed rule excluding dealer loans. This has the most impact on the unsecured loan product. Excluding dealer loans slows down the contractor sales process significantly, making the loan less competitive. Within current energy programs dealer loans have not created any quality problems when an energy audit is being provided by a service provider subject to quality oversight. Inability ability to offer dealer loans will likely have an impact on loan volume similar to a significant increase in interest rate. If linked to existing mechanisms for contractor quality assurance, this limitation is unnecessary.

The PowerSaver Pilot has a distinct advantage over the Title One product with its focus on the energy retrofit market rather than the broad home improvement contractor.
The home performance contractor is a select professional that has invested in certifications well beyond that of the general contractor. These contractors are evaluated by the utility companies and municipal governments in order to be placed on those approved lists. For example, Home Performance with ENERGY STAR programs all include quality assurance plans approved by the US EPA. The additional registration and monitoring by the Lenders provide another checkpoint and insures that the homeowner sign off on the completion certificate before the final payment is made.

There are several loan options in place today that utilize online application and quick approval response within 24 to 48 hour approval. If the contractor cannot present the PowerSaver option and secure a brief credit application to forward to the Lender, the Pilot will not have good market acceptance. PowerSaver has great potential that only the home performance contractor can present at the point of sale.

Current updates to the Title One payment process insist that the payment be made to the homeowner who pays the contractor. It is essential that the contractor gets paid upon the certificate of completion being sent to the Lender. The final payment needs to be direct to the contractor or a two party check to ensure that the contractor is paid. For example, AFC First has been successful with this hybrid loan payment method with its Keystone Energy Loan. In summary,

- Electronic processing of applications: current industry practices of electronic submission as provided by Viewtech, AFC and EFS for the Fannie Energy Loan or by EGIA for the GE Money Loan. Energy Upgrade California's Financial Clearinghouse will provide a homeowner interface to apply and compare different loan options available.
- Permit contractors to present PowerSaver loans direct to homeowners
- Provide education for the contractor or vendor on the loan application process.
- Provide contractors, conditional upon homeowner's sign-off on completed work, with direct payment of total job costs.

Use of Incentives

The PowerSaver Pilot Program needs to expressly allow that third parties (including Federal agencies, state and local governments, investor owned utilities and private organizations, and nonprofit organizations) may pay discount points or other financing charges in connection with the Title I loan transaction and encourages third parties to work with participating lenders on this basis. In addition, as noted, lenders may utilize HUD incentive payments under the Pilot Program for this purpose. This should also include the use of incentives to create Loan Loss Reserve pools to increase the range of eligible borrowers.

Extend Loan Limit

If a service provider is participating in a quality assurance system and provides a qualified energy audit the limit on the unsecured loans should be increased to $12,500. The additional security provided by external quality assurance and the screening of improvements using the energy audit makes this very viable and a low risk way to reward the whole house home performance approach. This cap should be automatically adjusted over time based on inflation, following metrics provided by US Bureau of Labor Statistics current data on Consumer Price Index (CPI).

Loan Application Streamlining

In order for the PowerSaver to reach wide market acceptance, a streamlined application procedure should be implemented. This would include electronic application and AUS approval similar to the DU approval that is used with FHA Title II products. HUD is encouraged to streamline this loan application with the chosen Lenders in order to provide 48 hour initial approval and funding within 10 days. Assure reasonable application fees, if any, for all PowerSaver loans.

Use of Funds

As much home performance work includes related health and safety, and building durability, 25% of the work completed should be allowed to be related but not be subject to an energy savings requirement.

Credit Score Alignment

Additional households can be served and coordination of loan products increased by aligning the PowerSaver credit score requirement to Fannie Mae Energy Loan. Currently stated, PS is 660 FICO minimum and a 45% DTI while Fannie went to 640 and 50% DTI.

Pilot Research Approaches

Pilot Programs which test different research questions under a common set of PowerSaver loan criteria will be of enormous value in documenting the efficacy and value of a number of risk mitigation and public adoption elements. A number of the definitive metrics that can produce better underwriting, energy efficiency standards and valuation can be defined. DOE has already developed a data collection standard for loan information. The Home Performance XML standard developed by BPI and coordinated with software providers and the EPA Home Performance with ENERGY STAR program can provide rich information on the recommended and installed improvements. Referencing industry standards for data collection allows supports improved aggregation of data and greatly reduced cost of reporting and data handling, and allow for better evaluation of aggregated data. www.homeperformancexml.org.

Access to verified data energy savings is the gold standard for the evaluation of actual impacts and can provide additional information on the relative quality of work done. If pilot programs can be coordinated with programs that have access to actual pre and post energy usage information this can be achieved. The USDOE Building America program also provides a channel for data access and evaluation.

Coordination with the Home Energy Score pilots can also be considered. Homes retrofitted could be provided with a Home Energy Score after improvements. The HES low cost audit process can produce general improvement recommendations but not at the specificity of the diagnostic audits necessary to provide work scopes for specific home performance improvements with specific costs. The Home Energy Score can help homeowners to obtain better market recognition for the energy efficiency investments made.

ABOUT US

Efficiency First is a national nonprofit trade association that unites the Home Performance workforce, building product manufacturers and related businesses and organizations in the escalating fight against global warming and rising energy costs. Efficiency First represents its members in public policy discussions at the state and national levels, to promote the benefits of

efficiency retrofitting and to help our industry grow to meet unprecedented demand for quality residential energy improvements.