

LWG VERBAL FEEDBACK

A. FINANCIAL REQUIREMENTS

1) Credit Quality

Verbal Comments from Lender Working Group

- Lender - measure borrower's eligibility by income, not FICO or DTI – credit worthiness is not a proxy for income
- Lender - 600 is too low
- Lender - 640 is a marginal quality FICO score so 600 is much too low

Written Comments from Lender Working Group

- Lender (Denise Walker, Country Bank) - The credit score of 580 is very low. Typically with a score this low there would be recent delinquencies; will there be guidelines the DOER wants us to follow on how to view recent delinquencies? For example, if they are currently 30 or 60 days late on their mortgage, we will not approve the loan. Will that be acceptable?
- Lender (Thomas Becker, Hanscom Federal Credit Union) - We lend based on individual circumstances, not just on just DTI and FICO. We will adjust term, loan amount, payment, etc. based on individual needs, constraints, credit history, other unsecured debt, stability of employment and income, etc. There are many other factors to consider. We will not commit to a loan program or to making a loan based on just DTI and FICO. Again, this would be in violation of our underwriting policies and would be a red flag to our Federal regulator, NCUA, as a "safety and soundness" issue.
- Central Administrator (CSG) - FICO Score minimum was altered to <720 on the chart on slide 8, but the requirement to go to 640 FICO Score and 45% DTI was not changed on slide 5. This was an improvement from the original proposal but lenders should be allowed to use their own criteria to approve customers for the loans. Lenders present at the August 20th meeting requested that the DTI be raised to at least 50%.
- Lender (Peter Moffet, Eastern Bank) - I am sure most lenders will agree that a mandate for credit scores and ratios is not the way to go. Lenders are the experts in the credit qualifications of a borrower and much like mortgage lending, with mortgage insurance, do not make the decisions based on the probability of recovery on a loan that has a high likelihood of default. Similar to Heat Loans Lender should be allowed to set their own standards and guidelines.

2) Credit Enhancement

Verbal Comments from Lender Working Group

- Lender - Maintain the same IRB for all borrowers
- Lender - Eliminate the LLR
- Loan Stakeholder - Created an increased interest rate buy down for moderate to low income borrowers
- Loan Stakeholder - For moderate to low income borrowers offer a separate grant or adder as opposed to an SREC pre-buy

Written Comments from Lender Working Group

- Lender (Denise Walker, Country Bank) - Will we qualify the borrower at the buy-down payment or the full payment once the buy-down is done?
- Lender (Tom Becker, Hanscom Federal Credit Union) - The LLR is an additional layer that complicates the program and would more than likely require a third party to administer, adding complexity, time delays and costs that don't outweigh the benefits and returns of the program. We already reserve for loan losses and this would be a waste of government funding and a duplication of effort.
- Lender (Thomas Becker, Hanscom Federal Credit Union) - Changing the IRB based on whether or not the borrowers are low/moderate income borrowers, again, adds another level of complexity to, what should be, a simple loan program. Who will verify that the borrowers are low/moderate income borrowers? And, if after the loan is disbursed, it is determine they are not, but they received a higher IRB, then what is the penalty? How will this be monitored? You will be adding complexity and costs to a program that will make it less desirable for everyone involved.
- Central Administrator (CSG) - The lenders will be determining eligibility for the loan based primarily on credit worthiness of the customer. Therefore, CSG and the lenders present at the working group meeting on August 20th expressed that there was no need for a loan loss reserve for all customers. This opinion is based on the HEAT Loan experience in Massachusetts. The default rate has consistently been under .55% since the beginning of the HEAT Loan program in 2006. Also, lenders have their own LLRs for all loan types. So setting aside public funds for this purpose is not warranted or prudent, especially when DOER is concerned that funding for the Solar Loan might be inadequate to extend the initiative several years.
- Central Administrator (CSG) - The presentation showed a new rate of 7.5% however there is no note indicating whether it is tied to the prime interest rate if the prime changes. It is also unclear why DOER is recommending this higher maximum rate. Is it because most of these are 10 year term loans which therefore have higher risk for lenders due to the longer term? If so, then CSG recommends reducing the maximum loan term to 7 years in which case the program could lower the maximum rate to 5% (same as the HEAT Loan) and also lower the buy-down costs to the program due to the shorter term and lower interest rate. This will also allow more solar to be financed with the available funding

3) SREC Assignment

Verbal Comments from Lender Working Group

- Lender - Make SREC assignment to bank an option instead of mandating assignment to Central Administrator

4) Re-amortization

Verbal Comments from Lender Working Group

- Loan Stakeholder - As opposed to requiring a no-cost, on time reamortization instead:
 - i. Offer the option for banks to issue two notes, one for the federal tax credit and one for the remainder of the loan after the tax credit has been paid to the lender

- ii. Offer an ability for lenders to adjust the monthly payment associated with a portion of the tax credit within 12 – 18 months

Written Comments from Lender Working Group

- Central Administrator (CSG) - The draft proposes that the lenders will need to offer to re-amortize the loan within the first 18 months of closing the loan. This is a burdensome concept that will also add unnecessary complexity and confusion for both consumers and lenders. A tax credit does not necessarily mean a refund. Tax credits sometimes must be spread over multiple tax years. This concept is flawed and should be scrapped.
- Central Administrator (CSG) - As lenders recommended at the August 20th meeting CSG also suggests adding a minimum loan payment of \$100 for smaller loans. This will reduce buy down costs to the program and servicing costs for the lenders for these smaller loans.

5) Term/Monthly Payments

Verbal Comments from Lender Working Group

- Lender - Require 10 year term *OR* minimum payment of \$100 monthly
- Loan Stakeholder - Ensure customer understands that giving the lender an immediate pre-payment on the loan can lower the monthly loan payments

Written Comments from Lender Working Group

- Lender (Tom Becker, Hanscom Federal Credit Union) - A 10 year term for an unsecured loan is well outside our loan policy and would be considered a “safety and soundness” issue by our primary regulator, NCUA.
- Lender (Peter Moffet, Eastern Bank) - The 10 year term is excessive. We went through a similar discussion when it was proposed Heat loans go to \$50,000. Based on present values and long term interest rate risk lenders argued against any increase, beyond, 7 years, regardless of loan amount. The Heat Loan remains a 7 year max term.

6) Disbursement

Verbal Comments from Lender Working Group

- Installer - Lender disburse at least 50% of loan when the installation begins so that they can manage the UCC-1 installer and any installer risk
- Installer - Industry standard – by end of installation the installer has cashed 80% - 90% of the cost of the array
- Installer - Deposit of \$300, when array design finalized disburse 25%, when installation done majority disbursed (60%), at interconnection remainder is disbursed

7) Unsecured loan

Verbal Comments from Lender Working Group

- Lender - Unsecured loan is not a real property based loan
- Lender - UCC-1 filing can help to mitigate though is not completely secure

8) UCC-1 Filing

Verbal Comments from Lender Working Group

- Lender - UCC-1 filing becomes a compliance issue if borrower is above 45% DTI and at or below 640 credit score
- Loan Stakeholder - Make sure customer has full understanding of UCC-1 filing implications

Written Comments from Lender Working Group

- Lender (Denise Walker, Country Bank) - Why do we have to file a UCC instead of a mortgage? On our residential side we do not use UCC's so I'd prefer to use a mortgage if possible
- Lender (Tom Becker, Hanscom Federal Credit Union) – If we secured the loan with either a UCC-1 or a mortgage lien against the property this would add additional costs to the program which certainly outweigh any returns.
 - i. Also, if the loan was secured, it would fall under Dodd-Frank “Qualified Mortgage/Ability To Repay” rules limiting the DTI to 43%. This would hamper our ability to make loans to qualified borrowers with other positive loan attributes.
 - ii. Also, if the loan is secured, what would it get us? We are not going to repossess any solar panels. It would be cost prohibitive, treacherous and there is no viable secondary market to resell them. So why secure it?
- Lender (Peter Moffet, Eastern Bank) - This type of filing would not give lenders enough security for many of the transactions. The probability of repayment for the higher risk, lower scoring borrower, would not be increase with this approach.

9) Tax Credit

Written Comments from Lender Working Group

- Central Administrator (CSG) - Federal tax credits are scheduled to be reduced in 2016. The draft MA Solar Loan also plans to reduce the interest rate buy-down in 2016. The combination of these factors will lead to an excessive amount of activity in late 2015 and a slowdown in 2016. CSG recommends reassessing the state of the solar market in late 2015. If the market demand and expected cost reductions are not on track, perhaps the planned reduction in interest rate buy-down could be minimized or pushed back to 2017.

10) Moderate and Low Income Borrowers

Written Comments from Lender Working Group

- Central Administrator (CSG) - The new principle buy down for moderate income customers is a step in the right direction to lower the principle of the loan so more moderate income customers can qualify for a solar loan. However, it is not clear who is determining the eligibility of the applicant: the lender or the Central Administrator?

B. TECHNICAL REQUIREMENTS

1) Warranty

Verbal Comments from Lender Working Group

- Installer - Eliminate service and maintenance plan from technical requirements, unrealistic

- Installer - Consider the fact that there is a lifetime warranty on the panel

Written Comments from Lender Working Group

- Central Administrator (CSG) - 10 year term loans are required but there is uncertainty surrounding how service and warranty will be handled. CSG recommends requiring 10 year material warranties on all major components and requiring 100% post-installation verification inspections (as is done currently in the HEAT Loan program). These enhancements will make the program more attractive to the lenders, and will provide additional assurance to consumers.

C. PROGRAM STRUCTURE

1) Heat Loan Incorporation

Written Comments from Lender Working Group

- Central Admin (CSG) - Duplicates an Existing Energy Loan Program: The most significant recommendation that we continue to make is for DOER to engage in a more inclusive stakeholder process that includes the utilities and energy efficiency Program Administrators (PAs) to evaluate if the Residential Solar Loan should simply be added to the existing Mass Save HEAT Loan program as an additional measure. Existing lenders, administrators, quality control, systems, and procedures already exist in the Mass Save HEAT Loan program. Therefore, we believe it is paramount that this option be evaluated before launching a parallel and potentially competing loan product. The most important aspect of this recommendation would be to bring solar and efficiency together in a common strategy. This concept of breaking down silos between efficiency and renewables was discussed recently in DOER's Updating Residential Conservation Services stakeholder meetings, so it is confusing to CSG why DOER would concurrently be proposing to create a new 'silo'.
- Central Admin (CSG)- Combining the Residential Solar Loan with the Mass Save HEAT loan will require asking the PAs to work with DOER and other stakeholders in a working group to evaluate the options and any potential concerns. For example, the PAs may need appropriate recognition and goal achievement if the energy efficiency funds supporting Mass Save HEAT Loan were to also support solar PV (e.g. - solar kwh production incorporated as the same as efficiency kwh reductions for goal achievement). In addition, PA's and Program Implementers will need to be assured that the procedures and integration will not adversely impact the existing EE program initiatives.

2) Lender Friendly

Written Comments from Lender Working Group

- (Central Admin, CSG) - There are several aspects of the draft that are inconsistent with typical lender policies and procedures. This includes expecting lenders to evaluate the projected cash flow from SRECs, tax credits, and reduced electric bills. Lenders base their underwriting on credit worthiness. CSG recommends leaving the cash flow discussion to the solar salespeople and allowing the lenders to focus on credit worthiness such as income to debt ratios as their primary evaluation criteria.

3) Consumer Friendly

Written Comments from Lender Working Group

- Central administrator (CSG) - Some consumers will want to, or may need to, replace their heating system (gas, oil, heat pumps, etc.), insulate their home, and/or also want to add solar PV at the same time. Asking them to go through two different programs and take out two separate loans is a very confusing and poses a real barrier to achieving the overall goals of the Massachusetts clean energy strategy.

4) Contractor Friendly

Written Comments from Lender Working Group

- Central Administrator (CSG) - Not Contractor Friendly: Many of the Home Performance Contractor (HPC's) are currently including, or may want to include, solar PV in their product mix. Similarly, some solar contractors may want to become HPCs. This 'silo' approach will discourage such developments.

5) Community Shared Solar

Written Comments from Lender Working Group

- Central Administrator (CSG) - At the August 20th working group meeting time expired before all of the slides were reviewed. We recommend that further clarification be sent on slide 11 to lenders interested in participating in the program. We expect most lenders do not understand the requirement for Community Shared Solar and probably won't be able to comply to this request if it involves lending to renters or to customers who are not living where the solar installation is taking place.

6) MLP Eligibility

- Central Administrator (CSG) - Not Available Statewide: As drafted, it appears that this program will not be available in municipal electric communities. CSG recommends that DOER should consider options to make this available statewide. This may require the municipal electric departments to "buy-in" and/or offer incentives, but there should be an optional path for these communities.

7) Leverage

- Lender (Peter Moffet, Eastern Bank) - It was also my understanding that the reserves would be 30M. Based on the explosive growth of the Heat Loan a 4 year volume projection for the solar program of 148M is probably very conservative. If the reserve pool is static and the growth exceeds projections then this amount could be inadequate. As a lender we have seen reserve pools of mortgage insurance companies and state loan program agencies diminish to the point of having no funds to pay claims.