

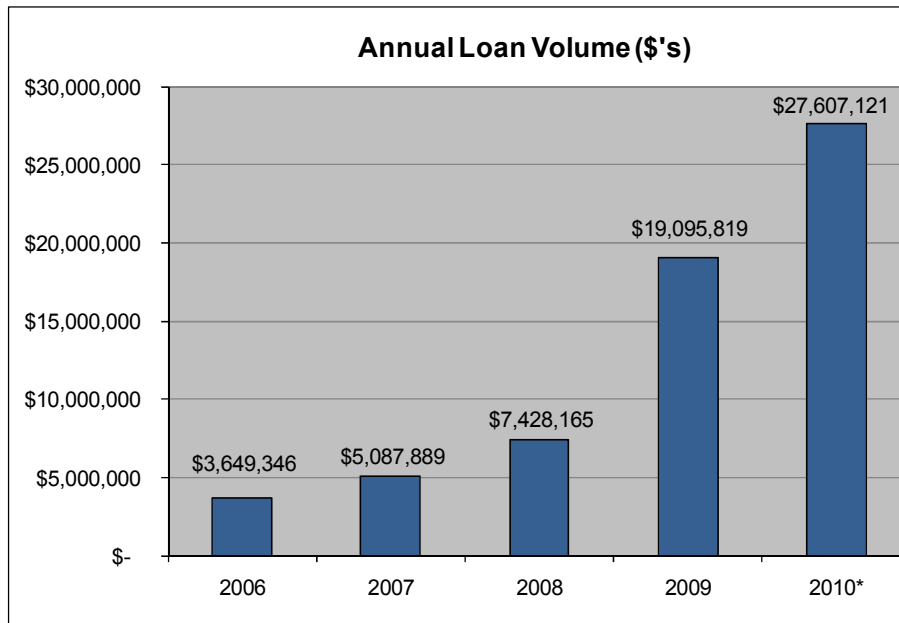
## HEAT Loan Program Summary

### Overview:

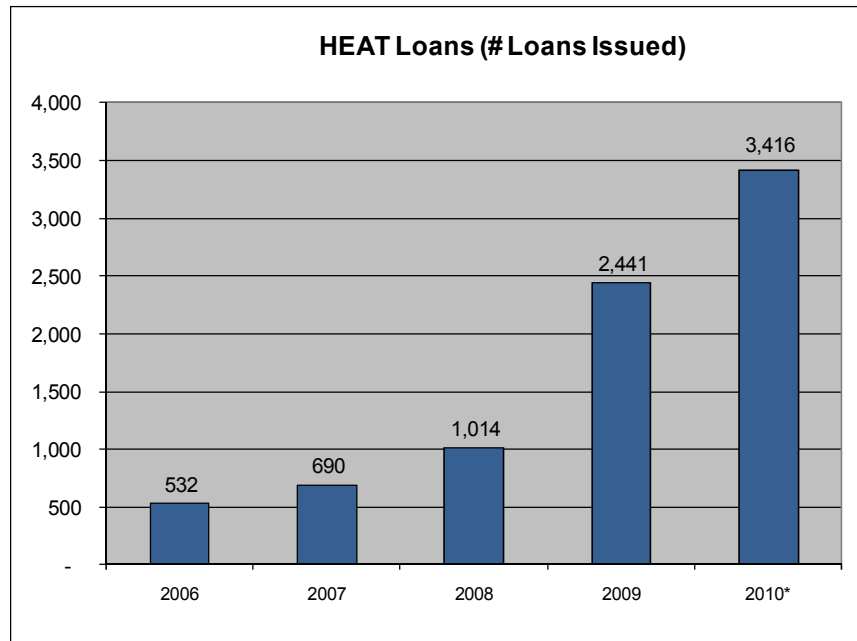
The Mass Save® Residential HEAT Loan Program provides low interest loans for the installation of qualified energy-efficient improvements in Massachusetts homes and rental properties. It is offered through a partnership between local lenders and the Mass Save Sponsors, the state’s investor-owned gas and electric utilities and the Cape Light Compact to their residential customers. The Program is one of the largest residential energy efficiency lending initiatives in the nation and serves as the Sponsors’ primary tool to overcome the “first cost” barrier to adopting energy efficiency upgrades – the initial capital outlay.

### Summary:

Massachusetts HEAT Loan lenders issued the largest total amount for energy efficiency loans in the country in 2010, over \$27.6 million in personal unsecured energy efficiency loans, up 45% over 2009. Also in 2010, 3,416 residential customers took out HEAT loans to pay for efficiency measures, up 40% over 2009. Over the life of the program, begun in 2006, participating lenders have financed over \$62.5 million in energy efficiency loans, serving over 8,000 households. Average loan sizes have risen steadily over time, reaching \$8,080 in 2010, up from \$6,860 in 2006.



Source: DOER, EFI, EnerBank NA, NStar, and National Grid



Source: DOER, EFI, EnerBank NA, NStar, and National Grid

HEAT Loans are personal, unsecured (>99%) loans made by twenty three local banks and credit unions in Massachusetts. Lenders serve credit worthy borrowers at an interest rate benchmarked to the Prime rate plus one percent, or a floor of five percent, whichever is greater. Utilities provide customer acquisition, monitoring and verification and capital to buy down the interest rate to 0% within 45 days of loan origination. This relationship has proven very effective and beneficial for all parties, enabling greater adoption and deeper energy savings than would be the case without financing.

#### HEAT Loans Terms (2010):

Loan Size: \$5k to \$15k  
 Loan Type: Personal unsecured (99%) or secured (<1%) loans  
 Qualifications: Issued to borrowers of good credit (often FICO scores >620, standards differ by lender)  
 Loan Term: Terms up to 7 years  
 Interest Type: Fixed, Amortizing  
 Interest Rate: 0% (Utility incentive programs buy rates down)  
 Cost of Capital: Prime +1% with a floor of 5%  
 Requirements: Customers must receive utility service from an investor owned utility and undergo a no cost energy assessment from Mass Save to qualify. Only approved measures identified through inspection qualify for financing.

#### New for 2011:

In 2011, the residential Mass Save HEAT loan program has been expanded to serve an even larger portion of the market. New loan minimums start at \$500 and rise to as much as \$25,000. Landlord owned and commercial properties can also take advantage of low cost financing for energy efficiency starting in 2011.

#### HEAT Loan Averages:

Avg. Loan size: ~\$8,080 (2010 and up from ~\$6,860 in 2006)

Defaults: ~0.79% defaults (non-severity weighted, cumulative)<sup>1</sup>  
Pre-Payments: ~0.66% prepayment (cumulative)<sup>2</sup>

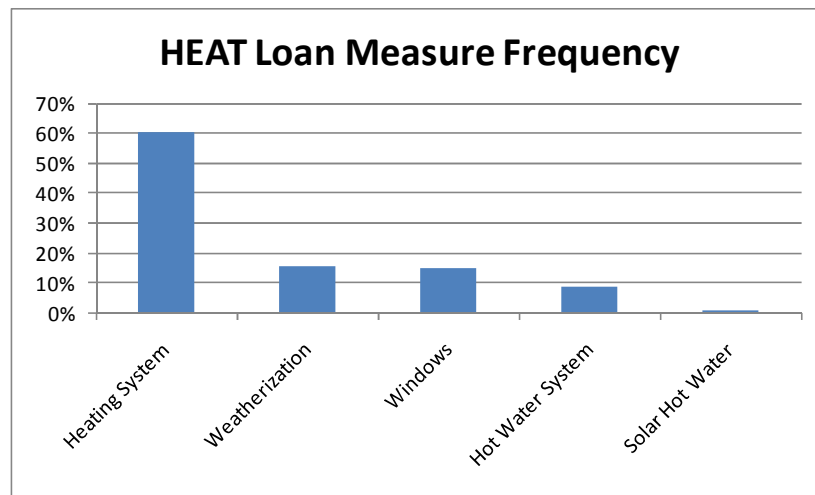
**Program Structure / Delivery:**

Loans are underwritten by participating lenders according to individual underwriting standards. The loans are issued through a customer driven process that involves:

- Undergo a qualifying home energy assessment through Mass Save (no cost)
- Select approved measures for improvement (including contractor bids)
- Submit a HEAT Loan form for pre-approval
- Contractor/customer submits completed and finalized application/invoice to lender
- Lender issues dual signature check to customer (in name of contractor)
- Customer signs bank issued check acknowledging work completed satisfactorily and remits to contractor

**Measures Employed:**

The HEAT Loan program only lends for qualified energy efficiency improvement measures. The distribution of efficiency measures showed a large preference towards financing for boiler and hot water heater replacements. This tendency may reflect the fact that smaller measures (weatherization, etc.) were rarely financed separately given the low dollar value and high loan minimums (\$5k). Boilers represented an even greater proportion of the total dollars financed (~65%) given their high capital cost. Window replacements also received a higher proportion of the dollars financed due to their higher capital costs and lower rebates, but from a much smaller starting point (14% to 21%).



Data for 2006-2010

**Approval and Acceptance Rates:**

Each HEAT Loan lender utilizes its own methodology and acceptance criterion in the underwriting process. The result of these diverse underwriting methods and standards have been positive with the HEAT Loan program experiencing an ~87% median acceptance rate with a median lender FICO of 734.

<sup>1</sup> Defaults are measured for EFI participating lenders and represent a majority of total loan volumes.

<sup>2</sup> Pre payments are measured for EFI participating lenders and represent a majority of total loan volumes.

**Interest rate buy-down:**

The HEAT Loan program has issued more than \$62.5 million in energy efficiency improvement loans in support of Massachusetts efficiency initiatives since 2006 and is on pace to exceed \$90 million in cumulative lending by calendar year end 2011. Lending partners currently provide capital to the program at the Prime rate + 1% with a floor of 5%. Given that Prime rates have been stable at 3.25% for over two years, the interest rate has stabilized at 5% since 2008. Utility programs, which buy down the rate to 0%, spent ~15% of loan principle (~\$1,200 per loan) in 2009 and 2010 as an incentive to promote energy efficiency adoption. The HEAT Loan incentive is in addition to other rebates and direct installation incentives offered by the utilities.