

Building Successful Partnerships with Third-Party Administrators and Financial Institutions

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Today's Presenter – Jeff Pitkin



- Treasurer (chief financial officer) for New York State Energy Research and Development Authority (NYSERDA) – Retired 2021
 - Responsible for design, implementation and management of residential financing program, which used third-party loan origination and loan servicing
 - From 2010-2023, program issued over 40,000 loans totaling more than \$514 million
 - A separate program also offered a co-lending structure for energy efficiency loans to small businesses with participating private lenders.

- Currently Senior Consultant/Subcontractor to Lawrence Berkley National Laboratory, providing technical assistance to states for Energy Efficiency Revolving Loan Fund Capitalization Grant Program

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Housekeeping

- Today's webinar: Building Successful Partnerships with Third-Party Administrators and Financial Institutions
 - Purpose: Provide information on how to effectively partner with program administrators and lender for RLF programs
 - Brief Q&A session at end of today's webinar
 - Office hours May 31, 2024 1pm ET for more in-depth and state-specific discussion

- Next partnership webinar: Building Successful Partnerships with Energy Auditors and Project Contractors, June 25, 2024 1pm ET
 - Office hours July 12, 2024

- Free direct technical assistance services from Berkeley Lab: select "Get Technical Assistance" on EERLF Resource Page
<https://www.energy.gov/scep/revolving-loan-fund-technical-assistance-resources>)



Agenda

- Review of terminology
- Role of partners during program lifecycle
- Characteristics of good partnerships
- Goals and objectives for partnerships
- Tactics and best practices for partnerships with third-party administrators
- Tactics and best practices for partnerships with lenders
- Q&A



Terminology

Partnership: An arrangement where two or more parties agree to **cooperate** to advance their **mutual interests**.

RLF program partners can include:

- **Program administrator** – a person/organization that develops and implements a program
- **Lender** – an organization that lends funds to a borrower with the expectation that the funds will be repaid
- Energy auditors
- Project contractors
- Others



Role of partners during program lifecycle

Phase 1 – Program design

Setting program goals, assessing market gaps, identifying target market/sector(s). Gathering partner feedback in program design.

Partners:

- Program administrator (optional)

Phase 3 – Program execution

Implementing, monitoring, adapting, and troubleshooting.

Partners:

- Program administrator (optional)
- Lender (required for co-lending/LLR/IRB)
- Auditor/contractor

Pre-award/pre-capitalization

Award – 180 days


180 days on

Phase 2 – Establishing partnerships

Developing documents and agreements, navigating procurement, vetting potential partners.

Partners:

- Program administrator (optional)
- Lender (required for co-lending/LLR/IRB)

 **Note:** Today's webinar is primarily focused on **Phase 2**, but partners can be involved throughout phases.



Characteristics of Effective Partnerships

- Open communication
- Accessibility
- Flexibility
- Complementary strengths
- Measurable results
- Commitment



Goals and objectives for partnerships with third-party administrators

- Access expertise to supplement internal staff resources
 - ▣ Program design
 - ▣ Loan and project approvals
 - ▣ Reporting and program performance
 - ▣ Interfacing with auditors and contractors

Option	Advantages	Disadvantages
Self-administered	<ul style="list-style-type: none"> • Control program delivery 	<ul style="list-style-type: none"> • Requires expertise that may not be available in house • May compete with other staff and program priorities
Partially Outsourced	<ul style="list-style-type: none"> • Access external expertise (particularly important for compliance with federal/state regulations for lending and loan servicing) • Alleviate some staff burden 	<ul style="list-style-type: none"> • Small number of fee-for-service providers (except servicing)
Fully Outsourced	<ul style="list-style-type: none"> • Same as partially outsourced • Alleviate more staff burden 	<ul style="list-style-type: none"> • Same as Partially outsourced • Less control over program delivery



Goals and objectives for partnerships with lenders

- Partner with experienced and reputable lenders who can meet objectives of the revolving loan fund program
- Access capital from lending partners to expand the reach of the program

RLF Structure	SEO acting as lender, or through third-party administrator	Requires lending partner(s)
Direct Lending	X	
Co-lending		X
Interest rate buydown		X
Loan loss reserve		X



Tactics and best practices



Tactics/best practices – Third-party administrators

- Define role(s)
 - Program design
 - Program administration (financial and operational)
 - Discrete subcomponents or tasks, including but not limited to:
 - Lender recruitment, training and support
 - Energy auditor recruitment, training and support
 - Project contractor recruitment, training and support
 - Program marketing
 - Federal grant compliance (DBA, BABA, NEPA)
 - Tracking and reporting on project and loan outcomes
 - Other

- Determine whether competitive bidding (RFP) is required



Tactics/best practices – Third-party administrators

RFP content recommendations

- Clearly define tasks and deliverables
- Clearly define minimum requirements (e.g. experience) for respondents
- Request information on project team (resumes/CVs)
- Consider compensation approach and request pricing information
- Require references from similar engagements



Tactics/best practices – Third-party administrators

RFP process recommendations

- Consider holding a pre-bidder's conference
- Consider including external reviewers in proposal review committee
- Address RFP marketing
- Develop proposal evaluation criteria (scoring rubric). Illustrative example:
 - Experience
 - Demonstrated ability to develop and/or implement revolving loan funds
 - Demonstrated ability to develop and/or implement programs for energy audits, upgrades/retrofits, and or/financing in target market
 - Qualifications of key project personnel
 - Community engagement
 - Demonstrated ability to work with communities
 - Demonstrated experience with serving underserved communities and underrepresented groups
 - Reporting
 - Demonstrated ability to develop and track program metrics
 - Pricing



Tactics/best practices – Third-party administrators

Post RFP issuance

- Proposal review
 - ▣ Scoring rubric
 - ▣ Evaluation process

- Develop contract

- Ongoing monitoring of services
 - ▣ How are things going?
 - ▣ Continuous process improvement
 - ▣ Look for red flags (complaints, responsiveness) and address them early



Tactics/best practices – Lenders

Program Design for Number of Lender Partners

Approach	Pros	Cons
One lender	<ul style="list-style-type: none"> - Economies of scale - One system, process and set of lending terms for SEO, borrowers and contractors - Select “best” partner 	<ul style="list-style-type: none"> - May not be able to effectively serve multiple markets and whole state - May require termination and replacement
Multiple lenders selected through single RFP	<ul style="list-style-type: none"> - Manageable number of lenders, systems, processes and terms for SEO, borrowers, and contractors - Improves coverage 	<ul style="list-style-type: none"> - May require reissuance of RFP later - SEO, borrowers, and contractors have multiple systems, processes, and terms
Multiple eligible lenders approved through application	<ul style="list-style-type: none"> - Allows unlimited number of institutions to participate 	<ul style="list-style-type: none"> - SEO, borrowers, and contractors have multiple systems, processes, and terms



Tactics/best practices – Lenders

Selection/Eligibility Criteria

- Competitive selection evaluation criteria
 - ▣ Experience serving proposed market(s)
 - ▣ Experience with clean energy lending
 - ▣ Systems/processes
 - ▣ Minimum loan underwriting criteria
 - ▣ Maximum loan interest rates

- Eligibility criteria
 - ▣ Type of organization – bank, credit union, CDFI, other
 - ▣ Could require that they are federal/state regulated
 - ▣ Authorized to operate as lending organization in the state

- Consider gathering pre-RFP market feedback from state lender associations on program design and partnership approach



Questions for Potential Lending Partners/Associations (Pt. 1)

Background Questions

- In general, what underwriting criteria do you (your members) use for loans to customers in our target market sector(s)?

- In general, what is the maximum loan term you offer to customers in our target market sector(s)?

- In general, what interest rates do you offer for loans to customers in our target market sector(s)?

- Is there a financing structure that would allow you to:
 - Expand your underwriting criteria, and how so?
 - Expand the duration of loan terms to facilitate uptake to support retrofit loans that may require longer repayment periods?



Questions for Potential Lending Partners/Associations (Pt. 2)

RLF Strategy

- If a **co-lending** structure were provided to support your loans with a portion of the loan capital provided from our revolving loan fund at low/no-interest, what interest rate would you propose to offer to borrowers, and what participation share would be required?

- If a **loan loss reserve (LLR)** structure were provided, what would be a reasonable portfolio percentage and loss sharing percentage to use?
 - For example, the Michigan Saves program offers a LLR set at 5% of the principal amount of loans issued and reimburses the lender 75% of eligible loan losses. Would these be reasonable? If not, what would you recommend and why?
 - Are there any concerns with using a LLR strategy that we can address in program design?

- If the limited program funding were used for **interest rate buydowns** (with no recycling of capital), what amount of reduction would you recommend and in which borrower segments, income/credit profiles, project types, or geographic areas to achieve the most impact? How could this lead to market transformation and help address barriers to adoption?



Questions for Potential Lending Partners/Associations (Pt. 3)

RLF Strategy

- Given our goal of removing barriers to the adoption and scaling of energy efficiency projects, which intervention strategy—co-lending, interest rate buydowns, or loan loss reserves—do you favor to address these barriers, and why?
- Given our goal of ensuring equitable access to financing in Justice40/disadvantaged communities, do you have thoughts on how we could provide emphasis to address financing need of borrowers in these communities?
- Share a draft program term sheet for feedback



Term Sheet – example format

Program Sponsor	
Program Administrator	
Funding/ authorization	
Program Lender(s)	
Eligible Projects	
Energy Audit Requirements	
Eligible Borrower	
Minimum Loan Underwriting Criteria	
Loan Terms	
Loan Loss Reserve	
Program Sponsor Responsibilities	
Participating Lender Responsibilities	
Process for Selection/ Approval of Program Lender(s)	
Federal requirements	
Agreements	



Tactics/best practices – Lenders

Lender management

- Clarify roles and responsibilities
 - ▣ Loan origination and servicing (typically the lender)
 - ▣ Project approval (typically the program administrator)
 - ▣ Auditor/contractor management (typically the program administrator)
 - ▣ Regulatory compliance
 - ▣ Emphasis on timely operations

- Lender monitoring
 - ▣ Review loan reports
 - ▣ Periodic meetings
 - ▣ Consider circumstances for termination



Additional Resources

- RLF Bootcamp in [RLF Resource Library](#) for a refresh on RLF program design and implementation

- Sample agreements and RFPs
 - ▣ <https://www.energy.gov/scep/revolving-loan-fund-technical-assistance-resources>, Part 4 – Case Studies and Sample Documentation

- Upcoming announcement on NASEO RFI/Service Provider List

- Resources resulting from technical assistance deliverables (see EERLF Resources page)
 - ▣ RLF Proforma tool
 - ▣ Questions for Potential Lending Partners
 - ▣ Additional documents coming



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For more information

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Q&A

