

HOW CITIES CAN EDUCATE LENDERS ON ENERGY EFFICIENCY

WHAT IS THE PROBLEM?

Despite the benefits of energy efficiency for property owners, there is still only limited financing readily available for energy efficiency. While there are innovative niche financing solutions, such as PACE and performance contracting structures, more

traditional commercial lending activities need to scale up to enable broader investment in efficiency. Cities can play an important role in educating lenders about the benefits and importance of offering and providing customers with financing options for energy efficiency improvements.

5 WAYS THAT COMMERCIAL LENDERS CAN CATALYZE INVESTMENT IN ENERGY EFFICIENCY:

1

INCLUDE BUILDING ENERGY PERFORMANCE DATA INTO UNDERWRITING PROCEDURES. Data on building energy performance from mandatory benchmarking and disclosure laws or voluntary benchmarking can help appraisers evaluate operating expenses during the underwriting process.

2

ADOPT UNDERWRITING PROCEDURES THAT INCORPORATE THE PROJECTED COST SAVINGS OF ENERGY EFFICIENCY. Some lenders are starting to account for energy cost savings during underwriting, incorporating some percentage of those savings into anticipated operating expenses, thereby increasing a borrower's net operating income and debt service coverage ratio.

3

INCORPORATE THE FEATURES OF HIGH ENERGY PERFORMANCE BUILDINGS INTO APPRAISALS. High-performance buildings generally have lower utility bills, which translates to a higher net operating income and increased building value. Empirical research also shows that high performance buildings have higher occupancy rates and receive a rent premium, all adding to building value. Factoring these attributes into building appraisals will more accurately demonstrate the real value of high-performance buildings.

4

EXPLICITLY INCLUDE FINANCING ENERGY EFFICIENCY AS AN ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) POLICY GOAL. While most lenders have ESG goals, providing loans for energy efficiency is not explicitly called out. Adding energy efficiency explicitly would increase its visibility within lending institutions.

5

TRAIN ALL LENDING STAFF ON ENERGY EFFICIENCY FUNDAMENTALS AND HOW TO INCORPORATE THEM INTO LOANS. Most lending staff do not have the background to accurately assess the impacts of energy efficiency as part of the underwriting process. Incorporating this as a key component of training would provide lending staff with the needed tools and knowledge to more accurately assess energy-efficient buildings and projects.

LENDERS THAT DO INCORPORATE EFFICIENCY IN THEIR LENDING PROCESS

- **Fannie Mae Green Rewards.** Multifamily properties that target a 10% or higher reduction in annual energy or water use are eligible to receive a lower interest rates, increased loan proceeds, and an energy audit. Improvements must be installed within 12 months of loan origination and borrowers are required to report on annual energy metrics, including an ENERGY STAR score.
- **Community Preservation Corporation (CPC).** CPC is a New York City based nonprofit has a more holistic view of underwriting energy and water efficiency. As part of new employee training, all staff are trained to identify and integrate energy and water efficiency savings into each loan product. Building owners are encouraged to benchmark and analyze energy use. CPC generally underwrites up to 50 percent of the projected future savings, allowing building owners to increase their possible loan amount. The borrowers receive the cash flow from any additional savings.

WHAT ROLE CITIES CAN PLAY

- Cities can serve as a trusted third party to educate lenders on the benefits and importance of energy efficiency.
- Cities can leverage their ongoing relationships and convening power with local stakeholders, such as energy efficiency implementers and service providers, the real estate community, the financial community.
- Cities can advance their own clean energy policy objectives by helping lenders better understand the importance of energy efficiency and its role in decreasing operational costs for buildings.

HOW CITIES CAN EXERT INFLUENCE

- Direct outreach to lenders located in the city.
- Hold workshops on energy efficiency finance, including useful information for lenders.
- Organize a roundtable discussion about how to make more financing available for energy efficiency inviting lenders, real estate and energy efficiency stakeholders.
- Develop action items and follow-up.

ADDITIONAL RESOURCES

- [INSTITUTE FOR MARKET TRANSFORMATION'S ENERGY EFFICIENCY FINANCE FOR COMMERCIAL BUILDINGS: INSIGHTS FROM LENDERS](#)
- [INSTITUTE FOR MARKET TRANSFORMATION'S FINANCING ENERGY EFFICIENCY THROUGH MORTGAGE LOANS](#)
- [INSTITUTE FOR MARKET TRANSFORMATION'S LENDERS GUIDE](#)
- [INSTITUTE FOR MARKET TRANSFORMATION'S LENDERS INFORGRAPHIC](#)
- [U.S. DEPARTMENT OF ENERGY'S BETTER BUILDINGS FINANCING NAVIGATOR LOAN OR DEBT FINANCING](#)