

HFA: Pennsylvania
Entry: Renovate & Repair for Energy Efficiency

In September of 2006, PHFA unveiled a new program to help homeowners of modest means make repairs and improvements to their home. The mission of the program is to prevent homeowners from falling victim to unscrupulous lenders and/or contractors, a common hazard in the remodeling world. It offers attractive loan terms, but also provides additional assistance beyond funding to homeowners: guidance on prioritizing repairs and improvements to the home, contractor selection and oversight, and housing counseling including debt management and home maintenance.

The Renovate & Repair (R&R) program is administered locally through a partnership between a local or regional lender and a non-profit or municipal entity (in some cases the non-profit or municipality also performs the lender's duties if they have experience in originating residential mortgage loans). The lender underwrites and closes the loan, while the public or non-profit housing entity conducts a home evaluation and then helps the homeowner prioritize the repairs/improvements, select a contractor, monitor the construction process, and make payments to the contractor(s).

PHFA funds and services the loans, and performs training, marketing and underwriting support services. Additionally, since 2007 we have strategically "stretched" our original R&R loan program as energy efficiency became more of a focus. The program partnerships and enhancements we have incorporated help Pennsylvanians make their homes more energy efficient and support our legislature and governor in their efforts to encourage energy efficiency improvements to PA residents. The state goals, as everywhere, are to increase PA's number of green jobs, improve existing housing stock - especially to encourage "smart growth", and save our homeowners' money. All while retaining the program's original focus - to provide homeowners with an affordable loan and offer expert advice and support before and during the construction process.

At about the same time that PHFA was designing its R&R program, a private program called Keystone HELP® was formed (HELP stands for Home Energy Loan Program). This involved a partnership between AFC First, a lender specializing in unsecured home energy loans, and the West Penn Power Sustainable Energy Fund, a regional nonprofit organization that was once associated with an electric utility company. Keystone HELP® became a state-affiliated program during 2006 when, the Pennsylvania Treasury Department committed \$20 million in lower cost funding, which resulted in below market rates to consumers on unsecured loans of up to \$10,000.

However, the HELP program still couldn't assist consumers who wanted to take more proactive approach to lowering their home's energy consumption, by making improvements with costs that often exceeded \$10,000. For example, owners of detached single family homes can spend upward of \$30,000 for the installation of a geothermal heating system. It was for this reason that PHFA joined forces with AFC and the Commonwealth Treasury in 2007. We provide our secure R&R loan, up to \$35,000, through the storefront of the Keystone HELP program.

Further improvements occurred in July of 2008, when the state passed the Alternative Energy Investment Act, a \$650 million initiative to fund various programs, including over \$90

million to the state's Department of Environmental Protection to fund 'consumer energy conservation projects.' Part of this funding is being used as an interest rate subsidy for R&R Energy Efficiency loans where the consumer chooses to perform the work as recommended by a certified energy audit. The total suite of programs available is outlined on the attached matrix (the R&R for Energy Efficiency are the secured loan options).

The program is innovative in its design because it employs numerous partners, as follows:

- Pennsylvania Housing Finance Agency – provides funding, servicing, marketing and underwriting support for the secured loans;
- AFC First Financial – markets full suite of programs and maintains a network of reputable contractors and auditors; provides training; originates, underwrites and closes loans;
- Pennsylvania Treasury Department – provides funding for unsecured loans and consumer outreach;
- Pennsylvania Department of Environmental Protection—provides funding for interest rate subsidies.

Each partner performs a different yet vital role in providing a specialized suite of products to the consumer in a seamless fashion. What started out as a basic home repair program evolved into a more focused concentration on energy efficiency, as different funding sources and partnerships became available. Being flexible and adaptive has allowed us to refine our strategic objectives, leverage our marketing dollars, streamline our process and ultimately benefit more homeowners.

A key component to replicating such a program is finding a lender who specializes in home repair financing and who has an established relationship with a network of vetted contractors. The lender performs (and pays for) almost all of the marketing aspects of the program, with a vital part of their strategy being outreach to the contractors who are often the homeowner's first point of contact. Another key ingredient is working with the state's environmental agency, in this case, the Pennsylvania Department of Environmental Protection. As funding becomes available from the federal government, it is often channeled to states. These agencies may already be running some grant programs, but may be unfamiliar with operating a residential loan program that presents many challenges, not the least of which is complying with the ever-changing landscape of state and federal mortgage regulations.

The use of multiple partners also allows for outreach to more markets through each of the organization's networks. PHFA advertises the program to its own network of over 50,000 homeowners who already have home loans with the Agency, as well as the general public. The lender makes outreach primarily to its contractor network but also to the general public through various advertising campaigns. The state departments of Treasury and Environmental Protection also market the program through their channels. In this way, many more consumers learn about and ultimately benefit from the program.

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Funding for the program comes from Agency reserves, with plans to issue a taxable bond in the future. PHFA has funded 625 loans for a total of over \$13 million through the R&R for Energy Efficiency partnership. The average loan is \$20,500 with a term of 15 years and an interest rate of 7.5%. The Agency pays out \$1,265 per loan for administrative costs and fees paid on behalf of some borrowers (those with incomes below 80% AMI). The fees are generally recouped within the first year, although it will take between 5 and 6 years to recoup the fees once a bond is issued. (Although, we also plan to reduce the administrative fee paid in the very near future so that this timeframe would be reduced to approximately 2 years.) Only 12 % of the loans have paid off thus far, and performance has been good: 3 are 60 days late, 3 are 90 + days late, and one foreclosure (1% total delinquency rate). The homeowner's benefit from reduced energy costs. And the program's overall funding has been greatly leveraged by combining the resources of three state agencies.