

Bonneville Power Administration

Residential Loan Program – Detailed Description

Program Overview

Bonneville Power Administration has developed the Residential Loan Program in order to secure a stable source of funds for residential conservation that is not subject to volatile wholesale power market prices nor swings in regional load resource balance. A source of funds not subject to these power market conditions can help provide the stability necessary to develop and implement long-term residential conservation programs.

Vendors often have financing options available to homeowners as part of their sales process. These vendors and the financing they provide are the basis for the Residential Loan Program. BPA has competitively selected First Mutual Bank of Bellevue, Washington (First Mutual) to offer homeowner loans through vendors in territories of participating Utilities in order to promote greater sales of energy conservation measures.

Customer Utilities participating in the Loan Program agree to promote the program and coordinate with First Mutual. Utilities may elect the Basic Option that focuses on heat pumps and window replacements or they may elect to custom design the program by choosing conservation measures from the list of eligible measures. Other available features enable participating Utilities to blend incentive payments into the vendor equipment sales process or to buy down interest rates, and more actively participate in the management of vendor pools.

To sign up for the program, customer Utilities fill out the sign-up sheet that outlines specific program preferences. Upon BPA's receipt of the completed sign-up sheet, First Mutual representatives, in cooperation with the Utility customer, will start by integrating vendors into First Mutual's system.

1. Eligibility

Utility Participation

1.1 All regional Utilities and the Energy Trust of Oregon are eligible to participate in the Residential Loan Program. Except as noted in Section 5 below, BPA will not require adjustments (decrement) to power sales contracts for conservation measures installed.

Conservation Measures

1.2 Conservation measures that can be installed under the Residential Loan Program are shown in Attachment A. These measures are a subset of those listed in the Conservation & Renewable Discount's list of measures as proposed by the Regional Technical Forum.

- (a) Measures installed through this Residential Loan Program must be installed in accordance with the current C&RD specifications for the measure installed.
 - (1) The Residential Loan Program will defer to Utilities when their specifications exceed BPA's C&RD specifications for the measures listed in Attachment A.

Other Measures

1.3 Other energy efficiency and non-energy efficiency measures may be added to the loan amount, provided First Mutual accepts the measures. Typically, these would be home improvement measures that are permanently affixed to the home.

Residential Facilities and Ownership

- 1.4 Homeowners of single-family homes, including manufactured homes, in territories of participating Utilities are eligible to apply for loans made by First Mutual. A single-family home for purposes of this program can include up to four units. Properties with more than four units or commercial facilities are not eligible for loans made through this program.

2. Program Offering

Basic Option

- 2.1 The Residential Loan Program's Basic Option focuses on the installation of heat pumps and windows. In the Basic Option, heat pump and window vendors will be identified by the Utility and qualified by First Mutual to offer loans for the sales of energy efficient windows and heat pumps.
- 2.2 Utilities participating in the Basic Option agree to the following:
- (a) Promote the program to their end-use consumers. Promotion may include, but is not limited to, providing homeowners with lists of vendors participating in the Loan Program, providing referrals to vendors, sending bill stuffers, radio and newspaper ads, or participation in BPA cooperative marketing campaigns. A participating Utility is not required to do all of these activities, but must promote the Loan Program in some form.
 - (b) Work with First Mutual to identify and select vendors. Coordination with First Mutual may include, but is not limited to, letting vendors in the community know about the program, providing names of vendors to First Mutual, assisting with scheduling and holding vendor training meetings, and keeping vendors informed of Utility program changes.
 - (c) Provide a cover sheet to be used by vendors that details conservation measures to be installed and any incentives used. The cover sheet will be provided to First Mutual along with the loan documents. If a cover sheet is not currently available, BPA may assist the participating Utility in preparing one. Cover sheets should include the following:
 - (1) the conservation measure(s) being installed;
 - (2) the energy rating of the measure where applicable;
 - (3) the installed price charged to the homeowner for the conservation measure;
 - (4) any Utility incentives provided;
 - (5) signature of the vendor certifying the measure(s) were/will be installed in accordance with the required specifications.
 - (6) Indication if incentive is to be used to buy down interest rate (if applicable)
 - (7) Any other "measure specific" data necessary to calculate energy savings or C&RD credit.

Custom Option

- 2.3 Participating Utilities may choose to custom design or adapt the Residential Loan Program to blend with their own specific conservation program goals. In this option, Utilities select the conservation measures they wish to promote. Participating Utilities are still required to promote the program and work in cooperation with First Mutual as outlined in Section 2.2 above.

Changing Program Options

- 2.4 Participating Utilities may make changes to their program at any time by updating their sign-up sheet and vendor list and forwarding it to their Energy Efficiency Representative. The updated sign-up sheet and vendor list will be forwarded to First Mutual so vendor sign-up packets can be delivered per the Utility's instructions as noted in the sign-up sheet.

Loan Information

- 2.5 First Mutual offers loan amounts up to \$20,000 for a term up to 12 years. Interest rates depend on a number of factors and recently they've ranged between 7.49 and 10.25 percent. The loans are unsecured with no Deed of Trust placed on the home. Within the range noted above, homeowners receive lower rates for electing the automatic payment option and/or agreeing to have a UCC financing statement filed as part of the loan (see "UCC" below). Homeowners electing the automatic deduction may have funds withdrawn from their checking or savings account at any domestic financial institution. First Mutual offers loans to qualified homeowners for more than just the energy conservation measures listed in Attachment A. First Mutual bears the default and credit risks of the homeowner.

UCC – A homeowner may choose to take advantage of a lower rate within the range as described above and in doing so agrees to have a UCC financing statement filed against the real property where the goods were installed. As of March 1, 2003, the rate discount for the UCC was .50% (but is subject to change). Because the UCC financing statement will show up on the title of the real property, when the homeowner sells the home, the underlying home improvement loan must be paid off. If the homeowner refinances the home or gets a second mortgage or line of credit, either the loan must be paid off or First Mutual must agree to subordinate the UCC to the new loan(s).

Utility Costs

- 2.6 BPA asks that participating Utilities promote the program and support First Mutual as noted in Section 2.2 above. First Mutual does not charge a fee to Utilities for participation in the program. First Mutual's costs are recovered through the interest rate charged for the loans made. Participating Utilities may, as noted in the features below, use incentives to buy down the interest rate for homeowners or make incentives available through qualified vendors to homeowners.

3. Special Features for Participating Utilities

- 3.1 In addition to the Basic and Custom options, participating Utilities may more actively participate in the Loan Program. The following features may be used in support of the Residential Loan Program.
- (a) Blend with Existing Utility Incentive Programs. Participating Utilities may offer incentives to homeowners in association with the vendor sales process or Utilities may buy down the interest rate. Buy down rates are set by First Mutual and depend on the amount of the loan and the amount of the buy down. The participating Utility and First Mutual will establish the method by which First Mutual will be paid for the interest rate buy down. If the choice is to pair the incentive with the vendor sales process, then vendors should be notified of the incentive amounts and Utility program requirements. If the incentives provided are in conjunction with another BPA program, note the requirements in Section 5.

- (b) Complement Existing Loan Programs. The flexibility offered by the Residential Loan Program allows participating Utilities to blend the Loan Program offering to complement an existing loan program. This flexibility is useful when a participating Utility's existing loan program has loan limits more or less than the First Mutual offering. For example, if the Utility's current loan limit is \$2,500 to \$10,000, then the First Mutual's offering can be used for loans below \$2,500 and above \$10,000.
- (c) Coordination of Non-Incentive Program Activities with Vendor Pools. Participating Utilities that provide home energy audits or other types of front-end services may elect to use these front-end services to provide leads to vendors participating in the Loan Program as part of a more comprehensive residential sector offering.
- (d) Coordination with Vendor Pools. First Mutual will establish a contractual relationship with and provide training to vendors on how to work with the First Mutual loan system. Participating Utilities may more actively manage the overall Loan Program with vendors in their service area by establishing specific conservation program objectives, vendor communication protocols, and by developing specific vendor-Utility relationships with First Mutual.

4. Steps to Program Implementation

Up Front Work

- 4.1 The steps that will be taken to initiate the Basic or the Custom Option are:
- (a) The Utility completes the sign-up sheet. If the Utility has vendors they want qualified into the program, they complete the vendor form on the back of the sign-up sheet and return the sign-up sheet to BPA.
 - (b) BPA logs the Utility's information and forwards the sign-up sheet to First Mutual.
 - (c) First Mutual sends vendor application kits to the Utility, or if the Utility prefers, directly to the vendors identified on the vendor form.
 - (d) Completed vendor applications are sent to First Mutual, who evaluates and qualifies vendors into the Loan Program. If desired, First Mutual and the Utility may hold a training session for participating vendors on how to work with the Utility and First Mutual on the loan process, including any applicable Utility program requirements.
 - (e) Vendors sell higher efficiency conservation measures as specified by the participating Utility (from the list in Attachment A), and coordinate with Utility and First Mutual.

Ongoing Work

- 4.2 In addition to vendors selling the conservation measures, there are a few ongoing program activities that will occur in support of the program. Some of these activities happen with each loan made, some are recurring, others will occur on a less frequent timetable.
- (a) For each loan, participating vendors will fill out a cover sheet describing the measure(s) installed. This form will identify the measure(s) and provide all information necessary to calculate the energy savings (refer to Section 2.2(c) for additional information). This cover sheet will be sent to First Mutual with the loan documents.
 - (b) First Mutual will provide monthly reports to participating Utilities on loans made as part of this program in their service area.
 - (c) First Mutual will provide participating vendors and participating Utilities with updates and changes related to consumer credit scoring, interest rates, and other similar financial updates.
 - (d) Updates to the Conservation & Renewables Discount (C&RD) may change the savings values, eligible measures list, and the associated specifications.

- (e) Vendors that hear about the program may ask to join the qualified list. Participating Utilities may choose to evaluate these vendors for referral into First Mutual's system.
- (f) Utilities or vendors may negotiate with First Mutual to further buy down interest rates in order to increase sales (the Utility or vendor would have to buy down the rate).

5. Relationship to Other BPA and Utility Programs

BPA Programs

- 5.1 If Utility incentives are provided in association with a BPA program (e.g., C&RD or ConAug), then the Utility's responsibilities and obligations per the C&RD or ConAug program requirements apply (including the decrement if applicable). Participating Utilities will be asked on the sign-up sheet if they plan to use C&RD or ConAug program funds in support of the Loan Program. Identifying use of other BPA programs in support of the Residential Loan Program is primarily to reduce the possibility of BPA double counting the energy savings. Participating Utilities offering the Loan Program in association with the C&RD may claim the C&RD credits.

Utility Programs

- 5.2 If Utility incentives are used that are not associated with a BPA program, then, except for the measures listed in Attachment A and the associated C&RD specifications, the Residential Loan Program defers to the Utility's program requirements.
- (a) The Residential Loan Program will defer to Utilities when their specifications exceed BPA's specifications for the measures listed in Attachment A.

6. BPA's Role

Program Development and Promotion

- 6.1 BPA's primary role is to develop the program, establish the eligible conservation measures (and specifications for those measures), competitively select the lender, and promote the program to the region's Utilities. To benefit participating Utilities without established vendor relationships, BPA or First Mutual may work with vendors to gain and maintain vendor support for and participation in the Loan Program. If participating Utilities request it, BPA may explore cooperative advertising campaigns for Utility participants.

Site Review

- 6.2 BPA reserves the right to review installations to ensure equipment is installed in accordance with the C&RD specifications. BPA may limit Loan Program reviews primarily to those Utilities' territories where loans are being made not in association with another BPA program (e.g., C&RD or ConAug). In cases where the Utility is offering the Loan Program in association with C&RD or ConAug, the Loan Program relies upon those programs' inspection requirements to ensure equipment is installed in compliance with specifications.

Evaluations

- 6.3 BPA reserves the right to evaluate the program and will work cooperatively with First Mutual and the participating Utilities to conduct any process or impact evaluations.

Counting Energy Savings

- 6.4 BPA will track the overall accomplishments for the Residential Loan Program but will only add energy savings to the regional accomplishments not counted by Utilities as part of other BPA programs (e.g. C&RD or ConAug).

7. First Mutual's Role

- 7.1 First Mutual has been headquartered in Bellevue Washington for 50 years. Originally chartered as a savings and loan, it converted its charter to a Washington State savings bank in 1968. As of March 2003, first Mutual had total assets of \$790,000,000. First Mutual has been operating a vendor Sales Finance program for more than five years. The initial focus was home improvement loans in western Washington. In 2000, First Mutual was given approval to offer energy conservation loans in association with Fannie Mae and has since expanded their sales finance program to more than 34 states. Through March of 2003, First Mutual's sales finance department originated over 11,000 loans for approximately \$110,000,000.

Vendor Qualification

- 7.2 Once vendors are referred to First Mutual by participating Utilities, vendors complete and submit a Dealer Application to First Mutual Bank. First Mutual evaluates vendors to see if they are licensed and bonded, runs a credit report, and checks their status with the Better Business Bureau. First Mutual checks with the vendor's suppliers and the state authorities that license the vendors for any available information.

First Mutual's Dealer Approval Committee approves vendors with good reputations that are established in business, pay their bills, and have a reasonable amount of profitability and equity. Once approved, vendors sign a Master Dealer Agreement that contractually binds them to First Mutual. The Agreement is very specific as to the representations and warranties and standards of doing business that First Mutual expects from the vendors.

Quality Control

- 7.3 First Mutual uses several methods to ensure quality control. After the project is complete, the vendor has the homeowner sign a Completion Certificate. The homeowner's signature indicates satisfaction with the job. A First Mutual employee will often contact the homeowner directly to make sure the job is complete, the homeowner is satisfied, and whether First Mutual is authorized to disburse funds to the vendor. In addition, First Mutual takes pictures of 5% of the completed projects and customer feedback cards are sent to 10% of the homeowners. These checks are all used to measure, monitor, and maintain the service quality provided by vendors.

Homeowner Qualifications

- 7.4 First Mutual Bank uses several criteria to "score" homeowner loans. Information from the loan application such as time on job, homeowner/renter, and time at address, is combined with the homeowner's credit score from their credit report and other information such as their debt-to-income ratio to determine if the homeowner qualifies for a loan.

Loan Approval Process

- 7.5 Vendors can apply for loans through the Internet, by fax, or by mail. First Mutual has a website where the vendor can enter and submit loan applications through the Internet. Vendors can also generate all of the documents they need for a home improvement loan through the

internet and then submit them by fax or mail. First Mutual has an automated processing system that receives the application information and orders and downloads the borrower's credit report within seconds. The system takes that input and automatically scores the loan. That score, as well as a limited number of other criteria result in an automatic approval, an automatic denial, or a "manual" review by an underwriter. This system enables First Mutual to give a credit decision in as little as one minute. Decisions are almost always given to the vendor within 24 hours.

Vendor Training Meetings

7.6 First Mutual will provide the training necessary for vendors to access the First Mutual credit system. This training will take place through the phone, face-to-face individual meetings, or group training sessions. Vendors will be given an easy to use step-by-step manual describing the process of originating a loan with First Mutual.

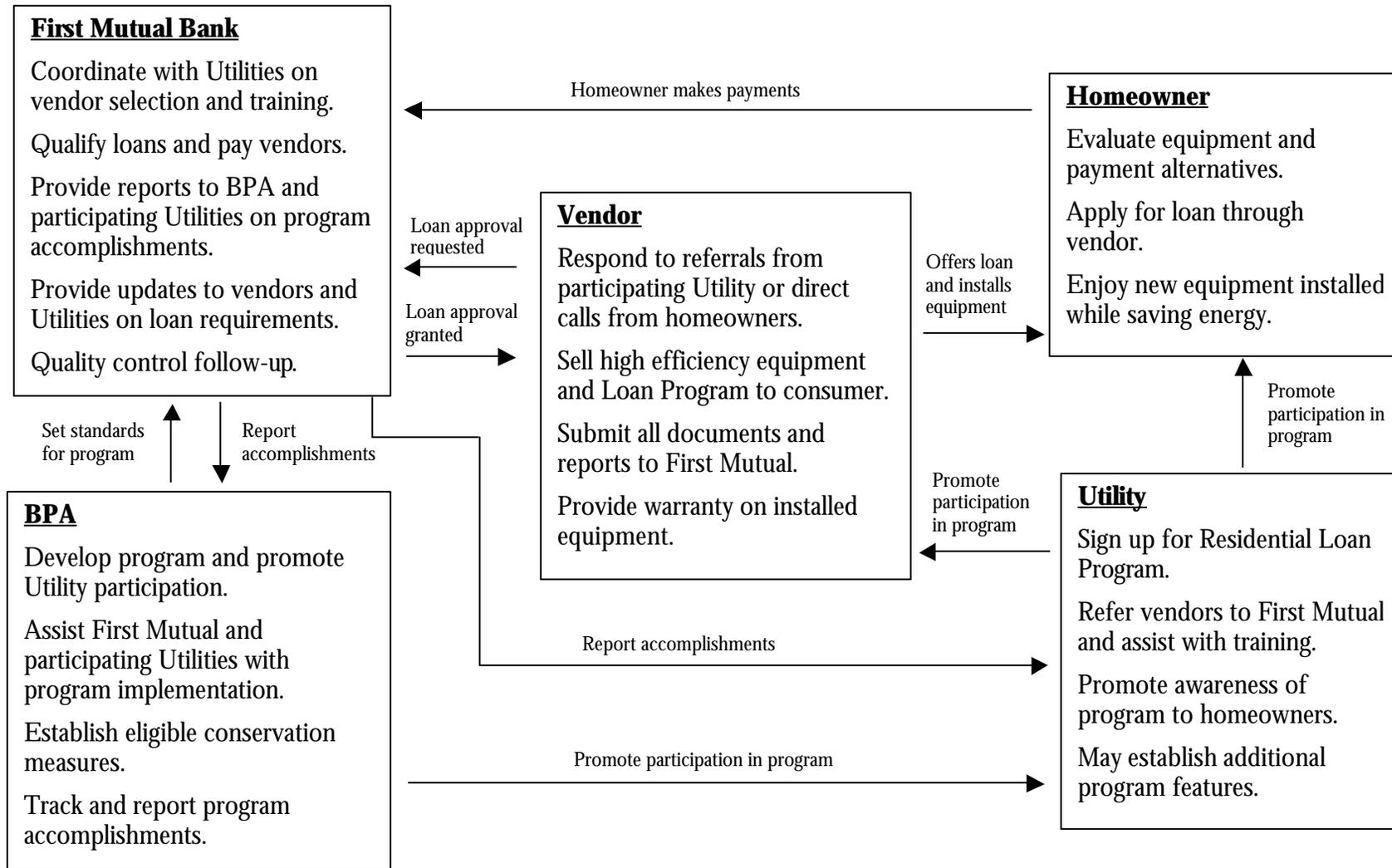
Vendor Updates

7.7 First Mutual will periodically update information available to vendors regarding loan requirements.

8. Vendor Requirements

- 8.1 The BPA Loan Program features reduced interest rates to provide an effective sales tool for vendors. Vendors participating in the program will pay 3% of the total cost of the job to First Mutual Bank to buy down the interest rates.
- 8.2 Vendors will be required to fill out a cover sheet for each job describing the conservation measures installed and forward the form to First Mutual along with the loan documents.
- 8.3 Vendors will be limited by their agreement with First Mutual to only offer loans through this Loan Program to consumers in service territories of Utilities participating in the BPA Program.

Figure 1
Roles of Players in the Residential Loan Program



Bonneville Power Administration
Residential Loan Program – List Of Eligible Conservation Measures

These measures and their associated specifications originate from a subset of residential measures listed in the C&RD list. This measure list and the specifications are subject to change with each annual C&RD program change.

Residential Sector Measures and Activities

RESIDENTIAL – LIGHTING

a. Lighting Equipment and Controls

1. Energy Star fluorescent, compact fluorescent, high and low -pressure sodium, and metal halide lamps.
2. Replacement of quartz halogen torchiere replacements with compact fluorescents.
3. Lighting controls.

RESIDENTIAL – PLUG LOADS

a. Appliances

1. Energy Star™ or better refrigerators.
2. Energy Star™ or better freezers.
3. Energy Star™ or better dishwashers.
4. Energy Star™ or better clothes washers.

RESIDENTIAL – WATER

a. Water Heaters

1. Energy efficient electric, solar, and heat pump water heaters.
2. Water heater tank wraps and bottom boards.
3. Pipe insulation.

RESIDENTIAL – BUILDING ENVELOPE

a. Insulation

1. Attic, interior/exterior roof, wall (above and below grade), perimeter, knee wall, underfloor insulation.
2. Hydronic pipe, and heat duct insulation.
3. Insulated exterior water heater closet doors.
(Excludes insulation products made from asbestos or urea formaldehyde and insulated vinyl siding.)

b. Windows, Skylights and Glass Doors and Insulated Doors

1. Energy Star™ or better windows.
2. Multiple glazed, low -E glass, low conductivity gas filled, and jalousie window replacements.
3. Storm windows.
4. Double or triple pane sliding or French doors, and multiglazed insert doors.
5. Insulated metal or fiberglass doors.
6. Solar control glazing.
7. Airtight installation.

c. House Tightening Measures

1. Correcting air balance problems.

2. Air sealing (including caulking and weatherstripping exterior doors and windows, sealing electrical/plumbing penetrations in flooring and holes under plumbing traps and tubs and installing removable "fireplace plugs").

d. Structural Repairs Required Prior To Installation of Insulation, Windows, Skylights, Glass and/ or Insulated Doors

1. Roof repair.
2. Addition of attic and crawlspace ventilation.
3. Door and window jam repair or replacement.

RESIDENTIAL -- HVAC EQUIPMENT

a. Furnace or Heat Pump Efficiency Improvements

1. Performance Tested Comfort System™ certified heating systems.
2. Higher efficiency system replacements or upgrades with properly sized equipment.
3. Control testing and repair.
4. Refrigerant charge testing and recharging.
5. Higher efficiency compressor replacements.

b. Central and Window Air Conditioning Efficiency Improvements

1. Energy Star™ or better system replacement or upgrades.
2. Control testing and repair.
3. Refrigerant charge testing and recharging.
4. Higher efficiency compressor replacements.
5. Filter cleaning and/or replacement.
6. Installation of whole house fans.
7. Solar gain controls such as exterior shades.

c. Heat Pumps

1. Energy Star™ or better air-source.
2. Energy Star™ or better ground-source (geothermal).
3. Energy Star™ or better water-source.
4. Energy Star™ or better exhaust-air.
5. Solar-assisted heat pumps.

d. Thermostats and Controls

1. Clock thermostats.
2. Electronic and vapor diaphragm thermostats.
3. Low-voltage microprocessor controlled thermostats for central heating, ventilation and air conditioning systems.
4. Heat pump thermostats with heating/cooling lockout features that prevent cross-cycling between heating and cooling.
5. Heat pump programmable electronic setback thermostats with ramped/intelligent recovery to limit supplemental heat during recovery periods.

e. Dehumidifiers

1. Central systems.

f. Whole House Ventilation Systems

1. Air-to-air heat exchangers.
2. Other forms of heat-recovery ventilation.
3. High efficiency fans and controls.

g. Air Distribution System (duct) Sealing and Insulation

1. System diagnostics.
2. Tightening.
3. Insulation.
4. Airflow balancing.
5. Addition of supplies and return ducts.