Green Lending: A Contradiction in Terms?

- Discovering the Obstacles
- Meeting the Challenges
- Creating a Green Mortgage Delivery System

F. L. Andrew Padian, Vice President
The Community Preservation Corporation
The Community Preservation Corporation (CPC)

- Non-profit 501 c(3) mortgage finance company
- Founded in 1974 by NY clearinghouse banks
- Sponsored by more than 70 banks and insurance companies in NY, NJ and CT

CPC Mission:
- Provide an economic platform of investment to spur recovery in distressed communities
- Develop and enhance public/private partnerships
History and Performance: The CPC Model Works

- Since inception more than 139,000 units of low and moderate income housing have been financed
- Public/private investment of over $7.9 billion
- Loan losses of less than 2% since 1974
- CPC investment has had a dramatic impact in low income neighborhoods across the state
  - Created an opportunity for private investment to return to distressed communities
2007: How Green Is Our Portfolio?

- Green becoming a bigger focus
  - Federal, State and Local Governments
- More than 62,000 units in our portfolio
- Historic Focus: How much does energy cost?
- New Focus:
  - How much energy do our buildings USE?
- Enter Consultant
  - Put CPC’s portfolio under the green lens…
CPC buildings - Fuel (#2, #4 & #6)
Costs Per Sq. Ft.

avg = $1.88
CPC buildings - Fuel/Gas
Costs Per Sq. Ft.

avg = $1.44
CPC Buildings - Electric (Walkup)
Costs Per Sq. Ft.

avg = $0.44
CPC Buildings - Electric (Elevator)
Costs Per Sq. Ft.

avg = $.64
CPC Buildings - Water and Sewer
Costs Per Sq. Ft.

avg = $.48
CPC Buildings - Water Meter
Costs Per Sq. Ft.

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Outliers: 3

avg = $.68
Major Areas of Energy Inefficiency

Details that need more attention in every retrofit, rehab, and new construction job.
Technical Inefficiency

1. Tighten the buildings. Increase airsealing & firestopping in all apartment and common areas

2. Good Systems. More efficient and properly sized heating, air conditioning, and hot water makers.

3. Upgrade building controls. More efficient heating, cooling, and hot water controls


5. Better Air. Upgrading of ventilation systems where present

6. Brighter spaces. Complete apartment, common area, and exterior lighting retrofit


9. Talk to your peers that can help. Better coordination with existing programs: State, Federal, Utilities
2008 CPC Adopts a Green Lens: Prioritize Multifamily Retrofits

- An identified need in our communities
- Cuts across all neighborhoods, locations and property types
  - Urban, suburban, rural
- Recession based economic issue
  - All properties need to save money
- Reduction of green house gas
  - 30% comes from existing buildings – great opportunity to achieve carbon reduction
Does CPC Have a Role to Play?

- CPC is well positioned to attack the problem
- We finance and refinance existing buildings
- We have more than 62,000 units of housing in our existing loan portfolio
- We have a captive audience
- Create a program and implement a plan
  - This should be easy…
Create a Program: “The CPC Green Initiative”

- ONE BILLION DOLLARS!
- Construction and permanent financing
  - Target Market - occupied multifamily properties
  - Audits - benchmark the buildings, create a usage database
  - Monitor the retrofits and measure the savings
- Create a “One Stop Shop” for retrofit financing
  - Fold in the public incentives
  - Make retrofit part of the standard mortgage process
Implement a Plan:  
1. Identify Green Investment Partners

- Freddie Mac PILOT Program in NYC
  - $500 million
  - 25-35 basis point break on the rate
  - Higher leverage – up to 80%

- New York City and State Pension Funds
  - 30 year fixed rate financing

- State of New York Mortgage Agency
  - Mortgage insurance for our loans

- Deutsche Bank, HSBC, Morgan Stanley, Amalgamated Bank, Met Life Bank, M&T Bank
  - $150 million Construction Line of Credit
Implement a Plan:
2. Create an Investment Platform

- The CPC “One Stop Shop”
  - Bring on the expertise
  - Include energy in our tech. asst. package
    - Educate the staff so they can educate the customer
  - Public/private partnerships
    - Reach out to government and learn their programs
  - Provide the private capital - make loans

- Goal: minimize the brain damage to owners
  - Keep it simple so they will go along
Implement a Plan:
3. Provide the Retrofit Financing

- Green our borrowers
  - Save them money and make them aware
- Green Our Mortgage Staff
  - Finance the retrofits – create enthusiasm
- Green our Servicing Department
  - Add energy data to our database
- Prove the Benefits of Green Investment
  - Make our investors an economic return
- Reduce Green House Gas Emissions
It Ain’t Easy Being Green!

Obstacles Arise Across the Spectrum

1. Resistance
2. Lack of Education
3. Lack of Flexible Public Programs
4. Frozen Financial Markets
5. Marginal Economics
Why Not Change the Mortgage System

- The majority of buildings have one thing in common: **A Mortgage**!
- Make an audit and retrofit part of the loan process
  - Third party report like an Appraisal or a Phase One
  - Can’t borrow the money without it
- The Private Sector (money) needs to require and demand the retrofit
  - Legislatively: Green Reinvestment Act
  - Capitalistically: Green Mortgage Backed Security
CPC’s Green Initiative Approach

- Utilize the CPC risk sharing model
- Keep the investments conservative
  - Existing, cash flowing buildings
  - No speculation
- Build a pipeline – prove the model
- Carbon reduction problem = Disinvestment problem in New York City in 1974
- Point out to investors the business potential
  - Follow the legislative mandates
CPC Green Initiative Goals

- CPC’s Program is meant to do all of this
- Make standard long term financing the glue that brings it all together
  - If the financing requires it – it has to get done
  - Appraisal, environmental report, engineering report and now – AUDIT!
- Create a new mortgage delivery system
  - Engage capitalism
The End Result in the Ideal World

- Retrofit mortgage delivery system is adopted by other lenders
- CPC model is replicated across the country
- Freddie Mac rolls out its PILOT to other Seller/Servicers
- People are educated and system is improved as it goes along
- Education, streamlining and financing push past the tipping point - achieve retrofit at scale
  - Finally the delicious and nutritious fruit is harvested!
Case Studies