

Underwriting Efficiency: A Practical Approach

Capturing the value of efficiency through mortgage finance

Uncommon Expertise. Unmatched Impact.



**Community[®]
Preservation
Corporation**

The Community Preservation Corporation (CPC): Uncommon Expertise. Unmatched Impact.

CPC believes housing is central to transforming underserved neighborhoods into thriving, vibrant communities.

Our goal is to be more than just a lender. At CPC, we work as a partner to provide technical expertise, support and flexible solutions that help meet the capital needs and broader community revitalization goals of our customers, local stakeholders and the communities we serve.

CPC's deep strategic relationships with government agencies, local community groups, banks and other investors position us as a trusted partner who works hand-in-hand with housing providers to create customized financing solutions.

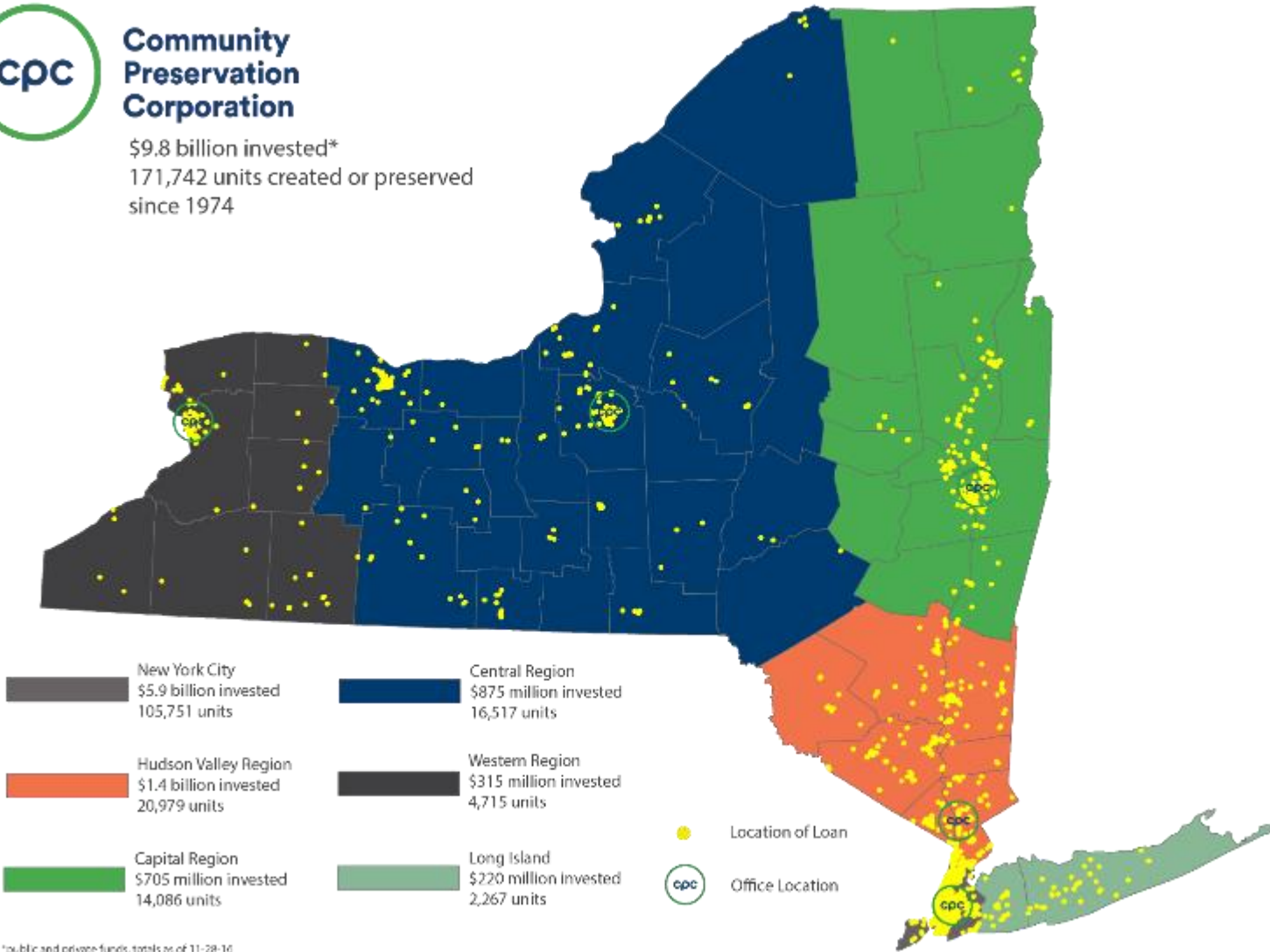


Revitalizing New York State



Community Preservation Corporation

\$9.8 billion invested*
171,742 units created or preserved since 1974



*public and private funds, totals as of 11-28-16

Sustainability at CPC

The cost savings associated with energy-efficient measures play a key role in ensuring the long-term economic stability of multifamily properties, which is critical to the preservation of rental affordability in our communities.

Lending & Originations

- Underwrite to projected savings
- Support new technologies

Evaluation

- Criteria and reporting procedures
- Energy and water benchmarking

Portfolio Performance

- Connect costumers to incentives
- Integrate efficiency into inspections

Is It Sustainable?

CPC projects will be considered Sustainable if it meets one of the following prerequisites:

- A Green Physical Needs Assessment (GPNA) or an Energy Audit has been ordered and used to develop the scope.
- The scope specifies a high-efficiency heating/HVAC system.
- There will be renewable energy generation onsite.
- The project is designed to a Sustainability Certification standard (e.g. LEED, Passive House, Energy Star, Net Zero).
- The CPC Sustainability Department completed an assessment and recommendations are included in scope.

Sharing Best Practices

A Practical Approach:

- › Underwrite to projected savings
- › Increase loan size
- › Mortgage proceeds cover incremental cost

Positive Impact:

- › Low cost, long term, capital
- › Quality retrofits
- › High performance buildings
- › Long term economic stability



UNDERWRITING EFFICIENCY

A mortgage lender's handbook for realizing energy and water efficiency opportunities in multifamily housing

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Integrating Efficiency

ORIGINATE

- Educate owners on the benefits of efficiency.
- Complete an energy benchmark and identify opportunities.
- Discuss plans to integrate efficiency investment as part of mortgage financing.

PRE-DEVELOP

- Create a development plan and engage contractors.
- Review energy reports and formalize the scope of work.
- Identify any available incentives, including tax credits and rebates.

UNDERWRITE

- Finalize loan pricing and terms; include any additional financial incentives.
- Include projected utility cost savings in loan underwriting.

APPROVE AND CLOSE

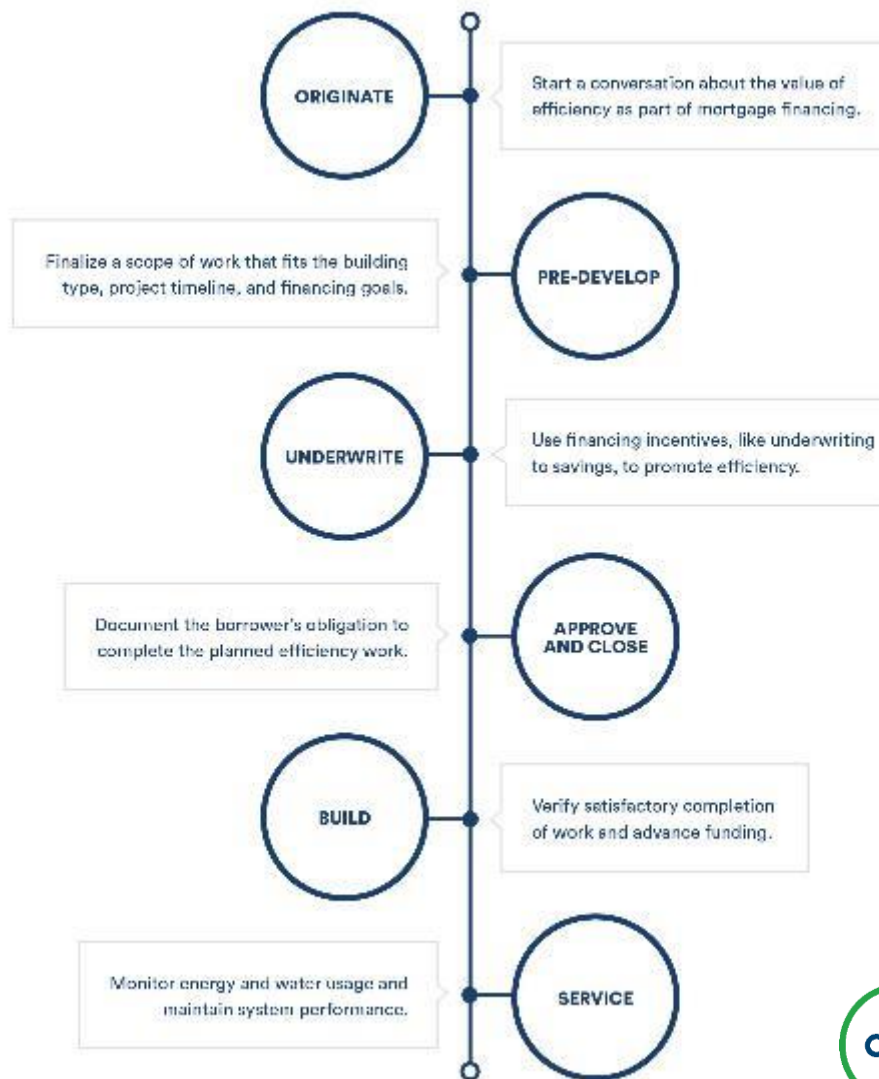
- Update internal protocols and requirements to support loans financing efficiency.
- Notify third-party professionals of the scope of efficiency work and savings.

BUILD

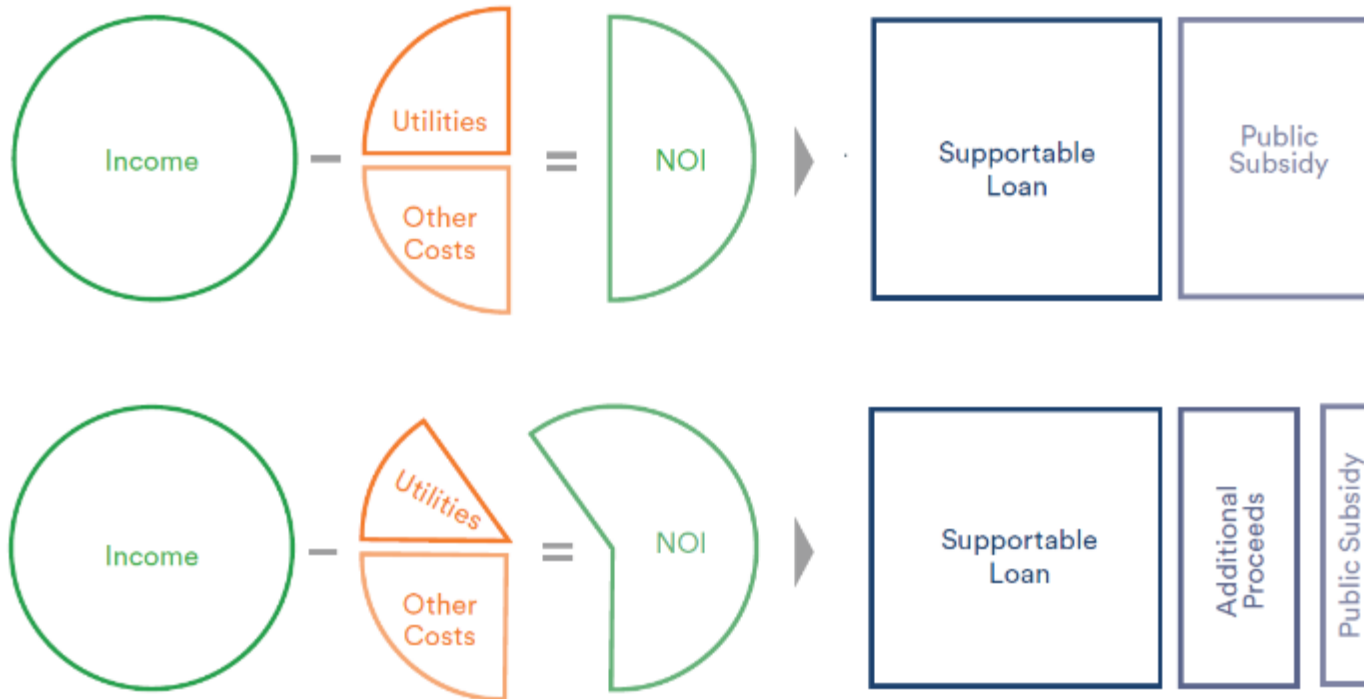
- Monitor construction and perform site inspections.
- Confirm that the efficiency work is complete and advance funds.
- Complete appropriate commission and quality assurance tests.
- Collect certifications of completion and convert to permanent loan (if applicable).

SERVICE

- Update asset management protocols to include utility benchmarking and on-site evaluation of efficiency.
- Confirm that buildings have a preventative O&M plan in place.
- Encourage owners to educate residents and building staff about building efficiency features.



Understanding Efficiency



Efficiency & Cash Flow

Efficiency reduces utility bills, maintenance costs, and vacancy, thereby increasing NOI and value. Underwriting a portion of projected energy savings supports additional private loan proceeds to finance improvements while reducing the need for public subsidy dollars. Efficiency savings beyond conservative underwriting create additional, ongoing cash flow to the borrower.

Building Profile

1920s Walk-Up Rental Building
35 Apartments, 34,600 Gross Square Feet
Oil-Fired, Steam Boiler, 1-Pipe Distribution
Owner Paid Utilities: Heat, Hot Water, Water/Sewer
Loan Type: Construction and Permanent Loan
Loan Offering: \$1.4 Million

Work Scope

New boiler, controls, radiator valves, pipe insulation, separate DHW heater, new roof and insulation, low-e coated windows, upgraded lighting and sensors, low-flow fixtures, ENERGY STAR appliances



Historical Income
(NOI)
\$132,734



Income with Energy
Savings
(Adjusted NOI)
\$151,144



Additional Available
Loan Proceeds
\$194,174

Handbook Overview

This handbook provides professionals involved in the origination, underwriting, closing, and servicing of multifamily mortgages the information and tools necessary to finance energy and water efficiency measures as part of a first mortgage.

Understanding Efficiency

- An overview of energy and water efficiency and their positive impact on lenders, owners, and residents

Building Efficiency

- Three ways to improve building efficiency based on financing goals

Integrating Efficiency

- A step-by-step framework for integrating efficiency measures into the mortgage lending process