Credit Enhancements

ACEEE Finance Forum 2015

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Who We Are

Harcourt Brown & Carey

The HB&C Team offers clean energy program design assistance.

- We design clean energy finance programs for states, local governments, and utilities. We bring programs from design to final launch.
- We work with clients to identify specific financing partners and products.

HBC Energy Capital

HB&C Energy Capital:

- Connects clean energy projects to appropriate financing.
- Provides customers access to capital leases, operating leases, PACE and service agreements.
- Provides a one-stop financing shop connecting investors to projects.

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Investor Risks

Investor discomfort usually results from concerns about:

1. Uncertain credit performance
2. Uncertain value of collateral (eg. a furnace in a home, lights in a business)
3. Uncertain access to collateral given other senior claims to that collateral (are the lights part of the property?)
4. Uncertain timing of repayment -- even if the expectation for defaults is low and the claim on collateral of known value is high. (what happens to payment streams in the case of PACE or on-bill?)

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But investors also must control for other risks (not just credit risks…)

– Engineering and Technology Risk
– Contractor and Project Installation Risk
– Project Performance Risk

What is a Credit Enhancement (CE)?

Any source of credit support, typically in the form of cash, or a guarantee that ***reduces*** credit risks for investors.

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3 Types of Credit Enhancements

Loss Reserve that cover a portion of potential loan losses on a lender's portfolio of qualifying loans.

Debt Service Reserve that may cover timing gaps in customer principal & interest payments or the remittance of those payments to financing providers.

Subordinated Debt that co-funds projects alongside private capital sources, but assumes a higher risk position than more senior forms of capital.

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The Value of a Credit Enhancement

1. Lower interest rates -- interest rate benefits may range from 1-2.5%.
2. Longer terms – loan/lease terms may extend to 10 years for investors who ordinarily might only offer up to 7 years.
3. More flexible underwriting
4. Increase market participation -- lenders participating in a market they would never have paid attention to before

More Thoughts on Credit Enhancements

1. Some credit enhancements are of little to no value for investors (some investors feel they already control for credit risk adequately and the credit enhancement not prompt them to do anything different).
2. Credit enhancements may do little to nothing for the already-high-credit borrower (since losses are minimal for such borrowers).
3. The value of CEs depends on the market (eg. Likely little value much of the muni market).
4. The value of credit enhancements can (and should) change over time.

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