

Michigan Energy Efficiency Loan Participation Term Sheet (With Loan Loss Reserves)

DRAFT – Preliminary, subject to change

Program Sponsor	Michigan Department of Environment, Great Lakes, and Energy
Funding/ authorization	<p>Program Sponsor has received an allocation of \$13,327,440 under U.S. Department of Energy’s Energy Efficiency Revolving Loan Fund Capitalization Grant Program, authorized under Section 40502 of the Infrastructure Investment and Jobs Act, commonly referred to as the Bipartisan Infrastructure Law. Program Sponsor funding is anticipated to be used as follows:</p> <ul style="list-style-type: none"> - \$1,125,690 for program management costs - \$3,331,890 for subsidies for 100% of the cost of Qualified Energy Audits and 100% of the cost of Eligible Projects, offered through a separate program term sheet. (Program Sponsor’s current grant award limits subsidies to “low income” homeowners; Program Sponsor may seek an amendment to the grant award to make these subsidies available for commercial projects) - \$8,154,578 for participating in loans issued by Program Lenders to finance Eligible Projects. - \$715,312 for Loan Loss Reserve (see below)
Program Lender(s)	<p>Program Sponsor will review and approve applicants to participate in the program as a Program Lender. Eligible applicants will include federal- and state- chartered banks and credit unions and community development financial institutions certified by the U.S. Department of the Treasury CDFI Fund with offices located in West Michigan. Program Sponsor reserves the right to approve applicant with other types of organizations as a Program Lender. Applicants will be required to submit an application form to participate in the program, and will submit a project application form for approval for each Eligible Project loan.</p>
Eligible Projects (for Loans)	<ul style="list-style-type: none"> • Upgrades or retrofits recommended in a qualifying Energy Audit completed for a commercial (non-residential) building/facility (including publicly- or privately-owned buildings, located in Michigan, used by a commercial business, non-profit organization, institution, or state or local government with 500 employees or less and where the organization conducts the majority of its business in Michigan). Program Lenders are encouraged to focus efforts on projects for entities with 100 employees or less. • Upgrades or retrofits recommended in a qualifying Energy Audit completed for a single family home, condominium, duplex, or manufactured housing unit located in Michigan. • The project’s cost must be life-cycle cost-effective, which shall be demonstrated on the energy audit report showing that the estimated lifetime energy savings from the project upgrades/retrofits will be at least equal to the total project cost. Program Sponsor shall reserve the right to approve an alternative method of demonstrating cost-effectiveness if deemed acceptable. • The project must address at least one of the following: <ul style="list-style-type: none"> • the energy efficiency of the building/facility; • the physical comfort of the building/facility occupants; or • the quality of the air in the building/facility. <ul style="list-style-type: none"> ○ NOTE: Based on the criteria above, geothermal heating systems are eligible, but solar/PV systems would need to be paired with energy

	<p>storage or designed to provide operation during utility electricity grid outage to be eligible.</p> <ul style="list-style-type: none"> • The project must lead to at least one of the following outcomes: <ul style="list-style-type: none"> • reduce the energy intensity of the building/facility; or • improve the control and management of energy usage of the building/facility to reduce demand during peak times. • Loans may include any portion of the cost of Energy Audit paid for by the Eligible Borrower (not subsidized by Program Sponsor)
<p>Energy Audit Requirements</p>	<p><u>Commercial Projects:</u> Each Eligible Project must have an energy audit completed for the project, which shall:</p> <ol style="list-style-type: none"> 1. Determine the overall consumption of energy of the facility of the eligible recipient. 2. Identify and recommend lifecycle cost-effective opportunities to reduce the energy consumption of the facility of the eligible recipient. 3. Identify the period and level of peak energy demand for each building within the facility of the eligible recipient and the sources of energy consumption that are contributing the most to that period of peak energy demand. 4. Recommend controls and management systems to reduce or redistribute peak energy consumption. 5. Estimate the total energy and cost savings potential for the facility of the eligible recipient if all recommended upgrades and retrofits are implemented, using Audit Template, or such audit software approved by DOE. <p><u>Residential Projects:</u> Each Eligible Project must have an energy audit completed for the project, which shall:</p> <ol style="list-style-type: none"> 1. Use the same evaluation criteria as the Home Performance Assessment used in the Energy Star program. 2. Identify and recommend lifecycle cost-effective opportunities to reduce the energy consumption of the facility of the eligible recipient. 3. Recommend controls and management systems to reduce or redistribute peak energy consumption. 4. Compare the energy consumption of the residential building of the eligible recipient to comparable residential buildings in the same geographic area. 5. Provide a Home Energy Score, or equivalent score (as determined by DOE), for the residential building of the eligible recipient by using DOE's Home Energy Score Tool or an equivalent scoring tool. <p>The Home Energy Score (HES) tool fully satisfies requirements #4 and #5 but does not fully satisfy requirements #1-3. To meet these requirements DOE recommends states have auditors use HES and supplement the HES report with:</p> <ol style="list-style-type: none"> 1. A statement certifying that the audit is informed by 1) resolving health and safety issues; 2) satisfying customer needs and desires; 3) overall cost-benefit to the customer; and 4) programmatic goals. 2. Calculations of the life-cycle cost effectiveness of the measures recommended in the HES report). 3. Recommendation of controls and management systems to reduce or redistribute peak energy consumption. This may include, but is not limited to, recommending smart thermostats, appliances with timers, and wifi water heaters.
<p>Eligible Borrower</p>	<p>An entity who owns or operates a commercial (non-residential) building located in Michigan, has 500 employees or less, and conducts the majority of its business in Michigan. Operators may refer to occupants, with the necessary permission of the building owner to perform the work.</p>

	An individual who owns a single family home, condominium, duplex, or manufactured housing unit located in Michigan.
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Minimum Loan Underwriting Criteria	As set by the Program Lender
Loan Terms	<ul style="list-style-type: none"> • Minimum Loan Amount: As set by Program Lender. • Maximum Loan Amount: As set by Program Lender. • Loan term is set by Program Lender, but in no event is greater than 15 years or the expected life cycle of the retrofit, whichever is sooner. • Program Sponsor will enter into a Participation Agreement with Program Lender to participate in 50% of each eligible loan. • Program Lender will set its normal and customary interest rate on its share of the loan based on the borrower and project. • Program Sponsor's share of loan will be at an interest rate of 2% • Borrower will receive an interest rate that is the average of the two rates, but will provide the Program Lender it's normal/customary yield on its capital. • Interest shall be paid by Borrower at such date(s) as set by Program Lender. • For residential projects, DOE will not assert Davis Bacon Act requirements on projects provided that loan proceeds are released directly to the homeowner (the flow of funds must go directly to the homeowner, not the contractor), or by a two-party check requiring endorsement by the homeowner and contractor, or if funds are paid to a contractor from an escrow account in the homeowner's name with the homeowner's approval.
Loan Participation	<ul style="list-style-type: none"> • Program Sponsor will participate in 50% of each eligible loan, which shall be paid to Program Lender on loan closing date. • Program Sponsor's share of loan will be 2%.
Loan Loss Reserve	<ul style="list-style-type: none"> • Program Lender will propose criteria/standards for loans that will be supported with Loan Loss Reserve that they would not normally issue without such support, subject to Program Sponsor's approval. • Program Sponsor to hold grant funds and establish a LLR account for each Program Lender for eligible loans. • The initial LLR account balance upon execution of the agreement will be \$10,000, and serves as an advance for the initial amount of program loans issued by Program Lender calculated as \$10,000 divided by LLR Portfolio Percentage. • LLR account to be increased each month based on an amount equal to the principal amount of program loans issued multiplied by a LLR Portfolio Percentage, proposed and accepted through Request for Application, but not to exceed 5%. • LLR account to be decreased each month based on the principal amount of loan payments received by Program Lender multiplied by LLR Portfolio Percentage. • Program Lender to report monthly any Eligible Loan Losses, representing the principal balance of any loan which is 90 days or more past due. • Program Lender may submit monthly claim for LLR Loss Payment, equal to Eligible Loan Losses multiplied by LLR Loss Sharing Percentage, proposed and accepted in Request for Application, but not to exceed 80%, or the remaining LLR account balance, whichever is less. Program Lender shall retain

	<p>remaining Eligible Loan Losses, not less than 20%. LLR Loss Payment shall reduce the LLR account balance each month.</p> <ul style="list-style-type: none"> • Loan principal recoveries realized by Program Lender for Eligible Loan Losses will be credited in the LLR account in an amount equal to the amount of loan principal recoveries multiplied by the LLR Loss Sharing Percentage.
<p>Program Sponsor Responsibilities</p>	<ul style="list-style-type: none"> • Review and approve applications from Program Lenders to participate in the program • Receive and approve a project application for participation interest in each loan. • Make payment to Program Lender on or before closing date for Program Sponsor's participation interest in each loan. • Maintain LLR account for Program Lender. • Reimburse Program Lender for Eligible Loan Losses within 30 days of receipt. • Review and approve applications for energy audit and Eligible Project cost subsidies, and make payments upon completion. • Review Energy Audits and communicate project approval to Program Lender. • Monitor federal grant requirements (Davis Bacon Act, Build America Buy America Act, National Environmental Policy Act).
<p>Participating Lender Responsibilities</p>	<ul style="list-style-type: none"> • Program Lender will submit an application to Program Sponsor for approval of each Eligible Project Loan. • Loan origination. • Loan servicing, using the same standards as Program Lender would use for loans made from its own account without support from Program Sponsor. • Collections for loans in default, at Lender's expense, using the same standards as Program Lender would use for loans made from its own account without support from Program Sponsor. • Include statutory required flow-down federal requirements in agreement with borrowers (29 CFR 5.5). • Remit to Program Sponsor its share of principal payments received from borrower no later than 15 days after each month end. • Program Lender shall provide a monthly statement or report for each loan to include the loan principal balance, principal payments received for the month, interest payments received for the month and the amount allocated to Program Sponsor. The statement/report shall be submitted to Program Sponsor no later than the 15th day of the following month. • Monthly reporting to Program Sponsor for loans supported by Loan Loss Reserve, submitted not later than 30 days after the end of the month, as detailed below. • Program Lender shall provide Program Sponsor a quarterly report of any loans which are 90+ days past due or have been written off by Program Lender. For each loan, the report shall include: the name of the borrower, the original principal loan amount, the principal loan balance, the date and amount of the last payment, and whether or not the loan has been written off. This report shall be as of the last day of each calendar quarter and shall be submitted to Program Sponsor by the 15th day after each calendar quarter. If no loans are 90+ days past due or written off, the Program Lender shall provide a written confirmation to Program Sponsor. • This reporting is required to satisfy Program Sponsor's reporting requirements to DOE. It is anticipated that at the end of Program Sponsor's five-year grant award, DOE will enter into a closeout agreement which will Program Sponsor

	<p>which may modify this reporting requirement. Program Sponsor shall notify Program Lender when it may modify its reporting.</p>
Federal requirements	<ul style="list-style-type: none"> • All Eligible Projects must comply with laborer wage and benefit requirements and reporting under the Davis-Bacon Act (subject to exception noted below). The Contractor/subcontractor(s) responsible for installing the Eligible Project will be required to submit weekly certified wage and benefit reports using DOE's LCPTracker system during the term of the Eligible Project. See https://www.energy.gov/infrastructure/davis-bacon-act. <ul style="list-style-type: none"> ○ For residential projects, DOE will not assert Davis Bacon Act requirements on projects provided that loan proceeds are released directly to the homeowner (not the contractor), or by a two-party check requiring endorsement by the homeowner and contractor, or if funds are paid to a contractor from an escrow account in the homeowner's name with the homeowner's approval. • Projects must comply with the Build America Buy America Act and National Environmental Policy Act where applicable. • Program Sponsor will review and monitor federal requirements for Eligible Projects. Program Lender's responsibilities will be limited to including statutory flow down language noted above in its agreement with the borrower.
Agreements	<p>Program Sponsor will enter into a Participation Agreement with Program Lender for each approved project.</p> <p>Program Sponsor will enter into a Loan Loss Reserve Agreement with Program Lender for eligible loans.</p>

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Program Lender Monthly Report

	Principal Amount	Portfolio Loan Balance	LLR Portfolio Percentage	LLR Loss Sharing Percentage	LLR Account	LLR Advance
Beginning Balance		\$x,xxx,xxx.xx			\$xxx,xxx.xx	\$10,000.00
Loans Issued	\$x,xxx,xxx.xx	\$x,xxx,xxx.xx		x%	\$xxx,xxx.xx	(xx,xxx.xx)
Loan Payments	\$x,xxx,xxx.xx	(\$x,xxx,xxx.xx)		x%	(\$xxx,xxx.xx)	
Eligible Loan Losses	\$xxx,xxx.xx	N/A	xx%		(\$xxx,xxx.xx)	
Loans written off		(\$x,xxx,xxx.xx)			N/A	
Loan Principal Recoveries	\$xxx,xxx.xx	(\$xxx,xxx.xx)	xx%		\$xxx,xxx.xx	
Ending Balance		\$x,xxx,xxx.xx			\$xxx,xxx.xx	\$xx,xxx.xx

Provide loan details to include:

- Loan# or identifier
- Borrower name
- Borrower zip code
- Loan date issued
- Loan original principal amount
- Loan interest rate
- Loan maturity date
- Date of last payment received
- Date next payment due
- Loan principal balance