

# THE *GREEN* FINANCING PACKAGE

HAWAII COMMUNITY REINVESTMENT CORPORATION

Build & Buy Green 2012  
Hawaii Convention Center  
April 3, 2012



# WHO IS HAWAII COMMUNITY REINVESTMENT CORPORATION

## HCRC's Mission:

1. Create/ preserve affordable housing;
2. Job creation/ preservation
3. Support green initiatives
4. Facilitate community development

- ③ Community-based non-profit 501(c)3 organization founded in July 1990.
- ③ Community Development Financial Institution (CDFI) by U.S. Treasury
- ③ Community Development Entity (CDE) by U.S. Treasury
- ③ Certified Development Company (CDC) by U.S. Small Business Administration
- ③ Provide long-term, below market rate financing
- ③ Leverage innovative and non-traditional financial resources.





# GREEN RELATED PROGRAMS AVAILABLE

1. GreenSun Hawaii
2. SBA 504 Loans
3. New Markets Tax Credits



# GreenSun Hawaii

CREDIT ENHANCEMENT FOR  
ELIGIBLE ENERGY FINANCING





# PROGRAM OBJECTIVES

- ⊙ A State of Hawaii (DBEDT) credit enhancement program
- ⊙ Provides local financial institutions with access to a loan loss reserve (LLR) which may cover up to 100% of actual losses
- ⊙ Part of Hawaii's Clean Energy Initiative
- ⊙ Extend loan availability to a larger pool of customers
- ⊙ Offer more aggressive rates and terms than may otherwise be available without this credit enhancement.
- ⊙ Funded by a grant from the U.S. Department of Energy (Recovery Act Funds)
- ⊙ Public – private partnership able to leverage \$2.67 million in federal funds into some **\$53.0 million in energy efficiency equipment loans** statewide.



# PROGRAM PURPOSE

- ③ Assists all property owners
- ③ Energy efficiency and renewable energy retrofits
- ③ Encourages financial institutions to invest in the energy efficiency improvement market





# ELIGIBLE FINANCING - RESIDENTIAL

- ◎ ENERGY STAR Refrigerators
- ◎ ENERGY STAR Air Conditioners
- ◎ Solar Thermal Hot Water System
- ◎ Solar Electric (PV) System





# ELIGIBLE FINANCING - NONRESIDENTIAL

- ⊙ Lighting Retrofits & Upgrades
- ⊙ Air conditioning retrofits & Upgrades
- ⊙ Solar Thermal Systems
- ⊙ Solar Electric (PV) Systems
- ⊙ Energy Efficiency Windows, Cool Roofs & all other installations eligible for Hawaii Energy/KIUC Rebates
- ⊙ Loan Fees, Documentation Fees

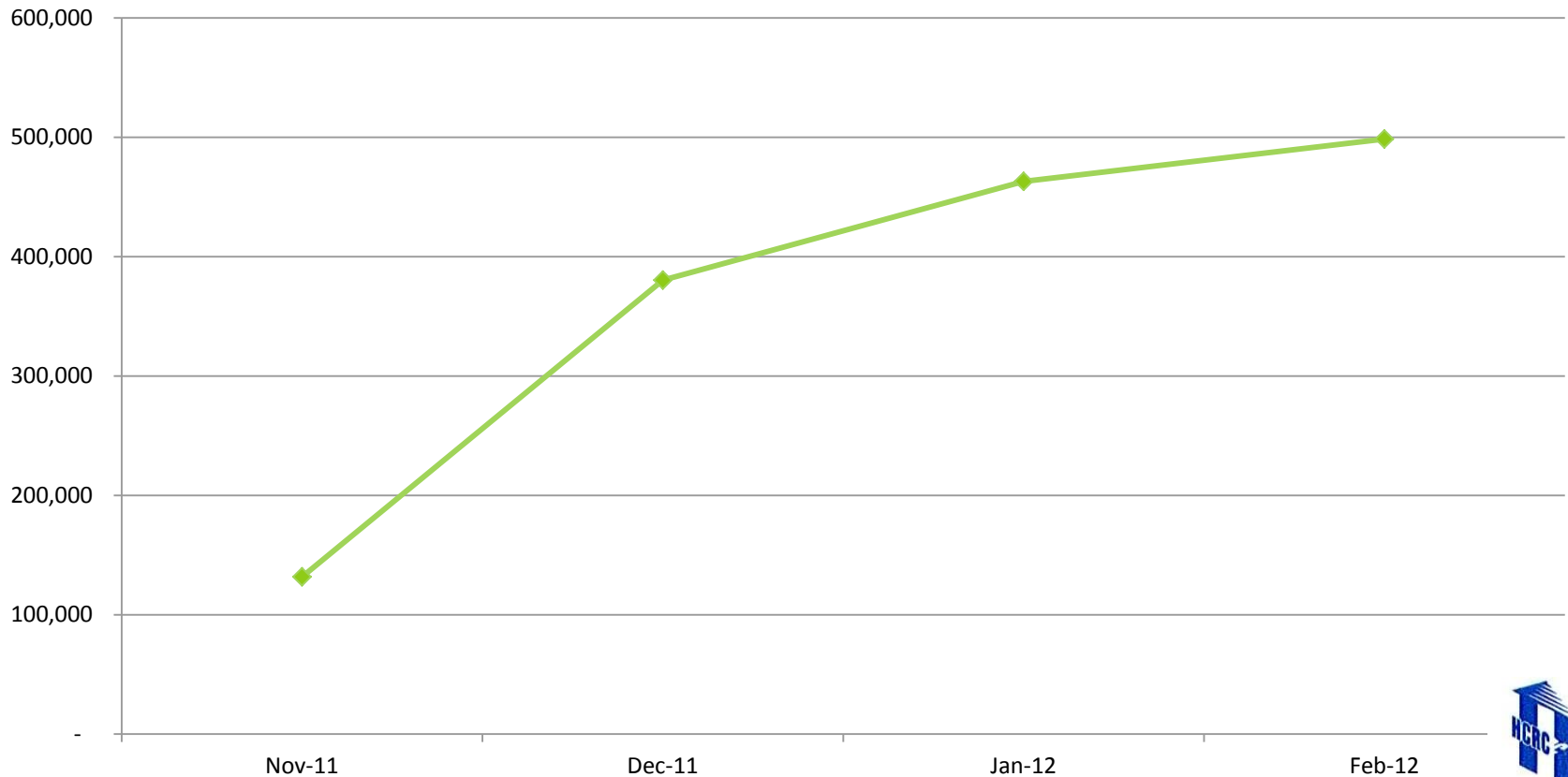






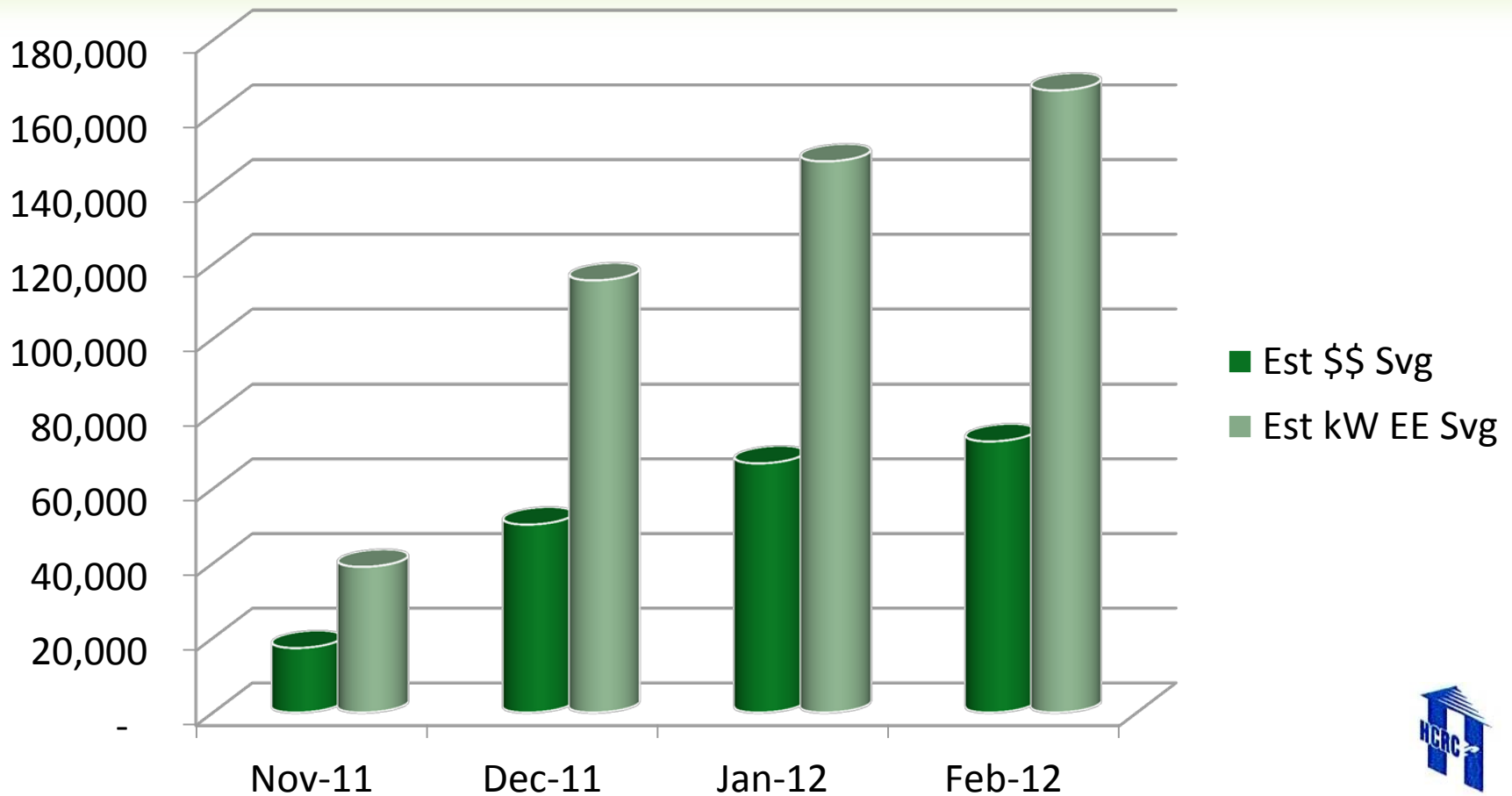
# VOLUME OF LOANS SINCE PROGRAM LAUNCH ON 10/26/11

## Aggregate GreenSun Hawaii Loans





# ESTIMATED ANNUAL kW ENERGY AND \$\$ SAVINGS IMPACT TO DATE





# ONLINE LOAN APPLICATION

Get a GreenSun Hawaii Loan!

**APPLY HERE**

**GreenSun**  
H A W A I I  
Sustainability Made Affordable

[View HCRC's Privacy Policy](#)

[HOME](#) / [COMMUNITY DEVELOPMENT](#)

## Community Development

The mission of Hawaii Community Reinvestment Corporation (HCRC) is to facilitate community development and community development facilities by providing below market rate loans and offering innovative financial resources, [consulting/technical assistance](#), and [training](#).

[Financing Programs](#) include our [GreenSun Hawaii](#) program, which was created to reduce risks for participating Financial Institutions and thus enable them to extend loan availability to a larger pool of customers and offer them the most aggressive loan terms and interest rates possible.

Another resource available to facilitate community development facilities is [New Markets Tax Credits \(NMTC\)](#), which provides gap funds in the form of equity.

For more detailed information on any of the community development products and services mentioned above, please click on the applicable links, call us at [808-532-3110](tel:808-532-3110) or [email HCRC](#).

### AMORTIZATION CALCULATOR

**PRINCIPAL AND INTEREST**

Interest Rate (in full annual rate)	<input type="text"/>
Period (in months)	<input type="text"/>
Principal	\$ <input type="text"/>
<b>Monthly Payment</b>	<b>\$ 0.00</b>

### HCRC IN THE NEWS

- [October 27, 2011 - HPR \(Hawaii Public Radio\) story](#)
- [October 27, 2011 - KHON video clip](#)
- [October 27, 2011 - KITV video clip](#)
- [October 27, 2011 - Pacific Business News](#)

<https://application.hcrc-hawaii.org/>



# PARTICIPATING LENDERS

- ◎ Hawaii National Bank
- ◎ Aloha Pacific Federal Credit Union
- ◎ Hawaii Community Federal Credit Union
- ◎ HawaiiUSA Federal Credit Union
- ◎ IEG Federal Credit Union
- ◎ Kauai Community Federal Credit Union
- ◎ Maui County Federal Credit Union
- ◎ NAVFAC Federal Credit Union
- ◎ The Queen's Federal Credit Union
- ◎ Wailuku Federal Credit Union





# AUTHORIZED CONTRACTORS

- ⊙ Alternate Energy, Inc.
- ⊙ Dugied Construction, Inc.
- ⊙ Energy Industries
- ⊙ Haleakala Solar, Inc.
- ⊙ Kumukit/Hawaii Energy Connection
- ⊙ New Century Electric LLC
- ⊙ Renewable Energy Services, Inc.
- ⊙ RevoluSun
- ⊙ The Sonshine Solar Corp
- ⊙ Sunetric
- ⊙ C&J Solar Solutions, Inc.
- ⊙ Eco Solar LLC
- ⊙ EnergyPro Hawaii
- ⊙ Islandwide Solar LLC
- ⊙ Maui Solar Project LLC/Advanced Electrical Systems
- ⊙ PhotonWorks Engineering LLP
- ⊙ Renewable Energy Technologies
- ⊙ Solar Wave Hawaii
- ⊙ XMX Power





# BECOME AN AUTHORIZED CONTRACTOR

- Visit [www.greensunhawaii.com](http://www.greensunhawaii.com)
- Review the GreenSun Hawaii [Operational Guidelines](#)
- Download [Contractor Application Packet](#).
- Complete and submit the following forms:
  - Application to Become An Authorized Contractor
  - Processing Fee of \$25.00
  - Request for Certificate of Insurance Form
- Schedule a GreenSun Hawaii Contractor Training



# SBA 504 Loans

BELOW MARKET, LONG-TERM FIXED RATE,  
2<sup>ND</sup> LIEN POSITION PERMANENT LOANS  
FOR LARGE FIXED ASSET PURCHASES





# WHO'S ELIGIBLE

- 👍 For-profit small businesses
- 👍 Located in the State of Hawaii
- 👍 “Small” defined as
  - 👍 Tangible net worth  $\leq$  \$15 million
  - 👍 And, Net Profit after taxes  $\leq$  \$5 million

(Includes almost all local businesses)







# WHO'S NOT ELIGIBLE

- ☹️ Nonprofit organizations
- ☹️ Real estate development companies
- ☹️ Speculative (investment) businesses
- ☹️ Government owned entities
- ☹️ Previously defaulted on federal or federally-assisted loans





# WHAT CAN BE FINANCED?

- ◎ Building Purchase (warehouse, office, etc.)
- ◎ Permanent/take-out financing of interim construction loans
  - ◎ Includes interest on interim loan
  - ◎ New construction, building renovations and/or modernization
- ◎ Large Equipment (including PV)
- ◎ Refinance eligible existing debt(s)





# FINANCIAL STRUCTURE

## 50 - 40 - 10

### SBA DEFINITION OF "NEW" BUSINESS"

Less than 2 years  
old (from date  
of first sales  
transaction)

OR

-Change of  
ownership

- ◎ Primary Lender = at least 50% (1<sup>st</sup> Lien Position)
- ◎ SBA (HCRC) = up to 40% (2<sup>nd</sup> Lien Position)
- ◎ Owner's contribution = at least 10%
  - ◎ If business is "new" (SBA definition)
    - Minimum contribution = 15%
  - ◎ If fixed asset is for special or limited use (e.g. Nursing Home; Bowling Alley, etc.)
    - Minimum contribution = 15%
  - ◎ If business is "new" AND property is for special use
    - Minimum contribution = 20%





# MAXIMUM LOAN AMOUNT

- ◎ \$5.0 million debenture (HCRC Loan)
  - ◎ Supports total project costs of up to \$12.5 million
- ◎ \$5.5 million if it meets “Green Initiatives”
  - ◎ Supports total project costs of up to \$13.75 million





# BENEFITS OF 504 LOAN

- ◎ Below Market Fixed interest rate
    - ◎ Set at time SBA Debenture is sold
  - ◎ Fully amortized for term of loan\*
    - ◎ Real Estate Loans - 20 years
    - ◎ Equipment Loan – 10 years
  - ◎ No balloon payments
  - ◎ Fixed monthly payments
  - ◎ Prequalification available
- \* Based on useful life of asset





# OCCUPANCY REQUIREMENTS

- ◎ Purchase – Existing Building
  - ◎ At least 51% Owner Occupancy
- ◎ Construction - New Building
  - ◎ At least 60% Owner Occupancy immediately upon completion
  - ◎ Total of 80% Owner Occupancy within 10 years of completion
  - ◎ Remaining 20% can be permanently leased to tenants





# DEBT REFINANCE PROGRAM

Benefits any  
business  
with an  
existing  
commercial  
real estate  
mortgage

- ⊙ 85/15 Rule
  - ⊙ 85% of debt being refinanced is for eligible 504 fixed assets
  - ⊙ 15% of debt being refinanced is for eligible business expenses (includes salaries, rent, utilities, inventory, payables, etc.)
- ⊙ Original loan
  - ⊙ Not government guaranteed - Not an existing SBA loan
  - ⊙ At least 2 years old
  - ⊙ Has been current for 1 year from application date (no payments were past due more than 30 days)
- ⊙ Maximum LTV = 90% (bank + 504)
- ⊙ Temporary Debt Refinance program ends 09/27/2012
- ⊙ \$7.5 billion allocated for refinance program





# PREQUALIFICATION

- Most recent business tax return
- Interim business financial statements
- Schedule of existing debts and payments
- Personal financial statement & most recent personal federal tax return of all owners w/20% or more ownership interest
- Purchase price of commercial property or equipment





# NEW MARKETS TAX CREDITS (NMTC)

EMERGING OPTION





# WHAT ARE NMTCs?

- ◎ NMTC equity is a gap filler
- ◎ NMTC is provided to investors in exchange for up front equity to fund projects
- ◎ Investors provide up front equity to projects in exchange for receiving tax credits worth 39% of their investment over a 7 year period

Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7
5%	5%	5%	6%	6%	6%	6%

- ◎ A substantial portion of this investment reaches businesses or projects as equity or low interest loans

Federal tax  
credit to spur  
private  
investment in  
low income  
communities





# WHO CAN GET NMTC ALLOCATIONS?

HCRC is a  
Community  
Development  
Entity (CDE)

- ⊙ Administered by CDFI Fund, a division of the US Department of Treasury
- ⊙ Unlike Low Income Housing Tax Credits or Historic Tax Credits, NMTCs are awarded to qualified Community Development Entities (CDE) – not to states or projects
- ⊙ CDEs receive NMTCs, then make investments in Low Income Communities





# FACTORS CDEs CONSIDER WHEN SELECTING PROJECTS

- ③ Location – must be located in an eligible census tract (Low Income Community) (LIC)
- ③ Eligible activity
- ③ Readiness – both at the project level and financing level
- ③ Strong community benefits



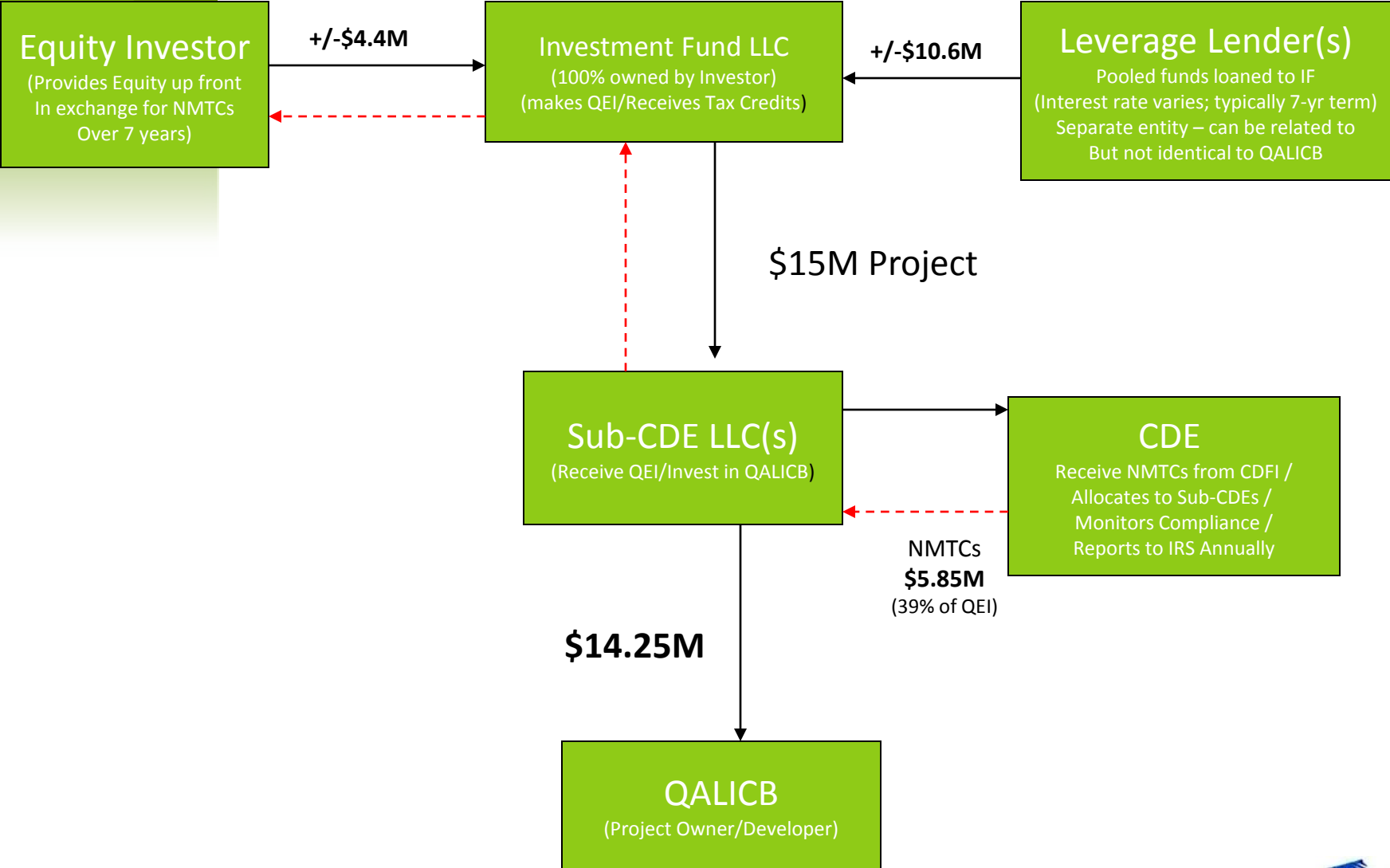


# ELIGIBLE PROJECTS

- ③ Loans and investments in operating businesses located in LICs
- ③ Development of commercial, industrial and retail real estate in LICs
- ③ Mixed-use projects where non-residential income exceeds 20 percent of the gross income of the property



# New Markets Tax Credit Leveraged Transaction – Typical Flow of Funds





# COMPLIANCE & RECAPTURE OF TAX CREDITS

- ⊙ Compliance period
  - ⊙ Seven years
- ⊙ Recapture triggers
  - ⊙ CDE loses its certification with the CDFI Fund
  - ⊙ CDE fails to meet the “substantially all” test
  - ⊙ CDE redeems the QEI
  - ⊙ The IRS determines that the QALICB, QLICI or QEI fails to meet the intent of the NMTC program





# US BANK INVESTS IN SOLAR INSTALLATIONS IN AFFORDABLE HOUSING COMMUNITIES

U.S. Bank, one of the nation's largest commercial banks, joined with developer McCormack Baron Salazar (MBS) to finance the installation of solar-energy systems on 11 existing affordable multifamily housing communities in various locations throughout California.

This transaction involved three main entities and their related affiliates: **MBS**, a for-profit affordable and market-rate housing developer with a focus on “green” architecture and sustainable design; **Sunwheel Energy Partners**, an MBS affiliate that finances, operates, and maintains photovoltaic solar systems; and **U.S. Bank**, the investor.

The financing structure used a combination of state rebates and federal tax credits under the new markets tax credit (NMTC) and investment tax credit (ITC) programs.







# FINANCING SOLAR INSTALLATIONS WITH NEW MARKETS TAX CREDITS

Solar energy installations in the public sector are commonly financed in partnership with third-party investors who can benefit from the available tax incentives as tax-paying entities. Traditionally the tax benefits have been the 30% investment tax credit (ITC) and accelerated depreciation. More recently, a 30% cash grant from the U.S. Department of the Treasury has been used in place of the ITC. In addition, federal stimulus dollars are being directed toward third-party financed installations as well.

**The latest addition to this practice of bundling incentives is New Markets Tax Credits (NMTCs).** NMTCs are intended to attract investment into low income and disadvantaged neighborhoods, with the goal of encouraging greater economic activity and job creation. An investor in a Community Development Entity (CDE) will benefit from a 39% federal tax credit over seven years, in addition to the actual returns on the investment itself. The CDE, in turn, uses this investment to make either equity investments or loans to qualified projects within the qualified neighborhoods.





# FUND WITH VERENGO SOLAR

Fund is targeting solar installations in the City of Los Angeles . Pure Power Advisors ([www.PurePowerAdvisors.com](http://www.PurePowerAdvisors.com)) announced an agreement with Verengo Solar ([www.VerengoSolar.com](http://www.VerengoSolar.com)), the leading installer of residential solar systems in Los Angeles County, granting Verengo the exclusive right to sell, qualify, install, bill and manage O&M for all qualified residential solar projects for the **Los Angeles Solar New Markets Tax Credit Fund** (the "Fund").

Pure Power Advisors launched the Fund February 1, 2011, immediately after securing a sub allocation of New Markets Tax Credits for aggregate project cost of \$10 million. The Fund is targeting installations in the City of Los Angeles, to the populations targeted to be served under the New Markets Tax Credit Program.



# SOLAR CANOPY ENERGIZES CINCINNATI ZOO

CINCINNATI — Visitors to the Cincinnati Zoo are marveling at a new sight: Nearly 4 acres of solar panels have been installed over a vast span of the parking lot.

Billed as one of the largest public urban solar displays in the United States, the \$11 million solar "canopy" will do much more than help control the zoo's utility bills and shelter visitors from the elements when it's turned on in mid-April, developers say.

**...The project relies on financing through a combination of federal New Market Tax Credits and federal energy tax credits through PNC Bank.** It relies on cash from the tax credits, sales of electricity over the next seven years to the zoo and selling the renewal energy credits generated by the investment to Akron-based FirstEnergy.



# COASTAL ENERGY PROJECT

Coastal Community Action Program (CCAP) is a non-profit social services group serving low-income communities in Grays Harbor and Pacific Counties in southwest Washington...

After nearly 10 years, these efforts came to fruition with the expanded vision of the Coastal Energy Project, a six megawatt wind farm located on a rural site within the group's service area. The clean energy generated by the project will be sold directly to the public utility district, and the electricity revenue will provide a long-term reliable funding source for CCAP's many needed programs, including a Low Income Home Energy Assistance Program.

**The project utilizes both New Markets Tax Credits and Renewable Energy Investment Tax Credits in its financing structure**, and creates a model for using clean energy production to fund non-profit social service organizations that can be duplicated elsewhere in the country.



# PUNAWAI 'O PU'UHONA LLC

- ◎ Awarded a \$40.0 million NMTC allocation in the 2012 Round
- ◎ Collaboration between Enterprise Honolulu and American Savings Bank
- ◎ Areas of focus:
  - ◎ Food sustainability
  - ◎ Energy Initiatives
  - ◎ Operating Businesses
- ◎ Contact:
  - ◎ Pono Shim, CEO, Enterprise Honolulu
    - [pshim@enterprisehonolulu.com](mailto:pshim@enterprisehonolulu.com)
    - (808) 521-3611 x1
  - ◎ Christopher Abbott, Director, Business Banking, American Savings Bank
    - [cabbott@asbhawaii.com](mailto:cabbott@asbhawaii.com)
    - 808-539-7843





# GOOD NMTC RESOURCES

- ◎ CDFI Fund
  - ◎ [www.cdfifund.gov](http://www.cdfifund.gov)
- ◎ New Markets Tax Credit Coalition
  - ◎ [www.newmarketstaxcreditcoalition.org/info/info.frameset.htm](http://www.newmarketstaxcreditcoalition.org/info/info.frameset.htm)
- ◎ Reznick Group PC
  - ◎ [www.reznickgroup.com](http://www.reznickgroup.com)
- ◎ Novogradac & Company LLP
  - ◎ [www.novoco.com/NMTC/index.shtml](http://www.novoco.com/NMTC/index.shtml)





# Mahalo!

Gwen Yamamoto Lau

Phone: 532-3113

Email: [gwen@hcrc-hawaii.org](mailto:gwen@hcrc-hawaii.org)

