



The Lending Rules, They Are A'Changing

By JENNIFER V. HUGHES

WHEN IT COMES TO A LOW-INTEREST LOAN, you can't get much lower than almost zero percent. For years, some condos and co-ops were getting rates of even half a percent through the New York State Energy Research and Development Authority (NYSERDA) Energy Smart loan program, which is designed to encourage energy efficiency projects. NYSEDA pays a fee to the bank to buy down the percentage points of the loan, buying down as much as 6.5 percent in Con Ed territory. That means if the bank offers you a 7 percent rate, NYSEDA buys down 6.5 percent and you're left with only half a percent in interest.

But such low, low rates will soon be a thing of the past, as NYSEDA changes its loan rules. Beginning in February or March, says James Reis, program manager for the Multi-Family Performance Program, the "floor" - or the lowest amount of the buy-down - will be three percent.

"It will cost us less and we're trying to start using dollars someplace else because our funds are limited," says Reis. Condos and co-ops that participate in the program get incentives to reduce their energy consumption by at least 20 percent.

The loan change has less to do with the current financial crunch and more to do with the way NYSEDA wants to encourage green projects over the long term. In the past, the loan program was crucial to convincing people to tackle costly green projects. Buildings rarely can afford to pay for them out of pocket. Banks were reluctant to lend because they didn't quite believe energy efficiency measures would really pay back financially, Reis says, adding: "What we were doing was enticing the banks to make these loans to people and we were giving the people the up front incentive to help them reduce the risk of doing this."

Now, Reis says, banks are more convinced that energy savings are real (and that those energy savings mean enough cash to pay back the loan). "What we were concerned about is someone who would normally do these projects anyway," Reis says. "We don't want to give too much of an incentive - we want to find the thing that makes someone who might not take on a project, pull the trigger."

David Englander says his co-op, the Forest Hills, in Queens would not have taken on its energy efficiency project without the help of a NYSEDA loan. The co-op is participating in the Multi-Family Performance Program by installing cooling towers and cogeneration, among other changes, at the 45-year-old, 120-unit building. If not for the incentives, Englander says the board probably would have opted to simply replace the aging heating system with a new, traditional boiler.

To complete the project, the co-op is getting a 10-year loan for \$1,156,924 from Amalgamated Bank. About half, or \$600,000, will be at the subsidized rate of 1 percent. The rest will be at 7.5 percent. (The total amount of an Energy Smart loans is limited to \$5,000 per unit or up to \$2.5 million per building. With multiple buildings, the cap is \$5 million.) The total project cost is \$1.3 million. The building is also expected to see \$150,000 in cash incentives from NYSEDA. Energy savings are projected to be about \$150,000 and loan payments

will be \$142,000 per year.

When it came time to find a bank to provide the Energy Smart loan, Englander went through the list provided on NYSEDA's website. One of the main reasons he chose Amalgamated is because the lender did not require a second lien (meaning the bank issuing the Energy Smart loan is second in line behind the mortgage holder in case of default). At issue is not so much that the co-op would default, Englander observes, but rather that a second lien requires the co-op to pay a recording tax. **That tax is 2.8 percent of the loan, says Geoffrey Mazel, a partner at Hankin and Mazel, the co-op's attorney.**

In lieu of a second lien, Amalgamated required the co-op to put \$120,000 in an escrow account. The bank even allowed the co-op to take that cash from the non-subsidized portion of the loan, Englander says. Amalgamated also required the co-op to write into the loan agreement that residents would see at least a two percent maintenance increase. That was not a problem; residents will face that amount of a maintenance bump in January as well as a still-to-be determined assessment. Those will be needed, despite the projected energy savings, because those savings will not be realized until the end of 2009.

The loan officer from Amalgamated visited the building, there were several phone meetings and, of course, there was the paperwork. "Frankly, I've had more problems getting my own mortgage," Englander says. "I was expecting all sorts of headaches but it went very smoothly."

NYSEDA's Reis says the individual bank determines whether a co-op or condo is credit worthy for an Energy Smart loan. From talking to several banks, Reis says he has heard lenders saying the program might soon feel a pinch from the financial crisis.

"It is probably going to get harder to approve people," he says. "There is going to be less money available and the banks will be giving out fewer loans." The money that NYSEDA uses to offer Energy Smart loans comes from fees charged by utility companies. Since the program began in 1999-2000, the agency has paid \$18.6 million in fees to banks to buy down 184 loans worth \$105 million for multi-family buildings statewide. Over the next five years, Reis estimates that NYSEDA will probably spend about \$4 million on low-interest loans for multi-family buildings statewide.

Another change Reis expects to implement has to do with how buildings can get both cash incentives and loans. "Right now, we'll continue to do that but as time goes by, we're going to try to back away and say you can either have the incentive or the loan but not both," he says.

Even if NYSEDA chanced upon an influx of money, Reis notes that it would probably not go toward more loan buy-downs. As time goes on, he says the agency will want to spend less money on energy efficiency and more on renewable resources like geothermal energy and solar power.

"Things become more costly as the technology develops," Reis says. And that's where NYSEDA wants to put more money down the road.