



Massachusetts Housing Finance Agency
One Beacon Street, Boston MA 02108
TEL 617.854.1000 | VP 866.758.1435 | FAX 617.854.1091 | www.masshousing.com

Media Contacts

Eric Gedstad: 617.854.1079 | egedstad@masshousing.com
Tom Farmer: 617.854.1843 | tfarmer@masshousing.com

Pilot program seeks to bring down energy costs at affordable housing developments

MassHousing and Boston Community Capital team up to offer unique loan program

BOSTON – June 20, 2012 – There's no question that many older subsidized apartment communities could be more energy efficient. Financing for improvements that reduce utility costs has often been hard to come by, however, since it is difficult to quantify the savings until they materialize.

"We know that older apartment buildings could be more energy-efficient, and we very much want to provide loans to make that happen but it is difficult to underwrite a loan based on projected energy savings," said MassHousing Executive Director Tom Gleason. "What was really needed was a third party who was willing to guarantee that energy savings could be achieved, and who could mitigate some of the risk for us."

That third party has arrived in the form of Boston Community Capital (BCC), a Roxbury-based community development financial institution whose mission is to build healthy communities where low-income people live and work. They have partnered with MassHousing to offer a small pilot program with big ambitions: to reduce energy costs by at least 20% at five to 10 affordable apartment communities.

"Boston Community Capital's goal is to demonstrate that energy efficiency and related improvements can make affordable housing developments less expensive, more comfortable and healthier buildings to own and manage," said DeWitt Jones, Executive Vice President of BCC. "With BCC's energy efficiency fund and expertise and MassHousing's long term financing, we can capture not only those improvements with a quick payback, but also those that will benefit the properties over their full lifecycle."

In April, the two organizations sent a term sheet and a request for proposals to management companies at 55 rental communities that were built under the 1970s-era Section-236 program. These are properties that have existing MassHousing mortgages and which have documented high energy costs. Starting May 18, program administrators will be receiving responses for the program, dubbed the Energy Advantage Loan Program. The application period will be open for 30 days.

"While the invitation was sent to a group of properties that in our view would be good candidates, the program is open to any property with a MassHousing loan," said Ray Johnson, MassHousing's Manager of Design and Technical Services. MassHousing has a portfolio of loans on more than 500 rental developments across Massachusetts.

BCC and MassHousing will jointly identify eligible properties. BCC will then analyze current energy usage at the properties, determine a scope of work and select and oversee contractors. Most importantly they will provide the up-front funds to pay for the energy improvements. Management companies will make interest-only payments to BCC at a rate of 6% during a two year period during which BCC will monitor utility usage. Once the property has demonstrated that energy costs have been reduced, MassHousing will advance funds to the property, which will then be used to pay BCC for the costs it incurred to make the upgrades. Management companies will then make amortizing loan payments to MassHousing for a term of up to 20 years at an interest rate not more than 4.5%. Loan amounts will range from \$50,000 to \$500,000, with the possibility for larger loans in some special cases.

"This is an ideal scenario for MassHousing because BCC is taking much of the risk, and our financing only comes in once significant savings have been demonstrated," said MassHousing's Gleason. "If the savings don't materialize, BCC is also providing guarantees that provide an additional hedge against our risk."

If a 20% energy savings does not materialize after two years, BCC will provide a guarantee equal to 25% of the loan. And if after two years the savings are less than half of what they were projected to be, BCC will reduce the principal amount to ensure that the properties are still saving money. The properties will have their utility use data tracked and benchmarked in WegoWise, an affiliate of BCC and the country's largest utility tracking company.

"By designing and monitoring the improvements, we will use the performance data from this program to demonstrate how energy efficiency improvements can have material financial benefits to affordable housing owners, manager and residents," said Jones. "We want to show that money spent up front on high performance buildings makes economic sense over time."

Loan funds can be used for things like insulation, HVAC system upgrades, energy efficient lighting, system controls, and water conservation measures. Expenses related to the upgrades are also eligible such as building permit costs, architectural and engineering costs, energy audits and legal fees as well as education for management staff and tenants on how to use and maintain new equipment.

Consistent with the missions of both organizations, preference will be given to projects where improvements will reduce costs for low-income residents.

"Reduced energy costs are good for everyone," said Gleason. "We're not only aiming to save money for the residents and to reduce costs in the subsidy payments, but also to create better, healthier living environments for people."

About MassHousing

MassHousing (The Massachusetts Housing Finance Agency) is an independent, quasi-public agency created in 1966 and charged with providing financing for affordable housing in Massachusetts. The Agency raises capital by selling bonds and lends the proceeds to low- and moderate-income homebuyers and homeowners, and to developers who build or preserve affordable and/or mixed-income rental housing. MassHousing does not use taxpayer dollars to sustain its operations, although it administers some publicly funded programs on behalf of the Commonwealth. Since its inception, MassHousing has provided more than \$13 billion for affordable housing. For more information, visit the MassHousing website at www.masshousing.com, follow us on Twitter [@MassHousing](https://twitter.com/MassHousing), subscribe to [our blog](#) and [Like us](#) on Facebook.

About Boston Community Capital

Boston Community Capital is a community development financial institution based in Boston whose mission is to build healthy communities where low-income people live and work. BCC accomplishes this mission by investing in projects that provide affordable housing, good jobs, and new opportunities in low-income communities and connecting these neighborhoods to the mainstream economy. Since 1985, BCC has invested more than \$700 million to support organizations and businesses that benefit underserved communities. BCC's financing for this program is funded in part by Bank of America's Energy Efficiency Finance Program. For more information on Boston Community Capital, please visit www.bostoncommunitycapital.org.

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