

ClearSupport - IEE-06-189

Clearinghouse Facilitation
Paving Way for Better Energy Building Performance

Main points for the tendering of Financing contracts

Tool 4



WP3: Financing Schemes

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1 Introduction

General description of framework:

PSF between project owner and financing institute

Necessity of tendering financing

This report is a result of the work conducted as a part of work package 3 (WP3) "Financing Schemes" of the project "Clearinghouse Facilitation - Paving the Way for Better Energy Building Performance in EU Less Developed Regions. The project acronym is ClearSupport and the project is based on the EC's intentions for establishing a clearinghouse for promotion of small and medium scale sustainability energy projects as stated in the EU Green Paper on Energy Efficiency. The technology focus is on RUE in building measures.

WP3 is dedicated to provide financial knowledge and instruments to the Project service facilities (PSF). The main focus is on building retrofitting, and to a minor extent also designing for RUE in new buildings. A wide range of measures exists for RUE building retrofitting and must be made operational for the operation of project service facilities (PSF) and thus shall facilitate ClearingHouse penetration in general.

Latvia, Lithuania, Poland, Czech Republic and Crete have a PSF in place. On one hand side the role of each PSF is to provide practical assistance to project owners (including housing associations, municipalities and building project developers). On the other hand side financial institutes, political stakeholders and institutions/companies related to execution of the work on site are important target groups of PSF-action.

For the first group of partners PSF should provide also assistance in acquiring financial resources for the execution of the refurbishment projects. Therefore it will be a task of PSF to care about the tendering of credits not in a meaning of an official procedure but in the meaning of a procedure for price quoting. To ensure efficient work of PSF these procedures should be standardized as much as possible.

After the stock taking phase (see D 3.1) and the elaboration of the main components of an financing instrument (see D 3.2) the main object for WP3 is to develop Tools for daily work of PSF regarding discussions with the mentioned stakeholders.

This leads to the following six deliverables:

No:	Deliverable title
D 3.3	Tool 1: Recommendations on financial schemes for the PSF
D 3.4	Tool 2: Clearinghouse processes and procedures
D 3.5	Tool 3: Guide for RUE Building Retrofitting Financing for bankers
D 3.6	Tool 4: Agreements and contracts
D 3.7	Tool 5: Subsidy guidelines for financing instruments
D 3.8	Tool 6: Tools for project evaluation

This guideline is elaborated to give an advice for a efficient execution of tendering procedures for financial resources.

2 Scope/structure of report

The scope of this report is to create a guideline for the PSF which guides them through a procedure to acquire financing for project owners and give advice at each step with suitable instruments. The report is structured in a description of a suitable procedure. This description is added with a checklist for the collection of all necessary data and a template for a request to financial institutes.

3 Description of procedure

3.1 Preparation Phase

The first step is to gather all necessary information about the project. Those information are from the following terms of reference

- planned measures with the goal of saving energy
- additionally planned measures without the effect of saving energy (e.g. renewal of electrical installation)
- expected savings
- estimated construction costs, separated between measures with and without energy savings
- available income of residents for covering interest and repayment
- potentialities of covering of loans by register in land register or security by third-parties (e.g. government guaranty funds)

In a second step the financial need is to be determined. It depends on

- Construction costs
- Available and reliable confirmed subsidies
- Own capital of the residents

According to possibility a cost accounting on the basis of construction documentations or tenders of building contractors should be available for the determination of the construction costs. Provisionally in the first step of request of financing, a construction cost estimation on the basis of an appropriate tool (e.g. Cost Calculation Model –CCM- from the project „Baltic Energy Efficiency Network – BEEN- grant-aided by the EU) can be sufficient. Those costs are to be verified by detailed cost calculations or quotes before the financing contract completion.

The encumbrance resulting from the financing need must not be higher than the sum of the for the covering of interest and repayment available income of the residents and the forthcoming energy cost savings. The savings should be calculated on the basis of an energy audit or by an appropriate tool (e.g. Cost Calculation Model – CCM- from the project „Baltic Energy Efficiency Network –BEEN- grant-aided by the EU) depending on the planning stage. For the evaluation of the total financing situation tool 6 “easy to use tool for project evaluation” can be called on.

The format under point 4 can be used for the phase of data collection.

3.2 Tendering Phase

Within the framework of the second phase, the offers for the financial resources are should be collected. For this purpose the general conditions of the loan are to be confirmed with the residents and the sponsoring group. In the framework of this confirmation an agreement of

- The loan term
- The sort of the loan (instalment or annuity loan)
- The term of fixed interest rate

is required.

To keep the yearly encumbrance as low as possible the loan term should be as long as possible. But the loan term should not exceed the technical lifetime of the capital goods. For constructional renovation measures that means loan terms of 20 to max.

30 years. For the predefinition of the loan term it is to be noticed that the sum repayments increases because of longer terms, since the loan sum is getting compounded slower and thereby more payments accrue. At this is to negotiate a balance between the minimisation of the current payment and the total credit costs with the residents resp. the sponsoring group

It is to be taken into consideration that the sum of total credit payments for instalment loans are lower than those for annuity loans with the same conditions. For the most projects an instalment loan wouldn't be eligible because of the higher encumbrance at the beginning of the loan term.

The term of the fixed interest rate shall be assessed as long as possible to guarantee a maximum financial security for the residents. However longer terms of fixed interest rates often affect negative interest conditions. Short terms of fixed interest rates can be arranged, if the interest level forecasts are sinking and with an appropriate high risk willingness

Basically the possibility of consideration of repayment free years exists further on. But this option is not provided by any credit institution, so it seldom shall made use hereof.

The predefinition of the credit conditions and all necessary information shall be sent to three to five selected credit institutions. As a rule it is useful to contact the institutions and inform these about the project.

The format under point 6 can be used for the query.

3.3 Contracting Phase

After the receipt the proposals of the credit institutes are to be compared. The criteria of the for the comparison of the proposals are:

- Interest rate
- Discount (anticipated payment so that not the full 100 % are disbursed and available for the financing of the measure)
- Requirements concerning the credit security
- Arrangement fees

The analysis of the proposals shall base on the cash-flow plans resulting from the credit conditions.

While comparing the proposals it is to regarded that it is possible that banks offer different credit conditions for different credit values. At this two opposite effects are to be noted:

- Very small credit values induce worse conditions, because of the arrangement fee, that is not depending on the credit height
- Credit values that exceed a certain percentage of the value of the building also induce worse credit conditions, because the risk security of the bank becomes costlier.

On the basis of those analysis concrete finacing conversations shall be conducted with selected credit institution from the shortlist. Finally the financing contracts and especially the credit security are to be stated in those conversations.

Subsequent to those conservations a financing package can be submitted to the residents resp. the sponsoring groups for a decision. If necessary this package can consist of a combination of different credit proposals.

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4 Checklist for necessary information

Information about project requested	Available		Remarks
	Yes	No	
planned measures with the goal of saving energy	<input type="checkbox"/>	<input type="checkbox"/>	
additionally planned measures without the effect of saving energy (e.g. renewal of electrical installation)	<input type="checkbox"/>	<input type="checkbox"/>	
expected savings	<input type="checkbox"/>	<input type="checkbox"/>	
estimated construction costs, separated between measures with and without energy savings	<input type="checkbox"/>	<input type="checkbox"/>	
available income of residents for covering interest and repayment	<input type="checkbox"/>	<input type="checkbox"/>	
potentialities of covering of loans by register in land register or security by third-parties (e.g. government guaranty funds)	<input type="checkbox"/>	<input type="checkbox"/>	

5 Template for request to financing institutes

Addressed financial institute

Name of PSF with contact person

Project description with: venue, description of building, description of structure of owners, description of foreseen measures, expected investment costs (with basis – assumption or offers-, expected energy savings (with basis), already received grant or public loans, information about requested loan

List of attached documents

List of information and documents requested from financing institute