

**energy right<sup>®</sup> Program**

# Program Financing Guidelines

**Description**

TVA is making Financing available for the promotion of heat pumps in the Heat Pump Plan and the New Homes Plan. A designated Third-Party Financing Partner, (FINANCER), will provide administration and banking expertise in all related processes. The partnership will assist TVA and distributors by adding value through reduced cycle times and efficient administration. The Distributor will be the lender and the secured party for purposes of making the ultimate credit decision, preparing the documentation and collecting the monthly payments. TVA has arranged with FINANCER to fund the loans, to pay the QCN members, and to receive the loan repayments. FINANCER has full recourse to TVA for any loan repayments FINANCER does not receive. TVA will excuse the Distributor from payment of uncollectible loan repayment amounts so long as the Distributor complies with the collection procedures described in the following materials. For the purposes of Financing, "Customer" shall include a person who builds or contracts with a Builder for the construction of a New Home intended for use as the Customer's residence or to be held by the Customer as rental property. If the Customer is not the owner of record at the time the heat pump is installed, specific case-by-case arrangements shall be made with the Distributor and TVA before financing can be made available. A Builder who is constructing a New Home for resale will not qualify for financing. The term "Heat Pump" as it relates to Financing for a New Home does not include any associated weatherization.

Loan Qualification Process and Loan Pre-Qualification Process (found in Section 1-1-B) provide flow charts for heat pump installations in the *energy right<sup>®</sup>* Program (the Program). The Loan Qualification Process is used when the QCN member generates the lead and the customer has selected that QCN member to install the Customer's heat pump. Often this will be an emergency change-out situation where the Customer is in a hurry to get the heat pump installed. The Loan Pre-qualification Process is used when the Customer calls the Distributor first and expresses an interest in the Program and the Customer has not yet selected a QCN member.

All forms used for Financing are included in the back of this Reference Materials. Forms without a TVA form number are samples that Distributors may copy directly from these Reference Standards and may be available through the *energy right<sup>®</sup>* web-entry database. Upon request, the local Customer Service Center (CSC) will provide Distributors with a Microsoft Word version of all forms.

**General Financing Requirements****Eligibility for Financing**

Customers of Distributors who have selected Financing under the Heat Pump Plan or New Homes Plan, who have received a favorable credit review, and who meet the requirements listed below may be eligible for financing under this Program.

The Customer must own the Dwelling which receives electric service from the Distributor.

If the Dwelling is a manufactured home and the Customer does not own the land on which the manufactured home is located, the landowner must cosign the loan. For manufactured homeowners, other security acceptable to TVA may be provided in lieu of the landowner cosigning the loan. For example, automobiles, cash value life insurance, bank certificates of deposits, and stocks and bonds (at 75% of market value) may be acceptable if such security can be properly maintained and monitored by the Distributor. When a manufactured

home owner requests that such security be accepted, FINANCER will provide assistance in evaluating whether the collateral provides adequate security for the loan. Distributor shall be responsible for obtaining and maintaining such security

For the Heat Pump Plan the Dwelling at which the heat pump is to be installed must have received permanent electric service for at least one year, but manufactured homes - regardless of length of time they have received permanent electric service - are considered Dwellings eligible for financing.

For the New Homes Plan the Customer must certify that they have not mortgaged more than 85% of the value of the New Home and the heat pump must have been installed by a QCN member.

All general financing requirements and applicable financing requirements for individual options must have been met.

A residential heat pump (materials and labor) is eligible for financing by a Customer under the Financing if (1) the Customer and the Dwelling meet the eligibility requirements for financing, (2) the heat pump is newly-installed at a Dwelling by a member of the Quality Contractor Network, (3) adequate weatherization specified by TVA for the Heat Pump Plan has been or is being installed at the Dwelling if applicable, (4) the inspected heat pump and its installation meets *energy right*<sup>®</sup> Program Requirements, and (5) the other applicable requirements of the *energy right*<sup>®</sup> Program Agreement and these Reference Standards are met, and (6) the financing is adequately secured.

Under the Heat Pump Plan the following home weatherization measures shall be eligible for financing in conjunction with a financed heat pump in a Dwelling by an eligible Customer under the Financing if: (1) the heat pump and the Dwelling meet eligibility requirements, (2) the weatherization and heat pump are financed at the same time, (3) the financed weatherization and heat pump receive an Inspection based on section 7.4 of the *energy right*<sup>®</sup> Program Agreement (4) the inspected weatherization measures and their installation meet *energy right*<sup>®</sup> Program Requirements ,(5) Distributor requirements for the weatherization measures have been met, and (6) the other applicable requirements of this *energy right*<sup>®</sup> Program Agreement are met:

- attic insulation (Note: R30 insulation may be financed if there is no existing insulation or R19 may be financed if there is less than R19 existing insulation.)
- storm windows
- caulking and weather-stripping
- floor insulation (Note: R-11 to R-19 batt or blanket insulation may be financed when installed in floors separating conditioned areas from nonconditioned areas, when no effective floor insulation exists. Additional floor insulation shall not be financed in an area if any effective floor insulation exists in that area at the time of the heat pump installation. Blown-in floor insulation shall not be financed.)
- ground cover

### **Prior Conditions for Financing**

The installation of a heat pump shall be eligible for financing provided the conditions listed below have been met.

- If the Customer is a manufactured home dweller in an existing Dwelling, the name of the land owner who is to sign the Repayment Agreement should be verified (e.g., by contacting the local county courthouse).
- The Distributor, or the QCN member, has (with the assistance of FINANCER or otherwise) verified that the Customer is the record owner of the property (the Dwelling and its site) and has obtained the signature of the Customer and any others who are applicants for the financing on the Heat Pump Loan Application form.
- The Distributor, or the QCN member, has verified that the Customer is the record owner of the property and has after loan approval obtained the signature of the Customer and any other owner of the property on the Agreement to Participate form.
- FINANCER has approved the loan application, and the Distributor concurs if the Distributor has requested that it would like to review all approvals.

- FINANCER has assigned a loan number.
- The Agreement to Participate is still valid, i.e., it is not more than ninety (90) days old and has not been revoked by the Customer.
- All general eligibility requirements and financing requirements for individual options found in these Reference Standards have been met.
- All work designated has been completed in accordance with specifications noted and all applicable Program Requirements and Distributor requirements.
- The QCN member has completed all necessary spaces on the Work Completion Form and provided an acceptable invoice for completed work. The QCN member has completed a UCC 1 form, obtained the legal property owner's signature(s), and submitted it to the Distributor within 3 working days of the beginning of the heat pump installation.
- The Customer (Participant) has a copy of the invoice for the work to be financed.
- An operating representative of the Distributor or TVA has validated the installed improvement(s) and has validated that the installation meets specifications and requirements as per Section 7.4 of the *energy right*® Program Agreement by signing and dating the Work Completion Form, and the Participant has indicated that the work is acceptable by signing and dating the Work Completion Form.
- The Participant has signed the Program Agreement to Participate, Repayment Agreement including a Truth in Lending Disclosure, and furnished any required security by signing an appropriate security agreement and other necessary forms.

## Financing Limits

### General

The total financing limit for a Dwelling unit will be up to \$10,000 for an air-source heat pump or \$12,500 for an advanced heat pump, more than 1 air source heat pump at a Dwelling, a Comfort Zone System, or the total approved costs of the installed heat pump as set out in the *energy right*® Program Agreement and these Reference Standards, whichever is less. The financing limit may be decreased by agreement of TVA and Distributor's Operating Representatives. The amount shall in no case exceed the total costs of the installed Improvements approved for financing. (Please refer to Loan Security Requirements when a Participant's total loan obligation is greater than \$12,500.)

The amount financed shall be repayable at a fixed interest rate determined by TVA for a term, at Customer's option, of up to 120 months, unless the Distributor sets a minimum monthly payment which may reduce the number of months available to the Participant. The Distributors may not set minimum monthly payments in excess of \$25.00 unless a larger payment is necessary to amortize the loan within the 120 month maximum term.

### Financing Participation (as shown in Section 10.3 of Agreement)

**Loan Application.** If a Customer decides to participate in Program Financing, Distributor shall provide Customer any applicable notice required by the Gramm-Leach-Bliley Privacy Disclosure Act (16 U.S.C. §§ 6801 et seq.) and the implementing regulations (16 C.F.R. part 313) and shall have Customer execute a loan application and submit it to TVA or a third-party financing partner (either hereinafter referred to as the Financer) designated by TVA. Distributor may elect to charge Customer an application fee for Distributor's cost of processing the loan. For Multi-Family loans over \$12,500, Distributor shall forward, or have the applicant forward, to the Financer such financial information from the applicant as TVA determines is necessary for the Financer to perform a review of the applicant's credit history.

**Loan Approval or Non-Approval.** In the event of non-approval by the Financer, the Financer will notify Distributor of the non-approval, of the specific reasons for the non-approval, and of any pertinent consumer report information for use in any needed notification under the Federal Equal Credit Opportunity Act (FECOA) or notice under the Federal Fair Credit Reporting Act (FFCRA). Distributor may elect to approve a loan

application not approved by the Financer if Customer meets minimum criteria established by TVA through consultation with the distributors participating in the Program.

Distributor may also elect to review loan applications approved by the Financer and approve or not approve such loan applications based on uniform nondiscriminatory criteria. Distributor must review and respond to the Financer with approval or non-approval within four (4) hours during established Distributor office hours after receipt of approval from the Financer. Without such response, the Financer will treat the loan application as approved.

The Financer will notify Customer and the installing QCN contractor of approved loan applications. After the loan is approved, Customer will sign the applicable Agreement to Participate form provided in the PRM, which TVA shall make available to Distributor. In the event of a final determination of non-approval, Distributor will notify Customer and the installing QCN contractor of the non-approval in a manner which complies with applicable Federal laws, including the FEEOA and the FFCRA, and any applicable state laws or regulations.

**Inspection.** Upon notification that an AEHP for which a loan application was approved has been installed to meet the Program requirements, Distributor will ensure that an appropriate Inspection is conducted in accordance with the requirements of the Program. If the installed AEHP is determined not to be in compliance with the applicable Program requirements, Participant and the installing QCN contractor shall be notified. Corrective work must be performed to bring such AEHP into compliance before a loan is completed.

**Repayment Agreement.** Before Distributor makes a loan to a Customer, unless otherwise notified by TVA, (1) the installed AEPH must be determined to be in compliance with applicable requirements, (2) Customer must execute an appropriate repayment agreement (Repayment Agreement), (3) Distributor must have a completed WCF, and (4) the appropriate security for the loan must be obtained from Customer pursuant to the Loan Security Requirements. Promptly after these requirements are met, Distributor shall request transfer of the amounts payable under Program Financing from the Financer to the installing QCN contractor. Distributor shall make such requests on a daily basis on forms provided in the PRM, unless otherwise agreed by the operating representatives provided for in Article XIII (Operating Representatives).

#### **Determining the Available Financing Limits**

FINANCER will be responsible for calculating an individual Customer's available financing based on Distributor limits and information provided by the QCN member about the size, type of heat pump, and installations specifics. The loan amount requested will be compared to a cost matrix developed from information from the *energy right*® Program database to determine if it is within an acceptable range. If the loan amount requested is not within the range, FINANCER will promptly call the Distributor who may wish to investigate any extenuating circumstances. The Distributor shall notify FINANCER of its approval or if the request should be denied. FINANCER will notify the QCN member that the loan request has been referred to the Distributor.

When Distributors are pre-approving loans for Customers who have not yet selected their QCN member, Distributor shall be responsible for calculating an individual Customer's available financing amount and obtaining a loan approval number from FINANCER.

## Additional Loans

### General

For the duration of the Program, a Participant may take out an additional loan provided that the total amount of all loans (outstanding balance) do not exceed the loan limit of \$12,500 (or a reduced amount agreed upon by the Operating Representatives). If the Participant desires to take out an additional loan under an outstanding (non-terminated) Agreement to Participate, the Inspector must obtain the original loan amount(s) made under that Agreement to Participate from the Distributor prior to performing the Inspection. Additional loans must meet eligibility for financing requirements and prior conditions for financing.

### Refinancing

For the duration of the Program, previous loans made under this *energy right*<sup>®</sup> Program Agreement or any previous residential program agreement shall not be refinanced.

### Other Situations

Situations not addressed by these procedures should be handled in accordance with the direction provided by the appropriate TVA Customer Service Center.

## Loan Security Requirements

A Participant in the Program shall be required to furnish security (collateral) for loans given under the Program as follows:

**Total Loan Obligation is Less than or Equal to \$12,500.** The Participant shall furnish security satisfactory to TVA on loan funds provided under the Repayment Agreement. Distributor will take as security the Heat Pump installed with all loan funds provided under an individual Repayment Agreement. The two forms normally used in obtaining and perfecting loan security will be: (1) A signed Security Agreement and (2) a standard Uniform Commercial Code financing statement (Form UCC1). Other security may be required as a result of recommendations by the Distributor or FINANCER.

**Total Loan Obligation is Greater than \$12,500.** The Participant shall furnish security satisfactory to TVA on all loan funds provided under the Repayment Agreement. Distributor shall obtain from the Participant and forward to FINANCER such financial information from the Participant as TVA determines is necessary for FINANCER to perform a review of the Participant's credit history. Based on the review, FINANCER shall notify Distributor in an expeditious manner of the type and amount of security recommended for the Participant's total loan obligation. In the event that Distributor does not agree with FINANCER's recommendation, Distributor and TVA will mutually agree on the type of security to be required. Distributor shall advise the Participant of the security required. If the Participant elects to proceed with the loan and provide the security required, Distributor, on or before execution of a Repayment Agreement, shall, with assistance from FINANCER as appropriate, obtain and maintain the security required for the Participant's loan obligation.

**Uniform Commercial Code Financing Statements (Using UCC1 and UCC3 Forms).** When the security for the loan is to be a lien on the Improvements installed, a Uniform Commercial Code financing statement (Form UCC1) will be used to perfect the security interest. When properly filled out and signed by the Participant (debtor) and the Distributor (secured party) this instrument gives public notice that the secured party has a security interest in the improvements installed with the loan funds. In all cases a UCC1 must be filed before or within ten (10) calendar days after the date the installation of the Improvements is started.

**Procedures for Completing the UCC1.** Unless otherwise agreed by TVA, a UCC1 Financing Statement shall be completed on all secured loans. Detailed procedures for completing the UCC1 are found in the section containing the forms in this Tab of these Reference Standards.

**Procedures for Filing the UCC1 Financing Statement.** Upon completion, the financing statement should be filed in the governmental office where a deed covering the real estate is located on which the heat pump has been installed. If the local office has a separate index for financing statements, a UCC1 should also be filed in that index. If the heat pump is installed in rental property or the Participant has designated that the heat pump will be used for business on the Security Agreement, another financing statement must be filed in the appropriate governmental office where filings on equipment are made. This is generally the office of the Secretary of State of the state where the heat pump will be located, but the Distributor should confirm the correct location. If the ultimate location of the equipment collateral is a different state from where it is being purchased, the Distributor or QCN Member should consult its legal counsel to determine that the appropriate state law is being applied.

After a UCC1 has been properly recorded, the filing officer should acknowledge the filing. If the Distributor is using a form package, the officer will return at least 2 copies to the Distributor - one for the Participant and one for the Distributor (Frequently the Distributor's form will also have a place for noting termination as discussed below). If the Distributor is not using a form package, it should enclose 2 extra copies for acknowledgment by the filing officer.

*Note: The deed book number and page number should be recorded on the UCC1 for future reference.*

The Distributor shall check with the appropriate office to determine the correct filing procedures. There is a fee for filing a UCC1 in the county or state office. There may also be taxes required for the privilege of recording the financial statement. To determine the correct charge and the appropriate method of submitting it, the appropriate office should be contacted. A check for the filing fee and applicable tax should be attached to the UCC1 form when sending it in.

## **Continuation of the UCC1**

### **General**

The protection against the claims of competing creditors, which the filing of a financial statement provides, generally expires five years from the date the financing statement was filed. To maintain that protection, it is necessary to file a continuation statement (prepared on a UCC3 form) during the last six months of the five year period. The failure to file the continuation statement in a timely manner results in the Distributor's losing its priority to the collateral, and possibly losing its entire lien if a bankruptcy or foreclosure occurs.

A UCC3 must be filed in a timely manner by the Distributor unless the filing is excused by TVA's Operating Representative. Detailed procedures for completing the UCC3 for filing are found in the section containing the forms in this Tab of the Reference Standards.

### **Procedures for Filing the UCC3**

The UCC3 must be filed in the same office(s) as the UCC1. There is a fee for filing a UCC3. To determine the correct charge, the appropriate office should be contacted.

A check for the filing fee shall be attached to the UCC3 form when sending it in.

### Termination of the UCC1

Upon receiving payment in full, the Distributor must terminate its security interest in the collateral. This may be accomplished by (a) completing a termination statement on a UCC3 form and marking the termination box or (b) signing the section of the acknowledged UCC1 which is provided for termination. The termination must then be sent by the Distributor to the filing office where the UCC1 was filed. **DO NOT RELEASE THE UCC1 PREMATURELY.**

### Other Security Requirements if Agreed by TVA

Where Distributor wishes to require alternative security for loans equal to or less than \$12,500, Distributor will describe the type of security and the procedures for obtaining such security in the Program Implementation Plan and have it approved by TVA.

### Application Fee

A Distributor may elect to charge loan applicants (i.e., those Customers who complete an Agreement to Participate) a loan application fee to cover the cost of processing the loan. This fee is not considered part of financing costs and is not required to be reflected on the Truth in Lending Disclosure. **NOTE: THIS FEE SHALL NOT BE FINANCED.** The Board of Governors of the Federal Reserve Board defines an application fee that is excluded from the finance charge as a charge to recover the costs associated with processing applications for credit. The fee may cover the costs of services, such as credit reports, credit investigations, and appraisals. The creditor is free to impose the fee in only certain of its loan programs such as mortgage loans. However, if the fee is to be excluded from the finance charge under Truth in Lending Regulations **IT MUST BE CHARGED TO ALL APPLICANTS, NOT JUST TO THOSE APPLICANTS WHO ARE APPROVED OR WHO ACTUALLY RECEIVE CREDIT.**

### Security Filing Fees

For loans made under this Program, which have collateral prior to or at the time of the execution by a Participant of a Repayment Agreement, the Distributor may obtain reimbursement from a Participant for the direct costs, including applicable overheads, incurred by the Distributor.

Different procedures are required for completing the Repayment and Truth in Lending Disclosures, depending upon the way in which this reimbursement is obtained. There are two ways this can be done. Security filing costs may be paid as an up front fee, prior to or at the time the Repayment Agreement is signed, or if the Participant requests and the Distributor is agreeable, the reimbursement of these fees may be included in the amount financed. The procedures for completing the Repayment Agreement and Truth in Lending Disclosure will vary, depending upon the method of payment.

### Security Filing Costs Paid As Up front Fee

#### Repayment Agreement

When security filing fee costs are paid up front (prior to or at the time the Repayment Agreement is signed), the amount to be financed will only include the amount(s) paid directly to the QCN member. For example, if that amount is \$1,500.00, enter that amount in the "Sum of \_\_\_\_\_ with interest" section of the form. The interest rate to be entered on the Repayment Agreement is the rate set by TVA at the date of the execution of the Agreement to Participate.

#### Repayment Agreement (Truth in Lending Disclosure Section)

Prior to or at the time the Repayment Agreement is signed, the Distributor will obtain from Participant a reimbursement for security filing costs. For purposes of completing the Truth in Lending Disclosure section, this reimbursement must be broken down between (1) filing fees paid to public officials and (2) security administration charges. Security administration charges are defined as those expenses charged to Participant

in excess of the actual filing fees to be paid to public officials. These security administration charges must be itemized and shown as a finance charge on the Truth in Lending Disclosures section. If this additional finance charge results in a variation of more than 1/8 (.125) of 1 percent in the annual percentage rate (APR), a new effective interest rate must be calculated.

For example, if the Distributor obtains a \$22.50 reimbursement from Participant, it needs to be broken down to show that \$10.00 (\$5.00 for UCC1 and \$5.00 for UCC3) will be paid to public officials and \$12.50 will be retained by the Distributor to cover security administration charges.

**Filing Fees.** Enter those costs which will be paid to public officials for filing fees, including taxes if applicable in the "Filing Fee" section of the form.

**Security Administration Charges.** Enter those costs which will be retained by Distributor to cover security administration charges in the "Less: \$ \_\_\_\_\_ Prepaid finance charge."

**Adjustment to Amount Financed.** To show the security administration charges as a finance charge, it will be necessary to subtract these charges from the actual amount financed on the Repayment Agreement. The result should be entered in the "Amount Financed" section of the form.

For example, if the amount financed on the Repayment Agreement is \$1,500 and the security administration charges are \$12.50 the "Amount Financed" on the Truth in Lending Disclosure section will be \$1,487.50 (\$1,500 - \$12.50).

**NOTE: The actual amount financed is \$1,500 but an adjustment is made to the "Amount Financed" to reflect the additional finance charge \$12.50.**

This amount should also be entered in the "Itemization of the Amount Financed of \$ \_\_\_\_\_" section.

**Amount Paid to QCN Member.** Enter the amount paid to the QCN member and the firm name(s) in the \$ \_\_\_\_\_ to \_\_\_\_\_ space under the Amount paid to others on your behalf section on the bottom of the form.

**NOTE: The amount(s) to be entered will be equal to the amount financed on the Repayment Agreement.**

**Monthly Payment Amount.** The Monthly Payment Amount is determined by using the amount financed under the Repayment Agreement and the current interest rate charged by the Distributor. The table in Section 1-1-B, page 15, may be used to calculate loan payment amounts. Make certain that the table is current (i.e., reflecting the interest rate in effect at the time of the loan).

Enter the calculated monthly payment amount and the number of payments in the "Payment Schedule" box on the form.

**Total of Payments.** The Total of Payments is determined by multiplying the monthly payment amount by the number of payments.

Enter the calculated total of payments in the "**TOTAL OF PAYMENTS**" box.

**Finance Charge.** The Finance Charge to be paid by Participant is equal to the difference between the "**TOTAL OF PAYMENTS**" and the "**AMOUNT FINANCED.**"

Enter the calculated finance charge in the "**FINANCE CHARGE**" box in the Financing section of the form.

For example, using \$2,280 Total of Payments and the \$1,487.50 as Amount Financed, the Finance Charge is \$792.50 (\$2,280-\$1,487.50).

**Annual Percentage Rate (APR).** The "APR" will be the current rate unless the additional finance charge (security administration charges) results in a variation of more than 1/8 (.125) of 1 percent in the APR. If this

variation threshold is exceeded, a new effective APR must be calculated. For procedures on calculating the effective APR, refer to information found later in this Tab of these Reference Standards.

Enter the effective interest rate in the **"ANNUAL PERCENTAGE RATE"** box.

For example, using the MBA calculator, if the Amount Financed is \$1,487.50, the Monthly Payment is \$19.00 and the term is 120 months, the effective APR is 9.19 percent.

## Security Filing Costs Included in the Amount to be Financed

### Repayment Agreement

When security filing fee costs are to be included in the amount to be financed, the total amount to be financed will include the amount(s) paid directly to the QCN member, the Participant, and the security filing costs. For example, if the amount paid directly to the QCN member or Participant is \$1,500.00 and the security filing costs are \$22.50, enter that total amount in the "Sum of \_\_\_\_\_ with interest" section under the Financing section of the form.

The interest rate to be entered on the Repayment Agreement is the rate currently charged by the Distributor, enter the amount paid directly to the QCN member or Participant in the "financing consists of \$ \_\_\_\_\_ for installation of Improvements" section under the Financing section of the form and enter the security filing costs in the "\$ \_\_\_\_\_ for" and mark through the rest of the statement and add the terms "security filing costs."

### Repayment Agreement (Truth in Lending Disclosure)

If requested by the Participant, and the Distributor is agreeable, the reimbursement for security filing costs may be obtained from Participant by including these costs in the amount financed. Security administration is defined as those expenses charged to Participant in excess of the actual filing fees to be paid to public officials. These security administration charges must be itemized and shown as a finance charge on the Truth in Lending Disclosure section. If this additional finance charge results in a variation of more than 1/8 (.125) of one percent in the annual percentage rate (APR), a new effective rate must be calculated.

For example, if the Distributor obtains a \$22.50 reimbursement from Participant, it needs to be broken down to show that \$10.00 (\$5.00 for UCC1 and \$5.00 for UCC3) will be paid to public officials and \$12.50 will be retained by the Distributor to cover security administration charges.

**Filing Fees.** Enter those costs which will be paid to public officials for filing fees including taxes if applicable in the "Filing Fee: \_\_\_\_\_" section and in the "\$ \_\_\_\_\_ to Public Officials" space under the Itemization section of the form.

**Security Administration Charges.** Enter those costs which will be retained by Distributor to cover security administration charges in the "\$ \_\_\_\_\_ to \_\_\_\_\_" and the "Less: \$ \_\_\_\_\_ Prepaid finance charge" spaces of the form. Also, add the name of the Distributor and the terms "Security Administration Charges" after the dollar amount.

**Adjustment to Amount Financed.** To show the security administration charges as a finance charge, it will be necessary to subtract these charges from the actual amount financed on the Repayment Agreement. The result should be entered in the "Amount Financed" section of the Truth in Lending Disclosure section.

For example, if the amount financed on the Repayment Agreement is \$1,522.50 and the security administration charges are \$12.50 the "Amount Financed" on the Truth in Lending Disclosure section will be \$1,510.00 (\$1,522.50 - \$12.50).

*NOTE: The Actual amount financed is \$1,522.50 but an adjustment is made to the "Amount Financed" to reflect the additional finance charge of \$12.50.*

This amount should also be entered in the "Itemization of the Amount Financed of \$ \_\_\_\_\_" section.

**Amount Paid to QCN member.** Enter the amount paid to the QCN member(s) and the firm name(s) in the "\$ \_\_\_\_\_ to \_\_\_\_\_" space in the "Amount paid to others on your behalf" section.

*NOTE: The amount(s) to be entered will be equal to the amount financed on the Repayment Agreement less the security filing fee costs (fees plus security administration charges).*

**Monthly Payment Amount.** The Monthly Payment Amount is determined by using the amount financed under this Repayment Agreement and the current interest rate charged by the Distributor.

Enter the calculated monthly payment amount and the number of payments in the "Payment Schedule" box on the form.

**Total of Payments.** The Total of Payments is determined by multiplying the monthly payment amount by the number of payments.

Enter the calculated total of payments in the "Total of Payments" box on the form.

**Finance Charge.** The Finance Charge to be paid by Participant is the difference between the amounts in the "Total of Payments" box and the "Amount Financed" box.

Enter the calculated finance charge in the "Finance Charge" box.

**Annual Percentage Rate (APR).** The "APR" will be the current rate unless the additional finance charge (security administration charges) results in a variation of more than 1/8 (.125) of 1 percent in the APR. If this variation threshold is exceeded, a new effective APR must be calculated.

Enter the effective interest rate in the "Annual Percentage Rate" box.

## Annual Percentage Rate Calculations

There are two acceptable methods of calculating the annual percentage rate (APR) for interest bearing loans. These methods are explained below.

### Calculating Annual Percentage Rate Using Texas Instruments MBA Business Calculator

The following factors should be determined (**See Examples**):

- Amount Financed
- Monthly Payment Amount
- Amortization period (length of loan)

#### Example #1

Amount financed = \$3,200.00

Monthly Payment = \$59.97

Amortization period = 7 years

<b><u>Steps</u></b>	<b><u>Press</u></b>	<b><u>Display</u></b>
Clear calculator	CLR 2 <sup>nd</sup> CM	0
Select 2 decimal display	2 <sup>nd</sup> FIX 2	0.00
Enter amount financed	3,200 PV	3,200.00
Enter number of payments	7 x 12 = N	84.00
Enter monthly payment	59.97 PMT	59.97

Compute APR	CPT %i	1.17
	x 12 =	14.04 or <b>14.00</b>

**NOTE: To compute the total of payments, multiply the number of payments by the payment amount (84 x \$59.97 = \$5,037.48)**

**To compute the finance charge, subtract the amount financed from the total of payments (\$5,037.48 - \$3,200.00 = \$1,837.48).**

### Example #2

Amount financed = \$5,000.00  
 Monthly payment = \$77.63  
 Amortization period = 10 years

Steps	Press	Display
Clear calculator	CLR 2 <sup>nd</sup> CM	0
Select 2 decimal display	2 <sup>nd</sup> FIX 2	0.00
Enter amount financed	5,000 PV	5,000.00
Enter number of payments	10 x 12 = N	120.00
Enter monthly payment	77.63 PMT	77.63
Compute APR	CPT %i	1.17
	x 12 =	14.04 or <b>14.00</b>

**Calculating Annual Percentage Rate Using Annual Percentage Rate Tables (From Truth in Lending, Regulation Z, Annual Percentage Rate Tables, Volume 1)**

### FINDING THE RATE FOR REGULAR TRANSACTIONS

Single advance transaction involving equal payments and equal payment periods:

FC (100) = Finance charge per \$100 of amount financed = (finance charge) x 100 divided by (amount financed)

### PAYMENT PERIOD A MONTH (OR A MULTIPLE OR A FRACTION OF A MONTH)

#### Example:

Finance charge	\$138.36
Amount financed	\$1,125.00
Number of payments	24

**Solution:**

(a)  $FC(100) = \$138.36 \times 100 \div \$1,125.00 = \$12.30$

(b) Read across on the 24 payment line of the monthly rate table to the value nearest \$12.30. This is \$12.42 in the 11.50% column. If payments are monthly, the annual percentage rate = 11.50%\*.

Using the example for the loan that includes the security costs in financing, the rate would be calculated as follows:

(a)  $FC(100) = \$804.80 \times 100 \div \$1,510.00 = \$53.30$

(b) Read across on the 120 payment line of the monthly rate table to the value nearest \$53.30. This is \$53.64 in the 9.25% column. Since the payments are monthly, the annual percentage rate = 9.25%.

\* If the FC (100) falls exactly halfway between two adjacent columns, use the higher rate or the rate may be stated as a multiple of 1/8%.

**Inspection Fee**

For installations made under this Program, which have met the inspection requirements of Section 7.4 of the *energy right*® Program Agreement a Distributor may elect to charge a fee, not to exceed \$100, to cover the cost of the inspection. Inspection fees may either be paid up-front, prior to or at the time that the Repayment Agreement is signed or, if the Participant requests and the Distributor is agreeable, the fee reimbursement may be included in the amount financed. Different procedures are required for completing the Repayment and Truth in Lending Disclosures, depending upon the way this reimbursement is obtained.

**Inspection Fee Paid Up front****Repayment Agreement**

When inspection fees are paid up front (prior to or at the time the Repayment Agreement is signed), the amount to be financed will only include the amount(s) paid directly to the QCN member. For example, if that amount is \$1,500.00, enter that amount in the "Sum of \_\_\_\_\_ with interest" section of the form. The interest rate to be entered on the Repayment Agreement is the rate currently charged by the Distributor.

**Repayment Agreement (Truth in Lending Disclosure Section)**

Prior to or at the time the Repayment Agreement is signed, the Distributor will obtain from Participant a reimbursement for inspection fees. For purposes of completing the Truth in Lending Disclosure section, this reimbursement must be broken down to show the administration charges. Administration charges are defined as those expenses charged to Participant in excess of the actual filing fees to be paid to public officials. These administration charges must be itemized and shown as a finance charge on the Truth in Lending Disclosures section. If this additional finance charge results in a variation of more than 1/8 (.125) of 1 percent in the annual percentage rate (APR), a new effective interest rate must be calculated.

For example, if the Distributor obtains a \$100.00 reimbursement from Participant, it should show that \$100.00 will be retained by the Distributor to cover administration charges.

**Administration charges.** Enter those costs which will be retained by Distributor to cover administration charges in the "Less: \$ \_\_\_\_\_ Prepaid finance charge."

**Adjustment to Amount Financed.** To show the administration charges as a finance charge, it will be necessary to subtract these charges from the actual amount financed on the Repayment Agreement. The result should be entered in the "Amount Financed" section of the form.

For example, if the amount financed on the Repayment Agreement is \$1,500 and the administration charge is \$100.00 the "Amount Financed" on the Truth in Lending Disclosure section will be \$1,487.50 (\$1,500 - \$100.00).

*NOTE: The actual amount financed is \$1,500 but an adjustment is made to the "Amount Financed" to reflect the additional finance charge \$100.00.*

This amount should also be entered in the "Itemization of the Amount Financed of \$ \_\_\_\_\_" section.

**Amount Paid to QCN member.** Enter the amount paid to the QCN member(s) and the firm name(s) in the \$ \_\_\_\_\_ to \_\_\_\_\_ space under the Amount paid to others on your behalf: section the bottom of the form.

*NOTE: The amount(s) to be entered will be equal to the amount financed on the Repayment Agreement.*

**Monthly Payment Amount.** The Monthly Payment Amount is determined by using the amount financed under the Repayment Agreement and the current interest rate charged by the Distributor. The table in Section 1-1-B, page 15, may be used to calculate loan payment amounts. Make certain that the table is current (i.e., reflecting the interest rate in effect at the time of the loan).

Enter the calculated monthly payment amount and the number of payments in the "Payment Schedule" box on the form.

**Total of Payments.** The Total of Payments is determined by multiplying the monthly payment amount by the number of payments.

Enter the calculated total of payments in the "**TOTAL OF PAYMENTS**" box.

### Finance Charge

The Finance Charge to be paid by Participant is equal to the difference between the "**TOTAL OF PAYMENTS**" and the "**AMOUNT FINANCED**."

Enter the calculated finance charge in the "**FINANCE CHARGE**" box in the Financing section of the form.

**Annual Percentage Rate (APR).** The "APR" will be the current rate unless the additional finance charge (security administration charges) results in a variation of more than 1/8 (.125) of 1 percent in the APR. If this variation threshold is exceeded, a new effective APR must be calculated. For procedures on calculating the effective APR, refer to information found later in this Tab of these Reference Standards.

Enter the effective interest rate in the "**ANNUAL PERCENTAGE RATE**" box.

For example, using the MBA calculator, if the Amount Financed is \$1,487.50, the Monthly Payment is \$19.00 and the term is 120 months, the effective APR is 9.19 percent (see completed example).

## Inspection fees Included in the Amount to be Financed

### Repayment Agreement

When inspection fees are to be included in the amount to be financed, the total amount to be financed will include the amount(s) paid directly to the QCN member, and the inspection fees. For example, if the amount paid directly to the QCN member or Participant is \$1,500.00 and the inspection fees are \$100.00, enter that total amount in the "Sum of \$1,600.00 with interest" section under the Financing section of the form.

The interest rate to be entered on the Repayment Agreement is the rate currently charged by the Distributor, enter the amount paid directly to the QCN member in the "financing consists of \$1,500.00 for installation of Improvements" section under the Financing section of the form and enter the inspection fees in the "\$100.00" for and mark through the rest of the statement and add the terms "inspection fees."

**Repayment Agreement (Truth in Lending Disclosure)**

If requested by the Participant, and the Distributor is agreeable, the reimbursement for inspection fees may be obtained from Participant by including these costs in the amount financed. Administration charges are defined as those expenses charged to Participant in excess of the actual improvement. These administration charges must be itemized and shown as a finance charge on the Truth in Lending Disclosure section. If this additional finance charge results in a variation of more than 1/8 (.125) of one percent in the annual percentage rate (APR), a new effective rate must be calculated.

For example, if the Distributor obtains a \$22.50 reimbursement from Participant, it needs to be broken down to show that \$10.00 (\$5.00 for UCC1 and \$5.00 for UCC3) will be paid to public officials and \$12.50 will be retained by the Distributor to cover administration charges.

**Administration charges.** Enter those costs which will be retained by Distributor to cover security administration charges in the "\$\_\_\_ to \_\_\_" and the "Less: \$\_\_\_ Prepaid finance charge" spaces of the form. Also, add the name of the Distributor and the terms "Security Administration Charges" after the dollar amount.

This amount should also be entered in the "Itemization of the Amount Financed of \$ \_\_\_\_\_" section.

**Amount Paid to QCN member.** Enter the amount paid to the QCN member(s) and the firm name(s) \$ \_\_\_\_\_ to \_\_\_\_\_ space in the "Amount paid to others on your behalf" section.

*NOTE: The amount(s) to be entered will be equal to the amount financed on the Repayment Agreement less the inspection fees.*

**Monthly Payment Amount.** The Monthly Payment Amount is determined by using the amount financed under the Repayment Agreement and the current interest rate charged by the Distributor.

Enter the calculated monthly payment amount and the number of payments in the "Payment Schedule" box on the form.

**Total of Payments.** The Total of Payments is determined by multiplying the monthly payment amount by the number of payments.

Enter the calculated total of payments in the "Total of Payments" box on the form.

**Finance Charge.** The Finance Charge to be paid by Participant is the difference between the amounts in the "Total of Payments" box and the "Amount Financed" box.

Enter the calculated finance charge in the "Finance Charge" box.

**Annual Percentage Rate (APR).** The "APR" will be the current rate unless the additional finance charge (security administration charges) results in a variation of more than 1/8 (.125) of 1 percent in the APR. If this variation threshold is exceeded, a new effective APR must be calculated.

Enter the effective interest rate in the "Annual Percentage Rate" box. (See completed example.)

**Annual Percentage Rate Calculations**

There are two acceptable methods of calculating the annual percentage rate (APR) for interest bearing loans. These methods are explained and examples shown later in this Tab.

**Procedures for Reviewing Loan Applicant's Payment History for Loans \$12,500 or Less****General**

When a loan is requested, FINANCER shall recommend approval or non approval of applications based upon its loan review which shall include a review of the applicant's credit history information from a credit reporting agency. Distributors who have elected to review loan application approvals prior to notification to the Customer or QCN member, will have a maximum of 4 business hours to review the loan application. Distributors shall approve or not approve loan applications based on uniform non-discriminatory criteria. No response to FINANCER within these 4 hours will amount to Distributor approval of the loan application. Every loan application which is not approved by FINANCER will be forwarded to the Distributor for review. FINANCER will notify the QCN member that the loan application has been referred to the Distributor. Distributors may approve or not approve loan applications based on the following Reference Standards. Other factors or extenuating circumstances of which the Distributor has knowledge that would affect a Customer's credit status, either adversely or favorably, shall be taken into account so long as those factors are applied in a non-discriminatory manner.

- The Customer's electric bill repayment history should be reviewed for the previous 12 months.
- If the Customer has been 30 days or more late (past the net due date) on five or more payments during the 12-month period without making special arrangements with Distributor, the loan should not be granted.
- If the Customer has been 60 days or more late (past the net due date) on two or more payments during the 12-month period without making special arrangements with Distributor, the loan should not be granted.
- If two or more checks have been returned during the 12-month period, the loan should not be granted.
- If applicable, the Customer's previous loan repayment history should be reviewed.
- If the Customer has failed to comply with the repayment obligations under previous repayment agreements, the loan should not be granted.
- The previous 12-month repayment period should be reviewed.
- If the Customer has had one service disconnection for nonpayment during the 12-month period, the loan should not be granted.
- Any enhanced ability to pay that the Customer would have from installing the most cost-effective improvements should be considered favorably in determining whether to make a loan.
- If the Customer is ineligible for a loan, the Distributor should refer the Customer to the appropriate agency administering the state low-income weatherization grant program.

### **New Customers**

It is recommended that, if the Customer is new and does not have at least a 6-month payment record, the Distributor should either contact the Customer's previous power supplier and the local credit reporting agency for information or ask the new Customer for satisfactory credit information from the Customer's previous power supplier.

### **Additional Loan Applicant Information**

The Repayment Agreement must contain the Participant's first name, middle name, last name, and the Participant's complete address. The Participant's name on the Repayment Agreement must match exactly the name of Applicant(s) on the Heat Pump Loan Application.

Authentication of the signature on the Repayment Agreement is required. The Participant who signs the Repayment Agreement must show proof of identity, such as a valid driver's license. The driver's license number must be recorded on the Repayment Agreement.

All the parties that applied for the credit and all the parties who own the real property should sign the Repayment Agreement, the Security Agreement, and the UCC1. You may not require a spouse to sign unless he or she was a joint credit applicant. If a spouse does not apply for the credit, but has an ownership interest in

the property, the spouse should execute the Security Agreement in order to insure that the Distributor will have a first-in-priority interest in the collateral that will not be subject to marital rights if the Customer dies.

All parties to these agreements must sign for themselves.

### **Customer Notification of Non-Approval for Loan**

Unless Distributor is exempt from the Federal Equal Credit Opportunity Act, within 30 days after receiving a completed loan application, Distributor must notify the Customer of Distributor's action on the application. If Distributor takes adverse action on the application (e.g. does not approve the loan) the applicant is entitled to a statement of specific reasons for such action. For loan applications not approved by FINANCER, FINANCER will provide Distributor the specific reason(s) for non approval suitable for Distributor's use in providing such a notification to the Customer.

Unless Distributor is exempt from the Federal Fair Credit Reporting Act provision, if the applicant is denied, or charged more for, a loan wholly or partly because of credit information obtained from a credit reporting agency, Distributor must so advise the applicant and supply the name and address of the credit reporting agency. For loan applications not approved by FINANCER based in whole or in part on information contained in a consumer report, FINANCER will provide Distributor the name, address, and telephone number of the consumer reporting agency (including a toll-free number established by the agency if the agency compiles and maintains files on consumers on a nationwide basis) that furnished the report.

To provide the notifications required by the Federal Equal Credit Opportunity Act and the Federal Fair Credit Reporting Act provisions, Distributor may wish to use a letter developed from the form notices suggested in Appendix C to 12 C.F.R. pt. 202. Since other, e.g. state law, requirements may apply to Distributor's credit actions, Distributor should consult its legal counsel to help develop a letter which will meet all applicable requirements.

## **Procedures for Making Loans Over \$12,500**

### **General**

The Distributor or FINANCER, if requested by Distributor, shall explain the financing requirements to the Customer.

FINANCER shall promptly send the Customer an explanation of the financing requirements. A copy of the Agreement to Participate (Landlord), and the Heat Pump Loan Application form, along with the forms needed to perform a credit review should be sent to the Customer. The forms needed for the credit review are:

- One credit application
- Three trade references
- One bank reference
- Current balance sheet
- Current income statement
- Previous 2 year's tax returns (personal and business)
- Personal financial statement

If the heat pump installations will add up to over \$12,500 or when the Customer's outstanding principal balance for previous loans under the Agreement to Participate is added to the new loan total for the recommended heat pumps and the new loan amount totals over \$12,500, FINANCER will contact the Distributor and local TVA Customer Service Center. This will allow time for delegation, coordination, planning, and scheduling. Any additional information needed for specific loans will be identified by FINANCER.

To apply for financing, the Customer will sign the Agreement to Participate and send it along with the forms needed to perform a credit review and any additional information to the Distributor.

The Distributor will promptly send or have the Customer send directly the forms and information required to FINANCER.

Upon receipt of the forms and information, FINANCER will initiate a credit review, conduct a financial analysis, and identify the minimum types of security to be taken and calculate all related expenses.

To expedite the process, FINANCER will make its recommendations and list all related expenses, which should be paid by the Customer, in writing directly to the Distributor. If the Distributor does not agree with FINANCER's recommendations, the Distributor will work with TVA to reach agreement. If FINANCER deviates from its original recommendation, TVA will notify the Distributor.

The loan cannot be made unless all parties agree on the security to be taken. The Distributor will advise the applicant by mail, using an appropriately designed standard form letter.

### **Letter for Loan Approval**

The letter, in addition to notifying the applicant of the decision of loan approval, shall include the types and conditions of security required and list all related expenses which are expected to be paid by the Customer. The letter will also include a deadline for Customer acceptance, completion of the heat pump installation(s), and execution of the financing forms.

### **Letter for Non-Approval**

If the decision was made not to approve the loan, the Customer should be notified according to the procedures in this Section of the Program Reference Manual.

### **Loan Approval**

When the loan is approved the Distributor will execute the Agreement to Participate and send the Participant a copy along with applicable Work Completion Forms.

Normal loan procedure would be followed at this point with FINANCER providing assistance with securing the loan except that Participant will incur the expense of obtaining security. Any Distributor costs of obtaining the required security will be paid by the Participant to the Distributor as detailed in this Section of the Program Reference Manual.

## **Billing**

### **General**

The loan shall be added to the Participant's monthly electric bill as a separate line item. The first payment shall be due on the due date of the second electric bill from the date the Repayment Agreement is signed. The Participant should not be billed before this date. For non-Customer landlords, the payments should begin 45 days from the date the Repayment Agreement is signed. The payment due will include the monthly payment for the loan and any interest charge. The Distributor shall not make any other provision for billing of loans under the *energy right*<sup>®</sup> Program Agreement without joint approval of the Operating Representatives.

**Non-Customer Landlord**

In the case of a Participant who is not an electric service Customer of the Distributor, Distributor shall render a monthly bill to the Participant; provided, however, that Distributor may arrange for the Participant to designate in writing a local representative to receive and pay the bill. Each bill shall specify the amount due and due date.

**Minimum Monthly Payments**

Distributor may establish on a uniform basis a minimum monthly payment amount for loan. Minimum repayments are not to exceed \$25 per month.

**Accrued Interest on Delinquent Loans**

Delinquent loans will stop accruing interest only when Distributor declares it in default and accelerates it for collection purposes.

**Payment to QCN member**

Distributor shall check that it has or has been provided in accordance with the Program requirements described in this tab the following information before the Settlement Request form is completed and faxed to FINANCER:

- The eligibility requirements for financing have been met.
- The loan limits have not been exceeded.
- The QCN member has completed all appropriate sections.
- The QCN member has signed the form and attached an invoice.
- The Heat Pump has passed inspection and the inspection section of the form has been completed.
- The Inspector has signed and dated the form. The Participant has signed and dated the form.

**Repayment Agreement/Truth-In-Lending Statement**

All loan and payment information is correct.

The appropriate Security Requirement block has been checked.

All sections of the form have been completed.

The Participant has signed the Repayment Agreement.

**Security Agreement**

The Goods have been appropriately described.

The Distributor has obtained security for the loan obligation.

The Participant has signed the Security Agreement.

**Financing Statement (UCC1)**

A form that can be acknowledged by the filing office has been used.

All information is correct.

Both Distributor and Participant have signed the form.

**Right to Cancel Notice**

Date is correct.

Participant has received the form and signed the acknowledgment section.

The QCN member has received the acknowledgment copy.

Participant does not act within 3 working days to cancel.

FINANCER will not transfer funds to the QCN member until at least 3 working days after the date the financing agreements are signed to allow the Participant time to cancel the transaction. After the 3-day time period, the payment shall be made.

Distributors shall fax Settlement Requests to FINANCER on a daily basis as soon as they have reviewed all loan and security documents. This should be done in no more than 1 day so the QCN member is paid in a timely manner. TVA, not Distributor, will assume responsibility for rescission of the transaction, if Distributor receives a timely given right to cancel notice and the QCN member has been paid in accord with this Guideline provision.

**Procedures for Changing the Interest Rate Charged On Loans**

After notice and opportunity for consultation, the Distributor will be notified by TVA of any change in the effective interest rate for loans made under this Program and the date the new rate will become effective. The new interest rate will apply to loans made after the effective date of the rate change.

**Advance Loan Payments**

A Distributor will accept any significant amounts offered by a Customer as an advance payment for loans. If the Customer has more than one loan, the amount will be applied to the loan specified by the Customer. The Distributor shall apply the advance payment to the principal amount and leave the monthly repayment the same until the remaining amount is repaid.

**Procedure for Handling Loans when the Dwelling is Destroyed or Participant Sells the Property, Moves, or Defaults****When the Dwelling is Destroyed or Participant Defaults or Sells the Property.**

If a Participant sells the residence, the Dwelling is destroyed, or the Participant defaults because of nonpayment, impairment of collateral, or other reasons before the total loan is repaid, the remaining principal balance, plus any accrued interest, shall be considered due and payable. It is recommended that the Participant be contacted as soon as possible after the Distributor receives a request for a final electric bill so that arrangements may be made for payment. The loan account should be finalized with the electric account. However, as a means of collection only (if balance cannot be collected any other way), a transfer of the loan to a new purchaser may take place if the Participant and the purchaser meet the loan transfer requirements (favorable credit review, security, and other forms required for an original loan).

The transfer would take place by having the purchaser apply for a loan in the amount of the Participant's remaining principal balance and remaining term (original interest rate and remaining repayment period) and complete all the required forms for making a loan.

For example: A Participant originally received a zero-interest loan of \$1,000 with a term of 84 months. The Participant has been making payments of \$11.91 for 36 months. The Participant now wishes to transfer the loan to the new purchaser. The purchaser would apply for a new loan of \$571.24 ( $\$1,000 - (11.91 \times 36)$ ) at a term of 48 months ( $84 - 36 = 48$ ).

The procedures for handling this loan would be the same as for any new loan.

NOTE: For loan transfers where a lease-purchase arrangement is involved, the new purchaser should sign the original Repayment Agreement to ensure that the seller is still this responsible for the loan if the sale of the house does not take place.

**Loan Transfer Fee**

When a loan is transferred to a new purchaser, the Distributor may collect an appropriate and reasonable fee from the Participant (seller) to defray the Distributor's cost of handling the transaction. This fee is to cover the administrative expenses involved with transferring the loan and, in the case of a secured loan, the Distributor's cost of obtaining or retaining security for the loan. For buildings with four or fewer units, this fee may not exceed \$25 for an unsecured loan or \$50 for a secured loan.

**When a Participant Moves**

When a Participant who is an owner moves outside Distributor's service area but does not sell the Dwelling for which a loan has been made before the total loan is repaid, Distributor should, instead of accelerating and collecting the entire unpaid balance render a monthly bill to Participant; provided that Distributor may arrange for Participant to designate in writing a local representative to receive the bill.

*NOTE: A fee shall not be charged for this transaction since it is not considered a loan transfer. If Participant does not make such arrangements, the remaining principal balance plus any accrued interest shall be considered due and payable if the Repayment Agreement specifically allows the Distributor to accelerate the loan. It is recommended that the Participant be contacted as soon as possible after the Distributor receives a request for a final electric bill so that arrangements may be made for payment.*

**Procedures for Transferring Loans Between Distributors****Transferring Loans as a Means of Collection**

If a Participant with an unsecured loan sells the Dwelling and moves to another Distributor's service area, an attempt to collect the remainder of the loan must first be made. Then, if the remainder of the loan cannot be collected and both Distributors are willing to transfer the loan, it may be transferred between the Distributors.

The transfer would take place by having the Participant sign a new Agreement to Participate, thus applying for an entirely new loan in the amount of the remaining principal balance and remaining repayment period. The procedures for making and handling this loan would be the same as for any new *energy right*<sup>®</sup> Program loan.

**Transferring Loans as a Result of Annexation**

If a Participant or a group of Participants with previous program loan(s) is annexed by another Distributor, the Participant(s) shall be notified by the selling Distributor that the Participant will be receiving future bills from and will be making payments to the purchasing Distributor. It is not necessary for the purchasing Distributor to enter into new financing and security agreements with these Participants.

However, for secured loans, the selling Distributor shall complete and file a UCC3 financing statement to note a change in the secured party, thus giving public notice that the security interest has been assigned from the selling Distributor to the purchasing Distributor.

**Annexation of Customers**

If a Participant or a group of Participants with outstanding *energy right*<sup>®</sup> Program loan balances are transferred between Distributors or transferred through annexation from one Distributor to another Distributor, BOTH the selling Distributor and the purchasing Distributor must prepare journal entries to reflect the transfer of the loan balances.

## Past Due and Uncollectible Loans

### Collection Procedures for Past Due Loans

Distributor shall endeavor to collect all amounts payable under each Repayment Agreement and shall reasonably exercise any rights it may have under the Repayment Agreement including any loan security arrangements to facilitate such payment and collection efforts.

Unless otherwise agreed by TVA and Distributor, the Distributor will use its normal loan collection procedures which must include as a minimum the steps outlined below. During the course of its collection efforts, the Distributor may, on a case-by-case basis, receive written approval from TVA's operating representative to eliminate one or more of these steps with respect to an individual Participant by demonstrating that the steps would not likely result in the collection of additional amounts from the Participant.

For amounts 15 to 29 days delinquent: When an account reaches 15 to 29 days delinquent, the customer should be contacted by telephone. **Early personal contact** greatly enhances the probability of prompt payment of the amount that is due and future prompt payment. At a minimum, however, the customer must be contacted in writing.

For amounts 30 to 60 days delinquent: When the account reaches 30 days delinquent, the customer must be contacted by telephone or personal contact. An additional past due notice should be sent at this point as well.

For amounts 60 days delinquent: At this point, the customer must definitely have been personally contacted. As the account is severely past due, the customer should be informed of the consequences of continue delinquency, both personally and in writing.

For amounts 90 days delinquent: The customer must be notified in writing that the outstanding balance of the account will be turned over for collection. The account must be referred to the third party collection agent (either a collection agency or TVA approved equivalent) within 10 days of notification. Distributor shall notify the mortgage holder of the property who may be willing to buy the heat pump to prevent damage to its collateral. Distributor shall exercise its rights in the Repayment Agreement and the Security Agreement and make all reasonable effort to collect including repossession. See the note on repossession below.

For amounts 120 to 180 days delinquent: The account must be worked by the collection agent (or TVA approved equivalent) during this period.

For amount 180 days delinquent: The account must be submitted to FINANCER to request write-off. Thereafter the account will be put into a 186 subaccount until Distributor completes its collection activities and TVA recognizes the obligation as uncollectible (see below). Distributor will report to FINANCER on the status of the accounts in the 186 subaccount on a detailed report for each loan submitted twice a year. (See Reporting to FINANCER)

#### Note:

Repossessions - Taking a security interest and filing a UCC1 form gives the Distributor the right to repossess the heat pump unit when the loan on it becomes [and remains] uncollectible. The lien gives the Distributor the right to take and sell the heat pump collateral - both the indoor and outdoor units, disconnects, and ductwork if the latter can be removed without requiring major disruption and subsequent repair of the surrounding structure. Following repossession, the collateral must be disposed of promptly and in a commercially reasonable manner. The failure to do so may result in the loss of the deficiency claim and assessment of damages against the Distributor.

Repossession is a legal action; a suit must be filed and a writ issued by the court, this writ should be served by a law enforcement officer, prior to a unit's being repossessed. Although repossession without "breach of the peace" may be effected without legal process, the repossession of a unit without going through legal channels is NOT RECOMMENDED. Distributors should consult with their legal counsel. Person(s) removing a unit should be accompanied by a law enforcement officer. Suits for repossession should be filed by the Distributor's legal representative(s); TVA's Office of General Counsel is available for consultation in these situations, where necessary. Distributor should also consult legal counsel on the appropriate procedures for disposing of the collateral.

If the above procedures do not result in payment of the amounts due, the Distributor shall furnish to FINANCER the complete and correct information as detailed on the Statement of Collection Activities form (See form at the end of this Tab), including a recommendation on appropriate legal proceedings to be undertaken by Distributor, together with a copy of all Participant loan forms no later than the date on which an account becomes 180 calendar days past due, unless otherwise agreed to by the TVA Operating Representative and Distributor in writing. In no case shall this period extend past the Statute of Limitations deadline.

If TVA determines, after reviewing the Distributor's completed activities and recommendation that legal proceedings should not be undertaken, TVA will recognize the obligation as uncollectible and TVA will excuse the Distributor from repayment of the outstanding balance of the Program loan to the extent of the uncollectible amount. If TVA determines that legal proceedings should be undertaken, the Distributor shall conduct appropriate legal proceedings for collection which includes the enforcement of any successful judgment against the Participant. If any amounts due are not recovered through legal proceedings, TVA will recognize the obligation as uncollectible and excuse the Distributor from repayment of the outstanding balance to the extent of the uncollectible amount and any unrecovered costs of such legal proceedings as detailed in this Tab of the Reference Standards. When submitting the Statement of Collection Activity form, the Distributor should briefly explain why the loan is uncollectible in the "Other Pertinent Information" section of the form. When the loan has been delinquent for 180 days or when TVA determines that it is uncollectible (whichever comes first), FINANCER will recognize the loan as written-off on appropriate forms.

For those loan obligations that TVA has recognized as uncollectible and excused the Distributor from repayment to the extent of the uncollectible amount, the Distributor shall make the defaulted loan a part of the consumer's credit report file with the local credit reporting agency.

### **Collection Procedures for Previous Program Loans**

The Collection procedures used by the Distributor for loans made under previous programs Home Insulation Program (HIP), Heat Pump Financing Program (HPFP), Wood Heater Program (WHP), Revised Home Insulation Program (RHIP), Interim Home Insulation Program (IHIP), Residential Energy Services Program (RESP), Residential Energy Efficiency Program (REEP), and *energy right*<sup>®</sup> Residential Program shall be the same as those made under this Program consistent with the terms of the previous program repayment agreements.

## **Documentation Required for Loan Write-off**

### **General**

A copy of all pertinent documentation including the Participant loan forms, e.g., the Repayment Agreement from the relevant residential program (HIP, HPFP, WHP, RHIP, IHIP, RESP, REEP, *energy right*<sup>®</sup> Residential Program; or this *energy right*<sup>®</sup> Program), must be submitted to FINANCER along with the Statement of Collection Activity form.

### **Secured Loans**

If the requested loan write-off is a secured loan, a copy of the [acknowledged] UCC1 form must be submitted to FINANCER along with the Repayment Agreement and the Statement of Collection Activity form.

### **Bankruptcies**

Distributor responsibilities: If the Participant has filed for bankruptcy, the Distributor should seek legal advice from the Distributor's legal counsel concerning the procedures for making an appropriate claim.

Procedures taken will vary depending on whether the loan is secured or unsecured, type of bankruptcy filed (7, 11, or 13), and many other factors. For example, the Distributor is expected to submit a proof of claim in Chapter 7 cases where the loan is secured. In Chapter 13 cases, the Distributor should submit a copy of the notice of the first meeting which describes what the debtor (Participant) is proposing to pay in his or her plan. In a Chapter 11, the Distributor should also submit a copy of the plan when, and if, one is filed. The Distributor is

to take all steps reasonably needed to pursue its claim in bankruptcy, but may request write-off before the bankruptcy case has actually closed.

Documentation required for write-off of bankrupt Participant's loan: When submitting a Statement of Collection Activities form on a Participant who has filed bankruptcy, the following documentation will be required for write-off.

Chapter 7 - A copy of the bankruptcy petition or a copy of the proof of claim, as appropriate.

Chapter 11 or 13 - A copy of the proof of claim, and, where appropriate, a copy of the payment plan which sets out the amount and terms of repayment to the Distributor.

### **Unable to locate**

Documentation from Distributor's Collector (collection agency and/or attorney) which outline steps taken when trying to locate the Participant, such as contacts with references, envelopes stamped by the postal services that indicate moved, and letters from approved collection agency and/or attorney **MUST** accompany the Statement of Collection Activity form when submitted for this reason. A copy of the credit agency report used to perform skip tracing may also be submitted as documentation.

### **Credit Reports**

A copy of the credit history information report obtained when the loan was first made, unless it was a loan approved by FINANCER, must be submitted to FINANCER along with the Statement of Collection Activity form.

### **Documentation Maintained in Distributor's Files**

At a minimum, Distributor files shall maintain documentation to show that procedures outlined in this section of the Program Reference Manual have been followed. Upon request by TVA, these files must be made available to FINANCER or TVA at reasonable times and places to ensure that all reasonable steps have been taken to collect past due loans.

### **Foreclosures**

When a Participant loan is submitted for write-off because lenders holding liens superior to the Distributor's lien have foreclosed on the property, a copy of the finalized foreclosure documents must be maintained in the Distributor's files.

### **Death**

When a Participant is deceased, a copy of the Distributor's claim filed against the estate must be maintained in the Distributor's files.

### **Inability to Pay**

When the Distributor does not recommend legal proceedings because the Distributor has no indication that the debtor (Participant) has assets or regular employment, supporting records (e.g. letters from approved collection agencies, attorneys, etc.) must be maintained in the Distributor's files.

**Costs of Collection**

When a loan Participant defaults on a loan, copies of documentation which informs the Participant that the Participant is responsible for any expenses incurred by the Distributor in collection of the debt must be maintained in the Distributor's files. These expenses include reasonable attorney fees, collection agency expenses, and court costs.

**Collection Agency Fees, Legal Fees, and Court Costs**

Every reasonable effort must be made (and documented) to collect from the loan Participant any collection agency fees, legal fees, and/or court costs which Distributor incurs in collecting loans under a Repayment Agreement before asking TVA for reimbursement of these costs. By signing the Repayment Agreement, the Participant agrees to pay any expense incurred by the Distributor in collection of the debt, including reasonable attorney fees, expenses, and court costs. Although repayment agreements made before October 1982, do not specify that the Participant is responsible for these collection costs, Distributor should check with its legal counsel when filing suit to see if it is possible to claim the legal fees and other costs from the Participant.

**Procedures for Reimbursement for Unrecovered Costs of Legal Proceedings to Meet Collection Requirements for Defaulted Loans**

When TVA has determined that legal proceedings should be undertaken for defaulted loans, TVA will excuse Distributor from repayment of the outstanding balance for the amount of unrecovered costs of the legal proceedings.

If the legal fees cannot be collected from the loan Participant the Distributor will deduct the reimbursable costs of any approved and unrecovered costs of legal proceedings under "legal fees" on the Remittance Reconciliation form. A footnote will be included explaining the deduction and indicating that a copy of the invoice or other type of supporting document for unrecovered costs of legal proceedings is attached to the Remittance Reconciliation form. The Customer's name and account number will be included on the invoice or on a separate attachment with the code "N" (non-interest-bearing loan) or "I" (interest-bearing loan) after each Customer's name to denote the type of loan.

**Reimbursement for Reasonable Costs of Collection by a Third Party for Past-Due Loans Turned Over to a Collection Agency or a TVA-Approved Equivalent for Collections**

After appropriate collection procedures of these Reference Standards have been followed, and efforts have been made to recover costs of collection fees from the loan Participant, TVA will excuse Distributor from repayment of the outstanding balance of the Program loan for costs of collection by a third party for past-due loan amounts turned over to a collection agency or a TVA-approved equivalent. Unless otherwise agreed by TVA, the costs of collection by a third party shall not exceed 40 percent of the amount due which is recovered on each account or a fixed fee acceptable to TVA.

Collection agencies used by Distributors should meet all applicable state requirements. (For Example: In Tennessee a collection agency must be licensed by the Tennessee Collection Service Board and be bonded.) In addition, collection agencies must maintain a minimum recovery rate of twenty percent (20%) on loan default accounts.

Distributor will deduct the reimbursable collection fees invoiced by a collection agency (or TVA-approved equivalent that is eligible for reimbursement) under "Collection fees" on the Remittance Reconciliation form. A footnote will be included explaining the deduction and indicating that a copy of the invoice from the collection agency (or TVA-approved equivalent that is eligible for reimbursement) is attached to the monthly report. Invoices will include a listing of collection charges by Customer name and account number.

Distributor will indicate on the invoice by each Customer's name an "N" (non interest-bearing loan) or "I" (interest-bearing loan) to denote the type of loan.

**Procedures for Handling Reinstatement of Loans**

After FINANCER has written off and TVA has recognized a loan obligation as uncollectible and excused the Distributor from repayment of the uncollectible amount, the Distributor should continue to make reasonable efforts to collect the funds and as appropriate reinstate the loan obligation for the amount written off. If the Distributor, collection agency, or TVA-approved equivalent is successful in their attempt to locate the debtor or finds that the debtor is able to resume payments, further action should be taken to collect the remaining balance of the loan. Arrangements may include resumption of monthly payments (or other partial payment) if satisfactory arrangements are made with the Distributor.

If the payment is received in lump sum, or a partial payment is received with satisfactory arrangements to pay the balance, the entire loan shall be reinstated. Distributor shall make arrangements to bill for the interest as well as the principal. Security documents should also be updated if there was a move by the Participant.

All reinstatements will be reported on the Customer Activity Summary & Reconciliation form under "Reinstated Loans" along with an attachment explaining the addition. This attachment will include the Customer's name, address, account number, amount being reinstated, and an indication as to whether the loan was made at zero-interest or low-interest. The date and amount originally written off, amount collected on the reinstated amounts, and an explanation as to whether the reinstatement is the total amount or a partial payment should also be furnished when this information is readily available. This includes monies collected by the Distributor, collection agencies, or through the bankruptcy courts. All payments received by the Distributor on previously written off loans which are not reinstated should be reported on the Remittance Reconciliation form.

**Procedure for Negotiating Settlements**

Distributors are responsible for the collection of loans and are encouraged to negotiate with consumers to reach a settlement on defaulted loans where necessary. However, TVA with advice from FINANCER will assist Distributors in evaluating each individual case to determine when and what amount is appropriate in a settlement offer.

TVA Customer Service Center personnel, with advice from TVA staff and FINANCER, will assist Distributor personnel and Distributor's legal representative(s) in negotiating such settlements.

**Loan Document Retention Period**

Distributor must maintain loan documents (Repayment Agreement, Security Agreement, etc.) until the entire loan amount (principal and interest) is paid in full. All records of loans paid in full must be kept in the Distributor's inactive file for a period of 1 year after being paid in full. All Distributor loans that have been approved for write-off must be maintained for a period of six (6) years after being written off or such period that may be defined by the statute of limitations for the respective state. This policy does not apply to write-offs that were approved on the basis of bankruptcy, negotiated settlements, or any other reason that would absolutely prohibit the likelihood of future collection efforts. Upon request by TVA, these files must be made available to TVA at reasonable times and places to ensure that all records are being retained.

**Procedures for Loan Subordination**

The status of the lenders' security is an important tool for successfully negotiating the whole or partial repayment of a debt in the event of a default. It is of utmost importance that a priority status be protected to the extent possible.

Special attention has been given, and expense undertaken, to properly secure the financing of heat pumps with a Purchase Money Security Interest (PMSI), given special priority by the prompt filing of the UCC1 (and UCC3) forms, to provide notice of the Distributor's PMSI in fixtures. A properly executed subordination agreement reduces the priority status of this PMSI or lien. Since in the case of a foreclosure and subsequent sale of the collateral all funds will be directed to satisfy the lender (or lenders) in the senior position(s), this reduced priority substantially decreases the chances that our obligation will be satisfied.

However, should the situation arise where it is deemed absolutely necessary to consider subordination, we recommend the options outlined below to give the Participant, the new lender, and the Distributor the opportunity to accommodate the request. The purpose of these options is NOT to inhibit the Participant's ability to obtain credit, but rather to protect the security and financial interests of the Distributor and TVA. They

are designed to prevent the Distributor's PMSI from being reduced to a junior position if the loan goes into default or to provide the Distributor with some comparable benefits in the event of such an occurrence.

Selecting an option is a business decision affecting all parties. In any subordination negotiations it is important to advocate the option that most effectively protects the Distributor's PMSI and subsequent repayment of the debt.

#### **EXAMPLE**

The Participant is in the process of refinancing a home mortgage or obtaining a home equity loan, home improvement loan, or a second mortgage. The Distributor has been contacted regarding subordination of its PMSI. What are the options to consider, if subordination of the Distributor's PMSI is requested?

**First** - Because of the lower interest rates being offered by the mortgage lender, the refinancing loan amount might be increased to cover the balance of the *energy right*<sup>®</sup> Program loan. The Participant could use these additional mortgage loan proceeds to pay off the *energy right*<sup>®</sup> Program loan, there is then no Distributor PMSI to subordinate. (By doing so the Participant not only lowers the total monthly payment, but also combines the two payments. Lenders and credit analysts agree that multiple payments are one of the primary reasons for consumer financial problems.)

**Second** - The Participant might provide a cosigner for the *energy right*<sup>®</sup> Program loan who would assume responsibility for the debt in the event of a default. The cosigner must be determined to be creditworthy through a thorough credit review. This added cosigner's responsibility for the debt could compensate for the Distributor's reduced PMSI rights.

**Third** - The Participant might prepay or "buy down" the *energy right*<sup>®</sup> Program loan to an acceptable amount. A minimum prepayment of one-half of the remaining loan balance is recommended. This reduces the risk (i.e. limits our loss) in case of a default to compensate for the reduction in the Distributor's PMSI rights. (because of a subordination)

**Fourth** - The Distributor and lender may draft a written agreement stating the PMSI on the heat pump, while retaining its priority status, is only secured to the outstanding dollar amount of the loan. Details of this would have to be worked out by the mutually consenting parties. In cases where the amount of the debt has been reduced substantially from the amount shown on the UCC1, this may satisfy the lender while retaining the Distributor's PMSI (without subordination).

For your convenience sample subordination agreements are available from the TVA Customer Service Center.

**Fifth** - The Participant might offer the Distributor another form of collateral, such as real estate or personal property, insurance policies, certificates of deposit, etc. to compensate for the Distributor's reduced PMSI rights.

**Sixth** - An *energy right*<sup>®</sup> Program loan MAY be subordinated for the sole purpose of refinancing an existing mortgage balance to take advantage of a reduced interest rate. In essence, the mortgage being refinanced may not exceed the amount of the outstanding balance on the original loan, and the amount to be refinanced may only be increased by the associated closing costs.

In this case the mortgage lender would provide the Distributor with a statement or affidavit, on the bank's letterhead and signed by a loan officer or other bank officer, that loan is being refinanced for the outstanding balance of the original loan only.

### **Reporting to FINANCER**

The Remittance Reconciliation form, the payment for monthly remittance, and the Customer Activity Summary & Reconciliation form must be received by FINANCER by the 20<sup>th</sup> of each month for the preceding month. These forms may be faxed to FINANCER and then followed by mailing the originals, and the remittance payment may be mailed or sent by electronic transfer.

Also each month Distributors shall prepare an Aging Report and submit it to FINANCER. The Aging Report should contain the total number of loans and outstanding balances for loans in the following categories:

- 30 - 59 days past due
- 60 - 89 days past due
- 90 - 119 days past due
- 120 - 179 days past due
- For loans which are 120 to 179 days past due, individual customer name, installation ID number, and individual account balances are required
- Total number of all loans and total outstanding balance

All loans should be submitted for write off to FINANCER by 180 days past due by submitting the Statement of Collection Activities Form.

Every six months at a schedule to be determined for each Distributor by FINANCER, a detailed report of each loan including the customer name, account number, outstanding balance, status, etc. shall be provided to FINANCER.