

# Loss Reserve Fund Term Sheet

## **Solar Home Systems Finance Program**

This Loss Reserve Fund (LRF) term sheet is provided to the \_\_\_\_\_ (Lender) and \_\_\_\_\_ (Vendor) as part of the \_\_\_\_\_ Program to support financing of solar home systems (SHS) in \_\_\_\_\_. Technical assistance funding from \_\_\_\_\_ (Donor) is also available to support LENDER in expanding its SHS finance services in \_\_\_\_\_. This offer is also described below. Implementation of this program requires:

- Loss Reserve Fund Escrow Agreement between LENDER, Donor and a fiduciary bank as Escrow Agent; a draft form of the Escrow Agreement is attached.
- Vendor Finance Agreement between LENDER and VENDOR; LENDER and VENDOR are requested to provide the Vendor Finance Agreement for review and coordination with the Escrow Agreement.
- SHS Loan Agreements, between LENDER and individual households and customers as Borrowers; LENDER is requested to provide a form Loan Agreement for review by DONOR.

This draft term sheet is provided for discussion purposes and a means to conclude the agreement between the parties on the Escrow Agreement.

### SHS LOANS & VENDOR FINANCE AGREEMENT

#### SHS LOANS & BORROWERS:

LENDER will originate loans to individual customers and households as Borrowers for their purchase of SHSs sold by Vendor.

#### GRANTS for SHSs:

VENDOR has arranged grant funding from \_\_\_\_\_ to be used as an equipment cost subsidy to reduce the cost of the SHS equipment to customers. Other grants for SHSs may be available from other sources.

#### SHS LOAN PRINCIPAL:

The principal amount of the loans shall equal:

- (A) Total SHS sales price, minus
- (B) Applicable grant funds, equals
- (C) Net Sales Price, minus
- (D) Customer downpayment, which shall be a minimum of 10% of the Net Sales Price, equals
- (E) Loan principal.

#### SHS LOAN TERMS & LOAN AGREEMENT:

LENDER will provide DONOR with a form Loan Agreement acceptable to DONOR. Key terms of Loans between LENDER and individual customers/households are as follows:

- a) term, up to four years maximum
- b) interest rate, \_\_\_%, fixed for the Loan term
- c) payment schedule, monthly in arrears; payments will be calculated using the “add-on” method
- d) downpayment of minimum 10% of SHS net sales price

**LOAN ORIGINATION & CREDIT APPROVAL:**

Credit approval of customers is subject to guidelines established by Lender. LENDER will be responsible for collecting and assessing customer credit information and making credit approval decisions.

**SHS LOAN COLLECTIONS:**

The LENDER will be responsible for Loan collections; a timetable defining LENDER collection actions for late paying Loans will be established.

**SHS REPOSSESSION & EVENT of LOAN DEFAULT:**

LENDER will be responsible for repossession of SHSs from Borrowers in events of loan default. LENDER may use the services of an agent or of Vendor to effect the repossession.

**VENDOR SHS REPURCHASE COMMITMENT:**

In the Vendor Finance Agreement, Vendor shall commit to repurchase any SHSs which Lender may repossess as a result of Loan default by Borrower. The repurchase price shall be of 50% of the remaining balance of principal on the defaulted Loan.

**LOAN SECURITY:**

Security for the SHS Loans will be as follows:

- a) Borrower payment obligation;
- b) any customer security deposits, held by LENDER;
- c) collateral value of SHS, realized through the Vendor repurchase;
- d) any further loss sharing commitments or cash collateral provided by Vendor; and
- e) the Loss Reserve Fund.

**LOAN SCHEDULING & REPORTING:**

All SHS Loans which LENDER wants covered with the additional LRF security will be given a unique identification number and will be identified in scheduled to the Escrow Agreement by Monthly Reports provided by LENDER to DONOR and Escrow Agent. The form Monthly Report is attached to the Escrow Agreement.

**EXISTING PORTFOLIO:**

LENDER may include its existing portfolio of SHS Loans under the coverage of the LRF by including information on these Loans in its first Monthly Report, to be submitted at Escrow Agreement execution.

**LOSS RESERVE FUND & ESCROW AGREEMENT**

LOSS RESERVE FUND: A Loss Reserve Fund (LRF) in the amount of \$\_\_\_\_\_ will be established.

ESROW AGREEMENT: The LRF funds will be deposited with Escrow Agent pursuant to an Escrow Agreement between LENDER, DONOR and a fiduciary bank as Escrow Agent. Escrow Agent shall be chosen by DONOR following consultation with LENDER.

USE OF LRF: LENDER will utilize the LRF funds as additional security for its SHS Loans. LRF funds will be disbursed to cover a portion of LENDER losses on defaulted loans.

EVENTS of LOSS: Event of Loss which shall trigger the right of LENDER to draw on LRF funds shall be consistent with the Event of Default in the underlying Loans. When the SHS is repossessed and payment is made by Vendor on its buyback commitment, LENDER may make formal request to Escrow Agent for immediate disbursement of the appropriate amount of LRF funds, according to the formula indicated below. Evidence of Vendor payment under its buyback commitment combined with full reporting on outstanding principal of the defaulted Loan shall constitute complete and acceptable evidence of Event of Loss.

NET LOSS AMOUNT: Net Loss shall equal (i) the outstanding principal amount of a defaulted Loan, plus (ii) up to two months accrued interest, minus (iii) the Vendor repurchase amount.

LRF DISBURSEMENTS: Disbursements from the LRF to LENDER shall equal 80% of the Net Loss Amount. Total disbursements from the LRF shall not exceed the amount in the Reserve Account as defined in the Escrow Agreement.

ASSIGNMENT: LENDER may not assign its rights under the Escrow Agreement without prior approval of DONOR. LENDER assignment for the purposes of refinancing its SHS Loan portfolio is a possibility and DONOR will support and cooperate with this effort.

TECHNICAL ASSISTANCE FUNDING: DONOR will provide \$\_\_\_\_\_ direct cash support to LENDER for LENDER's direct new staffing costs for administration and geographic expansion of its SHS Loan program. These funds will be disbursed monthly in arrears upon presentation to DONOR of LENDERs expenditures.

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