

Memo

Date: Tuesday, December 2, 2025

To: Minnesota Climate Innovation Finance Authority Board of Directors

From: Eric Horent, Chief Financial Officer, Minnesota Climate Innovation Finance Authority
Kevin Bain, Chief Financial Officer, Public Sector Consultants

RE: Origination Fee Recommendation

To strengthen the financial sustainability of the Minnesota Climate Innovation Finance Authority (MnCIFA) and extend its impact as a green bank, we recommend that it institute an origination fee on future loan activity. This fee—standard practice in the lending industry—covers the administrative costs of processing, underwriting, and closing loans. While many lenders, including green banks, view origination fees as a source of revenue, we understand that MnCIFA is taking the approach to only cover costs. Thus, PSC has conducted a rigorous analysis to assess the costs incurred during the underwriting of loans to determine an origination fee method.

Based on a detailed origination fee analysis, developed in partnership with CFO Eric Horent, we recommend MnCIFA adopt a tiered fee structure: 1.0% on loan amounts up to \$2,000,000, plus 0.5% on any amount exceeding \$2,000,000. Exhibit 1 shows a breakdown of fees on a range of loans.

EXHIBIT 1. Sample Loan Fees

Loan Amount	Origination Fee	Effective Rate
\$500,000	\$5,000	1.000%
\$1,000,000	\$10,000	1.000%
\$2,000,000	\$20,000	1.000%
\$3,000,000	\$25,000	0.833%
\$4,000,000	\$30,000	0.750%
\$5,000,000	\$35,000	0.700%

The first analysis done was a benchmarking exercise that identified the origination fee for ten peer green banks. Exhibit 2 shows the peer green banks and their origination fees.

EXHIBIT 2. MnCIFA Peers' Origination Fees

Green Bank	Origination Fee
Climate First Bank	1.5%
Coalition for Green Capital	1.00%
Collective Clean Energy Fund (Colorado)	2.00%
Connecticut Green Bank	2.00%
Hawaii Green Infrastructure Bank	1.00%
Michigan Saves	1.00%
New Jersey Green Bank	0.50%
NY Green Bank	1.50%
New York City Energy Efficiency Corporation	2.00%
Solar Energy Loan Fund	2.50%

The average origination fee of this group is 1.5%, which is higher than we recommended for MnCIFA because these banks seek to generate program revenue that exceeds underwriting costs.

PSC also conducted a rigorous cost analysis of 12 MnCIFA-funded projects and calculated an average project cost of 1.06% of the total loan value. The cost model incorporated the following factors:

Itemized invoices for attorney general (AG) legal costs spanning over one year

Staff hours (using a base rate plus value-scaled hours)

Average staff hourly compensation rate derived from prior year payroll

Estimated consulting costs

A standard 15% indirect cost rate was applied to each project. Exhibit 3 shows the projects and their costs as a percentage of the loan amount.

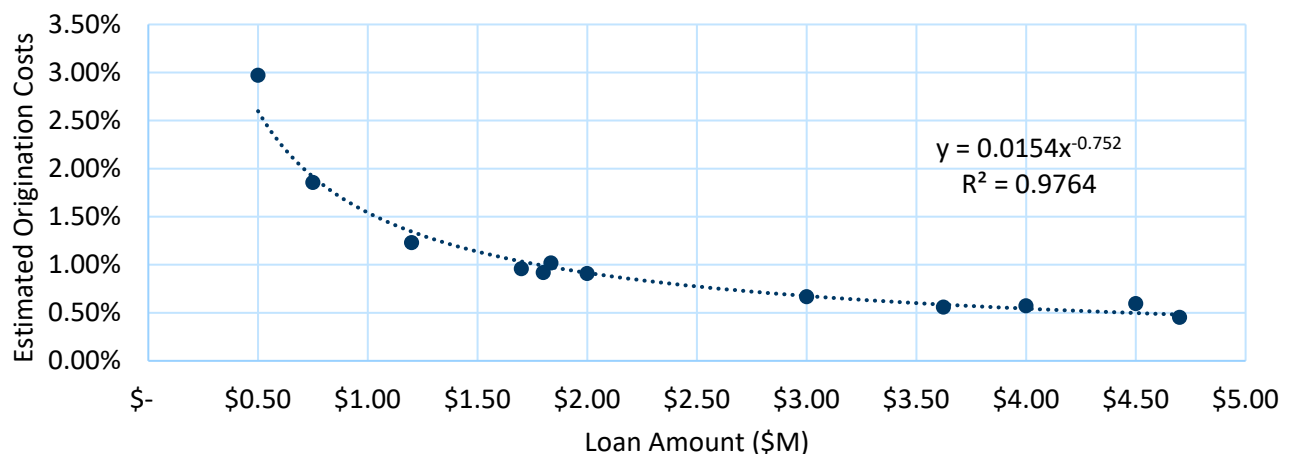
EXHIBIT 3. MnCIFA Projects by Loan Amount and Project Costs

Loan Amount	Costs as % of Loan
\$4,700,000	0.45%
\$1,200,000	1.23%
\$4,500,000	0.59%
\$1,700,000	0.96%
\$3,000,000	0.67%
\$4,000,000	0.57%
\$2,000,000	0.91%
\$3,623,700	0.56%
\$750,000	1.86%
\$500,000	2.97%
\$1,835,000	1.02%
\$1,800,000	0.92%

A key takeaway is that project costs are not merely proportional to the loan amount; each project involves a baseline of underwriting expenses, including legal review, memo preparation, and meeting time. Although larger and more complex loans require additional underwriting, the underwriting costs as a percentage of the loan amount typically decrease as the loan size increases.

To verify the reliability of this finding, the model was subjected to stress testing across seven different scenarios by varying project volume, staff hours, and indirect costs. The average cost fluctuated slightly, by $\pm 0.17\%$. To further validate the model's accuracy, a regression analysis produced an R^2 value of 0.9764. This high R^2 value indicates a strong relationship between loan size and underwriting costs. We are confident that robust data supports this recommendation.

EXHIBIT 4. Current Loans: Estimated Origination Costs



The recommendation for a 1% origination fee on the first \$2 million of a loan and reducing the fee to 0.50% for amounts exceeding that aims to address these findings. As MnCIFA gathers more data from underwriting deals, further analysis should be conducted to refine the origination fee approach.

We recommend revisiting and updating this analysis in one year using year-to-date financials.

Origination fee will generally be invoiced to the borrower upon disbursement of the loan funds. MnCIFA should reserve the right to adjust or waive the origination fee in circumstances where our general practice will cause hardship to the project or applicant. MnCIFA staff will notify the Board when a project origination fee differs from our general practice prior to project approval.