

Engage with potential lending partners early, and make a clear business case for their involvement

Some lenders perceive home energy lending to be too risky or not profitable enough for them to get involved. Programs have found that engaging potential lending partners early in the program design process, especially in face-to-face meetings, helped them understand both lender needs and the risks and opportunities of different financing strategies. This approach allows programs to make the business case for lender involvement, which can include cross-selling other financial products; low default rates; and low customer acquisition costs.

- Since 2004, [Austin Energy](#) [1] has fostered a [strong partnership](#) [2] with Velocity Credit Union to offer residential energy efficiency and solar systems financing to its customers; first as a Home Performance with ENERGY STAR sponsor and then as a Better Buildings Neighborhood Program partner. Velocity Credit Union offers loans for upgrades to heating and cooling systems, Home Performance with ENERGY STAR whole home upgrades, and installation of solar electric and hot water systems. Velocity Credit Union has found that partnering with Austin Energy provides several compelling benefits, including low cost of customer acquisition for its other lending products and increased visibility through marketing and outreach. In addition, access to Austin Energy's rigorous quality assurance process ensures that loan-funded work is performed properly by qualified contractors. Between 2010 and 2013, Austin Energy's single-family and multifamily programs have resulted in the completion of more than 3,500 energy upgrades with an expected annual energy savings of over 20%, or about \$2 million per year in savings for program participants. Between October 2012 and December 2013, 461 home energy loans were closed, totaling \$3.8 million.
- When starting its home energy upgrade program in 2011, Los Angeles County (a government partner in [Energy Upgrade California](#) [3]) engaged Matadors Credit Union (Matadors) to make a clear case for their involvement in the program. Energy Upgrade California partners with Matadors Credit Union (Matadors) to offer home energy loans to residents in all 58 of California's counties. Loans are offered at rates of 4.99% to 6.99% for 5 to 15 years in amounts ranging from \$2,500 to \$50,000. Investor owned utilities (IOUs) did not offer financing for residential customers participating in Energy Upgrade California at the time, so in 2011, Los Angeles County partnered with Matadors during a pilot project to offer their loan product, the Energy Loan. At first, Matadors was apprehensive about entering the residential energy loan market due to the perceived risk associated with home energy loans. To encourage their participation, Los Angeles County pitched the business case for home energy lending and created a loan loss reserve fund. The fund allowed the county to set aside 10% of the amount of each loan to reimburse the lender for 90% of the losses associated with any loans that defaulted. The county's goals were to develop a loan product that made it more feasible for homeowners to afford upgrades by allowing them to make payments over time, and to demonstrate that home energy lending can be low-risk and profitable for lenders. As of spring 2013, Matadors received over 600 loan applications, approved nearly 300, and saw only two of the funded loans go into default. While encouraged by early results, Matadors' staff stated that it was too early to draw conclusions about the long-term profitability of the loan product because similar programs had found that most losses occurred in the third and fourth years. Matadors continues to monitor and report the loan performance to Los Angeles County and share those results with DOE for future analysis.
- Early on, the [Local Energy Alliance Program](#) [4] (LEAP) of Charlottesville, Virginia, had several conversations with the University of Virginia Community Credit Union (UVA CCU) to explain the benefits of their Home Performance with ENERGY STAR program and to convince credit union staff that the energy and cost saving potential for customers was real. The program infrastructure—such as eligible measures, a registered contractor network and the quality assurance policy—helped LEAP convince the credit union of the program's ability to generate consumer interest and demand for energy efficiency financing. The credit union moved forward on its own to establish the Green \$ense loan option for participants in the LEAP program. Later, the credit union became a sponsor of the FHA PowerSaver loan with assistance from LEAP, but no formal relationship between LEAP and the credit union was established. As partners, LEAP and UVA CCU maintain open lines of communication; however, because they have not entered into a formal agreement relative to funding the program, LEAP does not receive data on loan activity from UVA CCU. Nevertheless, both parties have been very satisfied with their partnership to date. Said Alison DeTuncq, president and CEO of UVA CCU, "LEAP has proven to be an ideal partner for the Credit Union. We both share the fundamental goal of helping people save money and believe the best path to achieving this goal is through education and providing helpful tools to overcome barriers to take energy efficiency measures."

- [New Hampshire's Beacon Communities Project](#) [5] developed an innovative partnership between its lender, New Hampshire CDFA, and utilities to offer home upgrade loans with on-bill repayment through the customer's utility bill. A tariff modification was also completed through the PUC to increase the maximum loan amount from \$7,500 to \$20,000. This resulted in an effective way to offer financing for more comprehensive upgrades. Between 2012 and 2014, the utility partnership resulted in 205 on-bill loans totaling nearly \$1.3 million. Prior to the partnership, the average loan amount was \$2,500. With the support of seed funding from the Better Buildings Neighborhood Program from 2010 through 2013, the average loan amount increased to \$6,340, which was facilitated through the on-bill financing partnerships with New Hampshire's electric and gas utilities.

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Links

- [1] <http://energy.gov/eere/better-buildings-neighborhood-program/austin-texas>
- [2] <http://eetd.lbl.gov/sites/all/files/publications/policy-brief-austin-energy-star.pdf>
- [3] <https://energyupgradeca.org/>
- [4] <http://leap-va.org/>
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