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Design your financing activities to enable long-term sustainability

In order to overcome lenders' concerns over the risk associated with energy efficiency loans, many Better Buildings Neighborhood Program partners offered credit enhancements to lenders (e.g., loan loss reserve funds) to attract lender participation and to mitigate lender losses in the event of loan defaults. Over the long term, however, a thriving market for energy efficiency financing requires that lenders and capital providers operate without credit enhancements. In order for this to happen, lenders and capital providers need to understand that home energy lending can be profitable and that the risks are manageable. Several Better Buildings Neighborhood Program partners were able to prove the viability of energy efficiency lending.

- **Enhabit** [1], formerly Clean Energy Works Oregon, took a sequential approach to designing for long-term sustainability through successfully engaging lenders in the program with credit enhancements, but removing these over time following evidence of success. In the process, Enhabit has unlocked millions of dollars of private capital while eliminating the need for program-funded lending support. During its program pilot, the City of Portland partnered with Craft3 to provide low-interest, long-term financing with utility on-bill repayment to program participants. Craft3 used bill payment history as a proxy for credit to help more homeowners qualify for loans. Loan defaults proved to be low from the outset, demonstrating the low risk associated with home energy lending. As Enhabit expanded its program throughout Oregon in 2011 and 2012, additional lenders joined the program. While loan fees and loan loss reserves were initially offered to some of these new lenders, Enhabit eliminated payment of all loan fees and loan loss reserves effective January 1, 2013, and still maintains a strong network of lending partners. Enhabit's strategy to remove credit enhancements over time has worked because program results (e.g., low defaults) demonstrate that home energy lending can be profitable to lenders while also providing them access to new customers from whom they can solicit additional business. In addition, lenders become more comfortable with lending for energy efficiency if measures are properly installed and deliver the promised savings (which helps ensure loans are repaid) so Enhabit's quality assurance has been an important factor in supporting the lending partners in non-financial ways. Between program launch in March 2011 and December 2013, Enhabit completed nearly 3,200 residential upgrades and 2,600 loans valued at $33.4 million (through its lending partner, Craft3), generating $49 million in local economic activity.
- The Maryland **Be SMART Multifamily program** [2] utilizes a revolving loan fund initially capitalized with $9 million to provide financing for energy efficiency upgrades in affordable multifamily apartment buildings. Leveraging their Better Buildings Neighborhood Program grant, the Be SMART Multifamily program team worked closely with property managers, owners, and developers to promote the value of energy efficiency in the multifamily housing community and succeeded in leveraging significant private and public capital to finance energy efficiency upgrades. The program's revolving loan fund allowed short-term loans for loan loss reserves for multifamily upgrade projects accompanied by rehabilitation work funded through Low Income Housing Tax Credits. These short-term loans facilitated several energy upgrade projects that would otherwise not have been possible. These loans also provided for a quick revolution of the loan funds, typically resulting in full repayment of the loan loss reserve within 24 to 36 months (with interest rates ranging from 1% to 4%). The short-term loans have been tremendously beneficial to the viability of the Be SMART Multifamily revolving loan fund, and have enabled program activities to continue at similar projected funding levels into calendar years 2014 and 2015. Between July 2010 and September 2013, the program financed nine projects representing 935 multifamily units. Projected annual energy savings from these projects is more than 3,600 Megawatt-hours (MWh) and more than 260,000 therms.

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Links

[1] https://enhabit.org/

[2] http://www.mdhousing.org/Website/Programs/BeSmart/Multifamily.aspx