Residential Program Solution Center: Incorporating Financing into Programs

Amanda Chiu, CSRA
July 27, 2016
Outline

- Introduction to Residential Program Solution Center
- Proven Practices to Incorporate Financing
  - Streamline loan process
  - Structure financing to meet program goals
  - Help contractors understand available financing
Better Buildings Neighborhood Program

- Saved consumers $850 million (estimated lifetime energy savings)
- Completed 119,000 home energy upgrades
- Created >10,000 jobs by supporting small businesses
- Trained >5,600 home performance workers to enhance their skills
- Spurred $1.3 billion in economic activity

$508 million in grants: $1.4 to $40 million each
Welcome to the Residential Program Solution Center!

See “About” for information on how to use the Solution Center.

https://rpssc.energy.gov
Purpose: No More Starting from Scratch

- Help residential energy efficiency programs minimize trial and error to achieve success.

- Help programs and partners plan, operate, and evaluate their programs.

- Provide a living repository of examples, lessons, and resources.
Solution Center Framework

Market Position & Business Model

Program Design & Customer Experience

Evaluation & Data Collection

Marketing & Outreach

Financing

Contractor Engagement & Workforce Development
Proven Practices to Incorporate Financing
How does financing fit in?

- Upfront cost of an upgrade can derail homeowners interested in upgrades.
- Access to affordable financing can be part of successful strategy to convert interest into completed upgrades.
- Financing can help homeowners afford an energy upgrade by allowing them to pay for the improvements over time.

https://rpsc.energy.gov/handbooks/financing-%E2%80%93-overview
Proven Practices

1. Streamline the loan process
2. Structure financing to meet program goals
3. Help contractors understand financing options
1. Streamline the Loan Process
1. Why streamline loan processes?

- Complicated loan application and approval processes can cause delays.
- Some strategies being tested to remove barriers to completing upgrades:
  - Reducing number of requirements that homeowners must meet to secure a loan.
  - Accelerating loan application processing.

1. Program Examples: Use Utility Payment History

- Oregon’s Enhabit and Craft3 helped more homeowners qualify for loans
  - Using utility bill payment history as a proxy for credit allowed for quicker approvals and simplified the application process for homeowners
  - Forgoing review of debt-to-income ratio and instead using utility bill repayment history also reduced loan underwriting expenses for Craft3
- From 2011-2013, Craft3 completed more than 2,600 loans valued at $33.4 million
- Loan default rates were below industry averages

1. Program Examples: Enhance Promotional Offers With Easy-to-Use Financing

- Austin Energy’s “Best Offer Ever” promotion coordinated with contractors to ensure upgrades were completed before loan preapprovals expired.
  - Additionally, contractors reduced homeowners’ invoices by the program rebate amount, and were reimbursed within 2 weeks.
  - Included rebates and no- or low-interest loans.
- Helped upgrade rate increase by 10x during the 3-month promotional period.

1. Streamlined Loans: Learn More

**Financing – Deliver Program**

**Tips for Success**

In recent years, hundreds of communities have been working to promote home energy upgrades through programs such as the Better Buildings Neighborhood Program, Home Performance with ENERGY STAR, utility-sponsored programs, and others. The following tips present the top lessons these programs want to share related to this handbook. This list is not exhaustive.

- Streamline the financing process with easy loan applications and quick approvals
- Help contractors understand the program’s financing options and benefits, so they can communicate to homeowners
- Leverage financial sector marketing channels
- Speak about financing in ways that resonate with homeowners

[https://rpsc.energy.gov/handbooks/financing-%E2%80%93-deliver-program](https://rpsc.energy.gov/handbooks/financing-%E2%80%93-deliver-program)
2. Structure financing to meet program goals
2. How can financing support program goals?

- **What are your program goals?** For example:
  - Deeper upgrades
  - Reach a wider income demographic

- **Strategies being tested to use financing to achieve program goals:**
  - Tiered financing
  - Alternative underwriting criteria

2. Tiered Financing to encourage more comprehensive upgrades

- Maryland’s Be SMART Home program offered two loan options to encourage a higher level of upgrades:
  - Be Smart Home ENERGY STAR loan offered a 6.99% interest rate for upgraded heating systems and efficient appliances.
  - Be Smart Home Complete loan had a 4.99% interest rate intended for more comprehensive improvements.

- After program staff spoke to borrowers about benefits of a whole home upgrade, more homeowners completed an energy assessment and pursued more comprehensive upgrades.

- Between July 2010 and May 2014, more than $1 million was loaned, with a 66% loan approval rate.
2. Reach a wider demographic with alternative underwriting criteria

- Some programs are deploying alternative underwriting criteria to make program accessible to broader income.

- NYSERDA’s Green Jobs–Green New York initiative used a two-tiered underwriting process:
  - Tier 1: uses standard FICO credit score (>640) and debt to income ratio (<50%) to evaluate creditworthiness
  - Tier 2: for households with credit scores below 640, the maximum DTI increases to 55% and utility bill repayment history is used in lieu of credit score

- As of July 2015, NYSERDA allowed credit scores down to 540. A total of 8,581 Tier 1 loans and 1,312 Tier 2 loans were closed, valued at more than $95 million and $14 million, respectively.

- Loan approval rates were over 75%.

https://rpsc.energy.gov/handbooks/financing-%E2%80%93-make-design-decisions
2. Tiered Financing: Learn More

Financing – Make Design Decisions

Where Am I?

[Description] [Step-by-Step] [Tips for Success] [Examples] [Toolbox] [Topical Resources]

Step-by-Step

Based on the financing needs you identified for your community and the financing goals and objectives you established for your program, it is now time to design your program’s financing activities.

As your program begins to make decisions regarding financing activities, you are likely to encounter many terms that you may not be familiar with. Please refer to the Glossary of Key Financing Terms developed by DOE, for definitions of some of these terms.

The following are four key steps to consider as you make design decisions:

- Define the financing problem or opportunity that you intend to address
- Decide on your program’s financing activities
- Determine which functions your program will perform and which functions your partners or subcontractors will perform
- Plan for the long-term

https://rpsc.energy.gov/handbooks/financing-%E2%80%93-make-design-decisions
2. Tiered Financing: Learn More

Financing – Make Design Decisions

Where Am I?

Description Step-by-Step Tips for Success Examples Toolbox Topical Resources

Examples

The following resources are examples from individual residential energy efficiency programs, which include case studies, program presentations and reports, and program materials. The U.S. Department of Energy does not endorse these materials.

Case Studies

Using Credit Enhancements to Leverage Existing CDFI Capacity: Indianapolis EcoHouse Project Loan Program
Author: Lawrence Berkeley National Laboratory
Publication Date: 2012
Highlights the EcoHouse Project Loan Program, which provides fixed interest rate loans as a tool for enabling energy improvements among households that are otherwise unlikely to be able to access affordable financing at market rates.

Low-Interest Rates Entice Philadelphians to Reach for the Stars
Author: U.S. Department of Energy
Publication Date: 2011
Outlines Philadelphia’s EnergyWorks program’s use of low-interest loans to incentivize homeowners by tying the interest rate to the number of energy efficiency measures incorporated into the home.

Help My House Loan Pilot Program: Program Design and Results
Author: Central Electric Power Cooperative
Publication Date: 2013
This case study highlights the Help My House Pilot Program conducted in South Carolina by Central Electric Power Cooperative that included on-bill financing.

https://rpsc.energy.gov/handbooks/financing-%E2%80%93-make-design-decisions
3. Help contractors understand financing options
3. Why help contractors understand financing options?

- Homeowners do not benefit from financing if they don’t know about or understand it.
- Contractor sales training and regular meetings can foster greater utilization of loan products.
- Work with contractors to integrate financing into their sales process and avoid making financing another complex decision for customers.

https://rpsc.energy.gov/tips-for-success/help-contractors-understand-program%E2%80%99s-financing-options-and-benefits-so-they-can
Identify the resources needed to implement your financing activities.

What is the purpose of these resources?

- Help contractors highlight the benefits and features of financing options to homeowners
- Train contractors on systems to process loans and receive payment
- Answer contractors’ questions

https://rpsc.energy.gov/handbooks/financing---develop-resources
3. Financing – Develop Contractor Resources (cont.)

Resources can include:

- Educational materials informing contractors about those same products
- Training & internal talking points about loan products and process for call centers, online help, and program staff and key outreach partners
- Outreach materials about available loan products for contractors to give to consumers
- Lender documents like loan application forms and origination and servicing documents from your lender

Communication channels can include the internet, pamphlets, fact sheets, presentations, and direct mail.

https://rpsc.energy.gov/handbooks/financing---develop-resources
3. Program Examples: Hold Regular Meetings with Contactors

- As part of ShopSmart with JEA program, Jax Metro Credit Union (JMCU) worked closely with contractors by holding regular meetings and lunch-and-learn sessions on loan products.
- Relationship between JMCU and contractors developed ~14 months.
- From 2010-2012, ShopSmart with JEA completed 206 residential upgrades.
- JMCU members completed more than $1.2 million of energy upgrades in 183 homes and JEA and JMCU financed nearly 90% of upgrades.

https://rpsc.energy.gov/tips-for-success/help-contractors-understand-program%E2%80%99s-financing-options-and-benefits-so-they-can
3. Contractor Training: Learn More

- **Tips for Success**
- **Include:** background information, videos, and several program examples.

Help contractors understand the program’s financing options and benefits, so they can communicate to homeowners.

Homeowners do not benefit from access to financing if they don’t know about or understand options available to them. Contractors are often the primary transaction point for selling upgrades, and many programs have found that ongoing collaboration with contractors through sales training, regular meetings, and requests for feedback can foster greater understanding and sales of program loan products. Some successful programs have staff in a contractor manager role to organize trainings, address questions and concerns, and overall coordinate relationships with participating contractors. Along with simplifying the financing application process, working with contractors to integrate financing into the home performance sales process avoids making financing another complicated decision point for customers.

https://rpsc.energy.gov/tips-for-success/help-contractors-understand-program%E2%80%99s-financing-options-and-benefits-so-they-can
3. Develop Contractor Resources: Learn More

Contractor Engagement & Workforce Development – Develop Resources

Step-by-Step

Having defined your contractor audience and partners, made design decisions about your program, designed your contractor engagement plan, and created evaluation plans, you can develop resources to engage contractors, help them get the training they need, and support quality installations of energy-saving measures.

- Hire and train program staff
- Create program forms and materials for contractors
- Create contractor recruitment and enrollment materials
- Plan for regular contractor meetings
- Develop training resources for participating contractors
- Create other resources and processes to support contractors
- Develop contractor marketing support materials
- Develop process evaluation materials

https://rpsc.energy.gov/handbooks/contractor-engagement-workforce-development-develop-resources
Access the Residential Program Solution Center: https://rpasc.energy.gov

Questions? BBRPSolutionCenter@ee.doe.gov
Seeking Focus Group Volunteers!

- Do these criteria describe you?
  - Have used the Solution Center to look for information for your program
  - Are an program administrator or in a decision-making role for a residential energy efficiency program

- If interested, please email BBRPSolutionCenter@ee.doe.gov (by 7/29) with:
  - Name
  - Email address & phone number
  - Organization & title/role

- Focus group will take place the week of August 15th via conference call. Time commitment is ~ 1 hour.