



# **Distributed Lending As A Model for Energy Efficiency Financing**

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# Introduction

- Energy efficiency programs often suffer from a first-cost hurdle to implementation
- There are many possible lending models that will increase the adoption of energy efficiency measures
- Massachusetts has implemented a distributed lending model that continues to meet the needs of customers

# HEAT Loan Program Today

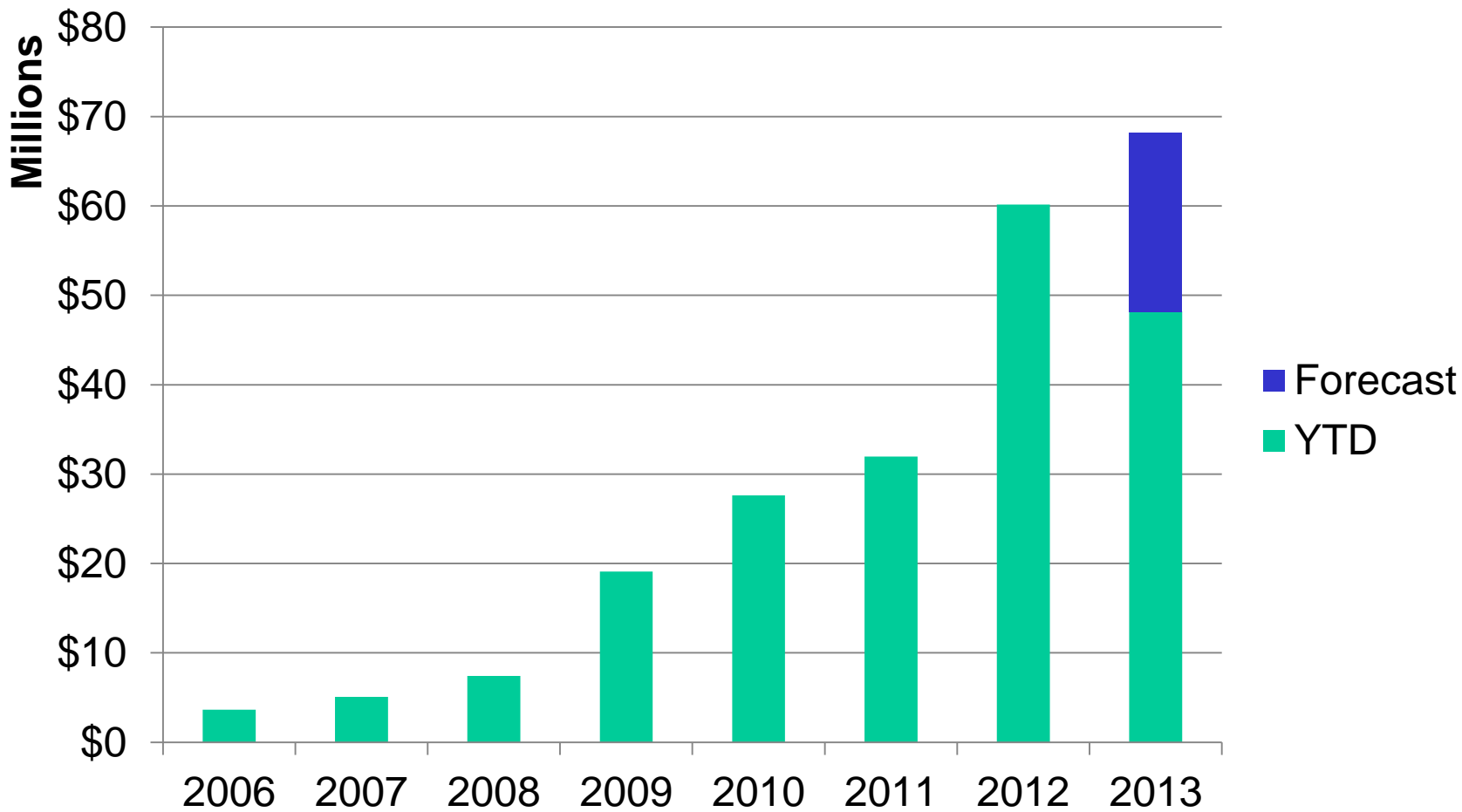
## Loan Options

Eligible Customer	Type	Loan Amount	Loan Term	Interest Rate Floor
Owner Occupied	Micro Loan	\$500-\$2,000	24 Months	5.00%
Owner Occupied	Standard Loan	\$2,001-\$25,000	Up to 84 Months	5.00% or 5.75%
Non-Owner Occupied	Rental Property Loan	\$5,000-\$25,000	Up to 84 Months	6.25%

- 0% Loans for eligible customers
- Up to \$25,000 for eligible energy saving measures
- Customers must have a current electric bill from a MassSave program sponsor

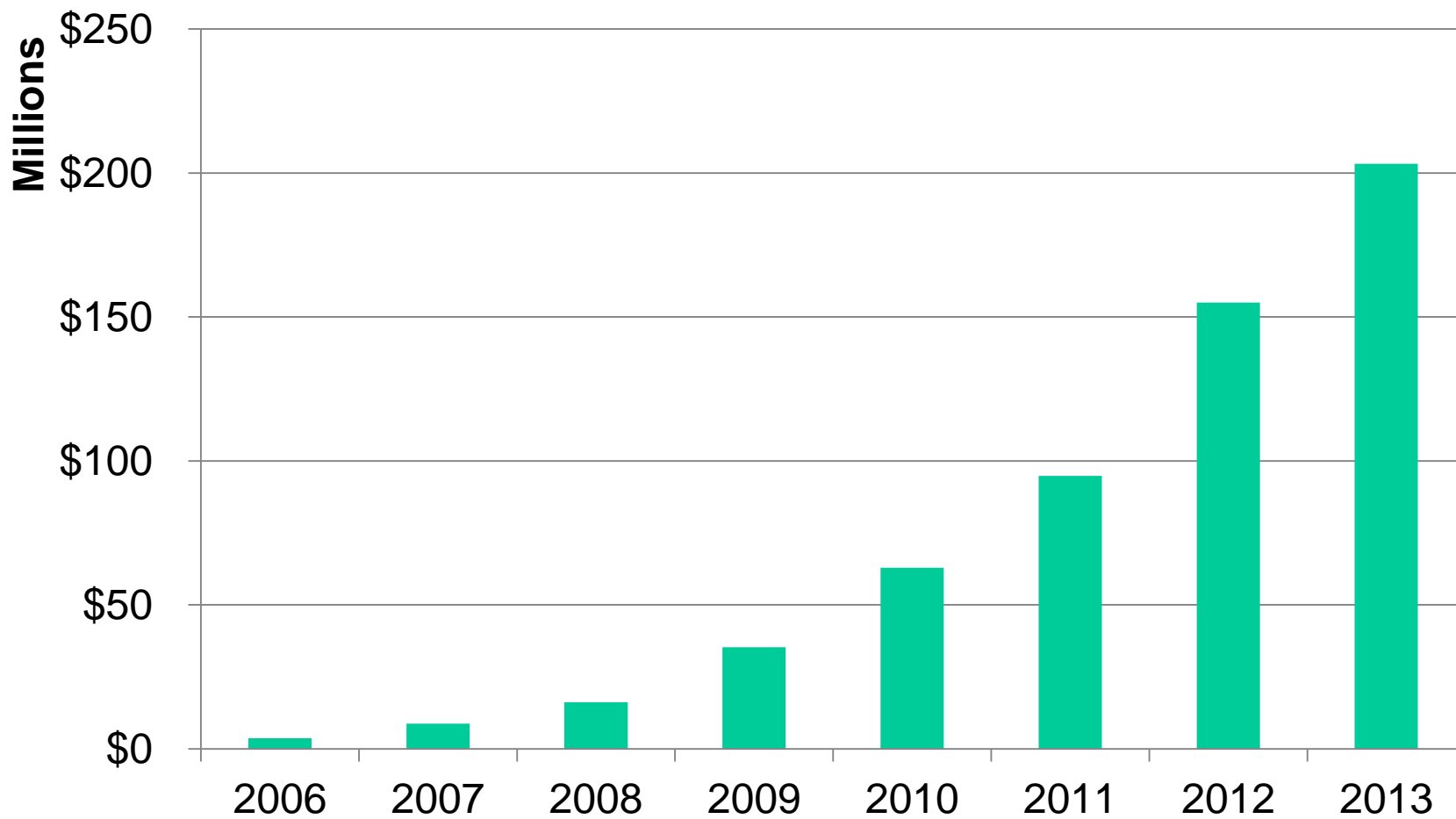


# Since 2006, The Amount Loaned Has Increased by 52% Per Year



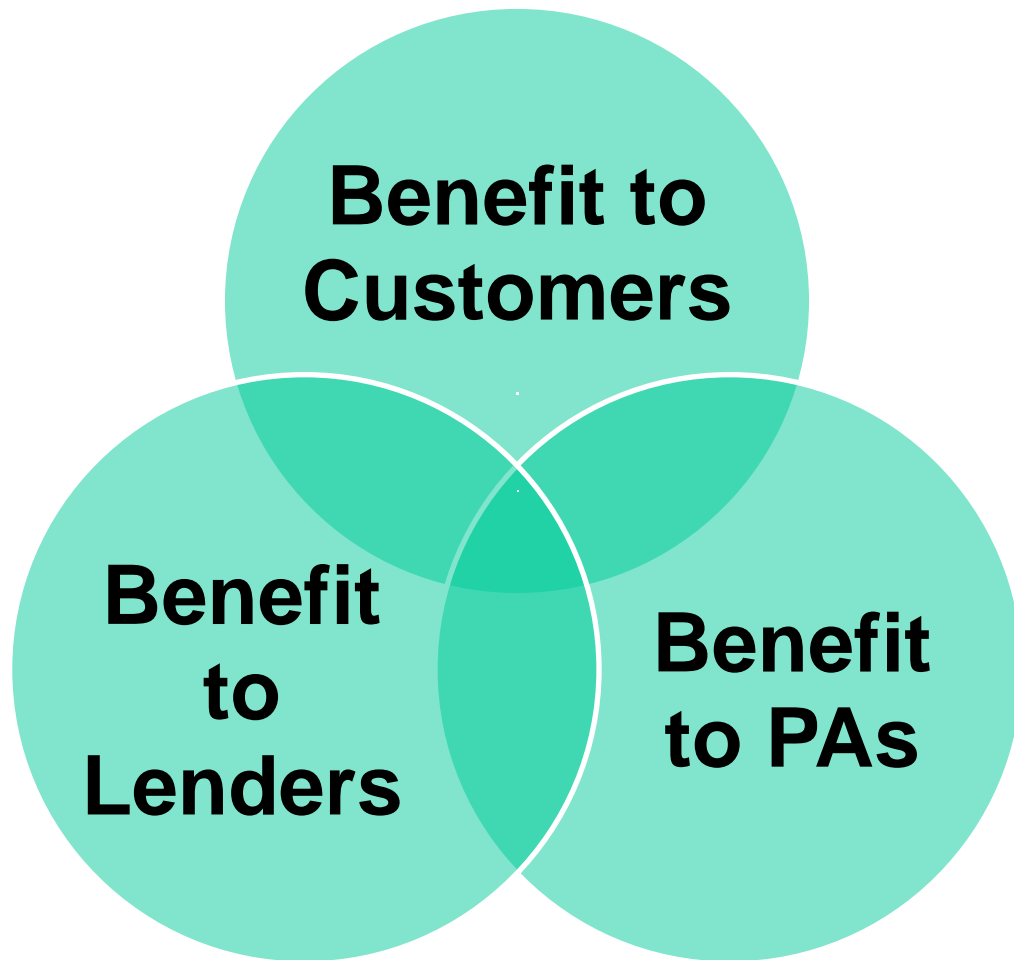


# Since 2006, Massachusetts Has Made Over \$203 Million in Loans





# A Distributed Lending Model is the Best Solution for Energy Efficiency Financing Because:



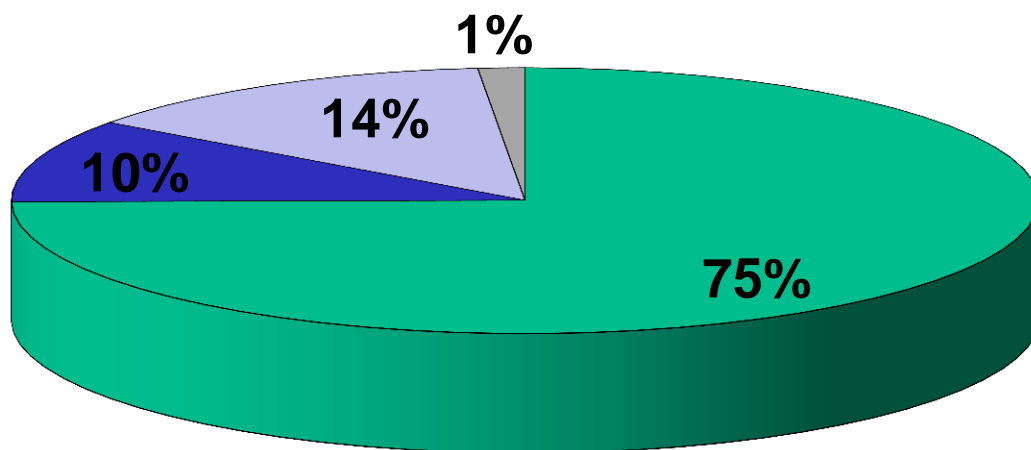


## A Distributed Lending Model Benefits Customers

- Customers Have Saved The Equivalent of 1.8 Billion kWh of Energy Since 2006
- The Average Interest Rate of Closed HEAT Loans Is Well Below Other Non-secured Loan Rates
- Customers Have Over 50 Lending Institutions To Choose From
- Customers Have One Easy Statewide Process To Follow



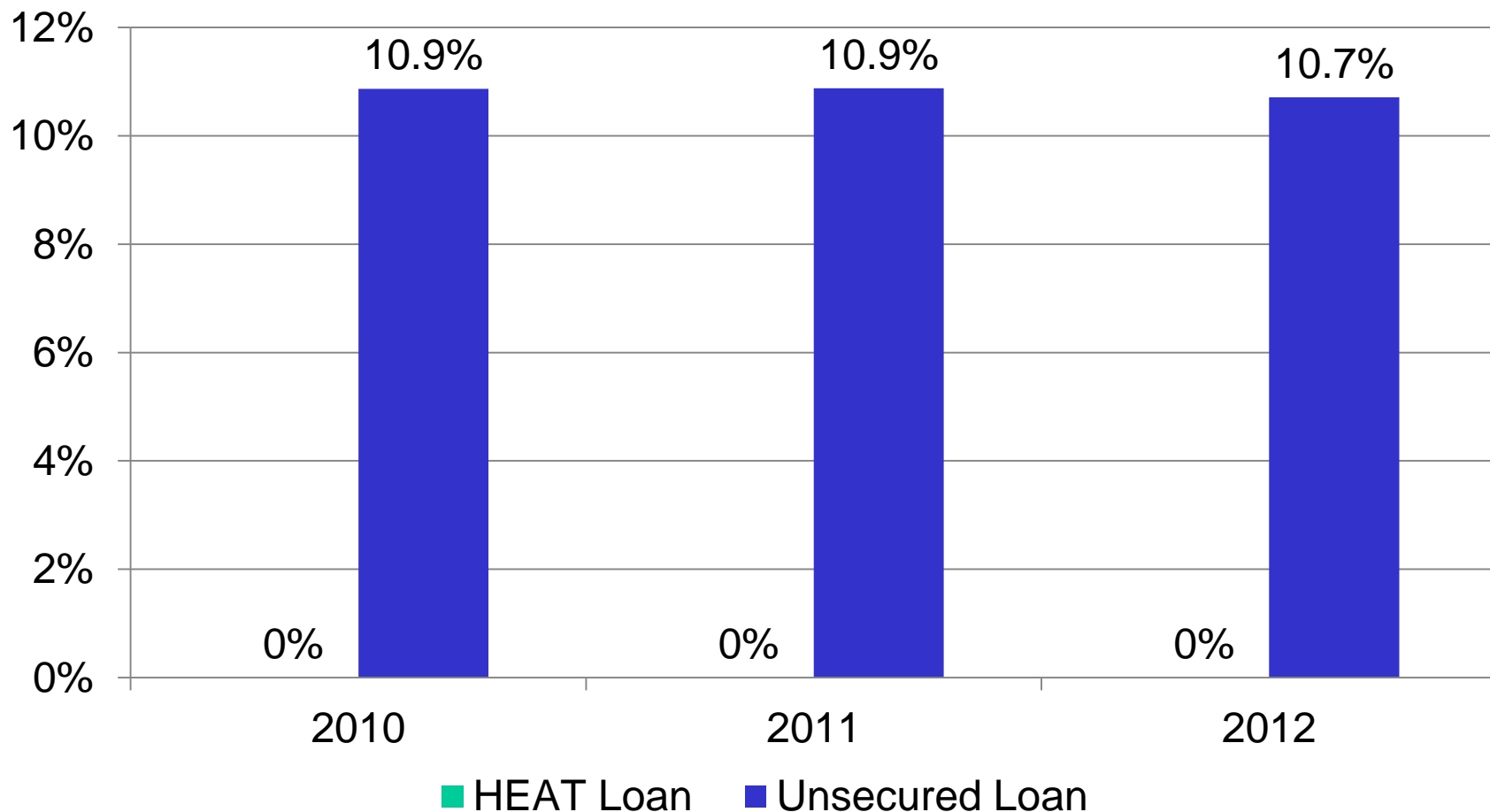
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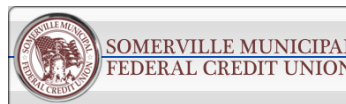


# The Average Interest Rate of Closed HEAT Loans Is Well Below Other Non-secured Loan Rates





# Customers Have Over 50 Lending Institutions To Choose From





# Customers Have One Easy Statewide Process To Follow

**Customer** obtains **Home Energy Assessment (HEA)**

**Customer's** eligibility is verified

**Customer** solicits contractor quotes

Third party administrator completes an eligible review and generates authorization form

**Customer** receives authorization and list of **Lenders**;  
Applies for the Loan

**Customer** closes loan with **Lender**.  
Two-party check is made out to Customer & Contractor

**Customer** signs check over to Contractor  
once work is completed.

Verification Inspection; Completed on 100%  
of the HEAT Loans.



## A Distributed Lending Model Benefits Lenders

- Lenders Manage Their Own Interest Rate Risk
- Lenders Earn a Higher Return
- The Vast Majority of Approved HEAT Loans Are To Customers New To That Lender
- HEAT Loans Default At Lower Rates Than Other Forms Of Consumer Credit
- Lenders Have One Easy Statewide Process To Follow



## Lenders Manage Their Own Interest Rate Risk

- The Net Present Value of interest payments is paid to lenders in one lump sum up front
- Banks determine their own underwriting criteria
  - PAs do not define lender qualifying criteria
  - Many of our lenders do not use FICO scores
- HEAT loans further diversify the loan mix at lending institutions
  - Banks have flexibility to push product as much or as little as needed

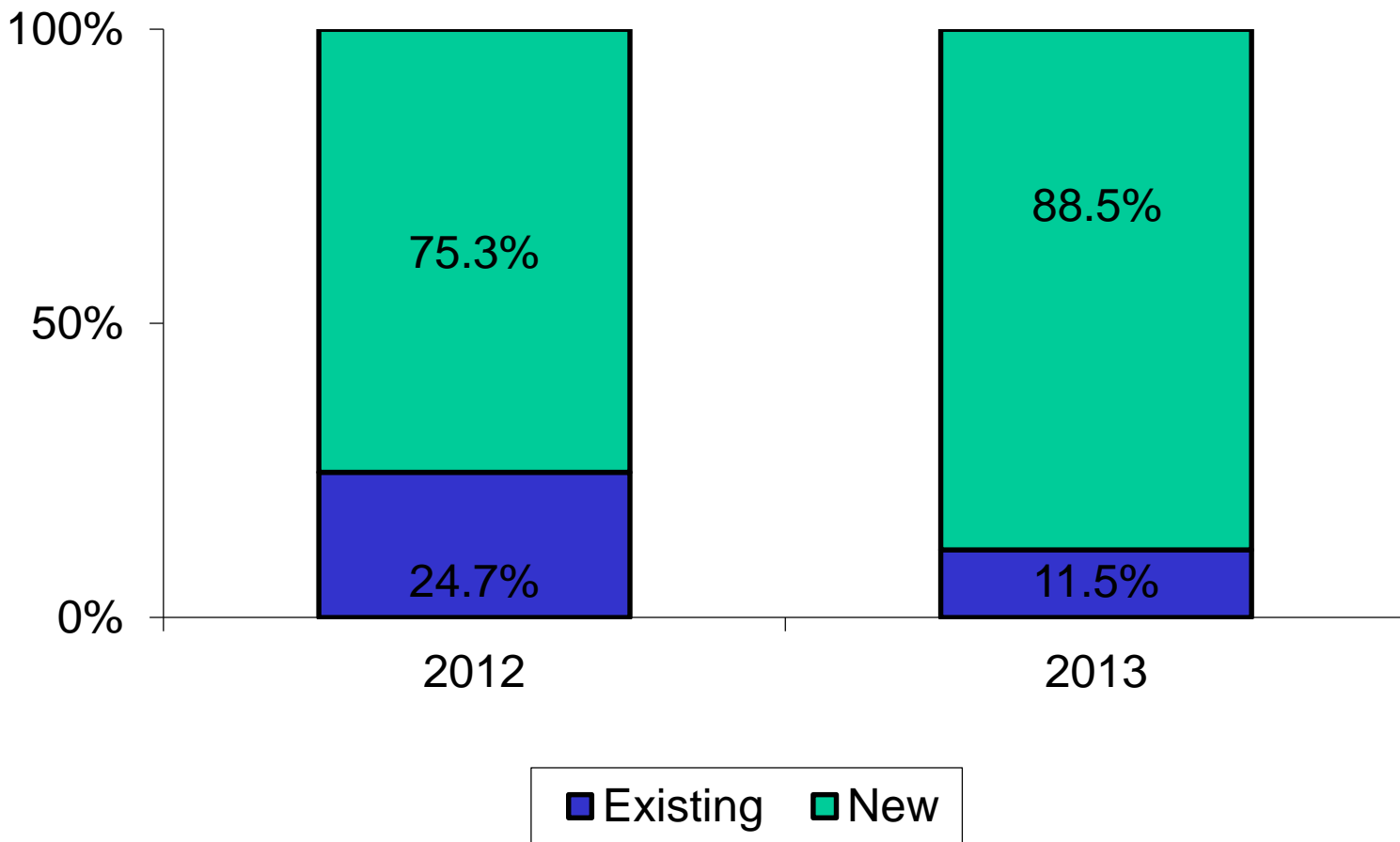


## Lenders Earn a Higher Return

- Lenders currently earn 1% above the prime rate for HEAT loans
- Interest rate floor ranges from 5% to 6.25%
- Banks are currently earning 0.25% with the Federal Reserve

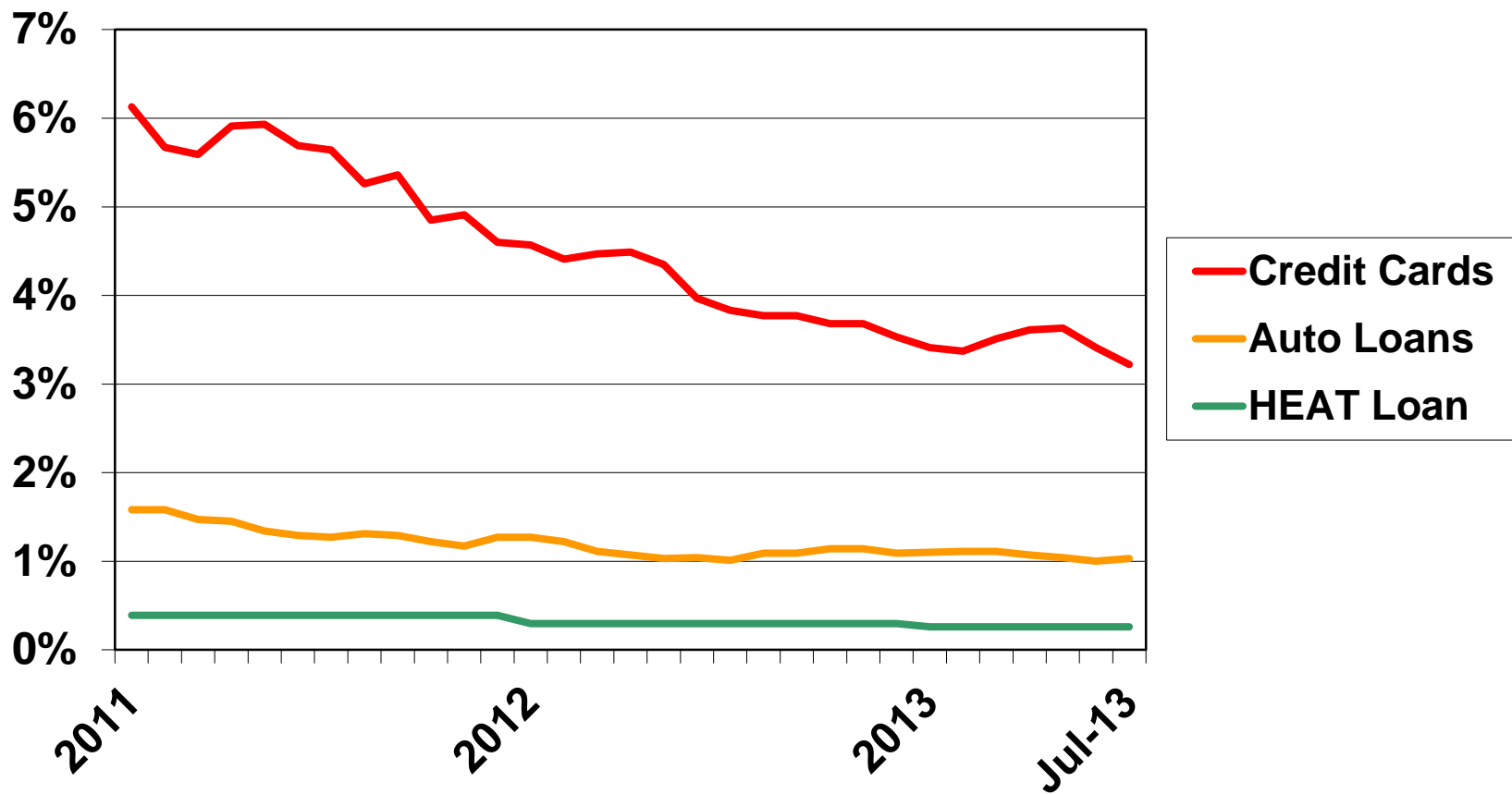


# The Vast Majority of Approved HEAT Loans Are To Customers New To That Lender





# HEAT Loans Default At Lower Rates Than Other Forms Of Consumer Credit



Sources:  
S&P Dow Jones Indices.  
MassSave Survey Data





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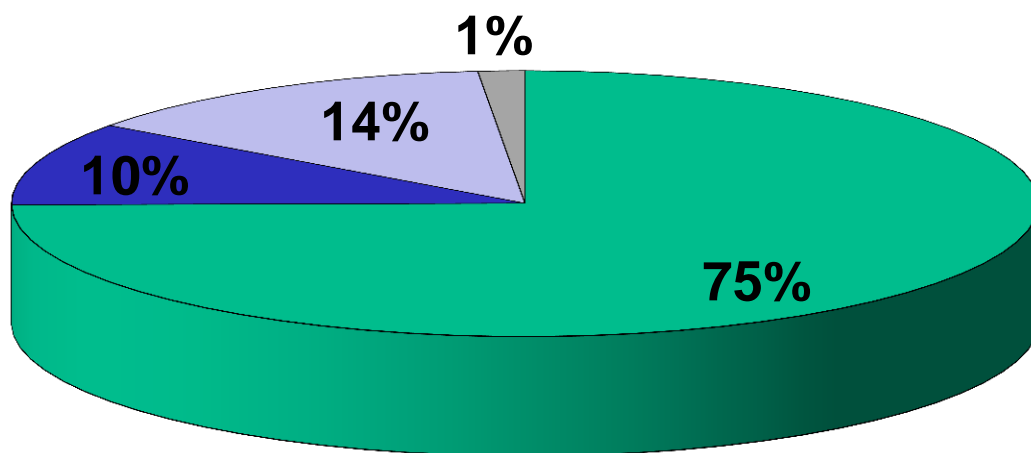


# A Distributive Lending Model Benefits Program Administrators

- Enables Customers To Implement EE Measures Helping PAs Meet Their Goals
- Process Is Aligned with Strengths And Is Low Cost
- Use The Same Process With All Participating Lenders
- A Distributed Lending Model is Scalable
- Lenders Like The Program



# Enables Customers To Implement EE Measures Helping PAs Meet Their Goals



**1.8 Billion kWh Equivalent Lifetime Savings**

Heating System & DHW

Weatherization

Windows

Central AC



## Process Is Aligned with Strengths And Is Low Cost

- PAs make decisions regarding efficiency
- Banks make decisions regarding loan approval
- The Program Incurs No Additional Financing Costs
  - No Loan Loss Reserves
  - No Additional Fees to Lenders
  - No Additional Costs to PAs For Financing



## Use The Same Process With All Participating Lenders

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## A Distributed Lending Model is Scalable

- In 2006, MassSave had 10 lender institutions reporting closed loans.
  - 191 Loans Closed
  - \$3.65 Million
  
- At the end of 2012, that number was 52 institutions
  - 6,473 Loans closed
  - \$60.1 Million



## Lenders Like The Program

As a Community Bank, participation in the MassSave Heat Loan Program provides another way for the bank to serve our local communities.

We are able to help families make their homes more energy efficient, helping them to reduce heating fuel costs while, at the same time, becoming “greener” and preserving natural resources.

In addition, it has created new opportunities for the Bank as we are introduced to new customers daily.

In short, the program is a “Win/Win” for all !



Ken Riley

Bristol County Savings Bank



## Lenders Like The Program

The MassSave HEAT loan program is a win-win. It provides clients with a terrific incentive when financing their energy-efficient improvements and offers financial institutions the opportunity to lend to high quality candidates who are financially and environmentally responsible.”



Tom Becker

HFCU SVP of  
Lending





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