Energy Efficiency Financing for Low- and Moderate-Income Households

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ACEEE Finance Forum

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Coming soon!

Energy Efficiency Financing for Low- and Moderate-Income Households: Current State of the Market, Issues, and Opportunities

Financing Solutions Working Group

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Programs examined

- Renew Financial (WHEEL, PACE)
- PosiGen
- NYSERDA
- Roanoke REC
- Ouachita REC
- NYCHA
- Fannie Mae (Multifamily Green Financing)
- Community Preservation Corporation (NY)
- Community Investment Corporation (Chicago)
- CT Green Bank
- PSE&G (NJ)
Agenda

◆ Takeaways

◆ Low- and moderate-income (LMI) sector overview

◆ Consumer protections

◆ Financing products

◆ Lessons learned
High-level takeaways

◆ Very diverse sector (with implications for using financing to promote efficiency)

◆ Program design and coordination with other stakeholders can be valuable for reaching LMI households

◆ A number of programs are overcoming some challenges to EE adoption in LMI households

◆ Strong consumer protections are needed when steering financing to LMI households
High-level takeaways

◆ So…what works?

◆ No ONE approach works for ALL LMI households

  □ Must understand markets and their specific barriers to select appropriate financing products

◆ However, a set of traditional and specialized products have been used and are gaining momentum

  □ Each has strengths and weaknesses
  □ Often *accessed* by LMI, not *designed* for LMI
  □ In Southeast, great interest in OBF for LMI households

◆ Programs can collect data to help answer this question
LMI sector overview:
Wide spectrum of LMI households

← Urban multifamily renters

Rural single family owners →
LMI sector overview

- More likely to live in older, less efficient housing
- Spend larger portion of income on energy (7.8% vs. 3% for all households)
- Less able to afford energy efficiency improvements
- Less likely to own their home, but ownership level still significant

Consumer protections

From poor disclosure

• Costs of the loan
• Risks

From abuse

• Fraud
• Predatory lending

Verifying ability to pay

• Potential loss of property
• Potential damage to credit
• Potential disconnection
### Barriers and EE Financing Product Features

<table>
<thead>
<tr>
<th></th>
<th>Secured (First Mortgage)</th>
<th>Secured (Junior Lien)</th>
<th>Unsecured</th>
<th>OBF/OBR</th>
<th>PACE</th>
<th>Savings-Backed Arrangements</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Qualifying for Financing</strong></td>
<td>Standard underwriting</td>
<td>Standard underwriting</td>
<td>Standard underwriting</td>
<td>Alternative underwriting</td>
<td>Alternative underwriting</td>
<td>Alternative underwriting</td>
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<tr>
<td><strong>Debt Issues (restrictions, aversion)</strong></td>
<td>Sr. lien holders may object</td>
<td>Sr. lien holders may object</td>
<td>Debt instrument</td>
<td>May be structured as non-debt</td>
<td>Sr. lien holders may object</td>
<td>Uncertain</td>
</tr>
<tr>
<td><strong>Inherent Risks</strong></td>
<td>Potential loss of home or building</td>
<td>Potential loss of home or building</td>
<td>Damaged credit</td>
<td>Power shut-off (some programs)</td>
<td>Potential loss of home or building</td>
<td>Depends on the product</td>
</tr>
<tr>
<td><strong>Transaction Costs</strong></td>
<td>High</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
<td>Depends on prog / sector</td>
<td>Depends on prog / sector</td>
</tr>
<tr>
<td><strong>Affordability</strong></td>
<td>Long terms, typically lowest rates</td>
<td>Long terms, low rates (but higher than 1st mortgage)</td>
<td>Shorter terms, lack of security = higher rates</td>
<td>Depends on program terms</td>
<td>Long terms, lower rates than unsecured</td>
<td>Structured as cash flow positive</td>
</tr>
<tr>
<td><strong>Financing Cycles (MF)</strong></td>
<td>Leverages fin. Cycles; hard for stand alone projects</td>
<td>Leverages fin. Cycles; easier for stand alones</td>
<td>Easier for stand alone projects</td>
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Lessons learned

◆ Financing products and product features
  - Know LMI needs and products that may address them
  - Focus on affordability
  - Consider alternative underwriting (careful about ability to pay)

◆ Stakeholder coordination and collaboration
  - Trust and awareness
  - Funding and capital

◆ Consumer protections
  - Leverage appropriate legal frameworks
  - Exercise useful industry and program practices
Lessons learned

◆ Collect LMI data
  - Program participation
  - Loan performance
  - Underwriting process
  - Measures implemented
  - Energy savings

◆ Considerations specific to MF borrowers
  - Debt considerations
  - MF financing cycles
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The State and Local Energy Efficiency Action Network’s (SEE Action Network) report:

*Energy Efficiency Financing for Low- and Moderate-Income Households* by Lawrence Berkeley National Lab

For more information on efficiency financing, please visit our website: [http://emp.lbl.gov](http://emp.lbl.gov)