On-bill finance programs in the US and lessons for reaching rented properties

Philip Henderson
Natural Resources Defense Council
Washington, DC USA

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- On-bill programs -- loans to customers re-paid through utility bill.
  - In the US, about 20 major programs.
  - A few large programs (California IOUs, NYSERDA).
  - Many small programs (e.g., rural electric co-operatives).
  - Several programs operating more than 20 years.

- Consumers and business in the US have broad access to credit.
- Many rental properties, MF and commercial, have complicated financing, which makes new debt difficult (secured or unsecured).

Lessons learned about rental property inform program design :

What property is eligible?	Commercial Residential	• Loan for tenants should be specially designed as separate product from loan for owners. • Custom program for MF <u>owners</u> can assuage concerns with lending to tenants of affordable housing.
Who is Borrower?	Owner Tenant	• No regulatory concerns lending to commercial property owners or tenants. Tenants bankable with long leases, but reserve debt capacity. • Regulators worry MF owners will use loan to raise rents. • Lending directly to low/middle income families complex
What projects are eligible?	Comprehensive Single measure	• Audit to estimate amount of savings causes drop-off, but covers projects with "deeper" savings. • Equipment replacement (lighting, heat pump, boiler) can be effective with deemed savings.
Who is lender?	Utility Fin. institution	• To some extent, blurry distinction. • Will the on-bill feature change how a financial institution views the borrower / project?

(continued)…. rental properties in program design

Borrower Credit?	Loan underwriting Utility pay history	• On-bill credit risk for small businesses tenants is essentially bankruptcy risk. (Cal.) • Little experience with on-bill lending directly to residential tenants.
Loan Collateral?	Secured Unsecured	• Tenants not likely able to arrange security interest in collateral (UCC or lien on property)
Balance Due?	At sale/end of service Transfer to new owner/tenant	• Not clear whether “transferability” improves value proposition for borrowers or lenders. • Complex process to notify prospective tenants of on-bill obligation.
Incentives?	Subsidize measures Subsidize finance costs	• California offers 0% apr loan. • Most utilities offer incentives for the ECMs or for total energy savings.

PSE&G (New Jersey)

Multifamily program for rental property

- Utility funds total project costs, <u>owner</u> makes monthly payments on the utility bill.
- Eligible measures must payback in 15 years (including savings on tenant paid meters).
- Targets "affordable housing" (Gov't subsidized)
- Large buildings have substantial heating and cooling load. Boiler replacement is common ECM.

✓ Substantial incentives (over 50% of project costs) reduce cost to owner .

- Funded over 50 projects, $36.5 million
- Approved for $39 million (2016-17 budget), reportedly expect to reach 10,000 units

PG&E (S.F., California)

On Bill Financing (OBF)
Aimed at small businesses (including tenants)

- Subsidized loan – zero finance charges (0% interest)
- Additional incentives for measures or custom projects based on energy savings.
- Tenants in commercial office space use program.
- ***Exploring possibility to market to tenants at office build-out.***
- Multifamily owners eligible – little participation.

- ~1,300 loans / $57m originated (since 2011).
- ~400 loans in 2015.
- Avg. loan amount:

  ~ 25,000 for small businesses.

  ~$100,000 municipal customers..

Tennessee Valley Authority (TVA)

TVA sells wholesale power to utilities (rural electric co-ops)
Mainly in the warm, humid southeast

Single measure focus – High efficiency heat pump.

- Equipment approved for x% incentive
- No energy audit

- "Energy Right" loan:
  - TVA arranged financial institution as lender
  - Provides credit backstop/ guarantee
  - Provides certain loan administration functions
  - Utilities offer customers an on-bill
  - Utilities perform loan servicing

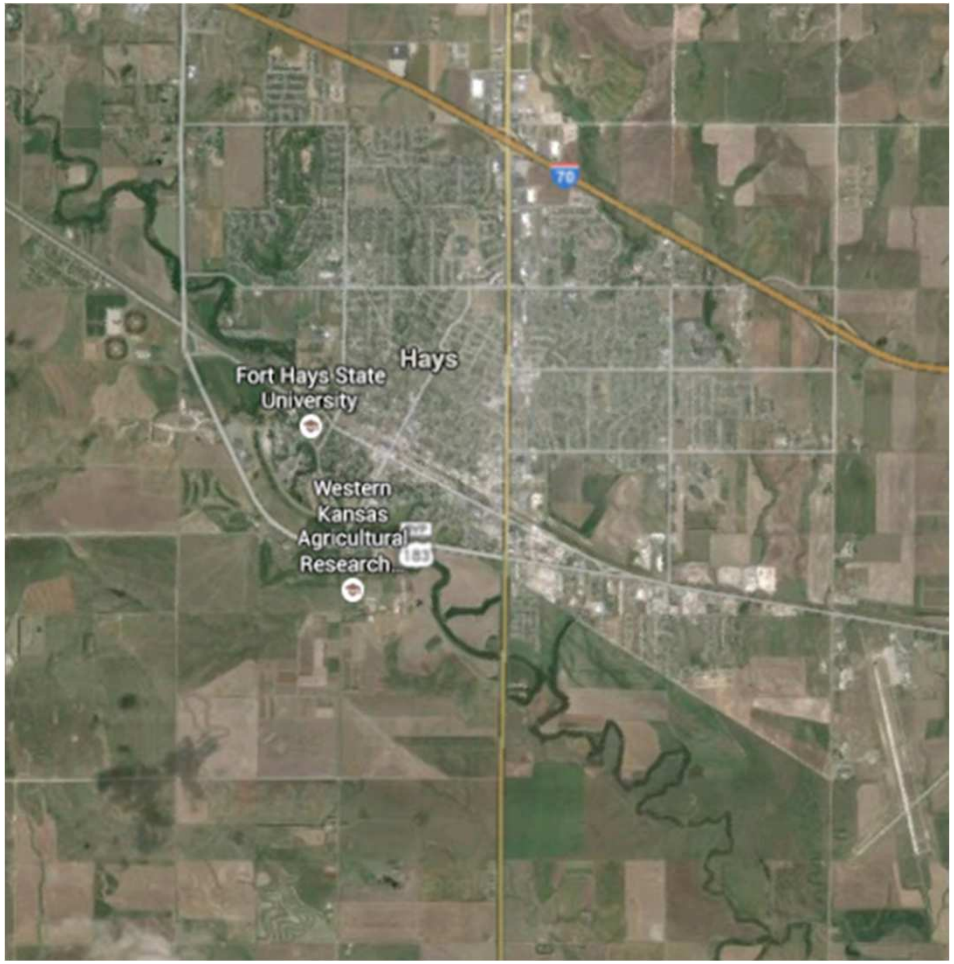
- Approx 80,000 borrowers
- $500 million total loans funded
  ~$45m in 2012
  Average loan ~$7,000
- Reports < 3% "default" rate *

Midwest Energy (Kansas)

Small, rural utility co-operative in Kansas

- Offers on bill loans to any customer
- Many low-income customers. No minimum credit or income eligibility.
- Project can include any cost-effective measure, confirmed by an audit.
- Electric service cut-off tied to repayment
- Low finance charges (co-op's borrowing costs).

  - Approx. 1,000 loans
  - $6.0 million loans
  - Reports < 1% "default" rate *



Renters not included, but suggests lending to low-moderate income customers can be done effectively

Actionable Lessons Learned

1. To reach residential rental property – target owners of MF
   - Design program to work for owners' projects.
   - To reach "in-unit" equipment (appliances, AC) -- simple process for common equipment upgrade to high efficiency. Low balance loans, for replacement, with deemed savings approach.

2. Commercial properties, with small and mid-size owners or tenants, appear to have best appetite for on-bill loans.

3. For commercial tenants, target marketing to key moments – new tenants at "build out," or equipment replacement.

4. Beware complexities of lending to low to moderate income borrowers.

Open Questions

- Cost effectiveness? (and models for cost-effectiveness)
- Does requiring payoff at sale change borrower demand? What does this mean for tenants?
- Central, shared loan administration for utilities?
- Trends with lease that allows owner to "pass through" on bill loan payments to tenants?

Philip Henderson
Natural Resources Defense Council
Washington, DC USA

phenderson@nrdc.org
202-289-2382