Financing Tools

Missouri Department of Economic Development

Division of Energy

Kristy Manning
Director
kristy.manning@ded.mo.gov
www.energy.mo.gov
573-751-5235

Types of Debt

Secured
(Collateralized)
- Mortgage/2nd Mortgage
- PACE
- Home Equity Loan/Home Equity Line of Credit (HELOC)
- Installment Loans (car)

Unsecured
(Consumer Credit)
- ReHome/WHEEL
- Revolving Debt (Credit Card or Line of Credit)

On Bill
- Repayment/Line Item Billing
- Financing
  - On-Bill Tariff

(Grants, Assistance, Incentives)

Underwriting Standards (Examples)

Traditional
- Min credit score (640+)
- DTI Ratio (50%)

Expanded
(Relaxed Traditional)
- Min CS (600+)
- DTI Ratio (70%)

Alternative
- Bill History
- On-Time Payments

Hybrid
(Blended)
- Min. Credit Score
- Bill History

(Eligibility Criteria)

Source: https://www4.eere.energy.gov/seeaction/system/files/documents/onbill_financing.pdf

Capital Provider

- Source – public entity, non-profit, utility, bank, 3rd party?
- Amount – one time, revolving, up front, line of credit?
- Purpose – non-profit, for-profit, portfolio investment?
- Risk – credit, interest rate, enhancement?

Originator

- Type of Provider – Regulated financial institution or third party?
- Type of Obligation/Repayment
- Deployment – Design the program (terms, documents), create market demand and close

Servicer

- Type of Provider – Regulated financial institution or third party?
- Deployment – Send statements, receiving and processing payments, and provide collection services

Capitalization Concepts

Warehousing –leverage more capital by originating a "pool" of loans, store them until a certain amount is reached, and then sell to an investor(s) as a portfolio* (Ex. Secondary mortgage market, PACE, WHEEL)

Credit Enhancements – provide assurances that the borrower will repay the obligation or otherwise offset the risk. It encourages lenders to invest in unfamiliar markets or helps secure relaxed underwriting criteria to reach more consumers.

- **Loan Loss Reserve Fund** – the lender is paid back out of the reserve fund, reducing or eliminating repayment risk if there is a default. It can cover individual loans or the portfolio. (Ex. CA Indemnity Fund or Michigan Saves)
- **Interest Rate Buy Downs** – uses funds to lower the interest rate so that it becomes attractive to borrowers. It's the difference between the lender's market-based rate and the amount otherwise collected from the borrower. (Ex. WHEEL)
- **Loan Guarantees** –lenders can offer lower interest rates and/or extend the term of the loan because the guarantor with good credit has promised to ensure timely repayment. (Ex. SBA, USDA, utility, 3rd party – public benefit funds)

**Note: if there is a mismatch with loans in the portfolio and investor's risk/return expectation, then a credit enhancement is needed.*

MISSOURI
Department of Economic Development

Utility Role

On-bill repayment (3rd party capital, utility collection)	3rd party bill* (utility capital with credit enhancement)	3rd party bill* (utility capital/ warehouse)	3rd party bill* (utility capital)	On-bill finance (utility capital, risk and operated)

Low → **High**

CA PG&E (EFLIC)		OR Clean Energy Works Keystone HELP (PA)	NY Green Bank	Midwest Energy Coop (KS) Ft Collins Muni (CO)

**3rd party originates and services*

Program Examples

At least 25 states have more than 30 programs; financed over $1.8 billion in projects. Five programs in particular account for 90% of the activity.

Table ES - 2. Five programs from the five largest on-bill initiatives: Design features and results

	TVA	Manitoba Hydro	Alliant Energy	United Illuminating	National Grid
Target Sector	Res	Res	Non-Res	Non-Res	Non-Res
Lifetime Volume	$500M	$290M	$524M	$39M	$44M
2012 Volume	$45M	$29M	$393K	$4M	$22M
Interest Rate	6%-8%	4.8%	0%-3%	0%	0%
Max Loan Term	3 or 10 years	Up to 15 years	5 years	Up to 4 years	2 years
Default Rate	3%	0.48%	2.68%	0.9%	2.9%
Disconnection and Meter Attachment	On-Bill Loan w/ disconnection	On-Bill Loan w/ disconnection	Line Item Billing	Line Item Billing	Line Item Billing
Source of Capital[9]	OBR (warehouse w/TVA guarantee)	OBF (public monies)	OBF (utility monies w/interest rate buydown)	OBF (mix of utility monies w/interest rate buydown & utility bill-payer monies)	OBF (utility bill-payer monies)
Underwriting	Expanded	Hybrid	Hybrid	Alternative	Alternative
Eligible Measures	EE (mostly heat pumps)	EE	EE & RE	EE & Water Efficiency	EE

The average default rate over the program lifetime ranged from 0 to 3 percent for 16 residential programs that provided this information, and 0.57 percent to 2.90 percent for seven nonresidential programs. These default rates are low compared to common types of unsecured consumer lending, which may range from mid-single digits to low double-digits.

MISSOURI Department of Economic Development

Source: https://www4.eere.energy.gov/seeaction/system/files/documents/onbill_financing.pdf

OBR/OBF Program Considerations

Authorization

•No legislation – AR, FL, IA, KS, NH, NC, and WA
•Legislation – IL, KY (2007), and SC
•Tariff Program – KY (2013), KS (2008), AR (2015)

Underwriting (of 28 programs)

•Traditional – 1 program; accounts for 0% loan volume
•Expanded – 3 programs; accounts for 31% loan volume
•Alternative – 15 programs; accounts for 18% loan volume
•Hybrid – 9 programs; accounts for 51% loan volume

Billing Systems – most didn't need it; some required program ~ $10,000

Covered Measures – single or portfolio/whole home

Disconnections and meter attachments

MISSOURI
Department of Economic Development

OBR/OBF Take Aways

•Program design matters.

•There is no clear association between underwriting standards and defaults.

•Lifetime defaults rates range from 0-3% in residential programs and 0.57% in non-residential programs which are lower than conventional, unsecured debt.

•Successful programs leverage private capital and have 'robust' credit enhancements.