Energy Efficiency Finance: New Horizons in the Southeast

The last two years have seen the expansion, development and promotion of a wide variety of energy efficiency and clean energy financing mechanisms across the country. Some of these mechanisms, such as Property Assessed Clean Energy (PACE), have had relatively little uptake, while other mechanisms like interest rate buy downs have exploded across the country. While multiple models of potential financing mechanisms exist, there is still relatively little reliable information on their performance, especially in the Southeast.

Given these factors, SEEA has maintained a strong focus on financing in its role as central administrator of the SEEA Community Consortium — a network of ARRA-funded energy efficiency programs in cities across the region. In keeping with its mission of driving market transformation in the Southeast, SEEA has piloted numerous innovative financing strategies with our consortium partners. Through these efforts, SEEA hopes to assess and identify effective home energy financing mechanisms that are responsive to local market forces and enable community finance institutions to support homeowners and small businesses.

In collaboration with BLT Sustainable Energy Inc. and the University of North Carolina, SEEA conducted an assessment of the current financing environment and stakeholder views throughout its multi-city consortium, identifying lenders to support the growth and maturation of community energy efficiency programs.

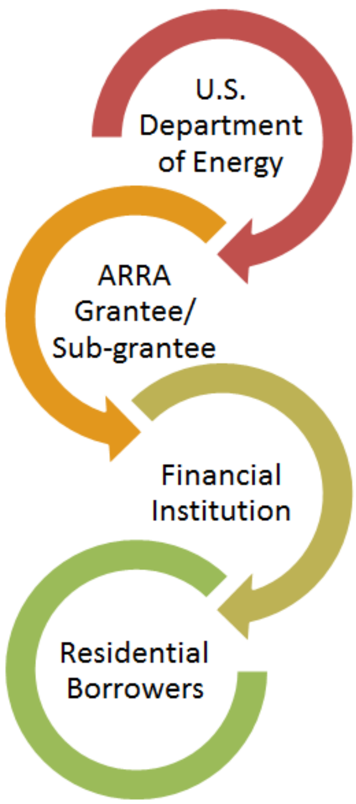
» Energy efficiency loan products provide homeowners with affordable options for improving the comfort, quality and performance of their homes.

» Innovative financing programs generate consumer savings, injecting new jobs and revenue into the local economy.

Among its findings, the study identified a strong desire among community development finance institutions, credit unions and community banks to work with local energy efficiency programs on a lending product. Many of these institutions prioritize, and in some cases are directed by their charter to provide, lending that supports community-focused economic development.

Across the SEEA Community Consortium, examples of innovation and success abound. Perhaps the most successful of these is the home performance lending program in Jacksonville, Florida, spearheaded by program partners JEA and JaxMetro Credit Union. Using an initial $100,000 loan loss reserve fund capitalized by SEEA, JaxMetro has leveraged this lending program to deliver more than $1 million in home energy efficiency loans, driving credit union membership and community development.

A loan loss reserve fund (LLR) provides partial or full risk coverage for energy efficiency loans. This additional security offsets perceived risk and allows financial institutions to offer energy efficiency products at more affordable rates. In the event of a default, the investor is able to recuperate their loss from the reserve fund, broadening access to capital and lowering interest rates. This model has been adopted by several of the cities in SEEA's Better Buildings consortium, including Jacksonville, Florida.

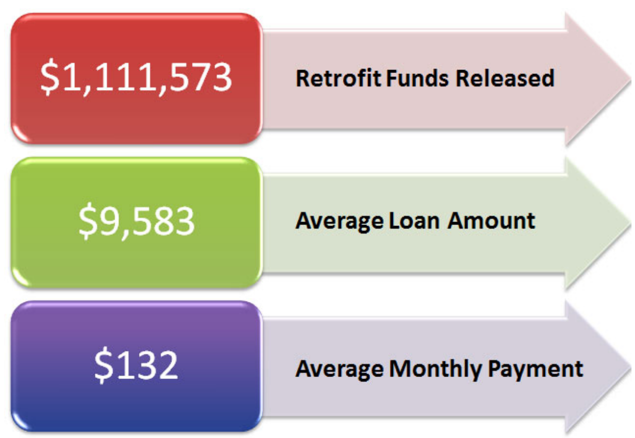


Above: Structure of a residential loan loss reserve, adapted from the U.S. Department of Energy.

Loan loss reserve funds take a portfolio approach to credit structuring. The loan loss reserve approximates the anticipated default rate on all the loans in the portfolio, so a reserve fund of two to ten percent of the portfolio can support third-party financing that is ten to fifty times larger than the size of the reserve.

In Jacksonville, home performance lending has taken off, thanks in part to the efforts of JaxMetro Credit Union, a financial cooperative that maintains a strong focus on meeting the needs of the community it serves. In partnership with local utility JEA, JaxMetro manages a high-performing financing program that Vice President of Operations Jay Hogan describes as "a wildly successful niche."

Following its launch, the program met with lukewarm success, but the entrepreneurial JaxMetro team did not stop there. They identified strategic areas for improvement that they hoped would drive increased loan uptake, including building partnerships, training employees, reducing turnaround time and educating homeowners. By consciously honing their efforts in these areas, JaxMetro became much more successful in customer engagement, and they began to see a significant uptick in numbers.



Above: Program results, current as of September 20, 2012.

Since the program launched, JaxMetro has released upwards of $1 million for financing home energy efficiency improvements. What's more, JaxMetro has found its unique program to be an effective means of generating new membership for the credit union—one with a remarkably low delinquency rate. Despite initial setbacks, JaxMetro has demonstrated that home performance lending tailored to the needs of the local community can meet with resounding success in the South.