Glossary of Key Financing Terms

Term	Definition
Charge-off	Losses assumed by a financial institution as a result of defaulted loans.
Collections	The process the servicer initiates when a borrower is delinquent and consists of calls and letters to the borrower. There are numerous consumer protection regulations, varying by state, that restrict the actions the servicer can perform.
Credit Enhancements	Funds made available to lenders to pay for losses incurred when borrowers do not make the loan payments within the specified time period and are considered in default (typically when no payment has been received for 90 to 120 days). Credit enhancements are typically provided to lenders by third parties (usually governments) to reduce lenders' costs and risk enough to encourage them to make loans that they otherwise would not make or to do so at lower interest rates.
Credit Insurance	An insurance policy that makes a payment to cover a percent of loan losses on a loan-level (individual loans) or pool-level (group of loans) basis.
Credit Risk	The risk that the borrower will not repay a loan obligation resulting in a loss.
Credit Score	A numerical value that characterizes a borrower's availability, use, and repayment of credit. The credit score is used to predict losses.
Dealer Loans	An arrangement under which the dealer (contractor) presents the financing option to the homeowner, submits the homeowner for underwriting to their "host" finance company, negotiates the terms of the loan (within parameters specified by the host), presents the documents to the borrower, and executes the agreement. The executed financing agreement is assigned to the host finance company, and in turn the contractor is paid the installation price.
Direct Loans	A loan made directly to a borrower by a financial institution. The financial institution may have little or no contact with, or knowledge of, the project or the contractor.
Debt to Income (DTI) Ratio	A measure that reflects a household's ability to service its existing debt with current gross income. A household with a DTI ratio of 50% has annual debt service payments that equal 50% of the household's annual gross income. A maximum DTI is intended to ensure that borrowers have sufficient cash flow to make loan interest and principal payments.
Default	Describes the status of a borrower that has not made a payment during a specified period of time, typically 90 to 120 days.
Delinquency	Describes the status of a borrower that has not made a full payment, generally within 30 days of an established payment due date.
Energy Efficient Mortgages	Energy efficient mortgages (EEMs) allow borrowers to include the cost of energy efficiency improvements in a mortgage. Lenders accomplish this by allowing increases in the amount that a borrower can lend relative to the property value and the debt that the borrower is eligible to carry relative to their income. The Federal Housing Administration and Fannie Mae offer versions of EEMs.
Incidence and Severity	Describes the frequency of losses associated with loans issued (e.g., 1% of the portfolio per year) and the net loss after any recoveries (e.g., 90%).
Investor	An entity that purchases or otherwise acquires a financial instrument. In the energy efficiency finance industry, an investor would purchase loans from originators, have the loans served by a third party, and hold the loans in a portfolio as an investment.
Loan Loss Reserves	Funds provided by third parties that offer partial risk coverage to lenders, meaning that

	they will cover a pre-specified amount or percentage of losses from loans that default on payments. This loss coverage typically allows financial institutions to offer a lower interest rate or longer term to borrowers, as well as less restrictive underwriting requirements (e.g., higher application approval percentages) or both. Loan loss reserves have been used to encourage financial institutions to offer products for financing energy efficiency and renewable energy projects.
Loan Origination and Servicing	A loan is created through a series of procedural steps called origination. Steps include assembling the application file, issuing disclosures, underwriting the loan, processing the loan, producing required documents, collecting data, closing or settling the loan, and funding the loan. After a loan is closed, it is "boarded" (loaded into a database) and "serviced". Servicing consists of sending monthly statements or invoices to the borrower, processing "remittances" (payments), updating the loan information, and performing "collection" activities for loans that do not pay on time.
Loan Performance	Refers to the rate at which loaned funds return to the lender, taking into account pre-payments (e.g., partial or complete payoffs made prior to their due date), delinquencies (e.g., late payments), and defaults (e.g., losses or payments late enough to be considered losses by the lender). Expected loan performance will drive lenders' decisions regarding interest rate, loan terms, and underwriting criteria, all of which influence customer uptake.
On-Bill Financing & Repayment	On-bill financing (OBF) and on-bill repayment (OBR) allow energy efficiency improvements to be financed or repaid through the utility bill. With OBF, the improvements are funded by utility shareholder or ratepayer funds, and repaid by customers on their utility bills. With OBR, the improvements are funded by a third party and repaid on the utility bill. The payment obligation may be presented as a tariff and "attached" to the meter. This means that the payment obligation must be assumed by the account associated with the individual meter (i.e., whoever is responsible for payment of the utility bill).
Operational Risk	The risk generally associated with entities servicing loans dealing with the possibility that operations are not properly performed (send invoices, collect payments, distribute payments to investors, etc.), which can result in losses.
Performance Risk	The risk that a contractor does not properly install the energy efficient improvements causing the borrower to delay or stop payment of the loan.
Recovery	A term used to describe past due amounts received from borrowers that have been designated in default.
Revolving Loan Funds	Capital that is designated as funding for a specific purpose (e.g., to fund energy efficiency and/or renewable energy improvements). Typically, as loan repayments are received, those funds are consolidated and lent out to new borrowers, thus the revolving nature.
Secondary Market	A market where existing loans can be sold to investors. The loans can be sold as "whole" (individual) loans or grouped into a pool of loans that can be sold as a security.
Secured Loan	A loan in which the borrower pledges some asset (e.g. a car or property) as collateral for the loan.
Subordinate Capital	Capital used to fund loans that is subordinate to "senior" capital. Senior investors receive repayment of their capital first; consequently, if losses occur, the providers of subordinate capital are the first to assume losses. The purpose of subordinate capital is to give senior investors confidence that they will incur little if any loss. Subordinate capital serves a similar purpose to a loan loss reserve (assuming a fist loss position), but subordinate capital generally earns a return, and loan loss reserves do not.
Underwriting	The process performed by a lender to decide if an applicant should be approved for a loan. The process typically involves confirming the eligibility of a borrower and the property and project, and an evaluation of the borrower's ability and perceived willingness to repay.
Unsecured Loan	A loan that is issued and supported only by the borrower's creditworthiness, rather than by a type of collateral.