Finding Money for Solar

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Sources of Funds for Lenders

- Depositors (typical banking institution)
- Insurance Companies (lend to large borrowers)
- Banks (Lend to finance companies and add to cost of funds for those lenders)
- Investment Bankers (minimum bond issue usually 100 million or more so depend on warehouse lenders to stock up smaller loans then issue bonds)

Competing Goals?

- Owners want to earn maximum amount as soon as possible
- Solar companies sell based on return over the long term (20 years) because it’s the highest return
- Lenders seek low risk which means quick repayment OR security which will grow in value (your home)

Consumer or Commercial?

- Consumer – Do you own your home?
  - IF YES, do you have lendable equity?
    - Bankers calculate your LTV (Loan-to-Value) to determine how much you can borrow
    - Bankers have loan policies that dictate LTV for different types of real estate
    - Bank regulators have maximum LTV guidelines – banks are generally just below
      - Typical for your personal residence is 80%
      - Typical for commercial real estate is 75%

How Much Can You Borrow on Your House?

- FORMULA = Value X Max Bank Policy LTV Percentage – 1st and 2nd Mortgage Balances = Lendable Equity

Show me an example……………………

- Typical Example = $200,000 value X .8 = $160,000 - $140,000 mortgage = $20,000 lendable equity

Banking Definitions

- VALUE = Dollar figure provided by an independent source
  - Tax Assessed Value = Historically between 80% and 90% of market value
  - Market Value = Determined by an appraiser

Appraisal Secrets

- Matched Sales Appraisals
  - Depend on finding recent sales of houses similar to yours (Comps)
  - How similar? Total adjustment for each comparable sale of <10%=good
    Total adjustment >20% to 25% = bad

  ISSUE – Homeowners installing solar don't sell often so an appraiser may not find similar (Comps) and may have to be more subjective (usually conservative) so may not assign much value to your solar installation.

“As Proposed” Appraisal

- Adds the value of the solar installation so Value is higher and lendable equity is higher.
- ISSUE – The appraiser has to assign a value to the proposed solar installation and most are not comfortable so assign a low value
- ISSUE – The bank has to disperse funds based on work being completed and solar installers often ask for as much as 50% up front so they may have to wait for their money.

Green Appraisals

- An appraiser who is certified in valuation of solar and energy efficient features
- Usually a prescriptive valuation
- Depends on “Contributory Value” of energy-efficient features such as solar.
- Sandra Adomatis teaches the course and lives in Punta Gorda, FL AdomatisAppraisalService.com

The Best Home Loan is a HELOC

1. Flexible – just pay interest on outstanding balance
   and pay principal at any time
2. BEST PART – No or minimal transaction costs; i.e.
   free closing costs at many lenders
3. POTENTIAL DOWNSIDE = Can adjust within 30 days
   Prime rate goes up

Why Not a Fixed Rate Mortgage?

- Fixed Transaction Costs may be 10% on a small amount such as $20,000
- Time and Application Hassle Factor – Going through the mortgage process is no fun
- Mortgage Lenders work on commission – they make almost nothing on a $20,000 mortgage loan so incentive to process for you is low.

What About P.A.C.E.?

- Advantages = Your house qualifies rather than your credit; payments are included with annual tax bill
- Disadvantages = High transaction costs.   Business model of PACE lenders depends on adding or bundling several energy efficiency upgrades to achieve higher loan amounts. Also may create issues with your first mortgage lender.

Are Unsecured Loans a Better Option?

- Maybe!
  - Things to consider include RATE, CLOSING COSTS, REPAYMENT TERM, etc.
  - RATE – depends on lender's source of funds
  - CLOSING COSTS – Should be minimal.   If not ask why
  - REPAYMENT TERM – Usually shorter than a secured loan so monthly payment is higher and may exceed energy savings

Can I Secure with the Panels?

- YES – but will the rate and term improve?
  - Rate depends on cost of funds plus assigned risk level so using panels lowers risk
  - Term depends on lender’s definition of “usable life” and most are conservative when financing what they consider as technology which could become outdated quickly

How About Government Loans?

- Mortgages are government loans and transaction costs are high.   The reward is a high LTV loan
- PACE is sponsored by government entities and has a downside for many.   The reward is no credit check.
- SBA and USDA are for business entities
- “I am with the government and I am here to help”