Tap Into Renewable Energy Loan Market

Some credit unions are offering energy efficiency loans to homeowners and businesses to strengthen their portfolios.

BY MICHAEL EMANCIPATOR

New opportunities in renewable energy and energy efficiency are offering credit unions a new way to grow their loan portfolios. Some credit unions have already acknowledged the value in offering these loans and have either started programs or tapped into existing programs.

For example, Michigan Saves, a non-profit staffed by Public Sector Consultants, is a new program that has partnered with nine credit unions, including Consumers Credit Union ($364.2M, Oshtemo, MI), Genisys Credit Union ($1.4B, Pontiac, MI), Lake Trust Credit Union ($1.5B, Lansing, MI), and Greater Niles Community Federal Credit Union ($45.0M, Niles, MI). The financing program has opened the door to new loans, new members and it helps Michigan create new jobs and reduced energy use, says Tom Jensen, Consumer Loan Enterprise Manager for Lake Trust Credit Union.

Michigan Saves is a suite of new financing programs for renewable energy and energy efficiency improvements and offers three programs. The Home Energy Loan Program is offered for upgrades to a home, the Home Mortgage Program is used to purchase and refinance a home, and the Commercial Energy Loan Program can be used to upgrade a business.

Michigan Saves is a unique program in that credit unions are the only authorized lenders. Julie Metty Bennet, the Financial Manger of Michigan Saves, says she feels fortunate for having such a strong credit union culture in Michigan that is focused on communities and the drive to providing community benefits through renewable.

“Credit unions are leading the way in energy efficiency financing, more so than banks,” says Bennett. “They have been very innovative and collaborative.”

It’s becoming a nationwide trend in the credit union industry. Other examples of innovative and collaborative programs include Milwaukee Energy Efficiency, Massachusetts’s Mass Save, FHA’s PowerSaver Program, Long Island Green Homes, and Boulder’s EnergySmart program.

Boulder’s EnergySmart program was commissioned in December 2011. Elevations Credit Union ($1.0B, Boulder, CO) initiated the $25 million loan program in partnership with the Department of Energy. The program is focused on residential and commercial energy efficiency upgrades. According to Jay Champion, Chief Lending Officer, Elevations is the exclusive lender for EnergySmart, allowing them to work with area-contractors and installers so they can bring awareness to the program.

Bennett agrees that working with contractors and installers are a key to success. “Besides growing loans with existing members, contractors from the program serve as ambassadors, bringing new members to the credit unions,” she says.

By growing loans with new and existing members, Bennett says that the loan volume has made an significant impact on the participating credit unions and the opportunity is growing. Currently, only about 15% of energy in the U.S. comes from renewable sources. However, the market is poised for strong growth and credit unions can take advantage of this opportunity to continue growing these loans.

The government is helping to spur growth. The federal government and 38 States have initiated mandates and goals to increase renewable energy and energy efficiency sources. President Obama set a goal in his 2011 State of the Union address that 80% of America's electricity will come from clean energy sources by 2035. Additionally, many states have already enacted similar mandates, with monetary penalties for non-compliance. New Jersey has one of the most aggressive of such mandates, requiring utilities to provide 20% of their electricity from renewable sources by the end of the decade.

Predicting further growth, Berkeley National Laboratories stated in a report that 15 states will have annual energy efficiency budgets greater than $200 million by 2020, compared to just two states in 2008. In particular, they predict that Illinois, Maryland, North Carolina, Ohio and Pennsylvania account for more than 60% of the projected increase in total U.S. spending from 2008 to 2020.

If credit unions can tap a portion of that growth, the average renewable energy and energy efficiency loan can have a very positive impact on their balance sheet. The American Council for an Energy-Efficient Economy found that the average residential loan amount through these programs was $9,100 at 5.3%, for an average repayment term of 11 years, according to a September report that studied several renewable energy and energy efficiency loan programs throughout the country.

Growing renewable energy and energy efficiency loans will not only benefit credit unions loan portfolios, but will also benefit their members. Credit unions see green loans as good for the financial health of their members, where energy savings can increase members' disposable incomes, according to a study conducted by the Filene Institute, titled "Finding Sustainable Profits: Green Lending in Credit Unions."

Just as fuel-efficient cars save consumers gas money, energy efficient homes save consumers money with a lower utilities bill. The average home spends $2,200 per year on energy bills, according to the U.S. Dept of Energy. As one example of energy efficiency upgrades, Energy Star windows can save homeowners between 7% - 24% on their annual energy bills. This means an average family can save between $154-$528 annually and credit unions can help them with financing. Other upgrades, such as efficient HVAC units and better insulation further the cost savings.

That annual savings also creates a fairly predictable loan repayment amount. So long as the annual loan repayment amount is less than the total energy bill savings generated by the project, there will be a positive cash-flow for the member. For example, if a member will save $400 on his or her annual utility bill, credit unions can consider that savings when underwriting a $350 annual loan repayment.

Read more: http://www.creditunions.com/articles/tap-into-renewable-energy-loan-market/#ixzz2CJSSavhF