WHEEL in the Press

The Atlantic

Wall Street Wants to Lend You Money to Fight Climate Change

By Todd Woody

A $100 million fund gives homeowners low-cost loans for energy efficiency upgrades to one of the biggest sources of global warming – their houses.

The latest series of reports from the United Nation Intergovernmental Panel on Climate Change warned in stark terms the catastrophic consequences of the world’s governments’ decades-long foot-dragging on limiting greenhouse gas emissions.

But what can you do? For one thing, fix up your damn house. That furnace, from the Reagan era, the inefficient water heater, the drafty windows? They’re directly contributing to climate change. Homes consume 22 percent of the U.S.’s energy and, along with commercial buildings, account for 10 percent of the United States’ greenhouse gas emissions. The chances of the U.S. government enacting a carbon tax, emissions trading scheme or taking other sweeping action to tackle climate change may be next to nil. But thanks to an innovative new initiative from financial conglomerate Citi, the Pennsylvania state treasury and non-profits, homeowners across the country soon will be able to tap a $100 million fund to instantly secure low-cost loans to do everything from installing solar panels on their roof to replacing that roof. Contractors will authorized to offer the loans, meaning no need to deal with state or local bureaucrats who will administer the program.

It’s just another example of how financial innovation has become key to getting the green tech innovations dreamed up in Silicon Valley into the hands of homeowners as well as prompting them to undertake low-tech efforts like insulating their attics.

“There’s no question that energy efficiency technology has outpaced the financial technology,” Cisco DeVries, chief executive of Renewable Funding, an Oakland, California, company that designs green energy-financing programs, told The Atlantic.
Renewable Funding later this year will begin to securitize the loans – called Warehouse for Energy Efficiency Loans, or WHEEL – and sell the securities to pension funds and other investors. That will generate a cash flow to fund further energy efficiency improvements.

“What we’ve set up is an indefinitely scalable program,” says DeVries. “We can purchase loans and securitize them and the more we do it, the cheaper the funds become. This has no limit to its capacity.” It will certainly need to scale. According to a 2009 McKinsey study it’ll take $229 billion to cut home energy use by about a third.

Still, until WHEEL most homeowners faced with spending five figures on just replacing their windows either had to tap home equity lines or their high-interest credit cards to pay for such improvements. And people tend to make energy efficiency fixes piece-meal, replacing the hot water heater when it breaks, for instance.

The availability of a five, seven or 10-year loan would encourage people to obtain energy audits and comprehensive upgrades to their homes. The payoff is lower energy bills that would help pay back the loans.

Three years in the works, WHEEL is based on a successful Pennsylvania program and initially is available in that state and Kentucky. DeVries expects California and other states to be added by the end of 2014 with nationwide coverage in 2015.

**Climatewire**

**New secondary market aims to proliferate cheap loans for home energy efficiency projects**

*By Umair Irfan, E&E reporter*

A new program announced last week creates a new market mechanism to provide cheap financing for home energy efficiency upgrades.

Upgrading insulation, replacing old furnaces and installing double-glazed windows are tried and true ways to cut energy use in houses, but the sticker price for these projects can be daunting for many homeowners. Nonetheless, home improvement in this area remains an important target because the nation’s 125 million-plus homes account for 22 percent of all energy consumption, according to the Energy Information Administration.

Individual states stepped in to offer loans to curb energy use, but some underestimated the demand for these products and became victims of their own achievements (*ClimateWire*, Sept. 12, 2012).

In Pennsylvania, the Keystone HELP program disbursed more than 13,000 energy efficiency loans backed by $100 million in capital. "We realized the program was more successful than we could support," said Keith Welks, deputy treasurer for fiscal operations at the Pennsylvania Treasury Department. "At some point, we were going to have too many of these loans in our portfolio."

"The best option was to recapitalize: sell some of our loans and turn it back into cash," he added.
However, loans backed by energy efficiency are not a well-recognized asset, making it difficult to find buyers on the secondary market. That's where the Warehouse for Energy Efficiency Loans (WHEEL) comes in.

Now acquiring its first batch of loans, WHEEL uses short-term capital from partners like Citigroup and the state of Pennsylvania to buy efficiency loans and repackage them for institutional investors. The U.S. Department of Energy also approved using cash under the American Recovery and Reinvestment Act to fund this initiative.

"We buy and hold the loans until there's enough of them and then sell them as an investment-grade security," said Cisco DeVries, CEO of Renewable Funding, a clean-tech financing company backing the project.

A 2-state experiment prepares to grow. At the outset, WHEEL is working with Pennsylvania and Kentucky, offering $100 million in medium-term notes, but the program has national ambitions. "We want to help millions of homeowners to get their homes to be more efficient," DeVries said. By getting more stakeholders involved, WHEEL can offer more loans and distribute the risk, thereby reducing financing costs.

Bruce Schlein, director of corporate sustainability at Citi, explained that the goal is to offer cheap loans to homeowners for efficiency projects that function like auto or student loans. "It's our effort to create energy efficiency as a new asset class," he said. "In this instance, single-family residential, the interventions tend to be better insulation, heating and windows."

Despite the sour taste many investors have from home-based securities during the financial crisis, the market appears ready for these energy efficiency investment products. A study last year found that energy-efficient homes are less likely to default on their mortgages, adding a vote of confidence for financing better lighting, sealing cracks and installing smart thermostats (ClimateWire, March 20, 2013).

"[WHEEL] fits right into a needed hole in the finance continuum," said Mark Muro, senior fellow and policy director for the Metropolitan Policy Program at the Brookings Institution, who was not involved with the program. "More and more states are playing sophisticated market-creating roles that go beyond one-off small projects and initiatives."

Since it's a new type of asset, WHEEL is still grappling with regulations and ironing out the legal kinks that come with a new financial instrument. But program officials are confident they can get this sorted out and create an attractive investment, ramping up quickly to take advantage of economies of scale.

"The next big moment for WHEEL is we successfully execute a long-term securitization this year," DeVries said. "In the long term, this should be a multibillion-dollar financing program."