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Alternative Underwriting Criteria – Using Utility Bill Payment History as a Proxy for Credit: Case Study on Clean Energy Works Oregon

Launched as a Portland-based pilot in April 2010, Clean Energy Works Oregon (CEWO) provides outreach, education, incentives, and financing to encourage Oregon residents to improve the efficiency of their homes.[1] A key element of the program is low interest financing that is repaid through a line item on the utility bill. For households motivated to pursue energy efficiency, access to low-cost capital is often a barrier to investment. Many of the largest energy efficiency loan programs have application decline rates of 30 to 50 percent. Using alternative underwriting practices, CEWO has achieved a rejection rate of just 10 percent while also maintaining a low loan default rate. The program is also notable for its provisions for addressing deferred maintenance and other housing issues that are present in some homes and must be addressed before, or in conjunction with, an energy upgrade.

A Key Financial Partner

Craft3 (formerly known as Enterprise Cascadia) is a nonprofit Community Development Financing Institution (CDFI) with a mission to promote economic opportunity and a healthy environment for communities in Oregon and Washington. They quickly saw how the work of CEWO aligned with their mission, and were early partners in the program. Craft3 manages CEWO's on-bill financing program and does the loan underwriting. Loans for approved measures are for up to $30,000 over 20 years, with an interest rate of 5.99 percent. They are generally secured with a subordinate lien on the property, though in a few cases with very small loan amounts an unsecured loan has been offered. The debt is able to transfer with property ownership, which requires payment of a transfer fee, a credit check on the new owner, and the new owners' consent – this has not happened to date, but is potentially a way to spread out the payments past one owner's tenancy in the home.

Innovative Underwriting to Expand Capital Access

CEWO's underwriting process is notable for its low cost and potential to responsibly increase access to financing. While it does include a traditional credit score check, instead of analyzing an applicant's debt-to-income (DTI) ratio, CEWO examines utility bill repayment history. Using utility bill repayment history in lieu of DTI's significantly reduces loan underwriting expenses, and because more households in

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[1] The program is supported by American Recovery and Reinvestment Act (ARRA) funds, utility customer funds, foundations, and other sources.

This Policy Brief is an excerpt from the report: "Delivering Energy Efficiency to Middle Income Single Family Households." For the full report and other resources visit: http://middleincome.lbl.gov many programs are rejected for financing due to high DTIs than low credit scores, [2] this may be an effective approach to expand access to credit.

Craft3 uses the following point system to assess credit worthiness[3]:

1. **Length of Bill Payment History Available:** If primary heating source utility payment history for the subject property is available, but the length of time serviced by utility is less than six months, one point. If length of time serviced by the utility is less than three months or if payment history for the subject property is not available, two points.

2. **Utility Current Delinquency:** Borrower currently past due to the utility, greater than 30 days but less than 60 days, one point. Borrower currently past due to the utility greater than 60 days, four points.

3. **Utility Historical Delinquency:** Borrowers with up to two 30-day delinquencies in the past 12 months, one point. Borrowers with three delinquencies, including up to one notice of disconnection for non-payment in the past 12 months, two points. Borrowers with more than three delinquencies or more than one notice in the last 12 months, four points.

4. **Applicant's Credit Score:** Applicant's credit score <660, one point; < 640, two points; <590, four points.

The number of points totaled would result in the following Risk Rating:

Points	Risk Rating
0-1 Points	4
2	5
3	6
4	7

Applicants with a Risk Rating of five or less are automatically pre-approved for a CEWO loan. Applicants with a Risk Rating of six will automatically receive a second review and may be approved or declined based on further review. Applicants with a Risk Rating greater than six will be declined for a CEWO loan.

Proof of title is obtained for all applicants. If the applicant is not on title to the home proposed for the retrofit, or if the applicant is not a resident at the home, this may result in a decline. In addition, there will be an automatic decline if the credit history shows any of the following: foreclosure activity (or equivalent) within the last 12 months; bankruptcy filing, discharge, or dismissal within the last 12 months; unpaid federal tax liens; current child support delinquency; the mortgage currently past due, or

[2] E.g. This is true for New York's Green Jobs-Green New York financing program.
[3] Excerpted from CEWO's *Lending and Servicing Guidelines* (April 2011 version).

more than two 30-day delinquencies in the last 12-months; or any other unsatisfied judgment that would impact lien position or the ability to repay the loan. *[end excerpt from* CEWO's Guidelines*]*

Promising Early Performance

Ultimately, the viability of this underwriting approach must be assessed not based on how many loans additional loans are made, but whether such loans exhibit payment performance that justifies approving borrowers who would otherwise not qualify for financing. This initiative is relatively new, so it is too early to draw firm conclusions about whether these criteria will be effective at identifying households who can afford to take on debt to invest in energy improvements. However, the early loan performance data is promising – CEWO's application decline rate is just 12 percent – well below that of other energy efficiency loan programs. CEWO's on-bill financing partner, Craft3, has dispersed $14.7 million for 1,180 loans as of January 31, 2012. Thus three have defaulted totaling $39,674 in charge-offs. Their current criticized assets equal 3.87 percent of the outstanding portfolio, including watch list assets at 2.89 percent and problem assets at 0.98 percent. However, it is also important to note that most applicants – both those declined and those approved – have strong credit scores, most above 700.

Addressing Non-Energy Housing Issues

CEWO also addresses another important issue for many households – particularly low and middle income households – deferred maintenance and physical barriers to efficiency. The program permits households to use up to 20 percent of the energy improvement loans as a "contingency allowance" for non-energy improvements such as water damage repair, ventilation improvements, dealing with old knob and tubing wiring, etc. In addition, in areas of the City of Portland targeted for urban renewal – often those neighborhoods with low and middle income families – the Portland Development Commission provides additional loan capital to increase the contingency allowance to 40 percent of the total project cost up to $10,000. This funding is provided seamlessly within CEWO's existing on-bill financing program, and does not require a separate application.

Resources

Program website
http://www.cleanenergyworksoregon.org

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