

## Recommendation Number 1<sup>1</sup>

**Recommendation:** A residential low to moderate income energy efficiency program should be created to provide low interest financing for AE customers with low to moderate family incomes to purchase energy efficient window heating and/or cooling units. The loan amount needed under this program would be reduced through the use of rebates that are increased over the current appliance rebate level. The loan amount needed would be further reduced through prices for the appliances that are discounted through AE's use of bulk purchasing power. Provided, however, an AE customer with a low to moderate family income could access the higher rebates and the discounted-priced appliances without accessing the low interest financing.

**Targeted Underserved Group:** Low to Moderate Income Homeowners (household income between 0 and 300% of the Federal Poverty Guideline.)

**Time Schedule:** Implement in 2016.

**Brief Description:** Provide access to reduced cost financing to purchase unit air conditioners with or without heating components at discounted prices.

**Community Need:** According to the January 2015 Updated Energy Burden Tables for Austin Energy, 43.2% of all residential customers have income between 0 and 300% of the Federal Poverty Guideline.<sup>2</sup> Low to moderate income consumers have lower credit scores<sup>3</sup> which may be attributable to their inability to obtain financing in the first place. There have been comments made to the task force that when air conditioners are not working in summer even low income families, in desperation, will purchase units with unfavorable financing terms such as high interest credit cards and car title loans.

**Program Description:** As part of the American Recovery & Reinvestment Act (ARRA), Austin Energy requested and was provided an ARRA grant to lower the cost of financing energy efficiency improvements to residential consumers. Financing costs were lowered by creating a loss reserve with Velocity Credit Union, the bank participating with Austin Energy to provide energy efficiency loans with reduced interest rates to residential customers. This energy efficiency program could increase Austin Energy's customers' access to affordable financing by lowering the credit worthiness standards for borrowing at lower interest rates with longer repayment periods.

A commonly applied credit worthiness standard is known as a FICA or credit score. For instance a loan applicant with a FICA score of 300 would generally be viewed as a high risk for a loan; a FICA score of 700 would generally be viewed as a low risk for a loan.<sup>4</sup> The grant money funded a loan loss reserve that would reimburse Velocity for any defaults. Austin Energy reported that this program to date has had a fairly good record of customer repayment of the loans.

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<sup>1</sup> Number will be assigned in final report.

<sup>2</sup> Memorandum from Liz Jambor, EdD, Manager, to Low Income Consumer Advisory Task Force 01//5/15.

<sup>3</sup> Question 1: What customer classes and customer groups should be targeted for participation in financing programs? Austin Energy Weatherization Program Low Income Consumer Advisory Task Force April 17, 2015, p. 4.

<sup>4</sup> *Ibid.*, p 3.

This recommendation would provide access to discounted-priced unit air conditioners with or without heating components to AE customers whose family incomes are between 0 and 300% federal poverty guidelines. Access would also include installation at a discounted price. Moreover, qualified customers would have access to lower cost financing that AE has negotiated with a lending institution. Loans made under this program should be available at repayment rates as low as \$25 per month. AE would additionally use its bulk purchasing power to negotiate with manufacturer-retailers for discounted priced unit air conditioners. The price offered Austin Energy would be the price paid by the customer. The discount at a minimum should equal the highest discount obtainable from the manufacturer-retailer.

**Budget:** There are three funding components to this proposed program:

1. One-time funding to either increase or establish another loss reserve to incentive a lending institution to accept moderate income applicants through either a lower FICA score or through proof of credit worthiness such as a year's timely payment of utility bills;
2. One-time funding to establish a contingency reserve to provide payment to the manufacturer-retailer if the guaranteed minimum level of cooling appliances are not purchased; and
3. Funding for rebates.