National Consumer Law Center
Fighting Together for Economic Justice

Clean Energy Financing: Why Strong Consumer Protections for Tariffed On-Bill Financing Are Essential

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Programs that allow utility customers to borrow for energy efficiency and renewable energy upgrades, and to repay the loan through a surcharge on the utility bill, add debt to already debt burdened families and put low-income households at risk. These programs, referred to as tariffed on-bill financing or "inclusive utility investment," are loans made to utility customers, often through third parties, to pay for home energy-related improvements or equipment. Borrowers repay the loan through their utility bill, with nonpayment leading to the risk of shutoff of essential utility service, affecting heating, cooling, cooking, and refrigeration. The loan is linked to the property's utility meter, so new tenants or homeowners also must make the tariffed on-bill payments to repay the loan to avoid utility shutoff.

Proponents of tariffed on-bill financing often argue that it facilitates the acquisition and installation of energy saving devices, especially renewables. Creating safe and affordable avenues for households to install heat pumps and other energy upgrades are essential, but as programs are currently structured, tariffed on-bill financing's risks outweigh any benefit. Such programs worsen the energy affordability crisis and add to already large debt burdens. With utility costs rising and an increasing number of families facing unaffordable utility bills, increasing debt burden and utility cost through current tariffed on-bill financing programs is a mistake.

Tariffed On-Bill Financing Creates Substantial Risk

- **Loans without meaningful disclosure.** The proponents of tariffed on-bill financing often claim these loans are not covered by the same laws that regulate other installment loans and therefore refuse to make the standardized disclosures that would allow people to compare the cost of tariffed on-bill financing to other ways of financing energy saving home repairs.
- **Misleading claims about energy and cost savings.** Tariffed on-bill financing products often do not reach their projected energy savings and may even increase energy bills, making the energy affordability crisis worse.
- **Sizeable up-front costs.** Some tariffed on-bill financing products cover only 80% of the expected costs, with the remainder due up front. For households with limited resources, covering the remainder of the costs may require them to take out other high-cost, abusive loans.

- **Loss of access to free and low-cost programs.** Marketing tariffed on-bill financing products to low-income families may displace established, subsidized programs, leaving low-income families paying more for their utility services.
- **Heightened risks for subsequent tenants and homeowners.** Tariffed on-bill program payments remain attached to the home, even after the original borrower has moved, exposing subsequent tenants and home buyers to additional costs they likely are not expecting.
- **Risk of utility shut off.** People who can pay their regular utility bill but are unable to pay their tariffed on-bill portion still face shutoff, even if they are a subsequent tenant or homeowner. Utility shutoff, with its potentially life-threatening risks, is a more severe collection method than any available to conventional lenders.

The Necessity of Tariffed On-Bill Financing Consumer Protections

Tariffed on-bill loans operate similarly to other non-recourse loans that defer payment to future installments. Where tariffed on-bill loans are offered, they must be recognized and treated as loans subject to state and federal lending laws. Additional consumer protections are necessary to address the specific, and potentially severe, risks of tariffed on-bill financing, including utility shutoff.

Necessary consumer protections include:

Prioritize affordability

- **Screen and enroll low-income customers** in zero- or low-cost programs first.
- **Guarantee monthly utility bill savings.**
- **Eliminate the upfront payment for low-income customers** to prevent reliance on predatory payday loans and other forms of high-cost lending.
- **Cap the total loan amount** to exclude expensive and complex projects and keep payments affordable.

Promote fairness and accountability

- **Reduce incentives for predatory marketing.** To promote accountability, utilities should be held responsible for the actions of any third-party implementer hired by the utility companies.
- **Eliminate utility service disconnection as a remedy for nonpayment.** The utility should use a loan loss reserve fund to recover any costs incurred due to partial or missed on-bill financing payments.

- **Ensure quality control to limit consumer risk.** Allow only screened and certified contractors to install the measures. Provide free repair and maintenance services for the installed measures to borrowers during the payment period.

- **Address disputes.** Establish an independent complaint and dispute resolution process for customers.

Protect subsequent home occupants and housing costs

- **Pause debt accrual.** If the rental housing becomes vacant, tariffed on bill financing should be put on hold and not accrued for the unit, to protect the cost of housing.

- **Permit prepayment.** Allow early loan pay-off with no penalty.

- **Notice and consent.** Require notice and consent to subsequent occupants prior to any payments. Protect tenants and subsequent owners from tariffed on-bill financing where the landlord or seller fails to provide adequate and early notice of the tariffed on-bill loan obligation on the unit and fails to secure upfront, informed written consent regarding the tariffed on-bill financing debt.

- **Allow loan modification.** Subsequent owners should be permitted to obtain changed loan terms based on their circumstances (e.g., income and usage).

Tariffed on-bill financing as currently structured cannot effectively help to address the energy affordability crisis. State and federal funding for home energy improvements is best spent on existing free or low-cost programs to broaden the number of households and measures covered by those programs. Tariffed on-bill financing and similar energy financing programs, especially for low-income households, should be considered as a last resort and must include the necessary consumer protections highlighted in this brief or risk worsening the energy affordability crisis.

For more information, see:

- Ensuring Consumer Protections in the Delivery of Energy-Efficiency Financing and Renewable-Energy Programs, *What's Possible: Investing Now for Prosperous, Sustainable Neighborhoods*

- Tariffed On-Bill Financing Poses Significant Risks for Low-Income Consumers

- Coalition Letter to CFPB and FTC Regarding Tariffed On-Bill Financing (TOB)

- Rooftop Solar: Consumer Protection Recommendations

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