Financing Your Solar Project

Installing a solar system on your building can save you money on your utility bill, insulate you from utility rate increases, increase the value of your property, and will save CO_2 emissions. But the money required to invest in solar can come from different sources, each with its own set of variables. People typically 'go solar' in one of six ways, described below.

Solar Loans

Whenever you get a solar quote for your home or business, the quote will include a "Gross Cost" and a "Net With Rebate" cost. The Net With Rebate cost is the amount you will have to come up with to pay for your solar system after the California Solar Initiative rebate and other local incentives have been subtracted from the Gross. (Please note that any federal tax credits will be applied after you purchase your system.)

- Low-interest loans may be available at local banks or credit unions in your area. A phone call to your bank will quickly answer whether this is a good option. Since such loans are amortized usually over about 10 years, payments can be expensive and offset the utility bill savings from solar.
- Equity lines can be flexible by offering interest only payment or principle & interest, and rates are especially low at this time. Banks can offer excellent equity line options as well as hybrid loan products similar to loans but equity-based and with a balloon payment. Flexibility and low rates make equity lines very attractive.

Energy Efficient Mortgages

If you intend on refinancing your home or property, you may consider an energy efficient mortgage. EEMs enable you to bundle your solar purchase with your home loan; the energy savings from solar will increase your buying power, enabling you to get a larger loan. Interest payments on such mortgages are tax deductible and this helps the over all solar project cost less. Visit the Energy Star, DSIRE, or RESNET websites for more information on EEMs.

Solar Leasing

The increasingly popular solar lease requires a very low up-front payment (from $0 down to <$1000), and guarantees a monthly payment lower than your current electric bill. Under a lease option, the leasing company owns the solar system on your building, and you make monthly payments to them for your electricity. You are also accountable for paying your local utility for any additional electric needs not accounted for by the solar system. Because you do not own the system under a lease, the leasing company is the recipient of any applicable state and federal rebates and tax incentives. At the end of your 10 to 15 year contract, you are usually offered the option to purchase the system outright, to renew your lease, or to end your contract. Leases can be good options for those who may not be able to make the down payment for an outright purchase or cannot get a reasonable loan rate.

Power Purchase Agreements (PPA)

Similar to a solar lease, Power Purchase Agreements have mostly been used for commercial solar purchases, but are now beginning to gain traction in the residential sector. Under a PPA, you pay a low up front cost (+/- $1,000 or more) to a PPA company and a monthly set electrical rate for electricity generated from your panels. As with a lease, the PPA company takes care of maintenance and repairs, and because you do not own the system, you are not eligible to receive the tax benefits or renewable energy credits associated with the system. Under a PPA, you are still tied to the electrical grid, so any electricity you need beyond that generated by your solar array is supplied by your utility.

Group Purchasing

Solar community (or group) purchasing is a growing phenomenon whereby neighborhoods or assembled groups of people have banded together to leverage their strength in numbers. The idea of scale plays in the group purchase idea: the bigger the purchase the lower the price per watt installed, and the greater your savings. Such group purchase ideas can be tricky to manage and arrange, since each property will have its own specifics, each buyer will have their own financing and other preferences, and finding a lending institution can be difficult. A PPA may be a good option for a group purchase. City or neighborhood environmental groups usually have some information about local group projects that may helpful, and notable solar group purchases like those in Portland, OR and San Jose, CA can help serve as examples.

Property Assessed Clean Energy (PACE)

Property Assessed Clean Energy programs involve municipalities offering a bond to investors, which is used to fund residential and commercial loans for solar and energy efficiency projects. The loans are paid back with annual assessments on the property tax bill of borrowers. A key characteristic is that the loan is attached to the property rather than an individual borrower. Because the loans have traditionally taken first position over the mortgage, the federal government has temporarily suspended the PACE program since Fannie Mae and Freddie Mac are most at risk in this scenario (if borrowers default) since they own so many home loans. Some municipalities intend on continuing with their PACE programs, and more certainty on the future of PACE programs is expected soon. Your particular area would have to offer a PACE program for it to work for you. Read about the CaliforniaFIRST PACE Financing model.

As the financial landscape changes, other options may become available, so be sure to contact SmartSolar with any additional questions you may have about how to pay for your solar project.