***The Consumer Finance Podcast* x *Payments Pros* –** Point-of-Sale Finance Series: Solar Finance Under the Microscope
**Host:** Jason Cover
**Guests:** Mark Furletti, Andrew Thurmond
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**Jason Cover:**

Welcome to a special crossover edition of *Payments Pros* and *The Consumer Finance Podcast*. I'm Jason Cover, one of the hosts of the *Payments Pros* podcast. And today, I'm joined by Mark Furletti and Andrew Thurmond to discuss issues particular to solar finance. Before we jump into today's episode, let me remind you to visit and subscribe to our blog, TroutmanFinancialServices.com. And don't forget to check out other podcasts on Troutman.com/Podcast. We have episodes that focus on trends that drive enforcement activity, digital assets, consumer financial services, and more. Make sure to subscribe to hear the latest episodes.

Mark, Andrew, thanks so much for joining us today.

**Andrew Thurmond:**

Thanks, Jason.

**Mark Furletti:**

Yeah, thanks for having me, Jason.

**Jason Cover:**

We've done a couple podcasts recently on home improvement contracts and the implications for financing, home improvements, generally. And, I guess, from a certain point of view, solar finance is similar, but it is also its own beast. And I think one of the things that I see in the market, in particular to solar, there's a lot of different ways to have solar improvements added to your house, not just a loan or not just a RIC. Andrew and Mark, would you maybe talk a little bit about some of those products that are on the market?

**Andrew Thurmond:**

I think the unique solar financing product is called a third-party-owned system, where the consumer is actually does not own the solar system on their roof. A third party, a company, there's a number of companies out there that do this. Either they are the financier or working with a third-party financer to own these systems, and they take the benefits, both the tax credit benefits and some of the other incentive benefits that we'll talk about in a little bit. And those are really done through either a power purchase agreement, a PPA, or a lease. And often that depends on what state you are in because some states have restrictions on your ability, on a third-party's ability to enter into a PPA. But they effectively have the same outcome where the third party owns the system, but the energy is either being purchased or the equipment is being leased to the homeowner so they can take the benefits of the solar power that's on their roof. That's the unique financing structure. And then there's other loans and retail installment contracts that are also options. And, hopefully, Mark can give a little more background on those.

**Jason Cover:**

And, Andrew, just to be clear, for PPAs and leases, the tax benefits set with the installer or the company that's installing, whereas the consumer's primary drive to do this is to sort of have the benefit of solar power at their house. It's a little bit different than I think the scenario that Mark's going to talk about next for credit.

**Andrew Thurmond:**

Yeah, that's right. The PPA and lease model, the system is owned by a third party. It's actually usually not the installer, but some other financing entity, and they need to own it upfront for the tax credit reasons. But it is different where, in the financing, the true, what we would consider financing loans, or RICs, or things like, that that those systems are owned by the consumer, by the homeowner.

**Jason Cover:**

Mark, tell us a little bit how the homeowner can own the solar products.

**Mark Furletti:**

Sure. Andrew was talking about power purchase agreements and leases, and in those cases, as he said, the systems are owned by a third-party. But the alternative is for the consumer to own the system. And the consumer can purchase the system on credit using two different credit products. One would be a retail installment contract. We often call those RICs. And that's where the seller is the actual creditor in that case and is selling the good on credit.

We've done some prior podcasts, I think, on how credit sales are different than loans. But effectively, in a credit sale, the creditor is the seller. In this case, it could be the company that's selling the panels or an installer. And the consumer would be entering into a contract, and the counterparty in that contract, in the case of a RIC, would be the installer or whoever is selling.

In contrast, the consumer could go to a third party and get a loan. And in that case, they're getting a loan of money that is going to be dispersed, the installer. And the lender, in that case, could be like a bank. The key difference between a loan and a RIC would be the creditor is a third-party lender in the case of a loan, and then would be the seller in the case of a RIC.

I think Andrew was going to address some complexities that can arise when you try to sell on credit different types of solar and/or home improvement products, and how that can kind of create some potential problems if those things are different, at least from a collateral or security perspective.

**Jason Cover:**

That makes sense, Mark. And I think one of the great things about solar finance, at least for the purpose of this podcast, it is kind of like building on all of the other podcasts. So, we have all of the different product types, and then it's sort of overlaying all of the state laws we've been talking about. And just to kind of bring that one step level home, to your point, Mark, I think solar involves lots of different products, right? There's the battery, there's the solar cells, there's a contractor who may be doing other things, like wanting to reshingle your roof. And I think that was what you're driving at, Andrew. What happens when I want to put all those things on the same RIC or piece of paper?

**Andrew Thurmond:**

I think it requires an analysis of what is being financed. It's obviously logical, right? You're a financing party or an installer and you're at someone's home and you've met them. You've got this relationship and now you want to think, "Okay, what else could we do for them?" It's not just installing the solar, but we could give them a solar plus a battery. Those kind of go together often. But then maybe an EV charger, or, like you mentioned, Jason, fixing their roof, or an HVAC system, or a heat pump, or anything else that you could think of as being a home improvement financing could be considered something that an installer or financing party might want to include with the solar financing.

And that gets complicated very quickly, especially if you're trying to include them all in one RIC, one loan. Loans actually maybe are a little easier. But if you're doing it in one RIC, the useful life of some of these things – a heat pump maybe is only five to 10 years, whereas a solar panel, you're thinking 30, 35 years. And some of those things get very challenging very quickly. Also, there's distinctions between what's a fixture and what's not a fixture, and how do you take your security interest.

And it really does require an individual analysis of every product you're financing, which has actually been a theme, the stuff that we've talked about before, Jason, of really needing to dig into exactly what you're looking to do to know what the rules and regulations are around that product.

**Jason Cover:**

It sounds like the most complications come in RIC world. But I assume that I need to do some of the same research if I have a lending program.

**Andrew Thurmond:**

I think so. We would recommend that for sure. On a lending program, it's going to depend on what the regulations are, what the products are, and things like that as well. And so it may not be as prescriptive as a RISA, a retail installment sales act, but there will be lending laws, I think, around that as well.

And then to clarify one other thing is this really doesn't work in the PPA and lease model because it's just a different model. You can probably lease equipment to folks, but you would probably want to do that all under separate leases for the same reason I mentioned of the useful life issue. But then the PPA model wouldn't work at all, of course, because you're not selling power from an HVAC system or something like that, right?

**Jason Cover:**

Yes. And I think that we don't really see those models as much for regular old home improvements. They're unique to solar for sure. In that vein, I think some of these hang-ups that we're talking about in cross-selling products come from state disclosure laws. And we've been talking a lot about home improvement contractor laws on a few of the last podcast episodes. But I think one of the things driving this is solar improvements in general. And a lot of the action is in state solar disclosure or solar improvement laws. Would you agree with that, Andrew?

**Andrew Thurmond:**

Absolutely. I think every month we're seeing a new state propose or enter into a new solar disclosure law for that state, and they're varying depending on the state and the complexity. But that's right. Every state now, it seems, is really focused on this. And you can expect that some of the states, basically the states with the sun, are more well-advanced, your California, Arizona, Florida, right? They've been interested in solar and solar regulations for a while, and making sure there's no bad actors. And that their homeowners understand everything that they're entering into. And now we're seeing it in all kinds of other states, Kansas, and Maryland, and places like that as well.

And they're all different. Some require standalone disclosures, like an actual separate piece of paper be disclosed with certain information. And it really does take an analysis of that individual state law to know what is required. Unfortunately, some states provide – some states, their public utility commissions or other bodies of regulation provide that form. They draft it. And so you have to just fill it out or make sure your installer is filling out that form. But it is unfortunately, once again, is something I feel like is a theme every time I've been on these podcasts is talking about it's a 50-state analysis. Or you're looking at individually where you are to understand the rules of the road for that state.

**Jason Cover:**

Yeah. And I think, Andrew, to complicate things further, I guess what I've observed is some of these laws apply to contractors or solar installers. And maybe you could – if you're the lender or the financer, don't have to worry about it too much. But increasingly, they're impacting, I think, the way the financing works, too. Does that mirror what you're seeing?

**Andrew Thurmond:**

Absolutely. And they are impacting everything we've discussed so far. State legislators are understanding all of the models that are out there better. And so you will see individual sections of these new laws that cover loans, that cover retail installment contracts. They cover PPAs, and they cover leases. And they're getting into every one of those. Not all states are like that. And certainly, some of the older statutes don't apply. Or you have to determine what applies. But it really does impact both financing and what I've been calling third-party-owned systems.

**Jason Cover:**

Bringing it back to the products we talked about in the dichotomy between PPAs, leases, and then financing products, as to who owns what tax incentives. I think everyone has the Big Beautiful Bill at least somewhere in their head, whether it's in the front or the back. But how are those changes – or maybe what's the current state of tax incentives? And how are the changes going to impact these products?

**Andrew Thurmond:**

That's a great question. And I think the simplest way to think about everything is the owner of the system has the rights to take the tax credit. And so in a financing situation, a RIC or a loan, it's the homeowner who would get to take advantage of that, and that's under one section of the tax code. And in the third-party-owned, the PPA or lease model, the owner of the system, usually a corporation or a company, is able to take advantage of that. And that is really a corporate tax credit, and it's under a corporate tax code.

You mentioned the One Big Beautiful Bill Act. We've been calling it OBA. And it is dramatically impacting the solar industry, as I'm sure a lot of people listening know this. The residential solar tax credit is actually going to expire at the end of this year. December 31st, 2025, your system needs to be placed in service by then. That's the tax term for this. And in the commercial, the third-party-owned systems, it's going to step down, and there's only two more years remaining. So, this will end at the end of 2027 under the current laws. Of course, some people are concerned about all of this.

And one thing we have been speculating on our end, but certainly no one knows, is it might return to 10, 15 years ago, some states had their own tax credits, too. North Carolina, I think, was one of them, a few other states, where they offered a tax credit on your state tax return for installing solar or renewable energy projects. And we're hoping that returns as well, so that these projects can still get built and have a positive return on investment for either the homeowner or for the company installing or owning the systems.

**Jason Cover:**

What would be the difference between a tax incentive and a renewable energy certificate?

**Andrew Thurmond:**

Yeah, they are actually different. And they're both great incentives to make solar financeable, to make it a great option. A tax credit is that. It's a tax credit. It's really no different than, for an individual, their home interest mortgage deduction. It's obviously credit, not a deduction. But it goes on your tax return one time. Or for homeowners, it can roll over and things like that. But it's on your tax return. It's a credit to your return.

Renewable energy certificates, or solar renewable energy certificates, are an ongoing operational benefit of solar. And this happens for solar on my roof and the big 500-megawatt system in the middle of a farm in Texas. They all generate SRECs. And it's calculated usually by one megawatt of power generated is equal to one SREC. There's markets for these SRECs in some states. Usually, it requires you to be in the actual state.

I live in the District of Columbia. The solar on my roof generates DC SRECs that I can sell in the DC SREC market. New Jersey is the same. Pennsylvania, California, places like that. And those are ongoing benefits. So every year my system, whoever system is generating SRECs, and the value of those is really determined – effectively is determined by the legislature through these things called Renewable Portfolio Standards. And that is something where the state is requiring the utility to have a certain amount of energy from renewable energy. In this case, what we're talking about, of course, from solar energy. And if they don't do that, then they have to pay a liquidated damage, a penalty for failure to meet that. And that penalty effectively sets the cap of what the value of the SRECs are. And is, of course, a supply and demand issue as well. That is the maximum utility we'll pay for your SRECs.

**Jason Cover:**

Just to be clear then, this is a state-level issue and should be not impacted by any of the changes at the federal tax incentives.

**Andrew Thurmond:**

That's right. This has no impact that we have seen so far from the One Big Beautiful Bill Act. This is all based on state. And it's sometimes even narrower than just the state, but state-level nonfederal issues here.

**Jason Cover:**

Some good news on that front at least. Mark, Andrew, I mean, I know we've talked about some recent changes and trends. But do you have any observations on trends or how folks are moving in this solar industry, maybe in response to some of the things we've been talking about, or just generally speaking?

**Mark Furletti:**

I guess, Jason, I'm seeing a trend in that there had been a number of state AG actions against solar financing companies. And an allegation in those cases is that the seller marked up the price of the system for the credit-paying customer and didn't tell the consumer that that was going on. And so, basically, the discount that the lender paid the seller thereby increased through that process. And so we've seen a shift in the market where, at a minimum, the financing companies are disclosing the possibility of the lender retaining some of that markup and also disclosing the possibility of the markup.

Now, I think as a matter of truth in lending, that markup does not need to be disclosed because it's seller's points. They're not finance charges. But due to criticisms by the CFPB and these state AGs, I think we've seen more folks kind of disclosing those. That's one change I've seen.

**Jason Cover:**

Mark, just real quick to interrupt you. I mean, this is obviously pretty controversial. But even at the state level, some states, Washington, last year, implemented a new solar disclosure statute. It requires disclosure of dealer fees and the like. At least in some places, it may be out of the financiers' hands as to how to disclose it.

**Mark Furletti:**

Yes. Right. The state, in that case, Washington, is forcing the disclosure. Washington goes so far as to require the disclosure of the amount. That's going further than I think what we're seeing most folks doing. But at a minimum, so as to be able to combat an allegation that the consumer was misled, folks seem to be providing more information about this to consumers. Whereas before, it was not clear.

**Andrew Thurmond:**

I think that goes into the broader trend in this industry. There's more oversight now as more and more fact patterns are coming out, more AG suits are coming out, folks are having to really scrutinize all of the practices of the sales agents, the installers, the financing parties. It's all under scrutiny either at the state level or at the state legislature level, the state AG level.

And as we just talked about, the tax credits are going away at the end of the year for consumers. That's leading pressure, of course, on these financing companies or these installers to get as many projects done, signed up now, as possible. And so the trend we are seeing in our clients and folks are really trying to scrutinize is making sure that every one of these systems is good, is valid.

We've seen all kinds of crazy allegations and fact patterns out there of just bad actors of just trying to just get a sale. And so the biggest, I think, trend there of the allegations is that consumers don't understand what they're signing up for, either through marketing materials that aren't accurate, or are misleading, or otherwise just being confused and overwhelmed by some of the sales tactics. And so that's something I think we are seeing our clients really look at on all sides. So, our clients, installers, solar financing parties, owners of systems, all are really looking at the process there to make sure that the home solicitation is not misleading. They're reducing the risk there of any bad acts.

**Mark Furletti:**

I just wanted to point out – and I guess I haven't checked the status of this bill as of today, but California Senate Bill 784, which is a law that would regulate home improvements generally, and I believe solar as well. To Andrew's point about consumer understanding requires, if it's enacted, at least one of the versions of the bill contemplated the lender placing what we've discussed with clients, welcome calls. And this is where the lender would call the consumer and say, "Hey, we understand that you just financed the system or financed this home improvement, and this is how the financing works. And is that how you understand the financing to work?"

And so something like that kind of requires then the lender to monitor more closely what's going on and then get information directly from the consumer to see if there's been any disconnect. So we've seen, and I think we've talked about in other podcasts, this trend toward the enactment of more and more state laws focused on specialty types of financing. And so Jason mentioned the Washington law, but then we've also seen it in dental and medical. And then we see it in home improvement more broadly, and then solar specifically, and then sometimes solar under a home improvement umbrella.

Anyway, I think that trend seems like it's going to continue. And states will – it won't shock me if I see some more states like California imposing some additional requirements. That California law also requires a longer right to cancel a home solicitation sale. That seems to be another trend, Jason, I think.

**Jason Cover:**

I guess I should say, we're recording here in late August, so your mileage may vary as to the status of the law whenever this actually airs. Andrew, I guess one other trend I think you and I have certainly seen is financial uncertainty, maybe, at the contractor platform or provider level. I feel like we're often calling our colleagues in the bankruptcy group. Would you agree with that trend? Or how are your clients dealing with some of that uncertainty?

**Andrew Thurmond:**

I mean, obviously, Jason, we probably have a call once a week now with some bankruptcy colleagues, either with a financier or an installer bankruptcy, and all the issues are different. But it is a trend. The solar market is in flux there because of the One Big Beautiful Bill Act and other trends in the industry. These AG actions, of course, have put some of the solar financing entities into bankruptcy as well or reorganization. That is a trend, is bankruptcy and solar seems to be up. It was always a volatile industry, especially at the installer level where there are some giant installers out there, and there's some mom and pop shops who are in one county doing installations. And solar financing entities are working with all of them, of course, because they want to maximize the market that they work in.

The bankruptcy trends in solar, there are some big solar financing companies out there, there are some big cases out there, they've all filed for bankruptcy. But also at the smaller level, there are other issues. And then those issues really are wide and varying, of course, between it. Just depends on what the product is and what you're working on, what the issues are. I think one of the bigger ones where you work on and have to try to figure out the issue is what do you do with some installations that are in the middle of installation? You've already maybe laid out some money for it as a financier, but the project didn't get complete. And how do you get it complete and online so that the homeowner gets what they want? Of course, they entered into a contract getting solar. They want to get their system built. And then if you're a financing party, of course, you want to get the system built as well, so you can start generating revenue, getting loan payments back from it.

**Jason Cover:**

That is very pertinent right now, I think. Thank you for adding that. Mark and Andrew, thanks again for joining us today. This has been very, very informative.

**Mark Furletti:**

Thanks, Jason.

**Andrew Thurmond:**

Yeah, thanks, Jason.

**Jason Cover:**

And thank you all for joining us today as well and listening to today's episode. Don't forget to visit our blog, TroutmanFinancialServices.com, and subscribe so you can get the latest updates. Please also make sure to subscribe to this podcast via Apple Podcasts, Google Play, Stitcher, or whatever platform you use. We look forward to the next time.