

HOME EQUITY OPPORTUNITIES

SUBMITTED BY

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Objective

- Attain technically feasible efficiency and conservation gains of 77.2 trillion BTUs of non-electric heating demand by 2020.
- Attain technically feasible electricity efficiency and conservation gains of 19.95 million MWhs by 2020.

Strategy

Explore ways to align the interests of the banking community in promoting home equity loans for energy efficiency and building envelope improvement projects. The New Jersey Clean Energy Program's new Home Performance with Energy Star (HPES) program provides the most comprehensive profile of each customer's energy usage. While HPES provides homeowners with some strong opportunities to improve the energy efficiency, comfort and safety of their home, the up-front cost of implementing the recommendations for this comprehensive proposal are likely to be cost prohibitive for many New Jersey consumers. The cost for many full jobs will be in excess of \$5,000. The BPU has already recognized consumer cost considerations and structured special features into the program like the option of 5.99% unsecured loan and/or the grant available to customers below 300% of poverty level. However, for many other consumers use of a home equity loan or line of credit to finance the HPES home improvements might be a good alternative.

The banking industry already heavily advertises home equity products. They run display ads in the newspapers on a daily basis, in addition to direct mail advertising and the use of other channels. However, most of the existing advertisements do not reference the potential for energy efficiency upgrades, instead focusing on additions, kitchen remodels and/or swimming pools. Government, the utility and banking industries should collaborate to make energy efficiency upgrades a standard consideration for home equity borrowers and interest more customers in energy efficiency upgrades consider home equity loans to finance the work.

An illustrative example is provided on the next page.

Consider the following simplified example using a home equity loan at 6.725% interest rate.

Loan amount	\$7,500
Term years	15
Term months	180
Interest rate	6.725%
Monthly interest rate	0.6%
Monthly payment	\$66.26

Monthly Customer Impact Net of Tax and Savings

Assumed Tax Rate	28%
After Tax Interest Rate	4.84%
After Tax Effective Payment	\$58.69
Monthly Energy Savings	<u>\$62.50</u>
Net Monthly Impact to Customer	\$3.81

Net Impact to Customer over term	\$ 686
Assumed Increased in Home Value (30%)	<u>2,250</u>
Total Benefit	<u>\$2,935</u>

The net benefit to the customer over 15 years is \$2,935. If the customer qualifies for the federal tax credits for energy efficiency upgrades available as a result of the Energy Policy Act of 2005, the total benefit would be even greater. A cross promotional campaign would yield the following benefits:

- More customers are made aware of the HPES program.
- Interested customers are more aware of other financing options and have more flexibility to customize their terms to their needs (loan vs. line of credit, term, etc.).
- Customers have the opportunity to make their loan payments more manageable and many will experience a quicker payback.
- Banks may have more applicants and/or applicants already interested in home equity products may opt for larger loans to add energy efficiency projects to their plans.
- The NJCEP would avoid the cost of the interest buy-down for the existing loan program for customers that choose this alternative.

Responsible Party

Collaborative of stakeholders to further develop the idea. Participants should include banking industry representatives, the Department of Banking and Insurance, utility representatives and NJCEP representatives (BPU personnel or the NJCEP market managers on their behalf).

Timeline of action

Initiate the collaborative as soon as possible.

(NJNG is considering a similar smaller scale proposal with the same basic concept as part of its Phase II Conservation Incentive Program).

Strategy outcome

- More homeowners are interested and able to implement comprehensive energy efficiency upgrades.
- Increase in the # of HPES participants.

Implementation cost

Depending on the scale of the promotional arrangement, there should not necessarily be any incremental funding needs under this proposal. Utilities could promote the Home Equity offers through their existing channels (website, bill inserts, etc.). Banking partners would feature within their own advertising.

Source of Funding

(see comment in Implementation Cost section)

Funding sources	Yes	No
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Private sector funds	Yes	
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Public sector funds	No	
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Consumer/ratepayer Funds	No	
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Indicators

- # of HPES participants
- Incremental increase in home equity loans used to finance HPES

Source

- NJCEP
- Banking industry

A. Current state of indicator

B. Indicator Projection to 2020.