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SolarCity to offer solar loans to homeowners, which could juice market

By Jonathan Fahey | Associated Press

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In this undated photo provided by SolarCity, workers install solar panels on the roof of a home. SolarCity will begin offering loans to homeowners for rooftop solar systems, a move that analysts say could reshape the market for rooftop solar and propel its rapid adoption. (AP Photo/Courtesy SolarCity) (Uncredited)

NEW YORK -- SolarCity will begin offering loans to homeowners for solar systems, a move that industry analysts say could reshape the market for rooftop solar and propel its rapid adoption.

Most current rooftop solar deals involve a lease or an agreement to buy power over a period of time, but the company owns the panels. San Mateo-based SolarCity's loan will allow customers to own their systems and still pay less for electricity, a simpler and cheaper prospect.

"The value proposition is becoming clearer and less complicated for consumers," says Patrick Jobin, an analyst at Credit Suisse. "Solar is going mainstream."

Other solar companies have begun to offer loans in recent months, but SolarCity is the nation's biggest installer, and its loan has a twist that may convince reluctant customers to sign up: The customer pays the loan back based only on the electricity that the panels produce.

The growth of rooftop solar has been propelled by financing schemes that allow customers to have solar panels installed for little or no money down. The solar company installs the system, and

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customers either lease it or enter an agreement to pay for the power over a 20-year period. The combined price that customers pay to the solar company and the electric utility is less than what the customer paid for power without solar panels.

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Those plans were rolled out in 2007 and 2008 by SunRun, SolarCity, Sungevity and others. Last year, two-thirds of all solar systems were installed under those types of plans, according to Shayle Kann, senior vice president of GTM Research, an analysis and consulting firm.

But they are more confusing than a loan and some states do not allow third-party ownership of solar panels.

Lyndon Rive, SolarCity's CEO, said in an interview that many customers say they'd rather own, but then sign up for a lease because

it has been the only way to get a system without high upfront costs.

"Ownership is an important factor for our customers," he says.

The company can offer the loans now because it has better access to financing, it can predict the performance of panels well, and it has decreased installation costs dramatically, Rive says.

The loans will be offered at 4.5 percent over 30 years. But customers won't pay a fixed amount every month. Instead, they will pay only for the power the panels produce. If the panels produce more in given month, customers will pay their loan off faster. But because the solar power is cheaper than power from the electric utility, it means the customer's monthly electricity cost would fall further.

If the panels produce less, the customer pays less to SolarCity, and, in theory, will not have to pay the loan off in full. But SolarCity is confident that it can predict the output of the panels over 30 years well enough to ensure the loan will be repaid.

"It takes the production risk of the system off the customer's plate and puts it on Solar City's," Kann says.

Another important factor that could make these loans more attractive is how the federal tax credit for solar will be handled.

With a solar lease, the credit of 30 percent of the cost of the system goes to the solar company or its financiers. With a loan, it goes to the customer. Assuming the customer uses the tax credit, \$9,000 for a \$30,000 system, to help pay down the loan, customer power prices would fall significantly.

For example, Rive calculates that a California solar loan customer would pay the equivalent of 16 cents per kilowatt-hour in the first year, but then the equivalent of 11 to 12 cents in the second year and beyond if the tax credit is used to pay down the loan. The average electricity rate for a California residential customer this year through July was 15.9 cents per kilowatt-hour, according to the Energy Department.

Rive says he expects that by the middle of next year more than half of SolarCity customers will chose to go with a loan instead of a lease.

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