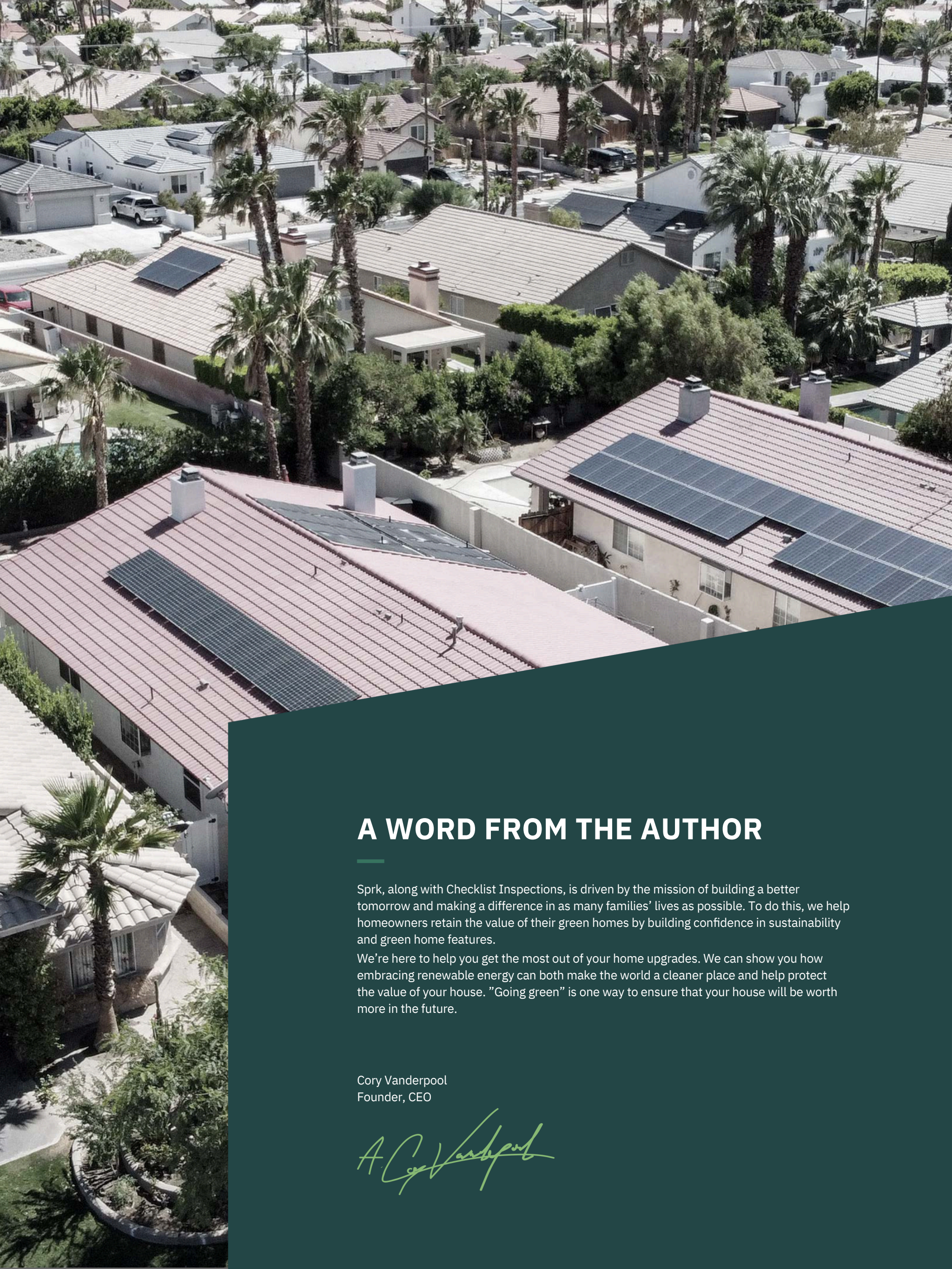




HOW TO ESCAPE SOLAR LEASES





A WORD FROM THE AUTHOR

Sprk, along with Checklist Inspections, is driven by the mission of building a better tomorrow and making a difference in as many families' lives as possible. To do this, we help homeowners retain the value of their green homes by building confidence in sustainability and green home features.

We're here to help you get the most out of your home upgrades. We can show you how embracing renewable energy can both make the world a cleaner place and help protect the value of your house. "Going green" is one way to ensure that your house will be worth more in the future.

Cory Vanderpool
Founder, CEO



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SOLAR LEASES

INTRODUCTION

Solar leases can be a great vehicle for going solar. They make going solar easy with no upfront costs, and typically cheaper monthly payments than the local power company. Unfortunately, that's only a surface level approach to fully understanding a solar lease. A solar lease is a financial contract and reading the fine print isn't always enough to understand the implications that come with this kind of a contract.

In this guide we will review the basics of solar leasing and shine a light on the challenges that come with leasing solar. We will also go over multiple scenarios with step-by-step instructions of what to do if you want to escape a solar lease.

WHAT IS A SOLAR LEASE

A solar lease is a long-term agreement to make monthly payments for a solar system that the lease company installs and owns on your roof. This is, in its most simple form, a swap from one utility company to another. A solar lease simply replaces the local utility company that generates electricity far away and brings it to your home with one that generates the electricity right on your roof.

THIRD PARTY OWNED SOLAR SYSTEMS

Solar systems with solar leases, Power Purchase Agreements (PPA's) and utility owned residential solar systems are referred to as third-party owned solar systems. For simplicity's sake, in this book we will refer to all third-party owned solar systems as solar leases. The principles and ideas shared here can be applied to all third-party owned solar systems.

THE CELLULAR INDUSTRY IS SIMILAR TO LEASING SOLAR

Getting into a solar lease is like switching your cell phone plan from Verizon to AT&T. Many people decide to switch from one carrier to another for reasons including price, customer service, service plans or better coverage. The reason to switch from the local utility company to a solar lease boils down to three reasons.

1. To save money (it's cheaper per month than paying the local utility company)
2. To gain a greater level of energy independence. Generating power on site may prove to be the best way to always have the power you need.
3. To reduce your carbon footprint. Solar is a cleaner and better way to generate electricity for your home.

PROS AND CONS OF LEASING SOLAR

PROS

- Cheaper than local utility company
- No debt associated with leases
- No money out-of-pocket
- No tax liability required
- Easy for homeowner to adopt, it's similar to how homeowners are billed by the local utility company
- Transferable to qualified buyers
- Carbon-free energy generation
- Monitoring and repairs are paid for by the lease company

CONS

- The most expensive way to go solar over time
- Many leases have a yearly increase built into the payment
- Home buyers are hesitant to assume long-term contracts
- Lease company collects the tax credits
- Lease company only does responsive repairs instead of panel cleanings
- Homeowner now has two utility providers instead of one

WHY HOMEOWNERS LEASE SOLAR

1.

EASE OF TRANSITION FROM LOCAL UTILITY

The idea of paying a dime for something rather than a quarter is how solar leases have been sold over the last decade. Electricity from the local utility company is typically billed by the kilowatt hour (kWh). Solar leases simply modeled this to allow you to buy your electricity for a few cents cheaper per kWh. The easiness of that message has led over a million homeowners to go solar with solar leases.

On the surface, it sounds like a no-brainer. The trouble with this message is that there are pages and pages of fine print revealing how solar leases can be far more complicated in the future when the homeowner may want to sell their solar home. Unfortunately, most people don't read the fine print.

2.

NO TAX LIABILITY

Since the lease company owns the solar system, they collect any applicable tax incentives. The tax credits available for homeowners from the federal government are based on their taxable income. If you don't pay enough in taxes to have enough tax liability, then a solar lease may be attractive to you. If there are no more tax benefits then this is a mute point.

3.

DEBT AVERSION

A solar lease is a means to go solar without taking on any debt or out-of-pocket expenses to install solar panels on your home. Paying cash out-of-pocket is, for many, the most difficult but it is the least expensive way to go solar. Financing a solar system requires the homeowner to take on a debt but is the 2nd least expensive way to go solar. Leasing seems to be the easiest way to go solar but with time, unfortunately is the most expensive. For some, taking on debt or paying out-of-pocket may feel like too big of a risk to reduce or eliminate electricity bill, and for some the idea of that debt may be the thing that tips the scales towards leasing vs owning.

A solar lease is a much larger financial commitment over time than either ownership method. This is due to the fact that many leases have annually escalating payments and the monthly payments don't reduce the liability for the system. When a solar home sells, an owned system can recoup their investment, whereas a leased system adds no appraised value to the home and therefore no equity can be recouped for the lease payments made.

4.

OPTION TO OWN NOT PRESENTED

This is the most common reason why homeowners go solar with a solar lease. Traditionally most homeowners go solar after a sit-down sales presentation in their home. A salesperson will present what they believe to be the best product to a homeowner. The question is, for whom is it the best product; the homeowner or the salesman?

When selling solar, it is easier to get someone to make the decision to go solar based on making a switch to a cheaper cost of electricity, than it is to have them agree to take on a loan or to pay outright for a solar system. If the cons of going solar with a solar lease are glossed over and minimized then it's fairly easy to get someone on board with leasing.

THE CHALLENGES WITH SOLAR LEASES

Going solar with a solar lease is essentially signing up for a 20-25 year commitment to rent electricity from the solar system sitting on your roof. Most homeowners are OK with that commitment since they no longer wish to rent the electricity from the local utility company at a higher cost. Solar leasing becomes problematic for people in one, some or all of the below situations.

1.

SOLAR LEASE PAYMENTS CAN ESCALATE EACH YEAR

Many solar lease payments go up each year and what began as a low monthly payment, over time slowly increases. If it increases at a rate of 2.99% a year, like many do, the monthly payment will double over the course of a 25-year solar lease, thus transforming a \$150 monthly payment into an eventual \$300 monthly payment at year 25. This is a perfect example of death by a million cuts. The increase may feel small at first but over time it becomes very expensive when compared to solar ownership. There will come a time that a homeowner will grow tired of increases and seek a better way to go solar.

2.

THERE IS NO END IN SIGHT

When a solar lease agreement ends, there are typically 3 options. Renew for a longer term, the lease Co. will altogether remove the system, or the homeowner can buy the system out at current fair market value. Many homeowners that sign up for these agreements often don't think they will be in the home in 25 years and this will be someone else's problem. Or that time is so far removed that those options don't seem to feel like they would be a problem. Many home buyers have expressed that the idea of paying a couple hundred dollars a month for another decade and a half with nothing to show for it at the end of the term is unappetizing. The amount of time and money dedicated to the lease doesn't seem to be balanced with what is received at the end of the term. It's for this reason as well as the next, that leasing solar is the most expensive way to go solar.

3.

SOLAR LEASES DON'T EARN EQUITY OR INCREASE HOME VALUE

The money spent on monthly payments is lost because leased solar doesn't add value to the home when it sells. The other reason solar leases don't add value is that making monthly payments do not impact the payo amount or purchase amount of the solar panels. Solar leases are not an asset owned by the homeowner, and therefore the home seller has no right or ability to pass on an increase in price due to the home having leased solar panels. A property appraiser will not nor should they, increase the value of the home due to a leased solar system.

4.

A HOME BUYER IS COMMITTED TO THE REMAINING LEASE

When you want to sell your solar home, no matter how many years you have remaining on your lease, the incoming buyer will now be committed to the lease agreement. The list of challenges associated with buying and selling leased solar homes is long, and for this reason many real estate agents do not like solar leases. If they're not handled properly they have and will continue to complicate home sales. Many buyers have had to walk away from a home because they are unwilling or unable to buy it with a solar lease. Nonetheless, agents do deal with it in a variety of ways including dropping the price of the home or hiding the fact it has a solar lease until a purchase agreement is signed. The best agents, however, are transparent about the lease and work hard to make the transfer possible.

THE MARKET SHIFT AWAY FROM LEASING

How people are going solar is evolving. This didn't happen overnight but as the solar industry matures, there's been a more dramatic shift away from solar leasing and towards solar ownership. In 2012, 60% of new residential solar installs were solar leases. In 2021, the numbers are showing a dramatic shift away from solar leasing.

OWNED SOLAR WITHOUT LOAN

9%

LEASED SOLAR SYSTEM

24%

OWNED SOLAR WITH A LOAN

67%



HOW TO ESCAPE A SOLAR LEASE

TWO WAYS TO ESCAPE A SOLAR LEASE



TRANSFER

Transfer the solar lease to the home buyer in the sale of a home.



BUY

Buy the solar system from the lease company in the sale of the home or in a mortgage refinance or cash purchase.

On the following pages, you will be instructed on how to best navigate the various phases and steps needed to either transfer or purchase a solar lease. Sprk is the leader when it comes to handling real estate transactions involving solar. As a result, in the following sections we'll reference two types of reports that Sprk provides.

Green Home Energy Report: This report gives a homeowner the potential savings and energy usage of the home in its current state.

Green Home Transaction Certificate: This report gives a much deeper look into the solar system and how the home is using that system to give a current status of savings.

TIMING IS EVERYTHING

When you want to get out of a solar lease, timing is everything. The best way to do that is to buy the system from the leasing company. The 2nd best way to do that is to transfer the lease to an incoming home buyer when the home is ready to sell. A leased solar system sits on the homeowner's roof, but because of the lease contract, it can only be purchased at certain times. Each contract includes milestones or purchase points that allow the homeowner to purchase the system and own it outright. The first milestone available to purchase a system is after 6 years from the time of install. The following milestones available to homeowners can be found within the fine print of the lease contract.

SOLAR LEASE TRANSFER WITH THE SALE OF THE HOME

When a person purchases a home with a leased solar system on it they have two options. They can either assume the solar lease or purchase the solar system from the leasing company. The first option to assume the lease is the simpler route of the two. It requires a little less coordination but still requires quite a few steps. It's easier because you don't have to worry about the value of the solar system in the sale of the home or negotiating that value with the solar lease company.

SOLAR LEASE TRANSFER

STEP-BY-STEP PROCESS WITH THE SALE OF A HOME

Below is a step-by-step guide of how to transfer a solar lease with the sale of a home. There are 3 phases and 18 steps to this process.

➔ PHASE 1: PREPARATION - PRIOR TO LISTING THE HOME FOR SALE

1. Gather Solar Documentation
 - Solar Lease Agreement - Solar Lease Company
 - Solar Installation Agreement - Solar Installation Company
 - Net Metering Agreement - Local Utility Company
2. Get a Sprk Green Home Transaction Certificate
 - Go to sprkhome.com
 - Complete a Home Energy Assessment or have your real estate agent complete a Home Energy Audit for you.
 - Get a Green Home Transaction Certificate.
 - This comprehensive report makes the solar system and agreement tied to it easy to understand. The report simplifies the transaction for everyone involved, including the buyer, agents, lenders and appraiser.
- 3 Adjust the home price for the non solar Green Features.
- Seller Notify Solar Lease Company of the Sale of the Home
- 4
 - Request a copy of the lease agreement if you don't have one already.
 - Request a system purchase price in case the buyer wants to buy the system.
 - Get the solar lease transfer details in case the buyer wants to assume the lease.
 - Get the solar warranty documentation.
5. Locate and make note of the solar monitoring information.
6. Market Home as a Solar Home.
 - Include the Sprk Green Home Transaction Certificate on the MLS.
 - Sign Solar Real Estate Disclosure Forms, where applicable.
 - If your state solar disclosure, include that in the home listing.

➔ PHASE 2: COLLABORATION - DURING ESCROW

7. When the purchase contract is Signed, Send the following to the Buyer:
 - Solar Home Buyer Checklist
 - Green Home Transaction Certificate
 - All other solar documents
 - Link for a Free Sprk Green Home Energy Report
8. Buyer Makes the Decision to Assume the Solar Lease
9. Buyer Share the Green Home Transaction Certificate with the following:
 - Real estate agent
 - Loan Officer
 - Appraiser
 - Title agent
 - Notify them all of the intentions to assume the solar system.
10. Seller Notify Solar Lease Company of Impending Home Sale
 - Notify them of the desired closing date
 - Buyers intention to assume the solar lease
 - Request an assumption application form for the buyer to apply the solar lease.
 - Request the removal of the UCC picture filing.
 - This may have a fee that is typically paid by the seller.
11. Buyer Contact Lease Company
 - Check credit to qualify to assume lease.
 - Sign assumption agreement.
 - Set up payments.
 - Confirm the seller has lifted UCC for closing.

12. Seller Do Not Shut Off Electricity
- This can void the net metering agreement.

➔ PHASE 3: CONVEY & CONNECT - AT AND AFTER THE CLOSE OF ESCROW

13. Close of Escrow and Sale/Purchase of Solar Home

- When the home sale is finalized, the UCC will be refiled by the lease company.
- In the close of escrow, the responsibility of the solar lease passes from the seller to the buyer.

14. Buyer Contact the Local Utility Company

15. Do not shut off the electricity.

16. Transfer the service into your name.

17. Transfer the existing net metering agreement into your name.

- The home buyer will most likely want the net metering agreement that the home seller had with the utility company to be transferred into their name since it will grandfather a buy-back price rate or price for the electricity that is most likely higher than what is currently available.

18. Seller Confirm Lease is No Longer in Their Name

19. Buyer Get Monitoring Switched Into Your Name

20. Most solar lease companies will monitor the solar system on your home on your behalf. Since you are being billed for that electricity, it's recommended and generally a best practice to obtain the login information and download the monitoring app. This allows you to see how well your system is producing and let you know if there are any issues with it. Sign assumption agreement.

21. Leverage the Sprk Green Home Energy Report to Optimize The Home

22. Clean Solar Panels Annually

23. Solar lease companies do not clean your solar panels for you and, depending on where your solar home is located, it's recommended to clean them annually.



SOLAR LEASE BUYOUT

WITH THE SALE OF A HOME

For an incoming home buyer, rather than just taking over a solar lease and assuming it, they can remove the solar lease company from the equation by buying out the lease within the purchase of the home.

Buying out the solar system is a little more complicated than assuming the lease but making the effort can certainly be worth it. With the help of the Spark Green Home Transaction Certificate homeowners are much more likely to recoup the money invested into a solar system when the home sells. Multiple market studies have shown that solar leases add zero value to the sale of a home. Buying out a leased solar system can add the solar's asset value to the value of the home.

DIFFERENT TYPES OF VALUE

The Buyer's Value is the amount of money they will save from having that solar system on that home. This number is referred to as the Solar Offset Value or 10 Year Solar Savings on the Green Home Transaction Certificate. This amount is the difference in what the homebuyer would have paid in electricity to the local utility company over a ten year period.

The Seller Value is called the Solar Asset Value or Home Price Impact on a Green Home Transaction Certificate. It's the cash value of the equipment itself. If the solar system is owned, this is the value to determine how much to increase the sale price and assessment of the home. The factors that impact that number are the size of the system, the geographical location where that system was installed and its age. All this is accounted for, along with the depreciation of the output of the system as measured by historical degradation. While the system does get older and eventually decreases in value— it's probably not at the rate you might guess.

The reason to find out the Solar Asset Value of the system is to determine how much to pay the lease company for the solar system. They will give you a price but it's good to have an unbiased third party generate an accurate number by which you can know if you are paying a fair price for the solar system or not.

This may seem contrary to the lease company's business model but, most leasing companies are trying to raise funding and appreciate cash infusions so they can onboard more new lease customers. Many lease companies do not realize a profit for the first several years since their upfront cost is so high compared to the low monthly lease payments they offer.

SOLAR LEASE BUYOUT

STEP-BY-STEP PROCESS WITH THE SALE OF A HOME

Below is a step-by-step process of how to escape a solar lease by converting it to an owned solar system when the home is sold. There are 3 Phases and 18 Steps to this process.

➔ PHASE 1: PREPARATION - PRIOR TO LISTING THE HOME FOR SALE

1. Gather Solar Documentation
 - Solar Lease Agreement - Solar Lease Company
 - Solar Installation Agreement - Solar Installation Company
 - Net Metering Agreement - Local Utility Company
2. Get a Sprk Green Home Transaction Certificate
 - Go to sprkhome.com
 - Complete a Home Energy Assessment.
 - Get a Green Home Transaction Certificate.
 - This comprehensive report makes the solar system and agreement tied to it easy to understand. The report simplifies the transaction for everyone involved, including the buyer, agents, lenders and appraiser.
- 3 Adjust the home price for the non solar Green Features.
- Seller Notify Solar Lease Company of the Sale of the Home
- 4
 - Request a copy of the lease agreement if you don't have one already.
 - Request a system purchase price in case the buyer wants to buy the system.
 - Get the solar lease transfer details in case the buyer wants to assume the lease.
 - Get the solar warranty documentation.
5. Locate and make note of the solar monitoring information.
6. Market Home as a Solar Home.
 - Include the Sprk Green Home Transaction Certificate on the MLS.
 - Sign Solar Real Estate Disclosure Forms, where applicable.
 - If your state has a solar disclosure, include that in the home listing.

➔ PHASE 2: COLLABORATION - DURING ESCROW

7. When the home purchase contract is signed, send the Buyer and their agent:
 - Solar Home Buyer Checklist
 - Green Home Transaction Certificate
 - All other solar documents
 - Link to get a Free Sprk Realty Green Home Energy Report
8. Buyer Makes the Decision to Buy the Solar Lease
 - Buyer and Seller decide who will fund the purchase of the leased solar system.
 - Funding options: Seller or Buyer cash purchase, Seller equity purchase or Buyer mortgage financed purchase
9. Seller Notifies Solar Lease Company of Impending Home Sale
 - Notify them of the desired closing date.
 - Confirm the solar lease buyout party and method.
 - Request the removal of the UCC fixture filing.
 - This may have a fee that is typically paid by the seller.
 - When the home sale is finalized, no UCC will need to be refiled.
 - Provide the lease company with the buyers information.
10. Buyer Shares the Green Home Transaction Certificate with the following:
 - Loan Officer
 - Appraiser
 - Title agent
 - Notify them all of the intentions to buy out the system rather than assume it
11. Seller Do Not Shut Off Electricity
 - This can void the net metering agreement.

➔ PHASE 3: CONVEY & CONNECT - THE CLOSE OF ESCROW

12. Buyer Contact the Local Utility Company

- Do not shut off the electricity.
- Transfer the service into your name.
- Transfer the existing net metering agreement into your name.
 - In most cases, it's beneficial to transfer the existing net metering agreement that the seller had in place with the utility company. This can convey a better electricity buy-back rate or price than what is currently available.

13. Seller confirms with the solar lease company that the lease is no longer in their name.

14. Buyer gets solar monitoring switched into their name.

- Monitoring allows the homeowner to see how well the system is producing and if it's having any issues.

15. Leverage the Sprk Green Home Energy Report to further optimize the home.

16. Clean the solar panels annually.

- It's recommended to clean solar panels each year to maximize electricity production.





SOLAR LEASE BUYOUT WITH A HOME REFINANCE

SOLAR LEASE CONTRACT MILESTONES

Nearly every solar lease agreement includes options to buy the solar system at certain milestones throughout the contract. We have discussed the sale of the home as the primary milestone but if someone wants out of their lease agreement, they can buy it out without having to sell the home.

Locate the purchase milestones on the lease agreement and mark the calendar to reach out to the lease company a few months prior to these milestones. Typically, buyout milestones will fall around the 5th, 10th, 15th, 20th and 25th anniversaries of the initial contract signing. For the best results, contact the lease company 3-6 months prior to the milestone. Some leasing companies have deadlines for these milestones; so don't let them pass you by.

If the need arises to exercise the purchase option outside of one of the eligible milestones, contact the solar lease company. They have made some exceptions to these milestones in the past, it doesn't hurt to try. The worst they can do is say "not at this time."

STOP RENTING YOUR POWER

Buying the solar system is the equivalent of moving out of a rental property and buying a home. Taking ownership of a solar system means that the money invested into it, can be recouped when the time comes to sell the home.

REFINANCE THE HOME AND INCLUDE THE SOLAR SYSTEM FOR MAXIMUM SAVINGS

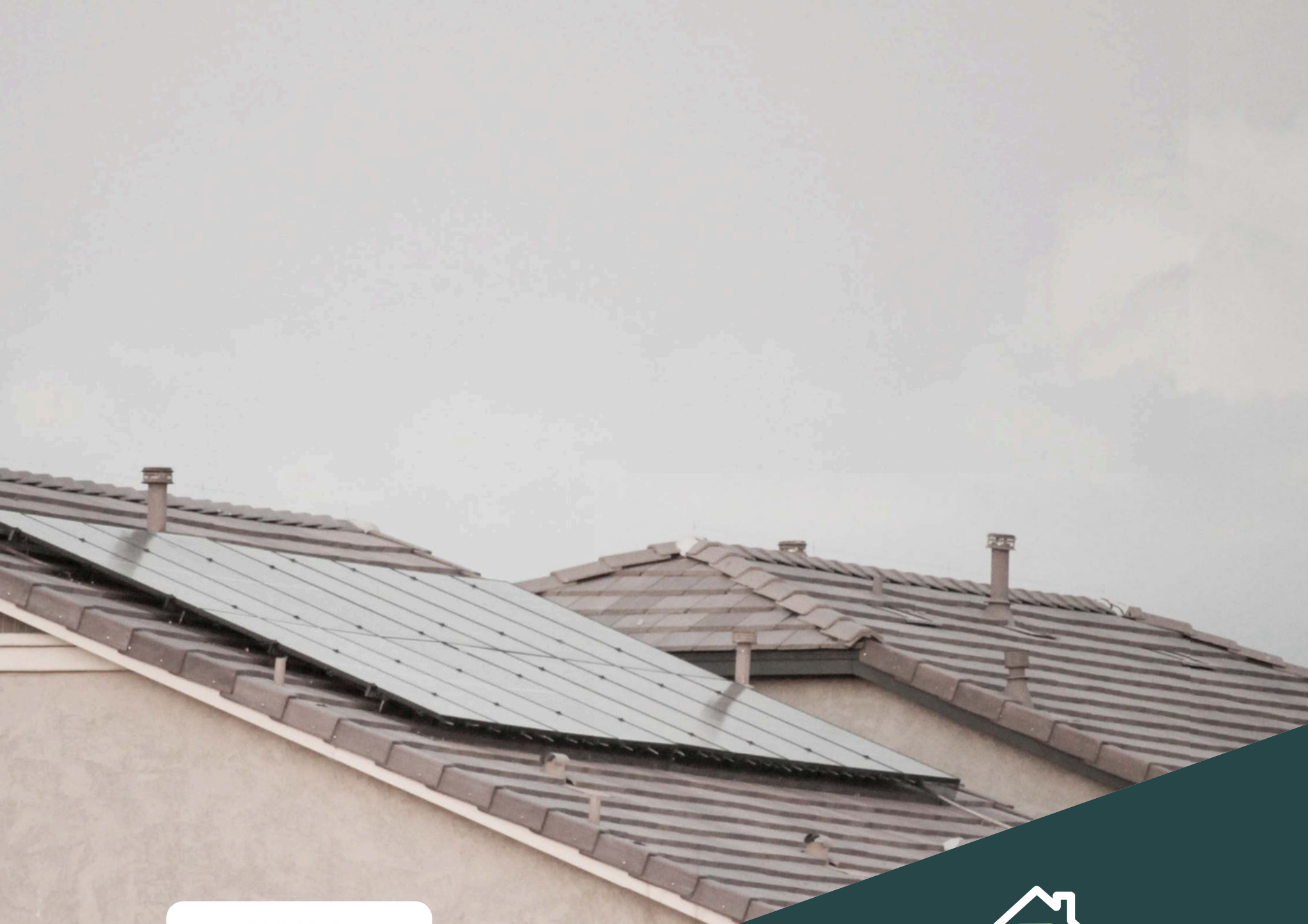
The second best time to buyout a lease is in conjunction with a mortgage refinance. Rolling the solar into the mortgage generates the best short and long term savings. If you roll a solar system into a 30-year mortgage at a low interest rate, the payment will be significantly lower than with the lease company. Doing this will increase the savings now and increase the resale value later when you sell.

SOLAR LEASE BUYOUT

STEP-BY-STEP PROCESS WITH A HOME REFINANCE

Below is a step-by-step process of how to escape a solar lease by converting it to an owned solar system.

1. Locate the purchase milestones on the lease agreement.
 - Mark the calendar to contact the lease company 3-6 months prior to purchasing the solar system
2. Gather Solar Documentation
 - Solar Lease Agreement - Solar Lease Company
3. Get a Sprk Green Home Transaction Certificate
 - Go to sprkhome.com
 - Do the Sprk Home Energy Assessment
 - Get a Green Home Transaction Certificate
 - This comprehensive report makes the solar system and agreement tied to it easy to understand. The report simplifies the transaction for everyone involved, including the lender and appraiser.
4. Notify the Loan Officer of the desire to include the solar system into the refinance of the home.
 - Let the officer know the Solar System Value so they know roughly how much to increase the refinance amount by.
5. Homeowner Notify the Solar Lease Company of the Intent to Purchase the Solar System
 - Request a copy of the lease agreement if you don't have one already.
 - Request a system purchase price.
6. Get the Purchase Price and Compare it Against the Solar System Value
 - Found on the Green Home Transaction Certificate
7. Homeowner Accept Solar Purchase Amount or Place Counter Offer
 - Place counter offer if the solar lease company purchase price differs from that of the Solar Asset Value on the Green Home Transaction Certificate by more than 20%.
8. Homeowner Notify the Lease Company of acceptance of purchase price
 - Sign and return offer agreement if that is the practice of the solar lease company
9. Share the Green Home Transaction Certificate with the loan officer.
10. Homeowner Confirm Lease UCC Filing has Been Removed from the Home
11. Leverage the SprkHome.com platform to Optimize The Home
12. Clean Solar Panels Annually
 - Solar lease companies do not clean your solar panels for you and, depending on where your solar home is located, it's recommended to clean them annually.



SPRK & CHECKLIST INSPECTIONS HAVE THE TOOLS TO SIMPLIFY SOLAR HOME TRANSACTIONS

Sprk & Checklist Inspections provides tools, information and education for homeowners and real estate professionals to support them in their efforts to live affordable and sustainable lives. We are here to assist with the sale, purchase or refinance of green homes.

Sprk is led by Cory Vanderpool, a licensed and certified solar professional. Under his direction, the Sprk team has developed the tools to simplify the process and support homeowners as they navigate solar home transactions, solar leases, solar loans, solar evaluations, and green home evaluations.

Checklist Inspections has been helping potential homeowners since 1998 to have peace of mind when purchasing their dream homes. We know the importance of being well informed by highly educated, experienced, and caring home inspectors. Our office staff are available 7 days a week to schedule your inspections. We do all that we can to ensure that the inspection process is one of the easiest and most informative steps in the purchasing process for you.

Regardless of whether a homeowner is looking to sell their home with a solar lease, or a home buyer wants to purchase a home with solar, Sprk & Checklist Inspections are here to help!

