



PODCAST TRANSCRIPTION SESSION NO. 283-MARY KATHRYN LYNCH

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Peter Renton: Today on the show, I am delighted to welcome Mary Kathryn Lynch, she is the CFO of Renew Financial. Now, Renew Financial is a super interesting company, they specialize in something called PACE financing. If you don't know what that is, then today is your lucky day, we're going to delve into this into some depth, you'll have a very good understanding of it by the end of this episode.

But, basically, it is a type of home improvement financing, it's really focused on green energy and things that help the environment and there's various different types of use cases which Mary Kathryn gets into and has done on a state by state basis which she talks about as well and we also talk about women in fintech. Mary Kathryn provides her perspective as a leader that's been an executive in finance for many years and what women can do to really help themselves and help each other become a force in fintech. It was a fascinating interview, I hope you enjoy the show.

Welcome to the podcast, Mary Kathryn!

Mary Kathryn Lynch: Thanks, great to be here.

Peter: Okay, So, I'd like to get this thing started by giving the listeners a bit of background that...you've had a very interesting career when I was looking at your LinkedIn profile so why don't you give the listeners some of the highlights.

Mary Kathryn: Well, thank you. Going to relatively recent history, I guess, I was an investment banker for 15 years. I got out of business school and I worked in New York and then we moved to San Francisco and I stayed in investment banking. I went to business school because I wanted to be an investment banker, I really liked finance so I worked for different banks and I was in investment banking until 2008.

I got laid off during the financial crisis and at that time, I took a little time to kind of figure out what I wanted to do next. I had three young kids at that point so spent some time with them, but



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spent a lot of time thinking about what I wanted to do. I loved and continue to love finance, but I really wanted to focus more on renewables and energy efficiency so combining finance with some other things that were important to me. So with that, I started doing work in that industry.

I actually got a job as a contractor at Renew Financial and worked there for a couple of years. I left because I was only working part time at that point, I really liked the company, but they didn't have the resources to take on a fulltime employee so I went over. I spent a few years working at Sunrun and then when I was ready to leave Sunrun, Renew Financial's fortunes had changed. They were expanding, PACE was growing rapidly and as I had always liked the company and the people, saw the opportunity to come back and I've now been there for five years.

Peter: Right, right, great. So, why don't you just tell us a little bit about Renew Financial and what it does exactly.

Mary Kathryn: Renew Financial, so we're based in Oakland, California. I mention that because I also live in Oakland and I'm a big fan of the city so a little shout out for Oakland. We were founded in 2008 and we started originating PACE in earnest, I would say, in 2014 and I'll come back to PACE in a second, I'm throwing out an acronym, but we finance renewable energy and energy efficiency projects and we focus on the residential market so that, in a nutshell, is what we do. We finance renewable energy and energy efficiency projects.

Peter: Right. Why don't we dig into PACE for a little bit. Firstly, you can explain the acronym and then explain what it is. I must admit, I've never delved deeply into it and I knew it was about home improvement, that sort of thing, but why don't you give the listeners sort of a crash course in PACE financing.

Mary Kathryn: Sure. So, PACE is an acronym, it's Property Assessed Clean Energy, and property assessed is very important and very descriptive. So, the PACE financing goes on your property taxes, it is your property tax. So, if you are a homeowner and you use PACE to finance solar panels or putting in a new HVAC system, you repay it when you pay your property taxes.

Peter: Interesting. So then, is this a state-by-state thing, is there a kind of federal regulation around this or where does it come out, how is it sort of originated?

Mary Kathryn: Yeah. It is a state by state thing, there's no federal legislation, Right now, about 30 states have some type of PACE legislation, a lot of it covers commercial which Renew does not do, we just focus on residential. The two big residential PACE markets are California and Florida and that's where we operate and within those states the different cities and counties, they have to opt into PACE so they have to.....you know, they meet and decide, yes, this is something we'd like to offer to the people who live here and we set up the program.



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Peter: Right, okay. And so, when you're applying for a PACE loan then this is going on your property taxes, how is the process different than if you were just going to apply for, you know, any lender that provides renewables financing.

Mary Kathryn: Sure. So, it's a property tax assessment so it's on your property taxes so it's very senior. The pretty unique thing about PACE is that we do not underwrite based on FICO. So, we underwrite based on the equity that people have in their houses and their ability to pay. If you qualify for PACE, you get the rate and the rates are typically based on the term of the financing as opposed to what your FICO score is. I mention this because I think it's unique and it's pretty important.

When you look at securitizations of solar lenders, for example, their average FICOs are 740/750, that type of score. So, our average FICO is kind of in the 670/680 range, but our coupons are super attractive. Our weighted average coupon is about six and a quarter so for people who are a little lower down on the credit scale, PACE can offer really attractive financing and I think that's really important, you know, when we look at things like credit access, the ability to put an improvement on your house. We also do safety measures which I'll come back to in a second, it's very attractive.

Peter: Right. So then, how are you actually underwriting them if you're not using....is it just purely underwritten on the property itself because, I imagine, there's a wide variety of credit profiles of people who are doing this, but what is it that you're using exactly?

Mary Kathryn: Yeah. So, we look at the value of the property and we look at the debt attached to that so we look at the mortgage or if they have a second mortgage and they need to have sufficient equity to support the PACE loan. We also look at how much the payment would be and what percentage that would be of their property taxes, it can't be too high and then we also look at people's ability to pay.

In California, we do a residual income test so we look at, you know, what their income is, we may look at pay stubs or bank statements and we look at what their expenses are. We want to make sure that they have the wherewithal to pay the assessment back.

Peter: Right, okay. So, you are doing underwriting based on the consumers' finances, just not on FICO.

Mary Kathryn: Correct.

Peter: Right, right, got it. So then, as far as the typical borrower, I mean, can you maybe describe....you've talked about what their average FICO is, but maybe...I mean, who is the typical borrower that comes to Renew Financial?

Mary Kathryn: I mean, we've done thousands of projects so there is a broad, you know, it's a pretty broad base, but beyond the FICO that I mentioned, these arewell, they are all homeowners, they live in California or Florida, they are typically two-income families and looking



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to make some type of improvement on their home. One of our big measures in Florida is wind resistance. So Florida, obviously, has hurricanes and so if you want to install a stronger roof, hurricane resistant windows or doors, you can use PACE to do that.

Peter: Interesting, interesting. And then, obviously, solar panels, new furnaces, you said, are there other things that you can use a PACE loan for?

Mary Kathryn: There are some states, you know, just because of virtual....what is going on in the States, so in California, for example, you can use PACE to make seismic retrofits, you can also use it for fire hardening. On the renewable energy side, solar panels, I mentioned, batteries, improving the insulation of your home, there's also water conservation measures in California. Florida also does a lot of solar, but, as I mentioned, wind resistance is probably the biggest measure in Florida right now.

Peter: Right, right. So then, I'm curious about why you're only in two states, I mean, there's 30 states that have some kind of legislation, why just pick.....obviously, the two are the largest states, but is there a reason you haven't kind of rolled out to more states?

Mary Kathryn: We are working on rolling out to more states. We are looking at New York, Ohio, Michigan, Texas. In Michigan, for example, they're looking at PACE in considering adding projects that would help with clean drinking water. So, we're looking to expand our footprint into more states.

Peter: Right, right. You know, I'm reading something about consumer protections. There are some unique consumer protections that come with the PACE loan, can you tell us a little bit about that?

Mary Kathryn: Sure. I mean consumer protections are sort of, I would say, throughout their product life cycle. I mean, we start out with the contractors, we screen the contractors that we work with, they have to be licensed in the state, they have to have insurance, they have to have a minimum rating from the Better Business Bureau, we check their online reviews, we also check their credit rating and they have to be trained to sell PACE.

One of the pretty unique thing about PACE is that we require a signed certificate of completion so we will not pay the contractor and there won't be an assessment placed on your property until the homeowner has signed a certificate that says, yes, this project was completed to my satisfaction and, obviously, the contractor has to sign it as well. As part of our underwriting process, Renew calls every homeowner that is thinking about PACE and walks them through how the program works, what the coupon is, what their payment is going to be, what the term is.

It's very similar to the disclosure that you get when you're putting the mortgage on your house and, obviously, we record all those calls to make sure that the consumers understand that there is an assessment being placed on their property. And also, we inspect projects, we do random inspections to make sure that the project was actually installed and that the consumers are protected.



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Peter: Right, right, okay. How are consumers finding out about this because, you know, I don't see ads on TV for PACE, maybe there are, I don't see them, but how are you getting the word out and how are you educating people because it is different obviously than a traditional unsecured or secured loan.

Mary Kathryn: Well, we have a website, of course. You can go to our website and learn about PACE, but our sales force works with contractors. At this point, obviously, we're an inside sales force. but we have a base of contractors in California and Florida. When a homeowner calls a contractor, they suss out what the project's going to be and then the contractor will talk about how they're going to pay for their project. If they need financing and it's our contractor that we work with then the contractor may suggest PACE.

Peter: Right, that makes sense. So then, what about other loan products, do you offer loans beyond the PACE program?

Mary Kathryn: We do not. We've looked at expanding our product offering doing unsecured or doing commercial PACE, but at this point, we are just focusing on residential PACE.

Peter: Right, okay. And so, I'm curious about how are you bringing technology to bear then on this....I mean, obviously, you've got the underwriting process, I'm curious about what sort of technology is involved from the application process through the closing?

Mary Kathryn: Yeah. So, I mentioned, for example, that we pull property value so we're electronically reaching out via different vendors to pull the property values, we have to pull card reports to see what mortgages are on the property so there's a lot of reaching out to third party data providers.

We have to make sure people aren't delinquent on their property taxes or they're not eligible for PACE and this is all done online. When we are doing our ability to pay underwriting, people are either uploading bank statements or we use third party sources to check what their income is, but coincidentally, we are actually in the process of putting in a new loan origination system and upgrading our platform so we're really looking forward to that.

Peter: So then, does the money go directly to the contractor? It sounds like the homeowner doesn't actually....they don't take possession of this money at all, right? Does it go straight to the contractor?

Mary Kathryn: Yup.

Peter: Okay. What's an average loan size that you're doing?

Mary Kathryn: Our average loan size is about \$25,000.

Peter: Right, right, okay.



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Mary Kathryn: The average payment annually is sort of \$2,500.

Peter: Okay. And then, the homeowner will just see that added on to their property tax bill when they receive that each year?

Mary Kathryn: Yes.

Peter: Okay, interesting. So, how are you funding these loans, where is the capital coming from?

Mary Kathryn: We have warehouse lines with banks. We accumulate them in the warehouse and then we have critical mass, we either securitize or we might do a whole loan sale.

Peter: Okay. I was talking to someone earlier this week who was talking about PACE loans and saying that they had tremendous success as far as repayment rates, can you share some of theany kind of stats on the performance of these loans?

Mary Kathryn: Sure. I like your source who said that we've had tremendous success. PACE is an attractive asset for investors and, obviously, that helps us as originators and helps the end consumers as well. We, ourselves, and our competitors when we securitize the top most tranche of the bonds is rated Triple A and our advance rates from investors, very attractive on that. They like PACE, by they I mean investors, they are property tax assessments, they are very, very secure, the underlying value of the property is supporting those payments.

Peter: Right. Because they're trying to make those payments, they could lose their house, right, not just the solar panels or the furnace or whatever because if you don't pay your property taxes, there is that risk, right?

Mary Kathryn: There is that risk. We, I will add, have never foreclosed on anyone.

Peter: Interesting, okay. So, what about the pandemic, I'd love to hear on two sides, the nine/ten months what have you. You know, I'd love to know about demand and then, you know, what programs you've put in place for borrowers to see if...to give them some relief.

Mary Kathryn: Sure. So, in terms of demand when the pandemic hit, we were, I guess, like many people, we were really afraid and we didn't know what was going to happen. So, we did see our volume fall off, but it really wasn't as bad as we thought it was going to be and we were kind of bracing for so that was great to see. I mean, as I kind of think back to it, contractors are small businessmen or women, they are really resilient and they need to keep the wheels running.

So, I think, people sort of learned to try to sell around it, to do remote selling. A lot of projects are outside the house, you know, if they are doing solar, they're up on the roof, they don't need to be inside. The transaction, a lot of it, can be done online so we were, I would say, pleasantly surprised with how the year went, our volume was down, but not by as much as we thought it



might be. And as we look ahead, 2021 is off to a good start and we are definitely projecting that it's going to be an improvement over 2020.

Peter: As far as...like the borrowers themselves, if this is part of the property tax, how much flexibility do you have in providing forbearance that sort of thing?

Mary Kathryn: Right, you mentioned that. We do have a hardship program. If borrowers can't make a payment, if they've lost their job or they're having health issues, they can contact us and we will work with them so that they don't run into some type of foreclosure issue.

Peter: Okay. So then, can you give us some sense of the scale you guys are at, what kind of volume that you've originated, so far?

Mary Kathryn: Sure. So, to date, we've originated about \$1.2 Billion of residential PACE and the industry as a whole has securitized...I think we're up to about \$6 Billion of residential PACE.

Peter: Right, right. So, there's a lot of room left. It's a decent amount, don't get me wrong, I feel that's a decent amount, but there's certainly....if you look at solar financing, I imagine, just on the loan would probably dwarf that. I don't have the numbers, but, I imagine, solar panels are getting more and more popular, is that....what is your real competition here? Do you feel like you're competing against the traditional financial institutions, is it really more awareness, I mean, how do you find...like what's position in the market, do you think?

Mary Kathryn: I think it depends, and part of it, frankly, depends on the contractor. Different contractors have different customers that they sell to or different products that they offer, sometimes we are competing against the solar loan guys. Again, who typically have higher FICO customers, we also have higher FICO customers, but we will go down lower.

Peter: So, I want to switch gears completely here and talk about something else talking about really the gender gap and women in fintech. It's something that is....you know, you've been in finance your whole career and when I look at....fintech is very much a male dominated industry, you know, you're a CFO and you've been a leader for some time...so maybe what advice do you have for young women who are entering fintech today.

Mary Kathryn: One, welcome! (laughs) I guess, a couple of things so one, this isn't unique to women, I tell this to people all the time, ask for what you want. I frequently talk to people who, you know, I really want X, but they don't want to do that so I'm going to ask for Y. Ask for what you want, let them do their job and try to negotiate. So, I think that's true for anyone, but probably particularly for women, ask for what you want. Women have to help other women, it's just part of our job, we have to do that, and women have to ask for help. I think that's part of our job too so that's my advice.



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Peter: Right. How do you think it's changed" When you came into finance, I mean, there's still this mentality of like an all boys club and everyone.....

Mary Kathryn: You can say, it was a long time ago. (Peter laughs)

Peter: It's okay. No, there's been an all boys club playing golf, drinking together, what have you, how do you feel like it's changed? Particularly, I'm curious about, you know, the last few years where we had Me Too Movement, what do you think has changed for women in finance today?

Mary Kathryn: I really like that observation because I think it has changed. We're not done, but it has changed and it's gotten better. I think when I started, one, I don't think women were that supportive of other women, that's not true of everyone certainly, but there seem to be some competition and I think the view was like okay, women, suck it up, like this is the way it is, you need to fit in.

And I think women today are....you know, that's not how it is, women today are much better at saying wait a minute, that's not how it's supposed to work. We're 50% of the population here so I'm heartened by that, I'm heartened by women just calling....when something's not right, speaking up very quickly. I think that's a fantastic development.

Peter: Right, right. So then, what about at your company....I mean, and a lot also maybe fintech more broadly, I mean, what can we do to really bridge the gender gap. There are two parts of that is what I mean, what is the gender gap in the number of women and then, of course, there's the gender pay gap that still exists today?

Mary Kathryn: Yeah. I mean, I think people, depending on where they sit in the industry, have different roles to play. So, for me, for example, I can have a big impact on hiring and I have to be deliberate and insistent on hiring women, you know, working with HR to make sure that we get good candidates in and that we're not being biased. I can influence that given where I sit.

I think another thing that's really important is talking to women and asking them what they need. You know, obviously, there is a big issue when women start to have children so we've been dealing with this recently, frequently at Renew which is fantastic. You know, ask what you need, we absolutely want you to come back, what do you need, how long do you need, you know, if you need flexibility. Retaining those people is super important to the company so I just think to be very explicit in talking to them and they need to be clear about what they need.

And then, I would say quantifiable goals are important. You know, you and your organization organize conferences, I mean, half of the panelists have to be women, set a goal and try to hit that metric.

Peter: We do and we are getting better every year, we're not quite 50% yet, but we are getting a lot better. It's something that we feel very strongly about, we feel like we have a role to play. If we want to have more gender equality then we need to be highlighting women leaders, bringing them on stage and letting them have a voice. We are certainly fully aware of that, we have a



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whole Women in Fintech range of different programs that is run actually by our President, Joy Schwartz, who is really very passionate about this topic as well.

Anyway, we're almost out of time, but maybe just before I let you go, why don't you just give us some....what's next for Renew Financial, what is coming down the pipe?

Mary Kathryn: Yeah. As I mentioned previously, we are putting in a new loan origination system so we are all very excited about that happening and the good things that we think it's going to bring, both for the customer as well as just being much more efficient. We are looking at expanding into new states which, hopefully, will happen in 2021 so that would be great to get a third leg of the stool for us. You know, I guess, finally politically, we have Democrats coming in who are talking about doing more to promote clean energy and energy efficiency and I think that will give us a bit of a tailwind which will be a great different environment for us to operate in.

Peter: Do you ever envision a potential federal legislation here for PACE financing?

Mary Kathryn: You know, Biden, when he was the VP, was a fan of PACE so I don't think, given where we are, that PACE is one of his top absolute priorities right now.

Peter: It won't be in the first year.

Mary Kathryn: but (cross talking) we would love to see some type of federal program so we could expand to all 50 states.

Peter: Right, right, okay. We'll have to leave it there, Mary Kathryn, I really appreciate your coming on the show today. Best of luck and thanks again.

Mary Kathryn: Thank you so much.

Peter: Okay, see you.

I hope you have a good understanding now about PACE financing and I certainly know a lot more than I did 30 minutes ago. One thing I just want to emphasize here, I mean, no defaults, that is \$1.2 Billion of financing and no defaults. That is pretty impressive and so it speaks, I think, to the structure of the loan as well as no defaults to sub-700 FICO population. I don't know if there's many other types of lenders or any other lenders that could say that that's been their reality.

So, really, I think PACE financing is super interesting, I think it's going to grow, I actually think that there may well be a federal movement on this under the Biden administration. I think there's certainly a push for more green energy type initiatives and this makes perfect sense to me.

Anyway on that note, I will sign off. I very much appreciate your listening and I'll catch you next time. Bye.



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