Renovate America, One of America's Fastest-Growing Lenders, Didn't Disclose It Made Payments to Some Borrowers

The company's corporate culture favored loan production over homeowner protection, former compliance employees say

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Renovate America Inc. is the biggest player in America's fastest-growing type of loan. The San Diego-based company enjoys the backing of municipalities and big-name Wall Street investors, thanks in part to its record of ultralow customer defaults.

But Renovate America, which finances purchases of solar panels and energy-efficient appliances, has masked problems with some borrowers by paying off their debts if they struggle to keep up with payments, according to former Renovate America employees.

Renovate America hasn't disclosed that fact to investors who buy bonds backed by the company's loans, say three former employees in the company's compliance department.

The company's investors include mutual funds run by J.P. Morgan Chase & Co. and DoubleLine Capital LP, which have been told customer default rates are less than 1%, according to fund documents and credit-rating firms. A J.P. Morgan spokeswoman declined to comment, and a DoubleLine spokesman didn't respond to a request for comment.

JP McNeill, Renovate America's chief executive, said the company made a small number of payments between 2014 and 2016 on behalf of 83 borrowers. He said the payments weren't disclosed to investors because the number of recipients was a fraction of a percent of the 90,000 homeowners who got loans from Renovate America and wasn't considered "material."

Executives at two asset managers that bought Renovate America's bonds said their firms would have liked to know about the payments before investing. The payments make it harder for investors to gauge the true default rates of the loans.

Securities laws require companies to disclose all information that investors would consider to be material, said Erik Gerding, a professor at the University of Colorado law school. In Renovate America's case, "the conservative approach would have been to disclose," he said.

Renovate America makes its loans through state-run programs known as Property Assessed Clean Energy, or PACE. The high-interest-rate loans are brokered by plumbers and contractors, financed by private lending companies, backed by county governments and purchased by investors.

Loans, averaging about $25,000, are placed on a homeowner's tax bill as an assessment that needs to be paid along with property taxes. In a default, the loans are given priority over a homeowner's mortgage.

PACE lenders have made about $3.4 billion in loans since 2008. Industry participants expect more than $2 billion in loans to be made this year as more states sign on.

Wall Street's appetite for PACE bond deals is fueling growth. Investors are attracted to the bonds' roughly 4% return despite maturities that can stretch more than two decades. A key selling point is the perceived safety of the loans backing the bonds, even though credit-rating firms say there is little historical default data.

The Wall Street Journal reported in January that some borrowers in the PACE program said they were misled about their loan terms and can't afford their debt. Renovate America and other PACE lenders told the Journal they are putting more rules in place to protect homeowners. PACE lenders rely on partnerships with state and local governments. The municipalities, eager to offer clean-energy savings to their constituents, are responsible for collecting homeowners' tax payments.

Renovate America was co-founded in 2008 by Mr. McNeill. It is backed by venture-capital firm DFJ Growth and private-equity firm Silver Lake Kraftwerk, among others. Renovate America has raised about $175 million in three financing rounds. The most recent, in 2015, valued it at about $500 million. The company's lenders, including Bank of America Corp. and Credit Suisse Group AG, are helping finance a nationwide expansion.
A spokeswoman for DFJ didn't return a request for comment, and a spokesman for Silver Lake Kraftwerk declined to comment. Bank of America and Credit Suisse representatives declined to comment.

Last year, Renovate America originated about $1 billion in loans, up 35% from 2015, the company said. It uses about 8,000 contractors to source loans across the country.

In late 2014, as some borrowers started missing payments, Renovate America launched a program dubbed “first payment assistance,” according to the former compliance employees. The program paid a homeowner’s first tax assessment or even a full year of debt, the former employees said.

The ad hoc program lacked formal guidelines. Borrowers were more likely to receive aid if they threatened to go to the media with their complaints, one former employee said.

A Renovate America spokeswoman said that payments weren’t made in a “programmatic or formal way” and that homeowners who received payments had misunderstood their loan terms or hadn’t saved enough to pay off their tax assessments.

Mr. McNeill, the CEO, said the payments made on behalf of the 83 homeowners totaled $175,000 between 2014 and 2016.

The former compliance employees said they believe the sum is higher. One who worked with people responsible for the payments estimates the company paid out about $1 million to homeowners in a seven-month period beginning in fall 2015. The Renovate America spokeswoman disputed that number.

Renovate America stopped the payments late last year at the suggestion of its capital-markets division, which manages the company’s bond deals, the spokeswoman said.

The former compliance employees said Renovate America made the payments to deal with problems stemming from a corporate culture that favored loan production over homeowner protection.

Mr. McNeill said the company’s culture is focused on helping homeowners.

“We need to close as many projects as possible because that makes the investors happy,” a former compliance officer said she was told by Mike Anderson, the firm’s senior director of compliance operations. Mr. Anderson said through a spokeswoman that he doesn’t recall the conversation.

Renovate America encouraged sales staff to tell borrowers that the loans would generate tax rebates that would essentially cancel out the loans’ costs, according to former executives and homeowners. Some homeowners said the savings didn’t materialize.

Mr. McNeill said that tax benefits are a relevant data point for homeowners, who “are happier if they’re informed of benefits that exist.”

Contractors who receive customer complaints about the quality of their work typically weren’t penalized if they brought in a high volume of business, former employees said.

“We’re not here to put contractors out of business,” Renovate America’s chief legal officer, Scott McKinlay, told a group of employees last fall, according to an attendee.

Mr. McKinlay said in an interview that his comments were meant to encourage employees to “find ways to improve ourselves.”

Ron Wallis, a former compliance manager, said he told Mr. McNeill about what he described as predatory lending to senior citizens who didn’t understand loan terms. Roughly 25% of Renovate America’s loans go to elderly borrowers, former employees said. The Renovate America spokeswoman confirmed the figure, saying the percentage is less than the percentage of homeowners who are 65 and older in California, the company’s largest market.

Mr. Wallis—who said he was fired in September for unauthorized vacation use—said Renovate never took action in response to his claims.

Mr. McNeill said that elderly borrowers go through additional vetting before receiving loans. “We absolutely, unequivocally do not advocate targeting any protected class,” he said.

Lending Boom

A snapshot of Renovate America's fast-growing business in its largest local-government partnership, located in Southern California.

Tax year	Number of properties in program	Value of loans in program	Number of delinquent properties	Value of delinquent loans	Delin-quency rate
2012–13	110	$242,572	0	0	0
2013–14	3,178	$6.8 million	8	$12,748	0.26%
2014–15	9,125	$22 million	44	$97,688	1.52%
2015–16	21,811	$65 million	110	$282,712	0.43%

Source: Western Riverside Council of Governments

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