CFPB Report Finds Lenders Cramming Markup Fees and Confusing Terms into Solar Energy Loans

Agency issues nationwide consumer advisory on predatory solar lending

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WASHINGTON, D.C. – The Consumer Financial Protection Bureau (CFPB) today issued an issue spotlight finding that some residential solar lenders are misleading homeowners about the terms and costs of their loans, misrepresenting the energy savings they will deliver, and cramming markup fees into borrowers' loan balances. The report describes how fees often increase loan costs by 30% or more above the cash price, and that lenders often misrepresent the impact of the federal tax credit for solar installations. These loans are generally facilitated by lenders in partnership with solar installers and door-to-door sales companies.

"With sweltering heat across America this summer, many families are installing solar panels to save on energy costs to cool their home," said CFPB Director Rohit Chopra. "The CFPB is closely scrutinizing solar lenders to make sure that Americans don't get burned."

The market for residential solar energy systems continues to grow rapidly, and is shifting toward less affluent communities. In 2023, solar energy represented 55% of new electricity-generating capacity added to the grid in the United States, up from 23% of new capacity in 2018. The growth is, in large part, due to declining solar panel costs and increased government incentives, including tax credits. The average residential solar project costs $25,000, and federal tax credits currently cover approximately 30% of the installation cost.

Fifty-eight percent of solar projects were paid through loans in 2023, and the number of lenders is increasing accordingly. These lenders often partner with solar installers and employ a variety of marketing and door-to-door sales tactics to convince homeowners to enter into financing agreements.

The CFPB found that the rapid rise of nonbank lenders partnered with solar salespeople into the solar market is also raising the potential for illegal behavior and consumer harm. In contrast to auto loans or mortgages where consumers know they want a car or house and then seek out financing options, door-to-door salespeople are going directly to homeowners in attempts to convince them both to purchase a solar energy system and to do so via a loan through their company. Within this sales and lending scheme, many homeowners are discovering they are being duped and misled into contracts with inflated principals, ballooning monthly payments, and electricity savings lower than promised.

Specifically, the CFPB has identified four areas of significant risks:

- **Hidden markup fees:** Lenders build hidden fees into their loans by marking up the principals of the loans. These "dealer fees" often increase the loan cost by 30% or more above the cash price of a solar project. Lenders frequently bake these fees into a loan's principal without including them in the stated annual percentage rate (APR). Lenders also rarely and clearly separate these markups from the total cash price that consumers would otherwise pay for a system's installation.
- **Misleading claims about what consumers will pay**: While receiving a tax credit is not guaranteed and based on a number of factors, many solar loan sales pitches promote the 30% federal "Investment Tax Credit" for residential solar installations. In fact, lenders will present loan principals as a "net cost" that assume the tax credit will be received. Consumers may end up believing either the tax credit will subtract from the "net cost" or that the "net cost" is what will be paid regardless of whether they end up qualifying for and receiving the tax credit.
- **Ballooning monthly payments**: Loan terms may require a substantial prepayment by a certain date that is equal to the expected tax credit. If a homeowner does not qualify for the tax credit, they will end up on the hook for the prepayment or face substantially higher monthly payments.
- **Exaggerated savings claims**: Homeowners report being told that solar panels will cover financing costs as well as eliminate future energy bills. While this promise may be true for some homeowners, the financial benefits of solar projects are uncertain and can vary significantly by geographic location and season.

In conjunction with today's report, the CFPB released a consumer advisory warning homeowners of the risky practices in the solar lending market and sharing advice for borrowers who encounter illegal activity. The U.S. Department of the Treasury also published information to help consumers as they shop for solar power. The agencies will work together, along with the Federal Trade Commission and other government partners, to crack down on abuses in this important market.

Read today's issue spotlight.

Today's effort complements other work by the CFPB to protect families when it comes to clean energy financing. Last year, the CFPB proposed rules to rein in abuses on Property Assessed Clean Energy (PACE) loans. The CFPB is currently working on finalizing these rules.

Consumers can submit complaints about financial products or services by visiting the CFPB's website or by calling (855) 411-CFPB (2372).

Employees who they believe their company has violated federal consumer financial protection laws are encouraged to send information about what they know to whistleblower@cfpb.gov.

The Consumer Financial Protection Bureau is a 21st century agency that implements and enforces Federal consumer financial law and ensures that markets for consumer financial products are fair, transparent, and competitive. For more information, visit www.consumerfinance.gov.

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