

Embedded Strategy: Powering Green Loans Through Embedded Lending



In the face of global climate change, the need for sustainable and eco-friendly initiatives has become more apparent. With a growing emphasis on environmental consciousness and rising energy costs, individuals and businesses are increasingly seeking ways to adopt greener practices—however, the transition to sustainable practices often comes with a financial barrier.

This presents a unique opportunity for lenders to support the adoption of green technologies, energy-efficient upgrades, and environmentally friendly practices through embedded lending. In doing so, financial institutions can play a pivotal role in facilitating the shift to a more sustainable society, while also meeting their community's needs.

The Role of Regulation

Incentives like the Inflation Reduction Act (IRA) marked a substantial commitment to advancing eco-friendly initiatives in the United States. A notable \$27 billion from the federal Greenhouse Gas Reduction fund was allocated to expedite the adoption of sustainable products and services. Among these funds, \$20 billion is allocated to green banks, which offer financial and technical support for qualified green projects.¹

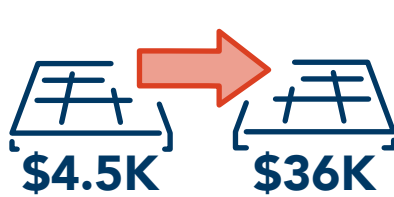
The need, by the numbers



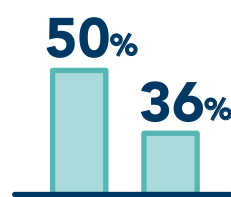
20.1% is the estimated Compound Annual Growth Rate of the global green finance market from 2022-2023.²



\$50,000 is the extra amount homeowners are willing to pay for a home with eco-friendly energy solutions.³

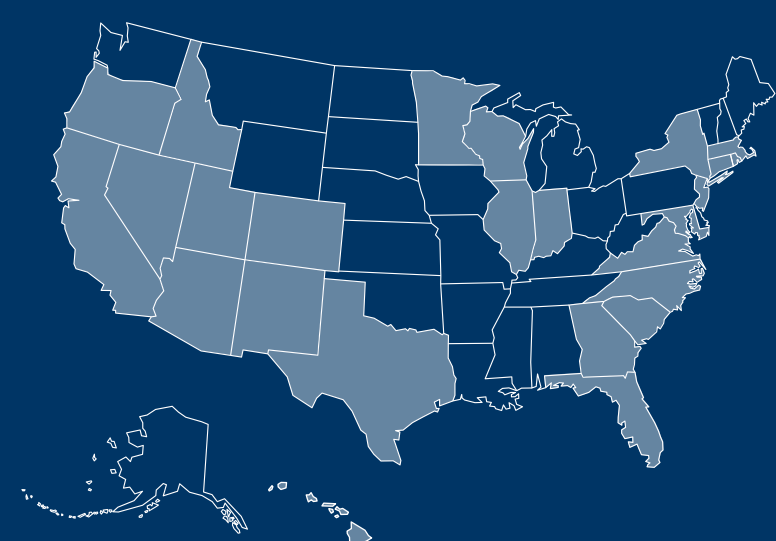


\$4,500 to \$36,000 is the estimated cost of solar panels, requiring many customers to finance the project.⁴



50% of Americans plan to purchase solar panels for their home, while 36% say cost is a deterrent.⁵

Who should enter this category?



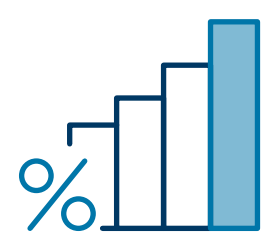
Highlighted above are the 25 top-ranked states for solar energy—the top 5 being California, Nevada, Arizona, Texas, and Massachusetts.⁶ Lenders operating in these regions, which have an especially strong emphasis on environmentally friendly home projects, have an outsized opportunity to build a financially beneficial and mission-minded green lending portfolio.

Lenders who are looking to qualify for federal incentives should also consider this growing lending segment. While some incentives vary regionally, a variety of federal and state initiatives (such as the Inflation Reduction Act) offer monetary incentives for financial institutions that are accelerating the adoption of green products and technologies.

Why is this beneficial for lenders?

Market Demand

The green market is rapidly growing with no signs of stopping. Financial institutions that offer embedded lending options in this segment can participate in its rapid growth while better serving the needs of environmentally conscious contractors and consumers.



Loan Diversification

Green lending is a blanket category that includes a variety of diverse products, including geothermal or solar heating, solar panels, ENERGY STAR products, and more. Lenders who enter this segment can enjoy strong diversification across green products, lowering the risk of their lending portfolio.



Federal Incentives

Participating in the green lending segment positions lenders to qualify for federal incentives, such as the Greenhouse Gas Reduction Fund. This access to monetary incentives protects against loan loss and offers an extra source of revenue.



Community Engagement

Lenders operating in states like Texas and Colorado—leaders in solar energy investments—have a unique opportunity to engage with their local communities, strengthen their relationships with sustainable organizations, elevate their affiliation with the growth of sustainable practices, and most importantly, powerfully advance their mission.



How does LoanStar support green lending?

Advance and accelerate your community's shift towards sustainability by offering embedded lending programs focused on green initiatives. The LoanStar MerchantLinQ platform empowers lenders to provide accessible financing options for solar installations, energy-efficient appliances, eco-friendly home improvements, and more. Collaborate with local businesses to make fair financing available at the point of purchase, growing your loan originations, boosting member numbers, and fostering new merchant relationships. With a growing list of merchant affiliations, LoanStar is ready to connect your financial institution with the right organizations to start your green lending journey.

Speak with a LoanStar representative today to explore how your organization can dive into eco-friendly initiatives to simultaneously strengthen your business and your mission.

For more information, contact us at lenders@loanstartech.com.



1. <https://pv-magazine-usa.com/2022/08/18/green-banks-may-compete-for-27-billion-from-fund-set-up-by-inflation-reduction-act/>
 2. <https://www.linkedin.com/pulse/global-sustainable-finance-market-generate-224856/>
 3. <https://www.nar.realtor/blogs/styled-staged-sold/green-friendly-home-updates-come-big-and-small>
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 5. <https://www.forbes.com/home-improvement/features/will-americans-go-solar/>
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