

# Financing Options

The capital outlay for solar systems, especially photovoltaic systems, is large. However, there are options for financing the installation of solar systems for individual homes, such that most homeowners who would like to install a solar system should be able to do so. The revenue from home-produced electricity as part of Ontario's Standard Offer Program (SOP) will be classified as small business income by Canada Revenue Agency. Although the income is taxable, there are significant tax deductions available to offset that income, for example, depreciation and loan interest. Each financing option will have different costs and somewhat different tax implications, so choose your financing option carefully.

## 1. SOLAR LEASING PROGRAM.

Similar to vehicle leasing, this option has been developed by Lease Capital Corporation of Canada. It involves signing a contract for a fixed period of time, from 3 to 8 years, and they will pay the initial capital cost of the solar system. You are required to make fixed monthly payments until the end of the lease period at which time you will be able to purchase the residual, among other options. The effective annual interest rate for leasing solar systems is about 9.9%.

Contact: [www.lc3.ca](http://www.lc3.ca)

### **BENEFITS**

- LEASE PAYMENTS ARE 100% TAX DEDUCTIBLE AS AN EXPENSE
- UP TO 100% FINANCING IS AVAILABLE INCLUDING INSTALLATION
- CREDIT PRESERVATION
- FIXED PAYMENT THROUGHOUT TERM OF LEASE
- SIMPLIFIED ACCOUNTING

For more information on leasing your solar energy system, please contact:

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## 2. HOME EQUITY LINE OF CREDIT.

If your credit rating and income level are acceptable, credit unions and banks will usually set up a line of credit for homeowners which will be secured by the equity you have in your home. The line of credit can be set as high as 75% of the appraised value of your home less the mortgage principal balance, if any. Set-up fees would be about \$150 to \$200, primarily to cover the cost of a professional appraisal. [Some financial institutions may waive these set-up fees.] In most cases, the interest rate is not fixed. Normally it will be set at bank prime or bank prime plus ¼ percent, so it will change whenever the Bank of Canada adjusts the prime rate. [Note that as of early May 2007, bank prime is 6%.]

### **BENEFITS**

- **LOW INTEREST RATE:** Set at or slightly above bank prime, since it's a secured loan.
- **FLEXIBLE REPAYMENT:** Although you must pay the loan interest each month, in most cases you can pay back the principal according to your own schedule. [Or maybe this is a disadvantage if you are not disciplined about paying off loans.]
- **RELATIVELY EASY TO SET-UP AND USE:** Normally, the line of credit will be added to your bank access card at which point it operates similar to any bank account, complete with chequing privileges, ATM and online access, and transfer capabilities.
- **FUTURE LOAN ACCESS:** Having a secured line of credit set up (as long as you maintain your credit rating) allows you to borrow money at an attractive interest rate whenever you may need it in the future without having to re-apply for a loan.
- **TAX BENEFITS:** The interest you pay for money borrowed to finance a solar system is an income tax deduction. As well, you can write-off capital cost allowance (depreciation), etc. [Consult your accountant.]

## 3. MORTGAGE RE-ADVANCE.

If you have a mortgage which is coming up for renewal, you may be able to get a lump sum re-advance equivalent to the difference between the original amount of the mortgage principal and the principal balance at the time of renewal. The interest rate on the re-advance amount would be the same as your mortgage interest rate, which for most mortgage terms is currently below bank prime rate. This rate would be fixed for the renewal term selected, unless you chose a variable rate mortgage. Repayment would be incorporated into your monthly mortgage payments.

### **BENEFITS**

- **VERY LOW INTEREST RATE:** The interest rate is usually below bank prime and is fixed for the term of the mortgage, unless you choose a variable rate mortgage.
- **EASY TO SET UP:** It can be done over the phone and maybe even by email, but *only when your mortgage is coming up for renewal.*
- **PAYMENTS LUMPED IN WITH MORTGAGE PAYMENTS:** There is no extra, separate loan payment to make each month, and as long as you continue with the same amortization period, it will be all paid off at the same date as for your original mortgage.
- **TAX BENEFITS:** The interest that you pay on the portion of the mortgage principal that was used to finance your solar system (i.e. the interest related to the amount of your re-advance) is an income tax deduction. As well, you can write-off capital cost allowance (depreciation), etc. [Consult your accountant.]