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## Securitization could open floodgate for green finance

**ABS market participants speaking on Thursday said they are confident that the use of securitization could open up the market for financing green initiatives, but a lack of standardization and regulatory hurdles could keep the market from going mainstream.**

By Sasha Padbidri 09:00 PM

In a webinar on Thursday, speakers indicated that there are two main types of green securitizations that have been priced in the US and Europe — one in which the collateral backing the deal is labeled green, and another in which the underlying collateral may not necessarily be green, but the proceeds raised are used to invest in green technologies or research.

In the US specifically, the green ABS market has seen “tremendous growth” from the solar and Property Assessed Clean Energy (PACE) sectors this year, noted Rasool Alizadeh, head of ABS at Ygrene Energy Fund, a commercial and residential PACE issuer. According to Alizadeh, approximately \$3bn in solar and PACE ABS has been issued as of November 29, as well as a green auto deal from Toyota.

“Solar and autos have made segues into the ABS markets with Toyota’s [prime auto] green bond and solar lease ABS from Solar City and Tesla. We expect to see continued growth in all these areas, especially from Tesla, Renovate America and Ygrene,” Alizadeh said.

Huub Mourits, global head of structured finance services at TMF, added that ABS and CLO deal structures are a good fit for the aggregation and financing of green collateral, but indicated that reporting on deal performance for green bonds needs to become more standardized before volume can pick up.

“As new technologies mature, and track records in energy efficiency indicators build up, ABS and CLOs seem to be a better fit for a wide range of assets for financing. ABS and CLOs are a much more efficient tool for aggregating leases and loans for securitizations [and] I believe the role of securitization will be vital for green bond growth,” Mourits said.

An audience poll indicated that 66% of the attendees saw the potential for green ABS to become a mainstream asset class, but a fifth of attendees held a more conservative view that the sector would likely remain a niche market.

Speakers added that global green bond issuance, including green ABS, could be as big as \$700bn by 2035 once issuing parties and various regulatory regimes agree on a global standardized framework for green bonds and deal requirements for climate bond standards. In developing markets, for example, a third of the outstanding low carbon bonds sector could be ABS by 2035, with direct lending providing approximately 50%–60% of the potential investments needed to grow nascent sectors like solar loans and leases or commercial PACE, according to data provided by the panelists.

Mike Lemyre, senior vice president of government affairs at Ygrene, noted that domestic regulations have the power to shape or shrink the industry, referring to a bill proposed by Senator Tom Cotton earlier this year to regulate residential PACE akin to mortgages.

“The sky’s the limit in terms of where the market can go...but the legislations at the state level is what is essential – this is what enabled the market to flourish during its early days. We saw California and Florida recently put some regulatory guardrails in place to bring the asset into the mainstream,” Lemyre said.

#### EU hypes green opportunities

Meanwhile in Europe, though the green bond market has matured over the years, European green ABS is still in its infancy.

“We see securitization as being a useful tool for funding green initiatives in Europe. Past deals that we’ve seen include the green storm RMBS from Netherlands,” said Kathryn James, senior associate at Clifford Chance, referring to Dutch mortgage issuer Obvion, which launched Europe’s [first public green securitization](#) last March.

The panelists agreed that one setback for growth of the green RMBS market is an abundance of older, less energy efficient housing. The development of the green RMBS market might be dependent on people choosing to upgrade the energy efficiency of their homes, the panelists said.

James added that in the private ABS market, a handful of warehousing and borrowing base deals have also passed through the pipeline, with the number of deals expected to grow in 2018.

“These aren’t big, publicly known deals but we’re aware that a number of clients have also been looking at putting warehouse facilities in place, and looking at the possibility of turning these out in the future,” James said.

The panelists said that the utilities sector could be a possibility for future green ABS to grow, though issuance is uncommon. Anglian Water, for example, has made use of securitization in the past, but it [opted to do](#) a green sterling-denominated corporate bond in August. The £250m eight-year bond was the first from a UK water company since the Green Bond Principles were introduced in 2015.

#### Commercial PACE, autos at the forefront

The majority of respondents indicated in a poll that commercial PACE could be the next breakthrough green ABS sector, with green auto ABS a close second.

Sources have told *GlobalCapital* that commercial PACE ABS could take off next year, with as many as two to four deals in the 2018 pipeline. Greenworks Lending, which priced a [watershed deal](#) in September, indicated that they were aiming for at least one deal next year.

Clifford Chance’s James further added that green auto ABS could be the next step forward in Europe as countries like France and Germany pledge to transition out of petrol cars in the next 30 years to fight global warming.

“A lot of European jurisdictions have committed to moving away from petrol cars in the next 30 years so we could see that transition happening to auto loans quite seamlessly from being non-green deals to becoming green deals over time,” James said.

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