Green Finance Institute

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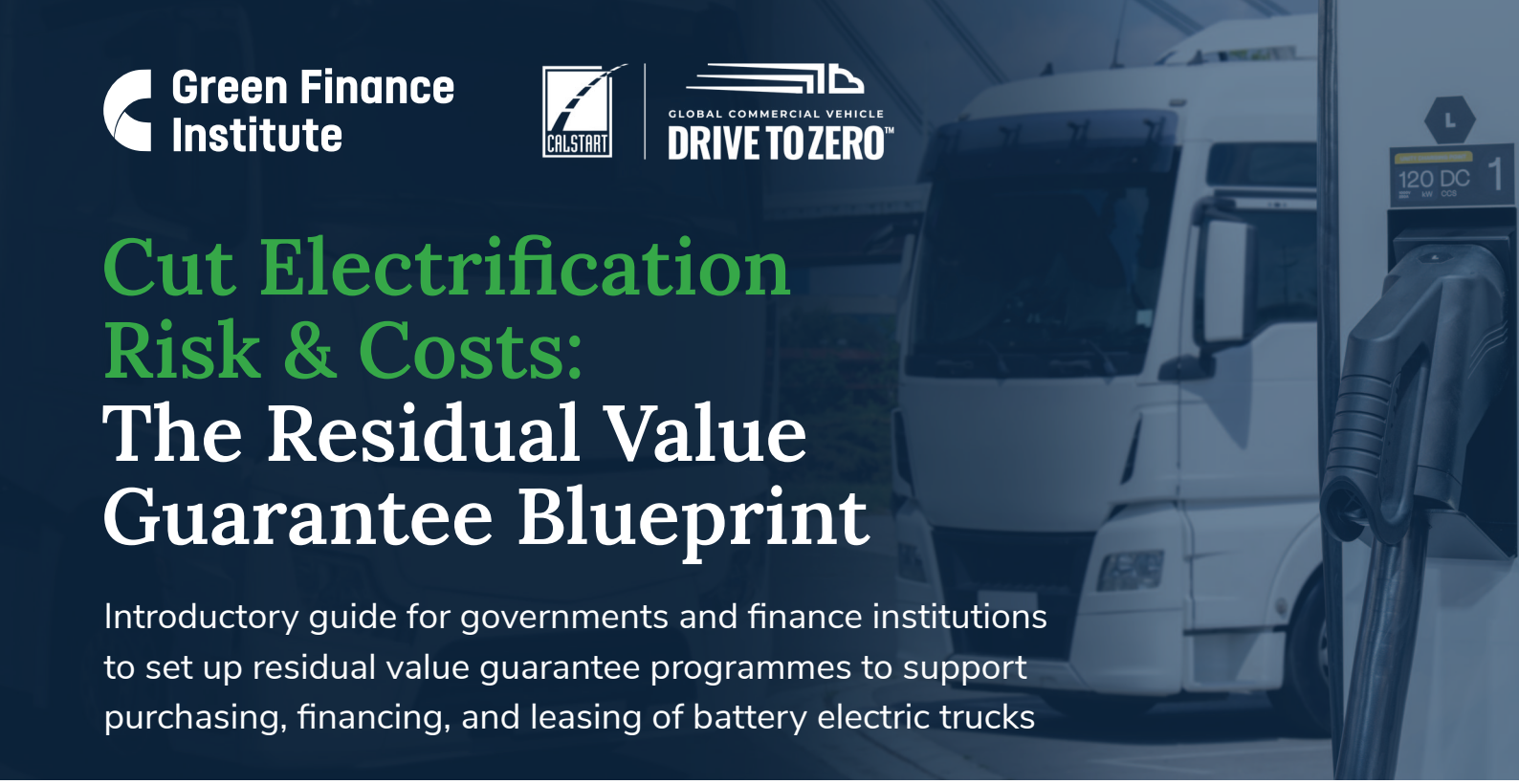


Cut Electrification Risk & Costs: The Residual Value Guarantee Blueprint

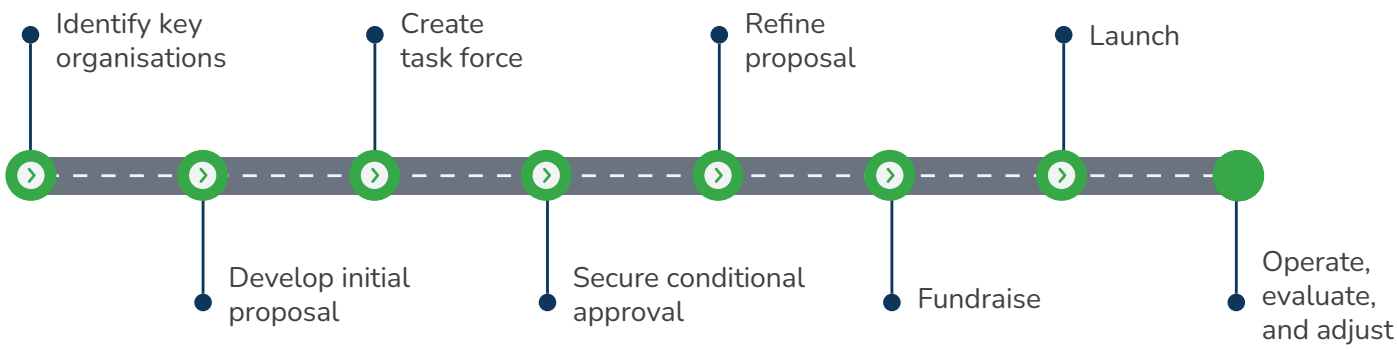
Introductory guide for governments and finance institutions to set up residual value guarantee programmes to support purchasing, financing, and leasing of battery electric trucks

EXECUTIVE SUMMARY

Residual value (RV) risk is making battery-electric truck (BET) financing and leasing less accessible and more expensive than necessary. RV risk is the possibility that a used BET will be sold for less than anticipated at the start of a contract (the expected RV). In leasing – one of the most popular ways companies use to acquire new trucks – payments are set largely based on the gap between the retail price and the RV. The lower the RV, the larger the gap, and the higher an end client's payments. In asset-backed financing, the vehicle is typically used as loan collateral. A low RV means the lender will be less likely to recoup their investment in case of a default, which makes lenders limit their credit offerings to highly creditworthy customers and reduces the amounts that borrowers can access.

A residual value guarantee (RVG) programme addresses these issues and can reduce leasing costs for fleet operators by approximately 12% per month. For a heavy-duty truck in the UK, this would add up to approximately £6,800 ($9,000) per year. RVG programmes do this by partially protecting guarantee recipients against potential losses due to RV risk. By doing so, it encourages lessors to consider higher RVs, which translate into lower monthly lease payments. For lenders, it ensures they will be able to recoup a larger portion of their investment in case of default, leading to improved access to loans. By bringing down costs and expanding access to loans, RVGs can encourage more truck operators to adopt BETs.

Figure ES-1: Eight-Step Implementation Roadmap to Verify Appetite, Secure Buy-In, and Set up the Guarantee for Success.



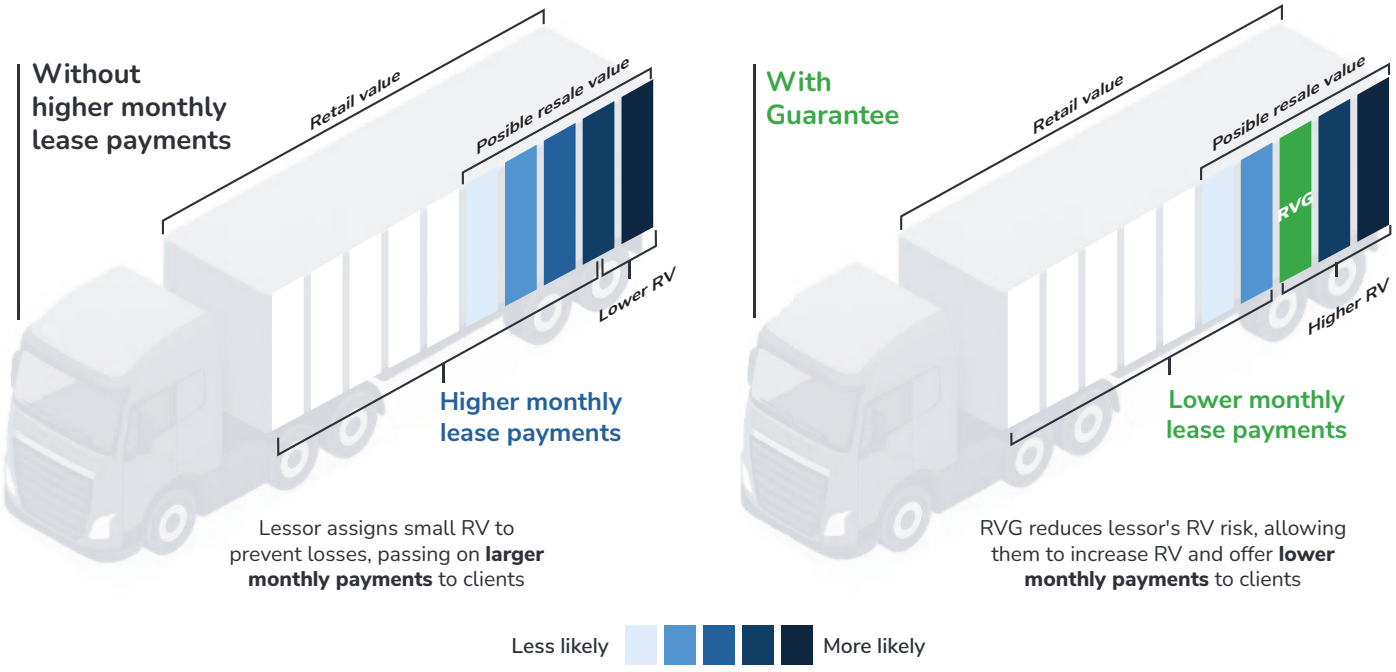
Source: Authors

A £10 million ($13.5 million) reserve for RVGs could mobilise over £228 million ($338 million) in additional capital for BETs. Such a reserve could help deploy almost 2,200 medium-duty trucks – over two times more than what would be achieved using an upfront subsidy – and generate nearly £32 million ($43 million) in savings for fleets.

This guide aims to help stakeholders design successful RVG programmes to stimulate market development. Since an RVG's ability to bring costs down depends on market conditions, the importance of designing an effective programme cannot be overstated. Creating such a programme will require answering a series of questions, including: who and what the guarantee covers, when the guarantee pays out and why, how to benchmark RV setting, what level of loss coverage should be used, and how much the guarantee might cost, among others. This guide provides recommendations for navigating these questions, as well as a step-by-step process to move toward implementation and eventual phaseout.

RVG Programmes reduce potential losses for financial institutions due to uncertain resale values, allowing them to offer more affordable products to fleets

Figure ES-2: RVG programs reduce potential losses for financial institutions due to uncertain resale values, allowing them to offer more affordable products to fleets



Source: authors

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