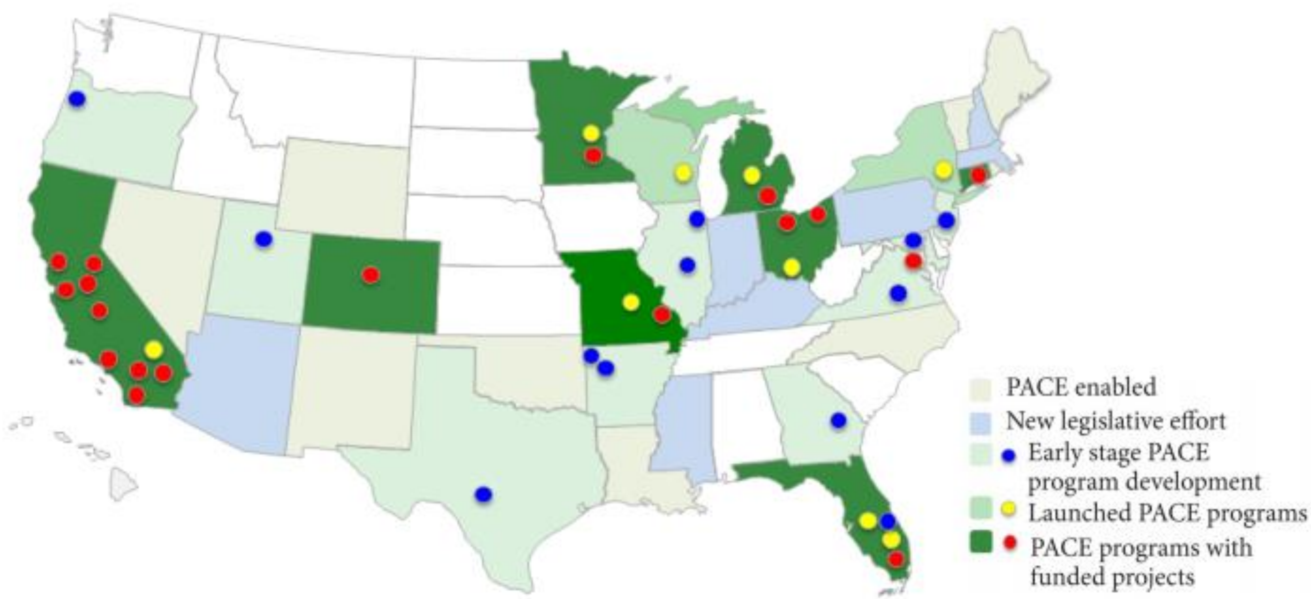
CENTER FOR THE NEWENERGY ECONOMY
Colorado State University

Residential Property Assessed Clean Energy

Description:

Residential Property Assessed Clean Energy (R-PACE), like Commercial PACE, is a financing mechanism implemented by local governments that allows residential property owners to finance energy efficiency and renewable energy improvements. The repayment of qualified energy improvements is done via a voluntary property tax assessment collected by local governments, just as other public infrastructure investments are financed. The financing for PACE projects may be provided by municipal bonds or third party capital secured by the property assessment payments. Homeowners repay the loans via a line item on their property tax bill and repayment responsibility transfers to the next owner if the home is sold. States may need to pass authorizing legislation for local governments to issue such bonds by creating “taxing districts”. Similarly, states may pass legislation allowing for multiple districts issuing bonds to combine their participating tax base in one super-district to drive down the costs of bond issuance and increase access to secondary bond markets.



Source: PACENation (Map includes CPACE and RPACE programs)

Discussion of the Policy:

From 2008-2010, thirty-five states passed legislation authorizing R-PACE financing. In 2009, the Whitehouse issued principles for model R-PACE programs. But, R-PACE hit a major roadblock in 2010 when the Federal Housing Finance Agency (FHFA) which oversees the activities of the nation’s two largest lenders, Fannie Mae and Freddie Mac, directed the lenders not to underwrite PACE mortgages due to the fact that the improvement loan would take seniority over a mortgage held by a lienholder. In 2012, FHFA opened a rulemaking on the issue, but withdrew the proposed rule a year later. In December of 2014, the Agency issued a statement reiterating its position and to “make clear to homeowners, lenders, other financial institutions, state officials, and the public that Fannie Mae and Freddie Mac’s policies prohibit the purchase of a mortgage where the property has a first-lien PACE loan attached to it.”

In August 2015,however, Ed Golding, the new head of Federal Housing Administration (FHA), a separate entity that provides mortgage insurance for FHA approved lenders, announced that under forthcoming guidance, properties with subordinated PACE loans could be purchased and refinanced with FHA insured mortgages. The Administration also issued draft guidance addressing methods for subordinating PACE liens:

- Lien Position: Only PACE liens that preserve payment priority for first lien mortgages through subordination;
- PACE payment, structure, and term: PACE financing must be a fixed-rate, fully amortizing loan;
- Eligible Properties: PACE assessments must be attached to single family properties, as defined by FHA, which are 1- to 4-unit dwellings, including detached, semi-detached and townhome properties;
- Equity Requirement: PACE liens that preserve payment priority for first lien mortgages will be eligible for financing that does not exceed FHA's maximum combined loan-to-value (CLTV) ratio;
- Record Keeping: PACE liens must be formally recorded and be identifiable to a mortgage lender through a title search;
- Additional Consumer Protections: PACE programs must comply with applicable federal and state consumer laws and should include disclosures to and training for homeowners participating in the program.

The FHFA and FHA are in ongoing discussions to address concerns about the priority status of PACE loans. And, while FHFA's main concern with R-PACE is the seniority status of the lien, a growing body of evidence suggests that energy efficiency leads to lower mortgage default rates. Research published by the University of North Carolina Center for Community Capital found in a study of 71,000 homes that owners of ENERGY STAR rated homes were 32% less likely to default on their mortgage than built to code homes.

Example State & Municipal Programs:

One solution, for states and cities that have been able to work through the guidance from FHFA lies in the creation of a fund to address possible default risk to the mortgage holder. Two programs that have been particularly successful in this regard are California First and the City of Miami's Clean Energy Green Corridor.

- State of California, California First:

  https://californiafirst.org/

  The California Treasurer's Office set aside a $10M loan loss reserve fund intended to repay mortgage lenders in the event of default and a third party, Renewable Funding, is the PACE administrator for most of the state. FHFA responded that this was insufficient to address their first lien concerns with PACE loans and that they would continue to not support the purchase or refinance of mortgages with PACE loans in the first lien position.

- City of Miami, Florida, Clean Energy Green Corridor:

  https://ygrene.us/fl/green_corridor

  The City of Miami passed a $230M bond in September, 2013 which is intended to address the PACE senior lean concern.

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Key Components:

- Ensure legislation follows the draft principles of the FHFA (above) – most importantly, establishing the seniority of the mortgage over the PACE lien.
- State legislative authority must be in place allowing local governments to establish energy financing districts.
- The mortgage holder must agree to the program before assessments can be placed on the property.

More Information:

- Renewable Funding:

  https://renewfund.com/pace_residential_overview
- GreenTech Media, *After Conflicts With Mortgage Lenders, California Restarts Residential PAC*E:

  http://www.greentechmedia.com/articles/read/after-fixing-a-conflict-with-mortgage-lenders-california-expands-pace
- UNC Center for Community Capital & Instititue for Market Transformation, *Home Energy Efficiency and Mortgage Risks*:

  http://planning.unc.edu/homeenergy
- PACENow industry publications (a wealth of information here):

  http://www.pacenation.us/publications/
- DOE Database of State Incentives for Renewables & Efficiency (DSIRE), PACE Map:

  www.dsireusa.org/documents/summarymaps/PACE_Financing_Map.pdf