Residential Property Assessed Clean Energy: A Primer for State and Local Energy Officials

MARK WOLFE
Executive Director

June 2017
Provides state and local government officials a comprehensive resource on residential PACE, including:

- History
- Legal and financing structures
- How the program works
- How local governments can set up their own programs
- Legal challenges thus far
- Consumer protection concerns

PACE program statistics such as:

- FICO scores of borrowers
- Interest rates
- Prepayment fees
- Borrowing limits
- Amount of assessments issued by administrator
- Types of allowable improvements
- Securitizations and volume
- Administrators

What is R-PACE?

Residential Property Assessed Clean Energy is:

- **A financing mechanism** for energy efficiency, renewable energy, resilience, and water saving improvements
- **Repaid through property taxes**: A PACE assessment is attached to the property’s tax bill secured by the same type of lien against the property as tax bills
- **Pari passu with other tax liens**, and therefore, senior to any mortgage liens on the property unless otherwise provided by statute or agreement
- **Transferable upon sale of the property** because the financing is tied to the property rather than the property owner
R-PACE Growth

Number of Projects Financed: 148,000
Amount Financed (Cumulative): $3.7 billion
Amount Financed (in last 2 years): $3.3 billion

Number of States with Enabling Legislation: 25 & DC
Number of States with R-PACE Assessments: 7
Number of States with Active R-PACE Programs: 5

Growth in R-PACE Financing

States with PACE-enabling Legislation
Types of Improvements Financed

ENERGY EFFICIENCY 58%
- HVAC
- Air Sealing
- Insulation
- Cool Roofs

RENEWABLE ENERGY 37%
- Solar Panels
- Solar Thermal
- Solar Inverters
- Battery Backup Systems
- Wind Microturbines
- Electric Vehicle Charging Stations

WATER 5%
- Efficient Faucets
- Water Heaters
- Toilets, Showerheads
- Pool Equipment
Percentage of PACE Customers with Incomes Less Than $50K:

RENEW FINANCIAL
- Under $50,000: 23%
- $50,000 - $75,000: 41%
- $75,000 - $100,000: 11%
- $100,000+: 25%
Average Loan Size to LMI Customers: $24,165

YGRENE
- Under $50,000: 44.4%
- $50,000 - $75,000: 31.3%
- $75,000 - $100,000: 19.2%
- $100,000+: 25%
Average Loan Size to LMI Customers: $22,687

RENOVATE AMERICA
- Under $50,000: 41%
- $50,000 - $75,000: 29%
- $75,000 - $100,000: 25%
- $100,000+: 41%
Average Loan Size to LMI Customers: $21,470
R-PACE Underwriting

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bankruptcy</td>
<td>No recent bankruptcies for 2-7 years (varies by program)</td>
</tr>
<tr>
<td>Equity</td>
<td>Some programs require a certain minimum homeowner equity in the home, usually 10%</td>
</tr>
<tr>
<td>Loan-to-value</td>
<td>Most programs provide that the PACE assessment cannot exceed 10-20% of the value of the property</td>
</tr>
<tr>
<td>Combined loan-to-value</td>
<td>Most programs provide that the PACE financing and mortgage-related debt cannot exceed 100%</td>
</tr>
<tr>
<td>Income</td>
<td>Does not assess income or ability-to-repay, with the exception of E3 in CA, which assesses debt-to-income (DTI) ratios in underwriting. Renew Financial is also now considering adding ability-to-repay</td>
</tr>
</tbody>
</table>
R-PACE Terms

Vary by program and state, but typical terms include:

- **Min. Loan Amount**: $2,500-$5,000
- **Max. Loan Amount**: 15% of the first $700,000 in property value and 10% of any remaining property value over $700,000
- **Avg. Loan Amount**: $20,000
- **Interest Rates**: 6-9%. APR may be significantly higher due to fees
- **Loan Tenor**: 5-30 years. Cannot exceed expected useful life of improvements.
- **Prepayment**: Most PACE programs allow for prepayment without fees or penalties (exception: Ygrene)
- **Fees**: Recording fee, an administrative fee, an origination fee, a title search fee, and a bond reserve deposit
## R-PACE vs. Other Financing Options

<table>
<thead>
<tr>
<th>Home Equity Loans</th>
<th>Credit Cards</th>
<th>Contractor Financing</th>
<th>Solar Loans &amp; Leases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rates are typically variable (PACE rates are fixed), but lower by 1-4%. Have stricter requirements: <strong>HIGH EQUITY</strong> most lenders want your home equity to be &gt;20% after your loan has closed <strong>GOOD CREDIT</strong> look for min. FICO scores of 660-680; 700+ is ideal <strong>LOW DTI RATIO</strong> Most want to see a debt-to-income ratio below 45%</td>
<td>Interest rates are around 10-13% higher but no lien on the home.</td>
<td>Home improvement contractors offer financing through groups like GreenSky and Synchrony with rates that can be lower or significantly higher than PACE depending on creditworthiness.</td>
<td>SolarCity rates begin at 2.99%.</td>
</tr>
</tbody>
</table>
The mortgage community is opposed to PACE on the grounds that it may increase homeowner defaults on mortgages, particularly in first-lien PACE where the PACE assessment is paid before the mortgage in event of default / foreclosure.

- **JUL 2010**: FHFA, conservator of Fannie Mae and Freddie Mac, directs GSEs not to purchase or insure mortgages with first-lien R-PACE assessments. Many R-PACE programs are subsequently suspended.
- **DEC 2014**: MBA releases statement of opposition on PACE program.
- **JUN 2016**: FHFA gives testimony further reaffirming opposition to PACE.
- **JUL 2016**: MBA releases statement of opposition on PACE program.
Responses to FHFA Opposition

**CALIFORNIA**

Challenged FHFA’s directive in *Sonoma County v. FHFA*

Created a $10 million PACE Loss Reserve Program in 2014 administered by CAEATFA

HERO program allows contractual subordination option

**VERMONT & MAINE**

Established subordinate or second lien programs as alternatives: Efficiency Vermont and Efficiency Maine

FHFA sent letter to Vermont approving of subordinate lien PACE legislation
Delinquency and Default Rates

**Short Track Record:** R-PACE assessments are still relatively new and there is insufficient historical performance data to make concrete claims about defaults and delinquencies as loan performance may not be linear through time.

**Low Default:** Delinquency and default rates on R-PACE assessments are low. Defaults on the underlying PACE assessments backing R-PACE bonds are less than 1%.

**CAEATFA PACE Loss Reserve:** To date, no claims have been made on the loss reserve.

**Payment Assistance:** Note that the reported default rates do not account for any payment assistance provided by PACE companies such as Renovate America. Renovate America made $175,000 in payments on behalf of 83 homeowners who otherwise may have defaulted between 2014 and 2016.
## Delinquency and Default Rates

<table>
<thead>
<tr>
<th>PROGRAM</th>
<th>DELINQUENCIES</th>
<th>DEFAULTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>HERO (CA)</td>
<td>0.43%</td>
<td>Unavailable</td>
</tr>
<tr>
<td>Ygrene (CA)</td>
<td>0.15%</td>
<td>0</td>
</tr>
<tr>
<td>CaliforniaFIRST</td>
<td>0.045%</td>
<td>0.03%</td>
</tr>
<tr>
<td>PACEfunding</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>AllianceNRG</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>E3</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>SCEIP</td>
<td>0.23%</td>
<td>0</td>
</tr>
<tr>
<td>mPOWER (Placer)</td>
<td>Unavailable</td>
<td>0.001%</td>
</tr>
<tr>
<td>Vermont PACE</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Maine PACE</td>
<td>&lt;12</td>
<td>N/A</td>
</tr>
</tbody>
</table>
Existing consumer protection policies common to most active R-PACE programs include:

- Full disclosure of estimated assessment amount, annual installments, and fees;
- Disclosure of the impact a residential PACE lien can have on refinancing and sale;
- Verification that contractors have the necessary licenses and permits;
- Third party verification of workmanship;
- A three-day right to cancel; and
- A dispute resolution process.

Disclosures / Protections that exist for mortgages but do not currently apply to PACE

- Truth in Lending Act’s (TILA) disclosure requirements, ability-to-repay rule & right to rescind
- Federal Trade Commission’s (FTC) Holder Rule
- Real Estate Settlement Procedures Act (RESPA)
- TILA-RESPA Integrated Disclosure rule (TRID)
Consumer Protection Concerns: Timeline

MAY 2016
PACENation releases PACE Consumer Protection Policies

SEPT 2016
Three class action complaints filed; DOE releases Best Practice Guidelines; NCLC publishes recommendations

NOV 2016
Assembly Bill 2693 goes into effect

FEB 2017
California State Senator Skinner introduces SB 242

APR 2017
Protecting Americans from Credit Entanglements (PACE) Act of 2017 introduced in Congress

Remaining Concerns Include:

Ability to Repay: R-PACE does not take income into account in underwriting

Contractor Abuses: Contractors have incentive to up-sell

Quality Control: Are PACE improvements achieving the advertised energy savings?

Disclosure of Alternative Options: Eligible families should be explicitly informed about available grant resources prior to applying for PACE financing
EPC Recommendations

1. Create a national oversight body or committee to act as a third-party monitor and ensure adequate consumer protections and more coordinated governmental oversight as PACE expands its reach into low and moderate income homeowner communities.

1. State and local governments should consider requiring PACE administrators to incorporate three suggested consumer protections that EPC consider to be crucial to ensure that programs are best serving their residents.

   a. Require assessment of ability to repay.

   b. Screen & Refer.

   c. Limit incentives for aggressive door-to-door sales and incentives to up-sell.
Questions? Contact us

Mark Wolfe
Counsel & Director of Finance Programs
Email: mwolfe@energyprograms.org

Cassandra Lovejoy
Program Manager
Email: clovejoy@energyprograms.org

ENERGY PROGRAMS CONSORTIUM
1350 Connecticut Avenue NW, Suite 1100
Washington, D.C. 20036
202.333.5916

68 Jay St., Suite 517
Brooklyn, NY 11201
718.596.5700