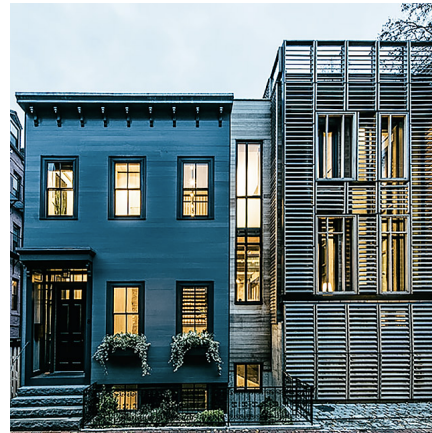




Residential Property Assessed Clean Energy (R-PACE)



*National Association of
State Energy Officials*



NASEO Financing Committee Webinar

+ Discussion Objectives

- Present on recent R-PACE developments
- Gauge SEO interest and preferences for a potential R-PACE Taskforce (subgroup of the Financing Committee)
- Collect initial SEO feedback on DOE's revised R-PACE Guidelines



Clean Energy Savings for All Americans

- Goal: 1 gigawatt of solar to LMI families by 2020
- Interagency partnership among U.S. Departments of Housing and Urban Development (HUD), Veterans Affairs (VA), Energy (DOE), Health and Human Services (HHS), and the U.S. Environmental Protection Agency
- View at <https://www.whitehouse.gov/the-press-office/2016/07/19/fact-sheet-obama-administration-announces-clean-energy-savings-all>.

Commitment	HUD	VA	DOE	HHS	EPA
R-PACE guidance for federally-backed mortgage products	✓	✓			
R-PACE best practice guidelines			✓		
Community Solar Challenge			✓		
TA for LIHEAP grantees			✓	✓	
Solar workforce training			✓		
Meetings and stakeholder engagement	✓		✓		✓

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HUD's Federal Housing Administration (FHA)

- **August 2015:** FHA announces its intent to release guidelines for the use of FHA financing on properties with existing PACE obligations. States that anticipated guidelines will address at a minimum:
 - Lien priority (“only PACE liens that preserve payment priority for first lien mortgages through subordination”)
 - PACE payment, structure and term; eligible properties; equity; record-keeping; consumer protections.
- **Fall/Winter 2015:** PACE stakeholders submit comments to FHA
 - Key issues: allow PACE assessment to survive sale of property (do not require that it be paid in full); consider contractual subordination as a mechanisms to preserve first lien mortgage priority; afford state and local governments flexibility in program design.
 - NASEO's comments and HUD's response to NASEO are available here: <http://www.naseo.org/financing-resources-pace>.

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HUD's Federal Housing Administration (FHA) and Department of Veterans Affairs (VA)

■ July 2016: Guidance

- FHA: Mortgagee Letter 2016-11:
<http://portal.hud.gov/hudportal/documents/huddoc?id=16-11ml.pdf>
- VA: Circular 26-16-18:
http://www.benefits.va.gov/HOMELOANS/documents/circulars/26_16_18.pdf
- PACE obligation must be collected and secured in same manner as a special assessment
- Property may be subject to an enforceable lien superior to the FHA- or VA-backed mortgage for delinquent amount owed (**not** for the full outstanding amount at any time)
- There may be no acceleration of the remaining future installments. The future installments may continue with the property

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HUD's Federal Housing Administration (FHA) and Department of Veterans Affairs (VA)

- Important to note: *not* the whole market
- FHFA maintains its position against the seniority of the PACE obligation
- Impact on real estate community:
 - Existence of PACE obligation must be readily apparent to mortgagees, appraisers, borrowers, and other parties to the transaction
 - The appraiser must analyze and report the impact on the value of the property, whether positive or negative, of the improvements and any additional obligation (i.e., increased tax payments)

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- **July 2016:** Revised “Best Practice Guidelines for Residential PACE Financing”
 - http://energy.gov/sites/prod/files/2016/07/f33/best-practice-pace_0.pdf
- 1. **Define Eligible Improvements and Prioritize Cost-Effective Energy Measures**
 - Eligible measures should pursue legally-defined “public purpose”
 - Cost-effectiveness: “financed package of energy improvements should be designed to pay for itself over the term of the assessment”
 - DOE encourages energy assessments to identify and recommend measures (Home Energy Score, RESNET/HERS, other tools)
- 2. **Establish Property Owner Eligibility Criteria**
 - Verify property ownership
 - Confirm property-based debt and property valuation

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U.S. Department of Energy

3. Establish Consumer and Lender Protections

- Property owner education and disclosures
- Right to cancel the purchase
- Appropriately-sized assessment (improvements should be “right-sized” for properties and for the administrative costs of PACE financing)
- Home improvement information
- Information on relationship between PACE assessments and mortgage financing (failure to pay; impact on selling/refi; mortgage lenders’ willingness to modify or refinance a property with PACE obligation)
- Non-acceleration upon property owner default (In the event of a sale, including a foreclosure event, the outstanding PACE obligation may continue with the property; in cases of foreclosure, the priority collection of delinquent payments for the PACE assessment may be waived or relinquished)
- Notification of mortgage holders of record

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U.S. Department of Energy

4. Public Disclosure of PACE Assessments

- Information on the obligation and improvements should be made available to realtors, appraisers, and lenders (via permit records, MLS, and other resources)

5. Rebates and Tax Credits

- PACE amount should be net of any expected direct cash rebates for improvements; (indirect cash payments or tax credits may be more difficult to manage)
- Programs should work with utility programs

6. Property Appraisals and Real Estate Transactions

- Parties to sale transaction should be informed and knowledgeable about improvements financed through PACE

7. Program Execution and Compliance with Applicable Laws

- State and local governments should periodically review PACE administrators and borrower performance

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U.S. Department of Energy

8. Quality Assurance and Anti-Fraud Measures

- Minimum contractor requirements (training, registry of approved contractors)
- Monitor contractor performance
- Dispute resolution process
- Permits should be obtained where required by state/local law
- Onsite inspections of projects
- Property owner signature required before payment is issued for work

9. Debt Service Reserve Fund

- To protect investors from late payment or non-payment; could also be used to protect mortgage lenders

10. Data Collection and Evaluation

- Financial performance, cost savings, improvements, borrower data

+ SEO Discussion

- Round-robin:
 - Where is your state on R-PACE?
 - (If any) what questions do you have that NASEO or other State Energy Offices can help address (either today on the phone and/or offline)? For instance, may relate to:
 - Enacting or amending R-PACE-enabling legislation;
 - Educating stakeholders;
 - Supporting local programs and/or launching statewide programs, etc.

+ SEO Discussion

- Questions for group:
 - NASEO is considering launching an taskforce for deeper dive discussions on R-PACE laws, programs, and challenges/opportunities.
 - Who should be in the group?
 - States-only (invite R-PACE experts and others as needed)
 - Cast a wide net (include associations, companies, non-profits interested in R-PACE)
 - What topics should the group prioritize? (Feel free to just call out ideas that NASEO will compile/explore further)
 - NASEO is willing to draft comments in response to DOE's draft best practices guidelines on states' behalf. What would you suggest they include?