

Property **A**ssessed **C**lean **E**nergy

Program Consumer and Lender Protections

February 2011

PACE Safety & Soundness Consumer Protection

<u>Protection</u>	<u>Purpose</u>
Annual utility bill savings should exceed increase in annual tax assessment payments	To ensure that the homeowner's cash flow increases so they have more income to make mortgage payments
PACE finance limited to high impact projects	To ensure that retrofits are limited to projects that have well documented efficiency gains. This maximizes the impact of PACE on improving efficiency and protects homeowners and lenders
Energy audits / licensed contractors / quality assurance	These measures are meant to ensure that the homeowner's retrofit is constructed as intended. Municipalities should have the power to disqualify contractors who fail to remedy problems – strong incentive to complete work correctly
Adequate consumer disclosure / training for homeowners	To reduce the risk of consumer fraud

PACE Safety & Soundness

Lender Protection

<u>Protection</u>	<u>Purpose</u>
Non-Acceleration requirement results in <\$200 of potential senior lien exposure per PACE home	To reduce senior lien exposure, PACE programs mandate that only delinquent PACE payments (e.g. 1-2 years out of 15-20) get seniority in a foreclosure. The future payments are assumed by the new purchaser. This results in <\$200 of senior lien exposure per home (\$15,000 PACE retrofit, 1 year of payments = \$1,500 * 5% default rate = \$75. 2 years of payments = \$150).
Annual utility bill savings should exceed increase in tax payments	To ensure that the homeowner's cash flow increases so they have more income to make mortgage payments and default risk decreases
Property value exceeds property debt	To avoid PACE loans to borrowers who have properties in distress as these borrowers are more likely to default. PACE programs should compare estimated value to outstanding debt.
No current default by homeowner	To decrease risk by avoiding homeowners who are not current on taxes, have unsatisfied liens, have notices of default, or have any other material delinquencies
Limit maximum PACE lien value to percentage of property value	Maximum lien percentage, such as 10%, ensure that PACE retrofits remains a relatively small percentage of overall home value
Clear title	To avoid easements, liens, subordination agreements, etc. that conflict with the PACE assessment