

# PACE

## PROPERTY ASSESSED CLEAN ENERGY

### The Case for PACE Legislation

July 2011

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# PACE OBJECTIVES

## Private Market Solution to meet National Goals

<b>Permanent Jobs</b>	Nationwide, permanent, and across a range of skills
<b>Economic Growth</b>	No Federal spending - \$10 million in <u>private capital market spending</u> creates: <ul style="list-style-type: none"><li>✓ 150 jobs</li><li>✓ \$25 million economic output</li><li>✓ \$2.5 million federal, state &amp; local taxes</li></ul>
<b>Budget Enhancing/Deficit Reducing</b>	PACE generates federal, state, and local tax revenue with no impact on credit
<b>No Taxes/Federal Subsidies</b>	PACE programs stand on their own
<b>Private Market Capital</b>	Funding from the broad capital markets, not taxpayers
<b>Voluntary</b>	Not another government mandate
<b>Reduced GSE Footprint/Losses</b>	PACE reduces losses - promotes market driven solutions for our nation's mortgage industry
<b>Lower Default Rates</b>	PACE programs <u>reduce</u> mortgage default rates
<b>Lender Protection</b>	PACE protects mortgage lenders <ul style="list-style-type: none"><li>✓ Immediate cash savings help owners pay mortgages</li><li>✓ Cutting energy use is a permanent hedge against rising fuel costs and price shocks</li><li>✓ Non-acceleration limits lender exposure just to payments in arrears</li><li>✓ More efficient buildings are worth more, so lender collateral is enhanced</li></ul>
<b>Cut Foreign Oil</b>	More energy independence without taxes or regulation
<b>Cost Avoidance</b>	Reduced need for power plants and transmission systems
<b>Local Focus</b>	Community programs are much more effective than federal or state

# PACE MEANS PROPERTY ASSESSED CLEAN ENERGY

- Community Based:** local programs for property owners to make energy efficiency improvements
- Voluntary:** interested owners opt-in to receive private market financing for improvements that is repaid with an assessment on their property taxes
- Financing Savings:** PACE spreads cost of improvements - weather sealing, insulation, heating & cooling systems - over the life of the measures (up to 20 years)
- Continuity:** assessments are linked to the property and transfer to a new owner upon sale

## How PACE Works

Local government creates assessment district and program that meets community needs



Property owners voluntarily sign-up for financing and make energy improvements



Private capital provides funding for projects - repaid solely from assessments on participants' property



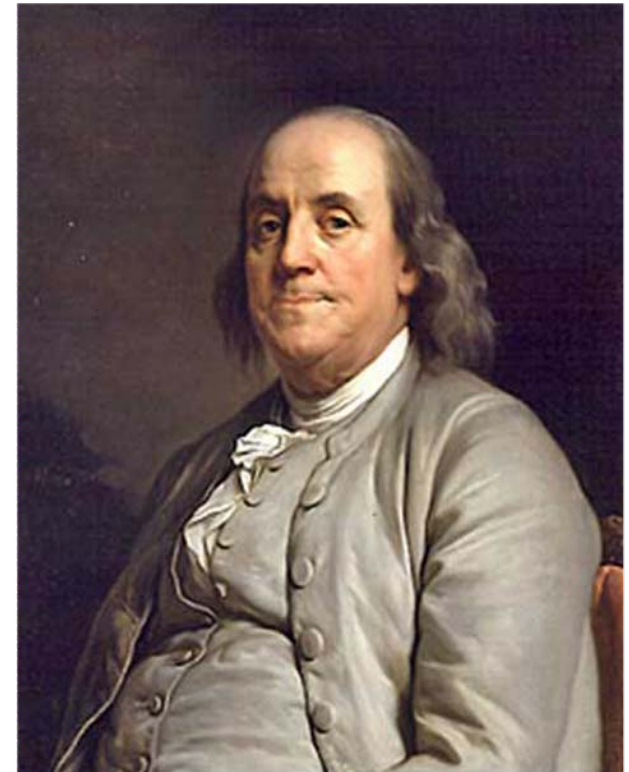
Property owners pay assessments added to property tax bill (for up to 20 years)



# PACE IS AMERICAN AS.....

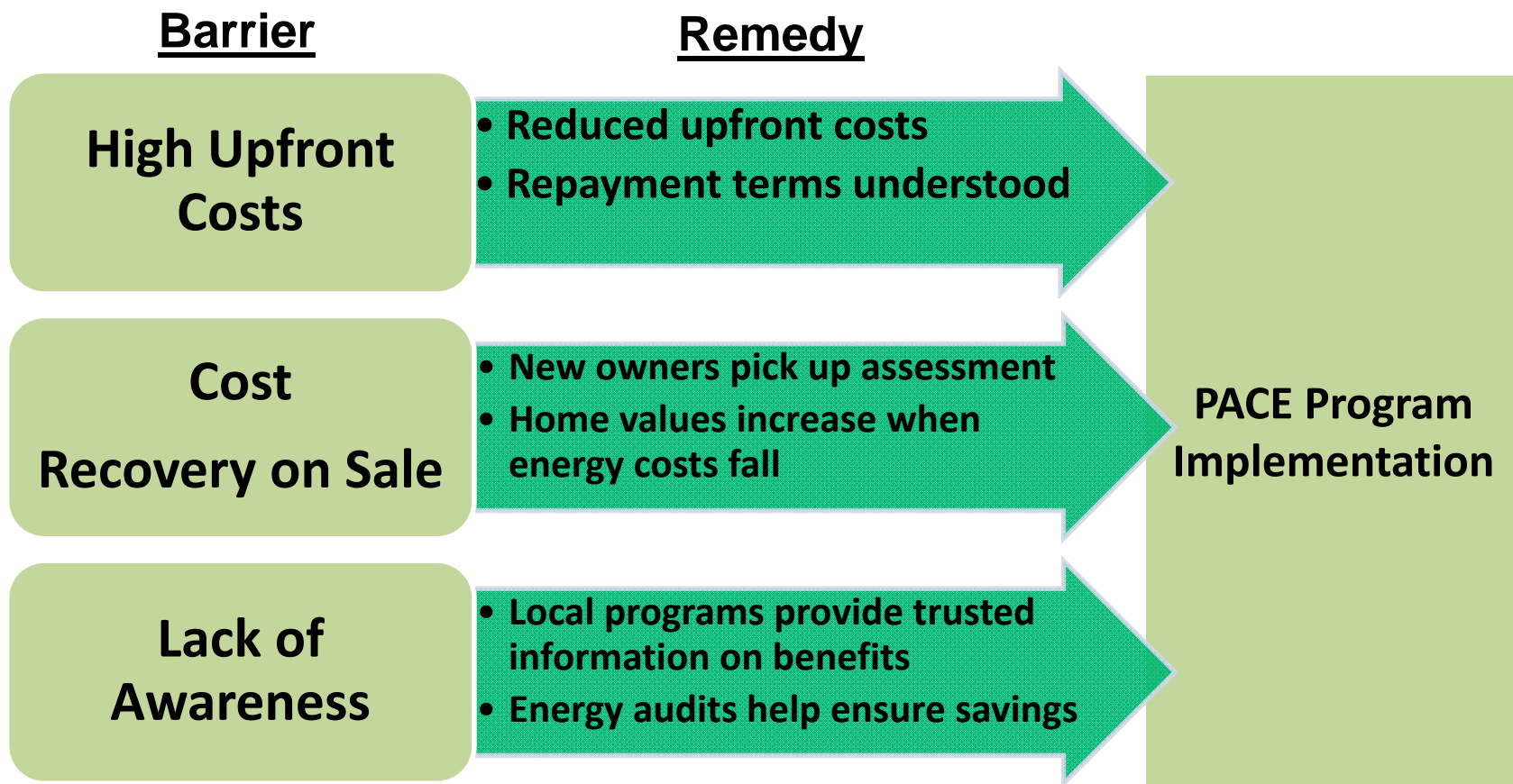
## PACE Rests on Centuries of Precedent

- ✓ Benjamin Franklin is said to have established the first opt-in assessment district for a Philadelphia fire department in 1736
- ✓ 37,000+ assessment districts function efficiently to provide communities with locally approved benefits for things like street lighting, fire prevention, water and sewer services, sidewalks, and parks
- ✓ Other examples of opt-in assessments include ones for septic tanks, sidewalks, and seismic strengthening
- ✓ Assessments in arrears are senior to mortgage balances due in foreclosure
- ✓ PACE is the only form of assessment that increases property owner cash flow



# WHY PACE?

## PACE Removes Barriers to Energy Efficiency Action



# 2008 TO 2011: PACE GAINS RAPID BIPARTISAN ACCEPTANCE

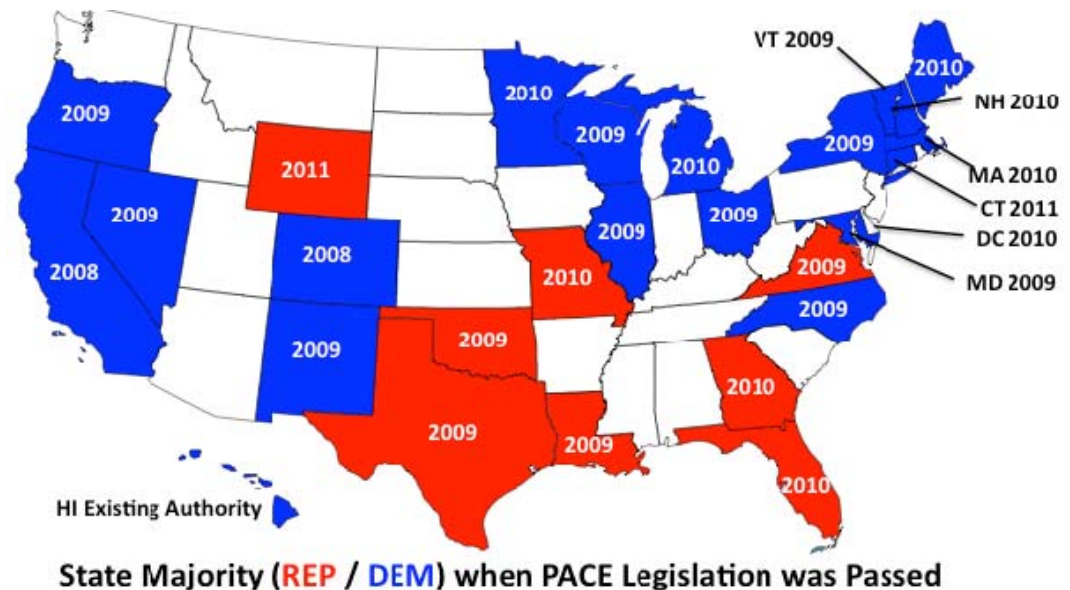
**Adam Hasner**, Florida State Republican House Majority Leader: “PACE provides a no-cost to taxpayers, no-mandate, consumer opt-in approach to bringing clean energy technology to homeowners and businesses. PACE will help create jobs for Floridians at a critical time.”, 2010

**Michael Bloomberg**, Mayor of New York City: “A New York City PACE program to make energy efficiency retrofits will create jobs and reduce energy costs.”, 2010

**Jerry Sanders**, Republican Mayor of San Diego: “I am honored to be one of our nation’s first Mayors to support PACE. San Diego plans to derive strong long term advantages through PACE, and we urge the rest of our nation, on a bipartisan basis, to join us.”, 2010

**Bill Ritter**, Democratic Governor of Colorado: “PACE is already creating economic opportunity, energy savings, and environmental benefits.” , 2010

## 27 States Pass Valid PACE Enabling Laws



# JULY 2010: FHFA BLOCKS OUR NATION'S PACE PROGRAMS

## Regulatory Overreach – Programs Blocked in 27 States

### FHFA, OCC, Fannie Mae and Freddie Mac block PACE, claiming:

- ✓ **PACE is Risky:** senior lien status in defaults creates “safety and soundness” concerns for the mortgage industry
- ✓ **Assessments are Invalid:** PACE programs seem different than other public assessments

### Regulators Ignore:

- ✓ **PACE Reduces Risk:** Actual PACE Program data show dramatically reduced risk to lenders and losses to the GSEs
- ✓ **States' Rights:** 27 States cite public purpose in passing valid enabling laws
- ✓ **Centuries of Precedent:** 37,000+ assessment districts now operate efficiently nationwide

# Safe & Sound

## Mortgage Default Rate with PACE is 1/30<sup>th</sup> of Non-PACE Homes

- 1/10<sup>th</sup> of 1% default rate in PACE programs vs 3+% in program counties
- Pace reduces losses for the GSEs and U.S. taxpayers
- Only 2 Defaults in 2,565 PACE homes vs 82 on same number of non-PACE homes <sup>(1)</sup>
- GSE Loss Reduction – Early PACE results show very low defaults (0.1%). Reducing default rates from 3.2% to 2.0% would reduce GSE losses by \$1,400 per home <sup>(4)</sup>

PACE Program Data			Defaults			
Program <sup>(2)</sup>	Homes	\$ Mil	Homes	Program <sup>(2)</sup> %	County <sup>(3)</sup> %	
Babylon	403	3.6	0	0.0	vs	5.4
Boulder	632	10.1	1	0.2	vs	1.3
Palm Desert	240	5.5	0	0.0	vs	3.8
Sonoma	1,290	34.5	1	0.1	vs	3.3
<b>Total</b>	<b>2,565</b>	<b>\$53.8</b>	<b>2</b>	<b>0.1%</b>	<b>vs</b>	<b>3.2%</b>

Footnote: <sup>(1)</sup> Countywide Default Rate (3.2% x 2,565 PACE Program Homes = 82 Expected Defaults)

Source: <sup>(2)</sup> Program Administrators

<sup>(3)</sup> McDash Analytics, LLC

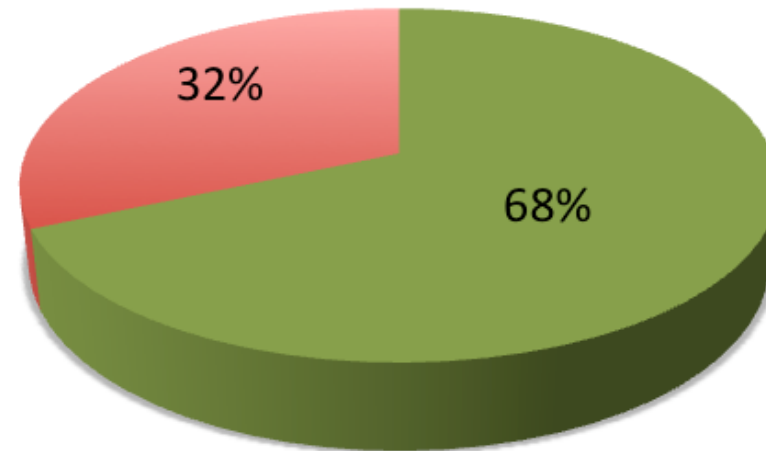
<sup>(4)</sup> Assumes prime agency loans, average mortgage size \$240,000, average severity in default 50%  
Core Logic, Amherst Securities

## PACE Legislation Requirements

- Homeowner must have at least 15% positive equity (68% do)
- Projects capped at 10% of home value
- Homeowner must have solid property tax payment history
- Homeowner must be free of defaults or involuntary liens
- Energy audit must demonstrate projects produce savings

68% of US Homes have > 15% Positive Equity

Source: McDash Analytics LLC



■ More than 15% - YES PACE ■ Less than 15% - NO PACE

**PACE Economic & Tax Gains Dwarf Senior Lien  
\$61,000 Per Home vs < \$3 Per Home**

# SAFE & SOUND ECONOMICS: PACE SENIOR LIEN IS IMMATERIAL

## PACE Senior Lien Exposure is Immaterial: < \$3 per PACE Home

- ✓ PACE projects limited to 10% of home value
- ✓ Non-acceleration requirement means only past due assessments get seniority in foreclosure
- ✓ Nationwide, past due payments range between 1 and 2 years
- ✓ PACE default experience is 1/10<sup>th</sup> of 1% <sup>(1)</sup>

### Calculation of Senior Lien Exposure

<b>PACE Program Assumptions</b>	Avg Project	Term in Years	Interest Rate	Yearly Assmnt
2,565 Program Homes	\$21,000	20	6%	\$1,800
<b>Default Rate Scenarios</b>	Yearly Assmnt	Years Past Due	Default Rate	Snr Lien Exposure
Actual PACE Programs <sup>(1)</sup>	\$1,800	X 1.5	X 0.1%	= <b>\$3</b>

<sup>(1)</sup> Conservative assumption that all defaulted homes have negative equity

Footnote: <sup>(1)</sup> Default rates are 3.2% on Non-PACE Homes

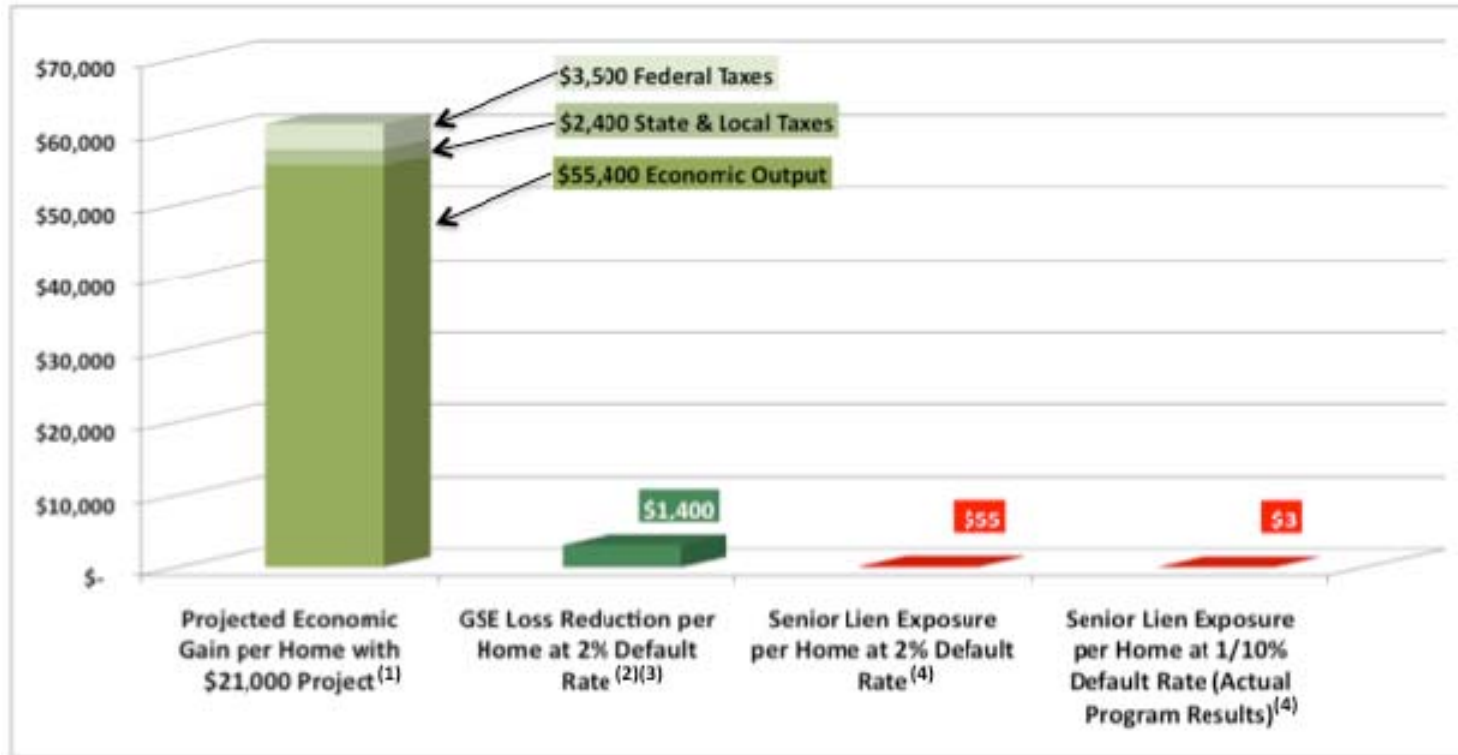
## PACE Creates Jobs and \$61,000 in Economic Gains per PACE Home

<b>Gains from PACE</b>	<b>Four Existing PACE Programs <sup>(1)</sup></b>	<b>Potential for 1% US Homes</b>
<b>Project Scope</b>		
Homes	2,565	750,000
Average Project Cost	\$21,000	\$21,000
Total Spending	\$54 Million	\$16 Billion
<b>Econometric Forecast <sup>(2)</sup></b>		
Jobs	<b>806</b>	<b>236,000</b>
Economic Output	<b>\$142 Million</b>	<b>\$42 Billion</b>
Federal Taxes	<b>\$9 Million</b>	<b>\$2.6 Billion</b>
State & Local Taxes	<b>\$6 Million</b>	<b>\$1.6 Billion</b>
Total Economic Gain & Taxes	<b>\$157 Million</b>	<b>\$46 Billion</b>
Economic Gain/PACE Home <sup>(2)</sup>	<b>\$61,000</b>	<b>\$61,000</b>

Source: <sup>(1)</sup> Sonoma County, Palm Desert, Boulder County, Babylon program administrators  
<sup>(2)</sup> ECONorthwest Study "Economic Impact Analysis of PACE", May 2011

# SAFE & SOUND ECONOMICS: TAX REVENUE, ECONOMIC GAINS & REDUCED GSE LOSSES DWARF SENIOR LIEN EXPOSURE

**\$61,000 in Gains & Reduced GSE Losses per PACE Home vs < \$3 in Senior Lien Exposure**



Source: (1) ECONorthwest study "Economic Impact Analysis of Property Assessed Clean Energy (PACE)", April, 2011  
 (2) CoreLogic, Amherst Securities Group LP report "Amherst Non-Agency Mortgage Market Monitor", June, 2011  
 (3) Assumes prime agency loans, \$240,000 average mortgage size, 50% average severity in default  
 (4) Program Administrators— existing Program data shows defaults are currently less than 3%

# LEGISLATION NEEDED TO OVERTURN REGULATORY IMPASSE

## **Proposed Legislation to Restore Residential PACE Programs**

### **FHFA, OCC, Fannie Mae, and Freddie Mac must:**

1. Adopt underwriting standards for mortgages with PACE assessments
2. Rescind 2010 edicts and affirm validity of assessments
3. Not penalize communities with PACE programs

### **PACE Programs would be Required to:**

Use underwriting standards defined in the legislation that are largely consistent with guidelines and best practices developed by states, municipalities, and a federal inter-agency task force in 2010

1. Homes must have 15% or more positive equity
2. Projects limited to 10% of home value
3. Energy audit and work performed by accredited professionals
4. Projects must show cash flow savings (positive Savings/Investment Ratio)
5. Properties must be free of involuntary liens

# CONCLUSIONS

## **PACE Helps our Nation, Municipalities, Homeowners & Lenders**

- ✓ Permanent jobs
- ✓ Economic growth
- ✓ No taxes or federal subsidies needed
- ✓ Lowers mortgage default rates
- ✓ Reduces Fannie / Freddie losses & footprint
- ✓ Private capital funded
- ✓ Voluntary
- ✓ Reduces foreign oil dependence
- ✓ Senior lien immaterial

## **Regulator's overreach has stopped all new PACE programs**

- ✓ 100+ years of "assessment" precedent and states' rights have been violated
- ✓ Empirical data and underwriting standards have been ignored
- ✓ Opportunity for huge economic gains is being lost

**Legislation is required to remedy the overreach and restore the promise of**

# PACE

# APPENDIX – LINK TO DOCUMENTS

1. [Proposed PACE Legislation \(draft HR Bill\)](#)
  - ✓ <http://pacenow.org/blog/wp-content/uploads/HR-PACE-Bill-draft-5-12-11.pdf>
2. [PACE One Page Summary](#)
  - ✓ <http://pacenow.org/blog/pace-one-page-primer/>
3. [PACENow Website](#)
  - ✓ <http://www.pacenow.org>
4. [Legal Analysis on PACE Constitutionality](#)
  - ✓ [http://pacenow.org/documents/PHJW%20PACE%20White%20Paper%205.28.10%20\(final\).pdf](http://pacenow.org/documents/PHJW%20PACE%20White%20Paper%205.28.10%20(final).pdf)
5. [ECONorthwest Study on PACE Economic Gains](#)
  - ✓ <http://pacenow.org/blog/wp-content/uploads/PACE-Econometric-Study-by-ECONorthwest-for-PACENow-5-4-11.pdf>
6. [FHFA July 6<sup>th</sup> Statement](#)
  - ✓ <http://pacenow.org/blog/wp-content/uploads/2010-07-06-FHAF-Statement.pdf>
7. [Specific Consumer Protections](#)
  - ✓ <http://pacenow.org/blog/wp-content/uploads/PACE-Consumer-Lender-Protections.pdf>
8. [FHFA Claims and Factual Responses](#)
  - ✓ <http://pacenow.org/blog/wp-content/uploads/PACE-FHFA-Concerns-Responses.pdf>
9. [PACE Frequently Asked Questions](#)
  - ✓ <http://pacenow.org/blog/pace-frequently-asked-questions/>