



# Overview of Property Assessed Clean Energy (PACE) Financing and CAEATFA's PACE Loss Reserve Program



# What is PACE Financing?

Property owners enter into a voluntary contractual assessment or opt into a voluntary special tax with the local agency, creating a lien on the property, and pay the assessment/special tax via property tax payments for a term of up to 30 years.

PACE financing is available from PACE programs established by local agencies (e.g. city, county, or JPA) pursuant to the Improvement Act of 1911 as amended by AB 811 (**2008**), the Mello Roos Act as amended by SB 555 (**2010**), or a city's charter authority.

Property Assessed Clean Energy (PACE) allows local agencies to provide up-front financing to property owners installing eligible projects permanently affixed to the property.

## Eligible Projects:

- Energy efficiency
- Water efficiency
- Renewable Energy
- EV charging infrastructure
- Seismic strengthening\*

A PACE program may be self-administered by the local agency or run through a public-private partnership with a private entity.

\*PACE financing for seismic strengthening currently is not eligible for enrollment in CAEATFA's PACE Loss Reserve Program



# FHFA's Stance on PACE

- In July 2010, the Federal Housing Finance Agency (“FHFA”) issued a directive banning Fannie Mae and Freddie Mac from purchasing mortgages on properties with PACE liens and advising protective actions, including redlining PACE districts.

First mortgage  
lenders are put in  
second position

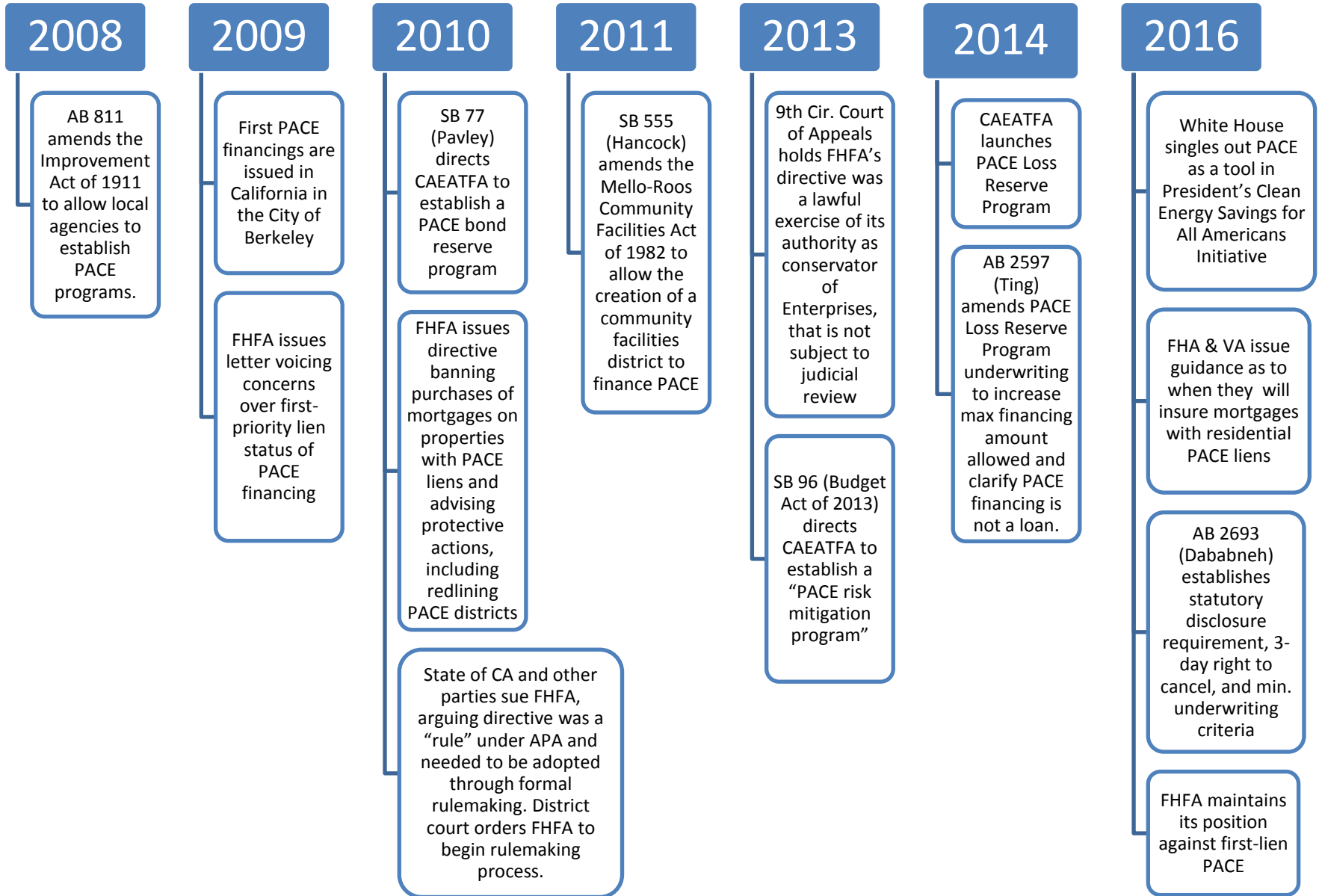
- FHFA's concerns with PACE, as stated in the directive, include:

Unsound  
underwriting  
guidelines and  
consumer  
protections

Unlike routine tax  
assessments in size  
and duration



# California PACE Timeline



# PACE Loss Reserve Program Structure

- Senate Bill 96 (Committee on Budget and Fiscal Review, Chapter 356, Statutes of 2013) authorized CAEATFA to create “a PACE risk mitigation program for PACE financing to increase their acceptance in the marketplace and protect against the risk of default and foreclosure.”
  - Received one-time appropriation of \$10 million for the loss reserve.

Reserve puts first mortgage lenders in the same position they would be in without a PACE lien.

Reimburses PACE payments made by first mortgage lender while in possession of property with a PACE lien (**foreclosure**).

Reimburses losses, up to outstanding PACE payment amount, resulting from PACE assessment being paid before outstanding mortgage in a **forced sale** for unpaid taxes or special assessments.

- PACE administrators can participate in the Program by applying to CAEATFA and demonstrating that they meet the Program’s eligibility criteria.
- Once a PACE program is enrolled, the loss reserve will cover PACE financings issued by that program for their full terms, or until funds are exhausted.



# How the Program Works

Property owner receives PACE financing for energy efficiency upgrades

- Principal Amount: \$20,000
- Annual Payment Amount: \$2,500

Foreclosure: Property owner defaults on mortgage. Bank takes possession of the property for two years until the property is sold, paying the property taxes to maintain its interest in the property.

- PACE Loss Reserve would reimburse bank for the two \$2,500 annual PACE payments made by the first mortgage lender.

Forced Sale: Property owner cannot pay property taxes, and the property is sold to repay the outstanding property taxes.

- Auction sale price: \$210,000
- Outstanding property taxes: \$50,000 (including \$15,000 in outstanding PACE payments)
- Outstanding mortgage: \$180,000
- Total loss to first mortgage lender: \$20,000
- PACE Loss Reserve would reimburse first mortgage lender for the loss, up to outstanding PACE amount: \$15,000.



# Program Eligibility Criteria

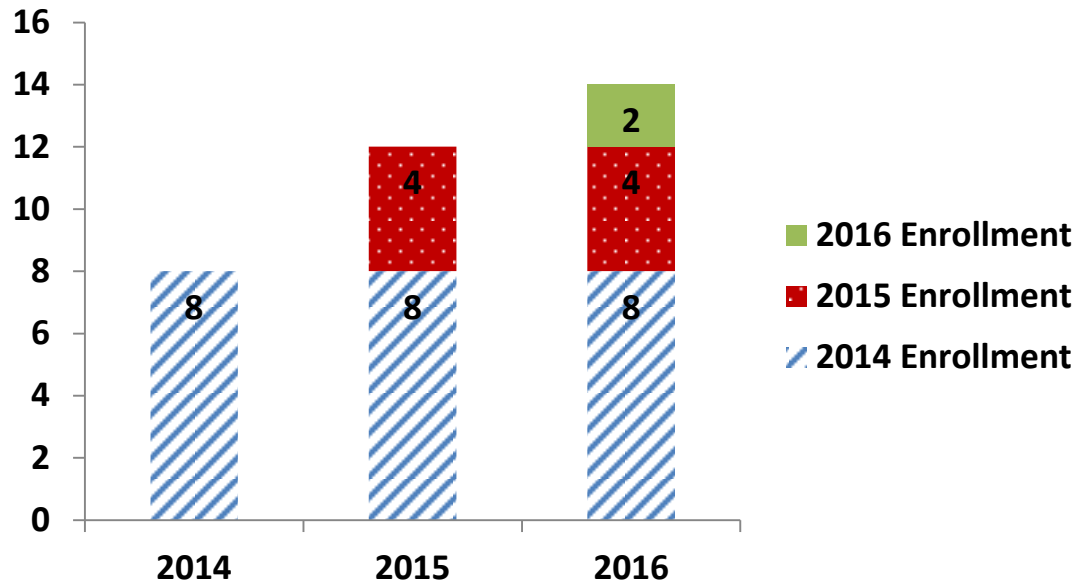
- Financing is for energy and water efficiency, EV charging infrastructure, and clean energy improvements
- Residential property of three units or fewer
- Property taxes current for previous three years
- No involuntary lien in excess of \$1,000
- No notices of default
- Not currently in bankruptcy proceedings
- Current on all mortgage debt
- Party seeking financing is the holder of record on the property
- Property is within the geographical boundaries of the PACE program
- Financing is for less than 15% of the value of the property, up to the first \$700,000 in value, and less than 10% of the property value above \$700,000
- Total mortgage-related debt and PACE financing does not exceed the value of the property

Reference: Public Resources Code §§26061, 26063(a); 4 CCR § 10081(b)



# PACE Loss Reserve Program Activity

Number of Enrolled PACE Programs



## 2014

- mPOWER Placer
- mPOWER Folsom
- Berkeley FIRST
- Sonoma County Energy Independence Program
- CaliforniaFIRST
- WRCOG HERO
- SANBAG HERO
- California HERO

## 2015

- AllianceNRG
- LA HERO
- CaliforniaFIRST in LA County
- Ygrene

## 2016

- PACEFunding
- CMFA PACE





# PACE Loss Reserve Program Activity

Represents residential program activity through June 30, 2016

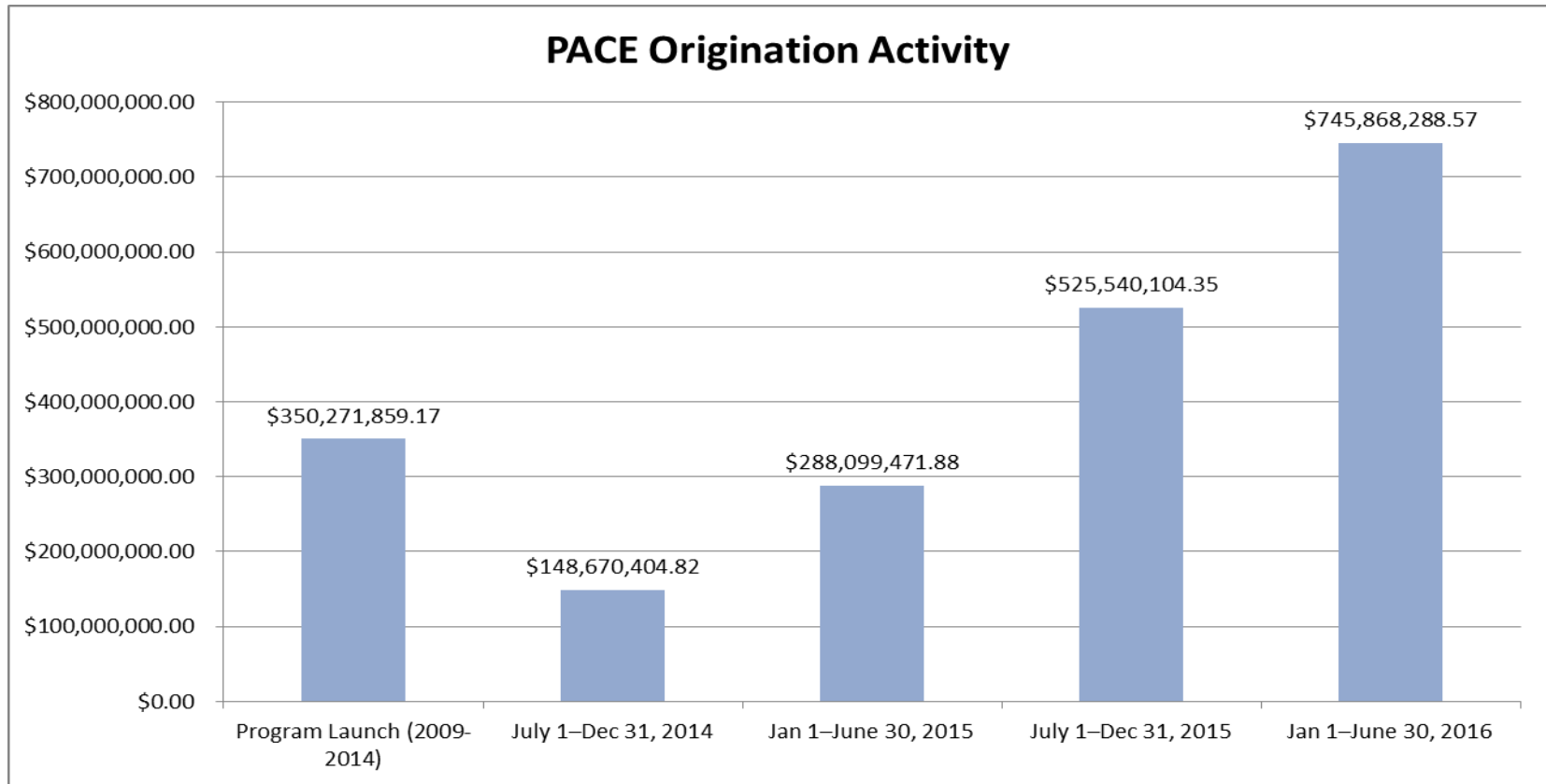
	Number Enrolled	Total Value Enrolled
<b>Program Launch (2009–June 2014)</b>	17,401	\$350,271,859.17
<b>July–December 2014</b>	7,022	\$148,670,404.82
<b>January–June 2015</b>	12,974	\$288,099,471.88
<b>July–December 2015</b>	21,836	\$525,540,104.35
<b>January–June 2016</b>	31,531	\$745,868,288.57
<b>Current Outstanding Portfolio</b>	<b>81,707</b>	<b>\$1,863,289,177.28</b>

- The following data is based on information about enrolled PACE financings issued from July 1, 2014 through June 30, 2016, as reported by participating PACE programs.

	Low	20th Percentile	Median	80th Percentile	High
<b>Principal Amount</b>	\$1,051.04	\$12,026.63	\$19,566.94	\$32,090.18	\$479,739.07
<b>Annual Assessment Amount</b>	\$114.13	\$1,490.89	\$2,438.65	\$3,997.09	\$67,537.73
<b>Term</b>	5 years	10 Years	15 years	20 Years	30 years



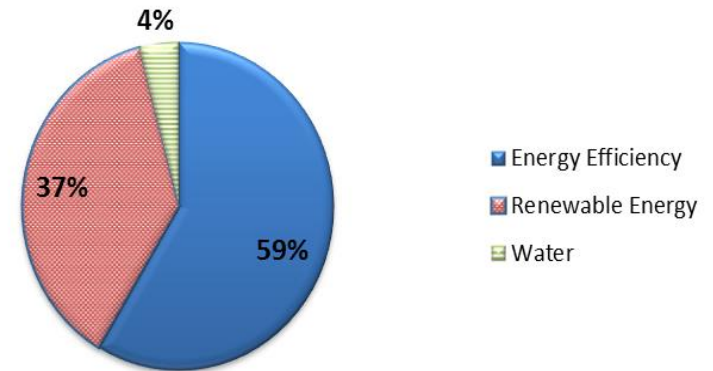
# PACE Financing Growth



Program Name	Estimated Environmental Savings from Enrolled Financings
mPOWER Placer	429,378 kWh annually 79.4 MTCO2 annually
mPOWER Folsom	16,534,408 kWh annually 3,058.9 MTCO2 annually
Berkeley FIRST	54,408 kWh annually
Sonoma County Energy Independence Program	10,928,827 kWh over lifetime 58,964.85 MTCO2 over lifetime 94,593 Therms over lifetime
CaliforniaFIRST	18,933,880 kWh generated annually 7,894,463 kWh saved annually 575,332 Therms annually 11,425,764 gal annually
WRCOG HERO Program	120,925,639 kWh annually 24,555,058 gal annually
SANBAG HERO Program	60,882,289 kWh annually 13,456,125 gal annually
California HERO Program	89,361,397 kWh annually 45,173,529 gal annually
AllianceNRG Program	23,126 kWh annually
LA HERO Program	6,102,724 kWh annually 8,608,965 gal annually
CaliforniaFIRST in Los Angeles County	4,458,851 kWh generated annually 2,241,737 saved annually 163,373 Therms annually 5,108,368 gal annually
Ygrene Works Program	10.5 MW generated over lifetime 1.1 Billion kWh saved over lifetime 202K MTCO2 saved over lifetime 758M gal over lifetime
PACEfunding	59,003 kWh annually

# Estimated Environmental Savings

**Residential PACE Improvement Type Breakdown (by \$ funded)**



Source: PACENation



# Current PACE Policy

## PACE as a Tool to Meet CA Environmental Goals

- Governor Brown's 50-50-50 Goal (SB 350)
- Barriers to Energy Efficiency Investment – Lack of Access to Capital
- Existing Buildings Energy Efficiency Action Plan – Goal 5: Affordable and Accessible Energy Efficiency Solutions
  - Strategy 5.2.2 – Support implementation of residential and commercial PACE

## Conflicting Messages from Federal Agencies

- FHFA maintains its position against first-lien PACE
- FHA/VA will insure mortgages on properties with PACE liens if guidelines are met

## Consumer Protections and Best Practices

- In the absence of state or federal requirements, PACE programs and policy groups, such as PACENation, adopted their own consumer protection policies in 2015/2016
- AB 2693 (Dababneh) (effective 1/1/17) provides new statutory consumer protection requirements including a financing estimate disclosure document and a 3-day right to cancel, and establishes minimum underwriting requirements.
- DOE released an update to its Residential PACE Best Practices Guidelines November 2016

## Data Collection

- Get a better understanding of the PACE market and associated environmental savings



# Next Steps for PACE Loss Reserve Program



Increasing data collection

Strengthening Program's underwriting requirements

Audit of enrolled PACE programs to ensure compliance with Program eligibility requirements