



RPACE:

*Challenges and  
State Energy  
Office Perspectives*



*National Association of  
State Energy Officials*



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February 9, 2017



# A TALE OF TWO PACES

## Commercial PACE

- Voluntary financing mechanism relies on tax assessment infrastructure
    - Requires action from state and local government
  - Programs typically take the form of public-private partnerships with defined geographic boundaries
  - Large markets with significant untapped energy, water, and resilience improvement opportunities
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- Borrowers are businesses
  - Work performed by larger firms such as ESCOs or other design-build companies
  - Market adoption and program maturity: lots of breadth, some depth

## Residential PACE

- Borrowers are homeowners
- Work performed by contractors, sometimes individual or in small businesses
- Market adoption: little breadth, lots of depth
- Opposition from Federal Housing Finance Agency (FHFA) froze a lot of market activity



# FEDERAL HOUSING FINANCE AGENCY

- Independent regulatory body that oversees Fannie Mae and Freddie Mac (government-sponsored enterprises or GSEs)
- Since 2010, FHFA has maintained a position against senior-lien PACE, instructing GSEs not to purchase mortgages of homes with PACE assessments
- GSEs and Federal Home Loan Bank System provide more than \$5.8 trillion in funding for U.S. mortgage markets
- Can things change?
  - Conservatorship of GSEs has no clear duration
  - Efforts by (Obama) Administration, California have not changed stance
  - CA Limited Subordination can help circumvent lender concerns with senior-lien mortgage during home sale or refi



# CONSUMER PROTECTION CONCERNS

- Non-payment risks foreclosure/default
- Taking on a PACE assessment may reduce prospects for sale or refi
- PACE programs do not require contractors to inform prospective borrowers of alternatives
- Marketing and contractor “upsell” is difficult to control
  - Leading programs often train, educate, and qualify contractors but are likely not “on the ground” during transactions
  - Quality of installation can sometimes “make or break” whether savings are large enough to cover repayment



# MISINFORMATION

- WSJ: “America’s Fastest-Growing Loan Category Has Eerie Echoes of Subprime Crisis”
- Governing: pre-corrected version of article referred to PACE as a DOE program
- Potential confusion between C-PACE and R-PACE



# LEGISLATION VS. PROGRAM BALANCE

- Typically, good to avoid “over-legislating”
- Yet, some PACE-enabling laws have included clauses on items such as:
  - Ability-to-pay criteria
  - Audits/benchmarking/data/
  - Savings-to-investment and project cost-to-property value ratios
  - Lender notice or lender consent (more common in CPACE)
  - Consumer protections
  - Centralizing program administration (for instance, through a statewide program)