



U.S. DEPARTMENT OF  
**ENERGY**

Energy Efficiency &  
Renewable Energy

# Residential PACE: Digging Deeper into Recent FHA and DOE Announcements

August 11, 2016

Weatherization and  
Intergovernmental  
Programs Office

Building Technologies  
Office

# Speakers

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## Eleni Pelican, Policy Advisor

Weatherization and Intergovernmental Programs Office, U.S. Department of Energy

## Kristen Stierwalt-Huff, Credit Policy Specialist

Federal Housing Administration, U.S. Housing and Urban Development

## Steve Dunn, Project Manager

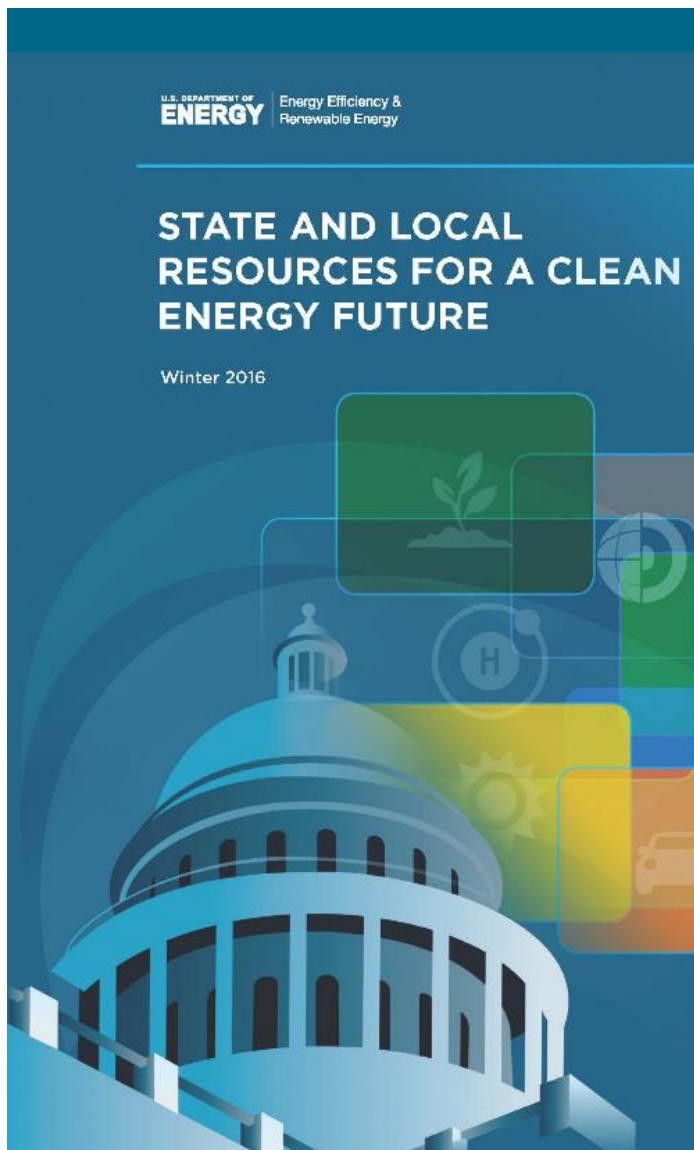
Building Technologies Office, U.S. Department of Energy

# Agenda

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- U.S. Department of Energy-Technical Assistance to State and Local Governments
- Overview and History of PACE
- August 19 FHA Announcement
- August 19 DOE Announcement
- Questions

# Technical Assistance to State and Local Governments



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## STATE AND LOCAL RESOURCES FOR A CLEAN ENERGY FUTURE

Winter 2016

## ENERGY.GOV

Office of Energy Efficiency & Renewable Energy

State & Local Spotlight

August 2016



### Clean Energy News and Events for State and Local Leaders

A monthly update from EERE's Weatherization and Intergovernmental Programs Office (WIP) for state, local, and K-12 officials featuring resources to advance successful, high-impact, and long-lasting clean energy policies, programs, and projects.

#### State & Local News

##### DOE Releases Updated Draft Guidelines for Residential PACE Programs, Open for Public Comment

The U.S. Department of Energy (DOE) announced new partnerships and resources that will bring the benefits of energy efficiency and renewable energy to more states and communities, including an updated draft of guidelines for residential Property Assessed Clean Energy (PACE) programs. DOE is seeking stakeholder input on the draft, [Best Practice Guidelines for Residential PACE Financing Programs](#), which focuses on best practices for program design, including consumer and lender compatibility of PACE with other energy efficiency programs and services, minimum contractor requirements, performance standards, and evaluation of outcomes.

#### Featured Blog

Residential PACE Adds Market Value for Home Energy Upgrades  
EERE's Deputy Assistant

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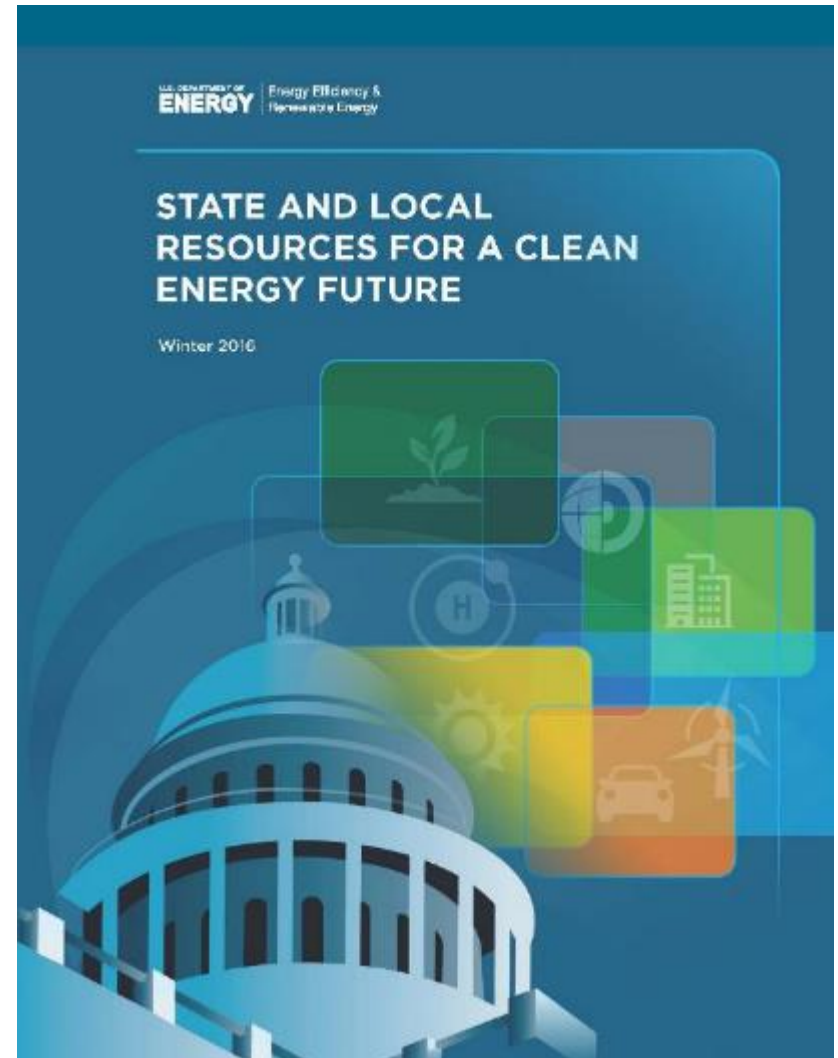
or Email Us:

[stateandlocal@ee.doe.gov](mailto:stateandlocal@ee.doe.gov)

# State and Local Resources for a Clean Energy Future

What you will find:

- Targeted opportunities for impact in your jurisdiction
- Key resources from each of the four action areas
- Information on initiatives and resources in renewable power, sustainable transportation, and energy-saving homes, buildings, and manufacturing from across EERE





# Residential PACE: Status Update

- Residential PACE is an innovative financing mechanism that allows homeowners to make affordable clean energy investments in their homes, including energy efficiency, renewable energy, and water conservation improvements.
- Homeowners save immediately and pay back the costs over time through their property taxes.
- PACE assessment remains with the property when sold.

## **PACE by the numbers**

- Residential PACE programs active in six states
- 100,000+ projects completed
- \$2.2 billion invested
- 22,000 jobs created

Source: PACE Nation

# Property Assessed Clean Energy (PACE)

City or county creates type of land-secured financing district or similar legal mechanism



Property owners voluntarily sign up for financing and install energy projects



The lender\* provides funds to property owner to pay for energy project



Property owner repays bond through property tax bill (up to 20 years)



# A History of Residential PACE

- 2008: First PACE program implemented in Berkley, California
- October 2009: White House issues “Policy Framework for PACE Financing Programs”
- May 2010: Fannie and Freddie issue “Lender Letters”
- May 2010: DOE issues “Guidelines for Pilot PACE Financing Programs”
- July 2010: FHFA issues “Statement on Certain Energy Retrofit Loan Programs”
- July 2010: The PACE Assessment Protection Act introduced and referred to committee
- Fall 2010: Florida, California, and New York file lawsuits



# Timeline of Events

- February 2011: FHFA's Second Directive to Fannie and Freddie
- June 2012: FHFA publishes Proposed Rule and Appeals California District Court Ruling
- September 2013: California governor announces Intent to Create PACE Reserve Fund to FHFA
- March 2014: California establishes \$10M Loan Loss Reserve Fund
- August 2015: White House and FHA announces forthcoming new guidance to remove existing barriers and accelerate the use of PACE financing for single family homes.
- August 19, 2016: FHA announces new guidance on PACE through a Mortgagee Letter and DOE announces updated draft "Best Practices for Residential PACE"



U.S. Department of Energy Webinar, Single Family Housing  
Federal Housing Administration  
**Property Assessed Clean Energy (PACE)**  
August 11, 2016

Last Updated: 8-11-16

Presented by:

**Kristen Stierwalt-Huff**

Credit Policy Specialist

Single Family Program Development, Home Mortgage  
Insurance Division

The information in this document is current as of the Last Update date noted above. This document does not establish or modify the policy contained in FHA's Handbooks and Mortgage Letters in any way.





# Overview

- Federal Housing Administration (FHA)
- FHA PACE Policy
- Mortgagee Letter 2016-11
  - Eligibility Requirements
  - Appraisal Guidance
- Additional Resources



## Federal Housing Administration (FHA)

- Provides mortgage insurance on loans made by FHA-approved lenders throughout the United States and its territories.
- Does not lend directly to borrowers.
- Published PACE policy on July 19, 2016.



## FHA PACE Policy

- Makes it easier for future home buyers to purchase or refinance homes using FHA financing when there is an existing PACE obligation, that meets FHA requirements, attached to the property.
- Does not insure PACE obligations.
- Does not affect current FHA-insured mortgages with PACE obligations.



## Mortgagee Letter 2016-11: PACE Obligations

- Provides specific eligibility requirements and other policies for FHA insurance on new mortgages for properties with a PACE obligation.
- Holds lenders responsible for determining compliance with the ML 2016-11 requirements.
- Requires PACE obligations to be collected and secured in the same manner as a special assessment against the property.





## Mortgagee Letter 2016-11: Enforceable Claim

- Property can only be subject to an enforceable claim or a lien that is superior to the FHA-insured mortgage for *delinquent* regularly scheduled PACE special assessment payments.
- Property cannot be subject to an enforceable claim (i.e., lien) superior to the FHA-insured mortgage for the full outstanding PACE obligation at any time.



## Mortgagee Letter 2016-11: Free Assumability

- No terms or conditions that limit the FHA borrower's right to transfer the property to a new homeowner are allowed.
- No legal restrictions on conveyance that could require consent of a third party before the owner can convey the real property.
- Statutory requirement for FHA.



## Mortgagee Letter 2016-11: Public Disclosure

- Existence of a PACE obligation on a property must be readily apparent to lenders, appraisers, borrowers, and other parties through the public records.
- Records must show the obligation amount, expiration date and cause of the expiration date.
- Default cannot accelerate the expiration date.



## Mortgagee Letter 2016-11: Property Sale

- PACE obligation transfers to the next owner in the event of the sale, including a foreclosure sale, of the property with outstanding PACE financing.
- New homeowner becomes responsible for payments on the outstanding PACE amount.



## Mortgagee Letter 2016-11: Disclosure of PACE Obligation

- Property sales contract must indicate whether the obligation will remain with the property or be satisfied by the seller at, or prior to, closing.
- If the PACE obligation will remain, all the terms and conditions of the PACE obligation must be fully disclosed to the borrower and made a part of the sales contract between the seller and the borrower.



# Mortgagee Letter 2016-11: Appraisal Requirements

- Appraiser must analyze and report the impact of the PACE-related improvements and the PACE special assessment on the property value.





## Mortgagee Letter 2016-11: Other Requirements

- Does not apply to Home Equity Conversion Mortgage (HECM) and Title I Loans.
- Has an effective date of September 19, 2016 but lenders can use now.



# Additional Resources

- **Additional Resources**

- Mortgagee Letter 2016-11 at:

- <http://portal.hud.gov/hudportal/documents/huddoc?id=16-11ml.pdf>

- Access new PACE FAQs on the FHA Resource Center's Online Knowledge Base at:

- <http://portal.hud.gov/hudportal/HUD?src=/FHAFAQ>

# DOE Best Practice Guidelines for Residential PACE Financing Programs



# Overview

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- Purpose and goals
- DOE revised “Best Practice Guidelines for Residential PACE Programs”
- DOE information resources for states and local, real estate professionals and appraisers
- Summary and next steps

# Residential PACE Guidelines: Purpose and Goals



## Property Owners

- Lower energy costs
- Low up-front costs
- Improvements may increase property values
- Contractors vetted and additional consumer protections



## Businesses

- Efficient financing mechanism to fund energy efficiency, renewable energy, and water conservation projects
- Marketing and lead generation
- Potential for larger work scopes
- Increased volume, revenues



## Communities and Environment

- Reduced GHG emissions, dependence on fossil fuels
- Job creation and economic development
- Increased property values

**Well-designed PACE programs can benefit homeowners, businesses, communities, and the environment**



# DOE Revised Best Practice Guidelines

DOE released draft *Best Practices Guidelines for Residential PACE Financing* for public comment from stakeholders on July 19, 2016.

The revised guidelines:

- Reflect the evolving structure of the PACE market and incorporate lessons learned from active PACE programs
- Includes best practices for residential PACE programs, and recommended consumer and lender protections
- Information resources for appraisers on valuation of energy-related improvements
- Recommendations for data collection and evaluation of PACE financing programs, including cost-effectiveness, energy savings, and non-energy benefits.





# DOE Revised Guidelines: Updates

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- Eligible measures and property owner eligibility
- Consumer and lender protections
- Quality assurance
- Real estate transactions and appraisals
- Data collection and evaluation
- DOE tools and resources

# Eligible Measures and Property-Owner Eligibility

- Establish criteria for eligible improvements that are consistent with the public purpose of the programs, as defined by each state or locality
  - Can include health and safety measures necessary to install improvements and structural resilience (e.g., seismic, wind resistance)
- Prioritize cost effective improvements when making improvement recommendations to homeowners, and generally limit investment to those identified measures
  - **Recommended approach:** Establish a list of eligible energy efficiency and renewable energy measures that incorporate national standards, such as ENERGY STAR, state-specific, or approved product lists
  - Energy assessments recommended (but not required) as a way to identify cost-effective improvements
- Property owner should have sufficient equity based on accurate valuation (assessed value or appraisal) and clear title

# Consumer and Lender Protections

- Property owner education and disclosure
  - Provide disclosures to consumers on how PACE financing works, terms, rates and fees, and homeowner obligations
  - Provide disclosures on impacts of failure to pay and how PACE may impact options to sell or refinance their property
- Appropriately size the assessment
  - Establish a maximum assessment amount (e.g. 10 – 20% of estimated property value)
- Document PACE improvements
  - Improvements made, estimated cost and savings, lender notification, homeowner (rebate and tax credit eligibility), and public records (assessor data, MLS)
- Public disclosure
  - Standardized recordkeeping and disclosure of PACE improvements to homeowners, prospective buyers, lenders, appraisers, and real estate professionals

# Property Appraisals and Real Estate Transactions

- It is important to document upgrades and provide relevant information to those involved at point of sale (e.g., realtor/broker, appraiser) so that parties to the transaction are informed and knowledgeable about improvements financed through PACE.
- Recommended approaches
  - Offer the Home Energy Score (or other assessment) before and after PACE upgrades are completed
  - Establish a real estate advisor to assist with questions on PACE assessments and improvements
  - Engage appraisers and real estate professionals on the benefits of energy improvements and how to complete real estate transactions involving PACE assessments

# Quality Assurance, Data Collection, and Evaluation

- PACE programs should collect and analyze data to evaluate the efficacy of PACE programs and understand the financial performance and energy and cost savings realized from PACE assessments.
- Helpful data to collect includes:
  - Installed measures
  - PACE assessment amount
  - PACE assessment default and delinquency
  - Mortgage default and foreclosure
  - Expected energy and cost savings
  - Borrower data (e.g., FICO score, debt-to-income ratio)
  - Actual energy consumption and costs for a minimum of 12 months before and after installation of measures.

# DOE Resources for States and Local

- **State and Local Solution Center**
  - Provides resources to advance successful, high-impact clean energy policies, programs, and projects.
    - Design, implement clean energy programs, including financing
    - Reports, webinars, case studies and links to other financing resources
  - <http://energy.gov/eere/slsc/state-and-local-solution-center>
- **Better Buildings Residential Program Solution Center**
  - Provides step-by-step guidance to help program administrators and their partners plan, operate, and evaluate residential energy efficiency programs, including financing
  - <http://rpssc.energy.gov>
- **Home Energy Score**
  - Helps homeowners and homebuyers understand how much energy a home is expected to use and provides suggestions for improving its energy efficiency
  - [www.homeenergyscore.gov](http://www.homeenergyscore.gov)



# DOE Resources for Real Estate and Appraisers

- DOE is working in partnership with appraisal organizations and the real estate industry to help ensure homeowners realize the investment value and benefits of energy efficiency.
  - [Better Buildings Home Energy Information Accelerator](#)
    - 28 national and local partners working with DOE to make home energy information readily available at relevant points in residential real estate transactions.
  - White paper, “[Capturing Energy Efficiency in Residential Real Estate Transactions: Steps That Energy Efficiency Programs Can Take](#)”
  - Partnerships with the appraisal industry and resources for appraisers
    - **The Appraisal Foundation**
      - [Valuation Advisories for appraisers](#)
    - **The Appraisal Institute**
      - [Delivery of training and education to appraisers and real estate agents](#)

# Summary and Next Steps

- Residential PACE Guidelines
  - Visit the [State and Local Solution Center](#) to learn more and submit comments (deadline August 19)
  - <http://energy.gov/eere/slsc/property-assessed-clean-energy-programs>
- PACE resources and technical assistance
  - DOE resources and technical assistance to support PACE program design and adoption
    - Online workshops and peer exchange opportunities for states and local
    - Develop and disseminate best practices, share lessons learned with stakeholders
    - Analyze PACE program impacts and program design options

# For More Information

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- Steve Dunn, Project Manager  
Building Technologies Office  
[steve.dunn@ee.doe.gov](mailto:steve.dunn@ee.doe.gov)
- Eleni Pelican, Policy Advisor  
Weatherization and Intergovernmental Programs Office  
[eleni.pelican@ee.doe.gov](mailto:eleni.pelican@ee.doe.gov)