

## RESIDENTIAL PROPERTY ASSESSED CLEAN ENERGY (PACE)

SF 1088-Senators Pratt, Dahms, Sparks and Mathews

HF 1377-Representatives O'Driscoll, Hilstrom, Vogel, Hornstein and Barr, R.

*Existing law allows a public agency (defined as a city, county, or city and county) to allow private companies to offer financing for renewable energy and energy efficiency improvements, secured by special assessments imposed by the public agency. These loans are known as Property Assessed Clean Energy (PACE) loans.*

*Borrowers make energy improvements and agree to a special assessment on their home in exchange for a loan that funds the improvement. Repayment of the loan is accomplished through a tax assessment itemized in the borrower's property tax bill. Because repayment is treated as a tax assessment, the lien associated with the improvement is granted super-priority status.*

**Issue:** Residential PACE loans present several challenges for homeowners:

- They can negatively impact future financial transactions and can subject the PACE-encumbered home to foreclosure.
- A residential PACE loan is not subject to the regulatory framework or consumer protections that have been built into traditional loans to ensure borrowers understand the terms of the loan.
- Traditional and responsible underwriting to ensure the borrower has the ability to repay the loan is not conducted.
- Disclosure of all terms, conditions, fees and other costs is not uniformly required.

This method of energy improvement financing has received negative attention from the Federal Housing Finance Authority (FHFA), the regulator for the government-sponsored entities (GSEs) known as Fannie Mae and Freddie Mac. The FHFA's concerns are rooted in longstanding lending and underwriting principles.

Providing homeowners the opportunity to invest in cost-effective energy improvements for their homes that result in cost savings is important. PACE loans, with appropriate consumer protections that educate and inform, can be a viable option that assists homeowners to achieve their energy goals..

**Bill Summary:** SF 1088-Pratt/HF 1377-O'Driscoll would create a stakeholder group, which would be convened by the Department of Commerce, to develop recommendations and draft legislation regarding consumer protections for energy efficiency financing programs for residential homes. The bill would also suspend the statutory authorization for Residential PACE loans until these consumer protections are implemented.

The recommendations and draft legislation must be submitted to the Legislature by January 15, 2018.



Center for Energy and Environment