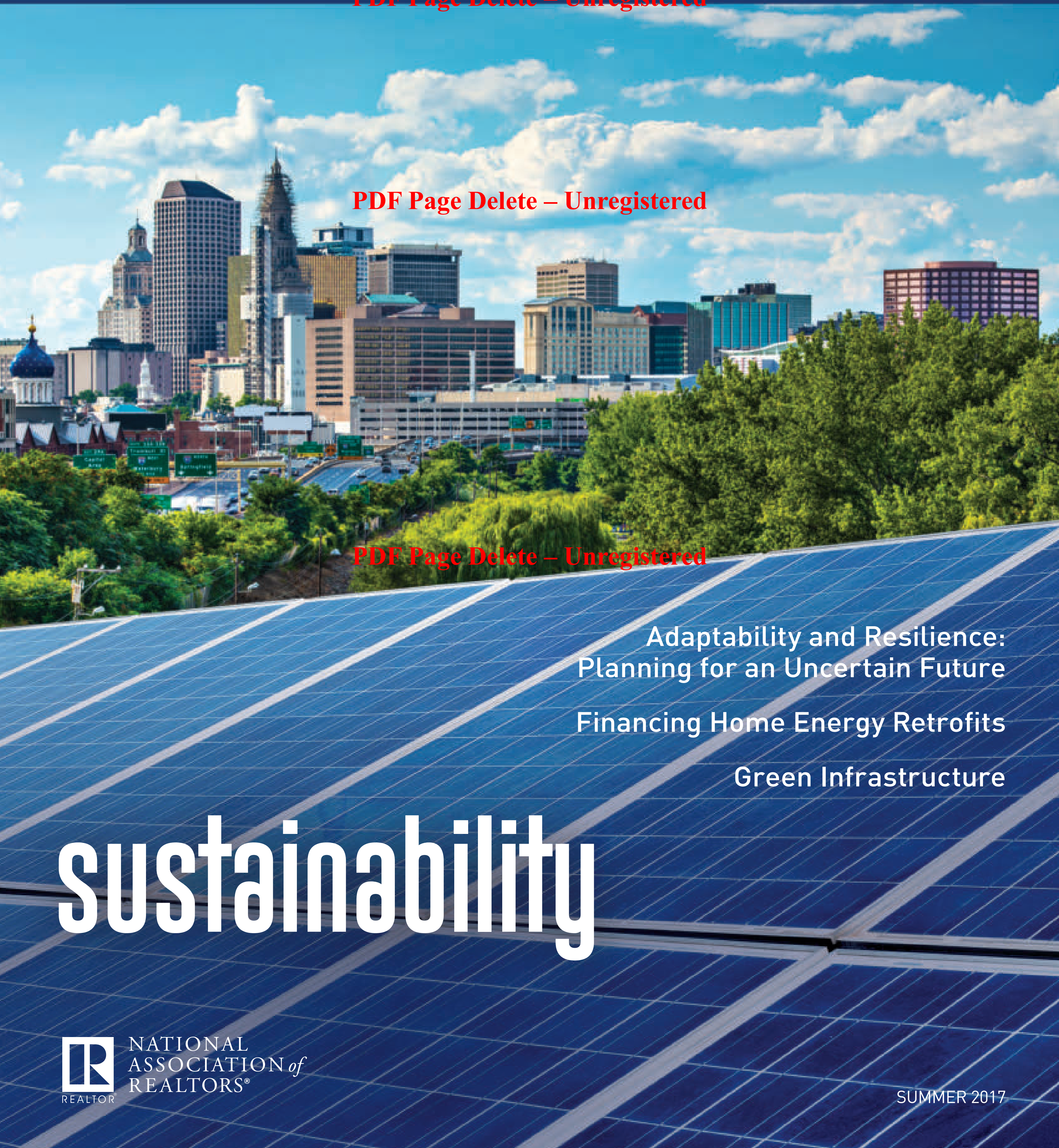
REALTORS® & *Smart Growth*

on common ground



PDF Page Delete – Unregistered

PDF Page Delete – Unregistered

Adaptability and Resilience: Planning for an Uncertain Future

Financing Home Energy Retrofits

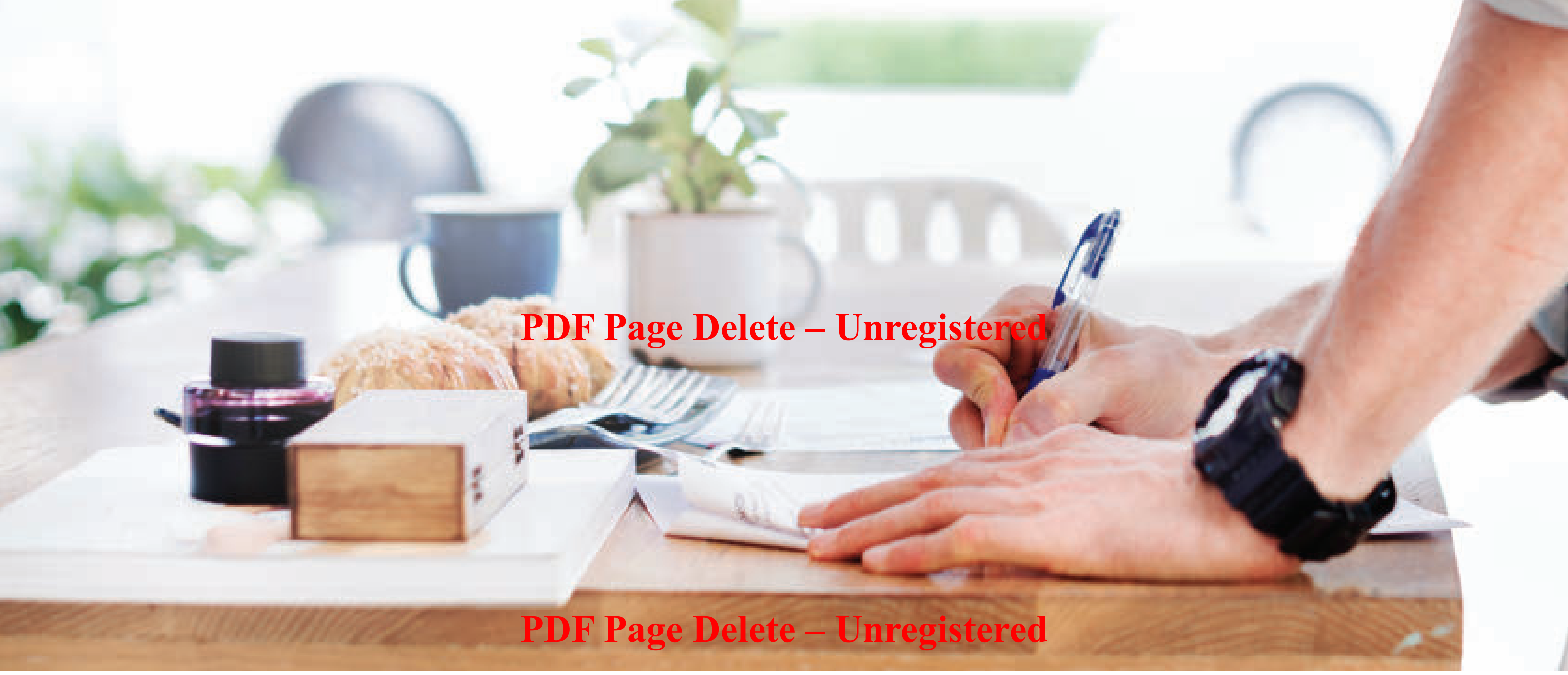
Green Infrastructure

sustainability

NATIONAL ASSOCIATION *of* REALTORS®

REALTOR®

SUMMER 2017



FINANCING ENERGY EFFICIENCY

By Bobby L. Hickman

Making their homes more energy efficient is a top priority for many homeowners. However, financing those upgrades can be a challenge, as it can take many years for the energy savings to pay for the improvements. Fortunately, two recent options are helping homeowners fund energy-related improvements: Home Style Energy Loans and PACE loans.

Fannie Mae and Freddie Mac introduced the Home Style Loan and the Home Style Energy Loan in 2016. The first program covers general renovations, while the second addresses energy- and water-efficiency upgrades. Eligible work includes electric and water systems improvements, new insulation, programmable thermostats and weather stripping.

Home Style Energy allows those purchasing or refinancing a home to borrow up to 15 percent of their home's appraised value for energy upgrades. Existing high-interest loans for energy improvements can also be rolled into a refinanced mortgage. Loan costs are added to the mortgage, eliminating the need for a separate loan. Home Style loans are available through all approved Fannie Mae and Freddie Mac lenders across the country.

In some communities, another program is available: PACE ("Property Assessed Clean Energy") loans. PACE is a national initiative to provide new financing options for energy-related improvements to both residential and commercial properties. Unlike a traditional loan, the principal and interest for the energy improvement loan are added to the owner's property tax payment and typically repaid over 20 years.

PACE began in California in 2007. While PACE is expected to grow rapidly in coming years, its availability remains limited, particularly for residential properties. It has also become controversial in some areas due to consumer protection challenges. In addition, the tax lien's priority over an existing mortgage can cause problems buying and selling homes with a PACE loan.

PACE is a national initiative to provide new financing options for energy-related improvements.

PACE helps eliminate many barriers to doing energy efficiency projects.

Each state legislature must pass measures enabling cities and counties to offer PACE programs. Then, city and/or county governments in that state vote to make PACE active within their jurisdictions.

By the end of 2016, PACE programs were enabled in 33 states plus the District of Columbia, according to PACENation, an industry association. Commercial PACE programs are active in 17 states and enabled in 11 more, providing $340 million since the late 2000s and improving 1,200 buildings. Residential PACE is active in three states (California, Florida and Missouri) and enabled in 15 others. Residential PACE financing totaled $3.7 billion and funded improvements at 148,000 homes, PACENation statistics show.

While PACE is growing dramatically, there have been some issues. “In any new market, there are always some bugs to work out,” said Jacob Corvidae, who manages the residential energy program for the Rocky Mountain Institute. The institute is an independent nonprofit that works with groups across the country to use market approaches such as PACE to drive clean energy transition.

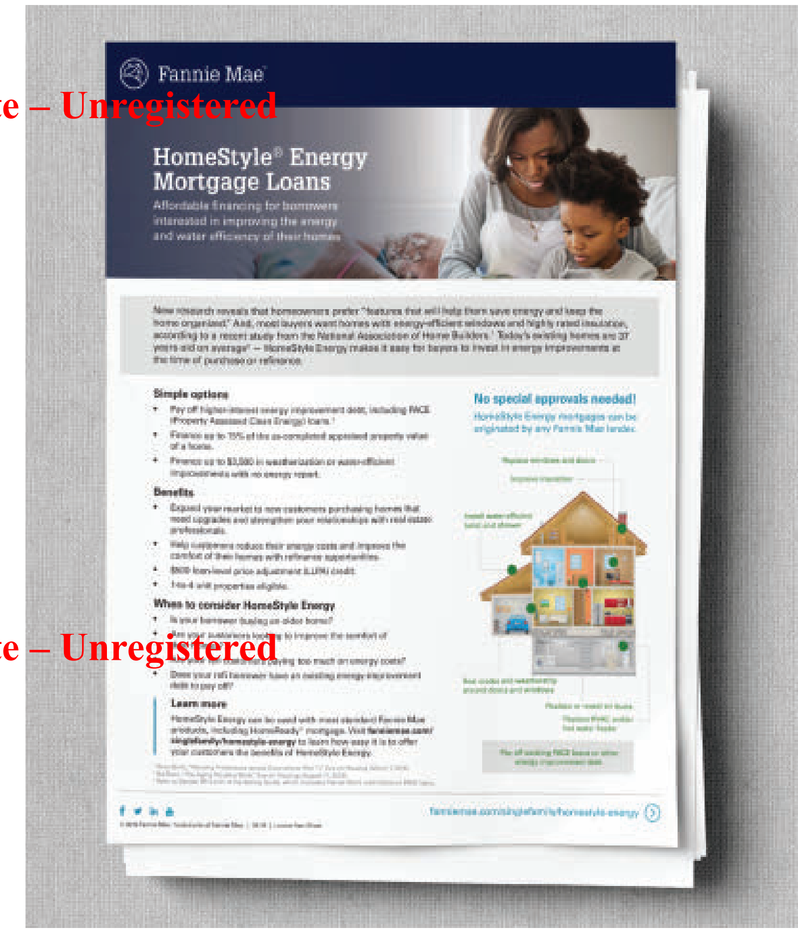
“PACE does vary a fair amount from state to state,” Corvidae said, “which we feel is appropriate. It is a public-private partnership that always has a local element.” While PACE is enabled by states, “We are seeing a need for — and increasing movement towards — some national standardized guidelines.”

One issue is the tax lien’s priority over mortgages. “PACE was completely on hold for most of the country when Freddie Mac and Fannie Mae said it was not going to work for them [several years ago],” Corvidae noted. “Then FHA released guidance last year on how it can make sense for both primary and secondary loans as a functional financing tool.”

Residential PACE has “been a hugely useful tool in California, where it has grown dramatically,” Corvidae said. “For many people, when their furnace breaks down — but they don’t have the means to pay out-of-pocket — they replace it with a cheaper model that is less energy-efficient. PACE helps put them in the right state-of-the-art equipment when they need it. That’s not easy to come by using other solutions.”

Corvidae agreed some problems emerged early on in the residential market, which is less mature than the commercial sector. Now PACENation has issued “strong” residential guidelines, and additional standards and consumer protections are being developed.

Many of those issues surfaced in California, the earliest and most robust market. In fact, some communities are considering dropping PACE.




Courtesy of Greens MPs

Kim Schaefer, government affairs director for the Bakersfield Association of REALTORS®, said Kern County implemented PACE three years ago and Bakersfield about 18 months later. Kern is "a huge FHA market," Schaefer noted. During its three-year span, some 3,000 Kern homes received PACE financing totaling $70 million in a market where the average home price is $225,000.

"We started seeing a lot of folks who thought they were getting into a government program," Schaefer said. Those homeowners were surprised when a new tax lien appeared on their assessment or house payments jumped. There are no credit checks, so some people end up with improvements they cannot afford, she continued. "We have one man who is unemployed and got a $54,000 PACE loan."

Delays in adding PACE liens to county assessments compounded the problems. "We've had people buy homes where PACE was not disclosed because the seller had no idea what they'd done, and it was not on the assessment yet," Shaefer added. "Now they are paying hundreds each month that they didn't expect."

How PACE is marketed can also be problematic. The contractors providing energy upgrades are also the loan originators, Shaefer said. "There is no approval process, and no limit on what they can charge." Some people have paid two to three times the market price for air conditioners under PACE. "It's easy for people to get ripped off," she added.

PACE loans can also cause problems for people buying and selling homes. "Nobody wants a property with a lien that takes priority over the mortgage — especially if the improvements cost more than the market value," Schaefer noted.

Schafer and other California REALTOR® association government affairs directors are urging local governments to rescind PACE. The Bakersfield association received an NAR Issues Mobilization Grant that helped it run an effective media campaign.

She added the campaign has encountered "a lot of pushback," particularly from companies that benefit from PACE. A 2016 proposal by the California Association of REALTORS® to make the PACE tax lien subordinate to mortgage failed to advance in the legislature. Stalled in Sacramento, opposition has moved from the state capital to municipalities. Shafer added, "I think you'll see a domino effect of more local areas getting rid of it."

Courtesy of the U.S. Department of Energy

Some problems have arisen in the residential PACE market.

The NATIONAL ASSOCIATION OF REALTORS® is supporting a bill in Congress that would provide consumer protections for Property Assessed Clean Energy loans, known as PACE loans.

The bill (S. 838 and H.R. 1958) would require PACE loans to provide the same Truth in Lending Act consumer protections as mortgages, including the Consumer Financial Protection Bureau's "Ability-to-Repay" and "Know Before you Owe" rules and Home Ownership and Equity Protection Act standards. The bill has the support of many groups in the fields of real estate and financial services.

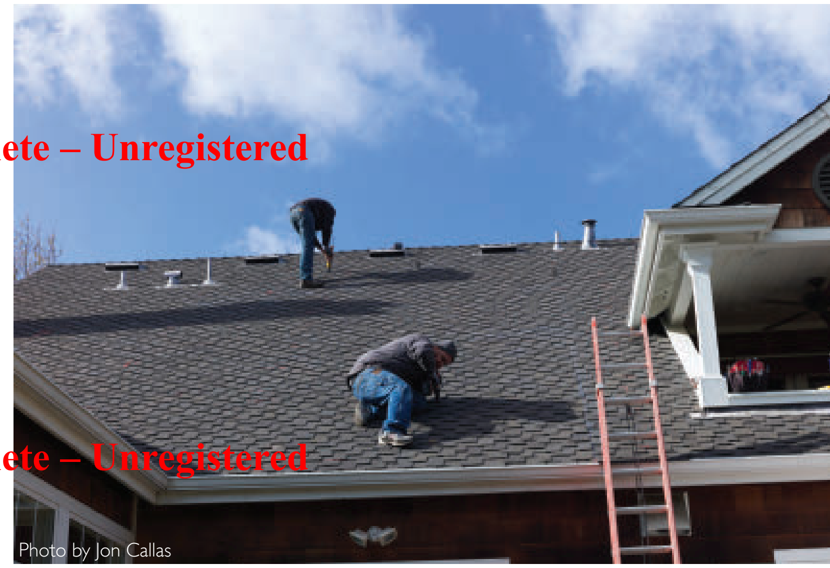


Photo by Jon Callas

Meanwhile in Texas, "Commercial PACE is a great tool for property owners to make improvements," said Tim Crockett, president of PACE Houston, which consults with companies on energy efficiency projects. Crockett said PACE allows property owners to access a new capital stream for energy updates. Tenants benefit from lower utility bills. The program helps the environment; creates jobs; boosts economic development; and makes cities healthier.

"It's an ingenious idea," the commercial real estate veteran added. "I wish I'd thought of it 30 years ago!"

Crockett said Texas introduced its program a few years ago. "We benefitted by not being the first, and Texas has a pretty good system," he said. For example, Texas is an open market with free competition, while some states set up a lender as the PACE administrator, which can bring higher fees. Texas also requires PACE projects to be reviewed by an outside engineer to ensure that the energy savings will pay for themselves over the life of the project.

Texas also chose not to offer residential PACE, partly because of issues in other states. Crockett also noted that lower electricity rates in Texas make it more difficult for residential projects to be economically feasible.

The state also requires a property's first mortgage holder to be involved in the PACE process. "By definition, a tax lien takes priority over a mortgage," Crockett explained. "So if you're a lender with a $30-million lien against a $50-million building, and I do a $1-million PACE project, I just jumped ahead of you in the mortgage order." Crockett added more lenders are realizing PACE upgrades bring more benefits than risk to them. Some 120 banks have agreed to consider PACE projects on a case-by-case basis.

"PACE helps eliminate many barriers to doing energy efficiency projects," Crockett concluded. "PACE projects in Texas save more energy dollars than it costs to install and finance improvements. It's a win-win scenario."

Corvidae added. "There's a real need and PACE is solving a financial problem." He pointed to the Demand Institute's recent Housing Satisfaction study that found the greatest unmet desire among homeowners is improving energy efficiency. "People know they want it but are having a hard time figuring out how to do it," he said. "Programs like NAR's Green Designation [which educates REALTORS® on energy efficiency] are fantastic. There is a growing need for the real estate industry to help buyers and sellers understand what they can do around energy efficiency."

The FHA guidance in 2016 also reflects national interest in making PACE work, Corvidae added. "While there are concerns out there that need to be addressed, PACE is poised for rapid growth across the country in the next couple of years. We think we'll see a lot more state programs emerging." ●

Commercial PACE is a great tool for property owners to make improvements.

Bobby L. Hickman is a freelance business journalist based in Atlanta.