

# DOE Best Practice Guidelines for Residential PACE Financing



# DOE Briefing for Stakeholders: R-PACE Guidelines

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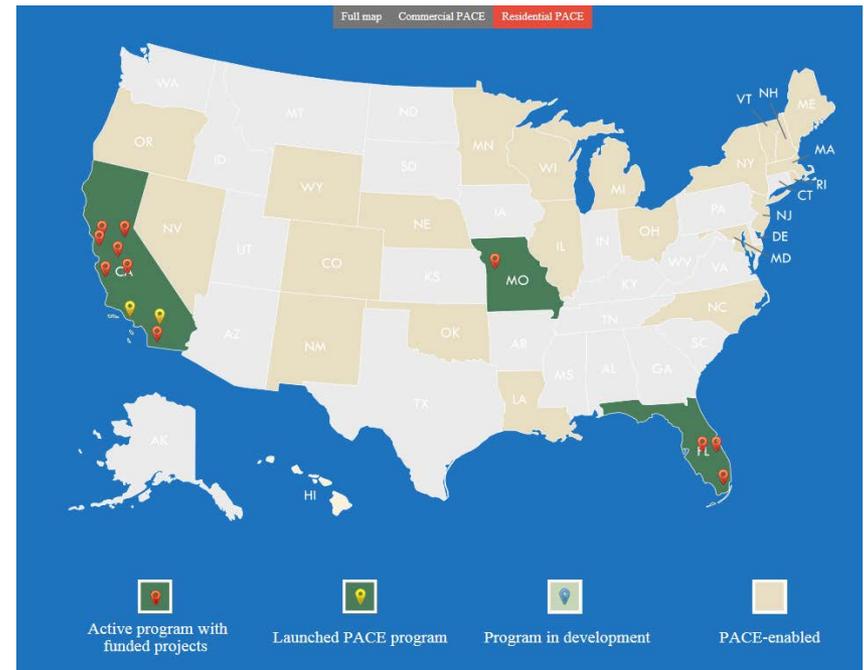
# Background

# About Residential Property Assessed Clean Energy (PACE)

- Residential PACE is an innovative mechanism that allows homeowners to finance energy efficiency, renewable energy, and other public purpose improvements through an assessment collected with their property taxes.
- PACE programs can be established by local governments, state governments, or other inter-jurisdictional authorities, when authorized by state law.
- Property owners repay their improvement costs over a set time period—typically 10 to 20 years—through property assessments, which are secured by the property itself and paid as an addition to the owners' property tax bills.
- If the property is sold, the assessment may be able to stay with the property if the buyer agrees and the new mortgage lender allows.

# Residential PACE Implementation Status

- Residential PACE programs currently active in three states
  - CA, FL, MO
- R-PACE programs in development (or planned) in multiple states.
- PACE market activity (as of Dec 2016):\*
  - Over 130,000 PACE projects completed;
  - \$3.3 billion in improvements financed through R-PACE;
  - 29,000 jobs created.



Source: PACE Nation

\*Source: PACE Nation, December 2016

# Stakeholder Comments and DOE Responses

# Guidelines for Residential PACE Financing Programs

On July 19, 2016, DOE released draft Best Practice Guidelines for Residential PACE Financing Programs.

- Updates previous DOE guidance from May 2010:
  - Reflects the evolving structure of the PACE market;
  - Incorporates lessons learned from PACE programs that have been successfully implemented;
  - Provides additional guidance on consumer protection, contractor management, and quality assurance.

DOE recommends the Best Practice Guidelines for Residential PACE Financing Programs be incorporated and followed by States, Local Governments, PACE program administrators, and contractors to plan, develop, and implement programs and improvements that effectively deliver home energy and related upgrades.

# Guidelines for Residential PACE Financing Programs

## Summary of Public Comments

- DOE received over 200 comments on the draft guidelines from 29 organizations or individuals, including:
  - PACE administrators, both third-party and state/local government;
  - Housing industry, including homebuilders, realtors, appraisers, and mortgage holders;
  - Home performance and home improvement trade contractors and individual homeowners;
  - Low-income and consumer advocates; and
  - Energy efficiency advocates and trade groups.

# Organizational Commenters

American Council for an Energy-Efficient Economy (ACEEE)

Building Performance Institute (BPI)

Connecticut Green Bank

Efficiency First California

Green Builder Coalition

Home Performance Coalition (HPC)

Mortgage Bankers Association (MBA)

National Association of Home Builders (NAHB)

National Association of Realtors (NAR)

National Association of State Energy Officials (NASEO)

National Consumer Law Center (NCLC)  
et al.

Natural Resources Defense Council (NRDC)

PACE Nation

Renew Financial

Renovate America

Rocky Mountain Institute

Solar Energy Industries Association (SEIA)

Valley Watch, Inc.

Western Riverside Council of Governments (WRCOG)

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*Additional input obtained from:  
U.S. Dept of Housing and Urban Development,  
Federal Housing Administration (HUD - FHA);  
Appraisal Institute; and consumer protection and  
housing policy experts.*

# Stakeholder Comments: Summary of Key Themes and Recommendations (1 of 2)

Themes and Topic Areas	Stakeholder Recommendations
<p><b>Allow flexibility in use of PACE financing for energy efficiency, renewable energy, water efficiency and health and safety measures</b></p> <ul style="list-style-type: none"><li>▪ Cost effectiveness requirements</li><li>▪ Ability to finance capital replacement, reactive measures</li><li>▪ Role of energy assessments</li><li>▪ Align DOE guidelines with industry resources and best practices</li></ul>	<ul style="list-style-type: none"><li>✓ Recommend use of eligible measure lists to determine measure eligibility</li><li>✓ Allow flexibility for other public purpose measures (e.g. seismic, wind, water)</li><li>✓ Enable use of PACE for unplanned projects (e.g., emergency HVAC replacement)</li><li>✓ Revise cost-effectiveness language to exclude health and safety measures; maintain requirement to limit PACE term to life of measures</li></ul>
<p><b>Ensure strong consumer protections:</b></p> <ul style="list-style-type: none"><li>▪ Property owner eligibility and transparent consumer disclosures</li><li>▪ Documentation of the PACE transaction, robust quality assurance and contractor management and oversight mechanisms</li><li>▪ Consumer protections for low-income households (detailed on next slide)</li></ul>	<ul style="list-style-type: none"><li>✓ Optional use of energy assessments and completion certificates</li><li>✓ Align DOE guidelines with industry standards</li><li>✓ Include minimum trade certification resources</li><li>✓ Adopt standard disclosure forms</li><li>✓ Require pricing reviews for each project</li></ul>

# Stakeholder Comments: Summary of Key Themes and Recommendations (2 of 2)

Themes and Topic Areas	Stakeholder Recommendations
<p><b>Protect lenders and ensure compatibility with real estate transactions</b></p> <ul style="list-style-type: none"><li>Record PACE assessments in public record</li><li>Document improvements, incorporate in market valuation</li><li>Ensure efficient mechanisms to transfer assessment in the sales process</li></ul>	<ul style="list-style-type: none"><li>✓ Align PACE with other forms of collateral-based lending</li><li>✓ Document PACE assessments and improvements in public records</li><li>✓ Coordinate PACE with mortgage servicing and appraisal processes</li></ul>
<p><b>Ensure additional protections, policies and procedures are in place for low-income (LI) communities and households</b></p> <ul style="list-style-type: none"><li>Avoid creating unaffordable financial obligations for LI households</li><li>Coordinate delivery with weatherization and other direct assistance or incentives</li><li>Marketing practices and contract oversight</li></ul>	<ul style="list-style-type: none"><li>✓ Include income, debt obligations in PACE qualification reviews</li><li>✓ Coordinate PACE delivery with low-income assistance programs, such as weatherization assistance</li><li>✓ Adopt stringent contractor oversight mechanisms and conduct third party reviews with homeowners</li></ul>
<p><b>Collect and report data while maintaining safeguards for consumer data security and privacy</b></p> <ul style="list-style-type: none"><li>Maintain transparency around PACE assessments in public records</li><li>Protect consumer data privacy, security</li></ul>	<ul style="list-style-type: none"><li>✓ Document PACE assessments in public records</li><li>✓ Regularly evaluate PACE program impacts and disseminate findings</li><li>✓ Ensure policies and procedures for data security and privacy are established</li></ul>

# Revised DOE PACE Guidelines

# Guidelines for Residential PACE Financing Programs

DOE's revised Guidelines focus on best practices for residential PACE program design, including:

- Consumer and lender protections;
- Compatibility of PACE with other energy efficiency programs and services;
- Minimum contractor requirements and performance standards;
- Evaluation of program outcomes, including cost effectiveness, energy savings, and non-energy benefits such as improved health and comfort; and
- Tools and resources for developing and implementing residential PACE financing programs.

# PACE Guidelines: Revised Content Sections and Sub-Sections

## Overview

### Program Design Guidelines

#### 1. Define the PACE Program Scope and Eligible Improvements

- Eligible Improvements
- Cost-Effectiveness of Measures and Improvements
- Energy Assessments and Advising

#### 2. Establish Eligibility Criteria

- Verifying Property Ownership
- Confirming Property-Based Debt and Property Valuation
- Reviewing Property Owner Income and Debt Obligations

#### 3. Establish Consumer and Lender Protections

- Property Owner Education and Disclosures
- Right to Cancel the Purchase
- Appropriate Minimum Equity Requirements and Appropriate Maximum Assessments
- Home Improvement Information
- Information about the Relationship between PACE Assessments and Mortgage Financing
- PACE Assessment Non-Acceleration upon Property Owner Default

- Notification of Mortgage Holders of Record
- Additional Consumer Protection Considerations for Low-Income Households

#### 4. Public Recording and Disclosure of PACE Assessments

#### 5. Incentives and Direct Assistance

#### 6. Property Appraisals and Real Estate Transactions

#### 7. Program Execution and Compliance with Applicable Laws

#### 8. Quality Assurance and Anti-Fraud Measures

- Contractor qualifications
- Work standards
- Contractor management
- Quality assurance

#### 9. Debt Service and Loan Loss Reserve Funds

#### 10. Data Collection and Evaluation

#### Conclusion

#### Appendix: Information Resources

# DOE Residential PACE Guidelines

## Topic: Ensure Efficient Access to PACE for Energy Upgrade Transactions

### Summary of Comments Received

- Cost effectiveness requirement could limit scope of projects and eligible improvements
- Recommend use of eligible measure lists as basis for qualifying PACE measures
- Important to maintain ability to use PACE for unplanned projects (e.g., emergency HVAC replacements)
- Ensure an efficient in-the-field application and pre-qualification process for contractors and property owners

### Summary of Changes Incorporated

- Revised cost effectiveness language to prioritize cost-effective measures, but not exclude measures such as health and safety
- Recommend programs identify cost-effective measures, including weatherization upgrades
- Energy assessments optional; include recommendation to offer energy advising services to homeowners
- Added information on eligible product lists and resources for EE, RE and water conservation

# DOE Residential PACE Guidelines

## Topic: Ensure Strong Consumer Protections: Homeowner Eligibility and Consumer Disclosures

### Summary of Comments Received

- Align DOE guidelines with industry standards
- Align DOE guidelines with consumer credit protection and mortgage disclosures
- Increase the right to cancel to three days
- Adopt standard disclosure forms
- Require pricing reviews for each project

### Summary of Changes Incorporated

- Expanded number of disclosure items, including lien requirements and lien position
- Created new section on reviewing property owner income and debt obligations
- Added recommendation to include verification of terms via live phone call that is recorded
- Provide consumers with information on EE, RE and other improvements and assessment options (e.g. Home Energy Score, utility energy assessments)
- Revised language to afford a “multi-day” right to rescind

# DOE Residential PACE Guidelines

## Topic: Ensure Strong Consumer Protections: Contractor Management and Oversight

### Summary of Comments Received

- Concerns about contractors not following program guidelines and policies
- Concerns about pricing
- Concerns about poor quality workmanship and mechanisms for recourse
- Concerns regarding adequacy of contractor compliance, training, and oversight functions at the state and local levels

### Summary of Changes Incorporated

- Enhanced section on contractor management, quality assurance, and oversight roles
- Added recommendation to include pricing reviews of contractor work scopes
- Added links to recommended contractor certification resources and programs
- Require all contractors who install improvements to register with the PACE program
- Incorporated contractor quality assurance with random, on-site inspections
- Added recommendation to establish dispute resolution procedures or other remedies for completion or workmanship issues

# DOE Residential PACE Guidelines

## Topic: Develop Additional Protections for Low-Income Households

### Summary of Comments Received

- PACE assessments increase risk of foreclosure for low-income homeowners
- PACE assessments are higher cost than other options
- PACE underwriting must include ability to repay beyond home equity
- PACE programs must include adequate educations and disclosures for consumers
- PACE programs must provide adequate recourse for poor equipment performance or other installation failures

### Summary of Changes Incorporated

- Strengthened consumer protections overall; added recommendations for temporary forbearance, permanent hardship relief
- Created new section: *Additional Consumer Protection Considerations for Low-Income Households*
  - Ensure households meet all eligibility criteria and receive written disclosures prior to receiving a PACE assessment
  - Recommend providing a coordinated portfolio of information with other energy offerings such as WAP, LIHEAP, and utility programs
  - Made recommendations on additional quality assurances such as independent review of contractor SOW
  - Additional options and considerations, including limits on eligible measures and the size of the PACE assessment

# DOE Residential PACE Guidelines

## Topic: Protect Lenders and Provide Consumer Credit Disclosures

### Summary of Comments Received

- PACE assessments could impact servicers and holders of first-lien mortgages in event of default or foreclosure
- Recommendations to treat PACE assessments as consumer credit transactions secured by a dwelling, subject to consumer protection laws
- Address the impact lien priority may have on foreclosure or future sale of the home

### Summary of Changes Incorporated

- Notify mortgage servicers when PACE assessment placed on properties
- Require PACE assessments to be recorded in standardized public records (e.g., assessor databases)
- Recommend consumer disclosures equivalent to similar collateral or credit-based financing,
- Added review of income and debt obligations
- Added language on non-acceleration of PACE assessments in foreclosure, consistent with FHA policy and guidance
- Recommend PACE programs establish a debt service reserve fund for bondholders, and consider loan loss reserve for lenders; evaluate PACE portfolio performance on regular basis

# DOE Residential PACE Guidelines

## Topic: Data Collection, Privacy and Security

### Summary of Comments Received

- DOE should promote consistency in data gathered by PACE programs
- PACE programs should document improvements and track and report on activities and performance over time
- PACE programs should enable access to (aggregated) data for evaluation and research purposes while protecting customer privacy and security of data

### Summary of Changes Incorporated

- Added guidance on recording PACE assessments in public records and documenting improvements for real estate transactions
- Added recommendation to provide information and assistance to real estate agents, lenders, and appraisers on the PACE financing process
- Added recommendation to regularly evaluate PACE projects and portfolios and share results (e.g., energy savings, assessment value, economic impacts)
- Added recommendation to develop policies and procedures that protect the privacy and security of customer data

# DOE Residential PACE Guidelines

## Topic: Incorporate Industry Resources

### Summary of Comments Received

- Align DOE guidelines with EE and PACE industry initiatives and resources (e.g., Green Button, PACE Nation policies)
- DOE should reference or incorporate trade certification and training resources

### Summary of Changes Incorporated

- Added links to PACE Nation Consumer Protection policies, and DOE Sponsored Programs (e.g., Home Energy Score, Home Performance with ENERGY STAR)
- Added links to industry and state level guidelines and program design resources (e.g. PACE Nation, State of CA Consumer Protection Policies)
- Added links to contractor training and certification programs and organizations (e.g., BPI for EE; NABCEP for solar)

# Next Steps

- Convene states to disseminate best practices and review oversight options:
  - Host a webinar series for States on PACE program design best practices (NASEO);
  - Review options for R-PACE oversight by states, industry, and DOE.
- Conduct analysis of PACE program impacts in California and other States to further inform lessons learned and program design (LBNL),
- Provide Technical Assistance to State and Local Governments:
  - DOE to continue to engage states, local governments, PACE sponsors, and other stakeholders on PACE best practices and program design, including through technical assistance and peer exchange opportunities;
  - DOE to host R-PACE implementation workshop at DOE Better Buildings Summit, May 15-17<sup>th</sup>, Washington, DC.

# For More Information

- DOE Best Practice Guidelines for Residential PACE
  - <http://energy.gov/eere/slsc/property-assessed-clean-energy-programs>
- DOE staff contacts
  - Steve Dunn, Program Manager  
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# Q&A