Greater Antelope Valley Association of REALTORS®

1112 West Ave M-4, Palmdale, CA 93551 P: 661 726-9175 F: 661 726-9199

There is much that consumers need to know about Property Assessed Clean Energy programs (PACE), which are one way to finance energy-efficient home improvements, before entering into a PACE contract.

Unlike other available energy improvement programs, PACE financing is attached to the property in the form of a tax lien, collected on the property tax bill. Although loans of this type sound attractive, PACE programs may create serious problems.

PACE financing is not for the public good and should not be allowed on or collected through the property tax rolls. It should not be the role of government to collect payment for private enterprise. Assessments should only be placed on the property tax rolls for the overall good of the public for items such as fire, trash and safety assessments. Even school bonds must be passed by voters for an assessment to appear on property tax bills. This is just bad policy.

Effective June 30, 2017 San Bernardino County will no longer provide authorization for the PACE program to be used within the County.

Here are 11 problems associated with some PACE financing programs:

1. Predatory Lending: Qualification is based on home equity rather than on the borrower's ability to repay, which violates the U.S. Department of the Treasury's prohibition against predatory lending practices.

2. Structured as a Property Tax Assessment: Because the amount borrowed is structured as a property tax assessment, it attaches to the property itself rather than to the owner, which negatively affects the owner's ability either to sell the property or to refinance it and restricts a potential buyer's ability to qualify for a mortgage on the property.

3. "Super-Priority" Lien: The amount borrowed is structured as a "super-priority" lien on the property, which means that, in the event of default, the PACE loan takes repayment priority over even the first mortgage. This arrangement violates the conditions spelled out in most mortgage agreements, negatively affects the owner's ability either to sell the property or to refinance it, and restricts a buyer's ability to qualify for a new mortgage on the property.

4. No Financial Oversight: Most of the contractors pitching PACE financing options have no financial expertise, and their offers and promises are not currently being scrutinized by any financial institution or government agency.

5. No Proof of Benefit or Value: Energy efficient home improvements financed with PACE programs are often sold without a third-party certification of their operational effectiveness thus the home owner has no basis for performing a cost-benefit analysis or for assessing the true value of the improvements.

6. No Utility Cost Offset: The homeowner is commonly told that he or she will save enough on utility bills to cover the cost of the energy-efficient upgrades, but this utility cost offset seldom materializes. More often, the hapless homeowner ends up deep in the red.

7. Price Inflation: PACE contractors inflate their prices for energy-efficient renovations, often charging far more than fair market value.

8. High Interest Rates: The interest charged for PACE financing can be as much as twice the amount charged for a home equity loan or on loans obtained via other financing alternatives.

9. Large Payoff Penalties: The penalties for early payoff are large and may include extended interest payments.

10. Harsh Late-Payment Penalties: Late payment or failure to pay is penalized in the same way as failure to pay property taxes and could result in foreclosure.

11. Automatic Default: A homeowner whose mortgage agreement specifically prohibits any other loan or lien from taking priority over the first mortgage — and most do — will be automatically in default. Thus, the lending institution holding the first mortgage can require accelerated payment or initiate foreclosure.