



## PACE Loss Reserve Program Summary

September 10, 2014

### Program Goals

The PACE Loss Reserve Program (the Program) launched in March 2014 to support residential PACE following concerns raised by the Federal Housing Financing Agency (FHFA) regarding the potential risks PACE financing may pose to first mortgage holders. The Program is intended to mitigate potential risk to first mortgage lenders by making them whole for losses incurred due to the existence of a first-priority PACE lien on a property during a foreclosure or forced sale.

In communications with CAEATFA, FHFA has indicated that the Program does not address all of its concerns and that it retains its position regarding the first-priority lien structure inherent to PACE. CAEATFA will continue to operate the reserve as a first-step in addressing any risks to first mortgage lenders associated with PACE. During this time, CAEATFA will also collect necessary data on the performance of PACE financing over time to better understand the actual risk to mortgage lenders and inform future best practices and standards for residential PACE financing.

### Function of the Reserve

The PACE Loss Reserve (the Reserve) makes first mortgage lenders whole for any direct losses incurred due to the existence of a PACE lien on a property during a foreclosure or forced sale. The Reserve covers the following losses:

1. PACE payments paid while a first mortgage lender is in possession of a foreclosed home.
2. Any losses to the first mortgage lender up to the amount of outstanding PACE assessments in a forced sale for unpaid taxes or special assessments.

PACE administrators submit claims directly to CAEATFA and provide satisfactory evidence of an eligible loss, including but not limited to the loss amount, the name of the first mortgage lender and the date of loss or losses. Payment from the Reserve may be used as a reimbursement to the PACE administrator or as a pass-through to the first mortgage lender.

### Coverage of PACE Portfolios by the Reserve

Each eligible financing originated by an enrolled PACE administrator and included in its semi-annual reports may be covered by the Reserve for its full term. Additionally, PACE administrators that applied to the Program on or before June 9, 2014, were allowed to have their entire existing portfolios included under the Reserve to maximize the Program's effectiveness. To allow new PACE programs (created on or after March 10, 2014) to enroll in the Program without delaying their operations, the Reserve also covers financings originated up to 30 days before their enrollment date.

### Application to Participate

To enroll in the Program, a PACE administrator must submit an application with the following attachments:

1. The formation documents required pursuant to:
  - a. Streets and Highways Code Sections 5898.20 – 5898.22, and 5898.24; or,

- b. Chapter 2.5 (commencing with Section 53311) of Part 1 of Division 2 of Title 5 of the Government Code; or,
  - c. For charter cities only: a copy of a resolution or other document adopted by the city's governing board evidencing approval of the PACE Program.
2. If not included in the documentation required in (a) above:
    - a. Documents showing that the underwriting criteria listed in Section 10081(b) of the Program regulations are met;
    - b. A detailed description of the PACE Program's transactional activities and costs associated with financing;
    - c. A detailed description of the PACE Program's quality assurance and consumer protection requirements as related to achieving efficiency and clean energy production; and
    - d. A detailed description of any credit enhancement associated with the PACE Program.
  3. If the PACE Program is administered by a third-party, the letter described in Section 10087(b) of the Program regulations certifying that the PACE Program has the ability to audit the records of the third-party administrator signed by an appropriate public official.
  4. A certificate including the signatures of individuals authorized to sign on behalf of the PACE Program.

### **Reporting and Administrative Fee**

Enrolled PACE programs must report to CAEATFA on the size and status of their portfolios in March and October of each year. Each report includes detailed information on the financings issued during the reporting period. An administrative fee of 0.25% of the total principal value of the financings issued during that period will be assessed. The October report will also include information on the size and value of the cumulative financing portfolio and information on energy and water savings resulting from the funded projects.

### **Funding Level**

The Budget Act of 2013 funded the Program with \$10 million. CAEATFA anticipates the \$10 million will last beyond ten years in most scenarios. Even in very conservative scenarios with high PACE portfolio growth and enrollment and high claim rates, the Reserve is expected to last through the Program's eighth year. After a few years of operation, CAEATFA should have a better understanding of actual PACE portfolio growth, performance and enrollment, as well as claim rates and amounts, which will allow for more precise projections.

For more information on CAEATFA's PACE Loss Reserve Program, visit:

<http://www.treasurer.ca.gov/caeatfa/pace/index.asp>

or call (916) 651-8157.

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